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DEVELOPMENT OF UKRAINIAN SMALL AND MEDIUM-SIZED BUSINESS: FORMATION OF EXPORT POTENTIAL

The article analyzes the current state and the developmental tendencies of Ukrainian small and medium-sized enterprises; the process of their export potential formation. The share of enterprises in the export of goods and the export commodity structure of the country have been considered. The assessment of the state of *Ukrainian foreign trade* according to DoingBusiness 2016 has been performed. Ukraine's ranking in the Global trade enabling index has been identified. The main factors having an impact on the foreign trade activities of small and medium-sized enterprises have been described. The barriers that have an impact on foreign economic activity of small and medium enterprises have been detected. Recommendations for creating favorable conditions for the development of export potential of small and medium enterprises have been presented.

Keywords: small and medium-sized enterprises, export potential, foreign economic activity, indicators, rating.

Formulation of the problem. Development of small and medium-sized enterprise (SME) in Ukraine is an important direction in the conditions of permanent changes due to the international economic competition. It gives an opportunity to enrich the Ukrainian market with competitive, high-quality products and services. Development of small and middle enterprise assists in the economic development, reduces unemployment and provides new jobs. Ukrainian enterprises are require a favorable investment environment. Therefore, small and medium-sized businesses require governmental support to enter new markets.

The state of operation and adjustment of external trade relations is the most important factor and developmental prospect for the Ukrainian economy. The strategic future of financial and economic activity of Ukrainian enterprises, small and medium-sized businesses depends on the ability of producers to extend business on internal and external markets, to enter foreign markets, to keep their market segments. The effective solution of such issues will help to improve competitiveness of the country and the social status, to realize currency and fiscal policies.

Analysis of scientific research. The research of SMEs development, formation of export potential, governmental control, theoretical and empirical study of infrastructure support of small and medium enterprises were performed by such scientists as S. Gusev¹, Z. Yurynets² and others. However, the study of the development of small and medium-sized enterprises in Ukraine, the formation of their export potential still requires the detailed fundamental and empirical considerations.

The purpose of the article. This article is aimed to study the state of small and medium entrepreneurship in Ukraine; to research the factors influencing the formation of the export potential of SMEs; to identify barriers to the development of SMEs, to study the export opportunity of the country as well as small and medium-sized business; to develop the supportive measures of SME and increase of export potential.

Explanation of the basic material of the study. The government organs are developing and implementing strategies, programs and projects to support small and medium enterprises. The main goals of public policy supporting the export of SMEs are: the formation of favorable investment environment and climate; the creation of new enterprises and entering international markets. State politics should assist in improving the legislative field, creating of organizations that stimulate national export.

¹ Гусев, С. (2016). Очікування українських підприємств: песимізм поки переважає. *Сьогодні*. <<http://ukr.segodnya.ua/economics/enews/ozhidaniya-ukrainskih-predpriyatiy-pessimizm-poka-preobladaet-877774.html>>

² Юринець З. (2013). Чинники, що визначають формування конкурентоспроможності національної економіки. *Вісник Хмельницького національного університету*, 4 (1), 230-233.

In the European Union small and medium enterprises play an important role in the export of countries. There are more than 600 thousand small and medium exporting companies operating in developed European countries. The SMEs account for 81% of all exporters outside the EU. Italy, France, Spain and Germany have the largest number of SMEs that export 50 percent of total exports.

Ukraine suffered significant losses in exports of goods and services, that particularly refers to the raw materials industries that export traditional Ukrainian products. Traditional goods are produced on energy-intensive, off-market equipment. In 2012, a share of small and medium enterprises in the total worth of Ukraine's export accounted less than 15 percent from the general volume of all export deliveries (table 1). In 2016 the export continued to decrease. In the countries of EU the share of small and medium enterprises in the total worth of export accounts more than 50 percent.

Table 1

Specific gravity of enterprises in the export of commodities in Ukraine

	The share of export value, %	The share of operations, %	The share of exporters, %	An average number of items in the nomenclature	An average number of partners
Large enterprises	85,52	60,40	11,38	15,91	7,89
Small and medium-sized enterprises	14,51	39,59	88,59	5,20	2,61

Source: compiled by the author on the basis of¹

The transport, warehousing, postal and courier activities; agricultural sector; Information and telecommunications are the main types of Ukrainian economic exporting activities. In the internal market of Ukraine, 50 percent of small and medium enterprises operate in trade and domestic services.

In 2014-2015 the export of products in chemical industry, mineral industry, and precious metals industry decreased considerably.

Large enterprises work in these branches of industry and develop the export potential. The small and medium enterprises do not have possibilities to compete with large enterprises.

According to statistics, in 2014 exports of chemical products decreased by 1,2 billion dollars, and in 2015 exports of chemical products decreased by 1.4 billion dollars. In 2014, exports of mineral products was diminished by 1,1 milliards dollars, in 2015, exports of mineral products was diminished by 2,5 milliards US dollars. In 2014, exports of precious metals decreased by 2,3 milliards dollars, in 2015, exports of precious metals decreased by 4,5 milliards dollars².

The current state of SME development indicates an increase in its vulnerability to various economic, political crises and shocks. There was a complication of restoring traditional Ukrainian export specialization, a loss of a large share of export potential due to military actions in the east of the country. It is time to find new directions of activity and new ways of entering international markets and keeping competitive positions by Ukrainian producers.

To improve the activities of small and medium-sized enterprises, their export potential, it is necessary to create conditions, to implement the existing tools in order to stimulate the diversification of export opportunities of economic entities. There is a need to remove the barriers and to disclose the export potential for the foreign trade of SMEs. This is important for SMEs that only enter the external market as exporters or capture a very small market sector.

For this purpose, the World Economic Forum created the Global trade enabling index (the ranking of countries for engagement in world trade). The Global trade enabling index shows the country's average trade appeal. According to the results of surveys of business managers from different countries, Ukraine has an average rating and the indicator continues to decline.

¹ Офіційний сайт Державної служби статистики України. Експортна діяльність <<http://www.ukrstat.gov.ua/>>

² Офіційний сайт Державної служби статистики України. Експортна діяльність <<http://www.ukrstat.gov.ua/>>

Table 2

Ukraine's ranking in the Global trade enabling index

Years	2014	2015	2016
Global trade enabling index	84 (134 countries)	83 (135 countries)	95 (136 countries)

Source: compiled by the author on the basis of^d

Ukraine continues to remain practically uncompetitive in relation to EU countries, although our country has many advantages for the entry of entrepreneurs to foreign markets. The main export problems for Ukrainian enterprises are the following: the complexity of access and use of information and communication technologies for trade; low efficiency and transparency of actions at the borders; low quality and accessibility of transport infrastructure and transport services, raw materials; low level of standardization and compliance with technical requirements, favorable business environment, production technologies; lack or insignificant degree of access to trade finance; the complexity of finding markets and buyers. All of this has a negative impact on the foreign economic activity of SMEs.

Ukrainian small and medium enterprises are poorly represented on the European market and expect no major benefits from the establishment of the Free Trade Area between Ukraine and the European Union. At the same time, they are less aware of risks associated with the trade liberalization with the EU. In particular, small and medium businesses compared with large ones are less likely to suffer from sanctions from Russia and from a possible cancellation of free trade between Ukraine and the Russian Federation¹.

The systematic problems for Ukraine include the low level and quality of the business climate (business, operational environment) and management at customs.

According to the DoingBusiness rating in 2016 Ukraine ranked 83rd place (189 countries in the overall ranking) and 87th – in 2015 (Table 3).

Table 3

Status of Ukrainian foreign trade according to DoingBusiness 2016

Indicators	Ukraine	Poland
General Rating	83	25
International trade rating	109	1
Time to export: Border compliance	11	4
Time to export: Documentary compliance	26	0
Amount of documentation for export	96	1
Domestic transport	5	14
Cost to export: Border compliance	75	0
Cost to export: Documentary compliance	292	0
Internal transportation cost	300	1,000

Source: compiled by the author on the basis of²

Ukrainian trade with other countries is not adequately liberal. Enterprises spend more than 127 hours on the procedures for registration and preparation of documents, draw up more than 11 official documents, spend more than 600 dollars for internal transportation and registration of documents.

¹ Україна: індекс залученості в світову торгівлю (2016). <http://www3.weforum.org/docs/WEFGETR2016_report.pdf>

² Doing Business-2017. Україна в рейтингу Світового банку легкості ведення бізнесу. <<http://edclub.com.ua/analityka/doing-business-2017-ukrayina-v-reytingu-svitovogo-banku-legkosti-vedennya-biznesu>>

The main factors that complicate the export business for SMEs are regulatory problems, low quality of products (services), high competition in international markets. In 2016-17, the Asian countries were the most important markets for Ukrainian products. There was a significant reduction in exports to the countries of the former Soviet Union and the Russian Federation. The reasons result from the Russian aggression, the complication of relations between countries, trade restrictions, the reorientation of domestic producers to other geographical segments.

The dynamics of foreign trade activity in Ukraine depends on the commodity structure. Agricultural products, food products (40,6% in January-October 2016), metallurgy (28,9%) and machinery (12,1%) had the largest share in the structure of Ukrainian exports¹.

Table 4

Commodity structure of Ukrainian exports

Indicators	Export			
	2015		2016	
	million dollars USA	%	million dollars USA	%
Total	35420 (-29%)	100,0	33571 (-5,2%)	100,0
Foodstuffs and raw materials	14479 (-13,1%)	40,9	15253(+5,4%)	45,4
Mineral products	2672 (-49,5%)	7,5	2390 (-10,5%)	7,1
Products of chemical and related industries	2436	6,9	1833	5,5
Wood and its products	1540(-34,7%)	4,3	1511 (-24,8%)	4,5
Industrial products	503 (-28,5%)	1,4	463(-7,9%)	1,4
Ferrous and non-ferrous metals	9166(-38,7%)	25,9	8099 (-11,6%)	24,1
Machines, equipment, vehicles	3343 (-38,5%)	9,4	2748 (-17,8%)	8,2

Source: compiled by the author on the basis of¹

The participation of SMEs in the export business of Ukraine is much lower in relation to large-scale enterprises. A total of 18% of the products were exported by large enterprises. Thus, 4,1%, products were exported by small enterprises, 8,3% of products were exported by medium-sized enterprises².

Table 5

Percentage of exporting enterprises and product exports in relation to the total volume of sales

Indicators	Year	Small enterprises	Medium-sized enterprises	Large enterprises
Share of exporting enterprises,%	2013	11,7	19,9	47,5
	2008	7,0	15,8	29,8
	2005	8,5	25,4	42,7
Share of product export in relation to the total volume of sales,%	2013	4,1	8,3	18,1
	2008	3,5	7,4	14,0
	2005	1,9	9,6	18,9

Source: compiled by the author on the basis of³

¹ Український експорт: підсумки 2016 року та погляд в майбутнє. Тези виступу <<http://www.lakokraska.ua/assets/files/burakovsky.pdf>>

² Український експорт: підсумки 2016 року та погляд в майбутнє. Тези виступу <<http://www.lakokraska.ua/assets/files/burakovsky.pdf>>

³ Ukraine (2013) enterprise surveys. <<http://www.enterprisesurveys.org/data/exploreconomies/2013/ukraine>>

According to the “Financial Stability Report” the greatest internal risks are the slow pace of state structural reforms and political uncertainty, while the main external risks are the low economical growth rates of Ukraine’s major trading partners¹. Therefore, the sensitivity of small and medium-sized enterprises to the various risks and barriers in export activity is constantly increasing.

Most managers of small and medium enterprises do not believe in the improvement of export conditions in Ukraine. The share of enterprises that refuse export activity is steadily increasing. Expectations of SMEs in terms of prospects for the sale of goods in the international market remain pessimistic².

Factors that have a negative impact on foreign trade by SMEs are:

1. There is no clear regulation of the use of procedures and requirements in the process of conducting external operations. SMEs face different types of risks, such as imperfect legislation, untimely returns of revenue from export transactions; constant change of rules and procedures by state institutions; excessive expenses for customs procedures; different approaches to calculating the customs value of goods, etc. Small and medium-sized enterprises receive additional obligations, the threat of breakdown of export contracts, losses arise.

2. Small level of competent personnel working in foreign economic activity. The main requirements for employees are the knowledge of foreign markets, export management skills and supply chain skills, the ability to assess threats and risks, the skills to find ways out of crisis situations. Managers of small and medium-sized enterprises are inexperienced in relation to large business managers, they are not able to engage external experts in solving issues.

3. Low level of effectiveness of state supportive programs for export activities. The biggest disadvantages include a small degree of distrust in the government.

4. It is difficult to obtain long-term, low-cost, export-oriented financing.

5. Low level of competitiveness of small and medium-sized enterprises, their products. Therefore, in order to increase the export potential, it is necessary to increase the competitiveness of SMEs, improve the quality of products. It depends on the investment in the technological upgrade, the modernization of the production process.

6. Low degree of use of strategic management concepts. Small and medium enterprises are concentrated on operational management for foreign economic activity. The consequences include an increased risk of foreign economic activity, the complexity of assessing the threats and opportunities of export operations, etc.

Conclusions. In order to develop the export potential of small and medium-sized enterprises, the creation and implementation of foreign trade policy all described comments, outlined barriers should be taken into account.

The following directions need to be improved, namely: adjustment of national regulatory actions to the regulatory measures of EU countries; reduction of the number of mandatory official documents for the products export; reducing the number of procedures and requirements for customs clearance of exports; development of limpid operational actions for VAT refunds to exporters; usage of electronic document management system in the sphere of foreign economic activity; use of programs and projects for long-term export lending and SME insurance; creation of a system for informing national entrepreneurs about the latest foreign trade news; conducting seminars, trainings, training programs for SME managers; creation and implementation of information support programs for SMEs in international business communications; forming a network of centers that promote foreign trade; increase transparency of state foreign trade policy; introduction of a system of assessment of the state foreign economic policy and the influence of the legal environment on export activity.

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¹ *Сучасний стан української економіки та оцінки перспектив її розвитку у 2017 році* <<http://nbuviap.gov.ua/index.php?Option=comcontent&view=article&id=2595:shcho-chekae-na-ukrajinsku-ekonomiku-u-2017-rotsi&catid=8&Itemid=350>>

² *Український експорт: підсумки 2016 року та погляд в майбутнє. Тези виступу* <<http://www.lakokraska.ua/assets/files/burakovsky.pdf>>

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