

Small business support in the territories in a decentralized environment

Apoyo a la pequeña empresa en los territorios en un entorno descentralizado

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Abstract

Purpose of the article: to substantiate differentiated mechanisms of support of small business entities within the newly formed communities under the conditions of decentralization in order to eliminate disparities in business development. Research methods: comparison, statistical-analytical method, tabular and graphical modeling, analysis and generalization of data have been used in the academic paper. It has been established that decentralization causes a change in the business environment, creates new opportunities (the possibility of greater influence of the private sector on the activities of government authorities) and threats to the effective use of existing production and financial potential of small enterprises; it affects the dynamics of their development. It has been revealed that the achievement of a positive social-economic effect is possible only by balancing the interests of different participants in the economic process through the application of differentiated approaches to the settlement of relations that arise between individual UTCs. Within the conditions of transformation of the social structure it is necessary to update the theoretical and methodological bases of management of small business entities, which will contribute to the structuring of social-economic relations and rationalization of economic activity both at the level of national economies and at the European level. European policy of social cohesion and fiscal decentralization contributes to the increase of financial resources at the level of UTCs' budgets, intensifies the innovative activity of small business entities and, as a result, stimulates the development of small business entities. The principles of supporting small enterprises in the context of decentralization in the EU are as follows: concentration; program planning; rational combination; partnerships; efficiency. Decentralization changes the business environment, creates new opportunities for effective use of existing production and financial potential of small enterprises. Still, achieving a positive socio-economic effect is possible only by balancing the interests of different participants in the economic process by applying differentiated approaches to settling relations among certain UTCs. So, these aspects confirm the necessity and relevance of detailed research on the outlined issues. The purpose of writing this scientific article is to analyze the conceptual basis for stimulating the development of small business within certain UTCs. Their formation was the result of decentralization, as well as substantiation of differentiated approaches to eliminate disparities in business development while maintaining signs of autonomy of certain UTCs.

Keywords: Decentralization Reform, United Territorial Communities, Local Self-Government Bodies, Small Business, Social Cohesion Policy, Local Economic Development, State Strategy of Regional Development.

Resumen

Objeto del artículo: fundamentar mecanismos diferenciados de apoyo a las entidades de pequeña empresa dentro de las comunidades recién formadas en condiciones de descentralización con el fin de eliminar disparidades en el desarrollo empresarial. Métodos de investigación: En el trabajo académico se han utilizado métodos de comparación, método estadístico-analítico, modelado tabular y gráfico, análisis y generalización de datos. Se ha establecido que la descentralización provoca un cambio en el entorno empresarial, crea nuevas oportunidades (la posibilidad de una mayor influencia del sector privado en las actividades de las autoridades gubernamentales) y amenaza el uso efectivo del potencial productivo y financiero existente de las pequeñas empresas; afecta la dinámica de su desarrollo. Se ha revelado que el logro de un efecto socioeconómico positivo solo es posible equilibrando los intereses de los diferentes participantes en el proceso económico mediante la aplicación de enfoques diferenciados para el establecimiento de relaciones que surgen entre UTC individuales. En las condiciones de transformación de la estructura social es necesario actualizar las bases teóricas y metodológicas de la gestión de las pequeñas empresas, lo que contribuirá a la estructuración de las relaciones socioeconómicas y a la racionalización de la actividad económica tanto a nivel de las economías nacionales como a nivel europeo. La política europea de cohesión social y descentralización fiscal contribuye al aumento de los recursos financieros al nivel de los presupuestos de las UTC, intensifica la actividad innovadora de las pequeñas empresas y, como resultado, estimula el desarrollo de las pequeñas empresas. Los principios de apoyo a las pequeñas empresas en el contexto de la descentralización en la UE son los siguientes: concentración; planificación de programas; combinación racional; asociaciones; eficiencia. La descentralización cambia el entorno empresarial, crea nuevas oportunidades para el uso eficaz de la producción existente y el potencial financiero de las pequeñas empresas. Aún así, lograr un efecto socioeconómico positivo solo es posible equilibrando los intereses de los diferentes participantes en el proceso económico mediante la aplicación de enfoques diferenciados para establecer relaciones entre ciertas UTC. Así, estos aspectos confirman la necesidad y relevancia de una investigación detallada sobre los temas señalados. El propósito de escribir este artículo científico es analizar la base conceptual para estimular el desarrollo de la pequeña empresa dentro de ciertas UTC. Su formación fue el



resultado de la descentralización, así como la fundamentación de enfoques diferenciados para eliminar las disparidades en el desarrollo empresarial, manteniendo los signos de autonomía de ciertas UTC.

Palabras clave: Reforma Descentralizadora, Comunidades Territoriales Unidas, Órganos de Autonomía Local, Pequeña Empresa, Política de Cohesión Social, Desarrollo Económico Local, Estrategia Estatal de Desarrollo Regional.



Introduction

The modern economic environment, which is characterized by a high level of capital mobility and integration into the global economic system, requires updating support mechanisms to stimulate entrepreneurial activity. Carrying out the reform of decentralization and the formation of an extensive system of UTCs is a modern vector of transformation of the economic sphere, which aims to increase the efficiency of small enterprises at the local level and intensify the dynamics of their development. Thus, the principles of multifunctionality of small enterprises should remain a priority, which provides for impact on economic activity through the usage of methods which stimulate investment and innovation activity in communities.

Modern researchers have formed a variety of conceptual approaches to determining the feasibility and effectiveness of decentralization reform and its dynamics of development on small business entities. Still, their points of view differ because they do not take into account the individual characteristics of socio-economic and economic capacity of certain entities and whole territorial communities.

All modern scholars has their own interpretation of support mechanisms towards small business in UTCs, but some of them emphasize the importance of financial and economic stability of the territorial unit, while others focus on the priority of socio-demographic component of UTCs development as a driving factor in stimulating small businesses and entities.

Accordingly, the financial and economic stability of the region is formed under the influence of two aspects: the level of investment in small business development, which is a stimulus, and the level of corruption in the socio-economic sphere, which is a factor discouraging small businesses. The issue of the level of financial security and the proportionality of the distribution of investment resources between small enterprises was studied by Andrljic, Sostar and Bodegrajac (2018).

The researchers in their work analyzed the European experience of economic support. Here it is about investment in business development at the local level. They have concluded that in future the basis for financing economic processes in the context of decentralization reform and creating a system of separate UTCs will be EU funds (Andrljic, Sostar & Bodegrajac, 2018).

So, the effective usage of financial funds stimulates regional development and opens additional opportunities for business projects, which, on the one hand, have a positive impact on the development of small business at the local level and, on the other hand, on the quality of life of a certain territorial unit (Šostar, Devčić & Hak, 2016). Thus, fiscal decentralization opens new opportunities for socio-economic development and maintains a high level of financial stability of UTCs.

Achieving a positive effect is due to the correlation between decentralization and income inequality. Bojanic and Collins (2019) argue that the increasing of territorial division has a disproportionate effect on reducing the differentiation of individual income and income of businesses. It is undoubtedly a positive effect in social cohesion and globalization of the economic sphere (Bojanic & Collins, 2019). In addition, the formation of an extensive UTCs system has a disincentive effect on the corruption of regional authorities and entrepreneurship, in particular (Fiorino, Galli & Padovan, 2015), as the fight against corruption is more effective in conditions of profound decentralization.

Contrary to the outlined views are the studies of scientists on the impact of socio-demographic development of regions in the context of stimulating small business. Rationalization of economic processes, as well as the adjustment of small business in a plurality of ethnic groups in the structure of the European Economic Community requires certain autonomy of individual territorial units.

Excessive diversity of humanity (Vertovec, 2019) causes the necessity to preserve the production and economic traditions of UTCs. The differentiation of approaches to the use of resource potential is a prerequisite for high efficiency of economic activity at the regional level. Accordingly, decentralization is the main tool for maintaining the socio-economic and demographic stability of UTCs.

So, this article is created to balance the views of modern scholars on the feasibility of using financial (fiscal), political, socio-economic and demographic tools to support small business at the UTCs level.

Purpose of the article: to substantiate differentiated mechanisms of support of small business entities within the newly formed communities under the conditions of decentralization in order to eliminate disparities in business development.



The practical use of the research results is important for intensifying the dynamics of small business development and improving the regulatory mechanism, the impact of which should be aimed at supporting small business entities under the conditions of implementation of decentralization reform.

The modern paradigm of the European economic environment is based on the idea of stimulating the development of small business at the level of individual territorial units. European regional policy in the future should be aimed at practical application of multi-component approaches to economic activity, taking into account strategic goals and differences in local development.

Literature review

A profound analysis of the issue outlined in the scientific article allows us to make the next conclusion. The topic of intensifying the development of small business in the implementation of fiscal and administrative decentralization reform in different countries of the European continent is very important. Moreover, the features of production management of small businesses in the process of formation of UTCs are sufficiently studied by modern scientists.

Mechanisms for investing in the development of small businesses at the regional level and UTCs levels have been outlined by numerous modern researchers. In particular, the main source of financial resources to support small business is recognized as lending mechanisms. However, Andrić, Sostar and Bodegrajac (2018) argue that the financial basis for stimulating small businesses in EU countries are such funds as the European Social Fund, the European Regional Development Fund, the European Cohesion Fund, the European Agricultural Fund of rural development and the European Maritime and Fisheries Fund.

In the context of the implementation of the European Development Strategy - 2020 (Strategy "Europe - 2020"), the funds should be directed to the modernization of existing technologies of small enterprises and increase the level of innovation of production and economic processes at the level of UTCs. The Europe-2020 strategy aims to systematize the processes of redistribution of investment resources between regions and increase the level of financial support for small businesses. According to Šostar, Andrić and Popov (2019), the structure of transformation processes includes three interdependent priorities of regional development:

- smart growth - development of small enterprises in UTCs on the basis of innovation and high manufacturability of economic processes;
- sustainable growth - support effective usage of resource potential in the regions on the basis of the principle of ecological activity of economic activity of small enterprises;
- inclusive growth - increasing the level of employment of the population in the regions through the creation of an inclusive management system of small enterprises, that is built on the principles of social and territorial cohesion (Šostar, Andrić & Popov, 2019).

In addition, modern scientists and European analysts (Bešlić, Bukovac & Copic, 2014; European Commission, 2013) put the focus on the priority of agro-industrial regional development and improving the tools that can stimulate small businesses in the sector.

Substantiation of the necessity for fiscal decentralization and its importance in the process of small business development in UTCs was analyzed by Kaiser (2006). The scientist argues that the content and mechanism of fiscal decentralization in different countries is individual and depends on the tasks set by the government in terms of stimulating small business, reforming decentralization and forming the structure of UTCs.

The discussion around the issue of the dependence of fiscal decentralization and the efficiency of public administration is relevant in the modern economic literature. The creation of the UTCs involves the distribution of management powers between state and local regulators. The financial flows of territorial associations are adjusted mainly by local authorities, which reduce the influence of national authorities.

So, fiscal decentralization contributes to the convergence of regions through the equalization of their socio-economic development and the creation of similar conditions for economic activity of small enterprises. Still, decentralization causes unsatisfactory levels of public administration in the countries with low levels of government (Kyriacou, Muinelo-Gallo & Roca-Sagalés, 2015).

Thus, modern researchers are convinced that the usage of fiscal decentralization approaches that are not adapted to national economic conditions can lead not only positive but also negative consequences, particularly, to reduce the level of stability of the manufacturing sector nationwide. Other shortcomings of fiscal / financial decentralization were identified among the hypotheses of scientists:



– first of all, an increase in the share of the shadow sector in UTCs. Empirical studies of foreign economists show that decentralization reform is becoming a driving factor in stimulating illegal economic activity in developing countries. Characteristically that the opposite effect is observed in highly developed countries (Janský & Palanský, 2016);

– secondly, fiscal decentralization has a differentiated impact on stimulating small business according to the level of development of the region: economically viable and developed UTCs in decentralization have more opportunities to counter capital outflows (human, financial, etc.), which reduces the competitiveness of less well-off UTCs and increases the inequality of socio-economic development of small business in different regions (Rodríguez-Pose & Ezcurra, 2010). Taking into account the outlined aspects, some researchers are conducting current research in terms of highly developed and developing countries, as fiscal decentralization is characterized by different strengths of influence on stimulating small business in terms of differentiation of socio-economic development of national economies (Lessmann, 2012).

The analyzed scientific works are devoted to solving current problems of supporting small business in the context of global fiscal and administrative decentralization of certain economies of the European continent. However, the research of these scientists does not sufficiently take into account the influence of various methods of economic management, as well as the features of the system-integration approach to regulating the development of small enterprises in the formation of UTCs.

Statistical and analytical information concerning the dynamics of small business development in the UTCs system, the peculiarities of practical application of differentiated methods of decentralization policy, as well as current trends in the transformation of the European industrial and economic environment are summarized in European Commission and The World Bank.

The aim of the study

The present academic paper is a substantiation of differentiated mechanisms of support for small business entities in the framework of newly formed communities in the context of decentralization.

Methods and Materials

Statistical and analytical method, comparison, analysis and generalization, as well as tabular and graphical modeling were used to achieve this goal during the writing of the article.

Comparison and generalization methods were used to identify separate methods for stimulating small business in UTCs. We used these methods in order to generalize the obtained data and to compare modern regulatory practices of business in the context of financial / fiscal decentralization reform which are carried out by different European countries.

The usage of the outlined methods made it possible to distinguish various aspects of small business development at the local level, identify the characteristics of financial / fiscal decentralization in the current conditions of transformation of the global economic space and generalize the principles of economic management at the UTCs level.

The conceptual bases of using different tools to influence the sphere of small business in UTCs depending on the level of their regulatory potential were outlined due to the detailed analysis: stimulation or restraint of economic activity of small enterprises.

The statistical and analytical method was used in the process of analyzing the dynamics of development of small enterprises within certain UTCs. Modern integrated approaches to statistical analysis were used in order to determine the key factors in increasing the level of entrepreneurial activity at the local level. They confirmed that there is a direct link between the level of overall decentralization and public administration: increasing UTCs autonomy reduces development of socio-economic and political spheres of activity of territorial associations, in particular small business.

So, as a result of comparing the correlation between decentralization indicators and indicators of public administration efficiency, it was concluded that the transformation of the social system through the creation of territorial communities reduces the level of influence of public authorities on the business environment. The general dynamics has the following features: decentralization reform provides a moderate incentive for small businesses in the UTCs, but hinders active development through the preservation of state restrictions in the field of entrepreneurship.

At the same time, the dynamics of the share of small business in the UTCs structure of individual European countries, the coefficients of fiscal



autonomy, fiscal responsibility and the composite index of fiscal decentralization were analyzed due to the usage of tabular and graphical modeling. In addition, a study of quantitative indicators of UNC formation in Ukraine and the consequences for the development of the domestic sphere of small business was conducted as a result of intensified decentralization processes.

Results

The development of small business entities under the conditions of decentralized environment is determined by both advantages and disadvantages.

The strategic direction of management work of local authorities in the context of creating a high-tech and innovative business environment for the development of small business is the transformation of traditional approaches to regulating the socio-economic sphere of the country. Intensification of fiscal and administrative decentralization processes, as well as the creation of an extensive system of UTCs in the context of European integration aims to restructure the sustainable structure of the small business sector by improving the efficiency of socio-economic potential of the regions.

At the same time, the main methods of influence on economic processes are tactical planning and

implementation of operational regulatory measures. They meet the needs of local businesses and various segments of society, including at the lowest level (Iqbal, Din & Ghani, 2012). The positive consequences of the formation of UTCs and decentralization for the development of small business entities are as follows:

- first, the private sector is involved in partnerships with decentralized state institutions, which serves as a guarantee of political and socio-economic stability at the national and local levels;
- secondly, the internal management structure of UTCs is built on the principle of social justice and balancing the interests of participants in economic processes, which reduces the level of distrust of small businesses in government and stimulates innovative initiative of both small businesses and society as a whole.

The European approach to the implementation of decentralization reform involves the usage of mechanisms of social and territorial cohesion. Its regulatory impact depends on the level of compliance with the basic principles of cooperation within the European economic space. The following principles include the following (Fig. 1):

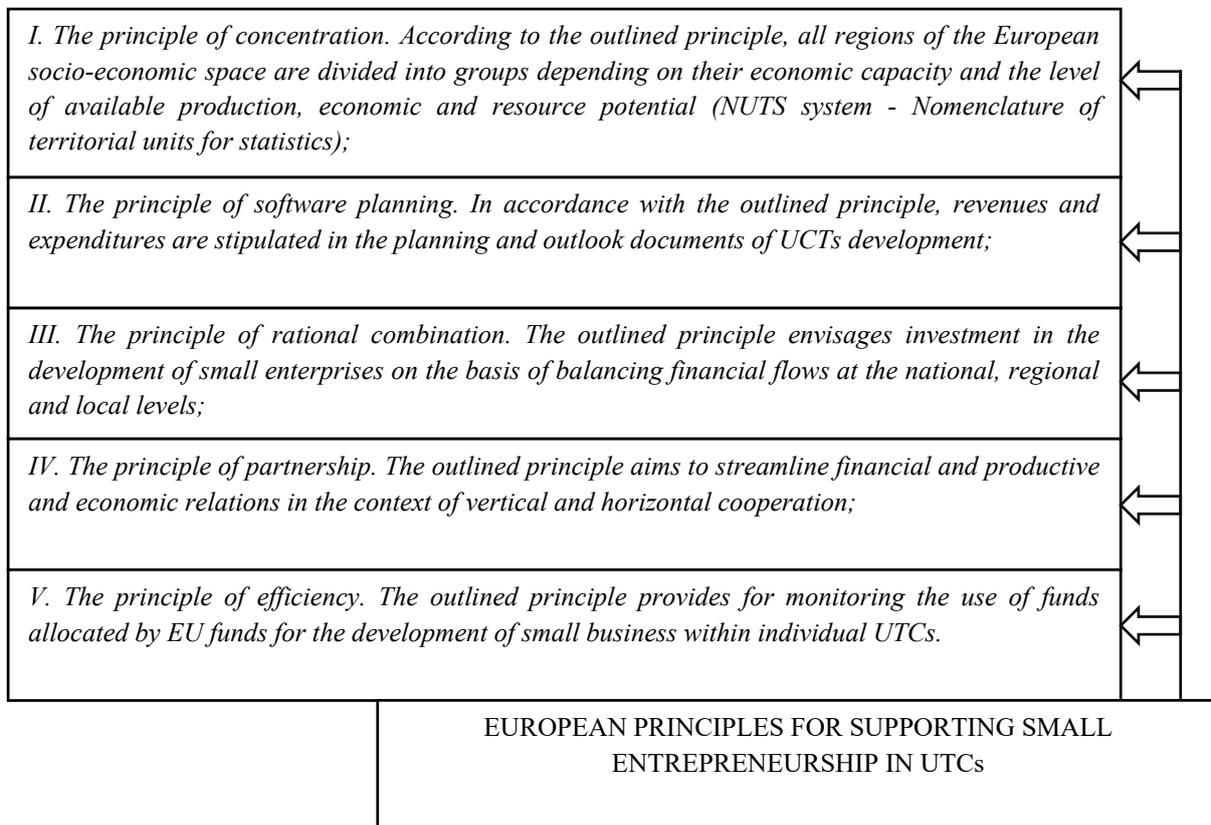


Figure 1. Principles of stimulating small business in UTCs in the framework of regional policy of EU member states



Source: compiled by the author according to the data (Kersan-Škabić, 2015).

The key reason for adhering to the principle of concentration is to determine the prospects for the development of small enterprises within different UTCs and to adapt differentiated methods of influencing the economic sector in accordance with the potential needs and real capabilities of UTCs.

The principle of planning is a driving factor in streamlining production and economic activities, as the small business sector develops a development strategy depending on the financial resources provided in the current and strategic plans to stimulate economic activity.

The principle of rational combination is an important tool for streamlining financial and tax relations between small enterprises of different UCTs and streamlining redistribution processes between local and national budgets. The outlined principle is especially relevant in the conditions of active fiscal decentralization and restructuring of UTCs financial systems.

The principle of partnership is a tool for establishing mainly industrial and economic relations between different actors in the field of small business:

- in the context of horizontal cooperation, the outlined principle ensures the establishment of fruitful interaction between small enterprises within one territorial unit;
- in the context of vertical cooperation, the outlined principle is a tool for regulating economic relations between a national or pan-European (in particular, the European Commission) regulator and the local business sector.

The principle of efficiency combines control and monitoring of the distribution of funds, as well as their usage on the ground. Insufficient level of

financial resources and their managing are the reason of changing the tactics of regional policy and policy of stimulation of small business.

Therefore, the support mechanisms of small business in the formation of UTCs directly depend on the vector of national or European policy to stimulate business. The lack of an effective strategy for managing production and economic processes reduces the effectiveness of regulatory measures at the local level. Structuring and distribution of powers between different levels of regulators (including local, national and supranational) helps to expand opportunities for small businesses in UTCs by integrating their financial, labor and production potential, balancing management decisions of local, regional, national and intergovernmental levels.

The outlined aspects have a positive impact on the dynamics of development and the social-economic capacity of small enterprises in the UTCs, as well as on the civil society of the community, whose initiative increases in the implementation of local development strategies and social cohesion.

As a result of the implementation of the decentralization reform and the formation of the UTCs system, the pan-European economic space has undergone a transformation. The renewal of mechanisms to support the development of small entrepreneurship contributes to the restructuring of national and local economic environments. However, the criteria for the division of economic entities into micro, small, medium and large enterprises have remained unchanged; they include requirements for the number of employees, turnover or overall balance of activities. Accordingly, small business entities should meet the following criteria (Table 1):

Table 1. Criteria for medium, small and micro enterprises in EU countries

ENTERPRISE CATEGORY	PERSONS EMPLOYED (persons)	TURNOVER (million euros)	BALANCE SHEET TOTAL (million euros)
Medium	< 250	≤ € 50	≤ € 43
Small	< 50	≤ € 10	≤ € 10
Micro	< 10	≤ € 2	≤ € 2

Source: it has been compiled by the author according to data Eurostat (2020)

The dynamics of the number of small business entities in the overall structure of the business sector in some EU countries is reflected in Table 2.

Table 2. Dynamics of small business development in the structure of the economic sector of some EU countries (2017-2018)



Country	2017				2018			
	Enterprises (number)		Turnover (m €)		Enterprises (number)		Turnover (m €)	
	Total	< 250 persons employed	Total	< 250 persons employed	Total	< 250 persons employed	Total	< 250 persons employed
Poland	1 744 285	1 740 821 (99,8%)	1 022 069	565 593 (55,3%)	1 960 361	1 956 997 (99,8%)	1 124 830	631 305 (56,1%)
Czech Republic	1 019 773	1 018 154 (99,85%)	495 994	274 383 (55,3%)	1 043 330	1 041 676 (99,8%)	541 086	295 845 (54,7%)
Germany	2 504 371	2 492 232 (99,5%)	6 573 160	3 183 933 (48,4%)	-	-	-	-
Croatia	149 324	148 908 (99,7%)	87 299	54 329 (62,2%)	153 359	152 930 (99,7%)	93 811	58 849 (62,7%)
UK	2 144 122	2 137 803 (99,7%)	4 057 888	1 875 066 (46,2%)	-	-	-	-
Belgium	631 819	630 859 (99,8%)	1 071 013	684 934 (63,9%)	635 576	634 589 (99,8%)	1 098 769	685 640 (62,4%)
France	2 783 993	2 779 934 (99,85%)	3 731 344	-	2 860 378	2 856 487 (99,7%)	3 830 389	1 583 343 (41,3%)

Source: it has been compiled by the author according to data Eurostat (2020)

In the process of implementing the decentralization reform, the EU countries use various tools to stimulate the development of small business; the most effective mechanisms for supporting small

business entities are typical for Poland, France and Germany, the detailed characteristics of which are reflected in Table 3:

Table 3. Vectors of decentralization policy of certain European countries, the development of small business in UTCs is based on them

COUNTRY	TOOLS OF DECENTRALIZATION POLICY AFFECTING THE DEVELOPMENT OF SMALL BUSINESS IN UTCs
POLAND	<ol style="list-style-type: none"> 1. stimulating the innovation of small businesses; 2. implementation within the UTCs policy of the system of education and training for small business; 3. application of the principles of economic deregulation and minimization of bureaucratic procedures; 4. promotion of export activities of small enterprises; 5. high level of education for entrepreneurs; 6. capital investment by re-emigrants in the development of small business in UTCs. <p>Strategic methods used by local authorities to develop small business: special economic zones; industrial and technological parks; business incubators; loan and guarantee funds; encouraging and supporting local initiatives.</p>
FRANCE	<ol style="list-style-type: none"> 1. stimulating innovation, assistance in the transfer of new and high technologies to increase the export potential of the small business sector; 2. active implementation in practice and stimulating the development of information technology and e-business. <p>The most characteristic features of small business development within the French UTCs are a high level of competition and active struggle for markets, which leads to the widespread introduction of innovations and the development of economic potential of small businesses at the local level.</p>
GERMANY	<ol style="list-style-type: none"> 1. intensification of the development of small business infrastructure and means of communication; 2. establishment of a mechanism to assist small businesses in addressing community unemployment; 3. empowering small businesses in the field of services; 4. improving the conditions for founding new small businesses and expanding opportunities for business start-ups at the level of the local community; 5. strengthening the technological capabilities of small and medium business.

Source: it has been compiled by the author according to the data Veremenko (2015)

Thus, the practice of implementing decentralization reform and creating an extensive UTCs system is

quite effective and has a positive impact on the globalized socio-economic environment, in



particular the European sphere of small business. A positive social and economic effect has been achieved as a result of the application of effective tools for the distribution of managerial powers between local, national and European authorities. It is about managing of small enterprises and optimization of their condition, the organization of production processes and updating the whole technologies and increase of the general level of

efficiency of their activity. So, the outlined measures are an important step towards ensuring the economic growth of EU countries and stimulating small business in the medium and long term.

Indicators that characterize the level of fiscal decentralization of individual countries are reflected in Table 4 and Figure 2.

Table 4. Indicators of fiscal autonomy and fiscal responsibility of individual countries, 2018

Country	Indicators	
	Fiscal autonomy (FA)	Fiscal responsibility (FR)
Poland	0,618	0,411
Czech Republic	0,620	0,271
Germany	0,687	0,274
Croatia	0,860	0,152
UK	0,318	0,251
Belgium	0,451	0,380
France	0,724	0,202
Ukraine	0,448	0,432

Source: it has been compiled by the author according to the OECD (2019)

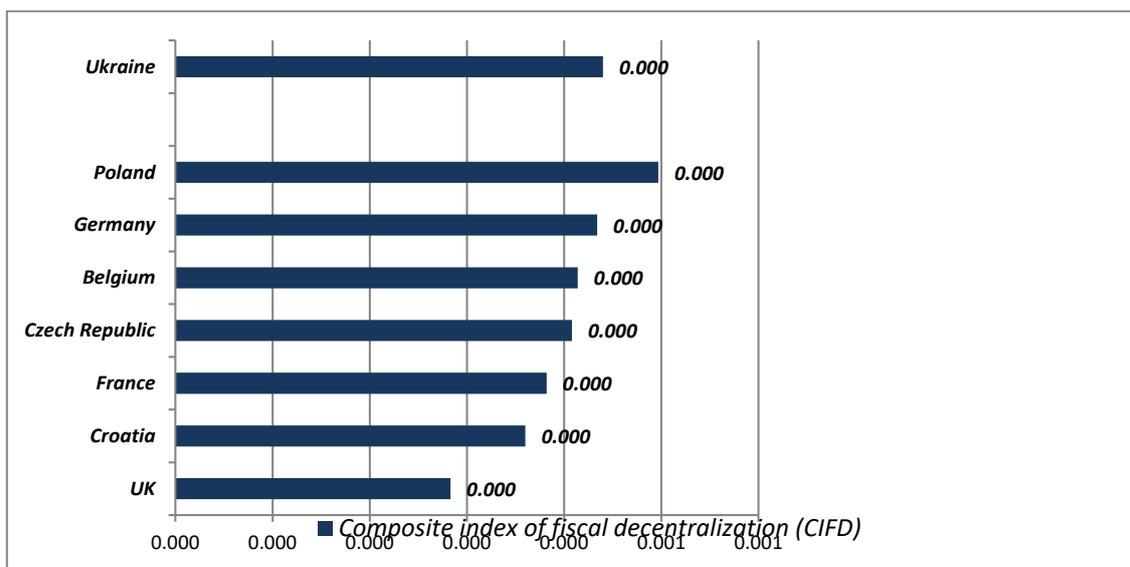


Figure 2. Composite index of fiscal decentralization of individual countries, 2018

Source: compiled by the author according to the data OECD (2019)

According to the outlined level of fiscal autonomy and fiscal responsibility, the level of fiscal / financial decentralization of the country is formed, the quantitative measurement of which is carried out by calculating the composite index of fiscal decentralization (Figure 2).

The data in Figure 2 show that the overall level of fiscal decentralization in individual EU countries has reached different values. As of 2018, the indicator in Poland was characterized by the highest level, which was 49,7%. The United Kingdom was characterized by the lowest value among the

studied countries, where the level of fiscal decentralization was 28,3%. Fiscal decentralization in Ukraine in 2018 amounted 44,0%, however, the reform of decentralization and the formation of UTCs has been still taking place. Thus, the further dynamics of the indicator directly depends on the level of distribution of financial powers: the expansion of economic independence of local authorities, in particular in the field of UTCs budgets stimulates the upward dynamics of the composite index of fiscal decentralization.



The influence of the state regulatory function weakens under the pressure of decentralization, which causes a decrease in the efficiency of interaction between national executive bodies and the sphere of small business. A common approach to measuring the effectiveness and quality of public administration is the system of global governance indicators (The Worldwide Governance Indicators - WGI) (The World Bank, 2020).

This technique allows us to analyze the level of regulatory influence of higher authorities on the sphere of industrial and economic relations, in particular on small business. WGI consists of a set

of indicators of a wide range of business management:

1. the right to vote and accountability;
2. political stability and absence of violence;
3. government efficiency;
4. quality of legislation;
5. the rule of law;
6. control of corruption.

The importance of the outlined national vectors of small business management decreases under the conditions of UTCs functioning. The studied countries and their dynamics of indicators are shown in Table 5.

Table 5. Dynamics of indicators of public administration in the field of small business in the formation of the UTCs system

Country	Voice and Accountability		Political Stability and Absence of Violence		Government Effectiveness		Regulatory Quality		Rule of Law		Control of Corruption	
	2008	2018	2008	2018	2008	2018	2008	2018	2008	2018	2008	2018
Poland	69,2	71,9	77,8	65,7	67,5	75,0	75,3	78,4	66,8	66,8	69,9	74,5
Czech Republic	81,7	78,3	85,6	87,1	79,6	78,3	85,0	87,0	80,7	81,7	67,0	69,2
Germany	93,8	95,0	79,8	66,7	89,4	93,0	92,9	94,7	94,3	91,3	93,2	95,2
Croatia	60,6	64,5	66,4	73,8	71,4	69,2	66,1	68,2	58,2	62,9	58,3	60,1
UK	92,3	93,6	61,1	48,1	93,2	88,0	97,6	96,2	93,3	91,8	92,3	93,3
Belgium	92,8	94,0	67,8	59,5	87,8	83,6	91,3	86,1	89,4	88,3	90,6	90,1
France	91,4	88,2	64,9	51,9	91,7	91,8	89,4	83,6	90,9	88,9	91,3	87,9
Ukraine	50,5	44,8	45,7	6,2	27,2	38,5	33,0	44,2	27,4	24,0	19,9	18,2

Source: compiled by the author according to the data The World Bank (2020)

Data from the Table 5 confirm the hypothesis of the existence of an inversely proportional relationship between decentralization processes and the effectiveness of state regulatory influence on the business sector, in particular on small business. The general dynamics of indices is stable, which indicates the absence of highly effective methods of state regulation of small business.

During 2008-2018 the decline in the level of influence of public authorities in the context of the analysis of various vectors of influence on the

economic sector is observed in the countries such as France, Belgium, Great Britain and some other countries in terms of individual indicators. The transformation of the state system is a very relevant means of redistribution of management functions in the context of the analysis, which will help to intensify small business at the local level.

The level of coherence between fiscal decentralization indicators and public administration indices is shown in Figure 3.

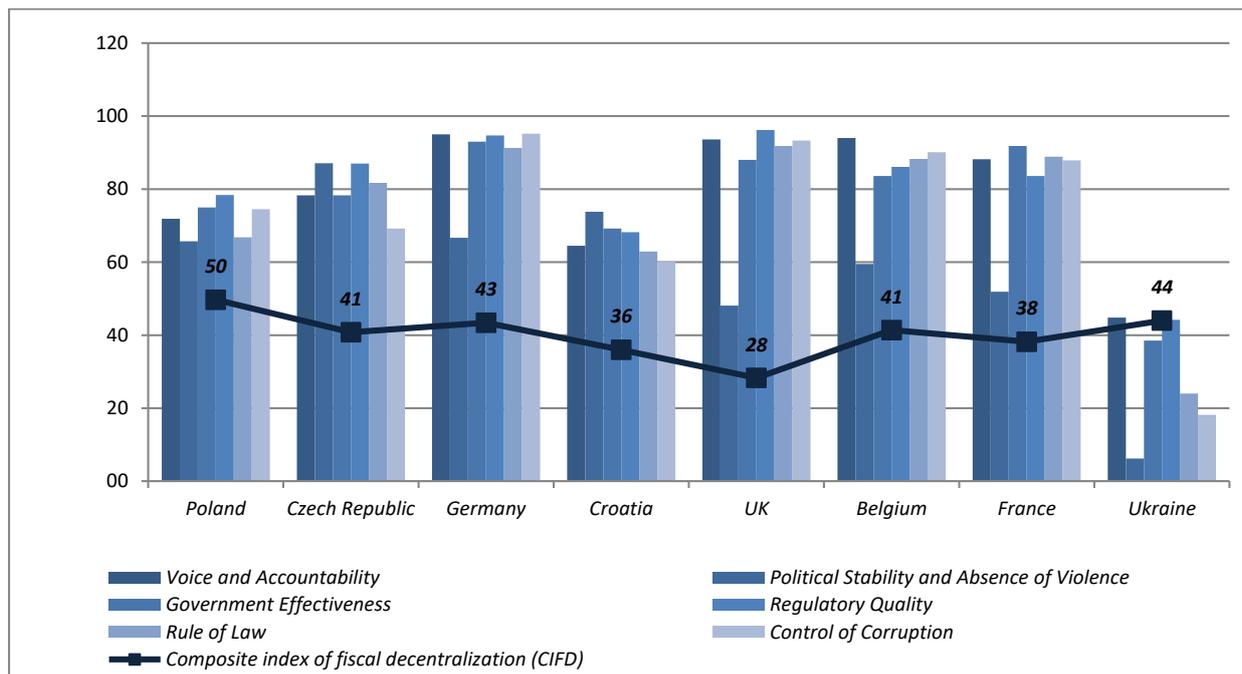


Figure 3. The ratio of the composite index of fiscal decentralization and WGI indices, 2018

Source: compiled by the author according to the data The World Bank (2020)

Thus, further research on the issues discussed in the academic paper should be aimed at developing multifunctional approaches to managing the development of small business in UTCs using current methods of balancing local and national regulatory measures. We consider that the general trend of increasing the level of fiscal decentralization is a positive prerequisite for expanding investment opportunities in local small entrepreneurship. As a natural result, in the process of deepening decentralization and expanding UTCs powers, the importance of financial assistance for small business development from the state budget decreases, as the structure of public regulatory and administrative functions changes, which have been transformed from delegated powers into UTCs own powers.

Discussion

The strategic direction of managerial work of local authorities in the context of creating a high-tech and innovative business environment for the development of small entrepreneurship is the transformation of traditional approaches to regulating the social-economic sphere of the country. Intensification of fiscal and administrative decentralization processes, as well as the creation of an extensive system of UTCs in the context of European integration aims to restructure the sustainable structure of the small business sector by improving the efficiency of social-economic potential of the regions. Herewith, the basic levers

of influence on economic processes are tactical planning and implementation of operational regulatory measures in order to meet the needs of local businesses and various segments of the society, including at the grassroots level (Iqbal, Din & Ghani, 2012).

The issue of the level of financial security and the proportionality of the distribution of investment resources between small enterprises was studied by Andrljic, Šostar and Bodegrajac (2018). In their work, the researchers analyzed the European experience of supporting the business sector, namely the state of investment in business development at the local level. They have come to conclusion that in the future EU funds should be the basis for financing economic processes in the context of the implementation of decentralization reform and the creation of a system of separate UTCs (Andrljic, Šostar & Bodegrajac, 2018). Accordingly, the effective use of financial funds stimulates regional development and opens additional opportunities for business projects, which, on the one hand, have a positive impact on the development of small business at the local level and, on the other, they influence on the quality of life of a separate territorial unit (Šostar, Devčić & Hak, 2016). Thus, fiscal decentralization opens new opportunities for social-economic development and maintains a high level of financial stability of UTCs. Achievement of a positive effect is connected with presence of the relationship between the state of decentralization and income inequality: Bojanic and Collins (2019) argue that



the deepening of territorial division has a disproportionate effect on reducing the differentiation of incomes and profits of business entities, which is undoubtedly a positive effect in terms of social cohesion and globalization of the economy (Bojanic & Collins, 2019). In addition, the formation of an extensive UTCs system has a disincentive effect on the corruption of regional authorities and entrepreneurship, in particular (Fiorino, Galli & Padovano, 2015), forasmuch as combating corruption is more effective under the conditions of deep decentralization.

In contrast to the outlined views, there are the studies of scientists on the impact of social-demographic status of regional development in the context of stimulating small entrepreneurship. Rationalization of economic processes, as well as the adjustment of small entrepreneurship within the conditions of plurality of ethnic groups in the structure of the European Economic Community requires certain autonomy of individual territorial units. Excessive diversity of population (Vertovec, 2017) causes the need to preserve the production and economic traditions of UTCs. Consideration of the differentiation of approaches to the use of resource potential is a prerequisite for high efficiency of economic activity at the regional level. Accordingly, decentralization is the main tool for maintaining the social-economic and demographic stability of UTCs.

As a result of the study, it was determined that the European practice of small business development in UTCs covers a wide variety of traditional, as well as transformed under the influence of globalization tools which stimulate the work of small businesses. The main purpose of applying an extensive system of measures to regulate small business in UTCs is to create inclusive conditions for the development of production and economic activity. This is done by redistributing the available resource, financial and production capacity between individual administrative and territorial units and the determining factor in the effectiveness of such

distribution is the mutually agreed usage of fiscal decentralization tools and incentives provided by the state system of economic sector management.

Further updating of the model of small business development in UTCs can become the main tool for stimulating economic activity at the local level.

In our opinion, the basic factors supporting small entrepreneurship at the level of individual OTGs may be as follows:

- proportionality of distribution of investment resources within separate UTCs that acts as the factor of stimulation of small business. The study has confirmed that a rational combination of financial / fiscal instruments of the regional development strategy has a positive effect on the economic conditions of small businesses;
- reduction of corruption in the field of entrepreneurship, which has a simplified mechanism in the context of decentralization. Accordingly, the implementation of the policy of restructuring the territorial-administrative system and the creation of the UTCs network is a factor in discouraging optimization and corruption schemes in the field of small entrepreneurship;
- preservation of the individuality of the population of individual UTCs. In our opinion, the modern phenomenon of excessive diversity of society necessitates the observance of ethnic traditions and cultural views of certain territorial communities, which is an important condition for reducing interethnic contradictions and conflicts.

Creating favorable conditions for interpersonal interaction is a factor in stimulating small business and forms an environment for increasing the entrepreneurial initiative of the population of different UTCs.

According to the aspects and views of modern scientists outlined in the work, the practical mechanism of stimulating small business within the UTCs will have the following structure (Figure 5).

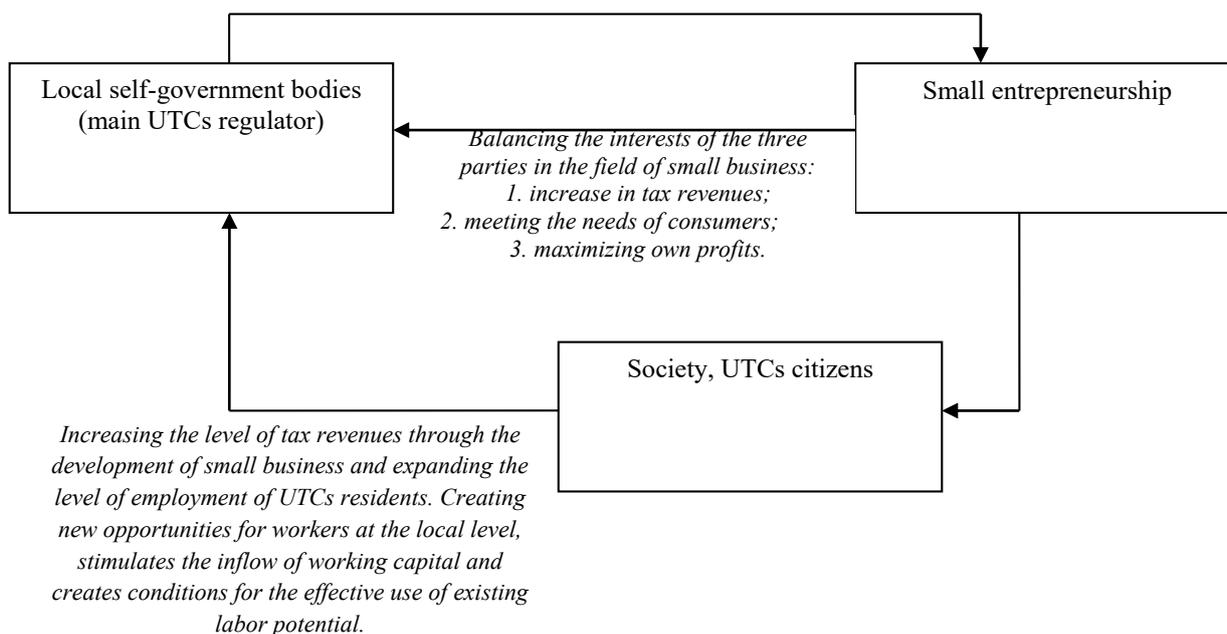


Figure 5. UTCs management model on the way to stimulating the development of small business
Source: compiled by the author

Thus, we consider it expedient to orient further research in the direction of improving the existing model of small business entities support in UTCs.

Conclusion

According to the research results, it has been established that the advantages of decentralization in the development of UTCs can be as follows: increasing the closeness of cooperation between private enterprises and authorities, the ability of small enterprises to influence policy formation; balancing the interests of participants in economic processes at the meso level. It has been established that there is an inversely proportional relationship between the processes of decentralization and the effectiveness of state regulatory influence on the sphere of entrepreneurship. The importance of financial assistance for the development of small entrepreneurship from the state budget in the process of deepening decentralization is declining, forasmuch as regulatory and managerial functions have been transformed into UTCs own powers.

The most effective mechanisms for supporting small businesses are observed in Poland, France and Germany. In countries with a low level of government organization, decentralization negatively affects the effectiveness of public administration. The principles of supporting small enterprises within the conditions of decentralization in EU are as follows: concentration; program planning; rational combination; partnerships; efficiency.

Therefore, the application of decentralization mechanisms should be adapted to the conditions of each specific state.

In the context of decentralization policy, it is necessary to apply effective policy tools. A positive social and economic effect has been achieved, in particular, the optimization of the conditions of management of small enterprises, updating the technology of organization of production processes and increasing the overall level of efficiency of their activities.

For the development of small enterprises, carrying out their activities at the level of territorial communities, management and development mechanisms should be aimed at streamlining the separation of state and local regulatory functions, improving the mechanisms of investment in the small business sector by balancing the financial resources of local, state or European funds, streamlining the tools of decentralization reform in accordance with the resource potential of the country and the capacity of the national social-economic sphere.

Methods of stimulating small business directly affect the formation of vectors of policy of administrative and territorial restructuring: further implementation of the strategy of regional and local development should be aimed at eliminating disparities in production and economic spheres of individual UTCs, which will be an important aspect in combating both economic and demographic problems.



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