FDI promotion agency in Ukraine:

Towards a market-based approach

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Structure

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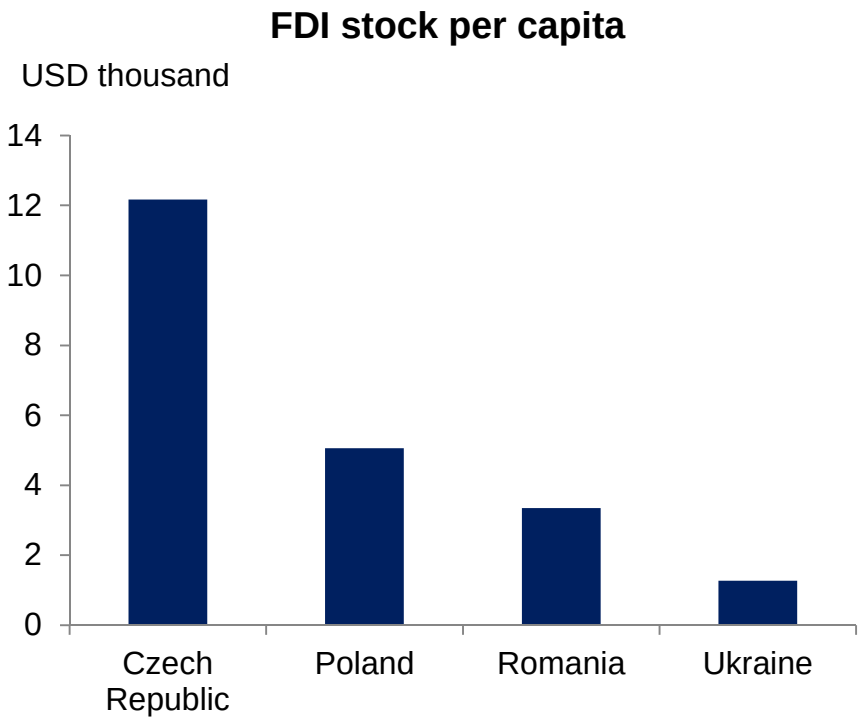
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1. Key facts on FDI attraction in Ukraine



Source: National Statistical Offices

FDI attraction: Important goal of most countries/regions/cities

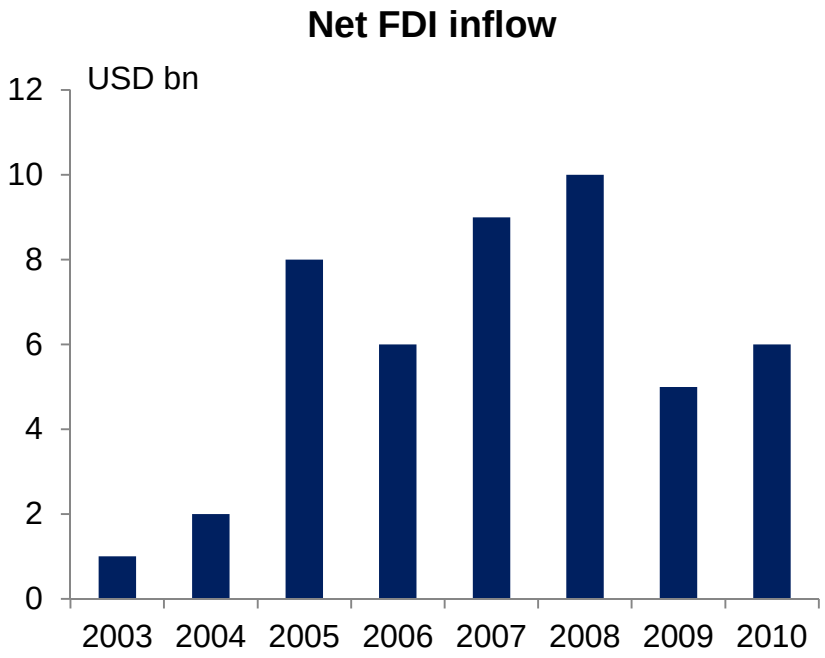
Especially important for transition economies:

- Modernisation of capital stock
- Use of new technologies
- Source of finance

Ukraine: Low stock of FDI

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FDI flow



Source: National Bank of Ukraine

Ukraine:

- Only moderate flow of FDI
- Significant decline in recent years

Conclusion: Much room for improvement

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2. The current centralistic approach

In most countries: FDI promotion agency to support FDI attraction

UKR: State Agency for Investment and National Projects of Ukraine

Current approach of agency:

- Main focus: “National projects” (as suggested by name of agency)
- Government defines the investment projects and afterwards looks for foreign investors for the implementation/financing of the projects
- Examples: LNG terminal (USD 1 bn), Danube Corridor (USD 2 bn)
- Only large-scale projects for big investors
- Thus: Government is trying to play a key role in the allocation of foreign direct investment; strong state intervention in the investment market

  → State-controlled, centralistic approach
- At the same time: Agency does not consider the attraction of greenfield and of small-/medium-size investments as an important task

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Evaluation of centralistic approach

View of international investors: Deep dislike for this centralistic approach, as revealed in extensive talks

Anonymous citations of investors:

- “If I put my money, then I decide on what and how to spend the money”
- “I don’t need ready-to-pay projects, I want to be involved in the developing of the project from the very beginning”
- “I don’t need and I don’t want to government to tell me how to spend my money; I just need proper general investment conditions and support in the form of information and facilitation”
- “I am an investor, not a bank”

Besides: This centralistic approach has been pursuit by Belarus in recent years and failed completely; hardly “best international experience”

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Evaluation of centralistic approach (cont'd)

Conclusions:

- Current approach of agency does not seem to convince investors
- Empirical evidence supports this view: As for now, the agency didn't manage to find any private investor for national projects
- Furthermore: Centralistic approach is counterproductive
  - When confronted with national projects, potential investors often get the impression of a state-controlled, centralistic approach of policy making in Ukraine → Detrimental effect on investors
- Thus: A change in approach is badly needed
- Instead of a centralistic approach the agency should provide the services that potential investors really need and let the market/investors decide → A market-based approach is required, following international best practice

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3. Towards a market-based approach

As in any market economy:

- Markets should decide on the allocation of investment
- Investment decisions should be taken by private companies

→ Market-based approach

Following international best practice:

- Focus should be on greenfield foreign direct investment
- All investors should be welcomed, not only large ones
- Thus: No bias towards large-scale projects
- Roadshows: Presentation of country and of general investment opportunities, but not of concrete investment projects

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Role of promotion agency

Main role of promotion agencies following a market-based approach: Investment facilitation

i. Provision of information about:
  - Available land plots to buy/to rent, industrial parks, infrastructure
  - Investment incentives and opportunities
  - Local markets, potential local suppliers
  - Local responsible authorities

ii. Support with:
  - Country visits, investment site visits
  - Negotiations
  - Registration, getting licenses, permits, approvals
  - Recruitment, training

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4. Outlook

Ukraine's transition towards a market economy is long and not easy

From time to time: Old centralistic reflexes pop up

Examples:

- Trade restrictions for agricultural products
- But also: Centralistic approach for FDI attraction

Necessary:

- To continue work on the establishment of a market economy, i.e. to push ahead with transition process
- In particular: To apply the principles of a market economy to FDI attraction
- A centralistic approach is doomed for failure
- Time for change in the approach

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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 runway landing strip №2 IA «Boryspil»
- "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”

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 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”
- Policy briefing PB/10/2011: ”FDI promotion in Ukraine: Recommendations for operational structure”

Publications can be downloaded from:

- www.beratergruppe-ukraine.de

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