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T. Zatonatska, PhD in Physical and Mathematical Sciences, Associate Professor
Taras Shevchenko National University of Kyiv, Kyiv

THE ROLE OF FISCAL POLICY IN THE SYSTEM OF GOVERNMENT REGULATION OF INVESTING ACTIVITY IN UKRAINE

This paper highlights the evolution of approaches to fiscal policy formulation and suggests the appropriate measures on how to provide qualitative changes in the fiscal management of investment activities in Ukraine. The author provides practical proposals on how to create the fiscal space for investments in Ukraine which is aimed to restore the innovation investment model of national economy and to increase the efficiency of budget expenditures.

Keywords: *fiscal policy, government regulation of investment, fiscal space for investment.*

The increase in investing activity is one of the current restoration processes that determines the pace and quality of economic growth, as well as country's competitiveness in the global market. Investing processes are more and more influencing the technological modernization of enterprises, priority industries development, and the national economy as a whole. J. Stiglitz's, who is the Nobel prize winner, correctly argues that "if a country stimulates its economy through investments, the production volume will increase in future... investments not only raise the current standard and quality of life, but also contribute to raising the living standards for the next generation" [1].

It is commonly known that fiscal policy can stimulate both domestic and foreign investments. The purpose of the paper is to describe how to provide qualitative changes in the investment management in Ukraine through the creation of fiscal space for investments in certain industries.

Economic changes make the ideas in the paper even more important because of the need to reconsider the approaches to the fiscal policy tools selecting and defining the relationship between investment and government regulatory mechanism. The government investment policy is aimed to enhance and intensify investing process. So, fiscal policy is a strong instrument that influences investment policy.

In certain periods of economic growth fiscal and monetary macroeconomic tools played different roles. The most important tools of economy regulation were the tax system, government spending, and budget deficit. The usage of various tools was determined either by the economic doctrine which was followed by the leaders in political power, or by the economic trends and schools which prevailed in each period of history [2].

John Keynes' theory highlights core principles and peculiarities of investment fiscal regulation. These issues are also described in the research works of his followers (N. Kaldor, R. Harrod, E. Domar, E. Hansen) and representatives of the neo-liberal doctrine (L. Erhard, M. Friedman, FA Hayek).

Modern approaches to fiscal policy are described in works of such researches and experts as A. Danilenko, T. Yefymenko, A. Sokolovskaya, S. Gray, P. Heller and others.

Fiscal policy determines the main trends in government spending, expenditure funding and accumulating budget revenues. Fiscal policy differs from tax and budgetary policy as in fiscal policy tax and budget tools are considered in their relationships. In other words, two main instruments of fiscal policy are changes in the level and composition of taxation, and government spending in various sectors.

The main features of fiscal policy depend greatly on the methods applied by the government to regulate the economy. Fiscal policy also depends on government functions and their scope, scale and the structure of the public sector. So, the expansionary fiscal policy involves government spending exceeding tax revenue, and is usually undertaken during recessions. The contractionary fiscal policy occurs

when government spending is lower than tax revenue, and is usually undertaken to pay down the government debt.

To summarise, it should be noted that the creation of fiscal policy is influenced by tax policy tools, revenue accumulation at all budget levels, public spending, the structure of public debt, and budget deficit. The formation of fiscal policy aimed to achieve economic development involves the optimisation of public spending through tax and budgetary policy measures.

The relationship between tax and budgetary policy reflected in the concept of fiscal policy led to the formulation of the tax expenditures concept that is based on the integration of such fiscal tools as tax preferences and government spending, and is considered as the logical extension of the fiscal policy concept. The tax expenditures concept focuses on the necessity of accounting tax preferences along with direct expenditures. Accounting will allow to estimate the total amount of government spending (government subsidies) provided directly and indirectly, as well as the total amount of government support for certain activities and groups of taxpayers.

According to D. Goldberg [3], the theoretical basis of the tax expenditures concept is that tax preferences of any type have one thing in common – they are implemented to stimulate the capital or labor flows in certain areas. Tax preferences are effective only if they cause reduction in the taxpayer's expenses. Therefore, certain provisions of the tax legislation can be considered as a part of government spending program implemented through the provisions of tax legislation. So, revenue decrease as a result of tax preferences should be considered as subsidy for certain activities supported by tax policy. S. Surrey determines this type of "lost" government revenue as "tax expenditures" [4].

Another logical development of the fiscal policy concept is the concept of fiscal space.

The World Bank and the International Monetary Fund researched the creation of fiscal space in order to increase the efficiency of budget expenditures. In 2005 P. Heller formulated the definition of fiscal space. According to P. Heller, fiscal space is "a room in a government's budget that allows to provide resources for a desired purpose without jeopardising the sustainability of its financial position or the stability of the economy". [5]. Fiscal space can be created in several ways, such as raising certain taxes, involving foreign grants, reducing the expenditures of secondary importance, borrowing money (from citizens or foreign creditors), or borrowing from the bank system (which at the same time can increase the money supply) [6].

Another follower of the fiscal space concept is Sh. Gray. He considers the creation of fiscal space through government expenditures. So, according to Sh. Gray, fiscal space can be created through spending shift form programs of secondary importance to programs that perform a significant impact on economic growth. Another way of creating fiscal space is through public spending efficiency increase which also would help to achieve higher socio-

economic returns on certain programs [7]. This concept involves fundamentally new approaches to fiscal impact on economic activity based exactly on budget expenditures.

Research into the creation of fiscal space in Ukraine has become significantly important because fiscal space ensures the economic development and successful implementation of economic reforms and innovation capacity [8].

Fiscal space is usually discussed within the context of financial resources reserves as a financial foundation for economic growth. They refer to budget revenue, as well as to budget expenditure and the increase in efficiency. According to T. Yefymenko, depending on the purpose of the overall economic and fiscal policy, the government can create the necessary fiscal space in the following ways:

- a) increasing the revenue (legitimizing revenues, improving tax and fees administration, raising tax rates, eliminating tax preferences);
- b) new targeting internal and external loans with better service;
- c) involving external grants;
- d) restructuring public spending and increasing their efficiency [9].

At the same time the fiscal space concept includes searching for budgetary resources to stimulate investments. The fiscal regulation of investment and the investment market of Ukraine are characterised by low investing activity, the wide range of tax preferences and the implementation of public investment programs (projects). It evidences for the absence of the effective fiscal regulation that could attract investors. In order to ensure the synergetic effect from the tax and budget tools of fiscal policy, it is proposed to focus policy decisions on the creation of fiscal space.

Investment fiscal space must be considered as an integral concept that reflects the relations between tax and budget tools of investment resources accumulation. These tools include income tax rates, investment-related income tax privileges, investment-related VAT privileges on transactions connected with machinery and equipment import, investment tax credit, special tax regimes, public investment, government loan and guarantee, public procurement. Some of these tools (so-called tax expenditures) stimulate private investments, while others refer to investment-related expenditure. Defining investment fiscal space can help to improve the governance of investing process.

The conducted study proves that public expenditure is an effective tool for enhancing the private sector activities. Public expenditures stimulate the economy because the indicators of economic activity are directly connected with budget expenses.

Public investment stimulates private investment through the development of infrastructure and transport connections, and technology funding. Moreover, the government can boost private investment through tax preferences. However, the effectiveness of the latter depends on the transparency of the tax preferences' allowance and monitoring mechanism.

Theoretically, the tax preferences system creates favourable prerequisites to accelerate business growth. The types, forms and value of tax preferences are determined by the key characteristics of the subject and object of taxation, and their economic importance.

Tax preferences, in theoretical terms, are important for the socio-economic stabilization. They are commonly used to save jobs, especially in single-industry regions. However, in practice, tax preferences lead to the economic distortion because some people take an advantage of tax benefits for which they want others to pay.

Tax preferences have a direct, as well as an indirect effect on the economic growth. The direct effect results in the revenue reduction, while the indirect one often leads to welfare losses. Tax preferences considerably complicate

tax administration and compliance. The existence of tax preferences creates incentives for the abuse of benefits. So, tax preferences may cause tax evasion in case an enterprise carries on fake innovation activity. Sometimes tax preferences are directed only to the limited range of enterprises reserves, the investment activities of which are not of great importance for economic growth.

The taxpayers who want to benefit from the preferences have to submit to the appropriate government entity the documentary evidence of eligibility for a certain type of preference. As a result, the complicated verification process leads to higher administration costs.

It is important to say about the cross-industry distribution of tax preferences. For example, it is preferable that metal manufacture, mining industry and machinery are developed through public-private partnership (concession agreements). Tax preferences in this case may lead to budget losses and low capital returns. At the same time, tax preferences are considered as a key factor of agriculture development. Today the preferences in this area include fixed agricultural tax, VAT, corporate income tax for agriculture. According to the Ministry of Finance of Ukraine, 16,000 agricultural companies got tax preferences in 2012; the total agricultural tax preferences amounted to 14.7 billion USD in 2012. Thus, agricultural tax preferences play a crucial role in creating investment fiscal space.

As mentioned earlier, the main purpose of creating investment fiscal space is the accumulation of investment resources in selected priority areas. The priorities are identified by the Law of Ukraine "On stimulation of investing activity in priority sectors of the economy to create new jobs" that came into force on 1 January 2013 [10], and "The budgetary policy guidelines for 2013" [11].

According to the Law of Ukraine "On stimulation of investing activity in priority sectors of the economy to create new jobs", the priority economy areas are those which meet such important society's needs as the competitive high-tech environmentally friendly products, quality services that implement the state policy on the development of industrial and export potential, creating new jobs. The priority areas list of economic activities is to be determined by the Cabinet of Ministers of Ukraine.

It is important to discuss in more details the components of investment fiscal space and how to apply them to specific priority area of the economy. Today, the Tax Code of Ukraine provides the following tax tools to stimulate investment: lower income tax rates, investment income tax breaks, special VAT rates for equipment and machinery import. At the same time, the experience of developed countries evidences that fiscal stimulus can strengthen research and development potential. So, the Tax Code of Ukraine provides tax incentives for the following R & D areas:

- when determining the income tax object, taking into account such types of R & D expenses as research and technical support, the invention and rationalization of business processes, experimental and development activities etc;
- tax exempt status for non-profit research and development organisations;
- encouraging charity towards a taxpayer who carries out research and development;
- VAT exempt status for the following transactions:
 - a) payment for basic research and development activities;
 - b) donating instruments, equipment and materials;
- landing tax exempt status for research farms, agricultural research and educational institutions;
- water tax exempt status for research institutions that take water for research in the field of rice cultivation and production of the elite seeds of rice.

Also, the Tax Code of Ukraine provides considerable incentives for the implementation of energy saving technologies, ensuring energy security through environmentally friendly energy sources, energy development etc. In particular, the Tax Code introduces 5-year income tax preferences for the implementation of energy saving technologies. The Tax Code of Ukraine specifies tax preferences for technoparks that develop technological innovations:

- the implementation of energy saving technologies;
- using energy – efficient equipment;
- alternative energy production.

In order to expand fiscal space for investment in Ukraine it is proposed to increase public investment efficiency through the following tax incentives:

- investment tax credit for research and development activities in the field of technological innovation;
- investment tax credits for companies which implement technological innovations and have innovation centres to conduct fundamental research.

Taking into account the different impact of taxes on investment and innovation, it is important to take the following facts into consideration:

- income tax preferences should be applied to companies that implement innovations;
- shifting tax burden from income to consumption will enhance innovation and the rational use of labour, capital and natural resources;
- changing tax rates and structure, it is necessary to determine the impact of the current tax burden on industry development (constraining, neutral and stimulating), sources of added value, the perspective of innovation development and competitiveness on the domestic and foreign markets.

Increasing the efficiency and development of investment fiscal space through institutional mechanism requires constant monitoring of current legislation. Investment legislation has an active role to play in the development of the public policy that stimulates investment and regulates public investment projects. In this context, main issues to solve have been identified:

- improving the methodology of development, evaluation and selection of investment projects;
- defining the principles and mechanisms of public investment for projects that require government financial support;
- developing selection criteria for the investment projects that require public investment or government financial support, taking into account sectoral distinctive features;
- ensuring the development of direct public investment, particularly in terms of co-financing;
- ensuring the transparency of public financial support for the investment projects that address the priority of the social and economic policy;
- implementing the public investment evaluation mechanism;
- improving the efficiency and increasing the transparency of public-private partnerships.

In order to improve the public investment management, the Decree of the Cabinet of Ministers of Ukraine of 18.07.2012 №650 was adopted. The Decree "On Approval of the State Register of Investment Projects and Project (Investment) Proposals" enables the government to accumulate pending investment proposals and determine the optimal sources of funding. The register is an integrated public information system for investment projects and project (investment) proposals.

Considering the above-mentioned issues, it is necessary to create investment fiscal space by combining public investment and private sector investment resources in the

framework of public-private partnerships. In order to effectively implement public-private partnership the following conditions should be met:

- develop appropriate policies;
- set up the list of public-private partnerships that should be included to the state register;
- simplify and clarify public procurement process;
- provide government guarantee on the investment risk of the private partner;
- ensure the coordination between government agencies for investment attraction;
- implement modern evaluation and monitoring methods for public-private partnerships;
- develop new forms of public-private partnerships and promote interindustrial cooperation.

The main objectives to be realised when creating fiscal space are:

- favourable investment climate through the implementation of effective measures of tax and fiscal policies;
- equal conditions for all domestic investors through gradual elimination of tax preferences and the implementation of investment tax credit. These measures will reduce the budget loss and ensure the targeted use of tax preferences limited to the priority sectors;
- special tax regimes for the implementation of the strategic investment projects that meet certain government priorities;
- clear procedure for defining the eligibility of the project to receive government assistance (government loans, share of budget investment in a PPP, government guarantee).

Suggested proposals for the creation of investment fiscal space are aimed to restore the innovation investment model of national economy, and increase the efficiency of public expenditures. In the long-term perspective, it is necessary to conduct financial forecasting and planning of investment fiscal space. The above-mentioned measures should be based on the public revenue analysis and certain priorities of social and economic development.

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Т. Затонацька, канд. фіз.-мат. наук, доц.
КНУ імені Тараса Шевченка, Київ

РОЛЬ ФІСКАЛЬНОЇ ПОЛІТИКИ В СИСТЕМІ ДЕРЖАВНОГО РЕГУЛЮВАННЯ ІНВЕСТИЦІЙНОЇ ДІЯЛЬНОСТІ В УКРАЇНІ

У статті висвітлено еволюцію підходів до розробки фінансової політики, а також запропоновано відповідні заходи щодо забезпечення якісних змін у системі управління інвестиційною діяльністю в Україні. Автором запропоновано практичні рекомендації щодо створення фінансового простору інвестиційної діяльності в Україні. Подано пропозиції щодо формування фінансового простору інвестиційної діяльності, спрямованого на відновлення інноваційно-інвестиційної моделі розвитку національної економіки, а також підвищення ефективності бюджетних витрат.

Ключові слова: фінансова політика, державне регулювання інвестиційної діяльності, фінансовий простір інвестиційної діяльності.

Т. Затонацкая, канд. физ.-мат. наук, доц.
КНУ имени Тараса Шевченко, Киев

РОЛЬ ФИСКАЛЬНОЙ ПОЛИТИКИ В СИСТЕМЕ ГОСУДАРСТВЕННОГО РЕГУЛИРОВАНИЯ ИНВЕСТИЦИОННОЙ ДЕЯТЕЛЬНОСТИ В УКРАИНЕ

В статье раскрыта эволюция подходов к разработке финансовой политики, а также предложены соответствующие меры по обеспечению качественных изменений в системе управления инвестиционной деятельностью в Украине. Автором предложены практические рекомендации по созданию финансового пространства инвестиционной для деятельности в Украине. Внесены предложения касательно формирования финансового пространства инвестиционной деятельности, направленного на восстановление инновационно-инвестиционной модели развития национальной экономики, а также повышения эффективности бюджетных расходов.

Ключевые слова: финансовая политика, государственное регулирование инвестиционной деятельности, финансовое пространство инвестиционной деятельности.

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B. Zhumanova, PhD in Economics, Associate Professor
Kazakh University of Technology and Business, Republic of Kazakhstan

FINANCING OF THE INNOVATIVE PROJECTS IN THE AGRO-INDUSTRIAL COMPLEX OF KAZAKHSTAN

In the article are considered theoretical and practical issues of financial support of innovative development of agriculture in Kazakhstan. Defined system-wide problems that impede the full development of innovative agro-industrial complex of Kazakhstan. It is established that a promising start innovative development of agriculture of Kazakhstan are the reproduction of agricultural innovation and development in the mass practice of improved methods of agricultural production.

Keywords: innovation project in agriculture, agricultural science funding in Kazakhstan, financing innovation in agriculture.

Statement of the problem. On the modern stage, in the agro-industrial complex (AIC) of the Republic of Kazakhstan, there are system-wide problems, among which we can mention:

- the backwardness of agricultural technologies, physical and moral depreciation of the means of production;
- excessive loss of irrigation water, undeveloped commercial fish farming, as well as inefficient use of other natural resources;
- small commercial farming;
- low levels of genetic potential of the seed used, and cattle;
- lack of quality raw materials for industrial processing and the low share of domestic value-added products in the domestic food market;
- the availability of essential food products, which have not met the domestic needs;
- low level of attracting investments in the agricultural sector;
- insufficient development of rural cooperation [1, 2].

In addition, financial, and then the food crisis revealed additional problems that affected the investment activities of the industry, and now, when the financial sector problems are at the stage of remission, agriculture in Kazakhstan is one of the most promising sectors of the economy.

Analysis of recent research and publications. Theoretical and practical issues of innovative development of agriculture as a whole, and in particular the agricultural sector, as well as the problems of the financial and investment support were the subject of separate publication of L. Abalkin [3], E. Yasin [4], B. Bautin [5], M. Konkov [6], M. Bunin [7], O. Sabden [1] A. Taubayev [8]. But despite the presence of a significant amount of research and publications in the given direction, some issues of the development of financial and

investment maintenance of the national system of agriculture through the use of a specially created state development institutions not adequately addressed in the modern economic science. Especially the unique experience of Kazakhstan in the establishment and operation of similar organizations are just beginning to yield its first results.

The purpose of the study of the system of financing of innovative projects in the agro-industrial complex of Kazakhstan is to identify the existing problems in the financial and investment support for promising innovative projects in the field of agriculture and to offer recommendations for improving the of an existing financial mechanism for the implementation of innovation projects through the development of specialized of state development institutions.

Selection of the unsolved aspects of the problem. In addition to system-wide problems, noted the existence of problems hindering the pace of innovation development of agro-industrial complex:

- insecurity of modern scientific research organizations material and technical infrastructure. For today most of the buildings and facilities (71.1%) has been in operation for over 30 years and 22.1% – more than 20 years, to be written off 71.4% of all available agricultural machinery [9, 10];
- limited financial resources to carry out research and development work (grant size does not exceed 0.2% of the gross output of agriculture (2009), while in countries with developed agriculture, the figure is between 1% and 4%);
- low level of entrepreneurial culture based on the use of new technology and innovation, low innovation activity of subjects of agriculture;
- low competitiveness of scientific products and technologies on the international scientific market. Due to the