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## INVESTMENT ATTRACTIVENESS OF THE CONSTRUCTION INDUSTRY OF UKRAINE

### ІНВЕСТИЦІЙНА ПРИВАБЛИВІСТЬ БУДІВНИЦТВА В УКРАЇНІ

#### ANNOTATION

The article demonstrated the importance of the investment component in the functioning and development of the construction. There was analyzed of investment attractiveness of Ukraine. The research of investment attractiveness of economic activities in Ukraine based on the analysis of the dynamics indexes of attracting capital investment. The article determined position of the construction industry and assessed the level of its investment attractiveness. There were identified basic negative factors that affecting the critical state of construction development in Ukraine. In the research was analyzed investment attractiveness of construction in terms of different areas. There were determined issues that determine the current state of construction and outlined possible ways to overcome them.

**Keywords:** construction industry, investment attractiveness, investment competition, capital investments, investment climate.

#### АНОТАЦІЯ

У статті доведено значущість інвестиційного складника у функціонуванні та розвитку будівництва. Проведено аналіз інвестиційної привабливості України. Здійснено дослідження інвестиційної привабливості видів економічної діяльності в Україні на основі аналізу показників динаміки залучення капітальних інвестицій. Визначено позицію будівництва та здійснено оцінку рівня її інвестиційної привабливості. Наведено основні негативні фактори, що впливають на кризовий стан будівництва в Україні. Проведено аналіз інвестиційної привабливості будівництва в територіальному розрізі. Виявлено основні проблеми, що зумовлюють сучасний стан будівництва, та окреслено можливі шляхи їх подолання.

**Ключові слова:** будівництво, інвестиційна привабливість, інвестиційна конкуренція, капітальні інвестиції, інвестиційний клімат.

#### АННОТАЦИЯ

В статье доказана значимость инвестиционной составляющей в функционировании и развитии строительства. Проведен анализ инвестиционной привлекательности Украины. Осуществлено исследование инвестиционной привлекательности видов экономической деятельности в Украине на основе анализа показателей динамики привлечения капитальных инвестиций. Определена позиция строительной отрасли и осуществлена оценка уровня ее инвестиционной привлекательности. Приведены основные негативные факторы, влияющие на кризисное состояние строительства в Украине. Проведен анализ инвестиционной привлекательности строительства в разрезе территорий Украины. Выявлены основные проблемы, обуславливающие современное состояние строительства, и намечены возможные пути их преодоления.

**Ключевые слова:** строительная отрасль, инвестиционная привлекательность, инвестиционная конкуренция, капитальные инвестиции, инвестиционный климат.

**Formulation of scientific problem and its significance.** Construction is one of the key sectors of the economy of any country whose level of investment attractiveness is an indicator of economic development. Utilizing the products of many industries and creating more work places, construction industry forms the material base for the development of other economic activities. Thus, the state of the construction industry, on the one hand is an indicator of the country development, and on the other – the level of investment attractiveness of the country and its particular areas determines the amount of investments and intensity of construction activity. Due to the specificity of construction industry, the adequacy of investment or lack of them are a determining factor in its further development, that causes the importance and relevance of investment attractiveness research of the construction industry of Ukraine and its territories.

**Analysis of research of this problem.** The problem of construction industry investment recently receives considerable attention. In particular, in the works of local authors there was investigated the problem of assessing the investment attractiveness of construction, and the factors that influenced the results of this assessment in the present conditions [1; 2, p. 76-81; 5, p. 95-98]. Authors paid much attention to the analysis of investment attractiveness of Ukrainian construction industry, the state and prospects of development of regional capital construction [1; 8; 9]. However, availability of problems in the construction industry of our country proves the need for further research in the field of investment processes, determination of its investment attractiveness and finding ways to stimulate investment activity.

**The purpose and objectives of the article.** The purpose of research is to determine the level of investment attractiveness of the construction industry and substantiating further activating

ways of construction and investment activity in Ukraine.

Achieving this goal caused the necessity of solving a number of tasks:

- evaluation of investment attractiveness of our country;
- analysis of changes in revenues of capital investments in different spheres of economic activity in Ukraine;
- evaluation of investment attractiveness of Ukrainian areas for construction development;
- determination of the main problems of the construction industry development and study areas to eliminate them.

**Presentation of main material and argumentation of the research results.** Investment attractiveness and competitiveness are factors that affect the economic effect of business and their evaluation is crucial when deciding on the choice of strategy among the possible alternatives. Therefore, investment processes in Ukraine and its separate territories need special attention.

Construction, being capital-intensive industry, largely depends on the volume of involved investments. Assessing investment in construction, it should be noted that its intensity is due not only intra factors. The investment climate of the state play importance role and includes a set of social, economic, institutional, legal, political, social and cultural assumptions which leads to

the attractiveness and feasibility of investing in a particular economic system [6, p. 367]. Favorable investment climate pressure to final decision of potential investors about the advisability of investing, determines the scope and pace of attracting investments to the country, region, specific activity company.

Modern processes of globalization and internationalization determine risks the flow of capital and labor force to countries with more favorable conditions for business, since foreign investors makes decision to invest, compared to alternative investments, making assessment of external factors macro environment and investment climate in various countries [5, with. 97-98].

At present Ukraine's investment climate is unfavorable to investors. This means that the country is not yet ready for the tough competition for investments in global capital markets and this directly affects the economic development of our country [10, p. 168]. One of that factor is a significant tax burden on business in Ukraine.

Today difficult economic conditions in our country do not contribute to the investment attractiveness of the domestic construction industry. Ukraine takes one of the worst positions in ratings of the economies attractiveness of the world. Hamburg World Economy Institute (HWWI) together with the German auditing company BDO AG published the rating of investment

Table 1

Capital investment by economic activity types in Ukraine

Type of economic activity	Capital investments, mln. UAH			The relative growth investments, %			Structure investment in 2015, %	Level of investment attractiveness
	2013	2014	2015	in 2014 to 2013	in 2015 to 2014	in 2015 to 2013		
All	249873	219420	273116	-12.2	24.5	9.3	100	
Industry	97574.1	86242	87656	-11.6	1.6	-10.2	32.1	High
Construction	40796.2	36056.7	43463.7	-11.6	20.5	6.5	15.9	
Agriculture, forestry and fisheries	18587.4	18795.7	30154.7	1.1	60.4	62.2	11.0	
Information and Telecommunications	9864	8175.1	22975	-17.1	181.0	132.9	8.4	Above average
Trade; repair of vehicles	22190.3	20715.7	20662.9	-6.6	-0.3	-6.9	7.6	
Transport, postal and courier activities	18472.6	15498.2	18704	-16.1	20.7	1.3	6.8	
Public administration and defense; compulsory social insurance	7546.2	5808	13942.4	-23.0	140,1	84,8	5,1	
Real estate activities	13550,4	11230,2	11899	-17,1	6,0	-12,2	4,4	Medium
Activities in admin. service	4013,9	3565,1	6535,2	-11,2	83,3	62,8	2,4	
Financial and insurance activities	6646,8	6214,5	6448	-6,5	3,8	-3,0	2,4	
Professional, scientific and technical activities	3621,3	2921,5	4065,2	-19,3	39,1	12,3	1,5	Low
Health, social help	1746,2	1223,9	2367,2	-29,9	93,4	35,6	0,9	
Education	1030,5	820,9	1540,1	-20,3	87,6	49,5	0,6	
The temporary arrangement and food	1476,8	1482	1393,1	0,4	-6,0	-5,7	0,5	
Arts, Sport, Vacation	2544,5	508,7	1044,3	-80,0	105,3	-59,0	0,4	
Providing other services	212,2	161,7	265,6	-23,8	64,3	25,2	0,1	

Source: are based on data [3; 4]

attractiveness for the BDO International Business Compass (IBC). Compared to last year Ukraine in this rating dropped to 41 place. In the ranking for 2016, Ukraine ranked 130-th place (in 2015 – 89 th place) with 174 countries [11].

Unfavorable investment climate of the state determining excessive tax burden on production and payroll and, consequently, the high level of the shadow economy, the lack of effective procedures for protecting the rights of owners, the low effectiveness of legislation, the high cost of bank loans and the low level of public investment, leading to shortages financial resources. Stop the trend of worsening investment climate is impossible without radical reforms, aimed at reducing the shadow economy and a favorable regulatory environment that can ensure GDP growth of at least 10% annually.

Quantitative measure of investment attractiveness of the country is the volume of attracted capital investment. For three years the volume of capital investments involved in the domestic economy, hesitated at 219,4-273,1 billion, including the construction sector revenues accounted of 360,6-434,6 billion (Table. 1).

In 2015, in most Ukrainian industries there was observed increasing of capital investments compared with 2014 year. The increase of investment was in construction (by 20.5% more than in 2014 and 6.5% compared with 2013). In Ukraine, there is a very unequal distribution of investments among economic activities. Almost half of the investment (48%) is involved in manufacturing and construction, whose share in the total volume of capital investments in 2015 amounted to 32.1% and 15.9% respectively.

The analysis of capital investment indicates the absence of a stable trend in changing their volume. A significant increasing of investment in Ukraine in 2015 was partially substituted by their substantial reduction in previous year. In 2015 compared to 2013, investments increased amounted to only 9.3%. If we take into account the change of the hryvnia, investments did not only increase, but also decreased significantly (Table 2).

Analyzing the change of investment in dollar terms in three of the most promising sectors of the Ukraine economy, we can see a sharp of

indexes fall in throughout the study period. For three years (2013-2015) investment in construction reduced almost by 70%.

Thus, the construction in Ukraine is relatively attractive investment economic activity, but the overall unfavorable economic situation and the low level of investment attractiveness of our country is the reason of shortfall of investment resources, that hinders the industry development.

A lack of funding and low level of solvency of the population are the main barriers for the development of the construction industry in Ukraine and are causing intensification of the struggle between construction companies for limited investment resources that takes the form of investment competition and not always in legal ways.

In broad term, an investment competition is a struggle between market subjects for investment resources. In the narrow, it is the management of available company's resources and its competitive advantages to ensure stable development and strengthening competitive position in the market.

The instrument of competition in this case is to develop a competitive development strategy and its effective implementation, which is achieved by the stipulation the maximum number of external and internal factors of the competitive environment of the company's activity for investment projects in due time and making profit [1].

Investment attractiveness of the particular country is considered as objective conditions for investment and quantitatively expressed as amount of capital investments that can be attracted to the region. This approach suggests that the investment attractiveness of a particular territory can be quantitative assessment by the indexes of mastered capital investments.

Analysis of investment attractiveness of regions is key to the processes of interregional and interstate movement of capital as one of the main factors of economic development. Accordingly, the regions through territorial uneven distribution of economic factors are considered as competitors in the fight for investment funds [7, p. 48].

The average volume of investment in their uniform distribution between the territories is 10,046.2 million USD. Therefore, based on this indicator, to the investment attractive regions

Table 2

#### Dynamics of investments change in view the hryvnia exchange rate

Indexes	Years			The relative deviation, %		
	2013	2014	2015	2014/2013	2015/2014	2015/2013
Dollar exchange rate on the 1.12, UAH*	8.2597	15.687	23.9481	89.9	52.7	19.0
Capital investments, USD				The relative deviation, %		
All, including.:	30325.5	13987.4	11404.5	-53.9	-18.5	-62.4
Industry	11841.9	5497.7	3660.2	-53.6	-33.4	-69.1
Construction	4951.2	2298.5	1814.9	-53.6	-21	-63.3
Agriculture, forestry and fisheries	2255.8	1198.2	1259.2	-46.9	5.1	-44.2

Source: \* are based on data [3; 4; 12]

are Kyiv and Dnipropetrovsk region, Kyiv region, Lviv region and Kharkiv region, the volume of investments in which exceeds the average (Fig. 1).

Taking the average level of investments that makes 10.0462 billion UAH, can determine the investment attractive territory for the development of construction – such are c. Kiev, Dnipropetrovsk, Kyiv, Lviv and Kharkiv region. All other areas were able to accumulate investments in the construction below the national average level, which indicates their attractiveness for potential investors.

The biggest investment infusion during the study period, and especially in 2015 were in the construction industry of the city Kyiv and Kyiv region. Therefore, we should recognize the high level of investment attractiveness of these areas.

According to statistical data, the lion's share of investment in construction is involved in city Kyiv. Their volume in 2015 was 80,216.8 million that makes 31.94% of the industry's investments. Until 2011, over 40% of the capital investment in construction in Ukraine accounted to the capital.

The turning point was the year 2012 when the share of investments in the construction industry c. Kyiv has decreased threefold. Such changes in the structure occurred mainly due to the increasing of the share of investments in the Kyiv region.

According to the previous years, significant volumes of investments in construction also involved in the Donetsk and Lviv regions. However, as of 2014 the territorial structure of capital investments has changed, due primarily to the political situation in the east and in Crimea.

As a result, the investment attractiveness significantly increased in Zakarpattia and Volyn regions, which from the last positions due to the volume of attracted investments relocated to region group with an average investment attractiveness.

However, there were significantly reduced the proportion of investment in the construction industry Chernivtsi region. The least attractive investment for the development of construction areas remain Zaporizhzhya, Kirovograd, Kherison and Mykolaiv regions, whose share in total investment division of the construction sector in 2015 less than 1 percent.

The constant lack of construction financing, due to difficult economic conditions in the country leads to an intensification of the struggle for investment resources that can be deployed both in macro environment of business – reflecting the investment processes at the national level and in middle environment – as a result of the uneven distribution of investments between the territories.

Accordingly, the primary task of reforming the sector is to increase the investment attractiveness and competitiveness of the domestic construction companies, by creating effective investment strategy.

#### Conclusions and prospects for further research.

In research there was found that building belongs to the promising sectors with relatively high investment attractiveness and accumulates 16% of capital investments, ranking among the economic activities second position after industry.

Evaluation of investment attractiveness of regions based on uniform distribution of invest-

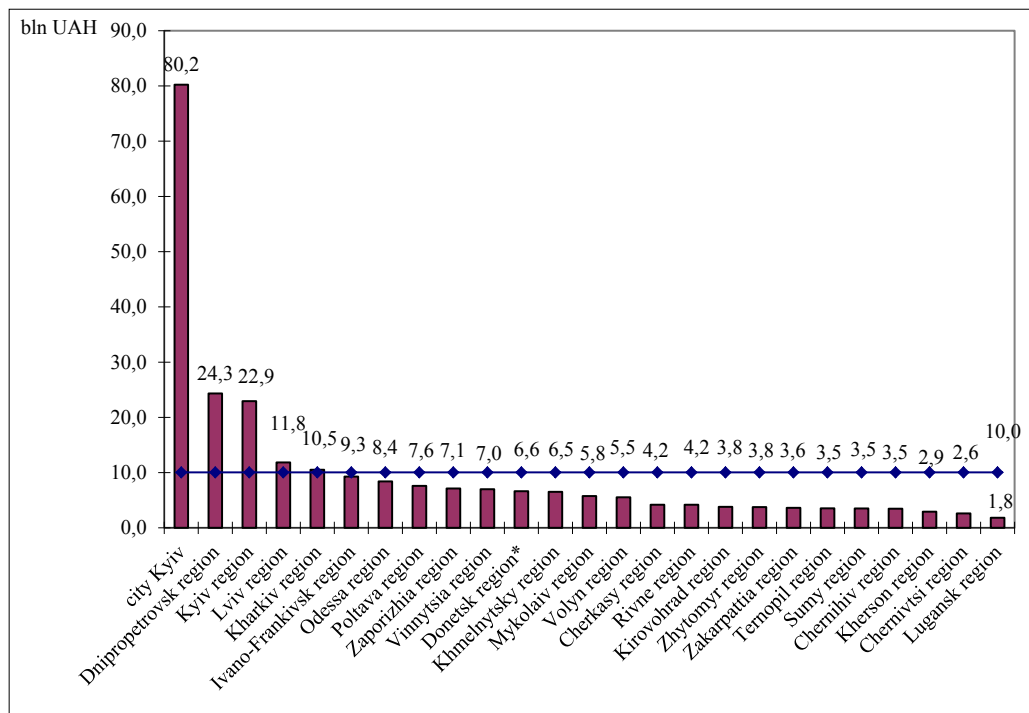


Fig. 1. Investment attractiveness of construction per region

\*\* Excluding temporarily occupied territories

Source: Calculated according to the data [3; 4, p. 31]

ments in the construction industry indicates that regions compete among themselves for the maximum amount of attracted investments, as for the construction of the existence of investment competition is especially important.

There was found that the most investment attractive for the construction development of in 2015 was city Kyiv and Kyiv region, attracting more than half of all capital investment the country.

However, the main negative factor in the construction development is insufficient investment in the construction industry, whose volume is rapidly declining.

In crisis terms of the construction sector and worsening investment competition the problem of finding optimal ways of financing construction and the formation of an effective mechanism to attract investment resources to increase their volume require further study.

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