Stimulants of FDI Flows between Poland and Ukraine

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Abstract
The main goal of this paper is to diagnose the stage of economic relations between Poland and Ukraine in the scope of Foreign Direct Investments with a particular emphasis on factors that stimulate the inflow of Polish capital to the Ukrainian economy. The research focuses on the analysis of institutional factors and policy incentives as well as the analysis of statistical data broken down into sectors of industry and geographical distribution of FDI. The presented outcomes of this research also focus on factors that might motivate Polish investors to establish their businesses in Ukraine, and (what might be particularly relevant for Ukraine) factors that discourage FDI inflows.

Keywords: investment climate, FDI, FDI flows, Poland, Ukraine

Introduction
This article is the result of a research project carried out by the University of Information Technology and Management in Rzeszow. The main purpose of the project was to investigate implications of the free trade agreement between Ukraine and the EU. As a part of the project the authors of this paper investigated the stimulants of Polish Foreign Direct Investment (FDI) in Ukraine.

The key results of the research indicated that Ukraine is a country where most of the location-specific advantages and other OLI advantages (Dunning 2001) could have been easily satisfied, but FDI inflows are discouraged by the economic regime. To attract FDI, countries usually have a relatively stable political environment, a liberal taxation policy, etc. Sometimes to attract FDI countries use special incentives (i.e., special economic zones and CIT reduction). Multinationals are also interested in intellectual property rights crucial for FDI that needs to transfer technology and know-how, patents or trademarks as well as managerial expertise (Hymer 1976). According to the Global Competitiveness Report (Schwab 2013) Ukraine ranks 63rd among 122 countries in the Human Capital Index with an education level similar to Malaysia (22), Jordan (52) and Bulgaria (56).

Wilson states that cost of investment is as important as financing (in the form of grants, bank loans or own resources). There are some other factors consistent with other macroeconomic FDI theories such as conditionality, risk-bearing and IP regulations (Hymer 1976).

Investment climate reflects many of the characteristics of location advantages. It shapes the potential opportunities and offers incentives to invest. The key words for a good investment climate are: low-risk. In developed economies a good investment climate stimulates competitiveness, innovation and sustainable growth. “Globally, companies that operate in a good investment climate transmit the benefits of low-risk growth to other sectors of the globalizing world” (World Investment... 2005).
Looking through the prism of sustainable economic growth, a good investment climate makes investment decisions easier to make, because it creates the environment necessary to maintain undisrupted key activities of the company. In Ukraine, however, there is strong anecdotal evidence on public workers not receiving their pay.

1 Background information on FDI in Poland

Poland has the largest economy among all post-socialist members of the EU in respect of GDP. The country was the first communist country in Europe which officially rejected a centrally planned economy — leading the way for democratic governance in 1989. The period after 1989 was later followed by reforms introduced by Finance Minister Leszek Balcerowicz. The reforms opened the Polish market to global competition and allowed for price liberalization, reduction of subsidies for state-owned enterprises, initiation of the process of privatization and reform of the banking sector. This period of profound economic reforms and social changes, after the political transformation, is associated with the recession resulting from the rapid structural change of the economy. However, after 1992, the Polish economy recorded growth well ahead of the other Eastern European countries. In 1994–1997, during the introduction of the “Strategy for the Poland” by Finance Minister Grzegorz Kołodko, Polish GDP was growing on average by 6.4% \(^1\) each year. Then, Poland recorded stable economic growth with minor declines in 2001 and 2002 (most likely due to the rigorous monetary policy) and in 2009, in response to the global debt crisis.

![Figure 1. Expenditure of households and HDI in Poland in 2007–2012](data:image/png;base64,iVBORw0KGgoAAAANSUhEUgAAAAEAAABCAQMAAAC59n+5AAABl0lEQVR42mNkAeAAAAABgMjeAAAABJRU5ErkJggg==)

Data source: Eurostat and UNDP

In 2007–2012, consumer expenditures in Poland were increasing by an average rate of 6.1% a year. Per capita the indicator increased from EUR 4900 in 2007 to EUR 6000 in 2012. Indicators like the Human Development Index (HDI) and consequently GDP per capita, education level and life expectancy promoted Poland to 39th place among all countries surveyed in 2013 by the UNDP. \(^2\) The ratio was increasing on average 0.4% every year during 2007–2012.

In 2012, the rate of innovation and technological progress measured by number of landline subscribers and mobile telephone owners per 100 persons in Poland showed approximately 1.5 telephones per person. The OECD Index of Life Satisfaction — part of the “Better Life Index” that aims to capture the standard of living and quality of life regarding education and safety, housing, income, availability of labour, community and social engagement, the environment, health and balance of private and professional life have been also increasing over the investigated period. As a

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1. [In the journal (in both Polish and English texts) European practice of number notation is followed — for example, 36 333,33 (European style) = 36 333.33 (Canadian style) = 36,333.33 (US and British style). Furthermore in the International System of Units (SI units), fixed spaces rather than commas are used to mark off groups of three digits, both to the left and to the right of the decimal point. — Ed.]

consequence, when it comes to quality of life Poland ranks 29th before Italy, Portugal and Greece, and not far behind Japan and South Korea.

The institutional and legal environment is an essential component of the investment climate. This environment is created by values of law and the effects it has on institutions. It shows how government agencies help to facilitate businesses with foreign capital (Przybylska 2008, 60). Poland has been trying to attract FDI, with favourable laws and regulations since the early 1990s—mainly by facilitating safe entry and protection of investment. Polish actions to promote FDI led to the creation of the Polish Agency for Information and Foreign Investment (PAIiIZ). Its role was to coordinate promotion and to monitor the climate for all investments.

During the global economic downturn and despite lower capital flows, the maintenance of economic growth strengthened Poland’s position in the rankings as a country of destination for FDI (Zimny 2012). In 2011, on a scale of 1–5 in which 1 meant very bad and 5 very good 73% of companies indicates that Poland is politically stable and it will be so in the future (“Investment Climate in Poland...” 2011). In Poland there are 14 Special Economic Zones (SEZ). After joining the EU, the Polish Government decided to maintain the SEZ to 2020, later that period was prolonged by six years to 2026 (Cywinski 2013). Polish SEZs attracted companies like Toyota, General Motors, LG Electronics, Dell and Procter & Gamble. The companies located in the SEZ can benefit from many privileges such as CIT reduction and property tax reduction. In addition, companies can receive discounted prices for land and free assistance in arranging the necessary formalities.

In 2004–2012 Poland received in total USD 428,8 billion of FDI; and during that period each year FDI inflows increased at an average rate of 18,3%. The only exceptions were in 2008 and 2011, when they decreased respectively by −7,9% and −8,1% in relation to the year before. Among all countries which joined the EU in 2004, Poland attracted the most of the FDI. Second was the Czech Republic—however in 2004–2012, the country received in total 59,9% less foreign investment than Poland—what shows the gap between the level of investment. Among all countries that joined the EU in 2004, Latvia attracted the least investment (25,3 billion in total). These data however are dependent on the size of the market.

The decline of FDI inflows in 2008—that is, during the global economic downturn, affected more than half of the countries which had joined the EU in 2004. The largest decreases in relation to the preceding year accrued in Lithuania (−14,0%) and Cyprus (−8,4%). The rest of the countries also recorded a smaller inflow of FDI, but still remained at a slightly higher level than in the previous year. During the downturn in 2008 a noticeable amount of FDI went to Slovenia and Slovakia (in relation to the preceding year). These countries recorded inflows of FDI respectively greater by 8,8% and 5,7% in relation to the previous year. However, a year later Slovenia’s FDI decreased by 2,9%. FDI inflows to the new members of the EU in 2010–2011 have been generally decreasing. In 2010, only Poland and Malta indicated positive FDI inflows—16,4% for Poland and 83,8% for Malta. A year later, FDI inflows were noted only in Lithuania and Latvia (12,5% and 7,5% in relation to the year before).

2 Investment climate and FDI in Ukraine

Since independence in 1991 Ukraine has been conducting a series of institutional reforms. However it is uncertain if these actions contributed in a positive way to reduce investment risk and costs of business. In fact when it comes to institutional support for business, corruption or bureaucracy, Ukraine seems not to be going forward in relation to other Commonwealth of Independent States (CIS) (Herzfeld and Weiss 2003).

According to the National Bank of Ukraine (NBU) in 2012, the inflow of foreign capital to the economy of Ukraine reached 7,8 billion USD which is 8,7% more than in 2011. When we compared the first half of 2013 and 2012, the value of foreign capital was lower by 63,4%. The cumulative
value of foreign investments in Ukraine at the end of 2012 reached USD 54.5 billion — 79% of cumulative FDI inflows to Ukraine come from the EU and 7.8% from other CIS countries.

According to the data of the State Committee of Statistic in Ukraine, most of the investments in Ukraine come from Cyprus (31.7%), seconded by Germany (11.6%), the Netherlands (9.5%), Russia (7%) and Austria (6.2%). The FDI from Poland did not exceed 1.7% of the total value, (which is roughly the same as from the United States).

At the end of 2012 most of the FDIs have been directed towards sectors of production (31.5%) — particularly to processing of goods (82% of the total inflow of production). A significant part of the investments has been also located in the service sector, mostly in finance (29.6%), real estate and shared service centres (16.6%) or trade and repair (11.0%). Most of the Ukrainian banking services have been acquired by mergers and acquisitions in 2006–2007 mainly from EU countries. These kind of investments have been popular in Dnipropetrovsk, Kharkiv districts and the city of Kiev.

A substantial amount of Ukraine’s FDI has been done with tax havens — mainly in Cyprus. Ukrainian capital was often reinvested back in the form of FDI from Ukrainian-owned companies in Cyprus. This was done to benefit from the advantageous tax regime of Cyprus. What is more is that investments coming from Cyprus might also carry capital from Russian M&As. There is no concrete data on Ukrainian financial investments in Switzerland, the United States or other countries as there is a significant involvement of third countries — which makes them hard to trace statistically.

FDI inflows to Ukraine are relatively low. Countries the size of Ukraine are usually able to attract much more FDI (Nowak et al. 2013). One of the main reasons is a very bad investment climate. There might be a negative correlation between investment in Ukraine, measured risk factors and Brownfield–Greenfield–M&A strategies. Further investigation is needed, however we have encountered a problem collecting relevant data from the State Statistics Committee of Ukraine to conduct it. Additionally the preliminary investigation showed that Special Economic Zones and

**Fig. 2.** FDI in Ukraine cumulative in 2000–2013 (in millions of USD) as of 1 January next year, calculated as the updated value since the start of the investment

*Data source: The State Statistics Committee of Ukraine*

**Fig. 3.** FDI in Ukraine stratification by country’s fraction of total in 2012

*Data source: The State Statistics Committee of Ukraine*
similar institutions have been playing a very marginal role in attracting FDI in Ukraine. The main reason for the low effectiveness of institutionalized help in SSEs is an unstable tax policy. SSEs in Ukraine attracted circa 600 millions of USD which is only 7.2% of the total amount of FDI in Ukraine, but some of them have been fleeing due to the above-mentioned discouragement—the unstable taxation policy coming from a government budget imbalance.

The Heritage Foundation in the annual Economic Freedom Index in 2012 positioned Ukraine 161st place among 183 countries. In 2013 Ukraine was still in the same place—the lowest score among all countries from the European Continent. This puts Ukraine with the group of countries with a repressive attitude towards business. In previous years, the Economic Freedom Index had been fluctuating or improving by 0.1–0.2 points, however the latest changes are negative. What is more is that when we compared Ukraine’s score in the Index with neighbouring countries, we could draw the line separating Belarus (154th position) and Russia (139) from Poland (57), Czech Republic (29) and Turkey (69).

Other reports also confirmed a high risk level for business. The Doing Business Index in 2013 positioned Ukraine 137/185. Numerous other data and press releases also indicated a bad investment climate. For instance, to start a business in Ukraine, you need to overcome approximately 10 complicated procedures, which is almost twice as many than in OECD countries or Western Europe. The whole process of setting up a business also takes twice as long as in the above-mentioned countries. The situation is similar in the case of construction time or property registration. What is more is that it is hard to get financing for the initial stage of the project. Many of the difficulties that entrepreneurs have to face come from the fiscal system. Closing a business in Ukraine is also much more expensive and time-consuming than in other European countries.

Despite the existence of the high level risk associated with doing business, the Ukrainian economy is still an attractive place to invest and the country manages to attract FDI. At the end of 2012 there were more than 130 countries interested in investing in Ukraine. The value of FDI in Ukraine’s economy at the end of 2012 was USD 54.5 billion.

3 Regional distribution of FDI in Ukraine

Ukraine’s structure of governmental institutions is centralized, and budget revenues are redistributed to 24 regions from Kiev—the capital city. The funds are distributed according to institutionally based algorithms (the distribution algorithm of transfer from central to local budgets); this implies that no matter how much tax revenue a particular region generates, the local budget they administrate depends on a Kiev fixed algorithm-based decisions, and they are not, in most cases, in line with public needs. They depend on the above-mentioned institutionally based algorithms. The algorithm documentation stresses that capital is redistributed to provide

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equal business opportunities. Thus, according to the regime it is important that none of the regions are being discriminated against. Yet some of them attract more FDI than others, and not surprisingly it was possible to draw a line that showed two sides of FDI concentration.\(^7\)

The average regional dynamics of annual FDI inflows to Ukraine in 1996–2013 varied from 95.5% in the region of Vinnytsia to 13.4% in Ternopil. This indicates that there is a significant regional disproportion of FDI inflows—at first sight it is a clear sign of differences in location advantages. However, a descriptive analysis of the available time series indicated that until 2004 the inflows of FDI oscillated around approximately the same level for each of the regions, though from 2004 some regions managed to attract more FDIs than others. Regional FDI attraction has been therefore analyzed according to the average dynamics for two separate time-periods: 1997–2004 and 2004–2013. The median dynamics of annual inflows for all regions after 2004 was 0.19. The results showed that 12 regions have been above the median, these are: Volyn (0.26), Dnipropetrovsk (0.76), Zhytomyr (0.19), Ivano-Frankivsk (0.28), Luhansk (0.41), Lviv (0.21), Poltava (0.21), Rivne (0.25), Kharkiv (0.29), Khmelnytskyi (0.20), Cherkasy (0.38) and Donetsk (0.25). From this it could be concluded that regions with the highest dynamics of FDI inflows are concentrated mainly on the opposite sides of the country—east and west. The central regions of the country, with one exception were below the median.

Until 2004–2005 both eastern and western regions of Ukraine attracted a similar level of FDI inflows. The spatial homogeneity of FDI inflow distribution could mean that most of the regions shared approximately the same attractiveness in terms of location advantages (i.e., existence of raw materials, low wages, special taxes or tariffs). At the beginning of 2005, however, the eastern regions managed to attract significantly more FDI. In depth, however most of the FDIs to eastern regions have been flowing to Dnipropetrovsk—an outlier that only in 2013 managed to attract more FDI than the rest of the eastern regions altogether. In 2013 Dnipropetrovsk attracted more than 32% of all FDI in Ukraine. This means that since 2004 this singular pole of growth has been outweighing other regions despite the fairly centralized institutions of Ukraine. After excluding the outlier from the analysis, performance of the eastern regions of Ukraine—in terms of FDI—was still better, but with significantly lesser dominance (data includes FDI in the finance and other business activity sector of 1/3 of all FDI inflows to Ukraine).

A descriptive analysis of the data on the total regional FDI inflows shows therefore a goliath-like Dnipropetrovsk—a strong singular pole of growth surrounded by other relatively attractive regions and the multiple green shoots in western regions of the country. Dnipropetrovsk’s power to attract FDI seems to outweigh the investment climate of all other regions of Ukraine. In the past Dnipropetrovsk was a key industrial and R&D centre of Ukraine with the focus on advanced aeronautics and nuclear power. In 2009–2013 this region attracted capital from Germany (37.5%), Cyprus (23.5%) and in 2013 also the Virgin Islands (8.6%). In 2013 FDI from Germany amounted to 51.1% of total inflows to this region and from Cyprus 30.0%. In comparison to other eastern regions like Luhansk, in 2013 75.3% of FDI came from Cyprus, 7.8% from Russia and Great Britain 4.0%. In Poltava most of the FDI came from Switzerland, in 2013 it was 55.3%, after that Cyprus (15.2%), Holland (11.5%) and Russia (5.0%). In Kharkiv, most FDI came from France (38.9%) and Cyprus (27.4%). Last but not least Donetsk (in 2013) attracted FDI from Cyprus (53.2%), Holland (19.5%) and the Virgin Islands 5.9% of the total.

Direct investments from Cyprus are the most common in all regions of Ukraine, in total they reach 31.7% of all FDI. Investments from Cyprus are most popular in 12 regions not counting Cherkasy where Belize was the most popular (61.8% of total), and after that Cyprus with a 16.5% share of total FDI. Cyprus was also a popular destination of Ukraine’s and Russia’s FDI outflows. In the case of Russia, however, since 2012 investments started to relocate to the British Virgin Islands perhaps as a consequence of the banking crisis in Cyprus in 2013, and changes in the tax regime (Filatova 2013). Moreover Cyprus has been a destination for Ukrainian FDI since 1983 due to a favourable double tax treaty between Cyprus and the USSR. Also it is possible that Ukrainian

\(^7\) See: Ukraine Parliament “An act on The distribution algorithm of transfer from central to local budgets” from 8 December 2010, Bill № 1149), available online at Laws of Ukraine (Законодавство України) webpage, at http://zakon2.rada.gov.ua/laws/.
business turned to Cyprus’ banking sector because of lesser risk in terms of the rule of law. There is strong anecdotal evidence that Cyprus’ FDI in Ukraine are in fact Ukrainian and Russian investments favouring the better banking and institutional stability of Cyprus, notwithstanding the favourable tax policies and treaties. These type of investments are very popular both in western and eastern regions of Ukraine, they are an indication of a very unstable banking sector, which in fact together with outstanding corruption creates an opportunity for murky financial investments and capital flight.

In terms of FDI composition western regions display similar characteristics. As in eastern regions in the west, for instance in Volyn in 2013 31,9% of FDI came from Cyprus, and 17,3% from the Virgin Islands, the third largest group of investments came from Poland 8,5%. In Zhytomyr 51,0% of FDIs came from Cyprus and 10,2% from Holland. Ivano-Frankivsk region attracted investments from Holland 34,5%, Great Britain 2,7%, Poland 5,8% and not surprisingly, Cyprus 26,9%. Analogically in Lviv, investments from Cyprus amounted for 29,2% of total and investments from Poland for 24,3%. There were also present investments from Lichtenstein, the Virgin Islands and Switzerland. But in both cases — Lviv’s and Ivano-Frankivsk’s, there were also present investments from the United States and Germany. Cyprus’ investments in Rivne in 2013 amounted to only 12,4%. Most of the investments in this region came from Germany, 30,7%, and Great Britain, 20,2%. In Khmelnytskyi only 9,9% of the total inflow of FDI in 2013 came from Cyprus, most FDI in this region came from Holland — 59,9%, and Poland — 7,0%.

Ukraine’s economic regime is responsible for capital flight, mainly to Cyprus and tax havens. The condition of Ukraine’s banking sector and the rule of law together with overwhelming corruption forces Ukrainian business to seek stability elsewhere. In consequence, and not surprisingly almost 1/3 of all FDI in Ukraine comes from Cyprus; there is evidence that FDI from Cyprus is in fact capital “reinvested” from Ukraine. Other types of investments are attracted by Ukraine’s good location advantages (despite corruption and high risk of investment). A respectable amount of FDI concentrated in Dnipropetrovsk and eastern regions are slightly better at attracting FDI mainly because of the previous experience in facilitating advanced industry. To sum-up, capital flight is another reason to believe that the economic regime in Ukraine was typical for extractive institutions.

4 Polish FDI in Ukraine: diagnosis for 2000–2012

During the first decade of the 21st century less than half of Polish FDIs chose to enter foreign markets via greenfield investments (48,2%). The varieties of portfolio investments represented (34,5%) of Polish capital flows, and M&As (17,3%). More than half of Polish FDIs (51,6%) are subsidiary, joint ventures constituted 16,8% and investments in affiliated companies 31,5% of outgoing foreign investment. Polish enterprises have been mainly focused on trade (43,7%) and services (36,6%), production and trade (11,5%), production per se (4,3%) and other investment activities (4,0%).

Previous studies of Polish FDI identified differences in the investment perception regarding “the old union”, “the new 12” and the rest of Central and Eastern Europe. The studies showed that investors separate cases for both groups of countries that differ when it comes to incentives. In any case, investment decisions have been mainly stimulated by a perspective of finding a niche and geographical proximity of existing markets. In terms of location for new investments, Polish entrepreneurs paid attention to the stability of the tax system and legislation (Jaworek 2012). It is therefore very surprising that so many of them choose Ukraine for the location of a greenfield investment. It also shows the strength of location incentives in comparison to institutional instability.

The total outflow of capital during the investigated period reached 16,1 billion USD. The peak occurred in 2010 (USD 7,2 billion). Two years later outflow of FDI from Poland decreased to (USD 0,7 billion). Only during the recessive period Polish FDI to Ukraine reached in total USD 193,5 million. At the end of 2012 most of the financial assets were located in Luxembourg (USD 5,4 billion). A fair amount of investment has been also present in the UK (USD 3,1 billion), Cyprus (USD 3,1 billion) and the USA (USD 1,5 billion). Over a longer period of time, we have also observed that some of the inflows might have a tendency to shift from country to country, depending
on the favours of a tax law (example: the case of Great Britain in 2011–2012, respectively USD 41.1 million and then USD 162.3 million withdrawn a year later). When global markets started the adjusting period in 2012, Polish FDI sought opportunities in the Netherlands (USD 737.9 million), the USA (USD 284.9 million), Hungary (USD 256.9 million) as well as Norway and Russia (respectively USD 207.0 million and USD 191.7 million). During that time investments in Cyprus reached USD 381.5 million.

The service sector dominates. 70.4% of the total value of Polish FDI flows to service sectors. Most of the FDI in Ukraine are export related—wholesale, retail and repair of motor vehicles or related services. The rest of the businesses are administrative and supportive.

5 Ukraine’s outward investments

Most FDI from Ukraine came from Donetsk USD 5.4 billion (83.71%), next Dnipropetrovsk USD 191.2 million (2.95%), Odessa USD 53.9 million (0.83%), Zaporozian USD 41.6 million (0.64%) and Lviv USD 27.4 million (0.42%) (please see the table in the annex). The cumulative value of FDI from Ukraine (UA) reached at the end of 2012 USD 6.5 billion. Most of it, 93% of the total, was invested in the EU. In the 1990s, firms from UA have invested mainly in Russia. After 2006, however, they changed their destination almost entirely. Cyprus became a very popular place to invest, mainly in sectors like real estate, business supporting services and financial activities (6.83%). In 2012 investments in Russia did not exceed 4.5% of total investments from UA (USD 292.5 million). Six years earlier Russia attracted 42.8% of capital from UA. In the past the most popular destination of UA’s investments was trade and repair services (80.44%), and industry (16.42%).

Latvia and Poland are among the second most popular destinations of Ukraine’s FDI. At the end of 2012, the cumulative value of investments from UA to Latvia, added up to 95.5 million USD (1.5% of the total). Similarly as in the case of Cyprus, these are financial sector investments. The total value of the capital invested in Poland summed up to USD 54.2 million. According to the State Statistics Committee of Ukraine, the cumulative value of Ukrainian investments in Poland in the end of 2012 reached 54.2 million (0.8% of total direct investment abroad of Ukraine). This value differs from the estimates of the National Bank Poland (NBP). By the NBP at the end of 2012, Poland had attracted USD 237.3 million of investments from UA.

Since 2005, Poland and Ukraine have shared a number of joint financial and industrial projects. The process has been stimulated by the accelerated privatization in Poland. The examples of cooperation include companies like: the Car Factory in Warsaw, the Metallurgical Plant “Huta Częstochowa,” “Gdańsk Shipyard,” and the metallurgical industry “Centrostal Bydgoszcz.”

Development of financial projects fast-tracked a little later and in 2008 companies from UA were first listed on the Warsaw Stock Exchange. In 2012 on WIG-Ukraine were listed: “Astarta,”
“Kernel,” “Agroton,” “KSG Agro” and “Milkiland,” “IndustrialMilk Company,” “Ovostar Union,” “Sadovaya Group,” “CoalEnergy,” “Westa ISIC,” “KMD Shipping,” last but not the least “Agroliga” listed also in New Connect.

6 Previous attempts to improve investment in Ukraine

The investment climate in UA is subjected to significant inequalities regarding distribution of foreign capital in regional perspective and a low efficiency of inward investment. This could affect the spillover effects of the investments, especially if political instability is present. At present this has been reflected by “a lack of economic and social effects of the presence of foreign capital in the economy of the country.” UA suffers from an insufficient amount of loan institutions—in addition the market is not transparent and risky.

To stimulate investment, the government issued a package of investment reports. The structural reform was separated into 5 main blocks:8

- **InvestPROPOSAL**—aimed to create mechanisms that would produce the opportunity to participate in international investment market projects.
- **InvestINFRASTUCTURE**—aimed to create a system of institutions that facilitate the work of foreign investors in Ukraine (inter alia: Ukrainian Development Bank, Regional Development Fund, the Documentation Project Financing Fund and State Guarantees).
- **InvestPARTNERSHIP**—joint international investment projects.
- **InvestMARKETIN**—information and marketing campaign, with a positive impact on the investment attractiveness of Ukraine in the world.

The Act from January 1st, 2013, “On stimulation of investment activity in sectors of priority in order to create jobs,” has been trying to use tax incentives for importers. The same was for other investment projects carried out for priority sectors of the economy. Eligible investments could expect a release from the payment of income tax until 2017 or a release from payment of import duty.9

Six months later—in June 1st 2012 a new Customs Code came into force, and according to Article 251 of the code, registration of imported goods that are accounted for a share capital of the company are eligible for a faster customs control. According to the second part of Article 287 of the same code, goods imported for the purpose of further investment (for no less than 3 years) are eligible for release from custom duties.

Conclusions

Despite the existence of institutions designed to improve the climate of investment and despite initiated reforms, it is still hard for UA to attract FDI and to benefit from spillover effects. The main list of causes could be formulated as follows (Kornienko and Malik 2013): a high level of corruption and bureaucracy at various levels of government. There is no transparency in the initial investment process and there is a significant tax burden. There is a large number of taxes and they sum up to a heavy burden. Yet, previous investigations encountered problems with meeting deadlines for VAT refunds. There are also difficult and time-consuming registration, licensing and customs procedures; weak protection of property rights, ownership of land, difficult requirements

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for starting and running a business, no state protection or guarantee of help for investments; political instability, no reliable protection against changes in the Ukrainian legislation on foreign investment, low level of development of market infrastructure and secure cooperation between Ukraine and foreign capital markets.

Further empirical study is needed, however the current political situation in Ukraine does not promise reliable results. Foreign investment relations and trade between Poland and Ukraine is determined by national and international laws and agreements. At present, in trade both countries use a Partnership and Cooperation Agreement between the European Communities and their Member States, and Ukraine from 1994 (entered into force in 1998). Ukraine became a member of the WTO in 2008 and Poland in 1967. Since independence in 1991 Ukraine has undergone a series of institutional reforms. It is however difficult to assess whether these reforms have positively contributed to the reduction of investment risks and the costs of doing business. In addition, the uncertainty associated with political destabilization in the region might have a negative impact on investment inflows, portfolio and direct investments in the future.

Ukraine has good location advantages, a large and receptive market, proximity to European markets, rich resources, relatively low competitiveness and market niches. The country has a history of knowledge-intensive activities that have not been successfully privatized.

References


