

Ukraine

Dr. Yaroslav Zhalilo

Effects of Small Entrepreneurship on National Economic and Social Development of Ukraine

1. Mission of small entrepreneurship in transition economy

The development of small entrepreneurship (SE) is one of the streamlines of socio-economic transformation of post-socialist economies. The reason of this goal is the necessity of radical transformation of the institutional structure. The missions of SE in this transformation are:

- accelerating structural changes in economy;
- increase in the organizational efficiency of national economic resources' employment;
- extension, diversification and increasing the elasticity of national supply at domestic markets of goods and services, incl. social;

- demonopolization and creation of the efficient competitive environment;
- stimulating the innovations;
- establishing the entrepreneurship traditions and initiative;
- new job creation and increase in the flexibility of employment;
- decentralizing the economic development: improving regional economic resources employment, revitalizing the depressed regions, increasing local budgets revenues etc.

This detailed list of SE systemic missions is necessary to make a correct estimation of the institutional efficiency of the development of this sector of economy, as well as the corresponding stimulation policy.

Table 1: Main indicators of SE development in Ukraine

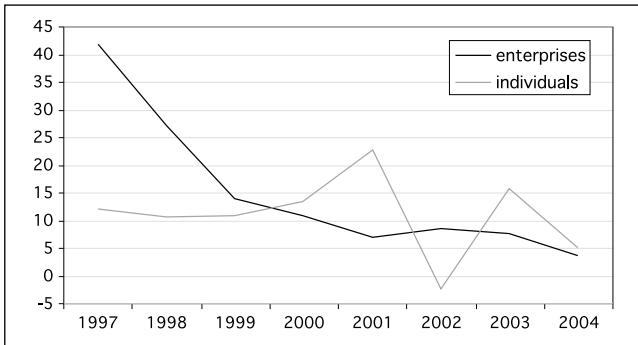
Indicators	1998	1999	2000	2001	2002	2003	2004
Number of SE's (excl. farmers), ths.	1131	1258	1421	1708	1736	1983	2077
Number of small enterprises, ths.	173	197	218	234	254	273	283
Growth rate to the previous year, %	27,2	13,9	10,7	6,9	8,5	7,5	3,7
Small enterprises per 1000 of population	34	40	44	48	53	57	60
Average number of employees, ths.	1559,9	1677,5	1709,8	1715,7	1932,1	2052,2	1978,8
Share in total employment, %	12,9	14,1	15,1	17,1	18,9	20,9	20,2
Share of small enterprises in total sales, %	11,3	11,1	8,1	7,1	6,7	6,6	5,3
Number of small entrepreneurs – individuals, ths.	958	1061	1203	1475	1440	1668	1752
Growth rate to the previous year, %	10,5	10,8	13,4	22,6	-2,4	15,8	5,0

2. The modern situation of SE in Ukraine

Small entrepreneurship exists in Ukraine in the forms of small enterprises and entrepreneurs-individuals. One of the foreground goals of Government economic policy is the thorough stimulation of the development of this sector of economy. This policy is being realized through tax incentives – the radical simplification on tax procedures and tax burden reduction for small entrepreneurs, as well as through the specific support programs.

As for the beginning of 2005 the number of SE's in Ukraine has reached 2,077 mil. 16 % of this number has been presented by properly small enterprises, the rest – by small entrepreneurs – individuals. The density of small enterprises is equal to 60 per 10 000 of population, they contributed for 20,2% of total employees, but 5,3% only of total sales in economy (Table 1).

Fig. 1: Growth rates of numbers of small enterprises and entrepreneurs-individuals in Ukraine in 1997-2004, %

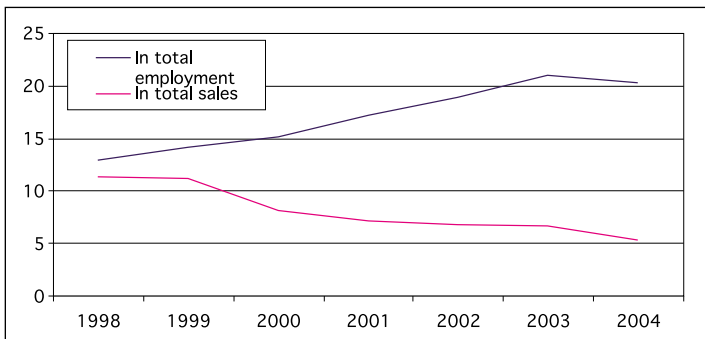


Unfortunately, the statistical data presented, are the evidence of a fact that the dynamics of SE development in Ukraine lags behind significantly compared to this in the majority of other transition economies.

Deep structural disproportions have been detected in the development of small business in Ukraine. In particular:

- the number of entrepreneurs-individuals grows much faster than this of small enterprises, that is the evidence of institutional imperfection of SE in Ukraine (Fig. 1);
- at the background of economic growth the growth rate of the number of small enterprises has steadily slow down, in 2004 the number of their employees has been declined;
- the average number of employees of one small enterprise decreases persistently – from 9 in 1998-1999 to 7 in 2003-2004, while legislation limits the number of employees of a small enterprise by 15 – 200 persons, depending on the branch of economy;

Fig. 2: Share of small enterprises in Ukraine dynamics, %



- the share of employees of small enterprises in total employment grows steadily (unless 2004), while the share of their sales in total sales – steadily declines, showing the reduction of labour productivity of those employees (Fig. 2);
- the majority of small enterprises are concentrated in retail and wholesale trade (37,7 % of total small enterprises by number and 47,2 % by sales) (Fig. 3-4), in this sphere also are concentrated 75,9 % entrepreneurs – individuals;

Table 2: Dynamics of branch structure of small enterprises in Ukraine, %

Branches of economy	By number		By sales	
	2000	9 m. 2005	2000	9 m. 2005
TOTAL:	100,0	100,0	100,0	100,0
Industry	16,9	17,0	29,5	16,0
Construction	9,0	10,4	15,9	11,3
Trade	49,6	39,1	26,5	48,9
Hotels and restaurants	3,7	3,6	3,3	2,1
Transport	4,2	5,3	7,8	5,4
Real estates' operations	12,9	20,6	14,4	14,4
Collective and personal services	3,6	3,9	2,6	2,0

- for the period of economic growth the economic strengthening of small enterprises in trade took place (their share by number declined from 49,6 to 39,1 %, but by sales – increased from 26,5 to 48,9 % - see Table 2); on the contrary, in industry, while the share by number has been steady, the share of small enterprises in industry by sales decreased sharply – from 29,5 to 16,0 % - the evidence of small industrial enterprises' "petitization"; the similar trends have been shown in all other branches except trade;
- the share of small enterprises in the products of manufacturing industry declined in 2000-2004 from 4,4 to 3,0 %, in particular, in machine-building – from 6,5 to 4,4 %; growth has been registered in light industry only – from 9,6 to 11,8 %;
- 5-6 % of industrial enterprises only are making innovations, while this indicator for large enterprises equals to more than 20 %.

Fig. 3: Branch structure of Ukrainian small enterprises (by number), for 1.10.2005, %

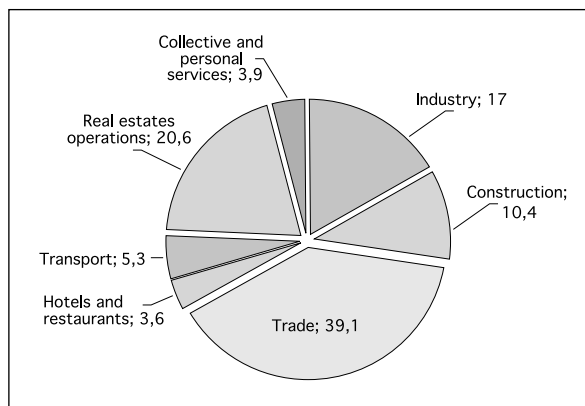
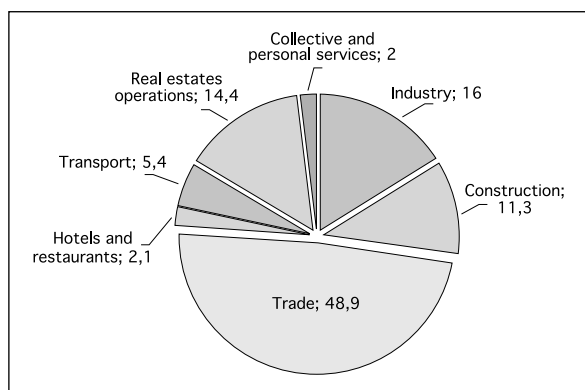


Fig. 4: Branch structure of Ukrainian small enterprises (by sales), for 1.10.2005, %



3. Main problems and ways of their solving

Hence, we have to conclude that SE still does not fulfil its systemic mission in Ukraine. This results in lagging down the creation of an efficient competitive environment in Ukraine, growth of productivity of the economy, development of domestic supply.

As the basic causes of this deceleration and of structural disproportions in the development of SE in Ukraine the main obstacles to the favourable entrepreneurial climate are to be considered:

- high level of taxation and complicated tax procedures;
- abundant regulatory pressure for business, followed by corruption;
- complicated system of accounting for small enterprises;
- hard-to-reach and expensive credits;
- insufficient government financial support for small enterprises;
- limited and uncompleted informational environment;
- weak personnel skills for entrepreneurship.

Last few years the representatives of SE and their associations argue the gradual improvement of the situation in regulatory sphere. Generally, the complex of legislation and regulatory norms as well as the corresponding institutions, aimed to protect SE from the abundant regulatory pressure, has been formed. Meanwhile, in practice their realization is significantly embarrassed. From our point of view, the difficulties of the realization of deregulatory legislation have been caused by the following systemic factors:

1. Conflict of goals at the level of political decision-making. The priorities of macroeconomic stabilization (first of all, budget consolidation) contradict to the priorities of deregulation. Due to the absence of a visible systemic effect from SE development, the Government does not aspire to decrease the level of fiscal pressure for business. In its turn, this leads to the deceleration and disproportions in the development of SE, creating a vicious circle.
2. High level of corruption in regulatory sphere. Deregulation, lea-

ding to the losses in the sources of bribes, is disadvantageous for a pretty wide layer of public servants at different levels;

3. Low professionalism, lack of will and ability of regulatory structures to work in the mode of liberal regulation. This mode requires much more forces, knowledge, skills and more complicated instruments.
4. Lack of a specific interest to the development of small business (except the shadow "schemes" of profit erosion) from the side of leading political-economic groups. Large business did not perceive yet the importance of subcontract co-operation with SE's as the way to increase its own competitiveness.

Hence, we believe that the success of deregulation policy in Ukraine requires the realization of systemic socio-economic reforms, such as:

- law enforcement and responsibility strengthening, including those for all levels of officials;
- support of horizontal and vertical clusterization and creation of the demand for SE's products from large enterprises;
- diversification of budget expenditures and SE's involvement to the realization of social and other functions of central and local budgets;
- credit, insurance and informational support of foreign economic activity of SE's;
- improvement of the system of tax support of SE in order to eliminate the "gaps" that lead to the misapplication of tax stimuli;
- development of financial support of small enterprises;
- introduction of the instruments of innovative activity support, incl. venture business;
- development of informational-consultative support infrastructure for SE.