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**FINANCIAL CAPACITY STRENGTHENING
AS A FOUNDATION FOR THE COMPETITIVENESS
OF THE REGIONS IN UKRAINE**

Dmytro Getman, PhD Candidate,

University of Customs and Finance, Ukraine

Abstract: *The article discusses the principles of the formation of financial stability and competitiveness at the regional level in Ukraine. The legislation of Ukraine on the development of regions, including financial, has been reviewed and analysed in detail. The author's scheme of formation and implementation of strategies/programs of regional development with provision of competitive advantages is proposed. Its main stages are described. Practical approbation of the proposed mechanism was done on the example of Dnepropetrovsk's region in Ukraine.*

Keywords: *financial competitiveness, financial capacity, regions, development strategy/program*

INTRODUCTION

In the context of globalization, the problems of ensuring sustainable economic development of regions are of particular importance, because the region is a self-sufficient socio-economic organism, which serves as a solid foundation for ensuring the effective functioning of the country. In this regard, there is an urgent need to find innovative tools and mechanisms, primarily financial, able to ensure a high level of socio-economic development and competitiveness of the region. Given the crucial role of the financial component in the current conditions of regionalization, the urgent issue is to strengthen the financial potential and ensure the financial competitiveness of the regions. The need for the functioning of the mechanism of financial competitiveness at the regional level, taking into account the specifics

and peculiarities of the development of a particular region, actualizes the issues of our study.

MATERIALS AND METHODS

The study of the development of regional finance, the development of components of financial potential and its importance for economic growth of the country is given considerable attention to both domestic and foreign scholars, in particular O. Amosha, F. Alen, O. Baranovsky, R. Bernard, B. Bourne, M. Taylor, P. Hartman, O. Vasylyk, V. Geets, O. Gerasymenko, Ya. Zinchenko, V. Povoroznyk and many others. At the same time, despite the significant number of publications on this issue, research focuses on certain aspects of financial market development within certain segments – money market, capital market, market for derivatives, so they are fragmented and require systematic development. In addition, the research of scientists has insufficiently explored areas related to determining the mechanism of financial competitiveness at the regional level, its impact on economic growth and the formation of an effective model of regional development.

The *aim of the article* is to determine the theoretical and practical principles of strengthening the financial potential as a basis for the competitiveness of the regions of Ukraine. To achieve this goal, the following *tasks* should be addressed:

- to determine the competitive advantages of regional development and the differences between financial resources and financial capacity;
- to formulate the author's vision of the formation of the mechanism of realization of competitive advantages of regional development in ensuring its high financial competitiveness.

RESULTS

The *financial competitiveness of the region* is the ability of the region to effectively use its own financial resources, as well as attract financial resources on a competitive basis from the external, in relation to the region, environment in order to expand its overall financial potential (primarily budget, tax, banking, insurance, stock and investment) (Lysiak, & Getman, 2013).

At the same time, the dissemination in Ukraine of foreign experience of state management of territorial economic complexes, the

introduction in some regions of the country of cluster forms of associations of enterprises necessarily requires the development of appropriate financial instruments for the management of these complexes. In turn, state and territorial governments need to develop mechanisms for financing long-term strategic programs, the development of which should take into account the constant changes in the market environment.

Summarizing the work of scientists and analyzing legal documents, it can be argued that today the economic structure of the region's finances (local finances) consists of revenues of non-state and state enterprises (organizations), local budget revenues, grants, subsidies and subventions, trust funds of local governments and enterprises, regional development fund, household income, etc. (Kyrylenko, 2014; Segvari, 2014).

With the help of finance is the organization of rational and efficient use of borrowed resources. After all, if financial resources do not provide the necessary return, it leads to losses, inhibition of business activity and destabilization of socio-economic development of the region. Under such conditions, there is a need for significant changes both in the structure and in the ways of using the resources involved. In turn, this requires the improvement of strategic levers of financial resources management at the regional level, which is formalized in the development of long-term strategies / programs. Local finance is an important financial and legal category, which is based on the system of financial relations that arise during their formation, distribution and use at the local (regional, local) level (Kyrylenko, 2014).

The main part of local finances is concentrated in local budgets. Funds from local budgets are at the disposal of local authorities and local governments. The first legal act that restored the development of local self-government in Ukraine, laid the preconditions for decentralization of the budget system and the formation of autonomous local budgets, was the European Charter of Local Self-Government, ratified in Ukraine in 1997. continuing the course of state power on decentralization is the "Concept of reforming local self-government and territorial organization of power in Ukraine", approved by the Resolution of the Cabinet of Ministers of Ukraine of

the Government of April 01, 2014, No. 333. In this document, the main areas of responsibility at the regional level include the following tasks: regional development planning, development of transport infrastructure of regional importance, maintenance of common property of territorial communities of the region, development of culture, sports and tourism, specialized secondary education, specialized health care (tertiary level). A radical restructuring of the local self-government system is envisaged due to the fact that the subsidy of 5419 local self-government budgets today is over 70%, and 483 territorial communities are 90% maintained at the expense of the state budget. When creating a mechanism for financial competitiveness of the region, an important emphasis should be placed on expanding the financial potential of the region. Unlike financial resources, financial potential is a prerequisite for ensuring its positive dynamics due not only to available resources, but also untapped (potential) opportunities. Thus, its main distinguishing feature is the predominant impact of internal and external unrealized opportunities on the development of a particular region. Financial potential reflects the financial strength or ability of the region (its individual subjects) to participate in the creation of material goods and services. Financial potential is characterized by a set of funds, sources, stocks or financial opportunities that the region has and that can be used to achieve specific goals and objectives.

At the same time, the development of the region's financial potential should be carried out according to the generally accepted criteria of economic expediency and efficiency. But the financial potential can not be considered as the sum of resources, because the end result depends on the set of interacting resources and the conditions of their use, as a synergistic effect of the entire territorial production complex. That is, we are talking about the total financial potential as a basis for the financial competitiveness of the region, the basis of its development. Today, one of the main problems for the regions of Ukraine, the solution of which determines their stable development, is to increase their financial competitiveness, because only with the help of finances can the development of the region and the country as a whole be significantly intensified. language, ie without sufficient financial resources such development is impossible.

Therefore, ensuring the financial competitiveness of the region in order to implement the priorities of today's regional policy of sustainable development requires a systematic and comprehensive study of production, economic and financial activities of economic relations, as well as diagnostics based on the use of indicators to identify imbalances and determine the likelihood of destabilizing factors. Local expenditures are financed from local budgets, capital construction, investment and innovation activities are carried out, the socio-cultural non-productive sphere is maintained – education, science, physical culture and sports, health care; public authorities, law enforcement agencies are detained. The state financial resources of the region include local budget funds, deductions from the State budget, extra-budgetary funds, revenues from property and financial activities of government bodies, trust funds, which are managed by state authorities. The non-state financial resources of the region include funds of enterprises and organizations, funds of the population, as well as earmarked funds managed by civil organizations, individuals and legal entities. Analysis of the budget of Dnipropetrovsk region for 2014 shows that revenues amount to UAH 8,818 million (including: tax revenues of UAH 3,870 million, official transfers (grants) –4,667 million UAH), expenditures 8,817 thousand UAH, intergovernmental transfers 4,141,685.713 thousand UAH. Regional development programs are also financed – the Program of Stabilization and Socio-Economic Development of Territories – 200 thousand UAH; The program of implementation of the state strategy of European integration at the regional level until 2015 (September, 16, 2005, No. 622-28/IV) – 1,200 thousand UAH). The total cost of the program is UAH 51,207 thousand UAH.

Sources of funding: regional budget, local budgets, other sources, funds of enterprises). That is, it is obvious that Dnipropetrovsk region has a balanced budget potential, therefore, has a high financial competitiveness. Continuing the list of substantiation of financial sources for regional development, we should focus on the implementation of such programs as:

- 1) The program "Support to Regional Development Policy in Ukraine", estimated at 20,000,000 euros. The term of implementation

of this Financing Agreement started on December, 19, 2012 and ends 84 months after this date. There is direct funding from the state budget;

2) the state fund of regional development is created for realization of investment programs (projects) of regional (interregional) value and those which are realized in the cities of regional value, at least, 1,000 thousand UAH; for investment programs (projects) of district significance and those aimed at solving the problems of one or more territorial communities (cities of district significance, villages, settlements) at least, 200 thousand UAH;

3) co-financing from local budgets and other sources is provided in such amounts for investment programs (projects) implemented in Kyiv at least 20% of the total amount provided for their financing from all sources in the current budget period; for investment programs (projects) implemented in regional centers at least 10% of the total amount of funds provided for their financing from all sources in the current budget period; for investment programs (projects) implemented in cities of regional and district significance, as well as for objects that belong to the common property of territorial communities of villages, settlements, cities and are managed by regional councils at least 5% of the total amount funds provided for their financing from all sources in the current budget period.

International technical assistance may be involved in the form of: any property necessary to ensure the implementation of the tasks of projects (programs), which is imported or purchased in Ukraine; works and services; intellectual property rights; financial resources (grants) in national or foreign currency; other resources not prohibited by law, including scholarships. In particular, 17 million euros was provided by the European Commission under the Development and Cooperation European Aid Program and aimed at implementing socio-economic development programs in the regions of Ukraine, interregional cooperation with local communities to implement social projects and initiatives to meet needs. displaced persons.

It is well known that investment resources are unevenly distributed across the world, national and local economies: about 90% of them are collected by the world economy, about 7% on the national level and only 3% of investments are attracted to local economic projects. It is

clear that if the region intends to develop, it will have to obtain the necessary resources at the global economic level.

This means that the region must inevitably position itself as a "springboard" for the launch and implementation of the most promising world-class projects.

Summarizing our research in the field of forming the financial potential of the region and financial resources, it should be noted the main competitive advantages that have already been formed and are still being formed under their influence.

As a measure of financial competitiveness, we propose to use a harmonized system of indicators that allows you to compare different indicators to obtain information about the depth and nature of processes occurring in a given area, which, in fact, create a system of indicators to determine financial competitiveness. They include: indicators of the general estimation of saturation of the territory of the region with elements of productive forces and development of the territory of the region and the indicators reflecting: scales of economy of the region; the effectiveness of the region's economy; the quality of population reproduction in the region; condition and reproduction of fixed assets in the region; self-sufficiency of the region; the level of cooperation in the region; financial flows in the region; living standards of the population of the region.

It is also advisable to include in the list of indicators that will assess the level of financial competitiveness of the region, in particular: financial depth ratio, indicators of the ratio of total trading in the market and net interest income of banks, the ratio of banks and non-bank financial institutions, the ratio of banks and market capitalization, the ratio of bank assets to GDP, the liquidity ratio of the capital market. But, of course, this list can be supplemented taking into account the possible (potential) competitive advantages of the region. All the above groups of indicators should be considered in modern Regional Development Programs at the legislative level, in particular in the State Strategy for Regional Development until 2020. Analyzing and comparing the latest State Strategies of Regional Development (for the period up to 2015 and for the period up to 2020), it should be noted significant differences first, in the vector of formation of competitive advantages and mechanisms for their implementation.

Thus, the course to increase regional competitiveness (including financial) through the diversification of instruments is obvious. Thus, in particular, the emphasis in the newly adopted Regional Development Strategy in accordance with this priority is placed on:

- 1) ensuring the development of urban infrastructure;
- 2) support for the integrative role of cities as centers of economic and social development;
- 3) improving transport accessibility within the region;
- 4) rural development;
- 5) development of intellectual capital;
- 6) increasing the level of innovation and investment capacity of the regions;
- 7) development of business environment and competition in regional commodity markets;
- 8) rational use of natural resource potential;
- 9) preservation of cultural heritage and the most valuable natural areas;
- 10) development of cross-border cooperation;
- 11) diversification of energy supply sources and increasing the level of energy efficiency in the regions.

In our study, the creation of a strong financial potential of the region is the subject of ensuring the implementation of the Strategy/Program to increase its competitiveness. In general, the component relationship within the proposed mechanism is shown by us in *Figure 1*.

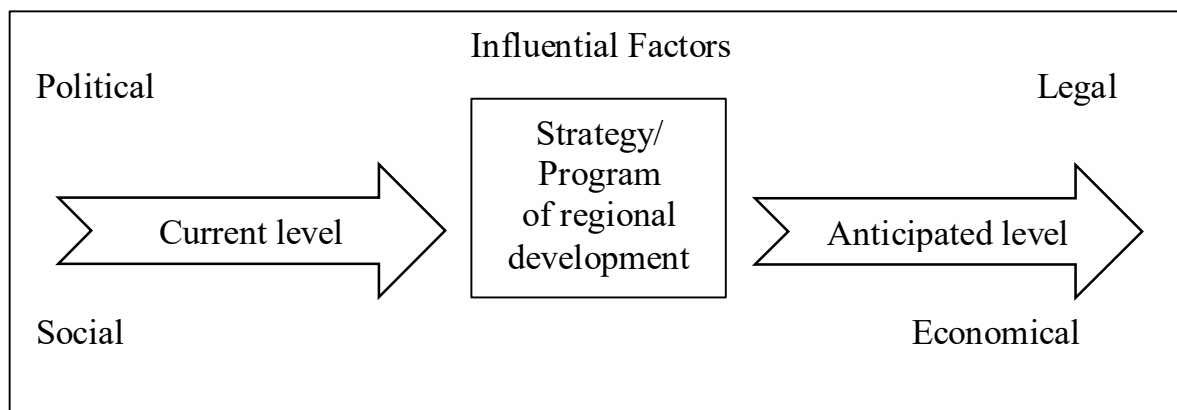


Figure 1: Mechanism of formation and implementation of strategies/programs of regional development with provision of competitive advantages

Source: developed by author

Summarizing the abovementioned considerations, it should be noted that the successful formation of key success factors (competitive advantages) of the region at the local, regional, sectoral and macro-economic levels under the influence of socio-economic and political-legal environment, taking into account the analysis of the current situation and design financial potential of the region, which, in turn, is the basis for ensuring high competitiveness of the region (including financial). The basis of successful regional development should be the logical-structural scheme proposed by Segvari "from communications – to capital" (2014), which in terms of domestic science can be formulated as a chain of formation of strong financial potential of the region through effective communication with the government. formation of a high status of trust, which together are transformed into normatively implemented information, which forms a system of knowledge required for the formation of capital in the region, i.e: communications → trust → information → knowledge → capital.

CONCLUSIONS

Thus, the financial potential (as opposed to financial resources) forms the preconditions for ensuring the positive dynamics of the region's development due not only to available resources, but also untapped opportunities. That is, it characterizes the financial power or ability of the region (its individual subjects) to participate in the creation of material goods and services, thus forming its competitive advantages. Understanding the financial competitiveness of the region as its ability to effectively use and attract financial resources on a competitive basis in order to expand the total financial potential (primarily budget, tax, banking and credit, insurance, stock and investment). Financial competitive advantages (subject to successful implementation of Strategies and programs of regional development) should be: tax, budget, price, investment, institutional, social and regional policies. At the same time, the assessment of the financial competitiveness of the region should be carried out using a system of indicators. Analysis of the main legal documents that justify the formation of the mechanism of financial competitiveness at the regional level in Ukraine shows significant differences in the vector of

formation of competitive advantages of regions and mechanisms for their implementation.

The course of European integration led to the detailing of normative documents taking into account European initiatives in the implementation of regional mechanisms, in particular, changed the priorities of regional development, development principles and mechanisms for its implementation (especially in strengthening and branching financial support). Reforms have been launched in the area of reviewing the responsibilities of regions and local governments, which has already had some effect on strengthening competitive positions in market conditions, which requires an assessment of the region's budget potential and is a prospect for further research.

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