

## **P2P MECHANISMS TO FINANCE THE DEVELOPMENTAL NEEDS OF COMMERCIAL ENTITIES**

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The possibility of its existence in a long-term perspective depends on the successful solution of the task to ensure the growth and development of the business entity. As for development, there are different dimensions of it. Such measures may include the value of own capital, sales volume, profit value, etc. But ensuring development requires costs. Also, its innovative character should be observed. After all, the innovative nature of development creates competitive advantages and distinguishes one brand from another.

At the same time, financing development needs can be carried out both at the expense of own and the attracted sources. Using only your sources significantly limits development opportunities. And excessive use of the attracted financing threatens to lose control over the enterprise. Therefore, in practice, they often combine their own and involved sources of financing. This helps to balance financing needs and risks. Moreover, it is easier to attract external financing when the owners or managers of financial resources understand that nominal owners of businesses also participate in the financing. It should also be noted that the financiers may have their own

requirements for the leverage level, which limit their ability to finance innovative projects.

Regarding sectors, institutional funding is widely available to entrepreneurs. Companies which carry it out are the financial intermediaries, mainly - banks. But this sector also includes various investment and financial companies that are more willing to accept risks. It is necessary to consider that the payment for this can become a complete loss of control over the enterprise. Another option is to search for private financiers. These can be both potential investors and potential creditors. By its potential, this sector could successfully compete with the segment of foreign investments.

The following figures evidence this. According to NBU data (NBU, 2022), in 2021, Ukraine received foreign direct investments amounting to USD 6,7 billion. Of these, almost USD 2,4 billion are of Ukrainian origin, but it has been transferred through foreign jurisdictions. So we have a figure of USD 4,3 billion, which is the net result of attracting foreign investments into the economy of Ukraine. Let's compare it with the volume of private foreign transfers to Ukraine, which for the same period amounted to \$14,0 billion (according to the same data). The conclusion will not be in favour of foreign investors.

Moreover, such a high level of funds of Ukrainian origin in the total volume of foreign investments (more than one-third) testifies to discriminatory policy, which the government carries out with local investors. Preferences granted to foreign investors exceed the costs of registration and administration of legal entities in foreign jurisdictions for powerful companies with activities in Ukraine as their income source. However, suppose the representatives of the highest authorities consider taxpayers to be a goose, which should be plucked alive (Channel 5, 2022). In that case, there is no surprise in that Ukrainian entrepreneurs are trying to evacuate their capital from such a toxic environment and reduce business risks.

Another vital factor to consider is the consequences of hostile actions by the Russian Federation. As a result of acts of genocide, terrorist attacks on civilian objects and armed actions caused significant damage to human capital, transport and energy

infrastructure, and other components of production potential. According to different estimates, the damage as of September 2022 is estimated from \$350 billion to \$750 billion (Shevchuk, 2022). The recovery requires considerable financial resources, and the issue of temporarily mobilizing free resources from the private sector and households are becoming more urgent. Moreover, the private sector and entrepreneurs are the engine of social and economic development.

Various aspects of the practical implementation of the P2P mechanisms have their implementation in the studies of the impact of digitalization on access to finance (Bollaert et al., 2021), the impact of financial technologies on sustainable development (Deng et al., 2019), problems and risks associated with the P2P lending (Suryono et al., 2019).

The idea behind moving financial relations into the P2P dimension is to provide business representatives with access to the financial resources of the private sector and households without financial intermediaries. At the same time, new dimensions of financial markets are formed - the micro-investment market and the microcredit market, where creditors are also operating at the micro level, not just like borrowers. Such an approach is fundamentally different from the existing concepts of microcredits, where only borrowers are micro-level. This complements the system and allows the formation of a holistic microfinance market with as much freedom in capital movement as possible in the existing legal environment. The infrastructure of the P2P financial market is built on an innovative basis with the wide use of information technologies and approaches of decentralized finance.

Governance and risk management are important issues that have to be addressed efficiently. If financial intermediaries are involved in financing schemes, they assume risk management and administration functions. In traditional financing, it is not possible to solve these issues in an effective way. Therefore, the P2P approach to finance has not spread widely. At the same time, the private sector has developed funding based on a centralized approach. The infrastructure for it was created by banks, investment and financial companies, credit unions, and other financial intermediaries. A vital element of this infrastructure is the credit bureaus. However, for specific

reasons, access to information gathered by such bureaus is not public. Also, sources of information for estimating credit ratings are provided by financial intermediaries working on centralized principles. This is not a problem for the corporate sector. But for the P2P finance this will not work.

In order to form and successfully develop financial instruments in the P2P format, it is necessary to provide an acceptable level of risk for all market participants, who will provide their financial resources for investment and borrowing. An efficient way to solve this problem may be to allocate the information and analytical direction of work on financial markets and set up particular specialized services. Another critical step in this direction will be the development of loan instruments based on collateral and guarantees. Taking into account the absence of an effective judicial system (BBC, 2022) and a toxic environment for entrepreneurship in general, the practical solution will be to move the relationship into a digital dimension, where the rights of the owner are realized at the technological level, and the information about each financial transaction is open. This simplifies decision-making and excludes corrupt officials.

Through the help of P2P mechanisms, the owners of financial resources get the possibility of direct placement without the participation of banks and other financial intermediaries. The same possibility is obtained by private sector entities (including private individuals and households) that need financing. The infrastructure of P2P financing is based on modern financial technologies. And, in particular, cryptocurrency transactions, smart contracts, and decentralized finance. This not only allows financial intermediaries to be excluded from the financial resource distribution chain but also makes it easier for the private sector to access global financial resources. Such actions will compensate for the consequences of the failed policy on attracting foreign investment and become especially relevant because of the expected rapid growth of the need to finance renewal and innovation development programs in the post-war recovery period.

The critical element of the P2P funding mechanisms is the mutual trust of the transaction participants. And taking into account the long-term nature of the relations formed in the financing process, it is necessary to identify their participants and check

their reputation. This applies both to those who place financial resources and those who attract them. The most obvious risks arising from the absence of identification and proper verification will be the risk involved in doubtful financial transactions (money laundering, financing terrorism, etc.) for those who attract funding. For the person who places the financial resources, it will bring, first of all, the risk of getting on fraudsters and losing money. The solution to this problem is possible through the development of digital services, which will confirm the identity and reputation of the person, including - legal entities. In Ukraine, there is considerable progress in the digital identification of individuals. This experience can be successfully used for legal entities as well.

Thus, P2P funding allows simplified access to financial resources and thus promotes innovative development. But the development of financial P2P technologies carries new challenges. These are, in particular, threats related to open access to financial information, at least in part of the credit rating. Therefore, a methodology for estimating such a rating is needed. And such methodology has to ensure a smooth process without disclosure of personal financial information. The solution to the issue of the development of smart contracts, which would ensure automatic fulfilment of conditions of allocation and attraction of financial resources, is also required. At the same time, the terms of such smart contracts should be harmonized with the requirements of the current legislation. As for the solution to legal issues, the correct approach is considered to use the imperative: "Allowed is all that is not prohibited by law". This will allow the participants of the P2P relations to be taken out of the risk zone in aspects that are not regulated clearly at the legislative level and remove grounds for corruption abuses.

The direction of further scientific research is substantiating a comprehensive strategy for developing P2P financing, its decomposition to the level of particular digital services and practical recommendations on their organization.

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