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PROBLEMS OF INDUSTRY DEVELOPMENT IN UKRAINE UNDER CORONACRISIS

The article analyzes the main factors of changes in the Ukrainian industry business environment that have arisen with the advent of the coronavirus crisis, highlights trends regarding a decline in business activity in industrial production, focuses on the real assessments of entrepreneurs about the expected economic activity during the quarantine period and recovery period. The examples of the world practice of using the support of national producers to overcome the crisis, including both traditional institutional, financial and fiscal measures, and the practice of providing guarantees to local, regional priority segments of activity, in particular, the provision of state guarantees on a portfolio basis, the use of the mechanism of state-private partnership and support on this basis for priority development projects, the introduction of a non-price criterion for localization in public procurement. Recommendations for the adaptation of this experience in Ukrainian realities in the industries of light industry, mechanical engineering, chemical industry are given.

Keywords: industry, manufacturing, SMEs, coronavirus crisis, government support.

ПРОБЛЕМИ РОЗВИТКУ ПРОМИСЛОВОСТІ УКРАЇНИ В УМОВАХ КОРОНАКРИЗИ

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Метою даного дослідження є аналіз зарубіжних і вітчизняних підходів до вирішення проблем протидії впливу викликів майбутнього на промисловість України, перш за все викликаних комплексною світовою кризою, пов'язаною з пандемією коронавірусу, а також за діль пошуку ефективних рішень у підтримці бізнесу для подолання внутрішньої кризи. У статті проаналізовано основні чинники зміни бізнес-середовища для української промисловості і підприємців, що виникли з появою коронакризи, виділено тенденції щодо падіння ділової активності в національному промисловому виробництві, акцентовано увагу на реальних оцінках підприємців очікуваної економічної активності на період карантину. Розглянуто приклади світової практики використання підтримки національних товаровиробників для виходу з кризи, серед яких: інституційні, фінансові і фінансові заходи, практика надання гарантій локальним, регіональним пріоритетним сегментам діяльності, надання державних гарантій на портфельній основі, використання механізму державно-приватного партнерства, введення нецінового критерію локалізації в державних закупівлях. Зазначено про успішний досвід використання та впровадження практик державно-приватного партнерства у Канаді, Бразилії, Франції як дієвий інструмент підтримки виробництва та на цій основі пріоритетних проєктів розвитку. Надано рекомендації щодо адаптації цього досвіду в українських реаліях у виробництвах легкої промисловості, машинобудування, хімічної галузі. Доведено, що основними заходами підтримки підприємництва в період виходу з коронакризи стають забезпечення інвестиційного та споживчого попиту на внутрішньому ринку, реалізація проєктів із залученням малих та середніх підприємств до державних і регіональних замовлень, запровадження механізму державних гарантій й підтримка національного виробника через уведення локалізації в системі державних закупівель. Реалізація ініціатив підприємців та регіональної влади для подолання наслідків пандемії має використовувати новітні фінансові стратегії для сталого розвитку і стати точкою перетину інтересів держави, українських громадян, виробників та інвесторів.

Ключові слова: промисловість, виробництво, МСП, коронакриза, державна підтримка.

Problem statement. The modern industrial environment is characterized by a high level of dynamism and uncertainty. Among the main changes in the factors of the business environment, the following should be noted: disruption of supply chains, restriction of the movement of people and the movement of goods; the intensification of the financial crisis and the growing poverty of the Ukrainian population; drop in effective demand, transfer of employees to remote work and logistical difficulties of their access to workplace; gaps in the coverage of social protection of workers – in “old” and “new” forms of employment; increased risks of business losses; transformation of business schemes and methods. The arrival of the coronavirus crisis complicated the conditions for the functioning of enterprises, exacerbated the existing problems of the industry, and simultaneously accelerated the introduction of digitalization elements as components of everyday life, exacerbated cyber security risks.

Analysis of recent research and publications. The article is based on the most important legislative documents of different countries [2; 3; 4; 5], the provisions of which are aimed at solving economic and industrial problems caused by the global crisis and coronavirus, as well as finding effective mechanisms to support business and able-bodied people. Of great importance in this regard is the conduct of their scientific analysis and the corresponding improvement and supplementation of existing regulations, as well as filling gaps in the legislative field, the introduction of effective implementation mechanisms. The works of leading domestic and foreign scientists and researchers, in particular V. Heyts, B. Danylyshyn, O. Vlasnyuk, L. Deineko, J. Zhalilo, V. Panchenko, V. Seminozhenko, V. Sydenko, R. Hemming [8] and others, are dedicated to scientific research of governmental support to Ukraine's industrial sector with the coming of the coronacrisis.

Research objective. The purpose of this study is to analyze foreign and domestic approaches to solving the

problems of countering the impact of future challenges on the Ukrainian industry, primarily caused by the complex global crisis associated with the coronavirus pandemic, as well as finding effective solutions in supporting business to overcome the internal crisis.

Presentation of basic material of the research. In Ukraine, as in the world as a whole, the most affected sectors are the segments of the service sector: air transportation, airport activities, road transportation; activities of travel agencies and other organizations providing services in the field of tourism; hotel business; catering; activities of organizations of additional education, non-state educational institutions; organization of conferences and exhibitions; activities for the provision of household services to the population (repair, laundry, dry cleaning, services of hairdressers and beauty salons). These sectors are very strongly linked along the value chain with industrial production and employment, and they exert significant negative pressure. Based on the existing and potential demand, involvement in global value chains and the breadth of the chain's coverage in the domestic market, it can be assumed that there will be dramatic changes in the energy sector among industries; transformation of the automotive and light industries and growth prospects in the short term in ICT, pharmaceutical, food industries.

The long absence of an effective industrial policy has led to a situation where by 2019 the share of the processing industry in GDP fell to 10,8%; the share of engineering products (in exports) fell to 10,7%; import presence increased to 40%, and in the mechanical engineering sector it increased to 46%. The drop in industrial production for 5 months of 2020 (in comparison with the corresponding period of 2019) was 8.7%, and in the processing industry the drop amounted to 10%, in the metallurgical industry it amounted to 15,4%, in the production of rubber and plastic products – to 10,8%, in mechanical engineering – to 20,2%. A significant deferred demand has been accumulated for

modernization, repair and construction of infrastructure, which is estimated for the next 10 years at USD 100–150 billion and is directly related to the production of transport, utilities, and power engineering.

The polls show the changes in the current situation most efficiently. Polls conducted by the European Business Association and the Union of Ukrainian Entrepreneurs confirm the tendencies in Ukraine of a decline in business activity in the manufacturing sector and a particular decline in the activity of small and medium-sized enterprises (SMEs). The main intentions of entrepreneurs are:

– in the further development of the business – almost 60% of business owners try to continue their activities during the restrictions (this is mainly large and medium-sized businesses), another 29% intend to cease operations (typical for small businesses);

– in regards to personnel management – 41% plan to adapt staff salaries, 26% of business owners will keep payments in the current amount, other respondents have not yet made a decision on this matter.

Accordingly, the data of the “Economic Review of the Week” of the NBU of Ukraine [1], which collected data from a survey of 102 large and medium-sized enterprises on their expected economic activity during the quarantine period and the subsequent stage compared to the time before the introduction of quarantine, are becoming more and more relevant.

More than half of the enterprises expect a decrease in the volume of turnover, while the share of enterprises with an expected drop in sales by 5–25% increased to 30%, and a decline of more than 25% implies 26% of the total. Among the enterprises of the processing industry, more than a third of enterprises have the same pessimistic sentiments. Between enterprises categorized by size, the medium ones improved their expectations, while the number of large ones worsened the balance of expectations regarding sales/production volumes. In terms of employment, most enterprises are not in the mood to lay off workers, and those enterprises that work for the domestic market provide for staff growth. Also, most enterprises note a sufficient supply of imported and domestic goods.

In the context of the coronavirus crisis, the processes of digitalization of enterprises' activities accelerated, their transfer to a remote form increased the risks. Moreover, experts note that the coronavirus crisis bears the consequences of digital destruction, and is especially reflected in “traditional companies”, whose business model turned out to be ineffective in the new conditions [2].

This situation requires a more detailed consideration of the practice of using the support of domestic producers in order to adapt to the new reality created, among other things, by the coronavirus crisis.

In world practice, in recent years, the cases of granting preferences to their own manufacturers have become especially frequent. The states use both traditional institutional, financial and fiscal measures: subsidies for the modernization of infrastructure and services, direct subsidies and concessional loans, credit guarantees and the availability of state venture capital; export credits; acceleration of capital amortization. As well as mechanisms of different countries that are more adaptable to the industrial situation: reducing taxes on profits, the possibility of covering losses with future profits, stimulating reinvestments. Moreover, the costs of developed countries

to support business in conditions of coronavirus reality ranged from 5 to 20% of GDP, where among the leaders are: Japan – 21,1%, the United States – 12,2%, Brazil – 11,0%, Canada – 9.8 %, Australia – 8,5%.

In Russia, to mitigate the coronavirus crisis, there is a package of benefits [3]: tax incentives (deferral of taxes (advance payments) to organizations and entrepreneurs from the register of SMEs), suspension of decisions on selective tax audits; extension of the deadline for filing tax returns; benefits on compulsory payments (extension of the terms for payment of insurance premiums to organizations and individual entrepreneurs from the register of SMEs); for compulsory social insurance, against industrial accidents and occupational diseases; credit benefits (a 6-month grace period for individual entrepreneurs and SMEs); rental benefits (deferral of payment for lease of areas owned by the state).

In France, public credit and tax incentives for enterprises are widely used in order to mitigate the situation with the coronavirus crisis, which are reported through the Directory of State Aid to Companies [4]. The government is introducing an exclusive system of guarantees to support corporate bank financing in the amount of EUR 300 billion. This loan can be presented in volumes equivalent to 3 months of 2019 turnover or two years of payroll for innovative companies or companies created from January 1st, 2019. Enterprises use a loan without compensation only in the first year; the company can choose a loan for a maximum of five years. The loan provides for a state guarantee from 70 to 90%, depending on the size of the business. Separately, guarantees are provided to local, regional priority segments of activity, in particular, they support the creation of French SMEs abroad. Thus, they are an effective tool for promoting investment and job creation, facilitating access to finance for small businesses and microfinance institutions in developing countries.

In many countries, government guarantees on a portfolio basis play a key role in supporting business, in particular in the area of facilitating access to finance. They are aimed at supporting SMEs and those types of economic activities that actively produce innovations and provide an increase in jobs. The implementation of the portfolio collateral scheme takes place either with the creation of a specialized state institution (agency), created at the national, regional and municipal levels, or the powers are vested in an existing state institution (central bank, ministry departments, etc.). In addition to providing guarantees, these agencies provide support to target organizations in other forms, as well as provide additional paid services. According to the World Bank, credit institutions consider guarantee schemes as the most effective measures to support small and medium-sized businesses from the public sector [5, p. 15–16].

One of the most effective tools for supporting industries is public-private partnership and support on this basis for priority development projects by providing government guarantees. Significant successful experience of using this tool has been accumulated in Canada, Brazil, Spain, the Netherlands, USA, Turkey, Sweden, Chile, etc. [6, p. 23–24]. In particular, the provision of guarantees by the Brazilian federal government is carried out on the basis of a guarantee fund for public-private partnership projects. The Guarantee Fund is a separate legal entity created with a contribution from the Brazilian budget in the amount of BRL 6 billion (USD 2 billion). The fund's

capital is replenished by most commercial organizations that are state-owned in Brazil (Petrobras, CESP, etc.). The provision of guarantees, as well as the activities of the fund as a whole, are carried out outside the budgetary process of the country, thus, it can be considered as a quasi-budgetary local organization with the general use of funds from the country's budget and funds of the "extended government" [7].

Canada actively uses state guarantees in the implementation of infrastructure projects, at the same time, there are many requirements for the legal regulation of the national system for providing state guarantees. In particular, this is the enterprise's justification of the impossibility of financing this project and assessing the project economics, the sufficiency of the cash flow to cover the guarantee obligations, and the approval of the guarantees by the Ministry of Finance of Canada, etc. [8].

The State Guarantee Instrument is also used to support regional priorities identified by a dedicated roadmap. French regional companies bring together professionals who, in terms of their size, their activities and geographical location, represent real opportunities for the territories and have major economic advantages, both in terms of their share in turnover and permanent employment, as well as artistic, cultural heritage and tourism value.

In Ukraine, priority of state support should be given to SMEs, the most important and most vulnerable economic entities. Thus, the production of apparel and clothing is represented by small enterprises – 97,8% of the total, with small businesses accounting for 93,1%.

Their implications for the security sector are also important:

- to provide the population, the corporate sector, government and law enforcement agencies with medical, protective sanitary and hygienic goods and goods for personal consumption;

- in the social aspect – the wide regional distribution of these industries and predominantly female employment (> 75%) – provides self-employment, prevents unemployment and social tension;

- for the competitiveness and image of "Made in Ukraine" products, due to the significant role of creativity and digitalization, the emergence of new innovative products with unique and better properties that allow you to compete in global markets;

- for the implementation of shading and competition with foreign suppliers.

The chemical industry also requires constructive support from the state and a long-term development strategy, which is currently showing negative trends: a general stagnation of the industry, a drop in production and sales of products, a decrease in employment, a negative trade balance that continues to grow, and a shrinking export dominated by raw materials. The restoration of the dynamics and volumes of commercial production is possible on the basis of the modernization (reconstruction) of operating chemical enterprises, the creation of new low-

tonnage chemical industries, the implementation of high-tech and socially significant projects. State guarantees on a portfolio basis, as a new financial instrument that enables entrepreneurs to obtain bank financing at a reduced interest rate, in our opinion, will allow the implementation of significant industry investment and infrastructure projects.

In contrast to the USA and the EU, where the share of imported goods in the volume of public purchases is 4,6% and 7,9%, respectively, the same indicator in Ukraine is 38%, and in mechanical engineering it amounts to 46,4%. Moreover, in the practice of developed countries, 85% of the criteria for selecting tender winners are non-price, multiplier criteria (localization, employment, life cycle cost, corporate and social responsibility, ecological footprint), while in Ukraine the main and sometimes the only criterion is price. All this updated the adoption of a bill on the conditions of localization in public procurement, as well as bills already sent to the Verkhovna Rada for consideration on improving state regulation of economic relations, stimulating investment and innovation, access to state and municipal property, stimulating agricultural production and production of agricultural machinery, stimulating employment and economic development.

Conclusions. The main measures to support entrepreneurship in this period are ensuring investment and consumer demand in the domestic market, implementing projects involving government and regional orders, introducing a mechanism of state guarantees and supporting national producers through the introduction of a non-price criterion for localization in public procurement, as well as solving employment problems in industry. Thus, the adoption of the bill on the introduction of state guarantees on a portfolio basis should be considered as reanimation measures for SMEs in order to facilitate access to financial resources for those enterprises that otherwise would not be able to obtain them. In addition, there is an urgent need to implement strategic projects in Ukraine through the state order, in particular, the production of medical textile products, in medical and optical instrument making, road construction, municipal and agricultural engineering, and the chemical industry. But such measures are quite capital-intensive and long-term, and in the current conditions have significant risks of implementation due to ineffective practice of implementing state orders, lack of labor resources and unfavorable market conditions. The driver of the economic transformation of Ukraine today is the development of industrial parks to facilitate the solution of infrastructure issues for the development of new industrial projects, for the viability of local businesses and the creation of additional jobs in Ukraine. These initiatives of entrepreneurs and regional authorities to overcome the consequences of the pandemic should be successfully implemented with the help of impact investment, which embodies the intersection of the interests of the state, Ukrainian citizens, manufacturers and foreign investors.

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