1

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## Financing the Investment Projects in Regions in globalization

### **Abstract**

The urgent problems of financing the investment strategy in the regions of Ukraine are examined in globalization. The directions of further development of the investment resources mobilization system and their management are determined in order to apply innovative models of structural reorganization of the economy and to ensure social and economic development of regions.

**Key words:** investment resources, transfers, budgetary costs, direct foreign investments.

# 1. Innovative development of Ukraine as a factor of economic development of regions

In the modern world, economic globalization provoked essential strengthening of international competition which stipulated the application of innovations in the world and determined the tendencies of development of Ukraine as well as other countries of the world. It is the level of development and dynamism of investment processes that in the modern conditions forms the strategic basis of stable economic growth of individual regions and the whole country. The intensive development of investment activities and competitiveness increase of home producers is of great importance for Ukraine because it facilitates the acceleration of the market economy transformation, the entry into the world markets and the formation of currency reserves necessary for production mechanization. The strategy of the innovative economic growth should replace the functioning strategy of growth predominantly of a renovate character. That is why the strategic task of the stable development of all regions of Ukraine is the application of the innovative model of structural

reorganization and economy growth and strengthening of Ukraine as a high technological country.

The innovative process is represented in the form of an investment project, which combines the measures for creating, producing and introducing new high technological products into the market. The investment process creates real prerequisites for expanded reproduction, renovation of obsolete fixed capital and systematic innovation realization and application of the latest achievements of science and technology into production. The economy modernization based on technological innovative renewal stimulates investments that give rise to corresponding growth of investment expenses. Using such a method investments become a determinant factor of economic growth. The latter depends largely on scientific substantiation of orientation points, priorities, ways of development, and sources of financing and other aspects of the investment strategy [2]. The structural reorganization of the country's economy using the innovative model requires first of all the increase of the country's role as to an effective regulation and stimulation of scientific, technological and innovative development of the national economy in the conditions of formation of market self-regulators and market environment. The investment policy of the country must be aimed at developing the available potential of long-term high technological producers: position in the world space and aviation markets, metal production, information technologies and other long-term technologies.

# 2. Improvement of state financial regional policy as a factor of increasing the efficiency of using investment resources

The potential development of the economic development of each region mainly depends on its resource potential: natural resources, production facilities, qualified personnel, financial resources, etc. The formation of financial resources in the region, intensification of investment processes and financing of the investment strategy of regions mainly depends on the scale and effectiveness of the economic complex of a specific region and the county in whole and state regional policy.

It is worth noticing that main approaches for the realization of state regional policy in Ukraine have been worked out. After decreeing the Budget code of Ukraine a new mechanism of allocating interbudget transfers between the state budget and local budgets was determined: a formula order of estimating transfers volume for local budgets using key parameters. The State regional policy concept was ratified by President's decree concerning the development of 'the mechanism of using transfers from the state budget, transition to direct relations between state and local budgets, transference of local budgets to Treasury service, expenditure delimitation of state budget and all kinds of local budgets'. In order to realize this concept the most important is the transition to interrelations of state budget directly with the budgets of territorial communities by means of creating state and regional information systems about regions and territorial communities, their potential and needs. It will provide an effective re-distribution of financial resources taking into account an impartial assessment of social and economic state of regions. The transition of enterprises of priority industries to financing on the competitive basis and abolition of tax benefits will make it possible in the near future to meet the principles of functioning the budget system to form the income basis of local budgets and to finance regional investment and innovative projects in the first place in productive sectors of the economy.

The conceptual approach to solving problems in the sphere of interbudget relations in the long-term period means that the system of financing the regional development and financing the regional investment projects must be based on the principles of the theory of public finances. In order to provide the principle of social solidarity it is reasonable to use the experience of foreign countries about the formation of the fund of financial support of regions. The fund's activities make it possible to provide transparency and responsibility in redistributing the resources from donor regions to recipient regions in the process of fiscal leveling.

The urgent problem is making changes into the Budget code of Ukraine concerning the definition of interbudget relations, which is reasonable only with

measures for administrative reform and in the future it envisages the simplification of expenditure delimitation system.

## 3. Sources of financing investment projects in regions

We will analyze the structure of sources of financing investment projects in order to determine the directions of further development of the investment resources mobilization system in regions (Fig.1) on the example of Prydniprovsk industrial region, which is a leading center of industry and innovative changes in the country. According to independent analytical centers the region is in the top three most attractive and developed regions of Ukraine, the tendencies of investment resources volume dynamics, changes of their structure and problems of financing coincide with Ukrainian ones [5, 6]. In 2006 the volume of investment resources of the region is 8,75 billion hryvnas. In 2007 it is envisaged to increase them to 9,65 billion hryvnas, which exceeds this year's showing by 10,3 %. The analysis of the structure of sources of forming investment resources of the region shows that nowadays a number of subjects of investment activities in the investment sphere have considerably expanded. Besides traditional subjects (state, enterprises and banks) essentially new participants such as insurance, investment, financial companies, pension and investment funds, industrial and financial groups appeared.

The main source of investment resources of the region is own money of enterprises and organizations which is formed mainly at the expense of capitalized income. Thus, the increase of the investment potential of the region is possible first of all due to the significant improvement of the financial state and increase of profitability of financial and economic activities of enterprises.

## 4. Main directions of investment resources mobilization in the regions

The study of business activity in the region showed that the main reasons of low income of enterprises are: instability of legislation; lack of support from state power; unsatisfactory organization of the Customs functioning; lack of stimulation from the state financial and credit organizations concerning investment crediting,

preferential rates in taxation of investment assets and refinancing; corruption; problems with licensing goods export.

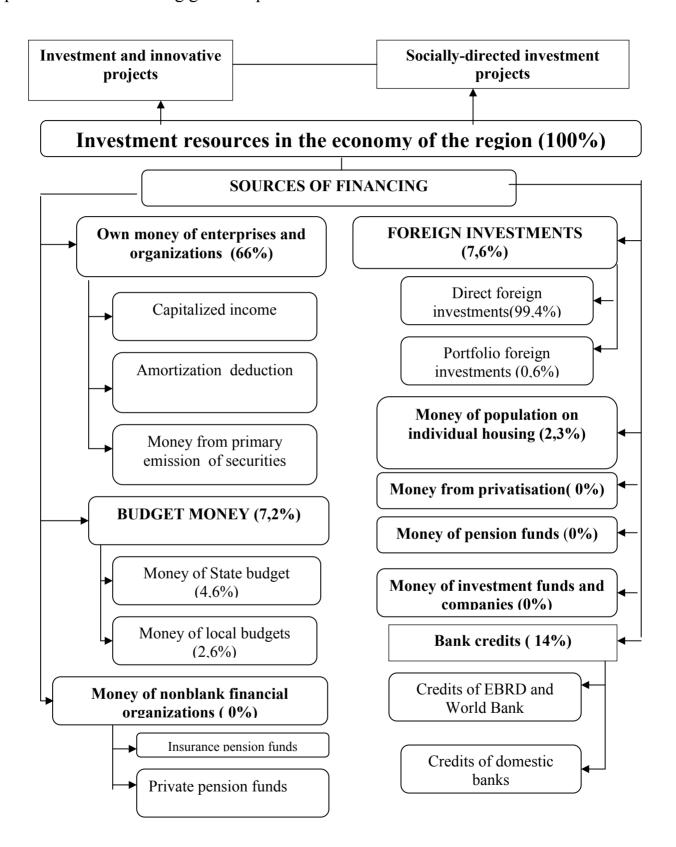


Fig. 1 Structure of investment projects financing sources of Prydniprovsk region

In our opinion, the solution of the problem of increasing enterprises' profitability is connected with the necessity of increasing the quality of management as well as through the replacement of owners on competitive positions and realization of tax support of investors.

According to the experience of the countries with developed infrastructure the own capital of enterprises rises due to the primary emission of securities. The fact that the financial market in Ukraine is undeveloped complicates the assessment of enterprises' cost and does not make it possible to use largely such a way of money attraction as the primary emission of securities. The capital management is weakly used through controlling block of shares. That is why further development of financial market, guarantee of optimal correlation of public and close joint-stock companies will facilitate the intensification of investment activities at the expense of the increase of enterprises' own money.

An important source of financing investments is budget money used for large-scale investment projects. In the recent years, the rates of state investment volume have considerably increased both in the region and in Ukraine; their current level (more than 3%) completely meets the indices of post-socialist countries. The analysis of the technological structure of investments in main capital into the industry of Prydniprovsk region testifies about the innovative character of investments aimed at modernization of the active part of industrial enterprises active funds: in the processing industry a part of investments in the renewal of the active part of main funds - 69,5%, in the mining industry - 59,2%. The priority investment directions are industrial kinds of economic activity and infrastructure development.

In spite of the budget investment volume increase the index of a part of budget investments in the general volume of investments, which determines the role of the country in providing the investment development and which is a main qualitative index of the development of investment processes in the economy, is low (at the end of 2005 it is 8%, whereas in Russia it is 19%, in Byelorussia it is 25%). Such a level of budget investment of economy testifies about the country's orientation on the reproductive character of the economic development and does not give the country an

opportunity to be involved into the realization of strategic tasks of innovative development. As it is known, there are opposite concepts of the investment development of the country, which differ in the country's role in the formation of the investment policy. Some object the country's participation in the development of investment processes, others attach a great importance. In our opinion, in the conditions of uncertainty in Ukraine the country's role in the formation and introduction of an efficient investment policy is of great importance by means of both direct financing and through the creation of the investment environment. The budget money must be invested into strategically important and long-term spheres which do not bring in profit immediately and into priority spheres of economy, that is innovative developments which would facilitate competitiveness of Ukraine in the world market, for example, in the field of information technologies.

The problem of providing the efficiency of state investments has not been solved yet, that is the problem of state investment influence on the economic development of Ukraine has to be analyzed first of all from the point of view of use efficiency. In order to increase state investment use efficiency and their use mainly in the productive sector it is necessary to improve budget procedures: determine transparent priorities and formalized criteria of selecting investment projects; coordinate resolutions about the use of state money to finance definite investment projects among different bodies of power. It is expedient to introduce new forms and methods of budget regulation and application of progressive budget technologies and management at all the stages of the budget process. The effective instrument of the efficient and transparent use of budget money must be a programmed and purposeoriented method of budget formation, which main ideology is the use of financial resources for the ultimate result. It is important to provide the qualitative assessment of effective introduction of investment projects (economic, scientific and technological, resource, financial, and social) according to effective indices which are used in Western European countries: profitability, efficiency, effectiveness, quality, and financial activity.

Thus, the practice of state financing demands substantial improvement and development of new approaches for state investments, the main one should be creation of a separate development budget in the structure of the state budget, which money are to be allocated only for investing.

A particular important parameter of the development of investment processes in economy of Ukraine, as less developed country, is a parameter of the amount of direct foreign investments per one inhabitant of the country. As for volumes of the direct foreign investments, which have amounted to 7,6 % of general investment resources of the region (0,49 thousand US dollars per person), Prydniprovsk region exceeds general Ukrainian parameters (up to 0,3 thousand dollars), but remains the lowest for countries with transition economy. With the purpose of increasing competitiveness and quality of production according to the international standards, improvement of the investment image of Ukraine, 16 regional investment projects with the attraction of foreign investments were developed within the framework of measures on realization of priorities. For the last few years Dnipropetrovsk region has positive dynamics of increasing the volumes of the foreign investments (Fig. 2), as there is necessary infrastructure for running and development of international business (Fig. 3).

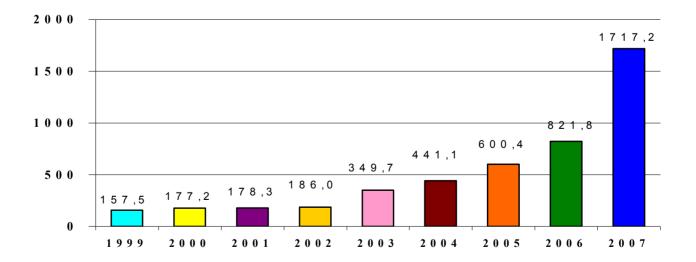


Fig. 2. Dynamics of foreign investments attraction in the economy of Prydniprovsk region, million US dollars

The increase of the direct foreign investments should be considered as the basic reserve of investment potential growth of regions for closer and average prospect under condition of creation of positive investment climate in the country: state legislative guarantee of investment activity; improvement of transport infrastructure and telecommunications; development of mechanisms of risk decrease, guarantee and insurance of the investments; acceleration of advertis

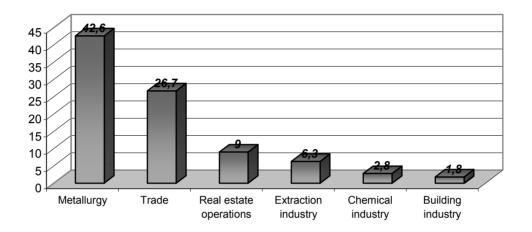


Fig. 3. Investments of foreign investors in the most attractive branches of economy of the region, % to the total amount of investments

With the development of banking system in Ukraine bank investment crediting plays an increasing role in formation of investment resources in regions. So, the share of bank credits in general sources of investment projects financing of the region was 14 %, which considerably exceeds share of budgetary funds and foreign investments. The bank credit is the tool of realization of specific investment projects and provides an effective use of invested funds under conditions of payment and return that gives significant economic and commercial advantages. At most of the domestic enterprises in conditions of deficiency of their own capital for the needs of investment to the innovative activity, long-term crediting would contribute to the problem solving. But at present giving long-term credits by the banks is limited significantly due to many factors. In Ukraine at state level the mechanism of banks stimulation and interest concerning investment activity crediting is not perfect enough, the market of

investments is not formed. Instability in economy results in a great risk in giving long-term credits and in interest rate increase. Most of the bank resources are involved for a short time, which limits the term of the involved funds use. Besides, there are essential disproportions in investment processes in various kinds of activity. On the basis of the experience of developed western countries it is appropriate to use such version of crediting as bills inventory by the state, which is an effective market tool in proportional investment crediting of key spheres of economy. Long-term banks refunding on certain investment programs can become rather effective measure of their interest rates decrease.

One of the important sources of financing regions' economy and ways of modernization of infrastructure areas is realization of innovative projects with attraction of loans of international organizations, such as the European Bank for Reconstruction and Development and World Bank. So, with the assistance of specialists and experts of World Bank Representative Office in Ukraine within the framework of realization of the investment project "Development of an urban infrastructure" the following investment projects are developed: "Introduction of energy saving technologies at Auly regional water-supply", "Power and infrastructure" (total cost 330 million US dollars), "Organization of complex system of collecting, processing and utilization of solid household waste products in Dniprodzerzhynsk".

Among investment projects, which will be realized together with EBRD, there are such projects as: "Modernization of water-supply and sewer facilities of Dnipropetrovsk" (cost 30 million US dollars); "Programme of investments and development of system of water-supply and purification of Zaporizhye" (cost 42 million US dollars). A number of projects concerning modernization and efficiency increase of functioning of the centralized heat supply system are considered. Cooperation with international organizations gives local government bodies an access to banking market and capital markets, an opportunity of receiving the loans under municipal insurance arrangements. Taking into account rather low cost of credit resources of the international financial organizations, the guaranteed financing of

investment projects and opportunities to use progressive experience of the foreign companies, it is necessary to consider the indicated source of financing as rather perspective.

The important question of extension of bank investment crediting is guaranteeing legislative protection of national investors rights at a state level, i.e. creation of equal conditions concerning cost of resources and specifications of activity for Ukrainian and foreign banks whose share of banking capital in banking system of Ukraine is 14 % exceeding an average level of the foreign capital in Western Europe. This problem becomes urgent due to the entering of Ukraine into World Organization of Trade.

#### 5. Conclusion

Thus, research results of dynamics of volumes and structure of sources of investment resources formation in the most powerful industrial region of Ukraine allow to come to a conclusion about their essential limitation for support of economic growth and financial provision of investment strategy of the region. There is a lack of internal funds of the enterprises for investing; they are not enough even for current expenses, it is proved by negative value of their own circulating capital. The undeveloped stock market has not allowed attraction of certain funds in the development of investment activity in regions. Expectations on significant flow of foreign investments into the national economy were not realized. In these conditions creation of the investment environment and introduction of innovative model of structural reorganization of regions economy becomes possible only under condition of development of unified state investment policy, i.e. investment use of budgetary funds, as an important component of budget policy. It is necessary develop legally assigned model of investment development: state, financial-credit institutions, science, production, which is typical for the highly technological developed countries of the world. Besides, it is necessary to ensure investment innovative direction of the activity of insurance, investment, commercial finance companies, pension and investment funds, industrial-financial groups by the state legislative regulations.

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