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## **THE ROLE OF FOREIGN INVESTMENT IN TOURISM FOR THE AMALGAMATED TERRITORIAL COMMUNITIES**

**Abstract:** The article analyzes the tourism development state for the amalgamated territorial communities. The prospects for the tourism sector development as well as the involvement conditions of a foreign investor are considered. The role of the tourist and recreational sphere in the territorial community development is determined. The positive and negative

effects of the tourism and recreation development for the territorial communities in Ukraine are determined. Capital investments in the tourist and recreational sphere of the regions in Ukraine are analyzed per person in 2013-2018. The State Strategy for Regional Development until 2027 is considered and strategic priorities for the tourism development in the amalgamated territorial communities are identified. It is established that the effect of internal and external investments has a direct impact on the tourism development in the amalgamated territorial communities as well as is the basis for filling local budgets.

**Key words:** investment, decentralization, amalgamated territorial community, tourism, Ukraine.

**JEL classification:** H23, H61, H73

### Introduction

Today, Ukraine belongs to the countries that have significant, but unrealized tourism potential, in particular, this is facilitated by the lack of infrastructure that would meet the modern European level. Therefore, one of the chances that can help Ukraine to improve its tourism opportunities, become a full member of the European community, is to implement various programs by attracting foreign investment. Foreign investment for Ukraine in the tourism sector is one of the priority areas for the national economy development. Today, Ukraine is a country that has great potential for attracting investment. Since it is rich in natural resources and has a favourable climate, and makes the tourism sector attractive to foreign investors. As it is known, tourism is one of the main criteria of everyday life for the majority of the population; moreover, it occupies an important place among the leading sectors of the global economy. And from this it follows that attracting investments, both domestic and foreign investors in the industry is rapidly developing is promising, and in the future will serve as the revenue component of the budget, both ATC and the state as a whole.

Tourism has a significant impact on the economy and the region development, contributes to the flow of currency into the country, the creation of new jobs, and the improvement of infrastructure. To get the maximum benefit from tourism, each state, and Ukraine in particular, is developing a tourism policy, which is one of the directions of the socio-economic pol-

icity in the state. The state tourism policy, as you know, is based on strategy and tactics.

It is worth noting that in recent years both domestic and foreign experts dealt with investment activities, among which are the works of L. Borsch (2005), S. Zakharchuk (2010), Yu. Kovalenko (2004), A. Stepanenko (2010), P. Suansri (2008), F. Aref (2010), D. Fennell (2003), R. Bushell (2007). Also a lot of information is presented on the websites of the World Economic Forum (2020), the World Tourism Organization (2020) and the State Statistics Committee of Ukraine (2018). However, despite the increased scientific interest in the theory and practice of the tourism industry, capital investments in this area, a number of issues require further research. In particular, the issues of the investment attractiveness of this industry in Ukraine and the prospects for attracting investment remain unresolved, which is an unconditional scientific interest and determines the aim of the article.

**Research results:** Today, the process of decentralization reform in Ukraine is approaching its logical conclusion. Therefore, those communities that today have not yet managed to unite voluntarily will be amalgamating by the relevant decisions of the Cabinet of Ministers of Ukraine. Those communities that have long been amalgamated already have a number of effective capable power, which they themselves choose and whose activities they can influence. As a result, in the cities and villages of the community there are affordable and quality services, more favourable living conditions. Also, the competence of the ATC is to hold meetings and negotiations on attracting investors, both domestic and foreign, will significantly improve the financial condition of the community. Also, these are new jobs, deductions to the budget and, of course, improving the region infrastructure (Cabinet of ministers of Ukraine, 2017). Considering that Ukraine is a rich country with huge tourism potential, attracting investment in the tourism sector is very promising today. The tourism industry has many economic and social advantages for the country: it stimulates the infrastructure development (hotels, restaurants, etc.), provides income growth and an increase in the welfare of the population.

Tourism manifests itself as a form of public consumption of specific goods, services and products, has objectively developed as a result of the sociologization of the reproductive function, having formed the activity branch for the creation of this specific product and the organization of its consumption, which, according to the final destination and nature of the activity, relates to consumer sectors of the economy. Tourism has ample opportunities to attract various kinds of investments. Therefore, tourism is an extremely important component among other development areas (social, economic, political, resource and ecological, institutional) in the territorial community development (Table 1).

**Table 1: The role of the tourist and recreational sphere in the territorial community development**

Spheres	Role in the territorial community development	Contribution of the tourist and recreational sphere to the territorial community development
Social	Human-centric development Social justice Quality of life Social capital formation	Improving the quality of life Increasing the awareness of residents and pride in community Including socially vulnerable groups in the processes of the community development (through involvement in the tourism and recreation sphere) Increasing the organization efficiency of community managing Increasing the education level of community residents engaged in tourism and recreation
Economic	Revenues from local production Diversified local economy Self-development	Growth of local budget revenues from tourist and recreational activities Jobs creation in tourism Raising incomes of local

Spheres	Role in the territorial community development	Contribution of the tourist and recreational sphere to the territorial community development
		residents
Cultural	Formal and non-formal education Local traditions Culture preservation	Education of tolerant attitude to other cultures Promotion of cultural exchange Local culture and crafts development
Resource and Environmental	Management of Natural Resources Environmental responsibility Conservation of natural resources	Identification of potential sources of the territory pollution Waste disposal management Improving the residents ecological culture Environmental education
Institutional	Inclusiveness Compliance of development aims with the community needs and demands Favorable institutional environment	Increased involvement of the community population in the economic development processes Growth of the community capability, self-confidence A territorial community is gaining significance from the external consumer point of view

Source: adapted and supplemented by the author (Suansri, 2008).

It is important to emphasize the existence of a significant difference between the territorial community development and economic growth. A. Stepanenko notes that there are communities that seek economic growth, and those that limit it by introducing development ideas (Stepanenko, 2010). Development involves structural changes in community, such as:

- modification of production factors;
- more efficient use of the community potential;
- changes in the structure and functioning of existing institutions;
- changes in the values of community residents.

That is, development should be considered as a process of permanent transformations and changes in the existing situation of the subject in a more perfect state with higher parameters of qualitative characteristics that arise as an accumulated result of the relevant quantitative indicators growth.

At the same time, taking into account the essence of the studied problems, it should be noted that the presence of large investments and the perception of tourism exclusively as a global world phenomenon, we should understand its nature - contributing to the transport systems development and the well-being growth of residents, because tourism is becoming one of the basic global activities. At the community level, tourism provides opportunities to create jobs both directly in this area and in related types of economic activity, stimulated by the tourism and recreation business development, which, in turn, contributes to the incomes growth of the territorial community residents and ensures local economic development in whole (Aref, 2010). D. Fennell, recognizing the role of tourism in strengthening the community's economy, notes its property as the ability to intensify the processes of amalgamating the community residents' efforts for their development (Fennell, 2003).

R. Bushell and P. Eagles believe that the positive contribution of the tourism and recreation sector is to increase the organizational, creative, social capital of community residents through the use of facilitation methods, business mentoring, and raising their qualifications and knowledge (Bushell, Eagles, 2007). At the same time, some authors note the risks that may accompany the active development of the tourism and recreation sector in individual communities (Table 2).

**Table 2: Positive and negative effects of the tourist and recreational sphere development for the territorial communities**

Positive effects	Negative effects
Jobs creation and employment growth in tourism and related types of economic activity Economic activity intensification in commu-	The active use of natural resources and objects of historical and cultural heritage, which may negatively affect their condition

Positive effects	Negative effects
nity Growth of income residents and the local budget of the territorial community Preservation of historical and cultural traditions, dissemination of local culture Growth in the number of business entities, increased competition between them and improving the efficiency of their functioning Increasing the human capital quality through staff training Inflow of investments into the territorial community Improving the social, transport infrastructure for the tourists and the population needs Accelerated attraction of information and communication technologies in community Positive image creation of the territorial community	A high level of pressure on the natural environment and environmental pollution Growth in population mobility and pressure on transport infrastructure Price increases due to increased demand from visitors Loss of attention to the other (non-tourism) types development of economic activity in the community, for example, industry Risk is the dependence of local budget revenues and residents of the territorial community on the functioning of tourism and recreation facilities Since tourism development depends on the level of the population income, there is a risk of growth depending on the economic situation in the country and the world

Source: developed by the author.

At the same time, it should be understood that tourism development is a long process. It cannot be regarded as an economic panacea for the development of all communities, but should be used as a mechanism to diversify the community economy. Despite this, in the modern world, many territorial communities (local communities) have turned to the tourism development in order to ensure the economic, social, cultural, resource-ecological, institutional development of community, and this is possible in the presence of a normal investment climate.

Since the territory of Ukraine has an advantageous geographical position, unique historical, cultural and natural-climatic resources, the state

policy to support this industry, in particular with regard to the investment climate, is of great importance for the tourist attractiveness formation of the country. To attract investment in the tourism sector in Ukraine, it is necessary first of all to create an “investment climate”. The term “investment climate” is understood as the degree of favorable situation in a given country for the probable receipt of investments.

To create a favorable investment climate, it is necessary to develop a specific investment policy for both domestic and foreign investors, which will help develop the tourism sector as a whole, and the amalgamated territorial communities will enable the intensive development and filling of the budget revenue.

Today, there are several factors that negatively affect the attraction of foreign and domestic investors in Ukraine:

- significant imbalances in regional and sectoral development;
- outdated infrastructure;
- tax burden;
- low level of investor protection and the effectiveness of legislation on corporate governance issues.

One of the foreign economic activity forms is foreign investment, which is becoming important for economic development and contributes to macroeconomic stabilization policies. World experience shows that without attracting foreign investment, without access to modern technology, it is difficult for countries to overcome the economic crisis. An analysis of the attractiveness of the economy for a foreign investor is based on the calculation of an indicators number, the main of which are:

✓ general economic development – the volume and dynamics of GDP, the volume and dynamics of industrial production per capita, the average level of savings per capita, the average level of wages, the share of unprofitable enterprises in their total number, etc .;

✓ investment infrastructure development – the number of construction companies, transport infrastructure;

✓ demographic situation in the country – the number of people, the amount of labor resources and labor force, the workers qualification level;



- ✓ level of commercial infrastructure development – the number of joint ventures, banks, insurance companies;
- ✓ environmental risks – the share of enterprises with harmful emissions exceeding the maximum permissible norms in the total number of industrial enterprises.

According to the provisions of the Development Strategy for Tourism and Resorts for the period up to 2026, an increase (as compared to 2015) is envisaged: travel expenses of tourists in Ukraine at UAH 80 billion; volume of capital investments in tourism and resorts in the amount of UAH 6.6 billion; number of foreign tourists entering Ukraine – 2.5 times; number of tourism subjects – 5 times, number of domestic tourists – 5 times; tourist tax revenues to local budgets – 10 times, jobs number in the tourism sector – 5 times; volume of revenues to the consolidated budget from tourism entities – 10 times (State statistics service of Ukraine, 2018).

Today, all regions have sufficient potential for the proper development of internal or external tourism, but they are significantly behind the leading countries in terms of the tourism infrastructure development and the tourism services quality. Therefore, the draft State Strategy for Regional Development until 2027 within the strategic priority 1.4. “Formation of a single educational, informational, cultural space within the entire territory of Ukraine” provides for strategic goal 1.4.3 “Development of domestic Ukrainian tourism”. In the strategy, in particular, it is noted that the events associated with the annexation of the Autonomous Republic of Crimea and the conduct of the anti-terrorist operation in the territory of Donetsk and Luhansk regions led to a decrease in inbound tourist flow, negatively affected the structure of tourism and the implementation of the country's tourism opportunities in the external tourism market, but at the same time intensify the domestic tourism market. Along with the traditional types of tourism that are developed in Ukraine, new types of tourism are also promising – rural, ecological (green), health-improving, mountain, cycling, water, etc. (Ministry for communities and territories development of Ukraine, 2020).

It is worth noting that the investment priorities of a particular industry are determined by the ability of enterprises to ensure high and rapid return on investment. From this point of view, Ukraine, with significant recreational potential, favourable natural and climatic conditions necessary for servicing the recreational industry with infrastructure, is a very promising region. In addition, as world practice shows, the tourism industry is one of the most effective for investment, because the tourism industry can develop in two ways:

✓ For the "principle of the snail". It provides for the implementation of point projects, conducting one-day excursions, cheap tours, and then expanding the range of services, geography of reception and countries of arrival. The proceeds must be invested in the reconstruction of the existing and the creation of a new material and technical base of tourism. But recovery can stretch for several decades.

✓ For the "principle of explosion". It provides for the attraction of powerful investments, which would be aimed not only at creating a material and technical base, but also at an effective advertising campaign.

In our opinion, the first important practical step to increase the competitiveness of regional tourist and recreational complexes is to ensure a high level of tourism and general infrastructure development, which is possible only if the proper amount of capital investment is attracted. But the current state of investment in the tourist and recreational sector of the Ukrainian regions is not too favourable for the accelerated development of tourism infrastructure, in particular, the average share of the tourist and recreational sector in the total volume of regional capital investments in 2018 decreased by 0.30 percentage points, compared to the same indicator of 2013 and amounted to 0.68%, which is significantly less than the average share of other priority economic activities in Ukraine: industry (32.70%), construction (12.73%) and ICT (1.10%).

A high proportion of tourism and recreation in the total volume of capital investments among the regions of Ukraine in 2013-2018 was observed in the Kharkiv and Lviv regions (on average 2.2% and 2.1% per year, respectively), whose shares according to the results of 2018 still inferior to the same indicators of the pre-crisis 2013. On the other hand,

the minimum share of tourism and recreation in the total volume of capital investments among the Ukrainian regions in the reporting period was typical for Sumy (0.1%), Khmelnytsky (0.1%) and Poltava (0.2%) of regions that, unlike the Lviv region, without powerful tourism and recreation complexes, have less potential to attract both domestic and foreign investments. The highest volume of capital investments in tourism and recreation per 1 person among the regions of Ukraine in 2018 was observed in Kyiv (UAH 475.18 per person), which exceeded the average value among the Ukrainian regions by more than 10 times, and the closest persecuting region – (Lviv region) – almost 3 times (Table 3). Compared to 2013, the volume of capital investments in the tourist and recreational sphere of Kyiv per 1 person increased, despite the negative consequences of the crisis exacerbation in Ukraine, by more than 2.15 times, which confirms the high level of the capital destinations attractiveness not only for the tourism business development, but also for investment in the tourism and recreation sector (State statistics service of Ukraine, 2018).

However, in comparison with the similar indicators of foreign countries with a high level of the tourist and recreational sphere development, in 2018, in terms of the capital investments volume of the tourist and recreational sphere per person, Kyiv city (US \$ 17.47) was significantly inferior to Georgia (almost 15 times), Bulgaria (7.63 times), Poland (4.40 times) and Turkey (2.91 times) (World Travel & tourism council, 2020 ). The absence abroad of a sustainable positive image in Ukraine and its individual regions as destinations that can provide tourists with not only the accessibility of unique natural, recreational, historical and cultural objects for acquaintance, but also high standards of service and a reasonable pricing policy, comfortable travel and accommodation conditions, and also a safe environment, is one of the main negative factors hindering the growth of foreign tourists interest and investors in the consumption of Ukrainian tourism product and investment in its development.

**Table 3: Capital investments in the tourist and recreational sphere of the Ukrainian regions per 1 person in 2013-2018**

№	Region	Capital investments in the tourist and recreational sphere per 1 person, UAH					
		2013	2014	2015	2016	2017	2018
1	Vinnytsia	22.65	3.52	4.60	10.44	7.45	11.30
2	Volyn	9.59	3.25	5.91	12.27	20.34	8.39
3	Dnipropetrovsk	25.87	12.43	15.93	10.27	39.84	94.01
4	Donetsk	38.55	9.18	1.95	2.80	4.11	6.48
5	Zhytomyr	2.38	6.94	3.24	4.49	0.00	0.00
6	Zakarpattia	10.53	16.76	27.00	14.82	35.76	23.87
7	Zaporizhzhia	7.70	7.97	71.11	12.69	46.08	83.00
8	Ivano-Frankivsk	13.88	19.78	6.95	28.80	7.05	54.73
9	Kyiv	23.99	45.46	28.12	38.53	39.33	46.06
10	Kirovohrad	3.26	0.00	0.00	0.00	0.00	0.00
11	Luhansk	5.08	0.00	0.93	0.00	1.54	2.99
12	Lviv	92.82	101.66	84.52	66.08	123.88	103.47
13	Mykolayiv	17.15	22.67	10.34	8.46	48.97	17.86
14	Odessa	34.68	85.94	79.36	28.04	46.79	79.95
15	Poltava	6.54	0.00	5.79	21.40	22.43	13.31
16	Rivne	2.45	4.83	3.73	3.72	5.28	6.25
17	Sumy	2.40	7.47	0.00	0.00	0.00	0.00
18	Ternopil	2.77	4.84	0.00	4.61	6.80	8.01
19	Kharkiv	10.19	67.64	28.96	24.50	28.75	17.60
20	Kherson	17.83	2.07	11.70	4.35	21.09	17.06
21	Khmelnitsky	2.78	3.13	5.26	0.00	0.00	0.00
22	Cherkasy	5.42	5.21	7.22	5.28	6.67	9.21
23	Chernivtsi	9.94	50.06	9.20	26.45	9.90	4.11
24	Chernihiv	15.98	9.93	6.79	10.29	7.21	26.76
25	Kyiv city	220.62	164.42	181.94	290.65	370.88	475.18

Source:\* Compiled by the author on the basis of (State statistics service of Ukraine, 2018).

The negative impact of crisis socio-political and financial-economic processes in 2014-2015 together with a low level of foreign tourists awareness with Ukrainian tourist products, they led to a significant decrease in inbound tourist flow in almost all regions of Ukraine (on aver-

age by almost 2 times, compared to 2013), a deterioration in the structure of the tourist and recreational sphere and a decrease in the efficiency of the tourist and recreational potential of the country both in the external and internal tourism market. However, since 2016, there has been a slight positive growth dynamics in the number of foreign tourists (+ 6% annually in the period 2016-2018), who visited Ukraine, in particular in 2018, the number of foreign tourists amounted to 14.8 million people, which is 20% more than the indicator of 2015. In the regional context, according to the results of 2018, the largest increase in the number of foreign tourists served by tourism entities, compared with 2013, was observed in Kyiv and Ivano-Frankivsk region (+30 331 people and +3391 people, respectively), the largest decline – in the Donetsk and Zaporizhzhia regions (-551 people and -345 people, respectively).

It should also be noted that, starting in 2015, due to the simplification of visa regulations and improved air traffic, there was an accelerated increase in outbound tourist flow, the volume of which in 2018 grew by 12%, or by 2.74 million people compared to 2013. A disproportionate increase outbound tourist flow compared to inbound, causes a negative impact on the revenue side formation of the country's budget (shortage of foreign exchange earnings from foreign tourists and tax revenues from rising levels of consumption and domestic tourism) and, as a result, a decrease in the total amount of financial resources, urgently needed for investment in the tourism and recreation development in the regions of Ukraine.

### **Conclusion**

Having analyzed the above, we can argue that tourism is an attractive investment type of economic activity that can occupy one of the leading places in the Ukrainian economy, and the creation of a favorable investment climate in Ukraine will solve the problem of attracting foreign and domestic investment in the tourism sector. This, in turn, will ensure high rates of economic development of the recreational and tourist sector, the effectiveness of investment activities and the expansion of its volumes, the creation of the appropriate infrastructure of resorts and recreation

areas at the level of international standards at the local level, i.e. ATC. Such steps on the part of the state or ATC maximize the profit from investment activities and minimize investment risks, as well as give a chance to rapidly develop the amalgamated territorial communities, be self-sustaining and bring profit and benefit to their territory.

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