

***Stimulating and restricting
factors of economic
development***



in separate region

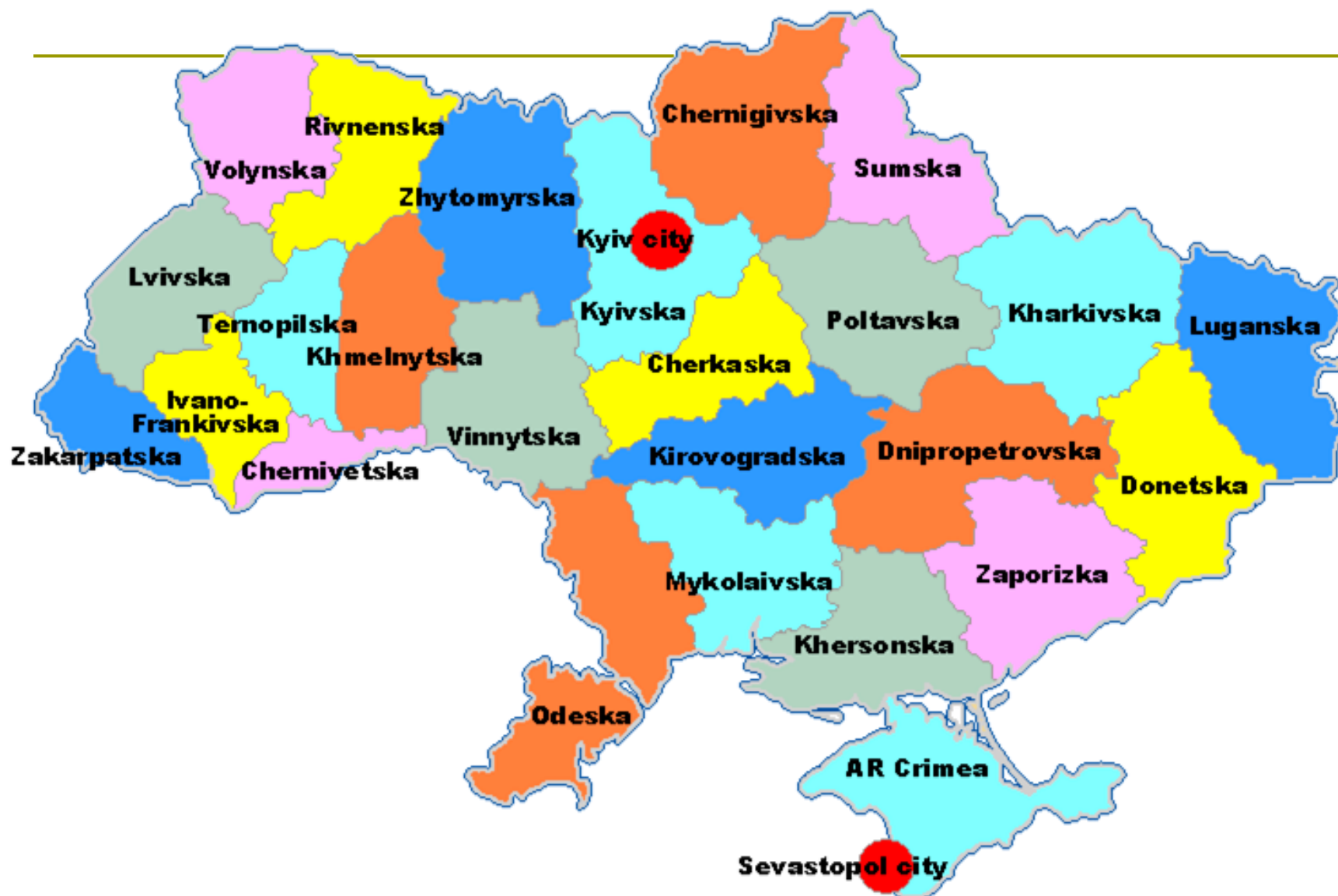
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Ukraine on the Map of Europe



Administrative-territorial arrangement of Ukraine



Disparities

Leader regions - outsider regions

7 leader regions concentrate 70 % of investment into fixed capital and 83 % of FDI.

Excluding Kiev city, these portions will be 43,2 % and 34,3 % accordingly.

Before the crisis, during and after the crisis, the gradual concentration of resources in economically powerful regions was distinctive

Leader regions renewed their positions in accumulating the huge amount of investment resources

Weak regions haven't taken advantages to search for new niches for investment and for involvement of investors

Regional disparities in Ukraine

Index	Regional disparities, items Source: www.ukrstat.gov.ua				
	2008	2009	2010	2011	2012
GRP per head	6,3	6,5	6,4	6,0	6,1
Investment into fixed capital per head	6,8	7,9	6,1	5,9	13,04 (capital inv. per head)
Housing put into service per 1000 persons	8,4	26,4	10,8	18,0	8,7
Foreign direct investment per head	93,6	115,6	115,1	132,2	158,7
Export-Import ratio	14,9	14,6	15,9	9,3	8,5

Positive and negative features of disparities

Positive impact – creation of stimulus for the activation of economic activity, capital floating, movement of working force between the regions

Negative component of regional disparities makes bigger influence on the social and economic development of regions

What kind of dangers has the regional inequality?

- ❑ Decrease of number of profitable enterprises and the tax potential of territory
- ❑ Shortage of sufficient amount of resources for investment and construction in less-developed regions
- ❑ Reduction of production and raise on unemployment rate
- ❑ Drain of labor potential from less-developed territories, declination of population in some territorial units and their gradual breakdown
- ❑ Inadequacy of budget revenues and costs per capita caused by incorrect grant policy
- ❑ Reduction of intensity of productive links inside the country; some regions step back from solving the internal common problems of the whole country
- ❑ Enterprises' orientation on external markets during the formation of production and trade strategy
- ❑ Increase of negative balance in foreign good trade
- ❑ Escalation of social strain
- ❑ Absence of interest in high-developed regions to finance less-developed regions



What has Ukrainian state done in order to reduce the inequality?



Some measures to prevent the overgrowth of inequality were aimed at the equalization of separate indexes such as local budgets' costs per capita, amount of investments in fixed capital, reduction of wages debts

The state raises the social standards (minimal wages, minimal retiring pension) 4-5 times per year which forms a base for gradual equation of social indexes in regions

Why and how to stimulate growth?

Disparities → investments



Methods of economic growth stimulation at the regional level should account regional inequality in the whole country because **stimulation of growth of separate region does not necessarily lead to reduction of regional disparities**

The main factor of economic growth is the capital (**investments**), it evidently lead to intentional limitation of excessive saturation of one certain region by investment resources –
– it can be unprofitable for the whole country in terms of maintaining parameters of stable and balanced development



The logic scheme for stimulation of investments' inflow:

- maintenance of poor regions by resources,
- uniform allocation of resources in all regions,
- curbing of oversaturation by investment resources in some regions

How to regulate economic disparities

- Effective using of positive features of these disparities
- Using of state constructs, grants, investments

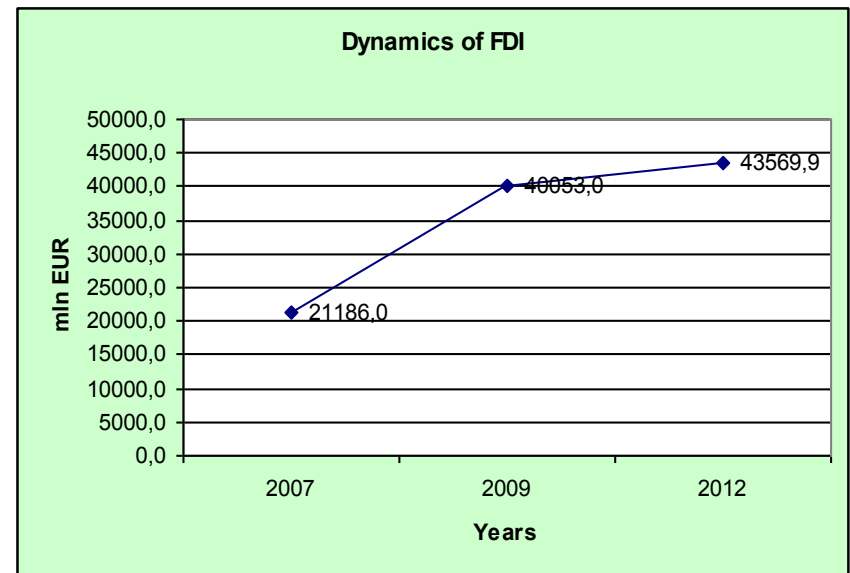
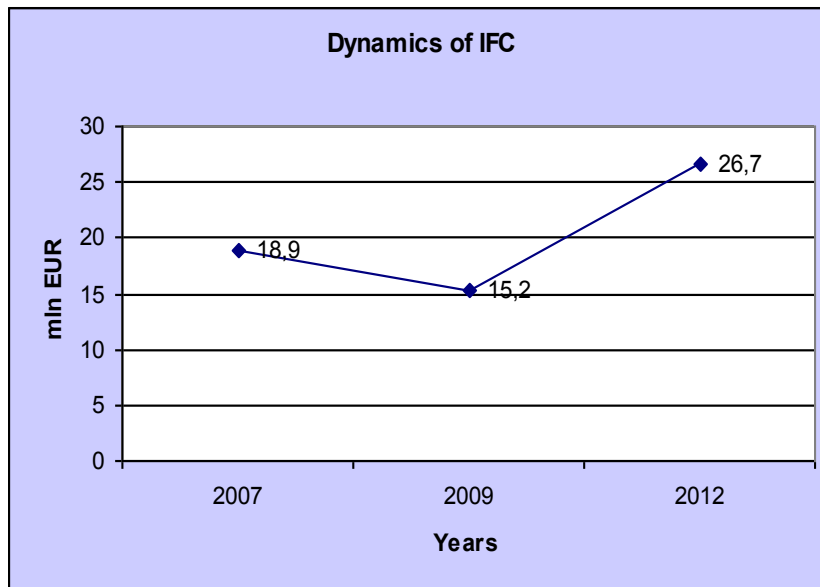
- **Investments**

Three levels of investment resources: external (foreign direct and portfolio), internal governmental (public investments which come from the state budget to regional economy), internal regional (investments from the local development budget placed in region)

The way which the state allocates them into the regional economies (through the direct methods) defines the possibility of equation of disparities in certain socio-economic indexes within the whole country

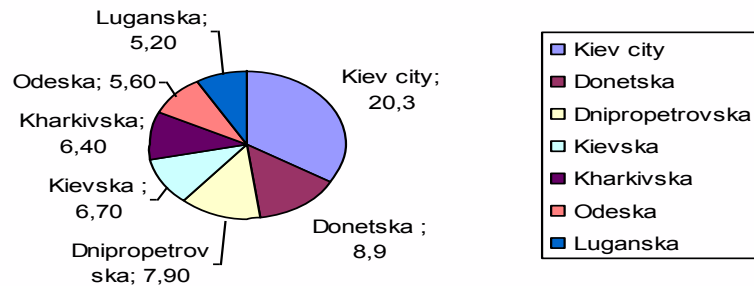
Conditions for investments inflow: a demand of real sector in highly-profitable projects, amount of savings and possibilities of their moving to the category “investments”, accessibility of credits, flowing of foreign capital

Trends of Investments in regions of Ukraine in 2007, 2009, 2012

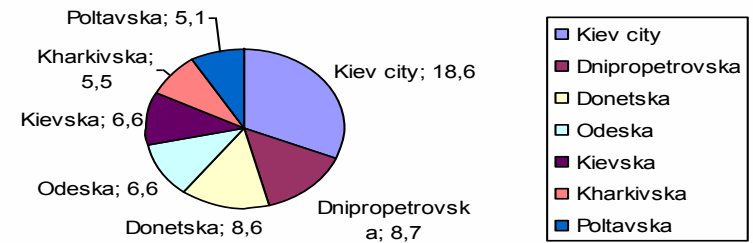


Investment into fixed capital in regions of Ukraine

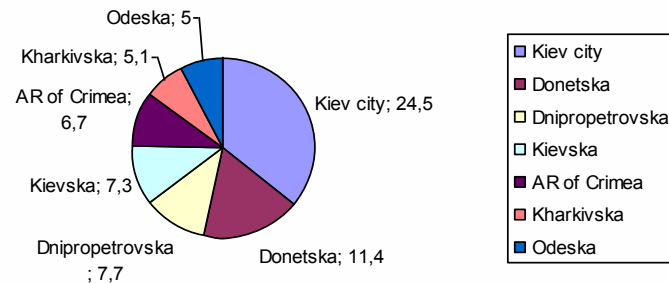
Investment into fixed capital, 2007, %



Investment into fixed capital, 2009, %

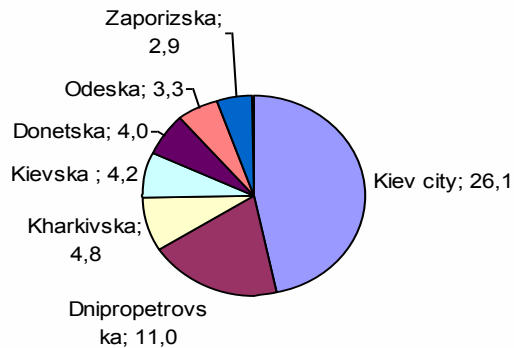


Investment into fixed capital, 2012, %

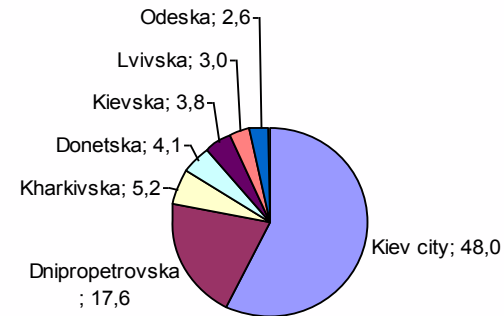


Foreign direct investment in regions of Ukraine

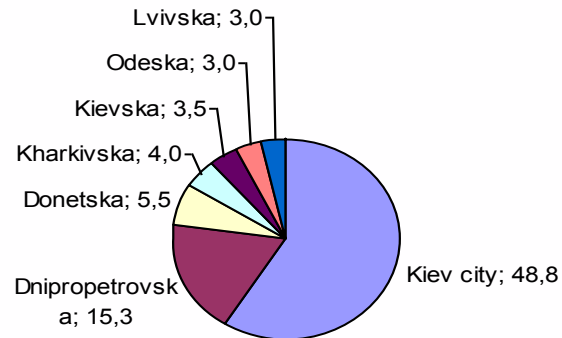
Foreign direct investment in regions, 2007, %



Foreign direct investment, 2009, %



Foreign direct investment, 2012, %

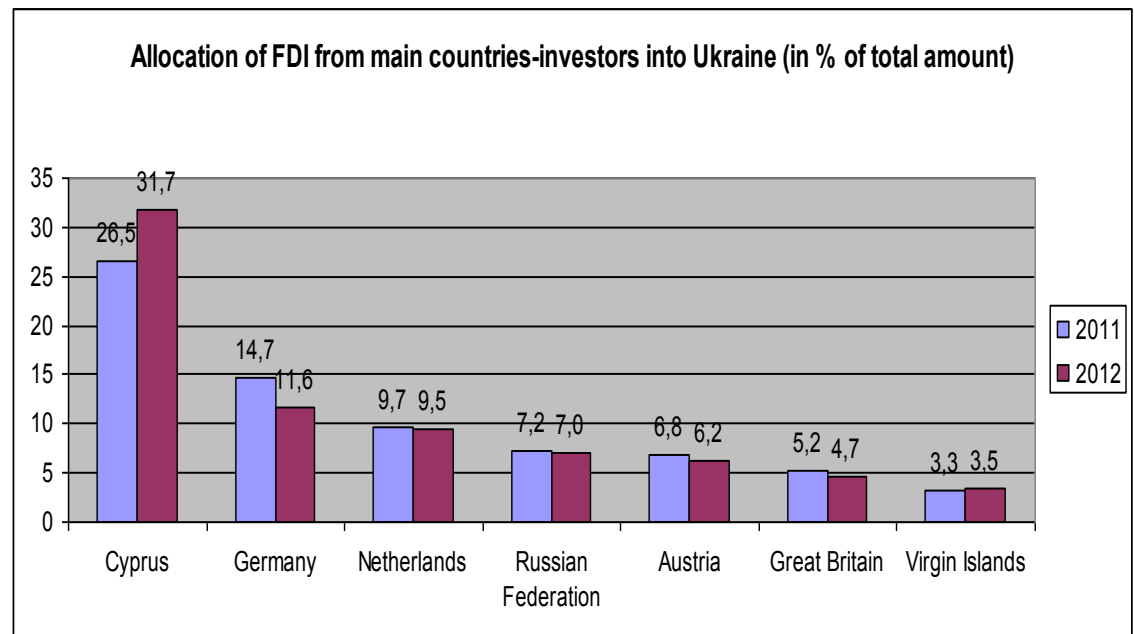


New tendency in FDI New tendency in FDI

New tendency defines the distribution of investments among regions – crisis in Cyprus.

In 2012 the portion of investments from Cyprus was 31,7 %, and in 12 regions from 27 the portion of Cyprus money was the most (up to 66 %).

The formed niches for the investment inflow could be filled by other countries (which portion in FDI is also huge) – Germany, Netherlands, Russian Federation, Great Britain, Austria



Factors which hinder the accumulation of resources in less-developed regions



- vicious circle of investment process in less-developed regions; there is a need in large amount of resources for the intensification of manufacturing which could be accumulated only by securing the investors' expectation for huge economic profit. However, economic structure of less-developed regions and the absence of information support of investment process and weak promotion of investment potential do not facilitate the attraction of resources
- the absence of investment proposition on the market – local authority does not propagandize the investment resources and human and natural capital
- exclusion of huge amount of potential investment resources from the process of production. Underdeveloped character of stock market, small number of credit organizations, not transparent and risky type of their activity, limited opportunities for mortgage lending, low portions of people' resources in investments deprive the economy of regions of ability to accumulate investment resources

Risks of investment process in regions:

- the absence of funds for high-quality structural changes in regional economy;
- outrunning development of some regions during the stagnation of others, the escalation of concentration of investment streams around the administrative centers of regions;
- orientation on foreign markets in regions with appropriate investment securing, further decline of competitiveness of import-substitutive production;
- creation of barriers for regions to become competitive subjects in foreign investment activity;
- weakness of interregional production links

Indexes of socio-economic development of Ukrainian regions - 1

	GRP*, mln. USD. (y ₂)	Capital investments, mln. USD (x ₁)	Construction, mln. USD (x ₂)	FDI, mln.USD (x ₃)	Saldo export – import of goods, mln.USD. (x ₄)	Saldo export- import services, mln. USD (x ₅)
Ukraine	163085,39	32965,9	7785,0	54462,4	-15848,3	6821,3
1 AR Crimea	6004,91	2197,1	258,5	1463,7	-546,6	283,9
2 Vinnytska	3417,57	612,6	167,3	245,4	154,1	22,4
3 Volynska	2685,31	397,5	80,4	361,2	-409,4	-10,3
4 Dnipropetrovska	17379,98	2557,1	587,8	8351,8	3591,5	-42,7
5 Donetska	19503,67	3758,6	1168,6	2981,6	9958,7	62,7
6 Zhytomyrska	3029,55	317,4	82,3	363,8	165,8	20,5
7 Zakarpatska	2919,17	314,9	47,4	407,2	-624,0	26,8
8 Zaporizka	6928,59	782,7	208,3	1144,2	1991,4	192,3
9 Ivano-Frankivska	3695,57	622,1	126,2	642,5	-162,2	7,2
10 Kyivska	4753,61	2421,9	353,4	1927,7	-2810,3	65,7
11 Kigovogradska	2886,28	547,1	77,6	103,7	345,7	0,1
12 Luganska	7610,50	979,9	209,4	838,5	2203,1	107,3
13 Lvivska	6498,84	1249,1	284,4	1634,8	-2029,9	130,5

Indexes of socio-economic development of Ukrainian regions - 2

	GRP*, mln. USD. (y ₂)	Capital investments, mln. USD (x ₁)	Construction, mln. USD (x ₂)	FDI, mln.USD (x ₃)	Saldo export – import of goods, mln.USD. (x ₄)	Saldo export- import services, mln. USD (x ₅)
Ukraine	163085,39	32965,9	7785,0	54462,4	-15848,3	6821,3
14 Mykolayivska	2485,08	520,8	163,6	259,9	1475,1	146,8
15 Odeska	9579,43	1653,8	435,9	1629,5	-2519,9	963,4
16 Poltavska	6571,49	1273,8	457,6	942,8	2081,7	-118,6
17 Rivnenska	2446,53	333,9	190,7	296,9	44,9	49,5
18 Sumska	2242,10	336,9	92,1	374,4	443,3	-12,3
19 Ternopilska	2261,26	394,9	87,9	64,6	-100,1	0,9
20 Kharkivska	7697,41	1689,5	521,0	2170,4	-718,9	121,9
21 Khersonska	2236,70	285,9	55,2	245,2	-121,8	31,1
22 Khmelnytska	3335,98	410,3	97,6	208,6	-104,5	29,4
23 Cherkaska	3374,68	421,7	84,9	884,1	-430,7	12,9
24 Chernivestka	1503,61	266,4	125,1	64,3	-49,9	6,9
25 Chernigivska	2242,46	308,8	66,7	105,3	-2,4	-18,9
26 Kyiv city	28726,99	8069,1.	1701,9	26592,1	-13345,7	1018,1
27 Sevastopol city	1001,41	242,025	53,4	158,4	-14,1	102,4

Disparities and Investments

The maintaining of social equality and economic effectiveness

The influence of investment resources allocated by the government on the general indexes of social and economic development in the country and the change of disparities in regions:

(1) indexes of amount of internal governmental investments and construction on the index of gross regional product;

(2) indexes of foreign direct investments and export-import indexes on the index of gross regional product.

Tight link between the indexes

In order to switch on the mechanisms of economic activity in regions with low speed of development it is necessary to interfere in allocation of domestic investments and foreign direct investments



How to allocate investment resources more uniformly

Alternative measures should be applied

1. Forcibly take portion of resources from the most developed regions by not permitting to register enterprises at the territory of these regions if the main companies are allocated in these regions but the basic production assets are located in others

2. Forcibly take out the portion of received resources from high-developed regions and distribute it through other regions. Consequences – outgoing of business into shade, social discontent, distortion of tax potential, decrease of budget incomes

3. Create the conditions for generation of investment potential in less-developed regions and for its full disclosure at two levels – at the central and local



Direct tools of regulation

Direct tools of state influence on regional disparities

- ❑ State contracts for producing certain goods (ship construction, energy infrastructure etc.) have positive potential means the promotion of better allocation of governmental funds and maintaining the productive capacities of enterprises; the enterprises with state contracts form additional work places, have guaranteed place on market, produce goods which are necessary from the view of total economic effectiveness
- ❑ State grants from the state budget given to certain enterprises for the manufacturing of one or another type of production can be considered as de-stimulant for productive process but also as additional investment resource

Investment magnets



Direct instruments can create **investment magnets** – enterprises and organizations, which accumulate some part of investments

Local authority should clearly define the list of productive enterprises on which the main amount of investment resources and budget grants must be assigned and then they would be able for quickly raising of the volume of output

Demonstrating success activity, they form stable and encouraging investment climate, make around themselves something like gravitation field for investments attracting investors and funds

The main tasks for local authority in the sphere of investments

To recover internal potential and to find the objects for investments

Public-private partnership, resources of the state fund of regional development and incomes of development budget (part of local budget funds which ordered on capital projects), state contracts and budget granting for certain enterprises

Communal bank in every region which will control the effectiveness of centralized investments resources distribution on regional level

Additional inflow of private investments in the most priority sectors and spheres of economy

Conditions which should be created by the local authority:

- facilitating the investment in following projects and spheres: construction of garbage processing plants, road repair, gasification of settlements, agricultural production support, energy efficiency projects
- financial support of investment projects in real sector with the help of preferential or low-rate credits, and involvement of resources of budget, non-bank financial units, international organizations, enterprises and people, promotion of share investment funds
- providing investment grants for the components of productive, commercial and social infrastructure in regions, construction of social objects, road construction etc.
- enlargement of mechanisms of public-private partnership in realization of investment projects
- implementation of the wide informative support of regional investment potential with the help of investment roadmap (list of investment propositions) on the web-sites of local authorities



Conditions created by the central organ of regional policy

- providing authorities by power to work out the main directions of investment policy in region - involving money for perspective projects which gives impulse to further development, coordination of projects
- allocate investments directly to less-developed regions by signing of treaties between the government and private enterprises (PPP)
- enforcement of control over the activity of free economic zones and territories of priority development, conversion of their profile if necessary; reconsideration of criteria of assignment the status of free zone in order to form the long-term positive effect
- searching and stimulation of growth poles` at the local level (economically powerful local enterprises)
- application of state contracts to the strategically main enterprises at the local level, setting up production of separate kind of goods which are in demand at the local level
- simplification of access to credit markets for local authorities





Thank you for your
attention!