

Ukraine

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The Relevant Information On Small Business Conditions in Ukraine at Present

In accordance with Economic Code and Law of Ukraine "On State Support of Small Business" the legislative definition of Small Business are: "(i) natural persons that are registered according to statutory order as subject of business activity and (ii) legal entities - subjects of business activity with number of employees under 50 persons and annual gross incomes under EUR 500 000".

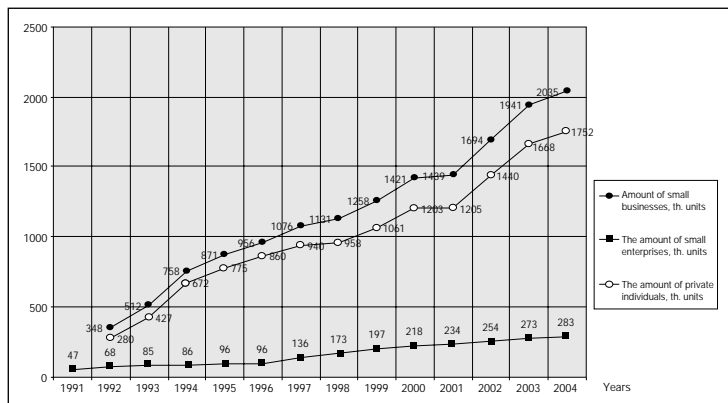
According to my opinion, this definition should be distinguished depending on types of economic activity (for example as in Japan) because it does not reflect the features of different sectors (branches) of economy.

Also we should emphasise that there are gaps in legislative definition of medium-sized business.

Statistics of Small Business

In 2004, more than 280 thousand small enterprises and around 1,8 mln individual entrepreneurs (in comparison with the previous year the increase amounts to 7,5% and 14% correspondingly) were functioned in Ukraine.

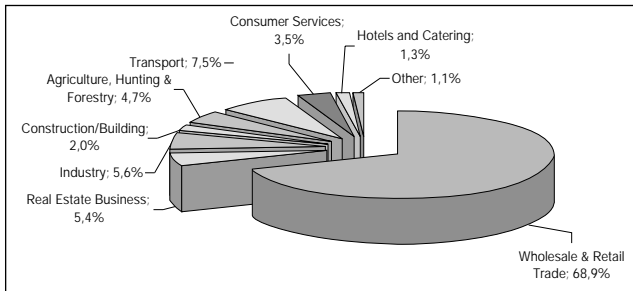
Chart 1: The Dynamic of Small Businesses Quantity for 1991-2004 years



About 4,3 million citizens of Ukraine are engaged in the sphere of small business. However, there are only 5 small enterprises per 1000 of population of Ukraine. Less than 11% of GDP of Ukraine is made in the SMB sphere.

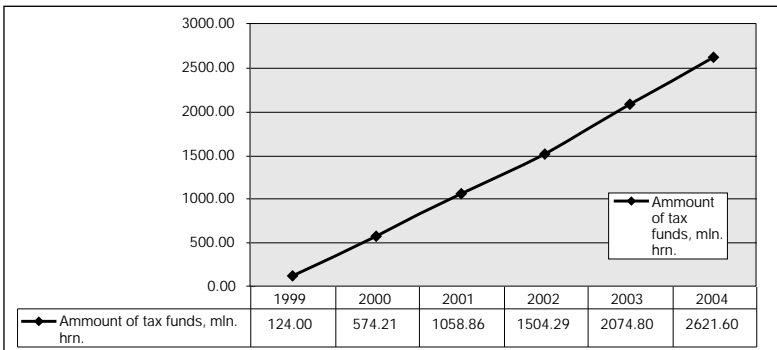
The structure of small enterprises in Ukraine (on the kinds of economic activity) is presented on Chart 2.

Chart 2: Structure of Small Enterprises in Ukraine, 2004 (in terms of the kinds of economic activity)



The small enterprises contribution to State budget is also very sufficient and grows year by year (see chart 3).

Chart 3: Unified Tax Proceeds to the National Budget from SMEs



There is a big difference in business development between similar in economic characteristics regions of Ukraine depending on the attitude of regional authorities. Small business prospers in one regions and withers in the others. For example, there are 53 small enterprises per 10 thousand of population in Donetska oblast, and only 39 enterprises in Luganska oblast. That is why there is the misbalance in small business development through the different regions of Ukraine (more than a half of small enterprises concentrated in 7 Ukrainian regions: in Kiev

city (15,5%); in Donetska (10,0%), Dnipropetrovska (6,7%), Kharkovska (5,8%), Odeska (4,6%) oblasts; and Autonomous Republic of Crimea (4,9%).

Laws and Regulations of Small Business

In Ukraine a legal basis for the development of business has begun in 90-s after the adoption of the following Laws: "On Property", "On Enterprises in Ukraine", "On Entrepreneurship". According to these Laws and Constitution of Ukraine private property and enterprise activity have the legal status. So, the era of formation and development of the enterprises of all patterns of ownership began at that time.

Taking into account the importance of small business issues a lot of the legislative-normative acts were adopted and amended in Ukraine in the past years. Basically, they are: (i) Economic Code; (ii) Laws of Ukraine: "On the State Support of Small Business", "On the Fundamentals of Regulatory Policy in Economic Activity Sphere", "On the State Registration of Legal Entities & Natural Persons - entrepreneurs", "On the National Programme of Small Business Support in Ukraine"; (iii) Decrees of the President of Ukraine: "On the Simplified System of Taxation, Book-keeping and Accounting for Small Business Subjects", "On Measures of Further Support of Entrepreneurship Development", "On Liberalization of Entrepreneurial Activity and State Support of Business", "On Some Measures for the State Regulatory Policy Implementation".

The system of small business support can be characterised as centralised and consists of (see chart 2):

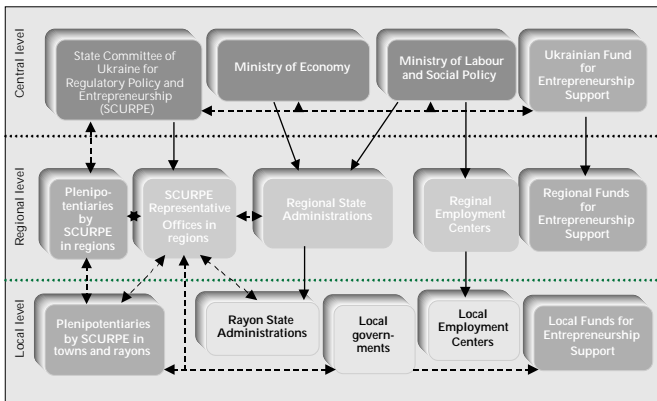
- *at the central level:* the State Committee of Ukraine for Regulatory Policy and Entrepreneurship; Ministry for Economy; Ministry for

Labour and Social Policy; Ukrainian Fund for Entrepreneurship Support.

- *at the regional level:* Representative Offices of SCRPE in the regions; Economic departments of Regional State Administrations; regional Employment Centres, regional Small Business Support Funds.
- *at the local level:* local governments; local Employment Centres; local Small Business Support Funds.

The assistance to small business is usually realised through programmes for small business support in Ukraine (national, regional and international). The National Programme for Small Business Support in Ukraine aims on creation of proper conditions for constitutional rights on entrepreneurial activity and enhancing welfare of Ukrainian citizens by involving of population in entrepreneurial activity.

Chart 4: General System of State Support of SME in Ukraine



Also the programmes for small business development are performed at the regional and local levels. In my mind state support of SMEs should be provided through several specialised programmes with narrow, concrete and measurable objectives. Such methods are used in many

advanced countries and programmes of international assistance in the sphere of SME promotion.

Moreover, some international programmes for private sector and business environment development applies in Ukraine – Project for Private Sector Development (World Bank); SME Support Services in Priority Regions (EU/Tacis); BIZPRO (USAID) etc.

The present condition of Small Business in Ukraine

Invigorating the economy is at the top of the agenda for self-sustainable economic development in Ukraine. Of particular importance are further privatisation, foreign investment promotion, and entrepreneurship development aimed at creating jobs.

Contradictories and in consequence of public policy on small business support in Ukraine have caused slow rates of its development. It also depends on the constructive partnership with other sectors of society - public (NGOs of entrepreneurs) and business sector.

However, we should also mark that economic growth in Ukraine strongly depends on foreign investment. On the other hand, SME development could improve this situation. Also SMEs have to play a significant role in the beginning of a number of innovations especially in the sphere of electronics, robotics and biotechnology.

The Role of SMEs in Politics (in political decisions):

- ❑ Discussions of draft of the regulatory acts (laws, decrees, etc.) concerning the business activity sphere

- ❑ Participation in public hearings, consultations, other meetings devoted to some issues of business development (e.g. Forums "Government and Business are Partners")
- ❑ Involvement in activity of Coordination Councils for Business Development under Regional State Administrations and Local Governments

The Main Problems of SME Development in Ukraine

- Low level of knowledge, skills and training in entrepreneurial sphere;
- Non-adequate legislation for entrepreneurial activity;
- Limited opportunities (especially for start-ups) in access to loans, credits and state financial support;
- Low purchasing power, big share of population in poverty;
- Worn-out and outdated technical and technological resources;
- Weak cooperation network with large companies and low involvement in public procurements;
- Insufficient access to regional, national and international business information, including on the innovations, markets conjuncture, cooperation opportunities etc.

Main Challenges in State Policy Towards SME in Ukraine

- ❑ Lack of legislative base for creation of supportive conditions for SME;
- ❑ Large regional differentiation (both territorial, social, economical);
- ❑ Misunderstanding of the role and place of SME in economic system of Ukraine;

- ❑ Low rate of introduction QM-systems and ISO certification
- ❑ Lack of clear vision on providing the business infrastructure development;
- ❑ Gaps and somewhere duplication in providing of some kinds of SME support;
- ❑ Underdeveloped informational, material base for SME promotion;
- ❑ Unrepresentative statistical information about SME sphere condition.

Primary Targets of the National Development Strategy for SME

- Growth of GDP share produced in SME sector
- Increase of employment rate
- Development of transparent and fair business environment
- Development of private ownership, competitiveness and entrepreneurship
- Development of management capacity
- Increase of export activities of SME
- Introduction and transfer of new technology
- Stimulation of investments in SME sector