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DEVELOPMENT DETERMINANTS OF SMALL AND MEDIUM-SIZED ENTERPRISES: A CASE STUDY OF UKRAINE

This article explores the repercussions of the war on small and medium-sized enterprises (SMEs) in Ukraine, focusing on their status at the end of 2023. Additionally, it provides region-specific insights, acknowledging that the impact of military actions varied across different areas of the country. The assessment highlights the main challenges, obstacles, and risks that have hindered business growth. It also evaluates the needs and priorities of small businesses for Ukraine's recovery after the war, which could play a crucial role in the nation's broader societal recovery.

Keywords: *small and medium-sized business, regions, number of enterprises, employment, innovation, challenges and barriers.*

JEL classification: O15, N40.

DOI: <https://doi.org/10.31649/ins.2024.4.55.61>**1. STATEMENT OF THE PROBLEM IN A GENERAL APPEARANCE AND ITS CONNECTION WITH IMPORTANT SCIENTIFIC OR PRACTICAL TASKS**

In February 2022, Russia initiated a full-scale invasion of Ukraine, leading to an ongoing conflict that profoundly impacted both the Ukrainian and global economies. The country was forced to redirect its resources towards defense efforts and finding ways to minimize the war's adverse effects on citizens and businesses.

Studying the development of small and medium-sized businesses in Ukraine is crucial because they are a key driver of economic growth and employment. Understanding their challenges and needs can help create policies that support their recovery and resilience, especially in the context of post-war rebuilding. SMEs are often more flexible and innovative, making them vital for local economic development and entrepreneurship. The war has severely impacted

these businesses, and studying their situation helps identify targeted recovery strategies. Supporting SMEs is also essential for social stability, as they provide jobs and livelihoods for many Ukrainians, contributing to poverty reduction and social cohesion.

2. ANALYSIS OF LATEST RESEARCH AND PUBLICATIONS

The question of the recovery of small and medium-sized businesses in Ukraine is quite relevant not only for Ukrainian, but also for foreign researchers and scientists. The analysis of the problem was based on the Research conducted in December 2023 - January 2024 within the framework of the United Nations Development Program (UNDP) project «Support to Ukraine».

The work of the authors V. Maksimov, S. Lu Wang, Y. Luo was analyzed, and it highlighted the problems of development of small and

medium-sized businesses in Ukraine before the pandemic and the war in Ukraine. To compare the dynamics of enterprise development indicators in modern economic conditions, the works of L. Yatsenko, V. Vasiuta, V. Lobas, O. Zubko were studied.

3. SELECTION OF PREVIOUSLY UNSOLVED PARTS OF THE GENERAL PROBLEM TO WHICH THIS ARTICLE IS DEDICATED

The issue of further research into the functioning and recovery of small and medium-sized businesses in Ukraine remains relevant because given their greater adaptability to changes, SMEs play a critical role in the Ukrainian economy, particularly during martial law. Moreover, they are anticipated to constitute a vital factor for development in the future.

4. FORMULATION OF THE PURPOSES OF THE ARTICLE

The purposes of the article is to explicate the role of Small and Medium Enterprises (SMEs) in the economy, with a specific focus on the Ukrainian context.

5. PRESENTATION OF THE MAIN MATERIAL OF THE RESEARCH WITH FULL JUSTIFICATION OF THE OBTAINED SCIENTIFIC RESULTS

SMEs play crucial roles in various social and economic aspects of the economy.

The main economic functions of SMEs are:

1. **Employment Generation:** its role is especially significant in underdeveloped local and regional labor markets, as it provides workplaces to a large segment of low-skill workers.

2. **SMEs reduce unemployment rates and generate income for households, decreasing public social benefits for the unemployed.**

3. **Regional development:** by establishing businesses SMEs use local resources, stimulating local, and regional economic activities.

4. **Macroeconomic growth and development:** SMEs contribute to economic growth and development by entrepreneurship, stimulating private investment, and enhancing productivity.

5. **Diversion of the economy:** SMEs reduce dependence on large-scale enterprises or industries.

6. **Innovation and creativity:** SMEs are often at the forefront of innovation and creativity. Their smaller size allows them to be more adaptable to changes in the free market.

7. **Supply chain support:** SMEs are often suppliers or subcontractors to large companies.

8. **Export and international trade:** SMEs play a vital role in diversifying export bases and promoting trade competitiveness [1].

SMEs have a social aspect of providing inclusive growth. SMEs contribute to inclusive growth by providing opportunities for women, youth, and marginalized groups to participate in economic activities. SMEs face social challenges such as poverty and inequality. They often have lower entry barriers, making it easier for these groups to start and run businesses, contributing to community development.

Table 1 shows the number of legal entities registered, by region of Ukraine (excluding the temporarily occupied territories of the Autonomous Republic of Crimea and the city of Sevastopol). It provides an analysis of the dynamics and regional distribution of entities registered in Ukraine across various territories over a one-year period. It compares the total number of registered legal units in each territory as of October 1, 2022, with the corresponding figure from October 1, 2023.

The data highlights regional variations in the development of legal units, reflecting trends that are influenced by economic, regulatory, or demographic factors. For example, some territories might exhibit a notable increase in legal units, suggesting economic growth, enhanced business activity, or more favorable regulatory conditions. Conversely, regions showing a decrease in the number of legal units might indicate economic challenges, business closures, or unfavorable conditions for maintaining legal registrations. Table 2 shows some key reasons why certain regions may have more enterprises than others.

The percentage change column serves as a key indicator of the intensity of these changes. By examining this data, one can infer broader regional trends, pinpoint areas experiencing rapid development, and identify regions where legal entity numbers are contracting. This information is valuable for policymakers, businesses, and analysts seeking to understand the economic landscape and its regional dynamics. The only regions where the number of enterprises

decreased were Donetsk and Luhansk oblasts, which are situated at the frontline of the combat operations. The largest increase in number of

enterprises was recorded in Volyn, Zakarpattia, Lviv and Chernivtsi oblasts, as well as in the city of Kyiv [2].

Table 1

Number of legal entities registered, by region of Ukraine [2]

Name of territory	Total number of legal units as of 1.10.22	Total number of legal units as of 1.10.23	Change %
Ukraine	1,458,248	1,488,098	2,0
Vinnytsia	34,864	35,718	2.4
Volyn	24,181	25,023	3.5
Dnipropetrovsk	107,843	110,474	2.4
Donetsk	92,651	92,056	-0.6
Zhytomyr	33,180	33,767	1.8
Zakarpattia	25,674	26,555	3.4
Zaporizhzhia	50,953	51,411	0.9
Ivano-Frankivsk	30,915	31,606	2.2
Kyiv	76,964	79,120	2.8
Kirovohrad	26,293	26,676	1.5
Luhansk	41,246	41,020	-0.5
Lviv	79,747	82,390	3.3
Mykolaiv	51,376	51,890	1.0
Odesa	91,022	93,087	2.3
Poltava	35,548	36,093	1.5
Rivne	24,949	25,674	2.9
Sumy	25,426	25,667	0.9
Ternopil	23,571	24,176	2.6
Kharkiv	87,285	88,810	1.7
Kherson	29,328	29,338	0.0
Khmelnyskyi	31,641	32,182	1.7
Cherkasy	30,599	31,004	1.3
Chernivtsi	17,013	17,547	3.1
Chernihiv	23,521	23,693	0.7
Kyiv city	362,458	373,121	2.9

Table 2

Reasons for the uneven distribution of the number of enterprises according to the regional principle

1. Economic Development and Industrialization
Regions with more developed economies and higher levels of industrialization tend to have a higher number of enterprises. Urban centers often attract businesses due to better infrastructure, access to skilled labor, and proximity to markets. In contrast, less developed or rural areas might have fewer enterprises because of limited economic opportunities and inadequate infrastructure.
2. Population Density
Areas with larger populations often support more businesses because of higher demand for goods and services. This creates a favorable environment for enterprises to flourish. Sparsely populated regions may struggle to sustain enterprises due to limited market demand.
3. Infrastructure
Regions with well-developed transportation, communication, and utility infrastructure are more attractive for businesses. Efficient logistics and connectivity reduce costs and enhance operational efficiency. In regions with poor infrastructure, businesses face challenges such as higher transportation costs, limited internet connectivity, and unreliable utilities, discouraging enterprise growth.
4. Natural Resources
Regions rich in natural resources often have industries centered around mining, agriculture, or energy production, leading to the establishment of related enterprises. Resource-poor regions may have fewer enterprises unless they compensate with other factors like advanced service sectors or tourism.
5. Government Policies and Incentives
Business-friendly policies, such as tax incentives, subsidies, and simplified regulations, can encourage enterprise formation in specific regions. Conversely, regions with bureaucratic hurdles, higher taxes, or less supportive policies may see slower business growth.
6. Cultural and Historical Factors
Some regions have a historical tradition of entrepreneurship and business activity, which continues to influence their economic landscape. Others may have socio-cultural factors that limit entrepreneurial activity or favor subsistence farming and informal economies over formal enterprises.
7. Education and Workforce
Regions with access to better education and a skilled workforce attract businesses, especially those in technology or specialized industries. In regions with lower education levels or limited vocational training, enterprises may find it challenging to meet their workforce needs.
8. Proximity to Economic Hubs
Regions close to major cities or economic hubs benefit from spillover effects, such as access to supply chains, shared resources, and a larger customer base. Isolated regions, on the other hand, may find it harder to attract or sustain businesses due to logistical challenges.
9. Cost of Doing Business
High costs of real estate, wages, and living expenses can deter enterprises in certain regions, while others benefit from being low-cost alternatives. This can result in enterprises clustering in affordable regions with sufficient access to necessary resources and markets.

These factors interact in complex ways, shaping the distribution of enterprises across territories. Regions with favorable combinations of these factors naturally become hotspots for business activity, while those lacking in key elements may struggle to attract or sustain enterprises.

There exist notable regional disparities in the impact of the war on MSMEs, with enterprises situated in the eastern and southern regions of Ukraine experiencing losses approximately 1.5

times higher than those in the western regions of the country.

Table 3 shows number of individuals entrepreneurs registered, by region of Ukraine (excluding the temporarily occupied territories of the Autonomous the Republic of Crimea and the city of Sevastopol).

The number of individual entrepreneurs in Ukraine has grown significantly, rising from 1 409 430 on October 1, 2022, to 1 549 858 by the same date in 2023, marking a 10 percent increase. This growth reflects a notable shift in the

entrepreneurial landscape, with most regions experiencing rapid expansion in registrations, except for Donetsk, Luhansk, and Kherson

oblasts, where numbers declined due to ongoing challenges.

Table 3

Number of individuals entrepreneurs registered, by region of Ukraine [2]

Name of territory	Total number of individuals entrepreneurs as of 1.10.22	Total number of individuals entrepreneurs 1.10.23	Change %
Ukraine	1,409,430	1,549,858	10,0
Vinnitsia	47,664	54,802	15,0
Volyn	30,365	35,124	15,7
Dnipropetrovsk	107,708	122,432	13,7
Donetsk	68,870	67,429	-2,1
Zhytomyr	35,331	40,520	14,7
Zakarpattia	35,388	38,507	8,8
Zaporizhzhia	48,249	49,079	1,7
Ivano-Frankivsk	41,511	47,218	13,7
Kyiv	84,229	97,161	15,4
Kirovohrad	25,203	28,703	13,9
Luhansk	38,834	37,199	-4,2
Lviv	99,483	113,289	13,9
Mykolaiv	35,333	38,363	8,6
Odesa	94,086	102,257	8,7
Poltava	43,380	49,496	14,1
Rivne	32,609	37,300	14,4
Sumy	28,798	31,880	10,7
Ternopil	30,032	33,373	11,1
Kharkiv	117,712	122,391	4,0
Kherson	26,697	24,937	-6,6
Khmelnyskyi	43,993	49,827	13,3
Cherkasy	38,273	43,020	12,4
Chernivtsi	32,297	35,605	10,2
Chernihiv	28,064	31,646	12,8
Kyiv city	195,321	218,300	11,8

Several factors have contributed to this trend. The closure of enterprises during the war resulted in widespread unemployment, encouraging many individuals to start their own businesses as a means of economic survival. Additionally, the government simplified taxation systems and introduced tax benefits under martial law, making it easier for individuals to operate businesses. Transitioning from employment to self-employment also provided opportunities for tax optimization, further incentivizing entrepreneurial activity.

Pessimistic business expectations in Ukraine are largely shaped by the ongoing war and the country's internal economic difficulties. Key factors obstructing business development include the unpredictability of the situation in both the country and its domestic market, which creates significant uncertainty for enterprises. Additionally, unforeseen government actions that may negatively affect businesses further contribute to the challenges. Businesses also face a shortage of financially solvent customers, limiting market opportunities, while the lack of skilled workers poses difficulties in maintaining operations. Also, insufficient capital remains a critical barrier to growth and sustainability.

Despite the significant importance of SMEs for the country's development, they encounter numerous internal and external barriers to their growth. Human capital is considered the main factor contributing to future growth in the country. But Ukrainian SMEs have shown remarkable resilience, with nearly 91% of businesses continuing their operations since the beginning of the war.

In our opinion, in order to mitigate the negative impact of war and mobilization, as well as to support the stability and growth of Ukrainian SMEs, it is necessary:

1. Improve access to finance.
2. Preferential and long-term lending for businesses: financial sustainability and business growth require stable and long-term financing.
3. Introduce new financing instruments, to deepen the capital market,
4. Enhance human capital and job creation strategies, support for war-affected population.

6. CONCLUSIONS FROM THIS RESEARCH AND PROSPECTS FOR FURTHER EXPLORATION IN THIS DIRECTION

Small and medium-sized enterprises are a key segment of the market economy. They ensure the country's economic stability, fill budgets, create jobs, saturate the market with goods and services, and create a competitive environment. SMEs demonstrate mobility in conditions of rapid dynamics of social processes, adapt to market changes, implement the latest technologies. The development of SMEs contributes to the formation of the middle class, the formation of civil society, the reduction of social inequality and tension, the acceleration of the democratization of market relations and the provision of social stability.

Many SMEs in Ukraine suffered serious losses due to the full-scale war started by Russia, which led to their shutdown and increased unemployment in the country. Therefore, the recovery and development of small and medium-sized businesses is an extremely important multidimensional task.

The article, based on the identified trends in the number of small and medium-sized enterprises during the war, singles out a number of measures that will help restore this sector of the economy, especially in the regions that were most affected and need support.

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Анотація

БЕЗСМЕРТНА Оксана, ДИБАЛА Анна

Детермінанти розвитку малих і середніх підприємств: приклад України

У статті аналізуються зміни, що відбулися у розвитку малого та середнього підприємництва в Україні в роки війни.

Дослідження показало, що МСП є життєво важливими для соціального та економічного розвитку, надаючи можливості працевлаштування, особливо для низькокваліфікованих працівників та маргіналізованих груп, водночас стимулюючи регіональну економіку та вирішуючи проблему бідності. Вони стимулюють макроекономічне зростання через підприємництво, приватні інвестиції та інновації, одночасно сприяючи диверсифікації економіки та зменшуючи залежність від великих підприємств. Підтримуючи ланцюги поставок, підвищуючи торговельну конкурентоспроможність і сприяючи інклюзивному зростанню, МСП роблять значний внесок як у розвиток місцевої громади, так і в ширшу економічну стійкість.

Зменшення кількості підприємств відбулося лише в Донецькій та Луганській областях, які залишаються на передовій бойових дій, тоді як значне зростання зафіксовано у Волинській, Закарпатській, Львівській, Чернівецькій та Київській, що відображає регіональні зрушення ділової активності. Війна загострила диспропорції: східні та південні регіони зазнали втрат у 1,5 рази більше, ніж на заході. Незважаючи на ці виклики, підприємницька сфера в Україні залишається динамічною: кількість фізичних осіб-підприємців зросла на 10% за рік, хоча в постраждалих від конфлікту регіонах, таких як Донецька, Луганська та Херсонська, спостерігався спад.

Песимістичні очікування бізнесу в Україні зумовлені триваючою війною, економічною нестабільністю та непередбачуваними діями уряду, які створюють невизначеність та перешкоджають розвитку. Підприємства стикаються з такими проблемами, як брак платоспроможних клієнтів, недостатній капітал і брак кваліфікованих працівників, але майже 91% малих і середніх підприємств продемонстрували стійкість, продовжуючи свою діяльність з початку війни. Для підтримки їх зростання та стабільності вкрай важливо розширити доступ до фінансування, запровадити нові інструменти ринку капіталу та визначити пріоритетність стратегій для покращення людського капіталу та створення робочих місць, особливо для населення, яке постраждало від війни.

Ключові слова: малий та середній бізнес, регіони, кількість підприємств, зайнятість, інновації, виклики та бар'єри.

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