

PROBLEMS AND WAYS OF IMPROVEMENT OF SMALL BUSINESS ROLE IN THE ECONOMY OF UKRAINE UNDER THE CONDITIONS OF INTEGRATION AND GLOBALIZATION

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Introduction. Small businesses are an integral part of a socio-economic state of the country. Firstly, they contribute to maintaining the stability of market relations, since a large part of the population is drawn into this system of relations, because the stability of the system can be provided when 20–30% of the citizens of the country have their own effective business. Secondly, they create the necessary mobility of production in the conditions of flexible market deepening of specialization and wide development of production cooperation without which its success is impossible. Ultimately, this leads to a dynamic economic development and growth of the national economy. Thirdly, the role of small enterprises in the activities of large and medium-sized enterprises is constantly increasing. That is why it is necessary to investigate this field.

Analysis of recent research and publications. The prospects of small business development in Ukraine were researched by the following national scientists: H. Ye. Havryliuk [1, p. 17-21], S. U. Abdybekov [2], D. S. Pokryshka [3], O. S. Ivanilov [4, p. 728], D. V. Vasylieva [5], O. I. Tymchenko [6] and others. They studied the role of small business in Ukrainian economy and have defined different approaches for solving problems of small businesses functioning in current market conditions. However, the situation is changing over time, so that the issue of finding appropriate ways to improve the efficiency of small business in the Ukrainian economy needs to be further investigated. Small business is an independent, systematic, proactive economic activity of small businesses and citizens-entrepreneurs (individuals) which is carried out at their own risk in order to gain profit. It is any activity (commercial, industrial, financial, innovative, insurance, etc.) of certain entities whose main purpose is to realize their own economic interest [5].

Aim of the article is to analyze the role of small business particularly in the economy of Ukraine, reveal and systematize the problems that cease its development; to identify and systematize the ways of solving them in order to accelerate the economic development of the country.

Results. Small business is one of the main tools for the development of the national market economy. Historically this particular sector of the economy has become a necessary primary step to create the market environment in the form of small-scale production. Nowadays it is obvious that the prospect of competitive market establishment directly depends on how effective will be the realization of the small businesses potential in the country. As a role model in this process we can take rich experience of the leading countries of the world.

Having analyzed the scientific sources it was found that small business in Ukraine contributes to the development of the country's economy and has significant advantages over the activities of large enterprises such as:

- restructures the economy of the country and assimilates it to high-developed countries, where the majority of GDP is made up of small and medium-sized enterprises (from 30% up to 60%);
- are quicker in responding to changes in the market, provide the economy of the state with the necessary flexibility to general processes in society, ensure the existence and maintenance of fair competition and fill the market with goods and services that are in demand for a certain period, providing a rapid cost recovery;
- is one of the main tools to overcome market monopolization. Given the narrow specialization and use of advanced technology to increase its competitiveness small business undermines the monopoly position of large corporations;
- are more likely to create more workplaces and absorb excess labor during cyclical downturns or structural changes in the economy. In economically developed countries from 50% up to 70–80% of all workplaces are on average created by the small businesses;
- is the driving force behind the development of scientific progress. In order to always stay relevant to the consumer, small businesses are trying to implement the latest technologies, thereby providing a significant impetus and financial incentive to develop new business ideas;
- affects the overall recovery of the economy and society as a whole by creating the skills of doing their own business, the success of which depends on the professionalism and willingness of the entrepreneur to take risks.

Having analyzed the results we have found that small-scale business takes enormous 99% of all enterprises and natural entrepreneurship entities in Ukraine (Figure 1) [9].

Most of them are small entrepreneurship entities. The reason may lay in the fact of easier registration of such type of economic entity and their mobility and flexibility. This diagram illustrates the importance of small business and the necessity of its development and support from the government. In order to estimate situation, we need to compare the data to the same indicators in different developed countries. For example, in the USA small business takes 97.6% of all enterprises, in Japan this indicator is 99.2%, Germany is 99.3%, Great Britain is 99.1%, and Singapore is 98.5%. We see that all of those well-developed countries have the share of small business from all economic entities in their economy exceeds 90%. Having analyzed the data we can claim that Ukraine is quite well-developed according to this indicator. Since small business contributes to overcoming monopoly in the national economy and stimulates competition, which is an important part of market economy, huge part of it in the economy of Ukraine should signify big level of competitiveness. However, from the Global Competitiveness report [10] we see that it is not the case. In 2019 Ukraine was on 85th place out of 141 with the score 57 out of 100, what is even less than in 2018 by 2 places. In 2018 the country was on 83rd place with the same score, while the USA takes the 1st place with score 85.6, Germany was on the 3rd with 82.8 and Singapore was placed on the 2nd place with 83.5

points.

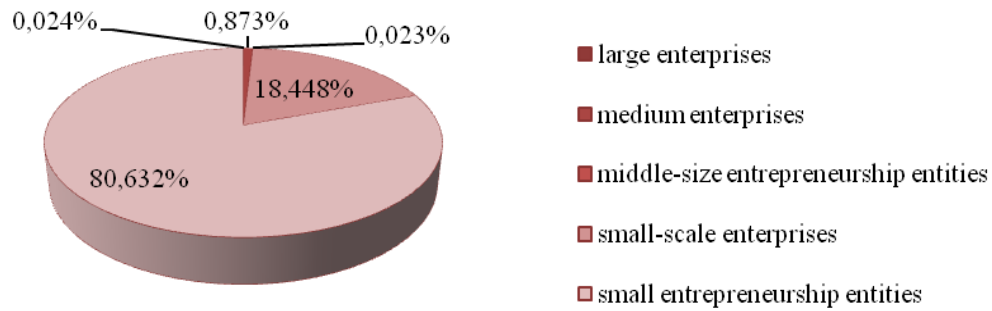


Figure 1. Economic structure of Ukraine by the share of small, medium and large business

According to the latest data small and medium-sized businesses in Ukraine bring 55% of gross domestic product (GDP) to the economy of the country and if taking into account only small businesses, then it is only 16% of GDP. According to the World Trade Report[11], the median GDP contribution of Small and Medium-sized Enterprises' (SME) is roughly 45 per cent. According to the United Nations, in general, 30 to 60% of the national product is produced by SMEs, depending on the country, meaning that the situation on ukrainian market is normal. However, the problem of small competitiveness in Ukraine is not well-studied, but the main are the technological backwards and unfavorable business climate.

The Ukrainian economy has an unfavorable climate to create and support the sustainable development of small businesses. This can be seen from the distribution of small enterprises by the type of their economic activity (Figure 2) [12].

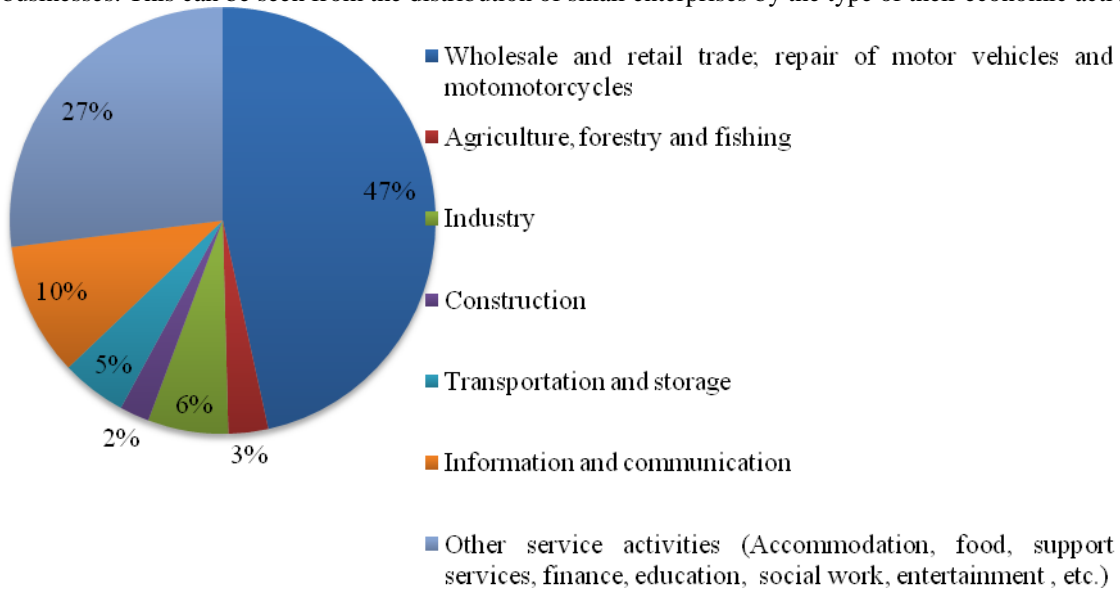


Figure 2. The distribution of small business by the type of their economic activity

It is illustrated that wholesale and retail trade is the sector of economy which has the biggest part of small business. But industry, which includes mining and quarrying, manufacturing, electricity, gas, steam and air conditioning supply and water supply, sewerage, waste management and remediation, takes only around 6%. Moreover, the sphere of agriculture, forestry and fishing is poorly developed in Ukraine, only 3% of all small enterprises work in this sphere. It is a huge surprise, since Ukraine has a huge agricultural potential and according to the aims of the United Nation in Ukraine by 2030 the productivity of agriculture and the incomes of small food producers will be doubled [13].

Modern sector of information and communication is quite popular among small business; around 10% of all small enterprises contribute to it. However, it is important to notice which spheres do not involve a lot of small entrepreneurs. They are financial and insurance activities, education, human health and social work activities, arts, entertainment and recreation, administrative and support service activities, construction.

In order to carry out full analyzes of structural distribution of small business, it is necessary to compare the data on Ukraine by the same data of other countries. Since Ukraine lies between Europe and Asia, it is reasonable to compare it to those two types of economies: European and Asian[2].

In Europe agriculture engages 11% of all small enterprises, industry – 18%, wholesale and trade – 21%, transportation – 14 % and construction – 13%. As we can see European model is balanced enough. Although sales still take the largest part, the difference between this branch and other spheres is not so huge. In Asia the situation is rather different. Large part of small business is engaged into industry – 41%. Agriculture is also bigger – 21%, construction is a bit less than in Europe – 10%, and

so is transport – 12%. However, wholesale and trade take only 16% of small business. Other sectors of economy do not involve small business or its share is insignificant.

According to the data, small business distribution on different branches of the economy in Ukraine is more similar to the European model, although a lot of work should be done in order to take it to harmonize it. Participants in small business activity in Ukraine do not give preferences to industry. However, the share of industry in Ukraine is still much lower than one in Europe and so do agriculture, transportation and construction. At the same time wholesales and trade engage too many small entities, much more than even in Europe. But the main feature that distinguishes Ukraine economy is that small business is actively involved into lots of various spheres, such as accommodation and food, information and communication, financial and insurance, scientific and technical activities, administrative service activities, education, and other service activities, which engage around 37% of all small enterprises.

We have identified the main factors of small business weakness and instability:

- general macroeconomic indicators of the Ukrainian economy. Small business, as a structural unit of the state's economy, directly responds to both positive and negative dynamics of the country's main macroeconomic indicators;

- the policy of the government. First of all, even though the government has approved “The Strategy for the Development of Small and Medium-Sized Entrepreneurship in Ukraine” for the period up to 2020, the actions taken were not enough. One of the main tools to support SMEs is financial assistance in the form of available loans. However, in Ukraine interest rates on business loans are too high and reach around 20 – 21% per year. Only 10% of enterprises in Ukraine are able to use loans;

- high tax rates for small businesses. Entrepreneurs become unable to pay statutory taxes because they do not receive the expected profits. In one case, a small business simply stops its activity because of unprofitability. Otherwise, this situation forces many small business entities to hide their income in order to pay less tax; as a result, they resort to the shadow economy;

- lack of favorable regulatory and legal support for the development of small business, as well as entrepreneurship as a whole. There is a lack of clear regulation of relations between business entities and authorities; there is no effective legislative mechanism for state financial support for small businesses. As a result, entrepreneurs have no incentive to start their own business;

- limited financial and material resources. There are insufficient support of small business and lack of satisfactory level of machinery, even though there is significant innovation potential. In the absence of a sufficient amount of start-up capital, own production facilities and equipment, many small businesses do not start their activity, even though their business plan is perspective;

- the lack of reliable information. Imperfect accounting and statistical reporting of small businesses; limited information about the market situation, advisory support and business-educational programs do not give possibility for an individual to get interested in his business.

- business monopolization. Today a very common phenomenon in the Ukrainian economy is the displacement of small businesses from the general market by big business monopolies. Monopolies deprive entrepreneurs of the opportunity to develop an area that dynamically responds to all the changes in the market;

- low competition in domestic markets. It is very difficult for new businesses to survive and form their competitiveness in the Ukrainian market, as there is a tendency of high concentration of firms in certain sectors of the economy;

- instability of business conditions (high level of corruption, bureaucracy, raiding). Changes in regulatory and economic policies makes entrepreneurs apply shadow economy schemes for getting profit. That situation causes up to 60% of capital outflow, closing production and stopping activity. Ukraine is a country where entrepreneurship requires a high degree of risk and lots of informal costs.

After analysis, we have distinguished 3 main governmental policy directions, which should be aimed at the Ukrainian business climate improving (Figure 3).

Both factors are important for the economy, but only combining the powers of governmental and non-governmental ways to improve the role of small business, the situation can change to the better. Systematic approach is necessary in order to achieve the best outcome in the shortest terms.

Conclusion. Small business is an essential part of Ukrainian economy and is extremely important for its development. It plays an important role in increasing the flexibility of the market, overcoming monopolization, employing the population, creating the middle class necessary for the country's democratization and implementing the achievements of the scientific progress. In Ukraine, as in all the developed countries, small business takes the absolute majority of all economic entities and contributes well to GDP. However, that does not improve the competitiveness on the Ukrainian market because of several problems in the economy. The biggest share of small business is engaged into wholesale and retail trade, but only little part of it does agricultural and industrial activity, although informational sphere is well-developed. Having compared the structure of small business by their economic activity, we came to the solution that Ukraine is closer to the European model of small business distribution, although a lot of work should be done in order to harmonize the market.

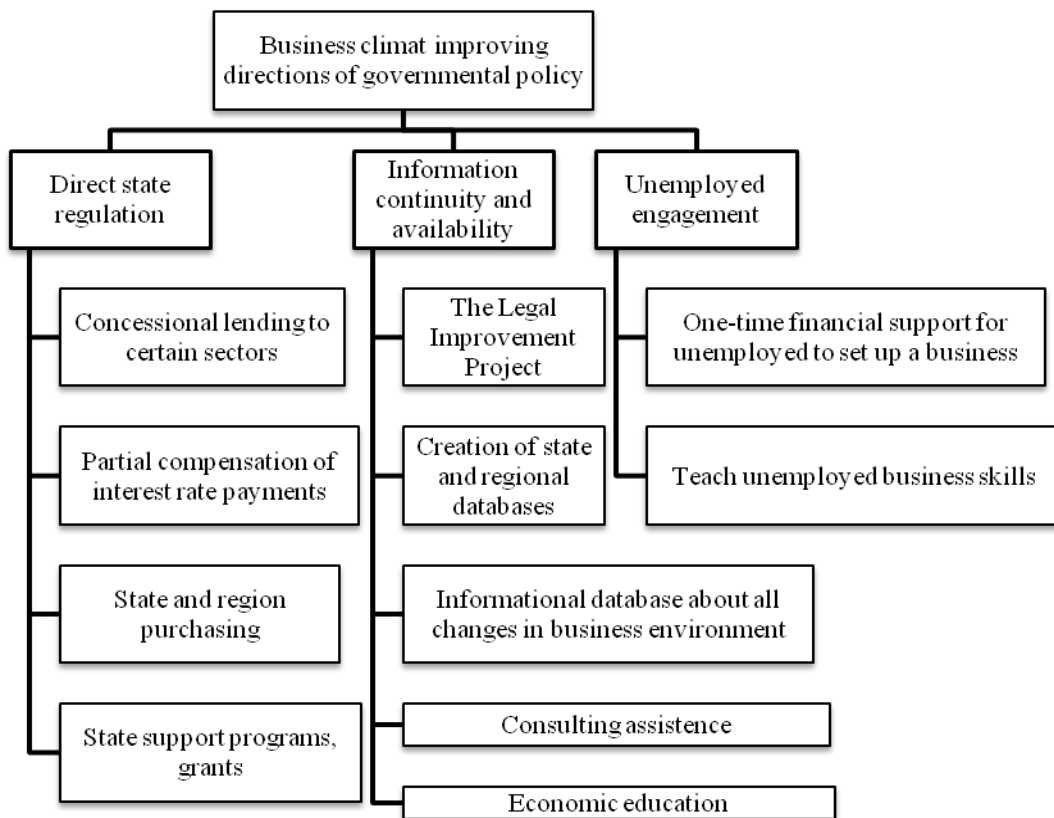


Figure 3 - Directions of governmental policy aimed to improve the Ukrainian business climate

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But in our opinion, in addition to the state stimulation of small business development there are many other factors that can positively affect the effectiveness of small business activity in Ukraine (Figure 4).

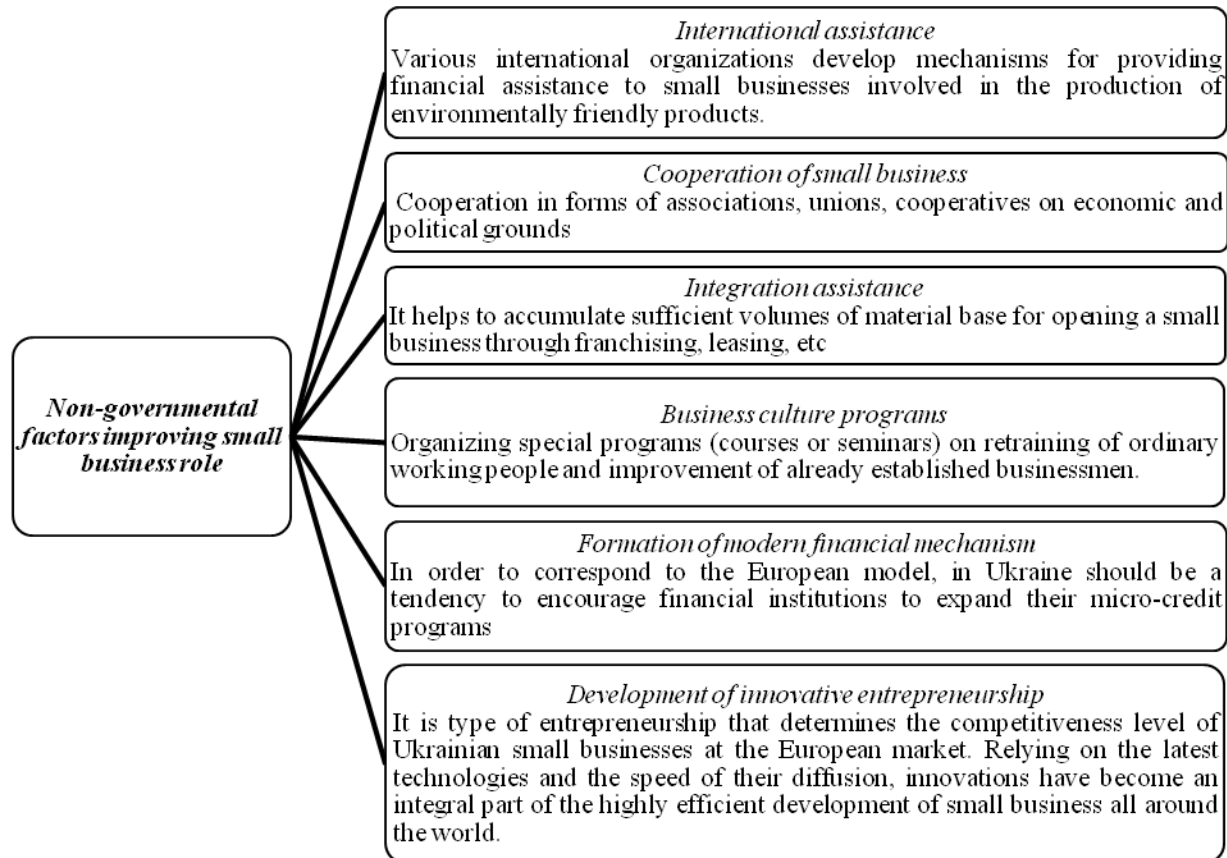


Figure 4 - Non-governmental factors which improve the role of small business

We have distinguished the problems that worsen the conditions for small business flourishing and after their analysis

we have identified possible solutions as the necessary steps from both the governmental and non-governmental sphere.

In order to promote small business the governmental policy should support certain sectors of economy, partially compensate the interest rate payments and increase money flows into the small business by supporting programs. Priority directions for future scientific researches should be theoretical substantiation of development of cooperation of small business entities with international organizations and business structures, which in turn should promote innovation and scientific and technical small business development, legal bases for one-time payment to the unemployed for setting up their business, trust-issues to small enterprises and economic benefits of partial compensation of interest rate payment to opening small business by the government.

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НЕОБХОДИМОСТЬ И ВОЗМОЖНОСТИ ГОСУДАРСТВЕННОЙ ПОДДЕРЖКИ МАЛОГО ПРЕДПРИНИМАТЕЛЬСТВА

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Каждое государство осуществляет поддержку экономики в зависимости от приоритетов и экономической ситуации как внутри страны, так и в мире. В условиях глобализации, наивысшим приоритетом становится конкурентоспособность отраслей. Как известно в мировой практике, основным подспорьем в развитии конкурентоспособности экономики является малый и средний бизнес.

Рассмотрим механизмы поддержки, которые используют развитые страны. В 1953 году Конгресс США определил приоритеты государственных интересов в поддержке малого предпринимательства, именно тогда и была создана Администрация Малого Бизнеса (АМБ). АМБ защищает интересы малых форм предприятий на правительственном уровне и имеет представительства в крупных городах страны, что способствует распространению политики на все штаты. АМБ реализует следующие программы:

– Отдел АМБ по стандартизации устанавливает критерии отнесения бизнеса к малому. Эти критерии изменяются по отраслям.

– Программа «7а» – предоставление гарантии. Для суммы не более \$750 000 гарантия предоставляется на 75% займа; не более \$100 000 – на 80%.

– Программа «504» – долгосрочный кредит для покупки недвижимого имущества, оборудования, технологий. Гарантия предоставляется под 40% займа, а максимальная сумма ее не превышает \$1 млн.