

ALFRED NOBEL UNIVERSITY
DEPARTMENT OF THE GLOBAL ECONOMICS

QUALIFICATION WORK OF BACHELOR

**“DEVELOPMENT AND WAYS OF THE INTERNATIONAL INVESTMENT
PROJECT THE FAMILY RESORT 'CONTRAST' IN CYPRUS”**

**Forth year student, group IER16-a
in speciality 292 “International economic relations”**

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ALFRED NOBEL UNIVERSITY
DEPARTMENT OF THE GLOBAL ECONOMICS

First (bachelor) level

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Approved:

Head of Department _____

(signature, last name, initials, scientific degree, academic status)

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TASKS

for qualification work
Of Anzhelika Abramova

1. Topic: “DEVELOPMENT AND WAYS OF THE INTERNATIONAL INVESTMENT PROJECT THE FAMILY RESORT 'CONTRAST' IN CYPRUS”

2. Supervisor Zadoia A. O. Doctor of Science, Full Professor, Head of the Department of the Global Economics

Approved by order of " " _____ 20__, No. _____

3. Deadline for submission of work completed by the __1.06.2020__

4. Target installation and baseline data

To develop skills of practical application of theoretical knowledge gained as the study of both special and general economic courses by writing the investment project

5. Content of the work (list of questions to be developed):

- select the country for investment
- define why the country is attractive for investment project realization
- select the investment project theme and country-partner from where the investment is transferred;
- analysis of the real market situation in order to decide upon the form and way of investment;
- conducting the appropriate calculations based on the real numerical data analysed.

6. Date of issue of the assignment _____

7. Calendar of work execution

no	Name of the stages of qualification work	The deadline for the work stages	
		according to the plan	in fact
1	Alignment of topic	8/03/2020	
2	Preparation of the first section	5/04/2020	
3	Preparation of the second section	15/04/2020	
4	Preparation of the third section	15/05/2020	
5	Finishing the work	1/06/2020	
6	Preliminary defence/Defence	June, 2020	

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Summary

Abramova A.O. Development and ways of the international investment project “the family resort 'Contrast'” in Cyprus.

In this paper Cyprus economy is analysed, and the main characteristics of the Cypriot economy are given. The overall analysis continues onto the external situation between the based country for investor, Ukraine, and the country-recipient of investments, Cyprus. It concludes the point that Cyprus conditions for investors are appropriate, and additional risks are minimal. The international investment project is formed for the existing Ukrainian company operating in tourism sector in Ukraine to invest to Cyprus. The investment project is the resort with optimum with 30 rooms, and its implementation is outlined with the perspective of growth in spite of three years of implementation, during which the project is to pay back.

Keywords: Cyprus economy, international investment project, tourism, resort

Summary (Ukrainian)

Абрамова А.О. Розвиток та шляхи міжнародного інвестиційного проекту “сімейний резорт 'Контраст'” на Кіпрі.

У роботі проаналізовано економіку Кіпру та її основні характеристики. Загальний аналіз також охоплює відносини між країною походження інвестору, Україною, та Кіпром. Робота підтверджує наявність прийнятних умов для реалізації проекту, та мінімальні ризики. Міжнародний інвестиційний проект створено для існуючої Української компанії, працюючу на туристичному ринку в Україні, задля реалізації проекту на Кіпрі. Інвестиційний проект запропоновано у формі резорту з оптимальною кількістю кімнат близько тридцяти, та втілення проекту розраховано за умов розвитку проекту протягом трьох років, яких достатньо для того, щоб проект окупився.

Ключові слова: економіка Кіпру, міжнародний інвестиційний проект, туризм, резорт

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INTRODUCTION

The aim of the project is to construct an investment opportunity for a certain Ukrainian company involved in tourism business. The company 'UA Recreation' has more than five successfully operating hotels in Ukraine; it provides excellent service on all stages of cooperation with its clients. The standard of all established hotels is as following: no less than 100 of rooms, three and higher star rating, more than 80% of positive reviews. The company has accumulated enough retained earnings to involve into new project, and the shareholders would like it to be an international project, to create something of a new type for the company: small family-type resort with no more than 50 rooms. The name of the project shall be aligned with 'something new', 'opposite', so it shall be named “Contrast”.

The international investment project should not exceed € 5,000,000.00 and should meet the requirement for payback period to be no longer than three years. The description of the international investment project should be complete and considerate of most important economic and political trends in the chosen country, concentrate on its tax and legal policy, provide advisory notes on the process of the transfer of investment between the country and Ukraine, involve sufficient calculations of necessary expenditures and not concentrate on maximum possible output, so that the international investment project provides a ready-made plan for the investments.

In this project the chosen country is Cyprus – the island country that has good tourism potential, and the idea of the project is to create a private space where guests can relax and enjoy their stay. Comfort of guests is the key feature of the project, and for that aim the space of the family resort 'Contrast' is well-secured, and also equipped with all the necessities for calm and reserved life on vacation time. For the 'necessities' part in the investment project is included the part with shop, where shop starts with a single one, and then, by hiring additional workers expands to three – four places, selling a wide range of goods from souvenirs and luxuries to fruits and hygiene products.

As for methodological approach, in this work the Cyprus economy is analysed with the help of PEST-analysis, including insights into the balance of payments of the country. After PEST-analysis, the analysed matter is going to be the correlation between the travel and current account balances, and tourist arrivals, as to highlight the importance (or non-importance) of the tourism sector to Cypriot economy. Then, will be given general overview of the external relationship of Cyprus, with exclusive chapter reserved for Cypriot-Ukrainian relations.

Afterward, the calculation of the project is to take place: for the matter methodological approach will be reasoned by the average data from multiple sources, as to give adjusted and proper estimation; the project is to cover both zero-profit (break-even analysis) and maximum possible operating extremes, in order to use average estimation as the rule. To conclude the worthiness of the project, it shall be assessed with such indicators as Net Present Value (NPV), Profitability Index (PI) and Payback Period (PP).

All the results of the findings from the project can be used by Ukrainian company interested in the investment project in the tourism sector in Cyprus.

It is also important not only to create solid and sound plan for investment project realization, but also highlight the possible risks and suggest the ways of avoiding potential mistakes in the process of the realization of the project – so shall be the purpose of the work be.

SECTION 1

MAJOR CHARACTERISTICS OF CYPRUS

1.1 Overview of Cyprus position

Cyprus is an island country located at the crossroad of three parts of the world – Europe, Africa and Asia. Cyprus proclaimed independence from the United Kingdom on 16 August 1960, and became fully sovereign on 1 October 1960. Later on, the country had joined the European Union on 1 May 2004, later on joining the Euro area on 1 January 2008, and is currently involved into the process of joining the Shengen area (European Union, 2020). The country has 6 seats in the European Parliament. As the result of necessary directives from the European Union, Cyprus has quite positive attitude towards international businesses searching to start their business in one of the most profitable sectors: hospitality and tourism, education, banking, information technology and film production. The official languages of the country are Greek (in the Republic of Cyprus) and Turkish (in the Turkish Republic of the Northern Cyprus), although the multinational environment states that other languages spoken in the country are Russian, English and Arabic.

While there are several limitations to the property rights for foreigners, the country has other significant advantages. For example, as the country was once a colony of the United Kingdom, there are very high standards for processing, what results in almost absent bureaucracy. Even though there are some territorial disputes that divided the island into two parts, Cyprus is still attractive for foreign investment.

The country's geographical position contemplates to the simplicity of the commutation between the country and other partners. Favourable climate averaging at 24°C at the daytime attracts at least three millions of tourists annually, and the number is growing (Holiday-weather, 2020). From the other side, Cyprus is a pharmacy source for the European Union, as it produces many unique medical products. Recently, Cyprus also had opened their borders for film-makers, since it is a good way to market the country. Yet, one of the common things for Cyprus is earthquakes; those of lower magnitude are more common, while high-risk earthquakes are rather rare event.

Placed among the first hundreds of countries with favourable conditions to business, Cyprus is ranked the 54th among the rest of the world (Doing Business, 2020, Fig. 1.1). Cyprus seems to have very good protection of minority investors and taxation system, has good schemes against insolvency and has big problems with construction permits and enforcing contracts, in these categories occupying places under the hundred marks.



Fig. 1.1 Rankings on Doing Business (1 – 190) (Doing Business, 2020)

Overall economic phase of the Cypriot economy is said to be on a slowdown after speedy recovery from the recent 2012-2013 crisis, with low levels of inflation and declining unemployment rate (IMF, 2019), what gives projection to sustain growth and possibly boost businesses into better performance.

1.2 PEST-analysis of Cyprus

Thus, Cyprus main features may be analysed by categories according with the standard of PEST analysis, which basically divides the process of analysis into four categories: political, economic, social and technological.

The political matters start with the form of government: Cyprus is a presidential republic with the head of state elected every five years. The constitution of the Republic of Cyprus was published in August 1960 along with declared sovereignty; within the constitution content explained the right of Turkish Cypriots to be represented equally in the House of Representatives. Yet, the alliance between the Greek and Turkish parts of the Cyprus population had led to vacant seats of the latter

in the House of Representatives, what inevitably brought the 1974 division of the island with Turkish occupation of the Northern part of the island. The newly established country, Turkish Republic of the Northern Cyprus, was fully formed in 1983, later adopting own constitution in 1985. Yet, considering the conditions of the creation of this country, it is de facto recognised by Turkey exclusively, whereas the United Nation Organization states the Republic of Cyprus is a whole island without any inner divisions, located at the entire island of Cyprus. (Nationsonline.org, 2020)

Within such difficult territorial dispute, overall political situation can be described as stable yet uncertain. However, there have been next to no cases of the damage to the property on the political motives since 1974, all the protests have been concluded with minimal risks and mainly peacefully (The U.S. Department of State, 2019). And, of course, such difficulties are advisory to work within the framework of the Republic of Cyprus, and not the Turkish Republic of the Northern Cyprus, because, as can be logically concluded from the UN's position, the Northern state is quite hard to settle business in, especially the one connected with international projects: the risks might be much higher. For the sake of the adequacy, the information in the work considers only the Republic of Cyprus, referred to as Cyprus, but with excluded Northern part.

Cyprus has many laws aimed at protection of intellectual property that have been properly implemented and are in action today: the patents law, the trademarks law, the partnerships and trade names law, the UK designs law and the Intellectual property law. From the governmental regulation, Cyprus follows the lead of the whole EU that adopts trade policy common for all of its members (WTO, 2020).

Currently, the aim of the European trade policy is free trade (WTO, 2020), with the aim of protecting the participants of the trading process and with the aim of fostering globalization. Also, this points at the intention of the European Union to get out of the consequences of the Great Recession, which is why the attitude towards new businesses is quite welcoming.

Over the past decade, Cyprus' GDP has expressed heavy reflection of the overall world's trends, with lasting effects from 2012-2013 crisis, what is shown at

the Figure 1.2: since 2011 till 2015, Cypriot economy had been in quite heavy recession, what is shown in the drop of the GDP during these years from nearly € 25 bln to the point of almost hitting the € 15 bln line, yet, followed up by almost immediate recovery after 2015. Yet, the trend is expected to slow down at some point, after gaining back the position of the year 2011 (IMF, 2019).

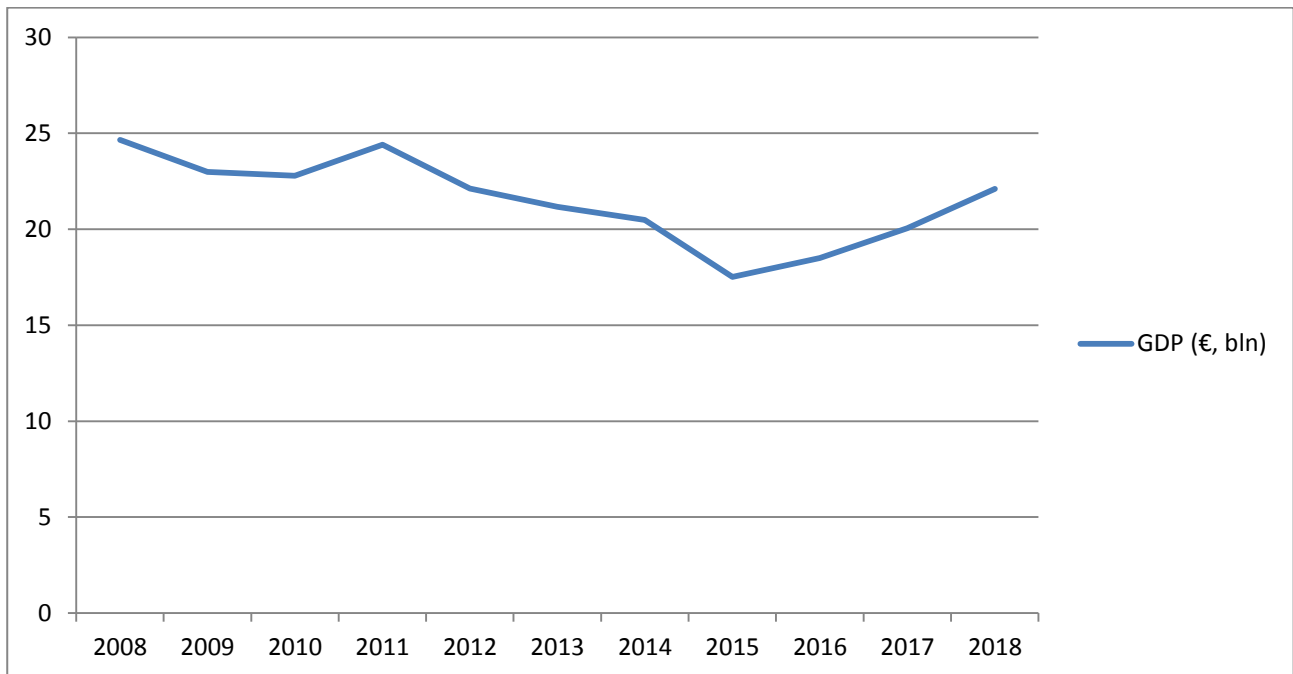


Fig. 1.2 Cyprus GDP change during 2008-2018 (Data.worldbank.org, 2020)

Cyprus is considered a high income country, with GDP per capita averaging at € 23,300.00 (Trading Economics, 2020); lower than the European Union's average at € 31,000.00. As can be expected, the GDP per capita growth follows up the trend expressed in the previous paragraph.

Within the framework of the rapid downfalls of the GDP in general, followed-up by demographic trends, GDP per capita growth reaches the lowest point in 2013 at the point of -6%. However, soon enough, in 2016, the situation is the opposite, with +6% growths, with steadying pattern of the calming to 3% in 2017 and 2.8% in 2018. According to the latest IMF report, such trend is expected to remain at the average level between 2 and 3% annual growth (IMF, 2019). The graph for the Cypriot GDP per capita annual growth is shown in the Figure 1.3.

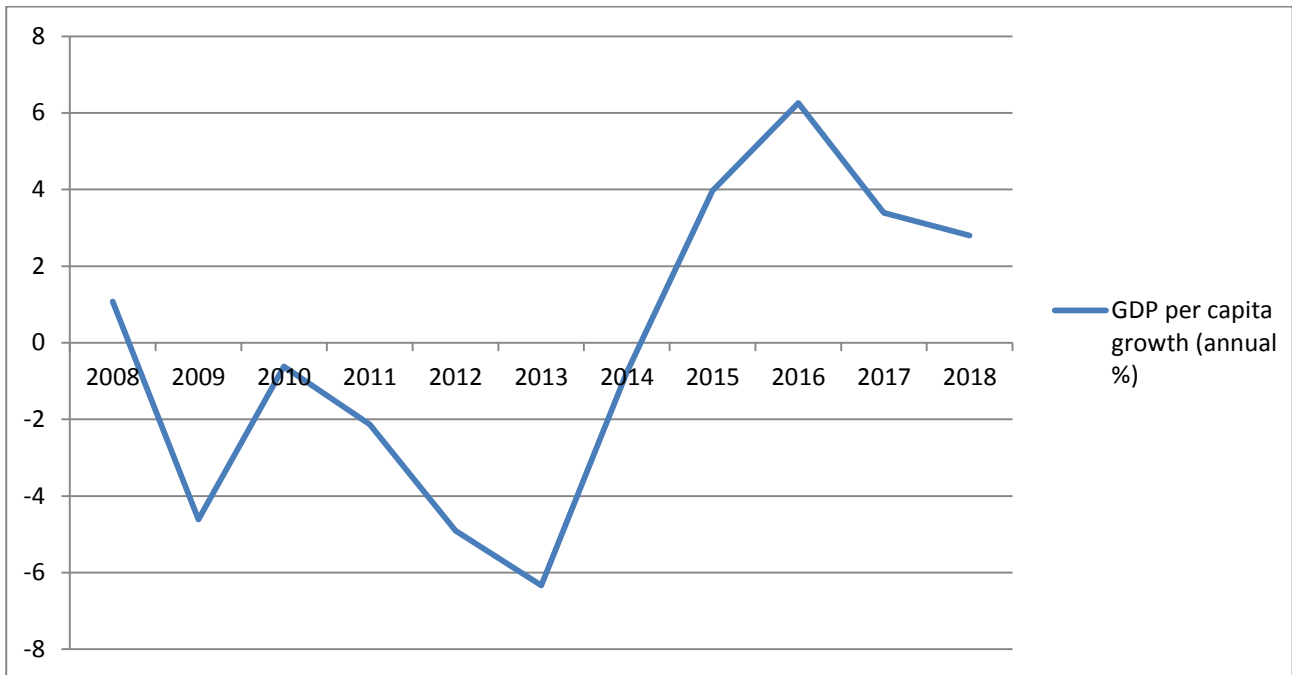


Fig. 1.3 Cyprus GDP per capita growth during 2008-2018

(Data.worldbank.org, 2020)

The division of Cypriot economy denotes that the country heavily relies on its service sector accounting for 85% of GDP, and 13% of GDP provided by industrial sector, rest 2% produced by agricultural sector (European Union, 2020, Fig 1.4). Necessary to note, Cyprus service sector is also heavily dependent on the foreign relations, considering quite big concentration on tourism and travel business.

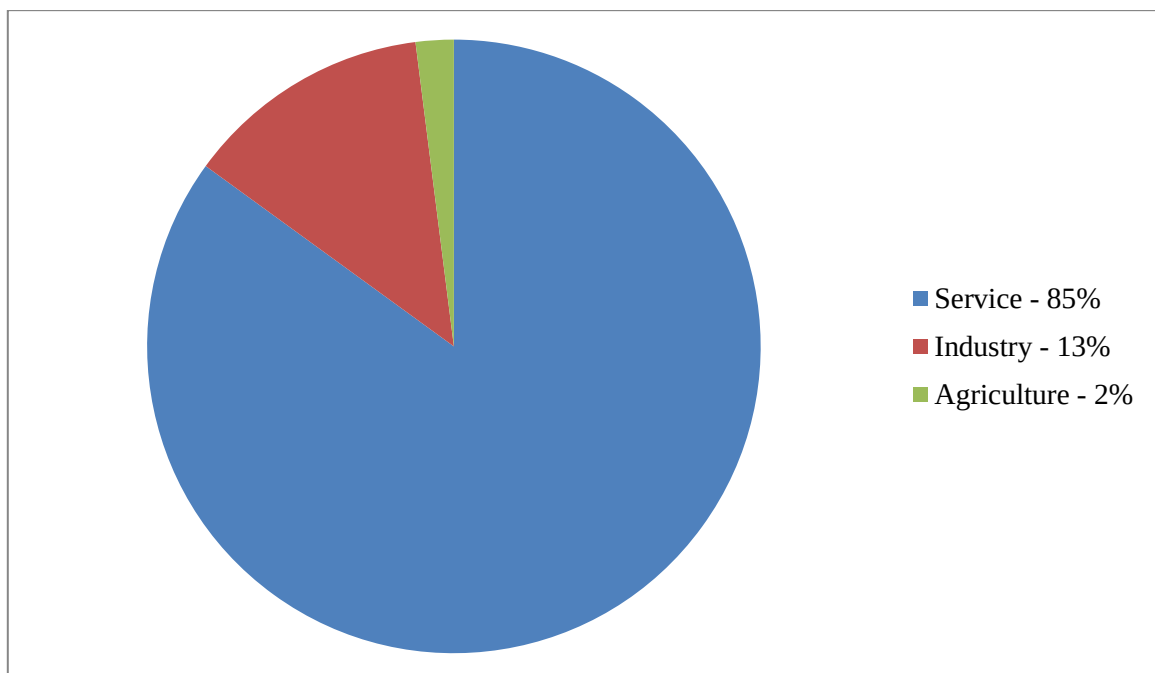


Fig. 1.4 Cyprus GDP compositions by sector

The minimum wage is not specified generally, however, some categories of workers do have the minimal wage rate currently at € 870.00 per month, after six months rises to € 924.00, accounting to € 10,764.00 at the first year of employment, and then increasing to € 11,088.00 annually, for workers of service and medicine: shop assistants, nurses, clerks, nursery assistants and hairdressers.

For workers of agricultural sector with no accommodation and/or food provided, the minimum wage is € 767.00 (€ 9,204.00 annually), and € 425.00 (€ 5,100.00 annually) in case accommodation and food is provided. It is also important to mention, that no personal tax applies to the annual earnings less than € 19,500.00, and after that point the tax gradually increases from 20% to 35% (Table 1.1).

And, to add in, the corporate tax in Cyprus is amongst the lowest in Europe, established currently at the point of 12.5% (PwC Cyprus, 2019).

Table 1.1

Personal tax rates in Cyprus
(PwC Cyprus, 2019)

Chargeable income for the tax year, €	Tax rate, %	Accumulated tax, €
1	2	3
First 19,500	0	0
From 19,501 to 28,000	20	1,700.00
From 28,001 to 36,300	25	3,775.00
From 36,301 to 60,000	30	10,885.00
Over 60,000	35	-

The national currency is Euro, with the inflation rate at the point of 1.1% annually (Inflation Tool, 2020). The situation with currency in Cyprus is quite predictable and stable, as the country is a part of the European Union and the Eurozone, the value of euro is quite stable and the inflation rate averages between 1 and 2% of with the meaning of creeping inflation (Tradingeconomics – Cyprus Inflation Rate, 2020, also shown in Fig. 1.4); so, as it can be seen from the Picture 1.2, € 100.00 in 2000 equals to € 141.02 in 2020, the decrease in value corresponding

to 41.02% of accumulated inflation (Inflation Tool, 2020). If it were to estimate average inflation, the result would be roughly 2%, which will be used in the final calculations in order to predict more accurately. Moreover, as the euro is a currency of several countries, it makes it more stable (that quite mitigates the risks), however, it also makes it more complex to analyse, as the reasons for volatility of the currency are interconnected with several economies at once. The interest rate in Cyprus is also bounded to the European Union. The benchmark for euro interest rate is currently zero as the result of implementation of Zero Interest Rate Policy (Tradingeconomics – Cyprus Interest Rate, 2020), the consequence following the Great Recession and constitutes the recovery direction in the economy. Necessary to mention, this is the so-called zero interest rate policy, that is adopted not only by the European Union, but also by Japan and the United States of America. Such measure is adopted to boost economic activity of individuals and corporations, which obtain access to the cheap capital to kick-start the business projects.

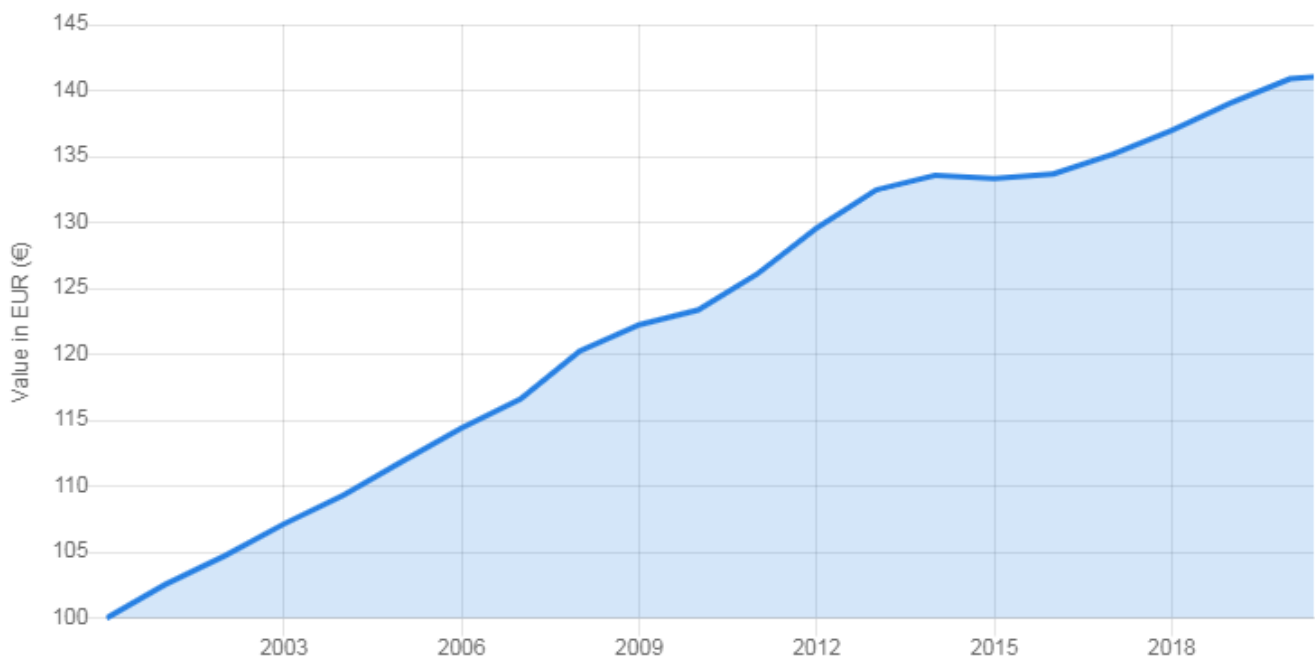


Fig. 1.4 Inflation Timeline in Eurozone (Inflation Tool, 2020)

Moving on to the demographics, the estimated population of Cyprus is at the point of 0.9 mln of people, excluding area of Turkish Cypriots (Trading Economics, 2020). The literacy rate in the country is also quite high, 98-99% of the total population; the percentage of people with higher education is at the level of 33%, and

the unemployment rate averages between 6-7% (Trading Economics, 2020), which makes it a little bit higher than the natural unemployment level that is no more than 5%. Other statistic data expresses that the social standards are quite favourable, with life expectancy increase from the point of 79 years in 2008 to 80.8 years in 2018, Cyprus obviously has quite high human development index at the mark of 0.873 and placed 31st in the world list (European Union, 2020).

Technological advancement in Cyprus is keeping up to date with the worldwide pace; there are universities which make specialists in the field of science and technology. Yet, overall, this factor has controversial impact on the decision to place the project in Cyprus, as the main theme for it is recreational tourism, and state of natural resources and ecosystems are much more important of the general technology. In this matter comes into place the membership in the European Union, with all constantly eco-aware laws and rising standards for the matter. Moreover, Cyprus has its own laws on air and atmospheric pollution.

Overall, Cyprus offers quite stable environment for the implementation of the project, with quite well formed economic and demographic conditions. Cyprus has vast opportunities for the business ideas in the relation to tourism, travel and connected services, as mild climate and geographical position attracts millions of tourist to the country throughout a year.

SECTION 2

ANALYSIS OF CYPRIOT INVESTMENT CLIMATE

2.1 Cyprus' position on the international arena

In the Chapter the Cypriot trade balance is described.

In 2018, the total value of export of goods had been € 4.5 bln (Oec.world, 2020). Top export categories in goods include some refined oils and different types of machinery and transports, and are presented in the Table 2.1.

Table 2.1

Top 10 export categories in goods, 2018 (Oec.world, 2020)

№	Category	Volume (%)
1	2	3
1	Refined Petroleum	19.30
2	Recreational Boats	14.90
3	Packaged Medicaments	7.86
4	Other Sea Vessels	5.51
5	Cheese	5.38
6	Planes, Helicopters and/or Spacecraft	3.44
7	Passenger and Cargo Ships	3.20
8	Broadcasting Equipment	2.18
9	Crude Petroleum	2.16
10	Electrical Resistors	1.18
Total value of export in 2018		€ 4.5 bln

Cyprus has quite extensive list of trade partners, both inside and outside of the union, even despite relatively small trade volumes – a large contribution to that is defined by the extensive amount of countries that have official relationship with Cyprus, including double-tax treaties – the list of over 60 countries outside the European Union, including Ukraine. Overall, the exports within the EU borders accounts for 30-40% of totals (European Union, 2020), with Greece and Norway among the top destinations, with Cayman Islands occupying the first place with almost 15% share of total exports, and Libya with 9% (European Union, 2020).

Table 2.2

Top 10 export partners in goods, 2018 (Oec.world, 2020)

№	Category	Volume (%)
1	2	3
1	Cayman Islands	14.80
2	Greece	9.07
3	Libya	8.98
4	Norway	5.66
5	United Kingdom	4.53
6	Egypt	3.96
7	Germany	3.20
8	Lebanon	3.12
9	Israel	2.89
10	Bulgaria	2.80

As for import of goods, the situation is quite similar in structure to the exports: oils in significant volume, transports, including marine, medicaments, etc (Table 2.3). In 2018, the total value of imports amounted to € 8.77 bln, what is quite above the value of the export of the same year – € 4.5 bln.

Table 2.3

Top 10 import categories in goods, 2018 (Oec.world, 2020)

№	Category	Volume (%)
1	2	3
1	Refined Petroleum	22.60
2	Passenger and Cargo Ships	16.80
3	Recreational Goods	6.27
4	Cars	5.18
5	Special Purpose Ships	3.78
6	Other Sea Vessels	2.98
7	Packaged Medicaments	2.73

Table 2.3 [continued]

1	2	3
8	Large Iron Pipes	2.41
9	Coal Tar Oil	2.07
10	Broadcasting Equipment	1.90
Total value of export in 2018		€ 8.77 bln

Roughly 60% arrive from within the borders of European Union, with Greece's 15% and Italy's 8% (European Union, 2020), while outside the EU Cyprus' actively imports goods from South Korea – 9.03%, Turkey – 7.17%, and Russia – 5.51%; all data presented in the table 2.4.

Table 2.4

Top 10 import partners in goods, 2018 (Oec.world, 2020)

№	Category	Volume (%)
1	2	3
1	Greece	14.60
2	South Korea	9.03
3	Italy	7.62
4	Turkey	7.17
5	Russia	5.51
6	Germany	5.11
7	United Kingdom	4.78
8	Israel	4.12
9	China	3.98
10	Spain	3.85

Cyprus is a service exporter; another proof aside from the obvious service balance already stated is located in the balance of payment of the country, what gives even more extensive understanding on the matter (Appendix 1).

In the span of 10 years, service exports have risen by 60%, which excels the inflation rate. It indicates quite good results in enhancing businesses from the spheres of travel, transport and financial services – all presented in the Table 2.5. And, while

Cyprus does have some services on debit balance, the total import of services is barely 60%, which is good indicator for Cyprus.

Table 2.5

Main accounts in service trade in 2017 (Oec.world, 2020)

№	Type of service	Volume, €
1	2	3
Service Exports		7.79 bln
1	Travel	2.78 bln
2	Transportation	2.61 bln
3	Financial Services	2.04 bln
4	Miscellaneous	146.09 mln
5	Insurance Services	114.22 mln
Service Imports		4.97 bln
1	Transportation	1.83 bln
2	Travel	1.14 bln
3	Computer information services	1.03 bln
4	Financial Services	397.55 mln
5	Miscellaneous	169.11 mln

The country has overall current account deficit, as, being an island country means very limited resources in the fields of agricultural and industrial areas of economy, those that require land resource the most. That is the reason why the country has to import a lot more goods than it exports.

Continuing with the Balance of Payment of Cyprus, primary income sub-account also contributes to the current account deficit, as it shows the outflow of income to repayment of workers, investments. From the capital account it becomes visible that the country is a net borrower (Appendix 1). As for the financial account, it shows unstable dynamics, however it is clear that the difference between assets and liabilities is very small, what can be the consequence of Cyprus being an offshore zone. In the financial account it can also be seen that the direct investment had peaked in 2014 (Appendix 1), which is a probable consequence of Ukrainian crisis of

that time. Overall investment dynamics from the financial account show that the country receives more direct investment than portfolio investment. The reserve assets seem to be rather small in comparison to other accounts; therefore, the dynamics shows that Cypriot government slowly attempts to enrich the foreign exchange reserves. It can also be visible, that somehow the country has problems collecting data, as the balance of payment rarely balances without quite decent errors and omissions.

What is also important is that being a member of the European Union benefits Cyprus. In 2018 the figures of exchange of capital between the EU and Cyprus were as following: Cyprus contribution had been equal to 0.89% of own economy (around € 0.180 bln), while the amount of funds granted to Cyprus totalled to 1.31% (around € 0.264 bln) (European Union, 2020). This is based upon the approach that directs spending of the union to the needs of European residents, rather than distributing income equally, though Cypriot position is clearly in quite favourable position.

2.2 Correlation between the Cyprus trade balance and tourism industry

Now, that it is confirmed that Cyprus offers quite good conditions to this project, it is important to understand what drives forward, let alone domestic production. This matter is very interesting, as it helps to understand if the factors influence each other and if yes, that would stress the importance of the matters dependency, and highlight it in the spite of the national policy. So in this project the main areas of high interest are travel and tourism and foreign direct investment.

For the matter of estimation of the importance of the tourist industry in Cyprus, the Pearson correlation formula (1.1) will be used. This way the correlation strength will be measured between the statements from the Balance of Payments and amount of tourist arrivals. For estimation will be used the next years: 2008 to 2018, which will give approximate eleven years prediction on the matter.

$$R = \frac{\sum_i (x_i - \bar{x})(y_i - \bar{y})}{\sqrt{\sum_i (x_i - \bar{x})^2} \sqrt{\sum_i (y_i - \bar{y})^2}} \quad (1.1)$$

So, for the first part the correlation effect shall be measured between Current Account Balance and amount of tourists visiting Cyprus, the given indicators are in the Table 2.6: Current Account Balance, tourist arrivals and travel statement balance.

Table 2.6

Cyprus indicators
(Statista, 2020; Central Bank of Cyprus, 2019)

Year	Current Account Balance (bln EUR)	Tourist arrivals (mln ppl)	Travel (bln EUR)
1	2	3	4
2008	-2.80	2.30	0.74
2009	-1.25	2.27	0.56
2010	-2.08	2.43	0.64
2011	-0.46	2.49	0.87
2012	-0.75	2.53	1.02
2013	-0.26	2.39	1.27
2014	-0.71	2.37	1.19
2015	-0.08	2.32	1.31
2016	-0.80	2.73	1.57
2017	-1.02	2.95	1.66
2018	-0.93	3.2	1.62

The trend lines may be derived from the information in the Table 2.6 (Fig 2.1)

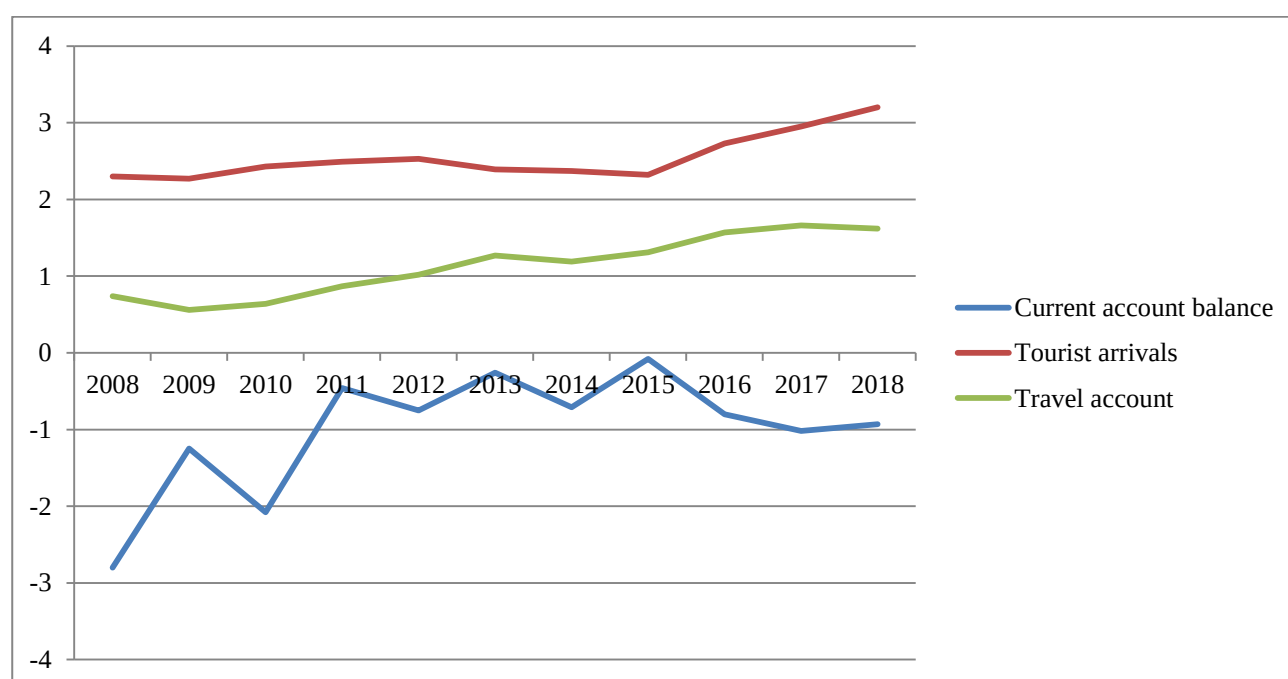


Fig. 2.1. Graphical changes in the indicators (Table 2.1)

As was found from the analysis of the first two indicators, the relationship between the current account balance and tourist arrivals is weak with $r = 0.128$, what although denotes rather positive correlation.

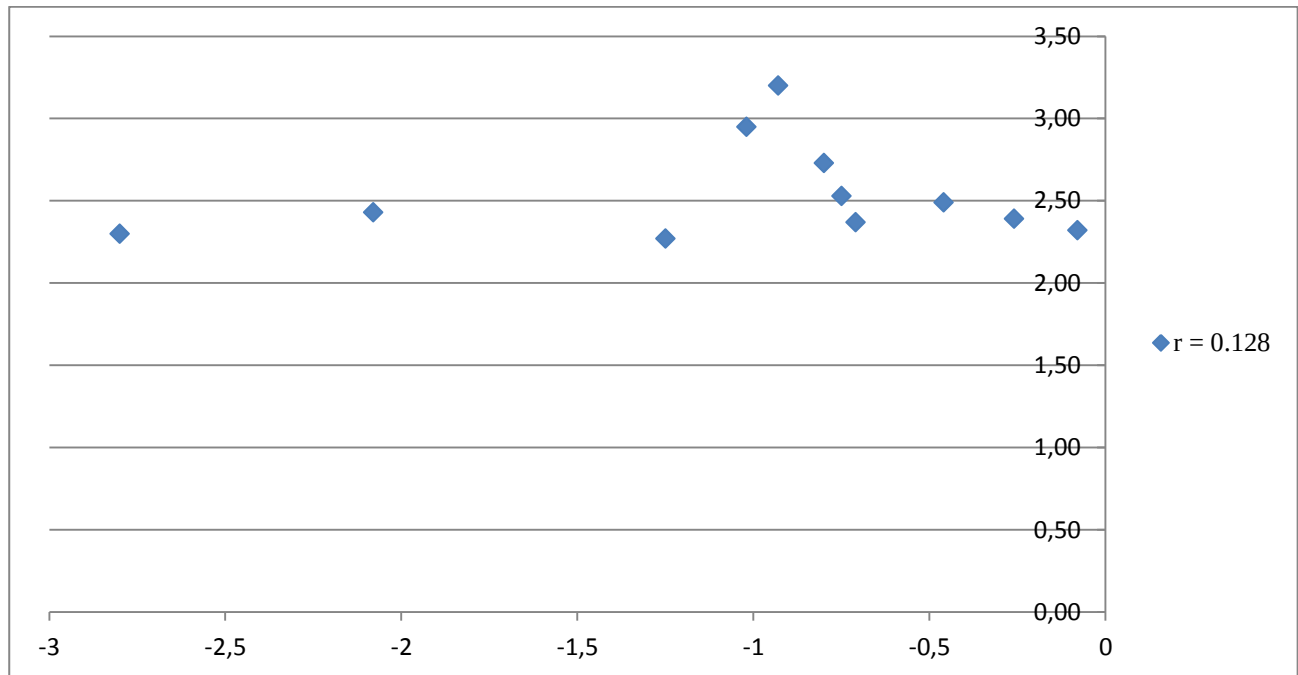


Fig. 2.2. Correlation between the Current Account balance (axis X) and tourist arrivals (axis Y)

And the relationship between the current account balance and travel account balance is stronger, $r = 0.509$, what highlights moderately positive correlation.

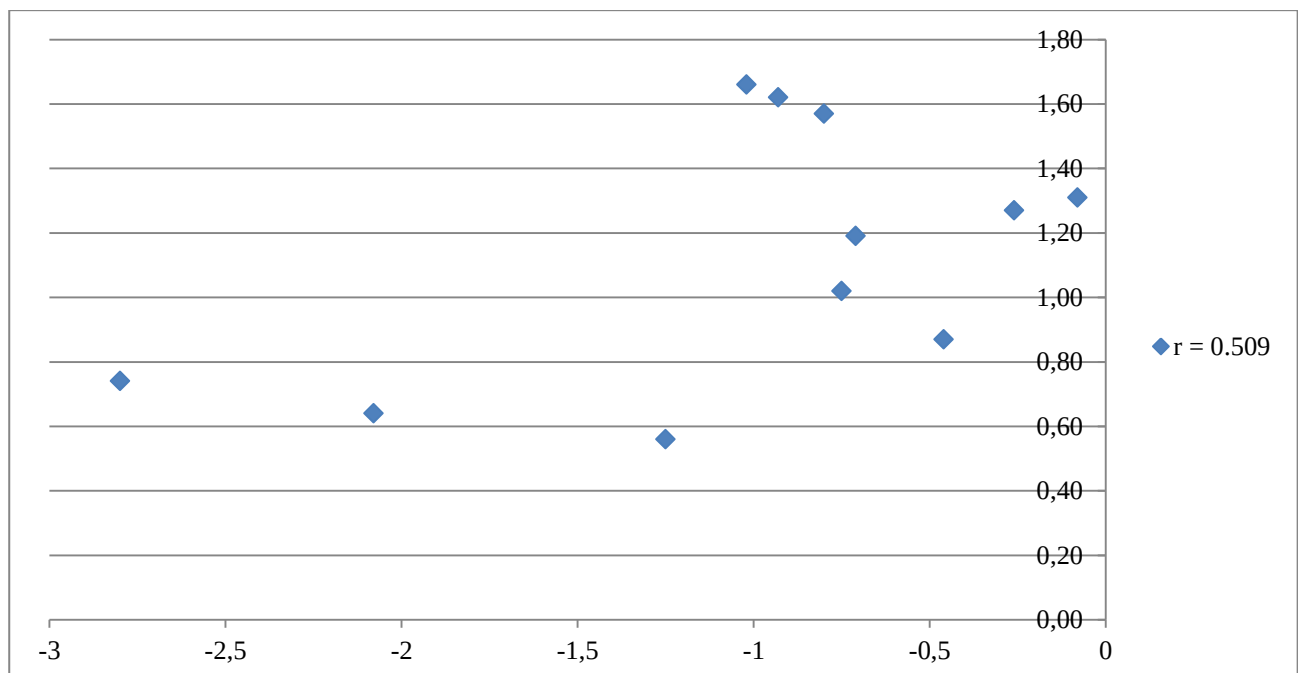


Fig. 2.3 Correlation between the Curr. Acc. balance (aX) and Travel Acc. (aY)

As for relation between travel account balance and tourist arrivals, it is quite highly positive with $r = 0.738$, what is to be expected. Yet, what is also important to understand (as why the correlation coefficient is not equal to 1), is that there is such a matter as purchasing power, what corresponds to the actual price levels, economic situation that influences the purchasing power of the domestic currency of the tourists, etc. All the graphic representation of annual change can be found in the Figure 2.1 and Figure 2.2.

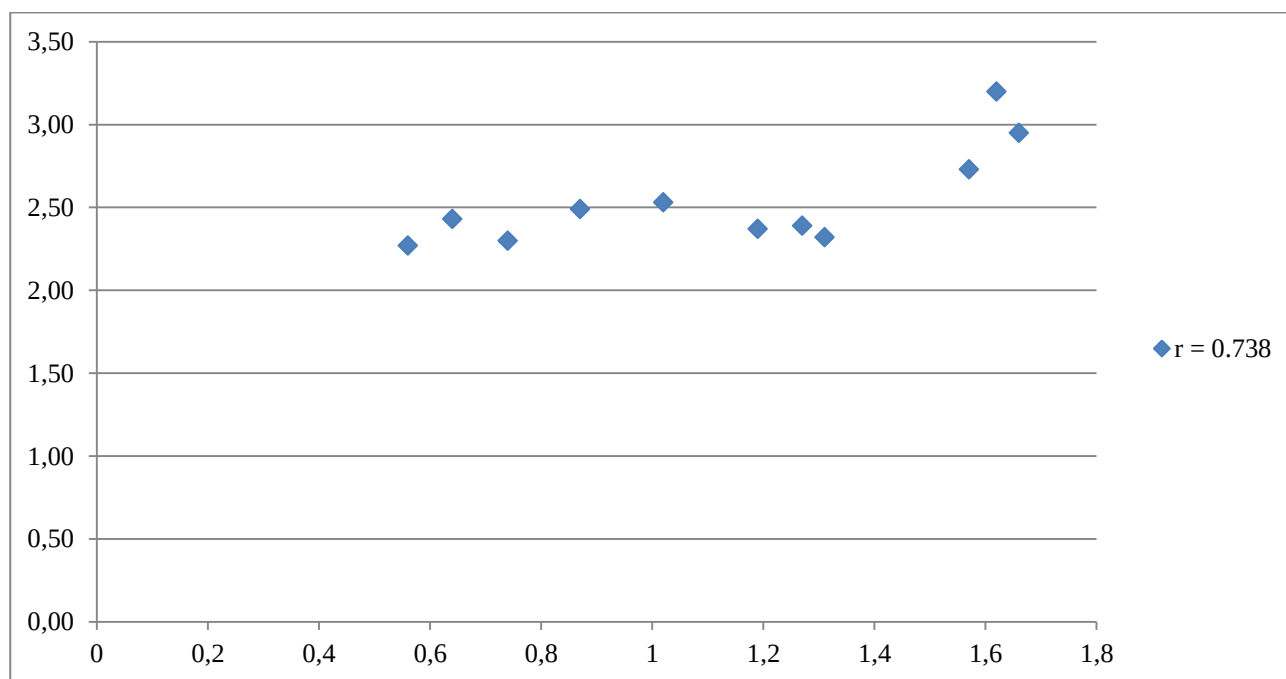


Fig. 2.4. Correlation between the Travel account balance (aX) and tourist arrivals (aY)

Overall, considering quite significant positive impact between the indicators, it can be expected that tourism industry in Cyprus shall be moderated liberally in the future, as it is quite important in spite of the matter of Current Account Balance. If developed better, this industry may succeed in the process of giving more significant value to the weight of Travel account in the Current Account's scope.

2.3 Cyprus and Ukraine relations

That altogether correlates into the conclusion that risk of investment in the case of euro to euro investment is minimal, as inflation is not as high; and in case other currency pair, the risk of investment would depend on the inflation of the currency in which the capital is invested, basically corresponding to the difference between the

inflation rates. In case with Ukraine, for example, the interest rate is established at the point of 4% that is documented in the Ukraine-Cyprus Protocol, 2019 (Voytsitskyi, 2019).

Aside from that, Cyprus has its own agreements with more than sixty countries outside the European Union. One of these agreements is the Ukraine-Cyprus Protocol of 2019, that established the “most favourable nation” clause (meaning that both countries apply best possible norms of relationships that currently exist between them and other countries), 5% withholding tax for repatriation of capital in form of dividends in case the total investment accounted to, at least, €100,000.00 and corresponds to at least 20% of shares (otherwise the withholding tax will be rated at 10%). Also the document establishes the process of the alienation of property and subjection it to the tax by “situs” approach (means that the country where the property is located applies their tax only, and the other does not) (Voytsitskyi, 2019). Currently, Cyprus does not have any governmental programs (aside from zero interest rate policy) that commemorates to the insurance of foreign investment, however, the Republic of Cyprus is a member of the Multilateral Investment Guarantee Agency, that guarantees the protection for investments against non-commercial risks and helps investors to access financing on improved terms and conditions. For the matters concerning disputes on the investment, Cyprus follows the guide of the Multilateral Convention on Settlement of Investment disputes between States. There are also limitations on actions foreigners may take concerning the real estate. For example, to purchase a real estate, non-European Union resident must request permission from the Council of Ministers of Cyprus that is easily obtained for plots under 4,014.00 m².

Potential provisions for foreign investors are exercised so that investing in a new business is not much of a problem even if the owner does not have the whole sum, as the zero interest rate policy commemorates to the easy access to the capital for businesses, and, in correlation with British standards of documentary procedures, makes it quite welcoming to foreign investment. Therefore, there are some limitations put on foreigners and the right to purchase property; however, it is quite easy to get a

restriction lifted per one purchase through the permission from the Council of Ministers. As the member of the European Union and member of the countries that adopted Euro as their national currency, Cyprus does not face the potential problem of default or hyperinflation, as the support of the European Union protects the country and helps it to get through the current and post-crisis economic problems. Consequently, the European Union membership also denotes the fact that Cyprus has to share the values and follow the directions of the union. Currently, the trade policy of the European Union follows the lead of the free trade to help businesses and globalization processes overcome quickly the 'leftovers' of crisis. Some force majeure situations are to be treated by collective efforts, which is necessary to assess whether or not the risk of investment is high. Altogether, the facts would describe the Republic of Cyprus as the country with minimum risk of investment, if necessary; investors can seek assistance from the Multilateral Investment Guarantee Agency, of which Cyprus is a member.

2.4 Why is Cyprus an offshore zone? Assessment of the country's investment climate

According to some already mentioned facts, it is clear that Cyprus has to be considered an offshore zone. Why? First of all, because of its advantage over the other European countries on the matter of the benchmark for corporate tax – just 12.5% instead of average point around 20%. However, as stated in the generally accepted definition of the notion “offshore zone”, there have to be somewhat clear advantages for non-residents over the native population in the matter of taxation and/or conditions for establishment of business. And there are: the most important to consideration is the tax exemption from the defence tax that is paid from the dividends obtained from a company, established at the rate 17.5% (PwC Cyprus, 2019), what is clearly a lot in comparison to the 5% agreed in the international communication by the Ukraine-Cyprus Protocol, 2019.

After considering all the side and preliminary conditions of Cypriot economy, it is time to find out the process of investment, as both countries are pretty different in their way of perception of the investment: one country (Ukraine) is the home-country

for the investor and another is country-recipient (Cyprus), what derives the studied processes into two categories: export of capital and import of capital.

But firstly, it is necessary to highlight the main reasoning of the choice of countries by answering the following question: Why should the given project take place in Cyprus? First of all, as was mentioned before, Cyprus has quite good potential for its tourism sector to continue growing because of its importance in the sectors of Cypriot economy and balancing the current account of the balance of payment – it is also in the positive correlation with the matter, but what is also important is the fact that the hotel business in Cyprus is unlikely to suffer from seasonality, as all around the year the temperature is warm enough to have flow of tourists throughout the whole year. Together with a fact that being a country-member in the EU Cyprus is unlikely to suffer from significant economic fluctuations, and the positive relation between the balances on current account and travel accounts, what gives a possibility to suggest the positive trend in the policy for tourism sector continues and the amount of annual arrivals of tourists will only grow, it makes the country quite favourable country for the international investment project of the company 'UA Recreation'.

Afterwards, the first step in the investment will be the transfer of money from Ukraine to Cyprus, where it would be necessary to state that the process of transfer of money from Ukraine to Cyprus is not subjected to payment of any taxes provided holding the Ukraine-Cyprus Protocol of 2019, which has a point that states the countries agree to common terms to avoid double taxation, and, providing the document is in power, it overrides the national laws and provides exemptions from Ukrainian taxes. Therefore, it will be a requirement for the Ukrainian Company to apply for the license to the National Bank of Ukraine in order to confirm the purpose and secure the payment, especially given the amount of the investment – in Ukraine currently maximum amount for which application is not necessary is € 2,000,000.00 per legal entity, – so the company is protected in case of confrontation or necessity to clarify the purpose.

Whilst in the case of successful transfer of money to the corresponding account

in the Cypriot bank (that shall be opened in advance) the company-investor is to establish the subsidiary – or would be, which is not the case, because here the required action would be acquiring the existing business, because of peculiarities with the land buying permits – which, of course, is required only in case of actual property the company is aiming to buy exceeds the limitation of Cypriot government.

One more necessary remark shall be covered – such as obtaining dividends from the generated net income. In this issue the investors from abroad are in safer conditions than own Cypriot residents – as they are exempted of defence contribution from the sum, which is rated at 17% – which is one of several reasons why Cyprus is considered an offshore zone; yet the rate what is the benchmark for the dividends repatriation is documented in the Ukraine-Cyprus Protocol what is rated at 5%.

The aim of the project is to create a successful project that will be both demanded and profitable. For this reason, the decision upon the form of legal entity for the project should be chosen wisely: it should be either purchase of an existing business or establishment of a joint venture in order to avoid land purchase limitation for foreigners and foreign companies, what is not the case for merger-acquisition deals – this issue shall be included into consultation with legal company in Cyprus, what will be included in the investment requirement. For the reason of authenticity of the project, the form of licensed/franchised business is not an option.

To sum up, Cypriot investment climate is quite welcoming and attractive for foreign investors for many reasons: tax exemption from the defence tax paid on dividends by non-residents, considerably lower corporate tax, than both in the based country of Investor Company and European average benchmark. Aside from that, the internal situation in Cyprus is clearly quite stable, even within the framework of considerable international crises the economy stayed afloat and the inflation rate did not rocket thanks to the superior measures taken by the members of the Eurozone. Within the framework of intensive international cooperation and the “most favourable nation” clause, the country is very good choice for the implementation of the project, as tourism industry in the country is very important and is bounded to be developed furthermore.

SECTION 3

DEVELOPMENT OF INTERNATIONAL INVESTMENT PROJECT AND ASSESSMENT OF ITS ATTRACTIVENESS

3.1 Shaping the framework of the project

In this part, the main vector shifts to the implementation of the international investment project in Cyprus.

The chosen project is the family resort, which would be a demanded product in the chosen country, as the Republic of Cyprus is known for its growing tourism sector with all the recreational resources the country have; another point is good international position of the country at the international arena, the country is a good place for starting a business, as it has good business standards and only necessary much of bureaucratic procedures. And one more good reason to develop the project in the Republic of Cyprus is the lowest corporate tax among all the countries-members of the European Union at the point of 12.50%.

In this part the calculation of the project will be as following:

1. Creating the investment requirement by calculating approximate sums dedicated to main expenditures required for the project to start;
2. Calculating operating costs: costs on labour (wages, premiums), with the consideration of the future expansion, and other operating expenses, such as inventories, services, etc.
3. Break-even point analysis of the project: setting the project to the zero-profit level in order to see if the level of minimum daily revenue is acceptable and the project won't be on the point where it can't stay competitive considering the costs involved into running the business, considering also taxes which do not depend on the profit.
4. Revenue estimation stage will show the high-end extreme of the project operation, as the calculation should be well-reasoned – and for that very reason the maximum possible capacity should be worked out – in order to achieve the required reasonable average line of operation.
5. The next step will be calculating the net income which is the last step in

the calculation process before the assessment of the project. It is very important because the results of the calculations at this step are the ones that will judge how successful the project is.

6. Assessment of international investment project by calculating the indexes such as Net Present Value, Profitability Index and Payback Period in order to derive the final decision on whether the project should be taken into consideration by the investor.

3.2 Investment requirement

The calculation the investment requirement – initial value of the project – should include all necessary preliminary payments in order to start the business. All considered requirements are showcased in the Table 3.1.

So, the first resource put into the project is the hotel itself. The option of buying a piece of land and building the necessary structure may be a bit overwhelming for small project in terms of time and capital cost, so, instead, the calculation the investment requirement Table 3.1 uses the average hotel price of similar size – 30 rooms hotel with some spare space at the first floor for the shop part of the project. After that, costs will include legal consultations and some legal procedures, both of them necessary to navigate through peculiarities and obstacles in the process of purchasing the hotel (with a business that has the hotel on its balance, to avoid venture thing and purchase of land limitation, as there is no limits when you buy a business in Cyprus) and also re-registration of the company to suit new direction. After that, the costs will be required for renovation of the hotel, as older version may disagree with elements of brand image and be worn out. Other requirements to be invested in before starting operation include, as mentioned previously, re-branding, stationary and miscellaneous. To complete the hotel, it would be necessary to also get kitchen appliances and inventory. Aside from the hotel part of the project, there is also shop project, that will need a shop opening deposit (money put into goods), and after that, in a year it will require additional investment to the shop in order to boost expansion. After these stages are cleared, the next part of expenses will be head-hunting expenses and marketing-advertising expenses. Total

investment requirement will account to approximately € 3,282,000.00 for the first year, and additional € 150,000.00 for the second year. The limit of payback period is three years.

Overall, the project meets the restriction of € 5,000,000.00 set by the investor company.

Table 3.1

Expected Requirement to Start the Investment Project

№	Name of requirement	Amount, €
1	2	3
1	Cost of purchase of the hotel (30 rooms)	3,000,000.00
2	Legal consultations	3,000.00
3	Legal procedures (including company registration)	2,000.00
4	Renovation of the hotel	100,000.00
5	Shop opening deposit	100,000.00
6	Software and hardware for hotel and shop	5,000.00
7	Re-branding	10,000.00
8	Kitchen appliances	20,000.00
9	Headhunting expenses	15,000.00
10	Stationary and miscellaneous	10,000.00
11	Marketing expenses (development of campaign)	10,000.00
12	Advertising expenses (keeping the ad up)	7,000.00
13	<i>Additional investment to the shop (end of the 1st year)</i>	<i>150,000.00</i>
Total investment:		[1] 3,282,000.00 [2] 150,000.00

3.3 Operating costs

After the investment requirement is fully transferred and implemented, the hotel may start operating, so it is necessary to calculate salary expenditures.

In Cyprus, taxes put on wage of an individual divide into two categories: paid by employee and paid by employer. Among taxes paid by employee are personal income tax (depends on the annual amount of the earnings, is paid annually), tax imposed by General Healthcare System (2.65% since 2020, (GESY, 2020)), Payment to Social Insurance Fund (7.8%, monthly). Taxes paid by the employer include:

Social Cohesion Fund (2%, paid monthly), Redundancy Fund Tax (1.2%, monthly), payment to Industrial Training Fund (0.5%, monthly) and Contributions to the Leave Fund (in lieu of holiday pay, 8% monthly, in case of creating own fund for the purpose, may apply to exemption).

In the calculation, only the payments from the side of employer are considered, which apply to gross amount of employee's salary, yet are not deducted from it, at the rate 11.7%.

It is also important to include salary premiums into consideration – the sum referring to amount of money dedicated monthly to pay workers incentives for quality of work, – in order to improve competition and quality of service amongst the employees, as it is a common feature for the policy of the ‘UA Recreation’ Company.

The necessary provisions are to be provided in the working agreement, so the employees will know what the process of obtaining the bonus pay is.

With these conditions given, salary expenditures are expected to differentiate as following during the three given years: During the first year of operation, monthly salary expenditures are to be distributed between the required staff (13 people): two sales managers for the shop, two receptionists, three cleaners / maids, two chefs, two kitchen staff, one top manager, and one accountant. Monthly expenditures are expected to average about € 18,050.00, including € 1,000.00 to be spent on salary premiums. Taxes payable by the company are € 2,111.85, adding to the total salary expenditures at the point of € 20,161.85. All represented in the Table 3.2:

Table 3.2

1 Year Monthly Salary Distribution

№	Position	1 Year				
		Worker s	Salary, €	Total salary, €	Taxes paid by the company, €	Total gross salary, €
1	2	3	4	5	6	7
1	Sales Managers (shop)	2	950.00	1,900.00	222.30	2,122.30
2	Receptionist	2	1,000.00	2,000.00	234.00	2,234.00

Table 3.2 [continued]

1	2	3	4	5	6	7
3	<i>Cleaners</i>	3	750.00	2,250.00	263.25	2,513.25
4	<i>Chefs</i>	2	2,500.00	5,000.00	585.00	5,585.00
5	<i>Kitchen staff</i>	2	700.00	1,400.00	163.80	1,563.80
6	<i>Top manager</i>	1	2,500.00	2,500.00	292.50	2,792.50
7	<i>Accountant</i>	1	2,000.00	2,000.00	234.00	2,234.00
8	<i>Salary premiums*</i>	-		1,000.00	117.00	1,117.00
Total:		13		18,050.00	2,111.85	20,161.85

During the second year the staff amount is expected to increase to 20 people, with increase in amount of people of sales managers, receptionists, cleaners and kitchen staff occupations to almost double them from the first year. Simultaneously, the amount dedicated to salary premiums is also increased to € 5,000.00. The total amount of the wage expenses for the second year is € 29,350.00, what requires the company to pay € 3,433.95 of tax and sums up the second year salary expenditures at the € 32,783.95. All represented in the Table 3.3:

Table 3.3

2 Year Monthly Salary Distribution

№	Position	2 Year				
		Workers	Salary, €	Total salary, €	Taxes paid by the company, €	Total gross salary, €
1	2	3	4	5	6	7
1	<i>Sales Managers (shop)</i>	4	950.00	3,800.00	444.60	4,244.60
2	<i>Receptionist</i>	3	1,000.00	3,000.00	351.00	3,351.00
3	<i>Cleaners</i>	5	750.00	3,750.00	438.75	4,188.75
4	<i>Chefs</i>	2	2,750.00	5,500.00	643.50	6,143.50
5	<i>Kitchen staff</i>	4	700.00	2,800.00	327.60	3,127.60
6	<i>Top manager</i>	1	3,000.00	3,000.00	351.00	3,351.00
7	<i>Accountant</i>	1	2,500.00	2,500.00	292.50	2,792.50

Table 3.3 [continued]

1	2	3	4	5	6	7
8	<i>Salary premiums*</i>	-		5,000.00	585.00	5,585.00
Total:		20		29,350.00	3,433.95	32,783.95

During the third year it is also expected to have increase in amount of staff to 31 people, with doubled sales managers, plus one receptionist, two cleaners and doubled kitchen workers. This year the amount of monthly premium will be € 10,000.00, and total amount is expected to reach € 44,700.00 per month. Tax burden per month will reach € 5,229.90, with total monthly salary expenditure at € 49,929.90. All represented in the Table 3.4:

Table 3.4

3 Year Monthly Salary Distribution

№	Position	3 Year				
		Workers	<i>Salary, €</i>	Total salary, €	<i>Taxes paid by the company, €</i>	Total gross salary, €
1	2	3	4	5	6	7
1	<i>Sales Managers (shop)</i>	8	950.00	7,600.00	889.20	8,489.20
2	<i>Receptionist</i>	4	1,000.00	4,000.00	468.00	4,468.00
3	<i>Cleaners</i>	7	750.00	5,250.00	614.25	5,864.25
4	<i>Chefs</i>	2	3,000.00	6,000.00	702.00	6,702.00
5	<i>Kitchen staff</i>	8	700.00	5,600.00	655.20	6,255.20
6	<i>Top manager</i>	1	3,250.00	3,250.00	380.25	3,630.25
7	<i>Accountant</i>	1	3,000.00	3,000.00	351.00	3,351.00
8	<i>Salary premiums*</i>	-		10,000.00	1,170.00	11,170.00
Total:		31		44,700.00	5,229.90	49,929.90

Other expenditures, therefore, are to be divided into four main categories: services (water supply, electricity), foods (only for the hotel's restaurant), and other expenses (miscellaneous, stationary, Internet, security, etc.) and events. Events expenditure may exist or may be absent. Throughout the three years of

implementation of the investment project, the total amount of other expenditures will gradually increase from € 7,500.00 in the first year to € 10,250.00 in the second and will eventually reach the peak of € 13,000.00, with all amounts expressed per one month. Monthly sum is given so that the expenditure is distributed evenly – all the figures expressed in the Table 3.5.

Table 3.5

Other monthly expenditures

№	Name of expenditure	1 Year	2 Year	3 Year
1	2	3	4	5
1	Services (water, electricity)	€ 4,000.00	€ 5,000.00	€ 6,000.00
2	Foods	€ 2,000.00	€ 3,000.00	€ 4,000.00
3	Events	€ 500.00	€ 1,000.00	€ 1,500.00
4	Other	€ 1,000.00	€ 1,250.00	€ 1,500.00
Total		€ 7,500.00	€ 10,250.00	€ 13,000.00

The next step is to sum up all the expenditures and derive total costs per each year of implementation. Therefore, total expenditures are as following (Table 3.6):

For the first year total expenditures are to be € 331,942.20, monthly expenditures at € 27,661.85. For the second year total expenditures are to be € 516,407.40, monthly expenditures at € 43,033.95; for the third year total expenditures are to be € 755,158.80, monthly expenditures at € 62,929.90.

Table 3.6

Total expenditures

	Salary expenditures, €		Other expenditures, €		Total, €
	<i>Monthly</i>	<i>Annually</i>	<i>Monthly</i>	<i>Annually</i>	
1	2	3	4	5	6
1 Year	20,161.85	241,942.20	7,500.00	90,000.00	331,942.20
2 Year	32,783.95	393,407.40	10,250.00	123,000.00	516,407.40
3 Year	49,929.90	599,158.80	13,000.00	156,000.00	755,158.80

This sums up the section of calculating expenses for the project, and it's time to calculate the zero-profit point and assess the project with the help of Break-Even Point analysis.

3.4 Break-even point

The next thing for consideration is deriving the daily break-even point to understand what prices to set to meet the bottom line of the project. The calculation of the matter is very important for such a serious project, as it incorporates the structuration of the costs involved into the project and gives the clear understanding of how many rooms have to be rented and what should be the margin revenue in the shop in order to cover minimum operating costs and not involve any additional financing.

To calculate the break-even point, it is mandatory to include taxes into the minimum requirement of gains, hence salary taxes that are already incorporated in the total expenses.

The only tax to include, however, is 19% VAT rate in Cyprus, that applies in case the threshold € 35,000.00 is overcome annually, which is the case in any way. The corporation tax, however, is not required for computation, as 12.50% are paid from the profit made by the company after all the expenditures have been declared, so no profit – no corporate tax.

The first year monthly expenditures are set to be € 27,661.85, both salary and other expenditures. To find out the break-even point, it is necessary to consider taxation on turnover: Cyprus has first € 35,000.00 to be subjected only to corporate tax, whilst turnover that exceeds the value of € 35,000.00 is to be taxed by the value-added tax, what divides the calculation of break-even point to two parts: before the € 35,000.00 limit and after. After that we receive three results: for the first month, for the second one and for the rest ten months: from these three we derive average daily requirement to earn to break even between financial flows in the project, for the first year the break-even point per day is € 1,080.00. With increase of both salary and other expenses, break-even point for the second year increases to € 1,708.00 per day, and peaks at € 2,500.00 per day during the third year.

All the calculations presented in the Table 3.7:

Table 3.7

Break-even point calculation

Year	Expenditures (monthly)	Calculation	Daily minimum, €/day
1	2	3	4
1 Year	€ 27,661.85	$1^{st} \text{ month: } 27,661.85 / 30$ $= 923.00$	923.00
		$2^{nd} \text{ month: } 31,523.35^* / 30$ $= 1,050.80$	1,050.80
		$*(27,661.85 \times 2 - 35,000 + 19\%) +$ $27,661.85 = 3,861.50 + 27,661.85 =$ $31,523.35$	1,098.00
		$\text{after } 3^{rd}: (27,661.00 + 19.00\%) / 30$ $= 1,098.00$	Average: 1,080.00
2 Year	€ 43,033.95	$(43,033.95 + 19.00\%) / 30$ $= 1,708.00$	1,708.00
3 Year	€ 62,929.90	$(62,929.90 + 19.00\%) / 30$ $= 2,500.00$	2,500.00

At this point it is clear that the break-even point is quite achievable, and therefore the calculations may proceed further.

3.5 Revenue estimation

The next modulation – calculation sequence is going to take the direction to revenues – potential incomes. For the reason of adequacy of further calculation the first step is going to require simulation of full capacity – business operating at its possible maximum. Starting from the hotel part of the international investment project, it is necessary to divide the price per room into sections, because the customer rarely would pay for the room itself, yet for the services included into the price. Into the Table 3.8 are included basic services that can be provided at the start of the project. In the Table 3.8 the ‘Price’ is calculated providing the average cost per one room, per day, and ‘Total’ calculated based on the full completeness of the hotel (30 rooms), per day.

The hotel in its maximum capacity can offer € 4,500.00 daily revenue, € 135,000.00 monthly revenue and annual maximum of € 1,620,000.00 in the first year of operation. In the second year of operation daily maximum increases to € 6,360.00, monthly maximum jumps up to € 190,800.00, and total maximum revenue is expected to reach € 2,289,600.00. And to conclude, the third year daily maximum is expected to be € 8,550.00, monthly amount reaching € 256,500.00, and totalling at the point of € 3,078,000.00.

Table 3.8

Hotel revenues

№	Name of service provided	1 Year		2 Year		3 Year	
		Price, €	Total, €	Price, €	Total, €	Price, €	Total, €
1	2	3	4	5	6	7	8
1	Room cleaning	5.00	150.00	10.00	300.00	15.00	450.00
2	Room service fee	5.00	150.00	15.00	450.00	20.00	600.00
3	Breakfast	25.00	750.00	30.00	900.00	35.00	1,050.00
4	Midday meal	50.00	1,500.00	60.00	1,800.00	65.00	1,950.00
5	Dinner	35.00	1,050.00	50.00	1,500.00	75.00	2,250.00
6	Wi-Fi access	5.00	150.00	10.00	300.00	10.00	300.00
7	Reception support	5.00	150.00	7.00	210.00	10.00	300.00
8	Services	7.50	225.00	10.00	300.00	15.00	450.00
9	Daily package	2.50	75.00	5.00	150.00	10.00	300.00
10	Rent	10.00	300.00	15.00	450.00	30.00	900.00
Total_d:		150.00	4,500.00	212.00	6,360.00	285.00	8,550.00
Total_m:		4,500.00	135,000.00	6,360.00	190,800.00	8,550.00	256,500.00
Total_y:		54,000.00	1,620,000.00	76,320.00	2,289,600.00	102,600.00	3,078,000.00

The next step is to consider the revenues from the shop. The process of computation of shop revenues is quite complicated, as part of the inflow get re-invested, and part can be taken out. Initial investment of € 100,000.00 is taken to invest into goods which will be sold with 25% extra charge what explains the initial value of € 125,000.00 given in the Table 3.9, for the second year the situation is quite similar: the value at the end of the first year is combined with the additional investment to the shop given in the Table 3.1 also including 25% extra charge.

Other than that, the calculation process is as following: derive turnover, after that calculate total proceeds by dividing initial value by turnover, after that the inflow

is divided into kept (proceeds to be re-invested) and withdrawn (proceeds to be withdrawn) roughly estimated by 85-90% kept and 10-15% withdrawn out of total proceeds.

After that accumulated value per turnover is calculated by multiplying kept proceeds by turnover and extracting from them the initial value; total accumulated value is estimated by multiplying accumulated value per turnover by the amount of turnovers. Value at the end of the year combines initial value plus accumulated value plus extra charge.

For the first year, the initial value is € 125,000.00, what corresponds to the invested shop opening deposit plus 25% price margin. For the first year the time of turnover is going to be 20 days, what corresponds to daily total proceeds of € 6,250.00, of which € 5,350.00 are to be re-invested and € 900.00 are to be spent on expenses and be withdrawn. Accumulated value per turnover corresponds to accumulated value without price, as the strategy for the first year is to increase the deposit so the shop business can work itself by getting more capital into own turnover, so in this year accumulated value per turnover will approximately equal to € 7,000.00, and with the annual amount of turnovers equal to 18 times, total accumulated value will be equal to € 126,000.00, adding up to the value at the end of the year to the point if € 282,500.00, and the second year will start with the initial value of € 470,000.00. For the first year, total monthly earning will be equal to € 27,000.00, and annual revenue will be € 324,000.00.

For the second year the time of turnover is going to slightly decrease from 20 days to 18 days, what corresponds to daily total proceeds of € 26,115.00, of which € 20,681.00 are to be re-invested and € 5,434.0 are to be spent on expenses and be withdrawn. Accumulated value during the second year is bound to strategy of decrease of totals, so accumulated value per turnover will approximately equal to € -3,800.00, and with the annual amount of turnovers equal to 20 times, total accumulated value will be equal to € -76,000.00, adding up to the value at the end of the year to the point of € 375,000.00. For the second year of operation, total monthly earnings from shops will be equal to € 163,020.00, and annual revenue will be

€ 1,956,240.00.

For the third year the time of turnover is going to decrease even more from 18 days to 14 days, what corresponds to daily total proceeds of € 26,785.00, of which € 21,430.00 are to be re-invested and € 5,355.00 are to be spent on expenses and be withdrawn. Accumulated value during the second year is bound to strategy of stability, so accumulated value per turnover will approximately equal to € 300.00, and with the annual amount of turnovers equal to 26 times, total accumulated value will be equal to € 7,800.00, adding up to the value at the end of the year to the point of € 384,750.00. For the third year of operation, total monthly earnings from shops will be equal to € 160,650.00, and annual revenue will be € 1,927,800.00, what will slowly increase over time.

Here should be noted the matter that even though the stated matter of turnover is said to “decrease”, in practice, it is a very good thing, as with decrease of the turnover, the generated income accumulates quicker for the reason of shrinking the cycle of money in the business.

Table 3.9

Shop revenues

Name	1 Year	2 Year	3 Year
1	2	3	4
Initial value, €	125,000.00	470,000.00	375,000.00
Turnover, days	20.00	18.00	14.00
Total proceeds ϵ/d	6,250.00	26,115.00	26,785.00
Proceeds to be re-invested ϵ/d	5,350.00	20,681.00	21,430.00
Proceeds to be withdrawn ϵ/d	900.00	5,434.00	5,355.00
Accumulated value $/t$	7,000.00	-3,800.00	300.00
Amount of turnovers	18	20	26
Accumulated value	126,000.00	- 76,000.00	7,800.00
Value at the end of the year, €	282,500.00	375,000.00	384,750.00
Total earnings $/m$:	27,000.00	163,020.00	160,650.00
Total earning $/y$:	324,000.00	1,956,240.00	1,927,800.00

After considering these acceptable extremes – making the maximum and making nothing – for the sake of adequacy it is necessary to average estimations.

Necessary provisions and calculations include combining maximum estimation for both hotel and shop (both in values per month), after that add break-even estimation and divide by two.

Giving maximum combined revenue € 162,000.00 and estimated break-even point € 32,400.00, the first year estimated average is € 97,200.00 per month and € 1,166,400.00 per year. Giving maximum combined revenue € 353,820.00 and estimated break-even point € 51,240.00, the second year estimated average is € 202,530.00 per month and € 2,430,360.00 per year. Giving maximum combined revenue € 416,150.00 and estimated break-even point € 75,000.00, the first year estimated average is € 245,575.00 per month and € 2,946,900.00 per year during the third year.

This way, average estimation for the project will be as in Table 3.10.

Table 3.10

Averaging Revenue			
Name	1 Year	2 Year	3 Year
Maximum estimation			
1	2	3	4
Hotel	€ 135,000.00	€ 190,800.00	€ 256,500.00
Shop	€ 27,000.00	€ 163,020.00	€ 160,650.00
Combined revenue	€ 162,000.00	€ 353,820.00	€ 416,150.00
Breakeven estimation			
Earnings estimation, daily	€ 1,080.00	€ 1,708.00	€ 2,500.00
Earnings estimation, monthly	€ 32,400.00	€ 51,240.00	€ 75,000.00
Average estimation			
Average earnings, monthly	€ 97,200.00	€ 202,530.00	€ 245,575.00
Average earnings, annually	€ 1,166,400.00	€ 2,430,360.00	€ 2,946,900.00

Considering correct calculations on the matter, the calculations may proceed to concluding part: calculating the net income.

3.6 Net income

After that, the concluding part is required: calculation of potential net income

considering required taxes. It is necessary to state beforehand, however, that revenue is expected to be slightly above the average, considering time and money of operating, advertising and marketing expenses. The process of calculation is as following: stating revenue, stating expenditures, calculate the value-added tax (19%) based on revenue, after that – calculate profit-before-tax by subtracting both expenditures and value-added tax (as this tax is included into price of the room, good, etc. and appears as part of the revenue), and on the value of profit-before-tax add corporate tax (12.50%, (PwC Cyprus, 2019)), and, after subtracting it from profit-before-tax, obtained result will be net income – Table 3.11.

For the first year estimated revenue is € 1,400,000.00, expenditures are € 331,942.20, value-added tax is € 266,000.00, what results in profit-before-tax € 802,057.80, of which € 100,257.00 of corporate tax is paid. Overall, the estimated net income for the first year is expected to be € 701,800.57.

For the second year estimated revenue is € 3,260,000.00, expenditures are € 516,407.40, value-added tax is € 619,400.00, what results in profit-before-tax € 2,124,192.60, of which € 265,524.08 of corporate tax is paid. Overall, the estimated net income for the second year is expected to be € 1,858,668.52.

And for the third year estimated revenue is € 4,167,000.00, expenditures are € 755,158.80, value-added tax is € 791,730.00, what results in profit-before-tax € 2,620,111.20, of which € 327,513.90 of corporate tax is paid. Overall, the estimated net income for the third year of implementation is expected to be € 2,292,597.30.

Table 3.11

Estimated net income

Name	1 Year	2 Year	3 Year
1	2	3	4
Revenue*	€ 1,400,000.00	€ 3,260,000.00	€ 4,167,000.00
Expenditures	€ 331,942.20	€ 516,407.40	€ 755,158.80
Value-added tax	€ 266,000.00	€ 619,400.00	€ 791,730.00
<i>Profit-before-tax</i>	<i>€ 802,057.80</i>	<i>€ 2,124,192.60</i>	<i>€ 2,620,111.20</i>
Corporate tax	€ 100,257.23	€ 265,524.08	€ 327,513.90
Net Income	€ 701,800.57	€ 1,858,668.52	€ 2,292,597.30

Thus, as the estimated net income is positive and no losses are expected, the project is to be assessed with the indicators of investment opportunity attractiveness, explicitly including discounted flows into account.

3.7 Assessment of International Investment Project Attractiveness

After calculating proximate income, it is necessary to assess if the investment project is attractive or not. For that aim it is necessary to find the discount rate, at which investment inputs and returns will be equalized taking into account the course of time. For that aim, used factors are:

- risk factor at the point of 5%, considering: quite stable, yet competitive environment (+1%), territorial disputes (+2%), overall force-majeure conditions, which may or may not occur and pose threat to tourism sector in general (+3%);
- inflation estimated at 2% (explanation given in point 1.2 PEST analysis of Cyprus);
- interest rates 0.56% (the real number, connected closely to zero rate policy, which is not expected to change).

After the calculation, the discount rate is as following:

$$i = 1.05 \times 1.02 \times 1.0056 - 1 = 0.077$$

Over the three years of implementation of the project the discount rate is expected to change as following:

$$1 + i_1 = 1.077$$

$$1 + i_2 = 1.077^2 = 1.16$$

$$1 + i_3 = 1.077^3 = 1.25$$

The next step is to calculate discounted outflow, what is done by the multiplying the outflow by discount rate of the corresponding year:

1) Discounted outflow for the first year: € 3,047,353.80

$$DCF_1 = 3,282,000.00 / 1.077 = 3,047,353.80$$

2) Discounted outflow for the second year: € 129,310.35

$$DCF_2 = 150,000.00 / 1.16 = 129,310.35$$

3) Total discounted outflow: € 3,176,664.15

$$DCFT = 3,047,353.80 + 129,310.35 = 3,176,664.15$$

After that, consider all inflows – net income that is not redistributed into production but is going to undergo the repatriation procedure with the included 5% dividend tax for non-resident firms (Mondaq, 2020) multiplied by discount rate:

1) Discounted inflow for the first year: € 672,214.50

$$DCF_1 = (701,800.57 - 5\%) / 1.077 = 666,710.54 / 1.077 = 619,044.14$$

2) Discounted inflow for the second year: € 1,633,383.65

$$DCF_2 = (1,858,668.52 - 5\%) / 1.16 = 1,765,735.09 / 1.16 = 1,522,185.42$$

3) Discounted inflow for the third year: € 1,878,009.00

$$DCF_3 = (2,292,597.30 - 5\%) / 1.25 = 2,177,967.44 / 1.25 = 1,742,373.95$$

4) Total discounted inflow: € 4,183,607.15

$$DCF_T = 619,044.14 + 1,522,185.42 + 1,742,373.95 = 3,883,603.51$$

The next step is to calculate indicators to assess attractiveness of the international investment project, starting from the calculating the Net Present Value which is the difference between the discounted inflow and outflow, then Profitability Index which is the result of dividing the discounted inflow by discounted outflow, and calculation of the Payback Period which is the result of dividing the discounted outflow by average annual income (Zadoia, 2015).

$$\text{Net Present Value} = 3,883,603.51 - 3,176,664.15 = 706,939.36$$

$$\text{Profitability Index} = 3,883,603.51 / 3,176,664.15 = 1.22$$

$$\text{Payback Period} = 3,176,664.15 / (3,883,603.51 / 3) = 3,176,664.15 / 1,294,534.50 = 2.45 \text{ years} = \text{roughly } 29 - 30 \text{ months.}$$

So in summary, the Net Present Value for the project is positive, what by itself denotes the worthiness of the project to consideration for the investor, with the each euro of investment turned to € 1.22, what is shown by the profitability index. Overall, the first two indicators show quite well expected result that is complimented by the payback period which suits the given conditions.

CONCLUSION AND PROPOSALS

The international investment project the family resort 'Contrast' is made for Ukrainian company 'UA Recreation' that is involved in tourism business and wants to expand abroad. The project meets the requirements set: the payback period is at most 30 month (2.45 years) out of 36 months (3 years), and the investment requirement is € 3,282,000.00 for the first year, and additional € 150,000.00 for the second year, what meets the limit of € 5,000,000.00.

Overall, the project is profitable and promising – being established in Cyprus it faces next to no risks, except for force-majeure situation and quite high competition, which are covered by the possibility to operate during the whole year with no significant weather changes. Considering the environment and the general investment attractiveness of Cyprus, the project shall be quite simple in realization, providing no changes to the current Agreements between Cyprus and Ukraine – which are quite unlikely to happen since 'the most favourable nation' clause is in power. The actual points for concerns are:

- Limitation on land purchase for non-residents in Cyprus, what may create additional time costs and derive some extraordinary solutions, such as purchase or acquisition of existing business;
- Limitations on the transfer of funds between Ukraine and Cyprus, which may be lifted upon the obtaining of a special licence in order to transfer extra large amounts of funds;
- Force-majeure situations, such as current health crisis, that put restrictions on the travel and tourism business by restricting the movement of people.

It is recommended for investor to consider the project carefully, taking into account the matters for concern – they shall be outlined before the start of a project. Other than that, this international investment project is quite promising with good assessment of worthiness.

In the long run of the implementation of the project, the idea can be modified and developed furthermore. For example, this project can be easily developed into more complex system – for now there are only two parts to it – the hotel plus

restaurant and the shops, – yet other elements can be added, for example – farming and agriculture section, that will provide both hotel and shops with goods and make the project one step closer to the zero-waste business. The project can also make use of its own location in order to host small events. Or, the Ukrainian company may use the Cypriot company to expand further, not even inside the Cyprus, yet inside the whole European Union.

Overall, the project meets the requirement set and outlines all the necessary provisions required for the establishment and running the business in Cyprus.

Application 1: Balance of payments of Republic of Cyprus (Central Bank of Cyprus, 2019)

EUR mil	2008			2014			2018		
	Credit	Debit	Balance Net	Credit	Debit	Balance Net	Credit	Debit	Balance Net
1. Current account	20 469,1	23 271,2	-2 802,1	27 843,1	28 552,2	-709,2	35 845,5	36 776,6	-931,2
<u>Goods</u>	2 286,8	8 011,7	-5 724,9	2 668,7	5 951,6	-3 282,9	3 608,3	8 281,2	-4 672,9
<u>Services</u>	7 233,5	3 934,7	3 298,8	8 839,9	5 393,4	3 446,5	11 836,2	6 997,1	4 839,1
Manufacturing services on physical inputs owned by others	1,1	0,6	0,5	19,3	0,0	19,3	60,8	110,9	-50,0
Maintenance and repair services not included elsewhere (n.i.e.)	S	C	-5,4	34,2	27,3	6,8	C	S	19,2
Transport	2 296,9	1 202,8	1 094,1	2 387,2	1 235,9	1 151,3	3 113,3	1 822,5	1 290,8
Travel	1 869,3	1 133,6	735,7	2 197,6	1 009,6	1 188,1	2 939,5	1 316,3	1 623,1
Construction	68,5	19,1	49,4	23,5	9,0	14,5	12,8	6,2	6,6
Insurance and pension services	122,8	152,1	-29,3	17,7	157,1	-139,4	64,8	160,6	-95,8
Financial services	1 909,3	552,4	1 357,0	2 767,2	1 378,9	1 388,3	2 992,4	1 386,8	1 605,6
Charges for the use of intellectual property n.i.e.	5,2	53,2	-48,0	68,8	55,7	13,1	73,9	262,4	-188,5
Telecommunications, computer, and information services	642,6	451,6	191,1	230,7	3,1	227,6	2 022,3	1 051,7	970,7
Other business services	148,2	242,0	-93,8	124,2	568,8	-444,5	225,7	629,5	-403,8
Personal, cultural and recreational services	35,4	51,7	-16,2	42,1	118,8	-76,7	85,5	146,5	-60,9
Government goods and services n.i.e.	139,0	75,2	63,8	157,0	59,0	98,0	180,0	57,8	122,3
<u>Primary income</u>	10 386,6	10 698,2	-311,6	16 059,8	16 525,2	-465,3	19 917,4	20 661,8	-744,4
Compensation of employees	138,7	66,1	72,6	56,0	68,8	-12,8	52,5	60,6	-8,1

Investment income	10 199,0	10 572,0	-373,1	15 934,5	16 432,6	-498,1	19 793,2	20 558,6	-765,4
Direct investment	7 384,0	7 710,4	-326,3	14 274,2	14 223,6	50,6	18 020,7	17 789,7	231,0
Portfolio investment	1 145,4	973,2	172,3	375,3	546,5	-171,2	688,4	726,4	-38,0
Other investment	1 659,0	1 888,5	-229,5	1 284,8	1 662,5	-377,7	1 083,0	2 042,5	-959,6
Reserve assets	10,4		10,4	0,2		0,2	1,1		1,1
Other primary income	49,0	60,1	-11,1	69,3	23,8	45,6	71,7	42,7	29,1
Secondary income	562,2	626,6	-64,4	274,6	682,0	-407,4	483,5	836,4	-353,0
2. Capital account	39,5	5,7	33,8	147,0	11,5	135,5	148,9	18,6	130,3
	Assets	Liabilities	Net	Assets	Liabilities	Net	Assets	Liabilities	Net
3. Financial account	31 098,9	34 181,0	-3 082,2	51 569,3	51 843,9	-274,6	-210,1	323,3	-533,4
Direct investment	9 961,4	8 511,4	1 450,0	49 707,1	38 827,7	10 879,4	-2 617,0	4 683,7	-7 300,8
Portfolio investment	10 566,7	-2 161,5	12 728,2	-1 659,5	1 651,7	-3 311,3	3 543,1	906,4	2 636,8
Financial derivatives (other than reserves) and employee stock options	-126,2	-252,7	126,5	8 764,3	8 272,1	492,2	-196,2	-198,2	2,0
Other investment	11 045,2	28 083,8	-17 038,6	-5 248,5	3 092,4	-8 340,9	-991,6	-5 068,6	4 077,0
Reserve assets	-348,2			5,9			51,5		
4. Balancing items									
Balance on goods and services			-2 426,1			163,6			166,2
Current account balance			-2 802,1			-709,2			-931,2
Net lending (+) / net borrowing (-) (balance from current and capital account)			-2 768,3			-573,7			-800,9
Net lending (+) / net borrowing (-) (from financial account)			-3 082,2			-274,6			-533,4
Net errors and omissions			-313,9			299,1			267,5

Note: letters C, S are used to denote figures that were not included to the reported statement as they are subdue to the first (C) or second (S) level of the confidentiality

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