



LOCAL INVESTMENT AND NATIONAL COMPETITIVENESS

Ukraine LINC Final Report



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UKRAINE LINC FINAL REPORT

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The author's views in this publication do not necessarily reflect the views of the United States for the International Development of the United States Government.

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FRONT COVER: September 2, 2010, Simferopol, Crimea – USAID LINC provided assistance for the establishment of the Crimean Republican and Simferopol City Permit-Issuing One-Stop Shop. One of the first visitors looks at the process map outlining a path toward obtaining city-issued permits.

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ACRONYMS

CIDA	Canadian International Development Agency
EU	European Union
GOU	Government of Ukraine
GPL	Government Procurement Law
HoReCa	hotels, restaurants, and cafes
ITB	International Tourism Bourse
IYP	In Your Pocket
LED	USAID/Ukraine Local Economic Development Project
MICE	meetings, incentives, conferences, exhibitions
LINC	USAID Local Investment and National Competitiveness in Ukraine Project
PMP	Performance Management Plan
TIBA	USAID/Ukraine Trade, Investment, and Business Acceleration Project
TÜV-BHI	Germany's Best Health International Standard Certification awarded by one of the Technical Inspection Associations
UAH	Ukrainian hryvnia (currency)
UNDP	United Nations Development Programme
WFTGA	World Federation of Tour Guides Associations

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EXECUTIVE SUMMARY

In this final report for the LINC project, USAID's largest economic growth project in Ukraine from 2009-2012, we seek to tell the story of LINC's impact in Ukraine. Readers familiar with the project will notice that we have not organized this narrative according to the project components. Rather, we chose a structure that would allow us to discuss the project as a unified whole, which is indeed how the project was managed. We begin with an introduction to the methodology of the project, then describe how we pursued the various activities, and finally take stock of the lessons learned.

This final report is intended not only to educate the casual reader but to serve as a guide for practitioners. In pursuit of this principle, we have carefully analyzed what we did, how the pieces interconnected, and the lasting impact the project will have in Ukraine.

Chapter One lays out the conceptual framework for the project. It explains the central tenet of competitiveness and how it acted as a chain linking all project activities, from agriculture and tourism sector strengthening to regulatory and process streamlining to investment attraction.

Chapter Two dives into the actualization of the methodology described in Chapter One and discusses project activities. Our activities, enhancements, and innovations in support of agriculture, tourism, regional planning for economic development, investment attraction, regulatory streamlining, public-private partnerships, and national-level policy reform all proceeded from our core focus on competitiveness.

Finally, in Chapter Three, we conclude with a meditation on the lessons we learned from implementation. In some cases, we were surprised by reactions of decision makers, such as oblast governors, when it came to inter-oblast sub-regions developing competitiveness plans or national and regional authorities preventing the creation of a pilot registry for immovable property. In another case, we compare two kinds of approaches to regional competitiveness, one used in mainland Ukraine and the other in Crimea, and draw valuable lessons from the comparison.

We hope that in reading the LINC story, practitioners in other countries will recognize that LINC's general methodology can be adapted and used to promote real, sustained economic reform that rests on a healthy foundation of participatory processes and transparency.

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CHAPTER ONE

WELCOME TO LINC

From April 2009 until the end of December 2012, a team of professionals from Chemonics International implemented USAID’s Local Investment and National Competitiveness (LINC) in Ukraine. The project was dedicated to enhancing the overall competitiveness of communities and territories in various regions of the country. LINC drew on diverse elements of competitiveness, business environment, and local economic development reform previously implemented by separate USAID predecessor projects and blended them to allow activities to complement one another dynamically in specific local contexts. Instead of the former, “stovepiped” approach that addressed each individual activity involved in building a market economy in isolation, LINC and its local counterparts integrated principles of market growth under the overarching rubric of enhancing regional competitiveness. As a result, local leaders and decision makers discovered how the multiple elements of market economies fit together and how to pursue interdependent economic vectors simultaneously and practically.

METHODOLOGY

LINC’s initial intervention in any territory was to encourage administrative and business leaders to come up with a competitiveness strategy and to facilitate its development. Each municipality and raion (administrative unit) that formed part of a larger economic sub-region developed its own economic development strategy and then signed agreements to formulate a joint competitiveness strategy for the entire sub-region. This was the first effort ever in Ukraine to coordinate the activities of independent administrative units into economic sub-regions. In total, LINC facilitated the creation of 25 municipal and raion-level economic development strategies and seven sub-regional competitiveness strategies. Oblast acknowledgement of the sub-regions’ cooperative effort was sought and given; oblasts did not, however, dictate the terms of these strategies or have a role in setting sub-regional priorities. This was a bottom-up effort, designed to achieve the aspirations and visions of the towns, cities, and raions comprising each sub-region.

LINC deemed competitiveness strategies to be formulated when the local councils of each participating administrative entity agreed on the strategy and started implementing it. In some sub-regions, this process took longer than in others. Later in this report, we will discuss the implications and reasons for this in greater detail. To those genuinely interested in LINC’s processes, however, it should be made clear that the project accomplished far more than mechanically formulating strategies. Local mindsets and standard operating procedures had to be changed to encourage cooperation with, instead of competition against, neighboring entities. To foster such cooperation, local leaders had to change the way they worked to prioritize economic growth and accept a bottom-up approach to making economic decisions formerly made by the center. In some places, that mindset took longer to change than in others.

THE ELEMENTS OF COMPETITIVENESS

Although competitiveness can be defined and measured in many ways, LINC counseled its local counterparts to concentrate on competitiveness elements that could become concrete targets as the strategies were translated into work plans and actions. LINC consultants focused on five basic competitiveness elements:

1. *Firms sophisticated in business practices.* All competitiveness begins with the competitive capacity of individual firms. For a region to be competitive in the global economy, its firms must be competitive in their individual markets. This means that a region's firms should innovate continuously; enjoy reliable, efficient, and high-quality supply chains; understand and reach potential markets effectively; and strive for high productivity in terms of efficient production processes and high-value output. Although the management of a firm is responsible for seeing to this, communities can help their firms optimize their competitiveness by facilitating dialogue among firms and between firms and community resources such as academia, science centers, and national government entities. LINC encouraged its partners to investigate and take steps to support their particular firms in increasing their sophistication.
2. *Inflowing strategic investment.* The quickest, least expensive way for a community to add jobs to its economy is to add factories and employers to its production base. When limited budgets make public works impossible, the appearance of inflowing, hard-asset, private sector investment is the best way to expand an economy experiencing both a shortage of credit for its own local firms and a dearth of sophisticated local businesses capable of penetrating the growing global marketplace. Local strategies to promote inflowing hard-asset investment to increase economic growth have succeeded in communities all over the world. LINC encouraged its partners to explore and identify actions to bring hard-asset investment to their communities.
3. *Regulatory relief and streamlining.* As a matter of microeconomics, private firms wish to avoid the external costs of complying with government regulation. Some regulation is unnecessary, because it has no rational public purpose. Some business regulation has a purpose, but can be unnecessarily oppressive, because it is inefficiently administered or is so vague as invite official corruption. Local administrations in post-Soviet countries have some control over regulations themselves, but usually, the national government prescribes which business practices are subject to regulation. Local territories have more control over how they administer regulations. Thus, if communities streamline their administrative practices to avoid wasting the private sector's time and close the opportunities for corruption by minimizing discretionary administrative decision-making, private firms will be able to concentrate on competing for business. LINC helped its partners build effective "one-stop" permitting centers to make life more predictable and efficient for businesses in need of government permits.

4. *Public-private responsibility for implementing competitiveness strategies.* Very few local administrative units in Ukraine have sufficient funds to support activities designed to increase territorial competitiveness, add jobs, or drive economic growth. With budgets overwhelmingly geared toward carrying out basic social services and with few opportunities to collect revenue, territorial coffers alone cannot hope to effectuate orderly, fair, purposeful economic growth. LINC advisors counseled the business and administrative leaders of partner territories to engage in systematic efforts to find ways for the private sector to finance strategic tasks that affect the health of firms and the overall economy. The idea behind this effort was that the private sector can help itself by helping to achieve the goals of the territory's competitiveness strategy.
5. *National policy reform.* National policy is largely beyond the capacity of local territories to affect, yet local territories and their ability to optimize their competitiveness are much affected by legislation at the national level. LINC's modest national policy component focused hard on legislative matters that affected local competitiveness, and LINC maintained a constant dialogue with local partners about its work on legislative reform that affected regional competitiveness and about what the local territories thought most important. LINC pursued reforms to give inflowing investors access to land designated for industrial use, streamline land registration rules to secure title and other land rights, and introduce the concept of "green procurement" and the idea of local government procurement as an engine for economic growth.

TRANSFORMATIONAL IMPACT

LINC touched many individuals who had never before experienced the benefits of technical assistance. Approximately 11,000 people participated in LINC-sponsored activities, whether in the form of strategic planning committee work, training in attracting inflowing investment to regions and cities, organization of cluster work in several industrial and service sectors, training of the national property registration service, training of the one-stop permitting center staff, or training and discussion of procurement reform in each of Ukraine's 27 large administrative units (oblasts, the Autonomous Republic of Crimea, and state-administered cities). Those whom LINC trained and with whom the project engaged all had responsibility for economic reform and development in their communities and agencies. These responsibilities ensured that the new knowledge and ideas they received from LINC would be passed on to others in their regions and territories.

But the size and magnitude of LINC's work alone does not permit it to claim transformational impact on a nationwide basis. Others have continued the ideas that LINC introduced, which is an indication of deeper change. Sub-regional competitiveness planning in matters such as the joint marketing of the region has been accepted even in areas where LINC did not work intensively, such as Donetsk City and Zaporizhia oblast. Newer donor projects, such as CIDA's Municipal Local Economic Development Project, borrowed liberally from LINC's methodology to work in territories where LINC had never operated. Regional and municipal permitting centers across Ukraine have applied LINC's tools and

knowledge in their own territories, to ease regulatory burdens on business. Tourist information centers, designed along the lines that LINC suggested for its partner cities, have been created in non-LINC territories, such as Chernihiv and Cherkasy. Sub-regional branding, pioneered by LINC professionals and partners, is now a goal of a UNDP project that draws on our methodology and approach. And InvestUkraine, the country's investment attraction agency, has based its efforts and those of its regional investment offices on suggestions and knowledge that originated with LINC.

LINC also maintained an office in Crimea and saturated the peninsula with sector activities in agriculture and tourism. In this context, the project helped operationalize and enhance 10 tourist information centers and 26 one-stop permitting centers in Crimean cities and raions ranging throughout the peninsula and assisted nine Crimean cities in creating economic development strategies, most of which centered on tourism growth. The EU tourism project in Crimea, which opened in 2012, is building on LINC's work. Additionally, in Sevastopol, the new EU Investment Attraction project has begun to use LINC's personnel and concepts for helping Sevastopol to become a cruise tourism center on the Black Sea.

Of course, not every territory with which LINC worked embraced every idea encapsulated in the five elements of competitiveness. However, LINC's partners' strategies all contained aspirations to attract investment, streamline regulation, make land investment accessible, expand key sectors of the economy, and begin to align the workforce with private sector needs. LINC was careful to assemble all of its local partners periodically to exchange ideas on moving localities toward economic growth. A vibrant network of communication now exists among local development practitioners, and almost all LINC partners contribute updates to the common databases that link them together. We are confident that the LINC territories, located all over the nation, will continue to pursue their strategies with concrete steps toward fulfillment and will continue to share knowledge and ideas. Thanks to LINC, mindsets and perspectives about local self-determination and local economic action have changed all over Ukraine.

CHAPTER TWO

HOW DID LINC DO?

Through the course of the project, LINC maintained a Performance Management Plan (PMP) consisting of 40 indicators. All indicators were successfully met, but that is not how LINC's management and professionals assessed the project's performance. Rather, for each of the competitiveness elements that the project promoted throughout its work, the key question was: Did our work make a difference?

For the LINC team, the most important standards of achievement were:

- Those that meant a better life for the people in our territories;
- Those that reflected something new and innovative accomplished in the name of elevating firm and regional competitiveness; and
- Those that hold the promise of continued reform and concerted economic growth.

In the following discussion, we will make these standards of achievement clear, as they are the ones that inspired our work and have given us lasting satisfaction in our accomplishments.

FIRMS SOPHISTICATED IN BUSINESS PRACTICES

LINC was not allowed to work with individual firms *per se*, so the project's efforts were directed at increasing the skills and business of sectors.

AGRICULTURE

Introducing new technologies and new product types was a main thrust of LINC's agricultural competitiveness work in Crimea (see photo). In pilot farms and on experimental plots, the project's farmer partners grew varieties of melons and watermelons as substitutes when apples, for instance, had a bad growing year. These farms and others used new irrigation techniques and greenhouses, not only for these new varieties of crops but also for more traditional crops like tomatoes, cucumbers, and peppers, as well as dill, radishes, garlic, strawberries, and even table grapes. Also for table grapes production, LINC introduced Crimean farmers to Italian *pergola* technology: overhead trellises for vine formation that give more light to



USAID LINC's field workshop organized for the farmers of Crimea's Bakhchysaray Raion.

leaves and make pruning and picking easier. Three grape growers have already planted four hectares using pergolas. The marketing side of farm management was not ignored; with the help of LINC's professional team, Crimean farmers succeeded in posting additional sales of UAH 65 million to wholesale markets and supermarket chains.

LINC also worked with university professors and private food processors to test the feasibility of producing hard durum wheat for pasta in Crimea, which was the world's center of hard wheat production in ancient Greek and Roman times. By the project's end, two promising field trials had been held, and one more crop was in the ground. As a result of these trials and the attention that LINC brought to this crop, the amount of durum wheat cultivated commercially in Crimea grew from about 150 hectares in 2011 to 390 hectares in 2012, with more than 500 hectares planned for 2013. Thanks in part to LINC's promotion, in 2011, the Minister of Agriculture of Crimea called durum wheat a "priority crop" for Crimea. These experiments are particularly exciting, because Ukraine consumers import all of their pasta, and the opportunities for import substitution may prove lucrative for Crimean growers and Ukrainian food processors.

In cooperation with the Ministry of Agriculture of Crimea, LINC organized more than 50 seminars and conferences in which more than 1,000 farmers and agribusiness professionals took part (see photo). The events' themes range from modern technologies in cultivation and storage to marketing to sources of financing.



Mykhaylo Dzhorkashvili photographs broccoli during a study tour to Poland organized by USAID LINC for a group of representatives from the Crimean agribusinesses and authorities. The group was introduced to advanced technologies of producing, storing, processing, handling, and selling fruits and vegetables.

Because logistics and sales are an issue for all farmers in Crimea, LINC undertook a study of trade flows in and out of Crimea and southern Ukraine, to determine the optimal forms of produce markets for Crimea based on Western experience, and proposed two optimal locations to build farmers' wholesale markets. Wholesale markets are good for medium and small-scale producers, who work mainly for cash and want to take full control of the sale of their products. LINC also promoted the idea of building logistical centers for larger producers and associations of producers, who are able to produce under contract and who want to increase the value of their products by cleaning, washing, and packaging.

A small but interesting initiative undertaken by LINC was its work with the Umyut women's medicinal herbs cooperative in Bilohirsk raion in Crimea. LINC provided them with a qualified expert in medicinal plants to help them cultivate these herbs instead of gathering them in the wild. LINC gave the cooperative advice on what plants to grow, performed soil analysis, prepared checklists, helped it establish a nursery, and advised on process operations and on how to cultivate medicinal plants under contract. LINC also arranged a study trip for co-op members to the Institute of Medicinal Plants in Poltava oblast.

Another major LINC effort in increasing competitiveness of the agriculture sector, both within and outside of Crimea, was its work on post-harvest cold-chain technology. LINC's sub-regions in Kherson, Mykolaiv, and Odesa sit upon the black earth of Ukraine, and recognize agriculture as a prime economic sector. The farmers in these regions can grow crops, but find that their harvest spoils from poor post-harvest practices. LINC supported the creation of a new Cold Chain Alliance in the country and organized six conferences on cold chain infrastructure, cold storage, and quality standards in cold logistics.

Even more exciting, in partnership with Astra, a cold-storage equipment supplier based in Dnipropetrovsk oblast, project professionals were able to install a cold storage module at the Stolychny wholesale agricultural market in Kyiv. The module, the first cold-storage room for fruits and vegetables ever installed at wholesale markets in Ukraine, was provided by Astra free of charge. The collaborative project aimed at creating an efficient, spoilage-free place to sell chilled horticultural produce, and is expected to generate demand for chilled products. Together with Astra, LINC also worked to improve access to credit for Ukrainian farmers and processors. LINC helped to design and develop a joint credit product offered now by Astra and Hromada Credit Union. The Hromada Credit Union now offers small credits of up to 170,000 UAH (approximately \$20,500 as of December 2012) for 36 months to fund the purchase of cooling and freezing equipment from Astra, with the equipment itself as collateral. Astra guarantees free equipment maintenance and support during the credit term, and guarantees the repurchase of equipment in the case of farmers' losses.

TOURISM

Ukrainians are proud of where they live; in almost every town, village, raion, and oblast, people are convinced that there is some attraction that tourists would like to visit. This is, of course, an emotional assessment of civic pride, but LINC itself did work in several sub-regions that have realistic tourism potential. In the Podilla-Bukovyna region, which includes the cities of Khamanyets-Podilski, Khotyn, and Chernivtsi, and in a region in Ukraine's northwest that includes the cities of Lutsk and Rivne, a rich history of empires, heraldry, knights, and castles still graces the landscape. In the Tavria region of the southern Dnipro River, the enticing riverbanks beckon picnickers, while the waterway draws sailors and yachters. And in Crimea, whose territorial regions unfold like the pages of a history book housed among glorious mountains, valleys, and seascapes, the appeal to travelers of all types is beyond dispute.

But these marvels face a business challenge. Each region, including its tourism businesses, must prolong the tourist season, develop new tourism products, improve the quality of hospitality service, and burnish its image through innovative, imaginative, and strategic marketing. LINC's team of tourism professionals and its partner regions had to confront this challenge.

In Crimea, LINC partnered with tourism businesses to illuminate one of Crimea's sadly underdeveloped assets, the deep and rich veins it offers for mining cultural tourism (see photo next page). For instance, LINC developed 27 new cultural tourism routes throughout Crimea

that are already being promoted by the Ministry of Resorts and Tourism and used by tour operators and guides. For museums, which are a part of the tourism product in any developed destination, LINC organized a series of hands-on seminars to make Crimea's museums more welcoming to tourists. LINC guided its counterparts to create an Internet portal of the top museums of Crimea, and LINC diligently promoted cultural festivals as new tourism products that less-visited cities in Crimea such Bilohirsk and Stariy Krym could offer.



Firing of a multi-barrel gun during the Legends of Theodoro Festival near the historic fortress of Mangup-Kale in the Bakhchysaray Raion, Crimea. USAID LINC sponsored the festival.

LINC has had a special relationship with the Association of Small Hotels in Crimea, ever since the project encouraged its creation in 2010. Recognizing that in Crimea, where international hotel chains are absent, most tourists stay in small hotels, LINC sought to raise their standards of quality and service through training seminars and onsite consultations. The project showed hotel owners how to use social media to successfully promote themselves. Experts from LINC developed a series of operations manuals for small-hotel owners on such issues as legal issues and food safety and service. In a series of roundtables that was expanded by popular demand, LINC gathered the Association's members and the State Tax Authority of Crimea in the same room to discuss how hotels can *honestly* avoid running afoul of tax inspectors. LINC also advised the Association's members on its comprehensive development strategy through 2020 that was voted on and accepted by its members. Finally, with LINC's legal consultation, the Association successfully lobbied the national government on its members' behalf to change the legal designation of a "small hotel" in Ukraine to conform to the average size of small hotels in Crimea: up to 30 beds. Currently, the Association has 100 members...and growing.

Believing that highly qualified, English-speaking tourist guides are essential to making Crimea and Sevastopol a popular year-round tourist destination, LINC organized a series of trainings leading to certification of 60 guides by the World Federation of Tourist Guides Associations (WFTGA) as Level I Tourist Guides and Level II National Guide Trainers. One of those trainees became the only WFTGA-certified International Guide Trainer in Ukraine, and WFTGA allows him to train tourist guides in any country in the English, Russian, or Ukrainian languages.

LINC has never looked at tourism in Crimea with rose-colored glasses. Everyone knows that food safety and food quality are an issue in Crimea hotels, restaurants, and cafés (for convenience, "HoReCa"). Therefore, LINC undertook more than 10 food safety audits – with the eager permission of local HoReCa – and conducted several seminars on food safety. The good news is that interest among local HoReCa in improving food quality is enormous; and LINC accented those measures that are not so expensive or difficult to implement.

Spa and wellness vacations are another form of year-round tourism in Crimea. LINC inventoried the top spa and medical wellness hotels and centers of Crimea and Sevastopol,

determined which ones could qualify for international certifications, and then conducted more detailed “pre-audits” to highlight their gaps. LINC also developed a Russian-English glossary of spa and medical wellness terminology that is both a training tool for staff and a communications tool for serving English-speaking clients. In addition, LINC gave seminars on international best practices to spa managers and staff. As a result, at least one top hotel in Sevastopol is preparing to apply for an internationally recognized medical wellness certification from TÜV-BHI (Germany’s Best Health International Standard Certification awarded by one of the Technical Inspection Associations).

LINC’s promotion of Crimean handicrafts and souvenirs served two ends. On the business side, LINC wanted to increase sales and employment in a traditional trade that offers unique, Crimean-made products to tourists and beautifies Crimea’s tourism product (see photo). On the cultural side, USAID and LINC recognized the significance of promoting Crimea as the “mosaic of cultures” that it has always been over 3,000 years, through its native handicrafts like ceramics, embroidery, silver filigree, and metalware. LINC’s assistance to artisans included the creation of popular “Crimean Style” catalogs of artisan creations. LINC organized exhibitions in Ukraine, Great Britain, Poland, and Turkey for artisans, and the project conducted seminars for artisans on pricing, packaging, sales, and marketing.



Crimean craftsman Eldar Husenov gives a master class in pottery during the Festivities of Crimean Tatar Culture in Lviv. USAID LINC sponsored the event with a goal to bolster and diversify inflows of tourists to Crimea by popularizing the peninsula’s authentic culture.

LINC’s regions on the mainland also needed to make their tourism industry more efficient and to cooperate on product development and marketing to take advantage of growth opportunities. Regional branding was created and distributed to likely tourist markets. Chernivtsi, Kamyanets-Podilsky, and Khotyn, the three member cities of the Bukovyna-Podillya Region, showcased themselves as a common tourist destination at the 46th International Tourism Bourse (ITB-2012) in Germany, one of the world’s leading travel trade shows. A new joint brand, “Podillya-Bukovyna Necklace,” will be showcased again at ITB-2013. Tourism workshops in four sub-regions gave birth to the development of territorial festival tourism to expand the tourist season. In three LINC territories, local budgets were amended to allocate more funds to tourism development.

ENHANCING FIRM SOPHISTICATION AT THE REGIONAL LEVEL

Individual firms, particularly in transitional economies like Ukraine, should be assisted in improving their level of business sophistication by the territories where they reside. This is in every community member’s interest, if the societal goal is to add quality jobs to the territory’s economy. The LINC team devised specific activities to drive that point home with our partners. Among them was a program to help regional businesses become more innovative, a characteristic that lies at the heart of firm-level competitiveness.

Innovation is often an expensive proposition for firms and for societies. Luckily, Ukraine has an abundant resource to help its firms — its scientific and engineering community, which is woefully underutilized for solving the practical problems of the market economy.

Unfortunately, a great chasm exists between businessmen and the scientific and engineering communities, and there is no effort to bridge this gap through a dialogue that would allow Ukraine's scientists and engineers to help find innovative solutions to the productivity challenges of the nation's firms. LINC professionals began the new and lengthy process of bridging that dialogue gap in Ukraine.

Partnering with the U.S. Department of Defense-funded Science and Technology Center in Ukraine and the Ukrainian Chamber of Commerce and Industry, LINC held 12 workshops in regions across the country to bring businesspeople, scientists, and engineers together and let them size each other up. At these workshops, science and engineering institutions made more than 50 presentations on their capacity and professional qualifications, and 16 deals were made between business and scientific institutions to pursue solutions needed by ongoing businesses. The deals included agreements in the agricultural sector, on cultivating medicinal herbs, food processing, energy saving, and alternative energy. One example is the partnership, aided by a \$2,000 voucher from LINC, between the O.O. Kovalevsky Institute of Biology of the Southern Seas and the Yakhont Limited Liability Company, a mollusk farm in Crimea. The farm's black oyster crop was being infested by parasites. The Institute spent five months researching and developing a management program to reduce disease at the farm. The results were impressive: The harvest of healthy oysters increased by 35 percent, parasite infestation decreased by 93 percent, and productivity of the entire farm increased by 23 percent.

Our LINC team is naturally proud of the cooperative deals between science and businesses, but the project was able to achieve something that we hope is more lasting. We were the first to see the dialogue gap between science and business as a problem that could be solved. In the conversation about "innovation" that pervaded the nation, no one had ever discussed this gap or offered dialogue as a solution. Our partner regions and partner institutions like the Chamber of Commerce intend to facilitate more such events, and we expect to hear that this idea, born at LINC, will help generate an innovative future for Ukraine's firms.

ATTRACTION OF INFLOWING INVESTMENT

The success of LINC's predecessor, the Local Economic Development Project (LED), and similar approaches in countries such as the Czech Republic, convinced the LINC team that inflowing hard-asset investment could be a linchpin for the growth of regional economies. Attracting inflowing investment is a multi-pronged process that requires territorial leaders to work concertedly to gather information on territorial assets, analyze economic strengths and weaknesses, and launch a sophisticated and efficient campaign for finding potential investors and signing them to agreements to invest (see photo at top of next page). This process requires territories to speak with a single communal voice, harnesses enthusiasm and hope, and when successful, gives the community the satisfaction of genuine accomplishment. It also adds jobs and well-being.

LINC's partner cities and regions have seen the success they hoped for. A difficult world economy and a damaging national reputation have hampered the investment attraction campaign, and USAID has been cautious in acknowledging LINC's role in promoting specific inflowing investments, because investment is hard to attribute to a single influence. Nevertheless, when it comes to inflowing investments in our partner territories, the very people that LINC educated to be investment attraction professionals were the key participants in the "hot prospect" investment deals that their territories have negotiated. These deals amount to a total investment outlay of \$4 billion and an estimated addition of 29,000 eventual jobs. Some of those deals have not yet been realized, and some are not yet producing revenue, but the deals have been signed, and the people who have negotiated them for their territories are the same investment attraction professionals whom LINC trained and coached on a regular basis.



Yulia Danylchenko, Deputy Head of Zarya's Development and Quality Department, exchanges business cards with potential investors. In January 2011, USAID LINC organized a four-day training in Kyiv for managers from 11 Ukrainian companies and representatives of investment funds, banks, asset managers, and "angel investors."

Naturally, these investments ranged in scope and type. In Scholkine and Bakhchisaray, Crimea, deals were signed to build power stations, which require huge investment but ultimately employ few workers. But some of the investments flowing into LINC's territorial partners are factories that have a higher ratio of jobs to investment. For example, the village of Hoshcha in Rivne oblast landed a greenfield investment of \$10 million and 400 jobs. Though a relatively small investment, it constitutes a huge success that could mean the village's economic salvation. The investment, a factory to make surgical gowns, is a modern export-oriented operation that boasts European standards and provides good-quality jobs and salaries to the most vulnerable population of this depressed region: women with no education. Another successful example of inflowing investment took place in Sumy oblast — Kraft Food's large investment expansion in the city of Trostyanets. In this case, Kraft already had a presence in Trostyanets, as it had purchased a brown-field confectionary plant that had been privatized. Kraft was considering building a new plant in another city, but the mayor of Trostyanets and his team, all trained and coached by LINC, found a suitable site and convinced the company to expand in the city. The mayor's personal involvement brought a comment from Kraft that it is a pleasure to do business in Trostyanets, as it committed to an \$80 million expansion that would eventually add around 800 jobs.



USAID LINC expert Jan Vozáb during the investment workshop called "Marketing and Selling" organized for professionals tasked with attracting foreign direct investment to Irpin, a suburb of Kyiv.

Before USAID's work on LINC and its predecessor project, LED, no donor had ever expended any concentrated resources on attracting hard-asset investment into Ukraine or among Ukraine's regions.

LINC's trained and qualified more than 100 investment attraction professionals in the localities and began to fill this void at the national level as well. LINC held intensive workshops (see photo at bottom of previous page) ranging from teaching the basic concepts of globalization to imparting sophisticated tools to target investors and evaluate investment probabilities. Municipal officials trained through these workshops have now moved on to run regional investment agencies, such as in Rivne oblast, and branch offices of the Ukrainian Agency for National Projects and Investment. LINC conducted smaller training events in almost every oblast of Ukraine to give local officials a first taste of necessary investment attraction and promotion skills. Thanks to LINC, investment attraction is no longer a skill lacking in Ukraine. We helped build a critical mass of investment attraction professionals in key jobs throughout the country. They are now ready to find and draw in investors.

In addition, it seems as if the leadership of InvestUkraine, the national investment attraction agency, may now be serious about making the attraction of strategic foreign green field investment a national goal. LINC trained every member of that agency's professional staff in FDI attraction, sector targeting, strategic marketing, and such practical management necessities as good customer response systems. The LINC team is looking forward to reading about real deals and results emerging from InvestUkraine's efforts in coming years.

A critical aspect of investment attraction is providing the investor with clear and complete information about why he should come and risk his money. One challenge Ukraine faces is that its size, language barriers, and Soviet past have made the nation an inaccessible black hole for western firms looking for the package of assets they need to make the decision to invest. LINC's team strove with its partners to make hard-asset investors aware of the assets that Ukraine has to offer and to make such information available to firms new to Ukraine. To do so, LINC assisted its partner territories in creating and improving websites to promote their communities' advantages as destinations for investment. The project organized its partner territories (approximately 150 local entities), to search for investment-grade land controlled by the community and to enter the parcels onto a nationwide property database. LINC team experts traveled to several sites that had potential for multiple investment projects and industrial parks, to help perform feasibility studies and conceptual designs showing how such parcels could potentially be used and how to market them to industrial investors. This information was then incorporated into a broader investment portal, for which more than 250 investment proposals have been prepared with descriptions of their best features. The portal is linked to local city profiles and business surveys in 80 Ukrainian territories. This investment portal is a live tool, constantly being updated by territories and localities. Now administered by LINC, it serves as a main resource for companies (and for InvestUkraine itself) to locate the right place for a particular investment. At the end of the project, the portal will be transferred to InvestUkraine. As with many other LINC accomplishments, this comprehensive National Investment Portal is the first that Ukraine has ever known.

REGULATORY RELIEF AND STREAMLINING

LINC's regulatory relief and streamlining experts came from another USAID predecessor project, TIBA (Trade, Investment, and Business Acceleration). These team members, who

had participated in national-level regulatory reform activities in former years, turned their attention at LINC to creating a difference at the local level. In Crimea, they worked with 14 raions and 12 municipalities to build and strengthen one-stop permitting centers, consistent with a national mandate. When the team started their work, such centers existed in name only and did not function; LINC's task was to make the Crimean centers real. How they succeeded is a case study in institutional development at the local level.

Though a national law and a national agency stood behind the establishment of one-stop permitting centers (see photo), and though LINC's experts had been instrumental in developing those reforms on TIBA, there was no guarantee that local officials or stakeholders would share the national enthusiasm enough to spend the funds and political will to make business regulation more efficient. The LINC team, with its regulatory experts and its competitiveness planning facilitators, brought local officials on board, one-by-one, territory by territory. They persuaded local businesses, inherently skeptical of government activities, that efficient regulation was possible and would benefit their enterprises. Meetings, roundtables, presentations and public education efforts finally worked in each community, and the message was received.



A Simferopol citizen waiting to submit an application in a newly established One-Stop-Shop Permit Center at the Crimean Republican and Simferopol City Permit One-Stop Shop. USAID LINC supported the establishment of such centers across Ukraine, introducing a way of addressing citizens' needs.

LINC's team then had to train the personnel who would man the centers to adopt efficient standard operating procedures and process-engineering principles that would optimize the efficiency and minimize the time required to issue a range of business permits. The centers were assisted in bringing as many as 29 formerly separate permit-issuing agencies that shared information on applications under one roof and moved the permitting process along swiftly. Surveys taken in several sample territories indicate that the new centers saved businesses as much as 36 percent in time spent obtaining a permit, and as much as 30 percent in the amount of money spent obtaining a permit.

Another study has shown that in Simferopol, as a result of these centers, time spent on obtaining permits most common for microenterprises (trade outlet location, sanitary service conclusion, and operation permit) decreased by 15 percent, the cost of obtaining permits was decreased by 30-55 percent, and microenterprises involved in trade and service activities enjoyed an additional 79.8 million UAH in income, owing to the reduction of regulatory delays and the cost of permits.

Some territories, of course, benefited more than others, but the results were very positive overall.

As with all LINC matters, the considerable work and numerical results do not tell the full story of our achievement. Permitting centers are a new institution in Ukraine, and they work best when the government employees operating them like their job and understand its significance (see photo). Shining a light on the value of the work our partners perform is an integral principle of LINC's team, and in our one-stop permitting center work, we fulfilled it. Working with government counterparts in charge of regulatory reform, LINC gathered together one-stop shop managers from around the country and went on a national tour with them to meet the people employed in permitting centers and talk to them about how their work made life better for business and benefited the community's economy. This effort put LINC in touch with more than 100 centers nationally. In a departure from the common, top-down governmental culture in Ukraine, LINC avoided imposing the regulatory changes on the permitting centers' administrators, instead making them a part of the family of reformers whose work would lead to a better business environment in Ukraine. This gave the centers the impetus to willingly test and report regularly on their performance. More important, they began to exchange ideas and procedural innovations with one another, forming a network that is still thriving today. We consider it to be a significant project accomplishment when our government counterparts, such as the civil servants who administer the one-stop permitting centers, not only know their business but are also proud of what they do to help build their communities.



Establishment of Crimea's joint city-and-raion permitting One-Stop-Shop facility in Dzhankoy, Crimea, opened with assistance from USAID LINC. *From left to right:*, Dzhankoy Raion Administration Head Oleksandr Sydorenko, USAID LINC Crimea Field Director Jeffrey Luebbe, Dzhankoy Mayor Arkadiy Zaydman, and Deputy Economic Development and Trade Minister of Crimea Ihor Yahovdik.

PUBLIC-PRIVATE RESPONSIBILITY FOR IMPLEMENTING COMPETITIVENESS STRATEGIES

A corollary to the proposition that private businesses must participate in the development of their communities' economic strategies is that they should also participate in the cost of realizing the strategies' goals. The competitiveness strategies that LINC facilitated in its partner territories were created through collaborative discussion and analysis among business, government, and civil society. From the outset, there was an understanding that the private sector would step up and help where it could with implementing the strategies. When LINC and its partners devised work plans and task schedules for implementing the strategies, the private sector accepted assignments to spend resources and execute key tasks.

This notion of contributing to the community's economic stability and growth was not an automatic or easy concept for the private sector to accept. LINC sponsored special training courses in corporate social responsibility and on the benefit to the private sector of contributing to social value. Ultimately, companies in LINC's communities began to understand that economically strong companies come from economically strong

communities, and that the weaker the community's economy, the weaker the companies are that make their home there.

LINC and its territorial partners encouraged the private sector's contribution in any way that would be useful and sensible for promoting economic growth and competitiveness. The private sector was imaginative in the way it determined its contributions. In Sevastopol, for instance, an owner of a consumer mall decided to contribute first-floor space for the occupancy of the city's one-stop permitting center. His reasoning? Lots of people could be expected to visit the permitting center, and the more human traffic in his mall, the better it would be for his lessees. In the eastern oblast of Luhansk, Ukraine's largest metals manufacturer offered to pay the costs of LINC's experts to help create competitiveness plans in the towns where the company has production facilities. The company is following up with specific contributions toward realizing tasks that the strategy calls for. In several tourism hotspots, local businesses are helping to finance and maintain tourist information centers. In Crimea, LINC introduced *In Your Pocket* (IYP), the maker of popular print and online English-language tourist guidebooks, to six Crimean cities with tourist information centers; for most, this was their first-ever tourist information in English. Then LINC facilitated negotiations with IYP so that annual updates will come at a steep discount for the centers, city authorities, or private sponsors.

Moreover, to organize and promote new city festivals in Crimea, LINC shared costs with private organizers and city authorities. And LINC teamed up with MICE (the acronym stands for "meetings, incentives, conferences, exhibitions") tour operator "Business Travel" in Sevastopol with expertise in videography to co-produce a promotional video catalog of the 70 top business-conference centers in Crimea. This DVD catalog has already been distributed at travel and tourism exhibitions in the UK, Germany, Poland, and Russia, to name a few. And on a small project to elevate hotel services in Crimea, LINC teamed with "Krashotel," one of the best hotels in Crimea, to co-produce a training manual on standards of catering-restaurant personnel management. LINC and Krashotel also partnered to produce a training video for hotels on how to clean a hotel room efficiently, yet thoroughly.

Of course, Ukraine still has a long way to go in using the private sector to contribute to the costs of building territorial economies. But LINC has planted a seed with real examples totaling \$833,000, and we believe that continued efforts to draw the private sector into accepting key responsibility for community competitiveness will succeed here.

NATIONAL POLICY REFORM

LINC's work on four areas of national policy has set the stage for a long life of necessary reform. With respect to immovable property rights, government procurement reform, customs reform, and regional development, the project has gained traction with policy ideas never before raised in Ukraine, or if raised, never realized.

IMMOVABLE PROPERTY RIGHTS

The uncertainty of property rights and the resulting ambiguity of the property market have long been an impediment to hard-asset industrial investment in Ukraine. For 15 years, the international community had worked in vain to develop a uniform property registry that would clarify ownership of real assets and land. The confusion over real title and authority combined with a lack of fixed physical boundaries made it near-impossible for territories to offer communal land to investors wishing to build factories and industrial plants. LINC was at the forefront of efforts to correct these problems.

The State Registration Service of Ukraine. In accordance with administrative reform that calls for establishment of the new structure of state government body system, the Government set up a State Registration Service that would be responsible, among other tasks, for creating the State Register of Immoveable Property Rights. The managerial challenge of establishing such a register, with branches all over the nation, that would have critical and unforgiving responsibilities newly articulated and never before existent in Ukraine, was immense. The Government turned to LINC for assistance (see photo).



On October 19, 2011, USAID LINC Chief of Party Howard Ockman and State Registration Service Chairman Leonid Yefimenko sign the protocol of cooperation declaring mutual commitment to establishing a unified state registration system of real estate for Ukraine and the State Register of Immoveable Property Rights.

From the beginning, it was clear that the Register was under time pressure to be up and running, and that it could not do so without hiring a staff and training them in the new skills and procedures. This became LINC's task. The project organized training courses with the National Academy of Legal Science to teach more than 300 newly hired lawyers on new legal requirements of property rights registration and how to run the Register. Associated with these courses were training videos that are now distributed to Register centers around the country. LINC and its partners designed information stands to help citizens orient themselves to the new procedures as they entered the Register's offices, and prepared and distributed manuals of rules and procedures for the use of Register staff in the field. LINC helped prepare expert legal commentaries on the registration legislation, and its lawyers assisted in amending tangential laws that needed to align with the new registration regime. Finally, as the project closed, LINC was helping to design a public education campaign to help citizens understand how to apply for property rights registration and how to use the Register. On the whole, this work, on which LINC's lawyers and trainers worked for 14 months, will ensure a functioning and capable immovable property register in Ukraine for years to come.

Law on Industrial Parks. Experience showed LINC's investment professionals that clean-titled industrial land in the ownership of local public entities was rare in Ukraine. The existing land legislation, with its imprecision, discouraged investors, who need clarity and efficiency in setting up their operations. LINC land experts accordingly collaborated with InvestUkraine to draft and push the adoption of a Law on Industrial Parks, which would

establish its own regime for securing land to house industrial projects, thereby avoiding the minefields sowed by the existing land legislation. Almost 20 months of effort were spent convincing parliamentarians, government officials, and businessmen that Ukraine needed such a law. A big issue was distinguishing the concept of industrial parks from a disastrously implemented scheme on free economic zones that was imposed in Ukraine and rescinded years before, after bestowing massive tax benefits on sham companies shopping for tax shelters. The legal differences between industrial parks, which can be effectively regulated, and free economic zones, which raise difficulties for rational regulation, are subtle, but real. In the end, LINC and its allies prevailed, and the law is now in force. It constitutes a keystone of InvestUkraine's package of offerings to greenfield investors.

PROCUREMENT REFORM

LINC's procurement team played a strong role as a foot soldier in the international donors' battle against a corrupt and opaque government procurement system. For 18 months, the donors and LINC worried over a draft Government Procurement Law (GPL) that changed by the day. LINC lawyers and EU and World Bank diplomats dutifully commented on each wave of changes, only to see the next draft inserting clauses never discussed and at variance with standard European and world practices of procurement. Eventually, this moving legislative target settled into an adopted law in need of amendment and revision and replete with carve-outs eliminating key aspects of the economy from transparent procurement practices. As of the date of the project's close, none of the GPL's progressive elements had been implemented by the Government of Ukraine (GOU).

Midway through the project, LINC accordingly changed its approach to government procurement activities in an attempt to move the ball forward. Seizing on the Ministry of Economy and Trade's obligation to draft a National Procurement Strategy, LINC's procurement team asked the Ministry whether it needed assistance. With the Ministry's concurrence, LINC launched a long-term, intensive effort with stakeholders throughout the country, local and regional, private business and civil society, to explore the possibilities, opportunities, and necessities attendant to true procurement system reform. Every oblast in the country was included in the discussion; every ministry and agency involved in procurement was a participant. This effort was monumental and unique. Discussions of procurement reform were no longer locked in the offices of the Ministry of Economy and Trade, the World Bank, and the EU (see photo). LINC opened the process to talk about aspects of government procurement never raised before in Ukraine.



One of many sessions on procurement reform organized by USAID LINC.

New topics that became a part of the National Procurement Strategy were green procurement; civil society monitoring of government procurement activities; a professional staff to handle

all government procurement; preferential procurement for certain economic sectors, such as small business; and e-procurement. Discussions around the strategy thus proved to be an opportunity to examine all of the implications of government procurement reform. At the end of August 2012, U.S. Ambassador John Tefft delivered the finished strategy to the Minister of Economy and Trade. The Government of Ukraine is now positioned to take those strategic steps needed to build a complete, effective, and accountable procurement system, capable of delivering essential services and programs, while harnessing procurement expenditures to benefit Ukraine's overall development. LINC believes that the participatory process it nurtured has enabled the Strategy to reflect the practical needs and experiences of stakeholders from the public and private sectors and civil society throughout Ukraine, which bodes well for the chances of successful reform of the government procurement system.

CUSTOMS REFORM

LINC's work in reforming the customs system to harmonize it with European and WTO standards was front-loaded to the beginning of the project. In the first 18 months, LINC made a full evaluation of the draft Customs Code and submitted it to the government. In addition, LINC conducted a full assessment of customs practices at the nation's largest port in Odesa, evaluating them against international best practices and recognized standards of efficiency. LINC submitted this report and more than 90 recommendations for changes to the Customs Service. Following these voluminous intellectual efforts, LINC monitored the relevant government units for any improvements or actions on LINC's recommendations. What LINC discovered is that more than 60 percent of the Odesa recommendations have been voluntarily implemented by the Customs Service, and a significant portion of the suggestions made by LINC's lawyers to the Customs Code were adopted. LINC is satisfied that its counterparts decided to accept large portions of the project's advice; we are also convinced, however, that if the funding had been larger, we could have persuaded the GOU to accept more of our recommendations. Nevertheless, it is extremely satisfying that the customs service is beginning to refocus its views on efficient processing by accepting practices such as post-audit inspections and electronic declarations and by removing multiple inspection posts by multiple government agencies at points of entry.

Regional development. In a sense, regional development reform, through the lens of competitiveness, was the essence of the LINC project. Although the task of drafting legislation about decentralization and regional development fell under the purview of another USAID project, LINC pioneered changes that we believe should form policy foundations for Ukraine's regional development. LINC's approach to inter-territorial cooperation on the basis of horizontal city and raion agreements to form economic sub-regions was unheard of in Ukraine before we did it. The entire logic of motivating cooperation among free-thinking localities for economic purposes was radically different from the Soviet system, which organized local government decision-making hierarchically on the basis of administrative convenience. The notion of economic agglomerations or regional clusters, and the structure of regional organization envisioned by LINC and its counterparts, was entirely unprecedented in Ukraine. Now, our local partners and counterparts understand these innovative concepts about inter-municipal cooperation. More important, they believe that these concepts will

bring economic growth and competitive success. A critical mass of local leaders and development professionals have come to see things LINC's way.

Unfortunately, however, the current national administration has chosen to pursue a political course in which management of resources is centralized, and local governments have less of a voice than they once did in revenue decisions affecting their communities. LINC did not have a mandate to be involved in those policies, pro or con, or in the political atmosphere that bore them. But it is our observation that decentralization processes in Ukraine have taken steps backward during the current government's tenure. LINC, however, has left behind a written and intellectual legacy of what could happen if local communities are permitted to pursue their own economic decisions. LINC experts wrote two major books on regional development, published in conjunction with the National Academy of Sciences of Ukraine, and LINC experts have published 10 articles in recognized academic journals. The ideas contained in these books and articles were discussed at six scientific conferences with high praise. Although LINC is closing, we have every reason to believe that our colleagues, LINC experts, will continue to press these points in future discussions of regional development policy, and our counterparts will support them wholeheartedly.

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LESSONS LEARNED

No development project can succeed if it has not led to a great deal of reflection and learning. Surprises and miscalculations did play a role in LINC's work, and they have taught us the limits of our methodology and the risk of our ambitions.

1. For an economic sub-region to be effective in any joint activity, it needs a generous amount of good will and acceptance of new ideas from the partnering administrative units. LINC tried to choose economic sub-regions where cooperative economic activity would have a compelling business logic. But the project miscalculated the level of difficulty inherent in choosing certain types of economic sub-regions. Most difficult were sub-regions that spanned more than one oblast (Kherson-Mykolaiv and Lutsk-Rivne). These sub-regions took longer to develop, and ultimately, to agree on their competitiveness strategies. When the project closed, they were working on formalizing the industrial parks that the strategies called for and finding investors that would fill gaps needed in critical industries (particularly cold-chain investment in Kherson and Mykolaiv). But it seemed as if intervention from the oblast governors' offices was slowing momentum in both sub-regions. Oblast governors, of course, answer to the central government, and are more comfortable taking orders about appropriate development strategies from above than accepting fresh ideas from below. Where an economic sub-region was in a single oblast, several mayors had success in convincing their oblast governor to move quickly on good ideas and decisions that originated at the city and raion levels; in sub-regions that were in more than one oblast, however, local pressure and political clout was insufficiently concentrated to convince oblast-level officials to accept decisions and strategies made by lower level entities, some of which were outside their territory.

The Project also worked in a sub-region that included the city of Odesa. Although the competitiveness strategy was well-formulated and witnessed implementation results in sub-regional cities such as Teplodar, there was little implementation by the administration of the city of Odesa itself. In retrospect, the project misjudged both its capacity and the potential of its ideas to affect a city as large and politically complex as Odesa. The mayor's office was impossible to deal with, and the project ultimately had to turn to the governor's office for active support and partnership. The governor and his staff were highly cooperative and enthusiastic about the competitiveness strategy and are still active in its implementation. But the city of Odesa could not be bothered to pay attention to LINC efforts when so much power and money was circling the city. Although LINC's experts created some elegant and practical ideas for expanding Odesa's port capacities, city and port authorities were more preoccupied with what the big-money players were scheming than with strategic port development.

2. LINC was above all a competitiveness project, intended to grow jobs and investment in economic sub-regions (detailed maps of LINC's activities follow this chapter). Its design allowed the project to take a two-track approach to managing improvement in local competitiveness. In Crimea, LINC took a more traditional approach to increasing competitiveness, focusing on the agricultural and tourism sectors and using value chain development, SME improvement, and cluster-building relationships as the chief organizing principles. Over a three-year period, LINC and its private sector beneficiaries achieved sales and profit growth, together with the installation of sector skills that would insure sector dynamism in the future. On the mainland, LINC took a different approach to competitiveness. Concentrating primarily on the concept of regional competitiveness, LINC initially helped its economic sub-regions create regional competitiveness strategies, and only when they were adopted did LINC turn to implementing competitiveness activities in partnerships of business sectors, regional administrations, and the science and engineering communities.

The more traditional approach led to quicker economic results in Crimea's sectors and visible improvement in firm performance. Because LINC simultaneously worked in Crimea on municipal competitiveness plans and on one-stop permitting centers, the business communities and sectors often engaged one another and built sustainable cooperative arrangements. LINC's economic sub-regions on the mainland, in contrast, took longer to launch competitiveness activities, and benefits to private firms are still not determined. Two more years of LINC activities are needed to help the private sector in the economic sub-regions to expand markets and increase revenues.

On the other hand, the economic sub-regions on the mainland are much better prepared than Crimea for integrated economic development and enhancement of overall competitiveness. Local government administrations, academic communities, and businesses there are working toward a common, agreed-upon, written, and approved goal of expanding competitiveness and increasing investment and jobs. Having resolved to pursue a multi-vector program of attracting investment, building innovative capacity in firms through dialogue with science and engineering, and increasing the sophistication and capabilities of key sectors, the economic sub-regions will enjoy future competitiveness efforts that will be steady and consistent because of buy-in from all local economic stakeholders. In contrast, to realize their collective aspirations, LINC's private sector beneficiaries in Crimea will repeatedly need to solicit buy-in and support for their needs from changeable local governmental authorities that have never signed on to a competitiveness agenda.

In the future, when USAID faces the decision of how best to manage competitiveness expansion in transitioning societies, LINC's two-track approach will provide good examples for the trade-offs inherent in both approaches.

3. When LINC started, one task stood out as particularly challenging. One of the original tasks called for LINC to pilot a unified immovable property registry in select cities

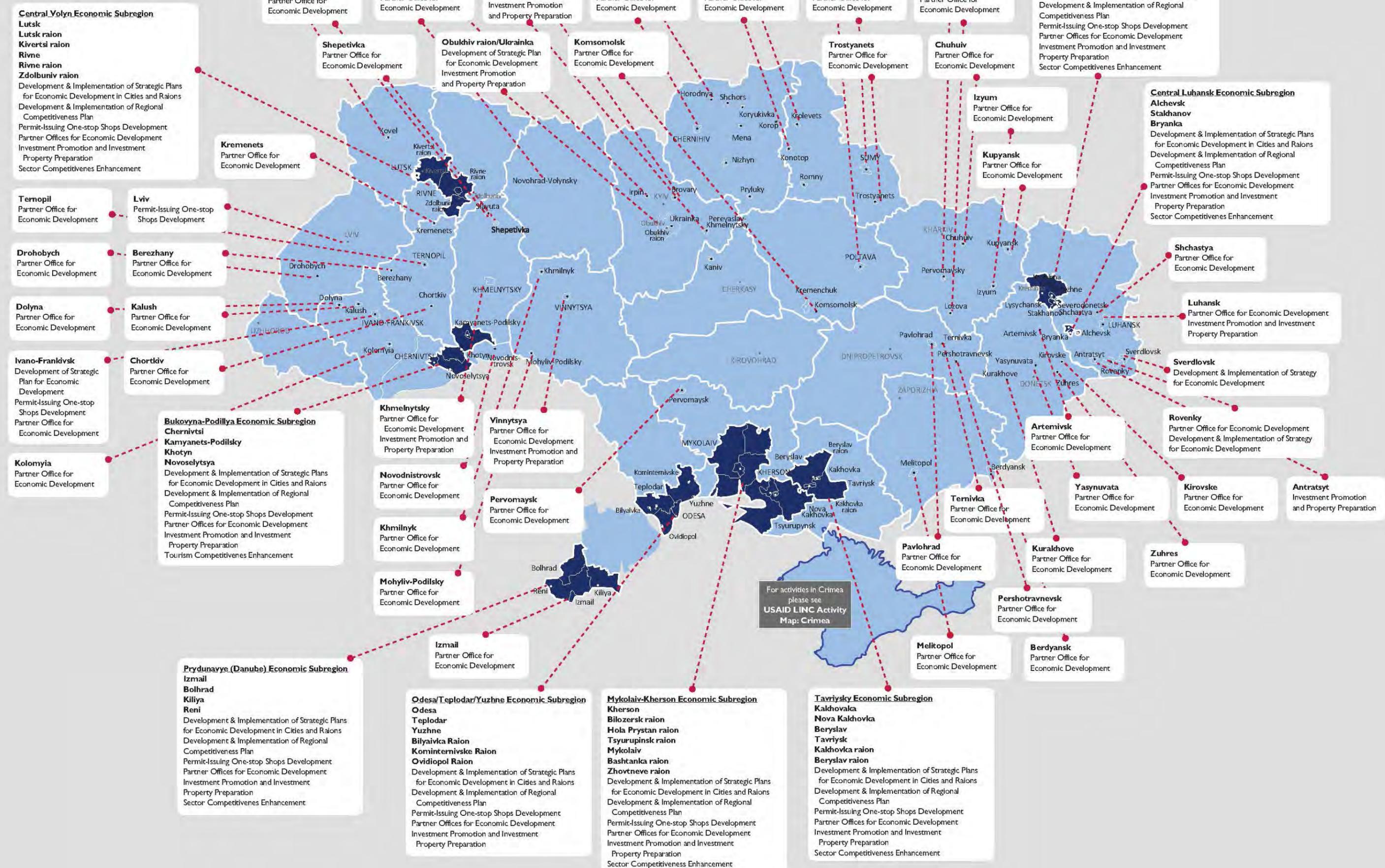
and raions in Crimea. This novel undertaking was always the most politically charged of LINC's activities, dependent on agreement by entrenched interests to support a transparent and fair registry of land plots that had potential to reduce their institutional control over land transactions. For a little more than a year, LINC expended significant effort devising a technical solution for creating a unified immovable property registry and explaining the benefit of pilot registries to local and national officials. Nine months into that period, however, the Verhovna Rada approved an obscure, little-discussed law introduced by several members, which set up the framework for a unified registry. The Government and LINC were caught by surprise. On the one hand, the framework legislation was a good idea, long in coming and much needed, but there was uncertainty about how the legislation would be implemented to create a unified immovable property registry. LINC continued to favor the pilot projects that it was designing and preparing to implement; the Ministry of Justice, however, considered it premature to implement pilots when the operational instructions and regulations for implementing the unified registry were not written or even outlined. Ultimately, the Ministry asked LINC to suspend its plans for the pilots, and requested project assistance in drafting the operational regulations and protocols and training the new Registry Service that was eventually established.

As a result, the pilots were never created, though funds were expended up to and until the pilot projects were canceled. It is difficult to take away any lesson from this turn of events, other than to say that agreement on a unified immovable property registry appeared to be an impossibility; for 20 years, the interested GOU institutions had proved intractable. LINC's and USAID's decision to prove the economic utility of such a unified registry by running pilots was intended to break the long-standing logjam. Unexpectedly, however several members, acting independently of the Government, broke through the impasse by drafting and passing unexpected legislation. Does this mean that LINC's efforts to accelerate a solution through pilots was inexpedient? It is a conundrum of development work, and LINC management does not have an answer for how the entire issue could have been handled differently.

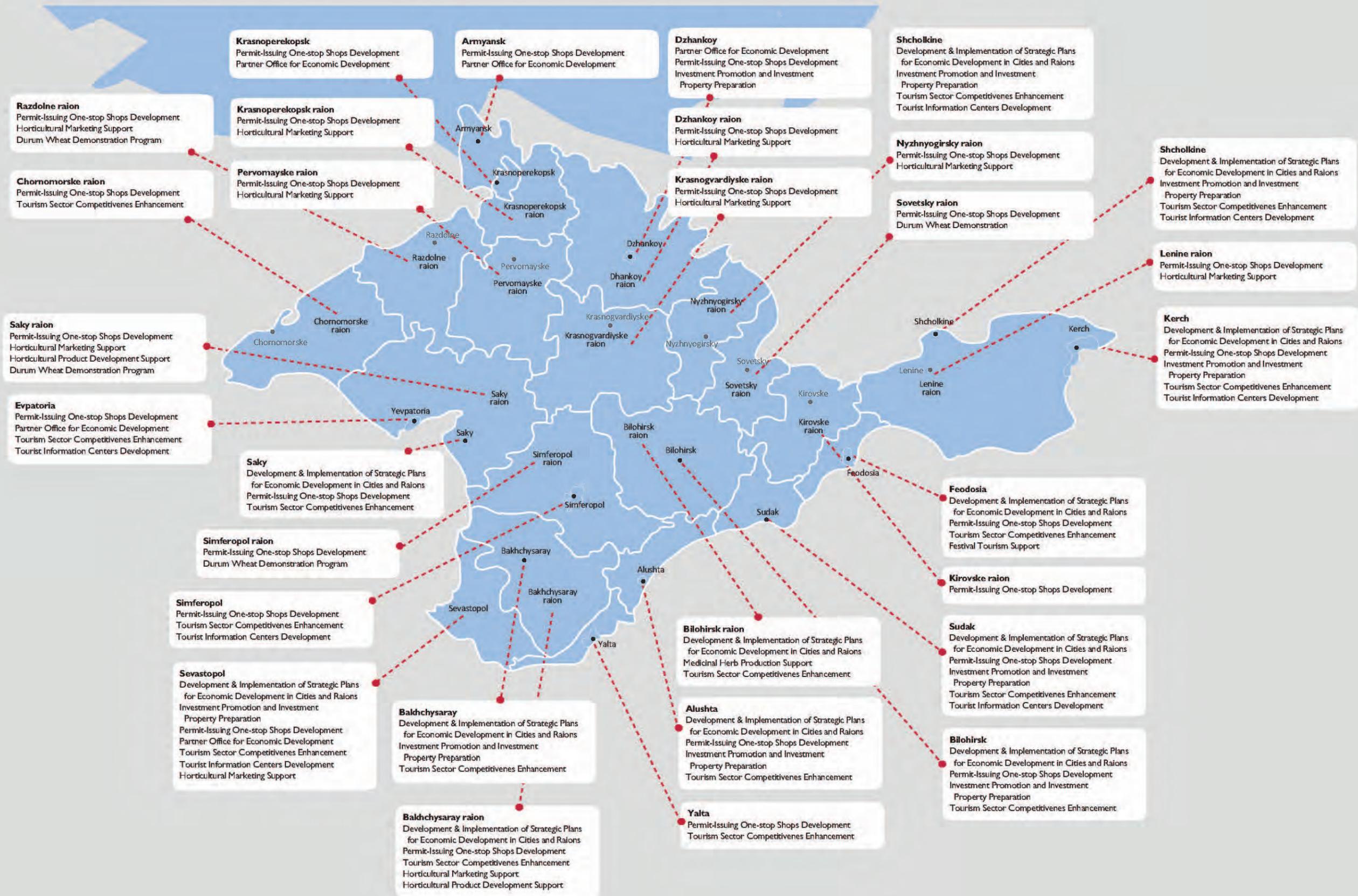
4. As LINC continued its work, it became increasingly clear that local economic development depend on a mayor and his team, and on leadership that puts a locality's interests first. Volumes could be written on this topic, but as we review the Project's successes and headaches, the successes occurred where the local leaders felt the greatest responsibility to their constituencies and were willing to try new ideas for their benefit. As national-level politics exerted increasing pressure on local leaders to follow the national political line, decentralized decision-making was pursued by only the most courageous mayors, sometimes to their detriment. The project certainly gave mayors and local leaders the tools for making sound economic decisions, but did it help inspire its partner local leaders to be courageous and independent in the face of pressures to await and then follow instructions from the center? In retrospect, it is difficult to imagine how LINC could have instilled a leaders' spirit in its local leaders partners. But leadership is a puzzle that future programs such as LINC must ask and solve. The success of managing decentralization depends on it.

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USAID LINC ACTIVITY MAP



USAID LINC ACTIVITY MAP: CRIMEA



ANNEX

SUCCESS STORIES



USAID
FROM THE AMERICAN PEOPLE

UKRAINE

SUCCESS STORY

Cooperation builds success

USAID supports small hotelier tourism development in Zaozerne, Crimea



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"We have been actively attending events organized by the Association of Small Hotels in partnership with the USAID LINC project, and we tried to apply the lessons we learned about the quality service and promotion of our products," says Gennady Ryvkin, one of the small guesthouse owners in Crimea, while holding the tourism brochure that promoted his small business.

USAID's efforts to improve tourism prospects in Ukraine placed Zaozerne on the map of popular tourist destinations in Crimea. By building the capacity and improving the quality of services of the Association of Small Hotels of Crimea, Zaozerne's entrepreneurs are growing their businesses almost daily.

Telling Our Story

U.S. Agency for International Development
Washington, DC 20523-1000
<http://stories.usaid.gov>

Gennady Ryvkin owns a small, nine-room guesthouse in a newly developed area of Zaozerne township, near the Crimean city of Yevpatoria. Despite the area's beauty, potential visitors knew little about its attractions for tourists. Visitors came to Zaozerne only if more popular sites were booked.

In 2010, as part of its mandate to support development of tourism in Crimea, USAID's LINC project supported the creation of the Association of Small Hotels of Crimea. To build the capacity of Association members, LINC experts provided training in hospitality and effective marketing. This gave Gennady and 18 other guesthouse owners in Zaozerne the idea to join forces to advertise their offers to tourists.

The owners produced 3,000 tourist brochures with offers from guesthouses and hotels, pictures, maps, facts about Zaozerne, emergency contacts, and information on a local water park – a popular destination for children. In February 2012, these brochures were distributed to visitors and tour operators in Yalta, and at tourist fairs in Yevpatoria, Alushta, Kyiv, and Moscow. The brochure increased public awareness of Zaozerne's small hotels. Following this, the hoteliers harmonized prices, contributing to more balanced tourism offerings in the area, which proved attractive to potential guests.

Now Gennady is excited: "I'm sold out from late June on, and guests are still calling. The same is true for my colleagues. Buses come mostly from Russia, but also from Ukraine and Belarus. A one-price policy in several of our hotels led to the establishment of regular bus lines for larger groups of visitors from distant locations who want to visit this area."

Zaozerne's hoteliers and guesthouse owners recognize the importance of cooperation among themselves and the need to attract more members. This strategy of cooperation enables them to provide even better services to their guests.

Olena Mozharovska, another small hotel owner in Zaozerne, says she gets up to 20 calls a day. "If I can't accept a guest, I ask him to call my colleagues. We can be flexible and help each other because we have uniform prices and good offers."

Applying the lessons learned from USAID LINC's experts, the Association's members regularly advertise their offers online on various websites, forums, and social networks. Most small hotels have developed their own websites. The Association's web portal is another tool to promote tourism in the area.

Gennady's business has done so well that he is contemplating expanding his business. He hopes to open his own hotel to accommodate more guests. Tourists keep calling, and some are already booking for next year. Zaozerne is finally on the map of Crimea's popular destinations.



SUCCESS STORY

Closer to consumers

USAID helps Crimean farmers apply highest-quality production standards



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“USAID LINC experts taught us new growing techniques and showed us how they’re being used by our colleagues in Poland and Italy. We radically changed our business development strategy. We applied various production and marketing know-how and are now applying best practices our European neighbors use when growing and selling our fruits,” says Valery Honcharenko.

USAID’s support for Crimean farmers builds domestic fruit trademarks and boosts sales of highest quality production standards, while bringing farmers and consumers closer together.

Telling Our Story

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Small and medium-sized farm owners in Crimea lack direct market linkages with consumers. The difficulty in establishing a brand for their produce is a major barrier for farmers, because without it, they can’t guarantee the production of highest quality goods and production standards. Improved growing and marketing techniques and the establishment of trademarks will help them deliver quality agricultural products and build partnerships between local producers and consumers.

Valery Honcharenko’s company has been working in Bakhchysaray district since 2007. It employs 20 agricultural specialists and up to 150 seasonal workers a year, who harvest 200 hectares across the company’s orchards. The company offers a wide range of quality horticultural produce, such as early and late apples, table grapes, sweet cherries, and plums.

Before USAID LINC came along, the company lacked recognition among its clients. The fruits Valery sold were resold to consumers at a higher price, allowing middlemen to profit at the expense of producers and consumers alike. LINC’s work to increase the competitiveness of Crimean agriculture enabled Valery and his colleagues to attend nearly 20 conferences and training events and receive consultations from agricultural specialists. As a result, they re-evaluated their business practices and learned to apply marketing principles in innovative ways. “The old planting and pruning techniques don’t fit into modern intensive agriculture, and high quality and a strong image are required to secure a place in regional and national markets,” says Valery.

Valery’s company’s participation in the 2010 Vegetables and Fruits exhibition and conference in Kyiv was a turning point. He recognized that establishing a special trademark for his fruit would allow him to compete with other producers, protect the quality of the fruit, and promote it to consumers. USAID LINC experts helped his company develop the Gardens of Alma Valley trademark and design promotion materials. The 2011 exhibition featured Valery’s brand.

The trademark immediately raised recognition and demand for the company’s fruit. Gardens of Alma Valley fruit began to

appear in Ukrainian chain stores and wholesalers. In late 2011, the company co-founded the Garden production and trading house, accessing the Russian market. In two years, the company increased sales to UAH 5.5 million. “The standing of our company and our trademark allows us to think about bringing more farmers together and creating a logistical center with necessary equipment for sorting and calibration machines for fruit,” says Valery. This fall, his company is designing a logistical center capable of handling up to 4,000 tons.

With LINC’s help in applying new technologies to vineyard and orchard production, the company’s success is making Crimean horticulture more competitive.



SUCCESS STORY

A well planned impromptu

Economic revival through USAID funded investment attraction strategies development



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Teplodar mayor Leonid Pechersky (second from right) and USAID LINC chief of party Howard Ockman sign a Protocol of Intentions to develop and implement investment strategy. As a result, the mayor says, his city is experiencing “apotheosis in investments.” The mayor is grateful to USAID for that success.

USAID’s support for development of investment strategies in Ukraine led to a complete transformation of Teplodar, a small southern city near Odesa. Once virtually a ghost town, today, Teplodar is booming with investments and economic opportunities, not just for the city but for the entire region.

Telling Our Story

U.S. Agency for International Development
Washington, DC 20523-1000
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A small city near Odesa in the south of Ukraine, Teplodar was once central to Soviet plans to provide heat and electricity to the region through nuclear energy. The Chernobyl disaster put an end to that. When Teplodar mayor Leonid Pechersky took office a decade ago, he said that “the city was depressing – littered streets, water running only for two hours a day, frequent electric power breaks, and a heating season that began in December and ended in January.”

USAID’s LINC project saw an opportunity in Teplodar, whose leadership was determined to bring new investment to the city. From 2009, LINC worked with the city’s government to develop the Teplodar Economic Development Strategic Plan to do just that. LINC supported Teplodar’s membership in the Odesa-Teplodar-Yuzhne Sub-region (also known as the Odesa Agglomeration) and helped the sub-region’s constituent municipalities draft a common competitiveness and economic development strategy. LINC also helped develop a conceptual design for the Teplodar industrial park. These actions prompted Mayor Pechersky to call LINC “the project destined to succeed.”

This success soon came to pass.

Mayor Pechersky proudly speaks of the construction of a modern fats and oils plant expected to create 250 new jobs in Teplodar. He also describes the modernization of the city’s lighting system, partially financed by a Hungarian investor. The biggest success, however, was achieved in June 2011, when Odesa Oblast Deputy Governor Petro Khlytsov signed a \$600 million agreement for the Innovation-Industrial Production Base, with the Chinese firm Qitele Group Co., Ltd., a global producer of plastic toys and playground equipment with markets in more than 20 countries in Asia, Europe, and the United States. According to the agreement, by December 2012, Qitele will have invested \$200 million in their Teplodar facility. And while other Chinese investors are considering their investment strategies, Qitele’s owner is thinking of locating other businesses in Teplodar, such as his textile, footwear, furniture, and logistic warehouses.

Mayor Pechersky is optimistic: "Step by step, we are implementing the Strategic Plan. USAID LINC's work is bearing fruit. Nothing ever happens on a bare place; anything impromptu needs to be prepared."

In a little more than two years, LINC has helped 24 cities, raions, and eight sub-regions in Ukraine develop or implement competitiveness or local economic development strategic plans. Teplodar's success demonstrates how USAID's support for a clear strategy, determination, and cooperation with dynamic local officials can bring long-term results.



SUCCESS STORY

Artisans drive tourism economy

USAID supports artisans in Crimea



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An example of Maria Korniyenko's leather art. The price sticker on the picture is one of recommendations that Maria learned about attending USAID LINC's workshops.

USAID's support for the Crimea's handicrafts and souvenir producers preserves a unique and high-quality offer for visitors on the peninsula, while allowing artisans to generate incomes sufficient for decent living.

In 2010, USAID LINC conducted an analysis of the Crimean handicrafts and souvenir production sector and found it plagued with problems. Many artisans had no legal status and no way to organize. They generally had only a few retailers selling their products and had little dealings with them. Their competition was cheap, lower quality foreign goods. These barriers and their unfamiliarity with marketing made Crimean artisans uncompetitive by Western standards.

USAID LINC's support for Crimean artisans has contributed to the creation of a niche market within the tourism industry, providing many of them with a source of income.

Maria Korniyenko is a 32-year-old craftswoman, trained as a leather tailor, cutter, and training master with passion for painting and drawing. Since she was 19, Maria has worked to perfect her skill in manipulating leather. Today, she creates purses, wallets, handbags, and wall hangings using small, colored pieces of leather. Her products are unique and of high quality. All of her items are genuine, hand-made souvenirs featuring Crimean seascapes. During the tourism season, Maria used to sell between 120 and 150 pieces, but out of season, her sales were significantly lower. So, Maria needed a good marketing to balance her income from her sales. She remembers when she thought she'd have to give up her passion, because she could not earn enough for decent living.

At about this time, USAID LINC started supporting artisans, organizing workshops and seminars, legal and expert counseling, as well as sponsorships for participation in exhibitions and fairs. In partnership with Slow Food, LINC established the Crafts Chamber of Crimea. All these activities are aimed at transferring knowledge, integrating tourism practices on the Crimean peninsula through the production and sale of handicrafts, and establishing links with sellers of souvenirs and other artisan products.

USAID LINC sponsored Maria and many other artisans to participate in exhibitions and fairs and gave them useful tips on how to advertise their work. In Maria's case, this led to

increased sales, new business contacts, and regained self-confidence in her ability to live off of the work she loves doing.

"If not for USAID LINC, I'd still be selling my purses only in the summertime and only on the Feodosia promenade," says Maria. "Since collaborating with LINC, I see how interesting and unique the things I make truly are. I don't have give up my art for the sake of a salary. I can earn money doing what I love."



SUCCESS STORY

Connecting business and science

USAID encourages cooperation between scientists and businessmen in Ukraine



Ukraine LINC Project

Volodymyr Vlasenko, head of the Investment, Innovation and Education Programs at the Kirovohrad Regional Chamber of Commerce and Industry, says the match-making meetings continued USAID LINC's science commercialization initiative. "I like this idea. It's tremendously useful, because it is a direct connection, an exchange." The Kirovohrad Regional Chamber is open to hosting similar events nationally, thus taking advantage of the region's central location in Ukraine.

USAID LINC's initiative to reconnect the scientific and business communities marks its first success and allows a model for future cooperation.

Telling Our Story

U.S. Agency for International Development
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Since the Soviet Union's collapse, the Ukrainian science and business communities have had little to do with one another. At least that's what one would conclude after looking at the latest data in the World Economic Forum's 2011-2012 Global Competitiveness Index. Ukraine ranks 93rd in the world on that index in business innovation and sophistication. Yet it ranks as high as seventh in enrollment in tertiary education, making it one of the most advanced countries in the world.

This lack of cooperation between business and the scientific community is visible on the ground. According to USAID LINC's chief of party, Howard Ockman, "the scientific community does its research without any knowledge of what will work in the marketplace, and businesses struggle, unaware that Ukraine is still one of the richest reservoirs of science and engineering skills."

USAID LINC saw an opportunity to reconnect business with the scientific community by inviting scientists to work on locally relevant research and development projects. In May 2011, while working closely with the Ukrainian Chamber of Commerce and Industry, LINC launched the Innovation Voucher, a program that funds new partnerships between Ukraine's researcher community and the country's small and medium-size enterprises.

As part of the, USAID LINC conducted regional informational roundtables on the commercialization of technology and its use in improving the competitiveness of small and medium enterprises. After these roundtables, "match-making" meetings were held between business leaders and representatives of the scientific community.

Some of the businesses and researchers were so well matched that they were soon ready to implement specific research and development projects. USAID LINC sponsored such "couples" with vouchers of up to \$2,000 to facilitate implementation of these projects.

This match-making was such a success that Ukraine's Chamber of Commerce and Industry recommended that its regional branches should institute a similar program. The Kirovohrad Regional Chamber of Commerce and Industry was among the first to respond.

The Kirovohrad Chamber brought together nine scientists from Kyiv, Kirovohrad, and Odesa universities and 35 local businessmen working in agriculture, food, processing, and biotechnology to identify research and development projects and innovative technologies that modern science can offer and local businesses need and to join

forces to make Ukrainian products more competitive in domestic and foreign markets.

Their work is still ongoing, but the model shows how business and science can work together for the betterment of all.



SUCCESS STORY

Small steps to a better business climate

USAID helps small business owners reduce burdensome regulation



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The Association of Small Hotels of Crimea has more than 102 active members and around 400 potential members from across Crimea. The first successes have encouraged its members, who now feel more empowered to solve the problems they face as small business owners.

USAID's effective work on improving enabling business environment in tourism industry in Crimea helps small hotel owners be more successful and prosperous in what they do and love, while benefiting the local economy.

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Eighty percent of the 5.4 million visitors to Crimea in the summer of 2011 stayed in small hotels. Many of Crimea's small hotels earn most of their annual income at this time of the year. These hotels struggle under the burden of expensive state certification process, taxes, and sudden inspections. Overregulation, limited access to legal support, and corruption hinder further business development. Such reality has already pushed many of Crimea's small hotel owners into shadow economy, which poses additional problem for the region's development.

As part of its efforts to improve the region's business enabling environment, USAID's LINC project supported the establishment of the Association of Small Hotels of Crimea. The Association works to improve the regulatory and administrative environment for small hotels and private guesthouses, protect the rights of hotel owners, and advocate for the interests of Crimean small hoteliers.

The Association's first success was reducing excessive fire safety rules. Another victory came in July 2011 when the Association successfully challenged tourism industry regulators. Citing various laws, regulators had demanded that private guesthouse owners change the zoning status of the land underneath their property from residential to recreational, as if they operated large hotels. The owners were unwilling to do this, considering it unreasonable. USAID LINC's legislative analysis showed that supervisory agencies were wrong: the law required no such change. Working with the Association, the Crimean Center for Legislative Initiatives, a reputable NGO, proposed an amendment to Ukraine's Land Code to this effect. Although the amendment awaits adoption, the Ukrainian parliament's legal department has confirmed the absence of legal requirement for this change in land-use status.

The Association also succeeded in changing the definition of mini-hotels. Historically, profitable small hotels had a capacity of between 15 and 30 beds, but the law defined only hotels with 10 beds or less as mini hotels. Given that 80 percent of Crimea's small hotels were too large to meet that definition and qualify for the tax benefits to which it would entitle them, many fled to the shadow economy. Recognizing the potential in-

crease in revenues from bringing small hoteliers into the formal economy, the Crimean Ministry of Resorts and Tourism, at the Association's request, proposed revising the definition, and the Government of Ukraine approved this in November 2011.

The effect was significant. "Small hoteliers can now run their business as individuals and pay only individual income tax. The owners can invest more and work legally. Sudden inspections, often conducive to corruption, are rare," says Valentyna Marnopolska, chairperson of the Association.

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