The influence of investment processes on the economic development of a region

Wpływ procesów inwestycyjnych na ekonomiczny rozwój regionu

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Summary
In the article influence of investment processes is reflected on economic development of Ukraine on the whole and the Volyn region in particular. The factors of investment climate of Ukraine and condition of his improvement are considered. Theoretical principles of functioning of economic free economic zones and the territories of priority development are given; purpose their introduction. Certainly basic positive and negative aspects of functioning of TPD of the Volyn region. Suggestions are grounded in relation to the improvement of investment climate in Ukraine; the ways of activation of investment activity are offered on territories of priority development taking into account the changes of market environment and normatively legal bases in Ukraine.

Keywords: investments, investment potential, investment activity, dedicated modes of investment activity, the territories of priority development, free economic zones

Streszczenie
W artykule przedstawiono wpływ procesów inwestycyjnych na ekonomiczny rozwój Ukrainy w szczególności zaś na rozwój regionu Wołyńskiego. Przedmiotem rozważań jest klimat inwestycyjny na Ukrainie i warunki w jakich może on ulec poprawie. Podano teoretyczne zasady funkcjonowania wolnych stref ekonomicznych i terytoriów priorytetowego rozwoju oraz zasadność ich utworzenia. Wskazano na główne dodatnie i negatywne aspekty funkcjonowania terytorium priorytetowego rozwoju Obwodu Wołyńskiego. Przedstawiono propozycje poprawy klimatu inwestycyjnego na Ukrainie; zaproponowano drogi aktywizacji działalności inwestycyjnej na terytoriach priorytetowego rozwoju z uwzględnieniem zmian środowiska rynkowego i normatywno-prawnej bazy.

Słowa kluczowe: inwestycje, inwestycyjny potencjał, inwestycyjna działalność, inwestycyjna aktywność, specjalne reżimy inwestycyjnej działalności, terytorium priorytetowego rozwoju, wolna ekonomiczna strefa
Relevance of research

Well-being of any country depends on the functioning efficiency of enterprises, organizations, institutions, businesses, personal welfare of every household. The government gets its income by taxing businesses and individuals by both direct and indirect taxes. Investments should be regarded as a factor of economic growth, and therefore as an growth factor of obligatory payments receipt to the budget, strengthening of the country's financial system.

In Ukraine income amounts and depreciation deductions of enterprises, which must be the major sources of personal investment of companies, hasn't grown due to needs because of production decline, inefficient tax system (with her excessive pressure on income producers) and imperfect depreciation policy for several years.

Searching for ways out from the crisis in the country in whole and its region provides to reach the balancing of the most important national economic proportions: investment fund – accumulation fund – consumption fund. In other words, the executive authorities should focus their attention to the following three areas of work: attracting of investments, assisting growth of production and purpose reinvestment of earned costs.

1. Macroeconomic investment indexes of Ukraine

One should note that Ukraine is in a very difficult debt situation. By the end of 2013 Ukraine must not only repay over 3 million USD to IMF, but pay in June 2 million USD, borrowed to cover the budget deficit two years ago, to the Russian Vneshtorgbank. On the whole, only in June Ukraine must spend over 23 million USD to serve external debt. At the same time, foreign exchange reserves are insufficient to make such payments: their official size is about 31 million USD, but 12 million USD is a foreign currency, the rest are the securities and other assets. If in the next 12 months it is necessary to repay the debt of over than $ 8 million USD, the situation with the foreign exchange reserves may become rather negative, because Ukrainian government laid in the budget of 2013 GDP growth for 3.9%, and international financial institutions and rating agencies predict that this year the Ukrainian economy will grow only for 1-2.5% comparatively with 5.2% of last year. As a result, debt repayments to the IMF by foreign exchange reserves can lead to another round of foreign exchange instability what will weaken the investment security of Ukraine.
Tab. 1. The macroeconomic prognosis for the Ukrainian economy

<table>
<thead>
<tr>
<th></th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Real GDP growth, % t/t</td>
<td>5.2</td>
<td>3.0</td>
<td>4.0</td>
</tr>
<tr>
<td>Sector balance of governent, % of GDP</td>
<td>-4.3</td>
<td>-3.5</td>
<td>-2.5</td>
</tr>
<tr>
<td>Consumer Inflation, % in the end of the year</td>
<td>4.6</td>
<td>9.0</td>
<td>8.0</td>
</tr>
<tr>
<td>Current accounts balance, % of GDP</td>
<td>-5.5</td>
<td>-4.9</td>
<td>-4.7</td>
</tr>
<tr>
<td>International reserves of NBU, mln. USD</td>
<td>31.8</td>
<td>26.5</td>
<td>26.0</td>
</tr>
<tr>
<td>Country sector debt, % of GDP</td>
<td>36.0</td>
<td>34.5</td>
<td>34.0</td>
</tr>
<tr>
<td>Foreign debt, % of GDP</td>
<td>76.6</td>
<td>69.0</td>
<td>65.0</td>
</tr>
</tbody>
</table>

Source: [6]

Also, the main factor affecting the investment processes is the investment climate. It was quite unfavourable in Ukraine, especially for foreign investors. Apparently “warming” in this sense has been observed since 2008 when Ukraine began to pursue a policy of accession to WTO and possible membership in EU.

2. Factors that worsened the investment climate in Ukraine

It should be noted that the main factors that worsened the investment climate in Ukraine, were:
- unstable political situation and the lack of social consensus on increasing concerning the quality and depth of reforms;
- narrow internal market, low solvent demand of enterprises and the population;
- low profitability of most businesses in all spheres of economic activity what makes imports more profitable in comparison with to foreign investment and production expansion;
- high level and distorted structure of production costs; imperfect corporate and investment legislation, unsatisfactory protection of rights for shallow shareholders;
- excessive tax pressure on legitimate economy, at the same time “shadowing” almost half of national production;
- deformed currency, payment crisis, the dominance of low liquid surrogates;
- high level of corruption and organized crime;
- low business culture and reluctance of modern technology business;
- lack of market infrastructure and so on.

By the action of these factors one can explains the legal and illegal outflow of capital from Ukraine, whose volume for the last ten years, according to experts, makes more than 20 million USD. Every year 3-5 million USD is illegally derived from the country, first of all in the offshore and to Cyprus, which according to Ukrainian legislation is not an offshore zone.
It should be noted that the structure in the forms of bringing in of foreign capital to Ukraine for the period of 2002-2012 has considerably changed. Thus, in 2001-2004 contributions in the form of movable and immovable property held from 28 to 36%. In our days investing in cash deposits dominate in the structure of non-residents’ equity.

Describing the current state of investment in Ukraine, it should be noted that according to the State Statistics Committee, 4,3 mln USD have been invested to the domestic economy by foreign investors for January – September 2012, what presents 91.07% to the corresponding period in 2011 [4].

Fig. 1. Dynamics of direct investments in Ukraine

![Dynamics of direct investments in Ukraine](image)

Source [4]

The amount of supplied from the beginning of direct foreign investments (equity) to the economy of Ukraine for October 1, 2012 totalled 52,673.8 million USD, what is more than 5.2% of investment in the beginning of 2012, and counts 1157.0 USD per one person of population is USA.

3. The need and conditions for the implementation of special investment regimes in Ukraine

Consequently, to improve the financial situation high authorities systematically made attempts to state regulation of investment process in Ukraine. Rather effective mechanism at the regional level is to take advantage of free economic
zones (FEZ) and the territories of priority development (TPD). World practice confirms the positive influence of FEZ and TPD on the regional development. At the beginning of the XXI century in industrially developed countries operated from 800 to 1200 FEZ, covering nearly 27 million employees.

Creation in Ukraine first special (free) economic zones (SEZs) and then territories of priority development (TPD) was predefined by the necessity to attract foreign investments and promote them; to stimulate production development and enhance businesses cooperation with foreign investors to increase exports of goods and services; to increase currency earnings; to supply high quality products and services to the domestic market; to attract and introduce new technologies, market methods of management, market infrastructure development; to improve natural and human resources; to accelerate the local socio-economic development and Ukraine in general.

At the same time, already the first attempts to create them stumbled into opposition from various political parties, and the lack of an appropriate legal framework and financial mechanism of their operation created serious obstacles of their functioning. In Ukraine there were established eleven SEZ and in nine regions special regimes of investment activity were introduced.

According to the Law of Ukraine of 13.10.1992, № 2673-XII “About general principles of the formation and functioning of special (free) economic zones” special (free) economic zone is a part of the territory of Ukraine, where a special legal regime of economic activity and the order of application and actions of Ukrainian legislation are established and operate.

Interpreting the essence of the concept “priority development territory” one can distinguish three approaches to its definition: according to the current legislation, the socio-psychological level and from the point of view of the investor.

On the socio-psychological level, PDT is considered as the area that is introduced to solve the problems of depressed regions of the state, on which the decline of industrial infrastructure takes place and total unemployment dominates.

However, from the standpoint of legal and normative regulation priority development territory is treated as an area where there were adverse socio-economic and environmental conditions, poor condition of employment took place, and where a special regime of investment activity to create new jobs is introduced.

If one considers the understanding of the PDT from the perspective of an investor, the PDT is interpreted by him as the territory where favourable tax conditions are established to attract investment resources in state priority activities and sectors of the economy.

So common in the SEZ and PDT is a special investment regime which national legislator defines as the legal regime that provides for the introduction of the tax, customs and other incentives for businesses which implement investment projects approved by the appropriate authority of economic development.
4. The purpose of the introduction of special investment regimes in Ukraine

The purpose of the introduction of a special investment regime was investment in priority economic activities to solve social and economic problems of deprived areas whose economy suffered from substantial losses from structural changes, primarily in coal regions, cities with a high proportion of the military-industrial complexes, and also regions whose populations suffered mostly from technological and environmental disasters.

That is both SEZ and PDT in Ukraine were created with the same purpose – to solve the problems of employment, to enhance foreign trade, to attract foreign investment, to stimulate scientific and technological exchange, to achieve a new innovation quality of economy, to expand export base and development of import substitution.

However, with the existing positive results of SEZ and PDT functioning there is a number of problems that do not allow the use these methods with maximum efficiency to promote the economic development of Ukraine. So if seven years ago in Ukraine problems of expediency of SEZ and PDT creation were acutely discussed, today we are dealing with another process – a temporary suspension of SEZ and PDT functioning in Ukraine and unpromising forecasts and ideas for their elimination.

It should be noted that a moratorium on new and expanding of existing special (free) economic zones and special investment regimes in the new territories was introduced by the Law of Ukraine “About the State Budget of Ukraine for 2004-2009”. The moratorium for consideration and approval of new investment projects in the SEZ and on PDT is also establish.

A common feature of the most Ukrainian PDT was the demand of vast investments for tax benefits (in many cases – from 250 thousand to one million dollars and more). Maximum limit of minimum investment suggests that investment projects which were realized, were designed primarily for big business. Having made the focus on large investors, lawmakers passed over 99% of home businessmen.

5. Negatives functioning of SEZ and TPD in Ukraine

According to the told above, we select the following major warning related to the economic feasibility of introducing of special investment regimes in Ukraine:

Firstly, the introduction of a large number of special investment regimes creates opportunities for duty-free import of goods;

Secondly, providing benefits to certain enterprises rotates by the additional tax burden for others;
Thirdly, subjects of PDT do not pay taxes, what in the end affects the fiscal adequacy of the budget.

The low level of investment attractiveness and therefore ineffective activity of the portion of a predetermined PDT is predefined by imperfect government policies, including instability and volatility of legal regulation that can lead to the development of corruption and abuse of privileges. However, practical experience suggests that for potential investors benefits are not the main things, but state guarantees of total legislative stability. If you compare the experience of neighbouring states of Poland, these territorial entities on its territory are established for a period of 20 years (in the Ukraine a term is ranging from 15 to 60 years). Polish government plans to liquidate special investment regimes in 2016 after the existing period of the SEZ and PDT. This example indicates the presence of government guarantees by the government of the neighbouring state, and allows to business-SEZ and TPD to operate successfully, to receive benefits to pay certain taxes till the end of the agreement with the state. But in our country such guarantees are absent, because the activities of SEZ and PDT stopped in 5 years from the beginning of their activities.

Ukrainian PDT were also unattractive to investors because of a lack of effective management at the stage of their formation and their poor planning, namely: unsuccessful choice place for PDT (territory with underdeveloped infrastructure, lack of natural and human resources, not large enough market) and improperly determined size of the zone that requires considerable initial investment for creation of infrastructure.

At the same time, along with the existing negative aspects in the creation and function of PDT, there was a number of advantages. And namely due to PDT a large proportion of foreign capital has been involved to the economy of the country that has led to the filling of budget by substantial amounts of tax resources and as a result, social and economic state of the state in general and the region in particular increased.

Introducing PDT in Ukraine provided for the creation of financial and investment framework for raising the priority sectors of the economy, as well as for employment and income growth of population. Namely that was supposed to be the aim of PDT in the second stage of their development (2007 and 2010). Elimination of such zones is appropriate only if there were no significant results on the first phase of their functioning. Experience of other countries shows that PDT with appropriate government influence is a catalyst for the formation of well-functioning open economy.
6. Results of PDT functioning in Volyn region

An example of a special investment regime was Volyn region, where on January 1, 2000 a special investment regime for the implementation concerning investment projects in priority activities for 30 years has been entered. Special investment regime was introduced in order to attract investments in the priority sectors of production and employment of workers who freed because of the closing, restructuring and conversion of mining and other enterprises in the Volyn region, for the introduction of new technologies; the development of foreign economic relations; increasing of production of quality goods and services; creating a modern industrial, transport and market infrastructure; efficient use of natural resources.

For the period of PDT operation in the Volyn region there were 19 investment projects with a total value of 34521.6 thousand of dollars (19432 thousand of dollars – foreign capital). The largest of these were:

- TOJ “Alyuhlas” – “Creating of a modern window manufacturing in Novovolynsk”, estimated cost is 413 thousand dollars;
- LLC “OKA” – “Creating of enterprise for the production of gloves,” estimated cost is 602 thousand dollars;
- DP “Novovolynsky tseh OJSC Luck-Fuds” – “The production of soft margarine,” estimated cost is 4352.7 thousand dollars;
- TOJ “Novoplyt” – “The production of wooden panels”, estimated cost is 2800 thousand dollars;
- SE HB plant JSC “Lutsk-Fuds” – “The production of white refined deodorized oil,” estimated cost is 3931 thousand dollars;
- TOJ “Metal-Union” – “Production of metal products”, estimated cost is 250 thousand dollars.

Total volume of investments for the period of functioning of PDT in the Volyn region was 36.2 million dollars. It was created 3000 job places, what, in their turn, helped to keep the infrastructure construction, transportation and other industries. In 2006, on the PDT in the Volyn region, namely, in Novovolynsk it was received 373 million hryvnyas of investments. 109.7 million of them were from the state budget for the creation of new jobs, 3.3 million – from the city budget, and 258 million – involved (including enterprises of PDT 134 million.) (Fig. 1).
It is made by the author from data of Report about the basic indexes of activity of PDT in the Volyn area on 01.01.2007

So, a leading place among the sources of investment resources belonged to the attracted money, and also to own money of subjects of management. At the same time already in 2008 848,2 thousands of dollars of foreign investments were attracted in the PDT, to Novovolynsk, where PDT is placed, it was attracted 33 thousands of dollars, thus the foreign investors did not make investments in connection with abolition of taxation privileges.

The data of table 2 testify that the volumes of foreign investments in 2006 were growing. It is traced best of all in 2003, where the part of the foreign investments in a lump sum was 95,9 %.
Fig. 3. A dynamics of investment projects amount on the TPR of the Volyn region in 2000-2008

It is made by the author from data of Report about the basic indexes of activity of PDT in the Volyn area on 01.01.2002–01.01.2009

In connection with abolition of privileges on PDT enterprises began to roll up their activity and on 01.01.2009 only seven enterprises-subjects of PDT functioned on the PDT of the Volyn region.

For the period of functioning of PDT in the Volyn region the main amount of investments is attracted in such industries, as food industry – 4,3 million of dollars (13,4 %), other production is not attributed to other groups (production of furniture) – 23,5 million of dollars (72,6 %), paper industry – 786 thousands of dollars (2,4 %), woodworking industry – 1,07 million of dollars (3,3 %), a production of rubber and plastic wares – 631 thousand of dollars (2 %), an engineering – 1,43 million of dollars (4,4 %).

Fig. 4. Structure of investments on PDT in the Volyn region due to the types of activity in 2008

It is made by the author from data of Report about the work of executive management of PDT in the Volyn region in 2008
In the process of realization of investment projects on the PDT in the Volyn region it was mastered the investments of 7.9 million of dollars. So, the mastered volume of the real investments on the PDT in the Volyn region in 2001 was 11110,6 thousands UAH, in 2002 – 24322,3 thousands UAH, in 2003 – 65673,3 thousands of UAH, in 2004 – 137732,1 thousands of UAH. Investments were laid in the equipment, raw material, money and other objects (table. 4).

**Tab. 4.** Dynamics and structure of the mastered investments on the PDT in the Volyn region in 2001-2004

<table>
<thead>
<tr>
<th>direction of investments</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>th. hrn.</td>
<td>%</td>
<td>th. hrn.</td>
<td>%</td>
</tr>
<tr>
<td>Equipment</td>
<td>7423,8</td>
<td>66,8</td>
<td>8925,5</td>
<td>36,7</td>
</tr>
<tr>
<td>raw material</td>
<td>1441,7</td>
<td>12,9</td>
<td>214,9</td>
<td>0,9</td>
</tr>
<tr>
<td>money</td>
<td>2155,9</td>
<td>19,4</td>
<td>13600,7</td>
<td>56,0</td>
</tr>
<tr>
<td>Other</td>
<td>89,2</td>
<td>0,9</td>
<td>1581,2</td>
<td>6,4</td>
</tr>
<tr>
<td>All</td>
<td>11110,6</td>
<td>100</td>
<td>24322,3</td>
<td>100</td>
</tr>
</tbody>
</table>

It is made by the author from data of Report about the work of executive management of PDT in the Volyn region in 2001-2004

From the data of table 4 it is possible to judge that the subjects of management mobilized more their resources in the equipment, money and other objects, and mastered less than investments in raw material.

That is realizing investment project, an investor wanted to be confident, that inlaid money will be returned as quick as possible. And that’s why money was the most liquid asset for an investor.

**Tab. 5.** Dynamics of the mastered investments on the PDT in the Volyn region in 2005-2006

<table>
<thead>
<tr>
<th>Index</th>
<th>To the region</th>
<th>In SEZ and TPD</th>
<th>% SEZ / TPD to region 2005</th>
<th>% SEZ / TPD to region 2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investments to the main capital, mln. hrn.</td>
<td>1185,6</td>
<td>1071,8</td>
<td>52,0</td>
<td>7,2</td>
</tr>
</tbody>
</table>

Thus, in 2005 the bulk of investment funds folded 77.3% of the total mastered investments, in equipment – 20%, in raw materials – 0.4%, in other places – 2.3%.

The volume of sales by the agents of PDT steadily increased. Thus, in 2006 comparably with 2005, the growth was 20.1%, while the part of sales by the agents of PDT products to all products sold in the region in 2006 was 1.9% comparably to 4.5% in 2005.

There has been a steady growth of industrial output in the PDT, particularly in 2006 comparably to 2005 production volume increased for 60.4 million UAH, but its share in total regional volume decreased to 1.1%.
By the state on 01.01.2007: products are sold for 255.2 million UAH (from these money in 2006 – 109 million UAH). Attracted investments are 24 million of dollars. Totally foreign investments are 36.6%, reinvestment – 61.6 %.

Thus, an important prerequisite for economic development is a structural reallocation of investment resources by industry and searching for additional reserves of investment increase projects on the PDT in the Volyn region.

**Tab. 6.** Dynamics of FDI in Volyn and PDT of Novovolynsk in 2000-2008

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>In Volyn generally</td>
<td>38,5</td>
<td>49</td>
<td>48,9</td>
<td>53,6</td>
<td>86,3</td>
<td>97,4</td>
<td>113,4</td>
<td>272,4</td>
<td>397</td>
</tr>
<tr>
<td>On the PDT of Novovolynsk</td>
<td>0,953</td>
<td>1,136</td>
<td>3,575</td>
<td>7,835</td>
<td>11,136</td>
<td>12,571</td>
<td>1,406</td>
<td>0,852</td>
<td>0,848</td>
</tr>
</tbody>
</table>

It is compiled by the author according to the Statistical Bulletin of the Central Statistical Office in Volyn Region, in 2000-2008.

According to Table 6 trend to increasing of foreign direct investment in the Volyn region as a whole and in the PDT of Novovolynsk till 2005 inclusive was traced. However, in 2006 investment growth began to decline because of the suspension of PDT.

Socio-economic effect of establishment and operation of PDT is to create new and maintaining of existing jobs, raising of living standards, the amount of generated on the PDT production and its exports, reducing of unemployment. From the creation of PDT in the Volyn region it was expected to create and save about 20 thousand jobs (Table 7).

**Tab. 7.** Dynamics of the number of jobs created in the Volyn region in 2000-2008

<table>
<thead>
<tr>
<th>Number of jobs created, people.</th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>In Volyn region</td>
<td>5750</td>
<td>5196</td>
<td>5179</td>
<td>6625</td>
<td>5649</td>
<td>8819</td>
<td>7510</td>
<td>6147</td>
<td>5638</td>
</tr>
<tr>
<td>In Novovolynsk</td>
<td>252</td>
<td>237</td>
<td>763</td>
<td>1307</td>
<td>869</td>
<td>1952</td>
<td>2318</td>
<td>2228</td>
<td>1996</td>
</tr>
<tr>
<td>On the PDT of Novovolynsk</td>
<td>102</td>
<td>308</td>
<td>2080</td>
<td>2685</td>
<td>304</td>
<td>222</td>
<td>191</td>
<td>133</td>
<td>71</td>
</tr>
</tbody>
</table>

It is compiled by the author according to the Statistical Bulletin of the Central Statistical Office in Volyn Oblast, in 2000-2008.

In connection with the cancellation of tax incentives in 2006 comparably with 2005 was decreased the number of accrued jobs (from 222 in 2005 to 191 in 2006), but their share in the region remained the same – 1%.
Fig. 5. Dynamics of the number of jobs created in the Volyn Region and PDT of Novovolynsk in 2000-2008

It is compiled by the author according to the Statistical Bulletin of the Central Statistical Office in Volyn Region, in 2000-2008

Average monthly salary in enterprises-participators of PDT in 2005 was significantly increased and amounted 664.7 UAH, in Novovolynsk – 749.8 UAH, in the region – 718 UAH.

Fig. 6. Dynamics of average monthly salary in the Volyn region and on the TPD of Novovolynsk in 2000-2008

It is compiled by the author according to the Statistical Bulletin of the Central Statistical Office in Volyn Region, in 2000-2008
The significant positive impact of results of PDT work on the social life of population and general welfare of the city was traced, namely the reduction of unemployment diminished. By the state on 01.01.2000 it was 9.6%, by the state on 01.01.2001 – 7.7%, By the state on 01.01.2002 – 6.7%, by the state on 01.01.2003 – 4.5%, by the state on 01.01.2004 – 4%, by the state on 01.01.2005 – 2.8%, by the state on 01.01.2006 – 2.5%.

**Fig. 7.** Trends in unemployment in the Volyn Region and on the TPD of Novovolynsk in 2000-2008

It is compiled by the author according to the Statistical Bulletin of the Central Statistical Office in Volyn Region, in 2000-2008

According to the statistics, per one citizen there were investments accounted 271.2 of dollars by the state on 01.01.2006, in the region – 107.6 of dollars. By the state on 01.01.2005 this figure was accordingly 210 and 103 of dollars. 96% of foreign investments were from Poland.

Thus, held by us complex analysis of socio-economic development and investment activity in the PDT in the Volyn region made it possible to detect both positive and negative effects of their functioning. The positive effects of the PDT one can identify, firstly, a gradual increase in budget revenues from investment projects. The main tax paid by enterprises, is a value added tax.

Secondly, investment amount per one inhabitant of PDT increased.

Thirdly, industrial structure of investments differentiated. The bulk of the investments was involved in such industries as food industry, other manufacturing not returned to other groups, chemical industry, wood industry.

Fourthly, the quality of reclaimed real investment in the PDT was improved.
Fifthly, one could watch a significant positive influence of work in PDT on the social life of population and general welfare of the city. Namely, the unemployment rate dropped.

However, we established low cost effectiveness of projects which were implemented in the conditions of the special regime of investment. The volume of benefits grew faster than government revenues in the result of functioning of free zones. This can be explained by an unjustified amount of benefits as well as by significant amounts of benefits from import on raw materials imported by subjects of SEZ and PDT for their own production needs.

As for the imperfect functioning of benefits and problems of investment mainly in the cities with a developed infrastructure one should note that national legislation did not allow to use the differentiated approach to the provision of benefits arising from investment rating of territories. In this regard, there excluded any possibility of aligning of the investment flow by introducing of favourable factors for progressive districts and cities, what predetermined uneven distribution of investments in different areas. The problem is caused by both the specifics of these regions and inflexibility of regulations which provide investments.

7. Prospects of operation of special investment regimes in Ukraine

Therefore, the decision of the question of further operation of special investment regimes in Ukraine requires the implementation of such measures:

Firstly, it is necessary to adopt a set of measures to determine the functioning results of the SEZ and PDT, their potential, untapped reserves and the impact on economic or social development of the country or a particular region. Thus methodological incorrectness of existing evaluation practise of their functioning exceptionally in terms of the balance of received benefits and revenues to the budget is important. One of the most indicative criteria for evaluation the results of SEZ and PDT activity is the ratio of fiscal and socio-economic efficiency.

It should be noted that the tax stimulation in SEZ and PDT is important to modernize and reduce the energy intensity of the whole economy of the country. However, it is necessary not to encourage the entire region or specific area, but to find several sectors whose development is able to affect significantly economic growth in a region. Thus, investment attractive in Ukraine have become such economic activities as food industry and agricultural products processing, wholesale and intermediary in trade, financial activity, engineering, chemical and petrochemical industry, metallurgy and metal processing, coke, petroleum products and nuclear fuel production, science, technology and innovation activity, tourism (hotel infrastructure development) [3.109].
In order to create favourable conditions for investment and growth in investment in the economy of Ukraine, the tax code included chapters and articles of the use of special tax regimes in the SEZ and PDT. However, these rules have caused ambiguous perception both by taxpayers and certain central government because at present special laws of Ukraine about the establishment and functioning of SEZ and PDT hasn’t yet inured. Because of the absence of current legislative framework for the use of special tax regimes in the SEZ and PDT a clear financial mechanism for the practical application and implementation of investment regimes is not formed and the range of subjects who will use it, isn’t undefined. This may cause the use by certain entities engaged in investment activities in the indicated areas, of various schemes of tax evasion and minimize their tax liabilities. Therefore, to solve these problems it is provided for by the final provisions of the Tax Code that subsections 4 and 5 of Chapter XVII “Special tax regimes” will come into force on the date of enactment of special laws of Ukraine about the SEZ and PDT establishment and functioning and promotion of regional development.

Secondly, to encourage those small areas which will be ready to join within administrative-territorial reform, it would be appropriate to create or restore there EEZ (or PDT). As a pilot project one could consider a question of Volyn and Rivne regions association in 2013, each of which has more than 1 million of inhabitants. To remove the controversy about the centre of the new area regional administration could be focused in Lutsk and regional council – in Rivne (or vice versa). [4]

From the stated above it follows that the problematic of special investment regimes functioning doesn’t lie in the plane of their existence as such, but often in improper management and inefficient control over them, wrong definition of priorities and strategic orientations of individual regions; and generally in abuse by national interests in favour of the individual structures. Thus, the activation question of investment activity on them, their strategic development shift to the plane of the national investment security.

8. Directions of improvement of the investment climate in Ukraine

Thus, analyzing the reasons of the negative investment climate in Ukraine one can conclude that it is necessary for its improvement:
1. To ensure investment security by making production savings and investments at the level that provides the required rates of expanded reproduction, restructuring and technological upgrading of the economy.
2. Investment security of Ukraine must also include maintaining of the optimal ratio of national and foreign investments.
3. To provide adequate funding for scientific and technological sphere.
4. To improve the legal framework for regulation of the financial sector including the improvement of investor protection.

5. To conduct an active policy of state protection of national capital positions and to stimulate not only the quantitative growth of foreign direct investments, but also their qualitative parameters.

Conclusions

So, today, of course, Ukraine requires certain transformations to improve internal and external investment processes. The successful combination of national and regional investment policy will provide the necessary conditions for enabling the functioning of the investment market in Ukraine. Existing improvements and trends in the investment market must be maintained and developed, and it is impossible to do without certain right decisions. Any management decisions should be justified on the basis of scientific approaches, systems, forecasting, modelling of certain conditions and situations. Therefore, namely the development and use of modern models of the investment market in Ukraine will provide the appropriate level of sustainability of regional investment processes, and this, in its turn, will lead to improvement of the investment climate in the country and its regions, revitalize the national investment activity, strengthen Ukraine’s position in the world rankings of investment – attractive countries.

Bibliography


