Investment Attractiveness Index of Ukraine's regions in 2014

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Introduction

- The ability of regions to generate and attract investments contributing to economic growth is defined as a specific set of characteristics of a territorial unit (region) which investor takes into account in the process of making investment decision.

- Investment attractiveness of the region reflects the quality of the set of characteristics of territorial unit.

- Index of investment attractiveness of regions is a relative assessment of a such quality.
Purposes of the index construction

- To measure the relative investment attractiveness of Ukraine's regions for the investors;

- To help the government identify problems that negatively affects investment process at local level;

- To help local authorities identify the factors that affect the investment attractiveness of the region and identify proper measures to minimize or enhance the impact of relevant factors.
The stages of ranking

Determining factors of investment attractiveness:
(quantitative and qualitative factors)

Assessment of investment attractiveness
(construction of the index of investment attractiveness)

Interpretation of the assessment:
(Investment Attractiveness Index as a basis for recommendations on economic policy at the regional and national levels)
Groups of factors

Hard factors

Soft factors

Investment attractiveness

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Hard factors - factors that cannot be (or very difficult) changed in the short or medium term (mostly related to the socio-economic environment):

- Geographical location
- Natural resources
- Workforce
- R&D potential
- Consumer segment
- Business segment
- Infrastructure
Soft factors

Soft factors - factors that are relatively easy to change in short or medium term (mostly related to investor perceptions of the business environment):

• Support for investors by local authorities;
• Management of expectations;
• The successful implementation of investment projects;
• Administrative rules and procedures;
• Legal (regulatory) environment;
• Financial and tax incentives.
The survey

- **Enterprises:**
  - Over 600 enterprises in 27 regions of Ukraine
  - From 15 (Sevastopol) to 45 (Kyiv) enterprises in the region
  - Enterprises from different sectors producing goods and services
  - Requirements: the presence of investment, the large size of the enterprise
  - Survey method - personal interview with questionnaire (face-to-face, telephone)

- **Experts:**
  - 3 in each region
  - Represent 3 groups:
    1) Business associations / Regional Center for Investment and Development
    2) Public authorities (Investment Department of local administration)
    3) Investment / consulting companies
  - Survey method - personal interview with questionnaire via CATI

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Rating: components

Overall rating

Rating by separate groups of factors (“hard” or “soft”)

Rating by separate factors within a group

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Preliminary remarks

1. Investor’s assessment of a territory as a location for investment is in fact his expectations to carry out industrial and commercial activity under acceptable level of risk and return.

2. Decision on specific investment projects is determined by three main factors:
   - The company's strategy
   - The specifics of the industry
   - Size of the company

3. The index was calculated before the political crisis.

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## Rating of investment attractiveness of the regions

<table>
<thead>
<tr>
<th>Overall rating</th>
<th>Hard factors rating</th>
<th>Soft factors rating</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Lviv Oblast</td>
<td>Kharkiv Oblast</td>
</tr>
<tr>
<td>2</td>
<td>Ivano-Frankivsk Oblast</td>
<td>Dnipropetrovsk Oblast</td>
</tr>
<tr>
<td>3</td>
<td>Odessa Oblast</td>
<td>Odessa Oblast</td>
</tr>
<tr>
<td>25</td>
<td>Kherson Oblast</td>
<td>Sevastopol</td>
</tr>
<tr>
<td>26</td>
<td>Chernivtsi Oblast</td>
<td>Chernivtsi Oblast</td>
</tr>
<tr>
<td>27</td>
<td>Autonomous Republic of Crimea</td>
<td>Zakarpattia Oblast</td>
</tr>
</tbody>
</table>

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Distribution of the regions by groups of factors

Note: The red lines divide the set of regions into two equal groups separately for hard and soft factors.

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Comparison with previous year
## Strengths and weaknesses of the investment environment

<table>
<thead>
<tr>
<th>Strengths</th>
<th>Weaknesses</th>
</tr>
</thead>
<tbody>
<tr>
<td>Natural resources</td>
<td>Corruption</td>
</tr>
<tr>
<td>The closeness to the border</td>
<td>The pressure on business by government</td>
</tr>
<tr>
<td>Qualified personnel</td>
<td>Poor quality of infrastructure</td>
</tr>
<tr>
<td>Developed infrastructure</td>
<td>Political instability</td>
</tr>
</tbody>
</table>
Key problems

- The quality of infrastructure
- Allocation of land and land titling
- Public procurement
- The efficiency of the judicial system
- Permits / licenses
- The speed of providing information about local authorities decisions and its completeness
Conclusions

• The key to improving the investment environment is the coordinated work of various branches of government (both horizontal and vertical collaboration)

• Improvement of the institutions is the most vital part of the improvement of investment environment in Ukraine

• The process of decentralization will be inevitably accompanied by increasing relevant responsibilities of the local authorities
Thank you!

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