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Small business development in the modern market economy: the case of the Transcarpathian region of Ukraine

Rozwój małych firm w nowoczesnej gospodarce rynkowej: obwód Zakarpacia na Ukrainie

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Abstract

This thesis work is based on theoretical and practical information about business entities and ways of their possible development in the current conditions. To reach the goal of this research it was important to show an evolution of “small business” concept and perception of it nowadays. The main idea of my thesis is to find ways of small business development in the Transcarpathian region. Therefore, it was crucial to analyze the current situation of small business development, find problems which are influencing business growth and provide a consistent solution and proposition to prevent them. A survey conducted by me to evaluate the current situation of small business showed that overall relationships between businesses (individual-entrepreneurs) and government authorities are very distant. One more important question which arose in my thesis work was about decentralization of power in the country and the importance of the local authorities' influence on small business development.

Keywords

Management, regional development, state support, small business development, entrepreneurship



Streszczenie

Praca ta oparta jest na teoretycznych i praktycznych informacjach o podmiotach gospodarczych oraz sposobach ich ewentualnego rozwoju w obecnym stanie. Aby osiągnąć cel tych badań ważne jest, aby ukazać koncepcję "małych firm" i jej postrzeganie w dzisiejszych czasach. Głównym założeniem mojej pracy jest znalezienie sposobów rozwoju małych przedsiębiorstw w obwodzie Zakarpacia. Dlatego kluczowe znaczenie ma przeanalizowanie obecnej sytuacji rozwoju małych przedsiębiorstw i znalezienie czynników, które mają wpływ na wzrost gospodarczy. Badanie prowadzone przeze mnie w celu oceny obecnej sytuacji małego biznesu wykazało, że ogólne relacje między przedsiębiorstwami (indywidualnymi przedsiębiorcami) a władzami są bardzo słabo rozwinięte. Jedną z ważniejszych kwestii, na którą zwróciłam w mojej pracy dyplomowej, była decentralizacja władzy w kraju i znaczenie wpływu władz lokalnych na rozwój małych przedsiębiorstw.

Słowa kluczowe

Zarządzanie, rozwój regionalny, wsparcie państwowe, rozwój małych przedsiębiorstw, przedsiębiorczość



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Introduction

The formation of small business in Ukraine is a long process that includes certain stages, based on the economic situation and existing problems at the macro and micro levels. An important focus of economic reforms in Ukraine is to create a favorable environment for the formation and operation of small businesses, which is one of the effective means of solving the urgent social and economic problems among which are: accelerating economic restructuring; ensuring saturation of the market in goods and services; creating a competitive environment; substantial replenishment of local budgets; create more job places; the issue of employment in crisis areas; improve the overall investment climate parameters; ensuring efficient use of local resources.

In terms of the current economic crisis and limited financial resources, the fastest and most effective way to solve problems are small business entities that do not require a large initial capital and have a high turnover of resources.

In this thesis we will review theoretical and methodological principles of governance mechanisms of small business development by the example of the Transcarpathian region of Ukraine.

The aim of this thesis is to study the theoretical and methodological foundations and practical mechanisms of small business development in the region and study its priorities in modern conditions.

To achieve this goal we should analyze and solve the following problems:

- explore the views of scientists on the nature of entrepreneurship and small business concepts;
- conduct analysis of theoretical and methodological foundations of governance processes of small businesses formation and development in particular region;
- examine the current state of small business in the Transcarpathian region;
- evaluate the management system of small business in the Transcarpathian region;
- explore the main problems of small business development at the regional level and propose ways to solve them.

Object of study - small business as a sector of the national economy and its system of government development.

Subject of study - theoretical and applied aspects for small business development in particular region



The practical importance of the study is to develop theoretical and methodological support for small business development in the region. Conclusions and suggestions can be used to develop local and regional protection programs to support small businesses.

The work consists of introduction, three chapters, conclusions, bibliography, list of tables and figures, and appendixes.



Chapter 1. Theoretical base of management system for small business development at the regional level

1.1. The economic essence, meaning and evolution of the small business concept

Ascertaining the nature of small businesses is particularly important to understand the Ukrainian economy. In fact, according to many researchers, businesses are serving as the attributive sign of any economic system, and are the leading form of management. The emergence of entrepreneurship – is the result of the economic transformation of society and at the same time it ensures the further improvement of the market's economy. Therefore, the methodological approach of entrepreneurship is seen in a broader context as general historical evolution of economic systems.

First, I will note that the founders of science, Aristotle and Plato studied economic life in terms of the aristocracy that was connected to agriculture, and distinct themselves from growing class of traders (i.e. companies). Therefore, Aristotle and Plato could not make a coherent economic theory which would disperse the economic reality.

Representative of Mercantilism created a so-called understanding of economic life of nation's phenomenon. Although in the seventeenth century business has not yet become the subject of independent investigations, but the term had already existed. Entrepreneur was called a Merchant and the person at the other opposite spectrum was called the financier¹. This lasted until the mid-eighteenth century. In general mercantilism as the main direction of economic thought in the XVII-XVIII centuries, made some impact on the formation of the first concepts of entrepreneurship, including financial incentives as the dominant motives of entrepreneurial activity. Trade (external and internal) – appeared in the period when capitalist relations occurred (as an extreme risky activity). This determined focus of first "wave" (XVIII-XIX c.) research on enterprise in conditions of risk and uncertainty. Author of this approach R. Cantillon separated entrepreneurial function, the functions of the capitalist-owner and manager². R. Cantillon noticed that a discrepancy between supply and demand in the market creates opportunities to buy cheaper and sell more expensive, and this can result in competitive markets as equilibrium. People who use the unrealized profit opportunities in situations of uncertainty were called "entrepreneurs". So, for R. Cantillon entrepreneur - is

¹ Guis, G. (1992). *Entrepreneur* (p. 19).

² Rummyantsev, A., & Sdobnikov, Y. (1983) *Political economy* (2nd ed., p. 95) Moscow: Progress.



any individual, capable to take a risk towards the future, whose actions and expectations are focused on receiving income and readiness to pay costs.

Formation of classical political economy, despite the divergence of scientific views of its founders, helped to expand understanding of business activities content. It is considered that contribution of French economist Jean-Baptiste Say was particularly important; he identified function of the entrepreneur as the coordinator of the factors of production. In "Treatise on Political Economy" (1803) J.B Say indicated "entrepreneurs have the ability to make significant impact on the distribution of wealth. In the same field of industry one - intelligent, energetic, man of knowledge - gaining wealth, while the other that is not endowed with the same qualities or are ruined by circumstances, lose everything".

With the development of neoclassical theory in economics understanding of the market changed as well - from simple exchange of products and services to aggregate individual exchange, together with built-in mechanism for self-regulation. Neoclassicist's idealization of free competition and underestimation of the role of the government made an impact on the concept of business strengthened its inherent emphasis on the micro level. Macro environment was perceived as something objectively present, initially set and something that does not changes significantly over the time.

The maturity of the neoclassical school is characterized by increasing attention to the entrepreneurship concept throughout the XX century, which include second, third and fourth "wave" of entrepreneurship concepts evolution. A common characteristic of the second "wave", in my opinion, is concentration on the individuality of entrepreneur. Overall, this "wave" associated with the name of Schumpeter, who identified innovation as the main feature of business. Schumpeter put figure of entrepreneur-innovator as a creator of new combinations of factors of production, markets and technologies, at the center of his theory of economic development. Friedrich von Hayek believed that entrepreneurship initiative is the driving force of innovation seeking, as one is striving for the most effective combination of his unique "know-how" with market situation and thus he achieves superiority in competition and greater revenue. "The desire of income - this is what allows the most efficient use of production capacity. Highly conscious socialist slogan of "production for the sake of consumption, not for profit" demonstrates a complete lack of understanding of how to



increase production capacity"³ Third “wave” stated that entrepreneurial behavior is natural for all individuals, but this particular group of people is ready to test their capabilities. Fourth, highlights similarities and differences between entrepreneur and manager. The main characteristic of manager - the ability to make things organized even in unstructured organization – not always is typical for successful entrepreneur. The study of small businesses and the informal sector as important part of entrepreneurial theory formation was developed mainly in the last 25-30 years. First of all, contribution of W. Röpke who analyzed the optimal size of the enterprise and predicted the phenomenon of widespread of small and medium business⁴. K.R McConnell and S.L Brue who defined the entrepreneurial ability as "a person's ability to use some combination of resources to produce goods, make consistent decisions, generate innovation and take risks"⁵

The above analysis of conceptual approaches about essence of entrepreneurship as a special activity of business shows that there is not yet created general economic theory of entrepreneurship as a subject and object of economic and theoretical research.

In the Soviet period the entrepreneurship concept did not receive proper development in economics, neither in theoretical nor practical aspects. However, since the late 80s, the situation changed a bit, so that Ukrainian and Russian scientists started to use their own definition of entrepreneurship in their works. Nevertheless, there is still no clear definition of it that would be based on the scientific theory. Ukrainian economists Y. Nikolenko, N.M Didenko, A. Szegdy⁶ believe that enterprise system is based on democratic forms of its economic activities, its initiative in choosing the areas, forms and methods of management, economics, organizational and technical creativity and innovation. The Law of Ukraine "On Entrepreneurship" determined that "... private enterprise - is an independent risky initiative for the creation of products and services, and are engaged in trade for receiving a profit"⁷.

³ Hayek, F. A., Bartley, W. W., & Caldwell, B. (1992): *The collected works of F. A. Hayek: The fortunes of liberalism: essays on Austrian economics and the ideal of freedom* (p. 182).

⁴ Repke, V. (1998) Small and medium-sized enterprise in the national economy: *The concept of economic order: the doctrine of liberalism*. (p.50-58)

⁵ McConnell C. R., & Bryu, S. L. (1992) *Economics* (p. 394).

⁶ Nikolenko, Y. V. (1992). *Fundamentals of Economic Theory: Teaching. Manual - Part 3: Entrepreneurship in a Market Economy* (p. 4).

⁷ Law of Ukraine: On Entrepreneurship No. 698-XII of February 7, 1991 // Bulletin of the Verkhovna Rada of Ukraine. - 1991 - N14. - Art. 168



It should be noted that in Ukraine term of “entrepreneurship” and “business” are often used like a synonym words. Therefore, some economists identify these concepts as similar ones, others believe that business is a wider concept that includes entrepreneurship, and others - do not focus on their identity or diversity at all.

By analyzing problems of formation and development of small business concept, we can make a clear conclusion that scientifically grounded definition of it does not exist yet. This is evidenced by inconsistencies in this area in domestic and international business terminology and the presence of many different criteria to include business entities categorized as small. This fact creates difficulties in comparing indicators characterizing the development of small businesses in different countries.

The absence in scientific world generally accepted definition of a small business structure and division of business to small or medium sized situation where the small businesses often include really small, small and medium enterprises. Nevertheless, the definition of criteria for classification of enterprises to small or medium has both theoretical and practical importance due to the need to monitor their development and taking appropriate decisions.

Different countries use different criteria of classification enterprises as small. For example, in Japan this criterion consider the amount of capital, number of employees and industry affiliation. Their current law indicates small and medium business as legally independent company with 300 employees in the fields of industry, construction, transport, communications and utilities; 100 workers in wholesale trade; 50 if its retail trade and services. In US, the company officially considered small if it employs less than 500 people and it does not take a dominant position in the market. Number of employees and amount of capital - these are the criteria of enterprises in Italy; India - the number of employees and investment.

An attempt to unify the criteria for classification of enterprises to small and medium category was implemented in the European Union in 1996. They created four qualifying criteria: number of employees, average turnover, balance sheet total and corporate ownership. After these three categories of small business entities were created:



1. Medium-sized enterprises: number of employees up to 250 people and their annual gross revenue are up to 40 million Euros or annual balance sheet total not exceeding 27 million Euros.

2. Small enterprises (businesses): number of employees - from 10 to 49 people; the maximum average annual turnover up to 7 million Euros or annual balance sheet total not exceeding 5 million Euros.

3. Micro enterprises providing jobs for no more than 10 employees; there are no restrictions on annual turnover and balance⁸

Analyzing the merits of quantitative criteria for small businesses it is important to point out the convenience of their usage in terms of statistics and the application of the regulation.

Another approach of defining small businesses can be made based on their impact on the market. The criteria in this case are the features of activity and behavior, including limited access to capital markets, business owner, small market segment occupied by the enterprise, and inability to influence on its management. This is so-called qualitative approach to determining the size of the enterprise.

There are five most important qualitative criteria:

- ❖ Unity of ownership power and direct management;
- ❖ Personalized nature of the relationship between employer and employee, which helps business staff motivation and increased level of satisfaction with it;
- ❖ Owner role in the life of the company, which is fully responsible for results of management through risk taking and his personal property involved in the manufacturing process and organization;
- ❖ Mainly family ownership (family owned);
- ❖ Nature of the funding is due to the small bank loans which may cause a certain lack of capital⁹.

⁸ Commission Recommendation of 3 April 1996 concerning the definition of small and medium sized enterprises (96/280/EC) // www.europa.eu.int/scadplus/leg/en/lvb/n26001.htm
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⁹ Tsybal, L. L. (1998). *Foreign experience in financing small and medium business // Finances of Ukraine* (pp. 79-81).



It should be noted that Ukraine does not apply qualitative criteria using only quantitative. In declaration № 727/98 "About the simplified system of taxation, accounting and reporting of small business"¹⁰ The President of Ukraine has established the following description of small businesses:

- ❖ Individual proprietorship engaged in entrepreneurial activities without establishing a corporate entity; and people who are with him in labor relations, including family members, does not exceed 10 peoples, and the amount of revenue – less than 500 thousand UAH;
- ❖ Entities - business entities of any organizational-legal form and ownership, in which the average number of employees less than 50 people, and revenues from sales of goods (works, services) per year does not exceed 1 million UAH.

Important competitive advantages of small businesses in the institutional structure of the economy are:

- Mobility, flexibility and dynamism, the ability to respond quickly to changing market conditions, quick development of new products and changes in output within manufacturing capabilities;
- The ability to fill vacant niche in the economy, which because of its small capacity not attract large companies;
- Small-scale production, the ability to increase efficiency through specialization, technological flexibility of production processes;
- Highest ability to mobilize available resources, including efficient use of scientific and technological progress (in the technical, economic, organizational, informational areas);
- Ability to adapt to regional conditions in local markets, efficient use of raw materials and sales;

However, on the other side of these competitive advantages are a number of systemic threats that cause instability in small businesses:

- Limited financial resources, difficulties in the acquisition of production areas and equipment;

¹⁰ Decree of the President of Ukraine "On the Simplified System of Taxation, Accounting and Reporting of Small Business Entities" dated June 28, 1999 No. 74/99 // www.rada.Gov.ua



- Lack of financial reserves and rapid threat of bankruptcy;
- Narrow range of suppliers, which may in some cases make undesirable influence on business;
- Locality of resources and sales markets, thus - limits to growth;
- Low competitiveness of products, competition from large enterprises;
- High vulnerability to adverse economic (inflation, cyclical fluctuations, tax burden, etc.) and non-economic (pressure from the authorities, criminals) factors;
- Instable income of businesses to their employees;
- Social insecurity of workers, which creates difficulties in hiring process;
- Lack of methodological provision (accounting, management, marketing, etc.), low level of skills and professionalism.

Small business fulfills a significant social role, as evidenced not only by numerous studies, but the practice of life. First – it is the sphere of application of labor and source of income for a large part of the population. This is the most flexible part of the labor market, which consumes the bulk of the workforce with low skills and lack of experience, who wish to have flexible working hours. Often the only place where women, young people, first time job seekers, persons with low level of education and work experience can try themselves. As the main source of income not only for large part of people working in his field, but also for their families, small businesses may become an important factor in the growth of national wealth. Second - small business is a potentially effective resource of promoting business and entrepreneurial skills among the population, increasing the degree of adaptation to a market economy, helps to overcome the inherent economies of former Soviet states (including Ukraine) such as conservatism, inertia and poor receptivity to technological advances, stimulating innovation. All of the factors named above allow citizens to become owners of not only their labor but also property, including industrial purpose, it provides the basis for the formation of the middle social class, able to ensure the progressive development of society interested in democracy and social stability.



1.2. The economic essence and content of governance of small business improvement

In economics there are constantly ongoing discussions about the appropriateness and extent of state intervention in each stage of economic process. It is believed that the principle of economic liberalism associated with the idea of full economic freedom "laissez faire, laissez passer" first formulated by representative of the Physiocrats school Vincent de Gournay, who in 1758 appealed to the freedom of establishment, non-interference in economic life and ensuring integrity of private property¹¹. Physiocrats believed that economic laws have natural character, divine origin and are clear to all. They argued that any interference in the natural way of things violates the "natural order" by harming the social reproduction.

Unlike Physiocrats, who interpreted the "natural order" as an ideal state of society, Adam Smith analyzed an actual economic system (market economic system) and tried to describe the mechanism of its functioning. He believed that driving forces of economic development are economic freedom and competition between businesses, harmonization of their interests on the basis of priority development of self-interest, the mechanism of market self-regulation and state interference in economic life. Exploring the "natural order" as a theoretical model of free enterprise economics, Adam Smith paid great attention to the analysis of the effective action of "invisible hand" of the market.¹²

The doctrine of market liberalism meets the economic realities in terms of free market competition that prevailed in the nineteenth century. But in the late nineteenth - early twentieth century the world economy has entered a new phase of social and economic development and generated new economic phenomena, contradictions understanding and solution which required different approaches in economic theory. Keynesianism direction appeared to satisfy and resolve problems of that time. Keynes is gradually come to the realization that the automatic self-market capitalism belongs to history, and it should be replaced by a state regulation of market economy. He strongly criticized the idea that state should not interference in economic processes in their article "The economic policy of Mr. Churchill" (1925) and "The End of laissez faire" (1926)¹³. J.M Keynes extraordinary position regarding the relationship between market and state intervention has caused great debate in

¹¹ Tyrogo, A. (2012). *Selected economic works* (p. 65) Moscow

¹² Smith, A. (2012). *Goodwill of Nations: Research on the nature and causes of the welfare of nations* (p. 277).

¹³ Keynes, J. M. (2009). *Selected Works on Entrepreneurship*. Moscow: Economics



academic circles, in particular with F. von Hayek. In the late 30's Keynes ideas won, identifying four next decades with these new priorities for positive and normative theory.

Since the mid 70's of XX century and throughout the next decade, the overall development of the global economics was held under the influence of liberal concepts. Neoliberalism emerged almost simultaneously with Keynesianism, synthesizing ideas of neoclassical and traditional liberalism with achievements of historical, social and institutional areas. Neoliberalism is an economic theory that is based on neoclassical methodology and protects the principles of economic freedom, self-regulating economy and free competition, defending the idea of individual freedom based on the protection and promotion of private ownership of production; development of local government and voluntary organizations opposed to the growing influence of the central government.

All of these concepts give us an idea about the subject in historical perspective. Consequently, the economic theory of the twentieth century tends to the conclusion that there should be a focused government control on development of small business as a systematic process enabling environment and incentives for self-development of small businesses in accordance with the objectives of social progress. Socially-oriented market economy involves a combination of market regulation and government influence on market processes, property rights, competition support, promotion of entrepreneurship, redistribution of income in favor of the social sector. Despite the differences between the existing models of social market economy, all of them agree in one main conclusion, that the state should create conditions for successful business development, thus providing the established economic growth and social development.

In modern economic literature a great attention paid to the government regulation of small businesses. Overall, the researches of Ukrainian and Russian scientists agree in the fact that small business needs more attention from the government especially in the period of transformation. Sustainable development of small business can be carried out by the state only if they are taking into account combination of factors in all relevant areas that is holding back its development. This is confirmed by the theory that explains the need for state regulation of the economy in the current situation (the theory of market dysfunction); according to which the state intervenes in economic processes to eliminate and prevent the problems that the market mechanism cannot cope on their own, relying only on the law of supply and demand, competitive mechanism and freedom of decision-making. So the question arises: solution of



which problems of business cannot be provide by a market mechanism of self-regulation? Since exactly the business is the functional state of the economy, which ensures the development of the market mechanism. However, there is an objective needed to manage this development in a modern market economy. Small businesses are the most vulnerable sector of the market economy sensitive to environmental changes. Thus, the mass introduction of new technologies, enhance the effect of imperfections of information, offensive nature of the changes in competition and other factors greatly complicated the process of reproduction. Lack of attention from the state to the current problems of small business will result in significant economic and social losses.

The system of government control over the small business development in Ukraine is still in its formation stage. In its development, this system has passed certain stages, in each of which the state had a role of the observer, as well as the role of the hard administrator. Future national model of government control over the small business development should be rational and optimal. In our case, management - means self-organization processes and finding the most appropriate options for small business development. The main task of the government and local authorities should be to create the best environment for self-development of small businesses.

By forming the national model of state development for small businesses, we should remember that state (government) and entrepreneurs have different goals, perspectives and interests in relation to each other. Thus, the entrepreneur sees the state as a subject, which could create conditions for achieving the goals by entrepreneur (profit maximization, efficiency investments, minimizing risk, protection of property, etc.). The state sees entrepreneurs as a force that is able to ensure the objectives of a higher order - the growth of social welfare, employment support, strengthen of national economic security. Exactly in the intersection of defined objectives - public policy for support and development of small businesses emerge¹⁴. The state controls over the development of small business by using the arsenal of techniques “the state ways of influence through legislative and executive authorities on the field of entrepreneurship, market infrastructure, non-profit sector - to create or provide conditions for their activities in accordance with national economic policy”¹⁵.

¹⁴ Dolgalova, O. V. (2007). *Regulatory role of the state in the sphere of small business* (p. 380) Donetsk

¹⁵ Mykhasuk, I., Melnyk, A., Krupka, M., & Zalaga, Z. (2009). *State regulation of economy* (p. 640) Lviv: Ukrainian Technologies



Classification methods are presented in Table. 1.1, which is based on five criteria: the nature of the impact, the content, the duration of action, the level of impact and the scale of intervention.

Table 1.1 Classification methods

Clasifications	Methods
By the nature of the impact	direct indirect
By the content	legal economic administrative
By the duration of action	single relatively constant discrete
By the level of impact	national regional local
By the scale of intervention	general partial

By the nature of influence methods are divided into direct and indirect. Direct, those are made on the basis of the laws adopted by the Parliament of Ukraine. On the other hand, indirect is based on different financial instruments (tax credits, interest, benefits, etc.).

By content methods are divided into: legal, economic, administrative. Legal methods of regulating activities of economic entities are working through law regulations. Formation of the legislative framework provides a clear consolidation of legal safeguards that would ensure the freedom and protection of small businesses, developing regulations aimed at ensuring the legal development of market relations, as well as improving the existing legal



instruments¹⁶. Following regulatory method is economic governance of small business. Economic methods associated with the creation by the state financial or material incentives which can affect the economic interests of businesses and determine their future behavior. This could be tax rates, the discount rate, tariffs decrease and more. Tax regulation of small business is realized through general and simplified tax system. Main forms of financial support are: grants, subsidies, subventions; state and local orders; loans and guarantees from state and regional authorities; financial support from national funds and regional financial institutions. Main administrative regulations are state registration, licensing, certification, standardization and control. One cannot establish a company without act of its registration in the State Administration of local authorities. Another important business requirement is related with certification and standardization receiving. Ukraine has the State Committee for Technical Regulation and Consumer Policy, whose main task is to develop an effective national system of certification and standardization, which would be aimed to protect domestic producers and consumers from substandard products and adapted to the modern requirements of the world community. Certification is the process of verification of products by independent entity properties according to established criteria of quality and safety.

By the duration methods are divided into single, relatively constant (conditionally fixed), discrete (that change with the change of policy).

We have already reviewed the methods used by states to control over the development of small businesses, now we will turn to the definition of its functions. Nowadays there is no clear explanation regarding the functions of states in regulating small businesses. In the domestic and foreign economic literature several ranges of functions are highlighted. Therefore, V.J Gorfinkel believes that the most important levers in the states managing of economy in the country are forecasting, planning and regulation. Well-known in the field of marketing Kotler points four management functions such as analysis, planning, transformation into life and control over the activities¹⁷. On the other hand, the famous Russian scientists in the field of entrepreneurship A.I Murach, A.M Ignatiev and A.B Krutyk

¹⁶ Chistov, S. M., Nikiforov, A. Y., Kutsenko, T. F., & Tormosa, Y. G. (2006). *State regulation of the economy* (p. 193) Lviv

¹⁷ Kotler, F. (2000) *Fundamentals of Marketing* (p. 736) Moscow



believe that management functions can be divided into four interconnected blocks: planning, organization, motivation, control¹⁸.

Thus, by analyzing views of famous scientists, we can summarize that business management process is most fully and accurately reflect by the following functions: planning, organizing, accounting, analyzing, regulating, promoting and controlling. Planning is one of the most important functions for the development of small businesses. It is the process of constructing an algorithm for future action, leading to the realization of the goal and includes the expected results of its implementation. Role of planning can be defined as adoption and implementation of management decisions. However, the current practice of planning has lack of the action sequence. To make a successful planning a lot of factors should be taken into account for example historical, economic, political and social conditions of Ukraine; consistent and complex scenarios that covers all aspects of small business development in the country.

Organizational function is a strong base for current administrative activity towards small business development. Content of this function consists mainly from coordination and harmonization of actions of participants with the purpose of small business development. This function includes: creation of regulatory framework and favorable conditions for the functioning of market mechanisms such as the conditions for the free flow of capital, labor, and goods. It is really important to give a significant power over small business development to the region authorities. The main reason for this is differences of each region. Therefore, it is appropriate to provide regions with sufficient power for the development of small businesses on the basis of natural, climate, local, industrial, technological, transport, scientific and technologic conditions.

Analysis as a function of development of small business is a previous study of economic processes in the course of its development, assessing factors that affect these processes, identify trends and problems of development as a whole in the country and in its individual regions, allowing then to make the right management decision.

The scientific view on current situation shows that small business sector requires urgent changes in management methods and forms, improvement of management functions at

¹⁸ Muravyov, A. I., & Ignatyev, A. M. (2007) *Small Business: Economics, Organization, Finance* (237th ed.). Kiev: Business Press.



all levels. Today, these processes have not received adequate reflection in the scientific literature and with the practical absence of well-developed cooperation mechanisms at the macroeconomic level have gained special importance.



1.3. The essence of development of small business at regional level

All actions which are related to internal policies can be made only after evaluating interests of the regions in all of the following aspects: changing role of regions in the economy, structural heterogeneity of country in terms of natural geographic, resource, economic, social and ethnic. Recently occurred the urgent need for new approaches to the management organization in the region, clearer separation of powers of country and local authorities, identifying areas of transformation of the regional administration. Expanding the powers of the regions of Ukraine is an example of international practice of decentralization.

The focus of both domestic and foreign researchers in the field of regional economic relations are concentrated on the concept of the region, its typology in terms of socio-economic development, search of effective management to solve practical problems, differentiating features between different levels of government. As for the concept of the region, the national experts in the regional economy cannot come to consensus. Most of them, according to tradition, followed objectivist approach, considering region as homogeneous socio-economic and ecological-geographic spatial entity. This ignores factor such as availability of autonomic management systems. This interpretation has historic nature and is common for the inherent administrative-command type of economy. Thus, the region is defined as a part of the country, characterized by a set of inherent natural geographic, economic, environmental and other characteristics. The region may not coincide with the boundaries of administrative-territorial units and even can be combined from several such units. Also common is the perception of some administrative-territorial unit (province or district) as the region. This view is common in some European countries such as France, Germany, Spain, etc¹⁹. Further region will be described as the part of geographical division of the country - in contrast to the alternative concept of combining several areas.

Combination of national, industrial and regional interests brings us up the necessity of inventing a flexible (adaptive) regional system for small business development. The success of decentralization becomes crucial for those sectors of the economy, which, because of their natural weakness have a strong need of outside support.

¹⁹ . Kovalevsky, V. V., Mikhailuk, O. L., & Semenova, V. F. (2000) *Placement of Productive Forces* (p. 586). Lviv: Knowledge.



Starting point for small business development is weakening and gradual limitation of administrative regulation and creation convenient economic and legal conditions. Thus, the central country authorities should concentrate their activities on building and improving the legal framework, ensuring mutual coordination and information exchange between the regions, the implementation of teaching materials on mechanisms to facilitate development of SB. As we can see from the current situation in Ukraine, problem of organizational management unit was studied not enough. The reason for this was past year's experience of total power accumulation in hands of central authorities.

The current system of regional governance in Ukraine was born during the Soviet era. The content is virtually unchanged, and although its reformation already began, these changes are only partial and not comprehensive. If we talk about process of classification of mechanism of regional development by systems of forming elements, it can be attributed to models of such interaction between the national and regional levels, when national are subordinate all activities of regional authorities. Thus, they act as executors of state regional policy. Their functions are reduced to determining the list of social and economic problems specific to a particular region and assess their relevance to determine the level of priority within the target block of state regional policy, and further they address these issues by including possibility to appropriate (short, medium) state program of economic and social development, solving resource problem.

It is necessary to make a number of fundamental and radical changes in the direction of the Ukrainian economy deregulation process which initially would be appropriate to start with the small business sector. The reason for this is taking the following considerations:

First, the impact of small business in Ukraine on the formation of macroeconomic indicators is insignificant. Second, the regions are trying to get as much power in the area of national regulation of the economy as they can. So by giving them such powers in the small business sector, we can check their availability, capacity and ability to use their management skills in specific cases. Thirdly, the delegation authority's power from the higher government level to the region in the small business sector rejects all sorts of misunderstanding between the center and the regions on the speed of reformation and responsibility for their consequences. Fourth, real and potential entrepreneurs will be able to locally monitor the actions of specific authorities that are directly responsible for the situation in the small business sector, to assess their performance and to require these bodies to effective action.



To transfer authority's power on small business development to a regional level, firstly they need to make vertical sharpness in public administration. Make changes in the legislation, which will clearly classify power of executive country authorities, regional authorities and local governments towards small business development, management, promotion and support. It should be emphasized that the effective development of small businesses is primarily important for region. First of all, for the reason that large share of this sector is focused on the regional market. Secondly, the increasing number of small businesses will help create new jobs, thereby facilitating the problem of unemployment in the area. Thirdly, in proportion to the growth of small businesses and entrepreneurs in the region volumes on tax revenues increase significantly to local budgets.

Key measures currently being implemented for small businesses support²⁰:

- Improvement of the legal framework for the development and support of small business;
- Financial and credit support of small business;
- Creating objects of market infrastructure;
- Improving training, retraining and skills development for small businesses;
- Create favorable conditions for business activities involving vulnerable categories of the population - the disabled, women, youth, retired servicemen, unemployed, etc;
- Assistance in obtaining small businesses premises, equipment and materials;
- Attracting small businesses to the scientific, technical and socio-economic programs of delivering the goods (works, services) for state needs.

Regional management of small business includes the features management methods, forms and tools to support small businesses; subject and object of management. The subject of regional management is state regional administration. The object is economic, organizational and managerial relations in small business. The purpose of the regional management system is to promote small business development in the region, stimulating it to self-improvement.

Analysis of a small business helps us to identify trends in its development, contribution to the economy of the region and filling the budget, the research sector and territorial structure of the economy. To identify obstacles which have negative influence on small businesses

²⁰ Concept of the state regional economic policy (project) // Regional economy. - 1998. - №2. - P.5-20.



development it is advisable to study its environmental performance. It will identify factors affecting the development of entrepreneurship and somehow neutralize their effects. Analysis of small business of the region and environmental research results are in the second chapter.

Based on the research works of A.L Fishchuk²¹ we can make a conclusion that there are positive and negative factors influencing regional policy of small business development in Ukraine. Four main support groups:

1. The legal support for small businesses help to protect the interests of small businesses, its security and social protection, by creating a favorable social and psychological environment for small business development.

2. The resource support help with human resources development of small business; support management, marketing and cooperation of small business; support for interregional and foreign economic activity of small enterprises;

3. Tax support provides implementation of the presumption of innocence in relations between public authorities and taxpayers; changes in tax laws can only occur with the respect to requirements of the Budget Code of Ukraine and laws of Ukraine "On Taxation System" and "On Principles of Regulatory Policy in Economic Activity";

4. Information support provide companies with monitoring surveys; administrative procedures to guarantee a certain level of quality, of experience, qualifications representatives of different services and sellers of goods; the establishment and regulation of public institutions and information infrastructure; regulation of private entities with information.

²¹ Fishchuk, O. L. (2002). *Institutional transformations of the regional economic system into a cluster model* (pp. 344-349). Zhytomyr: Economic Sciences.



Conclusions to Chapter 1

Small businesses in the moment of economies transition is one of the most important factors in promoting recovery, economic growth and social stability in society. Small businesses can be created in all conditions; it does not require significant funding from the government for its development, but in the same time make an invaluable contribution to solve problems of transformation, economic, social and psychological characteristics.

The analysis of conceptual approaches of defining the essence of entrepreneurship as a special activity showed us that there is no general economic theory of business created yet, or at least clear methodological positions on the study of entrepreneurship as a subject and object of economic and theoretical research.

There are still constantly ongoing economics discussion on the appropriateness and extent of government intervention in economic processes. We are inclined to the conclusion that there should be focused government control on development of small business as a systematic process enabling environment and incentives for self-development of small businesses in accordance with the objectives of social progress.

Socially-oriented market economy involves a combination of market regulation and government influence on market processes, protection of human property, competition support; promote entrepreneurship, redistribution of income in favor of the social sector. Despite the differences between the existing models of social market economy, they coincide in the main, that government should create conditions for successful business development, thus providing the established economic growth and social development.

In my opinion, management - means adherence to self-organization processes and finding the most appropriate options for small business development. The main task of the country and local authorities should be to create environment for self development of small businesses. Small businesses must become a priority policy area. Most of small businesses are focused on local markets, resources and traditions. The current system of regional governance in Ukraine is far from ideal. So there is an urgent need to streamline the structure of local authorities through: preparation of legislative and other normative acts regulating issues of municipal property; national support of local governments, the order of creation and activation of community organizations, property and financial resources.



Chapter 2. Analysis and evaluation of small business development of current system in the Transcarpathian region

2.1 Analysis of small businesses in the Transcarpathian region

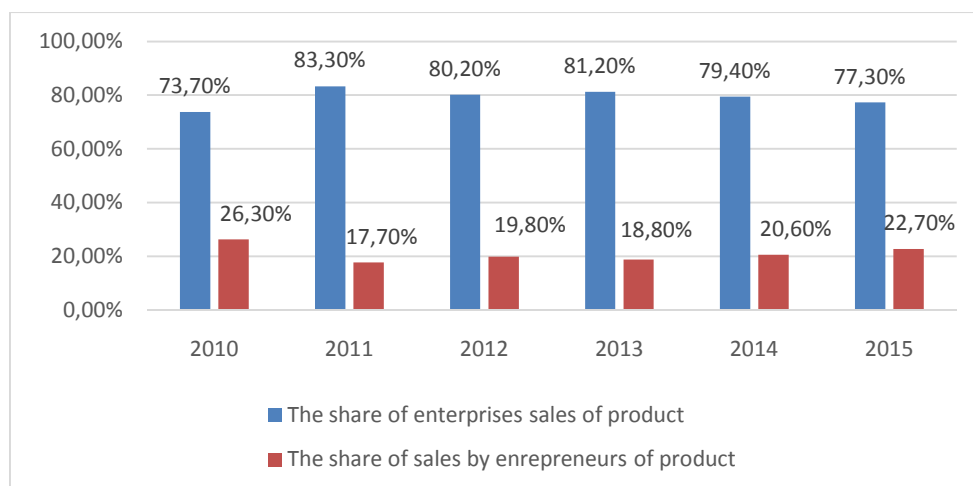
Transcarpathian region is one of the youngest regions of Ukraine by its unique geographical location. It has borders with Poland, Slovakia, Hungary and Romania, as well as Lviv and Ivano-Frankivsk regions of the country. This situation gives it a range of geo-economic advantages in foreign trade. The region is formed in January 1946. For territorial and administrative division Transcarpathian region is divided into 13 districts. Regional center is Uzhgorod, also here are 4 cities of regional importance, 9 cities of district importance, 19 towns, 307 village councils; 609 settlements, 193 of which have the status of Mountain.

According to statistical undertakings Main Department of Statistics in Transcarpathian region²² in 2015 provided the amount of products (goods and services) 52,155.8 million, representing 0.8% rate in Ukraine. Thus in total sales (goods and services) compared to the previous year there was growth by 2.1 percent of share sales (goods and services) of individual entrepreneurs. In 2015 number of business entities totaled 59,798 units, 4.0% more than 2014; 10.2% are enterprises, 89.8% - private entrepreneurs. Total area entities employed 154.8 thousand people, including by enterprises - 51.4% of all workers, by private entrepreneurs - 48.6%. The proportion of the number of employees to the number of employers was 1.9% to 1.5%. The data for 2010-2015 show us tendency of reducing number of employees. Thus, in 2015 compared to 2014 it decreased by 8.4% (97.7 thousand). In the Fig. 2.1 we can see the percentage of sales made by entrepreneurs and enterprises.

²² Main Department of Statistics in Transcarpathian region ACTIVITY OF LARGE, MIDDLE-SIZE, SMALL AND MICRO-ENTREPRENEURSHIP ENTITIES Retrieved from <http://www.uz.ukrstat.gov.ua>



Fig.2.1 Share of individual-entrepreneurs and enterprises in products sales



Source: Main Department of Statistics in Transcarpathian region. Activity of large, middle-size, small and micro entrepreneurship entities Retrieved from <http://www.uz.ukrstat.gov.ua>

In the most western region of Ukraine in 2015 were 59,798 registered entities: 6099 commercial entities, representing 1.8% of the total number of enterprises in Ukraine; 53,687 individuals-entrepreneurs, it is 3.3% from the total number of entities in Ukraine. In the Transcarpathian region in 2015 on 10 thousand of population there were 49 companies (47 small and 2 medium enterprises) and 426 individuals - entrepreneurs.

From total number of enterprises located in Transcarpathian region, in 2015 the largest share (95.8) was held by small businesses their number amounted up to 5853 units, representing 1.8% of the total number of small businesses in Ukraine. Then, the volume of large enterprises during 2010 - 2015 years decreased twice - six units in 2010 to three units in 2015, medium-sized enterprises decreased by 79 units, the number of small businesses in the corresponding period increased by 400 units. This is a sign that small businesses are quickly reacting to crisis of the market economy and find solutions to existing problems.

Transcarpathian region can be characterized by a significant intra differentiation in terms of development level, which is affected by the location and territorial structure of the region. Regional disparities are related primarily to the presence of depressed mountain areas and small towns as well as significant differences in the level of administration in districts. The difference in levels of administration in districts is primarily manifested in the level of business activity. According to this index dominating positions are held by the city of Uzhgorod, Mukachevo, Tyachiv, Vynohradiv; Mukachevo, Rakhiv and Uzhgorod district, where the largest number of active subjects of small business are if to compare for each 10



thousand of population. The smallest number of them is in Velyky Berezni, Volovets, Perechyn and Mizhgirrya areas.

In general, we can see steady tendency in increasing number of individuals-entrepreneurs. Thus, in 2015 the number of entrepreneurs increased compared with 2014 by 2263 persons, as compared with 2013 - 20,619 persons. The largest increase occurred in the Chop and Berehovo cities, where the amount of business for three years increased in 40 times. For example, in 2015 Chop had 336 entrepreneurs and if to compare this number to 2013 it increased by 357 persons, or in 39 times. Also, there has been a steady trend towards growth in the number of entrepreneurs in the regional center - Uzhgorod: in 2013 - 6203 persons, in 2014 - 10 199 persons, in 2015 - 10,296 persons. In addition, over the years taken for analysis, the number of individuals-entrepreneurs in some districts increased. The largest increase occurred in the Tyachevo area in 1.6 times: in 2013 - 3925 persons, in 2014 - 5448 persons, in 2015- 6187 persons; and Vynohradiv area 1.7 times: in 2013 - 2700 persons, in 2014 - 4346 persons, in 2015 - 4618 persons. In Irshava district number of entrepreneurs increased by 856 persons, in Rakhiv by 992 persons, in Uzhgorod by 755 persons, in Svalyava by 724 persons, in Velyky Berezni, Volovetsk, Mizhhirya, Perechyn corresponding increase amounted to 317, 242, 317, 337 persons.

Sales of products (goods and services) by the Transcarpathian enterprises in 2015 totaled 40,299,338.6 thousand UAH, which is 5,408,450.6 thousand UAH more than in the previous year and almost 1.5 times more than the realization in 2012. Sales volume (goods and services) by individuals-entrepreneurs in 2015 was 11,856,469.3 thousand UAH, in 2014 - 9,056,916.3 thousand UAH; in 2013 - 69,512,116.0 thousand UAH.

Evidence of existing regional disparities is also a high proportion of registered unemployment, especially in mountainous areas - Volovetsk, Mizhhirya, Perechyn, Rakhiv and Velyky Berezni. According to statistics, the largest number of employees at the enterprises in 2015 was found in city Uzhhorod - 16777 persons or 21.1% of the region employees and in the city Mukachevo -13,998 persons or 17.6%. The lowest employment rate was observed in Chop – only 820 persons or 1.0%, in Volovetsk -529 persons or 0.7%, in Velyky Berezni 1030 persons or 1.3% and Mizhgirrya - 1028 persons or 1.3%. A similar situation exists with employment of workers by individuals-entrepreneurs. The largest number of employed persons in Uzhgorod - 13830 persons or 17.6%, Mukachevo - 8467



persons or 12.5%, Vynohradiv - 5769 persons or 7.7%, in the districts of: Tyachevo - 8931 persons or almost 12%, Irshava 5143 persons or 6.8%.

By economic activity in Transcarpathian region in 2015 - 1374 units (24%) of small businesses worked in the trade and repair of vehicles; 1092 units or 18.5% of their total number engaged in forestry and fisheries agriculture; 776 units or 13.0% - industry; 633 units or 10.7% in real estate; 452 units or 7.6% - construction; 372 units or 6.0% - professional scientific and technical activities; 314 units or 5.0% - transport, warehousing, postal and courier activities; 231 units or 3.8% - the organization of nutrition; 218 units or 3.7% - administrative activities and auxiliary services; 193 units or 3.0% - telecommunications; 72 units or 1.0% - health care and social assistance; 34 units or 2.0% - arts, sports, entertainment and recreation; 31 units or 0.5% - financial and insurance activities; 17 units or 0.3% - education.

The largest volume of sales of products (goods and services) by small enterprises in 2015 occurred in wholesale and retail trade; repair services of vehicles amounting up to 3,082,794.9 thousand UAH, representing 45% or nearly half of the total realization of small enterprises in the region.

The analysis of small businesses in separate units of Transcarpathian region confirms that there are disparities in the territorial structure. Analysis shows that over the past three years, there were tendency to increase in business activities by small enterprises and individuals-entrepreneurs. Nevertheless, statistical data is not enough for a full analysis of small business activity in the region. An important addition may be the study of the environment of small business evaluated by the survey among small enterprises and individual-entrepreneurs.

It can be concluded that during the crisis period enterprises were shutting down their activities, therefore there was a significant decreasing in employment by enterprises, while individuals-entrepreneurs conversely were expanding their business, creating favorable conditions for employment.

Problematic issue of territorial development of the region is small towns. The region has nine small towns: Berehovo, Vynohradiv, Irshava, Perechyn, Rakhiv, Svalyava, Tyachiv, Khust, Chop, which is home to 156.9 thousand people, representing 12.6% of the region population. Problems of development of small cities in Transcarpathian region associated



with low availability of local budgets own revenues; low development of social infrastructure, services, housing, hotel, road and transport management; limited choice of occupations and places of employment, which complicates the situation on the labor market; employment uncompetitive labor market groups (disabled, unemployed youth, persons before retirement age); low maintenance updates in innovation creating unfavorable climate for attracting investment in the economy. To make a conclusion about depends of the small business development level on regional conditions it is appropriate to consider the position of the Transcarpathian region compared to other western regions of Ukraine: Ivano-Frankivsk, Lviv, Chernivtsi, Ternopil, Rivne on the data presented in Table 2.1

Table 2.1 Key indicators of enterprises of the Western Regions for 2015

	Transcarpathian	Volinsk	Ivano Frankivsk	Lviv	Rivne	Ternopil	Chernivtsi
Amount of enterprises	6111	5600	7942	18628	5253	5096	4054
Amount of sold products (goods, services), mln UAH	40299,3	83724,7	65860,8	183102,3	42671,4	75099,3	18095,3
Amount of employeed people, thousand people	79,5	99,3	85,5	331,6	86,8	84,8	48,8
Amount of employed people in one enterpice, people	12	17	10	17	16	16	12
Coast spent on personell, including salary, mln UAH	3082,0	3793,1	2989,1	14183,2	3143,2	31432,2	1553,4
Financial result (balance) before tax, mln UAH	-1591,5	-3180,1	-7186,2	-7630,2	-5308,1	-5308,1	417,8

Source: Main Department of Statistics in Transcarpathian region. Activity of large, middle-size, small and micro entrepreneurship entities. Retrieved from <http://www.uz.ukrstat.gov.ua>

The data above shows that the Transcarpathian region basic performance indicators (number of firms, sales of products, the number of workers employed, and personnel costs including salary, financial result before tax) are quite not the worst among Western regions. Thus, greater number of companies has only Lviv region (in three times) and Ivano-Frankivsk (in 1.3 times) and is ranked third, while the volume of sales of products (goods and services)



of Transcarpathian region is only on the sixth place, it shows poor business performance, inefficient production of goods and services or for the purpose of implementing shadow reduce of taxation. By the number of workers employed (79.5 thousand people) region also takes sixth place. Staff costs including wages amounting to 3,082.0 million UAH occupy fifth position and are almost equal with the corresponding costs in Rivne region.

As we can see from the analysis of Transcarpathian region, it is far from leading positions in small business development among western regions and most indicators (both absolute and relative) shows below-average results. Thus, there is a need for the permanent analysis of the situation in the region and improvement of the small business development level.



2.2. Analysis of environmental operation of small businesses in the Transcarpathian region

Development and support of small business is one of the main ways to overcome social and economic crisis in the time of economic transformation of the region. Despite the fact that the development of small business in Ukraine is recognized as one of the priorities of social and economic policy, small business entities continue to meet considerable obstacles as by government authorities and by the market environment. Small businesses are extremely vulnerable sector of the economy, so study the views of small businesses on the quality of the business environment, evaluation of regulatory processes and procedures are important to track changes in the development of this sector.

In Ukraine there are periodically made out survey of the business environment, by International Finance Corporation (IFC)²³, but they are implemented at the national level and present the opinion of the small businesses in regional centers of Ukraine, Kyiv and (before occupation) Simferopol. These results are very important for the implementation of dialogue between business and government and promote a better understanding of the situation in this area. We believe that there is a need to study the attitudes of the business environment among managers of small businesses and individual entrepreneurs, as well as the implementation of such research within the region. Therefore, implemented research of small business in cities and districts of Transcarpathian region is essential for activation of this sector.

According to the definition of the World Bank, the business environment is a set of institutional, legal and regulatory environment in which business operates²⁴. Improving the business environment is critical to accelerate economic growth in Ukraine in the nearest future. The overall degree of business development will be favorable not only for small business, but also for economic situation of the nation, increasing the economic power of the national economy, strengthening its position in the global market, the possibility of social programs and improving of peoples well-being and quality of life.

To analyze environment of small businesses functioning in the Transcarpathian region I created a survey, also it helped me to identify the main regulatory barriers to business

²³ Business environment in Ukraine International Finance Corporation (IFC) Project "Development of Entrepreneurship in Ukraine" - 2005 - 77 p. // www.ifc.org

²⁴ Doing business - 2008 // worldbank.org.ua



development in the region, find out about local business climate and reach conclusions regarding the adequacy of regulatory policy of modern small business.

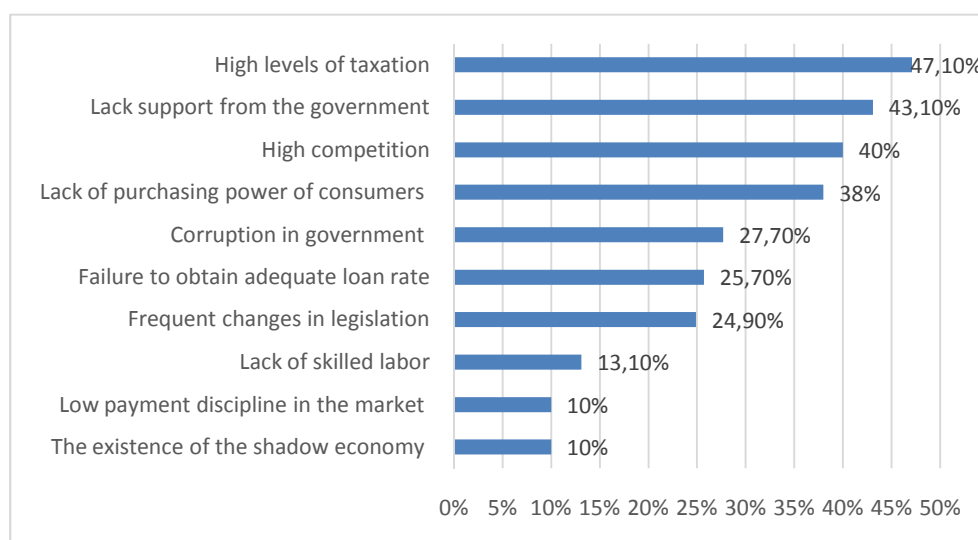
In order to obtain data necessary for measuring small business development, I studied environmental operation of small businesses in Transcarpathian region by creating questionnaire. For the research determined sampling method was used, particularly the method of quota sampling.

The objectives of the survey were:

- ❖ identify the main barriers to small business development in the region;
- ❖ assess the level of government support of small business;
- ❖ identify the most important for entrepreneurs types of state support;
- ❖ determine the level of awareness of small businesses on the existing instruments of state support of small business;
- ❖ clarify how small business entities assessed the efforts of local authorities to create a favorable business climate;

Most respondents (71.7%) used a simplified system of taxation, accounting and reporting. For activities constitute the vast majority of respondents are engaged in wholesale and retail trade 56.3%; 10, 3% of respondents from industry, 8.9% - the construction and services sector. According to the analysis of data obtained in the survey [Appendix 2], the main obstacles to the development of small business in the Transcarpathian region, according to respondents, is the high level of taxation (47.1%) or no support from the government (43.1% of respondents) (Fig. 2.2).

Fig.2.2 The percentage of respondents citing these factors are obstacles to their development



In other barriers that hinder the development of small business respondents named high level of competition (40.0% of respondents) and lack of purchasing power of consumers (38.0%). Fewer respondents indicated corruption by authorities (27.7%), inability to obtain credit at an adequate interest rate (25.7%) and frequent changes in legislation (24.9%).

Small businesses face the fact that strict regulation over legislation process leads to increased corruption. Corruption weakens the competitiveness of the country, making it less attractive for investment, reduces competition among existing companies, prevent business efficiency. Data from Transparency International²⁵ indicate that the negative impact of corruption is the suppression of entrepreneurship²⁶. The position of Ukraine in the list in 2017 is 131 / 176, while the score is 29 out of 100 (where 0 is very corrupted, 100 extremely clean).

As we can see from ranking Ukraine is very corrupted. Therefore, providing transparent, clear and stable rules of procedure and the relationship of businesses and government is an important precondition for economic progress in Ukraine.

Results of the survey of small and medium enterprises in Ukraine conducted by the International Finance Corporation (IFC) show that almost 57% of businesses in dealing with government "informal ways" to solve regulatory issues. It should be noted, despite the widespread practice of "informal decisions," they are troublesome for businesses, especially for those who want to develop their business within the law.

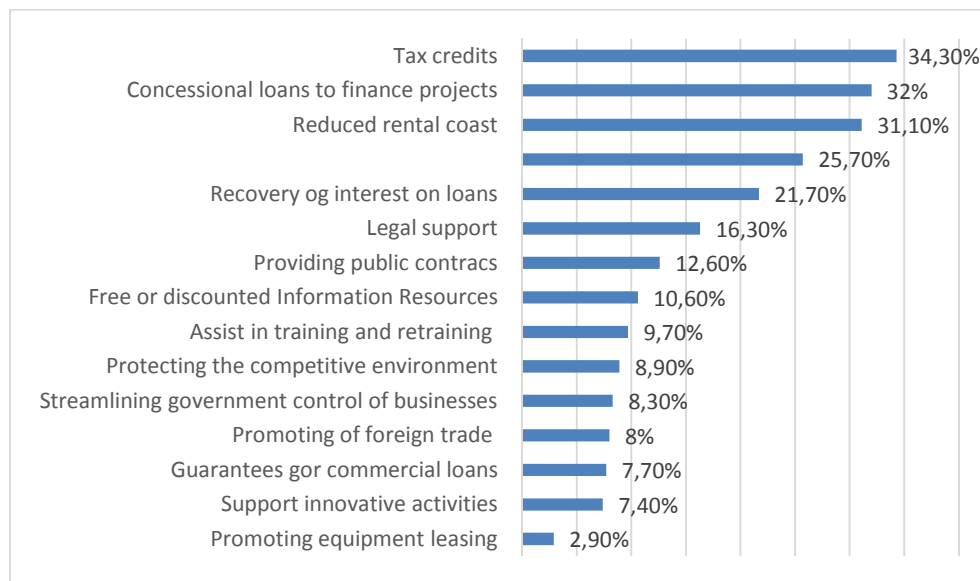
To identify problems faced by entrepreneurs of Transcarpathian region in their work, they were asked to indicate the priority of state support for small business. They ranked tax incentives (34.3%), soft loans to finance projects (32.0%) and preferential rental of premises (31.1%). Important are also simplified procedures of registration, licensing (25.7%), reimbursement of interest on loans (21.7%), and legal support (16.3%) (Fig.2.3)

²⁵ Transparency International - a leading global social movement against corruption; Corruption Perceptions Index, consisting of the organization, ranks countries based on the degree of corruption among public officials and politicians. This Composite Index is based on surveys and studies of corruption conducted by various independent organizations

²⁶ Transparency International UKRAINE Corruption level Retrieved from <https://ti-ukraine.org/>



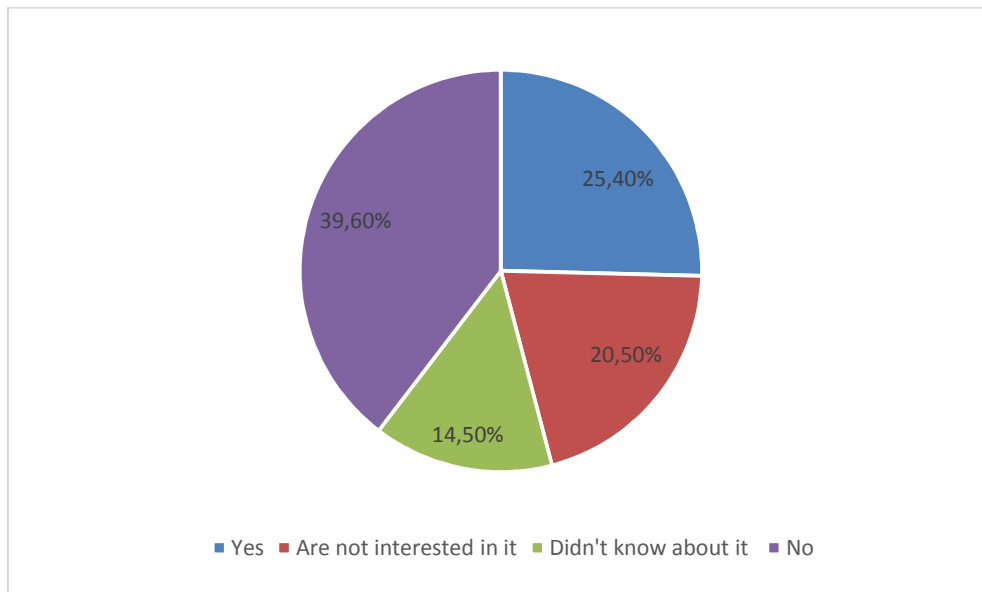
Fig. 2.3 Respondents about the most important types of state support for small business



Many of respondents (38.3%) assesses the effectiveness of state support of small business for the past 5 years as low, 28, 9% - rated it as average, 19.4% - very low and only 7 respondents (2%) evaluated the effectiveness of state support as high, none has defined it as very high. Most respondents believe that local authorities are interested in the development of business (42%), but at the same time believe that the local government does not help those who are starting a business (68%) and does not create equal conditions for all (62.9%) and do not agree that local infrastructure facilitates the development of business (46%).

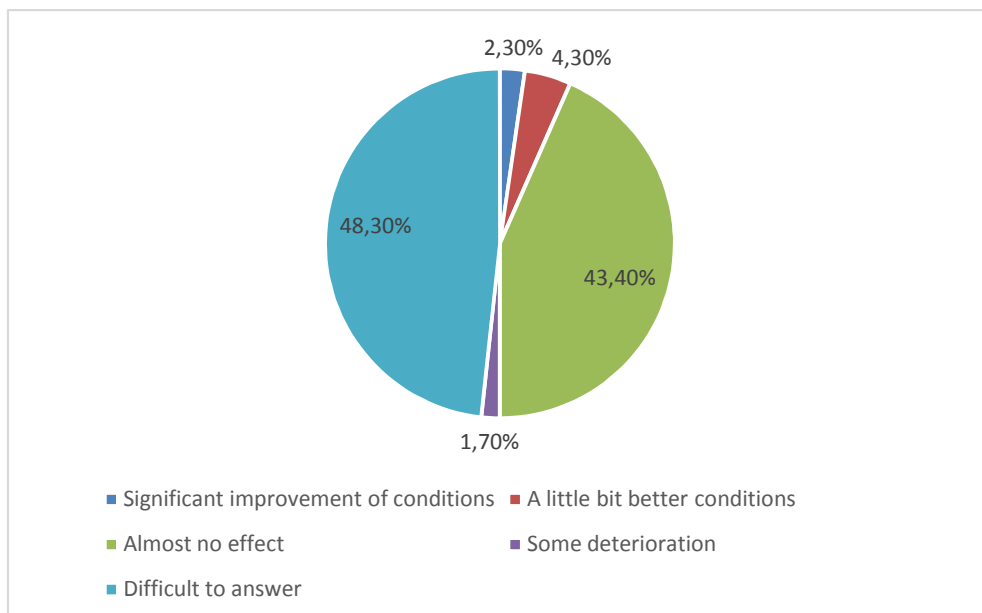
One important tool to implement regional public policies that support small business is a regional program for small business. But only 25.4% of respondents are familiar with such programs, while others are not (Fig.2.4).

Fig.2.4 Respondents about awareness of the existing programs for small business development



Because of the low level of awareness of small businesses about development programs, most of respondents could not answer the question of the impact of these programs in terms of their activities (48.3% of respondents) (Fig.2.5).

Fig.2.5 Distribution judgments of respondents about the impact of business development programs on conditions of small businesses

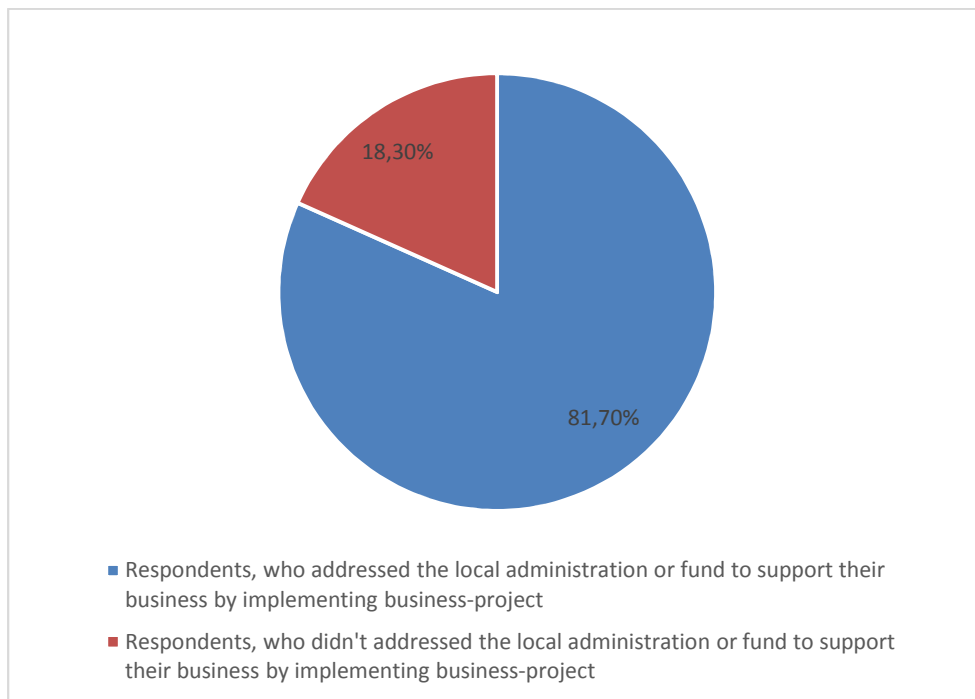


Much of the respondents (43.4%) believe that these programs have practically no effect on their activities. It can be concluded that the subjects of small business in Transcarpathian region was poorly informed about the program of small business support and

almost did not feel any impact of such on their activities. Consequently, regional authorities and local governments should improve its work in this area.

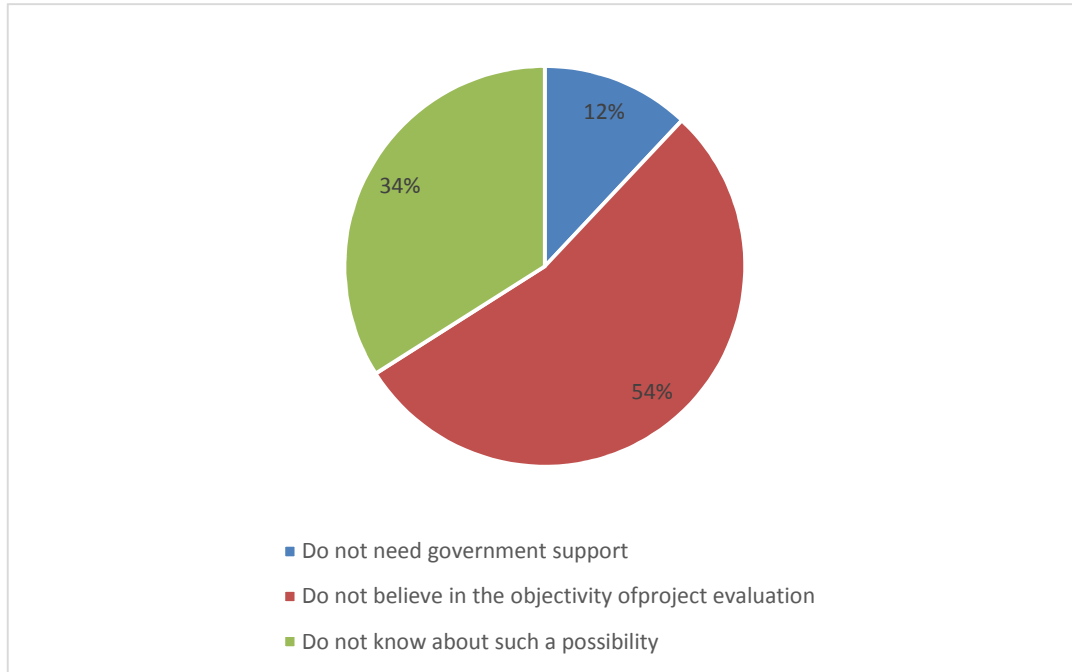
The Program of development of small business in the Transcarpathian region for 2015-2016, provided for a financial support direction as the implementation mechanism of micro-credit program, but only 18.3% of respondents send their business-projects to the contest (Fig.2.6).

Fig.2.6 Respondents depending on whether they have addressed the local administration or fund to support their business by implementing business-project for financial support contest



The remaining 81.7% of respondents have not sought after support (Fig.2.7).

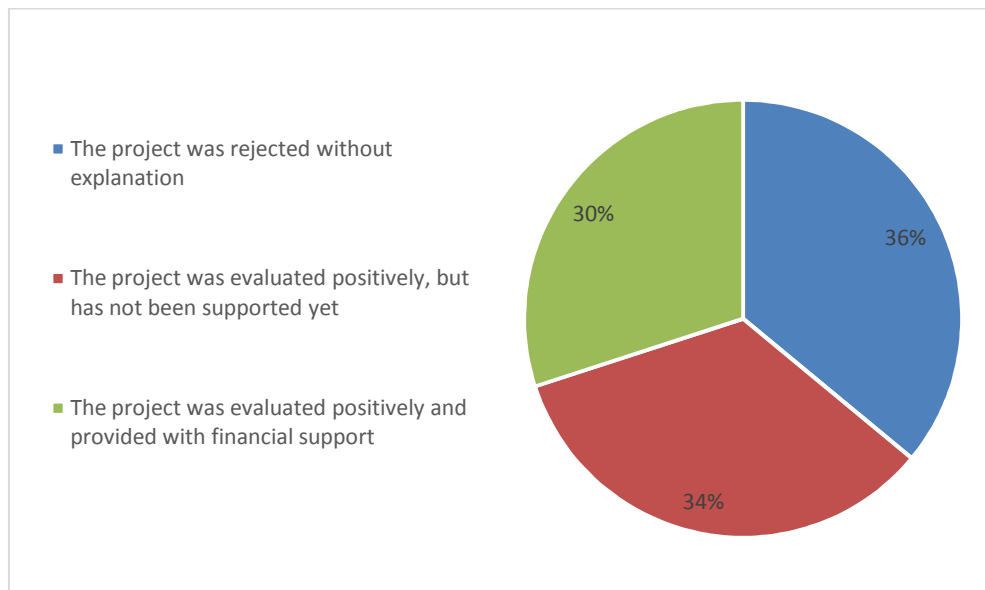
Fig.2.7 Distribution of reasons why respondents did not apply to the local administration or fund to receive business support



Given the low level of awareness of respondents on the possibilities of state support of small business (27.7% of all respondents and 34% of those who did not apply for support) and despondency about the objectivity of project evaluation (44.0% of respondents and 54% of those who did not apply for support), only few of them turn to the local administration or fund with business-project to receive financial support.

Among those respondents who applied for support programs (18.3%), 30% stated that their project evaluated positively and provided with financial support, 34% said that the project was evaluated positively but have not been supported, 36% were rejected without explanations (Fig.2.8).

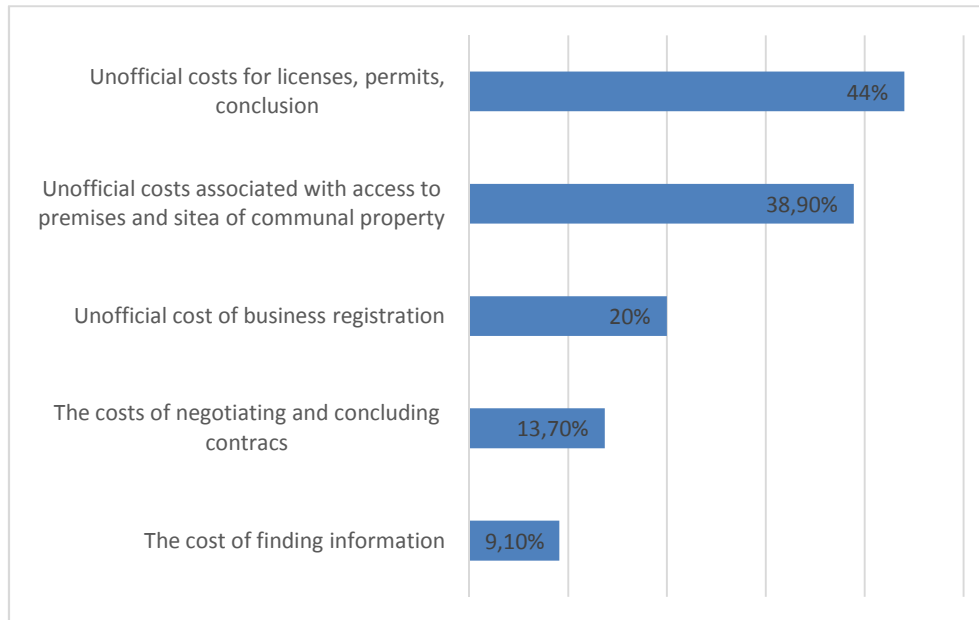
Fig.2.8 Distribution of respondents who applied to the business support programs



Evaluating the effectiveness of support for small business can become more versatile and complete, if to use methodological approach, based on an analysis of transaction costs. It can be very productive in the analysis of the factors influencing the formation of small businesses in Ukraine. The idea is that the ability to overcome barriers at the entrance to the market of small businesses depends on the ability of the entity, together with costs directly related to the production of goods and services, to carry transaction costs due to the necessity to establish and maintain relationships with all contractors external and internal environment²⁷. Respondents were asked to select those transaction costs they incur in the course of business activity (Fig.2.9).

²⁷ Regional Program for Small Business Development in Transcarpathian Region for 2013-2014. / Transcarpathian regional council. - 2013 - 36c. //www.carpathia.gov.ua

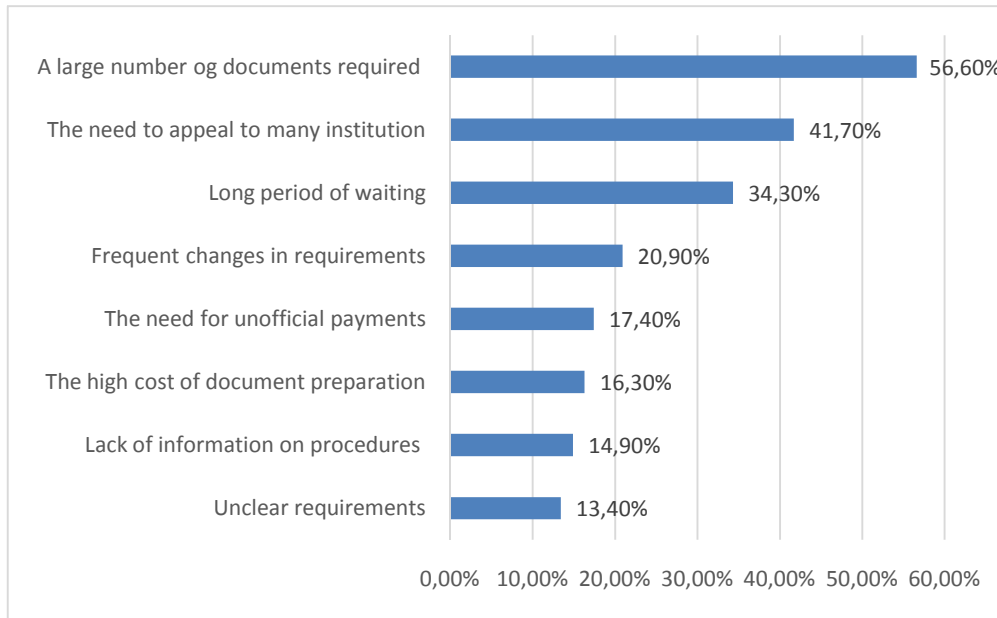
Fig.2.9 Percentage of respondents citing these costs such that they reduce their profit



Most respondents indicated that their income was decreased by unofficial costs for licenses, permits, conclusion (44%), informal costs associated with access to the premises and land municipal property (38.9%) and informal costs for business registration. Thus, the greatest difficulties arise in the interaction with the authorities. This raises transaction costs associated with the coordination of interests of the parties involved in solving a particular problems. Thus, access to premises causes transaction costs in the form of fees corresponding municipal authorities, consultants and lawyers. The most relevant are obtaining licenses and permits. There is also a clear dominance of informal practices to overcome barriers that cannot promote legal treatment of business.

When asked about what problems arise in obtaining permits, respondents most often mentioned options such as a large number of documents (56.6%), the need to appeal to many institutions (41.7%), long period of waiting (34.3 %) (Fig.2.10)

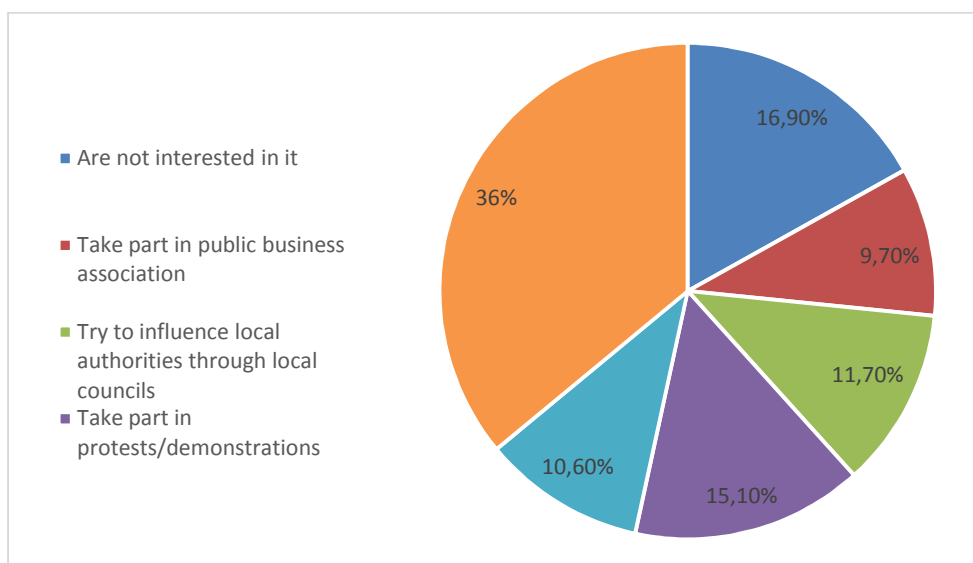
Fig.2.10 Percentage of respondents who identified these issues as such which arise when obtaining permits



In Ukraine, the number of permits required for business is still extremely high. The array of permits, approvals and assessments required for business currently comprises 198 documents. In fact, the resolution is any decision of a public authority, if it is issued with document to the company and gives it the right to perform a particular activity or action. Some permits are required for all businesses (such as permission from the Fire Department), others depend on the type of business (permission for retail, commercial patents and so on.). Consequently, to work within current legislation each company must have several permits from different departments.

In my research on small businesses environment in Transcarpathian region, questions about the inspections carried out by supervisory authority were also asked. Unfortunately, respondents answered these questions unwillingly; therefore it was hard to make conclusions on this situation.

Fig.2.11 Respondents about ways to protect their interests



In public, business associations involved only 9.7% of respondents. Unfortunately, most respondents 36% believe social activities are hopeless; almost 17% are not interested at all. The good thing is that 10.6% of small businesses are participating in the discussion of regulations, because they believe that it is much easier to make changes on the stage of public discussion of the regulation than after its approval.

Ukrainian businessmen expect the state to improve conditions for business, including simplifying administrative procedures and reforming regulation. Thus, according to the survey IFC, few years ago, 41% of small businesses in Ukraine hoped that the next year business conditions will improve. However, a survey of the next year showed strong disappointment among entrepreneurs: only 15% of them felt that these hopes came true. This is primarily due to the high regulatory burden on businesses. Disappointed owners, and the spread of "shadow" business (about 39% of the total value of goods and services produced in the country, is in the "shadow" economy)²⁸, show that administrative barriers limit the development of business in Ukraine.

Despite the fact, that the government control over labor safety conditions in Ukraine is significantly stricter than in EU countries, it does not give a positive effect to improve safety in Ukraine. Deaths on the work place, sickness related to working conditions, accidents, etc.,

²⁸ The main measures of implementation of the Small Business Development Program in the region for 2014-2015- 21s //www.carpathia.gov.ua



in the Ukraine are experienced by about 0.1% of the population, while in Germany and France the same index not exceeding 0.07%.

Conclusions to Chapter 2

The analysis and distribution of small businesses in regions of Ukraine confirmed that there are disparities in the territorial structure. However, it should be noted that there is less difference in the relative performance of small business than absolute.

As seen from the analysis, Transcarpathian region is not a leader in the development of small business in most indicators (both absolute and relative) shows the results are below the national average. Thus, there is a need for the analysis of the situation in the region and improvement the management of small business development at the regional level.

According to the analysis of data obtained in my survey, the main obstacles to the slow development of small business in the Transcarpathian region are the high level of taxation and the lack of support from the authorities. In other barriers that hinder the development of small business respondents named high competition and lack of purchasing power of consumers.

After problems faced by entrepreneurs in Transcarpathian region, they were asked to indicate the priority of state support for small business. These are tax exemptions, preferential loans for project financing and preferential rent.

Most respondents believe that local authorities are interested in entrepreneurship, but at the same time believe that the local government does not help those who starts a business, does not create equal conditions for all, and do not agree that local infrastructure facilitates business development .

One important tool to implement regional public policies for small business support is a regional program of help for small business. But only 25.4% of respondents were familiar with it, others did not know about it or simply did not believe in it honesty. We believe that it is appropriate to continue the practice survey of small businesses, not only at national but also at regional and local levels. This will provide a better understanding of the situation in the business environment and will create an effective system of support of small business in Ukraine.



Chapter 3. Areas of improvement and development of small business in the region

In the modern practice of small business development, we can identify key principle of classification - the principle of state paternalism regarding small businesses. According to this principle, in practice there are such approaches to form a system of small business:

- ✚ Not protectionist approach to the system of small business is characteristic for countries with market economies, which are effectively developing and providing a focused and coherent development of the macro business for any enterprise, regardless of size. It is believed that there is no sense to create favorable conditions for enterprises with number of employees, let's say, 100 people, if the condition for businesses which employs 101 people is unfavorable.
- ✚ Protectionist approach, usually expressed in the presence of business support programs, mainly in small business, claiming to show the experience of overcoming the crisis, accumulated by the number of countries. Protectionist model can be characterized by a strict formal approach to determining the size of enterprises - recipients of a government support.
- ✚ Hybrid approach, which occurs in some countries such as the UK, where the declared state-level support for small business are implemented in a non-protective forms - no special restrictive laws - under a wide range of flexible initiatives that are based on the partnership of government, business and public sector.

Current practice in Ukraine shows that usually all great business development programs end up as a small support measures, which in addition are insufficiently funded, therefore, it would be useful to review the experience of different countries in the development of small businesses. I must say that the results of government initiatives in this area are quite controversial even for countries with highly developed market.

Referring to the experience of other countries that have passed a long way in this direction, we may find interesting and critical analyze results of the state support of small business practice. Results of the analysis carried out by specialists of Western European countries are in the table below. The top half of the table lists those aspects of government and local authorities that reflect the current practice of small business, and where some transfer of emphasis seems necessary. In the left bottom of the table identified areas where



there is little, in terms of research, evidence of their effectiveness in comparison with the performed investments, and useful reduction in state funding to investment of surplus funds in those areas (bottom right of the table) that demonstrate a significant effect of investment for society.

Table 3.1 Results of the analysis of Western European countries experience

What should government do?	
<ol style="list-style-type: none"> 1. The concentration of efforts on developing a suitable macroeconomic conditions 2. Publication of laws, defining the aims and objectives of small businesses policy 3. Continuation of this policy at local level 	
<p style="text-align: center;">Where to lower accents:</p> <ul style="list-style-type: none"> ▪ small business taxation ▪ deregulation of small business ▪ teaching ▪ support to start new firms ▪ information and consultancy services ▪ solving short-term problems 	<p style="text-align: center;">Measures to strengthen:</p> <ul style="list-style-type: none"> ▪ thrust shares ▪ Science and Technology ▪ “specific” groups of clients of State Support ▪ financial support ▪ promoting a dialogue

The content of the main message to government is that it is recommended to do less, but better than more, but worse. This is a very clear message, agreed by various researchers. It shows that, in terms of small businesses, the key role that can and should be played by a government is to establish normal macroeconomic conditions, particularly by providing low inflation rates, interest rates on loans, dynamic economic growth and a high level of effective demand. These are factors for which government is responsible and where business has the opportunity to evaluate its competence.

I believe these are appropriate areas of improvement of public administration for business:



1. Reform of the law of Ukraine on local government to clearly define the powers of local authorities, mechanisms of authority and responsibility of people in local governments.

2. State control over the strict compliance with legal requirements to provide information openness of state authorities and local governments. Ensuring availability of information on current performance of budgets on all levels, and public dialogue while preparation of the budget for the following periods.

3. Implementation of the concept principles of public services through appropriate legislation; setting standards for the provision of public services. The cost of public services should not exceed the costs of providing them. Systematic functional reviews of administrative services, limit their number and cancellations or transformation services that are unnecessary or ineffective.

4. Developing and implementing the program of public administration reform, aimed to reduce its cost to society and increase its effectiveness.

5. Expansion of business self-regulation; delegation of certain government's power to self-regulate organizations in the enterprise sector.

6. Increased control over responsibility of administrators and licensing authorities.

For local governments to create a favorable climate for small businesses, they have to get some motivation. Such motivation can be two main factors:

- The ability to increase revenues of local budgets;
- Ensure social stability and employment.

To create favorable conditions for doing business entrepreneurs and managers should take the following steps:

1. Legislate duty of local authorities to establish a system of small business access to the following information:

- Free communal property offered for a rent;
- Free non-agricultural lands on which it is possible to place objects of business;
- Conditions of tenders for the procurement of goods, works and services from the budget;
- The strategic plans of the territories.



2. Solve the problem of using non-agricultural land by applying the mechanism of long-term credits with low interest rates by local councils if the land is purchased.

Next item in the table offers to lower accents on learning. There are extremely conflicting results of studies have attempted to identify the effectiveness of training programs for small businesses. An alternative to this investment "in general" may be investing in training of specific target groups and development of basic education programs rather than learning some general ideas about business, it is more important to explain concept of entrepreneurship and creativity as problem solving mechanism for people and organizations and different target groups in the state education - schools, institutes and universities. However, there is some evidence of the fact that the survival of businesses whose leaders were well trained is higher than in those businesses where it was not.

The next item specified information and consulting services. Creating a large number of state-specific information, counseling centers and agencies that duplicate the functions of professional consultants (auditors, lawyers, accountants, etc.) considered ineffective. Moreover, several studies showed that firms that use the services of professional consultants more viable than those that use public support structures, although, of course, we cannot accept this claim as absolute and categorical. As with education, there are strengths and weaknesses; therefore, key idea of this advice is not exclude analysis of possible alternatives.

Next column on the right side of the table "Which areas to strengthen?" adding the choice of priorities when determining who to support is should be based on certain criteria related with quality rather than quantity.

One of the items on the table is a specific group of customers support programs. This refers to those groups characterized by their potential weakness in the confrontation with the market. These are unemployed who are no working for a long time, ethnic minorities, youth, disabled and others. Many reasons confidently underline that programs that reduce investments to support new businesses should not affect these groups.

Another area which should gain attention of the authorities in the field of small business development is financial support. This point is quite controversial, and through a special interest in it, deserves more careful consideration. On the one hand, not ethically to support one group of companies, while forgetting about other. However, objective picture is that numerous studies show a significant difference in the effectiveness of programs that include



this element in comparison with the same training programs or information / advisory support. In this term special importance is the choice of forms and methods of providing financial support to small businesses. Such forms of support, such as preferential loans, in particular, carried by the budget, can cause more harm than good for the business community and society in general, and require extremely careful study of the mechanisms of their implementation.

An additional problem that slows down business development and prevents large-scale investment to Ukraine is insufficient protection of property rights. In a society that is based on democratic principles, the main function of the government is in protecting the rights of private enterprises. But this function of government is today underdeveloped. The judiciary, despite all undertaken legislative reform is not ready to exercise its powers fully, and hence, the protection of property rights gets significant violations.

Key priorities for small businesses development programs:

- Development of educational programs, information and advisory support (a consequence of the principles 1,2 and 5);
- Development of a competitive environment that encourages the timely launch of sanitation procedures and bankruptcy and provides the necessary conditions for the effective division of labor "horizontal" (a consequence of the principle 2);
- Development of mutually beneficial and agreed relations between different levels vertically (city / district, region, country), stimulating their mutually effective partnership in the creation of the legal framework that eliminates the contradictions and gaps at different levels - for more efficient division of labor (a consequence of the principle 2);
- Development of complex external conditions as physical infrastructure - communications, telecommunications, manufacturing facilities, etc., and not physical, political, legal, economic, social, cultural and technological (a consequence of the principle 4).

Thus, the recommendations focused, primarily on indirect forms of incentive support. Direct financial support in its pure form is available by virtue of the award the secondary nature of the resource. It is necessary to ensure that in terms of stimulating environment of entrepreneurship and business confidence and the population in the state financial flows started to be generated in the first place, not outside (region or country) and of internal "growth points" involving then external financial flows in terms of cooperation, partnership



and fair competition. Analysis of available publications²⁹ shows that in developed market economies, and in a post-socialist economic systems implemented certain measures to promote the self-development of small business to help it enter the market to find sources of funding, partners, marketing chains and reduce systemic risks, and so on. Therefore, we can conclude that all countries and local governments are initiating the creation and development of certain infrastructure, providing for this legal basis, financial conditions, and organizational, methodical and analytical support.

²⁹ Dadashev, A., Glovatskaya, N., & Lazurenko, S. (2015). *Efficiency of support of small business // Issues of economics* (1127-139th ed.). Kiev.



Conclusions to Chapter 3

Directions improving regional mechanism of development of small business in the Transcarpathian region lead to the following conclusions.

In terms of small businesses, the key role that can and should play a government is to establish normal macroeconomic conditions, namely, to ensure low inflation, interest rates on loans, dynamic economic growth and a high level of effective demand. These are the factors which government is responsible for and for which small business evaluate assesses of its competence.

In my opinion, the practice of small businesses development must meet the following requirements:

- uniform, clear and understandable rules of relations between government and business;
- certainty of the rules of law for all persons (including civil servants and local government officials);
- convenient for businessmen ways of obtaining administrative services, high professional quality standards of these services;
- involvement of business community in decision-making at central and local level;
- accountability of government through regular publication of reports and information about the activities of central and local authorities;
- rapid and effective judicial protection of rights;
- Constructive cooperation between governments and public organizations.



Conclusions

The survey conducted for the thesis work made it possible to formulate the following general conclusions and recommendations:

1. Small business partially affect the restructuring of the economic complex of the region, increasing total production, retail sales, contributes to solving problems of employment and total revenue growth, creates a favorable environment for the development of competition and elimination of monopolies in business;

2. Dynamics of quantitative and qualitative indicators of small business in Ukraine demonstrates the low efficiency of state management of its development, resulting from the concentration of the main functions of management at the national level. Improvement of development of small business depends on decentralization of powers and strengthening the role of the regions;

3. The lack of an effective mechanism for implementing public policies to support small business because of inadequate legislation hinders rather than promotes its expansion and development through financial support;

4. Legal small business in the Transcarpathian region poorly affecting the development of the regional economy, therefore growing sufficiently vigorous to ensure dynamic growth of socio-economic indicators of the region are also small.

5. By analyzing survey data, we can see that main obstacles to the development of small business in the Transcarpathian region are high taxation and lack of support from the local authorities. Also to the factors that hinder the development of small business respondents attributed the high level of competition, insufficient purchasing power of consumers and lack of transparency regarding tendering contracts for the budget. The main government support of small business entrepreneurs of Transcarpathian region consider creating a favorable investment climate in the region by introducing the region to a free economic zone, tax benefits, loans for project, preferential rent.

6. Different levels of small business development in the cities and districts of Transcarpathian region leads to inefficiency of the organization of the public authorities within a single regional program to support small businesses. Therefore, policies to promote small businesses at the level of the region should be based on a differentiated strategy for territorial principle approach to solving the problems of small businesses.



7. There is a need to strengthen the role of local governments in the formulation and implementation of regional policy to support small business. Activities in this area should include the following components: strategic planning; organizational support of small businesses; no interference with the expansion of business self-regulation; provision of information services.

8. Improving the current system of development of small business in the Transcarpathian region can be realized by the redistribution of powers between the institutions of government and improving methods of developing national and regional programs to promote small business in part consideration in the process of developing such factors as: the level of favorable external environment, priorities of small business development and application of measures for evaluating the effectiveness of implementation of regional programs.



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Appendixes

Appendix 1

Organizational plan of questionnaire

N^o	Task	Result
1.	Definition of research	March-June 2017
2.	Method of research	Descriptive
3.	Determining the type of required information	Primary
4.	Identifying sources of information	Small businesses in Transcarpathian region
5.	Determination of collection methods for necessary data	Personal survey
6.	Development of forms for data collection	Questionnaire with eighteen closed questions, six of which are needed to collect information on respondents and twelve - to achieve the objectives of research
7.	Definition of general amount of all businesses and entrepreneurs in the region	57196 (49394 individuals - entrepreneurs and 7802 small businesses)
8.	Determination of the sampling frame	The information about number of small businesses was taken in the Department of Statistics in Transcarpathian region
9.	Determination of sample size (businesses and entrepreneurs which was questioned by me to collect data)	350 small businesses (0.61% of the general amount)
10.	Calculating statistics error	± 5%.

Appendix 2

Questionnaire

The study of the environment of small business operation in Transcarpathian region

1. What prevents your business?
 - Low consumers demand
 - High levels of taxation
 - Inability to get credit at adequate percentage
 - High competition
 - Lack of support from the authorities power
 - The existence of the shadow economy
 - Lack of skilled labor
 - Low payment discipline in the market
 - Corruption in government
 - Frequent changes in legislation
 - The above problems of the country do not create challenges for our business
 - Other_____

2. Choose the most important for you types of state support of small business.
 - Concessional loans to finance projects
 - Tax credits
 - Guarantees for commercial loans
 - Promoting equipment leasing
 - Free or discounted Information resource
 - Reimbursement of interest on loans
 - Support for innovation
 - Reduced rental payments
 - Assist in training and retraining
 - Providing public contracts
 - Legal support
 - Simplification of procedures for registration, licensing
 - Reformation of state control over the business activity



- Promotion of foreign trade
- Protecting the competitive environment
- Other_____

3. How do you assess the effectiveness of state support of small business for the past 5 years?

- The efficiency is very high
- High Efficiency
- Average efficiency
- Low efficiency
- The efficiency is very low
- Difficult to answer

4. Do you agree with the following statements below?

	Yes	No	Not sure
National governments are interested in business development			
Local government helps those who start a business			
Local authorities create equal conditions for all			
Local infrastructure conducive to business development			
Local authorities are interested in developing of business			
The business environment is better than in most regions of Ukraine			

5. Are you familiar with programs of promotion (assistance-development) for small business?

- Yes
- No
- Not interested in these programs

6. Did programs of promoting small businesses somehow influenced real conditions of small business functioning?

- Significantly improved conditions
- Some improvement in conditions
- Almost no effect



- Caused some deterioration of conditions
 - Caused a significant deterioration of conditions
 - Difficult to answer
7. Have you applied to the local administration or fund with business project to receive financial support?
- Yes
 - No
8. When contacted, what were the results?
- The project was evaluated positively and provided financial support
 - The project was evaluated positively, but has not been supported
 - The project was rejected without explanation
 - Other _____
9. If not addressed, why?
- No need of state support
 - I do not believe in the objectivity of these programs
 - I did not know about such a possibility
 - Other _____
10. What do you think reduces the profitability of your business?
- Unofficial cost of business registration
 - Unofficial costs for licenses, permits, conclusion
 - The cost of finding information (about customers, competitors, etc.,)
 - The costs of negotiating and concluding contracts (including legal registration of transactions)
 - Unofficial costs associated with access to premises and sites of communal property.
 - These costs do not reduce the profit of our company
 - Other _____
11. What difficulties arise in the process of obtaining permits?
- A large number of documents required
 - Long period of waiting
 - Unclear requirements
 - The need to appeal to many institutions
 - Frequent changes in requirements



- The high cost of document preparation
- The need for unofficial payments
- Lack of information on procedures

12. Describe, please, information asked below on inspecting your business by superior authority.

Superior Authority	Number of inspections per year	Average duration	Average number of employees involved in inspections	Official payments	Unofficial payments
Tax Office					
Fire control Office					
Sanitary-Epidemiological Station					
Pension Fund					
Social Insurance Fund					
Employment Fund					
Ministry of Internal Affairs					
Labor Protection Office					
Supervision of energy consumption					
Consumers Rights					



Protection Office					
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13. Are you trying to influence the activities of local authorities in the field of small business?

- Yes, take part in public business associations
- Yes, try to influence local authorities through local councils
- Yes, take part in protests/demonstrations
- Yes, take part in the discussion of regulations, round tables
- No, it's hopeless
- No, we are not interested

14. What system of taxation, accounting and reporting you apply?

- The simplified tax system
- General tax system

15. Your status? You are:

- Individual entrepreneur
- Legal entity

16. Where is your business located?

17. For how long you are already in business? _____ years

18. What type of economic activity belongs to your company?

- Construction
- Wholesale and retail trade
- Transport
- Hotels and restaurants
- Agriculture
- Financial services
- Collective, social and personal services
- Real estate, leasing and corporate banking
- Other _____

19. How many employees are working in your company?

