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## FINANCIAL PROBLEMS OF SMALL BUSINESS AND ITS ROLE IN THE STRUCTURE OF MARKET ECONOMY

The current stage of development the Ukrainian economy can be considered as a complex and contradictory process of transformation of economic structures, which predetermines the formation and development of new subjects of entrepreneurial activity. The world experience shows, that an important component of the economy is a small business, that provides the country with mobility, flexibility and innovative potential. The significance of small enterprises is not limited to their participation in the gross national product. It is also important the social role of small business, which allows to create jobs, to realize human capabilities, to form a middle class as the basis of civil society. The activity of small businesses in all areas of economy is associated with increased risk. There are many problems, that require a priority and urgent solution to ensure the stable and gradual development of small business. The great importance belongs to the financial security of small enterprises in the structure of market relations and to the mechanism of their regulation.

**Key words:** small business, functions of small business, financial problems, financial risks, government support, taxation, loans, benefits.

Tab. 2. Lit. 15.

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## ФІНАНСОВІ ПРОБЛЕМИ МАЛОГО БІЗНЕСУ ТА ЙОГО РОЛЬ В СТРУКТУРІ РИНКОВОЇ ЕКОНОМІКИ

Сучасний етап розвитку економіки України можна розглядати як складний і суперечливий процес перетворення економічних структур, який зумовлює утворення і розвиток нових суб'єктів підприємницької діяльності. Важливим компонентом економіки, як показує світовий досвід, є малий бізнес, який забезпечує країні мобільність, гнучкість та інноваційний потенціал. Зауважимо, що значимість малих підприємств не обмежується їх участю в валовому національному продукті. Не менш важливою є соціальна роль малого бізнесу, яка дозволяє створювати робочі місця, реалізовувати людські можливості, тобто формувати середній клас як основу громадянського суспільства. Діяльність малого підприємництва в усіх сферах економіки пов'язана з підвищеним ризиком. Існує цілий комплекс проблем, які вимагають пріоритетного та невідкладного вирішення, для забезпечення стабільного і поступового розвитку малого бізнесу. Велике значення в структурі ринкових відносин і в механізмі їх регулювання належить фінансовому забезпеченню малих підприємств.

**Ключові слова:** малий бізнес, функції малого бізнесу, фінансові проблеми, фінансові ризики, державна підтримка, оподаткування, кредити, пільги.

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## ФИНАНСОВЫЕ ПРОБЛЕМЫ МАЛОГО БИЗНЕСА И ЕГО РОЛЬ В СТРУКТУРЕ РЫНОЧНОЙ ЭКОНОМИКИ

Современный этап развития экономики Украины можно рассматривать как сложный и противоречивый процесс преобразования экономических структур, который

обуславливает образование и развитие новых субъектов предпринимательской деятельности. Важным компонентом экономики, как показывает мировой опыт, является малый бизнес, который обеспечивает стране мобильность, гибкость и инновационный потенциал. Заметим, что значимость малых предприятий не ограничивается их участием в валовом национальном продукте. Не менее важна социальная роль малого бизнеса, которая позволяет создавать рабочие места, реализовывать человеческие возможности, то есть формировать средний класс как основу гражданского общества. Деятельность малого предпринимательства во всех сферах экономики связана с повышенным риском. Существует целый комплекс проблем, требующих приоритетного и неотложного решения, для обеспечения стабильного и поступательного развития малого бизнеса. Большое значение в структуре рыночных отношений и в механизме их регулирования принадлежит финансовому обеспечению малых предприятий.

**Ключевые слова:** малый бизнес, функции малого бизнеса, финансовые проблемы, финансовые риски, государственная поддержка, налогообложение, кредиты, льготы.

Small business – independent, initiative, systematic economic activity of business entities, which include small enterprises of all forms of ownership and citizens - entrepreneurs, carried out at their own risk and in order to receive profit. Small business is a special form of economic activity, that focuses on commercial success; has an innovative and risky nature; seeks to develop and expand the scope of activities; independently makes management decisions; responsible for property management; continuously carries out activities and does not enter into one-time agreements [1, p.14]. The activity of small business is qualitatively different from large enterprises by a high degree of uncertainty, potentially a higher ability to introduce innovations, continuous development and adaptability to changes [2, p. 55].

The generally accepted features in the qualitative characteristics of small business are: - independence of enterprise; - ability to achieve individual, special results; - connection of an entrepreneur, investor and manager in one person; - entrepreneur's personality has a significant impact on the enterprise's image, especially its net-work has a decisive influence on the success of the enterprise; - a weakly expressed formal nature of the links: much personal contacts between employees, as well as between employees and the entrepreneur; - the predominance of tactical thinking and the strategy of short-term decisions and actions; - enterprise's activities is focused in one regions.

The role and place of small business in the national economy is manifested by its functions, the main of them:

1. Formation of a competitive environment. Small business helps to establish a competitive relationship, because it is antitrust in nature.
2. Small business provides the market economy with the necessary flexibility as a result of the rapid individualization of consumer demand, accelerating scientific and technological progress, and increasing the range of industrial goods and services.
3. The contribution of small businesses to the breakthrough in many important areas of scientific and technological progress, especially in the field of electronics, cybernetics, and informatics is significant.
4. Small entrepreneurship makes a significant contribution to solving the problem of employment by creating new jobs and absorbing excess labor during cyclical recessions and structural changes in the economy.
5. An important function of small business is in mitigating social tension and democratization of market relations, because it is the fundamental foundation for the formation of the middle class [4].

We studied the points of view of Ukrainian and foreign scientists, regarding the functions of small business, and systematized them into 2 groups: economic and social. Within each of them, small business realizes its functions both within its own business activity and in the external environment, influencing the economic and social spheres (Table 1). In our opinion, the implementation of functions of small business, allows us to prove that its main function is to promote the socio-political stability of society and the renewal of the economic system.

Table 1 - Functions of small business

<i>The first group of functions characterizes specific types of management activities – current tasks and adaptability to environmental conditions</i>	<i>The second group of functions characterizes the influence of entrepreneurship on the economic environment and social life of society</i>
<p>1) <i>Financial management</i> - ensuring the maximum possible profit with minimal risk, as well as increasing financial sustainability and the value of the assets of the enterprise.</p> <p>2) <i>Logistics functions</i> - providing uninterrupted supply with minimum stocks, as well as choosing the optimal combination of market and non-market forms of material and technical support.</p> <p>3) <i>Production management</i> - searching for a combination of production factors for maximum production output at minimal cost.</p> <p>4) <i>Personnel management</i> - selection, training, promotion of personnel and the formation of employees' sense of responsibility for the production process and the pursuit of success.</p> <p>5) <i>Sales management</i> - the development of sales channels, quality, packaging and advertising of goods, as well as the sale of goods or services.</p>	<p>1) <i>Promoting the establishment of a market equilibrium</i> - an entrepreneur expands the range; moves the wealth from markets where they are in excess to markets, where they are in a disadvantage, establishing equilibrium in commodity markets; promotes rational allocation of resources, ensuring equilibrium in resource markets.</p> <p>2) <i>The transformative function</i> - the entrepreneur creates new benefits and technologies, destroying the established market environment; transforms markets, forms of competition and organization of production, through innovation.</p> <p>3) <i>Social function</i> - the entrepreneur satisfies the need for labor, social and economic activity, the production of new goods; creation of saving technologies and solving environmental problems.</p>

All this leads to the conclusion, that the functioning of small business in a market economy is not separate. Interacting with large and medium-sized businesses, the public sector, it acts as an integral structural element of a modern market-based economic system. In addition, it's important function – the impact on the socio-political stability of society. In the process of forming market relations, small business acts as the decisive force of socio-economic development, in region and in state [5]. Moreover, small business plays an important role not only in transition economy, but also in countries with a developed market economy.

The creation of small enterprises in Ukraine has several advantages over large enterprises:

- small business activates the structural restructuring of the economy, because the gross domestic product is produced in small and medium enterprises;
- small business creates additional jobs for the manufacturer and the consumer and gives wide freedom of market choice;
- small business enterprises react promptly to changes in consumer demand, because small enterprises with a minimal expense can switch to the production of demanded products;
- small business gives an opportunity to overcome the industry monopoly of production, as a monopoly leads to higher prices;
- small business provides market competition, helps to fill the market with demanded goods, services, rapid return on costs, timely response to demand changes;

- small and medium enterprises are a significant source of local budget revenues.

The activity of small business in Ukraine is rather vulnerable and is associated with increased risk. It depends on a large number of different factors, that influence the processes of their development and sustainable functioning. Currently, in comparison with many other countries, Ukraine has worse qualitative and quantitative indicators, that reflect the development of small business (Table 2).

Table 2 - The main indicators of the activity of small enterprises in Ukraine [6]

<i>Indexes</i>	2013	2014	2015	2016	2017
<i>The number of small business entities</i>					
small businesses					
In % to the total number of subjects	15.7	14.9	13.0	12.5	15.1
per 10 thousand population, units	78	84	79	82	70
Individuals-entrepreneurs					
In % to the total number of subjects	84.3	85.1	87.0	87.5	84.9
per 10 thousand population, units	423	477	530	579	394
<i>Number of employees</i>					
small businesses					
Total, thousands of people	2339.0	2324.7	2319.0	2227.4	2145.7
In % to the total number of employed employees	40.8	38.7	36.8	34.5	43.3
Individuals-entrepreneurs					
Total, thousand people	3398.8	3679.0	3989.0	4223.5	2814.5
In % to the total number of employed employees	59.2	61.3	63.2	65.5	56.7
<i>Number of employees</i>					
small businesses					
Total, thousand people	2208.9	2223.5	2206.2	2106.5	2024.9
In % to the total number of employees	60.8	60.3	58.9	57.5	66.7
Individuals-entrepreneurs					
In total, thousands of people	1422.1	1461.0	1538.9	1559.3	1009.4
In % to the total number of employees	39.2	39.7	41.1	42.5	33.3
<i>Volume of sold products (works, services)</i>					
small businesses					
total, mln. UAH	360107,5	440011,0	496683,0	461691,1	484393,5
In % to the total volume of sold products (works, services)	75.1	74.2	70.8	70.2	67.8
Individuals-entrepreneurs					
total, mln. UAH	119143,1	153019,6	204951,6	195952,5	230418,2
In % to the total volume of sold products (works, services)	24.9	25.8	29.2	29.8	32.2

As presented in Table 2, today in Ukraine the number of small enterprises per 10000 inhabitants is about 70 units, which is 24.7 times less than in the USA. In Ukraine, the number of employed in small businesses is about 2145 thousand people. At the same time, the share of employed in small and medium-sized enterprises in the US and France is 54%, in Japan 78%. Multi-sized enterprises in developed countries create more than half of GDP.

In the EU, the share of small enterprises in GDP is 63-67%. The share of small business in Ukraine is 12-15%, which is 5-6 times less than in the EU [35]. Today, it is difficult to find a government that does not pursue a policy of promoting small businesses, which is considered a pledge of stability in society. The role and opportunities of small business is confirmed by the experience of the industrialized countries of the world, such as USA, Italy, Japan, Germany, France, United Kingdom. In their economies, according to some indicators, small business has a significant and leading place. In particular, in the United States small enterprises account for almost 35% of net income, 30% of total exports; in France and Germany the share of small and medium-sized businesses in the GDP is almost 50%; in Japan they account for almost 57% of all production in the leading manufacturing industry of the country; in Italy it accounts for about 95% of national income.

In the structure of small enterprises by types of economic activity, it is dominated non-productive sectors, especially with a relatively rapid turnover of funds. The number of small enterprises engaged in wholesale and retail trade, repair of motor vehicles and motorcycles, decreasing each year, but continues to be the largest share in the total number of enterprises (33.1%). Activity of small business enterprises has the influence of sets of factors. Some of them contribute prosperity to small enterprises, others inhibit their development. Analysis of these factors gives opportunity to uncover contradictions in the development of small business and its role to the social sphere.

In the opinion of entrepreneurs, the obstacles, that complicate the development of small businesses are:

- complicated procedure of licensing and opening of a new business, which requires a lot of time and money;
- administrative and legal obstacles;
- unstable political situation in Ukraine;
- corruption and difficulty in regulatory policy;
- inefficiency of the taxation system;
- difficulty in the certification of goods, works and services;
- frequent inspections by the controlling and fiscal authorities;
- lack of motivation, psychological readiness and prestige of doing small business;
- difficulty in obtaining information on law, finance, accounting, management, marketing;
- lack of profound professional knowledge and the possibility of obtaining them;
- lack of new ideas and innovative initiative [7, p.25].

To the level of small enterprise's unprofitability, the following factors have directly influence: insufficient level of technical equipment; low managerial level; the desire for maximum independence, while abroad small enterprises work only on conditions of outsourcing, franchising and subcontracting; lack of systems organization and necessary reliable information from standing and conjuncture market [8, p.110]. In general, it is possible to highlight two group of reasons, which inhibit small business development. The first group unites the reasons of general economic nature, to which influence the economic politics of the state, the second – the reasons of private, mostly organizational character [9, p.26-28]. The process of formation and development of small business in modern conditions happening ambiguous, have certain features and problems, which coincide with the general problems of the state.

The financial problems of small businesses:

1. The ineffectiveness of Ukrainian tax system, which involves over-inflated taxes for small businesses, unjustified number of inspections, ineffective privileges and, consequently, creation of prerequisites for the development of the shadow economy. Subjects of small business



need even not so much low tax rates, but a fair and transparent tax system. Many provisions of the new Tax Code have a negative impact on the development of small businesses, in particular: the new property tax, the complication of VAT refund mechanisms, an increase in the number of inspections, much rights of state controlling bodies and a large number of by-laws.

2. High administrative barriers: excessive complexity of opening and licensing of new enterprises, the huge number of control, a large number of imperfect and often changing laws and ineffective customs and tariff policies.

3. Lack of effective state support and protection of small businesses. Mechanisms of financing and lending, information and consulting, training and retraining systems for entrepreneurial structures are still imperfect. Many entrepreneurs have low own start-up capital and need to attract additional financial resources. Before the economic crisis in 2008, the main source of attracting additional resources was bank credit. But now the volume of lending in domestic banks in the real sector of economy has decreased, which causes difficulties in obtaining bank loans and weak state financing of small businesses within the framework of state and regional programs for its support.

4. Lack of a well-developed system of information centers and small business support infrastructure. All this increases the financial burden on small businesses and does not allow to invest in its development. Also, the high inflation is the cause of serious problems in any business, but especially it negatively effects on small business, because of its increased vulnerability to negative environmental factors.

5. The level of wages and the legalization of labor relations is still one of the main problems for small businesses.

6. High level of shadow in small business, bureaucracy and tax pressure.

7. The inability to compete with large businesses in terms of production volumes, the sales crisis in the domestic market due to fall in real incomes of citizens and their level of living and well-being. Decreasing in consumer demand, curtailing the domestic consumer market and rising consumer prices, outpacing wage increases – all this hold back the development of small entrepreneurship. In such conditions, demand is activated mainly on food products, and industrial goods became unclaimed, which led to reduction in the total population solvency.

8. Low level of social protection and social guarantees of entrepreneurs significantly hinders the development of small business. The unsystematic nature of the legislative process in this area is due, first of all, to the lack of a coherent state strategy for the development of small businesses. It is necessary to constantly improve the regulatory framework for guaranteeing the rights of hired employees in small business to ensure their social security and stability.

9. Problems of psychological and professional nature: fear of starting a new business and psychological unwillingness to open a risk business, due to the lack of professional knowledge and experience in compiling business plans, management skills, also have a significant negative impact on the development of small business.

In Ukraine the state does not have the possibility of direct financial assistance. Today, the main financial support for small businesses is banking or commercial loans. But banking institutions do not want to deal with such client as a small business. The reasons for this are several: lack of collateral, small loan size and short term, significant risk and insignificant profits. At the same time, market credit rates for credit are too high for small businesses, making bank loans hard to access. Therefore, in the current situation, government loans should become a real source of financial resources for small businesses.

Financial and credit assistance for small business should be formed in the following areas:

- encouraging commercial banks and other financial non-banking institutions to lend and expand services to small enterprises by exempting from the taxation and providing a state

guarantee of repayment of loans;

- reorientation of budgetary funds aimed at financial and credit support of the small business;

- activation of the process of formation and operation of non-state guarantee and insurance institutions for servicing small business, increasing their interest;

- more effective use of foreign aid and active determination of small business position in relations with international financial organizations, promotion of self-organization of small business entities in solving their financial and credit problems through the organization of mutual financing and guarantee institutions.

In our opinion, small businesses need the following privileges:

1. Use of reduced rates at the start for small enterprises, engaged in the manufacture of products and construction.

2. Establishment of differentiated rates of income tax, depending on the type of services provided to the population.

3. The exemption of small enterprises from the payment of advance payments of income tax.

4. Granting state loans, which will reduce the cost of purchasing raw materials and mobilizing thereby working capital and will guarantee payment of funds for the produced products.

5. State financial support within the framework of state target programs for supporting small business at the expense of the budget system and state trust funds. Today such support is not an effective instrument, which is related to the insignificant financial capabilities of the state, caused by the limited resources of the budget system and the inability to raise funds from other sources. In this regard, we propose to introduce a number of benefits to enterprises, that make voluntary contributions to small business support funds [10,11].

6. In order to support small enterprises at the industry level, new structures should be created with a link to the industry: alliances of small enterprises with ministries, support funds at the industry level, subcontracting forms of organization of relations between large and small enterprises. We believe that such alliance should be a self-governing organization, which on a voluntary basis should unite small enterprises of the industry, regardless of ownership. Its purpose is to provide all possible support for the development of small enterprises; protection of legal, economic, social and other interests of small enterprises, provision of financial support to the members of the union.

7. Increasing the access of small enterprises to such traditional financial resources as funds of the banking system and the securities market. In order to stimulate the policy of banks to provide loans to small enterprises, especially in manufacturing sector, it would be advisable to practice reducing the taxation rates. Taking into account the experience of developed countries, the system of small business lending is based on various sources of credit [12, 13]. Basically, it is: commercial banks; insurance companies; sector funds; venture capital; regional business outlets to promote small businesses. Studying the lending practice can be used taking into account the specifics of small business development in Ukraine.

8. Development of leasing. It is not a specific method of attracting tangible, technical and financial resources for small businesses. However, for small businesses it has the following benefits: 100 % lending, which does not require immediate payments. The contract is for the full value and the lease payments are current, and begin after the delivery of the property. It's much easier to get a leasing contract than a loan, leasing involves the targeted use of funds.

9. The development of micro-lending, which is used as a strategy for economic development and aimed at supporting small business. The formation and development of financial

assistance to small businesses on the basis of micro-credit programs provides an alternative source of financial resources for small business enterprises [14, 15].

Thus, there are many ways to improve the management of financial resources of small businesses and organize their financial security and financial strategy, because it promotes economic and social stability of society, fulfills important economic and social functions, contributes to the saturation of the commodity market, develops the competitive environment, makes the restructuring of production and society, participates in shaping GDP and budget revenues at all levels, ensures employment of the population and increasing its income. Contributing to economic growth, small business forms a socially active citizen and a significant middle class in size and strength, provides a rise in the standard of living of the population, makes democratic changes in society. Comprehensive support of small business in order to increase its competitiveness is one of the most important measures to reduce social tension and ensure the economic security of the state. Investments, particular in social sphere, reinforce the position of small business and at the same time the social responsibility of the developed government decisions. Thus, social investments for small business are becoming strategic.

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