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**FUNCTIONING OF SMALL AND MEDIUM-SIZED BUSINESS
IN A PANDEMIC****ФУНКЦІОНУВАННЯ МАЛОГО ТА СЕРЕДНЬОГО БІЗНЕСУ
В УМОВАХ ПАНДЕМІЇ**

The article considers the state of small and medium-sized businesses in Ukraine and abroad in the pandemic COVID-19. In the context of the crisis of economic development, it is state aid to small businesses that can lead to an improvement in the economic situation in the regions and across the country. The main goal of our study is to identify direct and indirect factors of the COVID-19 pandemic's impact on the functioning of small and medium-sized businesses, to develop possible ways to overcome its consequences or minimize its. It was determined that quarantine restrictions have a negative impact on SMEs, furthermore the most negative impact was on catering, service and trading enterprises. The experience of the world's leading countries was considered to develop effective measures to stabilize the economic situation and overcome the negative consequences for SMEs. It was found that most countries reduced tax payments, introduced "credit vacations" for businesses that could not pay credit interest on the loan and the body of the loan itself, paid benefits to companies to pay employees, and paid benefits to those who lost their jobs and self-employment. Following the announcement of quarantine restrictions, the Government of Ukraine has also developed and implemented a number of measures to mitigate the impact on business, including SMEs. Ways have been proposed to overcome the current economic crisis in country, including a 50% reduction or abolition of united social contribution for at least 6 months while preserving all jobs for the employer; extension of "credit and tax holidays", etc.

Key words: economy, economics, crisis, small business, medium business, credit vacation, taxes, interest rates, pandemic, quarantine, COVID-19.

У статті розглянуто стан мікро- малого та середнього бізнесу України та зарубіжних країн в умовах пандемії COVID-19. З'ясовано, що нині в Україні функціонує майже 1,8 мільйона малих і середніх підприємств. Визначено, що на МСБ негативно впливають карантинні обмеження, а найбільше негативного впливу зазнали підприємства харчування, надання послуг та торгівлі. Для розробки ефективних заходів стабілізації економічної ситуації та подолання негативних наслідків для МСБ було розглянуто досвід провідних країн світу. Виявлено, що більшість країн послабили податкові платежі, вводили «кредитні канікули» для підприємств, які не в змозі платити відсотки за кредит та саме тіло кредиту, виплачували допомогу підприємствам для оплати праці працівникам, а також виплачували допомогу особам, які втратили роботу та ФОП. Уряд України, після проголошення карантинних обмежень, також розробила і впровадила низку заходів для пом'якшення впливу на бізнес, зокрема на МСБ. Запропоновано способи подолання нинішньої економічної кризи бізнесу та економіки, в числі яких зменшення на 50% або скасування не менше ніж на 6 місяців ЄСВ із збереженням усіх робочих місць за роботодавцем, продовження «кредитних і податкових канікул» тощо.

Ключові слова: економіка, криза, малий бізнес, середній бізнес, кредитні канікули, податки, відсоткові ставки, пандемія, карантин, COVID-19.

В статье рассмотрено состояние микро- и среднего бизнеса Украины и зарубежных краев в условиях пандемии COVID-19. Выяснено, что в настоящее время в Украине функционирует почти 1,8 миллиона малых и средних предприятий. Определено, что на МСБ

негативно влияют карантинные ограничения, а наибольшее негативное влияние испытали предприятия питания, оказание услуг и торговли. Для разработки эффективных мер по стабилизации экономической ситуации и преодолению негативных последствий для МСБ был рассмотрен опыт ведущих стран мира. Выявлено, что большинство стран ослабили налоговые платежи, вводили «кредитные каникулы» для предприятий, которые не в состоянии платить проценты за кредит и само тело кредита, выплачивались пособия предприятиям для оплаты труда работникам, а также выплачивали помощь лицам, которые потеряли работу и ФЛП. Правительство Украины, после провозглашения карантинных ограничений, также разработало и внедрило ряд мер по смягчению влияния на бизнес, в частности на МСБ. Предложены способы преодоления нынешнего экономического кризиса бизнеса и экономики, в числе которых уменьшение на 50% или отмена не менее чем на 6 месяцев ЕСВ с сохранением всех рабочих мест за работодателем, продление «кредитных и налоговых каникул» и т.д.

Ключевые слова: экономика, кризис, малый бизнес, средний бизнес, кредитные каникулы, налоги, процентные ставки, пандемия, карантин, COVID-19.

Statement of the problem. Over the past few years, the state of the economy has worsened in Ukraine, which has been significantly affected by the worldwide COVID-19 pandemic. Under such conditions, the sphere of small and medium-sized entrepreneurship is one of the most affected categories of economic entities, of which a significant proportion of them operate in sectors of the economy where business has not received proper state support, as a result of which most of these enterprises went bankrupt. Based on the experience of developed countries, the implementation of a balanced financial policy of supporting small business entities by the state is an integral part of modern financial policy in the state sphere. In the context of the crisis of economic development, state aid to small businesses can lead to an improvement in the economic situation in the regions and throughout the country. Today, it is in small and medium business that the state hopes for rapid positive structural changes in the economy, overcoming the economic crisis and creating conditions for economic growth.

Analysis of recent research and publications. Research into the direct impact of the COVID-19 pandemic, including the development of measures to reduce its impact, began to be carried out by economists and individual research organizations on processes in the economy since the first lockdown was announced in China. Questions of the impact of the pandemic COVID-19 on economic processes, especially at small and medium enterprises, were handled by foreign scientists such as Richard Baldwin and Beatrice Veder [1], Joseph Amankwa-Amoa, Zahir Khan, Jeffrey Wood [2]. Currently, there is no comprehensive view of the problem in the Ukrainian economy, but active research by such scientists as Vorfolomeev A. [3], Denkov D., Karakuts A., Shchedrin Yu. [4], Sveshnikov S., Bocharnikov V., Polyakova O.V. [5] and others. However, given the dynamic development of the situation and the wave nature of the pandemic, studies of the impact of quarantine measures on the economy, especially on small and medium-sized businesses, are not complete enough.

Formulation of the goals of the article. The main purpose of the research is to identify direct and indirect factors of the impact of the pandemic COVID-19 on the functioning of small and medium-sized businesses, to develop possible ways to overcome or minimize its consequences.

Presentation of the main material of the study. Small and medium business (SME) is the foundation for the entire economy of the state. It is the SME sector that is the main in providing employment, it accounts for about 79% of the total number of jobs in Ukraine, and it also forms the basis of the social and labor sphere. This confirms the practical domestic and foreign experience. The quarantine caused by the pandemic COVID-19, including in Ukraine, has paralyzed the functioning or even led to the closure of medium, small and micro enterprises. Today, almost 1.8 million small and medium enterprises operate in Ukraine (16.5 thousand medium, 339 thousand small, 1.48 million individual entrepreneurs and only 446 large enterprises). As legal entities, only 19.8% of SMEs function, the rest of enterprises conduct their economic activities as individual entrepreneurs [6].

The introduction of quarantine has had a negative impact on the functioning of SMEs. The restrictions introduced led to:

- some sectors were not able to fully conduct their economic activities due to prohibition or restrictions in the conduct of activities;
- a decrease in income, due to the increase in unemployment, led to a decrease in the solvency of the population, and this, in turn, decreased the demand for the products of enterprises;
- a significant part of SME subjects did not withstand severe restrictions and were forced to stop their activities;
- some small and medium enterprises do not have the necessary financial resources to quickly and effectively overcome the negative effects of the pandemic COVID-19;
- the trend of the shadow employment sector has increased and hidden unemployment has increased;
- the established chains of added value were destroyed, as a result, the negative impact on the economy of the country as a whole increased.

More negative impact from the pandemic were those small and medium enterprises that operate in the field of food, services and trade. Companies working in the field of real estate, consulting, legal services, etc. According to the Union of Ukrainian Entrepreneurs of Ukraine [7] in March 2020, about 6% of small business owners lost their business, which was a big problem for the state economy. About 1/3 of micro-businesses (less often small enterprises) received revenues for March-April 2020 less by 90-100%. As a result, they had to cut states and therefore 50% of workers were laid off. SME owners did not receive 25-50% revenues, comparing with the same pre-quarantine period and reduced the staff by 10- 25%. Compared with the losses of large enterprises, which accounted for 10-25% of revenues and the reduction of the state to 20%, the consequences for small and medium-sized businesses are more devastating. Schematically, the impact of quarantine measures on the work of SMEs is shown in Figure 1.

Thus, we see that the largest monetary losses were suffered by micro and SMEs, compared to large, however, the reduction of staff states at large enterprises occurred on a par with smaller enterprises.

To develop effective measures that will help overcome the negative consequences of the pandemic, it is necessary to analyze the experience of leading foreign countries, as well as explore ways of government support for SMEs of European countries and the United States.

The German government to support business entities and citizens during the pandemic has developed and adopted a number of social packages worth more than 750 billion euros. For the effective functioning of small businesses in limited conditions and citizens decided to allocate 156 billion euros, which will reduce tax revenues by 33.5 billion euros through

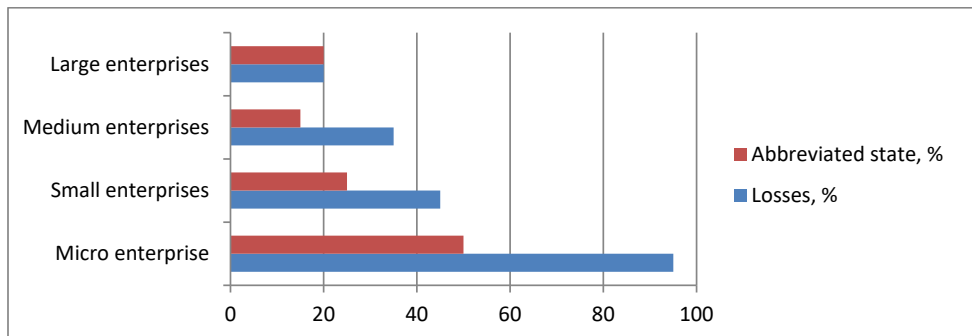


Figure 1. Impact of quarantine measures on SMEs and large enterprises
Source: compiled by the author according to the data [7]

the introduction of tax holidays. The German Bundestag also decided to allocate 50 billion euros to support individual entrepreneurs and small businesses. Thus, as of April 2020, about 700 thousand enterprises have applied for monetary compensation, and currently 3 million employees receive earnings under this scheme. In Germany, in order to stabilize the economy during the pandemic, it was decided to create a fund of 600 billion.

The government of Finland has allocated 100 thousand euros to retail representatives to maintain their operation under the conditions of restriction. All entrepreneurs, including freelancers, were given the right to receive unemployment benefits for three months. Pension deductions were postponed for the same period. Enterprises, especially representatives of small and medium-sized businesses, are able to pay tax deductions at a later date without charging a penny. Financing of these measures is carried out by issuing new loans, the obligation for which takes over the government of the country.

In France, 8.5 billion euros were allocated for the effective operation of companies that had to temporarily remove their employees from work due to quarantine restrictions to pay these workers wages at the expense of these funds. Also, the French government pledged to ensure the preservation of jobs for workers after the end of the crisis. Such a system allows to reduce payments to workers up to 70%, but only if the salary exceeds the minimum 4.5 times. At the same time, the government of the country assumes the responsibility to fully compensate for the costs of economic entities to pay employees.

The UK is loosening at the legislative level regarding the recognition of the enterprise as bankrupt so that businesses that are on the verge of closing can continue to function. Also in England, for the period of quarantine restrictions, there was a triple reduction in the discount rate, namely to 0.25%.

In Poland, a number of state financial support measures are held for small and medium-sized businesses under quarantine restrictions. With the onset of quarantine restrictions, the government adopted a number of legislative initiatives to reduce the negative impact on SMEs, the so-called "Anti-Crisis Shields," which are constantly updated and supplemented by external and internal factors. These measures are aimed at strengthening the financial security of citizens and enterprises, maintaining the level of employment of the population. According to the adopted legislative acts, the costs associated with the economic crisis caused by the pandemic will be evenly redistributed between all economic entities, labor resources, the financial system and the state. The approximate total cost of this package is about 10% of Poland's GDP.

In the United States, the government has allocated \$2 trillion for additional payments to its citizens and businesses, to effectively overcome the negative economic consequences for business development. These additional funds went to one-time payments of \$1,200 for all individuals whose annual income is up to \$75,000. If the income of citizens in the amount of 75,000 to 99,000 dollars a year, the one-time payment will be less. Another \$377 billion of the allocated funds went to support small businesses, as well as citizens for 4 months held weekly unemployment payments of \$600. The government introduced stricter conditions that apply to the \$500 billion Corporate Welfare Fund to ensure the proper level of employment, remuneration, benefits to workers. Creditors in the United States are allowed to give mortgage borrowers who have suffered from quarantine restrictions, to provide preferential holidays.

Thus, the measures used by the EU, England and the USA to help small and medium businesses during the coronavirus economic crisis can be grouped into three categories (Figure 2).

In Table 1, we summarize the number (as a fraction of GDP) of state support indicators by some countries.

In addition to new spending measures, some governments have delayed or canceled some previously planned spending, such as some investment. This is partly due to the need to provide more fiscal resources to combat the pandemic and its economic consequences,

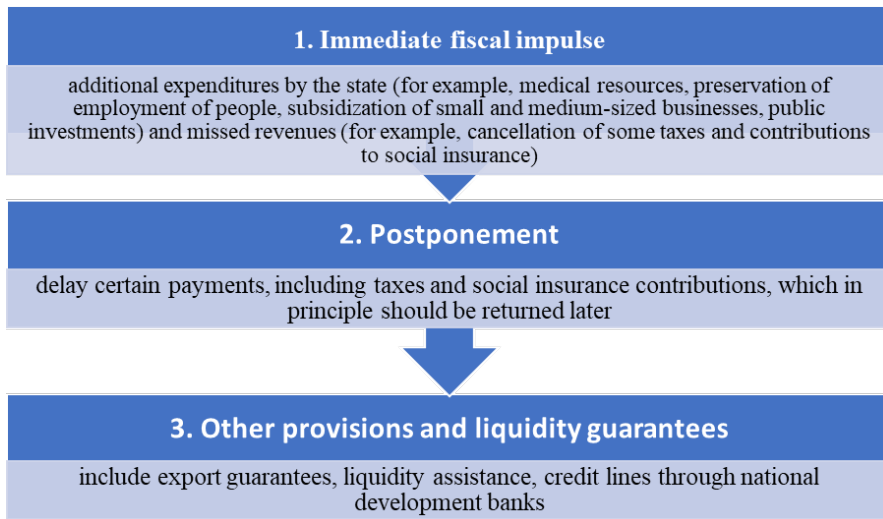


Figure 2. Discretionary fiscal measures for the coronavirus crisis

Source: grouped by author according to data [8]

and partly due to interruptions in supply. This cost reduction is a negative fiscal impulse. Because of the lack of data, we cannot quantify these reduced costs.

The size of the relief package for the countries of Central and Eastern Europe, the Balkans and the Caucasus in response to the pandemic COVID-19 in percents of GDP is presented in Figure 3.

Measures implemented by the Government of Ukraine to overcome the negative consequences of the crisis caused by the pandemic are aimed at supporting business, and especially small and medium. In 2020, the authorities introduced a number of measures to respond to the crisis, the sum of which was about 3% of the country's GDP. The following measures

Table 1

Discretionary fiscal measures for 2020 aimed at overcoming the crisis consequences COVID-19

Country	Events	Immediate fiscal momentum, %	Postponement, %	Other liquidity/guarantee, %
Belgium		1.4	4.8	21.9
France		5.1	8.7	14.2
Germany		8.3	7.3	24.3
Greece		3.1	1.2	2.1
Italy		3.4	13.2	32.1
Netherlands		3.7	7.9	3.4
Portugal		2.5	11.1	5.5
Spain		4.3	0.4	12.2
England		8.3	2.0	15.4
USA		9.1	2.6	2.6

Source: grouped by author according to data [8]

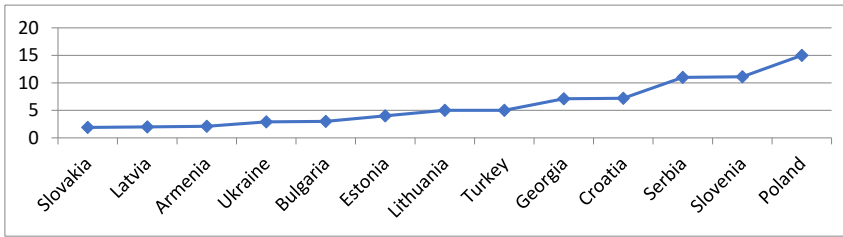


Figure 3. Relief package in response to COVID-19 pandemic, % of GDP
 Source: grouped by author according to data [9]

were introduced in Ukraine: tax benefits; extended programs of subsidized loans; effective and affordable credit guarantee schemes; social support programs.

December 2020, the parliament adopted a number of measures to support business, mainly micro (FOP), small and medium, during the second wave of quarantine restrictions. They included one-time cash assistance in the amount of UAH 8.000 (US \$280) to employees and individual entrepreneurs who lost their income as a result of quarantine, as well as some entrepreneurs were exempted from paying income tax and social insurance tax from December 2020 to May 2021 and tax debts in the amount not higher than UAH 3060 were written off. Until 2021, there was a program of subsidized loans. In addition, the government approved \$180 million in government guarantees for lending to the banking business. Figure 4 depicts the key current initiatives of the Government of Ukraine to maintain a stable economic situation in the country, replenishment of the state budget and assistance to SMEs and individuals to entrepreneurs.

The Government of Ukraine has approved an economic stimulus program to effectively overcome the consequences of the COVID-19 epidemic, which includes proposals to sup-



Figure 4. Priority directions of state initiatives of Ukraine on economic development under the influence of coronavirus restrictions
 Source: grouped by author according to data [9; 10; 11; 12]

port specifically small and medium-sized businesses. In March 2020, the NBU offered banks to introduce a special period of lending deferral for the quarantine period for private entrepreneurs and SMEs – "credit vacation." The NBU has also created a favorable environment for maintaining monetary (reducing the key rate, refinancing) and regulatory transactions (deferring new capital requirements, stress tests and control, banking reporting requirements and other mitigations).

Ukraine has used such global approaches to stabilize the economy and support SMEs in times of quarantine restrictions (Figure 5).

Thus, in times of crisis, it is important to create a flexible system of taxation and administration of tax payments not only to overcome the current economic crisis of business and economy, but also to take measures to mitigate its negative socio-economic consequences, which will allow to quickly and effectively respond to such situations in the future. These can be advantages for individual regions, sectors and activities that have strategic and different meanings for the region or the state as a whole. It is important to remember the fairness of taxation. "The fairness of taxation should be based on a harmonious combination of the financial interests of the state, society and taxpayers" [14; 15; 16]. We believe that the most effective for Ukraine is the introduction of the following measures:

- prolongation of the period of cancellation of strict conditions for payment of taxes for a certain period;
- postponement of payment of taxes and other tax payments in case of failure to pay on time, especially during the period of quarantine restrictions;
- reduction by 50% or cancellation by at least 6 months of the unified social tax with the preservation of all employer jobs;
- reduction or cancellation of corporate profit tax for at least 6 months with full restoration of activities;

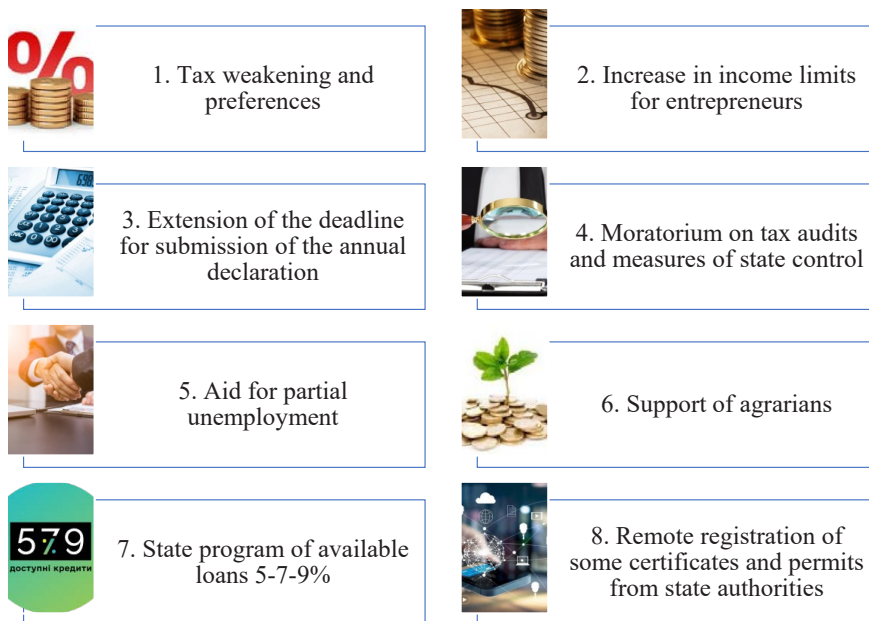


Figure 5. State measures to support SMEs and entrepreneurs during the pandemic COVID-19

Source: grouped by author according to data [13]

– additional tax benefits that will quickly restore and accelerate the pace of economic development.

Conclusions. Consequently, support for small and medium-sized businesses and the economy as a whole should play an important role among the main relief measures during the economic crisis caused by the COVID-19 pandemic. Immediate in this regard is the immediate creation of the "Business Support Program". For large and medium enterprises, it is advisable to provide an unlimited amount of credit funds available under various credit schemes and reduced rates; freezing payments on previously received loans and loans; deferral of payments to taxpayers from the profit of enterprises. For small entrepreneurs it is necessary to recommend: transfer of the date of payment of taxes and other tax fees in case of impossibility of such payment, especially for the period of quarantine; reduction or cancellation of at least 6 months of personal income tax and Unified Social Contribution with the preservation of all employer jobs; reduction or cancellation of corporate profit tax for at least 6 months with full restoration of activities; granting preferential loans under the "Small Business Support and Self-Employment Program"; referral of relevant funds to provide one-time subsidies, the return of which is not provided; maintenance of working capital to cover three quarantine costs; additional tax incentives that allow you to quickly recover and increase the pace of development of small businesses.

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