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IMPROVEMENT OF THE INSTITUTIONAL MECHANISMS OF EXTERNAL FUNDING FOR TRANSITIONAL ECONOMIES

Background. In view of globalization processes and the objective necessity to accelerate the rate of transformations in our country, the institutional mechanisms of raising external finance are becoming increasingly important . Convenient institutional environment can significantly improve the efficiency of business operations not only within individual enterprises but also within an industry and economy of Ukraine. Optimization of these mechanisms is extremely challenging due to the constant changes of market conditions, the cyclical nature of development and the necesity to consider the impact of a large number of variables. However, the access to a new level of institutional mechanisms will not be possible in our country unless the issue is addressed with in-depth analysis of transformational features of domestic society ,.

The degree of topic studies. Recently, a large number of domestic and foreign scientists have examined different aspects that are directly or indirectly related to the institutional mechanisms of external fund-raising**.** Mechanisms of financial investments are investigated in articles of Ibragimov E. E., Sheludko V. M., Sheremet A. D. External fund-raising for local budgets are examined in the works of Dyba O. M., Kruk V. V., Mayorova T. V. He King Fong, Boguslavskyi M. M., Shyryaeva Y. S. and others have made significant contribution to the research of external financing for new industrial countries. But still there are many other aspects that need theoretical analysis with further implementation.

The aim of the article is to find principles to increase the effectiveness of external financing, especially during transformational changes.

The article. Capital flow between companies, industries and countries is becoming much more important due to acceleration of globalization processes. Economic resources (which are always limited) are used most efficiently through funds' redistribution to areas with maximum profitability. The institutional environment plays a crucial role because it enables these redistributive processes and determines their speed. The rate of change of consumer preferences, available technology and general market conditions is very high in the global society. Thus effective institutional mechanisms are not only desirable but also vital now (at the modern stage).

Lenders and borrowers can also interact directly. They can find each other and agree on the necessary conditions: terms, purpose, interest rate (if it is a commercial project) and so on. This option has some disadvantages. Transaction costs are generally high and also the alternative cost of lost opportunities has to be taken into account. Therefore, in advanced and many developing countries the main focus is on indirect external funding. In this case, the financial assets are transfered from lender to borrower through a financial intermediary. Meanwhile direct and indirect liabilities are transfered in reverse direction [1, p. 201-202]. Further economic relations between the parties will depend on the nature and terms of the agreement.

Institutional mechanisms can have both formal and informal status. Informal mechanisms (such as business ethics or morality) and have always been important, because it is not always relevant for some rules and regulations to be documented and to be given binding nature. Formal institutions have been developed and used extensively in recent years. So Kartashova K. agrees with the classification of formal institutions into political, economic and contracting systems. She notes that "new institutional forms have been established and already existing undergo changes as part of Ukraine's economy reform" [2, p.118]. And this statement is true because no reform can achieve its goals unless it is supported by appropriate institutional base.

Furthermore, the question of the optimal institutional environment for the economy can be challenged. Firstly, because the economy of any country undergoes constant changes (progressive or regressive). Besides that the structure of production and consumption changes constantly as well. This may be somewhat hidden if only macroeconomic figures are analyzed. All of the above should be reflected in the institutions which enable and support these processes. Secondly, the economy of almost any state is not homogeneous (except for some monoculture economies). Thuswise for various industries and businesses there is a possibility of new institutions emergence at the different development stages and their modification or disappearance after some time. In other words, the market - is primarily a process that ensures the harmonization of the interests of various stakeholders with different needs that are constantly changing. Thus the attempt to optimize the dynamic market processes with help of the static institutions cannot have long-term effect.

Given the above, it is appropriate to define the "institutional environment". Kovalenko M. proposes the following definition respecting the financial sector: "The institutional environment of the financial sector - is a complex of political (legal) and economic rules, informal (traditional) norms that shape the conditions of financial activity, structure it and represent fundamental prerequisite of the reforms in the financial sector"[3 , p. 93-94]. Thus, Kovalenko M. also emphasizes the importance of not only formal and regulated rules, but informal norms as well and that is very important for a broad and complete understanding of the nature of the institutional environment.

Perepelitsa G. defines an institutional environment as "a form of relationship that means a combination of formal and informal frameworks behavior of economic processes and ways to consolidate data interactions and monitor their implementation" [4, p. 7]. It emphasizes that the institutional environment defines a framework of behavior and provides (or helps to) control their implementation. However, the effect in this case is not unidirectional: as mentioned above, the institutional environment is also undergoing constant changes that are particularly relevant and evident during the global financial crisis and post-crisis period.

Thus, we can formulate the following definition of the concept: institutional environment is a combination of economic and legal relations that enable and serve processes of market changes through formal and informal rules and regulations, and undergo constant changes by themselves because of the efficiency they provide in the economic system. The role and importance of the institutional environment in the process of development of civilization will tend to increase because the number and volume of transactions in the economy grow, and the performance of service will be provided through the market infrastructure and the respective set of economic and legal relations. At the same time, the institutional environment also forms the basis for economic growth, as in the absence of the conditions and institutions that provide adequate protection of private property rights, the processes of capital accumulation and investment are not secured properly.

The institutional environment and the principles of its formation are relevant in countries with the transitional economy, as they determine: a) the direction of change (eg. Market-oriented, intensive, innovative development), b) the rate of change (effective institutions can significantly speed up the transformation process for maintaining quality change). This can be acute evaluated in areas related to the involvement of external financing. Financial markets are always very volatile and susceptible to a number of factors, including expectations of investors. Expectations, in turn, are largely based on an assessment of investor uncertainty (in the sense of uncertainty in the tradition of F. Knight subjective characteristics, as opposed to risk, which can be mathematically defined [5]) market conditions.

Thus, if the transformation processes occur inconsistently, protection of private property rights are not secured at the highest level, the uncertainty associated with investing in this country is growing, and it increases as the rate of return that the investor is able to compensate for risky projects (according to the relation: higher risk / uncertainty - most return on investment) . Conversely, if the implementation of transformation uncertainties and risks succeed, investors might be interested in less profitable project. Thus, the volume of investment in the country will directly depend on the stability of domestic economic situation and the effectiveness of the institutional environment. This interdependence is an objective and long-term improvements are possible only within the compliance with the objectives of the institutions and economic agents. According to the different tasks and needs of consumers, households, investors, entrepreneurs, etc. various institutions will arise and become optimal for this market segment and the period of time. We cannot a priori argue that some of them are most appropriate (because there are various economic agents who have different needs), but rather pay attention to the fact that they occur, modification and extinction occurred competitive way without artificial monopoly advantages of one over the other. In other words, you need to focus not on the optimal form of institutions (which we cannot know ex ante), but to create market conditions that lead to institutional frameworks that reflect the economic realities of the society.

An important element to increase the efficiency of external financing is the stability of the exchange rate. Although in the short term devaluation promotes exports, but it is not a reason to recommend such measures to boost the economy for several reasons. First, export growth is accompanied by a parallel fall in imports. Imported goods are becoming more expensive and less available to consumers in the country. Second, there is a redistribution of wealth among different population groups (particularly affects people with fixed incomes: pensioners, recipients of social benefits, etc.). Third, inflation contributes to phase boom, which in turn inevitably develops into a phase of economic recession (depth studies in this area was conducted by Ludwig von Mises [6] and Nobel laureate Friedrich Hayek [8]), so that the larger the inflationary boom is, the more severe recession will be. In addition, since the boom phase is accompanied by the accumulation of errors resulting from monetary and credit expansion, generally after the completion of all phases of the economic cycle society suffers a net loss.

Therefore, it is appropriate to analyze the dynamics of the U.S. dollar relative to the Ukrainian hryvnia. Changes in exchange rates over the last year are shown in Figure 1 (according to [8]).

Figure 1. Dynamics 1USD/1UAH cash rate for the period from 27.05.2012 to 27.05.2013 (according to [8])

This dynamics shows that during this period the position of the hryvnia weakened considerably. With the exception of a sharp rise at the end of the year and the rapid depreciation of the U.S. dollar, the rest has not been accompanied by significant currency fluctuations. This is the key to stability and encouraging factor. However, there are a number of negative aspects. First of all, the hryvnia still tends to decrease. In addition, we cannot say that the relative stability has been achieved purely by market methods. National Bank made a significant intervention in the foreign exchange market, and introduced some administrative leverage. The danger of administrative intervention is that the subjects of the economy can no longer adequately act in response to price signals, which do not reflect the real situation. This is particularly true for exporters and importers, but soon spreads throughout the whole economic system.

An important part of creating an effective institutional environment in Ukraine is developing and stable functioning of financial intermediaries of various types of deposit, loan, savings and investment. Organic combination of various agents on the market can provide the best satisfaction of needs of the consumers and investors. During this process interest rates will play a significant role in order to ensure that resources were directed in a rational direction. In case of excessive credit expansion, interest rates can fall below the level prevailing in the market to free competition, and some investment projects can be implemented, but in society there is not enough resources for their successful completion at the moment. Thus, employers may not realize it because of too low interest rates, through the process of discounting make the situation more optimistic than it really is. Privacy intermediaries should be close to the conditions of free competition rather than oligopolistic association which coordinates its activities with the condition of maximizing profits at the expense of smaller satisfaction of needs of consumers.

Another threat to the financial system in the context of financial intermediaries is the probability that the reserves stored by the institution (including banks) will appear at a time less than the amount of demand that investors presented on demand. However, solving this problem through consolidation of financial institutions is also less than ideal, since stability in the short term will lead to a widening gap between reserves and money supply kept that investors can produce a demand at any time. This can be dangerous by the collapsing of the financial system and increasing the amplitude of the economic cycle. Therefore, a more correct is to increase the reserve requirements of banks than their consolidation and only deposits will accumulate problems at some time. These measures will reduce the rate of growth during the boom phase, but the recession will be held on not so long.

Overall, it is visible that economic accumulated a number of systematic problems, trying to decide what Keynesian methods do not have any positive effects. Focusing exclusively on the short term has led to a deep recession in the entire state of the global economy and instability conditions, especially in the financial sector. Permanent attempts to stimulate the economy by lowering interest rates, monetary and credit expansion, debt financing have the effect of failure of many industries, regions and countries to resume their positions at pre-crisis level and build the structure of production in accordance with the market situation .

Improving institutional arrangements and institutional environment to attract external funding in this country should be integrated with leading international financial institutions. Ukraine will not be able to achieve significant progress with the successful cooperation with the IMF and the World Bank Group. Our country is currently implementing many common projects to the organization, but the output to a new level of relations is not just desirable, but necessary to minimize the effects of the global financial crisis, post-crisis instability, as well as the implementation of preventive measures in the future. International financial institutions are able to accumulate significant amounts of money and assets for the successful use and placement and it will help to reduce cyclical fluctuations.

Institutional integration should allow the free market to create mutually beneficial "flow of capital" between regions and countries. The involvement and use of funds and assets should be improved by institutional cooperation. If it will be used solely for the purpose of attracting the largest possible amount of loans to the greatest possible time, such as a policy would have significant negative consequences in the medium and long term. Debt financing of the economy cannot last too long and leads ultimately to global issues like monetary sector and the real sector (Greece and other European countries can serve as a relevant example).

Therefore, the institutional integration is an important prerequisite for the economic development of the country as a whole and offers a number of potential opportunities to increase the efficiency of recruitment and use of financial flows. However, it may contain a potential threat in the case of increasing the public debt, because the activities in this area should be carefully and precisely calculated perspective.

Thus, we can formulate the following conclusions:

1. Developed institutional environment enables and improves the efficiency of international financial flows, especially in terms of necessary transformations.

2. The emphasis should not be made to find optimal institutions and the creation of market conditions, which in turn will lead to the emergence of institutions that meet the economic realities of a particular time.

3. The definition of the institutional environment as a combination of economic and legal relations that enable and serve the processes of market change through formal and informal rules and regulations, which undergo constant changes by themselves because of the efficiency they provide in the economic system.

4. If the rights of investors and private property are not adequately secured in transformational economy, it leads to increased uncertainty and risks of investing in this country with the corresponding reduction in investment assets and trends in the economy.

5. An important element of external financing in the economy is stable exchange rate. Over the past year there has been a small devaluation of the hryvnia, but it is not critical. National currency is determined by the impact of supply and demand, not foreign exchange interventions of the NBU.

Appropriate is the institutional integration of Ukraine into the European and world system. You just need to take account of the potential danger to significantly increase of the national debt.

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Konotop H.O. IMPROVEMENT OF THE INSTITUTIONAL MECHANISMS OF EXTERNAL FUNDING FOR TRANSITIONAL ECONOMIES

Purpose. The aim of the paper is to find principles of improving the efficiency of external financing in terms of transformations.

Methodology of research. During the study it was used a number of theoretical methods of scientific knowledge: analysis and synthesis, induction and deduction, comparison, classification, generalization, axiomatic method and others. The above methods were used to study and analyze the existing economic conditions in Ukraine to attract external funding and to determine the basic principles of improving mechanisms for import of investment.

Findings.. It was established that the efficiency of external financing depends on the development of the institutional environment with the emphasis should not be made to find optimal institutions and the creation of market conditions, which in turn will lead to the emergence of institutions that meet the economic realities of a particular time.

It was determined that the basic conditions stabilize and improve the investment climate in the country. It minimizes the political and economic risks for potential investors and stabilizes the exchange rate of the national currency.

The appropriate institutional integration of Ukraine into the European and world economies is considered.

Originality. An integrated approach to improve the efficiency of search principles to external financing in terms of transformations was used.

Practical value.. These results can be used in the work of financial analysis and forecasting financial and investment activities of the country.

Key words: institutional environment, transitional economy, external financing.