

FOREIGN MODELS OF FINANCIAL REGULATION AND FEASIBILITY OF THEIR USAGE IN UKRAINE

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Small businesses are faced with many challenges in the process of their activity, one of which is the lack of domestic experience in the implementation of the financial regulation of their activities. The only way to solve the latter is the analysis and the positive experience of borrowing from foreign models of financial regulation. The aim of the article is to analyze the international financial regulatory models and their adaptation to domestic small business. The main results of the paper are the discovery of the positive experience of foreign models of financial regulation and the use of the latter in the domestic economy. Based on the analysis of the state support of small business in the leading European countries the recommendations on the European direction of the vector of the domestic economy were made.

Key words: small businesses, promoting entrepreneurship, institutions, small business development, "shock therapy", the regional economy, the EBRD, the EU.
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Березовська Х. І., Кміть В. М. Зарубіжні моделі фінансового регулювання та доцільність їх застосування в Україні

Мале підприємництво в процесі власної діяльності стикається з багатьма проблемами, однією з яких є відсутність вітчизняного досвіду у здійсненні фінансового регулювання їх діяльності. Єдиним шляхом вирішення останньої є аналіз і запозичення позитивного досвіду в зарубіжних моделях фінансового регулювання. Метою статті є аналіз зарубіжних моделей фінансового регулювання та адаптація їх у вітчизняному малому підприємстві. Основними результатами статті є розкриття позитивного досвіду зарубіжних моделей фінансового регулювання та застосування останнього у вітчизняній економіці. На основі аналізу державної підтримки малого підприємництва в провідних європейських країнах надано рекомендації стосовно європейського спрямування вектора вітчизняної економіки.

Ключові слова: мале підприємництво, сприяння розвитку підприємництва, інституції розвитку малого підприємництва, «шокова терапія», регіональна економіка, ЄБРР, ЄС.

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Березовская К. И., Кмит В. М. Зарубежные модели финансового регулирования и целесообразность их применения в Украине

Малое предпринимательство в процессе собственной деятельности сталкивается со многими проблемами, одной из которых является отсутствие отечественного опыта в осуществлении финансового регулирования их деятельности. Единственным путем решения последней является анализ и заимствование положительного опыта в зарубежных моделях финансового регулирования. Целью статьи является анализ зарубежных моделей финансового регулирования и адаптация их в отечественном малом предпринимательстве. Основными результатами статьи является раскрытие положительного опыта зарубежных моделей финансового регулирования и применение последнего в отечественной экономике. На основе анализа государственной поддержки малого предпринимательства в ведущих европейских странах даны рекомендации относительно европейского направления вектора отечественной экономики.

Ключевые слова: малое предпринимательство, содействие развитию предпринимательства, институты развития малого предпринимательства, «шоковая терапия», региональная экономика, ЕБРР, ЕС/
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Globalization processes in the world economy change the idea of raising funds for the development of national economy and small business in particular. The experience of leading foreign countries, the liberalization of capital movements involves the risk of displacement of crisis occurrences in one country or region to other regions. A striking example of such broadcasts of crisis is a sharp outflow of capital from Ukraine, which is closely related to recent developments in the political arena between Ukraine and Russia.

Solving such problems can contribute to the study of the world and European best practices and encourage the development of financial regulation of small business through internal and external opportunities and practice of solving such problems.

The study of small business and its role in developed market economies is the object of attention of many foreign scholars such as J. Schumpeter, P. Westhead, W. Baumol, J. Bahler and others.

Among domestic scientists that question has become particularly important in the works of: L. L. Tsymbal, M. I. Krupka, S. K. Reverchuk, O. V. Grin, Ya. B. Drop, V. M. Kmit, A. F. Melnyk, A. P. Pavlyuk and many others.

The article is an analysis and theoretical rationale for the use of foreign models of financial regulation in the domestic economy.

Given the extremely difficult economic situation in which Ukraine is now, the support for small businesses is particularly important and significant nowadays on the way of the domestic

economy out of the crisis. We believe it is the policy of "shock therapy" in combination with the support of small and medium enterprises may be the key to solving the economic crisis in our country.

To begin, let's define the nature of such an important concept as a model of financial regulation. From an economic point of view, the concept of economic model means a theoretical model constructed for the approximate description of economic processes by means of a relatively small number of concepts or variables. The economic model can be both qualitative and stochastic or deterministic mathematical model. In our case, the economic model of financial regulation has a quality component and means of regulation of economic relations subjects of financial regulation on the distribution and redistribution of GDP in the country. If we consider such a model at the macro-level, it is possible to narrow the definition of the essence of the concept by moving the economic relations to the level of state control and regulation of the economy. As financial regulation is a process of influence on financial relationships to eliminate economic disparities, the vector of its impact should be directed only to economic growth and ensuring social welfare in the state. In other words, it is the impact of tax, financial, credit, budget and administrative policies on the development and support of small business in the state

Given the recent political developments in Ukraine, in our opinion, the European experience of financial regulation would be the closest and most promising. We back up our point of view with the fact that in the European Union economy is based on small and medium-sized businesses, which employ more than 70% of the employed in the private sector. However, for the complex formation and nature of the problem, we consider other alternatives [1, p. 257 – 259].

In total there are three main innovative models to stimulate the development and support of small business: American, Japanese and Western. This case is a question of fostering innovation [3, p. 337 – 339].

The distinctive features of the American model of financing innovation is the active use of patent protection of innovations, patents and trade patent licenses, creation of patent pools. An additional source of financing innovation is the costs of implementation of patents and patent licenses. In the American model, it is a very common phenomenon of innovation in small business (technological ventures), where entrepreneurs, owners and managers are themselves scientists, authors of developments, particularly common in areas with a high concentration of universities, research centers, companies, firms, high-tech industries. Also in terms of taxation in the United States, the principle of "natural selection", i. e. no special tax regimes for small and medium enterprises. For small businesses the only benefit is the simplification of accounting and reporting on a progressive scale:

- ✦ taxable income up to 50 thousand dollars – 15%;
- ✦ 50 thousand dollars up to 75 thousand dollars – 25%;
- ✦ 75 thousand dollars up to 10 million dollars – 34%;
- ✦ more than 10 million dollars – 35%.

Very small firms may apply the cash method of accounting and are excluded from the tax investment in capital assets when the amount for the year does not exceed 24 thousand dollars.

We believe that this experience could be relevant but not today. If Ukraine joins the EU this year, it will be possible to apply such reforms in about 40 years. A very important factor in our opinion, is the mentality and thinking of people. The United

States is a country where entrepreneurship is considered as a way of life; in this country unemployed people are simply not respected. These moral principles are established since childhood that is why American teenagers work and study simultaneously and grow up as self-sufficient individuals. In this country the cult of education and science is promoted and it is the most important basis for innovation. Perhaps at first glance it may seem that these things are not related to the development of small business, but we believe that small business in Ukraine is now completely "far" from its role in the society.

Small business in the United States and Japan is usually called innovation, because innovation began to develop on the basis of this economic sector. Japan, unlike the United States, has a lot more benefits and incentives for businesses because small businesses employ 80% of the population, which creates 85% of the gross national product [3, p. 340 – 342].

Analyzing the experience of support of small businesses in these countries it is also an important factor of deliberate policy of regional institutions functioning and support for small business. There are these institutions in the UK, Germany, France, Italy, Spain, Czech Republic, Romania, Poland, Bulgaria, Estonia and other EU countries.

In the EU economy is based on enterprises of small and medium-sized businesses, which employ more than 70% of the employed people in the private sector. From the experience of the EU one of the first programs to support entrepreneurship in the European space were government regulation mitigation measures and eliminating bureaucracy. Among the financial activities of the program the most significant were tax reduction and better access to capital markets. We believe that this experience of regional institutions was appropriate for Ukraine. In addition the EU has a program of development of economic infrastructure of cities and villages. As part of the program the European Commission strongly promotes local infrastructure to stimulate the implementation of local economic potential, and create new jobs. These programs are annually funded by loans from the EBRD, in the past years it has carved out about 10 million Euros yearly. Within the funding programs of support and development of small and medium enterprises the investments and long-term projects for the creation of new firms, innovation and environmental protection projects were implemented. Certain financial resources were included to the capital of commercial banks that directly provide funding for such projects.

In the UK there is a network of organizations involved in the development of small businesses including: service of small businesses, entrepreneurial agencies, public associations, employment centers. The main programs to support small businesses in this country are "Business Expansion Program", "Guaranteed Loan Program", "Program for Creating own Business." In the UK there is a similar to the Ukrainian program called "Business Development Scheme" and progressive program "Young Entrepreneurs". The system of stimulating students begins at colleges and universities, where students are provided with facilities and equipment, means of communication, open access to data banks and commercial loans. Also very important is the fact that in the UK there are so-called "local business agencies." They provide loans and grants to entrepreneurs on favorable terms and attract private funds for these agencies, which is done by their complete tax exemption. Also in the UK the state plays the lion's share in the financing of small businesses. Promoting entrepreneurship is carried out as a part of the revival program of "inner city." This program

provides for the establishment of free enterprise zones, which are quite effective – state and commercial funds for regional development by providing loans and advice to potential entrepreneurs. In these areas taxes on income and property are substantially reduced, the rules for the creation and deployment of new enterprises are liberalized. One of the key components that accompany the implementation of the following programs is to promote the values of entrepreneurial culture. We believe the use of such a positive experience of the UK in Ukraine would give positive results [2, p.120 – 125].

In Germany, there is a special program "The General Concept of Science and Technology Policy in Relation to Small Businesses" as well as a special program URBAN aimed at raising the attractiveness of entrepreneurial activity in cities. Also quite effective in Germany was a program of "Euro-Fitness" that has enabled SMEs to prepare to operate within the single EU internal market. Furthermore, the Government provides ongoing investment loans and grants to small businesses. Entrepreneurs who create new innovative enterprises are provided with soft loans up to 20 years.

In Spain for the implementation of economic development policies the special agencies of regional development were also created that derived from public funds, but operate on the commercial basis. These organizations have been established within the context of the European Association of territorial agencies of the EU [4, p. 322 – 326]. It should be noted that the activities of such organizations in practice were a failure because of the declarative decisions, vagueness and uncertainty of the program elements, and dispersion of resources. These facts are quite important in a possible collaboration with the "brotherly people" if this can still happen in the distant future.

In our opinion the analyzed positive experience of institutional development of small businesses should be borrowed by Ukraine, and of course to begin the process of implementing such institutions in the domestic economy after the final signing of the association agreement with the EU.

In addition, an important part of the financial regulation of small business loans are innovative crediting and support of the development of innovative and investment banks in the country, for example, let's consider the experience of the EU.

Abroad the specialized innovative and investment banks have proliferated only in some countries. In Eastern Europe functions of banks long-term investments are performed by folk, national and state banks (Bulgaria, Hungary) or specialized banks (Romania), and the structure and function of these banks regularly change. Financial support of innovation and investment banks for lending to small businesses engaged in innovation subjects of the European Investment Bank (EIB – European Investment Bank). In Israel Luomi Bank (Luomi Bank) and Israel Discount Bank (Israel Discount Bank), Canada – Business Development Bank (BDC – Business Development Bank of Canada), Germany – Lending Institution of Recovery. Overall European innovation financing of small businesses engaged in so-called development banks, which are wholesale banks that are working on products and search for financial institutions. Typically these banks are created by the political initiatives; capital of the bank is established with public funds. In Canada and Germany, these banks work with clients directly or indirectly [8, p. 3 – 5].

Based on the above said, we analyzed that the governments of many European countries are actively engaged in creating conditions for lending to innovative companies.

What can be said about our country? The process of formation and development of innovative investment banks in Ukraine resembles more declarative than real solutions. The creation of this structure would correspond to the Concept of the State Program on Capital Markets Modernization [5] in Ukraine, developed for the Agency and approved by the Cabinet of Ministers of Ukraine [6]. In this case, the State would have initiated the loan process, but by the Cabinet of Ministers №655 of 5 May 2003 Ukrainian Bank for Reconstruction and Development was established. It is registered by the National Bank of Ukraine on March 19, 2004 as a closed joint stock company; today banks are a public limited company. The owner of a qualifying holding in the Bank (99.9%) is now the Cabinet of Ministers of Ukraine, as well as other non-state and foreign investors. UBRD was formed as a normal commercial bank (it includes individuals who have three shares - 0,00185% of the capital) [7].

A number of experts, economists and political scientists consider that the activities of the bank are not effective, because they believe that in Ukraine there are many universal banks already. UBRD functions often overlap with Sberbank ones, so the cooperation between these two banks should be better. For example Sberbank can raise funds that invest in UBRD promising high-tech industry for the use of such funds that Sberbank pays interest which enable the latter to be competitive in the deposit market. UBRD could sell pools of their loans by issuing securities that would be guaranteed by the state. So, a sound permanent system of raising funds in the economy could be invented.

In addition UBRD planned to create another banking institution, whose main task would be reducing interest on micro loans for small businesses – the so-called UBSR (Ukrainian Bank for Development). The bank was planned to save up for the state budget. It was planned that UBSR had become the lender of last resort for banks that promote micro-credit programs, and also had to participate in the compensation of interest rates and guarantees subjects of small and medium enterprises. UBRD had annually sent to refinance such loans to 40 million UAH in order to rate currency loans to final borrowers did not exceed 15-17%. Cabinet of Ministers Tymoshenko of 08.04.2009r., For №439-district a Commission on the formation of the Bank was formed to promote on the basis of the Ukrainian JSC Bank for Reconstruction and Development [9]. However, already in 2010 the commission was abolished by the new government of M. Azarov (Cabinet of Ministers of Ukraine of 02.06.2010 №397 p) [10]. During the period of operation of this government the UBRD had not financed a single project apart from crediting of LLC "High Thermal Technologies" (Lugansk). As stated by the experts of the bank, lending the project took place within the strategic priority of the Bank's lending companies that are active in the field of energy, introducing new technologies. LLC "High Thermal Technologies" is a group of companies "TERMO" and is one of the first private companies in Ukraine, which not only provides services for heating and hot water, but also has 15 years of experience designing, manufacturing, installation, maintenance and mini boiler operation [7]. Somewhat surprising is the fact that throughout Ukraine only Lugansk company managed to introduce innovative product. As mentioned in the previous paragraphs experience of developed countries innovations usually occur in scientific and educational centers and cells that cannot be argued with visual examples in our country.

Today given the difficult political situation the government of our country in a series of more important priorities

relating to the preservation of the integrity and inviolability of borders and security of citizens. We hope that in the future the government of Yatsenyuk will provide decent and reliable support for the development of small business as a vital sector of the national economy.

CONCLUSIONS

Summing up the experience of foreign countries you may note that the tax relief combined with a deliberate policy of regional institutions, small business development and promotion of innovation and investment lending could improve domestic small business sector. In the world of such instruments Financial Regulation gives positive results according to the experience of the United States. Japan, Germany, France, the UK and other developed countries. We believe that Ukraine has already taken the first step in the right direction signing up an association agreement with the EU. The next step, in our opinion, should be the fight against corruption. Transparency of the judiciary and fair presidential elections, as it is addressing these priorities, will enable the move towards the development of a strong European country where small business takes its rightful place in the economic structure of the country. ■

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