

Ukrainian government promotes investment

The newly elected Ukrainian authorities have announced their intention of attracting investment into the country. To encourage investors they plan to make the economy more transparent and competitive. The President's new administration has promised that there will be a change in attitudes toward the sale of state companies.

Such sales will be necessary to achieve the Ukrainian authority's economic forecasts for the year ahead. In particular, the forecast for GDP growth is put at 3.7%, the consumer price index at 112.2%, producer price index 116% based upon an average annual calculation. Real wages are predicted to grow by 5% and the minimum level is set to increase by 23%. The government believes that unemployment will fall by 8%. This positive view extends to trade where the forecast is that the volume of exports will grow by 15.3%.

Unlike the previous administration, Ukraine's new President Viktor Yanukovich and his Prime Minister Nikolay Azarov, have been able to demonstrate a coordinated approach to the economy. "On the second day of the inauguration, the President of Ukraine issued three edicts, two of which concerned the creation of the committee for economic reform and fighting corruption," said the Deputy Chief of Staff Administration of the President of Ukraine Andrii Goncharuk. Yanukovich also stated his ambitious intention that during the forthcoming ten-year period Ukraine plans to join to the 20 most developed countries in the world.

By the end of this year it is forecast that the government will adopt a new Internal Revenue Code where the value-added tax and corporate income tax will be lowered. Also the Ukrainian Authority promises to reduce the number of regulations with which companies must comply. "There are 86 inspecting organisations. We've got a whole army of unnecessary people (intervening) for both the state and business. We plan to cut their numbers by more than half," said the Deputy Prime Minister of Ukraine Serhiy Tigipko.

The government promises to change the country's approach to privatisation of state enterprises, making this process more transparent and understandable for investors. Among the state companies which may be added to the list of those to be privatised are energy generating and energy distribution companies, and the Ukrainian Telecommunication Company. There are also plans to revitalise the agriculture sector through private investment. Among other sectors that may be included in the privatisation plans are machine-building plants, such as the Lugansk diesel locomotive plant. "I want to accentuate the point that such serious objectives need a suitable framework," explained Tigipko.

Source: Aleksandra Nekrashuk, [Ukraine Business Insight](#)

Investment climate will determine yield

Amid all the doom and gloom, one sector in the country's economy has a bright future and promises high yields.

Despite a deep recession that sent gross domestic product plunging 15 per cent last year, some budding domestic agribusinesses reported double-digit growth.

Agriculture was one of the few economic sectors to grow, albeit a small 0.2 per cent rise.

But to see the real potential, one must look further ahead. Global demand for food is expected to surge in coming decades. And Ukraine is well positioned to benefit.

With its rich black soil, favourable climate and proximity to markets, experts say the country could go far beyond regaining its position as the breadbasket of Europe.

“Ukraine is already among the top five grain exporters in the world,” says Andriy Yarmak, an agribusiness expert. “With investment, it could double its recent annual harvests and “become one of the top exporters of meat in about 10-15 years”.

Investment is the catch, however, as Mr Yarmak concedes. It is also where the opportunity lies for international investors – including strategic agribusinesses, banks and investment funds.

For Ukraine to become a global force in agriculture and food production, the country needs to attract much more than the estimated \$5bn in foreign direct investment secured for its agribusiness since independence in 1991.

Mr Yarmak adds: “I would say that Ukraine’s agribusiness sector needs about \$20bn-\$25bn of investment in production and infrastructure. This means that there are many opportunities for everyone.”

Recognising the potential, many of world’s largest agribusinesses moved in during the 1990s. Cargill and ADM of the US and Hamburg-based Toepfer International, have built vast grain export operations in Ukraine. But the market is still wide open for smaller companies, both domestic and foreign. Moving in now can give a head start to reap vast harvests that lie ahead.

New ventures, big and small, Ukrainian and foreign-owned, are popping up. They have also started tapping into international debt and equity markets, giving foreign investors opportunities to gain exposure.

One of the hottest picks is London-listed MHP, Ukraine’s leading poultry producer. MHP lifted chicken production by 27 per cent last year, after opening a new production facility, and aims to become a leading supplier of meat to Europe.

Yuri Kosyuk, chief executive, says he hopes his company will become as dominant in the region as Tyson group is in the US. “Despite the challenging economic conditions, we made excellent progress in expanding our operations and in consolidating MHP’s position as one of the leading agro-industrial companies in Ukraine,” he says. MHP raised \$330m in April on the bond market, increasing its 2015 bond to \$517m.

Also moving fast is Avangard, a leading Ukrainian producer of eggs and egg products.

Oleg Bakhmatyuk, chairman and founder, says that his company and other budding agribusinesses hope to transform the country, already a significant figure on the world grain market, into a big supplier of high-protein foods, joining Argentina as a leading meat supplier.

All the experts are saying there is not a deficit of grain in the world, but of protein. We saw this potential and seized the moment,” he adds.

The company's stock began trading in early May on the London Stock Exchange after sealing a \$1bn valuation by offering a 22 per cent stake via an initial public offering.

The listing, the third by a Ukrainian company on the LSE's main market and the first in two years, comes amid a rising appetite with investors for Ukrainian agribusinesses.

Ihor Petrashko, executive director in Ukraine for Troika Dialog, an investment bank, which acted as lead manager and book runner for Avangard, says "the listing demonstrated a strong investor appetite for Ukrainian agribusiness companies".

"Almost twice subscribed, Avangard's listing will help open the market to other agribusinesses in Ukraine, which are expected to raise in the order of \$1bn this year via debt and equity deals. But much depends on market conditions, of course," Mr Petrashko adds.

Mr Bakhmatyuk is now mulling whether to take Uklandfarming, his farming company, public. Investment bankers in Kiev say that Cyprus-registered Uklandfarming could raise \$50m-\$80m via an initial public offering on Aim in London this year.

A handful of Ukrainian agribusiness companies have gone public on European exchanges in recent years, including Kernel, a sunflower oil producer, and Landkom and Mriya Agro, two farming companies.

But although multinational groups are making large-scale investments, there is only a trickle of investment into promising domestically owned companies.

Of course, apart from these glimmers of success, Mr Yarmak says that a full-blown boom of investment and production will come only after the nation improves its investment climate, cracks down on corruption and excessive bureaucracy, and authorises the sale of its rich agricultural land to foreigners.

Mr Yarmak says the moratorium on agricultural land sales limits the ability of the country's cash-strapped farmers to mortgage their land. Therefore, they cannot borrow from creditors at affordable rates, if at all.

So, why you might ask, doesn't the government adopt such reforms?

Mr Yarmak says: "Governments continue to demonstrate populist and damaging policies. Winning over voters by keeping food prices artificially low hurts cash-strapped farmers. Instead, the authorities should develop a clear and transparent market to reduce volatility.

"I would say that if the government re-targeted its efforts from subsidising production to improving competitiveness of production and trade, it would be a big positive step. Also, the land market should be opened up."

He adds: "If such reforms are not adopted soon, don't expect a boom. Despite all the hurdles, Ukraine's agribusinesses will continue to grow gradually, as they have been doing."

Source: [By Roman Olearchyk, Financial Times](#)

Growth forecast of pharmaceutical market in Ukraine

2009 year was tough for pharmaceutical companies in Ukraine despite significant correction in the plans of companies in the IV quarter. 2009, which was due to the significant increase in pharmacy sales provoked by flue epidemic in the country. This development was almost impossible to predict. To take advantage from the situation could only the fastest and flexible companies.

The pharmacy market, which declined last year by 18% - to \$ 2.7 billion, began to recover to the fore-crisis level of sales in the current year. This is evidenced by both the financial results of major pharmaceutical companies, and their intentions to grow the production of drugs and win new customers.

The forecast of volume of the market in the current year is to gain about \$ 3.5 billion, analysts say. According to optimistic forecasts, the pharmaceutical market of Ukraine in 2010 will grow by about 5%, in 2011 growth will exceed 15%.

According to pessimistic forecasts, 2010 will be for Ukrainian market will decline about - 10%, but in 2011 growth will grow about 5%. EBITDA of pharmaceutical companies in 2010 will achieve not less than 30%, according to analysts estimate.

Key major factors influencing the market this year will be lowering prices combining with effective marketing approach and implementing program of increase accessibility the medicines by end user.

What form of registration to choose for doing business in Ukraine?

Ukrainian Civil and Commercial Codes provide for different types of legal entities for business registration. To conduct business in Ukraine, foreign investors may choose one of the following types of legal entity:

- LLC - Limited liability company (TOV in Ukrainian);
- JSC – open/public or closed/private joint stock company (AT in Ukrainian);
- Private enterprise (PP and FOP in Ukrainian);
- Companies with additional liability (TDV in Ukrainian);
- Representative office of foreign company (Predstavnitstvo in Ukrainian);
- Daughter enterprise (DP in Ukrainian).

The most common and simple registration forms for foreign investors in Ukraine are LLC and JSC. The process of registration is shorter and cheaper, doing business is easier than other forms.

Source: www.yesbusiness.com.ua