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Investment Opportunities in Ukraine: Problems and Prospects

Ukraine’s Investment Climate
Investment and Innovation Policy of Ukrainian Government
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Ukraine’s Investment Climate: Myths and Reality

By Sergiy Kulytsky, head of the economic analysis department of the information and analytical service to state authorities of the Vernadskiy National Library of Ukraine and Natalia Omelyanchyk, doctor of economics, chief research officer at the Scientific Research Institute for Economics at the Ukrainian Ministry of Economy, senior research officer at the Vernadski National Library

1. Subject of analysis

As far as prospects for Ukraine's economic development are concerned, it is worthwhile to examine the issue of formation and assessment of the Ukrainian investment climate, which is an important factor determining those prospects. Experts and representatives of the mass media differ in their opinions apropos of the above problem. However, publications of various viewpoints in the press give birth to the following paradox: assessments of Ukraine's investment climate are unclear, vague and sometimes emotional, though their results can influence behavior of the majority of potential investors. Hence, first and foremost, we would like to determine the subject of analysis.

As a rule, investment climate is considered as the extent, to which a situation in definite country, region or industry is favorable for inflow of potential investments[1]. Sometimes, such synonyms of investment climate as "investment environment", "business climate", "business environment" and "rules of the game" are used. Despite the fact that those synonyms are somewhat incorrect, their usage in the context of public relations can generate tangible practical results influencing the volume of investments obtained by definite recipients.

In general, investment climate is viewed as conditions and factors determining economic environment[2]. As a matter of fact, there are short- and long-term aspects of business activities. Conditions important for short-term transactions and those crucial for long-term ones are basically different. For instance, to successfully execute contracts for the sale/purchase of consumer goods whose level of capital intensity is low, requirements to stability and predictability of business environment are limited to relatively short-term periods. The same is true in case of speculative stock market and foreign exchange transactions.

Should we study investments as purchase of basic assets, such as machinery, equipment, expenses for construction of buildings and premises, and not as purely financial exchange dealings[3], it will be obvious that requirements to stability and/or predictability of investment climate as well as behavior of potential recipients should be of a long-term nature. The above fundamentally alters approaches to assessment of the investment climate.

Investment climate is formed under the influence of different factors. Some academicians divide them into the following groups:

1) Natural: geographical location, natural conditions and resources

2) Economic: general economic trends (revival, decline, stagnation), taxes and tariffs, quality and cost of manpower, characteristics of banking system and other ingredients of economic infrastructure, dynamics of exports/imports transactions, currency exchange rate, inflation processes etc.

3) Political and legal: national legislation and general investment policy of a state, legal traditions and level of development of relevant infrastructure, mechanisms for and scales of state interference with economic development, continuity and consistency of state policy etc.

4) Social: sex-age structure of population, social psychology and traditions etc.[4]

The above factors differ from each other according to the level of their mobility/inertness. It is rather easy for investors to estimate factors that are inert or relatively stable from the viewpoint of investment activities, such as geographical location of a country or a region with respect to other centers of business activity, natural resources, sex-age structure and geographical distribution of population etc. The reason is that discovery of large deposits of natural resources whose exploitation is economically expedient (like gas and oil fields in the Caspian Sea region) is quite a rare phenomenon and events like transformation of the European political map, which took place in late XIX century, are absolutely unique. Within historical periods marked by identical epochal changes, it is extremely difficult to assess economic and, especially, political and legal factors because of their high mobility. Potential investors pay close attention to those factors, thereby making basic estimation of investment attractiveness of a state/region.

Assessment of investment climate is based on analyses of the majority of the above factors viewed as in parameters as well as capital inflow/outflow, dynamics of inflation tempo, interest rate, share of savings in the GDP regarded as out parameters[5]. Such estimate is predominantly of expert nature and therefore is somewhat subjective, which can be used in the above-mentioned public relations context. That is why authors usually briefly define investment climate as rather favorable or unfavorable without citing numerous statistical indicators and analytical conclusions.

The term “investment attractiveness of enterprise/company” provides for fewer opportunities for manipulation, since forecast of definite recipient’s behavior and corresponding environmental changes are much more reliable. Nevertheless, even in this case, a paradoxical situation may take place. For example, the Russian Gazprom has large debts to western creditors, though its shares are very attractive for investors. This paradox can be rather simply explained by the fact that the Gazprom is the major supplier of natural gas to the European market and will apparently retain this position within the next 20 years. In Ukraine, the similar situation is observed in case of the Kyivenergo. Notwithstanding the company’s debts, foreign investors are interested to participate in its privatization. Potential investors are also interested in a whole number of other Ukrainian enterprises even despite Ukraine’s unfavorable investment climate.

Every investor expects to derive certain profit or other advantages. Hence, we would like to make an effort to estimate Ukraine’s investment climate in the light of actual activity of both Ukrainian and foreign investors, considering the fact that they have different incentives to invest.

2. Foreign investments in Ukraine

Foreign businessmen have to accommodate to conditions of an unfamiliar country. In this context, they should be more cautious than local entrepreneurs, while objects of their investments should be more reliable from the viewpoint of business prospects. The best way to attain the above goal is choice of recipient enterprises that are well adapted to the situation on local or foreign markets. It is possible to assume that directions and volumes of foreign investments point to the most reliable and viable sectors of the national economy. Therefore, we would like to closely study foreign investments in Ukraine.

From the time the state declared its independence and committed itself to economic liberalization till January 1, 2001, the amount of foreign direct investments (FDI) in Ukraine totaled USD 3.9 billion. Analysis of FDI dynamics, structure, geographical origin and use allowed revealing the following tendencies. Foreign companies started actively investing in Ukraine’s economy only in 1995, when the amount of FDI constituted USD 413.1 million as compared to USD 483.5 million within all previous years. Within next three years, dynamics of FDI inflow in Ukraine was positive, i.e. the level of FDI was increasing year-by-year. For instance, in 1996, 1997 and 1998, the amount of FDI surged by 31%, 51.4% and 80.8% respectively as compared to previous years. Subsequent to the 1998 world financial crisis, there was a sharp decrease in the volume of FDI, which only in 2000 was followed by improvement of the situation and growth of foreign investments inflow by nearly 24% as compared to 1999. The government expects that in 2001, the amount of FDI should increase by USD 900 million. Within recent years, FDI to GDP ratio varied within the limits of 1.24-2.5%, while in 2000, the share of FDI in the total amount of capital investments increased to 4.1%.

Foreign investments in Ukraine are mostly made in the form of monetary funds, movable property, real estate and securities. As far as the structure of foreign investments in Ukraine in 2000 is concerned, the share of monetary funds equaled 57.8%, movable property and real estate - 30.6%, securities - 6.2%, other types of assets – 5.4%.

The largest share of FDI in the amount of USD 2,755.8 million (or 71.3% of the total volume) was attracted by collective enterprises. Companies owned by foreign investors received FDI in the amount of USD 1,057.1 million USD (27.3%), whereas private, state and municipal enterprises attracted USD 25.8 million (0.7%), USD 17.7 million (0.5%) and USD 9.1 million (0.2%) of investments respectively.

Foreign companies are relatively stronger inclined to invest in joint ventures (JVs). By early 2001, overall number of JVs totaled 4,969, while the volume of FDI they had received constituted USD 2.3 billion. Average amount of FDI per enterprise equaled USD 457,000 and that per industrial enterprise constituted USD 980,000. In fuel industry the above indicator reached the level of USD 6,896,000; in food industry – USD 1,512,000; in machine building – USD 972,000; in consumer goods industry – USD 187,000; in agriculture – USD 331,000; and in trade and public catering – USD 147,000.

Foreign companies most willingly invest in food industry (USD 775.5 million or 20.1% of the total amount of investments), internal trade (USD 727.8 million or 18.8%) as well as machine building and metalworking industry (USD 347.6 million or 9%). Foreign investors are also interested in banking and insurance branches (USD 248.1 million or 6.4%) as well as in fuel industry (USD 227 million or 5.9%).

Table 1. Volume of FDI in Ukraine's Economy*

Branches	By January 1, 1995	By January 1, 1998	By January 1, 1999	By January 1, 2000	By January 1, 2001
Total, including	483.5	2,063.6	2,810.7	3,281.8	3,865.5
Industry (total), including	254.2	1,027.0	1,483.6	1,724.7	1,983.2
Electric power industry	0.7	0.0	0.2	2.9	10.6
Fuel industry	2.9	31.9	78.7	198.5	227.0
Machine building and metal-working	83.9	161.2	352.8	333.6	347.6
Food industry	62.5	431.9	584.8	659.0	775.5
Agriculture	8.5	55.9	59.1	64.5	78.8
Internal trade	81.9	339.0	451.2	557.8	727.8
Science and scientific service	7.8	19.3	19.5	17.0	23.9
Banking and Insurance	12.5	173.9	196.7	215.3	248.1

* *The list of branches is not complete*
Source: the State Committee for Statistics

The lion's share of FDI (90.4%) comes to Ukraine from western countries. The rest of foreign investments (9.6%) are attracted from the CIS and Baltic States. The United States of America is the major investor in the Ukrainian economy (USD 635.8 million or 16.4% of the total amount) followed by Cyprus (USD 372.6 million or 9.6%), the Netherlands (USD 361.8 million or 9.4%), the Russian Federation (USD 299.4 million or 7.7%), Germany (USD 237.9 million or 6.2%), the Virgin Islands (Great Britain) (USD 176.8 million or 4.4%), Korea (USD 170.4 million or 4.4%) and Switzerland (USD 169.9 million or 4.4%). The share of those states approximates to 71% of the total amount of FDI attracted.

Western and Russian companies, two major groups of investors, have already determined their investment priorities. Representatives of western companies proceed from the fact that in countries of their location markets have been formed long ago and are stable, which makes it hardly possible to substantially increase profits[6]. Hence, first and foremost, they were interested in Ukraine as in the sales market offering opportunities to increase volumes of goods sold and services rendered. Therefore, foreign investors prefer such branches as food industry, agriculture, trade and distribution, i.e. spheres not requiring large amount of initial investments, having high capital turnover ratio, characterized by low risks taking advantage of Ukrainian market's demand. By the way, it takes USD 1,000,000 to open a McDonalds restaurant. Since 1997, the company has opened 44 restaurants and invested USD 70 million in Ukraine's economy. The company is going to invest another USD 7 million this year and plans to enlarge network of restaurants up to 85 by 2004[7]. Investments of the American Cargill Co. in Ukraine amount to USD 85 million. In 1995, the company built its first enterprise producing crossbred sunflower seeds; in 1997 it established a factory producing compound fertilizers; and in 2000 – a plant processing 300,000 tons of sunflower-seeds a year, which approximates to 10% of all Ukrainian capacities. The Sun Interbrew Co. worked up one thirds of the Ukrainian beer market, on investing USD 43.1 million in purchase and re-equipment of Ukrainian breweries, such as the Kharkiv-based Pogan brewery JSC, the Chernigiv-based Desna brewery JSC, the Mykolaiv-based Yantar brewery JSC and the Sevastopol-based Beer and non-alcoholic beverages factory JSC[8].

There is severe competition between foreign companies on the Ukrainian market for transportations and telecommunications. The Utel, Ukrainian-American-German-Dutch joint venture, has been operating in Ukraine since 1992. Within this period, the company made investments in the amount of around USD 200 million. This year, the Utel plans to invest USD 45 million in development of Ukraine's communications. Another joint venture, the Golden Telecom, has invested in Ukraine's economy USD 60 million and is expected to invest USD 21 million more in 2001.

Unlike western companies, Russian enterprises mostly invest in Ukraine's key industries, such as fuel and energy complex, metallurgy, machine building and metalworking, i.e. in branches allowing Russian investors to restore or maintain technological links that were formed in the former USSR. Within last two years, the Russian Lukoil Co. purchased a large block of shares of the Odessa oil refinery, founded a joint venture with the Kalush-based Oriana petrochemical plant and now is going to invest USD 37 million in its technical re-equipment. Besides, within 2001-2003, the company plans to invest nearly USD 300 million in construction of 150 filling stations and establish a retail trade network to increase sales of combusting-lubricating materials. The Tumen Oil Co., another Russian giant of oil business, purchased Ukraine's largest Lysychansk-based oil refinery. Russian entrepreneurs are also interested in Ukrainian aluminum industry. Last year, the Russian Aluminum holding privatized the Mykolaiv-based aluminium plant and the AvtoVAZ-Invest purchased controlling stockholding of the Zaporizzhya-based aluminous factory.

We should also mention recent tenders for controlling shareholdings of six "oblenergos". Experts estimate tenders results differently, though, they all agree that those results were adversely affected by recent political instability[9]. It is worthwhile to remark that while nobody has any doubts about the "authenticity" of the AES Washington Holdings B.V., whereas the Vychodoslovenske Energeticke Zavody Co. may have served as a cover for an influential Ukrainian businessman[10]. If the above is true, it means that only entrepreneurs directly or indirectly supported by power structures can carry on large-scale investment activities in today's Ukraine, which negatively characterizes the country's investment climate.

3. Changes in the investment process in Ukraine

To complete the picture we would like to analyze investment activities of Ukrainian entrepreneurs. From early 90s till the end of the recent world financial crisis, their investment activity was declining. Volume of capital investments allocated for creation or renewal of basic assets, such as machinery, equipment, buildings, premises and so on, decreased. Both public and shadow distribution of property within that period resulted in the fact that large amounts of assets were converted into money, which was transferred abroad, first of all, to offshore zones. Later on, those funds were returned to Ukraine as foreign investments. The above statistical data indicate that such famous offshore zones as Cyprus and the Virgin Islands are among major foreign investors. Actually, there is no certainty that all funds coming to the country from offshore zones are of Ukrainian origin. However, in the opinion of bankers, entrepreneurs, large trade intermediaries, officials and independent experts, Ukrainian origin of a considerable share of offshore capitals is beyond doubt.

The period preceding the 1998 crisis was remarkable for rapid growth of fictitious capital. Volumes of trade in domestic state bonds (DSB) were steadily increasing, as it was much more profitable to invest in DSB than in real assets. As a result, two relatively closed cycles "money-money" and "goods-goods" have been formed in Ukraine's economy. The DSB market, where banks and other financial institutions played the role of major purchasers, served as a basis for the first cycle. Many actual holders of DSB were foreigners. The majority of proceeds from trade in DSB were earmarked not for development of the real sector but for funding of state budget deficit. The second cycle was based on barter dealings and transactions with goods made on commission, which was evoked by lack of "live" money and numerous schemes of property redistribution. The period of 1995 – early 1998 was characterized by relatively low exchange rates of hard currencies, including U.S. dollar, and stable hryvnya. That is why imported commodities successfully competed with

Ukrainian ones. All the afore-mentioned factors did not stimulate investments to the real sector of the Ukrainian economy on the part of domestic entrepreneurs. In Russia, the situation was almost identical, except for some national peculiarities mostly related to enormous reserves of natural resources.

The world financial crisis of 1997-1998 radically changed the situation. Its most important implications for Ukraine included frustration of illusions both in the country and abroad as well as abrupt devaluation of the national currency. Hryvnya devaluation drastically altered the correlation between revenues from imports and exports transactions in favor of the latter. As a result, Ukraine's investment climate started changing for the benefit of Ukrainian manufacturers.

The above conclusion is confirmed by official statistical data. For instance, industrial output in Ukraine increased by 4.3% in 1999 and by 12.9% in 2000. For the first time, capital investment growth took place in 1998. That year its rate constituted 5.7%, slowed down to 0.4% in 1999 because of the financial crisis and surged to 11.2% in 2000. According to the government report to the Verkhovna Rada, "last year's positive trend towards growth of capital investments intensified in the first quarter of this year. Within the reporting period, volume of capital investments increased by 23.7% as compared to 26.2% within the same period of 2000 and 11.2% within the whole last year. In January-March 2001, Ukrainian enterprises and organizations made capital investments in the amount of UAH 3.9 billion. Internal funds of enterprises remained the major source of capital investments equaling 67.6% of the total amount of investments". Within the first quarter of 2001, the share of investments funded from the state budget increased, constituting 5.3% of the total amount of investments compared to 3.5% within the same period of 2000[11].

Hryvnya devaluation and actual revaluation of US dollar in Ukraine, growth of population incomes and gradual accommodation of many market participants to new economic conditions enhanced competitiveness of Ukrainian commodities and weakened positions of imported goods in domestic market. The most favorable conditions for business activities are observed in processing industries, where manpower is the key production factor. Within January-March 2001, increase of output in extracting industry amounted to 3.3% compared to the same period of 2000, whereas that in processing industry totaled 23.8%. In food industry, including the branch processing agrarian produce, output grew by 27.4% as compared to the same period of 2000.

At the same time, despite the above positive tendencies, some negative factors retained their impact, thereby hindering shifts towards formation of a favorable investment climate in Ukraine in the long-term period. It is well known that development of commodity-money relations is the pledge of free movement of capitals, while reduction in the number of direct commodity exchange transactions encourages investments. In Ukraine, the share of barter trade was decreasing dramatically within last 3 years and reached the level of 9.6% in January-February 2001 as compared to 19.4% and 35.6% within the same period of 2000 and 1999 respectively. Nevertheless, innovation activity of Ukrainian enterprises remains rather stagnant, as within the first quarters of 2000 and 2001, only a small number of Ukrainian enterprises introduced innovations (6% and 5.6% respectively).

It would also be expedient to pay attention to special economic zones (SEZs) and territories of priority development (TPDs) established so that to accelerate economic development of a region and create new jobs by means of attraction of both foreign and domestic investors, formation of a more favorable investment climate offering incentives to business activity. Donetsk region ranks first in Ukraine according to the number of SEZs and TPDs. So, experience acquired in the region allows making preliminary conclusions about key issues relating to formation of a favorable investment climate in Ukraine.

In the opinion of Andriy Kluyev, deputy head of the Donetsk regional state administration, provision of preferential investment treatment, first and foremost, preferential taxation, to economic entities encouraged last year's tremendous growth of FDI in the region, four times exceeding indicators of all previous years in total. 116 investment programs in the amount of UAH 4.3 billion (USD 775 million) were approved prior to introduction of preferential investment treatment. Those programs envisaged that nearly 12 thousand new jobs would be created and 23.6 thousand people would retain their jobs. 77 programs are currently implemented in the region. The amount of UAH

1.6 billion (USD 290 million) or 63% of the total capital costs for projects has already been invested in the region.

Experience proves that in the Donetsk TPD investment programs are implemented unevenly. Towns where production is well diversified and, thereby, promotes inter-branch redistribution of manpower and financial resources, play the leading role in that process. For instance, in Donetsk, 40 programs requiring 296.3 million of investments have been approved, of which 29 projects in the amount of USD 146 million are at the implementation stage. In Horlovka, 15 investment programs worth USD 143.3 million have been endorsed, of which 10 projects in the amount of USD 52.7 million are now executed. By late 2000, 52% of planned funds were invested. 14 investment programs in Horlovka relate to development of the Stirol concern, one of the major Ukrainian exporters. In Mariupol, the total cost of 9 investment programs approved equals USD 88 million but only two projects at the Azovstal metallurgical plant worth USD 28 million are carried out at the moment. So far, investments attracted amount to USD 25 million. 7 investment projects, whose total cost equals USD 17.6 million, have been endorsed in Makiyvka.

In smaller towns where diversification of production processes is either low or totally absent, level of investment activity is not that high. For example, in Dobropol, just three investment projects worth USD 5.8 million were approved, in Artemivsk – two (USD 3.7 million) and in Dzerzhynsk – only one program (USD 6 million). Hence, geographical distribution of investment projects within Donetsk region clearly demonstrates cumulative impact of factors determining the extent, to which investment climate is favorable not only in the region or definite area but in Ukraine on the whole. Level of investment activity of economic entities is influenced by different local as well as regional social and economic conditions. It can considerably vary from area to area even regardless of the fact that the same legislation is applied and economic as well as natural factors are actually identical.

At the same time, opponents of SEZs and TPDs as mechanisms improving investment climate and encouraging investment process accentuate the fact that, for the time being, budget losses resulting from preferences granted to investors in SEZs and TPDs exceed budget proceeds from taxes and other mandatory payments. Since the establishment of the Donetsk TPD and till the end of 2000, the above budget proceeds and losses equaled UAH 227 and 278 million respectively. However, local officials assert that in 2000, the amount of budget receipts was UAH 8.4 million higher than that of budget spending[12].

Results of reforming Russia's taxation system also serve as confirmation of cumulative impact of factors determining formation of investment climate. On January 1, 2001, some taxes in Russia were abolished, while income and turnover taxes were reduced to 13% and 1% respectively. Though, the authors of changes in and amendments to the laws on taxation disregarded a number of essential branch and organizational aspects of the post-Soviet economy. For instance, as soon as the turnover tax was levied on service enterprises, they suffered heavy losses. According to some experts and businessmen, advantages the above enterprises had gained from decrease in the income tax are nullified by payments of the turnover tax even despite the fact that its rate dropped from 4% to 1%. Enterprises are also not interested to declare the total amount of their profit due to the absence of taxation amnesty. Many entrepreneurs complain about high social taxes. Nevertheless, inefficient management seems to be the key point[13].

4. Conclusions

Basic reasons for cautious attitude of foreign investors to Ukraine are well known and look as follows. At macro-level: general state of national economy, political, legal and economic instability and absence of transparent system for business activities. At micro-level: nature of relations between Ukrainian manufacturers, their foreign partners and sate organizations, lack of experience in the field of cooperation with foreign partners, neglect of respective standards and values because of the national mentality. Different approaches of Ukrainian and foreign entrepreneurs to organization of the investment process, ways and methods used to study the market study and carry on business hamper attraction of FDI to Ukraine. The situation is gradually changing for the better, though many problems remain unsettled. At the same time, foreign investors are potentially interested in Ukraine having great advantages over other CIS states, inclusive of beneficial geographical location (sea ports and location on European transport intersection), reserves of some important natural resources, developed technological potential, educated and comparatively cheap manpower as well as potentially capacious domestic market[14].

The majority of western investors successfully work in the sphere of consumer goods production and trade, where influence of political factors on investment climate is relatively lower. Strong foreign and Russian companies capable of overcoming political risks operate on markets for capital goods and those tending to oligopoly. As a matter of fact, behavior of foreign investors can serve as evidence of adaptation of Ukraine's economy to standard "rules of the game" in the world market and indicate the nature of its integration into the world economy. To estimate investment climate in Ukraine from the viewpoint of foreign investors it would be expedient to visualize future key directions of the Ukraine's economic orientation, whether it would be towards Western Europe, the CIS or other countries. Since nowadays this orientation is not clear, it is possible to speak only about more or less favorable climate of investing in certain industry.

At the same time, the decade of accommodation of Ukrainian society to market economic conditions encouraged growth of investments on the part of domestic entrepreneurs. Taking into account the afore-mentioned, we can state that at present, Ukrainian manufacturers enjoy more favorable investment climate than two years ago. As a matter of fact, investment environment differs from branch to branch. The analysis we carried out proves that investment climate is better in economic sectors having competitive advantages on domestic and foreign markets, i.e. in metallurgy, machine building, food and consumer goods industries, transportation services and communications. However, strong dependence of Ukraine's economy on foreign trade transactions due to relatively low purchasing power of domestic consumers deteriorates uncertainty related to assessment of business environment, adversely affecting investment climate in the country. On the other hand, a number of legal documents that can improve Ukraine's investment climate have been passed recently, such as the law of Ukraine "On Mutual Investment Institutions (Unit Trusts and Corporate Investment Funds)".

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Investment and Innovation Policy of Ukrainian Government: Achievements and Drawbacks

By Olexandr Baranovsky, head of the analytical and methodical department of the Accounting Chamber, doctor of economics.

Under the circumstances of long-term social and economic crisis, Ukraine's investment sphere experienced the most terrible shock, which adversely affected capital investments (see table 1) [1].

Table 1. Capital Investments

	Capital Investments, actual prices	Growth/Decrease Rate, % to the same period of the previous year	Capital Investments, % of the GDP
Billion roubles			
1990	31.1	101.9	18.6
1991	49.7	92.9	16.6
1992	866.0	63.1	17.2
1993	29,310.1	89.6	19.8
1994	228,033.2	77.5	18.9
1995	937,815.5	71.5	17.2
Million UAH			
1996	12,557.3	78.0	15.4
1997	12,400.6	91.2	13.3
1998	13,958.2	106.1	13.6
1999	17,552.1	100.4	13.5
2000	19,481.2	111.2	11.1

Within 1991-1997, level of real capital investments was essentially decreasing year by year and only from 1998 the situation started to slowly stabilize. So, there are no grounds to state that investment crisis has been overcome. Moreover, within the last decade, the general trend was toward reduction of the capital investment to GDP ratio.

The situation in the innovation sphere looks almost the same (see table 2) [2].

Table 2. Key Indicators of Innovation Activity of Ukrainian Industrial Enterprises

	1994	1995	1996	1997	1998	1999	2000
Number of enterprises that introduced innovations	218	2,002	1,729	1,655	1,503	1,376	1,491
Percentage of enterprises that introduced innovations, %	26.0	22.9	19.3	17.0	15.1	13.5	14.8
Number of new products	13,163	11,472	9,822	10,379	10,796	12,645	15,323
Number of innovative production processes, inclusive of waste-free and resource-saving technologies	3,559	2,936	2,138	1,905	1,348	1,203	1,403
	990	1,044	688	600	467	423	430

Within 1994-2000, the number of Ukrainian enterprises actively developing innovations considerably dropped. Their share in the overall number of industrial enterprises decreased nearly twice. Only in 2000, indicator of developed innovations approximated to that in 1993. In 1999, the number of new production processes introduced at Ukrainian industrial enterprises reduced three times, while that of waste-free and resource-saving technologies declined more than twice. Thus, innovations played minor role in economic development.

The Reforms for Well-Being Program of the Cabinet of Ministers of Ukraine provided for the following objectives in the sphere of investment and innovation policy:

To increase the level of investment resources and the share of investments in the GDP

To create additional investment resources to finance national economy by means of growth in real incomes, introduction of mechanisms for accumulation of population's savings and legal regulation of protection of citizen savings

To promote inflow of foreign investments

To renew state investment activity, to ensure priority allocation of investment resources for development of infrastructure and encouragement of scientific and technological as well as innovation policy

To introduce a mechanism for mixed funding of enterprises oriented to highly efficient investment and innovation programs

To focus innovation policy on maintenance and promotion of scientific and technological advance, development of high technology processes, technological renewal of production

In 2000, some of the above objectives of investment and innovation policy were successfully attained. According to the State Committee for Statistics, last year, capital investment growth ratio equaled 11.2% as compared to 0.4% in 1999 and 6.1% in 1998. In compliance with the report of the CIS Intergovernmental Committee for Statistics, in 2000, increase of the level of capital investments within the CIS states averaged 15% as compared to 1999. The above indicator amounted to 29% in Kazakhstan, equaled 26% in Armenia and constituted 18% in Russia. Ukraine ranked fourth. At the same time, capital investment growth ratio increased only by 4% in Kirgizstan, by 2% - in Azerbaijan and Georgia, by 1% - in Moldova and by 0.7% - in Uzbekistan, whereas in Belarus, this figure decreased by 3%.

Last year, the amount of capital investments equaled nearly UAH 19.5 billion earmarked from all possible sources of funding. Within 2000, structure of the sources of capital investments experienced changes. Internal investment resources of enterprises constituted over two thirds of the total number of capital investments. State budget's shares in capital investments and in housing construction dropped by 1.5% and 0.5%, equaling 6.1% and 5.8% of the overall amount of capital investments respectively. Capital investments funded from local budgets increased by 0.6% and constituted 4.5% of their total amount, while the share of foreign investments amounted to 4.1%. As for the share of extra-budget sources of capital investments in other CIS states, it equaled 97% in Azerbaijan, 92% - in Kazakhstan and Moldova, 91% - in Georgia, 90% - in Kirgizstan, 82% - in Armenia, 78% - in Belarus and 71% - in Uzbekistan. Capital investments funded from internal sources of enterprises and organizations equaled 29% of the overall amount in Azerbaijan, 34% - in Armenia, 47% - in Belarus, 31% - in Georgia, 61% - in Kazakhstan, 27% - in Kirgizstan and 68% - in Moldova. At the same time, in the CIS countries considerable capital investments were made by foreign companies and joint ventures whose share constituted 25% in Armenia, 4% - in Belarus, 34% - in Georgia, 30% - in Kazakhstan, 52% - in Kirgizstan and 18% - in Moldova.

Last year's growth of capital investments in the Ukrainian industrial sector is a very positive fact. Capital investments growth ratio in the industrial sector totaled 25.2%, whereas general indicator amounted to only 11.2%. It is worthwhile to emphasize that the above increase was observed after the 2.2% reduction in 1998 and minor growth of 0.9% in 1998. Amount of capital investments increased in such branches as forestry, transport and communications, construction industries, public catering, logistics, housing construction and health protection. In 2000, 45.1% of all capital investments were made in the industrial sector compared to 16.8% - in transport and communications as well as housing construction and 3.3% - in agriculture.

Nevertheless, such capital investments are not sufficient to solve topical problems. Moreover, the situation in the investment sphere is nearly critical. Last year, renewal of fixed production assets ratio constituted only 2.4% compared to 5.9% in 1995, whereas depreciation of basic assets amounted to 42.8% and was 5.7% higher than in 1995. In industry, depreciation was even higher and equaled 50.1% compared to 43.6% in 1995.

The amount of capital investments in construction of social infrastructure units constituted around UAH 4.8 billion or 24.5% of the total amount of capital investments in Ukraine. Housing construction remained priority direction of capital investments in the social sphere. Last year, 60.3 thousand apartments were built. In this sphere investments increased in Ternopil (33.4%), Dnipropetrovsk (11.7%), Kherson (8.7%), Lviv (6.4%) and Chernivtsi (5.4%) regions as well as in Kyiv (16.8%).

Growth of capital investments took place in the majority of Ukraine's regions. In Ukraine, average indicator of capital investment growth amounted to 11.2%, whereas it equaled 61.3% in the city of Sevastopol, 53.7% - in Ivano-Frankivsk, 40.6% - in Odessa and 40.1% - in Kharkiv regions.

The share of capital investments in units of production purpose remained the same (approximately three fourths of the total number). The share of capital investments in housing construction and construction of social-and-recreational buildings constituted 28.2%.

According the State Committee for Statistics, the trend towards increasing volumes of capital investments in both state and communal spheres remained stable (see table 3). In 20 regions of Ukraine, the amount of capital investments in 2000 exceeded that in 1999.

Table 3. Capital Investments by Forms of Ownership (% to the previous year)

	1998	1999	2000
Investments, total	106.1	100.4	111.2
Investments in state and municipal spheres	103.8	114.1	111.6
Investments in the private sphere	108.1	89.2	110.8

The above factor entailed a 51.2% minor increase of the share of capital investments in the state sphere simultaneously with a 48.8% decrease of that in the private sector. Public sector's share in capital investments varied from 14.7% in Chernigiv region to 75.5% in Rivne region.

The share of capital investments in the GDP also reduced last year and equaled just 11.1%, whereas in 1998 and 1999 this figure amounted to 13.6% and 13.5% respectively.

Level of capital investments in agriculture, communications, information and computer technologies, education, culture, art and science went on decreasing.

In the Autonomous Republic of Crimea, Ternopil, Rivne, Khmelnytsk, Cherkasy and Chernivtsi regions, the amount of capital investments went down.

The issue of attraction of foreign direct investments (FDI) also leaves much to be desired (see table 4) [3].

Table 4. Foreign Direct Investments in Ukraine (UAH million)

	1994	1995	1996	1997	1998	1999	2000
Total	483.5	896.9	1,438.2	2,063.6	2,810.7	3,281.8	3,865.5

By January 1, 2001, the amount of FDI in Ukraine totaled USD 3,865.5 million. In 2000, volume of FDI increased by USD 583.7 million, which was USD 113.7 million or 23.9% up from the previous year. Foreign companies and individuals invested in Ukraine USD 792.2 million or 5% more as compared to the previous year.

The most attractive spheres for foreign investments were food industry – USD 775 million (20.1% of the total amount of FDI), home trade – USD 727.8 million (18.8%), machine building and metal-working industry – USD 347.6 million (9%), banking and insurance – USD 248.1 million (6.4%) and fuel industry – USD 227 million (5.9%).

In 2000, the amount of FDI increased in the overwhelming majority of Ukrainian regions. However, it insignificantly reduced in Zhytomyr, Rivne and Cherkasy regions as well as in the city of Sevastopol.

Geographical concentration of FDI did not change. Two thirds of foreign investments are concentrated in the city of Kyiv (36.1% of the total amount of FDI in Ukraine), Kyiv (8.8%), Donetsk (7.9%), Zaporizzhya (5.7%), Poltava (5.5%), Odessa (5.4%) and Dnipropetrovsk (4.8%) regions.

Last year, the lion's share of FDI in the Kyiv economy in the amount of USD 163 million came from developed market economies and offshore zones. In particular, West European states made 65% of the total amount of FDI, the United States of America – 27% and East European countries – 4.7%. The share of capital investments of the CIS, Asian and other states was rather small and constituted just 4%.

In 2000, major investors in Kyiv were the McDonalds Co. (USD 23.4 million) and the Billa – Ukraina Co. (around USD 9.3 million). The most attractive investment spheres in Kyiv are trade, banking, construction and communications.

In Ukraine, average amount of foreign investments per capita equals only USD 78, which is much less than in East European transition economies.

FDI growth in the amount of USD 700 million expected by the government was not achieved last year, as in the fourth quarter of 2000 a positive tendency to increase of FDI amount was substituted by a negative one. Though, FDI outflow did not exceed their inflow by far. Such a situation was caused not only by political and legal factors but also by the low level of solvent demand, decline of domestic market, absence of developed system of investment insurance, underdeveloped banking sector, stock market and communications infrastructure. The share of domestic market in the GDP declined from 74% in 1993 to 40% in 2000. Last year, the share of exported produce of wood processing industry amounted to 75%, ferrous metallurgy – 84% and chemical industry – 90%. The above indicates excessively high dependence of the national economy on the situation in foreign markets, which cannot but tell upon its stability and reliability.

Within 2000, special attention was paid to development of special economic zones (SEZs) and territories of priority development (TPDs). A number of legal documents were adopted, such as the August 3, 2000 Cabinet resolutions No. 1205 "On Approval of Procedure for Consideration and Endorsement of Investment Programs Implemented in Priority Spheres of Economic Activity in the Territories of Priority Development in Zhytomyr Region" and No. 1206 "On Approval of Procedure for Consideration and Endorsement of Investment Programs Implemented in Priority Spheres of Economic Activity in the Territories of Priority Development in Chernigiv Region"; the July 26, 2000 Cabinet resolution No. 1175 "On Some Aspects of Investment Activity within the Territories of Priority Development and Special Economic Zones"; the December 28, 2000 Cabinet resolution on introduction of changes and amendments to resolution No. 1175 approving the list of priority economic activities within the Zhytomyr and Chernigiv TPDs and TPD of the city of Shostka in Sumy region as well as within the Mykolaiv SES; the August 21, 2000 Cabinet resolution No. 1294 "On Approval of Procedure for Consideration and Endorsement of Investment Programs Implemented in Priority Spheres of Economic Activity within the Territories of Priority Development in the City of Kharkiv"; the October 4, 2000 Cabinet resolution No. 1507 "On Procedure for Consideration and Approval of Investment Programs Implemented within Tourist and Recreation Special Economic Zones Like the Truskavets Recreation SEZ"; the October 12, 2000 Cabinet resolution No. 1552 "On Approval of Procedure for Consideration and Endorsement of Investment Programs Implemented in Priority Spheres of Economic Activity on the Territory of the City of Shostka in Sumy region". On April 14, 2000 the Cabinet of Ministers of Ukraine passed the decree No. 185-p and approved the list of priority spheres of economic activity and the procedure for approval of investment programs implemented in priority spheres of economic activity within TPDs of the Autonomous Republic of Crimea. On December 20, 2000, the Cabinet adopted the decree No. 503-p "On Investment Programs Implemented in the Syvash North Crimean Experimental Economic Zone". The above legal documents were designed to regulate the process of investment programs practice within SEZs and in TPDs.

According to data of presidential administration's economic policy department, in 2000, growth rate of proceeds to the budgets of SEZs and TPDs due to investments was two times higher than that of budget losses resulting from preferences granted. Formation of special economic zones and territories has already generated positive effect and there are grounds to hope for much better results, for investment processes within those zones and territories continue intensifying. For instance, last year, within the territories of SEZs and TPDs, industrial output amounted to UAH 2.4 billion or was about three times higher as compared to the total of all preceding years of their functioning. In spite of the fact that the above zones and territories have existed for quite short terms, more active investment processes have already produced such tangible positive results as creation of new jobs, increase of industrial output, introduction of advanced technologies and effective management. Within the period of functioning of SEZs and TPDs, 369 investment programs in the amount of USD 1.5 billion were approved, of which over one forth (USD 429 million) have already been implemented. Around one half of invested funds came from abroad, which indicates increasing interest of foreign states in Ukraine's economy. Over 12 thousand new jobs were created and 29 thousand people retained their jobs within SEZs and TPDs due to attraction of private investments, which saved dozens of million hryvnyas of budget funds that otherwise should have been allocated for unemployment benefits.

According to data of the presidential administration's economic policy department, the TPD located in Donetsk region achieved the best results. In 2000, the amount of investments attracted in this territory equaled USD 317 million and 56 investment projects were approved. One half of the projects are implemented in metallurgy, machine building, coal and chemical industries. By October 2000, average monthly amount of wages in the TPD constituted UAH 516 and was twice higher than that in the region on the whole. The TPD located in Zakarpattya region ranked second. Within two years, inflow of investments in the TPD exceeded USD 37 million, over 5 thousand people retained their jobs and 2.6 thousand new jobs were created, while volume of sales constituted over UAH 130 million (80% of produce was exported).

However, the presidential administration's economic policy department estimated that the government and local executive bodies did not take full advantage of opportunities for increase of investments attracted in SEZs and TPDs. For instance, volume of foreign investments in SEZs and TPDs makes up only 10% of the total amount of FDI attracted in Ukraine since the time of establishment of those zones and territories. There are also such drawbacks as uneven distribution of investments between regions, imperfect and instable legislation. As a matter of fact, almost 95% of the total amount of investments are concentrated in TPDs located in Donetsk, Luhansk and Zakarpattya regions, the Yavoriv SEZ based in Lviv region and the Syvash North Crimean experimental economic zone. At the same time, minor investments are attracted in the Truskavets, the Slavutych, the Zakarpattya and the Donetsk SEZs as well as in the TPDs based in Volyn, Zhytomyr, and Chernigiv regions. Sometimes, valid legislation provides for opportunities for preferential investment of budget funds and import of products not related to implementation of investment projects. Procedure for calculation of non-taxable profit from realization of investment programs is also extremely complicated.

Officials of the presidential administration's economic policy department deem that further development of SEZs and TPDs should be focused on their transformation into the so-called "places of growth" offering a strong incentive to development of the national economy. The government and local executive bodies at all levels have to concentrate their work on attraction of investors, creation of favorable investment climate, improvement of legal basis, increase of investments in depressed regions and wider application of experience acquired within the most successful zones and territories. At the same time, operating efficiency of SEZs and TPDs is eroding because investors are not sure that those zones and territories will function as long as envisaged.

Development of the stock market will promote creation of additional investment resources for the national economy. According to the State Stock Market and Securities Commission (SSMSC), in 2000, volume of securities transactions in the secondary market amounted to UAH 39.2 billion or 22.4% of the GDP and 2.3 times exceeded the level of 1999. It would be expedient to mention that increase in volume of trade in securities was not attended with inflow of foreign investments. Structure of trade in securities looked as follows. The share of bills was the largest and they made up 55% of the turnover compared to 70% in 1999, stocks - 26% (around 16%), domestic state bonds and savings certificates - 7.5% and 6.5% respectively. Such imperfect structure undermines investment potential of Ukraine's stock market and hampers its integration into international ones.

The share of commercial banks on the stock market went down from 61% in 1999 to 43% in 2000, whereas that of securities traders and investment companies increased from 30% to 37.3% and from 8.7% to 18.7% respectively.

According to the SSMSC, the share of commercial transactions totaled 53%, while that of commission ones equaled 46%.

In 2000, volume of trade in securities in Ukraine's organized market amounted to UAH 2.8 billion or was 48.5% up from 1999. Though, the share of the organized market reduced from 11.3% to 7.2%.

In 2000, volumes of securities primary placement through stock exchanges and trading systems surged about 2.2 times (up to UAH 796 million) due to increase in stock proposal on the part of the State Property Fund in the process of privatization. At the same time, a number of companies made efforts of initial securities placements not related to privatization. For instance, the Andryivsky investment fund, the Pivdenny stock commercial bank, the Vinnifruit, the Autoalliance-XXI Century and the Ukrainsky Finansovy Portal public stock companies placed their securities in the amount of UAH 67.2 million through the First Securities Trading System.

By January 1, 2001, the Ukrainian stock market incorporated 858 securities traders, 357 registrars, 84 custodians, 1 depository institution, 7 stock exchanges, 2 information and trading systems as well as 10 self-regulation organizations.

At present, there are 252 investment funds in Ukraine, of which only three are open-end and the rest are closed-end. It is necessary to pass the law of Ukraine "On Mutual Investment Institutions (Unit Trusts and Corporate Investment Funds)" so that to build effective and transparent system of mutual investments and prevent abuse practices in the stock market.

Accumulation of population incomes should facilitate investments. In compliance with the State Committee for Statistics, real incomes of Ukrainian population surged by 6.3% in 2000. Within 2000, population deposited and invested in securities the amount of UAH 5,240 million that was UAH 684 million or 15% up from 1999. Growth of population cash savings amounted to UAH 3.2 billion, 1.3 times exceeding the level of 1999, which under appropriate circumstances could substantially increase overall volume of investment resources. However, the government did not take full advantage of opportunities relating to accumulation of population incomes. For example, it failed to enact a draft providing for full (and not limited to the equivalent of UAH 1,000) compensation for damage that could be incurred by depositors in case of bank's bankruptcy.

In its report on Ukraine's investment climate made on request of the Swedish government, the European Business Association stressed that Ukraine was in dire need to restrict state interference with private business activities, enhance consistency, stability and homogeneity of application of legislation for all market participants.

According to data of the State Committee for Statistics, in 2000, there was a trend towards revival of innovation activities in the industrial sector. Within that year, the number of enterprises that introduced innovations grew by 115 or by 8.4%. Innovations were most actively introduced in the branches of priority development. Every second aircraft factory, every third enterprise of shipbuilding, chemical and petroleum engineering, pharmaceutical, glass, china and faience industries, as well as every fourth tractor- and farm-building, electrical and ferrous metallurgy enterprise introduced innovations. Innovation activity also intensified at enterprises manufacturing electronics, motor vehicles, consumer goods, sanitary ware and gas equipment.

In 2000, the number of enterprises developing and producing fundamentally new equipment, gear and appliances increased by 5.5% and 18.5% as compared to 1999 and 1998 respectively. The share of such companies in the overall number of machine-building enterprises amounted to 8.1%, while in 1999 and 1998 it equaled 7.9% and 7.5% respectively. It took around 1.5 years to develop new equipment and produce pilot models, whereas in 1999 this term averaged 1.8 years. In 2000, enterprises introduced into production processes over 60% of innovations. Though, performance characteristics of most equipment were not fundamentally new and the share of new equipment whose development involved revolutionary innovative approaches was less than 4% as compared to 8.3% in 1999.

Positive tendency towards growing number of new products intensified. In 2000, the number of new types of equipment, gear and appliances rose by over 30% as compared to 1999. The afore-mentioned trend was observed in machine building for the needs of chemical and petroleum industries, highway construction and municipal enterprises. Number of new products increased by 21.2% compared to 17.1% and 4% in 1999 and 1998 respectively. The number of introduced advanced production processes surged by 16.6%, whereas it had been falling year-by-year within the period of 1992-1999.

Every third innovation in machine building was manufactured under purchased licenses. Industrial output produced under licenses amounted to 35.3% of the total volume of innovation produce.

Certain success was achieved in introduction of waste-free and resource-saving technologies. For the first time since 1992, their number insignificantly grew by 1.7%. At the same time, in Ukraine, mechanisms for implementation and funding of energy efficient programs are absent and the Extra-Budget Energy-Saving Fund is abolished.

Despite the fact that the number of Ukrainian enterprises actively applying innovations increased by 1.3% and reached the level of 14.8%, their share is rather small, especially from the viewpoint of high depreciation of their basic assets.

It would be expedient to pay attention to rather low level of innovation activities at enterprises of non-ferrous metallurgy, power, flour-and-cereals as well as building materials industries. In the regional aspect, enterprises of Odessa, Kirovohrad and Zakarpattya regions and in the city of Sevastopol introduced fewer mechanized workshops, robots, flexible production systems and modules as compared to the previous year.

So, not all available resources were used to enhance innovation activity of Ukrainian industrial enterprises.

References:

[1] Message of Ukrainian president to the Verkhovna Rada on domestic and foreign affairs of Ukraine in 2000. Kyiv. Information-Publishing Center of the Ukrainian State Committee for Statistics. 2001. P.253.

[2] The same source. P.331.

[3] The same source. P.319.

Reform Practice

National Program on Promotion of Ukraine's Small Business in the System of State Support for Small Business

By Ksenia Lyapina, counselor to Ukrainian Prime Minister, and Dmytro Lyapin, vice-president of the Institute for Competitive Society

Development of small business plays a special role in transition economies. This role is determined by economic, social and political functions of small business.

It is development of small business that can promote realization of the key goal, i.e. achievement of higher living standards in Ukraine through involvement of broad strata of population in business activity. Hence, it is possible to outline the following socially important targets of small business:

Creation of new jobs without additional funding on the part of the state

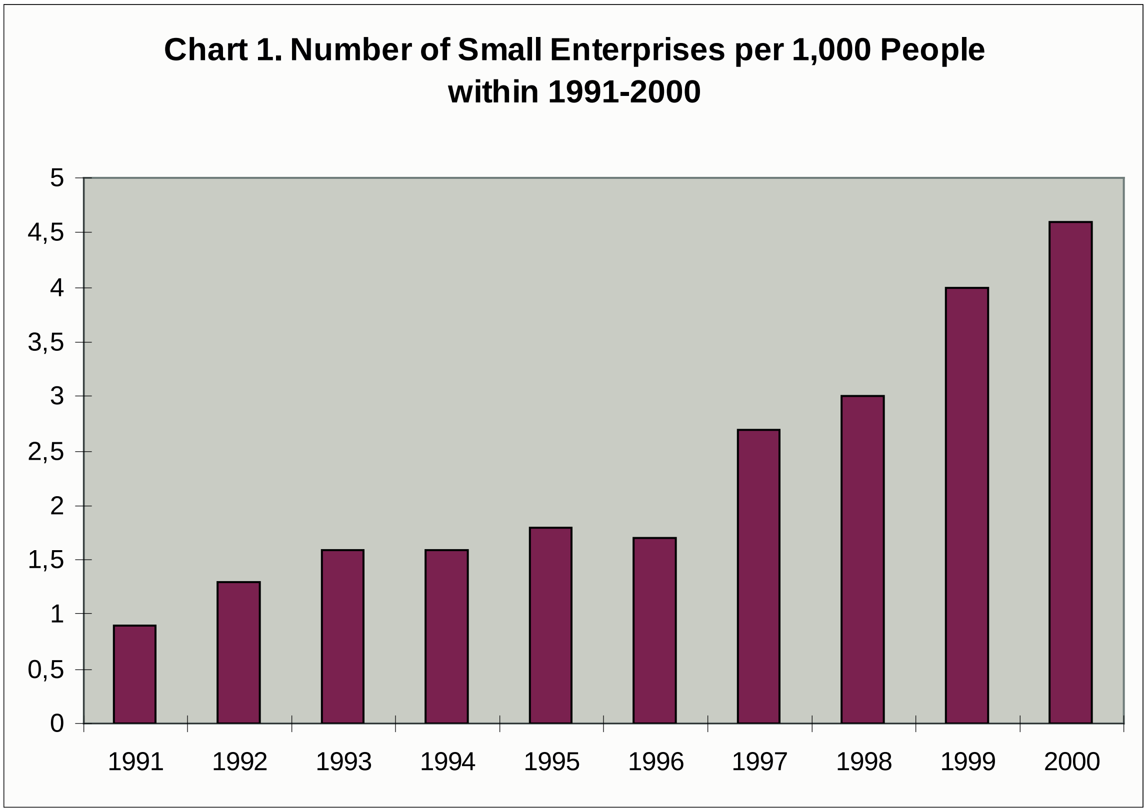
Attraction of population savings and shadow capital to the legal economy

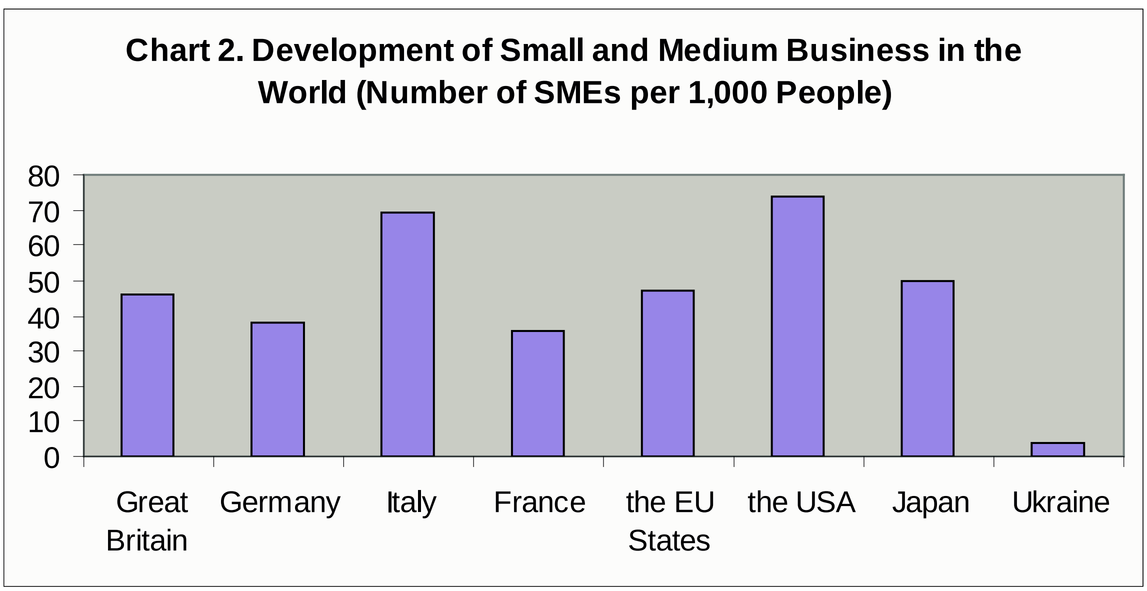
Formation of competitive business environment

Stability of medium class

The need for development of small business has been recognized and its importance has been declared all the time since the disintegration of the USSR, though, for the time being, development of small business is not satisfactory.

For instance, dynamics of the number of small enterprises (SEs) per 1,000 people tends to grow (see chart 1). However, comparative analysis of the above indicator with those of advanced economies demonstrates wide gap (10-20 times) in development of small business in Ukraine (see chart 2).





System of state support for small business is very important for business development. Throughout Ukraine's independence, this system has been experiencing numerous changes simultaneously with transformations of business environment.

Formulation of state policy supporting small business in Ukraine was initiated in 1991. On February 7, 1991, the Verkhovna Rada passed the law "On Entrepreneurship" at its 3rd session and in May 1991, the State Committee for Support to Small Enterprises and Small Business was founded. In March 1993, the Cabinet of Ministers of Ukraine approved the State Support for Ukraine's Business. In his October 11, 1994 report to the Verkhovna Rada "On Key Tools of

Economic and Social Policy", president of Ukraine set primary objectives of state policy geared toward comprehensive development of entrepreneurship, small and medium business. The 1995 annual presidential report to the Verkhovna Rada formulated major targets of state policy relating to development of private sector, first and foremost, medium and small business.

On March 1, 1991, the law of Ukraine "On Entrepreneurship" was enacted and development of private business was formally launched.

As a rule, in developed economies special laws on development of entrepreneurship are absent. Constitutions, civic law and other legal documents regulate economic activity.

Like in other post-socialist countries, in Ukraine, the special law on entrepreneurship was adopted because of the necessity to remove legal barriers hampering entrepreneurship on the one hand, as private business had been viewed as a criminal offence under the former USSR, and the need to offer incentives to business and private initiative on the other. It was the law "On Entrepreneurship" that introduced legal, economic, and social principles, established business conditions and legislative fundamentals of state regulation of and support for entrepreneurship as well as relations between the state and economic entities.

The March 1993 Cabinet Program was designed to implement state policy of support for development of business, inclusive of small one. The Policy was viewed as an integral part of comprehensive measures for encouragement of market relations in the state, overcoming the economic crisis and integration of Ukraine into the world economy. Major steps focused on stimulation of development of small business were taken according to the Comprehensive Plan of realization of the Program. However, such plans were approved only in 1993 and 1994 and have not been elaborated ever since.

The above Program was basically aimed at implementation of state policy in the sphere of support for and protection of entrepreneurship, creation of legal, organizational and economic conditions for its development, elaboration of mechanism for state regulation and coordination of business. The Program complied with the essence of entrepreneurship of those times and therefore was formulated as entirely paternalistic, i.e. state authorities were going to regulate and coordinate entrepreneurship like under the command economy. Notwithstanding its drawbacks, the Program contributed to elaboration and introduction of a new legal basis adequate to requirements for development of entrepreneurship.

In 1996, Ukraine entered the second stage of the state policy supporting small business. The April 1996 Cabinet resolution approving the State Policy Concept of Small Business Development, the June 28, 1996 constitutional legalization of freedom of entrepreneurship and the January 1997 Cabinet Program for Small Business Development in Ukraine within 1997-1998 initiated a new phase of the state policy in the sphere of entrepreneurship.

On April 3, 1996, the Cabinet approved the resolution No. 404 on the State Policy Concept of Small Business Development reading that state policy of small business development determining the guidelines, directions and forms of economic, administrative and legal influence is part and parcel of general social and economic policy of Ukraine.

On January 29, 1997, the Cabinet of Ministers of Ukraine approved the resolution No. 86 on the Program for Small Business Development in Ukraine within 1997-1998. The document was elaborated by the Ministry of Economy in compliance with the Concept and served as a mechanism supporting small business and designed to solve numerous problems related to its development. This resolution was focused on maintenance of stable development of small business as an integral part of the market economy and highlighted the key social role of small business, namely creation of new jobs without additional funding from the state budget. The Program emphasized that state measures should be based on principles of market economy; SEs should do without any government support; and the state should provide conditions for fair competition, granting preferences to small business.

System of measures envisaged in the Program incorporated the following sections:

1. Formation of legal basis regulating small business
2. Banking support for small business
3. Logistic and innovation support for small enterprises
4. Manpower policy, scientific and methodological basis for development of small business

5. Organizational basis, international financial and technical assistance in the sphere of small entrepreneurship

Conceptual section describing Program guidelines was very important despite some paternalistic overtones. State authorities did not lose their interest in centralization of support and distribution, especially, of international financial assistance.

Unfortunately, major steps in each of the directions of the State Support Program were formulated in such a vague and nontransparent manner that it was hardly possible to understand what they meant. For example, one of the most important directions was reading, “presentation of proposals to enhance effectiveness of taxation of small business entities”. It would be expedient to mention that “presentation of proposals” is not a decision, while “enhancement of effectiveness” does not imply reduction of tax burden and can be interpreted by businessmen and state officials in different ways. So, assessment of execution of those measures was merely of expert nature and did not involve any quantitative analysis.

Further realization of the Program demonstrated that the legal basis was the sphere where major success was achieved. Notwithstanding a very cautious and inert formulation “presentation of proposals to enhance effectiveness of taxation of small business entities”, it was the taxation system of small business entities that experienced the most drastic changes. In early 1998, key legal documents were passed, establishing three fundamentally new methods of the simplified taxation, such as the fixed tax imposed by the February 13, 1998 law of Ukraine “On Making Changes to the Cabinet Decree “On Income Tax”; special license to trade introduced by the February 10, 1998 law of Ukraine “On Making Changes to the Law of Ukraine “On Licensing of Some Business Activities”; and the single tax imposed by the July 3, 1998 presidential decree No. 727 “On the Simplified System of Accounting, Financial Statement and Taxation of Small Business Entities”. The above taxation methods were approved under the influence of business environment and entailed increasing growth of the number of SEs since 1998.

In 1998, legal basis for regulatory policy as a method stimulating development of entrepreneurship started to form. The State Committee for Entrepreneurship Development was established as a national executive authority. The same year, the February 3, 1998 presidential decree No. 79/98 “On Removal of Barriers to Development of Entrepreneurship”, the May 12, 1998 presidential decree No. 456/98 “On State Support for Small Business” and the July 23, 1998 presidential decree No. 817/98 “On Some Measures Deregulating Business” were elaborated and adopted.

All the afore-mentioned took place due to activity of the newly formed national executive body and requirements of business environment and was not envisaged in the Program for Small Business Development in Ukraine within 1997-1998. Hence, the Program proved to be inefficient as a mechanism designed to consolidate efforts of different state authorities for implementation of small business development policy.

The third stage of state policy supporting small business actually began in 1998. Its distinctive features were recognition, at the state level, of the need to reduce state interference with business, refusal of state paternalism and formation of business environment favorable for development of free entrepreneurship by means of removal of administrative bureaucratic barriers.

Adoption of the October 19, 2000 law of Ukraine No. 2063-III “On State Support for Small Business” and the December 21, 2000 law No. 2157-III “On National Program Stimulating Development of Small Business in Ukraine” contributed to further development of state policy in the sphere of small business support and, probably, marked the beginning of its new stage.

For the first time in Ukraine’s history, the law “On State Support for Small Business” read, “legal principles of state support for small business entities of all forms of ownership are aimed at overcoming the crisis as soon as possible and offer better opportunities for introduction of market reforms in Ukraine”. In other words, small business was recognized as the key factor influencing market reforms. The law also described the role of small business development programs reading, “The National Program Stimulating Development of Small Business in Ukraine is a package plan geared toward realization of the state policy related to solving problems of small business”.

So, the National Program obviously plays the role of a mechanism consolidating efforts of state authorities, local government bodies, associations of entrepreneurs, business incubators, business centers, consulting, leasing and other companies for implementation of small business development policy. It is very significant that the Program based on such principles and such policy encouraging small business can actually become national.

The law "On State Support for Small Business" governed, "presenting the Verkhovna Rada with Ukraine's state budget draft, the Cabinet of Ministers of Ukraine should annually inform the parliament about implementation of the National Program Stimulating Development of Small Business in Ukraine and substantiate the amount of funds allocated for realization of the Program in the next budget year, indicating sources of financing. Selection of projects to be implemented within the frameworks of the National Program should be conducted on competitive basis according to respective resolution of the Cabinet of Ministers of Ukraine".

Proceeding from the afore-mentioned, it is possible to make a conclusion that from now on, there is an opportunity to control facts and figures relating to execution of measures for the previous period and make proposals relating to the next term. There is also a real opportunity to introduce small business support and development programs jointly funded by state and local authorities. Non-governmental organizations, such as business associations and think tanks focused on development of entrepreneurship, can compete for funds envisaged by the above projects. This is the efficient way to consolidate joint efforts and find ingenious solutions to development of entrepreneurship.

The law "On National Program Stimulating Development of Small Business in Ukraine" consists of two sections. The first, conceptual one, determines stage of development of small business in Ukraine prior to execution of the National Program, formulates the Program's goal as "creation of adequate conditions to realize the constitutional right to carry on business and increase welfare of Ukrainian population through involvement of broad strata of population in such activity", and outlines the Program guidelines and objectives.

Major directions of the National Program are as follows:

Improve legal basis in the sphere of small business

Establish the single state policy regulating small business

Revive financial and investment support for small business

Facilitate creation of infrastructure required for development of entrepreneurship

Introduce regional policy stimulating development of small business

It is important that in the long run, the role of state regulatory policy was determined legally. The above law reads, "Measures for introduction of the state regulatory policy are focused on ensuring consistent and well-coordinated steps for elaboration and enactment of regulatory documents as well as considering public proposals in the process of their development. Those measures are geared toward formation of optimum state regulation of activity of small business entities". Unlike in the previous analogous legal acts, in the National Program special attention was paid to infrastructure necessary to develop small business and consolidate efforts in the sphere of regional policy. In general, the conceptual section of the Program is well-grounded and complies with requirements of business environment.

It is much more difficult to evaluate measures of the National Program Stimulating Development of Small Business in Ukraine for 2001 indicated in the second section. It is too early to analyze their implementation on the one hand and almost impossible to estimate results on the other, for some of those steps were formulated rather vaguely. Despite the fact that the task relating to formation of legal basis has been performed, there are a number of drawbacks. For example, the most topical and necessary for development of small business section of the Program dealing with formation of the state regulatory policy is formulated as an eternal process, which can hardly be estimated. The above is a serious drawback, especially, taking into account the fact that taxes paid by small business entities form substantial share of budget revenues. So, effectiveness of the National Program and predictability of its results are integral parts of the state policy, since in such a manner the state can gradually win the population's confidence. The same is true about other objectives, most of which are set in the form of eternal process guided by the State Committee for Entrepreneurship Development (SCED). Therefore, those objectives are rather functions of the

SCED than clearly defined program measures and it is safe to suggest that analysis of the Program's implementation will virtually imply that of the SCED's work.

The program for 2002 should incorporate changes designed to eliminate such a situation.

The Institute for Competitive Society carries out the Project "Ongoing Efforts to Enhance Influence of Business Organizations on Economic Reform: Participation in Elaboration and Realization of the Program Stimulating Development of Small Business in Ukraine". Within the frameworks of this Project, a session of the Institute for Competitive Society Task Force was held with the assistance of representatives of regional business associations. Participants shared their viewpoints on programs of small business development and expressed expectations relating to measures envisaged in the National Program Stimulating Development of Small Business in Ukraine for 2002. In their opinion, those measures should comply with the following requirements:

Each measure provides for achievement of a certain definable and measurable result

Closer attention is paid to realization of targets envisaged in concrete programs, especially regional ones, and more active involvement of state authorities and non-governmental organizations

A system of control allows implementation of the Program to be reported during a year

Such a system ensures control not only over budget expenditures but also over efficiency of measures and their impact on business environment

Procedure for realization of the Program is transparent and access to information is free at all stages

The following objectives are set:

1.To introduce a regulatory reform relating to free access to draft resolutions of local authorities and involve population in discussion of such drafts

2.To develop a system of financial support for SEs

3.To form infrastructure that encourages development of entrepreneurship with due regard to structures providing information on newly established economic entities and on premises available

4.To improve legal basis of entrepreneurship

Measures envisaged in the National Program Stimulating Development of Small Business in Ukraine for 2002 should contribute to consolidation of efforts of both state authorities and NGOs as well as realization of comprehensive and consistent state policy supporting development of small business in Ukraine.

Research

Investment Attractiveness Rating of Ukrainian Regions

By Olexandr Olijnyk and Markiyan Datsyshyn, experts at the Institute for Reforms

It is generally recognized that Ukraine's investment climate is unfavorable as compared to Central and Eastern European countries. Ukraine is an outsider almost in all authoritative international ratings. Its dynamics of foreign investments indicates still high level of risk for foreign companies in the Ukrainian market. At the same time, conditions for investment activities within the country essentially differ from region to region. There are examples when companies curbed their activities in some regions and simultaneously expanded them in others.

What is the real investment potential of Ukrainian regions? Experts of the Institute for Reforms, a Ukrainian analytical center, have long been studying the above issue. Recent results of research in this sphere served as a basis for making up investment attractiveness rating of Ukrainian regions. We have the pleasure of bringing this rating to your attention.

At first sight, there are doubts about practical expediency of analysis of investment climate in regions when valid legislation is far from being perfect and policy pursued by central authorities in the investment sphere is inconsistent. Moreover, in the unitary state, local authorities officially are not vested with enough powers to strongly influence economic processes in the regions. Sharing to certain extent the above and other possible opinions, we would like to remark that there are convincing arguments for the regional approach, including statistical ones. Within last several years, the largest amount of foreign direct investments (FDI) was made in enterprises of food industry and home trade, i.e. in the spheres evenly represented in the structures of Ukrainian regional economies. Hence, there are grounds to discuss regional competition for investment resources. Comparative competitiveness analysis with respect to each of 24 Ukrainian regions, the Autonomous Republic of Crimea and the city of Kyiv was carried out within the frameworks of the above approach.

Information basis for research was formed according to results of polling managers who work in most Ukrainian regions, experts of investment companies and business associations as well as independent experts. Hence, determining indicators of investment attractiveness of Ukrainian regions we considered the most important factors in the decision-making process. Classification was made following such criteria as level of regional economic development, market and financial regional infrastructure, human resources and activity of local authorities in the business sphere.

Indicators of investment attractiveness ratings of Ukrainian regions were calculated exclusively on the basis of official data provided by the State Committee for Statistics, the Ministry of Economy, the Ministry of Finance, the National Bank of Ukraine, the State Stock Market and Securities Commission, the State Committee for Communications and Computerization, departments of regional state administrations and others. Investment attractiveness ratings were determined following original methods developed by experts of the Institute for Reforms and modified according to results of expert discussion involving experts of the Research Institute for Statistics at the State Committee for Statistics of Ukraine.

We would like to emphasize that such regional rating has been made up for the fourth time since 1998. Results of rating research were delivered to representatives of central and local authorities, including regional state administrations and regional city administrations.

Summary report

In 2000, like in previous years, according to the investment attractiveness rating of Ukrainian regions there were three leaders, i.e. the city of Kyiv, Donetsk and Dnipropetrovsk regions. Kharkiv and Lviv regions belong to the group of leaders as well. Table 1 demonstrates dynamics of regional ratings.

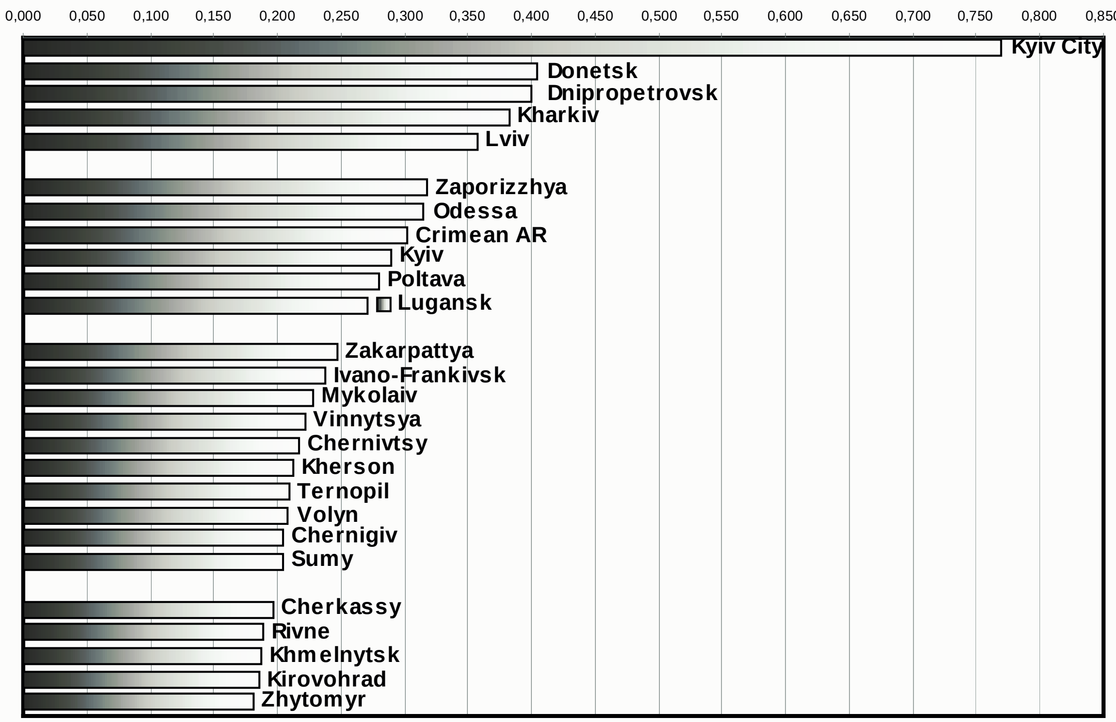
***Table 1. Investment Attractiveness Rating of Ukrainian Regions* ***

Region	**Position**				**Rating Score**			
	2000	***6 months of 2000***	***1999***	***1998***	***2000р.***	***6 months of 2000***	***1999***	***1998***
Leaders								
The city of Kyiv	**1**	1	1	1	**0.770**	0.694	0.719	0.697
Donetsk	**2**	2	2	3	**0.404**	0.421	0.434	0.414
Dnipropetrovsk	**3**	3	3	2	**0.399**	0.406	0.413	0.476
Kharkiv	**4**	6	5	5	**0.383**	0.352	0.377	0.403
Lviv	**5**	4	4	4	**0.357**	0.369	0.390	0.410
Right behind								
Zaporizzhya	**6**	5	8	8	**0.318**	0.367	0.344	0.321
Odessa	**7**	7	6	6	**0.315**	0.345	0.365	0.402
Crimean AR	**8**	8	7	7	**0.302**	0.326	0.351	0.327
Kyiv	**9**	9	9	10	**0.289**	0.288	0.336	0.280
Poltava	**10**	10	10	9	**0.280**	0.281	0.296	0.318
Lugansk	**11**	15	11	11	**0.271**	0.261	0.271	0.267
Main group								
Zakarpattya	**12**	12	15	14	**0.247**	0.275	0.230	0.219
Ivano-Frankivsk	**13**	16	14	20	**0.237**	0.260	0.233	0.193
Mykolaiv	**14**	14	12	12	**0.227**	0.269	0.253	0.221
Vinnytsya	**15**	24	20	13	**0.222**	0.189	0.212	0.220
Chernivtsy	**16**	11	18	23	**0.217**	0.276	0.220	0.177
Kherson	**17**	17	13	15	**0.213**	0.255	0.238	0.214

Ternopil	**18**	18	21	24	**0.210**	0.208	0.208	0.176
Volyn	**19**	13	17	26	**0.208**	0.270	0.221	0.150
Chernihiv	**20**	25	19	18	**0.205**	0.188	0.218	0.203
Sumy	**21**	20	22	22	**0.204**	0.203	0.203	0.183
Outsiders								
Cherkassy	**22**	22	24	17	**0.196**	0.200	0.192	0.206
Rivne	**23**	19	16	16	**0.190**	0.205	0.221	0.207
Khmelnytsk	**24**	23	26	25	**0.187**	0.189	0.183	0.154
Kirovohrad	**25**	21	23	19	**0.185**	0.200	0.198	0.194
Zhytomyr	**26**	26	25	21	**0.181**	0.187	0.185	0.187

**Provisional data*

Chart 1. Investment Attractiveness Ratings of Ukrainian Regions in 2000*



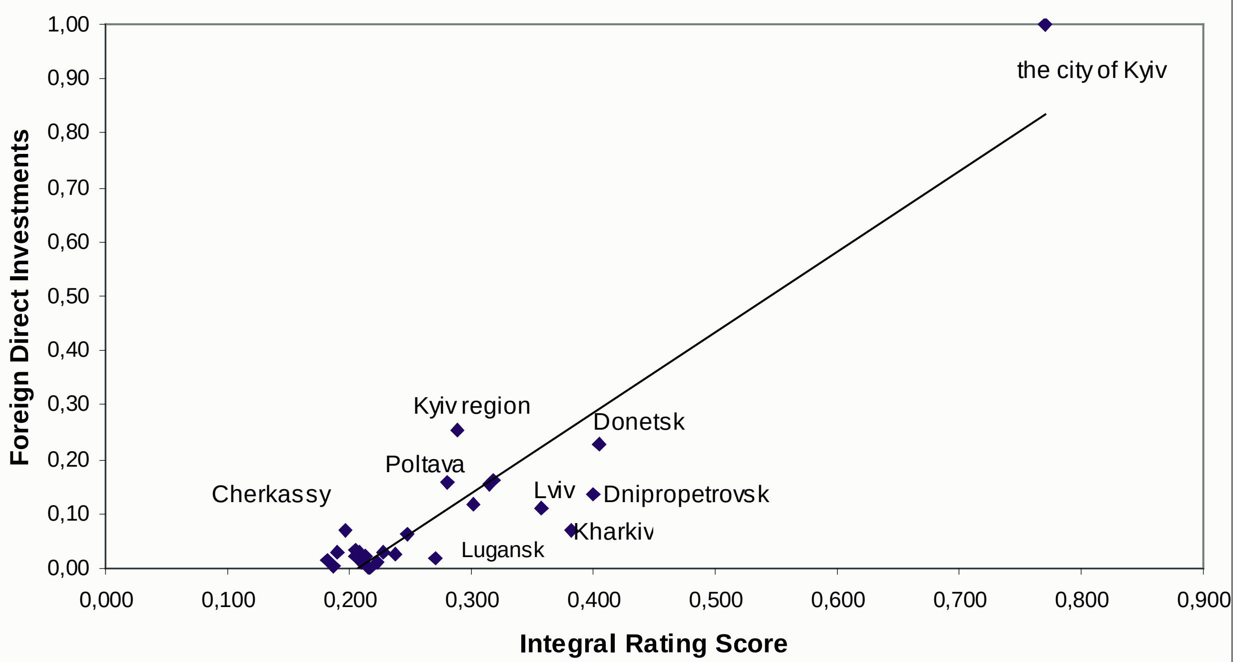
*preliminary data

Among regions, whose rating sharply increased within 1999-2000, there are Vinnytsya (from 20th to 15th position), Zakarpattya (from 15th to 12th position) and Ternopil (from 21st to 18th position) regions. Rivne (from 16th to 23rd position) and Kherson (from 13th to 17th position) regions were the worst losers.

Correlation of investment attractiveness of Ukrainian regions and volumes of FDI attracted was determined so that to verify adequacy of regions' ranking on the basis of investment attractiveness criterion (see chart 1). High correlation ratio confirmed close relationship between theoretical model and actual indicators. Moreover, the above comparison demonstrates the extent, to which theoretical investment potential is used. From the viewpoint of foreign investors, regions whose position is below the trend line of the chart 2, such as Dnipropetrovsk, Lviv, Kharkiv and Lugansk do not take full advantage of their economies. Though, on the other hand, such a situation can be viewed as availability of substantial reserves for growth provided that effective investment policy is pursued. Analysis also revealed that Kyiv and Poltava regions achieved results exceeding their potential.

Assumption that investments are mostly made in economically developed regions is confirmed by close correlation between regional ratings and gross volumes of value added. In 1998 and 1999, correlation ratios equaled 0.71 and 0.76 respectively. The hypothesis that the number of state officials adversely affects investment climate was unexpectedly and clearly confirmed, as Zhytomyr, Kirovohrad and Sumy regions are among outsiders both by numbers of state officials per capita and investment attractiveness ratings. Inverse trend can also be observed, i.e. in Ukrainian regions with the highest rating in 1999, the above indicator is below average.

Chart 2. Ratings of Ukrainian Regions and Standardized FDI Indicator



Leaders

Like in previous years, the city of Kyiv remained the absolute leader. Kyiv retained its positions in each group of indicators and left other regions far behind (see chart 2).

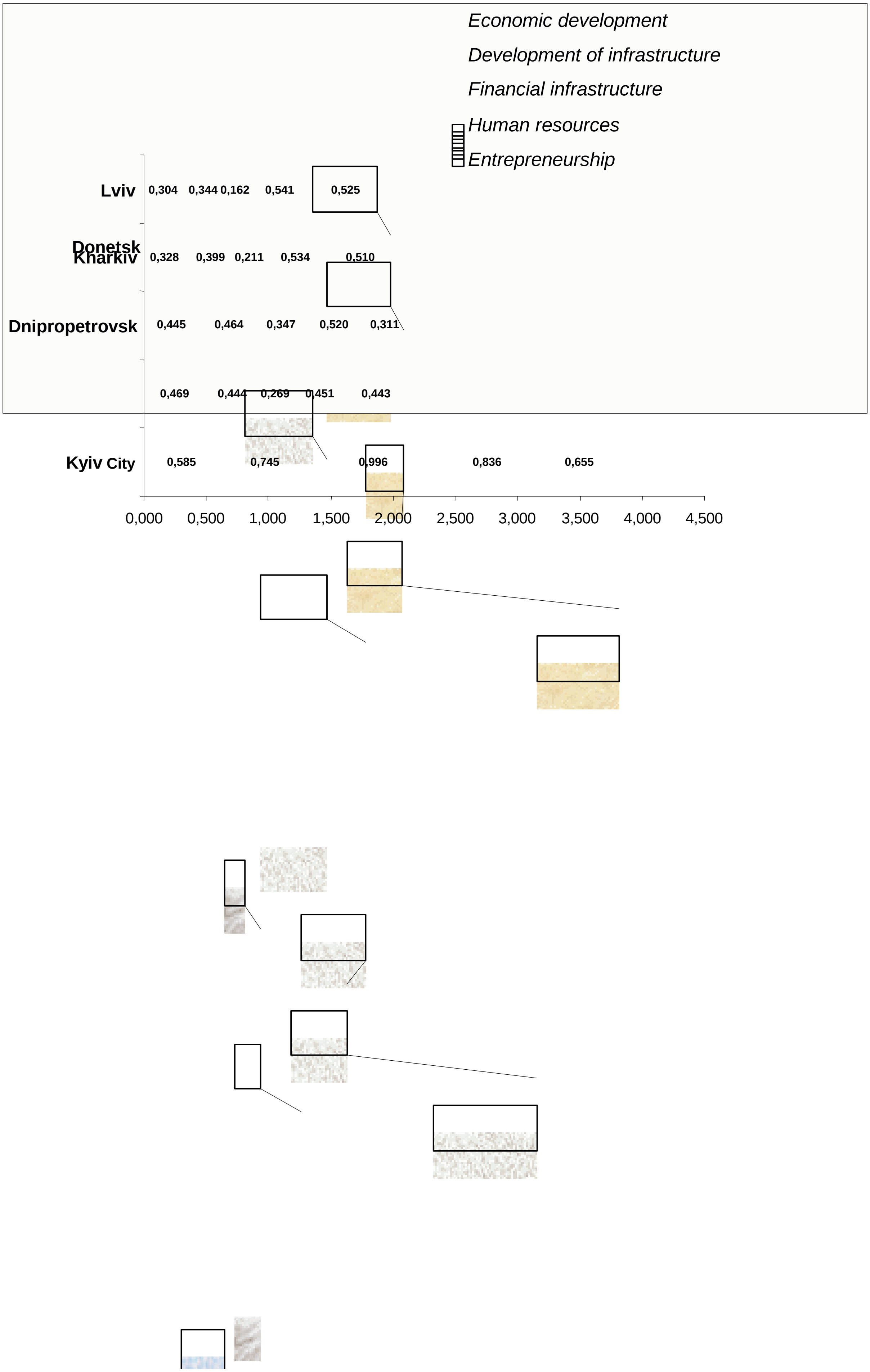
Kyiv's leading position is explained, in particular, by high level of development of its financial infrastructure. We would like to remark that the above indicator of Kyiv region nearly three times exceeds that of other regions-leaders. By February 1, 2001, Kyiv-based commercial banking institutions granted loans to economic entities in the total amount of UAH 8.38 billion (44.1% of the overall volume), of which 20% were long-term loans. In 2000, stocks issued by Kyiv enterprises made up 57% of the total volume of equity issue in Ukraine, while securities contracts concluded in Kyiv constituted 54% of their overall number.

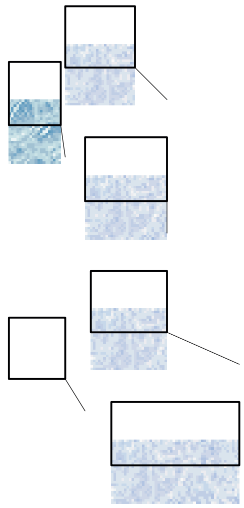
Meanwhile, the amount of debts of Kyiv enterprises to each other is very high and constantly increasing. The amount of receivables rose three times as compared to 1999 and equaled UAH 83.5 billion in late 2000, whereas gross added value created by the city enterprises amounted to UAH 9.75 billion in 1999.

In December 2000, average monthly wage in Kyiv equaled UAH 555 and was twice as high than in Ukraine on the whole. Death rate of 10.4 persons per 1,000 and level of unemployment of 0.6% were the lowest in Ukraine.

In Kyiv, 13.2% of the able-bodied Ukrainian population was engaged at small businesses, whose number per 10,000 residents of 110 was the highest in Ukraine. A very interesting fact is that 70.7% of Kyiv small enterprises (SEs) were profit-making (2nd position), whereas on the whole they suffered the heaviest losses in Ukraine (UAH -166.5 million).

Chart 3. Ratings of Leaders





Indicators of investment activities in the capital confirm adequacy of the calculated rating of investment attractiveness of Ukrainian regions. By January 1, 2001, volume of FDI in Kyiv amounted to USD 1,309.1 million, of which USD 472.1 million or 36.1% were made in home trade and USD 191.6 million or 14.6% - in banking and insurance. FDI in Kyiv made up 1/3 of the overall amount of FDI in the Ukrainian economy within all years of its independence equaling USD 3.87

billion. In Kyiv, the amount of FDI per capita equaled USD 497 and was 6.4 times higher than the national average of USD 78. FDI came to Kyiv from over 25 foreign states. The shares of FDI from the United States of America and Cyprus in the Kyiv economy amounted to 33% and 17% of their total volume respectively. Pechersky and Starokyivsky districts of the city are major recipients.

In 2000, like in 1999, Donetsk region ranked second. Economy of the region had the lead by industrial output amounting to UAH 26.5 billion, of which 53.2% belonged to ferrous metallurgy and 14.8% - to fuel industry. Since produce of ferrous metallurgy is the major article of Ukraine's exports, Donetsk region exported its produce worth USD 2.96 billion. Notwithstanding its largest population of 4.92 million people, the share of food industry of 5.2% was scanty. Economic experiment carried out in Ukrainian mining and smelting complex encourages economic development of the region. The Mariupol-based Ilijch Metallurgy JSC served as an example of positive changes. Its output grew by 21%, exports increased by 20% and sales profitability rose from –3.3% up to +36.2%.

Territories of priority development (TPD) with preferential investment treatment and the Donetsk special economic zone contributed to formation of more favorable investment climate in the region. In 1999, foreign companies and individuals invested USD 152 million due to favorable regulatory and taxation environment. British (USD 67.2 million), German (USD 49.9 million) and US investors were the most active. By late 2000, the amount of FDI in Donetsk region totaled USD 305.3 million, of which 39.8% were made in ferrous metallurgy and 17.5% - in food industry. By the amount of FDI per capita (USD 62), the region ranked ninth.

Dnipropetrovsk region ranked third. This region is also typically industrial and the share of ferrous metallurgy in industrial output totaled 68.3%. Economic experiment implemented in Ukrainian mining and smelting complex promotes economic development of this region as well. The regional financial infrastructure is the most developed among the regions-leaders. In 2000, issue of bills of exchange by Dnipropetrovsk enterprises amounted to UAH 17.8 billion, whereas Donetsk and Kyiv businesses issued bills of exchange worth UAH 6.2 and UAH 4.9 million respectively. This type of securities virtually ousted from the regional market stocks issued in the amount of UAH 0.27 million.

Criminal situation in the region adversely affects its investment climate. The number of crimes registered in Dnipropetrovsk region (63.6 thousand) was the highest in Ukraine within three consecutive years. For the time being, foreign companies and individuals do not dare make large investments in the region. By late 2000, FDI amounted to just USD 186.0 million (7th position), of which USD 58.0 million or 31.2% of the total amount were made in home trade.

Kharkiv region moved from the 5th to the 4th position in the rating. Structural shifts in the regional economy indicated increase in the share of food and pharmaceutical industries by 7.8% and 1.4% respectively, whereas the share of machine building decreased by 9.6%. Three of the four largest machine-building enterprises, such as the state-owned Malyshev Plant, the Kharkiv Aircraft Factory and the Kharkiv Tractor Plant JSC, experienced serious financial problems and curtailed production. For instance, the Malyshev Plant virtually did not work and decreased its production by 90% because of the lack of government contractual works and termination of contract with Pakistan.

In 2000, despite negative dynamics of indicators in the industrial sphere, growth of FDI in the regional economy was substantial and amounted to USD 24 million. The above is explained by revival of business activity within the Kharkiv TPD. In early 2001, the region ranked eleventh according to the amount of FDI of USD 98.84 million.

The last leader was Lviv region ranking fifth in 2000, whereas within previous years it always ranked fourth. In the regional industrial structure, shares of food and fuel industries were the largest and constituted 32% and 18% respectively. Regional market infrastructure is highly developed. Lviv region ranked fifth, as its human resources were the most developed among other regions-leaders.

By the number of SEs per 10,000 people of 49, Lviv region ranked third in 2000. SEs employed 8.1% of the able-bodied population (2nd position) and received total profits of UAH 50 million (12th position), while 63.3% of small businesses were profit-making.

However, the amount of investments in the region has been rather small within two consecutive years. In 2000, it ranked ninth by capital investments amounting to UAH 811.4 million or UAH 299.4 per capita. In early 2001, by the amount of FDI worth USD 150 million, Lviv region ranked ninth. Last year, the region was fourth according to FDI growth and ranked tenth by the amount of FDI equaling USD 55.3 per capita. Proceeding from the afore-mentioned, it is possible to make a conclusion that Lviv region does not take full advantage of its investment potential. In the near future, the situation can be improved by means of attracting investments to the Yavoriv and Truskavets special economic zones.

Analysis of business activity of Ukrainian enterprises

To more adequately describe development trends of Ukrainian regions' ratings we would like to present status quo assessments and predictions made by immediate participants in economic processes, i.e. top managers and directors of Ukrainian enterprises. The survey conducted in the regional aspect by experts of the Research Institute for Statistics at the Ukrainian State Committee for Statistics at the request of the Institute for Reforms.

Business activity was analyzed only in the industrial and trade sectors so that to ensure relevancy of the representative sampling.

Unlike in previous years, in 2000, indicators of activity of Ukrainian enterprises generally improved. For the first time, respondents reported about considerable increase of industrial output, some growth of investments and improvement of economic and financial position of enterprises. Optimistic forecasts for the first quarter of 2001 confirm stable nature of such positive dynamics.

Industry. In 2000, directors of Ukrainian industrial enterprises informed about some revival of investment processes. Despite the fact that within that year the majority of respondents notified of total absence of investments, the number of recipients increased. Last year, managers of enterprises situated in Kyiv and Volyn regions made the most positive assessments of their companies' performance and growth of investments. Though, they were concerned about the future and ranked seventh and twelfth respectively by forecasts for the first quarter of 2001.

Regardless of the fact that last year Rivne region ranked 24^{th} by indicators of economic development, entrepreneurs of the region made very optimistic forecasts for the first quarter of 2001 (5^{th} position). In the opinion of respondents, enterprises of the region will do their best to use quite large reserves, since in 2000 utilization of the regional production capacities was the worst.

The most optimistic about their future are enterprises of Kharkiv region that ranked only twelfth by economic development in 2000.

Trade. In 2000, retail enterprises achieved much better results than in any previous year since 1997. Such dynamics indicates general increase of solvent demand of population. We would like to emphasize that private businesses steadily demonstrate better financial results.

On the whole, nearly 8% of respondents characterize current economic and financial position of trading enterprises as "good" and 64-66% recognize it as "satisfactory". Top managers and directors of enterprises in Chernivtsy, Lviv and Khmelnytsk regions made the highest assessments of economic and financial position of their businesses.

Managers from Lviv, Ivano-Frankivsk and Poltava regions made the highest aggregate assessments of their businesses' positions.

According to expectation of respondents, financial indicators of enterprises should not deteriorate within the first quarter of 2001. 29% of respondents anticipate that profitability of their companies will grow and 48% believe that it will remain stable. The overwhelming majority of Ukrainian mercantile businesses expect increase of their sales proceeds.

In general, 32% of respondents, of which 37% represent state-owned enterprises, 38% - private companies and 31% - collective businesses, anticipate improving of economic and financial indicators of their enterprises, while 52% of respondents deem that those figures will experience minor changes within initial six months of 2001. Top managers and directors from Lviv, Chernivtsy, Ternopil and Zhytomyr regions as well as the city of Kyiv are the most optimistic about prospects for economic and financial positions of their enterprises.

Special types of investment treatment in Ukrainian regions

Recently, the issue of efficient functioning of existent and expediency of establishment/introduction of new economic zones and special types of investment treatment has been lively debated. On the one hand, preferential terms within territories of priority development (TPDs) stimulate growth of foreign and domestic investments. On the other hand, economic entities located outside the boundaries of special economic zones (SEZs) and TPDs are discriminated. Experts of the Institute for Reforms studied the course of events in that sphere and their impact on regional economies.

For the time being, special types of investment treatment are introduced on 1/10 of Ukrainian territory. It is expected that till 2010, SEZs and TPDs will attract FDI in the amount of around USD 16 billion. We would like to remind that within last 9.5 years, only USD 3.6 billion were invested in Ukraine's economy. The above expert forecast gives grounds to anticipate real investment boom that would encompass the whole country. So, comparison of investment climate in Ukrainian regions should involve close attention to effective functioning of special legal treatment.

Six SEZs and six TPDs were established de jure only in 2000. Therefore, results of their activity will be discussed in the future. From the standpoint of the term of functioning, it would be worthwhile to analyze activity of the Syvash experimental economic zone (since 1996), the Slavutych, the Donetsk, the Zakarpattya and the Yavoriv SEZs (since 1998), TPDs in Donetsk (since 1998), Lugansk and Zakarpattya regions (since 1999).

By January 1, 2001, state authorities responsible for SEZs and TPDs issues approved 369 investment programs, including 243 projects – within TPDs and 126 – in SEZs. Estimate budget of those projects totals over USD 1.5 billion, inclusive of USD 1.15 billion within TPDs and USD 391.2 million – within SEZ.

By January 1, 2001, the amount of investments in SEZs and TPDs constituted USD 430.3 million or 11% of total FDI in Ukraine, of which the share of FDI constituted USD 217.1 million. The largest amounts of investments were made in the Yavoriv SEZ and the Syvash experimental economic zone worth USD 21.47 and USD 14.3 million respectively. By volume of investments attracted to TPDs, leaders were Donetsk and Zakarpattya regions (USD 317.6 and USD 23.4 million respectively).

Most FDI come in SEZs and TPDs from Hungary, whose companies and individuals participate in 5 investment projects worth USD 129.5 million, Great Britain and the US, whose businessmen invested USD 67.5 and USD 62.3 million in 12 and 13 investment projects respectively.

Chemical enterprises took part in 32 investment projects and managed to attract the largest amount of FDI (USD 217 million). Enterprises of food industry leading by the FDI volume in Ukraine attracted FDI of USD 159 million made in 48 programs. The largest investment project implemented in SEZs and TPDs is "The Design, Construction and Exploitation of the Mukachevo-Based 166 Megawatt Gas-Vapor Power Plant", whose estimate budget amounts to USD 127 million.

According to data of economic departments of regional state administrations, in 2000, the amount of investment revenue transferred to budgets of all levels totaled UAH 313.9 million, which approximated to that of preferences granted constituting UAH 310.2 million.

Agrarian Reform

Agrarian Reform in 2000: Any Grounds for Optimism?

By Vasyl Magas, doctor of economics

In early 90s, Ukraine embarked on the way of sweeping reforms in the agrarian sector. Privatization of property and land of collective and state farms by transforming their organizational forms and ensuring freedom of farming on the basis of the land reform paved the way for the above-mentioned radical measures. The November 14, 1994 presidential decree "On Urgent Measures Aimed at Acceleration of Land Reform in the Agrarian Sector", the July 8, 1995 presidential decree "On Procedure for Sharing of Lands Transferred to Collective Ownership of Agrarian Enterprises and Organizations", and the April 23, 1997 presidential decree "On Land Lease" were focused on implementation of the land reform.

The Yushchenko government started its activity in the agrarian sphere against the background of a dramatic 50% decrease of agrarian output within 1991-1999, reduction in crop and livestock yields, increase of fodder consumption per livestock unit, fall in labor productivity; disintegration of production basis in the public sector etc.

In 2000, government officials responsible for the agrarian policy exerted all-out efforts to put into practice the December 3, 1999 presidential decree "On Emergency Measures Accelerating Reform in the Agrarian Sector". Although a number of previous legal acts were also designed to accelerate the land reform, the above document stands out because of the following:

The law determined *systematic and mandatory nature* of transforming collective agrarian enterprises (CAEs) into private economic units

Owners of land shares in CAEs got the opportunity to withdraw them *for the purpose of enlarging their individual lands without formation of legal entities and not subject to prior agreement of meetings of CAEs members*

The law introduced the procedure for *mandatory signing of land share lease contracts* and established *the minimum amount of annual land lease payment* of not less than 1% of land value

Systematic and mandatory nature of reforming determined orientation of activity of all state authorities dealing with agrarian and agro-industrial issues towards implementation of the targets set. That time, the reform was carried out quite quickly and in an organized way. As a result, CAEs were finally reorganized. In early December 1999, the share of CAEs in the agrarian sector constituted 64%, whereas by April 2000, almost all such enterprises had been transformed into new economic entities. According to the Ministry of Agrarian Policy, by September 1, 2000, virtually 10,833 CAEs had been reformed and 13,723 new agrarian enterprises established on their basis, of which 1,030 or 8% were farms; 2,840 or 20% were private (land was owned or leased); 6,402 or 47% were agrarian partnerships; and 3,312 or 24% were agrarian cooperatives.

Nevertheless, growth of the number of new agrarian businesses was the only achievement in the activity of the reformers. Last year, agrarian output was down by 8.8%, including 2.2% decrease in crop production and 20.8% drop in livestock farming. Decline in livestock farming at the reformed agrarian enterprises determined the situation in the sector on the whole. Reduction of livestock and poultry population was one of the most pressing problems. In 2000, cattle population decreased by 1,677,700 or 25%, inclusive of cows – by 624,000 (25.2%), pigs – by 1,703,900 (41.5%), sheep and goats – by 142,900 (25.7%), and poultry – by 2,663,100 (9.6%). Rate of livestock population decrease essentially exceeded figures of the previous year.

At the same time, last year, agrarian output of individual farms surged. Annual growth rate equaled 18.9%, while crop and livestock production increased by 37.8% and 2% respectively. Crop production growth was mostly determined by higher yield of potatoes, vegetables and fruits as compared to 1999. Detailed analysis of factors that generated increase of the above produce indicates crucial role of weather.

Given today's structure of agriculture, 1% production growth in the private sector compensates for 2% decrease at the rest of agrarian enterprises, which determined overall growth of agrarian output. According to the State Committee for Statistics, gross agrarian output increased by 7.6% in 2000 as compared to 1999. It should be mentioned that gross crop yields increased by 18.3%, whereas gross livestock produce decreased by 5.3%.

We are not inclined to overestimate impact of CAEs reorganization on agrarian production growth in the private agrarian sector. Therefore, we believe that transformations carried out were not the major reason for growth of agrarian output in 2000.

Last year, a number of other positive tendencies emerged due to steps taken by the new government. For instance, the January 17, 2000 Cabinet resolution No. 50 "On New Approaches to Logistical Support for Agrarian" abolished the practice of state crediting of farm operations in commodity form.

It would be expedient to emphasize that in early 90s, the state started to rapidly lose tools of influence on developments at agrarian enterprises. The fact that farm operations were always doomed to failure without state support can mostly be explained by lack of floating assets at enterprises caused by wide gap in prices for industrial and agrarian produce. Recently, the role of the state in farm operations has been reduced only to granting credits in commodity form. Such a practice entailed inefficient use of financial resources and their embezzlement on the one hand and allowed state authorities to interfere with functioning of the agrarian market on the other.

Termination of the above practice forced agrarians to operate under the system of tough budget constraints. Earlier on, agrarians were offered resources at reduced prices in spring and had to pay for them in agrarian produce also at reduced prices in autumn. At present, agrarian manufacturers purchase resources at market prices and, as a rule, on the basis of advanced payment.

The afore-mentioned could not but create a trend towards more rational use of available resources. First and foremost, this trend implied economical industrial consumption. According to statistical data, in 2000, deliveries of diesel fuel to agrarian enterprises were reduced by 12.6% as compared to 1999, gasoline – by 17.7%, diesel oil – by 23.7%, and transmission oil – by 15.9%. Growth of diesel fuel and gasoline reserves in early 2001 by 5.1% and 8.7% respectively can serve as an evidence of more economical use of petrochemicals.

Proceeds from sales of livestock and poultry represented another internal source of funds. Within initial six month of 2000, agrarian enterprises sold 515,600 cattle heads or 7.7% of its total population, inclusive of 347,400 cows and bulls (14%), 937,000 hogs (22.8%), 12,300 sheep and goats (2.2%), and 2,923,800 poultry (9.6%). According to our estimations, reduction of cattle population was equivalent to UAH 350-450 million.

In 2000, farm operations were also funded from external financial sources. Many experts believe that transformation of CAEs into market structures enabled mass attraction of private capital in the agrarian sector. However, external funds had been attracted prior to approval of the decree as well. By early 2000, the amount of CAEs debts to commercial structures totaled UAH 6.8 billion or around 45% of the overall amount of payables.

In our viewpoint, it was extremely important that agrarian enterprises' debts on taxes and mandatory payments to budgets of all levels, the Pension Fund, and the Social Insurance Fund of Ukraine were written off. The total amount of debt amnesty equaled UAH 5.8 billion. At the same time, the Cabinet of Ministers resolved to restructure agrarian enterprises' debts on consumed electric power and transfer social infrastructure units owned by agrarian enterprises to communal ownership. The above steps encouraged financial revival of agrarian businesses and made the branch much more attractive for private investments.

There is no doubt that accolades should be bestowed on the policy stimulating availability of bank credits for agrarian enterprises.

Unlike commercial credits and leasing, bank loans provide agrarians with more freedom to manage resources and produce, except for pledged property. The afore-mentioned weakens monopoly positions of enterprises operating in related branches.

The February 25, 2000 Cabinet resolution No. 398 "On Additional Measures for Crediting Sowing Operations in 2000" established the procedure for payment of compensation to agrarians granted commercial credits for sowing operations. The amount of compensation was fixed at the level of 50% of discount rate of the National Bank of Ukraine (NBU) set on the day of signing of credit agreement. Later on, the amount of compensation was reduced to the rate of not less than 17.5%. It was envisaged that commercial banking institutions had to credit agrarians only subject to their solvency and open special accounts for funds that were to be allocated for repayment of credits and financing of sowing operations. The NBU established that not 30% but 50% of proceeds could be entered into those special accounts, which indicated a positive shift.

All those measures favored higher amount of investments in agriculture. According to data of the Ministry of Agrarian Policy, agrarians managed to attract funds for sowing operations in the amount of UAH 1,870 million, of which UAH 633 million were credits of commercial banking institutions. In 2000, the share of commercial credits constituted 21-35% and was substantially higher than that in 1999.

The fact that only UAH 50 million of the planned UAH 175 million were spent to compensate interest on credits indicates that the government resisted the temptation to exert administrative pressure on banking institutions for the purpose of increasing the number of credits to the agrarian sector. Such a market approach was justified, as almost all credits were repaid, and paved the way for future crediting of farm operations.

A trend towards renewal of parity between prices for agrarian and industrial products is another positive result of 2000. In compliance with data of the State Committee for Statistics, average prices for agrarian produce sold within January-November 2000 were 57% up from the same period of 1999, including 73% and 37% growth of prices for crop and cattle produce. In 2000, increase of prices for foodstuffs 3.2 times exceeded that for nonfoods.

Due to the above price rise, the issue of funding autumn farm operations was actually removed from the agenda. In 2000, harvesting operations were done more successfully than ever before. In 2001, agrarian enterprises sowed 7.7 million hectares with winter crop and green fodders that was 0.4 million hectares up from 2000. 7.3 million hectares were sown with winter crop, including 6.0 million hectares of winter wheat, 0.8 million hectares of winter rye, and 0.4 million hectares of winter barley. 8.9 million hectares were tilled for winter, 0.9 million hectares up from 2000. Hence, there are certain grounds for optimistic view on prospects for 2001.

As a rule, the above trend is explained by steps geared toward formation of the so-called "organized market", such as the June 6, 2000 presidential decree "On Measures Ensuring Formation and Functioning of the Agrarian Market" and the June 29, 2000 presidential decree "On Urgent Measures Stimulating Grain Production and Development of the Grain Market".

Such newly established market structures as trading companies, commodity and agrarian exchanges could not generate any profound impact on prices, since their share in total sales volume of agrarian enterprises is minor, for instance, sales at agrarian exchanges make up just 2-3%. Price rise for agrarian produce was engendered, first and foremost, by skyrocketing consumer demand due to payment of pension and social security arrears by the Ukrainian government and reduction of wage arrears in the budget sphere. The above can be explained by the law of economics, according to which the share of foodstuffs in total expenses is inversely proportional to the amount of the overall incomes. And since the afore-mentioned payments were made to the most impoverished stratum of Ukrainian population, money was mostly spent for purchase of foodstuffs.

Termination of practice of granting state credits in the form of goods and measures taken to make bank credits available to agrarians resulted in partial demonopolization of the agrarian market, thereby stimulating rapid growth of prices for agrarian produce.

Unfortunately, it was not activity of the government officials responsible for the agrarian sector but sober policy of the Cabinet of Ministers on the whole that gave birth to the above positive tendencies. Decline in agrarian production, permanent uncertainty relating to definitions, objectives, methods and results of the agrarian policy indicate absence of the agrarian reform concept and prospects for development of the agrarian sphere. For example, prior to adoption of the presidential decree "On Urgent Measures Aimed at Acceleration of Reform in the Agrarian Sector", it was believed that the major reason for problems in the branch was absence of a competent institution regulating issues of private property to land, such as opportunity to sell and mortgage land shares etc. Those issues always served as a subject of political opposition in society.

As soon as the decree "On Urgent Measures Aimed at Acceleration of Reform in the Agrarian Sector" once again declared all previously envisaged rights to land, a backward trend was observed in the agrarian policy during 2000. Legal proceedings were initiated with respect to contracts for sale and donation of land shares, efforts were made to recognize such contracts invalid and impose a moratorium on them. So, it would be quite natural to conclude that authors of the above decree did not fully understand economic functions of land shares. Original gist of land sharing was to enhance "sense of ownership", whereas at present, its essence has been reduced just to an opportunity to lease and farm land.

In the Light of Reform

Investments and Ukraine's Economic Development: Econometrics versus Stereotypes

By Volodymyr Dubrovsky and Yanush Shyrmer, experts of the Center for Social and Economic Research.

As a rule, investments entail economic growth and enhance welfare. Though, in transition economies, including Ukraine, it is by no means always the case. Disproportions partially inherited from the former USSR are enormous and distort fundamentals of the economic theory. According to research officers, the higher is capital endowment ratio at Ukrainian industrial enterprises, the less is industrial output. Below we would like to closely study the above issues, think over reasons that gave birth to such abnormal proportion, consequences for Ukraine's future and the way economic policy should be altered so that to overcome the afore-mentioned negative phenomena.

To enhance living standard, it is necessary to encourage growth of employment (the more people work, the more they produce) and increase labor productivity. The last goal can be achieved by means of exploiting additional production factor, i.e. capital. Under the economic theory, it is capital accumulation/investments that determines rate of economic growth, when technological level remains the same. Another significant factor is the so-called "human capital" determining labor efficiency with regard to its complexity. Technological changes are less important for economic development.

However, at present, scientists pay more attention to the ingredient relating to improvement of "social rules of the game", i.e. better functioning of institutions and respective organizations. Moreover, development of market institutions, especially, those responsible for functioning and development of financial markets strongly influences even technological factor (opportunities to develop innovation companies). Unlike missile-and-nuclear technologies whose proliferation is limited by international treaties, the overwhelming majority of advanced technologies in the world can be used unrestrictedly. Hence, technical progress in less developed states is not so much hindered by absence of necessary technologies as by institutional barriers hampering their acquisition and application.

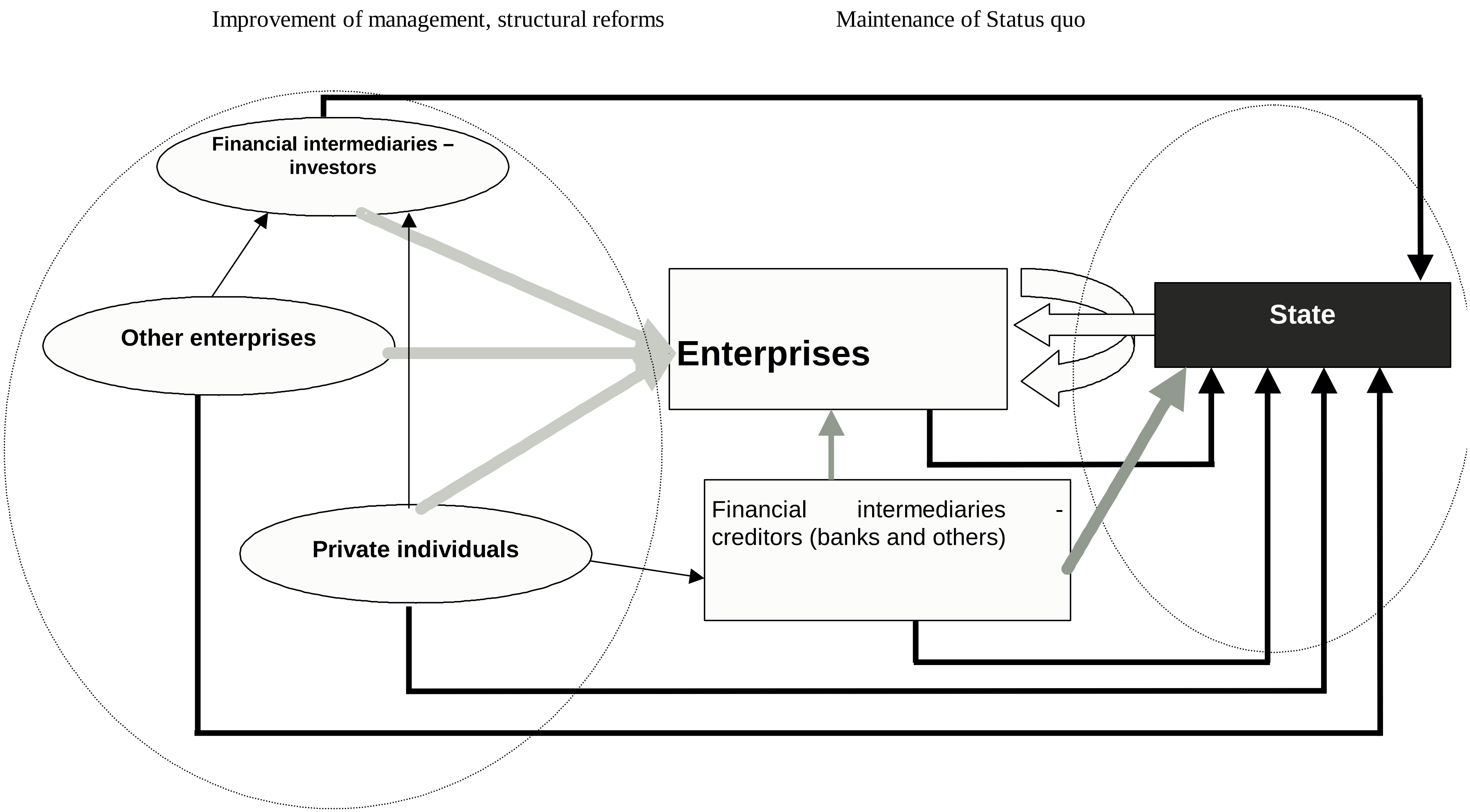
Transition economies serve as striking example of importance of institutions. According to numerous surveys, living standards and prospects for their growth in those countries weakly correlate with unemployment and are rather in inverse relationship to "human capital", i.e. highly educated population[1]. In the opinion of some authors, the most interesting fact is that in transition economies, real capital and investments adversely affect welfare and economic development or, at best, do not generate sufficient statistical effect.

The above is especially true for the states of the Western CIS, including Ukraine, characterized by huge volumes of both real and "human" capitals accumulated within previous years.

Till recently, this abnormal dependence was paid less attention than it deserves. As a rule, research officers viewed the above paradoxical result as artifact pertinent to neglect of some important factors in the model or generalized it and underestimated the role of

[1] This indicator is good for all but transition economies, where its strange behavior is usually explained by the fact that, as a rule, higher education under the command economy provided no knowledge required for efficient work

Sources and Results of Investments



institutional and structural changes. We would like to study the mentioned paradox in detail, since full and unbiased analysis of productivity and economic growth factors is crucial for development of adequate economic policy.

Influence of investments on economic development is determined by their impact on labor productivity. In the simplest case and all other things being the same, labor productivity is determined exclusively by capital endowment of labor force. In reality, the above relationship is apparently weaker and more complicated, though advocates of all famous economic theories realize that it is always unambiguously positive. Otherwise, capital accumulation would be senseless from the viewpoint of both individual investors, if profit directly depends on increase in labor productivity, and society, for social investment expenses won't entail better living standards.

We have already discussed the mechanisms characterizing time variations. Let us consider the above relationship from the standpoint of comparison between companies working within the same period of time. It is obvious that in a standard market economy, labor productivity should be in direct relationship to capital endowment, to certain extent depending on branch an enterprise belongs to. It is necessary to specify other determinants of productivity. For instance, companies can have more or less qualified personnel, i.e. heterogeneous "human capital", better or worse management, occupy different market niches etc. Nevertheless, all the above factors tend to even out in developed markets. For example, more qualified workers should be paid higher wages, which can be ensured only by means of higher productivity. So, should a wage fund and not the number of workers be considered as a basis, the above factor will be generally taken into account in a competitive market.

Economies based on free entrepreneurship and private initiative provide for effective mechanisms consolidating capital and adequate management. Managers unable to properly handle financial resources will be rapidly dismissed either of owners' will or together with the latter. The larger is the capital, the more complicated is the process of its management. At the same time, the more opportunities to pay managers owners have, the better chances they stand to find a really talented and reliable manager. On the other hand, managers and owners unable to effectively handle capital are gradually losing, whereas more efficient ones are accumulating wealth. The basic prerequisite for the above is absence of "mild budget constraints"[2] (MBC) and other forms of state interference with development and stagnation of companies. Hence, it is possible to conclude that in a competitive economy, efficiency of assets management does not strongly correlate with the amount of assets, chosen according to optimum scale of production. Therefore, traditional economic theories simply ignore problems relating to management efficiency.

In efficient market economy, statistical relationship between labor productivity and capital endowment should be positive in case of both an enterprise's development in time or comparison of enterprises within the same period. Deviation from this standard can serve as indicator of malfunction of market institutions related to entrepreneurship, assets management and efficient redistribution of capital.

In the frameworks of the joint program and on the basis of data on economic indicators characterizing performance of Ukrainian industrial enterprises within 1998-2000[3] provided by the State Committee for Statistics, the State Property Fund and the Harvard Institute for International Development carried out empirical analysis, whose results indicate that in Ukraine relationship between labor productivity and capital endowment is inverse. Such conclusion has nothing in common both with structure of indicators, as their different modifications were studied[4], and methods applied, as assessments made on the basis of rank correlation proved that relationship was inverse and not just nonlinear, weak or absent. Partial consideration of a branch factor did not alter the result. Imperfect assessment of basic assets value may weaken that relationship but can hardly explain why it is inverse, since actual assets value can hardly be inversely correlated with their balance sheet value. At the same

[2] "Mild budget constraints" offer enterprises an opportunity to compensate their losses at the expense of other market participants, such as consumers, creditors or the state.

[3] With the exception of enterprises of the fuel and energy complex and relatively small number of atypical companies (for instance, enterprises with zero or extremely high values of such indicators as basic assets, volumes of sales etc.)

[4] For example, industrial output and volume of sales in total as well as these indicators reduced by the amount of financial expenses (which approximates to the added value), growth of outstanding or total receivables ("virtual" sales) served as numerator of formula for labor productivity calculation.

time, behavior of floating assets greatly coincides with that of capital, for there are, at least, some mechanisms regulating redistribution of those assets according to management efficiency.

Should we assume that being imperfect, the Ukrainian labor market is more developed than the basic assets market[5], the above inverse dependence can be explained proceeding from hypothetical inverse relationship between efficiency of business management and capital endowment. It is necessary to take into account that in the given case, efficiency of business management is influenced by both manager's skills and abilities and institutional environment, forming a system of incentives[6] and involving issues of corporate governance, dependence between labor profitability and the afore-mentioned productivity, "rules of the game" etc.

Should the dependence exist, it has to influence other indicators, such as capital turnover[7] as well as accumulation of budget and other payables and receivables, characterizing management efficiency as such. All those indicators should also depend on capital endowment inversely and stronger than on the size of an enterprise and its other characteristics. We have thoroughly analyzed behavior of those indicators and received decisive confirmation of the above hypothesis. Indicators of relationship we obtained unambiguously point out that such factor as capital endowment is more dependent on inefficient management or non-market environment than even size of an enterprise[8]. It is no wonder that each of the above indicators, including capital endowment, are in inverse negative relationship to labor profitability and productivity[9]. Hence, we obtained quantitative proof that, first and foremost, labor productivity and welfare in Ukraine are determined not by volumes of basic capital but by efficiency of institutional environment where enterprises operate and managerial issues closely related to that factor.

The above contradicts many generally recognized viewpoints and can explain a lot of paradoxical situations. For instance, it is quite possible that there is an inverse dependence between the GDP growth and amount of investments made within the preceding period. It is neither analysis error nor result of economic decline but rather its cause. If those investments are mostly made for the purpose of maintaining existent basic assets without due regard to problems of their effective use, the larger share of investments will inevitably sink at capital intensive enterprises with poor management, where return on investment is about zero, i.e. from the viewpoint of society, money will be wasted. And in economy on the whole, overall return on investment can be negative, as exemplified by our analysis.

In this article, we are discussing statistical relationship exhibited by different enterprises. Therefore, proceeding from the afore-mentioned, it would not be expedient to conclude that it is useless to expect return on each separate investment in every definite enterprise, as there are methods specially elaborated for this purpose. However, we can assert that for the time being, capital investments are made when daily needs require. In other words, by fair means or foul, capital-intensive enterprises maintain their basic assets disregarding their efficient use, while the state encourages or overlooks such practices. Hence, macro-economic policy geared towards attraction of capital investments cannot but be inefficient.

Furthermore, taking into account the fact that balance sheet value of basic assets actually correlates with their real value, it is possible to draw a conclusion that the state is rapidly losing those valuable assets because of its inability to work out equal rules of the game and introduce based on those

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[5] This assumption rather presents expert assessment and generally requires stronger proof.

[6] Definite manager can be enough talented and skillful but the situation he/she found himself/herself can urge him/her on frauds and improper behavior. On the other hand, conditions suitable for incompetent managers can be deliberately created at enterprises. Unfortunately, it is impossible to establish initial reason proceeding only from analysis of financial and economic indicators. On the one hand, file No. 2 theoretically allows all enterprises to accumulate debts to the budget with impunity. So, the extent, to which the above financial resource is used, can be determined by a director's desire. Should it be the case, it would be economically expedient for an enterprise to accumulate its debts, which won't mean that the company is loss-making. On the other hand, accumulation of debts is not unlimited and free of charge from the viewpoint of relations with power. Therefore, available debts to certain extent characterize manager's choice, whether to enhance operating activity of an enterprise or maintain normal relations with power.

[7] As a matter of fact, assets turnover directly depends on their structure and, thereby, indirectly depends on capital endowment and branch peculiarities. Consideration of the above factors only tempers that dependence and does mot eliminate it.

[8] Data exclusively on more or less typical large and medium-sized enterprises of processing industry were analyzed.

[9] Should payables exist, another cause-effect relation can be possible: loss-making enterprises are unable to cover their losses and therefore accumulate debts.

rules effective mechanisms regulating economically efficient redistribution of assets. Inefficient management stimulates embezzlement of valuable assets, their obsolescence and degradation caused by the lack of depreciation charges. In our opinion, further state support to such enterprises for the purpose of preventing their de-capitalization will only deteriorate the situation.

Indeed, why is it capital endowment that determines efficiency of managerial system/environment? Contrary to the classic economic theory, we deem that it is not size of an enterprise but its capital endowment that most closely correlates with “mild budget constraints” treatment, at least, at the level of large and medium-sized enterprises (from the viewpoint of financial discipline, activity of small businesses is influenced by tougher economic conditions). We have already mentioned strong relationship between capital endowment and level of accumulated payables being one of primary forms of MBC. At the same time, contrary to predictions of the general economic theory, we have found out no relationship between MBC and sizes of enterprises[10]. We can provide two complementary explanations for the above. Unfortunately, on the basis of available data we cannot differentiate them.

The first one is that under the Soviet Union, accumulation of real capital, especially, in the industrial sector, was viewed as the major and only source of economic welfare. So, higher instances estimated enterprises on the basis of their capital endowment, which entailed especially thorough selection of personnel and intensified paternalism. Criteria dominating at that time determined the above negative from the market standpoint selection of managerial staff. Moreover, some Ukrainian enterprises retained paternalism inherited from the old Soviet traditions.

Another explanation also originates from the times of the USSR. Since the goal of enterprises was implementation of production plans, they tended to extensively increase all production factors. Within last 30-40 years, most Ukrainian regions lacked qualified and more or less efficient labor force. So, labor productivity growth was the only way to execute plan targets. Besides, this indicator was a plan target as well. However, higher level of labor productivity can be reached by means of either better organization of production or increase of capital endowment. It is obvious that the milder investment treatment was, the more attention the second factor was paid to. Moreover, under MBC, the factor of capital endowment was complementary to managerial effectiveness.

Can we finally state that all negative aspects have already been conquered?

In the light of the afore-mentioned, efforts “to rescue economy from disinvestments” under the motto “plants must operate whatever it costs” should be perceived as prolongation of the vicious tradition under new circumstances. In case the state declares maintenance and accumulation of basic assets to be the primary objective of its economic policy, the worse those assets are managed (and/or the lower is return on them due to other reasons, such as technological gap or failure to comply with optimum economic structure), the stronger state support enterprises receive, and, respectively, the fewer chances to improve management enterprises have, the worse institutional environment and the lower returns on investments are.

“Offering enterprises additional opportunities for self-investment” due to increase of depreciation charges, refraining from introduction of the enterprise property tax and scotching their bankruptcy, the state de facto provides preferential treatment to managers unable to effectively handle basic assets. At the same time, declaring its support to national manufacturers, the state offers wrong incentives to business encouraging rent-oriented behavior of enterprises. Unfortunately, it evoked keen response on the part of Ukrainian businessmen. According to recently published data of the survey conducted by the International Finance Corporation, on average, 74% of top managers and directors of Ukrainian enterprises are convinced that the state must support not entrepreneurship in general but their businesses, should they get into trouble. Meanwhile, 50% of respondents do expect such support.

Like in the majority of transition economies, in Ukraine, economic growth was not a result of investments inflow but was caused by other factors. It will be very intensive as long as excess reserves of production capacities remain idle. Under the generally recognized economic theory, further growth requires increase of investments. Unfortunately, in case of Ukraine, inflow of investments won’t be sufficient. The results of our analysis indicate that due to profound structural disproportions inherited

[10] We would like to remind once again that exclusively more or less typical enterprises were analyzed.

from the former USSR and retained till now, increase in inflow of investments won't lead to economic growth (which won't take place at all, should we rely exclusively on market investments) until a system regulating efficient redistribution of investment resources in favor of more effective enterprises and owners is formed. In other words, economic growth calls for transparency, "equal rules of the game", open and competitive mechanisms, system providing for protection of property rights, free entrepreneurship and other institutional attributes of market economy.

Special Section

Problems of and Prospects for Alternative Sales Tax in the Ukrainian Taxation System

By Valentyn Tregobchuk, doctor of economics, professor, head of the department for resource potential at the Economy Institute of the National Academy of Ukraine; Oleg Moroz, doctor of economics, professor, dean at the chair of economics at the Vinnytsya National Technical University; Serhiy Matviychuk, junior research officer at the chair of economics at the Vinnytsya National Technical University; Ludmyla Shveijkina, lecturer at the chair of economics at the Vinnytsya National Technical University

Under the national taxation legislation, the value added tax and the excise duty are major indirect taxes in Ukraine. Though, proposals are systematically put forward to introduce an alternative sales tax as a key component of the indirect taxation system. Besides, Ukraine's taxation system based on the sales tax has recently been simplified. In this respect, the issue of analyzing expediency of turnover taxes as an alternative to the valid VAT is very acute.

From the theoretical viewpoint, the sales tax and the VAT are analogous, since they both are indirect taxes on consumption and represent different forms of the same tax collected at each stage of commodity production and turnover. The only difference between those taxes is tax article, to which tax rate is applied. In other words, the sales tax is levied on gross turnover and the VAT on net one. Though, in the practice of application of sales tax the above difference engenders numerous negative consequences the economic theory has not dealt with since early 20th century, when their major drawbacks related to the nature of tax article became evident.

As the sales tax is levied on the whole sales value, inclusive of raw materials cost, should this tax be applied in the event of several production and turnover stages, it will generate a cumulative effect or that of sequential growth of tax burden. Proceeding from the above, tax burden depends on the "distance" from the manufacturer to the consumer. The higher is value, including wages and profit, added by a company operating at the initial production stage, the stronger is the cumulative effect. Hence, in this respect, the nature of tax burden is uneven and sporadic, for it depends not on the company's performance but on its role in production chain and the number of technological cycles. Such an approach to taxation stimulates considerable increase of tax burden, first and foremost, that on consumer goods and food enterprises, processing branches of the agro-industrial complex, wood-processing, pulp and paper industries, machine building etc. It turns out that within the same branch, enterprises manufacturing products using high-grade and more expensive raw materials experience much more difficulties.

Such a situation engenders incentives to vertical integration, i.e. consolidation of technologically related enterprises, determining higher level of economy's monopolization. Monopolies that emerged to optimize tax payments are not interested in cooperation with any intermediate parties, small and medium enterprises offer no incentives to competition. So, small and medium business declines, as companies cannot stand price competition with monopolies.

After the World War II, in the majority of states, the sales tax was not imposed due to the above reasons. However, further growth of fiscal needs urged a number of countries to seek for alternative types of indirect taxation. In 1954, France substituted the sales tax for the VAT and pioneered in change of consumer tax structure.

The VAT retained advantages of other taxes and was free of their basic drawbacks. On the one hand, like the sales tax, the VAT is levied at each stage of goods production and sales. On the other hand, since the VAT is imposed exclusively on value added at each stage, this tax directly depends on real contribution of each stage to final product value being the total of values added at all stages of production and turnover. Hence, the VAT does not depend on change in the number of those stages, i.e. change in the organizational structure of economy. The VAT is more neutral from the viewpoint of market competition, since it does not encourage vertical integration. This tax has administrative advantages, for it offers an opportunity of cross-control over tax payments. No wonder that within several decades after its introduction in France, the VAT actually ousted the sales tax in the majority of developed economies.

So, the VAT is a more progressive and perfect form of indirect taxation than the sales tax. It would be expedient to point out that the VAT looms large in the World Taxation Draft Code developed in 1994 within the frameworks of the International Taxation Program and incorporating advanced and up-to date experience of modern science and practice of taxation.

In this respect, it is very surprising that the issue of introduction of a tax declined by civilized economies long ago is heatedly debated in Ukraine. From the standpoint of consequences of such a reform, it would be very important to take into account not only drawbacks inherent in the sales tax due to its economic essence and independent of definite economic environment but also challenges that Ukraine may encounter because of today's situation in the world economy.

First and foremost, the problem lies in the sphere of foreign economic relations. Nowadays, the majority of Ukraine's foreign partners apply the VAT in lieu of the sales tax. So, introduction of the latter will adversely affect foreign trade balance of Ukraine[11].

Double taxation of domestic products will entail decline in their competitiveness on foreign markets. Such a taxation system will stimulate exports of raw materials and reduce that of science and technology intensive goods with high added value.

On the other hand, Ukrainian commodities will not be able to compete with imported products on the domestic market as well, since the latter will be taxed only once, when they cross the customs frontier of Ukraine. At the same time, prices for Ukrainian goods will rise proportionally to growth of production chain.

Ukraine's international agreements on prevention of double taxation will immediately become invalid due to legalization of the sales tax, while introduction of taxation rules different from those in Russia and the EU states will adversely affect Ukrainian foreign economic relations.

Experts also predict decline in the banking market, for banking institutions would be vested with power to collect the sales tax. Should commercial banking institutions hold their clients liable to immediately transfer 9% of all sales receipts to the budget, companies will avoid contacts with the banking sector and go into "shadow". In our opinion, the above factor as well as increase of interest on bank loans and introduction of "credit file" will evoke collapse of the banking system in Ukraine.

Proceeding from the afore-mentioned, it is possible to predict deterioration of the general economic situation in Ukraine and growth of inflation, as the sales tax will exert direct inflationary impact on the national economy because of substantial increase of the share of sales tax proceeds in the revenue budget. As a result, Ukraine's economy will go into the "shadow" and tax administration will get tougher, which will generate mass evasion of taxes. Therefore, introduction of the sales tax will have grave and unforeseen consequences for Ukraine.

However, we should acknowledge that the issue of the VAT abolition was raised not by accident but as a response to a number of challenges relating to its administration in Ukraine. The most pressing problems of the VAT application look as follows. The first one is practice of budget default on reimbursement of amounts indicated in the VAT-related tax credits. The other challenge is intricate and instable taxation legislation in Ukraine. As far as the VAT is concerned, 40 laws and over 100 other legal documents introducing changes to regulating the VAT issues were introduced within two recent years. Such a situation adversely affects Ukrainian small and medium businesses, for which it is very expensive to employ legal advisers and accountants as members of the staff.

Despite enormous complexity of the above challenges, it is understood that its gist is determined not by economic nature of the VAT but by legal taxation basis and the lack of legal discipline in

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[11] Substitution of the VAT for the sales tax will undermine export potential of Ukraine.

activities of state authorities. Anyway, business entities hold ingrained prejudice against the VAT on the whole, while the idea of its substitution for the sales tax was welcomed even on the part of MPs.

Illusory success of the single sales tax as an alternative to the VAT, the turnover tax and a number of other mandatory payments levied on definite categories of small enterprises contributed a lot to the myth about the sales tax as a panacea. Though, it would be worthwhile to emphasize that the presidential decree “On State Support to Small Business” established the simplified system of financial statements and accounting that attracted small enterprises most of all. In other words, businessmen give their preferences to the simplified system of financial statements, accounting and taxation so that to minimize contacts with taxation administration. As for the single tax, practice proves that, from the financial viewpoint, it is sometimes not beneficial for enterprises to pay this tax.

So, there is no reason to assert that the sales tax has any fundamental advantages over the VAT, except for the simplified taxation procedure. However, the idea of introduction of the sales tax is that popular among businessmen due to the above advantage. As a matter of fact, the problem is not that economic drawbacks are inherent in the VAT and are not typical for the sales tax. Very often, businessmen are negative about the VAT only because of “specificity of the national taxation”.

The most important issue, advocates of radical reform in the Ukrainian taxation system should have answered, still remains acute. Really, is there any sense to substitute the VAT for the sales tax, when it is absolutely impossible to understand the way the latter can solve problems topical for businessmen and the state?

Advocates of the tax reform put forward the only argument. In their viewpoint, simple accounting method relating to taxation of sales proceeds is an obvious advantage of the sales tax. However, it is necessary to point out that the above specific feature is not essential for medium and large enterprises that can employ qualified accountants.

Hence, introduction of the sales tax in Ukraine in lieu of the VAT and profit tax is not economically substantiated. The sales tax has numerous drawbacks and the only advantage over the VAT crucial just for small enterprises. Besides, transition to the sales tax can solve practically none of acute business problems related to the VAT. Introduction of the sales tax can be justified only in the event that complexity of taxation and accounting techniques become critical for small business, and only subject to thorough consideration of all possible consequences.

It is necessary to realize that simultaneous functioning of enterprises liable to taxes imposed under different taxation systems can entail serious problems, especially in the event of transactions between companies VAT-payers and enterprises taxed at the rate of 10% of sales proceeds. The point is that the latter are not the VAT payers and have no permission to make out a tax bill under the valid legislation. It means that companies VAT-payers are deprived of tax credits in the event they buy products from enterprises paying taxes in compliance with the simplified system. In reality, the above results in double VAT taxation of a certain part of product value and respective increase of its cost.

In case of economic entities liable to taxes imposed under different taxation systems under different systems, of paramount importance is the issue of fixing rationally substantiated tax rates and frameworks of taxation systems so that to ensure maximum efficiency of syncretic taxation system. Therefore, should the VAT and the sales tax coexist, Ukraine’s taxation system must be viewed at a slightly different angle.

The larger is the number of taxation systems applied within the same economic environment, the better are opportunities to select the system most adequate to taxation of the company’s business activities. Hence, it is expedient to analyze factors determining the above option and identify the extent, to which behavior of an entrepreneur will comply with objectives set by the state, while introducing alternative taxation methods. In other words, it is necessary to thoroughly analyze consequences of introduction of the sales tax for Ukrainian small enterprises and whether they correspond with the mission of the tax reform announced in the respective presidential decrees.

In today’s Ukraine, taxes can be imposed on small enterprises under three different systems, namely, the general (hereinafter referred to as the “standard” system), the simplified one providing for payment of 6% rate of turnover/sales tax and the VAT (hereinafter referred to as the “hybrid” system), and the simplified system envisaging 10% rate of the sales tax and no payment of the VAT. So, Ukrainian small entrepreneurs have three options.

The primary objective of the state is to establish within those three systems tax rates and terms of taxation facilitating realization of the basic goal set. For instance, ultimate transition of small economic entities to a new taxation system and enhancement of their performance should have been a consequence of introduction of the sales tax. Terms of the above systems should obviously stimulate development of the majority of small businesses and offer advantages to them.

To determine companies, for which it would be beneficial to substitute the VAT for the sales tax under the taxation law in force, we suggest analyzing pricing process at those enterprises. It is known that product price incorporates costs of materials and services, depreciation charges, expenses for manpower and company's profit. In general, the above statement is true in case of any enterprise regardless of a taxation system applied. Though, closer examination allows us to reveal a number of peculiarities. For example, companies operating under the simplified scheme do not pay insurance duties usually included in product cost. Enterprises paying the VAT include it in sales price, whereas businesses that pay the sales tax act like in case of the excise duty. Moreover, the latter do not pay profit tax, which influences net structure of price as well.

Structure of tax payments depends on income to cost ratio (profitability) as well as on ratio of value added to value purchased determined by type of activity and its efficiency. Proceeding from the afore-mentioned, it is possible to describe pricing processes at enterprises by means of mathematical equations. In such equations, independent variables are rates of taxes and charges on wages funds, profitability calculated as net profit divided by cost, value purchased and α-factor viewed as ratio of depreciation charges and wage expenditures to purchased value dependent on technological level and sphere of activity.

We would like to analyze information on α-factor and profitability of small businesses operating in various branches of the national economy. The analysis is based on data of the 1999 Vinnytsya Region Statistical Bulletin and classifies enterprises of different branches according to possible outcomes of application of simplified taxation systems.

First of all, we would like to emphasize that in the event of trading companies the sales tax is inadequate, since specificity of their business implies much larger volume of sales than that of taxed profits. Meanwhile, profitability of trade transactions in Vinnytsya Region amounts to around 7.5%, which is insufficient to cover expenses for payment of the 10% sales tax. Consequently, trading companies do not pertain to potential sales tax payers, to say nothing about such branches as power engineering and machine building involving insufficient number of small enterprises and thereby actually not resorting to the simplified taxation system.

The rest of companies can be divided by three groups. The first one encompasses food, metallurgical, and wood-processing enterprises as well as those of the textile industry. Specific feature of this group lies in the fact that the sales tax would be appropriate in case of companies making large profits and won't do for less profitable enterprises.[12]

The second group consists of businesses making high profits and organizations rendering scientific, transportation, consumer, and repair services, for which the sales tax is rather beneficial. It is too onerous for those companies to pay both the VAT and the sales tax, since services they furnish incorporate high enough value added, the lion's share of which falls on profit. Therefore, mass transition of the above enterprises to the simplified taxation system is observed at present. It is safe to say that introduction of the sales tax with respect to this group is expedient, as it really encourages development of small business in the service-producing industries.

The third group is formed by enterprises making relatively low profit and operating in the spheres of housing and communal services, agriculture, health protection, and construction. At present, it is beneficial for them to pay the sales tax, for their activity is mostly based on hand labor. Under such circumstances, the major share of added value falls on wages and salaries taxed heavily under the standard system. Should those companies sooner or later be re-equipped, they will most probably get

[12] We would like to note that for most Ukrainian industrial enterprises, transition to the 10% sales tax would be unfavorable. Therefore, the simplified taxation system will promote development of Ukraine's industry by no means. Enterprises will apply the simplified system only to avoid a number of problems relating to accounting and financial documents.

under the influence of the standard taxation system due to the fact that they will lose incentives to resort to the sales tax. So, it is possible to draw a conclusion that the 10% sales tax will be beneficial for enterprises of the third group only temporarily. Besides, being an integral part of the simplified taxation system, the sales tax can adversely affect performance of the above enterprises impeding incentives to technical re-equipment and upgrade. The point is that the desire to remain a single tax payer and keep books according to the simplified taxation system may be stronger than endeavors to enhance production efficiency by transition to the standard taxation system.

Hence, effectiveness of introduction of the single 10% sales tax is relatively low. Proceeding from the above, in Vinnytsya region, only 35% of small businesses will be able to transit to the simplified taxation system, since the rest are industrial enterprises (17%) and trading companies (47%).

It would be interesting to calculate results of application of the sales tax according to the Concept of Reforming Ukraine's Taxation System suggested by B. Gubsky, V. Alyoshyn, V. Sockerchak and other Ukrainian MPs. For this reason, it is necessary only to re-build the model by substituting variables of taxation system for those proposed by authors of the Concept as follows: the VAT equals 15%, income tax rate amounts to 20%, the sales tax makes up 6%, and amount of deductions to the wages fund constitutes 30%.

Calculations indicate that under the Concept, the sales tax would have been applied to the overwhelming majority of Ukrainian industrial enterprises, thereby forming business climate more favorable for industrial development. The above example demonstrates that should substantiated and expedient tax rates be established, the sales tax will be able to stimulate small business despite all its drawbacks.

As for another alternative to the simplified taxation system providing for the 6% sales tax and the VAT, such a system incorporates drawbacks of both taxes. Its only advantage over the standard system is an opportunity to apply the simplified system of accounting and financial statements. In practice, transition to the hybrid taxation system was unpopular because of both its economic irrationality and imperfect tax legislation. After the summer 1999 introduction of more perfect model of the simplified taxation system providing for exemption from the VAT subject to payment of the 10% sales tax, prospects were that the above system would degrade.

Should a quantitative approach be applied to a company operating under the hybrid system, it will be obvious that such a scheme has no advantages over the system envisaging payment of the 10% sales tax. In compliance with the hybrid system, payment of the VAT would be unfavorable for Ukrainian industrial enterprises, whereas businesses of the second and third groups could benefit from it. The need to pay the VAT makes the system useless for the majority of enterprises, especially, with regard to an opportunity to transit to the 10% taxation system. Besides, proceeds from the VAT will not cover expenses for its administration. Therefore, the hybrid taxation system would be inefficient in Ukraine, especially, taking into account that Ukrainian businessmen hold ingrained prejudice against the VAT.

So, the analysis we have carried out proves inexpediency of the VAT substitution for the sales tax, as such a measure cannot eliminate major drawbacks of the national taxation system.

To reach the above goal, officials of the State Taxation Administration should improve the VAT and the sales tax mechanisms and bring them in line with the world standards.

As far as the sales tax is concerned, it can be temporarily applied to small business entities, though its existence in Ukraine is inexpedient.

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SigmaBleyzer's Views On The Ukrainian Crisis

Washington, D.C... Michael Bleyzer, President and CEO of SigmaBleyzer has made several trips to Washington, D.C. in recent weeks meeting with key government and private sector leaders. Mr. Bleyzer has, in the meetings, outlined the concern the management of SigmaBleyzer has about the direction Ukraine may possibly take in the next few months due to the latest political crisis and the Russian expansionist policy. Mr. Bleyzer has laid out to leaders in Washington several major points which outline what SigmaBleyzer believes about Ukraine at the present time.

SigmaBleyzer and theUkrainian Growth Funds (UGF) have been investing in Ukraine for seven years. The current UGF portfolio includes over 70 Ukrainian companies from many sectors of the economy, which are located in most geographic regions of Ukraine. SigmaBleyzer is one of the largest international investors in Ukraine. It manages the largest private equity fund in the country with $100 million under its management. SigmaBleyzer, an American/Ukrainian Investment Banking Group has operational offices in Houston, Texas, Kyiv and Kharkiv, Ukraine.

In early 2000, SigmaBleyzer helped create the International Private Capital Task Force (IPCTF) which along with Thunderbird, The American Graduate School Of International Management, has just completed a year long benchmarking study of countries with transition economies, which contains a detailed "Action Plan For Ukraine". The "Action Plan" outlines nine government policy areas in which Ukraine must make significant progress in order to attract additional Foreign Direct Investment (FDI), accelerate economic activity and develop a strong, independent, market economy.

An important meeting was held with the Cabinet of Ministers of Ukraine on February 28, 2001, to focus on the results and recommendations of the IPCTF. Representatives of many international businesses and Ambassadors from several countries also attended the meeting. A forty-five minute presentation made by SigmaBleyzer's President and CEO, Michael Bleyzer, outlined the major policy actions which must be taken by the government of Ukraine if there are to be major increases in Foreign Direct Investment (FDI) over the next five years.

Based on seven years of experience investing and operating in Ukraine, the results of the major IPCTF study, the recent meeting with the Cabinet of Ministers, and the recent meetings with some government leaders in Ukraine, the management of SigmaBleyzer has stated in Washington they believe the following:

(1) SIGNIFICANT TURNAROUND... Ukraine has made a significant turnaround in its economic performance in 2000 and the first quarter of 2001. This growth follows 10 consecutive years of slow reforms and year-on-year economic declines.

(2) POLITICAL CRISIS... The recent political crisis, which followed the disappearance and apparent murder of journalist Georgiy Gongadze, has all but paralyzed the Ukrainian government. Most politicians have switched from focusing on important policy and reform issues to the politics of destruction or survival, depending on which side one is on.

(3) POLITICAL PARALYSIS-ECONOMIC RECOVERY... Interestingly, this paralysis at the top has not led to any slowdown in Ukrainian economic recovery. On the contrary, the economy seems to be accelerating further in the first quarter of 2001, with Ukraine now leading the CIS in industrial growth. However, it is not clear how sustainable this progress will be without serious additional steps in the government policy area (as detailed in the IPCTF recommendation) and corresponding increases in capital investments, both foreign and domestic.

(4) ATTENTION FROM RUSSIA... On the other hand, the recent crisis attracted significant attention and improved the appetite for influence from Ukraine's big neighbor to the East. Russia has clearly improved its positions in Ukraine over the last several months, demonstrating a high level of consistency in their plans to "re-build" the Union with Belarus, Moldova, Georgia, Ukraine and other

former Republics of the Soviet Union. Significant Russian capital investments are being made in Ukraine to control key sectors of Ukrainian economy.

(5) BREAKING POINT... Ukraine is truly at a "BREAKING POINT". Whether it "BREAKS" East or West may determine the balance of power in Central Europe for the next decade or longer. Most Ukrainian people, including the politicians and business people, openly say they do not want to "GO EAST". However, most believe Ukraine is sliding in that direction.

(6) FINANCIAL ASSISTANCE… Most of the international financial assistance received by Ukraine in the last ten years, including foreign aid, as well as multilateral and other bilateral programs from international financial institutions, did not deliver the desired results. The same can be said about financial assistance to Russia and many other countries of the former USSR. Instead of helping to develop democracy and a market economy, these substantial funds helped the same power structures stay in control, and institutionalized a long-term dependency system similar to welfare.

(7) U.S. POLICY TOWARDS UKRAINE... U.S. policy towards Ukraine is not well defined, and certainly not well communicated or understood by Ukrainians, Russians, or even American and Western business people working in Ukraine. The U.S. policy must begin with the recognition, at the highest levels of the U.S. government, of the critical strategic importance of Ukraine to the National Security interest of the United States. Therefore, a long-term, unwavering commitment to bring democracy and a market economy to Ukraine is needed today by the United States in policy and action. Only in this way can Ukraine be truly independent and provide stability in Central and Eastern Europe.

(8) COALITION WITH WESTERN EUROPE... The approach recommended for the U.S. is also very critical for countries in Western Europe; therefore, a strong coalition must be built in the West, with leadership from the U.S., to bring change, independence, economic freedom, democracy, liberty and the protection of human rights to Ukraine.

(9) UKRAINE IS READY... Ukraine is ready for this change now. The actual influence and leverage the United States has in Ukraine with Ukrainian people, businessmen, and most politicians significantly exceeds the perception of the U.S. government, and therefore remains largely underutilized. This must be changed to help Ukraine move through this "Breaking Point" in a decisive fashion, and become a strong, democratic, prosperous, independent nation.

SigmaBleyzer plans to be back in Washington, D.C. again soon meeting with political, business, and other leaders in Washington, D.C. concerning SigmaBleyzer's views on the Ukrainian crisis and their recommendations for immediate action by the U.S. government, U.S. businesses and others involved in promoting democracy and a market economy in Ukraine. SigmaBleyzer believes a strong coalition of U.S. leaders, businesses, and organizations must be encouraged to work together to push a new action plan for Ukraine forward as rapidly as possible.

The complete International Private Capital Task Force (IPCTF) study can be seen on www.sigmableyzer.com and on www.volia.com.