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THE POTENTIAL FOR ATTRACTING FOREIGN INVESTMENTS IN BORDER REGIONS

This study analyses of the phenomenon of the local economic development to the border area of Moldova and Ukraine and identification of public administration mechanisms that can be used for external financing.

Research methodology on base of SWOT - analysis is defined by studying theoretical and practical aspects and mechanisms for obtaining external financing for local development.

The study results lead to the conclusion: The conditions based on local development strategies allow the optimization of the corresponding mechanisms of public administration and ensure involvement of external funding

Key words: local economic development, financial policy, SWOT-analysis.

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ПОТЕНЦІАЛ ЗАЛУЧЕННЯ ЗОВНІШНЬОГО ФІНАНСУВАННЯ ДЛЯ ПРИКОРДОННИХ РЕГІОНІВ

У дослідженні проведено аналіз феномена місцевого економічного розвитку в прикордонній зоні Молдови та України і визначення механізмів державного управління, які можуть бути використані для залучення зовнішнього фінансування.

Методологія дослідження на основі SWOT-аналізу визначається шляхом вивчення теоретичних і практичних аспектів і механізмів для отримання зовнішнього фінансування для місцевого розвитку.

Результати дослідження приводять до висновку: умови, засновані на місцевих стратегіях розвитку, дозволяють оптимізувати відповідні механізми державного управління та забезпечити залучення зовнішнього фінансування.

Ключові слова: місцевий економічний розвиток, фінансова політика, SWOT-аналіз.

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ПОТЕНЦІАЛ ПРИВЛЕЧЕННЯ ВНЕШНЕГО ФИНАНСИРОВАНИЯ ДЛЯ ПОГРАНИЧНЫХ РЕГИОНОВ

В исследовании проведен анализ феномена местного экономического развития в пограничной зоне Молдовы и Украины, а также определение механизмов государственного управления, которые могут быть использованы для привлечения внешнего финансирования.

Методология исследования на основе SWOT-анализа определяется путем изучения теоретических и практических аспектов и механизмов для получения внешнего финансирования для местного развития.

Результаты исследования приводят к выводу: условия, основанные на местных стратегиях развития, позволяют оптимизировать соответствующие механизмы государственного управления и обеспечить привлечение внешнего финансирования.

Ключевые слова: местное экономическое развитие, финансовая политика, SWOT-анализ.

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↗ The border areas of Ukraine are an important component in the policy of cooperation between those countries as a potential source of economic growth, job creation and a sustainable future. But today, they are also a place of social polarization, intercultural confrontation, concentration of poverty, unemployment and environmental problems.

Accordingly, the final result of the study could be to identify the specific problems and needs of the public sector, individual citizens and businesses, and to determine what they need the support. Marketing research results should also be the basis for determining local development priorities. For this study should the impact of any legal, personnel and other barriers for public authorities of border areas in the establishment of cooperation with the purpose of joint planning of regional development should be examined.

For several years Ukraine made fundamental changes in the public administration system, as a step towards the political and economic integration into the European Union. The process of Ukraine's integration into the European Union's financial institutions goes on. But we should acknowledge that this implemented policy of local economic development (hereinafter - LED) is not always optimal and efficient. A possible explanation for this lies in the fact that those who make the decisions do not always take the relationship between factors of influence, which are a result of inter-sectoral cooperation (public authorities, business and the public), (hereinafter - ISC), and tasks of social and economic development of the territory into account.

The scientific literature presents a number of publications, which are considering the link between ISC and its impact on different aspects of LED. However, the problem of determining the relationship between factors of influence arising in the course of the ISC and the assessment of the level of economic and social development of the territory has not yet come to a complete solution. To solve this problem we suggest using the methodology of qualitative analysis. At first we have to determine the main factors of influence, and then investigate a possible relationship that exists between them and certain LED-level assessment parameters.

1. METHODOLOGY FOR OBTAINING QUALITATIVE EVALUATION OF PRIORITIES AND CRITERIA IN ORDER TO ASSESS THE EFFECTIVENESS FINANCIAL POLICY

1.1. Basic hypothesis

The objectives of the study include:

- A study of the phenomenon of the LED to the border area of Moldova and Ukraine;
- Identification of public administration mechanisms that can be used for external financing;
- Analysis of the main priorities of financial policy at a local level.

As experience in local development has shown, the efficiency of the use of raised funds ultimately determines the efficiency of the activities of the public administration, or in a wider context, the main ISC sectors of the local community.

The foundation of organizations which engage in such work is the development of priorities, which have been selected and acknowledged by the local community. There are a number of methods, the utilization of which

allow a decision to be reached. The main one of these is SWOT analysis, which will be adopted for the results of a study of the difficulties facing various regions of Ukraine and Moldova.

Using the suggested approach has allowed us to formulate the basic hypothesis of the research:

Hypothesis 1: LED has an/needs an/depends on an ISC process in order to create conditions for economic growth and job creation.

Hypothesis 2: There are mechanisms for public administration, which can be used for external financing;

These hypotheses make a definition of the main objectives of the study possible:

1. What is the purpose of communication functions and practices of local public administration authorities (information, creating an institutional environment to support decision-making and implementation) to ensure the involvement of external funding?

2. What are the practical aspects of the institutional decisions of local public authorities and the consequences of ISC for attracting external funding?

3. What are the factors that are the main obstacles for attracting external funding?

1.2. The methodology of the study.

Research methodology is defined by studying theoretical and practical aspects and mechanisms for obtaining external financing for local development in the Eastern Partnership countries and Eastern Europe. In order to do this we have to identify the main factors that characterize ISC and the parameters of their evaluation. Such an evaluation can be obtained from a survey of the representatives of sectors and the analysis of statistical data. The results will be the basis for assessing the effectiveness of public administration.

The specificity of the problem to be solved is determined by the need to study the link between social processes within ISC and the efficiency of public administration mechanisms in the financial sector.

The main methods of research are:

- qualitative methods (data of a sociological survey, analysis of statistical data, including descriptive statistics);
- SWOT - analysis.

A preliminary study of the problem revealed that direct data on the relationship between the volume of attracted external financing and public management efficiency do not exist yet. Establishing such a connection can be obtained by:

- Determination of performance evaluation parameters of the activities of public administration bodies;
- Definition of the macroeconomic effectiveness of the public administration bodies in order to attract external financing;
- Study of the relationship between the volume of attracted external funding and public management efficiency.

The method of producing a high-quality performance evaluation of public administration authorities is based on expert evaluation of all sectors involved in ISC. Furthermore, the findings are clustered in relation to the respondents' answers on the requirements of potential funding sources. Possible sources of external financing include foreign direct investment (FDI), loans, grants,

technical assistance programs and financing from the Structural Funds. To define such groups of evaluation parameters it is advisable to use the criteria by which decisions to provide funding are made. The result of the ISC process appears to be an integral indicator defined as "the potential to attract funding" (hereinafter - PAF).

PAF itself is defined as a set of indicators that characterize the main macro-economic characteristics of the region's development: the presence of the main types of natural resources; availability of production; the level of purchasing power; evaluation of the geographical location and infrastructure; estimation of the number of the economically active population and its level of education; evaluation of the work of local authorities. PAF is seen as a "product", which is offered to public authorities.

The "Consumers" of this "product" are the financial institutions that assess the level of development of the region and make decisions about the provision of funding.

To assess PAF macroeconomic data can be used, which characterizes LED and results of qualitative assessment of the following parameters:

- The possibility of creating an investment product;
- The practice of support and monitoring of investment activity;
- The possibility of diversification of external financial flows and material resources;
- Work with regional business currents of social development

1.3. Design of the research.

To ensure the reliability of these results, these studies have been presented to a group of experts for evaluation. Following are their summarizing points which form the basis for further investigation into the challenges faced.

Each macro criteria may be represented by corresponding indicators Table 1.

identifying the most "intensive" factors of influence, which are likely to be used to decide the allotment of funding for LED programmes. An analysis of the data collected allows us to establish a correlation between the three macro-criteria and the questions on the survey. Based on the results, conclusions were made concerning the assessment of the levels of PAF and the importance of individual factors and their impact on the LED process and the identification and assessment of strategic alternatives.

The weighted results, according to an evaluation of these factors conducted by experts in terms of the significance of parameters studied, are presented in table 2.

The next stage of the study is to identify the strengths and weaknesses of the proposed LED programmes and to identify and evaluate the factors affecting them in terms of the advantageous opportunities and the potential threats. The proposed research methodology allows a crossing from the fixing of individual parameters to the definition of strategic priorities.

Characteristic features of this approach are:

- Structuring of the research object to allow its submission in the form of a hierarchical set of interconnected subsystems, identifying internal and external connections;
- The ability to identify problems and find mechanisms and the means to solve them;
- Justified proposals for the organization of the process of attracting foreign financing.

The summary of the processed results of the sociological research data allows us to identify the final list of indicators for the assessment of PAF level, which increasingly correspond to specific areas of the region. The list contains 8 groups:

1. The economic development of the region;

Table 1.

Macro criteria and evaluation indicators

	Macro criteria	Evaluation indicators
1	The existence of objective economic prerequisites for creating conditions to attract external funding	Participation of public administration authorities in the creation of the necessary infrastructure for the implementation of development projects; The availability of a business infrastructure (information services, market research, and so on);
2	Protection of investor rights and financial activities."	The participation of public administration bodies in the creation of infrastructure and the creation of necessary development for the realization of the projects. ; The level of infrastructure development to support business; The general level of education of the population; The opportunity to attract investment; The investment image of the region.
3	The presence of conditions that provide comfort in business and personal life	The effectiveness of the work of the public administration bodies; The level of corruption of the local public administration bodies; A guarantee of the preservation of the level of financial activity; The possibility to liquidate assets that have been invested in financial resources; The support of foreign investors by the authorities; The possibility to solve all administrative issues; The safe-guarding of human rights by law enforcement agencies.

In the table below the indicators, which have been used to develop surveys for organization of further sociological development, have been presented. The raw data from these surveys formed the basis for the SWOT-analysis.

The next stage of the study is an analysis of the data collected during the survey, with the aim of defining and

2. The condition of public administration systems;
3. The level of development of the social and cultural environment;
4. The competitive potential of the territory;
5. The priorities in the development of specific branches of industry;
6. Existing and potential investment products;

Table 2.

Assessment of Indicators of PFF level

Environmental indicators	Score
Depreciation of fixed assets	2,7
Modification of the tax system	2,2
Changes in customs regulations	2,0
Rising energy prices	2,1
The availability of natural conditions for agricultural development	2,5
Rising unemployment	2,5
Need for skilled labour	2,3
Labour migration	5,0
Compliance with international investment law	3,5
Level of corruption	2,3
Protection of investors' rights	3,0
Legislative restrictions in the investment sphere	2,5
Political situation in the region	2,5
Impact of geopolitics on developmental aspects of the region	2,0
Ability to obtain permits for business	3,2
Living standards of the population	3,8
Existence of public responsibility for development in the region	2,8
Ageing and death rate of the population	2,5
Satisfaction of social needs	2,7
Presence of active non-governmental organizations	2,5
Guaranteed freedom of speech	2,7
Active competitive policy from the neighboring regions	3,8
Contact with representatives of investment funds	3,2
Contact with representatives of investment funds	3,2
Neighboring regions' competitive advantage in the field of investments	3,8
Increase in volume of investment in a region's businesses	3,0
Changes in the structure of demand for investment	2,5
Increase in the flow of commodities, the development of logistics in the region	3,0
Increase in consumer demand	2,5
Increase in investment proposals for the development of enterprise	4,0
Increase in investment proposals for the development of regional infrastructure	2,0
Attraction of financial resources from banks (loans)	4,0
Active investment	2,7
Ability to receive consulting services	3,5
Investment dynamics	3,4
Level of infrastructure development for business (transport, energy, telecommunications)	3,9
Dynamics of investment in new technologies	1,4
Existence of industrial parks	1,8
Withdrawal from investment markets	3,5
Unsuccessful projects to attract investment	3,1
Lack of investment projects	3,4
Ability to receive support from the authorities	1,7
Dynamics of consumer demand	3,4
Increase in demand for agricultural products	3,4
Changes in demand structure in the world market	3,2

7. Investment activity;
8. Consumer demand.

2. SWOT- ANALYSIS.

Further expert assessment includes:

- Assessment of the impact of external factors on the level of PAF in terms of opportunities and threats;
- Assessment of the strengths and weaknesses of

LED.

Using the data and instruments of a SWOT analysis to determine the strengths and weaknesses of implementing a LED programme and attracting foreign resources, potential threats and opportunities, an expert assessment was obtained, which conforms to the indicator's score. It is possible to construct a table of the strengths of the region's economic activity (S), the weaknesses (W), potential beneficial opportunities (O) and external threats (T), (Table 3-4).

Table 3.

Evaluation of opportunities and threats for the implementation of an LED programme and the attraction of foreign financing

Opportunities (O)	Score
Competitive potential and the opportunity to develop agricultural enterprise	5
Creation of a branch brand	4
Implementation of the concept of creating industrial parks	5
Assistance to the attraction of foreign financing	5
Utilization of the geographic potential of the region	4
Threats (T)	Score
The Demographic situation in the region	-3
Bankruptcy of investors	-3
Corruption in the field of business support	-4
Considerable decrease of personnel potential	-3
Insufficient competitive demand in the consumer market	-4
Depreciation of infrastructure and communications	-3
Lack of an active position by public administration bodies	-2

Table 4.

Assessment of the strengths and weaknesses of the implementation of an LED programme to attract foreign financing.

Strengths (S)	Score
The potential for innovative development	4
Utilization of the geographic potential of the region	5
Advantageous climatic conditions and natural resources	4
High levels of public education, an advanced education system	4
The relative environmental purity of territory and the food products of its local producers	4
Natural resources for the development of the agricultural sector, the possibility of establishing an agricultural cluster	5
The presence of potential for chemical industry development and the production of building materials	2
The development of civil society	2
The presence of advantageous economic conjuncture, extensive opportunities for the development of business	3
An extensive network of banks	2
Solidarity between politicians on development priorities	2
Numerous civil organizations	4
Guaranteed freedom of speech	2
Weaknesses (W)	Score
Outdated production technology, worn-out equipment	-3
The lack of a clear regional development strategy	-2
The lack of modern transport infrastructure	-3
The low level of engineering infrastructure (transport, energy, telecommunications) for business	-3
The low level of competitiveness in the creation of products	-4
Unbalanced structure of supply and demand in the labor market	-3
Outdated infrastructure in the region	-3
The lack of investment proposals	-3
The region's entrepreneurs' lack of motivation to develop businesses	-2
Problems in obtaining land	-4
Lack of information about the innovations adopted by the regions's businesses	-2
Lack of consulting services in business planning and the assessment of investment risks	-2
Professional and young workers leaving the region	-4

The next steps in the implementation of a SWOT-analysis are the forming of proposals for concrete LED strategies and an assessment of the actions to be taken to attract foreign resources on the basis of S and W, while taking into account O and T. It is clear that an important factor in doing so is not only to identify opportunities and threats, but also to assess them,

and to account for recommendations in the actives of local public administration bodies. Use of the SWOT-analysis methodology allows the consolidation of analytic assessment and recommendation for the choice of LED strategy into a single procedure.

For this, a determination of the probability of the occurrence of potential threats was included as part of

the expert assessment, taking into account their impact on the LED programmes, the intensity of emergence of the strengths and weaknesses of the LED programmes and the work done to attract foreign financing. This approach and the points system were chosen as a result of certain fictional indicators of assessment, which are used to choose the most important and significant factors of influence.

The practical implementation of the proposed research methodology includes the following stages:

- The selection of experts and the formation of expert groups;
- The identification of the assessment indicators of the strengths, weaknesses, opportunities and threats by experts;
- Expert assessment;
- Processing of the assessments;
- Analysis of the results and formation of an LED strategy.

A ranking method was used during the processing of the results, in which the opportunities and threats were ranked in order of their importance.

The assessment of individual experts follows the formula (1)

$$A_{ij} = A_i K_j P_j \quad (1)$$

Where:

P_j – Probability value,

K_j – Coefficient of the impact on attracting foreign financing,

A_j – Intensity of the work of LED programmes,

a_{ij} – Expert assessment.

For every expert assessment, each result was evaluated for the level of specific opportunities regarding the development of the LED programmes and the attraction of foreign funding.

Using this data, the following SWOT analysis matrix was constructed, which contains the results of the evaluation in the following combinations: Strengths - Opportunities, strengths - threats, opportunities - weaknesses, weaknesses - threats.

This data formed the basis of the SWOT analysis matrix calculation, linking the significance of the indicator assessment, taking into account the existing factors of opportunities and threats and their combinations: strong opportunities, strong threats, opportunities, weaknesses and the disadvantages caused by threats.

The results of this SWOT analysis allow an evaluation of the competitive situation in the territory of the border areas of Ukraine and the Republic of Moldova.

A summary of the calculations made using the SWOT-analysis allows several conclusions to be made about the possibility of attracting foreign financing to the region, Table 5–6.

Results:

Thus, the final analysis of the results leads to the following conclusions:

- The best prospects for foreign financing are in the region's agricultural sector and processing industries;
- The main threats that may affect the LED programmer include: fluctuations in price level, changes in the market's demand structure and

increase in the rate of inflation, fluctuations in the currency market;

- The region possesses significant PAF, the priorities in terms of attracting foreign financing can be in the agricultural sector, transport infrastructure and logistics.
- When solving the problem of choosing an LED, priorities should be based both on an assessment of factors that arise in the process of ISC and the results of LED research.

In summary, we can draw the following conclusions:

- The conditions based on ISC local development strategies allow the optimization of the corresponding mechanisms of public administration and ensure in the process the existence and development of the public, commercial and non-commercial sectors;
- Every sector has its own specific interests, priorities, and goals, which are a potential source of conflict and destructive form of interaction, and can eventually lead to the abandonment of joint activities;
- The complexity of social phenomena dictates that the effectiveness of management decisions and the minimalisation of negative effects are only possible on the basis of competent coordination of various points of view.

Discussion:

This approach requires finding a new definition of competence in the planning of LED, which is determined within the context of the integration of external consumer markets with EU markets.

Five priority LED areas have been identified: «Investment», «the development of human innovative potential» and the three priority economic areas: «Agriculture», transport and logistics» and «tourism and leisure». These were revealed as the result of study and then confirmed within the framework of a SWOT analysis.

The attractiveness of a region's investment potential is determined by a number of factors, which can be divided into groups:

- The willingness of investors to be active in the region;
- The ability of public authorities to provide a favorable investment climate.

The most important factors belong to the last group. This is due to the obvious fact that the development of external financing markets and the creation of favorable conditions for the authorities do not guarantee the activation of the investment process if projects have no effective means of investment. The practical realization of these factors can be achieved through the establishment of special economic zones.

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Table 5.

Assessment of the opportunities and threats regarding the attraction of foreign financing

Opportunities (O)	Score	Threats (T)	Score
Developing logistical and transport infrastructure	13,02	Changes in pricing level and demand structures in the world market	16,8
A developing agricultural sector	37,12	Dependence on changes in tax law and customs policies	2
The region's prospects of attracting foreign financing	14,4	Increase in the rate of inflation and fluctuations in the currency market	16,8

Table 6.

Shows a summary evaluation of the strengths and weaknesses of the ability to attract foreign financing.

Strengths (S)	Score	Weaknesses (W)	Score
Developing logistical and transport infrastructure	28	Changes in pricing level and demand structures in the world market	1
A developing agricultural sector	36,6	Dependence on changes in tax law and customs policies	12,1
The region's prospects of attracting foreign financing	11,88	Increase in the rate of inflation and fluctuations in the currency market	9,54

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