

ZN WSH Zarządzanie 2017 (4), s. 37-47

**Oryginalny artykuł naukowy**  
**Original Article**

*Data wpływu/Received:* 10.05.2017

*Data recenzji/Accepted:* 25.07.2017/30.08.2017

*Data publikacji/Published:* 28.12.2017

*Źródła finansowania publikacji: Akademia Techniczno-Humanistyczna w Bielsku-Białej*

**Authors' Contribution:**

(A) Study Design (projekt badania)

(B) Data Collection (zbieranie danych)

(C) Statistical Analysis (analiza statystyczna)

(D) Data Interpretation (interpretacja danych)

(E) Manuscript Preparation (redagowanie opracowania)

(F) Literature Search (badania literaturowe)

**DOI: 10.5604/01.3001.0010.8279**

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**THE INVESTMENT PROCESSES IN THE STATE:  
NATIONAL PRACTICES AND INTERNATIONAL  
EXPERIENCE**

**PROCESY INWESTYCYJNE W PAŃSTWIE:  
PRAKTYKI INWESTOWANIA NA UKRAINIE  
NA TLE MIĘDZYNARODOWYCH DOŚWIADCZEŃ**

**Abstract:** The purpose of this paper is to present investment practices in Ukraine in the context of international experience. The paper analyzed the method of estimation of the degree of ease of investment climate in Ukraine and studied international experience of investment processes. Considered the directions of investment policies that contribute to the improvement of the investment climate. In this study the statistical data was used from the official website of the State Statistics Committee of Ukraine.

**Keywords:** investment, investment process, investment climate, investor, investment policy

**Streszczenie:** Celem niniejszego opracowania jest prezentacja praktyk inwestowania na Ukrainie na tle międzynarodowych doświadczeń. W opracowaniu przedstawiono metodę szacowania stopnia łatwości klimatu inwestycyjnego na Ukrainie i zbadano międzynarodowe doświadczenia procesów inwestycyjnych. Uwzględniono kierunki polityki inwestycyjnej, które przyczyniają się do poprawy klimatu inwestycyjnego. W opracowaniu wykorzystano dane statystyczne z oficjalnej strony internetowej Ukrainy.

**Słowa kluczowe:** inwestycja, proces inwestycyjny, klimat inwestycyjny, inwestor, polityka inwestycyjna

## Introduction

Investment activity is given an important place, because conducting large-scale economic, political, and social reforms aimed at providing favourable conditions for sustainable economic growth. From the perspective of essence of reforming the economy, the problem of increasing investment activity and improve the investment climate is one of the main objectives of each country.

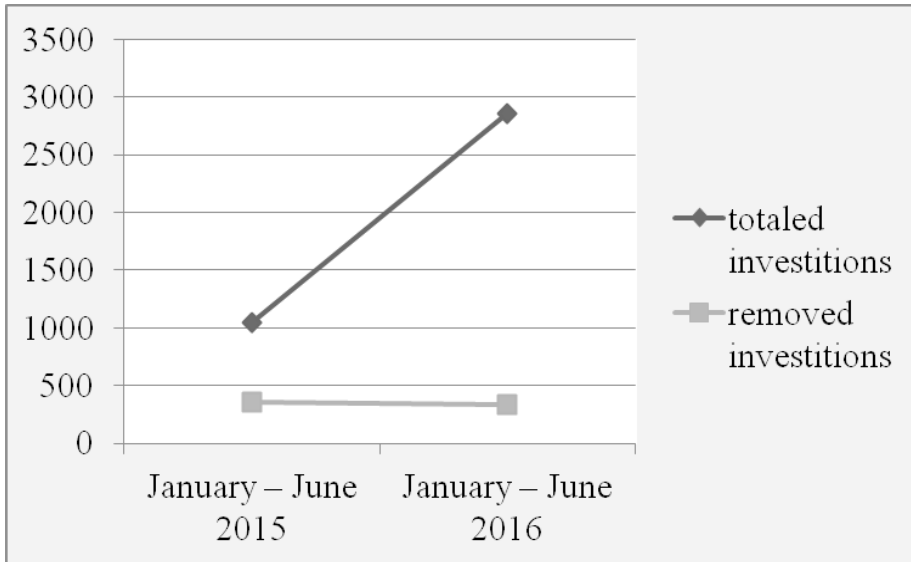
### 1. The investment process in Ukraine

For many years, Ukraine has experience in investment activity, conducts an active policy to attract foreign capital in the country, changes the strategy and tactics of the management of investment processes. However, this, in our view, inadequate measure regulators, public investment made is not developed effective stimulating levers for establishing international cooperation, there are gaps in the investment law.

At the present stage of political instability unstable growth of investments and their effective use is not so much tactless, but not strategic. Its successful solution involves a comprehensive accounting of the distinctive investment process complex relationship of many elements of investment field. In this case, as shown by the experience of developed countries, the consistent implementation of the interrelation between the micro- and macroeconomic reproduction is possible only with the support of the market as a self-regulating system, and on the regulatory investment activity of the State.

According to the State Standard in January-June, 2016, the investments of foreign investors into the economy of Ukraine totaled 2859.1 million United States dollars and removed 330.1 million United States dollars appropriately (share capital), in the January-June 2015 – 1042.4 million United States dollars and 351.3 million United States dollars, respectively (fig. 2)<sup>1</sup>.

Figure 1. Dynamics of investments in Ukraine  
Rysunek 1. Dynamika inwestycji na Ukrainie



Source: Statistical information from the official website of the State statistics Committee of Ukraine, <http://www.ukrstat.gov.ua> (22.03.2017).

Źródło: Informacje statystyczne z oficjalnej strony Danych Statystycznych Ukrainy, <http://www.ukrstat.gov.ua> (22.03.2017).

The amount raised from the early investment direct foreign investment (appropriately) in the economy of Ukraine in the 01.07.2016 of the year totalled 44790.7 million United States dollars.

The investments are in already developed areas of economic activity. At the enterprises of industry focused 29.6% of total direct investment in Ukraine, in the institutions of the financial and insurance activity – 29.4%<sup>2</sup>.

Up to ten major countries-investors, which account for 83.5% of total direct investments include: Cyprus – 11091.7 million United States dollars, the Netherlands – 5769.0 million United States dollars, Germany – 5447.4 million United States dollars, Russia –

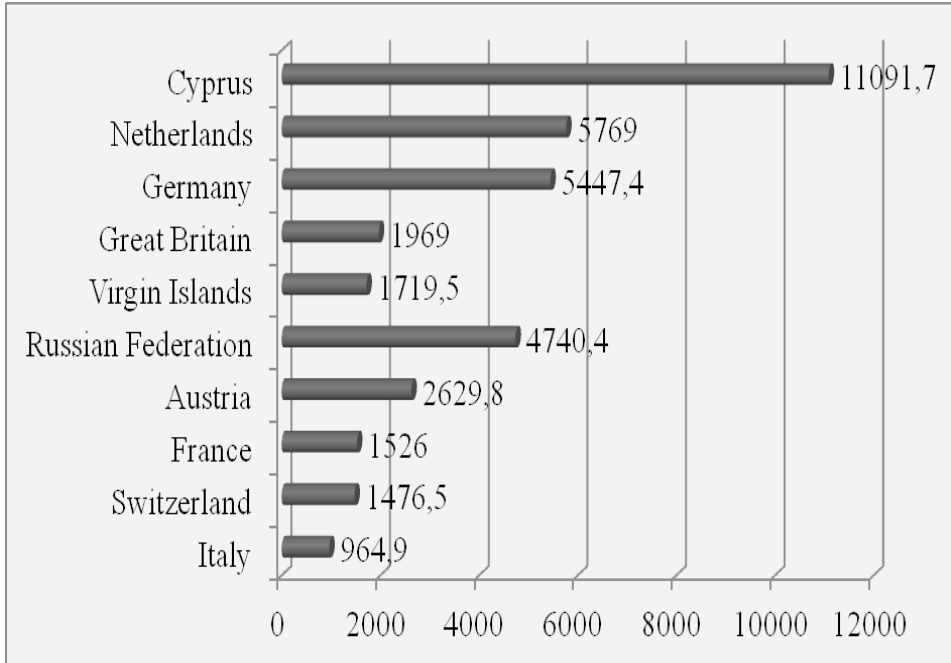
<sup>1</sup> Statistical information from the official website of the State statistics Committee of Ukraine, <http://www.ukrstat.gov.ua> (22.03.2017).

<sup>2</sup> Ibidem.

4740.4 million United States dollars, Austria – 2629.8 million United States dollars, United Kingdom – 1969.0 million United States dollars, Virgin Islands (UK)-1719.5 million United States dollars, France – 1526.0 million United States dollars, Switzerland – 1476.5 million United States dollars, and Italy-964.9 million United States dollars (fig. 2)<sup>3</sup>.

Figure 2. Major countries-investors

Rysunek 2. Główni inwestorzy na świecie



Source: Statistical information from the official website of the State statistics Committee of Ukraine, <http://www.ukrstat.gov.ua> (22.03.2017).

Up to ten regions: Dnipropetrovsk, Donetsk, Kharkiv, Kyiv, Luhansk, Lviv, Odesa, Zaporozhye, Poltava, Ivano-Frankivsk regions and Kyiv received the largest total investment – 94.1 per cent of all involved foreign direct investment. Such the direction of foreign direct investment and capital investment in the regional context is not conducive to uniform socio-economic development of the regions and the strengthens further increase the gap in their development. The volume development of capital investment companies of Ukraine in January-June 2016 make 119.8 billion UAH.

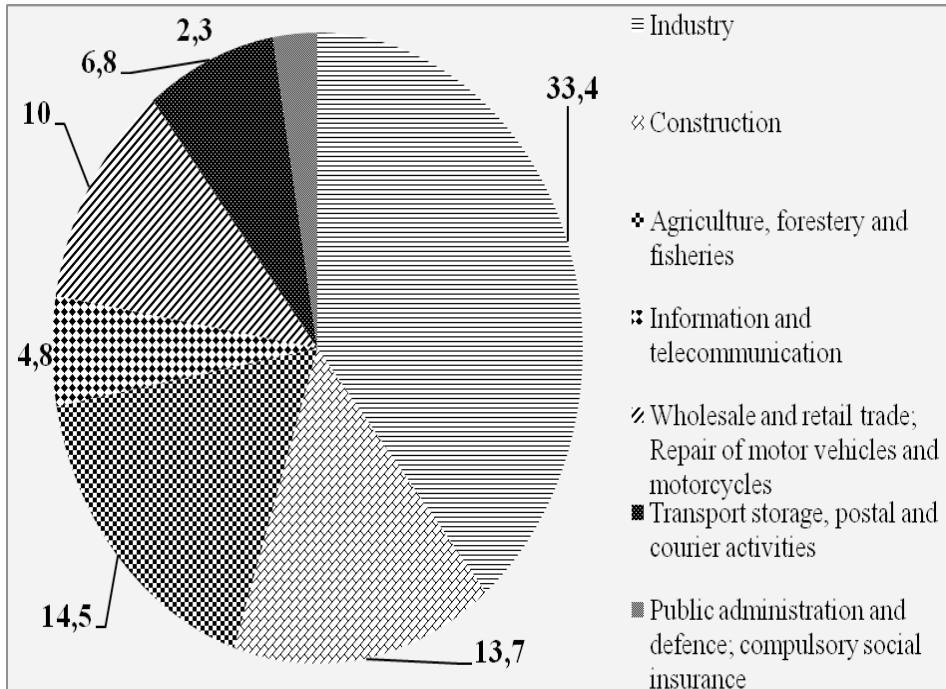
The leading spheres of economic activity, in terms of attracting capital investments in January-June 2016 remain: industry – 33.4%, construction – 13,7%, agriculture, forestry and fishery – 14,5%, information and telecommunications – 4,8%,

<sup>3</sup> Ibidem.

wholesale and retail trade; repair of motor vehicles and motorcycles – 10,0%, transport, storage, postal and courier activities – 6,8%, public administration and defence; compulsory social insurance – 2,3% (fig. 3)<sup>4</sup>.

Figure 3. Leading spheres of economic activity, in terms of attracting capital investments in January-June 2016 [%]

Rysunek 3. Główne sfery działalności gospodarczej inwestycji kapitałowych w okresie styczeń-czerwiec 2016 r. [%]



Source: Statistical information from the official website of the State statistics Committee of Ukraine, <http://www.ukrstat.gov.ua> (22.03.2017).

The main source of financing of capital investments still remain own means of enterprises and organizations, at the expense of which in January-June 2016 mastered 72.2 per cent of capital investment. The share of loans to banks and other loans in the total amount of investment formed to 8.1 per cent.

Due to State and local budgets developed 3.9 per cent of capital investment. The share of funds of foreign investors was 3.7 per cent of all investments, the share of public funds on construction of housing – 10.0%. Other sources of funding are 2.1 per cent.

Therefore, Ukraine remains attractive to investment, at the same time it isn't out of the world processes are sufficiently integrated in the world economy and viola-

<sup>4</sup> Ibidem.

tion of macro-stability in foreign markets has its response in Ukraine.

In the rating of investment attractiveness of countries International Business Compass during 2015, published by BDO, Ukraine rose in 20 positions during one year<sup>5</sup>.

Ukraine in the rating is located on 89th place and is included in the list of countries, which showed the best growth during the year, along with Belarus and Latvia. In 2014, our country took 109th position<sup>6</sup>.

These codes are formed by BDO in conjunction with the Hamburg Institute of the world economy, and to characterize the economic and financial attractiveness of different countries on the basis of the three main indicators: economic, political and socio-cultural conditions.

In the ranking of the ease of doing business, which concludes, the World Bank, Ukraine has taken 83th place and enhanced its position in the 4 points compared to the previous year<sup>7</sup>.

The Doing Business 2016 report notes that a key reform, which has contributed to raising the rating of Ukraine, is a simplification of the registration business. So, in the field of registration of enterprises of Ukraine took 30th place and enhanced its position in the 40 points compared to the last year. In Ukraine the time on the registration of the enterprise by the taxpayer and to drop the fee for State registration of business is reduced<sup>8</sup>.

To further improvement of the investment climate of Ukraine relevant for today is the question of improvement of the legal and organizational bases for increasing the efficiency of mechanisms ensuring a favourable investment climate and the formation of the basics of saving and increase of competitiveness of the national economy.

Foreign direct investment should strengthen international investment position in Ukraine and prevent the growth of the external debt, for today, the situation in the economy of the country is the opposite – investments shrinking, and debts are growing.

## **1. Investment policy in selected countries**

Competition for global leadership is led by countries that have managed to establish the optimal investment policy and set up a mechanism for its implementation. These include, in particular, the United States, Japan, Germany and other members of the “G7”. For these countries the State intervention in the investment sector of the economy has been the norm for a long time and its methods was systematically improved. The most interesting in the regulation of investment activity seems to be the experience of the United States, Britain, Germany, Japan and France. It is those countries economic de-

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<sup>5</sup> Ibidem.

<sup>6</sup> Ibidem.

<sup>7</sup> Statistical information from the official website of the State statistics Committee of Ukraine, <http://www.ukrstat.gov.ua> (22.03.2017).

<sup>8</sup> Statistical information from the official website of the State statistics Committee of Ukraine, <http://www.ukrstat.gov.ua> (22.03.2017).

velopment strategies which could serve, as it seems to us a clear example for Ukraine.

The main priorities of American investment policy is to attract investments in the United States, as well as to stimulate foreign investment in order to create additional jobs and economic recovery. In this regard, the main priority of the Federal Government, authorities at the level of States and at the municipal level, to advocate the maximum support for potential investors and creating effective incentives for investment. In particular, such as providing tax breaks, including in the form of tax credits, reduced bank lending, innovative grants and others.

The federal structure of the State regulation of foreign investments in the United States is carried out on two levels: at the federal level and at the level of States. On the federal level usually established General requirements and specific requirements for the participation of foreign investors in the projects on the territory of the respective States are set by local management. The work on attraction of foreign investments each State builds up independently on the basis of long-term and short-term programs, which are developed in accordance with the local legislation and taking into account local characteristics and needs. Each State has its own program for attracting domestic and foreign investments, because the strength of the current practice of the Federal Government plays an active role in defining the objectives of the economic development of a region of the country. The local administration to independently determine the prospective directions of industrial development at the expense of both public and attracted funds<sup>9</sup>.

The politics held in United States, individual exceptions, providing equal conditions for economic entities of foreign and national investors. For example, foreign investors can safely invest their funds in most sectors of the economy, as well as display the basic capital and profits.

In the United States regulation of investment processes in certain part carries the State. Of the total investment in the economy of the United States at a fraction of the State accounts for more than 20%, 12% goes to investments from the federal budget. The influence of the State on the investment activity is carried out with the help of such financial instruments as the preferential tax rates on income, the policy of accelerated depreciation, to stimulate certain categories of investment<sup>10</sup>.

United States purposefully develop international cooperation in the investment field. A significant role in the regulation of investment activity of the UK play investment companies – density. The legal basis for the existence of the trusts have limited liability, and the primary purpose of advocating effective merging of small investments into large. The whole system of regulation of investment activity of the

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<sup>9</sup> D. Norkot, *Investment decisions* (transl. from English, edited by A. Shokhina), M: Banks and stock exchanges, YUNITI, 2007, p. 247.

<sup>10</sup> *Foreign Direct Investment Position in the United States*, “Survey of CurrentBusiness”, September 2008, p. 102.

UK is aimed primarily at protecting the rights of the owners of capital and to ensure the rapid accumulation of capital in the interests of their owners, and, ultimately, the development of production and consumption growth<sup>11</sup>.

The Germany investment activities regulation, special attention is paid to the investment companies whose activity is regulated by the Law about the investment companies (1970). These companies are credit institutions. Therefore, they are subject to all legislation that is relating to credit institutions. The organization of collective investments in Germany is very similar to the circuit operation of the trust in the UK. The main difference is that the German management company must be a credit organization and fall under the scope of banking regulation and control.

In France, despite the absence of a special law regulating foreign investments, the system of “prior notification of the authority about the intentions to extend the period of testing.” It mainly applies to investors from countries which are not EU members but participating in the activity of the French company. Furthermore, in French law there is a clear distinction between direct and other foreign investments, which is explaining of using more favorable regulation in relation to the last. This is due to the fact that, despite the significant simplification of foreign investment regulation procedure, for most operations relating to the implementation of direct investments in France, is still requiring prior notification of intent or pre-authorization<sup>12</sup>.

The main methods of the investment activity regulation in the UK, France, Germany and Japan are:

- regulation of the total investments. This is the main method of the investment process management carried out through the policy lending rate, monetary, tax and depreciation policies;
- selective investments stimulation in some enterprises, sectors and spheres of activities through credit and tax incentives, for example, the investment loan using;
- direct administrative intervention in the investment process to input or output of the certain production facilities through the coordination of the major corporations plans.

Countries such as France and Germany focus of government economic policy on equalization of regional economic differentiation. It means that in addition to the branch method of the cash distribution is also using the state method because it is believing to be more effective.

In Germany in the practice of regional investment is the notion of “public task”, which corresponds to the concept of “target program”. In the new (Eastern) Federal States, developed rules “Improving regional economic structures” that help in investments stimulating by providing subsidies for the infrastructure development from the federal and local budgets, and the European regional development Fund.

<sup>11</sup> *Financial Services Act 1986*, Halsbury's Statutes, London 1986, p. 167.

<sup>12</sup> *Societes Commerciales, Memento pratique Francis Lefebvre*, Editions Francis Lefebvre, 2010, p. 102.



In France the relationship between the state and regions are build on a contract basis within the national planning system. In this way the state promotes economic development of the regions. Each region concludes planned contracts with a state that bind both parties to a certain investment program. Then they are entering in the national States plan as a priority. Additional funds are trying to identify the most problematic regions. The implementation of such a policy is carried out in the economic restructuring of regions. For this purpose, the allocated investment grants available to assist in the improvement of regional infrastructure and creating jobs in priority sectors of the economy<sup>13</sup>.

French and German experience of state regions financing with the aim of correcting imbalances in their development has been actively used at the EU level, which was created a special Structural Fund of the EU. This Fund accumulates funds of all states of the European Union members. But only those States on whose territory from the point of view of economic development are the most problematic regions. Funds such funds are replenished not only due to receipts from the budget, but also based on attraction of free funds of the Austrian national Bank.

To finance critical structural projects that are building primarily for industry principles, Japan and China actively use the budget funds and various forms of citizens savings that are under the state responsibility. In China, lending to the economy falls on the banking system. The main types of lending are commercial and political credit. For commercial lending interest rates on loans, as well as areas for lending are based on market principles. "Political lending" is meant to be the main instrument for implementing state economic policy.

For this, China has established three state-owned development Banks. The principal source of funds formation for the "political lending" is the state budget<sup>14</sup>.

In Japan the budget deficit at all levels, as well as state-owned enterprises is largely financed by the citizens savings as the main subscriber to government bonds in the primary market and a major buyer on the secondary is "Bureau of trust funds." The bureau manages the public pension system, savings and insurance deposits in the postal savings banks. The funds of the bureau and government bonds are used to finance large-scale infrastructure development projects in which the private sector has no direct commercial interest. Such financing is carried out through a Program of investments and borrowings adopted by the Parliament annually.

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<sup>13</sup> *Index of economic Freedom*, The Heritage Foundation, Washington, 2009, <http://www.heritage.org/Index/pdf/Index09Full.pdf> (22.03.2017).

<sup>14</sup> P. Kamenov, *China in the twenty-first century, The globalization of security interests*, ed. by R. Chupryna - M., 2012, p. 258.

## Conclusions

It should be noted that comparative analysis of a number of countries on indicators such as the presence of an established Agency of foreign capital promotion in the economy's functions, the existence of free trade zones, the system of relationships between public and private sectors, measures to support foreign investments and guarantees for foreign investors, the scheme of interconnection of all participants in the investment process, the limits of the areas of penetration of foreign capital in the interests of security, regional differentiation motivation showed a similar picture in the tools and methods used by the investment policy.

Therefore, in the economically developed countries of the world, as well as in Ukraine, the ongoing investment policy and its regulatory support is heavily influenced by the political events that are recently happening and integration processes. Which is generally a common, unifying feature of investment activity regulation in Ukraine and in foreign countries. However, there are some differences in the process of formation of an effective investment model could be used in Ukrainian conditions.

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**The contribution of particular co-authors to preparation of the paper:**

**Wkład poszczególnych autorów w przygotowanie publikacji:**

Nadia Kulchytska – 50%, Aneta Madyda – 50%

