Russian offensive aims to break Ukraine, exploit internal weaknesses; biggest investment in Ukrainian history; Ongoing search for a new General Prosecutor

Your inside partner in Ukraine

KI INSIGHTS WEEKLY REPORT

Monday, November 4

Welcome to Insights – your glimpse into the undercurrents of Ukraine's political and business scene! In this week's report:

- **Rada accepted Prosecutor General Andrii Kostin's resignation amid a disability fraud scandal.** Kostin's replacement is likely delayed until late Nov., pending a new US president-elect and mobilization of Rada votes. Leading candidates incl. Oleh Kiper and Ruslan Kravchenko
- **The Oct. 22-24 BRICS summit in Kazan fell short of maximalist goals, as members remained divided on anti-Western alignment.** Putin's peace proposal for Ukraine didn't materialize. Secretary General Guterres' attendance further discredited the UN
- President Zelensky introduced **a domestic action plan to face increasing resource strain on the frontlines** – meanwhile, Russian advance hopes to exploit Ukrainian weaknesses and break resolve before a new US President takes office
- The biggest investment in Ukraine's history: **OKKO Group is constructing a ski resort worth $1.5 bn in Lviv Oblast**
- **Ukraine is ramping up election preparations, signaling growing expectations for a winter/spring ceasefire** (a long shot, in our view), with Sluha Narodu aiming for an accelerated vote to catch the opposition unprepared and avoid a chaotic, drawn-out process

WHAT'S THE BUZZ

Rada approved the resignation of Prosecutor General Andrii Kostin. He stepped down last week amidst a corruption scandal involving fraudulent disability claims among prosecutors. In Khmelnytskyi and Cherkasy Oblasts, where more than a quarter of all prosecutors claim disability status. On Oct. 22 President Volodymyr Zelensky signed a decree to dissolve the Medical and Social Expert Commission (known as MSEK), responsible for these assessments.

An investigation into Tetiana Krupa, Head of the Khmelnytskyi Regional Center for Medical and Social Expertise, uncovered nearly $6 mn in cash, along with numerous valuables, real estate, and vehicles in her family's possession. Documents found during the search implicated her in issuing fraudulent disability certificates. Krupa is now in custody in Kyiv.

Prosecutors sought disability status to gain legal benefits. This status allowed them to receive 60% of their salary as a disability pension, which continued after retirement. It also protected them from being transferred to another region.

OUR VIEW:

Kostin's resignation has been a long time coming – his replacement was discussed on senior levels, per sources, for at least 3 months. The recent scandal is mostly an excuse, in our view, but has not resolved the issue of who should step in instead.

One of the key issues, per sources, was the perception of Kostin's weak record on prosecuting oligarchs and opponents. In particular, we believe the Office of the President (OP) would be keen to see the case against former President Petro Poroshenko finalized (likely a key task set for the new General Prosecutor), and Poroshenko neutralized as an opposition leader.

The two leading candidates to replace Kostin are Oleh Kiper, believed to be the preferred option of OP head Andriy Yermak, and Ruslan Kravchenko (seen as close to OP deputy Oleh Tatarov). Kiper is head of the Odesa Oblast Military Administration, Kravchenko holds the same position for the Kyiv Oblast administration.

Despite being a Yermak favorite, Kiper has reputational issues due to i.a., his implication in manipulation of grain exports, a possible ski vacation in winter 2022 and his wife's Russian passport. It is worth noting that Oleksiy Khomenko, currently acting General Prosecutor, has also faced criticism for his wife's connections to ex-Ukrainian MP and current Russian Senator for Astrakhan Andrii Derkach. (Note: there have also been complaints about Kravchenko's time as Bucha district prosecutor, notably regarding pressure on local business and corruption).

In addition to the two names above, several alternative candidates have been floated for the position – which has a significant impact on the implementation of the rule of law. These include Serhiy Ionushas (an MP and former lawyer, whose firm served the president's Kvartal 95 Studio), Iryna Mudra (deputy OP head) and David Sakvarlidze (a former deputy General Prosecutor).

The selection of a new prosecutor will likely be delayed by two factors: the need for rally votes in the Rada (the post is filled by the President, but with Rada consent), and input from the incoming US administration (this role has historically been especially sensitive – see the previous case of General Prosecutor Shokin, among others). This would make a late-Nov. appointment likely. We see Kravchenko as the more likely option, but the field remains open.

Kostin has long been seen as aiming for a post in the Netherlands, either as ambassador or representative to the International Criminal Court, with the goal to focus on war crimes prosecution.

The Oct. 22-24 BRICS summit in Kazan fell short of Putin's maximalist goals. However, Russia still managed to project an image of international engagement, primarily for its domestic audience. According to Moscow, 36 world leaders were participating in the conference (though the actual attendance appeared to be lower based on limited photo and video evidence).

Putin and Xi held lengthy talks, with Xi accompanied by an unusually large ministerial delegation. Their discussions likely extended beyond BRICS matters. China may be concerned about Russia's use of North Korean soldiers in Ukraine, as this contradicts China's stance and could destabilize the Korean border region.

Russia's planned initiatives for this summit failed to materialize, and the final declaration lacked substance. There was no unity within BRICS regarding the organization's role or its further expansion. While Russia and China envision the bloc as anti-Western, Brazil, India, and to a lesser degree South Africa prefer to maintain a neutral stance (which has positive consequences for their trade and investment).

Turkey is the most likely candidate to join BRICS next, while Argentina has declined the invitation. Saudi Arabia remains uncertain about its status in the organization. Russia's attempts to establish an alternative international payment system and dispute resolution mechanism failed to gain traction. Furthermore, summit attendees faced payment difficulties in Kazan due to Russia's exclusion from SWIFT.

The final declaration barely mentions Ukraine. Putin's anticipated presentation of a new peace plan to counter Zelensky's Victory Plan did not materialize. Instead, the declaration merely alludes to "various proposals" for conflict resolution.

The biggest surprise was UN Secretary-General António Guterres' visit to the summit. In his speech, he called for a ceasefire and emphasized the need to respect sovereignty, mentioning both the wars in Ukraine and Gaza, a comparison Russia often uses to build anti-Western narratives. Ukraine's Foreign Ministry criticized Guterres for attending the BRICS summit, especially since he had declined Ukraine's invitation to the Peace Summit in Switzerland. Reports suggest a Guterres visit to Kyiv was canceled after the BRICS summit.

OUR VIEW:

Despite not reaching maximalist goals, we believe it would be excessive to call the summit a failure. Russia has set a clear direction of building an anti-Western bloc and has managed to attract some support (albeit mostly from marginalized players). Nonetheless, North Korea joining the war, the continued economic and diplomatic engagement with Russia and shortcomings on Western sanctions give credence to the viability of the anti-Western wing.

Moreover, the recent use of South Africa as a platform for Russia to launch legal cases against US tech giant Google (specifically, their YouTube subsidiary) demonstrates creative and asymmetric tools remain available to Moscow.

The West finds itself on the back foot, uncomfortable in validating Russia-linked initiatives but fearing to alienate countries into joining the anti-Western bloc. The recent elections in Georgia, which saw a victory of the Russia-leaning Georgian Dream in a vote marred by violence and fraud, are a case in point. The preliminary OSCE statement, supported by Western states, remarked that "[e]lection day was generally well organized procedurally and orderly" – recognition of fraud would likely extend a freeze on EU integration.

We believe Guterres' presence was motivated by the fact that Russia is a Security Council member and the UN's attempts to redefine itself in a world where the Global South – poorly represented on said council – is challenging the post-WWII order. It does, however, underscore that hopes for a positive UN role in the Russia-Ukraine war is unfounded.

In the summit's aftermath, Ukraine is actively engaging with some of Russia's key BRICS partners. Zelensky has expressed openness to incorporating China's and Brazil's proposals into his peace formula. In a "Times of India" interview, he suggested that PM Modi could help end the war by hosting the next peace summit, to which Russia would also be invited.

THE LONG GAME

Russia is ramping up pressure on Ukraine's frontline and cities in a push to break morale. Over the past months, critical areas along the frontline have faced resource strain, particularly in manpower, to effectively fend off Russian advances, with recent weeks seeing record amounts of land captured. Positions in the Pokrovsk direction, which should be manned by companies, are left with small squads, leading to a reliance on artillery firepower and FPV drones.

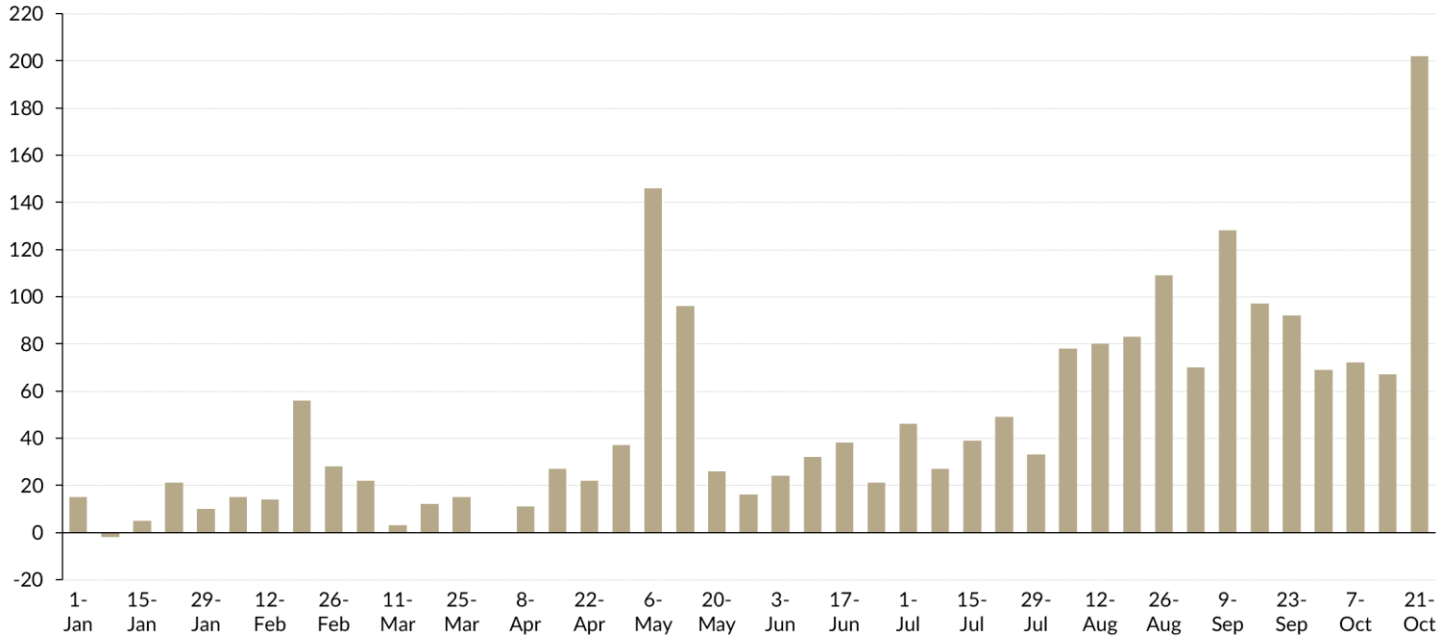
The situation is worsened by the use of Russian glide bombs that damage defensive structures, concuss soldiers, and hinder both supply routes and evacuation of the wounded. Consequently, soldiers often remain in positions for extended periods, compounding physical and mental stress.

The long frontline stretches Ukrainian resources thin and risks creating gaps in defense, which Russia seeks to exploit by timing its offensives in weakened zones. This pressure is increasingly forcing Ukraine to rely on new brigades. However, due to rushed training and equipment limitations, the readiness of these brigades is not ideal, adding to the challenges of maintaining a robust frontline defense.

Hindered by training and mobilization issues affecting both new and established units, the Ukrainian military struggles to replenish its ranks effectively, leading to a concerning reduction in operational capacity, with some brigades operating at 20-25% strength. Russia, meanwhile, benefits from a large resource pool, allowing for a more forgiving margin of error. This imbalance forces Ukraine to focus on attritional tactics rather than offensive ones, yet Ukraine's systemic challenges limit these strategies' effectiveness.

In parallel to the military offensive, it should be noted that attacks against civilians, notably residential buildings, have spiked – Kharkiv has been especially hard hit, but cities all over Ukraine have faced increased bombings, likely aimed at pushing Ukrainian society to the brink.

Weekly Ukrainian Territorial Losses/ Gains in 2024 (sq.km)



Source: Bloomberg Intelligence, DeepState

OUR VIEW:

Ukraine is running two parallel campaigns to address ongoing military challenges. The external-facing effort is focused on securing critical support, i.e., "what Ukraine gets" (which is arguably progressing), and using available resources more effectively, i.e., "what Ukraine does" (which has lagged).

Despite the general criticism of Zelensky's "Victory Plan" being an unrealistic wishlist, we believe this aligns with the general cadence of the full-scale invasion – with seemingly impossible asks being delivered after several months. Further, we believe the focus on securing elements that can act as security guarantees is correct.

The shortcoming of the "Victory Plan", as has been pointed out by military journalists and bloggers, is that it ignores the second leg – namely Ukraine's ability to address military leadership issues, reallocate resources, and carry out better planning (incl. in building fortifications).

It also does not address the biggest challenge – the shortage of manpower, which has become more acute, per sources, after mobilization figures dropped in mid-Sept. This is further exacerbated by reports of rising desertions and new units' refusals to fight. (Note: some of the French-trained units, previously thought to be held back for planned offensive actions, have already been fed into defense, per sources).

These issues are likely the focus of Zelensky's "internal action plan". Based on limited sources (pending further verification), a key element is an audit of units and deferments to identify dodgers – with a potential cancellation of all deferments and re-issuing of new ones being considered (we see this as technically challenging, but possible).

The frontline situation has a direct impact on potential negotiations, as Russia is likely to increase its demands to untenable levels, hoping Ukraine has no option but to capitulate. The current offensive is likely also timed to strengthen Russia's position ahead of the new US administration, which will need to deal with "facts on the ground".

It is worth noting that we do not currently see significant interest or activity in backchannel negotiations (although prisoner swaps are ongoing). A notable exception is an informal attempt to trade a Western refusal on long-range strikes in exchange for Russia not targeting what is left of Ukraine's energy grid (especially nuclear plant substations).

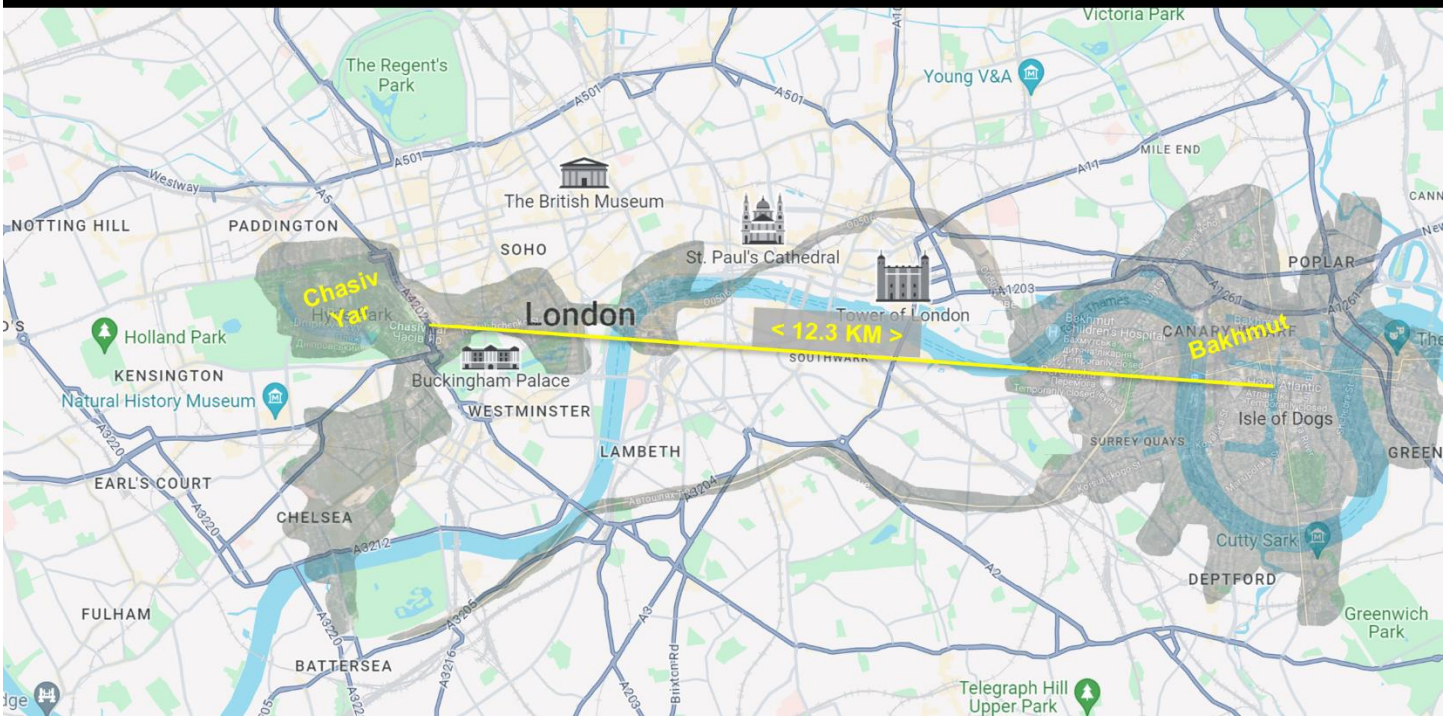
This agreement is believed to be in process of formalization with Turkey serving as a mediator (note: we are unclear to what extent this process is formal and advanced), a rumor that was fuelled by the recent visit of Foreign Minister Andriy Sybiha to Turkey.

However, we believe that Turkish President Recep Tayyip Erdoğan (he reportedly has a new peace plan) is actively looking to regain the initiative in mediating a potential deal.

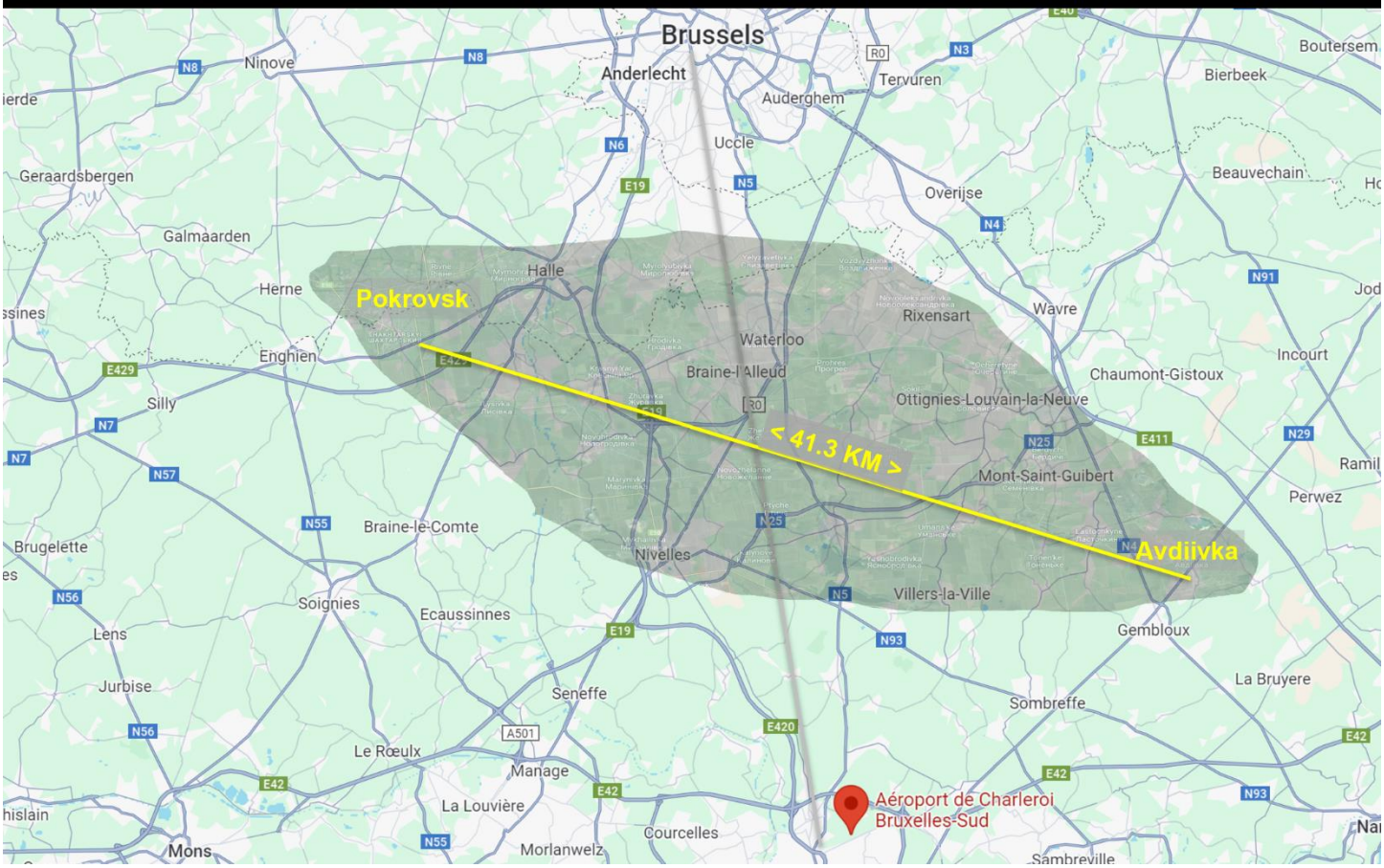
Although the frontline situation is very challenging, it is worth noting that Russia has expended tens of thousands of KIA/WIA for what amounts to be relatively small pieces of land (albeit with some economic and significant political value).

Thus, we see a collapse of Ukraine's frontlines and rapid Russian advance as relatively unlikely (there are too few troops to manage this). If Ukraine is able to hold through the winter, its negotiation position would likely improve, as the pace of Russian advances is untenable. (Note: pressure from a new US administration can affect the calculus).

Bakhmut-Chasiv Yar advance overlaid on a map of London



Avdiivka-Pokrovsk advance overlaid on Belgium



WHERE'S THE MONEY

Potentially Ukraine's biggest investment in history: a gas station network aims to build a ski resort in Western Ukraine. OKKO Group started construction of the Goro Mountain Resort near Slavske. OKKO is investing $500 mn and plans to attract an additional $1 bn from external investors.

The resort is set to open for skiing in the winter of 2026–2027, with plans for full completion by 2039. It is envisioned as a premium destination to rival Bukovel, Ukraine's leading ski resort. The resort will span 75 kilometers of ski slopes. Full slope coverage with artificial snowmaking aims to ensure a 90-100-day annual ski season, mitigating climate change impact. The project was first announced 8 years ago but delayed.

The construction is supported by a partnership with the Ukrainian government through the "investment nanny" initiative, providing expedited land allocation and tax exemptions to enhance the project's viability. CEO Vasyl Danylyak noted that OKKO has strategically centralized

its land ownership, avoiding complications seen at other resorts where multiple landowners often led to uncoordinated development.

Beyond tourism, OKKO is diversifying into renewable energy, agro-financing, and bioethanol production, with ongoing investments in each direction. Despite challenges from Ukraine's shrinking fuel market due to population displacement, OKKO has expanded operations by renovating fuel stations, establishing rapid EV charging stations, and targeting growth in non-fuel retail.

OUR VIEW:

Despite the war, investor confidence in Ukraine is slowly rising. Foreign investment in Ukraine has continued to grow in 2024, a signal of the country's perceived resilience and post-war potential. So far, Ukraine has seen 36 mergers and acquisitions (M&As) worth $643 mn, marking a small increase from the previous year.

Key sectors driving this growth include technology, energy, agriculture, and infrastructure. Noteworthy deals include a $600 mn merger between Lifecell and Datagroup-Volia, backed by Western financial institutions, signaling interest from Europe and beyond in Ukraine's tech market potential.

The agriculture sector has also been a significant draw, as Saudi Arabia's SALIC invested $54 mn in Ukrainian farmland. This reflects an uptick in agricultural M&As aimed at securing food production capabilities amidst global supply chain disruptions.

Ukraine's energy market, too, remains a focal point for both domestic and international investors, with Ukrainian energy company DTEK expanding its renewables portfolio abroad. Meanwhile, renewable energy projects within Ukraine continue to receive funding, as part of the broader effort to modernize energy infrastructure.

OVERHEARD IN KYIV

Preparations for elections in Ukraine continue to ramp up, signaling growing expectations that a ceasefire could happen over the winter. If this were to happen, sources indicate that Sluha Narodu's leadership wants to carry out an accelerated vote to catch the opposition off guard and prevent an extended and chaotic campaign.

This is the third time at least that elections expectations rise up in a meaningful way. However, while the previous two bouts of election fervor saw prospective MPs and presidential candidates hire political consultants and communications specialists (and carry out some minor "inventorization" of their local branches, checking who is still active, in the country etc.), this round goes further.

Per sources, multiple party leadership teams (incl. the formerly Russia-leaning ex-OPZZh members) have reviewed their membership rosters and passed on instructions to start planning local campaigns.

Meanwhile, there is a deal of public activity – ex-President Petro Poroshenko is showcasing military donations on TikTok on a quasi-daily basis, while ex-PM Yulia Tymoshenko took a page from Trump's book and appeared at an Odesa McDonald's (albeit not as staff).

Pre-election populism has also been attributed in the case of Zelensky calling on the Cabinet to distribute 1,000 UAH (~$25), to be spent on domestic goods and services, to every Ukrainian before Dec. 1. While this may be the case, we believe it is also likely meant as a nod towards Ukrainian businesses and to distract from a streak of negative headlines.

As previously noted, we do not see significant progress in backchannel talks or Moscow's calculus (with the exception of a potential Turkish energy deal, see Long Game). Russia is advancing at its fastest pace in over a year, Ukraine's energy infrastructure is degraded and society is dispirited by close to 1,000 days of full-scale war. Rather than letting up, it makes sense for Moscow to press its advantage to secure more damaging terms for Ukraine.

Hence, we believe the current frenzy is driven by a combination of confirmation bias/ wishful thinking and the push by Western leaders to find a diplomatic solution (wrongly interpreted as there being a real scenario for peace).

In the case of the Zelensky team, we believe current activity is rather a sign of contingency planning and implementing the ongoing policy of removing potential challengers (note: we believe this raises chances for military intelligence head Kyrylo Budanov to be ousted or moved to a less "comfortable" position before spring).

However, a deal is not impossible – although current conditions would likely be poor for Ukraine (especially in case of a Trump victory). Russia might agree to a freezing of current lines coupled with some internal changes (delayed ratification of neutrality in the constitution, no NATO, limits on Armed Forces size...).

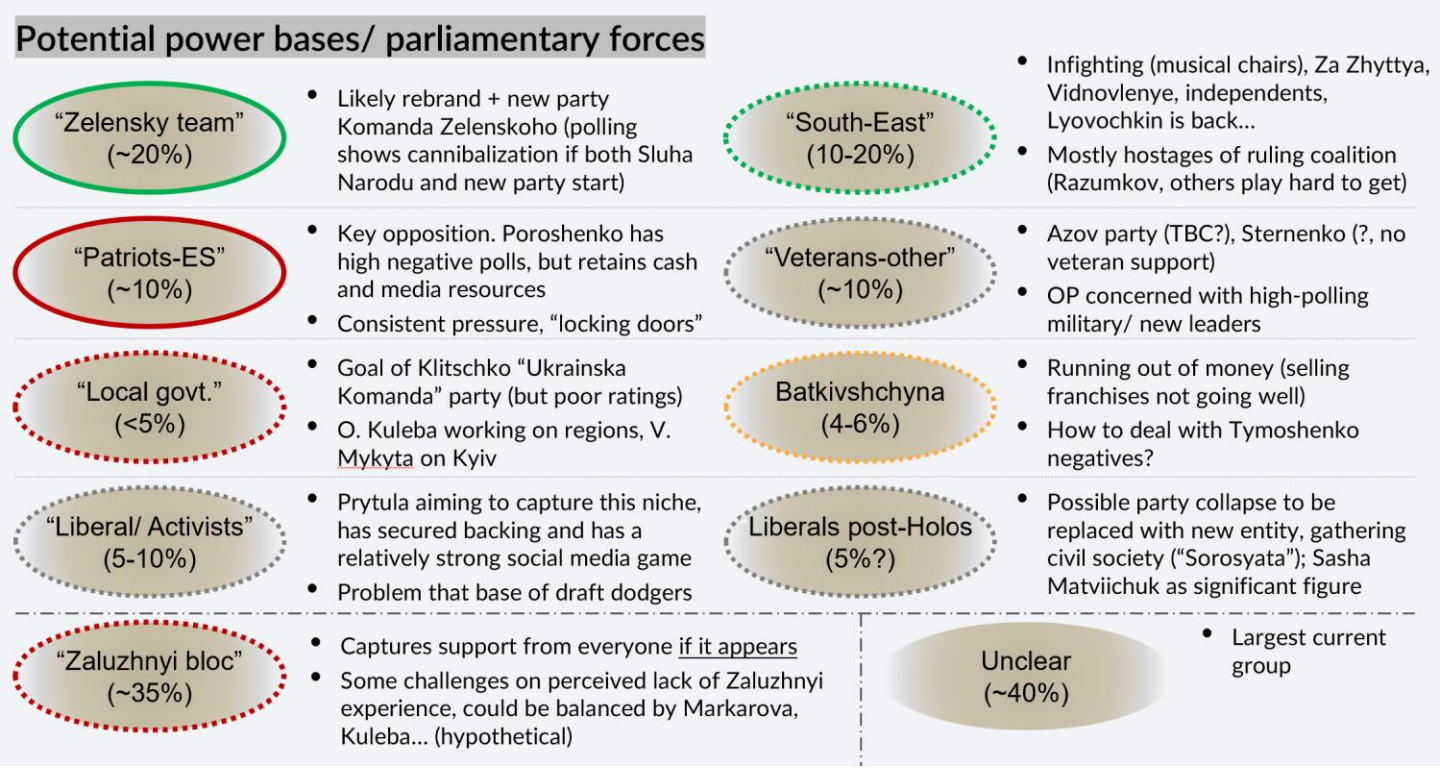
We believe Russia wants to remove Zelensky and/or weaken his position. In turn, as previously noted, Zelensky needs to blame any losses or bad ceasefire terms on a failure of the West. This is a risky strategy, as already significant resentment/ disenchantment with the West among Ukrainian elites could turn into a lasting political movement.

Holding elections during martial law is constitutionally prohibited. A potential accelerated timeline could mean elections are announced sooner than the maximum 30 days that is mandated from when martial law is suspended. The campaign has previously been expected to take 6 months, but 4-5 may be possible. It is worth noting an accelerated timeline would be "less democratic" (reduces the ability of the opposition to campaign), which would lead to manageable criticism from the West and some parts of civil society.

Confidential polling of hypothetical parties (Sept. 2024 data), seen by KI Insights, suggests that a Valerii Zaluzhnyi bloc has 26.5% of support (equivalent to 35.2% after undecideds and non-voters are removed), followed by a Zelensky bloc (17% and 22.6%, respectively), a Poroshenko bloc (7.6% and 10%), a Razumkov bloc (5.4% and 7.1%) and a Tymoshenko bloc (4.4% and 5.8%). Other forces were below the 5% cutoff.

On the presidential side, Zaluzhnyi leads with 25.9% in the first round (adjusted to 32.6%), followed by Zelensky (21% and 26.4%), Poroshenko (7.1% and 8.9%) and Razumkov (5.3% and 6.6%). A runoff would break for Zaluzhnyi 65-35 in valid votes. However, as Zaluzhnyi has refused to make any announcements and has not built meaningful campaign infrastructure, we believe an accelerated timeline could level the field.

Below is an overview of the political landscape based on several confidential polls and input from several political consultants working with the parties in question.



THE WEEK AHEAD

All eyes are on the US presidential election, Nov. 5, which remains a toss-up with a slight edge for former President Donald Trump. Regardless of whether Trump or Vice President Kamala Harris emerges victorious, Republicans are poised to capture the Senate and potentially the House. For Ukraine, this presents a dilemma: Trump's win might lead to unpredictable policies, while Harris's victory could see gridlock over domestic issues.

If Harris wins, she may face Senate obstruction centered on opposition to Ukraine support. Meanwhile, contested results could spark civil unrest, likely less severe than "January 6" but enough to divert attention from Ukraine.

Trump could find himself in a much more powerful position than during his previous presidency, with control of both houses of Congress, the Supreme Court and a party that has been remade based on loyalty. This would enable uniquely decisive action – both a risk and an opportunity for Ukraine.

Although both Trump and his Vice Presidential candidate J.D. Vance have publicly described plans/ actions that broadly align with Russian interests. Private conversations with President Volodymyr

Zelensky have been more favorable to Ukraine – both according to Zelensky himself and KI Insights sources.

Based on reports of those conversations, we believe Trump wants to secure Russian neutrality in a US-China conflict and is ready to acquiesce to some of Moscow's demands, but would look to safeguard Ukraine's currently controlled territory and sovereignty. We see this as generally unrealistic (especially attempts to pit Russia vs. China) and of limited value in predicting how Trump-led negotiations would play out.

Potentially important Trump advisors on the issue include Richard Grenell, Robert O'Brien, Elbridge Colby and Mike Pompeo. Grenell's past role as Trump's Balkans envoy – and the various real estate and other deals involving Trump son-in-law Jared Kushner that followed – have raised hopes among senior Ukrainian officials that a "deal" can be made.

Meanwhile, Europe is developing a new security framework, with Macron leading the initiative. While Macron has privately said he is open to Ukraine's potential inclusion, per sources, offering some hope, the effectiveness of this structure compared to NATO remains uncertain, and Ukraine would likely face that same German opposition as with NATO.

A closed-door meeting took place in the Verkhovna Rada with military leadership, aiming to inform MPs' perception of the dire situation at the front. In the past week, Russia has seized an unprecedented 200 square kilometers, and the intensified offensive is causing disillusionment in government circles. Considering the current outlook and public mood, this topic is likely to feature prominently in public communications in the weeks ahead.

The Asia-Pacific Economic Cooperation (APEC) Summit will convene in Peru on Nov. 10-16. It will be a prelude of sorts to the G20 summit in Brazil on Nov. 18-19. Both meetings will likely explore the path forward for the "Global South" – with options including coalescing around anti-Western positions (Russia's goal), constituting alternative but cooperative blocs and limiting integration overall.

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