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CONCEPTION OF RAISING THE LIVING STANDARDS OF TERRITORIAL COMMUNITY BASED ON THE INTRODUCTION AND DEVELOPMENT OF NEW FORMS OF INNOVATION AND INVESTMENT COOPERATION BETWEEN THE REGIONAL AUTHORITIES AND THE LOCAL COMMUNITY



The main provisions have been formulated for the elaboration, implementation, and development of regional target programs based on new methodological and financial resources for the procurement of the most significant products manufactured by regional corporations in order to ensure a sustainable improvement of the local community living standards.

Keywords: regional corporations, basic and innovative products, regional authorities, and monitoring of product supply and demand.

GENERAL COMMENTS

The most important priority in the implementation of reforms in Ukraine is to overcome poverty. The national target program approved by the Cabinet of Ministers of Ukraine no. 1057 of 31.08.2011 establishes the fundamentals of anti-poverty policy in Ukraine and measures to introduce new mechanisms for recovering the production, stimulating the economic growth and social progress, as well as for ensuring the effective employment of population by creating viable enterprises. However, these efforts are ineffective without adequate financial support of the innovation, applied research, and production of regional corporations (hereinafter referred to as «the RC») by the local authorities.

Since Ukraine got its independence, in most regions (oblasts, cities, etc.), the financial support of the RC innovation and core activities from the central and local budgets has been very low. Today, at both the regional and the national

levels, there are no professional analytical services focusing on regular processing and support of corporate and individual requests for promoting the development, production, and marketing of products manufactured by RC currently in the domestic and foreign markets and the innovative products to be manufactured in the near future (hereinafter, «*product*» means the basic products manufactured by RPO currently and the innovative products, which can be manufactured in the medium term (two to three years); «*region*» means oblast, district, city, etc.). Also, there is the lack of scientifically based methodology, technology, and financial resources and support to identify and to commercialize the most competitive RC products that can be used for the sustainable improvement of living standards of territorial communities through utilizing local energy, raw materials, technologies, as well as technical, human, and financial resources. These circumstances impede the systematic analysis of the existing and future RC activities related to innovations, applied research, and production in the terms of

social and economic consequences of their use, and the identification of regional priorities for RC activities.

Given the above mentioned factors, it is evident that a basic prerequisite for improving the living standards of territorial community is the development, implementation, and elaboration of new deterministic methodological and financial tools and mechanisms for establishing and procuring the most competitive RC products in domestic and foreign markets at the expense of borrowing from regional innovation finance and credit funds (hereinafter, the RIFCF).

Utilizing the most promising intellectual property objects of regional research and engineering elite and RC employees, under financial support of innovations, applied research, and commercialization from RIFCF, can provide a real opportunity to improve the living standards of research and engineering elite, skilled professionals, young specialists with higher and vocational education, and unskilled RP workers.

BASIC PROVISIONS

The identification and financial support of production and marketing of the most important RC products for sustainable improvement of living standards of territorial community are based on the principles described below.

To monitor the supply and demand for products and their quick commercialization it is necessary to create a database of the serial products and the promising ones that can be commercially manufactured by RC in the medium term. The database should be established and constantly updated by statutory information and RC design, mass production, and marketing proposals. The statutory information includes:

- ✦ Address (full and abbreviated names, identification code, phone, email, and postal address);
- ✦ Data on the corporate management (full name, telephone, fax, e-mail);
- ✦ Register of basic products (BP) manufactured (name, patent, (patent name, country of registration and expiration date), if any, certification doc-

uments, required borrowings to improve quality and to increase output and market expansion;

- ✦ List of innovative products (IP) that can be manufactured (prototype, certification, initial mass production and marketing with time periods and required loan funds specified).

The IP are new competitive products or services that meet the requirements established by the Law of Ukraine on Innovation Activity (see *Vidomosti Verkhovnoi Rady*, no. 36, p. 266, 2002).

The components of RC proposals on the design, mass production, and marketing of products are as follows:

- 1) Product name;
- 2) Purpose;
- 3) Environmental and other safety of product;
- 4) Basic techno-economic characteristics (main characteristics of product, their quantitative values as compared with those of similar products in Ukraine and in the world);
- 5) Amount and period for additional production and marketing of BP (volume, production and marketing period starting with the date of manufacture);
- 6) Required funds to be borrowed from RIFCF for ensuring additional manufacture and marketing of BP (breakdown by type of expenditure: payroll, equipment, materials, travel, overhead costs, and other direct costs);
- 7) Period for the manufacture of pilot sample and its certification, initial volume of mass production and sales; sales periods starting with the date of mass production);
- 8) Required credit funds from RIFCF to create a prototype of IP, its certification and volume of initial production and sales (breakdown by type of expenditure: payroll, equipment, materials, travel, overhead costs, and other direct costs);
- 9) Key phases of works and share of workers in the product manufacture (the stages of works and terms of their execution, the key outputs and deliverables, required funds, qualification categories of workers with the number of employees in each of the categories, the average monthly salary and age structure of the personnel (separately

percentage of staff aged up to 35 years and that of employees of retirement age);

10) Patent protection of IP (patent name and its registration number, country of registration and expiry date, the applicants' rights to use patent);

11) Experience of the customer to launch sales (BP or IP name, manufacturer (company name, address, phone, e-mail), period and volume production, volume of sales and period starting with the date of mass production (at least, two examples of experience in BP or IP sales launch);

12) Monthly income and expenses of the project;

13) Customer's plan for repayment of borrowings from RIFCF (month, year, and corresponding amounts of loan repayment);

14) Plan of customer's donations to RIFCF (month, year, and corresponding amounts of donations to RIFCF);

15) The customer data (responsible officer for launching the design and marketing of OP or IP, name of organization, mailing address, telephone, fax, e-mail);

16) Developer of pilot sample/prototype (name of organization, mailing address, telephone, fax, and e-mail);

17) BP or IP manufacturer (full name, postal address, telephone, fax, e-mail);

18) Attachments: 1) copies of patents and other documents confirming the applicants' rights to use the products; 2) customer's warranties (documents confirming the customer's ability to repay borrowed funds in due time and in full amount, with inflation taken into account).

The RC statutory data and information on the design, mass production, and marketing of BP and IP are filed as separate thematic cards of a certain standard. These thematic cards are deemed loan applications for the development and launch of serial production of particular BP or IP.

The preparation of thematic cards is accompanied by expert opinion on the admissibility of publication of the information contained therein.

The priority BP or IP that can be made and sold in the medium term if the customer gets a loan from RIFCF is identified based on the database.

The BP or IP customer can be any organization that submits to RIFCF the warranty documents regarding its ability to repay inflation-adjusted loan till the end of the marketing of initial volume of these products (see paragraphs 13 and 18) and pays taxes to the regional budget.

The RIFCF is raised at the expense of local budget and other sources not prohibited by the legislation of Ukraine. The RIFCF activities are governed by its Statute. The RIFCF funds can be spent on all types of investments listed in Clause 17 of the Law of Ukraine on Innovation Activity and other investments specified in the RIFCF Statute.

In parallel with the RIFCF, a specialized communal innovative institution, the regional communal center for support of RC innovation (the RCC SRCI) is established. The center is responsible for monitoring the target use of funds borrowed from RIFCF for each proposal approved for RIFCF financial support, as well as the timely and full repayment of loan by the customer. In parallel, the Center continuously monitors the offers of individuals and businesses and supports projects that eligible for financial support from RIFCF and operates on the basis of the Statute approved.

The Coordinating Board is responsible for the coordination of efforts of RIFCF and RCC SRCI. The personal structure of the Coordinating Board, the rights and duties of its members are defined by the Board Regulations. The Board Regulations are approved by chairman of the regional government. The Board creates a permanent commission of experts to analyze the supply and demand for RC BP and IP proposed for design, production, and marketing in the domestic and international markets with financial support from the RIFCF. Exclusively on the basis of the expert committee proposals the Board shall determine the priority BP and IP that can be manufactured and sold in the medium term with the help of financial support from RIFCF to improve the socio-economic balance of the regional development. The main activities of RCC SRCI are as follows:

- ✦ Identification of medium priority directions for RC innovative activities, applied research, and pilot production;
- ✦ Publication of the rules for competitive selection of proposals related to the creation of innovative products and procurement, type and scope of financial support from RIFCF;
- ✦ Prompt processing of requests and offers of businesses and individuals with respect to establishing and implementing the priorities of RC innovative activities, applied research, and pilot production;
- ✦ Monitoring of target use of borrowed funds by innovative entities;
- ✦ Monitoring of timely and full (inflation-adjusted) repayment of loans and making of charitable donations to RIFCF by customers.

The RCC SRCI shall publish in mass media the annual reports on funded projects, their outcomes, deliverables, and progress, and periodically (at least, quarterly) inform the public about:

- ✦ Results of the competitive selection of projects for financial support and the type of support provided financial support;
- ✦ Results of monitoring of the status of funded projects;
- ✦ Completed projects with extended period of execution and reasons for the extension;
- ✦ Repayment of loans issued previously.

The awardee RC projects are determined by the permanent commission under the Coordinating Board using methodological and technological means (mathematical and software) and quantitative assessment of operational efficiency of RC competing projects. This mathematical and software must focus on the key performance indicators of proposed projects:

- ✦ Project classification by dependence criteria;
- ✦ System of ranking of alternative projects;
- ✦ Net present value of projects;
- ✦ Project internal rate of return;
- ✦ Project profitability as function of market price for the products, demand, supply, and risks;
- ✦ Modified internal rate of return;
- ✦ Absolute and relative investment risks;
- ✦ Risk-adjusted discount rate.

MAIN AREAS OF IMPLEMENTATION AND DEVELOPMENT

Direction 1. The investment policy of local governments with respect to the development and implementation in the region of the following components:

- ✦ Favorable investment conditions in the priority areas of the local community development;
- ✦ Mechanisms for project financing of municipal infrastructure.

Direction 2. Educational, scientific, and informational support of the local government regarding the development and implementation of standard databases to ensure balanced decision-making by local authorities.

EXPECTED RESULTS

1. The implementation and development of the above mentioned mechanism for cooperation allows us:

- ✦ To identify and to correct medium priority directions of RC innovative activities, applied research, and pilot production autonomously and quickly;
- ✦ To create regional medium-scale enterprises for the manufacture of competitive products in amounts determined by real market demand (as a consequence, in the medium term, the employees of these companies can for medium-income territorial community groups and independently decide on the scale of manufacturing and marketing of their products, wages, social protection of workers and their families, insurance, etc.).

2. The transparency of supply and demand for RC products facilitates the self-organization of corporate economic links between the science, the production, and the market. Particularly important that the mandatory full repayment of loan by the customer ensures self-discipline of the involved parties at all stages: *research – development – production – marketing and sales.*

3. The employees of local governments who deal with the problems of regional social and economic development can make effective decisions to identify and to start the implementation of the most important medium-term RC projects to improve the living standards of the regional community.

LEGAL AND RESEARCH FRAMEWORK

The proposed mechanism for innovation and investment cooperation is based on the Law of Ukraine on Innovation Activity (Clause 7 (paragraphs 1, 2, 3, 10, 17, 18, and 20)), the Law of Ukraine on Investment Activity (Clauses 1–5, 7–12, 16–22), the Law of Ukraine on the Local Government in Ukraine (Clause 64, paragraph 6) and generalized presentation of the results of researches [1–6].

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ПРО КОНЦЕПТУАЛЬНІ ЗАСАДИ ПОКРАЩЕННЯ ЖИТТЄВОГО РІВНЯ ТЕРИТОРІАЛЬНОЇ ГРОМАДИ НА ОСНОВІ ВПРОВАДЖЕННЯ ТА РОЗВИТКУ НОВИХ ФОРМ ІННОВАЦІЙНО-ІНВЕСТИЦІЙНОЇ СПІВПРАЦІ РЕГІОНАЛЬНОЇ ВЛАДИ ТА ТЕРИТОРІАЛЬНОЇ ГРОМАДИ

Сформульовано головні положення розробки, впровадження та розвитку регіональних цільових програм на основі нових методичних та фінансових засобів і засад замовлення та реалізації збуту найбільш вагової продукції регіональних підприємств і організацій для покращення життєвого рівня територіальної громади.

Ключові слова: регіональні підприємства і організації, основна та інноваційна продукція, регіональні органи влади, моніторинг попиту і пропозицій на продукцію.

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О КОНЦЕПТУАЛЬНЫХ ОСНОВАХ УЛУЧШЕНИЯ ЖИЗНЕННОГО УРОВНЯ ТЕРРИТОРИАЛЬНОЙ ОБЩИНЫ НА ОСНОВЕ ВНЕДРЕНИЯ И РАЗВИТИЯ НОВЫХ ФОРМ ИННОВАЦИОННО-ИНВЕСТИЦИОННОГО СОТРУДНИЧЕСТВА РЕГИОНАЛЬНОЙ ВЛАСТИ И ТЕРРИТОРИАЛЬНОЙ ОБЩИНЫ

Сформулированы главные положения разработки, внедрения и развития региональных целевых программ на основе новых методических и финансовых средств и основ заказа и реализации сбыта наиболее весомой продукции региональных предприятий и организаций для улучшения жизненного уровня территориальной общины.

Ключевые слова: региональные предприятия и организации, основная и инновационная продукция, региональные органы власти, мониторинг спроса и предложений на продукцию.

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