

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

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## Abstract

*The article is devoted to the problems and prospects of the Ukrainian small and medium-sized enterprises development in the conditions of war. The characteristics of the influence of these enterprises on the economic and social aspects of the economy are considered. Factors hindering the further development of small and medium-sized businesses in Ukraine were analyzed, and appropriate recommendations were provided.*

**Key words:** Small and Medium Enterprises (SMEs), Ukrainian economy, martial law, adaptability to changes, social aspect, qualified workers, capital market.

## Introduction

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

## Research results

SMEs play crucial roles in various social and economic aspects of the economy. The main economic functions are:

- 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.
- SMEs reduce unemployment rates and generate income for households, decreasing public social benefits for the unemployed.
- Regional Development: by establishing businesses SMEs use local resources, stimulating local, and regional economic activities.
- Macroeconomic Growth and Development: SMEs contribute to economic growth and development by entrepreneurship, stimulating private investment, and enhancing productivity.
- Diversion of the economy- SMEs reduce dependence on large-scale enterprises or industries.
- 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.
- Supply Chain Support: SMEs are often suppliers or subcontractors to large companies.
- Export and International Trade: SMEs play a vital role in diversifying export bases and promoting trade competitiveness.

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.

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.

According to *Assessment of the Impact of the War on Micro-, Small-, and Medium-sized Enterprises in Ukraine*, the factors which prevent Ukraine from restoring and developing business now are following:

1. The unpredictability of the development of the situation in Ukraine and domestic market 58.3%
2. Lack of sufficient number of qualified workers 42.1%
3. Lack of sufficient capital 33.0%
4. Dumping of competitors, overall decrease in market profitability 22.7%
5. Unavailability of credit funds, etc. 22.0%

6. High taxes and fees 20.7%
7. Inefficient, long, expensive logistics 18.5%
8. Unfair competition 17.2%
9. Customers (or retail networks) are not settled 13.1%
10. Disruption of supply chains 11.4%
11. Lack of necessary equipment 10.3%
12. Absence of order on foreign markets or expertise in export 10.3%
13. Insufficient state support in export development 8.5%.

Despite the significant importance of SMEs for the country's development, they encounter numerous internal and external barriers to their growth. The biggest obstacles to MSME growth include the unpredictable situation in the country, reduced demand for products and services, and labour shortages.

Human capital is considered the main factor contributing to future growth in the country. But Ukrainian MSMEs have shown remarkable resilience, with nearly 91% of businesses continuing their operations since the beginning of the war.

### **Conclusions**

Recommendations to mitigate the negative impact of war and mobilization and to support the resilience and growth of Ukrainian MSME businesses are:

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, or deepen the capital market,
4. Enhance human capital and job creation strategies, Support for war-affected population.

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