

EXHIBIT 23

INTERNATIONAL MARKET INSIGHT: THE OVERVIEW OF PRIVATIZATION IN UKRAINE

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Summary: This report provides an overview of privatization in Ukraine and the Government of Ukraine (GOU) 2000 privatization program. End summary.

Background

As Ukraine acquired independence in 1991, one of the main objectives for the new government became the prevention of further decline of Ukraine's Soviet-style economy. Ukrainian society and the Government of Ukraine became aware that the state had exhausted its resources in supporting giant industrial enterprises, as well as collective farms. The only workable solution appeared to be fast privatization.

However, the progress of privatization was extremely slow. According to the Ukrainian Center for Market Reforms, there were three distinct stages of privatization of non-agricultural state property:

1. Initial (1992-1994.) This period is characterized by the leasing and buy-out of state property by enterprise employees. There were a total of 1,200 non-agricultural enterprises privatized in this way (with at least 70 percent of the charter capital privatized). Company managers were usually the initiators of privatization. Company capital was not divisible, and shares were not tradable. There was no capital market infrastructure at that time.
2. Mass privatization (1995-1997.) The privatization process proceeded with a "mass privatization" in 1995, when all Ukrainian citizens obtained privatization certificates. These certificates could then be exchanged for shares in state companies via privatization certificate tenders. Another type of paper, which gave rights for shares in state-owned enterprises, was the "compensatory certificate." These were given to cover the "losses" incurred by holders of deposits in the State Savings Bank during the period of hyperinflation of 1991-1995. As a result, 2,600 enterprises were privatized. At the same time, thousands of small ventures and properties were sold through auctions directly to new private owners.

The capital market infrastructure (e.g. security depositories, traders, and exchanges) developed in parallel to the privatization process. Company capital became divisible, and shares tradable. However, mass privatization brought into Ukraine a very small fraction of much hoped-for investments, including investments from abroad. New minority shareholders -- Ukrainian citizens -- were unable to invest into privatized enterprises for a variety of reasons: lack of market infrastructure, unawareness of capital market rules, and low levels of investable income.

According to the study of the Ukrainian Center for Market Reforms, privatization in 1992-1997 did not involve real investors, who would be ready to invest cash into companies. Although newly-privatized enterprises (with at least 70 percent of the charter capital privatized) did increase productivity and achieve improved financial performance, it usually took an average of two years after privatization to achieve better results^[1]. In addition, old technologies used at

those companies required restructuring, which could take one to six years^[2].

3. Privatization for cash (1997 - present.) Shares in medium and large companies were privatized in large blocks at tenders or at stock exchanges for cash. To date, about 500 enterprises have been privatized for cash. This process was initiated by the GOU, in order to increase state budget revenues.

In agriculture, ownership rights in 1,230 state farms were transformed to collective agricultural enterprises. The capital of the enterprises was not divisible, and the shares in these companies were not tradable. Fifty percent of capital in approximately 4,000 food processing companies was transferred to employees of collective agricultural enterprises.

Privatization Results

According to the State Property Fund, in 1992-1999, a total of 50,000 enterprises were privatized. These companies employ 3.5 million people, or 24.2 percent of Ukraine's employed population.

The term "privatized enterprise" does not always mean that the company is actually privatized, according to the Ukrainian Center for Market Reforms. For example, the average privatized fraction of the companies' capital is 56 percent among medium and small enterprises privatized in 1992-1999. In the energy, metallurgy, chemical, and oil industry sectors, this portion is only 35 percent. Presently, the total charter capital of state companies is 54 percent of the total charter capital of all companies, whereas the total charter capital of privatized companies (with at least 70 percent of a company privatized) is 14 percent of the total charter capital of all companies. In 1999, the state still owned shares in 6,500 companies, or 58 percent of all incorporated companies.

In 1991-1999, approximately 66 percent of the nominal value of privatized corporate rights were transferred free of charge; 9 percent of state property was sold for cash.

According to the State Property Fund, in 1999, the State Property Fund conducted 357 tenders. Of these tenders, only 45 privatization agreements have been made.

	Number of tenders	Value, USD million
Offered for sale	278	330.91
Privatized	45	56.40
Success rate, %	16.2	17.0

Source: State Property Fund (<http://www.spfukraine.com>)

According to the State Property Fund's web site (<http://www.spfukraine.com>), among a selection of 164 tenders in January 1999 through March 2000, 19 of them, or 11 percent of all, were successful.

According to the Ukrainian Center for Market Reforms, the GOU "fixed" state stakes of 25 to 50 percent plus one share for an unlimited term in 12 percent of all privatized companies. To control such companies, the following methods are used:

- ◆ establishing state holding companies (more than 70 companies);
- ◆ transferring management rights for state-owned shares from the State Property Fund to ministries and regional state administrations (540 companies); and
- ◆ transferring management rights for state-owned shares from the State Property Fund to private companies or individuals (63 companies.)

The same source believes that such a system distorts markets by the means of:

- ◆ administratively-set prices, especially for raw materials, transportation, and utilities;
- ◆ government subsidies, investments, and privileged loans of the National Bank and the GOU;

- ◆ government guarantees, tax credits, and cancellation of company debts;
- ◆ barter trade and quasi-monetary means of exchange (commercial papers -- veksels -- and treasury bills); and
- ◆ administrative permission to sell products and services.

For example, according to industry specialists cited by the Ukrainian Center for Market Reforms, industry sectors that produce raw materials and utilities produce 53 percent of the nation's added value, whereas they consume up to 80 percent of it.

Despite the facts and estimates mentioned above, the Ukraine Macroeconomic Reform Project of Harvard Institute for International Development, produced research that shows that there is distinct evidence that privatization in Ukraine has brought positive effects:

- ◆ increased productivity of both labor and capital;
- ◆ improved private savings and investments;
- ◆ better access to private capital;
- ◆ increased profitability; and --
- ◆ an improved marketplace.

The yearly revenues from privatization of state enterprises are as follows:

Year	Revenues, in million USD
1997	37.63
1998	198.93
1999	340.30
2000 (planned)	432.53

Source: *Privatization Bulletin, State Property Fund*

New Strategy

The recently re-elected President of Ukraine and the newly appointed Cabinet of Ministers are attempting to breathe new life into privatization in Ukraine. As a result, the President issued a decree on "Measures for Accelerating Privatization of Property in Ukraine," which plans for the privatization of companies worth USD 3 billion in the years 2000-2002.

Presently, the goal of the privatization process expanded beyond "finding" owners for state property, to include finding more effective managers for these properties, who would be able and willing to invest into the enterprises, in order to modernize and expand current business operations

industrial corporations, knowledgeable in the industry sector where a given company operates.

of the program in English can be viewed at <http://www.spfukraine.com/eng>.

One of the strongest emphases of the Program is selling state shares in larger, "strategic" Ukrainian companies. Other principles of the Program include:

1. Priority of the privatization process over other forms of state corporate rights management (for example, transferring state corporate rights to companies, which would have to manage state shares).

2. Selling state shares in large packets to experienced strategic investors.
3. Reducing state control over companies and improving corporate management.

The Parliament and the Cabinet of Ministers approved additional blocks of state-owned shares in a number of companies for privatization in the year 2000 that were previously "fixed" as state properties not slated for privatization. These include shares in Ukraine's largest enterprises, which were "fixed" as state property, for reasons of national security. The English versions of the legislation on privatization of such companies, and procedures for their privatization, are available at <http://www.spfukraine.com/eng>.

Privatization Prospects

In the year 2000, the total value of shares for privatization is planned at USD 432.53 million. Besides tenders, this includes USD 12.59 million worth of shares to be sold at stock exchanges.

There are several blocks of companies that are slated for privatization in the year 2000:

1. The largest, near-monopoly companies (39 companies)
2. Other "strategic" companies (170 companies, including regional energy distributors, large elevators, and heavy industry enterprises)
3. Other companies (993 enterprises)
4. Enterprises in which state-owned shares were "fixed" as a state property, and which the State Property Fund

Full versions of these lists are available in English at <http://www.spfukraine.com/eng>.

According to the *InvestHazeta* weekly, the following companies would be the most attractive to investors in the year 2000 (in million USD):

Name of the company	Financial data as of	Charter capital	Gross revenue	Income before taxes	Accounts receivable	Accounts payable
Khartsyzsk Pipe Plant	06/30/99	482.41	27,889.45	5,276.38	30,904.52	57,839.20
Azovstal Metallurgic Plant	10/30/99	172,510.99	451,171.30	5,183.39	127,998.50	161,715.22
Mykolayiv Alumina Plant	01/01/99	106,253.75	88,696.63	15,468.82	58,261.24	58,341.22
Zaporizhia Plant of Ferroalloys	01/01/99	20,833.85	80,686.24	1,443.82	12,445.79	25,336.52
Oriana (chemicals)	01/01/99	226,404.49	80,689.61	(125,424.16)	n/a	n/a
Turboatom (power station turbines)	01/01/99	29,669.70	33,297.19	16,432.58	24,791.57	12,428.09
Sumy NPO Frunze	01/01/99	998.38	94,200.84	18,284.83	n/a	n/a
Naftokhimik Prykarpattia (oil refining)	01/01/99	921.42	46,849.66	1,412.25	9,306.32	9,748.54

Interested companies should note that, besides a bidding price, privatization tenders in Ukraine usually include additional investors' conditions (e.g. investment obligations, conditions to retain workforce, etc.) More information on particular companies planned for privatization is available at the Web sites of *InvestHazeta* (<http://www.invest.com.ua>)

and the State Property Fund (<http://www.spfukraine.com>.)

Final Comments

U.S. suppliers and investors are urged to exercise caution before concluding contracts in Ukraine. CS Kiev suggests consulting country commercial guide available at <http://www.bisnis.doc.gov> and <http://www.stat-usa.gov>, and discussing prospective investments with U.S. Embassy staff, American Chamber of Commerce in Ukraine, accounting firms, legal counsel, and other sources.

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[1] Harvard Institute for International Development, Ukraine Macroeconomic Reform Project

[2] Ukrainian Center for Market Reforms

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