APPROACHES TO ASSESSING REGION’S INVESTMENT ATTRACTIVENESS

Abstract This article deals with regional investment policy as a component of the national policy that is a system of measures taken at the regional level and include mobilization of investment resources and establishment of directions of their most efficient and rational use in the interests of the population in the region and certain investors. The authors consider the categories of "investment attractiveness", "investment climate" from the point of view of developing the system of indicators when assessing potential of the regions to realize efficient investment policy. It is determined that the results of investment climate assessment in the regions and the level of investment attractiveness of these territories should be taken into account when taking investment decisions. The research aims at systematizing methodical approaches to assessment of investment attractiveness of the regions which is conducted when calculating the rating that allows demonstrating investment expediency from the point of view of the level of meeting requirements or investor's interests.

Keywords: investor, investment policy, investment attractiveness investment climate, investment infrastructure, investment potential

JEL Classification: E27, G31

Introduction. The role of local authorities in solving the tasks concerning development of investment processes, accumulation, allocation and regulation of available and potentially possible investment resources increases when deepening radical transformations in the regions, widening their economic independence. Regional aspect must become an integral part of the state investment policy aimed at creating favourable investment climate.

The issue of nowadays economic development of the regions is directly connected to increase of their investment attractiveness both for attraction of foreign investments and for allocation of investment resources among regions.
Taking into consideration the fact that investments into economy are one of the main sources of economic development now, activation of the process of foreign investing into Ukrainian economy requires application of scientific-based approaches and, first of all, systematising methods of assessment of regions' investment attractiveness.

**Literature review and the problem statement.** The processes of formation and development of state regulation of the investment activity are shown in the works of the founders of economic science, namely: J. Keynes, D. Ricardo, A. Smith, I. Campbell, P. Samuelson, S. Fisher, J. Schumpeter and other. A wide range of issues concerning theory and practice of investment management are considered by domestic and foreign researchers, such as O.I. Amosha, V.D. Bazylevych, I.O. Blank, K. D. Hurova, V.I. Kardash, A.A. Peresada, S.A. Petrovska, V.V. Ushakov and other. Emphasizing the importance of theoretic-methodical and practical development formed in Economics concerning formation and realization of the state investment policy, it should be stated that the ways of harmonizing interests of the subjects of investment processes on the regional level aimed at applying the motivational mechanism for market participants able to stimulate taking efficient investment decisions according to strategic aims of the national economy development has not found its proper consideration yet.

Despite a large number of researches of domestic and foreign authors concerning the issue of creating investment climate as a key element of the state investment policy, it should be noted that the factors forming it on different levels are not sufficiently and adequately systematized. Systematization of factors influencing investment climate are grounds for developing methodology of assessment of regions' investment attractiveness. This article aims at researching the essence of investment attractiveness of the region and systematizing different approaches to and methods of assessing investment attractiveness of the region, characteristics of the territorial unit (region). It is they that are taken into account by a new or current investor when accepting decisions concerning investments on this particular territory.

**Research results.** Regional investment policy is a system of measures conducted by local authorities with attracting and rational using of investment resources of all kinds of property aimed at sustainable and socially-directed development of the region. Approaches to formation of the regional investment policy are included into three blocks [Kononskyi 2013]:
- the first block comprises the main factors the essence of the regional investment policy and mechanisms of its realization depend on. They include:
  1) investment climate in the region;
  2) indicators of forming investment potential of the region;
  3) level of investment risks;
  4) factors of inside and outside effect on the development of the region.
- the second block directly presents stages of forming investment policy of the region’s development:
  1) establishing aims and main priorities of the investment policy;
  2) forming the regional investment programme;
  3) developing principles of the mechanism of realizing regional investment policy.
- the third block of the system of forming and applying regional investment policy consists of the costs aimed at reaching the aim of the policy. The factors of this block are a complex of applied methods of management.
(economic, administrative, and socio-psychological) and the system of assuring its actions (legal, organizational, informational).

Although the regions of Ukraine have transformed from the objects of centralized management into the rightful subject of market relations, they do not have sufficient level of economic independence that is a characteristic of administrative-territorial entities of the developed European countries. Despite the region being historically formed entity of the economic complex that is restricted by the limits of territorial division, it is given fulfilment of the manufacturing function according to its corresponding territorial division of labour concerning assurance of the appropriate kinds and volumes of products and meeting interests of the population in the region when interacting with external environment. Investment flow movement is an obligatory condition for carrying out the above mentioned functions and effective development in market conditions. Hereby the investment objects are the point of common interests of both investors and subjects requiring investing. In this meaning economic subjects try to attract investments and investors – not to lose them. They can be helped with ratings of investment attractiveness that allow choosing both an optimal variant for investment and the investment object itself. It should be noted that the results of the assessment of regions’ investment climate and the level of their investment attractiveness are reasonable to be considered when accepting investment decision. The investment projects will be successfully realized only in those regions that are attractive for investors [Kuzmenko 2015].

Investment attractiveness of the region is a structural element of the regional investment climate. According to the most widespread approach the investment climate reflects the level of the situation favourableness that exists in the region concerning investments which can be made on this territory. Characteristics of the investment climate in the region are determined by the level of its investment attractiveness and investment activity.

Taking into consideration the current economic-political peculiarities the investment attractiveness of the region is determined by the representatives of different economic schools is determined as:

- a totality of objective and subjective conditions favouring or preventing the process of investing the national economy on the macro-, mezzo- and macrolevels [Ushakov];
- a totality of factors (political, economic, legal, social, etc.) causing behaviour of the active and prospective subjects of investment activity concerning investments into the development of region’s economy;
- an ability of the region to generate and attract investments favouring economic growth, factually reflects the quality of the totality of characteristics of the territorial entity (region) taken into account by a new or current investor when accepting decision on the investment into the certain territory [Petkova Proskurin 2006; Petrovska 2012].

Conducting analysis of local conditions is important in the context of the state regional investment policy. It includes not only separate statistic data but also a complex characteristic of the region’s business climate (Table 1).

According to 2014 results the volume of industrial manufacture decreased in 16 regions (from 0.5 % in Odessa Region to 42.0 % in Luhansk Region). A significant decrease of industrial manufacture is stated in Kyiv (of 14.3 %), in Sumy Region (of 12.1 %), Dnipropetrovsk Region (of 7.7 %) and Poltava Region (7.2 %). It should be noted that the specific weight of the regions having industrial growth in 2014 (Vinnytsia, Volyn, Zhytomyr, Zakarpattia, Kiyv,
Kirovohrad, Mykolaiv, Rivne, Ternopil Regions) in the total volume of realized industrial products gradually grows.

Table 1 – Regional peculiarities of investment attractiveness of the territories of Ukraine

<table>
<thead>
<tr>
<th>Territory</th>
<th>Regions</th>
<th>Investment characteristics</th>
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<tbody>
<tr>
<td>West</td>
<td>Volynsk, Zakarpattia, Ivano-Frankivsk, Lviv, Rivne, Ternopil, Chernivtsi, Khmelnytsky</td>
<td>middle level of investment attractiveness, middle level of direct foreign investments per resident; middle level of the regional economy growth</td>
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<tr>
<td>Centre</td>
<td>Vinnytsia, Zhytomyr, Kyiv, Kirovohrad, Poltava, Sumy, Chenihiv, Cherkasy</td>
<td>above middle level of investment attractiveness, middle level of direct foreign investments per resident, above middle level of the regional economy growth</td>
</tr>
<tr>
<td>East</td>
<td>Dnipropetrovsk, Donetsk, Zaporizhzhia, Kryvyi Rih, Luhansk, Kharkiv</td>
<td>leaders of the rating of investment attractiveness, high level of direct foreign investments per resident, high level of economy growth</td>
</tr>
<tr>
<td>South</td>
<td>Mykolaiv, Odesa, Kherson</td>
<td>high level of investment attractiveness, high level of direct foreign investments per resident, middle level of the regional economy growth</td>
</tr>
</tbody>
</table>

* without Crimean AR and ATO zone
Source: Ushakov 2015

Practice have developed a big number of methodical approaches to the assessment of investment attractiveness of the regions, their systematization allows combining them into three approaches: statistical, expert and rating [Kremen, Kuberka 2009].

Statistical approach is based on the analysis of factual statistic data concerning income of investments into the chosen regions and is based on the assumption that high level of the established indicators proves high investment attractiveness of the region. This approach is widely applied by the bodies of state administration and local authorities. It should also by simultaneously taken into account that this method has a formalized character and is based on certain socio-economic indicators. Besides statistical approach allows taking into consideration not only the fact of investment incoming and does not take into account many indicators that are paid attention to by investors.

Method of expert assessment lies in the expert assessment of different indicators of region's development: on the basis of his/her own opinion and experience the expert chooses the most important indicators, analyses their dynamics of development and forms conclusions concerning investment climate in the region. It should be noted that this method is often applied by foreign investors. The advantage of using expert method is an opportunity of adaptation of indicators an factors being studied to the needs of certain investors and deepened analysis of attractiveness of certain branches. At the same time the most significant disadvantages of applying the method of expert assessment is subjective assessment and dependency of conclusions on the expert position.

Rating approach has two kinds: rating-analytical approach and rating approached based on surveys.
Rating-analytical method lies in the analysis of different aspects of the region's development, formation of analytical indicators on their basis, their further grouping and consolidation and formation of the integral indicator that is the basis for building the region's rating and establishment of the position of certain region in the rating. This approach is used the most widely. The advantages of this approach are simplicity of use and convenience of the results' interpretation, the disadvantages – a certain dependency on macroeconomic indicators, lack of the grouped indicators' transparency, defiance of the regional specifics. In the result the received value of the rating points out the place of the region among other regions only but does not demonstrate the branch specifics of the region and prior directions of investments.

Investment attractiveness is viewed as an integral indicator of:
- expediency of investing assets;
- level of meeting requirements and interests of the investor;
- financial-property state of th region and prospects of its development;
- totality of objective and subjective (external and internal) conditions

Investment attractiveness of the region (on the methods of I. O. Blank) is calculated as an integral indicators on the basis of five groups of synthetic indicators:

1) level of common economic development of the region (specific weight of the region in GDP and GNP; volume of manufactured industrial production per capita; level of food supply; average level of wages; volumes and dynamics of capital investment per resident; number of enterprises of all kinds of ownership; specific weight of loss-making enterprises in the total number of the functioning ones);

2) level of the development of investment infrastructure of the region (number of subcontract building companies of all kinds of ownership; volumes of local production of main kinds of building materials; production of energetic resources per capita; density of railways and roads with solid surface with calculation for 100 km of the territory);

3) demographic characteristic of the region (specific weight of population of the territory in the total number of population of the country; ratio of city and village residents; specific weight of population engaged in public production at enterprises of all kinds of ownership; level of qualification of the employees engaged in the public production);

4) level of development of market relationships and commercial infrastructure of the region (specific weight of privatized enterprises in the total number of enterprises of communal ownership; specific weight of enterprises of non-state forms of ownership in the total number of industrial enterprises of the territory); number of joint companies with foreign partners; number of banking establishments (including affiliated branches); number of insurance companies (and their offices); number of commodity exchanges on the territory);

5) level of criminogenic, ecological and other risks (level of economic crime with calculation for 100,000 residents; specific weight of enterprises with harmful emissions exceeding the norm limits; average radiation level in cities; specific weight of uncompleted buildings for the last 3 years) [Blank 2001].

Hurova K. D. suggests competing the procedure of ranging the regions with taking into account the use of their potential depending on the criteria of efficiency and risk. The technique uses only the most general and important analytical indicators giving them the role of the group characteristic instead of
synthetic indicators. The indicator of renewing manufacturing funds are applied to assess the state of property of industrial purpose; coefficient of profitableness of the realized products – for return of manufacture and products being made; the indicator of number of the capital turnovers of all assets – for the capital turnover ability; the volume of market turnover per capita – for assessment of the market activity of the regions; ratio of loan and own means – for financial stability of the regions; the indicator of balance liquidity – for liquidity.

Assessment of the region’ attractiveness suggested by CAIB Securities significantly differs from the assessment of the Institute of Reforms and includes such factors: investment potential of the region and risk for investors working in this region of risk.

Investment potential is determined by such group of factors: labour resources, manufacture, institutional potential, level of infrastructure and financial potential development. Indicators characterizing the level of risk of investment into the regions are divided into such groups: financial, political, legislative and economic risks.

According to the technique suggested by the State Committee of Statistics of Ukraine the investment attractiveness of the region is assessed according to such indicators:

1) investments into the main capital with calculation for one person of the average population per year (UAH);
2) investments into residential construction with calculation for one person of the average population per year (UAH);
3) volume of GDP with calculation for 1 person of the average population per year (US dollars);
4) change of GDP volume with calculation for 1 person of the average population per year (USD);
5) density of roads of common use with solid surface (km per 1000 km² of the territory);
6) volume production export with calculation for 1 person of the average population per year (USD) [About confirmation of Methods of calculating integral regional indexes of economic growth 2003].

Investment attractiveness is viewed as a condition of widening investment activity in the region that causes necessity of specifying indicators of its assessment.

The technique of the Institute of Reforms using five groups of indicators is the most famous in Ukraine (Table 2) [Official web-site of the Institute of Reforms 2015].

<table>
<thead>
<tr>
<th>№</th>
<th>Group</th>
<th>Importance, %</th>
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<tbody>
<tr>
<td>1.</td>
<td>Economic development of the region</td>
<td>25.0</td>
</tr>
<tr>
<td>2.</td>
<td>Market infrastructure</td>
<td>22.0</td>
</tr>
<tr>
<td>3.</td>
<td>Human resources</td>
<td>13.0</td>
</tr>
<tr>
<td>4.</td>
<td>Financial sector</td>
<td>25.0</td>
</tr>
<tr>
<td>5.</td>
<td>Development of entrepreneurship and local authorities</td>
<td>13.0</td>
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</table>

Source: Official web-site of the Institute of Reforms 2015

Each of these blocks is characterized by a huge number of statistical
indicators. More than 40 primary indicators (GDP, state of the main funds, capital investments, etc.) are used for assessing the block "Economic development of the region". Assessment of the block "Market infrastructure" is based on the analysis of 21 indicators (number of leasing, insurance, loan unities, auditing firms and private auditors; one-time hotel capaciousness; density of roads and railways for 100 sq. km; volumes of passenger and cargo transportations by different means of transport; level of telephonization, etc.).

30 indicators are used for characterizing the financial sector (number of banks; volumes of short-term and long-term loans; deposits of the population; number of investment, innovation companies; number of registrars and keepers of stocks; issue of shares and volumes of the registered share emissions, etc.).

The block "Human resources" is assessed by 26 indicators (the level of provision of housing, passenger transport; characteristic of the regional population; characteristic of the population employment; average wages and level of debt; level of health care, etc.).

![Figure 1 - Rating of regions "Index of investment attractiveness"

Source: Rating of investment attractiveness of the regions of Ukraine 2014

The block "Local authorities and entrepreneurship" includes 19 indicators
(characteristic of the enterprises in the region; number of business-centres and business-incubators; number of regional funds of business support; number of public officials in the bodies of executive, judicial branch and local authorities (for 1000 people), etc. This method lies in review of different directions of the region's development that is the for forming analytical indicators to be grouped and consolidated. Then there is formed an integral indicator according to which the rating of the region and the position of a certain region in this rating are established (Fig. 1).

The reasons causing concentration of investment resources and sources of investment in one regions and weak positions of investment activity and insignificant investment attractiveness in the other ones include:

- high tax and administrative pressure on business trying to compete and not to receive the rent;
- decrease of the level of capital productivity, inflation;
- narrowness of domestic market caused by division of the public product;
- lack of factual majority of institutes – corporate sector, stock market, land market, estate market;
- outflow of the labour resources and capital out of one territories to the other ones (first of all, cities);
- mechanisms of forming investment portrait of the territory is undeveloped by local authorities;
- lack of operative information and undeveloped relations between the market participants as a result of it.

Development of the investment policy of the region for assuring conditions of increasing its investment attractiveness should take into consideration:

- criteria of choosing priorities of the state policy for support of the investment activity according to social significance, economic and technical indicators;
- priority directions of investments according to social significance, economic and technical indicators;
- measures of state support of the investment activity, criteria of assessing efficiency of certain measures of the state support.

- It is possible to achieve the increase of the efficiency of financing the investment activity of the region through conducting effective centralized state and regional forecasting, planning and regulating investment processes in accordance to modern management technologies including assurance of their balancing and mutual agreeing under conditions of the state support.

Conclusions. Increase of the volume of attracted investments plays double role for regions. Firstly, the number of investments demonstrates the efficiency of certain regional or local authorities and assesses its effects. Secondly, investments by themselves are the instrument and motive force for economic development of the certain territory, i.e. they allow receiving the social effect mentioned above. To stimulate economic development of the territories and accelerate investment processes on the regional and local authorities' levels there should be conducted a purposeful strategy of forming image of the region as an attractive place for investing including: forming data bases for the needs of wide range of investors concerning economic and legislative environment, investment potential and competitive advantages of the territories; applying and constant supporting of the actions of efficient canals of spreading information concerning needs and opportunities of the regions including advertising ones; active participation and mediation in establishing business contacts between representatives of business environment and potential investors; administrative
and consultative support of the investment projects.

Nowadays the main emphasis in the realization of the regional investment policy should be made on the development of those industrial areas that will favour economic growth of the region and the country in the whole. New complex approaches for long-term relations meeting modern political realia, as well as priority interests of the state connected with European integration should be applied on the regional level. Formation and development of the capital and investment market is a main condition that allows assuring consequent widening and enlarging potential of the industrial branches.

Investment policy of the region as a part of the state investment policy is realized by regional administration with attraction of subjects of the investment policy and other interested parties.

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