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ELEMENTS OF A FAVORABLE INVESTMENT CLIMATE

Foreign direct investment is an important source of economic growth, which attracts new technologies in the country and improves the competitiveness for the production of goods and services. Nowadays it is a challenge and an intense competition by third countries in order to attract foreign investments. Therefore it is important to determinate the main factors and conditions which motivate and attract foreign capital.

There are a lot of definition of investment climate where proposed in the literature. Nicholas Stern, who was the World Bank Group Senior Vice President and Chief Economist in the early 2000, defined it as "the policy, institutional, and behavioral environment, both present and expected, that affects the returns and risks associated with investment [1, 1]".

Broadly speaking, investment climate can be determined as a summary of factors, such as resources, capabilities and restrictions, predetermining attractiveness and appropriateness of investment into the country. Despite the fact that, investment climate is a complex phenomenon, which includes various factors affecting on the investment environment, there are, however, certain elements which countries that wish to attract foreign investment should aim to establish. Such elements can be grouped in three broad categories: the economic and financial elements, the political and cultural conditions and legal and regulatory regime [2, 20].

1. *Economic and financial framework*

Investing money investors expect a reasonable rate of return, that's why economical conditions play the important role attracting international investment. «The Investment Climate Surveys suggest that policy uncertainty and macroeconomic instability together account for more than half of firms' concerns about the investment climate» [3, 38]. Thus, *first* important element is a consistent and stable macroeconomic policy. "Macroeconomic stability relates to government's responsibility for the objectives of full employment, economic growth and the balance of payments, using the instruments of fiscal, monetary and exchange rate policies [4, 10]". Moreover macroeconomic policy must create also the expectation of continued stability and growth. *Second* element is proper microeconomics policies which ensure in the availability of well functioning financial and regulatory institutions. *Third* condition is adequate tax police. Appropriate taxation characterized by balanced and stable rates, and should provide a clearly defined and measured tax base. *Fourth*, the positive investment climate cannot be without an open trading environment and adequate infrastructure. Such infrastructure include not only physical infrastructure (roads, telecommunications and etc), but also the human capital, which are able to manage investment projects, including legal, technical, accounting and other services.

2. *Political and cultural conditions*

Another key concern of an attractive investment climate is the existence of a stable political and cultural environment. Open and outward oriented political system, stable government strengthens a country's reputation as an attractive investment destination. It also plays a role as a psychological factor: "a stable political and cultural environment translates into an expectation of long-term political stability, end a confident belief that the domestic policy and public opinion of the host country towards the private sector in general and foreign direct investment in particular will remain favorable [2, 22]".

Another important element which can play negative role in attracting foreign capital is corruption. It is especially relevant and weak point for the developing countries. Generally, the country with the high level of corruption has bad reputation in international business market. In particular, in country, where every procedure is possibility to extract a bribe in every levels: from starting business to the law courts, costs of doing business is much higher, what obviously doesn't lead to attract foreign investments.

3. *Legal and regulatory regime*

The development of fair legal and regulatory regime is an important element of an attractive investment climate, especially in those countries undergoing a transition from certainly planned to market economics. Thus, "administrative factors were and still remain to be special group of factors being able, on the one hand, to implement positive role in raising attractiveness of investment climate, and on the other hand, under particular conditions, they turn into the barriers and restrictions preventing implementation and development of investment processes [5, 165]".

Efficient legal and regulatory regime it is first of all developed and adequate business legislation, antimonopoly regulation, protection on investor's rights, custom and visa regulation, laws on copyright. Efficient legal framework intends to provide investors "with reliable protection for property and contractual rights through comprehensive legislation, effective enforcement and the availability of efficient conflict resolution mechanisms [2, 23]". The important is that the applicable rules be clear and easily identifiable, that they proof fair, non-discriminatory treatment; restrict the role of government in investment decisions.

Economical development is not possible without solid business and investment environment. The investment climate is a complex phenomenon, which include many components, for this reason it is rational to subdivide them into three groups: economical factors, political and cultural factors, legal and administrative conditions. For countries, which are now on their way to reform and intend to build new loyal and open government structure, create an appropriate framework for the investment environment is a first step forward solid and favorable investment climate.

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