

REGIONAL INNOVATIONS

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INTERNATIONAL CONFERENCE

“Sustainable Spatial Development Nowadays: Challenges and Perspectives”

25-26 November 2015

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About InterRegioNovation

InterRegioNovation is the International Association devoted to the transfer and exchange of knowledge and innovations at all regional levels (country, region, city, community etc.) between knowledge transfer professionals (business, research institutions, policy makers, government agencies, individuals, others) in all countries of the enlarged Europe, CIS countries and from other continents for stimulating and enhancing economic and social growth in the regions.

This is a policy and research association that brings together all knowledge transfer professionals who are interested in delivering efficient, flexible, innovative and cost-effective services across the private and public sectors. We work closely with business, research and educational institutions, government agencies, policy makers, NGOs, media, individuals and other stakeholders to promote the interests of their industries.

Our members understand the changing needs of the transfer and exchange of knowledge and innovations and through continuous professional development, marketing and networking opportunities offered in this association, we keep current with the latest knowledge trends and issues that challenge people in their work and life journey. We also offer expansive opportunities for partner connection through our networks.

Journal “Regional Innovations” is one of the Association’s tools for innovators and everybody who is interested in any aspects of innovation development.



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About journal

On behalf of the Editorial Board, it gives us a great pleasure to welcome you to the second issue 2015 of the Regional Innovations Journal.

The Regional Innovations publishes original research papers, policy analyses, review papers and book reviews in order to establish an effective channel of communication between business, research institutions, policy makers, government agencies, and individuals relative to the analysis of various aspects of knowledge and innovations transfer and exchange within regional dimensions.

This is an independent, peer-reviewed, Internet-based international journal devoted to publishing original research papers of highest quality, sharing ideas and discussing innovation sector within regional dimensions. Normally, four issues are prepared each year. The journal welcomes to submit research papers by exceptional innovators, leading universities, globally recognized business, government agencies, policy makers and political leaders.

We intend that our readers will be exposed to the most central and significant issues in innovations development. We wish to publish papers that exemplify the highest standards of clarity, and that promise to have significant impact on existing front-line debates or to lead to new ones. The journal explores key priorities of the knowledge and innovations transfer and exchange in terms of critical aspects of human life (economy, law, science, business, health, education, culture etc.). We therefore welcome submissions not only from established areas of research, but also from new and emerging fields and those which are less well represented in existing publications, e.g. engineering studies, biomedical research etc.

We also strive to ensure that being under expert evaluation, each submission will receive developmental and supportive comments to enhance the article. Our refereeing process will involve that each submission will be reviewed by one or more specialists in the relevant field. Articles will be added to the volumes and the journal audience will receive e-mails updates to encourage them to the new articles.

We are delighted with, and immensely grateful to the large numbers of colleagues, both members of the Associations InterRegioNovation and FranceXP (France), representatives from many universities in France, Ukraine, Latvia, UK, Azerbaijan, China and other institutions, who have supported the editorial process. And we are very proud of the expertise that they collectively bring, which we believe is unsurpassed by any contemporary innovative journal.

We are immensely grateful to our colleagues for their support and advice through the process of setting the journal up, and for the confidence they have placed in us in supporting this initiative at a time of economic uncertainty.

In the development of the Regional Innovations to date, we would like to enlist the support of a number of organisations who wish to promote this online journal to their experts. To ensure its sustainability, we would also like to invite other organisations, networks, conferences and meetings to associate themselves with the Regional Innovations. We therefore aim for the Regional Innovations to become the leading online forum to globally disseminate outstanding research papers on innovation sector in regional dimensions. Being an online periodical, the Regional Innovations is also a forum for exchange of imaginative ideas readers wish to share. Contributions of articles on innovations sector and your comments about this issue are very welcome.

To this end, if you lead, represent, or are a member of any such organisation, please contact us to offer your support and commit to promoting the Regional Innovations as a publication outlet for research undertaken by your experts.

We do hope you enjoy and benefit from the Regional Innovations! And many thanks for staying with us in 2015!

Jean-François Devemy
Publishing Director

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SIGNIFICANCE OF PROFOUND SENSE OF IDENTITY IN CULTURAL EXCHANGES FOR THE COOPERATION OF SINO-FRENCH LUXURIES

文化交流中的深度认同感在中法奢侈品合作中的重要意义

Abstract

At present, nearly two-thirds of global luxury brands have entered the Chinese market; of which, French brands top the list. The identity to French culture in Chinese society has promoted the boom of French luxuries in China. The cultural concept reflected by fashion brands enriches the spiritual life of modern Chinese people. The interest in the French culture also drives the boom of other cultural products in China, such as tourism, education, works of art, food, antiques and furniture, etc. French fashion brands also bring the rise of China's national brands while bringing huge economic benefits. The success of French fashion brands in China gives us such inspiration: advantage of industrial manufacturing needs profound cultural sediment; mankind must pay attention to the meaning of life itself while developing high technology. In the post-industrial era of rapid development, mankind more needs to emphasize the spiritual value in economic behaviors.

目前，全球近2/3的奢侈品牌进入中国市场，其中法国品牌占首位。中国社会对法国文化的认同性促进了法国奢侈品在中国的畅销。时尚品牌折射的文化观念丰富了现代中国人的精神生活。对法国文化的兴趣带动了其它文化产品在中国的畅销，如：旅游、教育、艺术品、食品和古董家具等。在带来巨大经济效益的同时，法国时尚品牌也带来中国民族品牌的兴起。法国时尚品牌在中国的成功让我们得到这样的启发：工业制造的优势需要深厚的文化积淀，人类发展高科技的同时，一定要关注生命本身的意义。在快速发展的后工业化时代，人类更需要强调经济行为中的精神价值。

Keywords: cultural exchanges, identity, sino-french luxuries, National brands, market.

China has become the world's largest luxury consuming country since 2011; Chinese market has accounts for 1/4 of total consumption of global luxuries and luxuries have become the topic with special attention in market research. The "luxuries" or "fashion brands" we will talk about here refer to the brands which are fashionable in the high consumption crowds in China, such as top-grade clothing, bags of famous brands, high-grade perfume, famous wines, or private custom living brands. In terms of size and influence, the French luxury goods occupy a leading position in China.

2011年开始，中国成为全球最大的奢侈品消费国，中国市场占全球奢侈品消费总量的1/4。奢侈品成为市场调研中被格外关注的话题。我们这里要谈到的“奢侈品”或“时尚品牌”是指目前在中国高消费人群中流行的高档服装、名品包、高级香水、名酒或私人定制生活品牌。就规模和影响力来说，法国奢侈品在中国占有首要位置。

In 1979, the famous French fashion designer Pierre Cardin held a fashion show in Beijing. This fashion show symbolizing the Sino-French friendship marked the beginning of western brand culture in China. Then, in 1992, Louis Vuitton entered China; as of November 2013, Louis Vuitton had 47 exclusive shops in 33 cities in China, such as Beijing, Shanghai and Guangzhou, etc. In 1996, China's first Hermes exclusive shop was opened in Beijing.

Today, French luxury goods of famous brands have spread all over China, they include: LANCOME, YSL, SISLY cosmetics, Guerlain, Dior, Chanel, Clarins (Sisley), BALENCIAGA, Givenchy, Etam, Morgan, Gaultier and Valentino, etc. In addition to the famous brands in clothing, cosmetics and perfume, high-end French red wines also become the first choice for China's high-end consumers, such as Chateau Cheval Blanc, Mouton Rothschild, Chateau Rayas, Chateau D'yquem, Chateau Ausone, Chateau Lafite, Chateau Latour and Franque wines, etc. In addition, French high-tech products such as cars, planes, high-speed rail technology are also introduced to China. Although these products and red wines are not luxury goods, they represent the advanced level of manufacturing industry in France, so they also have the brand significance.

Along with the spread of traditional French culture in China, French catering culture is also widely popular in China. In 2014, in order to celebrate the 50th anniversary of diplomatic relations between France and China, French Ministry of Agriculture, Food and Forestry, L'Alliance 7 and French cookies, cakes, candy and chocolate industry association (CNPA) held a seminar on French dessert products in Beijing, making Chinese diners profoundly understand the French catering culture of "good taste and high quality". Meanwhile, on May 24, 2014, The 5th China's Best Sommelier Competition of French Wine was held in Hyatt on the Bund Hotel Shanghai. The famous French Maxsim Restaurant has been enjoying a high reputation since it was opened in Beijing in 1983. In addition to the abovementioned famous brands such as LANCOME, BIOTHERM Dior, Chanel and other famous brands, at the beginning of 2015, French high-end cosmetics brand Parfums Rochas also announced to enter China. It was quickly popular with the Chinese consumers within less than half a year's time.

The success of French brands in China benefits from many factors, such as product quality, design style and market demands, etc. The important point among them is cultural factor, namely, the deep sense of identity to

1979年，法国著名时装设计师皮尔·卡丹在北京举办服装表演。这场象征中法友谊的时装秀标志着西方品牌文化在中国的开始。随后，1992年，路易威登进入中国，截止2013年11月，路易威登在中国北京、上海、广州等33个城市拥有47家专卖店。1996年中国第一家Hermes爱马仕专卖店在北京开张。

今天，法国名牌奢侈品已遍布中国：LANCOME 兰蔻 YSL 圣罗兰 SISLY 希思黎化妆品 娇兰 Dior(迪奥): Chanel(香奈尔): Clarins (娇韵诗) Sisley (希西黎), BALENCIAGA巴黎世家, 纪梵希·艾格·摩根·高缇耶·华伦天奴 等。除服装、化妆品和香水等著名品牌外，法国高端红酒也成为中国高端消费群的首选，如：白马庄Chateau Cheval Blanc、木桐庄Mouton Rothschild、稀雅丝(Chateau Rayas)、滴金庄Chateau D'yquem、欧颂庄Chateau Ausone、拉菲庄Chateau Lafite、拉图庄Chateau Latour、法兰克葡萄酒(Franque)等。此外，法国高科技产品如：汽车、飞机、高铁技术也引入中国。虽然这些产品和红酒不是奢侈品，但代表了法国制造业的先进水平，也具有品牌意义。伴随法国传统文化在中国的传播，法国饮食文化也在中国广泛流行。2014年，为庆祝中法建交50周年，法国农业、食品与林业部、L'Alliance 7、法国饼干、糕点、糖果和巧克力行业联合会在北京举办法国甜食制品研讨会，让中国食客深刻了解“好口味、高品质”的法国饮食文化。同时，2014年5月24日在上海外滩茂悦大酒店成功举办第五届中国最佳法国酒侍酒师大赛。而著名的法国马克西姆餐厅1983年在北京开业以来一直享有盛誉。除上面提到的LANCOME 兰蔻 BIOTHERM Dior(迪奥): Chanel(香奈尔): 等名牌外，2015年初，法国高端护肤品名牌洛卡诗Parfums

French culture in Chinese society. In Chinese and western cross-cultural communication, the cultural impact of France on China is far more than that of other countries.

A century ago, there were French literary classics translated into Chinese, which had thousands of readers, such as *the Lady of the Camellias*, *the Count of Monte Cristo*, *Les Miserables*, *the Human Comedy* and *the Red and the Black*, etc. The numerous thinkers and philosophers, such as François-Marie Arouet, Jean-Jacques Rousseau, Montesquieu, Spencer, Durkheim, Sartre, contemporary philosopher Derrida and other cultural masters are also well-known in Chinese academic society; their theories have promoted the progress of Chinese thinkers. In addition, Chinese people also highly praise the outstanding French painters, sculptors and architects, such as Delacroix, Ingres, Picasso, Renoir, Van Gogh, Rodin, Eiffel and other masters of art. The art treasures collected in Louvre, Pompidou and Orsay Museums are highly praised by Chinese people.

There have been tens of thousands of young Chinese intellectuals to go to France and other European countries to study during one hundred years and bring European advanced science and technology and democratic and free thoughts back to China. Among them, those people who have studied in France include: the famous painters Xu Beihong, Wu Guanzhong, Pang Xunqin and Chang Shuhong; famous sculptor Zhang Chongren, famous singer Zhou Xiaoyan and famous physicist Qian Sanjiang, etc. They have become the main force for Chinese cultural prosperity and social progress. There are also a large number of Chinese artists living in France for years, making outstanding contributions to Sino-French culture communication, such as Zhao Wuji, Zhu Dequn and Zhang Yuliang, etc. At the same time those French people and Europeans who come to China for preach, business and learning also introduce Chinese culture to Europe. This kind of intercultural communication has laid the soil of mutual understanding for trade, science and technology and economic cooperation between France and China and made French modern fashion brands have enough cultural consensus in China, thus being accepted by Chinese consumers.

Sino-French fashion culture has a long history; take Louis Vuitton suitcases as an example, as long ago as 1907, starting from Paris with French Expedition, they passed through the Gobi and arrived in Beijing. In 1931, an expedition called "Oriental Tour" was equipped with

Rochas也宣布进军中国。不到半年的时间，便迅速获得消费者的芳心。

法国品牌在中国的成功得力于多种因素，如产品质量、设计风格、市场需求等。其中重要一点是文化因素，是中国社会对法国文化的深度认同感。在中西方跨文化传播中，法国文化对中国的影响远远超过其它国家。一个世纪以前就有法国文学名著译成中文并拥有千万读者，如：茶花女、基督山伯爵、悲惨世界、人间喜剧、红与黑等。还有众多的思想家、哲学家，如：伏尔泰，（François-Marie Arouet），让-雅克·卢梭（Jean-Jacques Rousseau），孟德斯鸠、斯宾塞、迪尔凯姆、萨特和当代哲学家德里达等文化巨匠为中国学术界所熟知，他们的学说推动了中国思想界的进步。此外，中国人对法国杰出的画家、雕塑家和建筑师也是推崇备至，如：德拉克罗瓦、安格尔、毕加索、雷诺阿、梵高、罗丹、埃菲尔等艺术大师。卢浮宫、蓬皮杜、奥赛博物馆收藏的艺术珍品让中国人赞叹。一百年间有数以万计的中国青年知识分子前往法国和其它欧洲国家学习，并把欧洲先进的科学技术和民主、自由的思想带回中国。其中留学法国的有：著名画家徐悲鸿、吴冠中、庞薰琹、常书鸿，著名雕塑家张充仁，著名歌唱家周晓燕，著名物理学家钱三强等。他们成为中国文化繁荣和社会进步的主力。还有一大批华人艺术家多年旅居法国，为中法文化交流做出了突出贡献，如：赵无极、朱德群、张玉良等。同时，前来中国传教、经商和学习的法国人、欧洲人也把中国文化介绍到欧洲。这种跨文化传播为中法之间的贸易、科技和经济合作奠定了相互理解的土壤，使法国现代时尚品牌在中国拥有足够的文化共识，从而能被中国消

specially designed Louis Vuitton suitcases, which started from the Mediterranean along the travel route of Marco Polo and eventually arrived in China after 315 days and a distance of 12000 li.

In 1997, Louis Vuitton held a classic car competition in China, 50 classic cars from all over the world started from Dalian and arrived in Beijing after a week and a distance of 1300 kilometers. In 2010, as one of the sponsors of French Pavilion, Louis Vuitton took part in the exhibition of French Pavilion in Shanghai World Expo. In 2011, as the prelude to celebrate the 20th anniversary for this brand to enter China in 2012, Louis Vuitton specially held a large-scale exhibition called "LOUIS VUITTON - VOYAGES" in the National Museum of China, reviewing the interaction and communication between this brand and art since 1854.

Similar to the French culture, there is also the custom of luxury consumption in traditional Chinese culture, such as jewelry, blackwood furniture, gold and silver jewelry, jade ware and minorities' embroidery clothing, etc. Chinese luxury culture has also affected Europe, for example, Chinese porcelain introduced into Europe during the Middle Ages has become the luxury goods in western upper-class society; in particular, the Chinese black tea has become the rare drink for British aristocrats. Chinese paper and silk which were introduced to Central Asia and the West via the Silk Road were also the international brands in that era.

However, in modern times, due to complex reasons, a large number of Chinese court luxury goods have flowed into France and other western countries; you can see the precious Chinese court luxury goods in Louvre, such as ceramics, paintings, silk and other cultural relics. Speaking from the cultural universality, the living philosophy of faithfulness, expressiveness and elegance reflected by French luxury goods can communicate each other with leisure concept and pleasure consciousness in Chinese culture. Chinese people have the tradition of ardently loving luxury goods since ancient times; in particular, the royal households and upper-class society prefer using gold and silver jewelry and other rare materials for furniture or the articles carried with them so as to highlight their status and noble aura, satisfying people's vanity for privileges, wealth and taste.

Everyone loves the beautiful things; luxury culture was associated with early human social consciousness and the original thinking. Levy-Bruhl, Lucien, French sociologist pointed out in the book *Original Thinking* that the prological thinking in human early cultural

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中法时尚文化交流源远流长，以路易威登行李箱为例，早在1907年就随法国探险队由巴黎出发，穿越戈壁到达北京。1931年，名为“东方之旅”的探险队配备了特别订制的路易威登旅行箱，由地中海沿马可波罗旅行路线历经315天，跋涉12000里最终抵达中国。1997年，路易威登在中国举办老爷车比赛，50辆来自全球各地的经典老爷车从大连一路行进1300公里，一周后抵达北京。

2010年，作为法国馆赞助商之一，路易威登参加了上海世博会法国馆的展出。2011年，作为庆祝品牌在2012年进入中国二十周年的序幕，路易威登特别在中国国家博物馆举行“路易威登-艺术时空之旅”大型展览，回顾品牌自1854年以来与艺术之间的互动与交流。与法国文化相似，中国传统文化中也有奢侈品消费风俗，如：珠宝、红木家具、金银首饰、玉石器皿和少数民族的刺绣服装等。中国奢侈品文化也影响到欧洲，如：中世纪时传入欧洲的中国瓷器成为西方上流社会的奢侈品，尤其中国红茶成为英国贵族的珍稀饮品。经由丝绸之路传往中亚和西方的中国纸张和丝绸也是那个时代的国际品牌。而近代由于复杂原因，有大批中国宫廷奢侈品大量流入法国和其它西方国家，在卢浮宫可见到珍贵的中国宫廷奢侈品，如：瓷器、绘画、丝绸和其它文物。

从文化共性上讲，法国奢侈品体现的信、达、雅的生活哲学与中国文化中的休闲理念和享乐意识是相通的。中国人自古有酷爱奢侈品的传统，尤其宫廷皇室、上流社会更喜欢利用金银珠宝等珍稀材料作家具摆设或随身配带物品，以此凸显地位和贵族气场，满足了人们对特权、财富和品位的虚荣心。爱美之心人皆有之，奢侈品文化关联

behaviors thought that all things had souls, human beings could establish relations with other animals and supernaturalism through tattoos, decorations and totem symbols so as to master their fate.

There are still this kind of old customs in modern Chinese cultural behaviors: people get used to wear jewelry, decorations and amulets; they think that the factors like text symbols, clothing patterns, color of articles, figures and home design can affect a person's fate, health and wealth. The design of modern luxury goods meet the need of this kind of primitive thinking, especially the high-end private custom brands can fully combine personal character, cultural hobbies and social status with the factors like astrology and geomancy, through the clever collocation with diamonds, jewelry, gold and silver materials, let consumers get maximum satisfaction. This kind of aesthetic satisfaction will be transformed into the sense of identity to human culture and value of life in different degrees.

French brand culture brings new social intercourse style to China and also leads to the prosperity of related industries: fashion life has promoted the consumption of red wine in China; European catering has increased the demands for European architecture and interior design as well as the needs for European decorative art and fashion products. Take the famous Chateau Lafite Rothschild in the suburb of Beijing as an example, the chateau has introduced not only the production technology of French red wine but also French architectural design and interior decoration art. T

he whole chateau is built in complete accordance with French traditional architecture; meanwhile, French painters, sculptors and interior designers were hired to work for it. Red wine industry makes the chateau become a window to display French traditional culture and a cultural experience center integrating tourism, hotel and red wine direct selling. French cultural image makes other French products leave favorable impression in China, for example, there is also the successful cooperation with China in the high-tech fields like high speed rail and civil aircraft as well as Carrefour supermarket system. In recent years, Chinese investors have a great interest in French luxury goods industry. For example, in 2014, French haute couture company I&C found Chinese investor through luxury exhibition in Beijing; the first monopoly store will be opened in Tianjin in 2015.

French fashion culture has helped the circulation of French works of art in China. In recent decades, a great

着人类早期的社会意识和原始思维。法国社会学家列维-布留尔 (Levy-Bruhl, Lucien)在

《原始思维》一书中指出：人类早期文化行为中的前逻辑思维认为万物有灵，人通过纹身、饰物、图腾符号与其它动物和超自然力建立关系，从而掌握人的命运。现代中国文化行为中仍然保留着这种古老习俗：习惯佩戴珠宝、饰物、护身符，认为文字符号、服装图案、物品颜色、数字、居家设计等因素能影响人的命运、健康及财富。现代奢侈品设计满足了这种原始思维的需求，尤其高端私人定制品牌更能把个人的性格、文化爱好、社会身份以及与星相、风水等因素充分结合起来，通过与钻石、珠宝、金、银材料的巧妙搭配，让消费者得到最大程度的满足。这种审美的满足感会在不同程度上转化为对人类文化和生命价值的认同感。

法国品牌文化给中国带来新的社交风范，也带动了相关产业的繁荣：时尚生活推动了红酒在中国的消费，欧洲餐饮加大了欧式建筑和室内设计的需求，也促进了欧洲装饰艺术和时尚用品的需求。以北京郊区著名的拉斐城堡酒庄为例，酒庄不仅引入法国红酒生产技术，也引进了法国建筑设计和室内装饰艺术。整个酒庄完全参照法国传统建筑而成，并聘请法国画家、雕塑家和室内设计师前来工作。红酒产业让酒庄成为展示法国传统文化艺术的窗口，是集旅游、酒店和红酒直销于一身的文化体验中心。

法国的文化形象让法国其它工业产品在中国获得好感，如：在高铁、民航客机等高科技领域以及家乐福超市系统也与中国有成功的合作。

近年来中国投资方对法国奢侈品行业有极大兴趣。如：2014年，法国高级定制服装公司I&C通过北京奢侈品展览找到了中国投资人，2015年首家

number of French collections in painting, sculpture, furniture and antique have entered the Chinese art market, many monopoly stores and art product operation agencies of other forms have emerged in Beijing, Shanghai and Guangzhou, etc. At the same time, some Chinese financial institutions and investment companies also engage in the collection and operation of French classic oil paintings. For example, "Classic Jen Western Fineart Salon" has specialized in collecting and operating famous oil paintings in France in the 19th century for years, especially Barbizon School, such as the works of masters Camille Corot and Millet, etc. There are also famous entrepreneurs and private collectors to go to French auction companies to purchase the world's famous paintings with high prices, such as the works of Picasso, Monet and Van Gogh, with the turnover of more than tens of billions of Euros. Some French famous contemporary artists who have been active in China for many years have many Chinese fans; many private collectors, such as the painters Bound, Yann Rebecq, Jean Michel, Deniss Ribas and Victar Orly, collect their paintings.

Over the years, they have sold their original works in the form of taking part in international art expositions in different areas in China. On average, each of them has sold about 300~500 paintings and the price of each painting is around 300 Euros to 10000 Euros. These artists introduce the French romantic painting style to China and increase the interest of Chinese society in French art.

French fashion culture also brings the reflection at the level of Chinese social philosophy: today, among 100 luxury brands in the world, no one is from China. It is well known that most of global brand products are closely related to their designers, and are named after their names, such as Chanel, Louis Vuitton, American Ford, German Siemens and so on. The existence and continuity of brand embodies the respect for the historical heritage, reflects the legal awareness in respecting for human rights, protecting the original ideas and intellectual property rights in European society, which is the guarantee of civilization and progress.

Chinese people do not have their own global brands, or old brands with the continuous operation of more than one hundred years, this is not only because of the lagging design level and manufacturing process, but also because of the lack of personality consciousness in Chinese culture, the lack of respect for the original thoughts, not to mention the protection of intellectual property rights. Without personal brand means that no

专营店将在天津开张。

法国时尚文化促成了法国艺术品在中国的流通。近几十年来，法国绘画、雕塑、家具和古董藏品大量进入中国艺术市场，在北京、上海、广州等地出现许多专营店和其它形式的艺术品经营机构。也有中国金融机构和投资公司从事法国古典油画的收藏和经营。如上海“Classic Jen Western Fineart Salon”-简.经典西画沙龙，多年来专门收藏和经营法国19世纪尤其巴比松画派名家油画作品，如：柯罗、米勒等大师的作品。也有著名企业家和私人藏家到法国拍卖行高价购买世界名画，如：毕加索、莫奈和梵高的作品，成交额超过数十亿欧元。一些多年活跃在中国的法国当代知名画家拥有大量中国粉丝，他们的绘画作品被许多私家收藏，如：画家Bound, Yann Rebecq, Jean Michel, Deniss Ribas,, Victar Orly.,几年来，他们在中国通过参加各地国际艺术博览会的形式出售自己的原创作品。平均每人售出画作在300至500幅左右。每幅画售价在3000-10000欧元左右。这些画家把法国浪漫主义绘画风格介绍给中国，增加了中国社会对法国艺术的兴趣。

法国时尚文化也带给中国社会哲学层面的反思：今天，在世界100个奢侈品名牌中，没有一个是中国的。众所周知，世界品牌产品大多与设计师个人紧密相关，并用他们的名字命名，如：香奈尔·路易威登Louis Vuitton,以及美国的福特，德国的西 门子等。品牌的存在和延续，体现了对历史遗产的尊重，反应了欧洲社会尊重人权、保护原创思想和知识产权的法律意识，这是文明进步的保障。中国人没有自己的世界品牌，更没有连续经营百年以上的老字号，这不仅因为设计水平和制造工艺的落后，更是因为中国文化

one is willing to be responsible for “made in China”. These factors are root causes for inundant counterfeit products in Chinese market. The contractual spirit and social responsibility in French brand culture are what Chinese society lacks; they also let us realize that valuable social asset is not money and minerals, but cultural spirit.

Just as the sociologist Max Weber pointed out that the success of capitalism in Christian countries is not accidental, the contractual spirit and sense of responsibility in the Bible are also important reasons for the rise of capitalism. Western industrialization pattern brings the opportunity to China’s economic rise, but also brings serious social problems: financial stock market and real estate industry inspire people’s speculation consciousness, the efficient and fast-paced life in industrialized society impacts the living tradition of farming culture in China; China has introduced modern western industrial hardware before absorbing the corresponding cultural spirit, this causes the serious gap between industrial manufacturing and safety standards, economic interests and contractual spirit, social status and social responsibility.

It is also the root cause for frequent occurrence of product quality problem in China. From this point, cultural concept is the biggest value. Take auto industry as an example, the auto possession quantity in China accounts for 6% in the world, but the traffic accidents account for 17% of total quantity in the world. Each year, more than 100000 people die from traffic accidents, with a direct economic loss of more than tens of billions of Euros. China is a great automobile consumption power and has developed highway network, but Chinese people lack traffic safety consciousness and the respect for laws. These problems are related to the present social morality failing to keep up with the progress of civilization of science and technology as well as the consciousness of vulgar people and the thought of plebeians in traditional Chinese culture: mankind is nidering, their labor is cheap and their status and power are also humble. In particular, there are the ideas of playing down life, believing in being a god or life rebirth after death in Chinese and Japanese culture, putting their wish in the future and after death.

Despising the reality and ignoring the life, this kind of concept is embodied in the economic behaviors of most Chinese people: ignore the meaning of life due to earning money blindly, regard workaholics and money-earning tools as the symbol of success. The

中缺少个性意识，缺少对原创思想的尊重，更谈不上知识产权的保护了。而没有个人品牌也就意味着没有哪一个人愿为中国制造负责。这些因素是中国市场仿冒产品泛滥的根本原因。

法国品牌文化的契约精神和社会责任感是中国社会匮乏的，也让我们意识到：宝贵的社会资产不是金钱和矿产，而是文化精神。正如社会学家马克思·韦伯所指出：资本主义在基督教国家获得成功不是偶然的，圣经文化中的契约精神和责任感也是促成资本主义兴起的重要原因。虽然西方工业化模式带给中国经济崛起的机会，但也带来严重的社会问题：金融股市和房地产业激起人们的投机意识，工业化社会的高效率、快节奏生活让中国农耕文化的生活传统遭到冲击；中国还没有吸收相应的文化精神就已上马西方现代工业硬件了，这造成工业制造与安全规范、经济利益与契约精神、社会地位与社会责任感严重脱节。这也是中国频发产品质量问题和工业事故的根本原因。从这一点说，文化观念是最大的价值。以汽车业为例，中国汽车拥有量占世界拥有量6%，而交通事故占世界总数的17%。每年死于交通事故的人数超过10万人，直接经济损失超过百亿欧元。中国虽是汽车消费大国，有发达的高速路网，但缺少交通安全意识，缺少对法律的尊敬。这些问题与当下社会道德跟不上科技文明的进步有关，也与中国传统文化中的草民意识和庶民思想有关：人是低贱的，他们的劳动是廉价的，他们的地位和权力也是卑微的。尤其中国文化和日本文化中都有淡化生命、相信死后成神或生命轮回的思想，把希望寄托在将来和死后。轻视现实而无视生命，这种观念体现在多数中国人的经济行为中：因盲目挣钱而忽视人生的意义，把工作狂人和挣钱工具作为成功的标志。法国时尚文化带给

enlightenment significance brought by French fashion culture to Chinese society far outweighs its economic efficiency; the design and manufacture of top-level fashion brands not only make full use of high-tech means but also integrate with the humanistic spirit; the high-quality top-level luxury goods reflect the people's values and the cherishing for life. Seen from American psychologist Maslow's Demand Theory, fashion brands guide people to pay attention to the meaning of life and the joy of the present, transform human material needs to a higher level of spiritual needs and sublimate people's self-worth and happiness.

China's economic development is rapid, but the change of traditional idea is slow. First, it's a kind of cultural challenge for French fashion brands to enter China. Until the late 70s, the clothing of Chinese people was still very monotonous in clothing and ignorant of brand culture. China's reform and opening up has made the western culture spread in China, especially the French fashion with personality style has attracted the attention of Chinese consumers.

Chinese people dare to accept French fashion brands, to some extent, it is a symbol of Chinese consumers' rebellion against the traditional culture concept and it also means the acceptance of Chinese society to western culture. Take clothing, cosmetics and red wine as examples, while using these products, Chinese consumers also accept the western etiquette culture and life attitude related to them, the gap between Chinese and western culture is narrowed on consumers. French brand culture has helped Chinese fashion industry mature and promoted the Sino-French cooperation between the fashion institutions.

In 2012, China Fashion Association and Fédération Française du Prêt à Porter Féminin hosted a signing ceremony for the cooperation between Chinese and French fashion industry and fashion education industry; at the same time, MOD'SPE PARIS and IMS signed an agreement for deep cooperation; more than 40 representatives in brand design industry and more than 20 brand designer representatives in French fashion industry attended the signing ceremony.

The French top-level living brands bring vitality to China's national fashion industry and improve Chinese brand designer team as a whole, their works have won the awards frequently at the international fashion stage, such as Xie Feng, Liu Yang, Luo Zheng, Guo Bei and other famous designers. The fashion of French brands also provides a growth platform for Chinese model

中国社会的启蒙意义远大于它的经济效益，顶级时尚品牌的设计和制作不仅充分利用了高科技手段，也融入了人文精神，高品质的顶级奢侈品体现了人的价值观，也反映了对生命的珍重。用美国心理学家马斯洛的需求理论看，时尚品牌引导人们关注生活本身的意义和当下的快乐，将人类的物质需求转向较高层次的精神需求，让人的自我价值感和幸福感得到升华。

中国经济发展虽然迅速，但传统观念的变革是缓慢的。法国时尚品牌进入中国首先是一种文化挑战。直到70年代末，中国人的穿着还非常单调，对品牌文化一无所知。改革开放带来西方文化在中国的传播，尤其具有个性风格的法国时装吸引了中国消费者的关注。中国人敢于接受法国时尚品牌，在某种程度上象征着中国消费者对传统文化观念的反叛，也意味着中国社会对西方文化的接纳。以服装、化妆品和红酒为例，消费者使用这些产品的同时也接受了与之相关的西方礼仪文化和生活态度，中西文化间的距离在消费者身上被拉近。法国品牌文化帮助了中国时尚业的成熟，也促进了中法时尚机构间的合作。

2012年中国服装设计师协会与法国女装成衣协会Fédération Française du Prêt à Porter Féminin在北京饭店主办中法时装业和时尚教育业合作签字仪式，同时，巴黎MOD'SPE高等时尚营销管理学院与上海艾蒙时尚设计专修学院(IMS)签订了深度合作协议。中国40多位品牌设计业代表及法国时装业20多位品牌设计师代表出席了签字仪式。法国顶级生活品牌为中国的民族时尚产业带来活力，使中国品牌设计师队伍有了整体的提升，他们的作品频频在国际时装舞台获奖。如：谢锋，刘洋，罗铮，郭蓓等著名设计师。法国品牌时装也为中国模特行业提供了成长的平台。—

industry. A large number of new models have become famous in the French fashion shows, such as Ma Yanli, Jiang Peilin, Yu Na, Lv Yan and other well-known models. Among them, Ma Yanli and Lv Yan have also created their own private custom brands.

“Made in China” is beginning to move towards Chinese design. In the field of luxury consumption in China, the promotion of high-grade French red wines in China also drives the rise of China’s national wine industry. A batch of high-grade red wines of Chinese brands have emerged, such as the Great Wall, Plainsong, Silver Heights, Grace and Veyron, etc. Among them, Jia Bei Lan Red Wine produced by Helan Qing Xue Winery has won the gold prize in different wine contests since 2005. Especially in 2011 Decanter World Wine Competition, Jia Bei Lan 2009 won the highest award—International Special Award.

According to the data released by OIV, the grape planting area was about 800000 hectares in China in 2014; China surpassed France and became the world’s second largest production area. The survey report from the largest wine chateau land agent VT Company in France shows that the area of wine chateaus purchased by foreign investors in France has exceeded 12000 hectares; of which, 21% of it is purchased by Chinese investors. “Maybe the people who are proficient in red wine are French, but the people who greatly affect the price of red wine are Chinese.” French *European Times* said so when it cited a special column. According to the introduction by Chinese Market Director of Christie’s Bordeaux Chateau, Chinese people have purchased about 110 wineries in Bordeaux, 80% of wine from these wineries is sold in China. And the consumption of Bordeaux’s wines of famous brands has accounted for at least 40% of the shares.

The rich cultural resources in France have become a travel highlight to attract Chinese tourists. Now, there are nearly 1500000 person-times to travel to France and participate in shopping activities every year. Calculated by average 5000 Euros consumption per capita in France, the total consumption is about 8 billion Euros. French Minister Fabius visited China not long ago and pointed out, “There were 1400000 Chinese tourists to travel to France in 2014, I hope this number will grow to 5 million per year in the near future, this needs these two countries to do more work.”

In the light of communication trend between China and France, the realization of this goal is possible. French cultural advantages and perfect education system also

大批模特新人在法国时装展上成名，如：马艳丽·姜培琳·于娜·吕燕等知名模特。他们当中如马艳丽·吕燕也创立了自己的私人定制品牌。中国制造正开始走向中国设计。

在中国奢侈品消费领域，法国高级红酒业在中国的推广也带动了民族葡萄酒业的兴起。出现了一批高品位的中国品牌红酒，如：长城·百利生·银色高地·怡园·威龙等。其中贺兰晴雪酒庄从2005年开始，所产的加贝兰干红葡萄酒分别在不同的葡萄酒大赛中荣获金奖。尤其是2011年《品醇客》（Decanter）世界葡萄酒大赛中，加贝兰2009荣获最高奖项——国际特别大奖。

国际葡萄与葡萄酒组织公布数据显示，中国2014年葡萄种植面积约为80万公顷，超过法国成为世界第二大产区。法国最大的葡萄酒庄地产商VT公司的调查报告显示，外国投资者在法国购买的葡萄酒庄面积已达1.2万公，其中21%的面积由中国投资者购买。“精通红酒的也许是法国人，但对红酒价格影响更大的却是中国人。”法国《欧洲时报》援引专栏文章如是说。据佳士得拍卖行波尔多酒庄部中国市场总监介绍：中国人在波尔多已经购买了110家左右的酒庄，这些酒庄的葡萄酒80%在中国销售。而波尔多名牌葡萄酒在中国市场的消费至少占到了40%的份额。

法国丰富的文化资源成为吸引中国游客的旅游亮点。现在每年有近一百五十万人次去法国旅游并参加购物活动。以每位游客在法国平均消费5000欧元算，总消费额大约80亿欧元。前不久到中国访问的法国外长法比尤斯指出（French Foreign Minister Fabius）：“2014年有一百四十万中国游客到法国旅游，我希望在不久的将来这一数字可以增长到每年500万人，这需要两国做出更多工作。”按照目前中法两国间的交流趋势这一目标是

attract a large number of Chinese students to receive higher education or secondary education in France. According to official statistics, now there are more than 10000 self-supported students to study in France every year and the number is increasing year by year. Calculated by average 4-6 years of study for each student, plus the students studying in France at public expense, now there should be more than 200000 Chinese students studying in France now. Calculated by average consumption of 20000 Euros per capital every year, Chinese students spend at least 4 billion Euros in France every year.

Through the above analysis, we make the following conclusions:

1) The success of French fashion brands in China has reference value for French government to make future economic policy on China and also provides a green mode in international economic and trade cooperation for the world: export more living brands with rich humanistic feeling, import or export less military and chemical production projects with pollution. Melt the human peace demand into the planning of modern high-tech development. The development model of French fashion industry also provides reference for the economic development of undeveloped countries: due to the lagging level in science and technology and education, it's difficult for undeveloped countries to get rid of low-end economic chain in a short time. But the concept of "product's culture" inspires us that undeveloped countries can transform their local culture into the economic resources with market value, such as original ecology tourism, original handmade products, wild resources and national culture, etc. For modern urban life, the pure forest air and natural green food are another kind of luxury goods for the rich, while this is just the natural advantages of undeveloped countries. The success of French high-end living brands in China also provides China with an example transforming the cultural resources into economic wealth.

2) The Cultural Conflict Theory of American scholar Huntington·Samuel·P (1927-2008) emphasized the political differences and potential conflicts brought by the difference of cultural values to the world. The popularization of French high-end living brands disproves that cultural difference can constitute cultural charm, the common aesthetic needs of human beings and the understanding of each other can be found among different cultural values; fashion culture is the cultural buffer zone of world peace. The inclusiveness of Chinese culture has led to the prevalence of French

有可能实现的。法国的文化优势和完善的教育体系，也吸引大量中国留学生到法国接受高等教育或中学教育。据官方统计，现在每年到法国留学的自费生人数超过一万人，并逐年递增。以平均每人学习4-6年计算，加上公费渠道的留学生，现在法国的中国留学生应在20万以上。以平均每人每年在法消费2万欧元算，每年中国留学生至少要有40亿欧元花在法国。

经过上述分析，我们得出这样几个结论：

1) **法国时尚品牌在中国的成功对法国政府制定未来对华经济政策具有参考价值**，也向世界提供了国际经贸合作中的绿色模式：多出口富有人文情怀的生活品牌，少进口或出口军工和带有污染性的化工生产项目。把人类的和平需求融入现代高科技的发展规划中。法国时尚行业的发展模式也为不发达国家经济发展提供了参考：**由于科技教育水品的落后，不发达国家很难在短时间内从低端经济链中挣脱出来**。但"产品的文化性"这一概念启发我们：不发达国家可以将本土文化转换为具有市场价值的经济资源，如：原生态旅游、原始手工制品、野生资源、民族文化等。对于现代都市生活而言，纯净的森林空气、天然绿色食品是富人的另一种奢侈品，而这正是不发达国家的自然优势。法国高端生活品牌在中国的成功也为中国提供了把文化资源转换为经济财富的样板。

2) **美国学者亨廷顿 (Huntington·Samuel·P 1927-2008年) 的文化冲突论**强调了文化价值观的差别带给世界的政治分歧和潜在冲突。法国高端生活品牌在中国的推广反证了文化的差别可以构成文化魅力，在不同文化价值观之间可以找到人类共同的审美需求和彼此间的理解，时尚文化是世界和平的文化缓冲带。中国文化的包容性造

fashion brands in China. Huntington believed that the efforts made in the developing countries for the development of modernization will cause chaos; if turmoil happens to a country, it is not because they are poor, but because they want to get rich. While the experience in China tells people that rapid economic development and national stability are not contradictory. China Threat Theory due to the rise of China is the continuation of Huntington's theory. It shows that the world doesn't understand China. At present, France's perception of Chinese culture is far less than Chinese people's understanding of France; this is the problem that France should pay attention to first in the future development of Sino-French international cooperation.

3) Creativity and design are the most precious resources in future society and the transformation from technology-intensive to creativity-intensive is the trend of future industrial manufacturing. French high-end living brands are the crystallization of art-intensive and creativity-intensive types. The advantages of rich art resources and original design will enable France to walk in the front of the future world. French luxury goods are facing international brand competition in Chinese market, these brands are from Italy and Switzerland, etc, so a targeted marketing strategy shall be formulated. Today, China's luxury consumer groups are mainly dignitaries and wealthy class in the society, including their spouses, friends, family or interest partners. Luxury is a common means of bribery; the anti-corruption campaign in China in recent two years has cut down the sales of some brands, but the overall consumption groups are stable, the overall development of French luxury goods is still optimistic.

In addition to the luxury industry, the huge market demands in China have provided France with multiple opportunities of business, for example, China has entered the aging society, the problems on future facilities for the elders and elderly health management should be solved urgently. France has perfect systems in health care and social pension and their experience is worthy of reference for China. France has technical advantages in community culture, environmental protection, design of public pavilions and garbage treatment, etc.

就了法国时尚品牌在中国的盛行。亨廷顿认为：“发展中国家发展现代化的努力会引起混乱，如果一个国家出现动乱，那并非因为他们贫穷，而是因为他们想致富。”而中国的经验告诉人们，快速发展经济与国家稳定不是相互对立的。由于中国的崛起而产生的中国威胁论是亨廷顿理论的延续。说明世界并不了解中国。目前法国对中国文化的认知远远小于中国人对法国的了解，这是法国未来发展中国际合作首先要注意的问题。

3) 创意与设计是未来社会最为宝贵的资源，由技术密集型向创意密集型转化是未来工业制造的大趋势。法国高端生活品牌是艺术密集型和创意密集型的结晶。丰富的艺术资源和原创设计的优势将使法国走在未来世界的前面。法国奢侈品在中国市场面临多国名牌竞争。

如：意大利品牌，瑞士品牌，需要制定有针对性的市场战略。

今天，中国奢侈品消费群体主要以达官贵人和社会富有阶层为主，也包括他们的配偶、朋友圈、家人或利益伙伴。赠送奢侈品是常用的贿赂手段，中国近两年的反腐运动让某些品牌的销量下降，但总的消费群体是稳定的，法国奢侈品的总体发展还是乐观的。

除奢侈品行业外，中国社会巨大市场需求为法国提供多种商机，如：中国已进入老年化社会，未来养老设施和老年健康管理等问题亟待解决。法国有卫生保健和社会养老的完善体系，他们的经验值得中国借鉴。在社区文化、环境保护、公共场馆设计和垃圾处理等领域法国都有技术优势。

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DEVELOPMENT OF REGIONS IN AZERBAIJAN NOWADAYS

Abstract

The regional development of the Republic of Azerbaijan is an important component of sustainable socio-economic development carried out successfully in the country. Implementation of the tasks set forth in the state programs adopted and successfully carried out in the field of regional development, as well as in the orders on the additional measures concerning the socio-economic development of the regions, paved the way for sustainable development of non-oil sector, improvement of the quality of public services and social infrastructure in regions, further improvement of the business environment, increase of the flow of investment, creation of new enterprises and jobs, increase of employment and poverty reduction.

Keywords: regions, socio-economic development, innovations, infrastructure, regional economies.

Today, when the oil producing countries in the world accept anti-crisis plans in connection with the fall in oil prices, Azerbaijan continues to implement all tasks by changing the approach to them only by priority. The Azerbaijan government has indicated the main ways of development of Azerbaijan in the next few years, among them, the principal is the further development of Azerbaijan regions.

If we look at the history of the development of Azerbaijan's regions, it can be divided into five main stages:

- 1991-1995 - mainly remembered as the years of chaos and decline of the national economy and is the first step in the formation of the economic system in Azerbaijan;

- 1996-2000 - the years of regulation of the national economy, macroeconomic stability and dynamic economic development;

- 2001-2008 are the third stage of development and it is in this period, many legislative and regulatory acts, including the regional development were adopted and refined, defined mechanisms of regulation of regional economies;

- 2009-2013, is the fourth stage of development, which is the beginning of the programming regional

development and innovation development of the national economy. This period is characterized by the development of the regions based on "State Program on socio-economic development of regions of Azerbaijan in 2009-2013". [8]

Finally, the last fifth stage started in 2014 after approval of "State Program on socio-economic development of regions of Azerbaijan in 2014-2018 years". [9]

Experience in development of regions showed that the most effective and innovative method for regional development in Azerbaijan is a program-targeting method. The premise in the formation and implementation of regional development program requires advance provided a set of management approaches and organizational actions. This approach allows us to analyze and present state of the regional economy, at the same time the structure of the regional economy, in collaboration with the national economic interest of the country. However, achievement of long-term strategic objectives requires a systematic approach. To achieve long-term strategic goals of the country required a systematic approach to determine the significance and role of the regions in the development strategy, the principles of formation of structure of regional economies, to identify common patterns and take into account the specific characteristics of particular regions.

Based on the strategy determined by the country targeted state actions. One such method is the actions of the state program-targeting method, which reflects the specific public events. Especially important are the theoretical and practical development of the targeting program. However, given the characteristics of regional development for the country in the period of transformation of the economy to an innovative type of development, the previous events based on principles market relations and institutional arrangements require new approaches, appropriate to not only market but also the requirements of modernization and sustainable development.

Approved by the Decree of the President of the Republic of Azerbaijan on February 27, 2014 "State Program on socio-economic development of the Republic of Azerbaijan in 2014-2018" plays an important role not only in the solving of problems in the regions, but in the development of the national economy in a new direction. [4]

Economic regions must simultaneously meet a number of requirements of the international economy and the national economy. If we consider the economic situation of the regions of Azerbaijan, the level of development all of them can be divided into: developed regions, which include the Absheron, Aran, Ganja-Gazakh economic region; developing it - Nakhichevan and Guba-Khachmaz economic regions; partly developed regions, mostly Lenkoran, Sheki-Zakatala and Shirvan economic regions; and depressed regions, it - Yuxari Karabakh and Kalbajar-Lachin economic regions.

The state programmes on socio-economic development of the regions adopted during last 10 years have important role in raising development of the regions to a new level of quality. As a continuation of the targeted policy for development of regions started in 2004, "The State Programme on Socio-Economic Development of the Regions of the Republic of Azerbaijan for 2014-2018" has been developed. The implementation of "The State Programme on Socio-Economic Development of the Regions of the Republic of Azerbaijan for 2014-2018" is important for the development of the country economy, and plays a key role in ensuring macroeconomic stability, expansion of the entrepreneurship in the regions, establishment of new enterprises and creation of new jobs, implementation of large infrastructure projects, improvement of the communal services, and eventually, further improvement of social wellbeing and poverty reduction. [9]

Relevant central and local bodies of the executive power are responsible for the implementation of the State Programme. The coordinator of its implementation is the Ministry of Industry and Energy of the Republic of Azerbaijan. The implementation of the activities planned for each year in the State Programme shall be included in the State Investment Programme drafted for the respective year. [9]

State Programmes on regional development, which is identified as a priority in the socio-economic development of the country and plays key role for ensuring of regional balance through effective utilization of oil and gas revenues, have contributed to the stepping up business activity of the people, further expansion of entrepreneurship in regions, implementation of infrastructure projects, creation of new enterprises and facilities to produce competitive and export-oriented goods in compliance with international requirements, and have improved considerably qualitative indicators characterizing the citizens wellbeing.

In this context, the objective of "The State Programme on Socio-Economic Development of the Regions of the Republic of Azerbaijan (2004-2008)" approved by Presidential Decree # 24 dated 11 February 2004 was to increase the employment level and improve living standard through the sustainable development of the non-oil sector, insurance of balanced development of the regions, improvement of communal services and infrastructure facilities, creation of new jobs and establishment of new enterprises. Successful implementation of "The State Programme on Socio-Economic Development of the Regions of the Republic of Azerbaijan (2004-2008)" has contributed to boosting development of the activities started in the area of the socio-economic development of the country and should be carried on. The activities started in 2004 aimed to achieve the rapid development of the non-oil sector, diversification of economy, balanced regional and sustainable socio-economic development, further improvement of the living standards of the people.

As a result of successful implementation of "The State Programme on Socio-Economic Development of the Regions of the Republic of Azerbaijan for 2009-2013" a high level of macroeconomic indicators was achieved, the implementation of the activities provided for in the area of the socio-economic development has played important role in further improvement of living standards of the population. In the course of implementation of both programmes for regional development additional 240 decrees were signed aiming at the acceleration of the socio-

economic development of towns and districts included in all economic regions.

On the whole, the policy of socio-economic development of the regions pursued during the last 10 years has contributed to rapid development of the macroeconomic indicators of the country, GDP increased 3.2 times, per capita GDP - 2.8 times, the non-oil sector rose by 2.6 times and average annual growth in the country reached 12.8%. [9]

The main objective of the "State Programme on Socio-Economic Development of Regions of the Republic of Azerbaijan for 2014-2018 Years" shall be continuation of activities aimed at development of the non-oil sector, diversification of economy, rapid development of regions, in particular, further improvement of infrastructure and social services related to rural development. To achieve the objectives of the State Programme, such important tasks should be implemented, as infrastructure provision in regions, including provision of population with public utility services; boosting the development of entrepreneurship aiming at export-oriented and competitive production; raising employment level and reducing poverty level of population, especially, of rural population.

During the 2014-2018, the Programme proposes to implement a large-scale development of the agricultural sector, industrial, social and market infrastructure. As a result, a lot of tasks will be achieved: sustainable energy, gas, heat, water supply of regions; implementation of projects for the construction, reconstruction and development of roads and other infrastructure; improvement of the ecological situation in the regions; reconstruction and development of international standards of such objects of social and cultural infrastructure, education, health, culture, sports, tourism; opening of new, but mostly permanent jobs; development of small and medium enterprises in the non-oil sector and the establishment of new businesses, and as a result all the further improvement of living standards, not only of specific regions and across the country.

In 2014, within the Programme, 4400 new enterprises started their activities in the regions. Compared with 2004, the number of new enterprises increased by 2.5 times and reached 386,000. Tax revenues from the regions increased by 9.8 percent, and the number of cities and regions, financed by local revenue has reached six. During 2014, there were opened 123 000 new job places. Last years, through to state support, including financing of 124 projects in industry, the implementation of which has been allocated 380 million EURO loans, reduced the country's

dependence on imports of a number of industrial products, and in some of them, there was the potential for export.

Azerbaijan studied the international experience on the organization of industrial districts (parks), formed an appropriate legal framework. In 2015 implementation of projects for establishing industrial districts (parks) started. In 2015 is completed work on the creation of external and internal infrastructure in Sumgait Chemical Industrial Park. The total investment for the projects in the park is about 650 million EURO.

In 2014 five power stations started working, three thousand kilometers of power transmission lines (PTL), 614 transformers, 20 substations, 1450 kilometers of gas pipelines were built and rebuilt, 58 settlements in 24 districts were provided by gas. In addition, implementation of infrastructure projects, including the renovation of road and transport infrastructure, as well as the infrastructure for electricity, gas and water supply were continued and supported. 960 kilometers of national roads and local roads, 30 new bridges and crossings were built and repaired. In order to improve the quality of information and communication services 26 new ATS (automatic telephone systems) started working, 42 postal offices were built and repaired. During 2014 155 schools, 30 health facilities, 11 youth and sports facilities, 43 cultural sites and other social facilities were built and rebuilt in the regions. [5]

The main objective of the Programme is the development of non-oil sector and private entrepreneurship in the regions, so this Programme plays a great importance in conditions of low oil prices.

Azerbaijan's economic policies aim to achieve sustainable economic development, a diversified economy with a vibrant non-oil sector, global integration, and balanced development throughout the country. However, oil and gas remain important to the economy. Hydrocarbons account for about 50% of GDP and over 93% of exports. The next largest sectors have typically been construction and transport, storage, and communications. Agriculture constitutes 5.3% (2013) of GDP despite employing 38% of the labor force. The reliance on hydrocarbons places the country at risk of volatility and raises concerns about long-term growth sustainability and stability, as evidenced by the recent slowdown in oil production. Surging oil revenues have enabled ambitious public investment programs along with increased wages and social transfers, which helped reduce poverty levels rapidly. The annual increases in budget expenditures have been made possible by substantial transfers from

the State Oil Fund of the Republic of Azerbaijan, which constituted 58% of total state budget revenue in 2013. Oil revenues have also enabled Azerbaijan to maintain a relatively low external debt level, with foreign debt equivalent to 8.0% of GDP. Growth rates over the medium term will be more modest compared with the high rates associated with the mid-2000s. The GDP growth forecast is 5.2% for 2014 and 5.8% for 2015. [1]

The shift in drivers of growth will continue away from the oil sector toward the non-oil economy, as oil production appears to have plateaued. The trend of slower growth in the economy should help limit inflation, but the risk of inflationary pressures will still exist from oil income driving domestic demand, high public expenditures, and expanded domestic credit. In a slower growth environment, it will be necessary to identify areas where rapid and sustainable employment generation is possible. Progress in economic diversification will likely depend on a variety of policy measures such as stimulating sectors with high employment potential, reducing disincentives for hiring labor, eliminating non-tariff barriers that limit the number of traders, expanding and improving vocational training, and introducing measures to improve productivity.

In 2012, the government endorsed a new vision document “Azerbaijan 2020: The Vision into the Future” which lays the foundation for a transition from a traditional economy to a knowledge-based economy, including the emergence of knowledge-intensive products. The vision entails Azerbaijan becoming internationally competitive, economically and politically developed, and having GDP per capita more than double to \$13,000 by 2020. It also envisages economic diversification and expanded opportunities for citizens through non-oil sector development. The inclusive growth agenda consists of high social welfare; sustainable economic growth; broad opportunities and decent jobs for all; reduced regional inequalities; and remote villages having access to communication, health, education, and financial services. [5]

The government is working on about 60 state programs and strategies across all sectors. These programs, along with Azerbaijan 2020, emphasize inclusive growth, poverty reduction, infrastructure development, environmental sustainability, job creation, social protection, education, private sector development, good governance and capacity development, gender equity, and knowledge solutions. In addition, the government has introduced initiatives to promote the non-oil sectors such as developing industrial zones, providing concessional loans to small

enterprises and subsidies to agribusinesses, and establishing an investment company for green field projects. [1]

Today, Azerbaijan could achieve what the non-oil sector of the economy is much higher than the energy sector. The country is facing new prospects – production of high-tech export-oriented products, accessing to foreign markets. Another priority is the development of agricultural production, satisfaction of local needs and export of agricultural products should be a single system. Azerbaijan has the fastest growing economies in the region and the possibility of public investment in new enterprises, as result may become the largest exporter in the region. However, if the current trend of reducing oil revenues will remain, at later stages state public investments will be reduced. And this in turn will slow down the development of non-oil sector in the country, because the main point of repulsion for the non-oil sector in Azerbaijan the last years were state public investments and loans allocated by the government, thereby creating new production spheres and industrial enterprises in the regions. [5]

The overall investment climate in Azerbaijan continues to improve incrementally, although very significant challenges remain. Over the past few years, the government of Azerbaijan has worked to integrate the country more fully into the global marketplace, attract foreign investment, diversify its economy and maintain growth. Economic diversification continues to be a stated goal of the President and the government, but substantial economic challenges remain for Azerbaijan, particularly the implementation of long-term institutional reforms. Although Azerbaijan has continued to welcome and attract significant foreign investment to further develop its energy sector, inefficient government bureaucracy, weak legal institutions, requests for illicit payments for cross-border transactions, and predatory behavior by politically-connected monopolistic interests hinder investment outside of the oil and gas sector and present challenges for U.S. companies. Azerbaijan has worked to improve its regulatory system over the past several years, but a continued lack of transparency and allegations of corruption remain key problems in this area.

Under Azerbaijani law, foreign investors may engage in investment activities not prohibited by law. Private entities may freely establish, acquire and dispose of interests in business enterprises. Foreign citizens, organizations, and enterprises may lease, but may not own land. The Law on the Protection of Foreign Investments protects foreign investors against nationalization and requisition, except under certain

specified circumstances. A Bilateral Investment Treaty between the United States and Azerbaijan provides U.S. investors with recourse to the International Center for the Settlement of Investment

Disputes. The average length of time that international business disputes take to be resolved, either through the court system or through negotiations and/or arbitration between the two parties, varies widely.

Table 1

Several well-regarded indices and rankings

Measure	Year	Rank of Value	Web-site Address
TI Corruption Perceptions Index	2013	128 of 177	http://cpi.transparency.org/cpi2013/results/
Heritage Foundation's Economic Freedom Index	2013	81 of 177	http://www.heritage.org/index/ranking
World Bank's Doing Business Report "Ease of Doing Business"	2013	71 of 189	http://doingbusiness.org/rankings
Global Innovation Index	2013	105 of 142	http://www.globalinnovationindex.org/content.aspx?page=gii-full-report-2013#pdfopener
World Bank GNI per capita	2012	6,220 USD	http://data.worldbank.org/indicator/NY.GNP.PCAP.CD

Source: Azerbaijan Investment Climate Statement 2015. U.S. Embassy, Baku, Azerbaijan

Over the past few years, Azerbaijan has been engaged in the process of updating several key pieces of legislation that impact the business environment. It passed a new Customs Code in September 2011, and in response to a specific Moneyval recommendation, passed a Corporate Criminal Liability law in 2012. A new version of the Competition Code is currently undergoing revision in Parliament, and some observers expect the law to pass finally in 2014. Azerbaijan's Bankruptcy Law, which does not function effectively and is rarely used, continues to be a hindrance, as does its weak credit reporting institutions. Another hindrance to foreign direct investment is the difficulty of getting established Azerbaijani businesses to adapt to standard investor-friendly practices, such as those associated with the concept of good corporate governance or international accounting norms. [2]

Azerbaijan has an underdeveloped financial services sector – of which banking comprises more than 90 percent – that inhibits economic stability, growth and diversification. Non-bank financial sector staples such as capital markets, insurance, and private equity are in the early stages of development. The banking sector has primarily benefited from the effects that high oil prices have had on the non-oil economy, significant

government spending, and the rapid expansion of higher margin retail and micro-lending. With around 45 private banks, Azerbaijan's banking sector is fragmented; the fragmented structure reinforces oligarchic control of the economy and holds back private sector growth, as smaller firms find it difficult to finance expansion. Foreign ownership in the banking sector is limited to 50% percent ownership on an aggregate basis; currently there are around 22 banks in Azerbaijan with some investment by foreign capital. Because banks rarely compete directly against each other for market share, they have little incentive to offer competitive terms. Commercial loan interest rates offered by banks in early 2014 varied in the range of 16-34 %. [2]

Azerbaijan foreign direct investment (FDI) data can be accessed in CEIC's Global Database. On March 01, 2015, the FDI figure reported in CEIC's WorldTrend Database was 7.93, increased 2.06 from 5.87 reported on December 01, 2014. In CEIC's WorldTrend database, we can compare Azerbaijan's FDI statistics with those from Europe and around the world quickly using CEIC's unique normalized data. CEIC's Global Database contains more detailed Azerbaijan FDI datasets, including breakdowns of foreign investment by industry and country. [3]

Table 2

Sources and Destination of FDI, Azerbaijan

Direct Investment from/in Counterpart Economy Data					
From Top Five Sources/ To Top Five Destinations (USD, Millions)					
Inward Direct Investment			Outward Direct Investment		
Total Inward	11,118	100%	Total Outward	7,515	100%
Turkey	1,933	17%	Turkey	3,355	45%
Norway	1,847	17%	Georgia	2,724	36%
United Kingdom	1,471	13%	Switzerland	592	8%
Iran	910	8%	France	105	1%
Netherlands	670	6%	United Arab Emirates	105	1%
"0" reflects amounts rounded to +/- USD 500,000					

Source: International Monetary Fund eLibrary Data. Coordinated Direct Investment Survey

The total amount of FDI made in Azerbaijan's economy amounted to \$3.9 billion in the first half of 2014, some 85.3 percent of which was made in the oil and gas sector. This was noted at the balance of payments recently published by the Central Bank of Azerbaijan (CBA). CBA said these investments were used to finance major oil and gas projects in Azerbaijan. The bank also predicts that the volume of direct investments in Azerbaijan's non-oil sector amounted to \$569 million, which accounted for 14.7 percent of the total amount of direct investments made in the country in the first half year. The document also noted Azerbaijan's net financial assets amounted to \$6 billion in January-June 2014, which was generated through the direct investments made abroad (\$367.2 million), portfolio investments (\$104.8 million) and other investments (\$5.574 billion). Around \$266.8 million of direct investments were made by Azerbaijan in the oil and gas sector, and \$100.4 million in other sectors. Other investments include trade loans and advances (\$2.923 billion), loans and advances (\$56.9 million), deposits and cash (\$2.594 billion). Azerbaijan's commitments were made in the amount of \$4.552 billion in the first half of this year, some \$2.071 billion of which accounted for direct investments, and \$1.748 billion for portfolio investments. [7]

Azerbaijan also has bilateral investment protection agreements with the following countries: Austria, Belarus, Belgium, Bulgaria, China, Croatia, Egypt, Estonia, Finland, France, Georgia, Germany, Greece, Iran, Israel, Italy, Jordan, Kazakhstan, Korea, Kyrgyzstan, Latvia, Lithuania, Lebanon, Moldova, Norway, Pakistan, Poland, Qatar, Romania, Saudi

Arabia, Syria, Switzerland, Tajikistan, Turkey, UAE, Ukraine, the United Kingdom, and Uzbekistan.

The EU cooperates with Azerbaijan in the framework of the European Neighbourhood Policy and its eastern regional dimension, the Eastern Partnership. The key goal is to bring Azerbaijan closer to the EU. The European Neighbourhood Instrument is the key EU financial instrument dedicated to the Neighbourhood for the period 2014-2020. It replaces the European Neighbourhood and Partnership Instrument (ENPI) of 2007-2013. Other funding sources are the EU thematic programmes, focused on human rights and civil society. EU assistance to Azerbaijan takes mainly the form of country Action Programmes funded every year under the ENI. Azerbaijan benefits also from regional and multi-country Action Programmes funded under the ENI. Azerbaijan participates also in regional programmes funded under the ENPI/ENI (mainly in energy, transport, border management), in the Eastern Partnership Flagship Initiatives, in cross-border cooperation and in initiatives open to all Neighbour countries: Erasmus+, TAIEX, SIGMA, and the Neighbourhood Investment Facility (NIF). [6]

In terms of insurance of long-term economic and social development of the country, attraction of Investment will play a particular role, hence, creation of more favorable investment climate to ensure required volume and quality of investment, is a key task ahead. To this end, the main priority directions of the state investment policy for years 2014-2018 are set forth as follows:

- Investment to the non-oil sector and development of regions

- Prioritization of the regional investment policy according to modern development trends
- Further strengthening social orientation of investment activity in the country, insurance of priority for investment to human capital and infrastructure
- Insurance of priority for state investment to nanotechnology and the low-carbon production sector
- Acceleration of stimulating activities aimed at attraction of domestic or foreign investment to priority sectors of economy, including export-oriented sectors and sectors with high share of added value
- Attraction of domestic and foreign investment to emerging industrial parks.

Production of high quality, export-oriented and competitive products due to improvement of business climate with the aim of entrepreneurship development, are key priorities for the economic development policy of the country. The state policy in this area will aim at further improvement of business climate, further enhancement of state support and improvement of state-business relationships. A number of activities on entrepreneurship development will be implemented in the coming years:

- Continue further improvement of legal and regulatory framework for business activity
- Further improvement of other institutional mechanisms for state-business relations
- Further improvement of financial provision for entrepreneurs in regions
- Further improvement of the production, market and social infrastructure for entrepreneurship, including acceleration of development of modern market infrastructure mechanisms (finance, banking and insurance system, stock market, audit, hypothecation, leasing, franchising services)
- Support for efficient cooperation between small, medium and large enterprises in regions, including expansion and strengthening production-cooperation relationships.

According to the industrialization policy, the measures will be taken aiming at activities of industrial

enterprises based on local raw materials to be organized at modern level, establishment of industrial districts in regions; introduction of innovative technology will be encouraged, works on creation of specialized and general purpose type industrial parks will be continued. Establishment of the industrial parks will contribute to the development and modernization of the country economy, further expansion of competitive industrial production based on high-technology and growth of export capacity, as well as raising the employment level.

In the framework of the industrialization policy the following activities will be implemented:

- Promote creation of innovative and high technology industrial sectors in the country to manufacture competitive and export-oriented industrial products
- Develop traditional processing sectors of the non-oil industry (chemical industry, metallurgy, machine building, electrical technology, electronics, light industry, food industry, etc).
- Continue works towards introduction of world best practice of organizational models for supporting industrial entrepreneurship, including creation of industrial parks and business-incubators
- More transparent and efficient privatization process for industrial enterprises open for privatization, support for enterprise operation after privatization
- Technological rearrangement of existing industrial enterprises and development of a mechanism for recruitment of qualified staff.

Consistent reforms and attraction of new technology will be continued aiming at development of agriculture, which is the main priority area in the development of the non-sector of the country's economy. The implementation of the activities provided for in the above mentioned areas of the State Programme shall be an important stage in the socio-economic development of the Republic of Azerbaijan and shall have an important role to play in sustainable development of the country regions, in achieving the goals set in the Development Concept "Azerbaijan-2020: The Vision into the Future" , and in further improvement of well-being of the country population.

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INSTITUTIONAL PROBLEMS OF SOCIAL CAPITAL DEVELOPMENT IN CRISIS

Abstract

The paper deals with the basic problem of developing countries in the context of formation an adequate institutional framework of social-economic reforms – low-quality social capital. The main approaches to the interpretation of category «social capital» are analyzed and the main its characteristics are outlined, its distinctive features from «political-administrative capital» are discussed.. The influence of «Olson’s groups» and «Putnam’s groups» on economies with different levels of financial and economic development are discussed, low level of «Putnam’s groups» distribution in economies with emerging markets are analyzed. The list of traditional transaction costs with «costs of confusion» and «cost of coercion and control» are supplemented that need to be taken into account in the model of institutional framework curve. The conclusions about the dual institutional effect on the dynamics of economic development were made.

Keywords: social capital, institutions, public sector, trust, reforms.

The modern ideology of reforms that systematically have been made both in industrial and in developing countries, is based on the achievements of the new political economy and institutional theory, widely using traditional unit of macro-and microeconomics, the theory of international trade, economic and mathematical modeling. Recently, a particular importance for reformation is given to the institutional modernization that was not taken into account in the ideologies of the reformers. For example, the basic principles of the Washington Consensus (table 1) completely ignore the institutional factor of modernization, dependency on the previous development of the countries where the reforms had been made, also the need to adjust not only the “state failure”, but also “market failure”. Besides, those principles are universalizing the character of the expressed recommendations, overestimate the effectiveness of deregulation and privatization that, according to many reputable scientists (such as Klein et al., 2000; Rodrik, 1996; Stiglitz, 2002; Lvov, 2002) adversely affected the socio-economic development of the countries where

modernization was carried out in accordance with the requirements of the World Bank and the IMF.

In particular, the failure of financial and economic reforms in Latin America and Africa in late 20th – early 21st century (Mexico 1995, Argentina 2001), “the collapse of illusions” as for rapid recovery of GDP after the collapse of the command and administrative system in Eastern Europe and the CIS, who followed the instructions of the Washington Consensus, once again prove the importance of a theory developing of institutional changes, and indicate the imperfections of the current state of its development. These facts do not mean having the existing principles to be “dismantled”, but they require significant adjustments, additions, sampled application based on historical and cultural peculiarities of the countries where there are reforms and consistent implementation of the modernization process (for example, South Korea while reforming its economy used only first five basic principles of the Washington Consensus).

Table 1

Ten principles of the Washington Consensus*

Principles	Contents of Principles
1. Fiscal discipline	Ensuring an insignificant size of budget deficit in order to prevent its funding mechanism through the inflation tax.
2. Priorities of public expenditures	Reduction of economically unreasonable expenditures (for bureaucratic staff, defense and subsidies) and channeling funds in infrastructure projects, and for funding education and health.
3. Tax reformation	Expanding the tax base and lowering marginal tax rates.
4. Financial liberalization	Market setting of the interest rates (abolition of low interest rates for privileged lenders and setting a positive real interest rate).
5. Exchange rate	Maintaining a single exchange rate at a level sufficient to encourage exports.
6. Liberalization of foreign trade	Replacement of quantitative restrictions with trade tariffs, which should be gradually reduced to 10% (exceptionally 20%).
7. FDI	Cancellation of the barriers that prevent entry into domestic markets of foreign firms (level playing field for both national and foreign companies competing).
8. Privatization	Maximal privatization of state-owned enterprises.
9. Deregulation	Government repeal of the rules that prevent the creation of new firms or restrict competition (exception - the safety and preservation of natural environment).
10. Ownership rights	The responsibility of the judiciary system is to ensure the preservation of property rights without excessive costs.

*Based on: (Williamson, 1990; Stiglitz, 1989).

Specifically targeted changes in the institutional and technological environment in which the participating agents develop and implement a plan of transformation should be taken for reforms. These two types of reforms are interrelated, as far as if the institutional environment is well set and successfully supports the market economy (property rights, competition and defense of contracts), the technological modernization is easily applied, an intense stream of innovation is formed, and the economy grows. Spontaneous development of economic systems (for example, when the role of government is limited to the formal consolidation of established norms of behavior) is rather “inertial transformation” than the reforms in their classic sense.

The main problem in the developing countries, in the context of the formation of institutional environment, which would contribute to the development of the economy in the long run, is defective social capital, the study of which is insufficient by the domestic science. “The triad of social capital” is assumed to be determined through a set of behavior standards, trust and network activity (Polischuk et al., 2011). Social capital is the set of relations that give rise to actions (Coleman, 1988; Bourdieu, 2000; Sysoev, 2012), and these relationships are related to the expectation that the other economic agents will fulfill their obligations without use of penalties. This simultaneous concentration of expectations and commitments is generalized as the notion of “trust” (the more obligations are accumulated in the society, the higher is

the level of reciprocity and, consequently, the level of social capital). It is just due to social capital the order is supported in the community based on trust, mutual respect, accounting for not only individual, but also public interests (a kind of institutional alternative to the state, due to which a contribution is made to economic development in “horizontal direction”) (Coleman, 1990; Loury, 1977). In addition, the effective functioning of formal institutions and quality of governance (the impact on the economy in a “vertical direction”) depends upon the stocks of social capital.

Social capital and formal institutions complement each other, as they are to meet common goals, and under adequate supply of the first of them the need in government regulation is greatly reduced (limited use of political and administrative capital relating to the ability of some agents to regulate the access to resources and activities of others). The most important function of social capital is to safeguard the formal institutions of their misuse (obtaining a private gain at public expense) (Polischuk, 2008). In this context under a democracy a specific public good is a government accountability, and an effective public control over it requires the existence of such a type of social capital as civic culture is.

Alexis de Tocqueville first drew attention to the importance of social capital for social development, calling it “art of association” (Tocqueville, 1945). The scientist compared the peculiarities of association into voluntary organizations of citizens in France and the

United States (literary and sports clubs, religious organizations, trade unions, committees of struggle against slavery, and committees of struggle against domestic violence, etc.), considering that in the U.S. they are more common and more active, and that can not but promote democracy. Thanks to the development of social capital in the U.S. a lot of social services are provided by non-governmental organizations, while in many European countries – these services are exclusive jurisdiction of the state. R.Solow because of the difficulty of measurement and identification of social capital proposed to call it “public relations” and F.Fukuyama understands it as the standards and values (formal and informal) that make collective actions in groups of people possible.

E.Banfield in his research of values and orientations of the rural communities in Southern Italy (the so-called “moral basis”) applied the concept of ethos, which he defines as the amount of specific skills, ideas, standards and codes that provide a special and individual character to the particular group compared with other groups (Stepanenko, 2006). Analyzing customs of south-Italian communities, the scientist emphasizes the focus on material interests of a family and unwillingness to work together for the common good. The researcher describes this type of social orientation as “amoral familism”, which implies the standards of conduct, under which “one has to cooperate exclusively with the members of the core family and try to use all others, because if you do not use them first, then they will use you” (Banfield, 1958). The dominance of that principle of co-existence causes the inability of individuals to commonly solve public affairs and communication gap between any abstract principles (ideologies), and behavior in everyday situations.

Some hypotheses regarding practical ethos functioning of “amoral familism”, suggested by the researcher, are confirmed by the practice of social and economic development not only of the southern regions of Italy, but also of a large number of developing countries (including Ukraine): 1) if a public servant is a carrier of an “amoral familism” ethos, he is likely to take bribes; 2) in a society of an “amoral familism” a weak public encourages the regime that maintains an order by a “strong hand” (Banfield, 1958).

R.Putnam a well-known researcher of the social capital phenomenon and its role in economic development understands its ability to join individuals to act collectively for achieving a common goal (Putnam, 1993; Helliwell et al., 1995), and he believes that one of this indicators in the society status is “respect for the law”. Legal awareness and legal culture (Stepanenko, 2006) imply the integrated and multidimensional phenomena associated with the traditions, values, established practices of individuals and communities in

relation to law and justice institutions, as well as the relation between customary law (informal regulatory guidelines and practices) and the formal legal system. The problem of collective actions arises in connection with a warning of possible “market failure” resulted by noncompliance of private with public benefits when the actions of the participants are performed exclusively in their own interests not providing Pareto-optimal use of available resources. The coherent coordination helps to avoid “market failure”, when each participant renounces the personal best solution for the sake of collective good, resulting in a higher level of benefits than it would be under the absence of such a coordination. In fact, the informal part of the institutional environment as a social resource is fueling “modernization from below”, while the formal rules and regulations can promote “modernization from above”.

The study of social capital often faces the problem that “the quantitative study of this phenomenon suffers from imperfect methodology and data quality” (Guriev, 2008). Although scientists have formed an illustrative list of indicators of social capital in the context of inclusion of individuals in a social network and its defining features (for example, the prevalence of donation practices, volunteering, charity; corruption rate; tax evasion; the degree of public participation in policy-making; the number of public associations; voter turnout; the number of reported crimes; the number of subscribers on the Internet or mobile (Polischuk et al., 2011; Knack, 2002; Yanishivsky, 2010) that allow to evaluate favorability of a particular institutional environment, nevertheless, they are all related mainly to external factors that produce impact on motivation (such as public censure for failure to charitable donations to the sick and the poor, the threat of sanctions for non-adhering of tax and anti-corruption laws, state support of donors; “bribing voters”).

In our opinion, more interesting is the problem of intrinsic motivation in promoting social capital. Some scientists (Fisman et al., 2007; Stepanova, 2012) suggest violations of parking regulations by the diplomats in the host country as classic examples of the lack of intrinsic motivation. Discrimination against migrants on various grounds (race, religion, language, nationality) can also serve as an example of lack of social capital in a given country. However, as to assess the impact of external factors on social capital by the method of formalization is almost impossible, it promotes interdisciplinary communication, sociology, law, as well as the integration of economic concepts in other social sciences. R.Coase formulated the theory of “economic blackboard” concerning the situations of lack of reliable data in the analysis of socio-economic processes, where he emphasized the impossibility of taking into account all factor variables and accentuated the absence of need for that. “Mostly the economic policy considers only

those situations that are resolved on the classroom blackboard. All necessary information is predetermined, and the teacher plays for all members at once, namely: he determine prices, sets taxes and distributes subsidies (on the board) in order to increase social welfare. However, there is not any teacher in the real economic system. There is no one who would have been entrusted with the tasks that can be solved in the classroom blackboard” (Coase, 1937). Therefore, each economic agent is acting under uncertainty and risks, formulated “rules of play” that are quite difficult to change, comparing their benefits with the losses, and on this basis building a behavioral strategy in the institutional environment.

Among the large number of forms of capital (economic, production, trade, natural, human, organizational, symbolic, cultural) it is just the social capital that pertains the characteristic features of public resources, because its basis is made of a network of social relations that is used for broadcasting information, saving resources, enhancing trust between the partners, the formation of individual reputation, and turning it into the public domain, resource mobilization for the implementation of public projects, dissemination of accurate information among economic agents, and mutual learning of rules of behavior. However, in the context of M.Olson’s theory of collective actions (Olson, 1971) it can not be unambiguously stated that the social, political and administrative capital is used by individuals only to achieve social goals and improve the efficiency of public sector of economic organizations. Conventionally, individuals can be divided into two categories, namely: “Putnam groups” the objectives of

which are the following: achievement of a social benefit, cooperation and coordination (the concept of homo reciprocans), increasing of power “transparency”; and “Olson groups” who have their own goals (the concept of homo economicus), they create and distribute benefits exclusively among the members of the club.

It should be noted that the officials who maximize their personal objective function, taking into account the public interest (“Putnam groups”), are studied in the works of Amsden, 1995; Wiedemann, 1987; Evans, 1997; Cummings, 1999; Castells, 2007; Putnam, 1993 and others. Another group of researchers (Banfield, 1958; Buchanan, 1895; Krueger, 1974; Niskanen, 1968; Olson, 1971; Tullock. 1989) dedicated their studies to the analysis of the activity of the officials who maximize personal objective function using their own official position in the bureaucratic hierarchy (“Olson groups”). However, any bureaucratic apparatus has both the “predatory” traits and the characteristics of developmental state. We believe that their value precisely depends on the institutional environment in which the state apparatus has been built, especially – on the level of social capital (Knack et al., 1997). S.Knack and Ph.Keefer made an extensive research of the development of social capital in the developed and developing countries. The results of their scientific developments suggest that in the countries with well-developed institutional environment, a high level of trust in the government and a significant amount of per capita GDP is dominated by “Putnam groups” (with certain exceptions) (table 2).

Table 2

Dimensions of social capital (international comparisons)*

Countries	Trust (%)	Civic (%)	Confidence in government	Olson groups	Putnam groups
Norway	61.2	40.8	0.72	0.24	0.63
Finland	57.2	40.6	0.66	0.06	0.29
Sweden	57.1	41.6	0.65	0.27	0.64
Denmark	56.0	40.3	0.76	0.24	0.61
Canada	49.6	39.7	0.70	0.52	0.29
Australia	47.8	38.3	0.64	0.45	0.35
Netherlands	46.2	38.4	0.63	0.53	0.25
USA	45.4	40.5	0.61	0.83	0.42
Great Britain	44.4	40.1	0.54	0.38	0.36
Switzerland	43.2	40.9	0.65	0.22	0.29
Japan	40.8	37.5	0.46	0.14	0.21
South Korea	38.0	39.6	0.61	0.31	0.12
India	34.3	42.7	0.60
SAR	30.5	37.0	0.70	0.52	0.16
Argentina	27.0	39.5	0.28	0.19	0.21
Nigeria	22.9	39.2	0.73
Chile	22.7	36.8	0.64	0.33	0.14
Mexico	17.7	34.6	0.53	0.28	0.14
Turkey	10.0	42.4	0.61
Brazil	6.7	37.6	0.55	0.31	0.16

*Based on: (Knack et al., 1997; Inglehart. 1994).

“Trust” reflects the level of trust in a society where the majority of respondents report that they can completely trust people (mostly close friends); “Civic” – respectively identifies the level of a civil society, where the majority of respondents, for example, do not avoid paying taxes, do not use the possibility of free travel, do not appropriate accidentally found money, etc.; “Confidence in government” – the level of public trust in government institutions; “Olson groups” – development of “Olson groups” in society (points indicate their activity, where 0 – min, 1 – max); “Putnam groups” – the development of “Putnam groups” (points indicate their activity, where 0 – minimum, 1 – maximum).

From 2008-2014, a large-scale study of social capital was conducted by the Legatum Institute for the following indicators: the rate of trust; the scale of contributions; degree of volunteerism; widespread practice of care for the third parties; family social support; development of marriage institution; religion in a society; social cohesion and interaction within the family and community (The 2014 Legatum Prosperity Index). Statistical data and survey results are summarized in a single index of social capital, which is an index of prosperity (Legatum Prosperity Index). According to table 3, presenting the index of social capital in 2012-2014, its worst condition is observed in India (132 position 2014 and 138 – in 2012), while the best is in Norway (1 position in 2012-2014).

Table 3

The dynamics of world social capital development*

Countries	Years			Changes in position
	2012	2013	2014	
Argentina	70	57	53	+ 17
Australia	3	4	6	- 3
Austria	14	14	14	-
Belarus	26	24	21	+ 5
Belgium	18	21	20	- 2
Brazil	64	69	65	- 1
Canada	8	6	4	- 4
Chile	69	67	71	- 2
China	29	25	24	+ 5
Czech Republic	45	46	57	- 12
Denmark	2	3	3	- 1
Estonia	30	40	39	- 9
Finland	5	7	5	-
France	40	42	56	- 16
Germany	15	15	17	- 2
Greece	97	107	129	- 32
Hong Kong	25	28	26	- 1
Hungary	79	71	75	+ 4
Iceland	13	13	13	-
India	138	133	132	+ 6
Ireland	7	11	10	- 3
Israel	22	19	19	+ 3
Italy	38	29	41	- 3
Japan	20	23	22	- 2
Mexico	63	76	76	- 13
Netherlands	6	5	8	- 2
New Zealand	4	2	2	+ 2
Norway	1	1	1	-
Pakistan	137	130	122	+ 15
Poland	46	31	47	- 1
Portugal	67	43	46	+ 21
Russia	71	62	67	+ 4
Singapore	39	34	45	- 6
South Korea	51	66	69	- 18
Spain	34	27	32	+ 2

Sweden	9	10	11	- 2
Switzerland	11	8	9	+ 2
Turkey	133	128	114	+ 19
Ukraine	58	36	40	+ 18
United Kingdom	12	12	12	-
USA	10	9	7	+ 3

***Based on:** (The 2014 Legatum Prosperity Index).

When comparing the rate of social capital change, a significant improvement is observed in Portugal (+21), Turkey (+19), Ukraine (+18), Argentina (+17) and Pakistan (+15). But since most of these countries belong to the developing economies, the level of social capital there is low compared to the developed economies. But never the less in such countries like Belarus and Russia

social capitals level during 2012-2014 increases just by 4-5 points. Ukraine ranks 63 globally in the 2014 Prosperity Index between 142 countries, having risen one place since last year (table 4). Ukraine's best performance is in the Social Capital sub-index, where it ranks 40 in 2014. Ukraine's lowest rank is in the Governance sub-index, where it ranks 12 in 2014.

Table 4

Prosperity Index of Ukraine and its sub-indexes in 2014*

Sub-index	Ukraine	Global Average
Economy	70th	
5-year GDP per capita growth rate	-0.2	1.8
Expectations of the economy (% getting better)	1.5	1.9
Employment status (% employed)	63.0	54.6
Do you have confidence in financial institutions? (% yes)	23.3	59.8
Do you have access to adequate food and shelter? (% yes)	71.0	70.4
Is it a good time to find a job? (% yes)	16.5	34.6
Capital per worker	32210.5	53494
Gross domestic savings (% of GDP)	7.2	18.5
Hi-tech exports (% of manufactured exports)	6.3	9
Inflation rate	-0.3	5.3
Market size (US Dollars)	115217	306233.36
Non-performing loans (% of total loans)	12.9	7.6
Satisfied with living standards? (% yes)	29.9	59.4
Unemployment rate (% of labour force)	7.7	8.9
Entrepreneurship & Opportunity	57th	
Good place for entrepreneurs to start a business? (% yes)	73.8	70
ICT Exports (% of total exports)	1.1	3.5
Secure internet servers (per 1 million people)	26.5	282.8
Royalty receipts (US Dollars)	124000	1794533.51
Business start-up costs (% of GNI per capita)	1.3	29
Mobile phones (per 100 people)	138.1	106.8
Mobile phones per household (% yes)	91.0	84.7
R&D expenditure (% of GDP)	0.9	0.9
Uneven economic development	5.3	6.1
Can people get ahead by working hard? (% yes)	51.7	80.5
Governance	121st	
Satisfied with govt. efforts to address poverty? (% yes)	10.2	38.2
Do you have confidence in the honesty of elections? (% yes)	20.5	49.9
Do you have confidence in the military? (% yes)	56.1	73.3
Do you have confidence in the judicial system? (% yes)	18.2	52.6
Satisfied with govt. efforts to preserve environment? (% yes)	14.6	53
Separation of Powers	12	16.8
Do you have confidence in the national government? (% yes)	21.1	51.7

Government effectiveness	-0.6	0.0
Government stability (years)	21	30.3
Government type	6.0	4.8
Are the businesses and government corrupt? (% yes)	83.3	66.4
Political constraints	0.8	0.5
Political rights	4.0	4.7
Regulation quality	-0.6	0.1
Rule of law	-0.8	-0.1
Voiced concern to a public official in past year? (% yes)	10.0	19.8
Education	42nd	
Do children have the opportunity to learn? (% yes)	41.8	70.5
Are you satisfied with the quality of education? (% yes)	54.2	66.1
Girls to boys enrolment ratio	0.8	0.9
Gross secondary enrolment rate	97.8	79.9
Gross tertiary enrolment rate	79.7	39.6
Net primary enrolment rate	97.9	90.5
Pupil to teacher ratio	16.1	24.8
Secondary education per worker (years)	4.4	2.6
Tertiary education per worker (years)	1.3	0.5
Health	77th	
Rate of immunisation against infectious disease	76.0	89.4
Satisfied with the beauty of the environment? (% yes)	86.0	72.9
Health-adjusted life expectancy (years)	63	62.1
Do you have any health problem? (% yes)	40.4	23.9
Satisfied with personal health? (% yes)	57.9	78.2
Hospital beds (per 1,000 people)	9	3
Infant mortality rate (per 1,000 live births)	9.2	25.6
Life expectancy (years)	70.9	70.7
Rate of immunisation against measles	79.0	88.7
Health expenditure per person (Int. Dollars PPP)	562	1273.7
Deaths from respiratory diseases (per 100 people)	51	97.9
Sanitation (% of population)	94.3	73.5
Incidence of tuberculosis (per 100,000 people)	93	114.4
Undernourishment (% of population)	5.0	12.6
Satisfied with the quality of water? (% yes)	43.9	69.1
Did you feel well-rested yesterday? (% yes)	58.2	66.7
Did you experience worrying yesterday? (% yes)	32.3	38.5
Safety & Security	54th	
Have you been assaulted in past year? (% yes)	2.7	7.5
Demographic Instability	4.7	5.9
Ability to express political opinion without fear	2.9	2.4
Group grievances	5.9	6.1
Human emigration	5.7	5.2
Have you had any property stolen in past year? (% yes)	6.1	16.5
Refugees and IDPs	3.2	5.2
Do you feel safe walking alone at night? (% yes)	45.7	61.5
State-sponsored political violence	3	3.6
Civil war casualties	0	0.4
Personal Freedom	103rd	
Composite of civil liberties and freedom of choice	0.3	0.4
Civil liberties	5.0	4.7
Satisfied with freedom of choice? (% yes)	56.7	72.7
Good place to live for ethnic minorities? (% yes)	57.7	67.4
Good place to live for immigrants? (% yes)	58.4	65.6
Social Capital	40th	
Donated money to charity in past month? (% yes)	9.0	28.9

Have you helped a stranger in past month? (% yes)	35.4	48.9
Are you married? (% yes)	55.6	50.4
Attended a place of worship in past week? (% yes)	28.6	49.2
Can you rely on friends and family for help? (% yes)	89.6	79.9
Do you think that most people can be trusted? (% yes)	30.7	24.2
Have you volunteered your time in past month? (% yes)	26.3	20.9

***Based on:** [43].

The deterioration of social capital primarily relates to the developed markets, where its level decreased by 2 points in – Sweden, Netherlands, Belgium, Germany, Japan, by 3 points – in Italy, Ireland, Australia, increases by 2 points – in Spain, Switzerland, New Zealand, be 3 points – in USA. This occurred due to the global financial crisis, which “undermined” public confidence not only in governmental and financial institutions, but also in beneficial motivation and mutual support. In the developing countries, by contrast, the levels of social capital increased, which was due not only to its low overall index, but also to the citizens’ desire to find new ways of solving social and economic problems through “bypassing” the state.

In general, the problems respectively study of social capital are explored by public and research institutions. In Italy, for example, the European Research Institute on Cooperative and Social Enterprises (Euricse) operates, and in Belgium – International Centre of Research and Information on the Public, Social and Cooperative Economy (CIRIEC), whose task is to find a dialogue between scientists and practitioners on the issues of socio- economic well-being, support of civic initiatives, increased cooperation and confidence building. And the specially designed site of Social Capital Gateway (SCG) contains research materials for studying of social capital (research publications, announcements of conferences, grants and jobs). In Ukraine the “Institute for Social Capital Research” was established in 2010 whose tasks are: the professional study and promotion of the concept of social capital; facilitation of democracy, civil society development in Ukraine and development of social activity. In 2011 there were held some scientific events dedicated to the development of social capital in Ukraine (“Social capital and political participation”, “Social capital: modern aspects of research and development”). From the view of the current corruption rate the critical aspect of the formation of social capital in Ukraine is the social capital of the elites.

Although social capital of the elites positively effects the performance of the authorities (as far as the trust among politicians and officials, as well as common

democratic values they manifest, enhance the efficiency of the public sector). The studies conducted in Germany, UK, Italy and Poland confirms this relationship (Putnam, 1993; Cusak, 1999; Casey, 2004; Dzialek, 2009). The political and economic model demonstrates more dominant “Olson group”, what is due to several factors:

- 1) in the countries with low standards of living of the population, that are the majority on a world map against the countries with high standards of social and economic development, the individuals inherently seek to meet immediate needs (“Maslow’s hierarchy of needs”), and therefore the adherence to “Olson groups” principles of behavior not only in business but also in social and political activity of citizens becomes a commonplace phenomenon (Maslow, 1954);
- 2) a combination of high demand for state regulation with distrust in the state, and dissatisfaction with the operation of state authorities in many developing countries (the so-called “paradox of social capital”) is the main cause of search for a political rent and the reluctance of individuals to join the “Putnam groups” (Aghion et al., 1963);
- 3) to function effectively, “Putnam groups” should make permanent investments in organizational and information support of the development of social capital, and waiting for the results from the concerted actions of economic agents might take a long time, while “Olson groups” reach goals and distribute “club goods” with a much lower cost of resources.

Thus, the “migration” of individuals from one group to another is mainly a one-vector traffic (from “Putnam groups” to “Olson groups”) (fig. 1), while the opposite direction of traffic demands drastic economic changes, a real dialogue between the authorities and citizens, democracy, political stability and social security, which is characteristic for the developed countries with a long history of civil society, and is difficult to be implanted in the environment where other values were adhered to for a long time.

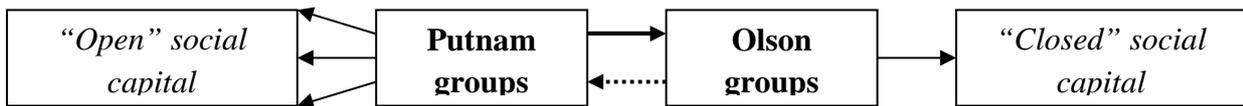


Fig. 1. Migration vectors of “Putnam groups” and “Olson groups”

Many foreign economists {Helliwell, 1995; Almond et al., 1963}, arguing the importance of social capital development, appeal to its exceptional role in the reduction of implicit costs of the society and institutional progress. This is a “cost of confusion” and “cost of coercion and control” meant, which are not included in the theory of transaction costs (their classical types are used to include information search costs; the costs of negotiating and concluding contracts; the cost of dimension; the cost of specification and defense of property rights; the costs of opportunistic behavior). “The costs of confusion” result from excessive spending on defense of deals and projects that may remain unfulfilled due to the shortage of confidence among economic agents, also expenditures on economic and personal security, on overcoming the shortage of public goods and decay of social sphere, on combating unregulated externalities (horizontal impact). “The cost of coercion and control” occurs due to the efforts of the state to consolidate society and stimulate political activity (vertical impact), and it is just a quality development of social capital that contributes to the economy of this part of the costs.

The idea of economic importance of social capital is demonstrated by a “curve of institutional capacities” (Djankov et al., 2003), which illustrates the ability of the society to control both the “cost of confusion” and “cost of coercion and control”. Under sufficient stock of social capital the “costs of confusion” are relatively small and can be reduced to an acceptable level through

the effective actions of the state, without excessive “costs of coercion and control” (curve I₁, fig. 2). Under lack of social capital the “costs of confusion” are essential, and their reduce through participation of the state is accompanied by excessive growth of the “costs of coercion and control” (curve I₂, fig. 2).

Shown in fig. 2 costs should not be confused with certain types of transaction costs, as it is just the “costs of confusion” that prove ineffective functioning of the public sector of economy, which does not ensure an adequate level of public goods (its performance of functions “de-jure” does not correspond with “de-facto”), so that the economic agents spend additional resources to protect their own rights. In its turn, the “costs of coercion and control” are typical for the countries with underdeveloped civil society (“fee for the lack of democracy”). For example, inadequate quality of roads in Ukraine and Russia is the cause of numerous accidents, the losses of which are calculated not only by the costs of lost property, but also by the health and life of citizens. Compensation of damages by the organizations that are responsible for the quality of the public good, i.e. “road” through the court system in a “weakness” of civil society is often unrealistic because of bureaucracy, corruption, and legislative gaps. In addition, the studies are lacking that would justify the losses from disability or death of citizens (in terms of value of undeceived GDP and unpaid taxes) compared to the costs for proper maintenance of roads or other public funding of high-quality goods.

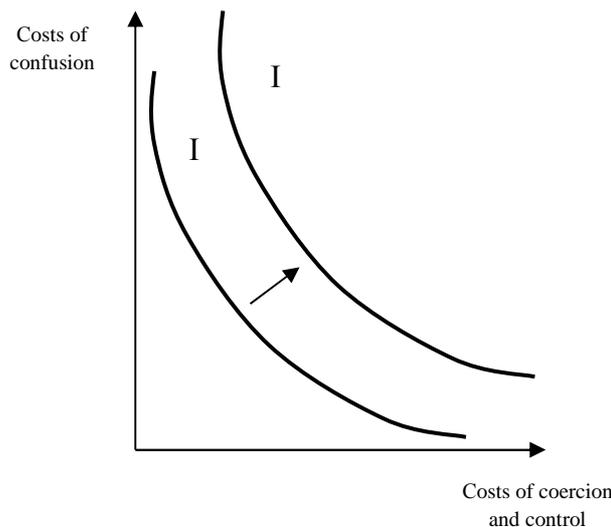


Fig. 2. Social capital and institutional capacity limits

In many developing countries like Ukraine, a similar situation exists in the areas of health care, education, public administration, defense and security, since the state constitutionally “fixing” and recognizing the right to a particular kind of public goods, does not perform its functions because of poor work of the organizations of social sector, and the citizens to solve the existing socio-

economic problems often prefer corruption mechanisms, rather than the efforts to consolidate the civil society. Table 5 demonstrates that in Ukraine people doesn't trust to any institutions because absolutely convinced that all of them are totally corrupt (table 6).

Table 5

Level of Ukrainian citizens' trust according to potential of security, 2014*

	Trust	Don't trust	Difficult to answer
The armed forces of Ukraine	64.3	22.2	13.5
Police	22.7	59.8	17.5
The Security Service of Ukraine	35.5	42.9	21.6
Frontier Guards	55.0	26.5	18.5
National Guards	63.9	22.5	13.7
The Customs Service	24.4	51.9	23.7
Taxing authorities	13.6	64.0	22.4
The judiciary	12.2	71.1	16.7
President	58.6	26.7	14.7
Government	37.7	45.1	17.2
Verchovna Rada of Ukraine	17.9	65.7	16.5

*Based on: (Razumkov Centre).

Table 6

Institutional corruption in Ukraine, 2014*

	Absolutely corrupted	Widespread corruption	Certain cases of corruption	There is no corruption	Difficult to answer
Non-government organizations	15.8	23.3	18.1	14.4	28.3
Secondary education	20.9	31.8	29.3	10.1	7.9
The Customs Service	37.3	34.6	11.2	1.9	14.9
The armed forces of Ukraine	19.6	27.2	22.8	8.1	22.4
Trade unions	18.7	26.5	18.4	9.7	26.8
The Security Service of Ukraine	30.4	27.6	14.3	3.2	24.4
Local authorities	32.7	35.1	17.8	3.4	11.0
The economy, the activities of businesses	30.2	37.1	15.2	1.8	15.7
Higher education	31.5	45.9	13.4	2.0	7.1
The prosecution agencies	41.5	35.2	8.7	1.8	12.7
Taxing authorities	41.3	35.3	9.0	1.5	12.8
Law enforcement agencies	45.4	38.6	8.5	1.5	6.0
Medicine	40.6	44	10.9	1.3	3.2
Political parties	38.3	37.7	11.6	1.4	11
The judiciary	47.3	36.1	7.7	1.8	7.1
The state	44.9	37.4	8.4	1.1	8.2
Political sphere	43.4	36.2	9.5	1.3	9.7

*Based on: (Razumkov Centre).

In summary, we emphasize that the impact of institutions on the dynamics of economic development is twofold, both positive and negative. Everything depends on the initial institutional conditions, which determine the success of reforms, as far as even irrelevant historical events can not be ignored in the long run as they often serve like the fundamental principle of a phenomenon (Vasileva, 2011). These historical events are a kind of institutional constraints that due to the inertia of technological, institutional and political structures of the economy may lead the economic system to the “collapse of exchanges” (Volchik, 2004). If as a result of random historical events the initial set of institutions happened to be relatively ineffective, the economic system will reflect those ineffective conditions unless the new situation will arise (purposeful influence through “modernization from above” or “modernization from below”). In the developing countries (including Ukraine), excessive centralization of the political system and fixed “vertical power structure” often narrow the space for social initiatives, reduce the possibilities of social capital for

improvement of living standard and for priming of economic growth. In Ukraine there particularly acute arises the problem of “shortage of elites’ social capital” when top officials of public administration use the available social capital solely for personal interests or are guided by the principle of “amoral familism” in communication with the society (and this, in turn, inevitably leads to activation of “Olson groups” and practical exclusion of “Putnam groups” from the political space). “Modernization from below” is blocked by the absence of public trust in government and their confidence in that individual or collective efforts to protect the violated rights can bring positive results.

Therefore, to create an enabling institutional expectations in the countries with “weak” institutions the critical priority for the reformers should be to increase the middle class who is interested in improving institutions, and at the same time to weaken incentives for behavior that deviates from the desired one (“free rider problem”, corruption, “dissertation trap” etc.).

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**RESULT ORIENTED BUDGETING AS AN ESSENTIAL TOOL FOR
COMPETITIVENESS OF THE TERRITORIES**

Abstract

In the introduction of the Working paper 209 “Results-Orientated Budget Practice in OECD Countries” of February 2003, the OECD pointed out that “Over the last twenty years, budgetary reform in OECD countries has involved an increasing emphasis on outputs and outcomes but not at the expense of an inputs focus. This change in emphasis requires a focus on programme performance in addition to traditional focuses on administrative control and procedures”.

Key words: *results-oriented budget, budgetary reform, spatial policy, territories.*

The article detailed the results of an examination of the current state of play in selected OECD and particularly:

- Most governments include performance information in budget documentation and half subject this information to audit;
- Reporting of performance against outputs and outcomes is variable, with several formats being used and up to half of the countries surveyed not covering the whole range of government activities;
- Half of the surveyed countries used performance information to inform budgetary allocations;
- 60% of the surveyed countries still account on a cash basis;
- Nearly 50% of countries surveyed require Ministry of Finance approval for viring of funds from one output to another.

Result Oriented Budgeting, as practiced in OECD countries, is a system where the preparation of the budget, but also the management of the incomes and expenditures are all targeted to the achievement of well-defined objectives. Most part of the time, such a system is considered as a “Financial Constitution” of the country.

Largely inspired by Canadian, Australian and New-Zeland experiences, the French system, implemented by a law in 2001, is called LOLF (“Loi Organique pour les Lois de Finances”/ Organic law for financial laws).

Since the implementation of the LOLF, the French State budget is divided into 31 missions (main budget only) which include all the responsibilities of the State:

Defense, Culture, Policy for the territories, Health, Solidarity... Some of them are “interministerial” (Public aid for development, School education, Public safety) that means that they are implemented under the responsibility of several ministries.

Each mission is divided into several programmes which are the level of vote of the financial allocation by the MPs. Each programme is managed by one ministry and is under the responsibility of a Responsible of Programme (so called “RProg”). The law for finances contains 137 programmes for the main budget¹.

The programmes include “actions” where credits are allocated in order to achieve correctly the whole objectives of each programme. These objectives are defined in the law and their achievement is verified through indicators. The RProgs have the authority to make changes in the budget allocation of the actions when necessary for achievement of the objectives and according to the information provided by the indicators.

As an example, the organization of the mission “Policy for the territories” is the following:

¹ Situation for 2014 but it may be modified by the parliament each year.

Program 112 - Pulse and coordination of spatial policy

Objective 1 Support the competitiveness and attractiveness of the territories

Indicator 1.1 Implementation rate of job creation objectives actually created by the beneficiaries of the Grant for Territories Development (PAT);

Indicator 1.2 Amount and rate of implementation of investments of beneficiary companies of the PAT;

Indicator 1.3 Number of international investment projects thanks to a significant contribution of the Invest in France Agency.

Objective 2 Support the economic changes and strengthening social and territorial cohesion

Indicator 2.1 direct jobs created through contracts for revitalization of zones affected by withdraw of defense sites;

Indicator 2.2 Deviation of business creation rates in priority development areas by compared to the national average;

Indicator 2.3 Number of direct jobs created and maintained among project owners of a Cluster for Rural Excellency (PER) of the 2nd generation;

Objective 3: Develop and drive public policy in regional planning

Indicator 3.1 Number of displayed maps and data files downloaded from the Observatory of the Territories' website;

Programme 162 - State Territorial Interventions

Objective 3: Preserve biodiversity, habitats and wetland nature of the Marais Poitevin

Indicator 3.1 Area of grasslands in the area of the Marais Poitevin

Objective 4: Reduce the exposure of populations of Martinique and Guadeloupe to chlordecone

Indicator 4.1 Exposure populations of Martinique and Guadeloupe to chlordecone via commodities food consumed or marketed (the citizen's point of view) grant.

New countries are now experiencing this system.

A twinning programme, financed by European Union is in course between France and Tunisia, devoted to support implementation of Result Oriented Budgeting in the Tunisian State administration system. This

programme is led by Adnene Galas, Tunisian project leader, Franck Mordacq and Jean-Marie Barral, respectively French project leader and resident twinning advisor, and involves several French experts in the field of State financial management.

Most of the activities consisted in missions of coaching devoted to support the teams of some ministries to set up the "GBO system" (Result Oriented Budgeting) in their administration.

Among the pilot ministries, two of them were particularly performing: the ministry of infrastructures and the ministry of transports thanks to the very technical and pedagogical support of a French expert, of the French Ministry for Sustainable development, Lionel Rimoux, general inspector of sustainable development administration.

The first step for the preparation of the reform was the definition of the missions and their perimeter and then the elaboration of the programmes and finally an agreement on the objectives and indicators.

The Ministry of infrastructures has so defined 5 programmes and 16 sub-programmes in the mission "Infrastructure":

- Programme 1: "Ponts et chaussées (roads)"
 - o SP 1 : Motorways
 - o SP 2 : roads
 - o SP 3 : rural roads
 - o SP 4 : maintenance
- Programme 2: Protection of cities and coastlines
 - o SP 1: Urban hydraulics
 - o SP 2: Coast lines
- Programme 3: Spatial management and cities
 - o SP 1: Spatial management
 - o SP 2: Urbanism
 - o SP 3: Housing
- Programme 4: delegated works
 - o SP 1: Civil buildings
 - o SP 2: Marine works
- Programme 5: Support
 - o SP 1: Monitoring
 - o SP 2: common services
 - o SP 3: computerization of the administration
 - o Trainings
 - o Land and judicial issues.

This cartography is temporary and a new organization is under discussion.

In the same time, the ministry has defined its Performance framework which includes the strategies, the objectives, the indicators all these information

having to be included in the annual project and annual report of performance.

For the programme 3 “Spatial management and cities” a strategy has been set up which includes – among other -:

- Improve the conditions of decision making by the Government by a better information for implementing big projects in the field of infrastructures;
- Support the local governments for implementing their strategy of spatial management and economic and social development;
- Developing tools for monitoring and evaluation of spatial management policies.

For that purpose, the strategy gives a list of actions to be taken to strengthening administrative and technical capacities of all the relevant stakeholders of spatial management. Various strategic objectives are defined for the achievement of this strategy.

So, for the sub-programme “Urbanism”, the defined objective is “achieve a sustainable urban planning system for the cities”, declined into 5 actions like “Supporting the local governments for achievement or modification of their urban planning documents”. One of the relevant indicators is defined to measure the rhythm of elaboration of such documents.

The Tunisian administration has faced numerous difficulties in this process (like all countries involved in a ROB process).

The first difficulty is human: the appointment of Responsible of programmes (RProg) and members of GBO monitoring groups is very delicate, because these

persons, who have a crucial responsibility in the success of the process, must be available, motivated, and have a sufficient technical knowledge in the field of public financial management. In addition these persons have a managerial responsibility when they have not systematically a position of leader in the hierarchy.

It was also difficult for the administration to inventory the achievements obtained thanks to the present budget and to forecast a reasonable improvement of the productivity. Another difficulty is to make the difference between the programmes and actions devoted to achieve the strategy of the mission, and the programme and actions devoted to support activity only.

The definition of the indicators is another challenge. Indicators must be particularly significant, measurable and give a tangible understanding of the result of the activities. At least, let’s say that a huge difficulty resides in the amount of work which has to be done by the relevant administration. This article is too short to make a detailed presentation of all the tasks, but one may list the “activities referential” the budget dashboards, the managing dialogue, the annual expenses programme...

However, the experts of the twinning have noticed the high motivation of all the Tunisian stakeholders of the reform and are very optimistic for the success of its implementation. From now on, the political authorities of the relevant ministries have a more precise vision of the strategy and about what should be done, may be done and has been done thanks to the money of the taxpayer.

As a result, Tunisia is a country which is about to make much more informed choices about the policy for the development and the competitiveness of the territories.

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**PROPOSALS FOR IMPROVING REGULATORY FRAMEWORK ON ALLOCATION
OF THE STATE CAPITAL EXPENDITURES FOR IMPLEMENTATION AND
SUPPORT OF INVESTMENT PROJECTS**

Abstract

The article deals with the regulatory acts that provide the legal basis for the distribution of the state capital expenditures on the implementation of the state investment projects. We have considered regulatory acts, specifying the procedure for making decisions on the state investments projects. Given the low efficiency of implementation of the state capital expenditures, all types of the state investments were considered. We have also considered the state investment in the form of the national investment projects, investment projects in priority economic sectors, investment projects in terms of implementation of the regional development, investment projects financed at the expense of subventions from the state budget. In addition, we have considered the investment projects, the implementation of which requires the state support and state capital expenditures, distributed by the Cabinet of Ministers of Ukraine. The generalized regulatory scheme for the selection of investment projects for direct state financing or support have been developed. The recommendations for improvement of the regulatory framework have been provided.

Keywords: *regulatory framework, investment projects, state support.*

One of the ways to improve the state financial standing in Ukraine is a more effective use of budgetary funds, namely capital expenditures. As noted in the adopted Concept of the State Target Economic Program on the Development of Investment Activity for 2011-2015, efficient use of capital expenditures of the state budget is extremely low due to the fragmentation of budget funds and the lack of uniform principles of formation and functioning of the state investment system as well as affordance of their target and efficient use [1].

In this regard, it is necessary to study the regulatory support on the identification and distribution of the state capital expenditures in order to detect its shortcomings. One of the vectors in the system of more efficient use of budget funds is the study of regulatory acts on the distribution of capital expenditures on the implementation of the state investment projects and providing support to socially important, critically needed and highly effective private investment projects. We shall consider the current regulatory support for distribution of the state capital expenditures on the implementation of the state investment projects, as well as projects supported by the state.

The law defining the general legal, economic and social conditions of investment activity on the territory of Ukraine is the Law of Ukraine "On Investment Activity". This law also specifies the procedure for making decisions on the state investments. For example, Art. 13 of the Law states that a decision on the state investments shall be made based on the forecasts of economic and social development of the country, development schemes and allocation of productive forces as well as the state target programs and feasibility studies determining the appropriateness of these investments. The Verkhovna Rada of Ukraine approves the state investment volumes carried out at the expense of the state budget as part of the Guidelines on economic and social development of the state [2].

Art. 20 of the Budget Code of Ukraine [3] states that the procedure for the use of budget funds should include, in particular, competitive requirements for investment projects including the procedure and criteria for their selection as well as the criteria and conditions for determining the realizers of such programs and projects. In addition, Art. 21 states that the main managers of the state budget funds, based on the indicative forecast indicators for the volumes of expenditures and granting

credits from the budget for two budget periods following the scheduled one approved by the Ministry of Finance together with the instructions for preparing budget requests, shall make up plans of their activity for the scheduled budget period as well as for two periods following the scheduled (including measures for the implementation of investment projects) in accordance with the forecast and program documents of economic and social development and the state target programs with the definition of expected performance results.

Each year, such action plans are brought into compliance with indicators of the state budget for the scheduled budget period and the forecast of the State Budget of Ukraine for two budget periods following the scheduled one. According to the budget programs that ensure the implementation of investment projects over several years, including those carried out with the involvement of the state loans (credits) from foreign governments, banks and international financial institutions, and that are defined by the law on the State Budget of Ukraine (the decision on the local budget), the Cabinet of Ministers of Ukraine (the Council of Ministers of the AR of Crimea, local state administrations, the executive authority of the relevant local council) takes measures to prioritize forecasting of budget funds for the next budget period in the draft Law on the State Budget of Ukraine (draft decision on the local budget) for continuation of such investment projects given the need of their phased completion and consummation of the relevant objects.

The fourth part of Art. 32 of the Budget Code of Ukraine indicates that the scheduled and forecasted volumes of the state investments for two budget periods following the scheduled one on development and implementation of the state investment projects are determined by taking into account:

- necessity to continue (complete) the implementation of the initiated state investment projects in accordance with the plans of their implementation and timing of PP&E commissioning;
- necessity to foresee the state capital investments for the preparation and beginning of the implementation of the new state investment projects;
- state budget expenditures on the development and implementation of the state investment projects carried out in the previous two budget periods and planned for the current budget period;
- basic forecasted macroeconomic indicators of economic and social development of Ukraine for the scheduled budget period and the following two periods. Selection of the state investment projects (except those, which are implemented with the involvement of the

state loans (credits) from foreign governments, banks and international financial organizations, as well as from the State Fund for Regional Development) is carried out by the Interdepartmental Commission on issues related to the state investment projects in the manner prescribed by the Cabinet of Ministers of Ukraine. Resolution of the Cabinet of Ministers of Ukraine dated July 22, 2015 No. 571 [4] approved the Regulation on the Interdepartmental Commission on issues related to the state investment projects and the procedure for selection of the state investment projects.

Interdepartmental Commission on issues related to the state investment projects is a collegial body, the character and composition of which are approved by the Cabinet of Ministers of Ukraine. The composition of the Interdepartmental Commission on issues related to the state investment projects includes members of the Cabinet of Ministers of Ukraine, members of the Verkhovna Rada Committee on the budget issues by the decision of this Committee (consisting of at least 50 percent of the composition of such Commission), representatives of the central executive bodies and other state bodies.

Distribution of the state capital investments for implementing new state investment projects is carried out provided that not less than 70 per cent will be allocated to continue (complete) the implementation of the initiated state investment projects in accordance with the plans of their implementation and timing of PP&E commissioning within the total volumes of the state capital expenditures for the scheduled budget period.

State capital investments on the development and implementation of the state investment projects are included in draft law on the State Budget of Ukraine according to the results of such distribution.

In December 2011, through amendments to the Law of Ukraine "On Investment Activity", there was introduced another mechanism for the evaluation and selection of project (investment) proposals and investment projects, the development or implementation of which should be supported by the state.

For example, paragraph 5 of Article 2 of the Law of Ukraine "On Investment Activity" indicates that the state support of investment project implementation and project (investment) proposals shall be provided in the manner prescribed by the said Law. In particular, according to Article 12-1, state support of investment activity envisages participation of the state in the development and/or implementation of investment projects. Lines of investment activity supported by the state are determined by the program documents approved in accordance with the legislation.

State support for investment projects implementation is provided, in particular through financing of investment projects implementation using the funds of the state or local budgets; co-financing of investment projects from the state and local budgets; granting the state and local guarantees for the investment projects implementation in accordance with the legislation to ensure the fulfillment of debt obligations on business entities' loans and crediting from the state or local budgets; full or partial compensation of interest on loans of business entities covered from the state or local budgets for implementation of investment projects; other forms of enforcement of the said Law.

State support for the development of an investment project is provided exclusively in the presence of the project (investment) proposal through financing or co-financing using the funds of the state and/or local budgets.

Form of a project (investment) proposal based on which an investment project is prepared and the development of which may be supported by the state, as well as the Procedure for the development and the form of the investment project, the implementation of which may be supported by the state, are approved by the Ministry of Economic Development and Trade of Ukraine (Order of the Ministry of Economic Development and Trade of Ukraine dated 19/06/2012 No. 724 "On Approval of the Project (Investment) Proposal Form Based on which an Investment Project is Prepared, the Procedure for the Development and the Form of the Investment Project, the Implementation of which May Be Supported by the State" [5]).

State support for the development and implementation of investment projects is provided only after the state registration of the project (investment) proposals and investment projects and evaluation of their economic efficiency, which is carried out by the Ministry of Economic Development and Trade of Ukraine within one month in the manner and in accordance with the criteria established by the Cabinet of Ministers of Ukraine (Resolution of the Cabinet of Ministers of Ukraine dated 18/07/2012 No. 684 "On Approval of the Procedure and Criteria for Evaluating Economic Efficiency of the Project (Investment) Proposals and Investment Projects" [6]).

To include an investment project or proposal in the Register, the Ministry of Economic Development and Trade of Ukraine carries out pre-evaluation of its economic efficiency. In particular, the evaluation of economic efficiency of investment proposals and investment projects is conducted by the Ministry of Economic Development and Trade of Ukraine by following criteria: net present value; internal rate of return; discounted payback period; profitability index.

Calculation of the criteria of economic efficiency of the investment proposal or investment project shall be based on the Methodical Recommendations on the development of the investment project, the implementation of which may be supported by the state that are approved by the Ministry of Economic Development and Trade of Ukraine (Order of the Ministry of Economic Development and Trade of Ukraine dated 13/11/2012 No. 1279 "On Approval of Methodical Recommendations on the Development of the Investment Project, the Implementation of which May Be Supported by the State"). Based on the evaluation of economic efficiency of the investment proposal or investment project carried out by the Ministry of Economic Development and Trade of Ukraine, the customer or the body conducting the state examination, are provided with an expert conclusion, which contains the main indicators of economic efficiency and can be both positive and negative.

Positive expert conclusion is given in the following cases: net present value is positive; internal rate of return exceeds the regulatory discount rate; profitability index exceeds 1. Negative expert conclusion, which contains clearly formulated and valid criticisms requiring significant improvement of a proposal or project is provided the following cases: net present value is negative; internal rate of return is less than the regulatory discount rate; profitability index is less than 1 [6].

State support for the development and implementation of an investment project cannot be granted if there is at least one negative expert conclusion based on the results of the said evaluation.

Article 12-2 of the Law of Ukraine "On Investment Activity" refers to the state registration of investment projects and project (investment) proposals. State registration of investment projects, implementation of which may be supported by the state, and of project (investment) proposals based on which investment projects are prepared, and the development of which may be supported by the state, is conducted by the Ministry of Economic Development and Trade of Ukraine based on the positive conclusion of the expert evaluation of their economic efficiency.

After the state registration of the investment project or project (investment) proposal, the Ministry of Economic Development and Trade of Ukraine provides the entity involved in investment activities with an extract from the State Register of investment projects and project (investment) proposals.

Information on the state registration of the investment project or project (investment) proposal is promulgated by posting the relevant extract from the State Register

of investment projects and project (investment) proposals on the official website of the Ministry of Economic Development and Trade of Ukraine within one month from the date of the state registration.

Extract from the State Register of investment projects and project (investment) proposals on the volumes and forms of the state support of investment activity for the next budget periods is used to generate indicative forecasted expenditures of the State Budget of Ukraine for the relevant periods.

Maintenance of the State Register of investment projects and project (investment) proposals is carried out in the manner prescribed by the Cabinet of Ministers (Resolution of the Cabinet Ministers of Ukraine dated 18/07/2012 No. 650 "On Approval of the Procedure for Maintenance of the State Register of Investment Projects and Project (Investment) Proposals" [7]).

Validity of the state registration of the investment project and project (investment) proposal expires at the completion of the implementation or development of the investment project and/or at the request of the entity involved in investment activities, or if this project or proposal has not been selected during the competitive selection for provision of the state support for more than three years, whereupon the corresponding entry in the State Register of investment projects and project (investment) proposals is canceled.

Based on the Register data, state support volumes on the appropriate types of such support are determined; funds are allocated in the state budget for the next years to provide the state support of investment projects; annual monitoring of the investment projects implementation is carried out; control over the effectiveness of use of the state funds is exercised; efficiency of use of the state support is analyzed.

Selection of the project (investment) proposals and investment projects, the development or implementation of which may be supported by the state, is carried out on a competitive basis based on data from the State Register of investment projects and project (investment) proposals as well as on the expert conclusions on the results of the expert evaluation of their economic efficiency.

According to Article 15 of the Law of Ukraine "On Investment Activity", investment projects implemented with the involvement of budget funds of the state enterprises, institutions and organizations, as well as at the expense of loans granted under the state guarantees are subject to mandatory state examination. State examination of investment projects is carried out in the manner prescribed by the Cabinet of Ministers (Resolution of the Cabinet Ministers of Ukraine dated

09/06/2011 No. 701 "On Approval of the State Examination of Investment Projects" [8]).

The list of documents to be submitted for this selection, as well as the procedure and criteria for the selection and determination of the form of the state support for the development or implementation of relevant investment projects are established by the Cabinet of Ministers (Resolution of the Cabinet Ministers of Ukraine dated 13/11/2013 No. 835 "On Approval of the Procedure for Selection of Project (Investment) Proposals and Investment Projects, the Development or Implementation of which May Be Supported by the State" [9]).

Results of an independent examination of the project (investment) proposal and investment project carried out at the expense of the entity involved in investment activities may be attached to the said documents.

The entity involved in investment activities, whose development and implementation of the investment project have been supported by the state, brings his/her policy plans for the scheduled budget period and two periods following the scheduled one, which include measures for the development and implementation of investment projects, in conformity with the state budget targets for the scheduled budget period as well as with the forecast of the State Budget of Ukraine for the next two budget periods following the scheduled one.

Ministry of Economic Development and Trade of Ukraine, based on the information on the state support and the data of the State Register of investment projects and project (investment) proposals submitted by the entity involved in investment activities, monitors and analyzes the efficiency of use of the state support of investment activity in its prescribed manner.

The executive authorities use results of such analysis when drafting the State Budget of Ukraine for the next year, as well as when making proposals to the State Budget of Ukraine for the next budget period regarding the expenditures to support investment activities.

The Law of Ukraine "On Stimulation of Investment Activities in Priority Sectors of Economy for Employment Creation" is another mechanism of state support. The aforementioned Law defines the foundations of the state policy in the sphere of investments during 2013-2032 to stimulate attracting investments in priority sectors of economy. It aims at creating conditions for intensification of investment activities by concentrating the state resources on priority directions of economic development for the purpose of introducing the latest energy saving technologies, creating new jobs, regional development [10].

The list of priority sectors of economy is determined by the Resolution of the Cabinet of Ministers of Ukraine dated August 14, 2013 No. 843-p. These sectors include agricultural complex; housing and utilities sector; machine-building complex; transport infrastructure; resort and recreational sphere and tourism; processing industry [11].

In order to obtain the state support, investment projects should meet the following criteria:

1) the total estimated cost of the project must exceed the equivalent of:

- 3 million euros - for large-seized entities.
- 1 million euros - for medium-sized entities.
- 500 thousand euros - for small business entities.

2) the number of new jobs created for employees who are directly involved in the production process, shall not exceed:

- 150 - for large-seized entities.
- 50 - for medium-sized entities.
- 25 - for small business entities.

3) the average salary of employees must be not less than 2.5 times higher than the minimum salary established by the law as of January 1 of the reporting (tax) year [10].

Requirements to investment projects in priority sectors of economy, the procedure for their selection, approval and registration are established by the Cabinet of Ministers of Ukraine (Resolution of the Cabinet of Ministers of Ukraine dated August 14, 2013 No. 715 "On Approval of the Procedure for Selection, Approval and Registration of Investment Projects in Priority Sectors of Economy and Requirements to such Projects" [12]).

Speaking of obtaining the state support for investment projects in priority sectors of economy, a business entity acquires the right to use the tax treatment stipulated by the Tax and Customs Codes:

1) after approval of the investment project by the Cabinet of Ministers of Ukraine:

- taxation of profits from investment projects implementation is carried out at the rate: through to 01/01/2018 - 0%; from 01/01/2018 to 01/01/2023 - 8%; from 01/01/2023 - 16%.

2) in case the Cabinet of Ministers of Ukraine approves the procedure for importation, the list and volumes of goods imported for the investment project implementation together with the approval of such a project:

- providing the customs authority with the tax receipt for the amount of tax liability on VAT for a period of 60 days for import of machinery (equipment) and their complementary parts to Ukraine exempt from import duty tax, up to 12/31/2022 inclusive;

- exemption from import duty tax on machinery (equipment) and their complementary parts up to 01/01/2018 provided that these goods: a) are not excisable; b) have been produced not more than three years before the date of the state registration of the investment project and have not been in use; c) are not produced in Ukraine and have no analogues in Ukraine. If a business entity wants to obtain the state support for the implementation of investment projects in priority sectors of economy at the expense of the state or local budgets, the corresponding project should be included in the State Register of investment projects and project (investment) proposals in the manner prescribed in Article 12-2 of the Law of Ukraine "On Investment Activity".

The State Fund for Regional Development (SFRD) was established in early 2012 in order to introduce a mechanism to concentrate financial resources on priority areas of regional development, as defined in the strategic documents.

The new Article 24¹ "The State Fund for Regional Development" introduced to the Budget Code of Ukraine determined the basic principles of the SFRD. In particular, the first part of the Article notes that the SFRD is established as part of the general fund of the state budget. In preparing the draft State Budget of Ukraine and the forecast of the State Budget of Ukraine for two budget periods following the scheduled one, the SFRD is expected in the amount of not less than 1 per cent of the forecasted total revenues of the general fund of the draft State Budget of Ukraine for the corresponding budget period [3].

Funds of the SFRD are allocated at the implementation of investment programs and regional development projects (including cooperation projects and voluntary association of local communities) aimed at the development of regions, development of infrastructure of industrial and innovation parks, and correspond to the priorities identified in the State Strategy of Regional Development and the corresponding development strategies of the regions.

Resolution of the Cabinet of Ministers of Ukraine dated 18/03/2015 No. 196 [13] has determined the Procedure for preparation, evaluation and selection of investment projects and programs of regional development, which may be implemented at the expense of the SFRD. This Procedure defines the mechanism of preparation, evaluation and selection of investment projects and

programs of regional development, which may be implemented at the expense of the SFRD in accordance with Article 24¹ of the Budget Code of Ukraine.

Investment programs and projects must satisfy one of the following conditions: 1) compliance with the priorities identified in the State Strategy for Regional Development, regional development strategies and action plans on their implementation; 2) implementation of investment programs and projects as cooperation projects of local communities; 3) support of voluntary associations of local communities.

In addition, the following criteria: 1) for investment programs and projects involving construction - the presence of the project documentation approved in accordance with the legislation; 2) implementation schedule plan ranges from one to three years; 3) co-financing from local budgets at the level of 10 per cent; 4) the ability of entities whose objects are financed using the funds of the State Fund for Regional Development to provide further financing at their own expense or their maintenance at the expense of the local budgets.

In addition, besides the SFRD, one should mention the subventions from the state budget for the implementation of investment projects. According to Art. 105 of the Budget Code of Ukraine "Subventions for Investment Projects" [3], their provision is based on the following principles: economic efficiency of achieving the objectives of the investment project involving the minimum amount of budgetary funds for investment projects implementation; subventions` focusing exclusively on the establishment, increase or renewal of the basic capital funds of communal ownership (primarily on the completion of construction and reconstruction of objects with the degree of construction readiness of more than 70 per cent); financial support of investment projects, implementation period of which is longer than the budget period, with the necessary financial resources of local budgets, credits (loans) attracted under the state and/or local guarantees and subvention funds for their implementation during the whole period; level of availability of objects of industrial, communications and social infrastructure, which increases the investment attractiveness of the territory; using the budget of the subvention recipient (for the budgets of villages, their associations, townships, cities of regional importance - not less than 1 percent of the volume of such subvention; for the budget of the AR of Crimea, regional and district budgets, budgets of the city of Sevastopol, cities of national and regional importance of the AR of Crimea - not less than 3 per cent of such subvention; for the budget of Kyiv - not less than 5 per cent of such subvention); justification of the possibility

of further maintenance of communal property objects at the expense of local budgets.

Distribution of subventions for investment projects implementation is carried out in the manner determined by the Cabinet of Ministers of Ukraine (Resolution of the Cabinet Ministers of Ukraine dated 18/05/2011 No. 520 [14]), taking into account the objectives and activities of the state strategy of regional development, regional development strategies relying on the formalized parameters, based on actual and forecasted indicators of economic and social development of the respective territory (most important of which are the indicators of industrial production volume, volume of gross agricultural output, volume of investments in fixed capital, level of the population density, unemployment rate of the population, income per capita, monthly average salary of employees).

Since 2010, the Cabinet of Ministers of Ukraine carries out redistribution of budgetary funds under the budget program "State Capital Expenditures Distributed by the Cabinet of Ministers of Ukraine." Thus, in 2010, 2.4 billion UAH was approved under this program, but not a single event was financed. In 2011, 21.7 million UAH was allocated (approved - 2.8 billion UAH), but not a single event was financed in 2012 and 2013 (approved - 2.0 and 1.4 billion UAH respectively), in 2014, 2.5 billion UAH was approved (but not a single event was financed as of the 1st quarter).

Each year, the Cabinet of Ministers of Ukraine issues a decree (Decree of the Cabinet of Ministers of Ukraine dated July 27, 2011 No. 761-p "Some Issues of the Use of the State Capital Expenditures in 2011", Decree of the Cabinet of Ministers of Ukraine dated March 21, 2012 No. 177-p "Some Issues of the Use of the State Capital Expenditures in 2012", Decree of the Cabinet of Ministers of Ukraine dated February 11, 2013 No. 76-p "Some Issues of the Use of the State Capital Expenditures in 2013") according to which the state budget funds are distributed between the ministries and government agencies, the Council of Ministers of the Autonomous Republic of Crimea and Sevastopol City State Administrations.

The Law on the State Budget of Ukraine for the relevant year indicates the funds allocated as "a single total" to the Ministry of Finance under the budget program "State Capital Expenditures Distributed by the Cabinet of Ministers of Ukraine." Implementation of such distribution during budget execution does not contradict the budget legislation. Thus, according to the Budget Code of Ukraine (Article 23 p. 6) [3], the transfer of budget allocations from one of the chief administrators of budgetary funds to another in order to perform the same functions or services is carried out by the decision

of the Cabinet of Ministers of Ukraine agreed with the Verkhovna Rada Committee on the Budget issues.

However, this approach to the distribution of capital expenditures reduces the transparency of the budget, since the Verkhovna Rada does not consider directions and criteria for the use of funds by approval of such expenditures. It also restricts the access of the general public to this information, as only specialists are able to find and analyze these documents. Thus, the specified Decree suggests object-by-object distribution of funds envisaged for the ministries and other state bodies. However, the criteria for selection of the objects to be funded are not transparent and do not allow to track the appropriateness of the allocation of funds.

In addition, the Council of Ministers of the Autonomous Republic of Crimea and Sevastopol City State Administrations have been given the instructions only regarding the direction of the use of these funds and the total volume of financial resources for each region. At the same time, it is envisaged that their object-by-object distribution will be carried out by the Council of Ministers of the Autonomous Republic of Crimea and the relevant state authorities. This will lead to the increased dependence of local authorities (urban, rural and township budgets) on the decisions of regional state administrations [15].

Therefore, we have the following regulatory scheme for the selection of investment projects for direct state financing or support (Annex 1).

Conclusions

Having studied modern principles of the state investment and its regulatory support, one can define the following shortcomings:

1. There is no structured and complete system of planning and management of the state investments. Measures should be taken to ensure that every step of the state investment management system and the system in general are clearly defined and understandable to all participants and institutions concerned.
2. The government's frequent changes of strategies and directions create additional difficulties for institutions implementing projects and programs in the absence of any certainty.
3. Selection process is extremely politicized and undervalued in economic terms.
4. Being checked and approved by the Ministry of Economic Development and Trade of Ukraine, projects, the development or implementation of which may be supported by the state, are included in the register of

projects. No other projects that could otherwise be defined as the state investment projects are included in any project database. Thus, there is no possibility to get a complete idea of the scope and applicability of the state investment activity in Ukraine, even at the level of the central government. In a much lesser extent - in reviewing the activities of local authorities and state-owned enterprises.

5. Large number of new projects with a considerable underfinancing of the current ones. Demand for financing of new projects inevitably limits the ability to finance current projects at the required level. This can lead, and has already led to insufficient funds for the current projects, with further delays, resulting in inflationary pressure and increasing expenditures, consequently. The increase in incoming expenditures and delays in realizing the benefits of the project due to this practice only worsen the economic indicators of the state investment projects. Therefore, we should not approve new projects at the expense of financing of the current ones.

6. Corruption induces the decrease in the efficiency of the state investment projects implementation and leads to the increased construction costs.

Thus to improve the management system of the state investments, to define the main principles and criteria for transparent formation and use of the state investments, and also to create a unified system of evaluation, selection and monitoring of the state investment projects, it is necessary:

in the short term:

- to make the distinction between such concepts as "state investment" and "state support";
- to create a unified database of all state investment projects;
- to introduce a transparent procedure for determining the volumes of the state capital expenditures, both scheduled and forecasted for two budget periods following the scheduled one, for the development and implementation of the high-priced state investment projects, to determine the procedure for the inclusion of capital investments allocated for the development and implementation of such projects into the Law of Ukraine on the State Budget, to establish the necessity for analysis and evaluation of the results obtained in consequence of implementation of the state investment projects. The procedure for use of budgetary funds should include competitive requirements for such investment projects, including the procedure and criteria for their selection, as well as the criteria and conditions for determining the realizers of such projects;

in the medium term:

- to create a single system of evaluation, selection and monitoring of investment projects to be carried out by the way of the state investments, and to integrate such a system in the process of budget planning with the help of the state support;

- in order to ensure a more coherent strategy of the state investment, it is necessary to develop a method of medium-term planning of investments based on the single database of the state investment projects. This would allow the government to synchronize the budgeting process with the current and future investment priorities. This method should be long-term

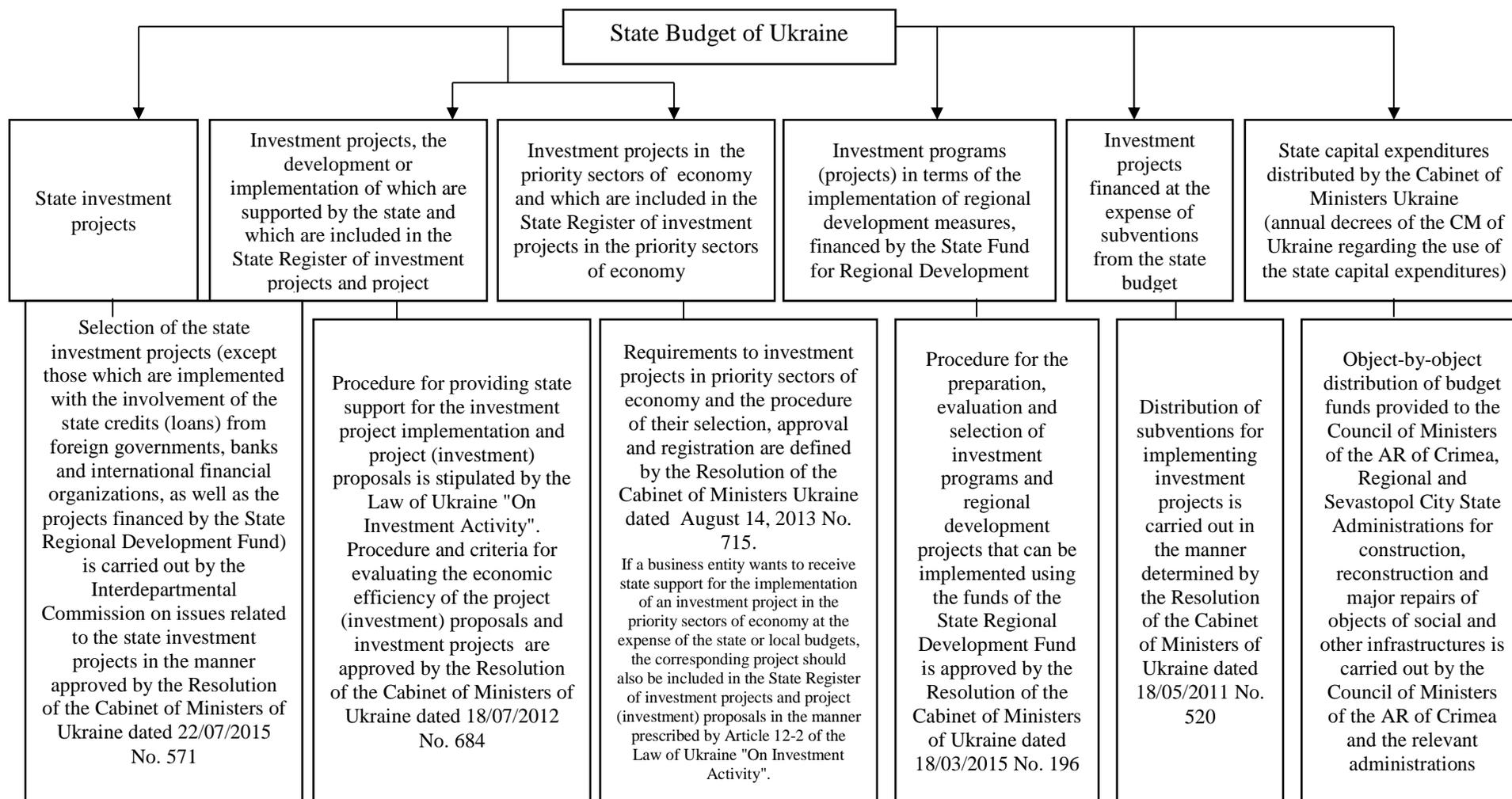
by its nature with a "floating" 5-10-years horizon, and keep records of the status of all projects that have achieved the predetermined quality target;

- it is necessary to draft legislation on management of the state investments, which would harmonize all the laws, regulations and other acts of the government in the sphere of the state investments management. It should clearly define the tasks and responsibilities necessary for the identification, estimation of cost, the overall evaluation, approval, implementation and final evaluation of projects. It should determine the duties to be carried out by each organization.

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Regulatory Scheme for Selection of Investment Projects for Direct State Financing or Support



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Requirements for articles

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- Article should include no more than 7 keywords.
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- Endnotes should be marked clearly in the text at a point of punctuation, and listed consecutively at the end of the paper. They should not be listed at the bottom of each relevant page.
- The full references should be listed at the end of the paper. They must include the names and initials of all the authors, the year of publication in parentheses, the full title of the article (or book), the full name of the journal, the volume number and pages and, for books, the publisher's name and city of publication. The references in the text should be done in square brackets (for example, [2; 4; 15]).

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The conference is organized by the InterRegioNovation Association and supported by the International Business Institute (Paris, France), the International Forum of the Territories (France), FRANCeXP Association (France), Association “Baltic InterRegional Development hub” (Latvia), Department of Economic Cybernetics, Taras Shevchenko National University of Kyiv (Ukraine), Department of Economic Theory, Ternopil National Economic University (Ukraine), Vinnitsa National Agrarian University (Ukraine), Eastern-European Institute for Cross-Border Studies (Kharkiv, Ukraine).

The conference fee is 20 euro.

Please submit the application with your thesis (2500 words maximum) before **October 26, 2015**, and a full paper before **November 02, 2015**.

Application form should include the names of authors, position, institution, post address, phone, e-mail.

The list of requirements for a full paper can be found in the Regional Innovations Journal: <http://www.interregionovation.eu/pages/journal-regional-innovations/>

The conference language is English but theses and full papers will be accepted in English and French.

The Organizing Committee is entitled to selecting papers to be presented at the conference.

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