

## **Regional Features of Small and Medium Business Development in Ukraine (Ivano-Frankivsk City Example)**

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### **Abstract**

The effective functioning of small and medium enterprises in Ukraine is due to multifactorial impact formation of a competitive environment according to the deepening market relations. The approval of positive trends and the implementation of measures to improve business in the regions are directly dependent on the formation of purposeful, consistent and predictable state regulatory policy and actions of government and administrative bodies in the field of economic activity. At the same time, there are also ways to create a unique business environment and promote entrepreneurship at the local level. The experience of Ivano-Frankivsk city has shown high efficiency in the involvement of favorable geographical location, government interest and willingness to promote business development.

**Keywords:** Small and Medium Enterprises, Business Environment, Economic Development, Investment.

### **Introduction**

Small and medium enterprises are the foundation of each market economy. In the current conditions of periodic financial crises, unstable socio-economic and political situation in Ukraine, the development and support of small and medium enterprises is important for the stabilization of the national economy as well as the solution of major social issues. Ukraine has strong enough capabilities to develop SMEs at the national and regional levels. However, Ukraine's economic insecurity leads to the fact that every crisis has an impact and leaves a negative impact on the country's economic growth.

The state of the market in Ukraine requires companies to form demand for their products not only to establish constructive relationships with customers, dealers and suppliers, but to build new investment-attractive areas, one of which in the last few years is the city of Ivano-Frankivsk in western Ukraine.

Richard Cantillon, Karl Marx, David Ricardo, Anthony Smith, Jean-Baptiste Say, Friedrich August von Hayek, Joseph Schumpeter and other prominent economists made a great contribution to the creation of theoretical foundations of entrepreneurship during the XVII-XX centuries. A large number of works and researches are devoted to small and medium business in modern economic theory. Small business remains the focus of researchers due to its economic and spatial manoeuvrability, flexibility of decision-making. Despite the significant amount of research on the activities of small and medium enterprises, the features of the development and functioning of small and medium-sized businesses in a particular region remain insufficiently studied. The example of the city of Ivano-Frankivsk is little studied in economic research and needs detailed analysis.

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The purpose of the study is to analyze the activities of small and medium-sized businesses in Ivano-Frankivsk based on the use of statistical methods, identify reasons for slowing down the functioning of SME, identify investment-attractive areas of Ivano-Frankivsk for its further development.

## **Main Text**

Today, Ukraine is making significant efforts to create favorable conditions for doing business in all regions of Ukraine, which differ from each other in the priorities of socio-economic development, the availability of natural and human resources, labor skills, industrial structure and more. That is why each region is unique and has its own characteristics and competitive advantages.

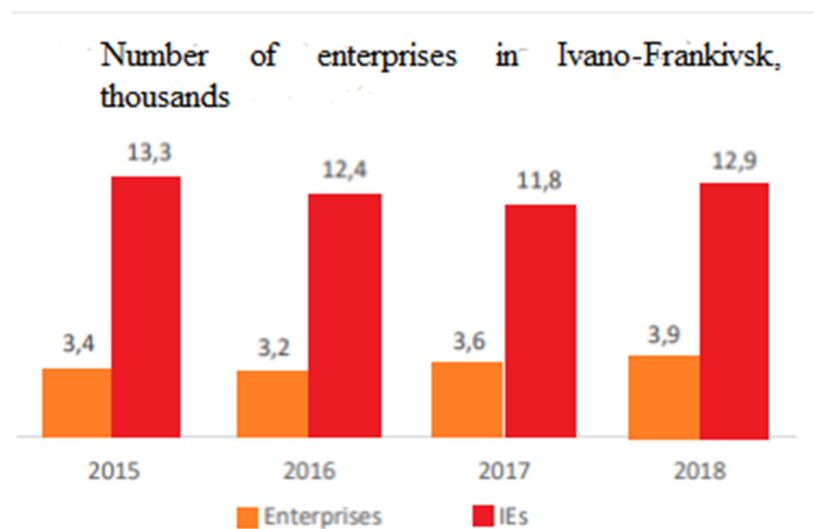
The activities of small and medium-sized businesses are focused primarily on the local market and vitally depends on the conditions created for their existence at the local level. The development of small and medium business is one of the most important factors in solving socio-economic problems of the regions and improving their investment attractiveness.

The city of Ivano-Frankivsk (Stanislaviv - until 1939, Stanislav - until 1962) is one of the 24 regional centers of Ukraine. It is the administrative, economic and cultural center of Ivano-Frankivsk region, with a total area of 83.73 square km, with a population of over 250 thousand inhabitants. Ivano-Frankivsk City Council also consists of 5 villages that joined the city during the current administrative-territorial reform of decentralization. The city of southwestern Ukraine is located in the distance 150-300 km from the borders of Poland, Romania, Hungary, Slovakia.

The main characteristic of the economic complex of Ivano-Frankivsk is the diversified industry, which provides relative resistance to fluctuations in the economic situation in the country. The main sectors of the city's economy: food, engineering, production and distribution of electricity, gas and water, light and chemical industries, manufacture of wood products, printing.

Economic indicators characterizing the state of development of small and medium enterprises indicate the positive dynamics of growth of this sector and its share in the overall economic potential. The volume of products sold by industrial enterprises in 2019 in Ivano-Frankivsk is about UAH 11 768.7 million which is 356,6 million EURO. This amount which is 86.2% of the volume of 2018 (Report on the Results of the Industrial Sector of Ivano-Frankivsk for 2019. [Online]. URL: <http://www.mvk.if.ua/proms/52708> date of access: 12/09/2020). The decrease in sales was mainly due to the closure of production at Tyco Electronics Ukraine Limited according to the optimization of production in Europe carried out by the company. Another reason is the decrease in sales of Intelcom's products due to the expiration of supply agreements with the Russian Federation, as well as the oversaturation of the market with Chinese goods.

According to the official data, in 2018 Ivano-Frankivsk counted 16.8 thousand small and medium sized enterprises (including 129 medium-sized enterprises, 3.8 thousand small enterprises and 12.9 thousand individual entrepreneurs) but only three large-scale enterprises. Accordingly, 23.2% of the business entities were registered as legal entities, which is somewhat higher than Ukraine's average (19.3%). In 2018, the number of SMEs in Ivano-Frankivsk increased by 9% compared to 2017, which is 7.1 percentage points higher compared to the country's average (1.9%). This was primarily due to a 9.5% growth in the quantity of small businesses (the country's average reached 5.1%) and a 8.9% increase in the number of individual entrepreneurs (the country's average was recorded at 1.2%). In addition, the number of mediumsized enterprises increased by 4% (compared to a 7.5% at Ukraine's level). (Main Department of Statistics in Ivano-Frankivsk region, (2020), The number of enterprises in Ivano-Frankivsk city, [Online], [Retrieved October, 30, 2020], <http://www.ifstat.gov.ua/>)



Small and medium business is developing in almost all sectors of the economic complex of Ivano-Frankivsk city. The volume of products sold by industrial enterprises for the first half of 2020 in Ivano-Frankivsk is about UAH 5061.2 million which is 153,3 million EURO. The share of sales of manufacturing enterprises is 39.8% of total sales. The largest share in the sales structure is occupied by the enterprises for the supply of electricity, gas, steam and air conditioning (57.8%). The largest share in the structure of the processing industry was occupied by machine-building enterprises (50.4%), the production of food, beverages and tobacco products (25.9%), the production of rubber and plastic products, other non-metallic mineral products (8.9%). In the volume of sold products of mining and processing industry by main industrial groups 51.3% were consumer goods of short-term and long-term use, 21.7% - investment goods, 27% - intermediate goods. (Report on the Results of the Industrial Sector of Ivano-Frankivsk for 2019, (2020), [Online], [Retrieved September, 12, 2020], <http://www.mvk.if.ua/proms/52708> )

The construction industry is developing rapidly in Ivano-Frankivsk city which is its characteristic feature. The total area of built residential buildings was 752 903 m<sup>2</sup> which 186,3% of 2018 amount. (Main Department of Statistics in Ivano-Frankivsk region, (2020), The total area of residential buildings commissioned by cities of regional importance and districts in 2019. [Online], [Retrieved September, 10, 2020], <http://www.ifstat.gov.ua/> ) The development of the construction industry is explained by systematic inflow of investments from workers from abroad. Ukrainians employed in temporary jobs in other countries invest their earnings in real estate and we can state that this creates economically unreasonable demand for real estate and high market prices.

There are numerous positive trends in the development of entrepreneurship in Ivano-Frankivsk in recent years. It is not only about the quantitative growth of small and medium-sized businesses, but also about the gradual reorientation to production, the introduction of new technologies, improving product quality, innovative development. Entrepreneurs today make up a significant part of the middle class and affect social processes. The total number of enterprises in the city of Ivano-Frankivsk in 2019 was 4 066 with 52 798 employees. (Performance indicators of enterprises by cities of regional significance and districts in 2019. Main Department of Statistics in Ivano-Frankivsk region. [Online]. URL:<http://www.ifstat.gov.ua/> date of access: 23/08/2020). Disproportion in the total population and the number of employed persons can be explained by large volumes of labor migration abroad. There are no exact statistics of migration until the next all-Ukrainian population census is conducted (the previous one was held in 2001 and its data are no longer relevant). According to the State Statistics Service of Ukraine the estimate number from 1 to 4 million of Ukrainians work abroad every year but an unofficial sources state the number of 7 millions Ukrainians that are employed abroad in various spheres. Most people migrate from western Ukraine and Ivano-Frankivsk in particular due to the proximity of the border with the EU.

A popular form of management in the city as well as in Ukraine is an individual entrepreneur. This form of doing business attracts a more accessible registration procedure, less tax burden and lack of monthly reporting to government statistics. Simplicity, minimal costs for accounting and reporting procedures in this category

entrepreneurs give the opportunity to involve a significant part of the working population and develop their own business. As of January 1, 2019, 13 839 individual entrepreneurs were registered in Ivano-Frankivsk and this figure increased monthly until the beginning of the coronavirus pandemic. (Ivano-Frankivsk City Council, (2019), Socio-economic passport of Ivano-Frankivsk City Council, Ivano-Frankivsk: Misto NV, 4-8)

The growth of investment attractiveness of the city of Ivano-Frankivsk in addition to the proximity of borders with the EU, the availability of natural and human resources is also the development of modern urban projects with a high potential for investment. In 2014, a public restaurant Urban Space 100 was opened in Ivano-Frankivsk, which became a successful example of uniting socially active people around the idea of developing their city. The investors of the project were 100 residents of the city, and 80% of the restaurant's profit is directed exclusively to the implementation of public projects in Ivano-Frankivsk. Since the opening of Urban Space 100, 98 projects have been funded. The idea of a public restaurant attracted considerable attention to the city as a modern investment space and became a stimulus for the development of new projects.

In 2017, the project Promprylad Renovation was launched - an innovation center based on the old plant, which operates at the intersection of four areas of development of the region: the new economy and urban planning, modern art and education. This is an impact investment project, where investors simultaneously invest in the social impact on the region and receive a return on investment in the form of dividends. The amount of attracted investments as of September 2020 is \$5 372 024 and is growing. This project made Ivano-Frankivsk a center for innovation and showed the city's potential for potential investors.

In 2018, Ivano-Frankivsk took first place in the ranking of transparency of the investment sector from Transparency International Ukraine within the Transparent cities program. Ivano-Frankivsk's best practice is the City Investment Portal, which contains all available information in Ukrainian and English on vacant land plots and production areas for the implementation of investment projects, as well as on successfully implemented projects. Foreign investors, Ukrainian enterprises and social departments of the city authorities included in this study evaluated 17 indicators that help determine the real transparency of investment in the economy, the presence of anti-corruption programs, conflicts of interest in city councils, tools and opportunities in the investment sector. (Transparency International Ukraine, (2020), Transparency rating of the 100 largest cities of Ukraine. [Online], [Retrieved September, 18, 2020], [https://ti-ukraine.org/wp-content/uploads/2019/03/Rejtyng-prozorosti-mist-Ukrayiny-2018\\_1.pdf](https://ti-ukraine.org/wp-content/uploads/2019/03/Rejtyng-prozorosti-mist-Ukrayiny-2018_1.pdf))

In September 2020, Ivano-Frankivsk became the best city in Ukraine for doing business according to Forbes Ukraine ranking. Ivano-Frankivsk received high scores on ten criteria: transparency of city authorities, business activity, Doing Business rating, purchasing power, transport links, security, education, perception of the city by residents, migration attractiveness and environmental situation. (Forbes Ukraine, (2020), The best cities for business, Forbes Ukraine №3 September, 114-120)

In 2020 Ivano-Frankivsk was recognized as the city with the most favorable business climate and effective economic governance together with other cities from different parts of Ukraine – Khmelnytsky, Lviv, Vinnytsia, Ternopil and Chernihiv. These are the results of the study "Ukrainian Competitiveness Index (ICM) 2019/2020", conducted by the "Competitive economy of Ukraine" program of United States Agency for International Development (USAID). In 2019-2020, the assessment included 24 cities, including the city of Kyiv and 23 cities-regional centres. According to this research, the strongest components of Ivano-Frankivsk city are low level of informal payments and corruption, strong leadership of municipal authorities, resources development, high compliance cost, transparency and data openness and access to public property. The weakest components are starting a business and support of innovations but these indicators are not at the low level. In particular, according to the survey data, the registration of a business in Ivano-Frankivsk in 2018-2019 took less time than on average in the country (4.9 days compared to 6.1 days). The surveyed business entities named the main barriers they face when doing business in Ivano-Frankivsk. According to the survey findings, three most important barriers included such factors as the lack of qualified workforce, high taxes, and low consumer demand. (NGO "Institute for Economic Research and Policy Consulting", (2020), Analytical report. Municipal Competitiveness Index. [Online], [Retrieved October, 30, 2020], [http://www.ier.com.ua/files/Projects/2020/MCI/reports1/MCI\\_2019-2020\\_Part%202\\_Profiles\\_UKR.pdf](http://www.ier.com.ua/files/Projects/2020/MCI/reports1/MCI_2019-2020_Part%202_Profiles_UKR.pdf) )

Analyzing the development trends of small and medium business, we can conclude that in recent years in the city of Ivano-Frankivsk there have been positive changes. But the activities of small and medium enterprises in the city are

damaged by a number of negative factors, both specific to the Ivano-Frankivsk region and those that are common to Ukraine. These factors are:

- imperfection of normative-legal regulation of entrepreneurship
- insufficient development and effective functioning of the market infrastructure of business support
- administrative conditions for doing business and as a result of low innovation activity of small businesses
- limited access of entrepreneurs to financial and credit resources and their high cost
- complex system of state control in the field of economic activity
- insufficient effectiveness of the implementation of state regulatory policy
- low level of innovation in business
- unpreparedness of enterprises to work in quarantine conditions
- insufficient local authorities' efforts to protect the rights of small and medium-sized businesses and entrepreneurs during the COVID-19 pandemic.

## Conclusions

Recently, there have been more and more discussions in Ukraine about supporting small businesses on national and local levels. The state as well as local authorities should first of all be interested in the development of small business, through which it is possible on a larger scale to fill the budget, create jobs and finally move from a commodity-type economy to an economy based on the functioning of small businesses. Studying the experience of Ivano-Frankivsk city showed that small business can take on the role of stimulator not only economic but also social development of the community. Favorable geographical location, government interest and willingness to promote business development have shown high efficiency and contributed to the creation of a unique investment environment for Ukraine. The economy of Ivano-Frankivsk city is characterized with quantitative growth of small and medium-sized businesses, the gradual reorientation to production, the introduction of new technologies, improving product quality and innovative development and the implementation of unique community projects.

The number of small and medium sized enterprises in Ivano-Frankivsk is somewhat higher than Ukraine's average and the city occupies leading positions in independent business environment rankings. Nevertheless, there are barriers to doing business in Ivano-Frankivsk such as the lack of qualified workforce, high taxes, and low consumer demand.

It is necessary to conduct an audit of business support infrastructure, identify potential key areas of business development in Ivano-Frankivsk to maintain the positive dynamics of economic growth. Authorities should also pay attention to the weaknesses of the business environment and anticipate the onset of risks.

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