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## Investment climate in Ukraine: Reality and perspectives

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**Abstract:** The limited economic resources of Ukraine raise the problem of the additional funding sources finding. One of these sources is domestic and foreign investment. In the article it is maintained that the investment environment is formed under the impact of political, legal, economic and social factors. The importance of each factor in a particular country is different, because it depends on the level of economic development, historical and national trends, a set of resources and so on. The state and trends in the investment sphere of Ukraine and the features of the investment attractiveness of Ukrainian economy in the global economic space are analysed in the article. The ways of investment activity increasing in Ukraine are considered. The significant role of a stable investment climate forming to ensure socio-economic development of Ukraine is grounded. The problems of a positive investment climate support are studied. The advantages of investing to Ukraine and the main reasons that restrain the investment development are detected. The main measures to improve the investment climate are proposed.

**Keywords:** investment, investment climate, foreign investments, investment appeal, the index of investment appeal

## 1. Introduction. Statement of the problem

Socio-economic development of Ukraine directly depends on the creation of a favourable investment climate, because the investment is one of the most important elements of a market economy, the development basis of production, entrepreneurship and business. The heterogeneity of the investment environment in Ukraine is one of the features of the national economy. The high investment appeal is a key factor in increasing of the country's competitiveness, the ensuring of the high and stable economic growth. The problem of a stable



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investment climate forming, the expansion of state functions in ensuring of the investment flow into the Ukrainian economy and their rational use are extremely urgent and important. One of the key challenges that is facing the Ukrainian authorities is to increase the investment appeal of the country.

Ukrainian economy has significant resource potential for the development of the investment climate. However, there are some obstacles that prevent to full use of the available investment potential. For Ukraine the investment is one of the most important means of the crisis ways out, the achievement of sustainable economic development, the quality indicators improving of economic activity on the micro and macro levels. Therefore, prospects consideration of the investment climate improving in Ukraine that based on mobilization and usage of the foreign investments is one of the most urgent tasks of economic science.

## 2. Analysis of recent research and publications

The subject matter of the a favourable investment climate creation, the investment potential realization are studied by such scientists: Zadnipyryanna T.S., Yevtushenko H.I., Livkivskyi T.A., Pavlenko O.V. and others [1, 2]. The issue of the foreign investments attraction into the economy of Ukraine is dedicated the researches of I.V. Blank, O.V. Varyanychenko, N.A. Navrotska, I.L. Sazonets [2, 6].

## 3. Unsolved aspects of the problem

Scientific research of the certain aspects of investment activity in Ukraine is limited with theoretical generalizations and definitions, but almost there is no practical experience. Inadequate state of scientific problems researches in general, an urgent need to develop the practical recommendations concerning the investment enhance to the Ukrainian economy determine the actuality of the research topic.

## 4. Task formulation

The aim of the study is to analyze the characteristics of the investment attractiveness of Ukrainian economy in conditions of the global economic environment forming, the assessment of investment climate in Ukraine, the problems identifying and measures finding to ensure a favourable investment climate and competitiveness of the national economy.

## 5. Main material exposition

At the present stage Ukrainian economy is required a large volume of both domestic and foreign investment. According to calculations of the Ministry of Economic Development and Trade of Ukraine, many European companies want to invest in Ukraine, but they do not do it because of high risks. A great assistance would be the implementation of the EU governments' state guarantees for their businesses that invest in Ukraine [5]. Thus, the strategic goal of Ukrainian foreign policy is an active engagement into the international integration processes. However, the realization of this task requires the significant concentration of intellectual, material, financial and natural resources for the development of strategic technologies as key factors of competitiveness in the global community. Moreover, there are significant difficulties with the practical implementation of attractive investment climate in Ukraine.

Trends analysis of the international financial markets and global priorities changes of the various sectors of the economy indicate the capital transfusion activation on a global scale. Under the circumstances, Ukrainian companies must take an active part in these processes, in spite of all this they should be capital recipients.

It should be noted that there are many criteria that determine the investment attractiveness of the country. The main of them are the presence of educated personnel, inexpensive labour force, a large consumer market, positive dynamics of economic growth. These criteria to a certain extent correspond to the domestic economy. However, despite the important role of these positive trends, there is no guarantee that high growth will continue in the future and will ensure qualitative changes in all spheres of society life. Especially it should be taken into account the factor that economic recovery is in Ukraine against the backdrop of significant distortions in the institutional framework of the economy, the structural distortions in sectoral and regional development, acute social contradictions.

There is a lot of information about the resource potential of Ukrainian economy. It is considered the available benefits of investing in Ukraine:

- A high level of research and development in many fields of science and technology and the availability of significant scientific and technical potential.
- Human capital is a key competitive advantage of Ukrainian economy. Wage in Ukraine is much lower than in developed countries;
- Ukrainian market is rapidly growing.

– Good infrastructure. There are pipelines, transit terminals, railways and roads, electricity networks, ports.

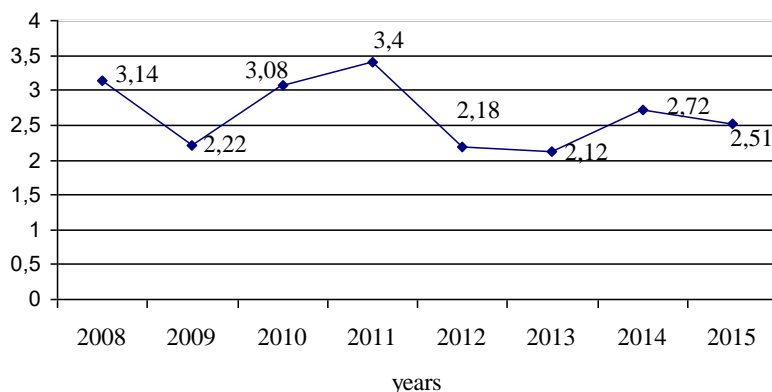
– Favourable geographical location and direct border with the European Union.

– Significant reserves of many kinds of raw materials;

– A favourable climate of Ukraine (no tornadoes, tsunamis, droughts, dangerous insects, natural disasters).

– It is worth to note the land, forest and water resources; the mineral wealth and rich soils. More than 60% of agricultural lands are high-quality fertile black soil. In most regions of Ukraine there is the sufficient quantity of rainfall, solar energy, favourable temperature that allows the economic activities with limited costs in all areas of the economy.

The opposite factor that affects on the investing of country is the investment opportunities that foreigners see in Ukraine. Comprehensively assessing the investment climate, it should be focused on the state of the specific markets in which investors will operate (regional, sectoral, market of specific product or service, etc.).

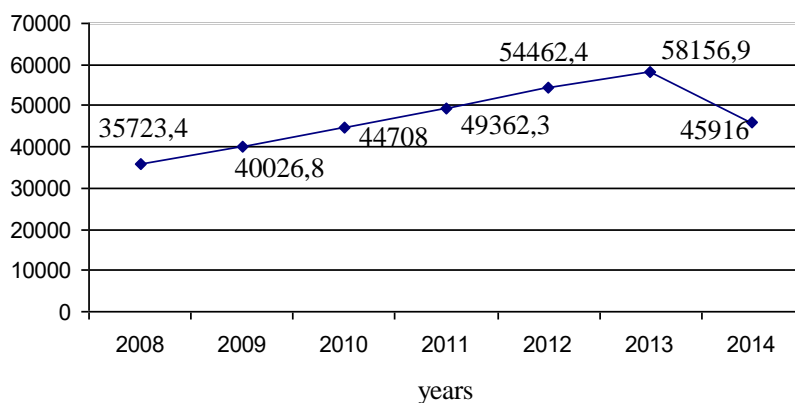


**Figure 1. Dynamics of investment attractiveness of Ukraine [4]**

Ukrainian economy has always been attractive to foreign companies and investors. Expanding its activities, the investment into Ukrainian market promises the high profits, and respectively, imposes the certain risks. Investment attractiveness index is a rating of investment attractiveness of Ukraine that is conducted by the European Business Association and is based on regular monitoring of the business climate by the top officials of the Association member companies. As shown in Figure 1 the investment attractiveness of Ukraine in the first quarter of 2015 remained virtually unchanged in compared to 2012-2014 – 2.51 points out of five. The highest index of investment attractiveness of Ukraine was in 2011 – 3.4 points, then it is gradually decreased. The lowest value was recorded in 2013.

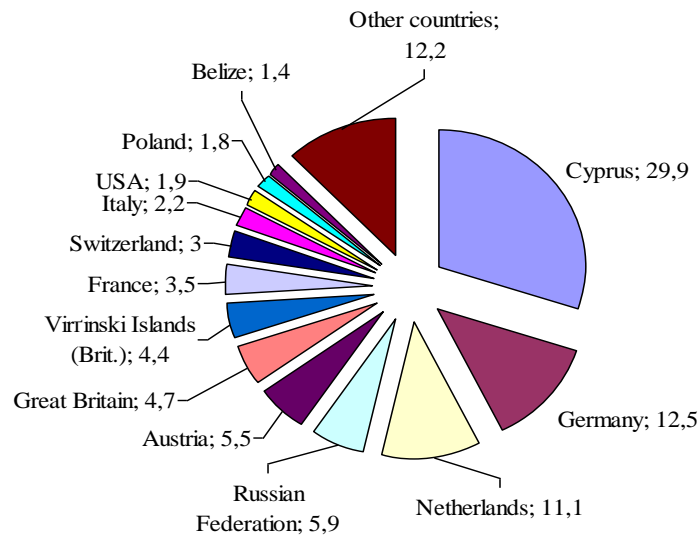
Just foreign investments act a key role in the accumulation of money and their recommencement. This is contributed the uneven economic development, political situation in the country, geographical location, accumulation zones of productive forces, the infrastructure development, historical background, differentiation of different industries profitability in different parts of the world and the heterogeneous division of labour.

The dynamics of direct foreign investments into Ukraine is shown on Fig. 2.



**Figure 2. Dynamics of the direct foreign investments from the world countries into Ukrainian economy, mln. US dollars [3]**

According to the State Statistics Committee of Ukraine for 2014 Ukrainian economy is invested 45 916 million US dollars foreign direct investment (share capital), by foreign investors, which is 21% less than the corresponding period of 2013 and 29% over the corresponding period of 2008. Considering the situation in Ukraine and on the Crimean peninsula, most businessmen refrain from investment in the Ukrainian economy. The influence of the revolutionary events in Ukraine at the end of 2013-2014 on the investment climate can be assessed in different ways. At the end of 2013 the investment activity is significantly decreased. However, in the future such radical changes in policy and administration of the country considerably raise the interest of the economy as a whole. During the Revolution it is greatly increased the interest about the events in Ukraine. These heated events are lively discussed at all levels in most countries. The structure of the direct foreign investment is shown on Fig. 3.



**Figure 3. Structure of the direct foreign investment into Ukrainian economy in 2014, % [3]**

Analyzing data on Figure 3 we can conclude that in 2014 Cyprus (29.9%), Germany (12.5%) and the Netherlands (11.1%) have invested the most in the national economy of Ukraine.

Ukrainian economy to foreigners is an object of the world economy, which can be and should be invested. Foreigners show the great interest to invest Ukrainian economy. The next logical step in investment resources mobilization must be drastic measures to resolve the political situation, stabilization of the hryvnia rate against the major world currencies, the harmful effects of corruption reducing. In this situation the decisive role belongs to the state policy relative to foreign investment. There is cooperation with foreign investors, capital mobilization, control of the market condition, the regulation of economic, political and social activities.

List of the main reasons hampering the development of investment activity in Ukraine and possible measures to improve the investment climate and increase investment attractiveness of Ukraine are given in Table 1.

**Table 1. Analysis of the causes of the investment control and measures to improve the investment climate in Ukraine**

Causes	Measures
Political, legislative and economic instability in Ukraine.	Making a radical revolution in human psychology, instilling in them the tradition to earn, to consume, to save and to invest.
Presence of corruption, raiding in the enterprises and bureaucracy in state bodies of Ukraine; the hidden unemployment.	The introduction of "hard" budget constraints; creating of the transparent competitive environment.
The inability of a government to fulfil its responsibility concerning the social protection.	The implementation of the pension reform and to promote the establishment of the private pension funds institute.
The lack of clear safeguards for foreign investors from unscrupulous debtors and partners, the lack of confidence in further cooperation at the economic changes in the legislation time or in times of crisis.	Threshold limit of the shadow economy, legalization of shadow capital and the mass consciousness formation of positive perception of this step will provide a huge inflow of investment resources into the economy.

The lack of a unified strategy and plans for investment promotion.	State support for the establishment of mechanisms to raise funds of population into the investment circulation;
	The use of the marketing and PR-strategies to involve the foreign investment by state authorities;
	Preparation of appropriate information packages to the potential investors;
	Preparing for companies a new type of management - with market thinking.
The lack of effective bankruptcy procedures, protection of owners' rights.	The investment efficiency improving due to the market environment transparency and work of enterprises (it should be taken the official acts which severely stipulate the need of information publication about investment activity of enterprises, and accounting system improvement).
High rates of duty, misunderstanding in the determining of the customs value of goods and other customs barriers.	Creating of the equal competitive conditions for domestic and foreign investors.
Low productivity of the economy.	Promoting of a strong banking system development that is aimed at lending to the real economy sector; to promote the development of the insurance market.

The language and geographical barriers are increasingly losing their relevance, before potential economic and social benefits. Some sectors of the economy just dramatically need funding in the form of investments (especially in the fields where fixed assets are worn out). Even the small financial resources may be the result of significant economic and social benefits.

## 6. Conclusions and recommendations for further researches

Ukraine could potentially be one of the leading countries in the foreign investment mobilization. This is contributed with its vast natural resource potential, favourable economic and geographical location, the availability of skilled labour force, a significant domestic market, place in the world geopolitical policy of the leading world countries etc. Thus, foreign investments contribute to the economic growth of the receiving economy and its integration into the global economy through the transfer of production capacity, transfer of technology, capital, management experience, skills and innovation. Though today investors begin to look more closely to Ukrainian companies, but on the one hand, this is a really great perspective on the other is too big risks.

### Author details (in Ukrainian)

#### Інвестиційний клімат в Україні: реалії та перспективи

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**Анотація.** Обмеженість економічних ресурсів поставила Україну перед проблемою пошуку додаткових джерел фінансування. Одним з таких джерел є внутрішні та іноземні інвестиції. В статті стверджується, що інвестиційне середовище формується під впливом політичних, правових, економічних і соціальних чинників. Значимість кожного чинника в окремо взятій країні різна, оскільки це залежить від рівня економічного розвитку, історичних і національних тенденцій, від володіння сукупністю життєво необхідних ресурсів тощо. Проаналізовано стан та тенденції розвитку інвестиційної сфери України, особливості інвестиційної привабливості економіки України в умовах формування глобального економічного простору. Розглядаються напрями підвищення інвестиційної активності в Україні. Обґрунтовано важливу роль формування стабільного інвестиційного клімату у забезпеченні соціально-економічного розвитку України. Розглянуто проблеми забезпечення сприятливого інвестиційного клімату. Визначено переваги інвестування в Україну, головні причини, що стримують розвиток інвестиційної діяльності та запропоновано основні заходи покращення інвестиційного клімату.

**Ключові слова:** інвестиції, інвестиційний клімат, іноземні інвестиції, інвестиційна привабливість, індекс інвестиційної привабливості.

**Author details (in Russian)****Инвестиционный климат в Украине: реалии и перспективы**

Елена Сергеева

**Аннотация.** Ограниченность экономических ресурсов поставила Украину перед проблемой поиска дополнительных источников финансирования. Одним из таких источников является внутренние и иностранные инвестиции. В статье утверждается, что инвестиционная среда формируется под влиянием политических, правовых, экономических и социальных факторов. Значимость каждого фактора в отдельно взятой стране разная, поскольку это зависит от уровня экономического развития, исторических и национальных тенденций, от совокупности жизненно необходимых ресурсов и тому подобное. Проанализировано состояние и тенденции развития инвестиционной сферы Украины, особенности инвестиционной привлекательности экономики Украины в условиях формирования глобального экономического пространства. Рассматриваются направления повышения инвестиционной активности в Украине. Обосновано важную роль формирования стабильного инвестиционного климата в обеспечении социально-экономического развития Украины. Рассмотрены проблемы обеспечения благоприятного инвестиционного климата. Определены преимущества инвестирования в Украину, главные причины, сдерживающие развитие инвестиционной деятельности и предложены основные мероприятия по улучшению инвестиционного климата.

**Ключевые слова:** инвестиции, инвестиционный климат, иностранные инвестиции, инвестиционная привлекательность, индекс инвестиционной привлекательности.

**Appendix A. Supplementary material**

Supplementary data associated with this article can be found, in the online version, at <http://sepd.tntu.edu.ua/images/stories/pdf/2015/15sorrapp.pdf>

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**Використана література**

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