



*Where Opportunities Emerge.*

# Ukraine: The Road to Stability

Michael Bleyzer  
Wilton Park Conference  
October 9, 2001

# New World Order

- Today, conflicts rarely stay within national boundaries
- Today, a tremor in one financial market is repeated in the markets of the world
- Today, confidence is global; it's presence or its absence
- Today, the threat is chaos, because for people with work to do and family life to balance and mortgages to pay and careers to further and pensions to provide, the yearning is for order and stability. And if it doesn't exist elsewhere, it's unlikely to exist here

***I have long believed that this interdependence defines the new world we live in***

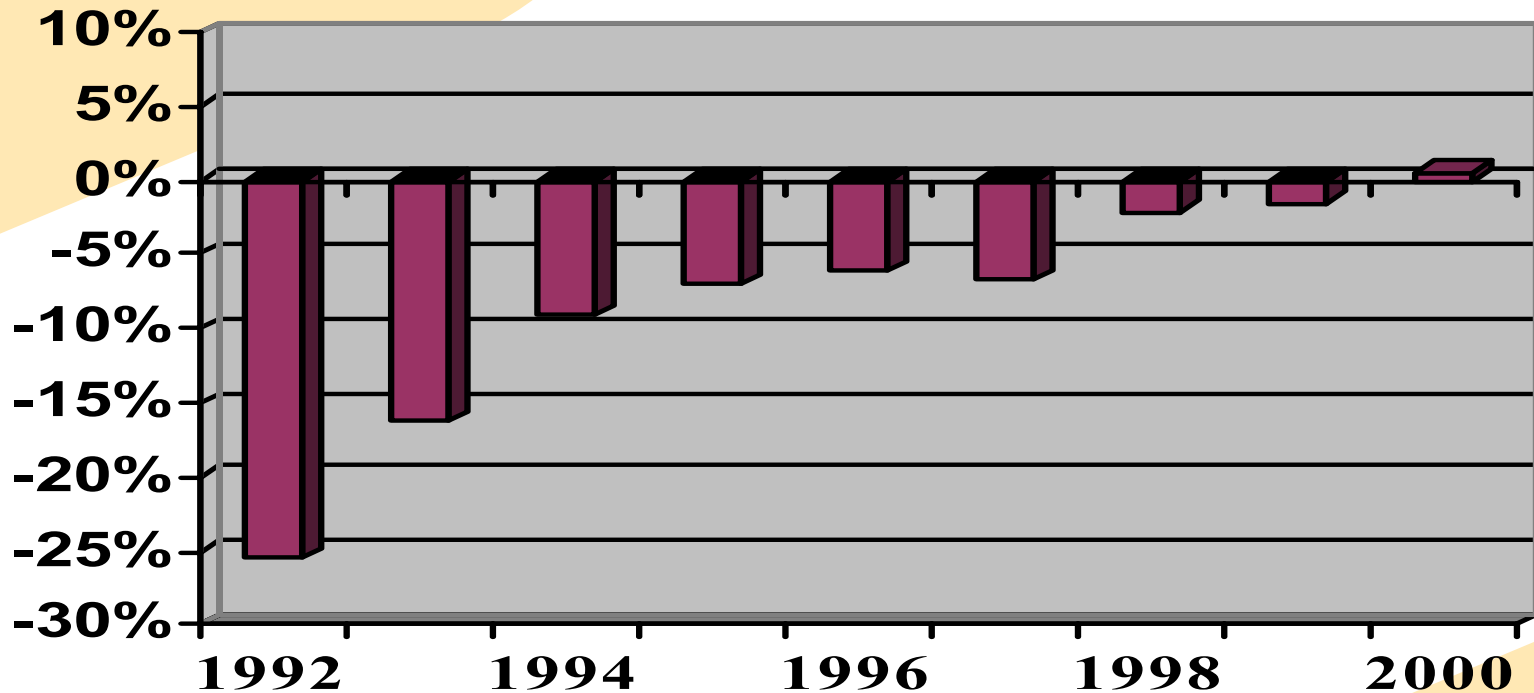
Tony Blair, October 2, 2001

# Ukraine 2000

- Major turning point?
  - First GDP Growth since independence - 6%
  - High Industrial Output Growth - 12.9%
  - High Agricultural Output Growth - 9.2%
  - Real Income Growth of 8.5%
  - Population deposits in commercial banks up 45%
  - Positive foreign trade and current account balance
  - Stable foreign exchange rate
  - International reserves up 80%
  - External public debt down 17%
- In late 1999 these results would have been just a dream... –  
**IS THIS REAL??**

# What Happened?

## Fiscal Deficit as a % of GDP

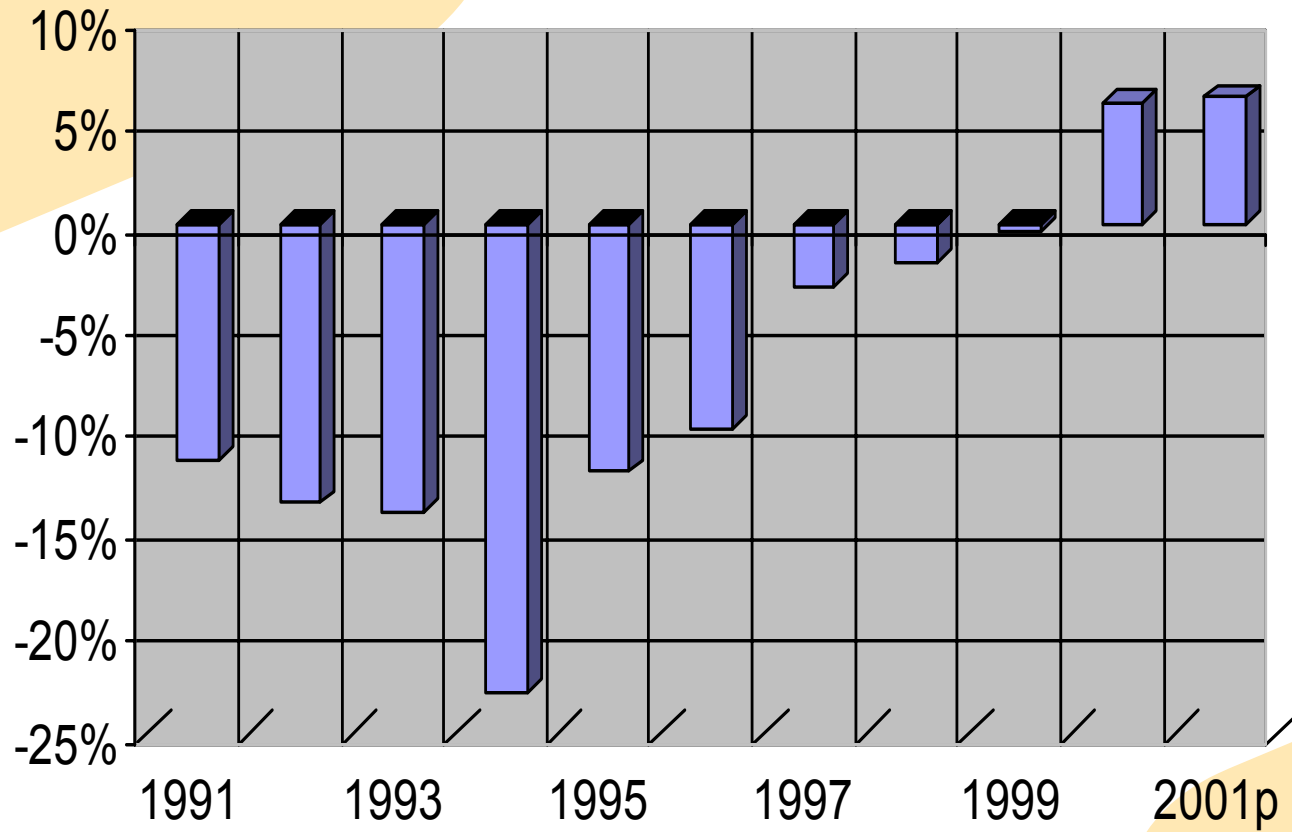


# Any other miracles?

- Land reform, land certificates, titles proceeding, but no Land Code yet
- Barter – down dramatically, cash collections in the energy sector up from 12% in 1999 to 85% of sales
- Significant reduction of barter in international trade
- Elimination of Government pension arrears
- Major reduction in Government wage arrears
- Introduction of European import certification standards
- Customs procedures improvement closer to European standards

# Critical Mass of Reforms?

## GDP Growth Rates



# 2001 – When do we call it stable?

- January – August: real GDP up by 10.8% , industrial output up by 16.9%, agricultural output up by 27.7%
- Inflation – 3.7% in the first 9 months of 2001
- Fiscal policies produced surplus in the first 8 months of 2001 (including privatization revenues) of UAH 1.5B or 0.7% of GDP
- International reserves up another 65% to \$2.7B, foreign debt down another 6% to \$9.7B, stable currency
- IMF and World Bank renewed lending operations on September 20 (\$376M+\$250M)

# International Private Capital Task Force (IPCTF) Ukraine, 2000 - 2001

- The **extraordinary** economic performance of Ukraine in the last 20 months presents a unique opportunity for a breakthrough
- But foreign investment continues to decline
- Major increase in the investment flows is necessary to sustain the long-term growth
- IPCTF effort objective: Benchmark transition economies to identify best practices in government policies, which improve investment climate and attract private capital

# IPCTF Steering Committee

*World Bank, EBRD, IMF, IFC, USAID, European Commission, US Embassy, American Chamber of Commerce, International Center for Strategic Studies, Harvard Institute for International Development, AGCO, SigmaBleyzer, Coca Cola, Citibank, Commerzbank, Credit Lyonnais, FMI, PricewaterhouseCoopers, Leo Burnett, DuPont*

# Benchmarked Countries

- Argentina
- Chile
- Hungary
- Poland
- Russia

# Countries Included in Statistical Analysis

*Angola, Argentina, Armenia, Azerbaijan, Belarus, Bolivia, Botswana, Bulgaria, Burkina Faso, Cameroon, Chile, Colombia, Costa Rica, Croatia, the Czech Republic, Ecuador, Egypt, El Salvador, Estonia, Ethiopia, Ghana, Hungary, India, Indonesia, Jordan, Kazakhstan, Kenya, Lithuania, Malawi, Moldova, Morocco, Mozambique, Nigeria, Peru, Philippines, Poland, Romania, Russia, Senegal, Slovak Republic, South Africa, Tanzania, Tunisia, Turkey, Uganda, Ukraine, Venezuela, Vietnam, Zambia, and Zimbabwe.*

# Key Drivers / Policy Action Groups

- *The study pre-condition is macroeconomic stabilization, resulting from sound fiscal and monetary policies.*
- Study identified the following key government policy actions, which stimulated foreign direct investments in successful transition economies:

- 1. Liberalize and De-Regulate Business Activities**
- 2. Provide a Stable and Predictable Legal Environment**
- 3. Enhance Governance & Reform Public Administration**
- 4. Remove International Capital & Trade Restrictions**
- 5. Facilitate Financing of Businesses**
- 6. Eliminate Corruption**
- 7. Reduce Political Risks (non-economic country risks)**
- 8. Expand Country Promotion**
- 9. Rationalize Investment Incentives**

# Benchmarking Results

UKRAINE	RUSSIA	POLAND	HUNGARY	CHILE	ARGENTINA
---------	--------	--------	---------	-------	-----------

## Business Liberalization Score

18	49	87	80	89	62
----	----	----	----	----	----

## Legal Environment Score

17	62	99	93	89	65
----	----	----	----	----	----

## Financial Sector Score

10	39	62	68	74	39
----	----	----	----	----	----

## Governance and Privatization Score

29	30	89	82	80	65
----	----	----	----	----	----

# Benchmarking Results

UKRAINE	RUSSIA	POLAND	HUNGARY	CHILE	ARGENTINA
---------	--------	--------	---------	-------	-----------

## Political Risk Score

65	49	83	82	71	75
----	----	----	----	----	----

## International Capital Controls & Foreign Trade Score

63	45	78	79	84	69
----	----	----	----	----	----

## Corruption Score

15	21	41	52	74	35
----	----	----	----	----	----

## Governmental Promotional Effort Score

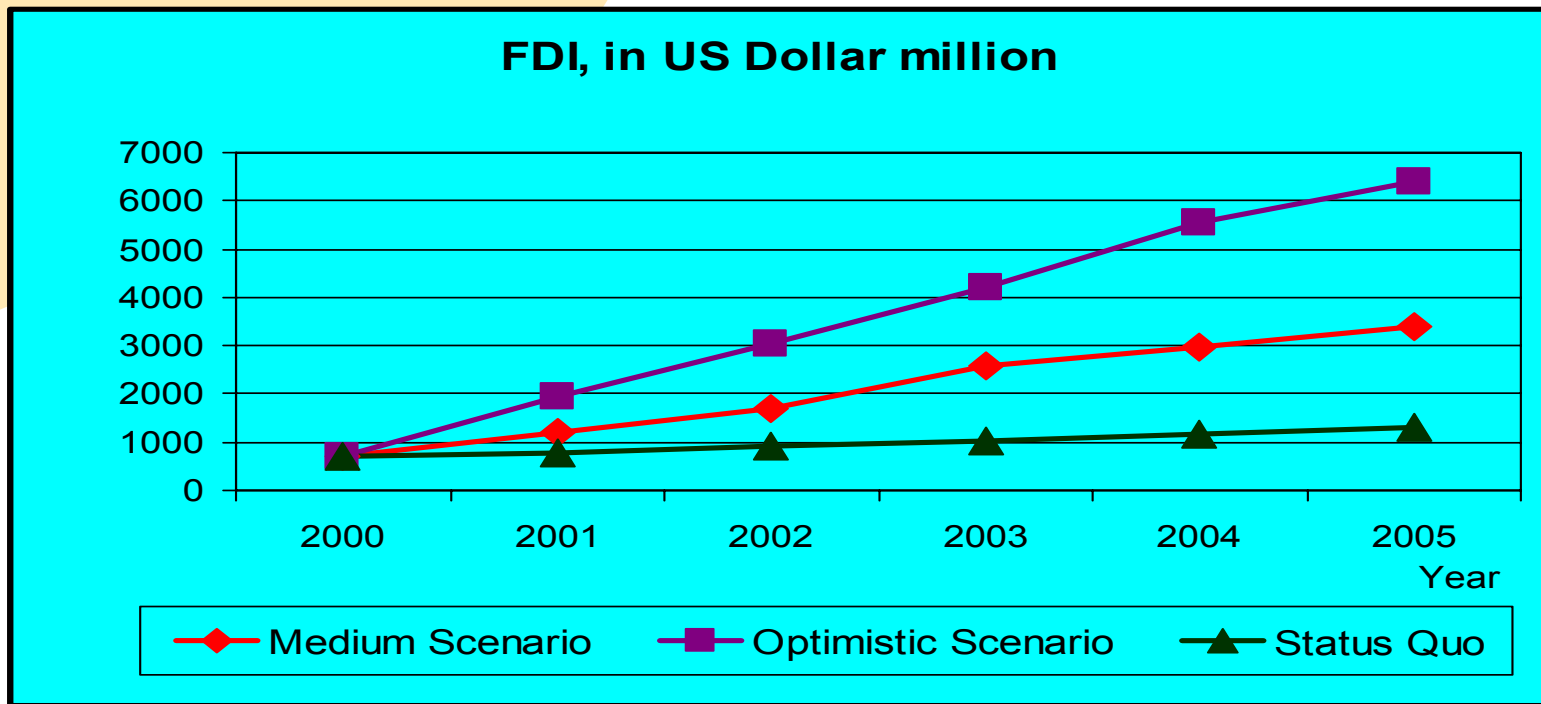
20	30	80	100	90	75
----	----	----	-----	----	----

## Tax and Investment Incentives Score

31	48	78	82	63	70
----	----	----	----	----	----

# FDI For Ukraine- Possible Scenarios

- Ukraine's government policies will determine the FDI flows over the next 15 years (5 years shown)



- The **Middle Scenario** would generate an incremental GDP growth rate of 4.8% per annum.

# Conclusions for Ukraine

- **With continuation of current policies**, FDI flows **will not increase** from its current level of under **US\$1.0 billion per year** (except for ad-hoc flows related to large privatizations)
- **Under a middle scenario**, with policy actions to **reduce in five years 50%** of the policy level differential with the Bests-in-Class, Ukraine could increase FDI to about **US\$3.4 billion per year by 2005, resulting in US\$75 billion over the next 15 years**
- **Under a more aggressive scenario**, with stronger policy actions to **reduce in five years 80%** of the policy level differential with the Bests-in-Class, the level of foreign direct investments could increase to **US\$6.4 billion per year by 2005, resulting in US\$100 billion over the next 15 years**

# IPCTF Framework – A Tool for Action

- Low correlation between FDI flows and “natural characteristics” (e.g., location, size, resources, etc.)
- High correlation between government policies and FDI flows
- Private Capital likes Uniformity and Business Standards
- Measuring economic impact of government policies based on the gap between a given country and the best in class in each of the nine government policy areas
- Econometric model of a transition economy predicting FDI flows based on government policies
- IPCTF Framework provides a **comprehensive tool** for building consensus and developing an **Action Plan** for any transition economy

# Ukraine 2001 – A Call for Action

- Ten years in Transition
- Approaching the critical mass of reforms
- Significant economic turnaround in the making
- Need investments to sustain and accelerate economic growth
- **Economic Growth is the key to solving social problems and fighting poverty**
- IPCTF Action Plan for Ukraine is a comprehensive plan to successfully complete Ukrainian transition to market economy and democracy
- **Political Will is needed to enact the Action Plan**

# Financial Assistance to FSU Countries

- Must be focused on **Economic Growth**
- Minimize government-to-government money transfers and blind pools of money
- The use of proceeds is just as important as the conditionality of lending
- Reduce adjustment lending and budget deficit financing
- Maximize equity investments in place of debt
- Leverage private capital investments with financial assistance dollars
- Structure financial assistance as “private equity funds” managed by money managers from private sector

# BLEYZER INITIATIVE

- Refocus multilateral and bilateral assistance to FSU countries on the creation of market economies
- Use IPCTF framework to create capital-friendly environment in the FSU countries and attract private equity capital
- Focus most financial assistance on creating private businesses – SMEs and conditions for large multinationals operations in the FSU countries
- Leverage private capital with donor's money
- Implement comprehensive coordinated assistance program to the FSU countries: use donor capital to create the environment, which attracts private capital

# BLEYZER INITIATIVE

## Action Plan

- Convince US government at the most senior levels of the need to actively support the creation of market economy and democracy in the FSU countries
- Convince EU countries of the same
- Build an alliance of developed countries to promote the market-economy-focused program in FSU countries
- Use IPCTF framework as broad conditionality for all financial assistance to the FSU countries
- Work with the FSU countries' governments to create specific Action Plans for each country using IPCTF framework
- Create a series of satellite private equity funds in the FSU countries to advance Action Plans implementation
- Publicize the program in the Western press to attract private capital

# Instructions for three groups interested in Ukraine

- Private Capital:
  - Find a specialist
- Ukrainian Government:
  - Clean up your act
- Developed countries:
  - Talk to Tony Blair

# Ukraine Is Bound to Succeed!

## "Україна приречена на успіх"



*Where Opportunities Emerge.*