

Estimation of investment attractiveness for enterprises in Ukraine

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Abstract: The article deals with comprehensive analysis of an investment climate in Ukraine and the influence of different factors on it. The author investigated the directions of improvement of economic assessment of enterprises in Ukraine with the purpose to attract new investments. Methods and ratio system for estimation of investment attractiveness of enterprises are characterized, the integrated approach is offered for determination of the most attractive ventures for investing. Such estimation can be done by thorough study of economic activity: analysis of their property conditions, capital turnover, profitability and financial stability, liquidity and market activity. And their ranking to the unique integrated index will allow discovering the most attractive for investing subjects. The simplest method of ranking is a construction of rating row with an appropriation to each of the probed enterprises of the concerned place on separate indexes or directions. The summing allows setting the final place of every enterprise in the system of rating.

Key words: investments, investment climate, financial reporting, profitability

1. Investments and investment climate in Ukraine

It is impossible to present existence and development of any country without investments. On the modern stage, involvement of both internal and external investments is the decisive factor of economic policy of the state. Character of investment processes, their intensity and efficiency depend on an investment climate, which was formed in a country, i.e. on the condition of legal, financial, socio-economic and political environment, which predetermines a degree of investment attractiveness.

An investment climate is an aggregate of factors which are taken into account by an investor during decision-making about investments. Ukrainian legislative acts determine an investment climate as an aggregate of economic, legal, regulatory, political and other factors that eventually determine the degree of risk of investments and possibility of their effective use (State Agency of Ukraine of Investments and Development, 2012).

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At macroeconomic level the investment climate of Ukraine engulfs the constituents of political, economic and social investment environment which are determined with such factors as political stability economic conditions and prospects of its development, legislation; government control; tax rates and economic stimuli for investors; cost of labour and natural resources; capital inflow; foreign currency risk; industrial and market infrastructure; investment activity of population.

At microeconomic level an investment climate is exposed in bilateral relations between firm-investor and certain state authorities, economic suppliers, customers, financial and credit establishments (commercial banks, insurance, leasing, factoring companies, etc.), as well as local trade unions and company personnel.

The important factor of attraction of foreign investments is a country image on the international scale, its position in leading ratings, experience of other investors in local activities, etc.

The analysis of known approaches to the estimation of investment attractiveness and climate of country shows that international organizations and agencies, which make up ratings, use macroeconomic indexes as basic parameters such as dynamics of growth and structure of gross domestic product, conditions of national balance of payments, financial market, pay-out of internal and external debts. Among the different international methods of estimation of investment attractiveness one has to highlight the assessments of Group of the World Bank, World Economic Forum (WEF), Heritage Foundation / *The Wall Street Journal*, Transparency International, rating agencies Standard & Poors, Moody's, Fitch Ratings, European Business Association and others (Hayduts'kyi, 2004, p. 6).

Estimation of investment climate for the last few years in Ukraine by means of the international business rating is presented in Table 1.

Table 1. Ukraine in the international rating of investment attractiveness

| Index | Constituents of estimations | Years | | | | | | |
|---|--|---|---|---|---|---|---|---|
| | | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 |
| Corruption index of organization <i>Transparency International</i> | Index of corruption | 99 th place among 163 countries | 118 th place among 180 countries | 134 th place among 180 countries | 146 th place among 180 countries | 134 th place among 178 countries | 152 th place among 182 countries | 144 th place among 183 countries |
| Rating of running business <i>The Doing Business</i> | Starting business, licensing, staff hiring, registration of property, crediting, investment protection | 124 th place among 155 countries | 118 th place among 179 countries | 139 th place among 178 countries | 145 th place among 181 countries | 147 th place among 183 countries | 145 th place among 185 countries | 152 th place among 185 countries |
| Rating of competitiveness <i>World Competitiveness Yearbook</i> | Economic conditions, efficiency of government, business efficiency and infrastructure conditions | 46 th place among 55 countries | 46 th place among 55 countries | 54 th place among 55 countries | 54 th place among 56 countries | 57 th place among 58 countries | 56 th place among 59 countries | 49 th place among 59 countries |

| Index | Constituents of estimations | Years | | | | | | |
|--|---|--|---|---|---|---|---|---|
| | | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 |
| Index of economic freedom <i>Heritage Foundation</i> | Business, commercial, financial, money-and-credit, investment, labour freedom from government, corruption, protection of ownership rights | 99 th place among 157 countries | 125 th place among 161 countries | 133 th place among 157 countries | 162 th place among 179 countries | 152 th place among 179 countries | 164 th place among 179 countries | 163 th place among 183 countries |
| Index of global competitiveness <i>World Economic Forum</i> | Quality of institutions, infrastructure, macroeconomic stability, development of financial market | 69 th place among 125 countries | 73 th place among 131 countries | 73 th place among 131 countries | 82 th place among 133 countries | 77 th place among 133 countries | 82 th place among 142 countries | 76 th place among 144 countries |

Source: Authors' own elaboration.

Due to exposed ratings Ukraine is down of the table that indicates unfavourable investment climate and unattractiveness for foreign investors. Although in 2012 there was spotted some positive dynamics (corruption index, rating of competitiveness, index of economic freedom and global competitiveness), currently the ratings deteriorated after the events of late 2013 and early 2014 caused by revolutionary transformations, annexing of Crimea by Russian troops, by separatist events on the east of Ukraine.

Statistic data show that current investments volume is insufficient for the acceleration of scientific and technical progress and growth rates, which went down in 2013 (Figure 1).

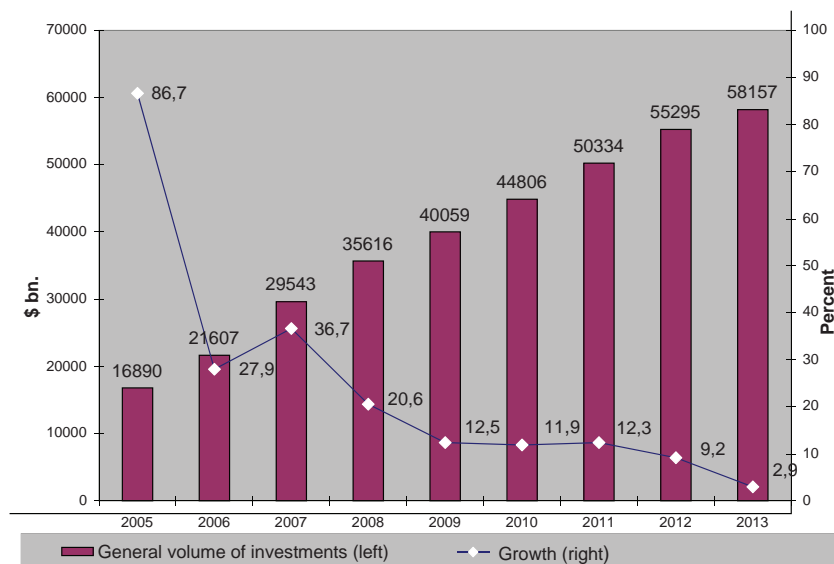


Figure 1. Dynamics of investments into fixed assets during 2002–2013

Source: Authors' own elaboration.

Net inflow of direct foreign investments to Ukraine in 2013 made up \$ 2.86 bn. that is twice less than in 2012. The number of countries-investors diminished in a fourth quarter. The basic investors of Ukrainian economy are Cyprus (\$ 19.036 bn.), Germany (\$ 6.292 bn.), the Netherlands (\$ 5.562 bn.), Russian Federation (\$ 4.287 bn.), Austria (\$ 3.258 bn.), Great Britain (\$ 2.714 bn.), Virgin Islands (\$ 2.494 bn.), France (\$ 1.826 bn.). There is only \$ 1283 of foreign investments per capita in Ukraine, while in Czech Republic there is \$ 7418, in Bulgaria—\$ 6226, Poland—\$ 3155, Romania—\$ 2350 (DSSU, 2014, p. 2).

Therefore, it is very important now to raise the international rating of Ukraine and investment attractiveness of Ukrainian enterprises. The purpose of this article is to summarize the international experience and suggest improvement evaluating the attractiveness of Ukrainian enterprises to attract additional investment resources.

2. Investment attractiveness of enterprises: interpretation and assessment approaches

The investment attractiveness of certain projects or ventures under economic, political and social view-point are currently of particularly important value in Ukraine due to considerable restrictions of investment resources, absence of effective state support and necessity of external investments.

One has to admit that in modern economic literature there is no clear idea about the essence of investment attractiveness and system of its estimation. Many specialists equate investment attractiveness with the estimation of efficiency of investment projects. The most efficient projects must be included in an investment portfolio. However, on the early stages of its formation an investor is always able to estimate each of the investigated projects. Calculation of efficiency of investments is a difficult process which requires considerable information where a potential investor cannot always get at primary research of large aggregate of projects.

Eduard Shilov, Oleg Kukhlenko, and Anatiliy Goyko under the investment attractiveness of companies and firms understand ‘expedience of realization of capital investments in expansion and technical rearmament of operating enterprises which are examined as potential objects of investing’ (Shilov, Kukhlenko and Goyko, 1996, p. 14). The definition is oriented to the real projects. It does not take into account the actions of an investor directed on a search of prospect projects of financial investment and it does not co-ordinate the requirements and possibilities of investor.

Full enough, to our opinion, the Ukrainian scientist Igor Blank exposed this concept. Separate companies (firms), according to him, are attractive objects of future investing as long as considering prospects of development, volume and prospects of sale of products, efficiency of the use of assets and their liquidity, state of solvency and financial stability (Blank, 1995, p. 400).

The widest understanding of investment attractiveness is an aggregate of objective and subjective terms, external and internal factors which promote or hinder the process of investing of facilities in the economy of country on macro-, mezo-, and microlevels. The estimation of investment attractiveness is the system of actions of potential investor, directed on a selection to the investment portfolio of the most effective projects being relevant to the financial resources.

There are attempts to conduct the estimation, analysis of the financial supply and investment attractiveness within certain industries and regions of Ukraine in modern economic literature, and also separate enterprises, firms, companies.

In world and Ukrainian practice a number of methods were elaborated for estimation and analysis of investment attractiveness of subjects of economic activity which are based on financial indexes.

It should be noted that their main features are:

- they are based on many indexes united in certain groups and directions of analysis;
- indexes characterizing profitability, property and financial state of object of investing are taken into consideration;
- a lot of methods include analysis of indexes of investment risk and exposition of different economic indicators to the present moment by means of the system of discounting;
- determination of relative meaningfulness of certain indexes by means of ranking or determination of their share;
- aggregation of various indexes into universal system of estimation through determination of one or a few integral indexes.

Among Ukrainian methods of financial analysis of objects of investing it is possible to highlight the following:

1. Estimation of investment attractiveness of certain companies and firms offered by Professor I. Blank.
2. Method of estimation of efficiency and attractiveness of investment projects developed by the group of scientists of Kiev State Technical University of Construction and Architecture (KSTUCA).
3. Indexes are estimations of investment attractiveness recommended by resolution of Coordinating Council of Investment Activity at Prominvestbank of Ukraine #7, dated from 4 March 1999.
4. Method of integral estimation of investment attractiveness of enterprises and organizations approved by the order of Agency of Bankruptcy of Enterprises and Organizations #22, dated from 23 February 1998.

Table 2 contains comparative description of criteria of estimation and analysis of investment attractiveness.

Table 2. Directions of financial analysis of investment attractiveness of enterprises

| Directions (criteria) of estimation | Method of Igor Blank | Method of KCTUCA | Method of Prominvestbank | Method of APZBPO |
|---|----------------------|------------------|--------------------------|------------------|
| Estimation of the property of object of investing | | | | + |
| Analysis of asset turnover | + | + | | |
| Analysis of profitability | + | + | | + |
| Estimation of profitability | | | + | |
| Estimation of business activity | | | | + |
| Analysis of financial stability | + | | + | + |

| Directions (criteria) of estimation | Method of Igor Blank | Method of KCTUCA | Method of Prominvestbank | Method of APZBPO |
|--|----------------------|------------------|--------------------------|------------------|
| Analysis of involved loans | | + | + | |
| Analysis of liquidity of assets | + | + | + | + |
| Estimation of market activity | | | | + |
| Market estimation of shares | | | + | |
| Analysis of financial efficiency of investment projects | | + | | |
| Determination of integral index of investment attractiveness | | | | + |

Source: Authors' own elaboration.

Majority of mentioned assessment methods for business ventures were built on determination and analysis of economic indicators due to certain directions: to assets turnover, profitability, financial stability, liquidity of objects of investing, etc. Each of mentioned directions contains a few indicators which substantially influence and comprehensively represent an area of activity of enterprise. The biggest problem is to aggregate information directions and indexes to the unique denominator, to define the universal integrated index of investment attractiveness.

3. Integral estimation of investment attractiveness

Application of integral estimation in the analysis of activity of enterprises in economic literature has been seriously criticized for a long time. The most substantial lacks of this method of analysis are:

- possible errors at the choice of certain aggregate of indexes for the calculation of the universal integrated index;
- possibility of the subjective approach to determination of index share in general mass of information;
- complication in determination of extreme limitations (minimum, maximal or optimum values of that or other index), and also directions of their action (optimizations are on a minimum or maximum);
- absence of clear standard values of integrated indexes, which results in the fact that such method can be effective only for the comparative estimation of certain aggregate of objects and cannot be used for determination of attractiveness of certain venture.

These lacks mainly are peculiar during the complex analysis of an enterprise. Under conditions of permanent search of new objects of investing these lacks are partially smoothed out at the expense of estimation of the certain amount of alternatives by means of principles of comparative analysis.

From our point of view, for determination of investment attractiveness of an enterprise or separate investment projects, a similar method can be useful due to such considerations:

1. It allows carrying out the operative estimation of different directions of activity of future object of investing in accordance with unique criterion.
2. By comparative analysis a potential investor has possibility to define operatively the preferable options for investment portfolio which promotes the improvement of investment diversification.
3. With the help of integral estimation a certain enterprise can be recognized to be investment attractive regardless of its subordination, location, or investment unattractiveness of other subjects, region, and industry.
4. Similar methods, as a rule, are based on well-known indexes which are well worked out in domestic practice and satisfy the requirements of international and national standards of book-keeping. Most of them are contained in the official financial reporting, they are opened and accessible for any user of information.
5. Subjectivism in determination of extreme limitations of directions of action, share of indexes is removed due to the fact that there is a number of scientific issues, practical methods for the analysis of financial reports by means of coefficients for the detailed estimation of the most indexes.
6. Calculations are based on the simple mathematical methods with the use of rules of rank correlation and easily processed by computer on the base of typical software.

Practical implementation of these methods of integral estimation of investment attractiveness of certain aggregate of enterprises must be the following:

- selection of necessary input information is on each of the investigated subjects;
- grouping and analytical processing of information;
- classification (ranking) of the subjects is after the certain ratings systems.

On the first stage they carry out the selection of necessary input information for the analysis. As a rule, these must be the indexes of the official financial and statistical reports which are accessible for any user. It enables attracting as many as possible objects for the researches.

On the second stage they make grouping of input information and calculation of values of analytical indexes. Analytical indexes comprise the most important ratios, which characterize production and financial potential, profitability and business activity, financial stability and liquidity. For deeper detailing of a large number of indexes, they are united in homogeneous groups corresponding to directions of analysis.

To our mind, during research of investment attractiveness it is necessary to conduct the analysis of their activity in such directions:

1. Analysis of the property conditions of object of investing consider the real value of tangible and intangible values and their intangible property;
2. Analysis of capital turnover;
3. Analysis of profitability of object of investing;
4. Analysis of financial stability;
5. Analysis of liquidity of assets;
6. Analysis of market activity of object of investing.

The most difficult is organization of work on the last stage of integral estimation, where it is necessary to choose the optimum rating system which would allow aggregating all heterogeneous criteria to one denominator.

The simplest method of ranking is a construction of rating row with an appropriation to each of the probed enterprises of the concerned place on separate indexes or directions. The famous American expert in the field of investment Michael Branwich investigated the need of ranking business and building a number of rating at that time (Branwich, 1996, p. 115).

The summing allows setting the final place of every enterprise in the system of rating. This chart of rating can be complicated by introduction to it the criteria of share for each index.

More difficult is the system of calculations with the use of matrix methods. It is based on comparison of the probed enterprise after each of selected indexes with a conditional standard enterprise (by the maximal, minimum, optimum value of index).

4. Conclusions

For regeneration of Ukrainian economy considerable foreign investments are needed in a post-crisis period. Except for political, social factors for potential investors in the improvement of economic indicators of activity of enterprises can play a positive role. For rising of rating of Ukrainian entrepreneurship it is important to have an objective estimation of investment attractiveness of an enterprise. Such estimation can be done by thorough study of economic activity: analysis of their property conditions, capital turnover, profitability and financial stability, liquidity and market activity. And their ranking to the unique integrated index will allow discovering the most attractive for investing subjects.

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Ocena atrakcyjności inwestycyjnej przedsiębiorstw na Ukrainie

Abstrakt: Artykuł prezentuje kompleksową analizę klimatu inwestycyjnego na Ukrainie, biorąc pod uwagę różne czynniki, które mają na niego wpływ. Autorzy dokonali analizy obecnych możliwości poprawy oceny ekonomicznej przedsiębiorstw na Ukrainie w celu przyciągnięcia nowych inwestycji. Scharakteryzowano sposoby i system szacowania wskaźnika atrakcyjności inwestycyjnej przedsiębiorstw. Przedstawiono również zintegrowane podejście do oceny najbardziej intratnych przedsięwzięć inwestycyjnych. Takiej oceny można dokonać poprzez dokładne zbadanie aktywności ekonomicznej. Brane są wówczas pod uwagę: analiza wa-

runków majątkowych przedsiębiorstwa, obrót kapitału, rentowność i płynność finansowa oraz obecność firmy na rynku. Określenie pozycji rankingowej przedsiębiorstwa według tego unikatowego, zintegrowanego indeksu pozwala na prawidłową ocenę jej atrakcyjności inwestycyjnej. A zatem najprostszą metodą rankingową jest skonstruowanie szeregu wskaźników ratingowych odnoszących się do wybranych przedsiębiorstw oraz odpowiednie odniesienie się do nich pod względem kierunku ich rozwoju i indywidualnych uwarunkowań. Suma wszystkich określonych wskaźników plasuje przedsiębiorstwo na odpowiednim miejscu w rankingu.

Słowa kluczowe: inwestycje, klimat inwestycyjny, sprawozdawczość finansowa, rentowność przedsiębiorstwa