


“Foresight technologies in financial provision of small business in Ukraine”

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Foresight technologies in financial provision of small business in Ukraine

Abstract

The problems of formation of small business in Ukraine are caused by insufficient financial provision, ineffective mechanism of taxation and unsustainable state regulatory policies. The aim of the paper is analyze financial provision of small businesses and substantiation of its improvement scenarios with the use of foresight instruments. The paper evaluates the criteria of financial provision of small businesses. It offers the organizational mechanism of financial provision of small business. It also assesses the system of relations “state-small businesses” in the formation of financial provision of companies and identifies the main obstacles for the realization of small business potential. The use of foresight technologies in building scenarios for the formation of financial provision of small businesses is proposed. Stages and methods of systemic foresight are considered. The conclusion is made that financial provision of small business in Ukraine should be focused not only on changes in the legislation, but also on the improvement of state support of small businesses and expansion of the relationship “state-small businesses”.

Keywords: financial provision, small business, financial resources, foresight, scenario planning, SWOT analysis, PEST analysis.

JEL Classification: G30, G38, G39.

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Introduction

Over the last ten years, small businesses in Ukraine have been influenced by the following factors: the vector of the European integration of Ukraine, changes in tax regulation of small enterprises activity of, the emergence of alternative sources of financing. However, under the conditions of unstable political and economic situation in the country, small business needs additional stable financial provision, because small businesses contribute to economic revival of the state.

1. The analysis of the latest research and publications

We learnt about the problems of financial provision of companies from the works of such scientists as: O.V. Hryvkiivska (2014), I.S. Kozii (2008), O.M. Kolodziev (2010), Cole Rebel (2013), Amy Fontinelle (2016) and others. The ideas of these authors have certain variations regarding the interpretation of the problem's essence. The financial provision of the small businesses in Ukraine is not sufficiently studied, therefore, it requires a detailed examination.

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2. The aim of the paper

The aim of the paper is to investigate of theoretic and practical foundations of financial provision of small businesses in Ukraine and substantiation of the need for its growth.

3. The main results of the research

Under financial provision of small business we mean the creation of favorable conditions for ensuring uninterrupted, systematic and commercially viable activity of small businesses through accumulation of sufficient volumes of financial resources and their use, as well as minimization of financial risks connected with the activity of enterprises.

It should be emphasized that the criteria for assessing financial provision should include:

- ◆ efficiency (the ability to do the work and to achieve the necessary result with the least expenditures of financial resources, time and efforts);
- ◆ quality (the combination of features and characteristics of financial provision, which makes it possible to meet the foreseen needs);
- ◆ availability, speed and cost of attracting financial resources;
- ◆ optimization in the structure of sources for the formation of financial provision.

Insufficiency of financing is an obstacle in the development of small businesses (P.O. Adeyeye, B.A. Azeez, O.A. Aluko, 2016). At the same time, in the creation of effective and qualitative financial provision an important role belongs to the relationships of small business entities with other participants of the financial system of Ukraine. With the aim of characterizing the organizational mechanism of financial provision of small businesses, Figure 1 shows a system of financial

and non-financial relations between governmental and non-governmental institutions on different levels of their interaction. On the one hand, this mechanism is presented as a definite system, and, on the other hand, as a combination of structural elements, which are capable of interacting both within the researched system and with external environment.

The system of relations presented in Figure 1 makes it possible to determine the directions and forms of their influence on the efficiency of financial activity of small businesses. Financial intermediaries presented in this figure may function at all levels, but usually they have the greatest influence at the regional level.

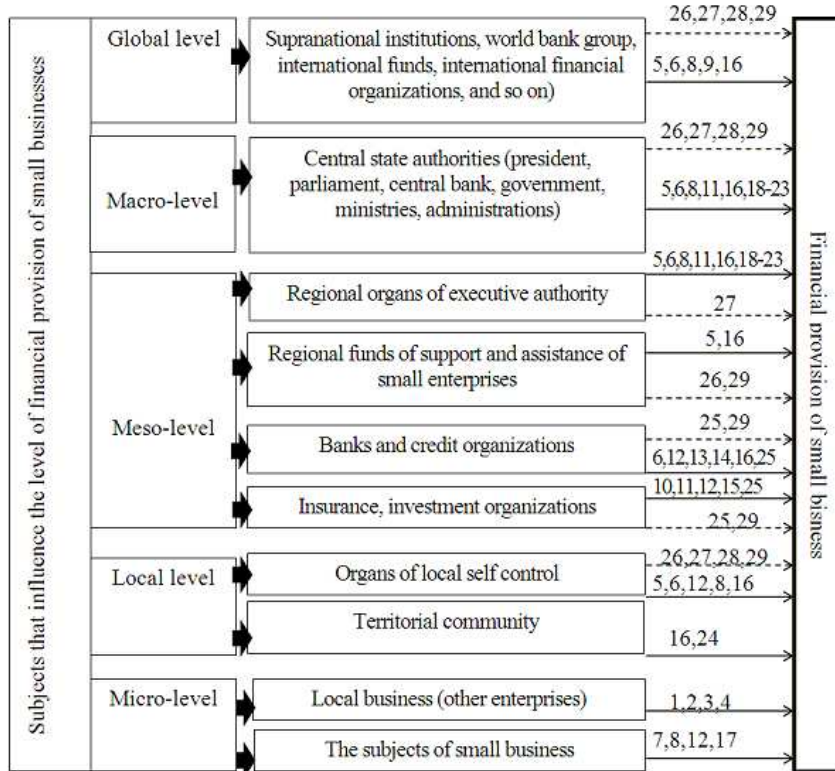


Fig. 1. Organizational mechanism of small businesses financial provision (formed on the basis of

Conventional symbols: → financial relations, → non-financial influence.

1 – money savings of founders, turnaround financing from founders, equity capital (registered (ownership), capital surplus), additional, reserve and undistributed profits), capital funds; 2 – net profit; 3 – depreciation deductions; 4 – resources from the sales of liquid assets; 5 – subsidies, subventions, special purpose funding; 6 – credits; 7 – credit (debit) debt; 8 – mutual financing; 9 – financing in the process of realization of special international programs to support small businesses; 10 – insurance compensation (in insured event or termination of insurance agreement); 11 – investment crediting of scientific research and developments, as well as other forms of innovation activity; 12 – financial investments; 13 – loans of credit unions, pawnbrokers; long-term leasing of property; 14 – resources of factoring and forfeiting companies in the form of repurchasing of debit debt; 15 – long-term financing of new firms (start-up financing) and developing enterprises, as well as those companies that are on the verge of bankruptcy, venture companies; 16 – sponsor resources, charitable contributions, grants; 17 – commodity credits; 18 – reduction in the value of credit by granting tax advantages to banks that provide credits for small businesses; 19 – partial compensation of interest rates on the loans granted to small businesses; state guaranties for loans; 20 – attracting small businesses to state orders; 21 – the use of simplified taxation systems; 22 – tax deferrals, tax holidays; 23 – tax advantages, incentives; 24 – crowdfunding; 25 – purchasing the right to use a developed business model (franchising); the issue and floatation of shares and other securities of enterprises through financial intermediaries; 26 – expert assistance; 27 – administrative influence (supervision); 28 – introduction of financial standards; 29 – consultative assistance

The development of small and medium businesses in Ukraine is taking place in difficult macroeconomic conditions with substantial shrinking of the domestic market. We agree with the conclusion of Louise van Scheers that such macroeconomic factors as unemployment, the level of inflation and bank interest rates have a significant influence on the economic state of small businesses (van Scheers, 2016). According to the data of the State Statistics Committee in 2015 in Ukraine there were 1974318 business entities, among

which 327815 small businesses and 1630571 sole proprietors (Derzhawria..., 2016). At the same time, the balance of their financial result is negative compared to large business entities. This demonstrates inefficiency of financial mechanism in the activities of small businesses and imperfection of financial provision of their activity. Moreover, during the recent years the state financial policy in the sphere of small business is not only aimed at supporting enterprises, but also, on the contrary, slows down their development (Figure 2).

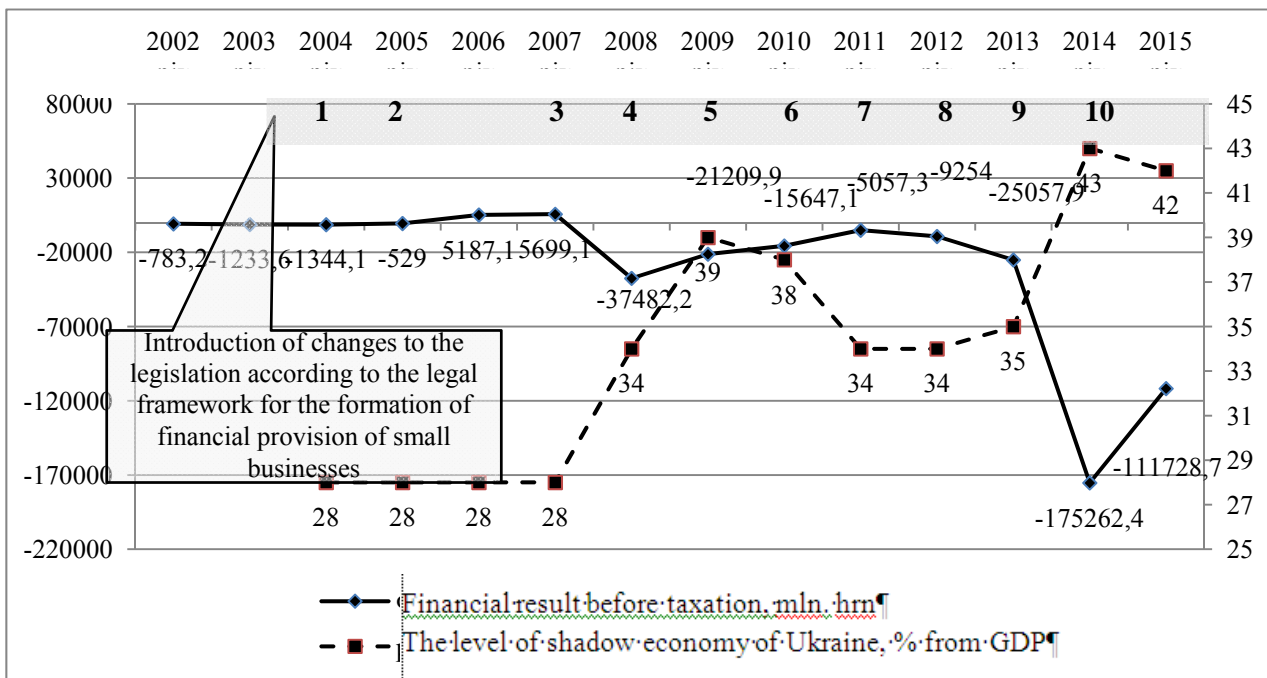


Fig. 2. The influence of changes in the legislation regarding the formation of financial provision of small businesses on financial results from their activity (formed on the basis of Yerkhovna)

Figure 2 uses the following conventional symbols: 1 – Adoption of Commercial code; 2 – The Law of Ukraine “On License-issuing System in Business Activity”; 3 – The law “On approval of procedures for the use of resources allocated in 2007 by the state budget for activities of the national program to promote small business in Ukraine”; “On the main principles of State Supervision (Control) in the sphere of economic activity”; 4 – The Decree of the President of Ukraine “The Issues of implementation of the principles of the European Charter of Small Enterprises in Ukraine”; “On Amendments to some legislative acts of Ukraine in the regulation of business activity”; 5 – The Law of Ukraine “On Changes in some Laws of Ukraine on simplification of business environment in Ukraine”; The decree of CMU “On approval of the procedures for the use of resources of the Stability Fund in 2009 for the cheapening of credits to support the projects of small and medium businesses, in particular those ones that positively influence the employment of the population”; 6 – The Decree “On some issues of providing small and medium businesses with credit support”; Tax Code of Ukraine; 7 – On the creation of the State innovative non-bank financial institution “Fund to support small business innovation”; 8 – The Law “On development and state support of small and medium businesses in Ukraine”; 9 – The Law “On Amendments to the Tax Code of Ukraine on rates of some taxes and tax benefits”; 10 – On prevention of financial catastrophe and creation of preconditions for economic growth in Ukraine;

The Law “On Amendments to some legislative acts of Ukraine on the limitation of intrusion into the activity of economic entities”; On Amendments to some legislative acts of Ukraine on simplifying the order of starting a business; 11 – On Amendments to the Tax Code of Ukraine on reducing the tax burden on taxpayers; On ratification of the Financial agreement (The project “The main credit for small and medium businesses and companies with a medium level of capitalization”) between Ukraine and the European Investment Bank; On Amendments to article 69 of the Tax Code of Ukraine on simplifying the conditions for carrying out business activities; On Amendments to some legislative acts of Ukraine simplifying the conditions for carrying out business activities (deregulation).

In the periods from 2002 till 2004 and from 2005 till 2007, when the state interference in the small businesses’ activity was minimal, a stability of their financial development is observed. At the same time, the adoption of the Tax Code, the main aim of which is to assist the development of business, caused the deterioration of business activity.

Along with this, the answer to the question: why with the constant unprofitability of small businesses their number grows each year (in 2002, there were 357791 entities, at the end of 2015, 1958385 entities Derzhavna, 2016), is a strong correlation, which is observed between the financial result before the taxation of small businesses and the level of the shadow economy of Ukraine.

Thus, in the years of maximum unprofitability of small businesses, there is a growth of the shadow economy. That is, an excessive tax burden, ineffective institutional basis of regulating enterprises and insufficient conditions for entrepreneurial

activity stimulate small businesses to go into the shadow sector. According to the index of doing business as a key indicator of the state assistance to small businesses, Ukraine takes the 80 position (Table 1).

Table 1. Index of economic freedom and easiness of doing business in Ukraine (formed on the basis of [7; 15])

Index	2015		2016		Deviation (+;-)	
	Index value, %	Position in the ranking	Index meaning, %	Position in the ranking	Index meaning, %	Change of position in the ranking, position
Index of economic freedom (178 participant countries)	46.9	161	46.8	162	-0.1	1
Including components:						
Ownership rights	20	130	25	125	5	-5
Freedom from corruption	25	147	26	148	1	1
State expenditures	28	163	30.6	161	2.6	-2
Fiscal freedom	78.7	96	78.6	97	-0.1	1
Business freedom	59.3	114	56.8	127	-2.5	13
Work freedom	48.2	134	47.9	147	-0.3	13
Price stability and control	78.6	68	66.9	163	-11.7	95
Trade freedom	85.8	50	85.8	50	0	0
Investment freedom	15	165	20	164	5	-1
Finance freedom	30	132	30	132	0	0
Ease of doing business index (198 participant countries)	62.77	81	63.9	80	1.13	-1
Including components:						
Creation of enterprises	93.88	24	94.4	20	0.52	-4
Getting permission for building	61.36	137	61.42	140	0.06	3
Connection to the system of electric power supply	54.84	140	58.45	130	3.61	-10
Registration of ownership rights	69.44	62	69.61	63	0.17	1
Getting credits	75	19	75	20	0	1
Minority investments protection	50	101	56.67	70	6.67	-31
Taxation	72.99	83	72.72	84	-0.27	1
International trade	65.15	110	64.26	115	-0.89	5
Contract enforcement	57.11	93	58.96	81	1.85	-12
Insolvency tackling	27.92	148	27.5	150	-0.42	2

Similar situation is observed for Ukraine regarding the index of economic freedom. Compared to other countries, the economic development of which is closely connected with the prosperity of small businesses [Cole Rebel, 2013, p. 4], in Ukraine, the Government and small businesses do not cooperate in reaching a mutual goal – socio-economic prosperity of the state. It is demonstrated by the results of calculation of the correlation between the volumes of GDP (as the main criteria of economic development) and the easiness of doing business (criteria of business development) (Figure 3).

According to competitiveness index, calculated according to the method developed by the Global

Economic Forum, Ukraine is on the 79 place among 140 countries (The global competitiveness index). According to the authors' report, the main problems that impede the development of financial provision of companies in Ukraine are corruption, access to financing, inflation, unstable political situation. Considering those components of the index that, in our opinion, directly influence the development level of financial activity of small businesses (Table 2), it should be noted that the worst indexes are observed for the stability of banks, stock market regulation, development level of business clusters and availability of financial services.

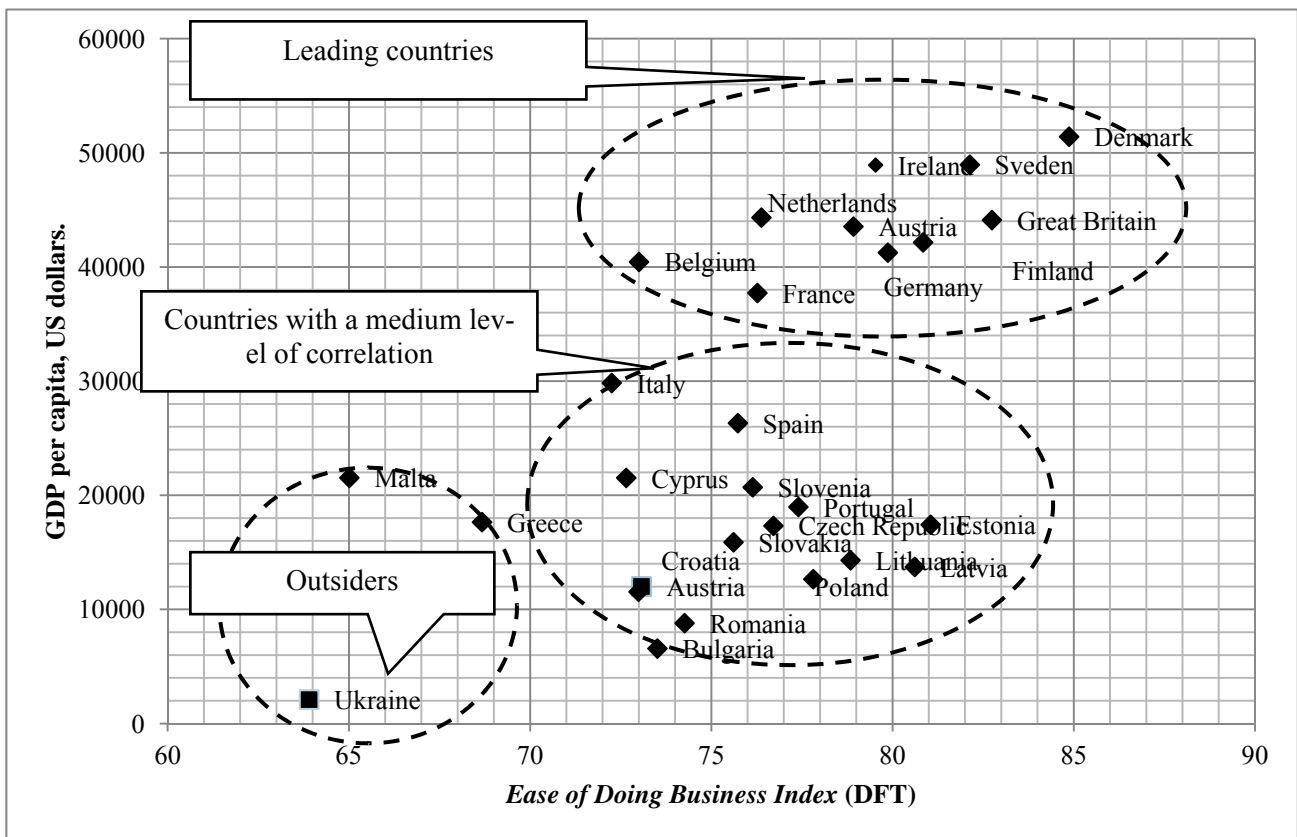


Fig. 3. Correlation between the index of easiness of doing business and per capita GDP of the EU countries and Ukraine in 2016 (formed on the basis of Doing business; government finance statistics; OECD)

Table 2. Components of the index of global competitiveness of Ukraine that influence the financial activity of small businesses in 2015-2016 (formed on the basis of [28])

Indicator	Value	Position in the ranking
Component 8: Development level of the financial market		
Availability of financial services	3.9	101
Accessibility of financial services	3.5	123
Getting financing on internal stock market	2.6	118
Ease of getting credits	2.6	87
Venture capital accessibility	2.4	102
Banks reliability	2.6	140
Stock market regulation	2.5	135
Component 11: The level of business development		
Quantity of local suppliers	4.6	61
Quality of local suppliers	4.1	80
Business clusters development level	3	124
The nature of competitive advantage	3.8	70
Control of international distribution	3.6	86
Development level of production processes	3.8	68
The level of marketing	4.2	81
Readiness to delegate authorities	3.2	123
Component 12: Innovations		
Ability to innovations	4.2	52
Quality of science research institutions	4.2	43
Companies' expenditures for R&D	3.4	54
Cooperation of universities and business in R&D	3.5	74
State purchases of high technology products	3	98
Availability of science and engineering staff	4.7	29
Patents for invention (per mln. people)	3.6	50

The State Statistics Service of Ukraine held a research on enterprises' expectations in the sphere of business activity (government finance statistics, 2016). The results demonstrate that the indicator of business confidence has a negative value in all spheres of economic activity, with the exception of trade.

It should be noted the most significant challenges for the development of entrepreneurship potential of small businesses remain:

- ◆ inertness of local authorities in the issues of compliance of projects of regulatory acts with the requirements and principles of the state regulatory policy [Analitichna dopoid, 2016, p. 266];
- ◆ absence of an agency responsible for realization of a complex strategy for the development of small businesses (Kharakterystika krayn, 2016) and provision of consultations and seminars regarding the improvement of the small business potential (Nani Radipere, 2016);
- ◆ unfavorable macroeconomic environment for development (the government has not determined priorities for stimulating the sectors of the national economy);
- ◆ increased interference of the state authorities into economic activity of enterprises (creation of additional administrative barriers and high monopolization of certain sectors of the economy);
- ◆ instability of reformatory activities.

We believe that in nearest future, the development of financial provision of small businesses in Ukraine is possible not through the implementation of new legislative norms, but rather through the removal of systemic corruption, qualitative improvement of the state support of small businesses and ensuring the execution of legislative norms by all economic entities. The role of state lies in the introduction of the necessary regulatory framework and institutional structure, which would support and guarantee the development of entrepreneurship and establishment of reliable partner relations (Frolov, 2013). In relation to the conflict between the private interests of entrepreneurs and general national interests of society, there is the need in building the development strategy both for the entire economy and small businesses.

The issue of forecasting the state of small businesses under unstable macroenvironment is not new. Gert Wehinger dedicated his research to the problems that small businesses face during financial crisis and determined the perspectives of their overcoming with the right state assistance (Wehinges, 2014). Holton (2012),

Cole Rebel (2013), Albertazzi and Marchetti (2010) conducted their research on the influence of financial crisis of Eurozone on the activity of small businesses. Lawless, M. and F. McCann (2012) conducted the ranking of Irish small and medium businesses according to the level of their productivity during the period of economic and financial crisis. The influence of macroeconomic environment on the activity of small businesses is reflected in the works of Jakobson (2012), Ferrando and Mulier (2013) and Michala (2013). The latter proposed the model to forecast the influence of external risks on micro companies of eight European countries. In our opinion, a promising trend in financial provision of small businesses is the use of foresight technologies. They are focused not only on the creation of possible variants of the future development, but also on the formation of the desired scenarios with the use of a wide array of forecasting instruments (foresight of..., 2016, Ukraine Economic..., 2015). That is why we should examine the provision of small businesses on the basis of the main stages and methods of system foresight presented in Figure 4.

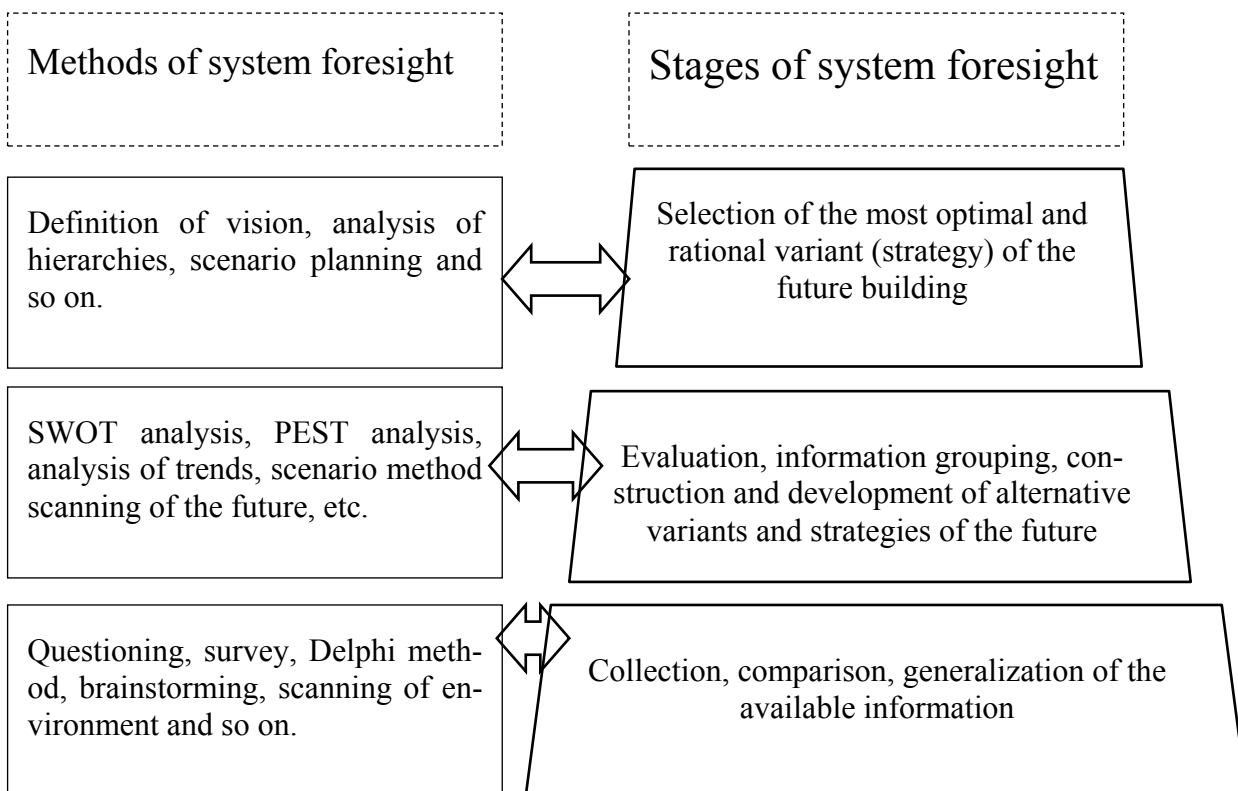


Fig. 4. Realization of system foresight (formed on the basis of Foresight of..., 2016; Ukraine Economic..., 2015; Rhydderch, 2009; Igurobsky, 2015; Rongging et al., 2008)

The use of foresight technologies makes it possible to determine perspectives for the formation of financial provision of small businesses, to outline the possible horizons of its future and develop practical steps for reaching the chosen strategic targets.

The instruments of methodical foresight include the methods of strategic forecasting, used for eval-

uation of factors that influence a phenomenon or an enterprise regarding their strengths and weaknesses, possibilities and threats (SWOT and PEST analysis). The discovered strengths and weaknesses of financial provision of small businesses in Ukraine, possibilities and threats are presented in Table 3.

Table 3. Strengths and weaknesses, possibilities and threats in the formation of financial provision of small businesses in Ukraine

Strengths	Weaknesses
<ol style="list-style-type: none"> 1. Financial autonomy 2. Small capital volume, necessary for starting a business 3. Realization of reforms in 2014-2015 (deregulation, licensing, "single window" principle, e-government services) 4. Natural resources, available for different kinds of entrepreneur use (water, forest and others) 5. Wide field of activity for business development 6. High share of the working age population 7. Availability of free workforce and qualified staff; 8. Geopolitical location, which is conducive to foreign trade (location of the country between the EU and the CIS) 9. Simplified system of taxation 10. Competitive expenditures on wages (compared to the EU countries) 	<ol style="list-style-type: none"> 1. Limited access to financing (high and instable interest rates, insignificant number of firms, the working capital of which is financed by banks) 2. High level of unemployment 3. Shortage of technical workers 4. High consumption of energy and resources by the manufacturing sector 5. Low solvency of the population 6. Absence of export stimulation schemes 7. High level of competition 8. Corruption 9. Locality of markets 10. Instability of profits 11. Social insecurity of workers 12. Unfavorable business climate 13. Ineffective regulation of market entry: registration, licensing, permissions
Possibilities	Threats
<ol style="list-style-type: none"> 1. Improvement of business climate in the state through cooperation with the EU 2. Massive and systemic attraction of investments into the economy 3. Positive changes in legislation on small business regulation 4. State policy, directed at stimulation of small businesses 5. Rise of technological level of small businesses 6. Readiness to innovations 7. Growth in the volumes of sold products by entering new markets 8. Growth, transition to big businesses 9. Improvement of the financial and economic state 10. Development of business clusters 11. Access to financing on the stock market 12. Lowering of interest rates on credits 	<ol style="list-style-type: none"> 1. Inflation expectations 2. Rising costs of raw materials 3. Devaluation of hryvna 4. Limited manufacturing capacity 5. Excessive regulatory pressure 6. Danger of quick bankruptcy 7. Risk for investments in Ukraine in international rankings 8. Significant bureaucratic hurdles in the implementation of investment projects 9. Increase in energy dependence 10. Instability, changes of legislative and regulatory framework 11. Import of cheap import products

The conducted analysis of external environment made it possible to build a SWOT matrix of strategies for the formation of financial provision of small businesses (Table 4).

Table 4. SWOT analysis matrix for the formation of financial provision of small businesses in Ukraine

«Strengths – possibilities»	«Strengths – threats»
Reduction of regulatory burden and improvement of interaction with state authorities by improving e-government. Implementation of integration programs of labor market and professional education (improvement of financial knowledge, state and private consultations in the sphere of development of entrepreneurship skills). Attracting investments for modernization and improvement of technical level of small businesses.	Stimulation of foreign trade activity and competitiveness of domestic products by reducing their price (use of qualified workforce and Ukrainian natural resources for creation of products which are competitive with import ones). Simplifying the procedure of business conduct by combating corruption and bureaucracy in the sphere of realization of business projects. Stabilization and simplification of legislation (the procedures of registration and liquidation of companies; lowering of administrative burden of taxing regulation).
«Weaknesses – possibilities»	«Weaknesses – threats»
Easiness of access to financing by simplifying the mechanisms and conditions of bank crediting, implementation of credit guarantees schemes; widening of crediting possibilities by international financial organizations. Use of favorable credit conditions for attracting resources into innovative technologies of lowering the consumption of energy and resources in manufacturing. Focusing the activity of business clusters on overcoming the problems of market locality and high competition.	Promotion of export through access to the EU markets, enhanced state support for participation in international tenders. Improvement of the solvency of population and profits of small businesses by stabilizing the political and economic environment in the country. Fight against corruption and fraud in business and power.

The defined possibilities and threats to the formation of financial provision of small businesses became the basis for calculations of PEST analysis (analysis of the four groups of factors of macroenvironment: political; economic; social; technological Understanding Pest Analysis., 2013). With the aim of receiving the objectivity of research, along with evaluation of the results of international organizations (index of., 2016; OECD, 2016; the global...), we conducted an oral questioning of employees of state institutions of the Poltava Regional Fund of Entrepreneurship Support and professors of the Department of Finance and Banking of Poltava University of Economy and Trade (in total 55 persons) regarding the assessment of the impact of factors on the formation of financial provision of small businesses in Ukraine. The respondents

had to define the probability of the impact of factors (in total the weight of probability of one group is 1) and evaluate the influence of factors by assessing:

- 1– insignificant impact of the evaluation factor (almost till absolute absence);
- 2 – the factor has some impact on the activity of small businesses;
- 3 – the factor has a great impact on the activity of small businesses.

The definition of arithmetic mean value for scores and weights of factors in each group made it possible to calculate the force of their impact on financial provision of small businesses and determine that the most important are the factors of economic environment in the country (Table 5).

Table 5. Indicators of PEST analysis for the formation of financial provision of small businesses in Ukraine

Political factors	Weight, <i>V</i>	Score, <i>B</i>	Product, <i>P</i>	Social factors	Weight, <i>V</i>	Score, <i>B</i>	Product, <i>P</i>
Current legislation in the country	0.15	2	0.30	Social stability	0.15	2	0.30
Political stability	0.25	3	0.75	Mobility of the working population	0.05	1	0.05
Taxes	0.20	2	0.40	Reputation, image of companies	0.30	3	0.90
Antimonopoly limitations	0.05	1	0.05	Public relations	0.30	3	0.90
Elections in all levels of power	0.15	2	0.30	Demographic situation in the country	0.05	1	0.05
Government policy	0.20	3	0.60	Consumer benefits	0.15	3	0.45
Total	1.00	13	2.40	Total	1.00	13	2.65
Average assessment of the impact of political factors			2.17	Average assessment of the impact of social factors			2.17
The impact of political factors			2.40	The impact of social factors			2.65
Economic factors	Weight, <i>V</i>	Score, <i>B</i>	Product, <i>P</i>	Technological factors	Weight, <i>V</i>	Score, <i>B</i>	Product, <i>P</i>
Economic situation in the country	0.20	3	0.60	Development level of science and technology	0.10	2	0.20
Investment climate in the country	0.15	3	0.45	Financing of research	0.05	1	0.05
Solvent demand	0.15	3	0.45	Change and adaptation of new technologies	0.30	3	0.90
Inflation level	0.10	2	0.20	Production capacity	0.30	3	0.90
Development of sales channels	0.10	3	0.30	Access to technologies, licensing, patents	0.20	2	0.40
Prices for energy suppliers	0.25	3	0.75	Problems of intellectual property	0.05	2	0.10
Manufacturing specifics	0.05	1	0.05				
Total	1.00	18.00	2.80	Total	1.00	13	2.55
Average assessment of the impact of economic factors			2.57	Average assessment of the impact of technological factors impact			2.17
The impact of economic factors			2.80	The impact of technological factors			2.55

Note: *B* – influence of each factor; *V* – probability of influence of each factor; *P* – the strength of influence of each separate factor (calculated by the formula: $P = V \times B$)

The results of the conducted SWOT and PEST analyses proved that the achievement of strategic objectives in the formation of financial provision of small businesses includes the following measures:

- ◆ the use of advantages in cooperation with the EU in simplifying the procedure of creation and execution of financial activity of small businesses;
- ◆ increase of companies' revenues by entering new consumer markets;
- ◆ implementation of state support for the development of technical branches to attract qualified staff;
- ◆ termination of "brain drain" by creating a system of guarantees for the protection of labor and stimulation of productivity;
- ◆ the use of attracted credit resources in innovations for reducing the consumption of energy and resources in manufacturing;
- ◆ the use of business clusters for overcoming the problems of markets' locality and high competition.

The main criteria of the defined foresight should be a plan for the formation of financial provision of small businesses, which would help to achieve a sustainable development of this sphere in the middle and long term.

Conclusion

The results of the conducted research made it possible to determine that the formation of financial provision of small businesses takes place under the negative impact of factors of economic environment and insufficient state financial and legal support. As a result, we observe the growth of the shadow economy and the lack of relationship between the country's development and the activity of small businesses, while in the EU countries such relationship is the criteria of socioeconomic prosperity. The use of systemic foresight may positively impact not only the activity of small businesses in the short-term period, but also to build the desired scenarios of its development in the long-term perspective. The obtained results of the use of such foresight instruments as SWOT and PEST analyses became the reason for determining the main drivers of the possible development and financial provision (simplification and stabilization of legislation, the ease of access to financing, improvement of the competitiveness of small businesses and others). Further areas of researches are the development of practical measures aimed at achieving the chosen strategic goals.

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