

Yevhen H. Matviyishyn<sup>1</sup>

## ENTREPRENEURSHIP DEVELOPMENT SUPPORT IN UKRAINE

*The article presents the key aspects of entrepreneurship development in Ukraine. Legislative changes aimed at simplifying small business activities are described. Measures that can be taken by territorial communities to stimulate entrepreneurship development are suggested.*

*Keywords: competitiveness; entrepreneurship; freelance; local economic development; simplified taxation.*

*JEL classification: K2; N8.*

Євген Г. Матвіїшин

## ПІДТРИМКА РОЗВИТКУ ПІДПРИЄМНИЦТВА В УКРАЇНІ

*У статті розкрито основні аспекти розвитку підприємництва в Україні. Описано зміни в законодавстві, спрямовані на спрощення діяльності малого бізнесу. Запропоновано заходи, які можуть виконуватися в територіальних громадах для стимулювання розвитку підприємництва.*

*Ключові слова: конкурентоспроможність; підприємництво; фріланс; місцевий економічний розвиток; спрощене оподаткування.*

*Табл. 1. Літ. 17.*

Евгений Г. Матвишин

## ПОДДЕРЖКА РАЗВИТИЯ ПРЕДПРИНИМАТЕЛЬСТВА В УКРАИНЕ

*В статье представлены основные аспекты развития предпринимательства в Украине. Описаны изменения в законодательстве, направленные на упрощение деятельности малого бизнеса. Предложены мероприятия, которые могут выполняться в территориальных общинах для стимулирования развития предпринимательства.*

*Ключевые слова: конкурентоспособность; предпринимательство; фриланс; местное экономическое развитие; упрощенное налогообложение.*

**Problem setting.** More responsibility for handling social and economic issues in Ukraine should be delegated to territorial communities. Creating new jobs and solving the related issues at a particular territory require stimulation of local economic development. In order to improve the basis for economic development it is necessary to support small and medium business. Entrepreneurship is the catalyst for economic growth and a bearer of innovative approaches to economic decision-making and commercial technologies. It uses finances, tangible and intangible resources, intellectual property for new products or services that are in demand. Entrepreneurs cover new areas of capital application, care about the most efficient use of resources. Thus, entrepreneurship is the force which accelerates economic development through efficiency and opens new ways to transformation: it creates innovative environment, destroys traditional structures. Furthermore, small business development accelerates the growth of society, in particular, – it is able to expand the middle class and ensure its prosperity.

**Recent research and publications analysis.** Welfare is predetermined by a great number of factors. Some of them are provided at the state level, territorial community forms the others. Authorities must ensure the benefits of a particular person and the

<sup>1</sup> Lviv Regional Institute of Public Administration of the National Academy for Public Administration under the President of Ukraine, Lviv, Ukraine.

whole society as well. Theories based on this concept are related to financial science and aimed at the economy of welfare. Ch. Blankart (2012) reviewed these theories. Some approaches consider the activity of territorial community as providing conditions of material and spiritual life of the society. Comprehensive analysis of such approaches was carried out by J.J. Parysek (2001). According to N.G. Leigh and E.J. Blakely (2013) the main duty of the state is to guarantee the right to work and to ensure economic stability. These scientists consider the issue of searching the ways for national tasks accomplishment to be at the local level. Others think that for Ukraine "the lack of improvement in the conditions for the development of small and medium-sized firms and the still insufficient deregulation of the economy are being the main problems" (Kononczuk et al., 2015). We agree that comprehensive initiatives to support active entrepreneurship must be useful for the formation of a strong middle class.

**The research objective.** This study attempts to find ways to improve the support for small and medium business in Ukraine at both state and local levels.

**Key research findings.** The formation and growth of the middle class due to entrepreneurship development in Ukraine is the need of time. From the social point of view, middle class has the following features: adequate income level, high level of education and skills, moderate political conservatism, interest in maintaining social stability and marginal ideologies rejection etc. (Liapin, 2009). Western countries have come the evolutionary path of the middle class development on the basis of business development. Small business development in the post-communist countries of Eastern Europe provoked social and mental changes in the society, has helped to create the middle class, made it possible to achieve autonomy from the government, big business and oligarchs. The middle class constitutes the majority of population in developed countries. It integrates society strengthening public interests and national culture.

Successful entrepreneurship depends on many factors, including certain entrepreneurial and features economic and legislative environment. In the early years of Ukraine's independence, we faced the unwillingness of population to take the initiative and be responsible for it the so-called "homo sovieticus" way of thinking dominated. Business conditions have been changing since 1991 a lot. Different types of entrepreneurs emerged in that period. The first type consisted of people who were forced to engage in small business to survive (e.g., former employees of research institutions that became unemployed). Thus, entrepreneurship was representing a growing source of new jobs and a method of "absorbing" displaced workers. The second type was formed by entrepreneurs who legalized their criminal capital. The third type consisted of individuals able to quickly use the weakness of Ukrainian legislation, business contacts, differences in exchange rates and in prices for products at domestic and global markets. The main areas of their business activity were financial, trade and mediation, exports etc. Thus, the accelerated development of entrepreneurship was accompanied by rapid enrichment of some individuals, particularly through political rent. In Ukraine it is clearly evident that "governmental intervention in the economy assigns resource allocation power to bureaucracy, and therefore allows capturing political rents through corruption" (Lazarev, 2004). Significant opportunities for small businesses opened with the introduction and development of a simplified tax

system. It was established by Presidential Decree of Ukraine back in 1998 and was reflected in the Tax Code, adopted in December 2010. Simplified tax system is a special tax collection mechanism, which replaces the payment of certain taxes by a single tax and maintenance of simplified accounting. The benefits of the simplified tax system can actually be enjoyed not only by small businesses but also by medium and large enterprises (via splitting the business into smaller companies, registering employees as individual entrepreneurs etc.). In addition to the single tax, businesses pay a single social contribution. Its size does not depend on revenues, but only on the number of employees. The minimum amount of this contribution was 34.7% of the official minimum wage of the current month (after 2016 will be 22%) (Law of Ukraine, 24.12.2015, # 99-VII). For a long time, it was difficult for Ukrainian entrepreneurs to terminate business activities due to time-consuming procedures. In 2014 these procedures were considerably simplified. In particular, a new order of termination of private business was introduced; it takes only one day to terminate small business activity now.

Despite a number of steps to improve business legislation, in Ukraine the investment regime remains closed, bureaucratic business regulations inhibit the development of the private sector, political instability leads to much uncertainty in commercial transactions (Index of Economic Freedom, 2016). Therefore, it is necessary to take more measures to simplify the business environment.

Additional opportunities for small business development appeared thanks to activity of international institutions in Ukraine. In particular, the European Business Association together with its partners is launching a new project "UNLIMIT UKRAINE", which was established to support Ukrainian micro and small businesses. The project aims to support young, aspiring Ukrainian producers, who started their activities at the national market only recently but already show great potential (EBA, 2016). In 2011, Ukraine joined the EU's Small Business Act cooperation framework and is getting technical assistance for its implementation through the Organisation for Economic Cooperation and Development (OECD), European Bank for Reconstruction and Development and European Training Foundation. The European Bank for Reconstruction and Development (EBRD) provides advice and mentoring to enterprises via Business Advisory Services mechanism and Enterprise Growth Programme. These focus on strengthening companies' organization, management, operations, sales, marketing and finance. The EBRD also contributes to the development of sustainable infrastructure of business advisory services, as well as improvement of the regulatory environment for business through dialogue (CESD, 2012).

The United States Agency for International Development (USAID) works to develop private sector competitiveness by improving business-enabling environment, private sector capacity and workforce development. Significant support to Ukrainian entrepreneurs is provided through the Center for International Private Enterprise office in Ukraine (Hontz, 2016). The World Bank Group, and the International Financial Corporation (IFC) are working to improve business environment in Ukraine. The IFC provides customized advice on improving and simplifying regulations, encouraging and retaining investment, helping foster competitive markets, economic growth, and job creation (Government of Canada, 2015). Such initiatives will stimulate entrepreneurship development in Ukraine.

Small business is unevenly distributed by the regions of Ukraine. The number of entrepreneurs is affected in some regions by the fact of large industrial enterprises and educational institutions presence. In Ukraine the number of employed in small business decreased from 2.011 mln persons in 2013 to 1.687 mln persons in 2014 (that us by 16%) (Diyalnist..., 2015: 42). We calculated the percentage of people employed in small business in the total population by the regions of Ukraine. Data are taken for 2013, before the annexation of the Autonomous Republic of Crimea and temporary occupation of parts of Donetsk and Lugansk regions by Russian Federation. The results are shown in Table 1. Many people rented housing in big cities, but they are not registered. In addition, the "day population" of such cities is much higher than its official number (workers arrive early morning and leave cities after work). Because of these circumstances the obvious leaders by percentage of the employed in small business in the total population are big cities.

*Table 1. The percentage of persons employed in small business in the total population by the regions of Ukraine, 2013, calculated by the data of State Statistics Service of Ukraine (ukrstat.org, 2013)*

Region	Population, ths	Employed in small business, ths	%
Kyiv city	2856.9	404	14.1
Kyiv	1723.8	98.4	5.7
Odesa	2395.8	121	5.1
Sevastopol city	384.7	18.9	4.9
Kharkiv	2740.8	130.1	4.7
Dnipropetrovsk	3300.1	142.1	4.3
Zaporizhzhia	1780.5	76.6	4.3
Mykolaiv	1170.9	49	4.2
Lviv	2539.6	103.6	4.1
Kirovograd	991.4	39.4	4.0
Autonomous Republic of Crimea	1966.2	76.5	3.9
Kherson	1075.4	40.4	3.8
Poltava	1463	54.7	3.7
Cherkasy	1264.4	45.1	3.6
Chernihiv	1072.3	37.1	3.5
Donetsk	4359.7	149.7	3.4
Zhytomyr	1265.7	42.6	3.4
Vinnytsia	1622.7	54.4	3.4
Khmelnyskyi	1310.5	41.8	3.2
Volyn	1040.6	33.1	3.2
Sumy	1138.1	35.4	3.1
Rivne	1157.9	32.9	2.8
Luhansk	2248	63.7	2.8
Ternopil	1075.3	30	2.8
Ivano-Frankivsk	1381.9	37.1	2.7
Chernivtsi	907.8	23	2.5
Transcarpathian	1255.6	30.1	2.4
<b>Ukraine</b>	<b>45489.6</b>	<b>2010.7</b>	<b>4.4</b>

Mobility of people and development of information technologies (IT) contribute to the spread of a special type of entrepreneurship – freelance. Freelancer is a professional who performs tasks for different customers without conclusion of a labor

contract. Freelance has a number of advantages both for employees and employers. A freelancer can choose convenient time and convenient location, such as home. Such type of entrepreneurship is especially convenient for those who take care of children, sick relatives, and for disabled persons for whom it is a hard task to go out to work. Freelance can be combined with the main work for additional earnings. For employer the advantage is that there is no need to equip workplaces. Employers have opportunities to choose the best deals offered by various freelancers. Up to 2014 there were recorded 120,000 Ukrainian freelancers, they earned 61 mln USD under 40,000 contracts (Financial Times, 2015). Following the results of 2014 Ukraine retains market leadership in freelance programming in the whole Eastern Europe; in the world scale Ukraine lost to India, USA and the Philippines. Approximately half of the orders were from freelancers living in by cities: Kyiv, Kharkiv and Zaporizhzhia (Yashchyshyna, 2015). IT entrepreneurship has good development prospects in Ukraine, because we have high level of the related professional training.

Ukraine has implemented some measures to ease freelancers' activities. In particular, in 2015 the National Bank of Ukraine has simplified the procedure of cooperation of Ukrainian freelancers who work through the Internet, with its foreign customers, canceled the contracts and acts of performed works for such export operations (National Bank of Ukraine, 7.07.2015, # 22-01012/46746). Now, it is enough to show an invoice, which will serve as a proof of completed work and will help get the earned money quickly.

To simplify the business environment appropriate for freelancers it is needed to change also the tax payment system. For example, payment of the single social tax should be done only for those months when a freelance has provided the actual services.

Some help for freelance entrepreneurship development is also provided by local authorities. For example, in the city of Lviv they established a business incubator "Startup Depot", for which the City Council has given a benua. "Startup Depot" is a business incubator for IT projects and a place for consultation and cooperation of entrepreneurs, designers and other creative people (Startup Depot, 2016). Employees of small businesses thus gain new skills and improve their employability.

Local initiatives are the most important way of attracting investment capital to particular territories. Local economic development will become the key factor of territory development on the basis of using strong points of a particular territorial community. Joint activity of local authorities, business and the public facilitates the process of determining the goals of community and adopting programs of territorial development. The measures that territorial communities can take to stimulate local economic development are: consultations for entrepreneurs, creation of local information centers, spreading new technologies that will enhance the process of attracting local workforce etc.

**Conclusion.** Entrepreneurship development helps strengthen the competitiveness of national economy. Entrepreneurs drive the economy because they create wealth through innovations. Activities and social behavior of entrepreneurs will determine the direction of Ukrainian society development in the near future. Ukrainian legislation regulating entrepreneurial activity is constantly changing. It is necessary to support changes in national policy that will facilitate better local economic development and create an enabling environment for growth and innovation among small

enterprises. While stimulating entrepreneurship development at the local level it is necessary to use the resource potential inherent to a particular territory.

**Prospects for further research** include the development of the program-performance approach to planning local economic development. It is an effective instrument for planning of local economic development, concentration of resources on its priority directions and the way of improving relations between local authorities, entrepreneurs, research and public institutions.

#### References:

Про внесення змін до Податкового кодексу України та деяких законодавчих актів України щодо забезпечення збалансованості бюджетних надходжень у 2016 році: Закон України від 24.12.2015 № 909-VIII // zakon.rada.gov.ua.

Pro vnesennia zmin do Podatkovoho kodeksu Ukrainy ta deiakykh zakonodavchykh aktiv Ukrainy shchodo zabezpechennia zbalansovanosti biudzhetykh nadkhodzen u 2016 rotsi: Zakon Ukrainy vid 24.12.2015 № 909-VIII // zakon.rada.gov.ua

Діяльність суб'єктів великого, середнього, малого та мікропідприємництва за 2014 рік: Стат. збірник. – К.: Державна служба статистики України, 2015. – 480 с.

Diialnist sub'iektiv velykoho, serednoho, maloho ta mikropidpriemnytstva za 2014 rik: Stat. zbiryk. – K.: Derzhavna sluzhba statystyky Ukrainy, 2015. – 480 s.

Ляпін Д. Лібералізація економіки та розвиток малого підприємництва в Україні // Вісник Київського національного торговельно-економічного університету. – 2009. – №5. – С. 66–74.

Liapin D. Liberalizatsiia ekonomiky ta rozvytok maloho pidpriemnytstva v Ukraini // Visnyk Kyivskoho natsionalnoho torhovelno-ekonomichnoho universytetu. – 2009. – №5. – С. 66–74.

Про здійснення контролю за операціями резидентів, які передбачають експорт послуг нерезидентам через мережу Інтернет: Електронне повідомлення Національного банку України від 07.07.2015 № 22-01012/46746 // bank.gov.ua.

Pro zdiisnennia kontroliu za operatsiiami rezidentiv, yakii peredbachaiut eksport posluh nerezydentam cherez meretzu Internet: Elektronne povidomlennia Natsionalnoho banku Ukrainy vid 07.07.2015 № 22-01012/46746 // bank.gov.ua.

Регіональна статистика. Розвиток підприємництва. Кількість зайнятих працівників на підприємствах за регіонами у 2013 році // ukrstat.org.

Rehionalna statystyka. Rozvytok pidpriemnytstva. Kilkist zainiatykh pratsivnykiv na pidpriemstvakh za rehionamy u 2013 rotsi // ukrstat.org.

Яцишина І.В. Інноваційно-інформаційна економіка: зміни у трудових відносинах // Ефективна економіка. – 2015 // www.economy.nayka.com.ua.

Iashchyshyna I.V. Innovatsiino-informatsiina ekonomika: zminy u trudovykh vidnosynakh // Efektyvna ekonomika. – 2015 // www.

Blankart, Ch. (2012). *Offentliche Finanzen in der Demokratie: Eine Einfuhrung in der Finanzwissenschaft*. Verlag Franz Vahlen, Munchen.

CESD (2012). EU issues Ђ 10 mln to support small business in Eastern Partnership states // cesd.az.

EBA (2016). New Project "UNLIMIT UKRAINE" // www.eba.com.ua.

Government of Canada (2015). Background Information: Support to Small and Medium-Sized Enterprises in Ukraine // www.international.gc.ca.

Hontz, E. (2016). Building Sustainable Feedback into Ukraine's Economic Reform Efforts // www.cipe.org.

Index of Economic Freedom (2016). Ukraine // www.heritage.org.

Kononczuk, W., Iwanski, T., Olszanski, T., Zochowski, P. (2015). The bumpy road. Difficult reform process in Ukraine, Series: OSW Commentary, No. 192, Centre for Eastern Studies, Warsaw.

Lazarev, V. (2004). Political Rents, Promotion Incentives, and Support for a Non-Democratic Regime. Series: Center Discussion Paper, No. 882, Leibniz Information Centre for Economics, New Haven.

Leigh, N.G., Blakely, E.J. (2013). *Planning Local Economic Development: Theory and Practice*. 5th ed. SAGE Publications Inc., London.

Parysek, J.J. (2001). *Podstawy gospodarki lokalnej*, Wydawnictwo Naukowe UAM, Poznan.

Startup Depot (2016). Events for March 2016 // startupdepot.lviv.ua.

Стаття надійшла до редакції 10.03.2016.