

SMALL AND MEDIUM-SIZED BUSINESSES IN UKRAINE: TRANSFORMATION AND STRATEGIC DEVELOPMENT IN MODERN CONDITIONS

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Abstract. The article examines the transformation processes and strategic development of small and medium-sized enterprises in Ukraine under modern socio-economic conditions. The study analyses the current state and role of small and medium-sized enterprises in the national economy, identifies key challenges and transformation drivers influenced by economic instability, digitalization, globalization, and institutional changes. *The purpose* of the study is to substantiate theoretical provisions and develop practical recommendations for the transformation and strategic development of small and medium-sized businesses in Ukraine in modern socio-economic conditions. *Methodology* of the study is grounded in general scientific methods of analysis and synthesis, induction and deduction, observation and abstraction, which ensure the systematisation of theoretical and empirical achievements in economic sciences. *Results* of the study showed to achieve sustainable development of the entrepreneurship sector in Ukraine, it is necessary for the current stage of difficult economic conditions to introduce reforms aimed at supporting business, which can be achieved through the effective use of financial instruments, methods and levers by the state and its main institutions, regulation of the process of strengthening interaction between business entities, as well as, directly, regulation of development processes by business entities themselves through the choice of the optimal system for managing the results of their financial and economic activities. *Practical implications.* The practical consequences of the work lie in the application of the proposed strategic approaches and tools for the transformation of small and medium-sized businesses to increase the competitiveness, financial stability, and

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innovative activity of enterprises. *Value/originality*. The originality of the study is due to a systematic approach to studying the transformation of small and medium-sized businesses in Ukraine, which takes into account the impact of digitalization, globalization processes and institutional changes, as well as the development of strategic guidelines for its sustainable development.

Introduction

Small and medium-sized businesses are a key sector of the economy of any country, providing employment, generating a significant part of the gross domestic product and stimulating the development of innovative ideas. In Ukraine, small and medium-sized businesses traditionally play an important role in shaping social and economic stability, especially in the regional distribution of economic resources. Modern economic conditions, caused by globalization, digitalization, as well as internal challenges, including the consequences of war and economic instability, put forward new requirements for the development and transformation of small and medium-sized businesses in Ukraine. Enterprises in this sector are forced to adapt to changes in tax policy, access to financing, market conditions and technological trends in order to remain competitive. In these conditions, it is especially important to analyze the strategic development of small and medium-sized businesses, identify new directions for their transformation and form effective mechanisms for state support. The relevance of the topic is due to the need to study modern trends in the development of small and medium-sized businesses, assess their sustainability and find ways to increase the economic efficiency and competitiveness of Ukrainian enterprises. The purpose of the study is to identify the features of the transformation of small and medium-sized businesses in Ukraine and determine the key strategic directions of its development in modern economic conditions. The active development of small and medium-sized businesses in Ukraine is hindered by the inability to compete on an equal footing with large commodity producers without the use of state support mechanisms. The current dependence on large organizations, monopolists, the limited sources of financing for their activities and the inaccessibility of attracting loans only intensify during the crisis, in particular, the decline of the economy due to the large-scale invasion of the Russian Federation into Ukraine, and

requires a significant expansion of state programs in the direction of using various instruments to stimulate the development of small and medium-sized businesses, which should take the form of multilateral assistance and adapt to modern changes in the conditions of doing business and its needs. Modern economic conditions, which have formed under the influence of globalization, digitalization and military and financial challenges, necessitate the transformation of small and medium-sized businesses. Enterprises in this sector are forced to adapt to new market requirements, implement innovative technologies, use modern business models and effectively interact with state and international support institutions. The relevance of the research lies in studying modern trends in the transformation of small and medium-sized businesses in Ukraine and determining strategic directions for its development. It is appropriate to analyze the features of the functioning of small and medium-sized businesses in the conditions of new economic realities and formulate proposals to increase their competitiveness and sustainability. However, modern economic conditions against the backdrop of military events and the global crisis have affected the Ukrainian market, which has slowed down its development, and with it, small and medium-sized businesses have begun to choose options for transition to market relations in all sectors of the economy. In addition, the performance of these business entities is still low compared to developed countries. To achieve sustainable development of the entrepreneurship sector in Ukraine, it is necessary for the current stage of difficult economic conditions to introduce reforms aimed at supporting business, which can be achieved through the effective use of financial instruments, methods and levers by the state and its main institutions, regulation of the process of strengthening interaction between business entities, as well as, directly, regulation of development processes by business entities themselves through the choice of the optimal system for managing the results of their financial and economic activities. The goal of small and medium-sized businesses in Ukraine today is to maintain their market position and resume production. The primary task of business owners is to develop internet marketing and transition to new business plans, taking into account business development under martial law using remote technologies.

1. Small and medium-sized businesses in Ukraine: adaptation to modern economic challenges

Small and medium-sized businesses in Ukraine are a strategically important component of the country's economy, providing employment, creating products and services for domestic and foreign markets, contributing to the development of innovations and the formation of the middle class. An analysis of the current state of small and medium-sized businesses shows that the sector is characterized by high flexibility, the ability to quickly respond to changes in the economic environment and implement innovative approaches in management and production. However, despite its key role in economic development, small and medium-sized businesses face a number of significant challenges that necessitate transformation and adaptation to modern conditions. The first important aspect is economic instability caused by external and internal factors. The full-scale war in Ukraine has caused the destruction of infrastructure, disruption of logistics chains and a significant decrease in production volumes in certain regions. In addition, high financial risks and inflationary processes complicate the access of enterprises to stable financing and credit resources. These circumstances force entrepreneurs to look for new approaches to doing business and to more actively use mechanisms for diversifying sales markets, in particular, focusing on exports and attracting new client segments. The second key factor is technological transformation. Modern enterprises are forced to implement digital tools in management and marketing in order to remain competitive [3, p.211]. The spread of e-commerce, online services, digital accounting and automation of business processes allows small and medium-sized businesses to respond more effectively to changes in demand and optimize production and logistics processes. At the same time, technological modernization requires not only financial resources, but also a high level of personnel competencies, which emphasizes the need to develop a system of education and training in the small and medium-sized business sector. The third important challenge is the regulatory and administrative environment. Although Ukraine is reforming its tax and business administration, small and medium-sized businesses continue to face a complex reporting system, bureaucratic procedures and uncertainty in legislative regulation. This negatively affects the speed of decision-making by entrepreneurs, increases the cost of time and resources and limits investment opportunities. At the

same time, the state is trying to compensate for these risks by implementing support programs, grants, access to preferential loans and training initiatives, which contributes to the adaptation of small and medium-sized businesses to new conditions. An analysis of the practice of functioning of Ukrainian small and medium-sized businesses shows that enterprises are actively implementing adaptation mechanisms. Among them, the following should be highlighted: diversification of markets and products, introduction of digital technologies, optimization of resources, search for new partnerships and development of flexible organizational models. For example, IT companies quickly switched to remote work models and international orders, food manufacturers reoriented to the domestic market and exports, and startups in the field of agrotechnology and green energy are actively attracting international grants and investments. These practices indicate the high potential of small and medium-sized businesses for adaptation, innovation and strategic development even in difficult economic conditions.

It is important to emphasize that the adaptation of small and medium-sized businesses is not limited to operational measures. It is strategic in nature, as it involves the formation of new business models, the development of personnel competencies, the integration of digital solutions and the active use of state and international support programs [31, p. 88-96]. As a result, such enterprises increase their resilience, the ability to quickly respond to changes in the external environment and ensure long-term competitiveness. Thus, the conclusions of the section indicate that small and medium-sized businesses in Ukraine demonstrate significant flexibility and the ability to adapt in modern economic conditions. The main areas of adaptation are [11, p. 39-48]:

1. Diversification of business and sales markets, which allows reducing risks and ensuring the stability of income.
2. Digitalization and implementation of innovative technologies, which increases management efficiency and competitiveness.
3. Resource optimization and financial planning, including attracting grants, loans and other sources of financing.
4. Flexible organizational models, including remote work, outsourcing and partner networks.

Overall, small and medium-sized businesses in Ukraine demonstrates high resilience and potential for strategic development, despite serious

external challenges. Successful adaptation of enterprises depends on a comprehensive approach, a combination of innovative solutions, effective management and state support, which ensures the stability and development of small and medium-sized businesses as an important component of the Ukrainian economy. The table demonstrates the main current economic challenges for small and medium-sized businesses in Ukraine and the adaptation mechanisms that allow enterprises to remain competitive and resilient in an unstable economy. It illustrates the relationship between problems and practical solutions using the example of real enterprises (Table 1).

Table 1

**Main economic challenges and adaptation mechanisms
of small and medium-sized businesses in Ukraine**

Economic challenge	Impact on small and medium-sized businesses	Adaptation mechanisms	Examples of practices
War and instability	Reduced production volumes, disrupted logistics, business relocation	Market diversification, export development	IT companies shift to international projects; food producers expand domestic market
Financial constraints	Limited access to loans, high interest rates	Use of grants, preferential loans, cost optimization	Agritech startups attract international grants
Regulatory barriers	Complex tax system, bureaucracy	Use of government support programs, outsourcing of tax services	Businesses use e-services of tax authorities and consulting services
Digitalization and competition	Need to implement new technologies to stay competitive	Adoption of e-commerce, digital accounting, online marketing	Development of online stores, CRM systems, mobile apps for clients

Source: developed by the author

The description of the socio-economic essence of entrepreneurial activity requires some adjustment, since independent activity excludes the activities of organizations in integrated associations, and its innovative and social nature is not taken into account. The indicator of added value will

allow assessing the increased contribution of the organization to the national economy. To update and take into account modern features, the following author's formulation is proposed: entrepreneurial activity is an initiative economic activity of business entities of various forms of ownership, aimed at obtaining added value from the sale of goods, provision of services or performance of work, which is of an innovative and social nature. Modern features of entrepreneurial activity require supplementing the definition of entrepreneurial activity with some criteria. The definition proposed by the author allows taking into account a number of features. Firstly, new achievements in science and technology make it possible to create small but effective production structures, which determines the development of small and medium-sized businesses. Most often, the activities of small and medium-sized organizations are focused on narrow sales markets, a high level of specialization, and a constant change in the product range. Digitalization of the economy, venture capital, and science and technology parks have a favorable impact on the development of small innovative businesses. Thus, modern technologies allow organizations to have a fairly large turnover with a small number of employees, which confirms the need to introduce an additional criterion for defining entrepreneurial activity. Secondly, the high mobility and adaptability of small and medium-sized business entities to changes in market conditions and the introduction of new technologies. Large organizations have the opportunity to attract material, labor, and financial resources to implement large innovation projects in a number of industries [19, p. 98]. However, it is small and medium-sized business organizations that implement 2.5 times more innovations than large ones. Thus, Ukrainian small and medium-sized businesses do not see any possible prospects for improving the general economic situation and developing the business environment in the country. Thus, the presence of problems in the activities of Ukrainian enterprises, which were caused by the occupation and hostilities, is one of the biggest obstacles to filling the budget of Ukraine, which had a very negative impact on the country's economy during this period. Thus, we see that the last year has become very difficult for Ukrainian business. The profitability of their activities has significantly decreased during the period of large-scale war, and given the importance of entrepreneurship for the national economy, state intervention and support for the entrepreneurship sector are necessary. Small and

medium-sized enterprises (SMEs) in Ukraine play a crucial role in the national economy, contributing significantly to employment, production of goods and services, and the development of innovation. The analysis of the current state of SMEs indicates that, despite facing serious economic and social challenges, this sector demonstrates a high degree of flexibility and the ability to rapidly adapt to changing conditions. However, the modern economic environment in Ukraine poses numerous challenges that require strategic and operational adaptation for sustainable business growth. One of the most pressing challenges is the ongoing military conflict, which has disrupted supply chains, destroyed infrastructure, and forced many businesses to relocate. These factors have resulted in reduced production volumes and significant uncertainty for SMEs. Financial constraints, such as limited access to loans, high interest rates, and inflationary pressures, further exacerbate the difficulties, making it necessary for businesses to diversify their revenue streams and explore new markets. Many Ukrainian SMEs, particularly in IT and production sectors, have successfully shifted focus to international clients and export opportunities to mitigate these risks. Another critical factor is digital transformation. Modern SMEs must adopt digital tools and innovative technologies to maintain competitiveness [22, p. 15-23].

The implementation of e-commerce platforms, digital accounting systems, online marketing, and automation allows businesses to improve operational efficiency, reduce costs, and respond more rapidly to market demands. At the same time, digital transformation requires skilled personnel and investment in employee training, highlighting the importance of developing human capital alongside technological innovation. Practical adaptation strategies of Ukrainian SMEs include market diversification, digitalization, financial optimization, flexible organizational models, and innovation in products and services. For example, IT companies have successfully transitioned to remote work and international service delivery, food producers have expanded to export markets, and agritech startups have leveraged EU grants and international partnerships. These examples demonstrate the sector's capacity for resilience, innovation, and long-term strategic development even under challenging circumstances.

In conclusion, Ukrainian SMEs demonstrate strong potential for strategic growth and long-term sustainability despite external pressures. Their ability

to adapt depends on a comprehensive approach that combines innovation, efficient management, digital transformation, and the effective use of state and international support programs. Such adaptive capacity ensures that SMEs remain a resilient and competitive pillar of Ukraine's economy.

2. State support for small and medium-sized businesses in Ukraine: trends, challenges and innovative approaches

Small and medium-sized businesses (SMEs) are one of the key components of the Ukrainian economy, providing employment, creating a significant share of the gross domestic product and stimulating the development of innovations. In the context of globalization, economic instability and constant socio-political changes, support for SMEs is becoming critically important both for the stability of the national economy and for its strategic development. The state policy of supporting small and medium-sized businesses includes various instruments: financial support, preferential taxation, simplification of administrative procedures, access to training and consulting programs, as well as stimulation of innovative activity. The effectiveness of these measures determines the ability of enterprises to adapt to modern economic challenges, increase competitiveness and expand their presence in domestic and international markets. The relevance of the study is due to the need to assess current trends in state support for SMEs, identify key problems and limitations, and search for innovative approaches that can increase the effectiveness of state policy. The purpose of the work is a comprehensive analysis of state support for small and medium-sized businesses in Ukraine, identification of its strengths and weaknesses, and development of recommendations for increasing efficiency and implementing modern strategic support instruments [5, p. 66]. Methods of state support for small and medium-sized businesses are usually grouped in the direction of influence and are divided into direct and indirect. The former include, in particular, measures related to the simplification of taxation and accounting, subsidizing credit rates and providing benefits in the field of taxes, customs tariffs, depreciation payments, rental rates and leasing services. It should be noted that the use of tax benefits in Ukrainian practice is considered as incentive measures, which can take the form of "tax holidays", investment tax credits and subsidies, reduced rates for indirect taxation, etc. Most often, the possibility

of using these mechanisms is normatively limited to certain areas of activity of a small enterprise, for example, the implementation of innovations, conducting scientific and research or development work, employment of disabled people, performing environmental protection work, carrying out socially significant work, etc.

Table 2

Key Mechanisms of State Support for SMEs in Ukraine

Support Mechanism	Description	Targeted SMEs	Key Benefits	Challenges / Limitations
Financial Assistance	Grants, low-interest loans, microcredit programs	Startups, small manufacturers, agritech	Improved cash flow, access to investment, business expansion	Limited funding, competitive application processes, bureaucracy
Tax Incentives	Reduced tax rates, simplified taxation (e.g., simplified tax system)	Small businesses, sole proprietors	Lower operational costs, higher profitability	Complexity in interpretation, limited scope for larger SMEs
Regulatory Support	Simplification of registration, licensing, and reporting procedures	All SMEs	Faster business setup, reduced administrative burden	Inconsistent application across regions, slow reforms
Training & Consulting Programs	Business incubators, mentoring, workshops, online courses	Startups, innovative companies	Improved managerial skills, access to expertise, networking	Limited availability in some regions, lack of awareness
Innovation & Technology Support	Subsidies for R&D, digitalization programs, access to tech parks	Innovative startups, IT and high-tech SMEs	Encourages innovation, competitiveness, market expansion	Limited funds, eligibility restrictions, slow implementation

Source: developed by the author

This table summarizes the main mechanisms of state support for small and medium-sized enterprises in Ukraine, highlighting their purpose, beneficiaries, advantages, and the main challenges associated with each

type of support. It provides a clear overview of how government initiatives aim to strengthen SMEs while identifying areas that require improvement or modernization.

The study of state support for small and medium-sized enterprises (SMEs) in Ukraine demonstrates that this sector plays a critical role in economic stability, innovation development, and job creation. Government policy includes a variety of instruments: financial assistance (grants, low-interest loans), tax incentives, simplified regulatory procedures, educational and consulting programs, as well as support for innovation and digitalization. Analysis of current trends shows a growing focus on digital technologies and innovative solutions, which enhances the competitiveness of Ukrainian SMEs in both domestic and international markets. At the same time, significant challenges remain, including bureaucracy, limited program coverage, regional disparities, difficult access to funding, and low awareness among entrepreneurs regarding available support mechanisms. Innovative approaches such as digital platforms for grant and loan applications, startup incubators, public-private partnerships, and mentorship programs have proven effective in increasing the efficiency of state support measures. Implementing these solutions improves transparency, speeds up access to resources, and fosters the development of an innovative economy. In conclusion, state support for SMEs in Ukraine is a strategically important tool for economic development. Its effectiveness largely depends on modernizing approaches, digitalizing processes, expanding access to resources, and improving communication with entrepreneurs. A comprehensive development and support system for SMEs will enhance the competitiveness of the Ukrainian economy and strengthen the resilience of the business environment in the face of modern economic challenges. The process of regulating and supporting small and medium-sized businesses involves the state performing various tasks. In the direction of creating an organizational and legal basis for entrepreneurial activity, namely: legislative consolidation of the legal status of small and medium-sized businesses; formation of rules in the field of creation, registration and liquidation of enterprises, requirements and procedures for keeping records and providing reporting; implementation of activities to protect the rights of entrepreneurs in the field of property protection, trademark, etc., as well as relevant consumer rights; development, regulatory

consolidation and practical implementation of rules for standardization and certification of goods and services, implementation of activities to control the quality of manufactured and sold products [11, p. 39-48]. In the field of socio-economic foundations of small and medium-sized businesses, the state is developing regulatory support for the labor sphere and the effective functioning of the labor market. The state's task is to form the basic rules and ethical and legal norms for conducting business activities and ensuring their compliance. This area includes work on combating corruption and fraud, illegal entrepreneurship, legalization of illegal income, as well as ensuring conditions for effective resolution of conflicts between business entities. Financial support is one of the key pillars of state assistance for SMEs. The Ukrainian government implements various programs to improve access to financial resources, including preferential lending, loan guarantees, grants, and subsidies. One of the most notable initiatives is the “Affordable Loans 5–7–9%” program, which provides SMEs with access to low-interest credit to support business creation, modernization, and expansion. In addition to state budget funding, SMEs in Ukraine can benefit from financial support provided by international organizations and development partners, such as the European Union, the World Bank, the European Bank for Reconstruction and Development (EBRD), and other donors. These programs often focus on innovation, export development, energy efficiency, and post-war economic recovery. The Ukrainian government actively supports SMEs through information and advisory services. Entrepreneurs are provided with access to training programs, consultations, mentoring, and online platforms offering legal, financial, and managerial guidance. Digital platforms, such as state business portals, help entrepreneurs obtain up-to-date information on available support programs, regulatory requirements, and market opportunities. Educational initiatives aim to develop entrepreneurial skills, improve financial literacy, and promote innovation-driven entrepreneurship. Special attention is given to supporting start-ups, youth entrepreneurship, women-led businesses, and socially oriented enterprises. Despite significant progress, SMEs in Ukraine continue to face challenges such as limited access to finance, regulatory instability, infrastructure constraints, and the economic consequences of war. In response, state support policies increasingly focus on resilience,

digital transformation, export promotion, and post-war reconstruction. Future directions of state support for SMEs in Ukraine include deeper integration with EU markets, expansion of innovation and green economy programs, strengthening regional development, and enhancing institutional capacity to ensure long-term sustainable growth of the SME sector. Small and medium-sized enterprises are a key driver of economic stability and balanced regional development in Ukraine. SMEs contribute significantly to job creation, especially at the local level, where large enterprises are often absent or limited [14, p.74-83]. By operating in diverse sectors such as trade, services, agriculture, manufacturing, and IT, SMEs help diversify the national economy and reduce dependence on a small number of large corporations. In rural and less developed regions, SMEs play a particularly important role in supporting local communities, increasing household incomes, and preventing labor migration. State support programs aimed at SMEs therefore contribute not only to economic growth but also to social cohesion and regional equality.

The Ukrainian state places increasing emphasis on innovation and digital transformation as key factors in SME competitiveness. Support measures include grants for innovative projects, assistance in adopting digital technologies, and incentives for participation in research and development activities. The development of the digital economy has been accelerated through e-government solutions, which simplify interactions between businesses and public authorities. Export support is another important area of state assistance. Ukrainian SMEs receive support in entering foreign markets through export credit agencies, trade missions, participation in international exhibitions, and access to analytical market information. The Export Promotion Office of Ukraine plays a significant role in helping SMEs integrate into international trade and global value chains, particularly within the European Union. Ukraine's strategic course toward European integration significantly influences state support for SMEs. Harmonization of legislation with EU norms, participation in European programs, and access to international financial instruments expand opportunities for Ukrainian entrepreneurs. SMEs are encouraged to adopt European quality standards, certification procedures, and corporate governance practices.

3. Foreign experience in supporting the development of small and medium-sized businesses in Ukraine

In the context of rapid technological progress and global digital transformation, small and medium-sized enterprises (SMEs) are becoming a key driver of sustainable economic growth, innovation, and competitiveness. The development of the digital economy significantly changes traditional business models, management approaches, and mechanisms of state and market support for SMEs. As a result, the effectiveness of SME development mechanisms increasingly depends on the level of innovation adoption and the use of digital technologies. Innovative and digital solutions open new opportunities for small and medium-sized businesses by improving productivity, reducing operational costs, expanding access to markets, and enhancing interaction with customers and public institutions. Digital platforms, e-commerce, cloud technologies, artificial intelligence, and financial technologies enable SMEs to compete more effectively not only at the national but also at the international level. At the same time, the digitalization of public administration contributes to the simplification of regulatory procedures, increased transparency, and improved access to support programs [20, p. 58-64]. However, despite the significant potential of digital transformation, SMEs often face challenges such as limited financial resources, insufficient digital skills, cybersecurity risks, and unequal access to modern technologies. These challenges necessitate the modernization of existing development mechanisms and the implementation of innovative and digital approaches to SME support.

When developing and implementing methods for the development of small and medium-sized enterprises in Ukraine, one of the important and relevant aspects is the study and analysis of the experience of countries with developed market economies. In countries with market economies, support for small and medium-sized enterprises is provided by the state in a number of areas. In developed countries, the current state of SMEs is the result of a process of evolution that occurred from below, and only relatively recently has the state, realizing the importance and necessity of small and medium-sized enterprises for economic development, begun to look for ways to influence them through a state system of incentives and support. At the same time, small and medium-sized enterprises work in constant interaction with the authorities at all levels - national, regional and local.

Transformational processes require the enterprise management to implement a quick and qualified response in the process of these changes. Successful or unsuccessful decision-making is a process that does not have a single correct assessment system, as is the reaction to changes for all levels of management. Each level is characterized by its own specific degree of significance in the process of achieving the strategic goals set by the enterprise, therefore it must be evaluated according to various criteria that are characteristic of this level of management, taking into account its inherent features and functions. Therefore, there is a need to determine a list of characteristics, indicators and metrics that can objectively reflect the level of efficiency and effectiveness of management of business entities, which will allow assessing the entire management system and the effectiveness of state regulatory policy, expressed in external factors, in particular from the state [8, p. 12-20]. The goal of improving state policy in the field of small and medium-sized business development is to achieve the necessary level of socially beneficial results by the country. In the conditions of martial law and the crisis caused by the war, great pressure is exerted from several sides: shortcomings of the general legal framework and economic situation, unresolved problems of civil-legal and administrative relations exacerbate the problem under consideration. The figure illustrates the innovative and digital directions for increasing the efficiency of small and medium-sized enterprise (SME) development mechanisms, taking into account foreign experience relevant for Ukraine. It demonstrates the interconnection between innovative mechanisms, digital tools, and international best practices and their combined impact on improving SME development efficiency.

The figure shows how innovative mechanisms serve as a foundation for SME modernization, while digital tools (such as e-government services, fintech solutions, digital platforms, and data-driven technologies) and foreign experience (best practices from developed economies) act as complementary drivers. These elements jointly contribute to enhancing the effectiveness of SME support systems in Ukraine. The final element of the figure represents SME development efficiency in Ukraine, which is achieved through the integration of innovation, digital transformation, and adapted international experience. The visual model emphasizes that sustainable SME growth requires a systemic approach combining technological advancement, institutional support, and the adoption of proven global practices.

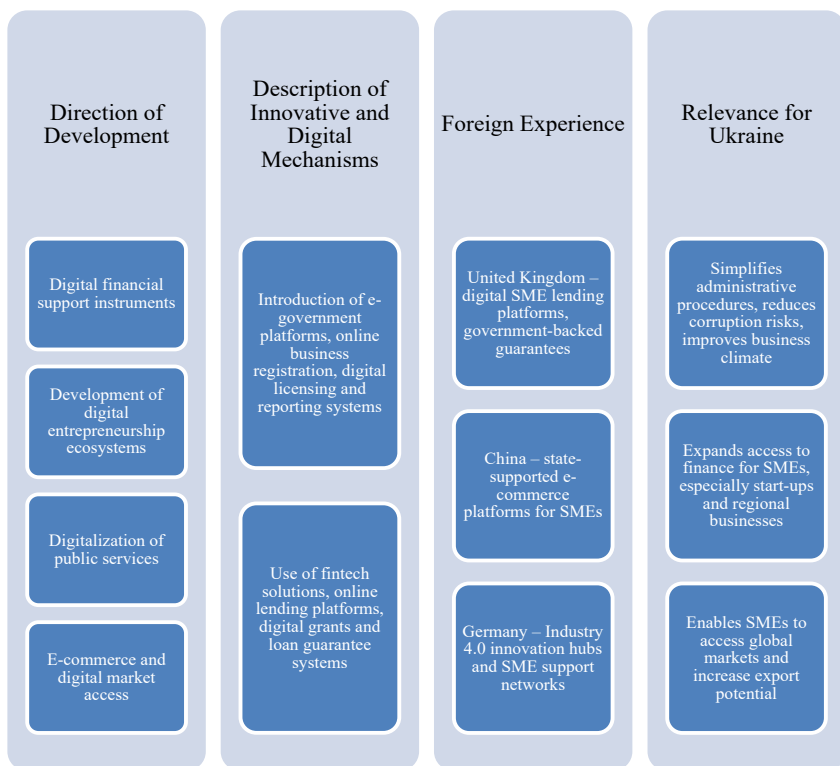


Figure 1. Innovative and Digital Directions for Increasing the Efficiency of SME Development Mechanisms and Foreign Experience Relevant for Ukraine

Source: developed by the author

A feature of tax incentives for small and medium-sized businesses in economically developed countries is the use of a progressive tax scale and differentiation of tax rates depending on the type of business, which has a positive effect on the activity of SMEs. The tax policy of many countries includes such a tax support measure as a reduction in the income tax rate for small and medium-sized businesses. Income tax in the USA is 15% for small businesses and 25% for medium-sized businesses. In the UK, with a

basic tax rate of 35%, the tax rate for small businesses is 25%. In Belgium, small venture firms developing high technologies are exempt from tax for 10 years. In Canada, a profit rate of 11% has been set for SMEs with a basic rate of 28%. In Germany, the corporate tax rate is 15% [16, p. 312].

In the European Union, as in Ukraine, in order to stimulate SMEs, special tax regimes have been introduced, the application of which exempts enterprises from paying many taxes, for example, from paying VAT. The EU practices a simplified method of tax and accounting, which greatly simplifies the activities of enterprises. In some EU countries, in particular in France, enterprises operating in economically weak areas are exempted from paying taxes to social funds, and they are also provided with preferential loans. It is interesting to consider the experience of state support for SMEs in Japan. The Japanese authorities pay special attention to creating favorable conditions for the development and growth of SMEs. Japan widely uses a system that provides constant monitoring of the development and condition of SMEs. Based on system data, research is conducted, the effectiveness of the entire complex of state influence and regulation measures is analyzed and assessed.

The study confirms that innovative and digital directions play a decisive role in increasing the efficiency of mechanisms supporting the development of small and medium-sized enterprises (SMEs) in Ukraine. In the context of digital transformation and economic uncertainty, the modernization of SME support systems becomes a key factor for ensuring sustainable growth, competitiveness, and resilience of the national economy. The analysis demonstrates that the introduction of digital tools, such as e-government services, fintech solutions, digital platforms, and data-driven technologies, significantly improves access to public services, financial resources, and markets for SMEs. Digitalization reduces administrative barriers, enhances transparency, and creates more favorable conditions for entrepreneurial activity. The examination of foreign experience shows that economically developed countries successfully apply integrated approaches to SME support, combining innovation policy, digital infrastructure, and institutional cooperation. Best practices from the European Union, the United States, and other advanced economies confirm that state support mechanisms are most effective when they focus on innovation, digital skills development, access to finance, and internationalization of SMEs. The adaptation of foreign

experience to Ukrainian conditions proves to be particularly important. The implementation of international best practices, adjusted to national economic realities, contributes to strengthening the competitiveness of Ukrainian SMEs, expanding their export potential, and accelerating their integration into European and global value chains. Overall, the findings indicate that increasing the efficiency of SME development mechanisms in Ukraine requires a comprehensive and systemic approach. This approach should combine innovative and digital solutions, effective state policy, and the selective adoption of foreign experience. Such a strategy will support the long-term development of small and medium-sized businesses and enhance their role in the digital economy and post-war economic recovery.

Conclusions

In Small and medium-sized businesses (SMEs) play a vital role in the economic system of Ukraine, acting as a key source of employment, innovation, and regional development. In modern conditions characterized by digital transformation, economic instability, and external challenges, SMEs are undergoing significant structural and strategic changes aimed at ensuring sustainability and competitiveness. The transformation of SMEs in Ukraine is largely driven by the adoption of digital technologies, modernization of business processes, and the implementation of innovative management approaches. Digitalization has enabled SMEs to improve operational efficiency, expand market access, and enhance interaction with customers and public institutions. At the same time, strategic development increasingly depends on the ability of businesses to adapt to rapid technological changes and evolving market conditions. State support mechanisms and institutional reforms have a substantial impact on SME development. Simplified taxation, digital public services, financial support programs, and entrepreneurship support infrastructure contribute to creating a more favorable business environment. However, persistent challenges such as limited access to finance, regulatory uncertainty, skills gaps, and the consequences of war continue to constrain SME growth. Foreign experience demonstrates that effective SME development strategies rely on an integrated approach combining innovation policy, digital infrastructure, human capital development, and internationalization. The adaptation of these best practices to the Ukrainian context enhances the resilience of SMEs and supports their

integration into European and global economic systems. In conclusion, the strategic development of small and medium-sized businesses in Ukraine requires a comprehensive and forward-looking approach. The combination of digital transformation, innovative development, effective state support, and the selective adoption of foreign experience will strengthen the role of SMEs in economic recovery, sustainable growth, and long-term national development.

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