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IMPROVING THE PRACTICE OF FINANCIAL SUPPORT OF INDUSTRIAL DEVELOPMENT

The modern requirements for ensuring the effective industrial development. New industrial strategies can foster the structuraltransformation of the economy towards increased economic diversification and ensure long-term economic growth through the creationof a more sophisticated production structure, introduction of the of scientific and technological advances, application ofthe different sources of financing, as well as considerate, reasonable, long-term state program of industrial development.

The development of the industrial sector is one of the main conditions of creating a modern Ukrainian industrial complex, which can be a powerful engine of long-term economic growth of the state and respond to changes in the world market conditions. The technical development of Ukrainian industrial sector does not meet the current requirements and is characterized by unhealthy tendencies because of the low activity of industrial enterprises which deal with the advanced manufacturing technologies. The national industry is technologically backward with underdeveloped industrial and economic system which is vulnerable to external and internal market fluctuations.

Currently, the basic form of financing of industry development is a self-financing with some state's influence on this economic process. However, since the own funds are not usually enough for developing and upgrading the production capacity in terms of overcoming the effects of the global economic crisis, it is necessary to use outside financing (external funds).

To address the new development challenges, some developing countries are implementing industrial policies to sustain growth by diversifying and upgrading domestic production. The renewed interest in industrial policy poses new challenges and opportunities for their policy makers. The new forms of foreign direct investment (FDI) and the delocalisation of high-value-added activities, previously kept in-house in advanced countries, are opening upnew opportunities for learning and for entering into new activities and sectors. Some developing countries are recognising the importance of well-functioning development banks to channel resources to production development, innovation and infrastructure; reducing their skills mismatch is also a key priority for many developing countries tofacilitate production transformation [1, p. 21].

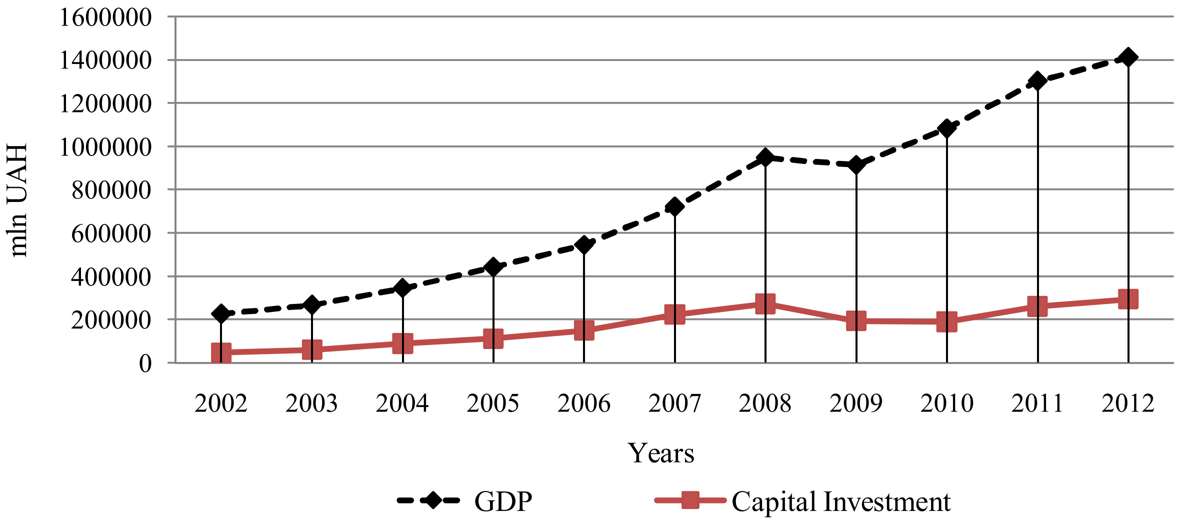
The analysis of contemporary practice of research of improving the financial support showed a comprehensive approach to modern economic models, in coordination with the social and political aspects of society. In the works of Ukrainian scientists A. Amosha [2], I. Blank [3], L. Lysyak [4], Y. Zhalilo [5] more attentionis paid to financing of own funds for industrial development. Some Russian scientists O. Sukharev [6], S. Glazyev [7], V. Lepsky [8] consider the issues of improving the mechanism of financial support regulation, the developing of its infrastructure and optimizing its management. Foreign authors D. Green [9], Zhou Xiaochuan [10], L. Gitman [11], M. Djunks [11] pay greater attention to credit support of industrial development, as well as different financing instruments especially securities and the stock market. All these aspects require further research, theoretical generalizations and methodological substantiation as well as specification for the modern industry development in Ukraine.

In this regard, the objective of this paper is to study the main influence on the financing activities and define the maindirections of improving the practice of financial support of industrial development.

Activation of industry technical development is possible based only on advanced financial and credit system which aims at contributing to the solution of critical economic and social problems. Implementation of these tasks starting from preservation and development of industrial potential of strategic and priority areas of development to creation the necessary preconditions for the implementation of technical and technological innovations in all spheres of national economy as well as to ensure its structural and technological restructuring.

Industrial development in Ukraine: an analysis of the dynamics of Ukrainian investment activity in 2005-2012 years. The technical and technological level of industry has been decreasing since Ukraine gained independence. The financial assets were directed to equipment maintenance and to partial modernization of existing equipment and technology. Thus, the strategic issues of technical development of domestic production were pushed into the background giving place to the current problems. In general, the problem of technical development of enterprises received little attention both on the enterprises and at the state levels.

The dynamics of basic indices of industrial development, one of which is the gross domestic product (GDP) and capital investments, clearly illustrates the sad condition of the Ukrainian economy. Figure 1 shows the dynamics of gross capital investment in an industry which shows a little stabilization in the last two years.



Source: State Statistics Service of Ukraine.

Fig. 1. The Dynamics of Capital Investments and GDP in Ukraine

According to Figure 1, there is a close relationship between the volume of capital investment and the volume of Ukraine's GDP. There is a positive trend of increasing capital investment and GDP during the 2005-2011 period, however, the crisis worsened the situation in the financial sector, including the field of investment, as a result we can observe the equivalent decrease in the fixed asset investment and GDP in 2009.

The World Bank (WB) has retained its October forecast for Ukraine's economic growth in 2014 to 2 percent, but has worsened its forecast of the economic growth in 2013 from "zero" to the "minus" 1.1 percent that was previously planned. This is stated in the research of "Global Economic Perspectives" [12].

This prediction corresponds to the so-called pessimistic scenario of Ukrainian economy specified by the WB experts in October 2013. The World Bank considered two scenarios of the economic development of Ukraine. The first scenario known as "deferred correction" allowed the improvement of economic situation in the world at a constant situation in Ukraine. The second scenario is the immediate implementation of structural reforms particularly raising gas prices for households, with simultaneous optimization of targeted assistance for low-income citizens, as well as introduction of a flexible exchange rate and increasing the investment attractiveness of the country.

In the first scenario, the World Bank has predicted GDP growth of 2% in 2014, shrink of country's GDP by 1% in 2015 as well as zero GDP growth in 2016.The bank experts suppose that the inflation rate in Ukraine will be 2% in 2014, 11% in 2015 and 7 % in 2016. Balance of payments deficit was estimated at 9% of GDP in 2014, 5.5% in 2015 and 4.2% in 2016. Ukraine's state budget deficit reached 4.4% of GDP in 2013 and 3.2% in 2015, as well as 2.4% in 2016. External debt predicted by the Bank, should reach 68.1% of GDP in 2014 and 77.5 % in 2015, as well as 75.2% in 2016.

In the second scenario, the World Bank has predicted GDP growth of 1.5% in 2014, 3% in 2015 and 4% in 2016. The bank experts suppose that the inflation rate in Ukraine will be 12% in 2014, 6.6% in 2015 and 4% in 2016. Balance of payments deficit was estimated at 5.4 % of GDP in 2014, 4.5% in 2015 and 3.1 % in 2016. Ukraine's state budget deficit will reach 2.5 % of GDP in 2014, 2% in 2015 and 1.7 % in 2016. External debt predicted by the Bank, should reach 76.8 % of GDP in 2014, 75.8% in 2015 and 73.7% in 2016.

In addition, the World Bank has placed Ukraine among the countries inclined to acute risk of deteriorating of trade positions and possible capital outflows.

The World Bank made an annual ranking of doing business, where Ukraine has scored 112 line in 2014. Ukraine has improved its position on 112 lines as compared with 2013, when Ukraine has scored only 137 line. The World Bankexperts noted that our country has great unrealized potential particularly a third of the world's black soil, a favorable geographical location, a large domestic market and well-developed infrastructure as well as industrial base. However, according to experts, despite the fact that Ukraine has implemented more reforms than any other country in the world, we must do much more.

Heritage Foundation in cooperation with experts from Wall Street Journal made an annual ranking of countries according to degree of economic freedom, where Ukraine has scored only 161 line rating in 2013. According to the latest data,Ukraine occupies only 155 line in the Index of Economic Freedom 2014 [13].

In January 2014 the WB experts drew attention of country's authorities to the need of urgent reforms especially in the private sector, including the improvement of regulatory policy, reducing inefficient audits, establishment of internal supervisory and monitoring mechanisms to fight corruption. These factors are the main challenges for development in the private sector, including small and medium businesses [14].

It should be mentioned that the EBRD is also lowered the expectations of Ukraine's economy in 2014 to 1,5% compared to 2,5% predicted in May 2013. The International Monetary Market forecast the GDP growth in Ukraine to 1.5% in 2014.

The analysis of the development and impact of science and technology on the production shows that the production assets of enterprises are the main "backbone" of production and determine the further development of the Ukrainian economy. A technical modernization should become the entrance admission to the world positions of a developed economy. The regularity of technical development denominates the necessity of moving towards the new generations of machines and is the basic cause of the mass renovation of the technology.

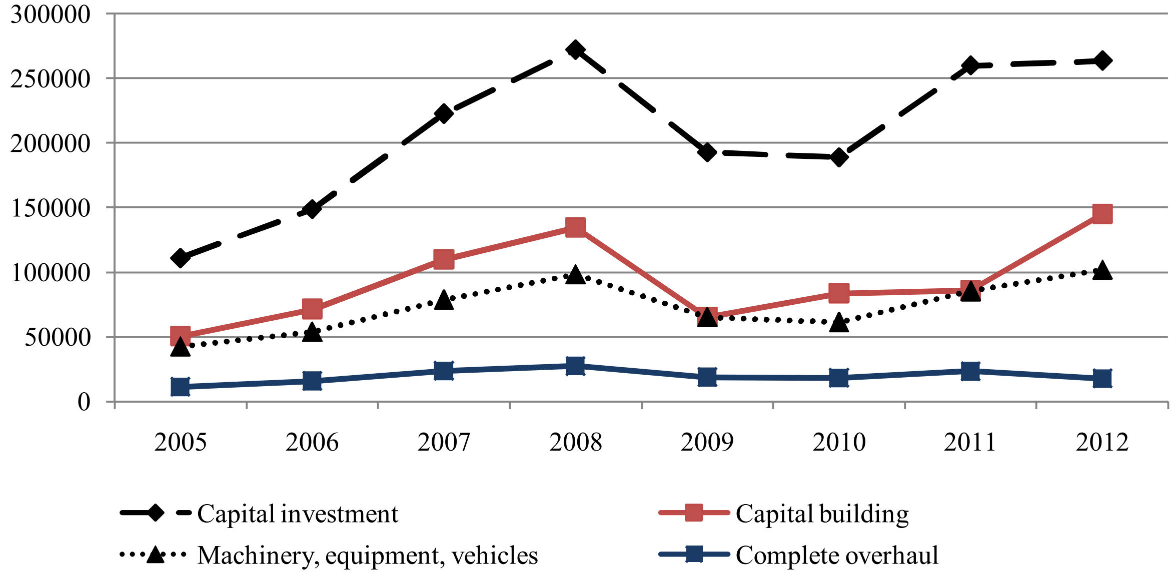
The implementation of industrial productive capacity depends on the state and terms of financial provision of industry investment. The financial crisis in Ukraine has led to a collapse in investment activity and has reduced all financing sources of industrial sector.

The analysis of investment activity including industries, fields of investments, the pace of modernization, and innovation activity of Ukrainian enterprises showed that the policy of financial security as a set of production goals, ways and facilities of updating and development of Ukrainian industry based on the market relations during the of post-socialist transformation period of the economy has not been formed. The reason of this situation is lack of common views of legislative and executive branches on the specific goals of economic reform, which are understandable to the public and supported by all government agencies.

The general economic crisis that has covered almost all spheres of social production particularly the investment sphere hasled to the most difficult condition. The volume of investment in 2011 was 2.3 times lower than in 1990, when economic output in 2011 amounted to about 70% by volume in 1990.The trend of investment decline ceased in 2012, but the position in the investment area remains unsatisfactory.

The investment climate in Ukraine in 2008-2012 has deteriorated and was characterized by the significant capital outflow from Ukraine, including a decrease the investment in different sectors of the nation economy, as the result of the global financial crisis and political instability as well as economic weaknesses in the management system. A severe crisis has led to decreasing the pace of capital investment attraction and the introduction of new production capacity, increase in the volume of unfinished construction, low technological parameters and reproductive structure of capital investments despite the fact that the process of renewal and development of productive capacity was defined as the investment sector.

Fig. 2 shows the dynamics of gross capital investment in an industry which shows a little stabilization in the last two years.



Source: State Statistics Service of Ukraine.

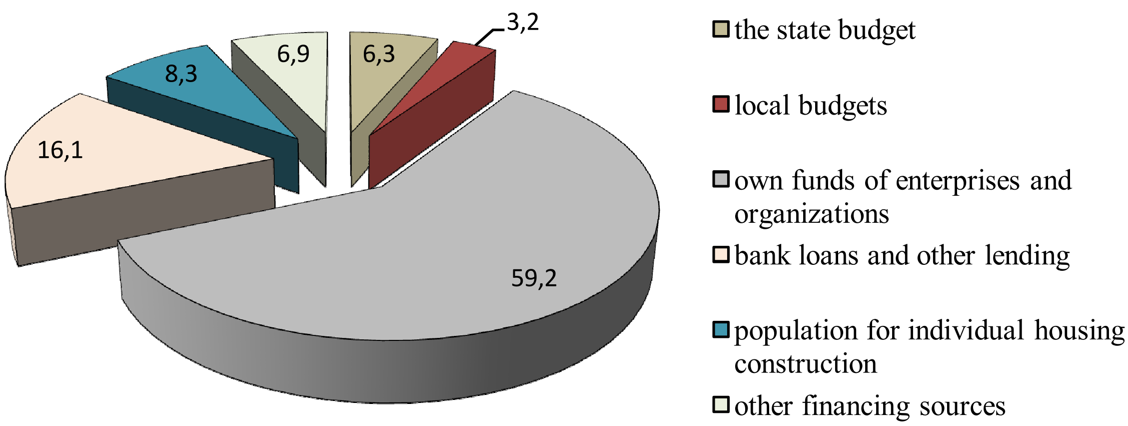
Fig. 2. The Gross Capital Investment in Ukrainian industry in 2005-2012

The largest volume of capital investments in the industry was made in 2008. The largest share of the structure of total capital investment of industry enterprises accounted for investments in the building, purchase of machinery, equipment, vehicles and capital repairs.

The volume of capital investments is 259932.3 million UAH in 2011 in Ukraine including the 209130 million UAH of fixed assets investments (excluding *value added tax*),which is on 22.4% more than in 2010 [15].The volume of capital investments is 263.73 billion UAH in 2012 in Ukraine, which 8.3% more than in 2011 [15].

The largest part of the total capital investment was made at the expense of the own funds of enterprises and organizations 156,149.3 million (59%); 42.53 billion. (16%) was made by bank loans; and only 6% at the expense of the state budget. The main source of capital investment is the funds of enterprises and organizations (Fig. 3).

The largest amount of investment of total capital investment was sent in tangible assets by 255.84 billion UAH, and 17.89 billion UAH of which in complete overhaul.



Source: State Statistics Service of Ukraine.

Fig. 3. The capital expenditure by financing sources in 2012

For comparison, the largest number of capital investment in 2012 was mastered in manufacturing (38.07 billion UAH), building (36.4 billion UAH), transport and communication (34.7 billion UAH), trade including wholesale, retail trade and repair of motor vehicles (23.34 billion UAH). The increase of volumes of the capital investments was only in some branches. Thus, the 2012/2011 index in the industry was 179.8%.

It should be noted that the majority of capital investment carried out into the fixed capital which requires constant updates and improvements for achieving the competitiveness of domestic products.

The volume of capital investment during the 2007-2010 periods demonstrated a negative tendency, as the result of which this indicator was 27.2% in 2011 of the 1990 level, and the volume of building works was on 0.7% more than the 1990 level according to the State Statistics Committee of Ukraine (Table 1).

Table 1

*The basic indicators of investment**

Years	Fixed assets investments		The volume of contract work performed by its own		The residential commissioning		Fixed investment in building	
	million UAH	% by 1990	million UAH	% by 1990	thousand m^2 of total area	% by 1990	million UAH	% by 1990
1990	555368	100	44826,8	100	17447	100	8970	100
2005	93096	16,8	25462,3	56,8	7816	49,5	12017	134
2006	125254	22,6	38038,0	84,8	8628	58,7	18581	2083
2007	188486	33,9	53524,6	119,4	10244	58,7	30343	338,3
2008	233081	42	62678,7	139,8	10496	60,2	35533	369,1
2009	151777	27,3	40843,5	91	6400	36,7	18052	210,2
2010	150667	27,1	43174,9	96,3	9339	53,5	27999	312,1
2011	238175	42,9	54024,7	120,5	9700	55,6	28413	316,8
2012	248034,7	44,7	58040	129,5	10749	61,6	-	

* Source: State Statistics Service of Ukraine.

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The volume of fixed assets on account of own funds decreased by 1.9 times in 2011 compared to the previous year [15]. Thus the specific weight of own funds is 59% (56% in 2010). But it should be noted that the own funds form mostly by depreciation, because profits after tax and dividends significantly fell in 2009-2010 as a result of financial crisis.

The volume of fixed assets amounted to 238.2 billion UAH in 2011, it is more than 22.4% compared with 2010. The structure of the fixed assets investments by ownership in January -September 2011 was as follows: 5.5% public, 2,5% local budget, 61.1% own funds, 12% credits, 2.0% foreign investors, 12.2% population, 4.7% other sources.

The possibilities of the state budget usage for industry to financing are limited because of the great budget deficit as well as lack of unified strategy of industrial development. The lack of information and statistical tools for analysis of Ukrainian high-tech industrial sector prevented the state support of priority industries. Nowadays, there is no uniform classification of high-tech products in Ukraine, which significantly complicates the determination of public financing priorities of industrial production [4, p. 15].

The state budget funding in Ukraine ranges from 4.4% to 6.3% and 5.35% during the 2005-2010 period, and 5.35% on the average in the structure of fixed assets investment by source of financing; as well as the local budgets founding ranges from 2.7% to 4.3% during the same period, and 3.5% on the average; and GDP ranges from 0.003% to 1.2%. This is a confirmation of insufficient government participation in financing of investment process [15].

The largest share of budgetary provisions accounted for fuel-energy complex. The funding of fuel-energy complex increased by 38.6% during the 2006-2010 period while spending on research and development in the energy sector increased by 3.7 times. The volume of the processing industry funding including high-tech production is decreased by 5.1%, at the same period.

The reproductive structure of fixed capital investments defined the increasing the share of intensive investment of modernization and reconstruction of existing enterprises. The share of this indicator was 60-73% in 2005-2012.

The industrial structure of capital investments has significantly changed for the worse because the major part of it accounted for the manufacturing industry (58.5% of the total capital investment in 2010) and also for the mining industry (26.75%). The investment activity in mechanical engineering has fallen by 12 times because 29.3% of industrial investment accounted for mechanical engineering in 1990, but only 7.5% in 2010.

The reduction of capital investment in machinery and building industries as the main producers of investment resources are particularly serious consequences for the prospects of investment activity. The mechanical engineering ceased to be the basis of technical equipment of the national economy. One way to increase demand for domestic engineering products is growing solvency of its customers with a wide usage of leasing.

The bank lending should be the most important mechanism of industry development financing in in terms of the limited capacity of budget support and lack of own funds. The largest volume of bank lending in industries was spent for manufacturing industry 86.6% in 2008, 84.7% in 2009, 82.6 % in 2010 of the total cost. The largest volume of bank lending came into the food industry (25.7% of all loans in the manufacturing industry at the average of 2008-2010 period), engineering (23.0%), industry (18.6%), chemical production (8.1%), and manufacture of other non-metallic mineral products (7.4%). The share of bank lending to other industries did not exceed 6%. The term structure of credit in the industrial sector is unbalanced because the majority of loans are short-term. One must admit that short-term credits forwarded the renovation of circulating assets of enterprises. The funding of investment and innovation activities performed exclusively by long-term loans, but the share of long-term loans in the structure of the lending industry remains rather low.

The banks should be the main centers of industrial development financing in current condition of economic development and in particular issue loan on the new products, development of the new technologies. The banks should recommend innovations based on alternative projects and business plans for which it is reasonable to take a loan and be a shareholder with further participation in profits not only issue a long-term loan.

The alternative funding mechanisms of structural changes in the industry have not received sound development. The share of non-bank segment is less than 7 % of the total assets of financial institutions in the structure of the Ukrainian financial market. The financial institutions of Ukraine provide rather narrow range of financial services as well as the majority of which have unsatisfactory quality while the legitimate rights and interests of consumers of these services are not adequately protected. The low capitalization of financial institutions slows the financial sector development. The serious barrier for long-term financial resources provision in a real sector of the national economy is low capacity of banks and financial companies.

The innovative activity of industrial enterprises favors the development of economy, provides the introduction of scientific and technological advances. Meanwhile, the appropriate financial support for innovation is one of the most important conditions of innovative processes implementation. The financial support for innovation means the system of economic relations about searching, attraction and effective usage of financial resources. The 1758 companies were engaged in innovative activities in 2012 or 17.4% of the total number of enterprises for comparison the 1679 companies in 2011 or 16.2%. The number of companies which spend money on innovation increased by over 20% in 2011. The volume of innovation expenditures is 14.3 billion in 2011 (8 billion in 2010).

The main funding sources in the field of innovation are their own funds, particularly 63.9 % of the total cost in 2012 compared to 52.9 % in 2011, the state budget was 2.2% (3.7%),the loans was 21.0% (38.3%), the foreign and domestic investors was 8.6% and 1.3% (0.4% and 0.3 %,respectively) (Table 2) [16].

The 1037 companies launched the innovative production by 36.2 billion UAH or 3.3% of the total volume of industrial production in 2012 (42.4 billion UAH in 2011, or 3.8% respectively). Almost every fourth company launched a product which was new for the market. The volume of such products amounted to 14.5 billion UAH, it is more than half of sum total (52.4%). It should be noted that the majority of companies almost 85.7% of total amount in 2012 have launched completely new products. The volume of new products was 21.7 billion UAH in 2012 or 26.6%.

Table 2

The dynamics and structure of funding sources in the field of innovation

	2005	2007	2008	2009	2010	2011	2012
The total funding of innovation activity in Ukraine, mln.UAH	5751,6	10821	11994,2	7949,9	8045,5	14333,9	11480,6
in % of GDP	1,3	1,5	1,3	0,9	0,7	1,1	0,81
including (%):							
own funds	87,7	73,7	60,6	65,0	59,3	52,9	63,9
the state budget	0,5	1,3	2,8	1,6	1,1	1,0	2,0
local budgets	0,3	0,1	0,1	0,1	0,1	0,1	0,2
extra-budgetary funds		0	0	0	0	0	0
domestic investors	1,4	0,2	1,4	0,4	0,4	0,3	1,3
foreign investors	2,7	3,0	1,0	19,0	30,0	0,4	8,6
Loans	7,1	18,5	33,7	11,8	7,8	38,3	21,0
other sources	0,3	3,2	0,4	2,1	1,3	6,9	3,0

The 1371 companies were engaged in introduction of innovative products in 2012, it is the 78% of total amount of innovative companies. The 704 companies have launched 3403 innovative products, notably 962 of them are in machinery, equipment field. The 598 companies introduced the 2188 new processes in the reporting period, including 554 resource-saving processes.

Thus, the analysis of the dynamics of investment processes in Ukraine suggests that the active phase of their development in 2005-2008 changed recession in 2009-2011, which constrains the development of the country significantly. It should be noted that the financing of industry investment in Ukraine arises from the difficult conditions which is closely associated with the global financial crisis as well as a certain number of internal factors, such as: the political instability; the imperfection of appropriate law; the tax burden on businesses; narrow domestic market; inflation; the undeveloped industrial and social infrastructure; the lack of information provision and the low level of investor protection; the lack of a clear investment policy of the relevant implementation mechanisms at national and local levels; the lack of incentives and mechanism of investment attracting; the reduction of investment activity in the world.

The existing problems of financing of industrial development in Ukraine lie in structural imbalances such as technological, sectoral and regional as well as by funding sources. These problems can lead to aggravate existing imbalances in the economy, monopolization of strategic sectors of the economy, as well as misallocation of raw materials sources and production capacity.

The burning problems of investment in Ukraine have been ignored for a long time in particular the investment of real economy. The development of industrial production was not accompanied by adequate investment support with the result there has been a collapse of production and investment since Ukraine gained independence. The permanent deficiency of investment has led to functional and physical depreciation as well as reducing the output and falling competitiveness.

There is a decrease in investment processes in the world in concordance with global economic crisis. The annual inflow of FDI in the world in 2009 decreased by 37% compared with 2008 [17]. There is a high level of shadow economy in Ukraine due to poor tax policy and lack of budgetary support of the real sector as well as global economic crisis.

The high inflation in Ukraine discourages potential investors and threatens devaluation of investment income. Consumer Price Index (CPI) in Ukraine increased to 100.5 Index Points in December of 2013 from 100.20 Index Points in December in 2012. The country's annual average headline inflation for the year 2013 is 100.5% [5].

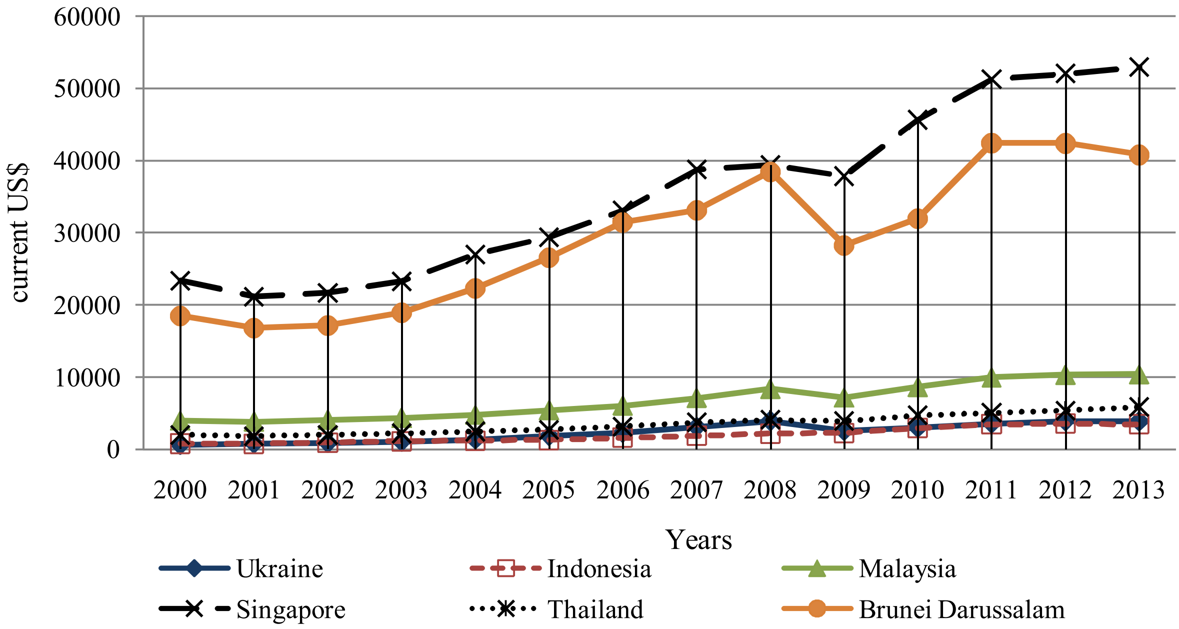
The great energy intensity of Ukrainian industry makes domestic goods production much more expensive as compared with majority of imported analogues. As the result, domestic enterprises can not afford to make additional funding available for investment of production development and innovation.

Industry development in the leading countries of the world: a study of international experience of financing of industry development and its possible application in Ukraine. Industry of the most developed countries of Southeast Asia is one of the most dynamic and attractive sectors of these countries. First of all, it refers to the branches generated by the information revolution of recent decades, and is closely associated with the global trends of scientific and technological development. Cumulative production of products and services of the ASEAN countries is 2 % of the world.

In the context of the global trend of rapid development of transnational corporations and the information revolution greatly accelerated the spread of the world's new production and management technologies. Generators of such technologies are mainly highly industrial and postindustrial countries.Unprecedented technology innovation and entering to the new market as well as new types of high-tech products with improved quality occurs under the pressure of competition. There isconstant growth of living standards in these countries and the corresponding increase of wagesas well asoutpacing productivity growth lead to increase in the costs of the products produced by high-tech industries, as the resultwe can observe the significant transfer of production to other countries of the ASEAN region, China and others in the last decade.

Leading ASEAN countries were able to create a dynamic developing sphere of high-tech industries of the national economy. This is due to constructive government policy of ASEAN countries to provide favorable economic environment for foreign investors and domestic business.

ASEAN concentrates on the harmonization of the business environment in the region and convergence of the level of technological development of all participating countries, focusing on the creation of a single market space. In modern conditions it is necessary to study experience of consistent policy which will ensure macroeconomic stability and rapid accumulation of assets and capital, as well as their distribution, support the competitiveness of national products, the development of agricultural production and the service sector, along with the development of high-technology industries for uniform and balanced economic development.



Source: IMF World Economic Outlook, October 2013.

Fig. 4. The Dynamics of Gross Domestic Product per capita (current US$) of ASEAN-5 countriesand Ukraine

The experience of the economic mechanism formation of the industry development in ASEAN countries as example of effective state building and harmonious economic development is of a great interest for Ukraine. This policy requires the next organizational and economic principles:

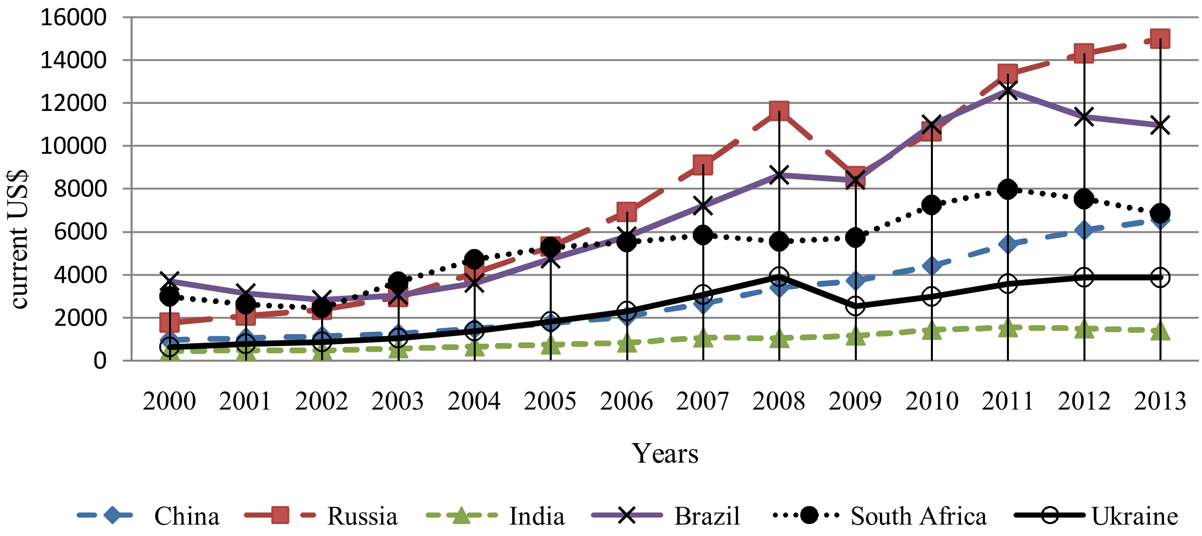
the formation of the modern legislative, regulatory and legal framework in the field of attraction and usage of FDI;

the full mobilization of domestic resources which suggests the possibility of synergies in the development, the public funding of promising projects, the promotion of private investment in domestic enterprises, granting preferential tax treatment, the development of information security, simplifying of bureaucratic procedures for national industries;

the mechanism formation for attractionand implementation of FDI, through the creation of a positive image of the investments profitability, safety and convenience of doing business, improving of financial system, standardization of companies reporting, the development of the institute of investments insurance. The Investment Attractiveness Index of Ukraine calculated by the European Business Association (EBA) after the growth to 2.39 in the third quarter, fell to 1.81 in the fourth quarter, it is the lowest level in the history of its measurement [14];

the priority development of industrial infrastructure. The identification of the most priority branches of industry development subject to long-term prospects.

BRICS countries (Brazil - Russia - India - China - South Africa) play the special role in the world economies which are characterized by dynamic development, even in the post-crisis, recessionary conditions. At the moment, the share of the total GDP of the five states in the global GDP exceeds 21%, with an increase of this indicator over the past 15 years more than three times. At the present stage BRICS cooperation is developing in different directions, but the main task is the effective economic co-operation.



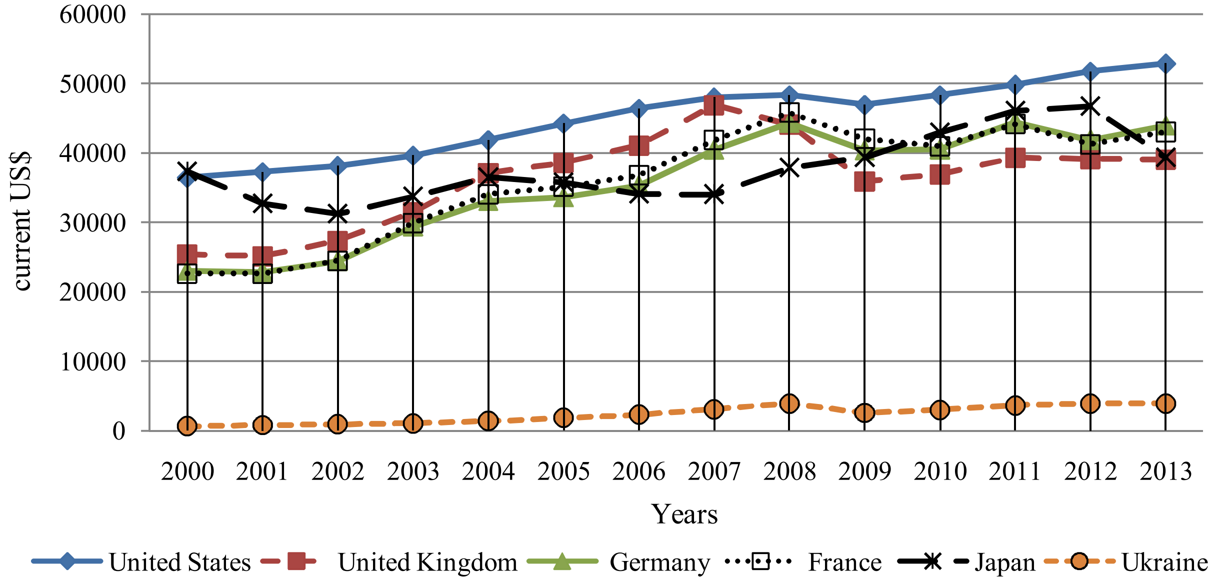
Source: IMF World Economic Outlook, October 2013.

Fig. 5. The dynamics of Gross Domestic Product per capita (current US$) of BRICS countries and Ukraine

Currently China opens up new sources of research funding for foreign companies making "The Celestial Empire" as a great example to follow. China is pursuing aggressive policies by developing its own high-tech production and global market penetration with the tools of active state support, encouraging foreign investment inflows as well as supporting their own research sector [10].Thus, considering Chinese experience of effective economic mechanism formation Ukraine should bet on the instruments and leverage of the development of the real sector of economy, the development of productive capital on conditions of existence of a single reform center as well as observance of the gradual manner of new elements introduction of the economic mechanism taking to account national identity and national interests.

The priority areas of improvement of the economic mechanism of industry development in Russia are defined as the creation of large state-owned enterprises and vertically integrated holding companies.The aim of this transformation is to preserve the scientific and industrial capacity through consolidation and centralization [18]. Currently, the internal resources for improving the economic mechanism in Russian would be found in the use of income of the primary sector for general economic goals by increasing the rent payments, introducing of a progressive scale of income taxation, saving public funds, as well as involving the population funds in the real economy more actively. It is necessary to change the system of commercial law, taxation, as well as increase the government regulation of social development. An important prerequisite for technological development is increase of government funding for fundamental and applied research and experimental development.

Germany is the leading European country and the basis and the driving force of the structural transformations in the German economy are the financial and monetary policies. First of all, they include a variety of financial incentives, transfer of funds from the state budget for the training and retraining of personnel, financing for the productive potential modernization, the tax reduction or exemption from them, the reduction of excess capacities by providing of appropriate compensation [19, p. 151]. The financial system is the main institutional element of the market economy, because the allocation of resources follows the allocation of capital, so the level of development and the effectiveness of the financial market (monetary, foreign exchange, stock) provide even the higher level of economic development of the state.



Source: IMF World Economic Outlook, October 2013.

Fig. 6. The dynamics of Gross Domestic Product per capita (current US$) of OECD countriesand Ukraine

Considering the institutional conditions of the United Kingdom industry, it should be noted that the strict competition rules ensure the dynamics of the market, as well as strong government support of the industry. In particular, different methods like as fiscal, monetary and budgetary policy are used in order to improve the infrastructure of the industry. The promotion of high-tech sector is made through innovation and investment policies, as well as subsidies to strategic industries. The UK experience in terms of institution building, the union of the tax and customs services is considered the most successful and best in Europe. The customs policy is used as a tool to protect the vulnerable national productions. The export promotion tools are the state insurance of foreign trade and preferential loans for exporters.

In the United States in 2011, President B. Obama called for the federal government to increase support for manufacturing and robotics technology. "If we want a robust growing economy, we need a robust manufacturing sector, "B. Obama said, announcing the "Advanced Manufacturing Partnership" [20]. The American federal government has usually funded half or more of American R&D. It selects the sectors most likely to add value and invests in them. American governments support sectors that can't attract private funds, especially s*mall and medium enterprises* (*SMEs*). In May 2011 President Obama said: "Small businesses are the backbone of our economy and the cornerstones of our communities. They create two of every three new jobs in America, spur economic growth, and spark new industries across the country" [19].In this case, in the US, the National Exports Initiative (NEI) was established in March 2010 in an attempt to help meet President Obama's target of doubling US exports over five years, with the intention of creating millions of jobs [21, p.33]. The basic obstacles to SME growth in the USA are high taxes. The Obama Administration has gone a long way to reducing the tax burdens on small businesses and has enacted a total of 17 tax-cutting measures specifically for SMEs [9, p. 17].

According to international experience, technological innovation and industrial development is one of the determinantin identification the country's place in the global economy. The innovative model of development has long been the dominant in economic policy formation of countries development in the most emerging economy. Ukraine is still trying to form an effective R&D and innovation policy, to develop effective tools to stimulate industrial development since Ukraine turned to the ways of market changes.

Despite the multi-vector orientation the experience of ASEAN, BRICS and OECD shows that the establishment of an effective economic mechanism is possible in the first place only under a common favorable institutional environment in the state, adequate taxation, development of credit system, high-quality education system, etc.

The ensuring of industry development in the country requires not onlymobilization of resources for investment and targeted distribution of financial flows as much as possible, especially in the priority areas of the economy, but also overcoming the so-called government failure [22, p. 83]. A shift of emphasis on innovation, effective industrial policy, the formation of an effective infrastructure is crucial for technological advantages and new business development all over the world, especially for developingcountries.

Nevertheless, the current situation in the sphere of industrial development particularly the financial support of industry remains unsatisfactory despite the measures taken in Ukraine. Nowadays,the existing industrial development programsas well as its financial support are more declarative and do not reflect the national specificities and the realities of modern economic development.The modern Ukrainian scientists affirmed the concept of innovation neoindustrialization which can be implemented by matrix industrial policycombining both vertical and horizontal policies directed by the elimination of failures rules and suitability instead of the elimination of market failures[22, p. 82]. A. Danilenkoemphasized that the need of transition from customary industry support of individual branches to management model based on the national priorities and the modern innovation and investment projects as well as the institutions of financial support [23].

In light of the foregoing, we can define that the financial support of innovative development of Ukrainian industrial policy plays a special role for creating favorable institutional and macroeconomic conditions for **increasing the volume of investment resources** and also for **the growth of investment activity** of business entities. In this case, an important role should play the improvement of Institution of Government for institutional support of strategy and industry development policy as defined in the research of Yu. Kindzersky as follows: the developer of the rules of play and the controller of their implementation, a tool of national resources reallocation, a regulator and the owner at the same time [24, p. 52].

Conclusions and recommendations. The research offinancing industrial development issues allowed to outline the strategy directions for improvement of the system of financing industrial development of Ukraine which are based on the preemptive usage of institutional and evolutionary tools:

creating favorable legal, economic and organizational conditions for innovation and investment in the industry by means of the organization of public-private partnerships in the priority areas of industrial development;

the support of the development of the system of direct government investment, particularly on terms of co-financing, increase the industry funding at the expense of funding source expansion notably the budget funding programs of industrial development, as well as incentives for alternative sources of financing, such as leasing, funds raised at the stock market;

the overcome of the energy-and resource-intensive industrial character by means of determination of priority directions of joint funding of energy development;

the incentives of funding for technical and technological renovation industry at the state level by means of market infrastructure formation of industrial development financial support based on development of regional institutions in promoting efficient investment. Creation of a single agency (the agency of investment promoting) which will interact with investors and governments as well as take measures in order to support complex of innovative projects. It is necessary to consolidate the stock exchanges, to protect the rights of investment services consumers, to create the central securities depository, as well as clearing and settlement systems which ensure the minimization of risks during the execution of securities transactions;

the formation of infrastructure support system of financing industrial development by creating institutional conditions for effective functioning of innovative financial institutions and investment companies, the formation and development of the software industry private equity and venture capital, creating conditions for attracting investment from international capital markets (consolidation of stock exchanges, protection the consumer`s rights of investment services, creation of a central securities of depository as well as clearing and system of settlement which ensure the minimization of risks during the implementation of agreement of securities transactions).

However, the analysis of the current state of financial support of industrial development in the modern condition shows that the number of theoretical and applied issues remains unsettled. Generally, the holistic concept of financial support of industrial development under the new institutional environment of post-crisis development had not yet been formed. Ukraine needs to update the management *tools of* own funds and bank loans to achieve the investment goals, as well as the purposeful formation of the more favorable institutional environment for the lending industry. All these aspects require the further research, theoretical generalizations and methodological basis as well as specification for modern conditions of Ukrainian industry development.

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