



But in the former republics and satellite states, Russian missionary work conjures up nasty historical images.

Venture Capitalists Breach Ukraine's Investment Frontier

Extracts from the Financial Times Ukrainian Voice - Nov 27, 1995

As Hungary and Russia get crowded, venture capitalists are moving into Ukraine, Eastern Europe's last large investment frontier.

The draw is neither a favourable business climate nor a good privatization scheme, but companies in the growing private sector which desperately need investment to expand in the virgin market of 52 million people.

Venture capital in the west typically targets innovators such as computer start-ups in Silicon Valley. In Ukraine, the innovators are often companies that can make or supply western milk or quality beer. One entrepreneur to benefit from foreign investment is Mr. Valentyn Kobylensky, a 38-year-old geophysics graduate. A few years ago he obtained office space from state institutions and rented it to foreign companies. His company, MDMT Group, then moved into supplying western quality foods and pharmaceuticals to Kyiv's new upmarket shops.

Since a distributor constantly needs working capital, MDMT could only grow with outside help. It obtained new warehouse space and expanded from 70 to 120 workers after a \$600,000 investment - equal to a 20 per cent equity stake - by the Ukraine Fund, and \$11.8m venture capital fund started by the Boston-based Claffin Capital management.

Other than consumer goods, the attractive sectors named by western investors are food processing and agri-business.

Ukraine could be the next port of call for western textile or furniture producers. Export-based light manufacturing has already moved from central Europe to the Baltic countries as manufacturers chase low labour costs.

While the Ukraine Fund works only with start-up companies, the new and bigger \$150m Western NIS Enterprise Fund will also seek to invest in former state-owned companies. Mr. Scott Carlson, president, says that since many entrepreneurs "still treat the place as their own freedom," his fund "demands the ability to remove the management if it doesn't perform".

Overall, cumulative foreign investment in the first half of 1995 totalled \$556m - a disappointing \$10 a head. Mr. Carlson says a reasonable tax system, faster privatization and a streamlined bureaucracy are needed to increase capital flows into Ukraine.

Ukraine also needs, to develop its capital markets. At present only four companies trade on the Kyiv stock exchange. Kinto, a Kyiv investment house, this year set up a \$5m fund

that invests through the voucher-based privatization scheme.

Yet many investors argue that in an undeveloped economy such as Ukraine's, the stock market cannot provide the necessary financial investment and corporate governance to companies with limited resources and experience.

"We're all trailblazing here," says Mr. Jaroslav Kinach, resident representative of the European Bank for Reconstruction and Development, which has committed \$225 million to projects in Ukraine. "If business is to thrive here, it needs capital."

Ukraine stands as a bulwark of stability before Russia

Ukrainian News Editorial Jan. 2, 1996

What is most surprising about the elections to the Russian Duma is not that Gennadiy Zyuganov's Communist Party of the Russian Federation took the largest number of votes for the 225 seats that are determined by party lists - but that fascist Vladimir Zhirinovskiy's grossly misnamed Liberal Democrats, are in second place.

Many pundits had once again written off "Mad Vlad" - as they did in the 1993 elections when he got 23 per cent of the vote. They assumed that his antics since then - beating up a female deputy in the Duma, throwing water at opponents on television shows, repeated threats to expand the Russian Empire from Finland to Alaska, insults to just about every other nationality and ethnic group, and practicing just about every form of anti-social behaviour imaginable - would alienate him from the people. But they were wrong again. For some strange reason, which lies in the heart of the Russian soul, Zhirinovskiy strikes a cord with the populace.

This is most frightening.

We may take comfort in the fact that, under the present Russian constitution, power lies not with the parliament - but with the President. However, presidential elections are only six months away. Boris Yeltsin is ailing both physically and politically. Nothing has discredited his presidency more than the unnecessary and brutal bloodshed in Chechnya.

Yeltsin is finished. Were he to run, he would go down to inglorious defeat. The best thing he could do for his country at this time would be to step aside and let Prime Minister Viktor Chernomyrdin run - if the centrist forces are to have a fighting chance.

Even so, there is no guarantee that the forces of moderation can carry the day. Chernomyrdin and reformer Gregoriy Yavlinsky ran third and fourth in the polls respectively. If these elections can be considered a dress rehearsal for the presidential sweepstakes, then both Russia and the world have to face the frightening prospect of a run-off for the presidency of the world's largest country - and

a nuclear power to boot - in which the choice would be between a communist and a fascist. This should be a wake-up call for Russia's fractious democrats. By far the best hope for the democrats is Yavlinsky. Unfortunately, his personality clash with Yegor Gaidar only serves to further split the democratic vote. Gaidar should see the writing on the wall and form a coalition with Yavlinsky before its too late.

Zyuganov has attempted to sound like a moderate. He has promised not to start a massive re-nationalization of newly-privatised industries. Yet he has also called the "voluntary" revival of the former Soviet Union. The question which immediately arises is which country (besides Belarus) would "voluntarily" decide to join a new Russian Empire. Kazakhstan, with its newly acquired oil resources, is not interested. Ukraine, Communists notwithstanding, is appalled by the prospect and has even gone so far as to publicly chide Belarus for its drift.

Any attempt to revive the USSR depends upon Ukraine and this is where the problems are most likely to arise. But the Ukrainian Communists who are advocating such a step are finding that this is increasing their alienation from their Agrarian and Socialist allies in parliament. Furthermore - in direct contrast to electoral trends in the rest of Central and Eastern Europe - Ukraine's Communists are steadily losing support.

Ukraine's Communists peaked in the first round of the parliamentary election in 1994 when they won the largest bloc of seats and when Leonid Kravchuk was still the president. In the three subsequent rounds of by-elections they have lost to independents favoring the centrist and reforming factions every time. In the Dec. 10 (1995) round, only one of the seven candidates elected was a Communist, or allied with the Communists. The other six were independents who favor the Centre or Reforms factions. This trend is likely to continue in the Dec. 24 run-offs which may also see some Rukh standard bearers elected (the best bet is U.S. citizen-turned Ukrainian citizen Roman Zvarych). This will further erode the Left's hold on parliament and may even result in a pro-reform majority.

The elections in these two countries only serve to accentuate the fundamental differences between their two political cultures. While Russia yearns for its barbaric historical tradition, Ukraine is increasingly looking towards the democratic West for both direction and orientation.

The election of a communist or fascist as president of Russia will only exacerbate conflicts between Kyiv and Moscow. But it will also strikingly bring to the forefront Ukraine's key geopolitical and strategic role. It may take another generation before Russia is ready for democracy, but the roots have taken ground in Ukraine and are beginning to grow.

Ukraine remains a bulwark of stability in the face of Russia's tendencies towards autocratic extremes. This bulwark must be supported and maintained by the major powers if peace and stability in the region is to be preserved.