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## **DETERMINANTS OF DEVELOPMENT OF SMALL AND MEDIUM ENTERPRISES IN THE REGION OF KHERSON**

*In the course of establishing market relationships the discussions about improving the activity of the social and economic environment have been held in Ukraine. The main place among them is taken by the problem of entrepreneurship, as far as it plays a specific role in creating new social relations characteristic of a developed market economy and a civil society. Therefore the problem under investigation is topical and timely. The given paper analyzes the condition of the development of small-scale and medium-scale business entities by the indices of the number of such enterprises, sales volumes and the number of employees. It indicates the main sources of financial resources of these enterprises. The paper substantiates the decline in the growth rates of small-scale and medium-scale enterprises in Kherson region. It indicates the main obstacles that influenced this decline and suggests the ways of further development of small-scale and medium-scale business entities in Kherson region.*

**Key words:** small-scale and medium-scale enterprises, employment, sales volume, financing, development policy.

**Introduction and review of literature.** Nowadays entrepreneurship is one of the main components of Ukraine's economy and it is a basic type of job for many Ukrainians. The development of small-scale and medium-scale business is an important factor for providing the market with goods and services, creating new jobs and reducing unemployment, and also an important factor of economic stability and increasing the level of public well-being.

In spite of the dynamic development of small-scale and medium-scale business in Ukraine its indices are much lower than in developed countries of the world. It is explained by the fact that the role and importance of small economic entities have not been fully understood, both theoretical and practical problems of developing the mechanisms of stimulating and supporting entrepreneurship have not been solved at the national and regional levels. Thus the strategic aim of the government policy must include providing conditions for realizing the maximum potential of small-scale and medium-scale businesses and the achievement of this aim depends on the consistency of the government acts in different economic areas.

While conducting the research the author used general methods of scientific cognition, the methods of cognizing the regularities of economic development and reconstruction of economic relations. In addition, the methods of comparative and statistical analysis of economic processes were used to determine the dynamics of employment in small-scale and medium-scale business.

A considerable contribution to the research of the essence of entrepreneurial

activities has been made by the renowned foreign scientists – the classics A. Smith [1], M. Weber [2] and their followers J. B. Say [3], J. Schumpeter [4]. The problems of the development of small-scale business in Ukraine have been analyzed in the works of such Ukrainian scientists as Z. Varnalii [5], I. Veryzhenko [6], M. Gorikhovskyi [7], N. Ihnatovych and V. Hura [8], K. Krzyżanowska and A. Sikorska [9], P. Yu. Lazur [10], S. Skrypnyk [11], O. I. Soskin [12] and others.

In the course of many years entrepreneurship is a research object of different scientists of the world and economic schools. It is explained by the fact that in most countries of the world entrepreneurship is one of the most important economic sectors [12, p. 161; 13].

Under modern conditions one of the main factors of stability of the achieved positive economic tendencies in the country is maintaining steady economic growth based on the effective use of the whole complex of small-scale business resources [14, p. 65].

The problem of the government's responsibility for solving the problems of the development of domestic small-scale and medium-scale enterprises is of special importance, its role consists in rationalizing the economic system, enhancing economic development, improving the innovative environment, creating jobs, the ability to respond to the changes of the market demand under the impact of global uncertainty on the national social and economic development [6, p. 68].

An important method of improving economy is the development of social entrepreneurship. Social entrepreneurship allows partial and dynamic solving of those serious social problems at the local level which cannot be solved at the national level [8, p. 25; 15, p. 12; 16, p. 4].

The modern transformational changes in Ukraine cause a number of problems, it requires that scientists investigate them and find the ways to solve them in order to create an attractive business environment and revive the public economic activities. Thus, in order to identify them it is necessary to concentrate more attention on the analysis of the modern specifics of the development of small-scale business and identifying the factors, which have a destructive impact on its development [17].

**The purpose of the article.** The authors look at the problems of entrepreneurial activity at the national level, only an inconsiderable part is analyzed at the regional level. Thus the purpose of the research is to evaluate the condition of small-scale and medium-scale enterprises in Kherson region under modern economic conditions, to identify the main problems and the ways of further development.

**Results and discussions.** The Economic Code (Article 55.3) contains information about identifying the entities of small-scale and medium-scale business in Ukraine. They include economic entities regardless of property categories, if their annual income does not exceed 50 mln Euro, and the number of employees does not exceed 250.

The innovation is to distinguish micro-entrepreneurship (within small-scale business), its entities can include physical persons-entrepreneurs and juridical persons, if the average number of their employees does not exceed 10 persons per

year, and the amount of annual income does not exceed the amount equivalent to 2 mln Euro [18].

Small-scale and medium-scale enterprises (SME) of Kherson region play a key role in the region's economy. Kherson region is a part of the Black Sea economic area of Ukraine, it is agrarian and industrial by its economic structure. The region has about 2 mln hectares of farmlands and the greatest number of arable lands as compared with other regions of Ukraine.

One of the greatest advantages of Kherson region is its geographical position, it is situated in the South of Ukraine on both banks of the Dnipro in the downstream and has access to the Black and Azov Seas. Its area is 4.7% of the total area of Ukraine and equals 28.5 thousand km<sup>2</sup>. The number of the available population on January the 1<sup>st</sup>, 2015 is 1067.9 thousand people (2.5% of Ukraine's population). The region has all the conditions for economic activities and the development of small-scale and medium-scale enterprises. The activity of the enterprises in Kherson region in 2015 is represented in Table 1.

*Table 1*  
**The Enterprises of Kherson Region: the main indices, the year of 2015**

Indexes	The number of entities	The part of the number, %	Employment, thousand persons	The part of employment, %	Sales volume, bln UAH	The part of sales volume, %
Micro	6810	85.0	16.2	20.1	6.1	13.7
Small	925	11.6	19.1	23.6	13.5	30.4
Medium	269	3.4	41.0	50.7	19.3	43.3
SME	8004	100.0	76.3	94.3	38.9	87.4
Large	4	0.05	4.6	5.7	5.6	12.6
Total	8008	100.0	80.9	100.0	44.5	100.0

*Source:* Based on the data of the Central Administrative Board of Statistics in Kherson region [19].

According to the information of the Central Administrative Board of the National Fiscal Service in Kherson region on January the 1<sup>st</sup>, 2016 the small-scale and medium-scale business entities paid 308 891.5 thousand UAH of taxes to the budgets of all the levels for the period under review, the single tax being 78 423.1 thousand UAH. The part of the tax funds of small-scale and medium-scale business entities was 9.5% of the total amount of taxes paid by the economic entities.

The small-scale and medium-scale enterprises paid 274 481.8 thousand UAH of taxes to the regional budget on the 1<sup>st</sup> of January, 2016 [20].

At present the most widespread forms of incorporation in the region are: private enterprises, their number being 5761 or 24.1% of the total number of enterprises, limited liability companies – 578 (23.4%) and farms – 2358 (9.9%).

The activities, used to start private business are quite diverse, namely: providing accounting, juridical, hair-dressing, sanitary services and services in the area of trade, growing grain crops and vegetables, breeding pigs and other farm animals, installing water supply systems, heating systems and air conditioning, raising poultry, starting

Internet-shops etc.

In 2015 the activities of most small-scale enterprises were concentrated in the fields of agriculture (30.4%) and trade (23.8). These branches constituted almost half of all the employees in small-scale enterprises (26.9% in agriculture and 18.9% in trade), and also over three quarters of the sales volumes of small-scale enterprises (25.9% was in agriculture and 50.5% in trade). Such concentration can have negative consequences for the development of the sector of SME, since the activities in these branches are correlated with high risks: agriculture (plant growing in particular) considerably depends on weather conditions and the market situation, and trade is sensitive to fluctuations of economic activities on the whole and the public income in particular.

A special role of trade is stipulated by relatively low barriers of entering the branch, but such a situation is characteristic of the country on the whole. The market of most SME of Kherson region (three out of four) is limited by their own region, and only 3.3% of the enterprises were involved in export activities. Therefore, in order to expand the markets it is necessary to intensify the participation of entrepreneurs of the region in International exhibitions both abroad and on the territory of Ukraine.

In 2015 76.3 thousand employees worked in small-scale and medium-scale enterprises of Kherson region. Their part in the total number of the employees in enterprises was one of the biggest in Ukraine being 94.3% (by this figure Kherson region was inferior only to Chernivtsi region, where there are no big enterprises), whereas this figure was 67.7% in the country on the whole (Fig. 1).

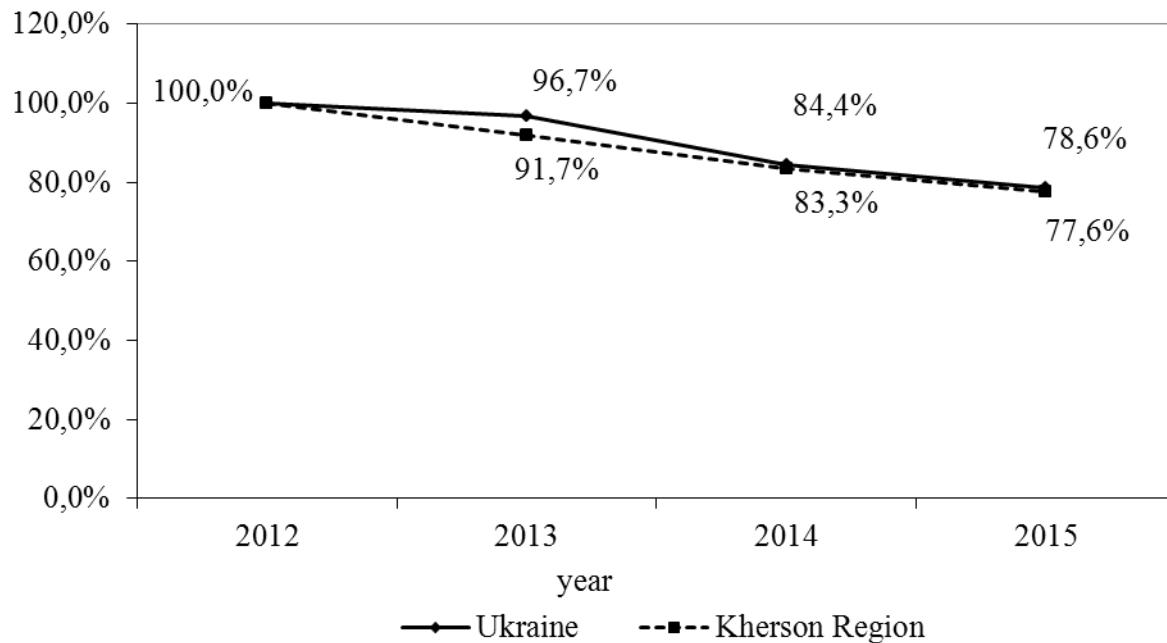
At the same time it is necessary to mention that in the course of recent years there has been a considerable decrease in the number of employees in the field of SME (juridical persons). For instance, comparing with the year of 2012, the number of the employees fell by 22.4% (on the average by 7.5% annually). And the tendencies concerning the employment of juridical persons-entrepreneurs are a little different. In 2014 the total employment of physical persons-entrepreneurs increased by 10.9 thousand persons or by 19%.

In 2015 the total amount of the products sold by the enterprises of Kherson region was 44.5 bln UAH, and 87.4% (38.9 bln UAH) of them was sold by small-scale and medium-scale enterprises. The part of SME was much bigger, than in the country on the average (59.3%), and the region took the third place among other regions by this index.

During that year the real volume of the products sold by SME decreased by 7.2%, whereas the decline was 18.3% in the country on the whole. At the same time the dynamics of selling products is worse than in other regions (in Mykolaiv and Poltava regions the sales increased by 5.3% and 0.1% respectively, in Ternopil region – decreased by 0.8%).

The main source of financial resources of enterprises is their equity. However, low demand, and low sales volumes and profit caused the fact that the possibilities of financing their development at the expense of these funds are rather limited. But in 2015 the part of profitable enterprises (before taxation) was bigger, than in the

country on the whole (77.8% versus 73.7%), limited access to external sources of finance is a serious obstacle for expanding the activity of SME of Kherson region.



**Fig. 1. The employment dynamics in SME as compared with the year 2012**

Source: Based on the data of the State Service of Statistics of Ukraine [21].

As for the access of SME to bank loans, the level of approving loan applications increased in the country on the whole in the second half of the year 2015. But in spite of this fact, the availability of loan funds is still low and the interest rates are high, that has a negative impact on the activity of economic agents.

At the same time remittances from abroad can become a potential source of financing the development of SME in the region. For instance, according to the data of the NBU, in 2015 about 5 bln UAH in currency was transferred by physical persons to Kherson region from abroad, it was 4.5% of the total amount of the remittances from abroad. By this index Kherson region took the fifth place among other regions of Ukraine, and when calculating per person – the third place (4.7 thousand UAH per person).

The main obstacles, which restrain the development of small-scale and medium-scale enterprises in Kherson region, generally correspond to the list of the main obstacles of business development in the country on the whole. They include the following: war and unstable political situation, taxes and changes in legislation, low demand, access to funds, currency regulation and inflation, a lack of qualified employees and production facilities, a low level of applying modern technologies and low innovative activity.

In 2015 the total amount of the expenses of SME for innovations decreased by 22.3% to 70.1 mln UAH, 86.8% of which was financed from own funds of the enterprises. In 2015 the number of institutions which conduct scientific research decreased considerably. In 2014 there were 24 such institutions, and in the following year there were 16 institutions, and the number of scientists decreased from 609 to

425. In addition the volume of work done by these institutions went down at lower rates and was 38.2 mln UAH (0.3% of the total amount in Ukraine), that is by 16.3% less than the corresponding volume last year. More than a half of this volume dealt with applied research.

In 2015 26 vocational schools functioned in the region (4 thousand graduates annually) and 26 higher educational institutions (3 thousand graduates annually). It means that under certain conditions educational institutions can become a source of innovations, and also a source of qualified employees for SME of the region according to their needs.

The regional budget planned the costs of 240.0 thousand UAH to take measures aimed at supporting entrepreneurship in 2015, namely for financial and credit and investment support of the entities of small-scale and medium-scale business. The regional budget for 2015 did not assign resource allocations for the mentioned measures taking into account the real situation in the financial and budget sphere at the national and local levels.

The local budgets of the region for 2015 assigned the costs of 203.9 thousand UAH in order to implement the local programs of the development of small-scale and medium-scale enterprises. According to the report data of the year 2015, 172.7 thousand UAH was assigned to finance the mentioned activities.

At the same time a number of the measures aimed at the development of SME were taken in the region; they did not require additional costs or were taken with the costs of technical support, moreover these activities were mainly informative.

**Conclusions.** The research resulted in the analysis of the current condition of the activity of small-scale and medium-scale enterprises in Kherson region, the tendencies of their development in the region were determined. Small-scale business is that driving force of economic growth which creates additional jobs, stimulates the development of large enterprises, and also enhances the competitiveness of the region on the whole.

Therefore, in order to maintain efficient development of small-scale and medium-scale enterprises in Ukraine it is necessary to create a mechanism of efficient interaction between the government and the entrepreneurial sector; to improve the access of small-scale and medium-scale enterprises to financial resources and develop legal and business environments, which will assist in timely settlements in commercial operations; to help small-scale and medium-scale enterprises take the opportunity of the common EU market to the full; to encourage and support small-scale and medium-scale enterprises to take advantages of the expanding markets; to assist in upgrading qualification of the representatives of small-scale and medium-scale enterprises and in developing all kinds of innovations.

The solution of these problems will bring Ukraine closer to the level of small-scale business development in developed countries and small-scale enterprises will become a powerful driver of the economic and social development of the country.

Thus, in the prospects of further research, small-scale business must become a basis for building a rational economic structure considering the peculiarities of the

development of Ukraine's regions.

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#### How to cite this article? Як цитувати цю статтю?

##### *Стиль – ДСТУ:*

Boiko V. Determinants of development of small and medium enterprises in the region of Kherson [Electronic resource] / V. Boiko // Agricultural and Resource Economics : International Scientific E-Journal. – 2017. – Vol. 3. – No. 2. – P. 22–29. – Mode of access : [www.are-journal.com](http://www.are-journal.com).

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Boiko, V. (2017), Determinants of development of small and medium enterprises in the region of Kherson. *Agricultural and Resource Economics: International Scientific E-Journal*, [Online], vol. 3, no. 2, pp. 22–29, available at: [www.are-journal.com](http://www.are-journal.com).