

Organizational and Institutional Directions of Strengthening of Ukraine's Position in International Investment Markets

OLENA LIUTAK,
OLENA BAULA¹

ABSTRACT. The article describes the main aspects of investment environment of the country and organizational and institutional directions of Ukraine's position in international investment activity optimization. Modern investment flows of Ukraine are analyzed from the point of view of institutional support and geography. The description of modern processes of share capital and debt securities movement in current circumstances is outlined, with determination of preconditions and consequences of further integration of our country into global investment flows. It is proven that the volumes of share capital of non-residents and foreign direct investment are increasing. This proves the stabilization of macroeconomic indicators and foreign interest in receiving income from our country's economic potential, in particular, the volumes of investment in domestic government bonds. There was formed the economic and mathematical model of the impact of investment on the development of our country's economic strength and GDP growth. The priority to involve all organizational and institutional directions of Ukraine's positions optimization in international investment activity in order to increase the incoming investment flows of modern transformations of the global investment process is argued. Ukraine's position in the international ratings, reflecting the institutional effectiveness of the domestic policy of foreign investments attraction in the sphere of business activity is analysed. The systematic view of foreign investment barriers in Ukraine, based on results of foreign investors survey by the European Business Association, Dragon Capital and the Center for Economic Strategies is set out. It has been determined that the main ways for increasing the institutional effectiveness of investment policy in Ukraine in the context of globalization and internationalization of the world economy should be real, but not declarative improvement of the investment environment, reduction of bureaucracy for investors, simplification of regulatory and registration requirements and the adoption of significant steps of investors' rights revealing protection. The characteristic of modern processes regarding the distribution of dividend payment practice and the legislatively held responsibility of issuer for received funds from investors who are able to launch the mechanism of stock market instruments use, turning the personal savings into investments, and spreading fair competition among investors is given. The objectives and measures of the organizational and institutional mechanism of effectiveness improvement of the domestic policy of foreign investments attraction in business activities are substantiated, the necessity of fundamental reforms in the direction of the improvement of the country's innovation and investment development, the "reform pyramid" and the mechanism of its realization are outlined.

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¹ **Liutak Olena Mykolayivna** — Doctor of Economics, Professor, Professor at the Department of International Economic Relations, Lutsk National Technical University. Sphere of scientific interests: global institutionalization of services, international tourism, regulation of the development of world markets for food and non-food products; innovation-investment potential, regional policy of cross-border cooperation, tourist-recreational potential of the cross-border region. E-mail: olenalutak@gmail.com.

Baula Olena Viktorivna — Ph.D. (Economics), Associate Professor, Associate Professor at the Department of International Economic Relations, Lutsk National Technical University. Sphere of scientific interests: international investment activity, international economic integration, globalization of economic development, globalization of financial markets. E-mail: o.baula@lntu.edu.ua.

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Introduction

One of the forms of international economic relations is foreign investment, which becomes increasingly importance for economic development and facilitates macroeconomic stabilization policy. The experience of many countries of the world shows the expediency of foreign investments attraction both for the country's economy way out of the crisis and ensuring its sustainable development. But in order to attract foreign investments into the national economy, the state must also accommodate with investors – to develop a system of protection (guarantee and insurance) of investments.

Scientists argue that direct foreign investments began to play an important role in the international economy after World War II. The first theories to explain the role of direct foreign investments occurred as a result of growing activity of subsidiaries of US based companies on the markets of Europe and Latin America in the 1950s and 1960s of the XX century. Since then, volumes of direct foreign investments have steadily increased, which has led to the urgent need to study the features of capital movement process on world markets².

Under the conditions of financial imbalance, rising public debt, reduction of real income level of the population, stagnation of innovation activity, observed in Ukraine, as well as under the influence of integration and globalization processes in the modern world economy, investments obtain an exceptional importance for the domestic economy. In modern times, the possibility of integrating of Ukraine into the European social and economic area, competitive growth of domestic enterprises, as a primary element of the national economy depends on the efficiency of investment policy implementation. In order to strengthen the internal investment activity of domestic enterprises and attraction of foreign investors, the state must ensure the implementation of a reasonable investment policy to ensure a business-enabling environment in the country, the development of infrastructure support of investment processes, etc.

A major contribution to the development of international investment theory was made by foreign and domestic scientists: I. Blank³, Z. Bodi⁴,

² Byrka M.I. *Teoretyko-metodolohichni pidkhody do analizuvannia priamykh inozemnykh investytsii v konteksti yikh zaluchennia*. <http://jrn1.nau.edu.ua/index.php/SR/article/view/4701/0> [In Ukrainian].

³ Blank I.A. *Capital Management (rus. Upravleniye ispolzovaniyem kapitala)*. K.: «Nika-Tsentr». 2000. 656 p. [In Russian]; Blank. I.A. *Financial resources management (rus. Upravleniye finansovymi resursami)*. M.: Omega-L. Elga. 2011. 768 p. [In Russian].

I. Buzko⁵, O. Vovchak, N. Rushchyshyn, I. Andrushkiv, I. Buchko⁶, V. Heiets⁷, T. Huskova⁸, L. Dashutyna, V. Turchin⁹, A. Duka¹⁰, J. Keynes¹¹, N. Kyselova¹², F. Kotler¹³, D. Lukianenko¹⁴, T. Maiorova¹⁵, Yu. Makohon¹⁶, N. Navrotska¹⁷, L. Petkova¹⁸, M. Porter¹⁹, A. Thompson²⁰, W. Sharp, H. Aleksander, G. Bailey²¹, and others.

At the same time, despite the presence of detailed and thorough scientific achievements of scientists of different years, the problematics of the institutional effectiveness of the domestic policy of foreign investments attraction to the sphere of business activity have not been sufficiently studied. There are needed further investigation the organizational and institutional directions of optimization of Ukraine's positions in international investment activity and identification of worldwide trends in the formation of the international investment environment.

⁴ Alex Kane, Alan Marcus Zvi Bodie, *Investment Principles*. Transl. from Eng. 4 edition. M.: Viliams. 2008. 984 p.

⁵ Buzko I.R., Chyzh V.I., Tyshchenko A.Yu. *Investytsiina polityka u hlobalnomu vymiri: formuvannia ta realizatsiia*: monohrafiia. Skhidnoukr. nats. un-t im. V. Dalia. Luhansk: Vyd-vo SNU im. V. Dalia, 2011. 192 p. [In Ukrainian].

⁶ Vovchak O.D., Rushchyshyn N.M., Andrushkiv I.P., Buchko I.Ye. *Investytsiine kredytuvannia: navch. posib.* 2-he vyd., pererobl. i dopovn. K.: Znannia, 2013. 227 p. [In Ukrainian].

⁷ Heiets V. Podolannia kvazirynkovosti — shliakh do investytsiino oriietovanoi modeli ekonomichnoho zrostantia. *Ekonomika Ukrainy*. 2015. No. 6. pp. 4-17. [In Ukrainian].

⁸ Guskova T.N. *Assessment of investment attractiveness of objects by statistical methods* (rus. *Otsenka investitsionnoy privilekatelnosti obyektov statisticheskimi metodami*). M.: GASBU. 2009. 278 p. [In Russian].

⁹ Dashutyna L.O. Osoblyvosti investuvannia transnatsionalnykh korporatsii u mizhnarodnomu biznesi. *Visnyk Sumskoho natsionalnoho ahrarnoho universytetu*. Seriiia : Ekonomika i menedzhment. 2012. Vyp. 8. pp. 179-183. http://nbuv.gov.ua/UJRN/Vsna_ekon_2012_8_40 [In Ukrainian].

¹⁰ Duka A.P. *Teoriia ta praktyka investytsiinoi diialnosti*. *Investuvannia*: Navchalnyi posibnyk. K.: Karavela, 2014. 432 p. [In Ukrainian].

¹¹ Keynes J.M. *General theory of employment, interest and money*. M.: Helios ARV, 1999. 352 p. [In Russian].

¹² Kiseleva N.V. *Investment activity: a training manual*. M.: KNORUS, 2008. 432 p. [In Russian].

¹³ Kotler F., Kartadzhaiia Kh., Yanh D. *Pryvlechenye ynvestorov: marketynhovsai pokhod k poysku ystochnykov fynansyrovanyia*. Per. s anhl. M.: Alpyna Byznes Buks, 2009. 194 p. [In Russian].

¹⁴ Lukianenko D. H., Hubskiy B. V., Mozghoviy O. M. ta in. *Mizhnarodna investytsiina diialnist*: pidruchnyk /za red. D.H.Lukianenka. K.: KNEU, 2003. 387 p. [In Ukrainian].

¹⁵ Maiorova T.V., Dyba V.M. Formuvannia investytsiinoho kapitalu v umovakh hlobalnykh vyklykiv. *Investytsii: praktyka ta dosvid*. 2011. No. 18. pp. 4-8 [In Ukrainian].

¹⁶ Makohon Yu.V., Lysenko K.V. Ukraine's Investment Attractiveness in Conditions of Global Transformations. *Theoretical and practical aspects of intellectual power*. 2012. VIP. 1, T. 1. pp. 7-13; Makohon Yu.V., Ivankova D.R. Teoretychni aspekty hlobalnoi investytsiinoi diialnosti. *Ekonomichnyi visnyk Natsionalnoho tekhnichnoho universytetu Ukrainy «Kyivskiy politekhnichnyi instytut»*. 2014. No. 11. pp. 481-486. http://nbuv.gov.ua/UJRN/evntukpi_2014_11_76 [In Ukrainian].

¹⁷ Navrotska N.A. Transformatsiia svitovoho investytsiinoho prostoru v umovakh hlobalizatsii. *Ekonomichnyi chasopys KhKhI st.* 2013. No. 3-4 (1). pp. 13-16. http://nbuv.gov.ua/UJRN/ecchado_2013_3-4%281%29_5 [In Ukrainian].

¹⁸ Petkova L.O. Dyversyfikatsiia mizhnarodnykh investytsiinykh stratehii v umovakh hlobalnykh strukturnykh zrushen. *Finansovyi prostir*. 2012. No. 4 (8). pp. 45-48. [In Ukrainian].

¹⁹ Porter, M. E. *Competitive Strategy: Techniques for Analyzing Industries and Competitors*. — New York: The Free Press, 1980 (2nd ed.). New York: Free Press, 1998. 397 p.

²⁰ Thompson Jr. Arthur A., Strickland III A.J. *Strategic Management. Concepts and situations for analysis*. M.: Publishing. Williams House, 2006. - 928 p. [In Russian].

²¹ Sharp W.F., Alexander G.J., Bailey J.V. *Investments*. M.: Infra-M, 2001. 1028 p. [In Russian].

The main objective of the research is to reveal the main aspects of Ukraine's investment environment, to analyze the position of Ukraine in the international ratings, reflecting the institutional effectiveness of the domestic policy of foreign investments attraction to the sphere of business activity and obstacles to foreign investments in Ukraine, as well as to identify directions for improving of innovation and investment development of Ukraine.

Investment flows of Ukraine

Effective reform of our country's economy, its structural transformation with assurance of qualitative development, renewal of market and social infrastructure are not possible without adequate investments, i.e. without appropriate investment. The more active it is, the faster the pace of growth and effective market transformations. Among all investment entities, a special role belongs to the state, which acquires the status of entity through its institutions, companies and corporations. As a consequence, the state can participate in organizational and institutional support both through the public sector of the economy and through the authorities, institutions that regulate an investment activity²².

In terms of foreign investment, the domestic economy is characterized by a significant impact of offshore zones on Ukraine's participation in the international capital movement. The real economic situation and the state of direct foreign investments attraction in Ukraine significantly complicate an investment activity due to the high level of shadowing, the regulation of the processes of revitalization of entrepreneurial activity. The available volume of investments does not provide the precondition for the economic growth and even full reproduction of their current state. Not only the general state of the country's economy affects the investment attractiveness, but also the conduct of business, including the ratio of government intervention and the level of corruption²³. The change of investment environment is most clearly demonstrated by the investment dynamics, especially direct investments, which is considered to be an indicator of the confidence level change and country rating.

According to the Ministry of Finance of Ukraine for 2002-2018 years the highest amount of direct investments inflows to Ukraine were observed in 2008 (USD 10913 mln) and the lowest amount in 2014 (USD 410 mln) (Table 1).

²² Revutska N. Suchasni instrumenty zaluchennia inozemnoho kapitalu. *Tsinni papery Ukrainy*. 2014. No 9. pp. 54—58. [In Ukrainian].

²³ Gerzanych V.M. Major Disadvantages and Problems of Attracting Foreign Investment in Ukraine // *Effective Economics: Electr. Sciences. profession. view*. 2014. No. 4. <http://www.economy.nayka.com.ua/n=4&y=2014> [In Ukrainian].

Table 1

**DIRECT FOREIGN INVESTMENTS (SHARE CAPITAL), ATTRACTED
TO THE DOMESTIC ECONOMY AND DIRECTED ABROAD IN 2002-2018²⁴**

Years	Direct investments in Ukraine, USD mln.	Absolute Deviation, USD mln.	Direct investments from Ukraine, USD mln.	Absolute Deviation, USD mln.	Net balance	
					Absolute, USD mln.	relative, %
2002	693		-5		+698	
2003	1424	+731	13	+18	+1411	+102.1
2004	1715	+291	4	-9	+1711	+21.3
2005	7805	+6093	275	+271	+7533	+340.3
2006	5604	-2204	-133	-408	+5737	-23.8
2007	9891	+4287	673	+806	+9218	+60.7
2008	10913	+1022	1010	+337	+9903	+7.4
2009	4816	-6097	162	-848	+4654	-53.0
2010	6495	+1679	736	+574	+5759	+23.7
2011	7207	+712	192	-544	+7015	+21.8
2012	8401	+1194	1206	+1014	+7195	+2.6
2013	4499	-3902	420	-786	+4079	-43.3
2014	410	-4089	111	-309	+299	-92.7
2015	2961	+2551	-51	-162	+3012	+907.4
2016	3284	+323	16	+67	+3268	+8.5
2017	2202	-1082	8	-8	+2194	-32.9
2018	2355	+153	-5	-13	+2360	+7.6

As we can see, the largest increase of net balance of direct foreign investments accounted for 2015, but this increase occurred against the background of year 2014, which was characterized by the lowest indicators of direct foreign investments attraction in Ukraine over the period of 2002-2018 years. Analyzing the indicators of direct foreign investments inflows in the Ukrainian economy over the last 17 years, we can see that there is actually no regularity: there has been a gradual increase of direct foreign investments attraction in Ukraine's economy during 2002-2008, and there has been a periodic increase and decrease of this indicator due to the global economic crisis since 2009, the military aggression of the Russian Federation, political uncertainty. All factors

²⁴ Foreign direct investment. URL: <https://index.minfin.com.ua/en/economy/fdi/2018/> [In Ukrainian].

have significantly undermined the foundations of a favorable investment environment and, despite the considerable interest of foreign investors in the development of their business in our country, have constrained the volume of incoming investment flows.

The current trend of revitalization of the international investment activity indicates an increase in financial flows to our country, in particular, according to the report of National Bank, Ukraine received USD 0.8 billion of direct foreign investments in the first quarter of 2019. In 2018, their volume exceeded USD 2 billion 355 million, it is more for 153 million than a year earlier²⁵.

As of the beginning of 2019, EU countries are the largest investors in Ukraine's economy. In 2018 the TOP-10 countries according to the volumes of direct investments in Ukraine are as follows: Cyprus, Netherlands, United Kingdom, Germany, Switzerland, Virgin Islands, Russian Federation, Austria, France, Poland. In 2018, according to the Ministry of Finance, the majority of direct foreign investments in Ukraine is the return of Ukrainian funds from offshore and the recapitalization of banks²⁶.

The globalization of financial markets has transformed financial relations into an independent factor of the world economy development, where offshore capital can be regarded as a special form of financial capital movement. The internationalization of world finance was the reason for the offshore financial centers appearance: national capital that went beyond and wanted to "get away" from rigid national regulation and create favorable conditions for development.

Offshore operations have a significant place in foreign economic operations of Ukraine. The legislation of our country does not prohibit the creation of companies in offshore areas. The volume of such operations is increasing annually. The share of offshore investments remains unchanged and ranges from 40-44% for the study period. There are three offshore zones among the largest investors in Ukraine: Cyprus, Virgin Islands and Switzerland. Regarding to the outflow of Ukrainian capital to offshore zones, almost 95% of direct investments from Ukraine come into the worldwide national economy to offshore zones²⁷. Cyprus is the main country, an offshore zone, from which direct investments come to Ukraine and where they come from.

²⁵ Why foreign investments are in no hurry to Ukraine. URL: <https://minfin.com.ua/en/2019/05/14/37746973/>. [In Ukrainian].

²⁶ The State Statistics Committee named the leading countries for investments in Ukraine. <https://www.rbc.ua/eng/news/gosstat-nazval-strany-lidery-investitsiyam-1551374343.html>. [In Ukrainian].

²⁷ Ukraine's State Statistics Committee Data. <http://www.ukrstat.gov.ua/> [In Ukrainian].

As relating to operations between Ukraine and Cyprus, it can be affirmed, that a significant percentage of the capital invested in Ukraine is reinvested Ukrainian capital, which can be said that it was invested in the way of the shadow economy.

Ukraine is in the ratings of thirty countries with the most favorable environment for the offshore. There is the most active interaction with such offshore zones as Cyprus, Virgin Islands and Switzerland. Reinvested Ukrainian capital is a large part of the investments that come into Ukraine. With the aim to strengthen the control over operations with the offshores, the Cabinet of Ministers of Ukraine made a list of operational offshores, and the operations should be monitored and are liable to tax. It is difficult to predict what kind of offshore zones will be in the future, but it can be assumed that offshore activities will be legalized and "black" offshores will be replaced by serious and civilized zones, that will set a goal to conduct activities within the limits of the law, but not crime. However, in our view, radical measures against "black" offshores, such as their liquidation, will not bring the expected success, because at this stage of development, states have sufficient information about such zones and, if they wish, can carry out limited control over their activities, and in case of liquidation, the world economy would become more shadowing, and new little-known, uncontrolled territories would appear.

Describing the structure of share capital and debt instruments in Ukraine's economy in 2017-2018 years (Table 2), we can point out the leading role of EU countries, in particular in 2017 their part was 75%, and in 2018 -76,4%. As a whole, the volume of non-resident share capital and direct foreign investments are increasing, which indicates the stabilization of macroeconomic indicators and the interest of foreigners in receiving of income from the use of our country's potential. Volume of investments in domestic government loan bonds by non-residents whose buy-out program have been implemented and have led to a stabilization of the exchange rate are particularly significant.

This trend is formed by the high profitability of Ukrainian securities, state guarantees and the ability to use the projected rapid rate of development of the country and increasing of its competitiveness. Ukraine is one of the countries in the European space whose potential is greatly underestimated and untapped. The world market conditions, theses on significant reforms, the opportunity to invest in the land market make our country an important investment object and today it is an instrument for optimizing position of Ukraine in international investment activity.

Table 2

**DIRECT INVESTMENTS (SHARE CAPITAL AND DEBT
 INSTRUMENTS) IN THE ECONOMY OF UKRAINE IN 2016-2018²⁸**

Indicators	2016	2017	2018	Including			
				EU countries		other countries	
				2017	2018	2017	2018
Direct investments of non-residents in Ukraine (share capital and debt instruments) as of January 01 of the reporting year	40005.3	38796.9	40 020.9	30071.0	31 114	8725.9	8 906.0
Share capital of non-residents as of January 01 of the reporting year	32122.5	31230.3	31 606.4	23427.7	24 145	7804.6	7 461.2
Received share capital of non-residents	4405.9	2511.1	2 869.9	1631.7	2 200.9	879.4	669.0
Retired share capital of non-residents	-904.2	-759.0	-968.1	-564.2	-678.3	-194.8	-289.8
Other changes of share capital value of non-residents (change of value, loss, reclassification of investments, etc.)	-2687.8	-326.4	-1 216.3	236.0	-925.1	-562.4	-291.2
Share capital of non-residents	32936.4	32656.0	32 291.9	24729.2	24 742	7926.8	7 549.2
Debt instruments (credit and loan arrears, trade credit obligations and other direct investor obligations) as of January 01 of the reporting year	7882.8	7566.6	8 414.5	6645.3	6 969.7	921.3	1 444.8
Non-resident direct investments in Ukraine (share capital and debt instruments) as of December 31 of the reporting year	40530.1	41104.6	40 514.1	31782.1	31 559.0	9322.5	8 955.1

Confirming the significant impact of investment activity on the development of economic potential of our country, we create a

²⁸ State Statistics Service. Economic statistics. Foreign economic activity. Investment in foreign economic activity. <http://www.ukrstat.gov.ua/> [In Ukrainian].

regression model for the impact of investments in capital asset in UAH million. (independent factor X) on the GDP of Ukraine in UAH million (resulting factor B) in 2000-2018.

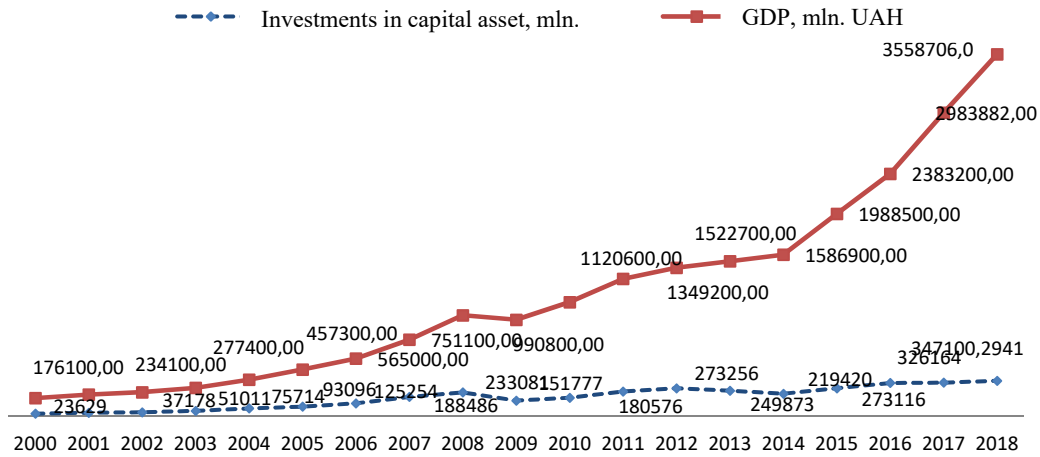


Fig. 1. Initial data for model construction in years 2000-2018.

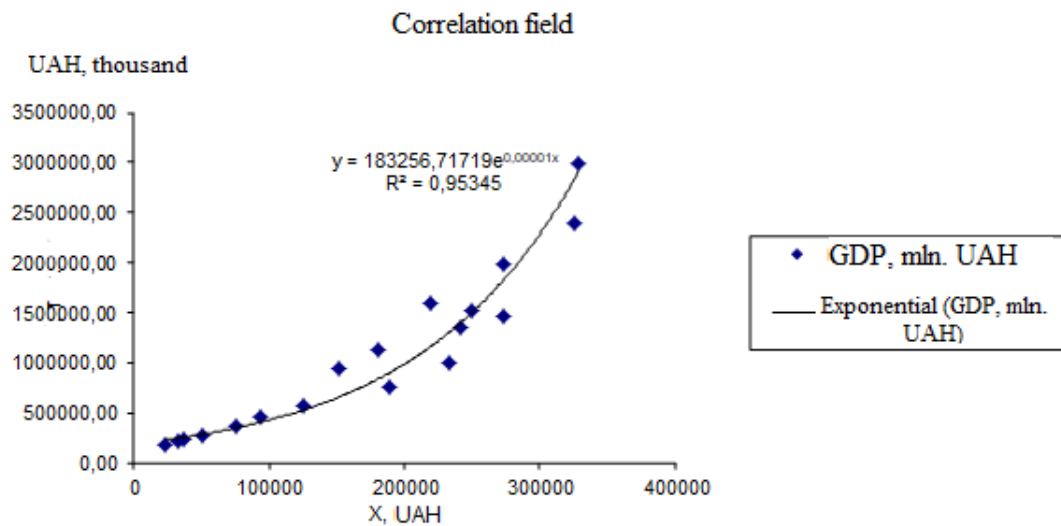


Fig. 2. The results of the regression analysis on the formation of investments impact trend in capital assets on GDP

As a result of software products use and appliance of dependencies of linear, logarithmic, polynomial, exponential, power characters, it was determined that the exponential function most of all reflects the

relationship between the investment impact on GDP based on the coefficient $RI = 0.955345$ determination which is the largest for this particular function. Further analysis found that the calculated Fisher's ratio test is 134.19, which is significantly higher than the tabular value of 4.45, so the constructed model is adequate for statistics data and suitable for further analysis and forecasting.

The correlation coefficient for the impact of investments in capital assets on GDP is calculated using the predefined function of the Microsoft Excel program, in accordance with $r_1 [x, y] = 0.97645$. Whereas $r [x; c] > 0$, then the connection between X and Y is direct, and with an increase of investments in capital assets, the GDP of our country will increase, considering the fact that $0.7 < |r [x, y]| < 1$, then the connection between X and Y is strong. Let us evaluate the effect of the variation of factor X on the variation of indicator Y, using the determination coefficient, that is 0.95345%, the variation of the indicator by 95.35% is due to the variation of the factor.

The analysis results showed a significant impact of investment on the development of economic potential of our country and GDP growth, therefore, it is necessary to use all the organizational and institutional directions of optimization of Ukraine's positions in international investment activities to increase incoming investment flows. Ukraine has a certain degree of attractiveness to foreign investors, it does not stay aside from world developments, but it is sufficiently integrated into the world economy, however, the disfunction of macrostability, distrust of the neighboring states, corruption, political upheavals, a "hybrid war" with the Russian Federation, the annexation of the Autonomous Republic of Crimea has echo in Ukraine and these are real obstacles for foreign investment. These processes are reflected on the position of Ukraine in international ratings, despite the fact that foreign investors make investment decisions.

Institutional effectiveness of the domestic policy of foreign investment attraction

Institutional effectiveness of the domestic policy of foreign investment attraction is reflected on the basis of indicators that formed the basis for the creation of international ratings for economic liberty, easiness of setting up and running a business, an integrated index of competitiveness and the index of investment attractiveness of Ukraine as a whole. The methodology of rating coefficients calculation standardizes approaches for determination the potential of all countries and allows to identify sensible parts in the development of organizational and institutional mechanisms for optimizing the position of the country in international investment

activity. This makes possible to create effective target instruments in improving of the positions in ratings, which are weak least of all.

In table 3, we will consider the dynamics of Ukraine's position in international ratings, that certify the comparative level of institutional effectiveness of country investment policy.

Table 3

POSITION OF UKRAINE IN INTERNATIONAL RATINGS THAT REFLECT THE INSTITUTIONAL EFFECTIVENESS OF DOMESTIC POLICY OF FOREIGN INVESTMENTS ATTRACTION

Year	Rating of economy liberty ²⁹		Raking of easiness of running a business ³⁰	Credit rating of Moody's Investors Service Agency ³¹	Global Competitiveness Index ³²	Index of investment attractiveness of Ukraine ³³	
	<i>figure</i>	<i>change, %</i>	<i>position among 190 countries</i>		<i>position among an average of 140 countries</i>	<i>At the end of year</i>	<i>an absolute change</i>
2007	51.5	-	139	—	69	—	—
2008	51.0	-0.97	145	—	73	—	—
2009	48.8	-4.31	142	—	72	2.57	—
2010	46.4	-4.92	147	—	82	3.28	0.71
2011	45.8	-1.29	145	—	89	2.56	-0.72
2012	46.1	0.66	152	—	82	2.12	-0.44
2013	46.3	0.43	137	—	73	1.81	-0.31
2014	49.3	6.48	112	Caa 3, stable estimate	84	2.50	0.69
2015	46.9	-4.87	96	Caa 3, stable estimate	77	2.57	0.07
2016	46.8	-0.21	83	Caa 2, positive estimate	79	2.85	0.28
2017	48.1	2.78	80	Caa 2, positive estimate	85	3.03	0.18
2018	51.9 <i>Position No. 148 from 178 countries</i>	7.90	76	Caa 1, stable estimate	81	3.10	0.07

²⁹ Ukraine: index of economic freedom. Knoema. URL: https://knoema.ru/atlas/Украина/Индекс-экономической-свободы?_ga=2.155881272.204584354.1551111127-477900222.1517845736. [In Russian].

³⁰ The Doing Business Report, 2007–2018. *The World Bank*. URL: <http://russian.doingbusiness.org/ru/rankings>

³¹ Moody's upgraded Ukraine. <https://www.rbc.ua/ukr/news/moody-s-povysilo-reyting-ukrainy-1545495152.html>. [In Ukrainian].

³² Ukraine's position in the global competitiveness index 2017-2018. *Economic Discussion Club*. <http://edclub.com.ua/analytika/pozyciya-ukrayiny-v-reytingu-krayin-svitu-za-indeksom-globalnoyi-konkurentospromozhnosti-2>. [In Ukrainian]; World Economic Forum. <https://www.weforum.org/reports/> (дата звернення: 01.03.2019).

³³ The index of investment attractiveness of Ukraine is kept in the neutral plane. *Fin Post*. <https://finpost.com.ua/news/9159>. [In Ukrainian].

The Economic Liberty Rating is one of the important international ratings that takes into account 12 liberties. According to this rating, countries are graded into categories: free economy, mostly free economy, frugally free economy, unfree and depressed economy. Currently our country is in the group of countries with mostly unfree economy. Ukraine is rated as the last among European countries. According to data of 2018, Ukraine ranks 148th position among 178 countries, and its rating is lower than the regional one according to global indicators. According to the research of the Ukrainian Institute for Analysis and Management of Policy, the domestic economy has been extremely shaken by the annexation of the Autonomous Republic of Crimea and the armed conflict in Donbass for the last years but it is noted that Ukraine has achieved a significant progress in reforming - it became more democratic and transparent (this fact is confirmed by the economic liberty rating value increase in 2018 relative to 2017 by 7.9%). However, researchers of the center emphasize on the need of anticorruption efforts, capital markets development, privatization of state enterprises and rationalization of legal framework and supremacy of the law³⁴.

As we can see from Table 3, Ukraine significantly improved its position on the international rating of running a business easiness for the researched period. Positive changes occurred in 4 of 10 major components of the research. However, when comparing Ukraine with the former socialist bloc countries, there is no reason to be comforted: the conditions of running a business in Ukraine remain one of the worst both in Western and Eastern Europe (according to data of 2018, for example, Belarus ranked 37th position, Georgia – 6th position)³⁵. According to this rating, Ukraine ranks the worst positions in terms of connection of the premises to the energy supply systems of Ukraine (position 128), international trade (position 119)³⁶. Therefore, we believe that there are some improvements in the business environment in Ukraine, but it is not ideal and not attractive enough for foreign investors, because, as record shows, investment projects in the countries with a rating of easiness of business running that below than 20th position are in disfavor with foreign investors.

Positive estimates for Ukraine are also reflected in the credit rating of Moody's international rating agency, which raised the rating of

³⁴ Ukraine in international rankings. Ukrainian Institute for Policy Analysis and Management. <https://uiamp.org.ua/ukrayina-v-mizhnarodnih-reytingah> [In Ukrainian].

³⁵ Doing Business-2018. Ukraine in the ranking of the World Bank's Ease of Doing Business. Economic Discussion Club. <http://edclub.com.ua/analytika/doing-business-2018-ukrayina-v-reytyngu-svitovogo-banku-legkosti-vedennya-biznesu>. [In Ukrainian].

³⁶ Ukraine's business climate has improved, but there are no investors: why so? *Etcetera*. URL: <https://uk.etcetera.media/biznes-klimat-v-ukrayini-polipshivsya-ale-investoriv-nemaye-chomu-tak.html>. [In Ukrainian].

Ukraine from Caa2 to Caa1. In addition, the estimate on the ratings changed to “stable” from “positive”; factors of positive estimates for Ukraine were also pointed: the achievement of agreement for a new Stand-By Loan Program by Ukraine and IMF; positive expectations on reduction of corruption due to the reforms in the country; increasing of opposition of Ukraine during the conflict with Russia. Among the negative aspects, the credit rating of Ukraine is a significant dependence on IMF financing³⁷.

In the rating of Global Competitiveness Index following the results of 2017-2018 years, Ukraine moved up on 4 positions and ranked 81st position among 137 countries of the world³⁸. Ukraine has worsened its positions in 4 of 12 key indicators of the index. However, according to the “Institution” component, the positions of Ukraine has been increasing since 2015. Similar trends relate to “Macroeconomic environment” variable. Despite some improvements, Ukraine’s positions in the Global Competitiveness Index are far from ideal. The negative factors for business running in our country are: inflation, corruption, political instability, high tax rates, the complexity of tax legislation, instability of governments, inhibit access to finance, inefficient state bureaucracy, foreign exchange market regulation, poor education of workers, poor ethics of the workforce, insufficient ability to innovate, restrictive regulation of the labor market, improper quality of infrastructure, crime and theft, low quality of public health³⁹. Probably, most of the negative factors of business running in Ukraine have institutional nature. Accordingly, the institutional effectiveness of domestic economic policy remains quite low compared with developed countries (ten leaders: Switzerland, USA, Singapore, Netherlands, Germany, Hong Kong, Sweden, United Kingdom, Japan and Finland).

According to the results of interrogation of foreign investors in 2018, which is annually held by the European Business Association, Dragon Capital and the Center for Economic Strategies were named “Top 10 obstacles to foreign investment in Ukraine”⁴⁰ (fig. 3). Namely: widespread corruption, distrust of the judicial system, unstable monetary and financial systems, monopolization of markets and the conquest of power by magnates, military conflict with Russia, untenable and alterable legislation, repressive actions by law enforcement

³⁷ Moody's upgraded Ukraine's credit rating. *Economichna Pravda*. 12/23/2018 <https://www.epravda.com.ua/news/2018/12/23/643847/> [In Ukrainian].

³⁸ Ukraine's position in the global competitiveness index 2017-2018. *Economic Discussion Club*. <http://edclub.com.ua/analitika/pozyciya-ukrayiny-v-reytingu-krayin-svitu-za-indeksom-globalnoyi-konkurentospromozhnosti-2.> [In Ukrainian].

³⁹ Ibid.

⁴⁰ Research: Corruption, mistrust of the courts and the financial system are the main brake on investment. *Radio freedom*. <https://www.radiosvoboda.org/a/news-opytuvannia-investoriv/29496035.html>. [In Ukrainian].

institutions, restrictions on capital flows and foreign exchange transactions, complex tax administration, revitalization of labor migration.

All of the above makes it possible to make a conclusion about the low efficiency of the domestic policy of foreign investment attraction in the business activities sphere of Ukraine. Under the conditions of an institutionally ineffective investment policy in Ukraine, domestic spheres of business activity receive less investments. Following the adverse investment environment in the absence of a clear specification of property rights, equitable access to resources, distribution of goods, tax burden, etc. there arose a need for fundamental institutional changes for the development of a civilized institutional environment according to world standards and the formation of a favorable investment environment in the country.

The conducted research proves that Ukraine needs modernization of the economy and investment flows in all spheres of economic activity. Industry, construction, transport and communications, health care, ecology - each of these areas requires significant investment. However, the State Budget lacks funds for expenditures in these directions from year to year, so the investment development of our state is substantially inferior to the level of investment development of European countries.

With insufficient investment in the domestic economy, the population has a few score of billions of dollars in cash. It is clear that in such conditions the shadow economy thrives by means of the constant oppression of the formal economy. Supposedly, that there are significant funds, but Ukrainian citizens are reticent to turn their savings into private investment. From our point of view, this may be due to the following reasons:

- firstly, the overwhelming majority of the population's cash funds is not of an investment nature, rather, it acts as "for a rainy day" resource and evens out the flow of consumption in conditions of unstable national currency;
- secondly, the features of the internal investment environment, etc.

The internal investment environment is characterized by many qualitative characteristics, let us focus on only two of them (Fig. 3).

The insufficiency of national investment resources encourages to turn to foreign sources. Since independence till present, the investment environment in Ukraine can be characterized by the words "It would be nice to be the best".

Nobody will deny that over the years of independence, Ukraine was in a state of permanent reform. There is no point to assume that all reforms were flawed. Why is there no positive effect from their

implementation and there is no improvement in the investment environment in the country? This question is not rhetorical. The answer is in the sequence of operation of such events. One well-planned and implemented reform properly requires the implementation of complementary reforms, carried out in strict sequence (ranking of reforms) and at a certain time.

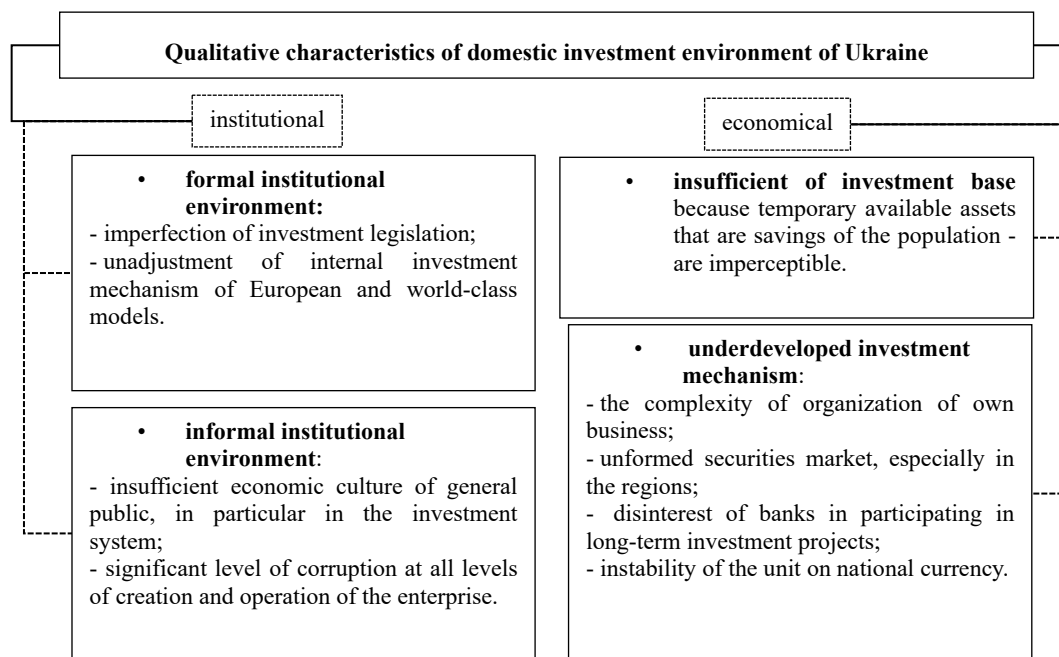


Fig. 3. The main qualitative characteristics of the domestic investment environment of Ukraine ⁴¹

Thus, the main instruments of increasing of the institutional efficiency of investment policy in Ukraine in the context of globalization and internationalization of the world economy should be a real, but no declarative, improvement of the investment environment, reduction of bureaucratic procedures for investors, simplification of regulatory and registration requirements and the adoption of radical measures to efficient protect of the rights of investors. The way out of the situation is the justification of a rational investment policy, in which the system of public regulation and reforming the ownership

⁴¹ Improved based on: Nykytiuk T.L., Baula O.V. Innovatsiino-investytsiyni rozvytok Ukrainy: suchasni realii ta neobkhidni zminy. *Ekonomichnyi chasopys*. KhKhI st. 2015. No. 3-4(2). pp.18. [In Ukrainian].

structure based on privatization and the concept of technical upgrading of industrial manufacturing with the involvement of foreign investors will have priority⁴².

Development of organizational and institutional conditions of improvement of foreign investment attraction policy effectiveness in Ukraine

We propose to form the organizational and institutional functions of effectiveness of the domestic policy of investments attraction in Ukraine business activities depending on the Top 10 barriers for foreign investments in Ukraine according to the European Business Association, Dragon Capital and the Center for Economic Strategies, which were discussed above.

Figure 3 shows the organizational and institutional mechanism of effectiveness improvement of the domestic policy of foreign investments attraction in Ukraine's business activities, containing the goals of the domestic investment policy and priority measures to manage organizational, economic and institutional factors for investments attraction.

An investment boom in Ukraine is possible only if a prudent investment policy is implemented, which should contain functions that will give not only a short-run effect, but will be rated for a long-run effect.

A stable national currency is important for the investment capital inflow. A stable national economy is primarily provided by the steadiness of the national currency, which is a consequence of the steadiness of the consumer purchasing power, development of the internal consumption market, growth of the country attractiveness for foreign investors, etc.

Promotion of dividend payment practice and legislatively held responsibility of the issuer for received funds from investors are able to launch the mechanism of stock market instruments using, transformation of personal savings into investment, spreading of fair competition among investors.

⁴² Hunko V.I. Osoblyvosti investytsiinoi pryvablyvosti natsionalnoi ekonomiky Ukrainy. *Visnyk universytetu bankivskoi spravy Natsionalnoho banku Ukrainy*. 2013. No. 3 (18). p.74. [In Ukrainian].

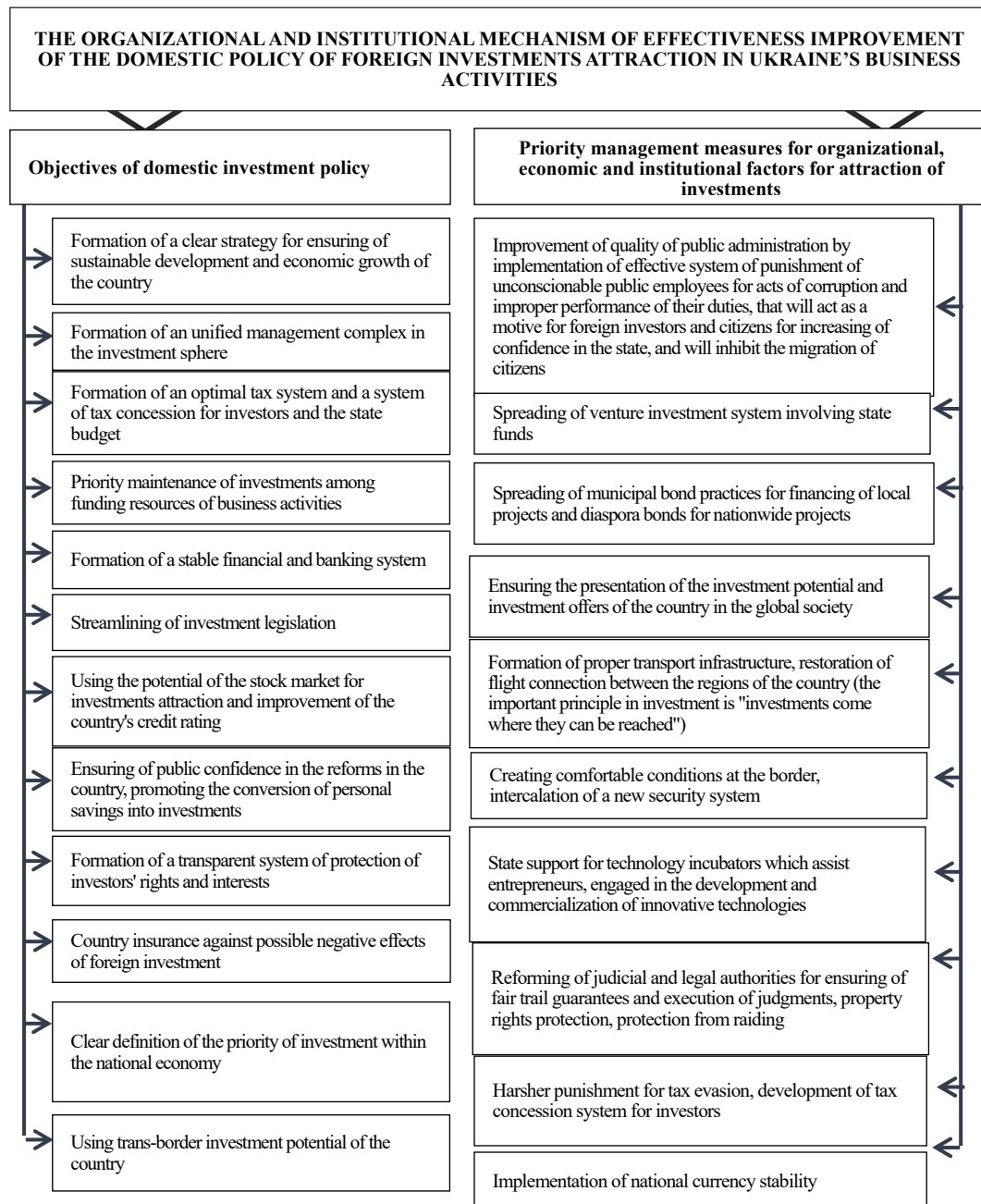


Fig. 5. Objectives and measures of the organizational and institutional mechanism of effectiveness improvement of the domestic policy of foreign investments attraction in business activities

Conclusion

According to Dragon Capital European Business Association and the Center for Economic Strategies, the biggest obstacle for foreign investment in Ukraine is corruption. An experience of Singapore shows that the existence of strong political will of the country's leadership (an actual intentions of the country's leadership are really, but not declaratively opposed to corruption in all its manifestations) can promote the minimization of corruption. Political will is manifested not only in the private capacity of senior government officials, but also in the level of citizens legal awareness, the development of democratic institutions of society, which ensure the manifestation of such will and its implementation⁴³. That is why we believe that it is possible to overcome corruption practices in the country not only by formal legal institutions using, but also by informal ones - changing the consciousness of officials and citizens in the line of intolerance to corruption.

Expansionary measures of the state investment policy of Ukraine should become key at this stage of the domestic economy development.

As can be seen from the above, the main instruments in favorable and efficient investment climate in Ukraine formation should be real, not declarative, reduction of bureaucratic procedures for investors, investments guarantee system reformation, stimulation of the stock market development and its financial instruments taking into account the priority directions of Ukrainian economy development. The proposed organizational and economic mechanism of state regulation of investments attraction will promote a vector approach in favorable organizational, economic and institutional conditions formation for attraction of investments in the domestic economy.

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⁴³ Foreign investors fear Ukraine over corruption and raiding - US media. *Ukrainian news*. 02 Nov.2015. <https://ukranews.com/ua/news/387482-inozemni-investory-boyatsya-ukrainu-cherez-korupciyu-ta-reyderstvo-amerykanski-zmi>. [In Ukrainian].

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