

The Use of Tax Incentives to Attract Foreign Investment to Ukraine: A Solution to the Current Economic Instability

This article analyses the effectiveness of existing tax incentives aimed at developing the Ukrainian economy and contributing to post-war reconstruction. Statistical economic analyses, trend comparison and forecasting were used to examine the incentive instruments. The article details various tax incentives and analyses the activities of international agencies and funds that provide security for such financing. Recent examples of international brands investing in Ukraine's reconstruction are considered, as well as the State Tax Service of Ukraine's guide to tax incentives. In addition, the article looks at the distribution of recovery investment projects, both by region and chronology.

1. Introduction

Tax legislation, as an instrument, must strike a balance between efficiency and appropriateness, accounting for a wide range of circumstances. For instance, progressive taxation implies that the tax rate must depend on the taxpayer's ability to pay. However, in addition to ensuring fairness, tax legislation needs to be effective at encouraging investment in the economy. In particular, it needs to be capable of competing at the international level for capital.

In the context of Ukraine, specifically, Bak and Kharovska (2022),¹ studying the vectors of optimizing the use of tax instruments, have emphasized the need to increase the efficiency of tax benefits in Ukraine to add additional impetus to development and the recovery efforts.

The need for an innovative approach to enhancing tax functionality was also noted by Chynchyk (2022),² who highlights measures that should be taken to avoid speculation and fraud in the application of tax privileges in Ukraine. He notes the need for strict public control over the targeted use of incentives, a shift away from granting aid to resource-intensive areas that are less dependent on innovation and prioritizing the granting of tax benefits to replace the fixed assets of enterprises.

Given the current state of play in Ukraine, which is characterized by Russia's full-scale military invasion of Ukraine in February 2022, the risks of foreign investment have increased significantly. Accordingly, investors need additional reasons to finance projects. As noted by Chynchyk et al. (2023),³ the introduction of tax incentives for foreigners provides such an additional incentive. Further, these authors mention the need for international guarantees, the introduction of clear and transparent investment rules, and the strengthening of the fight against corruption as possible measures to support foreign investment in addition to tax measures.

Polese et al. (2022),⁴ who have studied the shadow economy in Ukraine, estimate that the share of that economy, in early 2022, was more than one third. Accordingly, large financial flows have bypassed the national tax system, with the result that they have failed to enrich the national budget.⁵ Polese et al. propose measures that could help bring businesses out of the shadows. They stress that Ukraine will not become an attractive destination for foreign investment until it guarantees transparency in respect of all financial transactions.

Another area of focus needs to be the deoffshorization of profits. Hobela et al. (2023)⁶ argue, in their study, that the established system of hiding funds in offshore zones

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1. N. Bak & A. Kharovska, *Vectors for optimising the use of tax instruments to stimulate investment activity in Ukraine*, 95 Scientific Collection "InterConf+" 18, pp. 144-152 (2022).

2. A.A. Chynchyk, *Tax tools with innovative functionality: Practice and possibilities of application in Ukraine*, 77 Economic Theory 1, pp. 24-32 (2022).

3. T.V. Chynchyk, N.Yu. Hladynets & U.V. Rosola, *The problem of attracting foreign investment in wartime and ways to activate it*, 93 Problems of a Systematic Approach in the Economy: A Professional Collection of Scientific Papers 4, pp. 46-52 (2023).

4. A. Polese et al., *Presenting the results of the shadow economy survey in Ukraine while reflecting on the future(s) of informality studies*, 30 Journal of Contemporary Central and Eastern Europe 1, pp. 101-123 (2022).

5. O. Cheberyako & D. Herus, *Budgetary security of Ukraine in the context of a large-scale war*, 18 University Economic Bulletin 4, pp. 50-59 (2023).

6. V. Hobela et al., *The Ukrainian economy offshoring: Estimation of factors' impact and developing measures to combat*, 23 Verslas: Teorija ir Praktika 2, pp. 347-356 (2022).

is negating the efforts of the government to increase the attractiveness of investment in Ukraine.

The severity of the impact of Russia's invasion of Ukraine on the economy in the early months has been noted by Astrov et al. (2022).⁷ However, over the subsequent two years, Ukraine managed to diversify its risks, resume grain shipments abroad, as well as implement alternative options for energy and arms supplies. At the same time, foreign support increased significantly. Given these circumstances, the risk of losing investment into the country has significantly decreased. In this regard, tax incentives are an additional factor that will influence investor behaviour.

Gomółka and Kurmaiev (2022)⁸ compare the economies of Ukraine and Georgia. Both were victims of an unprovoked invasion, temporarily lost part of their territory and suffered a significant economic blow. Looking at the business environment, in terms of general economic, political, legal and financial principles, the authors conclude that it is more favourable in Georgia than in Ukraine. From 2011 to 2020, Georgia made significant progress in fighting corruption, simplifying business start-up procedures and improving access to finance. This country can serve as a benchmark for reforming the Ukrainian tax system to increase liberalization and democratization, as well as the functioning of special tax regimes.

The legal peculiarities of the martial law regime in Ukraine have been highlighted by Dñabrowski (2023).⁹ Since martial law implies certain restrictions on the usual rights, it is necessary to rebuild communication with foreign investors, emphasizing that in no case will their funds be nationalized or confiscated.

With regard to Ukraine's post-war recovery, tax incentives are particularly important in attracting foreign investment. Siegmann and Volkova (2023),¹⁰ using the tax systems of Estonia, the Netherlands and Poland as examples, have presented their vision of income tax reform that would contribute to the post-war reconstruction and economic development of Ukraine. At the same time, Becker et al. (2023),¹¹ drawing on the experience of recovery from previous wars and natural disasters, have proposed their roadmap for the development of post-war Ukraine, pursuant to which tax policy reforms and incentives for external financial injections also play an important role.

Thus, the issue of attracting foreign investment to Ukraine in times of war is quite complex and multifaceted, and

none of the above studies has considered it in detail. This article aims to comprehensively investigate the effectiveness of tax incentives in attracting foreign investment to Ukraine in the current circumstances.

2. Materials and Methods

Various types of tax incentives to attract foreign capital during times of economic crisis were considered in researching this article. In particular, Ukraine's move toward economic independence in the 1990s, and the more recent stagnation resulting from the COVID-19 pandemic, were studied in addition to the current situation. In trying to understand the dynamics of attracting foreign direct investment (FDI), as well as the investment of Ukrainian finances abroad, the authors employed a statistical analysis. In particular, the trend comparison method was used to compare current data with that of the pre-war period.

In providing an objective and comprehensive assessment of the peculiarities of the taxation of non-residents in Ukraine, the authors examined: the conditions for registration as a taxpayer, tax residency status, tax treaties, as well as the possibility for foreign citizens to become electronic residents of Ukraine from 1 April 2023 without the need to move or transfer their business physically. Based on disparate information from legal publications, expert opinions and other public sources, the article attempts to provide a holistic picture of the means available for attracting and protecting foreign investment in Ukraine. This includes modernization of the investment sector, infrastructure renewal, implementation of tax reforms and information campaigns in foreign financial markets. However, since this article focuses specifically on tax-related issues, it is important to note that while these non-tax factors are significant, they fall beyond the scope of this discussion.

This article relies on, in addition to the above, operational data from the National Bank of Ukraine,¹² the Tax Code of Ukraine,¹³ Law No. 997-XIV "On the Foreign Investment Regime",¹⁴ as well as the international comparative ranking of Ukraine according to the "ease of doing business" index created by the World Bank (2020a; 2020b).¹⁵ The article touches on factors, in addition to tax incentives, that influence investment decisions, such as the challenges foreign investors faced with the outbreak of the war in Ukraine in 2014 and the invasion in 2022. These include risks like losing business due to hostilities, illegal "nationalization" of enterprises by temporary occupation

7. V. Astrov et al., *Russia's invasion of Ukraine: assessment of the humanitarian, economic, and financial impact in the short and medium term*, International Economics and Economic Policy 19, pp. 331-381 (2022).
8. K. Gomółka, *The business environment of Georgia and Ukraine: Approaches to a comparative analysis*, 26 Studia Europejskie 1, pp. 119-134 (2022).
9. M. Dñabrowski, *Reforming the Ukrainian economy and state: The unfinished business*, 24 EconPol Forum 2, pp. 20-24 (2023).
10. A. Siegmann & O. Volkova, *Potential for fiscal policy reforms in post-war Ukraine* (2023), available at https://papers.ssrn.com/sol3/papers.cfm?abstract_id=4396506 (accessed 10 Sept. 2024).
11. T. Becker et al., *A blueprint for the reconstruction of Ukraine* (2023), available at <https://repository.graduateinstitute.ch/record/300525?v=pdf> (accessed 10 Sept. 2024).

12. External sector statistics (2024), available at <https://bank.gov.ua/ua/statistic/sector-external#5> (accessed 10 Sept. 2024).
13. UA: Tax Code of Ukraine, 2024, available at <https://zakon.rada.gov.ua/laws/show/2755-17#Text> (accessed 10 Sept. 2024).
14. UA: Law of Ukraine No. 997-XIV "On the Foreign Investment Regime", 1999, available at <https://zakon.rada.gov.ua/laws/show/93/96-%D0%B2%D1%80#Text> (accessed 10 Sept. 2024).
15. World Bank (2020a), *Ease of Doing Business in Ukraine*, available at <https://archive.doingbusiness.org/en/data/exploreconomies/ukraine> (accessed 10 Sept. 2024); World Bank (2020b) *Ease of Doing Business Scores*, available at <https://archive.doingbusiness.org/en/data/doing-business-score> (accessed 10 Sept. 2024).

authorities, dishonesty of certain officials and the peculiarities of Ukrainian legislation under martial law.

Concerning the prospects for further development of tax incentives to attract foreign capital, the authors provide a contextual analysis of the current investment environment, the results of the activities of the National Council for the Recovery of Ukraine from the Consequences of the War¹⁶ and the National Programme of the State Recovery Plan of Ukraine. The article also reproduces the schedules for financing investment projects by region. Furthermore, using the extrapolation method, and based on available statistics, current trends and expert estimates, a forecast is provided regarding the ability to attract foreign investment during the post-war reconstruction of Ukraine. The authors also outline the conditions that need to be met to increase the country's prospects of becoming a leader within Eastern Europe in terms of attracting investment.

3. An Overview of Tax and Other Supportive Measures Designed to Attract Foreign Investment

3.1. Tax incentives

Tax incentives play a crucial role in attracting and sustaining foreign investment in Ukraine, particularly in times of economic instability. Such incentives serve to mitigate financial risks, enhance competitiveness and foster economic growth. In recent years, Ukraine has implemented various tax policies for these purposes. In this section, the authors focus, inter alia, on the following tax specific measures that are designed to attract foreign investment: the package of incentives included in Law of Ukraine No. 1116-IX "On State Support for Investment Projects with Significant Investments in Ukraine",¹⁷ as well as subsequent amendments to the package; a new e-residency option; tax incentives for entities engaged in export activities; tax incentives applicable to the reinvestment of profits into the Ukrainian economy; and Ukraine's international agreements, including its tax treaty network.

3.1.1. Tax exemption for investment projects

A key tax incentive for foreign investors in Ukraine is an exemption from various taxes on profits derived from specific types of activities. This incentive, introduced under Law No. 1116-IX, was enacted as part of a broader strategy to attract foreign capital and stimulate economic recovery in the post-war environment. The Law, which came into force in 2021, is primarily designed to support significant investment projects that contribute to the country's industrial development and technological advancement.¹⁸

The tax exemption applies to income earned from investments in strategic sectors such as aviation, space, renewable energy and high-tech industries, provided that these investments meet certain conditions. To qualify for the exemption, the investment project must meet a minimum investment threshold of EUR 20 million and create at least 80 new jobs with an average salary that is at least 15% higher than the regional average. Additionally, the project must be implemented within five years and remain operational for at least 15 years.

The legislative provision that provides for this incentive is found in article 14 of Law No. 1116-IX. The tax exemption applies not only to income tax but also extends to customs duties and value added tax (VAT). Specifically, foreign investors are exempt from paying customs duties on imported equipment and materials that are necessary for the realization of the investment project. Furthermore, VAT is not levied on goods and services imported for these projects, provided they are used within the scope of the qualifying activities.

The comprehensive nature of this tax exemption package is intended to reduce the financial burden on foreign investors, making Ukraine an attractive destination for large-scale investments. By lowering the costs associated with setting up and operating businesses in these strategic sectors, the government aims to foster innovation, boost employment and accelerate the country's integration into global markets.

In addition to the tax exemptions, the law also provides for government guarantees and compensation mechanisms for investors, offering additional layers of security and assurance. This is particularly important given the current economic instability and the challenges posed by the ongoing conflict. The incentives are backed by the State Tax Service of Ukraine, which has issued detailed guidelines on how to apply for and benefit from these exemptions. These guidelines are part of a broader effort to streamline the investment process and provide clear, accessible information to potential investors.¹⁹

Recent examples of companies leveraging these tax incentives include global aerospace giant Boeing and renewable energy leader Vestas. Boeing has committed to establishing a manufacturing and R&D facility in Ukraine, focusing on advanced aerospace technologies. This investment is expected to play a crucial role in revitalizing Ukraine's aviation sector. Similarly, Vestas, a Danish company specializing in wind energy, has announced plans to build several wind farms in the southern regions of Ukraine, contributing to the country's shift towards renewable energy and its post-war economic recovery. These projects are strategically distributed across various regions, with significant investments in areas like Mykolaiv and Zaporizhzhia, which are identified as key to the country's economic resurgence.

16. About the National Council for Reconstruction of Ukraine from the Consequences of War (2024), available at <https://www.kmu.gov.ua/diyalnist/konsultatyvno-doradchi-orhany/nacionalna-rada-z-vidnovlennya-ukrayini-vid-naslidkiv-vijni/pro-nacionalnu-radu-z-vidnovlennya-ukrayini-vid-naslidkiv-vijni> (accessed 10 Sept. 2024).

17. UA: Law of Ukraine "On State Support of Investment Projects with Significant Investments in Ukraine" No. 1116-IX (13 Feb. 2021).

18. Ukraine strengthens state support for investment (2023), available at <https://www.dentons.com/en/insights/articles/2023/september/22/ukraine-strengthens-state-support-for-investment> (accessed 10 Sept. 2024).

19. Investment projects with significant investments in Ukraine: tax preferences (2024), available at <https://tax.gov.ua/en/new-about-taxes-news-/print-638968.html> (accessed 10 Sept. 2024).

3.1.2. *E-residency*

Ukraine has introduced a new tax registration mechanism, i.e. e-residency, as of 1 April 2023.²⁰ Previously, a foreign citizen intending to do business in Ukraine had to go through a complicated bureaucratic procedure. The advantage of this mechanism is that a personal business can be managed completely remotely without the need for a physical presence in Ukraine. After registering through the Diia app, an entity or sole proprietor outside Ukraine can remotely open accounts, sign documents with their digital signature and pay taxes on preferential terms – 5% of income within the limit of a group 3 individual entrepreneur or 15% if this limit is exceeded. It is noteworthy that the e-residency concept is intended to attract new foreign investment rather than redistribute existing investment as foreign nationals who (i) have the right to permanent residence in Ukraine, (ii) are tax residents of Ukraine, or (ii) already have income from active business in Ukraine will not be able to participate in this programme. An additional incentive is that this registration programme is free of charge.

3.1.3. *Tax incentives for entities engaged in export activities*

Ukraine provides specific tax incentives for entities engaged in export activities, distinct from the broader investment incentives under Law No. 1116-IX. These incentives are designed to support businesses that contribute to Ukraine's foreign trade by exporting goods and services. For qualifying export-oriented businesses, the government offers preferential tax rates, which may include reduced income tax rates or full tax exemptions for a defined period. Additionally, companies that invest in the development of export infrastructure or technology may qualify for further tax benefits, such as reduced customs duties on imported equipment directly related to export activities. These incentives are intended to enhance the competitiveness of Ukrainian products in the global market and encourage the growth of export industries. These export-related tax benefits are governed by separate provisions in Ukraine's Tax Code and are targeted specifically at promoting international trade. They do not fall under the legislative framework of Law No. 1116-IX, which focuses on attracting significant investments into key sectors of the economy.²¹

3.1.4. *Tax incentives applicable to the reinvestment of profits into the Ukrainian economy*

The Ukrainian tax system offers specific incentives to encourage the reinvestment of profits earned within the country, particularly for foreign investors. These incentives are designed to promote economic development and

job creation by facilitating the continuous flow of investment back into the Ukrainian economy.

Under current tax legislation, profits that are reinvested into qualifying Ukrainian projects are exempt from additional taxation. This means that when a foreign investor decides to reinvest their earnings into expanding existing operations, launching new projects, or acquiring assets within Ukraine, they are not required to pay income tax on the reinvested amount. This incentive is particularly attractive for investors looking to grow their businesses within Ukraine while avoiding the tax burden typically associated with profit repatriation.

The legislative provision governing this incentive is found in article 142 of the Tax Code of Ukraine, which outlines the conditions under which profits can be reinvested without incurring additional tax liabilities. This provision is separate from the incentives that are covered under Law No. 1116-IX. The reinvestment incentive is specifically aimed at retaining capital within the country and ensuring that profits generated in Ukraine are used to further support the local economy. By providing this tax incentive, the Ukrainian government seeks to create a favourable environment for both domestic and foreign investors, encouraging them to contribute to the country's economic stability and long-term growth.

3.1.5. *Incentives to support regional development*

Ukraine has implemented targeted tax incentives to encourage investment in regions that are underdeveloped or have been identified as priorities for regional growth. These incentives include reduced corporate tax rates and, in some cases, complete tax holidays for businesses that commit to substantial investments in these areas. Additionally, investors may receive investment grants or financial support for infrastructure development, which are aimed at offsetting initial set-up costs and making these regions more attractive for business operations.

To qualify for these incentives, businesses must typically meet specific conditions, such as investing a minimum amount of capital in the designated region, creating a certain number of jobs, as well as committing to the development of infrastructure or industries that are critical for the region's economic growth. The government also places an emphasis on sectors that are considered vital for the region, such as agriculture, manufacturing or renewable energy, and businesses operating within these sectors are given priority in the allocation of benefits.

The duration of these benefits can vary, but they generally last for a period of five to ten years, depending on the scale of the investment and the region's specific needs. During this time, businesses can enjoy reduced tax rates or exemptions, as well as access to financial support mechanisms designed to foster long-term regional development. These measures are part of Ukraine's broader strategy to reduce regional disparities, promote balanced economic growth, as well as ensure that all parts of the country benefit from investment and development.

20. UA: Law of Ukraine No. 2654-IX "On Amendments to the Tax Code" (2022), available at https://ips.ligazakon.net/document/view/ji04694g?utm_source=biz.ligazakon.net&utm_medium=news&utm_content=bizpress01 (accessed 10 Sept. 2024).

21. I. Zhurakovska & R. Sydorenko, *Taxation of exports and imports of services: Automation of accounting and audit of transactions*, 13 Economic Forum 2, pp. 52-59 (2023).

3.1.6. Ratification of international agreements and tax treaties as a means to support investment

International cooperation and adherence to international standards in tax matters play a significant role in Ukraine's tax policy. In particular, tax treaties are critical to interstate tax relations, as they ensure that income earned by investors in Ukraine is not subject to double taxation. As of the beginning of 2024, Ukraine had 71 tax treaties. Since the beginning of the invasion, the Protocols with United Arab Emirates (2021) and Qatar (2021) entered into force, while the Protocols with Syria, Iran, Belarus and Russia were terminated.²²

Ukraine has been actively involved in international tax initiatives, particularly those related to the OECD's Base Erosion and Profit Shifting (BEPS) project. Ukraine has committed to implementing the BEPS Action Plan, which aims to prevent tax avoidance by multinational companies through profit shifting and base erosion. In this context, Ukraine has taken significant steps to align its tax policies with global standards, including the introduction of anti-abuse rules, transfer pricing regulations, as well as measures to prevent treaty shopping.

Regarding the OECD's Pillar One and Pillar Two frameworks, which focus on reallocating taxing rights and establishing a global minimum tax, Ukraine is, as of 2024, a signatory to the Multilateral Convention to Implement Tax Treaty Related Measures to Prevent BEPS (MLI),²³ which includes provisions related to Pillar One. However, the implementation of Pillar Two, which introduces a global minimum tax rate, is still in progress. Ukraine has expressed its intention to adopt the necessary legislative changes to comply with Pillar Two requirements, although full implementation may require additional time due to the complexities involved.

Ukraine is also a member of the Inclusive Framework on BEPS and participates in various international tax cooperation forums, including the Global Forum on Transparency and Exchange of Information for Tax Purposes. These engagements underscore Ukraine's commitment to adhering to international tax standards, enhancing its tax transparency and creating a favourable investment climate that is aligned with global best practices.

3.2. Measures other than tax incentives that are needed to support the investment climate

In addition to tax measures, a government needs to introduce certain measures to ensure that the interests of foreign investors are protected. Ever since regaining independence in 1991, Ukraine has treated foreign investment responsibly, ensuring its protection and inviolability. In particular, Law No. 1540a-XII "On Protection of

Foreign Investment in Ukraine"²⁴ was enacted on 10 September 1991, less than one month following the declaration of independence, which established a special status for foreign financial inflows. According to article 3 of this Law, the state cannot requisition foreign investment and the government guarantees that profits earned in Ukraine can be transferred back out of the country. This emphasis on foreign investment in the initial difficult months of independence can be explained by the fact that the post-Soviet system no longer had the capacity or resources to address capital shortages.

In response to the COVID-19 pandemic, various measures were needed to, inter alia, maintain the flow of foreign investment, prevent mass bankruptcy and prevent a wave of forced tax violations. Law No. 533-IX "On Amendments to the Tax Code of Ukraine and Other Laws of Ukraine in Support of Taxpayers for the Period of Measures Aimed at Preventing the Occurrence and Spread of Coronavirus Disease (COVID-19)" was enacted.²⁵ The Law, inter alia, cancelled several penalties.

The subsequent crisis phase, which began in February 2022 with the invasion, posed the biggest economic challenge since restored independence. To stabilize financial performance in such circumstances, a systematic state policy to attract foreign capital was needed. Law No. 3497-IX "On Amendments to the Law of Ukraine 'On Financial Mechanisms for Stimulating Export Activity' on Insurance of Investments in Ukraine against Military Risks"²⁶ was adopted. It directly regulates the insurance of investments in Ukraine against military risks and facilitates the accumulation of international financial assistance by international and foreign financial organizations, foreign governments and foreign banks.

Particular emphasis is placed on the involvement of the Export Credit Agency (ECA) and the Multilateral Investment Guarantee Agency (MIGA), a division of the World Bank Group, in the scheme regarding insuring investments in Ukraine. These international organizations are leaders in insuring investors against non-commercial risks and specialize in protecting investments in infrastructure, energy, telecommunications and manufacturing. Accordingly, the guarantees of these powerful agencies provide significant incentives that considerably reduce investor risks when working with Ukrainian projects and encourage foreigners to invest in the national economy even during martial law.²⁷

22. International treaties of Ukraine for the avoidance of double taxation (2024), available at https://mof.gov.ua/uk/international_agreements_of_ukraine_on_avoidance_double_taxation-543 (accessed 10 Sept. 2024).

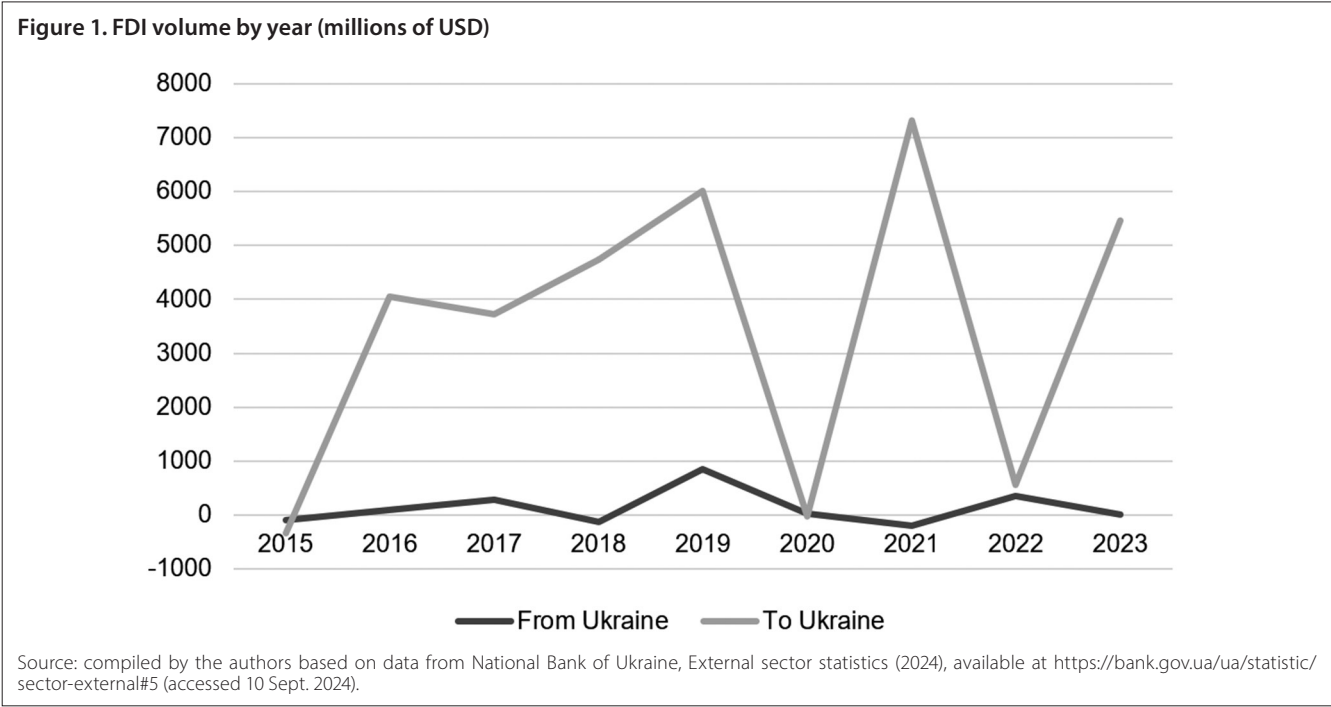
23. *Multilateral Convention to Implement Tax Treaty Related Measures to Prevent Base Erosion and Profit Shifting* (24 Nov. 2016), Treaties & Models IBFD.

24. UA: Law of Ukraine No. 1540a-XII "On Protection of Foreign Investments in Ukraine" (1991), available at <https://zakon.rada.gov.ua/laws/show/1540%D0%B0-12#Text> (accessed 10 Sept. 2024).

25. UA: Law of Ukraine No. 533-IX "On Amendments to the Tax Code of Ukraine and Other Laws of Ukraine in Support of Taxpayers for the Period of Measures Aimed at Preventing the Occurrence and Spread of Coronavirus Disease (COVID-19)" (2020), revised 2 July 2023, available at <https://zakon.rada.gov.ua/laws/show/533-20#Text> (accessed 10 Sept. 2024).

26. UA: Law of Ukraine No. 3497-IX "On Amendments to the Law of Ukraine 'On Financial Mechanisms for Stimulating Export Activity' on Insurance of Investments in Ukraine against Military Risks" (2023), available at <https://zakon.rada.gov.ua/laws/show/3497-20#Text> (accessed 10 Sept. 2024).

27. Ministry of Economy of Ukraine, *MIGA started providing war risk insurance guarantees from the trust fund to support the reconstruction*



The Verkhovna Rada (parliament) of Ukraine is also taking certain steps to encourage foreign investment. A specially created Parliamentary Commission on Investor Protection investigates cases of pressure from law enforcement agencies, attempted raids and illegal searches. According to the report of the Commission’s chairman, Yanchenko,²⁸ the department unblocked UAH 22.3 billion of investments, adopted six anti-raider bills and successfully resolved 19 high-profile cases. According to the European Business Association, a separate register of the number of searches and their reasons has been activated to strengthen public control, reduce corruption risks, protect investor property rights and provide greater assurance to foreign investors, thereby encouraging them to invest more confidently in Ukraine.²⁹

3.3. Are the tax and non-tax measures working to attract investment?

In the context of these state-initiated incentives, production is developing in Ukraine, even during the war. Global industrial giants, cognizant of the potential profitability and reduced risk of investing, are building additional production facilities in the country. In particular, ArcelorMittal, despite its proximity to the front line and the complication of technological processes due to the destruction of the Kakhovka hydroelectric power plant

by the occupiers, invested an additional USD 130 million in the company in 2023. The Turkish giant, Onur Group, in turn, having received permission from the State Service of Geology and Subsoil of Ukraine, has invested in the extraction of graphite ore at the Horodnyavska area of the Burtyn deposit in the Khmelnytsky region. Another practical example is the German pharmaceutical company, Bayer, which is investing around EUR 60 million in the development of seed production in Ukraine.

As for the dynamics of FDI, according to the National Bank of Ukraine, the intensity of investment is a direct reflection of key events impacting the Ukrainian economy. More detailed results for the period between 2015 and 2023 are shown in Figure 1.

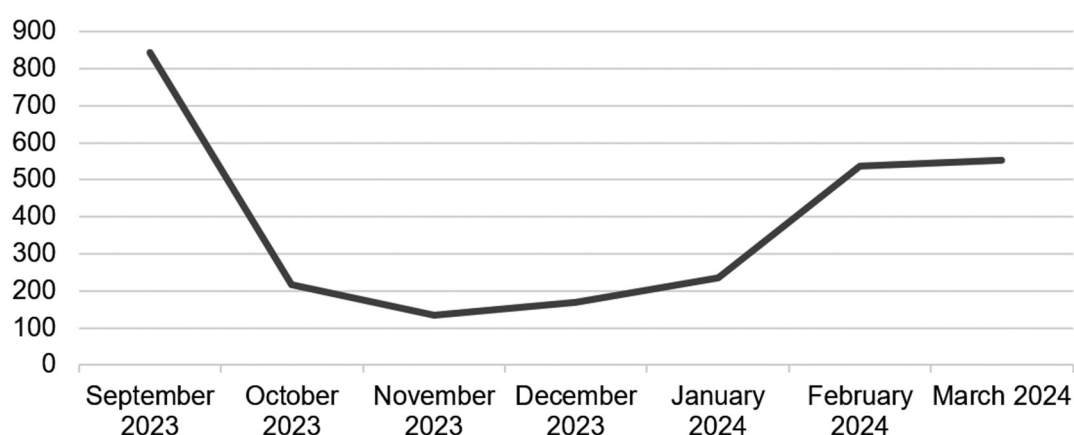
According to Figure 1., investment, in 2015, was negative following the outbreak of war and the temporary occupation of Crimea, as the prospects of the Ukrainian economy were too unpredictable for foreign investors to risk their own money. The following year, 2016, foreign financial injections reached USD 6 billion. In 2020, the COVID-19 pandemic again made investment in and out of Ukraine unattractive. In 2021, after the COVID-19 situation stabilized and the realities of the post-pandemic economy were set, the world’s interest in Ukrainian start-ups and projects resumed, leading to new record FDI volumes of more than USD 7 billion per year. At the beginning of the following year, after the invasion in February, foreign investors, realizing that Ukraine was on the verge of losing its statehood, quickly ceased investing in the national economy. Finally, in 2023, after the de-occupation of part of the territory and the stabilization of the front line, Ukraine was able to attract external financing on favourable terms again, thanks to the guarantees of the ECA and MIGA agencies mentioned earlier in this section.

Among the reasons for the return of Ukraine as an attractive global investment destination is the well-thought-out

and economy of Ukraine (2023), available at <https://www.me.gov.ua/News/Detail?lang=uk-UA&id=538e0c4a-8c1a-4be9-97e6-ed4c0efb13d0&title=MigaPochalaNadavati> (accessed 10 Sept. 2024).

28. G. Yanchenko, *Protection of property and investments during the war: Mission accomplishable?* (2023), available at <https://pravo.ua/zakhyst-vlasnosti-ta-investytsii-pid-chas-viiny-misiia-zdiisnenna/> (accessed 10 Sept. 2024).

29. European Business Association, *A meeting of the Association with representatives of the Central Interregional Administration of the DPS on work with large taxpayers* (2024), available at <https://eba.com.ua/zustrich-asot-siatsiyyi-z-predstavnykamy-tsentralnogo-mizhregionalnogo-upravlinnya-dps-po-roboti-z-velykymy-platnykamy-podatkov/> (accessed 10 Sept. 2024).

Figure 2. Number of investment projects aimed at restoring Ukraine, September 2023 – March 2024

Source: compiled by the authors.

fiscal and operational policies of the State Tax Service of Ukraine regarding the activities of non-residents.³⁰

Even with effective mechanisms for dealing with foreign injections and tax privileges for external players, the planned result may not be achieved. Information resources and proven means of raising funds are of great importance in the practical implementation of tax and investment incentives. Accordingly, reforming the tax sector and modernizing investment mechanisms are insufficient; innovations at the state level must be supported, and the relevant technological infrastructure and electronic security must be rebuilt. Separately, and very importantly, a competent communication strategy should be developed, involving an advertising campaign in channels that correspond to the target audience's sphere of interest.

As of the beginning of 2024, the digital ecosystem has already covered 2,688 projects with a total budget of over UAH 120 billion. As for the monthly chronology of the launch of these restoration projects, after the expected rush in the first month of operation, September 2023 (843 projects), there was a sharp decline, but since November 2023 there has been a steady increase in the figures (see Figure 2.).

The efficiency with which Ukraine has attracted foreign investment is notable. This has been bolstered by the factors outlined in the previous sections, i.e. tax reforms, robust legal protection for investment, streamlined registration procedures and enhanced communication infrastructure.

Innovation and advancements in education further support a skilled labour market, which is crucial for business sustainability. However, given the current economic instability, additional guarantees are essential to secure investor confidence, including safeguards against unforeseen events and assurances of market demand for investment projects. Ukraine must also ensure protection against military and terrorist threats, including con-

tingency plans for timely evacuation. Strengthening the legal framework and anti-corruption measures is paramount, along with enforcing compliance and ethical business practices. To the extent there is international cooperation with reputable organizations, this will signal Ukraine's alignment with democratic values, enhancing investor trust. Transparency in procurement, fair competition policies and efficient arbitration courts are critical for structural reforms and sustaining a favourable investment climate, particularly during wartime. Emphasizing economic openness within a free market framework is crucial, as well as ensuring uniform rules for all participants and facilitating information accessibility through forums and conferences.

Despite wartime challenges, Ukraine views crises as opportunities, encouraging investment in military-industrial development, infrastructure reconstruction and the enhancement of human capital. Continued tax incentives will reinforce long-term investment prospects beyond the current uncertainties, positioning Ukraine as an attractive investment destination post-recovery.

3.4. Future trends

Looking ahead, Ukraine faces both challenges and opportunities in enhancing its tax incentives to further attract and retain foreign investment. Despite recent economic and geopolitical challenges, the country holds several promising prospects for strengthening its investment climate. First, Ukraine's ongoing structural reforms aim to streamline regulatory processes, improve governance and combat corruption. These reforms are crucial for enhancing transparency and investor confidence, thereby reducing risks associated with investing in Ukraine. Continued efforts in this direction will likely contribute to a more predictable and stable business environment, which is essential for attracting long-term foreign investments. Second, Ukraine's strategic geographical location and abundant natural resources present significant opportunities for investment across various sectors. Industries such as agriculture, energy, manufacturing and IT services offer untapped potential for growth and profitability. Leveraging these sectors through targeted tax

30. State Tax Service of Ukraine, Benefit guides (2024), available at <https://tax.gov.ua/dovidniki--reestri--perelik/dovidniki-/54005.html> (accessed 10 Sept. 2024).

incentives and supportive policies can attract diversified investments and stimulate economic diversification.

Moreover, Ukraine's participation in international trade agreements and its commitment to becoming aligned with global standards in tax and business practices enhance its credibility as a reliable investment destination. Strengthening bilateral and multilateral cooperation, particularly with EU Member States and other strategic partners, can further facilitate cross-border investments and technology transfers.³¹ The introduction of e-residency and digital platforms for business registration and management underscores Ukraine's commitment to modernizing its business environment and facilitating remote investment activities. Continued investment in digital infrastructure and cybersecurity will be critical in supporting these advancements and ensuring the security of digital transactions. Furthermore, the resilience and adaptability demonstrated by Ukrainian businesses and government agencies during periods of crisis, such as the COVID-19 pandemic and geopolitical tensions, highlight the country's capacity to weather challenges and maintain investor trust. Building on these experiences, Ukraine can further enhance its crisis management strategies and emergency response mechanisms to safeguard investments and minimize disruption during uncertain times.³²

In conclusion, Ukraine stands at a critical juncture in its economic development, with opportunities to enhance its tax incentives, strengthen institutional frameworks and capitalize on its strategic advantages. By fostering a conducive investment climate, promoting innovation and deepening international partnerships, Ukraine can attract sustainable foreign investment that contributes to long-term economic growth, job creation and prosperity. Continued reforms and proactive measures will be essential in realizing Ukraine's potential as a competitive and resilient investment destination in the global arena.

4. An Overview of the Literature on the Efficacy of Tax and Other Incentives to Attract FDI and Stabilize the Economy

It is the authors' conclusion that the Ukraine fiscal authorities have been consistent in their response to the challenges posed by economic instability in order to ensure the flow of FDI. Section 4. turns to an analysis of the tax literature on the subject of government intervention in this area.

Brewer and Tasseva (2021),³³ for example, analyse the UK government's policy response to the pandemic and tax incentives using microsimulation methods. Their study determined that, in addition to subsidies for the private sector, automatic stabilizers in the tax and benefit system

have played an important role in the recovery of economic performance. Nevertheless, after analysing the ten-year history of tax reforms, the authors conclude that the UK fiscal policy in 2011, which was part of the post-financial crisis austerity measures, was more balanced compared to the approaches taken during periods of quarantine restrictions.

Other authors who have studied this topic, for example Makin and Layton (2021),³⁴ note the aggressive features that fiscal policy has acquired in the post-pandemic world. Given the increase in health care and social spending, they highlight the future macroeconomic risks associated with high public debt and stress the need to attract foreign investment in a favourable environment.

In this context, Alvarado (2023)³⁵ conducted an analysis of the tax implications following Russia's invasion of Ukraine specifically. Alvarado examined how various governments, including Ukraine's, responded with tax incentives and policy adjustments. Key measures, such as corporate tax rate reductions, VAT adjustments and relief for social security contributions were highlighted as critical components of Ukraine's strategy to attract foreign investment and foster economic recovery post-invasion. Alvarado also discusses international responses, including measures by EU Member States to support Ukrainian refugees and the suspension of tax information exchange agreements with Russia. These actions underscore the interconnected nature of tax policies and geopolitical events, influencing Ukraine's tax landscape and its appeal to investors. Looking ahead, Alvarado speculates on potential changes in Ukraine's tax environment in the aftermath of the invasion. This includes reflections on the sustainability of current incentives, the necessity for further reforms to bolster investor confidence and the broader implications of geopolitical tensions on tax policy and economic stability. Alvarado's work further underscores the importance of adaptive tax policies to promote long-term resilience and economic recovery in Ukraine.

Bruckmeier et al. (2021),³⁶ demonstrate that, in the second half of 2020, the economic shock of COVID-19 led to a significant decline in total labour income, and only a competent system of tax benefits and prudent discretionary policies helped to overcome the world crisis.

Although the tax incentives discussed in this article are critical to Ukraine in the current context, tax incentives to attract external finance are very common in all countries. For example, FDI, the dynamics of which were analysed in the Ukrainian context in this article, was also the subject of a study by Hintošová et al. (2021).³⁷ Using the example

31. I. Liubchak, *Formation of state budget income under the conditions of economic transformation*, 18 University Economic Bulletin 3, pp. 61-67 (2023).
32. N. Tluchkevych, O. Nuzhna & T. Pisarenko, *Management Aspects of Tax Planning under Conditions of Uncertainty*, 13 Economic Forum 2, pp. 66-71 (2023).
33. M. Brewer & I.V. Tasseva, *Did the UK policy response to Covid-19 protect household incomes?*, 19 The Journal of Economic Inequality, pp. 433-458 (2021).

34. A. Makin & A. Layton, *The global fiscal response to COVID-19: Risks and repercussions*, Economic Analysis and Policy 69, pp. 340-349 (2021).
35. M. Alvarado, *Assessing the Tax Impact of Russia's Invasion of Ukraine: Issues Arising from an International Tax Perspective and What the Future May Hold in the Post-Invasion Period*, 63 Eur. Taxn. 2/3 (2023), Journal Articles & Opinion Pieces IBFD (accessed 10 Sept. 2024).
36. K. Bruckmeier et al., *Distributional effects of macroeconomic shocks in real-time*, The Journal of Economic Inequality 19, pp. 459-487 (2021).
37. A. Hintošová, F. Sudzina & T. Barlašová, *Direct and indirect effects of investment incentives in Slovakia*, 14 Journal of Risk and Financial Management 2, p. 56 (2021).

of the Slovak Republic, the authors prove that government instruments to influence a foreign investor's decision to provide finance are mostly effective. At the same time, the results of the regression analysis show that, although financial incentives have a statistically significant impact on FDI inflows, this effect may be the opposite in the case of tax incentives.

Studying the impact of tax incentives on the quality of investment in Germany, Eichfelder et al. (2023)³⁸ found that while tax incentives such as enhanced depreciation can stimulate investment by making it more financially attractive for companies, they may also inadvertently reduce the quality of the funds being attracted. Specifically, the research suggests that these incentives can lead to an influx of investments that prioritize short-term financial gains over long-term value creation. This is because enhanced depreciation often encourages businesses to focus on tax savings rather than on the underlying profitability or sustainability of their investments. As a result, the quality of the investments, in terms of their contribution to economic growth and innovation, may be compromised.

Camara (2023),³⁹ using data from 90 countries from 1996 to 2017, proved that FDI inflows lead to a significant increase in tax revenue only if the country's economy does not depend on resource exports.

As this article has repeatedly demonstrated, it is precisely in times of economic instability that the role of foreign investment increases. Confirmation of this view can be found in a study by Bouteska et al. (2023),⁴⁰ who note that investors tend to be overconfident in risky projects when the number of such projects increases.

The unprovoked invasion of Ukraine, which created uncertainties regarding secure access to fossil fuels, was also studied by Karkowska and Urjasz (2023),⁴¹ who found that the deterioration in the working conditions of foreign investment companies shifted the balance between dirty and clean energy and, accordingly, negatively affected the attractiveness of investment in "old" energy. It is worth reiterating that the return on investment in the Ukrainian economy is additionally guaranteed by the world's leading agencies, ECA and MIGA, as discussed in section 3.2.

Basdekis et al. (2023)⁴² and Caldara and Iacoviello (2022)⁴³ all came to a similar conclusion that the imbalance in the usual investment mechanisms led to the release of additional funds, some of which were directed to Ukraine.

The correlation between the high risks of investing in an unstable economy and the additional profit in the event of success is also noted in this study.

The effectiveness of tax incentives, such as e-residency, which is discussed herein, has also become the subject of attention of the European scientific community. Estonia pioneered this modern initiative and therefore its experience is quite important. Blue (2021)⁴⁴ and Tammpuu et al. (2022)⁴⁵ studied the features of the online platform for remote tax registration and proved that e-residency attracted freelancers and entrepreneurs from all over the world, which significantly increased Estonia's budget revenues. However, Ylonen et al. (2023)⁴⁶ identify a certain drawback of the system, as the sharp increase in "remote" residents may negatively affect the predictability of the economy of a country with a small population. Comparing the experience of e-residency in several countries, Kud (2023)⁴⁷ found that the Ukrainian registration system managed to avoid certain mistakes that Estonia made. In addition, as noted herein, in Ukraine, this service is free of charge, while foreign investors who want to become e-residents of Estonia have to pay certain customs fees.

5. Conclusions

Attracting foreign investment is critical to economic development. For countries experiencing economic instability, external injections can be a lifesaver. Ukraine, which has been engaged in a full-scale war for three years now, critically needs foreign assistance and is therefore actively engaged in building its fiscal policy in a methodical way. Since the beginning of the restoration of independence in the 1990s, Ukraine has offered certain tax incentives to attract resources and ensure the economic component of sovereignty. A prudent and competent investment policy was further developed in subsequent years. Using investment protection instruments, such as insurance, state guarantees of return and protection of intellectual property rights, the Ukrainian authorities have been creating an appropriate investment climate in the country for decades. However, for some time, the national economy was critically dependent on the investments of Russia, and this external financial influence led to the temporary occupation of part of the territories in 2014. Accordingly, when talking about the effect of foreign investment, the source of this money must also be addressed.

The process of raising funds in times of war and other crises should also include clear and transparent guarantees – both from the state and global economic institutions – that can ensure a return on invested capital. At the

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38. S. Eichfelder, M. Jacob & K. Schneider, *Do tax incentives affect investment quality?*, Journal of Corporate Finance 80, p. 102403 (2023).
 39. A. Camara, *The effect of foreign direct investment on tax revenue*, Comparative Economic Studies 65, pp. 168-190 (2023).
 40. A. Bouteska, M. Harasheh & M. Abedin, *Revisiting overconfidence in investment decision-making: Further evidence from the U.S. market*, Research in International Business and Finance 66, p. 102028 (2023).
 41. R. Karkowska & S. Urjasz, *How does the Russian-Ukrainian war change connectedness and hedging opportunities? Comparison between dirty and clean energy markets versus global stock indices*, Journal of International Financial Markets, Institutions and Money 85, p. 101768 (2023).
 42. C. Basdekis et al., *The impact of the Ukrainian war on stock and energy markets: A wavelet coherence analysis*, 15 Energies 21, p. 8174 (2022).
 43. D. Caldara & M. Iacoviello, *Measuring geopolitical risk*, 112 American Economic Review 4, pp. 1194-1225 (2022).

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44. A. Blue, *Evaluating Estonian e-residency as a tool of soft power*, Place Branding and Public Diplomacy 17, pp. 359-367 (2021).
 45. P. Tammpuu et al., *Estonian e-residency and conceptions of platform based state-individual relationship*, 26 TRAMES 1, pp. 3-21 (2022).
 46. M. Ylonen, W. Drechsler & V. Lember, *Online incorporation platforms in Estonia and beyond: How administrative spillover effects hamper international taxation*, 30 Transnational Corporations Journal 1, pp. 79-101 (2023).
 47. A. Kud, *Decentralized information platforms in public governance: Reconstruction of the modern democracy or comfort blinding?*, 46 International Journal of Public Administration 3, pp. 195-221 (2023).

same time, the state needed to rethink tax incentives for foreign investors, which Ukraine has done.

One limitation in writing this article, was limited access to information due to martial law. Furthermore, at this stage, there is a lack of communication with external financial markets to convey to potential financiers of the Ukrainian economy all the benefits of joining Ukraine's recovery. It

is necessary to build an information campaign that, on the one hand, explains all the existing tax benefits of the Ukrainian economy, and, on the other hand, emphasizes the potential for increased profits that an investor can receive for assuming the risk of working in an environment of economic instability. The development of such a communication strategy could be the subject of a further study.



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