

Small and Medium-Sized Enterprises in the Export-Oriented Strategy of Ukraine's Development*

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ANNOTATION. The article examines the role of small and medium-sized enterprises (SMEs) in the economic development of Ukraine, as it enters the world arena through its export potential. The author accentuates the diverse methods, ways and areas of economic policy for improving the export performance of SMEs. In particular, attention is centered on the support of SMEs by governments, international organizations and associations of entrepreneurs-exporters. In the opinion of the author, it is imperative to analyze the global experience in improving and stimulating SME exports not only in the economically developed countries, but also in those that are at such a political and socioeconomic stage of development as Ukraine is today. The author lists the policy areas for improving SME exports and their essence and outlines the prospects for their further development.

KEY WORDS. Globalization, export, government foreign trade policy, small and medium-sized enterprises (SMEs), export potential, entrepreneurship, association of enterprises-exporters, crediting, risk insurance, credit guarantee, organizational support, legislative support, financial support, simplified taxation system, export contract guarantees, information and consultation support.

Worldwide competition has become one of the outcomes of the globalization of all economic and public areas of modern society. It means that now any Ukrainian firm has the opportunity to freely maneuver in the entire environment of the world economy. The high share of exports in GDP is among the principal causes and factors inducing the extensive participation of Ukraine's economy in the international division of labor.

Notably, one-third of Ukraine's national production is under the indirect effect of external economic relations. This emphasizes its importance as a life

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support of the country at a time when it is getting over a serious economic crisis. For Ukraine the export-oriented model is the best acceptable for its development when world markets are extensively used as an additional factor of economic growth. The interaction with the world economy should rely on a comprehensive, flexible and dynamic government foreign economic policy based on maximum economic freedom of the direct manufacturers and exporters of goods and services.

Ukraine's entry into the world economy proved to be painful when its unstable economy entered international trade circles as an obvious outsider. The situation at the time was not in favor of Ukraine, because, unlike the Central European countries, it remained an exporter of mostly raw materials and incomplete products.

The world trends in international trade indicate that SMEs in countries with a market economy exert an ever growing influence on the structure of foreign trade: small companies enter and operate more easily on foreign markets because of their mobility in adapting to the formidable world competition. For countries with transition economy one of the most important factors of integration into world economic relations is the creation of a favorable environment for their own SMEs that, engaging in foreign trade, are performing the following:

- a) reduce the financial and operational export risks of large companies (small companies are frequently set up as large enterprises for entry into the world markets). While large business is the «skeleton» of a modern economy, SMEs are the «muscles» of the economic organism;
- b) offer new jobs and higher pay for their workers: «export sectors provide at the mean 15 % higher pay than other sectors»¹;
- c) act as the driving force of scientific and technological progress;
- d) offer an alternative for the raw materials-oriented export (services and innovative products).

The difficulties in export are explained by the fact that local and transnational manufacturers occupy the world market and none of them wants to surrender their place. So far Ukrainian products are of low quality. Their competitiveness can be ensured on the basis of strategies that take into account Ukraine's advantages, such as knowledge and experience accumulated owing to historical, geographical and cultural reasons. Within this context the development of the sector of production services in combination with the processing and agricultural sector can by itself create an export potential in services. The advantages can be derived on the basis of more traditional services (transportation, tourism), modern information services, and long-distance communication services.

¹ *Pryvatny sektor suchasnoi ekonomiky [instytutsionaly pidkhid]*. [I.Bochan. The Private Sector of Modern Economy (Institutional Approach). Lviv, *Armia Ukrainy* [Armed Forces of Ukraine], 2000, p. 99].

SMEs have played an essential role in weakening and occasionally even neutralizing the tendencies of large corporations to monopolize and obstruct scientific-technological progress (STP), since small and medium-sized businesses prove to be quicker on the uptake as far as STP is concerned; their size allows them to introduce and test new technologies more quickly and inexpensively; they embody more adequately the idea of a market system; their management differs markedly from how large corporations are run; and they lack a multi-tiered system of administration that breeds bureaucratization. But SMEs are also jaded by flaws: unstable status on the market; dependence on large companies; difficulties in attracting additional financial resources, and the like.

Thus, Ukraine needs to understand the role of small firms in the country's export potential and identify the main areas of improving and supporting their activity.

The **analysis of studies and publications** shows that in the developed countries the role of SMEs in the export potential commands great attention. But governments of countries with a transition economy and developing countries pay little heed to this issue, although during the past few years the role of SMEs in exports is awakening an understanding (see tables 1 and 2). For instance, in Poland the share of SMEs in exports is about 50 %. In the CIS countries, the role of small entrepreneurship is underestimated: exports per one resident of Belarus are worth only some US \$700, while in the developed countries this indicator is 20 times as much².

These issues were examined by such Ukrainian and foreign authors as I. Bagrov, I. Bochan, V. Z. Varnaliy, V. Vlasiuk, A. Halchynsky, I. Hanechko, O. Hetman, S. Horomiak, R. Dobzhansky, S. Karbovnyk, N. Kozhevin, M. Kryzhanivsky, M. Lapusta, Andrii Limanski, Lister Kate, V. Lytvynenko, V. Lishenko, S. Liashenko, G. Meier, D. Olesnevych, N. Redin, L. Rudenko, A. Filipenko, Tom Harnish, V. Khakulin, S. Chvotar, as well as by the authors of the articles that appeared in the magazines *Viche* (Common Council), *Male pidryemstvo* (Small Enterprise), and *Maly i seredniy biznes* (Small and Medium-Sized Enterprises): R. Bilyk, V. Yakovlev, V. Bondarenko, M. Hlukhivsky, B. Danilishyn, V. Kostetsky, and A. Poleshko.

Table 1

The importance of small and medium-sized enterprises in countries at different levels of economic development

Country	EU countries	USA	Japan	Poland	Uzbeki- stan	Russia	Ukraine
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² *Podderzhka subyektiv malogo predprinimatelstva v Rossii, Ukraine and drugikh stranakh SNG*. [V.Liashenko, V.Khakhulin, S.Liashenko. Support of Entities of Small Entrepreneurship in Russia, Ukraine and other CIS Countries. Luhansk. Alma-mater Publishers, 2005, pp.399-401].

Share of SMEs in GDP, %	from 50 to 67	from 50 to 52	from 52 to 55	over 60	about 29.1	from 10 to 11	from 9 to 9.5
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Table 2

Country	EU countries	USA	Japan	Poland	Czech Republic	Russia	Ukraine
Share of SMEs in total employment, %	from 46 to 73	54	78	56	60	9.6	5.7

However, in the opinion of the author, the issue of SMEs engaged in exports is examined rather superficially and at times even one-sidedly. More often than not attention is centered on the experience of developed countries and rarely on the experience of countries with a transition economy or developing countries. But the Ukrainian government cannot use the experience of the US or Japan as an example to follow under the existing economic, political and social conditions in our country.

Z. Varnaliy singles out the following types of models of a state's participation in the development of SMEs;

- 1) liberal US model (interference of the state only in those aspects that cannot be regulated by the market);
- 2) non-liberal German model (considerable attention to the social orientation of the market, reinforced system of social payments);
- 3) European-Keynesian model, typical of Italy, France, and Austria (priority role of the state);
- 4) social-democratic Swedish model (the state's role is in the social sphere, policy of employment and social security, and in the regulation of labor relations);
- 5) Japanese model (the state pursues a policy of evening out incomes and efficiently using the national mentality)³.

Therefore, the studies on this subject deal not only with the experience of developed countries, but also with the policies of governments in countries with a transition economy as well as developing countries (from Canada, US, Japan, United Kingdom, France, the Netherlands, Belgium, Ireland, Germany, Spain, Portugal, Denmark, Greece and Italy to the countries neighboring on Ukraine — Poland, Slovakia, Hungary and the Czech Republic, as well as to the CIS countries of Azerbaijan, Uzbekistan, Kazakhstan and Russia).

³ *Male pidpryemnytstvo: osnovy teorii i praktyky*. [Z. Varnaliy. SMEs: Fundamentals of Theory and Practice. 3rd edition. Kyiv. Znannia Publishers, 2005. p.98].

Yet another flaw of the studies is that they focus too much on how bodies of state authority pursue policies to improve the development of SMEs, without enough attention to the participation in these policies of the entrepreneurs and their associations. Whenever the associations of enterprises-exporters are mentioned, it is not stated what they are supposed to do and how they cooperate with the bodies of state authority. I. Bochan, in particular, points out that in theory and practice there exist two approaches to the support of SMEs in a transition economy⁴.

Under the first approach, SMEs need serious support both from state agencies and from associations of entrepreneurs at the early stages of formation of the market. The efforts should be aimed not at administrative regulation, but at creating a system of support. Later on, when the market has been shaped, the elements of state protectionism in relation to small business should become weaker. Under the second approach, SMEs develop with their own capacities, and if state support is applied, it should be in priority areas determined by the government and based on economic activity. This approach is the underlying basis of the Concept of State Policy of Development of Small Enterprise in Ukraine.

When identifying a strategy for improving the development of export-oriented SMEs, practically all authors list its main elements, without taking into consideration the possibility of using each one of them at the existing stage of Ukraine's socioeconomic development. In the opinion of the author, this is the most important aspect for the efficient operation of this system.

Research as the principal component. SMEs engaged in export are independently operating business entities founded on different property bases for the manufacture of products, performance of works or provision of services for export in order to meet public requirements and derive profit; they are legal entities and have the main parameters that do not exceed the limits established by operative legislation. According to the assessment of World Bank experts, there are about 50 definitions of SMEs in the developing countries alone. The attempt to unify this term was made in the EU where in 1996 new recommendations were adopted to define this term. According to this definition, four criteria are singled out: number of personnel, average annual turnover, general balance and independence. By these factors the following are distinguished:

a) medium-sized enterprises that employ 250 persons, have a maximum average annual turnover of € 40 million or a general annual balance not exceeding € 27 million;

⁴ *Pryvatny sektor suchasnoi ekonomiky [instytutsionaly pidkhid]*. [I.Bochan. The Private Sector of Modern Economy (Institutional Approach). Lviv, *Armia Ukrainy* [Armed Forces of Ukraine], 2000, pp.167-168].

b) small enterprises that have from 10 to 49 persons in labor relations with the owner, a maximum average annual turnover of € 7 million or a general annual balance not exceeding € 5 million;

c) micro enterprises offering jobs for not more than 10 hired workers, without any annual turnover restrictions or a balance.

The state system of regulating exports of SMEs includes a broad range of instruments: financial, fiscal, technological, information, pricing, legislative, organizational, social-psychological, and others (see Diagram 1).

Diagram 1

Material assistance	Administrative assistance	Social-information assistance
— financial	— legislative	— educational
— fiscal	— organizational	— consultation
— technological	— pricing	— marketing

Depending on the socioeconomic situation of a country, the government may choose which instruments should be foundational, which are most necessary, and how all the support components of SMEs have to interact with one another. The distinctions in setting tactical objectives and in organizing their achievements in different periods of development are determined by how each definite country manages to offset as much as possible the weak aspects of SMEs export business, minimize them, and at the same time maximize the advantages. The developed countries pay more attention to the financial and information elements, because their legal and organizational framework is already in place.

To the financial instruments the following can be referred: export crediting; export guarantees; insurance; government subsidies and grants; preferential credits. As to the fiscal instruments, the following can be singled out: tax rebates; tax holidays; accelerated depreciation; export-industrial zones; tax credit on export; tax credit on investment, and the like. A government can also provide technological assistance, namely: promotion of technology transfer; services in patenting; assistance in formalizing know-how; support in the adaptation of products and technologies to the conditions of another country; quality control; rational standardization system; certification and metrology. An adequate legal framework backing SMEs ensures small firms economic freedom, rights and guarantees to engage in legal business. The regulations have to be adequately framed, not contradict one another, and determine the role and place of export firms in the democratic transformation of Ukrainian society. The organizational element of SMEs support is the establishment of corresponding institutions and organizations in order to: implement regulations and programs of development of the export potential of small businesses; receive, generalize and coordinate information about the status of ex-

port SMEs in Ukraine and in other countries; grant loans and insurance to small firms engaged in export. As to marketing support, the following is necessary: provision of information about individual foreign markets; assistance for participation in international exhibitions, fairs, conferences; establishment of trade and investment missions; professional consultation; search for potential partners; seminars and training programs. At the state and private level it is necessary to organize legal education for representatives of small firms, and include in the curricula of educational establishments such disciplines as the philosophy and theory of entrepreneurship and fundamentals of organizing SMEs. To the other instruments of state support are referred the following: liberalization of licensing policy; regulation of foreign currency exchange rate; control over the prices for resources required for export production; regulation of tariff policy of natural monopolies; simplified access to administrative procedures during investing; preferential access to resources; protectionist tariffs and quotas; exemptions in exchange adjustments; export stimulation programs. Also necessary is the establishment of a system of foreign trade information, namely a ramified network of information-consultation services for prompt provision of information in a form convenient to the client; and the establishment of several export promotion centers with a complete database of Ukrainian enterprises and their trading partners, commercial applications and offers, regulations and laws.

Now let us move from theory to practice, namely to the real actions for stimulating SMEs by the governments of countries with a different level of economic development and examine the possibility and advisability of using the given world experience by the Ukrainian government.

As to the **financial** element of support of small export business, this is for Ukraine a rather difficult issue because of shortage of funds. The government actions to increase the financial capacities of SMEs can be divided into three groups:

- 1) direct actions;
- 2) indirect actions; and
- 3) funding through venture capital societies.

To the direct actions are referred the following: subsidies (regional bonuses for the establishment of an enterprise, creation of new jobs, assistance during hire of an unemployed); loans returned upon success; loans with preferential interest; state guarantee funds (the state should be the most important guarantor for small export enterprises); assistance provided by specialized financial institutions (loans for establishment, development of infrastructure, leasing). To the indirect actions the following can be referred: tax rebates and exemptions (full exemption of new enterprises from income tax throughout the first two years, by 75 % in the third year, by 50 % in the fourth year, and 25 % in the fifth; rebates for enterprises that intend to gain a firm foothold on a foreign market; discounts for expenses related to professional training of

personnel). Funding of SMEs through venture capital societies plays a great role, primarily in the developed countries.

As mentioned earlier, financial support of SMEs is a principal issue for developed countries. In Japan, for instance, there is a two-tier system of risk insurance that consists of a state credit insurance corporation and 52 prefectorial associations. When a small firm goes bankrupt, all of its financial obligations are passed on to one of the referred to associations, while the state corporation compensates 70-80 % of the firm's insurance. In the UK, a small company can apply for short-term bank financing on the basis of a small-business export program that is implemented by a number of banks. A corresponding department of export credit guarantees handles all credit insurance of trade agreements. The Czech-Moravian Bank of Guarantees and Development extends to SMEs guarantees⁵ under medium- and long-term investment credits. The guarantees can be 70 % of the amount of credit. A maximum of up to 40 % of the credit can be used for stocks and operating expenses; operating credits — under credits for acquisition of stocks and operating expenses related to a project. Extended for a maximum of four years, their amount is limited by 50 % of the sum of the credit; leasing — granted to settle the payments of a client under leasing — is a maximum of 70 % of the sum of the credit. Besides, one of the main programs of financial support in the Czech Republic is the Credit Program whose client is the Ministry of Industry and Trade. This program is intended for small enterprises employing no more than 50 persons and aimed at supporting export⁶.

Taxation policy is of extreme importance for the development of SMEs. In Poland, small enterprises have the opportunity to operate under a simplified taxation system, i.e. under low tax pressure and simple forms of reporting to tax agencies. The simplified taxation system⁷ provides for first, a tax card — a variation of a fixed tax, its size depending on the tax rate, and second, a single amount of profits tax for some types of profits of natural persons and a single sum of tax on declared profit. The tax rate depends on the type of activity, size of the firm by the number of employed and residents in an inhabited locality where the firm operates. The opportunity for choosing such a

⁵ *Rol derzhavy u pidrymtsi ta rozvytku maloho I serednioho biznesu yevropeiskykh krain ta perspektyvy Ukrainy*. [R.Dobzhansky. Role of the State in the Support and Development of Small and Medium-Sized Enterprises of the European Countries and Prospects for Ukraine. Kyiv, editorial office of general pedagogical newspapers, 2003, p.65].

⁶ *Rol derzhavy u pidrymtsi ta rozvytku maloho I serednioho biznesu yevropeiskykh krain ta perspektyvy Ukrainy*. [R.Dobzhansky. Role of the State in the Support and Development of Small and Medium-Sized Enterprises of the European Countries and Prospects for Ukraine. Kyiv, editorial office of general pedagogical newspapers, 2003, p.68].

⁷ *Polska ekonomika na mezhi tysyacholit: trudnoshchi, uspikhy, perspektyvy*. [S.Chobotar. The Polish Economy at the Turn of Millennia: Difficulties, Successes, Prospects. Kyiv, Khreshchatyk Publishers, 2002, p.118].

form of taxation is enjoyed by businessmen in certain regions of Poland specified by the Ministry of Finance. Businessmen taxed by this form also do not pay VAT. A single sum of profits tax is applied to such types of activity as hotel services, manufacture and sale of crafts products, and the like. The tax rate is differentiated for different types of activity, but within the limit of 3—10 %. Under this system businessmen independently calculate the sum of the single tax and pay it annually. A simplified taxation system also exists in Ukraine, but, apart from positive results, it can to a certain extent complicate the company's relations with banks; the latter do not trust the companies applying for credit, since they cannot present full reports on current sales, income and expenses. Although the list of products offered by banks is sufficiently large and has over 30 titles, only some of them find their users in the group of small business (about 40 % of SMEs have access to bank credits). The entire process is too bureaucratized. Among the banks' bottlenecks are the following: bureaucratic attitude, excessive formalities, long duration of consideration of applications, cost of the credit, and slow services and settlements. All these circumstances compel the government to center special attention on the development of guarantees under credits for small companies. The establishment of a system of guarantee institutions in Poland goes back to the mid-1990s and includes local and regional funds. One of the financial instruments of export support in Poland is the State Treasury's guarantees of security of export contracts. According to a regulation of July 2, 1994, a corporation of export credits security (KUKÉ S.A.) was set up with the aim of achieving the following objectives: provide funds for the search of foreign sales markets; insure export contract risks against changes in foreign currency exchange rates; extend guarantees for the manufacture of export products, etc. The mission of KUKÉ is to support insurance and guarantees of exporters and organizations funding the export of national products and services. This makes it possible for enterprises to limit risks related to their activity, ensure the safety of turnover, increase sales, and conquer new markets. KUKÉ also offers special insurance services: study, analysis and evaluation of risks, and the possibility of a business entity performing actions to receive due payments. The Corporation insures short-term as well as medium- and long-term export arrears. Exporters can obtain insurance against failure of payment by their debtors because of commercial, political and non-market risks. KUKÉ signed a number of contracts with Polish commercial banks on their recognition of the Corporation's insurance policy, which serves as an argument for granting export credits. Therefore, these banks are in a position to offer to exporters credits at a preferential credit rate⁸.

⁸ *Ukrainsko-polska eknomichna spivpratsia: dosvid i per-spektyvy*. [Ukrainian-Polish Economic Cooperation: Experience and Prospects. Collection of scientific papers under the scientific editorship of Prof. Andrzej Limanski, Ph.D.(Econ.) and Prof. Dmytro Shte-fanych. Ternopil-Katowice. 2004, pp. 77-83].

For Ukraine the support of international organizations is an important area of financial assistance. In this respect, the experience of other countries can also stand in good stead. For instance, the banks of Uzbekistan are actively working to utilize the credit lines of the EBRD, the Asian Bank of Development, International Finance Corporation, the Credit Agency of Development of Germany, and other international financial institutions. Foreign credits are used to fund on a priority basis the investment projects aimed at manufacturing competitive and export-oriented products or services.

The State Export-Import Bank of Ukraine, jointly with the IBRD, is implementing an export development project to promote the export capacities of Ukrainian producers of goods and services through crediting and also by providing technical assistance (grant financing). Moreover, short-term credits are granted to replenish working capital up to 18 months and long-term crediting of investment projects up to five years⁹. In November 1998, EBRD launched a micro-crediting program in Ukraine. It is an extension of the credit line for SMEs that exists in Ukraine since 1995 and amounts to US \$120 million. The aim of the program is to create favorable conditions for receiving bank credits. Special attention is accorded to those business groups that are engaged in foreign economic activity¹⁰.

Thus, assistance to Ukraine can also be provided through crediting and guaranteeing insurance against risks of entry into international markets. It is also possible to set up regional funds for the support of export for account of centralized deposits, local budgets and private capital. Taking into consideration the specifics of the SMEs, the problem of their crediting can be resolved by setting up small banks that have reduced authorized funds and specialize only in servicing SMEs. Moreover, it is proposed to establish associations or unions of small banks and retain their independence to build up their positions and expand the possibility of broader crediting programs. Financial assistance by foreign investors can be important. Their experience on international markets could be used to sell more efficiently Ukrainian goods and services abroad and also create strategic alliances between Ukrainian and foreign enterprises.

An adequate **legal framework** is one of the elements for improving the development of SMEs. In this respect, a good example for Ukraine is the experience of both the developed countries and those that have about the same socioeconomic status as our country. In all developed countries, SMEs oper-

⁹ *Rozrakhunkovi ta kredytni operatsii u zovnishnio-ekonomichnyy dialnosti pidpnyemstva*. [L.Rudenko. Settlement and Credit Operations in the Foreign Economic Activity of an Enterprise. Kyiv, Libra Publishers, 2002, pp.225-226].

¹⁰ *Ibid*, pp. 236—238.

ate on the basis of a solid legal framework (e.g., the US has eight laws supporting small businesses¹¹).

A necessary legal framework for the activity of small businesses is in place in Kazakhstan: the Law *On Support of Small Businesses* of June 19, 1997 and the Presidential Decree *On Measures to Increase State Support and Invigorate the Development of Small Enterprises* of March 6, 1997. In December 1995, Uzbekistan passed the Law *On Stimulating the Development of Small and Private Enterprises*, in May 2000, the Law *On Guarantee of Freedom of Entrepreneurship*, and in 2004, the Law *On Private Enterprises*. The laws adopted with allowance for world experience and the recommendations of international institutions set up the legal framework for engaging in business in Azerbaijan, among them the laws *On Entrepreneurship*, *On State Registration of Legal Entities*, and *On State Support of Small Entrepreneurship*. Three state programs — State Program of Development of Entrepreneurship in the Azerbaijani Republic (1993-1995), Program of State Support of Small and Medium-Sized Enterprises in the Azerbaijani Republic (1997-2000), and the State Program of Development of Entrepreneurship in the Azerbaijani Republic (2002-2005) — played a tremendous role and identified the stimulation of SMEs as the priority area of Azerbaijan's economic policy. Of tremendous importance for the protection of entrepreneurs' rights was the Presidential Decree of the Azerbaijani Republic *On the Prevention of Cases Hindering the Development of Entrepreneurship* of September 28, 2002, which eliminated the structures that exercised control and inspections at central and local bodies of the executive, banned the interference of law enforcement agencies in the affairs of the private sector, and established prompt communication with businessmen.

In Ukraine, the State Committee for the Development of Entrepreneurship was established by Presidential Decree of July 29, 1997. Of great importance for the development of small businesses were the presidential decrees of 2000 *On the Pursuance of a Single State Regulatory Policy in Entrepreneurship*, *On Measures to Ensure the Support and Continued Development of Entrepreneurship*, and *On Facilitating the Training of Managerial Personnel in Entrepreneurship*.

In order to improve the legal framework in Ukraine, it is necessary:

1) for the Ukrainian Parliament to design the following: an integral concept of state policy of development of entrepreneurship that should be based on the right to engage in legal business and identify the role and place of precisely small **export-oriented** enterprises in the implementation of an export strategy of economic development; draft laws on the terms and conditions of public assistance to businessmen and supervision over such assistance as well

¹¹ R.Dobzhansky. Role of the State in the Support and Development of Small and Medium-Sized Enterprises of the European Countries and Prospects for Ukraine. Kyiv, editorial office of general pedagogical newspapers, 2003, p.13].

as the principles of supporting regional development. Subsequently, these efforts should serve as a groundwork for bringing together all operative laws, draft laws and regulations into a Small and Medium-Sized Business Code that under binding condition would reflect the importance of SMEs in export;

2) design short-term strategies and programs for developing the national export business. The laws should not only declare the right to the existence of SMEs, but also set out the strategy of their support by the government as well as associations of entrepreneurs-exporters, NGOs, international organizations, foreign and national investors. The program should also include the issue of control over the efficient use of funds and performance of actions of state and non-state support of SMEs;

3) follow on to the next stage of tactical actions. To this end, tenders could be called among willing businessmen, their associations, as well as educational and scientific establishments.

The **organizational element** is the next in line to improve the export activity of SMEs. It would be advisable to look at the experience of developed countries that have achieved success in this area. In France, departments on issues of SMEs were set up at directorates for foreign economic relations. The increase in the export of these firms (about 40 %) in the country's total exports occurred due to the establishment of a well-organized regulation system that includes highly coordinated state administration agencies and different sectoral associations of businessmen.

In Canada, the efforts of central and local institutions are combined to improve international marketing. An inter-ministerial committee was set up with the participation of deputy ministers who have broad powers in formulating policy of SMEs exports (its program is being actively implemented since 1995). Under this program a Center for Studying the Opportunities of International Business was set up within the Department of Foreign Affairs to discharge the function of an integrator of trade offers: it communicates the marketing information received from trade representatives to industrial associations and SMEs. Besides, in order to cover as much as possible all export-capable sectors of the national economy, national and regional working groups were established to include federal and provincial governments competent in export and trade. These groups collect and spread information about the potential of foreign markets, meet officially and cooperate with the employees of the Center as well as with foreign trade representatives. Every year each of the teams designs and implements an export strategy that is centered on favorable market opportunities and systematizes the objectives of growth. The inter-ministerial committee monitors and guides the activity at the central level and annually reports to the government on the main progress, initiatives or positive trends in the support of exports of the SMEs.

Very important is the study of the experience of such a country as Poland when it was getting out of a crisis. S.Chobotar points out that the Polish «shock therapy» model at the early stages of reform was intended for the following: macroeconomic liberalization, macroeconomic stabilization, and pro-

found institutional restructuring¹². The liberalization element of economic policy provided for liquidating legislative and bureaucratic barriers in the economy, including those standing in the way of establishing private firms, and for liquidating the restrictions in foreign trade. On the basis of the Polish Foundation for the Support of Development of Small and Medium-Sized Enterprises the Polish Agency for the Development of Entrepreneurship was established. In Poland's legislature, the Sejm, since its second convocation a Committee of Small and Medium-Sized Enterprises is operating to analyze the situation in the SMEs and the actions of the government in this area; draft legislation for the support of small businesses, and take part with other committees in drafting acts of socioeconomic policy related to SMEs. Poland has about 1,500 institutions supporting the activity of small businesses (specialized institutions to provide services to SMEs; unions of entrepreneurs; non-profit organization supporting small businesses; universities and research institutes¹³).

Within the functions of the Polish Foundation are the following: create infrastructure opportunities for consultations, trainings, and organizational activity; promote small Polish firms on the international markets; closely cooperate with the Sejm Committee; cooperate with well-to-do international organizations; collect, analyze, and disseminate information about the status and activity of SMEs; print books, articles, organize conferences, seminars, and round tables devoted to entrepreneurship; extensively cooperate with the mass media to popularize the activity of small businesses and their importance for the development of Poland's economy and higher living standards; and regularly print the bulletin *Build Your Own Business* that deals with a variety of important issues of SMEs activity. In 1996 an institution for taxation consultations was established in Poland to provide professional advice for businessmen on payment of taxes and optimization of tax schemes. One important element about this institution is that it has its own guarantee fund to remedy the failures of businessmen not at the expense of the latter.

In our opinion, for Ukraine it would be rather interesting to learn from the experience of Azerbaijan, which during the past few years has strengthened the activity of a number of structures that lend businessmen financial, information and consultation support: Department for the Development of Entrepreneurship, which implements actions in entrepreneurship and encourages and protects the rights of businessmen; National Fund for the Support of Entrepreneurship (promotion of the private sector engaged in export); Center for the

¹² *Polska ekonomika na mezhi tysyacholit: trudnoshchi, uspihny, perspek-tyvy*. [S.Chobotar. The Polish Economy at the Turn of Millennia: Difficulties, Successes, Prospects. Kyiv, Khreshchatyk Publishers, 2002, p.32].

¹³ *Upravlinnia biznesom: dostupno pro skladne*. [Managing a Business: the Complex Made Easily Understood. L.Kistersky. A.Burliai, T.Lypova, T.Pustovoitova. Edited by L.Kistersky and K.Pavlovsky. Kyiv, Znannia Ukrainy Publishers, 2001, p.162].

Examination of Consumer Goods; Agency for the Development of Small and Medium-Sized Enterprises; Trade and Exhibition Center; and Consultation Fund for the Encouragement of Investment¹⁴.

The following can be considered as the main objectives for setting up a system to organize and support SMEs in Ukraine:

- establish a state coordination agency that would receive and generalize information about the status of small export businesses in Ukraine, study the latest forms in organizing international business and foreign legislation in this area, and formulate the main principles of state policy for the continued development of export-oriented SMEs;
- organize a section of export SMEs within a committee or department for the affairs of SMEs foreign trade;
- establish cooperation with various structures that would include SMEs in world economic relations;
- organize the work of an institution for crediting and insurance for small firms engaged in export (the structure of credit organizations abroad includes special state financial institutions, credit establishments, and the private non-bank financial sector);
- create a single methodological center for legalizing business entities, namely: registration of export-oriented SMEs and licensing of their types of business activities.

All these agencies should have a narrow specialization and be established within existing institutions through the redistribution of functions, which does not require additional state budget expenditures.

The **social-psychological** element is yet another component in the development of export SMEs. As R.Dobzhansky points out, «an elusive element of the environment is exactly the social and individual consciousness and understanding that engaging in business is socially acknowledged, significant, highly appreciated, and very honorable.¹⁵» Throughout many decades ideological propaganda in Ukraine eroded the very spirit of private entrepreneurship, cultivating a rejection of both private ownership and free economy in general. It will take years to destroy the dogmas and stereotypes and overcome the strictly psychological rejection of the very terms *private initiative*, *private entrepreneurship*, and *private property*. For a society with a deeply ingrained socialist mentality the understanding of the need to develop private export business is a complex process. The negative attitude towards entrepre-

¹⁴ V.Liashenko, V.Khakhulin, S.Liashenko. Support of Entities of Small Entrepreneurship in Russia, Ukraine and other CIS Countries. Luhansk. Alma-mater Publishers, 2005, p.443].

¹⁵ *Rol derzhavy u pidrymsi ta rozvytku maloho i serednioho biznesu yevropeiskykh krain ta perspektyvy Ukrainy*. [R.Dobzhansky. Role of the State in the Support and Development of Small and Medium-Sized Enterprises of the European Countries and Prospects for Ukraine. Kyiv, editorial office of general pedagogical newspapers, 2003, pp.116].

neurship is expressed in the views of many politicians and a sizable part of the population. That explains the perfunctory interest of a lot of politicians to promoting market economic reform. The politicians of Eastern and Central Europe understood that the building of a market economy based on private property would facilitate the competitiveness of national products and have a decisive impact on the effectiveness of economic processes. The leading economists and politicians of Poland, Slovenia, Hungary and the Czech Republic were well aware of all the advantages of a market economy and were quick in effecting reform to shape a corresponding market environment in their countries. The economic progress in these countries was to a considerable degree ensured by the establishment and encouragement of small businesses. The economic results achieved by Poland are a wonderful example of reform, in the sector of SMEs included (this sector accounts for more than 60 % of GDP)¹⁶. The programs of Poland's more or less solid political parties included objectives to resolve the problems of SMEs in favor of businessmen. In some of the programs the economic measures to support small firms are not simply declared, but very well developed and include definite instruments for their achievement. Therefore, the necessary function of this element of SMEs support policy is to make the population **aware through education** that entrepreneurs are a social class that its extremely important for the development of the country and its secure place on the world markets.

Yet another element is **consultations and provision of information to businessmen** about laws and regulations and their interpretation as well as special institutions and financial programs for the support of SMEs. The information and consultation support should foresee the establishment of centers specializing in economics and law on the basis of research and educational establishments where businessmen can receive methodological, information and consultation assistance; also special services for businesses should be set up, such as auditing, marketing, and foreign trade services.

The attention the US government attaches to information and consultations for the development of export is reflected in a number of programs for small businesses: Operative Trade Mission that provides information about small enterprises in the US as well as the products and services they manufacture and provide, assists in searching foreign companies interested in establishing business relations with US partners, and counsels on the market situation in different countries; System of Legal Support of Export that provides primary legal consultations by lawyers in international commercial law; Electronic National Export Consultation Network; and Partnership for the Devel-

¹⁶ *Upravlinnia biznesom: dostupno pro skladne.* [Managing a Business: the Complex Made Easily Understood. L.Kistersky. A.Burliai, T.Lypova, T.Pustovoitova. Edited by L.Kistersky and K.Pavlovsky. Kyiv, Znannia Ukrainy Publishers, 2001, p.16].

opment of Export Trade (training, partnership, consultations, participation in international exhibitions and fairs)¹⁷.

In the European Union, information originates mostly from the foreign trade agencies of the EU member countries, their integrated ministries of economy, committees, commissions, as well as chambers of industry and commerce. Of special importance is the information about foreign trade and industrial exhibitions and fairs, and once a substantiated application for participation is submitted in good time, the participant can receive a subsidy for this purpose. The UK government encourages export through a special Export Initiative Program. On its basis plans are drawn up, studies conducted, and contacts established and developed to promote export. In this work are also engaged export advisers employed at the regional office of the Ministry of Trade and Industry. Besides, British businessmen can offset a part of what they pay for export consultation expenses by additional subsidies¹⁸.

In the Netherlands, Belgium, Ireland, Germany, France, Spain and Portugal the information and consultation services are fully funded by the trading community. The objectives of the corresponding organizations are to collect, systematize and generalize information, communicate it to users in a convenient form, and also to consult, study the market, provide purpose-minded summaries, service participants in foreign fairs and exhibitions, and set up export associations. In Greece a special institution servicing SMEs handles these issues. The government of Ireland organized a special Trading House Scheme that supports relations between business and export. The government of Denmark engages graduates of universities to collect information about foreign markets and conclude contracts between enterprises, for which the graduates receive a stipend. Poland's Ministry of the National Economy is among the agencies that takes part in the program of stimulating exports (organization of trade missions and exhibitions, funding visits of potential importers of Polish products, publishing and information activity)¹⁹.

Russia is using some interesting forms of information and consultation support. In the early 1990s great attention was attached to work with the unemployed who wanted to set up their own businesses. For them consultations were provided on legal issues, as well as assistance in the preparation and registration of documents, and resources from the employment fund were al-

¹⁷ *Kak podderzhivayetsya maly biznes v Amerike*. [V.Bondarenko. How Small Business is Supported in the USA. *Maloye predpriyatie* (Small Enterprise) magazine, No.2, 2003, pp.9-11].

¹⁸ R.Dobzhansky. Role of the State in the Support and Development of Small and Medium-Sized Enterprises of the European Countries and Prospects for Ukraine. Kyiv, editorial office of general pedagogical newspapers, 2003, pp.34-35].

¹⁹ *Polska ekonomika na mezhi tysyacholit: trudnoshchi, uspikhy, perspek-tyvy*. [S.Chobotar. The Polish Economy at the Turn of Millennia: Difficulties, Successes, Prospects. Kyiv, Khreshchatyk Publishers, 2002, p.155].

located to offset the expenses for registration and self-employment. Oblast employment services teach the future entrepreneurs the fundamentals of business, accounting, management and marketing. Thus, as the trainees freely find their bearings in the new market conditions, all of them, regardless of profession, are taught a course on «Fundamentals of Entrepreneurship.» The training centers provide future businessmen with a package of documents they will need for setting up their own business. The package includes model contracts and forms of statute, a standard form for state reporting, samples of business plans, and the like. By orders of oblast employment centers a scientific-methodological center of professional training drew up plans and programs for the trades and professions in which the entrepreneurs will be involved.

It goes without saying that all elements of SMEs support are based on the policy of a country's government, i.e. on state regulation as well as support from international organizations, individual investors, and large companies. But, as V.Kostetsky is convinced, businessmen should rely not only on the government²⁰. Serious assistance to the development of SMEs can also come from public movements.

For example, small Italian firms are uniting into foreign trade consortiums, most of which are members of Fedexport, the Italian Federation of Export Consortiums. The latter provides its members with information about possible sources of finance and existing systems of guaranteed insurance, organizes the participation of enterprises in exhibitions and fairs; studies foreign markets, carries out advertising campaigns, and searches trading partners; lends assistance during the conclusion of contracts with foreign agents and during professional training of personnel. Cooperation has become one of the most important factors in dealing with the difficulties SMEs face now and then when they strengthen their positions on foreign markets and, therefore, there is no need for protectionist measures. In Denmark, Italy, Portugal, Belgium and Spain, the work of companies engaged in export is very much encouraged. Such groups of enterprises can count on receiving subsidies for additional marketing studies²¹. Thus, the government cannot only lend substantial and diverse assistance to SMEs, but also support, encourage, and, most importantly, not interfere in the establishment and activity of associations of enterprises-exporters.

²⁰ *Derzhavna pidtrymka maloho i serednioho pidpryemnytstva maie staty dievoiu.* [A.Poleshko. State Support of Small and Medium-Sized Enterprises has to Become Effectual. *Malyi i seredniy biznes* (Small and Medium-Sized Businesses) magazine, 1999, No.1-2, pp.7-10].

²¹ *Rol derzhavy u pidrymsi ta rozvytku maloho i serednioho biznesu yevropeiskykh krain ta perspektyvy Ukrainy.* [R.Dobzhansky. Role of the State in the Support and Development of Small and Medium-Sized Enterprises of the European Countries and Prospects for Ukraine. Kyiv, editorial office of general pedagogical newspapers, 2003, p.45].

Conclusions and prospects for continued studies. The objective of an export-oriented strategy of economic development is to achieve the following: improve the ways of entry into foreign markets (through a system of mediation services and also by the SMEs using the sales networks of large companies); set up export associations; encourage crediting, including state guarantees to banks that finance exports under commercial long-term credits, state guarantees of credits for participation in international trade; insure operations for conquering foreign markets; regulate taxes (establishment of a system of VAT refunds paid on the domestic market during procurement of goods in case of their subsequent export, design measures to reduce indirect taxation of export services, exempt exporters from paying advertising tax); and set up a system of foreign trade information for the SMEs. The associations of exporters should coordinate their actions on foreign markets and agree the terms and conditions of entry into markets among association members for the best possible use of the market situation, abide by the rules of competition and Ukraine's international obligations; collect and disseminate among association members information about state regulation of foreign trade in other countries, the status and prospect of development of world commodity markets, as well as about the specific requirements to the quality of exports and promotion of their quality.

Among the prospects for continued studies in this area is the design of a stage-by-stage export strategy of Ukraine's economic development with the participation of SMEs and, as a result of this effort, the identification of the component elements of tactics for translating this strategy into reality. To this end, the following elements can be singled out: conclusion of cooperation agreements between large export companies and small firms to increase the flexibility of production and reduce commercial risks; establishment of associations of small firms exporting goods or services (such firms cannot independently organize effective sale of their products, while the services of mediators are, as a rule, very costly); cooperation of SMEs with the State Committee for Science with the aim of transferring the results of scientific studies to SMEs for introducing them into practice; establishment of an Export Contract Insurance Fund; and assignment to a state bank the special function of crediting foreign trade agreements.

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