STATE INSTITUTIONAL CAPACITIES AS BASIS OF INVESTMENT INTENSIFICATION IN BUILDING INDUSTRY

Kateryna O. Tiulkina, Kateryna L. Frolina

Department of Economics of enterprise, Odessa State Academy of Civil Engineering and Architecture, Odessa, Ukraine

Abstract
Ukrainian economy and building industry in particular are under conditions of transformation nowadays. The state is one of the most active participants in investment process and generator of changes in institutional environment where macroeconomic processes occur. Increasing the state role in market relations is possible through the use effective system of legal and economic rules. The article contains proposals for improving existing institutions that regulate investing in building industry at Ukraine's integration into European economic space.

Key words: *building industry, investment climate, state regulation of investment activity, investment-building complex*

1. INTRODUCTION

The construction industry is essential for the economy of any country, because its part in formation of the gross domestic productis significant, its work is closely connected with other sectors the national economy. Capital construction creates large number of jobs and uses the products of many industries; with the development of the construction industry is developing: the production of building materials and relevant equipment, engineering industry, metallurgy and metal processing, petrochemicals, manufacturing of glass, wood industry, transport, energy, etc.

Insufficient level of investment activity in construction at the present stage do not allow investment and construction industry fulfill important investment-generating function for all national economy. The solution of this problem can be achieved by effective state regulation and management. Therefore theoretical understanding of the state's role in the investment process acquires relevance, studying the experience of foreign countries, the development of scientifically based proposals to improve the investment policy in the construction industry of Ukraine.

2. DESCRIPTION OF STATE INVESTMENT ACTIVITIES (PARTICULARLY IN BUILDING INDUSTRY) IN UKRAINE

The financial and economic crisis of 2008-2009 has led to catastrophic clotting of investment activity in Ukraine. In particular, in 2009 the investment volume in fixed assets fell by 41,5% in comparison with the previous year. In the post-crisis period the recovery process of investment activity began with substantial backlog from economic growth. Only in 2011 it began possible to provide capital investments increase, that amounted to 37,5% as compared to 2010, but it is caused by the low base of comparison. The positive dynamics of investment processes continues to persist in 2012, increase of capital investment was 13% as compared to 2011 year. In 2013, and January-March 2014, this dynamics has deteriorated markedly, the investment volume in fixed capital decreased in 2013 by 8,8% in comparison with 2012, and January-March 2014 - by 17,9% over 2013 year.

Foreign investments involved in the Ukrainian economy, also have low recovery rates and irrational structure. In 2010 activities of foreign investors in Ukraine increased slightly, the annual increase in foreign direct investment (FDI) totaled 4753 million U.S. dollars, which is 7,1% higher than the rate of the previous year. However, this indicator is considerably inferior to the volume of foreign investment in the pre-crisis periodand reached only 60% of total FDI in 2007. In 2011 the growth rate of foreign investment accelerated, it was received 5527,9 million U.S. dollars, that is 16,3% more than in the same period last year. In 2012 foreign investors invested 4962,9 million U.S. dollars in Ukrainian economy, that 10,2% less from level for 2011. On January 1, 2014 the volume FDI as share capital of nonresidents, directed at Ukrainian economy since the investment beginning, was 58 156,9 million U.S. dollars, that is 5,2% more than in the beginning of 2013.

Investments were aimed into already developed spheres of economic activity In 2013 2,8% of total direct investment in Ukraine was concentrated in building industry (Figure 1) (Ministry of Economic Development and Trade, 2014).

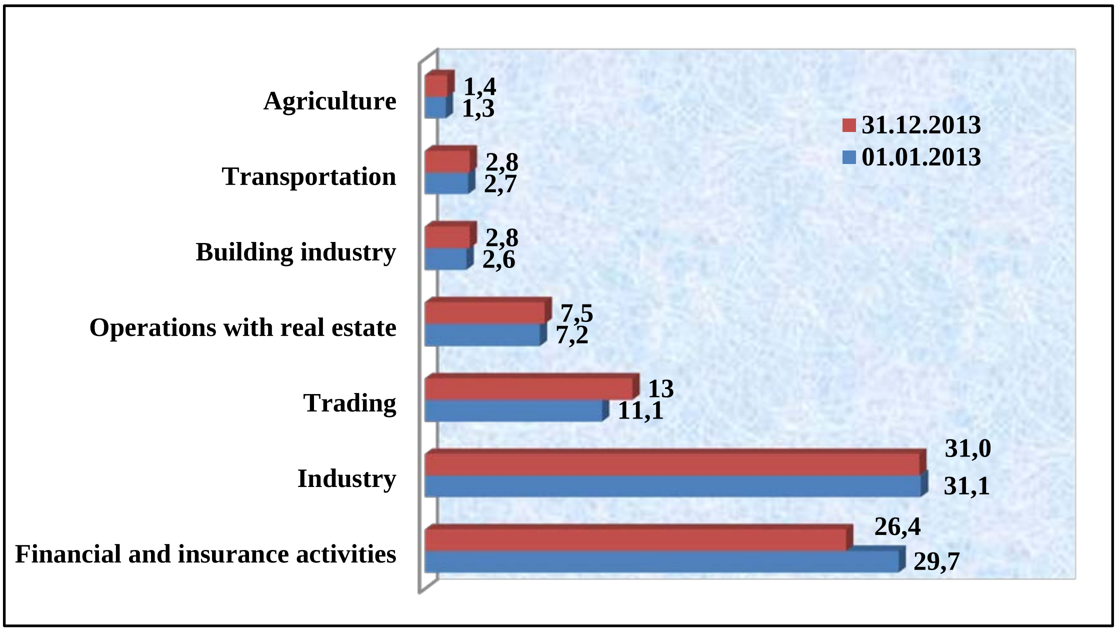

Figure 1. Distribution of FDI by economic activities

(in% to total volume investment)

The main investors in Ukraine are Cyprus, Germany, Netherlands, Russia, Austria, Great Britain, British Virgin Islands, France, Switzerland and Italy. These countries account for almost 83% of total direct investment (State Statistics Service of Ukraine, 2014). In general, the promotion of foreign investment resources in Ukraine is very low, particularly by volume of FDI per one person it is significantly behind with the countries of Central and Eastern Europe.

In 2008-2010 due to lack of funding, problems getting bank credits, decline in mortgage lending, high-level taxes, increase of construction materials cost, and reducing the solvency of population, many building companies considerably reduced the amount of commissioned housing, froze to build new residential objects, exposed for sale previously acquired grounds for building, limited volume and increased construction time.

Since 2011 there is tendency to improve the economic situation in the building sector: increasing number of concluded contracts and volumes of implemented capital investments, building work, number of employed in this industry (Table 1).

So in 2013 the volume of capital investment increased 8,8 times as compared to 2010 and amounted to 43442,0 mln.UAH. Ukrainian enterprises executed build works amounting to 61242,9 mln.UAH, in comparative prices is 135,7% of the construction volume in 2010. In 2013 the volume of introduced housing in operation increased by 120,1% in comparison with 2010 and amounted to 11 217,2 ths.m2.

The main driver of positive dynamics the building industry was the construction and reconstruction of facilities for Euro-2012 (roads, airports, sports facilities, hotels), but this factor had no prolonged nature.

Table 1. Basic indicators of Ukraine's building industry

Indicators	measurement units	2010	2011	2012	2013
Volume of capital investments	mln. UAH	4966,2	8541,1	36415,1	43442,0
	in % to 2010	-	172,0	733,3	874,8
Volume of building works	mln. UAH	45137,0	64288,2	65484,9	61242,9
	in % to 2010	-	142,4	145,1	135,7
Introduced housing in operation	ths.m2 total area	9339,3	9410,4	10749,5	11217,2
	in % to 2010	-	100,8	115,1	120,1

Today the building industry is in difficult economic conditions, due with low investment activity of its three main investors - businesses and organizations, government agencies and the public.

In the opinion of Ukrainian scientists, the volume of investments in Ukraine’s economy is low still due to unfavorable investment climate, which is attributed to imperfect legal basis, undeveloped stock market and financial-credit system, powerful fiscal pressure, inefficient use of amortization and low transformation savings into investments (Mayorova at al., 2012).

According to the research conducted in April 2012 company Research & Branding Group at the initiative of the State tax service of Ukraine among the 290 heads of American, European and Ukrainian investor companies, index investment activity in Ukraine totalled 4,23 for a 10-point scale. 8,3% of respondents estimate the investment climate in Ukraine as very bad, 35,5% - close to the very bad, about 50% - as neutral and only 4,5% of investors - as good. The main impediments to improving the investment climate in Ukraine, according to company executives, there is corruption, judicial system, administrative barriers and tax system (Research & Branding Group, 2012).

We consider that the main reasons for the low level of investment in the Ukrainian economy are: the lack of a comprehensive state policy, no formation of rational forms of government regulation and control in the sphere of investment, discrepancy legal and regulatory, organizational and financial support the modern needs of the economy of the State and the existing realities of the global economic situation.

3. CONTENT OF GOVERNMENT REGULATION OF INVESTMENT ACTIVITY

State regulation of investment activities include the management of public investment and regulation conditions investment activity and control its implementation of all investors and participants in the investment activities (Law of Ukraine "On investment activity" from 18.09.1991 № 1560 – XII).

State investment policy allows maximum use of existing national resources potential for long-term and short-term goals and tasks of social and economic development, and effectively attract in these processes foreign investment. It is a complex of economic, organizational, legal and other goverment measures to attract, allocation and reallocation of resources to provide technical, technological and organizational base production for competitive products.

At the present stage the main tasks of the State regarding investment activity should be associated with solving the following problems:

- increasing the attractiveness of national economy;
- recovery of investment potential and development of internal investment opportunities the country;
- strengthening credit and financial potential investment activity;

- increase the efficiency investment activity of the state and improving the mechanisms of its funding;

- increase of investments by foreign investors, because internal financial resources are insufficient and banks can not cope with the responsibilities of transforming savings into investments.

In domestic literature identify two groups of methods by which the state regulates investment activities: methods of direct and indirect impact. All forms of impact on the investment processes are divided into three categories: legal, administrative and economic.

Methods of direct impact are realized through legal instruments regulation, administrative and economic influence. Methods of indirect regulation implemented only by economic means. Thus, in the economic means is combined using both direct and indirect instruments (methods) management. System tools of state management investment activities is presented in Figure 2.

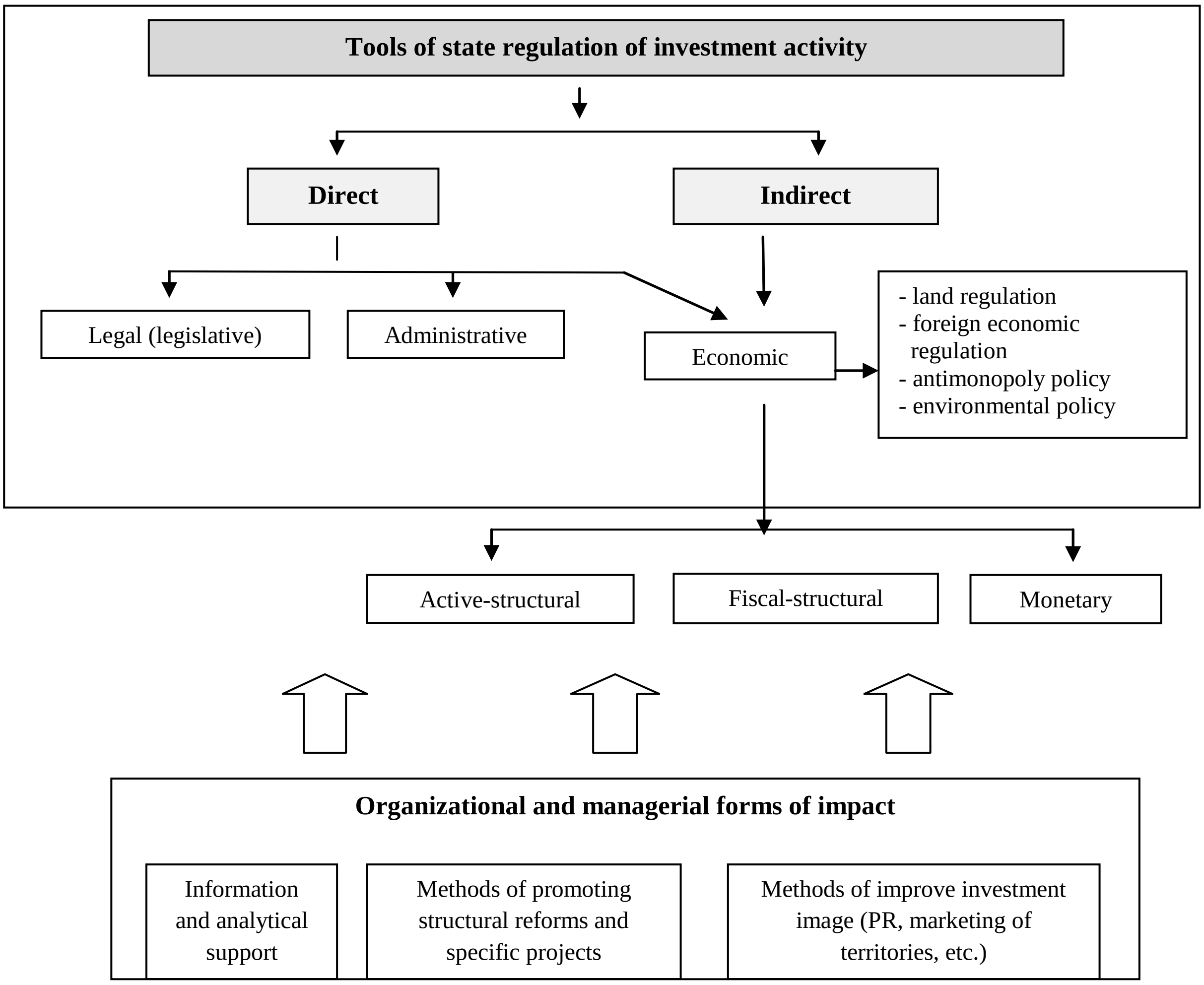

Figure 2. Tools of state regulation of investment activity

The tools of legal regulation include:

- development, adoption and publication of regulatory legal (legislative) and individual (subordinate) acts;

- conclusion of agreements (investment, credit agreements);

- adoption of state programs;

- system implementation and compliance of the investment legislation.

Tools of administrative regulation relate to the group of direct investment regulation and include:

- registration;

- licensing;

- quoting;

- use system of sanctions, restrictions;

- development and adoption orders, decrees, etc.;

- introduction of administrative measures;

- conciliation and regulatory (prescriptive) procedures;

- state property management.

Block economic methods of state management investment sphere is determined by the role of economy that it plays in the life of the state and society. The set of economic regulation tools includes the following groups of methods: active-structural, fiscal-structural, monetary and others.

Active-structural methods include: state support; state financing investments; state participation; connected lending; direct project financing; management of active and passive external debt.

Support of investment activity from the state provides the tools directly state funding of investment projects (financial support), tax and administrative assistance; it can be as in direct and in indirect ways.

Direct state policy is implemented through:

- finance (provision of funds budget development, budget loans through government external debt, investment tax credits, compensation from the state budget the difference in interest rates on credits, providing deferment in the payment of debts or write off debts owed by state enterprises and organizations, financed from the state and municipal funds);

- assets;

- government guarantees.

Indirect support involves the use of:

- quotas;

- tariffs and duties;

- benefits for the payment of taxes and fees;

- separate agreements regarding future income of the state (including and (or) further financing of investment projects under international agreements).

Fiscal policy (fiscal-structural instruments) involves reducing government spending, raising taxes.

State tax investment regulation is its stimulation or destimulation the following tax instruments:

- determination the period of "tax holidays";

- introduction of accelerated amortization of property;

- introduction and application of benefits system.

Monetary regulation (monetary tools) is the state's impact on money circulation and money supply. State monetary policy aims to change cash flows and directions, affecting thus the economic processes. The main instruments of monetary policy include open market operations, changing the discount rate (the discount policy) and the norms of obligatory reserves. Open market operations is the most important tool in terms of regulating the money supply. The essence of this tool is to buying and selling by the National Bank of government securities on the open market. During the buying and selling of these securities, the National Bank enters into a relationship with commercial banks, non-financial institutions and the populations, buying or selling government securities.

Organizational and managerial forms of impact permeate all system of investment activity and the driving force directed at intensifying investment processes and increasing the intensity of investment flows. These include: information and analytical support; methods (tools) to promote structural reforms and specific projects; methods (tools) improving investment image (PR, marketing, etc.).

Information-analytical and technological support of investment activity by the state includes:

- analysis of existing projects, initiatives, information materials;

- creating unified special state-public system on the Internet with the placement of the open information about current activities of the regions;

- creating a system exchanging information about the availability of promising investment projects etc.

The system of promoting structural reforms and specific projects includes the following tools:

- working together with representatives of different international organizations and foreign governments regarding their participation in various investment programs;

- participation of state representatives in forming investment programs of the largest companies with the state share in the financial successful and export-oriented industries;

- establishing constant contacts with foreign centers to support small businesses in order to develop new methods of promotion projects;

- providing estimate, expertise and selection of investment projects.

Improving investment image the country provide such marketing tools:

- promoting of country achievements (publicity);

- stimulating the investment flow;

- advertising enterprises that need investment;

- conferences, seminars, forums, "round tables", personal meetings;

- exhibitions and fairs.

4. CONTROL LEVERS OF INVESTMENT ACTIVITY IN THE BUILDING INDUSTRY UKRAINE

Under market terms building is inherent in the new economic content that is related to the free dynamics of the financial resources as opposed to central planning. Market relations involve a significant expansion of participants in construction activity and are based on the development of competition between them for using resources. The building complex is transformed into investment-building, which reflects the interaction between the subjects that satisfy their own interests on the basis of participation in a variety of investment programs and projects (Figure 3).

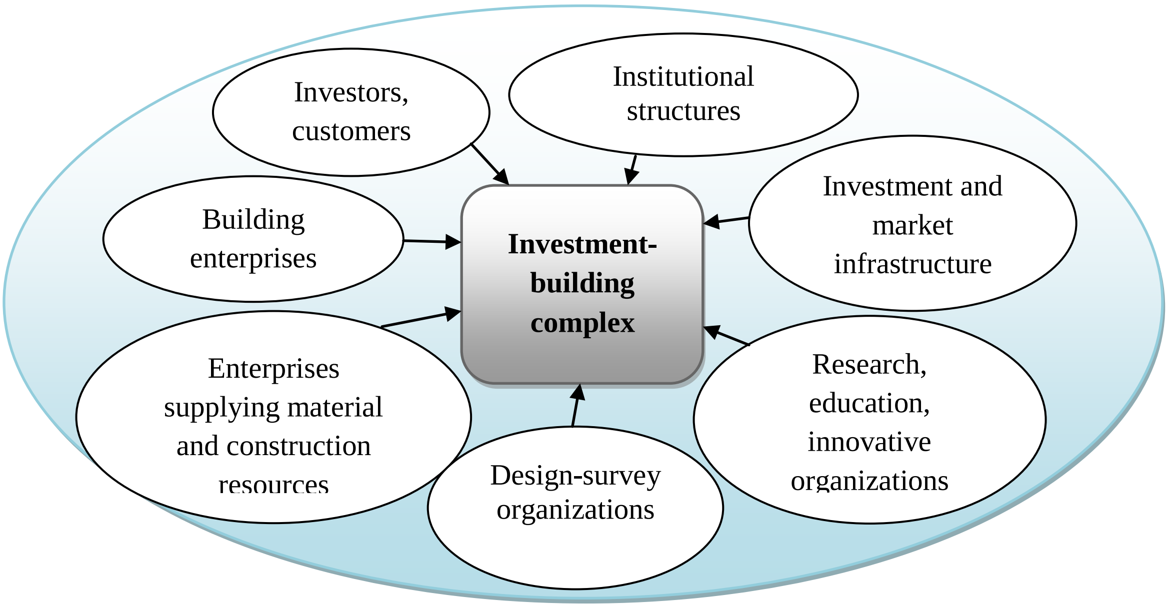

Figure 3. Subjects of investment-building complex

Building market as a systemic phenomenon include the appropriate range of subjects: landowners, customers, builders, developers, investors; management, brokerage, financial-banking institutions, insurance companies; architectural, design and engineering firms, contractors and subcontractors, manufacturers and suppliers materials and constructions, owners built by industrial and civil objects, inhabitants of houses, and local and central authorities, local governments; expert, conciliation and other institutions, in particular the expertise and monitoring строительство etc. State can stimulate or slow down development of building, creating the conditions for these subjects.

State building management is carried out taking into consideration national interests, the interests of regional and local authorities that is related to delimitation of state ownership (national and local) and secure by local government of building complex objects. Relevant authorities realize their functions through coordination, licensing, control and supervisory powers.

Central government authority in building is The Ministry of Regional Development, Construction, Housing and Communal Services of Ukraine (Ministry of regional development of Ukraine). The sphere its direct impact on investment-building process involves from mastering plots and projecting to completion of construction (relationship customer with the contractor, which form the construction cost) and operation of buildings and engineering infrastructure.

Other institutions of state impact on investment-construction process are: the State Agency for Land Resources of Ukraine and local authorities in land allocation and land use; sectoral ministries in the industrial building. Financial and economic conditions and mechanisms, contractual relations that have a huge influence on the building volume are regulated the Ministry of Economic Development and Trade and the Ministry of Finance of Ukraine. The mechanism of bank financing is largely regulated by the National Bank, the tax issues - the Parliament, the Ministry of Finance. All these institutions together determine the direction and conditions of building development, quantity, price and quality construction products.

Relations arising by investment activity in the building industry are regulated primarily by the Law of Ukraine "On investment activity" from 18.09.1991 № 1560-XII. The main direction of the Law is to provide equal protection of the rights, interests and property of subjects in investment activity regardless of ownership, and also on effective investment of Ukraine’s economy, development of international economic cooperation and integration. This regulatory act establishes a general legal, economic and social conditions of investment activity on the territory of Ukraine, general terms and procedures of investment, state investment regulation, guarantees of the rights for investment subjects, investment protection etc.

Law of Ukraine "On Protection of Foreign Investments in Ukraine" dated 10.09.1991 № 1540a-XII defined the legal regime of foreign investors and state guarantees of the investment activity on the territory of Ukraine, namely the protection of investments, profits, rights and interests of foreign investors.

Special aspects of foreign investment in Ukraine set the Law of Ukraine "On foreign investment regime" from 19.03.1996 № 93/96-VR. The provisions of this Law regulating the relations, in particular the state guarantees the protection of foreign investment, state registration and monitoring of the investment activity of enterprises with foreign investment, consideration of disputes, etc.

Law of Ukraine "On Mutual Investment Institutions» № 5080 - VI adopted July 15, 2012 takes a special place in the investment legislation. It defines legal and organizational basis for the creation, operation and termination of mutual investment entities, peculiarities of asset management of these entities, establishes requirements for the composition, structure and storage of such assets, emission peculiarities, circulation, accounting and redemption of mutual investment institutions, and the procedure disclosure of their activities to attract and efficient allocation of financial resources investors.

Ukraine's parliament adopted legal acts that establish a special legal regime of economic activity in special (free) economic zones, regulate special legal regimes investment activities in the territories of priority development and within technology parks of Ukraine.

The peculiarity of the national investment legislation is that some aspects of investment, in addition to the above-mentioned legal acts, are regulated the rules as economic, fiscal, monetary, banking, finance, customs, civil and land legislation, privatization acts, entrepreneurship, innovation , stock market, concessions, etc.

Considerable part of the national legislation constitutes international instruments, the participant is Ukraine: multilateral international agreements, conventions aimed at protecting foreign investment and to settle other issues. These include, in particular the Convention on the Settlement of Investment Disputes between States and foreign investors from 05.18.1965 (ratified by the Law of Ukraine of 16.03.2000 № 1547-III).

In addition, a large number of intergovernmental agreements on promotion and mutual protection of investments concluded by the Government of Ukraine to the government of the country operates in the investment field.

Thus, national legislation to regulate of investment activity is unstable, legal and regulatory framework is undergoing constant change. Prematurely talk about holistic and mutually agreed system of legislation, despite the extensive system of regulations.

However, there are some positive changes in this sphere. To improve legislative regulation adopted a number of legal acts by which (Verkhovna Rada of Ukraine, 2012)

- laid the foundation for stimulating the development of cooperation between the public and private sectors to improve the competitiveness of the Ukraine’s economy and investment in its economy, and started reforming the investment sphere (Law of Ukraine "On Public-Private Partnership" from 01.07.2010 № 2404-VI);

- greatly simplified registration procedure of construction project, that led to attracting more investors into the industry (Law of Ukraine "On Regulation of Urban Planning" of 17.02.2011 № 3038-VI);

- maximally simplified procedure for obtaining services related to the preparation and realization investment projects by the implementation of the principle "one stop shop" for the subject of investment activity (Law of Ukraine "On the preparation and realization of investment projects on the principle "one window"of 21.10.2010 № 2623-VI).

One of the main tools of effective state impact on the development of investment-building activity is tax policy. Fiscal policy - a set of state measures on the organization and use of funds for the economic and social development. It finds expression in the way the mobilization of budgetary resources, using it's for the state needs, in economic development and social protection of population, in the budget legislation.

To improve the tax system and tax policy the government introduced a new Tax Code of Ukraine 1 January 2011. The results of the study researchers suggest that the adoption of the Tax Code, a number of old problems to solve tax system failed. The results of the research study suggest that the adoption of the Tax Code did not resolve a number of problems the old tax system. In addition, new problems were added.

Ukraine belongs to ten countries with the most complex tax systems according to Pricewaterhouse Coopers. The tax burden on the Ukraine's economy remained at the level 44%, while in Central and Eastern Europe (CEE) that are part of the EU - 30%. By number of taxes, Ukraine is 91 in the rating among 185 countries inspected by the World Bank annually, by the tax load - 154, and for the time spent on tax administration - 171. Among closest neighbors (EU, CEE and CIS countries) Ukraine has the worst assess the effectiveness of the tax system and GDP per inhabitant (Haidutsky, 2014).

Opportunities for investment activity of enterprises are defined by their financial situation, only profitable business activities allows enterprises to direct funds for capital investments and to attract credit resources for the implementation of investment tasks. For example, in Poland the attractive system of investment incentives was created , such as financial grants and tax holidays. At the same time economic policy is conducted, which involves activity of clusters that provide enterprise competitiveness in the local, regional and national levels and attracting foreign investment. Today the country has 40 clusters with different specializations; including Building cluster Świętokrzyskie province covers about 60 construction companies.

According to economic scientist Haidutsky P.I, to improve tax policy in Ukraine at present time is necessary (Haidutsky, 2014):

- by income tax: move focus of tax benefits from tax rates to the introduction of accelerated amortization, including costs of R & D, development and implementation of innovative projects, eliminating privileges for businesses intangible sphere of production and for the other companies that do not invest, not involved innovation and modernization;

- by turnover tax and VAT: VAT reduction with simultaneous abolition of VAT privileges; abandon from introduction of turnover tax, which can decrease tax revenues.

Thus, fiscal policy of Ukraine should move from dominance of fiscal priorities to implement stimulating potential by granting tax privileges and preferences for priority activities.

Development, financing and implementation of targeted complex programs - it is also a form of government regulation and main form of program management in countries with market economies. State target programs may be considered as investment plans that will be implemented to some extent through capital investment, i.e. through construction. Programs aimed at improving the investment climate in Ukraine were the "Development Programme of investment and innovation activity in Ukraine (2011-2015)," Programme "Investment Image of Ukraine".

Activity and the development of engineering-building companies depend on government plans to develop infrastructure. This means that any reduction in the state budget for infrastructure would reduce investments in new projects. Urbanization and population growth also affect the development of the building sector.

In developed countries, the socio-economic development strategy is formed and realized as a complex of medium- and long-term programs which funding from 50% (USA) to 80% (France) of all budget expenditures.

In Ukraine, the program execution is not controlled by timing and results sufficiently, programs underfinanced that creates on one side the waste of budget, and the other - the inflation mechanism (work in progress of construction). State management of programs requires reorganization, in particular the improvement of financing, regulation etc.

Direct impact on the investment activity level makes the degree of banking system development, the possibility of crediting and volumes of financial resources in individual banks, their regional concentration and other factors that depend on the country's monetary policy.

Building companies have to balance between the funding of long-term projects and more urgent monetary burdens that are borne by the investors. Too early or too large-scale investment without of demand in the sector could lead to that the company will remain unused resources and be idle. Conversely, we can skip a wave rise on market if investing too little or too late.

Own funds of enterprises play a crucial role in the financing structure of Ukrainian economy. Their weight is more than half the investment volume in fixed assets (Table 2). The banking system plays in this process a secondary role, mainly performing the function of "reserve" creditor, as indicated low share of bank loans among the funding sources for capital investment. The reasons are high cost of investment credits and bank claims to enforce them; reluctance of banks to lend of innovative projects through high risk; lack of long-term bank funding base to enhance investment lending and real government program of investment-innovation development of industry that would provide mechanisms to protect creditors and borrowers from investment risks.

Table 2. Investment structure in fixed assets by funding sources

in % to total volume

	2010	**2011**	**2012**	**2013**
Total	100,0	100,0	100,0	100,0
including by:				
state budget funds	5,8	7,1	5,8	2,4
local budget funds	3,4	3,4	3,1	2,7
own funds of enterprises and organizations	**60,8**	**58,6**	**59,7**	**63,8**
bank credits and and other loans	12,3	16,3	17,1	15,3
foreign investments	2,1	2,8	1,7	1,8
population funds for the construction of own apartments	2,5	1,7	1,3	2,5
population funds for private housing construction	8,6	5,8	7,5	8,1
other funding sources	4,5	4,3	3,8	3,4

The amortization policy has a significant impact on investment activity, and should be aimed at improving the financial interest of businesses to invest in capital assets from own funds.

Now legislative and normative-methodical base that regulates the amortization system of assets not relies on long-term reform of the amortization policy concept and not prepared for practical use. This worked out for the taxation and privatization, not from the position of reproduction of fixed capital.

At low profitability the most producers to accelerated amortization as a tool to obtain tax benefits have weak interest, so would not be able use it.

In order to intensify investment processes advisable: allow entities to choose amortization methods and move freely with accelerated methods on a straight; implement a monitoring system intended use of amortization funds for the investing purposes in the industry; stop the practice of extracting depreciation charges in the budget.

5. CONCLUSION

Investing as the state regulation object is a systematic, structured and economically grounded attraction investment from different sources for the effective placing them in the most socially important and economically attractive projects and development directions of the building industry with simultaneous creating favorable legal and economic conditions for its implementation.

The State regulates investment activities in various forms, including:

1) creating favorable economic conditions for investment by applying related tax policy; amortization policy (accelerated amortization methods); increased use of population funds and other budgetary sources; development opportunities of collateral in lending to investors; development of financial leasing; creating conditions subjects of investment activity to create their own cash development funds;

2) direct state participation in investment activity as capital investments through: the development, approval and financing of investment projects by the state or local budgets; provide on competitive basis state guarantees for projects that occur by the state or local budgets; issue bonds to finance concrete investment projects;

3) indirect forms state regulation of investment activities, through: fiscal regulation policies; regulation of monetary policy; regulation of stock market;

4) other forms of investment activity through: expertise of investment projects; protect the legitimate rights and interests of subjects investment activity

To increase investment resources and improve the efficiency of their use need:

− improve the mechanisms and instruments of government policy aimed at extension investment potential and investment activity of enterprises;

− significantly increase the state investment effectiveness on based definition of exhaustive investment priorities list to avoid dispersion of investment resources and broad adoption of projects based on public-private partnerships;

− improve the investment climate by improving total (tax, land, corporate, customs) and special investment legislation, enhance the protection of the private investors, strengthening measures against corruption in investment activity.

State policy in building industry need to form on the basis of direct and inverse linkages of macro-and micro-economic investment-construction processes, modeling of influence structure, economic mechanism and indicators of development investment-construction complex on the dynamics of social and economic development country and regions, and these dynamics - on building industry.

The financial mechanism of building complex is necessary to improve, employing new sources and financial forms, reaching in this way balance the goals of strategic development and funding.

Necessary to accelerate the formation of a rational regional structure, infrastructure and specialization of construction participants, capital structure of building industry and capitalization level, improving contractual relations, formation of costs, prices and profit of construction participants, sufficient for their operation and development.

Necessary to ensure constant improvement of the project decisions efficiency in urban planning, construction and capital repairs, including all costs complex during life cycle of building products, introduce motivation mechanism of research-project organizations in developing effective project solutions.

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