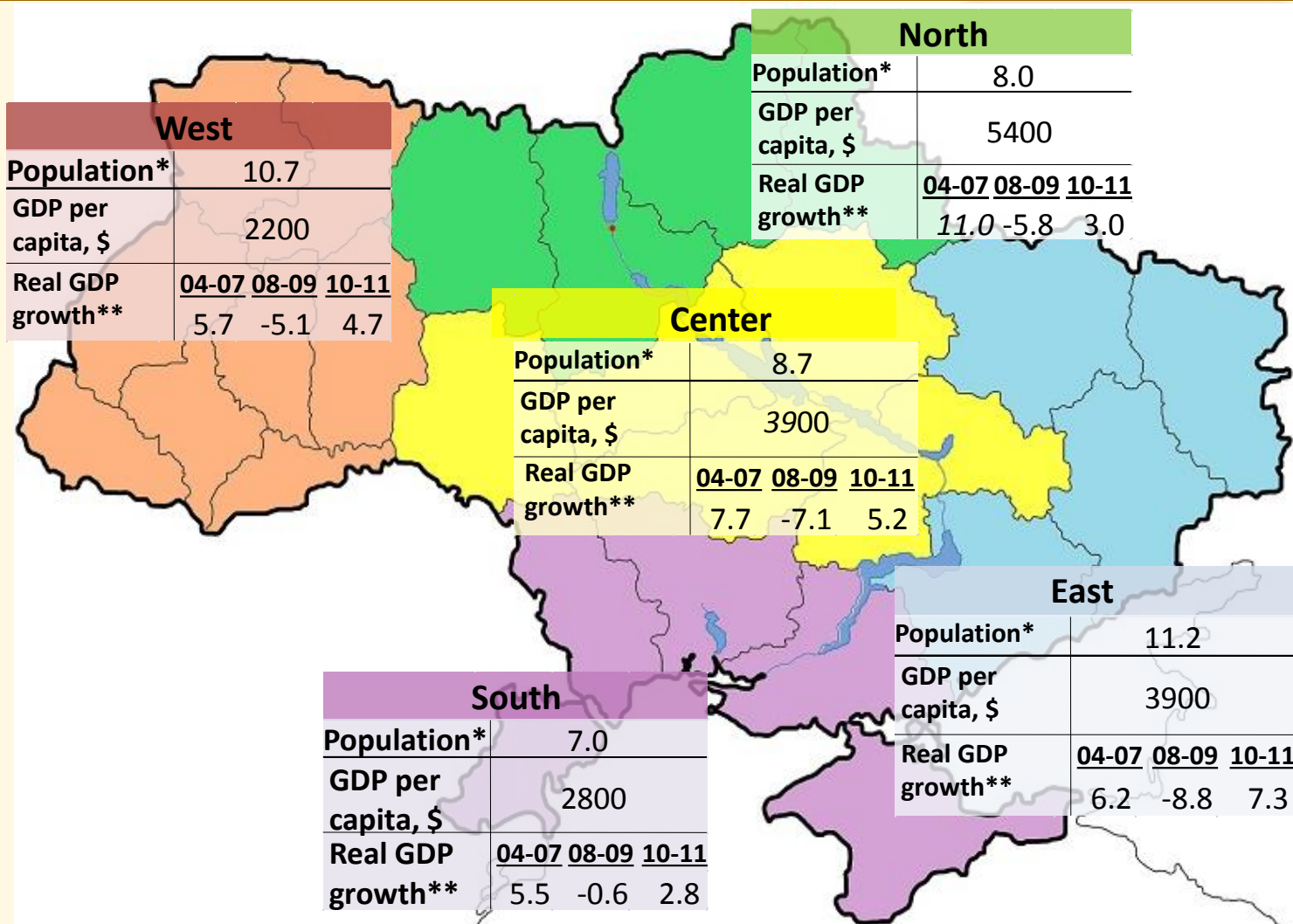


# **Regional Differences in Doing Business In Ukraine**

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**President of the Board, The Bleyzer Foundation**

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# Regions of Ukraine



The West and East have equal populations.

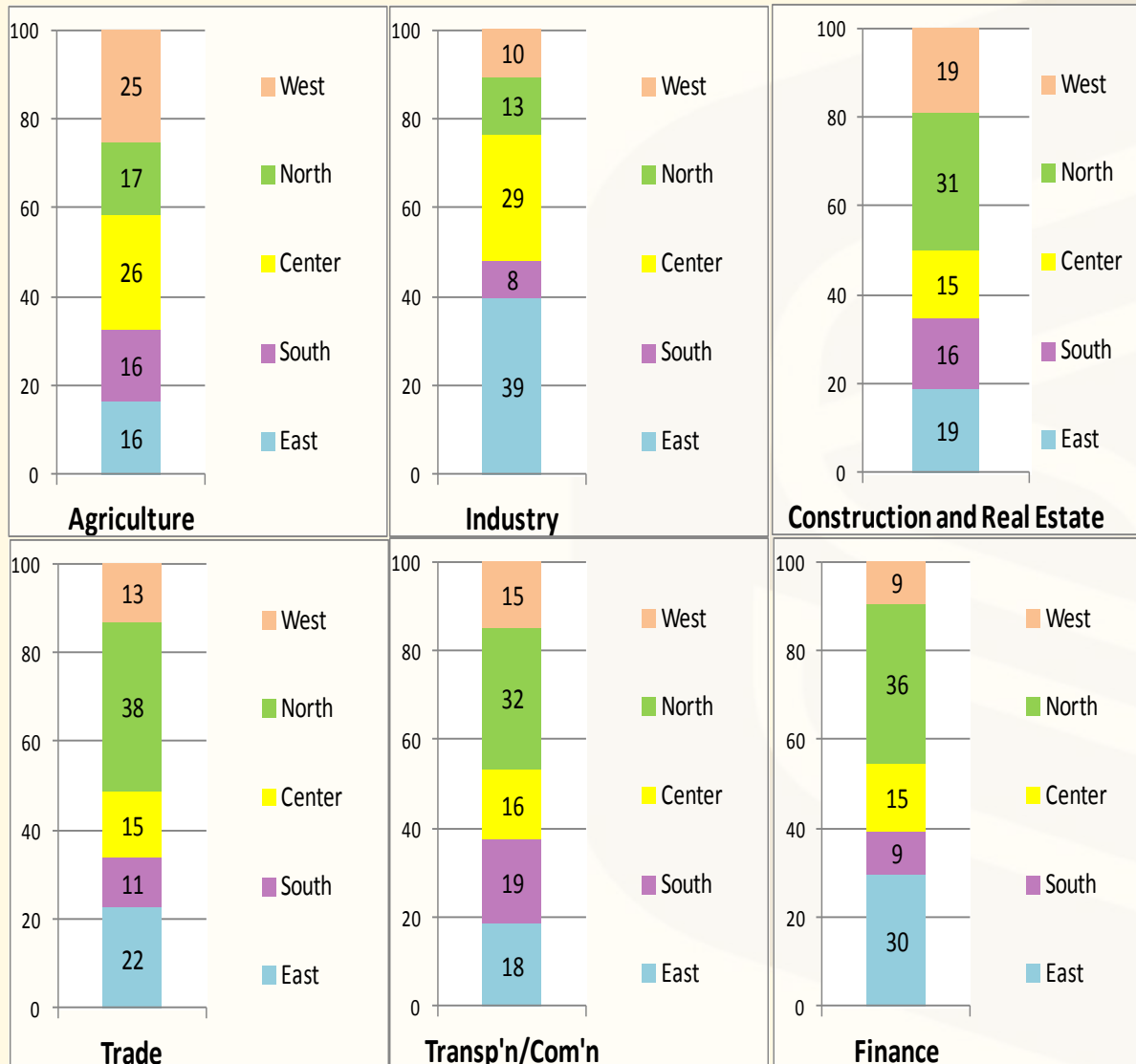
But they differ significantly in GDP per capita and economic growth.

GDP per capita of the Eastern region is almost twice as much as in the Western region.

Also, the Eastern region grew much faster during 2004-07 and 2010-11 than Western one. But it also suffered more during the crisis of 2008-09.

Source: State Statistical Service of Ukraine, Wikipedia, The Bleyzer Foundation \* As of end-2011, million

# Regional Shares in Sector Value-Added



All regions of Ukraine are suited for agriculture. However, the Central and Western Regions contribute the most to the sector. The Central Region has an advantage in grain production, while the West specializes more on animal breeding.

Industry is concentrated in the East and Central Regions. But the Eastern oblasts have also good agricultural potential, contributing to agriculture on par with the South and North.

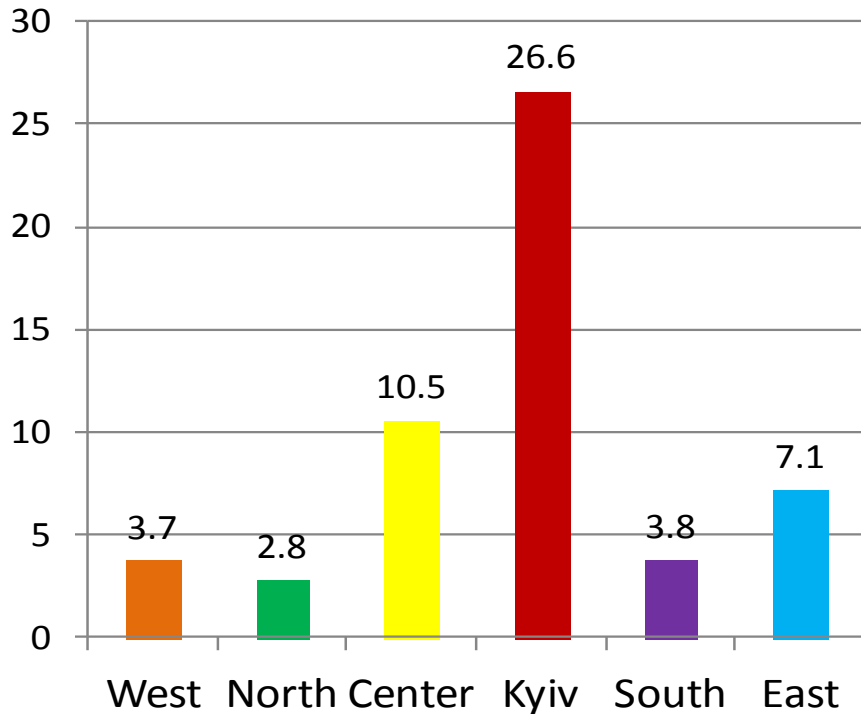
Northern oblasts (including Kyiv city) lead in Construction and Real Estate, and Services, particularly Trade and Finance.

Having access to ports in 2 seas and a good transportation network, the Southern region is a large contributor to Transport Services.

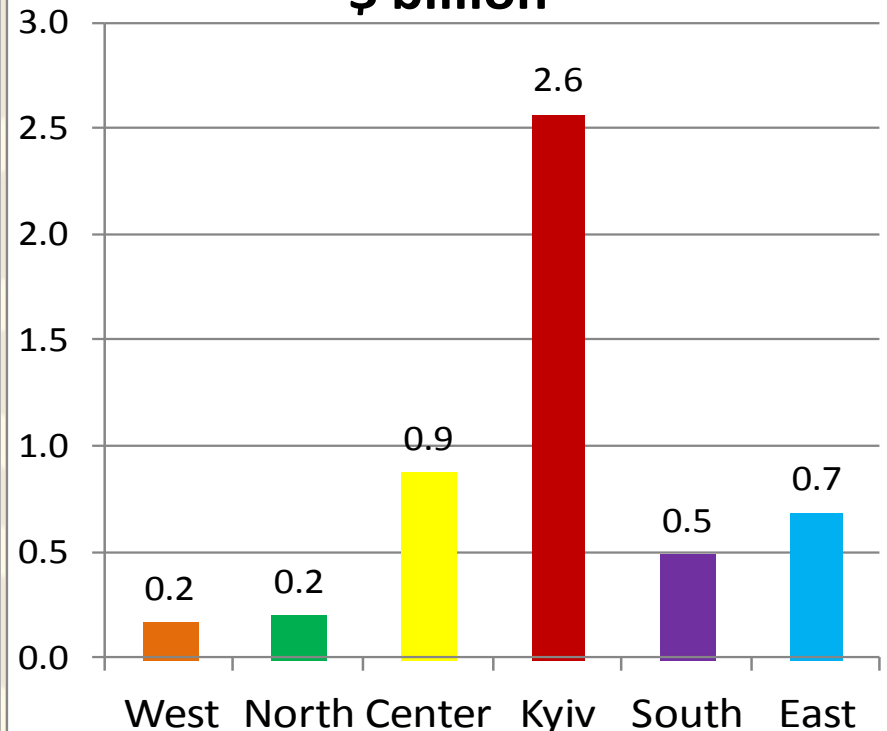
Source: State Statistical Service of Ukraine, The Bleyzer Foundation

# Regional Distribution of FDIs - \$54.5 billion total

## FDI Stock, \$ billion

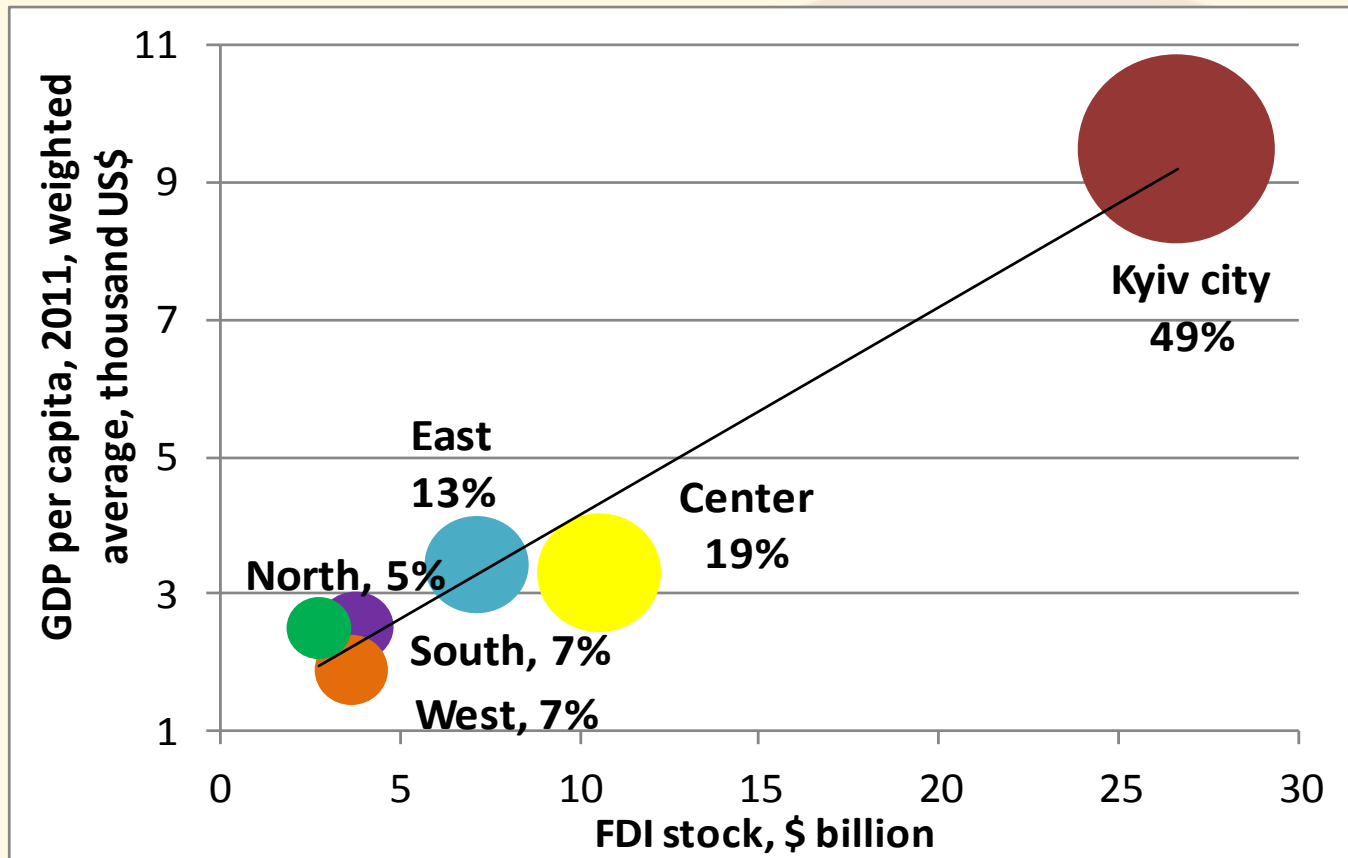


## Average FDI Flow, 2011-12, \$ billion



- FDI flows to Ukraine are heavily concentrated, with Kyiv city firms taking 49% of the total.
- Measured by the stock of FDI, almost 80% of overall FDI was directed to firms in Kyiv city, Dnipropetrovs'k (Center), Donetsk and Kharkiv (East), Lviv, and Kyiv (North) oblasts.

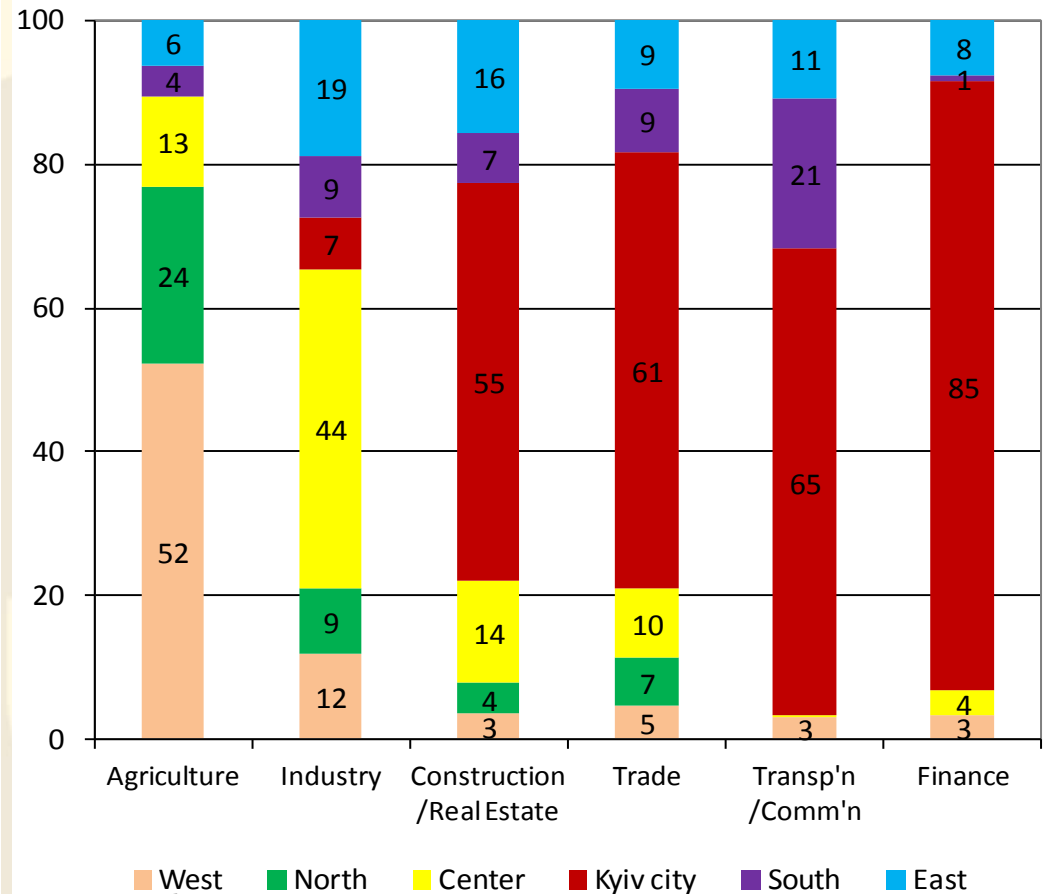
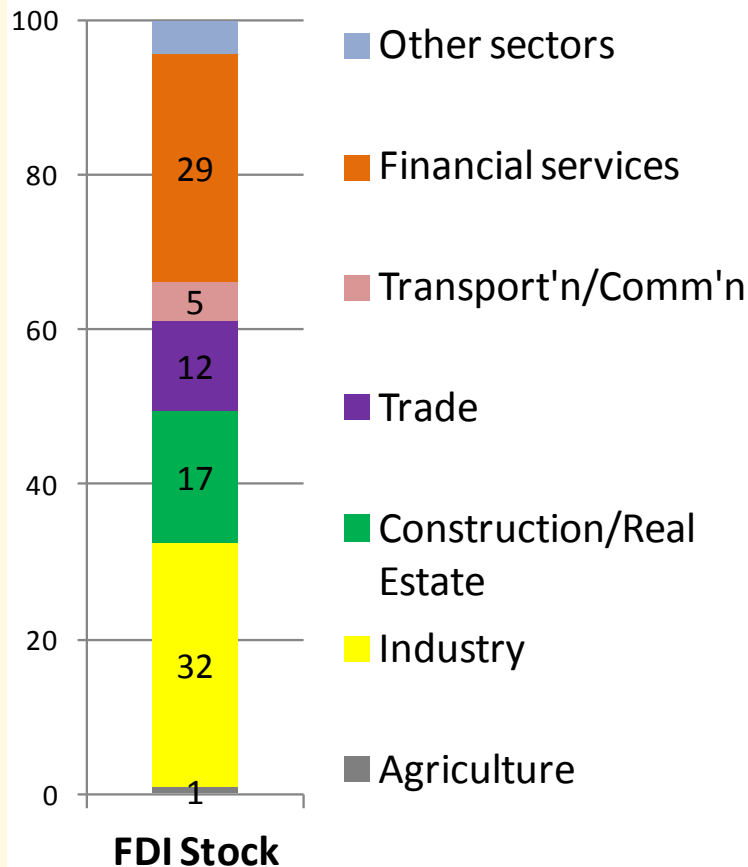
# FDI Stock by Region and GDP per Capita



Source: State Statistical Service of Ukraine, The Bleyzer Foundation

The regional distribution of FDI is correlated to GDP per capita (proxy for the size of local consumer markets), which supports the idea that foreign companies in Ukraine implement investment projects that target domestic consumers.

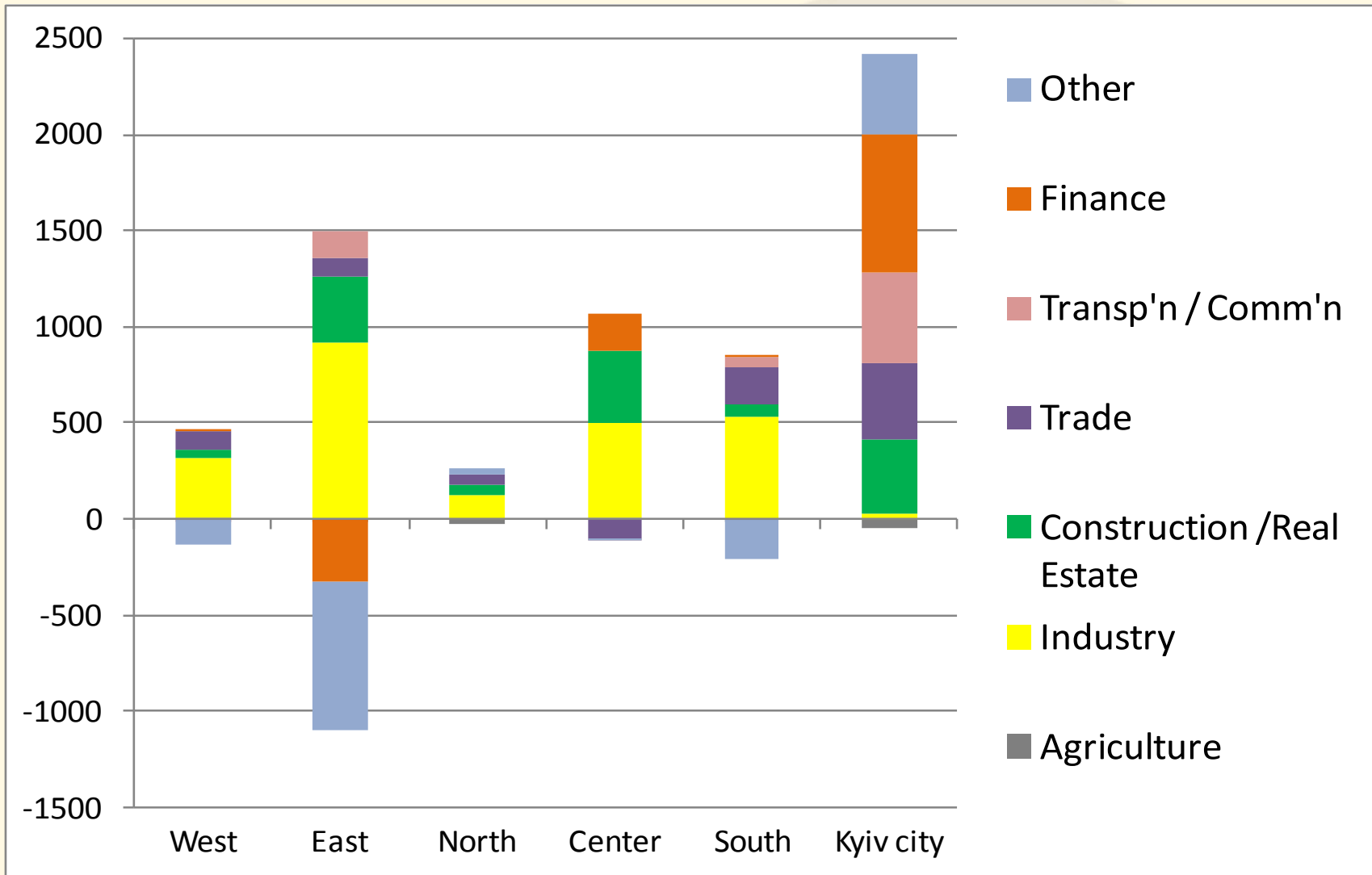
# FDI Stock Breakdown by Sector and Region



Source: State Statistical Service of Ukraine, The Bleyzer Foundation

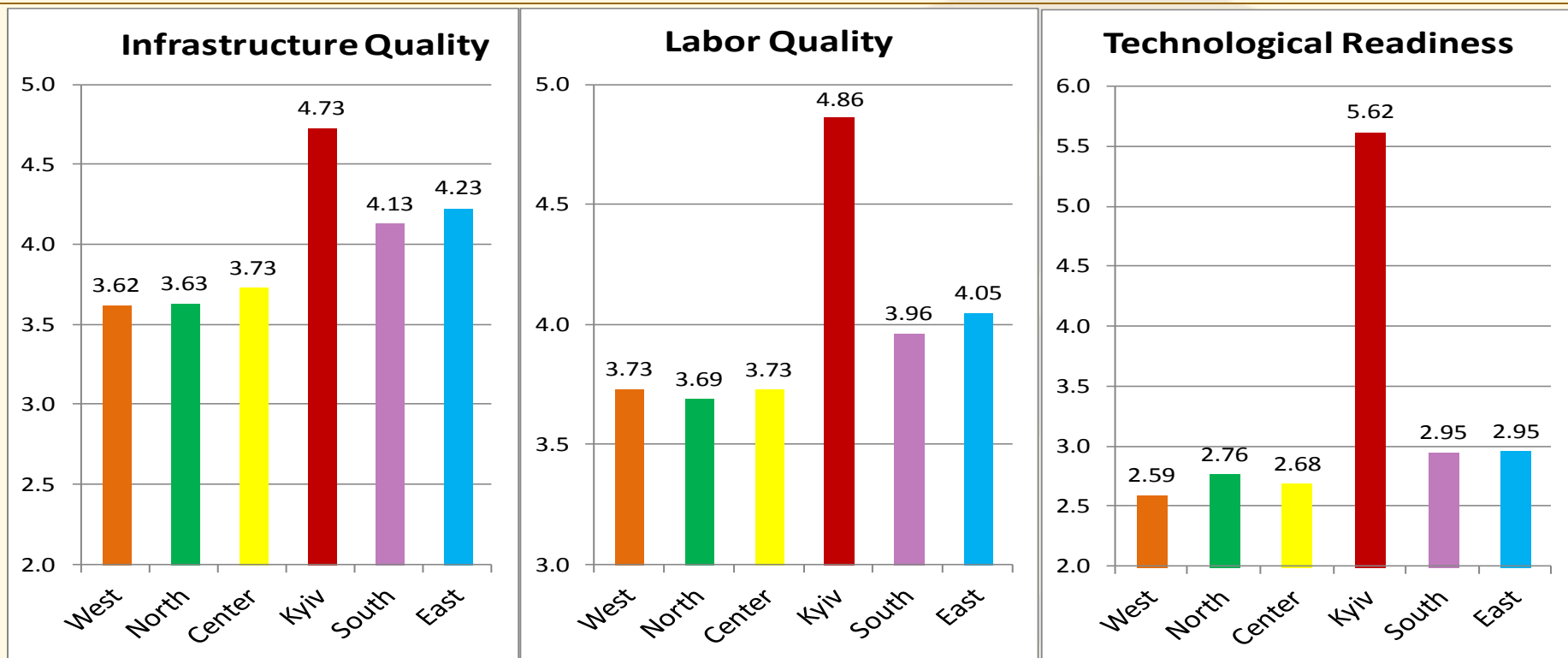
- The sector distribution of FDI reflect the economic profiles of the regions of Ukraine.
- Kyiv city received the most FDIs to financial sector, transportation, trade and real estate.
- Eastern region leads in FDIs into industrial sector, while the Western region had the highest contribution to agriculture.

# FDI Flows by Sector & Region for 2011-12, \$ billion



Source: State Statistical Service of Ukraine, The Bleyzer Foundation

# Impact of Factors of Production and Infrastructure on FDIs

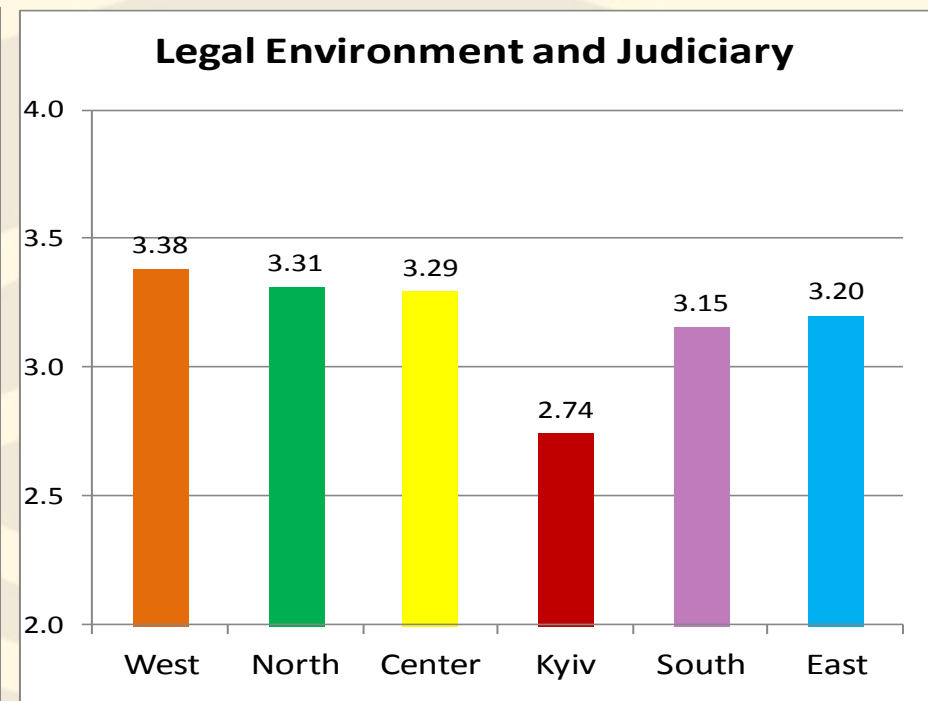
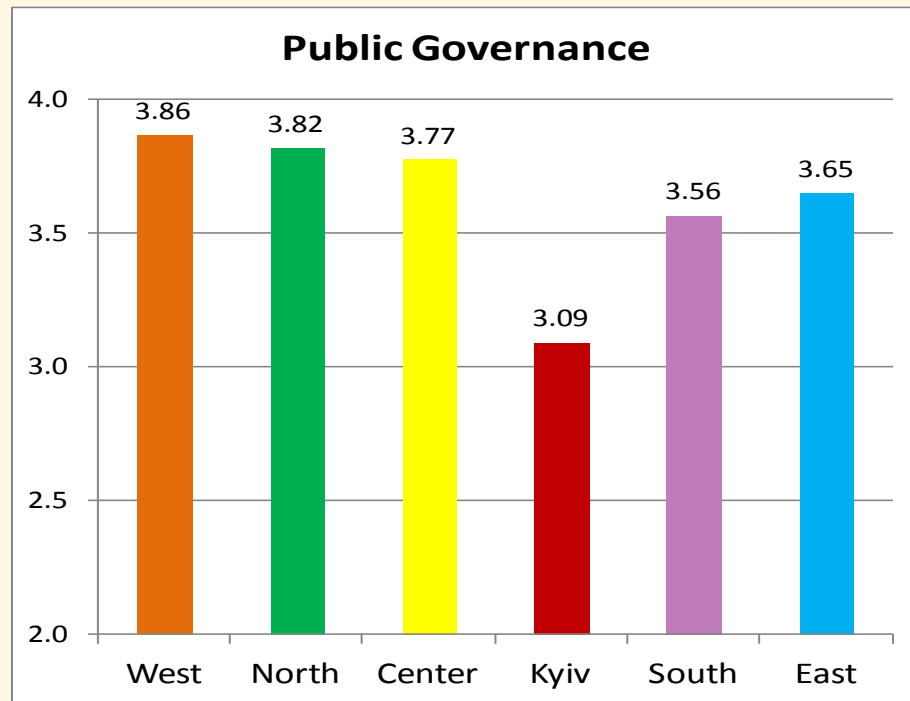


Source: Own calculations based on Ukrainian National Competitiveness Report 2012, Foundation for Effective Governance

- The above business environment indicators are scored from 1 (worst) to 7 (best).
- In addition to the market size, FDI pattern to various regions is broadly consistent with the quality of their infrastructure, labor quality and technological development.
- Because of these favorable factors, Kyiv City and the East are ranked highly in surveys of competitiveness, whereas the West is generally ranked low in competitiveness.



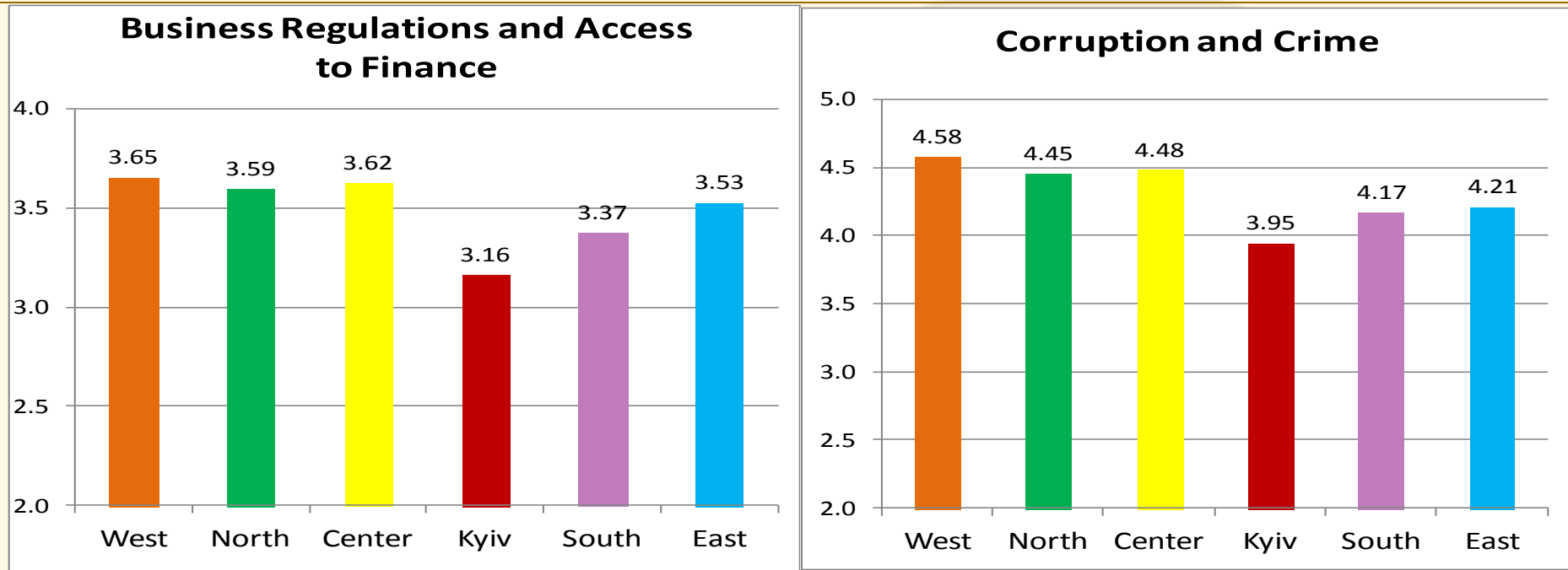
## But some “soft” indicators of “Business Environment” show a different picture:



*Source: Own calculations based on Ukrainian National Competitiveness Report 2012, Foundation for Effective Governance*

- Although the West is in a less advantageous position in terms of infrastructure and factors of production, it has a more friendly environment for doing business in most of the “soft” indicators, such as public governance and legal environment and judiciary.
- Kyiv city, however, is rated poorly on these indicators.

# Impact of Business Environment (2)



Source: Own calculations based on Ukrainian National Competitiveness Report 2012, Foundation for Effective Governance

- The West has also somewhat better indicators on other indicators, such as business regulations, access to finance, and corruption and crime.
- Though doing business in the Western region seems to be easier in many respects than in other regions, the region lags behind in FDI inflows.
- This is due to the fact that, Ukraine, in general, attracts FDIs on the basis of its natural resources, availability of production factors, infrastructure and market size, which are more favorable in the East.