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IMPROVEMENT OF INVESTMENT ATRACTIVENESS IN UKRAINE

Наведено результати досліджень впливу податкової системи на залучення іноземних інвестицій в країну. Порівняно вплив кількості перевірок інспекцій у країні з колишніми країнами СРСР.

Приведены результаты влияния налоговой системы на привлечение иностранных инвестиций в страну. Сопоставлено влияние количества проверок инспекций в стране с бывшими странами СССР.

At the beginning of Transition it was recognized that a sustained inflow of private foreign capital would be essential to modernize and restructure Ukrainian industry. Ukraine required not only foreign capital but also technology, management skills, and know-how which is precisely what FDI would bring.

In the modern economy, during the gradual development of the stock market in Ukraine, relevant is the study of investment and in particular issues for evaluating and improving investment attractiveness.

A drastic reduction of international funding had influence on domestic demand. Gross capital inflows in the region fell by 65 percent in the first three quarters of 2009 compared to the same period in 2008 [1]. Financing needs of the region declined, while external assistance and moral beliefs helped prevent access to external loans. As a result, financial conditions improved, allowing monetary policy to focus on mitigating the crisis.

Due to its geographical location, Ukraine has a great chance to become a mediator between the European Union (EU) and Russia. While the tax, Ukraine, much closer to Russia and other countries of the former Soviet Union than the EU. The tax system in Central and Eastern European countries, recent member states of EU, differs in important aspects from Ukraine and other former Soviet republics. All former Soviet republics have changed its tax system, after the introduction of value added tax (VAT) and Ukraine as well, though taxes among the new EU members have changed more rapidly and radically in order of creating a more flexible tax system unified for all European countries.

Ukraine has many complex tax issues that require special knowledge of both local and international tax laws. According to a World Bank survey, Ukraine took the 142 place in terms of ease of doing business in the country. As the Ukrainian tax system is under development and constantly feel the changes[2].

Based on information present in the table 1 [3] it is clear, that Ukraine is one of the least attractive countries of the world in this respect.

Table 1

Paying Taxes

Country	Time (hours per year)	Payments (number per year)	Total tax rate (% of profit)	Rank	
				2009 year	2010 year
Ukraine	736	147	57,2	182	181
Russia	320	11	48,3	108	103
Belarus	900	107	99,7	183	183
Eastern Europe and Central Asia	336,3	46.3	43,4		
OECD Average	194,1	12.8	44,5		

Among the two hundred countries participated in this study Ukraine occurred almost in the end of list, standing in a row not only among the countries with transition economies but like a country of the third world. Negative movement of Ukraine should raise the Ukrainian authorities to change the taxation system substantially. In future perspective will raise Ukraine in the 1st group for investment in the world (more than 50 billion U.S. dollars) despite the negative standing in taxation, country is still in tops of invests in Europe despite the financial crises.

Despite the fact that the process of reforming the tax system will be completed only with the advancement and adoption of the new Tax Code, reforms have to introduce changes in the tax system and make it more convenient for investors. The general trend is to reduce the tax burden, simplifying the implementation and introduction of the principles of taxation and the concept used in the more developed countries.

Tax reform in Ukraine should be based on the following principles:

a) rule of law;

b) presumption of innocence between government agencies and taxpayers;

c) equality and mutual accountability of the government and taxpayers;

d) compliance by government agencies with the «letter of the law.» Any changes in the tax laws must take effect in strict compliance with the Budget Code of Ukraine, the Law on the Tax System, and the Law on Government Regulatory Policy in the Business Sphere;

e) no conflict of interest in the tax system;

f) reliable oversight and control over the tax and customs agenciesю.

Investors should bear in mind that, in general, the law of Ukraine was developed for countries in transition from the Soviet command economy to a free market. Senior financial controls established by law, is the result of the state of the nation at a time when it was adopted. We must understand that now in the Parliament passes approximately 300 new bills in a year, and it does not mean that all the laws are adopted. In the past year there have been great strides in the direction of the Ukrainian legislation to European standards, and this trend should continue in the future, do not see reasons why it can stop only if not in political disputes.

Investor`s confidence could be improved significantly if not the level of inspections that covers all the enterprises. The survey shows that coverage by inspections reduced from 95 percent to 75 percent of enterprises in 2008 compared to 2006 and 2003.

However, Ukraine must make maximum use of its geographical advantages to maximize its share of global FDI, as in several countries, attracting investment from abroad is growing, according to a UN survey.

Ukraine has one of the most burdensome inspections regimes among selected post- Soviet countries. Despite this improvement, Ukraine is still a «leader» in inspection coverage of enterprises among post-Soviet republics (even using for comparators previous years' data, which further reform is likely to have improved) (Figure 1)

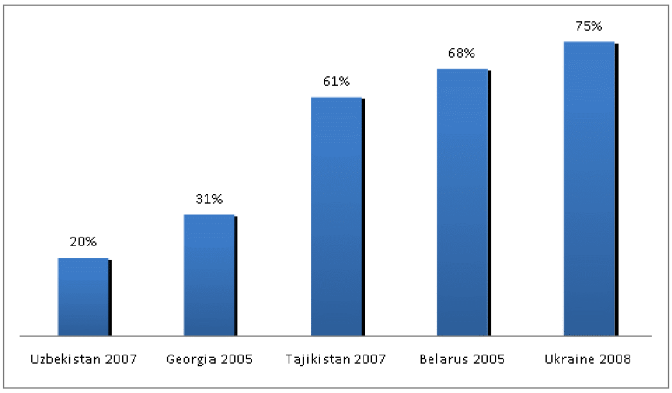

Figure 1 – % of inspected enterprises in corresponding years in selected countries (latest available data)[4]

In advanced economies, inspection coverage of enterprises is low and the inspections regime does not burden businesses. There are therefore no specific combined statistics on coverage in those countries available to compare with Ukrainian statistics. The available data on certain inspectorates in European countries show that the total share of businesses covered each year by inspections does not exceed 10 to 15 percent at most.

The lower level of development of the country's economy, the more the country needs FDI, the less likely it is that it has the potential to attract foreign direct investment. To overcome this, developing countries should take into account the model to adapt to the needs of developed countries in order to be among top destinations of the world investors even in time of the global financial crises.

Reference: **1.** World Investment and political risk in 2009, World Bank Group, p. 125. **2.**http://www.bblaw.com/Focus_in_Ukraine.431.0.html. **3.** Doing Business 2010. Country Profile for Ukraine. The International Bank for Reconstruction and Development/The World Bank. www.doingbusiness.org. **4.** Investment Climate in Ukraine as Seen by Private Businesses. Investment Climate Advisory Services in Europe and Central Asia/IFC/The World Bank Group as of October 2009, page 73.

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