OECD Urges Ukraine to Improve Investment Environment

Ukraine urgently needs foreign direct investment (FDI) in almost every area from agriculture to telecommunications. Large parts of the country’s capital stock have not been maintained or replaced during the last decade, and there has been little new investment. The likely costs of rehabilitating infrastructure alone are estimated to exceed $40 billion. Between 1990 and 2000, cumulative FDI inflows into Ukraine amounted to only around $3.9 billion, barely one tenth the amount of FDI inflows over the same period into Poland. On a per capita basis, FDI in Ukraine is among the lowest in the region - $79 per capita.

A forthcoming OECD publication, Ukraine Investment Policy Review - Legal and Institutional Regime for Investment: Assessment and Policy Recommendations provides policy analysis and recommendations aimed at assisting Ukraine’s authorities to improve the country’s investment environment. In an introductory statement to the review, Mr. Viktor Lisitsky, State Secretary of the Ukrainian Cabinet of Ministers, recognizes the importance of removing obstacles to private sector growth and welcomes the recommendations in favor of a more attractive environment for investment.

According to the OECD review, the most pressing economic priorities for Ukraine are: completing structural reforms, accelerating privatization of many large state-owned enterprises, restructuring unwieldy governmental apparatus, broadening the tax base, combating corruption, and overhauling agricultural sector. Taxation tops the list of investment disincentives in Ukraine and drives an increasing number of businesses into the “shadow” economy. More than half of the Ukraine’s economy currently operates in the informal sector.

An unfavourable environment for business has contributed to substantial capital outflows, estimated to have reached around $20 billion since Ukraine’s independence. Investors complain of complex and often ambiguous legislation. Administrative reforms have been slow. Legislative and regulatory changes, rather than helping to establish explicit and transparent rules, have often contributed to unpredictable administration and discretionary interpretation.

There are, however, some encouraging signs. First achievements of a comprehensive reform programme launched in the first half of 2000 are now becoming visible. Last year, Ukraine registered a real GDP growth of 6% for the first time since its independence, and FDI flows reached $750 million. Pending reforms, if implemented, will enhance the investment climate. Under the right conditions, Ukraine could be an attractive place to invest, given its large amount of unused or underused physical and human capital and strategic location, all of which provide a solid base for sustainable economic growth.
The OECD’s Investment Policy Review recommends, *inter alia*, that the Ukrainian authorities:

- Reorient government administration away from micro-managing the economy and in favour of the strategic formulation of framework conditions conducive to private sector development;
- Develop a transparent, predictable and stable process for case-by-case privatization, and ensure that the tender commission is independent;
- Phase out non-transparent and distortive investment incentive schemes;
- Open the way to international arbitration for disputes under the foreign investment law, and establish courts of appeal for economic disputes;
- Align Ukraine’s accounting and auditing practices with international standards, in particular for publicly-traded companies and financial institutions, so as to avoid double book-keeping and attendant costs, simplify financial reporting and ensure transparency and proper performance evaluation; and
- Simplify interaction between foreign investors and Ukrainian authorities by considering the creation of a "one-stop-shop" that obtains for foreign investors all required licences, approvals and permits.

An OECD-Ukraine Forum on Investment and Enterprise Development, established by the OECD and the Government of Ukraine during a roundtable meeting on investment in Kiev in February 2001, will help to develop dialogue and synergies among government officials, the private sector, bilateral and multilateral co-operation programmes. The Forum is also, and above all, intended to help identify the fundamentals of a forward-looking investment policy.

The executive summary and the recommendations are available at the OECD website (http://www.oecd.org/daf/investment/ukraine.htm). The full report is available in pdf format and can be sent by e-mail on request only (requests should be sent by fax: 33 1 45 25 80 03 or news.contact@oecd.org).

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