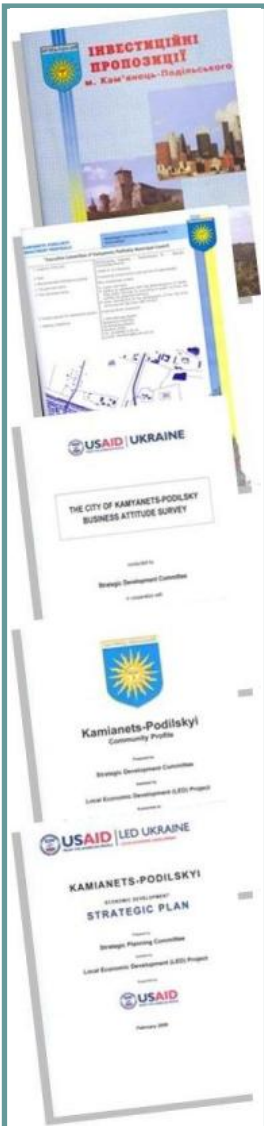


SUCCESS STORY

THE MORE TRANSPARENCY THE LESS CORRUPTION, AND THE MORE MONEY FOR COMMUNITY

Well-promoted right-to-lease auctions in Kamyanets-Podilsky attract better bidders and speed up inflow of money



On Nov. 1, 2006, less than two weeks after the final hammer struck and accorded PAKKO the right to lease a land plot in Kamyanets-Podilsky, Khmelnytskyi Oblast, the company was remitting the first of two installments totaling UAH 3.6 million (approx. \$713,000) in contribution to the city's Social and Economic Development Fund. "It's just a purely technical procedure of transferring money," says Oleh Serhiyenko, deputy director of the PAKKO Expansion Department.

Lutsk-based Corporation PAKKO, the owner of a super- and hypermarket chain of stores under names of Vopak and PAKKO, was invited to attend an investment fair, held in Kamyanets-Podilsky on Oct. 13, 2006. That was how they learned about the 1.5 hectare greenfield offered by the city for construction of a supermarket. Having studied information prepared by the company's analysts, as well as that provided by the city, PAKKO became one of seven bidders at what the city calls "uncommercial bidding," which took place in a week, on Oct. 20. The company won at a bid that exceeded the "initial price" of UAH 100,000 by 36 times!

What the city auctioned was not the land per se. Neither was the best bidder determined by the highest rent offer. Rather, Kamyanets-Podilsky sold the *right to lease the plot with an option to buy it in three years* in exchange for the highest contribution to the Social and Economic Development Fund, which is part of the local capital budget. As for the rent, the winner will pay it as a matter of course, at least UAH 85,000 for the plot per year.

Speaking at a recent conference on the land investment potential, Kamyanets-Podilsky Mayor Oleksandr Mazurchak said the fund had been created to avoid a situation when investors buy land not for construction but just to place idle money. "We lease out land for three years with a schedule: within one year, you have to complete the design stage; within the second year, the investor has to come with the structure up to roofing; and within the third year, he has to commission the facility," the mayor said.

Only then the investor may buy the plot, which now becomes more expensive due to the value added by the development.

But that is not the whole story. According to Viktor Kravchuk, head of the Kamyanets-Podilsky Land Resources Department, auctions where the winner is the bidder who agrees to pay the highest rent are not always good to a community. First, the city receives only 75 percent of the rent, and 25 percent go to the state coffers. Second, the investor starts paying rent only after the design is developed, agreed upon, and approved, which may take between six and ten months. Moreover, the rent is paid monthly. "That is why we devised such a condition: contribution toward development of municipal infrastructure," says Mr. Kravchuk.

Now, with the Social and Economic Development Fund, every percent of the contribution – actually paid in consideration of the right to lease a land plot – belongs to the city, which may spend this money at its own discretion. "It is not the first basket, and we have no obligation to spend the money on wages. With this money we can repair a road, buy an ambulance, etc. A lot of things," Kravchuk said. He stressed that such a contribution, which is quite a large amount, comes within one or two months, almost like a lump sum.

The officer also mentioned another very important aspect of auctioning. "Take for example PAKKO, which paid UAH 3.6 million. Could you believe that there is any room for corruption? That they will also pay anything to officials? Never! Because having put out an amount like that openly, they will never pay anything to anyone anymore – just no need," he concluded.

At the land conference, Mr. Mazurchak also emphasized that proper promotion and organization are required for an auction to attract many serious investors, and cited the investment fair on Oct. 13, which had gathered potential investors from 26 countries.

Information distributed among visitors of the fair included a catalogue of Investment Proposals and three documents produced in Kamyanets-Podilsky with assistance from the USAID Local Economic Development (LED) Project: the Economic Development Strategic Plan, the Community Profile, and the Business Attitude Survey – all in Ukrainian and English.

According to Kravchuk, this helped considerably to achieve the 36-fold increase up from the initial price at the auction. Serhiyenko confirmed that the company took into account information in the three documents, and paid attention to the fact that the city is a tourist destination and wants to develop the tourism industry in the future.

Kamyanets-Podilsky is one of the cities that worked out its strategic plan in close collaboration with the USAID LED Project. According to the plan, the city will focus on three so-called critical issues including tourism development, SME development, and investment attraction. Objective C.1.3 of the plan provides for conducting regular investment fairs and forums in the city.

USAID's Local Economic Development Project aims at helping Ukrainian cities strategize and organize their economic potential to produce more jobs and increase investment. As of Nov. 1, 2006, the project has assisted 16 cities in elaborating their Economic Development Strategic Plans, and is lending them a hand with implementation of the plans. Ten more cities are currently preparing their strategic plans or investment attraction plans with assistance from the USAID LED project.