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OF EURO-ZONE

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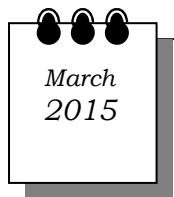
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Economic Theory

Victor KOZIUK

**DEBT CRISIS
AND FISCAL FRAGMENTATION
OF EURO-ZONE**

Abstract

Based on panoramic view of the EMU fiscal fragmentation, it is shown that the divergence of the euro area could not be caused by inadequate principles of the Monetary Union. Prior to common currency transition the problem of fiscal fragmentation was disguised in a more stable global environment and confidence for the future policy of the ECB. The debt crisis in the EMU brought the problem of fragmentation out of the latent state, showing a clear division between the countries that have kept on competitiveness and whose economic growth has positive expectations, and the rest ones, which are characterized by the fact that their financial imbalances have been combined with the loss of competitiveness. Speculation against structural inflexibility tightened fiscal fragmentation. Fiscal rather than monetary reasons for the EMU divergence lie in a combination of incentives to reduce distortion of national debt reduction in the environment of global liquidity expansion and the institutional weakness of fiscal rules model of Stability and Growth Pact. Fiscal fragmentation has the signs of saving for a long time, threatening to enhance sensitivity of the EMU macro-financial stability to the economy policies of individual countries. Fiscal fragmentation of the euro area is incompatible with the prospects of common currency as a reserve one.

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Key words:

Euro-zone, national debt, debt crisis, fiscal fragmentation, fiscal rules.

JEL: H30, H63.

Introduction

The global financial crisis transition to sovereign debt crisis in the developed countries dramatically manifested in the European Monetary Union. Meticulous attention to this problem demonstrated both the attempts to verify internal vulnerability of monetary integration areas to fiscal shocks, and also to point out the unsustainability of the single European currency in light of the global monetary competition. Despite the fact that the final settlement of the debt crisis in a number of European countries have not yet been completed, structural reforms in the EU–EMU demonstrate a clear focus on the simultaneous combination of ensuring fiscal sustainability and flexibility of the member countries economies. Announced in 2011 package of reforms is designed to demonstrate the resolute intention to create a macro-fiscal, structural and institutional prerequisites to a single mechanism of monetary policy be based on the best foundation for debt sustainability.

However, the debt crisis in the EMU can not be considered in a traditional spectrum of the complications analysis of sovereign solvency. Moreover, the thing is not that the events of 2009–2012 demonstrated the presence of fundamental risks to macroeconomic stability, theoretically known from the practice of analysis of the fiscal determinants of the majority of famous historical currency unions collapse. Peculiarities of theoretical analysis of vulnerability to EMU asymmetries in monetary and fiscal policy are provided by a range of circumstances. Formation of the euro area was based on political-institutional treatment of benefits of monetary integration for leveling currency risks to which the system of tight trade relations showed particular vulnerability, increased competitiveness, increased stability of macroeconomic policies, lower long-term interest rates as a result of trust in a single central bank and so on. Compliance with the criteria of optimum currency area was not of reasoning but of denying monetary unification

nature. Thus, the issue of fiscal risk heterogeneity was always actively debated, but in the process of actual European integration it was pushed into the background until the detection of reluctance signs of some countries to follow fiscal rules. On the other hand, fiscal policy was not analyzed in the light when the integration area may be vulnerable to asymmetric processes accumulation of financial imbalances and loss of competitiveness by those countries that are at earlier stages of real convergence. The debt crisis in the EMU has generated quite a significant fiscal problem of fiscal fragmentation that did not approve itself in the prior stages of the integration area in Europe, even though it always existed in a latent, and in a manifested state. The biggest problem of this fragmentation is that it can become the starting point of a wider divergence of the euro area. The imposition of non-core role of a lender of last resort to the ECB will not guarantee the problem of divergence to be overcome even if it weakens the strain in fiscal fragmentation in the short term. Given the importance of fiscal stability factor for Monetary Union, we think the research in this area is relevant.

The discussions about the problems of the debt crisis in the EMU outlined the expected perimeter positions, whose origin can be traced from the time of the debate on the creation of the euro area. In this sense, there defines a kind of Anglo-Saxon area for analysis of the debt crisis, which is based on a skeptical assessment of the prospects for the euro area in a broader theoretical context. Inconsistency with the optimum currency area criteria, lack of adjustment to shocks in the form of a flexible exchange rate and the lending of last resort are regarded as fundamental drivers for the EMU divergence that had been theoretically predicted prior to the creation of the Monetary Union in Europe (Krugman, 2013; Obstfeld, 1998). Nevertheless, a number of American authors noted that quite a rapid success of the euro as an international currency can not be the result of the error of such a great number of global players, and thus the EMU functioning is based on a healthy pragmatic basis. Moreover, the lack of exchange rate flexibility is a problem of the global economy as a whole, not just the euro-zone; therefore, the fiscal problems should be analyzed in a concrete historical context (Posen, 2005; Pisani-Ferry and Posen, 2009; The Euro at Ten).

The crisis analysis in the EMU is also divided rather structurally into the problem of the relationship between imbalances and divergence, and the problem of the relationship between the loss of competitiveness, spreads and fiscal divergence. As to the former, a number of works can be distinguished which are unanimous on the fact that the basis of the divergence nature is an overheated financial sector in the South, and the lack of adaptation to new similar conditions through the equilibrium conditions for real effective exchange rate. Credit boom and asset price inflation turned out to be the important determinants of the crisis, fiscal adjustment to which became secondary from the view of the EMU crisis (Mongelli, 2010; Smaghi Bini, 2010; Hume, 2009). The loss of competitiveness is seen in literature as a very serious problem in case of Monetary Union members. Debt problems in these countries are a natural consequence of the failure to

maintain the economic growth rate that would guarantee a sovereign solvency. In case of significant debt accumulation the absence of automatic correction mechanisms for real effective exchange rate encourages speculation and worsens the EMU fiscal homogeneity (Lane, 2010; Barnes, 2010; Barbosa, 2011; Davlas et al., 2011; Alberola, 2011; Koziuk, 2011).

Presented in literature focus on purely fiscal aspects of Eurointegration indicates that the debt crisis is the result of distortions in the EMU macroeconomic mechanism as such. First, still before the introduction of the euro the EU countries were characterized by a lack of uniformity. The level of debt burden defined the future trajectory of behavior for the primary budget balance. And due to that, the stabilizing possibilities of the latter, as important in terms of the loss of the exchange rate as a tool of adjustment to the new similar conditions, turned out to be asymmetric in terms of the countries. Second, in terms of the countries there was a budding tendency towards an asymmetric response to the phase of the business cycle. That is, even at available synchronization of business cycles in terms of the countries, the fiscal response to their phases was far from that which would fit for the paradigm of fiscal convergence. Third, the replacement of nominal Maastricht convergence criteria for structural indicators of fiscal rules of the Stability and Growth Pact actually significantly deviated the EMU from the trajectory of debt stability. Prior to 2012 reforms these rules allowed both the excessive discredit, and frustrated responsibility for their violation. Fourth, in an environment of low interest rates fiscal constraints on the growth of national debt by over 60% of GDP began to be understood as to avoid the need to reduce national debt below 60% of GDP. As a result, the debt crisis in the EMU was due to the fact that the need to increase budget deficits in response to the crisis coincided in time with gradual but continuous exhaustion of fiscal space (these issues are summarized in a number of the author's researches (Koziuk, 2013; Koziuk, 2014). Reflections concerning options for the response to the sovereign debt crisis signified a new line of debates on the trajectories of the EMU transformation, and outlined the prospects for the evolution of Monetary Union (Barbosa, 2011; 2013). However, the scientific controversy still lacks the panoramic understanding of the relationship between fiscal fragmentation before and after the crisis.

The lack of attention paid to the problem of a peculiar institutional genetics on public attitude to the debt burden makes the destructive impact on a fiscal homogeneity of the Monetary Union, and thus, on its stability. If the fiscal fragmentation had been compensated before the crisis by the confidence to the future process of convergence, while remaining neutral on competitiveness, real convergence and financial imbalances, then after the crisis it marked a clear connection with the above-mentioned problem areas that fell beyond the analysis of the theory of optimum currency zones (Koziuk, 2012), and this given paper is aimed at substantiation of the panoramic integrity of the pre-crisis fiscal divergence processes.

The EMU peculiarities from the view of Monetary Union theory

Special emphasis on why the sovereign crisis in the euro area is so destabilizing for the global economy should be linked to a number of reasons.

First, the euro is and remains a real alternative to the US dollar and, essentially retains its reserve currency status, and the debt liabilities of the EMU member countries are, respectively, the reserve assets. This means that the proportion of assets in global portfolios is higher than the proportion of the countries – issuers' GDP in a global output. Naturally, significant external national debt instruments possession of the EMU member countries changes the modality of debt market functioning.

Second, the structure of interest rates in the euro instruments is formed on the principle of currency risks exclusion. However, leveling of currency risks had exacerbated the gap between fundamental analysis of sovereign solvency of individual borrowers and the actual dynamics of spreads long before the crisis. Extensive borrowing in an environment of low interest rates can be considered not only the problem of market failures but also that of governments who would be able to pursue a more risky fiscal policy.

Third, the rapid fragmentation of the EMU debt markets on principles of «safe harbor» and «speculative segment» is a continuation of the analysis of the monetary integration area in terms of financial imbalances and compliance with the criteria of optimum currency zones.

Fourth, the model of the EU-EMU macroeconomic policy was based on the principle of «no collective foreign infusions in case of crisis» (- *no crisis bail-out*). This means that destructive processes in the euro-area unfolded simultaneously with the discussions about the degree of the Maastricht model macro policies compliance with the prevailing conditions, increasing uncertainty about the future status of the euro, monetary ECB rate, membership of certain countries, losses from the process of disintegration or pool size to create a package assistance to individual countries.

Fifth, the willingness to save the single currency in terms of asymmetric loss of global competitiveness of individual EMU member countries increased the conflict degree between the policy of internal devaluation and the fiscal consolidation required to stabilize the national debt. The combination of measures in budgetary savings with reduced wages and social benefits are functionally similar, but equally ambiguous about the impact on economic recovery. Structural rigidities, political and economic losses of the programs of public finances consolidation, and external pressure on the euro exchange rate have demonstrated the emergence of new motives for speculative activity.

Sixth, the EMU debt crisis unfolded under the influence of excessive market focusing on the problem of participating countries coordination just due to the fact that the ECB policy differed qualitatively (before launching of the programs to support the liquidity of debt instruments in Italy and Spain) from the programs of government obligations acquisition that were actively implemented by the Federal Reserve, Bank of England, Bank of Japan, Riksbank, etc.. The paradoxical conflict between a long-term monetary stability and short-term liquidity of debt markets was focused on reserve currencies / assets, and that attaches the issue of distorted global monetary relations to the problem of debt sustainability of the EMU countries.

Hence, the debt crisis in some euro area countries can refer only to the expression of no confidence in the solvency or insolvency manifestation to serve the sovereign debts. And the reforms of macroeconomic policies in the EMU, even if they are addressed to the national level of fiscal policy implementation can not but attest to the process of integration association adaptation to the new realities of the global environment.

Another block of problems that show extraordinary situation around the debt crisis is that it takes place in the integrated community, the formation of which from the beginning: contained the signs of uncertainty in terms of the theory of optimal currency areas, especially in the fiscal aspect (lack of inter-country transfers designed to facilitate the adjustment of some economies to specific asymmetric shocks in the absence of exchange rates, on the one hand, and uncertainty about how differences in GDP per capita should determine differences in quantity and quality of offered public goods, and the extent of income redistribution, on the other hand); was based on a sufficiently developed institutional mechanism of adherence to fiscal convergence criteria, which grew into the system of fiscal policy rules (fiscal convergence Maastricht criteria were part of the EMU fiscal rules under the Stability and Growth Pact (SGP), but the structure of the rules showed different macroeconomic and institutional approach compared with that which was laid down in the Treaty of 1992 on the introduction of the euro in 1999); disregarded macro-financial risks of asymmetric staying of the countries at different stages of real convergence (the benefits of the operation of common currency in the countries with lower income per capita were calculated from eliminating the problem of inflation and exchange rate instability, which had a positive impact on interest rates and encourage investment, while the risks of asymmetric financial imbalances were not debated, including the fact that they were not known in the economic theory of integration processes in such a form, as they are now). Neglecting the presently known macro-financial integration risks for the countries which are in different stages of real convergence is indeed one of the reasons for the formation of the model of the EU–ECB macroeconomic policy, which took place in the 1990s and which has undergone significant changes as a result of 2010–2012 reforms. Read more about the theoretical aspects of the issue (Koziuk, 2012; Pisani-Ferry, 2012; Davras, 2012).

Pre-crisis EMU fragmentation

The crisis of 2009–2011 was preceded by a number of trends that eventually defined the debt profile of macro-financial instability: lack of fiscal homogeneity; transformation of fiscal convergence criteria into the rules of fiscal policy in the integrated community in a way that did not produce an impact on improving the debt sustainability; deepening of financial imbalances in the context of the member states, which can be divided on a principle of the «North-South – Centre-Periphery»; absence of last resort lending and lack of mechanisms for the problem solution of liquidity crisis type.

So, as it is known, the fiscal aspect of convergence criteria was predicted by the Maastricht Treaty. From 1992 membership in the euro area (as well as in the European mechanism of exchange rates II) provides for that the overall budget deficit should not exceed 3% of GDP, and national debt – 60% of GDP. This specification reflected the best the idea that discretionary fiscal policy should be substantially limited. Achieving the debt sustainability and strengthening the common principles for creation of fiscal policy mechanism would have to create a reliable basis for the functioning of the monetary union.

In the light of the gaps within the national debt and budget deficits values, we can unambiguously affirm that the Maastricht fiscal criteria looked unrealistic when taking into account the introduction of the euro in 1999.

Also the determination of the permissible limits of the budget deficit and national debt was like this that is based on the median values in the developed countries over a long period of time, but not according to the current fiscal situation in the EU. The limit making 3% of budget deficit to GDP, and 60% of national debt to GDP at the moment of the EMU establishment, and the transition to the euro reflects almost arithmetic averages, but not the median ones in the integrative zone (Koziuk, 2013).

The EMU formation and transition to the single European currency assumed that almost half of its members would not meet the fiscal convergence criteria. Also to pursue the policies according to the following criteria included that individual countries would initiate the aggressive programs of fiscal consolidation or significantly curtail their volume of assets of social economic sector to reduce the size of national debt if significant changes in the structure of public finances could not be achieved in the short term. The reliance on the fact that the operation of the single currency policy of fiscal convergence continues, was partly justified given the fact that most countries, at least politically, have shown their willingness to follow the harmonization of the debt burden in accordance with the agreed principles of effective macroeconomic policy in the Monetary Union. The average value of the Maastricht criteria did not cause the hard resistance even

among marginal debtors, such as Belgium and Italy, indicating the presence of certain Euro-optimism (Buitter et al., 1993).

Significant level of already accumulated national debt and slow fiscal convergence originated a very specific situation, which acted as a reflection of the introduction of fiscal rules in the EMU, the design of which, from a macroeconomic point of view, deviated from the logic of the Maastricht criteria. On the one hand, from the perspective of fiscal rules design the fiscal convergence criteria are inflexible, and more focused on the control over scarce displacement and homogeneity of fiscal positions. The intelligent environment on the eve of the euro introduction had clearly formulated two main vectors for Maastricht criteria transformation into the EMU fiscal rules. The Stability and Growth Pact (SGP), adopted in Amsterdam in 1997, and amended in 2005, made a compromise both on the side of macroeconomic theory, and on the side of the Eurointegration policy. The macro theoretical and institutional SGP analysis reflected the presence of potential problems in the area of fiscal discipline in the EMU that, as a result caused raising the debt vulnerability of many member countries of the Monetary Union during and after the global financial crisis.

First, in the absence of monetary channels, the adjustment to fiscal policy shock is seen as the most significant mechanism for cyclical fluctuations mitigation. The combination of flexible decentralized and centralized fiscal tight monetary policies was defined by the base model of the EMU mix policy, which has significant advantages. Theoretically it was assumed, that if the Maastricht restrictions were imposed on fiscal expansion, then certain dosed flexibility would not threaten the process of economic convergence, but rather would enhance the real and nominal convergence through smoothing business cycles in the context of the member countries (Koziuk, 2013). As far as the decentralized flexibility is associated with automatic stabilizers, rather than the large-scale discretionary displacements of the policy, then it would not be the threats to the Monetary Union stability. An earlier view of the problem of fiscal discipline showed more categorical approach to the role of balanced budgets in the provision of economic growth and macroeconomic stability in the process of the European integration. Certain changes in the perception of optimal fiscal policy were clearly rooted in the late 1990s, resulting in the fact that the automatic stabilizers and cyclical structural balance began to be considered a better alternative to a hard line on fiscal discipline. It is remarkable, that the emphasis on the inclusion of fiscal homogeneity in the subject domain of the analysis of the EMU criteria for optimum currency area was not done (Mongelli, 2002; Dorrucchi and Firpo, 2002). And as a result of that, an automatic stabilizing fiscal policy has been implicitly viewed as functional additions to the alignment of business cycles, which is more important for nominal and real convergence.

Secondly, going beyond the Maastricht stiffness was due to the variation of the value of the debt burden in the EU – EMU and current policy conditionality by the former character of debt expansion. Thus, empirical research clearly shows

that the current fiscal policy is rather strictly limited with previous state of public finances, and the burden of interest payments is an important factor for limiting a budgetary maneuver using primary deficit (analysis of this problem is presented in (Koziuk, 2013; Koziuk, 2014)). The presence in the GSP macro-model of medium-term fiscal objectives, particularly these which are expressed on a cyclical basis, clearly showed the deviations of convergence criteria towards more flexible and complex fiscal rules.

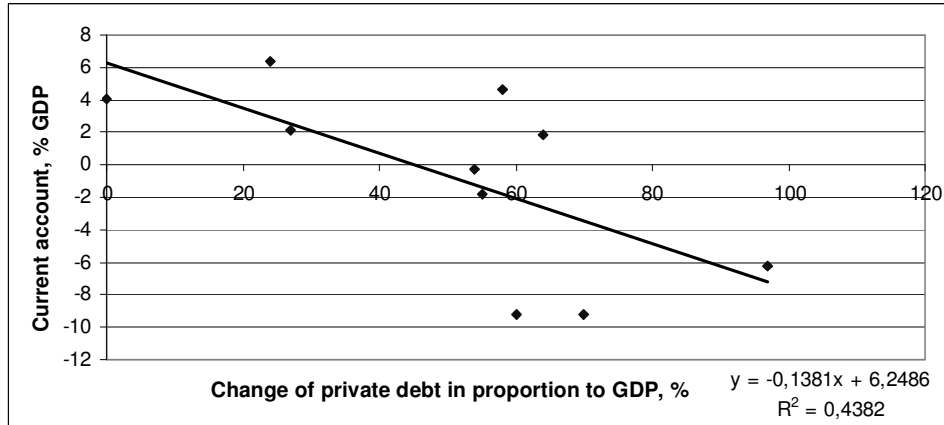
Thirdly, the GSP macro-design demonstrated that the shift from the convergence priority to the flexibility priority is a certain continuation of the line on the status quo in further convergence of the Monetary Union economies. As the empirical study shows, the role of common factors in the behavior of budgetary balance in the EU began to grow significantly since 1985, while the value of net borrowings rather varies in the process of adaptation to specific shocks. These results demonstrated that the strengthening of homogeneity in fiscal policy is derived from the synchronization of business cycles rather than the convergence in public finance (de Bandt and Mongelli, 2000). Specific national framework conditions of fiscal divergence are not less important determinants of differences in the trajectories of budget deficit and national debt than asymmetric macroeconomic shocks applied by the past practice to the current long-term fiscal policy conditionality. The uniform response to the recession by expanding budget deficit is more distinct than the symmetry in the respond of surplus to the economic growth (Koziuk, 2013). Without additional reservations regarding budget surplus in boom times and with a wide range of interpretation for going beyond the limits of medium-term fiscal targets, the EMU fiscal rules should be recognized unbalanced. Practically, this means that the Pact laid the formal foundations to such a macro –model of the fiscal policy, which allows for asymmetric automatic stabilization in the context of business cycle. The presence of controversial issues, and bureaucratic debates paved the way for the use of asymmetric constraint to fiscal consolidation, in terms of the countries. Consequently, the GSP was criticized almost immediately after its implementation and in terms of assessing the suitability of the so-called K-III criteria has space to improve (Koziuk, 2013).

Imbalances, Crisis and Fiscal Fragmentation

The accumulation of financial imbalances in the euro area has created a serious discussion about whether the generation of asymmetries in the behavior of asset value, credit cycles and consumption boom in terms of the countries with different incomes per capita is caused by the common monetary policy or by structural factors (Mongelli, 2013). Fig.1 demonstrates the presence of pre-crisis relationship between external and internal imbalances.

Figure 1

The relationship between internal and external imbalances in the EMU, 2000–2010 years



Source: (Koziuk, 2014).

From a theoretical point of view, the relationship between financial imbalances and sovereign solvency was not so much clear-outlined prior to the national debt crisis in a number of so-called peripheries of the euro area. To explain that relationship we should take into account several aspects.

A) Loss of competitiveness. Thus, if the cost per unit of labor factor in 2003 is taken for 100, then in 2007 it was as follows: Germany – 96, France – 107, Greece – 114, Spain – 115, Italy – 118, Ireland – 125 in 2008, respectively, 100, 113, 120, 122, 125 and 135, in 2009 – 103, 116, 125, 124, 124, 132, in 2010 – 102, 115, 124, 122, 123, 121, in 2011 – 103, 119, 123, 121, 127, 120 (Koziuk, 2014). That is, the process of unwinding the spiral of financial imbalances was accompanied by sharp changes in relative labor costs. Return of expenses for the equilibrium trajectory is contradictory as for the ability of the private sector to bear the burden of accumulated debt

B) The growth of national debt as a result of the financial crises. Recent studies of fiscal policy response to the financial crisis are ambiguous about the growth of national debt as a result of programs implementation to help the financial sector. Credit expansion affects the quality of bank assets, resulting in the fact, that the bank post-crisis recapitalization is completed with a sharp rise of national debt.

C) Absence of the mechanism for the course correction. The common monetary policy does not provide for the availability of the exchange rate in response to the worsening of external competitiveness. Correction of balance of payments due to labor costs rising and credit expansion can not occur through changes in the nominal exchange rate, but it requires changes in domestic absorption, which is the impetus for the loss of GDP in real terms and the ratio deterioration of debt to gross domestic product.

D) Underestimated relationship between fiscal sustainability and financial stability of the banking sector. High sensitivity of the banking sector stability to the behavior of spreads in debt instruments of a number of the EMU countries demonstrated both, a vulnerability to risks possession of such instruments, and the ability of markets to speculate on the ability of governments to support banks whose condition is deteriorating because the fiscal stability of the countries where they operate has already deteriorated. In fact, the expansion of the debt and banking crisis in the EMU in 2010–2012 demonstrated that the markets were quite clearly aware of the interdependence between the ability of governments to provide financial assistance to the banks and the willingness of the banks to maintain liquidity of debt instruments in the countries whose fiscal sustainability was doubtful just because of their inability to regain competitiveness by changing the exchange rate and the ambiguous impact of saving economic programs on national debt dynamics in the short term.

Lack of liquidity support mechanisms in the national debt markets, including strict institutional limits on the ECB's functions as a lender of last resort, produced a significant impact on the expansion of crisis processes in the euro area. From the very beginning, the design of macroeconomic EMU EU policy excluded the principle of centralized interference into the solution of fiscal problems in member countries. The Maastricht criteria together with a clearly stated mandate and a high level of institutional protection of the ECB independence were seen as the fundamental financial instability inhibitors that from the outset were aimed to neutralize the grounds causing them, i. e. – expansionary macroeconomic policies. Special emphasis on the fact that centralized services can not be provided to solve fiscal problems, was made for the reasons that it should be perceived as an incentive to fiscal discipline and responsibility. Prevention of moral hazard in the system of the common monetary policy was more priority, and thus easier way to create transparent principles of macroeconomic management. Probability of debt crises was ruled out, and at the same time possible mechanisms for the resolution of debt problems were also excluded

However, soon it turned out, that this model of macroeconomic policy does not meet the needs of crisis management liquidity generated by speculations respective structural rigidities of the economy. Also, the debt problems in some countries arose not as much as a result of a bad fiscal policy before the crisis, but as a result of the fact, that the increase in national debt was raised by the

banking sector rescue programs, overloaded with bad debts, which had emerged as a result of the credit boom of the previous period.

Other aspect of problem is intercommunication of spreads and crediting of the last instance. Before crisis quick compression of spreads pointed out that markets which are captured by evening – out of currency risks, obviously overestimate the absence of independent risks. As the crisis came and negative expectations concerning to the which channel of adjustment of the process of macro-economic adaptation to the new equilibrium conditions will go, were activated; spreads began widen overly as deprivation of liquidity in the financial system as a whole, loss of liquidity of debt securities of certain independent loan debtors and speculation concerning its future paying capacity began to strengthen each other. The absence of crediting of the last instance, at the point of view of certain economists, is the principle part of that fact why debt crisis in some countries of EMU was so sharp (Krugman, 2013). The absence of common Eurobonds concerning which EMU could be a creditor of the last instance, wiggled positions of Euro as reserve currency which influenced the deprivation of liquidity of debt markets of certain countries where poor effect of domestic substitution capitalized additional volatility inspired by fluctuation in the structure of global debt portfolio.

As a result the share of external possession of debt securities of member countries of euro-zone essentially increased (Rother et al., 2010). This can be explained by evening-out of currency risk and strengthening of taking such papers as replaceable. However, together with increase of share of non-resident possession of debt instruments the risk of market hyper reaction on the liquidity problems or, in other words, creation of speculative problems with liquidity became more simple case in condition of essential share of external possession. Liquidity support of instruments by channels of crediting of the last instance is possible only via monetary actions which violate the principle of individual responsibility for the problems in the field of fiscal policy. We can make pre-conclusion that common currency, removing currency risk, doesn't guaranty reduction of rates on the permanent basis, as far as the risk concerning with negative expectation concerning market liquidity and blocking of channels of its infusion can emerge.

However, in spite of essential crisis specific in euro-zone, accumulation of national debt before and after crisis pointed out on that fact that EU-EMU should examine as those which have no immunity from debt instability (table 1). Generally, fiscal policy in euro-zone countries during the long-term period demonstrates countercyclical direction with asymmetric action of automatic stabilizers. At the aggregated level we can clearly see that after deprivation of budget balance the profit was no achieved which could guarantee decrease of national debt. Success of coping with hyper deficits on 1980s – beginning of 1990s was not reinforced by essential decrease of national debt even if to take into consideration that some countries managed to decrease it almost under 20% of GDP (Belgium

and Italy) (Koziuk, 2013). Hyper confidence in that fact that flexibility of fiscal policy can be reviewed as important subcomponent of compensation of lost monetary mechanisms of macroeconomic stabilization is the analogical problem. However, such flexibility was supported at the level of national debt which in euro-zone was essentially bigger comparing to Maastricht criteria of 60% of GDP. In such a case, if in periods of essential reverses of budget balance to the equilibrium as was before crisis the level of national debt reacted with decrease, and after the crisis increase of its level turned out to be that essential reverse of budget balance and more than two time deficit decrease from 2009 till 2012 didn't stabilized the path of accumulation of sovereign debt. Such regularity reflects the speed of multiplication of government papers and its influence on increase of interest burden (Koziuk, 2013). From 1996 till 2008 interest pay-out in euro-zone countries decreased nevertheless that function of national debt demonstrated unessential trend increase. (Analogical tendencies took place in all developed countries testifying that liberalization of interest burden as a result of global interest rates destroyed motivation to decrease national debt lower than 60%). After 2008 with crisis beginning, increase of national debt changed the behavior of interest burden. It began to grow, testifying increase of independent risks and widening of spreads (Davlas, 2011; Koziuk, 2013; Completing the Euro; Davras, 2012).

Table 1

National debt in euro-zone, % GDP

	1998	2002	2004	2006	2008	2010	2012	2013
Germany	61,2	62,5	69,3	67,9	66,7	83,2	78,9	78,4
France	58,1	67,5	74,1	76	73	91,2	100,1	91,8
Italy	118,1	118,8	116,8	116,7	114,6	126,5	123,4	132,5
Spain	67,4	60,3	53,3	46,2	47,7	67,1	87,9	93,9
Netherlands	70,0	60,2	61,9	54,5	64,8	70,6	81	70,2
Belgium	118,1	108,3	98,3	91,6	92,9	100	103,1	99,4
Austria	64,7	72,8	70,9	66,4	68,7	78,1	83	74,9
Finland	53,6	49,5	51,5	45,6	40,4	57,6	59,1	53,9
Greece	107,7	119,2	113,3	113,4	115,4	142,8	153,2	175,1
Portugal	60,0	61,5	66,5	72,6	75,4	93,4	112,4	128,9
Ireland	59,5	35,8	33,1	29	49,5	98,4	121,6	116,1
Luxemburg	7,1	12,2	14	11,5	18,3	24,7	26	30

Source: Made on the basis of OECD and IMF data (www.oecd.org., www.imf.org).

At the same time, unessential increase of volume of interest pay-out at the aggregated level of euro-zone country-members hides that fact that even before crisis fiscal divergence created the bomb of slow action at the mechanism of providing of macroeconomic stability. Table 1 underlines that behavior of national debt in so called old member-countries of EMU is extremely inhomogeneous.

As we can clearly see from data from table 1, it is almost impossible to identify consistency in state debt behavior from a perspective of mentioned countries. We can see that before global financial crisis only Luxemburg, Ireland, Finland, Netherlands, and Spain carried out the Maastricht criteria of 60% of debt to GDP. Austria was coming to it faster; France and Portugal were moving away; Italy, Greece, and Belgium were gradually embodying programs of decrease of national debt, and Germany was not demonstrating distinct tendency rather confirming loyalty to stabilizing flexibility. Yet from 2008 situation is changing rapidly. Taking into consideration differences in processes of real convergence, vulnerability to accumulation of financial misbalances, path of national debt and structural flexibility, we can separate such groups:

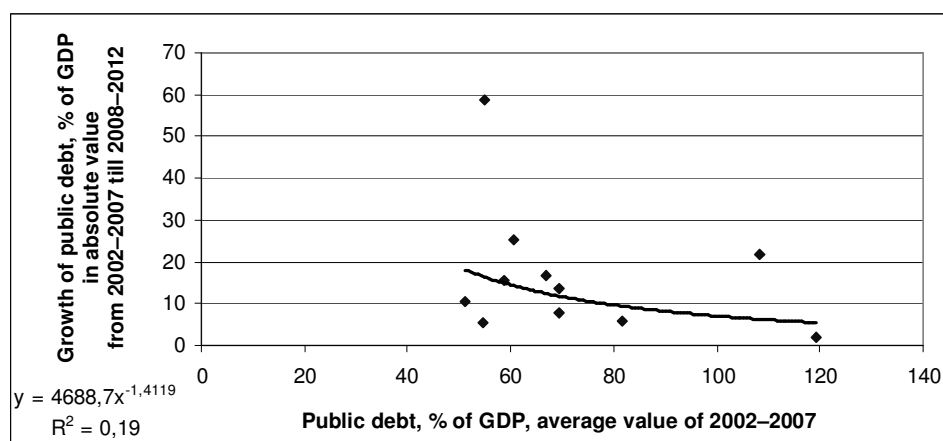
- group which suffered from financial glut, which preceded the crisis and where the rapid real convergence took place. This group includes Ireland, Spain, Portugal, and Greece. First two countries held sufficiently adequate policy of national debt decrease and supported essential budget profit, but their structural balance was in negative zone, masking the structural vulnerability over the assets market expansion. Other two were already under the burden of debts before crisis. In each of these countries namely essential problems in financial sector influenced the rapid increase of national debt, excluding Greece, where it was because of incapacity to hold budget balance in appropriate frames;
- group of traditional debtors which include Italy and Belgium. We could observe inessential increase of national debt as a result that it was already at the remarkable level in these countries. By all this, Italy suffered essentially more if to take into consideration more clear structural inflexibility and institutional weakness. Rapid accumulation of national debt by France makes it closer with this group, but it can't belong to it to the full extend;
- group of structural mercantilism or of traditional EU exporters, which includes Germany, Netherlands, Finland, Austria were the national debt essential increase didn't cause vital markets concern, but rather vice versa. Debt papers of these countries are considered rather to be more as «safe harbor». Specific of this group is that thing that only its members didn't experienced decrease of global competitiveness, without regard to characteristics of internal financial imbalance in Netherlands and Finland. Nevertheless flexible, innovative, and export ori-

ented economies of these countries suffered from crisis but are taking into consideration as those who can quickly adopt to new equilibrium conditions. Luxemburg can be partly referred to this group where the national debt doubled but was at the same unessential level before and after crisis.

Figure 2 clearly shows that the country's possibility to accumulate national debt for implementing fiscal policy stabilization mission essentially depends on previous levels of debt.

Figure 2

Pre-crisis debt burden and the post-crisis possibility for fiscal maneuver of euro-zone «old members», excluding Luxemburg



Source: calculations based on OECD database.

The more debt to GDP ratio deviates toward the higher than 60% level, the less country is able to support further debt expansion. If the country continues to accumulate it, the debt crisis risks become apparent. This finding coincides with the theoretical conclusions that optimal fiscal policy should provide space for maneuver so that new borrowings could be obtained with credibility. Without significant reduction in national debt in Ireland and Spain previously to 2008, financial problems in the banking sector with nearly twofold increase in national debt in the period of 2008–2012 would lead to macro-financial collapse. Each of these countries, especially Spain, suffered a deep crisis of liquidity at the level of debt

to GDP, which wasn't a case for other countries with similar ratio. An increase in the national debt position has significantly increased the likelihood of crisis. The case of Greece shows that distrust to fiscal policy can hardly be compensated by lending of last resort, since monetary factors stimulates a hike in nominal interest rates, to which P. Krugman in his analysis of the «Greek crisis model» had not paid attention (Krugman, 2013). One can express skepticism about the fact that countries like Greece can afford an access to lending of last resort in times of sovereign liquidity crisis without rapid increase in nominal interest rates. Inflation expectations due to such actions couldn't solve the problems of debt markets rather than add additional problems to macroeconomic policy. Krugman cites differences in spreads of Denmark and Finland in favor of the fact that sovereign monetary policy could improve the situation with the debt sustainability in times of crisis. However, it does not take into account other factors such as flexibility of the economy, the stage of real convergence and quality of institutions. The credibility of the central bank is also important. That is, the problem of spreads cannot be found in the common monetary policy, and rather in fact that monetary policy was turned out to be vulnerable to debt crises, low probability of which was the key dominant of its design. Intervention of ECB as a lender of last resort changed the situation, though showed that monetary policy in the euro area should be based on the mechanisms that could solve debt problems without actions taken by central banks outside unambiguous interpretation of its mandate.

Speculation, global dimension of EMU debt instability and fragmentation after the crisis

In other words, the EMU debt crisis has enough fiscal reasons, and most of them are rooted in the pre-crisis fiscal fragmentation and a lack of incentives to reduce the debt burden in terms of the expansion of global liquidity. The EMU fiscal rules system has not provided the imperative for national debt reducing below the criterion for assessing debt sustainability in order to have stabilization incentives that could be trusted during the shocks, and the need for fiscal consolidation was not accounted during the recession. However, this does not mean that the specificity of EMU as integration association in addition to other factors of global investor behavior did not affect the depth of the crisis.

Fragmentation of debt markets of member-countries emphasized the vulnerability of fiscal policy in the transformation model of sovereign borrowers risk assessment, for which speculations against structural rigidity may arise. For example, R. De Santis stated that spreads increased even for countries with good fundamentals for debt sustainability, but for countries that are vulnerable to the

problem of loss of global competitiveness leap of spreads created a failure to normalize refinance of debt. Unlike P. Krugman that links the dramatic increase in spreads even for countries with restrained fiscal policy to the lack of lending of last resort mechanism (Krugman, 2013), De Santis identifies three key determinants of return on sovereign debt instruments: aggregate risk (monetary policy global uncertainty, attitude to risk); specific country risk (probability of default, the nature of deficit financing, liquidity of debt markets); financial risk of contagion. He argues that the division of countries into «quiet harbor», «countries of the South» and «the other» largely relied on the credibility of fiscal policy, which is the result of a comprehensive assessment of economy adjustment to shock rather than only analyze the current level of national debt. At the same time, attitude to risk, uncertainty and financial contagion are equally important factors of debt markets divergence and further destabilization of EMU.

Speculative moment and mutual reinforcement of debt and banking crisis significantly influenced the run of macro-financial destabilization of the euro area. Despite the fact that there were enough fiscal reasons for destabilization, the problem of credibility of euro as a reserve currency or the currency in which reserve assets are denominated also appeared to be. Table 2 makes it possible to see that the increase in the share of the euro in global foreign exchange reserves continued until 2009 then began to decline. Although the share of US dollar also returned to the previous level, the share of «other currencies» almost doubled compared to the pre-crisis period.

Table 2

The currency structure of global foreign exchange reserves, %

	2001	2003	2005	2007	2008	2009	2010	2011	2012	2013
USD	71,5	65,9	66,9	64,1	64,1	62,0	61,8	62,2	61,3	61,2
JPY	5,0	3,9	3,6	2,9	3,1	2,9	3,7	3,5	4,1	3,9
GBP	2,7	2,8	3,6	4,7	4,0	4,2	3,9	3,8	4,0	4,0
EUR	19,2	25,2	24,1	26,3	26,4	27,7	26,0	25,0	24,2	24,4
Other	1,3	2,0	1,7	1,8	2,2	3,0	4,4	5,3	6,3	6,4

Source: IMF Annual Report. Appendix I. – IMF: Wash. (D.C.), 2014. – p. 3.

Table 2 figures are not currently pointing on deep structural changes in the global monetary relations. But they may not reflect the fact that there is growing competition in the market of reserve currencies. Fiscal factor of such competition becomes as more decisive, as more debt liquidity can be maintained at the level

of debt that is much higher than that associated with debt sustainability. It is no coincidence that a policy of the ECB in 2012 on a proposal of maintaining liquidity of euro through Outright Monetary Transactions in the debt markets of certain countries significantly weakened speculative pressure. Together with the reforms of fiscal policy in the EU-EMU and deepening of understanding on promotion by creating a fiscal and banking union, more flexible policy of the ECB has strengthened macro-financial stability. However, easing tension in the euro liquidity would not have such a profound impact if it was not accompanied by savings programs and institutional reforms of Stability and Growth Pact, indicating that the destabilization of EMU as a fiscal predetermined factor by itself, and the fact that asymmetric debt vulnerability of EU monetary zone integration members is incompatible with the positions of the euro as a global reserve currency.

Post-crisis fiscal fragmentation of the euro area creates a number of difficulties:

- asymmetric limited access for sovereign borrowers financing had occurred exactly in time of its highest cost for elimination of the conditions for resynchronization of cycles via budget expenditure. And the problem is more complicated in light of transforming fragmentation. It appeared as the criterion «Portugal – Ireland – Greece – Spain» (abbreviator PIGS – «pigs») and others. It was evolved into «Greece – Italy – Portugal – Spain» (abbreviator GIPSI – «gypsies») and others. That is, the first post-crisis phase fragmentation occurred in the countries with significant financial imbalances, which have developed into budget problems, while the latter reflected the inability of the South make the necessary structural reforms. A further fragmentation has covered the rest of the EMU countries, during which came to the forefront of the accumulated debt criterion and criterion for assessing the prospects for economic growth based on ensuring competitiveness;
- asymmetry of approved fiscal consolidation and asymmetric inconsistency of its implementation preserves the current fragmentation and increases dependence of stable functioning of the euro to the speculation that are sensitive to political interpretations of readiness of a country to bear the burden of adaptation to the new equilibrium conditions. This means that exchange rate of dollar-euro and its spreads will keep for a long time the vulnerability to signals of non-economic origin;
- restore of competitiveness as a long-term strategy will require increasing investments in innovation and human capital sectors, which means that countries with better access to financing could allow a more flexible fiscal policy, thereby creating favorable conditions for economic growth in the future. The fragmentation complicates the situation on synchronization of global competitiveness, so it grounds the preconditions for cyclical divergence in the future;

- the fragmentation disturbs the efficiency of common to all member countries monetary transmission mechanism and the ability of different groups of countries to provide correction deficit. Easier policy of the ECB on smoothing differences in spreads may need to go on a systematic basis, thus it breaks the defining principles of monetary policy in the euro area specified in the Statute of the ECB and the Maastricht Treaty. In order to neutralize speculation, liquidity easing in debt markets that is supported by the ECB is positive, but in terms of incentives creation for reform due to more stringent budget constraints protracted struggle with speculations may result in loss of distinction between individual sovereign solvency and the union monetary instability;
- asymmetric fiscal space exhaustion and differences in capabilities to respond to future macro shock could be observed as a result of fiscal fragmentation. For countries with lower national debt it will be easier to cope with both individual and collective shocks. They will be able to make new loans that could be ensured with the trust, while others will require changes in conditions or membership in the EMU, or changing the modality of the monetary policy of the ECB. In other words, due to the fragmentation, the opportunity to increase the national debt for EMU reasons will face the problem of escalating protracted shock precondition for redistributive conflicts. This can cause undesirable political tensions and speculation against countries in which debt markets are «weak points»;
- as the fragmentation during 2009–2012 debt crisis was accompanied by speculation against structural rigidity of certain countries (their hypothetical inability to implement reforms to restore competitiveness so as to minimize the social cost of the reforms due to accumulated debt and the value of spreads), it can further encourage speculation against failure of consistently implementing reforms in the area of structural flexibility;
- fragmentation of the EMU debt markets remains as a key prerequisite for euro failure to take a strong position in the system of global monetary relations. Riskier markets will be forced out of sight of the interests of median global investors and attract only those who specialize in high-risk operations. One should not exclude the situation in which individual countries will have a motivation to «trade voice» in the structures of the EU-NATO in exchange for a more loyal refinancing scheme. Less risky markets will attract representative global investor, but demanders with significant resources may not be motivated enough with low yield debt countries called «quiet harbors». There could be a situation of cycle appearing that switches investors from riskier instruments to «quite harbors» instruments and vice-versa under the influence of global-centric shocks or changes in investment strategies of key market players. That is, the fragmentation of the EMU debt markets brings additional volatility in capital flows and weakens global outlook of euro;

- significant differences in the debt situation and its assessment by the markets in the context of EMU deteriorate the initial search for consensus in terms of transformation mechanism of macroeconomic policy in the euro area. Reforms 2011–2012 showed a lack of radicalism precisely because most indebted countries were unable to comply with tight requirements for limits on primary deficits, despite the fact that before the implementation of the euro, they were more loyal to the restrictive Maastricht criteria. This means that the design of macro policies in EMU is very sensitive to political consensus, which is influenced by current circumstances. Steps that should be taken for a proper functioning of the monetary union in Europe have inconsistent design mainly because of fiscal fragmentation that deepens the asymmetry in the distribution of the burden of providing macro-financial stability. Moreover, this asymmetry is enhanced in the context of two directions: a) countries burdened with excellent national debt burden will hold out heavier burden of monetary union membership; b) countries that are in the early stages of real convergence, but with a lower level of debt, may find themselves in a situation where they subsidize the richer countries with higher debt burden. In both cases, this debt creates preconditions for political vulnerability of EMU and thus limits the ability of the ECB to present euro in better position in global monetary processes.

Conclusion

Analysis of the processes of fiscal fragmentation in the euro area could be observed with a trace of evolutionary genetics, that is before the introduction of the common currency EMU member countries were quite different in terms of debt burden. The fact of the functioning of the common currency cannot be considered as the cause of divergence in EMU. The debt crisis has arisen through prudent mix of distorted incentives to reduce national debt among global liquidity expansion with weak institutional mechanism of fiscal rules and fiscal response to the effects of financial imbalances. Escalation of the global financial crisis to the sovereign debt crisis in the EMU was accompanied by a sharp fiscal fragmentation on grounds of how the member countries were pressured by the accumulated financial imbalances. Thereafter, fragmentation strengthened due to the emergence of a new phenomenon – speculation against structural rigidities that weakened the division of the countries that were shocked by imbalances and countries that don't, so it intensified pattern of divergence, which is the feature of accumulated debt and the ability of fiscal consolidation that has credibility. ECB intervention in speculation against the debt situation of the south countries softened. However, fiscal fragmentation is a significant obstacle for long-term stabilization of the EMU, which is incompatible with the role of the euro as a reserve currency. The main risk is to increase cyclic asynchrony due to asymmetric access to finance, significant differences in confidence in the measures of fiscal consolidation, the emergence of redistributive conflicts due to the inability to respond to new shocks by means of increasing national debt.

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International Economics

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**INFORMATION
AND COMMUNICATION PROBLEMS
OF DOMESTIC BUSINESS GLOBALIZATION**

Abstract

The purpose of this research is to develop methodologies for the study of globalization of business in general and its separate aspects related to strategic marketing decisions on foreign markets and information and communication globalization of domestic business. Subject of research are theoretical foundations, methodological and applied issues of system development activities of the marketing mix as a tool for the revitalization of Ukrainian enterprises in international business. The object of research is the process of formation and development of marketing activities and business entities on the global commodity markets.

Key words:

International marketing, global markets, macroeconomic processes, marketing management, sales, marketing research at the micro level, enterprises, economic development strategy.

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Statement of the problem. In terms of economic reform, the decrease of the solvency of the population, the discrepancy between the production range of the structure of consumer demand at the domestic enterprises have a hard necessity with a high degree of efficiency to solve problems in the sales activities that occur before them. Retention of low income does not allow improving the structure of production due to the expansion of consumer markets. Two revolutions in Ukraine for the last ten years on the background of the impact of the international financial crisis, of course, are factors instigated from outside, which led to lower levels of income, savings and investment, capital flight, the purchasing power of the population and, consequently, reduce the growth of demand for virtually all goods/services to domestic enterprises.

Increased internal risks of development of economy of Ukraine mainly associated with:

- the loss of territories and military actions in the Donbas, which lead to the reduction of production in the region, the deterioration of the terms of engagement of the external financing and the growth of budget expenditures to Finance law enforcement agencies and the restoration of damaged infrastructure;
- the growth of debt burden on the budget because of the need to Finance deficits and debt «Naftogaz», developed in the past years;
- the depletion of international reserves, which complicates the use of the National Bank interventions as instruments of controlling the growth of demand for foreign currency, which occurs as a result of panic and speculative attacks;
- the increase in corruption: global corruption perception Index 2014 (Corruption Perceptions Index from Transparency International says – Ukraine-2014 level of corruption in line with Uganda and Comoros Islands as one of the most corrupt countries in the world. According to the Index, the country was unable to leave the area «corruption of shame» (National Institute for Strategic Studies, 2014; Viche, 2014; Ukrainska pravda).

Secondary effects of internal political and economic turmoil, the annexation of the Crimea and military operations in the Donbas has spread to most sectors of the domestic economy. Consequently deepen existing disparities, accelerated the fall in GDP, the decline in industrial production, construction works, foreign trade, reduction in the volume of capital investments, etc.

The decline in industrial production, which began in late 2012, has deepened this year, given the stop of the industrial capacities of Luhansk and Donetsk regions and the loss of the Russian market. The country's dependence on imported energy resources and the lack of sources to compensate for the loss of Russian gas will force entrepreneurs to switch to austerity; it will significantly affect the output.

In our opinion, it is possible to ascertain the loss of competitive advantage on the most dynamic and promising global markets, which is due to a significant increase in the cost of products, goods and services due to the increase in energy prices, because the structure of the economy is dominated by less technological and more labour-intensive industries in the structure of production of goods low value-added, energy and resource-consuming; the lack of competition in the domestic market, its small capacity, the monopoly and regulation do not allow you to create the proper conditions for growth of competitiveness, if a low level of competition in the internal market, cannot be expected to compete in the international markets.

Leaders among the main export commodities of Ukraine remained metal and articles thereof (although the total delivery volumes decreased by 7.3%), ore, oil and coal (export growth amounted to 6%). The most dynamic sales on foreign markets within five months of 2014 showed crops, adding to the total export figure of 26%. In the worst situation is chemical products, the volume of exports fell by 25.6% and the machine 22% of total output (rail cars, locomotives, turbojet and turboprop engines, etc.) are delivered in the Russian Federation (Express releases of State Statistics in 2014; National Institute for Strategic Studies, 2014; Viche, 2014).

But some experts see that the problems of sustainable development of the national economy are in non-conformance of the majority of domestic enterprises to modern international standards, increasing corruption and transaction costs amid increasing asymmetry of information, devaluation of the national currency and, accordingly, increased exchange rate risks, which led to the shortfall of market entities, a significant portion of the profits against the planned. To adapt the products of domestic enterprises to the requirements that apply in the markets of European countries, the Association Agreement provides a 10-year period. On the other hand, the urgent need to diversify exports stood before the domestic enterprises already at the initial stage of harmonization of standards. (National Institute for Strategic Studies, 2014; Viche, 2014; Ukrainska pravda).

Therefore, the increase in the rate and improve the efficiency of domestic enterprises is constrained by the number of unresolved questions, the solution of which requires adequate means and methods of business organization, focused

on the acceleration of scientific-technical progress, the increased focus on the end consumer, increasing competition and demonopolization and diversification in all spheres of economy.

Analysis of recent research and publications. Various scientific evidence supporting some aspects of marketing in the global commodity markets, are given in numerous publications, which is a fundamental theoretical basis of marketing (Kotler 1999; Kudenko, 2002; Pavlenko et al., 2008; Rudelyus et al., 2001). It should be noted that the role of the marketing activities of enterprises in the global commodity markets increases significantly. Therefore there is a need to develop an efficient mechanism of strategic management of international marketing, which provides an implementation of competitive strategy of the subjects of international business and is the most consistent with their production capabilities. A significant contribution to the development of marketing theory has made the work of scientists of Russian and foreign classical and modern schools: I. Aleshina, O. Azarian, G. Bagiev, D. Barnett, R. Werner, S. Garkavenko, E. Golubkov, P. Zavialov, F. Kotler, N. Moiseyev, A. Pavlenko, L. Romanenko, A. Starostin, T. Tsygankova and other.

The study of problems of globalization and the development of conceptual approaches for the integration of countries into the global economic environment dedicated to the work of O. Bilorus, A. Galchynskyy, Ch. Gil, M. Delyagin, Ye. Kochetkova, D. Lukianenko, Yu. Pakhomov, D. Lukianenko, G. Thompson, D. Stiglits and other.

At the same time under-researched are issues of development and formation of strategies of international marketing in the context of globalization.

Subject of research are theoretical foundations, methodological and applied issues of system development activities of the marketing mix as a tool for the revitalization of Ukrainian enterprises in international business.

The object of research is the process of formation and development of marketing activities and business entities on the global commodity markets.

The purpose and objectives of the study. The purpose of this study is to develop methodologies for the study of globalization of business in General and its separate aspects related to strategic marketing decisions on foreign markets and information and communication globalization of domestic business.

Main tasks. Development of marketing activities to accelerate the sale of goods and services in both domestic and foreign markets, identifying the nature and trends of its functioning, the development of practical recommendations and effective marketing solutions in overcoming conflict / compromise in the interaction of subjects of economic activity and optimal resource allocation.

The results of the study. Today it is quite difficult to assess the competitiveness of domestic enterprises: outdated or overly burdensome regulations and

tax system, lack of technology and sufficient staffing and high export orientation to the markets of the post-Soviet space are often forced domestic producers to abandon plans to expand its own export network. In addition, the complex procedures for obtaining permits and conditions for lending to domestic enterprises are almost always prompted foreign investors to develop their activities outside of Ukraine. Thus, according to the Report of the World Bank and the International Finance Corporation, Ukraine was ranked 112-th place in the rating «Doing business 2014» among 189 countries in the world, and the «enterprise Creation» has shifted three positions, the indicator «Protecting investors» generally lost in the overall rating by one point. Ukraine has still not managed to improve indicators, located near Lebanon (111th place) and Papua New Guinea (113 th) (National Institute for Strategic Studies, 2014; Viche, 2014; Ukrainska pravda).

It should be noted, features of the contemporary global processes that significantly affect the activity of international business Ukraine are: strengthening of monopolization and pressure on «weak States» (today multinational companies control 60% of world industrial production and more than 70% of world trade); increased price competition; dispiritedly development of world economic systems and accelerate their convergence; a partial change in the quality of competition (through the acquisition of a certain number of directions due to artificial weakening of competitors); structural shifts in the world economy; the prevalence of factors of effectiveness over efficiency factors.

But in the international trade of certain short-term positive effects achieved as a result of devaluation of the national currency, offset by a decline in export enterprises located in areas where there are military actions, and mutual sanctions of the Russian Federation and Ukraine.

According to the Moody's forecast, the decline in the Ukrainian economy will amount to 7.5% in 2014, in 2015 – about 6%. Currency devaluation by 50% will increase public debt to 76% of GDP in 2014 and 79% of GDP in 2015, the hryvnia to the US dollar decreased by 48% since the beginning of 2014, the decline in GDP in the third quarter reached 5.3%, inflation increased from 19.8 to 21.8% at an annual rate is the fastest rate since December 2008 (Ukrainska pravda). Until the end of 2014 we should expect the intensification of these trends. So, in January-May 2014, the positive effect of reducing imports by 18 % partially offset by the fall in exports by more than 5 % (table. 1). Some support was an event that took place on 12 March 2014, the European Commission has submitted to the EU Council of Ministers and the European Parliament a draft EU regulation on the application in respect of Ukraine Autonomous preferential trade regime, which provides for the reduction or elimination of duties on goods originating from Ukraine. The characteristics of this regime are consistent with the provisions of the Association Agreement EU – Ukraine regarding the establishment of deep and comprehensive free trade area. And 3 April 2014 at its plenary session of the European Parliament supported the proposal of the European Commission.

Table 1

Basic indicators of social and economic development of Ukraine

	January– November 2014	Growth rates, %			
		November 2014 to		January– November 2014 to January– November 2013	for reference: January– November 2013 to January– November 2012
		Octo- ber 2014	Novem- ber 2013		
Industrial output sold (goods, services) ¹ , mln. UAH	958316,2	x	x	x	x
Industrial production index	x	97,8	83,7	89,9	95,3
Agricultural output, mln. UAH	335950	28,5	69,3	105,0	112,1
Livestock products					
meat (sales of live- stock and poultry for slaughter in physical weight), thsd. t	2925,6	103,5	101,9	105,2	109,2
milk, thsd. t	10558,4	82,3	99,0	100,5	101,1
eggs, mln. pieces	18568,0	87,9	88,4	105,3	103,8
Capital investment ² , mln. UAH	135476,8	x	x	77,0	89,7
Construction output, mln. UAH	44237,6	x	x	x	x
Index of construction output	x	103,2	72,7	80,7	87,6
Freight turnover, mln. tons/km	310394,6	98,7	80,2	90,9	96,2
Passenger turnover, mln. passenger/km	98062,5	96,7	87,1	88,3	96,2
Exports of goods ¹ , mln. USD	46170,3	x	x	90,6	90,4
Imports of goods ¹ , mln. USD	45601,1	x	x	73,0	90,7
Balance (+, -) ¹ , mln. USD	+569,2	x	x	x	x
Retail trade turnover, mln. UAH	811056,8	x	x	95,2	109,0

	January– November 2014	Growth rates, %			
		November 2014 to		January– November 2014 to January– November 2013	for reference: January– November 2013 to January– November 2012
		Octo- ber 2014	Novem- ber 2013		
Average monthly wages and salaries per employee					
nominal, UAH	3421 ¹	100,8 ³	106,4 ⁴	105,3 ¹	108,2 ¹
real, %	x	98,5 ³	86,9 ⁴	95,0 ¹	108,7 ¹
Arrears in wages and salaries ⁵ , mln. UAH	2205,8	114,4	238,2	x	111,0
Number of registered unemployed at the end of the period, thsd.	450,6	111,9	110,6	x	x
Industrial producer price index	x	104,2	132,8	131,8 ⁶	101,0 ⁶
Consumer price index	x	101,9	121,8	121,2 ⁶	100,0 ⁶

¹ Data for January–October.

The reduction of trade restrictions imposed by the EU to give Ukraine a base for expansion of export activities and will help producers to compensate for the loss of the Russian market only in the medium term after certification of Ukrainian goods according to European standards. In addition, due to the deterioration in consumer sentiment population and falling household incomes by slowing wage growth and the devaluation of the national currency, we should not expect the growth rate of consumption, so that a substantial reorientation of exports in the domestic market in the short term is unlikely.

However, the stop of a number of plants of the machine-building and metallurgical industries through military conflict in the East, the uncertainty of recovery of their activity and inactivity of many producers in finding additional markets not allow to expect in the short term quick replacement of the Russian market, replacing the Russian market on the market of EU countries through the low competitiveness of these Ukrainian goods on the European market and restore export position at least at the level of the previous year.

Naturally, the positive effect of the country's integration into the world economy depends on public policy at the macro level, but is only possible if the combination of mutually profitable cooperation of business entities, financial institutions, financial-industrial groups at the micro level. Thus, at the micro level, the impact of globalization is manifested in the expansion of activities of economic entities on the external market. Before to plan the access to foreign markets, it is necessary to analyze the problems of the development of domestic enterprises in the national markets, because at the micro level impact of the crisis also remains an important factor of influence.

It is quite clear that for the majority of domestic enterprises in modern conditions the main objective benchmark activities remain their own manufacturing capabilities. Experiencing constant shortage of working capital and investment capital, significant problems with the production and sale of manufactured products on the internal light and external market, more and more due to the openness of the domestic market, the pressure of competition, they mostly face the problem of survival today, and not solving problems meet the growing needs of consumers. It is also due to the fact that the development of the necessary competitive products requires, as a rule, technological renewal of production, which is associated with significant complications organizational, technical and economic nature. In addition, business leaders are simply not ready to work-related decision-making, personal responsibility and risk, which is usually inherent in the introduction of any innovation. Therefore, domestic enterprises are forced to continue to manufacture the products that meet the existing capabilities of the enterprise. Until a certain time, such a policy is not only possible, but reasonable. That allows to some extent to mitigate the effect of future severe problems of socio-economic nature, which will inevitably arise from badly needed restructuring of domestic production. In terms of market saturation, especially if the company's products are to some extent deficient, which is not surprising given the high degree of monopolization of production in the country, these enterprises can some time to stay afloat. The transition to new economic relations, the expansion of imports of high-quality goods, the emergence of elements of competition in the domestic and its gain on foreign markets, makes it impossible for a long continuation of inertial motion in the selected direction. Increased attention to the consumer, its real query leads to systematic updating of products, diversification of production becomes a necessity.

For business development and strategic goals in a turbulent external environment, companies need to systematically anticipate the consequences of their decisions. Obvious is the need to adopt domestic producers marketing approach to the management of production and sales in the global commodity markets. Some domestic companies, adapting to the rapid development of modern economy, legislative changes and political instability are trying to get out of a critical situation, and many of them are in the process of change.

The analysis of the evolution of marketing management concept allows us to assert that there is an active integration of marketing knowledge in all spheres of human activity (Dannikov, 2008; Kotler, 1999; Kudenko, 2002; Pavlenko et al, 2008; Rudelyus et al., 2001). Marketing strategic management as knowledge management and organizational change is intensively developing. These changes require adequate means and methods of business organization, focused on the acceleration of scientific-technical progress, increased emphasis on the satisfaction of the end user, increasing competition and demonopolization and diversification in all spheres of economy.

Increased competition in global markets encourages entrepreneurs how to improve existing marketing elements (at national level) and to the search for new effective techniques, which in turn leads to changes in the structure of companies ' marketing and access to marketing tools. International marketing is generally defined as the marketing of goods and services across national borders or as marketing, implemented by an international company (Kotler, 1999). According to the expert environment international companies include firms that produce and are involved in the distribution and marketing of products and services in two or more countries. But there is another point of view: an international company differs from the national to the fact that its goods in the form of intermediate or finished product can move from country to country, and not only within the country (Rudelyus et al., 2001, p. 81).

Foreign and special education literature, which considers the problems of marketing activities in foreign markets, also heard the opinion that often the firm, using the success of the marketing concept in their own country, attempts to apply a similar scheme and foreign markets (Kotler, 1999; Rudelyus et al., 2001). But despite the national specifics and peculiarities of different countries, this may become impossible, and then the marketing service of the company will have to ask the question: «will we be able to standardize our marketing concept for the whole world, or we have to spend a small change, and may be, in entering the foreign market, we have to create a whole new marketing concept?»

It is clear that the management of any enterprise in modern conditions of rampant savings will apply a standardized marketing concept as the most rational. Research global commodity markets, which could maximize export potential of domestic enterprises, must be in the following interrelated planes with the construction of an appropriate system of criteria and indicators, namely: analysis and forecast of the state of macro, micro and capabilities of the enterprise to adapt. This approach provides an opportunity to consider the business environment, the strategic goals of the enterprise and its potential export opportunities to attract and use resources as an integrated system process. At the first stage assessed the state of the macro that generates the import dependence of the market; on the second – versatile assessed the competitive environment on the most important factors; further evaluation of the ability of the company to the expansion of the global commodity markets. Because, at the micro-level consequences

of the crisis also remain an important factor that hinders the development of the domestic commodity market, in particular, which is manifested in the reduction in the profitability of the executed works and services, the emergence of new price distortions, low level of competitiveness, the deficit, the imbalance in the reproductive processes, etc.

International marketing as a methodological framework for the strategic management of domestic business is relatively new and understudied concept of management. Focusing on the problems of marketing goods (raw materials, finished goods, materials, works, services and technologies as the most significant in the modern business environment, marketing approach opens new possibilities to the formation of development strategies in the activities of Russian companies in the global commodity markets, search and implementation of reserve management.

The conclusions. From the point of view changes, which not only took place, but also develop in the sphere of international economic relations, it should be noted that it is the focus on global changes and trends, to plan long-term and adequate government policy of our state can lead to positive changes in the position of enterprises, and therefore the country as a whole on the world market. In particular, when a comprehensive study of the essential aspects of the globalization of business, will inevitably have a lot of questions: Which companies will be able to benefit from the globalization of business? Which, the most effective marketing solutions the strategy of globalization of business you want to develop? When the business can be considered global? The answer to these questions may be given only in the process of developing a methodology for the study of globalization of business in General and its separate aspects related to strategic marketing decisions on foreign markets and information and communication globalization of domestic business.

Under such conditions, it becomes clear that international marketing must be applied as an effective tool for the revitalization of Ukrainian enterprises in international business, in particular on the development and formation of the strategy of economic development and structural adjustment, this will help accelerate the transformation of economic and social systems in the process of formation and development of marketing activities and business entities on the global commodity markets. The current practice of marketing activity to support the enterprises of Ukraine in international business, for all its positive aspects has one significant disadvantage – the virtual absence of national-level awareness of the role and position of intermediaries in international business at the market of Ukraine and global markets.

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**International Economics**

Svitlana VOVK

**THE INFLUENCE OF TERRORISM
ON INTERNATIONAL TOURISM****Abstract**

The article determines major trends in the development of tourism in the modern global economy and its significance for the economies of individual countries. The author considers major approaches to defining terrorism in terms of political risk, as well as its types, sources and effects. The author analyses interrelationship between terrorism and tourism and discusses ways to prevent and mitigate its negative effects.

Key words:

Tourism, international tourism, tourist, terrorism, act of terrorism.

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«The only thing that is necessary for the triumph of evil is for good men to do nothing»

Edmund Burke

«The concern for tourist safety and security will not fade away, and the world of tourism must learn to live and work with this feeling as something rather normal and usual»

From UNWTO documents

Nowadays different approaches to event forecasting, risk management programs, etc. are being realized in international business. The main goal of these measures is to avoid or mitigate negative effects on business operations in one country or another. This is true for tourism development as well. Among all groups of risks – economic, ecological or other – political risks are the hardest to manage. Predicting the probability of political risk events, not to mention forecasting the scale of risk effects, their duration and consequences, is a very complicated task.

The goal of this article is to determine the impact of terrorism on the development of international tourism. The tasks of the article are to study the importance of tourism and current trends in its global development; to highlight major approaches to defining terrorism as a political risk, its types, sources, and effects, as well as ways of preventing and mitigating the negative effects of terrorism.

Modern trends in global tourism development. Tourism evolved as a vitally important industry characterized by significant multiplicative effects of income and employment growth, foreign currency receipts, growth in affiliated sectors, as well as potential for communications and infrastructure development. In the majority of countries, tourism is a priority industry and subject of regional development programs between partner countries.

The global crisis has touched upon all sectors of the world economy including tourism. Regardless of the global economic challenges over the recent years, the development of international tourism exceeded expectations: according to the UNWTO World Tourism Barometer, the number of arrivals in 2013 increased by 5%, reaching record 1.087bn arrivals. In general, UNWTO expects that over the period from 2010 until 2020, the industry growth rate will make +3.8% per year (in 2014, the projected growth was +4–4.5%). In recent years, in good request were such tourist destinations as the Asia-Pacific region (+6%), Africa (+6%) and Europe (5%). Among the sub-regions, the leaders were South-

East Asia (+10%), Central and Eastern Europe (+7%), Southern and Mediterranean Europe (+6%), and North Africa (+6%) (Kereselidze, 2013).

According to Taleb Rifai, the UNWTO Secretary-General: «The tourism sector has shown a remarkable capacity to adjust to the changing market conditions, fuelling economic growth and job creation around the world, despite the lingering economic and geopolitical challenges. Indeed, tourism has been among the few sectors generating positive news for many economies» (www.unwto.org).

The indicators for key source markets of the developed countries were relatively more modest. France regained its positions (+6%) after weak results of 2012, whereas tourism expenditure in the USA, UK, Canada, and Australia increased by 3%. Contrary to the aforementioned countries, Germany, Japan and Italy reported a fall in expenditure on outbound tourism. Other emerging markets which achieved substantial growth of expenditure on outbound tourism include Turkey (+24%), Qatar (+18%), Philippines (+18%), Kuwait (+15%), Indonesia (15%), Ukraine (+15%), and Brazil (+14%) (Kereselidze, 2013).

The UN World Tourism Organization forecasts that tourism expenditure will continue to grow, reaching \$2trl per year (i.e. \$5 bn per day), whereas the number of foreign tourists will increase to 1.5 bn people by 2020. Middle East will get the top spot in terms of tourist flows, mostly thanks to huge natural, historical and cultural resources attracting tourists from all over the world. A report by *Global Futures* estimates that the number of tourists in the region will make more than 150 million people in 2020 (in comparison to 61 million in 2009) (Kereselidze, 2013).

The significance of tourism for a number of economies can hardly be overestimated. Consider, for example, such Middle East countries as Egypt, Jordan and Lebanon: here, tourism is one of key export industries and a source of foreign currency receipts. In addition, tourism is one of the largest employment sectors. In Egypt, tourism industry employed 2.5 mn people in 2010, which made 11% of total employment and 22% of exports. In Lebanon, tourism revenues in 2011 accounted for 38% of GDP, whereas direct and indirect employment constituted respectively 9.3% and 33.4% of total employment. In Jordan, tourism was a key source of foreign currency receipts in 2007, accounting for 16.9% of the country's GDP (Basu and Marg, 2010).

On the other hand, tourism is much more than a share of revenues in the GDP structure and employment of population. Tourism is the industry of personal contacts and cross-cultural communications. A successful tourism industry requires political stability, peace, security, and potential for dialogue among various groups of people. It is a dynamic, competitive industry, which requires ability to constantly adapt to changing consumer demands, whereas customer satisfaction and security assurance are key directions of tourism business.

The geopolitical context of providing regional stability and security is also important for any country or region in terms of its tourism attractiveness.

Terrorism: the concept, origins, recent research. Over the last 50 years tourism was negatively affected by natural disasters, wars, economic crises, and terrorism. However, the events of September 11, 2001, were revealed to have a much stronger impact than any crisis in modern history. The consequences of September 11 had different effects on various providers on the tourism market. Air traffic has substantially shrunk. Fear of flying led to development of ground transportation as a means to travel within a geographic region. The US Government issued \$15 mln of secured loans to aviation industry to prevent it from crashing. 260 000 people lost their jobs. In large cities, the number of guests in hotels reduced to 30%. Ireland, Mexico and the Caribbean countries observed a falling number of Americans willing to travel by air. Taxi service, shops, restaurants, and other sectors were negatively affected by these terrorist acts.

Among the first examples of terrorism in the history of mankind, we can mention an incident, which happened in 6 A.D., when Jewish patriots organized a group of sectarians and launched a terrorist campaign against the Roman reign in Palestine with the aim to force the Romans to leave Palestine.

The growth of terrorism has been observed over the last 20 years. This period was marked with the first incidence of a terrorist act involving the weapons of mass destruction: in 1995 during the rush hour in Tokyo subway, a so-called «sarin attack» was realized, causing death of 12 and injuries of 5 500 people. In 1995, the total number of death incidents in result of international terrorism decreased (165 people in 1995, 314 people in 1994), but the number of injuries increased in dozens: 6 291 people were injured in 1995, of which 5 500 people – in result of gas attack in Tokyo subway.

Nonetheless, the interest in the phenomenon of «terrorism» over the recent decades has substantially grown after the events of September 11, 2001, in the USA.

One of the first to introduce the term «terrorism» in the 18th century was Edmund Burke. In his work «Reflections on the Revolution in France», he criticized the systematic use of terror by the French government.

Today, definitions of «terrorism» are varied. Let's consider some of them. The US Department of State defines terrorism as «premeditated, politically motivated violence perpetrated against noncombatant targets by subnational groups or clandestine agents, usually intended to influence the audience. International terrorism is defined as the act of terrorism realized involving citizens or territories of more than one country» (Sönmez, 1998).

The Law of Ukraine «On the fight against terrorism» provides the following definitions:

- terrorism is a socially dangerous activity, which consists in deliberate, targeted use of violence by means of taking hostages, arsons, murders, tortures, intimidation of population and bodies of power, or other infringement on life or health of innocent people, or threats to perform criminal acts with the aim of reaching criminal goals;
- act of terrorism is a criminal act performed in the form of use of weapons, explosions, arsons, or other actions;
- international terrorism is socially dangerous violent acts involving abduction, seizure, murder of innocent people or infringement on their life and health, destruction or threat of destruction of important economic objects, systems of life support, communications, use or threat of use of nuclear, chemical, biological, and other weapons of mass destruction, carried out on global or regional scale by terrorist organizations, groups, including those with support of state bodies of individual countries with the aim of reaching certain goals (Law of Ukraine «On Combating Terrorism»).

According to S. Sönmez, terrorism is an intentional use of violence or threat of violence against civilian population with the aim of reaching political and/or religious goals (Sönmez, 1998). Transnational terrorism is an incident of terrorism that took place in one country involving victims, goals, institutions, or citizens of other countries (Yaya, 2009).

P. A. Karber stated that «terrorism is a 'a symbolic act', which can be analyzed much like other means of communication. It includes four basic components of the communication process in the context of fight against terrorism: (1) transmitter (terrorist); (2) recipient (target of the terrorist's message); (3) message (act of terrorism involving individual or institutional victims); (4) feedback (reaction of the recipient to demands of terrorists)» (Poirier).

The studies that analyze the roots of terrorism focus on its two aspects: civil liberties and economic development.

The countries which are in the state of transition between political freedom and autocratic regime are more susceptible to terrorist activity. Advanced democracy, high level of incomes and openness in the source countries reduce the probability of conflict. The economic aspect is analyzed at both macro- and micro-levels. From the macro-economic standpoint, the influence of terrorism is immaterial, especially in the developed countries.

The micro-economic analysis of terrorism focuses on the study of its impact on specific industries, such as tourism, international trade, foreign direct investment.

As we can see from the data in Table 1, the role of political risks increases, and this tendency, as confirmed by the above-mentioned studies, will continue to develop.

Table 1

Survey findings regarding political risks

Survey	Objective	Main findings
Aon, Global Risk Management Survey 2013	Assess the top risks facing organizations today	Political risk ranked in tenth place out of 49 risks. The first time that political risk entered the list of the top 10 risks. Projects that political risk will move to sixth place three years from now
Ernst & Young, Business risks facing mining and metals 2012–2013	Assess the top business risks for mining and metals	Resource nationalism moved to first place in the list of the top 10 business risks facing the mining and metals sector in 2012, up from eighth place in 2008.
Protiviti and North Carolina State University's ERM Initiative	Obtain views through ratings as to what risks are expected to affect business organizations over the next 12 months	Risk that uncertainty surrounding political leadership in national and international markets will limit growth was third out of 20 risks. Regulatory changes and heightened regulatory scrutiny and its effect on product and service production and delivery were in first place.
Association for Financial Professionals and Oliver Wyman Risk Survey 2013	Assess the factors expected to have the greatest impact on organizations' earnings over the next three years	Political risk ranked in fourth place among 20 factors expected to have the greatest impact on organizations' earnings over the next three years. Political risk also ranked in fourth place in terms of its difficulty to forecast.

Source: <http://www.miga.org/documents/WIPR13.pdf>.

Analysis of the environment in which terrorist groups evolve and operate helps to understand the essence of terrorism. Conditions of the environment are early-warning signals of the events that will be shaped by this environment. Thus, a rich and comfortable environment gives rise to appearance of new scientists and professionals in various spheres. On the contrary, poverty and ill-being will give birth to gangs and other permanent criminal elements (Sönmez, 1998). Thus, according to S. Sönmez, the countries which want to cure diseases and overcome hunger and other socio-economic and ecological problems, which have growing population and have combined problems, can «nurture» terrorism

(Sönmez, 1998). Terrorist organizations can easily recruit new members by offering better conditions for the people living in unfavorable conditions.

On the other hand, E. Schmidt stated that political risk includes the requirements of the host country's policy in the sphere of business limitations. Three categories of risk can be singled out: the risk of transfer; operational risk; the risk of (control of) property rights (expropriation or confiscation). In addition, E. Schmidt distinguished between «risk-events» and «risk-effects».

The effect of a terrorist act can hardly be projected and estimated. Its aftermath can endure from several months to several years (in case when the probability of a new terrorist act is increasing).

The fight against terrorism is a very complicated task, it cannot be rooted out (it is a crime by its nature). The main problem consists in the lack of resources, both human and financial, which are necessary for terrorist groups monitoring and implementation of counter-terrorism measures. It is worth to admit that monitoring of terrorist groups and their behavior by itself is not a guarantee against terrorist acts.

The influence of terrorism on tourism. It is quite understandable that tourism is an important factor of development for national economies. But what happens when such negative phenomena as terrorism are developing?

The influence of terrorism on the economy can be enormous: it leads to growth of unemployment, homelessness, deflation, crime, and other economic and social troubles. It is hard to assess the impact of terrorism on the development of tourism in any country. After all, its consequences go beyond the business activity which is directly connected with tourism, such as that of airline companies, hotels, catering facilities, industries supplying intermediate and finished goods. That is, it will have an effect on all spheres of social life including economics to a greater or lesser degree.

Terrorism has long-term negative effects on incomes that might not recover. Local producers that lack finance to support their business during such a downturn in business activity (in contrast to large corporations) will have to suspend their operations. Redundant employees will have to look for new jobs.

In 1975, W. Matthews pointed to insufficient research of the political aspects of tourism – the analysis of political risks. Global hotel chains are one sector of the tourism industry, where the impact and effects of political risks manifest themselves especially vividly. When launching their activity in a «new» country or market, global hotel chains realize investment projects. In this context, the TNCs as international investors usually assess economic risks. The 1979 revolution in Iran fostered the need to take into account and focus attention on evaluating the probability and potential of political risks. As a rule, political risks cannot be precisely defined. Risk situations are usually split into (1) predictable events and (2) spontaneous events. It is worth to keep in mind that political instability and po-

litical risk is not the same thing, these are totally different concepts (Man of the Year).

Thus, S. Kobrin stated that instability is a peculiarity or a typical feature of an overall environment, whereas risk is a narrower concept, which is reduced in its focus to direct influence on a company or a particular project. However, in analyzing political risks, researchers put major emphasis on stability in the process of project development in a certain country.

Therefore, by the criterion of time, terrorism is a short-term phenomenon, whereas political instability can be short-term, as well as long-term, in nature.

Until recent days, terrorism has been subject of many studies, but only few of them focused on the influence of terrorism on tourism.

Tour planning helps tourists to create positive experiences in their lives: expectations from visiting interesting places, learning culture and peculiar features of other nations, etc.

Terrorist acts, however, produce negative influence upon their victims: first, people preserve recollections of a terrorist act in their memory; second, witnesses of terrorist acts change their life styles. This phenomenon is known as «adverse learning effects».

Terrorism negatively affects tourism by changing tourists' perceptions of the motives to travel.

On October 12, 2002, in the village of Kuta in Bali (Indonesia) 202 persons were killed and 209 persons were injured, which naturally had a negative impact on the inflow of tourists during the next high season (–23.45%).

After explosions, Bali was referred to as a politically unstable country. Within one week after the attack, tour operators hurried to withdraw their holiday programs in resorts of Bali and Indonesia. All this happened during the high tourism season. The occupancy rate decreased on average from 75% to 14% (Koroma, 2011; Law of Ukraine «On Combating Terrorism»). It took two years to recover and reach the pre-October 12, 2002, level.

When a threat of terrorism appears, – or even worse, when it grows, – foreign tourists reconsider their decision to visit one destination or another.

In addition, there is another effect of terrorism on tourism known as «a generalization effect»: tourists that are aware of the threat of terrorism in one country generally tend to assume that the entire region is risky. For example, the Mediterranean countries experienced a substantial decrease in tourist flows during the Persian Gulf War in 1991. Such an indirect effect of terrorism on tourism can lead to decreasing tourist flows in a country which is not involved in the conflict. The research literature distinguishes between the so-called «internal» and

«external» circles. Respectively, the former includes countries which are directly involved in a conflict, whereas the later includes other countries in the region.

On the other hand, cross-cultural studies found that tourists have different perceptions of terrorism.

Terrorism is the only factor which has a delayed effect of uncertainty and insecurity, since it entails not only material damage, but also bodily injuries or even death. As a result, (1) ticket expenditures cover additional costs of rigorous security measures in airports and other facilities (airport security services have fundamentally changed their security policies); (2) the role and cost of insurance (especially public liability insurance) increased. However, as the cost of insurance and reinsurance increased, not all insurers are willing to compensate losses resulting from terrorist attacks.

Along with that, a number of researchers find that terrorism and tourism have some features in common, such as border crossing, involvement of citizens from different countries, use of travel and communication technologies. Tourists are easy targets – they are most vulnerable during vacation travel. L. Richter stated that terrorists attack tourists to achieve strategic goals.

On the whole, among the basic reasons for terrorism in tourism one can name the following: (1) persons that oppose the development of tourism; (2) the negative and disparaging attitude of tourists towards local population; (3) clash of cultures (an incongruity known as «cultural contamination»). Let us recollect another example: mass destructions in the Nigerian city Kaduna wrought by the young Muslims who revolted against bringing the Miss World beauty contest to their state capital. This case has become another symbol of intensified confrontation between Western civilization and Radical Islamic movement.

In a broad sense, the goals pursued by terrorists can be classified into revolutionary (deposition of government, overthrow of the regime) and sub-revolutionary (changes in policy and personnel). According to L. Richter, terrorist goals are divided into ideological (national struggle, long-term); strategic and tactical (more motivated, short-term) (Poirier).

There also are other causes of terrorism against tourists and tourism objectives. In particular, by preventing inter-cultural contacts and dialogue, terrorism hinders the opportunity to understand other cultures deeper and better. In a broad sense, terrorism towards tourists is a politically or culturally motivated act. Various incidents reveal how terrorism affects tourism: the attacks in Mumbai, Deli, Assam, London, Egypt, and other places were attempts to shatter the world by employing the tactics of terror and to drive the tourists away from hotels. Thus, both government and society should be interested in forming and realizing a far-reaching counter-terrorism policy.

The most visited tourist attractions (for example, the Statue of Liberty, Eiffel Tower, etc.) are good places for terrorists to deliver their message to broad

masses of population. Unfortunately, such incidents happen from time to time in different countries. Not a single country is secured against displays of terrorism today. These displays in their turn demonstrate how terror hinders free global mobility of people.

Mitigating the consequences of terrorism. Today, national markets offer a sizable, but largely unused potential for tourism investors. A key role in this area is played by Multilateral Investment Guarantee Agency (MIGA) — one of the five World Bank Group institutions founded in 1988. The mission of MIGA is to promote foreign direct investment into countries for support of economic growth, poverty reduction and improvement of people's well-being. This mission is fulfilled by insuring political risks, in particular providing guarantees against some non-commercial investment risks in the developing countries (Table 2); providing dispute resolution services on guaranteed investments; conducting research and sharing knowledge within the mandate to support foreign direct investments into emerging markets.

MIGA insures foreign direct investments from losses connected with or caused by currency non-convertibility and money transfer limitations; expropriation; war, civil unrest, terrorism; breach of contract; non-payment of financial indebtedness.

Taking measures aimed at amending the situation and restoring customer confidence is vital for renewal of stable tourist flows. The first step in this process is taking measures aimed at safety improvement and giving them wide publicity (World Tourism Organization, 2001).

It is important to disseminate information through mass media as well. Communications during the crisis period are very important for public awareness. This is one of the simplest and most effective ways of mitigating the consequences of such a crisis.

A proactive approach providing for adequate and honest information will preserve and increase customer confidence in travel and tourism industry.

Governments can withstand terrorism by introducing norms and rules. A government's reaction to terrorism depends on the size of financing allocated to terrorism prevention nationally and solution of this problem globally.

Governments should not only perceive the need for preventive measures on their own territory, they must also understand the global nature of this problem. S. Sönmez i A. Graefe asserted that escalation of terrorism starting from 1970 onwards was connected with mass communications and instant access to global information.

Table 2

Selected MIGA projects in tourism

	Investor/Guarantee Holder	Project	Host Country	Guarantee Amount (\$M)
1	Azalaï Hotels S.A. of Mali, Mali	Azalaï Abidjan Hotel	Côte d'Ivoire	7,4
2	Société Malienne de Promotion Hôtelière, Mali	Compagnie Hôtelière du Golfe	Benin	1,4
3	Tamboho International Ltd., Mauritius	Tamboho Hotel	Madagascar	0,7
4	Société Malienne de Promotion Hôtelière, Mali	Société Burkinabé de Promotion Hôtelière	Burkina Faso	2,9
5	Société Malienne de Promotion Hôtelière, Mali	Société Burkinabé de Promotion Hôtelière	Guinea-Bissau	0,6
6	Louvre International Ltd., Mauritius	Grand Hotel du Louvre S.A.	Madagascar	2,3
7	Société Malienne de Promotion Hôtelière, Mali	Société Guinéenne de Promotion Hôtelière	Guinea-Bissau	0,6
8	The Marvin M. Schwan Charitable Foundation, USA	Grupo del Istmo de Papagayo, S.A.	Costa Rica	38,3
9	Ge.Por.Tur. s.a.s., Italy	Giorgi Alfo Sh.p.k.	Albania	1,6

Source: www.miga.org.

The tourism industry faces a serious dilemma: What should be the counter-terrorism policy in this industry? Many managers think that strict measures can «scare off» not only the terrorists, but also potential travelers. Visiting any airport is enough to understand that many of the security measures introduced after September, 11 tend to create more obstacles than safety for the passengers. As an example, I would like to cite a dialogue from the movie «Man of the Year» (USA). When asked about his position on national security, Mr. Dobbs, the film's main character, answered: «Some of these measures are already

tough. If you've ever been through passport control, you stand in line with thousands of people, eventually you get to an immigration officer who takes your passport. He looks at your passport picture, looks back at you, and says, «Why did you have your haircut?» «I don't know. Just for self-assurance». They have a video camera that takes a picture and compares it to your previous picture. They're very tough about that... Meanwhile, at the southern borders of our country, four million illegal aliens are crossing the border with bedroom sets and night tables... And then... The next thing you know, they're patting down an 85-year-old lady in a walker. Listen, if there's an 85-year-old lady in a walker and she's a terrorist, – basically, game's over, folks» (Man of the Year).

In the USA, the newly created Transportation Security Administration has already started to reassess the measures that have been realized. In particular, it is necessary to re-build the security systems in hotels and motels. After all, in most cases terrorists do not act impetuously, they study all approaches to and security breaches of the selected targets beforehand (Yaya, 2009). A modern system of counter-terrorism measures requires material changes, taking into account integration processes, advances in technology, as well as the global nature of the problem.

In the 21st century, security and high quality of service are the only means that can assure the success of the tourism industry. At that, security is the top priority. As it was already mentioned, the price of security is very high: recruitment and personnel training, equipment, software, etc. Here, it is worth to remember that security is the only guiding motive in tour selection. It is true that risks are always present. However, they are no reason to justify the lack of security. That is why, the management units of the tourism industry must take measures to avoid risks at all stages of every tour – from transfers to restaurant visitation and cultural activities.

Even the demonstrated economic success cannot serve as protective shield for international tourism. Natural and technological catastrophes cannot rival terrorism and other political shocks in the level of threat and insecurity that can intimidate and drive off the potential tourists. During recent decades, the manifestations of international terrorism have become more often, attracting the attention of many researchers to their unavoidable impact on tourism. The focus on these matters continues to strengthen in view of the growing political instability and the resulting threat for tourists. It is worth to remember that tourism itself can also give rise to political, religious, socio-economic, or cultural resentment.

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Microeconomics

Oleksandr SAVYCH

**FEATURES OF MARKETING ACTIVITY
OF PRODUCERS IN CONDITIONS
OF GLOBALIZATION**

Abstract

Producers are basic subjects of the world commodity market which carry significant part of world economy added value. All industrial companies are working in hard competitive conditions. The modern feature of any company activity is global processes' influence: competition from global companies' side (transnational corporations), global preferences of consumers, necessity in production of standardization and high qualitative commodities, necessity in development of single global or regional marketing strategy and marketing mix. The modern state of industrial companies' marketing management has been considered at the article, problems of marketing management dedicated to globalization and strong competition have been determined. Modern features of the globalization and its influence at marketing management of industrial businesses have been studied at the article.

Key words:

Management, marketing, globalization, transnational corporations, industrial companies.

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JEL: M20, M31, L60.

Actuality. Producers are basic subjects of the world commodity market which carry significant part of world economy added value. The modern feature of any company activity is global processes` influence: competition from global companies` side (transnational corporations), global preferences of consumers, necessity in production of standardization and high qualitative commodities, necessity in development of single global or regional marketing strategy and marketing mix. Any company has to decide what to produce, how much to produce, whom and how to sell its products, which level price to quote and how to act on competitive markets. Globalization has its influence first of all that local company has to compete with transnational corporations and has to enter on global markets needs to standardize its marketing activity on all markets, taking in account only local differences on big markets. At the same time, external environment has influence I that way that companies have to take into account local peculiarities and change standard marketing mix tools.

Results of research. Economic globalization process consist in national producers use relative advantages of production in its own interests in others countries and therefore transforming at transnational corporations. Usual situation in international relations is strong competition for sales markets, for owning raw materials, for investments for political and economic influence. All types of activities become more global as geographical borders are washing out, scientific progress is accelerating, and marketing is going on the first place as a weapon for market conquer and mean for arrange of product sales in terms of global competition. In terms of global competition the demands to product quality from customers are increasing.

Globalization is the process of social, cultural, political and economic enhance of mutual dependence that has influence at business environment changes. The efficiency of the globalization from the marketing point of view has two basic company's influence:

- Global market opportunities
- Global market threats.

Opportunities and threats that arise due to globalization make companies to adopt its organizational structures and marketing strategies. Global marketing

opportunities allow companies to get the way to world resources and expand activity on new foreign markets and thus increase competitiveness of the company. But from the other side, global marketing threats increase quantity of competitors and intensity of competition as well as increase probability market uncertainty. The combination of threats and opportunities of companies in condition of globalization allow customers to get most qualitative product for lowest price.

Globalization – it is the basic engine of technological and economic growth, a guaranty of market's` openings and free movements of capital, goods, labor and others resources.

So, globalization from the marketing side – it is objective process of company's entering on global market, so it is activity of the company on most country markets where company faces with hard competition from the side of transnational corporations on global market. Taking into account this, it is necessary to produce standard products with highest quality by competitive price as well as using standard marketing-mix but nevertheless it is needed to take into account regional features of markets, competition and customers. In automotive industry most of car makers are global companies that have operations on majority of markets except companies with low resources availability and low quality.

The main point of marketing activity of producers is that companies have the opportunity to use single marketing mix on all different markets. Thus, the product has to be checked as on local market as on different foreign markets.

It is possible to underline the typical globalization factors: political, cultural, ecological, legislative, technological, marketing, human and financial.

Political factors refer to unifications problems and integration political systems to single global system.

Cultural factors are characterized by life styles integration and behavior models on the global level and universalization of minds and cultures.

Ecological factors are dedicated to environment situation, problem of savings and protection that are global phenomena.

Legislative factors relates to problems of unification of legislative regulations on the global level. The base of the global order rules – is the system of regulations that set up of legal norms complex which set global behavior of the company.

Technological factors dedicated to global researches, innovations and technologies. These factors are: global application of technologies, global scientific and technological collaboration, and scientific-technical progress.

Marketing factors – are factors of global markets, competitive strategies, marketing activities of companies with acknowledgement of global and regional

approaches, global logistic processes... In conditions of global resources usage, all produced goods become products made in the world.

Financial factors mean capitals` movement, movement of property and resources allocation. Productive resources become more mobile, companies produce goods as much as closer to consumer markets. Global companies allocate own assets and investments there where it could be get profits as much as possible and as much as quick.

Human factors refer to free movement of labor in that way where its salary is higher and payments are quick.

In general, the modern market economy is functioning on the global market where distributive mechanisms are in force without taking in account countries` borders. In fact it is the system that is based on transnational network of the company.

Internationalization and globalization of companies are executed mostly by external method by means of international agreements on mergers and acquisitions of foreign assets. It helps for quick and effective expansion on foreign markets.

It is natural for producers to have such strategy that is directed on seeking for strategic assets using NTP (progress in science and technology) achievements in the field of transport and information transmission. Such companies so called transnational corporations are getting new opportunities to find new market niches, beneficial location of foreign affiliates, production organization which is based on foreign technologies, productive capacities and cheap labor.

In globalization conditions the development of the company gas several stages:

Stage #1. *Activity on the local market.* Company is working on the local national market with the aim to get profit. On this stage, company is not interested in entering foreign markets, especially when local market is quite wide by sizes and profits.

Stage #2. *Trade on external market.* Company reaches maximum of productive and marketing capacity, local market is getting narrow that is objective necessity to enter foreign markets by mean of export transactions.

Stage #3. *Production organization on foreign markets.* The moment is coming when the volume of export operations is increasing and/or foreign markets are protected by tariff and non-tariff barriers or because of logistic it is not profitable to sell goods which are produced on origin market of the company as well as if resources costs and production costs on foreign markets is more profitable, companies are arranging production of goods on foreign markets.

Stage #4. *Internationalization of the company.* Company is entering on the markets of several countries and is trying to consolidate all international operations. The specific feature is change of end products and raw materials or half-processed goods between its own companies from different countries or/and with mother-company.

Stage #5. *Globalization in the activity of the company.* Companies are taking decisions as for globalization of all operations. Financial, marketing and productive operations are managed on central level.

Such development needs to create such marketing strategy that will allow providing efficient functioning of the company at any stage of globalization and movement to another stage on time. At the beginning three stages, the task of the company is analytic of external environment, making SWOT analysis and adoption of activity of the company. Effective strategy has to be pledged by efficient organizational structure, modern marketing system and management. The company needs to target at modern, high technological and competitive goods based on global standards, developing logistic and distributive systems which will enable quick communication with suppliers and clients. Special attention is needed to pay to marketing orientation and innovation development. So, it is possible to ensure competitive position for company on local market and create opportunities for globalization of its activity.

The main aim of the company under globalization conditions is to conquer of the competitive advantage that takes place under strong fight that is the feature of the world market functioning. For that reason, it is necessary to develop innovative products, global technologies, look after market changes, making forecasts regarding clients` and competitors` behavior. Therefore competitiveness of any company depends on skill of quick development of innovative products and sells them on the world market as well as advantages which any company creates and operates under states` influence on any foreign market.

By the level of standardization of international marketing-mix there are two global marketing strategies: global marketing strategy and global-local strategy.

The global strategy is characterized by the development of standard marketing mix for similar markets and segments. The main advantage of this strategy is the possibility to economize because of production volumes non-differentiated goods and using general pricing policy, distribution and communications on foreign markets that makes costs much lower in comparison with goods of big local competitor.

But, regional foreign markets are so different from the point of consumption culture that are using of standard approaches are enforced with smaller quantity of companies. The reasons for decrease in mass marketing application are connected with appearance of technological complicated goods, new methods of buying and its payments with enhance of competition. Therefore after all

opportunities of whole standardization are finished, companies have to shift to global-local marketing strategy that means in standardization of main and adaptation of several secondary elements of marketing mix with taking in account features of different countries. Global-local strategy allows from one side to economize resources and decrease expenses due to partly global standardization, but from other side – adaptation of its activity with the aim of more efficient positioning of the products regarding conditions of local market.

The pillar of marketing activity of producer under condition of globalization is consist of such elements: studying and researches of external environment, competitors, clients, suppliers, market, development of logistic policy, competitive advantages creation, product, price, communication policies, sales strategy, motivation and studying. On global and local levels of company activity appears different tasks on marketing activity and therefore company needs to act different. So, features of marketing activity in condition of globalization are determined in the Table 1.

Table 1

Marketing parts and activities of company on the global and local levels

Marketing instruments	Global level	Local level
Studying of external environment and its influence	High influence on activity of company that is different on different foreign markets. The necessity in studying on all markets.	Only influence of local forces, necessity in analytic and neutralization.
Competitors studying	Strong competition, influence of different competitors on different markets. Plenty of competitors. Actions development on as global as local players neutralization on all markets.	The competition level is different depends on markets but average in comparison to world market.
Market research and development forecast	Necessity in detailed analysis of any market as well as world market. Development of long-term forecasts of market growth.	Short-terms plans and forecasts.
Work with suppliers	Agreements on the global level with global suppliers, the opportunity to get better conditions and decrease logistic costs.	Preferable work with local suppliers or representatives

Marketing instruments	Global level	Local level
Logistics	Close to all markets, warehouses locations, productions and supplier close to sales markets.	Logistics is built depending on production`s demand or trade, work «on situation»
Products development	General product, last developments and technologies. The product is high qualitative and competitive.	Product is developed for particular market, more mobile productive policy.
Pricing	Adopted price for any market.	General price for local market.
Sales	Standard channels and sales methods.	Standard channels and sales methods.
Communicative policy	General policy but some tools are adopted as well as messages for every market.	Standardization on communicative policy.
Motivation	General policy is standard with small adaptation depending on labor market situation or market features.	General policy is standard.
Trainings	General policy is standard with small adaptation depending on market features.	General policy is standard.

Conclusions. To sum up, it is possible to conclude that made analysis of company marketing activity in condition of globalization allows determining 2 contradictions. From one side, modern world is characterized by economic globalization which influences all subjects of world economy and leads to enforcement of its relationship. Globalization processes are followed by company expansion on international markets due to appearance of close type consumers in different countries because of similar tests and demands of clients. Appearance of similarity target markets leads to appearance of suitability to realize expansion of marketing strategies for international companies: from local sometimes multinational to global marketing strategy. But at the same time most of transnational corporations uses actions directed at individualization of marketing that is connected with necessity much full satisfaction of client demands in strong global competition conditions: from global marketing to niche marketing. Constant increase of local adaptation is taking place as well as decrease of global standardization with at the same time increase of long-term relationship, from single change of resources and information to constant communications in relationship marketing.

Such trends make producers to expand sales markets and fully satisfied individual demands of consumers.

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Microeconomics

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**DECENTRALIZATION OF BUDGET SYSTEM
AS THE ORGANIZATIONAL BASIS
OF THE SYSTEM OF LOCAL SELF-GOVERNMENT**

Abstract

The article analyses the opportunities of budget decentralization in the light of forming and functioning of local self-government system. The author exposes factors, determining a correlation of centralization and decentralization. A great attention is paid to the principles of expenditures responsibilities demarcation, to the problem of taxes` revenues fixing and to variants of regulation of vertical and horizontal inequalities in state budget system. The article exposes the role of local self-government as basis of federal state system. As a result, the author proposes a revenues structure on local and regional level with variant of local taxation system.

Key words:

Federalism, budget decentralization, vertical and horizontal inequalities, budget revenues and expenditures, local self-government, local budget, inter-governmental fiscal relations.

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The essence of the federal structure of the state can be reduced to the opportunities for its subjects to make their own decisions as an independent entity within the framework of a single state. This ensures the achievement and preservation of national unity and the relative independence of the federal subjects with their legal equality in relations with the federal center. The federal government offers the most robust and flexible mechanism for coordinating the interests of the center and the regions, motivating the subjects of the federation for the preservation of national unity.

In a federal system of government activities of regional authorities is built taking into account local conditions of socio-economic development, and accountability to the local population, from which the power is mandated to. This distinguishes it from a unitary system, which is characterized by decision-making at the center without their adaptation to local conditions and regional authorities accountable to central government. The differences in the principles of accountability ensure important background for the organization of a regional control in federal state structure in comparison with unitary system.

Federalism creates prerequisites for the effective organization and functioning of finance at various levels of government, including the budget process. The practice of management of the public finances in a country with few budgetary levels is called fiscal federalism. Its essence lies in the effective functioning of the organization and interaction of the budgets of all levels, providing the interests of all participants in the budget process.

The basis of the existing models in the world practice of fiscal federalism is the principle of decentralization, which is reflected in the form of government; in the structure of the federal, regional and municipal law; in the schemes of distribution of powers between different levels of government and in the construction of uniform, but multilevel fiscal systems.

Decentralization has both advantages and disadvantages, which are identified by comparing of the social costs and benefits. It should be borne in mind that if the decentralization does not affect the costs, the decentralized control is more effective, or at least it is not inferior from the viewpoint of efficiency. Decentralization is effective, if the rise in costs is covered by wins.

Fiscal decentralization is designed to achieve two main objectives: to improve allocative and productive efficiency of the budgetary system. By decentralizing public services can be organized to provide in such a way as to best suit the preferences of local residents, providing an increase in allocative efficiency or quality of the sharing of resources between the directions of their use. Along with this decentralization is accompanied by increased productivity of the budget system, ensuring accountability of local authorities to the population. Also the number of instances, in which solutions have to be coordinated, is reduced, as more powers given to local authorities, which better know the local context and local needs.

Thus, decentralization in its broadest sense involves the transfer of greater powers to local authorities, so that they can make their own decisions on the formation of income, expenses, and legal regulation. Local authorities are closer to the people, know better their needs and thus are able to meet their needs better than the central government. The proximity of the local authorities to the population also contributes to increased civic participation, transparency, and increased government accountability to the public.

Another important argument in favor of decentralization is the fact that the various public goods have unequal coverage. For example, the services of national defense are enjoyed by citizens of the country, and the benefits of inland waterways or the presence of the forest goes only to residents of specific regions. Public services, such as garbage collection and disposal, street lighting, etc., are addressed to residents of specific communities, and the need for them are different in various regions. Since the central government cannot account for such a variety of preferences in each region or country, the production of various public goods should be carried out by the different levels of government. This means that for the lowest level of government should be secured all the tax (revenue) expenditure responsibility and authority for statutory regulation, with the exception of those powers as to which may be presented convincing evidence that fixing them for the lowest level of government is inefficient. Provision of public goods only by institutions under the central government is associated with significant costs for a uniform approach to all areas (on some areas will be an overproduction of public goods, on the other – their underproduction) (Oates, 1972; Tanzi, 1996)

An important advantage of decentralization is the fact that the proximity of the local authorities to the population and the frequent interaction between them allows to create channels of communication through which citizens can express their interests. Moreover, such a regular and active communication increases the accountability of local governments to their citizens. Administrative autonomy creates preconditions for learning, finding new approaches to improve the overall quality of governance. Decentralized systems are able to provide greater stability, as local autonomies limit the ability of the center to conduct fiscal or monetary policy at its discretion. Decentralization contributes to maintaining of markets and

stimulates their development. Finally, the decentralized decision-making process allows to evaluate the different options for solutions, encouraging the spread of best practices. In this case, it is essential that the powers transferred to the level that can really hold any necessary actions and is interested in their results (Khaleghian, 2003; Bahl, 1999).

It should be noted that substantiation of decisions about the decentralization of funds in the budget system requires complete and reliable information about the territorial structure and intensity of financial flows. It comes to developing territorial context of revenues and expenditures of the federal and regional budgets, provide an estimate of «upstream» and «downstream» of funds in the hierarchy of the administrative-territorial system of the country. These data help us to understand how much tax revenue comes from each particular area in the federal, regional and local budgets, and, conversely, how much of this budget is spent on the same site. On the basis of this information one would be able to judge the financial self-sufficiency of each territory and its ability to independently provide its own development. Only these assessments will take solutions for each territory, individual in content, but based on the general rules for the provision or failure of financial support.

Local authorities, having autonomy, on the one hand, get more stimuli to increase revenue within their competence, but they cannot cross certain boundaries of accumulation of resources in view of the openness of the economy. On the other hand, they are spending money more efficiently, because they depend on the taxpayer, and are able to more accurately determine the local needs for public goods and the efficient use of infrastructure capacity gained.

Generally, the effective functioning of fiscal federalism is possible if the decentralized decision-making relates to the delivery of those public goods whose benefits are mainly localized in the area and localization benefits are substantially aligned with the spatial localization costs; also, preferences related to local public goods, mostly differ between regions than within regions.

Of interest is a position, put forward by John Wallace and William Oates about the relation between centralization and decentralization in government, one of the most important levers of which is the budget system. According to the mentioned researchers, the larger the area of the country is, the less centralized, all other things being equal, should be governance (area factor); the more the population of a country is, the less should be centralized governance (population density factor); the higher the proportion of the population is concentrated in urban areas, the less should be centralized state and regional management (social infrastructure factor); the higher the level of per capita income, the more centralized governance and his participation in programs related to the redistribution of income should be (factor of investment depending on the state of the economy); the more diverse is the demand for public services, resulting from the unequal distribution of income across regions, the less centralized, all other things being

equal, should be governance by the state and the regions (the factor of social dependence of the state of the economy) (Wallis, 1988).

In light of this, it can be argued that the impact of fiscal federalism is determined primarily by approaches, used to consolidate expenses, income-fixing and organizing the movement of funds between the various levels.

As the basis of the separation of powers between the expenditure levels of the budget system a set of principles is usually laid:

- territorial Compliance (consolidation of public services for the same level of power, whose jurisdiction covers essentially all consumers of these services);
- subsidiary (as close as possible to those territorial entities that carried budget services in the public interest);
- proportionality (matching of spending authority to financial resources of various levels of the budget system);
- economies of scale (number of costs is much better to carry out by large portions, wherein the provision of public services is assigned to the same level of power that can most effectively ensure the implementation of appropriate services);
- taking into account the external effects (the reasons for the higher centralization are high interest of society as a whole from the proper implementation of the individual regions / municipalities of its obligations and higher overall costs of their possible failure).

Obviously, making decisions on the division of expenditure responsibilities requires a comprehensive approach that addresses all of the following principles.

Of key importance is fixing of revenues (primarily taxes) in accordance with the expenditure side of the budget of a certain level. In general, three options of fixing tax revenues are known (King, 1992; Batkibekov et al., 2000).

In accordance with the first of them a local government gets all the tax revenues generated from the territory under its jurisdiction. In this part of the revenues should be transferred to a higher level of fiscal systems to meet expenditure obligations of the national government.

A weakness of this option is the possibility of reducing the effectiveness of inter-territorial redistribution of income, as well as restrictions to ensure fiscal stability. In addition, it can create inappropriate incentives for local authorities in respect of the financing of national expenditure commitments.

The second version of the distribution of tax revenues in contrast to the first involves the consolidation of all the taxes for the national government with the subsequent transfer of funds to lower authorities by providing grants or other

transfers, either through the establishment of standards for deductions of income for all or certain taxes to the budgets of lower-level.

This option also has some drawbacks, the main one of which is the lack of correlation between levels of government, vested with the adoption of the spending decisions, and the region within which collects certain taxes. This undermines the basis for an effective system of intergovernmental relations. Without establishing such a relationship there is the possibility of excess either finance local expenditure needs either unjustified decline in financial resources transferred to the lower levels of the budget system. Both can lead to the inability to create a stable system of financing public services at the local and / or regional level.

The third version of the distribution of revenue powers gives some of the taxing powers to local and regional authorities, and if necessary, – compensation for the missing revenues either by the share consolidation of regulatory taxes either by transfers by transferring to the local budget.

This option, occupying an intermediate position between the two previous, is largely free from their shortcomings, as it allows to assign to the lower levels of government taxing powers, thus linking the value of the tax burden and expense of the received solutions. However, the local authorities in their actions are guided by considerations of form «cost-benefit», which leads to an increase in economic efficiency. The implementation of this variant of the distribution of income, however, requires a coherent selection of taxes belonging to a local / regional authorities (local / regional taxes), and the share of federal taxes to the regional / local budgets (shared taxes).

The problem of the distribution of tax revenue is not limited to the full consolidation of specific taxes for local, regional or national level of government. Most often preferred is a combination of different schemes of fixing of tax revenues and tax authorities.

Understanding of the different types of government revenues on lower level is given in a table which shows that tax revenues of subnational governments can take many forms: own taxes, which are fully credited to the budget of the relevant authority, which has the right to determine the tax rate, and in some cases – to influence the procedure for calculating the tax base, and «overlapping» taxes, the base of which is determined by federal law for the entire country and subnational authorities shall have the right to set their own tax rates. (Batkibekov et al., 2000)

The issue of fiscal autonomy of subnational governments depends on their expected role in the economic system of the country. If the economic role of the administrative-territorial units is reduced to the practical implementation of the policies formulated at the highest levels of government, there is no need to provide them with a broad fiscal autonomy. If, on the contrary, it is expected that sub-national governments will implement their own spending programs, as well

as the independent determination of the amount and quality of the appropriate level of public services, their inability to change the tax rate, and therefore – the amount of budget revenues, is a serious problem arising from the mismatch of expectations, needs and aspirations of the public authorities of the actual revenue opportunities (Batkibekov et al., 2000).

Table 1

Types of fiscal autonomy of subnational governments

Kind of a lower level of budget revenues	The level of authority to control the view of revenue
own taxes	The power to determine the rate and tax base belong to the authorities of the appropriate level
«Crossed» taxes	The tax base is determined by federal law, the authority to determine the rates belong to the authorities the appropriate level
Regulators (shared) taxes	Rate and the tax base is determined by federal law, but a fixed percentage of tax revenue is credited to the budget authority of the appropriate level (aspect ratio can be calculated both on the basis of the share of tax revenues from the territory under the jurisdiction of the authorities of relevant level, and on the basis of other criteria – population, expenditure needs, revenue potential)
Non-purpose transfers	Share or transfer amount is determined by the central government, but the authorities – the recipients of transfer has the right to determine the direction of spending. In some cases, the amount of transfer tax may depend on the tax efforts of the recipient
targeted transfers	Transfer amount is determined by the central government, authorities – the recipients are required to spend their money on certain programs

Source: (Batkibekov et al., 2000) p. 91.

The use of these schemes of the distribution of tax revenues and spending obligations may lead, however, to the emergence of vertical and / or horizontal imbalances. Vertical imbalance is possible in case of discrepancy between its income and expenditure responsibilities at different levels of the budget system and the horizontal imbalance occurs during the differentiation of its own fiscal ca-

capacity of subnational governments at the same level of the budget system. To eliminate these imbalances a variety of mechanisms of transfer or borrowing are usually used.

The transfer of resources from one level of government to another budget is carried out usually in two ways – through a system of revenue sharing and grants. In this case, revenue sharing can have a number of options such as the division of the tax base or the centralization of tax revenues and their subsequent distribution according to selected criteria.

Allocation of grants may also have two types – non-targeted and targeted transfers, each of which can, in turn, be allocated as a fixed amount or as renewal, be conditional or unconditional, and stand out with co-funding. Selection of a particular allocation mechanism of intergovernmental transfers depends on the objectives of economic and fiscal policy in a given time.

In general, there are three possibilities of the state policy in the field of intergovernmental transfers to align the vertical and horizontal imbalances (Bat-kibekov et al., 2000):

1) The use of separate mechanisms aligns the vertical and horizontal imbalances. Subnational budget deficit alignment is performed by dividing the tax revenue and allocation of transfers from the national budget, while the alignment of fiscal potential is produced by the horizontal payments from regions with high budget level to the regions with low incomes. A similar system is used in the Federal Republic of Germany.

2) The complex system of equalization transfers. Both vertical and horizontal imbalances are aligned with a unified system of equalization transfers and special grants. A similar approach is used in budget systems in Australia and Canada.

3) Only the vertical alignment of the imbalance of the budget system. As with the first version of the budget policy, subnational deficits are aligned with the fixing of regulatory taxes and equalization transfers, but there are no specific measures to equalize the horizontal imbalance. In this case, the movement of capital and labor arises as a result of the difference in incomes in sub-national entities, as well as the net fiscal benefit to the regions (the net benefit of public expenditures and taxes paid). Under this option, fiscal policy may allocate special grants that, among other purposes, can be horizontal leveling effect. This approach is widely used in the USA.

In addition to establishing a relationship between the objectives of the horizontal and vertical alignment of imbalances in the design of the transfer system it is also required to determine the relationship between the types of transfers. The latter, as mentioned, can be either conditional or unconditional or targeted and untargeted transfers. Conditional transfers are grants, provided on the conditions of co-financing, the simple purpose transfers and block grants, each of

these types of transfers, in turn, can be allocated as a fixed amount, and with the possibility of extension. Unconditional transfers are allocated in the form of deductions from income tax in the sub-national budgets or in the form of direct transfers in a fixed volume or to be extended.

The practice of construction and functioning of budgetary systems in the federal structure of the state shows that the distribution system transfers must meet the following criteria (Batkibekov et al., 2000):

First, you need to avoid a situation where equalization transfers just cover the gap between revenues and expenditures of sub-national budgets. The distribution system of transfers should be built in such a way that sub-national authorities have not been able to influence the size of the transfer by its solutions in the area of expenditure policy, tax policy and tax administration.

Second, the application of the system of equalization transfers should not be accompanied by significant costs for the collection and processing of the initial information.

Third, the development of methods of distribution of transfers is necessary to involve representatives of the regional government to reach a political consensus in this area, in the absence of which the system will be ineffective. As a result, there can be a step change in the principles of horizontal and vertical alignment in order to avoid sharp fluctuations in the fiscal situation in the regions.

As a result, there should be incentives to conduct rational and responsible fiscal policy, to expand its own revenue base and for efficient use of public funds for the benefit of the local population.

The establishment and operation of an effective system of intergovernmental relations is ultimately aimed at:

- 1) improving the standard of living, social security and ensuring equal access of the population to the public (budget) services and social guarantees throughout the country;
- 2) ensuring the sustainable economic development with the optimal use of fiscal and resource potential of certain areas and the country in general;
- 3) strengthening of government and territorial integrity of the country, preventing the emergence of centrifugal tendencies and conflicts between different levels of government over the allocation and use of resources of the national budget system, the creation of conditions for the development of civil society.

Thus, the purpose of intergovernmental relations is to ensure consistency between income and expenditure in the budgets of different levels in cases when its income is insufficient to cover the necessary budgetary expenditure.

In all countries, using the principles of fiscal federalism, the scope of fiscal relations is the subject of a thorough legal study. The development of an appro-

appropriate legal framework lies in the direction of detail and comprehensive coverage of the legislative distinction between different levels of government expenditure and revenue responsibilities, as well as about the use of budgetary procedures alignment.

An essential element of social structure in many countries is the local government. Its circle of competence usually includes the implementation of the main share of social functions of the state, public safety, land improvement, promotion of entrepreneurship, etc. In recent years, local authorities received a significant level of autonomy [European Charter of Local Self-Government, etc.], and in some cases, local authorities are independent from the institutions of government.

The system of local self-governance as a fundamental element of a federal state structure is designed to provide a combination of national interests and the interests of each individual territory. Therefore developed and effectively organized local government is an essential element of the state government, allowing the latter to concentrate on solving national problems, thereby optimizing the entire system of government. Local governments carry out the implementation of local issues and the creation of conditions for the daily needs of the population. Obviously, for the effective implementation of their functions and powers the local authorities should have sufficient economic and financial base.

In modern conditions, Russia (since the late 90's. to Present) has been increasing centralization of control, including in the area of fiscal policy and the overall state of regional policy. To a certain extent it was justified in solving the most acute crisis and conduct basic market reforms. However, the current centralized model has exhausted its constructive possibilities and becomes a brake of territorial development. Preservation of this trend in the future is fraught with further intensification of existing problems in regional development. One of the most actual ways to overcome these problems is the decentralization of the budget system, including the decentralization of resources and authority, autonomy in decision-making, competition and strategic marketing.

In accordance with the above proposed we can focus on the formation of the following structure of income sources at the level of regional and local budgets (Sumsкая, 2010):

- 1) taxes, the proceeds of which are sharply reduced during periods of economic downturn and rising in the economic recovery (for example, the corporate income tax), should be assigned to the regional budget and local budgets should get the most stable tax sources;
- 2) taxes, the base of which are distributed unequally (taxes on some natural resources, etc.), should be fixed in the regional budget;
- 3) taxes, the base of which can easily be moved to another municipality (by re-registering the parent company, etc.) or the burden of which can be

passed on to the population of another municipality (excise on vodka imposed on the manufacturer and the like), it is necessary to centralize into the regional budget;

4) taxes on immobile bases, must be attached to local budgets (property taxes);

5) tax revenues that directly depend on the well-being of taxpayers registered, or living in the area (income tax, sales tax on consumer goods, etc.) should be attached to local budgets;

6) fees for budget services (fees, administrative fees) are due to the budget authority providing these services.

In summary, we can state the following provisions on which to build a system of local taxation:

1. Tax revenues should primarily cover the needs of the local budget. If local autonomy is an economic and political purpose, the local authority should not, if possible, be dependent on subsidies of higher authorities. Taxes collected by the local authorities, are more reliable base of long-term planning and development, particularly in respect of costs. The system of local taxation should not be the only source of local budget. There are many unusual costs, especially in the municipalities performing the functions of regional centers, which should be compensated by subsidies for general use.

2. Local authorities should have the right to set the rates of one or two major taxes. This enables local authorities to determine their expenditure program in accordance with the desire of the population to pay taxes. The financial autonomy of local governments has the advantage that taxpayers may authorize the local authority action by voting in elections and to control the decisions and activities of the local elected officials and administrative offices.

3. Taxes should be transparent and understandable to citizens and businesses, which bear the tax burden. This transparency is a prerequisite for the efficient allocation of resources according to individual requirements. Ultimately, it allows people to «vote with their feet» by taking the decision to move on the basis of differences in local taxation, which is characteristic of highly developed countries.

4. Providing income growth and thus satisfaction of its growing needs is impossible without establishing correspondence between economic development and income from local taxes. In addition, tax revenues should not be directly linked to the cyclical nature of business activity in the territory. From a formal point of view, the elasticity of tax revenue must be equal to one. The reason for this requirement is that the ratio of costs and revenues of local authorities should be stable over time. Stabilization policy is the responsibility of the central government because of its external action and requirements for flexibility in spending

and income. If there is a need to promote the stabilization policy of the local authorities, it is desirable to encourage them with grants for special purposes. Positive attitude of citizens and businesses to local authorities influences the distribution of the tax burden between the local population and the business sector, although the fear of environmental pollution often makes the local authorities to act against the creation of new industries. However, the system of local taxation should be neutral without any «drag» of the population and businesses. This rule has been called «the principle of equalization of interests.»

5. The establishment and a balance between the consumption of local services in the territory and the distribution of the tax burden are required. This equilibrium is not only has a positive effect on the distribution of resources, but also accompanied by political advantages, because the obligation to distribute the tax burden among all consumers of public services does not allow the use of certain groups through political decisions.

6. In the municipalities, roughly equal in size, the difference between the proceeds from local taxes per capita should not be significant. Otherwise, you need an active implementation of measures aimed at balancing between local authorities with a view to preventing violations of their financial autonomy. Since differences in the tax revenue are often associated with inequality of regions, the non-observance of the principle of building a system of taxation aggravates it even more.

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***Financial and Banking Services Market***

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**MODEL OF FUNDRAISING ACTIVITY
IN UKRAINE****Abstract**

A model of fundraising activity in Ukraine is formed. The role of fundraising as a tool for mobilizing financial and other resources from various sources to implement socially relevant research and non-profit projects is revealed. The prospects and challenges of fundraising in Ukraine are considered and analyzed. The algorithm for calculating the integral performance index for fundraising activities in the framework of the strategy is proposed.

Key words:

Fundraising, donor project, a non-profit organization, charities, non-governmental organization, strategy, fundraising activities.

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Introduction

One of the globalization processes is expanding and launching of the social market economy. The change to the social government is lead by a lot of various changes. The increasing role of civil society organizations, which can help the country to address the pressing social problems of citizens and promote scientific research, decrease the limits of access to the new social options and activities; expanding of opportunities in social aid, realization socially important principles and search for the resources of non-profit activities, in all, change of the model of national economy's social structure.

Nowadays, Ukraine, at the times of getting closer to the socially targeted market economy, developing of civil society and social initiatives, the charity becomes the form of social responsibility of the citizens in face of sponsors and support through grants, donations, information resources etc. The expanding of the charities and its form as organizational activity caused the creation of fundraising as a science about planning and normalization of actions.

The research of Fundraising is very important task because of the rapid increase in the number of non-profit and civil society organizations (CSOs) in Ukraine in recent years (see Table. 1) as well as it helps to stimulate fundraising projects in Ukraine, as a tool for mobilizing sources of resources to those who need them.

Although, majority of public and charity organizations operate through a single source of funding, which is the international donors, 28% had no funding, and the rest have an annual budget of less than 10 thousand UAH (Kuts, 2008, p. 14).

Some nonprofit organizations are funded by the proceeds from paid services, but eventually still have a situation of shortage of funds or other resources to further effective development, finding which needs to be addressed. At the same time, the sector non-profit organizations (NPOs) actually serves as social agents-distributors, social ideas and programs to encourage the formation and development of the field of social business, that they are among the state, commercial firms and citizens. This is evidence of the importance of all-round development of the economy and the state, and for business and for society. In such situation, it is advisable to apply fundraising, which has to be one of the main activities of non-profit organizations and play a significant role in shaping their funding sources.

Table 1

Number of individual categories of nonprofit organizations in Ukraine for 2006–2013 years

Categories	Years								2014 – 2006 yrs,%
	2006	2008	2009	2010	2011	2012	2013	2014	
Citizens' organization	570	1036	1247	1393	1466	1578	4461	4470	y 7,8 times
Civil organizations	46682	54862	59321	63899	67696	71767	74500	77286	165,6
Charity organizations	9590	10988	11660	12267	12860	13475	14055	14999	156,4

Source: The State Committee of Statistics.

At the times of financial crisis and shortage of CSOs projects funding from foreign, private donors and government funding, fundraising can be adequate tool of stimulating civil society and providing social and other rights to citizens.

Development issues and research fundraising activities devoted to the work of leading domestic and international fundraisers: Artemyeva T.V. (Artemyeva and Tulchinsky, 2010), Balashova A.L. (Balashova, 2008), Bashun O. (Bashun, 1999), J. Douglas Alexander (Alexander and Carlson, 2007), Komorowski L. (Komorowski, 2007), Christina J. Carlson (Alexander and Carlson, 2007), Kutz, S. (Kutz, 2008), Tulchinsky G.L. (Artemyeva and Tulchinsky, 2010) and others. However, they paid attention to the conduct fundraising activities in specific areas or covered only certain aspects of an issue. Therefore, the problem of fundraising in general in means of ensuring the implementation of socially significant programs, research projects and continuity of nonprofit organizations remain relevant, especially in times of economic instability in Ukraine, which requires further research on the conditions and prospects of further fundraising activities development.

Thus, the purpose of the study is to improve the strategy of civil society with regard of fundraising as a field of scientific knowledge and the developing model of implementation and dissemination of fundraising in Ukraine as a natural process of development of the nonprofit sector in the national economy.

The main material

Fundraising is a professional activity to mobilize financial and other resources through various sources and realization of socially important and scientific non-profitable projects, which requires special skills and knowledge of fundraiser that can influence on donor's positive decision (Chernyavska and Sokolova, 2013, p. 10).

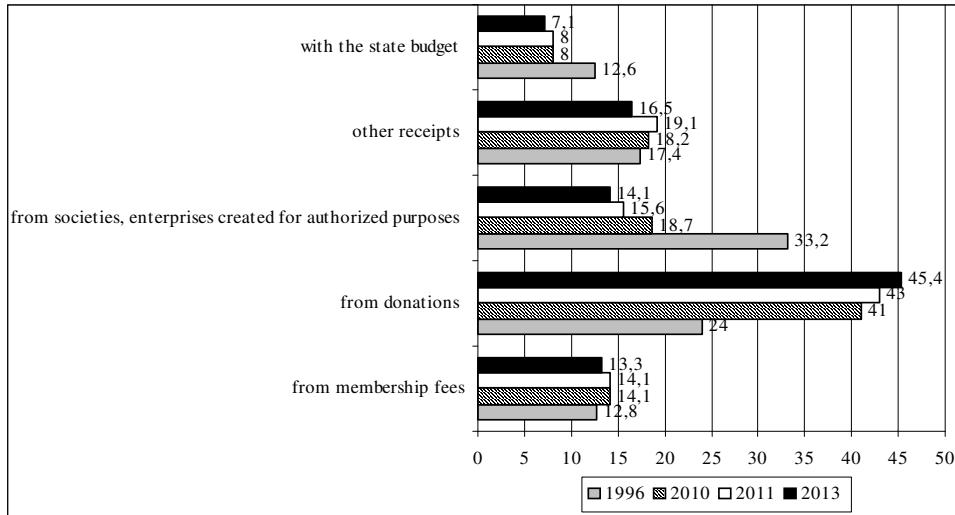
To convert potential donors to actual donors, fundraisers must be carefully planned, organized, using stepwise analysis and control, which results in the study of relevance, uniqueness and value realization of its exchange offer to meet some of the motivational needs of the donor. However, today fundraising in Ukraine can not be a tool of organized social assistance due to the lack of research and development in this field. Natural process of disbursement of the various categories of donors, mainly caused by emotional motives may reincarnate in information, research, technology-enabled management system controlled with an effective mechanism to attract and redistribute funds and other resources to those who need them.

To find sources of financing and reasons to spend money on civil organization, lets make an analysis of these organizations in Ukraine (1996, 2010, 2011, 2013 years) (Fig. 1, 2).

For the activity in 2013 from different sources 3,4 billion of UAH were got from public associations (on 1,6% more than in 2012 and on 11,8% more than in 2011) (Fig. 1). At what, receipts from charity occupy most part of lump sum of receipts for 2010–2013, unlike 1996 (in 1996 part of receipts is from economic activity of societies, enterprises, created public associations for implementation of regulation aims was 33,2%, that on 9,2% more receipts are from charity). It testifies to the increase of role of charity in society in Ukraine in the last few years. Receipts from charity in 1996 were 24% from the lump sum of facilities for financing of activity of public associations, in 2011 made 1,5 billion of UAH, or 43,2%, and in 2013 on 0,2 billion of UAH, or 0,3% more than in 2011 and on 21,4%, than in 1996, that 1,7 billion of UAH, or 45,5%. In relation to receipts from economic activity of enterprises, created public associations for implementation of regulation aims, in 1996 they were 33,2%, in 2011 – 525 million UAH, or 15,6%, and in 2013 – on 3,9 million UAH, or 1,5% less than, than in 2011 and on 17,6%, than in 1996, that 528,9 million UAH or 14,1%. From Fig. 1 evidently, as substantially grew short from 1996 to on 2013 receipt from the state budget on 5,5 in. p.: accordingly from 12,6% from all receipts to 7,1%.

Figure 1

The structure of sources of financing of public associations



Consequently, receipts from charity occupy most part of lump sum of receipts for 2010–2013 (41,0–45,5%). Receipts from charity after the structure include a receipt from enterprises and organizations of Ukraine (36,9% in 2010 r.; 38,8% in 2011 r.; 48,5% in 2013 in the lump sum of receipts from charity on Ukraine), from citizens (10,8% in 2010 r.; 13,8% in 2011 r.; 10,1% in 2013) and from non citizens (52,3% in 2010 r.; 47,5% in 2011 r.; 41,4% in 2013) (table. 2). Dynamics of values of structure of receipts testify that for the last three years the biggest donors were enterprises and organizations of Ukraine, that corporations, businesses, domestic benevolent funds and others like that, that it is aught caused an increase in the Ukrainian corporations of role of corporate social responsibility, that and stipulates actuality of application and development of corporate fundraising as sources of additional resources (from an analysis, for 2010–2013 part of receipts from organizations in Ukraine grew to 11,6.

Part of receipts from charity from citizens for analyzable period on a structure did not almost change (10,8% in 2010 and 10,1% in 2013). Although in obedience to foreign practice, the most perspective and most effective method of fundraising is collection of the private offerings. However, in Ukraine, as we see from a table. 2, this method is developed not enough (part of receipts from charity from citizens 10,1% in 2013). The lead through of measures on collection of

the private offerings is instrumental in the increase of financial firmness of organization, strengthening of its image, among local society, to the increase of amount of members and volunteers, stimulation of activity of population to the collaboration in the decision of meaningful problems, maintenance of current activity of organization, mass lead through of separate action and measures.

Table 2

Structure of funds to public organizations from charity for 2010–2013 years

Revenues from the charity, including:	Years						Divergency,	
	2010		2011		2013		2011 of 2010 +	2013 of 2011 -
	ths UAH	share,%	ths UAH	share,%	ths UAH	share,%		
enterprises and organizations of Ukraine	418196	36,9	563936	38,8	827035	48,5	1,9	9,7
citizens	122077	10,8	199955	13,8	172852	10,1	3,8	-3,6
from nonresidents	593541	52,3	690265	47,5	705211	41,4	-4,8	-6,1
total proceeds from charity	1133815	100,0	1454156	100,0	1705099	100,0	-	-

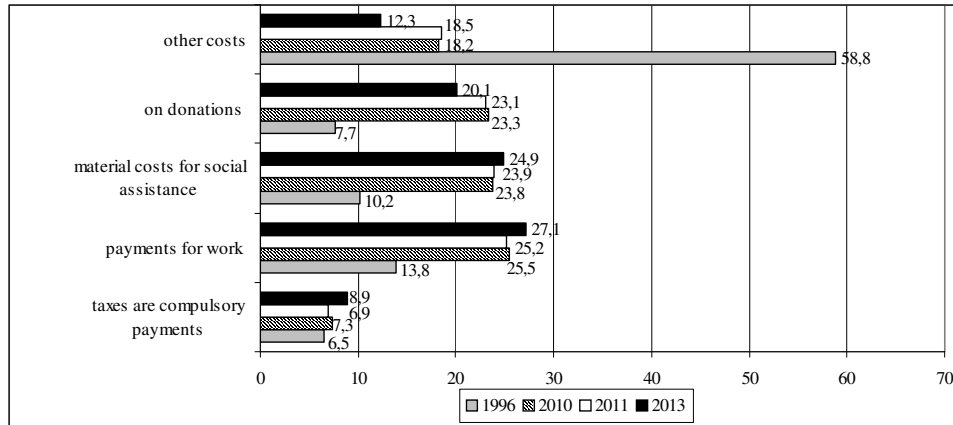
Source: State Statistics Committee of Ukraine.

As we see, part of receipts from non citizens for 2010–2013 diminished on 10,9 in. and made in 2013 41,4%. As marked already, it is caused the crisis phenomena in our country, however this type of receipts remains considerable and needs the special efforts and abilities, not to lose the already concerned positions that again confirms the important value of lead through of the moderate planned work in relation to bringing in of the foreign offerings, that application of fundraising.

Most part in the structure of charges of public associations is occupied after 1996–2013 years.: payment of labour – 27,1% in 2013, that on 13,3% on the structure of charges in 1996 more than, financial charges and payment of services – 24,9% in 2013, that on 14,7% in 1996 more than, charges on charity activity – 20,1% in 2013, that on 12,4% in 1996 more than (Fig. 2). As see, and in relation to the charges of public organizations, their considerable part heads for charity activity.

Figure 2

**The structure of usage of monetary fund by public associations
 in 1996, 2010, 2011 and 2013**

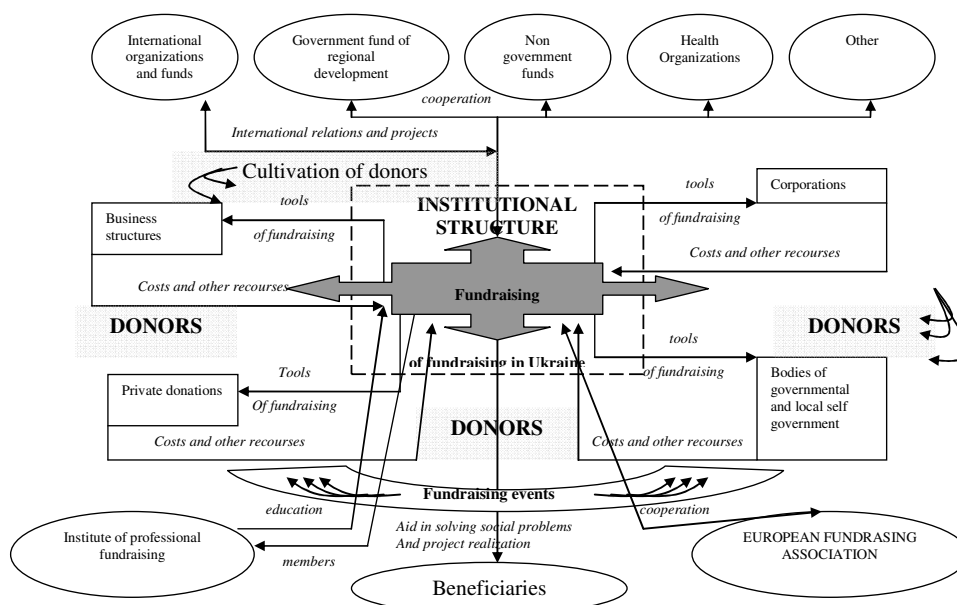


A present money from all receipts are used public associations in 2011 on 89,3%; a remain made 359 million UAH, and in 2013 on 84,2%; a remain made 504 million UAH, that, as see, almost all attracted resources go to the charges, namely on maintenance, not abandoning possibility for development which specifies on a requirement in the increase of financing of associations.

The elemental process of grant of money from the different categories of donors, which are mainly caused emotional reasons, can be reincarnated in informatively, scientifically, technologically well-to-do controlled control system with an effective mechanism bringing in and redistribution of money and other resources that, that needs them. Therefore development of model of fundraising activity in Ukraine as the structurally organized instrument of social help and introduction of fundraising in practice of work of OCSs will, to our opinion, be instrumental in the decision of the transferred problem questions in social sector of economy, and also providing of development and effective activity of noncommercial organizations and public associations.

The possible model of fundraising activity was formed in Ukraine (Fig. 3). This model is built on principle of account of all possible details of the effective functioning of fundraising in Ukraine, in that clean and foreign experience, that such, which represents application, management, collaboration domains, and instruments, sources of realization of fundraising and basic elements of the field of its activity.

Figure 3
Model of fundraising activity in Ukraine



Let's describe the general components of model of development of fundraising in Ukraine. One of the important elements of model there is Institute of professional fundraising, which functions in Ukraine. Its mission is creation of environment for effective, transparent and responsible charity in Ukraine by claim of democratic standards of practice of fundraising (Institute of Professional Fundraising, 2015). An institute conducts courses and seminars for the professional studies of consultants from fundraising. After completion of studies and receipt of positive estimation, participants get the certificate of European fundraising Association and Institute of professional fundraising.

Functioning and subsequent development of Institute of professional fundraising is very important in claim of professional fundraising activity and practice in Ukraine. As in the process of activity of the Ukrainian funds there are problems through mistrust in relation to transparency of work of their guidance. Many donors are sure that on 80–90% their money appropriate or outlay on own needs. Mainly, is caused a by weak financial base and actual absence of social image, culture of intercourse, and also by absence of ability to put right contacts, informative copulas; by an insufficient domain documentary and legal practice.

The next problem is a low level of organizational competence and professionalism, through which potential donors consider the best mother business not with domestic, but with foreign funds with an attractive image and possibility to provide the high level of organizational activity, more various forms of work and collaboration. And Institute is engaged in the decision of these problems, that is why the organization has his development in our country and an assistance application of fundraising activity is an obligatory and inalienable process them effective functioning.

The different categories of donors, basic from which are benevolent funds, private individuals, organs of state administration and local self-government, corporation and business, come forward the objects of fundraising. A basic task of fundraiser is a search and providing of participation of donor in the decision of public problems, given as an unprofitable project, motive to the social investing.

Donors (objects of fundraising) are international organizations, public institutions, business corporations, public noncommercial organizations (religious, scientific and others like that), private benevolent funds or private individuals which give citizens and unprofitable organizations on noncommercial irretrievable basis the additional resources of different kind are needed, on aims which are directed on the whole for the good of all society (Chernyavska and Sokolova, 2013, p. 17).

Every donor needs individual approach. It is conditioned the row of factors, such as: sphere and type of activity of organization (person), history of origin, vital functions, put priorities, purpose, aims and methods of their achievement, condition of existence and development, and others like that, that forms the features and distinguishing features of collaboration for every donor.

Fundraisers targeting is not begging for money, it is a developed set of steps, techniques, combined with efficient methods that require a high level of language knowledge, as well as skills in many areas: management, marketing, strategic planning, public relations, project activities, finance, legal, etc. Specialist in Fundraising has to obtain knowledge in the study of the subject «Fundraising» or to acquire a specialty in school of fundraisers with appropriate direction and level.

Next and the important constituent of model is the institutional providing of fundraising in Ukraine, namely creations of legislative (tax, legal) terms, which would allow extending possibilities of fundraising and donors. In fact absence of favorable tax legislation (tax deductions, stimuli) for development of charity; unstable system of taxation; the legal problems of unprofitable public organizations are unsettled; null information in relation to the aims of social project and system of estimation of his efficiency, and also professionalism, in its creation; absence of the transparent financial reporting of noncommercial organization; the low qualifying level of administrative skills of leaders of unprofitable organizations hinders achievement of effective result of fundraising campaign.

Fundraising activity, except for Declaration of ethics principles and Codes of ethics, is regulated and control the legislative acts of country on territory of which it is carried out. In the field of fundraising in Ukraine it is possible basic legislative acts to count acts which regulate activity of unprofitable organizations and associations, namely eleemosynary and public, that on the whole meet the European and international standards – it: Constitution of Ukraine, Economic Code of Ukraine, Internal revenue Code of Ukraine, Laws of Ukraine «On eleemosynary activity and eleemosynary organizations», «About public associations», «About volunteer activity», «About a humanitarian help».

On this occasion, we have to mark absence in Ukraine of Law «On unprofitable organizations». This law is in a project and must determine legal status, order of education, activity, liquidation of unprofitable organizations; right and duties founders, members, participants of such organizations, and others like that. We can find determination in Internal revenue Code of Ukraine, where it is marked that «unprofitable enterprises, establishments and organizations are enterprises, establishments and organizations, by the primary purpose of activity of which is a not receipt of income, but realization of eleemosynary activity and patronage of art and other activity, foreseen a legislation (The Tax Code of Ukraine, 2012).

From January in 2013 Law of Ukraine entered into an action «On public associations» which are a considerable step in direction of adaptation of legislation of Ukraine to the legislation of European Union in relation to providing of right on an association and adaptation to principles of civil society. The new release of law was instrumental in the removal of such failings in relation to education and functioning of public associations, as: a limit of actual prohibition is on the conduct of commercial; difficult procedure of registration of GO; limitation of activity only or members, that does not answer the international standards of the legal adjusting of status of GO and others like that (Mischenko and Sokolova, 2013, p. 276).

Basic moments of Law of Ukraine «About eleemosynary activity and eleemosynary organizations», which entered into an action in February in 2013 duplicated and interlace with the changes of Law of Ukraine «About public associations», that again confirms the process of adaptation of legislation of Ukraine to the legislation of European Union, claim of principles of civil society and increase of social responsibility, in Ukraine.

Consequently, analysis of normatively legal bases of eleemosynary organizations and public associations, simultaneously and the fields of action of fundraising activity, allows to find out the row of positive moments and positive tendency in relation to the presence of favorable environment and terms for introduction of model of development of fundraising in Ukraine. Except for the noted recommendations in relation to the institutional providing it is necessary to

be stopped for the prospects of application of IT-technologies in fundraising, that the newest instruments.

An important role in the lead through of fundraising activity belongs to exactly innovative technologies. Over the Internet and e-mail it is possible to carry out direct delivery (mailing), take part in crowd sourcing (receipt of necessary services by a decision publicly of meaningful tasks by forces of great number of volunteers, co-ordination of activity of which is carried out by information technologies) and crowd funding (process of collective collaboration of people (donors) which voluntarily unite the money or other or to give help in the decision of some public problem of other people or organizations (recipients), that is carried out, as a rule, over the Internet) social projects, to conduct virtual negotiations with a donor and others like that. Social networks became the effective mean of fundraising. Digital philanthropy, application of QR-kod, grid-technologies and activity, acquires vogue business-angels (Mischenko and Sokolova, 2013, p. 278).

Analyzing pre-conditions of construction of national fundraising model the wide spectrum of possibilities of its development is visible both at the level of separate organization and in a national and international scale. The most considerable possibilities is globalization, claim of principles of civil society in Ukraine, large-scale development of fundraising in foreign countries, high rates of development of innovative technologies, creativity' of young specialists, development of integration, aspiration, to the associations, development of integration, aspiration, to the associations, development of corporate social responsibility, presence and introduction of new instruments of fundraising, combining of different sources of resources.

Perspective direction of enhancement of fundraising activity is a perfect capture of methods of its realization and awareness of differences between these methods for the different categories of donors. For businesses charities the social investing is the effective form of participation, for private individuals – their confession; for the organs of power is collaboration and mutually benefit from realization of projects in realization of social policy and others like that.

To overcome problems from introduction of model of fundraising a study and introduction of foreign experience can promote from this sphere, for example, of oversea instruments of fundraising: lead through of national competitions, the purpose of which is encouragement and popularization of charity and patronage of art; lead through of international conferences on fundraising and participation for them of representatives of Ukraine (for example, these conferences are conducted from the International fundraising group (International Fundraising Group) in 1981 and recommended itself the effective form of exchange and receipt of new knowledge experience in the sphere of mobilization of resources for the decision of sharp social problems); assistance in successful development of endowments, the key condition of which is a release from VAT of transmission eleemosynary organizations of securities; rigging of the computer systems the

specialized software from fundraising and others like that. Important in this plan is distribution of knowledge about his essence and advantages among citizens, knowledge through the lead through of trainings, seminars, issue of news-letters, introduction of discipline of «Fundraising», in the system of education and others like that.

Fundraising as a field of scientific knowledge has interdisciplinary status. It occurs at the junction of the two sciences: management and psychology. Knowledge of psychology helps to select potential donors and find the best approach to establish partnerships with them, and basic management allows developing successful fundraising strategies using one or more methods of attracting additional resources in the development of fundraising foundations. It requires special formation of professional competence in scientific methods design and strategic planning to attract resources for non-profit organizations, especially scenario forecasting. The choice of tactics in nonprofit organization that is working out a strategy of fundraising campaign is successful implementation of a specific project and its overall mission.

The first part of the selection and development of fundraising strategy is a complete view and understanding of motivational reasons for aid by donor to be taken into account in the strategic planning of the organization.

«Fundraising – is not «begging» resources charitable organization, and «selling» your product (services, projects, programs, ideas, etc.)» (Fundraising: course book, 2003, p. 26) in exchange for the pleasure of motivational impulses by donor. This rule leads and underlines the importance of a full-scale presentation of the values of the proposed project, its appeal to donors, which manifests itself through the ability to meet the needs of the proposed product.

Famous fundraisers USA Warwick Mall offers five non-profit organizational strategies to improve its self-sufficiency (Kuts, 2008, p. 27):

1. Growth – ensuring dynamic growth of income. In order to do this, the organization must determine long-term goals, which have to be formed and guided by strong leaders, be able to manage multiple sources of resources, including small ones, and establish all the organizational service. Growth Strategy requires a large investment, but it guarantees a steady income, including organizational needs. Mechanism of strategy implementation is direct mail.

2. Getting more donors through events and providing services that are of interest to donors. The organization develops programs of volunteering, public events, services for members (graduates). This organization has a good public image, has well-known high quality services and is influential in the community. Tools for the strategy implementing – distribution among members, attracting new members, telephone fundraising, sending out newsletters and more.

3. Recognizing organizations in the community and its image – a strategy aimed for improving knowledge about the organization. It grabs wide public atten-

tion, consultation with stakeholders. This strategy is eligible for organizations with strong support from one or two donors, with a rather small number of direct beneficiaries, for example, research institutions that are interested in expanding services and advocacy. It will help in implementing media strategy, as well as special events, work with the business to implement socio-targeted marketing.

4. Efficiency in fundraising – fundraising of organizational process is structured to resources invested in fundraising, efficiency offers the highest returns. This strategy helps organizations that are starting out, and when it is necessary it helps to ensure the functioning of major systems or the introduction of innovative services. Strategy is based on verified financial planning. The tools of this strategy are: grants for more advanced organizations – installation of regular donations or donations in the workplace. It is Acceptable to those providing social services.

5. Stability – designed years ahead of strategy of permanent income, this would allow the organization to spend minimal money on fundraising. These organizations do not plan to expand services, but have a good name in the community and a constant circle of donors involved in their activities. The instrument of this strategy is the endowment (constant capital) or a system of diversified fundraising.

It is impossible to choose the perfect strategy because they are combined and divided into primary and secondary, and also they depend on which step the development of NGOs is at the moment.

In our opinion, in the process of planning a fundraising project and choosing strategies for fundraising for the organization, determine the assessment of the effectiveness of fundraising activities, i.e. the level of achievement of a positive effect of the project. This assessment can provide guidance organization or an independent appraiser (the auditor) and for greater transparency to light, for example, on its website, its result, which will be interesting both for donors and beneficiaries and partners. With the accession to the dissemination and improvement of assessment methodologies, it is possible to conduct rating CSOs which helps to improve their activity and to stimulate development through competition.

To determine the effectiveness of fundraising activities we recommend to use the following formula (1) calculating the integral performance index fundraising activity (IRFD), which includes the most significant factors that directly or indirectly affect the outcome of the campaign:

$$I_{P\Phi D} = \frac{O_{\phi}}{U_{np}} + \frac{3_{\phi}}{3_e} + \frac{\Pi_p}{\Pi_e} + \frac{B}{H} + \frac{B_{\phi}}{B} + \Phi B, \quad (1)$$

where O_{ϕ} – fundraiser's education;

U_{np} – total amount of employees in organization;

$Z_{\phi/\epsilon}$ – amount of fundraising events;

$\Pi_{e/p}$ – amount of organization's projects according to offered/completed;

B, B_{ϕ} – total expenditures, expenditures on fundraising activities;

H – total revenues;

ΦB – availability of fundraising department in organization (index : available department – 1, absence of department – 0).

If the integral performance index of fundraising activity (IRFD) is included in the interval 0–2,5, the result of a campaign launched is to be 50% successful in passing the draft stages of fundraising activities and its implementation, if IRFD included in the interval 2,5–5, probability of the higher positive result in campaign – close to 100%.

Conclusions

Development of model of fundraising activity in Ukraine as the structurally organized instrument of social help and introduction of fundraising, will, to our opinion, be instrumental in the decision of great number of problem questions social the sector of economy, and also providing of development and effective activity of organizations of civil society. In our view, improvement of the institutional providing of fundraising activity, comprehensive application of IT-technologies, support of organs of power, study and introduction of foreign experience, from this sphere, the increase of level of knowledge of population and unprofitable organizations about fundraising activity and increase of researches in relation to this phenomenon in a scientific and educational environment will help to perfect and spread fundraising in Ukraine with the purpose of providing of realization of the socially meaningful programs, research projects and trouble-free activity of unprofitable organizations. The calculation of integral index of effectiveness of fundraising activity, within the framework of development of strategy of fundraising campaign of organizations, will give the interested parties of project possibility of transparent evaluation, and also rating of organizations of civil society on the basis of efficiency of activity, without regard to the sizes of organizations, that to the will increase of their activity and will stimulate development.

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Ukrainian Economy

Yurii ZHURAVEL

**INVESTMENT RESOURCES
FOR NATIONAL ECONOMY MODERNIZATION**

Abstract

This article studies the trend of investment resources formation for the modernization of Ukraine's economy through budgeting, which is created in the corporate sector, in banking system, in pension funds, households, in the stock market, and is invested by foreign investors. The tendencies that indicate a narrowing of investment sources that can be raised in the corporate sector and in the stock market are identified. In the part of the private (collective) investment the potential for its significant increase and subsequent targeting through the institutions of collective investment into modernization projects was shown. It was proposed to develop at the national level the effective mechanisms to stimulate the investment processes in the corporate sector, as well as to create an extensive institutional network for innovative projects selection as the facilities of public importance to be invested.

Key words:

State, society modernization, economic modernization, institutional changes, consolidation of financial resources, investment, innovation.

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Problem statement. The relevance of the study of such a phenomenon as modernization of the economy is due to the fact that modernization is a comprehensive process that involves many changes at the same time. Experts view at the modernization changes in the context of qualitative new public steps towards industrialization, urbanization, rationalization, strengthening the role of personality, a combination of science and industry, and so on. There are different interpretations of the concept of «modernization», including the following: 1) as a synonym for all progressive social and economic changes that create conditions for the advancement of the society; 2) as the embodiment of modernity, for which it is necessary to develop a set of social, economic, cultural, political and intellectual transformations. In general, modernization is understood as the transition from traditional to modern society, providing for orientation at innovation, secular social life, and gradual (non-cyclic) economic development, industrial nature of production, mass education, and high professional level of specialists (Buzhym-ska, 2008, p. 218). Given the fact, that modernization changes require significant financial resources, it is advisable to research thoroughly the potential sources of investment resources that can be directed to the projects of economic modernization.

Analysis of Researches and Publications. The problems of economic modernization are thoroughly studied by foreign and domestic scientists. Many research papers are devoted to theoretical and empirical issues arising from understanding the nature of modernization, and are considered in the context of the synthesis of structural, technological and institutional changes aimed at improving the economic competitiveness of different economies, social standards, the effectiveness of the institutions, and others. A significant contribution to the study of the modernization nature was made by M. Veber, W. Rostow, Sh. Eisenstadt, M. Kondratiev, S. Kuznets, V. Mitchell, O. Conte, H. Spenser, E. Durkheim, G. Murdal, H. Kahn, D. Bell, J. Scott, J.M. Keynes, J. Robinson, A. Aganbegyan, O. Bilokrylova, R. Grinberg, O. Dzhumov, R. Nureyev, V. Polterovych, Ye. Yasin.

In Ukraine, the theoretical foundations of modernization have been developed by such famous scientists as A. Halchynskyi, V. Heyets, A. Hrytsenko, P. Yeschenko, V. Semynozhenko, H. Chernichenko, and A. Chukhno. Institutional and innovative aspect of modernization has been developed in the researches made by Yu. Bazhala, K. Buzhym-ska, Z. Varnalii, Ya. Zhalila,

O. Lapko, L. Fedulova. Financial and credit mechanisms of investment provision for modernization of the economy and structural changes are thoroughly studied by Ya. Belinska, A. Vozhzhov, A. Danylenko, V. Zymovets, O. Tereshchenko, V. Fedosov, L. Shablysta and others.

Some Challenges Left Pending. A lot of issues regarding modernization of society have been reflected in scientific studies. Special attention is paid to the analysis of the impact produced by global factors on the national economy (Kovryzhko, 2010; Onyshchenko, 2011), employment (Bandur, 2011), the development of industries that determine the state of the country's competitiveness on a global level (Anpilohova, 2012; Dmytrenko, 2012; Kinzerskyy, 2013; Petrovych, 2012), and the creation of institutions (Vinichenko, 2012; Chernichenko). But most scientific papers have been focused on the innovative development (Grytsenko, 2011; Mochalyna, 2014; Pavlyuk et al., 2013; Chukhno, 2012). And it is quite reasonable due to the fact that the modernization is targeted at ensuring the transition from traditional to a modern society. As modernization changes require significant investments, it is necessary to activate research in the evaluation of potential sources of investments generated in the budget, the corporate sector, the banking system, households, in the stock market, by foreign investors, and others. This will enable to assess more adequate current economic prospects and determine the long-term objectives in terms of modernization of economy.

The Main Subject Matter. Modernization has a long history and dates back in the sixteenth century. As a large-scale social process modernization started in the eighteenth century, reaching its peak in the twentieth century. Modernization research also was carried out in the twentieth century. In particular, the classical theory of modernization was formulated in the 1950–1960-s. In the second half of the twentieth century there were observed «three waves» of modernization research, namely: *classic type, post-modern, and new modernization* (Chernichenko).

A special place in history is given to classical modernization, since it is a historical transition from an agrarian traditional society to a modern industrial, and it represents a revolutionary advance, which is characterized by complexity, systematicity, a very long period of development, and a globality of coverage. That transition involves the development of advanced industrial technologies, political, cultural and social mechanisms enabling to maintain the industrial growth of sectors and all areas of life. Modernization changes produce a significant impact on social institutions, population groups, social environment, and so on.

It is worth stressing that the modernization of the classical approach is considered in the context of industrial society development. Neoclassical approach as the basis of modernization determines strengthening of private property and democracy. Keynesian concept of modernization comes from the assumptions that to get out from the grip of poverty there should be a «big push»

providing for structural technical and economic changes in key sectors. The founder of modernization institutional concept G. Myrdal considered modernization in the light of increasing the basic needs of society members (Mamaluy, 2010, pp. 28–29).

Classical theory studies the development of the industrial world, while the postmodernization one – its further development. According to the postmodernization theory the development of civilization has three periods, i.e. the traditional society (pre-industrial), modern (industrial), and post-modern (post-industrial), as a result of that the transparency of government, individual freedom, maximum happiness is achieved, and the benefits provided by postmaterial values are prioritized. But one should note, that the postmodernization theory explains the goals of social development from the positions that the industrial economy is far from being a culmination highest pinnacle. The developed countries are switching from industrialization to deindustrialization, which is shown by steady decline in the share of industry and growth in service sector. In its turn, the industrial society – is also not a final culmination «point» (Chernichenko) because the urbanization is increasingly replaced by the desire of people to live outside the city, in the countryside.

Scientists H. Chernichenko and A. Yefremenko, researching the essence of the modernization theory, concluded that the modernization is the most important change of human civilization since the industrial revolution of the eighteenth century, which includes changes in activity, behavior, processes, content, structure, system, and the very idea of human civilization. Thus, modernization is a historical and comprehensive process of development, changes and close international interaction of modern civilizations that support the priorities of innovation development and international competition (Chernichenko). K. Buzhymyska views modernization as a set of economic, political, governmental, legal, psychological, cultural changes and transformations of a specific socio-economic system towards its modernization and continuous improvement; approach of socio-economic systems and their fragments to the highest possible level of development (Buzhymyska, 2008, p.219). The main characteristics of the modernization process are the following:

- *Complexity* – modernization covers all aspects of society and all segments of the population;
- *Consistency* – changes in one area cause changes in other areas, even if they at the first glance are not closely related;
- *Globality* – having started in the industrialized western countries, modernization spread throughout the world;
- *Phasing* – there are certain successive stages (emergence of reformist elites, changes initiating, definition of the reform programs, distribution and consolidation of positive results);

- *Differentiated nature* – modernization in different countries has its own individual characteristics, based on the traditions of national culture, ethics, the state of the economy and place of each country in the global division of labor.

Thus, modernization encompasses all areas of life and effects culture, economy, politics, and social sphere. At that, the value orientation of social groups is changing; the importance of knowledge, research, possession of information is intensifying. The priority in the economy becomes technological development based on the use of scientific knowledge. Social and technical division of labor is coming to the fore and the secondary (industry, trade) and the tertiary (services) sectors are being developed, markets for goods, capital and labor are expanding. In politics there is observed increasing of public political activity. Modern public institutions are being formed and developed. In the social sector the following phenomena become priorities: *individualization*, where a basic social unit is the individual, against the group; *differentiation*, resulting in some of the functions transferred from the family to social institutions; *formalization*, i.e. strengthening the importance of social institutions, the dominant role of science and expert opinion; growth of professional expertise; improvement of the quality of life (Buzhymyska, p. 225).

The need for providing moral, humanistic, and social nature of modernization is clearly indicated by famous scientist, NASU academician V. Heyets in his article «Upgrading the System» of «society-state-economy». The renowned scientist points out that: «...the transformation of society in the process of social-driven market economy has resulted in the society to have suffered significant social costs, and the market transformation, in fact, happened to be not only socially undirected or at least neutral, but often a socially aggressive market model, where appropriation, income and wealth often reach extremes....» (Heyets, 2014 p. 121). That is, the process of modernization must be purposefully and effectively managed by the state, not relying on the regulatory effect of market forces. Repeatedly the experts expressed the view that it would be appropriate to apply the effective management mechanisms for upgrading modernization at all levels and in all sectors of the economy.

These requirements especially refer to the mechanisms for modernization investment and using for its implementation of all potential sources of funding. At that, these potential sources should be accumulated in all sectors, namely in: financial and non-financial corporations, governmental management, households, non-profit organizations with a view to their further consolidation and concentration on promising areas of innovation development of the state. In this way, a significant role is played by the transformation process of savings into real investment. Consolidation and concentration of investments in key areas can provide a powerful impetus on the economic development and improvement of social standards.

According to international practice the investment dynamics serves the fundamental parameter for a reproduction process that determines the possibility of fixed capital renewal, as well as on structural reforms, creation of the basis of long-term economic development. But now in Ukraine there dominates the renewal of the 3rd technological structure (metallurgy, inorganic chemistry), and low-tech and low science intensive primary sectors are developing (mining, fuel, food, light industry). At that, a number of companies that actually implement innovations makes 12–13,5% (which is 3–4 times lower than in the developed countries). According to the experts to gain the qualitative breakthrough, it is necessary to increase the share of high-technology production up to 35–40%, the share of high technology products – to 25–30%, the proportion of enterprises that implement innovations – to 35–45% (Pavlyuk et al., 2013, p. 3). This can be achieved through the adoption of measures in terms of a fundamental change in the economic structure, creation of effective institutional framework and searching the sources of funding for innovative development of national economy. Therefore, the definition of existing and potential financial resources that can be channelled through investment mechanisms in the economic development and modernization changes are particularly important.

Due to the classification, the sources of resource modernization support of the national economy consist of internal and external (Mochalyna, 2014). The internal sources of investment modernization resources include the below:

- income;
- depreciation deductions;
- reserve and insurance funds;
- donations of capital equity founders;
- dividends, interest, capital and financial investment earnings ;
- sponsorship and donor contributions.

The external sources of investment modernization resources are the following:

- resources of domestic and foreign investors;
- investment bank loan;
- target public credit;
- investment tax credit;
- issuance of bonds;
- issuance of shares
- financial leasing;

- state and local budgets;
- subsidies, donations, grants, benefits;
- funds of state-owned enterprises;
- charitable contributions.

Thus, theoretically, there are many sources of financial resources that can be channelled in economic modernization. But the statistics does not summarize the required information to quantify the value of these resources. Therefore, in our study statistical compilations have been used, which present the data on capital investments and the Reports of National Commission in Securities and Stock Market, which show the figures on the volume of securities issue and securities trading patterns.

What real financial resources and what amounts were involved for the modernization shows the dynamics of capital investments (Table. 1). The structure of the funding sources for capital investment shows the real agents of the investment process. The challenge is to focus the resources on priority areas of modernization, and create the effective institutional environment both, for investors and for investment consumers.

As the figures in Table 1 show, out of all sources of capital investment for over the past five years 60–66% are the own funds of enterprises and organizations, about 10% (in 2013 – only 5%) – budget funds, 12–17% – bank credits, 2–4% – foreign investments, 5–9% – savings. It should be noted that less than 25% of the accumulated depreciation is channelled to capital investment, though amortization (given its economic substance) is, the first to be directed to capital investment. A small share of budgetary resources for capital investments is due to the fact that the current expenditures account for 83–93%, while capital ones – about 10%. It is rather problematic to radically change these proportions without changing the structure of the economy and public spending priorities, which are of predominantly social orientation. According to the experts, the expansion of public investment can take place by reducing the unjustified benefits, revision of existing programs for their compliance with the objectives of strategic development, reduction of the expenditures for public administration. The increase in capital expenditures should be held, on the one hand, due to better support of specific investment projects in priority areas, and the second – with an increase in capital expenditures in the areas that consume the products produced due to the implementation of these projects (Kinzersky, 2013, p. 43).

The share of bank loans in capital investment is negligible, although as the calculations we had made showed out of total resources at the disposal of banks (including capital and equity, and attracted funds of individuals and legal entities), only 2, 5 ranging to 7% is channelled to capital investment. Thus, the bank resources for capital investment are used poorly, indicating that the banking system neglects the real demand of economic agents on loans for innovative devel-

opment. Foreign investors also practically do not invest; their share in capital investments makes up to 5%.

Table 1

Capital Investment in Ukraine by Funding Sources

	2009		2010		2011		2012		2013	
	mln UAH.	%	mln UAH.	%	mln UAH.	%	mln UAH.	%	mln UAH.	%
State budget funds	8361	4,3	10952,2	5,8	18394,6	7,1	17141,2	5,8	6497,8	2,4
Local budget funds	5914	3,1	6367,7	3,4	8801,3	3,4	9149,2	3,1	7219,2	2,7
Own funds of enterprises and organizations including amortization deductions	127435	66,1	114963,6	60,8	152279,1	58,6	175423,9	59,7	170675,6	63,8
	...	...	24076,3	12,7	26175,6	17,2	25799,9	14,7	27654,2	16,2
Bank credits and other loans	25587	13,3	23336,2	12,3	42324,4	16,3	50104,9	17,1	40878,3	15,3
Foreign banks credits	...	...	2991,8	12,8	5002,8	11,8	8263,7	16,5	4497,4	11,0
Mortgage lending	...	...	161,2	0,7	149,5	0,4	257,7	0,5	577,1	1,4
Foreign investments	8209	4,2	4067,7	2,1	7196,1	2,8	5040,6	1,7	4881,2	1,8
Private funding for individual housing construction	5502	2,8	16176,0	8,6	15102,9	5,8	21975,1	7,5	21770,0	8,1
Private funding for the construction of own apartments	4796	2,5	4654,2	2,5	4470,0	1,7	3650,9	1,2	6574,8	2,5
Other sources	7074	3,7	8543,0	4,5	11363,9	4,3	11205,9	3,9	9230,9	3,4
Total	192878	100	189060,6	100	259932,3	100	293691,7	100	266728,0	100

Source: Capital investments in Ukraine. Statistical Bulletin. State Statistics Service of Ukraine; 2010 – pp. 6–8; 2011 – pp. 6–9; 2012 – pp. 7–9; 2013 – pp. 7–9; Statistical Yearbook of Ukraine, 2013 State Statistics Service of Ukraine, 2014. K. LLC «August Trade».- p. 533 – p. 184.

As a part of such an important source of investment as personal savings, it should be emphasized that currently the share of spending on goods and services (79–84%) remains high. But the share of available resources investments in the growth in financial assets is about 10%, and in the accumulation of financial assets is up to 2%. Thus, we could say that there arose public interest to be investors. These trends are confirmed by the restructuring of trade volume on the

stock market where securities of collective investment institutions in 2013 amounted to 29.6% against 5-7% in previous years (Table. 2, 5). It should be stressed that the overall investment institutions is a modern mode of financial intermediation within the collective investment, which includes investment and pension funds.

Assessing the investment resources the experts point out that a significant addition to the resources available, there real and vast is money that can be obtained as a result of the central bank credit issue, and it's targeting for the implementation of innovative programs with preferential rates use (Vozhzhov, 2012, p. 24). The scientists propose to expand the sources of capital investment by the targeted issue, aimed at innovation projects.

Researcher O.Dzhumov made projections of the companies' needs for financial resources that can be consolidated from different sources, with the profit of 20.5%; foreign investments-21%; bank loans – 15.8%; foreign direct equity investment – 15%;depreciation -11%; bonds – 7.2%; budget resources and extra-budgetary funds – 3.2%; initial public offering – 2.6%; corporations accounted banks bills – 0.9%. In addition, O. Dzhumov to consolidate financial resources for specific purposes suggests that the corporate sector resources should be maximally used through the following (Jumov, 2009):

- rationalization of the production and circulation costs, taxation ratio able to increase the amount of profit and depreciation;
- the usage of equity and investment funds, including those of the corporations under the terms of the guarantee provided to investors;
- implementation of joint investment projects on a share basis with the interested companies and private investors, and also through credit bank resources;
- foreign capital inflows due to encouragement of foreign investors and guaranting their safety and risk reduction;
- concentration of companies' investment capital, creation of regional investment corporations with the formation of a mutual funds structure;
- involvement of pension funds, insurance companies; and monetary resources, personal savings, portfolio and foreign direct investments;
- attraction of investment funds in the stock market through additional issue of shares and allocation of bonds.

We will analyze the data of the National Commission on Securities and Stock Market of Ukraine concerning the evaluation of potential resources that can be raised on the stock market for the purposes of economic modernization. For this we will consider the dynamics of registered securities issues, and the scope and structure of trading on the stock market (Tab. 2–5). As the reports of

the National Commission on Securities and Stock Market show, at the beginning of 2014 in Ukraine there were issues of securities totaling 1264.5 billion UAH, out of this amount 572 billion account for shares. Against this background there looks very impressive the amount of registered securities of collective investment institutions, i.e. 406.4 billion UAH. Analyzing the ratio of these values and the figures of 2, 3, 5 tables, we can conclude that in the corporate sector as against the collective (private) investment system, a limited amount of investment is being created that could be attracted in the stock market.

The dynamics of registered securities in each year for over the period of 2009–2013 is seen from Table 3. In particular, from 2009 the volume of shares issue rather decreased. It also indicates the potential narrowing of investment sources that can be attracted on a long-term basis in the corporate sector.

Table 2

Dynamics of Registered Securities Issues in Ukraine, bln. UAH. (cumulative)

Indicators	2009	2010	2011	2012	2013
Registered securities issues, bln.UAH. including:	740,0	835,6	1014,8	1122,5	1264,5
shares	393,1	433,7	491,9	507,7	571,9
securities of collective investment institutions	207,3	252,7	337,3	371,3	406,4

Source: Tables 2–6 indicators summarized based on the annual reports of the National Commission on Securities and Stock Market [Electronic resource]: – Accessed by: <<http://nssmc.gov.ua>>.

Table 3

The Volume of Registered Securities Issues in Ukraine for respective year

Indicators	2009	2010	2011	2012	2013
Registered securities issues per year, bln.UAH. including:	162,7	95,5	179,2	107,7	142,0
shares	101,1	40,6	58,2	15,8	64,2
bonds of enterprises	10,1	9,5	35,9	51,4	42,5
securities of collective investment institutions	51,1	45,5	84,5	34,0	35,1

The inadequate investment resources that are actually attracted in Ukraine's economy on a long-term basis can be seen from Table 4. Thus, in 2013 thanks to the long-term securities 85 bln. UAH was attracted into the economy, and by providing long-term loans – 74 billion UAH. As of 74 bln. UAH of long-term credits less that 35 bln. UAH was directed for capital investments (Table.1).

Table 4

Investments Attracted in Ukraine's Economy for 2009–2013 years, bln. UAH

Indicators	2009	2010	2011	2012	2013
Bank long-term credits	85,6	47,4	88,3	67,2	74,2
Long-term securities	56,3	68,6	100,2	73,7	85,3
Total	141,9	116,0	188,5	140,9	159,5

The limited fund raising opportunities for economic modernization in the stock market shows the dynamics and structure of the trading volume on the securities market (Table. 5).

The calculations showed that the largest share (40–48%) in 2011–2013 made government bonds, which by their goal destination are debt instruments as far as they are used to finance the budget deficit, and therefore can not be considered as a source of investment to modernize the economy. The most unfavorable fact is that the proportion of shares and bonds of enterprises tends to decrease. In particular, in 2009, in the structure of trading volume, the shares made 44%, in 2010 – 36%, in 2013 – only 10%. The volume of trading in companies' shares is also reducing. If they made 7.6% within the trading structure in 2009, then in the following years this figure receded to 4.5%. Though the volume of the companies' bonds issue (Table.3) in 2011–2013 was ranging from 35 to 50 billion UAH, this did not significantly influence their attractiveness to investors.

Thus, at present, the mechanisms of the stock market in terms of attracting corporate sector investment are poorly involved. At the same time, the market of collective investments (Collective Investment Institutions) shows greater activity and can be regarded as a source of innovation projects investment for the purpose of economic modernization. But it is necessary to create the institutional framework for the selection of innovative projects as important public facilities for the targeted investment.

Table 5

Dynamics and Structure of Trading Volume in the Securities Market in Ukraine, bln. UAH.

Indicators	2009	2010	2011	2012	2013
Total, including:	1067,3	1537,8	2171,1	2530,9	1677,0
Government bonds, bln. UAH.	99,0	354,1	855,5	1217,0	721,5
share, %	9,3	22,9	39,4	48,1	43,0
Securities of collective investment institutions, bln. UAH.	76,3	115,5	114,7	137,7	496,5
share, %	7,15	7,49	5,27	5,44	29,6
stocks, bln. UAH.	470,7	556,2	636,1	591,9	171,1
share, %	44,1	36,1	29,3	23,4	10,2
Treasury bills and notes, saving certificates, certificates of real estate funds, mortgage-backed securities, NBU deposit certificates pledged securities, bln. UAH.	339,3	441,8	435,7	426,9	167,4
share, %	31,79	28,72	20,06	16,86	9,98
Bonds of enterprises, bln. UAH.	81,1	69,5	103,7	124,9	98,8
share, %	7,6	4,5	4,8	4,9	5,9
Derivatives (derivative securities), bln. UAH.	0,1	3,7	24,0	24,9	18,0
share, %	0,01	0,24	1,1	0,98	1,07
Municipal bonds, bln. UAH	0,7	0,5	1,7	7,5	3,6
share, %	0,06	0,03	0,08	0,3	0,21

For modernization and innovation of economic development the renowned scientist A. Aganbegyan proposes to use pension funds (including private), the resources of insurance companies, mutual funds, the investment funds of the banks and companies, as well as to issue profitable government securities for foreign investors and the nationals (Aganbegyan, 2010). This supports the conclusion that Ukraine can greatly expand sources of investments on a consolidated basis for their further channelling on specific goals.

Analysis of the performance of private pension funds in Ukraine showed (Table 6), that they still own assets of nearly 2 billion UAH. One third of the assets is money used for pension supplements. The corporate bonds directed to private pension funds account for 30%, shares are ranging from 13 to 18%, government securities – 10–15% of the total value of assets. Thus, to invest economy 1–

1.5 bn UAH can be drawn from private pension funds., which in comparison, for example, with the resources of collective investment institutions (Table. 2, 3, 5) is an insignificant value.

Table 6

Some Indicators of Private Pension Funds in Ukraine

Indicators	2009	2010	2011	2012	2013
Number of private pension funds in Ukraine (PPF), units.					
open	71	71	70	65	57
corporate	11	8	8	9	9
professional	10	10	10	10	8
Total PPF assets, bln.UAH	0,85	1,13	1,38	1,66	2,13
Structure of PPF assets, %					
cash	...	38,1	32,4	35,1	38,8
bonds	...	Total secu- rities 49,2	25,3	31,3	30,9
shares	...		18,5	15,5	13,0
government securities	...		15,0	11,7	10,7
municipal bonds	...		0,5	0,2	0,5
immovable properties	...		5,7	3,5	3,0	2,7
precious metals	...	2,8	1,9	1,1	0,7
other investments	...	4,2	2,74	2,1	1,27

Given that currently the resources allocated for the purpose of upgrading are limited, to significant increase in their size there must be used a new mechanism for search and raising resources, based on the principles of consolidation (i. e, their joining for a particular purpose). As the results of our study show, the potential sources of investment resources are available, but they are scattered and therefore not used purposefully. All resources should be consolidated and directed to the most important innovation development projects. The process of consolidating financial resources should combine the financial activities of the state, the regions, business entities, and investment funds to solve industrially and socially important problems. According to the scientists, the category of «consolidated financial resources» is an element of the conscious and balanced economic policy based on combining financial resources that are owned by different entities of financial and economic activity, and enabling to integrate their efforts on priority tasks (Jumov, 2009).

The National Institute for Strategic Studies Ya. Belinsky and Ye Medvyedkina's expert offers (<http://niss.gov.ua>) as for investment increasing are also based on the principles of consolidation and concentration of resources. The experts propose to accumulate the long-term investment in the real sector and finance modernization processes through the following:

- activation of infrastructure development, and the mechanisms for capital overflow within the segments of the financial market;
- promotion of the internal market development for debt financing, especially the stock market and «long» resources, and that should be accompanied by the creation of tax and other incentives for investors to invest for long periods, as well as to invest in priority economic sectors;
- creation of the environment for individuals' investment activity through the development of collective investment system, also through spreading financial instruments for individual investors, and pension and insurance reform intensification;
- improvement of the institutional support of the investment process through the creation and development of specialized investment credit and financial institutions; creation of the development budget.

Conclusions and areas for future research. The trend analysis of investment resources formation for the modernization of Ukraine's economy has shown that the volume of investments that can be raised in the corporate sector and the stock market tend to decrease. However, the scope of private (collective) investment demonstrates a significant potential. Given that economic growth and industrial development of the country depends on the mechanisms to attract free resources, their consolidation and concentration on socially important priorities, it is appropriate to develop effective mechanisms at the national level to stimulate investment processes in the corporate sector and on the stock market. It is also necessary to consider the formation of an extensive institutional network for selection of innovative projects as important public facilities to accommodate investments in modernization projects. Scientific and expert environment should pay specific attention to the development processes of corporate investment institutions, as far as at the moment the named area of collective investment is practically uncharted, though having great investment possibilities.

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