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## **CITIES CLIMATE FINANCE**

1. Cities are generating more than 80% of the global GDP, at the same time they are responsible for 70% of the overall energy consumption and GHG emissions. Moreover, almost 60% of the global population will live in the cities by 2030 [1]. It means that these areas will be engaged the most in solving existing global problems.

2. In 2016 Ukraine signed the Paris Climate Agreement and according to this document should reduce the GHG emissions. There are different ways of fulfilling those obligations and the most important are associated with improvement of the energy efficiency and increase of the renewable energy production. In other words, we should build up the so-called green, climate resilient economy.

3. According to different estimations (for instance, DIW Econ), Ukraine needs approximately 200 billion USD to achieve climate-related goals and create climate resilient (green) economy. It's obvious that there is a lack of internal financial resources for this purpose and the situation looks more dangerous on the local level because the local budgets are suffering from huge deficits and there are no additional sources of revenues - the tax burden is enormous (more than 60%).

4. Taking into account all these circumstances, we should look more precisely at the market financial instruments and try to create the legal framework to implement and use them in Ukraine. The international financial market has a wide range of different instruments elaborated with the main purpose to make the access to green/climate finance easier.

5. The cities all around the world are using following types of universal financial instruments to raise climate finance: green bonds, sustainable development bonds, social impact bonds, etc. [2]. In fact, cities are the pioneers in implementation of all those instruments and carrying the so-called transaction costs associated with accumulation of climate finance and non-financial reporting. Providing then those financial resources to small and medium enterprises (SMEs) - to the agents who can't carry relatively huge transaction costs.

6. The main problem in Ukraine is that all those financial instruments don't have any legal framework - it's almost impossible to use them in Ukraine. This problem is the complex one and needs an appropriate comprehensive solution. For instance, we should talk about the implementation of EU MiFID and 2013/34, 2003/87 Directives and related regulations.

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## **TAXATION IN THE CONTEXT OF SME DEVELOPMENT**

The micro, small- and medium sized enterprises sector (MSMEs or SMEs) is one of the biggest not only in Ukraine, but also in other countries (both developed and developing). Over 95% of businesses in the OECD fall into this category, and they account for about two-thirds of total private employment (OECD, 2005). In Latin America and the Caribbean MSMEs account for 99% of businesses and employ 67 % of workers (OECD 2012)[1, p. 48]. In Ukraine 99.9% of legal entities belong to the MSME sector (96.8% of which are micro enterprises) [2]. The World Bank states that if any enterprise has below 99 people, it can be defined as an SME.

The MSMEs play an important role in economic development through: creating employment opportunities; mobilizing domestic savings; poverty reduction; income distribution; regional development; creating an environment in which large firms prosper; contributing to export earnings. At the same time, MSMEs account for a much smaller share of all tax revenues than they do of GDP or employment (this is so in both developed and developing economies). The evidence demonstrates potential tax payments are not typically concentrated in a relatively small number of enterprises. Thus, typical distributions of revenue by firm size for African and Mid-Eastern countries is: for the largest - less than 1% of taxpayers and over 70% of revenues; for the medium-sized -10-20% of taxpayers and 20-25% of revenues; and for the small and micro enterprises - 80-90% of taxpayers and 5-10% of revenues [1, p. 50]. Insignificant role of SMEs in tax revenue can be caused by their small size and fragmentation, less profitability than large companies. Moreover, they are more likely to operate in the informal sector in any given economy [3]. Thus, tax morale plays a significant role in determining the tax revenue contributions from MSMEs and the size of the informal sector. The level of informal sector in Ukraine is rather high (according to assessments it reaches 60% of GDP). That is why solving the problems of MSMEs tax non-compliance in Ukraine can boost its economic development.

The tax system is one of the key reasons for the growth of the informal sector [4]. Non-compliance with the tax system might give a competitive advantage to SMEs as they will be able to offer their goods and services at lower price than their competitors in the formal sector. At the same time disadvantages, resulting from non-compliance with the tax system may exceed potential benefits.

Among advantages of SMEs non-compliance are: (1) for business - comparative advantage due to possibility of offering products at lower price; less control from tax officers; and avoidance of high compliance costs; (2) for tax administration - lower administrative costs and possibility of allocating scarce resources to administrating high-potential taxpayers [3, p. 59].

The main disadvantages of SMEs non-compliance are: (1) *for business*: inability to obtain formal licenses and permits from local and other government agencies; difficulty in securing credit from formal sources; inability to expand activity in order to avoid attracting the attention of the authorities; vulnerability to corruption, as officials may need to be bribed to overlook the informal status of the enterprise; obstacles to trading with the formal sector; and inability to claim legitimate tax deductions and exemptions; (2) *for the Government*: incorrect estimation of revenue capacity of SME segment; violation of tax equity; risk of erosion of general compliance attitude; and non-compliance with the tax system creates risks of being associated with non-compliance with other laws, e.g., environmental and safety standards; (3) *for the public and civil society*: less tax revenue available for public services and less government accountability.

Thus, disadvantages of tax non-compliance exceeds the advantages not only for Government, but also and mostly for business. They affect the SME development, their access to finance and level of SME attractiveness for domestic and foreign investors. Problems in taxation in Ukraine had to be solved during tax reforms of 2014-2016 years, but until today, they remain the same. The results of surveys carried out in 2016 prove that the most important SMEs problems are the complexity of tax system and mechanism of tax administration, high

level of corruption and shadow economy in Ukraine.

Simplifying of tax administration is one of the sixth key goals of the SME development Strategy that is working out by the Ministry of Development and Foreign Trade of Ukraine [4]. However, the Strategy addresses the problems of tax administration very fragmentary; it does not include specific criteria and indicators that can indicate the degree of the strategic goals achievement. Developing Strategy, the government authorities should understand that SME owners usually have limited knowledge about Tax code and face some difficulties while attaining information on tax policy and procedures. Tax compliance costs are an additional burden for SMEs. These factors scare SMEs to proceed into the formal sector. To reduce them policymakers should outline clear and straightforward taxation policy.

We consider that in the Strategy the different role of SMEs in the economy and their capabilities of tax evasion and tax non-compliance have to be taken into consideration. To achieve the goal of sustainable development the main efforts of the Government should be focused on improving tax and business climate in Ukraine. To achieve success government, business and public should collaborate.

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## **INTRODUCTION OF COMPULSORY DECLARATION OF ALL CITIZENS INCOME IN UKRAINE**

As the theme of my report is «Introduction of compulsory declaration of all citizen incomes in Ukraine», please allow to present you the main arguments for this reform, describe possible problems and weigh the pros and cons.

At its difficult path of European integration Ukraine has a number of critical structural marks, fighting corruption and the destruction of this very negative phenomenon is one of the most important. Here it should be noted where Ukrainian corruption takes its origin? It starts when there is no clear control over incomes, sources of income and tax payments. When a person experiences excessive fiscal freedom and sees no possible persecution for misuse, becomes prone to corrupted actions. Compulsory declaration of income is the primary tool in the fight with the hydra of corruption and shadow economy as a result. People talk a lot about the fact that corruption is a result of poor performance of the police, prosecution and judiciary, but it takes roots from excessive fiscal freedom.

So what process is called a mandatory declaration of incomes? It is legally enshrined duty of every citizen in a timely manner to provide the fiscal authorities information about the sources and size of their revenue and income of related parties during the reporting period in the form of electronic declarations, as well as provide additional explanation and supporting documents at the request of the tax inspector.

Arguments for tax reform with the proceeding of compulsory declaration of personal income in Ukraine:

- A substantial increase of transparency about revenues of taxpayers for GFS;