

THE WAYS AND CONDITIONS FOR KHARKIV REGION INVESTMENT ACTIVITY INCREASING

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Purpose. The existing conditions and ways of the increase of Kharkiv region investment activity have been analyzed on the basis of the actual economic and investment potential usage. The volume of capital investments according to industrial activities in 2010–2015 is determined. Various interpretations of the term «investment activity» are considered and the author's definition is given as well. **Methodology.** This methodical approach allows for the continuous monitoring of this sphere, subsequently correlating the data with the defined goals and available resources of the region.

Originality. It is noted that the Kharkiv region economic potential comprises investment, innovation, employment, and resource potentials. It is also substantiated that the investment potential of Kharkiv region has powerful but hidden opportunities to diversify markets and cooperative relations. The distribution of capital investment in the Kharkiv region economy in 2015 is analyzed. The development of regional investment infrastructure is largely driven by processes and tendencies inherent to the national economy in general. To resolve such a problem there is a need for system level approach; complex application of organizational, economic and social tools; regional authority choice of development priorities that will make it possible to give a new direction of regional investment activity.

Practical value. It is proved that sustainable socio-economic development of the region requires mobilization of all available resources to attract foreign investments. The ways and conditions to increase the investment activity of Kharkiv region are defined. In general, region investment attractiveness is defined as a regional compliance with main objectives of investors such as profitability, liquidity and zero risk investments. Indicators that domestic and foreign analysts suggested to estimate while determining the level of regional investment attractiveness are united in three large groups of factors. These factors determine the level of attractiveness for investors. References 22, tables 1, figures 2.

Key words: ways, conditions, region, investments, increasing, efficiency.

НАПРЯМИ ТА УМОВИ ПІДВИЩЕННЯ ІНВЕСТИЦІЙНОЇ АКТИВНОСТІ ХАРКІВСЬКОГО РЕГІОНУ

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У роботі проведено аналіз існуючих умов та напрямів підвищення інвестиційної активності Харківського регіону на основі використання наявного економічного та інвестиційного потенціалу. Визначено обсяги капітальних інвестицій за видами промислової діяльності у 2010–2015 рр. Розглянуто трактування терміну «інвестиційна активність» іншими авторами та надано авторське його визначення. Зазначено, що економічний потенціал Харківського регіону складається з інвестиційного, інноваційного, трудового та ресурсного потенціалів. Обґрунтовано, що інвестиційний потенціал Харківського регіону являє собою потужні сховані можливості щодо диверсифікації ринків та коопераційних зв'язків. Проаналізовано розподіл капітальних інвестицій у економіку Харківського регіону у 2015 р. Доведено, що забезпечення сталого соціально-економічного розвитку регіону потребує мобілізації всіх існуючих ресурсів для залучення іноземних інвестицій в економіку регіону. Визначено напрями та умови підвищення інвестиційної активності Харківського регіону. На основі систематизації досліджень вітчизняних та зарубіжних аналітиків визначені та об'єднані в три великі групи фактори, що є основою для встановлення рівня інвестиційної привабливості регіону для інвесторів.

Ключові слова: напрями, умови, регіон, інвестиції, активність, підвищення, ефективність

PROBLEM STATEMENT. The increase of Ukrainian regions investment activity today is the main condition for economic and social development of all sectors of the national economy. The congenial investment climate enables each region to increase living standards through the development of key sectors and industries, attracting investments for innovation considering production directions and development features of every region of the country.

Nowadays, more than ever, there is some tension in terms of Ukrainian regions investment attractiveness. It is due to the increased investment risks, caused by the unstable situation in the economy.

The works of many scientists and economists are dedicated to the issues of investment, investment climate, investment activity and investment policy of

the country and its regions. Vorobets T. I. [1], Gavryliuk O. V. [2], Grinyova V. M. [3], Grytsaychuk V. F. [4], Maslak A. A. [5], Matvienko P. V. [6] and others are among them. However, the problem of increasing investment activity of certain regions, including Kharkiv region has not been sufficiently processed and therefore requires more detailed study.

Purpose of the work is to analyze existing conditions and ways to increase investment activity in Kharkiv region on the basis of the existing economic and investment potential usage.

EXPERIMENTAL PART AND RESULTS OBTAINED. Investment processes activation is the most effective mechanism for socio-economic development of Ukrainian regions. But today, unfortunately, the regions of Ukraine do not have great

achievements in ensuring investment attractiveness and increasing the level of investment activity.

According to the Ukrainian Law «On investment activity» investments are all types of property and intellectual values invested in business and other activities that result in creating profit or social effect achievement [7].

The main objective of investment is to provide the most effective ways to implement the investment strategy of the state and its regions. The state performs the following functions of investment management:

1. Analysis and forecasting of the investment market development taking into account its condition and national needs for investment performance;

2. Development of strategic directions of investment policy, considering the development trends of the whole country as well as its regions;

3. Legislative activity to stimulate, regulate, support and monitor the investments;

4. Monitoring of investment activities and implementation of specific measures for its regulation at all levels, investment projects supporting and financing.

Ukrainian industry is an important area to invest into the national economy. Between 2010 and 2014 the industrial sector of Ukraine engaged on average 35% of total capital investments into the country's economy. The industrial share of capital investments implementation also had positive trend and grew up from 30% in 2010 to 40% in 2014, as well as the value of capital investments assimilated in industrial sector that increased by more than a factor of three from 56.725 million UAH in 2010 to 186.242 million UAH in 2014.

However, the analysis of structure indicators of capital investment into industrial sector represents a negative trend of decreasing the share of investment in the processing industry from 53.9% in 2010 to 49.6% in 2014 (Table. 1) [8].

Table 1 – Capital investments according to industrial activities in 2010-2015, mil. UAH/%

Branches of industry	2010	2011	2012	2014	2015
Industry, including:	56725/ 100	89146/ 100	103473/ 100	10559/ 100	186242/ 100
Mining industry	15727/ 27,7	24252/ 27,2	31528/ 30,5	22863/ 21,7	20010,6/ 22,1
Processing industry	30579/ 53,9	42742/ 47,9	43032/ 41,6	46240/ 43,8	42474,4/ 49,6
Food, beverages and tobacco production	8665/ 15,3	12254/ 13,7	13558/ 13,1	15275/ 14,5	13486,7/ 16,1
Textile & clothing production	492/ 0,9	543/ 0,6	372/ 0,4	483/ 0,5	623,0/ 0,7
Production of wood products, paper products and printing	1392/ 2,5	3602/ 4,0	2264/ 2,2	2444/ 2,3	2011,8/ 2,3
Coke and refined petroleum products	1419/ 2,5	1603/ 1,8	1240/ 1,2	675/ 0,6	534,2/ 0,7
Metallurgical production, fabricated metal products manufacturing, except machinery and equipment	6719/ 11,8	9810/ 11,0	9282/ 9,0	10898/ 10,3	11833,6/ 14,3
Engineering	6718,5/ 11,8	9809,7/ 11,0	9281,7/ 9,0	10898,2/ 10,3	11832,7/ 14,3
Electricity, gas, steam and conditioned air supply	9680/ 17,1	21136/ 23,7	27134/ 26,2	34490/ 32,7	22895,0/ 27,3
Water supply, sewerage, waste management	738/ 1,3	1016/ 1,1	1779/ 1,7	2001/ 1,9	862,0/ 1,0

In general, region investment attractiveness is defined as a regional compliance with the main objectives of investors such as profitability, liquidity and zero risk investments. Indicators that domestic and foreign analysts suggested to estimate while determining the level of regional investment attractiveness are united in three large groups of factors. These factors determine the level of attractiveness for investors:

1. Factors that influence the level of regional investment potential (natural&geographic, labor, production, innovation, institutional, infrastructural, financial and consumer potentials).

2. Factors determining the level of noncommercial investment risks (legislative, political, social, economic, environmental and criminal risks).

3. Investment activity (concentration and distribution of investment capital, activation of the introduction of new

production capacity, development of direct and portfolio investments) [9, p. 31].

Firstly, the authors consider rational to scrutinize the interpretation of the term «investment activity» by other authors and to provide their own definition.

Thus, according to Kharlamova G.O., «investment activity» – is the intensity of attracting investments to the investment object [10, p. 76]. Asaul A.M. believes that «investment activity» – is the concentration and distribution of investment capital, the intensification of new production facilities implementation, development of direct and portfolio investments [11, p. 55].

Salimov L. N. treats «investment activity» as the behavior of investment actors; dynamics of the investment size and structure; rate of growth and efficiency of investment resources usage [12, p. 85].

Regarding regional investment activity, according to Zaripova R. N. «investment activity» – is a

characteristic of investment processes intensity level, considering the specific regional conditions and development factors, aimed at identifying and efficient reallocation of available regional investment resources both in space and time [13, p. 31]. Burdyakov V. E. says: «investment activity» – is a velocity (intensity) of investment processes flow, measured by the change ratio of investment to gross value added or gross regional product; of changing dynamics of capital investments structure displacement; of changing ratio of fixed capital investments to the average number of employees in the regional real economy sector [14, p. 171].

Studying the history of economic thought and some research experience on this issue, the authors attempted to generalize the interpretation of the term. We believe that the regional investment activity is an independent economic category, which represents the actual implementation of regional investment potential, that includes investment flows taking into account collateral investment risks and reflects the dynamics of attracting investment to the region, its structure and areas of assimilation.

All regions of Ukraine differ in the economy structure – the east is dominated by industrial production, the west – by tourism. Investment attractiveness of regions and unemployment rates are also different, thereby Ukrainian regions have different levels of development. Generally, the socio-economic

development of regions of Ukraine is accompanied by significant regional disparities that must be considered when implementing regional investment policy.

Significant regional disparities in socio-economic development require effective mechanism for Ukrainian regional policy implementation, taking into account all possible sources of funding for regional programs. According to the National modernization strategy «Ukraine 2020», approved by the Cabinet of Ministers of Ukraine, the measures to reduce regional disparities are aimed at the following objectives: to increase the investment attractiveness and realization of the regional potential; to improve the quality and to align the human development in the regions of Ukraine; extension of interregional interaction [15].

Kharkiv region has a strong research&production and intellectual potential as well as some different cultural backgrounds. In the field of manufacturing Kharkiv takes the 5th place in the country. There are 667 industrial enterprises, which employ 234 thousand people, concentrated in the region. Kharkiv region is undoubtedly the national Ukrainian leader in mechanical engineering. It locates a powerful tractor construction complex besides the power equipment, aircraft, machine tools, fuel, electronic, chemical, pharmaceutical, food and light branches of industry.

Economic potential of the Kharkiv region consists of investment, innovation, labour and resource potential (Fig. 1).

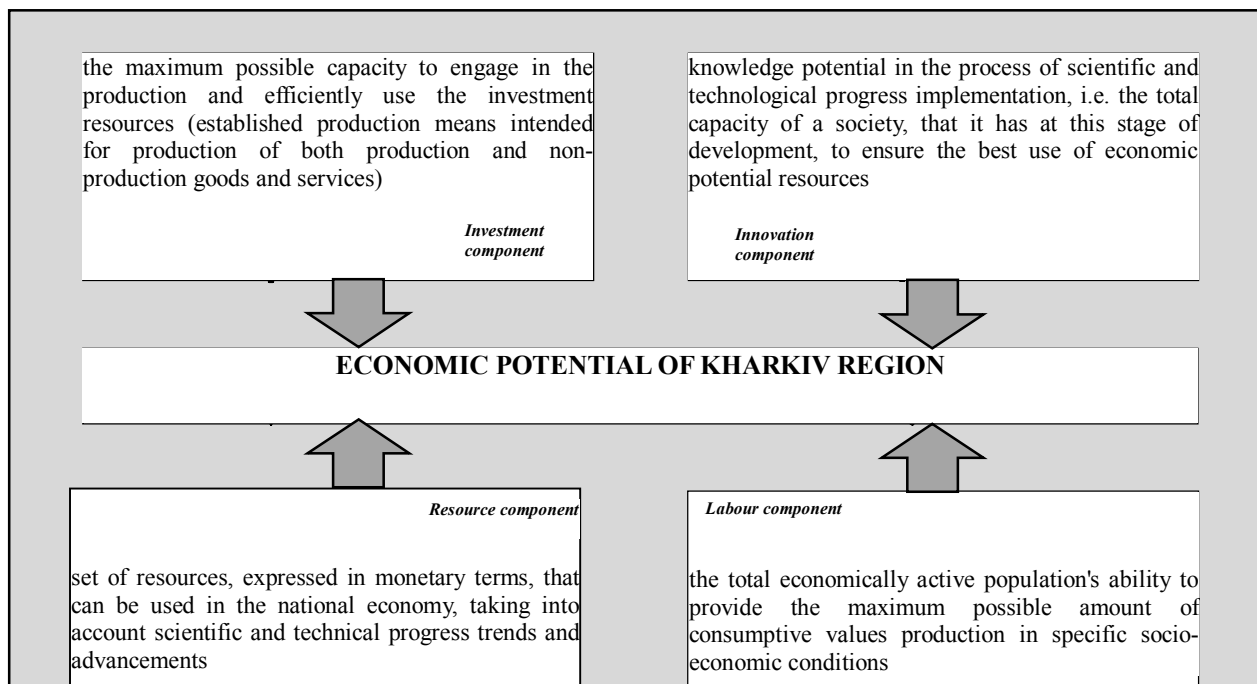


Figure 1 – Components of the Kharkiv region economic potential (developed by the author based on [18])

The quality level of working life of Kharkiv region population now takes priority in ensuring not only the welfare of the individual and society, but also employment rates and labor market security. The years of 2013–2014 were rather ambiguous for Kharkiv region labor market. Some revitalization was observed during 2011–2012, but it had no bright continuation in the coming years. New challenges that emerged from

destabilization in the economy and politics led to further strain of labor market condition and disability to provide parity between labor demand and supply. Socio-economic mechanism of the labor market regulation is also imperfect and leads to violation of the market employment regulators, to a high level of hidden unemployment, low productivity, and

inefficient state social policy of regional employment support [16].

The successful combination of powerful industrial, educational, human capacity, climatic conditions and appealing geographical location multiplies the benefits of Kharkiv comparing to other Ukrainian cities as the center of investments attraction. Today, one of the priorities of the Kharkiv region administration is to enhance the investment attractiveness and increase the proportion of foreign investments in the regional economy.

Kharkiv region has high rates of socio-economic development, some of which exceed the average for Ukraine per capita. For example, the realization of industrial production, retail sales and budget availability.

As for investment infrastructure, numerous consulting firms and agencies are actively developing in Kharkiv city and Kharkiv region. And they are able not only to develop professional business plans, but also to act as intermediaries between the sources of investment funds and investment projects, to perform effective support and monitoring of the projects. Kharkiv region is within the highest priority regions that receive about 80% of overall foreign investments [17].

Kharkiv region investment potential has powerful hidden opportunities to diversify markets and cooperative relations. The most promising areas of increasing export supplies are Asian markets, exports to which increased by a quarter in recent years, the EU market and the markets of Africa, Middle East and Latin America, access to which is possible with European and other international partners [19].

Kharkiv region traditionally carries the largest volume of export-import operations. Given the sharp reduction in foreign trade with Russia in 2013-2014

years, exports of goods increased more than 2.5 times, import receipts – 1.2 times. In 2014 the structure of exports accounted for almost 38% for machinery, about 30% – food products and raw materials, 11.5% – petrochemical industry products, 4.4% – for building materials, 6.5% – light industrial products and furniture, almost 3% – the semi-finished ferrous and non-ferrous metals. In monetary terms, exports of Kharkiv region industrial enterprises in 2014 amounted to 1.491 billion USD, services sector – 283 million USD, agricultural products – 331 million. The fact that during the difficult 2014 none of foreign investors abandoned Kharkiv and Kharkiv region attests in favor of existence of the strong investment potential. As of July 1, 2015 the total volume of direct foreign investments into the region amounted to 1.6094 million USD (the 5th place among the Ukrainian regions). During the first half of 2015 regional economy received from foreign investors 6.5 mil. USD. Priority areas of investment are: the financial sector and insurance activities (61.1%), industry (16.7%) and real estate (8.6%). International Agency for Regional Development has also been created, that will help to make agreements with international financial institutions interested in providing sectoral aid to the regional economy [21].

The lack of investment resources is one of the world economy problems. And positive trend in capital investment plays one of the most important roles in ensuring the sustainable economic development of the state and its regions. In 2015 the largest volume of capital investments, according to the types of economic activity, was directed to the development of industrial enterprises – 2220.1 million USD, or 35.1% of total (Fig. 2).

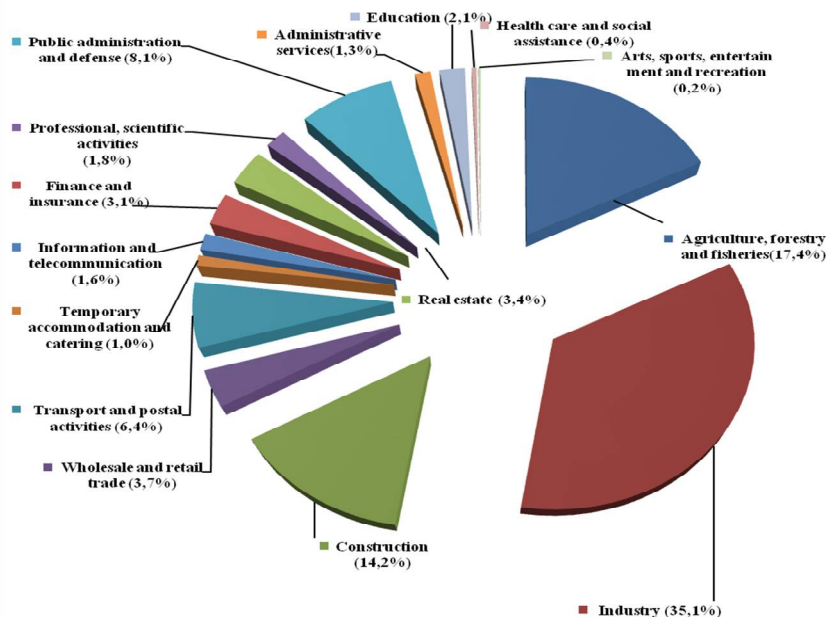


Figure 2 – Distribution of capital investment into the economy of Kharkiv region in 2015 [20]

Kharkiv region ranks 5th among the other Ukrainian regions by the volume of capital investments in 9 months of 2015. However, despite the honorable 5th place, sustainable socio-economic development requires the mobilization of all available resources to attract foreign investment into the region.

According to the State Statistics Service in 2015 foreign investors gave Ukrainian economy direct investments (equity) for 3763.7 million USD and extracted 891.3 million USD. Reduction of capital in the period through revaluation, losses and reclassifications, according to the State Statistics Service, is 5245.8 million USD (including the exchange rate differences for 5024.3 million USD). Investments are usually directed into developed areas of economic activity.

In 2015 the EU countries gave the Kharkiv region FDI (foreign direct investments) amounting to 1793.6 million USD, other countries - 215.3 million USD (11.5%).

For several years some leading international companies successfully implement their projects in Kharkiv region: LLC «Nestle Ukraine», LLC «METRO Cash & Carry Ukraine», JSC «Philip Morris Ukraine», JSC «Sun Interbrew Ukraine», LLC «Eastern company «Malteurop», Joint Ukrainian-British company «Ukrainian tea factory «Ahmad Tea», LLC «Elme Messer Ukraine», corporation «Sun Group», LLC «Amcor Rensch Ukraine», LLC «Krono-Ukraine», «Shell» and «Samsung Electronics Ukraine» companies, etc. The continuous support of foreign investment projects implementation in the region serves to promote further investment activities. The priority sectors for investment in Kharkiv region are:

1. IT (information and communication technologies);
2. Agriculture production;
3. Precision engineering production ;
4. Electrical products manufacturing;
5. Biopharmaceutics;
6. Nuclear medicine;
7. Storage and commercial real estate;
8. Trade, retail.

The factors that impede long-term capital investments in Ukraine are:

- average market price of credit resources is more than 20% with zero annual inflation;
- corruption;
- overregulation of the market;
- external state debt (at the turn of 2013-2014 years the direct state debt exceeds 60 billion USD, including 43.8% in UAH, 32.4% in USD and 19.7% in SDR (IMF currency));
- dependence on external market pricing of imported goods;
- low level of confidence in the financial sector.

The main directions for improvement the Ukrainian investment attractiveness for foreign investors should be:

- gradual reduction of pressure on investors and lack of diversified investment sources, the unevenness of their regional distribution;
- creation of effective mechanisms of investment activity management;
- economy restructuring, the priority of attracting investment in the sectors with particular need for capital;
- motivation of the entities regarding long-term investments, and the population about investing in the economy, rather than in consumption;
- reinvestment stimulation;
- improvement of investment legislation and ensuring its stability;
- guarantee investors;
- correspondence between the income and expenditure of investment resources [22].

At the same time, the investment activity and its level in Kharkiv region has some problems related to solving a number of issues, both at national and regional levels. At the state level there are:

- insufficient information to potential investors about available resources, labor and investment potential of the region;
- difficult access for potential investors to regional land resources;
- inhibition of high-tech (innovative) production due to lack of proper protection of intellectual rights and property.

Regional level problems are associated with the emergence of a number of obstacles for foreign investors in the establishment of modern investment environment. Including:

- lack of information on promising free land for investment projects implementation;
- lack of developed regional investment infrastructure;
- lack of development strategy in the field of innovation and investment development of most industrial enterprises in the Kharkiv region;
- activation of cooperation of entrepreneurs and potential investors;
- promote and support from regional authorities to the projects aimed at the regional production potential upgrading;
- organization of international investment forums, exhibitions, workshops, round-table meetings on improving the investment management process;
- investment managers training;
- no justification for the real investment attractiveness of the region.

The favorable conditions for increasing innovation activity of the Kharkov region include:

- improving the investment attractiveness of the region;
- development and regulation of investment proposals creation;
- information and advisory support;
- study of regional demand for investment;

- improving monitoring of the regional investment processes.

To solve the problems of regional investment processes development regional companies should focus on mastering the innovative products or services, new generations of technologies. To achieve this goal we must strive to obtain new scientific knowledge and ways for their practical application in production using scientific - technical and innovation potential of the region. Sectors with high innovation attractiveness have the highest priority in the portfolio of developing industrial complex fields.

The development of regional investment infrastructure is largely driven by processes and tendencies inherent to the national economy in general. To resolve such a problem there is a need for system level approach; complex application of organizational, economic and social tools; regional authority choice of

development priorities that will make it possible to give a new direction of regional investment activity.

CONCLUSIONS. The analysis of the current state of the Kharkiv region investment climate, of the regional structure of economic and investment potential and ways to increase the investment activity proved the presence of conditions for Kharkiv region to become one of the leading regions in the field of investment.

The authors consider that the basic ways to increase the investment activity of the industrial regions of Ukraine are the prospect for further research. The main of them are: the creation of a complete manufacturing data base for investment; investment projects development; setting the cooperation with the most influent international monetary systems.

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