

Composition of FDI in Ukraine: Developments in oblasts with increasing FDI share

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1. Introduction

Background:

- Changes in composition of FDI in Ukraine were analysed in PB/01/2020: “Composition of FDI in Ukraine: A long-term analysis”
- One key result was that the share of 6 oblasts in Ukraine’s total FDI stock increased during 2009-2018: Kyiv City and Kyiv Oblast, Poltava, Chernihiv, Ivano-Frankivsk and Odesa

Question and content of this Technical Note:

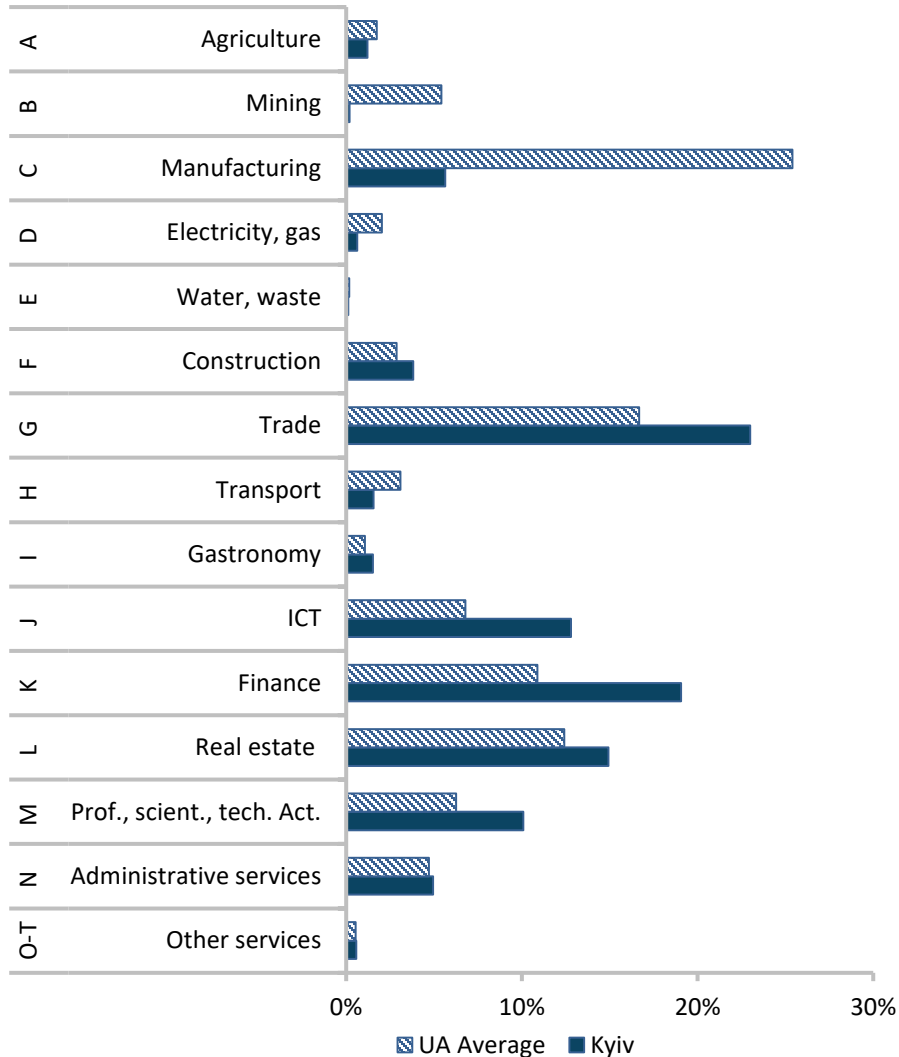
- What is the sector profile of FDI in the oblasts with increasing FDI share in comparison to national average?
- In which sectors did these oblasts experience growth of FDI, leading to the oblasts gaining in national FDI share?
- We will analyse each oblast in turn

2. Methodology

- We generally compute the shares of
 - FDI stock in an oblast as a %age of total FDI stock in Ukraine
 - FDI stock in one sector as a %age of total FDI across all sectors in the relevant geographical entity
- When analysing the “growth contribution” of sectors for the FDI share of an oblast, we look for the sectors in which FDI growth led to the oblast increasing its share of total (national) FDI
- Calculation method:
 - Construction of a counterfactual: Applying the average growth rate of the national FDI stock (for each year, average across all sectors) to the FDI stock in each sector, taking 2009 as starting year
 - Subtracting the counterfactual values from actual FDI values per sector and dividing it by the national total FDI stock gives “growth contribution” as a %age of national FDI stock
 - Usually provide the value for 2018: Explains what sectors explain the increase of that oblasts share in national FDI between 2009 and 2018

Kyiv City (I)

Composition of FDI stock in Kyiv city vs. UA average, 2018

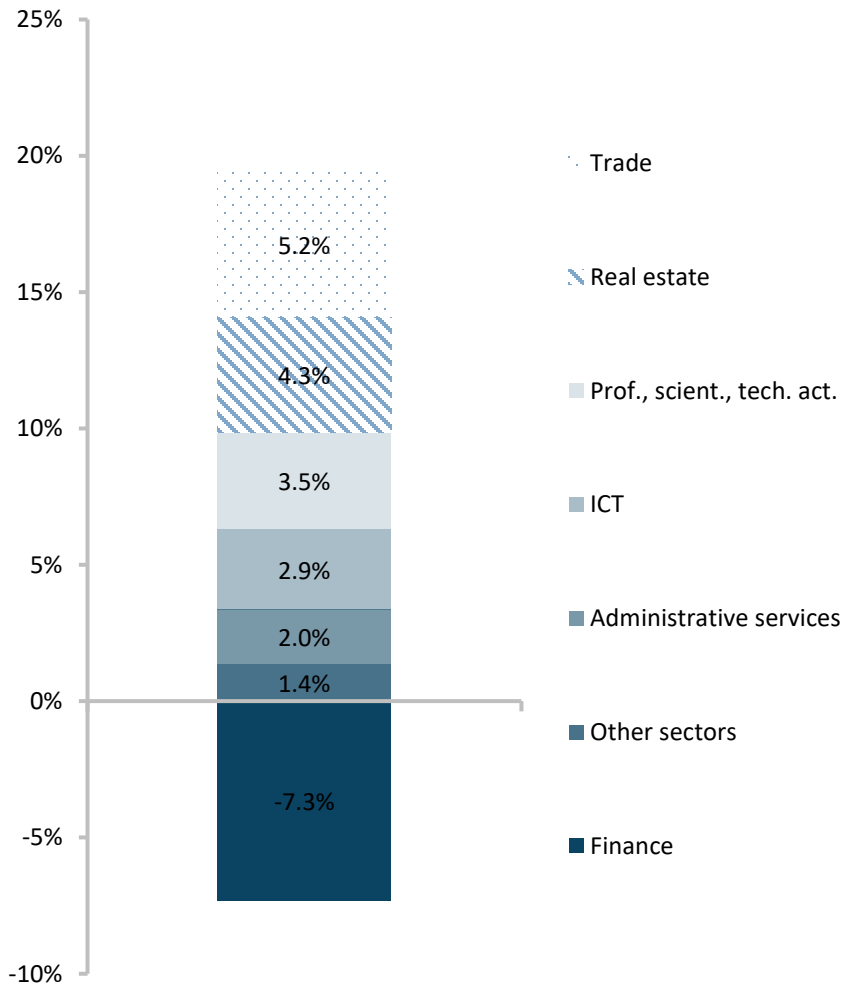


Source: Ukrstat, own calculations

- FDI in Kyiv City made up:
 - 40% of UA total in 2009
 - 52% of UA total in 2018
 - Relatively constant increase throughout 2009-2018
 - 12 percentage points increase 2009-2018
- Strongly above-average shares of FDI in service sectors:
 - Trade (may contain agri investment of grain traders)
 - ICT
 - Finance/real estate
 - Professional/technical services
- Below-average FDI shares of industry
 - Typical emphasis for a capital city

Kyiv City (II)

Sector contributions to growth of Kyiv FDI share, 2009-2018 as % of national FDI

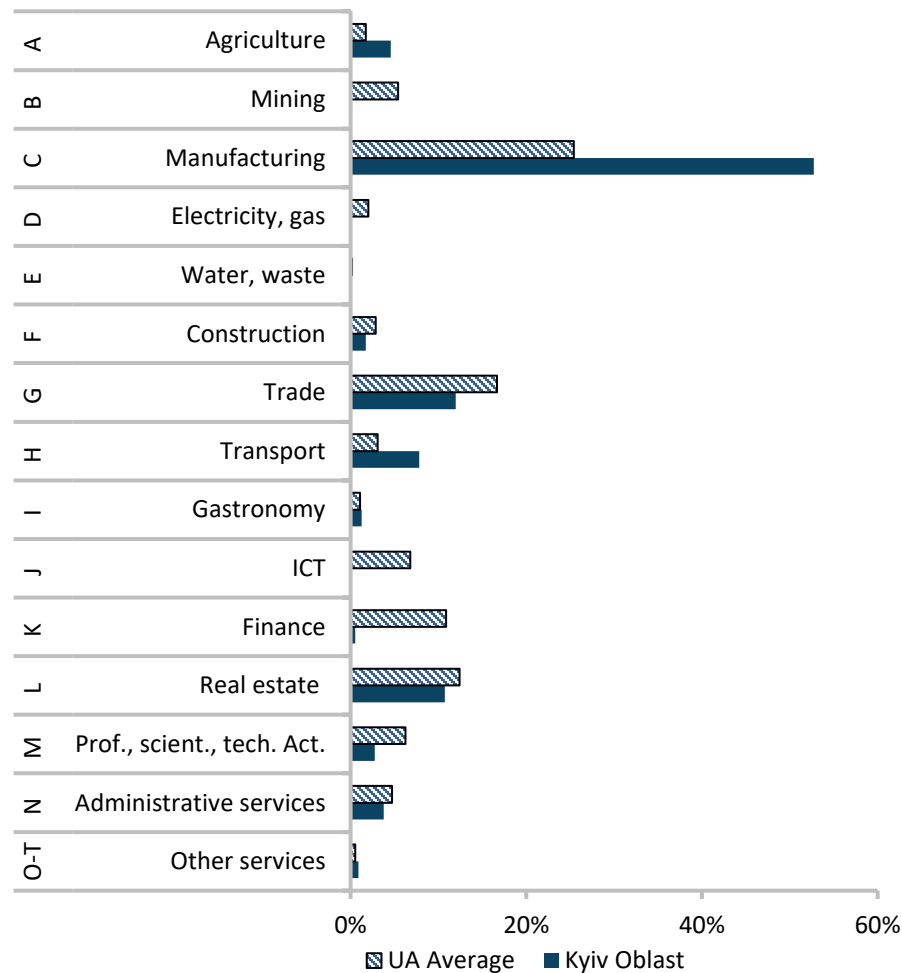


Source: Ukrstat, own calculations

- **Kyiv City share in national FDI increased by 12 pp during 2009-2018**
- **52% of national FDI stock 2018 in Kyiv city**
- Growth in Kyiv City's FDI share explained by growth of services sectors
- In all these sectors, substantial growth of FDI stock value
- Decline of FDI in financial sector
 - Almost USD 10 bn in 2013
 - USD 2.7 bn in 2015
 - USD 3.2 bn in 2018

4. Kyiv Oblast (I)

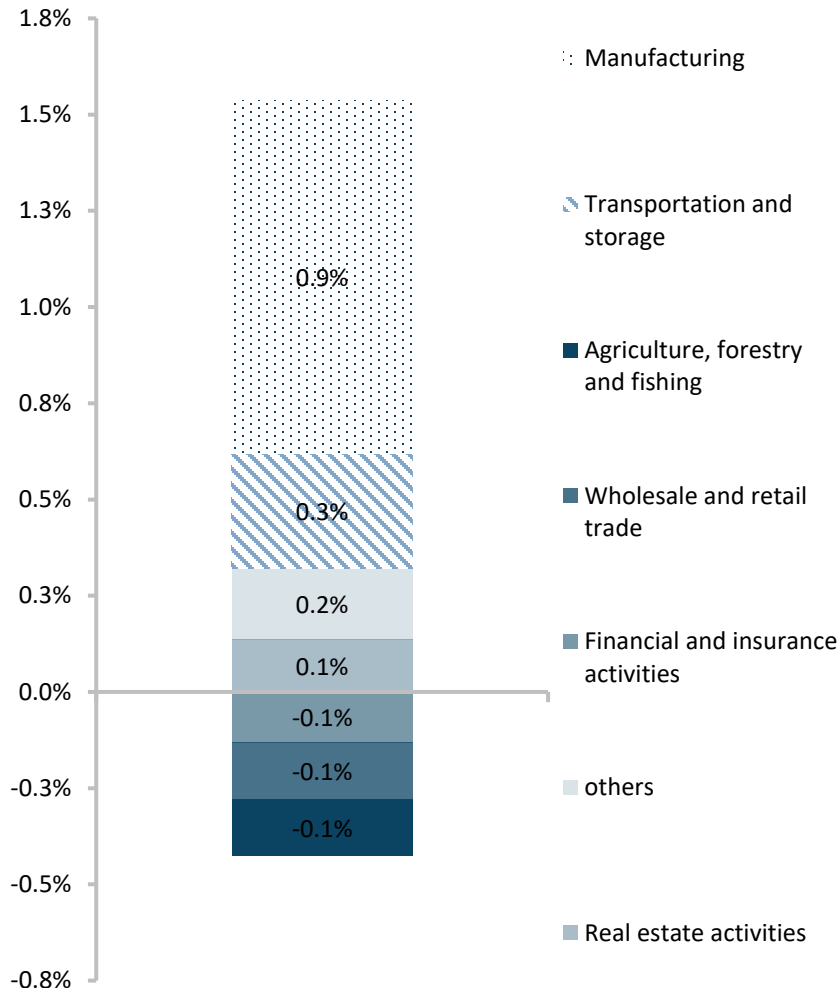
Composition of FDI stock in Kyiv Oblast vs. UA average, 2018



- FDI in Kyiv Oblast made up:
 - 3.8% of UA total in 2009
 - 3.6% in 2013
 - 4.9% in 2018
 - 1.1 percentage points increase 2009-2018 in national FDI
- Above-average share of FDI in manufacturing sector:
 - 53% of oblast FDI in manufacturing
 - Vs 25% in national average
- Possibly one or few larger manufacturing companies explain large share of FDI in Kyiv oblast

Kyiv Oblast (II)

Sector contributions to growth of Kyiv Oblast FDI share, 2009-2018 as % of national FDI

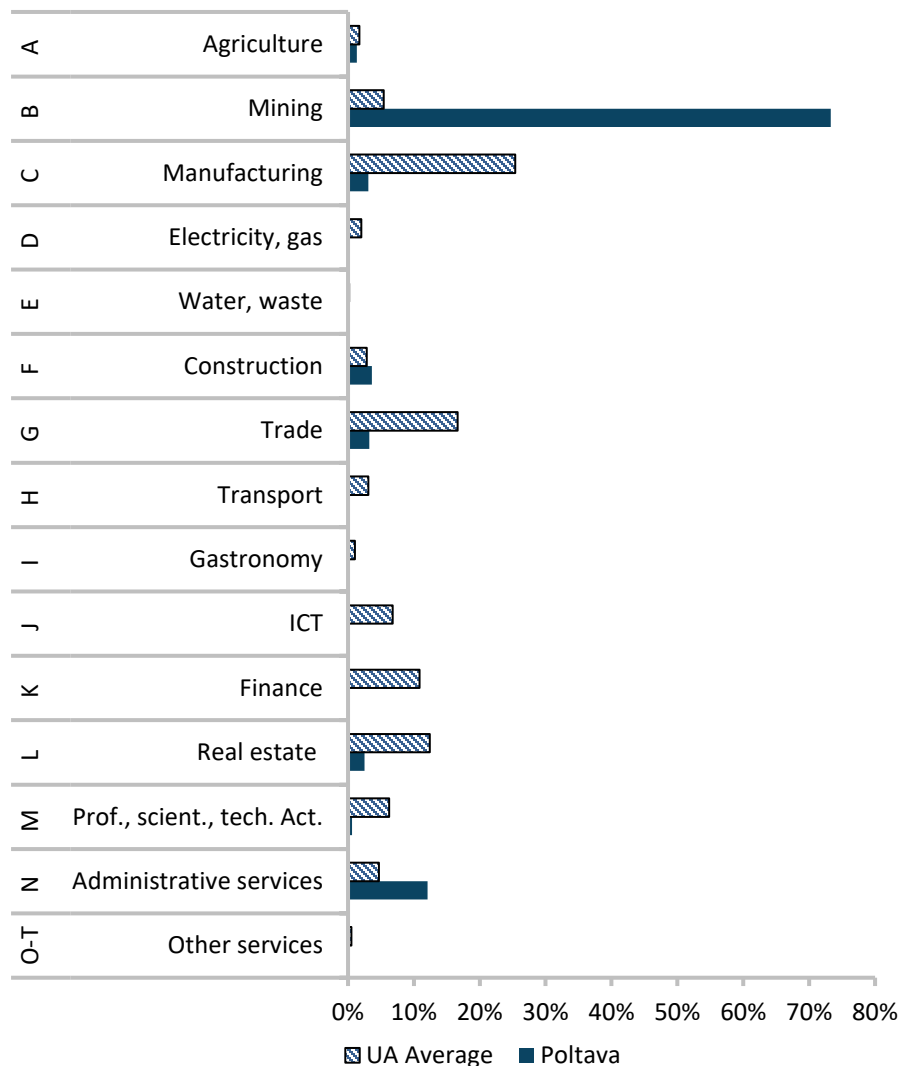


Source: Ukrstat, own calculations

- **Kyiv Oblast share in national FDI increased by 1.1 pp during 2009-2018**
- **4.9% of national FDI stock 2018 in Kyiv Oblast**
- Most of growth of FDI in Kyiv oblast took place in the manufacturing sector
- However, also growth of FDI share in transport and real estate sector
- Decay in FDI in finance, trade and agriculture partly balanced gains

5. Poltava (I)

Composition of FDI stock in Poltava vs. UA average, 2018

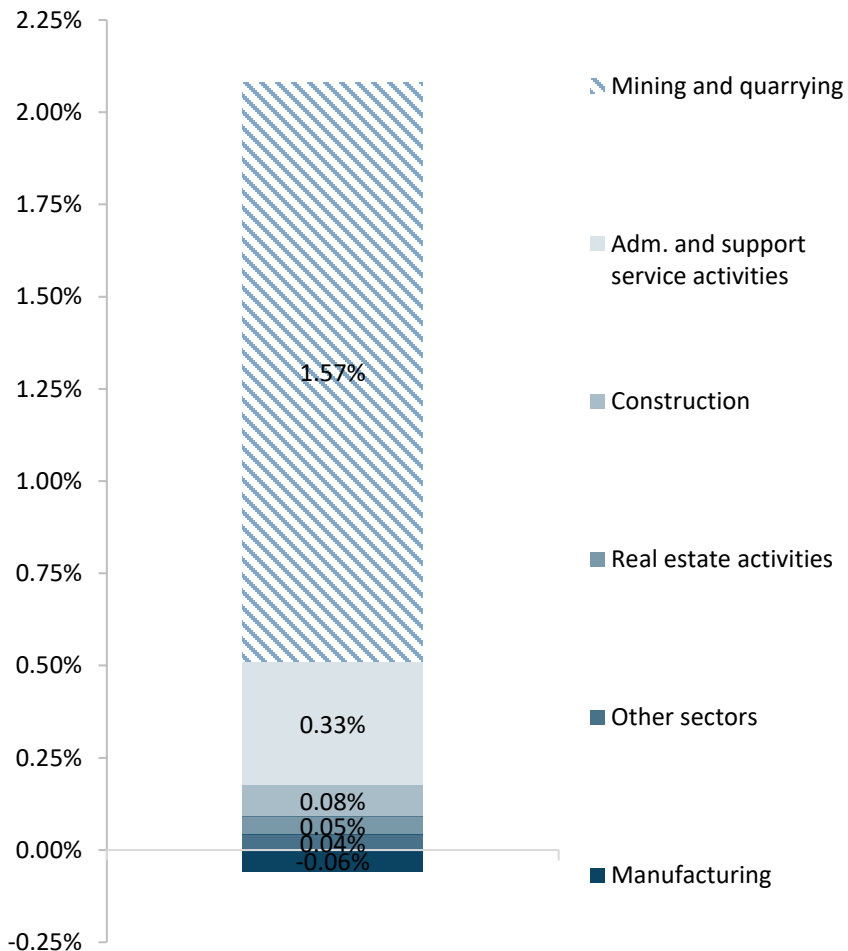


Source: Ukrstat, own calculations

- FDI in Poltava made up:
 - 1.2% of UA total in 2009
 - 2.0% in 2013
 - 3.2% in 2018
 - 2.0 percentage points increase in national FDI 2009-2018
- FDI concentrated in mining sector:
 - 73% of FDI in Poltava
 - Vs 5% in national average
- Also, above-average FDI in administrative services
 - 12% of FDI in Poltava
 - Vs 5% in national average
- Probably FDI largely or completely concentrated in Ferrexpo Poltava Mining (FPM) company (i.e. roundtrip FDI)

Poltava (II)

Sector contributions to growth of Poltava FDI share, 2009-2018 as % of national FDI

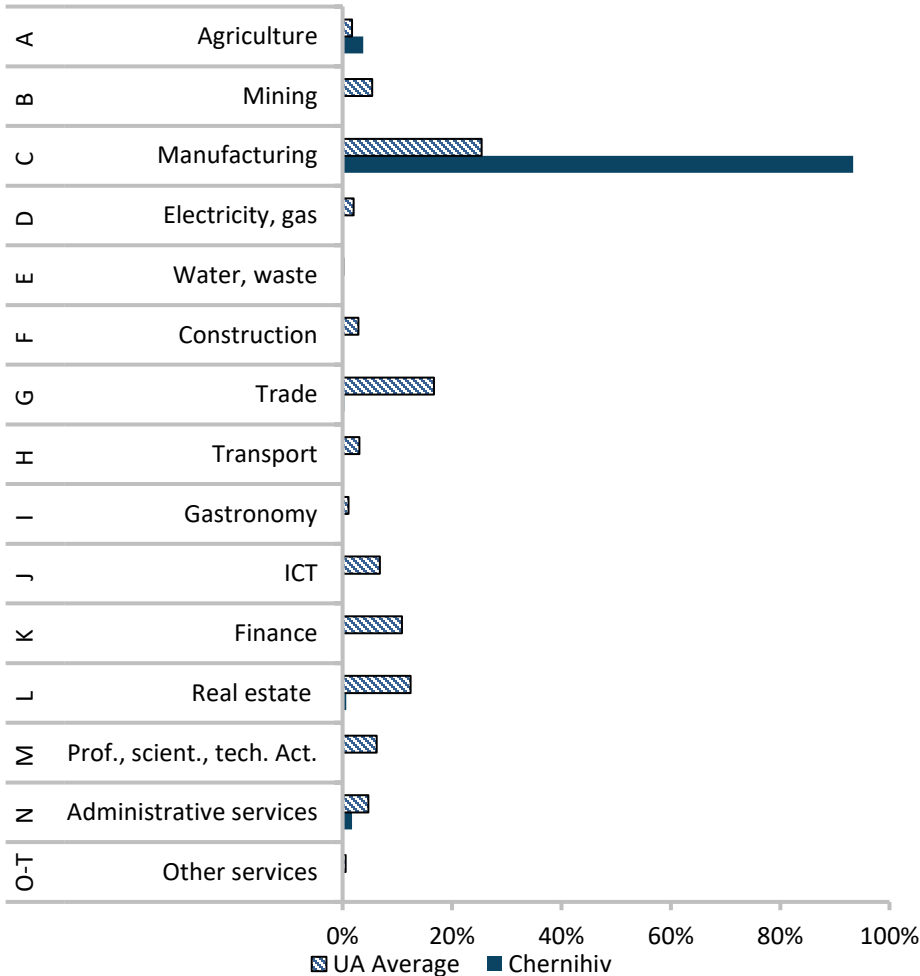


Source: Ukrstat, own calculations

- **Poltava share in national FDI increased by 2.0 pp during 2009-2018**
- **3.2% of national FDI stock 2018 in Poltava**
- By far the largest part of increase in mining sector with 1.6%
- Essentially, Poltava's FDI share is made up of „roundtrip FDI“ as the ultimate owner is Ukrainian
- Also contributing:
 - Administrative and support services
 - Construction
 - Real estate

6. Chernihiv (I)

Composition of FDI stock in Chernihiv vs. UA average, 2018

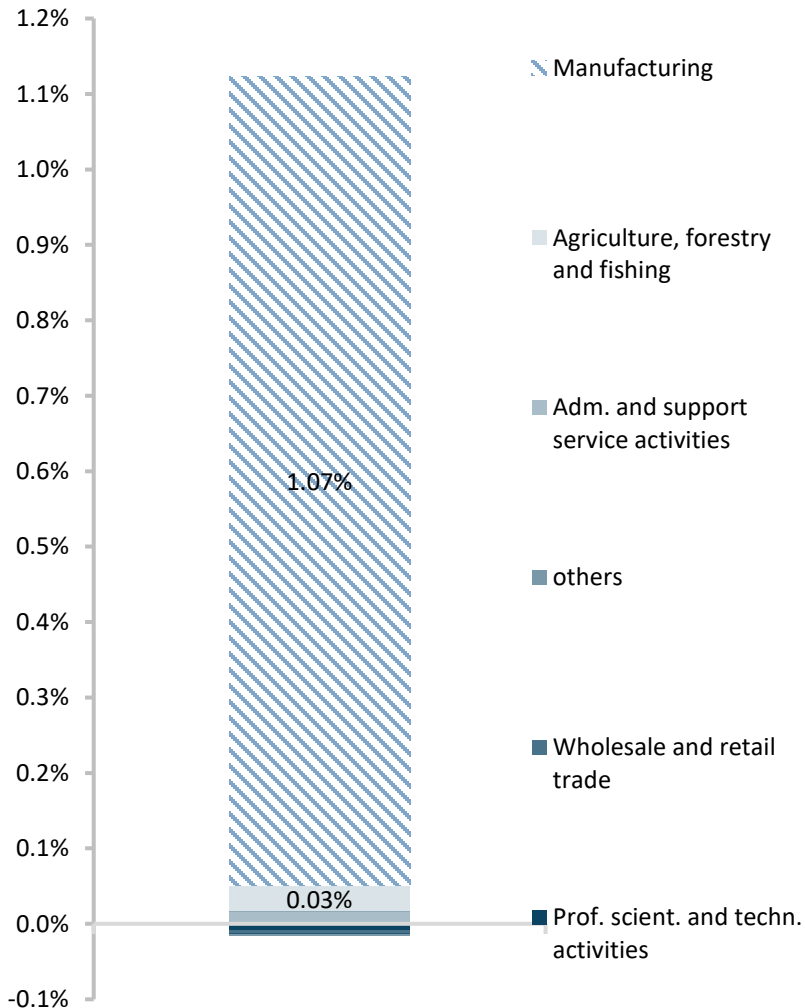


Source: Ukrstat, own calculations

- FDI in Chernihiv made up:
 - 0.2% of UA total in 2009
 - 0.2% in 2013
 - 1.3% in 2018
 - 1.1 percentage points increase in national FDI 2009-2018
- FDI almost only (93%) in manufacturing
- Most probably, only one or very few manufacturing companies absorbing almost all FDI in this oblast
- As FDI almost inexistent until 2013, probably company that recently was (at least in part) acquired by a foreign investor

Chernihiv (II)

Sector contributions to growth of Chernihiv FDI share, 2009-2018 as % of national FDI

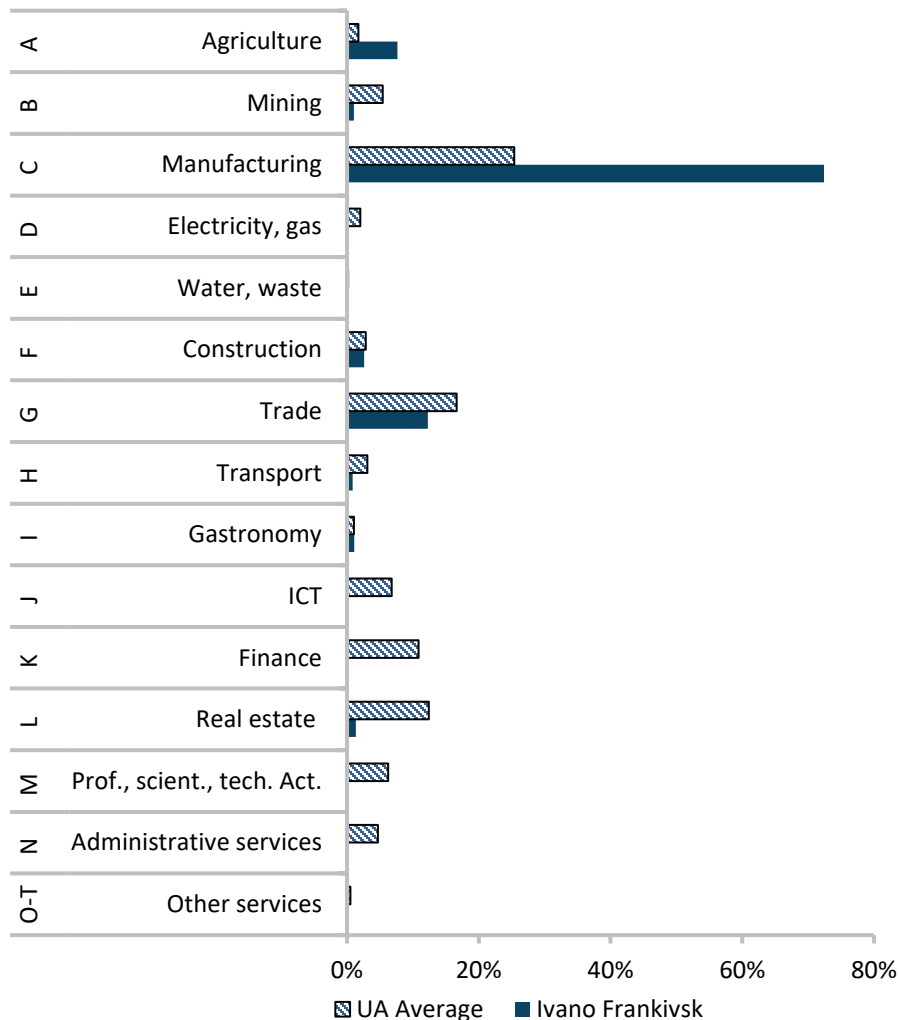


- **Chernihiv share in national FDI increased by 1.1 pp during 2009-2018**
- **1.3% of national FDI stock 2018 in Chernihiv**
- Increase of FDI share almost totally explained by increase of FDI in manufacturing sector
- Administrative services may be related to one main, manufacturing FDI project

Source: Ukrstat, own calculations

7. Ivano-Frankivsk (I)

Composition of FDI stock in Ivano-Frankivsk vs. UA average, 2018

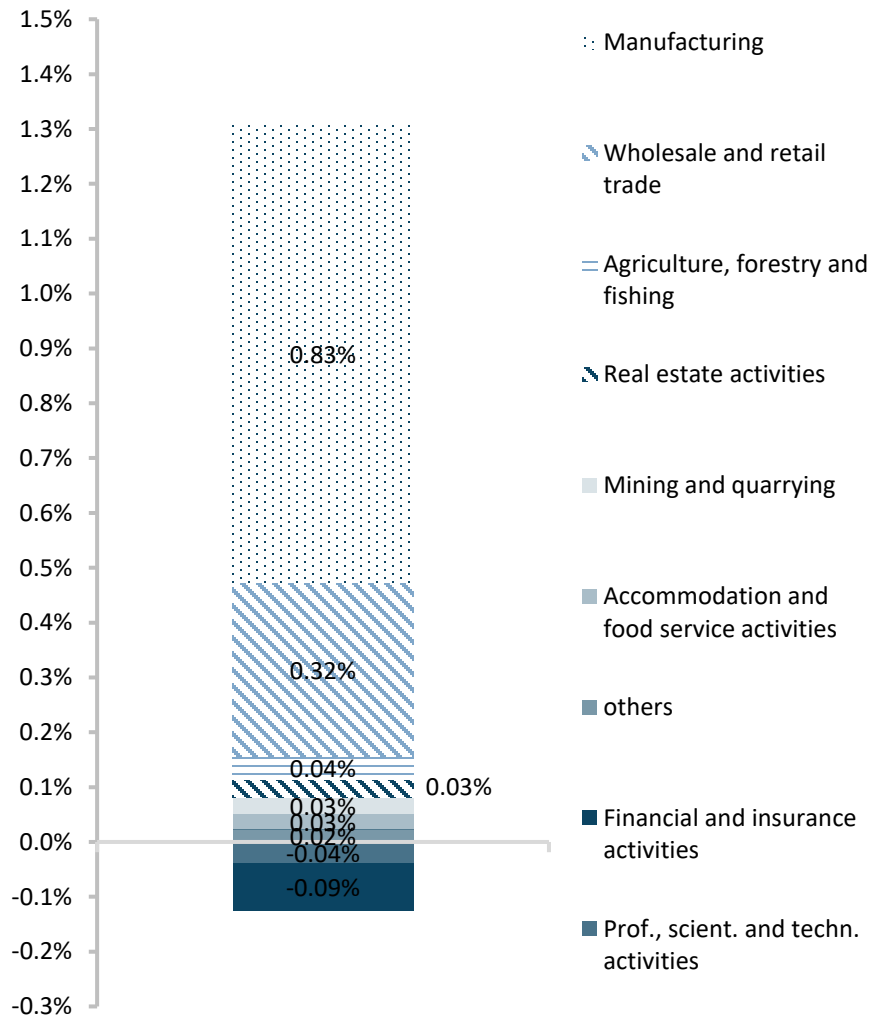


Source: Ukrstat, own calculations

- FDI in Ivano-Frankivsk made up:
 - 1.6% of UA total in 2009
 - 1.5% in 2013
 - 2.8% in 2018
 - 1.2 percentage points increase in national FDI 2009-2018
- Strongly above-average share of FDI in manufacturing
 - 72% of FDI in Ivano-Frankivsk
 - Vs 25% national average
- Also, somewhat higher FDI in agriculture than average
 - 8% of FDI in Ivano-Frankivsk
 - Vs 2% national average
- One or few manufacturing companies may explain most FDI

Ivano-Frankivsk (II)

Sector contributions to growth of Ivano-Frankivsk FDI share, 2009-2018 as % of national FDI

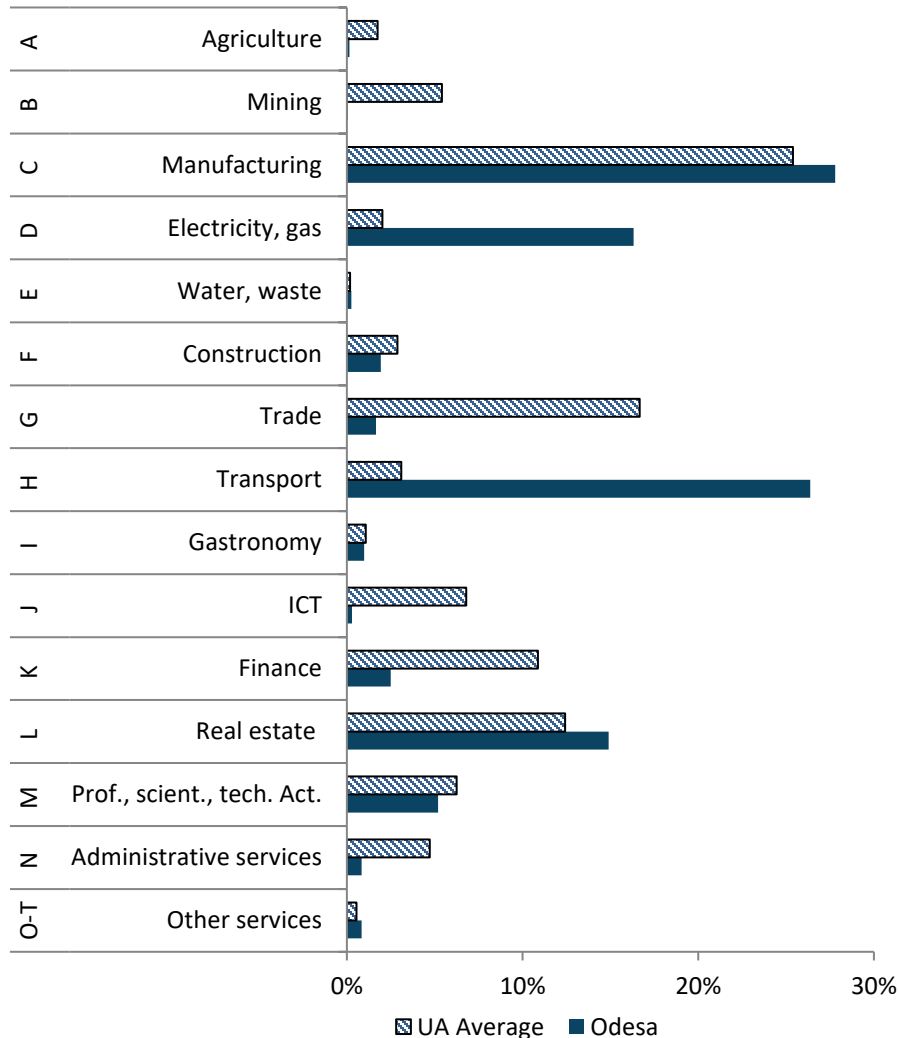


Source: Ukrstat, own calculations

- **Ivano-Frankivsk share in national FDI increased by 1.2 pp during 2009-2018**
- **2.8% of national FDI stock 2018 in Ivano-Frankivsk**
- FDI increase explained by two sectors:
 - Mostly manufacturing
 - But also trade sector
- Manufacturing FDI may be related to post-2014 automotive investments in Western Ukraine
- Trade sector may be related to recent increase in agricultural (grain trade) activity in Ukraine

8. Odesa (I)

Composition of FDI stock in Odesa vs. UA average, 2018

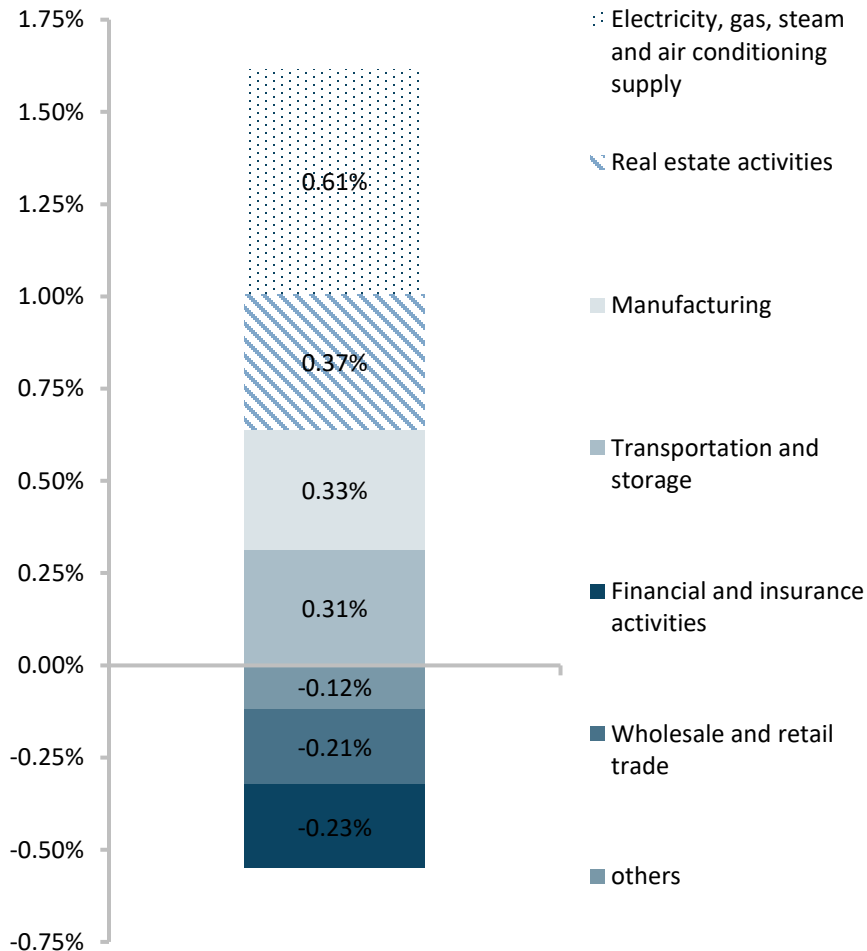


Source: Ukrstat, own calculations

- FDI in Odesa made up:
 - 2.7% of UA total in 2009
 - 3.1% in 2013
 - 3.7% in 2018
 - 1.1 percentage points increase in national FDI share 2009-2018
- Strongly above-average shares of FDI in transport and electricity/gas sector:
 - Transport: 26% of Odesa FDI vs. 3% national average
 - Clearly related to port
 - Electricity and gas: 16% of Odesa FDI vs 2% national average
 - What energy FDI in Odesa?
- Slightly above-average shares of manufacturing and real estate FDI

Odesa (II)

Sector contributions to growth of Odesa FDI share, 2009-2018 as % of national FDI



- **Odesa share in national FDI increased by 1.1 pp during 2009-2018**
- **3.7% of national FDI stock 2018 in Odesa**
- Largest contributions to increase:
 - Energy (electricity, gas) sector
 - Real estate sector
 - Manufacturing
 - Transport
- Whereas more FDI in Odesa is concentrated in manufacturing and transport/port sectors, most FDI gains from energy and real estate

Source: Ukrstat, own calculations

9. Conclusions

- There are clear differences in the FDI profiles by sector of the oblasts, which exhibited an increase in their share of national FDI stock 2009-2018
- The vast increase of 12% in the national FDI share of Kyiv city was caused by investments in services sectors, including trade and ICT
 - The trend in the capital reflects the overall development of Ukraine's FDI profile towards services sectors
- In Kyiv oblast, Chernihiv and Ivano-Frankivsk, manufacturing FDI played a leading (or indeed the sole) role in the increase of FDI share
 - This goes against the general trend of decline of the share of manufacturing FDI in Ukraine
 - However, the increasing investments in these oblasts may be in different sub-sectors of manufacturing (e.g. light industry/food products) and the increases may each be explained by a small number of individual investments
- Odesa gained national FDI share through the increase of FDI in public utilities, transport (probably port-related), manufacturing and real estate
- The increase in Poltava is explained by one single investment in mining

About the German Economic Team



The German Economic Team (GET) advises the governments of Ukraine, Belarus, Moldova, Georgia and Uzbekistan regarding the design of economic policy reform processes and a sustainable development of the economic framework. As part of the project we also work in other countries on selected topics.

In a continuous dialogue with high-level decision makers of the project countries, we identify current problems in economic policy and then provide concrete policy recommendations based on independent analysis.

In addition, GET supports German institutions in the political, administrative and business sectors with its know-how and detailed knowledge of the region's economies.

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