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REGIONAL ASPECTS OF FINANCIAL INCENTIVES  
FOR SMALL AND MEDIUM BUSINESS' DEVELOPMENT

The article substantiates theoretical provisions and develops practical recommendations on the deepening the study of the regional aspect of financial incentives for the development of small and medium entrepreneurship. Realization of the strategic directions of financing of small and medium enterprises at the regional level will allow them to reach the international level of development, thus, it will have a beneficial effect on economic progress in Ukraine, provided that they are implemented as effectively as possible.

**Key words:** regional aspect, small and medium enterprises, problems of financing of small and medium enterprises, support and development of small and medium enterprises at the regional level.

**Introduction.** Decentralization will bring many changes that will affect all subjects of economic activity, small and medium-sized businesses as well. Opportunities for the development of small and medium businesses in the regions of Ukraine are not being fully utilized, and an unfavorable business environment with interregional disparities, vulnerable small business with various destabilizing factors and limited resources is evidence of the need to intensify the development and improvement of incentives for its development at the regional level. Therefore, at the present stage of development of the regional economy in Ukraine, it is vital to develop theoretical and applied bases for stimulating small business development.

In recent years, the processes of reforming the system of regional governance and the development of local self-government are actively developed in Ukraine. Early, the principles of fiscal equalization did not encourage local and regional authorities to economic development. Until 2015, the government compensated for budgetary gaps completely, so in depressed regions there was no motivation to cut costs. On the other hand, in those regions that managed to earn more than spend, the surplus was redirected to the central budget, and further, it was divided into subsidies to lagging regions. Therefore, the processes of reforming the system of regional governance and the development of local self-government are identified as the most priority for public policy at the present stage.

In this regard, the purpose of the work is to substantiate theoretical motivation and develop practical recommendations on the activation of financial instruments to stimulate small and medium business development in the region.

The object of the study is the process of activating financial instruments to stimulate small business development in the region.

The subject of the research are theoretical, methodological and applied bases of activation of financial instruments to stimulate the development of small business in the region.

**The relevance of research.** The main target of the regional approach to solving the problem of stimulating small and medium business development are local markets. There is a certain system of mutual influence of small and medium business and the region: in exchange for favorable conditions for entrepreneurial activity and business, the region receives growth of important socio-economic indicators, which is a key to development and increase of its competitiveness. Regions in Ukraine differ in terms of resource, labor and financial potentials, are characterized by imbalances and imbalance in

development, urbanization and depopulation of rural areas, and they constantly enter into competition, then for certain resources, then for attracting investments. State policy has been implemented at the regional level and through various regional programs that allow the most complete consideration of the region's identity, its territorial and sectoral interests.

Despite numerous studies on the development of small and medium businesses, some issues have not yet been considered, or not received enough of attention. First of all, it is related to the problems of regional policy of economic development and financing of small and medium business entities. In addition, the need for ongoing research in this area is result from constant changes in the environment of small and medium businesses.

**Main part.** The regional dimension of the transformation processes undertaken in Ukraine is a new field of research and one of the sources of 'new combinations' in regional science. The elements of the structural reform, namely the institutional and legislative framework for the market economy, the reform of enterprise structures, the physical structure for a competitive economy, human capital and attitudes entail specific concerns at regional level in terms of restructuring regional economies, regional policy instruments in an acute shortage of financial means context, regional institutional framework and the question of decentralisation, the new role of local communities, etc [1].

Decentralization, the reform of the administrative-territorial system and local self-government is among the most pressing problems of Ukraine. This is a complex and profound reform that rebuilds the whole system of government. Undoubtedly, these processes will affect the activities of small and medium-sized enterprises and their financing.

In Ukraine, financial decentralization began by adopting amendments to the Budget and Tax Codes. This was the transfer to the field of additional budgetary authority and stable sources of income for their implementation.

For three years of reform, local budgets grew by 100 billion UAH and these rates keep growing every year. The transfer of own revenues of the general fund of local budgets for the first half of 2017 increased. Comparing to the same period in 2016, the increase was 34% [2].

The reform of decentralization needs to be promoted, without slowing down. In 2015–2016, a legislative breakthrough was made, which opened up prospects for progressive small and medium enterprises (SMEs) and colossal opportunities at the regional level.

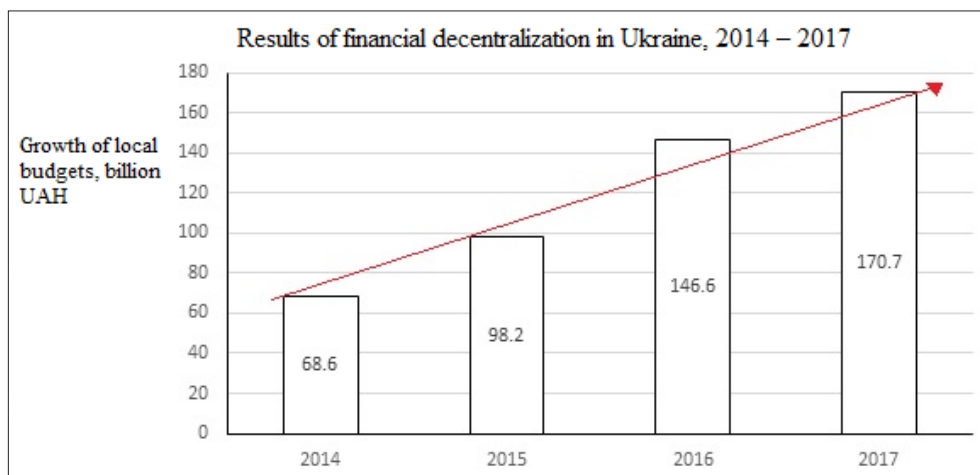


Fig. 1. Results of financial decentralization in Ukraine, 2014–2017

These are the laws that were transferred to the regional management all the authority and financial capabilities, and in the future – will expand the possibilities for raising funds for the development of SMEs, which will allow upgrading the infrastructure and creating additional jobs.

Over the past few years, a number of laws have been enacted that should create a proper regulatory and legal framework for effective decentralization of governance, as well as to enhance the ability of local authorities to represent the interests of local enterprises. Such laws were: the Law of Ukraine "On the Basics of State Regional Policy" [3], the Law of Ukraine "On Amendments to the Budget Code of Ukraine Concerning the Reform of Inter-Budgetary Relations" [4] and "On Amendments to the Tax Code of Ukraine and Certain Legislative Acts of Ukraine Regarding Tax Reform" [5].

Successful implementation of the reform of the regional self-government needs further lawmaking, in particular legislative support for the expanded powers of local self-government bodies. At the moment, the main document of the government on the reform of decentralization is the Concept of Reforming Local Self-Government and Territorial Organization of Power in Ukraine, approved on April 1, 2014 [6]. It establishes the main tasks, principles and stages of reforming local self-government and territorial organization of power. Other key program documents of the President, the Government and the Parliament, containing obligations on the decentralization of power, are: Ukraine 2020 Sustainable Development Strategy [7], Government Action Plan "Restoration of Ukraine" [8], Coalition Agreement, Program of Activities of the Cabinet of Ministers of Ukraine [9].

European countries worked on the process of decentralization for decades. Thanks to the transfer of powers and finances to the places, the regional authorities were able to independently make decisions and be responsible for their implementation.

Thus, countries with developed economies through subsidies, preferential taxation, tax holidays, budget investments, subsidies, etc. stimulate regions and enterprises to form and develop the economic potential, which is the primary link to ensuring the competitiveness of the region as the basis for its socialization processes. Such instruments should be directed to the development of those regions of the country where there is a social overload of the economic sphere, where there is a non-optimal balance between social expenditures and economic effi-

ciency, which will allow achieving the optimal proportions of balancing the socially oriented development of the economies of the regions of the country.

In Ukraine, due to lack of opportunities, direct financial assistance for small and medium businesses is very small. The main source of financial support for the company here is a bank loan. On lending, it can be said that banking institutions do not show much desire to deal with small and medium businesses. The reason for this attitude is that the financing of enterprises is usually complicated by three circumstances: a big risk, since innovations initially have no technical and commercial approbation, a large amount of necessary investments and a significant time gap until the point of making a profit.

Therefore, in this situation, state loans should become a real source of financial resources for small and medium enterprises. While at the state level, only a few structures are involved in financial support for entrepreneurial activities, such as the State Innovation Company, the State Fund for Fundamental Research, the Ukrainian Entrepreneurship Support Fund. Unfortunately, as practice has shown in previous studies [10], these structures and the volumes of their lending can not satisfy the large demand on the part of small and medium business entities for obtaining financial and credit assistance. Their activities are also complicated by the problem of non-return of borrowed funds.

One of the important areas of support for business development may be the introduction of a regional mechanism to encourage commercial banks to provide loans (concessional loans) to small and medium businesses. This is primarily a mechanism for long-term lending through refinancing instruments of commercial banks.

In addition to banking institutions, it is also necessary to stimulate the development of the financial non-banking sector in Ukraine, which is formed on the basis of the development of enterprise support funds, together with innovation and investment funds, insurance and leasing companies, financial institutions, guarantee funds, etc. at the regional level.

It can be argued that the optimal distribution of regional financing within the region in the areas of entrepreneurship, that need the greatest support or stimulus that allow to increase the level of financial security of the regions, reduce their imbalances in financial provision in the areas of sustainable development and increase the interest of regions in strengthening their own financial base.

Thus, regional development becomes a tool for achieving global competitiveness through the process by which regions manage permanent competitive transformations to become more comfortable for life and better for doing business. There is a constant competitive struggle for attracting investments, technologies, specialists, knowledge and ideas, in which those regions that have managed to optimize and effectively use internal resources and create optimal prerequisites for the development of entrepreneurship, including small, which, as a result of large-scale dependence on the state, local governments, financial institutions and large companies, along with high socioeconomic importance, is characterized by extremely low viability, sensitivity to various economic shocks, other market failures, focus on solving current problems and ignoring long-term strategic planning. Therefore, the development of regional strategies for the development of the small businesses, and, at the same time, the financing of this sector, becomes especially topical.

The activation of financing for the development of SMEs at the regional level will allow achieving the strategic goals of social and economic development of both regions and the country as a whole: creating new jobs (especially important for depressed regions). This will help to reduce social tension and achieve social stability in the society; to raise the level of incomes (and consequently, the growth of indicators of the well-being of the population and its solvency); form a competitive environment in local markets to offer goods and services, improve their quality; revive economic activity in the regions; increase capital inflows in the regional (and national) economy; increase revenues to state and local budgets; to slow down the volume of labor migration of the active part of the able-bodied population abroad; intermediate middle class in society.

The development of small and medium business is hampered by the following systemic problems:

1. The impact of systemic problems that accompany the development of small and medium business at the national level:

- shortage of material resources for small and medium businesses as a consequence of insufficient financial support from the state and unsettled mechanisms for lending to small and medium businesses and the high cost of credit resources;
- absence of a clear system of tax preferences for small and medium business entities;
- insufficient assistance from the state in promoting the products of domestic small and medium businesses to foreign markets, insignificant involvement of small and medium businesses in the implementation of government orders;
- imperfection of normative and legal support for small and business development;
- unequal conditions for managing small and medium enterprises on the market, including: different starting opportunities for access to financial resources and public investment; lack of information; lack of funds to develop new products and obtain modern technology.

2. At the regional and local level:

- insufficient (non-guaranteed and non-systematic) financing of regional programs for support and development of small business;
- imperfect control over the use of funds allocated to small and medium businesses, as a result of which part of the resources are lost for misuse;
- lack of an effectively functioning system of effective interaction of medium and small businesses at the local (regional) level;

- uneven location and development of small and medium business in the regions of Ukraine, which is due to the overall economic situation in the region. After all, small business directly depends on the effective demand of the population in the region. That is why in depressive, peripheral (including mono-functional regions), the pace of small and medium business development is low.

To fully support entrepreneurial activity and create a favorable business environment at the regional level, it is necessary to:

- ensure accelerated restructuring of small and medium enterprises;
- support the development and diversification of economic activities and the creation of new jobs;
- promote the development of education in the field of marketing for managers of small and medium businesses;
- support the development of regional business associations and foundations;
- establishing and supporting first contact centers to disseminate information and help develop projects that can be submitted to SMEs in national and international funds.

The main tasks of the regional authorities in the issue of forming regional support for the development of small and medium business are: planning for long-term and medium-term support, identifying priority tasks and supporting them at all stages of implementation; development of incentive legislation in the context of innovative development; development of infrastructure for the implementation of innovation policy; maintenance of demand for goods; improvement of the innovative culture of the population and business; information support of the development of the world market of innovations; the formation of new organizational forms of entrepreneurial activity.

**Conclusions.** SME sector represents an important source of local and regional dynamism. Even though the big firms remain a key factor of restructuring the productive system, from regional viewpoint the SME activity appears as a strategic one for each region's economic reconstruction, provided SMEs be included in a well-structured environment, in a coherent territorial network, involving links, relations, exchanges between them and other economic agents (like banks, higher education institutes, training centers, consulting firms, chambers of commerce, local public administration).

The implementation of the strategic directions for financing small and medium enterprises at the regional level will facilitate their entry to the European level of development, improve the business climate, strengthen the position of small business in the overall structure of the domestic economy, modernize small business aimed at increasing its contribution to the socio-economic development of the country, increase of efficiency of small business, filling of revenue parts of state and local budgets.

In order to turn to good account the development potential of the Ukrainian SMEs, a stronger support should be offered to this sector within the overall economic policy, concentrating on three aggregate objectives: the removal of any administrative, financial, legal, etc. barriers that still hinder the SME starting-up and development; the provision of assistance and information to SMEs; encouraging cooperation and partnership between firms.

For future analysis, it would be interesting to identify the each individual regional factor that influences the financing decisions of SMEs. Furthermore, not only the Ukrainian case should be investigated, but also those of other countries where the regional unit of analysis presents itself as relevant.

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#### РЕГІОНАЛЬНІ АСПЕКТИ ФІНАНСОВИХ СТИМУЛІВ РОЗВИТКУ МАЛОГО ТА СЕРЕДНЬОГО БІЗНЕСУ

##### Резюме

У статті обґрунтовано теоретичні положення та розроблено практичні рекомендації щодо поглиблення вивчення регіонального аспекту фінансового стимулювання розвитку малого та середнього підприємництва. Реалізація поставлених стратегічних напрямів фінансування малих і середніх підприємств на регіональному рівні дасть їм змогу вийти на міжнародний рівень розвитку, тим самим благотворно вплинути на економічний прогрес в Україні за умови їх максимально ефективного виконання.

**Ключові слова:** регіональний аспект, малі та середні підприємства, проблеми фінансування малих і середніх підприємств, підтримка і розвиток малих і середніх підприємств на регіональному рівні.

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##### Резюме

В статье обоснованы теоретические положения и разработаны практические рекомендации по углублению изучения регионального аспекта финансового стимулирования развития малого и среднего предпринимательства. Реализация поставленных стратегических направлений финансирования малых и средних предприятий на региональном уровне позволит им выйти на международный уровень развития, тем самым благотворно повлиять на экономический прогресс в Украине при условии их максимально эффективного выполнения.

**Ключевые слова:** региональный аспект, малые и средние предприятия, проблемы финансирования малых и средних предприятий, поддержка и развитие малых и средних предприятий на региональном уровне.