

“Business environment of regions in Ukraine: Peculiarities of structural-institutional changes”

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BUSINESS ENVIRONMENT OF REGIONS IN UKRAINE: PECULIARITIES OF STRUCTURAL- INSTITUTIONAL CHANGES

Abstract

The development and efficient functioning of entrepreneurship is the basis of a market economy, as well as the key to the country's innovative socio-economic development and growing competitiveness on an international scale. The formation of a transparent and qualitative business climate is an incentive for the efficient entrepreneurship development. The paper is aimed at identifying structural-institutional transformations in the business environment and their impact on the development of small businesses. The analysis of socio-economic parameters of the business environment is based on the elasticity method and the system approach, which have been tested on the example of cities in the Western region of Ukraine. Outlining the features of setting up the business environment and its functioning has provided the grounds for detecting major problems hampering efficient business development. The comparative analysis has confirmed a close relationship between socio-economic transportation processes and conditions created for businesses. The evaluation of institutional environment has confirmed that cities striving to improve transparency in climate regulation and urban environment management achieve the growing investment activity and positive dynamics of small businesses development. The calculated elasticity coefficients prove that the growing investment activity positively impacts the number of small businesses and the volume of products sold by them. However, the expected growth in employment was not achieved due to the high level of shadow activity on the labor market and migration activity of the population.

Keywords

entrepreneurship, investments, environment, transformations, cities, transparency

JEL Classification

R11, R12, R58

INTRODUCTION

The development of the country's competitive economy on market principles is impossible without effective development of the business sector. Its setting and functioning are determined by the regulatory environment. The transparent, simple, and stable business environment is the key to dynamic entrepreneurship development that further contributes to the efficiency and stability of the country's economy both at the regional and global levels. Excessive regulatory burdens restrict business development and can be a substantial barrier to its launching. Therefore, the deregulation of entrepreneurial activity is becoming one of the priority areas of reforming the business sector.

The setup and development of the business environment in Ukraine are characterized by the low quality of public regulatory acts on entrepreneurial activity. The regulatory policy is mostly formal in nature with the signs of low disciplinary standards, weak institutional support of entrepreneurship entities, poor accessibility to financial resources, high lending rates, etc. The situation affects the development

of entrepreneurship leading to falling business activity, growing transaction costs, deteriorating companies' economic activities, impossibility of strategic planning of the entrepreneurial activity, falling the competitiveness of companies on domestic and foreign markets, deteriorating companies staffing, resourcing, and logistics, a high level of shadow activity in economic relations, decreasing investment-innovation base, etc. (Moroz, 2019).

The study of institutional features of the business environment development becomes relevant in the context of socio-political instability and military conflict faced by the country, accompanied by reforms of governance system decentralization with the transfer of some regulatory competencies to the local level, etc.

1. LITERATURE REVIEW

The functioning of the business environment remains the focus of attention of many Ukrainian and foreign researchers.

Many researchers address entrepreneurship development and the way it is influenced by the regulatory environment. Braithwaite (2006) examines the features of implementing the efficient regulatory policy and the role of non-governmental public organizations in it. Braunerhjelm et al. (2015) explore the regulatory environment as a mechanism for stimulating and developing (in quality and quantity terms) entrepreneurship, considering a wide range of regulatory tools and possible areas of impact. Acs and Szerb (2007) focus on studying the relationship between entrepreneurship, economic growth, and public policy, and define the place and role of human capital, technologies, and deregulation of financial markets in promoting the development of entrepreneurship. Audretsch and Belitski (2017) studied the links between the development of entrepreneurship and the development of cities. Audretsch et al. (2019) construct a multi-level model to show how changes in domestic regulating environment affect the opportunities for entrepreneurship development in cities (using 20 European countries and 228 cities as an example). Belitski et al. (2016) address the impact of corruption and strong tax burden on the opportunities to develop business environment and for new companies to enter the market. Díez-Martín et al. (2021) investigate the impact of the institutional environment on the opportunities for entrepreneurship development in various countries and provide suggestions for its improvement. Audretsch and Moog (2020) confirm that independent and decentralized decision-making

is the ground for the entrepreneurship development policy. Liu et al. (2021) show the way small entrepreneurship affect the development of small cities and how the local entrepreneurship policy development should be formed.

The methodological approaches to examining the theoretical and practical basics of organizing the business environment in institutional transformations were enhanced by Melnyk (2012). The transformational and structural processes are examined by Chukhno (2003), Halchynskiy (2005), Heiets (2003), and Kukharskaya (2013). Pyvovarov (2018) outlined some aspects of the role of small businesses in structural transformations of regional economic systems. The features of structural transformations of economic entities are shown by Varnalii (2008), Vlasiuk and Mokii (2012), and others. The processes of formation and development of the small business sector and its institutional framework are covered by Dolishnii et al. (1997), Melnyk (2007), Reverchuk (1996), Vorotina and Honcharov (2015), and others. Korohod (2016) and Voloshchuk (2016) analyze the impact of transformational processes on the intensification of small business in structural economic modernization and establishment of civil society institutions. The efficiency and transparency of the country's regulatory policy and the key problems accompanying the functioning of regulating environment are analyzed by Balcerowicz and Ustenko (2006), Chekh and Vinnyk (2017). Ponomarenko et al. (2018) examine the quality of the regulatory environment in Ukraine in order to adapt it to European standards.

The level of favorability of the institutional environment for the functioning of small entrepreneurship in Ukraine is evaluated by international

and national organizations. The analysis contributed to revealing the positive and destructive factors of forming an efficient regulatory environment for the functioning of small businesses. The main ones are the following:

1. High corruption level and abuse of powers, formal price liberalization, overregulation of municipal, energy, and telecommunication tariffs, etc. Certain security of foreign investors and reduced level of shadow economy can be mentioned among the positive changes (according to the Ministry of Economic Development and Trade, the shadow economy accounted for 38% of GDP in 2016, however, financial and industrial groups were still dominating), etc. (BTI, 2018).
2. Overregulation of the economy. Despite positive changes that have taken place in the country lately, the economy remains quite overregulated. Ukraine had shifted from the 152nd position in 2012 to the 71st in 2019 by the level of regulatory climate and development of the business environment (among 190 countries) (according to Doing Business (2019)). It was ranked 56th, 30th, 63rd, 32nd, 54th, and 57th by starting a business, dealing with construction permits, registering property, getting credit, paying taxes, and enforcing contracts. Getting electricity and resolving insolvency remain overregulated. They complicate the development and establishment of new production and processing enterprises. The bankruptcy procedure needs improvement (Ukraine holds 150th position out of 190 economies by the indicator), in particular in cost-cutting (BTI, 2018).

Despite the continuous scientific interest in the entrepreneurship's institutional environment, the problems accompanying its functioning are dynamic in time and have some certain regional specifics, especially taking into account the decentralization reform that has provided local communities with additional competencies, including regarding the business climate setup.

The study aims to reveal the structural-institutional transformations of the business environment in Ukraine and their impact on the development of small entrepreneurship.

To achieve the objective, the following main tasks are designated: examining the condition of the business environment based on international and national rankings, as well as evaluating the level of structural and institutional transformations of the entrepreneurship development environment in cities.

2. METHODOLOGY

The analysis of the level of business environment favorability for the development of entrepreneurship was held at two levels:

- national, and
- local (level of cities).

At the national level, the business environment favorability in Ukraine was evaluated based on comparative analysis of international and national rankings. It contributed to finding the positive and destructive factors of forming an efficient regulatory environment for the functioning of small businesses. Moreover, the density of correlative dependencies was calculated to reveal the impact of transformations (based on the main components of the Bertelsmann Transformation Index (BTI, 2018) on the development of economies and the links with conditions created for business.

At the local level, the quality of the institutional environment in the cities of the Western region of Ukraine was evaluated using the time series method. For this purpose, the growth paces were calculated (volume of products sold by small enterprises, employment, and capital investment) to show the growth of the economic activity of small enterprises and to determine their role in the socio-economic development of cities.

$$P_{g.} = \frac{y_{17}}{y_{12}} \cdot 100\%, \quad (1)$$

where $P_{g.}$ – growth pace, y_{17} – rate for 2017, and y_{12} – rate for base year in 2012.

In the next stage, economic and statistical methods were applied to collect the socio-economic parameters of entrepreneurship development in cit-

ies and to determine the main ones. Furthermore, using the Data Analysis in Excel, the density of interaction between institutional and socio-economic environments in the cities was calculated. The data of the State Statistical Service of Ukraine and information from open Internet sources served as initial data for the research.

Studying the interconnection of structural transformations of small enterprises' main activity parameters in the cities of the Western region of Ukraine (gross capital investment, employment, the volume of sold products) contributes to determining the efficiency of gross capital investment through evaluating the sensitivity of structural changes between main parameters of enterprises' activities. The efficient impact of structural transformations on the activity of small enterprises is evaluated based on elasticity parameters (Melnyk, 2012):

$$K_{ELse} = \frac{P_{Gse}}{P_{GI}}, \quad (2)$$

where K_{ELse} – coefficient of elasticity of the number of small enterprises, P_{Gse} – growth pace of the number of small enterprises per 10,000 population, and P_{GI} – growth pace of capital investment.

$$K_{ELsp} = \frac{P_{GSP}}{P_{GI}}, \quad (3)$$

where K_{ELsp} – coefficient of elasticity of the volume of sold products, P_{GSP} – growth pace of the volume of sold products, and P_{GI} – growth pace of capital investment.

$$K_{ELE} = \frac{P_{Ge}}{P_{GI}}, \quad (4)$$

where K_{ELE} – coefficient of elasticity of employment, P_{Ge} – growth pace of the number of employed at small enterprises, and P_{GI} – growth pace of capital investment.

The coefficients characterize the elasticity of the relationship between capital investment in cities and development of SE (small entrepreneurship), in particular in terms of the growth of the number of enterprises, volumes of products sold, and the number of employed at small enterprises, where:

$K_{el} \geq 1$ indicates the stimulating impact of capital investment; and

$K_{el} < 1$ shows the low density of the relationship between the given components.

3. RESEARCH RESULTS

The density of correlation dependencies between the BTI Index, its components and GNP per capita, GDP per capita and Doing Business Index is calculated to detect the impact of transformational changes on the development of the countries' economies and relationships with conditions created for business (Table 1). The calculations show a high level of dependence of socio-economic transformations (market relations, governance system, democratic processes) on the favorability of the environment for business development, i.e., on institutional and legal conditions created in the country. The level of regulatory climate on domestic national and regional markets (calculated based on the Regional Doing Business rankings) in 2017–2018) shows that positions held by the regions of Ukraine's Western region were quite favorable for business. Ivano-Frankivsk region was in TOP-3 of most comfortable regions of Ukraine for business, Lviv region – in TOP 5, Rivne and Volyn – in TOP 10. Rivne, Chernivtsi, and Volyn regions ranked the highest by the favorability of conditions to start a business among the Western regions (in TOP 10). It was the easiest to get the construction permits in Ivano-Frankivsk (4th position), Rivne (8th position), Zakarpattia (9th position), Volyn (10th position), and Ternopil (12th position) regions. High positions were held by Ivano-Frankivsk (5th) and Volyn (7th) regions in getting the land lease rights, while Lviv (9th), Rivne (11th), and Zakarpattia (11th) are among or close to TOP 10. All regions, excluding Chernivtsi (24th position), held high positions (in TOP 10) by the component of obtaining the electricity connection for an industrial object. Ivano-Frankivsk, Chernivtsi, and Rivne regions were among TOP 5 by the ease of administering local taxes and respective tax burden. Lviv and Ivano-Frankivsk regions ranked 3rd and 4th, and Ternopil 6th by electronic services component (administrative services and permits that can be handled by using the Internet). Moreover, the survey confirmed the problem of

high administrative load on small business, including due to the lack of knowledge and experience among entrepreneurs, and lack of access to quality legal services (Regional Doing Business).

In addition to the abovementioned obstacles for developing small business, the following ones were also relevant for 2017–2018 (Indeks nastroiv maloho biznesu, 2018): tax burden (including a single social contribution), high level of corruption, military actions in the country, lack of professional staff, and poor paying capacity of the population. The unstable socio-economic and political situation in the country has aggravated the assessment of perspectives for self-development among the representatives of small businesses (the survey showed that the Small Business Attitudes Index was 2.7 out of 5 possible in 2019, while in 2018 it was 3.2). Yet, despite the unfavorable development environment, small businesses still invest funds in people and the economy of the country, thus remaining to be the economic growth engine. The institutional environment of the functioning of small entrepreneurship in the Western region is quite favorable; however, it faces the problems peculiar to the country in general. Therefore, the improvement of the SE functioning environment requires additional attention and support from local governments. The creation of favorable institutional conditions for the functioning of SE should become the major priority of economic policy at the national and local levels.

The attraction of additional investment is important for efficient transformation processes and the development of the business environment.

The research of the transparency of the investment sector (Reitynh prozorosti investytsiinoho sektoru

“100 naibilshykh mist Ukrainy”) shows the perspective managerial capacity of municipalities in the context of investment attraction and openness of local governments to the investors. Transparent rules of the game create a healthy business environment for investors, thus maximizing time for business development. Table 2 shows that the transparency of the investment sector is not sufficient. Even the cities leading the rankings failed to get the maximum total rate (100). In general, the trends detected in other rankings are being preserved. Cities that are the regional centers have more opportunities for perspective attraction of investors and higher financial capacity to develop e-governance in cities and improve their governing transparency. The decentralization processes have provided the incentives and possibilities to smaller cities for development. Therefore, the municipalities became more interested in investment attraction and started investing resources in the development of the municipal governance transparency. Despite the falling rating of some cities (Sambir, Chervonohrad, Lutsk, Rivne, Novohrad-Volynskiy, Kovel, Mukacheve, and Novovolynsk), all municipalities took measures in 2017–2018 to improve their transparency, which was the positive trend that would further contribute to the cities’ growing investment attractiveness.

The high position of Drohobych in the rankings was achieved due to the fact that local governments had created the conditions to attract investors and boost entrepreneurship through the use of transparent tools to regulate the urban environment and develop participatory governance.

Along with the positive trends in the socio-economic development and institutional provision of business functioning, the forming of quite

Table 1. Matrix of cross-correlation between economic development and favorability of the business environment*

Indices of economic and democratic development	BTI index	BTI democracy subindex	BTI market economy subindex	BTI governance subindex
BTI democracy subindex	0.938957	1	–	–
BTI market economy subindex	0.917756	0.725109	1	–
BTI governance subindex	0.902272	0.890885	0.7776	1
GNI per capita	0.418452	0.176653	0.633829	0.304337
GDP per capita	0.420341	0.178344	0.635646	0.307544
Doing Business Index	0.680711	0.480702	0.807444	0.552459

Note: *Developed and calculated based on BTI (2018), Doing Business, 2019), and the World Bank (n.d.).

comfortable conditions for the functioning of entrepreneurship in the cities requires additional support measures at the level of local governments and time to get the expected positive return (Table 3). Therefore, the correlation dependence was calculated to determine the depth of relations between the socio-economic development of a city and the development of entrepreneurship. The correlation between the Regional Business Environment Index (RBEI) (Rehionalnyi indeks dilovoho seredovyschcha 2016) as a feature of the quality of the entrepreneurship environment of Ukrainian cities and the indicator of the growth of opportunities to do business according to the estimations of entrepreneurship entities in the cities (pace of change of opportunities to do business 2019/2018) is low. This indicates the inefficiency of public and local policies in creating proper conditions for consistent operation of businesses. In turn, the business activity has not reacted with respective growth.

Meanwhile, high RBEI positively affects the growth of foreign direct investment (correlation 0.55) and export of goods and services (correlation

0.59 and 0.52, respectively) and is sensitive to the security component (correlation -0.506).

A comfortable urban environment correlates most with the quality of roads, which defines the opportunities for quick and safe internal urban movement, as well as the quality of the road and transport infrastructure. Yet, the correlation between comfort (Reyting komfortnosti ukrainskikh gorodov) and opportunities to do business, and the quality of services provided by local authorities is low. This indicates low inclusion between the residents of the cities, local governments, and entrepreneurship sector regarding the creation of an environment for comfortable life, interaction, and management.

Creating a transparent management system for an urban environment is an important precondition of investment attraction, improved a city's economic development, and reduced corruption (transparent regulatory environment, free access to information, quality preventive measures on battling the corruption). However, in Ukrainian cities, this process is just beginning, so it is not ef-

Table 2. Cities of the Western region in investment sector transparency rankings for the 100 largest cities of Ukraine*

*Source: Reitynh prozorosti 100 mist. [Transparency rating of 100 cities]. (2018).

City	Investment sector transparency rankings				Dynamics in rankings	
	Position in rankings		Points out of 100 possible		By the position in rankings	By points
	2017	2018	2017	2018	2018/2017	2018/2017
Lviv	1	6	59.7	65.7	-5	+6.1
Ivano-Frankivsk	3	14	54.2	57.75	-9	+3.55
Chervonohrad	6	23	50.5	52.8	-17	+2.3
Drohobych	10	1	46.2	85.2	+9	+39
Lutsk	11	22	44.16	52.82	-11	+8.66
Chernivtsi	13	18	42.4	54.95	-5	+12.55
Rivne	19	46	36.11	40.7	-27	+4.59
Novohrad-Volynskiy	23	38	35.6	42.2	-15	+6.6
Kovel	25	57	34.7	36.8	-32	+2.1
Mukacheve	27	45	34.7	39.5	-18	+4.8
Volodymyr-Volynskiy	29	33	34.58	44.58	-4	+10
Ternopil	31	10	33.51	60.7	+21	+27.19
Uzhorod	45	27	31	51.7	+18	+20.7
Dubno	49	46	29.49	39.4	+3	+9.91
Varash	60	49	27.66	38.4	+11	+10.74
Novovolynsk	65	91	25.73	26.93	-26	+1.2
Kalush	69	72	23.49	32.93	-3	+9.44
Sambir	81	93	20.93	25.66	-12	+4.73
Kolomyya	90	96	18.33	24.13	-6	+5.8
Stryi	94	100	16.4	17.7	-6	+1.3

ficient enough in the context of growing opportunities to do business (coefficient of correlation with the pace of change of the level of opportunities to do business 0.30). The endeavors of local governments to create a transparent urban environment have not shown the direct dependence due to a low level of trust in the society, institutional inefficiency, and high level of transaction costs (especially the corruption component). Not all local governments are open and interested in the development of the cities' transparency (which is confirmed by low correlation with foreign direct investment). However, there are slight changes in the context of improving the quality of services provided by local governments. The process of forming an open and transparent urban environment has only started, so its positive consequences will be visible in the middle- and long-term perspective.

Investment efficiency of cities (Rankings of investment efficiency of cities takes into account the investment activity of a city and the socio-economic effect of investment) poorly correlates with the opportunities to do business (0.43). The efficient use of investment boosts entrepreneurship environment productivity. Meanwhile, the level of investment efficiency remains to be insufficient to attract foreign investment (correlation coefficient 0.21).

The intensive development of cities that are the regional centers requires the proper infrastructure development, in particular the road-transport infrastructure, which substantially affects both the formation of comfortable living conditions for citizens (correlation coefficient 0.78) and the development or implementation of the entrepreneurship capacity (correlation coefficient 0.78). In this case, the creation of safe conditions for doing business (falling level of crimes against property – correlation coefficient 0.52) and improvement of the quality of services provided by local authorities (correlation coefficient 0.59), etc. are the necessary preconditions for improving the opportunities for the development of the entrepreneurial environment in cities.

The next stage of this study analyzes the impact of the institutional environment on small business development parameters. The calculation of the dynamics of small business development and concentration of economic activity (Figure 1) shows that:

1. Positive growth rates of capital investment are observed in almost all the cities, which indicates the intensification of entrepreneurial activity. The highest pace of capital investment growth was recorded for Varash (caused by investment in technical re-equipment and reconstruction of Rivne Nuclear Power Plant (Kapitalni investytsii RAES u 2018 rotsi sklaly bilshe triokh miliardiv hryven), opening the complex on the processing of solid radioactive waste (Karta pidpriumstv Ukrainy) and Dubno (including due to the creation of transparent investment environment and promotion of the city (Inwest Ukraine, n.d.)).
2. Small business continues to increase positive growth rates. The trend generally shows that, despite the problems that accompany the development of the entrepreneurship environment, the institutional environment is still transforming, and transparency of the urban environment's governance is still increasing. This positively affects the opportunities for doing business, contributes to attracting new investment, etc.
3. Despite difficult socio-economic and political events accompanying the functioning of SE in 2012–2017, the volumes of products sold were growing. It was reflected in growing paces of the indicator in all cities of regional significance, excluding Dubno (where the production fell at the background of high inflation) (Plan ekonomichnoho rozvytku mista Dubno na 2019–2020 roky). Positive SE development paces contribute to the further recovery of economic growth through the growth of production, the intensification of foreign economic activity, etc.
4. Employment and job creation remain to be among the priority tasks of small business development. Small businesses in the cities of the Western region face a negative trend towards the fall in employment (Figure 1). Only Morshyn, Bolehiv, Kalush, and Varash managed to keep the positive growth pace of employment at small enterprises, and Chop also showed positive growth (growth pace 125%). The major reasons for falling employment in small businesses were the following: closing the individual entrepreneurs that did not

Table 3. Correlation between the socio-economic and institutional environment in the cities that are regional centers of Ukraine*

Indicators	RBEI rankings (points)	Rankings of transparency of Ukrainian cities 2018, points	Rankings of the cities' comfortability (Focus), (points) 2018	Rankings of the cities' comfortability (Focus), (points) 2016	Pace of change of the cities' comfortability (Focus, 2018/2016)	Rankings of the cities' investment efficiency, II q. 2018 (points)	Regional DOING BUSINESS rankings 2018 (points)	Aggregate index of assessment of the cities' opportunities 2018	Aggregate index of assessment of the cities' opportunities, 2019	Pace of change of the index of assessment of the cities' opportunities (2018/2019). %
Capital investment per capita (2018), UAH	0.39615	0.084481	0.23376	0.248523	0.069319	0.047913	-0.37531	-0.03421	-0.04156	-0.00475
GRP per capita	0.3559	-0.05833	0.268831	0.193993	0.140872	-0.01531	-0.37814	-0.00104	-0.08848	-0.10154
GRP growth pace in 2016–2017	-0.0401	-0.01254	-0.32555	-0.41726	-0.06901	0.179081	-0.18963	-0.06109	-0.07391	-0.00179
Foreign direct investment per capita (2017)	0.5542	0.190968	0.260589	0.339142	0.042942	0.214802	-0.30529	0.076864	0.002974	-0.11298
Export of goods, USD mln	0.5900	0.136078	0.247679	0.238932	0.08858	0.099483	-0.22924	-0.07155	-0.14878	-0.07462
Export of services, USD mln	0.5271	0.114806	0.268514	0.306632	0.069064	0.054328	-0.30123	-0.05714	-0.07236	-0.00871
Level of opportunities (LO) to do business, 2018	-0.1528	-0.08684	0.303805	0.375343	0.073329	0.437164	0.054853	0.787367	0.536514	-0.52014
Pace of change of the LO to do business, % (2019/2018)	-0.2922	0.305151	-0.25928	-0.21714	-0.12871	-0.23544	-0.09229	-0.45184	0.092995	0.74838
Index of corruption frequency	0.3121	-0.0675	-0.00969	0.453794	-0.31194	0.110322	-0.12503	0.093847	-0.02594	-0.18879
Quality of services provided by local authorities	-0.0612	0.34838	0.394878	0.395931	0.144285	0.261846	0.364022	0.593651	0.402416	-0.42661
Quality of roads	0.1396	0.23429	0.787628	0.429784	0.557096	0.266369	0.007306	0.612977	0.436042	-0.39837
Crimes against property	-0.5063	0.2545	-0.13218	0.17775	-0.24801	0.15038	0.034274	0.52446	0.58546	-0.10128
Transport	0.4262	-0.0686	0.47919	0.449986	0.201342	-0.00514	0.270806	-0.02358	0.016481	0.038022

Note: Developed and calculated based on the Center for Insights in Survey Research (n.d.), Focus (n.d.), Regional Doing Business (n.d.), Rehionalnyi indeks dilovoho seredovyscha (2016), Rejting investitsionnoi effektivnosti gorodov. Evro-Rejting, Rejting komfortnosti ukrainskikh gorodov, and Reitynh prozorosti investytsiinoho sektoru "100 naibilshykh mist Ukrainy".

Source: Developed based on the data from the State Statistics Service of Ukraine (n.d.).

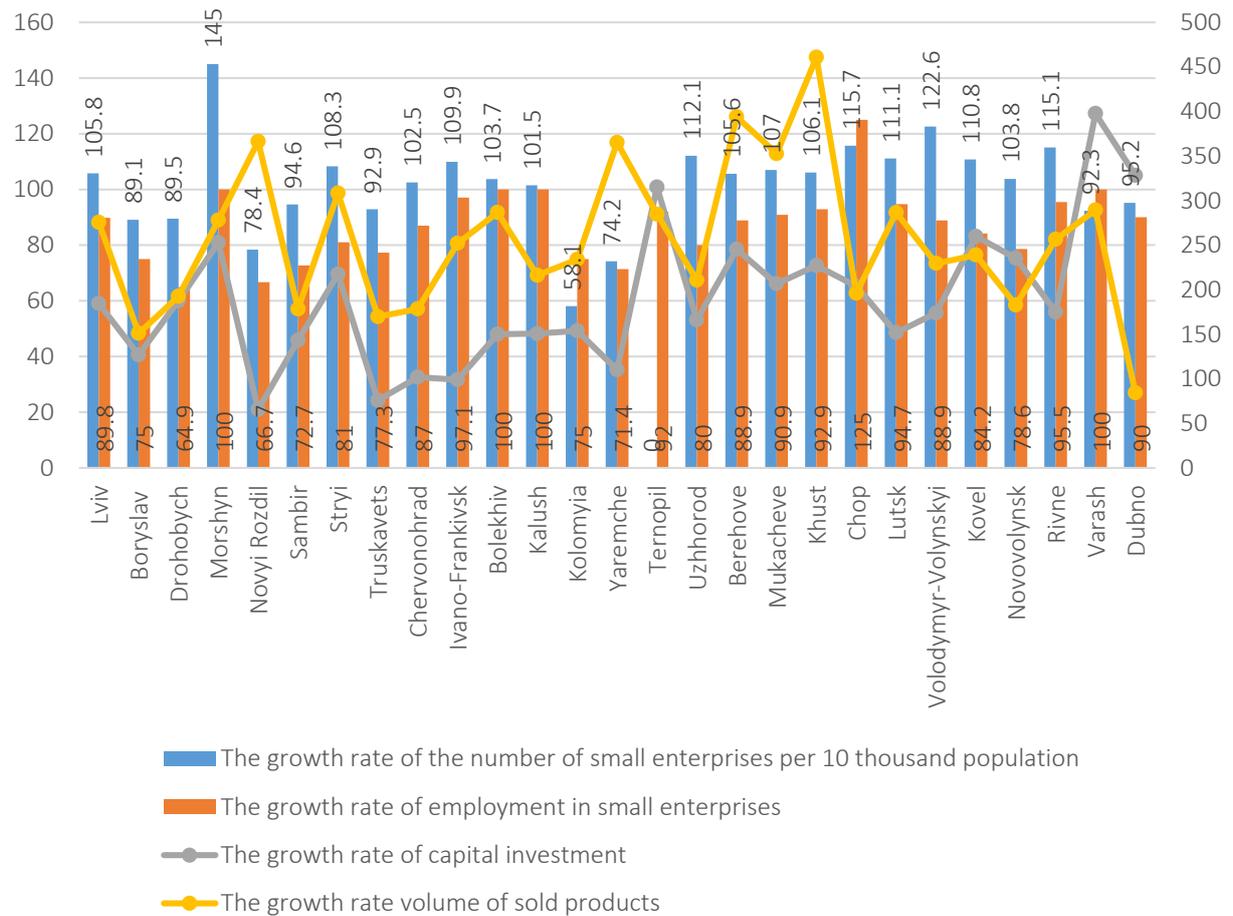


Figure 1. Dynamics of the development of small enterprises in the cities of regional significance in the Western region, 2012–2017

actually carry out any activities, expanding shadow self-employment and shadow employment of the population (for example, the share of the shadow economy by qualitative estimations in Uzhhorod amounts to 35-45% (Karyy & Kniazevska, 2009). As of 2017, the level of informal employment of the population in Rivne region amounted to 53.5%, in Ivano-Frankivsk and Chernivtsi – 43.6% each, in Ternopil – 30.3%, in Zakarpattia – 24.7%, in Volyn – 23.1%, and in Lviv region – 14.2% (State Statistics Service of Ukraine, n.d.), and high migration activity of the population in border areas.

Evaluation of the impact of the investment processes on structural transformations in the small businesses sector has revealed (Table 4) that growing capital investment positively affects the growth

in the number of small and medium enterprises per 10,000 population and the volume of sold products in most cities of the region. The elasticity coefficient was the highest in Novyi Rozdil (5.59), Yaremche (3.32), Lutsk (1.89), and Sambir (1.25). Meanwhile, it was lower than 1 only in Chop and Kovel. The employment elasticity coefficient was negative (excluding Novyi Rozdil and Truskavets), since funds were mostly invested in already existing enterprises without creating new jobs. It is obvious that forming an efficient business environment requires socio-economic transformations and overcoming of challenges faced by economies of the cities, including those in overcoming the shadow activity and corruption, reducing the overregulation of the economy, and improving the regulatory climate. Another important task is the development of qualitative strategic planning in the cities (Karyy & Kniazevska, 2009) with the

Table 4. Evaluation of the impact of investment processes on structural transformations in small businesses in cities of regional significance in the Western region of Ukraine*

Cities of regional significance	Coefficients of elasticity (growth pace of respective parameters against the growth pace of capital investment)		
	Growth pace of the number of small enterprises per 10,000 population	Growth pace of the volume of products sold by small enterprises	Growth pace of the number of employed at small enterprises
Lviv	0.57	1.49	0.49
Boryslav	0.70	1.19	0.59
Drohobych	0.48	1.03	0.35
Morshyn	0.57	1.10	0.40
Novyi Rozdil	1.20	5.59	1.02
Sambir	0.66	1.25	0.51
Stryi	0.50	1.42	0.37
Truskavets	1.23	2.24	1.02
Chervonohrad	1.01	1.75	0.85
Ivano-Frankivsk	1.11	2.55	0.98
Bolehiv	0.69	1.91	0.67
Kalush	0.67	1.43	0.66
Kolomyia	0.38	1.52	0.49
Yaremche	0.67	3.32	0.65
Ternopil	–	0.90	0.29
Uzhhorod	0.67	1.27	0.48
Berehove	0.43	1.61	0.36
Mukacheve	0.52	1.71	0.44
Hust	0.47	2.03	0.41
Chop	0.57	0.96	0.61
Lutsk	0.73	1.89	0.62
Volodymyr-Volynskyi	0.71	1.32	0.51
Kovel	0.43	0.92	0.32
Novovolynsk	0.44	0.78	0.33
Rivne	0.66	1.47	0.55
Varash	0.23	0.73	0.25
Dubno	0.29	0.26	0.27

Note: *Developed and calculated based on the data from the State Statistics Service of Ukraine (n.d.).

attraction of expert environment and the determination of directions for high-quality structural transformations.

Structural-institutional changes that characterize the business environment of the Western region of Ukraine have boosted the growth of an entrepreneurship capacity and economic activity in the cities, the attraction of additional investment, etc. Therefore, the centers of economic activity were formed, mostly on the basis of the cities that are regional centers, which accumulate the financial, human, and productive resources at their territories. Lviv, Lutsk, and Rivne accounted for over 50% of the volume of products sold by small enterprises in respective regions, while Ivano-Frankivsk and Ternopil – for over 40%. In Zakarpattia region, another economic activity center is being

formed along with the regional center. The share of both cities in the volume of products sold by small enterprises has become about equal – 26% in Uzhhorod and 23% in Mukacheve. Meanwhile, in most cities of regional significance (not oblast centers), higher rates of growth in sales are observed, which indicates an increase in business activity and an increase in production capacity.

The dynamics of the development of small entrepreneurship shows that it remains to be among the major factors of economic growth and continues to increase the growth paces in its activity due to positive transformations of the institutional environment and growing transparency in urban development management. However, the results of the study indicate that it is necessary to carry out a number of socio-economic transformations

in order to create an effective business environment and overcome the challenges facing municipal economies. This can be achieved through implementing the following measures: approval of local entrepreneurship development programs that would contribute to determining the strategic economic sectors for a city with clearly defined support directions: financial, infrastructural, informational, educational, etc.; support of creation and development of clusters and cooperatives (that would aim for economic growth based on horizontal business relations between local entrepreneurs and expansion of sales markets); support

for export of small enterprises with the entrance to regional and international markets; improvement of local investment attractiveness of a city by the expansion of tools to promote investment attractiveness of territory through the implementation of an open and transparent public regulatory policy in economic activity. Ensuring transparency in governance processes is an efficient tool for accomplishing this task, which will significantly reduce corruption and improve the quality of governance processes at the local level; marketing support for local entrepreneurs, securing regional contracts with local SE representatives, etc.

CONCLUSION

The analysis shows that there is a certain positive trend in the creation of a favorable business environment in Ukraine. This is confirmed by international rankings (Doing Business, BTI, etc.). However, corruption, overregulation of the economy and energy market, social-political instability, and military conflict in the country continue to impede further positive changes. Administrative burden, lack of qualified staff, and low paying capacity of the population are additional destructive factors for the development of small entrepreneurship. Improving the quality and transparency of the business environment requires the development of created institutional and legal environment, which becomes a priority of economic policy at the national and local levels.

The open system of urban management, participatory governance, and transparent regulatory policy become preconditions for quality structural transformations of the institutional environment, which is an additional incentive for implementing entrepreneurial initiatives, improving local investment attractiveness of cities, and attracting additional investment. In 2017–2018, all municipalities took measures to improve their transparency. It has become a positive trend and will further promote the growth of the cities' investment attractiveness and the shaping of a comfortable environment for the functioning of entrepreneurship, inclusiveness, and participatory principles of urban development. The trends show that the cities have more opportunities for the perspective attraction of investors and higher financial capacity to develop and improve their managerial transparency. Yet, they should develop support infrastructure and improve the security and quality of services to ensure their effective development.

Despite the immensity of scientific achievements on the issue, the institutional environment is quite dynamic and requires continuous monitoring and research of the intensity of qualitative structural transformations and their impact on the efficient development of an institutional environment for the functioning of small entrepreneurship both at the state and local levels.

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