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**THE CURRENT STATE AND PROBLEMS OF EQUITY FINANCING
DEVELOPMENT IN UKRAINE**

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The article deals with the essence of equity form of business financing and analyzes dynamics of joint-stock companies' foundation in Ukraine. Special attention was given

to generating Ukrainian enterprises' equity capital via IPO in foreign markets. The ways of equity form of financing activization in Ukraine were suggested.

Key words: stock, equity financing, joint-stock company, issue, investing, initial public offering.

In the process of extended public reproduction the contradiction between necessity in capital investments for business development and limited individual financial funds occurs. Inefficient tax and depreciation policy make it impossible to accumulate sufficient internal funds for effective business growth. Bank crediting and corporate bonds issue can have impact only in case of high profitability of investment activities. Under such conditions equity financing is practically the only mechanism of obtaining so essential investment funds needed for upgrading large domestic enterprises. This fact grounds necessity in investigating issues on the role and problems of Ukrainian enterprises' equity financing.

Attractiveness of equity financing (common stock issue) consists in the fact that the main volume of funds comes at the beginning of activity, i.e. gives opportunity to finance new enterprises without their own funds and property that can be used as loan collateral. In addition, a company is not obliged to repay capital.

Equity form of financing (of, particularly, investment projects) considerably simplifies the process of national economy integration with the system of global economic relationship via attracting foreign investment. Entering global equity capital markets assists national companies in raising additional currency resources for technical development, re-equipment and production base reconstruction.

At the same time, this method of financing has a number of essential restrictions. In particular, a joint-stock company receives investment resources upon completion of stock issue placement that requires time and additional expenses. The procedure of additional stock emission is connected with registering an issue, listing shares, paying services of professional securities market participants (underwriters and investment advisers). Besides, stock issue is not always placed in full. After share emission

company must pay dividends, periodically distribute reports among stockholders, etc. Increase in a company's equity capital as a result of additional share issue may lead to stock dilution and reduction in shareholders' income.

Despite substantial role in investment financing, equity business form has not become popular in Ukraine. According to official data of the State Department of Statistics of Ukraine, the percentage of joint-stock companies in the total amount of entities being part of the Unified State Register of Enterprises and Organizations of Ukraine (EDRPOU) makes up only 2% or 26 568 entities (tab. 1), in addition, this portion has declined two-fold (from 4,19% to 2,01%) against 2001.

Table 1

**Structure of EDRPOU entities according to the form of business organization
as of January 1 of the respective year***

	2001	2006	2008	2009	2010	2011	2012
Total, including:	100	100	100	100	100	100	100
farm enterprise	4,62	4,57	4,21	4,08	3,95	3,82	3,70
private enterprise	23,02	23,18	22,77	22,67	22,54	22,08	21,45
collective enterprise	4,79	2,91	2,33	2,16	2,04	1,92	1,76
state enterprise	1,19	0,71	0,61	0,57	0,54	0,51	0,49
utility enterprise	1,64	1,56	1,40	1,33	1,27	1,21	1,18
affiliate enterprise	2,29	2,16	1,82	1,71	1,62	1,54	1,45
joint-stock company	4,19	3,17	2,7	2,53	2,4	2,22	2,01
- public	-	-	-	-	0,02	0,07	0,22
- private	-	-	-	-	0,01	0,1	0,3
- open	1,49	1,08	0,89	0,86	0,78	0,66	0,37
- closed	2,7	2,09	1,81	1,67	1,59	1,39	1,12
limited liability company	26,58	30,44	32,11	32,92	33,23	34,24	35,34
cooperative	3,58	2,88	2,80	2,79	2,79	2,69	2,58
institution (establishment)	8,31	8,02	8,58	8,46	8,63	8,50	8,42

*Composed and calculated by authors independently from the source: [1].

Open and public joint-stock companies having more possibilities to raise funds in domestic and foreign markets also demonstrate negative trend. As we can see from the

total amount of joint-stock companies registered in Ukraine (26,5 thousand), public and open types constitute only 2894 (10,9%) and 4649 (17,5%) entities, respectively (fig. 1).

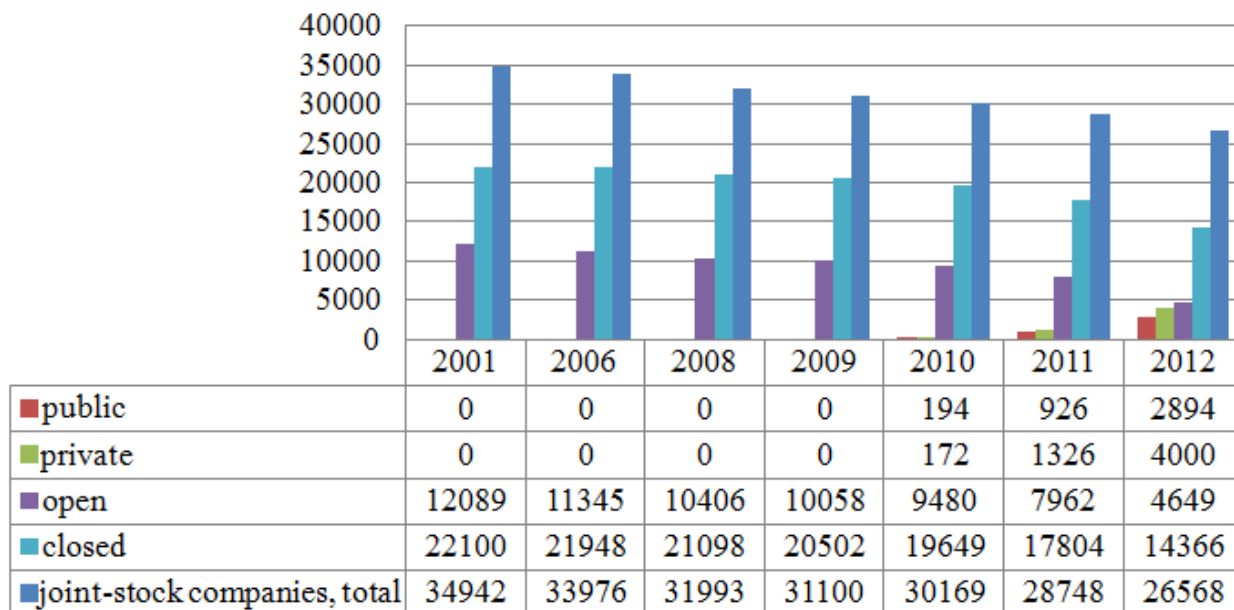


Fig. 1. Amount of joint-stock companies by types as of January 1 of the respective year*

* Composed and calculated by authors independently from the source: [1].

Thus, domestic enterprises are not capable of raising sufficient funds via equity form of business organization. One of the key reasons consists in underdevelopment of the Ukrainian stock market. After the financial collapse of 1998 it was hardly recovered and during the next few years stagnated. But in 2004 the market suddenly burst and demonstrated enormous growth. In 2007 domestic share market showed the best dynamics in the world [2], but at the same time the following 2008 global financial crisis considerably adjusted indicators of global capital markets, including the Ukrainian one.

Nowadays the Ukrainian stock market is usually referred to as an Emerging market. However, actually, according to Standard & Poor's official classification, it is still related to as the so called Frontier market [3]. This fact deters investors from investing in its financial instruments. Nevertheless, already in 2011 Ukrainian share market capitalization amounted to USD 25,6 billion (tab. 2) that places it first among European frontier markets.

Table 2

**Dynamics of “share market capitalization to Ukrainian GDP” ratio
in 2004-2011***

<i>Indicators</i>	2004	2005	2006	2007	2008	2009	2010	2011
Capitalization (USD billion)	11,8	25,0	42,9	111,8	24,4	16,8	39,5	25,6
GDP (by PPP) (USD billion)	247,9	263,0	291,3	323,4	338,2	291,2	306,6	331,4
Capitalization / GDP	4,8%	9,5%	14,7%	34,6%	7,2%	5,8%	12,9%	7,7%

* Composed and calculated by authors independently from the source: [4; 5].

At the same time, if we compare key stock market indicators of the USA, China, Poland and Ukraine (tab. 3), we can see the huge gap between our state and developed countries.

Table 3

**Comparative characteristics of securities markets of the USA, China, Poland
and Ukraine as at the end of 2011***

Country	GDP (by PPP)		Market capitalization	
	USD billion	% in Global GDP	USD billion	% to GDP
USA	15,1	18,6	15,6	104
China	11,3	14,0	3,4	30
Poland	0,77	1,0	0,2	25
Ukraine	0,33	0,4	0,03	8

* Composed and calculated by authors independently from the sources: [4-9].

Such situation is mainly caused by the fact that the Ukrainian securities market is characterized by poor corporate governance with numerous cases of selling off property right after acquisition and diluting shares of existing stockholders. None the less, it has big potential for growth and will be, particularly, activated when more domestic companies offer their shares in search of new long-term investment funds, including from foreign investors.

While analyzing key trends of raising foreign capital through equity financing one should pay special attention to *Initial Public Offering (IPO)* that is the public sale of stock in organized market. The first IPO was conducted by Ukrainian enterprises in 2005. As at the end of 2011 they carried out 22 deals and raised over USD 2315 million (tab. 4).

Table 4

List of Ukrainian companies' IPOs in 2005-2011*

№ п/п	Issue year	Issuer name	Sector	Exchange	Batch of shares issued	Capital raised, USD mln
1	2005	Ukrproduct Group	Agriculture	AIM	27,2%	11,3
2	2005	Cardinal Resources	Oil and gas	AIM	36,3%	20
3	2005	XXI Century	Real estate	AIM	35,7%	138,7
4	2006	Astarta Holding N.V.	Agriculture	WSE	20%	31
5	2007	TMM	Real estate	Deutsche Boerse	13,1%	105
6	2007	Dragon-Ukrainian Properties & Development	Real estate	AIM	100%	208
7	2007	Ferrexpo	Mineral resources	LSE	26%	420
8	2007	Landkom International PLC	Agriculture	AIM	55%	111
9	2007	KDD Group	Real estate	AIM	19,7%	130
10	2007	Kernel Holding S.A.	Agriculture	WSE	33%	218
11	2008	MHP SA	Agriculture	LSE	19,41%	322
12	2010	Avangard	Agriculture	LSE	20%	187,5
13	2010	Agroton	Agriculture	WSE	26,2%	53,7
14	2010	Milkiland N.V.	Agriculture	WSE	22,4%	78
15	2010	Sadovaya Group	Mineral resources	WSE	н/д	30,4
16	2011	Agroliga	Agriculture	WSE (New Connect)	16,67%	1,4
17	2011	KSG Agro S.A.	Agriculture	WSE	33%	39,6
18	2011	Industrial Milk Company	Agriculture	WSE	23,9%	29,1
19	2011	Ovostar Union N.V.	Agriculture	WSE	25%	33,4
20	2011	Westa ISIC S.A.	Automobile	WSE	н/д	47,6
21	2011	Coal Energy	Mineral resources	WSE	25%	81,4
22	2011	Agro-Generation	Agriculture	NYSE Euronext (Alternext)	17,85%	18

Total capital raised	2315,1
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* Composed and calculated by authors independently from the sources: [8-10].

Sector analysis of Ukrainian IPOs for the period of 2005-2011 indicates the dominance of agricultural companies (59%) (fig. 2). The second spot was captured by real estate issuers (18%), then – mineral resource enterprises (14%), fourth place taken by automobile, as well as oil and gas sectors (4,5% each).

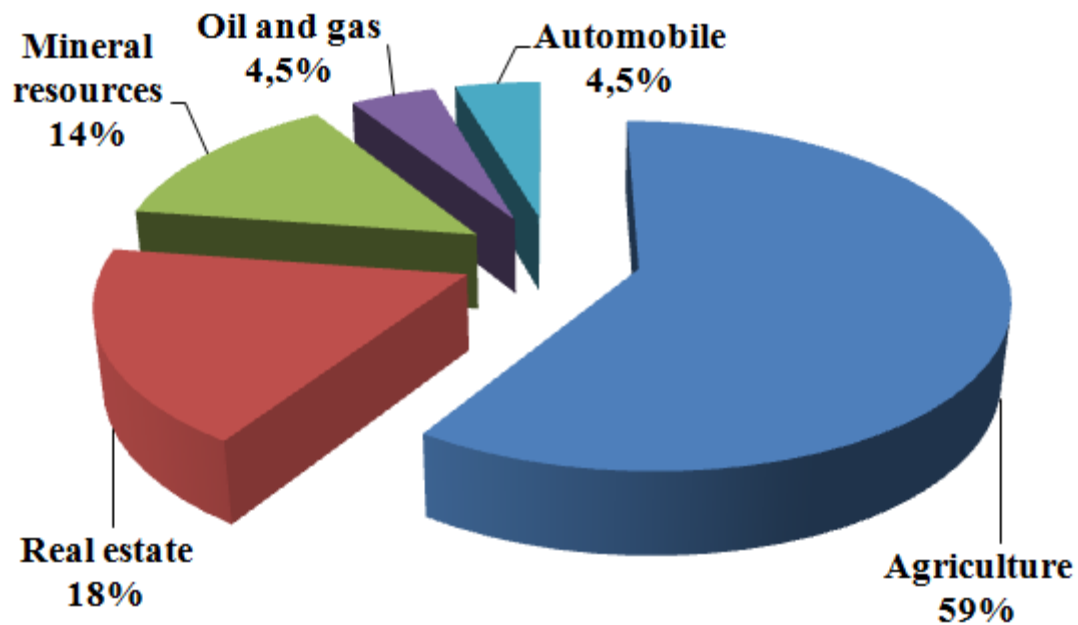


Fig. 2. Sector structure of the Ukrainian IPO market in 2005-2011,% *

* Composed and calculated by authors independently from the sources: [9-10].

Since the beginning of 2012 Ukrainian IPO market has been suffering deep recession. Companies planning to go public abroad have delayed this idea until better times.

In addition to global financial crisis, there is a number of other factors preventing Ukrainian enterprises from using equity financing, notably:

- ✓ underdevelopment of domestic securities market and its infrastructure, including corporate law;
- ✓ low level of Ukrainian joint-stock companies' qualification and transparency;
- ✓ low investment attractiveness of domestic enterprises for foreign investors in connection with social, economic and political instability in Ukraine;

- ✓ informational closure of most issuers, even at the stage of IPO;
- ✓ insufficient experience of underwriters in placing domestic shares abroad;
- ✓ negative experience of a number of Ukrainian issuers that went public during 2005-2008, etc.

Considering these problems, national companies wishing to conduct IPO should rebuild their corporate structure according to international standards. Publicity will give them an opportunity to raise necessary financial funds and new connections, provide annual growth, quality and development.

At the same time, development of equity financing in Ukraine requires setting up stable and predictable rules of “business to state authority” relations, as well as legislative base for property rights protection. First of all, the point means creating an efficient system of disclosing information on joint-stock companies’ functioning. Its enhancement should be accomplished in the following directions:

- ü improvement of legal environment for data disclosure system, provision of transparency of Ukrainian issuers whose securities are being publicly traded;
- ü development of mechanisms of control and supervision of performing requirements on data disclosure, calling to account for breach of such requirements, using modern information technologies for increasing efficiency of gathering, processing, analyzing and disclosing information;
- ü formation of favorable securities market legal environment that would make share placement efficient for issuers and attractive for investors.

The following requires: providing legal ability for functioning of non-banking financial institutions – investment companies that will fully conduct investment activities (dealership, underwriting, asset management), have privilege in making IPOs, provide investment consulting services, etc.; legally defining brokerage as activity conducted exclusively on the stock exchange and setting strict rules of investment companies’ indirect participation in exchange trade; implementing and providing effective functioning of the institute of initial dealers in the state securities market at al.

Suggested ways of equity financing development in Ukraine will promote generation of financial resources necessary for economic growth and improvement of the country's investment image.

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IMPROVING HEALTH ORGANIZATION OF AUDITORS

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This article discusses the characteristics and problems in the field of construction work organization auditors. Effective organization, not only facilitates the work of auditors, but also increases their competitiveness in the labor market.

Keywords: organization of work, audit work, the audit activity.

In our country the audit appeared recently: after Russia's transition to a market economy, the need to create a system of financial control. According to the Federal Law "On Auditing", "Audit - independent audit of accounting (financial) statements of the entity in order to express an opinion on these financial statements." [1] This enables users of financial statements with the confidence to use the information available in the financial statements for management decisions. Therefore, in developed countries the audit profession is very important and rapidly growing. Auditor's work - is long working hours, constant travel.

As in any work here is important to the proper organization to make optimal use of human resources.

The organization of the personnel - a certain order in structure and implementation of the labor process, which is folding is the system of interaction of employees with objects and implements labor and production people interact with