

Beacons of Hope for the Ukrainian Economy: Rebuilding Mykolaiv

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EXECUTIVE SUMMARY

When and how will Ukraine be rebuilt? What will the economy look like when it emerges from the smoke and rubble? Perhaps most important, will reconstruction help Ukraine shake off the legacy of the Soviet past and emerge as a fully Western economy?

In March 2022, just a month after the full-scale Russian invasion, Denmark committed to a pilot project in the city of Mykolaiv, once a bustling port and shipbuilding hub severely damaged in the first weeks of fighting.

It was an unusual experiment—locally focused but considerably broader in scope than most development projects. “Denmark’s position was that reconstruction and recovery could not wait until there is peace,” recalled Ole Egberg Mikkelsen, the Danish ambassador to Ukraine. “That is why we started in Mykolaiv back in 2022.” Determined to provide more than humanitarian assistance, Copenhagen added a critical second leg: a parallel project cosponsored by the European Union and the Danish foreign ministry to promote anticorruption reform in Mykolaiv. Also unique—perhaps the most novel feature of the Danish initiative—Copenhagen committed to restarting the port city’s economic engine by helping private businesses.

To date, Copenhagen has disbursed some \$230 million for Mykolaiv rebuilding and humanitarian purposes, and Denmark’s export credit agency EIFO has invested an additional \$190 million in local projects, including private companies.

Danish officials hope their experiment in Mykolaiv will serve as a model for other nations seeking to help Ukrainians rebuild. Perhaps the leading lesson is the project’s focus on boosting private businesses, jumpstarting the economy so the city can stand on its own feet and attract returning refugees. Also key: the emphasis on reform. Denmark offered technical assistance; other international donors condition their aid on Ukrainian efforts to beat back corruption and move toward a market economy. Either way, this tough love is as important as any material help.

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Beacons of Hope for the Ukrainian Economy: Rebuilding Mykolaiv

The damage is evident everywhere in Mykolaiv, once a bustling port and shipbuilding hub near the Black Sea, 85 miles east of Odesa.

Russian and Ukrainian forces fought hand to hand in and around the city in March 2022, followed by eight months of relentless shelling by the frustrated invading army. In November, Ukrainian troops pushed the Russians out of range, and the invaders never made it to Odesa.

More than two years later, many of the windows in the working-class city are still covered with plywood. Parking lots are pocked with shell craters. There's a gaping eight-story hole at the center of the empty regional administration building—a reminder of the missiles meant to assassinate popular Governor Vitalii Kim that killed 37 civil servants in late March 2022.

The city's economic engine—the port—is idle. Russians still control the mouth of the channel that connects Mykolaiv to the Black Sea, and no cargo has come or gone since February 2022. The nearly 300-year-old town teems with displaced persons from southern Ukraine, but a quarter of the city's prewar population of 480,000 has yet to return.

The war's impact on the economy wasn't clear to me until I drove through the battered city with the owner of NicoTex, a small synthetic materials manufacturer. Our destination: his family's factory on the edge of town. Tired-looking, in jeans and an old windbreaker, Maksim Khomenko described the 2022 siege as we headed north, retracing the route the invaders took as they fought their way into the city, once closed to foreigners for fear that they would steal Soviet military secrets.

The Russians knew their targets: it's no accident that schools, universities, and medical facilities sustained some of Mykolaiv's worst hits. Passing the charred shell of what was once a supermarket, Khomenko reminds me how Russian artillery killed and maimed dozens of civilians queued outside stores and at bus stops.

The NicoTex factory is an empty shell. The first thing you notice is the constant clanging. Big sheets of corrugated metal—once components of the walls or roof—still hang from the rafters. The wind bangs them noisily against what's left of metal walls. Huge piles of burnt felt and other synthetic materials litter the pitted concrete floors. A pack of stray cats and dogs lives in the rubble, squabbling among themselves.

The company has no savings, and Khomenko has been searching for help—grants, loans, or investors—since the shelling. But without collateral and with virtually nothing to build on, he has few prospects in sight.

The question that hangs over the firm and the city: When and how will Ukraine be rebuilt? What are its prospects? What will the economy look like when it emerges from the smoke and rubble? Perhaps most important, will reconstruction help Ukraine shake off the legacy of the Soviet past and emerge as a fully Western economy?

The shells were still falling and Russian troops were still visible across the river when Denmark decided to help Mykolaiv rebuild. Ukrainian President Volodymyr Zelensky was scheduled to address the Danish parliament by video link on the afternoon of March 29, 2022, just a month into the war but well into the Russian destruction of Mykolaiv. That was the morning missiles gutted the governor's office. Sickening photos of what the invaders had wrought spread worldwide, and Danes were sympathetic when Zelensky proposed a recovery partnership with the port city.

"It was an unusual idea, to say the least," recalls Ole Egberg Mikkelsen, the Danish ambassador to Ukraine. Few international donors focus their aid locally. Most spend months planning and preparing before they commit to help. But popular opinion in Denmark was, and remains, overwhelmingly supportive of Ukraine. A nation of just 6 million people, it has sent more military aid than any country save the United States, the

United Kingdom, and Germany. By midsummer 2022, Danish assistance was on its way to Mykolaiv.

Will reconstruction help Ukraine shake off the legacy of the Soviet past and emerge as a fully Western economy?

Like the residents of other ravaged Ukrainian cities, Mykolaiv's population couldn't wait to start rebuilding roads, bridges, residential buildings, water pipes, and other essentials. An array of donors, including the UN Economic Commission for Europe (UNECE) and the European Bank for Reconstruction and Development (EBRD), stepped in with support. But from the get-go, Denmark was determined to provide more than humanitarian help, which is unusual. Eager to create a model for other international investors, Copenhagen added a critical second leg: a parallel project cosponsored by the European Union and the Danish foreign ministry to promote anticorruption reform in Mykolaiv.

Also unique—perhaps the most novel feature of the Danish initiative—Copenhagen committed to restarting the port city's economic engine by helping private businesses. "Military and humanitarian aid and budget support are essential," says Kaare Stamer Andreasen, the Kyiv-based finance director of the Danish export credit agency, EIFO. "But you can't revive a city without reviving its economy."

To date, Copenhagen has disbursed some \$230 million for Mykolaiv rebuilding and humanitarian purposes, and, in addition, Denmark's EIFO has invested \$190 million in local projects, including private businesses.

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Both Mykolaiv's mayor and governor were businessmen before being elected, and both are long-time proponents of anticorruption reform. Mayor Oleksandr Sinkevych asked the Danes not to send cash assistance. "It was the first thing I said in our first meeting," he recalls, "No money. That's the best hedge against corruption."

Humanitarian aid flows primarily through Danish nonprofits. The UN Office for Project Services handles big purchases like equipment and building materials, and the EU Anticorruption Initiative (EUACI), co-funded by Brussels and Copenhagen, hired an auditor to oversee the city's routine purchases, which Denmark doesn't fund. Among his priorities: helping the city improve its databases and ensuring that officials comply with Western standards for municipal tenders and procurement. "There's a new spirit in the air thanks to the Danes," shipyard owner Mykola Kapatsyna explains. "Zero tolerance for corruption."

Danes and Ukrainians raced through the summer and fall of 2022 to prepare the city for winter. Ambassador Mikkelsen remembers buying truckloads of plywood to replace broken windows. A Danish nonprofit provided

water pumps, and a Danish company built 89 emergency pumping stations. (The city had no water for a month after the Russians cut the pipeline, and what flows through city pipes is still unsuitable for drinking.) The municipal heating system needed emergency repairs. Several fleets of new vehicles arrived from abroad: city and school buses, trolley buses, and garbage trucks, among others. Then, as winter approached, the Danes purchased generators for law enforcement offices and medical facilities.

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Once the basics had been taken care of, the Danes turned in earnest to jumpstarting the local economy. "It's our top goal," Ambassador Mikkelsen explains. "The Ukrainians don't want to be a charity case. They want to earn their own money." Governor Kim, interviewed in his new office, a windowless bunker barricaded by sandbags not far from the ruins of his old headquarters, agrees. "Just get government out of the way," he says, "and the market will do the rest"—not a typical attitude among Ukrainian officials.

The question was where to start in the disfigured, half-empty Mykolaiv. EIFO risk assessor Kaare Andreasen bought an armored SUV and began driving around looking for companies to invest in. He's a tall, spare man with a graying buzzcut, and his optimism was still infectious after nearly a

year on the job. “Ukraine is going to be the next *Wirtschaftswunder*,” he told me excitedly, “a postwar economic miracle like Germany after World War II. Rebuilding will take time, but global investors will benefit for decades to come. It’s my job to make sure Danish companies are in on the ground floor.”

Half the funds at his disposal were set aside for investments in government projects—loans and grants. The other half is earmarked for private companies, with the condition that at least 30 percent of any investment be used for Danish content, usually equipment. Andreasen’s two other top criteria are that the project should be at least 30 miles from the front and that the money should be put to work immediately—no delays. Every prospect is vetted for corruption and compliance with Denmark’s stringent environmental standards. Loans come with an 8.5 percent interest rate—the wartime rate at Ukrainian banks is 20 percent—and EIFO can schedule repayment over a generous 15 to 22 years.

Rebuilding the Ukrainian economy faces a host of obstacles. At the top of the list in Mykolaiv are the consequences of the fighting that continues to rage just 40 miles south. The occupying forces shell any companies that begin to rebuild and discuss it in the press or elsewhere. The port can’t and won’t resume operation until a counteroffensive reopens the channel to the Black Sea—which could take years. No one expects Mykolaiv to pick up where it left off before independence, building world-class ships for the Russian and Soviet navies. The city’s giant, once-storied shipyards can no longer compete with those in China, South Korea, or Japan.

More than a quarter of Ukrainian farmland has been rendered unusable by Russian mines, leaving few, if any, available jobs in the villages surrounding Mykolaiv. Perhaps most challenging, labor shortages, already a problem before the war and exacerbated by the exodus, have reached a critical point. Many of the new buses and trolleys purchased by Denmark sit idle in a garage. Fighting-age men don’t want to take jobs in the formal economy for fear that they will be targeted for conscription.

Ukraine was much slower than many other post-Soviet nations to break free of the old Russian ways.

But the challenges don’t end there. International bankers and Ukrainian trade associations have their own list of longer-term concerns.

Ukraine was much slower than many other post-Soviet nations to break free of the old Russian ways, including state control of the economy. In the 1990s, half-hearted, poorly planned privatization gave the country’s biggest and most critical industries to well-connected, self-dealing oligarchs. In the Mykolaiv region, as elsewhere, the Soviet state’s vast land holdings, once farmed by state-run cooperatives, or *kolkhozes*, have yet to be fully distributed to private owners. A 1992 law gave individual *kolkhoz* workers a theoretical right to ownership, but the reform is still being implemented, and most large-scale farmers work land they lease rather than

own, giving them little incentive to use it as productively as possible or invest long-term.

Even today, the lion's share of Ukraine's GDP is in the hands of the state sector or the oligarchs. Some 18 percent of workers are in state-owned enterprises, compared to just 4 and 5 percent in Germany and Poland. There are effectively two Ukrainian economies—the old exploitative economy managed by elites for the benefit of elites and a new, Western-looking economy, including a world-class IT industry and the drone manufacturers emerging as the backbone of the nation's defense industry.

The investment climate poses challenges for both kinds of businesses. The Ukrainian legal environment still owes much to the Soviet approach—impractical, ambiguous laws that virtually no company can comply with and administrators who enforce them capriciously. Ukrainians, used to the obstacles, find ways to cope. But the challenge is reflected in Ukraine's low scores—improving but at a glacial pace—in global rankings like the Index of Economic Freedom, which assesses 184 countries on metrics related to the rule of law, free markets and the regulatory burden on businesses.

There are two Ukrainian economies.

Particular problem areas, also frequently mentioned by business owners in Mykolaiv, include tax collection and customs procedures—burdensome paperwork, unequal treatment, arbitrary and overzealous enforcement, and officials demanding bribes.

Against this dark background, Andreasen's Mykolaiv projects stand out in stark relief—beacons of hope for the Ukrainian economy. Among his investments are two family-owned firms built from scratch since Ukrainian independence. Nibulon is one of Ukraine's biggest and best-known companies. A vast, vertically integrated grain producer, it grows some grain itself, collects the rest from some 4,500 small and medium-sized farms nationwide, transports it to the sea, and exports it globally. Andreasen can't name his other favorite—the company is rebuilding in the Mykolaiv region and afraid of renewed Russian attacks.

The founder and long-time CEO of Nibulon, Oleksiy Vadatursky, grew up on a collective farm. After independence, he dreamed of using Ukraine's mighty Dnipro River as American farmers once relied on the Mississippi to transport goods from the heartland to the sea. Unlike many entrepreneurs in that era, he borrowed the money—no special favors or graft. And as the firm grew, it helped transform a nation that could hardly feed itself in 1991 into an agricultural powerhouse—a breadbasket to Asia and the Middle East. Vadatursky and his wife perished in Mykolaiv in July 2022—the direct hit on their home was widely seen as part of a concerted Russian effort to destroy the Ukrainian grain business.

The war has taken a severe toll on Nibulon. More than a quarter of the farms it relies on and many of its transshipment terminals are now in occupied territory. The Russians have mined thousands of acres of arable farmland. More than 80 of the firm's vessels are trapped in the Mykolaiv harbor, and the shipyard that was once its headquarters has suffered

repeated hits. But the company is rebuilding with Danish help—reinventing its logistics chain and exporting from a new \$25 million grain terminal on the Danube River.

Andreasen can't say enough good things about Nibulon's management. "They're efficient. They're responsive. They know and comply with every Western standard—environmental, accounting, legal. And so, by the way, does the company I can't talk about. Both are top-tier firms by any measure."

Asked about the decision to rebuild, often within shelling distance of an occupying army determined to destroy the company, Nibulon director of government relations Mykhailo Rizak shrugs off the question. "The risk is not stopping us," he states flatly. "We could stop working, close the company, abandon our farmers, fire our workers, and lose our market share—or we can rebuild."

Equally undeterred by the risk or by Mykolaiv's uncertain future, tens of thousands of refugees have returned to the city since the liberation of nearby Kherson in November 2022 made it harder for Russian guns to shell the port with impunity.

I spoke with several returnees, all young women, most with small children, who had fled to Western Europe and beyond to escape the violence. All had found work abroad—teaching other Ukrainian refugees, delivering room service in a German hotel, as an executive assistant in an English-speaking office—and they were happy with their children's new schools. Several hadn't been sure what they were coming back to. "Mykolaiv will never build big ships again," former journalist Anna Yakymchuk

recognizes. "Agriculture will be difficult, and a lot of Ukrainian companies are moving to the western part of the country." But she and others said they wanted to return and help rebuild the city.

"I want to build a better Ukraine," data analyst and humanitarian-aid volunteer Olena Melnichenko explained. "People like me who've been abroad, who see what's good and what's wrong in Ukraine, we want to help. We want to do something for our city and our country." Daria Chestina, former manager of a grain terminal, now working for the Danish diplomatic mission, agrees. "I knew from the first day that I would come back eventually," she recalls. "I knew I had to bring my daughter home. I left Mykolaiv to keep her safe, but I don't want her to grow up in exile. She needs to know what it means to be Ukrainian."

'The risk is not stopping us. We could stop working, close the company, abandon our farmers, fire our workers, and lose our market share—or we can rebuild.'

Risk assessor Andreasen and other Danish officials hope that their "unusual experiment" in Mykolaiv will serve as a model for other nations seeking to help Ukrainians rebuild. Perhaps the leading lesson, baked in from the start, is the project's focus on boosting private businesses, jumpstarting the economy so the city can stand on its own feet and attract returning refugees. Also key: the emphasis on reform. Denmark offered technical assistance; other international

donors condition their aid on Ukrainian efforts to beat back corruption and move toward a market economy. Either way, this tough love is as important as any material help.

Oleksiy Sypko told me about his family's company and his hopes for the future of Ukraine as we drove east to visit one of Inagro's three tomato paste plants, this one gutted and burned by the Russian troops that occupied the Mykolaiv region in 2022. Like Nibulon, Inagro is a family-owned firm determined to steer clear of the corruption and shady business practices still common at too many Ukrainian companies. "We pay all our taxes," the 40-something sales manager told me proudly. "We have records of every penny we earn. We hire only legal workers and pay them on the books—no cash in envelopes, even though many workers would prefer that. We even audit our suppliers to make sure they aren't corrupt."

The streets are full of trucks and construction workers rebuilding everything from the police station to the supermarket.

Sypko says his family learned Western business practices from European and US customers. Before 2022, he and his brother traveled yearly to California for a tomato growers' convention. Inagro competes to win international certifications for good employment practices and safe, sustainable agriculture. This has paid off in a who's who of global investors and customers—from the London-based EBRD and the Austrian banking giant Raiffeisen to PepsiCo and Heinz—

attracted to the squeaky clean, future-looking Ukrainian company.

We drive out of town through flat steppe land, cultivated now, no longer prairie, but still drab and forbidding in late winter. A big, soft-spoken man with a receding, reddish hairline, Sypko explains the geography in military terms. We pass through what was once the gray zone, no man's land between the Russian and Ukrainian armies, into formerly occupied territory, liberated, he says gratefully, by American-supplied high-mobility artillery rocket systems (HIMARS) and Excalibur missiles. Sypko is encouraged by the number of trucks on the road—a sign, he says, that the economy is picking up. The two-lane highway is freshly paved. He points out a new bridge and a recently installed electric line. Perhaps most encouraging is the demining equipment we see in many fields as we approach the village of Snihurivka.

We slow to drive through the town and pass a store, charred and still smoking, that Sypko says the Russians shelled just hours before. "Pure harassment," he mutters, shaking his head, "There are no soldiers in Snihurivka now." Almost every building appears damaged or destroyed. Still, the streets are full of trucks and construction workers rebuilding everything from the police station to the supermarket. A new car wash and big-box retailer are open for business.

Like NicoTex, the Inagro plant was reduced to matchsticks in 2022—fields were mined, machinery destroyed, and factory buildings burned. Everything that could be stolen was stolen—sinks, toilets, tools, vehicles, even the copper wiring in the walls. Hundreds of tons

of tomato paste were poured on the ground. But the family plans to rebuild and, unlike NicoTex, they're confident they can pull it off.

Sypko says his customers have been patient; the company's creditors trust and believe in his ambitious plans. If former employees don't return from Germany or Poland, "we'll automate." If irrigation, critical in the arid steppe, has been destroyed, "we'll rebuild better." As for corruption, "it's a problem," he concedes, "a pervasive problem. But it's getting better"—thanks partly to companies like Inagro. "We attract international lenders

and customers," he explains, "because we do things the right way, and this puts pressure on the others. They will eventually be forced to change or go out of business."

Driving back to the city, I'm stunned by what we've seen—the wanton destruction and the rebuilding—and almost speechless. Sypko, though, remains unflappably cheerful. "I plan to remain here in Mykolaiv," he tells me unprompted. "And I want my children to live here. I think the prospects are good for me and my family and our business."

ABOUT THE AUTHOR

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NOTES



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