

VIRTUAL ASSETS

2030

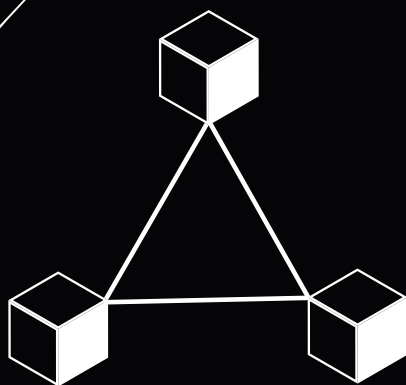
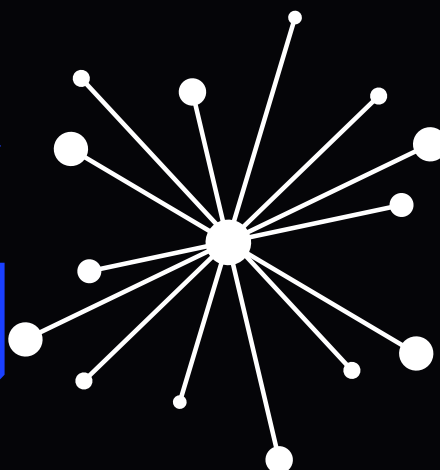
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FORESIGHT: VIRTUAL ASSETS IN UKRAINE – 2030
REPORT

SUPPORTED BY



Ministry
of Digital Transformation
of Ukraine

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FORESIGHT EXECUTIVE SUMMARY

1. RESEARCH PURPOSE AND FORMAT

The foresight “Virtual Assets in Ukraine 2030” is a study of the industry (ecosystem) of virtual assets in Ukraine, its place and prospects in Ukrainian economy and on the global market. It was held from March to June 2021 and brought together a wide range of experts, including entrepreneurs, researchers, MPs, and public officials (representing regulators, the Ministry of Digital Transformation of Ukraine, law enforcement agencies, etc.).

The foresight was initiated by the Ministry of Digital Transformation of Ukraine with the support of the INNOVABRIDGE Foundation within the framework of the Swiss-Ukrainian E-governance for Accountability and Participation (EGAP) program funded by the Swiss Government.

The purpose of the foresight is threefold:

- To form a **common vision** of the development of the virtual assets industry (ecosystem) in Ukraine, taking into account the interests of different stakeholders and the views of different economic schools.
- To develop a **strategy for joint action** to optimize the trajectory of ecosystem development.
- To create a **community as a subject of implementation** of this strategy based on trust and shared vision.

The research was conducted using the foresight methodology, which combines a number of research and management activities aimed at forecasting and constructing the future based on a combination of objective analysis and subjective predictions. Foresight is not a purely scientific methodology, because it has a managerial purpose and answers not only the question “what will happen?”, but also “what should we do?” Thus, it is openly aimed at the interests of certain actors.

The essence of the methodology of this study is as follows. A foresight is built within a time frame of 10 years. In the course of the research, experts identify several dozen main trends that will shape the future of the Ukrainian virtual asset ecosystem during this period, and the quality of their impact on it (primarily the impact strength and invariance/variability). Invariant trends shape the inevitable future, which will occur regardless of the actions of management entities and is included in all scenarios of a possible future. Variable trends complement the inevitable future, creating a scenario space for a possible future. Thus, which scenario of the possible future is realized depends on the decisions of management entities and their impact on variable trends. Then, the foresight participants discuss it and come to a common vision of the desirable future, finally develop a road map of common actions, and create working groups for the first steps on this road.

The foresight was carried out in six stages:

- The first live session (61 participants). At this stage, the participants were introduced into the methodology, outlined the framework of the study, identified the subjects, major trends and drivers, and put forward hypotheses for testing (March 9, 2021).
- Online session (30+ participants). Discussing and clarifying the results of the first session (April 14).
- Expert survey (107 participants), analytical work to involve more experts and people “out of the information bubble” (April 2021).
- The second live session (54 participants). At this stage, the participants discussed the main value stretch and agreed upon a common vision of the desirable future. Then, the road map was developed and working groups were formed (May 13, 2021).
- Preparation of an open report. The participants contributed by their amendments, quotations, and notes (June 2021).
- Presentation of results, reflection on the study (July 2021).

2. KEY TRENDS

To identify key trends that will determine possible future scenarios, the experts were divided into 8 groups:

- World politics, international relations.
- World economy, international trade and finance.
- Ukrainian politics, law, regulatory sphere.
- Ukrainian economy, domestic market.
- Society, ethics, culture.
- Information technology.
- Technologies outside the field of IT.
- Human thinking, beliefs, consumer behaviour.

Each group identified the main trends in their sphere. In total, the participants of the meeting named 62 trends that will set the shape and pace of development of the virtual asset ecosystem in Ukraine. Of these, 41 trends were identified as invariant. They will form the inevitable future, the realization of which is practically impossible to influence. The remaining 21 trends were defined as variable, i. e. those that can strengthen or weaken depending on the circumstances and decisions of certain stakeholders.

The following 9 key trends were defined as the most important (listed from the highest-rated to the lowest):

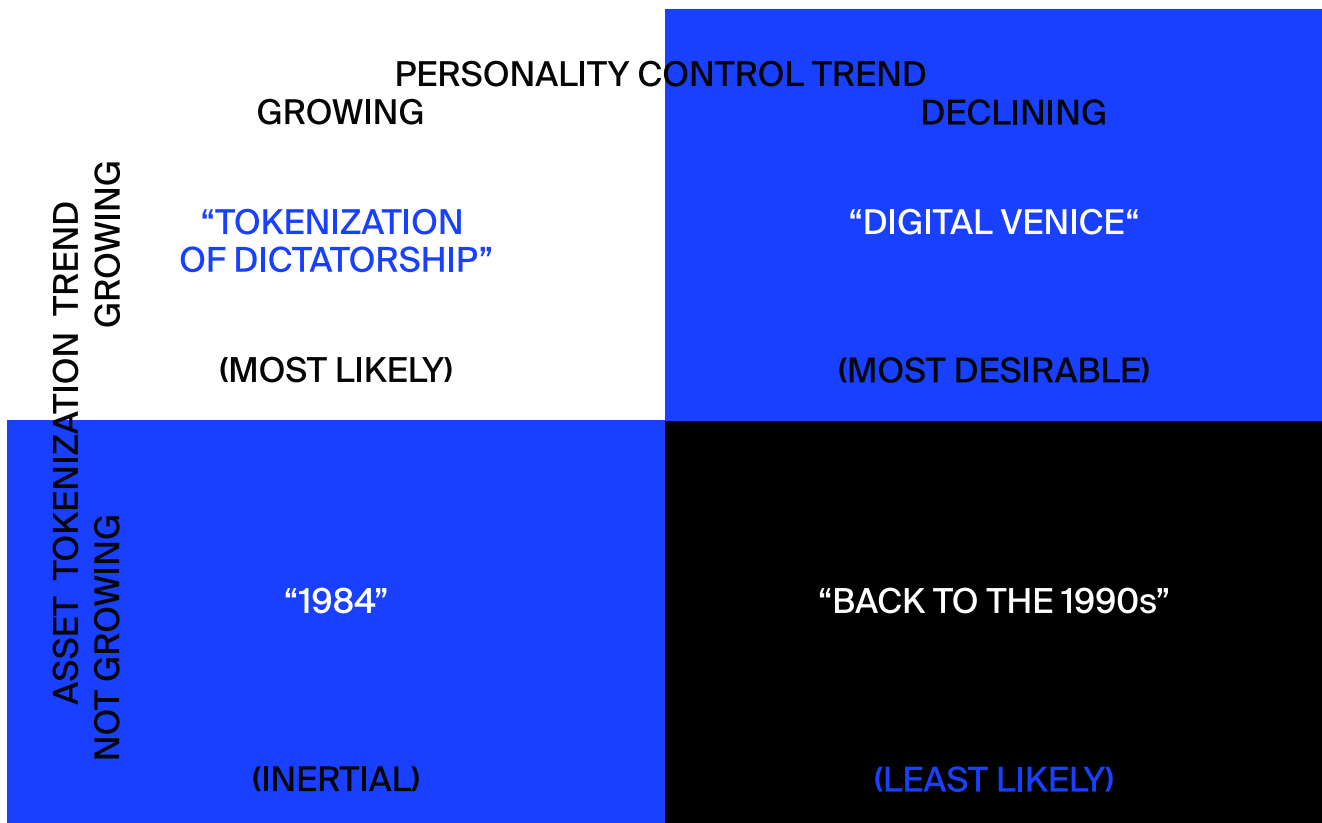
- Tokenization of real assets.

- Decentralization of trust.
- Digitalization of the regulatory sphere.
- Development of central bank digital currencies.
- Decentralized finances.
- Increased control over personality.
- Expanding business models of subscription instead of ownership.
- Expanding globalization.
- Cybersecurity challenges.

3. SCENARIO SPACE

To build the main scenarios of possible future, experts identify two key “scenario stretches”, i. e. two pairs of the most important variable trends, which, like railway switches, set the principal direction of the virtual asset ecosystem in Ukraine. For each of them there are at least two possible directions of development (growth/degradation, increase/decrease). Two pairs of extensions form four scenarios.

Thus, the scenario space was formed by two trends defined as variable and the most important ones: increase (or decrease) of control over the individual and the development (or lack of development) of asset tokenization. For each of the scenarios, the experts selected an appropriate metaphor that reflected its essence, and identified the most and least likely, inertial and desirable scenarios.



Each of the identified scenarios was analysed in detail. The experts identified the main characteristics of each scenario, the key events that would take place under its implementation, the main players, as well as who would win and who would lose in a scenario, bifurcation points and indicators that would indicate that a scenario had already occurred. From the four scenarios, the participants of the session chose the inertial scenario, which will happen by itself if nothing is done by the subject, and the most desirable scenario, which requires every effort from the subject to be implemented. The results of this analysis were projected on the ecosystem of virtual assets in Ukraine and for each of the scenarios a list of actions and management decisions aimed at the development of this industry was developed. The participants also determined what solutions are required for the transition from the inertial scenario to the most desirable one.

4. THE KEY ISSUE AND OUTCOMES

After defining and analysing the scenario space, the experts discussed the key issues that arose as part of the process and influenced the outcome. The main obstacle to forming a vision for the development of the virtual asset ecosystem was the lack of a common denominator for the elements of the future we want to achieve. Among these trends, there were many that operate in opposite directions. Different experts have different understandings of the background disposition, from which it is necessary to form a picture of the desired future.

Long discussions led the majority of participants to understanding that the key issue is the balance between security and freedom, openness and regulation, protection and risk-taking. Then, massive efforts of all the participants were necessary to come to a common point, to form a common vision of the desirable role of the government and a future vision of the ecosystem.

On the basis of this common vision, the community developed a detailed road map for three years, which includes regulatory, educational, and infrastructural measures in various fields. Eleven working groups were formed to develop concrete approaches to the implementation of this road map.

Having developed a vision and strategy for the development of the virtual asset ecosystem in Ukraine and forming a proactive community ready to implement these developments, the foresight can give a significant impetus to the development of this ecosystem in the coming years.

5. CONCLUSIONS

The foresight “Virtual Assets in Ukraine 2030” has become a kind of an intellectual jazz concert. None of its participants knew their “part” in advance, but only had their own specific life experience and high motivation behind them. The joint movement towards the goal allowed not only to solve the tasks facing the project participants, but also to gather a lot of information in parallel, which makes a complete picture of the present, as well as the prospects of the virtual asset ecosystem in Ukraine. Below, the main foresight conclusions are given.

New world realities

- Finding a balance between openness and market control. The key contradiction.
- The development of the technological package of cryptotechnologies in combination with globalization, liberalization, digitalization, and virtualization of the world economy has launched the formation of a global sphere of virtual assets. This creates new global communities, business models, as well as technological and financial tools to serve them.
- On the other hand, states are trying to control this global movement. Strengthening regulation, compliance procedures, control of assets and cash flows, economic wars and the resulting protectionism and sanctions, as well as increased control over the individual, introduction of social ratings, etc. are being introduced as security measures, but threaten economic and civil liberties.
- Against the background of such confrontation, global communities are emerging that do not agree with the generally accepted balance between freedom and security and try to leave the “Security Zone” built by the states and move to the “Freedom Zone”. This movement is also fuelled by political instability and confidence crisis. Such communities need special mechanisms to ensure their existence, while states try to control them or outlaw them, although the effectiveness of this process is difficult to predict.
- The contradiction between the values of Freedom and Security is a key contradiction that determines the approaches to the regulation of virtual assets.
- Growth, size, speed, capabilities of the virtual asset ecosystem are directly proportional to the degree of freedom that its participants will have. Risks, losses, crises, depth of decline are inversely proportional to the degree of security of the environment in which its participants will work.
- Under these conditions, each country has to find a balance between market openness, which allows attracting investment in the field of virtual assets, and control, which inhibits the penetration of dirty money. Too high level of openness will lead to the transformation of a country into an outcast (a technical tool of the global shadow economy). An excessively high level of control will deprive the country of prospects on the world market and zero its existing potential.
- The virtual asset ecosystem needs rules that strike a balance between freedom and security, avoiding the poles. If this balance is successfully found, the sphere of virtual assets can give a great benefit to the economy, society, and every citizen.

Ukrainian potential, problems, and limitations

- Ukraine has a huge advantage in the form of human capital, including the community of developers and other participants in the ecosystem. In addition, the weakness of regulation and the existence of the shadow economy have been the key to the accelerated development of this area in Ukraine so far. Another positive factor is the desire of some government officials and politicians to introduce transparent rules of the game that will give Ukraine a significant advantage as a jurisdiction with the best conditions for doing business in this area.
- At the same time, there is Ukraine's unfulfilled “homework” related to establishing the rule of law, reducing corruption, curbing law enforcement arbitrariness, increasing

investor protection, and so on. Hence the negative image of the country, the high risks of working in it, and the lack of benefits of registration in Ukrainian jurisdiction.

- In addition, the development of virtual assets in Ukraine is influenced by socio-cultural constraints: conservatism, lack of financial and digital literacy, lack of trust in society, paternalism, and so on.
- However, there is an understanding that backward countries can make up for wasted years and move forward only on the wave of new generation technologies.
- Ukraine has always been a frontier, the place where the models that do not work in the centre are tested. This makes the frontier richer. The complexity is even higher because virtual assets are an ultra-modern ecosystem. The whole market of virtual assets is very far from saturation and maturity, so it is developing in all countries in parallel. This means that Ukraine has a chance not to catch up, but to be ahead of many, and even set trends.

Search for a target model of regulation within the framework of a key contradiction

- The state as an institution, which exists to strike a balance between the interests of the strong (who can defend themselves) and the weak (who need protection). Freedom is impossible without security, without rules that everyone follows.
- Regulation is usually the result of irreparable losses incurred by society in its absence.
- It is most likely that in the next 10 years Ukraine will remain a country with not very high-quality jurisdiction. Therefore, there is a very high risk that security concerns will turn into profanity, as there is a long line of negative precedents of state regulation.
- Today, the problem with the virtual asset industry is that there is no regulation. There is a free field entered by the strongest.
- What is important is not the absence of rules, but the absence of those who rule. Both security and freedom involve a set of rules of the game. The question is who the source of this set of rules is.
- If regulation arises from demand and consolidates those relationships that have developed naturally, it will be adequate. The best approach is when the rules are set by a conscious, self-organized community. Rules must be a product of a transparent dialogue. The market community must develop optimal regulation and propose it to the state for approval. The state has to fix, but not to dictate.
- A far-sighted approach involves laying a certain level of freedom in regulation so that the development of the industry is not artificially limited. This is especially important at this stage.
- Naturalness, transparency, integration, and competitiveness are the four key principles that should underpin the regulation of the virtual asset ecosystem.
- Evolutionary development of the ecosystem and a “smart state” (flexible regulation) are the approaches that overcome the dichotomy between freedom and security.

Common vision and development road map

- A shared vision of the future of the virtual asset ecosystem is a powerful motivating

and consolidating factor for ecosystem participants and all those who care about Ukraine's development.

- The developed road map is a rather ambitious strategic plan for the development of the virtual asset ecosystem. The active minority determines the direction of movement, but the passive majority determines its pace. The results will depend on whether the general public understands what virtual assets are and how to deal with them, whether they have the necessary information, a sufficient level of well-being, education, literacy, and trust in this system.
- The creation of working groups that will continue to work on the implementation of the provisions of the foresight is a manifestation of the personal leadership of the foresight participants and an indicator of the formation of a proactive community.
- Systemic strategic communications aimed at a number of key target audiences and built on the principles of transparency, clarity, and education are extremely important for the development of the virtual asset market.

Virtual assets belong to the fastest growing technological ecosystems in the world. In Ukraine, the virtual asset market has been operating since 2013 in the absence of government regulation. In this short period of time, industry participants have gained sufficient experience and expertise and established our country in the global market. At the same time, further growth of a new industry in Ukraine will largely depend on the provision of appropriate state support measures. It also means that regulation of a young industry must be proactive and competitive if we really want to make Ukraine attractive to domestic and foreign companies specializing in virtual assets, and thus attract investment.

We do not know the future for sure, but we have a lot to do for Ukraine to succeed in it. The foresight "Virtual Assets in Ukraine 2030" has proved this. We have a long list of advantages and strengths. We have an awareness of our weaknesses, and this is the first step to alleviating them if not getting rid of them forever. We have a huge window of historical opportunities that we seek to take advantage of. And now, thanks to foresight, we have the action plan we need to go on the road to success. But the main thing is that we managed to form a team of motivated professionals who will lead the country this way.