

Small and medium-sized businesses in the context of rural development

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One of the important tasks performed by small businesses is to contribute to rural development, so farmers, especially small family farms, entrepreneurs and rural residents, must implement new strategies based on the interconnection and organization of various spheres of rural life. Agriculture is responsible for food security both domestically and abroad, which is why this study is relevant. Small business plays a key role in ensuring food security, income and livelihoods of the rural population in Ukraine, and also affects the food security and nutrition of the urban population. Small business in rural areas is an effective economic regulator that creates a high level of competition and prevents uncontrolled price increases in the market, has great economic potential, fills the market with a variety of products, and increases employment in rural areas. In a market environment, small business is one of the main tools for the development of the national economy.

Agriculture is undoubtedly the most profitable industry in Ukraine. For several years in a row, this sector has been providing the Ukrainian economy with cash flows, and, in particular, according to the National Institute for Strategic Studies, 45 % of export earnings in recent years have come from agricultural products [2]. Almost one-third of Ukraine's population lives in rural areas and has 4,6 million households. Family farms account for 90 % of agricultural units and occupy 38 % of the total agricultural land area. They produce 41 % of gross agricultural output, while the average size of land plots is less than 3 hectares. This is a rather significant sector of the economy.

Small and medium-sized businesses have always provided jobs to the labor market; according to experts, they accounted for 75 % of all employees in Ukraine, or 4,8 million Ukrainians. The remaining 25 % (or 1,6 million Ukrainians) worked at large enterprises [1]. According to other data, before the invasion, there were about 18,000 medium-sized and more than 350,000 small businesses, of which more than 86 % were microbusinesses. Together, they provided jobs for more than 5 million Ukrainians, of whom 62,5 % worked for medium-sized businesses. As well as almost 2 million individual entrepreneurs [3].

According to a quarterly survey by the European Business Association, conducted from April 24 to May 11, 2022, among individual entrepreneurs participating in the EBA Unlimit Ukraine SME support project, only 6 % of entrepreneurs did not suffer any losses caused by the war, while in October 2022, 10 % of small and medium-sized businesses operated without losses [3]. 24 % of respondents suffered losses as a direct result of hostilities, and 7 % have assets in the temporarily occupied territories. From 33 % in October 2022 to 24 % in May 2023, the number of small and medium-sized businesses that estimate their business losses at a minimum amount of up to USD 10 thousand decreased dollars. 26 % lost between 10 thousand and 50 thousand dollars, another 20 % – from 50 to 100 thousand dollars and 18 % – more than 100 thousand dollars [3].

For 57 % of entrepreneurs, the most pressing problem is the decline in the purchasing power of the population, for 31 % – lack of financing and access to credit, for 29 % – tax pressure. 28 % of small and medium-sized businesses complain about the lack of specialists and problems with booking employees and traveling abroad [2]. Half of the surveyed SMEs have mobilized employees, while 22 % have specialists critical to their operations. In particular, 29 % of respondents have mobilized up to 10 % of their employees liable for military service, 14 % of respondents have mobilized from 10 % to 30 %, and 5 % of respondents have mobilized more than 30 % of their employees [2]. The number of small and medium-sized businesses without any reserves increased from 25 % in October 2022 to 32 % in May 2023. At the same time, the number of SMEs with financial reserves for a year or more decreased from 14 % to 12 %. Only 4 % of entrepreneurs assess their financial stability in one month, 31 % in several months, and 18 % in six months [4].

The impact of the war on small and medium-sized businesses is undoubtedly negative, but it varies considerably depending on the industry. For example, small and medium-sized businesses in the service sector are experiencing great difficulties due to the decline in population in cities, which causes both a decrease in demand for certain types of services (hotel and restaurant business, beauty salons, providers of out-of-school educational services, etc.) and a reduction in the supply of highly qualified specialists [1].

In the agricultural sector, small and medium-sized businesses face difficulties due to the rise in logistics costs due to the blockade of ports and direct losses from the war, damage to agricultural machinery, the occupation of the territory, and the illegal export of Ukrainian grain. It is also worth noting that small agricultural businesses are limited in their ability to attract bank loans, given the limited amount of bank resources and the rise in capital costs. The preferential programs offered by the Government do not cover their financing needs sufficiently.

Thus, small and medium-sized business owners in Ukraine are aware that as long as the war continues, a return to the pre-war level of activity is unlikely. Therefore, we believe it is necessary to strengthen support for domestic business, in particular, to introduce targeted support for small and medium-sized businesses in the regions liberated from occupation. The most affected companies need individual financial instruments to restore their production or direct provision of inputs.

It is also advisable to create production clusters that will unite displaced businesses with local ones, which will allow for more efficient organization, particularly in terms of resource use. For companies entering foreign markets in Europe, state support in the form of vouchers would be appropriate, especially for such stages as market selection services, export strategy development, and certification.

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