

ICPS newsletter

Financial services are not in sufficient demand yet

During May 2000, the International Centre for Policy Studies conducted an enterprise survey on banking and financial services, carried out as part of the World Bank study of the Ukrainian financial sector. 51 enterprises of various sizes and type of activities were interviewed. The survey results show that banks do not play an important role as a funding source for Ukrainian enterprises, and that large companies have better access to banking and financial services compared to small firms. However, small-size enterprises have plans to expand and attract banking loans and investment

Enterprises do not use banks as sources of finance

The survey results show that today, the majority of enterprises do not use banks as a source of finance and give preference to their own funds (retained earnings). 67 percent of the respondents reported that they use their own savings as a source of finance in 1999. Another significant source of finance mentioned by 31 percent of respondents was advance payments.

Only 10 percent of the surveyed enterprises mentioned banks as a source of finance (bank loans). Importantly, all of these firms were identified as "exporters". 4 firms—large enterprises with state-owned stakes—claimed that they had state financing.

Among untraditional sources of finance mentioned by different enterprises were the Innovation Fund, funding from the Ukrzaliznytsia state-owned enterprise, and investor's credits. Moreover, one enterprise reported receiving a loan from the Regional Employment Centre. To receive this loan, the enterprise took on the obligation of doubling the number of its employees.

Banks tend to extend services to large enterprises

Practically all respondents reported that they have current accounts in Ukrainian

hryvnias and use banks to make domestic payments and cash withdrawals.

According to the survey, only one surveyed enterprise—a medium-size exporter—reported term deposits in foreign currency and the purchase of treasury bills. This fact is likely to mean that currently Ukrainian enterprises do not have free cash resources which they could accumulate on term deposits or spend on treasury bills.

Short-term working capital loans in hryvnias are the types of loans most widely used; 24 percent of respondents reported that they had short-term loans last year. Furthermore, 3 large companies in this group also have short-term working capital loans in foreign currency.

Revolving loans were granted to 14 percent of the respondents—only large- and medium-size enterprises, mostly exporters. Large and medium-size companies (8 percent of respondents) enjoyed overdraft privileges. In addition, only large enterprises (4 percent) took out long-term loans in hryvnias.

This survey supported the general opinion that exporters are on average less involved in non-cash activities: exporter non-cash sales made up on average 42 percent, while non-exporters averaged 46.5 percent. This fact can explain the banks' tendency to give

Last Week

Why policymakers need macroeconomic models. A seminar on "The Use of Macroeconomic Models by Policymakers in Canada: Why? Which? And How?" was hosted by the International Centre for Policy Studies on June 20. This seminar was held as a part of ICPS's Economic Forecasting and Modelling in Ukraine project, financed by the Canadian International Development Agency.

Mr. Mario Lefebvre and Mr. Pedro Antunes, senior research associates of the Conference Board of Canada, reported on the experience of using macroeconomic models by policymakers in Canada.

Policy formulation must be forward-looking because of the lags between changes in the instruments of policy and their ultimate effects. Policymakers must react promptly to unforeseen shocks, in a manner that restores the economy to a path that will ensure continued progress towards established goals. Policymakers need to understand the current economic situation well enough to anticipate the kinds of forces that will influence the economy over the coming 6–8 quarters. Policymakers need simulations to estimate the full impact of altering a policy instrument.

Policymakers need a model that will provide quantitative assessment of various risks, and a mechanism to set up instruments today in order to achieve a given target in the future. Economic projections should be integrated into the policy process. A

model should address the issues that concern policymakers.

Projection exercises essentially generate paths for key policy variables that produce a profile consistent with policy goals. Every quarter, given a new starting point and revised judgement, the staff develops a new scenario for all variables with an acceptable path for policy targets.

Policy needs to be forward looking. This implies that it has to rely on projections based on economic models and judgement, even though these contain an element of risk.

ICPS has improved its Internet web-site. A new version of the official web-site of the International Centre for Policy Studies was posted on the Internet last week. The web-site can be found at <http://www.icps.kiev.ua>. Among its features are detailed information on ICPS and its projects, in Ukrainian and English. Also in the web-site you can order the **ICPS Newsletter** and summaries of other ICPS publications. Detailed reports on seminars organised by the International Centre for Policy Studies will also be published on the Internet.

Latest Transformatsiia. A new issue of the bulletin *Transformatsiia*—a Russian-language version of the World Bank's Transition newsletter, issued and distributed by ICPS under a contract with the World Bank—was published last week.

The new issue contains the following topics:

- new corruption indexes from Transparency International;
- development of good governance;
- the art of attracting FDI in transition economies;
- problems of the EU accession process;
- the role of independent think tanks in transition economies;
- stable ruble needs sound fiscal policy.

If you wish to receive the bimonthly bulletin Transformatsiia regularly, please send your information to the e-mail address : marketing@icps.kiev.ua or contact Oleksiy Blinov, ICPS marketing office, tel.: (380-44) 463 6337.

loans to large- and medium-size exporting companies.

At the same time, this survey revealed that most small-size enterprises surveyed do not use non-cash operations. However, only one type of loan—short-term working capital loans—were extended to small-size enterprises.

The loan application procedure, from initiation to eventual approval, took on average about 20 days (with a range of 1 day to 4 months). However, the length of approval varied substantially depending on the size of the enterprise which applied for the loan. The application procedure took on average 30.5 days for large enterprises, 11.5 days for medium-size enterprises, and 6 days for small enterprises. The possible explanation for this difference is that the larger enterprises are likely to apply for larger loans, and larger loans require more time for approval, more documents and paperwork.

Eleven enterprises applied for and received loan extensions. Only 2 out of 26 enterprises that reported receiving loans stated that collateral was not required. Fixed assets and finished goods were the most frequently used types of collateral.

Overall, many respondents stated that they are satisfied with the banking services they use and did not mention any services they are missing. Several respondents would take out loans if the interest rates were lower. Among activities to improve banking services were mentioned electronic services, timeliness of cash operations, and the possibility to make money transfers not only in the daytime but also in the evening.

Non-bank financial services are not in demand

Insurance companies were the most frequently mentioned as financial institutions whose services surveyed firms use. 25 percent of surveyed enterprises reported that they used services provided by insurance companies. Three large companies

mentioned that they use the services of leasing companies. One large and one medium-size enterprise noted that they use the services of investment companies. In addition, three companies reported stock registrars as a type of financial institutions whose services they use.

To summarise, this section of the survey revealed that the surveyed enterprises have a very limited use of non-bank financial services. The survey also demonstrated that many respondents have a very limited awareness about the financial market and non-bank financial services.

Small-size enterprises have plans to expand

About 65 percent of respondents have plans to expand. It is worth noting that about 86 percent of the surveyed small-size firms claimed that they have plans to expand, while only 56 percent of large enterprises have expansion plans.

About 50 percent of enterprises that would like to expand claimed that they will try to attract additional financing. As additional financing, small-size enterprises will try to attract bank loans and investments (including foreign). Large- and medium-size enterprises will also try to attract Innovation Fund credits (the Innovation Fund was liquidated according to the Presidential Decree dated December 15, 1999) and state financing.

According to the respondents, the largest financial and banking constraints for expansion of their business involve the lack of access to commercial bank lending (51 percent), lack of access to capital markets to raise funds (49 percent), lack of sound collateral to secure bank financing (39 percent), high cost of commercial bank financing (37 percent), and low demand on capital markets for securities of the company (25 percent). ■

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