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The World Economy Department

FINAL QUALIFYING PAPER (PROJECT)

on the topic:

**“INTERNATIONAL ECONOMIC ACTIVITY OF UKRAINIAN SMALL AND
MEDIUM-SIZED ENTERPRISES”**

(on the basis of Karbosnab LLC)

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LIST OF ABBREVIATIONS

CEA – Classifier of Economic Activities

COATOU – Classifier of Objects of Administrative-Territorial Organization of Ukraine

COLFM – Classifier of Organizational and Legal Forms of Management

EC – European Commission

ECI – Economic Complexity Index

EU – European Union

GDP – Gross Domestic Product

IMF – Institut für Mittelstandsforschung / Institute for SME research

LLC – Limited Liability Company

NATO – North Atlantic Treaty Organization

OAD – Operational Environmental Dimension

OECD – Organisation for Economic Co-operation and Development

SCMD – State Classifier of Management Documentation

SME – Small and Medium-sized Enterprise

UAH – Ukrainian Hryvnia

The USA/US – The United States of America

USD – United States Dollar

USREOU – Unified State Register of Enterprises and Organizations of Ukraine

INTRODUCTION

Small and medium-sized enterprises (hereafter SMEs) are considered to be extremely dynamic as they can respond quickly to market needs and they can be a lever in the economic growth of a certain country. At the same time, the development of small and medium business is strongly influenced by the general business climate in a particular country.

The relevance of the final qualifying work (project) lies in the study of urgent problems of the economic and international economic activities of enterprises and reflects the increasing importance of SMEs' engagement.

The development of the topic is supported with continuous studies by Ukrainian and foreign scholars and practitioners. A very detailed groundwork has therefore been built on the above-mentioned subject, in particular through the following studies of Ukrainian researchers: Machusky V., Sabadash V., Stauvermann P., Peleshchenko R., Vyshlinsky H., Koriakin I., Kirchner R.; and foreign researchers: Abel-Koch J., Brunswicker S., Vanhaverbeke W., Dabić M., Maley J., Feenstra R., Haddad M., Williams I.A., Hillary R., Pahnke A., Welter F., Storey D. J., Zhou B. and others.

The purpose of the study is related to the research of the factors and conditions of entry of Ukrainian SMEs into the international market. SMEs occupy an important component of the country's economy and need to be developed as they are more flexible and less vulnerable to crises and are able to absorb external negative shocks. Besides, for the developing countries, including Ukraine, this topic is particularly important in the context of structural adjustment and the impact of external factors.

The task of the study is to:

- determine the role of SMEs in the economic system
- determine the role of small and medium-sized enterprises for the Ukrainian economy;
- provide an analysis of the economic, financial and foreign economic activity of Karbosnab LLC;

- research the external environment of Karbosnab LLC;
- develop prior tasks for strengthening the positions of Karbosnab LLC;
- forecast the effectiveness of suggested improvements for Karbosnab LLC.

The object of the final qualification work (project) is the process of functioning of SMEs, including and namely focused on Karbosnab LLC in the environment of international economic activity.

The subject of the study is a combination of theoretical and methodological principles of functioning of SMEs in the study of international economic activity within the paths of increasing internationalization processes, as well as options to enter foreign markets, external and internal market conditions, opportunities and obstacles.

In this paper, the following research methods were used: empirical (experiment, observation, description); theoretical (analysis, generalization, induction, deduction, explanation, classification); and systemic (construction of a static and complex methodology for conducting SMEs in international economic activity).

The scientific and practical novelty of the obtained results lies in the deepening of existing theoretical and methodological bases and development of practical approaches to improving the functioning of the object of study – i.e set of methods, approaches, procedures and criteria which has practical significance for Karbosnab LLC – the subject of the foreign economic activity.

The information on testing the results of the study is represented in the scientific article: “Theoretical basis of incentives and methods of international economic activity of small and medium-sized enterprises” in collection of scientific articles “World Economy”, KNUTE, Kyiv, 2020.

The final qualifying paper has the following structure: introduction; the main part (consists of three sections of two paragraphs and conclusions to them); conclusions and recommendations; references; and applications. The main part of the work has a volume of 46 pages (excluding the introduction, references and appendices).

PART 1

THE ECONOMIC ROLE OF SMALL AND MEDIUM-SIZED ENTERPRISES ON THE NATIONAL AND INTERNATIONAL LEVEL

1.1. Small and medium-sized enterprises in the economic system

A first SME Definition was introduced in 1996 according to *the European Commission Recommendation 96/280/ EC of 3 April 1996 concerning the definition of small and medium-sized enterprises*). The 2003 concept is more suitable for the various categories of small and medium-sized enterprises and takes better account of the different types of relationships between enterprises. It helps to promote creativity and promote collaborations, while ensuring that public schemes are aimed only at those companies that actually need support. Furthermore, the definition of 2003 is more relevant for the various groups of small and medium-sized companies and takes better account of the different forms of organizational relationships. It helps to encourage innovation and facilitate cooperation, while ensuring that only those businesses that genuinely need funding are targeted by public schemes (EC, 2016, p. 31). It was updated in 2003 on the *Eur-Lex* official webpage (2003) to reflect general economic trends and to overcome particular obstacles facing SMEs and the criterion of staff numbers was defined as a basic parameter for SMEs which represent more than 99% of all businesses in the EU (Storey, 2016, p. 7).

The SMEs' activity helps to introduce new techniques, new technologies, ensures the development of science in many fields, for instance, SMEs are the most influencing innovation facilitators (Brunswicker & Vanhaverbeke, 2015, p. 1243). The World Bank Development Research Group states that SMEs are based on entrepreneurial activity mainly of small firms that are not members of any association or interest group.

According to *the European Commission* (2016, p. 10), the main factors determining whether an enterprise is an SME are: staff headcount either turnover or balance sheet total what is also illustrated in the Table 1. In determining whether or not an enterprise is an SME, the enterprise's size (employees, turnover and balance sheet total) is not the only factor that

should be taken into account. In fact, an enterprise can be very small in these terms, but if it has access to significant additional resources (e.g. because it is owned by, linked to or partnered with a larger enterprise) it might not be eligible for SME status. For enterprises with a more complex structure, a case-by-case analysis may therefore be required to ensure that only those enterprises that fall within the idea of the SME recommendation are considered SMEs (Berisha & Pula, 2015, p. 18).

Table 1.1

Main factors determining whether an enterprise is an SME

<i>Company category</i>	<i>Staff headcount</i>	<i>Turnover</i>	<i>Or</i>	<i>Balance sheet total</i>
Medium-sized	< 250	≤ € 50 m		≤ € 43 m
Small	< 50	≤ € 10 m		≤ € 10 m
Micro	< 10	≤ € 2 m		≤ € 2 m

Source: European Commission (2016, p. 10)

Machusky (2018) stated that the criteria for defining small and medium-sized businesses in Ukraine and in the EU are not much different, and the main indicators, such as the turnover of an enterprise or the number of employees, coincide completely (p. 156).

According to the OECD (2020a), SMEs play an important role in job creation across countries at all stages of growth, recruiting about 60 to 70 % of jobs in most countries, and can be an important source of economic activity. SMEs tend to be underrepresented in foreign trade, considering their importance to our economies and today's society nevertheless. While larger corporations and multinationals are primarily the driving force behind Global Value Chains (henceforth – GVCs), there are a variety of forms in which smaller companies are also interested in GVCs and profit from them. For example, SMEs can take advantage of GVCs by specializing in specific segments of production, rather than having to master all processes required to produce finished goods. Feenstra argued that SMEs' international economic activity is a logical step forward and a consequence of the

benefits of free trade (2015, p. 353). Small and medium-sized businesses may often benefit from greater versatility than larger corporations, and also have the capacity to customize and separate items (Abel-Koch, 2016, pp. 1-2).

SMEs are seen in the global economic system, namely in developed countries, as a decisive factor in the dynamics of economic development. Almost all companies operating in European Area belong to the category of small and medium-sized enterprises (Pahnke & Welter, 2019, pp. 4-5). Only SMEs which are the driving force behind the economies of developed countries, can solve problems of economic development, especially in developing countries like Ukraine. Prospects for further economic development of developing country are closely linked to the level of its integration into international relations. Therefore, the national and global economy grows with the competitiveness of domestic enterprises in the domestic and foreign markets. As it was mentioned, estimates suggest that around 99% of enterprises across the whole globe are SMEs, and these contribute 60% of world labor and up to 40% of world GDP (Bell 2015, as mentioned by Dabić et al. 2020, p. 705). In 2018, there were approximately 25.1 million small and medium-sized enterprises (SMEs) in the European Union. 1.47 million were medium-sized firms and about a quarter of a million were large firms with 250 or more employees (Fig. 1.1).

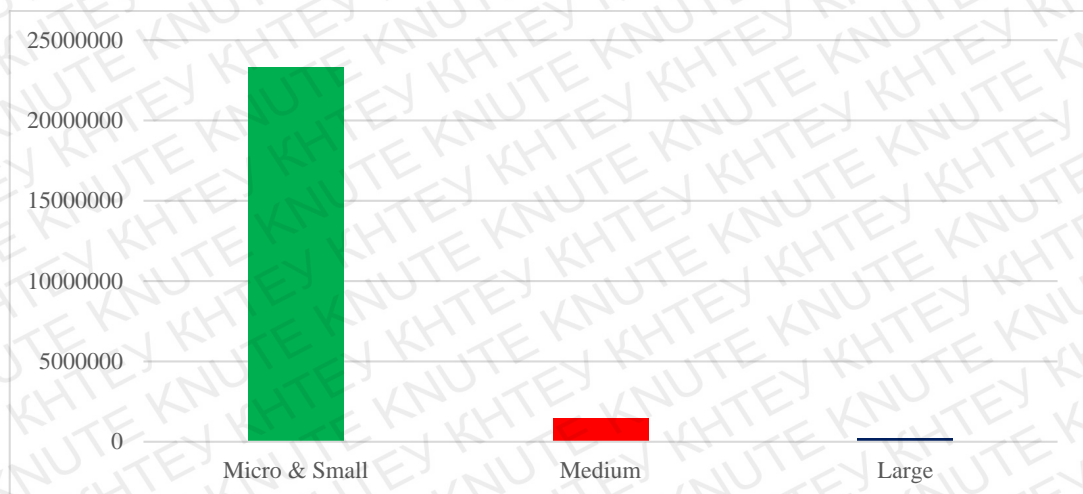


Fig. 1.1. Number of small and medium-sized enterprises (SMEs) the European Union in 2018 (in millions)

Source: Statista 2020a

Usually developing countries set developed countries as their benchmark. In this paragraph, four biggest world economies – i.e. the US, China, Japan and Germany and their SME sector will be briefly presented. To begin with, Germany can be an example of how to treat SME, since this country is the strongest and richest country in the EU, where Ukraine seeks to join. It is also one of Ukraine's major trading partners in both exports and imports according to the *Ministry for Development of Economy Trade and Agriculture of Ukraine* (2020) and perhaps the most concentrated on small and medium business country in the EU. Thus, the Institute for SME research will be considered – i.e. the German Institution which task is to research the situation, development and problems of small and medium-sized companies, to make the research results available to the public and to contribute with its work to the fulfillment of the tasks of the departments of its founders. According to their 2017 research, 3,5 million or 99,5% of the German enterprises are SMEs which produce more than 35% of the German GDP (IFM, 2017).

Moreover, at the end of 2018, 81.7% of all trainees were in companies with fewer than 500 employees subject to social insurance contributions which means that SMEs also are managing important social function (IFM, 2017). Figure 1.2. represents the turnover of the companies and the self-employed in the German SME sector from 2013 to 2019.

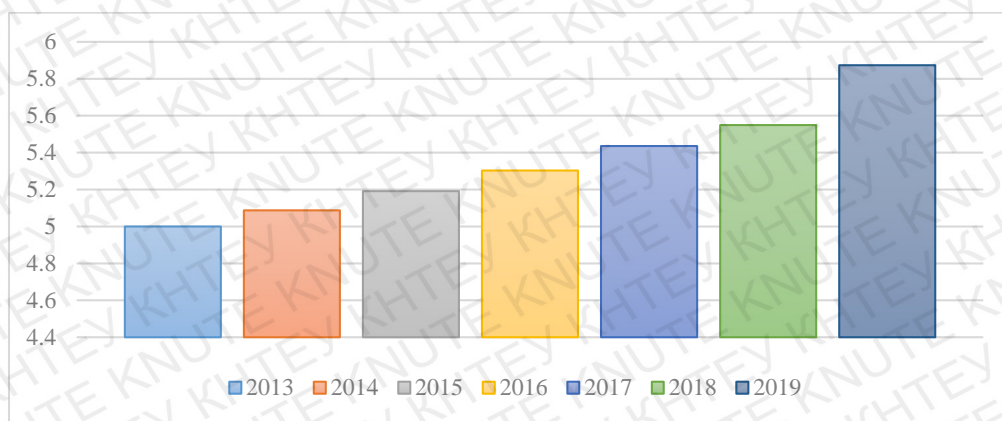


Fig. 1.2. Turnover of businesses and the self-employed in small and medium-sized businesses from 2013 - 2019 in Germany (in billion euros)

Source: Statista 2019

In 2019, the companies and the self-employed in the German SME sector generated sales of around 5.87 billion euros, according to the SME Working Group. The constantly growing indicators shown in the graph above, of course, keep pace with economic growth in general, but it should be noted that the role of small and medium-sized enterprises in the German economy is great. Developing countries, including Ukraine, should borrow this strategy. Another problem of developing countries, in particular Ukraine, is the institutional problem. Using the example of a German institute, one can see how important it is to have an understanding of the importance of the activities of small and medium-sized enterprises, as well as their promotion, study and transfer.

3.5 million SMEs account for 99.7% of all businesses in Japan, while this type of business employs over 60% of Japan's workforce, which in turn generates more than 53% of value added as for 2020 (Fig. 1.3).

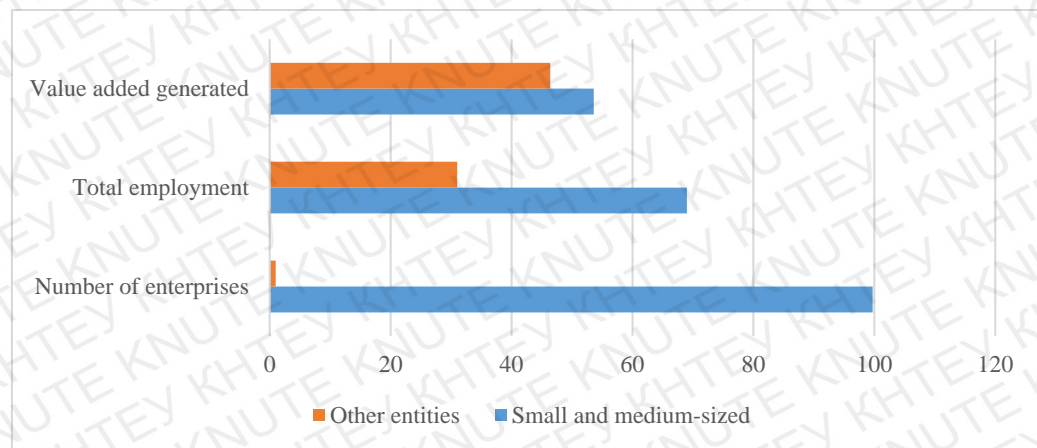


Fig. 1.3. SMEs contribution to Japanese economy, 2020 (in percentage)

Source: SME Support Japan 2020

The classification of SMEs in China is quite different given the specific criteria for different industries. Under China's SME Promotion Law, SMEs are classified primarily by the number of employees, as well as by annual income and total assets. For example, a medium-sized agricultural enterprise must employ at least five hundred people. At the same time, the maximum income for a small construction company can be up to 8.5 USD million. SMEs in China are relatively large compared to SMEs in other countries, which often

employ fewer than 100 or 500 people (Statista, 2020). SMEs are an important element of China's economic development. Currently, small and medium-sized enterprises account for over 90 percent of the country's enterprises. They also generate over 60 percent of GDP, over 70 percent for patents and provide 80 percent of the nation's nationwide jobs (Statista, 2020b). Figure 1.4 shows how fast SMEs are growing in China.

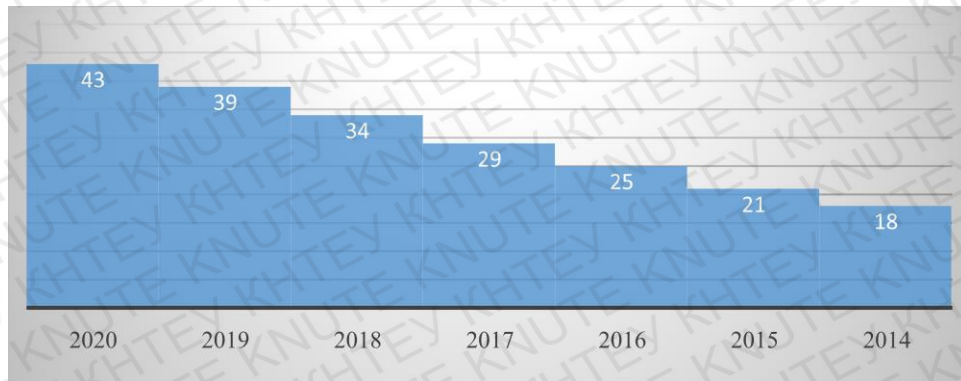


Fig. 1.4. Number of small to medium-sized enterprises from 2014 to 2020 in China (in millions)

Source: Statista 2020b

SMEs are a key contributor to economic growth in all countries. According to the *Office of the United States Trade Representative*, SMEs in the US also represent almost 99% of the total number of enterprises and form the backbone of the US economy (2020). Over the past decades, the 28 million American SMEs have accounted for nearly two-thirds of the jobs in recent decades as for 2019. SMEs engaged in foreign economic activity tend to develop even faster, create more jobs and pay higher wages than similar enterprises that do not trade internationally.

In 2020, the number of US small businesses reached 31.7 million, representing nearly all US businesses – i.e. 99.9 percent. Moreover, small businesses play an important role in the US economy and are vital to economic development and job creation in the country. Although overall, most small businesses employ fewer than 100 employees, they create millions of new jobs over the past few years. In fact, there are 60.6 million small business employees in the United States alone today, which is about half of the nation's workforce.

(Oberlo, 2020). The difference between SMEs in the United States and Germany, for example, is that the United States has strong favorite states for SMEs. Figure 1.5 shows in which states most of the country's SMEs are located.

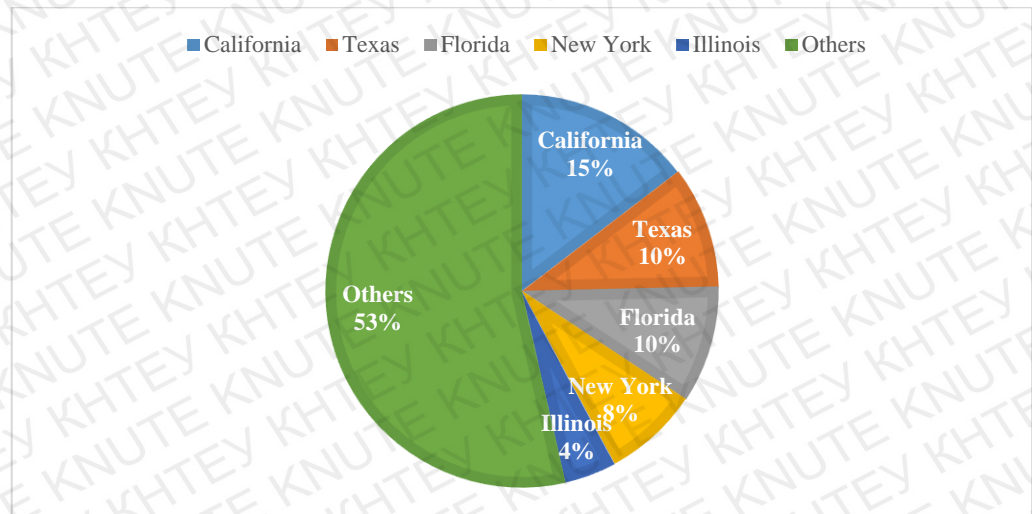


Fig. 1.5. The states with the most number of small businesses as of 2020 in the US
Source: Oberlo 2020

The graph shows that 5 out of 50 American states have nearly half of the country's small businesses. The answer to this phenomenon is the structure of the US market economy, as opposed to the e.g. German social market economy.

In conclusion, it shall be noticed that the development of a world economy on a market basis and the restructuring of the economies of developing countries is accompanied by an increasing involvement of countries in the existing system of world economic relations and deepening of economic globalization. Integration of economies of developing countries into the world economy, their participation in various types of international entrepreneurship increases the role and importance of international economic activity of the enterprise. SMEs are the driving force for the development of the country's economy. Entrepreneurship of this segment is the lever for the existence of a sustainable and competitive economy. Furthermore, SMEs form the basis for the national and global economies' growth (Kot, 2018, p. 1). Therefore, the economic activity of SMEs significantly contributes to the integration of each country in the global economy.

1.2. The role of small and medium-sized enterprises for the Ukrainian economy

Small and medium-sized enterprises have specific characteristics compared to multinational corporations that can influence the choice of the option to enter a new market in terms of resource allocation, risk management in the host country and the degree of control over activities in foreign markets. As the 'SME engine' is a key driver of investment and innovation and, hence, of economic growth and employment, European SMEs are crucial in this regard (Gherghina et al., 2020, p. 1). To achieve its potential, Europe's economy relies on small and medium-sized enterprises: 98 out of every 100 enterprises are small and medium-sized enterprises and employ the majority of the workforce (Abel-Koch et al., 2015). Albeit SMEs play an important role in Ukrainian economy as well, the situation in Ukraine differs from the western world.

From the point of view of the percentage ratio of small medium-sized businesses to enterprises in general, Ukraine does not differ from the EU countries. In the overwhelming majority of areas, the number of small and medium-sized enterprises significantly exceeds the number of large ones. The only exception is the industry sector, which has a relatively “large” number of large enterprises (0,6% against 0,1% on average) and a relatively large number of medium-sized enterprises (10,5% against 4,7% on average).

Nevertheless, on the whole, the picture completely coincides with that discussed in the previous section - namely, the percentage of small and medium-sized enterprises in Ukraine is equal to the European indicator. Also the sector of health care and social assistance should be taken into account. This sector is notable for the fact that there are practically no large enterprises in it, and almost 1/3 of enterprises are medium-sized. Other branches are represented mainly by small and medium-sized businesses, only rarely is there a share in more than 1% of large companies in the field. The number of enterprises by type of economic activity with a division into large, medium, small and micro enterprises in 2019 according to *the Ukrstat* data (2020a), except for the temporarily occupied territories as a result of Russian military and economic aggression is illustrated in Table 1.2.

Table 1.2

Number of enterprises by type of economic activity with division into large, medium, small and micro enterprises in 2019

	<i>Total number</i>	<i>Enterprises size</i>		
		<i>Large</i>	<i>Medium</i>	<i>Small</i>
		<i>% to all enterprises</i>	<i>% to all enterprises</i>	<i>% to all enterprises</i>
Total	380597	0.1	4.7	95.2
agriculture, forestry and fisheries	50239	0.1	4.5	95.4
industry	47679	0.6	10.5	88.9
construction	31869	0.0	2.9	97.1
wholesale and retail trade; repair of motor vehicles and motorcycles	101427	0.2	3.1	96.7
transport, warehousing, postal and courier activities	17487	0.2	6.6	93.2
temporary accommodation and catering	7885	0.1	3.4	96.5
information and telecommunications	15917	0.1	2.2	97.7
finance and insurance	4129	0.1	7.1	92.8
real estate	38980	0.0	1.1	98.9
professional, scientific and technical activities	30704	0.0	1.9	98.1
administrative	18917	0.0	4.5	95.5
health care and social assistance	6942	0.0	31.2	68.8
arts, sports, entertainment and recreation	2351	0.1	4.3	95.6

Source: Ukrstat 2020a

However, the methodology of the European Commission may well be questioned by developing countries. It is very difficult to find enterprises that meet all the criteria for small, medium or large businesses. The methodology in determining the right type of enterprise is a very important issue. On the one hand, the correct methodology can help small companies to obtain certain subsidies, on the other hand, in case of ambiguity, one can always find a field for illegal and dishonest actions.

Figure 1.6 shows the number of employees in enterprises by type of economic activity with a division into large, medium, small and micro enterprises in 2019. There are many more employed small and medium-sized businesses, but the percentage is no longer so different.

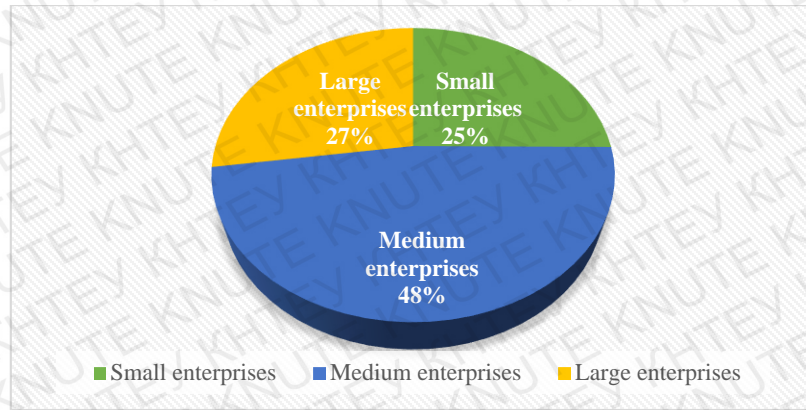


Fig. 1.6. Number of employees in enterprises by type of economic activity with a division into large, medium, small and micro enterprises in 2019

Source: Ukrstat 2020b

The following chart (Fig. 1.7) shows the growth rate of employee salary costs from 2015 to 2019 in absolute terms. Rapid growth is observed in each type of enterprise, slightly lower yet the growth rate of small businesses.

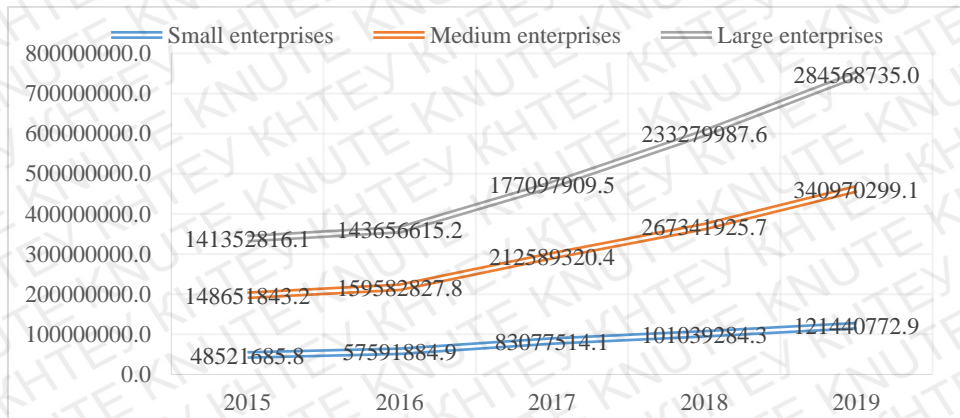


Fig. 1.7. Labor costs of enterprises by type of economic activity with a division into large, medium, small and micro enterprises 2015-2019, in thousands UAH

Source: Ukrstat 2020c

However, if one looks at what percentage of the total costs are included in the cost of wages with the help of Figure 1.8, the big gap between firm types can be observed: SMEs incur much higher personnel costs than large companies. The role of the state can be assessed rather negatively due to the fact that the cost part of SMEs for salaries is very different in

percentage from that of large companies. Since 2015, there has been a continuous increase in salary costs as a percentage of SMEs' costs, while large companies have faced a decline in this indicator which is characterized by a gradual fall from 2015 to 2019.

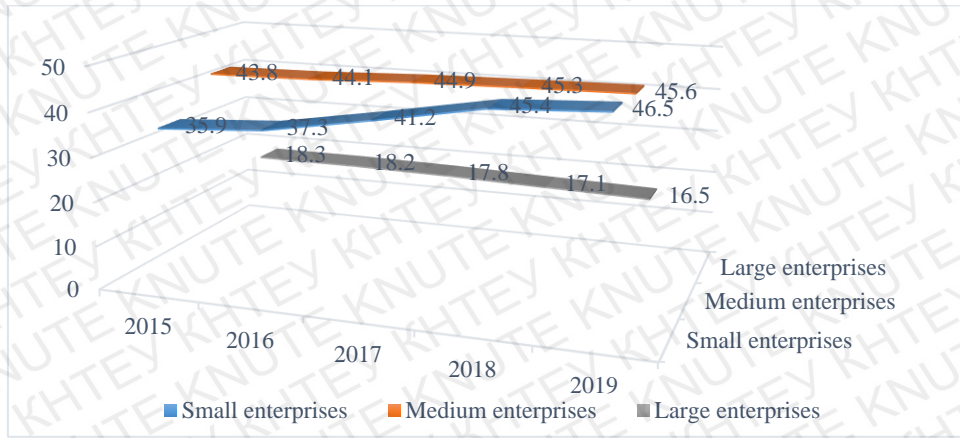


Fig. 1.8. Labor costs to the total costs in % by type of economic activity with a division into large, medium, small and micro enterprises in 2015-2019

Source: Ukrstat 2020c

The volume of products sold, in turn, is much higher at large enterprises. Goods worth UAH 3.631,7 billion were produced by large enterprises, and only UAH 1.815,8 billion were produced by small-sized enterprises, which is exactly two times less (Ukrstat, 2020d). Value added at the cost of production of enterprises with a division into large, medium, small and micro enterprises in 2014-2018 is presented in the following Figure 1.9.

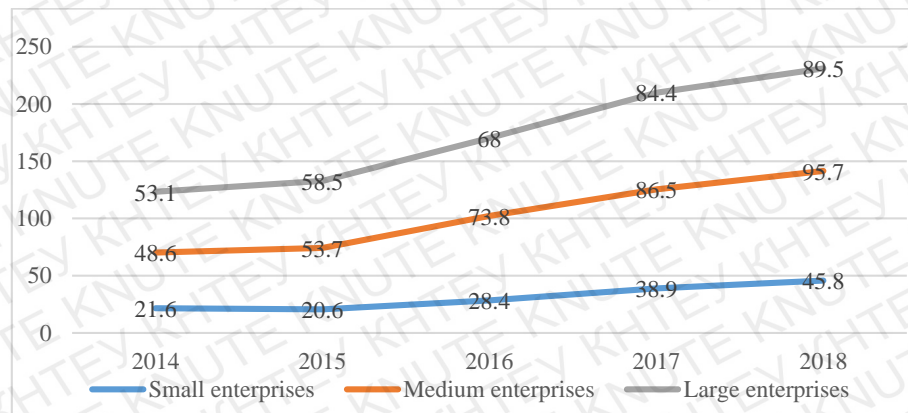


Fig. 1.9. Value added of enterprises with a division into large, medium, small and micro enterprises in 2014-2018 in billions UAH

Source: Ukrstat 2020e

Value added is an important indicator of the participation of an enterprise in value chains. Small and medium-sized enterprises produced jointly more than UAH 130 billion value added. At the same time, large companies showed significantly greater growth in generated added value. Compared with the most crisis year 2014, large companies generated more than 36 billion UAH more added value in 2018. Nevertheless, in percentage terms, it was representatives of small business that made the greatest leap. UAH 21.6 billion in 2014 compared to UAH 45.8 billion in 2018 indicates an increase of more than 200% in value added generation. Financial results before taxation of enterprises by type of economic activity with a breakdown on large, medium, and small enterprises in 2014-2019 are presented in the following Table 1.3.

Table 1.3

Financial results before taxation of enterprises by type of economic activity in 2014-2019

Years	Including								
	large enterprises			medium enterprises			small enterprises		
	financial result (balance overall) before taxation, billions, UAH	% of profitable enterprises	% of loss-making enterprises	financial result (balance overall) before taxation, billions, UAH	% of profitable enterprises	% of loss-making enterprises	financial result (balance overall) before taxation, billions, UAH	% of profitable enterprises	% of loss-making enterprises
	in % to the total	in % to the total		in % to the total	in % to the total		in % to the total	in % to the total	
2014	-189.9	51.8	48.2	-199.0	62.6	37.4	-175.0	66.5	33.5
2015	-145.1	55.7	44.3	-91.1	71.1	28.9	-111.9	73.9	26.1
2016	61.2	65.8	34.2	32.8	76.1	23.9	-24.1	73.3	26.7
2017	156.9	73.3	26.7	90.7	76.6	23.4	-10.7	72.7	27.3
2018	175.2	76.9	23.1	147.1	78.2	21.8	46.8	74.1	25.9
2019	232.0	78.4	21.6	277.7	77.9	22.1	103.8	73.7	26.3

Source: Ukrstat, 2020f

With the beginning of the Russian aggression in 2014, the Ukrainian economy suffered crushing losses (Pifer, 2015, p. 3). The two most difficult years for Ukrainian

business were 2014 and 2015 - the phases of the most active escalation of the conflict by the Russian Federation. The positive balance of financial results became possible only since 2016, but only for large enterprises and a small positive balance for medium-sized enterprises. Small business showed a positive result only in 2018, which confirms the thesis that small businesses react critically to external factors.

It is important to note that the results shown in Table 1.3 are pre-tax, therefore, until 2018, inclusive, small business was a burden for the state, and not a means of enrichment. This egregious fact is also associated with structural changes in the market, internal factors. In addition, 26,3% of small enterprises were loss-making in 2018 while 21,6% of big enterprises have negative financial result.

As for the international activity of enterprises, the statistics do not speak in favor of small and medium-sized businesses. Of course, given the competitive advantages of large companies, such as greater production capacity, capital opportunities, better transport links and logistics, it is clear that large companies have more turnover due to foreign markets. Figures 1.10 and 1.11 show exports and imports of goods by economic entities by type of enterprise's size:

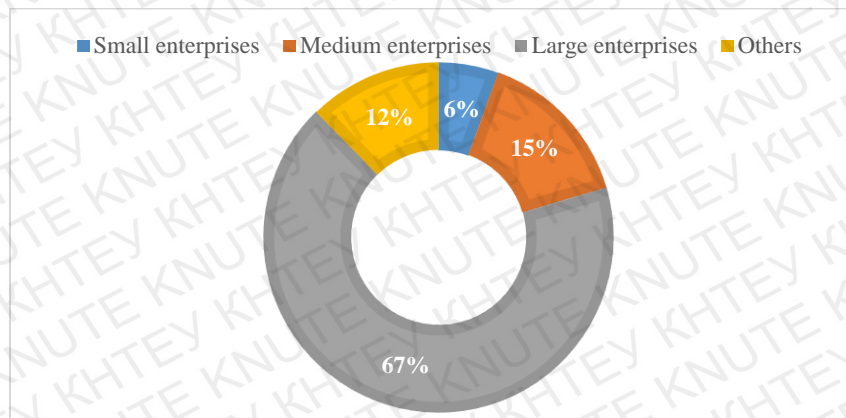


Fig. 1.10. Types of enterprises involved in export in 2018

Source: Ukrstat 2020g

Figure 1.10 and further Figure 1.11 illustrate completely different data. Small businesses are more involved in the import of products, removing foreign exchange from the country and selling products with added value to the import price.

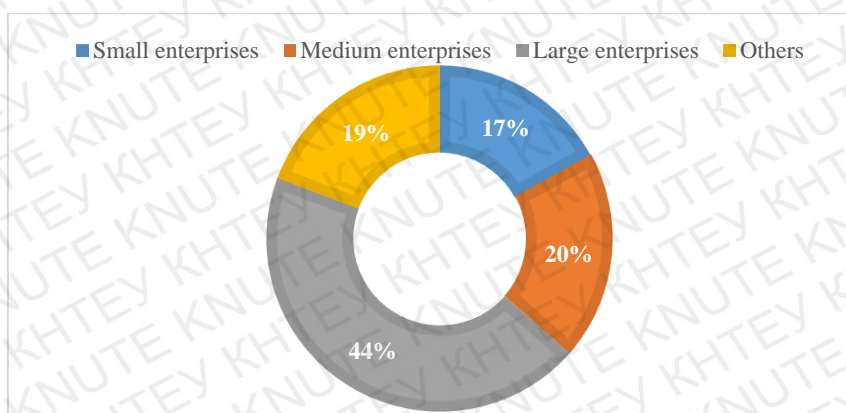


Fig. 1.11. Types of enterprises involved in import in 2018

Source: Ukrstat 2020h

It shall be noticed that SMEs are importing 37% goods value while exporting only 21%. The general information about international economic activity by types of the size of enterprise is illustrated below in the Table 1.4.

Table 1.4

International economic activity key indicators by type of enterprise in 2018

Type	Small			Medium			Large		
	# of firms involved	Mill. USD	% to all	# of firms involved	Mill. USD	% to all	# of firms involved	Mill. USD	% to all
Export	3544	\$263	6%	2818	\$708	15%	1198	\$3203	67%
Import	6269	\$977	17%	3110	\$1127	20%	1426	\$2551	44%
Total	9813	\$1241	#	5928	\$1836	#	2624	\$5755	#
Balance	-2725	-\$713	-11%	-292	-\$419	-5%	-228	\$651	23%
Balance %	-28%	-57%	#	-5%	-23%	#	-9%	11%	#

Source: Ukrstat 2020g; Ukrstat 2020

According to the *Ukrstat (2019)* data, by the type of industries in which small and medium-sized businesses participate in foreign economic activity by type of export, the leading industry is the processing industry, retail trade and intermediary services. Small and medium-sized business imports retail goods and much less in the processing industry, which negatively affects the process of creating added value in Ukraine. Small and medium-sized

businesses are not sufficiently involved in foreign economic activity, having a total foreign trade turnover two times lower than that of large enterprises. A distinctive feature of small and medium-sized enterprises is also their greater involvement in import operations than in export ones, where the international economic activity balance is: –\$713 Mill. USD, –\$419 Mill. USD for small and medium firms respectively.

In addition, one of the biggest problems of the business climate intersecting SMEs performance is corruption. In the Corruption Perceptions Index, Ukraine ranks 126th out of 180 countries (Transparency International, 2020). The Organization for Economic Co-operation and Development (OECD) states that corruption is a "serious obstacle" to doing business in Ukraine (2019). Businesses face corruption on a regular basis in licensing, taxation, inspections, customs procedures, etc. This is also a large obstacle on the way to be higher in *Doing Business ranking* where Ukraine has only 70th place (2020). The Operating Environment Factor assesses the degree to which regulations have been streamlined by public administrations and costs and procedures have been minimized to minimize the administrative burden on SMEs (OECD, 2020b, p. 52). The OAD (Operational Environmental Dimension) index presented in the Table 1.5 implies the level of complexity of the company's operations in both domestic and foreign markets due to obstacles.

Table 1.5

Progress in the operational environment dimension

Operational environment	Armenia	Azerbaijan	Belarus	Georgia	Moldova	Ukraine	EaP average
2020 scores	3.55	4.2	4.12	4.36	3.76	3.55	3.92
2016 scores	4.05	4.23	4.09	4.33	3.56	3.81	4.01

Source: OECD, 2020b

Ukraine has the last place between all above mentioned countries which are more or less comparable to Ukraine from socio-economic point of view. The drop by 0.36 units underlines that although there are steps towards simplification, Ukraine has taken a step back in terms of ease of operating business.

Conclusions to part 1

In this part, the role of small and medium-sized enterprises in the national and global economy, their development opportunities as well as obstacles for development were conducted. In determining whether or not an enterprise is an SME, the enterprise size, number of employees, turnover and balance sheet total are mostly taken into account.

SMEs are seen as a deciding factor in the dynamics of economic growth in the global economic system, namely in developing countries. Almost all European-area businesses fall under the group of small and medium-sized enterprises. SMEs represent around 99% of all businesses in the EU.

Small business is a prerequisite for the formation of the so-called middle class - the social foundation that ensures the stable development of society. In this regard, today one of the priority directions of the state economic policy of a certain country is the creation of an effective system of comprehensive support for SMEs. SME is a source of economic and social risks without the active support of the state.

The development of SMEs is an important factor in the development of the national economy and also a necessary condition for economic growth and social stability in the country. However, the development of SMEs in Ukraine is influenced by many factors and is a difficult process. Small and medium-sized companies, which have a total foreign trade turnover two times smaller than that of large enterprises, are not as active in foreign economic activity as large companies. The greater presence in import operations than in export operations is also a distinctive characteristic of small and medium-sized companies, where the balance of foreign economic activity is negative.

The processing industry, retail trade and intermediary services are the leading industries according to the type of industries in which small and medium-sized enterprises engage in international economic activity by type of export. Small and medium-sized companies import retail goods, and far less in the manufacturing sector, which has a negative effect on the value-added creation process in Ukraine.

PART 2

ANALYSIS OF BUSINESS DYNAMICS AND INTERNATIONAL COMPETITIVENESS OF KARBOSNAB LLC

2.1. Analysis of economic, financial and foreign economic activity of Karbosnab LLC

Karbosnab Limited Liability Company (LLC) was selected to conduct a study of the organization of the import operation. The company was registered in the Unified State Register of Legal Entities and Individual Entrepreneurs on December 21, 2010. According to the form of ownership, Karbosnab LLC is a private company. Karbosnab LLC as a legal entity is located at Kyiv, st. Vyshgorodskaya, building 14. The only founder of the company according to the Charter of the company is Kostiantyn Proshchenko (YouControl, 2020).

According to the classifier of economic activities, Karbosnab Limited Liability Company operates in the following areas (YouControl, 2020):

1. Main activity:

46.73 Wholesale of wood, construction materials and sanitary equipment.

2. Other activities:

22.21 Manufacture of plastic plates, sheets, tubes and profiles;

22.23 Manufacture of builders' ware of plastic;

43.29 Other construction works;

43.91 Roofing works;

43.99 Other specialized construction activities;

46.13 Agents involved in the sale of timber, building materials and sanitary ware;

46.75 Wholesale of chemical products;

47.52 Retail sale of hardware, plumbing and sanitary equipment in specialized stores.

An analysis of the economic activity of Karbosnab LLC with the indicators of the financial result of the enterprise for 2015-2019 is illustrated in Table 2.1. Below is the dynamics of financial performance of the enterprise in this period, which was compiled on

the basis of the Statement of Financial Performance. Net income from sales of Karbosnab LLC products for the entire period grew by about 2% annually. It is worth noting that almost at the same rate is the growth of total costs of the enterprise.

The cost of production in 2018 remained almost unchanged, and in 2019 due to rising prices for raw materials, this figure increased by 2% compared to the previous period. It is also worth noting that Karbosnab LLC is a profitable enterprise and in the period 2017-2019 the company has a tendency to increase net profit.

Table 2.1

Analysis of indicators of financial and economic activity of Karbosnab LLC for the period 2015-2019

Indicator	Year									
	31.12. 2015		31.12. 2016		31.12. 2017		31.12. 2018		31.12. 2019	
	In fact, thnd UAH	In fact, thnd UAH	Growth %	In fact, thnd UAH	Growth %	In fact, thnd UAH	Growth %	In fact, thnd UAH	Growth %	
Net income from sales	32942	34933	6.00%	35868	2.70%	36568	2.00%	37288	2.00%	
Other operating income	759.6	979.6	29.00%	1020.4	4.20%	1074.8	5.30%	1301	21.00%	
Total income	33702	35912	6.60%	36888	2.70%	37642	2.00%	38589	2.50%	
Cost of goods sold (goods, works, services)	30631	32631	6.50%	33631	3.10%	33701	0.20%	34654	2.80%	
Other operating expenses (costs)	2410.2	2505.7	4.00%	2406.8	-3.90%	2979.1	23.80%	2909.5	-2.30%	
Total costs	33041	35136	6.30%	36037	2.60%	36680	1.80%	37563	2.40%	
Financial result before tax	660.8	776.3	17.50%	850.7	9.60%	962.2	13.10%	1025.4	6.60%	
Income tax	119	139.7	17.50%	153.1	9.60%	173.2	13.10%	184.6	6.60%	
Net profit (loss)	541.9	636.6	17.50%	697.6	9.60%	789	13.10%	840.9	6.60%	

Source: Compiled by the author using Appendices A, B, C, D, E

During the analysis of the indicators of business activity of the enterprise in Table 2.2 it was found that in 2019 the length of one assets turnover period decreased, which has a positive effect on the business activity of the enterprise. In addition, the maturity of receivables has also decreased, which significantly improves the financial condition of the company. Also, the repayment period of accounts payable in 2019 increased compared to the previous period, which is a positive trend, as the company finances its own activities at the expense of creditors.

Table 2.2

Indicators of business activity of Karbosnab LLC in 2015-2019

Indicator	Year								
	31.12. 2015	31.12. 2016	Growth %	31.12. 2017	Growth %	31.12. 2018	Growth %	31.12. 2019	Growth %
Inventory turnover ratio	1.32	1.42	7.60%	1.31	-7.70%	1.29	-1.50%	1.69	31.00%
Receivables turnover ratio	1.58	2.25	42.40%	1.76	-21.80%	2.25	27.80%	1.58	-29.80%
Accounts payable turnover ratio	1.42	1.35	-4.90%	1.6	18.50%	1.35	-15.60%	1.67	23.70%
Asset turnover ratio	0.61	0.56	-8.20%	0.68	21.40%	0.56	-17.60%	0.59	5.40%
Equity turnover ratio	21.4	22.3	4.10%	28.5	27.50%	27.4	-3.80%	23.2	-15.20%

Source: Compiled by the author using Appendices A, B, C, D, E

Table 2.3 illustrates the analysis of indicators of financial stability of the enterprise. In 2019, the share of equity in the total value of the company's assets increased, but still remains below the regulatory minimum value, which indicates the insecurity of borrowed funds.

Due to the fact that the company has no long-term liabilities, the value of the coefficient of financial stability will correspond to the value of the coefficient of financial autonomy.

Table 2.3

Indicators of financial stability of Karbosnab LLC in 2015-2019

Indicator	Year								
	31.12. 2015	31.12. 2016	Growth %	31.12. 2017	Growth %	31.12. 2018	Growth %	31.12. 2019	Growth %
Coefficient of financial stability	0.021	0.020	-4.76%	0.022	10.00%	0.026	18.18%	0.031	19.23%
Rated funds ratio	0.982	0.981	-0.10%	0.979	-0.20%	0.980	0.10%	0.971	-0.92%
Coefficient of financial autonomy	0.027	0.021	-22.22%	0.023	9.52%	0.022	-4.35%	0.030	36.36%

Source: Compiled by the author using Appendices A, B, C, D, E

According to the results of the analysis of profitability indicators presented in Table 2.4, it can be stated that during this period the profitability of the enterprise increases, which indicates an increase in the efficiency of economic activity of Karbosnab LLC.

In addition, there is a tendency to increase the return on assets in 2019. Considering this fact, the level of profit generated by all assets of the enterprise which are in its use according to the balance sheet also increased. However, it should be noted that the return on equity in 2019 decreased. Therefore, the level of return on equity invested in the company also decreased.

Table 2.4

Profitability indicators of Karbosnab LLC in 2015-2019

Indicator	Year								
	31.12. 2015	31.12. 2016	Growth %	31.12. 2017	Growth %	31.12. 2018	Growth %	31.12. 2019	Growth %
Return on assets	1.22	1.19	-2.46%	1.33	11.76%	1.21	-9.02%	1.34	10.74%
Return on equity	63.21	59.61	-5.70%	56.01	-6.04%	61.92	10.55%	60.21	-2.76%
Profitability of activity	1.72	1.81	5.23%	1.95	7.73%	2.16	10.77%	2.26	4.63%

Source: Compiled by the author using Appendices A, B, C, D, E

Thus, summarizing the above, LLC Karbosnab is characterized by positive performance during 2015-2019 and according to the financial statements is a profitable enterprise. According to the classifier of economic activity, the main activity of Karbosnab LLC is wholesale and retail trade in construction materials, in particular such products as polycarbonate (YouControl, 2020). This is one of the types of polymers, which due to a number of advantages over other materials is widely used in roofing, installation of building facades and more.

International economic activity is driven by export-import operations with the preservation of the head office and / or production facilities; and internationalization of enterprises with the relocation of the head office and / or production facilities (McGovern, 2018, p. 173). For more than 10 years, Karbosnab LLC has been an importer of various types of polycarbonate to the territory of Ukraine, mainly from the countries of the European Economic Area, the Russian Federation, Estonia, and Serbia. Since the establishment of Karbosnab LLC (official web page, 2020), the following companies have been the company's counterparties in import operations:

- Brett Martin Ltd (the UK);
- Palram Industries Ltd (Israel);

- Bauglas Ltd (Estonia);
- Rodeca Ltd (Germany);
- CJSC "Carboglas" (Russia) and others.

Along with imported products, Ukrainian-made polycarbonate of Tagol LLC (Dnipro) is also on sale. In recent years, the company has been developing ways to enter foreign markets through exports, as well as cooperation of enterprises.

Analyzing the dynamics of total imports of Karbosnab LLC using Figure 2.1 in the period 2014-2019, there is a tendency to increase the annual imports of the company due to the emergence of new foreign suppliers (respectively, expanding the product range) and increasing procurement. The enterprise imports cellular polycarbonate, monolithic polycarbonate, roofing polycarbonate, accessories and other goods. The monolithic polycarbonate holds the biggest share among all types of purchased products since it has the biggest value added and thus, the biggest possible margin.

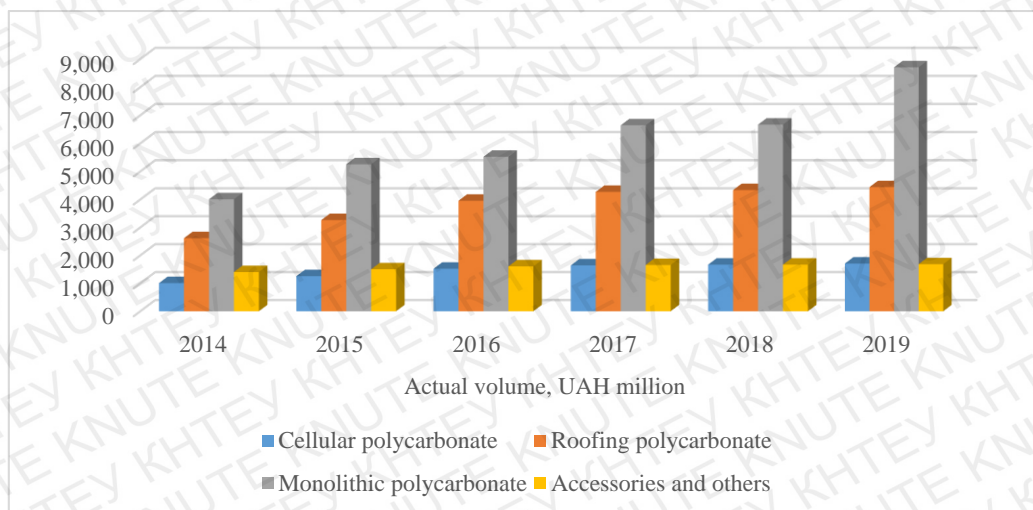


Fig. 2.1. Dynamics of the volume of imports of polycarbonate by Karbosnab LLC for the period 2014-2019

Source: Compiled by the author based on enterprise reporting

Hence, Karbosnab LLC is a subject of foreign economic activity, which carries out import deliveries of products, in particular polycarbonate, to the territory of Ukraine for the purpose of further liquidity.

2.2. Research of the external environment of Karbosnab LLC

There are many factors that affect the activities of small and medium-sized businesses. First of all, external factors should be highlighted, since they are the most influential on the processes of enterprise activity. In the end, it is external factors that most often become an obstacle to the internationalization of business, or, on the contrary, are accompanying tools for this. The analysis of the external environment should also include government interventions and regulations that directly affect the performance of the enterprise.

To begin with, international economic activity in terms of state development and global welfare is one of the most important factors in enhancing international competitiveness, intensifying innovation processes, developing competition, rapidly saturating the market with goods and services. From the perspective of Karbosnab LLC, international economic activity is a new business opportunity, an expansion of the consumer segment, an accumulation of marketing activities. Thus, SMEs help the state to solve economic problems (creation of competitive environment, functioning of private capital, attractiveness for foreign investments), social problems (creation of additional jobs, solution of poverty problems), while at the same time SMEs are gaining the opportunity for improvement. The growth rate of SMEs in international markets has a linear effect on the output of SMEs – i.e. the internationalization helps the firm to increase the key economic indicators (Hilmersson & Johanson, 2016, pp. 91-92).

Zhou (2016) stated that the international economic activity of the enterprise is based on the possibility of obtaining economic benefits based on the advantages of international division of labor, international business relations. This is due to the fact that the production of a particular product, its sale or the provision of a certain type of service in another country has more advantages than such activity inside the country (p. 17). Hence, international economic activity is implemented in the country with the partners that are most profitable. Karbosnab LLC has partners in 7 countries. Fig. 2.2 shows the percentages of import volume of Karbosnab LLC from these countries in 2019.

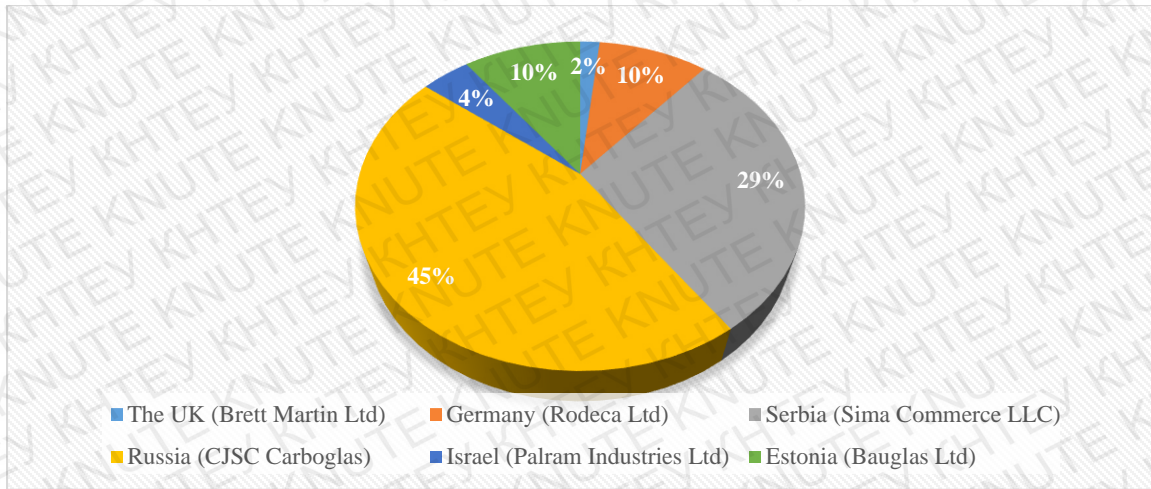


Fig. 2.2. Share of countries in the structure of imports of Karbosnab LLC in 2019

Source: Compiled by the author based on enterprise reporting

The reasons that encourage the Karbosnab LLC to engage in foreign economic activities include first of all features of the development of the internal market. Also, the external environment is characterized by following external factors (Tab. 2.5):

Table 2.5

External environment factors of Karbosnab LLC

<i>Competition factor</i>	1. increasing pressure from competitors.
<i>Economic and logistic factor</i>	2. increasing dependence on intermediary trade, especially in matters of quality, prices, capital output and production expansion.
<i>Regional and logistic factor</i>	3. an enterprise has its economically advantageous location.
<i>Managerial and psychological factor</i>	4. difficulties in complying with native suppliers.
<i>Economic factor</i>	5. growing demand of potential foreign clients.
<i>Economic factor</i>	6. the saturation of the market goods.
<i>Economic factor</i>	7. the possibility of acquiring cheaper resources in foreign markets, diversification of sources of supply.
<i>Technological factor</i>	8. better access to the latest technologies through activities with foreign partners.

Source: Compiled by the author based on enterprise reporting

The ultimate goal of Karbosnab LLC is to become a modern large efficient enterprise mostly through internalization. This type of business is actively developing in the GVC. However, there are also many circumstances that hinder successful international economic activity of SMEs and adversely affect its results (Hillary, 2017, p. 68). External environment of Karbosnab LLC is described by the following arguments:

1. Military conflicts, political and social reforms, economic blockades, etc.

The unstable situation in the country, the annexation of Crimea by the Russian Federation, a hybrid war with Russia in the east of Ukraine – all this not only destabilizes the enterprise's supply chain, but at the same time disconnects many business partners from the above regions from cooperation. In addition, the enterprise is tied to imports from the Russian Federation, which have dropped somewhat recently due to trade barriers, restrictions and other obstacles associated with the hybrid war with the Russian Federation.

2. Absence of a balanced mechanism of state regulation and flexible management in the context of constantly changing markets.

This is due to the imperfection of the Ukrainian legislative framework for the regulation of the international economic activity, system of crediting, customs-tariff and non-tariff regulation, the deficiencies of the banking service, the weak development of transport infrastructure, which should meet the needs of export-import transportation. Karbosnab LLC very often faces bureaucratic problems, especially when carrying out import operations. The legislation in international trade is often subject to change, changing trade regimes as well as regular protectionist policies towards the supply of polymers do not help the enterprise.

3. Technical backwardness of production on the domestic market.

This is also one of the key reasons for the enterprise to enter foreign markets. Karbosnab LLC imports materials not only due to improved trading conditions, higher margins, etc., but also due to the lower quality of the domestic supplier's products. Poor

quality of production, outdated system of organization of production management, poor development of industrial-cooperative relations noted by the enterprise's management as key shortcomings in working with a domestic supplier.

4. Economic restrictions and restrictions on competition from other countries (discriminatory tariffs, trade tariffs, sanctions).

Many countries impose restrictions on foreign enterprises in comparison with national ones, despite the observance of the principle of national treatment. These may be restrictions on direct investment, which are expressed in the requirements for obtaining permission for FDI in their territory. In some countries, a permit is required only in certain cases, for example, mainly for investments in industries where the presence of foreign companies is limited, in other countries, permits are required in all cases. Every year there is a tendency towards a decrease in the principles of free trade.

5. Informal restrictions and lack of significant government support

Karbosnab LLC also faces informal restrictions: the multistage procedure for obtaining a permit for investment, purchasing or entrepreneurial activity; conditions may be put in place for the acquisition of local entrepreneurs, use of local and region resources, etc. In developed countries there are usually special programs that encourage successful entrepreneurs to share their experience with aspiring entrepreneurs in exchange for the provision of certain benefits. In addition, there is no flexible system of state support, which can provide for the provision of financial resources to SMEs in the face of slowing economic growth and the development of a system for the recovery of small and medium-sized businesses in turbulent conditions in Ukraine.

In the course of the study, the heads of Karbosnab LLC were asked to name 5 key issues for internationalization that are most significant in diagnostics of the external environment (Fig. 2.3). It was found that the organization of international economic activity of the enterprise is influenced by a number of the following macroeconomic factors:

Political:

- unstable political situation
- loss of turnover with key partners.

Economic:

- poorly developed polymer market.
- few opportunities for business internationalization.

Institutional and legal:

- weak legal framework.
- legislative restrictions.

Customs and tariff:

- import duties.
- protectionism measures.

Financial:

- new currency regulation.
- currency transactions.

Fig. 2.3. Key issues for internationalization of Karbosnab LLC

Source: Compiled by the author based on enterprise reporting

Political factor is driven mostly by the conflict in the East of the country and the subversive activities of certain political interests within the country. In addition, the difficult political situation between Ukraine and Russia has a very negative impact on foreign economic relations between these two countries' counterparts. Currently, there are no restrictions on the import of polycarbonate by the Ukrainian government.

Economic factor. Unfortunately, the polycarbonate industry in Ukraine is not developed, albeit the state has all the necessary resources for this. Since polycarbonate is considered a very common building material, the import of this product from abroad is the only option for the further purchase of goods by residents on the territory of Ukraine.

Institutional and legal factor. The Ukrainian legal framework on foreign economic activity is not perfect, and on the territory of Ukraine there are still certain legislative restrictions on the part of the state, which do not allow business entities to carry out their foreign economic activity more effectively. However, it is worth noting that since 2014, the

Ukrainian government has been making changes to state legislation in accordance with the requirements of EU legislation, it is an important factor for simplifying the organization of foreign trade operations not only with EU countries, but also with other countries.

Customs and tariff factor. According to the decision of *the Government of Ukraine of December 30, 2015, from January 2, 2016*, all goods originating in Russia are subject to import duty rates established by the Customs Tariff of Ukraine. At the same time, the preferential regime over Russia is abolished. Thus, for some Russian goods, instead of the zero rate, which operated under the agreement on free trade between the former CIS countries, from January 2, 2016, the so-called "most-favored-nation" regime of *the WTO* (2020), which provides for higher import duty rates. According to the legislation of Ukraine, the import of polycarbonate from Russia provides for the payment of import duty in the amount of 5% of the customs value of goods. It should also be noted that protectionist measures are implemented by EU countries in relation to third countries.

Financial factor. In February 2019, a new currency regulation came into force in Ukraine, which provides for the removal of a number of restrictions (more than 20) in the foreign exchange market, which create the most additional difficulties for foreign economic activity and deter new foreign investment in Ukraine according to the *Law of Ukraine "On currency and currency transactions"* (2019).

Speaking about the factors influencing the foreign economic activity of the enterprise of the external microenvironment, it should be noted that the industry of polycarbonate production in Ukraine is not developed. Tagol LLC, located in Dnipro is the only enterprise in Ukraine that is engaged in the production of polycarbonate. Taking into account this fact, it can be argued that there is a monopoly in the production of this material. On the other hand, comparing the products of Tagol LLC and CJSC Carboglas, the latter is not inferior in quality to the former, but has a slightly lower cost (even taking into account all import costs) than the product offered by the Ukrainian manufacturer. The price factor makes imported products from CJSC Carboglas more competitive in the domestic market compared to goods from domestic producers.

Another crucial obstacle is the economic complexity of doing business. For instance, in Ukraine there is a treat of facing a lack of expressing the intensity of attracting into the industrial potential of modern economic knowledge, skills, and competencies. Table 2.6 illustrates data of *the Economic Complexity Index* (ECI, 2020). Ranked 39th in 2017, the Ukrainian internal climate is not very conducive to doing business.

Table 2.6

Economic Complexity Index ranking 2013-2017

<i>Data of the Economic Complexity Index</i>	2013	2014	2015	2016	2017
1 Japan	2.37	2.31	2.29	2.27	2.30
2 Switzerland	2.05	1.99	2.15	2.22	2.24
3 Germany	1.84	1.81	2.09	2.08	2.07
...
39 Ukraine	0.28	0.26	0.65	0.61	0.55

Source: Economic Complexity Rankings (ECI) 2020

Taking the above arguments, this rating underlines the fact that doing business in Ukraine still encounters difficulties on its way, especially concerning small and medium-sized business. The argument of external and internal political stability remains crucial as due to the occupation of the Autonomous Republic of Crimea and the military intervention of the Russian Federation in the south-east of Ukraine, the amount of trade has been greatly reduced (Sabadash et al., 2019, p. 84). Besides, despite the legislative acts adopted, the situation with respect to the observance of copyright and intellectual property rights in Ukraine remains very difficult to control through the non-formatted judicial system. Ukraine ranked 77th among 126 countries in the ranking of *"The Rule of Law World Justice Project 2019"* (2019). The competitiveness of Ukrainian companies in foreign markets is adversely affected by this factor, which complicates the resolution of trade disputes significantly.

However, this was not only the point of Karbosnab LLC exclusively, but also of all SMEs in Ukraine. Although, sometimes it is impossible to move forward without eliminating pitfalls, it is very important to understand that growth opportunities closely intersect with obstacles on this path.

Conclusions to part 2

Today, in the context of globalization of world trade, import activity is considered one of the most common and highly profitable types of foreign economic activity of enterprises participating in a market economy. In addition, at the micro level, highly efficient import activities have an impact on macroeconomic processes in each country, and at the micro level helps companies address a number of important issues regarding increasing the competitiveness of products in the market, increasing profitability. Although the internationalization of business lies in a much larger area.

Karbosnab LLC is characterized by positive results during 2015-2019 and according to the financial statements is a profitable enterprise. According to the classifier of economic activities, the main activity of Karbosnab LLC is wholesale and retail trade in construction materials, including products such as polycarbonate. Karbosnab LLC is an active participant in international trade. The company is increasing its international economic activity and has a sufficient balance of strength to realize the expansion of opportunities.

Karbosnab LLC has been an importer of various types of polycarbonate into Ukraine for more than 10 years, mainly from the countries of the European Economic Area, the Russian Federation, Estonia and Serbia. In the period of 2014-2019, there was a tendency to an increase in the company's annual imports due to the emergence of new foreign suppliers (accordingly, the expansion of the range) and an increase in purchases. The company imports cellular polycarbonate, monolithic polycarbonate, roofing polycarbonate, components and other goods. Monolithic polycarbonate has the largest share of all purchased products because it has the highest added value and therefore the highest possible income.

5 key issues for internationalization of Karbosnab LLC are political; economic; institutional and legal; customs and tariff; and financial factors. The environment of the enterprise is characterized by moderate competitiveness, but rather unstable political and social situation. However, the company has a strong margin of safety and growth opportunities.

PART 3

WAYS OF IMPROVEMENT THE INTERNATIONAL ECONOMIC ACTIVITY OF KARBOSNAB LLC

3.1. Prior tasks for strengthening the positions of Karbosnab LLC

Trade liberalization, including the EU countries, and most open markets – e.g. European and Asian, had good economic prospects and business opportunities many Ukrainian companies. Newcomers in international economic activity are not willing to risk in competitive international markets. The commercially successful strategy of foreign economic activity is a combination of techniques and tools that have proved effective in realized contracts, and innovative, creative approaches to solving the urgent problems facing the company in the competition.

There are a lot of ways to improve the activities of SMEs, in particular Karbosnab LLC. An important argument is how quickly and efficiently the organization will be able to respond to the proposed development strategies. From the previous sections it became clear that Karbosnab LLC is a fairly large importer in the polymer market. There are priority tasks that can improve the competitive position of Ukrainian companies in foreign markets which are also applicable for the considering enterprise – i.e. Karbosnab LLC:

1. Raising the level of professionalism and competence of decision makers.

Here, vocational trainings can be a solution: Education is an important lever of any economic activity and growth. SMEs in developing countries like Ukraine usually have a lack of skilled labour, including management skills (Herr & Nettekoven, 2017, p. 20). Although university education is important for some small and medium-sized enterprises (SMEs), the vast majority of SMEs in developing countries especially need vocational training. Moreover, OECD stated that policy-makers should also focus on increasing the intelligence of SME skills in order to improve the efficiency, diversity and relevance of the training offer and support measures (OECD, 2020b, p.56). The German vocational education

and training system, for example, with its two-pronged approach to apprenticeships in companies and attending public schools, may be an exemplary model. Increasing the professional level of the labor, including management skills, is one of the levers for development. The skills and education of the employees of Karbosnab LLC (excluding outsource and warehouse workers) are shown in Table 3.1.

Table 3.1.

The skills and education of the employees of Karbosnab LLC.

	Secondary education	Tertiary Education	Studied economic sciences	Had experience working with foreign economic activity	Attended special courses in sales, logistics, business activities, incl. Foreign economic activity.	Attends/ attended other vocational training
Director	✓	✓		✓	✓	✓
Head of Financial Department	✓	✓	✓			✓
Chief accountant	✓	✓	✓			
Accountant	✓					✓
Purchasing manager	✓	✓			✓	
Sales manager	✓	✓	✓			✓
Sales manager	✓					
Sales manager	✓	✓	✓	✓	✓	
Head of Marketing Department	✓	✓	✓			✓
Marketer	✓	✓	✓		✓	
Web Designer	✓					✓
IT Manager	✓	✓				✓
Logist	✓	✓	✓		✓	
Warehouse Manager	✓	✓				

Source: Compiled by the author based on enterprise reporting

As can be seen from Table 3.1, the enterprise has very few qualified employees in the field of foreign economic activity, as well as in business promotion. However, skilled and experienced craftsmen should also be able to earn fair wages and have decent working conditions. By increasing the cognitive skills of staff, as well as improving specific skills, the process of internationalization can grow faster and generate more income.

2. Assuring transparency of business.

There is a low level of trust in society. Corruption decreased the reputation of Ukrainian entrepreneurial environment and is a great obstacle for SMEs to develop. There is strong evidence that the level of trust in society as well. Low level of trust hinders the development of SMEs by adding to uncertainty among stakeholders, making it less likely that a person or group will launch a business and innovate. When entering the external market, especially in the EU countries, it is very important to have a transparent reputation both inside and outside the enterprise.

3. Responsible approach to the analysis, evaluation, and risk insurance in foreign economic activity.

As for all businesses, demand drives the expansion of SMEs. If there is insufficient demand, stagnation will not be avoided by even the best supply-side conditions and support for SMEs. In order to ensure adequate demand, including for SMEs, good macroeconomic management is required.

Realization of the requirements of post-day offensive actions: monitoring and analysis of indicators of financial and state performance; a re-examination of the main aspects of the leading economic activity; conducting an analysis of the main minds of foreign economic contracts with contractors; directing the import value of the contract on the basis of competitive materials; regular analysis of the effectiveness of such operations; determination of the technical support of alternative operations; the noise of the possibilities of expanding the scope.

4. Access to finance.

SMEs can not be economically dynamic without finance. Without a working financial system, the growth of a whole country can not be accomplished. Long-term investment credit at fair interest rates is very difficult for SMEs in developing countries to get. It is not a solution to conventional microfinance. Microfinance is typically short-term and often associated with obscenely high interest rates, with one particular reason. This is not what is expected of the SME field. For SMEs, foreign credit or foreign currency loans are also not suitable. Low awareness of small business support programs, combined with the difficulty of obtaining loans from Western banks and mistrust of domestic ones, lead to the situation described in Figure 3.1, namely, an extremely low percentage of debt in the capital structure.

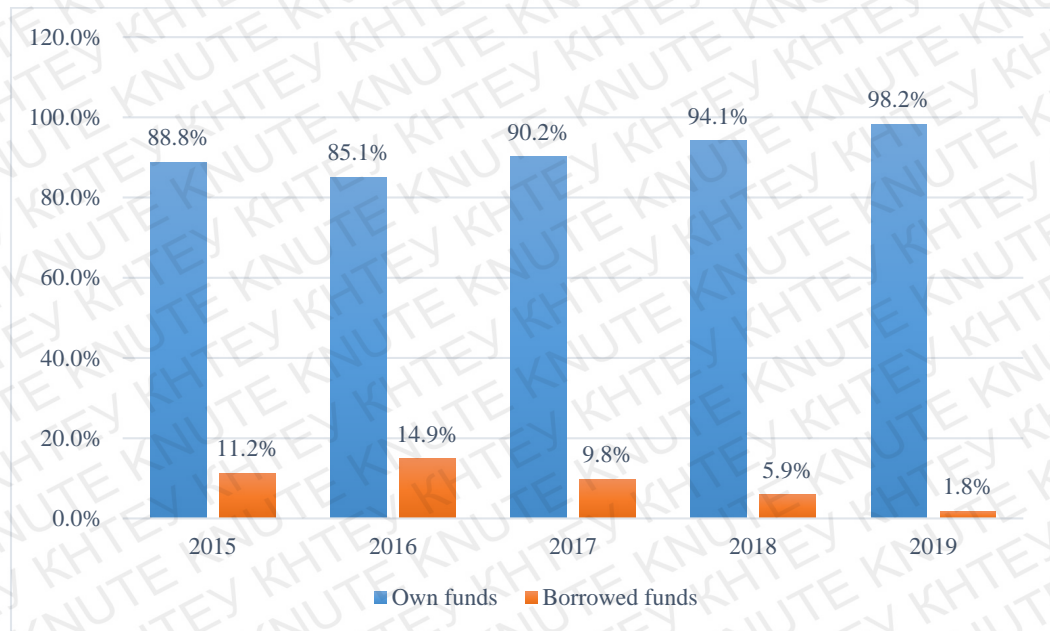


Fig. 3.1. Structure of funds of Karbosnab LLC for 2015-2019

Source: Compiled by the author based on enterprise reporting

Debt funds are not a bad sign, on the contrary, debt funds are the simplest, fastest, and sometimes the cheapest way to get funds in order to increase them further. This is especially true for long-term commitments. Nevertheless, in the analyzed enterprise, as in Ukraine as a whole, the situation with bank loans does not look the best, and the banking system in general does not inspire confidence.

5. Strategy of foreign economic activity.

Working on a foreign market requires companies to contact, travel and meet potential buyers, sellers and partners interested in developing commercial relations, negotiations and alliances for business success. It is important that people representing companies abroad are aware of cultural differences and the possible impact of these differences on the success of their work. Of the 6 opportunities shown in Table 3.2, of course, increasing imports seems to be the most potential way of internationalization. Nevertheless, the search for a B2B partner or export also looks very tempting. In order to take such steps, it is necessary to carry out a strategy of predictable actions to expand the internationalization of the company. This strategy is depicted in Figure 3.2.



Fig. 3.2. Diagram of the stages of developing a company's international strategy

Source: Compiled by the author based on enterprise reporting

The solution will be effective after the following stages: analysis of consumer demand in major geographic areas; analysis of competitors; analysis of the development of international and regional infrastructures; analysis of the political situation in the country

and economic trends in its development; analysis and study of international trade barriers, tariffs and quotas. The forecasted effectiveness of the proposed actions should be consistent with the company's competitive advantages. In Karbosnab LLC the following can be distinguished:

1. Differentiation in polymers, namely 16 groups and unique features that set a company apart, such as the Bauglas brand.
2. Low prices - the company has excellent suppliers and purchases products for large wholesale, the retail price is lower than that of competitors.
3. Dominance on the market – the segment of the polymer market in Western and central Ukraine is occupied by Karbosnab LLC.
4. EU production certificates and assortment stability.
5. A scale of service that surpasses the competition in national coverage.
6. The network of partnerships has over 14,000 business contacts through the Bitrix 24 network that make the company stand out.
7. Reputation in the country of the supplier of polycarbonate No. 1.

The market penetration strategy can be selected depending on the priority of the company, the value of the probability of success for a given strategy, as well as related internal and external factors. Upon mastering the recommended steps, an increase in the internationalization of Karbosnab LLC can be reached.

The existing product (polymers) has not reached its coverage limit on the domestic market or on the market of neighboring countries - it has sources of growth in terms of distribution and target audience coverage. The share of existing consumers can be increased by intercepting buyers of substitute goods. There is a possibility of capturing market share from other players due to the competitive advantages of the products of Karbosnab LLC. There are economies of scale for entering foreign markets. All these recommendations can help to increase the effectiveness of operations within the expansion of the international activities of Karbosnab LLC.

3.2. Forecasted analysis of the effectiveness of suggested improvements for Karbosnab LLC

In a turbulent environment, the issue of predicting the success of an enterprise in the future largely depends on the specific steps of the state, which directly affects the external environment of the enterprise, implementing strategies for the development of small and medium-sized businesses. According to the “SME Development Strategy”, the focus of *Ministry of Economic Development, Trade and Agriculture of Ukraine* (2016) is on achieving the following goal: "Create favorable conditions for doing business and unlocking the potential of the SME sector." Based on the characteristics and capabilities of Ukraine, Figure 3.3 identifies six strategic goals (p. 2):

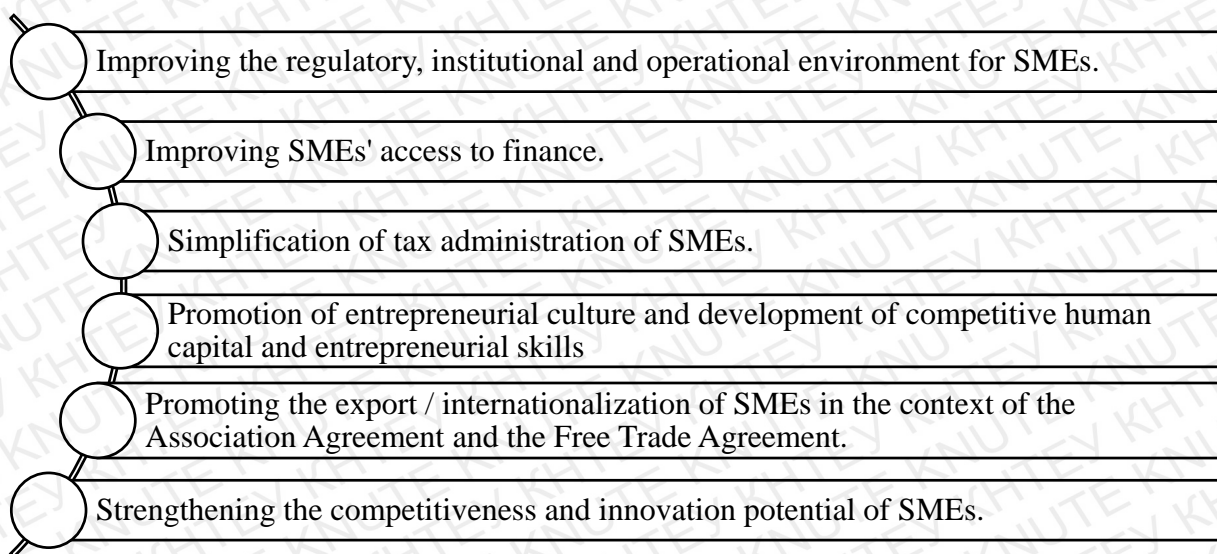


Fig. 3.3. Strategic goals for support the SME sector

Source: Ministry of Economic Development, Trade and Agriculture of Ukraine (2016, p. 2).

With the successful implementation of this Strategy, in 2021 Karbosnab LLC will face even more ambitious tasks. Furthermore, Appendix F illustrates communication with existing strategic and program documents issued by *Ministry of Economic Development, Trade and Agriculture of Ukraine*, while Appendix G shows key recommendations and achievements for Ukraine in support of SMEs by OECD (2020b). Furthermore, entry to

international markets is vital to the long-term survival of SMEs. However, due to many challenges, such as knowledge asymmetry, financial barriers, and lack of expertise and know-how, they appear to be under-represented in international trade. That factor evaluates the support of governments for export-oriented SMEs (Abel-Koch et al., 2018, p. 10). According to the “*Support to Small and Medium Enterprises (SMEs) in Ukraine*” document by EC (2020), Ukraine has established the Export Promotion Office. Other public agencies are also offering support services to SMEs to boost their internationalization, and the EU and other donors are financially promoting the access of SMEs to foreign markets.

With the right attitude of the state to the recommendations of international organizations and the effectiveness of their implementation, SMEs, including Karbosnab LLC, can improve their finances. Assuming that Ukraine continues the path of reforms and implements the above strategies, key indicators of Karbosnab LLC can improve (Fig. 3.4):

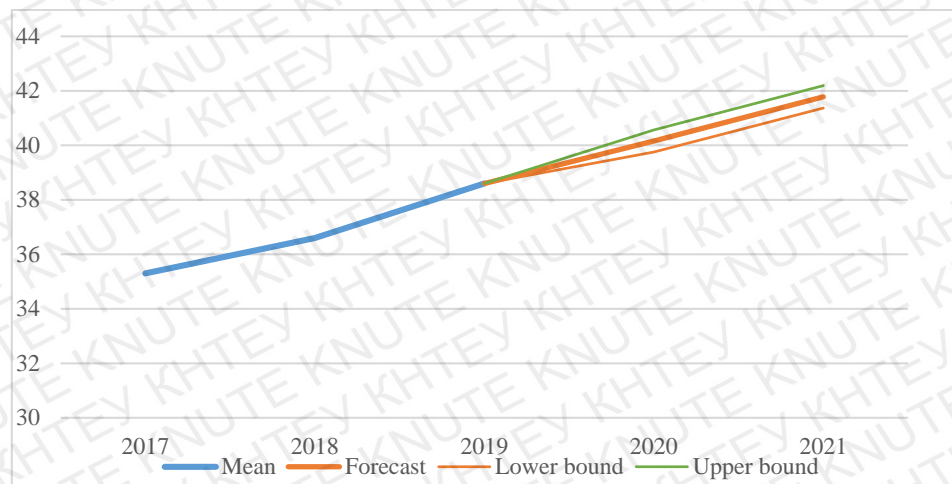


Fig. 3.4. Forecasted sales volume in millions UAH of Karbosnab LLC in 2017-2021

Source: Compiled by the author using Appendices C, D, E

The calculation of the possible outcome was based on a progressive forecast with 95% confidence interval. It is assumed that in case of negative results of the state's activities – i.e. a failure in the implementation of the strategy for the development of the SME sector, Karbosnab LLC will not lose, but will remain at its usual pace due to the sufficient financial and market strength of the enterprise. Karbosnab LLC will be able to have sales volume one and a half times higher by 2021 than in 2017.

The only way they can get a significant market share when there are no artificial entry barriers is through creativity and the development of new goods (Vyshlinsky et al., 2019, p. 4). In the last paragraph, key tasks were set for Karbosnab LLC and the first of them was vocational training implementation which also promote the development of new and creative ideas within the enterprise. For instance, since 2015, Karbosnab LLC recycles polymers and produces granules from them. It is projected that over the next 5 years the company will significantly increase employment in this industry, as well as open new branches of activity. Opening new vectors for the development of small and medium-sized businesses, sometimes even those that were not even considered by entrepreneurs. And in this context, Karbosnab LLC is able to increase even more. The following Figure 3.5. illustrates the income of Karbosnab LLC from the processing of plastic products (e.g. polycarbonate bottles).

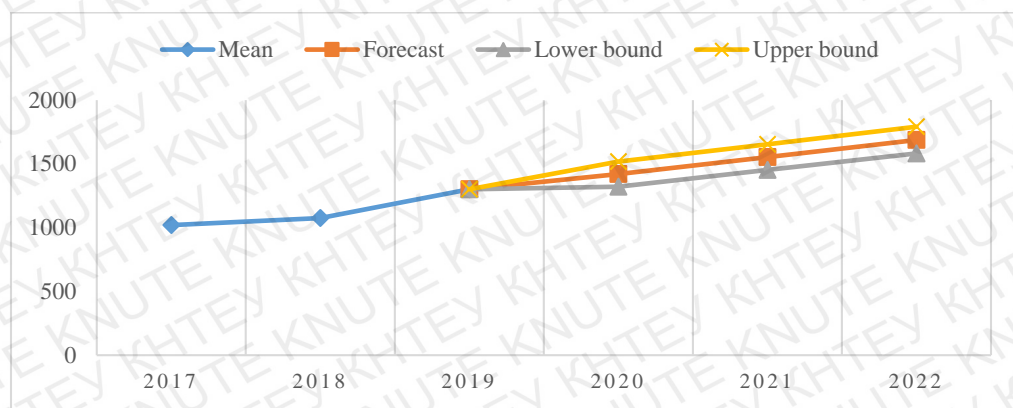


Fig. 3.5. Income of Karbosnab LLC from the recycling of plastic products in thousands UAH in 2017-2022

Source: Compiled by the author using Appendices C, D, E

The mean absolute scaled error (MASE) is 0.24 while symmetric mean absolute percentage error (SMAPE) is 0.03. Thus, there is high accuracy of the forecast. With the 95% confidence interval the results underline that the share of the income from recycling will increase in the next years.

As it was mentioned in the previous paragraph, one of the priorities for small and medium-sized businesses is access to finance. An increase of international economic activity of Karbosnab LLC is impossible without sufficient financial stability of the enterprise.

Appendix H depicts the progress of Ukraine and other countries relative to 2016 in the access of enterprises to finance (OECD, 2020b, p. 57). Koriakin & Kirchner (2016) propose in the short term adopting legal and regulatory reforms and consider credit guarantees to improve access to finance can improve access to SME finance (p. 9). However, the distrust of domestic banks was noted in the survey by the heads of Karbosnab LLC as one of the most important issues. In addition, Karbosnab LLC is not sufficiently involved in grant programs both from abroad and in Ukraine. Therefore, the growth of borrowed funds in the capital structure is not forecasted.

Labor productivity of Karbosnab LLC is calculated in the Formula 3.1 and is concerned with the amount (volume) of output that is obtained from each employee:

$$\text{Labor productivity} = \frac{\text{Turnover (Sales volume)}}{\text{Number of employees, persons}} \quad (3.1)$$

The results of the calculation are shown in the Figure 3.6. With the help of forecasting, it has been established that labor productivity in the next years will not grow with increasing growth, but will only slightly increase. Labor productivity undoubtedly depends on the human factor. In the last paragraph, the company was recommended to conduct vocational trainings. With an increase in the cognitive skills of personnel, it is possible to increase the productivity of employees and, consequently, the income of the company.

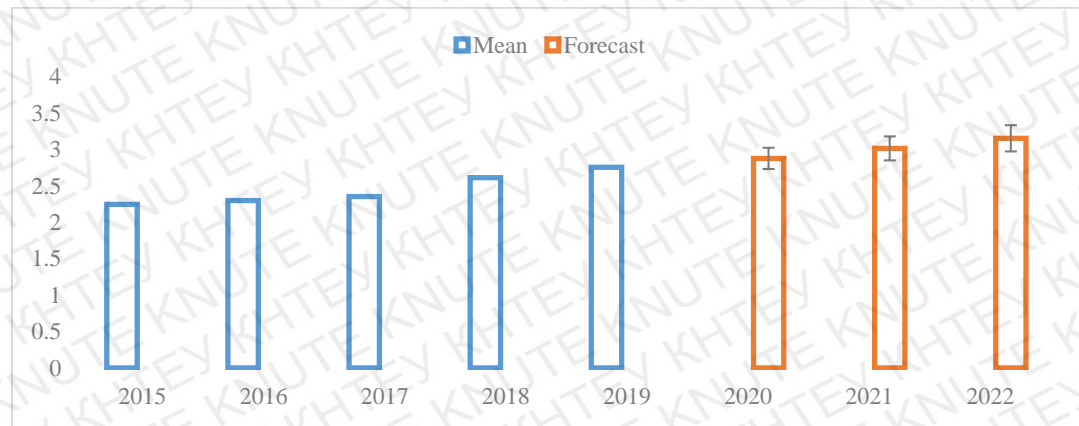


Fig. 3.6. Forecasted labor productivity of Karbosnab LLC 2015-2022

Source: Compiled by the author using Appendices C, D, E

Returning to the international operations of the enterprise, it should be noted that this activity directly depends on all of the above mentioned factors, since only a mature, financially stable and experienced company is able to successfully operate in foreign markets. Table 3.2 shows possible ways of increasing foreign economic activity. Different degrees of probability of possible outcomes are based on the competitive capabilities of the company and the assessment of environmental factors.

Table 3.2

Ways of increasing foreign economic activity of Karbosnab LLC

	<i>Resistance factors</i>	<i>Concomitant factors</i>	<i>Firm's priority (1-5)</i>	<i>Likelihood of execution (0-1)</i>
Export of goods/services	<ul style="list-style-type: none"> •Most expensive option •Presence of many competitors •High logistics costs •Protectionism in target countries 	<ul style="list-style-type: none"> •Higher operating income •New contractors and market expansion •The ability to expand products •bigger supply chain. 	1	0.4
Import of goods/services	<ul style="list-style-type: none"> •Already existing category •Established contacts •The emergence of new suppliers 	<ul style="list-style-type: none"> •Continuously growing raw material prices •Trade barriers 	2	1
Capital investment	<ul style="list-style-type: none"> •High risks •Low business reputation 	<ul style="list-style-type: none"> •Financial opportunity •Potentially strong target microenterprises 	6	0.2
Firms co-operation	<ul style="list-style-type: none"> •Profit sharing •Separation of management functions •Mistrust 	<ul style="list-style-type: none"> •Reducing the monetary burden •Collaborative development and marketing strategies 	3	0.8
Merger of companies	<ul style="list-style-type: none"> •Departure from the principles and goals of the company •Management risks 	<ul style="list-style-type: none"> •Increase in profits •Savings on personnel, marketing, logistics and development 	5	0
Subsidiary/ B2B	<ul style="list-style-type: none"> •Least risky action •Unloading the warehouse 	<ul style="list-style-type: none"> •Less interest from partners •Logistics problems 	4	0.6

Source: Compiled by the author based on enterprise reporting

There are 5 possible methods for expanding international economic activity for Karbosnab LLC. Among them are the most classic export-import operations, direct investments, cooperatives of enterprises and dealer contracts. Taking into account the competitive advantages of Karbosnab LLC, the tendencies of recent years, the external and internal environment of the enterprise, the enterprise should not expect radical changes in the near future.

Taking into account the data of previous years, as well as external factors, a forecast was made for the conduct of foreign economic activity by Karbosnab LLC (Fig. 3.7).

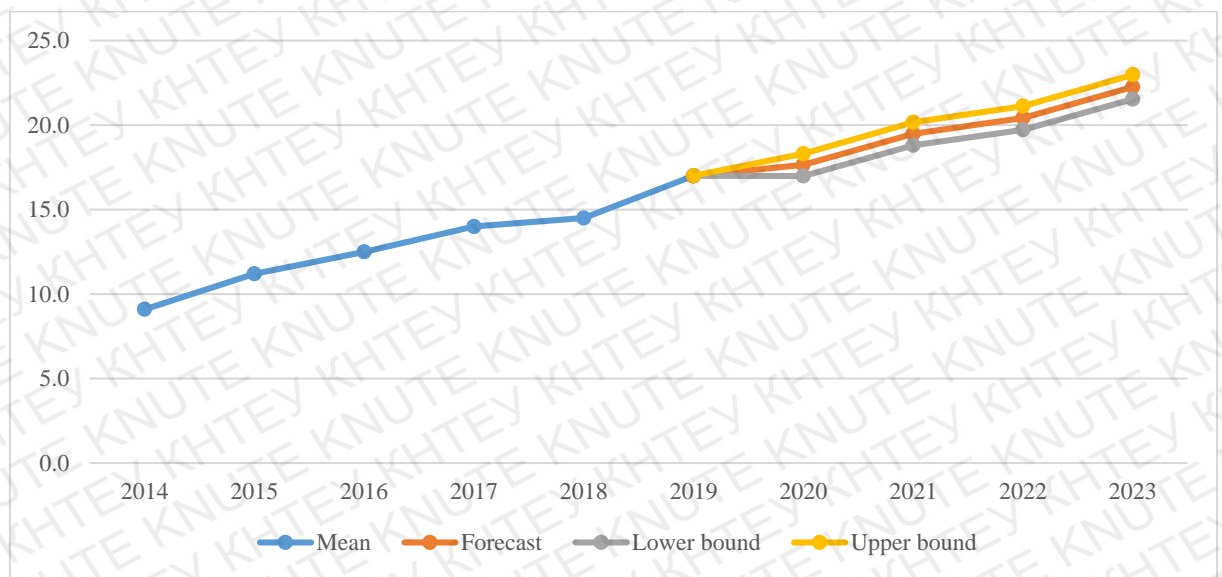


Fig. 3.7. Forecasted import volume of Karbosnab LLC for the 10-year period 2014-2023

Source: Compiled by the author using Appendices A, B, C, D, E

The confidence interval is 95%. Thus, the p-value is 0.05. The test result showed the alpha 0.25. As alpha is larger than p-value, the test is not significant. Therefore, the result may fail, albeit the root-mean-square deviation (RMSD) is 0.34 and the symmetric mean absolute percentage error (SMAPE) is 0.02 only. However, the result may give an error in absolute measurement and may not match the exact real figures after a few years. But this result is enough to assure with confidence that the volume of imports of Karbosnab LLC will only grow every year.

Conclusions to part 3

There are many ways to improve the performance of SMEs, in particular Karbosnab LLC. An important argument is how quickly and efficiently the organization will be able to respond to the proposed development strategies. From the previous sections, it became clear that Karbosnab LLC is a fairly large importer in the polymer market. There are priority tasks that can improve the competitive position of Ukrainian companies in foreign markets, which are also applicable to Karbosnab LLC: 1. Increasing the level of professionalism and competence of decision-makers; 2. Ensuring business transparency; 3. Responsible approach to the analysis, assessment and insurance of risks in forecasting economic activity; 4. Access to finance; 5. The strategy of foreign economic activity.

The market penetration strategy can be chosen depending on the priority of the company, the likelihood of success for this strategy, as well as related internal and external factors. After executing the recommended steps, an increase in the internationalization of Karbosnab LLC can be achieved. The existing product (polymers) has not reached the coverage limit either on the domestic or on the markets of neighboring countries. The share of existing consumers can be increased by capturing buyers of substitute goods. There is a possibility of capturing market share from other players due to the competitive advantages of Karbosnab LLC products. There are economies of scale for entering foreign markets. All of these recommendations can help to improve the efficiency of activities in the framework of expanding the international activities of Karbosnab LLC.

With the help of forecasting, it has been established that labor productivity, import volume, sales volume and income from other sources in the next years will grow slightly.

For Karbosnab LLC there are 5 possible ways to expand foreign economic activity. Among them are the most classic export-import operations, direct investments, cooperation of enterprises and dealer contracts. Taking into account the competitive advantages of Karbosnab LLC, the trends of recent years, the external and internal environment of the enterprise, the company should not expect radical changes in the near future.

CONCLUSIONS AND RECOMMENDATIONS

SME sector plays an important role in jobs and economic growth in every country. SME is a globally recognized driving force that generates national wealth by creating new jobs, increasing gross domestic product (GDP), and stimulating the development of competitiveness and innovation potential of the economy.

In Ukraine, as in European countries, the USA and China the SME sector covers 99.9% of the total number of enterprises and individual entrepreneurs. However, in Ukraine, these companies account for a disproportionate share of the economy, which in many cases negatively affects the ability of SMEs to operate, grow, produce goods and provide services on a competitive basis.

Ukraine defines SMEs as generally complying with EU law, but does not include the criterion of "enterprise balance". In addition, companies with a total income of more than 50 million euros per year but less than 250 employees, or vice versa, are considered large companies in the EU and medium-sized in Ukraine.

The Ukrainian economy has traditionally been characterized by a relatively unfavorable business climate, which creates obstacles to the development of the private sector, in particular SMEs. According to research, including international rankings such as Doing Business and the Global Competitiveness Index, Ukraine's business climate lags behind its closest neighbors and similar economies. Unlike large enterprises, which have access to resources that can compensate for the unfavorable business climate in some way, SMEs have an interest in improving the regulatory environment and investment climate, as these factors significantly improve SMEs' chances of survival and growth in the long run.

However, SMEs lack resources and effective dialogue with the authorities; they face strong competition, an unstable regulatory environment, and bureaucracy. SMEs need business support services. The contribution of SMEs to creating a better business environment and more effective business policy-making can be much greater. One of the biggest problems of the business climate is corruption. Corruption is considered to be one of

the key reasons for the slowdown in the growth of the Ukrainian private sector, low diversification of the economy and exports, and low productivity.

The reasons for the desire of enterprises to enter the external market are due to a number of factors, including: the saturation of the market goods; increasing pressure from competitors; increasing dependence on intermediary trade, especially in matters of quality, prices, capital output and production expansion; increase in fees related to environmental protection; difficulties in complying with social legislation and others. Furthermore, in the course of the final qualification work, it was revealed that the main problem of failures of Ukrainian enterprises in foreign markets is incomplete training of employees, the lack of a universal, accurate and effective mechanism for assessing the external market, as well as internal obstacles such as corruption and an unfavorable business climate.

The international economic activity of SMEs through commercial operations is an important element of the mechanism for managing foreign economic relations. Foreign economic relations are manifested in the forms of exchange of material goods, services, products of intellectual labor, the results of production and technical cooperation between countries. There are many levers that encourage SMEs to internationalize. For instance, Ukrainian SMEs are actively using the current built transport system to ensure that international trade contracts are subject to transport conditions. Development of SMEs is highly dependent on both external and internal factors. But enterprises of this specificity that conduct their business internationally (carrying out export-import operations or locating one of the product chains in another country) are most susceptible to these risks.

As an approbation of the material, the foreign economic activity of Karbosnab LLC was investigated. Karbosnab LLC is a subject of foreign economic activity, which carries out import deliveries of products, in particular polycarbonate, to the territory of Ukraine for the purpose of further sale. Analyzing the dynamics of total imports of Karbosnab LLC in the period 2014-2019, it was found that the company has a tendency to increase imports annually, due to the emergence of new foreign suppliers (respectively, expanding the range of goods) and increasing procurement. Karbosnab LLC is a large importer in the polymer

market. But there are still ways for the company to grow through export operations or cooperation with foreign partners, since the research showed that the company has high potential for foreign activity.

Also, the developed comprehensive method for expanding the internationalization of an enterprise is unique on a general economic scale, due to the fact that its application is possible not only for an enterprise in the polymer industry, but also for a company in any field of activity. In general, the developed evaluation mechanism allows one to obtain complete information necessary for the development of a foreign trade strategy, however, taking into account the development of foreign economic relations of states, changes in the competitive environment and market trends and factors.

Depending on the company's priority, the importance of the possibility of success of this strategy, as well as the internal and external factors associated with it, an international strategy may be selected. Following the implementation of the recommended measures, the internationalisation and the performance on international market of Karbosnab LLC are expected to be effective and efficient.

It is very important to recognize that opportunities intersect closely with challenges, and without removing pitfalls, it is often difficult to step forward. Both external and internal influences are highly dependent on the production of SMEs. SMEs that conduct their business internationally either by carrying out export-import operations or locating one of the product chains in another country are most susceptible to these risks. Karbosnab LLC has many comparative advantages. Moreover, there is an opportunity to win market share from other players, increase the share of consumers or participate in GVC processes. Increasing imports is the most likely strategy because it has fewer pitfalls and more benefits. Therefore, Karbosnab LLC is recommended to apply the strategy of developing its own advantages and improving the skills of its own employees, in particular the skills of conducting foreign economic transactions.

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APPENDICES

Appendix A

**FINANCIAL REPORT
of a small business entity**

		Date (year,month,date)	CODES		
Enterprise	KARBOSNAB Limited Liability Company	USREOU	2015	01	01
Area	Obolon district Kyiv	COATOU	37445264		
Organizational and legal form of management	Limited Liability Company	COLFM	8038000000		
Type of economic activity	Wholesale of wood, construction materials and sanitary equipment	CEA	240		
Average number of employees, persons	15		46.73		
Unit of measurement: thousand UAH with one decimal place					
Address, phone: 04074, Kyiv, street Vyshgorodskaya, 14					

**1. Balance
on 31.12.2015.**

Form: № 1-m

SCMD

1801006

Assets	Line code	At the beginning of the reporting year	At the end of the reporting period
1	2	3	4
I. Non-current assets			
Incomplete capital investments	1005	-	-
Fixed assets:	1010	65,2	62,1
initial value	1011	151,2	129,1
amortization	1012	(164,6)	(152,8)
Long-term biological assets	1020	-	-
Long-term financial investments	1030	-	-
Other non-current assets	1090	-	-
Total for section I	1095	65,3	62,1
II. Current assets			
Stocks:	1100	18713,1	20751,3
including finished products	1103	16111,4	15236,9
Current biological assets	1110	-	-
Accounts receivable for goods, works, services	1125	14988,5	16586,1
Accounts receivable according to budget calculations	1135	-	-
including income tax	1136	-	-
Other current receivables	1155	2815,2	2616,2
Current financial investments	1160	-	-
Money and their equivalents	1165	372,4	361,1
Deferred expenses	1170	9426,1	11176,2
Other current assets	1190	249,2	258,5
Total for section II	1195	46914,2	56585,2
III. Non-current assets held for sale and disposal groups	1200	-	-
Balance	1300	46979,5	56647,3

Continuation of the appendix A

Liabilities	Line code	At the beginning of the reporting year	At the end of the reporting period
1	2	3	4
I. Equity			
Registered (share) capital	1400	1,0	1,0
Additional capital	1410	-	-
Reserve capital	1415	-	-
Retained earnings (uncovered loss)	1420	1222,4	1231,2
Total for section I	1495	1223,4	1232,2
II. Long-term liabilities, targeted funding and collateral			
1595			
III. Current liabilities			
Short-term bank loans	1600	432,7	523,1
Current accounts payable on long-term liabilities	1610	-	-
goods, works, services	1615	41623,8	49182,9
calculations with the budget	1620	45,6	43,2
including income tax	1621	-	-
insurance calculations	1625	-	-
payroll calculations	1630	-	-
Deferred income	1665	-	-
Other current commitments	1690	3491,5	4981,4
Total for section III	1695	46126,2	55415,1
IV. Liabilities related to non-current assets held for sale and disposal groups			
1700			
Balance	1900	46979,5	56647,3

2. Statement of financial results for 2015.

Form: № 2-m
SCMD

1801007

Article	Line code	For the reporting period	For the same period last year
1	2	3	4
Net income from sales of products (goods, works, services)	2000	32 941,88	30 132,2
Other operating income	2120	759,62	813,59
Other income	2240	-	-
Total income (2000 + 2120 + 2240)	2280	33 701,5	30 945,79
Cost of goods sold (goods, works, services)	2050	(30630,45)	(28 955,2)
Other operating expenses	2180	(2410,21)	(1 549,16)
Other expenses	2270	(-)	(-)
Total costs (2050 + 2180 + 2270)	2285	36040,66	30 504,36
Financial result before taxes (2280 - 2285)	2290	660,84	441,43
Income tax	2300	(118,95)	(79,45)
Net profit (loss) (2290 - 2300)	2350	541,89	361,97

Appendix B

**FINANCIAL REPORT
of a small business entity**

			CODES		
			2016	01	01
Enterprise	<u>KARBOSNAB Limited Liability Company</u>	Date (year,month,date)	USREOU		
Area	<u>Obolon district Kyiv</u>		37445264		
Organizational and legal form of management	<u>Limited Liability Company</u>		COATOU		
			8038000000		
Type of economic activity	<u>Wholesale of wood, construction materials and sanitary equipment</u>		COLFM		
			240		
Average number of employees, persons	<u>15</u>		CEA		
			46.73		
Unit of measurement: thousand UAH with one decimal place					
Address, phone: 04074, Kyiv, street Vyshgorodskaya, 14					

**1. Balance
on 31.12.2016.**

Form: № 1-m

SCMD

1801006

Assets	Line code	At the beginning of the reporting year	At the end of the reporting period
1	2	3	4
I. Non-current assets			
Incomplete capital investments	1005	-	-
Fixed assets:	1010	62,1	72,3
initial value	1011	129,1	426,3
amortization	1012	(152,8)	(353,1)
Long-term biological assets	1020	-	-
Long-term financial investments	1030	-	-
Other non-current assets	1090	-	-
Total for section I	1095	62,1	72,3
II. Current assets			
Stocks:	1100	20751,3	19710,1
including finished products	1103	15236,9	18346,8
Current biological assets	1110	-	-
Accounts receivable for goods, works, services	1125	16586,1	15786,9
Accounts receivable according to budget calculations	1135	-	-
including income tax	1136	-	-
Other current receivables	1155	2616,2	2834,7
Current financial investments	1160	-	-
Money and their equivalents	1165	361,1	380,4
Deferred expenses	1170	11176,2	9477,3
Other current assets	1190	258,5	256,2
Total for section II	1195	56585,2	48525,6
III. Non-current assets held for sale and disposal groups	1200	-	-
Balance	1300	56647,3	48598,8

Continuation of the appendix B

Liabilities	Line code	At the beginning of the reporting year	At the end of the reporting period
1	2	3	4
I. Equity			
Registered (share) capital	1400	1,0	1,0
Additional capital	1410	-	-
Reserve capital	1415	-	-
Retained earnings (uncovered loss)	1420	1231,2	1246,2
Total for section I	1495	1232,2	1247,2
II. Long-term liabilities, targeted funding and collateral			
1595			
III. Current liabilities			
Short-term bank loans	1600	523,1	572,4
Current accounts payable on long-term liabilities	1610	-	-
goods, works, services	1615	49182,9	43103,7
calculations with the budget	1620	43,2	52,2
including income tax	1621	-	-
insurance calculations	1625	-	-
payroll calculations	1630	-	-
Deferred income	1665	-	-
Other current commitments	1690	4981,4	3621,3
Total for section III	1695	55415,1	47349,6
IV. Liabilities related to non-current assets held for sale and disposal groups			
1700			
Balance	1900	56647,3	48598,8

2. Statement of financial results for 2016.

Form: № 2-m
SCMD

1801007

Article	Line code	For the reporting period	For the same period last year
1	2	3	4
Net income from sales of products (goods, works, services)	2000	34 932,86	32 941,88
Other operating income	2120	979,58	759,62
Other income	2240	-	-
Total income (2000 + 2120 + 2240)	2280	35 912,44	33 701,5
Cost of goods sold (goods, works, services)	2050	(32630,45)	(31 015,2)
Other operating expenses	2180	(2405,67)	(2 049,16)
Other expenses	2270	(-)	(-)
Total costs (2050 + 2180 + 2270)	2285	35036,12	33 064,36
Financial result before taxes (2280 - 2285)	2290	776,32	660,84
Income tax	2300	(139,73)	(114,68)
Net profit (loss) (2290 - 2300)	2350	636,58	541,89

Appendix C

**FINANCIAL REPORT
of a small business entity**

		Date (year,month,date)	CODES		
			2017	01	01
Enterprise	<u>KARBOSNAB Limited Liability Company</u>	USREOU	37445264		
Area	<u>Obolon district Kyiv</u>	COATOU	8038000000		
Organizational and legal form of management	<u>Limited Liability Company</u>	COLFM	240		
Type of economic activity	<u>Wholesale of wood, construction materials and sanitary equipment</u>	CEA	46.73		
Average number of employees, persons	<u>15</u>				
Unit of measurement: thousand UAH with one decimal place					
Address, phone: 04074, Kyiv, street Vyshgorodskaya, 14					

**1. Balance
on 31.12.2017.**

Form: № 1-m

SCMD

1801006

Assets	Line code	At the beginning of the reporting year	At the end of the reporting period
1	2	3	4
I. Non-current assets			
Incomplete capital investments	1005	-	-
Fixed assets:	1010	72,3	123,3
initial value	1011	426,3	526,2
amortization	1012	(353,1)	(393,9)
Long-term biological assets	1020	-	-
Long-term financial investments	1030	-	-
Other non-current assets	1090	-	-
Total for section I	1095	72,3	123,3
II. Current assets			
Stocks:	1100	19710,1	24489,0
including finished products	1103	18346,8	22377,0
Current biological assets	1110	-	-
Accounts receivable for goods, works, services	1125	15786,9	-
Accounts receivable according to budget calculations	1135	-	-
including income tax	1136	-	-
Other current receivables	1155	2834,7	22068,9
Current financial investments	1160	-	-
Money and their equivalents	1165	380,4	2853,0
Deferred expenses	1170	9477,3	6183,6
Other current assets	1190	256,2	582,9
Total for section II	1195	48525,6	56177,4
III. Non-current assets held for sale and disposal groups	1200	-	-
Balance	1300	48598,8	56309,7

Continuation of the appendix C

Liabilities	Line code	At the beginning of the reporting year	At the end of the reporting period
1	2	3	4
I. Equity			
Registered (share) capital	1400	1,0	1,0
Additional capital	1410	-	-
Reserve capital	1415	-	-
Retained earnings (uncovered loss)	1420	1246,2	1273,2
Total for section I	1495	1247,2	1274,2
II. Long-term liabilities, targeted funding and collateral			
1595			
III. Current liabilities			
Short-term bank loans	1600	572,4	-
Current accounts payable on long-term liabilities	1610	-	-
goods, works, services	1615	43103,7	47976,6
calculations with the budget	1620	52,2	307,2
including income tax	1621	-	-
insurance calculations	1625	-	-
payroll calculations	1630	-	-
Deferred income	1665	-	-
Other current commitments	1690	3621,3	6749,7
Total for section III	1695	47349,6	55033,5
IV. Liabilities related to non-current assets held for sale and disposal groups			
1700			
Balance	1900	48598,8	56309,7

2. Statement of financial results for 2017.

Form: № 2-m
SCMD

1801007

Article	Line code	For the reporting period	For the same period last year
1	2	3	4
Net income from sales of products (goods, works, services)	2000	35 867,56	34 932,86
Other operating income	2120	1020,4	979,58
Other income	2240	-	-
Total income (2000 + 2120 + 2240)	2280	36 887,96	35 412,44
Cost of goods sold (goods, works, services)	2050	(33630,45)	(33630,45)
Other operating expenses	2180	(2505,67)	(2406,77)
Other expenses	2270	(-)	(-)
Total costs (2050 + 2180 + 2270)	2285	36136,12	36037,2
Financial result before taxes (2280 - 2285)	2290	850,74	776,32
Income tax	2300	(153,33)	(153,13)
Net profit (loss) (2290 - 2300)	2350	697,61	636,58

**FINANCIAL REPORT
of a small business entity**

		Date (year,month,date)	CODES		
			2018	01	01
Enterprise	<u>KARBOSNAB Limited Liability Company</u>	USREOU	37445264		
Area	<u>Obolon district Kyiv</u>	COATOU	8038000000		
Organizational and legal form of management	<u>Limited Liability Company</u>	COLFM	240		
Type of economic activity	<u>Wholesale of wood, construction materials and sanitary equipment</u>	CEA	46.73		
Average number of employees, persons	<u>15</u>				
Unit of measurement: thousand UAH with one decimal place					
Address, phone: 04074, Kyiv, street Vyshgorodskaya, 14					

**1. Balance
on 31.12.2018.**

Form: № 1-m

SCMD

1801006

Assets	Line code	At the beginning of the reporting year	At the end of the reporting period
1	2	3	4
I. Non-current assets			
Incomplete capital investments	1005	-	51
Fixed assets:	1010	123,3	55,8
initial value	1011	526,2	461,7
amortization	1012	(393,9)	(405,9)
Long-term biological assets	1020	-	-
Long-term financial investments	1030	-	-
Other non-current assets	1090	-	-
Total for section I	1095	123,3	106,8
II. Current assets			
Stocks:	1100	24489,0	27816,3
including finished products	1103	22377,0	25913,7
Current biological assets	1110	-	-
Accounts receivable for goods, works, services	1125	15786,9	22625,7
Accounts receivable according to budget calculations	1135	-	-
including income tax	1136	-	-
Other current receivables	1155	22068,9	10411,5
Current financial investments	1160	-	-
Money and their equivalents	1165	2853,0	5202
Deferred expenses	1170	6183,6	7309,5
Other current assets	1190	582,9	645
Total for section II	1195	56177,4	74010
III. Non-current assets held for sale and disposal groups			
Balance	1300	56309,7	74116,8

Continuation of the appendix D

Liabilities	Line code	At the beginning of the reporting year	At the end of the reporting period
1	2	3	4
I. Equity			
Registered (share) capital	1400	1,0	1,0
Additional capital	1410	-	-
Reserve capital	1415	-	-
Retained earnings (uncovered loss)	1420	1273,2	1393,8
Total for section I	1495	1274,2	1396,8
II. Long-term liabilities, targeted funding and collateral			
1595			
III. Current liabilities			
Short-term bank loans	1600	572,4	-
Current accounts payable on long-term liabilities	1610	-	-
goods, works, services	1615	47976,6	58361,1
calculations with the budget	1620	307,2	-
including income tax	1621	-	-
insurance calculations	1625	-	-
payroll calculations	1630	-	-
Deferred income	1665	-	-
Other current commitments	1690	6749,7	14358,9
Total for section III	1695	55033,5	72720
IV. Liabilities related to non-current assets held for sale and disposal groups			
1700			
Balance	1900	56309,7	74116,8

2. Statement of financial results for 2018.

Form: № 2-m
SCMD

1801007

Article	Line code	For the reporting period	For the same period last year
1	2	3	4
Net income from sales of products (goods, works, services)	2000	36567,53	35 867,56
Other operating income	2120	1074,8	1020,4
Other income	2240	-	-
Total income (2000 + 2120 + 2240)	2280	37 642,33	36 887,96
Cost of goods sold (goods, works, services)	2050	(33701,03)	(33630,45)
Other operating expenses	2180	(2979,07)	(2406,77)
Other expenses	2270	(-)	(-)
Total costs (2050 + 2180 + 2270)	2285	36680,1	36037,2
Financial result before taxes (2280 - 2285)	2290	962,23	850,74
Income tax	2300	(173,20)	(153,13)
Net profit (loss) (2290 - 2300)	2350	789,02	697,61

**FINANCIAL REPORT
of a small business entity**

		Date (year,month,date)	CODES		
			2019	01	01
Enterprise	<u>KARBOSNAB Limited Liability Company</u>	USREOU	37445264		
Area	<u>Obolon district Kyiv</u>	COATOU	8038000000		
Organizational and legal form of management	<u>Limited Liability Company</u>	COLFM	240		
Type of economic activity	<u>Wholesale of wood, construction materials and sanitary equipment</u>	CEA	46.73		
Average number of employees, persons	<u>15</u>				
Unit of measurement: thousand UAH with one decimal place					
Address, phone: 04074, Kyiv, street Vyshgorodskaya, 14					

**1. Balance
on 31.12.2019.**

Form: № 1-m

SCMD

1801006

Assets	Line code	At the beginning of the reporting year	At the end of the reporting period
1	2	3	4
I. Non-current assets			
Incomplete capital investments	1005	51	88,5
Fixed assets:	1010	55,8	35,4
initial value	1011	461,7	461,7
amortization	1012	(405,9)	(426,3)
Long-term biological assets	1020	-	-
Long-term financial investments	1030	-	-
Other non-current assets	1090	-	-
Total for section I	1095	106,8	1023,9
II. Current assets			
Stocks:	1100	27816,3	15746,4
including finished products	1103	25913,7	13497,6
Current biological assets	1110	-	-
Accounts receivable for goods, works, services	1125	22625,7	
Accounts receivable according to budget calculations	1135	-	11572, 2
including income tax	1136	-	-
Other current receivables	1155	10411,5	14266,2
Current financial investments	1160	-	-
Money and their equivalents	1165	5202	2359,5
Deferred expenses	1170	7309,5	7309,5
Other current assets	1190	645	873,9
Total for section II	1195	74010	52127,7
III. Non-current assets held for sale and disposal groups	1200	-	-
Balance	1300	74116,8	52251,6

Continuation of the appendix E

Liabilities	Line code	At the beginning of the reporting year	At the end of the reporting period
1	2	3	4
I. Equity			
Registered (share) capital	1400	1,0	1,0
Additional capital	1410	-	-
Reserve capital	1415	-	-
Retained earnings (uncovered loss)	1420	1393,8	1812
Total for section I	1495	1396,8	1815
II. Long-term liabilities, targeted funding and collateral			
III. Current liabilities			
Short-term bank loans	1600	572,4	-
Current accounts payable on long-term liabilities	1610	-	-
goods, works, services	1615	58361,1	37363,2
calculations with the budget	1620	-	91,8
including income tax	1621	-	-
insurance calculations	1625	-	-
payroll calculations	1630	-	-
Deferred income	1665	-	-
Other current commitments	1690	14358,9	12981,6
Total for section III	1695	72720	50436,6
IV. Liabilities related to non-current assets held for sale and disposal groups			
	1700	-	-
Balance	1900	74116,8	52251,6

2. Statement of financial results for 2019.

Form: № 2-m
SCMD

1801007

Article	Line code	For the reporting period	For the same period last year
1	2	3	4
Net income from sales of products (goods, works, services)	2000	37287,78	36567,53
Other operating income	2120	1301	1074,8
Other income	2240	-	-
Total income (2000 + 2120 + 2240)	2280	38 588,78	37 642,33
Cost of goods sold (goods, works, services)	2050	(33701,03)	(34653,89)
Other operating expenses	2180	(2979,07)	(2909,45)
Other expenses	2270	(-)	(-)
Total costs (2050 + 2180 + 2270)	2285	(37563,34)	(36680,1)
Financial result before taxes (2280 - 2285)	2290	1 025,44	962,23
Income tax	2300	(173,20)	(184,58)
Net profit (loss) (2290 - 2300)	2350	840,86	789,02

Communication with existing strategic and program documents by Ministry of Economic Development, Trade and Agriculture of Ukraine issued in 2016.

	Name (date accepted)	The main goals
General	Ukraine 2020 Sustainable Development Strategy (01.12. 2015)	<ul style="list-style-type: none"> • Security of the state, business and citizens. • Responsibility and social justice. • Pride for Ukraine in Europe and the world.
	Association Agreement between Ukraine and the EU (09.16.2014)	<ul style="list-style-type: none"> • Political dialogue and reforms. • Justice, freedom and security. • Trade and related issues. • Economic and sectoral cooperation. • Financial cooperation.
	Government Action Plan for 2016 (May 27, 2016)	<ul style="list-style-type: none"> • Macroeconomic stabilization. • Creating favorable conditions for doing business. • Ensuring the rule of law and fighting corruption. • Improving the quality of public administration. • Restoration of security of the state and citizens.
	Action plan to increase Ukraine's position in the Doing Business rating (12.16.2015)	<ul style="list-style-type: none"> • Achieving a strategic goal - the top 20 countries in the ranking of "Doing Business".
	State strategy of regional development for the period up to 2030 (06.08.2014)	<ul style="list-style-type: none"> • Strengthening regional competitiveness. • Territorial socio-economic integration and spatial development. • Effective regional development management.
Sectoral	Energy strategy of Ukraine for the period up to 2030 (07.24.2013)	<ul style="list-style-type: none"> • Development of strategies for following industries: electricity; nuclear energy, coal, oil, gas. • Integration into the energy sector of the European Union.
	Reforming the state system of intellectual property protection	<ul style="list-style-type: none"> • Creation of an optimal, high-quality and effective state system of intellectual property protection.

Overview of Ukraine's key reforms since 2016 and recommendations. OECD, 2020b.

<i>Key reforms</i>	<i>Key recommendations</i>
Adopted a new SME strategy in 2018 and established an SME Development Office to support its implementation.	Implement an early-warning system for detecting insolvency.
Developed the New Ukrainian School concept based on 10 key competences, including “sense of entrepreneurship”.	Adopt a comprehensive and proactive second chance strategy for bankrupt entrepreneurs.
Consolidated the banking sector, leading to more stability and improved access to finance for SMEs.	Consolidate the current monitoring and evaluation actions and create framework for the key competence developments happening within the New Ukrainian School reform, the vocational education and training modernization reform, and Higher Education reforms.
Gradual approximation/alignment with EU standards and EU technical regulations.	Bring to fruition the large number of initiatives to stimulate lending to SMEs that are currently at drafting stage.
Included measures for SME greening and green technologies in the SME strategy 2020.	Ensure funding for, and sufficient internal capacity of, the Export Promotion Office to provide export support services and expand its services at the regional level.
	Provide information and direct support to SMEs on the benefits of the planned green public procurement policies.

Progress in the access to finance dimension among Eastern European Countries,
OECD 2020b.

