

Business, trade and exchange activities

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EUROPEAN PRIORITIES FOR SMALL AND MEDIUM BUSINESS DEVELOPMENT IN COVID-19 CONDITIONS

***Summary.** The business faces a large number of different problems every day. The results of 2020 showed that the most significant losses in quarantine got small and medium-sized enterprises, which were unprepared for proactive management in a dynamic change. Therefore, considering European priorities for developing small and medium-sized businesses in COVID-19 conditions is an important and relevant topic in today's reality. In connection with the COVID-19 pandemic, the implementation of European priorities for the*

development of small and medium-sized businesses is the basic strategy for a successful exit from the crisis and restructuring the Ukrainian economy.

The article's purpose is to study the conditions of functioning and trends in the development of small and medium-sized businesses during the pandemic COVID-19 to analyze and identify possible ways of further business development. Another objective is the research priorities of European business, particularly under the EU Strategy 2030 and the detection capability of small and medium-sized enterprises in Ukraine to implement European priorities and values as for doing-business and the same for financing-business in COVID-19 conditions.

Considering European business development priorities, you have to focus on the digitalization of small and medium-sized businesses in Ukraine, expanding access of business entities to information, the formation of digital competencies in all areas and types of economic activity.

The research systematizes and analyzes the current state and problems of small and medium-sized business development in Ukraine. Thus, in 2020 the main issues of small and medium-sized businesses can be considered: quarantine restrictions, unstable legislation, corruption, and a significant tax burden.

The identified problems of small and medium-sized businesses development need management decisions to address them; in particular, it is necessary to implement measures for SMEs to minimize and overcome the effects of the COVID-19 pandemic. We proved that the implementation of European business development trends in the COVID-19 conditions would promote a proactive approach to the development of small and medium businesses in Ukraine and will form a basis for European integration of Ukraine's economy in general.

Key words: *business, development, European priorities, COVID-19.*

Statement of the problem. Small and medium-sized businesses are the basis for economic development. Such enterprises form the bulk of tax payments to the budget and provide the population with both products and jobs. The business faces many different problems every day: competition, variability of the business environment, the risk of default, late fulfillment of obligations, and others. To all other issues in 2020 was added another that changed the lives of all without exception: citizens, small and medium-sized businesses, and global international companies. Such a problem was the conditions of doing business according to the quarantine requirements of COVID-19, implemented by different countries for different groups of business entities.

The results of 2020 showed that the most significant losses in quarantine got small and medium-sized businesses, which were unprepared for proactive management in a dynamic change. For some sectors of the economy, quarantine has become the last critical element in the activities; for others, on the contrary, it has opened up new opportunities for improvement and strengthening in the market. Thus, according to the European Business Association data, most of the surveyed entities lost up to 75% of their income during quarantine, 7% of businesses may close, and only 14% either did not feel the changes or increased their revenue [2].

Therefore, considering European priorities for developing small and medium-sized businesses in the COVID-19 conditions is an important and relevant topic in today's reality. It is essential to investigate SMEs' trends, problems, and operating conditions before and during a pandemic to understand what mechanisms can address or reduce the negative COVID-19 impact on business. European experience in stimulating the development of small and medium-sized enterprises in the post-crisis period and research on the priorities of business financing in the EU will form a quality strategy for small and medium-sized businesses in Ukraine in COVID-19 conditions.

Analysis of recent researches and publications. Understanding the importance of effective functioning and development of small and medium-sized businesses for the development of the economy, in general, is formed and proved by scientists based on the performed researches. T. Yu. Heiko [4, p. 62-71] examines the conditions of small and medium-sized businesses in quarantine, notes that one of the critical problems in such situations is insufficient resources (including financial) to "survive" the long-term cessation of activities or reduction activities. The main risks for small and medium-sized businesses in the context of COVID-19 are shutdowns, liquidity shortages, large-scale reduction, and narrowing of the structure of consumer demand. In addition, the author examines in detail the government's business support programs in different countries. We have paid insufficient attention to the diversification of economic activities based on the ability to adapt to the conditions of COVID-19 and the ability to develop in such situations.

Exclusive data of the State Fiscal Service of Ukraine are provided and analyzed by Ya. Vinokurov [11]. The author reveals information for which business entities (types of economic activity) COVID-19 have become fatal and, on the contrary, an opportunity for development.

NGO "Center for Applied Research" and the Konrad Adenauer Foundation in Ukraine investigated the effect of COVID-19 and quarantine restrictions on the economy of Ukraine [7]. Thus, some representatives of small and medium-sized businesses, namely: tourism, transport, small shops selling necessities, cafes, bars, and restaurants, etc. - suffered the most due to their unwillingness to new business conditions.

A. Tolstova and S. Kibalchych [10, p. 55-62] study the problems of small business development in Ukraine, divide them at the micro and macro levels, and describe the main tasks of the state to stimulate small business development. Ya. I. Tereshchenko [9] describes the reasons for slowing down the development of small businesses in Ukraine and proposes measures for small

and medium business development. R. O. Miroshnyk and U. O. Prokopyeva also study small and medium business development issues in Ukraine [6, p. 63-71].

However, insufficient research focuses on European trends in small and medium-sized businesses in the COVID-19 conditions, both in terms of priority economic activities and providing businesses with financial resources, which they critically lack in crisis business conditions.

Formulation purposes of article (problem). The article aims to study the conditions of functioning and trends in developing small and medium-sized businesses during the pandemic COVID-19 to analyze and identify possible ways of further business development. Another objective is the research priorities of European business, particularly under the EU Strategy 2030 and the detection capability of small and medium-sized enterprises in Ukraine to implement European priorities and values as for doing-business and the same for financing-business in COVID-19 conditions.

The main material. On the way to the European integration of Ukraine's economy, the issues of compliance with European priorities, business standards, and dominant methods of business financing are becoming increasingly important. In connection with the COVID-19 pandemic, the implementation of European priorities for the development of small and medium-sized businesses is the basic strategy for a successful exit from the crisis and restructuring the Ukrainian economy.

Today, the EU has two dominant areas of business development:

- ecology - proved by the European Green Deal;
- digitalization - proved by European Digital Compass.

Both of these areas require significant amounts of funding and better approaches to doing business, which complicates it and makes it inherently innovative.

The business functioning in the COVID-19 conditions has shown that the main priority of small and medium-sized business development is digitalization.

This direction is relevant not only for the EU but also for Ukraine. That is why business development priorities set out in the European Digital Compass are of paramount importance today. Thus, the European Commission has developed a digital transformation of Europe by 2030, which provides:

- 1) digital transformation of businesses;
- 2) digitalization of public services;
- 3) digitally skilled citizens and highly skilled digital professionals;
- 4) secure, performant, and sustainable digital infrastructures [3].

As we can see, the key to successful business functioning in the COVID-19 conditions and the post-crisis period, the EU considers the digital development of business. Digital technologies have been critical to maintaining economic and social life throughout the COVID-19 Pandemic Crisis. They will be the key differentiating factor in a successful transition to a sustainable, post-pandemic economy and society. European businesses and citizens can benefit from more significant digital opportunities, fostering resilience and mitigating dependencies at every level, from industrial sectors to individual technologies [3].

The main obstacles to the small and medium-sized businesses development in Ukraine are the complexity of legislation, corruption, and insufficient consumer demand. Also, the problem is the difficulty of obtaining permits and the tax burden, the outflow of highly qualified personnel abroad, and the inconsistency of the education system itself to market requirements [5]. However, European business development priorities are relevant and achievable for small and medium-sized businesses in Ukraine.

To identify the pre-crisis state of small and medium-sized businesses in Ukraine, we will analyze the scope of their activities.

Figure 1 shows the dynamics of sales and the number of small and medium-sized businesses in Ukraine during 2013-2019.

After analyzing the indicators, we can see a tendency to increase sales and the number of businesses. It should be noted that the number of business entities decreased from 2013 to 2016, which is a negative indicator, as small and medium-sized enterprises left the market. The main reason for this phenomenon was the unstable internal situation in Ukraine due to the military conflict in the East.

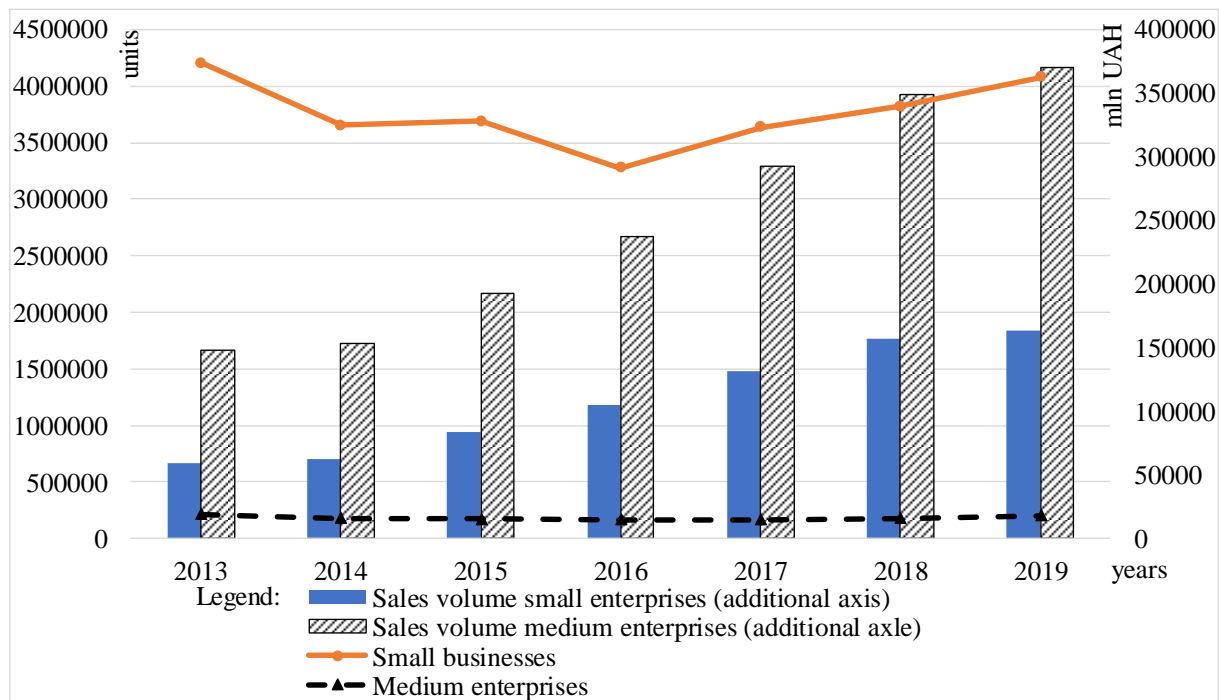


Fig. 1. Dynamics of sales and the number of small and medium-sized businesses in Ukraine during 2013-2019

Source: formed by the authors based on data [8]

Since 2016, there has been a positive trend - there is an increase in business entities in Ukraine, which indicates the stabilization of the economy.

The sales as a whole and small and medium-sized businesses tended to increase, which indicates an increase in production and rising prices in the country. The second factor was decisive in its impact on the volume of sales of small and medium-sized businesses. In Ukraine, the largest market share is occupied by the goods and services of a medium-sized company. Small business products are not the main ones in the markets of Ukraine or the demands of

other countries in the form of exports. However, the most promising way to develop the country's economy is developing small and medium-sized businesses, as evidenced by the experience of EU countries, including Poland. Accordingly, to stimulate economic growth in Ukraine, there is a real need to support small and medium-sized businesses, which should be implemented taking into account and implementing European priorities.

Figure 2 shows the dynamics of the net total financial result obtained by small and medium-sized businesses and the share of profitable small and medium-sized enterprises in Ukraine during 2013-2019.

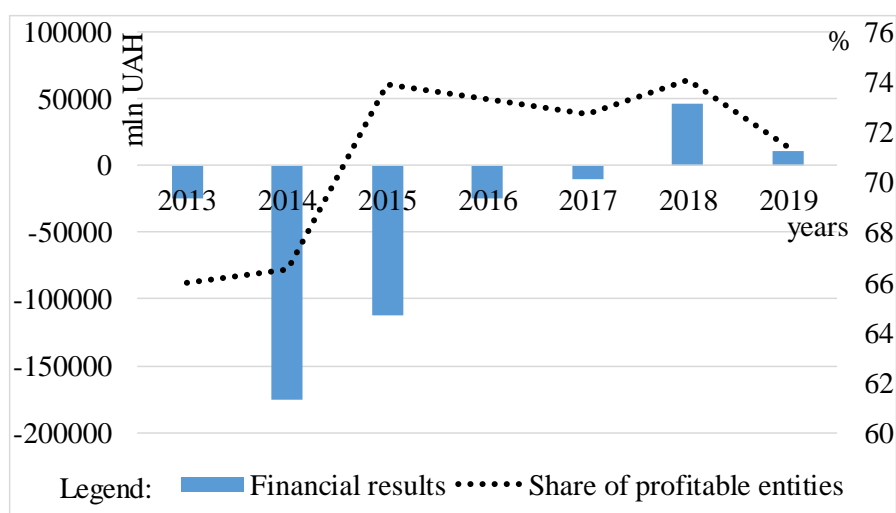


Fig. 2. Dynamics of net total financial result and the share of profitable small and medium-sized businesses in Ukraine during 2013-2019

Source: formed by the authors based on data [8]

The financial results obtained by small and medium-sized businesses show an ambiguous trend. Thus, 2014 is characterized by significant volumes of total business losses. However, in 2014-2018 there is a tendency to reduce net loss and form in 2018-2019 profitable activity of small and medium-sized businesses. Small and medium-sized enterprises in Ukraine have joined COVID-19 Pandemic Crises with a significant margin of financial strength and well-established approaches to doing business. As the financial results of the company grow, so does the number of small and medium-sized enterprises that

make a profit. According to the effects of 2019, we see a slight decrease in the share of profitable enterprises, but the main reasons for this phenomenon were lower inflation and record yields.

It should be noted that Ukrainian small and medium-sized businesses, according to a World Bank report, rose from 112 positions in 2014 to 64 in 2020. This indicator does not always indicate only positive changes. According to the Global Competitiveness Index issued by the World Economic Forum, if you look at the competitiveness of the Ukrainian economy, it has almost not increased in recent years. Also, according to the Organization for Economic Cooperation and Development, in 2020, during the COVID-19 Pandemic Crisis, Ukraine lags behind the Eastern Partnership countries in many vital indicators: innovation policy, public procurement, operating environment, business development services, internationalization, access to financial services, etc. However, there is a trend ahead of the indicators of business training and implementation of standards and technical regulations [1].

Analyzing the leading indicators of small and medium businesses, we can note that there were positive trends in its development in the pre-crisis period (before COVID-19). However, the development of small and medium businesses in Ukraine is also characterized by problems.

Figure 3 shows the results of a survey on the development of small and medium-sized businesses in Ukraine.

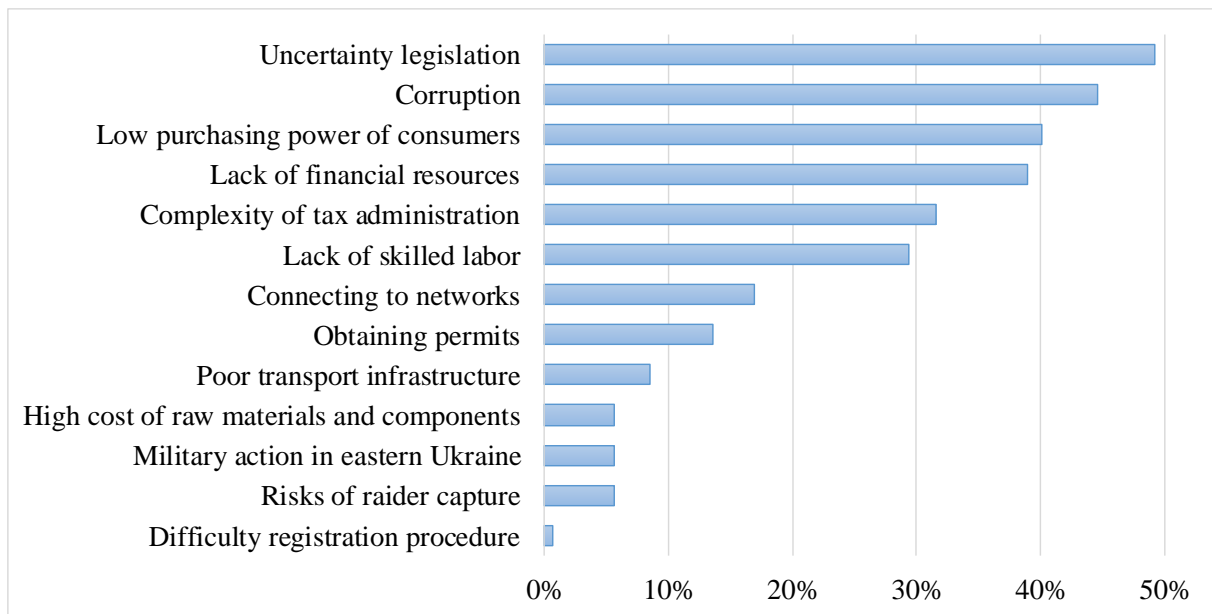


Fig. 3. Results of the survey on the problems of small and medium-sized business development in Ukraine

Source: formed by the authors based on data [5]

The most critical problem for business is the uncertainty and complexity of the legislation. Also significant are corruption, the low purchasing power of the population, and lack of financial resources. Particular attention should be paid to the problem that arose in connection with the hostilities in eastern Ukraine, which undermined our country's reputation in international markets (both in product markets and in resource markets, including capital markets). Most of the problems of small and medium-sized businesses contribute to its shadowing and encourage the search for illegal business schemes.

Having systematized the results of research on the problems of small and medium business development in Ukraine, we can group them as follows:

- inadequate regulatory and legal support for business development, insufficient and imperfect mechanisms to support small business;
- high level of corruption, which provokes a significant amount of shadow economy, which hinders the development of small and medium-sized enterprises;
- complex tax legislation and significant tax burden on business;

- the low purchasing power of the population and low demand for products that do not allow markets to develop, and, as a result, there is another problem of the competitive environment - significant authoritarian influence of large enterprises, which squeeze out small and medium-sized businesses;
- limited material support, new technologies, and equipment for small and medium-sized enterprises;
- limited access to financial resources of small and medium-sized enterprises, the complexity of the loan, etc. [5, 6, 9,10].

Also, the above problems of small and medium-sized business development in Ukraine should be added to labor resources' outflow: the outflow of highly qualified personnel abroad and the inconsistency of educational competencies with market requirements.

2020 deserved special attention when the whole business met with the COVID-19 pandemic and quarantine restrictions. During the pandemic, many small companies ceased to exist, while others lost much of their income. Therefore, it becomes clear that quarantine has become the last critical element in the activities for some sectors of the economy, and for others - on the contrary - has opened up new opportunities to improve and strengthen market positions. COVID-19 had the most negative impact on companies that worked in the tourism, creative (film industry, music companies, theaters, etc.), marketing industries. Thus, according to the State Fiscal Service of Ukraine, comparing the results of deductions for small and medium-sized businesses in 2019 and 2020, we can observe a significant decline in contributions to the budget [11].

Existing problems require management decisions so that the business can grow effectively. The priority for companies should be to overcome the consequences of the pandemic, which has significantly slowed down the development of small and medium-sized businesses. Also, a necessary condition for developing small and medium-sized enterprises in Ukraine is fighting against

corruption and reducing the shadow economy. Analyzing the EU Strategy 2030, we can conclude that European priorities for business development are relevant for Ukrainian business and will strengthen the market position of small and medium-sized businesses because they are more mobile and easier to adapt to new market requirements. In particular, in the context of digitalization of business processes.

It should be noted that Ukraine has a state policy of business support for the period of quarantine and the COVID-19 pandemic. In particular, for small and medium-sized businesses, credit vacations, tax preferences, support for small and medium-sized enterprises, and information support for business are offered [12].

The main recommendations for the small and medium-sized businesses development in COVID-19 conditions are:

- improvement of existing and implementation of new measures of state support of small and medium-sized business, in the particular form of legal, informational, and financial support of business and depreciation of state intervention in the business entities activity;
- stimulating cooperation and self-organization of small and medium-sized business in the form of public associations, unions, and associations;
- simplification of the taxation system, reform of tax legislation, and gradual reduction of the tax burden on small and medium-sized businesses;
- simplification of the business lending system and promoting access to innovative business financing tools [4, 6, 9, 10].

As the COVID-19 Pandemic Crisis became one of the decisive negative factors influencing business development in 2020, the government was forced to implement business support programs. This practice is common in all developed countries because, although small and medium-sized businesses can quickly

adapt to changes in various spheres of life, they are more vulnerable to negative changes in the political or economic environment in a crisis.

In 2020 the Verkhovna Rada of Ukraine adopted the Law of Ukraine # 436-IX "On Amendments to the Law of Ukraine "On the State Budget of Ukraine for 2020" to ensure the Fund's functioning for Entrepreneurship Development". In particular, this Law provides financial support for small and medium-sized businesses in Ukraine for UAH 2 billion, of which UAH 1.5 billion is aimed at giving partial interest rate compensation, and UAH 0.5 billion - to provide partial guarantees for the fulfillment of obligations under loans of partner banks [1].

Thus, in COVID-19 conditions, the Ukrainian government has implemented the system of business support, which will relieve financial pressure on entrepreneurs under quarantine restrictions. The main measures include:

- credit holidays - banks were recommended to implement a particular grace period for servicing loans to individuals and businesses during the quarantine period and were prohibited from fining or issuing penalties for late compliance with credit requirements;
- tax preferences - this step was taken to reduce the tax burden on business under COVID-19; in particular, the application of most fines was limited due to violations of tax laws, a moratorium on documentary and factual inspections [12];
- for small and medium-sized businesses, state lending programs for business development have been created, in particular, the program "Affordable loans 5-7-9%", financial support for activities in the agro-industrial complex by reducing the cost of loans, etc.;
- informational business support aimed at adapting to new business conditions during the quarantine restrictions and the COVID-19 pandemic [7, 12].

Such measures and programs make it possible to minimize and overcome the negative consequences for small and medium-sized businesses in Ukraine, not only in the context of the COVID-19 pandemic. Comparing the measures implemented in Ukraine and European trends in a small and medium-sized business, we can see that the common feature is the course of business informatization, expanding business access to information technology, and updating business processes through their digitalization.

Insights from this study and perspectives for further research in this direction. In conclusion, it is worth noting that small and medium-sized businesses in Ukraine entered the COVID-19 Pandemic Crisis with a significant margin of financial strength, which allowed them to work effectively under quarantine restrictions and lockdown. The general change in the conditions of doing business provokes a shift in the priorities of its development. Thus, taking into account the European importance of business development, it is advisable to focus on the digitalization of small and medium-sized businesses in Ukraine, expanding access of business entities to information, and forming digital competencies in all areas and types of economic activity.

Each crisis is a new test for businesses. After the crisis in 2014, the Ukrainian company managed to stabilize approximately in 2018-2019. Instead, in 2020, the COVID-19 Pandemic Crisis was added to all previously existing problems for business, which became a new test, slowing down the general trend of small and medium-sized business development. Ukrainian companies lag far behind partner countries in many respects, which confirms problems in the state's financial, legislative and administrative spheres. In 2020, the main issues of small and medium-sized businesses can be considered: quarantine restrictions, unstable legislation, corruption, and a significant tax burden.

The identified problems of small and medium-sized businesses development need management decisions to address them, in particular, measures are necessary for small and medium-sized businesses to minimize and

overcome the effects of the COVID-19 conditions, which has had a detrimental impact on business activities and significantly reduced the number of enterprises and worsened financial results of their actions. The implementation of European business development trends in the context of COVID-19 will promote a proactive approach to developing small and medium-sized businesses in Ukraine and will form a basis for European integration of Ukraine's economy in general.

In further research, it is advisable to pay attention to the dynamics of small and medium-sized businesses in the EU countries, accurate measures to overcome the effects of the COVID-19 Pandemic Crisis, and pro-European priorities in encouraging the use of innovative digital methods for business financing.

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