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INNOVATION DEVELOPMENT AND INVESTMENTS IN UKRAINE

In current research, we have highlighted issues of the link between recently elaborated Bill on improvement of regulatory environment for investments and innovations in Ukraine. The aim of current paper is to identify weak areas of the development of Ukraine which can affect innovative development.

Key words: *innovations, R&D, investments, regulatory environment, economic development.*

Інновації стали дуже важливим фактором технологічного лідерства, економічного розвитку та конкурентоспроможності як на національному, так і на регіональному рівні. Впровадження інновацій приводить до нового або вдосконаленого продукту. Підприємства, що впроваджують інновації, мають більший обсяг виробництва та доходу. Перехід до ринкової економіки порушив питання важливості інновацій та розвитку інноваційного потенціалу країни. Україна все ще значно відстає від багатьох країн світу з точки зору інноваційного розвитку. Тому важливо визначити сфери, які можуть сприяти інноваційному розвитку країни.

У запропонованих дослідженнях проаналізовано проблеми зв'язку між нещодавно розробленим законопроектом про вдосконалення регуляторного середовища для інвестицій та інновацій в Україні. Метою статті є виявлення слабких сфер розвитку України, які можуть негативно впливати на інноваційний розвиток.

Інноваційний розвиток України аналізується з точки зору кількох міжнародних рейтингів, виявляються основні сектори інвестицій як важливий фактор інновацій, а також оцінюються нещодавно здійснені кроки щодо вдосконалення регуляторного середовища для інвестицій.

Нове, вдосконалене регуляторне середовище сприятиме формуванню кращого інвестиційного клімату, збільшить приплив інвестицій, поліпшить географію інвестицій, що, у свою чергу, сприятиме економічному зростанню завдяки розвитку ринку праці, вищій ринковій конкуренції та кращій співпраці між зацікавленими сторонами та урядом. Однак слід зазначити, що згідно з новим законопроектом досі не існує взаємозв'язку між новими інвестиційними можливостями та інноваціями. Неясно, як розподілятимуться інвестиції між галузями та чи буде продовжуватися тенденція інвестування у вже розвинуті галузі, чи інвестори намагатимуться знайти інші ніші для інвестування, включаючи НДДКР. Для посилення та сприяння інноваційному розвитку життєво важливо також розробити Закон про заохочення інвестувати у пріоритетні галузі досліджень та розробок. Важливо вказати пріоритетні напрями НДДКР, визначити цільові регіони для інвестицій у НДДКР та зазначити, що інвестиції у сектор НДДКР будуть супроводжуватися економічними вигодами.

Ключові слова: *інновації, НДДКР, інвестиції, регуляторне середовище, економічний розвиток.*

Problem statement in general and its connection with important scientific or practical tasks. Innovations have become a very important factor of technological leadership and economic development and competitiveness at both national and regional, enterprise levels. Innovations introduction results in a new or improved product. Thus, enterprises that implement innovations have a higher level of production and income. The

transition to a market economy has raised the importance of innovation and the development of innovation potential of the country. Ukraine is still considerably lagging from many countries of the world in terms of innovation development. Thus, it is important to identify areas which can contribute to innovation development of the country.

Literature review on the factors of innovation development. As innovations are proved already by broad literature to be an important factor of economic development of the countries, we have reviewed literature on the factors which contribute to innovation development internationally and in Ukraine in particular. When researching determinants and priority factors of innovation for the development of nations A. Barrichello et al [1] have concluded that quality of scientific research institutions and patent cooperation treaty (PCT) patent applications should be equally prioritized for the countries' development. I. Yulenkova [18] has highlighted that for regional innovation development it is important to develop favorable law and financial environment. A. Stavyt'skyi et al [9] have indicated that for innovative development it is also important to develop cooperation between higher education institutions, scientific institutions, business representatives and state bodies.

A. Kniazevych et al [4] have emphasized that one of the major factors which directly influences the dynamics and pace of the innovation development in Ukraine, is innovation infrastructure. When analyzing innovation capacity of Ukraine, A. Rusnak et al [7] have concluded that innovative capacity of Ukraine is low. Human capital, education and science are assessed as relatively high. However, traditionally low ranks have political stability, regulatory environment and institutional factors.

Significant role for innovation development according to literature play investments. Developed funding and investments programs are significant factors of innovation development. Without a well funding, it is not possible for technology transfer to contribute to economic development. When conducting an empirical analysis of innovation and economic growth in CEE countries, A. Pece [6] has found out that there is positive relation between economic growth and innovations. Foreign direct investments have a main impact on economic growth through knowledge transfer and improvement of technological processes.

V. F. Dalla Corte et al [2] have emphasized that investment in research and development significantly increases the likelihood that a company innovates. At the time, according to the authors, the influence of the firm size and time in the market was not confirmed. Even small and new companies have the potential to innovate, especially when investing in R&D. Thus, investing in R&D can contribute to innovation processes.

N. Germanjuk [3] has researched the relationship between innovations and investments and concluded that there is a deficit of state support in the investment and innovation sector in Ukraine, as well as difficulties in attracting finance. The latter author relates to the high political instability, the lack of favorable legislative environment, low compensation for the work of inventors. However, as mentioned by the author, there is tendency to increase venture companies, providing investment in local funds. Author has emphasized that innovation development in Ukraine can be enhanced by creating incentives for attracting investment, investing in human capital, raising wages for researchers; growth of inflow of foreign investments; providing tangible state support to enterprises and more favorable credit terms for them, ensuring transparency of legislation.

Previously unsolved parts of the general problem to which the article is devoted. In current research, we have highlighted issues of the link between recently elaborated Bill on improvement of regulatory environment for investments and innovations in Ukraine.

Aim of the paper. The aim of current paper is to identify weak areas of the development of Ukraine which can affect innovative development.

Main material of the research. In current paper, we have considered Ukraine and its innovation development in terms of several international rankings, indicated main sectors for investments as important factor of innovations, as well as indicated recently implemented steps to improve regulatory environment for investments.

Ukraine in international ratings. According to the Doing Business 2019 ranking, Ukraine rose by +5 points and ranked 71 among 190 countries [17]. The country showed the largest

growth in such categories as *taxation* (growth by 110 positions, 54th rank), *international trade* (+70 positions, 78th rank) and *investor protection* (+56 positions, 72nd rank).

It should be noted that the rating agency Moody's Investors Service upgraded the sovereign rating of Ukraine. It changed from Caa2 to Caa1, which means a change in the prognosis from "positive" to "stable" [5].

On April 12, 2019, Standard & Poor's reaffirmed Ukraine's long-term and short-term sovereign credit rating in foreign and national currencies at B / B. The forecast is stable [8].

Ukraine ranked 83rd out of 140 in the Global Competitiveness Index [15]. In the ranking of 140 countries Ukraine ranks 110th in terms of *state institutions*, 57th in terms of *infrastructure development*, 77th in terms of *adaptation of modern technologies*, as well as *macroeconomic stability* – 131st, *healthcare* – 94th, *education* – 46th, *goods market* – 73rd, *labor market* – 66th, *financial system* – 117th, *market size* – 47th, *business dynamics* – 86th, *ability to innovate* – 58th.

According to the Global Innovation Index 2020 [16], Ukraine ranked 45th out of 131 countries involved in the analysis. Among seven pillar of innovation development Ukraine has better values on the *business sophistication* (54), *human capital and research* (39), *knowledge and technology outputs* (25) and *creative outputs* (44). Significantly lower rank Ukraine received on *institutions* (93), *infrastructure* (94) and *market sophistication* (99).

If considering in more detail subindicators, Ukraine ranked 123 in terms of *political and operational stability*, 93 on *government efficiency*, 109 on rule of law, 117 on *ease of resolving insolvency* (*institutions* pillar), 121 on *investment*, 88 on *indicator of domestic credit to private sector*. It should be noted that Ukraine also has low rank on important indicator of the level of development of online services, in particular, the country ranked 93 on indicator of *government's online service*.

Thus, based on above mentioned results of international rankings, the main factors which can constrain innovation development in Ukraine are low development of political and business environment, as well as credit-investment issues. It should be noted that these issues are very closely related with poor regulatory environment in the country, especially regarding investments. Thus, it is important to create favorable local and national conditions for attracting investments which in turn can promote innovation development.

Investment activity in Ukraine. According to the State Statistics Service of Ukraine, the inflow of direct investment in Ukraine in January–June 2019 amounted 1259.5 million US dollars [10]. The volume of foreign direct investment to the economy of Ukraine as of July 1, 2019 amounted USD 33,724.4 million USA dollars [10]. In the first half of 2019, the increase in foreign investment to the economy of Ukraine amounted 839.6 million US dollars [10]. It should be noted that investments are directed to already developed economic sectors. As of July 1, 2019, the most significant amounts of direct investment revenues were directed to industrial enterprises – 33.3% and institutions and organizations engaged in wholesale and retail trade; repair of motor vehicles and motorcycles – 16.6% [10].

The main investor countries are Cyprus – 29.4%, the Netherlands – 22.0%, the United Kingdom – 6.1%, Germany – 5.2%, Switzerland – 4.9%, Austria – 3.4% and the Virgin Islands. Islands (Brit.) – 3.1%.

Law developments in the field of investments of Ukraine. It should be noted that some steps to develop better investment climate in Ukraine were carried out several years ago. In particular, in order to simplify the procedure for attracting foreign investment and prevent corruption on May, 31, 2016 was adopted the Law of Ukraine № 1390-VIII "On Amendments to Certain Legislative Acts of Ukraine to abolish the obligation of state registration of foreign investment" [11].

On May 23, 2017, the Verkhovna Rada of Ukraine adopted the Law of Ukraine "On Amendments to Certain Legislative Acts of Ukraine Concerning the Elimination of Barriers to Attracting Foreign Investments" [12]. The law regulates the basic aspects of obtaining a work permit for foreigners and a temporary residence permit which simplifies the involvement of foreign managers and foreign skilled workers which is necessary in the early stages of development of a subsidiary in Ukraine. Also, the Law gives the right to obtain a temporary residence permit in Ukraine to foreign investors who have a significant share in Ukrainian enterprises, but are not employed at the enterprise.

On May 25, there was signed an Agreement on Investment Promotion and Protection between Ukraine and the OPEC International Development Fund [13]. The agreement provides favorable regime for investment management.

Recently, there has been implemented another important step towards better investment climate in Ukraine. On July, 1, 2020 there has been developed Bill № 3760 “On state support of investment projects with significant investments” [14], under which so called “Investment Nanny” program will be introduced. According to the Bill investors will be able to invest in more beneficial conditions. The Bill is about support for Ukrainian and foreign investors, whose investments exceed 30 million euros and who create more than 150 jobs with an average salary 15% higher than in the region where such an investment will be made. These investors will receive a direct agreement with the government. In addition, these investors will receive an investment manager (investment nanny) who will accompany them from the beginning of the project up to its completion. Investors will also receive up to 30% of the value of investments with different incentives, for example, with fiscal incentives. In addition, investors will receive a ten-year perspective and a guarantee of stability.

New, improved regulatory environment will contribute to more favorable investment climate, will increase investments inflow, geography of investments which in turn will enhance economic growth due to job market development, higher market competition and better cooperation between stakeholders and government. However, it should be noted that according to the new Bill there is still no relationship between new investment opportunities and innovations. It is not clear how investments will be distributed among the industries and whether tendency to invest in already developed industries will be continued or investors will try to find other niches to invest, including R&D. In order to enhance and promote innovation development it is vital to elaborate also the Law on incentives to invest in prioritized R&D areas. It is important to indicate priority areas of R&D, identify target regions for R&D investments and indicate that investments in R&D sector will be accompanied by economic benefits.

When considering investment opportunities in the country in the area of innovations, an investor considers first of all the following factors: economic and political stability; law regulation; labor force skills; intellectual property system; market size; market growth; network, electricity infrastructure; real estate market; air transport facilities; cost of labor force. However, not all these factors are equally important. Economic and political stability as well as law regulation are still most important.

In the Fig. 1 below we have presented the links between regulatory environment and economic growth.

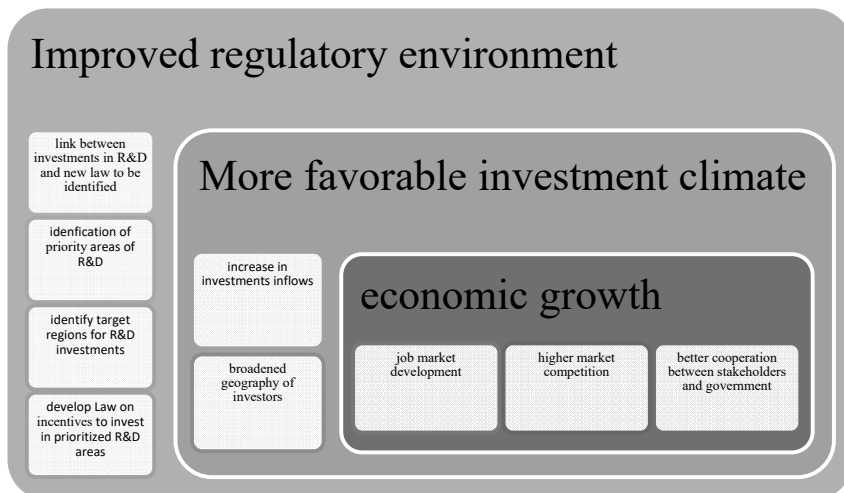


Fig. 1. The outcomes of improved regulatory environment

Source: own compilation

Conclusions. Current paper aimed to identify weak areas of the development of Ukraine which can affect innovative development. We have identified that based international rankings Ukraine still needs better regulatory environment. Recently new Bill has been developed, however, there is still no relationship between new investment opportunities and innovations. Thus, new Laws should be developed to indicate incentives to invest in prioritized R&D areas. Fruitful area to further research is regulatory environment of other countries which can help to identify good examples of the improving of investment climate and innovation development at the same time.

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