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

© 2014 BEREZOVSKA H. I., KMIT V. M.

Berezovska H. I., Kmit V. M. Foreign Models of Financial Regulation and Feasibility of their Usage in Ukraine

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 businesses 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.

Bibli.: 10.

Berezovska Kristina I. – Postgraduate Student, Department of Finance, Accounting and Credit, Liviv National University named after Ivan Franko (vul. Universytetska, 1, Liviv, 79000, Ukraine)
E-mail: tinka200208@rambler.ru

Kmit Vira M. – Candidate of Sciences (Economics), Associate Professor, Department of Finance, Accounting and Credit, Liviv National University named after Ivan Franko (vul. Universytetska, 1, Liviv, 79000, Ukraine)
E-mail: kmitvira@ukr.net

UDC 338.646.8

Berezovska K. I., Kmit V. M. Foreign Models of Financial Regulation and Feasibility of their Usage in Ukraine

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 businesses 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.

Bibli.: 10.

Berezovska Kristina I. – Postgraduate Student, Department of Finance, Accounting and Credit, Liviv National University named after Ivan Franko (vul. Universytetska, 1, Liviv, 79000, Ukraine)
E-mail: tinka200208@rambler.ru

Kmit Vira M. – Candidate of Sciences (Economics), Associate Professor, Department of Finance, Accounting and Credit, Liviv National University named after Ivan Franko (vul. Universytetska, 1, Liviv, 79000, Ukraine)
E-mail: kmitvira@ukr.net

UDC 338.646.8

Berezovska K. I., Kmit V. M. Foreign Models of Financial Regulation and Feasibility of their Usage in Ukraine

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 businesses 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.

Bibli.: 10.

Berezovska Kristina I. – Postgraduate Student, Department of Finance, Accounting and Credit, Liviv National University named after Ivan Franko (vul. Universytetska, 1, Liviv, 79000, Ukraine)
E-mail: tinka200208@rambler.ru

Kmit Vira M. – Candidate of Sciences (Economics), Associate Professor, Department of Finance, Accounting and Credit, Liviv National University named after Ivan Franko (vul. Universytetska, 1, Liviv, 79000, Ukraine)
E-mail: kmitvira@ukr.net
Analyzed 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

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].

And finally, 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

The 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.

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 Unit-
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.

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.

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.

n 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 products. 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.

REFERENCES


