Ukraine's approach to attracting FDI – Positive developments

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Motivation

- In October 2011 we argued that Ukraine's approach to FDI attraction focuses too much on national projects and neglects greenfield investments (see PB/14/2011)
- In this briefing we reassess Ukraine's performance of attracting FDI and the development of the institutional framework to date

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Structure

1. Key facts on FDI attraction in Ukraine
2. Approach to FDI attraction – Ukraine's FDI promotion agency revisited
3. Conclusions

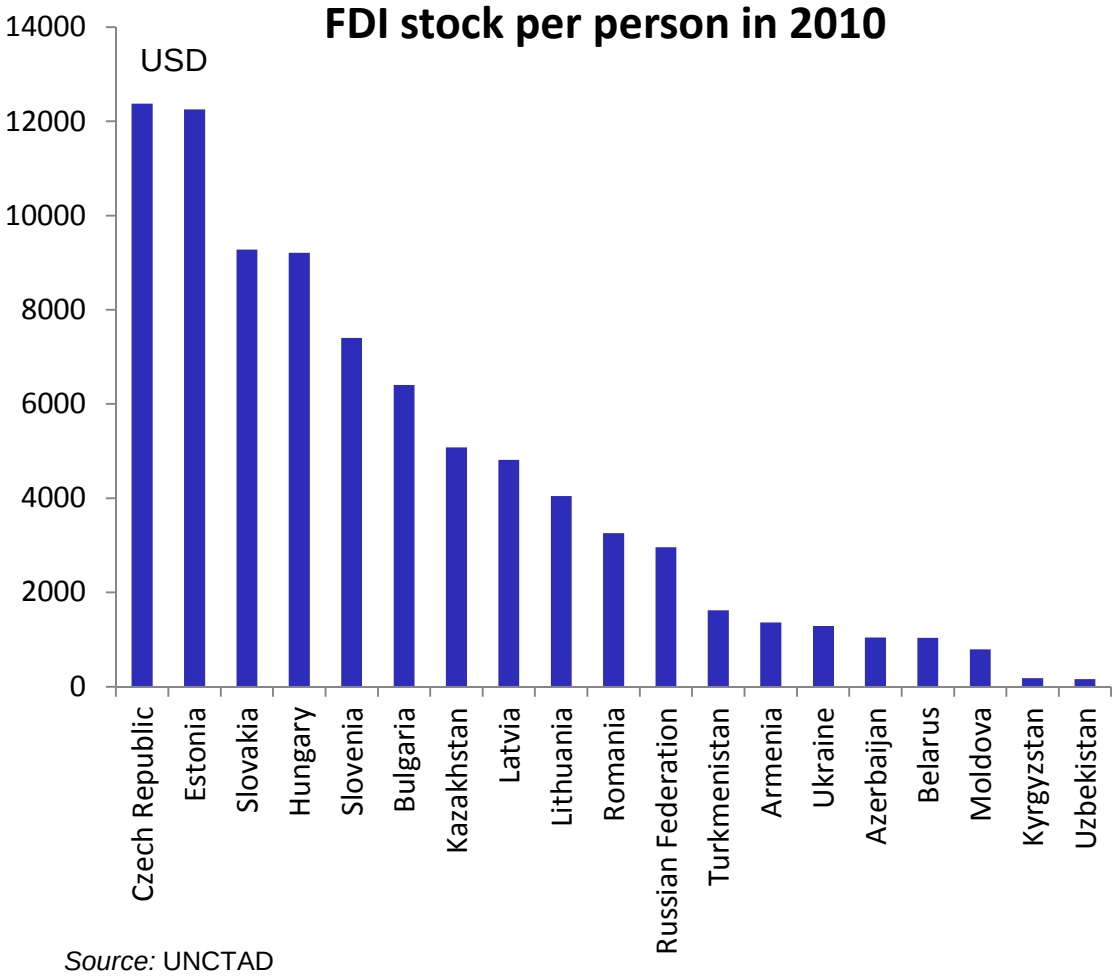
Annex 1: List of priorities and "national projects"

Annex 2: Recent advisory work on FDI promotion

Annex 3: Contacts

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1. Key facts on FDI attraction in Ukraine



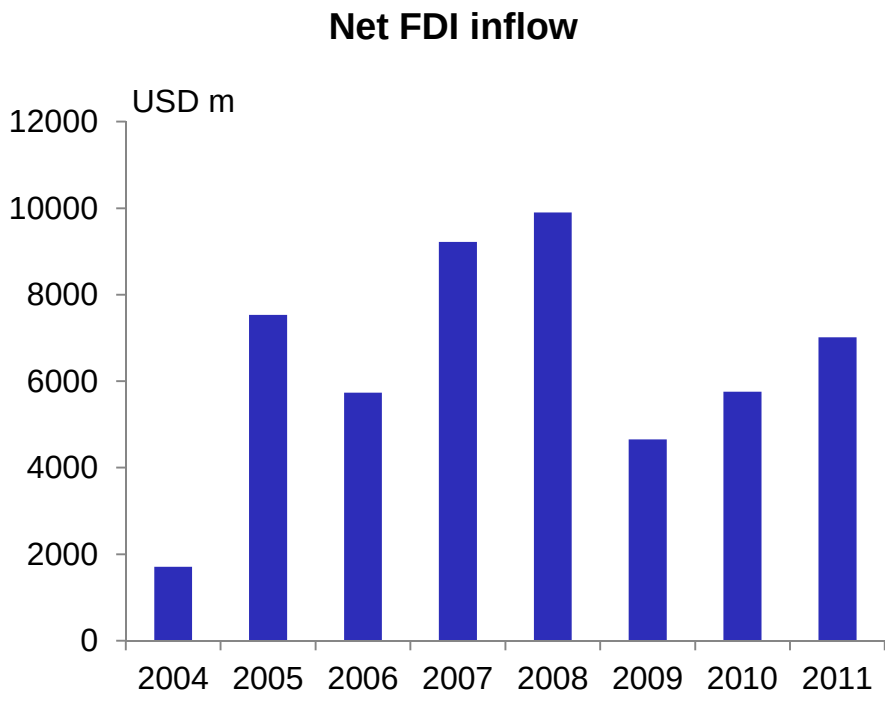
Source: UNCTAD

- FDI attraction: Important goal of most countries and regions
- Use of new technologies
- Source of finance
- Knowledge transfer

Conclusion: Ukraine's stock of FDI is low compared to its regional peers

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FDI inflows: Recovery is stuttering…



Sources: UNCTAD, National Bank of Ukraine

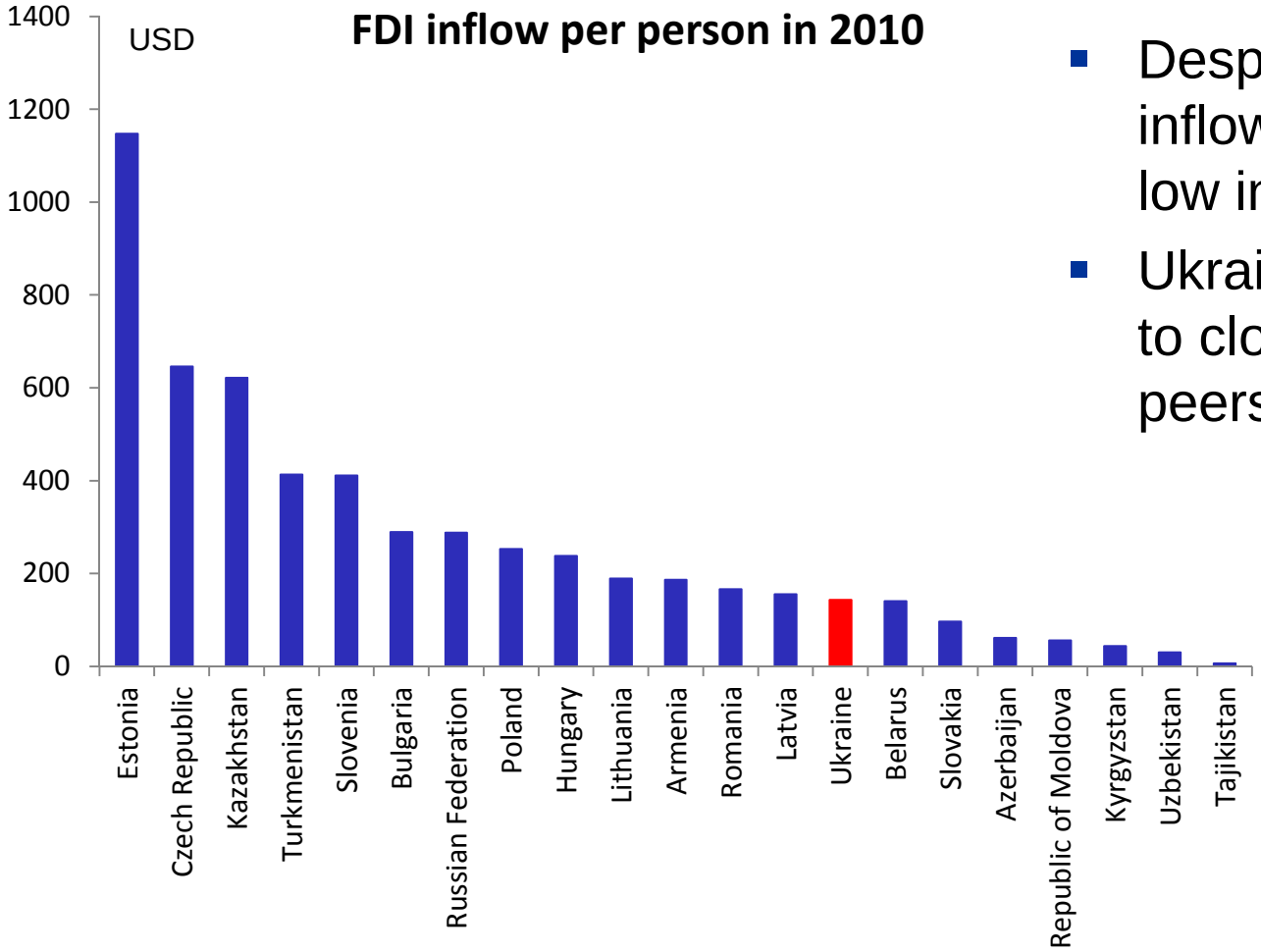
Ukraine:

- In 2009 (“crisis”) FDI experienced 50% decline
- Steady recovery since, with 20% increase in 2011
- However, net FDI declined by 40% yoy between January and May 2012 – despite strong Q1 2012
- Question if one-off or end of recovery

Conclusion: Promising recovery has stalled in early 2012

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…and FDI inflow also not strong enough to catch up in international comparison



- Despite recovery, FDI inflow per person also low in int. comparison
- Ukraine will find it difficult to close gap to regional peers

Source: UNCTAD

Conclusion: Ukraine needs to attract more FDI flows to increase its foreign capital stock

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2. The current FDI approach – still too centralistic?

- In the centre of our analysis in October 2011 was the ‘State Agency for Investment and National Projects of Ukraine’ (*Natsproject*), which is in charge of FDI attraction
- Then we concluded that by solely focussing on large pre-defined national projects Ukraine grossly neglects greenfield investor – the most important type of FDI
- The experience of Ukraine’s approach of FDI attraction since then is mixed
- On the one hand, the focus on national projects persists with little presentable results to date (see table on the next page)
- However, on the other hand, the agency now has an additional focus on FDI promotion and greenfield investments through *InvestUkraine*

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Little success regarding National Projects…

National Project	Current status
LNG terminal	No deal finalised, Portuguese and Spanish investors expressed interest, tender expected in Autumn
Energy of nature	A number of solar power plants established
Affordable housing	No deals finalised
New Life	A number of *government-financed* maternity clinics opened to date with some contributions from sponsors
Clean City	No deals finalised, business plans finished and awaiting approval, share of private financing unclear
Quality water	No deals finalised
Open world	No deals finalised, Interest from a number of international IT and Telecom companies
Future city	No deal finalised
Air Express	Export financing from China, construction to start in 2012
Danube corridor	No deal finalised
Olympic Hope 2022	No deal finalised

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… but welcomed additional focus on FDI facilitation and greenfield investors

- National Projects approach has been complemented by new investment facilitation approach
  - InvestUkraine, a division of Natsproject, established at the end of 2011 / start of 2012
  - Operates a ‘single investment window’ and intend to create ‘investment project exchange’
  - This would enable investors to receive support for their investment projects, which is genuine investment promotion and follows our advice from PB/14/2011
- Important that agency is well-resourced and supported, as other agencies tasked with investment promotion have existed before, with only limited success

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4. Conclusion

- FDI inflows have recovered steadily since the 2009 collapse but recovery may have halted at the beginning of 2012
- FDI stock and inflows remain low in regional comparison indicating room for improvement
- Uncertain global economic outlook means competition for FDI will intensify and Ukraine needs to step up its FDI promotion efforts
- As such, complementing the previous sole focus on national projects with an investment facilitation approach through InvestUkraine is an important and a welcomed improvement
- National projects have yet failed to attract significant private investment – its approach should be reviewed and revised on a regular basis

General conclusion: FDI promotion through InvestUkraine should be strengthened independently from Natsproject

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Annex 1: List of priorities and “national projects”

Priorities of "national projects":

- New energy
- New quality of life
- New infrastructure
- Olympic hope – 2022

“National projects” under the priority «New energy»:

- «LNG terminal»- marine regasification terminal for liquefied natural gas
- «Energy of nature» - the construction of wind and solar power stations

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List of “national projects” (cont’d)

“National projects” under the priority «New quality of life»:

- «Affordable housing» - social housing and construction
- «New Life» - presentation of maternity and child protection
- «Clean City» - modern system of waste recycling complexes
- «Quality water»– program of ensuring Ukrainian people with pure potable water
- «Open world»- creation of communicative (4G) and educational network at the national level
- «Future city» – formation of a strategic plan and projects system of the city development (pilot - Kyiv)

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List of “national projects” (cont’d)

“National projects” under the priority «New infrastructure»:

- "Air Express" – railway passenger service running from Kyiv to international airport «Boryspil» and other infrastructure in Kyiv region
- "The development of the navigation along the Danube (Danube corridor)“

“National projects” under the priority "Olympic hope 2022"

- “Creation of the sports and tourist infrastructure”

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List of “national projects” (cont’d)

New projects added in March 2012

- "Industrial parks“
- "Technopolis“
- "Renewed livestock”
- "Grain of Ukraine“
- "Green markets“

Source: Website of the State Agency for Investment and National projects of Ukraine (www.ukrproject.gov.ua)

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Annex 2: Recent advisory work on FDI promotion

List of recent work on FDI promotion by German Advisory Group:

- Policy briefing PB/14/2011, „FDI promotion agency in Ukraine: Towards a market-based approach“
- Policy briefing PB/10/2011: ”FDI promotion in Ukraine: Recommendations for operational structure”
- Policy paper PP/04/2010, “FDI promotion in Ukraine: Blueprint for a Restart”
- Policy briefing PB/10/2010: “FDI Promotion in Ukraine: Arguments for an independent national FDI promotion agency”

Publications can be downloaded from:

- www.beratergruppe-ukraine.de

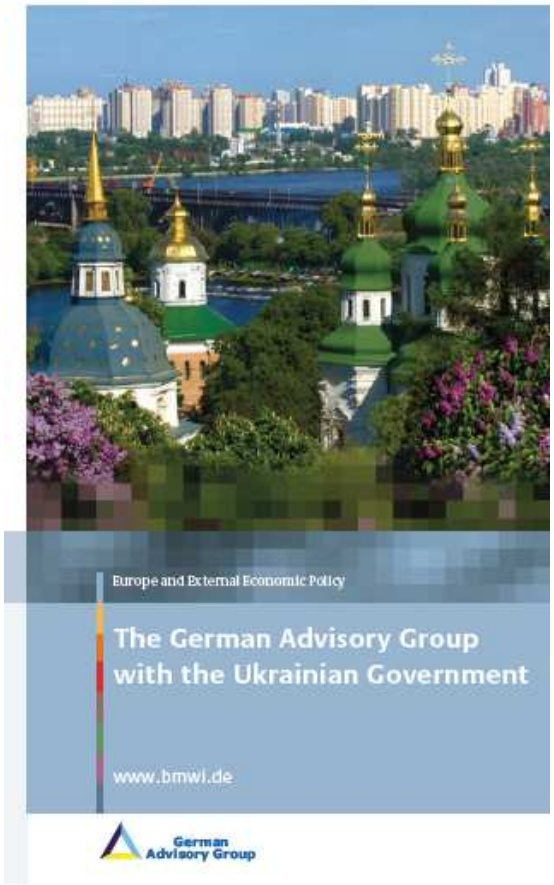
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Annex 3: Contacts

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