Practical 1.1

Essence and features of international investment. Regulation of international investment

Questions and tasks:

1. Essence of the term "investments", types of investments
2. Investment and investing.
3. Types of financial investments.
4. Goals and principles of investments.
5. Investment activity.
6. Subjects and objects of investment activity of the enterprise.
7. Measures for evaluating efficiency of capital investments.
8. The methods of the indirect influence of the state on international investment activity.
9. Capital investments.

Practical 1.2

International investment market.

International investment strategy of economic entities

Questions and tasks:

1. The concept of international investment.
2. The objectives, conditions and basic forms (stages) of international real investment.
3. Features of international investment on the market of financial assets.

Practical 1.3

Methods and tools of the international investment activities.

Evaluation of effectiveness of international investment

The PV function returns the present value of an investment or annuity based on a series of regular periodic cash flows (payments of a constant amount and all cash flows at constant intervals) and at a fixed interest rate.

Example 1

Suppose you are considering the purchase of a hypothetical discount security. The security matures in 14 years (*num-periods* is 14*12) and has a redemption value of $100,000 (*future value* is positive because this would be a cash inflow at maturity). Another alternative is to leave your money in your money market savings account where it is expected to earn an annual yield of 5.25%, payable monthly (*periodic-rate* is 0.0525/12) (*when-due* is 0, and it is not required because there is no *payment* amount).

=PV(0.0525/12, 14*12, 0, 100000, 0) returns -$48,027.48 (the function returns a negative amount because the purchase is a cash outflow), which represents the maximum amount you could pay for the discount security and earn interest at least equivalent to that earned in the money market account.

The NPV function returns the net present value of an investment based on a series of potentially irregular cash flows that occur at regular time intervals. All arguments are number values.

NPV(periodic-discount-rate, cash-flow, cash-flow…)
- periodic-discount-rate: The discount rate per period. periodic-discount-rate is entered as a decimal (for example, 0.08) or with a percent sign (for example, 8%). periodic-discount-rate must be greater than or equal to 0. periodic-discount-rate is specified using the same time frame as the time frame used for the cash flows. For example, if the cash flows are monthly and the desired annual discount rate is 8%, periodic-discount-rate must be specified as 0.00667 or 0.667% (0.08 divided by 12).
- cash-flow: A cash flow. A positive value represents income (cash inflow). A negative value represents an expenditure (cash outflow). Cash flows must be equally spaced in time.
- cash-flow…: Optionally include one or more additional cash flows.

Example 2

Suppose you are presented with the opportunity to invest in a partnership. Because the partnership is still developing its product, an additional $25,000 and $10,000 must be invested at the end of the first and second years (negative cashflows), respectively. In the third year the partnership expects to be self-funding but not return any cash to investors (0 cashflow). In the fourth and fifth years, investors are projected to receive $10,000 and $30,000 (positive cashflows), respectively. At the end of the sixth year, the company expects to sell and investors are projected to receive $100,000 (positive cashflow). In order to invest, you want to achieve an annual return of at least 10%.

=NPV(0.10, -25000, -10000, 0, 10000, 30000, 100000) returns $50,913.43, the net present value of the cash flows at 10%. Therefore, if the required initial investment is this amount or less, this opportunity meets your 10% goal.

The IRR function returns the internal rate of return for an investment that is based on a series of potentially irregular cash flows (payments that do not need to be a constant amount) that occur at regular time intervals.

IRR(flows-range, estimate)

- flows-range: A collection that contains the cash flow values. flows-range must contain number values. Income (a cash inflow) is specified as a positive number, and an expenditure (a cash outflow) is specified as a negative numberCash flows must be specified in chronological order and equally spaced in time (for example, each month). If a period does not have a cash flow, use 0 for that period.
- estimate: An optional number value specifying the initial estimate for the rate of return. estimate is entered as a decimal (for example, 0.08) or with a percent sign (for example, 8%). If estimate is omitted, 10% is assumed. The minimum value allowed is –1.

Example 3

Suppose you are presented with the opportunity to invest in a partnership. The initial investment required is $50,000. Because the partnership is still developing its product, an additional $25,000 and $10,000 must be invested at the end of the first and second years, respectively. Assume you place these cash outflows, as negative numbers, in cells B3 through D3. In the third year the partnership expects to be self-funding but not return any cash to investors (0 in E3). In the fourth and fifth years, investors are projected to receive $10,000 and $30,000, respectively (as positive numbers in F3 and G3). At the end of the sixth year, the company expects to sell and investors are projected to receive $100,000 (as a positive number in H3).

=IRR(B3:H3) returns 10.2411564203%, the compound annual interest rate earned (the internal rate of return) assuming all cash flows happen as scheduled.

Practical 1.4
International investment activity in Ukraine

The creation of favorable development conditions for the business climate in Ukraine remains one of the most urgent task. The amount of foreign direct investment (equity) in the economy of Ukraine on 1st of July 2015 totaled USD 42851,3 million and 1000,5 USD per capita (excluding the temporarily occupied territory of the Autonomous Republic of Crimea, Sevastopol and the part of the zone of counter-terrorist operations).

From January to June 2015 the foreign investors invested USD 1042,4 million in Ukraine, and **took** out 351,3 million USD of direct investments (share capital). Reduction of the share capital cost due to reassessment, losses and requalificationamounted 3604,0 million USD, including USD 3539,3 million lost due to exchange rate difference.

In the year 2015 the investments floated from 133 countries. The EU countries made USD 33154,9 million of the investments (77.4% of total share capital), the other countries of the world scored USD 9696,4 million (22,6%). More than 83% of direct investments accrue to ten major countries-investors: Cyprus - 12274,1 million USD, Germany – 5489,0 million USD, the Netherlands – 5108,0 million USD, Russia – 2685,6 million USD, Austria – 2354,3 million USD, UK – 1953,9 million USD, the British Virgin Islands – 1872,6 million USD, France – 1539,2 million USD, Switzerland – 1371,2 million USD and Italy - 966,6 million USD.

At the same time the amount of Ukrainian direct investments (share capital) to the foreign countries economies on the 1 of July 2015 totaled 6254,4 million USD, including the EU countries- 6015,4 million USD (96,2%), and other countries of the world - 239,0 million USD (3.8%). Direct investments from Ukraine were injected to 46 countries around the world, mostly to Cyprus (93,0%).

The requirements of the Ukrainian direct investors for the debt instruments to the enterprises of direct investment abroad made up 218,0 million USD on 1 July 2015. The amount of direct investments (capital share and debt instruments) in the economy of the countries of the world totalled 6472,4 million USD.

Direct foreign investment inflow(million USD)

	Total	including from	
		EU countries	other countries
Non-residents direct investments (share capital and promissory instruments) on the 1st of January 2015	54070,7	42789,5	11281,2
Non-residents joint stock on the 1st of January 2015	45764,2	35603,9	10160,3
Non-residents joint stock inflow	1042,4	419,8	622,6
Non-residents joint stock outflow	–351,3	–222,2	–129,1
Other changes of the non-residents joint stock value (change of cost, loss, reclassification of investments and others)	–3604,0	–2646,6	–957,4
difference in rate	–3539,3	–2773,0	–766,3
Non-residents joint stock on the 1st of July 2015	42851,3	33154,9	9696,4
Promissory instruments (debt on credits and loans, liabilities for trade credits and other liabilities to direct investors)			
on the 1st of January 2015	8306,5	7185,6	1120,9
on the 1st of July 2015	8850,4	7609,1	1241,3
Non-residents direct investments (share capital and debt instruments) on the 1st of July 2015	51701,7	40764,0	10937,7

Ukrainian legislation has also defined a number of forms of foreign investment in Ukraine's economy, namely:

• partial participation in enterprises established jointly with Ukrainian legal entities and individuals, or acquisition of shares of existing enterprises;

•creation of enterprises wholly owned by foreign investors, branches and other subdivisions of foreign legal entities or acquisition of full ownership of existing enterprises;

• the acquisition of real estate or movables that are not prohibited by the laws of Ukraine, including houses, apartments, buildings, equipment, vehicles and other objects of ownership through direct acquisition of property and proprietary complexes or in the form of stocks, bonds and other securities;

• the acquisition of rights to use land and natural resources on the territory of Ukraine independently or with participation of Ukrainian legal entities or individuals;

• economic (business) activities on the basis of production sharing

agreements;   • other forms that are not prohibited by law.

Direct foreign investment outflow

(million USD)

	Total	including from	
		EU countries	other countries
Residents direct investments abroad (share capital and promissory instruments) on the 1st of January 2015	6562,7	6239,7	323,0
Residents joint stock in the economy of the world countries on the 1st of January 2015	6350,7	6033,3	317,4
Residents joint stock inflow	26,4	0,0	26,4
Residents joint stock outflow	–81,4	–1,9	–79,5
Other changes of the residents joint stock value (change of cost, loss, reclassification of investments and others)	–41,3	–16,0	–25,3
difference in rate	–40,9	–16,0	–24,9
Residents joint stock in the economy of the world countries on the 1st of July 2015	6254,4	6015,4	239,0
Promissory instruments (requirements after credits and loans, trade credits, and other requirements to the enterprises of the direct investing)			
on the 1st of January 2015	212,0	206,4	5,6
on the 1st of July 2015	218,0	207,5	10,5
Residents direct investments abroad (share capital and promissory instruments) on the 1st of July 2015	6472,4	6222,9	249,5

During 2014-2015 the Ukrainian government implemented a set of measures to create a whole new level of business environment, which is to provide economy revival and steady development in Ukraine.

Owing to this fact, In the World Bank rating Doing Business 2015» according to the indicator of the easiness of doing business, Ukraine occupies 96 position among 189 countries of the world (112-in 2014).

Legal framevork for investment and development of private-state partnership is set up in Ukraine. The legislation of Uktaine determines the guarantees for investors activity, economic and organizational foundation for the realisation of private-state partnership.

National regulations of investment activity are implied on foreign investors on the territory of Ukraine, equal bussiness conditions with local invesrors are granted. Foreign investments are not subjected to nationalization.

In case of shut down of investment activity foreign investor is guaranteed return on investment in its genuine form or in the currency of investment, tax free as well as revenues from the investment in monetary or commodity form. The state also guarantees unhampered and immediate abroad transfer of revenues and other funds in foreign currency legally obtained due to foreign investmens.

To enhance the protection of foreign investments the Washington Convention of 1965 on the Settlement of Investment Disputes between States and Nationals of Other States was ratified by the Law of Ukraine No. 1547 addopted on 16 of March 2000.

The Commissions for the assistance on the pre-trial settlement of disputes with investors that might be created by the executive authorities and local authorities as a temporary advisory consultative bodies to facilitate pre-trial settlement of disputes between an investor and executive authority (local government) are aimed at solving the disputable issues.

The intergovernmental agreements on promotion and mutual protection of investments are signed and ratified by the Verkhovna Rada of Ukraine with more than 70 countries of the world.

For the purpose of proper implementation of national foreign policy and foreign economic priorities, promoting Ukrainian exporters on foreign markets, protection of their economic and trade interests abroad as well as attraction of foreign direct investment in the economy of Ukraine the Council of exporters and investors has been operating at the Ministry for Foreign Affairs of Ukraine since April 2013.

For the aim of activation and realization of the investment potential of Ukraine, increasing foreign investments amounts, priority investment projects support, investment environment improvement, guarantee of the protection of investors' rights, assessment in effective cooperation of investors with state authorities, in December 2014,by the decree of the president of Ukraine the National Investment Council was formed.

Aiming at the search of viable mechanisms of foreign investments involvement to Ukraine the government regularly holds business forums with foreign investors participation. Indicated measures are to contribute to improve the investment image of Ukraine and to provide growth of foreign investment amounts and capital investments in the economy of the state.

Practical 1.5
International investment activity of enterprises of aviation complex

The scope of investment in Civil Aviation by Foreign Investors shall include civilian airports， public air transport enterprises， general aviation enterprises and air transport related projects. Foreign Investors are forbidden from investing in and managing air traffic control systems.

（1） Investment in the construction of civilian airports by Foreign Investors is encouraged. For the purposes of these Provisions， the term "civilian airport" does not include military-civilian dual use airports. Civilian airport projects in which Foreign Investors may invest are divided into the two following categories：

（a） civilian airport flight areas， including runways， taxiways， connecting taxiways， parking aprons and lights to aid navigation； and

（b） terminal buildings.

（2） Investment in existing public air transport enterprises by Foreign Investors is encouraged.

Foreign Investors are encouraged to invest in general aviation enterprises servicing the agricultural， forestry and fishing industries.

Foreign Investors are permitted to invest in general aviation enterprises that operate executive flights or air tours or that provide services to industry but may not invest in projects for operations that involve State secrets.

（3） The term "air transport related projects" includes aviation fuel， aircraft maintenance and repair， transport and storage of cargo， ground services， air catering， parking lots and other approved projects.

Investment vehicles available to Foreign Investors include the following：

（1）equity and cooperative joint ventures （Joint Ventures）;

（2） purchase of civil aviation enterprise shares， including shares issued outside mainland China and listed foreign investment shares issued in mainland China by civil aviation enterprises；and

（3） other approved investment vehicles.