Myths and realities of the role of officialdom in economic development in Ukraine: two case studies in small business creation, Kharkiv and Transcarpathia.

Robert J. O'Meara

University of Massachusetts Amherst

Follow this and additional works at: https://scholarworks.umass.edu/dissertations_1

Recommended Citation
https://scholarworks.umass.edu/dissertations_1/2412

This Open Access Dissertation is brought to you for free and open access by ScholarWorks@UMass Amherst. It has been accepted for inclusion in Doctoral Dissertations 1896 - February 2014 by an authorized administrator of ScholarWorks@UMass Amherst. For more information, please contact scholarworks@library.umass.edu.
MYTHS AND REALITIES OF THE ROLE OF OFFICIALDOM IN ECONOMIC DEVELOPMENT IN UKRAINE:
TWO CASE STUDIES IN SMALL BUSINESS CREATION, KHARKIV AND TRANSCARPATHIA

A Dissertation Presented
by
ROBERT J. O’MEARA

Submitted to the Graduate School of the University of Massachusetts Amherst in partial fulfillment of the requirements for the degree of

DOCTOR OF PHILOSOPHY

September 2006
Political Science
MYTHS AND REALITIES OF THE ROLE OF OFFICIALDOM IN ECONOMIC DEVELOPMENT IN UKRAINE:
TWO CASE STUDIES IN SMALL BUSINESS CREATION, KHARKIV AND TRANSCARPATIA

A Dissertation Presented

by

ROBERT J. O’MEARA

Approved as to style and content by:

George Sultzner, Chair

Karl Ryavec, Member

Gerald Friedman, Member

George Sultzner, Department Head
Department of Political Science
DEDICATION

To Oksana Degtyarenko and Olha Zinehenko, the two daring and entrepreneurially
directors of the small businesses that were created in the course of this dissertation, and to the
many Ukrainians that feel as though they have been ‘burnt by the sun’ of the Orange
Revolution.
ACKNOWLEDGMENTS

First, I would like to thank my committee members, George Sulzner and Karl Ryavec, of the Political Science department at the University of Massachusetts Amherst, and Gerald Friedman of the Economics department, also at UMass Amherst. I am very grateful for their time, interest, guidance, very hard work and strong encouragement during all phases of this demanding project. Their insights have been terrific, as always. These three professors have been wonderfully supportive in every way, a perfect committee. Thank you for everything, George. Karl, and Jerry.

I also owe thanks to the many professors in the UMass Political Science department who have contributed to my education generally, and to this dissertation specifically. It must be noted that, if not for Professor Jeffrey Leigh Sedgwick, my experiences in Ukraine may not have occurred. In 2001, he provided me with the opportunity to live in Uzhgorod, Ukraine, lecture and assist in the development of a program in public administration at the Institute for Information Sciences, Economics and Law (as it was know then) in Uzhgorod. As a result, not only have I realized research opportunities, but I have developed many good and lasting friendships with people in Ukraine. Thanks to all of my colleagues, in the US and in Ukraine, for their support during the years.

I am very appreciative of Olha Zinchenko and Oksana Degtyarenko, the directors of the small businesses. With heroic effort and remarkable resilience, they each overcame daunting challenges and impediments to small business creation in Ukraine. Such work was often difficult, frustrating, and emotionally draining. Thank you both for your strong will, your dedication and your sacrifices. I owe thanks to many Ukrainian professors, professionals, administrators and friends. Their involvement and sincerity in interviews and discussions was crucial for this dissertation.
I am also grateful to my former professors from Government, International Affairs, and the School of Business at the California State University at Sacramento. Particularly, I would like to express appreciation of Professor David Covin of Government, Robert Curry of International Affairs and Economics, as well as Herbert Blake, Craig Kelley, Richard Guarino, Necmi Karagozoglu and Dennis Tootelian of the School of Business. During my study in the MBA program, these management professors, and many others, offered insights and helped me sharpen skills which later would facilitate the creation of the two start-up businesses that served as the case studies for this dissertation.

For their fantastic inspiration given during my earlier years in college, I am grateful to my former professors from Clark University in Worcester Massachusetts, Cynthia Enloe, and (the late) Zena Sochor, from the Government department, as well as many more professors of the Government and Philosophy departments. These people have each been a very positive and lasting influence upon me; they have had a great impact on the long-term course of my scholarly interests and pursuits. I am also very appreciative of my former professors from the University College of Galway, Ireland (now NUI), for their lasting inspiration.

I am also appreciative of my family and friends who have given their support during some very challenging times, throughout my involvement in graduate schools, and in the course of the creation of the two small businesses that served as the case studies in this dissertation. Lastly, but very significantly, I am greatly appreciative of Inga Tsoklan, who offered tremendous insight, assistance, support and encouragement. Thank you very much. Дуже дякую!
ABSTRACT

MYTHS AND REALITIES OF THE ROLE OF OFFICIALDOM IN ECONOMIC DEVELOPMENT IN UKRAINE: TWO CASE STUDIES IN SMALL BUSINESS CREATION, KHARKIV AND TRANSCARPATIA

SEPTEMBER 2006

ROBERT J. O'MEARA. B.A., CLARK UNIVERSITY
M.A., CALIFORNIA STATE UNIVERSITY SACRAMENTO
M.B.A., CALIFORNIA STATE UNIVERSITY SACRAMENTO
M.A., UNIVERSITY OF MASSACHUSETTS AMHERST
Ph.D., UNIVERSITY OF MASSACHUSETTS AMHERST

Directed by: Professor George Sulzner

Ukraine’s official goals and policies regarding European integration are presented, and the European Union’s conditions of accession are examined. Because Ukraine seeks membership in the EU, democratization and marketization, receive focused attention. Problems of Ukraine’s “quadruple transition” are also examined. The meaning of the Orange Revolution is discussed, as its significance is challenged.

In many extensive interviews, administrative officials from two selected oblasts express optimistic and hopeful assertions of Ukraine’s development of a market economy, and officials claim to facilitate economic development and, at times, even small business development. These claims are put to the test by use of two in-depth case studies of small business creation. The two case studies take place within the two contrasting oblasts of Kharkiv and Transcarpathia. Extensive interviews of professors, small businessmen, lawyers and others tend to corroborate the findings of a recent IFC study by Yacoub and Senchuk, and corroborate the experiences of the two directors of the small businesses, Oksana Degtyarenko and Olha Zinchenko. The myths of officialdom in economic development and small business creation are evident in an inconsistency between claims of higher level administrative concern
and support for entrepreneurs and small business development and the actions of officials within lower levels of administration. Instead of functioning as a chief catalyst for small business development, and development of a market-based economy more broadly, the administration and its officials are often acting as impediments.

The reality, for entrepreneurs, appears to involve a high degree of state interference, specifically extraordinarily complicated processes of gaining an exhaustive number of approvals, permissions, and official acts. The administration, at its lower and mid levels, portrays an extreme lack of interest in the development of entrepreneurs, and visible incompetence and extortion. While some very worthwhile administrative reforms are evident in these oblasts, the destructive and impeding actions of the lower and mid level officials are inconsistent with the hopeful and claims of goal-oriented higher level officials, many of which are well-educated, skilled, and genuinely well-intentioned. In the drive toward a market economy and economic development, Ukraine continues to face difficult challenges.
# TABLE OF CONTENTS

<table>
<thead>
<tr>
<th>ACKNOWLEDGMENTS</th>
<th>v</th>
</tr>
</thead>
<tbody>
<tr>
<td>ABSTRACT</td>
<td>vi</td>
</tr>
<tr>
<td>LIST OF FIGURES</td>
<td>xvii</td>
</tr>
</tbody>
</table>

## CHAPTER

### 1 INTRODUCTION: PURPOSE, METHODOLOGY AND SIGNIFICANCE OF THE TWO CASE STUDIES

1.1. Statement of purpose .................................................................................. 1  
1.2. Methodology ................................................................................................... 4  
1.3. Significance of the Dissertation .................................................................. 11  
1.4. On the paucity of published information .................................................... 12  
1.5. Outline of the Dissertation ........................................................................... 15  
1.6. References for Chapter 1, Introduction ....................................................... 20

### 2 AN ECONOMIC OVERVIEW: ON THE TRANSITION TOWARD THE WEST, ECONOMIC DEVELOPMENT, MARKETIZATION, AND THE ENVIRONMENT FOR SMALL BUSINESS DEVELOPMENT IN UKRAINE

2.1. Section 1: Economic development, marketization and reasons for small business in Ukraine ................................................................. 22  

#### 2.1.1. The significance of ‘economic development’ as an issue

2.1.1.1. The question of political and economic independence from Russia is unresolved while the official position of commitment to integration with the EU has been proclaimed ................................................................. 23  
2.1.1.2. Improvements in Ukrainian’s standard of living requires economic development ........................................................................................................................................ 28  
2.1.1.3. Consolidation of democracy may be reasonably expected to benefit from the support of economic development ................................................................. 29  
2.1.1.4. Conditions for Accession set forth by the EU require economic development ........................................................................................................................................ 32  

#### 2.1.1.4.1. Economic conditions for membership in the EU

2.1.2. Risks resulting from EU enlargement, the EU’s ability to absorb new members and Ukraine’s ability to cope with competitive pressures and market forces ........................................................................................................................................ 34  
2.1.3. The interconnection between economic and political reforms .................... 37  
2.1.4. Administration as either catalyst or impediment to economic development and EU integration ........................................................................................................................................ 39
2.1.5. Political economy, small business, and the task for administration ........................................ 41
2.1.6. History is not ‘over’, it is ‘in the making’ ............................................................................. 48

2.2. Section 2. An external viewpoint of Ukraine’s administration: IFC survey of
900 firms finds excessive ‘state interference’ is an impediment to
economic development .................................................................................................................. 51
2.3. References for Chapter 2, An Economic Overview .................................................................. 60

A POLITICAL OVERVIEW: ON THE TRANSITION AWAY FROM THE
STRUCTURE AND MENTALITET OF A SOVIET UKRAINE: A NEWLY
INDEPENDENT UKRAINE FACES TOUGH ISSUES AND MULTIPLE
CHALLENGES .................................................................................................................................. 65

3.1. Soviet ‘mentalitet’ gives way to the administrative officials’ claims of
approving and embracing radical new concepts of a market economy .................................... 65
3.2. Ukraine’s political system and administrative units ..................................................................... 68
3.3. Facing Ukraine’s “quadruple transitions” ...................................................................................... 71
3.4. Significance of immunity from prosecution as an impediment to reform .................................... 76
3.5. Events and limited significance of the “Orange Revolution” of early winter
of 2004-January 2005 .................................................................................................................... 78

3.5.1. Before the first round of elections: “The People's Power Against
Lies and Falsification.” .................................................................................................................. 79
3.5.2. After first round of Ukraine’s presidential elections, the protests
begin ........................................................................................................................................ 81
3.5.3. The plot thickens with extensive violations and blackmail of
election officials by “authorities” ................................................................................................. 84
3.5.4. Do students matter? On November 18, 2004, more protests from
youth groups sprung up ............................................................................................................. 86
3.5.5. Just after the second ballot of November 21, 2004, the Orange
Revolution took off in full scale. on Monday, November 22, 2004 .... 88
3.5.6. After the second round of presidential elections, held November 21,
2004 ........................................................................................................................................ 94
3.5.7. Protests grew increasingly stronger after election results were first
posted, then cancelled ................................................................................................................... 95
3.5.8. Yanukovych is on the way out, as lawmakers in the Verkova Rada
distance themselves from him: the protests pick up even more
momentum with a vote of ‘no-confidence’ from 229 deputies in
the Rada ....................................................................................................................................... 97
3.5.9. Compromise by Yushchenko and Yanukovych over Constitution
and a shift of power to the Prime Minister yielded a limited
victory for opposition .................................................................................................................. 98
3.5.10. Third ballot election results declared Yushchenko as clear winner
(though Yanukovych continued dispute) ................................................................................... 101

3.6. References for Chapter 3, Political Overview (including works
consulted, featuring modernization and ‘early developmentalists’) ........................................ 103

4 ADMINISTRATIVE VIEWPOINTS ON FACILITATION OF ECONOMIC DEVELOPMENT: KHARKIV OBLAST, UKRAINE .......................................................... 107

4.1. Introduction to Kharkiv Administration ............................................................................. 108
4.2. Structure and continuity of Kharkiv Oblast Administration, and discussion of problems: An interview with Director Irena Reaka, of department of “Administration Organization” of the Kharkiv Oblast Administration. Interviewed March 21st, 2003 .................................................................................. 109
4.3. The view from the economic branch of the Kharkiv Oblast’s Administration, featuring interviews with officials from economic agencies Mihail Georgiyevich Ctanchyev, Chief (first manager, director) of the Administration of Foreign (International) Trade and Economic Investments; Vladeslav Mekoliavich Monastirneyeh, “Leading Specialist (economics) for Investments, Integration and International Technical Assistance” for the Agency for Economic Investment: Volodimir V’yacheslavovich Souhinin, “Chief Specialist” of the Department of Investments. Kharkiv, Ukraine (this department supports the goal of EU integration). Interviewed March 18th, 2003 .................................................................................. 118

4.4. References for Chapter 4, on Kharkiv Administration Administrative Officials Referenced in the Kharkiv Interviews ................................................................................. 124

5 CASE STUDY OF THE CREATION OF SMALL BUSINESS 'START-UP' IN KHARKIV: THE SALON "KOODREASHKA" .......................................................... 125

5.1. Introduction to the case study in Kharkiv ............................................................................. 125
5.2. Initial consultations with lawyers: Vitaly Chernish outlines three variants for legal establishment of a small business, including estimates on ‘extra money’ ............................................................................. 128
5.3. Discussions with a team of Lawyers Vladimir Victorovich Ostanenko, Sergei Urevitch Stavrov (and later with lawyer Oksana Bobprovskaya) January, 2004 .................................................................................. 136

5.3.1. On recommendations for a preferable manner of small business creation based on the optimal ability to ‘conceal revenue’ and avoid taxes .................................................................................. 136

5.4. Oksana Degtyarenko’s experience in seeking approvals within the Kharkiv administration indicates the reality of the administration’s low level of ‘assistance’ .................................................................................. 141
5.5. Andrei (Andrew) Victorovitch Zabiela and his ‘mediator firm’ known as ‘Veest’ .................................................................................. 146
5.6. Nearing the completion of the creation and operation of a legitimate business ... 153
5.7. Completing the actual process of registration of the firm Koodreashka, with lawyer Oksana Bobprovskaya .............................................................. 154

xi
5.8. Administration is not the only source of challenge to small businesses:
a perceived threat of violence followed by a promise of assistance from
the police department .......................................................... 157

5.9. The contractor Nicolai Nicolaiaich Gorobitz of the firm “Electroservice”
and the use of an informal verbal contract in order to avoid the 30% tax
on the negotiated price of what would be a legal contract .......................... 159

5.9.1. “Remont” (construction and repair): Considerations of cost, taxes,
informal contracts and implications for contributing to the
shadow economy ....................................................................... 160

5.10. “Administratsia Mafia” .................................................................................. 176

5.11. Koodreashka case study: Separating the wheat from chaff: corroboration
among ‘external’ perspectives ............................................................. 179

5.11.1. The view from 900 small and medium sized enterprises is
corroborated by the experiences of Oksana Degtyarenko in the
case study: administration is largely an impediment to economic
development and for SMEs .......................................................... 179

5.11.2. Validation by Professors in Kharkiv: corruption runs deep in
administration ............................................................................. 186

5.11.3. Conclusions for chapter 5, Kharkiv case study.
Myth: administration is a chief catalyst of development for
small and medium sized firms (SMEs). Reality: administration
by arbitrary use of power is a frustrating impediment to
entrepreneurs and a competitive market economy .......................... 195

5.11.3.1. An update on Koodreaska’s success and a degree of
cautioned optimism ..................................................................... 200

5.12. References for Chapter 5, Kharkiv Case Study: .................................................. 203

5.12.1. Published works .................................................................................. 203
5.12.2. Individuals referenced in the Kharkiv Case Study .................................. 203
5.12.3. Professors and others external to the administration and Kharkiv
case study ...................................................................................... 204

6 ADMINISTRATIVE VIEWPOINTS ON FACILITATION OF ECONOMIC
DEVELOPMENT: TRANSCARPATHIA OBLAST, UKRAINE .................. 205

6.1. Introduction to Administration in Transcarpathia and the subsequent
case study .................................................................................. 206
6.2. First segment of interviews, immediately after the Orange Revolution, and
before Yushchenko took office (January 2005) .................................. 208
6.2.1. Just days before the conclusive third vote for Yushchenko that confirmed the victory and a change of leadership: Joseph Torpoy on Administrative Reforms of 2005. From an interview with Joseph Torpoy, Director of the “Center for Ukrainian and Hungarian Regional Development” in the Transcarpathian Oblast, Ukraine, January 5th Interview, 2005 .................................................. 208

6.2.1.1. Torpoy on impediments to economic development........... 211
6.2.1.2. Toward European Integration under Kuchma and continued integration under Yushchenko’s polices, and regarding administration’s programs that demonstrate Transcarpathia’s interaction and cooperation with the EU countries: Joseph Torpoy explained in detail how Transcarpathia has been working toward integration with Europe ................................................................. 212

6.2.2. Just before Victor Yushchenko’s Presidential inauguration in late January 2005: Natalia Nosa, Director of the Department of European Integration and Cross Border Cooperation in Uzhgorod, Transcarpathia Oblast Administration, on aspects of and problems for administration .............................................................. 221

6.2.2.1 Natalia Nosa on economic development and small business ............................................................................................................................... 224

6.3. Second segment of interviews, half a year after the Orange Revolution and Yushchenko’s inauguration as the new President (interview from July and August 2005 (Same old vodka in new bottles?))........................................ 228

6.3.1. Six months after Yushchenko’s inauguration, in summer of 2005, Mykailo Popovitch discussed the structure and changes of administration. Popovitch, Head of Apparatus (Structure of Administration), Transcarpathia Oblast Administration, July 21st Interview, 2005 ................................................................................................................. 228

6.3.2. During the administration’s lengthy 2005 reorganization under Yushchenko: Natalia Nosa on the oblast administration’s structure, changes and the need for competent specialists. Nosa, Head of Department of European Integration, Cross Border Cooperation, and Tourism Development. Second Interview, July 14th 2005 ............................................................................................................. 232

6.3.3. On impediments to economic development, and the matter of the new ‘One Window’. Olexander Zhulkanych, First Deputy (director) of Department of Economy, Transcarpathia Oblast Administration. July 13th Interview, 2005 .............................................................................................................. 237

6.3.4. Joseph Torpoy on the “One Window”. Registration Chamber and reasons for optimism. From follow-up interview with Director Joseph Torpoy on July 13th, 2005 .................................................................................... 243
6.3.5. The view from the First Deputy of Oblast Administration and the Head of the prestigious Economical Department on problems and opportunities: Oleg Havashi, First Deputy Head of Transcarpathia Oblast Administration, and briefly joined by Volodymyr Hoblik, Head of the Economical Department and Deputy Head of Transcarpathia Oblast Administration, July 20th Interview, 2005 ................................................................. 244

6.3.6. Elaboration on problems for economic development and significance of the “One Window”, by Volodymyr Hoblik, Head of the Economical Department and Deputy Head of Transcarpathia Oblast Administration, July 21st Interview, 2005 ................................................................. 246

6.4. References for Chapter 6, Transcarpathia Administration ........................................ 254

6.4.1. Referenced websites ............................................................................................................................. 254

6.4.2. Referenced Administrative Officials from Transcarpathia Oblast .......................... 254

7 CASE STUDY OF THE CREATION OF A SMALL BUSINESS 'START-UP' IN TRANSCARPATIYA: FROM CAFÉ “RUSSKI CHAI” TO THE FIRM “NEW HORIZONS OF TRANSCARPATIYA”, OR “НОВІ ГОРИЗОНТИ ЗАКРИПАТЯЯ” ................................................................................................................................. 255

7.1. Introduction to the Transcarpathian case study ............................................................... 255

7.2. Initial Consultations with Lawyers in Uzhgorod on the process of establishing a firm: Lawyer Andrey Droshky outlined variants for firm, regarding selection of tax structure, avoidance of taxes, the nature of ‘mediator firms’ in Transcarpathia, and the resulting requirement of ‘extra money’ ........................................................................................................................................... 262

7.3. Consultation with Oлексander (Sasha) Beben, a private lawyer, who works in association with Uzhgorod’s Chamber of Commerce. Discussion involved types (legal status) of new firms, a recommendation to establish a limited liability firm, and a description of registration process. July 14th, 2005 .................................................................................................................................................. 270

7.4. Olha Zinchenko’s experiences in seeking approvals within the Transcarpathian Administration indicate the reality of the administration’s questionable level of assistance (positive and negative aspects) ........................................................................................................................................... 276

7.4.1. Task of converting ‘place of residence’ into ‘place of work’ ........................................ 279

7.4.2. The process of obtaining the document ‘project of reconstruction’: and experiences with Inna Petrovna of the Architectural Bureau (Dept.) ........................................................................................................................................... 280

7.4.3. After receiving permission convert the flat to a ‘place of work’, Olha pursued the ‘technical documents’ and ‘project of reconstruction’ document and permissions ........................................................................................................................................... 283

7.4.4. Permissions necessary to begin actual construction, some problems .......................... 284

7.4.5. Preparing the founding document, the ‘Statute’, for “New Horizons Transcarpathia” ........................................................................................................................................... 286

7.4.6. Delays of reconstruction: Error in official’s technical document ‘Project of the Gas Boiler’. and questionable regulations ........................................................................................................................................... 287
7.4.7. Reception of permissions necessary to begin reconstruction is followed by immediate impediments, involving the Department responsible for State Water Services, as well as Gas Services Department ................................................................. 289

7.4.8. Demands for bribes by neighbors are followed by the demands by state workers from Water Services Department for ‘extra money’.... 289

7.4.9. Men from Gas Services require ‘extra money’........................................... 293

7.4.10. Architecture Department requires minor document changes, but expediency is lacking in an office with one day per week reserved for availability to the public................................................................. 295

7.4.11. Visits from the Fire Inspector and the rationale for purchasing a smoke detector from the fire inspector/department at above market prices ........................................................................................................ 296

7.4.12. Registration of the Firm. Experiencing the “One Window” (Chamber of Registration) for simplified business registration of the firm’s legal name: despite some negative aspects, it is a breakthrough for entrepreneurs, but the broader and more complicated process of registration of the firm requires visits to five more Departments (including the ‘Funds’)................................. 299

7.4.13. Continuing Registration: A puzzling visit to the Statistics Department: “I could not believe it was real, how is it possible?” ..... 302

7.4.14. Continuing Registration: Discovering the Tax Department ............... 303

7.4.15. Continuing Registration: Requisite visits to the ‘Four Funds’ during the firm’s registration process: ......................................................... 304

7.4.16. Continuing registration: During registration, the need for an additional document and permission arises: The ‘Gas Passport’ ...... 305

7.4.17. Continuing registration and finally concluding the broader aspects of Registration: Back to the Tax Department; ....................... 305

7.4.18. After all aspects of the broader registration are finished, Olha Zinchenko must seek more approvals: Approval to operate a business in the spheres of ‘translation’ and ‘language training’ .......... 306

7.4.19. During the early phase of actual construction, “insolent” officials are disappointed as Olha denies them fodder for bribes: ..................... 307

7.4.20. About contractors and reconstruction issues ............................................ 309

7.4.21. After reconstruction is completed, extensive final inspections and approvals must be obtained................................................................. 312

7.5. New Horizons Transcarpathia, Separating the wheat from Chaff:
Corroboration among external perspectives ......................................................... 323

7.5.1. The view from 900 small and medium enterprises is largely corroborated by experiences of Olha Zinchenko in the case study of “New Horizons” in the Transcarpathia Oblast ........................................ 323

7.5.2. Is it still ‘The Wild East’? Presenting views on administration by entrepreneurs, a lawyer, and by professors from Transcarpathia, corroborating the IFC study and the experiences of Olha Zinchenko in the creation of “New Horizons” ......................................................... 332
7.5.2.1. View of Dima Lendel, of Transcarpathian small business “Pink Elephants”, interviewed on January 27th, 2006.........................................................332
7.5.2.2. Tatiana Migalina, PhD, of the Nehemia Organization (an NGO), Uzhgorod, Transcarpathia. Interviewed on July 12, 2005.........................................................333
7.5.2.3. Alexander (Sasha) Medvetsky, founder and director of the firm “Kram”, a telecommunications provider in Uzhgorod Transcarpathia. Interviewed on July 11, 2005 .... 334
7.5.2.4. Inga Tsoklan, private Chief Lawyer for a large manufacturing corporation with over 1000 employees, “Harvat Cable and Harvat 19”, of Uzhgorod, Transcarpathia. Discussion on August 24, 2005.........................338
7.5.2.5. A view from a discontented and (herein) unidentified low-level official from one branch of Transcarpathia Oblast Administration, interviewed on August 2, 2005 ...... 340
7.5.2.6. Validation by professors in Transcarpathia:
Corruption runs deep in administration, and other concerns for development........................................342

7.5.2.6.1. Professor of Economics, Alexander Peridriy........ 342
7.5.2.6.2. Professor and Chief of Politology Dept, Yura Ostapetz and Professor of Politology Mehail Zan, of Uzhgorod National University.
Interviewed on 25th, 2006 ........................................345
7.5.2.6.3. Professor of Politology Department and expert in the field of Public Administration, Myroslava Lendel of Uzhgorod National University. Interviewed on 27th, 2006 .............. 349

7.6. Conclusions for chapter 7, Transcarpathia case study
Myth: administration is a chief catalyst of development for small and medium sized firms (SMEs)
Reality: administration by arbitrary use of power is a frustrating impediment to entrepreneurs and a competitive market economy ..................351

7.7. References for Chapter 7, Transcarpathia Case Study ................................................358

7.7.1. Individuals Referenced in the Transcarpathian Case Study ....... 358
7.7.2. Small business owners, an NGO director, lawyer, an un-named official and Professors that corroborated case study and IFC study..... 358

FINDINGS AND CONCLUSIONS: SAME OLD VODKA IN NEW BOTTLES? ... 360
8.1. On purposes and inquiries..................................................360
APPENDICES


B. NEW HORIZONS TRANSCARPATIA: STATEMENT OF PURPOSE AND INTRODUCTION TO PROGRAMS AND SERVICES .................................................. 379

C. THE ELEVEN-PAGE LIST OF APPROVALS FROM SECOND CASE STUDY, NEW HORIZONS .................................................................................................................. 382

D. NEW HORIZONS’ LEASE OF PROPERTY FROM OWNER TO FIRM ................. 393

BIBLIOGRAPHY ................................................................................................................. 397
LIST OF FIGURES

<table>
<thead>
<tr>
<th>Figure</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.1.</td>
<td>6</td>
</tr>
<tr>
<td>2.1.</td>
<td>22</td>
</tr>
<tr>
<td>2.2.</td>
<td>22</td>
</tr>
<tr>
<td>2.3.</td>
<td>27</td>
</tr>
<tr>
<td>2.4.</td>
<td>45</td>
</tr>
<tr>
<td>2.5.</td>
<td>45</td>
</tr>
<tr>
<td>2.6.</td>
<td>46</td>
</tr>
<tr>
<td>3.1.</td>
<td>70</td>
</tr>
<tr>
<td>3.2.</td>
<td>89</td>
</tr>
<tr>
<td>3.3.</td>
<td>89</td>
</tr>
<tr>
<td>3.4.</td>
<td>90</td>
</tr>
<tr>
<td>3.5.</td>
<td>90</td>
</tr>
<tr>
<td>3.6.</td>
<td>91</td>
</tr>
<tr>
<td>3.7.</td>
<td>91</td>
</tr>
<tr>
<td>3.8.</td>
<td>92</td>
</tr>
<tr>
<td>3.9.</td>
<td>92</td>
</tr>
<tr>
<td>3.10.</td>
<td>93</td>
</tr>
<tr>
<td>3.11.</td>
<td>93</td>
</tr>
<tr>
<td>4.1.</td>
<td>107</td>
</tr>
<tr>
<td>4.2.</td>
<td>108</td>
</tr>
<tr>
<td>4.3.</td>
<td>109</td>
</tr>
</tbody>
</table>
4.4. Original Ukrainian version, flowchart of Structure of Kharkiv Oblast Administration, March 2003 ................................................................. 112

4.5. Translated flow-chart of Structure of Kharkiv Oblast Administration, March 2003 .................................................................................. 113

5.1. Oksana Degtyarenko of the salon “Koodreashksa” ........................................... 128

5.2. Lunch break with Oksana on left, the researcher, Vitaly (lawyer) on right, and a talented translator named Aylona........................................... 131

5.3. Nicolai Nicolaivich Gorobitz, owner and director of the very trustworthy firm “Electroservice” is at his office atop of the excellent ‘Mir’ Hotel (‘World Hotel’), reviewing details of the verbal contract......................................................... 159

5.4. Drawing of the proposed “remont” for the salon “Koodreashka” ................... 163

5.5. Destroying the residential balcony for salon’s conversion to entrance and bridge.... 163

5.6. Preparing for the bridge for salon’s main access............................................. 164

5.7. Undergoing steel beam construction of the salon’s footbridge ...................... 164

5.8. Making progress with an assortment of available materials ......................... 165

5.9. Nearing completion of Koodreashka’s exterior work ..................................... 166

5.10. A construction man working at the entrance .............................................. 166

5.11. Much work to do in main rooms............................................................... 167

5.12. New window is installed ............................................................................ 167

5.13. All new brick walls in Koodreashka .......................................................... 168

5.14. The walls after plaster .............................................................................. 168

5.15. Manicure/pedicure room before remont ....................................................... 169

5.16. Manicure/pedicure room after some repair and new windows finished ......... 169

5.17. Remodeling the main room .................................................................... 170

5.18. Preparation of new the European style ceiling............................................ 170

5.19. Construction of the modern walls in the salon’s front room .................... 171

5.20. Koodreashka’s remont is finished, new advertisement is over the entrance .... 171

5.21. Oksana Degtyarenko and her Aunt are ready to open the salon Koodreashka.... 172
5.22. A view of the finished main room ................................................................. 172
5.23. From the main room, looking into the manicure/pedicure room .................. 173
5.24. From the manicure table, viewing the front entrance way's waiting area ....... 173
5.25. Inside the finished and equipped manicure/pedicure room ......................... 174
5.26. In the rear, the break room and supply area ................................................. 174
5.27. The break room ............................................................................................... 175
5.28. The newly installed water heater ..................................................................... 175
5.29. The new toilet and remodeled WC. Toilet replacement required a Deputy's Approval, with signature ................................................................. 176
5.30. After a year and a half year of hard work and patience, Oksana Degtyarenko successfully opened her Beauty Salon, pronounced “Koodreashka, officially on August 12, 2004 .................................................. 178
5.31. Professors from the Kharkiv Politology Department (under Philosophy faculty, as appears in the banner in the background): Professors Tatyana Mosentseva, Ivan Vasilovitch Karpenko (Chair) and Oleksander Fisun. Professor Nicolai Ivanovich Sazonov had to leave in order to give a lecture at the University of Kharkiv .......................................................................................................................... 187

6.1. A statute of Lenin was cut in half after 1991 in the Transcarpathian mountain-village of Yaseenya .................................................................................................................. 205
6.2. Close-up view of Lenin paying tribute to Transcarpathia, eternally kissing the non-Soviet ground of Ukraine .................................................................................. 205
6.3. The “Bilé Dom” (White House), the Transcarpathian Oblast Administration building ......................................................................................................................... 208
6.4. Natalia Nosa at the office in the “Bilé Dom”, The Transcarpathia Oblast Administration Building ................................................................................................................... 222
6.5. Mykailo Popovitch, far right, in Uzhgorod during the Orange Revolution (Nov-Dec of 2004) ................................................................................................................. 228
6.6. The “One Window”, intended as a convenient Registration Chamber for New Businesses ...................................................................................................................... 238
6.7. Interestingly, the Security Service (the SBU, formerly the KGB) building is just around the corner to the right of the new “One Window” ........................................ 239
6.8. The entrance to the ‘Office for Questions addressed by Citizens’ (to the President), which contains the telephone hotline to the President’s Office.

6.9. Close-up of the plaque at Office for Questions addressed by Citizens, proudly displayed just a few meters from the Transcarpathian administration building’s front entrance and the guard’s station.

6.10. In the small city Uzhgorod, capital of Transcarpathia Oblast of Ukraine, this photo captures a moment where traditional transportation passes up modern (yet broken down) Soviet technology.

6.11. Volodymyr Hoblik (with the researcher on right), at his office in the “Bíle Dom”, or White House, the Oblast Administration Building of Transcarpathia, Ukraine. July 2005.

6.12. In the distance of the center stage, Mr. Hoblik, in the Khaki pants and tan shirt, speaks in Torpai, Hungaria during a celebration and festival of the first annual “day of friendship” to an audience of several hundred.


7.2. Andrey Doroshuk, a consulted business lawyer from Uzhgorod, wears a mask while participating in the Orange Revolution during the protests of Uzhgorod, Transcarpathia during the fall/winter 2004.

7.3. Gas boiler, above where the gas stove in the kitchen had been (and should be, if it were not for the administration’s errors).

7.4. State water pipes in wall, first to second floor, and state workers are required for repair.

7.5. Olha standing over floor area opened up for exposure of state (public) water pipes contract.

7.6. The consumption measurement device/meter installed by Gas Services Department workers contract.

7.7. One of the fire/smoke detectors purchased from the fire department inspector for about $275 combined.

7.8. Another fire detector that was sold by the Fire Department at above market pricing ($275 for two).

7.9. The result of registration: Certificate of Registration of the firm “New Horizons of Transcarpathia”.

7.10. The properly installed ‘electricity counter’ derailed attempts of extortion by Inspectors.
7.1. Inga Tsoklan, Lawyer, on 'the Korzo' (a pedestrian street) in the center of Uzhgorod, Transcarpathia Ukraine .................................................................................................................. 339

7.12. Part of the Politology Department at the Uzhgorod National University, after faculty meeting during August 2005 .................................................................................................................. 346

8.1. Traditions die hard in Transcarpathia .................................................................................................................. 360
CHAPTER 1

INTRODUCTION: PURPOSE, METHODOLOGY AND SIGNIFICANCE OF THE TWO CASE STUDIES

1.1. Statement of purpose

It is the purpose of the proposed dissertation to inquire as to whether and to what extent the current administrations in the two Ukrainian oblast’s of Kharkiv and Transcarpathia (Zakarpatty) are facilitating or impeding economic development, with particular attention given to development of legitimate domestic small businesses in those oblasts. Since the 1950s, early developmentalist scholars from the United States and Western Europe have written about economic development as essential and necessary to political development, both being of the model set by advanced industrialized countries. Yet, while the early developmentalists, many of whom became known as “modernization theorists”, have been debunked for their assumptions of linear stages of development, universalism, and inevitability, it seems as though we have ignored or forgotten the lessons of their errors. The current post-Soviet political and economic paradigm for the world to follow appears to resemble the submissions of the former developmentalist project, which had largely been a quest for a ‘non-communist manifesto’ (see W.W. Rostow, who’s first edition of The Stages of Economic Growth: A Non-Communist Manifesto, which was published under Eisenhower’s Presidency, and has resurfaced in 1990 as a third edition). However, the officials within Ukraine’s administration have shown little interest in matters of political development. Rather, their attention readily peaks regarding topics of economic development, the prospect of prosperity, and integration into the European Union.

Personnel in Ukraine’s oblast administrations, and in Kharkiv and Transcarpathia specifically, readily express an interest in economic development in a general sense, and often in terms of investment involving larger corporations. Regarding the meaning and interpretation of economic development, there appears to be no consensus in Ukraine, as evidenced by the
various political and economic visions of the competing political parties. In Ukraine, ideals of Socialism are still in competition with ideals of political and economic liberalism. Thus, in Ukraine, "economic development" is an ambiguous term that carries universal appeal but no precise meaning. We ought to recognize also that, within the academic literature there is no consensus on the meaning of economic development (see Richard Peet with Elaine Hartwick, 1999). The prevailing paradigm of neoliberal thought, such as the ‘Washington Consensus’ (Peet, 1999: 52), is just that: a paradigm, a popularly accepted and touted model of the West.

Efforts to attract foreign direct investment from the world’s private sector and to attract assistance from foreign governments are readily visible in both oblasts, and in others as well. In various oblasts of Ukraine, ‘economic development’, with reference to large-scale investment, appears to be a matter of great interest for administrators and their agencies. However, it is also apparent that economic development with respect to small business development is far less salient as an issue or topic. At a minimum, such issues of small business development do not always seem to resonate with the administration.

Why not? Perhaps inattention to small business creation and development is merely an oversight due to a longstanding habit of focusing on large-scale heavy industry? Perhaps it is due to an imperfect understanding of the importance of small business? Perhaps the legacy of an anti-bourgeois ideology and mentalitet, or mindset, is a factor? Or, perhaps the self-interest of the political, administrative, and economic elite (distinctions are not always apparent in reality) trumps all other issues; great rewards may be measured and gained by large-scale foreign direct investment in the significant domestic heavy industries.

The intent of this research is to inquire whether the expressed views of the administrators, regarding their optimism and explicit claims of support for economic development, and to a lesser extent, small business development, seem to hold true in terms of the actual experience in the creation of a small business in each of the two oblasts of Kharkiv
and Transcarpathia. Thus, two issues are raised: (1) to what extent do officials claim support for small business? (2) Do their actions match their words? This research is not intended to establish the generalization that small business growth is necessary as part of every economy in the world. Rather, the relevance of a competitive market economy and the administrative facilitation of creation and growth for small and medium sized enterprises in Ukraine is implied by Ukraine’s declared objectives of European integration and European Union (EU) membership, specifically, and the Western economic paradigm more broadly. Kharkiv was selected as an oblast of study as the officials of the Kharkiv administration presented themselves and their organizations as strongly facilitating economic development. Officials from Transcarpathia have offered similar claims of support for economic development. However, are the officials’ claims of facilitation of small business and economic development an accurate depiction of reality for entrepreneurs? Does the optimistic view that is so consistently expressed by administrators reflect the reality of the situation on the ground in the industrial, prosperous and populous oblast (and city by the same name) of Kharkiv? Do such positive viewpoints of administrators in the much poorer, rural, and geographically western and mountainous oblast of Transcarpathia (and the central city, Uzhgorod) seem to reflect, in reality, administrative support?

A series of interviews with administrative officials, entrepreneurs, and lawyers in each of the two oblasts, Kharkiv and Transcarpathia, is followed by two in-depth case studies of small business creation in those oblasts. The experiences of the case studies enable the researcher to better distinguish truth from fiction. Interviews with individuals removed from the administrations also offer a corrective lens, as we examine the claims of officials. The purpose of this dissertation is to produce a descriptive and experiential understanding of the challenges faced by entrepreneurs in Ukraine. In doing so, the dissertation illuminates the degree of corruption that operates at the local level of administration and the roadblocks that
remain to be passed for the rule of law to be practiced in Ukraine. The dissertation’s focus on the role of officialdom with regard to economic development, small businesses, and the challenges faced by Ukraine’s entrepreneurs is important as a ‘window’ into the politics and administration in Ukraine.

1.2. Methodology

In order to facilitate our understanding of how some administrators of Kharkiv and Transcarpathia perceived and responded to change since Ukraine’s independence in August of 1991, primary data in the form of personal interviews and personal communications has been utilized extensively. This dissertation aims to shed light on the extent to which the Kharkiv and Transcarpathia administrations either facilitate or impede the creation of legal entities of small business. A non-random sample (with all the limitations of a “small sample”) of personal interviews with a variety of officials from administrations in both oblasts has been conducted. Selection of interviewees was dependent upon their relevance to the issues of administrative organization, economic development and related programs, as well as upon referrals and accessibility. These interviews establish the administration’s stated organizational “mission”, or “missions”, and the officials’ proclaimed goals.

Secondary data and findings from a recent study, authored by Yacoub and Senchuk of the International Finance Corporation, also known as the “IFC”, are presented in order to provide an external perspective on the state of small business creation and development, as well as the level of ‘state-interference’ in Ukraine generally. This IFC-sponsored study focuses on the broader environment in which small and medium sized businesses (SMEs) must operate in Ukraine, and draws conclusions that indicate a very high level of state interference in the operations of SMEs (Yacoub and Senchuk, 2000). As the IFC is an organization affiliated with the World Bank, the influence of the United States may be embedded to some degree in the study’s findings. Nonetheless, Senchuk, one of the two authors of the study, is Ukrainian, and
the study was based in Kiev. It is important to note that the survey’s data represents the actual responses of 900 Ukrainian SMEs. It is this viewpoint that is most relevant for an assessment of the business environment for SMEs, including the degree of support or impediment offered by the administration in Ukraine. Presently, information on the experiences of SMEs in Ukraine is not readily available, and Yacoub and Senchuk’s study is, at present, over five years old. Detailed case studies of the creation, operation, and experiences of SMEs in Ukraine may provide corroboration and depth to their findings, but simply are currently not available, creating a void of documentation.

The IFC survey, however broad, did not include any firms from the Kharkiv Oblast or the Transcarpathian Oblast. Indeed, the IFC study enables us to draw only speculative applications regarding Kharkiv and Transcarpathia. Thus, the need for further evidence is partially satisfied by the two case studies (and all related interviews) of the small business ‘start-up’ firms: one in Kharkiv and one in Transcarpathia.

Why select the oblasts of Kharkiv and Transcarpathia for the location of the case studies? The eastern oblast of Kharkiv allows a window into a very large city that has been the capital of Ukraine for a brief period in the twentieth century. Only a few minutes from the Ukraine’s eastern border with Russia, for generations Soviet mentality has had an impact on Kharkiv; one politology professor, Oleksander Fisun, firmly claimed that even today, “We are a Soviet city”. One administrative Director in Kharkiv, Irena Reaka, acknowledged that many of the current officials were also administrative officials under the guidance of the Communist Party during the Soviet Union’s existence. Many of them are still in the same offices that they occupied twenty or more years ago in today’s main oblast administration building, which was the Oblast’s Communist Party Headquarters during the Soviet Union. Thus, if small business development is actually facilitated there, it may serve as an indicator that Ukraine is moving toward economic independence based on a more Western European economic model, such as
that which is embraced within the EU. Last, some officials in Kharkiv’s economic branch of administration have asserted that Kharkiv is one of the country’s fastest growing oblasts, with one of the country’s highest rates of economic growth.

The much poorer and rural oblast of Transcarpathia is situated on Ukraine’s western borders of Hungaria, Slovakia and near Poland. Deep in the eastern mountainous regions of Transcarpathia live a people known as the “Hutsuls” that have been regarded as native to the area, with some still-standing and functioning churches that are over 500 years old.

**Figure 1.1.** A Hutsul family returning from the Village of Yaseenya by wagon, 13km north of Rhakiv (2001).

On one particular occasion, regarding the Soviet Union, one elderly Hutsul man from the remote town of Rhakiv was clearly pained to discuss the Soviet Union. Yet, with a slight smile he commented to the researcher, “We knew it (USSR) would someday not last. No state lasts forever. States come and go. We have been here for many hundreds of years. The Soviet Union was only here for about 50 years (Mr. Meshko of Rhakiv, March 2001).” It may be argued that, in regions such as Rhakiv, the legitimacy of a state is not always apparent, not accepted as a given. The horse-drawn wagons with wooden wheels have outlived the USSR.
The Carpathian mountains run throughout the oblast, leading northwest into Slovakia and Poland. One can ride a motorcycle along the mountain ridge in the western-most Ukrainian regions and see both Slovakia and Poland at the same time. Many villages along these borders had been split during the development of the Soviet Union, as the territory of the neighboring states had been revised. Presently, such villages remain divided between geographically redrawn states, including the severance of many family ties. In fact, Uzhgorod is still called “Ungvar” by its Ukrainian citizens of Hungarian descent (frequently Transcarpathia’s Hungarians can be found to set their clocks on Budapest time, an hour in advance, as according to their reminiscent view, Ungvar should rightfully be part of Hungary). It is noteworthy that many people in this western region reject Russification. Nonetheless, Russian is the language that is typically heard in the offices and halls of the administration in Transcarpathia, as well as in eastern oblasts such as Kharkiv. These two oblasts, in some ways, then, are situated at the opposite ends of a continuum, Kharkiv leaning toward Russia and Transcarpathia somewhat leaning toward Europe. The case studies within the two oblasts enable the researcher to identify similarities and differences in organizational mission, attitudes, behavior, level and means of corruption, policy and policy implementation. The comparative analysis yields useful insights into the realities faced by would-be entrepreneurs in Ukraine.

Primary source material includes personal interviews with administrators, but also the case studies of two small businesses, ‘Koodreashka’ in Kharkiv and ‘Russki Chai’ (which would later become ‘New Horizons Transcarpathia’) in Uzhgorod, Transcarpathia. These two distinct case studies offer a significant amount of detail, thus providing a window through which we may better understand the extent to which the administrations’ claims are true or false regarding the extent to which they support business development in Kharkiv and Transcarpathia. Each case study supplies the perspectives of people involved in an actual
attempt to create a legitimate small business, and their actual experiences are compared against the claims of facilitation and support by the administrations in the two oblasts.

In the case studies, which include interviews with administrative officials, other interviews with several professors and representatives from non-government organizations (NGOs) from each of the two oblasts have been conducted in order to corroborate and validate evidence derived from the case studies and from the IFC survey. In short, the IFC study, the small business case studies, and views of various professors have been employed in order to separate the wheat from chaff, the truth from fiction.

In the interviews, regarding economic development, administrators in Kharkiv and Transcarpathia were asked to discuss any successes and problems of economic development in their oblasts, and more generally, in Ukraine. Administrators were asked to posit what, in their views, are the greatest challenges for economic development. The nonrandom sampling technique of “snowballing” was employed for the sake of benefiting from enhanced access to higher-level administrators. Snowball sampling, a form of nonrandom sampling, is also known as network sampling or chain-referral sampling, where initial selections of interviewees lead, by referral, to further subjects for interview (for in-depth discussion regarding snowball sampling see Neuman, 1999: 199-220). While departments in the Kharkiv and Transcarpathian administrations were selected based on their relevance to economic development or to the organization of administration itself, staff-members’ perspectives, ideas, and suggestions for possible interviews were welcomed. It is noteworthy that a well-placed phone call by one official seemed to open otherwise closed doors. Opportunities for interviews with officials and professors were simply taken advantage of whenever relevant referrals occurred.

All interviews employed the methods of “soaking and poking”. “Soaking and poking” offers the benefit of gaining perspective, insight and understanding of what is important to administrators. Interviews were loosely structured around broad questions. Hence, the
expected result is a deepening of our understanding of the problems and challenges of economic development as faced by Ukrainian administrators.

The first case study consists of the establishment of a small business start-up company in the city of Kharkiv, Kharkiv oblast. That business, the beauty salon ‘Koodreashka’, is directed by a local Ukrainian woman, a ‘working’ woman that possesses no significant personal ties to political or administrative officials, and no ties to wealthy business people. The second case study is of a small start-up firm, initially intended to be “Russki Chai”, an upscale tea and coffee café in Uzhgorod Transcarpathia that would later become an entirely different business, “New Horizons Transcarpathia”, due to difficulties encountered. This firm would be directed by a woman who finished the equivalent of a Masters degree in economics at the State University in Uzhgorod. She, also, has no significant political or economic connections in her oblast or elsewhere.

The case studies are intended to shed light on the question of whether the two administrations actually do as they claim in respect to fostering economic development and the growth of legitimate domestic small businesses. Both firms aspire to meet all standards of law and administrative regulations rather than relying on corruption and criminal involvement for the creation of the firm and for profit. The researcher, as a silent partner, provided financing of each project, while each Ukrainian ‘director’ made all contacts and arrangements with the administration, the administratsia. As a result, the entrepreneurial experience of Ukrainian citizens without personal political, administrative, or criminal ‘connections’ (assuming that there could be a difference) was displayed.

The first of the two case-studies of domestic small business start-ups, “Koodreashka”, revolves around the experiences of the director of the business, a twenty eight year old Kharkiv woman with a high school education, but her years of experience working in small businesses such as beauty salons and operating a small retail market (a “magazin”, akin to a neighborhood
convenience store) proved valuable. As previously noted, Oksana Degtyarenko, the director of the Kharkiv firm, has effectively no significant personal or family connections in politics, administration or in business. This divorced mother of two young boys has made a modest living as a highly regarded hair stylist and beautician. Her clients follow her with great loyalty. Until the attempted creation of the beauty salon that serves as the small business ‘start-up’ case, Ms. Degtyarenko has had only limited experience with the local administration’s officials during her previous employment as a manager of a small store and as a beautician. Clearly, she is a working person of Kharkiv. As mentioned earlier, the second of the two case studies, “Russki Chai/New Horizons”, follows the experiences of Olha Zinchenko, a woman of 22 years, in Uzhgorod, Transcarpathia. Ms. Zinchenko received her Masters equivalent in economics with an emphasis in international finance. While Olha Zinchenko’s educational experience is of a higher level than the first director, Olha has had no actual business experience. Olha, as the director of “Russki Chai”, shares in common with Oksana the fact that she has no significant personal relations with political, administrative, or business elite. Olha, like Oksana from Kharkiv, speaks both Russian and Ukrainian, and both women prefer Russian. Regardless of geographic proximity to Russia or to the west (Hungary and Slovakia, the EU), both women assert themselves as Ukrainian, despite their preferences to speak Russian.

The underlying questions of the two case-studies are: how easy or difficult is it for a somewhat typical Ukrainian citizen, with no real ‘connections’ to any brokers of influence, to establish her own legitimate, domestic small business? Do their experiences, including those with administrators and officials at any level or office encountered during the start-up phase for each business, seem to validate the assertions of the administrators in each oblast as expressed during interviews with the researcher? Are the administrations and officials in Kharkiv and Transcarpathia really facilitating the start-up of small business?
1.3. Significance of the Dissertation

In addition to the purpose of testing the claims of support offered by the administrative officials, the two case studies are aimed at the following broad inquiries:

1. Is it possible to create a small business in Kharkiv and Transcarpathia oblasts by making only payments that are required by law, in avoidance of “extra money” paid as bribery or extortion? If not, do bribed officials “stay bought”, or to what extent does the extortion come regularly and perhaps unpredictably?
2. Can this attempt to create a small business in Kharkiv and in Transcarpathia offer evidence that Ukraine’s political-legal environment is becoming more stable and predictable in terms of rule of law?
3. Is there any indication that these oblasts (and perhaps Ukraine more generally) are developing a reasonably free competition-based market economy that lies within the context of the rule of law?

If the outcome to the above questions is affirmative, it could be argued, with some degree of probability, that evidence of a competition-based market-economy represents a limited but partial indication of Ukraine’s potential of success in its ambition of linking with Western Europe, and perhaps joining the EU in the future.

At worst, negative results may still be deemed useful, as suggestions may then be put forth in support of political and administrative reforms in an effort to halt and reverse corruption and to ensure rule of law. Absent any sign of stemming corruption and building a resilient rule of law, a market economy in Ukraine will neither be free nor competitive. If such negative conditions persist, if administrators are understood as impediments to business creation or as a ‘barrier to entry’ into the market, prosperity is likely to be elusive for typical Ukrainians, as the oligarchs (often administrators and politicians as well as non-government organized criminals) continue to maintain their economic power. As Robert Dahl noted in Polyarchy, concentrations in wealth tend to lead to concentrations in political power (Dahl, a central theme in Polyarchy, 1971). Under such conditions, the implications for democracy, however one chooses to define the concept, seem remote.
1.4. On the paucity of published information

The literature spanning Tsarist Russia through the Soviet Union to the current post-Soviet days is very broad and deep. However, significantly less literature exists on Ukraine, as a state and country that is distinct from Russia and the USSR. The lack of literature on Ukraine is particularly noticeable with regard to the topics and issues of Central and Eastern Countries (CEECs), and very importantly, regarding Ukraine and matters of European integration and the role of administration and officials in the promotion of economic development and small business creation.

First, there is disagreement over which territory and countries constitute Central and Eastern Europe (See Timothy Garton Ash, "The Puzzle of Central Europe"). Ukraine is not always, and perhaps even not often, included in political-economic discussions of Eastern Europe. Published works that focus on topics of EU enlargement for Central and Eastern European Countries, while recognizing various perspectives on the composition of the CEECs, often minimize or completely exclude Ukraine. For example, in East European Transition and EU Enlargement, edited by Wojciech Charemza and Krystyna Strzala, a compilation of 23 articles by 41 contributors, even Russia and Belarus are mentioned briefly in a discussion of strengthening trade and foreign exchange restrictions (Russia in 1998), price controls, and an increasing state share in commercial banks (Belarus from 1995 to 1998). Yet, in this otherwise comprehensive work of quantitative economic analysis, Ukraine is consistently omitted, even from such discussions regarding impediments to EU enlargement for Eastern European countries. In 2001, Julie Pellegrin published a very informative book, The Political Economy of Competitiveness in an Enlarged Europe, in which her economic perspective is supplemented with a political view. Unfortunately, she defined Central and Eastern Europe to include only the following: "The Czech Republic, Hungary, Poland, Slovakia, Bulgaria, Romania, Estonia, Lithuania, Latvia, and Slovenia (Pellegrin, 2001: xii)." While many ponder how to classify
Russia, with its European as well as Central Asian aspects, it seems that Ukraine (as well as Belarus) is mysteriously not part of Eastern Europe.

The trend is apparent in some otherwise very worthwhile literature on the topic of the EU and enlargement or integration. In *EU Enlargement and its Macroeconomic Effects in Eastern Europe: Currencies, Prices, Investment and Competitiveness*, edited by Hubert Gabrisch and Rudiger Pohl, Poland, Slovakia, Hungary, and Romania are frequently discussed. Even the “Soviet Union” is included in several analyses, but Ukraine is omitted throughout. In *Europeanization and Regionalization in the EU’s Enlargement to Central and Eastern Europe*, by James Hughes, Gwendolyn Sasse and Claire Gordon, all from the London School of Economics, much is offered regarding Hungary, Poland, Slovakia, as well as discussion of Czech Republic, Estonia, and Slovenia, but Ukraine suffers a complete omission from discussion, despite appearing twice on regional maps in the book. Ukraine appears once in a parenthetical reference as one of the EU’s neighbors in Carol Cosgrove-Sacks’ *Europe, Diplomacy and Development* (Cosgrove-Sacks, 2001: 22), and once in a mere listing of countries with partnership and cooperation agreements with the EU (in Marco Giorello’s “The Clauses of Democratic Conditionality in the European Union’s External Relations”, in Cosgrove-Sacks, 2001: 85). In 2004, Ukraine was mentioned very briefly in *EU Development Cooperation*, edited by Karen Arts and Anna Dickinson. Unfortunately, the slight reference to Ukraine was only within an article entitled “The ACP (African, Caribbean and Pacific) in the EU’s Regional Relationship” (by Karen E. Smith). Smith made the point that the EU must give special attention to Ukraine, as “Ukraine’s independence needs support (Smith, in Arts and Dickinson, 2004: 76)

Much of the coverage of Ukraine is within the context of Ukraine as a part or former part of the Soviet Union. While this fact seems relevant to the ideology, mentalitet, formal and informal institutions of Ukraine, and while such literature is relevant to an understanding of the
broad context of Ukraine within its Soviet aspect of heritage, what is lacking includes information and analysis on the role of small and medium sized business in Ukraine, and also information and analysis on the role and actual behavior of the administration and its officials in the facilitation of small business creation and sustainability. There is virtually nothing published that can help us to understand the extent to which the administrative officials actually either facilitate or impede economic development and the creation of legitimate small business. On this topic, Yacoub and Senchuk’s work deserves careful consideration. Regarding the affect of the Ukrainian administration on entrepreneurs, the International Finance Corporation (IFC) study by Yacoub and Senchuk stands alone, as 900 firms were surveyed in some detail. To a great extent, their work is useful in helping us understand the concerns and challenges faced by entrepreneurs, as well as the high level of state interference imposed upon small and medium sized businesses by the administration’s officials.

The administrators’ declared intent to enhance and promote economic development, even with attention to small businesses, can be found without difficulty in their official statements. Yet, aside from the contributions of Yacoub and Senchuk, there is an overall paucity of information on what the administration is actually doing to either assist or impede the efforts of entrepreneurs. Little is offered that may corroborate (or refute) the claims of the officials, which tend to outwardly present a comfortable image of a highly democratic and market oriented state, operating effectively and efficiently within the rule of law in support of small business development (all of which is arguable). This lack of published first hand knowledge seems understandable, since criticism of the administration, administrative officials, or of political officials may be construed as financial suicide for entrepreneurs, if not much worse. Fear of retaliation is nearly ubiquitous in Ukraine, and seems to be a plausible explanation for the lack of written testimony regarding the attitudes and actual behavior of officials. According to the view of Oksana Degtyarenko, director of the small business in
Kharkiv, which is featured in the first case study, “administratsia mafia”, or in English, “the administration is the mafia”. The experiences of the two case studies in Kharkiv and Transcarpathia are helpful in filling the void of published information and analysis regarding the aforementioned topics.

Granting the gains made by the IFC study, the two descriptive case studies of small business creation in Kharkiv and Transcarpathia contribute to a deeper level of understanding that may only be reaped through experience, and provide a clearer understanding of the cultural, political, administrative, and economic environment in which entrepreneurs must operate. Through the case studies, the optimistic claims of the administrators as committed supporters of a competitive market economy and, to a lesser extent, small businesses, have been put to the test. Thus, the myths and realities of the role of administrative officials in economic development and small business creation may be better distinguished. Not only do the case studies contribute to literature on Ukraine and EU enlargement issues, but the case studies help to reveal the extent of corruption and deficiencies of rule of law as seen at the local level. The findings contribute to the discussion on political, administrative and economic reforms, and perhaps, may promote the facilitation of Ukraine’s journey toward EU integration.

1.5. Outline of the Dissertation

In addition to this introduction, the dissertation will involve the following chapters:

Chapter 2
An Economic Overview: On the transition toward the West, economic development, marketization, and the environment for small business development in Ukraine

Economic development warrants attention for at least four reasons: 1. The question of political and economic independence from Russia remains unresolved, while the official position of commitment to integration with the EU has been proclaimed, 2. Improvements in Ukraine’s standard of living require economic development, 3. Consolidation of democracy may be reasonably expected to benefit from the support of economic development, 4.
Conditions for accession set forth by the EU require economic development. Economic conditions for accession, or for membership in the EU, will be discussed, as will be risks resulting from EU enlargement. This includes the EU’s ability to absorb new members and Ukraine’s ability to cope with competitive pressures and market forces. The interconnection between economic and political reforms will be examined, including the relevance of administrative officials. The role of small business in the EU’s economy will be examined as an indicator of the salience of small and medium sized businesses (SMEs) in the context of a changing Ukrainian economy. Yacoub and Senchuk’s “The State of Small Business in Ukraine; An IFC Survey of Ukrainian Small Enterprises”, a study that was sponsored by the International Finance Corporation (member of World Bank), will be presented and analyzed in depth. This IFC survey offers substantial evidence for the level of state interference with entrepreneurs and SMEs in Ukraine, and for the degree to which actions of officials may be regarded as impeding the creation and operation of SMEs.

Chapter 3
A Political Overview. On the transition away from the structure and mentalitet of a Soviet Ukraine: a newly independent Ukraine faces tough issues and multiple challenges (transitions).

This chapter will discuss the impact of the former Soviet Union on today’s Ukraine. Soviet ideology and ‘mentalitet’, as well as the structure of the political and administrative system, may be relevant to understanding attitudes and behaviors of administrative officials and entrepreneurs. Background on Ukraine’s political and administrative system will be presented in this chapter. Ukraine’s ongoing and so-called “quadruple transition”, involving political and economic liberalization, as well as nation-building and state building, will be discussed in context of a country currently without a coherent social vision. Problems of corruption and the shadow economy will be examined, as will be the insufficiency of state revenues that are necessary for the state’s administration of public services. Accountability and suppression of tyranny will be doubtful at best, as high-level officials are guaranteed immunity under the
Ukrainian Constitution's articles 80, 105, and 149 (immunity for legislative, presidential, and judicial figures). Much emphasis will be given to description and analysis of events and the arguably limited significance of the “Orange Revolution” of early winter 2004-January 2005, in order to more fully appreciate the political circumstances, trends, and political environment faced by entrepreneurs.

Chapter 4
Administrative viewpoints of economic development: Kharkiv Oblast, Ukraine.

Interviews with administrative officials from the Kharkiv Oblast will establish their claims and disposition of support for economic development and SMEs, particularly. The structure, objectives, and problems relevant to administration, as claimed by higher and mid-level officials, will be examined in this chapter. Officials' claims will be put to the test by the case study of small business creation in Kharkiv, as we compare officials' words with the behavior of officials throughout the broader offices and departments of the Kharkiv Oblast Administration.

Chapter 5
Case study of the creation of a small business 'start-up' in Kharkiv: the salon “Koodreashka”

The case study of the creation of “Koodreashka”, a small beauty salon in Kharkiv, will provide an understanding of the experiences of an entrepreneur, Oksana Degtyarenko, in her efforts to create a small business in the Russian-oriented oblast of Kharkiv. Those experiences will shed some light on the accuracy of the very positive and optimistic claims made by officials.

Chapter 6
Administrative viewpoints of economic development: Transcarpathia, Ukraine.

In a similar fashion to Chapter 4, this chapter will examine interviews with administrative officials from the Transcarpathia Oblast as they establish their claims and disposition of support for economic development and SMEs, particularly. Again, as in the
chapter on the Kharkiv administration, the structure, objectives, and problems relevant to the
Transcarpathian administration, as claimed by higher and mid-level officials in the oblast, will
be examined in this chapter. Similar to the first case study in Kharkiv, Transcarpathian
Officials’ claims will be put to the test by the case study of small business creation in
Transcarpathia, as we compare officials’ words with the behavior of officials throughout the
broader offices and departments of that oblast Administration.

Chapter 7
Case study of the creation of a small business ‘start-up’ in Transcarpathia: from café
“Russki Chai” to the firm “Novi Gorezonti Zakarpatty”, or “Нові Горизонти
Закарпаття”.

Interviews with administrative officials from the Transcarpathia Oblast will establish
their claims and disposition of support for economic development and SMEs. Officials’ claims
in this second oblast, will be put to the test by the case study, as we compare their verbal
assertions with the behavior of officials throughout the broader offices and departments of the
Transcarpathian Oblast Administration. The case study of “Russki Chai”, a Russian tea
room/café in Uzhgorod Transcarpathia, will become the case study of “New Horizons
Transcarpathia” after the nature of the firm was redirected. Yet, the second case study will
highlight the experiences and challenges faced by Olha Zinchenko in her efforts to create a
small business in Transcarpathia, the more westward leaning oblast of the two. Again, it is
expected that the case study should shed light on the claims made by officials in that Oblast of
Transcarpathia.

Chapter 8
Findings and Conclusions

This final chapter will include an assessment of the claims of officials, as they have
publicly and privately suggested that they support economic development, marketization, and
small business development. As myths are separated from the reality of administrative
officials' behavior, an improved understanding for the administration as either catalyst or impediment to small business creation is anticipated. Thus, the results of this research may suggest further implications for political, administrative, and economic reforms in the short to mid term, and ultimately, assist Ukraine in achieving its stated goal of European integration in the longer term.
1.6. References Chapter 1, Introduction

Arts, Karin and Anna K. Dickson, editors. EU Development and Cooperation, edited by Karin Arts and Anna K. Dickinson. Manchester UK: Manchester University Press. 2004


Fisun, Oleksander, professor of Politology in Kharkiv National University’s Philosophy faculty. Professor Fisun has recently visited the United States in order to study electoral processes. Personal Interview, March 2003


Hughes, James, with Gwendolyn Sasse and Claire Gordon. European Regionalization in the EU’s Enlargement to Central and Eastern Europe. New York: Palgrave McMillan. 2004

Lane, Ruth. The Art of Comparative Politics. Allyn and Bacon: Boston. 1997


Reaka, Irena Georgeeyevna, Director of “Administration Organization” of the Kharkiv Oblast Administration, personal interview. 2003


CHAPTER 2

AN ECONOMIC OVERVIEW: ON THE TRANSITION TOWARD THE WEST, ECONOMIC DEVELOPMENT, MARKETIZATION, AND THE ENVIRONMENT FOR SMALL BUSINESS DEVELOPMENT IN UKRAINE

2.1. Section 1: Economic development, marketization and reasons for small business in Ukraine

Figure 2.1. Lenin “One Ruble” Soviet coin, 100 year Anniversary of Lenin

Figure 2.2. A sample of Ukraine’s first post-Soviet currency, 1991. Forerunner to today’s grivnea. Figure is a likeness of the Independence Square statue in Kiev, centrally located base of the Orange Revolution on Khreshchatyk Street, Kiev, 2004.
2.1.1. The significance of ‘economic development’ as an issue

With the collapse of the Soviet Union, the world saw the painful failure of the Soviet version of Communism as a political, an economic, and a social system. While most non-USSR countries have, in the past, enjoyed the luxury of experiencing either political or economic transitions (‘liberalization’) severally, Ukraine and other post Soviet states must suffer through simultaneous transitions of the political and economic type. In addition, Ukraine’s concurrent need for state-building and nation-building have complicated Ukraine’s problems. While concepts of political and economic liberalization may be easily severed in our minds, it is folly to assume that, in the actual world, the political sphere and the economic sphere are not well intertwined. In fact, matters of the economy are inseparable from matters of the state...from political involvement. Jeffrey A. Frieden and David A. Lake have expressed this necessary connection quite well:

“In the most general sense, the economy can be defined as the system of producing, distributing, and using wealth; politics is the set of institutions and rules by which social and economic actions are governed. Political economy has a variety of meanings. For some, it refers to the study of the political basis of economic actions, the ways in which government policies affect market operations. For others, the principal preoccupation is the economic basis of political action, the ways in which economic forces mold government policies. The two focuses are on a sense complementary, for politics and markets are in a constant state of mutual interaction (Frieden and Lake, 1991: 1).”

Those interested in economic development in Ukraine must recognize the relevance of the political and legal aspects and influences within Ukraine.

As this study concerns economic development, primarily with regard to Kharkiv and Transcarpathia, several issues need to be addressed.

2.1.1.1. The question of political and economic independence from Russia is unresolved while the official position of commitment to integration with the EU has been proclaimed.

First, following the Soviet Union’s attempted coup of August 1991, just after Ukraine’s Declaration of Independence on August 24, 1991, and after the official collapse of the USSR in December 1991, the wisdom of Ukraine’s status as an independent state is still the subject of
serious disagreement in Ukraine. Some Ukrainian citizens maintain a strong loyalty to Russia and a fond recollection for traditional Soviet Communism. Others share a sense of either indifference or bitterness toward Russia as a so-called motherland. Instead, nationalistic Ukrainians recall how, millions of their ancestors had been slaughtered, imprisoned or relocated by the Stalin's Russian-oriented Soviet conquerors. For these people, *economic development is some assurance of Ukraine's status as an independent state.* It is not uncommon in the streets across Ukraine, and especially in the central and western regions, for people to explain that they do not want to go back toward Russia. Many hope for a form of economic development that enables Ukraine to be as independent as possible from the direction and control of Russia.

Regarding the fairly recent political crisis involving ownership of the island of Tuzla in the Kerch Strait, a news agency reported that one Ukrainian official, Anatoliy Halchunskyy, firmly indicated the intent of Ukraine to integrate into European institutions such as the community of the EU and NATO, while asserting independence from Russia. In fact, Halchunskyy alleged that Russia had been stirring up a false border dispute in order to interfere with Ukraine's drift toward the West, toward the EU:

"EXPERT SAYS TUZLA ROW AIMED AT STOPPING UKRAINE'S EURO-ATLANTIC INTEGRATION. Anatoliy Halchynskyy, director of Ukraine's National Institute of Strategic Studies and President Kuchma's adviser, told Interfax on 29 October that the questioning by Russia of Ukraine's ownership of Tuzla Island in the Kerch Strait (see "RFE/RL Poland, Belarus, and Ukraine Report," 29 October 2003) *is intended to hamper Ukraine's integration into Europe.* "Under NATO's statutory documents, the political demands of the countries striving for membership in the alliance include, among other things, the settlement of external territorial controversies," Halchynskyy said, adding that the "artificial problem of sovereignty" over Tuzla "will most probably be fueled by the Russian side over a long period of time." Halchynskyy noted that the construction of the controversial dam in the Kerch Strait, which he called "the Tuzla provocation," was started by Russia a week after the Ukraine-EU summit in Yalta, which in his opinion *clearly and unequivocally confirmed the invariability* of Ukraine's Euro-Atlantic course. JM (RADIO FREE EUROPE/RADIO LIBERTY, PRAGUE, CZECH REPUBLIC: RFE/RL NEWSLINE Vol. 7, No. 206, Part II, 30 October 2003, available online at: http://www.rferl.org/.)
As early as October 2003, even if Halchunskyy is mistaken about Russian intent, he is yet another official recently offering testimony that Ukraine intends to integrate with the West.

Through his second and final term, President Kuchma expressed an interest in European integration, though his frequently expounded commitment to a competitive market, democracy, and rule of law remain highly questionable at best, and completely hollow at worst. He continued to court Russian partnership while speaking of integration with the EU (note his so-called free trade zones in four selected oblasts).

Kuchma affirmed his policy of integration with the European Union and linked it to even broader free trade commitments in an official press release entitled: Leonid Kuchma: Our Policy is European Integration, dated from April 13-19, 2003 and available at an official website “Ukraine-European Union, Official site of the Mission of Ukraine to the European Communities”. In that press release, Kuchma’s statement included the following affirmations of Ukrainian policy toward integration:

1. “...we proceed to call on the EU not to limit itself in relations with Ukraine only to the political framework of neighbourhood. A neighbour is not a member of family. We cannot accept this term in its symbolical meaning. We are aspiring to become a fully fledged member of the EU family at some point in the future. We would like to work in the direction of conclusion an Association Agreement but not a neighbourhood one. Particularly this would be a strong political signal for Ukraine (http://www.ukraine-eu.mfa.gov.ua/cgi-bin/valmenu_miss.sh?1p010380.html).”

2. “In our case we can only be sure that without Ukraine neither the political map of Europe can be considered integral nor the creation of All-European common home completed. We are convinced of it...Eurointegration aspirations become louder and more persuasive. We expect that a number of Ukraine's supporters in the EU will continue to grow. In this respect I can only say that political signal - received last month in Brussels within EU-Ukraine Co-operation Council - "the door of EU in the long-term is open for Ukraine" can also be added to our achievement on the way of implementation of our Eurointegration ambitions (http://www.ukraine-eu.mfa.gov.ua/cgi-bin/valmenu_miss.sh?1p010380.html).”

3. “The European and Euroatlantic integration is and remains a priority for Ukraine. The interests of Ukraine demands the integration in the EU and NATO. But our interests are not limited only to that. We clearly declared our goal to create the area of free trade on the basis of the WTO and the APC with our eastern as well as with our western neighbours. The mentioned initiative to create the Common economic area is aimed particularly at the deepening of multilateral economic co-operation in order to use
existing potential of these relations to the maximum with the creation, as a final goal, a zone of free trade. This does not contradict but enlarge our Eurointegration course. Ukraine will never agree to any proposals contradicting this course. In the foundation of the creation of the Common economic area will be a free trade basis for performance of aligned economic policies in some spheres. As a final aim it should help to earn concrete economic profit for our countries and peoples. Ukraine as well as Russia care about their national interests and will pursue their policies proceeding only from these interests (http://www.ukraine-eu.mfa.gov.ua/cgi-in/valmenu_miss.sh?1p010380.html).”

Clearly, Kuchma has declared integration as a high priority, recognizing that such economic policies are of national interest.

The new President Victor Yushchenko, inaugurated on January of 2005, has continuously made European integration central to his personal beliefs and to his campaign platform (see his website for a number of statements that demonstrate this commitment). Yet, while independence from Russia must coincide with such a quest for EU integration, Yushchenko seems to recognize that Ukraine is a Slavic country that can never nor should be fully separate from Russia. At a minimum, trade relations must continue. The pursuit of EU membership requires political and economic liberalization specifically, as will be discussed in more detail shortly.

Yushchenko has offered several statements in support of EU integration during his 2004 campaign for the Presidency, as well as after his inauguration: See the selections below, taken directly from the BBC News on January 25th, 2005, in an article titled “Yushchenko seeks EU membership”. For a concise video and audio of Yushchenko’s speech, the reader may click on the link below (if reading an electronic copy), titled “How Yushchenko proposes to win EU membership”, or simply type the web address as it appears following the article’s excerpts below:
Ukraine's President, Viktor Yushchenko, has vowed to make democratic reforms irreversible and prepare Ukraine for eventual EU membership.

He told the 46-nation Council of Europe in Strasbourg that his reform plan was geared towards the "strategic foreign policy goal of EU membership".

Mr. Yushchenko, who took office on Sunday, said he would try to make "the democratic changes... irreversible".

He was speaking after visiting Russia, which had backed his bitter rival.

The EU has refrained from offering Ukraine the prospect of eventual membership, but stressed that it wants to deepen the existing partnership.

Integration agenda

Mr. Yushchenko said Ukraine's government would be "reorganised to add a real, rather than rhetorical, dimension and content to the process of integration into the European Union".

"We welcome the EU's intention to develop a new strategy of relations with Ukraine. I am convinced that it should contain the prospect of membership."

At his personal website, Victor Yushchenko has made clear his commitment to integrate Ukraine into Europe, he has specifically addressed the issue of Ukraine's sovereignty,
independence, and ‘liberty’. Yushchenko has posted a full text online article that he co-wrote with Adam Michnik, entitled “For Common Europe”, available at http://ww2.yuschenko.com.ua/eng/present/Analytics/607/. The following excerpt makes clear Yushchenko’s position (italics mine):

“Ukraine gained its sovereignty in 1991. During the past years it demonstrated that it played a large part in Central and Eastern Europe, approved the processes providing the security and stability both in the region and throughout the whole continent. The sovereignty of Ukraine and its entry into the EU and NATO will secure against the emergence of the imperialistic trends over the territory of the former Soviet Union.

In the early nineties Ukraine got rid of its nuclear weapons and presently it takes an active part in the U.N.O and NATO peacemaking missions and in addition, it accomplishes solving its last but not eliminated territorial problems with the Russian Federation. Ukraine managed to find the peaceful approach to the settlement of the Crimean peninsula and Pridnestrovie problems that had emerged in their time. According to its history, economic interests and ethnic structure Ukraine can be regarded either the Central Europe state or the Eastern Europe one. Due to its (presence) at the Black Sea shore Ukraine has a connection with the countries of Eastern Europe, the Caucasus, the Balkan Peninsula and Turkey. Together with Georgia, Uzbekistan, Azerbaijan and Moldavia, Ukraine participated in the foundation of the regional association GUUAM meant to be the center of democracy and market economy advancement all over this territory.

We highly appreciate the neighbourly relations with Russia. Our countries are interested in the democracy protection in Russia. Stable and predictable Russia would be a significant element of a new world order and rather advantageous partner of the European Union. Polish and Ukrainian cooperation within the framework of the EU will enable the development of these relations and favor their consolidation.

We are aware of the problems that will emerge after defining the European prospect for Ukraine. We know the EU integration of ten new members demands enormous costs and cooperation in the problem solving. Notwithstanding such difficulties shouldn’t interfere with the achievement of new objects, where the most important one is the future of Ukraine and consolidation of its liberty (http://ww2.yuschenko.com.ua/eng/present/Analytics/607/).”

2.1.1.2. Improvements in Ukrainian’s standard of living requires economic development

Second, improvements in the standard of living in Ukraine are of great concern for everyone. Regardless of one’s political leanings, it seems safe to suggest that every Ukrainian wants to see his/her standard of living improve. People round the country are anxious for better employment and steady pay. Workers such as teachers often have been paid poorly if at all, and have been paid with goods rather than money. Manufacturing laborers are often in search
of any work, but many manufacturing plants have either closed or pay a meager wage. Doctors and nurses often hold extra jobs of any sort in order to complement their incomes. Hospitals are typically undersupplied in every aspect, from medicines to equipment and materials. AIDS is rampant in Ukraine, and alcoholism seems almost ubiquitous. The life expectancy is far lower than in the Western countries, due to problems of health and healthcare.

2.1.1.3. Consolidation of democracy may be reasonably expected to benefit from the support of economic development

Third, we perhaps ought to consider economic development as important for the sake of consolidation of democracy in Ukraine. Accepting ‘consolidation’ as a deep and penetrating belief that democracy is ‘the only game in town’, we must understand that many Ukrainians, whether elites or ordinary citizens, are still waiting to see if democracy is a better political system. We ought to question the extent to which people of Ukraine will embrace democracy if economic development is not experienced. Democracy, however defined or practiced, must bear fruits. If not, or if economic woes should be perceived to worsen in the eyes of Ukrainians, one might anticipate the hard-core Communists or authoritarians to muster support in opposition to the chaos associated with the new democracy. Allow me to explain in detail.

Given the consideration of democracy as an ‘ideal type’ that may be difficult to perfectly and completely achieve in practice, how is it possible for us to know when Ukraine or any other applicant state to the European Union has satisfied the second “condition for accession” of the EU, which requires that the state has achieved stability of institutions guaranteeing democracy, the rule of law, human rights and respect for the protection of minorities (Copenhagen European Council, see Senior Nello and Smith: 1998, 1)? This issue must be addressed as a problem for determining the point at which the applicant state to the EU has satisfied the second condition of accession to the EU. Of course, such an issue of democracy is relevant as long as Ukraine pursues accession to the EU. Shortly, more will follow on the EU’s “conditions for accession”.

29
‘Democracy’, ‘democratization’, ‘transition to democracy’ and ‘political liberalization’ are terms and concepts that are often disputed. According to J.C. Sharman and Roger E. Kanet, a ‘transition to democracy’ may be understood as a “changeover from an authoritarian to an elected representative government no longer beholden to the previous authoritarian rulers (Sharman and Kanet, 2000: 228).” Yet, it is expected that some transitions may be reversed. Defining ‘consolidation’ of democracy is difficult, as it “is indeed an inexact science (Sharman and Kanet, 2000: 229).” ‘Consolidation’ of democracy has been a term that has escaped concrete definition that may be agreed to by all.

Sorensen has commented: “What is consolidation? There is no agreement about the proper definition (Sorensen, 1998: 44).” Consolidation “most often refers to the process by which democratic arrangements become stabilized, institutions take root, and actors’ expectations and goals are modified to work within the strictures of the prevailing system (of democracy) (Sharman and Kanet, 2000: 229).” Consolidation, though difficult to determine precisely, may be present when three broad criteria are evident, including:

1) “those relating to the degree to which the exercise of power is institutionalized and consistent with formal rules laid out in the constitution,
2) the development of a stable party system and appropriate links between a stable civil society and the political system, and
3) the extent to which democratic ideals and institutions have gained acceptance and legitimacy among both political elites and the population at large (Sharman and Kanet, 2000: 229).”

Sharman and Kanet credited Juan Linz and Alfred Stepan with the ‘most representative work on the subject, in which they relate to behavioral, attitudinal, and constitutional factors. According to Linz and Stepan, ‘consolidation’ refers to the following:

“Behaviorally, democracy becomes the only game in town when no significant political group seriously attempts to overthrow the democratic regime or secede from the state... Attitudinally, democracy becomes that only game in town when, even in the face of severe economic crises, the overwhelming majority of the people believe that further political changes must emerge from within the parameters of democratic formulas. Constitutionally, democracy becomes the only game in town when all of the actors become habituated to the fact that political conflict will be resolved according to
established norms and that violations of these norms are likely to be both ineffective and costly (Linz and Stepan, 1996: 5, quoted in Sharman and Kanet, 2000: 229).”

Sorensen claimed agreement with a similar definition of consolidation put forth by Juan Linz, which represents the ‘only game in town’ version as discussed previously (see Linz, “Transitions to Democracy”, 1990: 158, also quoted in Sorensen, 1998: 44).

Sorensen noted Robert Dahl’s five conditions viewed as most favorable for a stable democracy (or polyarchy as ‘democratic’ rule):

1. “Leaders do not employ the major instruments for violent coercion, notably the police and the military, to gain and maintain their power;
2. A modern, dynamic, organizationally pluralist society exists;
3. The conflictive potentialities of subcultural pluralism are maintained at tolerable levels;
4. Among the people of a country, particularly its active political stratum, a political culture and a system of beliefs exists that is favorable to the idea of a democracy and the institutions of a polyarchy;
5. The effects of foreign influence or control are either negligible or positively favorable (Dahl, 1989, quoted in Sorensen, 1998: 52).”

Dahl’s delineation of favorable conditions is comparable to the suggested definitions of consolidation previously noted. It must be emphasized that such adherence to democratic processes and principles requires a strong dedication to a rule of law. Arbitrary judiciary systems are insufficient to foster and maintain such conditions and democratic institutions in a meaningful way. If economic development is to be the result of widespread and legitimate participation of Ukrainians, freedom from the arbitrary exercise power and from the organized criminals is essential. The ordinary citizens must be allowed to ‘participate’ in the political and economic realms, and consolidation of democracy and rule of law will offer the consistency and reliability of a protective environment. It is thus argued that consolidation of democracy, while not necessary for all paths possible of economic development (China, for example), may facilitate the free individual’s thirst for prosperity by legitimate means, and largely free from illegitimate pressures by providing the predictable environment of rule of law.

31
2.1.1.4. Conditions for Accession set forth by the EU require economic development

Fourth, and of great focus in this project, is the matter of the European Union’s “conditions for accession” regarding achievement of a market economy. In order to hold a more fully informed perspective on the need for economic development in Ukraine, it is imperative that we properly identify and understand the EU’s “conditions of accession” as a whole. Since the official position of Ukraine is to strive toward inclusion in the EU, a significant justification for our attention to matters of political as well as economic ‘liberalization’, or political and economic ‘development’ in a ‘Western style’, is linked to the EU’s “conditions for accession” and the Ukrainian objective of inclusion.

Susan Senior Nello and Karen E. Smith outlined the EU’s membership conditions in 1998. According to Senior Nello and Smith, “Enlargement will depend on whether the applicant state meets certain conditions, which were laid down in June 1993 by the Copenhagen European Council (Senior Nello and Smith, 1998: 1).” Worth quoting in full text, the accession conditions are as follows:

1) “The applicant state must have a functioning market economy with the capacity to cope with competitive pressures and market forces within the community;
2) The applicant state must have achieved stability of institutions guaranteeing democracy, the rule of law, human rights and respect for the protection of minorities;
3) The applicant state must be able to take on the obligations of membership, including adherence to the aims of economic and monetary, and political union; and
4) The EU must be able to absorb new members and maintain the momentum of integration (Senior Nello and Smith, 1998: 1).”

Thus, four major reasons for considering economic development as a salient issue are:

1. the question of political and economic independence from Russia,
2. standard of living for citizens of Ukraine,
3. consolidation of democracy,
4. conditions for accession set forth by the EU.

With these four considerations in mind, we will proceed to discuss the meanings and concerns relating to the above “conditions for accession” into the EU, with emphasis on the
establishment of what the EU means by a “functioning market economy” and the necessary stability of political and legal institutions.

2.1.1.4.1. Economic conditions for membership in the EU

Regarding the first set of economic conditions for accession, we must address how to determine the meaning and measurement of a “functioning market economy”, and at what point a state may be deemed to have the capacity to cope with competitive pressures and market forces within the European community. The five conditions for a functioning market economy, enumerated within Agenda 2000, are as follows:

1) “Equilibrium between demand and supply is established between the free interplay of market forces, and prices and trade are liberalized;
2) There are no significant barriers to market entry or exit;
3) The legal system is in place;
4) There is broad consensus about the aims of economic policy; and
5) The financial sector is sufficiently well developed (Senior Nello and Smith, 1998: 6).”

Macroeconomic performance may be analyzed in order to evaluate the realization of such economic conditions for each particular country. Senior Nello and Smith also provided us with the Maastricht convergence criteria for such measurement, although these are not equivalent to accession criteria.

Regarding macroeconomic performance, the five convergence criteria of the Maastricht Treaty include the following:

1) “Inflation rates at a level no more than 1.5% above the average of the three countries with the lowest inflation rate in the community.
2) Long-term interest rates should be no more than 2% above the average of that of the three lowest inflation countries (…to ensure that inflation convergence is lasting…).
3) The exchange rate of the country should remain within the ‘normal’ band of the Exchange rate mechanism (ERM) without tension and without initiating depreciation for at least two years (+/- 15% since 1993).
4) The public debt of the country must be less than 60% of GDP.
5) The national budget deficit must be less than 3% of GDP (Senior Nello and Smith, 1998: 6,7).”

Naturally, the above criteria are designed to assist in the evaluation of macroeconomic stability and health.
However, the appropriateness of stabilization/austerity measures for post-communist countries such as Ukraine may be questioned. On one hand, strict criteria seem to make good sense, at least for attempts at measurement. On the other hand, however, we must ask if it is very reasonable to expect that the full array of post-communist countries should be able to approximate the performance levels of the top three European Community countries with regard to inflation and interest rates.

It would appear to be erroneous reasoning to draw an analogy between the macroeconomic performances of the three most successful European Community countries and the CEECs that have been struggling to advance after the demise of their previous economic and political systems. It may be prudent to expect that such countries as the CEECs that are disanalogous to the most successful Western European states might therefore be in need of different policies and levels of spending on welfare and investment (particularly in human capital)...not to mention problems of state-building for some. As mentioned by Senior Nello and Smith, “At times success in meeting the convergence criteria may be at the expense of forgone growth (or recession) and higher unemployment (Senior Nello and Smith, 1998: 7).” Thus, tension between social needs and measure of economic performance may create a dilemma for such states. Within the liberal economic paradigm, one might argue for stabilization programmes contingent upon specific and unique mitigating circumstances of each particular post-communist country. Naturally, the arguable utility of general/universal standards or criteria, however strict or loose they may be, includes a sense of fairness and consistency in measurement across countries...an attempted avoidance of arbitrariness in determinants of accession.

2.1.2. Risks resulting from EU enlargement, the EU’s ability to absorb new members and Ukraine’s ability to cope with competitive pressures and market forces

Regarding the capacity to cope with competitive pressures and market forces within the European Union’s community, we may note two alleged directions of risk, or danger: risk to the
firms of the CEECs, and risk to the present EU's firms and employees. Regarding the first, “the risk is that with the removal of the barriers many firms in the CEECs whose output was destined for the former CMEA markets would be unable to survive in an enlarged EU market (Senior Nello and Smith, 1998: 12).” This would be due to established competitive edge and current advantages of economies of scale enjoyed by firms in the EU. Granted, the CEECs may enjoy their own advantages insofar as lower wages, thus arguably lower production costs (at least regarding that factor of labor cost). However, advantages to CEEC firms may be lost due to “structural shortcomings of industries (Senior Nello and Smith, 1998: 12).”

On the side of risk to at least some EU firms, one may expect some degree of fear: “With the removal of barriers there is a risk that some of the EU firms would no longer be able to compete with low cost production in the CEECs, so the EU would experience higher rates of unemployment and closures (Senior Nello and Smith, 1998: 12-13).” Recall the fourth accession criteria: The EU must be able to absorb new members and maintain the momentum of integration. Hence, actors in post-communist countries may be wise to anticipate ‘fear’ to play a role in the EU’s determination as to whether or not it is able to absorb new members. It appears that subjectivity and perception may be important.

In order to determine the so-called ability of each applicant country such as Ukraine to ‘cope with competitive pressures and market forces in an enlarged Community’, Senior Nello and Smith have suggested analysis of each country’s progress in the following nine areas:

1) “The creation of a stable and competitive economic environment, inter alia through the privatisation process and the introduction of an adequate legal framework with regard to property rights, contracts, competition and company law;
2) The evolution of banking and financial sectors;
3) The development of a modern efficient administrative system and a role of the state appropriate to a mixed economy;
4) Restructuring and modernization of industries in decline such as coal, steel, agriculture and shipbuilding;
5) Success in developing industries characterised by growing demand and high technology which are at the core of an information society:
6) **Widening of the industrial base and the diffusion of small and medium enterprises:**

7) **Demonopolisation** and/or the development of a suitable regulatory framework for sectors dominated by former state-owned enterprises, such as energy and telecommunications:

8) The introduction of measures to **encourage R&D** (Research and Development) and technological innovation; and

9) **Measures to promote foreign investment** (Senior Nello and Smith, 1998: 14-15).

The ‘areas’ enumerated above are intended to provide one with the understanding of a country’s ability to ‘cope’ with competitive pressures and market forces. Yet, we must note that focus on economic capacity and development, on the economic environment overall, has often become the primary point of interest. Of course, the conditions and future for each CEEC’s economic environment is of paramount importance, as with any country. This is granted.

However, one must be careful not to downplay the role of state and administration. Of terrific importance is Senior Nello and Smith’s *sixth determinant* of Ukraine’s ability to cope with competitive pressure and market forces, a ‘**widening of the industrial base and the diffusion of small and medium enterprises**.’ Thus, they have argued that small and medium sized businesses are, at a minimum, highly important (if not critical) to the development of a functioning market economy. If Ukraine is actually intent on joining the EU, perhaps genuine attention to small business development by the administration is highly advisable, if not critical. Senior Nello and Smith’s position lends seems to lend support for the claim that the findings of this dissertation may prove significant for the design of Ukraine’s future reforms.

Development of a legal system that is predictable, not arbitrary, and the refining of effective property rights and corporate law are not possible without consideration of state-involvement in change. Promoting careful privatization, the evolution of banking and finance, creating a suitable regulatory environment for former state-owned industries (or any industries for that matter) cannot be accomplished without efforts of the state and administrative officials.
Creating an attractive climate for foreign investment requires state activity. We should note that domestic investors should also be considered as necessary players...too often overshadowed by concerns for foreign direct investment (FDI).

Widening of the industrial base, fostering the growth of small and medium sized business, and ‘encouraging’ R&D all require involvement and decision-making on the part of the state, rather than leaving the oligarchs to monopolize and manipulate resources in an apparently laissez-fair market. Decisions regarding the allocation of public resources are not only economic in nature, but are necessarily political...no matter what type of political or economic system serves as context. Influence of a stronger civil society will make preferences of groups and individuals better known to state actors. Without an effective state, bound by rule of law, rather than one exhibiting arbitrary decision-making of political and administrative officials, the economic environment will be non-competitive, sub-optimal, and will remain largely deficient for the purposes of meeting the EU’s accession criteria delineated earlier. So, politics really does matter for economic development. The politics of administration in Ukraine is key to economic development and future integration into the EU.

2.1.3. The interconnection between economic and political reforms

Joan Nelson has offered her insight on the significant interconnection between the economic and political reforms in “How Market Reforms and Democratic Consolidation Affect Each Other”, in her book Intricate Links (1994). Nelson put forth her definition of the essence of a market economy as “a system that protects a broad range of property rights, relies primarily on market mechanisms to allocate resources, and is reasonably open to international trade and investment (Nelson, 1994: 3).” Nelson understood democracy as: “a system that permits substantial political competition, encourages widespread political participation, and protects civil and political liberties necessary for meaningful competition and participation (Nelson, 1994: 3).”
Lastly, Nelson proposed that the transitions toward these types of political and economic systems need not be expected to be universalistic, or need not be manifested in the same exact sense in any two countries: “Successful simultaneous transitions will create varied forms of democratic politics and market economies (Nelson, 1994: 3).” In order for any future analysis to provide an indication of how successful any country’s transitions may be, important considerations should include conceptualizations of each ‘transition’ and its uniqueness, problems of measurement and bias, possible factors and impediments to change, and issues related to suggested ‘impacts’ and conflicts.

Joan Nelson asserted that the beliefs and attitudes of people are perhaps most important to the progress and success of ‘reforms’. She claims the:

“psychological dynamic of the economic reform process put a premium on a broadened programmatic appeal. The launch phase of economic reforms is often accompanied by a ‘negative consensus’; the urgent desire to get a crisis under control, and sometimes the further conviction that old economic strategies and institutions have failed. Later stages require the building of a more ‘positive consensus’ regarding the principles that should guide further reforms. A positive consensus requires at least a rough sense of the kind of society that is sought---a ‘vision’ of the goals of reform (Nelson, 1994: 19).”

Political concerns must involve problems of distributional equity, necessary tolerance of some degree of inequality, and the necessary rehabilitation (or restructuring) of the ‘disintegrated’ state. The state must not lose sight of whatever the country’s fundamental social values may be...or should be: “Market mechanisms are acceptable in open democracies only with considerable mitigation of inequality (Nelson, 1994: 20).” It is argued, in this paper, that when focusing on economic matters, it is quite important for those in post-communist countries such as Ukraine to keep in mind the urgency of such political matters.

Thus, even if Ukraine and other post-communist countries can sustain an economic ‘comeback’, each post-Soviet country must develop a ‘positive consensus’, a coherent social ‘vision’, and political institutions to further those goals. The difficulty involved in social, political, and economic ‘reorganization’ is almost incomprehensible. As institutions, policies,
and programmes must be made to reflect the dynamic myriad of values, attitudes, and interests within Ukraine, it would seem that social, political, and economic reorganization will be more of an *art form* than a predictable *science*. The chief problem that we Westerners must recognize is that positive ‘consensus’ is arguably lacking in Ukraine. There is lively disagreement about the proper ‘social vision’ and goals that must embraced in Ukraine. While the Americans, British, and French may dispute among themselves issues such as the proper role of the state in healthcare, or issues such as the needed level of spending on welfare programs, some Ukrainians are in disagreement about the very type of political and economic system that should be pursued! Certainly, among elites as well as citizens, a strong and coherent social vision is not yet apparent in Ukraine overall.

### 2.1.4. Administration as either catalyst or impediment to economic development and EU integration

In the proposed dissertation, the administration is being studied as catalyst or impediment to economic development and thus, EU integration. Why look at the administration? The administration, at the national level but particularly at the oblast level, such as that of Kharkiv and Transcarpathia, is critical to the distribution of services to the public. The extent to which policy is autonomously formulated at the level of oblast administration may be questionable, as many would argue. However, none can deny that the distribution of resources takes place at this level, where “the rubber meets the road”, so to speak. It is certainly not assumed, in this research, that politics can be entirely removed from administration, and that administration may be entirely separated from politics. Such would be a false dichotomy. The national and oblast level administration, acting within the wider political and legal environment of a newly independent and somewhat chaotic Ukraine, employs the rhetoric of economic development and marketization. This paper intends to explore viewpoints from within the administration, and to determine the degree to which the
administration and its officials actually foster economic development (as is often claimed by officials) or impede it. Which is the reality? We must inquire as to the treatment of entrepreneurs and a spirit of innovation. Economic development in the fashion of a market economy of the West tends to assume an important role for small business. Since the pressures of corruption and organized crime must be understood as very serious barriers to entry into the market for any business (large or small), the nature and role of the administration in the new economic liberalization demands examination. If would-be legitimate small businesses (or any businesses) are preempted from or effectively discouraged from gaining “entry” into the market due to risk of uncertainty, corruption and extortion, then, it is argued here, a healthy Ukrainian market economy CANNOT be established, and whatever degree of market economy that now exists CANNOT flourish in any openly competitive sense. Thus, the administration may be understood as either facilitator or impediment to such development depending on its level of legitimacy, expertise, and willingness to enable people to engage in business activity without penalty or extortion. Does the administration in each oblast tend to remove barriers to market entry, or act as a barrier itself? In this work, it is hoped that the actions and intents of the officials of Kharkiv and Transcarpathia will successfully support such market entry by entrepreneurs. Kharkiv has been selected as one oblast of study due to its apparent success in economic terms. According to claims of officials in Kharkiv’s economic branch, Kharkiv is one of Ukraine’s leading oblasts in terms of economic growth, and the administration claims to do much to foster such growth. Transcarpathia contrasts Kharkiv, with its westward bias and poorer and more rural composition. Though Kharkiv seems more explicitly connected to Soviet politics, administration, and mentalitet, Transcarpathia has a fantastic reputation for corruption and widespread, if not ubiquitous, smuggling.
2.1.5. Political economy, small business, and the task for administration

Who benefits from economic development, from prosperity? The workers, the firm, and the state benefit. According to Adam Smith, one of the celebrated founders of classical economics and thus contemporary liberal economic thought, 'political-economy' has multiple purposes, from which we may subsequently glean the importance of political economy in regard to fostering contemporary small business in national economies. Adam Smith defined 'Political Economy' in his 1776 world renown book, *An Inquiry into the Nature and Causes of the Wealth of Nations*, in Book IV 'Of Systems of Political Economy':

"Political economy, considered as a branch of the science of a statesman or legislator, proposes two distinct objects; first, to provide a plentiful revenue or subsistence for the people, or more properly, to enable them to provide such a revenue or subsistence for themselves; and secondly, to supply the state or commonwealth with a revenue sufficient for the public services. It proposes to enrich both the people and the sovereign (Smith in Heilbroner 2, 258)."

Thus, the 'task' for elected and administrative officials in Ukraine is to facilitate economic development not just for the sake of themselves, not only for the state as a whole, but primarily 'to provide a plentiful revenue or subsistence' for the citizens' of Ukraine.

The issue of economic development suggests that attention must be given to small-business development in Ukraine as important for a competitive market economy.

'Small business development' is widely accepted as important to healthy economies in the West, as Senior Nello and Smith have written (discussed above in detail). The justification for the belief in small business as supportive of a healthy market economy *of the West, particularly in the US*, may be understood, first, by reference to some recent work by an esteemed Professor of Management at California State University of Sacramento (CSUS), Dennis Tootelian. Tootelian has recently concluded research involving the role of small businesses in the US economy. Tootelian asserts that "small businesses represent a major economic force in the United States (Tootelian, 2003)." In addition, he holds that small firms are the biggest job creators in the US economy, they improve product quality, create new goods and services,
develop new technologies, and help reduce prices through competition (Tootelian, 2003).

Tootelian also found that ‘small business lending’ generates business activity and increases tax revenues: “These small business expenditures---on things such as rent, wages, materials, supplies, advertising and insurance---in turn create more business activity, in a process known as the ‘multiplier effect’ (Business Futures, 2003: 6).” For example, in 2001, mid-sized lending institutions loaned about $186.9 million dollars to small businesses. This lending resulted in “about $367.8 million in expenditures, the creation or preservation of about 11,150 jobs and about $11.7 million in taxes paid (Business Futures, 2003: 6).” Of course, Tootelian’s analysis is of the US. Yet, perhaps the lessons may be applied abroad.

Tootelian presented general facts that are useful to our understanding of the role of small business in the U.S. economy. Among the most important of these facts is that 98% of all businesses in the United States employ fewer than 100 people. Generally, and at a minimum, small businesses are responsible for about half the jobs created in the United States. In addition, the small businesses are important in times of economic recovery, as they create approximately 75% of new jobs in rebounding economies (Business Futures, 2003: 6).

Financial institutions help small business to grow by enabling investment through multiple lending products, such as revolving credit in business or personal credit cards, lines of credit, or outright installment loans. Ukraine’s economy may, at least, be considered a “rebounding economy”, as it is obviously rebounding after dissolution of the Soviet state and its centrally planned economy.

Though Tootelian’s research has focused on SMEs in the US economy, the European Union also demonstrates a high percentage of SMEs participating in its economy. According to an official EU press release on justification of microcredit (25,000 Euros or less) to small businesses in the EU, it was noted: “In Europe, more than 90% of enterprises are small

The EU’s official website offers strong support for entrepreneurship and SMEs. In discussion of the main points of the Communication entitled “Thinking small in an enlarging Europe”, the importance of small and medium sized business for the EU is clearly stated. SMEs are understood to be the backbone of the EU economy.

“On 21 January 2003 the Commission adopted a package of documents outlining policy towards small and medium-sized enterprises across Europe, the so-called SME package. The package analyses how the Member States, the candidate countries and the European Commission are implementing the principles embodied in the European Charter for Small Enterprises. The Commission has recently taken several initiatives to support SMEs. In this context, the newly nominated SME Envoy has a crucial role as co-coordinator.

Erkki Liikanen, European Enterprise Commissioner said: ‘SMEs are the backbone of EU economy. The implementation of the European Charter for Small Enterprises is an essential part of the Lisbon strategy to make Europe the most dynamic economic area of the world. The candidate countries have a major role to create a friendly environment for the creation and the growth of enterprises. Action has been taken everywhere in 2002, but further effort is needed in critical areas such as access to finance or the representation of SMEs interest at all levels’ (EU, “Thinking small in an enlarging Europe”).’

The main findings of the SME package are in the Communication "Thinking Small in an Enlarging Europe". Please refer to the full citation in the references for the online PDF file.

Clearly, the EU is taking the role of small businesses in its economy quite seriously.

The European Union has, in the last three years since 2002, been focusing on the importance of small business (micro sized, small, and medium sized enterprises) in the business economy. In doing so, “Eurostat has started a mini-series (3 issues, one per year starting in 2002) on “SMEs in Europe”. The first issue is dedicated to “Competitiveness, innovation and the knowledge-driven society” and presents the latest available statistical data of relevance to this politically important topic (EU Official website, http://europa.eu.int/comm/enterprise/entrepreneurship/promoting_entrepreneurship/index.htm).” A
primary objective of the published research of the EU is stated straightforwardly on their official website: "Prerequisites for creating an environment favourable to businesses include improving the knowledge on the SME population (italics mine, EU Official website, http://europa.eu.int/comm/enterprise/entrepreneurship/promoting_entrepreneurship/index.htm)."

The following statistical breakdown, represented in pie charts, has been taken directly from the EU website under European Commission, Promoting Entrepreneurship and SMEs, subtitled "EU policies and activities for Small and Medium-sized Enterprises". Overall, the statistics in each of the following three figures demonstrate that "SMEs play a major role in the European Union’s business economy, accounting for approximately two-thirds of employment and 60% of value added in the EU (EU official website, http://europa.eu.int/comm/enterprise/entrepreneurship/promoting_entrepreneurship/index.htm)." What follows is, according to the EU, a breakdown of the main indicators in the EU’s business economy by enterprise size as a percent share of total. The data is from 2000, and the percentages do not add up to 100 due to rounding effects, according to the EU. Broken down by size of enterprise, we may examine data that is as current as 2000. Percentages are as a share of total (given rounding of percentages). Given the EU’s categories of business size, Micro enterprises, with 1 to 9 employees, constitute the great majority of SMEs. Small enterprises are those with 10 to 49 people. Medium sized enterprises are those with 50 to 100 people. Large enterprises boast 250 or more people. As the three figures reveal, although the valued added by large enterprises is great, the combination of all micro, small, and medium enterprises into one category of Small and Medium Sized Enterprises (SMEs) demonstrates clearly that SMEs are significant components of the EU’s business economy.
Figure 2.4. Each Class of Enterprises as a % of Total Number of Enterprises in the EU

![Diagram showing percentages of different enterprise classes.]

- Micro Enterprises: 89.1%
- Small Enterprises: 9.1%
- Medium Enterprises: 1.5%
- Large Enterprises: 0.3%

Figure 2.5. Each Class of Enterprises as a % of Number of Persons Employed in the EU

![Diagram showing percentages of different enterprise classes for employment.]

- Micro Enterprise: 27.8%
- Small Enterprise: 21.9%
- Medium Enterprise: 17.1%
- Large Enterprises: 33.1%
Figure 2.6. Each Class of Enterprise as a % of Value added in the EU

Source of data used to reproduce above pie-charts: Structural Business Statistics (theme 4/SBS/sizeclass), Eurostat (estimates based on incomplete country data). See the EU website, European Commission, Promoting Entrepreneurship and SMEs, subtitled “EU policies and activities for Small and Medium-sized Enterprises” (EU official website, http://europa.eu.int/commm/enterprise/entrepreneurship/promoting_entrepreneurship/index.htm).”

Thus, especially during the last three years, the European union has begun to treat the smaller enterprises as critical elements of the EU’s overall economy. Amazingly, as Figure 2.4 portrays, SMEs, and the Micro Enterprises particularly (at 89%), constitute approximately 99% of the total of business enterprises in the EU. Figure 2.5 reveals that SMEs are responsible, in recent years, for approximately 66% of the total of persons employed in the EU’s business economy. Figure 2.6 reveals, as noted above, that the large firms deliver the most value added in terms of each individual category of business size. However, when the three categories of Micro, Small, and Medium sized enterprises are combined into one group known as SMEs, we may see the significance of their contribution of roughly 60%, a figure that outpaces the larger firms. It seems very likely that the EU will be spending an increasing amount of time and financial resources in order to more fully understand the role and relationships of the various sized small businesses in the EU. As Ukraine steers in the direction of integration with the EU, under the commitment of Victor Yushchenko and Yulia Tymoshenko, Ukraine will no doubt
need to consider how it may further facilitate the development of small and medium sized business. It seems likely that political and administrative officials must not minimize the importance of micro enterprises, such as the salon Koodreashka and the café Russki Chai (New Horizons), as several families in both Kharkiv and Transcarpathia are expected to improve their living standards though such employment.

The difference between the economy of the US or economies of the EU countries. and Ukraine’s post-Soviet economy presents an arguable point of disanalogy. Granting this substantial point of disanalogy, perhaps we may still reason by analogy, and with very limited probability, however imperfectly, that small business are likely to be important to Ukraine and its quest for job creation and economic development generally.

The implications of the recently published findings regarding SMEs in the EU’s economy, and the implications of Professor Dennis Tootelian’s work (from the perspective of the US economy) may be limited in terms of application to Ukraine. The financial institutions of Ukraine operate within what might be euphemistically termed an inconsistent legal environment, and have been the subject of much internal debate, as scholars and officials attempt to argue for sweeping banking and credit reforms. Laws on investment and taxation are frequently changing, and banks typically do not offer affordable long term lending (though interest rates on loans are dropping into percentages of the high teens). Such lending is supportive if not necessary for small business start-ups, survival, and growth.

The political and administrative officials of Ukraine might enhance small business start-up ventures and subsequent growth by fostering a consistent and reliable environment for small business lending. This may include accessibility to private lending institutions as well as government sponsored agencies and programs, as the Small Business Administration (SBA) in the United States acts in the interest of developing small businesses as essential for the American economy. Of course, one problem is that significant reform of financial and banking
institutions and legal environments requires a strong rule of law. But, without the tax revenue to implement and sustain the institutions of an effective rule of law, such a favorable legal environment for contractual relations will be a challenge. It remains to be seen how such a competitive legal environment for small business can be achieved before the benefits of significant increases in state revenue may be experienced.

2.1.6. History is not ‘over’, it is ‘in the making’.

Have we found ‘the end of ‘history’, or ideas, as Francis Fukuyama contended over a decade ago? Have we found an end of political, social, and economic ideas and ideologies? It is argued in this research that no, we have not all the answers. Treating the current paradigm as the final ‘end’ of mankind’s experience not only fails to facilitate creativity, innovation, and improvement generally, but it is also a kind of thinking that is arguably inconsistent with the modernizationists’ assumption that we must strive for innovation, for social advances and improvements in efficiency and effectiveness. We must learn from our deficiencies, from our errors, and seek to improve our political and economic systems (models) not for the sake of a ‘final answer’ and all the accolades that might go with it, but instead for the sake of society itself. The critique must never end.

The twentieth century’s early developmentalists, some fancying the terminology and ‘theory’ of modernization, had been widely disputed since the 1960s. Their writings, often sponsored with US government funding, touted a political and economic paradigm of universal applicability and validity. Development, in the political, social, and economic sense, seemed to be understood as the result of specific and linear ‘stages of growth’, representing the movement from a traditional, ‘backward’ society to one that is more efficient and modernized, making optimal use of the technological sciences. Assumptions were universalistic, linear, irreversible, and very importantly, inevitable. Yet, even though the reality of experience of LDCs produced a multitude of positions against such a universal paradigm. Even though scholars adeptly
pointed out that the ‘developmentalists’ completely ignored that international factors may influence domestic politics and economics (many wrote on political economy from a variety of perspectives, and world systems theory), the drive for liberal democracy and free markets has arguably taken on assumptions of a universalistic, linear, irreversible, and inevitable nature.

Culture is often ignored, and differences in values and meaningfulness of life are being lost in favor of a ‘universal medicine’ (see austerity programs of our Bretton Woods Twins, IMF and World Bank). Richard Peet and Elaine Hartwick reminded us in 1999 that the critiques against the essence of the model of development offered by the advanced industrial countries have been nothing new.

“Such self-congratulatory views of modern development have been challenged several times—by romanticism, anarchism, and Marxism in the nineteenth century; by existentialism in the early twentieth century; and by post-modernism and feminism in the late twentieth century. Critics say that Western Modernism and Developmentalism, exactly by monopolizing dreams of progress, destroy alternative conceptions of the future based in the ancient cultures found in the world’s regions other than Europe... Then too, progress leaves basic needs (like housing and food) unmet even in the citadels of modernity, in the inner cities of the United States, which are filled with the homeless, plagued by drug addiction (despite the incarceration of millions of addicts), let along the cities at the fringes of the modern world, teeming with desperate hordes of rural migrants (italics mine, Peet and Hartwick, 1999: 2).”

Peet and Hartwick have clearly pointed out that we do not in fact, seem to have found the perfect model of development, since even our most ‘advanced’ have been with such unsolved problems. Perhaps Fukuyama should not assume that we have nothing of importance to learn regarding our model, our paradigm, of political, social and economic development.

After the fall of the Soviet Union, the Soviet version of Communism, the chief ideological competitor to our Western political and economic thinking (is it ideology?) was finally buried alongside of Lenin. But, it seems ridiculous to argue that the post-Soviet states such as Ukraine have come from the same ‘starting points’ that Western states experienced, with the same resources, opportunities, sanctity for privately owned individual property, and mentalitet of individualism that has so characterized Western innovativeness.
It is with these cautionary remarks, and with the understanding that it has been, at least according to the official statements offered by Ukraine’s leadership since the 1990s, a primary aim of Ukraine to integrate with the EU. With this in mind, it is hoped that this dissertation may largely (though imperfectly) avoid the trap of ethnocentricity that so damaged the advanced industrial countries’ early developmentalists. As long as Ukraine’s officials and its people appear to be interested in integration with the EU, political and economic development must proceed along the lines of those Western European expectations. The conditions for accession, even if at times vague, require that Ukraine and any other applicant countries follow the path of development that is outlined within them. The path depends not on universalistic, linear, irreversible, or inevitable assumptions. The path depends on the choice that has already been selected by Ukraine’s leadership.

How can the case studies and interviews of this dissertation help? Given Ukraine’s ambition to join the EU, Ukraine must seek to develop democracy, rule of law, and a market economy. Regarding the facilitation of small and medium sized business and a competitive market economy, it is the aim of this research to identify the gap between what the administration claims to be true and citizen’s reality of experience. Perhaps, the findings of this research will better enable us to understand the extent to which the administration in Ukraine either facilitates or impedes economic development, particularly in terms of small business creation and sustainability. We should be better able to understand the administrative officials as the entrepreneurs of Ukraine’s would-be SMEs experience during their daily business dealings. In doing so, this research will utilize experiences and personal interviews in order to attempt to check against the officials’ statements and rhetoric that is so often boastful of how the administration supports and facilitates small business. Thus, after separating ‘myths’ from the ‘realities’ regarding the actual role of officialdom in Ukraine’s economic
development, it is hoped that Ukraine may benefit from a more effective dialogue on the subject of appropriate reforms, political and economic.

2.2. Section 2. An external viewpoint of Ukraine's administration: IFC survey of 900 firms finds excessive 'state interference' is an impediment to economic development

“The State of Small Business in Ukraine: An IFC Survey of Ukrainian Small Enterprises” was published in 2000. The IFC, or the International Finance Corporation, is a member of the World Bank Group in Washington, DC and shares the World Bank's mission. The IFC's official mission is “to promote sustainable private sector investment in developing countries, helping to reduce poverty and improve people's lives (http://www.ifc.org, see ‘About us’, click on ‘Mission Statement’)”. The authors of the publication, Max Yacoub and Bohdan Senchuk, from the IFC Business Development Project in Ukraine, were funded through the United States Agency for International Development and the Ministry of Foreign Affairs of Norway.

The IFC’s assumptions regarding poverty reduction and the role for small business are clearly stated, and provide us with an understanding for the IFC’ ideological position:

“Our Shared Principles and Practices:

1. IFC, a member of the World Bank Group, is a global investor and advisor that is committed to promoting sustainable projects in our developing member countries that are economically beneficial, financially and commercially sound, and environmentally and socially sustainable.

2. We believe that sound economic growth is key to poverty reduction; that it is grounded in the development of entrepreneurship and successful private investment; and that a conducive business environment is needed for the latter to thrive and contribute to improving people's lives.

3. We seek to continuously improve our performance by responding to clients promptly, sharing our successes and learning from our experience (http://www.ifc.org).

Thus, IFC asserts that the development of entrepreneurship and private investment is key to 'sound economic growth and poverty reduction', and that a 'conducive business environment'
is critical. The impact of Ukrainian administrative organizations on the development of small business is central to understanding the deficiencies and opportunities within the business environment. The IFC study, though published in 2000, reflects on such concerns through a survey of 900 small businesses, with an average of 26 employees. The IFC study sampled businesses from twelve Ukrainian cities. Six were oblast centers, and six were rayon (district, or county) centers.

According to the authors, the small and medium business enterprises, or “SMEs”, are relatively low in number:

“SMEs in Ukraine are still struggling as evidenced by the large size of the shadow economy and the low number of active official SMEs. There are still only three active SMEs per 1,000 people (in Ukraine), compared to around six in Russia, 25 in Estonia, and 35 in Poland. Entrepreneurs are united in their belief that the tax system needs urgent reform and would do the most stimulate SME development in Ukraine (Yacoub and Senchuk, 2000:5).”

Yacoub and Senchuk looked at the following indicators in an effort to assess the overall environment for SMEs: “business registration, licensing agreements, state inspections of private business and tax burden (Yacoub and Senchuk, 2000: 5).” The authors asserted that the tax environment served as a chief obstacle, or ‘barrier’ to the creation and development of SMEs. The tax environment is also linked to problems such as “excessive levels of state interference in private sector activities and poor macroeconomic conditions (Yacoub and Senchuk, 2000: 5).”

Yacoub and Senchuk arrived at meaningful conclusions regarding the lack of national level administrative control over the oblast and local level administrative organs. Lack of state-level control and inability to force oblast level compliance with national laws enables officials to act in an arbitrary manner, effectively free from influence from national levels and from the private sector:

“It is also apparent from the data that the amount of state interference in business varies quite markedly in different cities, implying that there is little control or supervision of various state bodies locally. This is a troublesome sign, as it demonstrates that local
officials and bodies do not feel accountable to entrepreneurs, the public or central government, and may blunt the effects of national reform. Conversely, it also demonstrates that local authorities can do the most to stimulate local SME development (Yacoub and Senchuk, 2000: 5)."

They argued that implementation of national level economic reforms warrants much greater attention, and their recommendations included the creation of independent institutions that can monitor the performance of organizations’ compliance to national laws. Of course, where the presence of corruption is still very strong, such ‘independent’ oversight is likely to be quite difficult at best. The authors, however, fail to address the fact that there is an incentive for extortion, for corruption, in the administration. For many officials, it must be expected that any increases in efficiency and effectiveness that may be associated with the cutting of ‘red tape’ may be in contradiction to the official’s perceived self-interest in the informal extortion that corresponds with doling out written approvals, or ‘permissions’. Those that enjoy the benefits of arbitrary use of power and ties of personalism may not be so eager to either command or comply with measures of accountability and responsiveness. Nonetheless, their IFC survey presents worthwhile discussion of Ukraine’s obstacles to small business development.

The authors presented some interesting findings. Regarding registration process for business firms, the nationally and legislated defined limit for the process of the certification is 5 days, though only three towns studied by Yacoub and Senchuk met this goal. Some administrations required up to 32 days, and 25 days just to deliver the certificate (Yacoub and Senchuk, 2000: 5). Regarding licensing, the authors found that between 1998 and 1999, the percentage of firms required to have multiple licenses more than doubled, from 18% to 37% (Yacoub and Senchuk). The time needed to obtain a license averaged 19 days, with up to 29 days in some oblasts. They also found that “there is strong evidence that a ‘pay for speed’ system exists in acquiring a business license, in that those cities where licenses were issued quicker than in others had higher licensing costs (Yacoub and Senchuk, 2000: 6).” Fifty-three
percent of those businesses surveyed reported that additional permits had to be obtained before operating the business, and one third admitted that they “incurred unofficial costs in doing so (Yacoub and Senchuk, 2000: 6).” Such unofficial costs were required by “the State Committee on Certification, Fire Inspection, and Local Departments of Architecture, the State Committee on Land Resources, etc. (Yacoub and Senchuk, 2000: 5).” Such agencies will be encountered in this dissertation’s two small business case studies, as unofficial payments are required to produce results from the administrative officials in Kharkiv and Transcarpathia.

Inspections are also a problem in Ukraine, as the authors asserted. Data showed that SMEs have been experiencing a rising trend of increasing costs associated with administrative inspections. For example, the costs in 1998 were $173 on the average, and nearly doubled to $338 in 1999 (Yacoub and Senchuk, 2000: 6).” The tax authorities, known as the tax police, pronounced Nalogavaya Politcia in Russian, were very ‘active’, averaging “2.8 tax inspections per firm, lasting (an average) of 5.6 days in total (Yacoub and Senchuk, 2000: 6).” In one eastern oblast, Kerch, the average number of tax inspections was 2.3 per year, but lasted 20.3 days! Overall, only 10% of those entrepreneurs surveyed contested any of the claims or penalties of the inspecting organizations. Also of significance, ¾ of the successful contests against results of inspections came from ‘unofficial’ appeals within the inspecting organizations themselves. The authors stated:

“Entrepreneurs rarely decided to turn to the courts in pursuit of complaints against state officials, preferring instead more unofficial methods. Respondents justified this by stating that they feel that courts are biased against them, or they are afraid of the state’s punitive powers if they decided to go to court (Yacoub and Senchuk, 2000: 6).”

There were also tremendous variations in regional variation of the number and duration of inspections. The average number of inspections in 1999 ranged between 5 and 15, while the average duration of all inspections was from 6 to 24 days (Yacoub and Senchuk, 2000: 6).”

Regarding the number of taxes and state duties that SMEs must pay, Yacoub and Senchuk reported a 25% decline from 1998 to 1999, to an average number of nine different
taxes. There was variation among regions again, as averages ranged from six at the lowest (in Lutsk) to 17 at the highest (in Lugansk) (Yacoub and Senchuk, 2000: 7). The burden of tax payments overall is heavy as illustrated by small businesses in Kozyatyn: “Entrepreneurs in Kozyatyn faced the highest tax burden with almost half of all respondents stating that taxes represent more than half of their entire turnover (revenue); in Kerch, 73% of entrepreneurs face taxes in excess of 40% of their turnover (Yacoub and Senchuk, 2000: 7).” It is unclear whether the report takes ‘entire turnover’ to mean actual turnover, or only turnover that is actually declared to the state authorities.

‘Concealed turnover’, is ‘economic activity’ or revenue that is officially undeclared and concealed from the state and the tax police. Concealed turnover represents the ‘shadow economy’, and implies a loss in tax revenue for the state. According to the IFC study, “The vast majority of respondents (85%) concealed turnover from state authorities (such as tax police), with half of them concealing between 20% and 50% (of actual turnover) (Yacoub and Senchuk, 2000: 7).” It is also noteworthy that the remaining 15% of respondents that did not admit to concealing revenue simply did not respond at all to that particular question of the survey. These entrepreneurs refused to provide any information on that matter (Yacoub and Senchuk, 2000: 36). Regarding the question of how close to 100% of SMEs might be concealing turnover, we can only speculate. Thus, a minimum of 85% of SMEs concealed turnover as they admitted to doing so. Yet, perhaps closer to 100% of SMEs concealing turnover seems to be more realistic. It is arguable that the 15% in question merely concealed the fact of their hidden revenue through their non-responsiveness during the survey. The authors of the study claim that three taxes were to blame for “capital flight into the market economy, profit tax, payroll tax, and VAT (Yacoub and Senchuk, 2000: 7).”

Regional variation was again present for concealed turnover, as “45% of enterprises in Kerch concealed more than 50% of their turnover, while 87% of respondents in Kozyatyn
concealed up to 60% of their turnover (Yacoub and Senchuk, 2000: 7).” Obviously, the true figures of the actual revenue that is concealed in the shadow economy cannot be accurately known. As a result, one might argue that the official figures for national productivity would thus be rendered largely irrelevant. Nonetheless, the IFC study cites the World Bank:

“According to the World Bank, the size of the shadow economy is 71% of officially quoted GDP (Yacoub and Senchuk, 2000: 36).” The IFC study focused on the shadow economy in terms of the revenue of business that is concealed from the state and its administrative organizations.

While this is consistent with a typical and accepted understanding of a ‘shadow economy’, ‘underground economy’, or ‘informal economy’, as some refer to it, it seems that the IFC has no concept of the administration as a central feature of the shadow economy. Insofar as Ukraine’s administrative organs and officials are involved in earning money by extortion or acceptance of ‘extra money’, or ‘unofficial payments, perhaps it makes sense to consider the extent to which the state’s administration and political officials become a meaningful elements of Ukraine’s shadow economy by concealing revenue from the state itself.

There exists a problem of measurement regarding the amount of revenue that the various state officials hide from the state, including the concealed earnings of the tax police themselves, as receivers of ‘extra money’, apparently common knowledge among Ukrainians. Such concealed revenue may be difficult to ascertain. Getting accurate primary data about such extortion and bribery would be nearly impossible due to disinterest in criminal self-implication or job loss, and secondly, attempting to gain such information is likely to be imply a negative impact on the health or longevity of the researcher.

One last finding is the lack of SME involvement in associational life. According to the IFC survey, “less than 1 in 20 SMEs (4.2%) actually belong to any business association with more than half of all respondents stating that they do not think that they would receive any
practical benefit from associations (Yacoub and Senchuk, 2000: 7).” This is not surprising for Ukraine, as the country offers no evidence of the existence of a strong civil society anytime during or since the Soviet Union. Informal channels are relied on for resolution of most problems, according to the IFC study.

Yacoub and Senchuk posited that the number of and complexity of tax laws, the changing and inconsistent nature of them, and the secrecy of the non-published tax law changes make it virtually impossible for the businesses of any size to stay abreast of the implications.

For instance, the IFC authors noted:

“In the last quarter of 1999 alone, 27 pieces of legislation were introduced or amended that affected SME taxation (24 of which contradicted the law ‘On the system of Taxation’, the main document that regulates tax issues, including one act that was retroactive). Furthermore, the state tax administration adopted 137 new tax regulations – none of which were made public and were only published in their own internal journals (Yacoub and Senchuk, 2000: 38).”

Awareness and understanding is also not apparent among the citizenry, as even the Tax Police themselves are not always aware of the intricacies and changes of the constantly modified tax laws. In fact, the nature of the tax police as a self-regulating organization, compounded with the high number of tax regulations and laws that are affected, exacerbates the problem of arbitrary application of laws and regulations by inspectors that have imperfect knowledge of them.

“A further problem is that, while the State Tax Administration receives broad policy guidelines from the government, it regulates itself and decides on the best methods of executing tax policy. While in and of itself this is desirable and indeed the function of the STA, it leads to a massive amount of tax regulations, instruction, letters, rules, etc. This allows a great deal of scope in interpretation by inspectors themselves. The amount of regulations and the frequency with which they change mean that not even the specialists within local offices of the tax administration fully understand or even know all of the regulations, let alone entrepreneurs (Yacoub and Senchuk, 2000: 38).”

‘Interpretation’ of laws and regulations seems to enhance the arbitrary application of power, to the detriment of entrepreneurs.
As the IFC sponsored study asserted, problems with the tax system and the Tax Administration (or Tax Police) are significant obstacles for private industry and small business particularly. For this reason, a well-deserved focus on the Tax Police should incorporate an enumeration of the kinds of authority that is wielded against the SMEs, cementing an adversarial relationship between the public administration and the private entrepreneurs. Note the following lofty powers of the Tax Administration, as they have the power to:

1. Inspect dwelling premises of any individual, if said premises are used as a legal address or commercial activities take place within the premises.
2. Arrest the bank accounts of enterprises.
3. Without recourse to a court decision, debit from enterprise bank account arrears, penalties, and fines.
4. Implement (the) 'kartoteka' system for an enterprise whereby any credits to an enterprise's bank account are automatically used to cover arrears and fines to the state budget.
5. Financial penalties can be levied as either a percentage (from 10% to 500%) of the taxes due or other financial infringement.
6. Levy penalties on individual management of an enterprise, irrespective of form of ownership or limited liability.
7. Confiscate and sell the property of an enterprise in tax arrears.
8. Tax Police have the right to conduct ‘operational-investigative’ activity against taxpayers, i.e. covert monitoring of telephone conversations, mail, pay informants, etc. (Yacoub and Senchuk, 2000: 30)."

The implications of the arbitrary exercise of power by the Tax Police are great: “Inspectors in Ukraine, especially tax inspectors, are the most dreaded form of state interference for business, and are one of the top reasons causing entrepreneurs to flee into the shadow economy (Yacoub and Senchuk, 2000: 30).” The state insists that activities of the Tax Police reap tax revenue for the state, yet the IFC sponsored authors disagree, stating “The more inspectors and the state interfere with businesses, demand and extort money, close businesses, freeze bank accounts, the more ‘unofficial’ activity there is (Yacoub and Senchuk, 2000: 31).”

The level of ‘state interference’, in general, is rather high. Evidence includes the extensive time required for managers or owners of small businesses in Ukraine to attend to the satisfaction of state organizations is formidable:
“The time burden alone on management (in Ukraine) is the highest in the CIS (as IFC cites EBRD Transition Report 1999, p124), with up to a fifth of senior management time spent on dealing with government officials. Due to the broad powers of local officials and state bodies in interfering with business, the level of corruption and rent-seeking behavior on behalf of state officials is also extremely high. Within the CIS, Ukraine has one of the highest levels (of corruption), exceeded by the Caucasus. Obviously, this interference (by the state) hits smaller firms proportionately much harder than larger firms. Anecdotal evidence suggests that some managers of smaller businesses need to spend more that half of their working time dealing with the ‘state’ in its various forms (Yacoub and Senchuk, 2000: 54).”

Clearly, the environment for economic development in terms of the creation and sustainability of small and medium sized enterprises is, in reality, quite hostile, and requires substantial reform.

Such research seems to challenge if not contradict the claims made by several administrative officials in the administrations of Kharkiv and Transcarpathia. Yet, these two oblasts and their main cities (Kharkiv and Uzhgorod, respectively) were not included in that IFC study, thus, such survey data for Kharkiv and Transcarpathia simply does not exist. The administration officials interviewed in Kharkiv, and most of the officials in Transcarpathia, have asserted the existence of a new and positive environment for economic development and small business. Perhaps the environment for small business creation in Ukraine, or at least in Kharkiv and Transcarpathia, has dramatically improved in the past few years since the study? Are the claims of the administrative officials accurate depictions of reality in these two oblasts? To what extent are their officials’ claims of support for small business creation and development more myth than reality? In each oblast, Kharkiv and Transcarpathia, the officials’ claims of administrative support may be tested by a case studying the creation and development of a local small business.
2.3. References on Chapter 2, An Economic Overview


Constitution of Ukraine. Adopted at the Fifth Session of the Verkhovna Rada of Ukraine on 28 June 1996 (available online at: http://www.rada.kiev.ua/const/conengl.htm)


Fisun, Oleksander. Professor of Politology in Kharkiv National University’s Philosophy faculty. Professor Fisun has recently visited the United States in order to study electoral processes.


61


Linz, Juan J. “Transitions to Democracy” The Washington Quarterly 13, no. 3 1990: 143-164


Parsons, Talcott. The Social System. Glencoe, IL: Free Press. 1951

Parsons, Talcott and Edward Shils (eds.). Toward a General Theory of Action Cambridge, Ma: Harvard University Press, 1951


Peridriy, Oleksander. Senior Professor of Economics at the State Institute of Information Sciences, Economics, and Law. Uzhgorod, Ukraine. Personal communication on risk of business was in Uzhgorod, Ukraine during May 2002. Professor Peridriy shares his thoughts and experiences regularly with the researcher.


Tootelian, Dennis. Unpublished manuscript on lending and the role of small business as a major economic force. Forth coming article discussed in “Small Businesses: Major Economic Force”, in Business Futures. Published by the College of Business Administration, California State University at Sacramento. September 2003.

Tootelian, Dennis. Personal communication regarding unpublished manuscript on Small business as a major US Economic force, October 2003.


Yushchenko, Victor. “Our Ukraine: We will lead our people to a legitimate victory”. in *The Opinion Journal*, of the Wall Street Journal, an online resource. Friday, December 3, 2004. This article is available online at http://www.opinionjournal.com/editorial/feature.html?id=110005974

CHAPTER 3

A POLITICAL OVERVIEW. ON THE TRANSITION AWAY FROM THE STRUCTURE AND MENTALITET OF A SOVIET UKRAINE: A NEWLY INDEPENDENT UKRAINE FACES TOUGH ISSUES AND MULTIPLE CHALLENGES

3.1. Soviet ‘mentalitet’ gives way to the administrative officials’ claims of approving and embracing radical new concepts of a market economy

“Present-day society is a capitalist society, which exists in all civilized countries, more or less free from medieval admixture, more or less modified by the special historical development of each country, more or less developed. On the other hand, the ‘present-day state’ changes with a country’s frontier. It is different in the Prusso-German Empire from what it was in Switzerland. it is different in England from what it is in the United States. The ‘present-day state’ is, therefore, a fiction.

Nevertheless, the different states of the of the civilized countries, in spite of their manifold diversity of form, all have this in common, that they are based on modern bourgeois society, only more or less capitalistically developed. They have, therefore, also certain essential features in common. In this sense it is possible to speak of the ‘present-day state’, in contrast with the future (state), in which its present root, bourgeois society, will have died off.”

Karl Marx
From Critique of the Gotha Program, IV section A.
Subtitled “the free basis of the state” (also in Tucker, 1978: 537)

Since the passing of the Soviet Union we may, arguably, be witnessing the abandonment of an ideology as political and administrative officials are engaged in a quest for an improved state and a new political-economic paradigm for Ukraine. That model, though Ukrainian opinions are not in consensus by any means, currently appears to be one of the West, specifically of the European Union’s taste for a more liberal democracy and increasingly more liberal economics. A competitive market based economy has prevailed in thought in the advanced industrial countries, as the role of states in the economy has receded markedly.

Thus, with the dissolution of the USSR in 1991, one might argue that Marx was wrong. Bourgeois society has not died off. On the contrary, what Marx called ‘bourgeois society’ has become increasingly popular as an ambiguous element of today’s political-economic paradigm: more liberalized political systems accompanied by more liberalized economic systems. A strong and entrepreneurial ‘middle class’, complete with an understanding for individual rights
and property rights, has been widely accepted as indicative of, if not critical to, a stable
democratic political system, a market economy, and resulting economic development (recall the
early Developmentalists of the late 1950s and 1960s, see references). It is precisely this
entrepreneurial spirit and commitment to an array of individual rights centered on individual
liberty that enables the always upwardly mobile middleclass, the ‘small businessman’, to
represent the practical nexus of democracy and a market economy. For, both of these political
and economic systems, as varied in practice as they are in theoretical interpretations, must
embrace the common and unifying acceptance of individual rights as being of paramount
importance.

Of course, a keen Marxist might correctly point out that the Soviet version of Socialism
was not truly Marxist Communism or Socialism. For, Joseph Stalin had sidestepped Marx’s
anticipated ‘stage’ of capitalist development. In an effort to create socialism in a country that
was largely agrarian, and with a long history of Tsarism and authoritarian rule, Vladimir Lenin
hastened to forge a ‘dictatorship of the proletariat’ (using Marx’s words) amidst widespread
political turmoil and discontentedness. Joseph Stalin, the ‘man of steel’, rendered his own
brutal interpretation of Marx’s ‘dictatorship of the proletariat’, and embarked on the rapid
industrialization of Russia and Ukraine, as well as other states in the newly formed Soviet
Union. Political and social development was arguably absent, as roughly 16 to 20 million
Ukrainians perished under Stalin. Purges, forced emigration, and starvation under an artificial
famine were part of the means to Stalin’s ends of industrial development.

Of course, this type of Soviet style economic development was aimed at the
development of heavy industry, often with an eye toward security, as opposed to targeting
growth of small and medium sized business. So, if the contemporary Marxist objects that
Marxism had not been properly attempted, we must notice that the Soviet leaders and
Communist Party elite were consistent with Marx in at least one important way. Their
emphasis on economic development under socialism, due to the obvious role of the state in the command economy, focused on heavy industry and ignored, if not discouraged, small business development. The entrepreneurs of small business, composing the "bourgeois society, will have died off" in the future state of socialism, according to Marx. The mentality of Soviets had been imposed through many decades of Marxist rhetoric and social-political indoctrination that embraced the crushing of the widely detested bourgeois society. As young members of 'the Pioneers' in grade school, then as members of 'the Komsosol' in later years through secondary school, and finally as members of the Communist Party, young children became adults through two decades of political-socialization, of reinforcement of anti-bourgeois political-economic-social ideology.

Today, approximately fifteen years after the collapse of the USSR, Ukraine is a post-Soviet country with leaders and administrative officials that are openly claiming to push toward integration with the primarily Western European Union (EU). Yet, in many eastern oblasts such as Kharkiv, citizens often view their great city as a Soviet city, as has been mentioned above. Interestingly, those fondly reminiscing of, if not pining for, the fallen Soviet Ukraine are frequently the same people calling for integration with the West. Many of these leaders are former Communists who are still holding political or administrative offices, and they must now confront the dilemma. They are faced with a difficult decision: to adhere to their old Communist ideology and rhetoric that holds contempt for 'bourgeois society', or to embrace new (new to them) and contradictory Western concepts (contradictory to their previously professed values and ideals), of political and economic liberalization. To adopt such radically new political and economic systems and principles is to admit failure of so much of what some have believed for so many years, in some cases for up to three generations.

While many Ukrainians may currently support 'economic development', the concept, for them, often carries with it the connotation of economic development related primarily to
larger scale industrial production, or heavy industry. Still, as before, the smaller entrepreneur does not seem so important. This will probably need to change if a competitive market economy is to be successfully established. The mindset, or mentalit' (a word often used by Ukrainians and Russians in regard to mindset, mentality, or a way of thinking) of the political and administrative officials might preferably come to acknowledge the role and significance of the small business as a critical element and foundation of a healthy market economy. As the older generations of Ukrainians are influential and still hold offices, the ideals of Marx must be released from the loyal minds of these older people (particularly some officials) in order for this new economic liberalization to come to fruition. For the newer generations, less hampered by the effects of so many decades of Communist Party rhetoric regarding mentalit', it is more a matter of taking on an additional area of emphasis when considering ‘development’. This additional area of emphasis regarding development might be understood as the recognition and support for domestic involvement in a market economy, with attention given to small business creation and sustainability as part of it.

So, it appears at present that Marx was wrong. Instead of dying off, ‘bourgeois society’ appears to be here to stay, at least until the ‘capitalist stage’ is completed, as orthodox Marxists might contend to this day. Perhaps we have just not achieved Marx’s ‘future state’, in the long view. Of course, the trouble with the long view is that it has no end. Due to the infinite nature of Marx’s long view, he leaves us with a non-falsifiable assertion. This is a genuine problem for Marx and his followers. For, at any point in time, one might argue that Marx’s vision has not materialized yet, as he intended for it to be realized in the long term. But, at what point will we know if “the long term” has arrived?

3.2. Ukraine’s political system and administrative units

Some brief background on Ukraine’s political system is warranted. Ukraine is composed of 24 administrative units, or oblasts, two municipalities that have status equal to
oblasts (Kiev and Sebastopol), and one autonomous republic (Crimea). Though some people (within and without Ukraine) refer to Ukraine’s republic as a ‘federal’ political system, with a prime minister appointed by the president, the nature of its unicameral legislature and centralized system of national administration, complete with presidentially appointed governors, may arguably suggest that ‘national’ or ‘unitary’ are better descriptors of the state than ‘federal’. The legislature, the “Verkovna Rada” is composed of 450 seats, with 225 dedicated to single member districts and the other 225 dedicated to proportional representation based on the national vote with a 4% threshold for parties. Independent candidates are popular, while political parties have numbered as high as 151, depending on the month or year.

While the legislature is vaguely reminiscent of Germany’s insofar as it’s split electoral system, and the broader political system is similar to Russia’s, the unicameral Verkovna Rada denies oblasts an upper house that might guard oblast interests, with equal representation though an upper house, or a senate. Each oblast, or administrative unit, has its own governor and Rada, or oblast legislature. Yet, any semblance of federalism is overwhelmed in terms of a strong, highly centralized domination at the national level, driven by the Ukrainian President, the national Verkovna Rada, and the national administration. Oblasts must conform to the directives originating from the national level, autonomy is seriously limited for oblasts, and budgets are handed downward from Kiev. For the last two years, oblast administrations and legislative bodies have been seeking to gain influence over the creation of the budget. Reforms have been slow to materialize under Leonid Kuchma, although the newly elected President Victor Yushchenko promises significant improvements. After the Orange Revolution, one expression can be heard across Ukraine: ‘pas-motrim’, meaning ‘we’ll see’.

Though the formal electoral system regarding representation in the Verkovna Rada reminds one of Germany’s Bundesrat, and Russia’s lower house, the Duma, the unicameral Verkovna Rada seems arguably more chaotic than even the French Assembly had been before
Charles DeGaulle (or even its predecessors). The concentrated powers asserted by the
President of Ukraine, such as issuing decrees, seems, in the best light, comparable to those
asserted by General Charles DeGaulle... and at worst, reminiscent of an authoritarian figure
such as a Russian Tsar or Ukrainian “Hedman”. For example, we may recall the concentration
of power in one man, famed Ukrainian Hedman Bogdan Khmelnitsky of the medieval years of
the sixteenth century.

In fact, Ukrainians often have referred to their recent leader, the President Leonid
Kuchma, as ‘the Hedman’. The “boolivar”, a mace-like wooden weapon that is essentially a
wooden battle club with a solid spiked ball at the business end, is still a predominant symbol of
authority in Ukraine. See the example of a small boolivar in the photo below:

Figure 3.1. A traditional Ukrainian “boolivar”

The boolivar is a symbol of authority may be interpreted as a reminder of the centuries of top-
down authoritarian culture from which Ukraine’s broader political, administrative, social and
economic system has evolved. As Max Weber held throughout his writings on the subject of
authority, authority may be understood as legitimate when founded on tradition, charisma, the
'rational-legal' appeal to reason, or some mix of any two or three of these types of 'legitimate domination' (see Weber's "The Three Types of Legitimate Domination", which may be found in a compilation of Weber's essays, Essays in Sociology, 1999). Perhaps in the near future, in the state of Ukraine, we shall see fewer "boolivars" decorating the offices of administrators. Perhaps, "legitimate authority" in Ukraine will be more rational-legal than traditional or charismatic, as people’s fond allusions to authoritarian Hetmen and their "boolivars" may give way to new thinking and new political-economic formal institutions, and rule of law rather than rule of men.

3.3. Facing Ukraine’s “quadruple transitions”

The intent of this dissertation is to inquire as to whether and to what extent the Ukrainian administration, with emphasis on the administrations in the two oblasts of Kharkiv and Transcarpathia, are facilitating or impeding economic development. Particular attention is given to the issue of development of domestic small businesses in that oblast. Personnel in Ukraine’s Oblast Administrations readily express an interest in economic development in a general sense, and often in terms of investment involving larger corporations. Efforts to attract foreign direct investment from the world’s private sector and to attract assistance from foreign governments are readily visible. In various oblasts of Ukraine, ‘economic development’, with reference to large-scale investment, is a matter of great interest for administrators and their agencies. However, it is also apparent that economic development with respect to small business development is far less salient as an issue or topic. At a minimum, and with respect to the ordinary citizens of Ukraine, such issues of small business development do not always seem to resonate with the administration. An appreciation for what has been termed as the ‘quadruple transition’ is appropriate for the consideration of the perils faced by Ukraine and its population as they attempt to benefit from the fruits of an ambiguous concept, economic development.
Since the collapse of the Soviet Union and the achievement of Ukraine’s independence, Ukraine has suffered over a decade of what has been termed a ‘quadruple transition’ (an incomplete transition). Widespread economic decline was experienced during the 1990s, though some growth has been evident (and observable on the ground) during the last few years. With the failure of Communism, the state and its people have been forced to attend to drastic changes in their political and economic system. Perceptions and expectations, traditional attitudes and values, and political cultures found among citizens and leaders are relevant to how people respond to such changes to political and economic systems.

Unfortunately, the country is still without a coherent social vision (D’Anieri, 1999). Frequently, it has been well argued that post-Soviet countries have been experiencing, or have conclusively experienced, so-called simultaneous ‘dual transitions’. Thus, it is clear that Ukraine is only one post-Soviet country that has suffered the pains of change. This more commonly understood ‘dual transition’ commonly refers to first, a political transition from an authoritative to a more democratic system of governance and political culture.

Second, it refers to an economic transition from a statist or centrally planned economy toward a primarily liberalized, or market based economy. Paul D’Anieri, Robert Kravchuk, and Taras Kuzio present to us an argument that post-communist countries such as Ukraine also experience two additional transitions: one of ‘state-building’ and one of ‘nation-building’ (D’Anieri, 1999: 4-5). Thus, Ukraine, they argue, has been experiencing a ‘quadruple transition’. While nation-building is important, as it relates to a transition toward a new and somewhat ambiguous Ukrainian ‘identity’ (regarding not only civic but ethnic and religious elements) (D’Anieri, 1999: 5), state-building is critical to the capacity to administer Ukraine’s policies and programs. Their analysis deserves much attention herein, as they are the key contributors of this position. There is a paucity of scholarly literature on specifically Ukrainian
transitions, though this will likely change, since the three-month “Orange Revolution” made politics in Ukraine a fashionable topic in 2005.

Why the concern for ‘state-building’? D’Anieri notes: “In the absence of established traditions of democratic self-government, developing the core political institutions will turn on the crucial problem of increasing the capacity of the state to govern (D’Anieri, 1999: 5).” Ukraine is in a position distinct from that of Russia. While both countries are supposedly in transition from socialism to something more politically and economically liberal, Ukraine is one of the many post-communist countries that are also transiting away from a “foreign, imperial, and colonizing power (D’Anieri, 1999: 5).” Russia, on the other hand, was in fact, that colonizing power.

What D’Anieri perhaps should have elaborated on is the fact that Ukraine’s national and oblast level administrations are still controlled by people that have held administrative positions for decades. Typically, Ukrainian citizens that are administrative officials view themselves as Russians, even in Western oblasts. In administrations, the Ukrainian language is on official documents, but the language of common parlance is nearly always Russian.

Nonetheless, D’Anieri holds that implications for state-building are arguably more significant for Ukraine, in its struggle to enhance newborn independence:

“The disintegration of the Soviet state left an administrative and institutional void in Ukraine of magnificent proportions that has taken considerable time to ‘backfill’. The political transition thus involves not only development of civic organizations, a free press and media, political parties and interest groups but also building the capacity of the ‘quasi-state’ inherited from the USSR to enable it to perform even the most minimal functions of modern governance (D’Anieri, 1999: 5).”

Thus, it is within this larger problem of such an administrative void of capacity to ‘perform even the most minimal functions’ that the issues and problems of the effective administration of Ukraine’s state (involving all policies, programs, or services) are based. Thus, how officials in administrations of Kharkiv and Transcarpathia have been responding to such changes of magnificent proportions is of great relevance to maximizing the efficiency and effectiveness of
the delivery of services to its citizens, such as in the instance of facilitating economic development.

It is widely known that Ukraine has suffered through many 'challenges' (to be euphemistic) of the political and economic transitions of liberalization, however partial or incomplete they may be. In the years following the demise of the USSR, it seems to be common knowledge among scholars and citizens of Ukraine that insufficient revenue has been available for the funding of government programs of any kind. We may also notice the limited impact of political discourse within an arguably liberalizing political system, as is evident from the chaos arising from competing ideologies within in the Verkhovna Rada. Such discourse may serve to raise issues of expenditures at the national level, and views will no doubt continue to be competitive, with disagreement visible. In addition, we must accept that a devastated economy cannot readily afford a meaningful revenue-base that is requisite for the maintenance of social services and pensions in any state.

Ukraine has been widely criticized for its legal system’s inability to guarantee political and economic rights under current and existing institutions and laws. Thus, the ambiguous, exorbitant, and prohibitive tax laws, arbitrarily enforced by a notorious ‘Tax Police’, cannot possibly yield sufficient resources to fund even the most critical of services or programs such as healthcare. The problem of corruption has reached a magnitude that is difficult to measure, yet nonetheless is affirmed by many as a major impediment to effective administration, to effective funding of services, and reform of any kind. So, in such circumstances of a ‘quadruple transition’, we come to the problem of a largely impoverished citizenry that cannot support the required revenue base for the state. The ‘quadruple transition’ has presented Ukraine’s leaders and officials with a great challenge.

The political system is one that affords the ‘elected’ president a high degree of authoritative power. He may appoint ministers and the Prime Minister, appoint oblast
governors, and effectively require (though instruction and threat) that governors help to bring him votes. The president may rule by executive decree, as had become the norm for former President Leonid Kuchma. The president may dismiss the Verkhovna Rada. The 'judiciary branch' is more an instrument of manipulation than a branch of government. Instructions are still handed down in tight control to the oblasts.

If at all, democratization is proceeding at a crawl. Paul Kubicek described Ukraine as a 'delegative' democracy, where requirements of democracy such as those set forth by Dahl, Sorensen, Diamond, or many others, have been mostly 'met' in some formal sense, but where "actual practice resembles that of an authoritarian state (Kubicek cited in D'Anieri, 1999: 144)." Political culture and civil society are critical subjects for those of us interested in why transitions such as democratization are either slow or stagnant in Ukraine (or elsewhere for that matter):

"...the inchoate state of Ukrainian political culture and the absence of a firm tradition of civil society are important to understanding the institutional shortcomings of the Ukrainian state and the slow pace at which the democratization appears to be taking place. Only by understanding this relationship we understand why, for example, an electoral system quite similar to that used in Poland and Germany leads to a very different sort of party system and a parliament that is divided and ineffectual (D'Anieri, 199: 145)."

D'Anieri (et al.) notes that an autonomous civil society, clearly distinct from the state, is not often apparent. He claims, "The right to private property, a middle-class with its own business interests separate from those of the state, and plurality of autonomous spheres in religion, economics, culture, and the intelligentsia are still absent (D'Anieri, 1999: 146)." The state is also expected to protect civil society and civil liberties while limiting its scope of influence and activities (D'Anieri, 1999: 146). Thus, it is suggested that the middle class is important in terms of political liberalization as well as economic liberalization.
3.4. Significance of immunity from prosecution as an impediment to reform

It seems plausible, at a minimum, to argue that economic reforms require a reasonably supportive political climate in order for reforms to be meaningful. In Ukraine, leadership of the President and Prime Minister is key regarding formulation of policy objectives. The disposition of political figures generally, including those in the Verkovna Rada and officials within the administration (it is argued that administrative officials are often very politically involved), may be expected to influence the design and implementation of economic policy. It seems to be common knowledge that in Ukraine, corruption among political and administrative officials is rampant, the shadow economy is so firmly established that it may be argued that every Ukrainian citizen engages with it regularly, and organized "criminality" is so ubiquitous that rule of law may be said to be largely absent.

The probability of success for reforms that may actually counter the widespread corruption among Ukraine’s public officials seems dismal as long as the Ukrainian constitution continues to protect high-level officials from the National and oblast level legislative and executive branches. If the President, national lawmakers, and the judges of the highest court continue to have immunity from prosecution, no expectation that corruption at the higher levels of public offices may be reduced or largely eliminated seem justifiable. Articles 80, 105 and 149 of the Constitution of Ukraine must be corrected if Ukrainians are ever to hold their officials accountable, if tyranny may ever be held in check.

Article 80 of the Constitution of Ukraine states, in translation, that the member’s of Ukraine’s parliament will be protected against the reach of the law:

“National Deputies of Ukraine are guaranteed parliamentary immunity. National Deputies of Ukraine are not legally liable for the results of voting or for statements made in Parliament and in its bodies, with the exception of liability for insult or defamation. National Deputies of Ukraine shall not be held criminally liable, detained or arrested without the consent of the Verkhovna Rada of Ukraine (Constitution of Ukraine).”
Similarly, the president is specifically shielded from the law, but also from dissent. Article 105 protects the president of Ukraine from prosecution and even protects him against criticism:

“The President of Ukraine enjoys the right of immunity during the term of authority. Persons guilty of offending the honour and dignity of the President of Ukraine are brought to responsibility on the basis of the law (Constitution of Ukraine).”

Article 149 protects judges of the Constitutional court from prosecution:

“Judges of the Constitutional Court of Ukraine are subject to the guarantees of independence and immunity and to the grounds for dismissal from office (Constitution of Ukraine).”

Serious political reform, which is likely to have significant impact on legitimacy and effectiveness of any economic reforms, must eliminate immunity from prosecution. Officials must not have the complete freedom to engage in and benefit from illegal activity. This would be helpful in, for instance, determining President Kuchma’s responsibility for ordering the kidnapping and murder of a journalist, Heorhiy Gongadze, in 2000 through his Minister of the Interior, or for selling off the Ukrainian state steel company to his son-in-law for what was a low bid. Kuchma has been unaccountable for such behavior. He has been above the law, as have been his highest officials in the Verkovna Rada and the highest Court.

Thus, articles 80, 105, and 149 prevent any effective check on tyranny by key elite officials. It is argued that such articles have had and will have serious implications, such as seemingly infinite incubation of political and administrative corruption. In addition, such articles guaranteeing immunity might be expected to have negative implications for authority and representation in government, as the outcome must necessarily minimize transparency and avoid accountability by officials. Instead of steering toward democracy, these selected articles of the Constitution of Ukraine may further authoritarian and oligarchic interests, for the political and administrative elite have been at the helm of privatization (perhaps to a version of a rather clannish state-led capitalism).

Regarding the implications for a competition based market-economy, immunity of the elite is, at least indirectly, a barrier to market-entry if and when the elite anticipate that their
own interests may be imposed upon by competition. Thus, immunity is an impediment to real competition in a market economy, as the market is not at all "free". It is anticipated that reforms must be realized in the near future, if a more democratic and genuinely competitive market economy are true goals of Ukraine's leaders and her people. The question remains, just how serious are Ukraine's leaders about facilitating a truly competitive market economy or a democratic state? Perhaps if their rhetoric is genuine, they may reform the immunity clauses of the constitution. The two case studies featured in this dissertation assist in the evaluation of oblast administrative officials' sincerity, as the national level political officials remain more distant from the oblast reality.

3.5. Events and limited significance of the “Orange Revolution” of early winter 2004-January 2005

After fraudulent presidential elections in the fall of 2004, the protests of Ukrainian citizens, which took place in Kiev and in many cities throughout the country, became known as the Orange Revolution. Orange was the primary color of candidate Victor Yushchenko's party, Our Ukraine, and also of his campaign. The first round of two scheduled rounds of elections was held on October 31, 2004. The second round, which was intended to be the final round, and which must take place if no candidate should win greater than 50% in the first round, was held on November 21, 2004. Due to rampant fraud in both the first and second round, and enabled by protests beginning in November 2004 and continuing through most of January 2005, Viktor Yushchenko was able to secure an election victory in a third round of elections (previously unscheduled, but insisted on by the Yushchenko/Tymoshenko coalition and their unwavering protestors).

Despite the changes in leadership, changes in administration have been observable yet limited. The interviews with officials in Transcarpathia will highlight changes in administration, many of which are changes instructed from the national level and intended to affect all oblasts. Unfortunately, it will also become evident in the second case study that.
while newly appointed higher-level officials may offer a hopeful and very positive outlook, many mid and lower level officials have maintained not only their positions but also their grip of extortion on ordinary citizens. Corruption has not yet been successfully reined in. The following segment offers some detail of the evolution of the Orange Revolution, and suggests the possibility of a new and promising beginning for bottom-up political participation in Ukraine.

The RFE/RL Newsline staff, primarily featuring the work of Jan Maksymiuk (responsible for regular analysis regarding Poland/Belarus/Ukraine, MaksymiukJ@rferl.org), and Aleksander Maksymiuk (freelance staff for RFE/RL) have done exceptional work in reporting developments of the 2004 Ukrainian presidential elections as events unfolded. While the BBC has also done an exceptional job, Jan Maksymiuk, Aleksander Maksymiuk and others have been particularly insightful in their presentation of relevant facts and careful analysis. For this reason, the staff at RFE/RL deserves not only praise but also a chronological presentation of their efforts. Though the main points of their work will be referenced in summary fashion, those readers interested in the more complete texts of the observations and insights of Jan and Aleksander Maksymiuk, as published in their RFE/RL contributions, may consult the appendix of this dissertation.

3.5.1. Before the first round of elections: “The People's Power Against Lies and Falsification.”

Even before the first round of elections, people of Ukraine had been paying attention to what they considered to be a very important election and the probability of fraud. They had become accustomed to election fraud, so the subsequent events marked an unusual moment of change in the mentalitet of many Ukrainians; they became willing to participate in some form of political action. A sense of political efficacy had eluded Ukrainians throughout history. But in 2004, the young students were joined by people of all ages as they called for their votes to be counted. Consider:
"UKRAINIANS DEMAND HONEST ELECTIONS IN HUGE OPPOSITION RALLY. An estimated crowd of 100,000-150,000 people took part in a rally organized by People's Power, a coalition of forces backing the presidential bid of opposition candidate Viktor Yushchenko, in Kyiv on 23 October, Ukrainian media reported. The demonstration, seemingly the largest in Ukraine since the breakup of the Soviet Union, was held near the Central Election Commission headquarters under the general slogan "The People's Power Against Lies and Falsification." "We demand honest elections," Yushchenko told the crowd. "The people will force [the government] to recognize their choice.... The candidate of the authorities has no chance whatsoever for an honest victory [in the 31 October presidential ballot]." On 22 October, Yushchenko attended a 20,000-strong rally in Dnipropetrovsk, and on 24 October he met with 18,000 people in Simferopol (Jan Maksymiuk, Radio Free Europe/Radio Liberty. Prague, Czech Republic. RFE/RL Newsline Vol. 8, No. 202, Part II. 25 October 2004)."

Protests drew violence from an apparently state sponsored mob. Protesters managed to grab some of their attackers, only to find out that they had been attacked by individuals of the Policemen in plainclothes.

"...AS OPPOSITION SUPPORTERS ARE ATTACKED BY MOB INCLUDING POLICE OFFICERS. A group of some 100 Yushchenko supporters, who picketed the Central Election Commission headquarters on the evening of 23 October, were attacked by a mob of some 50 unidentified men, who were armed with flails and plastic bottles filled with some hard mixture, the Mass Information Institute website (http://www.imi.org.ua) and UNIAN reported. The picketers, along with opposition deputies, managed to detain three attackers -- two of them turned out to be police officers. The Interior Ministry has not yet commented on the attack. Twelve picketers were reportedly hospitalized following the attack (Jan Maksymiuk, Radio Free Europe/Radio Liberty, Prague, Czech Republic. RFE/RL Newsline Vol. 8, No. 202. Part II. 25 October 2004)."

As it was later revealed, the so-called hard mixture in the plastic bottles was cement. Thus, the police and others had been using cement filled plastic bottles as weapons against the protesters, providing implications for the arguable existence of effective rule of law.

One friend of the researcher, a woman that later worked as an election monitor, noted in an email from Transcarpathia: "But here most of people are afraid of these elections, me inclusive. I cannot imagine what will happen if the elections will be falsified, and they will be...(Olha Cheshchevska, email dated October 31, 2004)." She was right, elections were very obviously falsified. Antagonistic state authorities were responsible for carrying out violence against citizens during what had been peaceful protest. Unfortunately, not all hopes and
optimistic expectations of the protestors would be fulfilled in the coming year of the Yushchenko presidency. Shortly, in this chapter, Yushchenko’s political compromises will discussed, as his compromises crushed the hopes of supporters, and arguably killed the Orange Revolution and any positive changes in the protestors new mentalitet of political efficacy.

3.5.2. After first round of Ukraine’s presidential elections, the protests begin

It did not take long for the allegations of election fraud to arrive, as the RFE/RL published on November 1, 2004.

“UKRAINIAN PRESIDENTIAL BALLOT PROVES INCONCLUSIVE... With 94.2 percent of the ballots counted, the Central Election Commission announced on 1 November that Prime Minister Viktor Yanukovych won 40.11 percent of the vote, while his main rival Viktor Yushchenko obtained 39.16 percent of the vote in the 31 October presidential election... Oleksandr Moroz was backed by 5.77 percent of voters, Petro Symonenko by 5.02 percent, and Natalya Vitrenko by 1.54 percent. Turnout stood at 74.38 percent. These results suggest that, as predicted by analysts and pollsters, Yanukovich and Yushchenko will fight for the Ukrainian presidency in a runoff on 21 November. (Aleksander Maksymiuk, Radio Free Europe/Radio Liberty, Prague, Czech Republic. RFE/RL Newsline Vol. 8, No. 206, Part II, 1 November 2004).”

Also, the first round of voting revealed distinctive splits of loyalty for candidates (splits had been anticipated), as the eastern and southern regions voted overwhelmingly for Yanukovich, while the west and center voter for Yushchenko. During November and December of 2004, the possibility of civil war, or at least secession of the eastern oblasts from Ukraine, had been a very serious and hot political issue.

“GEOGRAPHICALLY DIVISIVE... Yanukovych was overwhelmingly supported in eastern Ukrainian regions, while Yushchenko received the most support in western Ukraine. With more than 90 percent of the vote counted, the Central Election Commission said Yanukovych obtained (in the following eastern and southern oblasts) 86.74 percent of voters in Donetsk Oblast, 80.53 percent in Luhansk Oblast, 69.19 in Crimea, and 57.63 in Kharkiv Oblast. On the other hand, Yushchenko garnered 89.38 percent of the vote in Ivano-Frankivsk Oblast, 87.98 percent in Ternopil Oblast, 87.42 percent in Lviv Oblast, and 76.97 percent in Volhynia. In Kyiv, Yushchenko was backed by 62.36 percent of voters, while Yanukovych got 14.69 percent. (Aleksander Maksymiuk, Radio Free Europe/Radio Liberty, Prague, Czech Republic. RFE/RL Newsline Vol. 8, No. 206, Part II, 1 November 2004).”

81
Very significantly, perhaps 10% of voters had been unable to vote due to “irregularities”. Exit polls conflicted regarding winners and losers. The following passage explains:

“YUSHCHENKO ALLY (Yulia Tymoshenko) DEMANDS EMERGENCY PARLIAMENTARY SESSION OVER 'MASS FALSIFICATIONS'... in the 31 October (2004) presidential ballot... According to an exit poll by the Kyiv International Institute of Sociology and the Razumkov Center, a total of 44.4 percent of respondents voted for Yushchenko and 38 percent for Yanukovych... KVU head (Committee of Voters of Ukraine) Ihor Popov said up to 10 percent of voters could have been unable to exercise their election right because of... irregularities (Aleksander Maksymiuk, Radio Free Europe/Radio Liberty, Prague, Czech Republic. RFE/RL Newsline Vol. 8, No. 206, Part II. 1 November 2004).”

Another exit poll put Yanukovych ahead by several points (see the above passage in full text in appendices), but nonetheless the challenges about fraud were widespread, and many were denied the right to vote.

Also of interest, former President Leonid Kuchma, then incumbent and overseeing the elections, declared that the outcome of the election would not affect the path that Ukraine had been on. However, he did not make specific reference to the type of path that he considered Ukraine to be on at that time. European integration may be presumed as part of his intended meaning, but with caution.

“OUTGOING PRESIDENT SAYS UKRAINE WON'T CHANGE TACK AFTER ELECTIONS. Incumbent President Leonid Kuchma said after casting his vote on 31 October that Ukraine's strategic course will not change after the presidential election, irrespective of who becomes the country's next president, UNIAN reported. "Ukraine's European choices have been, and will remain, [the same] for the president and society," Kuchma said. "Today nobody doubts that -- the path has been determined." Kuchma rejected journalists' suggestion that he might become prime minister following the presidential elections (Aleksander Maksymiuk, Radio Free Europe/Radio Liberty, Prague, Czech Republic. RFE/RL Newsline Vol. 8, No. 206, Part II, 1 November 2004).”

November 3, 2004 may be interpreted as the actual moment, or start date, of what would become the “Orange Revolution”. Election results for the first round were widely understood as false, and the protests began with approximately 5,000 students. See below.
“EUROPEAN MONITORS SAY UKRAINIAN VOTE DID NOT MEET
DEMOCRATIC STANDARDS. The International Election Observation Mission,
which included some 600 observers...said in a statement posted on the OSCE website
(http://www.osce.org) on 1 November that the 31 October presidential ballot in
Ukraine did not meet a ‘considerable number’ of OSCE, Council of Europe, and other
European standards for democratic elections. According to the mission, the
presidential elections were tainted by bias in the state media, interference by the state
administration in favor of Prime Minister Viktor Yanukovych, the disruption or
obstruction of opposition campaign events by the state authorities, and inadequacies in
the Central Election Commission’s handling of complaints. ‘This election process
constitutes a step backward from the 2002 [parliamentary] elections.’ (Jan Maksymiuk,
Radio Free Europe/Radio Liberty, Prague, Czech Republic. RFE/RL Newsline Vol. 8,
No. 208, Part II, 3 November 2004).”

“Wide spread irregularities” may be an understatement, as the Supreme Court Deputy
Deputy Chairman Anatoliy Yarema, as of only November 1st, 2004, counted over 42,500
complaints of irregularities or fraud that had taken place on October 31, 2004.

“UKRAINIAN ELECTION CHIEF ACKNOWLEDGES EXTENSIVE ERRORS ON
VOTER LISTS. Central Electoral Commission head Serhiy Kivalov said on Ukrainian
Television on 1 November that there were widespread irregularities regarding electoral
registers in the 31 October presidential poll. ‘There are citizens who have appealed to
courts, territorial commissions, the Central Electoral Commission, [and] district
commissions,’ Kivalov said. ‘Some had their problems solved and were entered on the
register, while others remained outside and were denied their constitutional right [to
vote]’...Supreme Court Deputy Chairman Anatoliy Yarema said on 1 November that
Ukrainian courts have examined some 42,500 complaints linked to the right of citizens
to take part in voting in the 31 October ballot. According to Yarema, this number of
electoral complaints was unprecedented for Ukraine (Jan Maksymiuk, Radio Free
Europe/Radio Liberty, Prague, Czech Republic. RFE/RL Newsline Vol. 8, No. 208,
Part II, 3 November 2004).”

An unprecedented number of complaints is indicative of worsening political fraud for Ukraine.

It is important to note that fraud was alleged by Yanukovich as well as Yushchenko and
Tymoshenko, as well as many other political leaders. Perhaps the fraud was not at all one
sided, as the protestors implied. Yanukovych received the harshest accusations that had been
cast about. Nonetheless, the elections would go on to the second ballot. Yanukovych had been
declared the winner by only 0.66% over Yushchenko. Victory was not certain, and a runoff was
essential.

“WHO WON UKRAINIAN PRESIDENTIAL BALLOT?...With 97.67 percent of the
ballots counted, the commission said on 2 November that Prime Minister Viktor
Yanukovych won 39.88 percent of the vote, while main rival Viktor Yushchenko obtained 39.22 percent, meaning that there will be a runoff between them on 21 November. Meanwhile, some 5,000 students demonstrated in Kyiv on 2 November, protesting what they allege were falsified results from the 31 October vote. "An all-out falsification of election returns is going on," Yushchenko's campaign manager, Oleksandr Zinchenko, told the rally. According to Zinchenko, the Central Elections Commission has stopped announcing elections results "since it has realized that no report will be in favor of the authorities." (Jan Maksymiuk, Radio Free Europe/Radio Liberty, Prague, Czech Republic. RFE/RL Newsline Vol. 8, No. 208, Part II, 3 November 2004"

3.5.3. The plot thickens with extensive violations and blackmail of election officials by "authorities"

The problem of fraudulent behavior was clearly evident as election officials and, on occasion, their family members, were subjected to threats.

"UNCERTAINTY HOVERS OVER UKRAINIAN VOTE COUNT... Central Election Commission (TsVK) head Serhiy Kivalov told journalists in Kyiv on 3 November that the 31 October presidential ballot may be declared invalid in some constituencies. ITAR-TASS reported, 'About 50 election constituencies did not submit their protocols or the protocols they submitted were not properly executed. Courts are now considering violations in some of the [225] constituencies,' Kivalov said. The TsVK stopped the vote count on 2 November, announcing that with 97.67 percent of the ballots counted Prime Minister Viktor Yanukovych won 39.88 percent of the vote, while opposition candidate Viktor Yushchenko obtained 39.22 percent. Meanwhile, Ukrainian news agencies reported on 3 November that the TsVK has decided to verify 30 percent of the polling-station protocols in 132 constituencies. Yushchenko's campaigners have charged that the verification was ordered to steal what they believe to be a win by Yushchenko...AS CHIEF ELECTION OFFICIAL (was) SAID TO BE BLACKMAILED BY AUTHORITIES. Lawmaker Oleh Rybachuk from Yushchenko's Our Ukraine parliamentary caucus, said in Kyiv on 3 November that TsVK chief Serhiy Kivalov has not yet announced the final vote count in the presidential election because the presidential administration has threatened to instigate a criminal case against his daughter if he fails to ensure a 'necessary election result' for Premier Yanukovych, the 'Ukrayinska pravda' website (www2.pravda.com.ua) reported on 3 November. (Jan Maksymiuk, Radio Free Europe/Radio Liberty, Prague, Czech Republic. RFE/RL Newsline Vol. 8, No. 209, Part II, 4 November 2004)."

This intimidation, allegedly by incumbent authorities, if it truly occurred, may have been very effective. Perhaps the election official refused to verify the election results for fear of involving his daughter in an investigation that would have entailed a forgone conclusion. The official appears to have resisted declaring any results.
With widespread accusations of fraud including abuse by means of absentee ballots and frequent voting by dead people, accusations of blackmail of high level election officials, alleged kidnapping (and, at least, obstruction) of observers at the polls, denial of voting rights by living registered citizens, and poor transparency in the vote counting and reporting, Ukraine is faced with serious challenges regarding possible integration with the EU...if the EU strictly hold to its conditions of accession, which include democracy. Some may argue that the actions of the Orange Revolution’s protesters yielded positive results with a more ‘valid’ third election. However, the fact that Yushchenko would later compromise away much authority in the guise of constitutional reforms (through barter with the alleged fraudulent opponents) and the nearly universal perception (that would prevail later as of the spring of 2006) that Yushchenko failed to follow through with his promised political-administrative reforms should cause us to withhold any assertion of democratic consolidation in Ukraine. As we shall see in the following subheadings, and later as will be supported by the details and interviews of the two case studies of small business creation in Kharkiv and Transcarpathia, the elation of protestors was followed by disillusionment and disappointment. Perhaps the question should be raised: Was the new leadership’s promise of serious reform realized, would there be support for greater transparency in government and administration, greater efficiency and effectiveness with a reduction of corruption and red tape, and increased support for small businesses? Or, would Ukrainians simply receive the same old vodka in new bottles? The blackmail of election officials may, arguably, be representative of corruption that would outlive the Orange Revolution. In the following segments, protests and popular pressure may be understood to indicate some positive aspects of a new mentalitet of political participation and a sense of efficacy.
3.5.4. Do students matter? On November 18, 2004, more protests from youth groups sprung up.

We must keep in mind that the students, who took an early and active role in the protests, were not hampered by adult memories of Soviet repression under security services such as the KGB. Perhaps they did not have the same understanding of fear and intimidation that their parents and grandparents may have had during the USSR. Perhaps the iron curtain, which had begun to crumble (at least) in the 1980s by the time glasnost, an “openness” had arrived under Gorbechev, would soon be forgotten by the younger generations. By November of 2004, the students had begun to adorn themselves in the orange color of Yushchenko’s campaign in their protests against the incumbent leadership.

“UKRAINIAN STUDENTS DEMAND FAIR PRESIDENTIAL RUNOFF. The youth organization Pora (It’s Time) announced on 17 November a nationwide strike campaign among Ukrainian students to urge the authorities to conduct a fair presidential runoff between Prime Minister Viktor Yanukovych and opposition candidate Viktor Yushchenko on 21 November, Ukrainian news agencies reported. The same day, some 5,000 students rallied in Ivano-Frankivsk to demand fair presidential elections... Also the same day, 4,000 students picketed the local police headquarters in Lviv... Many participants in the protests... Pora... Chysta Ukrayina (Clean Ukraine) and Studentska Khvylya (Students’ Wave) youth organizations – had the orange bands and stickers of the pro-Yushchenko election campaign (Jan Maksymiuk, Radio Free Europe/Radio Liberty, Prague, Czech Republic. RFE/RL Newsline Vol. 8, No. 217, Part II, 18 November 2004).”

Following is Jan Maksymiuk’s analysis of events in Ukraine just prior to the second ballot in the presidential elections of November 21, 2004. For the sake of an understanding of the significance of the “Orange Revolution” in terms of advancing civil society, the following analysis is a segment from the full text that is available in the Appendices, and very much worth reading.

_Ukraine’s Time to Remember_,

“Ukraine is once again living through an exceptional period, much similar to that on the eve of its independence 13 years ago. Then, a new state was born out of political and social turmoil in the crumbling Soviet Union. Now we are witnessing the troubled, but definite, birth of a vibrant civil society in this state. All this is happening because of a presidential election in which Ukrainians for the first time since their independence seem to have a genuine political alternative to the ruling regime. This fact alone makes their situation very exceptional in Eastern Europe. In the short term, there is no
possibility for such an alternative in Belarus or Moldova. And no apparent need for it in Russia.

On 21 November, Ukrainians will go to the presidential polls to choose between Prime Minister Viktor Yanukovych, who vows to ensure the political continuity to the regime of outgoing President Leonid Kuchma, and Viktor Yushchenko, who has promised to make a new start for the country. Yushchenko and Yanukovych competed in a neck-to-neck race in the first round on 31 October, obtaining 39.87 percent and 39.32 percent of the vote, respectively. It is widely expected that the runoff will be very close, too. It is also expected that turnout, which was 75 percent three weeks ago, will be distinctly higher on 21 November.

However, one thing is perfectly clear. Irrespective of who will emerge as a winner of the 21 November runoff, the country will not be the same as before the 2004 election. The "people's election campaign" conducted by Yushchenko has raised such a huge wave of spontaneous civic activism in his support that it is hardly conceivable that this activism will fizzle out even if he loses the vote on 21 November. The 2004 presidential campaign has formed a civil society in Ukraine, the core of which consists of a vast community of Yushchenko backers who seem to have eventually woken up from the Soviet-era political and social lethargy for good. It would be close to impossible to ensure a semblance of Kuchma-like continuity in Ukraine's political and social life for Yanukovych or Yushchenko even if they chose to do so....

This year's Ukrainian election, like several other ballots in the past, seems to be offering a clear-cut choice between Russia and the West. But, as in the past, Ukraine's future will turn out to be a compromise between the Russian and Western paths of development for the sake of an independent Ukraine. The true test will be the extent to which ordinary Ukrainians will influence the decisions made by the ruling elites in the postelection period. It will be hard for the future president, be it Yanukovych or Yushchenko, to ignore the will of the voters who have finally become citizens.

(Ukraine's Time to Remember, by Jan Maksymiuk, published online in Radio Free Europe/Radio Liberty, Prague, Czech Republic. RFE/RL Newsline Vol. 8, No. 218, Part I, 19 November 2004)."

It seems that the Orange Revolution was the mark of an undeniable civil society, a great impact indeed. Perhaps Maksymiuk's estimate that activism would not 'fizzle out' in the post-election years will prove to be mistaken. As of approximately one year after the so-called Orange Revolution, in January 2006, as we shall see in the Transcarpathian case study, particularly, professors and entrepreneurs complain that the protest activity in late 2004 had little or no effect. Not only do many interviewees express disappointment and a sense of helplessness, but they can be heard to express a belief that they had been not only let down but even betrayed by the new leadership.
3.5.5. Just after the second ballot of November 21, 2004, the Orange Revolution took off, in full scale, on Monday, November 22, 2004

Even as late as November 22, 2004, election results had not been fully counted. Perhaps there was truth to the allegation that the authorities intimidated the election officials into ignoring any Yushchenko ballots that might place him as the winner. Results would not be delivered or finalized. Fear of authorities appears to have been a factor. At that point in November, at least, two exit polls agreed that Yushchenko had won by a minimum of 3% and perhaps as much as 11%.

"UKRAINIAN OPPOSITION CANDIDATE ALLEGES PRESIDENTIAL-VOTE FRAUD, URGES POPULAR RESISTANCE... Opposition presidential candidate Viktor Yushchenko appealed to Ukrainians at a rally in central Kyiv on 22 November to organize popular resistance against what he believes to have been blatant fraud by the Central Election Commission (TsVK) in the counting of votes in the previous day's presidential runoff, Ukrainian and international news agencies reported. With 99.14 percent of the vote counted, the TsVK reported that Yanukovych won 49.42 percent of the vote to Yushchenko's 46.69 percent. Exit polls organized by two separate groups of Ukrainians pollsters had suggested that Yushchenko beat Yanukovych by 54 percent to 43 percent and by 49.7 percent to 46.7 percent, respectively. Yushchenko called on Ukrainians to pitch tent camps in Ukrainian cities to protest the alleged electoral fraud peacefully and defend what he described as his election victory. Reuters estimated that 60,000 people attended the opposition demonstration on Independence Square in Kyiv (Jan Maksymiuk, Radio Free Europe/Radio Liberty, Prague, Czech Republic. RFE/RL Newsline Vol. 8, No. 219, Part II, 22 November 2004)."

The photos below, from the Orange Revolution in Kiev, November 2004 through January 2005, pay tribute to the willpower of some who remained in subzero temperatures protesting fraudulent elections and repression by incumbent authorities during the presidential elections. It may be argued that "citizens" were made from "subjects" in November of 2004.
Figure 3.2. A clear message from the tent city in Kiev, January, 2005. On Khreshchatyk Street, near Independence Square.

Figure 3.3. Keeping warm in Kiev’s tent city. These people reported that they have been in Kiev’s Tent City protesting since November 2004 through mid January, 2005, and they had no intention of going home until the inauguration of Victor Yushchenko.
Figure 3.4. More hardcore protesters show no intention of packing in and going home to warmth. Note the universal “peace-sign” offered by the man in the middle/rear. January 2005.

Figure 3.5. A view of the tent city perimeter. Khreshchatyk, Kiev.
Figure 3.6. Near the Tent City information desk.

Figure 3.7. A long view of Tent city on Khreshatyk, the central street of Kiev.
Figure 3.8. Walking around the tent city on Khreshchatyk Street, Kiev.

Figure 3.9. The researcher with protesters at the Tent city, Kiev.
Figure 3.10. A woman gives out orange flags at the Tent City.

Figure 3.11. A cold January evening at the non-stop Tent City on Khreshchatyk, Kiev.
3.5.6. After the second round of presidential elections, held November 21, 2004

The following analysis was published online on November 23, 2004, by Jan Maksymiuik, and deserves attention. Maksymiuik offered insight on the unfolding crisis in Ukraine. Optimism was not abundant. As the election irregularities were widely believed to include kidnapping (of election monitoring officials, as had been alleged in the Transcarpathia Oblast), the protesters swelled in numbers, and a semi-permanent tent camp, as shown above, was established in the center of Kiev, not far from the government buildings for parliament and the administration. On the events:

"Ukraine in Turmoil after presidential vote":

"A crowd estimated to number at least 100,000 took part in a rally on Independence Square in Kyiv on the evening of 22 November to protest what they perceive to be government fraud during the previous day's presidential runoff between Prime Minister Viktor Yanukovych and opposition candidate Viktor Yushchenko. With 99.38 percent of the vote tallied, the Central Election Commission (TsVK) had announced earlier in the day that Yanukovych won 49.42 percent of the vote to Yushchenko's 46.7 percent. Meanwhile, Yushchenko told the crowd on Independence Square that by resorting to massive fraud, primarily in Ukraine's eastern regions, the authorities stole 3.1 million votes from him and, consequently, his election victory.

Speaking to some 60,000 people at the same rally earlier in the day, Yushchenko called on Ukrainians to organize popular resistance against the alleged vote fraud and defend what he described as his election victory. In addition, Yushchenko's political ally Yuliya Tymoshenko has called on Ukrainians to launch a nationwide strike. Yushchenko's hackers have pitched some 300 tents along Khreshchatyk, Kyiv's main thoroughfare, and have reportedly vowed to stay in them until Yushchenko is declared the country's elected president... Yushchenko's supporters are coming to Kyiv from the provinces despite police blockades of the roads around the capital and elsewhere in the country, while the authorities are bringing Yanukovych's adherents to Kyiv in busses.

In the meantime, local councilors in several cities in western Ukraine, including Lviv and Ivano-Frankivsk, have adopted resolutions claiming that they will recognize only Yushchenko as the legitimate president and supporting the opposition call for a general strike. The Kyiv City Council passed a resolution expressing distrust in the Central Election Commission. The opposition has also managed to collect 150 signatures among parliamentary deputies calling for an emergency session on 23 November to discuss the situation in the country and move a vote of no confidence in the commission.

Both Western and domestic independent election monitors have concurred that the 21 November vote in Ukraine was far from democratic. The Committee of Voters of Ukraine (KVU), a nongovernmental electoral watchdog, reported on 21 November that illegal voting by absentee ballot was the biggest problem in the runoff... 'Our observers have registered more than 100 buses carrying these people [voting illegally], and one can gather that tens of thousands [of people] have voted in this way,' KVU head Ilhor Popov told journalists.
The KVU also reported numerous incidents of assault on observers and journalists, and even kidnappings. ‘Up to a dozen people have been kidnapped today by criminal-looking individuals,’ Popov claimed. Other alleged irregularities included preventing observers, both domestic and international, and journalists from entering polling stations, the use of counterfeit ballots, and the failure to sign or stamp ballot papers by some commission members.

Yet, irrespective of the final outcome of the current standoff in Ukraine, it will be problematic, if not impossible, for Kuchma to assure political continuity for his regime, something he repeatedly urged during the election campaign. Ukraine seems to have awakened to a new political life in which millions of people are no longer prepared to mutely endure electoral manipulation, official lies, and autocratic governance.

Seen from this perspective, Ukraine’s presidential election of 2004 appears to offer an opportunity unprecedented in Ukraine’s 13 years of independence for politicians, from both the pro-Yanukovych and the pro-Yushchenko camps, to practice the difficult art of political compromise in order to ensure the unity of their bitterly divided country (Jan Maksymiuk, Radio Free Europe/Radio Liberty, Prague, Czech Republic. RFE/RL Newsline Vol. 8, No. 220, Part I, 23 November 2004).”

Thus, the scandalous events of the second ballot helped not only to cement the will of the opposition, but resulted in an increase in political participation in the form of protest by supporters of all parties. The dramatic rise in popular political participation, which required that the voices of the voters to be heard, is evidence that mentality can change rapidly.

3.5.7. Protests grew increasingly stronger after election results were first posted, then cancelled

The numbers of protesters continued to grow, but by the end of November, 2004, people of all ages had begun to form human chains in order to block the entrances to significant government building, such as where the President’s Kabinett meets, and at the Verkovna Rada’s parliament building. Violence was not an issue, as the armed forces opted to remain aloof.

“YUSHCHENKO ADHERENTS BLOCK GOVERNMENT, PRESIDENTIAL ADMINISTRATION OFFICES. Tens of thousands of people came to Independence Square in Kyiv on 29 November for the eighth consecutive day of protests against what the opposition deems to be massive fraud in favor of Premier Viktor Yanukovych in the 21 November presidential vote...two separate groups of pro-Yushchenko backers have been blocking the government offices and the presidential administration headquarters by forming "living chains" before entrances to these buildings since last night.... YUSHCHENKO DEMANDS NEW PRESIDENTIAL BALLOT. Yushchenko told a crowd of his backers demonstrating for the fifth consecutive day in Kyiv on 26 November that he wants a new presidential vote on 12 December in order to overcome the current standoff over the official results of the 21 November presidential runoff...
Yushchenko would get his wish for a third presidential vote under reformed election guidelines. The vote would take place on December 26, 2006. He was on his way to victory, the crowd’s willpower was strong and numbers of supporters continued to climb. Pensioners and workers of all ages, men as well as women, stood by the students that initiated much of the political action.

In a very important moment, the Supreme Court acted in support of new elections by refusing to publish the verdict of Yanukovych’s supposed victory. In Ukraine, the verdict is not official and final until published. The greater implication for Yushchenko was that the officialdom in the courts, at least, had begun to hear the voices of the people who stood for months in subzero temperatures in order to have a political impact.

“UKRAINIAN SUPREME COURT SUSPENDS VERDICT AWARDING VICTORY TO YANUKOVYCH. The Supreme Court on 25 November blocked the publication of the official presidential election results awarding victory to Yanukovych, Ukrainian media reported. The decision means that until the court has finished examining complaints about alleged massive election fraud from the Yushchenko election staff, Yanukovych cannot be inaugurated as president. The previous day, the Central Election Commission announced that Yanukovych won the 21 November runoff with 49.46 percent of the vote (15.1 million votes) to Yushchenko’s 46.61 percent (14.2 million votes). Yushchenko claims that the election authorities stole more than 3 million votes from him, primarily in Ukraine’s eastern regions of Luhansk and Donetsk. The Supreme Court began reviewing Yushchenko’s complaints on 29 November. (Jan Maksymiuk, Radio Free Europe/Radio Liberty, Prague, Czech Republic. RFE/RL Newsline Vol. 8, No. 222, Part II, 29 November 2004).”

It was significant that the court officials appeared to be acting in the public’s interest, and not merely guided by the interest of the incumbents. This success in the legal system was not fully anticipated by the opposition and their supporters, and suggests hope for the rule of law in Ukraine. If a new and lasting confidence in the legal system can be spurned as a result of the Orange Revolution, this will no doubt be a tremendous boon to the creation and sustainability of small businesses throughout Ukraine, as entrepreneurs’ assessments of risk may be expected to decline. This may be a sign of a positive, if unintended, consequence of the Orange
Revolution. The next few years should reveal the degree and sincerity of the higher court’s judicial independence. At that time, we may better evaluate the public’s perceptions and confidence in the rule of law.

For Ukrainian voters, a change in political culture may be very real. In Kiev, during the protests of the Orange Revolution, the BBC interviewed Tatiana Ivanuk, a recent Masters graduate in Public Policy and Administration from the University of Massachusetts Amherst. Tatiana offered a considered yet impassioned view of the events of the Orange Revolution. She summed up the point of the Orange Revolution and the activity of the people of Ukraine. Use the following BBC link to hear her interview in English, which was then published for the world to see and hear: http://www.theworld.org/latesteditions/11/20041123.shtml. Since the weblink to her November 2004 interview may not be maintained indefinitely, it is important to note that Tatiana explained that the people of Ukraine are simply tired of being lied to, won’t stand for it any longer, and that want to be able to choose their own leader. Tatiana enthusiastically underscored the people’s commitment to victory on this matter.

3.5.8. Yanukovych is on the way out, as lawmakers in the Verkovna Rada distance themselves from him: the protests pick up even more momentum with a vote of ‘no-confidence’ from 229 deputies in the Rada

While protests and Kiev’s tent city remained strong, many protesters helped maintain a round the clock presence in a successful effort to intimidate the supporters of Kuchma, Yanukovych, and his Kabinett. The passage below shows how many parliament members began to gain enough confidence in themselves to pass a no confidence motion in the incumbent Yanukovich’s Kabinett. This no confidence vote, though barely passed with a narrow majority, indicates a new sense of independence on the part of the parliament members. Ukrainians seemed to take this as evidence that the deputies would not act only in compliance to the instructions of the incumbent leadership. This, in turn, bolstered the confidence of the protesters.
"PROTESTS OVER PRESIDENTIAL BALLOT. Some 100,000 backers of opposition leader Viktor Yushchenko gathered in front of the Verkhovna Rada building in Kyiv on 1 December as the parliament was debating once again a no-confidence motion in Yanukovych's cabinet and the situation in the country after an abortive vote the previous day (see ‘RFE/RL Newsline,’ 30 November 2004), Channel 5 reported. Groups of Yushchenko supporters also continued to block the presidential administration and government offices in the Ukrainian capital. On 1 December 1991, Ukrainians voted overwhelmingly in a referendum for their country's independence from the Soviet Union. UKRAINIAN PARLIAMENT PASSES NO-CONFIDENCE MOTION IN GOVERNMENT. The Verkhovna Rada on 1 December passed a no-confidence motion in Prime Minister Viktor Yanukovych’s cabinet. Ukrainian media reported. The motion was supported by 229 deputies, three more than required. It is not clear for the time being whether the vote is legally binding since the parliament cannot dismiss the prime minister within a year following the approval of a government program submitted to it for approval. The Verkhovna Rada approved such a program by Yanukovych's cabinet in March. However, the parliament on 1 December in a separate vote annulled its March resolution on approving the Yanukovych government’s program. The parliament's resolution may be appealed in the Constitutional Court... (Jan Maksymiuk. Radio Free Europe/Radio Liberty, Prague, Czech Republic. RFE/RL Newsline Vol. 8, No. 224, Part II. 1 December 2004)."

Thus, the pressure of the protests seemed to provide effective pressure on the Verkhovna Rada.

Their vote of no-confidence in the Prime Minister Yanukovich and his government was very reassuring to the protesters. This display of parliamentary independence from the pressures of the President and Prime Minister may, in the mid to long run, contribute to a consolidation of democracy, an increased perception in a rule of law not rule of men, or of autocratic rule. Such an outcome, if possible, may in turn be perceived to offer a more stable and predictable environment for entrepreneurs by fostering a stronger climate for legitimate business through a lesser degree of corruption and extortion. Yet, whether the parliament will continue to respond to the citizens and their interests remains to be seen.

3.5.9. Compromise by Yushchenko and Yanukovych over Constitution and a shift of power to the Prime Minister yielded a limited victory for opposition.

In a very insightful and well considered position, Jan Maksymiuk published online the following in depth-analysis of the events in “Who won Ukraine's Orange Revolution”:

Maksymiuk’s writing on this topic is worth a thorough presentation, as it succinctly yet comprehensively covered all relevant considerations of a compromised shift of power that have
been viewed as not only concessions, but perhaps betrayal of his supporters that had braved the cold for so long. Had he bargained away his power in return for the presidential office? Later in this dissertation, some professors from Transcarpathia will assert the event was a betrayal by Yushchenko, and that this may be the point at which the Orange Revolution had actually died (or at least suffered a mortal wound).

"Two weeks of anti-government protests in Kyiv by backers of opposition presidential candidate Viktor Yushchenko culminated in the passage on 8 December of legislation that appears to have ended Ukraine's political impasse and paved the way for a democratic vote on 26 December.

At a dizzying pace, lawmakers adopted a constitutional-reform bill to limit presidential powers in favor of the prime minister and the parliament, amended the law on presidential elections to safeguard against abuse and fraud, approved a bill of constitutional amendments 'in the first reading' to reform local self-government, and replaced the Central Election Commission that awarded a dubious victory to Prime Minister Viktor Yanukovych following the flawed 21 November presidential runoff with Yushchenko.

There have been many surprises in Ukraine's political and social life over the past two weeks -- including the momentous invalidation of the runoff by the Supreme Court on 3 December -- but they pale in comparison with the events of 8 December.

Yushchenko commented that 8 December 2004 should be recorded in national annals as a day of historic compromise. He also predicted that the decisions taken on that day cleared a path for his victory on 26 December in 18-20 Ukrainian regions, presumably enough to secure a Yushchenko presidency. Given that the amended election law severely reduces the number of voters authorized to cast their ballots from home and places tight controls on absentee ballots (thus minimizing the risk of massive electoral fraud of the type that marred last month's runoff), Yushchenko's optimism ahead of the new vote is perhaps warranted.

But there was also a bitter undertone to his address to 100,000 orange-clad supporters on Kyiv's Independence Square on 8 December when he interpreted what happened in the parliament earlier that day and thanked the public for its decisive contribution to Ukraine's 'orange revolution.'

The constitutional reform suggests that the balance of power in the country will be radically shifted from the president to the parliament and the prime minister. Most Ukrainian commentators agree that Ukraine is poised for a transformation from its current presidential system to a parliamentary one. If Yushchenko eventually becomes the head of state, he will thus have significantly curtailed his prerogatives in comparison with those of outgoing President Leonid Kuchma. The power shift will occur on 1 September 2005 if the Verkhovna Rada approves the bill on local self-government 'in the second reading' prior to that date, or, failing such passage, it will automatically go into effect on 1 January 2006. Yushchenko is apparently disconcerted with that prospect. He avoided any reference to the constitutional-reform bill while recounting the events of the day to his sea of orange on Independence Square. Indeed, he even was not among those 78 deputies of his parliamentary caucus who supported the package of bills intended to resolve the political crisis. What's more, the parliamentary caucus headed by his staunch political ally and prominent firebrand
Yuliya Tymoshenko voted against the reform bill. Interestingly, it was Kuchma -- whose handpicked successor was denied the presidency on the strength of opposition outcry and subsequent events -- who assumed the role of a victor on 8 December. Kuchma claimed the lion's share of the credit for the historic political compromise as he signed the reform bill immediately after its passage. Kuchma and his aides devised the political reform as a stratagem for remaining in the political game beyond 2004 through their leverage in a parliament reinforced with extensive powers regardless of who wins the presidency. At first glance, everything appears to point to a scenario in which a Yushchenko victory is offset by a parliament filled with Kuchma cronies: Yanukovych has arguably lost credibility in the eyes of voters, and the parliament is set to become a pivotal player in the country a year from now. But what of the Ukrainian people, whom the 'orange revolution' has miraculously transformed from a pliant electorate into mature and responsible citizens? It is difficult to imagine them allowing Ukrainian politicians to play backstage political games on the scale of the Kuchma era.

The belief that the Ukrainian president will become a figurehead following the implementation of the constitutional reform is an obvious misconception. This misconception might have originated and been nourished for both domestic and foreign consumption by Yushchenko's camp, which entered the 2004 election campaign in an 'all-or-nothing-at-all' mood. True, the president loses the right to nominate all cabinet ministers under the constitutional reform. But the president retains the right to propose the country's prime minister, defense minister, and foreign minister for parliamentary approval. No less important, the president has the sole right to appoint all regional governors. And the president's right to dissolve the parliament if it fails to form a viable government coalition can be an effective tool for defusing political conflicts and shaping government policy.

On the other hand, the reform offers an increased set of checks and balances in government, making many important decisions dependent on concerted agreement between the presidency, the legislature, and the cabinet. What can be seen as an impediment to an efficient presidency is in fact an indisputable gain for Ukrainian democracy. It appears that in the long run, the most important achievement of Ukraine's 'orange revolution' in 2004 will be neither the democratized presidential-election law (that can be changed at any time by a simple majority in the Verkhovna Rada) nor even Yushchenko's likely presidency. The key accomplishment just might be the constitutional reform that seeks to dismantle the authoritarian executive system of power, so characteristic of many post-Soviet states, and recast it into something more similar to European-model democracy.

Last but not least, providing the parliament with a decisive voice in most political decisions in Ukraine seems the best possible way to heal the country's troubling east-west divide. That rift is more likely to be healed if the responsibility for such decisions lies with 450 deputies elected all across Ukraine, rather than by one man elected by half the country.

It was thus unwise for Yushchenko to remain silent about constitutional reform on Independence Square, implying that the reform represents a Kuchma victory within a broader 'orange revolution.' First and foremost, it was a victory for hundreds of thousands of Yushchenko supporters who have been taking to the streets for the past two weeks despite the cold and snow. And the political reform fits well indeed into the stunning transformation of Ukrainians, for whom Yushchenko's likely installment as president will be only one stage -- albeit a crucial one -- on their path toward Europe.
It may be argued that the Yushchenko's compromise with Yanukovych was a betrayal of the protesters, but also a step (through seemingly unintended) toward greater democracy by providing for a reduction of presidential powers. But, the questions remains, will such reforms last? By bargaining away much of his authority, Yushchenko no doubt lessened his ability to carry out his intended reforms in government and administration. By compromising away authority, Yushchenko’s declared ambitions to minimize corruption, make administration more effective, and create a political environment that is supportive of small businesses seem to be at risk. Perhaps, in bargaining for victory, he made himself largely irrelevant to his expressed objectives. In this way, the orange supporters may have both won and lost, in the moment of Yushchenko’s concessions.

3.5.10. Third ballot election results declared Yushchenko as clear winner (though Yanukovych continued dispute)

Victor Yushchenko reaped nearly 52% of the vote that resulted from the third and final ballot. The third ballot, it was argued, corrected for several avenues of fraud, such as closing opportunities to vote from home, restricting use of absentee ballots, etc. It was hoped that fewer dead people voted in this round, and that living people voted only once.

“YUSHCHENKO OFFICIALLY DECLARED UKRAINE’S PRESIDENT-ELECT... The Central Election Commission announced officially on 10 January that Viktor Yushchenko won the 26 December repeat of the late-November presidential runoff in Ukraine with 51.99 percent of the vote (15.1 million voters) versus Viktor Yanukovych’s 44.2 percent (12.8 million voters), Ukrainian media reported. Turnout was 77 percent. Yushchenko won in Kyiv and 16 western and central regions, while Yanukovych won in Sevastopol and nine eastern and southern regions. The official results of the vote need to be published in two official newspapers, ‘Holos Ukrainy’ and ‘Uryadovyy Kuryer,’ to become irreversible (Jan Maksymiuk, Radio Free Europe/Radio Liberty. Prague, Czech Republic. RFE/RL Newsline Vol. 9, No. 6, Part II, 11 January 2005.)”

However, one interesting point that is usually missed by commentators is that the Communists and the Socialists joined forces in an informal coalition with Yushchenko’s ‘Our Ukraine
Party’ and Tymoshenko’s party in an effort to elect Yushchenko. Since the combined share of the Communist and Socialist votes totaled approximately 11% of all votes cast in Ukraine’s presidential election, and since Yushchenko’s coalition beat Yanukovych by only 7.79% (51.99% - 44.2% = 7.79%), it should be realized that Ukraine’s so-called Orange Revolution could not have succeeded without the effort and commitment of the Communists and Socialists!

Paradoxically, if not for the Communists and Socialists of the old order, there would be no ‘democratic’ victory over the incumbent Prime Minister Yanukovych. The results were published, thereby becoming final, and Yushchenko was inaugurated near the end of January 2005. His test had only just begun. Yushchenko built his campaign on promises of radical reforms that were expected to, in part, eliminate corruption and deliver a political-administrative system that will perform for the benefit of the citizens of Ukraine. As the second case study suggests, there has been little change in the behavior of the lower and mid levels of administration, even though some higher-level official’s have been replaced with well-intentioned successors. Yushchenko’s compromise with Yanukovych over the issue of presidential powers was viewed by some as betrayal, and perhaps even the death of the Orange Revolution (see interviews to follow in the second case study). Sadly, disillusionment, rather than widely perceptible reforms, including reforms that may support small business development, has prevailed from east to west in Ukraine. The case studies and interviews will reveal evidence that will substantiate this claim.
3.6. References for Chapter 3, Political Overview (including works consulted, featuring modernization and ‘early developmentalists’)


Constitution of Ukraine. Adopted at the Fifth Session of the Verkhovna Rada of Ukraine on 28 June 1996 (available online at: http://www.rada.kiev.ua/const/conengl.htm)


Dubrovina, Nadiya (daughter of Anatoly Dubrovina) Assistant Professor at the Kharkiv State University, specializing in economics and mathematics. Personal interview in January 2004


Fisun, Oleksander, professor of Politology in Kharkiv National University’s Philosophy faculty. Professor Fisun has recently visited the United States in order to study electoral processes. Personal Interview, March 2003


103

Huntington, Samuel P. Political Order in Changing Societies. New Haven: Yale University Press. 1968


Parsons, Talcott. The Social System. Glencoe, IL: Free Press. 1951

Parsons, Talcott and Edward Shils (eds.). Toward a General Theory of Action Cambridge, Ma: Harvard University Press, 1951


Reaka, Irena Georgeeyevna, Director of “Administration Organization” of the Kharkiv Oblast Administration, personal interview. 2003


Full text of each reference below is available in the Appendices


Maksymiuk, Jan. “Uncertainty hovers over Ukrainian vote count...as chief election official said to be blackmailed by authorities.” Radio Free Europe/Radio Liberty, Prague, Czech Republic. RFE/RL Newsline Vol. 8, No. 209. Part II, 4 November 2004.”


CHAPTER 4

ADMINISTRATIVE VIEWPOINTS ON FACILITATION OF ECONOMIC DEVELOPMENT: KHARKIV OBLAST, UKRAINE

As one professor stated in Kharkiv during an interview in March 2003, “We are a Soviet city”. The gigantic statue of Lenin below is a daily reminder for all. Kharkiv University, which is off to the left in the background of the statute, a few hundred meters beyond, stands about 10 floors high.

Figure 4.1. Lenin stands proudly in Kharkiv’s main square, across from the Oblast’s Administration building, he is at the true center of the industrialized city.
4.1. Introduction to Kharkiv Administration

The structure of Ukraine’s Kharkiv Oblast Administration may be understood as a mirror of the national level of administration. While some new economic administrative branches, or offices have opened, such as agencies geared toward the attraction of foreign direct investment or EU integration, the fundamental structure of administration illustrates much continuity with that of the Soviet era, as officials and professors will attest. In this section, beginning with the first presented interview with an official, the structure and aspects of administration will be addressed. Additional interviews with officials will be presented, as they expand on topics that include small business and economic development. In this way, by learning from seven interviews with administrative officials from Kharkiv, we may gain insight into the perspectives inside administration and note, firsthand, their claims regarding the manner in which the administration facilitates economic and small business development. During the subsequent case study of small business creation in Kharkiv, seven professors, four
lawyers, the director of the new firm Koodreashka, a director of an ‘intermediary firm’, and others offer external viewpoints of the administration.


In March, 2003, the Director of “Administration Organization” (of the Kharkiv Oblast Administration), Irena Georgeeyevna Reaka, participated in a free flowing interview with the researcher. Several open-ended questions were posed, and she responded thoughtfully and with apparent sincerity. Irena Georgeeyevna is responsible for all matters pertaining to the structure and organization of the oblast’s administrative branches and offices, and is one of the seven highest-level directors in the Oblast. She explained that the current Oblast administration building, an elaborate and beautiful building, had served as the location for the Oblast’s Communist Party Offices during the Soviet Union. Currently, it serves as the main building for the Oblast Administration. Irena Georgeeyevna claims to be a “conservative person”, and has been in the same office for over 20 years, since 1982.

Figure 4.3. Director Irena Reaka at her desk in her Kharkiv office (March 2003).
When asked about how the overall administration has changed in structure, or perhaps been evolving, she offered the following: “At first, in USSR, we had to give papers in Moscow. Now we give it to Kiev. All the politics is in Kiev.” Irena Georgeeyevna discussed the national level of administration as a federal level, and described the administration as subordinate to the Verkovna Rada, and flowing from the Cabinet of Ministers. In other elements of our discussion, there seemed to be little distinction between the spheres of the political and the administrative. In Ukraine, as has been suggested in the West, to assume that we may separate the politics from administration and visa versa would be inaccurate. Irena Georgeeyevna asserted that “the aim of our system is (threefold, pertaining to solving for):

1) social problems, 2) political problems, and 3) budget problems. The Cabinet develops the programs, after that, we develop our programs within the region (Irena Reaka, March 21st Interview, 2003).”

When asked “In your opinion, what are some of the most important changes in structure (since USSR) regarding your administration?” Irena Georgeeyevna gave the following meaningful response: “I have worked many years in this sphere, and the structure (of administration) has not changed in general, only in some executive bodies (Irena Reaka, March 21st Interview, 2003).” Note that she speaks of “executive bodies” as being departments under the main divisions of administration according to ministries. According to Director Reaka, the structure of administration not only mirrors the national level, but also is largely contiguous with that of the Soviet era. The official organizational mission of the Kharkiv administration, as she offers, is to solve for social, political and budgetary problems.

To illustrate the structure of the administration’s main directors and departments, Irena Georgeeyevna was kind enough to make available a diagram of the organization of Kharkiv’s main branches of administration. Next, the structure of the Kharkiv oblast administration is presented in Ukrainian as a scanned of a document supplied by Irena Georgeeyevna Reaka.
The chart has been also been translated into English and appears immediately after the copy of the Ukrainian original.
Figure 4.5. Translated flow-chart of Structure of Kharkiv Oblast Administration, March 2003.
In response to another open-ended question, "what do you see as the main problem of the Oblast’s administration", Irena Reaka replied: “The main problem facing regional administration is specialists...finding enough of the right specialists (for) administration. We seek abilities, opportunities, and knowledge (Irena Reaka, March 21st Interview, 2003).”

Having been to the United States twice, visiting Cincinnati, Ohio, and the state of Wisconsin, Reaka stated “your system (USA) is better, more developed (Irena Reaka, March 21st Interview, 2003).” When asked what she likes about the US system, she spoke of “the economical branch, the budget.” Reaka praised the fact that budget requests in the USA can be made from the lower tiers of administrative levels. In Ukraine, local levels are not involved at all in making budget requests or proposals.

Reaka steered the discussion to her concerns about the budget, and the problem of minimal influence in the design of oblast’s budgets. Speaking to her desire for budget reforms she claims: “We are trying to model after the USA, with our (Ukrainian) oblasts participating in the budget system (Irena Reaka, March 21st Interview, 2003).” Reaka explained her displeasure with the fact that budgets have been created at the national level in Kiev, budgets being handed from the top (in Kiev) down to the oblast level. She insisted that oblasts must participate from the bottom up in formulation of the oblast budget. The Kharkiv administration, Reaka understands, has not yet solved for the social, political, and budget problems.

Reaka linked these broader problems, such as resolving budget issues, to the need for skilled specialists. Though the structure of the oblast administration is much the same as it was under the USSR, she explained: “Everyone with great experience may work here, there is a difference from the Soviet Union (Irena Reaka, March 21st Interview, 2003).” In demonstrating contrast in personnel management from the Soviet days to present, she addressed changes in hiring and firing procedures for staff: “Every year the person who has worked here has competition against other workers. Maybe (then) its possible, the decision about employment
How does the administration hire mid and lower level employees, and what does she mean by competition? The director explains, “There is a test-system... (they) must have knowledge and experience. After testing, if they are suited to administrative organs, they will work here. We are looking for expertise (Irena Reaka, March 21st Interview, 2003).” When asked how people learn of lower level employment openings, and if they are publicly advertised, Reaka responded in the affirmative: “Yes, local newspapers are used for ads... since 1993 (Irena Reaka, March 21st Interview, 2003).” Reaka’s concerns and responses appear to reflect recognition of needs for new and verifiable expertise in the years following the collapse of the Soviet Union. If such claims reflect reality, perhaps officials’ *mentalitet* can also change with the acceptance of new expertise.

Reaka also noted that there is a strong incentive for people to gain employment in the administration, as “the government worker is better paid than the other workers (factory workers)... about three times higher than other workers (Irena Reaka. March 21st Interview, 2003).” She noted that “higher level officials”, such as herself (a director), “earn about $300 per month, while lower level workers earn $100 per month (officially) (Irena Reaka, March 21st Interview, 2003).” Yet, unfortunately, according to another official in Kharkiv’s newly established small business development organization (a new sub-department under the economic organization of the municipal administration as of late-summer of 2003), the cost of living in Kharkiv requires a minimum of just under US$250 per month in net income.

In further discussing the main problems of administration in Kharkiv, Director Irena Reaka noted, “economic development is a big problem (Irena Reaka, March 21st Interview, 2003).” After briefly acknowledging concerns for investment and development, she immediately brought the discussion back to what she viewed as being of key importance, the
budget, and asserted, "a bigger budget is needed to assist and encourage (economic) development (Irena Reaka, March 21st Interview, 2003)." She proposed that "budget reforms", which would place more autonomy in the hands of each oblast for the sake of designing budgets, would "...take a long time...three to ten years maybe...no, much more than a few years (Irena Reaka, March 21st Interview, 2003)!

Briefly, on the topic of integration into the EU, Director Reaka focused on the economic matters, rather than the political, or democratic conditions: "They (in the EU) think we haven’t enough developments in the economical part (the market developments). We are only in the neighborhood of the EU, not part (of it) (Irena Reaka, March 21st Interview, 2003)."

In response to the question "in your view, is corruption still a problem?" Director Irena Reaka very candidly affirmed: "Yes, there is a problem of corruption (in oblast administration) ...we struggle with this very much (Irena Reaka, March 21st Interview, 2003)." She explained that there is a "law on corruption". "Are those laws effective?" she was asked. Reaka responded, "Yes, very effective. The situation is improving." Irena Reaka explained that, in her opinion, "it (the corruption) will be better if salaries of people in administration are increased...so that they won’t need to be so corrupt (to live) (Irena Reaka, March 21st Interview, 2003)." It is difficult for lower level officials, such as various inspectors, to survive on $100 per month.

To place the monthly income of $100 in proper perspective, one must understand the local market and the costs of living in Kharkiv. For example, modest apartments may require rental fees from US$50 to $250 or more per month in the busy city of Kharkiv. Even the lower figure of $50.00 is more than double the price of apartments available in urban areas of less sophisticated and urbanized Oblasts. A common Russian automobile, the "Niva", requires approximately US$4500 for purchase. A luxurious and powerful auto, the "Volga", seems to be priced at approximately $14,000 new, and at least $4000 to $6000 for a decent used model.
within a few years of age. To purchase a one-bedroom apartment in Kharkiv, requires at least $8000 or more for anything in livable condition, and two bedroom apartments are available perhaps from US$12,000 to 16,000. Prices will be higher toward the city center, reaching values of $30,000 to $40,000 for a two-bedroom apartment. In such light, what we call corruption, extortion, and bribery seems to be merely a means of supplemental income, one that low-level officials may want, if not require, in order to survive. Reaka stated “we try to get off (fire, terminate) people that take extra money (money from bribery, extortion) (Irena Reaka, March 21st Interview, 2003), but the tension for the workers seems obvious. They simply cannot live on what their official, or ‘formal’ salaries are. The informal income, or income from the officials share of the ‘shadow economy’, is essential. The administration has too little revenue to enable employees at any levels in the oblast organization to survive upon only official and legitimate income from public funds. Again, it is, at least partially, a problem of revenue and the budget.

Director Reaka’s expressed views suggest that she holds a considered and balanced approach to public management. At no time did she express any sign of personal belief in the arbitrary application of the law, regulations, or administrative authority generally. Though Reaka did not discuss ‘mentalitet’ or culture per se, she painted the image of a new and improved administration existing in the spirit of a modernized rational-legal Weberian administration, at least insofar as a Ukrainian oblast administration where corruption and arbitrary use of power have been in rapid decline (due to recent legislative efforts in Ukraine, according to Reaka). Weber’s understanding of a modern society can be found in many of his works, such as those sources listed in references). In effect, according to Director Reaka, a more professional innovative administration has been developing out of the ashes of the USSR. Although the structure of administration has not significantly changed, according to Reaka, the
mission and methods of the Kharkiv oblast’s administration, reflecting efforts at the national level administration, have indeed changed for the better.

4.3. The view from the economic branch of the Kharkiv Oblast’s Administration, featuring interviews with officials from economic agencies:

Mihail Georgiyevich Ctanchyev, Chief (first manager, director) of the Administration of Foreign (International) Trade and Economic Investments;

Vladeslav Mekoliavich Monastirneyeh, “Leading Specialist (economics) for Investments, Integration and International Technical Assistance” for the Agency for Economic Investment;

Volodimir V’yachyeslavovich Souhinin, “Chief Specialist” of the Department of Investments, Kharkiv, Ukraine (this department supports the goal of EU integration). Interviewed March 18th, 2003.

Interviews conducted in March 2003 included officials from economic agencies.

One session included Dr. of History and professor, Mihail Georgiyevich Ctanchyev, holding the significant position of “Chief” (or first manager, director) of the Administration of Foreign (International) Trade and Economic Investments, which includes over 20 departments. In addition, I also had the pleasure of meeting and interviewing with two “specialists”, or experts in the field of economics. Vladeslav Mekoliavich Monastirneyeh holds the position of “Leading Specialist for Investments, Integration and International Technical Assistance” for the Agency for Economic Investment. Volodimir V’yachyeslavovich Souhinin, “Chief Specialist” of the Department of Investments, which deals with and supports EU integration.

Volodimir V’yachyeslavovich Souhinin made the point that Ukraine is currently preparing as a candidate for integration into the EU, with ambitions for EU inclusion within 5 or perhaps 10 years. Volodimir mentioned that many seem to perceive freedom of the press a significant problem for accession into the EU, but maintained, “I don’t think its true (Volodimir Souhinin, March 18th Interview, 2003)”. Rather, Chief Mihail Georgiyevich Ctanchyev explained the importance of market status: “If we can improve market status, it would be easier to attract investment. The Minister of Economy visited mid March (from EU) … international
(economic) relations with the EU are getting closer, getting better (Mihail Georgiyevich Ctanchyev, March 18th Interview, 2003)."

Chief Mihail Georgiyevich Ctanchyev explained the significance of the Kharkiv Oblast for Ukrainian economic investment: "Last year (2002), Kharkiv took 6th place in (terms of) total investments in Ukraine. It took 1st place for increases in investments, and 1st place in innovation (Mihail Georgiyevich Ctanchyev, March 18th Interview, 2003!)." When asked, "Since 1991, how has your administration responded in order to promote this economic development?" Mihail Georgiyevich Ctanchyev asserted that innovation and technological parks were central, and the creation of "Free Economic Zones" has been successful. He offered, "The first Ukrainian Free Trade Zone was created in 1995 (Mihail Georgiyevich Ctanchyev, March 18th Interview, 2003)." In addition, Kharkiv's was only just created in 2000, just over 2 years before the interview. He exclaimed, "it develops so quick... only 2 years! It works a profit in only 2 years... most take 5 to 7 years (Mihail Georgiyevich Ctanchyev, March 18th Interview, 2003)!" According to Mihail Georgiyevich, as of March 2003 there were about 20 or more businesses involved in Kharkiv's Free Trade Zone.

Given the open-ended question "how do you (your organization) try to develop the economy (of Kharkiv)", Mihail Georgiyevich explained, "We shouldn't destroy old relations. We try to build new relations with countries such as those in the EU. Our agency works with over 100 countries. We work for improving programs in our district (Oblast) (Mihail Georgiyevich Ctanchyev, March 18th Interview, 2003)." Mihail Georgiyevich and his staff assert that the key to economic development is the development of relations with foreign countries and their larger investors, including their inclusion in recently created Free Trade Zones. Innovation is also of paramount importance, yet is only discussed in the interviews as being relevant to larger investors and technology (research) parks. For Mihail Georgiyevich Ctanchyev, integration into the EU is seen as a mid to long run goal which would further
facilitate and maintain higher levels of economic development, and the efforts to secure larger scale investments represent the primary means to that end of integration and economic development.

Yet, while economic development had been largely discussed only in terms of investment and larger firms, and in terms of integrating trade relations with many countries, Mihail Georgiyevich also asserted support for the small-scale entrepreneurs. "we pay attention to small business (Mihail Georgiyevich Ctanchyev, March 18th Interview, 2003)." In that interview session, 'Leading Specialist' Vladeslav Mekoliavich Monastirneyeh went on to describe programmes for the development of small business. referencing the “Project for Strategic Planning for the Small and Medium Business”. Through programmes such as this project, Vladeslav Mekoliavich, claimed:

"the administration:
1. organizes discussions and conferences,
2. invites different specialists,
3. collects materials (economic) for discussion,
4. discusses how to create/develop our situation
5. print some books and materials for sale, regarding:
   a. how to help young companies
   b. how to create a business plan, etc.
6. is available for consultations for business of all sizes (Vladeslav Monastirneyeh, March 18th Interview, 2003)."

On this last point, Vladeslav Mekoliavich affirmed that "Yes, consultations are available to any type of business... (no matter) size, or industry (Vladeslav Monastirneyeh, March 18th Interview, 2003)." Furthermore, he noted that a 'center office' known as the 'Kharkiv Partnership’, an association for economic development, works with the US Embassy. This center “deals with small and medium businesses, and all industries”, according to Vladeslav Mekoliavich (March 18th Interview, 2003). It consists of one main office and nine other offices within the Kharkiv region (oblast). As claimed by the interviewees, the administration in Kharkiv appears to have made tremendous improvements superior to most oblasts in Ukraine.

120
In a subsequent interview with Volodimir V’yachyeslavovich Souhinin, “Chief Specialist” of the Department of Investments, he demonstrated his view on economic development as linked to the significant issue of European integration. The goals of the economic administration are ambitious, and definitely Westward-leaning. Volodimir V’yachyeslavovich remarked that in the last three years, as of 2003, there had been a “60% increase per year for investment growth (Volodimir Souhinin March 21st Interview, 2003).” Part of that success seems linked to a Kharkiv law that “allows (for) discount for taxes...taxes for land is zero, and there are discounts on customs taxes also (Volodimir Souhinin March 21st Interview, 2003).” Volodimir V’yachyeslavovich explained: “there are nine special zones in Ukraine, each zone has its own conditions, some autonomy. Kiev and Donetsk are leaders in investment region. Kharkiv (does well) in manufacturing, but not much in raw materials (Volodimir Souhinin March 21st Interview, 2003).”

Volodimir V’yachyeslavovich explained that international technical aid includes financial help, consultation, and different types of equipment. The Agency for International Development in the Embassy of Ukraine “deals with economic matters in Ukraine...some typical problems. It is also involved in programs from Germany, (but) the USA is the main activity source (Volodimir Souhinin March 21st Interview, 2003).” He reported his views on the main mission of his branch of the economic administration, the Department of Investments as follows: “we work on problems for EU integration...we try to work on economical questions and juridical questions. The main target of Ukraine is to enter into the EU (Volodimir Souhinin March 21st Interview, 2003)!” To this end, Volodimir V’yachyeslavovich asserted that proposals for integration into the EU are in the process. There is much collaboration with other departments and Universities.

As Volodimir V’yachyeslavovich brought the discussion to the national level of administration, specifically to the Ministry of Economy and European Integration, he
mentioned that many regions are working toward this goal of EU integration. However, "there are still some questions... customs, visas, accounting, juridical, transportation of goods, and labor migration between Ukraine and the EU (Volodimir Souhinin March 21st Interview, 2003)." Practical and active inclusion of Ukraine's citizens into the actual development of small business did not seem to make the agenda of such concerns of "economical questions".

Volodimir V'yachyeslavovich was also asked: "In your view, what are the biggest problems for economic development?" He replied without any hesitation that "there are four main problems" (for economic development):

"First, the budget situation... it works from top to bottom, whereas in the USA you have from bottom up. It would be better if our region (Kharkiv Oblast) could build (the) budget and take it to the government. (To this end) Kharkiv and other oblasts are working with the help of universities and different administrations. Many conferences are held. In June, (2002), we had a conference for economic development in Kharkiv... for all Ukraine (Volodimir Souhinin March 21st Interview, 2003)."

Second, Volodimir V'yachyeslavovich noted that there may be another problem with the division of administrations among each district, or 'rayon', as it is called in Ukraine: "Each rayon will have its own administration and departments, and also, they have another budget system." Third, "there is no market of land, soil cannot be sold (Volodimir Souhinin March 21st Interview, 2003)!" This too, is understood in this agency as a major impediment to economic development as well as an impediment to integration into the EU. Yet, according to these administrative officials, there appears to be no sign of change on the visible horizon.

Fourth, Volodimir V'yachyeslavovich explained his view on another problem that had not been touched on by anyone interviewed in Kharkiv as of March 2003: "We have some problems of regulation of our government, of government generally. The problem is between the region (oblast) and the district (rayon)...the regulation of our laws between different governments. There are no conflicts, but we have some misunderstandings in and about the laws (Volodimir Souhinin March 21st Interview, 2003)."
Unfortunately, only one official expressed concern for the impact of small business in the broader economic development. As much focus is on the large-scale and ‘external’ sources of economic development and foreign investment and trade, very little emphasis seems to be given to the internal (domestic) sources of economic development such as small businesses. It seems arguable that more emphasis should be placed by the administration on the ‘internal’ aspects of domestic small business development, in contrast to the predominantly external focus on securing large-scale investment and trade that seems to be the highest priority for the few yet relevant Kharkiv officials that were interviewed.
4.4. References for Chapter 4 on Kharkiv Administration
Administrative Officials Referenced in the Kharkiv Interviews


Mihail Georgiyevich Ctanchyev, Doctor of History and Professor, Chief (first manager, director) of the Administration of Foreign (International) Trade and Economic Investments, overseeing over 20 departments. Interview, March 18th, 2003.


Volodimir V’yachyeslavovich Souhinin, “Chief Specialist” of the Department of Investments, Kharkiv, Ukraine. This department supports the goal of EU integration. Interviewed on March 18th and subsequently on March 21st, 2003.
5.1. Introduction to the case study in Kharkiv

Funding for the start up of business by a Ukrainian citizen, in a partnership, is provided by the researcher in a manner that promotes an attempt to conceal or at least de-emphasize the researcher’s involvement. This is done for three reasons. First, it is an attempt to avoid bias and a possible façade by Kharkiv Oblast administration, one that presents a falsely positive image of what the administration is actually doing to foster economic development, particularly with attention to domestic small business. It is expected that an American, as foreign investor, may be treated differently (positively or negatively) from an ‘ordinary’ citizen. Secondly, it is an attempt to ascertain whether the officials’ words, as expressed in interviews, are consistent with their actions in day-to-day affairs, regarding economic development and the supposed concern for any individuals interested in domestic small business development. Third, but by no means insignificant, this case study is an attempt to provide friends with the means to escape poverty: that is, the start-up small business is this politologist-entrepreneur’s attempt to improve the lives of eight families. It is more than just research, more than a merely a view from the outside looking in. As Ruth Lane has commented, politics is an art as well as a science:

“Comparative politics requires, in short, art --- the ability to pursue science not under the heavy hand of authority but under the lighter mantle of individual creativity (Lane, 1997. p vii).”

Regarding the heavy hand of authority, Lane referred to a “Euclidean base of assumptions, axioms, postulates, and conclusions” upon which students “can depend (Lane, 1997. p vii)”. With this case study, one goal is to practice the ‘art’ for the benefit of those with little hope for the future, the politically disconnected.

The nature of the small business is a beauty salon, Koodreashka (in Latin letters), pronounced “KOO-dree-YASH-ka” (with connotation of a beautiful curly haired woman).
Coverage will involve my partner and director, Oksana Degtyarenko, several people involved in consultations, and their attitudes and experiences with oblast/municipal administration. Topics include the probability of creating a legitimate tax-paying business, the concerns for likely bribes and extortion ('extra money'), informal relations (including 'payments') with tax-police inspectors each month, and organized crime.

In addition to my Ukrainian business partner, other people encountered but not necessarily interviewed in the small business case study include: several lawyers, (discussed extensively as they noted options for creation of business), realtor, repair and construction firms, translators, neighbors of the salon (more extortion for the sake of their permission, another problem for development of domestic small business). In addition, in a following segment we will consider whether the opinions of several professors seem to run in a consistent fashion to the claims of the oblast administration. We will consider whether their views reflect positive changes in the administration, or perhaps in contrast, few meaningful changes since the Soviet days.

Ukrainian nationals have often expressed how difficult if not impossible it is to start a legitimate small business. Fear of 'organized criminality' is supplanted by fear of the arbitrary application of laws by a tax police who carry sidearm weapons...on-site tax auditors with guns and power. The common perception of the administration suggests little faith in any oblast or municipal administration’s ability to act in the public interest, to assist or protect the interests of citizens. Instead, a widely accepted understanding seems to be one of distrust. The administration is commonly seen as helping itself to riches at the expense of the state and its citizens. In short, an element of fear persists among the ordinary citizens, and is coupled with hardened cynicism toward the administration. They hold an expectation that extortion is the tool of administrative officials, while bribery is the means to obtaining one’s goals. One
common phrase that has become somewhat of a popular proverb from east through west in Ukraine is “if you have money, you can do anything”.

Still, the question remains: is it possible to start a legitimate small business in Ukraine, a business that is able to be created and operated successfully without any involvement in bribery and extortion by people inside or out of the administration? Perhaps the citizens are simply overly mired in a mentalitet of the Soviet era that is no longer applicable to the current administration and its practices? Or, perhaps they are correct, in what seems to be a near universal opinion of ordinary citizens, a strong belief that starting a legitimate small business without being subdued by the corruption and rent-seeking ‘informalism’ of the administrators is ‘not possible’… ‘eta nee moshta’ (its not possible).

During January of 2003, my business partner, Oksana Degtyarenko and I began to discuss the possibility of opening a beauty salon. At first, she refused to believe that a legitimate business that could actually avoid corruption in the form of extortion and bribery, but she eventually became interested in discovering whether it was possible. Oksana is a woman of 28 years, divorced with two children. She is a talented worker in the beauty salon industry (including of all aspects of cosmetology) in the city of Kharkiv. Before her divorce several years ago, she managed a convenience store that she owned with her husband. Due to an early marriage and creation of her family, she, like so many young Ukrainian women, went into the workforce without an opportunity for a university education. For the last few years, she has lived in a one-room apartment with her two boys, age 10 and 6.
Oksana Degtyarenko is a citizen of ordinary status, with a broader family of working class origin, and without any meaningful ‘connections’. Like so many Ukrainians, she has been struggling to work in order to make ends meet. Her work ethic is terrific. She holds a cautious, suspicious and street-wise understanding of how the administration “works”. It is accurate to describe her as having a cynical outlook toward the administration generally, but certainly no more cynical than most other Ukrainians that I have met. Generally, the attitude of Ukrainians toward the administration seems quite often to be cynical for those on the outside the administration, and very optimistic and positive for those inside the administration.

5.2. Initial consultations with lawyers: Vitaly Chernish outlines three variants for legal establishment of a small business, including estimates on ‘extra money’

By March of 2003, Oksana and I had only somewhat worked out the forecasting of costs and revenues that may be expected. This process included best-case and worst-case scenarios, with realistic and more probable expectations lying in between. Yet, the problem
with developing a business plan in Ukraine is that Ukrainians are often so confident that administrative extortion will result in bribes that are unpredictable in number and in amount, and that the procedures for necessary permits and approvals are so complex, numerous, and non-transparent, that true costs cannot be accurately forecasted. In addition, the *mentalitet* toward business is often not one that embraces careful planning in any sense, or even feasibility studies. There is not much of a competitive market-oriented culture in the business sense, little sense of marketing concepts or resource allocation as derived from the needs and demands of consumers.

In Ukraine, accurate forecasting and generation of a business is difficult at best. In addition, across Ukraine generally, paper contracts mean little or nothing, as there is little confidence in the court system’s ability to adjudicate fairly. As Andrey Dorochuk, a Ukrainian lawyer that has worked for the police department in Uzhgorod, Transcarpathia Oblast, explained in the spring of 2001, “in a dispute, whoever is able to offer the most money to a judge will win the case”. In the same month, this view was also supported by a second well-established lawyer from Uzhgorod, one woman that is married to a judge of many years. I consulted with her in an attempt to determine an estimate of taxes to be paid by another proposed small business, for the sake of aiding in the determining that business’ feasibility. Yet, the lawyer, a judge’s wife, could offer no guidelines of the ever-changing tax system. Instead, she commented, “It depends on you, and how much you want to make. You must pay something (as a token), but you decide how much.” So, she was suggesting that a businessman must pay some reasonable amount that would be left up to him, since the burdensome tax structure and ‘unofficial payments’ cannot be expected to leave an entrepreneur with much profit, if any.

Lawyers, as well as the public, seem to hold a view of the tax system as a tool to be used by the tax police for their own enrichment by their arbitrary application of those laws and
regulations. Thus, it is not possible to accurately forecast revenues, expenses and taxes, or profits for the sake of considering a potential small business' feasibility and business plan. For such small and less significant firms, the evidence seems to suggest that the information for 'forecasting' that is requisite for any meaningful business plan is simply not accessible in such an environment of informalism. For Ukrainians, if one knows what kind of business is desired, and if one has money and even a wildly rough idea of the costs for various permits (both legal and extra-legal costs), he may attempt to start the business with a 'let's see what happens attitude'. Perhaps a somewhat 'fatalist' element of the Slavic culture may play a role. If a start-up firm does not succeed, one may assume that nothing could have been done to prevent the failure.

Oksana and I met several times with a Kharkiv lawyer named Vitaly Chernish, who discussed a variety of ways that we might choose to create the business. He included his expectations of necessary bribes, the 'extra money', that must be paid to the administration. It appears that the avoidance of paying bribes in the start-up of the small business was only an unrealistic fantasy.
Vitaly Chernish explained that there are three ways for us to create a business entity.

The first is the formation of a "private enterprise" if there is only one investor involved.

Second, if there are two or more investors, the firm must become a "limited liability partnership". These two forms of business entities share the same opportunity for selection from three choices of possible tax schemes. The third type of firm is that of the "private owner", which Mr. Chernish recommended for its simplicity and ease of avoiding taxes by hiding salaries paid to employees.

The "limited liability partnership" differs from the "private enterprise" of a single investor by requiring that 5,550 rph (about US$1,000) must be placed into a "special fund" of the company. The company may have access to this bank account. According to Chernish: "During the year, you must add 18,500 rph into the account... like insurance for the state that
you are a legitimate business. If you go out of business, investors must only cover (be liable for) this amount. Your account can be arrested, but nothing else."

The "private enterprise" and the "limited liability partnership" firms must also select a 'tax scheme', representing a firm's preferred method of paying taxes. The firm may select its tax scheme from three possible tax structures, according to Chernish. First, and best for manufacturing firms with low profit margins, are the "common taxes on profit". Second, the "general (or universal) tax" presents a similar option. The third option, or variant, is the "10% flat tax" on total revenue.

The variant of "common taxes on profit" assumes that profit is revenue minus costs. This is important, as many people in Ukraine refer to profit as total revenue, an equivocation of terms. The firm that chooses this variant will pay 30% of the profits to the state as tax. Mr. Chernish explains: "It is profit times 30% = taxes. Plus, you pay 20% of profit for 'added cost', (which is) an added cost for land, etc. You also pay a 'city tax' for roads, water, services. It is about 1,000 rph per year, and depends on where the business is, and the square meters. Also, there will be taxes for any cars owned (by the firm)." Chernish also explained that the firm must pay the "employee wage tax, taxes per employee, if you pay them... and it depends on how much you pay them." Thus, the firm must pay between 10% and 40% taxes on payments made to each employee, depending on how much they earn. In addition, the employers must pay into the "Fund for Social Insurance" (retirement). With the total payment per paycheck being "between 36% and 38% of the employees wages, an employee loses only about 4% of his wages. The employer pays the rest, 32%." For the Ukrainian firms that can show a very minimal level of profit each year (not revenue), this scheme may be appropriate. Still, the firm will have a fairly heavy burden regarding the payment of the employee wage tax (10%-40%) and the retirement tax of 32%. 

132
The second variant that may be selected, the “general (or universal) tax”, demands that the firm “will pay 6% of all income, that is, all revenue per month”, according to Vitaly Chernish. In addition, he reports, the firm will pay the same 20% ‘added cost’ as described under the “common taxes on profit”. The firm that selects this variant of the “general tax” must also pay the same employee wages tax of 10%-40%, but will not be responsible for all of the retirement tax, “you will not pay all the 36-38%” of the tax for the Fund for Social Insurance. This tax scheme may be good for a firm that is confident that it will have consistently strong profits, as the tax is based on revenue, not profit. Thus, if a firm should fail to earn profits in any given month or months, it must still pay a tax of 6% of its revenue. So, losing firms will lose more under this general tax scheme, as zero profits and real losses cannot justify tax relief under this scheme. Firms experiencing real losses will find survival increasingly more difficult during the firm’s infancy. As most start-up companies experience difficulty with cash flow and profits during early stages of business development, selecting this tax variant could predictably enhance the chances for early failure. Of course, this assumes that the firm involved actually needs to interact with ‘demand’ during participation in a competitive market. Investors with ‘connections’ or engaging in criminal activity may arguably avoid such profitability issues that start-up firms in a competitive market will face. For all firms, yielding to the temptation to conceal revenue turnover may help firms to maintain real profit.

The third variant, the “10% flat rate tax” was recommended by Chernish as the best of these three options for either the private enterprise or the limited partnership. He offered: “Here, you pay 10% from your income, your total revenue. You do not pay 20% added tax. You do not pay the other (many miscellaneous) taxes. You still pay 10%-40% on employees (the employees wages tax). It comes out of the employees’ paychecks. Employees pay out of the wages check. The firm takes the money out, and gives it to the state but the money comes from their wages (the bank that holds the firms account is the actual entity that will extract and
transfer this money).’ Chernish suggested that “this is the best variant for the enterprises...lowest taxes.” Apparently, I was the last one at the discussion table to understand the obvious. Given the obvious fact that, naturally, the firm will be underreporting its revenue, this is the simplest and most advantageous tax structure to select for a ‘private enterprise’ or ‘limited partnership’, as it minimizes taxes paid to the state (after all, no 20% ‘added tax’ as under the other schemes, and fewer employee taxes).

Yet, Vitaly Chernish offered an alternative to the more complicated legal entities of ‘private enterprise’ or ‘limited partnership’. This third alternative is the firm of ‘private ownership’. Though a foreigner may be involved as an investor in a ‘limited partnership’, he or she may not be the sole investor in the creation of a ‘private enterprise’, and cannot create a firm as the simple ‘private owner’. In the service industry, as our beauty salon, a ‘private owner’, who is required to be a Ukrainian citizen, may employ up to 10 persons. This may cost 900 rph per month or less (about US$200.00 per month). According to Mr. Chernish, it is “150rph (to be paid) for the private owner, and also 75 rph (to be paid) for each employee.”

Thus, underreporting the number of actual employees implies fewer taxes. The obvious advantage to this tax structure is that by simply declaring fewer employees than one really has, the ‘private owner’ can effectively minimize his or her taxes. This also is a way to sidestep the tax police, at least until they catch on that the owner is underreporting employees. Frequent bribes would then become the standard solution to the tax police problem. According to Chernish, Oksana Degtyarenko, and two others present, the underreporting of employees is customary, or at least commonplace in Kharkiv.

No one at the table seemed interested in paying into the Fund for Social Insurance for the sake of the employees’ future. It appears that there is little confidence among those present that employees will ever reap rewards from money paid to the state. At the same time, employees often prefer to work ‘under the table’, as we say in the USA, as they are able to net
(or realize) more income than they would have if they were to pay taxes on that income. In
Ukraine, the ‘private owner’ can afford to pay a bit more to the unreported employee, since the
owner will save in tax payments. As Chernish stated: “If (you are the) private owner, then you
can pay extra to the employees, if you choose not to declare all employees and (not to) pay
taxes on each.” Yet, as the bribery issue was discussed, Vitaly Chernish pointed out: “without
documents for employees, you (must) pay ‘extra money’ to the tax police, whenever they come
around…each month.” So, to save money, bribes must be paid. As the discussants agreed, this
sort of bribery is customary. It is simply how it works. For the small business entrepreneur in
Ukraine, the cost of employee taxes must be carefully weighed against the costs of monthly
bribes should the firm choose to underreport the number of its employees.

Chernish suggested the firm of the ‘private owner’ as our best alternative overall for
the type of legal entity to be formed. The next issue for Vitaly Chernish was to address the
matter of purchasing a small segment of a building, an apartment, and gaining permission to
convert it from officially recorded residential to business use. Next would be the design of a
plan known as the “project of reconstruction”, which must be approved by an assortment of
organizations in the administration in order to begin the construction work necessary to create a
salon. So, the best case scenario, according to Chernish involves just six steps and his
moderate estimates on the costs of extortion by the administration. Chernish described the
process of starting the firm of a ‘private owner’:

1. “Buy the property.
2. Register as a ‘private owner’ (about $60.00 to register, whereas more formal
   enterprises require over $200.00 for only registration).
3. Make document for lease from Robert O’Meara to Oksana Degtyarenko (small fee,
   must be notarized also).
4. Pay approximately $200 to $300 to make permission to convert the apartment to the
   workplace, a salon.
5. Hire and Pay for the design of a plan, the “project of reconstruction” (significant
document, detailing all aspects of construction and materials, architectural sketches,
and numerous permits from administrative organizations). 1500 rph to 5000 rph (a
very conservative estimate, approximately $300 to $1000).
6. Pay $300 for the last document with all (above) mentioned documents.”
It is important to note that Mr. Chernish suggested that his estimate “includes all consideration for extra money”, or the bribes necessary to complete all permissions from the administration. His estimates for the cost of such projects would later prove to be low.

Unfortunately, one problem had not been overcome. Sending and receiving money from the US to Ukraine in order to accomplish the above tasks can be difficult. Chernish suggested that all money transfers from the US must be in quantities smaller than $2000 in order to go unnoticed by the tax police. Larger shipments of money, wired through the Ukrainian banks, would draw attention and problems. Assuming the salon business succeeds some day, it would be an even greater problem to get money out of the country. Chernish asked how often I would visit, as he suggested that I could smuggle undeclared cash out of Ukraine that way. If the tax police notice cash coming either in or out of the country, they may tax it, or attempt to tax it as income. So, if profits should be realized by our firm one day, and even if proper and legal taxes are to be paid by the firm as ‘private owner’ (Oksana Degtyarenko), the outward transfer of money may again be taxed heavily, whether or not organized as income from a possible leasing arrangement of the building from the investor and by the firm as an entity.

5.3. Discussions with a team of Lawyers Vladimir Victorovitch Ostanenko, Sergei Urevitch Stavrov (and later with lawyer Oksana Bobprovskaya): January 2004

5.3.1. On recommendations for a preferable manner of small business creation based on the optimal ability to ‘conceal revenue’ and avoid taxes

After the ‘permission to turn the place of residence into the place of work’, after securing the many permissions involved in completing the ‘project of reconstruction’, and after the process of reconstruction had begun, a team of three very professional Kharkiv lawyers reviewed the options for creation of the firm as a legal entity and the three main tax schemes. Their opinions recognized the understanding of Vitaly Chernish, but they offered contrary advice for reasons that deserve attention. In this paper, after reviewing such details of the legal
entity and the selection of the salon’s tax scheme, which actually took place nine months after meeting with Vitaly Chernish and after the process of construction had begun, we will return to discuss the considerations of the interim months. In this section, the issue of selection of the type of legal entity and the type of tax scheme will be concluded as a sub-topic.

On January 5, 2004, the three ‘advocates’, or attorneys noted above, provided information on the possible alternatives for the creation of a small business firm. The structure of the firm would be linked to possible alternative tax structures that may be selected, as the previous lawyer Vitaly Chernish had suggested earlier in March of 2003. However, the opinions of the new team of lawyers differed from those of Advocate Chernish. Sergei Urevitch Stavrov and Vladimir Victorovitch Ostanenko noted the possibility of forming the new firm around Oksana Degtyarenko, my partner, as the ‘sole employer’. However, they cited problems for her and such a firm. Under this scheme, although a small fixed sum (200rph) must be paid as a tax per worker, the sum must be paid even during periods where there may actually be no profit. During any company’s start-up phase, this consideration may potentially present financial problems as a firm fights to survive without profit in the short run, while cash flow is highly likely to be problematic. Another problem is that Oksana, as sole owner, would be likely to have trouble in receiving transfers of money for the business from overseas. The reason for this trouble, as pointed out by the team of lawyers, is that the Ukrainian Tax Police will view investment transfers as it as ‘income’, and they will attempt to tax it at 20%. Likewise, movement of financial resources will be difficult when being transferred beyond Ukraine’s borders.

As advocate Chernish pointed out in March 2003, the tax schemes of the ‘private enterprise’, featuring two or more partners, may involve a 6% tax rate on profit, to be accompanied by, as these lawyers stated, a 20% tax on services “for ‘selling services”. This tax rate may be selected by firms that will earn profits up to 500,000 Euros per year. In addition,
firms must have 50 employees or fewer in order to take advantage of this tax variant.

Alternatively, the tax scheme to be chosen may be the ‘10% flat rate’ scheme. The three-lawyer team agreed that the 10% flat tax on income is a better system for the salon:

“This is better, because you can report less income than real and pay less (taxes). No one can control you. You pay 10% of income that you report. You can pay less, if you report less income. You could ‘not record’ sales from some clients, so that you can report less income, and pay less taxes.”

The lawyers offered wisdom on concealing revenue for the sake of the firm’s survival and profit.

Sergei Urevitch continued to offer to Oksana and me his expert advice as an advocate:

“Oksana and you can share the money that you don’t record, and you will not need to pay tax on it, since it is not recorded. You take officially recorded money, put it in the bank (required by law to be done every day of business), then pay 10% tax on it (as income, not profit). Money goes to the bank, just the recorded money. All recorded money must go to the bank everyday. The bank may allow the ‘paydesk’ at the company to keep an agreed amount (on hand), such as 1000 rph. After paying 10% tax, you can remove your money from the bank.”

The lawyers asserted that “the bank has great control”, and automatically takes the taxes from your account each month. Thus, another problem arises for small business in Ukraine. The business firms under such a tax scheme effectively lose a great deal of control over the management of their liquid assets. Cash flow management takes on a new and limited meaning for small business firms in Ukraine, since, under such restrictions access to available cash is highly controlled though the banks. Entrepreneurs are limited in the manner in which they may best determine the most advantageous way to allocating their resources. Their resources in terms of inflows of cash are tied up and unavailable to them until the taxes are assessed and paid by the bank. Here is a good example of ‘state-interference’ with firms, as mentioned by the IFC study.

Nonetheless, contrary to Attorney Vitaly Chernish, the team of Kharkiv lawyers agreed without hesitation that this variant of the 10% flat rate tax, not the 6% general or universal tax, would be the most advantageous option for the creation of the salon. They asserted as a group,
"You need to use the advantages of this system, the advantage is the 10% scenario, not the fixed tax per employee (of the fixed rph tax per month based on number of employees and the business firm based on a 'sole owner')." The fixed tax based on the number of employees is lucrative in appearance, but requires payment of taxes despite likely and very real monthly losses during start-up (as opposed to profit).

Yet, one may expect that the 10% tax scenario would present the same danger of payment of taxes during periods of actual loss. Not true. The reason is in the greater ability to "cook the books" under the 10% flat rate tax variant. While the same dual bookkeeping may be advantageous for the alternative tax scenario of the 6% profit tax, the accompanying 20% tax added costs, or for 'selling services', under that scheme presents a comparative disadvantage. Given the dual bookkeeping of true and false income data, the 10% minimizes taxes and minimizes risk and length of examination by Tax Police. Simpler is better. The more complex the tax variant, lawyers suggest, the more problems and irregularities the Tax Police may 'discover' and use against you in demands for 'extra money'.

Under the 10%, scheme, according to the team of lawyers' advised plan of accounting practices, "you will have (keep) separate records (of income). You will have records to show the bank and the Tax Police, and you will have another set that you will keep for yourselves (to record actual income). Private records." The lawyers acknowledged that people sometimes refer to the keeping of these distinct and varying records of income and expenses as keeping "black books and white books", typically done by entrepreneurs of small businesses in Russia as well.

Is the keeping of two sets of books, the 'black' books for the entrepreneur, and the innocent or sterile 'white' books for viewing by authorities, commonplace? When asked the extent to which businesspeople in Ukraine engage in the practice of the keeping of two sets of books, the lawyers agreed it is not just common, it is universal: "Everyone in all business must
do this, from factories to beauty salons.” Yet, only a moment after such an affirmation, Vladimir Victorovitch assured me that “If you have a company here, every thing will be legal here…money, equipment, all paper (documents).” The fees for the attorneys to create documents establishing and registering the firm, the salon ‘Koodreashka’, total 1310 rph. This price covers all expenses for the task of officially setting up the company. However, the attorneys explained that national laws require that entrepreneurs must invest a total of 20,000rph within the first year in order to create a small business of the variant selected, a ‘private enterprise of joint partnership’ with a tax variant of the 10% of income (revenue) declared. “You must invest 20,000 rph in order to have a company”, according to Vladimir Victorivitch. This may be quite burdensome for would-be entrepreneurs interested in small business, yet interested in doing so with minimal amounts of capital. Thus, people that may wish to create an officially recognized small business enterprise in Kharkiv (or Ukraine, more broadly), must overcome this rather tall ‘barrier of entry’: 20,000rph minimum investment within the first year.

As an example and indicator of income, Ukrainian professors may earn the equivalent of roughly US$75 to $100 (approximately 530 rph) per month, with monthly living costs approaching and often exceeding such figures in urban areas. As such, the typical or average Ukrainian citizen will find it impossible to save 20,000 rph on his or her own. Only the wealthy, or those that have access to significant amounts of capital for investment purposes, may realistically consider creating a legally documented and registered small business in Ukraine. With rather stiff interest rates (now as low as 17% at best, down from nearly 70% in the mid to late 1990s), and virtually inaccessible lending for the would-be entrepreneur that has little or no ‘track record’ in this rather newly post-communist country, the ordinary, politically and economically disconnected Ukrainian has little ability to obtain external financing, and cannot realistically hope for such an opportunity. The team of lawyers could offer no
explanation or rationale for the 20,000 rph (approximately US$3773) minimum investment that is required by law. It would seem that such a law is, itself, an effective ‘barrier to entry’ into the market for many people interested in creating a small business start-up firm. Perhaps it would be a rhetorical question to ask, why would lawmakers at the Verkhovna Rada, Ukraine’s national parliament, wish to enact a legal ‘barrier to entry’ into the market place?

Given the choice of the 10% tax on income, far simpler than the 6% tax on profit and its accompanying array of accompanying taxes such as the additional 20% tax, the team of lawyers asserted that its simplicity minimizes risk in the face of Tax Police and minimizes the firms tax expenditures and problems overall. But, will there be problems with any part of the administration after the creation of the private firm? The team of lawyers asserted:

“We will handle all problems with administration. No, there will be no problems, we have many connections. You will not have any problems with the Tax Police, administration, or anyone. We will decide, or solve, all problems here. We know people.”

Thus, for the fairly reasonable sum of 1310 rph (about US$220, two months pay for a typical professor) the team of advocates assured that there will be no problems of extortion or harassment by the administration. The lawyers did not wish to elaborate, to give detailed information on such matters of how they solve all problems. Perhaps this would be an interesting topic for future research.

5.4. Oksana Degtyarenko’s experience in seeking approvals within the Kharkiv administration indicates the reality of the administration’s low level of ‘assistance’

In an effort to begin the small start-up as a private ownership or otherwise, an apartment was purchased in mid March 2003, as a down payment of $2000 was followed with the balance in small payments (as Attorney Chernish suggested) during the following three weeks. The purchase was uneventful. The apartment was found near the center of Kharkiv, located in the first floor of a Soviet apartment building, in an enormous complex with dozens of such apartment buildings. A footbridge would need to be built in order to gain easy street
entrance near the sidewalk. This should afford great convenience for the public and enable the salon to benefit from heavy pedestrian traffic and frequent tram passengers (suggesting a good location in a reasonably nice area). The interior would require renovation in order to conform to the requirements of the salon, and the requirements of Kharkiv’s administrative organizations. As very few current business locations were vacant and open for sale or lease (leasing is legal, but nearly impossible due to availability of offerings), the burden of dealing with the administration to convert an apartment from residential to commercial use, followed by the challenge of having a ‘project of reconstruction’ finished and approved by the administration, was inevitable. Vacancies of business properties ‘for sale’ are quite slim in the post-communist city of Kharkiv, a city that had, for so long, been greatly focused on heavy industry, not boutiques and shops of all kinds.

For several months, Oksana Degtyarenko attempted to gain approval for the transfer of the residence into a commercial setting, a ‘workplace’. However, Oksana found that the promises of the previously interviewed Kharkiv administrators were not to be verified as true. Degtyarenko was unable to locate the ‘one person’ that people could visit in order to gain efficient and effective assistance with the creation and registration of a small business. As the officials stated in the interviews discussed earlier, a citizen should be able to find such assistance at the municipal administration building. Such an understanding that one person should be available for assistance to entrepreneurs interested in creation of a small business had been corroborated by a group of professors during an interview that will be discussed at the close of this paper.

However, upon visiting the administrative organizations, Oksana Degtyarenko perceived a lack of assistance at best, and what might be termed ‘institutionalized extortion’ at worst, as she attempted to make her way through the following organizations in order to gain
the initial approvals. In order to appreciate the administrative maze, please examine the following list that she provided in an email dated May 24, 2003.

“This is the list of documents and institutions to receive and visit for the approval of transfer of the residence to the place of work and for the approval of the proposed project of reconstruction:
1. Official statement of the transference in the uninhabited housing resources for the name of the head of the city (Shumilkin) with an aim to reconstruct the building for the salon and make the separate entrance.
2. Registration certificate.
4. Decision of a commission of experts (architector's) of the possibility of the reconstruction.
5. Draft of an entrance which is coordinated with a department of an architecture and regional architecture.
6. The list of agreement (permissions).
   i. fire prevention,
   ii. sanitary-and-epidemologic institution,
   iii. department of an architecture,
   iv. department of consumerism of the market,
   v. regional deputy,
   vi. regional executive committee,
   vii. economic planning administration.
7. A petition of regional executive committee.
8. An approval of the neighbors (of the flat, more extortion for their permission!).
9. An inquiry from housing committee that nobody lives in this apartment and nobody is registered here (in the city’s master plan as living in the apartment) {Degtyarenko, from email dated 5/24/03}.”

This attempt to gain approval for the transfer of the place of residence into the place of work, with all its inclusive ‘permissions’ and documents, is only one of the many approvals, permissions and documents that would require signatures. In an effort to accomplish her extensive mission of filing applications in the administration, Oksana Degtyarenko visited the administration repeatedly. Each time, she sought help as she filled out the proper forms (repeatedly), as she was seeking signatures for the permission to transfer ‘the place of residence’ to ‘the place of work’. Paperwork for the approval of the ‘project of reconstruction’ would follow such an application process that had no apparent end in sight for Degtyarenko.
In an email from November 17th, 2003, Oksana Degtyarenko wrote her story of frustration regarding this task, which serves to depict the extent to which the administration facilitates small business development:

"Hello Robert,
I’d like to describe you on which level is now our business, repair and documents (I mean what do we have now). Now I have: 1) a packet of documents and a decision of Town Council about the transfer of the flat (salon) from the living space. 2) the plan of reconstruction of the salon with all schemes for inside and outside work (repair). And now these schemes are approving {being approved} by different offices. After this we could start to build an entrance. I am waiting for this approval on this or next week. Those documents and letters which I had, I have already sent you.

Now I want to describe you how I passed different official channels. I had problems right by {from the} first step. Vitaliy {Vitaliy Chernish, the lawyer} said I must write a letter to the Town Council and give it to the secretaries in the Town Council (in one room there are several secretaries and each one is responsible for separate region and accepts such letters as mine). So they took it and asked me to come two weeks later. When I come, they told me that they lost it. So I wrote one more time and wait 2 weeks more. At this time I also tried to get some information about other offices, which might take part in settling business.

In the main department of architecture, and land-relation, I took a list of necessary things, only after these things will be done they could accept all other documents with a letter from the head of administration. In the list there were different goods like: pens, paper, pencils I bought them all with a hope to address in two weeks to this official channel. But I haven’t an opportunity to give it to them, because when I came back in two weeks they told me that they lost the letter again! Then I started to ask an advice of my clients who had already opened a business, and all of them (my clients) told me that it possible, but it will be more expensive and it will take a lot of time. My friends gave me an advice to {find} address to the firm. All I needed is to find a firm with suitable prices (in reference to a 'mediating firm' that can manage all tasks of dealing with the administration and gaining all signatures for permissions, including the payment of bribes).

I also talked to Andrew (the director of the firm {Veest}) about the bribes. He opened a secret for me that no-one (in administration) will take a bribe if he don’t know well a person with whom he has a deal. So that is why appeared these firms. Every I had the same situation, when I brought a letter and they lost it, it was probably necessary to give them a bribe. I {was} just surprised that’s all, they (secretaries) looked like they never take the bribes. I was running through all official channels and nobody told me anything! And you at that time was hurrying me and asking when will be ready the document.

So I asked how much will it cost to draw up the documents with the mediator {Andrew at Veest}. This step Lena advised me (Valentina’s friend). When Valentina was in the USA, she told you about some people who could help me with a business. So when Valentina came back to Kharkov she introduced me to Lena, because Lena also some
time ago opened her business. So Lena told me that it is more real to address to
{obtain assistance from} the firm, otherwise it is impossible for me to do anything
{through administration, independently}.

So I did. I got through all organizations of Kharkov, which were dealing with opening
the business and Andrew’s firm gave me a hope. His prices were smaller than in other
firms. He works very well and quickly and when my friends noticed it they asked me to
introduce Andrew to them so they could also work with him (but it is their own
business). I gave the documents in July and they are almost ready now. The director of
the design studio {an acquaintance} said me that she was making all the documents
during 9 months and I did it in 5 months! {Degtyarenko, email dated 11/17/03}”

Thus, several times Oksana attempted to obtain assistance. Each time she was rebuffed by the
administration’ staff, who held out until she followed customary procedure by paying an
outside non-administrative firm, a private firm know as a ‘mediator’, to do the legwork of
handling all work and bribes with officials. This way, no one is easily caught for extortion or
taking bribes. On the question of whether Andrew Zabiela and his firm ‘Veest’ fulfill a
legitimate function, it may perhaps be argued that he is able to accomplish what citizens cannot.
He is able to arrange for the abundant permissions and signatures necessary to ‘transfer the
residence into a workplace’, and to approve the ‘project of reconstruction’. To Andrew’s
credit, he did manage to accomplish these feats by the close of December 2003.

Oksana explained in the next unedited email letter her understanding of how bribes are
handled in administration. Here is a vignette that should shed some light:

On Bribery and Administration:

“How appears the price of bribes:
When employer comes to the sanitary (for example) official channel and they tell you
that they can’t receive you right now and ask to come the next Thursday. The next
Thursday they ask to come the next Friday. They could have any reason to refuse. It
seems ridicilous but it is true. Then you understand that they don’t want to recieve you,
but higher the prices for the stamp, signature, inquiry {higher prices are what they want
to receive}. Probably you can somehow make a deal about the price (it is impossible to
do at first time) which could be $100, and $200 (no smaller $100) all depends from the
object, where the business is opening, from the region and many other inunderstandable
reasons. So you got necessary document and only now you need to go to the: Fire
guard department, The deputy of the Town Council, The law department, The main
architecture department, and many other channels about which I wrote you before
(which I have already got through). And in each department you have pass the same things, to waste time and money.

Finally you pass the last official channel, you take all the documents and go to the main office where you meet the chief of the organization. He takes your papers with all its signatures, stamps and other stuff, and thinks that if you have already pass them all, you have paid a lot of money and there is no way back. At this moment he can name the price of the approval of this business. It is like a blackmail. This is quite simple description it how it looks like in real life. The lawyer can’t tell you such things, he will tell you how it is must be by law and how he think it must be the reality is different. About the bribes I can’t tell you, but I can give you the Andrew’s number and he will explain you better then me (Fax: 700-41-12 and email: sav_pas@mail.ru). I talked to Andrew and he told me that he would like to speak with you with a great pleasure. You can ask him whatever you want {Degtyarenko, from an email dated 11/17/03}.”

The understanding as expressed in the above two pieces provides the rationale for citizens to rely on “mediator” firms that can perform the magic of getting what the citizen wants from the administration.

Apparently, this service of firms such as Andrew Zabiela’s company “Veest”, though adding significant expenses for such an otherwise painful and exhausting type of legwork, is welcomed by citizens for the competent ability to make the otherwise impossible possible.

Such firms use their personal connections to deliver results. Unfortunately, the less desirable feature of these firms is that they provide good protection for administrators that obviously wish to demand bribes out of the public view. Thus, in the present, such firms can be praised for assisting would-be small business owners in overcoming the obstacles of administration.

Yet, in the long-run, these firms such as Veest enable the indefinite persistence of corruption by shielding the offenders, the administrative officials at a variety of levels.

5.5. Andrei (Andrew) Victorovitch Zabiela and his ‘mediator firm’ known as ‘Veest’

In order to utilize the services of a ‘mediator’ or ‘mediating’ firm, and upon recommendation, Oksana Degtyarenko hired Andrei Viktorovitch Zabiela (Andrew) and his firm “Veest”. Andrei, (or Andrew as he often calls himself) Zabiela, as director, explained in some detail the processes and costs that are required for ‘permission to make residence into
place of business’, approval of the ‘Project of Reconstruction’.

"Costs" is a term that includes all negotiations and payments of ‘extra money’ to officials in administration.

The total cost for the ‘permission to make residence into place of business’ was quoted to be US$1500. The total cost for the ‘Project of Reconstruction’ was quoted to be US$1700, including the labor-intensive task of developing the plan, as well as the task of obtaining all signatures and the many permits necessary. As some expenditures rose, supposedly related to a low initial estimate of bribes, the total for Veest’s services including informal payments of ‘extra money’ (bribes) rose to $3800. Andrew explained that the increase was related to the price of the ‘project of reconstruction’.

Andrew and his firm performed architectural and design services, and was able to offer construction services as well (though another construction engineer and firm were employed for the actual reconstruction. Hence, Veest was to enable the start-up business to gain all documents and permissions necessary to begin building and, for an additional US$1500, to eventually to gain final permits from administration officials after completion of building. Dealing with the officials is a strong and crucial part of Veest’s talent as a ‘mediator firm’.

On December 8, 2003, I spoke with Andrew regarding the procedures that he had accomplished and would perform in the near future. He explained that the ‘project for reconstruction’ requires that the “architect prepares the plan in accordance with many inspection agencies, such as fire department, health department (sanitary inspectors), and others, but it does not include any actual construction work.” Andrew remarked that “the project is finished—the project has many sides, such as electrical, water, and architecture. Now the city (municipal) administration must read (the) project, it takes three weeks. We must wait three weeks. Then, they approve, and say it is correct. After, we receive license (permit) for building (actual construction at premises). Then, we may begin (construction).”
Andrew continued to outline the process for me: “After construction (has been completed), we prepare documents for administration regarding architecture. In order, there are ten steps to completion of the final approval for the project’s resulting construction.

1. Architecture
2. Sanitary Station
3. Fire Inspector
4. Ecolog Inspector
5. Inspector of Saving Energy (Energy Conservation, inspects doors and windows for saving energy)
6. Inspection of work (people who work in Salon must be safe...employees)
7. Inspection of Building (government inspection of building)
8. Project Organization (Veest)
9. Building Organization (Nicolai’s construction and repair firm “Electroservice”)
10. then...Final approval.”

Almost as an afterthought, Andrew explained, “you receive certificate of ownership of salon as business property. After, we must take permit of inspection to trade inspectors...to get the permit of the trade inspection, we must have and give (him) permits for Fire, Sanitary, and from city government.” Certainly, Veest performed much work in negotiating and obtaining the array of permits.

I asked Andrew to tell me about how the money was spent on a line-item basis. How much went to legally justifiable permits, how much for the work performed by Veest, and how much was ‘extra money’ paid to officials? Andrew claimed to be willing to tell me everything, including details of expenditures on ‘extra money’, including exactly how much was paid to who in what offices, but he held back over the phone: “I will tell you about ‘extra money’, all in two days... Yes, but we cannot talk on the phone about this.” He offered to send an email with the details. As of that the following day, however, we mysteriously had the mutual coincidence of having our emails to each other bounce back to our own addresses after apparently hitting the internet proxy server in Ukraine. We failed to get through to each other’s email box. Interestingly, one year earlier the Verkovna Rada legalized the monitoring of all internet traffic by the Ukrainian Security Service (the SBU, or formerly known as the KGB), a
practice that allegedly had been ongoing. Yet, from that point on, Andrew was no longer interested in providing me with the details that I requested about the ‘extra money’ payments.

On one hand, perhaps Andrew did not wish to disclose anything about the payments due to the danger of having that information in the hands of someone that he did not really know (me). On the other hand, perhaps he was simply protecting himself by refusing to admit to how much he was actually charging for his labor. To reveal the prices of any two of the three types of requested information, legal prices of permits, Veest’s price for labor, or the details of administrative officials’ extortion, would be to reveal the third type of information. For whichever reason, Andrew chose to avoid revealing the information.

Oksana Degtyarenko was not interested in the details of ‘extra money’, since as she offered, “that is the price, it is what we must pay if we want the salon.” The practical aspect of the Ukrainian mentality, as Degtyarenko explained as common in this area of the country, is that everyone thinks it necessary and common that ‘extra money’ must be paid, so the details matter not. For Oksana Degtyarenko, all that matters is that the firm Veest, a ‘mediator’ firm, was able to successfully get the necessary signatures, permissions, and documents that could not be obtained without such a mediator firm. In other words, there was no real choice but for her to hire a ‘mediator’ firm while at the same time being without information about all such details of expenditures. The overall contract price is necessary in order to accomplish what must be done. Hence, Ukrainians find great value in mediator firms, despite a complete lack of transparency.

In January of 2004, approximately 10 months after the purchase of the apartment and the first informational meeting with the lawyer Vitaly Chernish, not only was the ‘permission to make the place of residence into a place of business’ completed, but the ‘project of reconstruction’ was approved by the administration and construction could begin...legally. The project of reconstruction includes the following sets of 47 documents, permits (or permissions),
conditions, and certificates presented in proper order as required by the administration in Kharkiv, Ukraine.

**The Project of Reconstruction, accomplished by the mediating firm “Veest”:**

1. Project of Reconstruction title page, by firm “BICT”; in Ukrainian (pronounced Veest).
2. Statement by Chief Engineer
3. List of Executives
4. Context of project
5. Appendix of project
6. Text of the agreement of project of reconstruction (11 pages).
8. Task of Project (name, addresses, details)
9. Technical Conditions
10. Permission, Organization dealing with heat
11. Details regarding water supply
12. Regarding territory outside of building
13. Re: toilet, sanitation, and sewerage
14. Permission for using electricity and heat
15. Report on Electricity Expenses
16. Signed promise not to spoil the nearby territory outside of the building.
17. Location map at building and grounds
18. Plan with Location map of neighborhood, with address.
19. Permission for Changing of the Toilet, and permission for changing setup of shower tub.
20. Approximate Calculation for Building Materials (2 pages)
21. Re: Permission for Communal Services (they solve different problems of utilities, water pipe problems; Condition of owner responsibility for external water pipes during phases of construction.
22. Re: promise not to spoil water pipes. If spoiled, they must be repaired at expense of owner.
23. Agreement with Electricity Service
24. List of Electrical Devices
25. Technical Agreement
26. Technical Passport
27. Plan of Apartment
28. Sales Contract to Buy Apartment (copy)
29. Resolutions from the Architecture Department of Administration
30. Project (plan) for building the entrance (14 pages, including specifications, agreements, maps.
   a. Plan of Apartment
   b. Technical Agreement (4 pages)
31. Condition to pay 500 rph for permission to use water, then to pay fixed monthly rate for usage.
32. Organization of Water Supply Permission
33. Permission from a Municipal Deputy to open the salon at the location.
34. Permission from Doctors, regarding Health, Sanitary

150
35. Application for Permission to change Residence into Workspace and to make the project of reconstruction with construction / repair. Note: This is the same type that Oksana Degtyarenko attempted to obtain three times at the municipal administration.

36. Document that declares that nobody lives in the apartment of concern.

37. Permission to make a salon, or workplace, from a place that was a residence. A critical permission, and it is composed of nine sets of documents and seven distinct permissions from different agencies (previously discussed in detail).

38. Package of detailed plans and specifics of the project and mapped location for insertion into the cities “master plan”.

39. Details of Bridge construction plan for primary entrance from street.

40. Construction scheme concerning Electricity

41. List of Equipment and details of rooms

42. Architectural drawings of the salon, including details of design and equipment outlay in each room. Various perspectives drawn.

The above number of documents that require signatures and permissions are burdensome, and as items numbered 35 and 37 above note, a subset of several more specific permissions may be included in such headings of approvals or documents. As Oksana Degtyarenko attempted on her own to comply with all regulations by filing applications and seeking written approvals from various organizations, she was overwhelmed and frustrated. Her frustration as an entrepreneur interested in creating a small business in Kharkiv was due to her sense that the various administrative organizations were acting as obstacles. She has offered examples of administrative officials repeatedly suggesting that she should come back and fill out the same forms two and three times, and she has described her difficulty in actually obtaining meetings with the officials or staff that are necessary for permissions.

After several months of such time consuming attempts to gain assistance from the administration, including the extensive hours that a citizen must wait in lines to see any official or staff in an administrative office, Degtyarenko made progress only after obtaining the professional help of the ‘mediator’ firm Veest. Only when Veest began to make the direct contacts with the administration, and negotiate all channels of extortion, was progress made. The ‘mediating firm’ was necessary for the resolution and payment of all matters of ‘extra money’ in order to avoid the exposure the administration for its role in taking bribes.
Apparently, the norm of behavior involving such informal negotiations by ‘mediator’ firms is well established, or as some might suggest, institutionalized. It is simply the way to get things done in the administration. “This is how it works here” is a relevant phrase used in order to assert the regularity of administrative extortion. That phrase may be heard often from citizens generally, foreign investors, entrepreneurs, shopkeepers, street vendors, and professors of economics, politics, history of the state, and law. A supportive expression nearly always follows, and is always offered with a shrug and raised eyebrows of helplessness: “Eta normalia”, its normal.

The extortion is simple. An official typically ‘holds out’ from signing approvals, not performing or providing permissions and permits until ‘extra money’ is received as an unofficial payment. The logic is one of resistance and obstruction. The greater ‘power’ to frustrate and impede citizens via the authority to grant permits or approvals, the greater one’s ability to reap the rewards of bribes, ‘extra money’. Whenever a signature is required, especially if ‘important’, the need for the signature seems to create the justification for such ‘extra money’. Thus, the greater the perceived need for an approval signature, the greater will be the official’s ability to demand more substantial sums of money. If nothing else, it may be argued that we now have evidence that Ukraine’s administrative officials, and citizens alike, seem to clearly understand the meaning and of what we call ‘supply and demand’, just in a slightly different context than that of a competitive market. Herein lies a terrific two-sided impediment to the creation of small business in Kharkiv: the mentalitet and informal, social institutions (norms, practices) of the administration, coupled with a mentality of fatalist acceptance by the citizenry.
5.6. Nearing the completion of the creation and operation of a legitimate business

After the 'project of reconstruction' was fully approved, with actual phase of construction not yet in progress, the firm pronounced “Koodreashka” (or Kudrjaska as spelled by a Ukrainian translator) was established by “Statute” in January 2004. The ‘Statute’ is the written agreement of parties, but it is more of an acceptance by the parties of the state and oblast regulations. Parties cannot deviate from the state concept of the enterprise under limited liability partnership. Parties simply embrace the concept and structure as mandated and sign the forms of the ‘statute’, all six copies. The ‘statute’ was submitted and approved by various organizations within the administration during the month of January 2004. Finally approval of the nine page ‘statute’ was concluded in the third week of January 2004. The approval contained the following multiple documents.

1. “Registration Certificate”: Firm “Koodreashka” is officially registered in Kharkiv Ukraine as a legitimate business.
2. “Certificate of Registration in Department of Statistics”: Certifies that an Identification number for the firm has been assigned.
3. “Second Certificate regarding Registration in Department of Statistics”: Certifies that company is registered in Department of Statistics. Also codes for type of economic activity and characteristics of the company activity (service industry, beauty salon and inclusive services).

These documents completed the registration process. This process, which the team of lawyers claimed would take 15 days, was subjected to brief delay in January due to at least two factors: first, all paperwork had to be filled out again after the administration made minor changes in the required forms, effective in January 1 of 2004. However, the firm’s lawyers explained that the new paperwork was not available from the administration until later in that month. Second, as the lawyers explained, things moved very slowly and unpredictably during January, as the Christmas is celebrated for three days from the 6th through 8th, and the “Old New Year” is celebrated on the 14th. In accordance with the law, the process of registration of a firm must be completed in five or less days, according to Yacoub and Senchuk’s study.
5.7. Completing the actual process of registration of the firm Koodreasha, with lawyer Oksana Bobprovskaya

On January 8, 2004 Attorney Oksana Bobprovskaya presented process of registration, as the creation of necessary documentation was begun. The interview offered insight into the formal process of creating a small business company. She explained an ordering of steps, necessary documents and approvals, and a reiteration of the entrepreneur’s need to avoid taxes by hiding money (through two sets of books). After a nine page document called the “Statute” is drawn up to create the structure of the firm, and after six copies of that document are signed by the business partners in front of a notary public, the lawyers follow that document through seven steps as part of the procedure of establishing the firm as a legal entity. The seven steps, as of January 8, 2004, are as follows:

1. Town Executive Committee
2. Department of Statistics
3. Police (not Tax Police)
4. Contract for creation of official “stamp” for new firm with private company
5. Tax Police
6. Pension Firm
7. Open bank account for deposit of income and tax withdrawals

Advocate Oksana Bobprovskaya explained that, after the document known as the statute is drawn up and signed at the notary, detailing the structure of the enterprise as a legal entity, she would then take the documents to the Town Executive Committee. This committee approves documents for the registration of new firms: “It is for the recording of registration of documents, it is an organ of administration in executive branch...works with all the municipal administration. Three people sit on the committee.” When asked if there may be difficulties in obtaining the Committee’s approval for registration, Oksana Bobprovskaya asserted, “We (the three-lawyer team) have connections, and will have no problems.” She did not seem anxious to elaborate on the type or extent of connections.

The second step, regarding the Department of Statistics, involves the actual registration of the company. Advocate Bobprovskaya continued: Next, we will take the documents to the
Department of Statistics. They register the company, and approve what you are going to do as a service (salon)...they record the address and service.” The third step involves a visit to the Police. Bobprovskaya informs us: “Next, we take the documents to Police. Not Tax Police. They give permission for making the stamp, which will include the name of our company. It is a paper approval (stating) that they give permission.” The ‘stamp’ is an officially approved and unique rubber stamp that is used for all future company documentation, and is intended to show authenticity.

There are three levels of protection for the sake of authenticity (more complexity implies greater difficulty in counterfeiting the stamp, or at least greater chance of avoiding confusion. Prices vary, from 50 rph for the “one color-one wheel stamp” to 110 rph, for the stamps that are “harder to falsify...with three wheels (of decorative insignia)”. Whether this is an appropriate task for the police may be worth considering. After the Police Department’s approval is obtained, the lawyers proceed to the fourth step. “Next, we go to the firm where they produce stamps. It is a private firm. In Kharkiv there are nine such firms...we know (and select) a good one.”

The fifth step, as of January 8, 2004, involves the necessity for the entrepreneur to visit and interview with the Tax Police, where it is necessary to obtain another approval. Advocate Bobprovskaya discussed the forthcoming interview: “They check your passports, check your face(s) to see that it is all real. It is to make sure that it is a real company. They verify, put signature of approval that everything is good with the company. They approve.” Oksana Bobprovskaya expressed a slight concern for this phase of the process, stating “I hope that there will be no problems. They will interview you, ask questions. I don’t know what they might ask. They can ask anything.”

Assuming that one’s interview with the Tax Police goes well, the sixth step is for the lawyers to visit the “Pension Firm, a national government organ of administration”, as
Bobprovskaya commented. She explained the involvement of the Pension firm: We need to take all documents to the Pension firm. After the company (such as our salon Koodreashka) will exist, the owners must pay one time each month into the Pension Fund. In general, you pay 10% in main income tax (selected tax variant). From this 10% tax, income tax, the Tax Police tax a percentage (or appropriate a small sum) for Pension firm. You need only to pay the 10%.”

The seventh step involves the setting up of a bank account so that the bank and Tax Police may withdraw taxes from it regularly and automatically. According to advocate Bobprovskaya:

“Next you need to open an account in the company’s name (Koodreashka). Everyday (of business as usual at salon), you make deposits to bank account. At the end of each month, you pay 10%...after that tax is paid, only then can you touch your money. The bank takes the 10% automatically, and sends it to the Tax Police.”

The Tax Police would then extract a small percentage for the Pension Fund. Bobprovskaya made it clear that it is a 10% tax on all reported revenue, not on profits: “It is 10% of all money that comes to the bank, then (after it is withdrawn as tax payment by the bank), you pay all expenses and utilities. Whatever is left is your profit.”

Advocate Oksana Bobprovskaya made clear with absolute certainty how one must realize profits while doing business in Ukraine: “You will hide some money so that it won’t be taxed. The money you hide, you share (between owners, partners). The money that you show the bank pays for expenses and costs, and the whole sum is taxed (10%).” She elaborated on the fact, as she viewed it, that such a practice is not only frequent or commonplace, it is ubiquitous: “You have the privilege, the advantage, that you can hide some money. All the companies (in Ukraine) work in such a way. Tax Police only want to see 10% of what is in the bank. They do not care about what is left, about whatever you may have for profits.”

The seven steps above, according to Advocate Bobprovskaya and her other two colleagues, should take less than 15 business days if everything goes smoothly, though 5 days is
the maximum by law. During that period, while waiting for the approvals noted above, a new law created some changes. All documentation that we had already prepared had become null and void, as the new law required new forms to be used. Old forms had become obsolete and not acceptable. The lawyer also reported that it is possible that the Tax Police will no longer require personal interviews with applicant business owners. If so, this may make the series of approval steps a bit more manageable, and minimize the potential problems in seeking those approvals. Simplifying the approval process, specifically by minimizing the number of people and organizations that may interfere with the creation of a small business by means of refusing or delaying approvals, can only be positive for the would-be entrepreneurs of Ukraine.

5.8. Administration is not the only source of challenge to small businesses: a perceived threat of violence followed by a promise of assistance from the police department

The challenges to implementing a small business extend beyond the scope of the administration and one’s need to seek and obtain the numerous approvals. In November of 2003, while the project of reconstruction was still underway, Oksana Degtyarkeno believed and reported that she was being threatened by a man that was in the business of construction and selling of construction materials. ‘Peter’ Charkirov Evgienevich was one of several contractors (an unlicensed one) that spoke with Degtyarenko regarding a bid for the entire construction project. She reported that Peter told her that “bad things will happen” to her if she failed to submit the documents of ownership to him for his examination. Her interpretation of the events led her to the conclusion that the contractor was interested in taking the property of the apartment and manipulating ownership into his name. Degtyarenko’s understanding was that he was attempting to scare her into giving up ownership and control. The contractor knew that she was representing my interests, and Oksana believed that he may have actually been capable of taking the documents of ownership into his own name if he should be able to assert pressure over herself or the attorney Vitaly Chernish, both of whom held a valid ‘power of attorney’ on my behalf at that time. In an email, she asserted: “He (Peter) had threatened me, he talked to
me very rude. Robert, I had to address to the police, because you can't help and protect me. I
did it because I'm afraid for my boys and me. I hope you can understand me.”

Thus, Oksana’s fears were substantial enough for her to write a rather sobering letter to
the police department chief in Kharkiv. The letter is quoted in full below:

“To the Head of Kharkiv Region
From Dechtiarenko O.A.
Kharkov region
Lybotine
Bluchera St. 8
address: Kharkov,
Pobeda avenue, 54/13
tel. 8-067-91111-49

Statement
In January, 2003, I met a citizen of the USA O'Meara Robert John, who lives 188,
Chapman St. Greenfield, MA. 01301 USA, who offered me to open private business to
open the salon. To realise it, it was necessary to have a building and to draw up the
documents (the decision of the transfer the flat from the living space, the project of
reconstruction, and the permission for work in this building). To make all these come
true, Robert O'Meara gave me the power of attorney, which was officially registered by
notary Korniychuk O.V. in Kharkov, Girchman St. 19/44. BAE 639625. I bought 1bd
flat in Kharkov, Acksarov St. 13/50, where now there is construction work and on
which I'm finishing to draw up the documents (the project of reconstruction) and the
permission for ringing in the utilisation of the salon. November, 2003 Peter Chakirov
Evgenievich, who lives in Kharkov, Astronomicheskaja 35/91 addressed with a demand
to draw up all the documents on his name. Also he has threatened me by physical
revench (revenge) if I refuse him. I'm asking (you) to protect me, because I'm afraid of
physical influence from him.

17.11.2003 (written by Oksana Degtyarenko to Police Chief, November 17th 2003).”

Oksana reported that the police told her that they would speak to Peter Chakirov Evgenievich,
and if he continues his behavior he may go to prison. I also warned the lawyer Vitaly Chernish
not to deal with Peter whatsoever. Problems ceased. The administration of the police
department seemed to operate on behalf of Degtyarenko, enforcing laws and protecting her
interest (and mine). It is unclear if the fact that she revealed an American as an
investor/sponsor had any affect on the actions of the police. While the perceived threat of
violence does not bode well in terms of an understanding of the overall environment for small
business, in terms of ‘rule of law’ it is reassuring that the police seem to have been successful
in follow-up and protection in this case. In addition, the service of the police required no payments at this time.

5.9. The contractor Nicolai Nicolaievich Gorobitz of the firm “Electroservice” and the use of an informal verbal contract in order to avoid the 30% tax on the negotiated price of what would be a legal contract

In the fall of 2003, Oksana Degtyarenko, through her network of clients at her beauty salon, proceeded to hire Nicolai Nicolaievich Gorobitz after considering several bids on contracting work. Nicolai’s professionalism, recommendations, observable past-performance and reasonable price helped him to gain the ‘contract’. In every way, he has exceeded expectations. Below is a picture of Nicolai:

Figure 5.3. Nicolai Nicolaievich Gorobitz, owner and director of the very trustworthy firm “Electroservice” is at his office atop of the excellent ‘Mir’ Hotel (‘World Hotel’), reviewing details of the verbal contract.
However, the contract had to be a verbal and informal one only. Written and legally enforceable contracts, at least enforceable in ‘theory’, with assumptions of operating rule of law, would be subjected to a 30% tax payable to the Tax Police. According to Nicolai Nicolaiaitch in a discussion between himself, Oksana Degtyarenko, and I, “If we make a written official contract, then you must pay official tax of 30%.” The 30% would be based on the price of the written contact for construction. On the other hand, by verbal, informal agreement, we avoid the 30% tax. Since the written contract in Ukraine is (presently) only as good as the meaningful and fair application of the laws in the Ukrainian judicial system, which means almost nothing, there was little point to demanding a written contract for the added tax cost of approximately US$3300. The informal agreement would have to suffice. Again, a Westerner experiences some difficulty in such methods of doing business without the protection of contracts within a stable and legitimate ‘rule of law’. Risk prevails, free and wild; for the Slavic soul, again, “eta normalia”. While still suspicious and cautious in business interactions, many Ukrainians trust no one less than they trust officials of the administration and the politicians.

5.9.1. “Remont” (construction and repair): Considerations of cost, taxes, informal contracts and implications for contributing to the shadow economy

Using architectural plans and sketches for workers that had been drawn up by the “Project University” of Kharkiv, which had been paid for through Andrew’s firm Veest, the construction costs for outside and inside have been split into two categories.

Costs of “Remont” (construction and remodeling of salon):

Outside Construction costs:
1. Outside work construction: 9,000 rph
2. Metal grates, railings, walls with open railings (bridgework): 1,100 rph
3. Covering of Construction (roof, brick tile over bridge): 2,500 rph
4. Lights and painting, inside bridge, under roof: 1,200 rph
5. Concrete and work for preparing for concrete (digging, labor, etc): 3,000 rph
   Total for outside work = 16,800 rph

Inside Construction costs:
1. Preparing of rooms, walls, doors, doorways. Destroying walls, cleaning. 1,500 rph
2. Cutting main wall for doors, making doorways, structural walls, and strengthening front doorway. 2,400 rph
3. Windows and doors ordered from "Globus" company. Hired to subcontract, price includes price of installation, 2 doors with glass, and 5 windows for balcony. 6,800 rph
4. Installation of front door wall (involves cutting and refinishing of outside wall) 3,500 rph
5. Flooring: concrete under linoleum covering, as mandated for a salon. Stonework on walls and floors of bathroom. 1,800 rph
6. Three ‘simple doors’ and complete installation of door casings (door to breakroom, bathroom door, door between two main rooms) 2,400 rph
7. Inside electrical work (all labor and fixtures, 16 outlets, 8 lamps) 3,700 rph
8. Water Supply and Sanitary. All plumbing, pipes, heating supply and two radiators (tied into building’s main supply of heat). 4,500 rph
9. Finishing work on walls, prep for paint, ‘straightening’, painting, decoration work, and supplies 8,500 rph

Total for inside work = 35,100 rph
Total for outside work = 16,800 rph
Total for inside work = 35,100 rph
Total for construction work (“remont”): = 51,900 rph

(US$ 9774.01)

Thus, in order to avoid the 30% tax that would be demanded under a legitimate paper contract, a verbal contract must be relied on instead. With such a practice being common, people in Ukraine seem to rely on verbal contract, or ‘agreements’. While some degree of risk may be understood, it seems also to be recognized that the greater financial risk comes with the alternative practice of actually conforming to the written laws. In fact, there is a certainty, not merely possibility or even probability, or losing a greater quantity of money. So, according to Nicolai Nicolaivitch and Oksana Degtyareko, and supported by opinions of lawyers, small businesses, which usually have limited resources, must avoid the commonly-perceived ‘unreasonable’ taxes. This is frequently (if not universally) understood as being necessary for financial health and survival of the firm. Thus, we may have an example of how ‘legal’ taxes are, at best, questionably ‘legitimate’ taxes. At worst, they could be called legal but illegitimate. Regarding such matters of perceived high and unreasonable taxation, evidence of cynicism among Ukraine’s citizens may be found rather easily. What is ‘legal’ is not always viewed or accepted as ‘legitimate’ in Ukraine.
Under the verbal contract with Nicolai Nicolaievitch, he agreed to fully install all salon equipment during the reconstruction. The costs associated with purchase of salon equipment, to be installed by Nicolai Nicolaievitch’s firm, are as follows:

1. Three tables for hairdressers (3 tables times 520 rph) 1560 rph
2. Three chairs for hairdressers (3 time 250 rph) 750 rph
3. Professional salon hair dryer 1890 rph
4. Couch for waiting area 1000 rph
5. Three large mirrors for hairdressers (3 times 120 rph) 360 rph
6. Table for manicure 1300 rph
7. Two chairs for manicure (2 times 250) 500 rph
8. Professional chair for pedicure 2500 rph
9. Table for backroom 300 rph
10. Profession sink for hairstylist 4420 rph
11. Shelves for clothes (wardrobe) for workers (covered in Nicolai’s contract)
12. Shelves for medicines, etc (covered in Nicolai’s contract)
13. Table for waiting area, custom built into wall by couch (covered in Nicolai’s contract).

Total for salon equipment (installed by Nicolai’s construction firm):

14,580 rph

Items that do not have costs associated within them above have been included in costs of interior reconstruction costs as previously discussed. It is worth noting that the contactor has been very professional, cooperative, and helpful during every phase of the reconstruction. He has kept to his verbal promises, and work was done as quickly as possible, given the harsh weather of a Kharkiv winter. This general contractor was highly efficient and effective. To his credit, quality of workmanship and materials was never sacrificed.
Figure 5.4. Drawing of the proposed “remont” for the salon “Koodreashka”.

Figure 5.5. Destroying the residential balcony for salon’s conversion to entrance and bridge.
Figure 5.6. Preparing for the bridge for salon’s main access.

Figure 5.7. Undergoing steel beam construction of the salon’s footbridge.
Figure 5.8. Making progress with an assortment of available materials.
Figure 5.9. Nearing completion of Koodreashka’s exterior work.

Figure 5.10. A construction man working at the entrance.
Figure 5.11. Much work to do in main rooms.

Figure 5.12. New window is installed.
Figure 5.13. All new brick walls in Koodreashka.

Figure 5.14. The walls after plaster.
Figure 5.15. Manicure/pedicure room before remont.

Figure 5.16. Manicure/pedicure room after some repair and new windows finished.
Figure 5.17. Remodeling the main room.

Figure 5.18. Preparation of new the European style ceiling.
Figure 5.19. Construction of the modern walls in the salon’s front room.

Figure 5.20. Koodreashka’s *remont* is finished. New advertisement is over the entrance.
Figure 5.21. Oksana Degtyarenko and her Aunt are ready to open the salon Koodreashka.

Figure 5.22. A view of the finished main room.
Figure 5.23. From the main room, looking into the manicure/pedicure room.

Figure 5.24. From the manicure table, viewing the front entranceway’s waiting area.
Figure 5.25. Inside the finished and equipped manicure/pedicure room.

Figure 5.26. In the rear, the break room and supply area.
Figure 5.27. The break room.

Figure 5.28. The newly installed water heater.
5.10. “Administratsia Mafia”

After meeting with the team of attorneys in January of 2004 to discuss how to conceal revenue from the Tax Police (see earlier segment), Oksana Degtyarenko remarked on matters of the administration and organized crime. Recall that the team of lawyers spoke of solving all problems with administration regarding the registered business Koodreashka. Recall that,
regarding the matters of permits for ‘transfer of living space to work space’ and the ‘project of reconstruction’, Andrew Zabiela of the ‘mediator’ firm Veest explained that he had negotiated and settled all payments of ‘extra money’ to undisclosed officials in the administration.

While initial payments for seemingly infinite permissions had been settled by the end of January 2004, to what extent would there be ongoing extortion? Even if it is true, as claimed by the lawyers and by the ‘mediator’ firm Veest, that there will be no more problems with the administration, the question was posed to Oksana Degtyarenko, “But... will there be problems with criminality, with mafia, outside the administration?” Oksana relied firmly:

“No, no problems with mafia. the great ‘extra money’ from (paid through) Andrey’s firm (Veest), and also from our lawyers (Sergei, Vladmir, and Oksana) make sure that there are no problems with administration. We now have paid administration for protection...paid so that they will give us no problems. If we (had) paid only legal fees for permissions (not the requisite ‘extra money’), we would have problems. But not now (no more problems, since we paid the extra money). So, no problems with mafia.”

Oksana was asked, “But...since we paid extra money (indirectly) to the administration, what do you mean about mafia?” She corrected my misunderstanding of administration and organized crime as distinct. Oksana offered her view, “Mafia is not outside administration. Mafia (is, or is equivalent to the term) administration. The extra money has been paid so that there will be no problems.” She repeated with great emphases, “Mafia (is) not separate from administratsia, mafia administratsia.” Recall how American thinking in the field of public administration typically reflects an understanding that administration cannot be truly distinct from politics. Rather, politics is part of ‘administration’. So it seems in Ukraine, in addition to what we think of in the West as ‘politics’, organized crime may be interpreted as part of administration in Ukraine. Just as a conceptual separation of politics from administration is perhaps best understood as a false dichotomy, so too is the conceptual separation of organized criminality from Ukrainian administration.
Figure 5.30. After a year and a half year of hard work and patience, Oksana Degtyarenko successfully opened her Beauty Salon, pronounced ‘Koodreashka, officially on August 12, 2004.
5.11. Koodreashka case study
Separating the wheat from chaff: corroboration among ‘external’ perspectives

5.11.1. The view from 900 small and medium sized enterprises is corroborated by the experiences of Oksana Degtyarenko in the case study: administration is largely an impediment to economic development and for SMEs.

Interviews of the selected administrative officials in Kharkiv offered much information on how the Kharkiv administration, at both oblast and municipal levels, promotes and facilitates economic development, including small business development. Some officials addressed specific economic achievements and recent programmes. It had also been claimed in interviews that the administration has been in the process of being somewhat remodeled after the United States version of administration, which might be described as more rational-legal (recall Max Weber). One director claimed that significant improvements have been made in the elimination of corruption and bribe-taking through the termination of employment of such officials. Interviews with various Kharkiv officials strongly suggest that a newly stable and freely competitive market had been established in what may be termed a rule of law environment. In the interviews, the administration’s officials held themselves out to be advocates of a deliberate effort to foster economic development and a free and competitive market, as Ukraine sets its sights on integration into the European Union.

How accurate are the administrative officials’ statements about the extent to which the administration of Kharkiv fosters economic development, about challenges to integration with the EU, or improvements against administrative corruption? Do the claims of the officials of the Kharkiv Administration represent reality, or myth? Perhaps ignorance could be the cause of any inaccuracies? The perspectives that are external to the administration are of vital importance. These external perspectives include the 900 firms of the IFC study, the in-depth case study of the small business start-up in Kharkiv, and the supplementary views of professors within Kharkiv. The views of several professors will be put forth in this segment, as they are able to help ascertain the accuracy of the official claims while speaking to broader issues than
the small business case study allows, due to its specificity of experience. The extent to which the administrative officials’ expounded views can be corroborated or refuted by such external (to administration) testimony from within Kharkiv enables us to discern between myth and reality, between truth and fiction.

In the “State of Small Business in Ukraine: An IFC Survey of Ukrainian Small Enterprises”, Max Yacoub and Bohdan Senchuk, from the IFC Business Development Project in Ukraine of the International Finance Corporation (member of the World Bank Group in Washington, DC), presented data that offers us a viewpoint that recognizes many impediments for economic development and small business growth. The year 2000 survey included over 900 firms from 12 Ukrainian cities, but none were in the Kharkiv oblast. Recall that for every 1000 people in Ukraine there are only three small or medium sized enterprises (SME), compared to Russia’s 6, Estonia’s 25, and Poland’s 35. Yacoub and Senchuk found that processes of business registrations, licensing agreements, state inspections of private business, confusing and numerous taxes, and the overall heavy tax burden were all impediments to economic development. They argued that the tax environment is the main obstacle, or ‘barrier’ to the creation and development of SMEs. Yacoub and Senchuk linked the mind-boggling tax environments to problems such as “excessive levels of state interference in private sector activities (Yacoub and Senchuk, 2000. p5).” The argument for the existence of excessive levels of state interference has been clearly supported by the experiences set forth in the case study of the creation of the salon “Koodreashka” in Kharkiv. The salon opened officially on August 12, 2004, instead of in July, after delays by administrative officials in the final approvals. It is important to note that, since the opening of the Salon, as of March 2006, Oksana reported having no trouble with the Tax Police and burdensome inspections by that department. This represents a significant improvement over conditions reported in the results of Yacoub and
Senchuk’s study from several years earlier. It is a sign of progress in at least one area of administrative reform.

Yacoub and Senchuk found that the national (state) level administration lacked control over the oblast and local level administrative organs. Lack of state-level control and, thus, an inability to force oblast level compliance with national laws, has enabled officials to act in a highly arbitrary manner, effectively free from influence from national level authorities and free from influence from the private sector. Local authorities do not always seem to be easily accountable to Ukraine’s national government, nor are they at all accountable to entrepreneurs. Yacoub and Senchuk also suggested that these local-level officials may be relied on to blunt any meaningful reform efforts, as they practice the art of ‘arbitrary administration’. Officials that enjoy the rewards of arbitrary use of power currently have little incentive to create or comply with any measures of accountability or responsiveness. Hence, contrary to the claims of officials in Kharkiv, the IFC’s report finds that Ukrainian administration and its high degree of ‘state-interference’ in Ukraine’s business environment are in fact significant impediments to the creation and growth of small business and economic development. Of course, Kharkiv was not one of the cities sampled, thus raising a fair question of analogical relevance of the findings for Ukraine’s sampled cities to the expectations for Kharkiv’s business environment.

Yacoub and Senchuk noted a number of agencies that typically require “unofficial costs”, otherwise known as bribes, or more politely, “extra-money”, in Ukraine. Such agencies include but are not limited to “the State Committee on Certification, Fire Inspection, and Local Departments of Architecture, the State Committee on Land Resources, etc. (Yacoub and Senchuk, 2000. p5).” As supported by evidence found in the case study of the small business start-up in Kharkiv, such agencies in Kharkiv often require unofficial payments in order to produce results from the administrative officials. Thus, people in Kharkiv, as elsewhere in
Ukraine’s oblasts, must “pay for speed” and effectiveness (favorable results) in dealings with administrative officials.

Ukraine’s SMEs have been experiencing a rising trend of increasing costs associated with administrative inspections. SMEs may encounter more than two inspections by the Tax Police inspections, lasting between 5 to over 24 days. Three quarters of firms surveyed reported that penalties were successfully “appealed” informally by means of “unofficial payments”. So, in order to avoid the financial hardship of the arbitrary use of powers by organizations such as the Tax Police, “unofficial payments”, or “extra money” is useful. Bribes can satisfy the extorters, the officials. Although the salon “Koodreashka” has not suffered significantly negative experiences with the Tax Police, such abusive inspections and demands for bribes, some Ukrainians pessimistically suggest that they are only waiting for the business to become more profitable so that it can afford such payments. This, however, while being mere speculation, is attributed to experiences of other entrepreneurs. Only time can reveal whether the apparent improvement regarding non-interference and non-abuse by Tax Police is genuine and lasting. At this time, it is the optimistic opinion of the researcher that perhaps the administration has actually begun to stem the roaring tide of corruption, at least in terms of the Tax Police. We shall see.

While Ukrainian SMEs are responsible for paying, on the average, nine distinct taxes, the tax burden per small business remains high. The result of the tax laws, tax burden, and the punishing inspections is that over 85% of Ukrainian entrepreneurs (surveyed) admit to ‘concealing’, or hiding, a high percentage of revenue, ranging from 20% to 60% of revenue. Again, the concealing of revenue was admitted by 85% of 900 respondents in the IFC study. The IFC study, by Yacoub and Senchuk, however, fails to involve the administration and its activities of extortion into the “shadow economy, underground economy, or informal economy. We can only speculate how great that economy of unreported income may actually be, after
inclusion of the unascertainable figure of "unofficial payments", or "extra money". The officials may be best understood not only as contributors to the shadow economy, but significant as facilitating agents to its longevity. As Yacoub and Senchuk stated:

"Inspectors in Ukraine, especially tax inspectors are the most dreaded for of state interference for business, and are one of the top reasons causing entrepreneurs to flee into the shadow economy... The more inspectors and the state interfere with businesses, demand and extort money, close businesses, freeze bank accounts, the more 'unofficial' activity there is (Yacoub and Senchuk, 2000, p30-31)."

Clearly, the level of state-interference in the creation and development of small businesses is significant. The small business case study supports such findings are relevant to Kharkiv. Recall how the lawyers for the salon "Koodreashka" specifically explained how two sets of books must be kept in order to conceal revenue. Not only is it commonplace for entrepreneurs to conceal high percentages of revenue, but the practice of concealing revenue from the state agencies is routinely advised by lawyers in Kharkiv. Lawyers help entrepreneurs to circumnavigate Ukraine's laws and regulations, as such laws and regulations (of tax police for example) are often perceived to be unjust instruments of predatory officials at all levels.

'Civil society' involving business associations cannot be relied on to counter the 'state-interference' and self-interested actions of the officials, since there are so few non-state associations in the commercial or private sphere. Recall that only 4.2% of Ukraine's SMEs belong to any associations, as many entrepreneurs report that informal channels are the means to achieving ones goals, and that they expect no benefit may be had from associations. Some managers of small businesses report that they must dedicate approximately half of their time to dealing with the state-interference known as inspections. It is, yet still, another heavy cost incurred by small business managers and owners.

Thus, the IFC offers an external view of what seems to be a very hostile business environment in terms of the impediments to the creation and sustainability of small and medium sized enterprises. The claims of the Kharkiv administrative officials do not appear to
resemble the reality faced by the 900 firms surveyed in other Ukrainian oblasts. Either Kharkiv is an outlier, offering a much different experience for its entrepreneurs, or their claims are simply inaccurate. Another possible objection that administrators may offer to such a damning implication of the IFC study would be that, in addition to the fact that Kharkiv was not sampled in the IFC study, the study was conducted approximately four years prior to the interviews. Perhaps even if similarities had existed, the overall business environment, as well as the degree and type of state-interference, may have improved during the last few years... for Kharkiv as well as for Ukraine. Without the aforementioned corroborating experience of the case study of the small business start-up in Kharkiv, such doubt may have prevailed.

However, the experiences within the case study of creation of the small Kharkiv salon named “Koodreashka” does, in fact, provide powerful first-hand evidence that corroborates the findings of the IFC study for the environment for small and medium sized businesses in Ukraine. The Kharkiv beauty salon substantiates the extension of the IFC finding to the oblast of Kharkiv, an oblast that had not been included in the sample population. As the creation of the small Kharkiv business has taken place during the past two years, the argument that the IFC findings may be ‘outdated’ is an objection that fails. For over one year, the salon awaited the series of final approvals by the administrative departments and organizations that had been involved in the process of the creation of their business. While over 42 stamps and signatures had been required for documents in this particular effort to create and legally register as a firm the beauty salon “Koodreashka” in Kharkiv, the several final approvals, and permissions will add to the figure, bringing it closer to 50. As of early July 2004, the salon was a “turn-key” operation, except for the necessary “final approvals” which would be given later in the following month of August. Unfortunately, not even the intermediary form “Veest” was able to ascertain an exact date or week that all approvals may be obtained. Other start-up businesses that do not require any reconstruction, or “remont”, or that do not need to gain permission to
make a place of residence into a place of work, may experience a need for fewer signatures and stamped documents. However, such convenient and available locations for business are extremely rare. For the numerous approvals and permissions, entrepreneurs are at the mercy of the administrative officials of the Kharkiv oblast.

The small business start-up offers strong evidence for the view that the state apparatus, the administration in Kharkiv, has been and is still acting in a way that is clearly contrary to the expressed claims of the several Kharkiv officials interviewed on matters relating to economic development. While officials claimed that the administration was (and is) an ardent supporter of economic development and a competitive business environment for entrepreneurs, including those of small businesses, this claim seems to be *more myth than reality*. In reality, there may be many laws and regulations such as the “Law on Corruption”, and perhaps it is possible (while not visible) that corruption is slightly on the decline. Yet, the experience of the small business start-up “Koodreashka” suggests that state-interference and corruption is extremely burdensome. As “unofficial payments”, or “extra money” is often required, and as the informal and non-transparent negotiations of “mediator firms” and officials appear to exemplify an institutionalized form of corruption by extortion and bribe taking, officials appear able to avoid accountability, at least to the ordinary citizens of Ukraine. Ultimately, the reality for the ordinary Ukrainian, a Ukrainian that is politically unconnected, is that it appears to be impossible to create and sustain a small start-up business only by merely conforming to the requirements of the laws and regulations, without becoming involved in extortion and bribery by the administration. “*Nee moshna!*” It’s not possible.

In order to succeed in accomplishing her goal of business creation, Oksana Degtyarenko had no real choice but to go beyond the bounds of the law’s requirements and submit to the demands of “extra money” by the administration and through the mediator firm “Veest”. Not only must she, as an entrepreneur, “pay for speed”, but she must pay the officials.
directly or indirectly, to ensure that they will not obstruct her by means of inaction, inattention and indifference. At the time of this writing, an approval by the fire inspector is awaited; the official, or ‘legal’ cost of the document is exactly $300.00. However, the actual cost of the signature of the inspector is $200.00 (the ‘unofficial payment’, or ‘extra money’). Interestingly, state fees are stated and paid in Ukrainian currency, while bribes are priced in dollars. Despite paying the bribe, the director of the small firm must wait patiently without an expected date of the completion of the approval process. As usual, Oksana Degtyarenko, as director of the small business, could do little or nothing to expedite any approval process. She must wait eagerly for the administration, as her otherwise turn-key salon was fully prepared for its grand opening. The salon finally received all signatures and officially opened on August 12th, 2006.

5.11.2. Validation by Professors in Kharkiv: corruption runs deep in administration.

The views from the IFC’s 900 small businesses surveyed, and the perspective gained from the first hand experiences of the politically unconnected Oksana Degtyarenko of Kharkiv in the effort to create the start-up business, have been corroborated by a number of various Kharkiv professors that have been interviewed. Their perspectives clearly substantiate the claims and complaints made about the administration by entrepreneurs in the IFC study, and by people referenced in the small business case study. Entrepreneurs seem to be constantly mired in the unforgiving muck of administrative officials’ arbitrary use of authority.

Discussions with several professors of the Kharkiv National University were conducted in an effort to gain further perspective on the views offered by the administrative officials. The professors, who are not officials, are able to offer perspectives that are external to the administration, and therefore both enlightening and valuable, as truth is to be separated from fiction, reality separated from myth.
Four professors participated in involved in interviews in March 2003, including a group discussion. Dean of the Philosophy Faculty, and Professor of Philosophy, Ivan Vasilovich Karpenko hosted the meeting. Also from the Philosophy Department was a young professor, Tatyana Mosentseva. In addition to her participation, Tatyana performed translation when necessary. Nicolai Ivanovich Sazonov, a senior professor of political science and Oleksander Fisun, also a professor of political science, engaged in discussions. Professors spoke candidly and with great concern for their oblast of Kharkiv and their country.

Figure 5.31. Professors from the Kharkiv Politology Department (under Philosophy faculty, as appears in the banner in the background): Professors Tatyana Mosentseva, Ivan Vasilovitch Karpenko (Chair) and Oleksander Fisun. Professor Nicolai Ivanovich Sazonov had to leave in order to give a lecture at the University of Kharkiv.

Often, during a group interview, professors conferred among the group in Russian and offer a comment through translation by Tatyana, who would speak for the group’s consensual opinion. On the topic of ‘corruption in the administration’, they agreed without hesitation, “it
(corruption in administration) is still a big problem". They acknowledged that personal ties are still very important in order to obtain employment within Kharkiv’s administration. Hence, the value of merit based testing and hiring procedures based on qualifications, as discussed earlier in the segment on Director Irena Reaka’s interview, may be very much in question.

Regarding corruption and the topic of economic development and small business development particularly, the group of professors agreed and offered the following on bribery and extortion: “Yes, administrators take ‘extra money’, making it difficult for ordinary people to create businesses.” Thus, the professors affirm that the administration’s officials are still, by virtue of corrupt practices, acting as impediments to small business development in Kharkiv. An important perspective from four respected professors, this consensual view speaks to the heart of the problem for ‘ordinary people’ that wish to open small business of any kind. This viewpoint is contrary to the optimistic beliefs and perspectives of several higher officials in departments under the economic branch of the oblast’s administration, as discussed in the segment on interviews with officials. The viewpoint is contrary to the official’s claims of mission and intent, and contrary to the spirit of their portrayal of Kharkiv’s recent stellar macroeconomic performance. Despite the higher-level officials’ expressions of definite commitment to economic development, the views of the professors suggest that the administration is inhibiting rather than facilitating economic development for the ‘ordinary people’. The problem seems to be a national one.

The professors offered their belief that, at the municipal level, “ordinary people can now go to one person at the municipal administration in Kharkiv in order to create and implement small business registration.” However, awareness of this opportunity and accessibility in practical terms are issues that may need to be reexamined. The extent and meaningfulness of these services is not clear based upon these interviews, but the case study of
Koodreashka revealed that, in reality, ‘awareness’ and ‘accessibility’ to such an administrative officials is problematic for ordinary people, people without connections and wealth.

Discussions with the four professors involved the topic of the nationally originated budget for oblasts and the greater context of national economy. The professors agreed that administrative and budget reform is needed and is in the process, remarking as a group (after reaching consensus):

“The budget is too centralized...in Kiev. There are plans for making Kiev more accountable to oblasts. Kiev is a different economy...(it) has an economy of its own...like a country within a country. Money comes from oblasts, but does not recirculate back proportionately. Administrations and politicians keep money. (At the local level in Ukraine’s towns and cities,) though people may make more money, prices still remain much higher. Oblasts are now participating in plans... a proposal of ‘Administrative Reform’ (to help with such problems of centralized authority in administration). But, it is not done yet. The regional (oblast) level is participating with the federal, or national, level. The economic administration is dealing with the budget (problems and issues of centralization in Kiev).”

It is perhaps of significance that these four professors agree that the recent trend toward administrative and budgetary reform represents positive and hopeful strides toward accountability and democracy, pulling power down from the top (national administration) and away from the center (Kiev), and toward the oblasts such as Kharkiv. Perhaps we can think of the anticipated and hopeful shift in power as ‘democratization’ happening on two axis, the vertical (pulling power from the national level down to oblast and municipal levels) and the horizontal (regarding a hopeful trend away from the geographic centralization of power in Kiev, involving a more equitable degree of participation from all oblasts). Thus, the professors appeared to validate the claims of officials regarding the administrations interest in budget reform.

The topic of corruption flowed into discussions of administration, economy, and economic development at the national and oblast levels. The four professors offered candid opinions on problems within the body of lawmakers at the national level as related to the issues of the burdensome and constantly revised tax laws, and the related matter of ‘smuggling’.
Ukraine, smuggling may be understood as a means of importing (or exporting) goods outside the legally recognized channels of customs regulation, therefore without bearing the burden of heavy taxes or disproportionately high duties (whether legal or of the informal and extra-legal bribery-extortion type of ‘taxes’ and ‘duties’) to the government.

With certainty, the group of four Kharkiv University professors affirmed something that many Westerners may tend to find almost too fantastic to believe. The professors, in consensus and without hesitation or doubt, affirmed that politicians and legislators have maintained burdensome laws that provide for high and complicated tax and duty rates in order to benefit themselves as smugglers. In doing so, these politically powerful elites are able to illegally import and sell their own goods at very high markup rates, while still selling at prices below the price level that their products would necessarily be priced if ‘legal’ taxes would be included. Thus, the total cost to consumers for any given smuggled product would be less than the consumer’s price ‘after taxes’ would be for the same good, if that good should bear the greater burden of legally imposed taxes.

The extremely burdensome taxes and duties effectively ensure that smugglers profit from falsely high price markups, usually associated with high risks incurred in smuggling. In reality, well-connected officials have protective ‘connections’, and enjoy such false markups without suffering much risk. Such a political-elite network of personal ties, or connections, ensures that politically connected smugglers, such as those officials of the state (political or administrative) may benefit from the effective elimination of risk. The real risk belongs to the small-time smugglers that have few connections. So, it appears that risks are for the politically unconnected smugglers, not for the politician-smugglers. A very important outcome from the consumers purchasing of smuggled goods is that the state experiences a terrific loss in much needed revenue from taxes and duties, as smuggling is the art of avoiding such taxes and duties. Naturally, there is no ‘level playing field’ when considering the fact that legitimate small
businesses are effectively subjected to burdensome taxation while smugglers (some being officials in politics or administration) are not.

Without the extraordinarily high taxes and duties, smuggling would be minimized, and consumers would not need to pay the premium usually associated with ‘risk’ of smuggling. Reasonable taxes could then be realized by the state. In fact, without the high prices needed to cover a product’s high ‘legally imposed’ taxes, the smugglers could not benefit from the falsely high markup they exact from anxious consumers. Thus, if taxes and duties were to be more reasonable, the politicians and lawmakers that now benefit from the artificial markups of smuggling would realize losses in their personal streams of revenue. Nicolai Ivanovich asserted that while this smuggling by the state’s officials is and has been a real problem, it seems to be improving, and is not as bad now as it was during the 1990s. While causes for such an improvement were not suggested, perhaps there is, nonetheless, cause for hope.

The four professors at the University seem to agree with, or at least do not oppose, the typically Western concept of ‘civil society’ as something resembling a network of freely formed, voluntary, non-state associations. Regarding ‘civil society’, they clearly agreed, as a group, “there really is none in Ukraine.” A stronger ‘civil society’ may be important (if not necessary, some argue) for the purpose of demanding and effecting positive change within the administration and the lawmaking bodies. Perhaps it will prove necessary to check against the arbitrary use of power by elected and administrative officials. Entrepreneurs of small businesses, as noted in the IFC study of 2000, expect no benefit from involvement in business associations. As found in that study, such non-state associations have little or no appeal to most businessmen and citizens, as conflicts are usually “resolved” through “informal appeals”.

When discussing the lack of civil society in Ukraine, the group of professors quickly expressed agreement on an explanation that might be counter-intuitive to Westerners. They formed consensus around the idea that people who were forced to join groups during the USSR,
groups such as the Pioneers (youth group for children), followed by the Komosol (for the older school pupils), are now rejecting groups by choice. The professors agree that many simply do not wish to belong to groups, as groups (‘associations’ as we in the West so often call them) had been widely perceived to force people to work... to work against their will. The professors’ viewpoint is shared by a colleague from Kiev, who holds personal ties to the national economic administration, Dmytro Matsypura, who first discussed this one possible explanation for low participation in Ukraine’s non-state associations during a discussion with the author in the fall of 2002. The same view on the reason for ‘non-joining’ was shared in a telephone communication in October 2003 by Program Advisor Romano Ilto, a Harvard trained Ukrainian economist who is now affiliated with the United Nations Development Programme (UNDP) in Kiev.

While there may be additional reasons for such a tendency of ‘non-joining’ among Ukrainians, this aversion to groups, or antipathy for associational life, seems to be of significance and worthy of future study. Paradoxically, we Westerners may typically view the low level of participation as a sign of trouble and weakness for democracy. Should we embrace the weak state in a strong society, as so often valued in the West? If what these six well-educated Ukrainians assert is true, then perhaps Ukrainians are actually asserting their own volition and freedom by refusing to join. Thus, Ukrainians may actually refuse to ‘join’ based upon their own considered interests and their individual willingness to exercise their freedom. For the first time in many years, people may ‘opt out’ of joining, enjoying a sense of freedom by refusing to belong to some social body.

Even granting this one possible explanation for “non-joining”, granting the marvel of individuals exercising their newly perceived democratic freedoms, some questions still remain. Without meaningful associations that are outside of the state’s control and guidance, and without substantial numbers and percentages of citizens participating, what sort of democracy
will result? Will tyranny be checked somehow? Furthermore, who will be able to effectively
demand positive change through administrative, political, judicial, legal, economic reforms?
How else can the poor, the politically disconnected, influence matters either political or
economic? Without political connections and without advantages of strong Western style ‘civil
society’, how can their political voices be heard? How can their voices be heard while they
exercise their freedom by refusing to join, whether we speak of joining parties or civic
associations of any kind?

Ironic. Practicing political rights by ‘refusing to join’ is evidence of Ukrainian
society’s expression of freedom, yet practicing such political rights seems to inhibit broader
political and administrative reforms understood as democratic and free-market oriented.
Perhaps the ‘mentality’ of many people within Ukraine’s citizenry is indirectly an impediment
to economic reforms concerning small business development, as well as to broader democratic
reforms such as anti-smuggling, more general anti-corruption measures, and streamlining of
administrative procedures.

Is a Western concept of civil society at all relevant to Ukraine, to Kharkiv? The
Kharkiv professors asserted and agreed that civil society “is needed to go with democracy”.
Professor Oleksander Fisun acknowledged shortfalls with democracy in Ukraine by affirming
“Ukraine is an elective democracy, having elections...(but) there is still the problem of
oligarchs controlling wealth...of poor people being worse off.” The World Bank corroborates
Professor Fisun’s statement with the Gini index, which is often used to estimate trends of
inequality. In 1987/90, Ukraine experienced a ‘Gini index’ of .24 (just lower than Russia’s .26
figure). By 1998/99, Both Ukraine and Russia experienced an increase in the Gini index to
.047. Thus, inequality has dramatically increased in the last decade (World Bank, Transition:
The First Ten Years, p38). With the Gini index of inequality effectively doubling during the
1990s, we have further evidence that Ukraine seems to be facing a serious problem as it
attempts to democratize and integrate into the EU. Drastic and noticeable increases in inequality, coupled with not just an apathy but an antipathy for “joining”, seems to leave the political elite, the administrative officials, and the oligarchs fairly safe to devise and implement their own “rules of the game”, thereby maximizing their own personal well-being. In none of the interviews with the Kharkiv administration’s officials were officials the slightest bit interested in discussing any issues of democracy. The topic of democracy simply does not resonate (yet, or as of this case study write up) in the halls or offices of the Kharkiv administration. Concepts of democracy and civil society, specifically involving ‘business associations’, appear to be irrelevant or of little consequence to the interviewed officials of the Kharkiv administration. In the administration, inequality is not a voiced concern, as issues of economic development for large-scale industry seem to hold the great attention from officials.

Whether a country of ‘non-joiners’ can succeed in holding accountable the political, administrative, and private elite, including ‘organized criminality’, remains to be seen. Perhaps an important question is whether the citizens of Ukraine will remain as ‘non-joiners’ for long, or whether a sharp trend reversal for more civic and associational participation is coming around the corner. Until then, the reform may need to come, if it may, from above and from within these state institutions. Of course, the problem with awaiting a ‘great man’ is that there is no guarantee that he (or she) will arrive...and survive politically.

The four professors from Kharkiv University’s Philosophy and Politology departments validated some of the claims of the interviewed administrators. Thus, the officials may have been expressing certain claims that appear to be accurate, or descriptive of Kharkiv’s ‘realities’ of political-economic reforms and developments. The professors affirmed that budget reform is an issue that needs to be addressed, and they asserted that it is true that oblasts are attempting to collaborate to decentralize budget-making authority. This suggests a degree of hope for political liberalization. In addition, problems of administrative organization and complexity of
overlapping departments, both vertically and horizontally, are shared by professors and administrators. Hope for small business development at the local level was offered by the professors, supporting the claims of the interviewed administrators regarding the new opportunities for entrepreneurs to simplify the creation of firms. In addition, the four professors suggest that corruption, specifically smuggling, may be somewhat on the decline, a decline that arguably supports the view of the administrative officials expressing a decline in corruption generally. However, the professors were not quite as enthusiastic, as they held bribe-taking and smuggling to be very serious and common forms of corruption.

5.11.3. Conclusions for chapter 5, Kharkiv case study.

**Myth:** administration is a chief catalyst of development for small and medium sized firms (SMEs).

**Reality:** administration by arbitrary use of power is a frustrating impediment to entrepreneurs and a competitive market economy.

"Businessman is like a victim for administration"

(Professor Anatoly Dubrovina)

The views of the professors, which were obtained during the last three years, are not always very positive or optimistic about Ukraine’s developments, generally. The professors in Kharkiv offered a most interesting view on the issue of smuggling as it relates to the subject of corruption and problems of insufficient state revenue. They affirmed in consensus that the politicians, the legislators, are responsible for maintaining an unfair and burdensome array of laws that actually enable themselves to reap benefits by smuggling at the expense of Ukrainian consumers and small businesses specifically, and economic development generally. As politicos had been ‘stealing the state’ (Solnick, 1998) under questionable methods of ‘privatization’ after the dissolution of the USSR in 1991, politicos are now stealing the present and the future. Officials may be very much responsible for the skewing in the accumulation of wealth that is reasonably evidenced by the effective doubling of the Gini index. The administrators offered no concern or views on any such issues. For them, corruption is now under control, or perhaps coming under control, and presents little cause for concern.
Herein lies a key administrative myth. As the IFC study showed for Ukraine, and as the case study of the start-up business revealed, whether or not corruption is on the decline, it seems to be ubiquitous. It is simply everywhere. Corruption at the local level in the Kharkiv oblast has been evidenced by the need for “unofficial payments”, or “extra money”. Extortion by officials is evidenced by required bribes, required both directly of entrepreneurs and indirectly through the ‘intermediary firms such as “Veest”.

While some statistical evidence may be found to suggest the ‘reality’ of economic development, or macroeconomic growth, we must ask, for whom? Who reaps the rewards? The views of the Kharkiv University professors may be interpreted as supportive of the notion that political and administrative power is a key factor in the concentration of economic wealth by means of illegitimate and arbitrary use of laws. Anatoly Dubrovina, a full professor of economics at the Kharkiv State University, discussed the effects of the administration upon the unequal distribution of wealth and income in Ukraine, directing his remarks at the actual holders of an imbalanced and tyrannical economic and political power:

“The process of administration in Ukraine is criminal. We have no middleclass. The ‘middle layer’ includes teachers, doctors, etc. But, the distribution of wages is not fair. One problem is that there is no law that lets you own land. Cannot buy it! The main problem is that the middle layer cannot buy land...property of any kind (in addition to the laws, they have no financial means to do so). Oligarchs can buy property ...not land. Criminals can buy anything. Criminals, oligarchs, administrators (Anatoly Dubrovina).”

Interestingly, Professor Anatoly Dubrovina seems to view the criminals, oligarchs and administrative officials without much distinction. It appears that the terms maybe used somewhat interchangeable to roughly describe the same people, or group of people.

The case study of the small business start-up in Kharkiv illuminated through experience the degree to which the administration in Kharkiv actually impedes economic development (in a legitimate sense) for domestic would-be entrepreneurs, as opposed to fostering economic development in a self-serving sense of administrators and political officials, supported by an
arbitrary application of laws for the selective advantage of the politically and economically 'connected'. The case study of the beauty salon 'Koodreashka' tested the claims of the Kharkiv administration regarding officials’ claims of its effective and efficient promotion of economic development as being available to all interested entrepreneurs. The chief finding is that while some claims of pending administrative reform may be somewhat accurate and hopeful for the future of Kharkiv and Ukraine, the claims made by officials relating to elimination of corruption and bribery are very inaccurate. The officials’ claims regarding the extent to which the Kharkiv administration encourages and fosters economic development for entrepreneurs interested in small business creation and sustainability are clearly inaccurate.

Officials regularly obstruct the efforts of those aspiring to engage in legitimate businesses. At every turn, instead of facilitating the creation of business in all phases of documentation, such as for permits, approvals, and innumerable inspections, the officials seem to use every citizen’s ‘need’ for an official’s ‘signature’ as an opportunity to squeeze yet another ‘unofficial payment’, more ‘extra money’.

Nadiya Dubrovina, an Associate Professor at that Kharkiv State University, with specialization in economics and mathematics, expressed harsh views concerning the ‘mentalitet of administration’ in Kharkiv and Ukraine generally. Regarding the question of the greatest impediments, or problems, for economic development in Ukraine, the economist Nadiya Dubrovina explained, “Mentalitet of administration is key. They don’t want to help businessmen. They just want to take money and taxes.” Nadiya asserted, in order to make sure that the seriousness of the problem of the administrative officials would not be underestimated, “They oppress our people.” Professor Anatoly Dubrovina drove the point home, and asserted his absolute disgust for the behavior of the administrative officials and the related outcomes:

“Businessman is like a victim for administration. Administration wants to take from them. Administration is like in old Soviet system, mentality (is same). Our oldest people, many of whom are in administration, have Soviet mentality. The Soviet spirit is in Kharkiv and in Ukraine.”
Here is the harsh reality of administrative intent and behavior.

The claim of facilitating the creation of small business or economic development is a myth, as the reality is that Kharkiv’s officials fully and successfully manage to impede and obstruct economic development... unless and until it is made to reward them personally. According to the professors noted above, in reality, ordinary and politically unconnected citizens of Ukraine are treated more like chattel of the oblast administration’s officials. The experiences of the case study of “Koodreashka”, in corroboration with the findings of the IFC study and the broad views of the several professors, provide no evidence that the creation and growth of a legitimate domestic small business is possible without being subordinated by administrative corruption, by extortion. Instead, the reality is that Ukrainians believe and recite “nee moshna”, it is not possible. At present, as reinforced by the case study, one simply cannot escape the strangling grasp of the officials and their extortion.

People with political and economic influence may have most anything that they wish, as they are able to co-opt and manipulate the legal and administrative system for self-interest. For those with such opportunities and financial means, anything is possible. For those without significant financial means, or without connections, few opportunities exist. Political and administrative officials are not commonly viewed as representing anyone but themselves and their allies, according to the view of several Ukrainian professors in Kharkiv, the IFC study, and the case study of the small business start-up.

Administrators are not typically viewed by Ukrainians as performing the role of ‘public servants’, or ‘civil servants’. Nor do the officials seem to view themselves as public servants. Officials and staff are, perhaps, better understood as simply part of a domineering administration that wields power...in an apparently minimally checked manner...the arbitrary use of authority and application of laws is suffocating Ukraine’s citizens. For many Ukrainian entrepreneurs, at least in Kharkiv and in the oblasts surveyed in the IFC study, it seems safe to
argue that ‘reality’ is oppression by the administration. Thus, the chief ‘myth’ is that administration, in Kharkiv and in oblasts surveyed by the IFC, its officials are catalysts for economic development in a competitive market. ‘Reality’ is that the administrative officials, with oppressive ‘mentalitet’ and predatory behavior, are key impediments to economic development within a competitive market, and specifically for the creation and sustainability of small and medium sized enterprise.

Contrary to the administrative officials interviewed in Kharkiv, the findings of the case study support much of the IFC survey and its findings, and offer first hand insight. The Kharkiv professors asserted and highlighted the extent to which the officials’ claims fall short. The answers to the three primary inquiries set forth in the methodology segment are all, unfortunately, negative.

1. No, it does not appear to be possible to create a small business in Kharkiv by making only payments that are required by law, in avoidance of and without “extra money” paid as bribery or extortion. *Nee moshna.*
2. No, the attempt to create a small business in Kharkiv could not offer evidence that Ukraine’s political-legal environment is becoming more stable and predictable in terms of rule of law.
3. No, there is little indication that this oblast of Kharkiv is developing a reasonably free and competition-based market economy that lies within the context of rule of law.

The question of what reforms may be appropriate and effective, how they can be implemented, and how much time reforms will require remains. Until such problems of administrative mentalitet and behavior can be resolved, ‘the market’ in Kharkiv, as in Ukraine generally, will be effectively strangled by officials, as will be the politically unconnected people of Ukraine.

As Oksana Degtyarenko commented, “administratia mafia”, the administration is the mafia, or ‘criminality’. As a result, if reality throughout Ukraine is similar to that of Kharkiv, and if it is accurately perceived from those in the EU, Ukraine’s official goals for EU integration will remain unachieved, and that will remain highly unlikely for the short to mid-term. The second case study will examine an oblast that lies on the border of the EU. Perhaps such proximity to
the EU and variation between oblasts may result in some variation between the respective oblasts’ administrative officials’ mentalitet and behavior.

5.11.3.1. An update on Koodreaska’s success and a degree of cautioned optimism:

On August 12, 2004, the small business, a beauty salon named “Koodreashka” received all approvals. Just over one year later, and after four months of wrangling with banks in Kharkiv, Oksana Degtyarenko was able to purchase the salon and the business with full rights of ownership. In October 2005, Ukrsots Bank was the bank that made Oksana’s mortgage possible. The management at Ukrsots Bank was convinced that Koodreashka’s legitimately reported revenue sufficiently ensured that the one-year old small business was mature enough and profitable enough to stay afloat under the capable direction of Oksana. This is significant, as the bank considered legitimately reported (and fully taxed) income as indicative of a successful business.

In addition, the bank appraised the value of the completely renovated property to be approximately US$45,000, greater than the sum total of the original purchase price, about US$9,000, plus the even more substantial costs of reconstruction and equipment. The Ukrsots Bank was able to take the property as security for the mortgage loan of only US$29,000, which happened to be the actual purchase price. Ukrsots’ risks were minimized. It is also interesting to note that each bank in Kharkiv and elsewhere in Ukraine seemed to have its own guidelines for lending. Requisite loan-to-value ratios varied tremendously, as did the percent of purchase price that a bank would cover with a loan. With some very creative paperwork, the Ukrsots Bank lawyers were able to make the loan possible. The bank policy held that any buyer must pay 30% of the purchase price with her own funds, and that the bank would only cover 70% of the purchase price. Oksana had no money to contribute to the purchase. So, on paper, the purchase price would need to be approximately US$39,000 in order to make the banks’ figures for the loan to purchase price ratio work out, as according to bank policy. The bank lawyers
also required a bank-notarized document that stated that Oksana, had actually paid the
difference between the fictitious price and the loan amount. Of course, there never was such a
payment, but the Ukrsots Bank’s notary was willing to cooperate. Certainly, the integrity of
practices of banks, their lawyers, and their notary publics may be in question.

Thus, the bright side is that the bank actually viewed the new business and the
reconstructed property, as well as Oksana’s capable management, as worth the risk of
investment of bank funds. The reported income was substantial and legitimate. If Oksana had
concealed her income in the shadow economy in order to avoid or minimize tax payments, her
acquisition of the property and business would not have been possible. The dark side of the
bank dealings lies within the fact that they were easily willing to creatively manage the
paperwork and notarized documents in order to obtain the desired outcome.

Another point of optimism is of great significance. As the IFC study had pointed out,
the Tax Police had been a major obstacle for small businesses in Ukraine. Yet, since the
administration of Ukraine has enabled entrepreneurs to choose from tax schemes that entail, for
example, more reasonable fixed tax payments per month or an alternative fixed tax rate such as
the 10% flat tax on all revenue (both are collected monthly by banks), determining the correct
tax payments has been less complicated. The beauty of this simplification is that the recent tax
alternatives have tended to somewhat marginalize the Tax Police. As of May of 2006, Oksana
happily reports that she has not suffered from abusive visits from the armed Tax Police.

Unfortunately, some pessimistic Ukrainian businesspeople suggest that they are only allowing
her to develop a more mature and profitable business before attempting to extract money from
her. Also of significance, and subject to the same pessimistic cautions, is the fact that Oksana
Degtyarenko has not yet been pressed for payments by racketeers (sometimes referred to as a
“roof”). She has not been forced to pay for “protection”, which might typically entail making
monthly extortion payments in order to guarantee the safety of the business and the person.
This represents noteworthy progress. Hopefully, racketeers (and Tax Police) are not merely waiting until Oksana’s business is more profitable and able to afford such illegal payments.
5.12. References for Chapter 5, Kharkiv Case Study

5.12.1. Published works


5.12.2. Individuals referenced in the Kharkiv Case Study

Oksana Degtyarenko, the director of the salon, “Koodreashka”. Comments on services of mediator form and ‘Administratsia mafia’ from January 5th, 2004.


Team of three lawyers:

Andrey Dorochuk, lawyer from Uzhgorod, Ukraine. Business lawyer, works with a Ukrainian NGO, and formerly was a lawyer for the police department. Personal communications. January 2003.

Andrei Viktorovitch Zabiela (Andrew), Director of the ‘Mediator’ firm, known as “Veest”. Telephone interviews on December 8th and 9th, 2003.

5.12.3. Professors and others external to the administration and Kharkiv case study

Anatoly Dubrovina, Full Professor at the Kharkiv State University, specializing in economics and mathematics. Interview, January 6th, 2004.

Nadiya Dubrovina, Assistant Professor at the Kharkiv State University (daughter of Anatoly Dubrovina), specializing in economics and mathematics. Interview, January 6th, 2004.

Dmytro Matsypura, Doctoral Candidate in Computer Sciences at University of Massachusetts. Dmytro is a Ukrainian citizen from Kiev, whose father is an economic advisor to Ukraine’s President Leonid Kuchma. Personal communications, fall 2002.


Ivan Vasilovich Karpenko, Dean of the Philosophy Faculty, and Professor of Philosophy at Kharkiv National (State) University. In addition to several personal meetings, Professor Karpenko hosted a group interview with others in Philosophy Faculty, including professors of Politology. Interviewed Match 19th, 2003.

Tatyana Mosentseva, professor in Kharkiv National University’s Philosophy Department. During a group interview, Professor Mosentseva also assisted in translating. Interviewed Match 19th, 2003.

Nicolai Ivanovich Sazonov, a senior professor of Politology in the Philosophy Faculty at the Kharkiv National University. Professor Sazonov has recently published an 829 page politology textbook on Ukraine. Interviewed Match 19th, 2003.

Oleksander Fisun, professor of Politology in Kharkiv National University’s Philosophy faculty. Professor Fisun has recently visited the United States in order to study electoral processes. Interviewed Match 19th, 2003.

CHAPTER 6

ADMINISTRATIVE VIEWPOINTS ON FACILITATION OF ECONOMIC DEVELOPMENT: TRANSCARPATIA OBLAST, UKRAINE

Figure 6.1. A statute of Lenin was cut in half after 1991 in the Transcarpathian mountain village of Yaseinya. Here, Hutsuls proudly proclaim, “This is Lenin. Now, he kisses our ground.” Below, a Hutsul man plays the traditional wood instrument of the mountains, known as the Trambeeta. The mentality contrasts that found in Kharkiv (recall the Lenin monument).

Figure 6.2. Close-up view of Lenin paying tribute to Transcarpathia, eternally kissing the non-Soviet ground of Ukraine. As local residents of Yaseinya, Transcarpathia Oblast say with a sense of final victory, “This is Lenin, he kisses our ground forever.”
6.1. Introduction to Administration in Transcarpathia and the subsequent case study

The second set of interviews with officials, and the second case study, took place in the Ukraine’s western oblast of Transcarpathia, also known in Ukrainian as ‘Zakarpattya’. The first set of administrative interviews and the first case study of the salon Koodreashka in Kharkiv began approximately two years prior to the second interviews and case study in Transcarpathia. Like the first series of interviews and case study, the second series of Transcarpathian-based interviews and case study of the creation of a small business also began during the former President Leonid Kuchma’s last term in office. Yet, due to the change in Ukraine’s leadership following the 2004 Presidential elections and the “Orange Revolution”, the second case study of the creation of a small business in Ukraine offers a very useful point of disanalog. But first, the views and positions of the Transcarpathian Oblast’s officials will be established during a presentation of personal interviews.

Given the new leadership of President Victor Yushchenko, inaugurated on January 19th of 2005, an opportunity arises for an in inquiry into changes in structure, personnel, attitude and behavior of the administration and its officials within the greater context of the political environment. As Yushchenko has so often embraced the EU and an acceleration of Ukraine’s integration with Europe, perhaps real change in political and administrative ideals and behavior will foster improvements in democratization, marketization, and rule of law. Perhaps the new President Victor Yushchenko and his new administration can expedite Ukraine’s accession into the EU.

After an in-depth presentation of data gathered from a variety of administrative officials of the Transcarpathian Oblast Administration, attention will be given to the creation of the small business in Uzhgorod, Transcarpathia. As the subsequent case study will help test the validity of the claims of the administrators, the views of several university professors in Transcarpathia, or “Zakarpattya”, will offer an additional external view of the administration.
The upscale café “Russki Chai” was terminated in its conceptual stage, after an architect made it clear that the City Council, whose permission is necessary for the use of the flat to be of any specific business purpose (such as café, store, or office, for example), would no longer give permission for any café’s to be opened in the particular areas surrounding the newly purchased flat.

As such, a new business concept (one which might survive the gauntlet of permissions that are required by the city council) had been developed into the current type of business being pursued. In English, “New Horizons of Transcarpathia”, pronounced “Novi Gorezonti Zakarpattya” in Ukrainian, will provide services of translation, interpretation, language and cultural education, grant-writing assistance and other services of business consulting in Uzhgorod.

In-depth interviews with administrators of the Transcarpathian Oblast were conducted in order enable an understanding of their perspectives, attitudes, and claims regarding the extent to which the oblast administration is facilitating economic development, with particular attention to small businesses. In addition, extensive interviews provide credible and convincing evidence of the administration’s national and oblast level intentions to drive toward integration with Western Europe, a continued and popular priority with the new political and administrative officials who have taken power since the Orange Revolution. After the interviews have been presented in this chapter, the following chapter of this dissertation will detail Olha Zinchenko’s efforts to start a small business. The creation of ‘New Horizons of Zakarpattya’, a limited liability company (LLC), such as the LLC that was examined in the Kharkiv case study, provides experiences through which we may once again test the Transcarpathian officials’ claims of support for small business and economic development. Results will be compared to the findings of the IFC survey report of 900 small businesses in Ukraine, and the external views of several professors from that oblast should enable us to enjoy
an additional and balanced perspective in an attempt for validation of results. But first, the in-depth interviews with officials of the Transcarpathia Oblast are presented in great detail in this chapter.

6.2. First segment of interviews, immediately after the Orange Revolution, and before Yushchenko took office (January 2005).

6.2.1. Just days before the conclusive third vote for Yushchenko that confirmed the victory and a change of leadership: Joseph Torpoy on Administrative Reforms of 2005. From an interview with Joseph Torpoy, Director of the “Center for Ukrainian and Hungarian Regional Development” in the Transcarpathian Oblast, Ukraine, January 5th Interview, 2005.

The interviews with Torpoy, as with most other officials interviewed in Uzhgorod, Transcarpathia, were held in the “Bilé Dom” (or White House), the main administration building of the Oblast of Transcarpathia. See photo below:

Figure 6.3. The “Bilé Dom” (White House), the Transcarpathian Oblast Administration building.
In early January of 2005, while Kuchma was still president and the Orange Revolution was steadfastly holding out in the tent city in Kiev, the Yushchenko victory was anything but certain. On January 5th, 2005, an interview was held with Joseph Torpoy, Director of the “Center for Ukrainian and Hungarian Regional Development” in the Transcarpathian Oblast, Ukraine. This administrative organization, sponsored by the EU, had been newly established in January 2004, just one year prior to the interview with Joseph Torpoy. It is worth noting that this EU oriented organization and its mission of cooperation and development between Ukraine and Hungary at the Transcarpathian border was founded during the Kuchma administration, offering some evidence of Kuchma’s sincerity about economic integration toward the Western and Central European countries.

While only in his mid twenties, Joseph Torpoy has attained the position of director of a small EU based organization housed within typical department offices of the Transcarpathia Oblast Administration building. Torpoy is a Transcarpathian man from the town of “Berehovo” (in Ukrainian), but one of Hungarian ethnic origin. Torpoy, as all Hungarian-Ukrainians, refers to his town in Hungarian as “Beraxis”, as it had been known centuries ago when much of Transcarpathia had been Hungarian territory. His studies have included economics and administration at the Institute of Information Sciences, Economics, and Law in Uzhgorod. At the time of the January interview, Torpoy was earning 200 Euros per month.

In a discussion regarding possible administrative reforms, Director Joseph Torpoy addressed the agreement reached during the protests of the Orange Revolution, as then-President Kuchma and Victor Yanukovich demanded a redistribution of power in exchange for their acceptance of defeat in the elections. The office of the President was to be stripped of some power, as the Verkovna Rada, or national parliament, would assume those powers. This would effectively give more power to Yanukovich’s allies in the Rada, more power in their opposition to the new and victorious President Victor Yushchenko and his intended reforms.
"Administrations are undergoing reform. Reforms should be done this year. In December 2004, when Kuchma insisted that power is amended by (our) Constitution to go to the Verkhovna Rada, part of the Amendment was to write other powers of decentralization to oblast powers (administrations). In the future, it will be not just one President’s administration (by controlling every oblast) but it will be oblast level elections for the governors, and some for governors (heads) in raions. They (like the President) will also be elected now. They have been appointed by Prime Minister though (by) oblast gubernators (oblast governors). So, the people did not have power. These reforms were (supposedly) in process since 1996 (shortly after Ukraine’s first Constitution). This agreement was part of the compromise of Kuchma and Yushchenko in the solution of (the) election crisis. Yushchenko always wanted these reforms. Kuchma also wanted these ‘decentralizations’ because it really strips the new President (Yushchenko) of power! There are 450 Deputies in Parliament (Verkhovna Rada). Power goes to parliament, where support is split. Yushchenko needs 250 votes (Torpy, January 5th Interview, 2005)."

In the negotiations for the decentralization of power under the barter of the Orange Revolution (Yushchenko took the Presidential office in exchange for acceptance of reduced powers, whereby Yanukovich gained opportunity to exert influence through the Deputies of the Rada), it seems that Yushchenko, intentionally or not, seems to have assured Ukraine that future Presidents would have reduced power compared to the virtually absolute rule of Kuchma, as powers are pushed downward...decentralized into the oblasts. Perhaps this may be understood as a very real, though perhaps unintended, step toward democratization, as oblasts may become more involved in decision-making. If this may be understood as a step toward democratization, and if it was the direct result of demands that originated from Kuchma and perhaps Yanukovych, it seems paradoxical that such men of authoritarian nature would help to greatly assist in the decentralization of power and decision-making... and thus democratization... of Ukraine.

When asked, “what are the prospects for EU integration under Yushchenko?” Torpy commented with optimism: “Now I think good. I don’t know how long it will take (Torpy, January 5th Interview, 2005).” How do such prospects compare with the prospects for EU integration under Kuchma, or that may have been under a Yanukovych presidency? “Never! Not possible”, responded Torpy (Torpy, January 5th Interview, 2005)."
6.2.1.1. Torpoy on impediments to economic development:

When Director Joseph Torpoy was asked, “What are you biggest problems or impediments to economic development in Ukraine and Transcarpathia?” Joseph responded thoughtfully and candidly, noting four main problems. “First, taxes, because they are very high. They can be 80% to 90%. For example… a bakery. An owner must pay 60% to 70% of every workers salary again in taxes. If he has ten workers in reality, he officially has only five (Torpoy, January 5th Interview, 2005).” Torpoy further explained the result of perceived high taxes on employee salaries: “Have you heard of ‘Karman’? ‘Karman’… (means) you put the money in employee’s pocket (Torpoy, January 5th Interview, 2005).” By sliding cash in an envelope into an employee’s pocket, firms avoid payment of taxes. Torpoy continued, noting the second biggest problem for economic development in Ukraine and Transcarpathia specifically: “Dark shadow economy’, we call it. Everybody knows that 50% of Ukraine’s economy is in the shadows. All state workers get little money in (their official) salary, they make (greater sums of) money in shadow economy. So, shadow economy… because of shadow economy, we have small state, oblast and municipal budgets (Torpoy, January 5th Interview, 2005).” “Third”, Joseph Torpoy continued, “is Corruption. (They are) all connected with each other (Torpoy, January 5th Interview, 2005).” Torpoy did not go into any details on the issue of corruption.

The fourth biggest problem, or impediment, for development, according to Joseph Torpoy, is related to budget oriented concerns of centralization of the state administration and the flow of taxes collected from oblasts and sent to the country’s center, Kiev.

“Most of the taxes go to Kiev, to the center. It is a centralized country. More power to (in) center (Kiev). The problem is that they (taxes) don’t come back to the oblasts. Ninety percent of all taxes collected in Transcarpathia go to Kiev. Only 10% stay here in oblast budget. It’s not enough for hospitals, schools, roads, etc. For example, average road taxes per car, each year are about $100 on average. It depends on car value. Most seems to go to Kiev, because it is not spent here in Transcarpathia. I know of only one road in the town of Beraxis that was reconstructed… and there are
many cars there. But, it is only reconstructed for one kilometer (Torpoy, January 5th Interview, 2005)."

Torpoy’s opinion that taxes do not sufficiently flow back to the oblast, and that the flow of money is disproportionately directed to Kiev and retained in Kiev, seems to be representative of the opinion of many administrators. So much so, that it appears to resemble something resembling ‘common knowledge’ for officials and citizens of Transcarpathia.

Another question was posed to Torpoy: “So, do you think that the administration in Transcarpathia is helping economic development, helping small business to develop and succeed? Or does it more seem to get in the way? Torpoy’s reply was immediate and very candid and clear: “They get in the way (Torpoy, January 5th Interview, 2005).” When asked “Why, is it because of corruption? Bribes? Are they slow to act with signatures for permissions and approvals (Torpoy, January 5th Interview, 2005).” Torpoy responded: “Its not only that, its can also be that they are not good specialists, not so competent...that maybe they do not know what they are doing (Torpoy, January 5th Interview, 2005).” So, corruption of officials (at any level) is not the only problem standing in the way of economic development and small business development specifically. Incompetence in the administration is a fifth serious impediment, according to Director Torpoy.

6.2.1.2. Toward European Integration under Kuchma and continued integration under Yushchenko’s polices, and regarding administration’s programs that demonstrate Transcarpathia’s interaction and cooperation with the EU countries: Joseph Torpoy explained in detail how Transcarpathia has been working toward integration with Europe.

Since Director Joseph Torpoy heads the ‘Center for Ukrainian and Hungarian Regional Development’, he was very interested in discussing the EU and the topic of integration. The first open ended question was put forth as: “How has Ukraine, and the Transcarpathian Oblast specifically, been progressing toward EU integration? Has there been some success?” Joseph discussed EU sponsored programs such as those under “TACIS” (TACIS CBC SPF-MPF) that
enables applicant organizations in post Soviet countries to take micro credits (up to 50,000 Euros maximum) and macro credits (up to 300,000 Euros maximum). The EU website summarized the main missions of TACIS CBCs:

“The Tacis Cross-Border Cooperation (CBC) programmes are aiming at improving the economies and social links between border regions. The Small and Micro Project Facility (Tacis CBC SPF-MPF) is part of the CBC programmes. This Facility supports small-scale co-operation projects between regions, cities and local authorities in the NIS (Russia, Belarus, Ukraine and Moldova), candidate countries and the European Union for more on TACIS, see the official EU website for more information on TACIS, at http://europa.eu.int/comm/europeaid/projects/tacis_cbc_spf/index_en.htm.”

According to Torpoy, the Center for Tourism in Berehovo (Beraxis, in Hungarian) is an example of an applicant for EU credits.

“The EU will pay up to 90% of such a project. 10% must be paid by the organization. Until January of 2005 it was only administration(s) of local departments, like town councils (that were necessary to the application for funds). If an NGO (non-governmental organization), 50% or more of your budget must come from the state or local government budget. The other 50% can be private contributions. Each year the EU makes (has made so far) an agreement. This year the EU has not been willing to make an agreement with Ukraine, due to political problems...elections (Torpoy, January 5th Interview, 2005).”

Torpoy understood that the EU was closely watching the Ukrainian presidential elections of 2004, and that any indicators of stability, credibility and predictability were important by onlookers.

When asked to continue discussing the eligibility of applicant organizations for the EU funding, Torpoy confirmed the requirement of state or local governments’ involvement as the applicant organization, or as 50% contributor to an NGO. He understood the possible implications that state organizations must be somehow included in an organization for the sake of eligibility, leaving out the entire private sphere, generally, and small businesses in Transcarpathia. “But”, he suggested with enthusiasm, “this year (2005), after January, they (EU) said also not just NGOs or administrations can write projects, but also private enterprises. But, no agreement is made yet. It is a big difference, because private enterprises can call money (bring investment). The agreement may happen if we have a new President in January
2005 (Torpoy, January 5th Interview, 2005).” Joseph Torpoy added that, regarding eligibility and limitations for foreigners doing business in Ukraine, “In order for Hungarians or (other) foreigners to invest in Ukraine, they must have partners, as in 50/50 joint ventures (Torpoy, January 5th Interview, 2005).”

On the issue of how organizations and individuals become aware of what his office can do to facilitate applications for EU funding, Torpoy was asked, “How do people and organizations hear of your office?” Director Torpoy responded

“The media, the press... newspapers. It is very often that we publish something. Last week we had a project where we gave seminars for (people in administrations of) thirteen raions (geographic and administrative regions of the oblasts, similar to counties) of Zakarpattya (Transcarpathia). We teach them how to use money and so on. The thirteen raions of Zakarpattya and also six big towns participated. The municipal administrations do not depend on raions, they just depend on (the) oblast (level of administration). Many participated in our seminars here, and we hold seminars in Hungary and Germany also for them (Torpoy, January 5th Interview, 2005).”

Torpoy expanded on the work of his office, explaining how it seems to be broadly expanding in scope of assistance:

“We also work with the UNDP. We look for NGOs, organizations, or somebody to help. So, we contact them and we help to write projects, and to suggest if it is good or not... evaluation. And (we) go to Kiev. We send projects to Kiev, as (this) is where the UN’s delegation, here in Ukraine (is located) (Torpoy, January 5th Interview, 2005).”

He also suggested that the integration toward the EU is becoming stronger and more actual, as:

“On January 10th of 2005 the ‘Transborder Cooperation Program’ will be voted on by council. It is (a program) between oblasts of Ukraine and Hungary that are nearby (Torpoy, January 5th Interview, 2005).” For this program, Transcarpathia is the oblast of most significance for Ukraine, due to its western border that is shared with eastern-most Hungary.

On the issue of who or what may be able to qualify as a “private entrepreneur” under the newly changing programs of the EU, Torpoy was asked to comment.
Torpy mentioned that private entrepreneurs may benefit from the services of the EU’s “P.h.a.r.e.” program, as Poland and Hungary will be open for technical assistance. The EU’s Interreg programme and the Neighborhood program are intended to positively affect border regions of Ukraine and other states that are adjacent to the enlarging EU. At the EU website, one may find a summary of the EU’s Phare-CBC program and how it relates to neighboring countries such as Ukraine:

“Phare CBC was introduced in 1994 to assist border regions in the applicant countries overcome their specific development problems and integrate more closely with the European Union, with other countries of Central and Eastern Europe, and within their own national economies. A long-term aim of CBC was thus to accelerate the economic convergence of applicant countries with the European Union in a balanced manner that prevents the emergence of peripheral economic zones, and to prepare candidate countries for future participation in the INTERREG programme. Cross-border assistance is implemented in accordance with the Commission Regulation No 2760/98 as amended by Regulations No 1596/2002 and No 1822/2003, and is based on Joint Programming Documents and managed by the Joint Co-operation Committees. Until 2003, Phare CBC focused on promoting co-operation between the border regions of Central and Eastern Europe and adjacent regions of the European Community, as well as border regions between applicant countries of Central and Eastern Europe. Given the accession of 8 Phare countries in 2004, the Phare CBC Regulation has been amended in order to update the list of countries which remain eligible and, on the same occasion, the scope of the Phare CBC programme has been extended to cover the Bulgarian border with Turkey and the Bulgarian and Romanian borders with their adjacent TACIS and CARDS countries (Ukraine, Moldova, Serbia and Montenegro and the former Yugoslav Republic of Macedonia). In addition to this, the Commission Communication ‘Paving the way for a New Neighbourhood Instrument’ (COM(2003) 393 of 1 July 2003) envisages the PHARE CBC Joint Programming Documents for Bulgarian and Romanian external borders as a useful basis for its ‘Neighbourhood’ programme, designed to boost co-operation between an enlarged EU and neighbouring non-candidate countries (EU’s Official Website, http://europa.eu.int/comm/enlargement/pas/phare/programmes/index.htm).”

Unfortunately, it appears that Ukraine is far from being within the focus of the EU for the sake of rapid integration, but at least the EU has been able to recognize that some EU assistance may offer some success in terms of development within non-EU post-Communist countries which lie at its borders. For Ukraine’s oblast of Transcarpathia, as a beneficiary of such EU programs for ‘cross border cooperation’, perhaps some visible evidence of economic success may offer
an example of stability and prosperity, hopefully leading to similar results in other oblasts at a later point in time.

Torpy noted that within Ukraine, “only in Transcarpathia oblast can enterprises benefit, as they are on the border of Hungary. Such cross border cooperation programs do not affect oblasts that do not share such EU borders. Thus, Transcarpathia, while renowned as one of Ukraine’s poorest oblasts, is in a very unique and favorable position for potential economic development due to its geographic proximity to the EU (bordering Hungary, Slovakia, Romania and Poland just to the north, near the Lviv Oblast border).

Torpy remarked on private enterprises and how they must fit into four categories, or blocks:

“Private enterprise (businesses) and NGOs and municipalities can apply for the EU’s money. There are four main blocks that organizations must belong to in order to benefit from the EU’s money.
1. Economic block
2. Social Block
3. Ecological block
4. Infrastructure.

In the economic block, for example, it may be tourism, help for enterprises like business consultants, accounting firms, and so on. A café or bar or ‘magazine’ (store) could apply for a micro-credit grant from the EU. But... there is the need to cooperate with a café or bar or magazine on the other side of the Hungarian, Slovak, or Romanian border. Again, this is just for Zakarpattyia firms (Transcarpathian firms, not for all oblasts or all firms of Ukraine). It can be a hotel, farmer, school or University, or Hospital (Torpy, January 5th Interview, 2005).”

Yet, the ‘need to cooperate’ deserves clarification, as this is likely where some difficulties may arise between cross border firms.

Continuing with Director Torpy’s comment, he then responded to the following question: “What does it mean ‘to cooperate’?” Torpy explained in detail and used examples:

“They must sign a ‘chablon agreement’. ‘Chablon’ means ‘typical’ agreement. They both (Ukrainian and Hungarian firms, for example) fill the application form and sign the agreement. They apply together. 90% of money for such a project will come from the EU. The other 10% must be split and invested by each firm, Ukrainian and Hungarian. For (a hypothetical) example, a Hungarian hospital could take a Ukrainian patient if it is closer to him (than the Ukrainian hospital), and a Ukrainian hospital could take Hungarian patients. But, Hungarian hospitals may not have Ukrainian
speakers! Ukrainian hospitals may not have Hungarian speakers or even adequate supplies. They can exchange with each other. The process is very hard work, very bureaucratic. There are not any hospitals doing this now, but it is just an idea (Torpy, January 5th Interview, 2005)."

The bureaucratic work, Torpy remarked, is not only in the application and grant writing process, but includes the actual handling of expenditures and receipts.

Joseph Torpy explained the EU grants in terms of size of project and amount, as well as delivery in tranches, monthly expenditures and accountability via receipts to the EU.

“Microeconomic grants are for a maximum of six months (for projects with a duration of up to six months). Macro projects are for up to one year and six months. The biggest projects are with a maximum of three years. Payments are made in tranches. Receipts are submitted to Brussels. They (the applicant organizations or firms) can use the EU money first (it is sent to a bank account). But each month they must submit receipts to prove that they spent it correctly (Torpy, January 5th Interview, 2005).”

Director Torpy noted that there are not any hospitals doping this now, as the program is fairly recent and the hypothetical example of the Transcarpathian hospital as an organization involved in the cross border cooperation and “chablon agreement” is just an idea at present. Torpy’s comments about the EU projects and payments are congruent with the EU’s official website, noted above at (http://europa.eu.int/comm/europeaid/projects/tacis_ebe_spf/index_en.htm).”

Torpy presented an example of a much greater project that has actually taken place in Transcarpathia, and discussed the results of the EU’s manner of distributing much of the funds within the EU:

“Now, a real project, a very big project... 3 million Euros... “Flood Protection in Tisa Basin” in Transcarpathia (see the website http://www.povini.uz.ua/ for details and photos). This project ‘ARCADIS’ is a joint company – Holland, Germany and Belgium company. Until September 2005, a two year Program. The main idea... they set up gate stations on Tisa river and set up G.I.S. (geographic information systems, modeling programs to predict flooding and potential effects). We work with oblast administration on the program. The infrastructure was only 30% of this agreement. Most of the money was for seminars, for trainings, for modeling systems. The next agreement will be more for infrastructures. Most of the three million Euros, or 1.5 million Euros goes to the salary of the specialists of the EU. Most of the money is not really spent in Transcarpathia, its spent in the EU, it is the EU’s money (Torpy, January 5th Interview, 2005).”
As Torpoy noted, the greater EU sponsored projects, such as that of the ARCADIS for three million Euros, may result in less investment into the Transcarpathian region due to the need to fund EU specialists. Nonetheless, the EU’s commitment to the Transcarpathian region is evident, lending hope for broader ambitions for Ukraine’s integration with the EU.

While the ARCADIS project is a good example of a greater project under EU sponsorship. Torpoy offered an example of a much smaller “micro” project that has been undertaken:

“For ‘microproject’, for example, we helped to write a project for ‘Village tourism’, or green tourism, for Transcarpathia. Tourists go to stay with people in village homes, not in hotels. They stay with families. We write a micro project on behalf of the Transcarpathia Oblast and in Hungary the partner was an NGO called ‘Village Regional Tourism’. The main idea was that there are a lot of villages in Transcarpathia but they are poor. So we create seminars in the villages for anyone that wants to participate. Beraxis (in Hungarian, or ‘Berehovo’ in Ukrainian) was one village. In Hungary it is highly developed, we make seminars, show how they can bring tourists (from Transcarpathia). We also created a center in Beraxis that is an info center for tourism, with brochures, etc. They can help and communicate with other villages. It was a 40,000 Euro project for the entire ‘Village Regional Tourism’ project Torpoy, January 5th Interview, 2005.”

Thus, Torpoy has given an example of how his office for Cross Border Cooperation is facilitating cooperation between administration in Transcarpathia and an NGO in Hungary. This may represent a beginning for Ukraine’s integration with the EU. No less important, the Village Regional Tourism, just as the larger ARCADIS project, represents a commitment from the EU toward development in this Transcarpathian oblast.

It is also worth noting that, while the largest share of the project had been funded by the European Union, gaining the approval of the Transcarpathian oblast Rada and required funding of 10% was anything but easy. Regarding the 40,000 Euro Village Regional Tourism project. Torpoy asserted: “40,000 was the 90% share of the of the EU contribution. The other 10% came from the Transcarpathia Oblast Rada Council. The Rada (Oblast Parliament) had to approve this funding of 10%. We (Torpoy’s office) wrote the project, but the Rada had to be convinced. This was a big problem! (Torpoy, January 5th Interview, 2005).” One problem
with the oblast Rada of Transcarpathia is in its composition of Deputies, many of which have supported the former Kuchma and Yanukovich leadership, and who have often resisted change and innovation.

"About the Transcarpathia Rada (as of January 5th, 2005), we have 90 Deputies. After elections, they vote for each other a President in the Rada (of Transcarpathia), the ‘Head of the Rada’, or ‘Holova Oblastnoye Rada’ in Ukrainian. Now it is Mikolai Ivanovich Andrus. Twenty Deputies are from Yushchenko’s party. Fifty are from Yanukovich, mostly Social Democrats (a party that had supported former President Leonid Kuchma). The other 20 are independent (Torpoy, January 5th Interview, 2005)."

While Torpoy suggested political obstacles such as fragmentation within the Rada membership, lack of agreement on suggested opportunities offered by his office and the EU more broadly, and opposition from within the Rada for the seemingly minimal level of funding, the proposal for the Village Regional Tourism was approved and funded.

This approval constituted only the first step toward an EU approval for the microproject: "First, the Rada must approve the project. Next, we take it to a Hungarian partner (NGO, in this case) for them to approve. Then (it is sent off) for Brussels. April 10th is the deadline for applications to be received. If it is good, Brussels signs off (Torpoy, January 5th, 2005)." Given that so many Yanukovich and Kuchma supporters were Deputies at the time of the referenced interview with Torpoy on January 5th 2005, while the ‘Orange Revolution’ was taking place and election results were in hot dispute, and while the last election was to be held in just a few days (January 10th), the Oblast’s parliament, or Rada, was viewed by Torpoy as an obstacle that needs to be surmounted in any effort by his office to foster development within the oblast. Perhaps the local Rada, in this sense of internal conflict, is an impediment to economic development in the oblast despite arguably fantastic opportunities to receive funding from the EU at very low cost to the oblast. Yet, we must remember that Ukraine’s domestic politicians and administrators at the oblast level often regard oblast budgets as being minimal and insufficient. One problem may legitimately be the issue of money. Many politicians argue
that the oblast cannot afford such investment partnerships. But, can they afford not to produce that investment?

While the two fore-mentioned examples of larger and smaller projects sponsored by the EU offer evidence of integration of Transcarpathia into the economy of a neighboring (and new) EU country, Hungary, it was unclear if the projects may, in the near future, only be granted to applicants from the oblast administrative offices in conjunction with non-government organizations in Hungary. Recall that Director Torpoy noted previously in his interview that, after January 2005, the month in which the interview had taken place, "They said that not just NGOs or administrators can write projects, but also private enterprises. But no agreement is made yet (Torpoy, January 5th Interview, 2005).” So, an important question remains, is there or will there be an opportunity for private entrepreneurs as well? Or will the funding be directed only through the accounts of the administration of Transcarpathia, as the previous examples indicate? We may speculate regarding the implications for corruption, should only administrators be enabled to write projects in request of funding.

Torpoy expected the private sector to gain access to the EU funding, offering an example of how it might work for a small business:

“For example, a private enterprise, like a baker (of bread) in (the town of) Beraxis. He needs an idea. He can include a bakery with tourism, because he has a special, unique place. He could look for a partner who also has a bakery or maybe a hotel on the other side of the border (between Hungary and Transcarpathia, Ukraine). He may want to offer some rooms for tourist rent as hotel (if possible). So maybe he can cooperate to exchange some services. It does not matter what the services are, as long as they engage in cross border commerce, business. Maybe, for example, the baker in Beraxis, Ukraine could seek a hotel or restaurant partner over the Hungarian border. He could agree to sell and deliver his tasty bread every day. The hotel must supply some services to the baker, perhaps they could buy him a new truck for delivery in Ukraine and Hungary. The goal, for the EU, is to see increase in cross border trade between Transcarpathia and Hungary (in this case, or perhaps Slovakia or Romania as well) (Torpoy, January 5th, 2005).”

Torpoy seemed very hopeful and optimistic that the private enterprises will be allowed full access to the cross border cooperation funding. Transcarpathia may be at the crossroads to an
economic integration with Europe, a form of integration that may soon foster the development of small business and private enterprise generally. Even if the EU attempts to increase opportunities for the private enterprises of Ukraine, including small businesses, it is unclear if each of the Oblast and national administrations will also be genuinely and increasingly supportive of programs that facilitate economic development for the sake of any private entrepreneur that is not closely connected to the administration and its individual officials.

6.2.2. Just before Victor Yushchenko’s Presidential inauguration in late January 2005: Natalia Nosa, Director of the Department of European Integration and Cross Border Cooperation in Uzhgorod, Transcarpathia Oblast Administration, on aspects of and problems for administration.

Natalia Nosa, the director of the Department of European Integration and Cross Border Cooperation, Transcarpathia Oblast, engaged in an interview on January 21, 2005. Natalia Nosa was born in Russia, and studied in Kharkiv University at the Aviation Institute. Her studies focused on Economics and Management in Aviation, which she described as a business education. Nosa discussed matters related to administrative change, economic development, small business, and issues relevant to the borders with neighboring countries of the EU. Natalia is pictured below, note the flag on her desk.
When Natalia Nosa was asked, "How has the administration changed since the Soviet era?", she offered the following thoughts:

"We have a more democratic society. We have now a lot of NGOs, with duties to give consultations to people of Ukraine. We did not have such spheres of activity in the USSR. We have very skilled people in (administrative) organizations... (people) who were working in the Communist party. They were...and are...very skilled people, but they don't have strong political opinions as they work now. The young people coming from the institutes and University are highly skilled. I am thirty years (of age), and I am the head of a department. The youngest (head) in all departments in Transcarpathia. In Uzhgorod, we are on the border of several countries. Every person has to know some level of English. So, it is impossible (for our administration) to be composed of (primarily) older administrators of the USSR. If they have competency in skills, it is possible (for them to work in administration), but we now have (new) rules, and many young people are coming in (to work in administration). We have a rule that, once a person is sixty years old, they must retire. Sixty years for a man, fifty-five years for a woman (Nosa, January 21st Interview, 2005)."

Thus, Natalia Nosa noted the significance of the arrival of NGOs as organizations, a sphere of non-government activity that did not exist during the Soviet Union. She confirmed that, while
persons who worked in the Transcarpathian Oblast administration during the Soviet Union and as members of the Communist Party are still employed. It is her view that they exhibit an acceptable level of competency. In addition, these former Communist Party members during the USSR period, according to Nosa, are often able to work in the present day Ukraine without ‘strong political opinions’. If true, this may be interpreted as an indication that, regarding the former USSR administration dominated by the Communist Party, some semblance of professional ‘civil servants’ as understood in the West, may have existed. It is noteworthy that Nosa viewed the young entrants to administration as ‘highly skilled’. As a department head, Nosa’s views on the importance of competency in skills as requisite for any official and the decline of political ideology are suggestive of the presence of professionalism and merit-based employment that is essential for any ‘civil service’.

The question “what is the salary and pension in administration?” was posed to Nosa. She replied:

“It depends on years (at work). Incidentally, only nine women work here in the Oblast Administration. Ten years ago, it was impossible for women to work here. The entry-level salary as Head of Department, in first year, is $150 each month. $250 (per month) is approximately a maximum salary, depending on the (number of) years of work. Specialists at the first level... $100 per month. Or 500rph. It is a very big problem. For $100/month it is very difficult to hire good skilled specialists, because they have a very small salary. My Vice-Head is 58 years old, and a specialist. Yet, he has a higher salary than me. It depends on years of work in administration, and also level of skills. If (candidates for a job opening) are very skilled and necessary for (our office) working, I must have such persons in our department. So, extra points in qualifications (can result in)... extra money (Nosa, January 21st Interview, 2005).”

We must remember that the low salaries are per month, not per week. It is also important to realize that the cost of living per month far exceeds $100, the salary for a specialist. It is common for rental of an apartment to range from ($150 to $250 per month, depending on number of rooms, condition, and location. Regarding prices for purchase, two and three bedroom apartments in Uzhgorod may often exceed $20,000, or surpass $60,000 in the city
center. Officials, young and older, will find it difficult to survive without finding some additional means of support...such as extortion and bribery.

The next question targeted the subject of “If salaries go up, what will be the affect on corruption, on bribery? Will there be a likely decrease?” Nosa replied:

“Well, we can take money for extra work, non-commercial activity such as teaching, lecturing, and scientific works, etc. There is corruption in every country. Will the level of salary being high tend to decrease corruption? Yes. But, this is just a theory. We don’t know (Nosa, January 21st Interview, 2005).” Next, Nosa considered the amount of salary increase that may be sufficient to help diminish corruption. She offered:

“Maybe two or three times as high. For today’s Ukraine, maybe $300 per month would be enough for a specialist... enough salary to invite a good specialist, and enough to make the specialist want to keep his job and avoid taking bribes...avoid corruption. But that is for lower level specialists. We risk losing good specialists to private firms because they can pay more. Every NGO, non-profit organization, has the same problem. After (graduation from an) institute, it is difficult for specialists to find a good job. So, they work in administration after institute because they can get a job (some job). So, they work for a couple of years here, waiting to get a good offer from outside... the private firms make offers. These specialists can be valuable to private firms that do not know how to deal with administration (Nosa, January 21st Interview, 2005).”

Thus, the minimal salaries paid to officials at various levels must be overcome as part of any effort to squash corruption. Officials require a salary that enabled them to live without the pressure to seek out bribes as a supplemental income. In addition, the minimal and insufficient salaries help to create a condition of high turnover of officials as they accept slightly higher salaries from the private sphere. As officials take their personal connections with them into the private sector, opportunities for further engagement in corruption by those in administrative organizations may be anticipated.

6.2.2.1. Natalia Nosa on economic development and small business:

Natalia Nosa responded in depth to the inquiry, “Generally, in Transcarpathia, what is the administration doing to facilitate economic development? Successes?”
"We developed a strategy of cross-border cooperation and development in the Transcarpathian region. We decided to prepare a more global approach. Strategies are developed, joining development for regions (oblasts) on the borders of Ukraine, Poland, Slovakia, Hungary, and Romania. We are working with the EU on this. We have a lot of projects with the EU. We have prepared a protocol of priorities and duties, a statement of intention. Priorities include infrastructure, economies, environment, tourism, and social and cultural integration. This is not ready yet, it is being proposed now, our program of cross border cooperation. We want to implement the Carpathian Protocol, but we need to fund this, set up a monetary committee. We had 'Eurodays', May 28th, 2004. We invited people to the center of the city. We had tents out, offering information on visas, and on businesses in the European countries. It makes people aware of what we are doing. It's a holiday of international conference (Nosa, January 21st Interview, 2005)."

In addition, Natalia Nosa went into some detail regarding how the administration has been participating in inter-government commissions that were formed to address border related problems.

"We have inter-government commissions (between countries) to discuss problems. For example, the village of Selmantsy, 60 kilometers from Uzhgorod (north)... half of the village is in Ukraine, half in Slovakia. It was split in the creation of the Soviet Union. It was divided. The people had no way to cross the border. They (on the Ukrainian side) had to go to Uzhgorod (from their village), prepare for the trip to cross the border (into Slovakia), then go north to the Slovakian side (of the village). There is a similar problem on the Poland and Ukrainian border (a bit further north). A lot of villages are split on this border, but we in Ukraine have no cross border point! To go to Poland (across the border), we need to (first) go to Kiev (at least eight hours eastward by train, then go back westward to Poland). Much (of the area) is in natural environment reserves. It is difficult because the EU does not allow small crossing points. By small, we mean where people can only walk across the border. No cars. But, the people want this...we are working on this. As the USSR, we were a closed country. We did not want to be open on borders. But now we want to open on borders. And it is now the EU that does not want to be open. Now the EU wants to keep borders closed (Nosa, January 21st Interview, 2005)."

Nosa laughed at the irony of the situation. According to Nosa, Transcarpathia, and Ukraine generally, is interested in opening up to Europe. Her department is actively involved in efforts that aim toward European integration and increasing awareness levels of the Transcarpathian people regarding opportunities. She is optimistic about the role of the oblast administration in fostering integration and development, as competent officials are sought after, though problems of insufficient income levels and corruption remain unsolved.
When asked, “what level or size of business are your (department’s) programs aimed at? Larger, smaller?” Natalia Nosa asserted without hesitation that her department focuses on small business in an effort to foster economic development and integration with bordering EU countries:

“Small business, maybe medium size. But not big business, not big industry, we have enough of that. It is for small companies. Now, everyone understands that small companies can be more flexible and able to change their products, quality, etc. They can be more innovative! Smaller companies can move to smaller oblasts and towns near the border, from each country. For example, a small firm in Budapest, Hungary, may find it too expensive, and move to Zahon (Hungary) on the other side of our border (of Transcarpathia Ukraine) (Nosa, January 21st Interview, 2005).”

This is an important viewpoint of an administrative official, as the role of small business in the oblasts economic development is not always assumed by officials to be of any or much significance; thus, Nosa’s perspective on the significance of small business, innovation and flexibility is not assumed to reflect the views of all officials.

“What are the biggest problems or impediments for economic development in Ukraine? In the Transcarpathia oblast? For the development of small business?” Nosa carefully responded to this final question:

“The big problem? It is our tax legislation. But, we have to improve or legislation in each sphere, not only the economy, but in cultural sphere also. We don’t have appropriate laws for business. Taxes are too big for businesses. In Transcarpathia, we had two years ago a ‘Special Regime for Investment Activity in Transcarpathia’... proposed special privileges for foreign investors if they invest $250,000 or more...not taxes at all for the first year, then one half the level of normal taxes in the second year, and so on. But, now it does not work, the law is closed. There had been a free economic trade zone... it was operated and closed (also). We have to make it attractive here for business. It (closure) was a decision from Kiev, from the Economics Ministry (Nosa, January 21st Interview, 2005).”

It must be noted that while former President Kuchma had often spoken publicly about EU integration, or integration with the West, the ‘Special Regime for Investment Activity in Transcarpathia’ and the free trade zone had been closed under his term of Presidency,
representing an inconsistency of his words with actions taken at the national level of administration.

Thus, the **greatest impediments** to economic development and small business development may include **high taxes** that act as a disincentive for investment, **unattractive tax laws** generally (great in number as well), as well as **closures of programs that had been intended to attract and retain foreign investment**. Given Natalia Nosa’s comments, we may draw from this the proposition that the **national level of government and administration** may be, at least indirectly, an impediment to development and integration. The Verkovna Rada must address the many issues of burdensome tax laws and the concerns related to attraction of foreign investment. Natalia Nosa did not address any issues of political risk for foreign and domestic investors.

Although only representing a very limited number of views, and without any assumption that their views are representative of the broader officialdom in Transcarpathia, both Joseph Torpoy and Natalia Nosa offer some degree of understanding of Transcarpathia’s problems and challenges. Certainly, it is clear that during the Kuchma Presidency, the oblast’s administration has been headed for integration with Europe. Although the progress has been slow, officials such as Torpoy, Nosa, and their staff seem to sincerely support official priorities of economic development, entrepreneurs, cross border cooperation, and the often spoken westward leaning integration. It is key to remember that such priorities, or at least the rhetoric of such priorities, had been in place long before President Victor Yushchenko took office in late January, 2005.
6.3. Second segment of interviews, half a year after the Orange Revolution and Yushchenko’s inauguration as the new President (interview from July and August 2005 (Same old vodka in new bottles?)

6.3.1. Six months after Yushchenko’s inauguration, in summer of 2005, Mykailo Popovitch discussed the structure and changes of administration. Popovitch, Head of Apparatus (Structure of Administration), Transcarpathia Oblast Administration, July 21st Interview, 2005

Mykhailo Popovitch was interviewed with the assistance of Timor Tashtanov (Natalia Nosa’s skilled specialist) as translator. Popovitch addressed some aspects of the changing structure of administration and, of much interest, the newly implemented ‘One Window’ (Registration Chamber) for business registration. First, Popovitch explained that the number of departments has decreased as departments merged, and the issue of finding and hiring skilled officials remains. Retraining is not always an option. Below is a photo of Popovitch during the Orange Revolution, before his candidate Yushchenko’s victory (Popovitch, far right).

Figure 6.5. Mykailo Popovitch, far right, in Uzhgorod during the Orange Revolution (Nov-Dec of 2004. The picture is one of many now hanging in the halls of the Transcarpathian Oblast Administration building (after the victory of Yushchenko, of course). The Man with the loudspeaker is one of the researcher’s former students, Victor Schady, who led many protests in Uzhgorod and would later become elected by his district, Volovetz, to the Oblast Rada, or parliament. It is interesting to note that for many of the ‘opposition’, Ché Guevarra has been a symbol of protest against repression by government (not necessarily for Communist ideology).
According to Popovitch: the structure of administration (recall the description of administration in Ukraine and Kharkiv Oblast, as offered in the previous set of interviews featuring Irena Reaka... an administrative structure and officials of Soviet character) has been undergoing serious yet incomplete change:

“The Apparat Department organizes the offices and branches of the administration. There is a new law department now. (In the past) the old ‘common department’ did not work well, so it was broken apart into segments. We have 99 people now (in the apparat), but we really only have 78 people because we have vacancies here. Departments or ‘units’ lead (fields such as) economics, culture, health, etc. We had 33 departments (before January 2005 and Yushchenko’s victory), now we have only 20. We combined many departments. We liquidated departments within two months (after January)! So now we have 20 departments, now... there works, or will work, 384 people. 384 work places. (But there are) many vacancies... the decision of the number of workers is made by the Kabinett of ministers, but I think it should be minimized. It is my view that the number of positions should be minimized. The problem with 384... I consider it could be reduced to two-thirds (Popovitch, July 21st Interview, 2005).”

Clearly, the structure of the administration has been undergoing structural change as departments are merged together, and Popovitch seems to strongly support some degree of downsizing of positions.

Popovitch discussed matters of finding and hiring skilled personnel and a problem presented by officials that have been working for many years in their positions (Soviet or post-Soviet): “You have heard about the program of the youth coming to the state. To educate the old people here (in administration) is almost impossible. Nowadays we begin the hiring, maybe one place is available, and two to five people may want to work. We advertise in newspapers to attract people, to inform them of vacancies (he showed an example of a gazette ad).”

Popovitch mentioned that his oblast administration wanted to change what he referred to the ‘style of work’, not only insofar as departing from an ‘old style’ in general, but in a manner that may focus more reporting at the oblast level rather than the older style of departments reporting straight to Kiev (a highly centralized aspect of reporting to the national level administration):
"We want to change the 'style of work' to solve problems. (For example), we want to break (destroy) the infrastructure department, because they only work as a statistics department, reporting to Kiev! We reduce them, six people work on statistics. Thirteen people will work on developing programs for the region. We must plan for factories, equipment, etc. New plans of development and strategy...this is the new focus. We consider private and state investments (now) (Popovitch, July 21st Interview, 2005)."

Mr. Popovitch was very interested in discussing how he viewed the administration and its work as being increasingly connected to the needs of the people of Transcarpathia. In order for the administrative officials to become aware and understand the needs and interests of those living in more remote areas throughout the oblast, Popovitch explained an administrative movement that seems indicative of genuine decentralization and of very real responsiveness of the oblast administration:

"We want every department to work on its own questions. The same we do in districts (raion administrations). The main form of work is work with people. We want to make more clearly the connection of authority in oblast and in districts (raions) on the whole...the people, NGOs, etc. Communication with the people is important. We go to the districts. (Its) not such that they must come to us. Experts worked in districts. (For example,) in Friday, the head of every department will go to every village in Tachov raion, visiting every village from 9:00 (am) to 13:00 (1pm). They will (first) evaluate work being done. Then the next day will be a meeting to discuss (issues, problems). The meetings are open! Available to everyone! So it will go from Friday at 9:00 (am) to Saturday (afternoon) (Popovitch, July 21st Interview, 2005)."

Popovitch was then asked, "That's great. How long have you (your administration) been doing this?" To which he responded with enthusiasm and some degree of pride in his new administration's efforts:

"This started in January (2005)...(and was implemented) at the end of March of '05. It's our Head of Administration that begins this work. It exists in all oblasts, but not as intensive as it is here in Transcarpathia. We will visit all raions (districts) by the end of the year. The program existed for eight years, but the people (officials) did not work on this (program). Since Yushchenko's '10 steps for the people', it is more serious (since his election victory). Next month will be the Berezny district (Popovitch, July 21st Interview, 2005)."

In sum, Popovitch asserted that the administration, from department heads to specialists, is becoming more closely connected than ever before to the local administrations and citizens of Transcarpathia. Popovitch was confident that, while other oblasts are intended to have such
programs also, Transcarpathia's administration has been extremely responsive implementing such programs, where others may be more inert. He views Transcarpathia as a strong example.

On the question, “what were some of the most important or significant reorganizations of departments?” Popovitch gave an example of a reorganization that made sense to him:

“There were inside (one department of Agriculture) two departments (subunits) that functioned the same in (the) agricultural department...one (subunit) was technical, and one was statistical. (There was some redundancy) now they are combined to work together as one unit (Popovitch, July 21st Interview, 2005).” This merger of subunits seemed to be a practical and obvious improvement for the administrative structure, and serves as an example of what the administration has been attempting to do during 2005, and at the time of this writing in early 2006. The administration is, as yet, an unfinished design. Officials like Popovitch believe that they are identifying new missions for their organization, and reorganizing the old and questionably effective departments in ways that allow them to function more efficiently and in a way that is more effective and appropriate to the perceived (and changing) purposes of the administration on all levels...national, oblast, and particularly the local level.

The topic of administrative change includes the improved ‘one window’ for business registration, which will shortly be addressed in this segment in more detail. The next question was put to Popovitch: “How did the ‘one window of registration’ for entrepreneurs come about, how did it come together?” Popovitch offered his view in detail:

“As it was before, if you want to become a businessman, you yourself had to register all papers at each department, or at each place in administration (there are many, and they are at different locations). Now, you must only give all documents to one place. They will do it all for you in one week. It is done by the people who are representatives of the different branches, or departments...like taxes, pensions and retirement funds, etc. The main position, or title (of the ‘one window’) is ‘state registration office’. In every district there are one or more people that can act in state registration office (Popovitch, July 21st Interview, 2005).”

It was asked, “How does this ‘one window’ fit into the administration’s scheme of departments?” Popovitch offered:
"There was a department of registration, but they did not work for you (as a businessman or citizen). Before, you could leave some papers (with them), but you must still take them to each department yourself for (completion of) the process. It was created one month ago (in June 2005), even less, as (according to) the order of the Prime Minister (Yulia Tymoshenko). Some days each week, representatives of each necessary department will gather in the registrar’s (office). That ‘one window’ is not created under the basis of oblast administration, it is created on municipal, town, and district administrations. Every district has one or more. We (oblast administration) only control them. We train them, paperwork, etc. The less we interfere, the better they can work... more quickly and effectively (Popovitch, July 21st Interview, 2005).”

With these sentiments that the oblast administration should train those officials of the ‘one window’ and then step back to avoid interference, he seems, beyond question, to be advocating an new version of administration that is aimed at efficiency and effectiveness, and less geared for total control through rather slow moving and centralized hierarchy. Yet, ‘regarding the one window’, it can be argued that we have little evidence that would suggest a decentralization of decision-making.

6.3.2. During the administration’s lengthy 2005 reorganization under Yushchenko:
Natalia Nosa on the oblast administration’s structure, changes and the need for competent specialists. Nosa, Head of Department of European Integration, Cross Border Cooperation, and Tourism Development. Second Interview, July 14th 2005.

The second interview with Natalia Nosa took place on July 14th, 2005. The administration of Zakarpattyya had, at that time, been undergoing what officials called “reorganization” of the oblast administration. According to Ms. Nosa, the reorganization was initiated, on July 1st, 2005, only two weeks prior to the interview. She was able to offer some insight into the current and pending changes, as well as issues facing the administration. The reorganization offered little sense of stability and employment security for the oblast’s officials of any level. There had been a great deal of uncertainty, according to Nosa:

“Before reorganization, we had 26 departments. Now we have less. I don’t know how many, we are changing. We have many more main departments, and we are making for less people (downsizing, decline in numbers of people working for administration). Before we had 368 people in the oblast administration. Now we must make 20% to 30% less. It is very difficult. I have only five people in my department, and I must get rid of 30%. This is a big problem for people that work here. They don’t know if they will have jobs tomorrow (Nosa, July 14th Interview, 2005).”

232
Nosa mentioned a proposed new ministry that would offer substantial evidence of the Ukrainian pursuit of European integration:

“The Cabinet of Ministers (national level) wants to create a new ministry of European Integration. If Kiev has this ministry, then we (Transcarpathia must also reorganize to follow this. If this happens, we must create a new department focused only on European Integration. It will be a whole additional department, it will split away from today’s main Department of Foreign Affairs, European Integration, CBC (Cross Border Cooperation) and Tourism. This (main department) was created and put in place just two weeks ago (this new department, hence, may already be destined for another reorganization) (Nosa, July 14th Interview, 2005).”

Nosa anticipated the creation of a new administration that will include a ministry, not just a department, which would be dedicated toward European integration. The fact that the proposal is a serious point of discussion at the national level is an indication of the Yushchenko administration’s commitment to the European integration.

Nosa explained difficulties in finding good specialists, as, after Presidential elections and the resulting change in leadership, new officials are expected to replace old ones of the previous President.

“Under Kuchma, I was Head of the main department. But after the Orange Revolution, everyone that was working under Kuchma was supposed to go away from the administration (terminated employment). But they could not find a good specialist to replace me. So, they made a less visible place for me by making the small branch of European Integration and CBC. I am glad because it means I am (at least a good) specialist (highly skilled specialist). (Under Kuchma), I had five people below me, and I have five below me now. But, I have six directors over me, up to the governor. After the reorganization when (and if) the European Integration and CBC becomes a main department, I will possibly be a head. (Nosa, July 14th Interview, 2005).”

Due to the change in Presidential leadership, Nosa has been moved down from a head of a department to specialist. She attributed the fact that she was not terminated, like many other officials, to an inability of the administration to find qualified replacement for her. Perhaps this offers some hope for the administration, since there appears some willingness to retain an official based on competency and skills. But, it is not clear that officials that lost their jobs were incompetent. Perhaps political loyalties were of utmost importance for the majority of positions at the oblast administration.
When asked about what she thinks of the very recent and continuing administrative reorganization, Nosa was critical, and noted how the structure is not well adapted to the nationally espoused mission of European integration:

“I don’t like the structure now, because European integration is a big priority for Ukraine, but we don’t have a structure that supports it. We don’t have a main structure aimed at just European integration (not yet). It must be a separated department from the CBC (Cross Border Cooperation) and Tourism. Maybe it can include CBC, but not Tourism... because we deal with many countries about tourism (Nosa, July 14th Interview, 2005).”

For Nosa, while it make sense to include the narrowly focused “CBC” within a proposed department of European Integration, as a broader main department, tourism does not belong as a sub department of European Integration for the reason that Tourism should not be limited to issues and concerns of only Western European countries. This is especially true, given Ukraine’s geographic location and history.

Nosa continued to discuss the matter of the very new structure of administration, as she was very concerned for the issue of difficulty in finding, hiring, and maintaining a staff that is not only sufficient in number, but also in quality of skills and abilities as well:

“Also, it (the new structure of the anticipated “European Integration Department”) must be a strong organization. A lot of people must work. Four or five is not enough. We need to go take ten, maybe twenty (specialists). But four specialists is nonsense. It’s nothing. Here, we must deal much with Romania, Hungaria, Slovakia, and Poland. Four is not enough. After January 2005, I have (now) only one specialist! This specialist must do everything. From January of 2005, after the election of Yushchenko, all specialists must leave the department (must be terminated from their positions). We stayed (kept on) only one specialist, Timor Tashtanov (Nosa, July 14th Interview, 2005).”

She was then asked, “Why or how was it possible to keep him?” Her reply showed strong loyalty and commitment to a specialist that she believed was talented, if not even critical, to the administration at that time.

“Because he is very clever. It was impossible to have him out (lose him). (When pressured to terminate him) I said no... I will not give up Timor. If he must go I will go. He has all information and skills. It takes some time to train such a person. A new person needs to be trained maybe one half year to one year (Nosa, July 14th Interview, 2005)."
After making her strong stand against the previously sought firing of Timor Tashtanov, an action that she was sure would have been an erroneous directive from above, Natalia Nosa’s arguments made on behalf of her competent specialist prevailed. The competent specialist was retained for his competence.

Ms. Nosa was asked to comment on the type of specialists that are necessary for her department to be effective, and on her personnel needs at present. She revealed what some may find surprising, perhaps counterintuitive, given that Nosa, a successful female official, may be expected to have a ‘mentalitet’ that might be very sympathetic to the career pursuits of women.

“I need two specialists. I need a person that speaks English very well. I prefer men to work
(Nosa, July 14th Interview, 2005).” She was asked, “why men?”

“Because women take pregnancy leave. Often. It’s a big problem. They can take three years with social support, 99 rph per month (just under $20.00). During this time she can work elsewhere to make non-official salary. They can extend it for up to six years without pay. Then they are guaranteed to come back to work in administration at her (their) position. When she (as any woman in Ukraine) takes (gives birth to) a child, she also takes a one-time payment of 8,000 rph. In order to make another 8,000 rph, she must only come back to her position for one month and take the one-time payment (the 8,000 rph) and another (additional) $20 per month (99 rph). Yushchenko put this in place. It’s a big problem now, because many people, especially gypsies (Roma) are in the business of making children. (They are paid) 8,000 rph each time. They even try to induce pregnancy to birth at seven months so they can make children faster and get more money over a period (Nosa, July 14th Interview, 2005).”

Thus, Nosa perceived negative effects from what she understands to be Yushchenko’s flawed national policy regarding social security payments to pregnant women in Ukraine. For Nosa, as she understands, even if she can find good specialists that may be women, women may present risks to directors and heads, as they are likely to abuse available time off after pregnancy, with some state income for up to three years. In addition, women may extend leaves of absence for up to six years. Then step back into their former positions. Unfortunately, this will create problems. Nosa expects, as she has been in dire need of greater numbers of qualified staff.
After a potential six-year absence, any employee can be expected to require substantial retraining. Men, on the other hand, have no ability to abuse time off for pregnancy.

Exactly what kind of specialists has Ms Nosa been hoping for? What are the most important aspects? She explained: “We need high education. Jurist (lawyer) or economist. With knowledge of English, plus Hungarian, Slovakian, French or German. Maybe Romanian. And a high level of skills with people. Communication skills. (He/she) must not be afraid of new people. Friendly. Able to present (one’s) self to others. Smile. American smile (big, cheerful). We can pay up to $100 per month.” Opportunities for people with such skill are very real in Transcarpathia. Personal connections are not the only means of attaining employment.

Regarding economic development and the opportunities for entrepreneurs in Transcarpathia, Natalia Nosa offered her views on existing opportunities for new business activity:

“First, Rent. (There are) no places to rent. People want houses, apartments. Nothing new is being built. Second, people cannot use credit cards at stores to buy things. (Its) important for tourism and business with EU people such as from Hungary and Slovakia (Nosa relates the opportunity to European integration). Third, contraband...cigarettes, gasoline, such things (locals earn money by smuggling cigarettes, gasoline and alcohol across the EU border at Zakarpattyja (Transcarpathia) into regions that demand higher prices) (Nosa, July 14th Interview. 2005).”

It was interesting to hear that smuggling is one of opportunities for business, according to a fairly high level administrator in Transcarpathia. Yet, the Oblast of Transcarpathia, with borders on several European countries has, as part of its reality, serves as a busy location for cross border smuggling.

In sum, Natalia Nosa offered a valuable and candid view from within the administration. She has noted the difficulty and importance of finding and retaining an ample number of qualified specialists. She has described a very dynamic and unfinished nature of the structure of administration as it is in the midst of serious reorganization from 2005 through the
winter of 2006. While reorganization has been attempted during 2005 after Yushchenko’s victory, and due to his victory, it is by no means complete.

Natalia Nosa was certainly not convinced that the structure of the administration, as reorganized at that time in the summer of 2005, is well matched to the purposes and missions of several administrative organizations (departments and subunits). Administrative change is ongoing and its design seems incomplete (or at least very malleable) at the time of this writing. In any case, one point is very clear: the national administration of Ukraine has given strong evidence regarding its sincere aim toward European integration. If a new ministry of European Integration is implemented, there must be no doubt. Nosa substantiated that, for Transcarpathia, many aspects of the oblast administration have been geared toward European integration, particularly with regard to the CBC, the cross border cooperation that had been extended by the EU.


An interview was held with Olexander Zhulkanych on July 13th, 2005 at the oblast administration building. Just over one half year since the Orange Revolution occurred, the two main questions addressed in the interview were: “What has the administration of Transcarpathia been doing to support the creation and development of SMEs, and to support economic development generally? Since January 2005? In your view, what are the most important obstacles for economic development, generally, and more specifically, the creation of and development of SMEs?” Olexander Zhulkanych responded openly, recognizing political confrontation between parties as being significant, while praising the newly designed concept and office known as the ‘One Window’ for business registration:

“Now Ukraine is in an important position for change. It may have a good future. It is most important that people realize that they can have a good life. It is a change that has started to take place already. But, the problem is still open, because we still have a
confrontation between parties that used to have power (prior to the Presidential elections of the fall of 2004) and the political parties that we have now. We will see in the next elections. The main point that was improved, that concerns small business development, is that one person (entrepreneur) can go to one department to have all questions and problems solved in one room (the “One Window”). People no longer have to go to many departments for what they need. The governors (of Ukraine) believe that without developing small business there will not be a continuous improvement in the state economy. (To this end), since Yushchenko (took office), the government and President has been paying more attention to younger talented people, trying to get them involved in the administration. We (in administration) are all happy that we will have the situation fixed, that we will have a more stable economy (Zhulkanych, July 13th Interview, 2005).”

Zhulkanych has suggested that the recently elected President and the government are serious about facilitating small business growth, as he holds up the newly implemented “One Window” as evidence.

**Figure 6.6:** The “One Window”, intended as a convenient Registration Chamber for New Businesses. The office is on the first floor on the far right side of the building.
Bringing in younger administrators seems to be additional evidence of a sincere attempt to improve the effectiveness of the administration.

Zhulkanych spoke on the importance of investment and integration with Europe, and seemed optimistic about the opportunities for Transcarpathia:

“But, the problem now is that we need more investors. We have, for example, Volkswagen, Skoda, etc. More foreign businesses help to develop more foreign ties. Ukraine cannot do it on its own. We depend on foreign and neighboring countries, particularly on borders, such as Slovakia and Hungary are important to Zakarpattya (Transcarpathia). Zakarpattya has a unique position because it borders on four countries. The character of those countries differed as they entered the EU. The center of Europe is situated in Zakarpattya, near Rhakiv. Many people who live here in Zakarpattya may be from different ethnicities, nationalities. It helps that people come here. The economy of the region pays attention to mineral water, gold, etc. There are great possibilities for development of tourism, especially in the Rhakiv district (extremely mountainous, in the east of the oblast). One thing that is desired is (that) the infrastructure of the region should be improved. Tourism is the main branch or field where prosperity may be developed. So, the administration now pays most attention to the development of tourism and machine building... high tech fields of sorts, like wiring harnesses for automobiles. The government wants to put money into these two fields. The government has the opportunities to invest in industries that concern minerals and wood. There were times when products such as our wine were transported throughout Europe (Zhulkanych, July 13th Interview, 2005).”
Zhulkanych asserted that the government/administration in Transcarpathia maintains an active role in fostering economic development regarding businesses of larger size (wire harness building) as well as small size (tourism, wood crafts).

The question “What, in your view, are the most important problems or obstacles for economic development?” was posed for Zhulkanych, who offered that politics is important and rule of law may be on the horizon for Ukraine.

“The problem may be in the political field, because we have elections soon, and we are still waiting for the results of the next election. And (also of importance), the political confrontation that involves the old powers (parties) and the new powers… the new powers are trying to use new methods, trying to make development according to legal methods, to laws. These new methods include the study of business. It includes the principle of the “One Window”, so that (whoever) wants to start (a) business can go to only one place or one person in administration...(one person) who will have enough knowledge and skills to help him…one window. People should not need to go to many institutions as before. The government is trying to help development of small private business (Zhulkanych, July 13th Interview, 2005).”

Zhulkanych understands the new parties and powers, those that support the recently elected President Victor Yushchenko, as trying to improve the environment for businesses and interested entrepreneurs by consolidating a viable rule of law and by implementing administrative offices that are charged with the responsibility of streamlining the process of new business registration, for example.

For more depth, Zhulkanych was asked the follow-up question, “How is the government trying to help (development of small private business)?” He responded:

“First, (trying) to write new laws in parliament. Next is corruption. We are trying to improve, trying to solve problems that appear because of corruption (Zhulkanych, July 13th Interview, 2005).” What problems appear because of corruption? Zhulkanych answered by addressing a recent change that was intended to improve the situation of corruption in Ukraine: the anti-corruption telephone hotline to the President’s office.
“(Now) there is an opportunity for the people to speak to the President (Yushchenko at this time), to call if they notice some corruption. It is for the people inside the administration as well as outside (the administration)...for all people that may notice corruption. This just happened last week (early in July 2005)! This is a direct telephone line to the President’s administration. Staff in the President’s office will answer (the phone), and if it’s a real burning problem it will be passed to the president himself (Zhulkanych, July 13th Interview, 2005).”

This direct line to the President is maintained in a room on the first floor of the Oblast administration building, just across from the main entry and the guards who act as gatekeepers and monitors of activity. The room is dedicated to the purpose of the telephone hotline to the president. An engraved plaque near the door reads, in Ukrainian, “Secretariat of President of Ukraine, Kabinett (Office) of the President of Ukraine, Office for Questions Addressed by Citizens.” See pictures below.

**Figure 6.8.** The entrance to the ‘Office for Questions addressed by Citizens’ (to the President), which contains the telephone hotline to the President’s Office.
Figure 6.9. Close-up of the plaque at Office for Questions addressed by Citizens, proudly displayed just a few meters from the Transcarpathian administration building’s front entrance and the guard’s station.

Any administrator or citizen who notices corruption and desires to report it via the hotline must necessarily be seen to enter into this room, which centrally and visibly located at the front entrance. Perhaps such high visibility will have the effect (intended or unintended) of deterring placement of such calls, relegating the new anti-corruption hotline to a merely symbolic function. Unfortunately, during the month following the interview with Zhulkanych, the researcher was unable to discover any citizens outside the employment of the administration who were aware of the existence of the anti-corruption hotline to the President’s Office.

Oleksander Zhulkanych made an interesting observation involving the attitudes of the new government and a perhaps a new sense of self-efficacy on the part of the people of Ukraine: “So, the main point is that the first stage was done, that the government believes in the people, and the people started believing in themselves, that everything depends on them. It
is due to the Orange Revolution (Zhulkanych, July 13th Interview, 2005).” Zhulkanych added that the new attitude of what may possibly be termed ‘empowerment’ is visible throughout the levels or administration, from the President downward: “Now, the President pays attention to regions (oblasts). It depends now on the regional (oblast) governments. They can decide more about what industries are important (for each of them) (Zhulkanych, July 13th Interview, 2005).” This raised the question, “So, the regions (oblasts) have more autonomy?” Zhulkanych offered: “Oblasts may have more autonomy, and (input on) where to invest more money, and what problems are burning and need to be resolved. The local oblast budgets should depend on what people see as important here (at the oblast level of administration) (Zhulkanych, July 13th Interview, 2005).”

Oleksander Zhulkanych offered interesting and valuable perspectives on the problems and opportunities for Ukraine and Transcarpathia. One very specific action by President Yushchenko in order to facilitate the creation and development of business in Ukraine is the recent establishment of the ‘One Window’ for registration and other services. If it works, the ‘One Window’ should geographically centralize officials from various departments that are relevant to businesses, simplify the bureaucratic process, enable entrepreneurs to obtain timely and useful advice from skilled officials, and help to decrease overall corruption by eliminating bribery and extortion from this aspect of administrative activity.

6.3.4. Joseph Torpoy on the “One Window”, Registration Chamber and reasons for optimism. From follow-up interview with Director Joseph Torpoy on July 13th, 2005

On an interview with Director Joseph Torpoy on July 13th, 2005, Torpoy elaborated on the “One Window”, an office that was so new that many officials in Transcarpathia were unsure of its services and effectiveness:

“There are three main places (to go) if you want to organize a business.
1. Tax inspection.
2. Social Funds and Pension Funds, Social Assurance, like (social) security.
3. Unemployment center.
Things are getting better. Now these three things are all in one place (they had previously been located in offices that were in buildings inconveniently scattered across the city of Uzhgorod, each requiring lengthy and frequent visits)...and there is no more need to pay bribes. You go to the office at the Town Council Building at Poshtova Square, you (simply) say ‘I want to be a businessman’ and they send you to the department (Torpy, July 13th Interview, 2005).”

According to Torpy, the ‘One Window’ office, also known as the ‘Registration Chamber’, should be open everyday from 8am to 12pm in the centrally located Town Council Building.

Each Oblast must have at least one. The Town Council Building, which actually houses the ‘One Window’ chamber for registration, is by coincidence, immediately adjacent to the much larger headquarters for the Ukrainian Security Services, formerly the KBG building (see photos of the building that houses the ‘One Window’, which appeared previously).

If the “One Window” can actually accomplish its mission of assisting entrepreneurs of all types to create business in an expediently and without bribery, perhaps it can be asserted that the administration of Ukraine, both at the national and Oblast levels, is making very genuine and effective progress in facilitating the creation and development of business. Torpy asserted that the One Window is truly expediting the registration process for the establishment of business: “Now it takes one week to make a small business. A few years ago it took many months, maybe three (Torpy, July 13th Interview, 2005).” Torpy attested to the fact that entrepreneurs, in the past, faced long delays in registration of their firms.

6.3.5. The view from the First Deputy of Oblast Administration and the Head of the prestigious Economical Department on problems and opportunities: Oleg Havashi, First Deputy Head of Transcarpathia Oblast Administration, and briefly joined by Volodymyr Hoblik, Head of the Economical Department and Deputy Head of Transcarpathia Oblast Administration, July 20th Interview, 2005.

In the Governor’s office at the Oblast Administration building, the ‘Bilé dom’, or ‘white house’, an interview with the Oblast’s ‘First Deputy Head’ (a position just under the position of Governor) was obtained. Oleg Havashi was willing to speak about the topic of changes in administration and also about his views on problems for economic development in Transcarpathia, though he suggested that the researcher visit Volodymyr Hoblik, Head of the
Economical Department. It was inquired of Oleg Havashi "Is it possible to speak of the administration’s current priorities?" Mr. Havashi responded: "It is most important to make the people believe in the new government...since January (2005) (Havashi, July 20th Interview, 2005)." After the mentioning of the need for such a new mentalitet. Havashi noted that the oblast considers the problem of flooding of the mountainous region to be of great importance. Flooding has presented a problem for Transcarpathia’s special economic zones (which have closed), and according to Havashi,

"our special economic zone is (was) one of profit...we hope to solve this problem, and (also) create technology parks (Havashi, July 20th Interview, 2005)." Havashi noted another important problem for the mountainous region: "(there is) the question of forests and forest managing. There are many people that can take wood illegally (Havashi, July 20th Interview, 2005)."

Enforcement of laws that restrict the cutting and trucking of timber has been problematic in Transcarpathia.

During the interview with Oleg Havashi, Mr. Havashi requested by office telephone that Volodymyr Hoblik join in for a brief introduction and discussion. Mr. Hoblik responded to the question, "what is the biggest problem for Transcarpathia now?"

"Transcarpathia has the problem of unemployment. It is improving. It is better than it was three or four years ago. There is (was) the law of the special economic zone (which) was cancelled. So, there is a problem of employment (as a result). Some proposed plants (factories) such as to create 6,000 workplaces, were cancelled. Cancelled as plans. But, we can see an increase in investment in small business. The (number of) workers (employed) is increasing, but not great. We plan to increase this number (Hoblik, July 20th Interview, 2005)."

On the question, "how will you increase that?" Oleg Havashi mentioned the importance of small business and the problems and implications of the shadow economy.

"Investments in factories are cancelled (cancellation of the law on special economic zones), so we are redirecting our investments in small business...improving small business employment. So, it’s still a problem of employment, since we lose 6,000 workplaces and gain few. The next problem is that people often receive their salaries ‘in an envelope’, like under the table. The tax office must now work more efficiently, more effectively (to maximize tax collections). The problem is easy to solve. For example, a hotel...maybe there is a bar, restaurant, café, pool, and parking for 40
people. You can easily see great activity (much business, many customers). Four people (official employees) cannot manage that (volume) activity alone. So, we can visit them and investigate (Havashi, July 20th Interview, 2005).”

Havashi has identified the need for better enforcement of laws relating to the reporting of employees by businesses, since business must pay taxes based upon salaries and wages.

Currently, there is no yearly income tax to be paid by individual employees in Ukraine. The result of firms’ underreporting numbers of employees and their wages has a negative effect on the taxes collected in the Oblast, and more broadly in Ukraine. The shadow economy is everywhere.

Havashi was asked, “In what way are you able to redirect investment to small business”. He responded with the following on the relevance of larger business firms:

“The question is not just about redirecting investments. There is a Ukrainian external image that is better this year. Interest in factories and bigger business will bring investment in small business. We will get great results by focusing on greater factories, which will be followed by increases in small business. A special economic zone, which lets businesses have products (import) without duties, is (would be) good. A techno-park, a special economic zone can help… like a free trade zone (Havashi, July 20th Interview, 2005).”

In the past, the special economic zone in Transcarpathia had been composed of several larger firms. Certainly, no small business had been included. Havashi mentioned that large firms such as ‘Flextronics’ and ‘Eurocar’ and a few others had participated until the termination of the zones.

6.3.6. Elaboration on problems for economic development and significance of the “One Window”, by Volodymyr Hoblik, Head of the Economical Department and Deputy Head of Transcarpathia Oblast Administration, July 21st Interview, 2005.

In a follow-up interview, Volodymyr Hoblik thoughtfully discussed the question.

“What problems do you see for economic development?”

“They are the same for Transcarpathia and for Ukraine. We think we must solve problems by ourselves.

1. The first task for us is the defense of territory against disaster, such as floods, like 1998, 2001. We developed the program for the long term. We think the Kabinett of Ministers will approve it. We must spend the money in small portions. We can’t wait. The next flood could destroy all we have done if we don’t (finish this).
2. Second, we have 25% of the population that lives in the mountain villages. These mountain villages are defined... 205 villages in Transcarpathia. The status of a 'mountain village' depends on how high it is. It depends on temperature. Mountain villages are far removed from this city, Uzhgorod. We must be sure that investments get to reach the remote towns, villages. We must do this with tourism, not factories. We have 13 regions (raions, or districts). Two districts of 13 are almost entirely in the mountains. One is Volovetz, and also Rhakiv. These mountainous regions, they have status. They have more support from the government, more people, more money.

3. The third problem is border infrastructure. It is a very important problem (here in Transcarpathia) because we have four borders. Romania will soon be a member of the EU in 2007. We would like that Transcarpathia is a visiting center of Ukraine. Roads, infrastructure, etc, must all be of standards of the EU (Hoblik, July 21st Interview, 2005)."

Hoblik focused on the need to get investment to the rural regions, rather than focusing on issues of larger firms and special economic zones, or effective tax collection, as Havashi emphasized.

Next, Hoblik pursued a discussion on the Transcarpathian region’s unique ‘mentalitë’.

“Our mentalitë differs from other regions of Ukraine. Because here, there are now people who have lived in six countries...various cultures. I think that in their mentality, people are ready for it, for change. People here (Transcarpathia) work abroad in Europe and they absorb other cultures. We have here 100 or so nationalities. Yet, during these (last) 100 years there never was ethnic conflict. People speak many languages (at least 13 in Transcarpathia). (For example) If we are Catholic, with Easter, our neighbor is Orthodox. He does not work when he has a holiday... and we don’t work in respect of his holiday (Hoblik, July 21st Interview, 2005).""

The mix of ethnicities and many languages is surely evident in Transcarpathia, as is the fact that Transcarpathians have a long history of leaving the economically poor region for work abroad in Europe. The following photo is symbolic of the mix of ethnic groups, classes, languages and traditions in Transcarpathia.
"What are the priorities of the (Transcarpathian) administration?" Hoblik went into some thoughtful detail, holding the creation of jobs and subsequent increase in the tax base as very important:

"Transcarpathia has always been on the periphery. The money flows from Kiev back to the big cities, mostly. That's why we did not develop to be rich (the oblast of Transcarpathia). We did not have many industries because we are a mountainous region. Transcarpathia is rich in raw materials, for example forestry and gold. I was the first director of the state plant of this gold. At that time, Yushchenko was Head of the National Bank. People struggle with the creation of new work places. I think that the creation of new work places is most important. If it is good (creation of new jobs), taxes will be better (increases in volume of taxes collected), prosperity better. We aim to create 33,500 new jobs this year. In the first four months, we have created 16,000 jobs here (in Transcarpathia). Now, we are feeling that investments are flowing in (into Transcarpathia). From Hungary and other countries, investment comes in. Salaries, oil, petrol are all less expensive here. The investor sees that the professional level of our people is high. Yet, not in the mountains, (is there) much investment. In Uzhgorod and Mukhachevo (neither is a mountainous city) there is much competition of investors, more industry. (But,) the investors must hide their salaries. (Some significant investors include) Wysoki... Japanese, Volkswagen, Skoda (Slovakia), Audi, IKEA (Swiss furniture company) (Hoblik, July 21st Interview, 2005)."

Hoblik maintained that the administration must hold job creation as most important for the administration, as it is anticipated to add to the tax revenues and build prosperity.
The administration must realize that the climate for potential and current investors must be made more attractive to them.

Hoblik explained the problems faced by investors that lost incentives recently with the cancellation of the special economic zone’s customs preferences.

“Now we have a problem. When companies started here in the special economic zone, they had special customs preferences. But a new law this year in 2005, in the middle of this year, cancelled these preferences. So, the investor falls asleep, and wakes up and the rules are changed. He lost his preferences. They must decide whether to keep working here. For example, Peugeot wanted to build here but now their investment will go to Romania or Bulgaria (Hoblik, July 21st Interview, 2005).”

This amounts to quite a shock for investors that have invested heavily in factories and equipment.

Hoblik noted that economic development is not only about levels of investment, job growth, or measures of wealth, or prosperity.

“People like to say that Transcarpathia is a very poor oblast. But, I don’t like to say so. The UN index of Human Development...one indicator is the longness of life. It combines rich salary and how people live...level of education...per capita production. We must have this indicator here. But we need to calculate it (Hoblik, July 21st Interview, 2005).”

While Transcarpathia is certainly rich in culture, and while residents boast high levels of education, the serious problems with availability of effective and expedient healthcare remains. It is unclear that longness of life is a quality enjoyed by many Transcarpathians.

Regarding income levels, Hoblik asserted that precise levels are difficult to define, and many people are working abroad and bringing the money home:

“We, in Transcarpathia, have an average 620rph salary (about US$124 per month), which rates at 16th of all oblasts. We must see how the population lives, not just look at statistics. Last year we had over $60 million in investments in Transcarpathia. We must create workplaces here. A UN representative recently said that 7 million people from Ukraine work abroad (out of approximately 48 million). We figure about 100,000 Transcarpathians work abroad. We see quantity of cars, quantity of money in banks. In Poltava, they have a higher salary, and much more business than we have. Here, it is hard to judge salary (on average throughout the oblast), because so many people work abroad. But, people bring much money back here and invest in buildings. People are investing in flats now, and for their children. People are also investing in children’s
education. In the past, our people invested in building. Now they invest in people, in education (Hoblik, July 21st Interview, 2005)."

There is no doubt that investment levels have been increasing throughout Transcarpathia, as remodeling of many buildings, flats, stores and churches is highly visible, as is expanding business for increasingly popular building and renovation supply stores.

Hoblik also noted the importance of education, particularly the need to improve education and other services for the rural villages:

"In 1973, when I started, one salary was enough to live on and to buy a car. I had to work as a specialist in a village (by obligation). Now, Yushchenko wants the same (obligation for all). Specialists, doctors, etc., should go to work in villages. Also, people from villages do not need to pay for education in Universities...if (and only if) they can reach a high level on exams (throughout school and on entrance exams). Therefore, we must (Hoblik, July 21st Interview, 2005)."

Improvement in education at lower levels in village schools is necessary to guarantee an opportunity for education for village students, since minimal incomes in villages cannot realistically pay for expenses of any university should the student have less than excellent grades and test scores. Hoblik was one of the few administrators that expressed in interviews any interest in enabling more school students to have access to higher education (Torpoy had addressed this issue as well, from a Hungarian-Ukrainian perspective).

Volodymyr Hoblik was very specific in response to the following important question:

"What are the most important problems for small business?" Hoblik asserted with confidence:

"There are two problems. First, you must have capital. We must give people what they want to start... to give people (tax and/or customs) preferences for 2 years. Second, The President (Yushchenko) wants us to minimize the process and length of registration... to minimize the number of days it takes. Here, the entrepreneurs must take two or three months to register. Then (by that time), he does not want to open business! He must take many months.

Now, the President Yushchenko, two months ago, said that he wants all entrepreneurs to be registered in only 3 days (maximum) from the date of application. It must be finished, in place by August 1, 2005 (this interview took place just several days prior to that deadline, on July 21st, 2005). Here we have the ‘One Window’ (as the key, the result) (Hoblik, July 21st Interview, 2005)."
Hoblik continued, emphasizing the significance of the ‘One Window’ as a solution to the painstaking and costly delays of the past, delays that were effective disincentives for potential entrepreneurs or investors:

“Here, at the ‘One Window’ leaves all his documents at the office. Passport of entrepreneur...all personal and bank data...the ‘entrepreneur’s passport’. He leaves all information at the office and it is transmitted to all offices by email. The decision of the president is that we must be able to do this in three days only (maximum). It is to be simple and easy (for the entrepreneur). It works now... it only takes three days now! It works now in every district, there is one official called the ‘registrator’ of business. It works now in three days in every district in Transcarpathia. I cannot say it works now (yet) in every oblast. It began to work in just three days, in (as of) July 1st (2005) (Hoblik, July 21st Interview, 2005).”

Hoblik was very excited to report that the ‘One Window’ was not only open but it was working effectively (at least one in each Transcarpathian district, or raion) in its ability to register businesses within the President’s three-day maximum.

Hoblik closed with an optimistic comment on the mentalitet of his Transcarpathian people: “I think our mentalitet is good... full of kindness. Everything comes from the soul. No conflictedness. The man is one, by his own. He is independent, makes decision by himself. If something goes wrong, you must not blame someone, you must look to yourself (Hoblik, July 21st Interview, 2005).”
Mr. Hoblik’s understanding of Transcarpathian mentalitet seems to reflect strong and rugged individuals of the mountainous oblast, yet it may not be easily squared with the fatalist element that so many, including Transcarpathia residents, often attribute to the Slavic soul, or Russian soul. Of course, it may be reassuring that an official so high in the administration is fully confident that his people, including his administrative officials, can achieve their objectives, taking credit for individual successes and failures alike. With this mentalitet is the ambition for positive change, for economic development and prosperity for the comparatively poor oblast.
Figure 6.12. In the distance of the center stage, Mr. Hoblik, in the Khaki pants and tan shirt, speaks in Torpai, Hungaria during a celebration and festival of the first annual "day of friendship" to an audience of several hundred. His message was clear: Ukraine and Hungary must learn from each other, and Transcarpathia must learn from the successes of Hungarian neighbors as Ukraine aims toward integration with Europe. Three autobus-loads of Transcarpathia Oblast's high and mid-level administrative officials and staff attended the lively festival. It appears that, in his interview, Mr. Hoblik seems to have been very sincere. August 2005.

Pictured above, Volodymyr Hoblik's attendance and speech in a neighboring region of Hungaria provides some evidence that he was serious about economic development and westward leaning integration toward Europe and the EU. He spoke of friendship, cooperation, trade relations and prosperity, and an improved rule of law for Ukraine. In short, openness, not isolation in any way, was Hoblik's theme. It is worth noting that, just as many officials interviewed in this case study, Hoblik seemed always to speak with great sincerity and concern for his Oblast of Transcarpathia.
6.4. References for Chapter 6, Transcarpathia Administration

6.4.1 Referenced websites


6.4.2. Referenced Administrative Officials from Transcarpathia Oblast:

Joseph Torpoy, Director of the “Center for Ukrainian and Hungarian Regional Development” in the Transcarpathian Oblast Administration, Ukraine. Interviewed on January 25th 2005.

Natalia Nosa, Director (Head) of the Department of European Integration and Cross Border Cooperation in Uzhgorod, Transcarpathia Oblast Administration, Ukraine. First interviewed on January 21st, 2005.

Olexander Zhulkanych, First Deputy (director) of Department of Economy. Transcarpathia Oblast Administration. Interviewed on July 13th, 2005.

Natalia Nosa, Head of Department of European Integration, Cross Border Cooperation, and Tourism Development. Second interview, July 14th 2005.

Oleg Havashi, First Deputy Head of Zakarpattya Regional (Oblast) Administration, and briefly joined by Volodymyr Hoblik, Head of the Economical Department and Deputy Head of Zakarpattya Oblast Administration, July 20th Interview, 2005. Mykhailo Popovitch was interviewed with the assistance of Timor Tashtanov.

Volodymyr Hoblik, Head of the Economical Department and Deputy Head of Zakarpattya Oblast Administration, July 21st Interview, 2005. Mykhailo Popovitch was interviewed with the assistance of Timor Tashtanov.

Mykhailo Popovitch, Head of Apparatus (Structure of Administration), Transcarpathia Oblast Administration, July 21st Interview, 2005. Mykhailo Popovitch was interviewed with the assistance of Timor Tashtanov.
CHAPTER 7

CASE STUDY OF THE CREATION OF A SMALL BUSINESS 'START-UP' IN TRANSCARPATIA: FROM CAFÉ "RUSSKI CHAI" TO THE FIRM "NEW HORIZONS OF TRANSCARPATIA", OR "НОВИ ГОРИЗОНТИ ЗАКАРПАТТЕ"

7.1. Introduction to the Transcarpathian case study

Similar to the case study of Koodreashka in Kharkiv, funding for the start-up business in Uzhgorod, Transcarpathia, which is also to be directed by a Ukrainian citizen, has been provided by the researcher in a manner that promotes an attempt to conceal or at least de-emphasize the researcher’s involvement. Just as in the Kharkiv case study, this is done for the same three reasons. First, it is an attempt to avoid bias and a possible façade by the Transcarpathian Oblast Administration, a façade that may present an falsely positive image of what the administration is actually doing to foster economic development, particularly with attention to domestic small business. Again, just as in Kharkiv, it is expected that an American, as foreign investor, may be treated differently (positively or negatively) from an ‘ordinary’ resident and citizen of the Transcarpathian Oblast of Ukraine. Secondly, such de-emphasis of the researcher’s involvement is done to facilitate an attempt to ascertain whether the officials’ words, as expressed in interviews, are consistent with their actions in day-to-day affairs, regarding economic development and the supposed concern for any individuals interested in domestic small business development. Third, just as in Kharkiv, a significant objective of this Transcarpathian case study is an attempt to provide friends with the means to escape poverty. The start-up small business in Uzhgorod is conducted in an effort to help raise the standard of living of several families throughout the oblast. Just as in Kharkiv, the Transcarpathian case study is far more than research, more than a merely a view from the outside looking into how the administration fosters development for small business entrepreneurs. As in the Kharkiv case study, it is hoped that in the second case study of small business creation in Transcarpathia, individual creativity and will yield insights for the art and science of
comparative politics. Hopefully, both case studies may help convince Ukrainians that one may create and maintain a small business without having the personal connections and requirement of overwhelming burdens of the payments of ‘extra money’.

As in the prior case study, if the small business should become successful, the anticipated result is an improvement in the daily lives of friends and their families. More remotely and indirectly, and as had been hoped for in the Kharkiv oblast study, perhaps the publication of any positive illuminations for the Transcarpathia Oblast administration’s support for small business and economic development may help expedite Ukraine’s goal of Westward integration.

Coverage of the Transcarpathian small business case study will involve the director, Olha Zinchenko, several people involved in consultations, and their attitudes and experiences with oblast/municipal administration. Mirroring the prior Kharkiv study, topics include the probability of creating a legitimate tax-paying business, the concerns for likely bribes and extortion (‘extra money’), informal relations (including possible ‘payments’) with tax-police inspectors or fire inspectors each month, and organized crime.

In Uzhgorod, Transcarpathia, the nature of the small business had been initially been intended to be a small upscale tea and coffee café called “Russki Chai”. However, as our hired architect, a woman that also worked for administration in the architecture department, had explained early on, the city executive committee was required for permissions to change all places of residence to places of business, and also to give permission for operation of specific forms of business such as café, office, or store. The architect informed the firm’s director, Olha Zinchenko, that the city executive committee, a political body, had just recently decided to halt permissions for the café’s and restaurants on the first floors of the Soviet apartment building in that region of the city. The result was that the documents required to petition the local government for re-designation of the first floor residential three bedroom apartment as “a
place of work", and also for permission for reconstruction had to be rewritten, indicating that
the location would become an "office" (it could also have been a store or place of education,
for example). Thus, the firm would later become registered not as "Russki Chai" as planned,
but as "New Horizons Zakarpatty", or in Ukrainian, "Нові Горизонти Закарпаття"
(phonetically spelled in Latin letters as "Novi Gorezonti Zakarpattya". The mission of the firm
changed radically due to the disposition of the governing body, as it seemed disinterested in
and set against allowing another café to be created in the region on the street "Prospect
Svobodu".

In addition to Olha Zinchenko, the director of the Transcarpathian firm "New
Horizons", other people encountered but not necessarily interviewed in the small business case
study include: lawyers, (discussed extensively as they offer consultations regarding the creation
of a business entity), repair and construction ("remont") firms, translators, neighbors of the
salon (quite similar to Kharkiv's case study, neighbors attempted extortion for the sake of their
cooperation, another problem for development of domestic small business). Also in the fashion
of the Kharkiv case study of Koodreashka, we will consider whether the opinions of several
professors seem to run in a consistent fashion to the claims of the oblast administration. We
will consider whether their views reflect perceptions of positive and significant changes in the
administration, or perhaps only a few meaningful changes since the Soviet Union.

It was first in Transcarpathia, specifically Uzhgorod, where the researcher first heard
residents often express how difficult, if not impossible, it was (and is) to start a legitimate small
business. The Kharkiv and Transcarpathia Oblasts, despite many differences in geography,
urban/rural qualities, size and type of economy, and ethnic/religious identities among their
respective residents, many attitudes toward authority are help in common. Fear of 'organized
criminality' is supplanted by fear of the arbitrary application of laws by a tax police who carry
sidearm weapons. It seems arguable that in Transcarpathia, the organized criminals have more
legitimacy than even the state’s agencies, due to their often-perceived effectiveness and rapid response when protection is needed, as compared to a nearly ubiquitous sentiment that authorities cannot be relied on for any protection. It is in this oblast that the researcher learned the common parlance for “police” to be pronounced “moocer”, meaning trash or garbage, spelled in Ukrainian/Russian Cyrillic letters, strangely enough, as “mycop”.

Also, just as in the densely populated and industrial Oblast of Kharkiv, the residents of Transcarpathia held a common perception of the administration that suggests little faith in any oblast or municipal administration’s ability to act in the public interest, to assist or protect the interests of citizens, or to improve the wellbeing of people in that oblast. Transcarpathia is an oblast where many urban residential buildings in Uzhgorod, the region’s capital, are without sufficient and working heat and hot water. Many villages, as may be experiences in much of Ukraine, do not have indoor toilets or hot hater. Severe winters can be a test of character, or worse.

Residents of Transcarpathia, similar to those of Kharkiv, seem to share a strong and confirmed sense of distrust in politics and administration. Like in Kharkiv, the administration is commonly understood to be helping itself to riches at the expense of the state and its citizens. Some degree of fear and cynicism is evident at every turn among ordinary residents. Also, just as in Kharkiv, people seem to hold an expectation that extortion is the tool of administrative officials, while bribery is the means to obtain one’s goals. It is in Uzhgorod that several years prior to this case study, the researcher first heard the common phrase “if you have money, you can do anything”. So, it seems that the diverse population in Transcarpathia, encompassing Hungarians, Russians, Ukrainians, Slovaks, Poles, and the hearty souls of the deepest regions in the mountains, the Hutsuls, are seemingly united in some very common beliefs and attitudes mentioned herein. In fact, currently, scholars and pundits express concern that Eastern and Southern Russian oriented Ukrainians cannot find anything in common with the
Ukrainians of the Western and Central regions. This is not true, such concern overlooks at least one feature of the mentalité across Ukraine’s regions... Ukrainians share the above attitudes and beliefs of distrust, disappointment, despair, fear, and cynicism toward administrative and political officials as well as toward enforcement authorities. People typically acknowledge their respective administrations intolerable levels of disinterest in the wellbeing of residents, incompetence, inefficiency, and effectiveness. It is no wonder why so many residents and businesspeople see no value in paying taxes... they see so few results.

The question remains, as in the Kharkiv study: is it possible to start a legitimate small business in Ukraine, in this case a business in Transcarpathia that is able to be created and operated successfully without any involvement in bribery and extortion by people inside or out of the administration? It was not possible in Kharkiv. In Transcarpathia, is it possible that a different and perhaps less Russian-oriented, less Soviet-oriented people may be have different experiences with their administration in an effort to create a small business? Or is it not possible, “ни молода”, as this researcher has been told continuously for the last five years? Must citizens, entrepreneurs, be discouraged and subdued at every turn by the informalism of officials seeking “extra money”?

Olha Zinchenko, the director of the firm “New Horizons of Zakarpattya”, was working on the project of establishing the small business since December of 2004. She assisted in the discovery and purchasing of the residential apartment that has been converted into the “place of work” on the beautiful street known as the Prospect Svobodu (‘Prospect Freedom’, as luck would have it). Like Oksana of Koodreashka in Kharkiv, Olha has also been well aware of the informal workings of the administrative officials and their relations with businesspeople in Ukraine. For Olha, bribery and extortion involving officials has been understood to be necessary in order to get anything accomplished in the halls of the administrative buildings.
Still, she agreed to attempt to form a legitimate business, preferably without the requirement of satisfying extortion by officials or others.

While finishing the last year of the equivalent of a Masters degree in international economics and finance at the Uzhgorod National University, with a certificate in English translation, Olha Zinchenko had been working on the creation of the firm. The location and acquisition of the property was followed by planning and petitioning for the "place of residence" to become the "place of work", in the same sequence as experienced in the Kharkiv case study. Next, the project of reconstruction required considerable planning with an architect. From the start, Olha was skeptical that a legitimate business could be formed, one built free from the need to make payments of "extra money". In her view, she could not imagine that creation of a small business would be possible without involvement in bribery. Nonetheless, she committed to go through all steps of creation of the firm, including the acquisition of all necessary approvals and permissions from officials and inspectors, from purchase through 'reconstruction' (or, 'remont') and subsequent inspection. As in Kharkiv, the reconstruction phase is very important because it enables us to understand the manner in which the administration treats entrepreneurs during all necessary phases of small business creation and development, and nearly all business firms must undergo some degree of reconstruction in order to open.

Olha, a 22 year old woman, was unmarried and without children (since married, but she will only be referred to as Olha Zinchenko throughout this dissertation in order to avoid confusion). Through her studies, she had become familiar with the processes and procedures of the administration and many agencies, although the creation of a new firm and the actual development of the business as a competitive market-oriented business entity had been new to her. While Olha has had the opportunity to receive higher education, she has not had the benefit of any business experience. In this way, she is contrasted with Oksana of Kharkiv:
Olha, with relevant Masters level education and absolutely no actual business experience, and the slightly older Oksana without any higher education at all, but with valuable small-business experience during the chaotic and unpredictable times of the 1990s. One interesting contrast between the occurrences of the two cases is that Olha made the time-consuming effort to manage the applications for all permissions and approvals on her own, including seeking help from the “One Window”. An upcoming interview will explain the lack of “mediator” firms in Transcarpathia, as they are understood in Kharkiv. One noteworthy similarity between the two women from these cases is that neither one had any significant connections with political or administrative officials in Ukraine at national or oblast levels, nor did they have significant connections in the sphere of private business (both legal and illegal business). Olha is pictured below:

Figure 7.1. Olha Zinchenko during the Orange Revolution, in Uzhgorod, December 2005.
On January 6th, 2005, a consultation was held with Andrey Doroshuk, a lawyer in Uzhgorod. Andrey elaborated on the variants of business entities, limited liability firms and private entrepreneur status, as well as advising on possible tax structures. Much of his consultation reflected understandings that had been previously offered by lawyers in Kharkiv, but he tended to support the status of private entrepreneur for the reason of tax advantages.

Below is a photo of Andrey Doroshuk, lawyer.

Figure 7.2. Andrey Doroshuk, a consulted business lawyer from Uzhgorod, wears a mask while participating in the Orange evolution during the protests of Uzhgorod, Transcarpathia during the fall/winter 2004. Doroshuk’s photo hangs proudly in the halls of the Oblast administration, 2nd floor, near that of Popovitch and Schady.

Doroshuk identified two main categories of tax systems, the ‘general tax system’ and the ‘simplified tax systems’. He explained, “the general system, or the general system of
taxation, known in Russian as the ‘Загалбна Система Оподаткування’, (is) where you pay all the taxes, value added tax, the profit tax, all variety taxes, employees taxes...all the taxes that we have in the state. The ‘Simplified Systems’ (second category of tax systems), is composed of two simplified systems, one for legal entities and one for private persons (‘private entrepreneurs’) (Doroshuk, January 6th Interview 2005).” Doroshuk suggested that the onetime tax of the simplified tax system for private entrepreneurs was advantageous for the proposed business. He offered: “The one time tax is best for you. It is now possible for a foreigner to be (not only) in joint venture (as always) or to be a ‘private entrepreneur’ (given a recent change in law since the Kharkiv case study took place). Also, a foreigner may engage in commercial leasing to a business (Doroshuk, January 6th Interview 2005).”

Regarding the ‘private entrepreneur’ type of firm, Doroshuk noted: “Under the ‘private entrepreneur’ (firm), you may also rent (lease the property) to Olha as a private entrepreneur (business in her name), supply all the materials, (take) rent plus a percentage of profit. (For you) utilities as expenses are to be taken before profit (is) determined (Doroshuk, January 6th Interview, 2005).” This would be a simpler situation, as the maintenance of a ‘limited liability firm’ is more complex, even given that Doroshuk focused on one variant of tax structure that he thought more relevant:

“Under limited liability (type of firm), you pay 10% of all revenues that come in. Not (10% of) profits. If expenses exceed revenues, you still pay 10% on revenue. Accounting is more complex, as all items in inventory must be kept (noted) as property of the business. As a private citizen, (you) could lease to the limited liability firm (as property owner of the office space). Too complicated (Doroshuk, January 6th Interview, 2005).”

Doroshuk suggested that the creation of the firm, perhaps under Olha Zinchenko’s name as a Ukrainian citizen, would be advantageous:

“The ‘private entrepreneur’ (firm) is a simpler situation. You pay a “fixed tax” (not fixed in terms of rate, but fixed in terms of currency, the grivneas), or a “one time tax” (in Ukrainian, “Сдний податок”, pronounced “Yedeney podatok”). The tax is paid in advance. You pay this month for the next month. Once in a quarter you give to the tax inspector the report of how much did you pay in taxes for this quarter, and how much
was the revenue. It doesn’t matter how much you make in a month. (But) the annual limit of your revenue is 500,000 rph in order to use this tax system. Two Hundred grivnea (200 rph) is the highest rate, or fixed payment, of this tax per month for the private entrepreneur (Doroshuk, January 6th Interview, 2005).”

In a subsequent consultation on January 11, 2005, Doroshuk claimed that if a ‘private entrepreneur’ first selects the ‘one time tax’, revenue will not matter and it will not be necessary to record revenue officially:

“For a café, the private entrepreneur (type of firm) needs no cash register. 150prh per month is the ‘one time tax’. There will also be 75 rph/month per employee plus salary (as an expense). Pus, salary taxes...this is 13% plus social insurance, pensions fund, and maybe about 150rph per each employee. In addition, to lease out (commercial lease) as a private person (as a foreigner) it will be a 26% tax, with no deductions possible (Doroshuk, January 11th Interview, 2005.”

Regarding the matter of leasing, if the firm was to be placed in Olga’s name as a private entrepreneur, for the sake of selecting the preferable ‘one time tax’, Doroshuk argued that the 26% tax on commercial leases could be avoided:

“If you are going to lease the flat out (commercially) you can avoid paying the 26% on leasing by giving power of attorney to someone (such as Olha Zinehenko) as a ‘private entrepreneur’. She, a Ukrainian citizen, can lease it out (such as leasing it to the firm that is the subject of this case study, or to any other firm), but as a private entrepreneur, she will pay only 110rph in the “one time tax”! The 110rph is the fixed one time tax (for a Ukrainian citizen that is a private entrepreneur, and for the activity of leasing out the property). The tax will be higher for foreign citizens, it will be the 26% tax on all revenue from leasing. That is the difference (Doroshuk, January 11th Interview, 2005).”

Thus, even though there is a double standard for leasing, with Ukrainian private entrepreneurs able to take advantage from a nominal fixed sum as a lease tax (as 110 rph is only about US$22, there is an available strategy for avoiding the substantially higher tax for a foreigner.

Of course, for any foreign investor to implement such a strategy to avoid taxes on commercial leasing, he must necessarily anticipate the high risks associated with nearly complete loss of control over financial resources.

Regardless of whether the firm is established as a ‘private entrepreneur’ in Olga’s name, or in the founder’s name (in this case a foreigner) Doroshuk noted that another way to
avoid taxes is to hire employees, or workers, as independently contractors that are themselves ‘private entrepreneurs’, in the fashion of outsourcing. If they are not on the firm’s payroll, then the firm will not need to pay any employee taxes. For this reason, Doroshuk recommended independent contracting of all employees, while noting the possibility of hiring workers and non-paid interns and paying them unofficially:

“It is best if, as ‘private entrepreneur’, you hire all employees as ‘private entrepreneurs’. It simplifies taxes on salaries of employees (it makes the workers responsible for the minimal fixed tax). There is also the possibility of having people, such as university students, work for you as ‘interns’. They would not be paid on the surface (no official records of payment). But you would pay them still. This has been practiced (Doroshuk, January 6th Interview, 2005).”

Thus, there is more than one way to avoid payment of taxes on employees.

Alternatively, in the case of establishing a ‘limited liability’ firm, which Doroshuk found to less suitable, he explained that the selection of a ‘limited liability’ firm’s ‘10% simplified tax’ on revenues was not as advantageous as the simplified tax of the ‘private entrepreneur’ type of firm.

“It is more complicated than the ‘one-time tax’ (which is only available to the ‘private entrepreneur’ firms). The bookkeeping and accounting is more complicated. If they (the books) are not correct in any way, the tax police will find out. Then you will have problems and tax penalties. The private entrepreneur (type of firm) and its ‘one time tax’ (minimal fixed sum) are easiest, simplest, and best. The tax police will not be investigating, as they will have no reason to look at revenues, profits, expenses, utilities, or bookkeeping.”

The advantageous ‘one time tax’, available only to the private entrepreneur firm and not the limited liability firm, was Doroshuk’s primary reason for recommending that the firm should be established with status as ‘private entrepreneur’.

Doroshuk commented regarding the concealment of revenue as a non-issue: “If you don’t say what is true about what you take in as revenue, it does not matter, because you are paying the ‘fixed tax’ (Doroshuk, January 6th Interview, 2005).” In consideration of such concealment of revenue from the state, it seems obvious that any estimates of the extent of Ukrainian economic growth are dubious at best. Interestingly, one might consider that under
such a fixed tax, or one time tax, the system of taxation of private entrepreneurs should offer no reason for concealment of income, as any given revenue should not affect the tax (as long as the firm does not exceed the annual cap of 500,000 rph, or about US$100,000. Yet, popular expectations of the administration are often cynical, and as such, people tend to conceal income in order to seem less attractive to inspectors or other officials that may be seeking “extra money, or bribes”.

This aspect of ‘mentalitet’ in Ukraine seems to reinforce the shadow economy of concealed income and unreported business activity. Doroshuk also noted that businesses that sell two particular items tend to draw an increasing number of inspectors and problems: “If (you have) no alcohol or cigarettes to sell, you need fewer complicated permissions. (Otherwise, if you have them) more people will come to see how you are doing, the tax inspectors and such (Doroshuk, January 6th Interview, 2005).”

On the topics of changing the status of a residential flat to a ‘place of work’, and the subsequent issues of gaining permissions and approvals for the initiation of reconstruction as well as its concluding approvals of completion, Doroshuk offered his view on how things work in Transcarpathia. He was asked by the researcher, “to get the permissions, how is the administration…is the bribery and extortion a big problem, does every business have to go through it?” Doroshuk’s response was candid: “Yes. It depends on how fast you need it. If you want it done you will have to pay. It depends on who you talk to, it depends on what connections you have (Doroshuk, January 6th Interview, 2005).” “How so?” he was asked.

Doroshuk elaborated:

“It depends on what chain you have of connections… is it a long chain or a short chain (important, higher up connections)? The city council must make a decision to approve the application to change the status of the place, from place of residence to place of work. Then… the project of reconstruction (must be prepared and approved). A project of reconstruction might take from one and one-half to three months. It depends on how the city council (a political body), will decide the question. They meet once every month. They are Deputies (of the governing body). They examine the papers that the have, then they make a decision. It will depend on how they will examine your
case. There are two questions... one is to change the status (of the flat) from residence to place of work, and the second is the project of reconstruction. They can put them both together and decide at once. (But) if they separate the (two) business questions, it could take twice as long (Doroshuk, January 6th Interview, 2005.)"

So, gaining positive and speedy results, according to Doroshuk, depends on the quality of the connections, or personal relations that a businessperson has. If each of the above two questions that require approval by the Deputies of the political council can take from 1.5 to 3 months, then if the questions are ‘split’ and addressed in distinct sessions of the council, such simple approvals may take up to six months of time overall. Unless of course, one is either fortunate or with strong and ties to important people.

Regarding the matter of locating a professional and competent architectural firm that can get the proper permissions change of status to the place of work and for the project of reconstruction, Doroshuk had one strong suggestion. He highly regarded one man and his firm: “Chief Architect of Uzhgorod (Administration), co-director named Leonid Vall. He also has a private business, ‘Argonavt’. The firm does projects of reconstruction, building construction, handles all permits. They take all responsibility from zero until they give you the keys. It is architect and building firm (Doroshuk, January 11th Interview, 2005).” When asked if this firm ‘Argonavt’ was called a ‘mediator’ firm, such as in Kharkiv, Doroshuk claimed that in Transcarpathia Oblast there is no such name for these firms, and that he was unfamiliar with the term ‘mediator’ firm.

Many people in Ukraine, including administrative officials, assert the common knowledge that, administrative and government officials may not “legally” hold ownership of business firms, as it may involve them in conflicts of interest. Doroshuk was asked, regarding the fact that a Chief Architect of Uzhgorod Transcarpathia Oblast, Leonid Vall, also has a private architectural firm, “Is it a conflict of interest?” Doroshuk’s response was immediate, and very interesting: “No, not really. Many people do that here. It is common... for administrators to have private firms (Doroshuk, January 11th Interview, 2005).” A follow up
question was posed: “So, what do you think of that? The administrators run the firms that handle the applications for all the permits and negotiation of bribes...negotiations with themselves as administrative officials (in their public roles)?” Doroshuk replied, “No, (its) not really a problem, because they don’t make all the decisions (in public organizations) (Doroshuk, January 11th Interview, 2005).” Another question: “How do people know how much to pay, for professional services of the firm plus bribes? It just depends on the administrators?” Doroshuk answered, “Yes. The administrators are not on (not recorded on) any documents of the firm, but they control everything. It is their firm (Doroshuk, January 11th Interview, 2005).”

Next, the discussion was steered to the ‘mediator’ firms of Kharkiv for the sake of clarification of the similarities and differences in informally institutionalized corruption in each oblast. The researcher remarked: In Kharkiv, the ‘mediator’ firms perform the roles of architectural design, all tasks related to changes of a flat’s status (residence vs. place of work) and the development of the project of reconstruction, obtain all permissions, approvals and licenses, negotiate bribes with officials of the administration, and if desired, the actual phases of reconstruction. The negotiation of bribes is a key role, hence the common name ‘mediator firms’. Is this the same as the ‘architectural firms’ here in Transcarpathia... like Argonavr?” Doroshuk responded clearly:

“Yes. It is the same. We just don’t call them ‘mediating firms’, ‘фирма посредник’ (here in Transcarpathia). We only call them ‘architectural firms’, ‘архитектурная фирма’ (in Russian). They do the same thing. Same kind of firm, same function (Doroshuk, January 11th Interview, 2005).”

The similarity between the two types of private architecture firms noted in these two oblasts, one being expressly acknowledged as a ‘mediator’ firm, while the other is just called an ‘architectural firm’, was clearly confirmed by Doroshuk. However, one arguably significant difference has arisen. In Kharkiv, the architectural (mediator) firms appear to be privately run, completely distinct from administrators. Or, at least they appear to be distinct. In Uzhgorod
Transcarpathia, it is widely understood, as Doroshuk ascertained, that the architectural firms may be owned and directed by people that also serve as administrative officials. Doroshuk claim would be supported by Olha Zinchenko’s statement on July 7th, 2005: “Anyone who works in administration cannot also have a business... legally. But, it is common. They just do not have their names on the documents (business documents of ownership, licenses, etc.). For example, if I am to work in administration, I cannot have a business. So, I just put someone else’s name on paper... some friend or some family member (Olha Zinchenko, July 7th communication, 2005).” Olha Zinchenko was asked, “Do you know anyone in the administration that does not have such a business?” She responded in a way that supported what the lawyer Doroshuk claimed earlier in January: “No, everyone in administration does such a thing. They all have businesses (with their names hidden from all documentation)(Olha Zinchenko, July 7th communication, 2005).”

The officials’ concealment of business interests while holding office, which seems to at a minimum represent a conflict of interest, may act as a serious impediment to the growth of new and legitimate architectural businesses and more broadly all businesses. Who could compete with such firms that are unofficially integrated into the workings of the administration of the oblast? For all those entrepreneurs of any type of business that may be wishing to minimize their subjection to extortion and necessary bribes, there is arguably less control possible over negotiations, when the firm’s director may name his own price, or at least be central interest in the receipt of those very bribes. In this way, transparency in the administration seems impossible in the oblast of Transcarpathia. At present, the required payment of ‘extra money’ to officials seems impossible to challenge effectively.

Dorochuk was asked, “In your view, what are the most important obstacles or problems for economic development?” Andrei Doroshuk claimed: “The main obstacle is in the mind. People think that changes in economic development are not possible. It is getting better. People
can (now) see that someone succeeds, that it is possible to break through, to have a car, a business, maybe even a house (Doroshuk, January 11th Interview, 2005)."

7.3. Consultation with Olexander (Sasha) Beben, a private lawyer, who works in association with Uzhgorod’s Chamber of Commerce. Discussion involved types (legal status) of new firms, a recommendation to establish a limited liability firm, and a description of registration process. July 14th, 2005.

Sasha Beben, a young lawyer who is associated with the Transcarpathian Chamber of Commerce and Industry, engaged in two in depth consultations regarding the establishment of a new firm. His descriptions and perspectives of the registration process were supplanted with recommendations in support of a limited liability firm with the 10% tax structure. This contrasts with what Doroshuk recommended, a private entrepreneur firm with the small, fixed amount of the “one time tax”.

Beben’s description of the private entrepreneur firm was much in accordance with what Doroshuk had noted. The revenue of the firm must be less than 500,000rph (US$100,000) per year and the fixed “one time tax” on revenue cannot exceed 200rph per month. Beben was sure to make it clear that in addition to the “one time tax” on revenue, a private entrepreneur “must pay to some employees funds (social, pension, etc.) between 37% and 42% of each employees salary…if (one has a) 1000rph salary, you must pay 370rph, or 1370rph total (Beben, July 14th Interview, 2005).” Yet, Beben had some doubts about the suitability of the private entrepreneur firm, noting that a foreigner may have difficulty in registration for this type of firm.

Instead, the limited liability firm was offered as a more serious type of small business firm with a greater ceiling for income, positioned at less than 1,000,000rph in annual revenue (twice that of the private entrepreneur firm’s limit on revenue) and it must have less than 50 employees. In addition, the limited liability company, or LLC, may select the 10% tax on revenue, which avoid all VAT taxes. Alternatively, a more production-based company may choose for a lower 6% tax on revenue but with an additional VAT tax. The VAT tax is 20% of
the price for the goods, according to Beben. So, Beben suggested, “So, to avoid VAT, you choose the 10% tax on revenue (Beben, July 14th Interview, 2005).” However, by choosing to establish an LLC with the 10% tax on revenue (and no VAT), Beben explained that employee taxes must be paid as well: “Like the private entrepreneur (firm) you must pay the 37% minimum of all employees salaries into the pension funds. Still, if you pay 1000rph to an employee, you pay 370rph in addition to the state… so you pay out 1370rph total (Beben, July 14th Interview, 2005).”

Every limited liability company, LLC, must be established with a mandatory bank account known as a “statute fund”, with certified proof of over US$6000 deposited in the name of the firm. According to Beben:

“The minimum “statute fund” for the LLC is 31,000rph. From the 1st of September (2005) it will be (raised to) 33,000rph. (It is intended for) the office, director’s salary, bookkeeper, and some equipment. The minimum salary in Ukraine is 310rph for one month, and 310rph X 100=31,000rph. On the 1st of September (2005), it will be 330rph per month as the minimum wage. To establish the firm (as an LLC) you must have this money. You must show that you will be able to pay back debts. You guarantee that you will be able to take care of liabilities, debts (liability is limited to the amount in the requisite statue fund). You can use the property instead of money to fulfill the statute fund if you want. You can use a personal car that you pledge, it becomes part of the company (of course, whatever constitutes the statute fund guarantees all debts, liabilities… so property would be at risk of loss). To establish the firm (now), you must have 31,000rph in the statute fund. But to open the firm, (you only need) 50% of this 31,000rph…it must be in a bank account in your name, in the account of your firm. You can take and use the money, but there are some rules. Rules are very limited. If you want, you can even buy a car (with that fund) and put it in the firm’s name. The bank system is not like (in) your country and not like in other countries. You can take the money and withdraw only if you will use the money for business transactions, such as if you want to buy something, or if you want to pay wages or utilities. After you take this money, you do not need to pay it back to maintain any balance (maintaining balance is not required). (While) 31,000rph during one year must be paid into the account, the 50% must be in the bank account by the time of registration of the business. The other 50%, about US$3000, can be paid in over the next year. The money can also be used for the ‘remont’ (repair) of the apartment, but it will require a lease (from you as personal owner) in some minimal sum. It must be part of the lease for the money to be spent on the ‘remont’ (Beben, July 14th Interview, 2005).”

After discussing the nature and requirements of the ‘statute fund’, Beben proceeded to the next concerns for any entrepreneur.
Sasha Beben explained that despite the fact that any LLC would receive zero income during the period of construction, reports must still be made for several administrative offices. “You can set up the business now, then do ‘remont’ over the next few months. Since there will be no income (during remont) you will pay no taxes. (Yet) you must make a report to many places… the pension fund, two social funds, the fund of unemployment, organization of statistics, and the tax administration (Beben, July 14th Interview, 2005).” In the hope that the essence of the same report might be made and delivered to each department, a question was posed by the researcher, “can we send one copy of one report to each place?” Beben answered negatively: “No. Each organization (of the oblasts administrative departments) has its own forms. You must fill out each and send to each organization. You give the report, explaining that you take the money from the bank, use it for remont, etc, building the business, explaining that you have no income because you are still doing ‘remont’ and building the business. (You show that) it is not operating yet, that why you have no income.

During the creation of the business in Kharkiv, Koodreashka, it was impossible for a non-citizen to be a sole founder of an LLC. Hence, Beben was asked, “Can a non-citizen be the only founder on the statute documents for an LLC?” Beben replied with confidence: “Now, the LLC can be funded by a single person, whether citizen or non-citizen of Ukraine. Whether physical person or juridical person (a legal entity or enterprise). This law came out on July 1st, 2004. Before, a non-citizen could not be the single founder. You had to be a Ukrainian citizen (to be a single founder) (Beben, July 14th Interview, 2005).” At that time, before July 1st 2004, a non-citizen could join as an equal partner, as was the case in the Kharkiv salon Koodreashka. In Kharkiv, where the business had been established just six month prior to the new law, more complications were encountered in the creation of that LLC’s statute and documents. It appears that the process has become more simplified and advantageous for any foreign investor. Since any joint venture implies risk for investors, this new ability for foreign investors to each
create a firm as a sole founder of an LLC should prove rewarding in terms of encouraging private foreign investment and therefore have some positive impact in fostering economic development.

On the subject of bribes, Sasha Beben was asked, “So, how much will bribes cost in order to create such a business (LLC). Beben, laughed, and responded: “Oh, now, it may cost nothing to register...maybe. But, I cannot promise that you will not have problems after. in the future (Beben, July 14th Interview, 2005).” The next question followed: “Who and what agency will want bribes, and for what?” Beben replied, “Fire inspectors, tax police, (and) others (Beben, July 14th Interview, 2005).” Again, a probing question was offered, “For what service?” The lawyer responded very candidly, offering insight: “Well, its not for services, it can be anytime that you want something, when you need signatures, permissions, anything. It can be anybody. Or it can be anytime that ‘they’ want...they can find something (wrong in your business). Even if everything is fine and legal, they can come to you for money (Beben. July 14th Interview, 2005).” This opinion was clearly consistent with other lawyers in both Kharkiv and Transcarpathia.

In a second consultation on July 18th, 2005, while recommending that the firm be established as a limited liability company, Lawyer Sasha Beben described the registration process of an LLC. Beben noted that with ‘power of attorney’ for the registration process, it is possible for any attorney to register the firm. He explained the process in a way similar to that which occurred in the Kharkiv Case study. Regarding the process of registration, Beben explained that the “statute” (founding document) must created and several copies notarized, at least 50% of the requisite statute fund must be placed into a bank account in the firms name, and then:

“(We must) register the LLC in all state bodies, including:
1. the state registrar
2. statistics department
3. tax office
a. we need to register the firm as a payer of taxes.
b. Must register the firm as a payer of the single tax (recommended) or the payer of the VAT tax.

But, before the state registration, you must have a personal identification code of the payer of taxes (as a physical person). Then I will register you into social funds, pension funds and the fund of unemployment.

Then, next is the procedure of producing the (required) stamp (firms authentic and legally recognized seal), with the name of the LLC. It will say that it is a limited liability corporation and it will have the symbol of Ukraine. I will take the project of the stamp to the criminalistic laboratory. Then, I need the permission to produce the stamp. This (permission) is given in the militsia (police department). So, I take this permission and go to the firm that makes the stamps. I make the stamp. Then, I must have power of attorney from you that says that I have the permission to get the stamp. Then, when I register you at the tax office, they will give to me a three-part document. I must put the stamp on it, and take it to the bank. The bank will take one part, and return the (other) two parts. I have three days to return the second part to the tax office, and I keep the third part for you. Then, the registration is complete. That means that you are registered with the state. You will need a bookkeeper to keep track of the money. If you are doing nothing yet (taking no income) she must make a letter of it for the state. So, first, I need personal identification number, as tax identification number. Next we make a lease of contract between you as a physical person and the LLC, stating that you lease the apartment to the LLC. This I need for registration (Beben. July 18th Interview, 2005).

After outlining the process of registration, Beben responded to the question, “how much time does this take?” with an estimate: “It depends. I think that three or four weeks. I must go to many buildings in various parts of the city (Beben, July 18th Interview, 2005).”

When asked, “what about the ‘one window’?” (the registration chamber in one physical location that was created to expedite the registration process for new firms) Sasha Beben explained that, given his experiences, the ‘one window’ may not work as well as intended. According to Beben:

“To go there (to the ‘one window’), I must fill out different forms for each office. Every for is different for each office. For the tax office, (you need) two forms...that you are a payer of taxes and second, that you are either a payer of single or VAT taxes (indicating type of tax structure selected). It can take very long for authorities to stamp documents. Every time I have tried to register there (at the ‘one window’) it is always a problem. Once, there was a person missing from the department. But she must be there (she is required to be there) for signatures for permission. Other times they (at the ‘one window’) are missing some documents, some forms that I need to fill out. That can always be a problem. Always something happens. It happens very often here in Ukraine (Beben, July 18th Interview, 2005).”
Beben suggested that the ‘one window’ will probably take longer than if he would make all forms in each department on his own. He would not need to wait for necessary people at the one window, and would not need to be concerned as to whether the staff had all forms in their office. He suggested, “I want to make it faster. I will go to each department myself in order to make it faster. It will take three or four weeks for me to register all documents with all departments (Beben, July 18th Interview, 2005).”

When it was mentioned to Beben that the staff at the ‘one window’ claims that it should only take one week to make the registration, Beben asserted:

“No, it is not possible. There is an algorithm of how to do this. I have read in the newspaper that it was once done in 20 minutes. But it is not true. It can take less time for private entrepreneurs, but it still takes time. About the tax office, about the stamp, about the bank, certainly the one window cannot do this so quickly. You need the many registrations in these locations. I must go to the tax office to pay, the stamp office to pay for permission to make the stamp (I must pay), then to pay the people to make the stamp. It is impossible for all these people to be in the same room (in the ‘one window’, or chamber of registration). There will be fees for state registration, (170rph) statistics payments, notary payments, and pension fund payments. I would need to pay each plus leave a notarized copy of the ‘statute’ (the LLC firm’s founding document) with each department (five departments including the various funds). I cannot tell you how much each department will charge, because they charge all the time. The notary services will be the most money. Five copies of the statute at maybe 25 pages each, five copies of the state registration, five copies of your decision (to make the firm), etc... it can be a lot (Beben, July 18th Interview, 2005).”

Beben made clear his estimation that the ‘one window’ could not function effectively or with any speed. Certainly, the difficulties that he reported to have experienced in the past appear to indicate serious problems in the operation of the administrations ‘one window’. If true, this would suggest that the well-intentioned role of the ‘one window’ has not been realized. Yet, the two consultations with Sasha Beben took place only a couple weeks after the ‘one window’ became, according to administrative officials in Uzhgorod, required by one of Yushchenko’s recent directives to complete registration processes for new businesses within a maximum of one week. Perhaps the new directive and reforms of the ‘one window’, if effectively implemented, will represent a major breakthrough in the ability of the administration to
facilitate the creation of new businesses. As of the consultation with Beben, he remained convinced that the ‘one window’ would likely be a waste of time for any applicant, with entrepreneurs reaping no advantages as claimed by the administration.

Since an extremely efficient and effective ‘one window’ of business registration would offer hope for meaningful administrative support for the creation of small business, only an actual experience with the one window, as a form of ‘test’, can enable one to appreciate whether the newly touted expediency that has been required of it since July 2005 is real... or just a myth of the administrative officials. If the extolled expediency is real, and if, by chance, extortion is also minimized (if not eliminated), then the citizens of Ukraine deserve to understand that positive developments are actual, rather than mere propaganda.

7.4. Olha Zinchenko’s experiences in seeking approvals within the Transcarpathian Administration indicate the reality of the administration’s questionable level of assistance (positive and negative aspects).

In Transcarpathia, there seems to be evidence of a tradition or common practice such as the “mediator firms” like the company “Veest” in Kharkiv, as expeditors in all processes, permissions, approvals and any other affairs with administration and officials. Instead, Olha Zinchenko completed each step by herself, with no such ‘mediator’ firms available to her. For the reason that Olha embarked on the quest for all permissions and approvals on her own, she was able to offer substantially more evidence on how a variety of departments and their officials treat entrepreneurs. This contrast between the case study of Koodreashka, in Kharkiv, which emphasized the role and function of the mediator firms, results in the differing emphasis on how Olha Zinchenko dealt with every aspect of administrative procedure and behavior.

Thus, in the Transcarpathia case study, we must note in detail many various aspects of creation of a small business that were not so visible in the first case study, thanks to the facilitating role of the ‘mediator’ firm. Each case illuminates unique aspects, and each case also provides
corroborating evidence regarding some administrative processes and behaviors of officials, informal institutions, or norms, and other impediments to small business developments.

According to the consultations with Lawyer Andrey Doroshuk, there are no firms in Transcarpathia that call themselves ‘mediator’ firms, such as in Kharkiv. The term ‘mediator firm’, does not appear to be common to the Transcarpathian Oblast, as no person familiar with the concept in this oblast of Transcarpathia could be found. However, as Doroshuk claimed in his consultation, many administrators own and operate such businesses as architectural firms, although such ownership and connectedness is informal rather than documented on paper. Ownership must be informal, not documented, since it is illegal for an official to be in business, due to arguments that assume a conflict of interest.

In an effort to attempt the creation of the small business on her own, and without such ‘mediator’ firm to conduct all negotiations and payments of ‘extra money’, Olha Zinchenko deciphered the procedures necessary. She commented many times that officials at various agencies would not give much, if any, guidance as to what the outline and sequence of documents and permissions must be. Consultations with the lawyers Doroshuk, Beben, and others, largely echoed the understandings of the Kharkiv lawyers from the first case study. In Transcarpathia, the same procedures and permissions are necessary for turning the place of residence into the place of work, but details are more clearly revealed in this second case study, since an mediator firm’ such as Kharkiv’s “Veest” would not be found or employed. Olha Zinchenko would handle all aspects of the ‘project of reconstruction’ and all of its requisite permissions and approvals, the creation of the firm’s founding document, the statute, and the subsequent approvals and permissions required after the completion of reconstruction. It is positive to note that, in the registration process, the Tax Police are no longer regularly requiring interviews with the founders.
At a later point in time, Olha Zinchenko recalled, in detail, the processes required to obtain the project of reconstruction, including the need to get permission to make the flat a place of work, or of business:

"Procedure of 'reconstruction': So, to make the place non-residential I should give the documents for the flat to reception of the City Executive Committee and they transfer this documents to the Department of Housing and Communal Services, where the specialist checks the documents and gives 'the conclusion' (a document of permission) that the flat could be transferred to the non-residential place ('place of work').

Later these documents, together with 'the conclusion' go to the City Deputat’s Meeting on which they decide to make it non-residential (converted to a 'place of work'). These meetings are usually held twice a month, but usually they have no time to vote for the all applications, so applications of the person, who has no friend(s) in this counsel usually gets the decision on his application on the second meeting (if you have no personal connections, your application is delayed by perhaps another month, or until the next meeting).

After that you should gather the documents for the ('project of) reconstruction' (another document, regarding a planning project) and again give them all to the reception of the City Executive Committee and they transfer this documents, this time to the Department of Architecture, where they give a 'conclusion' (another permission) and all that again goes to the City Deputat’s meeting on which they decide to permit to make the reconstruction (or not), so after (obtaining) this permission you could make the (actual construction, according to the approved) 'project of reconstruction'.

Afterwards, you have to give this project to the Fire Department, Sanitation Service, Protection of Labour Department and get from all of them 'conclusions' on the project (approvals based on final inspections). So after that, all these 'conclusions' (permissions, approvals), plus the signed statements from (the Department of Architecture for the follow-on and engineering supervision and the signed statement from the foreman, all this goes to the Architecture Inspector and she gives the permission to start the work.

After the work (actual reconstruction) will be finished, the (next procedure) on the way to putting into operation (the business): The first step after 100 % readiness the project goes to the Technical Inspection Bureau and they give the 'conclusion' (approval), after that it goes to the Architecture Inspector again and she gives the list of places and persons, who should give the permissions to operate that place.

In any case, the last step will be changing of the purpose of the place (from 'office' to 'place of education' and translation). We could do that by making the application to the city executive committee and they will give the permission, like in the first part (Olha Zinchenko, January 25, 2006)."
The process of starting a small business is anything but clear and simple. In the pages that follow, Olha’s experiences will be traced as she proceeds, or perhaps adventures, through each step. Since she is personally handling all aspects of the frequent relations with the administrative officials from many departments, her difficulties may be accurately documented along the way. It may be arguably more difficult for a Ukrainian citizen of ordinary status to obtain all permissions, approvals and work from state agencies on her own than it may be for a hired architecture-based ‘mediator’ firm such as ‘Veest’, in Kharkiv. Yet, it may also be argued that Olha Zinchenko was able to exert more personal control, or at least more awareness, over the extent of and specific details of bribery by extortion of the officials.

Clearly, Olha, working independently, was able to discern the prices of actual fees for each legal permission, approval, and document, as well as the amounts of each bribe. Recall that the director of the firm ‘Veest’ was either unwilling or unable to divulge every aspect and amount of incidents of bribery of officials, as they did not clearly indicate their exact fees involved in each segment of the relevant processes.

7.4.1. Task of converting ‘place of residence’ into ‘place of work’:

On Wednesday, March 2, 2005, Olha Zinchenko commented by email on the numerous requirements for simply changing the ‘place of residence’ into a ‘place of work’:

“I started from the documents of transferring the flat (from the place or residence) to the ‘non-residential’ (place or work). Maybe some names of the departments will be sound not very much clear. I have a bad book of vocabulary for Russian-English. To transfer the flat I had to gather such documents:

1) Copy of the treaty of buying-selling
2) Copy of certificate of property (I’ve got it from the Bureau of technical inventory)
3) Certificate of the absence of debts (It was the certificate from the time we’ve bought the flat, the agent got this from the 6 OTHER certificates from different departments:
   a) For gas
   b) For electricity
   c) For telephone
   d) For radio
   e) For water
   f) For heat
Basing on these certificates in the Department of Housing they made a general Certificate of the absence of debts
4) Concord of the neighbors
5) Application on the name of Mayor that we ask to transfer it from residential to non-
residential fond.
6) Copy of the power of authority (attorney) from you to me (Olha Zinchenko, March 2, 2005).

With this understanding of the task ahead, Olha continued to learn of required steps in the related and sequential approval processes.

Olha needed to acquire another approval, allowing the document ‘project of reconstruction’ to be applied for. On Tuesday, March 15, 2005, Olha noted in an email:

“I’ve got today the ‘technical decision’, that this flat is good for making reconstructions. Two men made it (the document of this decision) from the Construction Bureau. One was (an) architect and another engineer-constructor. The price was 200 grivnae. (about US$40) And I need to bring it to the Architecture Bureau. I will do this tomorrow (Olha Zinchenko, March 15, 2005).”

The process was underway. After completing this step, Olha Zinchenko must embark on a mission to chase many approvals and permissions.

7.4.2. The process of obtaining the document ‘project of reconstruction’: and experiences with Inna Petrovna of the Architectural Bureau (Dept.)

After the flat has been approved for registration as a place of business/work, such as an office, in this case, Olha indicated by email that her next step was to pursue the creation of the ‘project of reconstruction’, which would be followed by permission to begin the reconstruction.

This permission, once again, must come from the deputies in another (monthly) city council meeting. The architect that would design the plans was the woman that was the administrative official for the Architectural Department. She offered to do the job, but it would cost money paid on the side for private work. The public official, knowing that Olha needed such permissions that would come as a result of her office’s assistance (and not obstruction), solicited and ‘earned’ additional personal income by obtaining the private job as architect for Olha. In her email, Olha stated:

“Hi Robert,
I was yesterday in the Architecture Department.
And the secretary has told me, that the decision (to register the flat as a place of work) is already done on 30 of March (2005) after the (recent) session of the Deputies. They will register it, and on Monday I will have it (document of flats' new status as place of work).

After that I will go to architecture dept to have an ‘architecture-planning task’ (outline of the project of reconstruction) that will cost 390 grivnea.

In two weeks (about 18-19 April) it will be done, and the architect will be making the (comprehensive) project basing on this task, and in one more week (25-27 April) it will be finished. The price will be from 700 to 800 grn (payable to the official, who would also serve as the private architect.

So at the end of April we’ll have a full project of reconstruction (complete and approved plans for reconstruction) (Olha Zinchenko, April 1, 2005).”

Months later, on January 27, 2006, Olha spoke about what had happened in her dealings with the woman that served two roles, private architect and public official from the Architectural Department:

“In the Architectural Bureau the woman was Inna Petrovna. It is a public office. And Inna designed the ‘project of reconstruction’ as an architect (privately hired inside or at the public office). She did the design, sketches, etc. The official fee was 320 grn.

How did it happen? At the bureau, I asked her if she knew somebody that could do the project of reconstruction. she said that she could do it privately. Inna said: ‘I will do this job for 850grivnea. If the price is ok, you will have to give me in advance some money... about 300grn.’ Then she said that she would write the bill officially for 320grn and the rest of the 850grn I should give her in cash (Olha Zinchenko, personal discussion on January 27, 2006).”

The official was able to secure private work from within the confines of her public office. The private money was a cash payment with no paperwork. Olha was put in an awkward position.

She could not be sure that, if she had declined the official’s offer of private work ‘on the side’ and ‘under the table’, she would be able to successfully and without purposeful hindrance navigate all channels for required documents and permission from her architectural department.

In sum, it was a difficult offer for Olha to refuse.

It must also be noted that this public official and privately hired architect, Inna Petrovna, made a serious mistake on the design of the ‘project of reconstruction’. Petrovna failed to correctly design a set of internal doors and a doorway according to fire code. In order to build the office space with the features of the intended design, Olha would have had to rehire that architect or another one, redesign two adjacent rooms, and then take the one to two month
to submit the technical document ‘project of reconstruction’ for approval by the deputies again. Time was of the essence, and the current plan had received permission, so the features desired were forgone for the sake of expediency. Inna Petrovna admitted to Olha that she made a mistake, but she also insisted that she was not going to be held responsible for it in any way, or refund any money that was paid to her. Petrovna reported that she would deny that she made the mistake. Спасибо большой, thank you very much.

At a minimum, the official’s competence is questionable. The evidence suggests that when holding an official position and simultaneously soliciting private work that must eventually be submitted for approval in that same department, an official need not be competent or even responsive to customer’s needs and complaints. But, at least, this is a good example of how the poorly paid lower to mid level public officials use their offices as they participate in the shadow economy. It also lends strength to the argument that the more professional and skilled ‘mediator’ firms, such as ‘Veest’ in Kharkiv (recall the first case study), firms that handle all phases of architectural ‘project’ design through negotiation of bribes and acquisition of all necessary documents, permissions and approvals, are justifiable despite their roles in non-transparent negotiations of bribes with officials.

Without such ‘mediator’ firms, although, necessarily, they are deeply rooted in the shadow economy, an entrepreneur is left on her own to decipher the myriad of processes and procedures and to deal with the frustrations such as encountered by Olha Zinchenko at the Architectural Bureau. The Architectural Bureau, or department, is critical to remodeling any residence or business space. Could it be possible that the ‘mediator’ firms, firms that have expertise in negotiations within the shadow economy, firms that do not disclose bribes and fees for their own service, firms that act as agents for entrepreneurs and arguably for officials as well, may lend an entrepreneur an advantage in the quest for creation of a small business? Should the administrations of Ukraine give rise to such a need? At least ‘mediator firms’, or
‘intermediary firms’, are fulfilling a perceived need in the market by offering effective and
cOMPETENT service, unlike the service solicited by the official at the Architectural Bureau in
Uzhgorod Transcarpathia.

7.4.3. After receiving permission convert the flat to a ‘place of work’, Olha pursued the
‘technical documents’ and ‘project of reconstruction’ document and permissions

On Monday, April 4, 2005, as promised by the Architecture Department, Olha was able
to pick up the registration document giving permission to change the use of the flat from
residential purpose to a place of work, specifically as an office, and she began to pursue the
creation of documents known as the ‘project of reconstruction’ and estimates on the actual
work. It was positive that documents were prepared, and ready, as claimed by officials.

“I have got today the permission (to make the flat a place of work) and tomorrow at 2
p.m. will meet with architect near the flat. She will take all needed measurements
(Olha Zinchenko, April 4, 2005).”

At this point, the architect was able to begin the paperwork of the ‘project for reconstruction’.

In addition, at this point, one contractor suggested that he could do the work of actual
reconstruction for about US$11,000. However, if Olha insisted on a legal contract, he would
charge US$15,000 to $16,000 in order to absorb the cost of taxes on legitimately contracted
construction, which he claimed to be at 30% of the contract, as was claimed in Kharkiv in the
first case study.

On Tuesday, Olha had to take the registration document to the housing office and
make another contract regarding services of the state owned building:

“I was today in housing office and made a contract with them... that we (will) take part
in house keeping (care of building). And, we need to pay each month 65 grn... for
taking of the garbage, for cleaning and so on (the copy of housing treaty email). I was
also talking to the engineer from housing department. (According to him,) we need to
make an autonomic (independent) heating... So he will cut off us from the old system
and it will cost about 300 grn materials and 280 grn. for work. Some of the documents
that I scanned for you:

1. permission about the transferring to non-residential apartment
2. permission for reconstruction
3. act of technical review
4. (treaty) about taking part in house-services (Olha Zinchenko, April 5, 2006).”
Permissions and approval documents seems to be continuously required, and pursuit of them is
time consuming. Later in the case study, Olha found it impossible to get housing worker to
arrive without promise of payment of bribes. Of course, the next day, in order to get anything
done on the water pipes and heating units, Olha had to spend more time in additional
administrative offices on a mission to pick up more documents: “I was yesterday in the Water
Service Department, so I need to pick up more documents (Olha Zinchenko, April 7, 2005).”

By Saturday, April 9, 2005, Olha’s somewhat difficult experiences of attempting to
gain a variety of permissions sorts, were supplemented by frustrations of some workers that had
been sent to the office in an attempt to assist with the problem of water pipes in disrepair.
Access to the water pipes, which partly lay between the office on the first floor and the
resident’s flat on the second floor, was difficult due to an uncooperative neighbor that was
holding out for a bribe. She insisted that we replace her entire heating pipes and radiators in
exchange for allowing the workers access through her flat. In addition, the workers were
drunk:

“We’ll have a big problems with this crazy neighbor (she will not allow easy access to
her flat to work on the water pipes... she wanted some bribe). The workers didn’t want
to work. The part of pipeline broke because it was too old. I was sitting with these
half-drunk workers until 9 p.m. They were there today and (will be) on Monday also.
(I) hope they will finish on Monday. So, I don’t know maybe I’m thinking more about
selling this flat and looking for something better... I still think that to sell it is the best
idea...I paid today 200$ to workers (unofficial, or extra money)(Olha Zinchenko, April 9,
2005).”

Even at this early point in the creation of the business, Olha’s frustrations drove her to express
an interest in selling the flat and taking one that did not require any serious project of
reconstruction and repair, as the state authorities, organizations, their officials and workers.

7.4.4. Permissions necessary to begin actual construction, some problems:

On May 11, 2005 Olha picked up the approved document known as the ‘project of
reconstruction’ and identified the next four permissions that she needed to obtain before
beginning the actual phase of construction: “I took the project. Now I need to go with it to sanitary station, then to the fire department, then to the department of the protection of work to get the permissions from them. Then (off) to get the permission from Architecture Department inspector and to start reconstruction (Olha Zinchenko, May 11, 2005).” The last of the four above permissions must be obtained from the Department of Architecture, where the person hired as a private architect works as in an official capacity, as noted earlier.

Unfortunately, during the above process, it was discovered that the business concept of the café would be difficult at best, as the water heater (or ‘boiler’) reportedly required its own room and its own window. In addition, another interesting and highly restrictive regulation was discovered in the process of seeking all needed permissions: Olha had been instructed that any café or restaurant must have a separate and distinct room for the serving of fish (as part of dinner). This is particularly puzzling, if not comical, as Olha (and apparently everyone else in Uzhgorod) had never seen or heard of any restaurant in Ukraine which actually reserved a separate room for the serving and eating of fish. As she stated in a phone conversation, “this is Ukraine”. Perhaps a simple bribe would help the firm past such a legal restriction.

In addition to these problems, the architect discovered that the city council was not interested in having any more cafés open on the first floor of buildings in the area of the property, on Prospect Svobodu. It was necessary to reconsider the type of business that the city’s governing body would allow at the location on the Prospect Svobodu. Stores and offices seemed among the limited alternatives for use of the location. Eventually, the concept of the translation and center for language studies, with benefits of cultural immersion and through guided excursions and travel to several areas of interest, as well as through an available ‘home stay’ program for Westerners, was confirmed. Olha’s Masters level education, through which she studied English and received certification as a translator (certification is necessary for all notarized documents), would be valuable and utilized.
During the course of the summer month of 2005, the business concept was developed in greater detail. Only after the development of a business concept that had some chance of approval from the political body, the City Council, the details of reconstruction could be further refined. Once actual design was decided upon, seeking bids from contractors proved to be extremely difficult, since most did not wish to commit to anything ‘on paper’. Most wanted to work on informal, paperless, and taxless basis. Even on an informal basis, it seemed impossible for Olha to acquire a firm commitment on price, hence agreement to move forward was impossible for several months, until finally a contractor was able to put a bid in writing...with a firm commitment to a figure that the job must not exceed. Since a registered business is expected to pay taxes each month in Ukraine, there is a reason to avoid registration of a firm until the construction is on the horizon, nearing the point of actual work.

7.4.5. Preparing the founding document, the ‘Statute’, for “New Horizons Transcarpathia”

During the last week of August, 2005, the legal document known as ‘the statute’, or founding document, was created. On September 13th, Olha Zinchenko received that document and attempted to register the name of the limited liability firm, translated as New Horizons, with the proper office. Coinciding with the consultations of the attorneys in Uzhgorod, this step first required the establishment of the ‘statute fund’ at a local bank. Unfortunately, Olha was told that the name of the firm had already been taken in one of the Ukrainian oblasts (not specifically Transcarpathia). Revision of the name was required, and the result was an available variant of the name, “New Horizons of Transcarpathia.” This required the production of an updated version of the statute (founding document), followed by termination and recreation by Olha Zinchenko of the bank account known as the “statute fund”. The recreation of the statute fund, followed by complete registration of the firm’s name, was necessary in order to start the reconstruction with a contractor that would enter into a legal contract, since
the money paid to a contractor, given that legally recognized paper agreement with the contractor (should that be possible), must be paid with the documented use of funds out of the firm’s ‘statute fund’. On the other hand, if an entrepreneur should decide to pay a contractor according to an informal agreement (no written contract), such as took place in the Kharkiv case study of Koodreashka, the money put into the Statute fund may still be used for the purchase of building material (as long as receipts can prove payment, such as in the Kharkiv case) or money may be used for purposes of buying equipment for the firm (also as in the case of the salon Koodreashka).

7.4.6. Delays of reconstruction: Error in official’s technical document ‘Project of the Gas Boiler’, and questionable regulations

On Wednesday, September 28, Olha noted in an email about a required document requiring an approval for an update of the gas heating system, a technical document known as the ‘project for the gas boiler’. It involved relevant architectural design. Unfortunately, the officials that had given Olha the ‘technical specifications’ for the broader ‘project of reconstruction’ had simply omitted, or neglected to include technical specifications for the gas stove. Olha’s level of frustration with officials was obvious and growing:

“Yesterday I met with the woman that will be doing the ‘project for gas-boiler’. (She said) it will cost 550 grn, and the engineering requirements for the project will cost 100 grn. And the examination (inspection) of the project will cost 160 grn. I will go tomorrow to make an addition to the technical specifications, they forgot to write about gas-stove. It’s awful. I was waiting for these technical specifications for about a month and paid 300 grn. and they made them not in a proper way. How do you like that? (Olha Zinchenko, Wednesday, September 28, 2005).”

The gas boiler (water heater) is pictured below, but the gas stove is no longer an option:
Olha was clearly annoyed with waiting for a month for such a simple document as the technical specifications that she and contractors must recognize in all plans and work of reconstruction. As a result of official’s errors, Olha’s setback involved loss of time and money…and nearly patience.

Only a few days later, in Olha’s email of Tuesday October 5, 2005, she noted another problem stemming from new information received from an official in the Gas Department (Gas Services):

“I was in the gas services and they didn't permit (me) to leave the gas stove, because in office we can't have the gas oven (in the kitchen of the flat/office), and (because) in five storied building it is dangerous to have the gas stove and boiler (water heater) together (in the same room, such as the kitchen). That was their explanation. I was thinking if we will need it (very) much we can put in (install) an electric oven (Olha Zinchenko, October 5, 2005).”

This restriction, which the officials had only just informed her of long after the technical specifications had been given to Olha, seemed to be rather burdensome if not completely ridiculous. After all, it appears that in every five-story building in the oblast, as well as in
Ukraine more broadly, it is customary to have a gas stove and to have the water heater in the kitchen. Simply, this is the common practice. Perhaps, to avoid such a restriction an offering of extra money may have helped. It seems possible that officials expected an offering of extra money in response to the impediment, though there is no evidence. In an effort to avoid extortion on a monthly basis, Olha chose to work within this newly suggested guideline without any further inquiry or risk.

7.4.7. Reception of permissions necessary to begin reconstruction is followed by immediate impediments, involving the Department responsible for State Water Services, as well as Gas Services Department

Moving forward, on Monday, October 24th a seemingly surprised Olha happily noted:

“I have got today the permission from Architecture (Department) to start the work (actual reconstruction of the premises)(Olha Zinchenko, October 24, 2005).” But, Olha was nowhere near done waiting in the halls of the administration: “In have spent almost the whole day in the Architecture Bureau and in term (waiting) for registration. Tomorrow I need to go again to registration to give her the copy of my passport (Olha Zinchenko, October 24, 2005).” Many visits to such departments seem required, as Olha maintained that officials would not adequately inform her of each objective that she must accomplish within each department.

After dealing with the state workers regarding the public water pipes, and negotiating bribes, Olha would find herself dealing with the Gas Department and errors that had been made by the administration in the development of some technical documents. Again, bribes would need to be paid in order to obtain service. Below, the neighbors and water services men demand extra money from Olha Zinchenko. Some enlightening experiences follow.

7.4.8. Demands for bribes by neighbors are followed by the demands by state workers from Water Services Department for ‘extra money’:

Administration is one source but not the only source of challenges and impediments to small business in Transcarpathia. In phone calls, Olha has repeatedly discussed how neighbors have been trying to extract money from new business. The neighbors hoped to extort bribes in
order to keep them quiet, to eliminate complaints. On one occasion, in an email, dated November 13th 2005, Olha expressed her frustration:

"Hi, how are you? On Tuesday the new doors will be put in. These neighbours all are crazy. They are going to all instances to make/lodge complaints that we are making noise, that we have put sand near the flat (for construction) and so on. It's all so complicated. I'm going to the different instances (instances with each person) just to answer on all this complaints (Olha Zinchenko, November 13th, 2005)."

On Friday, November 18th, 2005, Olha wrote an email that foretold an inevitable bribe, or extortion, by the men from the state department that would be responsible for fixing the public water pipes (the 'tubes'). The choice is simple, pay if you want it done, or wait until summer or next year.

"Hi Robert,
Yes, it is the main (state owned) water pipes. The state workers have to do it for free (they are obligated by their jobs). But then they will tell that we should wait in turn (line). In other words they will put us on a waiting list and it can be done in summer or even next year (as the workers suggested). So it will be “not legal payment” (“Extra money”). I don’t know how much they will want (the result was an extorted payment by state workers of 'extra money', a forced bribe, equal to about two hundred US$200). I have paid already 400$ in advance for the door, then for the dismantling of the walls and other things, and for the 3 big trucks that took off the garbage I paid again 450$. And I have paid for the car (truck) of crushed stone, sand, cement I have paid already too. So I have spent already a 1000$.
Now we have to buy new (central heating) radiator and boiler. So, again it’s a lot of money. So each day I need money to buy all that materials. In two weeks I will need to pay the last 920$ for the front door) (Olha Zinchenko, November 18th, 2005)."

The state workers who were responsible for the fixing of the public building’s water pipes had no intention to arrive and work unless a bribe was to be paid. Olha was left with no choice, as only the state workers had authority to make these repairs of the public water pipes, and they indicated that without the bribe they may take up to one year to arrive to do the necessary work.

On Thursday November 17th, 2005, Olha became very concerned for this need to pay 'extra money' to the workers to fix public water pipes in the building, workers who gave her
the impression that they may not show up for an extremely long time. She explained in the email below:

“...The other very big problem that appeared today is the old (public water) tubes (pipes). I will send you the photos of the tubes, they are old. You will see the old tubes very well on it. We must change them. But (they are) the tubes of central water consumption. So our workers (private) cannot do this (not allowed)... Only the workers of the Housing Bureau could do that. I was there today. They (the state workers) said that they have big damage at one house because of a similar problem and all their workers are there. Only after the 26.11 (November 26th 2005) ‘maybe’ they will be free. So it’s very, very bad. And we should pay them (extra money) too. Otherwise, we can wait for them for weeks and years (Olha Zinchenko, November 17, 2005).”

Some of the central water pipes that needed repair are shown in the wall below.

**Figure 7.4.** State water pipes in wall, first to second floor. State workers are required for repair.
Figure 7.5. Olha standing over floor area opened up for exposure of state (pubic) water pipes.
7.4.9. Men from Gas Services require ‘extra money’

As the fall progressed toward winter, Olha explained another problem that arose in the course of reconstruction. The workers of the gas services, a public service (department) that is officially required to make gas repairs on public buildings, explained that they would not be able to assist due to a heavy workload. Of course, if extra money is paid, paid for speed, anything is possible. In this case, the gas workers required a bribe. In addition to this bribe required by the gas workers, a neighbor continually harassed Olha in an effort to receive bribes for her cooperation, while another neighbor demanded money in order to move an air conditioner that had been improperly (not in conformance with technical regulations) installed so as to obstruct the planned reconstruction of the entrance.

“On Tuesday I will pay for doors. We have already bought the system of heating...price of boiler, tubes, radiators, other materials =1400$. And (for this) establishment (work) we should pay on Monday. The problem is that to start heating (the installation of heating equipment) we should have the local gas services come and make (install) the counter of gas (for measurement of consumption of gas). But now they (local gas services) are making the gas system in two villages that had no gas system at all. They will finish all that only in two months. So the said that we should give them (a) bribe if we want them to come earlier, so that (we will not need to) stop working for two months.

And so the mad woman (neighbor) comes each day, and she had found my (mobile telephone) number. She asks for more and more. I had told her that we will not give her anything, but she still calls and comes each day and asks for money.

...The neighbours (a store on the right side of the office's entrance) with air conditioner (you remember it was standing in the way of the roof over the entrance that we are going to make)...they don't want to put it away (move it). They want us to pay at least a half of the price for it's removal but they still don't know how much. So I don't know what to do (Olha Zinchenko, Saturday, November 26, 2005).”

After her months of dealing with officials that seemed to create several inconvenient obstacles for her, Olha’s experiences with some workers that represented the public gas utility service, and experiences with two money seeking neighbors, seemed to result in a degree of frustration and disgust that was so emotionally difficult to bear that she was bordering on giving up on the
effort to start the new business. To her credit, Olha fought on despite the setbacks, only some of which were due to the extortion by officials and public workers.

Olha paid a bribe to the workers from the gas agency in order to get them to appear for the urgently needed work. Of course, after payment of 'extra money' was made, the workers were available almost immediately, despite their claim of being tied up with two months of work in a nearby village. One man refused to identify his position at the Oblast’s Gas Services organization. Olha explained who he was and what payments he took form her:

"Hi, ... about gas workers...
The first time (that) we were in the gas department, they had told us that they are making the gas traffic in two villages. That’s why they could not do us 1 hour work. So we found that man who didn’t want to say his position. His name is PETRENKO, JURIJ IVANOVICH. He put the counter that we have bought for 300 grn. + (gas) tubes 100 grn. (He) took for his work 100$ (for an hour of work). And (he took) 800 grn for the documents (Olha Zinchenko, December 12, 2005)."

Interestingly, the gas documents cost about US$160, even more than the work itself. Olha was in no position to argue. Below is a photo of the device that measures gas consumption:

**Figure 7.6.** The consumption measurement device/meter installed by Gas Services Department workers.
The Gas workers were able to find the time when extra money was agreed upon. Olha refused to pay any more to the woman neighbor, and, very impressively, she was able to diplomatically convince the neighbor with the storefront that it was his responsibility to move the air conditioner from the location in which it should never have been. Olha was sharpening her skills in the negotiation of bribes, as she must necessarily gauge the truly necessary bribes form he ones that she may be able to avoid by means of reason and fortitude that is required to face and manage confrontation. She seemed to excel in this skill.

7.4.10. Architecture Department requires minor document changes, but expediency is lacking in an office with one day per week reserved for availability to the public

On Wednesday, November 30, 2005, Olha Zinchenko explained by email her visit to Architectural Bureau, the delays, and wasting of time. In order to proceed with documents of the project of reconstruction, the name of a contractor that will do the work must be provided. In order for Olha to change the contractor, due to an inability of one contractor to commit to a price for all work, Olha was required to get the signature of approval from the Architecture Department. The office told Olha that she had only one day per week in which she could make the simple change to documents and obtain a signature from the appropriate official in this department. She went on a Tuesday, since the change was necessary in order to move forward, and she preferred not to lose one full week while waiting until the following Monday.

"I was yesterday in the Architecture Bureau to change the name of our general contractor, because Jenya's name (the contractor that Olha was no longer working with) was in the documents. It's awful they have only one visiting day- Monday. But I came (on Wednesday) because I need it very urgently. So the women made it for me but I was waiting for here an hour at the morning. Then she came and said that she is busy, and asked me to come at 13.00 (1:00pm). When I came (back) I was waiting one hour and a half, 'til she changed the name of the general contractor. That took only 5 minutes of her time. Can you imagine that? (Olha Zinchenko, December 1, 2005)."

For such simple changes that are necessary to such projects of reconstruction, it would seem appropriate for officials to make themselves available more than one day per week. Without such changes involving signatures of officials, progress may be halted for any entrepreneur. It
is fortunate for Olha that she was able to convince the officials to make the quick change to the documents, despite the fact that the officials in this Department of Architecture had no interest in expediency. The inconvenience for Olha was equivalent to the loss of much of her day, when only five minutes were required for the name change.

7.4.11. Visits from the Fire Inspector and the rationale for purchasing a smoke detector from the fire inspector/department at above market prices

Also on the Tuesday, November 30th, Olha was able to meet with the fire inspector, who was offering fire alarms for sale and installation:

“Yesterday the man from the fire station was coming and he was checking all the documents. Everything with the documents was ok. He said we have to put in (buy and install) the fire detector, and also they can do (sell and install) a burglar alarm. I don’t know if we need it? I mean the burglar alarm? If we will be putting the (steel security) bars on windows? Today he will come and will bring the estimate for the fire detector (Olha Zinchenko, November 30, 2005).”

A few days later, Olha received the estimate and wrote “The men from the fire department gave the price for the fire detectors: 1375 grn. (about US$275)... For this money we will have only the alarm and the installation of that alarm that will be making a big noise if it will detect the smoke (it is not sending a signal to the fire department) (Olha Zinchenko, December 2, 2005).”

Below are photos of the two expensive (and too expensive) fire detectors:
Figure 7.7. One of the fire/smoke detectors purchased from the fire department inspector for about $275 combined.

Figure 7.8. Another fire detector that was sold by the Fire Department at above market pricing ($275 for two).

The fire department’s price on the fire detectors was certainly not the most competitive, according to estimates by the contractor named Genya. Previously, in August, the
contractor named Genya had insisted that if Olha would buy the detector from a European firm at a better price, and not buy the detector from the fire department (and pay the extra money for it), then, in the future, the fire inspectors would return regularly in order to extract bribes, ‘extra money’, or create other problems whenever their cooperation with permissions and approvals may be needed.

During the month of August, while discussing alarms with the contractor Genya, the question of whether the fire departments alarms actually work (reliably). Genya replied “maybe, but we have a saying here: ‘the best alarm is an old babooshka (grandmother)’. as they can be relied on to stick their heads out the windows and holler about fire. On the question of the burglar alarm, which would require a monthly fee of about $100 in order for it to be monitored by police, the question was raised, ‘If purchased from the fire department, will the burglar alarm actually work, and if it goes off, will the police actually come?’ In response to this question, the answer that our contractor, Genya, and another local businessmen (who leased out offices) offered was “maybe”, or “maybe, but there is no telling how long it will take them to get there.” All agreed that there was no guarantee that police would respond and assist in case of sounding and signal of the burglar alarm.

Although these opinions of local Transcarpathians represent speculation, the valuable points include the following: It is a common perception that the police cannot be relied on to respond to alarms. According to common perceptions, it is also not known whether the actual burglar and fire alarms will function. People, such as the contractor Genya, have suggested that it is necessary to purchase and install the fire alarms of the fire inspectors, if one wishes to avoid problems with the fire inspectors in the future. So, Olha hired the fire department for the installation of the fire detectors, and would trust steel bars for security.
7.4.12. Registration of the Firm:
Experiencing the “One Window” (Chamber of Registration) for simplified business registration of the firm’s legal name: despite some negative aspects, it is a breakthrough for entrepreneurs, but the broader and more complicated process of registration of the firm requires visits to five more Departments (including the ‘Funds’)

In an email from Friday December 9, 2005, Olha described how her Thursday was spent in an effort to submit all application documentation in order to obtain the registration of the firm New Horizons of Transcarpathia (recall that the previous experiences of a ‘registration’ process involved only the registration of the flat as a ‘place of work, as it had been a ‘place of residence). It is in this registration of the firm, a limited liability company (LLC), that Olha would test the claims of the officials. They assured that the process would necessarily take one week or less for all applications submitted as of July 2005. Olha Zinchenko’s experiences with the office known as the ‘One Window’ for registration (of business firms), also known more formally as the “Chamber of Registration”, indicated a need for increased office hours and an increase in staff.

“(Yesterday) I have given all the documentation for the registration (of the firm). I was waiting in turn from 7.30 morning till 11.20am. So many people make different registration or liquidation of the firms, and all that is done by one person who works only from 8.00 till 12.00 (4 hours). On the first day when I came, I was waiting for 2 hours and it closed (before it could be my turn to be assisted). On the next day, I came at 7.30am (again) and there already were 15 people! They (Officials) have told me to come on Monday and to get known if the firm was registered. I have paid for registration 170 grn plus 12 grn for the notary’s copy of the power of attorney (Olha Zinchenko, Friday December 9, 2005)”.

Perhaps it is a good sign that the number of entrepreneurs attending to matters pertaining to business registration at the “One Window” has been sufficient to require an expansion of hours and staff in that administrative office.

On Monday, December 12th, a positive outcome was observed, indicating that the One Window functions as officials described, yielding results of registration in less than the stipulated maximum of one week. Olha was informed that the certificate of registration for the firm’s name and status as a legal entity was completed and available for her. This may be
regarded as a real breakthrough in terms of the Transcarpathian Oblast’s administrative reforms, which were implemented following instructions from the President and his administration after the beginning of his term in office. Olha Zinchenko wrote an email stating that she received the registration of the firm. This is terrific, since she applied only on the previous Thursday at the “One Window.” They were required to have her registration processed and completed within one week, and it took only three business days! This is a strong indication that some things have improved. It no longer takes up to two months. But, unfortunately, the broader process of a more comprehensive registration had only just begun:

“I have got the certification (of registration) today, now I need to register in different (offices and) funds (as follows):
1. statistics
2. tax department
3. tax police (currently, no interview required of founder or director, another improvement for the administration)
4. funds (5 of them) (Olha Zinchenko, December 12, 2005).”

Unfortunately, Olha discovered that the ‘One Window’ would not also register the firm in each of the offices that require full documentation of the firm and a notarized copy of its founding document, the statute, as well as an assortment of other documents and declarations. In effect, although the ‘One Window’ completed the registration of the firm as a legal entity with an approved name, Olha was subsequently required to ‘register’ the firm in each of five additional administrative departments, thereby completing a much broader and inconvenient registration process that actually spanned five additional administrative departments. So, at the “One Window”, Olha Zinchenko experienced a mix of recent improvements in efficiency as well as the remaining sea of red tape. In regard to all aspects of the overall registration process, the potential for substantial reform still exists.

The certificate of the firm was prepared and dated December 8, 2005, as may be seen on the following page:
Figure 7.9. The result of registration: Certificate of Registration of the firm “New Horizons of Transcarpathia”.

СВІДОЦТВО
ПРО ДЕРЖАВНУ РЕЄСТРАЦІЮ
ЮРИДИЧНОЇ ОСОБИ

ТОВАРИСТВО З ОБМЕЖЕНОЮ ВІДПОВІДАЛЬНІСТЮ
"НОВІ ГОРИЗОНТИ ЗАКАРПАТТЯ"

Ідентифікаційний код юридичної особи 33925589
Місцезнаходження юридичної особи 88000, ЗАКАРПАТСЬКА ОБЛАСТЬ,
м. УЖГОРОД, пр. СВОБОДИ, Б.28, КВ.33
Місце проведення державної реєстрації ВИКОНАВЧИЙ КОМІТЕТ
УЖГОРОДСЬКОЇ МІСЬКОЇ РАДИ
ЗАКАРПАТСЬКОЇ ОБЛАСТІ
Дата проведення державної реєстрації 08.12.2005 р.
Номер запису про державну реєстрацію 1 324 102 0000 001656

Державний реєстратор Т.І. ЛЕПІК-КОРОПЕНЬ
7.4.13. Continuing Registration: A puzzling visit to the Statistics Department: “I could not believe it was real, how is it possible?”

After the success at the ‘One Window’, and shortly after receiving the certificate of registration form that office, Olha Zinchenko went to the Statistics Department with that certificate and an additional notarized copy of the “New Horizons” Statute document for the purpose of discovering what lists of reports the firm “New Horizons” must make, and how often they must be made. She was particularly bewildered by the administrative official’s instructions that she must make reports about the business of graduate school, the business of kindergarten, and the business of medicine. Apparently, the required reports were so numerous that such completely irrelevant items must have slipped past the officials. Olha described the somewhat comical situation looking back in an email from January 11th, 2005:"

“From very beginning for the registration of the firm, you should give the documents and pay for the registration 170 grivna to the Municipal Executive Committee, after the 3-d day passed the certificate of the state registration (the copy and translation of which I have already sent to you) was ready. After that I had to register in the Statistics Department, where they give the registry number and give the list of reports, according to the firm’s kind of (business) activities, that you should give annually, monthly or quarterly. This registration cost (varies) depending on the urgency. If you want to have it at the same day you should pay 24 grn, if you want to have it the next day you should pay 18 grn, or in a week 14 grn (you must ‘pay for speed’). Therefore, we got the list of reports, but they give to me the list with the reports that were not suitable for us, for example, they wanted the report about the work of graduate school, kindergarten, and about medical department. (as in hospital or clinic). After I had told them that we are not going to have such places, they had to change the list of reports. Now we should give 4 annual reports, 3 quarterly, 1 monthly. We should give annual reports for 2005 in spite of we were not working (in 2005) and had registered only 15 of December (Olha Zinchenko, January 11, 2005).”

Olha’s experience with bureaucratic absurdity seemed akin to those types that were the subject of the satirical playwright, Nikolai Gogol, in such plays as “the Government Inspector”.

During a phone conversation, Olha laughed and remarked, “I could not believe it was real, how is it possible?”
7.4.14. Continuing Registration: Discovering the Tax Department

After her visit to the Statistics Department, Olha moved on to her first visit in the Tax Department, which became more complex. On January 25, 2006, Olha wrote an explanatory note, looking back on her experiences with these departments:

"After statistics, I went to the Tax Department, where I wanted to know which documents for the registration in the tax department I needed. The woman was not very polite, she could not explain to me what is the procedure of registration, and she had told me that I do not need to give the copy of the statute. In addition (and inconsistently), when I came (returned) with all the (other) documents, the other women asked for the copy of the statute.

So, to be registered as a 'single taxpayer' (taxpayer of this type of tax) I should bring the certificate from all of the funds that we have no debts on payments to all of 4 funds (Pension fund, Fund of Social Insurance on the Cases of Temporary Disability, Fund of Social Insurance on the Cases of Unemployment, Fund of Social Insurance on the Cases of Accident in the Industry and Professional Diseases).

It was very strange; that we had to bring the certificates from all of the funds (in order to prove) that we have no debts on payments, since we were registering for the first time (so how could we have debts as an established firm, if our firm did not yet exist?). It seems to me stupid and not necessary (Olha Zinchenko, January 25. 2005)

Olha has illustrated the organizational inconsistency of the Tax Department, as well as questioning the basis (or lack of basis) for some documentation regarding debts of a firm that does not yet really exist, as was is not fully registered nor operational.

After registration and her initial visit to the Tax Department on Thursday December 15th, 2005, Olha began her necessary visits to the many "funds", all at different locations in the city. This was time consuming, tying up the better part of a week as Olha walked and waited.

7.4.15. Continuing Registration: Requisite visits to the ‘Four Funds’ during the firm’s registration process:

On Friday the 16th of December, Olha began to make her way into the ‘Four Funds’.

Later, in January 2006, in reflection, she discussed her experiences of visits to the four funds.

"1. Pension Fund
In the pension fund I have a friend in the section where I give the monthly reports on the number of workers and our payments to the pension fund for each of the worker. But I saw that if you have no friends it’s very hard to get some help from any of these state employees."
2. Fund of Social Insurance on the Cases of Temporary Disability
Here we should give the quarter report.
3. Fund of Social Insurance on the Cases of Unemployment
These two funds were normal. I can’t say anything bad or good. They were just ordinary. We should give monthly, quarter and annual reports.
4. Fund of Social Insurance on the Cases of Accident in the Industry and Professional Diseases. That fund already prepared all the documents when I came and was ready to send me them by the post. They were polite and I’d like this fund. They were rather helpful. All of these funds had to do that (should have done that), because when I registred in the City Executive Committee, they have sent by e-mail to all of the fund the information about us and all of them had to prepare the documents, but it’s not happened (no one had prepared anything as they were meant to do) (Olha Zinchenko, January 27, 2005).

The note on the “Fund of Social Insurance on the Cases of Accident and Professional Diseases” is significant, as Olha has noticed and appreciated that one (only one) of the four funds had all necessary documents fully prepared for her and ready to be picked up. This should be possible for all Departments and Funds, as the ‘One Window’ had emailed out all the relevant information to each Department. Perhaps, while the ‘One Window’ seems to be functioning better, and the fourth “fund” seems to follow suit with substantial improvements in the fast delivery of results for entrepreneurs, the other supportive Departments could replicate the efficiency of the Fund of Social Insurance on the Case of Accidents in order for the overall registration process to be much more expedient.

However, not all experiences in the funds were as smooth and pleasurable as had been the case with the Fund for Social Insurance on the Case of Accidents. During the time of her visits to the several ‘Funds’, Olha emailed comments detailing events that led to an increase in her frustrations. Below are notes from an email dated December 16th 2005, where she elaborated on her then recent experience in the Pension Fund:

“Hi Robert, about (the four) Funds: (First,) in each fund they were asking for folders that I had to buy, although they should have it by themselves. But they explain that they are so poor that everybody buys it for themselves personally.

1. Pension Fund: It is situated in the place that is very hard to find if you don’t know where it is. Clerks are sitting there with faces like I’ve borrowed money from them and (am) not going to return it! It’s good that I found my friend there by chance (working in office as lower level staff). (She) helped me to understand what kind of reports we
should bring each quarter, and (she) gave me (an) example of how to do that. To be on
the 10% tax I should apply for information that we have no debts in paying fees to this
funds and it’s not interested them that we are registered for the first time!!! That’s
nonsense!!!!

General to all funds was that when they give (provide) that informative letter that we
have no debts. I should go to their chief (for him to) sign it and sometimes I should
wait an hour just to sign the paper, because chief was busy. Nobody could sign except
him, but the most interesting (part is that) he even didn’t read it (other funds were):
2. Employment Centre.
3. Fund of Social Defence.
4. Fund of the Defence from the Accident.”

So, after (registering in) all these funds I went back to the Tax Department and registered there.

On Tuesday I will go to take the documents and will go to make ‘the Stamp’ (firm’s official
stamp). That will cost 240 grn (Olha Zinchenko, December 16, 2005).”

7.4.16. Continuing registration: During registration, the need for an additional document
and permission arises: The ‘Gas Passport’

In the process of completing the firm’s registration documents and certifications in
all five departments. Olha learned that she must obtain another certificate, the “gas passport”
regarding gas and boiler training, email dated Friday, December 16th:

“As a chief (director) of the firm I should have the certificate that I will be responsible
for the boiler exploitation and only with that certificate I can make the next documents,
the “gas passport”. So to get this certificate I have passed the (required educational)
courses for which I have paid 170 grn. And today I had an exam (for the state required
course) that I’ve successfully passed. So you see that we have a lot of money
contingencies! … and much time that I spent going there and learning (Olha Zinchenko,
December 16, 2005).”

To be sure, Olha was learning more than she expected.

7.4.17. Continuing registration and finally concluding the broader aspects of Registration:
Back to the Tax Department:

At a later date, in January 25th, Olha Zinchenko reflected on her December 2005 visits
to the Tax Department, where she took with her certificates from each of the four funds:

“So after I had all the certificates (from all the funds) I went again to the Tax
Department and wrote an application for the permission to have the stamp and to use
the accounts of the firm for payment to the contractor, who had begun working in a
race against the coming winter.
When I had asked the woman (at the Tax Dept) who was taking the documents from me if I need to come again she had told me that I do not need to come back (but she was wrong). Later, I got to know from the book, that I had to have the certificate (stating) that we are on a ‘single tax’. So, I came and get it. Moreover, the woman was not telling me about that. They are not going to tell any information without (the entrepreneur) asking them, they even did not say that they have consultations (available, as they do).

So, in the Statistics Department, as I’ve mentioned before, I have a friend and she have asked one women to help me in all of the reports (I have sent you an e-mail about this reports). Some of the statistics workers are helpful, but some of them are not ready to help you (Olha Zinchenko, January 25, 2006).”

Finally, after presenting all documents to the Statistics Department, Tax Department and the additional four Funds, and after filling out required reports, and encountering some unhelpful officials in the Tax Department, Olha had completed all steps of the broader registration process. While it is interesting that the Tax Department allegedly has consultations available at no cost to entrepreneurs, if it is true that consultations are in fact available, then perhaps the Tax Department could make an effort to make people aware that consultations are available.

This is a simple and easy recommendation to make.

7.4.18. After all aspects of the broader registration are finished, Olha Zinchenko must seek more approvals: Approval to operate a business in the spheres of ‘translation’ and ‘language training’

After “registration” of the firm as a legal entity was completed, and all state ‘funds’ satisfied, all approvals given in the form of ‘certificates’ or other documentation, Olha Zinchenko pursued information on how to gain the approval, or certification to operate a business involving the translation and language training, even though it was mentioned in the firm’s founding document, the “statute”. Olha’s earlier email of Monday December 12th, 2005 indicated the difficult journey ahead:

“(Today) I was in the administration. If we want to have just the simple courses of English or Russian or any other language, we need to gather next documents:
1. Statement that we want to be involved in this kind of activity
2. Our statute
3. The copy of the decision to open this centre
4. The copy of our registration
5. Identification code
6. Conception of the activity (purpose, principles of activities, perspective)
7. The copy of the right of ownership for the place where we are going to have classes
8. The copy of the formed statute from the bank
9. The conclusion of the Fire Inspection, Sanitary (Inspection) and Protection of work about the adaptation of the rooms for the classes
10. The copy of the diploma of the director (Olha Zinchenko, December 12, 2005).”

Unfortunately, the registration of the firm in so many departments could not include the language-training element of the business. For such permission, the ten documents and permissions listed above must be supplied. To achieve this objective, or permission, Olha must petition the City Executive Council (of City Council) again, this time for a more specific permission to use the business property, a ‘place of work’, currently designated as a commercial ‘office space’. The new designation must include the element of ‘place for education’. Due to the infrequent meetings of the City Council’s Executive committee, this step may take some time (at the time of this writing, it is late in February 2006). Olha has been instructed by officials at the Architectural Bureau that she must finish all phases of reconstruction and approvals before concluding this task of requesting certification for the language training aspect of the business. This will delay the opening of the business.

7.4.19. During the early phase of actual construction, “insolent” officials are disappointed as Olha denies them fodder for bribes:

In an email dated Sunday, December 25, 2005, Olha Zinchenko reported what seemed to her to be an overwhelming number of bribe seeking officials.

“Hi... How are you? How were your holidays going on? Here is the letter I’ve promised you. So about inspections: After we started working, the inspectors from Electric Power Inspection (local first, then regional, or Oblast) came. They were very insolent in their manners, because they were sure that we steal electric power and we will (must) bribe them to hide that. But were very upset that everything is legally (done).

Then from Housing Bureau came, (as they were concerned) that we brought the sand to the yard. But how could we build (reconstruction) without the sand?”
Then the man from Fire Department came to see the required documents. He said that we have to put the fire door (at the small office space, former kitchen). But this door could be found only in Mukachevo (and that it would take two or three months to measure and produce one). So, he said that we can put just the ordinary door and then he will talk with his chief and will solve that problem (Olha Zinchenko, December 25, 2005)."

Below is a picture of the newly purchased and legitimately (and privately) installed ‘electricity counter’ that had been installed, thereby helping to thwart the efforts of bribe-seeking inspectors men from the local and Transcarpathia Oblast Electric Power Inspection office:

**Figure 7.10.** The properly installed ‘electricity counter’ derailed attempts of extortion by Inspectors.

Regarding the fire door, Olha expected that the action of keeping an ordinary door, as suggested to be possible by the fire inspector, would entail a bribe in order to allow the door to remain a non-fire door. She has not been asked for money as of March of 2006. It may be argued that her agreement to buy the overpriced fire/smoke detector from the fire inspector was enough (at least for now?). Of course, there is no conclusive evidence for this possibility, as it involves speculation based on a counterfactual argument.
This was a particularly harrowing day for Olha Zinchenko, as she dealt with a number of bribe-seeking officials. To her credit, her efforts to take the extra time and work in order to make all details as legal as possible seems to have paid off. On this day, she managed to evade the attempted extortion by the lower and mid-level officials and inspectors.

7.4.20. About contractors and reconstruction issues

Just as in the first case study of Koodreashka, many contractors support and encourage, or even insist, on the use of informal verbal contracts in order to avoid the 30% tax on the negotiated price of what would be a legal contract. After January 2006, the problem may become worse insofar as Ukraine’s share of construction work that is effectively shielded from taxes by participation in the shadow economy. The reason is simple: a new law has increased the tax to 35% on the official contracts of construction after January 1, 2006.

“So (about the) entrance, I’ve meet with the reconstruction man today and with one of his workers. And the situation is next: To make the entrance cheaply he said we could talk with his worker and pay him in cash less money because there is a new instruction from Verkovna Rada about taxes on construction projects about 35% tax on the construction activities, so tomorrow this men will tell me how much it will cost. It’s a good variant (Olha Zinchenko, February 8, 2006).”

Since administrators and elected politicians may not legally participate in business, and since so many have close ties to many businessmen of all types, we may speculate as to why such laws would be enacted. Perhaps a higher tax on formal and legal contracts would ensure the sustainability of, if not increase, the informal construction contracts so that they may remain operating in the shadows. People typically view such tax increases as an impediment to entrepreneurs and small businesses, and they view the tax increase as contrary to what Yushchenko had promised during his election campaign, increasing support for small business. The tax increase is one more piece of evidence offered in an effort to support and explain the growing argument that Yushchenko failed to deliver on his promised, and that the “Orange Revolution” is now over, if it was ever genuine at all.
In the Transcarpathian case study, we may look back to examine the manner of business as conducted with each of the several “remont men”, or construction contractors. All were able to work within informal verbal agreements, but few were readily agreeable to participate in formal contracts.

The first “remont man” wanted up-front payment of US$250 just for putting together an estimate…before disclosing how much he would charge. He was thanked for having a look at the property and then dismissed. Payment before an estimate is offered offers no incentive for a contractor to make a genuinely competitive bid. A second ‘remont man’ resisted any formal contract that might be made with the necessary inclusion of the official tax that would drive the actual price of the agreement up. The second contractor offered two variants of work to Olha in August 2005, “So, we can do it two ways, you have a choice. Do you want us to make a ‘Krainskii remont’ (Ukrainian style repair, or construction), or do you want ‘Europa remont’ (European style repair)?” When asked what did he mean by Ukrainian and European styles of repair, he explained: “Well, with Ukrainian repair, we would sort of just clean up and paint over everything…we would not really fix much. We pretty much just leave it as it is and paint over everything. With European repair we do everything right.” He was, to his credit, willing to offer an informal and less expensive verbal contract as well as a formal and legal contract that must reflect the 30% tax added into it, he too was eventually thanked for his time.

A third remont man came recommended as highly skilled, and his manner was polite and professional. However, he was for some reason unable to create a bid with a firm maximum price for the work of all ‘remont’, although many aspects had been broken down for an understanding of cost for most aspects of the larger project. Since he was unfortunately unable to make such a commitment, a verbal or formal contract could not reasonably and reliably expected to exist. After a generous period of time was spent waiting for his bid that
would not arrive, Olha had to find another contractor that could and would make that commitment.

Finally, Olha encountered and hired a contractor that was very professional and willing to make a firm commitment on paper, in a formal contract. He was able to offer a reasonably priced contract, including taxes, for just over US$12,000. How would do all aspects of the major reconstruction, including the reconstruction of the exterior, such as masonry, tiling, and fully installing a front porch with pillars and an elaborate custom built front door.

As Olha wrote in an email dated Friday, November 11th, 2005, she was happy to have found a straightforward contractor:

“\textit{I have met a reconstruction man a couple of hours ago. He is a very good guy. He showed his license and all the certificates. He has made an estimate that has a serious look, not like Genya (an earlier contractor) has made. He has made two estimates. One of them is for the expenses of materials (detailed 5 pages) The other one for work (9 pages). Later, I will try to translate it. It is very detailed so it will take some time. My father likes this man too. The final sum is US$11,000 to $11500. So, he can start on Monday. The first expenses will be for the windows (that will be done in perhaps two weeks). Then (the next task is) to make the entrance, the front door area. But we should start on Monday. Otherwise soon it will be too cold. It will take 30-40 working days to finish everything (Olha Zinchenko, November 11, 2005).}”

Olha, with a more professional contractor, was able to obtain a commitment to all agreed details of materials, workmanship, time and price. The change in the name of the contractor had to be reflected in the technical documents of the project of reconstruction, as discussed earlier.

After reconstruction is completed, after Olha is able to obtain all requisite approvals upon inspection of the finished project of reconstruction, and after Olha is able to secure the change in status of the firm and property so as to include the translation and language services, the business may open. From this point, three steps must be completed in order to bring the case study to a close.
7.4.21. After reconstruction is completed, extensive final inspections and approvals must be obtained

Just as in Kharkiv, the document of the ‘project of reconstruction’ required many permissions and approvals in order for construction to begin. Likewise, after the phase of construction is completed, each new firm must begin the extremely important process of undergoing subsequent numerous inspections by many oblast administrative departments that will hopefully result in gaining all required signatures and approvals. Only then may the business be able to open and conduct operations. Olha Zinchenko explained that ten department heads form one list must give their permissions, in addition to approvals and permissions from a second list of people in 12 other oblast administrative organizations. These signatures must be followed by up to 33 other approvals, or “acts” (distinct documents) that must receive permissions from the relevant departments. First, in her February 25th, 2006 email, Olha provided details of the ten people (official positions) whose signatures must be obtained in order to verify completion of all phases of reconstruction.

"There is a state committee that gives the final permission ‘for maintenance’.
This committee consists of 10 people:
1. the First Deputy of the Head of the City (Mayor’s Assistant)
2. Head of the Architecture Department
3. Head of the Architecture Inspection
4. Chief Sanitary Inspector
5. Head of the State of Emergency Department
6. Head of the Ecological Inspection
7. Head of the Labor and Social Security Department
8. Head of the State Inspection of the Protection of Labour
9. Head of the State Energy-Saving Inspection
10. Head of the city Economy Department (Olha Zinchenko, February 25th, 2005)."

In addition to the preceding ten departmental heads, an entrepreneur must gain signatures from the following twelve departments in the effort to gain final approval of completion for a project of reconstruction. Olha identified the twelve departments that must sign off on documents, as written in her email of March 11, 2006:

"So this list from Architecture Bureau consists of the 10 people that I’ve
written to you about (previously) and (plus) 12 places that are not connected with these
10 people (the additional twelve are enumerated below):
The 12 places (or Departments):
1. Geodetic Department of the Architecture Bureau:
2. Water Department
3. Central Heating Department
4. Electricity Department
5. Gas Department
6. Fire Department
7. Sanitaric Department
8. Housekeeping Department
9. Architecture Department
10. Foreman
11. Bureau of technical inventory
12. Customer (owner of the flat) person or firm (Olha Zinchenko, March 11th 2006)."

In order to have the actual reconstruction being approved and ready for business, Olha must
also complete the task of gaining all signatures for approvals known as “acts” listed on the
following eleven pages from the Architectural Bureau. These pages outline the above-
mentioned twelve departments and the 33 distinct approvals and documents that must also be
acquired and signed. Numerous permissions are necessary for this stage in the development of
an operational business. The first ten heads of departments, plus the next list of 12
departments, and up to 33 “acts”, or approvals, totals 55 signatures and documents required for
final approval of completion for the project of reconstruction. Clearly, this process, required
for navigation by an entrepreneur is magnificent...extremely burdensome. Some of those 33
documents, or “acts” will not be necessary when completely irrelevant to the nature of any
specific firm. Unfortunately, an entrepreneur must argue with officials from the Architectural
Bureau for the relevance and irrelevance of specific acts.

Thus, such need for approvals, documentation, and signatures by officials pending
numerous and seemingly never-ending inspections may be construed as a significant
impediment to the creation of businesses of any size. Of course, recalling the IFC study, any
entrepreneur in any oblast of Ukraine might expect these experiences. The IFC study by
Yacoub and Senchuk seems validated once again. These numerous permissions and ‘acts’ are
only some of the approvals and signatures required in order to have only a chance to open a business. They do not include monthly and quarterly reporting by the business to the administration, and they do not include the periodic inspections by officials that all businesses may be subject to after opening of the firm. Shortly to follow, in one extended figure, are the eleven pages, in Ukrainian, of signatures and the list of 33 approvals/permissions known as "acts". Presented first is the translation of the list of the twelve departments and 33 required "acts", as provided by the Architectural Bureau, as provided in an email by Olga Zinchenko on Friday, March 17th, 2006:

"Sorry, that it is so long... (below, the word “taking” means acceptance or approval).

I. Geodesic department (it’s a department that makes analysis of the soil, this department should put a stamp if you building a new house, before building they make analysis of soil)
   1. geodesic layout base for building
   2. geodesic outline search of the engineering net

II. Water department
   3. statement of taking of the external water-supply
   4. statement of taking of the external sewerage (system)
   5. statement of taking of the internal spillway of water, drainage

III. Central-heating department
   6. statement of taking of the internal heating system
   7. statement of taking of the heating point

IV. Electrical department
   8. statement of taking of the external power supply
   9. statement of taking of the internal wiring, electrical equipment

V. Gas department
   10. statement of taking of the external and internal net and system of gas

VI. Fire department
   11. statement of taking of the fire water supply system
   12. statement of taking flame safety system

VII. Sanitaric department
   13. water analysis
   14. statement of the radiation inspection

VII. House Keeping bureau (for building maintenance)
   15. information about care of grass and nature around the place
   16. statement of lift preparedness
   17. statement of taking of the trash chute
   18. statement of taking of the works of the packaging of engineering service input
   19. statement of taking of the internal spillway of water of the house
   20. statement of taking of the ventilation system

IX. Architecture bureau
21. architecture-technical passport

X. General contractor, engineering supervision
22. statement of taking of the heating system
23. statement of taking of the internal system of water-supply
24. statement of taking of the internal sewerage (system)
25. statement of taking of the balancing and commissioning (a document that approves the readiness of any equipment such as in a factory)
26. certificates of the readiness of the materials that were used in the hidden works (hidden parts of work in structure, during construction)
27. statement of performance of different measures on the territory with soil
28. statement of taking of the hidden works (wires and so on)
29. register of the follow-on, carried out works
30. statement of taking zero cycle (at the time of this writing, mid March 24th, 2006), Olha has not been able to discover the meaning of “zero cycle”)

XI. Bureau of the technical inventory
31. certificate from the Bureau of the technical inventory (a department regarding ownership of property)

XII. Customer (owner of property/office)
32. statement of taking readiness of the TV aerial
33. statement of taking readiness of the telephone, radio, TV, alarm system (Olha Zinchenko, March 17th, 2006)."

The 12 departments and their 33 acts are clearly enumerated. There is a chance that some acts will not be necessary, such as the approval of the trash chute and elevator, which are part of the state owned building. For example, there is no manufacturing equipment that could possibly be approved, but the task remains on the list of approvals to be accomplished (item 25). Also, Olha is not aware of any trash chute or any responsibility for such a chute on the part of the firm New Horizons. Likewise, perhaps the soil analysis for the state owned building will also be irrelevant, but it is unclear at this time. Acts regarding the TV aerial and radio may also prove irrelevant and unnecessary, since they have no bearing on the firm New Horizons or the newly designed structure. The acts, or approvals, and a multitude of accompanying signatures must be entered on forms supplied by the Architectural Bureau. See the appendix for the eleven-page list of approvals. Keep in mind this is only for one department and just regarding
the completion of the ‘project of reconstruction’ and its approvals required prior to operation of any business.

It is very interesting to note that when Olha Zinchenko, during the last week of February, 2005, attempted to visit (twice) the Architectural Bureau in Uzhgorod Transcarpathia in order get a copy of the eleven page list of signatures and 33 approvals needed for certification of the project of reconstruction project, she was rebuffed by the woman in charge. The woman at the Architectural Bureau sternly told Olha that Olha did not need this document:

“The first time that I went to ask for this list at the Architectural Bureau, they told me that I could not have these documents, not now...(But after going back a few days later)... She said to me that I did not need these documents, this list. She said that I should come for it later. She refused to give it to me, but I insisted. I had to convince her who I was, that I was connected to the firm and that we need to know what we must do next, after the reconstruction is finished. After I proved this to her by showing her all documents (personal and of the business) she finally gave me the list, but she did not want to, it seems because we are not done with the reconstruction yet, maybe. It was also very difficult because the department (Architectural Bureau) will only see people about this on Monday mornings from 8am to 12pm! Yes, only four hours each week. But I just went back (repeatedly). (Olha Zinchenko, February 25th, 2005).”

In this case, the officials at the Architectural Bureau were clearly acting as impediments for an entrepreneur, as they obstructed even the provision of a list of approvals that every entrepreneur must locate and fulfill in order to proceed to the next step after finishing reconstruction or remodeling (which is almost always necessary). With this bureaucratic tradition at this office, an entrepreneur has absolutely no way to make plans and timelines for tasks that must be met in order to satisfy the demands of the administration. Perhaps all lists of approvals, required signatures, permissions, and phases of any such procedures could and should be simply made readily available for anyone and everyone interested. Copies of the ‘lists’ could simply be put on a shelf or table near the door for anyone to take. It would not hurt to have the office available to the public for more than four hours per week. regarding such matters. Again, we have solutions in very simple and manageable reforms for this particular office.

316
There is no legitimate reason for secrecy of the lists, if the administration (higher up) would really like to expedite the creation of business firms and facilitate the pace of economic development. On the other hand, perhaps a small bit of ‘extra money’ would deliver such lists during any hour of operation. But, to her credit, Olha Zinchenko has been trying to avoid payments of bribes unless absolutely necessary. In such instances, if we may use an analogy of driving a car, the administration “has its foot on the brake”. As I write this, Olha has been trying to overcome the frustration that comes with such experiences with uncooperative officials.

During the first four weeks invested in gaining signatures and approvals, Olha gained over ten signatures of those required. She regards this as successful, and even a bit easier than she expected. She usually works full time in her effort to acquire signatures, with the exception of a few days off during one of the past four work-weeks.

On Wednesday March 22nd, 2006, Olha summed up some of her experiences regarding her past several weeks in pursuit of approvals from the list of 33 acts from the Architectural Bureau.

“So the first signature I’ve got from the head of the Energy Saving Department. I went there on the 23 of February (Thursday) and filled in the request for the inspection of the office (our office, the inspector should (must) come and see if everything done in the proper way) and for the statement of gas start (the permission for the starting of the gas feed). So these documents for the cost of the gas feed start statement (are) 60.24 grn. and the inspection (costs) 75.30 grn. So after I’ve fill in the request secretary asked to come on Monday...

So on Monday I’ve made an appointment with the inspector (Energy Saving Dept). He asked me to come on Tuesday with the car and pick up him and bring him to the object (our office).

On Tuesday I gave him all the documents and he went with them to his chief (head of the energy saving department). And after dinner-time, the same day. I’ve got all signed documents. It was the 28 of February. This inspector had told me that I should bring him a bottle of champagne for speed (it was a joke as I understood).
So (about) the approval from the Gas Department. I’ve got (it) on the 6 of March, because if you remember we’ve paid for the documents to the gas-man (previously). After I’ve gotten the approval from the Gas Department (the same for Water and Electricity Departments) we have to sign a treaty with this department for the gas (as with water, electricity) supply and the prices for office are higher than for the simple flat.

I’ve paid 46 grn. license fee for gas, for the time that gas was used before we put the new gas system. It was about 4,60 grn per month and I’ve paid for all this time by one bill (for 10 months), and actually (paid) for the approval, 24,56 grn.

About Water Department:
As I said before (during a prior phone conversation) my classmate helped me (obtain the approval). It took (only) about 4 days. And (it was) almost free, (and) about 13 grn. for the water that was used before I applied for these documents (inspector statement).

And now I’m doing the Electricity Department:
For them I should bring documents from the House-Keeping Department) (saying) that they (House Keeping Department) agree to these technical conditions.

I should (also) have the information (proof) that we don’t have debts and I could have it only when inspector will come and have a look.
So, after I’d made all these documents during these days, I went today to the Electricity Department, applying for the technical conditions for electricity (it cost 328.99 grn.). This will be ready in 15 days.
It could be done in 7 days but than it will cost (100 grn. more).
(Following this step), we should call (request) from the (agency) a specialist who will make different electrical measurements.
So it will be a long story for this one (Olha Zinchenko, March 22, 2006).”

Olha has dedicated much time and effort to obtaining all required signatures from the 10 people, 12 departments, and 33 acts, but at least one thing has been positive. Even though an entrepreneur may have the option to pay for speed (within normal fee schedules), and even though an entrepreneur must sometimes pay ‘extra money’ for the inspection in addition to the actual fee for approvals (acts, permissions), it appears that many officials have not openly extorted bribes from Olha. Yes, it is good news.

One official, the man from the Energy Saving Department, may have viewed his request for the bottle of champagne (from Olha) as a possible bonus, but even without the champagne he did not impede the process of making and delivering the “act”, or approval, to
Olha. Of course, we must notice that the speedy delivery of that one official's approval was obtained in an extraordinary display of efficiency, as it was offered to Olha only in the evening, after dinner time, by the male official who had suggested Olha bring champagne. So, in this extraordinary instance of efficiency and courtesy that resulted in the same-day delivery of the approval long after work hours, in a meeting with a female entrepreneur, was the male official only interested in helping an entrepreneur obtain signatures and permissions? Or, more likely, an ulterior motive was the key to his motivation? It is difficult to accept that such accommodations are made for all entrepreneurs, especially in light of the expressed desire for champagne. Likewise, Olha had great success with quickly and effortlessly gaining the requisite approval in the Water Department, but she expressed (over telephone that day) that such ease and speed was only due to the fact that the clerk was her previous university classmate. She noted that others people in line were not receiving the same attention and level of accommodation as she received from her friend.

On March 24th, 2006 Olha wrote of news of her pursuit of the gas technical conditions regarding electrical system and also of the Sanitation Department and Fire Department approvals:

"The price of the gas technical conditions was 300 grn. So it's just for 28 grn. more. It involves a prescription for the electrical system).

So I was yesterday in the Sanitaric Department (on Monday). The inspector asked me to come with the car and pick her up, and bring her to our office to take the analysis of the water. This costs -68,85 grn.

And today I will go to the Fire Department to take documents for the fire alarm from them. They are ready (Olha Zinchenko, March 24th, 2006)."

Recall that Olha had been advised that is she paid the above market rate for fire alarms to fire inspectors, she may be able to avoid further problems such as monthly extortion and refusals to sign off on requisite documents at any future point. So far, this assurance seems true. While the number of approvals seems burdensome, and while inspectors and department heads are not
always easy to locate and for the purpose of obtaining signed approvals, at least it appears that officials are not always refusing to sign approvals pending receipt of extra money, or bribes.

From March through April and May of 2006, Olha continued to work full time at the task of obtaining the requisite approvals. During mid April, the construction was completed, but the approvals were not. The business New Horizons could not open until all approvals on the eleven-page list were received in hand, and a ‘final approval’ received from the Architectural Bureau. Some examples of Olha’s quest for approvals are below, with a couple more experiences of attempted extortion.

On Friday, March 31, 2006, Olha noted in an email how she dedicated much time to seeking approvals from various departments.

“I’ve got today the signature from the Sanitaric Doctor. It’s one of 10 people and one of 13 places. It takes me 5 days (all week) to seek permissions. They made the water analysis (it cost 68.65 grn). It took several days (Olha Zinchenko in an email dated March 31, 2006).”

Later in March, Olha noted payments to technical inventory and to the Electrical Department. She had significant time invested with her business with the electrical department. On a good note, bribery did not seem to be relevant. On Thursday, April 27, 2006, Olha wrote of her progress:

“Last week I ordered an Inventory Case (regarding recorded inventory of all buildings and spaces in the city, and their rightful occupants), the price was 132 grn. I paid in cash, and today the inspector from Bureau of the Technical Inventory to make measurements. So, it will be ready on the 23 of March. ...Without it the Architecture Bureau will not take our place to operation (will not make the ‘final approval’) later.

And about Electrical Department... the inspector from the Security of Labour (regarding electricity matters) already gave the approval. So the next approval I need is from the Chief Inspector of the Electrical Department and it will be the end (of approvals) with the Electrical Department. (Olha Zinchenko, from Email dated April 27, 2006).”

Though her experiences with the Electrical Department provided evidence that bribery was not an issue for these officials, she found requests for bribes from the fire inspector and the inspectors from the Ecological Department. On Thursday, May 4th, Olha wrote the following:
"Approvals...I've got the approval from Fire Department. You remember the story with the fire door...That we didn't put it (install it). (Now,) they wanted the bribe for it. But my father remembered that the Chief of the Fire Inspection is a man that (my father) did one favour for. So we went and my father asked him to sign (his permission). So we economize 200$ (Olha Zinchenko, email dated May 4, 2006.)"

This is a terrific example how entrepreneurs must pay bribes to the administration, unless they happen to have a connection. Olha’s father, Victor, a medical doctor, happened to have helped the Chief of the Fire Inspection in the past.

Olha’s experience with the Ecology Department was interesting. Though the inspector suggested a bribe, it was not required. The choice given to Olha was simple, as the inspector explained. One can pay the fee unofficially ("in hand"), and without registration of the permission on the bank’s official books (as revenue taken in by banks for some administrative departments), but it will be necessary to wait indefinitely for the permission. Or, a person can simply pay the equivalent amount as a bribe in order to get the permission immediately. So, one must pay for speed or wait indefinitely for such a signature. Olha commented on May 6, 2006, on the extortion by the Ecology Department Inspector and the comparative ease in obtaining an approval at the Labor and Social Security Department.

"Hi how are you? I was yesterday in the Ecology Department trying to get an approval. It cost 204 grn. Almost all of the approvals are paid...

About the Ecology Department: When I came they have seen that on the documents is your name, and they said if he is an American let him pay. It cost 204 grn. (about US$40) officially...But if I will go and pay it through the bank (officially) it will take more time and more different documents than if I will pay 204 grn. just 'from hand to hand'. (If I pay from hand to hand, avoiding bank recording of the payment for the signature) he will sign in a minute without any problems.

From the head of the Labor and Social Security Department, I've got the approval in one day. I came, explained everything, and they examine documents and asked a couple questions. Maybe they liked my answers. (they) signed at once (Olha Zinchenko, May 6, 2006)."
Since Olha was dissuaded by the suggestion that legal payment of the fees for permission of the Ecological Department would be followed by weeks of waiting for her signed approval, with no guarantees on time of completion, Olha paid the man ‘just from hand to hand’. It is also interesting that, while the researcher’s name is not on all business documentation of New Horizons, it is on the documentation relevant to the rights of occupancy that fall under the Inventory Control Department, and are thus available for viewing by the Ecological inspector. Thus, we have evidence of negative treatment of Americans. But, the treatment does not seem to reflect any significant discrimination, as the inspectors and other officials have required ‘extra money’ from Ukrainians such as Olha in Transcarpathia and Oksana in the Kharkiv case study. For better or worse, it may be said that the administrative officials do not seem to discriminate at all, they have been seen to extort money from Ukrainian citizens as well as foreigners.

Olha’s experiences regarding the approvals necessary for the closure of the ‘project’ of reconstruction, while still in the midst of the long process of seeking over 50 signatures and approvals, have indicated that it is possible to obtain many signatures without payments of extra money, without any requisite extortion. Of course, this lengthy list of signatures and approvals for the Architectural Bureau’s recognition of ‘final approval’ or completion of the reconstruction project is only one of the many phases of small business creation. Nonetheless, the results have been generally positive, indicating that officials in Transcarpathia are not always impediments to entrepreneurs and small business development…with exceptions noted, such as the prior frustrating instances of extortion by public utility workers, the questionable motives of the inspector who hoped for evening champagne with an attractive female entrepreneur, the Chief of the Fire Department Inspectors, and the inspectors of the Ecological Department.
7.5. New Horizons Transcarpathia, Separating the wheat from Chaff: Corroboration among external perspectives.

7.5.1. The view from 900 small and medium enterprises is largely corroborated by experiences of Olha Zinchenko in the case study of “New Horizons” in the Transcarpathia Oblast

In Transcarpathia, the case study of “New Horizons Zakarpattyia” suggests that administration is largely an impediment to economic development, at least in terms of creation of small and medium sized business. However, there seems to be evidence of improvement. The ‘One Window’ seems to function quickly, as a new firm may be ‘registered’ within the three business days claimed by a top administrator, Mr. Hoblik, as well as others. The progress is marginal, though, when in reality, the registration process of the business firm’s name is registered within those days. The problem remains; in order for a firm to be completely registered, an entrepreneur must visit many offices, including the “four funds”. The Statistics Department and the Tax Administration are involved, and an entrepreneur must negotiate a myriad of complicated approval seeking processes after deciphering the proper sequence of requisite approvals and permissions.

The “One Window”, to be more meaningful in its intended utility, may perhaps be further empowered to organize all such requirements even for the more complicated dealings of the limited liability companies, the LLCs. It is granted that the experiences of firms with ‘private entrepreneur’ status, unlike the LLC firms such as “New Horizons”, may be less complicated due to the simpler nature of extremely small firms. Thus the firms with lower ‘private entrepreneur’ status would be expected to enjoy a more rapid and simplified process of registration. For example, such firms would not require registration of a “statute fund”, nor would they need to prove any minimum deposits must exist in those bank accounts.

Nonetheless, the ability of the “One Window” Registration Chamber to register even just the names of firms, including an LLC, within just three business days seems to be a good start.
Unfortunately, the subsequent procedures required for all parts of small business creation, such as those related to the ‘project of reconstruction’, ‘technological tasks’, frequent inspections, many certificates, approvals (‘acts’), permissions and all licenses related to the actual intended activity of the business, are numerous and extremely burdensome for any entrepreneur. In this way, the administration, particularly at the lower levels of officialdom, appears to be a significant impediment to the creation of new business firms. To be fair, the officials of Transcarpathia appeared to be genuine in their concern for economic development and the creation of small business, as well as for their concern for integration with the more western states of the EU. It would seem that there is, at a minimum, a high degree of organizational inconsistency between the higher and mid level administrators of Transcarpathia (given their claims and attitudes expressed during interviews), and the officials of the lower level that deal with the entrepreneurs on a daily basis. These lower level officials include staff that would deal with entrepreneurs at the counter-front, inspectors, and officials that are responsible for assigning tasks to public workers. While the workers that might conduct repairs such as on water or gas equipment may justifiably not be considered as “officials” at any level, it is important to realize their important role in extortion of money from entrepreneurs. They are public or state workers that have been effectively abusing what power they have. These lower level “officials” and state workers that seem to be obstructing small business development are the ones behind the counters, the phones, the inspectors that enjoy frequent visits and the laborers that refuse to work unless paid handsomely in bribes.

As we recall, as Olha Zinchenko was told that the workers from some of these organizations would not arrive to perform their repair oriented tasks for state organizations (such as utilities) unless and until they were guaranteed to receive “extra money”, substantial bribes. At worst, one might argue that the higher level officials of Transcarpathia, as well as in Kharkiv, were only putting on a pure façade for the researcher, making grand claims of
administrative improvement in terms of effectiveness and minimization of corruptions, concern for entrepreneurs, and prosperity for oblast residents. Perhaps the truth lies somewhere in between. The officials have, to their credit, been making steps toward some degree of decentralization of administration insofar as they have been actually reaching out to the people of the local and village level administrations within each raion (district) of Transcarpathia.

In meetings that seem reminiscent of the New England town meeting”, the heads of many departments form the Transcarpathian Oblast Administration have been going to the remote districts in order to give them a means to voice their questions and concerns. This is actually occurring each month, not simply propaganda contrived in an interview in order to satisfy a researcher. In a quest for cross-border cooperation, several departments have been very active, making sincere efforts to advance the future of Transcarpathia by cooperating and collaborating with neighboring countries and the EU more broadly (recall departments of Torpoy and Nosa regarding these matters).

Other pending reforms that may foster greater professionalism in the oblast administration may include the administrative reform that is intended to shift responsibility for economic affairs and decision-making from the Oblast Administration to the Oblast council, an elected body, after March 2006 parliamentary elections.

If we recall that Yushchenko ceded authority over the economy to the office of the Prime Minister as part of his December 2004 bargain with Yanukovych and his Party of Regions in return for his accession to the Presidency, this new reform regarding authority over economic matters is consistent with that agreement, or concession. Unfortunately, there is no evidence to suggest that the results will be an improvement. No one in administration or in the business world has been able or willing to suggest how the economic policy or specific programs will be managed under the new reform, or who will be responsible for important decisions, implementation, and measurements of success. Following Ukraine’s current
constitutional crisis, as the President and his Kabinett has been refusing to accept the Kabinett’s dismissal by the parliament in December of 2005, and as of March 2006, the question of how authority and responsibility for economic matters will be transferred to the politicos on the national and oblast levels remains on the horizon.

Like the case study in Kharkiv, many of the findings of the Yacoub and Senchuk study of 900 SMEs in Ukraine have been corroborated by the experiences of Olha Zinchenko in her effort to create a small business. Just as in Kharkiv, interviews of the selected administrative officials in Transcarpathia offered a great deal of insight on how the administration, at oblast and municipal levels, promotes and facilitates economic development, including small business development. Officials addressed specific programs, such as those relevant to integration with Europe. Some directors claimed that significant improvements have been made in the elimination of corruption and bribe-taking, while other were not as enthusiastic. Interviews with various Transcarpathian officials suggest that a newly stable and freely competitive market had been established, but perhaps they were not so confident as their Kharkiv counterparts. However, in the interviews with Transcarpathian officials, these officials, like those of Kharkiv, held themselves out to be advocates of a very deliberate effort to foster economic development and a free and competitive market, as Ukraine sets its sights on integration into the European Union. Regarding the pursuit of the westward leaning integration, all Transcarpathia’s officials seemed more committed to this goal than some of the Kharkiv officials. But, the question of effectiveness remains.

So, how accurate are the Transcarpathian officials’ statements about the extent to which the administration of Transcarpathia fosters economic development, about challenges to integration with the EU, or improvements against administrative corruption? Do the claims of the officials of the Transcarpathian Administration represent myth or reality? Just as in the Kharkiv case study, the perspectives that are external to the administration are of vital
importance. These external perspectives include the 900 firms of the IFC study, as discussed earlier, the case study of the small business start-up in Transcarpathia, and the supplementary views of small businessmen and professors within Uzhgorod, Transcarpathia. The views of the businesspeople and professors will be put forth shortly, as they are able to help ascertain the accuracy of the officials’ claims while speaking to broader issues than the small business case study allows. Thus, just as in the Kharkiv case study, the extent to which the Transcarpathian administrative officials’ expounded views can be corroborated or refuted by such external (to administration) testimony enables us to better discern between myth and reality.

As discussed in detail in an earlier segment, Max Yacoub and Bohdan Senchuk, in the “State of Small Business in Ukraine: An IFC Survey of Ukrainian Small Enterprises” presented a perspective that recognized many impediments for economic development and small business growth. Just as the survey did not include the Kharkiv Oblast, it did not include the Transcarpathia Oblast. Recall that Yacoub and Senchuk found that processes of business registrations, licensing agreements, state inspections of private business, confusing and numerous taxes, and the heavy tax burden were all impediments to economic development. They concluded that the tax environment is the main obstacle, or ‘barrier’ to the creation and development of SMEs, and linked the complicated tax environments to problems such as “excessive levels of state interference in private sector activities (Yacoub and Senchuk, 2000. p5).” Their argument, made after a study in 2000, for the existence of excessive levels of ‘state interference’ has been clearly supported by the experiences set forth in both the first and second cases of the creation of a small business. First, the beauty salon in Kharkiv and then the business “New Horizons” in Transcarpathia offered evidence. As of the time of this writing, in March of 2006, the translation and language center “New Horizons” is far from open, due to the array of permissions and approvals (“acts”) that must be obtained. It is anticipated to be open by June or July of 2006, since another two to three months of time must pass in order to
obtain signatures from ten department heads, 12 other supportive departments, and up to 33
‘acts’ or documents of approval must be completed. Approvals from the Oblast Rada, or parliament, are necessary for at least one additional approval in order to allow the operation of a language center and for offering of business services in that specific location (although the business has been successfully registered with such purposes written into its founding document, the statute).

At this point, Olha Zinchenko has had limited contact with the Tax Police and the Tax Administration. Since the business is not yet operation, the Tax Police visits and ‘inspections’, could not yet be a problem. Interestingly, Olha still is expected to provide the Tax Administration with detailed monthly reports involving revenue, even though the business has merely been registered...but has not yet opened. If Olha’s experience of minimal interference by Tax authorities should, in the future, resemble the experiences of Oksana in Kharkiv, then we shall have two cases that can perhaps offer evidence of a decreased and less extreme level of “state-interference” than previously noted a few years ago by Yacoub and Senchuk’s research. Perhaps, soon we may have reliable evidence of improvement in this respect of administrative behavior, specifically stemming from actions of the Tax Authorities. At this point, the business in Transcarpathia is unopened and therefore unable to offer any indication on this matter.

Recall that Yacoub and Senchuk found that the national (state) level administration lacked control over the oblast and local level administrative organs, resulting in an inability to for the state level to enforce oblast level compliance with national laws. This difficulty has enabled officials to act in an arbitrary manner, free from influence from national level authorities and from the private sector. As Yacoub and Senchuk suggested, local or oblast authorities do not seem to be easily accountable to Ukraine’s national government, nor are they at all accountable to entrepreneurs. Also recall that Yacoub and Senchuk also concluded that
these local-level officials may be relied on to impede meaningful reforms, as they engage in ‘arbitrary administration’, and that their enjoyment of the rewards of arbitrary use of power leave them with little incentive to comply with measures of accountability or responsiveness. The officials of Transcarpathia, just as the officials of Kharkiv, make very optimistic claims which often seem to run counter to the findings of Yacoub and Senchuk, who concluded that Ukrainian administration and its high degree of ‘state-interference‘ in Ukraine’s business environment is a significant impediment to the creation and growth of small business and economic development. Since Transcarpathia, like Kharkiv, was not one of the oblasts sampled by Yacoub and Senchuk, the issue of analogical relevance of the findings for Ukraine’s sampled oblasts and cities had deserved attention, but the experiences of the Transcarpathian case study yield still further evidence that bolster the IFC study.

Recall that Yacoub and Senchuk noted a number of administrative organizations that often require “unofficial costs”, bribes, or “extra-money” (by extortion). They highlighted agencies including the “the State Committee on Certification, Fire Inspection, and Local Departments of Architecture, the State Committee on Land Resources, etc. (Yacoub and Senchuk, 2000. p5).” The Transcarpathia case study of “New Horizons” offers further evidence that bribery, or rather, submission to extortion, is sometimes essential in order to produce results from local officials. Thus, in Transcarpathia, just as in Kharkiv, and just as in the other 12 oblasts sampled by Yacoub and Senchuk, entrepreneurs must “pay for speed” and effectiveness in a variety of dealings with administrative officials.

If the reader recalls that the result of the tax laws, tax burden, and the usually high number of inspections by state organizations is that the clear majority of Ukrainian entrepreneurs surveyed (over 85% of the 900 respondents) admitted to ‘concealing’ up to 60% of revenue. The Yacoub and Senchuk’s study, as discussed earlier and within the Kharkiv case study, failed to involve the administration and its activities of extortion into the “shadow
economy”. Previously, in the Kharkiv case study, the role of officials in the shadow economy was briefly mentioned, and discussed largely in terms of facilitating agents of the shadow economy. In Transcarpathia, while the apparent institutionalization of extortion by (at least) low-level officials and inspectors, even skilled laborers of state Departments such as Water and also Gas, another aspect of the role of officialdom in the shadow economy rises for all to see.

Recall the Kharkiv case study, where ‘mediator firms’ took on the task of negotiating bribes with officials for the sake of acquiring all necessary permissions and documents of approval, in addition to their professional tasks of architectural design and even implementation of all construction phases. In Transcarpathia, we have seen that the Heads of administrative departments, such as the Architectural Bureau, may actually, though unofficially (and illegally) own and direct their own private architectural firms. This suggests that there may be some difference between oblasts in terms of style of institutionalized corruption. In Kharkiv, ‘mediator firms’ negotiate bribes with officials informally on behalf of clients, as their clients, the entrepreneurs, pay for speed indirectly. In Transcarpathia, while it seems not necessary, one may find a private firm run by the very official whose signature would be eventually required. Even lower level staff (and not always competent staff, recall Inna Petrovna of the Architectural Bureau) in the Transcarpathian Oblast’s Architectural Department solicited private business from their public offices. It may be argued that at least some of the Transcarpathian officials are closely involved in private business in ways that present alarming conflicts of interest, even more so than in Kharkiv (or at least more visibly than in Kharkiv). It is arguable that the Transcarpathian officials, such as in the Architectural Department, are central to any discussion of the operations of the shadow economy, not just supportive of it in a facilitating way. For at least some officials in Transcarpathia, officialdom does not only benefit from the shadow economy, it is the shadow economy.
Thus, the Transcarpathian small business start-up, “New Horizons” offers evidence that the state apparatus, the administration in Transcarpathia, has been and is still acting in a way that is contrary to the overtly expressed claims of the several Transcarpathian Oblast officials that were interviewed on matters relating to economic development. Just as in the Kharkiv case study, officials in Transcarpathia offered that the administration was an ardent and effective supporter of economic development and a competitive business environment for entrepreneurs, including those of small businesses. Also as in the Kharkiv case study, this claim seems to be more myth than reality.

The experience of Olha Zinchenko in the small business start-up “New Horizons” suggests, like the experiences of Kharkiv, that state-interference and corruption is burdensome. As “unofficial payments”, or “extra money” is often required, officials, once again, seem able to avoid accountability to entrepreneurs. In Transcarpathia, and again, just as in Kharkiv, the reality for the ordinary Ukrainian, one that is not politically connected, is that it appears to be impossible to create and sustain a small start-up business only by merely conforming to the requirements of the laws and regulations, without becoming involved in extortion and bribery by the administration. In the westward-leaning oblast of Transcarpathia, with its differences from Kharkiv regarding aspects such as its mountainous terrain, differences in industry and agriculture, mixed ethnicities, multiple religions and languages, and perhaps in some senses mentalitet, it seems certain that, presently, the actions of the Transcarpathian administration’s officials seem to reflect ‘state-interference’ (as Yacoub and Senchuk described) in small business creation and economic development more than it resembles higher officials’ claims of facilitation for such entrepreneurial development.
7.5.2. Is it still ‘The Wild East’? Presenting views on administration by entrepreneurs, a lawyer, and by professors from Transcarpathia, corroborating the IFC study and the experiences of Olha Zinchenko in the creation of “New Horizons”.

In the Transcarpathia case study, as in the Kharkiv case study, the experiences and finding of the case study are checked by an external view of relevant people such as professors. In the Transcarpathia case study, interviews with small business owners, a founder of an NGO, and a corporate lawyer will supplant the perspectives of the Professors. It was found that the view of the professors and others seem to largely reflect the experiences of Olha Zinchenko in the creation of the firm “New Horizons”. It may even be argued that, at least to date, Olha’s experiences may not be as negative as some would expect. Perhaps the new reforms, if continued and improved upon, may prove to make a positive difference in the experiences and anticipations of entrepreneurs and residents of Ukraine. Nonetheless, the experiences of Olha Zinchenko will be checked against the beliefs and experiences of others that have a longer history of dealing with the administration, or at least observing form a professional level.


In an interview, Mr. Dima Lendel, a small business owner of a firm that specializes in internet technology and software programs relevant to small and medium sized businesses, suggested that Ukraine’s tax policy must be altered in order to help encourage the creation and initial growth of new firms: “The big mistake of government is to expect that small businesses will pay (all burdens of taxes) right and now. But, if I open a business, it takes one or two years, then we can pay taxes after growing (and becoming profitable) (Dima Lendel, January 27th Interview, 2006).” Dima Lendel’s firm, “Pink Elephants”, a limited liability firm that has selected the 6% tax on revenues plus VAT tax on products, is successful enough to pay a significant tax each month. According to Mr. Lendel, “we (Pink Elephants, LLC.) pay about US$1000 each month in taxes. We pay 6% tax (on revenues, not profits) plus 20% for the added price (value added, the VAT) (Dima Lendel, January 27th Interview, 2006).” Mr. Lendel
was very concerned for the heavy taxes on employee salaries: “There are very big taxes for the salary (of each employee). If I want to pay you, for example, 1,000rph per month as salary, I must pay 1,200 rph each month in taxes (tax on employee salary). It’s too much. It’s impossible. Often, firms have employees become private entrepreneurs so that they (firms) pay fewer taxes. But this is not good for them (employees)...because there is no social protection for them. Almost nothing. Its very bad for employees (Dima Lendel, January 27th Interview, 2006).”

Dima Lendel, a man that is concerned for the social protection of workers, pays what he considers to be a formidable sum each month in employee taxes. Given what lawyers have claimed in consultations in the two case studies, tax rates on employee earnings of approximately 37% to 42%, it is not clear how the employee taxes amount to such an extraordinary percentage or sum for this firm. Mr. Lendel did note one strategy that lawyers and others in both Kharkiv and Transcarpathia have suggested as possible variants for firms wishing to avoid employee taxes: hire them as ‘private entrepreneurs, or as independent contractors. As private entrepreneurs, each employee, or worker, would be, at least on paper, in business for himself and responsible for his own monthly tax payments. These tax payments are minimal, and alleviate a significant tax burden of the hiring firm. Of course, as Lendel correctly noted, such a practice is detrimental to Ukraine’s social protection, as the contributions to the several social and pension funds will be minimal if this practice is widespread... and it seems to be very widespread in Ukraine. Recall from the second case study that one lawyer, Andrey Doroshuk, in Uzhgorod Transcarpathia suggested such a variant for the sake of maximizing profits.

7.5.2.2. Tatiana Migalina, PhD, of the Nehemia Organization (an NGO), Uzhgorod, Transcarpathia. Interviewed on July 12, 2005.

Tatiana Migalena, founder and director of “Nehemia”, a non-governmental organization in Uzhgorod, put her PhD in finance to work by developing a Christian based
institution which provides support for orphans and children’s hospitals, has organized
shipments of medical supplies to the oblast of Transcarpathia, and has been developing training
sessions for citizens who would like to engage in small business. In sum, Nehemia is
attempting to raise the standard of living for inhabitants of Transcarpathia. She has had
extensive dealings with the administrative officials.

In an interview in July of 2005, Tatiana discussed the subject of the small businesses
and extortion by administrative officials:

“Oh, it’s terrible. My friend Tanya is in the real estate business, she has a firm that
deals with the buying and selling of property. She has been doing it for about eight
years. Every time she sells a property, she must pay a bribe to administration...every
time. It’s awful (Migalina, July 12, 2005).”

Migalina was asked, “which organizations, or departments in administration are the biggest
problems for such firms that deal with the selling of property?” Her response was immediate:

“Inventory Control (Department). We have a department in the city that deals with all
inventory of property. They always take money (‘extra money’, bribes). My friend hates it so
much that she just wants to leave this country. Its so hard (Migalina, July 12, 2005).”

Evidence of the need to submit to extortion is easy to find.

7.5.2.3. Alexander (Sasha) Medvetsky, founder and director of the firm “Kram”, a
telecommunications provider in Uzhgorod Transcarpathia. Interviewed on July 11, 2005.

On July 11th, 2005. Sasha Medvetsky participated in an in-depth interview regarding
topics relevant to concerns of small businesses, including concerns of administrative officials,
mentalitet, lack of rule of law, and ‘rules of the game’. In the former USSR, Sasha had been a
young director of a private “consumers cooperative”, a private limited liability firm that dealt
with the purchasing of cigarettes, fish and caviar in Russia, transport and resale of those items
in Western Ukraine. He is currently the founder and director of an internet and cable
telecommunications company that boasts over 5,000 customers one region of Uzhgorod that
equals about 30% of the city’s territory. His company, “Kram” has been in business for nearly seven years.

On the subject of the ease and opportunities relevant to the opening of a small business in Transcarpathia and also in Ukraine more broadly, Medvetsky offered:

“In order to do business, you must play by the rules of the game. When you, as business, depend on political connections to make, or establish the business firm, when politicians go out of office you business can go down also. So, for small business, it is best, if you can, to create it without political dependence or assistance (Medvetsky, July 11th Interview, 2005).”

Medvetsky addressed the question, “What are the biggest problems for entrepreneurs wanting to create a small business?” First, he noted a problem that he was experiencing with his firm “Kram”: “The big problem is specialists… getting good specialists. With good specialists you can make effective business as director. But they are going to Kiev and to Western countries (Medvetsky, July 11th Interview, 2005).”

Next, Medvetsky discussed administration as according to his view of it as a problem for small business: “There are many little problems. Problems exist in many kinds of business. If you do nothing you have a few problems, and if you do something, you have more problems. The more you do, the more problems you have.” He continued on administration, responding to the question, “Administration… is it helping small business? Any effect...or no effect? Any impediment?” Medvetsky answered: “Our administration is old Soviet Union. It has many bad people who are wanting to make their money on your business.” But, if you have life experiences, maybe you can get around these people (Medvetsky, July 11th Interview, 2005).”

On the follow-up question, “Can such a businessman get around them 100% of the time?” Medvetsky estimated and explained more:

“No, not 100% of the time. Maybe 80% of the time (you may avoid paying bribes to officials) and making legal payments. It’s because old Soviet Union remains. The Soviet style administration needs breaking. Needs a new way. The small bureaucrats in administration need to be broken. I cannot break them. We must change the brains of the bureaucrats (Sasha motioned with both hands as if to unscrew an imaginary
skull). It will take maybe 20 years. Old bureaucrats go on pension as new ones come in with new brains (new *mentality*) (Medvetsky, July 11th Interview, 2005)."

Seeking to understand specific problems that people experience with officials, another question followed: "What kinds of problems do people, businesspeople particularly, have with bureaucrats?" Medvetsky responded in a way that corroborated what Yacoub and Senchuk found in their study in 2000, and with the experiences of the Kharkiv case study:

"You must make many papers, documents, permits. Unnecessary papers that you don't have in the USA (he has visited the US)! Because bureaucrats want to make every possibility to bribe, 'взятка' ('vyetka', or bribe)! "Ненужные бумаги", we say. unnecessary papers (Medvetsky, July 11th Interview, 2005)!" Medvetsky's frustration was visible and audible, "many many many kinds of papers... are required to make a business, and to continue in the business (Medvetsky, July 11th Interview, 2005)."

Specifically, what kinds of people or departments in administration present problems?

"Many. There is no one answer. It depends on the type of business and on whatever you may need. I have a business license from Kiev, so I must go to Kiev for papers, for license, for inspections (Kiev is 16 hours by train from Uzhgorod). It's not normal, but not very difficult. They (administration and officials) have some problems in Ukraine (Medvetsky, July 11th Interview, 2005)."

Clearly, the number and frequency of documents are burdensome for small business.

Medvetsky was sure that dealing with all the unnecessary paperwork and seeking of permissions and approvals was far too time consuming.

On the inquiry, "The administration says they support small business. Do you think its true?" Medvetsky openly responded with the following assertion of the importance of nepotism and clientelism for the sake of profit and power:

"Administrators only support their *self-business*! If you have a father, uncle, grandparent or some family in administration, they will support you and your business. Like a 'Godfather'. You often must have family in administration. You understand what I mean... like 'Don Corleone' (a mafia reference). Victor Yanukovych is 'Don Corleone' (recall that Yanukovych lost the hotly disputed and fraudulent Presidential election of winter 2004/5). My business partner has family in administration. My partner is Yulia Tymoshenko's consultant (Three months after this July 2005 interview, Tymoshenko, then Prime Minister of Ukraine, was forced to resign under accusations of corruption by the newly elected President Victor Yushchenko) (Medvetsky, July 11th Interview, 2005)."

So, the next step was to inquire if the trend was improving or worsening.
Thus, Medvetsky was asked: “Is corruption in the administration increasing, decreasing, or about the same? Say, over the last 5 years, 10 years, or maybe 15 years?” Medvetsky replied without hesitation: “No, its very big (not improving). We must change. We must change our courts. Our courts are 99.9% corrupt (Medvetsky, July 11th Interview, 2005).” Sasha took the researcher’s pen and notebook and wrote 99.9% so that his point was made clearly and emphatically. He continued:

“If you have not money, you have no justice. If you have money, you buy justice. Yushchenko comes to power by way of courts. So, Yushchenko did not change the courts! (The) same people (are) in power in courts. In courts you can make the power... and if you can make the power, you can do what you want. In Uzhgorod, if you have in courts ‘your’ man, (or woman) (to represent your interests in position judge), you can have everything, 90% of the time) (Medvetsky, July 11th Interview, 2005).”

A Russian educated lawyer for a large corporation in Transcarpathia (Chief lawyer of the firm), Inga Tsoklan, who had been in the room for a while, had been listening, and volunteered the following:

“If you (an entrepreneur) want to make business in Ukraine, you must know and play by the rules of the game. In the USA you have 200 years of making business. In Ukraine, you must go to make many unnecessary documents every month. We have many (bureaucratic) rules that you must meet each month (Inga Tsoklan, July 11, 2005).”

Without a doubt, these people were sure that many unnecessary documents were a significant impediment to the creation and sustainability of any business in Ukraine.

In closing of the interview, the serious issue of organized crime was raised to both Medvetsky and Tsoklan in an open fashion: “So, do you think that there is much organized crime?” Generally, and referring to society outside the administration, Medvetsky replied: “No, its light banditry. ‘Воришки Жулики Аферисты’, bad people, hooligans. But, in administration, people are BIG bandits! ‘Большой Жулики Аферисты’! Big bandits. Big Hooligans (Medvetsky, July 11, 2005).”
Inga Tsoklan, private Chief Lawyer for a large manufacturing corporation with over 1000 employees, “Harvat Cable and Harvat 19”, of Uzhgorod, Transcarpathia. Discussion on August 24, 2005.

On Ukraine’s Independence Day, August 24, 2005, Inga Tsoklan participated in a discussion on the rule of law and the role of money in decision-making in courts. She asserted:

“It does not depend on what is in one’s head, doesn’t depend on intelligence (such as regarding a lawyer trying to win a court case). It does not matter. People (and all businesses) win or lose in our courts, but it does not depend on our jurists (lawyers). It doesn’t depend on intelligence or on the law. It depends on money. Whoever can offer the judges the most money, in any given court case, always wins. Always. It doesn’t depend on who is right according to the law. For example, my boss has given $100,000 to a judge in our Supreme Court in Kiev in order to win a lawsuit against another powerful man. It was about one of his other factories (he won). He has given much money, many times, to our judges here in our oblast in order to win. And he does. Many people have money here in Uzhgorod, like the judges, police, administration officials, customs, and others. Anybody that can have control, a position of control over others and over their business... when they can have control they can take money (extortion), demand money (Inga Tsoklan, August 24, 2005).”

Inga Tsoklan, in a previous discussion with Sasha Medvetsky, noted that businessmen must know and play by the ‘rules of the game’. The discussion above on the corruption, the lack of rule of law (at least regarding serious disputes), bribing judges and extortion by officials whenever possible is testimony to what the ‘rules of the game’ are.

Below, Inga Tsoklan in downtown Uzhgorod, Transcarpathia, Ukraine.
While people in the West may be familiar with an understanding and agreement on the ‘rules of the game’ as a phrase indicative of a ‘consolidation of democracy’ and rule of law, according to formal-legal principles of a constitution and other legal precedents, as well as laws and regulations and given attitudinal and behavioral support, the phrase carries a meaning that is of the opposite. In Ukraine, ‘rules of the game’ refers to the rule of those with the will and the money, and to the officials holding their positions of privilege... positions where they hold their valuable and sought-after signatures for the sake of extortion. For this reason, they have little interest in eliminating or minimizing any of the unnecessary and burdensome requirements for documents, reports, permissions, licenses and approvals for businessmen of any type. Judges, at least those with the leverage to gain a position as a judge, lawyers, businessmen and ordinary citizens seem to share the above described understanding of ‘rules of the game’.
In Ukraine, it may be argued, the ‘rules of the game’ is an expression that refers to principles of administrative, political and juridical manipulation, repression, and subordination of others for the ultimate end of self-interest in the form of financial profit. At best, ‘Rules of the game’ refers to something more akin to Social Darwinism of the mid to late 1800’s. At worst, it is an expression that harkens back to serfdom... a unwitting renewal and validation of serfdom. Shall Ukraine be ruled by men or by laws? It is not uncommon, even today, a year after the Orange Revolution, to hear Slavic People from Eastern Europe to refer to Ukraine and others, quite matter-of-factly, as “The Wild East”. Fortunately for Olha Zinchenko, Director of New Horizons, she has not (yet) experienced any involvement in court regarding business matters.

7.5.2.5. A view from a discontented and (herein) unidentified low-level official from one branch of Transcarpathia Oblast Administration, interviewed on August 2, 2005.

This person will be referred to as “the official”. “The Official”, a person in his/her late twenties, has worked in the Transcarpathian Oblast Administration prior to the Orange Revolution of 2004. The Official’s viewpoint is sharply critical of administration. As the interview was held outside the administration, he/she offered anything but the typical optimism of other higher-level career administrators. This person’s lower status in officialdom seems to separate this official from the typical mid and high-level public officials that have served as the basis for interviews with administrators in each case study, Kharkiv and Transcarpathia. For this reason, and due to the fact that his/her views tend to corroborate what many professors have said in both Kharkiv and Transcarpathia, his/her comments will be included under this section rather than with the formal interviews of higher officials.

An initial discussion evolved around the topic of problematic state services, from maintenance and repair of state residence buildings, such as the Soviet apartment buildings known as the ‘Khruschevkas’, to problems concerning roads and hospitals. One question put forth was, “Well, Ukraine has a reputation for being among the most corrupt countries in the
world. What do you think? Is it improving?" The Official’s response was straightforward

“It’s everywhere. Corruption is everywhere (The Official, August 2nd Interview, 2005).”

The researcher followed up with, “But the administration is changing, with

restructuring of departments, seeking to hire new young people (the reader may recall

Transcarpathian administrator Natalia Nosa’s quest for good specialists). Do you think its

getting better, especially since November 2004, since the Orange Revolution?” The Official’s

response was anything but optimistic. He/She was visibly frustrated with the lack of positive

change, with the high level of corruption, as her dissatisfaction seemed to evolve into disgust,

and anger: “No! Nothing is changing, not really. Nothing at all. Its all the same, it’ so full of

corruption! It’s awful! (The Official, August 2nd Interview, 2005).” She was then asked, “But

there are so many new people in administration now (after Yushchenko took office), yes?” The

Official responded:

“Yes, but they are many criminals. Just different ones. And many are not even as good

at their specialization (as the people they replaced). They don’t know what they are

doing. They don’t have enough skills. They come into administration because they

were in support of Yushchenko, or maybe working with the campaign somehow. They

are not really different. Many people don’t (even actually) work (at their official

positions) because they are given jobs by their relatives or friends in the administration.

They don’t need to work. They just take the money from the state...on payroll (but

without appearing to the job)...and they don’t need even to go to work because they

have an uncle or brother in administration. It’s awful. The Administration of

Transcarpathia is full of criminals, but now the difference is that they are not even as

good at what they do (as the former officials) (The Official, August 2nd Interview,

2005).”

The Official’s impression of officials in the region was, at a minimum one of great

disappointment and bitterness:

“The politicians and officials are no different. They are only interested in one thing...

‘These are my pockets, how can I fill them?’ They don’t even care about anyone but

themselves as individuals. It’s so bad that they even make laws so that they are

designed to specifically increase their riches. They make laws for themselves, what is

good for them, in their own special circumstances or industries (The Official, August

2nd Interview, 2005).”
The Official's comments have corroborated much of what has been asserted in interviews with several professors from both Kharkiv and Transcarpathia, and reflects the sentiments and experiences of many people involved in both case studies. Recall how the professors in Kharkiv asserted that lawmakers engaged in making of laws that were to their own benefit. Here, a lower level public official in Transcarpathia claims essentially the same proposition.

The view from professors in Transcarpathia will follow.

7.5.2.6. Validation by professors in Transcarpathia: Corruption runs deep in administration, and other concerns for development

Several professors from Transcarpathia have offered their perspectives on the degree to which the administration facilitates economic development and attends to the needs of small business. Professors from economics and political science have contributed their views on what may be the most important impediments or challenges for economic development. Their views are credible, current, external to the administration, and tend to corroborate the experiences of Olha Zinchenko in the Transcarpathia case study, as well as support the findings of the IFC study of 900 businesses in Ukraine.

7.5.2.6.1. Professor of Economics, Alexander Peridriy

On January 12th, 2005, just after the last vote in the Presidential election during the Orange Revolution, yet before the new President Victor Yushchenko's inauguration, economics Professor Alexander (Sasha) Peridriy of the Uzhgorod State University, thoughtfully responded to the researcher inquiry. Mr. Peridriy's daughter, Tanya, is a recently appointed instructor of Administrative Law at the Transcarpathian State University, and performed as an excellent translator.

To the open-ended question, "what are the greatest or most important impediments or problems, or obstacles for economic development in Ukraine and Transcarpathia?" Sasha Peridriy answered in great elaboration:
"It is very difficult, there are more problems than resolutions for those problems. There is a system of problems. Generally, the Ukrainian problems are the same as in Transcarpathia. The main problem is not the technology resources or equipment. The main problem is the people. It is not only the citizens, but the people that are governing the country at the highest level, in Kiev, at the macro-level. This problem is the objective result of the situation of the way Ukraine is now (or how it became this way).

The objectiveness has a history. (This concerns) not only the last periods of (the) Soviet (era), but before, the 18th and 19th centuries... the history of Russia, of which part was Ukraine also. In the pyramid of power the most intelligent people were going to the center, the capital, Moscow. Ukraine was in the periphery of the area, outside Moscow. Because of this (tradition) we don’t have many people that can do macro-level policy. We don’t have people that can do it. The problem is increasing by the problem of corruption. Corruption is worsening or exacerbating this matter. In the case where there is more professionalism there is less corruption. Where there is more corruption, there is less professionalism. This problem of corruption is also attached to the other post-Soviet countries (Peridriy, January 12th Interview, 2005)."

As Professor Peridriy understands, the main impediment or problem for Ukraine’s economic development is the lack of highly skilled professionals in the national government and administration, as there is an absence of public officials that have expertise in macro-economic policy. This problem was worsened by the Ukraine’s high level of corruption. Corruption, according to Peridriy, is an obstacle to the quality of professionalism that is requisite for effective economic development. But, compared to Russia, Ukraine may be more fortunate.

Peridriy elaborated:

"(Compared to Russia,) the differences between the people in the (National level of government and those in the) lower and middle levels (local and oblast levels) of government of Ukraine is that they have better professional skills than the people in the center, in Kiev. And now the regional administration is more developed in professional management skills than the state’s (Ukraine’s) central administration (in Kiev). It’s not characteristic of all oblasts, but it is the tendency. That is the main problem that you were asking about. And the other problems follow this problem, and they can be resolved... by professional people who can work and who want to resolve them (Peridriy, January 12th Interview, 2005)."

Peridriy offered his view of how, in contrast to Ukraine, the United States developed under different circumstances from currently post-Soviet Ukraine (a region which has many tumultuous pre-Soviet centuries):
“The United States are lucky because they are formed by the people that had not enough space in Europe. The made the space empty, then formed it from the foundation up. The people had potential. Even in that case, you needed 200 years. Sometimes it was formed with the help of Colt (guns). For Ukraine it is difficult because it is the time of rockets, tanks, plastic bombs, and nuclear weapons. Sometimes we don’t analyzed this problem, that we are going our way, in the time when there is a highly civilized Europe and North America, South Africa, parts of Asia (the ‘five tigers’), and on this scenery we look wild by comparison. The United States did not have such things to compare.

Твой опыт это наш опыт! Your experience is not our experience! (Peridriy, January 12th Interview, 2005).

Peridriy was eager to address Ukraine’s prospects for economic development in comparison to Russia’s: “And about optimism, to compare the situation in Russia and Ukraine, we are on the point or level higher than Russia when we are talking about potential and moving to the civilized world. We have higher prospects.” With the natural follow up question “why?”

Peridriy continued, establishing an argument for greater optimism for the Ukrainian case:

“Russia is better on the macro level, on the top of the administrative pyramid, better than we have in Ukraine. (1.) But on the low and middle level, we are higher than Russia has (better off)... higher skills and market psychology... or mentalitet, a market culture. These skills and mentalitet must be brought up (improved upon) for many many years. (2.) This market psychology at the middle and lower levels is more difficult to change than at the higher level. So, it is Ukraine’s advantage, compared to Russia (since Ukraine has higher skills than Russia at those mid and lower levels of government/administration...as Moscow traditionally has absorbed the most talented people from the expansive periphery). It is easier to replace a few people at the top than all the people, specialists and professionals at the mid and lower levels.

In Russia, they were centuries gathering people, gathering in Russia in the center in Moscow. They gathered there and they stayed there (did not return to outlying oblasts with sharpened expertise). But (for Russia), to take up or bring all the people to the mid and lower levels is difficult. But in Ukraine, to form this competence, skills, at the highest levels (is possible) in maybe two (presidential) elections, maybe 10 years. In Russia it will take longer.

Moscow is not Russia, and Russia is not Moscow. The difference between Moscow and Russia is very big. Many times bigger than the difference between Kiev and Ukraine. This difference is not only because Moscow is very much higher than (the rest of) Russia...in skills, culture, professionalism, mentality, willingness to work...but also because in Ukraine the lower levels are much higher (in these aspects) than the regions of Russia. This is more philosophical than economic... but there is nothing more practical than a good theory (Peridriy, January 12th Interview, 2005)! ”
Thus, according to Peridriy, in Ukraine, the level of skills, market mentality and professionalism at the oblast level is, generally, greater than those levels enjoyed by their Russian counterparts, and the levels of those aspects exhibited in the Russian oblasts are not even close to those of Moscow.

In sum, Sasha Peridriy was very optimistic about the future of Ukraine, as he considered the skills, mentality, and professionalism of the oblast-level officials to be at a fairly high level, and he asserted that the improvements that must to be made to insure greater levels of competency and professionalism at the highest levels of national government and administration are possible...with about 10 years or so.

How to minimize the corruption, and how to foster the development of the skills and mentalitet that may expedite economic development are questions that remain difficult to answer. The process, a gradual one, will not be concluded ‘overnight’. Peridriy noted, “We are very thankful to the countries that are giving us help...including the US. It (assistance) gives us positive results in social and economic development” (Peridriy, January 12th Interview, 2005).” Peridriy’s view of the skill level of Ukraine’s Oblast officials is much more positive than the view of the lower level official previously presented.

7.5.2.6.2. Professor and Chief of Politology Dept, Yura Ostapetz and Professor of Politology Mehail Zan, of Uzhgorod National University. Interviewed on 25th, 2006.

Professors Yura Ostapetz (Chair of Politology Dept) and Mehail Zan participated together in an interview at the University’s politology department, with translation assistance by Olha Surnina (PhD candidate in Politology). Pictured below is part of the Politology Department of the Uzhgorod National (State) University after a faculty meeting. Olha Surnina is second from the left, Yura Ostapetz is third from left, and Mehail Zan is on the far right.
On the inquiry, "do you see administration doing anything to help economic development and small business, or are they getting in the way?" Mehail Zan responded:

"They don't help too much, they make it hard to open business. Too many barriers. Too many papers, documents (are needed) to start (a) business. Documents every three months, reports, especially regarding taxes. We speak of small business, when sometimes it is only one person, or two. It is hard for them to know how to fill out and make all reports, all documents, about taxes and others (Zan, January 25th Interview 2006)."

Thus, Zan understands the burden of the administrations requirement of very frequent, numerous and complicated reports and forms of documentation to be a significant barrier for the entrepreneurs wishing to open small businesses. Even if people have the interest and dedication necessary to fill out all documents properly, they often do not have an awareness of the full process, nor do they have the expertise required to fill out all documents and make all reports correctly (thereby opening themselves to the possibility of penalties and further delays).
“What do you think of the level of corruption currently in the administration?” both professors were asked. Zan continued:

“Our chiefs...for example (Victor) Baloga (governor of Transcarpathia Oblast)...have relatives in government, it’s hard for us. In power (in Transcarpathia) go people from, for example, Mukachevo (a large city known for its corruption). And of course, one gathers with him a lot of relatives and friends...in administration, in court, judges, etc. (Zan, January 25th Interview 2006).”

Yura Ostapetz added, “A lot of our research says we have a lot of corruption (Ostapetz, January 25th Interview, 2006.” On the question “Do you think its getting better?” Ostapetz noted.

“Corruption is not getting better. It’s unchanged. About the same. Our economic development has become better, but it’s not enough to pay enough to people. to workers (including officials) (Ostapetz, January 25th Interview, 2006).” Mehail Zan explained the crisis of low salary: “We (workers in Transcarpathia) must not earn (the equivalent of) US$200 per month, it must be US$2000. Then it will be normal (Zan, January 25th Interview 2006).”

The next question was posed: “In your view, what explains the high level of corruption in Ukraine?” Ostapetz offered:

“We don’t earn much. Now (in post-Soviet Ukraine), we have another system of power. For example, if you are (interested in creating) a small business, and want to open it, our men in power will say you have to pay for it...at every level, every opportunity (Ostapetz, January 25th Interview, 2006).”

Mehail Zan contributed with an example of how officials may use their offices and signatures for private gain, for extortion: “Or, if you want to change a flat (to move or to buy a private apartment), you must pay a lot of money...for permissions. To get credit. Everything. Our government has a grant to help young families get a new flat. The government may give a flat on credit. The government will pay some, and you will pay some. But you must show them that you earn (at least) 1000rph (per month). It’s difficult, and often people must lie, and they must pay ‘extra money’ to officials...it can be a lot, but not more than US$1000 (Zan, January 25th Interview 2006).” Of course, for people that need to lie about making an income of 1000rph per month, or the rough equivalent of US$200 per month, any requisite bribe (extorted
by officials) that may be as high as US$1000 can be extremely severe in degree of burden for the citizens.

Considering that a newly elected President Victor Yushchenko has spoken repeatedly of administrative reforms, his interest in the eradication of corruption, and his commitment to the political and administrative facilitation of economic development and particularly for support of small business, the professors were asked the following question one year after the Orange Revolution: “Yushchenko made his agreements with Yanukovych and his Party of Regions last January (2005) as he compromised in forfeit of Presidential powers (involving constitutional changes) in an effort to take office. This fall after dismissing Yulia Tymoshenko and losing all support that she brought to the her previous coalition with Yushchenko with her during the Orange Revolution, he chose to cooperate in informal coalition with Yanukovych’s Party of Regions in the Verkovna Rada. Yushchenko made agreements including announcing the complete amnesty of all who engaged in election fraud during the last Presidential elections (many of which were, of course, in support of Yanukovych). Given such events, did he (Yushchenko) lost his support? Did his supporters feel betrayed?” Yura Ostapetz answered with a sense of irony, as he employed part of the primary Ukrainian opposition slogan of the Orange Revolution “Tak! Yushchenko (Yes! Yushchenko)”, by announcing quite firmly, “Tak!...Yes! (Ostapetz, January 25th Interview 2006)”. Mehail Zan added that many Ukrainians “expected it. They were not surprised. It was business as normal...это нормальный (its normal, in Russian). What could they do? They felt that they could do nothing (Zan, January 25th Interview 2006).”

By the estimates of these two politology professors, it appears that any political and administrative reforms that may have been intended for improvement in corruption and support for small business, and economic development broadly, have, at a minimum, been less than
effective. Given the views of these two professors, the new leadership has not delivered on promised results...at least such results are not yet perceptible.

7.5.2.6.3. Professor of Politology Department and expert in the field of Public Administration, Myroslava Lendel of Uzhgorod National University. Interviewed on 27th, 2006.

Professor Myroslava Lendel, an expert in administration within the field of politology who also lectures to current administration official in retraining sessions, participated in an interview on Friday, January 27th, 2006. Interestingly, despite being interviewed in a popular public restaurant with many people (and ears) nearby, she was surprisingly willing to engage very openly, sharing very candid views.

With the opening question, “what are the biggest problems or impediments for economic development? For small business?” Professor Lendel explained:

“Nationally, government regulations. They are conflicting, overlapping, and they are good grounds for corruption...for bribes...for informal links, relationships. Legally, public servants don’t have the right to be businessmen. But, the communication between officials and businessmen is good grounds for them...to be in business. It’s a culture. Businessmen give bribes to officials because they are in competition with businessmen...(they give bribes) to eliminate competition (Lendel, January 27th Interview, 2006).”

Lendel named what in her view are other impediments:

“Another obstacle is... a not very efficient tax policy. The tax laws and regulations are very conflicting. Businessmen don’t know how to pay because the laws are conflicting. So, a big part of Ukraine’s economy is in shadow economy...about 30% maybe. Another obstacle is bad infrastructure... physical...roads, etc. It is difficult for the transportation of goods. (Such problems represent) obstacles for foreign investors as well. Also communication infrastructure... big problem in rural areas. Another problem is really high interest rates in credit, banks. It’s coming down though (Lendel, January 27th Interview, 2006).”

Lendel’s comments closely resembled the conclusions of the IFC study.
Professor Lendel moved onto the topic of government as an impediment to economic reforms and for business generally.

“Also, one obstacle is government. Government must have a strategy of economic development. They must have some clear program about what kind of economy we should have...what kind of system. We need to think how we can attract business here. Perhaps by giving subsidies, tax credits, etc. And, about 70 of our Verkovna Rada
(Ukraine’s parliament) are businessmen. So, if you are a businessman you should go to Verkovna Rada and lobby for your interests! They should not, legally, be in business. But, they can own actions of some business... unofficially they are running the businesses. But, we have ‘irrational elections’. Our people vote based on... simple popularity. People are not thinking about things (Lendel, January 27th Interview, 2006)."

Lendel’s view of the problem presented by the Verkovna Rada’s profit-seeking elected government officials corresponds with a mid level administrative official that remarked with a little sarcasm and disappointment, during the last week of January 2006. “We have capitalism in Ukraine... our Verkovna Rada is full of millionaires! They represent their own interests.”

Lendel’s view also seem very consistent with the information offered during the Transcarpathia case study, and also very consistent with views of the professors from Kharkiv.

Another question was raised: “Administrative officials often speak of how they facilitate economic development and small business, both at the national and regional levels. Do you think the tend to facilitate or impede economic development and small business?”

Professor Lendel though carefully before responding.

“I don’t know in Transcarpathia of any activities where the administration supports small business. Maybe they are creating some image books for foreign investors. But they are not working with or for small businesses. They are interested in (large) industry. (Still), in Transcarpathia, 70% of all business has 10 to 15 people. (At the regional level) the administration has no programs and there are no instruments to support them (small businesses)... such as credits, tax holidays, some cheap office premises... like more business incubators (Lendel, January 27th Interview, 2006).”

Professor Myroslava Lendel’s husband, Dima Lendel, who runs a small business in internet technology and programming, added: “On the national level they have (a) credit alliance prepared by big foreign banks... some cheap credits for business with the help of some governments... foreign and Ukraine, and the EU. But, it’s really in big cities... not here in Transcarpathia. They have lower interest rates (available) (Dima Lendel, January 27th, 2005).”
7.6. Conclusions for chapter 7, Transcarpathia case study

**Myth:** administration is a chief catalyst of development for small and medium sized firms (SMEs).

**Reality:** administration by arbitrary use of power is a frustrating impediment to entrepreneurs and a competitive market economy.

In the first case study, the quote “Businessman is like a victim for administration”, by Professor Anatoly Dubrovina, is relevant once again, as it seems to apply to the creation of business in Transcarpathia as well as Kharkiv. Nonetheless, New Horizons of Transcarpathia is currently nearing completion of all processes of approval seeking within the many administrative departments and political bosies such as the City Council and oblast Rada (parliament). The reader may wish to visit the website for the new start-up business, which is ready to open pending only those additional and final permissions (as of mid June, 2006), is www.newhorizonsukraine.com.

In Transcarpathia, similar to Kharkiv, three professors suggested that that the politicians, the legislators, are responsible for maintaining an unfair and burdensome array of laws that actually enable themselves to reap benefits of “business” at the expense of Ukrainian consumers and small businesses specifically, and economic development generally. Professors, and others who offered external viewpoints, confirmed that corruption is widespread and remains a great problem. According to the comments made by businessmen, an NGO director, and a high level corporate lawyer, it seems safe to conclude that any meaningful rule of law does not appear to in sight. In Transcarpathia, as in Kharkiv, it would appear that the politicos had been and continue to be reaping the benefits of the political and economic system.

However, the Transcarpathia case study, in which the Director Olha Zinchenko has made applications for permissions, approvals, licenses and signatures on her own, and without the aid of an intermediary firm to negotiate bribes with officials, we were able to better understand corruption at the lower and mid levels of administration. Olha had trouble with some departments, including Architecture, Water, and Gas. Bribes may be demanded by public
inspectors or by even state workers (skilled laborers). Attempt to extract bribes were even made by neighbors.

On the other hand, the officials that were interviewed seemed to genuinely offer very positive views, for the most part, on how the oblast administration has been facilitating economic development, small business creation and support through the “One Window of registration”, and even how it has been genuinely reaching out to the towns and villages in remote districts in order to let them voice their problems, needs, and positions on issues. This is substantial. Yet, the one great victory for small business creation, the newly established efficiency and speed of the “One Window” Registration Chamber for business creation, is a limited victory.

For the more complicated limited liability firms, the “One Window’s” registration process only refers to the registration of the name of the firm. Perhaps it could, in the future, ease the presently very lengthy process of comprehensive registration of the firm (not just the firms name) that involves the Statistics Department, Tax Administration, and the “four Funds”. Any activity, such as the application for initial approval and also for final approval for the “project of reconstruction”, is extremely difficult, involving a very burdensome task of acquiring many approvals, “acts”, and signatures. The numerous approvals, which usually need to be obtained contiguously from administrative departments in a specific sequence (not possible to apply for all simultaneously, thereby saving time) require a great length of time and patience. It would seem that each department could attend to the needs of the entrepreneur much more efficiently and effectively... if it was so desired.

But, some argue what seems obvious to Ukrainian residents and entrepreneurs, as well as to professors (in both Transcarpathia and Kharkiv). Officials have little incentive to improve by reducing the number of signatures or “acts” required, or to remove the impediment of inefficiency, since the act of signing a necessary document or speeding up a process that may
take weeks or months, is precisely what enables an official to enrich himself. The delay of
signature is used as a resource by some officials. Inaction by officials becomes a weapon used
in pursuit of extortion of bribes. Such “impediments” enable the officials to make financial
gains. Reform will not be easy.

Again, as in Kharkiv, herein lies a key administrative myth. As the IFC study
suggested, corruption is widespread. Corruption at the local level in the Transcarpathian
Oblast has been evidenced by the need for “unofficial payments”, or “extra money”. In
Transcarpathia, extortion by officials is evidenced by required bribes, though not in every
instance, and bribes at times required directly of entrepreneurs such as Olha Zinchenko. The
Transcarpathia case study allows us to see how corruption works at the lower levels of
officialdom. Recall that in Kharkiv, the “intermediary” firm “Veest” organized and negotiated
all necessary bribes with officials, as the firm touted its ability to efficiently and effectively
help small businesses open. Of course, the utilization of the “intermediary firm” obstructed the
view of incompetence and corruption with officials. In Transcarpathia, the case study of “New
Horizons” shed new light onto the experiences of an entrepreneur in her direct dealings with
public officials and the state workers during the creation of a business.

In the Oblast of Transcarpathia, as put forth in the first case study of Koodreashka in
Kharkiv, administrative officials are not typically viewed by Ukrainians as fulfilling any useful
roles as ‘public servants’, as ‘civil servants’. Few of the officials, particularly at the lower
levels of administration, seem to view themselves as public servants. Transcarpathian officials
are widely perceived by residents of Transcarpathia as asserting whatever power they have
power in a corrupt and arbitrary way. The entrepreneurs and directors of any non-state
organizations appear to have great contempt for the administration. Yet, we must also question
the accuracy of the residents’ perceptions. For, it may be true that many entrepreneurs and
other residents have been experiencing the impeding behavior of many officials, particularly at
the lower to mid levels of administration. Even regarding the highest levels of administration, Transcarpathians can be found to often express dissatisfaction with corruption. Interestingly, even elements of organized crime in Transcarpathia, commonly understood as the mafia, have express pure disgust and contempt for administrative officials and officers of law enforcement. Why? Because the administration, as it represents the state and the oblast of Transcarpathia, is understood to exist primarily to enrichen itself (its members) at the expense of the ordinary people. A lack of public services is evident, as one may easily observe by visiting clinics and hospitals, riding in an ambulance that has absolutely no medical supplies or equipment, visiting schools and universities, driving on roads at the mercy of the police, or just by visiting any public building of residence as the administration ignores most maintenance issues such as problems in supply of heat, electricity and hot water...or any water for that matter. The poverty endured by so many in the Transcarpathian Oblast is artificial, to some extent, as it persists while many officials enrichen themselves at both the oblast level and at the national level. To further complicate matters of poverty in Transcarpathia, we may recall that officials in Transcarpathia, similar to those in Kharkiv, claimed that the directional flow of taxes was primarily from the many oblasts toward the center, toward Kiev. When officials can be seen to extort money from entrepreneurs by effectively withholding (or denying) the possibility expedient approvals and requisite signatures, officials are not acting as chief facilitators of economic development, but rather as impediments creation of small business and to growth in terms of standard of living.

The myth of officialdom as a facilitator of economic development and small business growth crumbles as the reality is understood to be, unfortunately, more negative: many officials act as impediments to economic development and clearly hinder the creation small business. But an official need not be corrupt to act as such an impediment to small business creation and sustainability. For example, the Transcarpathia case study has enabled us to understand that.
while not all officials attempt to extract money through extortion, the high level of complexity of the laws, regulations (sometimes unpublished, as under the Tax Administration), and bureaucratic procedures is a substantial impediment that can frustrate even the most patient entrepreneur. The procedures required to establish and build a firm are so complicated that even officials have been, at times, unaware of what Olha Zinchenko must do or what reports Olha must make in her lengthy sequence of applications for approvals and permissions. Quite simply, many officials in Transcarpathia have not been interested in attending to the questions or needs of Olha Zinchenko as she journeyed through the administration’s offices in an attempt to start a small business. She did not great pleasure with one woman in one of the “four Funds” while registering the firm “New Horizons”. Only in one office did they have all papers prepared and ready for her to pickup on her first visit. Since the “One Window” emails all required data to each department from which an approval is required, one might think that officials in each department could better prepare documents for each entrepreneur. This proves that expediency is possible in Transcarpathia, and in Ukraine. As Olha exclaimed in one conversation in February 2006,

“it was great. The woman (official) had all papers ready for me when I got there... it was possible because the “One Window” emails all (relevant) departments and gives them all the information that they need (for their approvals). So, why can’t they all do that for me? It would be great (Olha Zinchenko in a telephone conversation, February 2006).”

So, the good news is that, although some officials are uncaring or incompetent (or both), as some experiences in the case may have suggested, some officials have offered a terrific example of expediency and professionalism.

In fact, while the case study highlighted direct experiences with the lower and mid-level officials, and resulted in an understanding of the often frustrating aspects of trying to create a small business in Ukraine, the interviews of the case study also offered some very positive perspectives on how higher level officials in Transcarpathia are genuinely interested in
promoting the health, education and welfare of the residents of the oblast. At the oblast level, such departmental heads understood that Transcarpathia is situated in a region that has an advantage over many other oblasts: its geographic positioning enables it to make use of European Union grants and funding of projects that might otherwise be unavailable. Some higher-level officials agree that the somewhat diverse people of Transcarpathia, an oblast endowed by the beauty of mountainous regions, may be able to make great gains in the near future as Ukrainian national leaders, including even the Russian-oriented, authoritarian style leaders such as Leonid Kuchma and Victor Yanukovych, continue to assert publicly that Ukraine will maintain its goal of greater European integration, if not membership in the EU.

However, for Transcarpathia, as we previously evaluated Kharkiv regarding three main questions set out in the methodology segment of the first chapter, we must again conclude in a similarly negative way. The experiences of Olha Zinchenko, the candid interviews of the businessmen, NGO director, corporate lawyer, and the professors from Transcarpathia, lead us to temper the very optimistic and perhaps genuinely positive assertions of the Transcarpathian Oblasts higher level officials. It seems that there may be some organizational inconsistency, as the head of several departments seem to ambitiously work to promote decentralization of administration, inclusion of citizens, and expediency and effectiveness in departments such as the “One Window” Registration Chamber for businesses.

Thus, at this time, and regarding Transcarpathia as an Oblast of Ukraine, the answers to the three primary inquiries set forth in the methodology segment of the first chapter, are all, for the most part, negative.

1. No, it does not appear to be possible to create a small business in Transcarpathia by making only payments that are required by law, in avoidance of and without “extra money” paid as bribery or extortion. Неe moshna. Bribes are sometimes required.
2. No, the attempt to create a small business in Transcarpathia could not offer evidence that Ukraine’s political-legal environment is becoming more stable predictable in terms of rule of law (or at least not significantly more stable and predictable, though some improvements and positive, sincere goals have been noticeable).
3. No, there is little indication that this oblast of Transcarpathia is developing a reasonably free and competition-based market economy that lies within the context of rule of law.

In Transcarpathia, just as in Kharkiv, the matter of determining what reforms may be appropriate and effective, remains. Until Transcarpathia’s organizational inconsistency in mentalitét and behavior can be resolved, progress toward a more competitive market economy and a more effectively decentralized oblast administration will be slow, if at all evident.

Thus, even in Transcarpathia, an Oblast bordering EU countries, goals of economic development and small business development, as well as greater goals of European integration will remain merely dreams of disillusionment unless serious efforts to decrease corruption, incompetence, and organizational inconsistency regarding mentalitét and behavior at all level of officialdom, yield positive results.

The exception, is that the assertions and perceptions of the EU and USA may be motivated by political interests, as we have seen that somehow western powers have granted Ukraine “market status”, and have claimed the recent parliamentary elections of March 26th 2006 to be “free and fair”, although many Ukrainians do not believe so. In Transcarpathia, for example, many polling stations were never opened due to lack of volunteer polling officials. This was a problem, particularly in rural areas, since people were afraid of negative consequences in reward for such assistance as citizens. Many smaller parties claimed that the three main parties illegitimately controlled elections in oblasts where each had respective political influence. As a result, final election results were delayed, and no government coalition has been formed as of the second week of April 2006. As long as we in the West prefer to accept convenient and comfortable beliefs, even if those beliefs are erroneous, perhaps Ukraine’s democratic deficits, lack of rule of law, and lack of a genuinely competitive market may not impede Ukraine’s hope for integration into the EU.
7.7. References for Chapter 7, Transcarpathia Case Study

7.7.1 Individuals Referenced in the Transcarpathian Case Study

Olha Zinchenko, Director of “New Horizons of Transcarpathia”. Masters level degree in International Economics, specialization in finance, and certificate in written and verbal translation for the purpose of translating in all legal matters and documentation. Numerous communications: personal, telephone, email. Dates are referenced as topics appear in the text of this document.

Andrey Doroshuk, private lawyer. Consultations in Uzhgorod regarding the process of establishing a firm, including suggested variants for firm’s type of legal status, selection of tax structure, avoidance of taxes, the nature of ‘mediator firms’ in Transcarpathia, and the requirement of ‘extra money’ for officials. Referenced consultations were held on January 6th and 11th of 2005.

Olexander (Sasha) Beben, a private lawyer, who works in association with Uzhgorod’s Chamber of Commerce. Discussion involved types (legal status) of new firms, a recommendation to establish a limited liability firm, and a description of registration process. July 14th, 2005.

7.7.2 Small business owners, an NGO director, lawyer, an un-named official and Professors that corroborated case study and IFC study.

Dima Lendel, founder and director of the software technology firm “Pink Elephants” (www.bagel.com), Uzhgorod, Transcarpathia Ukraine. Interviewed on January 28, 2006

Tatiana Migalina, PhD., founder and director of the “Nehemia” Organization (NGO), Uzhgorod, Transcarpathia. Interviewed on July 12, 2005.

Alexander (Sasha) Medvetsky, founder and director of the firm “Kram”, a telecommunications provider in Uzhgorod Transcarpathia. Interviewed on July 11, 2005.


Official, Un-named. Lower-level administrative official from the Transcarpathia Oblast Administration. Private discussion outside the administration building, August 2, 2005.

Professor Alexander (Sasha) Peridriy, Professor of Economics, Transcarpathia State University, formerly the Institute of Information Sciences, Economics, and Law. January 12th, 2005, and several meetings, January 2006.

Myroslava Lendel, Professor of Politology, specialist in Public Administration and International Relations, conducts occasional training sessions in Administration for current officials of all levels. Uzhgorod National University. Interviewed January 27th, 2006

Yura Ostapetz, Professor and Chief of Politology Department, Uzhgorod National University. Interviewed on 25th, 2006.
Mehail Zan, Professor of Politology, specialist in Public Administration, Uzhgorod National University. Interviewed on 25th, 2006.
CHAPTER 8

FINDINGS AND CONCLUSIONS: SAME OLD VODKA IN NEW BOTTLES?

Figure 8.1. Traditions die hard in Transcarpathia. A family rides home after church one Sunday, Village of Yaseinya, Transcarpathia Oblast. May 2001.

8.1. Purposes and inquiries

The two case studies were aimed at the following broad inquiries:

1. Is it possible to create a small business in Kharkiv and Transcarpathia oblasts by making only payments that are required by law, in avoidance of “extra money” paid as bribery or extortion? If not, do bribed officials “stay bought”, or to what extent does the extortion come regularly and perhaps unpredictably?

2. Can this attempt to create a small business in Kharkiv and in Transcarpathia offer evidence that Ukraine’s political-legal environment is becoming more stable and predictable in terms of rule of law?

3. Is there any indication that these oblasts (and Ukraine more generally) are developing a reasonably free competition-based market economy that lies within the context of the rule of law?

In both case studies, the findings in response to the above three inquiries were, for the most part, negative. In both Kharkiv and Transcarpathia, extortion was evident, as officials required payments of “extra money”. The extortion seems fairly regular, and every entrepreneur can expect it. Yet, it is not yet clear, at this time, if all corrupt officials ‘stay bought’. However, the Tax Police have not been a serious problem for the directors either case study of a start-up business. Outsiders argue that it is possible that the Tax Police and others are waiting for the
businesses to become more profitable and mature, but there may be a degree of error in such an assertion. Simplifications of tax alternatives (by law) may have somewhat marginalized the Tax Police by restricting their sphere of responsibilities for businesses that may opt for the simplified tax structures that have been introduced (for example, the 10% tax on revenue, paid monthly to banks according to deposits made).

Regarding the second inquiry above, the two case studies of creation of small business in Kharkiv and in Transcarpathia offer little evidence that Ukraine’s political-legal environment is becoming more stable and predictable in terms of ‘rule of law’. The supposed successes of the Orange Revolution are subject to much criticism and doubt, and the courts remain highly corrupted, as has been attested within the case studies. Improvements for the rule of law may be on the horizon for Ukraine, but they will not be evident overnight.

Regarding the third inquiry above, the evidence offered by the Kharkiv and Transcarpathia case studies, and corroborated by many interviewees, fails to indicate that these two oblasts (and Ukraine more generally) have, as of 2006, developed a reasonably free competition-based market economy that lies within the context of the rule of law. While Marxism-Leninism is gone, a sense of economic authoritarianism remains. The administration acts, in effect, as an impediment, as a barrier to entry for entrepreneurs wishing to try their hand at small business. Any sense of competition certainly does not lie within rule of law, but within the less predictable (and more stressful and intimidating) norms of the “wild east”.

However, some very significant improvements have been noted, particularly after the newly elected President Yushchenko’s efforts to attend to the concerns of the more remote regions and villages in each oblast by implementing reforms that encourage popular participation in discourse with head administrators (see Transcarpathia case study for developments in that oblast after 2005), as well as the efforts to improve the efficiency and utility of the “one window” for small business registration.
The first chapter laid out the central purpose of this dissertation, which is to test the claims of strong support for economic development with specific attention to small business creation, as offered by administrative officials in two Ukrainian oblasts, Kharkiv and Transcarpathia. It was asked whether officials’ positive and optimistic claims of facilitation of small business development within a market economy represent myth or reality. Yacoub and Senchuk’s IFC study previously determined that the administrative officials were an impediment to entrepreneurs’ objectives and daily operations. ‘State-interference’, generally, was found to be a significant obstacle for small businesses. While the IFC study did not sample the industrial and densely populated eastern and Russian-oriented oblast of Kharkiv, nor the western and European-leaning, rural, and less populated mountainous oblast of Transcarpathia, two case studies of small business creation offered evidence regarding the extent to which the typically positive and hopeful (if not boastful) claims of officialdom are largely myths. It is worth noting that after the Orange Revolution, many higher-level administrators had been replaced throughout Ukraine, according to the desires of the newly elected Victor Yushchenko.

During interviews with officials, the newer high-level officials were often positive, or hopeful, in their outlooks. Officials in Transcarpathia were also more openly critical than were officials from Kharkiv. However, we must note the Kharkiv interviews took place with officials that had been under the former President Kuchma’s administrative appointments. Nonetheless, interviews with small business entrepreneurs, lawyers, and highly qualified professors from both Kharkiv and Transcarpathia offered highly congruent and fairly cynical testimony in support of the IFC findings. For the professors in the two oblasts, very critical analysis and evaluation was evident both before and after the Orange Revolution, in both eastern and western oblasts. It has been offered by some professors that the Orange Revolution had been betrayed and effectively over during the course of December 2004 through January 2005, due to the fact that Yushchenko had negotiated with his adversary, Victor Yanukovych.
for taking of the office of President at the price of conceding away important presidential powers (into the hands of the position of Prime Minister, and the Verkovna Rada more broadly). Later, compromises in October of 2005 would result in complete amnesty for all accused of election fraud, a true victory for Yanukovych and his allies in parliament. If there had been any doubt about the end of the Orange Revolution, perhaps the offering of complete amnesty was convincingly clear and distinctive for many onlookers.

Professors, like many citizens, including the two directors of the case studies, seem unable to identify significant improvements and changes within the structure, mentalitet, or behavior of the administrative officials, at least at the lower and mid levels of officialdom. This may be an indication of organizational inconsistency, as high-level officials, seemingly sincere and genuinely concerned for the welfare and development of their oblast(s), have not been able (to date) to cause the institutions and personnel to match their new and intended organizational missions. At the departmental levels of officialdom, the ‘red tape’ of bureaucracy is often extreme, incompetence easily detectible, and lack of concern for efficient and effective service for citizens (for entrepreneurs requiring permissions and approvals) is the norm. Some exceptions of very efficient departments have been evident, at times, as Olha Zinchenko pursued permissions and approvals on a near-daily basis in the Transcarpathia case study. It is no secret that corruption is widespread, as many officials resort to extortion as routine business. Citizens and foreign entrepreneurs are likely to be victims of predatory behavior by administrative officials of the lower and mid ranks. For example, inspectors and utility workers may extract ‘extra money’ as payment for speed, indicating that lack of such payment of a bribe will result in total lack of service. Such problems of corruption, incompetence, inefficiency, and ineffectiveness are likely to remain serious obstacles for small business development in Ukraine, and for Ukraine’s ambitions of integration with Western Europe, or the European Union, specifically.
In the more industrial oblast of Kharkiv, the ‘mediator firms’ are architectural firms that offer a complete array of services, spanning design and consultation to behind-the-scenes negotiations with officials in order to determine and pay all bribes on behalf of the client. While, in Kharkiv, corruption is highly institutionalized in this way, and while the reliance on ‘mediator firms’ makes transparency of any dealings with officials completely impossible, some value to the consumers-entrepreneurs is arguably evident. Entrepreneurs that rely on Kharkiv’s mediator firms, such as how Oksana Degtyarenko relied on the firm “Veest”, may experience a much more rapid achievement of all approvals and permissions. Of course, loss of transparency implies a loss of accountability, and use of a mediator firm will cost an entrepreneur more money than if she should attempt to rely on direct, though arduous, dealings with administrators.

On the other hand, in Transcarpathia, Olha Zinchenko did not have the possibility to rely on such a ‘mediator firm’, as they were not customary in that western oblast. In Transcarpathia, the Head of the Architectural Department may actually be found to, albeit ‘informally’ and not on paper, be the owner and director of a private architectural firm. The reader may recall Andrey Doroshuk’s commentary about this situation in the city of Uzhgorod, where even he, a private lawyer, claimed to see no conflict of interest...it is simply the way things may be done in Uzhgorod, Transcarpathia. Olha, like Oksana, had no significant political or administrative connections. Yet, unlike Oksana in Kharkiv, Olha attempted, on her own, to weave throughout the nearly imperceptible maze of administrative processes in Transcarpathia, as numerous departments required seemingly infinite and sometimes irrelevant and nonsensible permissions, approvals, and acts to be completed in succession, which would only add to the delays. In addition to minimizing the number of seemingly infinite approvals and permissions, more simultaneity in the many application processes for those approvals and permissions would help ease the delays for any entrepreneur. For Olha, seeking permissions
and approvals from many disinterested departments and inspectors has been a fulltime job, consuming her every workday. For over half a year, Olha has been chasing permissions from officials, and has had little time to dedicate to many aspects of the business, such as marketing or operations management. Due to the extensive state and oblast administrative requirements, Olha has had little opportunity to work on the development of the business, New Horizons of Transcarpathia. She spends the clear majority of her time in fulfilling the requests and instructions of the lower and mid level administrative officials.

What we may learn from the experiences of Oksana and Olha, is that the claims of administrative support for small business development, claims that have been made most sincerely at the higher levels of officialdom (such as Heads and Directors) do not represent an accurate depiction of reality for the entrepreneurs in either Kharkiv or Transcarpathia, where the entrepreneurs must deal with the inefficiency, incompetence, and corruption at the lower levels of officialdom on a daily basis. If the leadership of Ukraine truly wishes to support entrepreneurs and the development of small businesses, the wisdom and dedication of higher level administrators must bring in line with great organizational consistency, the mid and lower level officials that gain tremendously from direct extortion of ordinary citizens. If the national and oblast level administrations, from the President on downward, can develop and instill a higher level of awareness and commitment to a clear organizational mission throughout the various administrative levels, it may be more likely that many would-be entrepreneurs will enjoy an ability to assess risks of doing business without so much concern for political risk, due to extortion and repression by officials.

Some important questions remain. Can such a ‘revolution’ in the officials’ attitudes, in their mentalitet, and ultimately their behavior, occur as a result of top-down efforts, bottom-up participation, or some necessary mix of the two? To be sure, the mid and lower-level officials and departmental workers need to become committed to any recent or future administrative
reforms that may be relevant to the facilitation of small business development, and economic development for broadly. But, gaining the support from officials is easier said than done. With low pay, barely enough to rent a flat and buy food for one for a month, there seems to be great incentive to continue practices of corruption. Thus, for some of those very insufficiently paid officials, the obvious incentive for extortion of entrepreneurs is high, while incentives to cease activities of extortion and to eradicate corruption are not perceived by many officials. Thus, Ukraine’s officialdom rests on the horns of a dilemma. For the officials, all of which currently fail to receive a salary that enables subsistence (which is approximately $100 to $300 per month), their pay can only increase with the growth of the economy. However, the economy can only grow if corruption is curtailed. Unfortunately, the high level of corruption, which is, in addition, enabled by the extraordinary level of administrative ‘red tape’ such as permissions and “acts” (approvals) that must be acquired by entrepreneurs, stands as a serious impediment to the creation of business firms. In this sense, ‘state-interference’, the term used by Yacoub and Senchuk in the IFC study, encompasses not only the actions and demands that derive from laws and regulations of Ukraine, but also the informal ‘interference’ of corruption within officialdom. These “informal” expectations of state-interference interfere with the activities of firms throughout Ukraine. Of course, it would be a hasty conclusion to expect that a wage increase will curtail corruption for all officials. For some officials, as in every country, higher salaries cannot be expected to extinguish greed.

Top down reforms may be necessary, but it seems that without some significant degree of bottom-up participation by Ukrainians, specifically entrepreneurs, the administrators at any level, from national through all oblast and municipal levels, will be unlikely to enough incentive to act with any increased level of transparency and accountability, efficiency, effectiveness, or integrity. To be sure, changing the ‘mentatilet’ of officials and the citizenry presents a great challenge, one that may require at least another full generation, if not more. In
our ongoing discussions of “what” possible political and administrative reforms may positively impact economic development and small business creation in Ukraine, we should consider additional questions: “who” must make these changes, “why”, or for what reason and incentive, will officials be willing to make the changes, and “how” may effective changes be successfully implemented?
APPENDIX A


3.5.1. Before the first round of elections: “The People's Power Against Lies and Falsification.”

“UKRAINIANS DEMAND HONEST ELECTIONS IN HUGE OPPOSITION RALLY. An estimated crowd of 100,000-150,000 people took part in a rally organized by People's Power, a coalition of forces backing the presidential bid of opposition candidate Viktor Yushchenko, in Kyiv on 23 October, Ukrainian media reported. The demonstration, seemingly the largest in Ukraine since the breakup of the Soviet Union, was held near the Central Election Commission headquarters under the general slogan "The People’s Power Against Lies and Falsification." "We demand honest elections." Yushchenko told the crowd, "The people will force [the government] to recognize their choice.... The candidate of the authorities has no chance whatsoever for an honest victory [in the 31 October presidential ballot]." On 22 October, Yushchenko attended a 20,000-strong rally in Dnipropetrovsk, and on 24 October he met with 18,000 people in Simferopol (Jan Maksymiuk, Radio Free Europe/Radio Liberty, Prague, Czech Republic. RFE/RL Newsline Vol. 8, No. 202, Part II, 25 October 2004)."

“...AS OPPOSITION SUPPORTERS ARE ATTACKED BY MOB INCLUDING POLICE OFFICERS. A group of some 100 Yushchenko supporters, who picketed the Central Election Commission headquarters on the evening of 23 October, were attacked by a mob of some 50 unidentified men, who were armed with flails and plastic bottles filled with some hard mixture, the Mass Information Institute website (http://www.imi.org.ua) and UNIAN reported. The picketers, along with opposition deputies, managed to detain three attackers -- two of them turned out to be police officers. The Interior Ministry has not yet commented on the attack. Twelve picketers were reportedly hospitalized following the attack (Jan Maksymiuk, Radio Free Europe/Radio Liberty, Prague, Czech Republic. RFE/RL Newsline Vol. 8, No. 202, Part II, 25 October 2004).”

3.5.2. After first round of Ukraine’s presidential elections, the protests began

“UKRAINIAN PRESIDENTIAL BALLOT PROVES INCONCLUSIVE... With 94.2 percent of the ballots counted, the Central Election Commission announced on 1 November that Prime Minister Viktor Yanukovych won 40.11 percent of the vote, while his main rival Viktor Yushchenko obtained 39.16 percent of the vote in the 31 October presidential election, UNIAN reported. According to these incomplete results, Oleksandr Moroz was backed by 5.77 percent of voters. Petro Symonenko by 5.02 percent, and Natalya Vitrenko by 1.54 percent. Turnout stood at 74.38 percent. These results suggest that, as predicted by analysts and pollsters, Yanukovich and Yushchenko will fight for the Ukrainian presidency in a runoff on 21 November. (Aleksander Maksymiuk, Radio Free Europe/Radio Liberty, Prague, Czech Republic. RFE/RL Newsline Vol. 8, No. 206, Part II, 1 November 2004).”
"GEOGRAPHICALLY DIVISIVE. As expected, Yanukovych was overwhelmingly supported in eastern Ukrainian regions, while Yushchenko received the most support in western Ukraine. With more than 90 percent of the vote counted, the Central Election Commission said Yanukovych obtained 86.74 percent of voters in Donetsk Oblast, 80.53 percent in Luhansk Oblast, 69.19 in Crimea, and 57.63 in Kharkiv Oblast. On the other hand, Yushchenko garnered 89.38 percent of the vote in Ivano-Frankivsk Oblast, 87.98 percent in Ternopil Oblast, 87.42 percent in L'viv Oblast, and 76.97 percent in Volhynia. In Kyiv, Yushchenko was backed by 62.36 percent of voters, while Yanukovych got 14.69 percent. (Aleksander Maksymiuk, Radio Free Europe/Radio Liberty, Prague, Czech Republic. RFE/RL Newsline Vol. 8, No. 206, Part II. 1 November 2004)."

"YUSHCHENKO ALLO DEMANDS EMERGENCY PARLIAMENTARY SESSION OVER 'MASS FALSIFICATIONS.' Yuliya Tymoshenko, head of the (party that is the) political partner of Viktor Yushchenko, demanded on 1 November that the Verkhovna Rada hold an immediate emergency session to discuss what she said were "mass falsifications" in the 31 October presidential ballot, UNIAN reported. According to an exit poll by the Kyiv International Institute of Sociology and the Razumkov Center, a total of 44.4 percent of respondents voted for Yushchenko and 38 percent for Yanukovych. On the other hand, an exit poll by SOGIS and the Social Monitoring Center found that Yanukovych obtained 42.67 percent of the vote, while Yushchenko got 38.28 percent. According to the Committee of Voters of Ukraine (KVU), the results of the 31 October ballot could have been influenced by 'numerous irregularities' in voter lists. KVU head Ihor Popov said up to 10 percent of voters could have been unable to exercise their election right because of those irregularities. According to the Central Election Commission, 37.6 million voters were listed for the 31 October presidential elections. (Aleksander Maksymiuk, Radio Free Europe/Radio Liberty, Prague, Czech Republic. RFE/RL Newsline Vol. 8, No. 206, Part II. 1 November 2004)."

"OUTGOING PRESIDENT SAYS UKRAINE WON'T CHANGE TACK AFTER ELECTIONS. Incumbent President Leonid Kuchma said after casting his vote on 31 October that Ukraine's strategic course will not change after the presidential election, irrespective of who becomes the country's next president. UNIAN reported. "Ukraine's European choices have been, and will remain, [the same] for the president and society." Kuchma said. "Today nobody doubts that -- the path has been determined." Kuchma rejected journalists' suggestion that he might become prime minister following the presidential elections (Aleksander Maksymiuk, Radio Free Europe/Radio Liberty, Prague, Czech Republic. RFE/RL Newsline Vol. 8, No. 206, Part II, 1 November 2004)."

"EUROPEAN MONITORS SAY UKRAINIAN VOTE DID NOT MEET DEMOCRATIC STANDARDS. The International Election Observation Mission, which included some 600 observers from the OSCE, the Parliamentary Assembly of the Council of Europe, the European Parliament, and the NATO Parliamentary Assembly, said in a statement posted on the OSCE website (http://www.osce.org) on 1 November that the 31 October presidential ballot in Ukraine did not meet a 'considerable number' of OSCE. Council of Europe, and other European standards for democratic elections.
According to the mission, the presidential elections were tainted by bias in the state media, interference by the state administration in favor of Prime Minister Viktor Yanukovych, the disruption or obstruction of opposition campaign events by the state authorities, and inadequacies in the Central Election Commission's handling of complaints. 'This election process constitutes a step backward from the 2002 [parliamentary] elections,' said Bruce George, president emeritus of the OSCE Parliamentary Assembly and Special coordinator for the short-term observers. 'Although we are grateful to the Ukrainian authorities for their cooperation during our mission, we regret that they did not create equal campaign conditions,' said Ambassador Geert-Hinrich Ahrens, head of the OSCE's long-term observation mission (Jan Maksymiuk, Radio Free Europe/Radio Liberty, Prague, Czech Republic. RFE/RL Newsline Vol. 8, No. 208. Part II, 3 November 2004).”

“UKRAINIAN ELECTION CHIEF ACKNOWLEDGES EXTENSIVE ERRORS ON VOTER LISTS. Central Electoral Commission head Serhiy Kivalov said on Ukrainian Television on 1 November that there were widespread irregularities regarding electoral registers in the 31 October presidential poll. ‘There are citizens who have appealed to courts, territorial commissions, the Central Electoral Commission, [and] district commissions,’ Kivalov said. ‘Some had their problems solved and were entered on the register, while others remained outside and were denied their constitutional right [to vote].’ Opposition candidate Viktor Yushchenko wrote in the ‘Financial Times’ on 3 November that ‘millions of opposition supporters’ were denied the opportunity to vote on 31 October or were too poor to defend their right in court. Supreme Court Deputy Chairman Anatoliy Yarema said on 1 November that Ukrainian courts have examined some 42,500 complaints linked to the right of citizens to take part in voting in the 31 October ballot. According to Yarema, this number of electoral complaints was unprecedented for Ukraine (Jan Maksymiuk, Radio Free Europe/Radio Liberty, Prague, Czech Republic. RFE/RL Newsline Vol. 8, No. 208. Part II, 3 November 2004).”

“WHO WON UKRAINIAN PRESIDENTIAL BALLOT? The Central Election Commission has not yet finished counting votes in the 31 October presidential ballot. Ukrainian news agencies reported on 3 November. With 97.67 percent of the ballots counted, the commission said on 2 November that Prime Minister Viktor Yanukovych won 39.88 percent of the vote, while main rival Viktor Yushchenko obtained 39.22 percent, meaning that there will be a runoff between them on 21 November. It is not clear when the final results of the 31 October vote will be announced. The Central Election Commission is legally obliged to do this within 10 days following polling day. Meanwhile, some 5,000 students demonstrated in Kyiv on 2 November, protesting what they allege were falsified results from the 31 October vote. 'An all-out falsification of election returns is going on.' Yushchenko's campaign manager, Oleksandr Zinchenko, told the rally. According to Zinchenko, the Central Elections Commission has stopped announcing elections returns 'since it has realized that no report will be in favor of the authorities.' (Jan Maksymiuk, Radio Free Europe/Radio Liberty, Prague, Czech Republic. RFE/RL Newsline Vol. 8, No. 208. Part II, 3 November 2004)”

370
3.5.3. The plot thickens with extensive violations and blackmail of election officials by "authorities"

"UNCERTAINTY HOVERS OVER UKRAINIAN VOTE COUNT... Central Election Commission (TsVK) head Serhiy Kivalov told journalists in Kyiv on 3 November that the 31 October presidential ballot may be declared invalid in some constituencies. ITAR-TASS reported. 'About 50 election constituencies did not submit their protocols or the protocols they submitted were not properly executed. Courts are now considering violations in some of the [225] constituencies,' Kivalov said. The TsVK stopped the vote count on 2 November, announcing that with 97.67 percent of the ballots counted Prime Minister Viktor Yanukovych won 39.88 percent of the vote, while opposition candidate Viktor Yushchenko obtained 39.22 percent. Meanwhile, Ukrainian news agencies reported on 3 November that the TsVK has decided to verify 30 percent of the polling-station protocols in 132 constituencies. Yushchenko's campaigners have charged that the verification was ordered to steal what they believe to be a win by Yushchenko. Yushchenko wrote in the 'Financial Times' on 3 November that his staff will 'challenge' the 31 October poll results. His staff pledged to complete a parallel vote count by 7 November. ...AS CHIEF ELECTION OFFICIAL (was) SAID TO BE BLACKMAILED BY AUTHORITIES. Lawmaker Oleh Rybachuk from Yushchenko's Our Ukraine parliamentary caucus, said in Kyiv on 3 November that TsVK chef Serhiy Kivalov has not yet announced the final vote count in the presidential election because the presidential administration has threatened to instigate a criminal case against his daughter if he fails to ensure a 'necessary election result' for Premier Yanukovych, the 'Ukrayinska pravda' website (www2.pravda.com.ua) reported on 3 November. Rybachuk said the criminal case could be linked with the business activity of the Antarktyka fishing company, but failed to provide details. Kivalov denied that the presidential administration is putting pressure on him personally and on the commission concerning the release of final results of the voting. 'My daughter is not involved in any business activities,' Interfax quoted him as saying (Jan Maksymiuk, Radio Free Europe/Radio Liberty, Prague, Czech Republic. RFE/RL Newslne Vol. 8, No. 209, Part II. 4 November 2004)."

3.5.4. Do students matter? On November 18, 2004, more protests from youth groups sprung up.

"UKRAINIAN STUDENTS DEMAND FAIR PRESIDENTIAL RUNOFF. The youth organization Pora (It's Time) announced on 17 November a nationwide strike campaign among Ukrainian students to urge the authorities to conduct a fair presidential runoff between Prime Minister Viktor Yanukovych and opposition candidate Viktor Yushchenko on 21 November, Ukrainian news agencies reported. The same day, some 5,000 students rallied in Ivano-Frankivsk to demand fair presidential elections and urge educational authorities to avoid politicizing the educational process or persecuting students for their convictions. Also the same day, 4,000 students picketed the local police headquarters in Lviv with similar demands. Many participants in the protests -- who, apart from Pora, included activists of the Chysta Ukrayina (Clean Ukraine) and Studentska Khvylya (Students' Wave) youth organizations -- had the orange bands and stickers of the pro-Yushchenko election campaign (Jan Maksymiuk, Radio Free Europe/Radio Liberty, Prague, Czech Republic. RFE/RL Newslne Vol. 8, No. 217, Part II, 18 November 2004)."
"Ukraine's Time to Remember,

"Ukraine is once again living through an exceptional period, much similar to that on the eve of its independence 13 years ago. Then, a new state was born out of political and social turmoil in the crumbling Soviet Union. Now we are witnessing the troubled, but definite, birth of a vibrant civil society in this state. All this is happening because of a presidential election in which Ukrainians for the first time since their independence seem to have a genuine political alternative to the ruling regime. This fact alone makes their situation very exceptional in Eastern Europe. In the short term, there is no possibility for such an alternative in Belarus or Moldova. And no apparent need for it in Russia.

On 21 November, Ukrainians will go to the presidential polls to choose between Prime Minister Viktor Yanukovych, who vows to ensure the political continuity to the regime of outgoing President Leonid Kuchma, and Viktor Yushchenko, who has promised to make a new start for the country. Yushchenko and Yanukovych competed in a neck-to-neck race in the first round on 31 October, obtaining 39.87 percent and 39.32 percent of the vote, respectively. It is widely expected that the runoff will be very close, too. It is also expected that turnout, which was 75 percent three weeks ago, will be distinctly higher on 21 November.

Both candidates seem to be sure of their victory, but it may happen that the fate of Ukraine's next presidency will depend on a handful of votes and, consequently, on a political verdict of the Central Election Commission (CEC). The commission was able to count nearly 98 percent of the 31 October vote within hours after the close of polling stations and subsequently spent 10 days tallying the remaining 2 percent. Thus generating vehement charges of ballot manipulations. It may also happen that one of the contenders will not agree to a declared victory of his rival and will try to give vent to his frustration by inciting a 'strong-arm scenario' to claim the power.

However, one thing is perfectly clear. Irrespective of who will emerge as a winner of the 21 November runoff, the country will not be the same as before the 2004 election. The 'people's election campaign' conducted by Yushchenko has raised such a huge wave of spontaneous civic activism in his support that it is hardly conceivable that this activism will fizzle out even if he loses the vote on 21 November. The 2004 presidential campaign has formed a civil society in Ukraine, the core of which consists of a vast community of Yushchenko backers who seem to have eventually woken up from the Soviet-era political and social lethargy for good. It would be close to impossible to ensure a semblance of Kuchma-like continuity in Ukraine's political and social life for Yanukovych or Yushchenko even if they chose to do so.

The common picture of the Ukrainian presidential race, presented both for domestic and foreign audiences, is that Yanukovych stands for Ukraine's pro-Eurasian (pro-Russian) 'political vector,' while Yushchenko represents the country's pro-European (pro-Western) option. This may be fairly true as regards the election tactics used by both contenders to mobilize their electorates. Many voters in eastern Ukraine will vote for Yanukovych because he promises close cooperation with Russia as well as some concessions to the country's ethnic Russians in particular or Russian speakers in general. At the same time, they will vote against Yushchenko, because he is a 'pro-Western Ukrainian nationalist' and his wife 'is a CIA spy.' As for Yushchenko, he is drawing his support primarily from the traditionally nationalist western part of the country, where voters 'hate all things Russian' and 'want Ukraine to be in NATO.' By the same token, they will vote against Yanukovych because 'he wants Ukraine to return into Russian bondage.'

In the Kuchma era, Ukraine's delicate East-West political and cultural equilibrium
has never been critically upset, and the country remained afloat in waters fairly remote from both Russian and Western shores. There is no grounds to suspect that this time the situation will be any different. It is nonsensical to fear that Yanukovych as president might like to become a governor of Ukraine administered from Moscow. The same can be said about the danger of Ukraine sliding into the ‘clutches’ of the West under Yushchenko. First, no one is actually pushing Ukraine in that direction. Second, it is Russia, not the West, which is feeding Ukraine with oil and gas, and will continue to do so for many years to come. In other words, there is no peril of tectonic shifts in Europe’s political equilibrium after 21 November.

This year’s Ukrainian election, like several other ballots in the past, seems to be offering a clear-cut choice between Russia and the West. But, as in the past, Ukraine’s future will turn out to be a compromise between the Russian and Western paths of development for the sake of an independent Ukraine. The true test will be the extent to which ordinary Ukrainians will influence the decisions made by the ruling elites in the postelection period. It will be hard for the future president, be it Yanukovych or Yushchenko, to ignore the will of the voters who have finally become citizens. (Ukraine’s Time to Remember, by Jan Maksymiuk, published online in Radio Free Europe/Radio Liberty, Prague, Czech Republic. RFE/RL Newsline Vol. 8, No. 218, Part I, 19 November 2004.)”

3.5.5. Just after the second ballot of November 21, 2004, the Orange Revolution took off, in full scale, on Monday, November 22, 2004

“UKRAINIAN OPPOSITION CANDIDATE ALLEGES PRESIDENTIAL-VOTE FRAUD, URGES POPULAR RESISTANCE... Opposition presidential candidate Viktor Yushchenko appealed to Ukrainians at a rally in central Kyiv on 22 November to organize popular resistance against what he believes to have been blatant fraud by the Central Election Commission (TsVK) in the counting of votes in the previous day’s presidential runoff, Ukrainian and international news agencies reported. With 99.14 percent of the vote counted, the TsVK reported that Yanukovych won 49.42 percent of the vote to Yushchenko’s 46.69 percent. Exit polls organized by two separate groups of Ukrainians pollsters had suggested that Yushchenko beat Yanukovych by 54 percent to 43 percent and by 49.7 percent to 46.7 percent, respectively. Yushchenko called on Ukrainians to pitch tent camps in Ukrainian cities to protest the alleged electoral fraud peacefully and defend what he described as his election victory. Reuters estimated that 60,000 people attended the opposition demonstration on Independence Square in Kyiv (Jan Maksymiuk, Radio Free Europe/Radio Liberty, Prague, Czech Republic. RFE/RL Newsline Vol. 8, No. 219, Part II, 22 November 2004).”

3.5.6. After the second round of presidential elections, held November 21, 2004

“Ukraine in Turmoil after presidential vote”:

“A crowd estimated to number at least 100,000 took part in a rally on Independence Square in Kyiv on the evening of 22 November to protest what they perceive to be government fraud during the previous day’s presidential runoff between Prime Minister Viktor Yanukovych and opposition candidate Viktor Yushchenko. With 99.38 percent of the vote tallied, the Central Election Commission (TsVK) had announced earlier in the day that Yanukovych won 49.42 percent of the vote to Yushchenko’s 46.7 percent. Meanwhile, Yushchenko told the crowd on Independence Square that by resorting to massive fraud, primarily in Ukraine’s eastern regions, the
authorities stole 3.1 million votes from him and, consequently, his election victory.

Speaking to some 60,000 people at the same rally earlier in the day, Yushchenko called on Ukrainians to organize popular resistance against the alleged vote fraud and defend what he described as his election victory. In addition, Yushchenko's political ally Yuliya Tymoshenko has called on Ukrainians to launch a nationwide strike. Yushchenko's backers have pitched some 300 tents along Khreshchatyk, Kyiv's main thoroughfare, and have reportedly vowed to stay in them until Yushchenko is declared the country's elected president. There have been also reports that Yushchenko's supporters are coming to Kyiv from the provinces despite police blockades of the roads around the capital and elsewhere in the country, while the authorities are bringing Yanukovych's adherents to Kyiv in busses.

In the meantime, local councilors in several cities in western Ukraine, including Lviv and Ivano-Frankivsk, have adopted resolutions claiming that they will recognize only Yushchenko as the legitimate president and supporting the opposition call for a general strike. The Kyiv City Council passed a resolution expressing distrust in the Central Election Commission. The opposition has also managed to collect 150 signatures among parliamentary deputies calling for an emergency session on 23 November to discuss the situation in the country and move a vote of no confidence in the commission. It is unclear how such a vote, if passed, could influence the official results of the 21 November ballot. Parliamentary speaker Volodymyr Lytvyn told journalists on 22 November that any resolution of the Verkhovna Rada concerning the Central Election Commission would be merely a "political gesture."

Both Western and domestic independent election monitors have concurred that the 21 November vote in Ukraine was far from democratic. The Committee of Voters of Ukraine (KVU), a nongovernmental electoral watchdog, reported on 21 November that illegal voting by absentee ballot was the biggest problem in the runoff, UNIAN reported. 'Our observers have registered more than 100 buses carrying these people [voting illegally], and one can gather that tens of thousands [of people] have voted in this way,' KVU head Ihor Popov told journalists.

The KVU also reported numerous incidents of assault on observers and journalists, and even kidnappings. 'Up to a dozen people have been kidnapped today by criminal-looking individuals,' Popov claimed. Other alleged irregularities included preventing observers, both domestic and international, and journalists from entering polling stations, the use of counterfeit ballots, and the failure to sign or stamp ballot papers by some commission members.

The OSCE International Election Observation Mission for the Ukrainian presidential runoff said in its preliminary conclusions on 22 November that the vote failed to meet a considerable number of democratic standards. According to the OSCE mission, Ukrainian executive authorities and the Central Election Commission 'displayed a lack of will to conduct a genuine democratic election process.' U.S. Senator Richard Lugar (Republican, Indiana), President George W. Bush’s special envoy for the Ukrainian election, charged that the Ukrainian government was involved in a "concerted and forceful program of election-day fraud and abuse."

However, the West's remonstrations against the Ukrainian ballot seem to carry little weight with Ukrainian authorities. For them, much more important was the position of the Kremlin, which did not hide its sympathies for Yanukovych during the election campaign. On 22 November, Russian President Vladimir Putin reportedly congratulated Yanukovych on his election victory, saying that 'the battle has been hard-fought, but open and honest.'

It appears highly improbable that Ukrainian authorities will yield to the current
surge of anti-Yanukovych protests and declare Yushchenko the winner. Two other options appear more likely – either the authorities will wait with Yanukovych’s inauguration until the anti-government rebellion peters out, if the protests prove to be persistent and well attended, the presidential ballot might be declared invalid and incumbent President Leonid Kuchma could continue to rule for another half year in order to prepare for a new election.

Yet, irrespective of the final outcome of the current standoff in Ukraine, it will be problematic, if not impossible, for Kuchma to assure political continuity for his regime, something he repeatedly urged during the election campaign. Ukraine seems to have awakened to a new political life in which millions of people are no longer prepared to mutely endure electoral manipulation, official lies, and autocratic governance.

Seen from this perspective, Ukraine’s presidential election of 2004 appears to offer an opportunity unprecedented in Ukraine’s 13 years of independence for politicians, from both the pro-Yanukovych and the pro-Yushchenko camps, to practice the difficult art of political compromise in order to ensure the unity of their bitterly divided country (Jan Maksymiuk, Radio Free Europe/Radio Liberty, Prague, Czech Republic. RFE/RL Newsline Vol. 8, No. 220, Part I, 23 November 2004).”

3.5.6. Protests grew increasingly stronger after election results were first posted, then cancelled

“YUSHCHENKO ADHERENTS BLOCK GOVERNMENT, PRESIDENTIAL ADMINISTRATION OFFICES. Tens of thousands of people came to Independence Square in Kyiv on 29 November for the eighth consecutive day of protests against what the opposition deems to be massive fraud in favor of Premier Viktor Yanukovych in the 21 November presidential vote. Ukrainian media reported. According to the "Ukrayinska pravda" website (www2.pravda.com.ua/), two separate groups of pro-Yushchenko backers have been blocking the government offices and the presidential administration headquarters by forming "living chains" before entrances to these buildings since last night.... YUSHCHENKO DEMANDS NEW PRESIDENTIAL BALLOT. Yushchenko told a crowd of his backers demonstrating for the fifth consecutive day in Kyiv on 26 November that he wants a new presidential vote on 12 December in order to overcome the current standoff over the official results of the 21 November presidential runoff, Ukrainian and international news agencies reported. Yushchenko’s proposal is supported by the European Union, according to Reuters. (Jan Maksymiuk, Radio Free Europe/Radio Liberty, Prague, Czech Republic. RFE/RL Newsline Vol. 8, No. 222. Part II, 29 November 2004).”

“UKRAINIAN SUPREME COURT SUSPENDS VERDICT AWARDING VICTORY TO YANUKOVYCH. The Supreme Court on 25 November blocked the publication of the official presidential election results awarding victory to Yanukovych, Ukrainian media reported. The decision means that until the court has finished examining complaints about alleged massive election fraud from the Yushchenko election staff, Yanukovych cannot be inaugurated as president. The previous day, the Central Election Commission announced that Yanukovych won the 21 November runoff with 49.46 percent of the vote (15.1 million votes) to Yushchenko’s 46.61 percent (14.2 million votes). Yushchenko claims that the election authorities stole more than 3 million votes from him, primarily in Ukraine’s eastern regions of Luhansk and Donetsk. The Supreme Court began reviewing Yushchenko’s complaints on 29 November. (Jan
3.5.8. Yanukovych is on the way out, as lawmakers in the Verkhovna Rada distance themselves from him: the protests pick up even more momentum with a vote of 'no-confidence' from 229 deputies in the Rada

"PROTESTS OVER PRESIDENTIAL BALLOT. Some 100,000 backers of opposition leader Viktor Yushchenko gathered in front of the Verkhovna Rada building in Kyiv on 1 December as the parliament was debating once again a no-confidence motion in Yanukovych's cabinet and the situation in the country after an abortive vote the previous day (see 'RFE/RL Newsline,' 30 November 2004), Channel 5 reported. Groups of Yushchenko supporters also continued to block the presidential administration and government offices in the Ukrainian capital. On 1 December 1991, Ukrainians voted overwhelmingly in a referendum for their country's independence from the Soviet Union. UKRAINIAN PARLIAMENT PASSES NO-CONFIDENCE MOTION IN GOVERNMENT. The Verkhovna Rada on 1 December passed a no-confidence motion in Prime Minister Viktor Yanukovych's cabinet, Ukrainian media reported. The motion was supported by 229 deputies, three more than required. It is not clear for the time being whether the vote is legally binding since the parliament cannot dismiss the prime minister within a year following the approval of a government program submitted to it for approval. The Verkhovna Rada approved such a program by Yanukovych's cabinet in March. However, the parliament on 1 December in a separate vote annulled its March resolution on approving the Yanukovych government's program. The parliament's resolution may be appealed in the Constitutional Court... (Jan Maksymiuk, Radio Free Europe/Radio Liberty, Prague, Czech Republic. RFE/RL Newsline Vol. 8, No. 224, Part II, 1 December 2004)."

3.5.9. Compromise by Yushchenko and Yanukovych over Constitution and a shift of power to the Prime Minister yielded a limited victory for opposition.

"Two weeks of anti-government protests in Kyiv by backers of opposition presidential candidate Viktor Yushchenko culminated in the passage on 8 December of legislation that appears to have ended Ukraine's political impasse and paved the way for a democratic vote on 26 December. At a dizzying pace, lawmakers adopted a constitutional-reform bill to limit presidential powers in favor of the prime minister and the parliament. amended the law on presidential elections to safeguard against abuse and fraud, approved a bill of constitutional amendments 'in the first reading' to reform local self-government, and replaced the Central Election Commission that awarded a dubious victory to Prime Minister Viktor Yanukovych following the flawed 21 November presidential runoff with Yushchenko.

There have been many surprises in Ukraine's political and social life over the past two weeks -- including the momentous invalidation of the runoff by the Supreme Court on 3 December -- but they pale in comparison with the events of 8 December. Yushchenko commented that 8 December 2004 should be recorded in national annals as a day of historic compromise. He also predicted that the decisions taken on that day cleared a path for his victory on 26 December in 18-20 Ukrainian regions, presumably enough to secure a Yushchenko presidency. Given that the amended
election law severely reduces the number of voters authorized to cast their ballots from home and places tight controls on absentee ballots (thus minimizing the risk of massive electoral fraud of the type that marred last month’s runoff), Yushchenko’s optimism ahead of the new vote is perhaps warranted.

But there was also a bitter undertone to his address to 100,000 orange-clad supporters on Kyiv’s Independence Square on 8 December when he interpreted what happened in the parliament earlier that day and thanked the public for its decisive contribution to Ukraine’s ‘orange revolution.’

The constitutional reform suggests that the balance of power in the country will be radically shifted from the president to the parliament and the prime minister. Most Ukrainian commentators agree that Ukraine is poised for a transformation from its current presidential system to a parliamentary one. If Yushchenko eventually becomes the head of state, he will thus have significantly curtailed his prerogatives in comparison with those of outgoing President Leonid Kuchma. The power shift will occur on 1 September 2005 if the Verkhovna Rada approves the bill on local self-government ‘in the second reading’ prior to that date, or, failing such passage, it will automatically go into effect on 1 January 2006. Yushchenko is apparently disconcerted with that prospect. He avoided any reference to the constitutional-reform bill while recounting the events of the day to his sea of orange on Independence Square. Indeed, he even was not among those 78 deputies of his parliamentary caucus who supported the package of bills intended to resolve the political crisis. What’s more, the parliamentary caucus headed by his staunch political ally and prominent firebrand Yuliya Tymoshenko voted against the reform bill.

Ironically, it was Kuchma -- whose handpicked successor was denied the presidency on the strength of opposition outcry and subsequent events -- who assumed the role of a victor on 8 December. Kuchma claimed the lion’s share of the credit for the historic political compromise as he signed the reform bill immediately after its passage. Kuchma and his aides devised the political reform as a stratagem for remaining in the political game beyond 2004 through their leverage in a parliament reinforced with extensive powers regardless of who wins the presidency. At first glance, everything appears to point to a scenario in which a Yushchenko victory is offset by a parliament filled with Kuchma cronies: Yanukovych has arguably lost credibility in the eyes of voters, and the parliament is set to become a pivotal player in the country a year from now. But what of the Ukrainian people, whom the ‘orange revolution’ has miraculously transformed from a pliant electorate into mature and responsible citizens? It is difficult to imagine them allowing Ukrainian politicians to play backstage political games on the scale of the Kuchma era.

The belief that the Ukrainian president will become a figurehead following the implementation of the constitutional reform is an obvious misconception. This misconception might have originated and been nourished for both domestic and foreign consumption by Yushchenko’s camp, which entered the 2004 election campaign in an ‘all-or-nothing-at-all’ mood. True, the president loses the right to nominate all cabinet ministers under the constitutional reform. But the president retains the right to propose the country’s prime minister, defense minister, and foreign minister for parliamentary approval. No less important, the president has the sole right to appoint all regional governors. And the president’s right to dissolve the parliament if it fails to form a viable government coalition can be an effective tool for defusing political conflicts and shaping government policy.

On the other hand, the reform offers an increased set of checks and balances in government, making many important decisions dependent on concerted agreement
between the presidency, the legislature, and the cabinet. What can be seen as an impediment to an efficient presidency is in fact an indisputable gain for Ukrainian democracy. It appears that in the long run, the most important achievement of Ukraine’s ‘orange revolution’ in 2004 will be neither the democratized presidential-election law (that can be changed at any time by a simple majority in the Verkhovna Rada) nor even Yushchenko’s likely presidency. The key accomplishment just might be the constitutional reform that seeks to dismantle the authoritarian executive system of power, so characteristic of many post-Soviet states, and recast it into something more similar to European-model democracy.

Last but not least, providing the parliament with a decisive voice in most political decisions in Ukraine seems the best possible way to heal the country’s troubling east-west divide. That rift is more likely to be healed if the responsibility for such decisions lies with 450 deputies elected all across Ukraine, rather than by one man elected by half the country.

It was thus unwise for Yushchenko to remain silent about constitutional reform on Independence Square, implying that the reform represents a Kuchma victory within a broader ‘orange revolution.’ First and foremost, it was a victory for hundreds of thousands of Yushchenko supporters who have been taking to the streets for the past two weeks despite the cold and snow. And the political reform fits well indeed into the stunning transformation of Ukrainians, for whom Yushchenko’s likely installment as president will be only one stage -- albeit a crucial one -- on their path toward Europe. (Jan Maksymiuk, Radio Free Europe/Radio Liberty, Prague, Czech Republic. RFE/RL Newsline Vol. 8, No. 230, Part I, 9 December 2004).”

3.5.10. Third ballot election results declared Yushchenko as clear winner (though Yanukovych continued dispute)

“YUSHCHENKO OFFICIALLY DECLARED UKRAINE’S PRESIDENT-ELECT... The Central Election Commission announced officially on 10 January that Viktor Yushchenko won the 26 December repeat of the late-November presidential runoff in Ukraine with 51.99 percent of the vote (15.1 million voters) versus Viktor Yanukovych’s 44.2 percent (12.8 million voters). Ukrainian media reported. Turnout was 77 percent. Yushchenko won in Kyiv and 16 western and central regions, while Yanukovych won in Sevastopol and nine eastern and southern regions. The official results of the vote need to be published in two official newspapers, ‘Holos Ukrainy’ and ‘Uryadovyy Kuryer’ to become irreversible (Jan Maksymiuk, Radio Free Europe/Radio Liberty, Prague, Czech Republic. RFE/RL Newsline Vol. 9, No. 6. Part II, 11 January 2005).”
APPENDIX B

NEW HORIZONS TRANSCARPATIA: STATEMENT OF PURPOSE AND INTRODUCTION TO PROGRAMS AND SERVICES

“New Horizons of Transcarpathia”, Ukraine. Olha Zinchenko, Director.
(In Russian New Horizons is pronounced “NO-veh Gah-ra-ZON-ti Za-kar-PAT-tya”
Located on Prospect Svoboda (Prospect Freedom) in the city of Uzhgorod, Transcarpathia Oblast, Ukraine. Please visit the website at: WWW.newhorizonsukraine.com

“New Horizons” is a newly established private institution, specializing in translation and interpretation services, language training and cultural education, and business support services for entrepreneurs.

The organization provides:
1. Language training in Russian and Ukrainian (introductory through advanced levels) for students visiting from abroad, supplemented by elective non-language courses in:
   a. Politics and administration of Russia and Ukraine
   b. Post-Soviet Economics, business and the political-legal environment
   c. Slavic history
   d. Literature and art of Russia and Ukraine
2. Benefits of cultural experience, a “home-stay” program, and extensive guided travel excursions for study-abroad students,
3. Language training in English and German for local Ukrainians,
4. Complete translation/interpretation/editing services for Ukrainians and foreigners alike.
5. Consultation and assistance for entrepreneurs in creation of small businesses in Ukraine.

Language training programs:
1. Local Ukrainian citizens may enroll in either English or German instruction sessions during fall and spring semesters. Group and individual sessions will be available.
2. Foreigners, such as students from the US and countries of Western Europe, may enroll in intensive language programs that offer benefits of cultural experience gained through immersion.
   A. These instructional language programs will feature Russian and Ukrainian.
   • Sessions will be designed to regularly roughly coincide with the winter-sessions and summer-sessions (both six week summer modules) of the University of Massachusetts at Amherst.
   • The intensive four-week winter and six week summer sessions will include a variety of levels of instruction:
     o Introductory level: an offering designed for the first year student of Russian or Ukrainian language who may be interested in sharpening his or her language skills. Introductory classes will correspond to university/college level fall and spring semesters, such as those currently offered each year at Smith College.
     o Intermediate level: Intermediate classes will be equivalent to university level courses of the second year, or the 3rd and 4th semesters.
     o Advanced level: Advanced instruction, similarly, will satisfy the standards of typical third year instruction courses and beyond.
• Language lab equipment will be available for students in order to enhance listening and speaking skills.
• One-on-one tutoring will be available in order for each student in order to maximize his or her learning experience.

B. Cultural Experience:
• The “home-stay” option: While becoming familiar with the culture and history of a Post-Soviet state that is undergoing substantial political, economic, and social change, students from abroad may benefit from a “home-stay” program. Students may choose to stay with a local family in order to ensure utmost comfort and safety while adjusting to the culture and traditions of Ukraine. Some people may prefer accommodations in a hotel room or in a privately leased apartment, in which case our staff will assist in making arrangements.
• Tourism, travel and translation: Our staff will guide students on frequent excursions within the city of Uzhgorod and throughout the beautiful mountainous oblast of Transcarpathia. Students will be offered variants for weekend trips, some within Transcarpathia, but destinations will include other regions of the country such as Lviv, Kiev, Kharkiv and the Crimea. For those who prefer occasions of independent travel, our staff will assist in planning and purchasing of transportation tickets and lodging accommodations as needed.

C. Additional details:
• The classes will be held at the newly renovated instruction center on Lenin’s Prospect, five minutes walk from the river “Uzh”, regarded as the heart of the city center. Students may take advantage of a variety of internet cafes, restaurants, pubs, clubs, stores, etc.
• It is suggested that students should purchase assigned books at home (perhaps over the internet) and bring them to Uzhgorod, though materials will also be available at “New Horizons”.
• In order to promote a trouble-free and safe visit, our staff will assist all students with individualized planning of travel to and from Uzhgorod. Commonly, people wishing to visit Uzhgorod will fly to Budapest Hungary and take a train to Transcarpathia. We will have a representative meet each student in Budapest for the train ride to Ukraine, making for a comfortable and safe journey at every stage. Alternatively, some may prefer to fly to Kiev and take either a train or plane to Uzhgorod, Transcarpathia. Again, we will assist all students in every way that may facilitate a trouble free journey.
• Fees: Estimated fees for the brief two-week program are approximately $600 including the homestay program. Longer running programs such as the intensive six week language instruction courses are $1600 per student, including participation in the “home-stay” option and family meals, or lower without participation in the “home-stay” program. Costs of rental of a hotel or apartment will vary on a student’s preferred degree of luxury as well as location and duration. Those students interested in the extended weekend travel excursions will be responsible for those expenses of travel and lodging, but our staff travel-guides will be available at no additional cost to students as part of the broad language and cultural experience program.

Business Support Services
New Horizons’ professional staff, including the director, lawyers and notaries, will assist entrepreneurs in all phases of small and medium business creation, and will aim to minimize clients’ extortion payments to officials. Staff will be available to expedite all approval
processes required by administrations many departments and political bodies such as the city council and oblast rada.
APPENDIX C

THE ELEVEN-PAGE LIST OF APPROVALS FROM SECOND CASE STUDY, NEW HORIZONS.

UKRAINE

"ЗАРЕЄСТРОВАНО"

Інспектія ДАБК м. Ужгорода
(назва виконавчої інспекції архітектурно-
будівельного контролю)
від __ __ 200__ р. № __
(П.Б., підпис виконавчої особи)

М.П.

"ЗАТВЕРДЖЕНО"

Рішенням виконкому Ужгородської міської radi
(назва розпорядного документа та органу, що затверджає
акт державної приймальної комісії)
від __ __ 200__ р. № __
Керуючий справами виконкому
(П.Б., підпис виконавчої особи)

М.П.

АКТ
ДЕРЖАВНОЇ ПРИЙМАЛЬНОЇ КОМІСІЇ
ПРО ПРИЙНЯТТЯ В ЕКСПЛУATAЦIЮ ЗАКIНЧЕНОГО
БУДIВНИЧТВОМ ОБ'ЄКТА

від __ __ 200__ р.

(покр. адреса розташування об'єкта)

(назва об'єкта згідно з проектом, характер будівництва, номе, реконструкції, реставрації, технічне впослідству тоді)

(назва об'єкта згідно з
ДК 018-2000)
Державна приймальна комісія утворена

Рішенням виконкому Ужгородської міської ради

(назва розпорядного документа та органу, що утворив комісію)

№ 27 від "16" березня 2005 р.

у складі:

ГОЛОВИ (представник органу виконавчої влади чи органу місцевого самоврядування,
що утворив комісію) Повхан Йосип Іванович - перший заступник міського голови

(ПІБ, посада)

ЧЛЕНІВ КОМІСІЇ – представників:

Виконавчого комітету міської ради Шеба Олександр Васильович - нач. управління
архітектури та містобудування

(ПІБ, посада, назва організації)

Замовника

(ПІБ, посада, назва організації)

Генерального підрядника

(ПІБ, посада, назва організації)

Генерального проектувальника

(автора проекту)

(ПІБ, посада, назва організації)

Експлуатаційної
організації Крайниківський Л.В. - нач. головного управління міського
господарства (на підконтрольних об'єктах)

(ПІБ, посада, назва організації)

Інспекції державного
архітектурно-будівельного
контролю Зотова Олексій Сергійович - начальник міської
інспекції ДАБК

(ПІБ, посада)

Органу державного
санітарно-епідеміологічного
нагляду Петричко Василь Іліч - головний державний
санітарний лікар м. Ужгорода

(ПІБ, посада)

Органу державного
пожежного нагляду Лебедєв Юрій Володимирович - начальник Ужгородського
районного відділу управління міністерства надзвичайних ситуацій

(ПІБ, посада)

383
Державна її приймальній комісії надано:

Затверджує проекти документацію з усім з усім в процесі будівництва в установленому порядку змінами та доповненнями

Акт робочої комісії (у разі прийняття експлуатацію об’єкта виробничого призначення з кількістю робочих місць понад 50 або вартістю понад 5 млн грн., а також об’єктів житлово-гімназійного призначення (III, IV і V категорії складності) від „ „ 200 р.

Акт комісії про прийняття устаткування після комплексного випробування з комплексом виробничої та виконавчої документації від „ „ 200 р.

Акт комісії про прийняття устаткування після індивідуального випробування з комплексом виробничої та виконавчої документації від „ „ 200 р.

Виконавча документація (згідно з переліком, затвердженим наказом Держбюду України від 27.01.2005 № 21)
Керуючись порядком прийняття в експлуатацію закінченних будівництвом об’єктів, затвердженим постановою Кабінету Міністрів України від 22.09.2004 № 1243,

державна приймальна комісія ВСТАНОВИЛА:

1. Будівництво здійснено на підставі рішення, розпорядження тощо

(назва документа та порядок, який був використано) № ______ від ______ 200 р

2. Будівництво здійснено генеральним підрядником

який виконав (назва організації) (виконання робіт)
та субпідрядними організаціями *

(назва організації та види виконаних робіт)

* при кількості організацій більше трьох їх перелік та види виконаних робіт наводяться в додатку до акта

3. Проектна окумуляція на будівництво розроблена: генеральним проектувальником

(назва організації)

який виконав

(назва частин або розділів документації)
та субпідрядними організаціями *

(назва організації та види виконаних робіт)

* при кількості організацій більше трьох їх перелік та види виконаних робіт наводяться в додатку до акта

4. Проектна документація затверджена

(назва розпорядного документа і організації, який її затвердив) № ______ від ______ 200 р

5. Дозвіл на виконання будівельних робіт виданий:

(дата, загал. вкази видачі)

(назва організації та види виконаних робіт)

Будівельно-монтажні роботи здійснено в терміни:

6. Початок робіт (число, рік) Закінчення робіт (число, рік)
7. Пред'явлення до прийняття в експлуатацію об’єкт (для всіх, крім житлових, будинків) має такі основні показники (потужність, продуктивність, виробничий об’єм, протяжність, обсяг, подвійні, провідна здатність, кількість робочих місць тощо (заповненість на всіх об’єктах в одиницях виміру відповідно до типової підприємницької або основних видів послуг):

<table>
<thead>
<tr>
<th>Основні показники об’єкта</th>
<th>Одиниця виміру</th>
<th>За проектом</th>
<th>За архітектурно-технічним паспортом</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>загальний</td>
<td>у тому числі пускового комплексу або черги</td>
<td>загальний</td>
</tr>
</tbody>
</table>

Загальна площа, м²

Випуск продукції (надіяння послуг), яка передбачена проектом в обсязі, що відповідає нормам освоєння проектних потужностей в початковий період

(фактичну випуск продукції в житловому об’єкт)

Пред'явлення до прийняття в експлуатацію житловий будинок має такі показники:

<table>
<thead>
<tr>
<th>Таблиця 1</th>
</tr>
</thead>
<tbody>
<tr>
<td>Показники</td>
</tr>
<tr>
<td>-----------</td>
</tr>
<tr>
<td>Загальна площа квартир</td>
</tr>
<tr>
<td>Кількість поверх</td>
</tr>
<tr>
<td>Загальний будівельний об’єм</td>
</tr>
<tr>
<td>у тому числі надземний</td>
</tr>
<tr>
<td>Площа вбудованих, вбудовано-прибудованих та прибудованих приміщень</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Таблиця 2</th>
</tr>
</thead>
<tbody>
<tr>
<td>Типи квартир</td>
</tr>
<tr>
<td>-------------</td>
</tr>
<tr>
<td>Кількість квартир</td>
</tr>
<tr>
<td>Одинокімнатні</td>
</tr>
<tr>
<td>Двокімнатні</td>
</tr>
<tr>
<td>Трікімнатні</td>
</tr>
<tr>
<td>Чотирокімнатні і більше</td>
</tr>
<tr>
<td>Усього квартир</td>
</tr>
</tbody>
</table>
8. На об’єкти виконані згідно з державними будівельними нормами всі роботи, передбачені проектною документацією, змінене і впроваджене укладення, проведені пусконапівздатні роботи здійсні з технічним регламентом, створені безпечні умови для праці виробничого персоналу та перебування людей відповідно до вимог нормативно-правових актів з охорони праці, пожежної безпеки, екологічних та санітарних норм

(може бути наведена інформація про виконання інших, передбачених проектною документацією, завдань)

9. Зовнішні надзвичайні комунікації холодного та гарячого водопостачання, каналізації, теплопостачання, газопостачання, енергопостачання та зв’язку забезпечують нормальне експлуатацію об’єкта та прийняті міськими експлуатаційними організаціями. Перелік довідок міських експлуатаційних організацій наведений у додатку до акта.

10. Недоторки та дефекти, виявлені робочою комісією (акт від ______ 200________ р.) № __ (додається), ліквідовані.

11. Перелік видів робіт, строки виконання яких перенесені через несприятливі погодні умови, будуть виконані:

<table>
<thead>
<tr>
<th>Перелік робіт</th>
<th>Строки виконання</th>
<th>Організація – виконавець</th>
<th>Підпис</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>П.І.Б.</td>
<td></td>
</tr>
</tbody>
</table>

12. Інвестиційна вартість будівництва за затвердженою проектною документацією:
усого __________ тис. грн., у тому числі: витрати на будівельно-монтажні роботи __________ тис. грн., машини, обладнання та інвентар __________ тис. грн.

13. Вартість основних фондів, які приймаються в експлуатацію __________ тис. грн., у тому числі: витрати на будівельно-монтажні роботи __________ тис. грн., витрати на машини, обладнання та інвентар __________ тис. грн.
ПРИЙНЯТТЯ В ЕКСПЛУАТАЦІЮ

Голова державної приймальної комісії Повхан В.І.

Члени державної приймальної комісії:

Ніба О.В.
Захов О.С.
Петричко В.І.
Лебедєв І.Ю.
Винчук М.Я.
Дрібіл А.С.
Карп’юк М.К.
Кривичурський І.В.
Сотник С.Ф.
Бандурка О.М.

(прізвище, ім’я, по – батькові) (підпис)

Приклад. Згідно з пунктом 27 Порядку прийняття в експлуатацію залізничних будівельних об’єктів, затвердженого постановою Кабінету Міністрів України від 22.09.2004 № 1243, Акт державної приймальної комісії підлягає затвердженню у 15-денній строк і реєструється в інспекції державного архітектурно-будівельного контролю.

ЗАПУСК ДАТА 2004 р. на виконання будівельних робіт.

388
Додаток 1

Перелік виконаної та іншої документації, що надається державній приймальній, робочій комісії при прийнятті в експлуатацію закінчених будівництвом

<table>
<thead>
<tr>
<th>№ п/п</th>
<th>Назва документу</th>
<th>№ вихідного документу</th>
<th>П.І.Б. особі, що підписала документ</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>I. Геодезична служба управління архітектурою та мистецтвом</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>1. Геодезична розбивочна основа для будівництва</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>2. Геодезична схема розбивування підліпного мікроприводу</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>II. ШУВІСТ „Будівництво“</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Акт прийняття зовнішнього водопроводу</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>III. ДП „Ужгородською музея“</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Акт прийняття внутрішньоквартирного,</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>внутрішньомайданчичних систем водопостачання</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>IV. &quot;Ужгородський МРЕМ&quot;</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Акт прийняття зовнішнього електропостачання</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>V. ВАТ „Закарпат Арт“</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Акт прийняття внутрішньої та зовнішньої частини систем газопостачання</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>VI. Пожежної інспекції</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Акт прийняття систем противопожежного</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>наліпового та обладнання</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>VII. Санепідеміологія</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Аналіз води</td>
<td></td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>Акт радіаційного обстеження приміщень на</td>
<td></td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>- рівень ПЕД зовнішнього гамма – випромінювання</td>
<td></td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>- ЕРК Радон – 222</td>
<td></td>
<td></td>
</tr>
<tr>
<td>15.</td>
<td>Довідка про виконання робіт з упорядкування і озеленення території</td>
<td></td>
<td></td>
</tr>
<tr>
<td>16.</td>
<td>Акт про готовність ліфтів</td>
<td></td>
<td></td>
</tr>
<tr>
<td>17.</td>
<td>Акт прийняття сміттєпроводів і приміщень сміттебірників</td>
<td></td>
<td></td>
</tr>
<tr>
<td>18.</td>
<td>Акт прийняття робіт з герметизації вводів інженерних комунікацій</td>
<td></td>
<td></td>
</tr>
<tr>
<td>19.</td>
<td>Акт прийняття системи і випусків внутрішнього водопостачання будинку</td>
<td></td>
<td></td>
</tr>
<tr>
<td>20.</td>
<td>Акт прийняття системи вентиляції</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>IX. Державний архітектурно-будівельний контроль (ДАБК)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>21.</td>
<td>Архітектурно-технічний паспорт об'єкта</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>X. Виконавчі, технічна охорона, інвентаризація виконуваної роботи</td>
<td></td>
<td></td>
</tr>
<tr>
<td>22.</td>
<td>Акт прийняття системи опалення</td>
<td></td>
<td></td>
</tr>
<tr>
<td>23.</td>
<td>Акт прийняття внутрішніх систем водостоків</td>
<td></td>
<td></td>
</tr>
<tr>
<td>24.</td>
<td>Акт прийняття системи і випусків внутрішньої каналізації</td>
<td></td>
<td></td>
</tr>
<tr>
<td>25.</td>
<td>Акт прийняття технологічного обладнання та русоводнаго обладнання побудованого житлового будинку</td>
<td></td>
<td></td>
</tr>
<tr>
<td>26.</td>
<td>Документи, які свідчать про готовність матеріалів, конструкцій і зрошення, які використовувалися під час виконання робіт</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
27. Акти виконання заходів під час будівництва на території з грунтами, що просяють, під землями карстами, парковими.

28. Акти на прийомці БМР та акти про прийняття відповідальних конструкцій.
<table>
<thead>
<tr>
<th>№</th>
<th>Примітка: документацію, перелічену в додатку 1, після прийняття об'єкта в експлуатацію необхідно зберігати у забудовника або в експлуатаційній організації протягом всього терміну експлуатації.</th>
</tr>
</thead>
</table>
APPENDIX D

NEW HORIZONS’ LEASE OF PROPERTY FROM OWNER TO FIRM

ДОГОВОР

оренда не житлової приміщення

№ ______

м. Ужгород

“___” __________ 200 р.

Роберт Джон О’Міра, (надалі-Орендодавець), з одного боку та товариство з обмеженою відповідальністю „Нові Горизонти Закарпаття”, в особі директора Васильєвої О.В., що діє на підставі Статуту (надалі – Орендаря), з іншого боку,

учисні цей Договір про нижченаведене:

1. Предмет Договору

1.1. Орендодавець передає, а Орендар приймає у тимчасове, строкове платне користування (оренду) не житлове приміщення (надалі – Майно), площею 53.9 кв.м., розміщене за адресою: м. Ужгород, проспект Свободи, 28/33, яким Орендодавець володіє на праві власності на підставі документів, виданих Ужгородським міжрегіональним бюро технічної інвентаризації, а саме:

- витягу про реєстрацію права власності на нерухоме майно за № 6412193 від 04.02.2005 року;
- довідки про власність за № 9 від 04.02.2005 року.

1.2. Майно, що є предметом цього Договору відповідає вимогам санітарно-епідеміологічного законодавства.

1.3. Метою оренди Майна є використання його Орендарем для діяльності, передбаченої його статутними документами.

2. Умови передачі та повернення орендованого майна

2.1. Орендар вступає у строкове платне користування Майном у термін, указаний у договорі, але не раніше дати підписання Сторонами цього Договору та акта приймання-передачі Майна.

2.2. Передача майна в оренду не тягне за собою виникнення у Орендаря права власності на це Майно.

Власником майна залишається Орендодавець, а Орендар користується ним протягом строку оренди.

2.3. У разі припинення цього Договору Майно повертається Орендарем Орендодавцеві у 10-ти денній термін.

Орендар повертає Майно Орендодавцеві аналогічно порядку, встановленому при передачі майна Орендарю цим Договором.

Майно вважається поверненим Орендодавцеві з моменту підписання Сторонами акта приймання-передачі.

2.5. Обов'язок по складанню акта приймання-передачі покладається на сторону, яка передає Майно іншій стороні Договору.

3. Оренда плата

3.1. Оренда плата сплачується Орендарем шомісячно і становить 17 (сімнадцять) гравень в місяць.
3.2. Орендар сплачує орендну плату Орендодавцю у національній валюті України, до 10 числа місяця кожного місяця наступного за звітним.

3.3 В орендну плату не входить плата за комунальні послуги.

3.4. Орендодавець має статус нерезидента. Орендар має статус платника єдиного податку.

3.5. Нарахування орендної плати починається з наступного дня після підписання Сторонами акту прийому-передачі Майна.

4. Обов'язки Орендаря

Орендар зобов'язується:

4.1. Приймати від Орендодавця орендоване Майно по акту прийому-передачі.

4.2. Використовувати орендоване Майно відповідно до його призначення та умов цього Договору.

4.3. Здійснити за власний рацунок капітальний ремонт Майна.

4.4. Своєчасно і у повному обсязі сплачувати орендну плату.

4.5. Забезпечити збереження орендованого майна, запобігати його пошкодженню і псуванню, здійснювати заходи проти пожежної безпеки.

4.6. Своєчасно розраховуватися за спожиті електроенергію, газопостачання, а також за встановлення (переобладнання) та технічне обслуговування пожежної сигналізації.

4.7. У разі припинення або розірвання Договору повернути Орендодавцеві орендоване Майно по акту прийому-передачі у 10 денний термін у надлежному стані, не гіршому ніж на момент передачі його в оренду, з врахуванням нормального фізичного зносу, та відшкодувати Орендодавцеві збитки у разі погіршення стану або втрати (повної або часткової) орендованого Майна з вини Орендаря.

5. Обов'язки Орендодавця

Орендодавець зобов'язується:

5.1. Передати Орендарю в оренду Майно згідно з цим Договором по акту приймання-передачі майна, який підписується Сторонами.

5.2. Не вчиняти дій, які б перешкоджали Орендарю користуватися орендованим Майном на умовах цього Договору.

6. Відповідальність і вирішення спорів за Договором

6.1. За невиконання або неналежне виконання Орендарем зобов'язань за цим Договором Орендодавець має право в односторонньому порядку розірвати цей Договір без обов'язку відшкодування Орендарю понесених в зв'язку з цим збитків та із звільненням від іншої відповідальності.

6.2. У випадку, якщо Орендарем затримано строк сплати орендної плати, встановлений п.3.2. цього Договору, на протязі одного місяця Орендодавець має право розірвати даний Договір в односторонньому порядку, без обов'язку відшкодування Орендарю понесених в зв'язку з цим збитків та із звільненням від іншої відповідальності.

6.3. В разі прострочення Орендарем сплати орендної плати більш ніж на 10 днів чи її несплати Орендар повинен сплатити пеню в розмірі подвійної облікової ставки НБУ за кожній день прострочення, що встановлена на день платежу та звільнити орендоване приміщення на протязі 10 днів.

6.4. Спори, які виникають за цим Договором або в зв'язку з ним, не вирішені шляхом переговорів на протязі одного місяця, вирішуються в судовому порядку.
7. Строк чинності, умови зміни та припинення Договору

7.1. Цей Договір укладено строком на одинадцять місяців з моменту підписання його Сторонами.

7.2. Умови цього Договору зберігають силу протягом всього строку цього Договору, в тому числі у випадках, коли після його укладення, законодавством встановлено правила, що погіршують становище Орендаря.

7.3. Зміни i доповнення допускаються за взаємої згодої сторін. Зміни та доповнення, що пропонується внести, розглядаються протягом одного місяця з дати їх подання до розгляду іншою стороною та набирають чинності з аумов укладення їх у формі, що відповідає формі цього Договору.

7.4. Реорганізація Орендаря, або перехід права власності на орендоване Майно третім особам, не визнається підставою для зміни або припинення чинності цього Договору і він зберігає свою чинність для нового власника орендованого Майна (їого правонаступників).

7.5. Взаємовідносини Сторін, не врегульовані цим Договором, регулюються чинним законодавством України.

7.6. Цей Договір укладено в 2-x (двох) примірниках, кожен з яких має однакову юридичну силу, по одному для кожної сторони.

8. Платіжні та поштові реквізити сторін

Орендодавець

Роберт Джон О'Mіра,
громадянин США,
паспорт №203720393
виданий 16 січня 2001 року
Національним паспортним центром
штата Массачусетс.США
мешкає за адресою:США,штат Массачусетс,
mісто Холіюк,Нордхемптон стрит,1329
ІДН: 2264215352________

Орендар

ТОВ “Нові Горизонти Закарпаття”
код ЗКПО: 33925589
м. Ужгород, пр. Свободи,28/33
п/р 26009033376400 в АКІБ
“УкрСиббанк” м. Харків МФО 351005

395
9. Додатки
Додатки до цього Договору є його незвіданою і складовою частиною. До цього Договору додаються:
- акт приймання-передачі орендованого Майна.

Орендодавець

_______________________________________________________________

_______________________________________________________________

Орендар

_______________________________________________________________

_______________________________________________________________

Додаток №1
до Договору оренди
не житлового приміщення
№ __ від _______ р.

АКТ
прийому-передачі

м. Ужгород "___" _________ 200 р.

Роберт Джон О’Міра, (надалі —"Орендодавець"), з однієї сторони, та
Товариство з обмеженою відповідальністю "Нові Горизонти Закарпаття", в
особі директора Васильєвої О.В., що діє на підставі Статуту, (надалі “Орендар”), з другої сторони,

склали даний Акт про наступне:

1. Орендодавець, у зв’язку з укладенням Договору оренди не житлового
приміщення № __ від _______ 200 р. та у відповідності з умовами даного Договору,
передає Орендарю. а Орендар приймає у Орендодавця приміщення не житлового
характеру, яке знаходиться за адресою: м. Ужгород, проспект Свободи, 28/33.

2. Об’єкт оренди передається з наступним вміщуваним
обладнанням: двуконтурний котел ____________________________

3. Об’єкт оренди на момент передачі знаходиться у стані придатному для
використання відповідно до умов укладеного Договору.

Підписан Сторін :

Орендодавець: Орендар:

_______________________________________________________________

_______________________________________________________________

396
References for Chapter 1, Introduction: Purpose, Methodology, and Significance

Arts, Karin and Anna K. Dickson, editors. EU Development and Cooperation, edited by Karin Arts and Anna K. Dickinson. Manchester UK: Manchester University Press. 2004


Fisun, Oleksander, professor of Politology in Kharkiv National University’s Philosophy faculty. Professor Fisun has recently visited the United States in order to study electoral processes. Personal Interview, March 2003


Hughes, James, with Gwendolyn Sasse and Claire Gordon. European Regionalization in the EU’s Enlargement to Central and Eastern Europe. New York: Palgrave McMillan. 2004


Mr. Meshko. Personal communication from a discussion in a mountain village in Transcarpathia, Ukraine. 2001.


397

Reka, Irena Georgeeyevna, Director of “Administration Organization” of the Kharkiv Oblast Administration, personal interview. 2003


References for Chapter 2, An Economic Overview


Constitution of Ukraine. Adopted at the Fifth Session of the Verkhovna Rada of Ukraine on 28 June 1996 (available online at: http://www.rada.kiev.ua/const/conengl.htm)


Fisun, Oleksander. Professor of Politology in Kharkiv National University’s Philosophy faculty. Professor Fisun has recently visited the United States in order to study electoral processes.


Linz, Juan J. “Transitions to Democracy” *The Washington Quarterly* 13, no. 3 1990: 143-164


Parsons, Talcott. The Social System. Glencoe, IL: Free Press. 1951

Parsons, Talcott and Edward Shils (eds.). Toward a General Theory of Action Cambridge, Ma: Harvard University Press, 1951


Peridriy, Oleksander. Senior Professor of Economics at the State Institute of Information Sciences, Economics, and Law. Uzhgorod, Ukraine. Personal communication on risk of business was in Uzhgorod, Ukraine during May 2002. Professor Peridriy shares his thoughts and experiences regularly with the researcher.


Tootelian, Dennis. Unpublished manuscript on lending and the role of small business as a major economic force. Forthcoming article discussed in “Small Businesses: Major Economic Force”, in Business Futures. Published by the College of Business Administration. California State University at Sacramento. September 2003.

Tootelian, Dennis. Personal communication regarding unpublished manuscript on Small business as a major economic force, October 2003.


Yushchenko, Victor. “Our Ukraine: We will lead our people to a legitimate victory”, in The Opinion Journal, of the Wall Street Journal, an online resource. Friday, December 3, 2004. This article is available online at http://www.opinionjournal.com/editorial/feature.html?id=110005974

References for Chapter 3, Political Overview (Including works consulted, and featuring modernization and early developmentalists)


Constitution of Ukraine. Adopted at the Fifth Session of the Verkhovna Rada of Ukraine on 28 June 1996 (available online at: http://www.rada.kiev.ua/const/conengl.htm)


Dubrovina, Nadiya (daughter of Anatoly Dubrovina) Assistant Professor at the Kharkiv State University, specializing in economics and mathematics. Personal interview in January 2004.


Fisun, Oleksander, professor of Politology in Kharkiv National University’s Philosophy faculty. Professor Fisun has recently visited the United States in order to study electoral processes. Personal Interview, March 2003


Huntington, Samuel P. *Political Order in Changing Societies.* New Haven: Yale University Press. 1968


Parsons, Talcott and Edward Shils (eds.). *Toward a General Theory of Action* Cambridge, Ma: Harvard University Press, 1951


Reaka, Irena Georgeeyevna, Director of “Administration Organization” of the Kharkiv Oblast Administration, personal interview. 2003


Writings of Jan Maksymiuk and Aleksander Maksymiuk of Radio Free Europe/Radio Liberty. Presented in chronological order and in order of appearance:


405


References for Chapter 4, on Kharkiv Administration

Administrative Officials Referenced in the Kharkiv Interviews


Mihail Georgiievich Ctanchyev, Doctor of History and Professor, Chief (first manager, director) of the Administration of Foreign (International) Trade and Economic Investments, overseeing over 20 departments. Interview, March 18th, 2003.

Volodimir V’yachyeslavovich Souhinin, “Chief Specialist” of the Department of Investments, Kharkiv, Ukraine. This department supports the goal of EU integration. Interviewed on March 18th and subsequently on March 21st, 2003.

References for Chapter 5, on Kharkiv Case Study

Published works


Individuals referenced in the Kharkiv Case Study

Oksana Degtyarenko, the director of the salon, “Koodreashka”. Comments on services of mediator form and ‘Administratsia mafia’ from January 5th, 2004.


Team of three lawyers:

Andrey Dorochuk, lawyer from Uzhgorod, Ukraine. Business lawyer, works with a Ukrainian NGO, and formerly was a lawyer for the police department. Personal communications. January 2003.

Andrei Viktorovitch Zabiela (Andrew), Director of the ‘Mediator’ firm, known as “Veest”. Telephone interviews on December 8th and 9th, 2003.

Professors and others external to the administration and Kharkiv case study

Anatoly Dubrovina, Full Professor at the Kharkiv State University, specializing in economics and mathematics. Interview, January 6th, 2004.

Nadiya Dubrovina, Assistant Professor at the Kharkiv State University (daughter of Anatoly Dubrovina), specializing in economics and mathematics. Interview, January 6th, 2004.

Dmytro Matsypura, Doctoral Candidate in Computer Sciences at University of Massachusetts. Dmytro is a Ukrainian citizen from Kiev, whose father is an economic advisor to Ukraine’s President Leonid Kuchma. Personal communications, fall 2002.


Ivan Vasilovich Karpenko, Dean of the Philosophy Faculty, and Professor of Philosophy at Kharkiv National (State) University. In addition to several personal meetings, Professor Karpenko hosted a group interview with others in Philosophy Faculty, including professors of Politology. Interviewed Match 19th, 2003.

Tatyana Mosentseva, professor in Kharkiv National University’s Philosophy Department. During a group interview, Professor Mosentseva also assisted in translating. Interviewed Match 19th, 2003.

Nicolai Ivanovich Sazonov, a senior professor of Politology in the Philosophy Faculty at the Kharkiv National University. Professor Sazonov has recently published an 829 page politology textbook on Ukraine. Interviewed Match 19th, 2003.

408
Oleksander Fisun, professor of Politology in Kharkiv National University’s Philosophy faculty. Professor Fisun has recently visited the United States in order to study electoral processes. Interviewed Match 19th, 2003.


References for Chapter 6, on Transcarpathia Administration

Referenced websites


Referenced Administrative Officials from Transcarpathia Oblast:

Joseph Torpoy, Director of the “Center for Ukrainian and Hungarian Regional Development” in the Transcarpathian Oblast Administration, Ukraine. Interviewed on January 25th, 2005.

Natalia Nosa, Director (Head) of the Department of European Integration and Cross Border Cooperation in Uzhgorod, Transcarpathia Oblast Administration, Ukraine. First interviewed on January 21st, 2005.

Olexander Zhulkanych, First Deputy (director) of Department of Economy, Transcarpathia Oblast Administration. Interviewed on July 13th, 2005.

Natalia Nosa, Head of Department of European Integration, Cross Border Cooperation, and Tourism Development. Second interview, July 14th 2005.

Oleg Havashi, First Deputy Head of Zakarpattyja Regional (Oblast) Administration, and briefly joined by Volodymyr Hoblik, Head of the Economical Department and Deputy Head of Zakarpattyja Oblast Administration, July 20th Interview, 2005. Mykhailo Popovitch was interviewed with the assistance of Timor Tashtanov.

Volodymyr Hoblik, Head of the Economical Department and Deputy Head of Zakarpattyja Oblast Administration, July 21st Interview, 2005. Mykhailo Popovitch was interviewed with the assistance of Timor Tashtanov.

Mykhailo Popovitch, Head of Apparatus (Structure of Administration), Transcarpathia Oblast Administration, July 21st Interview, 2005. Mykhailo Popovitch was interviewed with the assistance of Timor Tashtanov.

409
References for Chapter 7, on Transcarpathian Case Study

Individuals Referenced in the Transcarpathian Case Study

Olha Zinchenko, Director of “New Horizons of Transcarpathia”. Masters level degree in International Economics, specialization in finance, and certificate in written and verbal translation for the purpose of translating in all legal matters and documentation. Numerous communications: personal, telephone, email. Dates are referenced as topics appear in the text of this document.

Andrey Doroshuk, private lawyer. Consultations in Uzhgorod regarding the process of establishing a firm, including suggested variants for firm’s type of legal status, selection of tax structure, avoidance of taxes, the nature of ‘mediator firms’ in Transcarpathia, and the requirement of ‘extra money’ for officials. Referenced consultations were held on January 6th and 11th of 2005.

Alexander (Sasha) Beben, a private lawyer, who works in association with Uzhgorod’s Chamber of Commerce. Discussion involved types (legal status) of new firms, a recommendation to establish a limited liability firm, and a description of registration process. July 14th, 2005.

Small business owners, an NGO director, lawyer, an un-named official and professors that corroborated case study and IFC study.

Dima Lendel, founder and director of the software technology firm “Pink Elephants” (www.bagel.com), Uzhgorod, Transcarpathia Ukraine. Interviewed on January 28, 2006


Alexander (Sasha) Medvetsky, founder and director of the firm “Kram”, a telecommunications provider in Uzhgorod Transcarpathia. Interviewed on July 11, 2005.


Professor Alexander (Sasha) Peridriy, Professor of Economics, Transcarpathia State University, formerly the Institute of Information Sciences, Economics, and Law. January 12th, 2005, and several meetings, January 2006.

Myroslava Lendel, Professor of Politology, specialist in Public Administration and International Relations, conducts occasional training sessions in Administration for current officials of all levels. Uzhgorod National University. Interviewed January 27th, 2006

Yura Ostapetz, Professor and Chief of Politology Department, Uzhgorod National University. Interviewed on 25th, 2006.
Mehail Zan, Professor of Politology, specialist in Public Administration, Uzhgorod National University. Interviewed on 25th, 2006.