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TABLE OF CONTENTS

<i>Tetiana Vasilyeva, Olha Kuzmenko, Evgenia Bondarenko, Tetiana Dotsenko</i>	RELATIONSHIPS' FORMALIZATION OF THE AML RELEVANT FACTORS' DYNAMIC STABILITY: VAR-ANALYSIS	5
<i>Nalini Mishra, Shubhangi Sharma</i>	CORPORATE SOCIAL RESPONSIBILITY (CSR) AND SOCIAL ENTREPRENEURSHIP IS A NEED OF HOUR	11
<i>Tetyana Mayboroda, Daniela Chumakova</i>	ETHICAL LEADERSHIP AND BUSINESS COMMUNICATIONS	13
<i>Kashpur Sofiia, Myroshnychenko</i>	REGIONAL ENVIRONMENTAL GOVERNANCE: TRENDS AND KEY CHALLENGES	17
<i>Nataliia Bulavinova</i>	THE WAY TO ACHIEVE CARBON-FREE ECONOMY: CLUSTER ANALYSIS	21
<i>Khomutenko Ludmila, Malovaniy Maksim</i>	CURRENT GLOBAL TRENDS AND FEATURES OF THEIR IMPACT ON THE COMPETITIVENESS OF UKRAINE OVER THE NEXT FEW YEARS	26
<i>Rymar Viktoriia</i>	HARMONIZATION OF STAKEHOLDER'S INTERESTS AND EFFECTIVE COOPERATION IN TIMES OF INNOVATIONS AND BUSINESS TRANSFORMATION	28
<i>Zhang Heng</i>	CONSUMER PROTECTION IN THE CONTEXT OF ECONOMIC DIGITIZATION- EU	31
<i>Katarzyna Ziembowicz</i>	MOTIVATION OF EMPLOYEES IN THE ORGANIZATIONAL CHANGE MANAGEMENT	35
<i>Svitlana Chorna</i>	BASICS OF BEHAVIORAL ECONOMICS – INFLUENCING ECONOMIC DECISIONS	38
<i>Yevheniia Lavryk</i>	THE MAIN ASPECTS OF CUSTOMER- ORIENTED ENTERPRISE MANAGEMENT	42
<i>Tetyana Mayboroda, Anastasiia Kursenko</i>	CORPORATE SOCIAL RESPONSIBILITY IN UKRAINE: CURRENT STAGE AND CARLSBERG'S CASE STUDY OVERVIEW	46
<i>Valeriia Burnakova, Victoriia Shcherbachenko</i>	CORPORATE SOCIAL RESPONSIBILITY	51

<i>Kateryna Miroshnychenko, Viktoriia Shcherbachenko</i>	CHILD LABOR AS AN OBSTACLE TO EDUCATION	56
<i>Maksym Usok, Yana Us, Tetyana Pimonenko, Olexii Lyulyov, Aleksy Kwilinski</i>	THE ROLE OF MODERN INFORMATION TECHNOLOGIES IN THE ENTERPRISE MARKETING ACTIVITY	60
<i>Yevhen Nikitchenko, Larysa Hrytsenko</i>	ORGANIZATIONAL AND ECONOMIC SUPPORT FOR THE FOREIGN TRADE ACTIVITIES DEVELOPMENT OF UKRAINE BUSINESS STRUCTURES	66
<i>Yevheniia Ziabina</i>	CORPORATE SOCIAL RESPONSIBILITY IN HUMAN RESOURCES MANAGEMENT: BIBLIOMETRIC ANALYSIS	70
<i>Viktoriia Shkola, Maryna Domashenko</i>	GLOBAL INNOVATION PERFORMANCES AND TRENDS	74
<i>Victoria Bozhenko Karina Petrenko</i>	INFORMATION TECHNOLOGIES AND ARTIFICIAL INTELLIGENCE AS TOOLS TO COMBAT CORRUPTION	79
<i>Anjali Boyramboli</i>	MANAGEMENT OF HUMAN RESOURCES, MANAGEMENT, LEADERSHIP PSYCHOLOGY, ORGANIZATIONAL CULTURE, MOTIVATION, PROFESSIONAL ETHICS	84
<i>Anna Vorontsova, Limor Dahari</i>	PARADIGM OF INCLUSIVE EDUCATION AS SUSTAINABLE PHILOSOPHY OF SOCIAL CHANGE	86

RELATIONSHIPS' FORMALIZATION OF THE AML RELEVANT FACTORS' DYNAMIC STABILITY: VAR-ANALYSIS

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Global transformation processes, the spread of global economic ties and the introduction of new technologies in the financial sphere significantly increase the overall level of the international financial system's vulnerability. One of the major threats to any national economy is the problem of combating money laundering (AML – Anti-Money Laundering).

In recent decades, the issue of financial monitoring is very relevant in the scientific world (Bouchetara et al., 2020; Zolkover and Georgiev, 2020; Nemmiche et al., 2019; Moskovicz, 2019; Kaya, 2020; Starchenko et al., 2021; Zainea et al., 2020; Greco and Matta, 2021; Khaliq et al., 2021; Novikov, 2021b; Dzwigol, 2020; Shkarlet et al., 2019; Fila et al., 2020; Kordos, 2019; Partlova et al., 2020; Us et al., 2020; Letunovska et al., 2020; Prudnikov and Nazarenko, 2021; Antonyuk et al., 2021; Tiutiunyk et al., 2021; Pimonenko et al., 2021; Pimonenko et al., 2021; Ziabina et al., 2020; Novikov, 2021a; Biewendt et al., 2021; Niftiyev et al., 2021). Among the existing scientific works and practical recommendations on financial monitoring are identified scientists: Leonov, S., Yarovenko, H., Boiko, A., & Dotsenko, T. (Leonov et al., 2019) with a prototype information system for intrabank monitoring of operations related to money laundering; Bukhtiarova A., Semenog A., Razinkova M., Nebaba N. and Haber J. A. (Bukhtiarova et al., 2020) in whose work the process of evaluating the effectiveness of financial monitoring measures in Ukraine was studied; Lyulyov, O., Paliienko, M., Prasol, L., Vasilyeva, T., Kubatko, O., & Kubatko, V. (Lyulyov et al., 2021) on the outlet of the shadow economy in transition economies; Nguyen, T.A.N., Luong, T.T.H. (Nguyen et al., 2020), which investigate corruption and the shadow economy.

For the study, a statistical array of input indicators was created, presented in the form of panel data for the period from 2000 to 2021 in terms of 15 countries of the European Union: Austria, Belgium, Cyprus, Estonia, Finland, France, Greece, Ireland, Italy, Latvia, Malta, Netherlands, Portugal, Slovak Republic, Spain.

The study involves the following stages:

Stage 1. Statistical data collection and systematization for the intellectual analysis of dynamic stability of national financial monitoring system's subjects to actions on legalization of criminal incomes.

Stage 2. Input indicators' grouping into regressors and regressors and formation on the basis of selected regressors an integrated indicator of the country's financial system's propensity to ALM. Among the many indicators of the input statistical base formed in the first stage, it is proposed to consider as regressors: Index of economic freedom, Government Integrity, Monetary Sector credit to private sector (% GDP), while regressors are: Financial Freedom, Currency in Circulation (% GDP). Formation on the basis of the selected regressors of the integrated indicator of the characteristic of propensity of financial system of the country to ALM provides:

Stage 2.1. Normalization of regressors Financial Freedom (denote FF) and Currency in Circulation (% GDP) in order to bring to a comparable form using a nonlinear method using a logistics function.

Stage 2.2. Calculation of the integrated indicator of the country's financial system's propensity to ALM based on the value inverse to the arithmetic mean of the normalized levels of regressors Financial Freedom and Currency in Circulation (% GDP) (formula 1):

$$PFSALM_{ij} = 1 - \frac{ff_{ij}^n + cc_{ij}^n}{2} \quad (1)$$

where $PFSALM_{ij}$ - an integral indicator of the financial system's propensity of the country to ALM in terms of the i-th country for the j-th year; ff_{ij}^n - normalized value of the regression Financial Freedom in terms of the i-th country for the j-th year; cc_{ij}^n - normalized value of the regression Currency in Circulation (% GDP) in terms of the i-th country for the j-th year.

Stage 3. Analysis of the dynamic resilience of the national financial monitoring system's subjects to actions to legalize criminal proceeds based on a binary approach. At this stage, it is proposed to conduct both a spatial analysis of the resilience of the national financial monitoring systems' subjects for different countries to actions to legalize criminal proceeds, and an analysis of the resilience's dynamics. If the value of the propensity integral indicator of the country's financial system to the ALM level of 0.5, we can say about the instability, and in another case - about the stability (formula 2).

$$\begin{cases} \text{If } PFSALM_{ij} \geq 0.5, \text{ unstable} \\ \text{If } PFSALM_{ij} < 0.5, \text{ stable} \end{cases} \quad (2)$$

Stage 4. Identification of relevant factors' causality of dynamic stability / instability of the national financial monitoring system's subjects to actions on legalization of criminal incomes on the basis of the binary approach on the basis of

construction of model of vector autoregression (VAR) dependence of propensity of financial system to ALM , Government Integrity, Monetary Sector credit to private sector (% GDP) taking into account time lags for 15 considered countries. To implement this stage, it is proposed to use the EViews program Quick / Estimate VAR / VAR Type - Unrestricted VAR / Endogenous Variables - GI, IEF, MSCPS, PFSALM / Lag Interval for Endogenous - 1 and 2. system of the country to ALM (PFSALM_t) taking into account lag delays in one and two years, and as exogenous variables Index of economic freedom, Government Integrity, Monetary Sector credit to private sector (% GDP) taking into account time lags in one and two years respectively, GI_t, IEF_t, MSCPS_t) vector autoregression (VAR) model takes the form (formula 3):

$$\begin{aligned} \text{PFSALM}_t = & a_1 \cdot \text{GI}_{t-1} + a_2 \cdot \text{GI}_{t-2} + a_3 \cdot \text{IEF}_{t-1} + a_4 \cdot \text{IEF}_{t-2} \\ & + a_5 \cdot \text{MSCPS}_{t-1} + a_6 \cdot \text{MSCPS}_{t-2} + a_7 \\ & \cdot \text{PFSALM}_{t-1} + a_8 \cdot \text{PFSALM}_{t-2} + \varepsilon_t \end{aligned} \quad (3)$$

where A_1, A_2, \dots, A_p – constants, constant coefficients before lag endogenous variables; $\varepsilon_t - \varepsilon_t = (\varepsilon_{1t}, \varepsilon_{2t}, \dots, \varepsilon_{nt})^T$ white noise, dimension vector $n \times 1$.

Stage 5. Specific features' determination of dynamic stability / instability of the national financial monitoring system's subjects to actions on legalization of criminal incomes on the basis of propensity's dependence of the country's financial system to ALM on regressors Index of economic freedom, Government Integrity, Monetary Sector credit to private sector (% GDP) taking into account time lags for each of the 15 considered countries based on vector autoregression (VAR). In this stage, using vector autoregression tools, we will determine for each country which exogenous variables are significant and quantify their impact, as well as which lag delays explain the reflection of the country's financial system's propensity to ALM. Similar to the previous step, the EViews toolkit Quick / Estimate VAR / VAR Type - Unrestricted VAR / Endogenous Variables - GI, IEF, MSCPS, PFSALM / Lag Interval for Endogenous - 1 and 2 is used to implement this step.

As a result of the study, a method for estimating the integrated indicator of the country's financial system propensity to ALM was proposed, which allowed to adequately assess the existing financial monitoring systems of selected European Union countries for 2000-2020. financial system of the country to ALM from regressors Government Integrity, Index of economic freedom, Monetary Sector credit to private sector (% GDP) taking into account time lags as a whole and for each studied country separately. Because each country has its own unique set of exogenous factors that have a significant impact on the sustainability of its financial monitoring system, identifying and assessing their impact will help governments to

take such exogenous factors into account in anti-money laundering policies and to ensure growth. its effectiveness in the future.

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