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FEATURES OF THE REGION'S INVESTMENT CLIMATE FORMATION AMID ECONOMIC INSTABILITY

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investment climate, region, soft factors, hard factors, institutional environment, investment attractiveness, investment policy, mechanism.

The article is devoted to the study of the peculiarities of the regional investment climate formation in the context of external challenges and higher economic instability. Based on the analysis, the factors shaping regional investment climate have been identified and grouped into two areas by the criterion of time invariance/variability delimitation: the first group of factors requires a long period to implement changes (so called "hard" factors), the second group requires short period of time ("soft" factors). It has been proved that nowadays regional investment climate is largely determined by "soft" factors affecting investment institutional environment. The assessment of regional investment climate in Ukraine has allowed to group the regions according to the criterion of investment attractiveness, namely: leading regions (the highest level of investment attractiveness); "Catching up" regions (have lower level of general economic capacity compared to the leaders, but close to them); regions at an intermediate stage of development (have an intermediate level of investment risks); outsiders (low level of investment attractiveness and activity). The authors have singled out five groups of factors shaping the investment climate: the level of productive forces development and investment market position; political will of a government and the legal environment; financial and credit system position and activities of financial intermediaries; foreign investor status; population investment activity. Based on the factors analysis, four types of environment have been formed, which are in fact components of the investment climate: political and legal environment; socio-cultural environment; economic environment; institutional and infrastructural environment.

ОСОБЛИВОСТІ ФОРМУВАННЯ ІНВЕСТИЦІЙНОГО КЛІМАТУ РЕГІОНУ В УМОВАХ ЕКОНОМІЧНОЇ НЕСТАБІЛЬНОСТІ

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Ключові слова:

інвестиційний клімат, регіон, м'які чинники, жорсткі чинники, інституційне середовище, інвестиційна привабливість, інвестиційна політика, механізм.

Стаття присвячена дослідженню особливостей формування інвестиційного клімату на регіональному рівні в умовах поглиблення зовнішніх викликів та економічної нестабільності. На основі аналізу виокремлено чинники, які формують інвестиційний клімат регіону, та згруповано їх за двома напрямками за критерієм розмежування яких є незмінність/змінність у часі: перша група чинників потребує тривалого періоду для реалізації змін – «жорсткі» чинники та друга група – зміни можливі протягом нетривалого періоду часу – «м'які» чинники. Доведено, що на сучасному етапі інвестиційний клімат у регіоні більшою мірою визначається «м'якими» чинниками, які визначають інституціональне середовище для інвестування. Оцінка інвестиційного клімату регіонів України дозволила згрупувати регіони за критерієм інвестиційної привабливості, а саме: регіони-лідери (найвищий рівень інвестиційної привабливості); «наздоганяючі» регіони (мають менший рівень загальноекономічного потенціалу порівняно з лідерами, але наближені до них); регіони середнього рівня розвитку (мають середній рівень інвестиційних ризиків); аутсайтери (низький рівень інвестиційної привабливості та активності). Автори виокремили п'ять груп факторів, які формують інвестиційний клімат: рівень розвитку продуктивних сил та стан інвестиційного ринку; політична воля влади та правове поле держави; стан

фінансово-кредитної системи і діяльність фінансових посередників; статус іноземного інвестора; інвестиційна активність населення. На основі аналізу зазначених факторів сформовано чотири типи середовищ, які є фактично складовими інвестиційного клімату: політико-правове середовище; соціально-культурне середовище; економічне середовище; інституціонально-інфраструктурне середовище.

Statement of the problem

Nowadays the impact of global trends on the development of national economies is increasing, which is reflected in the regional performance. Natural resource potential of regional systems can be fully presented, if a favourable environment for investment processes is created. The combination of these conditions and factors determines investment climate, which is designed not only to attract investment but also to support actual investors.

In Ukraine in general, and at the regional level in particular, there are a number of obstacles to the investment process implementation. Among the most important, we should figure out the imperfection of investment legislation, lack of appropriate investment climate in the country; market mechanism imperfection; political instability; low level of business and professional qualification of entrepreneurs; insufficiently attractive investment projects and, as a consequence, lack of foreign partners' interest. In addition, the intensity of investment processes is being affected by the tax system; lack of effective investment insurance system; excessive monopolization; as well as high inflation rate.

One should note that investment processes are contradictory. On the one hand, transformation processes are aimed at macroeconomic stabilization and transformation of the economic system, which theoretically contribute to improving the investment climate. On the other hand, the processes of political and economic instability are related to the global crisis, as well as to the internal problems that hinder investment processes.

Economic instability explains the growing importance of favourable investment climate at the regional level, because the reform and decentralization should cause their relative independence in decision-making and responsibility for the consequences. Given the imperfection of the regulatory framework and the decline in investment activity of economic entities, there is a deterioration of the regional investment climate. Besides, there is a need to improve the investment policy to create favourable environment.

Analysis of recent studies and publications

The issues of investment climate analysis and their improvement areas are reflected in the scientific studied. Ukrainian scholars as I. Blank [1], V. Zakhzhaii, M. Kit [2], M. Kyzym, [3], S. Petrovska [4], I.Z. Storonyanska [5], T. Umanets [6], V.V. Ushakov [7] and others have studied the issues of investment climate and investment attractiveness of different entities and regions.

Unsolved part of the problem

Despite the significant number of scientific achievements, it is necessary to detail the peculiarities of the regional investment climate formation amid economic instability.

Objectives of the article

The study objective is peculiarities of the regional investment climate formation amid economic instability in the context of socio-economic problems exacerbation and higher economic uncertainty.

The main material of the research

The significant role of investment processes in the regional is beyond doubt. Investments can solve a number of key tasks of economic development: support and stimulation of general economic growth; environmental safety support; reduction of poverty level and depth in the long run.

To address these challenges, investment in small and medium-sized businesses can have a more significant impact than large state-owned monopolies financing. This is due to the fact that about half a million of small and private-owned businesses provide almost a third of the world's population with food, but do not have access to markets, to infrastructure, unlike their competitors. Stimulation and development in this direction can have favourable economic effect.

Favourable investment environment is needed to attract investment to the regions. At the same time, research shows that now there are some problems that together form a high-risk investment environment, which hinders investment in the regions. That is, unfavourable investment climate is a consequence of investment activity in other sectors of the economy, as well as the result of long-term loss of production.

Among the reasons for the decline in investment activity should be noted:

- significant tax burden on producers and lack of benefits for industrial investment, as well as uneven taxation;
- different “game rules” in the financial market for the participants, as the most profitable areas of capital investment are transactions in securities, real estate and banking;
- low burden of previously introduced fixed assets and a high level of their depreciation, which does not allow companies to accumulate funds for the production.

The region is part of the country having a set of features: territorial, natural, economic and socio-cultural. This embodies the natural resource potential of the regional system. The investment climate is a prerequisite for potential fulfilment, which is a set of conditions that will determine the scale, volume and pace of investment and regional investment attractiveness.

Theoretical and practical analysis reveal that current investment climate and the peculiarities of economic environment significantly complicate investment activities in Ukraine in general and regions in particular, which directly affects investment attraction into the economic development. The real volume of investment does not

allow to ensure the appropriate level of economic growth and reproduction processes.

One should note that the regions of Ukraine have significant potential to attract investment, as the country has all the prerequisites for intensifying this process. Among the advantages are significant natural resource potential, skilled labour force, production facilities and large domestic market favourable for exports growth and entering international commodity and financial markets. However, nowadays the unfavourable investment climate, economic environment and the lack of appropriate regulatory framework for regulating investment processes are an obstacle to intensifying the process of investment into the economy.

It is typical to distinguish factors of investment attractiveness by the criterion of constancy / variability over time, which are divided into two groups: “hard” and “soft” (fig. 1).

The group of “hard” factors includes those which cannot be changed in the short term. However, they are the basis for medium – and long-term forecasts of national economy development in terms of investment processes. “Soft” factors, in turn, can change in a relatively short period and can create barriers to investment. In this case, if the first group of factors determines the quantitative assessment of investment, the second – qualitative.

Investment processes analysis in the post-crisis period shows that the leading role for the national economy is played by “soft factors”, which create appropriate institutional environment.

Using the ranking of the regions of Ukraine, compiled on the basis of the investment climate assessment, it is expedient to single out certain groups of regional systems according to the criterion of “investment attractiveness” and to characterize them. Regional systems are divided into the following groups [8]:

1. The group of “leading regions”, which include regions with a high level of investment attractiveness, which is a priority.

2. The group of “catching up” regions, which have a moderately high level of investment attractiveness, but in certain respects lag behind the leading regions.

3. The group of “middle level development regions” is the largest and includes regional systems that have an average level of investment attractiveness, due to underdeveloped industrial production.

4. Group of “outsiders”, which have the lowest level of investment attractiveness compared to the previous groups of regional systems and are characterized by the lowest economic potential.

Favourable investment climate can be analyzed by studying the region in the “Investment and innovation development and foreign economic cooperation of the regions of Ukraine, 2015–2019” ranking (Table 1).

Analysis of regions ranks (Table 1) shows that the city of Kyiv is the undisputed leader in terms of investment attractiveness, the second place is occupied by Volyn region, the third place – Kirovograd region. The lowest level of investment attractiveness is in Luhansk, Khmelnytsky and Rivne regions.

There are five groups of factors that shape the investment climate: the level of development of productive forces and the investment market position; government’s political will and the legal framework; financial and credit system status and the activities of financial intermediaries; foreign investor status; population investment activity.

One should note that the peculiarity of investment processes is the idea that the final result of the investment should be high level of economic well-being, quality of life, improved working conditions and personal development. After all, investments can be successful and effective only

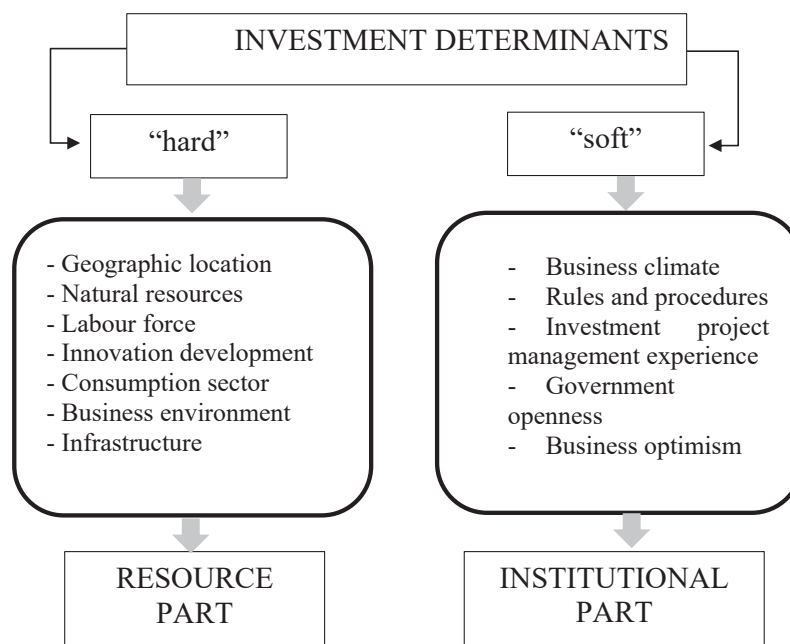


Fig. 1 – Groups of investment determinants at the regional level

Source: made by authors based on: [8, p. 37–39]

Table 1 – Investment and innovation development and foreign economic cooperation of the regions of Ukraine, 2015–2019's

Ranking	Region	Ranking	Region
1	The City of Kyiv	14	Sumy
2	Volyn	15	Donets'k Region
3	Kirovograd	16	Cherkasy
4	Kherson	17	Vinnitsya
5	Mykolayiv	18	Odesa
6	Kyiv	19	Chernivtsi
7	Dnipropetrovs'k Region	20	Zhytomyr
8	Poltava	21	Ivano-Frankivs'k
9	Zakarpattia	22	Lviv
10	Zaporizhzhia	23	Luhans'k
11	Kharkiv	24	Khmelnitsky
12	Ternopil	25	Rivne
13	Chernihiv		

Source: made on the basis of: [9]

if the principle of combining freedom of business and effective public policy is implemented in Ukraine.

Conclusions

Based on the study, one can conclude that the formation of regional favourable investment climate is important in terms of ensuring the maximum realization of natural resource potential. The created institutional environment and investment infrastructure of the regional system play an important role too. In order to attract as much investment

resources as possible, regions as independent economic systems must be constantly improved and developed in accordance with the identified priorities and strategic guidelines. At the same time, it is crucial not only to interest investors, but also to keep them, to motivate them to invest in the development of the regional system, seeing in this their own and public welfare growth. Thus, the formation of favourable investment climate in the region creates future prospects for its full development and welfare of its population, allows to make the most of all capacity.

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