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**Q13**

# Does Ukraine need more bankruptcies?

## Issues of market exit in a distressed economy

*Background (not to be translated)*

*In 2000, Ukraine adopted a strongly debtor-biased bankruptcy law, hoping to make bankruptcy more acceptable. Recently there were several cases of debt-equity swaps against strategic enterprises, which were widely seen as asset stripping. Several initiatives have been taken to get better control over state firms and to prevent their insolvency (Commission on questions of insolvency at the MinCab). However, as yet no clear programme has emerged from these attempts. The government and the president are both apprehensive about insolvency questions and the governance of state owned enterprises (SOEs) but it seems they are still searching for a strategy.*

### Summary

The role of any bankruptcy procedure is twofold: firstly, to ensure the most efficient use of the assets of the enterprise after its default (ex post efficiency) and, secondly, to establish adequate incentives for the management to perform well prior to the default (ex ante efficiency). Without the threat to loose the property in case of inefficient production, the driving force of any market economy is missing.

In Ukraine, the market exit of non-viable firms has been postponed for almost a decade. Given the financial status and the accumulated debts of enterprises, the number of bankruptcies is far too low. The costs of this policy has resulted in:

- an insufficient credit supply and high interest rates due to large risk premiums;
- insufficient incentives for enterprises to improve their production processes;

- government revenues losses;
- unfair competition due to discretionary bailouts.

The huge inter-enterprise debt makes it more and more difficult to apply normal market exit rules. The amount of debt, which in all likelihood cannot be repaid in the future, amounts to 30 to 40% of GDP. The failure to enforce bankruptcies and the ever-mounting debt are two sides of the same coin and must therefore be tackled together.

Ukraine is special in some respects: the bulk of debt is not to the banking system but between enterprises and to the state. The debts are highly concentrated in a rather small number of huge conglomerates. Much of the debt is in the energy sector. Bankruptcies of a limited number of the most indebted companies would help greatly to restore order in the payment system, although the sheer size of the potential candidates for bankruptcies makes this a daunting task. However, the Ukrainian bankruptcy law provides rather ample opportunities for making restructuring arrangements and for reorganisation. Nevertheless, this has so far not led to a more frequent use of bankruptcy proceedings.

Other countries have restructured unrecoverable debts in earlier phases of their transition. Ukraine still faces this task. Without a solution to the debt problem, a threat of market exit can hardly be made credible, which would have severe consequences for sustainable growth.

## Introduction

This paper deals with the economic rather than the legal issues of bankruptcy. We attempt to review the major arguments concerning the application of bankruptcy proceedings in Ukraine. After introducing the basic objectives of any bankruptcy law, we will briefly review the scope of bankruptcy in Ukraine. Chapter 3 will look at the validity of some often-repeated arguments against a strict bankruptcy approach in Ukraine. The following chapter will summarise the economic costs caused by the failure to enforce bankruptcy procedures. Chapter 5 will discuss how bankruptcy relates to privatisation. Finally, the mounting debt and the role of bankruptcies in Ukraine will be discussed in chapter 6. The paper ends with some conclusions.

## 1. The objectives of bankruptcy

Market exit of non-viable firms, i.e. enterprises, which are not able to generate profits for the foreseeable time span, is an indispensable element in any market economy. It does not only provide for the efficient usage of resources but also for incentives to the owners to perform well. Any bankruptcy regulation should serve two purposes: ex-post and ex-ante efficiency.

*Ex-post efficiency*

This objective of any bankruptcy regulation is concerned with the best possible use of the resources and allocation of the assets of an enterprise in default. Bankruptcy is a device to release assets from the old (inefficient) owner and transfer them to a more productive use.

According to this principle a firm should be liquidated if its liquidation value, i.e. the value of its assets, is higher than the continuation value, i.e. the present value of its future profits.

Although this rule is simple, its application is rather difficult. Neither the liquidation value nor the expected stream of discounted profits is known with certainty. In principle auctioning off the firm's assets can solve the problems. If the receipts from a piecemeal sale are higher than from the sale as a going concern, the firm should be liquidated and vice versa. Auctions have the desirable feature that assets are transferred to the bidder who will use them most efficiently. The highest bidder is likely to employ the assets most profitably, because otherwise he would not be able to pay the highest price. We will comment later on the possible shortcomings of auctions.

*Ex-ante efficiency*

While ex-post efficiency deals with problems **after** default, ex-ante efficiency is about incentives for creditors and debtors **before** a default occurs. The threat of bankruptcy imposes costs on owners and managers if they do not generate profits. The debtor might loose his property and/or the manger his job in case of default. The possibility that the property is taken from the owner if debts are not served in time is essential to guarantee the efficient use of assets. If such a credible threat does not exist, the economy is bound to waste its resources. In cases where the value of the assets is low, as it is often in Ukraine, the ex-ante efficiency is even more important than the ex-post efficiency.

## 2. Bankruptcy in the Ukrainian economy

On January 1, 2000 a new bankruptcy law came into effect in Ukraine. This law is much more debtor-biased than it predecessor. The bankrupt firm has three possibilities: liquidation, restructuring, or an amicable agreement among creditors and the debtor. Several provisions were included to protect the debtor and to allow for reorganisation of the enterprise. After the start of bankruptcy a moratorium on all credits is in force. If an amicable settlement is reached, the tax and pension debts of the past two years are automatically forgiven, provided the enterprise remains current on the new tax obligations. In a court-approved plan, debt can be swapped against equity by issuing additional stock. Special provisions for the treatment of town-creating enterprises were also included. The law is clearly biased in favour of reorganisation of enterprises rather than their liquidation.

The scarce data on bankruptcies that are available for Ukraine show the following. About 1 million registered enterprises (including personal entrepreneurships) existed in Ukraine in 1999. Of these half of a percent were declared bankrupt. However, by itself this number does not tell much about the economic impact of these bankruptcies. There are a great number of companies, which are actually not producing anything, yet were never cleared from the registry of legal entities. A considerable number of bankruptcy cases initiated by the tax administration concern just such "shell companies".

With the introduction of the new bankruptcy law the number of bankruptcy cases initiated fell by half. Partly this may be due to the time needed for adapting to the new regulations. In addition the threshold of indisputable claims needed to file a bankruptcy is

significantly higher than in the old law. Judged by the figures for the first half of 2001, it is unlikely that the number of cases this year will exceed the low level of the year before. The upcoming elections might be another reason for this. So far, we can only conclude that the number of bankruptcy filings has declined under the new law, exactly contrary to the law's aim to make bankruptcy procedures more acceptable. But one should really wait for further data before it becomes clear whether the decline is a reaction by the creditors to the debtor-biased regulations introduced by the new law.

However, the new law shows the expected result concerning increases in the restructuring caseload, although the absolute number is still small. Since the existing court system could hardly handle half of the cases brought forward under the old law, it remains to be seen what its capacity will be under the new law. First figures for 2001 do not suggest that the proceedings are any swifter.

Table 1: History of bankruptcies

| | **1996** | **1997** | **1998** | **1999** | **2000** | **7 month 2001** |
|---|---|---|---|---|---|---|
| Initiated | 6552 | 9645 | 12281 | 12618 | 5201 | 2294 |
| Declared bankrupt | 1691 | 4107 | 4525 | 6244 | 5581 | 1455 |
| Restructuring | 3 | 32 | 9 | 18 | 15 | 105 |
| Restructuring of declared bankrupt, in % | 2,0 | 0,8 | 0,2 | 0,3 | 0,3 | 7,2 |
| Backlog of cases | 2013 | 4138 | 6701 | 13989 | 10908 | |

Over time the identity of the petitioners initiating bankruptcies changed. Before 1999 about 90% of the cases were initiated by the tax administration, while banks submitted most of the remaining bankruptcy petitions. After 1999 the cases initiated by the tax administration declined somewhat. In the first half of 2001 about two-third of the bankruptcy cases were initiated by the tax administration. Banks filed about 4% of the cases.

### 3. Arguments against the strict enforcement of bankruptcy

Public opinion and politicians often point to the social cost of bankruptcies in terms of increased unemployment. Undoubtedly a bankruptcy usually leads to reduced employment within the enterprise even if the firm is not liquidated but transferred to new owners. But, if the firm remains unprofitable, the state will eventually have to pay for (a part of) the wages at the expense of the taxpayers. There are few reasons, why certain employees should be preferred to the taxpayers for receiving preferential treatment. In addition, actual employment is definitely overstated because of forced ‘holidays’ and substantial amounts of wage arrears. Thus, to some extent the job losses resulting from a bankruptcy will only bring into the open what had already happened in reality. The strong

bias towards restructuring was introduced into the bankruptcy law just precisely in order to defuse the loss-of-employment argument.

In any case, issues of bankruptcy should be viewed separately from employment policy questions. The latter have to be solved by unemployment insurance and by the creation of new jobs, foremost in small and medium enterprises, and should be not mixed together with questions relating to market exit.

Another popular argument against the strict enforcement of bankruptcy procedures relates to the mutual relations in vertically integrated production chains. It is feared that bankruptcy of one enterprise might have a domino effect, which would effect suppliers and customers of the bankrupt enterprise and might trigger a whole chain of bankruptcies. This argument comes in two variants. In one version, deliveries of input materials are stressed. The argument goes, that if one link of a vertically integrated production chain stops production then its downstream production sites will loose their input supplies and will be forced to terminate production. This argument is however only true if the vertical production chain is highly monopolised, i.e. only one supplier is available at each stage of the production hierarchy. In reality this is not very likely to be true. If the total chain of production is profitable, other suppliers can always look after the loss of one supplier (link in the chain), e. g. via imports.

The other variant of this argument concentrates on the financial aspects, namely the mutual chain of debts. The common argument of a firm threatened by bankruptcy is that if it could get payment for its receivables, it could then pay its debts. The first point that has to be noted is that it is the responsibility of each single firm to assure that it gets paid. If the enterprise fails to receive due payments, it either has to stop further deliveries or to take action to recover its claims. Although its widespread practice might mislead some managers to tolerate non-payment by his customers, outstanding receivables, which are often difficult to recover, are not sufficient to avoid bankruptcy. An enterprise is responsible for the sale of its production for cash, otherwise any type of sales contract, which might only exist on paper, could be presented as an excuse.

There is another reason why the fear of chain reactions should not be overemphasised. Quite a number of production chains are in reality organised, controlled and financed by powerful trading firms or middlemen. They often use the mutual debt within the chain to control the production system. But these traders have an economic interest in the working of the whole production chain, from which they earn their profits. Thus, there is a high probability that they would not abandon the whole chain if one links breaks. Rather they would step in to keep the production running. Of course, as long as the trader is not forced to do so, he will rather prefer the accumulation of debt between the controlled firms, because this only strengthens his power over production, increases the likelihood of receiving direct and indirect subsidies, and might be useful for tax purposes. Bankruptcy is a good device to push the traders to accept their financial responsibilities that correspond to the already existing economic dependence. The argument remains true, although there is a danger that traders could try to use bankruptcy as a mechanism to effect property transfers at cheap prices (asset stripping) and shadow privatisation.

One cannot dismiss the chain reaction argument completely. There is obviously some truth to it, which might be relevant in some cases, however much more infrequently than

the argument is used. An expedient solution might seem to introduce a clearing system among the participants of the production chain, which could greatly reduce the amount of mutual debts. There were several attempts made to introduce several variants of such schemes, which more or less all failed. This is not the place to analyse the various reasons for the failures, but what was said above about the interests of the traders might well be related to it. The organisation of vertically integrated production chains, e.g. by some ministries, is no solution because this rather tries to hide inefficiencies through cross subsidisation than to force market exits of non-profitable production links.

So far as the argument "I cannot pay because I am not being paid", which is being considered in bankruptcy proceedings for political reasons, one might use over-indebtedness rather than simply insolvency as a trigger for bankruptcy. The Czech Republic used this criterion in the beginning of the nineties to protect state owned enterprises (SOEs) from causing chain reaction failures.

A third argument concerns the evaluation of a bankrupt enterprise. In theory, auctions are an expedient and efficient way to do so. In reality however, the preconditions to ensure such efficiency are not always fulfilled. The numbers of bidders might turn out to be rather low due to financial and informational shortcomings. In addition, there are incentives and possibilities for single participants to restrict the number of bidders in order to keep the price low. These complications cannot always be overcome by careful preparation of the auction and expert evaluations of the assets.

There is no simple way to determine the market value of a firm if financial markets and expertise are lacking. In addition, putting the control of the process into the hands of "neutral" persons, such as judges or trustees, still does not remove the danger of corruption completely.

One elegant way to counter incentives for corruption and the possible non-functioning of the auction market is to put the bankrupt firm at once into the hands of the creditors. All the former creditors would become the new co-owners of the now debt-free firm according their share in previous total debt.[1] The new owners will then decide - according to the rules of normal governance - what to do with the firm. Neither does this procedure require an auction, nor can the creditor-owner be corrupted. The Ukrainian bankruptcy law includes some provisions for such debt-equity swaps, which might want to be used more frequently in appropriate cases. Of course this is not to say that such a procedure can be applied in all cases. If an experienced strategic investor is needed as the new owner, he might not be among the old creditors, who would become the new owners of the bankrupt firm under this proposed scheme.

[1] There still remains the problem that creditors are of different classes of seniority, e.g. secured creditors and unsecured creditors. This would demand to translate the different claims to one basis in order to define the property share every creditor will get. We will not discuss the problem here but can only mention that several schemes have been devised for its solution. American economists, e.g. Oliver Hart et al., have discussed and elaborated on this bankruptcy procedure through debt-equity swaps in a series of articles. Countries such as Columbia and Switzerland are at present considering, whether such regulations can and should be incorporated into their national bankruptcy regimes.

## 4. The cost of avoiding bankruptcies

Often observers of bankruptcy cases judge their success only according to the first principle, that of maximising the proceeds from liquidation. But the costs of missing the second objective, namely to provide incentives to the firms to be profitable are likely to be much higher. These costs come in different forms:

1. If the creditor is not able to recover his credits through the transfer of equity and assets he will be much more reluctant to provide credits at all. If credits are given at all, the creditor will charge a high risk-premium in order to ensure against losses on average. Thus, the failure to apply bankruptcy will increase the interest rates for credits and reduce the overall amount of credit supply. If bankruptcies are not enforced, all creditors have to spend much more money to analyse the financial status of their debtors and to continuously monitor their performance closely in order to reduce their risks. This would mean that in many cases profitable projects would not be financed, with severe consequences for the growth of the whole economy. At the same time, if bankruptcies are not enforced debtors have to pay more for capital than would otherwise be the case. Thus, avoiding bankruptcies is similar to a tax on all credit transactions, which is particular harmful in a financially distressed economy such as Ukraine.
2. In order for non-profitable enterprises to continue to operate they have to get some outside financing. In many cases the state provides this financing either as direct subsidies or by allowing the company to accumulate tax-debt. Thus, avoiding a bankruptcy puts a burden on the state. This might not be immediately noticeable since most financing of non-viable enterprises takes some indirect form rather than being a direct subsidy.
3. If non-profitable firms continue operations without being fully compensated for their losses by the state, they can do so only be running up their debt. In this case the firm's suppliers will not get paid and might become themselves over-indebted. Thus a thick web of mutual debt may develop among firms, and it will become more and more difficult to assess the values of all these debts, i.e. whether and at which price they ought to be repaid. This distorts the information about the financial status and the economic potentials of the firms. The non-transparency will also affect the willingness of business partners to engage in mutual transactions and increases the research costs for reliable business information, on which every firm depends if it wants to conclude profitable business contracts.

Of course, it is not simple to assign a single value to the losses caused by the failure to apply bankruptcy proceedings. However, one has to keep in mind that bankruptcy is a result of the misallocation of resources, which can be (partly) resolved by the transfer of property. The amount of debt that cannot be recovered in a bankruptcy procedure gives a clue to the scope of this misallocation. Unfortunately no data on the value of unrecoverable debt is available for Ukraine. In Germany the losses from bankruptcies amount to between 1 and 1,5% of GDP annually. In Eastern Germany this share is somewhat higher. Given that in the last ten years only a small amount of this debt was cleared through bankruptcy procedures, one might estimate that unrecoverable debt in Ukraine amounts to at least 20% of GDP. Another indicator is overdue payables, which

amount to about 70% of GDP. Accounting generously for the penalties on top of the original debts, we might estimate that the unrecoverable debt from misallocation is at least 40% of GDP. All these estimates measure only the direct costs from misallocation but do not incorporate the costs that follow from the lack of incentives and missed business opportunities due to high risks.

To sum up, if overdue debt is not resolved by the transfer of property, debt will proliferate over large parts of the economy. The avoidance of bankruptcy, as well as the failure to enforce contracts, leads to higher risks for business partners and thus to higher information costs and to fewer incentives for mutual economic transactions. Of course, market exits would come naturally if loss-making firms could not obtain new credit. In Ukraine, however, mechanisms exist that allow non-viable firms to continue their operations while continuing to accumulate debt. Thus, the failure to enforce bankruptcy is another expression of soft budget constraints and accumulation of unrecoverable debt.

## 5. Privatisation and bankruptcy

About 30% of total employment in enterprises producing goods and services is in the state sector. Counting only large enterprises (more than 250 employees), the state's share in employment is about 50%. While the number of state enterprises is only 18% of the total number of enterprises, 60% of the net capital stock is state property. In addition, state ownership is concentrated in branches like fuel, electricity and transportation. Thus, the large size of the SOEs as well as their concentration in “strategic” areas with strong supply links to the economy explains the resistance against SOE bankruptcies.

The vast majority of bankruptcy cases in the first half of 2001 concerned collective and private property. Only about 6% of the cases dealt with state property. This is the pattern, which was observed in the past: mostly private and small enterprise faced bankruptcy. There are no data available, but from press reports it becomes obvious, that bankruptcy procedures against state enterprises were often stopped or postponed for long periods of time.

The bankruptcy law does not include special provisions for state enterprises unless they are excluded from privatisation. In cases of insolvency they are subject to the same rules as are private enterprises. Since bankruptcy is a means of transferring property to a new owner, it might conflict with the “normal” privatisation procedure, which serves the same purpose. Recent experience shows that in several cases creditors seized assets of enterprises before the process of privatisation was completed (shadow privatisation). It is widely assumed that those assets were “sold” way below the fair market price, which of course, has reduced the asset value of the other creditors of the enterprise. Obviously the management of an SOE is much less interested in maximising the value of their firm than a private owner would be, because in case of privatisation they are likely to loose their jobs anyway.

It does therefore seem natural to give the State Property Fund (SPF), as the transitory owner, a stronger role in basic business decisions. To alienate property during the privatisation process should require the consent of the SPF. Since a transparent privatisation for cash could be more widely announced and attract more bidders than the

seizure of assets through bankruptcy or according to the civil code, the privatisation should be given preference over these other procedures. However, there has to be a limit on how long an enterprise can avoid bankruptcy procedures. There should be a time limit, possibly of some months, during which an enterprise is protected from bankruptcy procedures and other alienation of property without the consent of the SPF. However, in the end the enterprise will have to go through an obligatory bankruptcy procedure after two or three attempts to privatise it have failed.

## 6. The debt problem

The failure to enforce bankruptcy has led to a thick web of mutual debt among Ukrainian firms. On the average, overdue payables of Ukrainian firms reached the level of 30 to 40% of sales. Given this large average amount of debt, a bankruptcy procedure could be initiated against almost any Ukrainian firm. As mentioned, bankruptcies have recently been used more frequently in order to gain control over strategic enterprises in the energy sector.[2] Under these conditions it seems to be difficult to strictly apply the regulations provided by the bankruptcy law. In Ukraine the notion of "too big to fail" might be extended by "too many to fail".

However some qualification of this statement are in order. Looking at the distribution of debts, it turns out that the distribution is highly skewed. A small number of firms have accumulated the bulk of debts. According to data for 1998 of 1690 open joint-stock companies (OJSCs), more than half of the overdue trade credits as well as wage and tax arrears are concentrated in 10 firms. The 50 highest debtors in each category of debt account for 80 – 90% of all debt. As expected only 5.7% of them have long-term bank credits at all. The last row of table 2 shows the portion of firms, which have had credits in the respective categories, as a percentage of the 1690 firms in the sample. As can be seen, almost all of these firms had tax and wage arrears.

Table 2: Proportion of debt by the largest debtors in total debt in %, end of 1998

| | Trade credits | Overdue trade credits | Tax arrears | Wage arrears | Short-term bank credits | Long-term bank credits |
|---|---|---|---|---|---|---|
| 10 largest debtors | 53.1 | 51.7 | 60.2 | 59.7 | 71.1 | 85.2 |
| 50 largest debtors | 84.2 | 88.1 | 87.9 | 75.4 | 91.2 | 99.4 |
| Proportion of firms with credits | 62.5 | 58.3 | 99.9 | 98.1 | 23.7 | 5.7 |

There are indications that the results of our sample also apply to the total economy in 2001. According to official statements, in August 2001 the 10 (50) biggest tax-debtor held almost 81% (88%) of total tax arrears. That would mean an even higher concentration than in our sample of 1998. The biggest tax debtors in 2001 belonged almost completely (96%) to the energy-electricity sector.

[2] This was not always done by using the bankruptcy law, but also through provisions in the civil code.

The energy sector plays an outstanding role in debt generation. Energy-enterprises have to supply energy, more or less independently of whether the customers pay for it or not. Thus, the energy sector has become a net-creditor to the rest of the economy. In order to recover parts of these arrears, energy firms refuse to pay taxes. Obviously, it makes no sense to deal with any other debt situation as long as this debt generating mechanism - which in similar ways also works in other parts of the economy - is not dried up. The reforms introduced last year went some way towards tackling the flow problem (new credits), but it is still unclear whether this tendency will continue in future.

Of course, other sectors continue to finance production by debt as well. Such debt often develops within the production chains because of lack of financial means, profit skimming for personal enrichment, or for other reasons.

Large amounts of debt are a major impediment to a market-oriented development of corporate finance. But because of the size of their debts, bankruptcies of the big debtors will have rather substantial effects on the whole economy. Given the extremely high concentration of debt in a few firms, there is scope to deal with the problem on a case-to-case basis. Unfortunately all attempts to introduce more effective corporate governance in private but especially in state firms failed. Although the rate of debt accumulation has slowed somewhat during the past two years, the nominal volume of debt in Ukraine did not decline significantly if we compensate for several write-offs in the recent past. This is quite different from the situation in Russia.

One condition of the latest IMF agreement stipulates the initiation of bankruptcy procedures against five of the biggest tax debtors. According to the IMF, Ukraine as yet complied with this condition. Still, it seems highly questionable whether a significant reduction of the debt volume will be achieved through bankruptcies of the huge conglomerates.

The most preferable solution of the debt problem would be the sale (privatisation) of the firms including their debts. However, past experience, e.g. the sale of Oriana to Lukoil, showed that old debts cannot always be recovered in this way. Some firms can only be sold, if the debt is taken off the firm’s balance sheets prior to its sale.

In the past various attempts were made to tackle the debt problem; however, all were more or less unsuccessful. Write-offs, clearing schemes, as well as the introduction of quasi money (veksels) were generally interpreted as some form of bailout by the market participants, which created even more incentives to run up new debt.

Nevertheless if structural reforms continue and credit granting is more soundly based on market relations, the task of restructuring the existing corporate debt should follow swiftly. This would probably involve a variety of mechanisms, but would be more geared towards voluntary methods, as they were used, for instance in the Asian economies, after their currency crises. It has to be mentioned that at the beginning of transition most countries repeatedly engaged in some form of debt restructuring, mostly via the banking system. The costs of these endeavours were huge, reaching 10% of GDP or even more. In contrast to most other transition countries, bad debts in Ukraine accumulated mostly within the corporate sector and only partly in the banking sector. This would call for some different methods than those applied in Hungary, Poland or the Czech Republic.

## 7. Conclusions

To sum up, only after putting an end to the inefficient, politically motivated credit supply, the problem of the stock of debts should be tackled. The use of bankruptcy procedures should form an essential part of a program to restructure the amount of debt and to bring order to the payment system. The law leaves plenty room for the reorganisation of enterprises and gives few excuses for sticking to the sloppy control of state and private enterprises, which goes a long way to explain the ongoing waste of resources in the loss-making enterprises.

Speedy privatisation is the natural way to reorganise those firms that are an essential part of the debt generating mechanisms in the energy sector and elsewhere. Problems with asset stripping through bankruptcy or debt-equity swaps strengthen the argument for fast privatisation, because those problems result mainly from inefficient control of the state-owner. The upcoming elections might increase the problems of control among different layers of the state-administration, and might even increase the political forces that resist bankruptcy. However, the government will have to commit itself to strict enforcement of contracts and liens on debtors´ assets. Without application of these principles the still fragile growth process will not continue. Whatever decisions concerning restructuring of indebted firms are taken at the CabMin level or other administrative units, they have to be clearly explained to the outside and have to be open to public discussion. Public listing of the biggest tax debtors was a start, but much more transparency about the government´s influence on the life or death of highly indebted firms is needed. Domestic as well as foreign investors will only put their money into the Ukrainian economy, if they are sufficiently informed and if they trust the government´s will to protect individual property rights.

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