

In 1999, SigmaBleyzer initiated the International Private Capital Task Force (IPCTF) in Ukraine. Its objective was to benchmark transition economies to identify best practices in government policies that improve the investment climate and attract private capital. An Action Plan was developed and presented to the Ukrainian government which identified the economic policy actions necessary to improve the investment and business climate in Ukraine, attract additional flows of private capital to the country; support economic growth, and improve the quality of life for their citizens. In 2001, this effort was expanded to all countries of the FSU, and IPCTF ratings for all 15 countries of the FSU were developed. They are available from SigmaBleyzer and The Bleyzer Foundation.

The Bleyzer Foundation was established in 2001 in order to promote the IPCTF framework and help countries implement the policies necessary to successfully complete transitions to market economy.

The Foundation's Managing Director is Mr. Victor Gekker, who is supported by a team of economists and business analysts. The Advisory Board of The Bleyzer Foundation is chaired by Dr. Edilberto Segura and provides advice and guidance to the activities of the Foundation.

Ukraine: Investment Promotion Activities

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The President has recently established an Investment Council which is expected to advise the President about a variety of measures that should be taken to attract an increased volume of foreign investments to Ukraine.

As experience in other countries suggests, an Investment Council can indeed be very useful to attract investors to the country. In most successful countries, the Investment Council meets quarterly (four times a year) to provide advice to the Government. These periodic meetings are needed to provide feedback and help in identifying corrective actions along the reform path.

It is highly unlikely, however, that the Investment Council established in Ukraine would be able to meet regularly as is needed for its effectiveness. This is because many of the foreign members (such as Messrs. Gates, Lemier, McDaniel) have very heavy travel agendas, with their foreign trips committed months and in some cases years in advance (Attachment 1 lists the members of the Council). Scheduling frequent regular meetings with Senior Government officials would be also difficult. Given its current composition, it could be expected that the Council could meet at most once a year. Although useful, these infrequent meetings will not be sufficient to satisfy the requirements in Ukraine.

It is therefore proposed that a smaller task force be established under the umbrella of the Investment Council: it would be called the International Private Capital Task Force (IPCTF). This new IPCTF would be formed principally by the heads of the local representative offices of those foreign companies and international agencies that are quite active in Ukraine. It would also include presidents of companies residing abroad if they can make the commitment to visit Kiev at least on a quarterly basis as needed. The IPCTF should have about 25 members. It is proposed that IPCTF be drawn from Attachment 2, which lists the companies with major activities in Ukraine and which were most actively engaged in the original International Private Capital Task Force.

It is proposed that the IPCTF also acts as the Advisory Board for the Investment Promotion Agency (IPA) that the government intends to establish. This IPA would have adequate staffing to implement the recommendations of the IPCTF. IPA would coordinate whatever work needs to be carried out by other government agencies. In other words, IPA would act as the executing agency and secretariat of the Investment Council and the IPCTF.

The Investment Promotion Agency

A. Proposed Functional Structure of IPA

As is the case in most countries, it is proposed that the IPA carries out four types of activities:

1. Image building,
2. Investment generation,
3. Investment servicing,
4. Policy advocacy.

The table below provides more details about these activities:

Major Functions of An Investment Promotion Agency

| Function | Image Building | Investment Targeting/ Generation | Provision of Investment Services | | Policy Advocacy |
|------------|---|--|--|---|--|
| | | | Pre-Investment Services | Post-Investment or Aftercare Services | |
| Activities | <ul style="list-style-type: none"> ●Advertising ●PR events ●Mass media campaigns abroad ●Investor forums ●Maintaining relationships with journalists and business partners ●Developing the agency's website | <ul style="list-style-type: none"> ●Identification of potential investors ●Matchmaking ●Direct mailing, telephone campaigns ●Seminars for targeted investors | <ul style="list-style-type: none"> ●Information provision ●"One-stop-shop" registration/approval service ●Sectoral analyses ●Various assistance in obtaining sites, suppliers etc. | <ul style="list-style-type: none"> ●Legal or other advisory support to on-going foreign investment projects ●Dealing with bureaucracy etc | <ul style="list-style-type: none"> ●Surveys of private sector ●Participation in task forces ●Policy and legal proposals to authorities ●Lobbying |

Source: based on Wells and Wint, 2000

According to a survey of international practices of about 150 IPAs, 35% of all IPA's activities are devoted to image building, 33% to investment servicing (out of which 75% entails pre-investment services), 22% to investment generation, and only 10% to policy advocacy. Although it is important for an IPA to provide a full range of services in each particular environment, it is quite important to identify which activities are most like to generate results in a cost-effective manner. The IPA should then concentrate its efforts in this activity. Results of empirical research suggest that those IPAs that devote more resources to "policy advocacy" are more effective in generating results. On the other hand, investment-targeting/generation activities turn out to be quite expensive and risky, especially in countries with a poor investment climate. The mix of different services offered by an IPA should correspond to the existing business environment in which the agency operates, and its priority objectives. In Ukraine, it is proposed that the IPA should devote a good portion of its efforts to "policy Advocacy" to improve the country's business environment.

B. Proposed Organizational Structure of IPA

According to the studies performed by The World Bank/IFC/FIAS and UNCTAD, the effectiveness of an IPA crucially depends on its organizational structure. In fact, there are some organizational characteristics of an IPA that are associated with better performance in delivering the desired outcomes. In any event, because of the "public good" nature of investment promotion activities, in most countries IPAs are government entities. About 80% of the IPAs surveyed by the UNCTAD were government agencies. However, investment promotion agencies have responsibilities and functions that differ from other government agencies and perform activities that are typical of the private sector. Its organization therefore requires the flexibility to quickly respond to investors' needs and adjust to changing market conditions. It should have the autonomy to generate and implement investment promotion strategies that are consistent throughout a long period, regardless of the political environment in the country. Therefore, many IPAs have appealed for more independence from their governments to increase the effectiveness of investment promotion activities. A more autonomous status gives IPAs the chance to create corporate office cultures and to attract experienced staff from the private sector by offering competitive salaries. Over 25% of the IPAs surveyed by the World Bank/IFC/FIAS and UNCTAD are autonomous public institutions, and about 35% of the IPAs are semi-autonomous state bodies with private sector involvement (with the private sector represented in the supervisory or steering boards of IPAs.) The share of IPAs that are units of Ministries represents less than 20%. Research studies also provide evidence in favor of a more autonomous nature of IPAs. It was found that flows of foreign direct investments were significantly lower in countries where the IPA was part of a ministry, in contrast to those that were either an autonomous or semi-autonomous public institution. Also, the effectiveness of IPAs was found to be greater when the agency reported to a supervisory board that includes representatives of the private sector, and it reported directly to highest-level officials (either a country's President or a Prime minister). Thus, an autonomous or semi-autonomous institutional structure of an IPA can be more effective in a transition economy, because such an organization can contribute to strengthening the government's commitment to market reforms as well as reinforce the agency's credibility and visibility in the business community. Out of 14 national IPAs operating in the CEE and CIS region, seven are either autonomous or semi-autonomous government agencies. Consistent with this international experience, it is proposed that the Ukrainian IPA should be an autonomous or semi-autonomous agency reporting to either the President or the Prime Minister.

In many countries, IPAs also have steering or advisory boards, the composition of which is also important for the agency's performance. In most cases, boards are composed of representatives from both the public and private sector. Government board members, especially high-level officials, provide access to the bureaucracy, which can be extremely valuable when the agency is trying to help investors solve problems with the government. Meanwhile, private sector members are

likely to emphasize and monitor the agency's performance (ensuring transparency), improve the agency's understanding of how decisions are made in the private sector, and provide information on barriers to investment in the country. For instance, private sector representatives are included in the steering boards of IPAs in the Czech Republic, Bosnia and Herzegovina, and Estonia. In addition, close connections of the agency with the Ministry of Foreign Affairs brought about an effective use of the country's diplomatic service for implementation of image-building activities. UNCTAD has even launched a special series of training workshops in investment promotion for mid- and senior-level diplomats from developing and transition countries that offer significant savings for IPAs overseas image-building activities. The World Association of Investment Promotion Agencies (WAIPA)¹ also offers different trainings and conferences for IPA staff. IPAs in transition economies employ on average 26 people, including three people on support staff. For the Ukrainian IPA, it is proposed that the IPCTF plus several government officials act as the IPA Advisory Board.

Due to the peculiarities of IPA's functions mentioned above, the issue of the agency's staff and management personnel is the second most important after the institutional structure of the agency. An IPA's staff should include people that are comfortable with both business operations and investment decisions, and government procedures. To run an effective image-building campaign, an IPA should be staffed with experienced marketing people that usually earn high salaries in the private sector. Thus, it is not surprising that 60% of IPA staff around the world has private sector experience, and 41% of IPAs offer salaries that are competitive with those of the private sector. According to the UNCTAD study, 30% of IPA staff has an educational background in economics, 20% in business administration, and 12% in public administration. Special attention should be given to the choice of agency director or chief executive officer. On the one hand, for successful IPA performance, the director should be able to communicate regularly and effectively with government officials, maintain political neutrality, and lobby for money with home and, perhaps, donor governments. On the other hand, the director must be able to get along with domestic and foreign businesses and fit into their social activities.

Conclusions and Recommendations

The analysis presented in this paper supports the view that investment promotion agencies can be effective in influencing the decision to invest in a country, and their operation may bring substantial increases in FDI inflows. Judging by international investment promotion practices, several implications for the establishment of an effective investment promotion agency in Ukraine can be made.

First, the agency implementing investment promotion activities should have clear objectives that correspond to its primary mission —

¹ Participation in WAIPA activities assumes an annual membership fee of \$2000.

to increase the quantity and quality of FDI flows into the country. The agency should effectively disseminate information about the business environment and opportunities among prospective investors and coordinate activities aimed at improving the business environment in the country.

Second, the agency must be transparent and must be trusted by the investment community, including foreign investors already operating in the country. Satisfied foreign investors are likely to not only expand their own operations in the country given favorable market conditions and positive changes in the investment climate, but also to facilitate the arrival of new investors.

Third, the agency's effectiveness is influenced by its organizational structure and reporting mechanisms. To be effective, the agency should have a business orientation, strong links with the private sector, and simultaneously, be supported by the highest levels of the government (President or Prime Minister.) Private sector participation in the management of the IPA would also contribute to the efficiency of the agency's performance. Therefore, it would be desirable for the agency to be either autonomous or semi-autonomous of the government.

Fourth, the agency should perform all the basic functions of a typical investment promotion agency. The mix of different services offered by an IPA should correspond to the existing business environment in which the agency operates and its priority objectives. Even taking into account the poor investment climate and low FDI level in Ukraine, an agency promoting foreign investments should pay attention to image-building activities to communicate positive shifts in economic policies in order to attract new investors into the country. Also, the agency should focus on policy advocacy activities by establishing tight links with foreign investors currently operating in the country, in order to address those administrative and other barriers to FDI flows to Ukraine. However, investment generation activities should not be relied upon because international experience has shown that implementation of these activities is not associated with higher FDI flows, even though it requires substantial financing. It is also important that the agency's basic services are provided free of charge.

Fifth, an effective IPA should rely mostly on government financing. Investment promotion agencies operating in CEE transition countries relied on foreign assistance to finance their activities as alternative sources of funding by almost 30%, especially in the early years of its establishment. Ukraine is also eligible to get foreign assistance for the establishment of an investment promotion agency. In transition economies, the size of an IPA annual budget range from \$400,000-\$4 million, with an average of \$800,000.

Attachment 1**Membership of Ukraine's Investment Council*****Ukrainian Government:***

- (1) Victor Yushchenko, President of Ukraine, Head of the Council;
- (2) Yulia Tymoshenko, Prime Minister of Ukraine
- (3) Oleksandr Zinchenko, State Secretary of Ukraine;
- (4) Borys Sobolyev, Deputy State Secretary of Ukraine;
- (5) Anatoliy Kinakh, First Vice Premier of Ukraine;
- (6) Oleh Rybachuk, Vice Premier of Ukraine;
- (7) Volodymyr Lytvyn, Verkhovna Rada Speaker (upon acceptance);
- (8) Victor Pynzenyk, Minister of Finance;
- (9) Serhiy Teryokhin, Minister of Economics;
- (10) Volodymyr Stelmakh, Head of the National Bank of Ukraine;

Foreign Companies:

- (11) Bill Gates, Head of Microsoft;
- (12) Raymond McDaniel, President of "Moody's Investor Service"
- (13) Jorge Zukoski, President of the American Chamber of Commerce in Ukraine;
- (14) Sigeo Katsu, Vice President of the World Bank, European and Central Asian region;
- (15) Jean Lemier, President of the European Bank of Reconstruction and Development (EBRD)
- (16) George Christopher Logush, Head of "Kraft Foods of Ukraine";
- (17) Bairon Markshtedt, President of the European Business Association;
- (18) Paul Ostling, Head "Ernst and Young Global";
- (19) Karin Rau, Delegate of the German economy in Ukraine;
- (20) Dave Rogers, President of "Cargill Europe";
- (21) Hans Yorg Rudolph, Head of "Barklay's Capital";
- (22) Illia Yurov, President of "TRUST" Investment Bank;
- (23) Natalie Ann Jaresko, President and Chief Exec Officer of "Western NIS Enterprise Fund";
- (24) Michael Bleyzer, President of SigmaBleyzer and The Bleyzer Foundation.

Attachment 2

IPCTF — Extended List of Western Participants

A. Private Companies

| Company | Phone, e-mail |
|---|---|
| SigmaBleyzer | 244-94-90 mbleyzer@sigmableyzer.com edisigura@sigmableyzer.com vbodayev@sigmsbleyzer.com 21 Pushkinskaya; Office 40 01004 |
| Calyon Bank Ukraine | 490-14-00 jacques.mounier@ua.calyon.com 23a, Volodymyrska. 01034 |
| Pricewaterhouse Coopers | 490-67-70, fax 216-45-58 gerry.f.parfitt@ua.pwcglobal.com 38, Turgenivska vul., 4-5 Floor, Kyiv 01054 |
| Financial Markets International | Tel: 462-0589/91/92/93/95 Fax: 246-5598 annw@fmi.kiev.ua fmi@fmi.kiev.ua 36, Ivana Franka Str., 2 Floor; 01030 |
| Coca-Cola Ukraine Coca-Cola Beverages Ukraine Limited | 490-08-80, 490-08-90, f.490-08-99 490-07-07 fax 490-07-01 07400 Kyiv region, Brovary, post box Coca-Cola 51-St. Petersburg highway, Velyka Dymarka |
| Tetra Pak Ukraine | 230-39-00, fax 230-39-49 fredrik.svinhufvud@tetrapak.com 82, Mezhygorska; 04080 |
| Kraft Foods | 490-13-00, fax 490-13-10 Glogush@krafteurope.com 31, Ivana Franko; 01030 |
| Procter & Gamble | Tel: 490-09-00 fax: 490-02-02 kadantseva.v@pg.com 8, Mikhaylovskaya Str. ; 01001 |
| Cargill Enterprises | Tel: 490-5648, 490-56-50, 230-14-40 Fax: 490-5637, 230-14-45 patrick_h_bracken@cargill.com 3, Mechnikova Str., 4 Fl.; 01023 |
| Western NIS Enterprise Fund | Tel: 490-55-80, fax 490-55-89 miwashko@wnisefk.com 4, Muzeyny Provulok; 3rd Floor; 01001 |
| Nestle Ukraine | +38 (044) 490-80-208, Illinska vul., Kyiv 04070, Ukraine |
| Raiffeisenbank Ukraine JSCB | +38 (044) 490-05-00 43, Zhylianska vul., Kyiv 01133, Ukraine |
| Unilever Ukraine LLC | +38 (044) 490-58-46 42-44, Shovkovychna vul., Kyiv 01601, Ukraine |

B. International & Bilateral Agencies

| Company | Phone, e-mail |
|---|---|
| American Chamber of Commerce | 490-58-00, fax 490-58-01 jzukoski@amcham.kiev.ua 42-44, Shovkovychna, 2 floor; 01601 |
| European Business Association | Tel: 496-06-01 fax: 496-06-02 office@eba.com.ua 7A, Ihorivska Str., 1 floor; 04070 |
| World Bank | 490-66-71/72/73/74 fax 490-66-70 ashapovalova@worldbank.org 2, Lysenko01034 |
| European Commission | 462-00-10 fax 462-09-20 olesya.dolinska@cec.eu.int 10, Kruglouniversitetska 01024 |
| EBRD | 464-01-32, f: 464-08-13 zaharievk@kev.ebrd.com patrushki@kev.ebrd.com 27/23, Sofievska ; 01001 |
| USAID | 462-56-78, fax 462-58-34 ccrowley@usaid.gov 19, Nyzhny Val vul. 04071 Kyiv |
| IMF | 490-70-03/07 fax 490-70-05 lfigliuoli@imf.org ibohun@imf.org ochmola@imf.org 24/7, Institutska, fl.6. 01021 |
| IFC | 490-64-00 fax 490-64-20 evoloshina@ifc.org 30A, Spasska Str., block 2, 6th floor; 04070 |
| US Embassy | 490-40-00, fax 490-40-09 HerbstJE@state.gov QuastNL@state.gov 10, Yu. Kotsubinskoho Str.; 01901 |
| United Nations Development Project Program | Tel: 253-93-63, fax 253-26-07 Registry.ua@undp.org 1, Klovsy Uzviz Str.; 01021 |
| Organization For Security and Cooperation in Europe(OSCE) | Tel: 380-44-238-0406 //07 // 11 David.nicholas@osce.org 16, Striletska St. Kyiv 01034 |