

CHAPTER 1

Improving of the stimulating mechanism for small business development in Ukraine: European experience

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How it is confirmed by theoretical research and practical experience, today small business play an important role in economy, as the largest segment of global business supporting. That favour not only creation of new jobs and ensures a high level of employment of the working-age population, but also creates conditions for improving living standards and incomes, as well as innovation and transformation intensification in the world. However, it should be noted that the impact of small businesses on the economic situation in countries is different: in the EU share of small business in GDP is 52–70% and share in total employment – 55–82% [14], while these figures in Ukraine make 14,5–15,8% and 19,2–20,7% respectively [12].

The policy of developed countries, which is aimed at creation favorable conditions for its development, strengthening and effective functioning is quite reasonable, given the importance of small business to the global economy and for development of individual countries. However, it should be noted that this practice is unfortunately only implemented in some countries in transition and developing countries. In this regard, there is an urgent scientific and practical problem of researching and introducing advanced foreign experience for stimulation small business development in Ukraine.

The international Doing Business rating may be as synthesis indicator which characterizes the quality of the business. In total, the rating takes into account data from 189 countries. The comparative characteristics of Ukraine and Poland as countries that in the early 90s had similar capacity, and today have a similar system of taxation, but very different levels of development and state support of small business, as it's indicated by the ranking (Table 1).

Table 1. Ukraine and Poland Economy Ranking

Country / Indicators	Ukraine			Poland		
	Rank-2015	Rank-2016	Change in Rank	Rank-2015	Rank-2016	Change in Rank
<i>Ease of doing business</i>	87	83	+4	28	25	+3
Starting a Business	70	30	+40	80	85	-5
Dealing with Construction Permits	139	140	-1	49	52	-3
Getting Electricity	138	137	+1	54	49	+5
Registering Property	64	61	+3	39	41	-2
Getting Credit	17	19	-2	17	19	-2
Protecting Minority Investors	87	88	-1	46	49	-3
Paying taxes	106	107	-1	96	58	+38
Trading Across Borders	109	109	0	1	1	0
Enforcing Contracts	98	98	0	55	55	0
Resolving Insolvency	141	141	0	31	32	-1

Source: based on [4].

As it shown, Ukraine and Poland during 2105 had improved its position in the ranking of Doing Business: on Ease of doing business (EDB) criterion, with is based on 10 groups of indicators, Ukraine climbed from 87-th places to 83-rd and Poland – from 28-th to 25-th. This change in the ranking was led by several factors. Thus, the main criterion by which Ukraine has risen in the rankings, became Starting a Business – plus 40 positions (from 70 to 30 steps), all other criteria (Registering Property, Getting Credit, Protecting Minority Investors, Paying taxes etc.) ranking position remained almost the same – plus/minus 1–3 steps. As for Poland, change of its position on the EDB criterion was resulted by changing of the taxation system in the country, which provided raise in the ranking on 38-th positions by paying taxes criterion (Fig. 1).

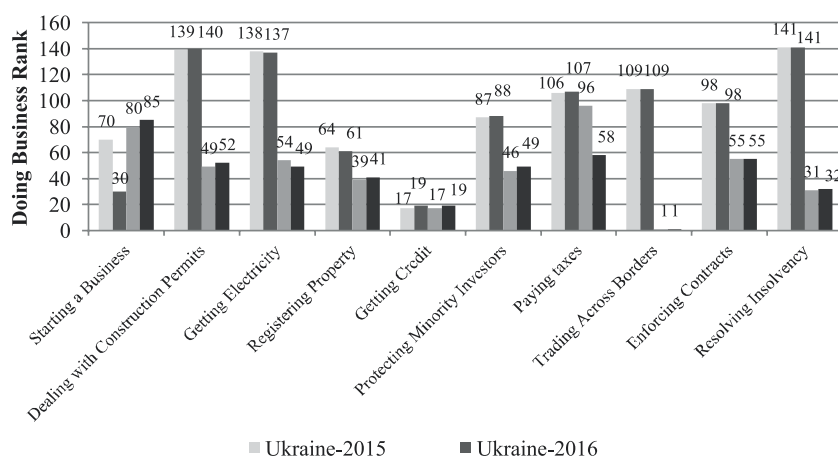
Factors that provided change of Ukraine position in the ranking on Starting a Business criterion are:

- reducing number of documents required to starting a business;
- reducing time for review of applications and making decisions on starting a business;
- having opportunity for submitting applications electronically.

This is confirmed by statistical information of Doing Business Rank, whereby in Ukraine, as in Poland, the number of procedures to start a business is 4 (average of OECD high income – 4,7), while the number of days that this is needed

in Ukraine is 7 days, which is considerably less than in Poland (30 days) and slightly less than the average value of the OECD (8,3 days) [4].

Figure 1. Ukraine and Poland Doing Business Rank in 2015–2016 years



Source: based on [4]

This could be explained by a certain arrangement of tax legislation, due to the Tax Code of Ukraine and the introduction of electronic services for registration of business and tax administration.

However, all these factors lead to simplifying business only at the initial stage – the stage of discovery, and their impact is disposable.

1. Problems of small business development in Ukraine

Before talking about implementation of European experience to stimulate small business in Ukraine it should be decided what “small business” is in bought of them. In the European Union (EU) it is used such a thing as SME (Small and Medium-sized enterprises) [3] in study of small businesses, in contrast to Ukraine, where study of small business doesn't include medium-sized enterprises. Therefore, the term SME is disproportionate to our small business concept that makes using of only Micro and Small enterprises data of EU countries in our research.

According to the Law of Ukraine “On the development and state support of small and medium business in Ukraine” [9] small businesses in Ukraine are

individual and legal entities of any organizational-legal form and ownership, in which the average number of employees during the reporting period (calendar year) doesn't exceed 50 people and annual income from any activity doesn't exceed the equivalent of 10 million EUR, determined by the average annual rate of the National bank of Ukraine (in 2015 – about 242 MLN. UAH).

Today, the most important form of state support of small business in Ukraine is a simplified tax system which involves replacing installed state taxes and fees by paying single tax as well as simplified forms of accounting and reporting [8, 9, 10, 11, 13].

The process of doing business can be divided into three main stages: discovery; development and operation; and, in case of inefficiency (non-profit), closure or bankruptcy.

The main stage, which can describe the business as a successful, efficient and profitable, is the stage of its development and functioning, characterized by the following criteria, according to the Doing Business Ranking, as Paying taxes, Getting Credit, Protecting Minority Investors, Enforcing Contracts.

On the basis of SWOT-analysis of small business in Ukraine it was identified the strengths and opportunities as well as threats and the main factors that slow down development of small business (weaknesses) during its operation (Fig. 2).

The results of SWOT-analysis shows that small businesses (compared with other business entities) has significant advantages and opportunities, the main ones are flexibility and ability to take any niche market. However, there are a number of weaknesses and threats, which, in comparison with European small businesses, are very extensive. Thus, the main negative side of small business in Ukraine is limited access to external sources of financing, locality markets and lack of adequate state support (especially in the field of taxation) [10, 13]. Therefore, government regulation and promotion of small businesses should be aimed at influence leveling on its negative potential side.

The negative impact of these factors on figure 2 on small business development in Ukraine may be reduced (neutralized) only with active participation of the state.

The general environment and trends in the regulation of small business analysis shows that the most significant factor limiting the development of small businesses is substantial administrative and tax burden. The effectiveness of the current system of taxation of small business in Ukraine and disadvantages tax mechanism is confirmed by the World Bank Doing Business-2016, by which Ukraine occupies 107-th position in the presence of favorable conditions for the payment of taxes, along with countries such as Ghana and Papua New Guinea. The ranking is headed by the United Arab Emirates, Qatar, and Saudi Arabia [4].

Figure 2. SWOT-analyze of Ukrainian small business

STRENGTHS	WEAKNESSES
<ul style="list-style-type: none"> – independence; – small start-up capital; – flexibility to external changes; – the development of inefficient market niches;– low cost of researches 	<ul style="list-style-type: none"> – dependence on unstable economic and political situation in the country; – <i>limited access to external sources of financing;</i> – <i>locality markets;</i> – unstable income; – <i>insufficient information support;</i> – <i>social insecurity of workers</i>
<ul style="list-style-type: none"> – ability to occupy any market niche; – growth, transition to large business; – possibility of work for employees of all ages 	<ul style="list-style-type: none"> – rapid threat of bankruptcy; – <i>complexity of strategic planning;</i> – <i>low purchase capacity of population;</i> – complexity and inconsistency of law (especially tax); – <i>excessive corruption</i>
OPPORTUNITIES	THREATS

In Ukraine the number of tax payments per year is 5 (after proceedings in the action of Tax Code of December 24-th, 2015 year) [8], and it has been spending on their payment 350 hours, while the overall tax burden of 52,2% (Table 2).

Table 2. Payment tax rank

Indicators / Country	Payment Tax Rank	Payments (number per year)	Time (hours per year)	Total tax rate (% of profit)
Qatar	1	4	41	11,3
United Arab Emirates	1	4	12	15,9
OECD high income	–	11,1	176,6	41,2
Poland	58	7	271	40,3
Ukraine	107	5	350	52,2

Source: based on [4]

It should be noted that the effectiveness of the current tax system in the country can only be determined based on the aggregate consideration of indicators (number of payments per year, hours per year, total tax rate etc.), because according to data [4], in terms of Total tax rate Ukraine is next to European countries such as Spain (50,0% of profit), Austria (51,7% of profit) and Belgium (58,4% of profit), which however occupied 60-th, 74-th and 90-th positions on Payment tax rank, respectively.

The overall tax burden in Ukraine, according to the author [6], from 2000 year to 2013 year increased from 29% to 36%, but an analysis of advance GDP growth coefficient compared to the tax burden showed that tax burden increasing

isn't hampered GDP growth production of goods and services, gross profit and income entities.

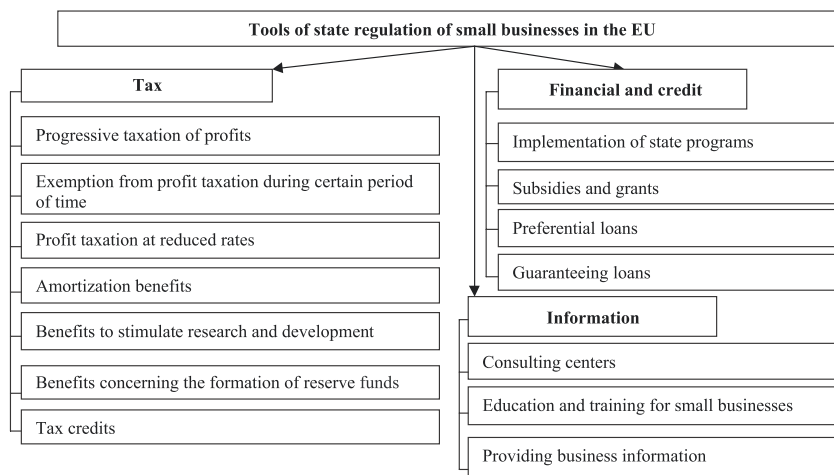
The overall level of tax burden on legal entities from 2000 year to 2013 year increased from 23% to 32%. The tax burden on profit (share of corporate income tax in profit before tax) from 2000 year to 2013 year had no clear trend in the dynamics. At a constant nominal rate of income tax of 25% tax burden from 2008 year to 2010 year decreased from 33,1% to 21,3%. With gradual reduction of the nominal rate of 25% to 18% tax burden for 2011 year to 2015 year increased to 26,2%.

These data support the author's hypothesis that the most significant factor limiting development of small businesses is substantial administrative and tax burden.

2. The experience of European countries in the effective state regulation of small business

Analysis of the regulation of small businesses in developed countries gives reason to believe that his main tools are tax, information, financial and credit (Fig. 3).

Figure 3. Tools of state regulation of small businesses in the EU



Source: based on [1, 2, 3, 5, 7].

One of the most common forms of stimulation of small business development sector in developed countries is to provide them preferential treatment in taxation by introducing special tax rules (France) or the application of general rules to individual benefits for small businesses (UK) [2, 7].

The use of a progressive taxation of profits in some European countries (UK, Germany) is a form of stimulating small business development. However, its use in Ukraine, in our opinion, won't be effective but on the contrary will result in toning part of income that exceeds the maximum amount of taxation at the lowest rate.

In France, various benefits are provided to public companies. Specifically, in the first two years of their fully exempt from tax, for the third year is subject to tax only 25% of revenue, in the fourth – 50%, in fifth – 75% and only starting from sixth year – all 100% tax income [1].

Simplified tax regime applies simplified reporting form – SMEs submit to the tax authorities some basic information about their balance, fixed assets, foreign investment and financial performance.

The system of tax stimulation for SME in developed countries also includes the amortization benefits for stimulation research and experimental development (R & D), incentives concerning also formation of reserve funds, tax credits and so on. Especially significant are amortization benefits – an important means of state regulation of scientific and technological progress, innovation and renewal capital. For example, a preferential amortization benefits provides an opportunity for small businesses to conduct German innovation process, modernizing production. The share of amortization charges is about 66% of the capital, the reinvestment of income – 27%, and external funding sources – only 7%. Germany has a special amortization rate of 20% for the purchase of movable property in order to encourage small business [1, 2, 7].

An important factor in development of small business is the level of theoretical knowledge of existing and potential entrepreneurs about business. Therefore, state aid in the creation of a network of organizations that provide information, counseling and exercise training is a special form of support for small businesses. For example, in Poland there Entrepreneurship Development Fund [5, 7], which centers provide access to databases containing information on potential sources of financing (foreign credit lines, leasing companies, venture capital); assist in elaboration of necessary documents for development (business plans, credit requests); exercise training programs, seminars and courses to increase awareness of entrepreneurs in different areas of business (starting a business, taxation and documentation).

A small business is one of the most important sectors of economy in Germany too. Since the era of the birth of capitalism in the country, the first large

companies and chambers of commerce (CCI) that became the first business associations for purpose of cooperation in trade and production. Currently, CCI operates at the level of public organizations that require all small businesses become their members. In Germany all legislation related to the regulation of small businesses should be agreed and approved by the CCI [2, 7].

Another one useful experience for Ukraine is the Czech Republic [5]. In this country the main directions of state policy in the field of business defined are improving capitalization companies; supporting programs of educational qualification of the population; supporting services that provide informational, economic, and consulting services to entrepreneurs; supporting the creation of new jobs.

Thus, this study revealed that the main areas to support small businesses in the EU are: strengthening the single EU internal market; cancellation of administrative barriers for small business; harmonization of legislation; strengthening interaction between EU countries for deeper economic cooperation with other countries.

To implement these areas in the EU had introduced the following forms of support for small business: formed a network of public and private organizations on regulation development and support of small business; in each country of the EU policy on small business is developed by the Ministry of Economy, Ministry of Industry and Trade, Ministry of Employment; government agencies, including trade and commerce, involved education and training, technological consulting staff who work in small businesses, stimulate international trade and cooperation, providing business information to small businesses.

3. Implementation of European experience to improve the mechanism of stimulating small business development in Ukraine

Effective problem solving of small business development in Ukraine requires the use of positive modern world and particularly European experience and its implementation in Ukrainian conditions.

In recent years Ukraine also came to understanding particular social and economic role of small businesses that is in creation of new jobs without any funding from the state in crisis conditions, expanding self-employment of the population engages in legal economic sphere of those funds that are currently outside the banking area.

Studying EU experience of promotion of small business development has shown that especially in a transformation of the tax system Ukraine should learn their positive experience with the support of small business in the form of consulting services, combined with the general decline in the tax burden in the form of tax incentives.

Given that the deepening of market transformation is impossible without dynamic development of small business at the foreground introduction of the system of state regulation which wouldn't distort market mechanisms, provide a favorable environment for development of this sector of economics. However, international experience shows that in the formation of market relations especially small business needs government support. In this state support of small businesses which shouldn't be limited to protect businesses from competition or create for him a special "hothouse" conditions, but to ensure conditions that would constantly stimulated processes of generation technological improvement of enterprises.

In this context, we believe that a positive experience of state policy in the sphere of small business is Poland which contributed to development of enterprise reforms aimed at improving the legal environment, development of infrastructure, promotion of access to credit, liberalization of tax legislation.

SWOT-analysis of small businesses (Fig. 2) revealed that the mechanism of small business stimulating should improve in the following areas: regulatory, financial and credit, information and promotion. A European experience of improving the efficiency of small business analyze shows that in some countries the priority is to improve financial and credit area, while in others – information.

Thus, based on the study of problems of regulation of small business in Ukraine and establishing the factors that slow down their development and learning Europe experiences of improving the mechanism of stimulating small business development we have developed recommendations for implementation European experience in Ukraine for its stimulating and sustainable development.

Some factors that constitute key levers for improving the mechanism of small business in Ukraine compared with European experience are presented in Table 3.

Conclusions

Concluding the presented research, it is necessary to underline, that small business development in Ukraine is significant untapped reserve growth. Its activation should be a key priority for the regulation of socio-economic development of Ukraine.

Table 3. Recommendations for the implementation of European experience to improve the mechanism of small business in Ukraine

Factors constraining development of small businesses	Recommendations for implementation of European experience in Ukraine
<i>Inconsistency and Complexity of tax legislation</i>	– improvement of tax legislation
<i>Limited access to external sources of financing</i>	– expansion of modern banking services (factoring, financial leasing, overdraft); – realization of state programs; – developing joint projects (small business and local authorities); – implementation of grants; – development and dissemination of microcredit programs; – the introduction of concessional lending; – implementation of the state guarantee to ensure lending to small businesses
<i>Insufficient information support</i>	– development of the structure of educational programs on entrepreneurship; – seminars, round tables and conferences involving small businesses at the regional and local councils; – creating conditions for the development of a network of regional and local funds to support small businesses; – creation of databases for analytical entrepreneurs
<i>Complexity of strategic planning</i>	– creation of databases for analytical entrepreneurs; – creating economic, legal and political balance in the country
<i>Limited (locality) markets</i>	– introduction of exhibitions and fairs of products manufactured by small businesses; – the creation of favorable conditions for exports to the EU; – bilateral (EU countries) technology transfer
<i>Social insecurity of workers</i>	– state financial support people in starting their own business
<i>Low purchase capacity of population</i>	– reducing the tax burden on small business (with terms of VAT and excise duties); – improving living standards; – expansion of government procurement of goods (works, services) of small businesses
<i>Excessive corruption</i>	– implementation of systematic monitoring of corruption based on alternative sources of information, the establishment of monitoring center; – increase transparency of public service on the basis of wide distribution of electronic documents; – creation of „hot line” for intelligence on corruption; – development (improvement) mechanisms for confiscation of proceeds of corruption

Analysis of international experience shows that implementation of economic and social role of small business is only possible with balanced government policy of this sector supports. Therefore the stimulating mechanism for small

business development in Ukraine should be based on better implementation of European experience that is on the basis of European standards of business that should cause a great creation extent of a modern market economy with social justice.

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