

Investing in Ukraine: The Benefits, Risks & Next Steps

By Nataliya Yankovska, [Legal Advisor to UBBC](#) and [Associate at Marcus Parker Limited](#)

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In spite of political instability, the Ukrainian economy is ripe for foreign investment. Having over 36 million residents¹ and borders with Belarus, Poland, Slovakia, Hungary, Moldova, and Romania, this region can be an excellent strategic choice from a geographical as well as financial perspective. A significant percentage of the Ukrainian economy is driven by agriculture, manufacturing, and energy sectors, which is why the government is attempting to diversify the economy to attract foreign investors.

Why Invest in Ukraine Now?

At present, the Ukrainian government is engaged in an active reform of its economy, and the authorities are willing to assist foreign investors in establishing new businesses in the country in order to diversify the economy and meet the growing demands of its citizens. For instance, in December 2020, the Ukrainian government passed a law "*On State Support for Investment Projects with Significant Investments in Ukraine*" that provides foreign investors with a number of key incentives, including tax exemptions that can reduce some of the risks associated with investment during wartime².

An investor who moves now has an opportunity to capitalise on highly educated, yet affordable labour and establish brand recognition in a rapidly growing economy.

That being said, it is a matter of *risk vs. reward*, and you should seek appropriate guidance before investing, ensuring you fully consider risks such as the possibility of trade interruptions and regional travel restrictions.

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Investing in Ukraine: Opportunities

In spite of the abundant investment opportunities in Ukraine, and the Ukrainians' eagerness to see new companies enter the market and offer new opportunities, these are some of the most attractive industries for foreign investors³.

1. Software Development

In recent years, Ukraine, Poland, and Romania have become some of the world's leading software development centres. As an example, Ukraine's IT exports were estimated to be worth \$3.74 billion in 2022⁴.

Ukrainian developers maintain an excellent reputation, primarily providing R&D and back office support to clients in Western Europe and the United States. Google, Grammarly, and Oracle are among the many large IT and software companies taking advantage of Ukraine's highly qualified workforce.

2. Renewable Energy

Developing renewable energy sources is one of the most important priorities for the Ukrainian energy sector and national economy. In the years prior to the Russian-Ukrainian war, the International Renewable Energy Agency (IRENA) conducted a survey of Ukraine's renewable sector and estimated that Ukraine had⁵:

- wind power potential between 16 gigawatts (GW) and 24 GW;
- estimated solar power potential of approximately 4 GW;
- estimated hydro power potential of 21.5 TWh (annually).

Furthermore, given that Ukraine has an abundance of agricultural and forestry waste, the country also stands to benefit from the use of biomass as a source of energy.

While Ukraine's potential might not be as highly appraised as it was in 2015, it remains an excellent candidate for increasing energy production through renewable energy resources in the south and western regions of the country. There has been an ongoing effort by the government to introduce new incentives and laws, such as introducing a "green" tariff and the Ukrainian Law "On introducing changes to certain Ukrainian laws relating to energy security recovery and green transformation" in order to support this market.

3. Logistics⁶

In spite of the war, Ukraine's location continues to make it an important transit corridor for trade between Europe, the Middle East, and Asia. For instance, the Black Sea port of Odessa is the largest port in Ukraine and serves as an important hub for exports to Turkey, the Middle East, and the Mediterranean.

At present, investors have an excellent opportunity to participate in the modernisation of Ukraine's transportation infrastructure, which is already well developed but needs to be improved to align with European standards. Investing in this process provides significant opportunities for public-private partnerships and private investment.

4. Agriculture

Ukraine is home to nearly a third of the world's fertile black soils. With soil degradation posing major agricultural challenges around the globe, making it difficult to grow nutrient-rich, flourishing crops, Ukraine's farmland is experiencing a rapid increase in demand. Over the past few years, Ukraine has been among the top 10 exporters of agricultural products in the world, bringing in \$27.8 billion in 2021, accounting for 41 percent of the country's total exports of \$68 billion⁷.

Besides food production, there is room for investment in sustainable agricultural equipment, as well as more efficient storage and processing of food.

5. Banking

As with any growing economy, the banking sector offers great potential. Recent announcements made by the International Finance Corporation (IFC) indicate that they are considering the possibility of investing \$1.5 billion in Ukraine's banking, agribusiness, and infrastructure sectors⁸. Whether you are entering the market as a new operator, taking over an existing business, or establishing a brokerage network across Ukraine's vast territory, modern technology and superior client service make new players attractive.

6. Real Estate

Ukraine's real estate market has temporarily been affected by a decrease in buying power. In spite of this, a new cycle of development is inevitable as the economy grows, which means now is an excellent time to invest in residential and commercial space at a sound price.

Setting Up a Business in Ukraine

While the business landscape in Ukraine is not particularly complex, working with a representative who is familiar with the country's tax code, labour laws, and legal system is a valuable asset.

Company Types

Starting a business in Ukraine requires registration with the state registrar or the notary office, following which the company must be registered with the local tax authorities and the pension fund⁹. In general, foreign corporations are formed either as limited liability companies or as joint stock companies.

1. Limited Liability Company (LLC)

The most common type of business entity in Ukraine is the limited liability company (LLC). LLCs offer many advantages, such as no minimum capital requirement, a faster registration process (although you will need to prepare a larger package of constituent documents in order to register), and limited liability for owners¹⁰.

2. Joint Stock Company (JSC)

The Joint Stock Company (JSC), as opposed to an LLC, is a legal entity that is authorised to issue shares. Other jurisdictions refer to this kind of company as a Company Limited by Shares. As the shares must be registered with the National Securities and Exchange Commission, this process is significantly more time-consuming and onerous and is therefore more suited for larger corporations¹¹.

Labour Laws Overview

The Labour Code, which remains strongly employee-focused, is the key piece of legislation regulating employment matters in Ukraine. The following are some examples of statutory restrictions that an investor needs to be aware of:

- **Wages¹²**: Every year, the Ukrainian annual budget law specifies the minimum wage, which is currently set at UAH 6700 per month.
- **Social Security¹³**: Ukraine has a social security system that provides coverage for pensioners, workers, and their dependents for retirement, disability, illness, and work-related accidents. A unified social tax is used by the employer to pay state social security payments for employees; the minimum contribution required is

“22% of the minimal wage set as of the first day of the month of the salary payment”¹⁴.

- **Working hours¹⁵:** Generally, an employee cannot work more than 40 hours a week within a 5-day work week. It is permissible to have a six-day work week, but employees should not work more than seven hours per day. An employee is permitted to work overtime for a maximum of four hours in a two-day period or 120 hours per year, with overtime pay doubled.

Taxation¹⁶

There are three primary national taxes that you will have to pay: the corporate income tax (CIT), the value added tax (VAT), and the personal income tax (PIT).

- For both foreign and non-foreign entities, the standard CIT rate is 18% of gross income.
- The standard VAT rate is 20% and is imposed on domestic sales of goods and/or services, as well as imports. The taxable amount is determined by the contractual value of the goods or services being provided.
- The PIT rate is 18%, but may be reduced to as little as 0% under applicable double taxation agreements between Ukraine and many foreign countries.

You must make sure you allocate the appropriate amount to taxes, as well as comply with certain accounting requirements. A Ukrainian business expert can assist you with these processes to avoid errors and delays.

Where to Get Help

If you are considering setting up a business in Ukraine, you may want to consult with a business law expert who can assist you in navigating the rapidly evolving landscape, especially in the areas of labour laws, tax codes, and reporting requirements.

Investing in Ukraine is like a game of chess. It may seem daunting at first, but with the right approach, it can be a great move that sets up the player for long-term success.

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