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Directions of Improving State Regulation of Financial Sphere in Ukraine

1. Introduction

In modern conditions of economy's development, our country needs a balanced policy of state regulation of economic processes, in particular in the financial sphere. To increase the level of ensuring the efficiency of economic processes in Ukraine, it is necessary to create institutional conditions for optimizing the activities of the budget sphere and to form an appropriate level of control and regulation of the public finance system.

The efforts of the current government are aimed at developing the country's economic system, which necessitates an active role of the state in regulating the financial sector. Economic reforms are designed, first of all, to raise the level of the economy and to improve its condition as well as to promote new inflows of investment capital and funds to the state budget. In order to ensure and implement these tasks, giving a certain direction to economic processes in accordance with the interests of the country, it is necessary to properly regulate and control the circulation of budget funds.

Nowadays a financial control all over the world is considered as an important component of effective public policy. This confirms the role

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and importance of the state in regulating the development of all spheres of public life and increasing the welfare of civil society.

For the effective development of a competitive and socially oriented economy, the state must provide an effective and efficient mechanism for regulating the financial sector, which will be aimed at achieving the main goal of fulfilling the socio-economic function of the state and ensuring sustainable economic growth.

The most difficult problem on the way to ensuring sustainable economic development of the state is overcoming of corruption. Currently Ukraine is significantly stucked in this matter. According to L.Dubchak, the formation and spread of such a phenomenon as political corruption in public administration is associated with a number of factors: "political instability in the state; lack of political reforms and their erroneous ideology; imbalance of powers and functions of branches of power and violation of the principle of state power separation; ignoring the democratic principles in the activities of major political entities; avoidance of criminal liability by ideologues and organizers of large-scale political corruption, which emerged in unprecedented abuses of power and falsifications during various election processes «²

The need to implement effective mechanisms for state control over the activities of executive bodies, legislative regulation of the implementation of these forms, as well as the lack of proper scientific support for state regulation in the financial sector determines the relevance of the research topic, its theoretical and practical importance.

Analysis of recent research and publications. Many scientists have studied the topic of state regulation and management of budgets at various levels. The detailed research in this area of economics was conducted by V. Hrynyov, L. Didkivska, N. Kharchenko, E. Adelseitova, O. Boyko-Boychuk, T. Pikhnyak, V. Voronin and other scientists.

² Dubchak L.M. (2018) Politychna koruptsiia v derzhavnomu upravlinnia: kharakterni oznaky, prychny ta zakhody podolannia [Political corruption in public administration: characteristics, causes and measures to overcome]. Proceedings of the *Public governance in Ukraine: state, challenges and prospects of development: materials of the annual All-Ukrainian scientific-practical conference with international participation, dedicated to the 100th anniversary of public service in Ukraine*. (Ukraine, Kyiv, May 25, 2018), vol 5, pp. 138-139. Retrieved from: <http://academy.gov.ua/pages/dop/150/files/2ed7ac0c-5432-4765-bf95-976434aef39e.pdf>

The foreign scientists such as E. Atkinson, J. Buchanan, P. Samuelson also studied the theoretical and methodological problems of legal support of financial management and financial control. The analysis of scientific researches of domestic and foreign authors in this sphere allows to draw a conclusion about the importance of state regulation of the financial sphere in the country. It is also proved that one has to increase the system efficiency of state regulation and management of financial flows.

Emphasis of previously unsolved parts of the overall problem. Based on the analysis of current domestic legislation and through the prism of scientific papers, an attempt was made to comprehensively investigate government regulation, mechanisms of public administration and the role of the state as a mega-regulator in the financial sector in Ukraine. Recently, there has been a minimal economic development in Ukraine, and therefore there is an objective need for timely state regulation and control of all participants of economic relations.

The goal of the article. Examining the current legislation, scientific developments, summarizing domestic and foreign experience, it is necessary to identify the current situation, patterns, trends and mechanisms of state regulation of the financial sector in order to increase its efficiency. It is necessary to thoroughly study the features of state control over budget funds and to develop directions and ways of improving the system of financial control in the country.

Objectives of the study. In accordance with the goal, a number of tasks can be formed, in particular: analysis of major problems and contradictions that arise in the process of state regulation of the financial sector. It is necessary to develop ways of its improvement and to determine the structure and essence of the mechanism of state regulation of economic processes. Thus, increasing the effectiveness of state control over socio-economic processes in the country poses to scientists a number of complex tasks that require not only scientific justification, but also practical and effective solutions.

2. Formation of the institution of state regulation of the financial sphere

At the present stage of Ukraine's economic development, the state regulation and control of every sphere of life is an integral value of strength-

ening democracy in the state. Any state control involves the existence of mechanisms, types and methods of control.

The formation of the institution of state regulation of the financial sphere took place simultaneously with the process of state formation and the formation of a socially oriented market economy. However, even today we can note the lack of proper attention to ensuring the effectiveness of the state regulation system of the financial sphere.

The various economic processes taking place in Ukraine require effective regulation by the state. An important type of national regulation of the financial sector is financial control. This control occupies an important place in the system of public administration.

The state regulation of the financial sphere of the country is the unification into a single system of certain methods, techniques, principles and mechanisms that allow to regulate the activities of all actors in this area. It is the state establishment of certain requirements and rules for the effectiveness of the control and maintenance system of economic processes balance of the country.

The state regulation is presented as a set of basic forms and methods of influencing on particular process or object³.

The Encyclopedia of Public Administration treats state regulation in a market economy as the influence of the state aimed at achieving the goals of its economic policy in a market economy⁴.

V. Voronin expresses this category more broadly: «public administration is the implementation by the state of complex measures (organizational, legal, economic) in the field of social, economic, political and other social processes in order to streamline them, establish general rules and norms of social behavior, and prevention of negative phenomena in society»⁵.

³ Seliverstova L.S. (2018) Osoblyvosti rozvytku finansovoho rynku Ukrainy [Features of the financial market of Ukraine]. *Ekonomichna nauka* [Economic science], vol. 9.

⁴ Kovbasiuk Yu.V., Bakumenko V.D. (2011) Derzhavne rehuliuвання v umovakh rynkovoї ekonomiky [State regulation in conditions of market economy] *Entsyklopediia derzhavnoho upravlinnia* [Encyclopedia of public administration]: 8 v. (eds. Yu.V. Kovbasiuk edc). Kyiv: NADU. V.1 Teoriia derzhavnoho upravlinnia [Theory of public administration], pp. 153–154. (in Ukrainian).

⁵ Voronin V.Ie. (2002) Makroekonomichne rehuliuвання v umovakh hlobalnykh transformatsii: monohrafiia [Macroeconomic regulation in the context of global transformations: monograph], Kyiv: UADUK, 392 p. (in Ukrainian).

3. Mechanisms of state regulation of the financial sphere

To ensure the effectiveness of state regulation and control over the processes taking place in the country's economy, the special mechanisms have been formed in the public administration.

V. Bakumenko and V. Knyazev demonstrate the concept of mechanism as a complex system of political, social, organizational and legal means of purposeful influence of public administration. Mechanisms of state management of the economy are a set of interconnected and mutually agreed methods, tools and forms of ensuring purposeful managerial influence of the state⁶.

Thus, the mechanism of state regulation of the economy, as a general category, is the relationship between business entities and public authorities regarding economic activity. It is a set of economic forms, methods, ways and legal norms by which the state has the opportunity to influence economic processes in the country⁷.

Also, according to the main forms of public administration, they can have organizational and legal character. According to the nature of influence factors, one can distinguish political, economic, social, organizational and legal mechanisms of state management of the economics.

The development of modern Ukraine is moving in the direction of economic reforms, implementation of new programs, international standards and the fight against corruption.

Currently, the country is undergoing administrative reform, i.e. administrative-territorial reform, which is focused on strengthening the values of democracy. There is a decentralization of government functions, i.e. a part of the state functions (including control) is passed to

⁶ Bakumenko V., Kniaziev V., Surmin Yu. (2003) Metodoliiia derzhavnoho upravlinnia: problemy stanovlennia ta podalshoho rozvytku [Methodology of public administration: problems of formation and further development]. *Visn. Ukr. akad. derzh. upr.* no. 2. (in Ukrainian).

⁷ Radchenko O.V. (2009) Katehoriia «mekhanizm» u systemi derzhavnoho upravlinnia [«Mechanism» category in the system of public administration / O.V. Radchenko]. *Derzhava i rehiony : nauk.-vyrob.zhurn* [State and regions : scientific and production journal], vol. 3.

local state administrations and local governments. It also makes adjustments to the effectiveness of control over the receipt and expenditure of budget funds. This approach will ensure the efficiency of the modern financial system and contribute to the economic development of regions and the whole country.

4. Subjects of state financial control

Today in Ukraine the system of subjects of state regulation and control in the financial sphere is practically formed.

The following entities that carry out the state financial control (state regulation) in Ukraine include various public administration bodies, namely: the President of Ukraine, the Verkhovna Rada of Ukraine, the Cabinet of Ministers of Ukraine, the Accounting Chamber of Ukraine, the National Bank of Ukraine, the Ministry of Finance of Ukraine, the State Financial Service and the State Treasury Service, local state administrations, etc. The subject of regulation determines different types of regulation in certain areas of the financial sphere. In particular, it is a control over the circulation of finances in the state (receipt and expenditure of public funds). All of these regulations have a certain degree of importance, because at the same time they carry out state control. Also they are interconnected and complementary.

5. Problems of state control in the financial sphere and ways to solve them

One of the ways to improve state regulation of the financial sphere is to ensure public financial security in the context of globalization, and in particular, informatization. This is especially true in Ukrainian realities, when there is an imperfection of the state control system in the financial sphere, low level of material security and social protection, and, most importantly, unsatisfactory level of civil and national consciousness of Ukrainian politicians and officials who have access to budget finances and an opportunity to dispose of them.

With a sufficiently developed system of state regulation and control of the financial sphere in Ukraine, it is necessary to note its insufficient

efficiency in performing all tasks and achieving the defined goals. The reasons are many.

To date, there are various problems in the area of state control over the financial sphere. The control over the spending of budget funds operates in the absence of a basic law that would define the main concepts in this area, clearly distribute the tasks, functions and powers between the relevant bodies, regulate relations between subjects and objects of control and establish responsibility and independence of relevant authorities. The Budget Code of Ukraine does not regulate these issues, and the norms of current laws and regulations in the field of public financial control are not always consistent with each other. The guidelines and instructions cover only certain aspects of the activities of regulatory authorities.

Nowadays the main document regulating the procedure of conducting public financial control in Ukraine is only the Law of Ukraine «On Basic Principles of Public Financial Control in Ukraine» (January 26, 1993, No.2939-XII), which defines the legal and organizational principles of public financial control in Ukraine ⁸.

The norms of this document are imperfect, as well as those that need significant improvement and refinement. Accordingly, it leads to the fact that rather often management decisions made under this law are also imperfect and ineffective.

An important element of state regulation and management is the adoption of effective management decisions by the relevant authorities. One of such forms of control in the financial sphere over the implementation of management decisions is the web-platform of «Prozzoro» system, through which the purchase of goods and services for public funds is conducted. Unfortunately, this is only a small drop in the ocean of necessary effective legislation that needs to be adopted by the newly elected parliament for the economic development of our state.

In modern domestic realities there is still a significant number of financial violations in public administration, caused not by the lack of

⁸ Verkhovna Rada Ukrainy (1993) Pro osnovni zasady zdiisnennia derzhavnogo finansovoho kontroliu v Ukraini. [On the basic principles of public financial control in Ukraine]. Zakon Ukrainy [Law of Ukraine] № 2939-XII. 26.01.1993. Retrieved from: <https://zakon.rada.gov.ua/laws/show/2939-12#Text>.

institutional structure of public financial control, but by the weakness of its functional base as well as shortcomings in the organization of the control process. In particular, the forms of public financial control are somewhat outdated, which hinders the operational and effective influence on the processes that take place in the economy and ensuring the concentration of control actions in the most priority areas of financial activities. In turn, this reduces effectiveness of this control.

The well-being of the people depends on the effectiveness of state regulation of financial control. Therefore one of the most important functions of state regulation of the financial sphere is identification of deviations from accepted standards of legality, the expediency and efficiency of financial resources and the state property management.

The necessary step in overcoming the above identified problems should be a systemic reform in this area. In this context, first of all, there is an urgent need to adopt a number of laws that will establish the state regulation of executive bodies activity related to management of public finances as well as regulate the relations that arise in this process.

Thus, at present there is no framework law on quality management control in Ukraine, which would define the basic structure, subjects and objects of control and fully cover the control in the financial and economic activities of the state.

Given the above, there is a need to find the following effective mechanisms: organization and transformation of the system of public financial control; determination of institutional principles of modernization, standardization, place and importance of individual subjects of control in establishing an effective and optimal control environment; creation of conceptual bases for building a unified system of state financial control; ensuring regulatory and legal regulation of state financial control; determining the content of modern concepts and strategies in the activities of regulatory bodies⁹.

In such circumstances, there is the objective need to improve the system of public financial control. Also, the theoretical justification of

⁹ Pikhniak T.A. (2001) Problemy mekhanizmu derzhavnoho rehulivannia ekonomichnoho zrostannia [Problems of the mechanism of state regulation of economic growth] (electronic journal). Retrieved from: http://www.nbu.gov.ua/portal/soc_gum/Znphktel/2001_1/statti/pixnyak/pixnyk.htm/.

the basic principles of of the system transformation, finding ways of its components interaction, development of scientifically sound recommendations, identifying features of their manifestation in practice, which will contribute to the national paradigm of control system are necessary.

Many scientists believe that the effective development of state regulation mechanism of the financial sphere in the country requires the creation of a separate mega-regulator. That is, such a single state body that would have the same approaches to the supervision and regulation of all participants in economic processes. The mega-regulator is treated as a specialized state body with the authority to regulate at least two of the three categories of financial intermediaries (banks, insurance and investment companies, etc.), i.e. one main supervisory body with the entire information database of financial institutions and relevant powers. However, given the difficult economic (coronavirus epidemic) and political situation in the country, no action is being taken in this direction.

The introduction of mega-regulation in the domestic financial market of Ukraine should be carried out in stages, primarily by unifying the requirements and standards of the financial market, as well as creating appropriate legislative prerequisites for the consolidation of state regulatory functions. The mega-regulator, which will operate in the financial market, must perform its functions as a collegial body of the state power with special clearly defined responsibilities¹⁰.

Currently, for effective public administration and qualitative management decisions, it is necessary to define clearly the control bodies and legislate their tasks, rights and scope. Secondly, one has to justify the order of their interaction in the implementation of programs and regulations, that, in turn, will help to improve the system of management control in general.

In our opinion, the state needs to systematize the main directions in the field of public financial control and find ways to solve them. Currently in Ukraine the following main problems are remained: 1) the lack of specialized legislation; 2) the lack of a clear system of public administration control in the financial sphere and mechanisms for their interac-

¹⁰ Smahin V. (2008) Formuvannia ta rozvytok finansovoho rynku v umovakh transformatsiinoi ekonomiky: monohrafiia [Formation and development of the financial market in a transformational economy: a monograph], Kyiv : KNEU. (in Ukrainian).

tion; 3) the unresolved issue of the state financial control organization in the budget sphere.

First of all, the most urgent and important is the problem of disorder in the activities of regulatory bodies. For example, a lack of information exchange between the State Audit Office and other public financial control bodies leads to a decrease in the effectiveness of control. The functions and powers of public financial control bodies are also duplicated. Besides there are no guarantees of controlling bodies independence (especially at the regional level) because of their accountability to executive agencies, the activity of which is checked. Also, there is an inconsistency in cooperation of state financial control bodies with law enforcement and judicial bodies. That is why the system of public financial control in Ukraine should be based on common principles, legislative rules and approaches.

Thus, now a reformation of the public financial control system is becoming one of the main tasks of today. It is necessary to clearly harmonize the provisions of current laws with regulations in the field of public financial control, taking into account domestic and foreign experience, to determine the purpose and objectives of public financial control in Ukraine, to ensure reliable information on public expenditures, economic impact and efficiency of budget funds use. The state represented by a single mega-regulator must clearly separate the functions and powers of internal and external control bodies, which will allow to differentiate the tasks and powers of controlling bodies, as well as completely eliminate duplication and parallelism in their activities.

It should also be noted that the modern system of the state control has one major drawback, namely, the most of inspections today are only fiscal ones. That is, in practice, verification, revision and audit are most often used. This allows to identify existing violations, to fix negative phenomena, but do not provide an opportunity to prevent them and investigate the causes of their occurrence. In the world practice, current and preliminary control procedures are considered as the most effective. However, these types of control in our country are unregulated and weak¹¹.

¹¹ Lunina I. O. (2010) Problemy y perspektyvy rozvytku systemy derzhavnykh finansiv v Ukraini [Problems and prospects of public finance system development in

According to the authors, in addition to the already mentioned ways to solve the problems of state regulation in the financial sphere, there is another one, no less important. Public authorities must learn to spend budget funds sparingly, and the authorities must be sure to strengthen control over their intended use. It is necessary to reduce the amount of loans to cover the budget deficit. In order to attract additional funds and reduce debt, it is necessary to restore the country's economic image and public confidence, for example, by increasing the volume of government bond issues. Also, one has to study in details and try to apply in practice the positive experience of foreign countries in this direction.

6. Ways to increase the effectiveness of financial control

Generalizing the studied problems which arise in timely and effective control over the sphere of economy, it is possible to define a number of the basic ways for their decision, namely:

- to improve the current legislation and regulations in the financial sphere in order to regulate the activities of all participants in economic processes;
- to develop a strategy for development of the financial system of Ukraine;
- to increase the efficiency of budget funds spending and strengthen control over their targeted use;
- to take measures aimed at strengthening the financial component of economic entities in order to increase motivation for effective work and investment activities;
- to strengthen the development of mechanisms, tools and infrastructure of financial markets;
- to reform the tax system in the direction of easing the tax burden;
- to use rationally the funds involved through public credit;
- to take measures aimed at strengthening confidence in government securities and the formation of a reliable banking system.

In our opinion, it is the development of new effective bills and the enshrinement of new requirements for management functions at the

legislative level that will lead to the positive development of Ukraine's economy. The need to improve the relationship between the regulation of each market sector by the main authorized state bodies in the financial market will form the need for a state mega-regulator in the country.

The statesmen need to develop a national strategy for socio-economic transformation in the country, which would give impetus to the further development of the financial regulation system in Ukraine. It is necessary to create a strong financial system that can ensure sustainable economic development through the efficient redistribution of financial resources in the economy. At the same time, the strategy and tactics of reforming the financial system should consist of gradual restructuring, which will involve further transformation of this system. In this context, it should be noted that the mentioned issues should be addressed by the relevant legislative and executive bodies. The rational functioning of the entire financial system is possible only through the proper functioning of each component separately and the whole system, in particular¹².

7. Conclusion

In the conditions of modern economic development, the economic entities pay more attention to the financial condition of Ukraine – how strong is the country's position at the economic and international level and how stable is it financially. Timely and effective state regulation of budget flows is the first step that ensures this stability and reliability. That is why its improvement and introduction of some innovations is very important for the country, because the final result depends on how clearly everything is organized. This result consists in recognition of Ukraine as a reliable partner in cooperation and taking the country's rightful place in the world arena.

The state should focus on its financial recovery, implement a number of measures that would be stabilizing and prevent the negative consequences of global and domestic financial crises. Further development of the state regulation system of the country's financial sector should

¹² Zhylynska O. (2017) UKRAINE 2030: Doktryna zbalansovanoho rozvytku [UKRAINE 2030: The doctrine of balanced development]. (eds. Zhylynska O., Melnychuk O., Antoniuk L., Humenna O., Radchuk A. et al.), Lviv: Kalvariia, 164 p. (in Ukrainian).

ensure a number of important changes in the country's economy by introducing new requirements for the financial sector and its reformation. Creating effective state regulation will ensure sustainable economic development of our country. The introduction of effective state regulation and management of the economy should become one of the main priorities for the formation and implementation of effective state economic and social policy. It is under such conditions that the interests of all subjects of the financial system will be coordinated, which, in turn, will lead to socio-economic transformations in the country. Carrying out an effective state control, preventing and detecting financial offenses, the economy of modern Ukraine will achieve the sustainable development.

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Summary

The article is devoted to study of directions of improving the state regulation of the financial sphere in Ukraine. It is determined that the state regulation

of the financial sphere should be carried out in the directions of ensuring the efficiency of budget funds use and providing the relationship between the authorities that carry out the state financial control.

The article considers the problems in ensuring the effective state regulation of the financial sphere as a component of the mechanism of public administration and control. We have proved the importance of the state regulation of the financial sector in the current conditions of unstable and declining market economy that Ukraine is experiencing. It was noted that the issue of effective state regulation and control over the implementation of management decisions is thoroughly studied by scientists and practitioners. In practice, under the influence of these studies, more effective mechanisms and tools of the state control for the receipt and use of budget funds are being developed. The article analyzes the latest studies of domestic and foreign authors related to the issues of state regulation and management of the financial sphere

The article examines the need for an active regulatory role of the state in the use and circulation of budget funds. Analyzing the state regulation of the financial sphere, it should be noted that it is an integral part of public administration of the economy as a whole.

The article analyzes the advantages and disadvantages of the system of state regulation of the financial sphere in the country. There is a need for continuous improvement and increase of efficiency of state regulation and control over the circulation of budget funds.

Keywords: state regulation, administrative control, mechanism of state regulation, public finance management, state regulation of the financial sphere, megaregulator