

**KAPITEL 2 / CHAPTER 2 <sup>2</sup>****ACTIVITIES OF MICRO-, SMALL AND MEDIUM-SIZED ENTERPRISES OF UKRAINE DURING THE WAR: CHALLENGES AND DEVELOPMENT TRENDS****DOI: 10.30890/2709-2313.2025-39-03-014****Introduction**

Full-scale aggression and hostilities on the territory of Ukraine have led to the loss of markets for goods and services, a decrease in domestic demand due to a huge number of forced migrants, an outflow of specialists, the destruction of supply chains, and the destruction of production and warehouse facilities and equipment. But over 66% of Ukrainian micro, small and medium-sized enterprises continued to operate even during the war, and hundreds of enterprises began their operations precisely during the large-scale Russian aggression [1]. Micro, small and medium-sized enterprises have demonstrated exceptional resilience, and businesses have begun to adapt to the new economic situation, reorienting themselves towards the production of dual-use goods or military equipment.

In times of war, the work of the private sector not only fills the budget, but also helps strengthen the country's defense capabilities. Ukrainian business has also increased its social responsibility - entrepreneurs are actively engaged in volunteer and humanitarian aid.

According to EasyBusiness analytical research, in the pre-war period, micro, small and medium-sized enterprises accounted for 99.98% of the country's registered enterprises and were the main engine of economic development and innovation, providing 74% of all jobs and creating 64% of added value [2].

The dynamics of the number of business entities for 2019-2023 shows that a significant drop occurred precisely in the year of the beginning of the full-scale invasion (to 1,732,508 units in 2022 compared to 1,941,625 in 2019). This drop applies

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to all business entities. However, already in 2023, there is a recovery and increase in the number of enterprises of all forms of business (Table 1).

**Table 1** – Dynamics of performance indicators of large, medium, small and micro-enterprises in 2019-2023

Year	Number of business entities, units									
	total	including								
		enterprises					individual entrepreneurs			
		total	large	medium	small	of which micro-enterprises	total	medium-sized businesses	small businesses	of which micro-businesses
2019	1941625	380597	518	17751	362328	313380	1561028	378	1560650	1550633
2020	1973577	373822	512	17602	355708	307871	1599755	344	1599411	1591031
2021	1956248	370834	610	17502	352722	304650	1585414	309	1585105	1576208
2022	1732508	261924	494	14783	246647	206213	1470584	254	1470330	1465345
2023	1913193	307852	512	14070	293270	254982	1605341	226	1605115	1598892
Number of business entities per 10 thousand people of the current population, units										
2019	462	91	0	5	86	75	371	0	371	369
2020	473	90	0	5	85	74	383	0	383	381
2021	473	90	0	5	85	74	383	0	383	381
2022	...	...	...	...	...	...	...	...	...	...
2023	...	...	...	...	...	...	...	...	...	...
Number of employed workers, thousand people										
2019	9017,8	6407,5	1608,3	3052,6	1746,6	778,3	2610,3	37,1	2573,2	2390,7
2020	8931,9	6366,1	1574,6	3088,4	1703,1	721,7	2565,8	34,8	2531,0	2377,8
2021	8936,2	6391,7	1648,7	2967,8	1775,2	777,1	2544,5	32,0	2512,5	2350,3
2022	7502,4	5382,4	1369,9	2582,8	1429,7	583,6	2120,0	27,3	2092,7	1999,9
2023	7421,8	5052,3	1324,1	2336,3	1391,9	609,7	2369,5	23,5	2346	2235,2
Number of employees, thousand people										
2019	7291,1	6241,9	1608,3	3050,3	1583,3	626,3	1049,2	36,7	1012,5	840,0
2020	7254,4	6288,4	1574,6	3086,9	1626,9	650,9	966,0	34,5	931,5	786,7
2021	7248,8	6289,7	1648,7	2966,5	1674,5	681,0	959,1	31,7	927,4	774,1
2022	5984,5	5335,1	1369,9	2581,5	1383,7	541,9	649,4	27,1	622,3	534,6
2023	5734,5	4970,4	1324,1	2335,3	1311,0	533,5	764,1	23,3	740,8	636,3
Volume of products sold (goods, services), UAH billions										
2019	10524,1	9639,7	3631,4	4168,4	1839,9	612,4	884,4	26,0	858,3	818,2
2020	11062,3	10049,9	3626,4	4359,4	2064,1	704,9	1012,4	25,3	987,1	947,2
2021	14989,8	13616,8	5140,4	5900,1	2576,4	862,3	1373,0	31,8	1341,2	1291,2
2022	11119,9	11033,0	4024,3	4906,8	2101,9	672,9	86,9	31,8	55,1	31,2
2023	13574,9	13456,4	4797,0	5990,5	2668,9	872,4	118,5	42,2	76,4	44,3

Compiled by the authors based on [3]

Despite the devastating impact of the war, the Ukrainian economy has remained resilient thanks to the joint efforts of the Government and business, the rapid restoration



of destroyed and damaged critical infrastructure, and continued financial support from international partners.

The war continues, and therefore it is important to consider the challenges facing Ukrainian business in the current conditions, to analyze and assess the situation in order to develop a strategy and plans for the future.

Since the start of the full-scale invasion, 64% of micro, small and medium-sized enterprises have temporarily suspended or curtailed their activities. However, the vast majority have resumed their work. In October 2023, only 9.6% of companies that suspended their activities were at risk of completely shutting down. One of the main problems of micro, small and medium-sized businesses is the unpredictability of the situation in the country and the shortage of labor. Most companies see human resources as a prerequisite for the gradual recovery of the economy in 2025. The enterprises have significant unused capacity, which they plan to gradually use during 2025 and are ready to increase turnover by approximately 50% [2].

There are significant regional differences in the impact of the war on micro, small and medium-sized enterprises. Enterprises in the eastern and southern regions of Ukraine suffered losses approximately 1.5 times greater than those in the west of the country. Despite this, businesses in eastern Ukraine have positive expectations about their prospects for recovery.

The fastest recovery rates are observed in the following sectors:

Construction – significant funding aimed at restoring critical infrastructure damaged by military actions has increased investment demand and enabled comprehensive reconstruction.

Domestic trade – demonstrates growth in consumer demand and supply of goods. Retail turnover increased by 11.6%.

Agriculture – weather conditions contributed to an increase in yields and harvested area of almost all crops. In addition, the partial recovery of export volumes in this sector was facilitated by the opening of trade routes for Ukrainian grain and agricultural products. According to the Ministry of Agrarian Policy and Food of Ukraine, the grain harvest as of January 11, 2024 exceeded the indicator of the



corresponding period in 2023 by 15%, and the yield by 18.2% [3].

Manufacturing – the recovery of the sector is explained by the growth in demand for engineering and construction materials. There was also an increase in the raw material base of agriculture, in particular the production of food, beverages and tobacco products, as well as demand from related activities. In general, industrial production increased by 2.4%, and in the manufacturing industry – by 8%. In the processing industry, the highest growth rates were observed in mechanical engineering products (15.3%); furniture and other products (15.2%); rubber, plastic and other non-metallic mineral products (16.4%); food, beverages and tobacco products (11.6%) and chemical products (12.2%) [1].

Business has identified the following priorities related to state policy and the business ecosystem:

- improving the regulatory framework;

- expanding access to finance and markets;

- harmonizing legislation and standards with the European Union (EU);

- eliminating the root causes of low economic development and promoting entrepreneurship.

Despite unprecedented losses and challenges due to the war, Ukraine managed to maintain relative macroeconomic and price stability and overcome significant production difficulties and the negative effects of labor outflow and displacement.

According to the Ministry of Economy of Ukraine, overall GDP growth in 2023 is estimated at around 5%, which is a significant improvement compared to the 28.8% decline in 2022. Several factors, such as improvements in the energy sector and external financial assistance from international partners, are contributing to the recovery of GDP.

If we consider the main challenges facing Ukrainian entrepreneurship, they are, first of all, the following.

Energy instability. For the first eight months of 2024, the Ministry of Economy estimated Ukraine's gross domestic product growth at 3.9%. However, it has now slowed to 3% (IMF forecasts) or 3.2% (World Bank) [4].



One of the fundamental reasons for this is the complex, unpredictable situation in the energy sector, as Ukraine was left with approximately 20 GW of electricity generation capacity instead of the pre-war 55 GW.

Currently, work is underway to increase the capacity for importing electricity from neighboring countries from 1.7 GW to 2.2 GW, which should also significantly help the Ukrainian economy and households. So far, the Ministry of Energy has reached an agreement with the European Union on imports at the level of 2.1 GW. Ukraine will also have the opportunity to receive an additional 250 MW of guaranteed capacity from the EU in the emergency assistance mode [2].

In 2024, the Russians launched 1,100 missiles at Ukrainian power grid facilities. Businesses are adapting by breaking down production processes into autonomous parts, using generators and solar panels for stable operation. However, these processes lead to additional costs, as a result, to an increase in the cost of manufacturing products and the operation of the business in general.

The state's dependence on foreign partners and the threat of losing support. Risks such as the rise in the value of the dollar and euro can be a very serious challenge. Most businesses depend on imported raw materials.

The personnel crisis, which began even before the full-scale war, has significantly worsened over these three years. Thus, if we consider the number of employees at enterprises of various forms of management, a sharp reduction in this indicator becomes obvious (Table 1).

According to the recruitment agency Talando, over the past year 74% of Ukrainian companies have faced a shortage of personnel. Businesses are looking for solutions, raising salaries and increasing bonuses. However, it is worth attracting alternative workers, for example, women in conventionally male professions, and training young people.

The tax increase may significantly affect small and medium-sized businesses. Thousands of potential businessmen may not dare to register as sole proprietors. Therefore, 2024 has signs opposite to those recorded in 2023, when Ukrainians caused a real sole proprietorship boom, opening 300 thousand businesses per year [2].



Problems in the metallurgical sector. Over 90% of Ukrainian metallurgy uses coking coal as a raw material. Therefore, the loss of control over Pokrovsk and its industrial facilities could lead to a halving of steel production – from 7.2 million tons in 2024 to 3.5 million tons in 2025 or even less [2].

Difficulties in the agricultural sector. Thus, by the end of the second decade of October 2024, only 42.8 million tons of grain and leguminous crops were harvested from a sown area of 17.7 million hectares. For comparison, in 2023, as many as 59.8 million tons of these crops were harvested from an area of 11 million hectares. There are two reasons for this reduction - drought and a shortage of labor due to widespread mobilization. The state budget for 2025 is also focused again on defense spending – it will amount to as much as 26.3% of GDP, compared to 22.6% of GDP in 2024 [5]. Obviously, these expenditures are a priority, but they do not allow the government to support the economy through public investment or tax breaks.

Scaling abroad. The Ukrainian market is limited and unstable. There are also physical threats due to shelling and high production costs. About 40% of Ukrainian companies plan to expand abroad. Bringing a Ukrainian product to foreign markets can have a positive impact on the economy.

Given the current trends and the uncertainty caused by economic turbulence, grants for small and medium-sized businesses are of particular importance today.

Entrepreneurs support macroeconomic stability, pay taxes to budgets of various levels. And it is this business segment that forms the middle class, which is a powerful factor in protecting democracy, increasing the well-being of the population, and quickly restoring life, especially in de-occupied communities and regions. During a war, grant money can save hundreds of Ukrainian businesses, which will become real drivers of successful recovery and economic growth. This applies in particular to relocated businesses that continue to operate in a new location, integrating into new communities, restoring and building new partnerships and logistics.

It is also important that grant support is aimed at adapting the economy to greening and global competition through standardization and certification of services, goods, or production. Therefore, programs to support micro, small and medium-sized enterprises



provide entrepreneurs with the necessary resources not only for recovery, but also for development, stimulating the introduction of innovations and, as a result, strengthening competitiveness in foreign markets and the possibility of increasing export potential.

Grant programs help businesses reduce their financial burden, free up or attract resources for development, such as marketing products, improving production efficiency, and training staff. These steps strengthen the potential and resilience of micro, small, and medium-sized enterprises, even in times of war.

According to the Ministry of Economy, as of the beginning of 2024, more than 11 thousand Ukrainians received grants from the state to start or develop a business thanks to one of the largest state support programs "eWork". Of these, more than 2 thousand citizens directed funds to open their own business, others - to scale the business, develop and launch new areas of activity.

The number of applications for the support program and their quality are constantly growing. As the volume of grants increases, so too does the amount of grants awarded - in 2023, three times more were awarded than in 2022.

The most popular areas of activity among those funded are the processing industry, trade, and the hospitality and catering sector.

In addition to sufficiently strong support from the state, grant funds from international organizations and funds, from the governments of Ukraine's partner countries, are available for the development of Ukrainian business today. The key role here belongs to the European Union, which has promptly and significantly increased support for Ukrainian entrepreneurship since the beginning of the large-scale Russian war.

There are currently a number of EU-funded programmes and activities aimed at a wide range of objectives: from developing and acquiring new skills to overcoming barriers to entering European markets. The European Union provides comprehensive assistance to Ukrainian enterprises, including in the development of women's businesses and youth entrepreneurship, and actively supports the development of start-ups and innovations.

The key areas of EU assistance are:





financial instruments, access to finance;

support for micro, small and medium-sized businesses through non-financial instruments: business coaching, consultations, etc. A program that was implemented before the start of the full-scale war and aimed to help Ukrainian enterprises adapt to EU norms, requirements and standards in order to enter European markets is also working in this direction;

improving the business environment and conditions for doing business. The EU is actively cooperating with the Government of Ukraine in this area.

For the Ukrainian economy during the war, it is extremely important to support micro, small and medium-sized enterprises so that they can survive and gradually recover and develop in the future. Each enterprise helps the country: it provides jobs, pays taxes and supports economic activity.

The World Bank and the International Monetary Fund have significantly worsened their forecasts for Ukraine's economic situation in 2025 due to the war.

Thus, the IMF expects only 2.5% economic growth in 2025 instead of the previous forecast of 6.5%. The World Bank, in turn, is even more pessimistic. It changed its expectations for Ukraine's GDP growth in 2025 from 6.5% to the forecast of 2%. Experts from the investment company ICU expect the dollar to grow [5].

Basic principles of state policy in stimulating the development of small and medium-sized businesses. Small and medium-sized businesses play an important role in society and the economy, in particular in ensuring employment, innovation and technological development. The new economic policy and economic platform "Made in Ukraine" announced by the President are a manifestation of a major political initiative that, in addition to recognizing the role of micro, small and medium-sized businesses in the life of the country, will accelerate the transformation of the social climate and encourage economically active citizens to self-employment and entrepreneurship [6].

Inclusive entrepreneurship. An inclusive approach to entrepreneurship development is characterized by the involvement of inactive socio-age groups of the population in proactive economic behavior. Such an approach will help not only to





solve the problems associated with unemployment, but also ensure the achievement of the necessary level of economization of society to stimulate self-employment and the organization of one's own business.

In the USA, the level of economization of the population, an indicator that demonstrates the ratio of the number of entrepreneurs to the population, is over 10%, in Ukraine it is less than 5% (Table 1).

School, youth, women's, veteran entrepreneurship, entrepreneurship of the elderly (60-75 years old) and people with disabilities should become the main factors of growth and realization of entrepreneurial potential concentrated in society.

Collaborative economy. The collaborative economy, as one of the key features of the digital revolution, reflects the post-industrial realities of the world and is an imperative for innovative and technological development as the main condition for a country's success in achieving global political and economic leadership in the information age. According to expert estimates, the digital economy is growing at a rate 2.5 times higher than the growth rate of global GDP, and its scale may reach more than \$16 trillion by 2035 [5].

Already, six of the ten largest companies in the world by market capitalization use multilateral platforms in their business models, and their combined value exceeds \$10 trillion. Ukraine cannot stand aside from the digital economy. It is necessary to create appropriate legislation and a system of state support that would stimulate entrepreneurial activity and technological startups in the collaborative economy sector and the commercialization of scientific and technical developments and innovations.

Such urgent measures will provide the necessary legal and motivational basis for a quantum leap in the innovative and technological development of our country, and therefore should be prioritized at the state policy level.

Digital forms of self-employment. The digital economy, within its global economic space, generates opportunities for entrepreneurs that are not only related to the development and implementation of innovations to create products and markets, but also stimulates the search for alternative technological approaches to existing problems.



One of these problems in Ukraine is population employment and self-employment. Digital employment platforms are able to compensate for the negative manifestations of demographic changes - depopulation, shadow employment, and population aging.

In Ukraine, about 3% of the officially employed population cooperates with digital platforms. In the European Union, there are over 43 million such people, which is almost 10% of the total population, and the number of digital platform partners is steadily growing [6].

Self-employed individuals, who are mainly partners of digital platforms, form a unique environment in which small businesses draw potential for development. EU member states approved a directive on cooperation with digital platforms in 2024, which was the first step towards regulating relevant activities.

In Ukraine, there is no legislation that would regulate the cooperation of partners on digital platforms, which means there is no program to encourage self-employment as the first stage on the trajectory of an entrepreneur's evolutionary development.

Family entrepreneurship. Family entrepreneurship plays a leading role in supporting social cohesion, resilience and well-being of local communities, providing employment, and socio-economic development, especially in non-industrial, remote and rural areas, and is one of the priorities of European Union policy.

Most developed countries have special programs for the development and support of family businesses at the state and regional levels. Ukraine, in conditions of critical depopulation and active migration processes provoked by the war, needs appropriate legislation and programs to support family entrepreneurial initiatives.

Family resilience is of great importance for ensuring post-war recovery and the development of small, local economies in affected and non-industrial areas.

Differentiated approach to small and medium-sized businesses. The issues, goals, and means inherent in different categories and organizational and legal forms of economic entities require differentiated approaches to the development and formation of state support tools.

It is important to realize the need to form a framework for state policy in the field



of micro, small and medium-sized businesses, based on an understanding of the evolutionary model of the development of entrepreneurial (economically proactive) initiative.

In this case, the state creates an infrastructure for the entrepreneur in the form of an evolutionary trajectory of economic development through financial, regulatory, fiscal, organizational, legal incentives and forms of state support in accordance with the needs of the entrepreneur at each stage of his evolution.

Thanks to the levels of entrepreneurial competence, entrepreneurial talent, and productive entrepreneurial energy, an economically proactive entity is able to develop along a trajectory of evolutionary development that begins with self-employment and evolves into the categories of medium and large businesses.

The following categories of entrepreneurs require separate approaches to the implementation of state policy and forms of support based on the principle of an evolutionary approach: self-employed persons whose primary purpose is to meet their own needs; family entrepreneurship; micro-entrepreneurship; small business; medium-sized business and further along the evolutionary trajectory to large business, national and international global level.

Simplified taxation system. Preserving a simplified taxation system for entities across the spectrum of micro and small businesses is extremely important.

Given the imperfections of the simplified system, especially in terms of its potential for unfair use by medium and large businesses to narrow the tax base and evade taxes, the simplified taxation system needs to be modernized and adapted to best European practices.

The EU member states have clearly defined in their legislation a priority for SMEs that Ukraine should also adopt: to transform Europe, of which we are a historical part, into the most attractive place in the world for starting, growing and expanding small businesses. To create an environment in which entrepreneurs can thrive and entrepreneurship is rewarded.



## **Summary and conclusions.**

Micro, small and medium-sized businesses are one of the key drivers of Ukraine's economic recovery. Macrofinancial assistance from partners is vital for us today - it allows us to balance the budget. But it is the support of private sector partners that will allow us to grow economically. The successful sustainable development of Ukrainian business, the increase in its export opportunities and competitiveness in European markets will become a reliable foundation for the reconstruction, restoration and further economic development of Ukraine. The defense industry and military enterprises will remain a priority. Such business will actively develop both during the war and after victory.