

## **Current conditions of the investment climate and prospects for increasing the investment attractiveness of Ukraine**

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### **ABSTRACT**

This article examines the investment attractiveness of Ukraine. The purpose of the article is to study the state of the investment climate in Ukraine and identify prospects for increasing investment attractiveness. It analyzes trends in foreign investment inflows along with the investment attractiveness index, and identifies factors contributing to their decline. It also examines the countries that contribute the largest volumes of foreign investment, and assesses the impact of offshore zones on foreign investors. In addition, the article analyzes trends and distribution of foreign investment in different sectors of the economy. It examines the actions and decisions of the government aimed at increasing the country's investment attractiveness in the context of the ongoing conflict. It provides recommendations for future measures to create a stable and favorable investment climate, emphasizing the need to continue improving the legislation. The article emphasizes the importance of a comprehensive approach to achieving the Sustainable Development Goals, which includes reforming the judiciary, effectively fighting corruption, and strengthening the protection of property rights. It concludes that active coordination between different branches of government, together with the participation of the private sector and the international community, is essential for these efforts.

**KEYWORDS:** investments, investment attractiveness, investment potential, foreign direct investment, investment climate

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**1. Introduction.** Current investment attractiveness is a key indicator of a country's economic performance, playing a crucial role in the sustainable development and stability of its economy. Foreign investment is vital for increasing gross domestic product, promoting entrepreneurship, and reducing unemployment. It provides not only capital, but also introduces new technologies and management experience. In addition, foreign investment affects each business entity, shaping its growth potential, financial health, and market competitiveness. This underscores the importance of foreign investment for the development of both priority industries and the country. However, political instability, the ongoing military conflict due to a full-scale Russian invasion, the COVID-19 crisis, and the growth of the informal economy have significantly reduced the activity of foreign investors in Ukraine. Nevertheless, in light of Ukraine's commitment to European integration, the government is persistently pursuing reforms aimed at improving the investment climate.

In a state of war, the task of promoting economic growth becomes critical. It is important to develop and support the country's investment potential to overcome the challenges of external instability. In this context, Ukraine's investment attractiveness becomes increasingly important, serving as a key element in attracting external resources necessary for the implementation of strategic projects and economic recovery. A stable and transparent investment climate helps attract new investors, as well as supports those already operating in the market. This strategy can allow Ukraine to defend its position in the international arena and ensure stable economic development.

**2. Literatures review.** The importance of attracting foreign investment is extremely important for any economy, in particular for the economy of Ukraine. As a result, considerable attention in the scientific literature is paid to the study of foreign investment issues and the creation of an attractive investment climate. Research on the problems of foreign investment includes contributions from both domestic and international scholars.

The constantly changing nature of the global economy requires a careful study of how foreign investment affects countries today, which emphasizes the importance of this research topic. Recent studies and articles devoted to investment policy in Ukraine reveal several key factors related to the investment environment, economic reforms and attracting foreign capital. It should be noted that Ukrainian scholars discuss the influence of political and practical considerations (Nikolchuk, 2023).

Various factors influence Ukraine's investment attractiveness. A review of the existing literature shows that researchers pay considerable attention to improving the regulatory framework and combating corruption, both of which are important for promoting an investment climate (Gumenyuk, 2024).

For example, studies show how anti-corruption initiatives have a positive impact on increasing investment activity and the overall attractiveness of Ukraine (Pavlenko, 2023).

In addition, international organizations such as the World Bank play a role in this context. Reports by the International Monetary Fund emphasize the need for stable macroeconomic policies and institutional reforms to attract investment. These organizations advise strengthening the legislative framework, with a particular focus on protecting investor rights and minimizing administrative obstacles.

Many articles examine how foreign investors contribute to the growth of Ukraine's economy. Scientists (Kolev, 2023) emphasize the importance of creating transparent and stable conditions (Graham, 2006) that meet international standards for the effective attraction of foreign capital, they emphasize the importance of international agreements on investment protection and the need to include Ukraine in world economic processes (Kravchenko, 2022).

Analysis of recent research and publications emphasizes the importance of investment policy issues in Ukraine for the current development of the country and emphasizes the need for additional reforms to ensure stable economic growth and attract investment. As specified by the Ministry of Finance of Ukraine, foreign direct investment is understood as the long-term placement of material resources by non-resident firms in the country's economy. The inflow of foreign investment is a key driver of economic development (Fischer, 2008), therefore, for Ukraine, the presence and tendency to increase long-term foreign investment in the economy is an extremely positive phenomenon, especially in the current context.

**3. Methodology.** The paper uses several research methods, including induction and deduction to assess investment value, particularly in a wartime context, a synthesis method to consolidate current strategies and improve investment efficiency, a comparative approach to examine how other war-torn countries attract investment, a graphical method to illustrate investment trends and indicators, and a modeling method to estimate potential levels of investment in the economy.

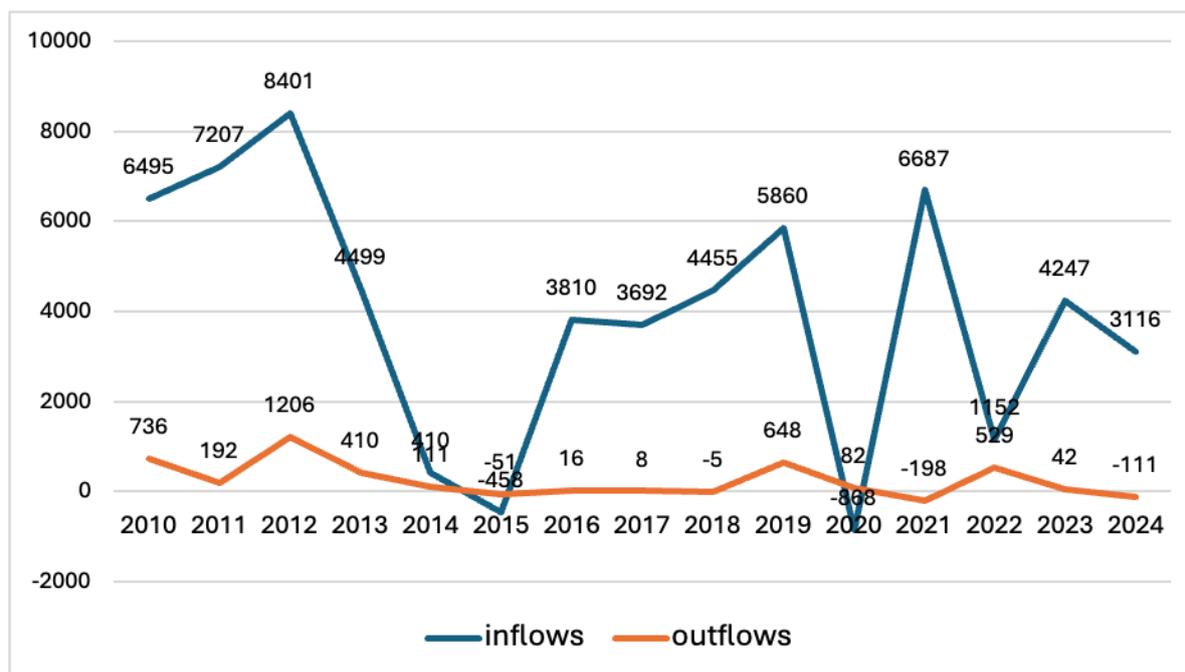
**4. Results.** Foreign investment statistics allow us to analyze the sectors of the Ukrainian economy that attract investors the most, as well as the countries from which these investments originate and the forms they take. Analysis focuses on trends in foreign direct investment in the Ukrainian economy. Overall, the structure of foreign investment inflows into Ukraine remains inconsistent.

Net inflows and outflows of foreign direct investment is a long-term investment of material resources by non-resident companies in the country's economy (Fama, 1992). Foreign direct investment is the most popular form of capital investment for developing economies (Bernstein, 2006), as it allows for the implementation of large projects, new technologies, new corporate governance practices, etc. (Bodie, 2017).

According to National Bank of Ukraine, between 2016 and 2019, net foreign direct investment inflows into Ukraine grew steadily, however, in 2020 there was a decrease of 118.2% (-6.728 billion dollars) compared to 2019, mainly due to the Covid-19 crisis. During a crisis, investment activity is usually one of the first indicators to suffer. After this decline, a positive trend appeared between 2020 and 2021, when investments amounted to 7.55 billion dollars. The full-scale war led to a difference of -5.5 billion dollars between 2021 and 2022, but from 2022 to 2023 the figures turned positive, reaching +1.316 billion dollars. At present, Ukraine has not yet returned to at least the investment level of 2010. To ensure stable long-term growth, Ukraine needs to strengthen the attraction of investment resources to the national economy and the domestic market, as domestic investment resources are insufficient.

The trend of net outflow of foreign direct investment in Ukraine shows a more consistent growth pattern. Until 2015, there was a gradual annual increase in foreign direct investment in the country, but since then there has been a moderate annual decline. In both 2019 and 2022, net outflow of foreign direct investment had positive values (figure 1).

**Figure 1.** Dynamics of net inflows and outflows of foreign direct investment of Ukraine, mm US \$



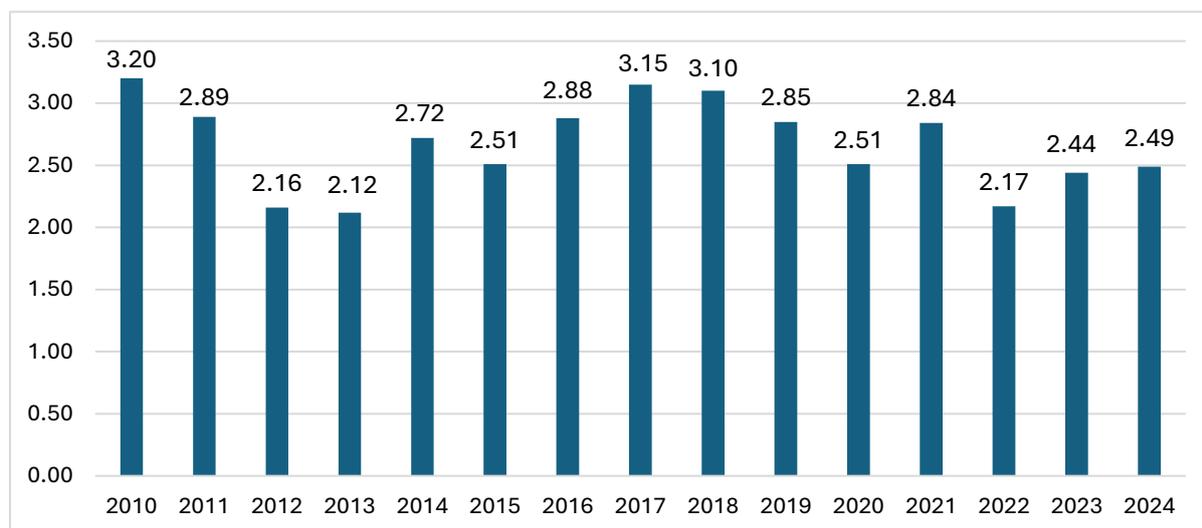
Noted. From Ministry of Finance of Ukraine(<https://mof.gov.ua/en/>) In the public domain.

In addition, when assessing foreign direct investment, it is important to consider the Investment Attractiveness Index of Ukraine, which has been evaluated by the EBA (European Business Association) since 2008. This index is created by conducting surveys of business representatives on a rating scale, where 1 point indicates very poor investment prospects, 3 points represent a neutral assessment, and 5 points mean very good prospects for investors.

The investment activity index began to decline in 2019, eventually reaching a value of 2.51 in 2020, partly due to the adverse effects of Covid-19. In the World Bank's 2020 Doing Business ranking, Ukraine ranked 64th out of 191 countries in terms of investment attractiveness, marking an improvement of 7 positions compared to the previous year. However, it is important to emphasize that the full-scale war predictably led to a deterioration in the assessment of Ukraine's investment environment. Over the past six months, the share of company executives who consider the situation extremely unpleasant has increased tenfold, from 5% to 53%. In addition, 34% of managers consider the climate to be quite unpleasant. At the same time, 9% of directors hold a neutral opinion about the current investment conditions, while 4% consider them favorable. Despite the ongoing conflict, 91%

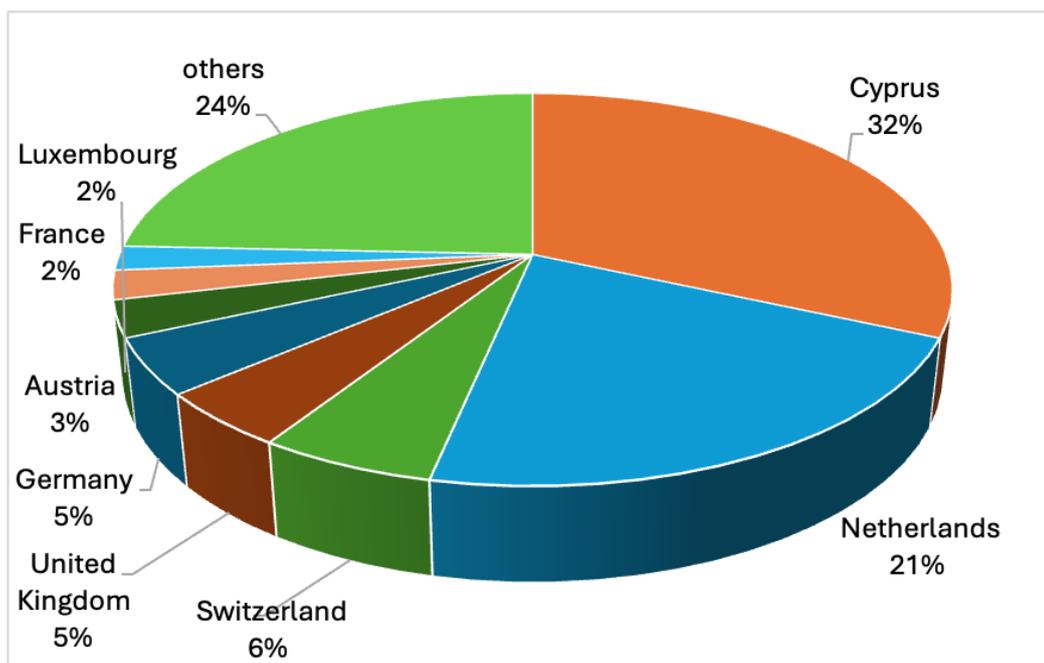
of the Association’s companies plan to continue their activities on the Ukrainian market, 55% express their intention to invest in Ukraine even during the war (figure 2).

**Figure 2.** Ukraine Investment Attractiveness Index



*Noted.* From Ministry of Finance of Ukraine(<https://mof.gov.ua/en/>) In the public domain.

To analyze the structure of investments in Ukraine and classify them by origin, it is important to first identify the main investors. As the data in Fig. 3 indicate, more than 70% of investments come from the European Union, with Cyprus being the largest source of investment with 31.7% over all years. It is important to note that Cyprus is a popular place for creating offshore companies, which indicates that not all investments attributed to this country may be genuine. Nevertheless, even taking this aspect into account, Cyprus continues to be the first investor in Ukraine. Following Cyprus, the Netherlands accounts for 21.6% of investments, Switzerland - 5.8%, the United Kingdom and Germany - 4.6% each, Austria - 3.0%, Luxembourg - 2.4%, France - 2.0%.



**Figure 3.** Sources of foreign direct investment in Ukraine, 2024 y., %

*Noted.* From State Statistics Service of Ukraine (<https://www.ukrstat.gov.ua>) In the public domain.

The level of investment in Ukraine is growing, but still remains relatively low. The economy is negatively affected by offshore zones, which contribute to a significant outflow of capital, which reduces tax revenues to the budget. In essence, investments coming from offshores, such as Cyprus and the Netherlands, represent funds that are being extracted from the Ukrainian budget as a result of tax evasion and corruption. These circumstances emphasize the urgent need to create a reliable legal framework that will regulate relations with offshore jurisdictions, aimed at curbing capital flight and increasing foreign investment. At this time, the Ukrainian government should actively work on improving the investment environment, focusing on such key countries as the European Union, the United States and the countries of the Asia-Pacific region in order to attract their investments, taking into account their economic and innovation potential. To achieve this goal, it is extremely important to intensify efforts against bureaucracy and corruption, to reform the tax system, in particular by introducing favorable tax conditions for foreign firms investing in innovative sectors. In addition, upgrading the current state of the innovation infrastructure is vital, as it is currently not in an optimal state. The creation of innovation zones in Ukraine should significantly increase the inflow of foreign investment and increase the competitiveness of the local economy. Nevertheless, a stable political environment and a resolution to the ongoing war are important prerequisites for the growth of economic and innovation investments in the country.

Overall, the share of different industries in the structure of direct investment has decreased. This decline can be explained by the crisis caused by the COVID-19 pandemic and the beginning of a full-scale war initiated by Russia. The industrial sector shows significant fluctuations from year to year, for example, in 2019 there was a noticeable increase to 40.3%, followed by a sharp drop to 30.8% between 2020 and 2022. In the agriculture, forestry and fishing sectors, investments decreased in 2020, accounting for 9% of the total foreign direct investment structure, but in 2022 there was a

recovery. The largest growth in investments was observed in transport, warehousing, postal and courier services. In addition, there was a general trend of increasing investment in the information and telecommunications sector until 2021, although there was a slight decline in 2022.

Ukraine has faced new challenges that have significantly affected the country's economy and its overall condition. As a result of these challenges, significant losses have arisen, which subsequently significantly complicate the process of attracting investments for economic development. This is facilitated by a number of negative factors, in particular, the long-term war, which negatively affects the development and economy of the country, as well as the lack of state protection and a system of guaranteeing foreign investments.

The presence of a military conflict complicates the attraction of investments, given that such situations are more unpredictable and carry a higher risk compared to peacetime. Individuals contemplating investing in the military economy face several important problems:

1. Investors often lack confidence in the security of their investments and the possibility of returning funds in the event of unexpected military events.

2. In addition, the instability and unpredictability of the military landscape makes it difficult to provide significant guarantees to investors.

3. It is necessary to have sufficient demand for the products created by the investment project in order to maintain a satisfactory level of business profitability.

4. The assessment is complicated by the lack of a stable market and the uncertainty of the economic climate in the context of war.

To promote sustainable growth in investment attractiveness, Ukraine needs to reform its economy and improve the business climate. Therefore, it is important to:

1. Improve the legislative framework.
2. Fight corruption.
3. Protect intellectual property rights.
4. Encourage innovation and entrepreneurship.

A prolonged war may create additional difficulties in terms of investment in military operations, however, several strategies can be used to address this problem:

1. Encourage the growth of the military-industrial complex.
2. Attract investment to restore existing economic opportunities and create new opportunities.
3. Promote domestic production.
4. Seek financial support from international organizations and other countries.
5. Promote a favorable environment for investment.

Investors should become important strategic allies of Ukraine during its recovery. The Verkhovna Rada (Parliament) of Ukraine adopted Bill No. 8138, which is designed to improve the investment environment. Among the key changes are the reduction of the minimum investment amount from 20 euros to 12 euros, the introduction of new areas for the implementation of investment projects, in particular in the IT sector, and the expansion of state support for these projects. In September 2022, the Government of Ukraine launched a new investment initiative, Advantage Ukraine. This initiative is

aimed at attracting future investments by demonstrating broad opportunities in vital sectors that will be crucial for Ukraine's post-war recovery. In addition to innovative technologies, the initiative covers construction, the defense sector, metallurgy and metalworking, agriculture, power engineering, pharmaceuticals, natural resources, logistics and infrastructure, as well as the furniture and woodworking industries.

**5. Conclusion.** The aftermath of the war has had a significant negative impact on Ukraine's investment landscape. Several investors have decided to discontinue their engagement with the nation, citing ongoing territorial threats and an unstable economic and political climate. Nevertheless, in the context of a protracted conflict, Ukraine can become an attractive investment destination due to the urgent need to rebuild damaged infrastructure. There is significant interest in the IT sector and innovative businesses, which are promising areas for future investment. In addition, some investors are looking at institutional real estate as a more conservative investment option that may be suitable after the war ends. Ukraine currently faces a challenging investment climate that appears to be worsening. Nevertheless, despite these challenges, the country offers significant opportunities for foreign investors. This is due to the fact that military aid to the country is decreasing, businesses are sharply curtailing their activities through tax increases, the purchasing power of the population is decreasing, and all this can lead to a decline in the country's investment activity.

The European Business Association assesses the investment climate in Ukraine as restrained-negative. And so far, most foreign investors have taken an observer position, in particular due to high risks. The largest number of foreign direct investments in **2024** came from the following countries: Netherlands, Cyprus, USA, Great Britain and Ireland, Luxembourg, Austria, France, Poland, Switzerland, Hungary.

A highly skilled workforce, access to natural resources, ongoing economic reforms, and a strategic geographic location are just some of the factors that may attract investors. To increase its investment attractiveness and ensure consistent development, Ukraine needs to implement economic reforms and create a better business environment. This process depends first and foremost on ending the war and then focuses on improving the legal framework, fighting corruption, protecting intellectual property rights, and promoting entrepreneurship and innovation. With the right approach and effective actions, Ukraine has the potential to maintain and even increase its investment attractiveness, leading to sustainable economic growth and improving the quality of life of its citizens.

The support of Ukraine by international partners reflects their desire for future investment in the country, as well as ongoing cooperation and promotion of joint initiatives. To increase its investment attractiveness, Ukraine needs to implement several reforms, including those related to the judiciary, law enforcement, and taxation, as well as to advance steps towards European integration.

Additional research should focus on developing a sound investment strategy that meets modern challenges, promotes economic growth, and supports the sustainable development of Ukraine.

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