

Ukraine's Untapped Investment Potential

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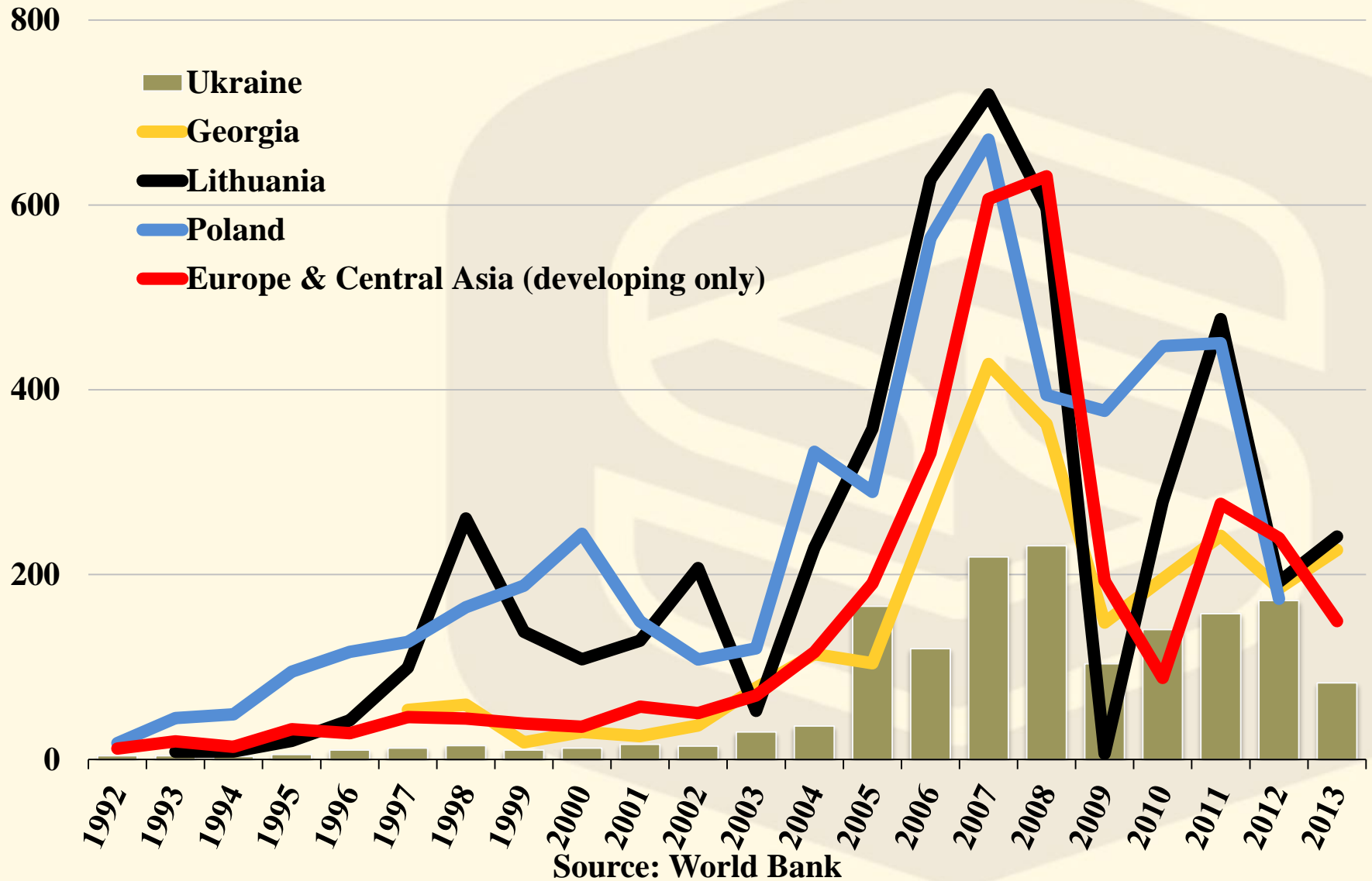
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Ukraine Need FDIs to Realize its Potential

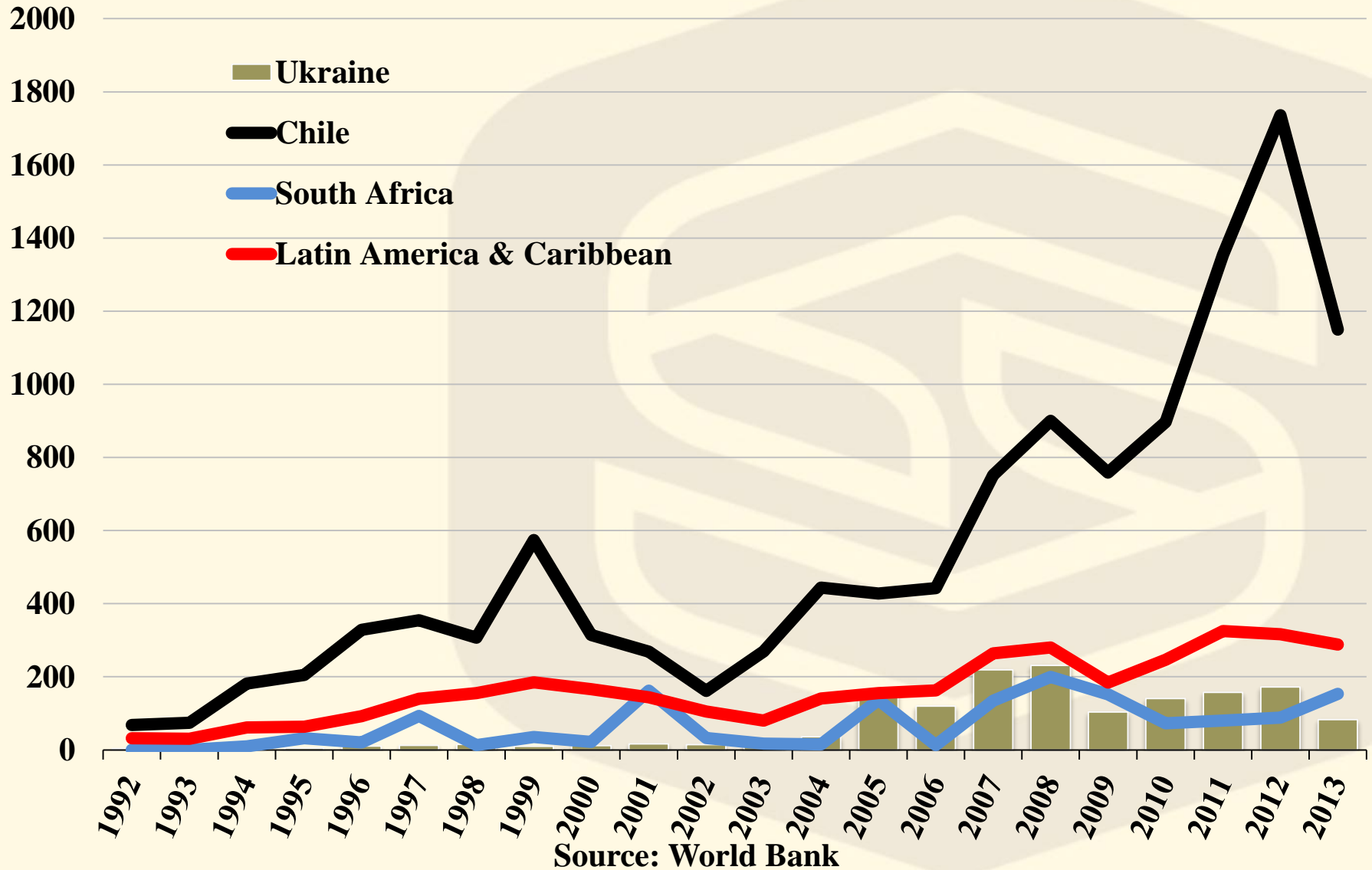
- Foreign direct investments (FEIs) are important drivers for sustained productivity and economic growth in emerging market economies.
- However, **Ukraine has consistently underperformed its regional and other peers in attracting FDIs;**
- The gap between Ukraine and other Central European countries in attracting FDI flows was large even when external financing was readily available: this happened because **foreign investors were discriminating against poorly governed economies.**
- Ukraine lagged other developing regions in the world as well.
- With the current high global risk aversion and tight financing, attracting FDI will become even more challenging as Ukraine will have to compete with countries whose investment climate is more business friendly.

FDI per capita in Ukraine vs. European Countries (US\$)



Source: World Bank

FDI per capita in Ukraine vs. Other Regions (in US\$)

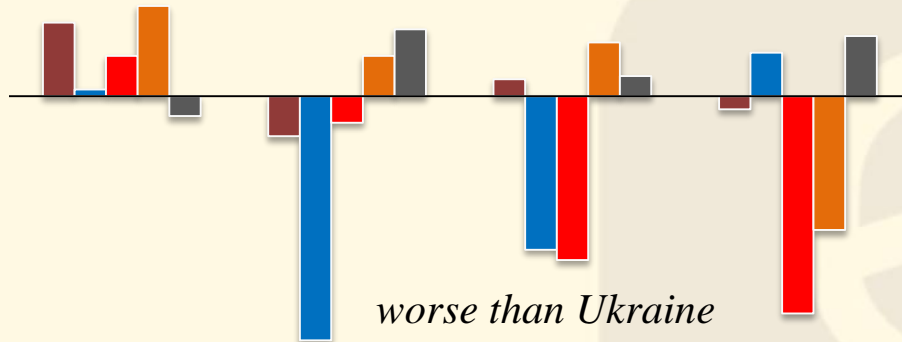


Ukraine has some globally competitive factors

Relative ranking of the five peer economies versus Ukraine

Basic drivers of competitiveness

better than Ukraine



worse than Ukraine

Advanced drivers of competitiveness

better than Ukraine



worse than Ukraine

Infrastructure

Health and primary education

Higher education and training

Market size

Institutions

Macroeconomic environment

Technological readiness

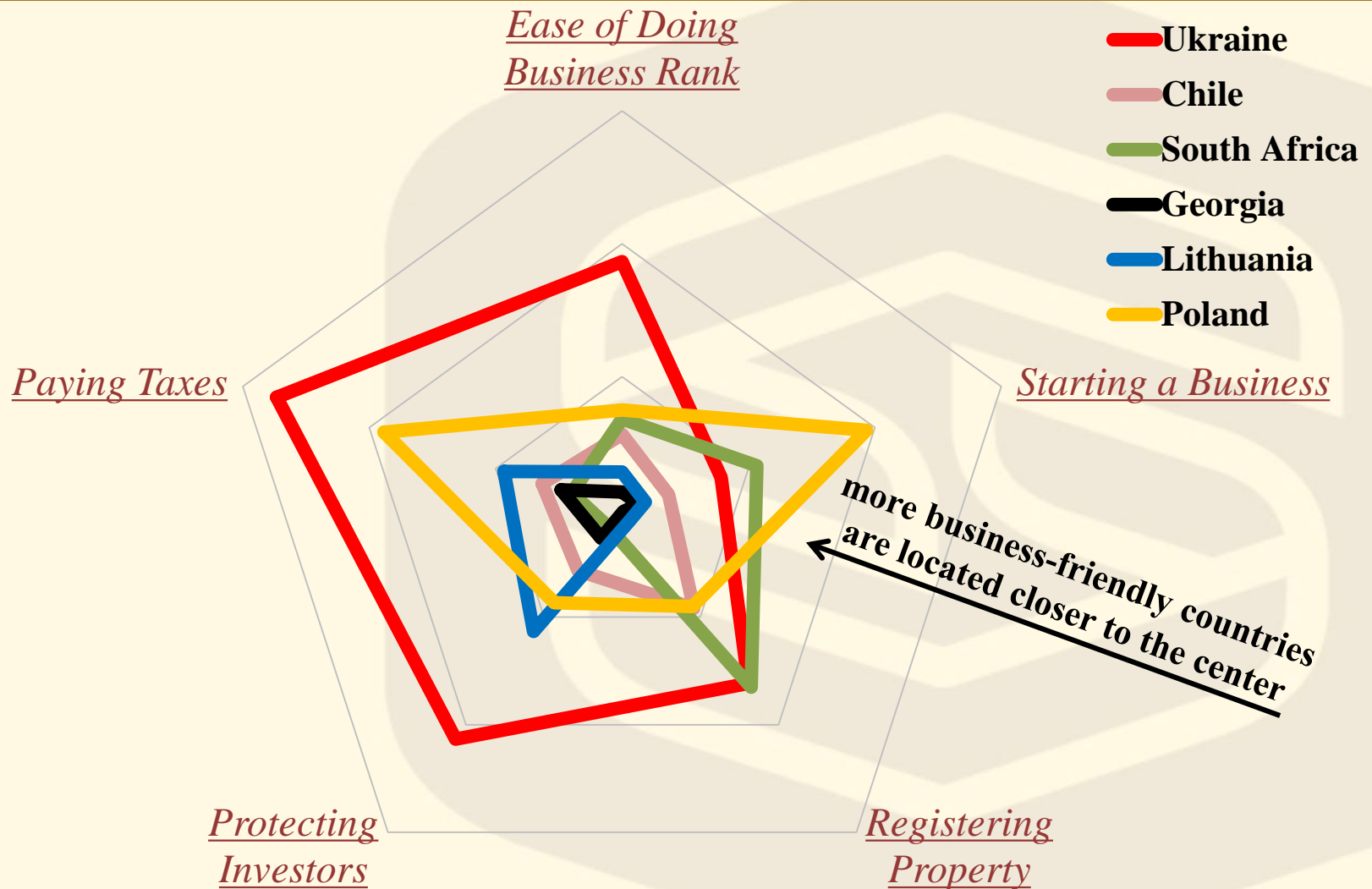
Innovation

■ Chile ■ South Africa ■ Georgia ■ Lithuania ■ Poland

- Ukraine has some good basic drivers of competitiveness, such as educated labor force, infrastructure and market size.
- But low quality of institutions, unstable economy and the lack of innovation are big obstacles to the country's ability to attract FDIs.

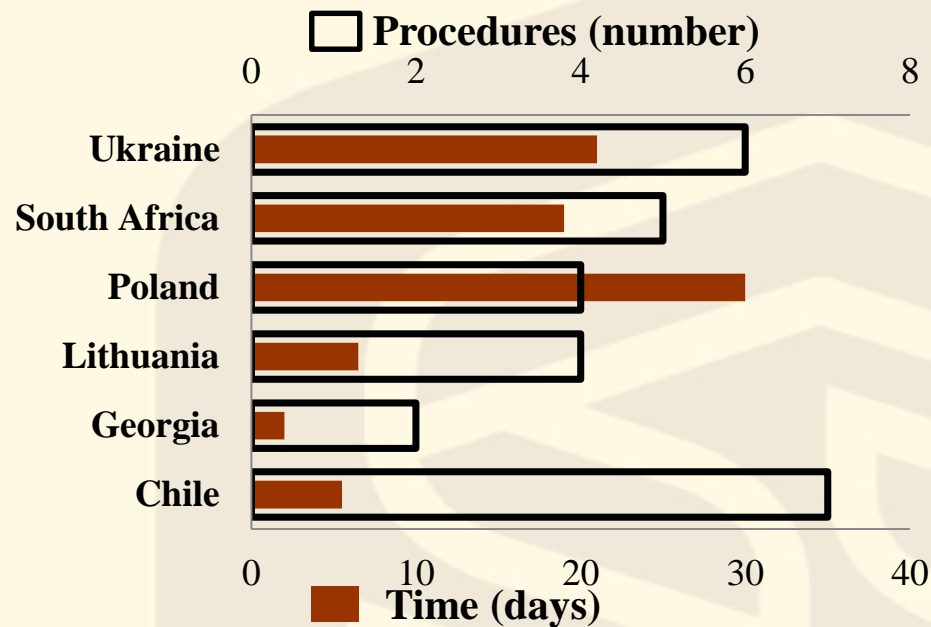
Source: Global Competitiveness Report 2014

Yet, doing business is a very risky venture in Ukraine



Source: World Bank, Doing Business 2014 (selected indicators – global rankings)

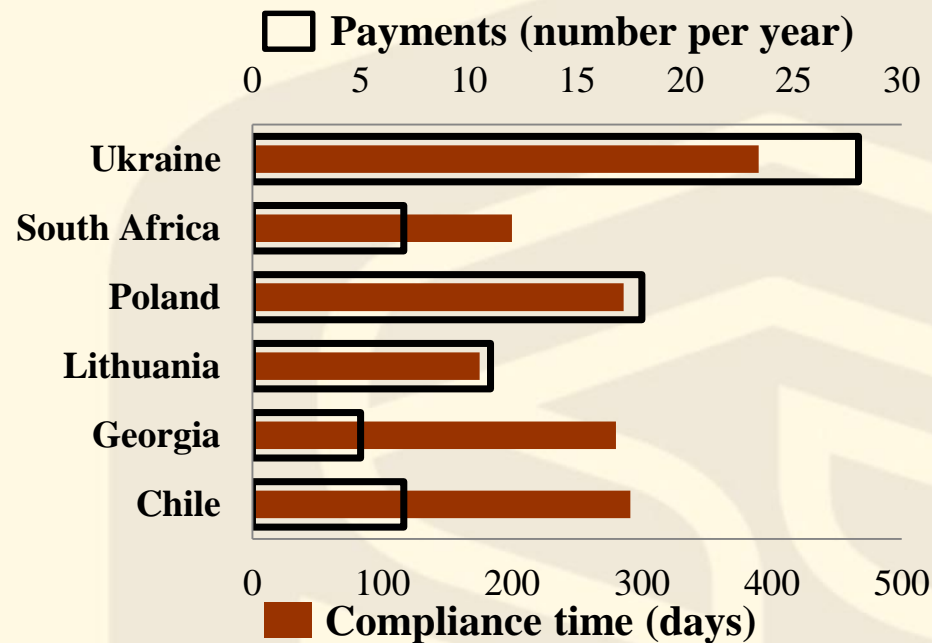
Reduce barriers to starting a new business



- Ukraine has made good progress on “Starting a Business”.
- Today it is relatively easy to start a business in Ukraine; yet there is still room to cut the number of steps (currently 6) and time (21 days); for example, by **combining registration in the Registration Office and Tax Authority**.
- But in Ukraine it still takes nearly a year to obtain access to the electricity grid versus about 2 months in Georgia or just 30 days in Chile.

Source: World Bank, Doing Business 2014

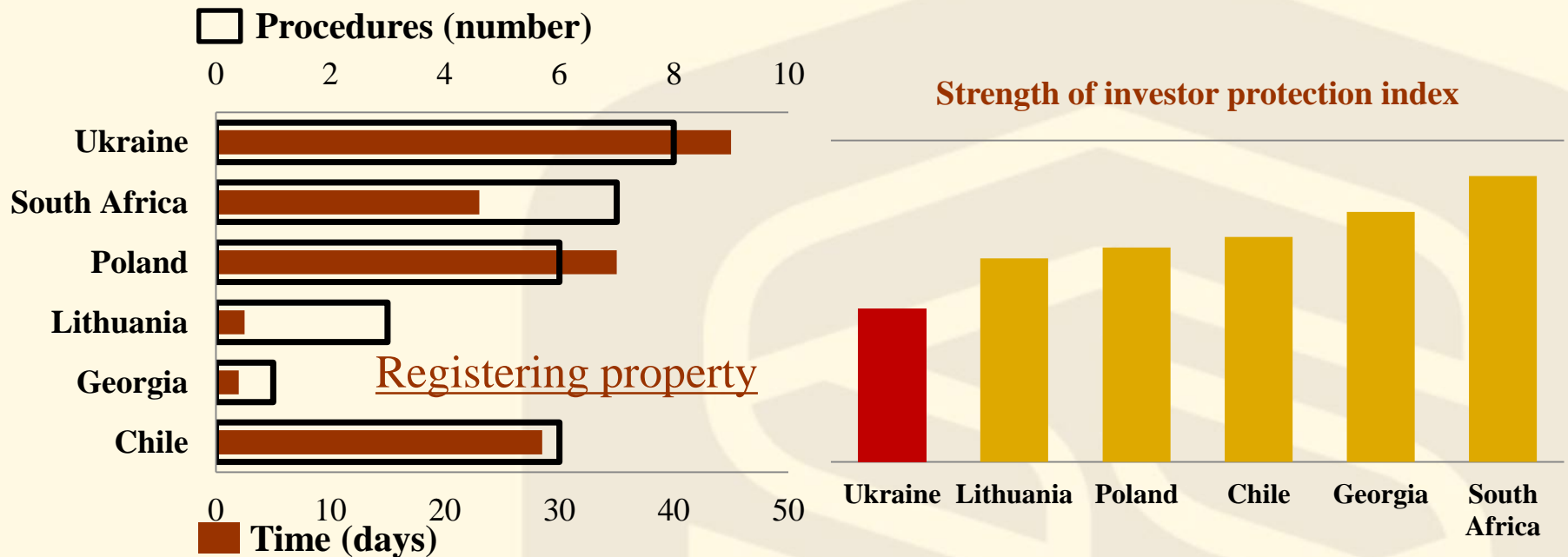
Simplify business taxation



- Tax compliance is a huge burden on Ukrainian businesses, mostly due to unnecessary complicated taxation of labor income and myriad social payments.
- Paying income tax involves a single payment in Chile and Georgia and can be filed online in Georgia; in Ukraine, there are about 24 annual payments of labor taxes and contributions.
- **Simplify labor income taxation and move much of the tax compliance paperwork online.**

Source: World Bank, Doing Business 2014

Enhance the protection of private property rights



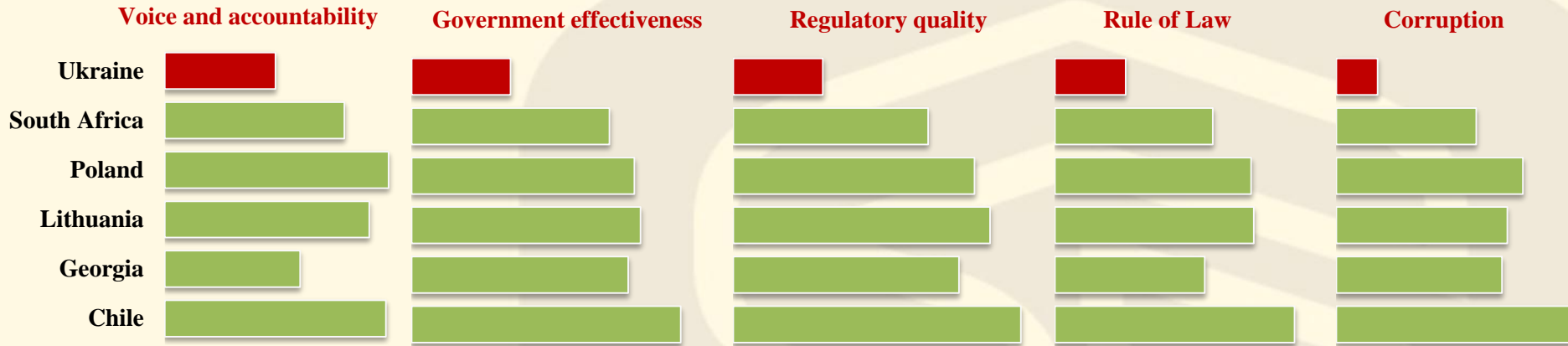
- It is still too costly and time-consuming to register property, enforce contracts and resolve insolvency in Ukraine – all of which deters the creation of more efficient and competitive businesses.
- Investors in Ukraine suffer from a weak rule of law, corrupt judiciary and inefficient redress mechanisms to protect their rights.

Source: World Bank, Doing Business 2014

Improve public governance

World Bank Governance Indicators

percentile rank

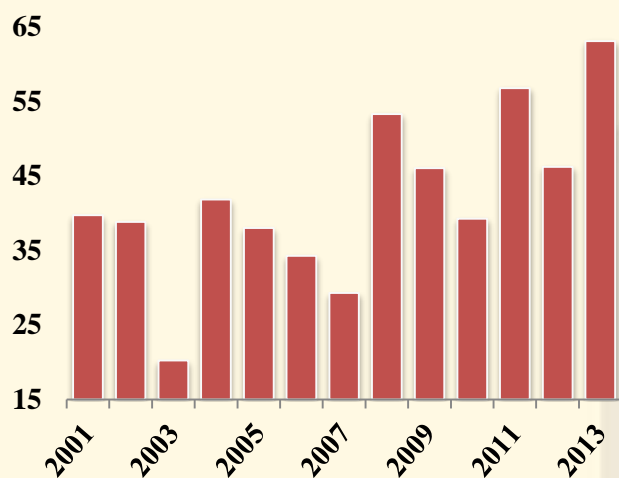


- The quality of public governance in Ukraine remains consistently below the level of government effectiveness in most emerging economies.
- Government still remains unaccountable, inefficient and inept at creating business-friendly regulatory environment.
- Weak rule of law and endemic corruption is particularly worrisome.
- **There is an urgent need to enact a comprehensive Public Administration Reform, overhaul regulatory and taxation rules, fix the legal and judicial system and reduce corruption.**

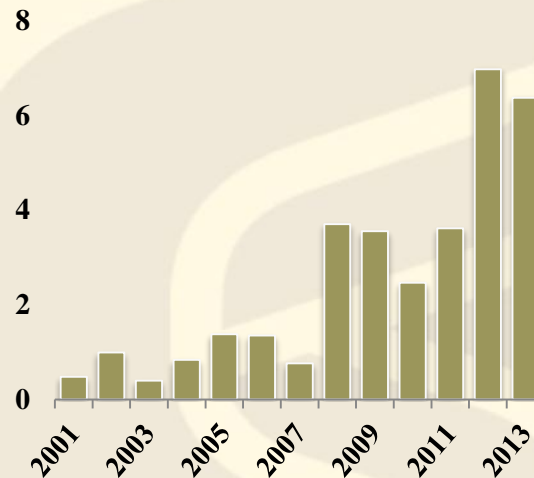
Source: World Bank – Governance Indicators

Investment opportunities: Agriculture

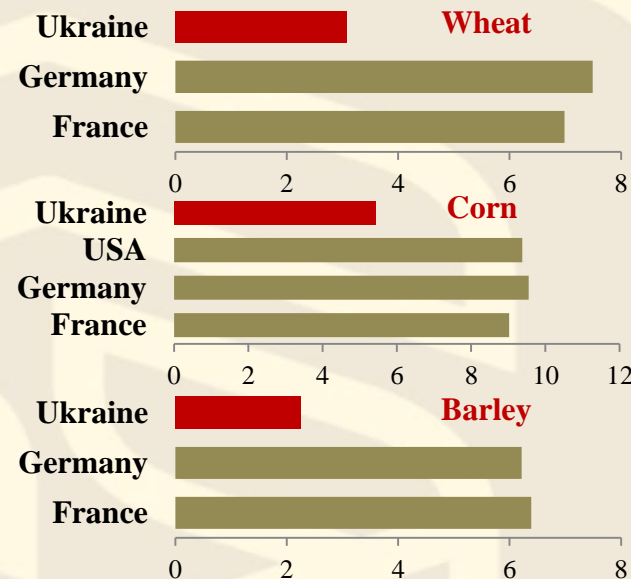
Grains harvest, mln tons



Cereals exports, \$ bln



Grain yields, tons per ha
2009-2013 average



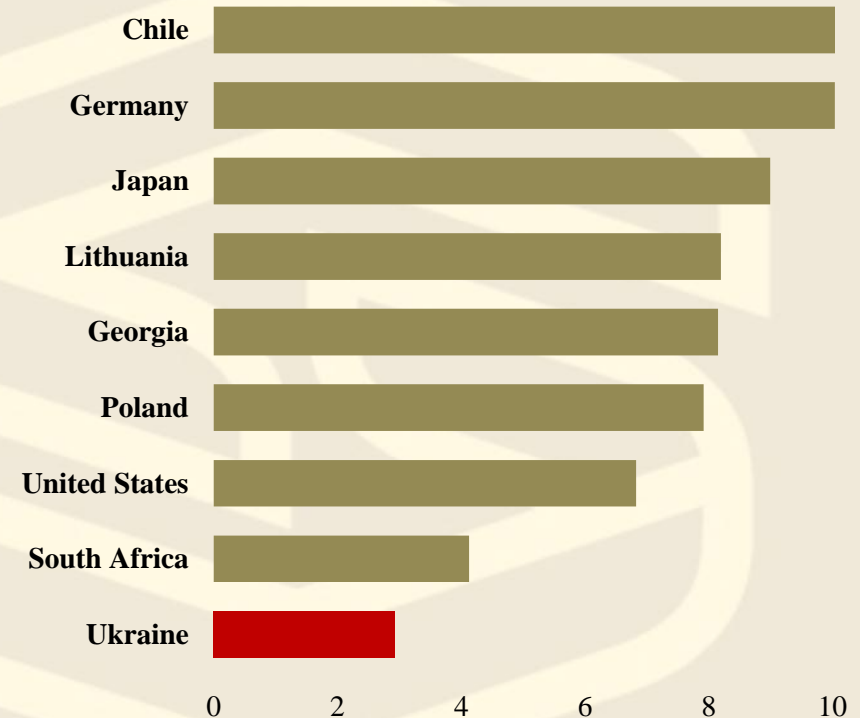
- Grains production and exports are growing.
- Yet, yields of staple crops remain low.
- **The investment environment in the agro sector must be improved: there is a need to simplify agricultural regulations, streamline licensing procedures for grain exporters; promote investments in modern machinery, seeds and fertilizers; enhance R&D activities, and improve infrastructure.**
- **State-owned land should also be made available to private firms.**

Source: State Statistics Committee, UN Comtrade, FAO

Investment opportunities: Energy sector

- Energy supply is not diversified – almost all energy imports have been coming from Russia.
- Furthermore, energy use in Ukraine remains extremely inefficient.
- **Energy Government policy should:**
 - 1. Encourage the diversification of energy imports. (For example, provide support to LNG projects).**
 - 2. Attract investments into the development of domestic conventional and alternative energy resources.**
 - 3. Improve energy efficiency of the economy.**

GDP per unit of energy use, 5-year average
constant 2011 PPP \$ per kg of oil equivalent



Source: UN Comtrade, World Bank