

# SYSTEMIC AND STRUCTURAL CHARACTERISTICS OF INVESTMENT ACTIVITY IN UKRAINE

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**Abstract.** Investment activity is an important component of the financial and economic mechanism of the national economy. In the socio-economic turbulence inherent in Ukraine, significant challenges for the development of the state and its national economy, the role of investment activity in supporting socio-economic development at both the micro and macro levels is growing significantly. In this context, special attention is paid to the main characteristics of investment activity, and the *subject* of study is revealed in its systemic and structural features. *The purpose* of the article is to determine the systemic and structural aspects of investment activity in Ukraine, taking into account the influence of exogenous and endogenous drivers both at the level of enterprises and the state. The methodology used in this article consists of a systemic and structural analysis of investment activity in Ukraine, including the study of key components and factors, comparative analysis with other regions, and sectoral analysis. This comprehensive approach makes it possible to identify challenges and opportunities in the investment climate, which ultimately leads to the formulation of practical recommendations for improving investment activity in the country. The article examines the nature of investment activity in Ukraine at the current stage, emphasizing its systemic and structural aspects. The main risks and limiting factors for the adequate development of investment activities in Ukraine were identified both at the micro- and macro-levels. The main challenges to investment activity in Ukraine were studied with a focus on the main groups of stakeholders. Within the framework of the study, the main trends of investment activity in Ukraine were analyzed from the point of view of its system and structural architecture. The trends in the sectoral structure of foreign direct investments, as well as in the leading countries of their receipt are highlighted. The structure of the development of capital investments by spheres of economic activity, as well as the peculiarities of the financing of capital investments in their structural aspects were studied. In *conclusion*, based on the results of the research, scientific and practical proposals were made to support the development of investment activity in Ukraine in financial and economic, regulatory and legal, communication and promotion aspects. The conducted research can be useful for professional researchers, experts in financial and investment sphere, professional investors, business associations, financial institutions and state authorities. Prospects for future research are an extended analysis of the issues of the essence of investment activity from the point of view of its critical challenges for the creation of added value for stakeholders of different levels in a turbulent environment.

**Key words:** direct foreign investment, investment activity, capital investments, limited funding, stakeholder.

**JEL Classification:** E22, G11

## 1. Introduction

Investment is a crucial economic category that significantly influences both the short- and long-term prospects of socio-economic development for all micro- and macro-economic actors. Accordingly, investment activity as an economic phenomenon has a complex economic essence, which is influenced by a wide complex of exogenous and endogenous factors, which are

mutually accepted. Socio-economic turbulences in Ukraine represent additional obstacles in the context of investment activity. In this context, one of the critical challenges is to strengthen the focus on the systemic-structural characteristics of Ukraine's investment activity, which influences the prospects for the development of the national economy at the level of the state as a whole, as well as individual households, enterprises,

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financial institutions, and other economic agents operating at both the macro- and micro-levels. This issue requires a deeper understanding of the systemic-structural features of investment activity in Ukraine. Consequently, this demonstrates the high importance of this direction of research.

The purpose of this article is to identify the peculiarities of investment activity in Ukraine in its systemic and structural dimension in the context of the influence of critical micro- and macro-level drivers. Within the framework of this study a number of tasks have been formed:

- to determine the essence and current issues of investment activity in Ukraine with a special focus on its systemic-structural features;
- to conduct an analysis of the main trends and drivers of investment activity in Ukraine from the perspective of its systemic-structural construction;
- to formulate proposals for activating investment activity in Ukraine, taking into account the needs of critical stakeholders.

The nature of investment and the systemic-structural characteristics of this economic category have been the subject of considerable research. Several works analyze the theoretical foundations of investment activity, especially in its systemic-structural aspects. In this regard, Kapral (2016) examines the theoretical and methodological approaches to studying the essence of the economic phenomenon of investment activity. Dolinsky (2016) examines the theoretical and methodological foundations of investment activity in Ukraine in the context of the banking sector. Skorobogatova (2016) examines the essence of investment activity in critical aspects of value creation for various stakeholders, and the integration of investment activity into the overall financial and economic mechanism of the national and global economy. An additional contribution to the study of the above issues was made by a work of NISS (2023), which examines the institutional basis of investment activity in Ukraine, particularly in the context of the formation of good socio-economic relations between economic agents at the micro- and macro-levels.

The study examines the main cause and effect relationships and key factors in terms of exogenous and endogenous changes in the socio-economic environment that shape the peculiarities of investment activity in developed

and developing countries. In this context, Igan, Kulan, and Marzaei (2016) examine the impact of capital flows on the economies of several developing countries. Scientific and practical work in this direction is complemented by the work of Rodionova and Sisoian (2019), which examines the issues of implementation of investment activities in terms of micro- and macro-level drivers of a general and specific nature (using the example of the Baltic region). An additional contribution to deepen the understanding of this issue is the work of Ogbokor (2018), who conducts an econometric analysis of the impact of foreign direct investment on the state of the national economy in developing countries (using the example of Namibia). Research by Grabiec (2022) examines the peculiarities of investment activity at the micro level during the socio-economic crisis caused by the COVID-19 pandemic (using Poland as an example). Research by BVCA (2023) analyzes current trends and key drivers of investment activity in developed countries in 2020–2022 (using the United Kingdom as an example) during significant socioeconomic turbulence at the level of individual states and the world.

The role of investment activity at the macro level, in particular, in supporting the socio-economic development of the national economy and fulfilling other state functions, is studied in many articles. For example, Kulakov (2021) analyzes investment activity at the international level in the context of diplomacy and international relations. The work of Aleksin (2019) examines the issue of limited financing in the context of activating investment activity in Ukraine, especially in stimulating the growth of capital investment in the real sector at the state level.

A separate body of work examines the role of investment activity in stimulating the competitiveness of economic agents at the micro and macro levels in Ukraine. In particular, Korittyko (2016) examines critical factors in the context of the system of investment activity in Ukraine at the micro level. Avramenko (2018) examines investment activity in the context of supporting an appropriate level of competitiveness in Ukraine's agricultural sector. Burkaltseva, Voronin, Lisitsky, Mazur, Guk (2017) study investment activity in the

innovation sector as a driver of growth in the competitiveness of the regions of the country. Polozova and Manoilenko (2017) analyze the role of investment activity in Ukraine in supporting the competitiveness of enterprises in the field of innovation and investment mechanisms at the micro-, meso-, and macro-levels.

Another direction studies the peculiarities of investment activity in terms of the specificity of the application of its tools in different industries and business practices. For example, McLaughlin (2019) analyzes the role of state companies in the implementation of investment activity at the national and global economic levels. In line with the above research direction, Kutsyk (2020) analyzes the role of the state in activating investment activity in the IT sector in Ukraine. This scientific and practical issue is complemented by the work of Valencik and Cervenka (2016), which examines the analytical tools for increasing the degree of coherence of various blocks of state investment activity. Paskaramoorthy (2020) examines the issue of conducting investment activity in an online environment.

However, the issue of systemic and structural peculiarities of investment activity in Ukraine in connection with the implementation of a comprehensive solution in this area needs to be further studied.

## **2. Systemic and structural analysis of investment activity**

According to the legislation of Ukraine (in particular, the Law of Ukraine № 1561-XII of 18.09.1991), investment activity is a set of actions of economic entities and their socio-economic relations in the implementation of investments. The Cambridge University Dictionary defines investment activity as a financial-economic process consisting of purposeful steps to acquire assets for the benefit in the form of interest or increase in their market value, carried out by both professional investors and the population. Accordingly, this economic category covers a wide range of socio-economic and financial-economic relations at micro and macro levels of broad stakeholder groups, which determines the complexity of systemic-structural features of investment activity.

The essence of investment activity in its systemic-structural aspects can be identified through its

essential components and drivers. In this study, the following drivers can be distinguished:

- investment risks and limiting factors;
- sectoral structure of foreign direct investment;
- structure of foreign direct investment by main countries of origin;
- structure of the development of foreign direct investment by sectors of economic activity;
- structure of investment financing.

It should be noted that due to the specific impact of micro and macro factors of short-term and long-term actions at the regional, national and global economic levels, which can be generally defined as the investment climate, investment activity in Ukraine faces many risks and constraints. Accordingly, these factors determine the volume and dynamics of investments in the country and shape the systemic-structural peculiarities of investment activity in Ukraine.

In this context, the EY (2021) study on the national strategy in the field of investment activity in Ukraine identifies several risks and limiting factors for FDI (foreign direct investment) in Ukraine from the investors' perspective in 2021. Among the main obstacles to the growth of FDI, EY experts highlight the following (out of a maximum of 10.0 points):

- corruption in Ukraine (8.8);
- low quality of the functioning of the national judicial system and the state of the rule of law in Ukraine (8.6);
- involvement of regulatory authorities in Ukraine (8.2);
- risk of restrictions on the free movement of capital from Ukraine (7.6);
- risk of state nationalization of companies (7.5).

Accordingly, the above-mentioned restrictions from the investor's point of view should be prioritized within the framework of the state policy of Ukraine in the sphere of investment activity – for all groups of stakeholders, not only for the central executive authorities and the parliament, but also for the expert and consultative-analytical communities in the sphere of investment, the financial sector, professional investors and enterprises of the real sector of the Ukrainian national economy.

These risks and limiting factors directly or indirectly affect the state of investment activity in Ukraine. EY experts conducted a comparative analysis of the total volume of FDI and its

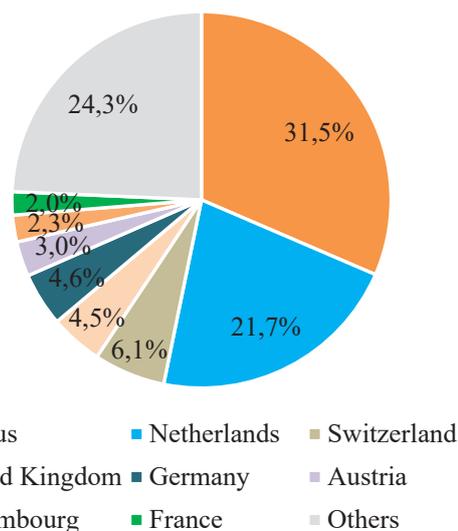
distribution per capita in a sample of countries from Eastern Europe, the Middle East, North Africa and Central Asia.

As a result of this analysis, Ukraine shows significantly lower results compared to the benchmark countries in terms of FDI per capita. This indicates significant challenges for Ukraine's investment activity, especially in the systemic-structural aspect. Detailed data and results of this comparative analysis are presented in Table 1.

In terms of sectoral breakdown, direct foreign investments in Ukraine are mainly directed to industrial enterprises (44% of the total volume as of 2021) and wholesale and retail trade organizations (15% for the same period) (Kapral, 2016). Thus, FDI often flows into the developed sectors of the national economy. This pattern is typical for investment activity in both developed and developing countries.

From the perspective of countries from which direct foreign investments come, Ukraine's investment activity is significantly concentrated on direct foreign investments in a geographical context. The main countries from which direct foreign investments originate are Cyprus (31.5% as of 2021) and the Netherlands (21.7% for the same period) (Kapral, 2016). It should be noted that these European countries account for more than half of the volume of direct foreign investments in Ukraine in 2021. The list of the main countries from which FDI will flow to Ukraine in 2021 is presented in Figure 1.

As for capital investments until 2022, the investment activity of Ukraine was characterized by rather high growth rates. As of 2021, the volume of capital investment utilization in



**Figure 1. Structure of foreign direct investment in Ukraine by major countries of origin, %, 2021**

Source: Based on data from the State Statistics Service of Ukraine, National Bank of Ukraine, Ministry of Finance of Ukraine, Ministry of Economy of Ukraine

Ukraine amounted to 508.2 billion UAH, compared to 623.9 billion UAH for the same period of the previous year. This indicates unfavorable dynamics of capital investments in Ukraine. At the same time, in terms of sources of financing for capital investments, the dominant role will be played by the enterprises' own funds (68.6% by 2021). Another significant source of financing of capital investments in Ukraine is financing from the state and local budgets – at 17.6% for 2021. However, bank and other loans will account for only 5.0% in 2021. Funds of foreign investors in the structure of financing of capital investments in the country constitute only 0.1% for 2021 (Kapral, 2016).

Table 1

**Volume of FDI and its distribution per capita for individual countries in the Eastern Europe, Middle East, and Central Asia region, 2021, billion USD, million people, thousand USD per person**

Country	Region	Volume of FDI, billion USD	Population, million people	Volume of FDI per capita, thousand USD/person
Czech Republic	Eastern Europe	146,5	10,7	13,7
Slovakia	Eastern Europe	57,2	5,5	10,5
Kazakhstan	Central Asia	156,2	18,8	8,3
Poland	Eastern Europe	235,7	38,4	6,1
Serbia	Eastern Europe	41,5	6,9	6,0
Lithuania	Eastern Europe	16,6	2,8	5,9
Romania	Eastern Europe	81,5	19,3	4,2
Turkey	Middle East	143,7	83,2	1,7
Tunisia	North Africa	38,0	11,7	3,2
Ukraine	Eastern Europe	71,2	41,8	1,7

Source: Based on (EY – USAID)

The specific structure of investment financing in Ukraine leads to systemic and structural challenges in the short and long term. In particular, the dominance of own sources of financing combined with the low weight of attracted sources of financing indicates a significant limitation of financing of capital investments in Ukraine. As a result, firstly, there is no adequate transfer of funds from the financial sector to the real sector of the national economy of Ukraine; secondly, it limits the opportunities of Ukrainian enterprises to improve their production and operating facilities; thirdly, it artificially limits the pace of socio-economic growth in Ukraine; and fourthly, it leads to the limitation of the work of certain sectors of the national economy of Ukraine, which could serve as business partners for Ukrainian enterprises in a more balanced structure of financing capital investments in Ukraine. Accordingly, this requires the implementation of active measures by the state to activate the attraction of other sources of financing to achieve higher and longer-term results in the context of Ukraine's investment activity. (Kapral, 2016)

### 3. Investment activity in Ukraine: sectoral analysis

Within the framework of the analysis of systemic and structural features of investment activity, the structure of capital investment utilization by economic activity sectors is of scientific and practical interest. It should be noted that the key areas of capital investment in Ukraine as of 2021 are industry (35.5% of the total), compulsory social insurance (12.3%), and agriculture (10.0%). This reflects the structural features of the national economy and the priorities of the country's

socio-economic development. The detailed structure of capital investment utilization by sectors of economic activity in Ukraine for 2021 is presented in Figure 2. (Kapral, 2016)

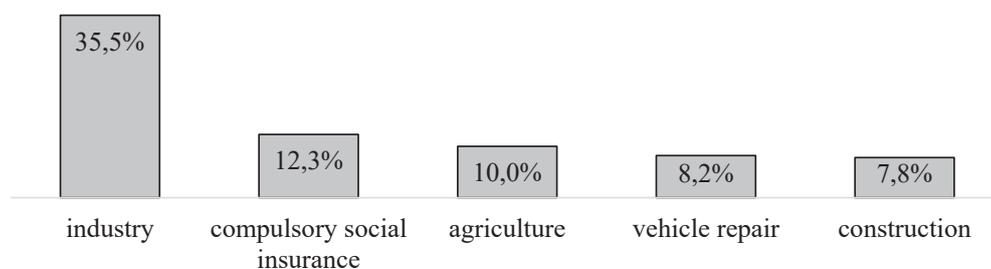
Based on the analysis of systemic and structural features of investment activity in Ukraine, the article offers a set of scientific and practical recommendations aimed at strengthening the work of this institution in the short and long term, both at the level of the national economy as a whole and at the level of individual enterprises. These changes are intended to create a stable foundation for the development of investment activities in Ukraine based on competitiveness and a focus on creating value for various stakeholders: financial and non-financial corporations, households, and the state.

The proposed set of recommendations consists of three interrelated blocks:

- Block 1. Financial and economic measures;
- Block 2. Regulatory and legal measures;
- Block 3. Communication and popularization.

Consider the proposed measures within the framework of the issue under study in more detail. Block 1 includes the planning and implementation of comprehensive reforms to improve the state of the exogenous and endogenous environment of investment activity in Ukraine, thus attracting investors to more active participation in this process. This block also includes the development and implementation of targeted reforms aimed at improving the state of individual sectors as potential areas for activating investment activity.

Block 2, "Regulatory and legal measures", envisages appropriate changes in the regulatory, legal and legislative framework to provide a legal basis for the financial and economic measures to be taken. Such an approach is necessary to



**Figure 2. Key sectors of economic activity in terms of capital investment utilization in Ukraine, %, 2021**

Source: Based on data from the State Statistics Service of Ukraine, National Bank of Ukraine, Ministry of Finance of Ukraine, Ministry of Economy of Ukraine

enable the appropriate implementation of the reforms in Block 1, the acceptance of these changes by key stakeholders, and the normalization of these changes.

The set of proposed measures to strengthen investment activity is presented in Block 3, which is aimed at deepening the acceptance of changes by key stakeholders – primarily households. This can be achieved by conducting various information campaigns to popularize the ideas of reforms focused on investment activity in Ukraine. This will lead to greater openness of citizens to interaction with professional investors and the state in the field of investment. These information and communication activities will also strengthen the trust of local communities in local investors.

At the same time, professional investors, the financial sector, and foreign companies need additional explanations that will increase their confidence in the prospects of the Ukrainian economy. These information and communication activities can be carried out within the framework of state export promotion, cooperation with industrial and business associations, and economic diplomacy. As a result, the level of stakeholder engagement will increase, activating the investment process in Ukraine.

#### 4. Conclusions

In summary, the function of investment activity in Ukraine has been studied in its systemic-structural aspect. A special focus of the research is aimed at identifying key problem areas and, accordingly, ways to improve the state of investment activity in Ukraine. This analysis is carried out in the context of critical risks and barriers to the creation of a good investment environment at the micro and macro levels in

Ukraine. As a result, a comprehensive study of this economic category in its essential aspects, namely systemic-structural features, is required.

It is important to note that significant challenges arising from the need for post-war reconstruction and activation of socio-economic development in Ukraine will only exacerbate the current need to strengthen investment activity – primarily in its systemic-structural dimension. Accordingly, this will require the implementation of deep and coordinated reforms to improve the favorability of the national socio-economic environment at both the micro and macro levels. These changes should be addressed to existing and potential investors and other key stakeholders.

In response, a set of solutions has been formulated that includes measures necessary to improve the micro and macro socio-economic environment in the context of activating investment activity in Ukraine. This set includes several blocks: Financial and economic measures, Regulatory and legal measures, and Communication and popularization measures. Accordingly, these blocks are coordinated and aimed at improving the socio-economic environment in the short- and long-term dimensions of time to activate investment activity in Ukraine on a systemic basis.

The prospects of future research in this direction include the deepening of the analysis of the essence of investment activity in the context of critical drivers for the creation of long-term results for the state and other economic agents. In the future research it will be necessary to expand the formed scientific-practical recommendations on measures for activation of investment activity in Ukraine taking into account changes in the exogenous and endogenous environment from the point of view of their implementation peculiarities.

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