

## **PROBLEMS OF FORMING OF FAVOURABLE INVESTMENT CLIMATE IN UKRAINE**

*The current situation and the main features to improve the investment climate in Ukraine have been considered. The necessity of foreign investment in the economy at the present stage of its development have been defined.*

*Keywords: investment climate, foreign investment, investment policy, favorable investment.*

**Setting of the problem** . Nowadays, Ukraine's economy undergoing rapid and not fully predictable transformation caused by political and other influences. It is clear that the stabilization and development of our country's domestic financial resources are insufficient , and therefore funds of foreign investors seems to be very attractive . But the situation is complicated by the fact that the problem is solved by investing in the global and domestic economic crisis, when investment demand far exceeds the supply. On the one hand the unstable economic situation is in need of long-term capital , which is concentrated in the hands of foreign strategic investors. On the other hand, according to domestic and foreign businesses , the investment climate in Ukraine is unfavorable to raise capital in the economy.

Taking into account all above mentioned, a lot of research question of a favorable investment climate becomes clear , because it is an important factor for resumption of production , improving the living standards of citizens and the rapid economic growth of the country . The investment climate has a direct impact on key indicators of socio- economic development. A positive investment climate contributes to the solution of social problems, provides a high level of employment, allows you to update production to modernize and build core business, and to introduce new technology and so on. Therefore , now creating a favorable investment climate is the most important challenge for Ukraine , which determines the relevance of the research topic.

**Analysis of recent research and publications.** Investment climate in Ukraine has been studied by many scientists , including: A. Gerasymchuk , B. Kvasniuk , Yatsenko , O. Zavgorodniy , V. Tarasovych , A. Zadorozhna , O. Lapko and others. Their works are devoted to solving the problems of attracting foreign investment in Ukraine and noted a number of measures that are especially useful to overcome mutual mistrust between foreign investors and local entrepreneurs and government. However, as the investment climate in Ukraine still remains unfavorable, and taking into account recent developments , we note that the problem remains understudied and needs further in-depth study.

**The aim of the article** is to analyze the current investment climate , opportunities to improve it and , by doing so , improve the economy of the country in crisis. Identifying of opportunities to create conditions to improve the economic viability of the country's real and favorable investment climate by proving certain measures.

Mandatory and objective condition to bring Ukraine out of the economic crisis is the availability of money needed to avoid fiscal deficits and for active investment activities in different areas of production. Activation of these activities in Ukraine is a very important task, solution of which in condition of the circumstances , is impossible without effective government intervention. This state is responsible for creating a favorable investment environment , so further development of the general economic situation in Ukraine will largely depend on the efficiency of public investment policy and the degree of improvements adverse

trends in accumulated investment.

Among the factors that impeach the improvement of the investment policy, we note the following:

- orientation of the Ukrainian government to attract financial resources mainly from international financial institutions (IMF, World Bank), which leads to an underestimation of the need to stimulate the actions of private foreign investors;
- dominance of government policy in Ukraine and influence of political and economic groups targeted to receive no economic profit, and rent income, which encourages secrecy and hatred towards "outsiders": both domestic and foreign potential investors;
- in government and in regional levels of government management investors division into "us" (domestic) and "other" foreign remains constant; it is obvious that today both the first and second suffer from bureaucratic tyranny.

Describing the current state of investment in Ukraine, it may be noted that at present our country is not gained significant achievements in ensuring national competitiveness and investment attractiveness. Calculating the index of global competitiveness Ukraine [1], taking into account the development of economic variables such as institutions, infrastructure, macroeconomy, health, education, market efficiency, technological equipment, the business environment and innovation, our state, due to estimated world Economic Forum, which is contained in the "Global competitiveness Report" ranked the 84th position from 148 countries [2]. For comparison - in 2009 Ukraine was on the 69th and at 2013 - 73. So, our country over the last year in the ranking of global competitiveness has lost 11 positions, from 73 to 84, received index 4.05 points out of 7 possible. Fall rating of Ukraine is connected with the low productivity of the economy and other factors.

Investment climate in Ukraine remains unfavorable despite the fact that the government has long declared innovation and investment development model. According to the Ministry of Economy, the overall need for investment to economic restructuring in Ukraine is between 140 to 200 billion dollars. U.S. annual demand is about 20 billion dollars. USA. The actual amount needed foreign investments in Ukraine is 40-60 billion dollars. USA. Due to opinion of the World Bank experts, to achieve the level of U.S. Ukraine needs totally 4 trillion dollars USA. Consequently, actual investments in Ukraine are in comparison to these are scarce.

Ukraine should appeal to the decision of problems to have a more serious basis for economic growth. Perhaps the most important problem of the country is the need to restructure its institutional structure, which is not a support for the development, as it suffers from bureaucracy, lack of transparency and favoritism. Ukraine could become more effective in the future in case of greater competition in the markets of goods and services (117th place in the ranking), and continuing reform of the financial and banking sector (114th place). The list of problems that can not effectively developed should also considered, including:

- institutional development - 132 place among 148 countries, there are virtually all parts of the public sector performance (ownership, diversion of budgetary funds, public trust of politicians, bribes and informal payments, judicial independence, favoritism in decisions of government officials, the burden of administrative regulations efficiency of legal framework in settling disputes, transparency policies of state agencies, the reliability of police services, etc.) and private sector (corporate ethics, standards of auditing and reporting corporate performance management, protection of minority shareholders, the reliability of investor protection) close to said medium;

- Infrastructure development (65 place), the worst index is a state of roads (137 place);

- The development of health and primary education (62 place), the worst indexes : the spread of HIV - 109th place , life expectancy - 94 place , 92 place for tuberculosis , primary school enrollment - 90 th place ;

- The development of higher education and specialized training (47 th places), worst indexes : the quality of business schools - 117 th place , staff training - 106 th place , availability of research and training services - 98 th place ;

- The development of goods market efficiency (117 th place), the main component of which is the competition ( the intensity of competition in the domestic market , the degree of monopolization of the market , the effectiveness of antitrust policy , the impact of tax procedures and the number of hours required to start a business , trade barriers, tariffs etc.) with an indicator of 134th ;

- The development of labor market efficiency , which generally has a good indicator of 62nd , 131st causes concern in leakage of intelligence and the same place for the index bet on professional management and 111 th on the cooperation relations employee - employer ;

- The development of the financial market (114 th places), a special concern is 142 (from 148 countries! ) in the index of reliability of banks as concerns the value of indicators: access to financial services - 113 place , obtaining financing in the domestic stock market - 129 , availability of venture capital - 106, regulation of the stock market - 124 place;

- Development of technological level (81st place) includes technological adaptability - 93rd place , as well as foreign direct investment and technology transfer - 109 th place.

- The development of business processes ( 91st ) got a place below average due to low performance level of business clusters - 127 th, nature of competitive advantage - 109th , and the willingness to delegate authority - 118 th;

- development of innovation - 71 place could be higher if they were the best indicators of company spending on R & D - 104 place and procurement of high-tech products - 97 place.

The worst indexes include the impact of bureaucracy , corruption and tax policy for business development and investment , trust in politicians , law enforcement and the judiciary, road quality , durability of banks, protection of material and intellectual property rights. The best situation in the country is connected with public education , teaching quality of natural sciences and mathematics, the level of development of the railroad and the market volume . Over time, the quality of education and the level of national science significantly decreases , this trend is because of the lack of high technologies implementation in production and science funding at an appropriate level.

Ukraine's position in the ranking of the country's ability to retain talent deserves particular attention ,that is educated staff and young specialists , for which we won 140 th place among 148. Against the background of developed Europe, in countries of which the index data are on maximum values, the chances of staff retention , which could potentially help the country overcome the difficulties of the present, practically equal zero. Our " neighbors" due to rating on the retention of talents are Yemen and Burundi, that occupy positions 139th and 141st, respectively, and Qatar staff feels themselves the best , the most intensively young talented are attracted in Switzerland and Singapore.

The analysis based on the Global Competitiveness Index indicates the detrimental effect of managerial sphere on business development and investment, retrogressive processes in the quality of educational services and the level of development of science, little use of advanced innovation in production , insecurity of property and intellectual property rights , the outflow of skilled staff . Market volume , high quality human capacity , lack of terrorism , natural disasters and epidemics are unique advantage over other countries ,that provided the

*structural changes in the quality of management field, can increase the competitiveness of Ukraine .*

*It is understood that the lack of investment in the Ukrainian economy revolves technological backwardness of production, increasing depreciation of fixed assets. In conditions of loss-making activities and low profitability of the industrial sector, a significant tax burden and an absence of efficient support of real production enterprises for many years are not able to carry out the modernization and innovation of the core.*

*Taking into account that investments are the effective lever of structural readjustment of the economy, solving of social and economic problems , it is possible to identify the main tasks of state management in this context . The key tasks of public administration are: government guarantees to foreign investors in long-term projects , the provision of public benefits for the development of certain sectors of the economy , improving the investment climate , activation of investment activity , the accumulation of investment resources and their concentration on the priority areas of the economy.*

*It is clear that there is an urgent need for a national strategy , which should be aimed at substantial improvements in relations with potential and current investors, that are finally provided to subordinate foreign investment needs of the national economy and rapid economic growth restructuring.*

*However, intensification of foreign investment can only be seen as a consequence of economic recovery , but not as its cause. Accordingly, in order to attract foreign investment first it's necessary to solve the problem of macroeconomic stability and enhance the effect of all the economic levers to stimulate investment in relation to nationality investment.*

*Therefore , the main attention should be focused on providing tax reduction , broadening of the tax base , improving of the tax administration practices and promotion of innovation and investment.*

*One of the main components of the favorable investment climate is ensurance of the credit availability for borrowers by reducing their cost. This can be achieved by reviewing the existing system for reserve funds of commercial banks towards reducing reserve requirements . It is important to create an incentive system of reserve requirement for banks that are actively engaged in investment lending. In Ukraine, the reserve requirements on average make up 6.9 percent of funds [3 ] and do not take into account individual performance , activities of banks: loan portfolio quality , trends of loans .*

*It's necessary to create a favorable investment climate not only for foreign investors but also for domestic . And it is not about giving them money to invest. Private capital also needs safeguards against confiscation and arbitrary power , the system of insurance against non-commercial risks and stable working environment when making long-term investments .*

*One of the reasonable steps in partnership of domestic and foreign investors could be a joint program to create conditions for the return of capital exported from Ukraine and its legitimate investments in the real sector of the Ukrainian economy. Creation and implementation of such programs should lead to the rise of strategic investors in dialogue with the Ukrainian government and Parliament on the creation of a favorable business climate and competitiveness of Ukraine in the international investment market.*

*It's also necessary to facilitate the establishment of partnerships with foreign investors of Ukraine , the transition of these relations in the sphere of economic pragmatism and perceived mutual economic interests , values and priorities. Equally important is to ensure real compliance with international agreements and enforcement of foreign arbitral awards . The international investment community must be confident that any agreements that conform to*

*international norms and rules are valid in Ukraine .*

*Weak legal system and economic protection of investors, government intervention in the redistribution of clientele between individual banks and the development of land law in the direction of the alignment of rights of domestic and foreign investors do not facilitates creating a positive investment climate. Litigation stretch for years, often judge's decisions are simply ignored.*

*It should be noted that the Ukrainian legislation is unstable, difficult to understand and opaque, which contributes to its arbitrary interpretation and creates conditions for corruption and bureaucracy .*

*Social and political instability is one of the main factors which hampers investment activity. Rivalry between different interest groups and political forces around economic reform (its size, pace, sequence , etc.) does not contribute to the creation of necessary conditions for the sound system of regulation of this activity.*

*To active attract of foreign investment it is necessary to achieve the stabilization of the economic environment and above all - the complex of legal acts that regulate business activities including the foreign capital . Now, most investors ( existing and potential) mostly - small invertors seeking the quick profits . Reputable investors who require Ukraine and could potentially involve waiting a significant improvement of the investment climate and political situation stabilizes .*

*Therefore, the main directions of improving the investment climate should be:*

*- creating a favorable investment climate by organizing and participating in international exhibitions , fairs, investment projects , publications in international publications relevant fields;*

*- promotion of infrastructure investment ( investment funds, accounting and insurance companies );*

*- improvement of information support of foreign investors on potential investment opportunities ;*

*- preparation and submission of proposals to the higher authorities of Ukraine on improving state regulation of foreign investment ;*

*- support for small businesses, because small and medium businesses allow the use of potential investment areas, creating a competitive market environment, respond quickly to consumer needs and market conditions , expand the network of activities oriented to regional and local conditions ;*

*- promote the development of the stock market in order to enhance the participation of foreign investors in the privatization process, in particular through the portfolio investment.*

**Conclusions and suggestions.** *Thus, the formation of a favorable investment climate in Ukraine should be preceded by large-scale comprehensive measures to improve conditions for the activities of investors , extension mechanisms and instruments for investment and investment projects. The corresponding increase in investment in Ukraine will provide the acceleration of socio -economic development and priority industries.*

*One option to create conditions to improve the economic viability of the country's real and positive investment climate is the creation of a unified state of specialized structures , in which database of all enterprises would be focused ( including in the field of SME ) that have promising projects and need to attract investment funds and which would provide specific information on investment opportunities in Ukraine , together with proposals for specific projects and search for potential partners.*

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