

Impact of Rating Evaluation on Development of Investment Climate: Case of Ukrainian Economy

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Keywords: Investment climate, Investment attractiveness, Rating evaluation.

ABSTRACT. Methodical approaches to the investment climate evaluation have been formed. Methodological tools for assessing the investment attractiveness of the economy have been classified. To create a database to select the most important methods of assessment of the investment climate should undertake a comparative analysis on the target group of potential investors, the depth of research, the frequency of assessment of the investment climate, purpose assessment of the investment climate. International ratings are effective tools that help reduction information asymmetry, and a large number of methods of ranking permit the investor to receive information on all aspects of the investment attractiveness of the state. Rankings are shaping the image of the state, and ignoring the results of the ratings can lead to financial isolation of the state. Information on the methodology of the ratings in most cases is transparent, so the domestic state institutions have the ability to affect the future results of the ratings in the case of related reforms. However, there is no unified model of investment climate evaluation of the national economy, which directly affects the state of the investment climate of Ukraine's economy and the volume of foreign capital in the state. Rating evaluation of the investment climate for the Ukrainian economy has been offered.

1. INTRODUCTION

One of the important conditions of stable development of the national economy is to improve investment climate management at the macro level. In Ukraine the problem of intensification of investment processes is subject to ongoing scientific discussions related to the research of factors affecting the investment climate, diagnostics development of the state management of investment climate, analysis of individual aspects of the investment process at the macro-, meso- and micro levels.

The effective functioning of the investment policy in modern conditions of instability and chaotic economic environment requires the improvement of all organizational-economic mechanism of investment, including the development of an integrated concept for investment climate management in the national economy. Therefore, the deepening of theoretical, organizational and methodological bases of management of investment climate in Ukraine's economy deserves special attention. Modern stage of development of Ukraine's economy is characterized by the pursuit of an ambitious goal to ensure sustainable economic growth at the expense of system technological upgrading and economic restructuring. The financial crisis, the consequences of which are felt around the world, demonstrated the unwillingness of most companies to work in the unstable conditions of the external economic environment [1]. The basis for investment climate management

in Ukraine's economy should be based on the principles of state regulation, expressed in state financial support for the development of: price, competition policy, infrastructure development, search directions of anti-crisis structural investment policy in Ukraine. However, a complete scientific study of the problems of investment climate management in an unstable economic environment has not been carried out. So, poorly designed questions remain regarding the conduct of rating evaluation of state management of investment climate in the national economy. Scientific and theoretical and practical significance of the decision of the question led to the choice of the topic of the article.

Domestic experts devote considerable attention to investment cooperation with Germany, the Netherlands, considering these states as an effective mechanism for the integration of Ukraine into the European economic space (Fig. 1).

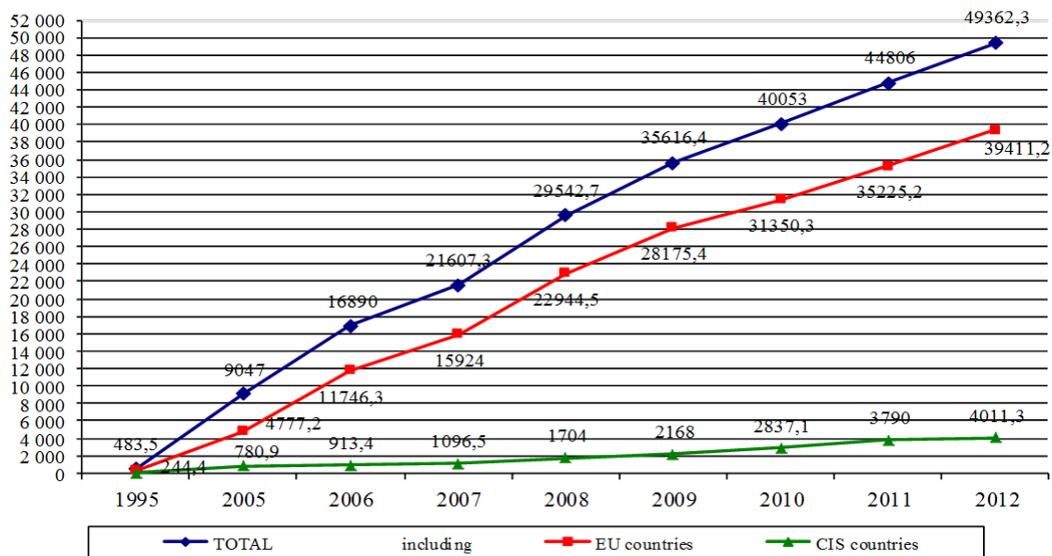


Fig. 1. Dynamics of foreign investments in Ukraine, mln. USD [2]

Increased direct investment countries with developed banking systems – Virgin Islands – on 218,9 million. USD, Netherlands - 270,6 mln. USD and Switzerland - 158,5 mln. USD (Fig. 2).

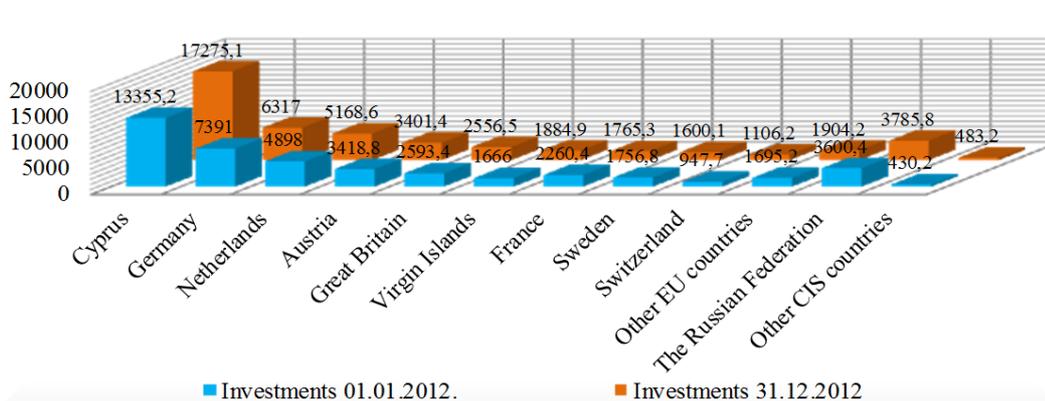


Fig. 2. The distribution of investments into Ukraine according to the main countries - investors in 2012 [2]

The main objective of the world states is to support Ukraine's integration into the European community. Shaping the investment climate is a sole-source basis to enhance the role of foreign investment in the development of Ukraine and its integration into the world economy.

Along with the importance of monitoring research it should be noted that when decisions management are not sufficiently used indicators of social and economic development of the state for lack of an acceptable methodology for calculating the integrated evaluations (ratings, indices) investment development of the state. Therefore, the relevance and importance of the development and implementation of integrated approaches to the evaluations of the investment climate of

Ukraine's economy is obvious and indisputable. Openness, instability, dynamics and self-organization of the global and domestic economy and the unpredictability of climatic conditions require adequate information provision, which is possible if the revision of traditional approaches to the preparation of the financial statements [3].

Modern processes of development of the national economy objectively indicate that solutions to complex management challenges, including in the field of investment is impossible without a comprehensive study of the economy and optimal management strategies development for the long term.

2. LITERATURE REVIEW

Urata and Ando [4] analyzed the FDI climates of the ASEAN countries faced by Japanese and non-Japanese foreign firms conducting operations in ASEAN, with a view of identifying impediments to FDI not only in the policies but also in their implementation and enforcement and providing useful information to policy makers interested in attracting FDI. Direct barriers to FDI, however, still remain, and further efforts to reduce them by ASEAN countries are necessary. At the same time, the reduction of indirect barriers to FDI or the promotion of FDI facilitation is also indispensable.

Escriving and Pena evaluated the performance of ICA method in the context of TFP estimation in extended production functions using ICSs from four countries: India, South Africa, Tanzania and Turkey [5]. They find that the ICA method is very robust and performs reasonably well even under different assumptions on the nature of the mechanism generating missing data.

The main condition for further innovative development of Ukraine's economy is searching for new ways of attracting investments for Ukraine's future economic development. The issue of investment image and investment attractiveness of Ukrainian economy formation was considered in the works of Gavrilyuk [6], the formation of the concept of improving the Ukraine's investment climate and innovative paradigm of activities management was analyzed by Rossoha [7].

Kuznetsova formulated the fundamental features that characterize modern evolution of economic systems and determine the investment position of the state; methods of increasing the information level of investors have been proposed [1].

Many works devoted to calculation of efficiency, but special attention is paid to the production efficiency or effectiveness of the activity. Appropriate models allow us to implement a comprehensive monitoring of the investment climate for rapid response and early warning of possible threats and risks when making management decisions regarding the investment climate at the micro-, meso- and macro levels [8]. In conditions of high level of globalization and integration of national economies, world comparison of countries by economic performance is one of the most common tools for assessing the efficiency of public management and social development, as well as the definition of the state management analysis of investment climate in Ukraine's economy.

Under investment climate we understand the indirect state value of the investment environment over a long period of time determined by the statistical range of economic indicators and factors that affect its formation. It is established that the identification of the terms «investment attractiveness» and «investment climate» leads to contradictions in developed methods for their evaluation. Dedicated and systematic determinants of the investment process through the coverage of components (investment attractiveness of the investment environment and investment climate), which makes possible the distinction between the essence of these concepts.

3. METHODOLOGY

3.1. Approaches to Investment Climate Evaluation.

Evaluation of the investment climate of Ukraine's economy and its impact on the dynamics of flows of international investment has gained relevance given the transformational nature of the

economy, multi-vector and impermanence development strategies. There are three most typical approaches to the evaluation of the investment climate (Fig. 3).

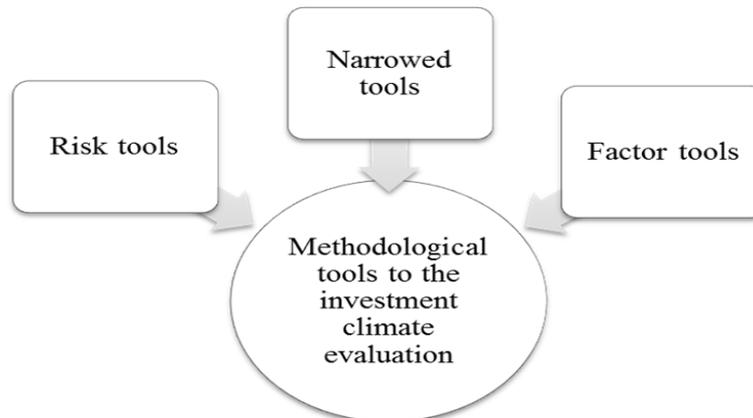


Fig. 3. Methodical approaches to the national economy investment climate evaluation

The first approach is narrowed; it is based on an evaluation of the aggregate macroeconomic indicators. However, this method ignores the objective correlation of investment with other resource development factors, though attracted by the comparative simplicity of the analysis and calculations. Narrowed approach to the assessment of the investment climate. In addition, this approach is not devoid of subjectivity, which to some extent distorts the actual picture of the investment climate of the state.

The second approach to the analysis of the investment climate – factor – meets most of the methodological requirements and is based on evaluation of a set of factors [9]. In the framework of factor approach, the authors propose to calculate individual evaluation of investment potential and investment risk, allowing you to fully determine the significance of individual factors in the implementation of the project. This approach is based on the identification of any factor, characteristic, which determines the investment attractiveness of the state: «the market reaction of the state», «state image» and so on. It is versatile and it can be used to analyze systems of different levels. The advantages of this approach include: the interaction of many factors, i.e., a differentiated approach when determining the investment climate. However, this approach has the disadvantage, such as opacity, the methods of isolation of factor characteristics of the investment climate.

The third approach is risk. Under this approach considers two components: investment potential and investment risk. Investment potential is estimated on the basis of macroeconomic performance and investment risks are assessed from the standpoint of the probability of loss of investment income. The advantage of this approach is to estimate the component of risk that is not present in the previous two approaches.

3.2. Investment Climate Evaluation Tools.

The tools that are used to evaluate varying degrees of investment climate in the state, can be divided into:

- 1) credit ratings;
- 2) economic indexes.

Ratings are used for financial investors guide regarding the reliability of the investments in debt obligations of companies, municipalities or governments, stock - on investments in corporate law firms. This allows investors to generate a high-quality investment portfolio and quickly manipulate assets in the event of a change in rating. At first glance, the ratings have nothing to foreign investment. In fact, foreign investment can be divided into direct and portfolio. Ratings are formed solely for portfolio investment and do not take into account the trends of direct investment. However, this view is unjustified because portfolio investments are more mobile, their implementation is associated mainly with the market, macroeconomic and political risks. At the

same time, foreign direct investments are exposed to the same risks, as well as optional: industrial, commercial, construction, etc.

Therefore, the market portfolio is an important indicator for investment decisions and in the field of direct investment. The ratings also apply to state and municipal loans. Trust portfolio investors to securities of States projected on the trust direct investors to invest in real business of its businesses. As world experience shows, a stable position of the state in credit ratings determines the revival of foreign investment [9]. Economic indices and rankings are different in nature. For example, economic indexes differ from the ratings of the objects of study and consumers. Unlike ratings, economic indexes consist, as a rule, only for individual states. They characterize certain aspects of the national economy, such as: competitiveness, economic freedom and corruption. These indexes are strategic investors in the implementation of their strategy of investing abroad, in particular in the field of foreign investment. Although ratings and indexes differ, however, a significant correlation indicates the position of the States in them. In fact, almost never occurs a situation in which the state was ranked as the highest positions, and index is the lowest, or Vice versa. Evaluation of investment attractiveness of Ukraine only international institutions has, in comparison to the state as a whole and its individual indicators with other countries, and also some areas of concern. Certain problems can be attributed to the lag effect, which manifests itself in long time intervals, which are technologically based rating and which, as a rule, amount to several months or more. That is, it should be understood that any rating of the current year is based on main statistical indicators of the last or last year. The same applies to the components of the rating, based on the expert survey. The problem of collecting statistically correct data for most countries in the world only exacerbates these problems by increasing the time intervals. In conditions of high level of global competition, there is no possibility to use the data of the world rankings to build a ranking of States from the perspective of the objectives of the national system of public administration as a result of their time delay. Foreign investors rely on the evaluation of numerous consulting firms that continuously monitor the investment attractiveness in many countries around the world, including in Ukraine. However, evaluation by foreign experts without the participation of Ukrainian biased.

3.3. Methods of Economic Investment Attractiveness Evaluation.

The developed technique rating of investment attractiveness of the are divided into three groups:

- the methods based on different experts;
- the methods based on the statistical information;
- the combined methods based on expert-statistical calculations.

Analyzing the state of the investment attractiveness of the country and its position in the rankings, it is necessary to pay special attention to the individual components of such evaluation. In fact, the increase in ratings is solely under the influence of changes in individual indicators evaluation. Methods for the determination of the indices also vary and are based on the measurement of the points, shares, rate of change etc., However, common to most methods is that in the end, the objects of evaluation (state sector) are ranked according to the degree of deterioration of the investment attractiveness (from best to worst) and are grouped in several rating group («leaders», «the pursuers», «main array», «objects with insufficient level of attractiveness» and «outsiders»). Ratings of national and international agencies is the effective tool for analysis of indicators of investment attractiveness of countries and have a large influence on the decisions regarding the investment and distribution of the global flow of foreign investment.

In the economic literature there are different approaches to the evaluation of investment attractiveness of the national economy, which differ depending on the purpose of the study, the number of analyzed parameters and their qualitative characteristics, and on the selection of indicators: methodology for Standard & Poor's Rating Group [10]; Pricewaterhouse Coopers [11]; «Moody's Investor Service» [12]; «Euromoney» [13]; «The Doing Business» [14].

Financial and statistical practice has developed [15] several methodological approaches to the estimation of investment attractiveness, systematization which made it possible to combine them into three approaches:

- statistical;
- expert;
- rating.

The statistical approach is based on statistical analysis of actual data on investment and is based on the assumption that high levels of certain indicators showed high investment attractiveness of the economy. However, it should be noted that the method is formal and based on the specific social - economic indicators. In addition, the statistical approach allows to take into account only the fact of the investment and does not take into account many factors, taken by investors in mind.

The method of expert evaluation is the expert in the evaluation of different development indicators: expert their own reasons and their own experience to select the most important indicators, analyzes their development dynamics and forms conclusions regarding the investment climate. It should be noted that this method often turn to foreign investors. The advantage of using an expert approach is the adaptation of parameters and factors that are studied, for the needs of a particular investor or an in-depth analysis of the attractiveness of certain sectors of the economy. However, substantial disadvantages of using the method of expert evaluations should include the subjectivity of the assessment and the dependence of the conclusions from the position of expert.

Rating approach includes two varieties - rating-analytical approach and rating-based approach polls. Rating-analytical method is the analysis of various aspects of economic development, the creation on their basis of analytical indicators, further grouping and consolidation and the formation of an integral index, which is based rating of the state and is determined by its position in the ranking. This approach has the most widespread use. The advantages of the approach include the ease of use and ease of interpretation of results, and the disadvantages - significant dependence on macroeconomic indicators, the opacity of the indicators, which are grouped, not taking into account regional specificities. As a result, the obtained value rating only indicates the location of the national economy in the rating, but says nothing about specifics of the region and priorities for investment. However, there are no studies related to the assessment of the investment climate of the state.

Preliminary study [16] revealed the following shortcomings of the existing approaches to the assessment of the investment climate for the economy of Ukraine:

- applied assessment tools designed to assess, primarily financial rather than real investments;
- borrowed methods with respect to real investment, designed for a stable economy, which clearly manifested all economic laws and are not adapted to the real economic situation in Ukraine;
- most methods are based on the analysis of haphazard sets of indicators of the financial condition of the company, there is retrospective in nature, while investor interest in future performance;
- the vast number of methods based on expert judgment and of the nature of uncertainty because they reflect the subjective opinion of experts.

3.4. Classification of Rating Evaluation of Investment Attractiveness

To provide the opportunity for effective evaluation of the investment climate of the state proposed to rely on the classification of rating methodologies of estimation of investment attractiveness, as one of the components of the investment climate in the national economy (Fig. 4).

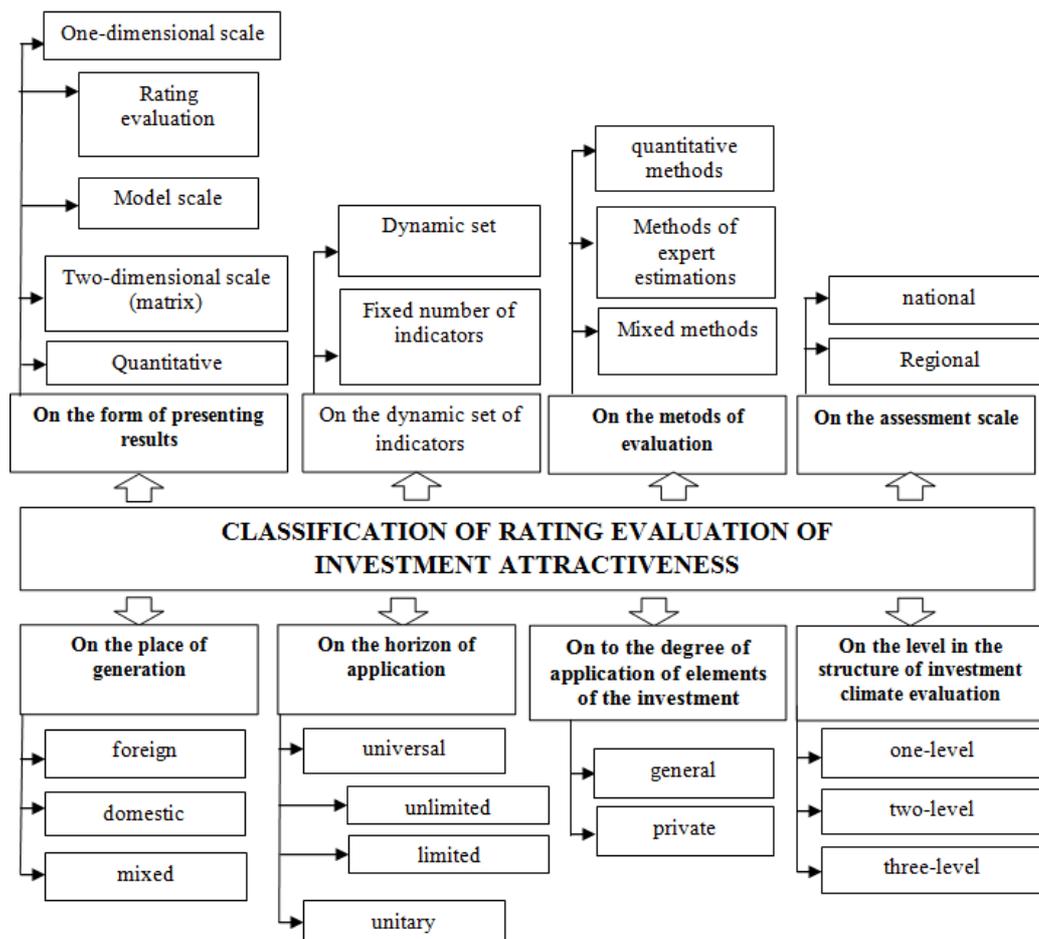


Fig. 4. Classification of rating evaluation of investment attractiveness of the national economy [17]

To create a database to select the most important methods of assessment of the investment climate should undertake a comparative analysis on the following criteria:

- the target group of potential investors,
- the depth of research,
- the frequency of assessment of the investment climate.

Determinants that determine the specificity of such selection in a chaotic environment can be considered determinants offered Kuznetsova, for financial monitoring: the dynamism and the pressure of the external environment; the specifics of the business and staff [16]. In the system of investment climate management it is advisable to put an investment partnership that would contribute to the alignment of interests and actions of the subjects of investment relations.

The basis for creating a positive investment image is the creation of effective organizational and economic framework for the investment climate in Ukraine's economy management. A key element of this concept is coordinating and regulating the nature of the impact of the management subsystem to manage, which is ensured through the use of evidence-based approaches, principles, methods and management tools. In the economic literature the investment attractiveness is considered as a generalized characteristic of the advantages and disadvantages of the investment object. When you study the investor is a subjective evaluation of the macroeconomic situation in the country. Investment attractiveness is determined by the compromise of the interests of the investor and recipient of investment. Its level increases with the rapid achievement of mutual understanding between subjects of the investment process.

The most actively used criteria for evaluation of investment attractiveness are presented in Table 1.

Table 1

The main criteria of investment attractiveness evaluation in the professional literature

EVALUATION CRITERIA		
Mega-level		
Standard & Poors [10]	World Bank Group [18]	Moody's Investors Service [12]
1) transparency and information openness; 2) budgeting; 3) long-term investment planning and financial planning; 4) income and expenditure management; 5) debt management; 6) cash and liquidity management; 7) transparency of the political-administrative system.	1) business operations; 2) construction; 3) access to electricity; 4) registering property; 5) getting credit; 6) protection the investors rights; 7) taxation; 8) international trade; 9) execution of contracts; 10) degree of solvency; 11) employment of the labor force.	1) background and history of the Issuer; 2) industry/circular trend; 3) national political and regulatory environment; 4) quality control, experience, track record and attitude to risk; 5) management structure; 6) key operational and competitive position; 7) corporate strategy and philosophy; 8) debt structure.

It is established that there is no single approach to the investment attractiveness evaluation of the national economy, and no evaluation of the investment climate of the national economy. When rating an investment climate evaluation, consider the following issues:

- reducing the use of expert evaluation;
- complex external economic factors in the evaluation;
- the analysis based on various sources of information.

4. RESULTS

The results of researches on the problem given the opportunity to clarify the essence of the investment climate and to consider this category as a complex feature, which gives grounds for victory in the competition for investment resources on the market on the basis of the interests of investors. On the country's investment climate significantly affects not only the General state of its economy, but also the business environment, in particular, the degree of state intervention in the economy and the level of corruption. The world Bank rating Doing Business ease of doing business in Ukraine (Table 2).

Table 2

Compare of countries positions in the rating «Doing Business» [14]

State	Doing Business 2012	Doing Business 2013	Doing Business 2014	Change	State	Doing Business 2012	Doing Business 2013	Doing Business 2014	Change
Singapore	1	1	1	0	Kazakhstan	56	49	52	+3
Hong Kong	2	2	3	+1	Belarus	60	58	57	-1
New Zealand	3	3	5	+2	Azerbaijan	66	67	80	+13
USA	4	4	4	+	Kyrgyzstan	69	70	71	+1
Germany	18	20	18	-2	Russian Federation	118	112	62	-50
Japan	20	24	29	+5	Ukraine	152	189	96	-93
Armenia	50	32	33	+2	Tajikistan	147	141	144	+3

Ukraine, despite a significant deterioration in the economic situation since the beginning of the year, became the first hundred in the ranking of ease of doing business «Doing Business – 2015», developed by experts of the world Bank and the International Finance Corporation, rising to 16 positions and ranked 96-th place (Table 3).

Table 3
Ukraine's rating regarding the business environment for 2010 – 2014 [14]

Indices	Years					Change 2014 to 2013
	2010	2011	2012	2013	2014	
Complexity of doing business, general evaluation	147	149	152	137	98	39
For sub-indices:						
– business opening	136	118	116	50	47	3
– the connection to the mains supply	168	169	170	166	41	145
– obligations under the contract	43	44	44	42	40	2
– bankruptcy	145	158	158	157	97	98
– the loan	30	21	23	24	13	11
– the licensing system in construction	181	182	182	183	162	21
– the foreign trade	139	136	144	145	148	-3
– the investor protection	108	108	114	127	128	-1

Ukraine entered the hundred countries in the world Bank ranking on the ease of doing business «Doing Business – 2015», improving over the year, its position at once by 16 points and ranked 96th place out of 189. The data presented in the report of the experts of the World Bank and the International Finance Corporation (IFC). According to estimates Ukraine is in transition stage from development due to the factor advantages to development through efficient use of capacity. In other words, the domestic economy still operates mainly due to extensive development, which is due to the priority value of the Ukrainian traditional forms of economic activity, and low investment and weak public support for high-tech sectors and those that create high added value. Tia Trambik noted that in 2013 – 2014 in Ukraine were implemented significant reforms in the three regulatory areas (starting a business, paying taxes, registering property) that allowed her to become one of the world's top ten economies that are most actively reformed [19].

The analysis will begin with a review of the ratings, which are compiled research organizations (Table 4).

Table 4
Research organizations that assess the economic and social development of the state, 2014

Organization	Basic rating	The place of Ukraine
Institute of management development (IMD) [20]	The competitiveness rating	54 from 59
The Cato Institute [21]	The economic freedom rating	161 from 183
Research center Brookings Institution [22]	The index of state weakness	104 from 141

Other influential rating of this group is the index of competitiveness of economic growth, which is calculated by the world economic forum. A feature of this rating is that it evaluates the ability of the economy to maintain stable economic growth in the medium and long term.

Table 5 provides a list of such organizations and the place of Ukraine in the relevant ratings.

Priority directions of scientific-technical progress should be targeted for investment and innovation activities and resources. On the development of modern and future high-tech industries can claim only those States that are able to provide a high level of science, technology, education, culture, organization, management and labor discipline.

Table 5

International organization that evaluate the economic and social development of the state, 2014

Organization	Basic rating	The place of Ukraine
The World Bank [18]	Business operation rating	137 from 183
The World economic forum in Davos [23]	Rating of countries involvement in international trade	71 from 121
Program of human development UN [24]	Human development rating	69 from 169
Pricewaterhouse Coopers [11]	Ranking of countries according to the level of complexity of the tax system	177 from 178
UNESCO [25]	Rating of expenditure on research and development	-
The European Bank for reconstruction and development [26]	Macroeconomic indicators	-

The index growth competitiveness allows you to determine how competitive advantages of the investigated state and specific weaknesses. The third group of subjects who are able to reduce information asymmetry in the global investment market, are the rating agencies.

Table 6 lists the most influential of them and the prediction for Ukraine.

Table 6

The list of news agencies that evaluate the investment attractiveness of the world countries, 2014

News Agency	The basic rating (index)	The place of Ukraine
Journal «Euromoney» (Great Britain) [13]	Country risk rating	89 from 186
Journal «Newsweek» (USA) [27]	Ranking of the best countries (Newsweek's «The World's Best Countries»)	49 from 100
Journal «Forbes» (USA) [28]	Ranking of countries with the most favorable conditions for business («Best Countries for Business»)	105 from 134
Journal «Economist» (Great Britain) [29]	Rating of the attractiveness of the entrepreneurial	70 from 82
Journal «Foreign Policy» (USA) [30]	Globalization index	42 from 72
	Failed States index («Failed States Index»)	110 from 177
Journal «International Living» (USA) [31]	Ranking of countries according to the level of life («Quality of Life Index»)	73 from 192
Journal «Business Insider» (USA) [32]	Ranking of countries with the threat of default	6 from 18

Speaking about foreign investment, it is necessary to take into account world experience, which shows that the greatest success in attracting foreign investment to reach those States that, first, set this goal as a priority in its economy, and secondly, using the largest possible set of events.

5. CONCLUSIONS

It is revealed that the methodical approaches to the evaluation of investment attractiveness have several disadvantages: valuation techniques based on the analysis of a particular haphazard statistics, are disparate and unacceptable for a comprehensive diagnosis of the investment climate; they mostly reflect the subjective opinion based on expert judgement.

There are two key tools that are used to evaluate the investment climate in the state: credit ratings and economic indexes. They characterize the components, indicators and management factors of the investment climate, which limits the level of sparseness of the information and provides the target orientation of rating assessment of the needs of the subjects of management of investment climate in the national economy.

International and national rating agencies evaluation of investment activity in the economy, and not the investment climate, as such. This stresses the importance of establishing an effective system of state management of the investment climate of the national economy to ensure sustainable long-term strategic development of the investment climate and growth in the inflow of foreign investment capital.

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