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 small businesses. 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. Hryvkyivska (2014), I.S. Kozi (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.

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.

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...). 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])

<table>
<thead>
<tr>
<th>Index (178 participant countries)</th>
<th>2015</th>
<th>2016</th>
<th>Deviation (+/-)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Index value, %</td>
<td>46.9</td>
<td>46.8</td>
<td>-0.1</td>
</tr>
<tr>
<td>Position in the ranking</td>
<td>161</td>
<td>162</td>
<td>1</td>
</tr>
<tr>
<td>Index meaning, %</td>
<td>46.9</td>
<td>46.8</td>
<td>-0.1</td>
</tr>
<tr>
<td>Position in the ranking</td>
<td>161</td>
<td>162</td>
<td>1</td>
</tr>
<tr>
<td>Change of position in the ranking, position</td>
<td>1</td>
<td>1</td>
<td>1</td>
</tr>
</tbody>
</table>

Including components:

Ownership rights | 20  | 25  | 5  | -5  |
Freedom from corruption | 25  | 26  | 1  | 1   |
State expenditures | 28  | 30.6 | 2.6 | -2  |
Fiscal freedom | 78.7 | 78.6 | -0.1 | 1   |
Business freedom | 59.3 | 56.8 | -2.5 | 13  |
Work freedom | 48.2 | 47.9 | -0.3 | 13  |
Price stability and control | 78.6 | 66.9 | -11.7 | 95  |
Trade freedom | 85.8 | 85.8 | 0  | 0   |
Investment freedom | 15  | 20  | 5  | -1  |
Finance freedom | 30  | 30  | 0  | 0   |
Ease of doing business index (198 participant countries) | 62.77 | 63.9 | 1.13 | -1  |

Including components:

Creation of enterprises | 93.88 | 94.4 | 0.52 | -4  |
Getting permission for building | 61.36 | 61.42 | 0.06 | 3   |
Connection to the system of electric power supply | 54.84 | 58.45 | 3.61 | -10 |
Registration of ownership rights | 69.44 | 69.61 | 0.17 | 1   |
Getting credits | 75  | 75  | 0  | 0   |
Minority investments protection | 50  | 56.67 | 6.67 | -31 |
Taxation | 72.99 | 72.72 | -0.27 | 1   |
International trade | 65.15 | 64.26 | -0.89 | 5   |
Contract enforcement | 57.11 | 58.96 | 1.85 | -12 |
Insolvency tackling | 27.92 | 27.5 | -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 – socioeconomic 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])

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

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 following 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 [Analitychna 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 (Wehinger, 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.

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 evaluation 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.
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

<table>
<thead>
<tr>
<th>Possibilities</th>
<th>Threats</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reduction of regulatory burden and improvement of interaction with state authorities by improving e-government.</td>
<td>Stimulate 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).</td>
</tr>
<tr>
<td>Implementation of integration programs of labor market and professional education (improvement of financial knowledge, state and private consultancies in the sphere of development of entrepreneurship skills).</td>
<td>Simplifying the procedure of business conduct by combating corruption and bureaucracies in the sphere of realization of business projects.</td>
</tr>
<tr>
<td>Attracting investments for modernization and improvement of technical level of small businesses.</td>
<td>Stabilization and simplification of legislation (the procedures of registration and liquidation of companies; lowering of administrative burden of taxing regulation).</td>
</tr>
<tr>
<td>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.</td>
<td>Promotion of export through access to the EU markets, enhanced state support for participation in international tenders.</td>
</tr>
<tr>
<td>Use of favorable credit conditions for attracting resources into innovative technologies of lowering the consumption of energy and resources in manufacturing.</td>
<td>Fight against corruption and fraud in business and power.</td>
</tr>
<tr>
<td>Focusing the activity of business clusters on overcoming the problems of market locality and high competition.</td>
<td></td>
</tr>
</tbody>
</table>

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).
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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