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Medium-Sized Business in Ukraine: Terra Incognita or "Hidden" Mittelstand

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Medium-sized private enterprises play a significant role in the economy and social development. The representatives of medium-sized businesses are the bearers of liberal values, the ideas of freedom, a free and democratic society, and the same rules of the game for all. This analytical report presents the results of an empirical study of medium-sized businesses in Ukraine in 2023, shows the dynamics of changes that have occurred with medium-sized enterprises over the past 20 years, and analyzes the prospects and conditions for the sector's development. For those interested in the economy, structural reforms, and business development in Ukraine during Russia's full-scale military aggression against Ukraine.

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The opinions expressed in this publication are those of the authors and do not necessarily reflect the positions of the donor.



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INTRODUCTION

Medium-sized private enterprises play an important role in the economy and social development. Medium-sized enterprises operating in the domestic and foreign markets are a kind of "backbone" of the economy. Compared to small businesses and large enterprises, medium-sized businesses have higher resilience, better access to external financing, and "economies of scale" benefits. Medium-sized enterprises are more consumer-oriented and more flexible in responding to changes in demand and the business environment. In the European Union, 0.9% of enterprises are medium-sized enterprises (50-249 employees), employing 16.0% of the total workforce and accounting for 17.1% of the value added.¹

Beyond their vital economic role, medium-sized businesses constitute a significant social cohort that forms the foundation of society and its social elites. Representatives of medium-sized companies often serve as torchbearers of liberal values, advocating for freedom, a democratic society, and equitable rules. They transmit these experiences and traditions to future generations. This phenomenon is exemplified by the concept of "Mittelstand" in Germany, which primarily refers to medium-sized enterprises. Notably, "Mittelstand" companies are distinguished by a shared set of values and managerial approaches.²

In Ukraine, medium-sized businesses remain Terra incognita. We know little about them because this sector is hidden among small companies and is overshadowed by large ones.

In 2003, the IER conducted a study of medium-sized businesses³. In 2023, the IER team produced the idea to repeat the study of medium-sized businesses to find out what has changed over the 20 turbulent years of the country's development. Let us remind that between 2003 and 2023, two peaceful revolutions for democratic and European rights took place in Ukraine, Russia's war against Ukraine has been going on for almost 10 years, and Russia's full-scale military aggression against Ukraine has been going on for 22 months. What has happened to medium-sized businesses in Ukraine in these difficult conditions?

We bring to your attention the new "Medium-Sized Business Survey 2023", which is made possible through the support of the Friedrich Naumann Foundation.

In preparing this study, our goal was to raise awareness among stakeholders in Ukraine and abroad about the state, needs and prospects of medium-sized business development in Ukraine as a key bearer of liberal values and an important driving force for pro-European reforms in Ukraine. In our opinion, one of the key needs for the development of this important sector of Ukrainian business and social class is to widely inform about medium-sized businesses in Ukraine as a reliable partner and stakeholder of pro-European reforms to accelerate Ukraine's movement towards the European Union.

To prepare this analytical report, we conducted desk and field research. In particular, the available information and statistics on the state and development of medium-sized businesses in Ukraine were analyzed. Then we conducted **a survey of 200 medium-sized businesses, 22 in-depth interviews** with representatives of stakeholders (representatives of medium-sized business associations, representatives of medium-sized businesses, government officials, representatives of local self-government), talked at a **focus group with experts** to assess the strengths, weaknesses, challenges and prospects of medium-sized businesses in Ukraine as a carrier of liberal democratic values, and **surveyed more than 350 representatives of public** (the average age of respondents is 30 years) to find out from them how they imagine a modern Ukrainian entrepreneur.

¹ <https://ec.europa.eu/eurostat/web/products-eurostat-news/-/edn-20220627-1>

² <https://static1.squarespace.com/static/548ac75ce4b0a10ad41f38e7/t/55edaa22e4b03d3d6e78da4c/1441638946906/MITWMF+Folder+Venohr+Website...pdf>

³ http://www.ier.com.ua/files/publications/Special_research/02_SpecialQES_ukr_02_oct03.pdf

Our comprehensive study's findings are synthesized within this report's pages, encompassing six distinct chapters, a comprehensive methodology section, and an introductory overview. Chapter One delves into the legal framework governing medium-sized enterprises in Ukraine, establishing a solid foundation for our analysis. Chapter Two paints a vivid portrait of medium-sized enterprises, meticulously crafted by synthesizing statistical analyses and insights from enterprise surveys. In Chapter Three, we embark on a journey tracing the origins of medium-sized businesses, shedding light on the myriad challenges encountered by enterprises on their growth trajectories. Chapter Four presents a collaborative reflection with our survey participants, elucidating the current landscape and charting the future pathways for developing medium-sized businesses. Venturing into Chapter Five, we delve into the values that underpin medium-sized enterprises. Through an in-depth analysis, we explore how entrepreneurship is perceived among the populace and businesses while addressing whether an "oligarchy" of medium-sized businesses exists locally. In Chapter Six, we focus on the social significance of medium-sized enterprises, drawing comparisons between the concepts and ideals associated with medium-sized businesses and the middle class in Ukraine. Our seventh chapter encapsulates the pivotal findings throughout this study, providing a succinct summary of our research outcomes. To gain a deeper understanding of our research methodology, we invite you to peruse the detailed description found in this report.

We are confident this report will provide enlightening and valuable insights to our esteemed readers.

1. DEFINITION OF MEDIUM-SIZED BUSINESS IN UKRAINE

Legislative criteria for determining medium-sized businesses in Ukraine

Historical background

Modern criteria for determining the size of enterprises in Ukraine were fixed on March 22, 2012, by the Law on the Development and State Support of Small and Medium-Sized Enterprises. This Law amends the Commercial Code of Ukraine regarding defining micro, small, medium, and large business entities, including enterprises (legal entities) and individual entrepreneurs. In general, the definition of the size of economic entities is in line with the definition of the European Union⁴, however, contains specific criteria only for micro, small and large sized subjects. At the same time, there is no separate definition of medium-sized businesses. According to the Commercial Code, "other business entities [that do not fall under the definition of micro, small and large businesses - IER] belong to medium-sized enterprises." It can be assumed that the issue of defining a medium-sized business is not fully regulated in Ukrainian legislation.

In 2019, there was an attempt by the Ministry of Economy to regulate the criteria for determining medium-sized business entities, for which a draft law was developed with an appropriate addition and published for public discussion. However, there is no information that the bill was submitted to the parliament.⁵ That is, the problem remains unresolved.

Table 1. Definition of micro, small, medium, and large business entities in Ukraine

	Big	Average	Small	Micro
Number of employees (average number of employees for the reporting period (calendar year))	> 250	All entities that do not meet other criteria	≤ 50	≤ 10
Annual Income	> €50 million		≤ €10 million	≤ €2 million

Source: Commercial Code of Ukraine No. 436-IV of 16.01.2003 (as amended).

EU definition

It is important to emphasize that, despite the apparent similarity of the criteria for determining the size of business in Ukraine and the European Union, there are significant methodological differences in the application of these criteria in practice. In the European Union, business size criteria are applied on the basis of consolidated or aggregate reporting of enterprises (i.e. all enterprises belonging to a business group). At the same time, Ukraine does not provide for data analysis based on consolidated statements. Thus, Ukrainian Statistics do not accurately reflect the true size of business groups at different levels. In addition, in Ukraine, the category of medium-sized enterprises includes entities that have even more than 250 employees, but do not meet the criterion for annual income. In EU statistics, such enterprises are classified as large businesses. Thus, Ukrainian statistics overestimate⁶ the share of small and medium-sized businesses in the economy and underestimate the share of large ones. A portion of micro and small businesses belong to medium-sized

⁴In contrast to the EU, there is no balance sheet criterion

⁵ See. <https://goo.gl/CnmVbQ>.

⁶ See. Official Statistics of SMEs in Ukraine: Analysis and Suggestions for Improvement". IER, 2017

businesses, while individual small and medium-sized businesses are actually part of large business groups. Such methodological and statistical difficulties underscore that medium-sized businesses remain terra incognita in Ukraine.

To analyze the statistics of enterprises' activities, the State Statistics Service of Ukraine (SSSU) mainly uses the criteria of the size of business entities from the Commercial Code. However, for some publications (in particular, on structural statistics), the State Statistics Service of Ukraine uses only the number of employees to group enterprises. It should be noted that Eurostat publishes similar statistics also on the criterion of the number of employees.

It should be noted that the collection of statistical data among medium-sized enterprises also has its own characteristics compared to small businesses. Full statistical reporting (form No. 1 – entrepreneurship) is submitted only by small enterprises that belong to the largest enterprises in terms of their type of activity in the region. And the rest of the small ones submit an abbreviated form (if they are included in the sample of the State Statistics Service). Sole proprietors do not submit statistical reports at all, and their calculations are based on data from fiscal authorities. At the same time, medium-sized enterprises submit full reporting forms, as well as large enterprises. That is, despite the problems of interpreting the size of enterprises, the SSSU receives the necessary set of data for the analysis of medium-sized enterprises.⁷

Medium-sized business in other legislative acts

The criteria for determining the size of business entities are also defined in other legislative acts. In October 2017, the Verkhovna Rada approved the Law on Accounting and Financial Reporting. This law allows you to determine the size of an enterprise based on two of three criteria (average number of employees, net income and book value of assets)⁸. At the same time, the law contains a separate definition for medium-sized enterprises, which generally corresponds to the framework established in the Commercial Code:

"Medium-sized enterprises are those that do not meet the criteria for small enterprises and whose indicators as of the date of preparation of the annual financial statements for the year preceding the reporting year meet at least two of the following criteria:

book value of assets - up to 20 million euros inclusive;

net income from the sale of products (goods, works, services) - up to 40 million euros inclusive;

The average number of employees is up to 250 people inclusive."

At the same time, the antimonopoly legislation contains a special definition of small and medium-sized enterprises, which is necessary for the purposes of protecting economic competition. According to Article 1 of the Law of Ukraine "On Protection of Economic Competition", a small and medium-sized entrepreneur is "a business entity whose income (revenue) from the sale of products (goods, works, services) for the last financial year or the value of assets of which does not exceed the amount equivalent to 500 thousand euros, determined at the exchange rate of the National Bank of Ukraine effective on the last day of the financial year,

⁷ See. Official Statistics of SMEs in Ukraine: Analysis and Suggestions for Improvement". IER, 2017

⁸Part 2 of Article 2 of the Law of Ukraine "On Accounting and Financial Reporting", <https://zakon.rada.gov.ua/laws/show/2164-19/ed20180101>.

if there are competitors with a significantly larger market share in the markets in which this entrepreneur operates." Such low criteria are necessary, among other things, to protect competition in markets at different levels (local, regional, national). At the same time, there is no division between small and medium-sized entities⁹. The relevant definition does not correspond to the realities of the economic environment and equates medium and small at the level of definition.

Conclusion: it should be noted that the definition of medium-sized enterprises, while seemingly in line with the formal requirements of the EU, needs to be clarified and standardized in various legislative acts of Ukraine.

What is the German Mittelstand, and is there such a thing in Ukraine

In contrast to numerous other countries, Germany's economy exhibits remarkable resilience and prosperity, piquing global interest in its unique economic model. This phenomenon is often attributed to the "German Mittelstand," a distinct segment of the economy known for its sustained high productivity and substantial contributions to employment growth. The success and enduring impact of the "Mittelstand" serve as a compelling response to the question of what sets the German economy apart.¹⁰

According to the German Ministry of Economics and Technology¹¹, more than 99% of all German enterprises belong to the "German Mittelstand." The German Mittelstand accounts for almost 52% of the total economic output and employs approximately 15.5 million people (approximately 60% of all workers who pay social security contributions). However, the phenomenon of the "German Mittelstand" was difficult to explain only by statistical indicators. Many of these successful businesses are characterized by attributes such as independence or family ownership; the new innovative German companies remain committed to the spirit of the "German Mittelstand" even after they have outgrown the traditional definitions of SMEs through the success of their products and services.

Various factors have made Mittelstand successful, but the most important is that almost all SMEs in Germany are family-owned; Such firms have long-term policies and are committed to innovation. It is a combination of family traditions and future innovations. The companies of the German Mittelstand are among the most innovative in Europe: 54% of them launched an innovation on the market in 2008-2010. Such companies have taken the best from their size and background. These are relatively small companies owned by the same family and managed by family members. They are mainly companies that produce industrial products and do everything themselves. The R&D department in such companies is usually located in Germany. Along with this, they take advantage of all the privileges of small and medium-sized companies to innovate and be flexible in changing market conditions.

Are there any analogs of such a phenomenon as the German Mittelstand in other countries? Many studies show that it is probably not. But, according to Ukrainian researchers, under certain conditions, the success of German medium-sized businesses can be repeated by others.¹² In the following sections of this report, we will look at the main characteristics of medium-sized businesses in Ukraine, in order to answer the question of whether and under what conditions the success of German medium-sized Ukrainian businesses can repeat the success of German medium-sized businesses.

⁹ See. <https://zakon.rada.gov.ua/laws/show/2210-14>.

¹⁰ Presentation of the Federal Ministry of Economy and Technology German Mittelstand: Engine of the German economy, <http://surl.li/oedvl>

¹¹ Presentation of the Federal Ministry of Economy and Technology German Mittelstand: Engine of the German economy, <http://surl.li/oedvl>

¹² See Policy Brief "How Small and Medium-Sized Enterprises of Ukraine Can Become National and Global Champions", 2019, <https://ces.org.ua/ukrainian-sme/>

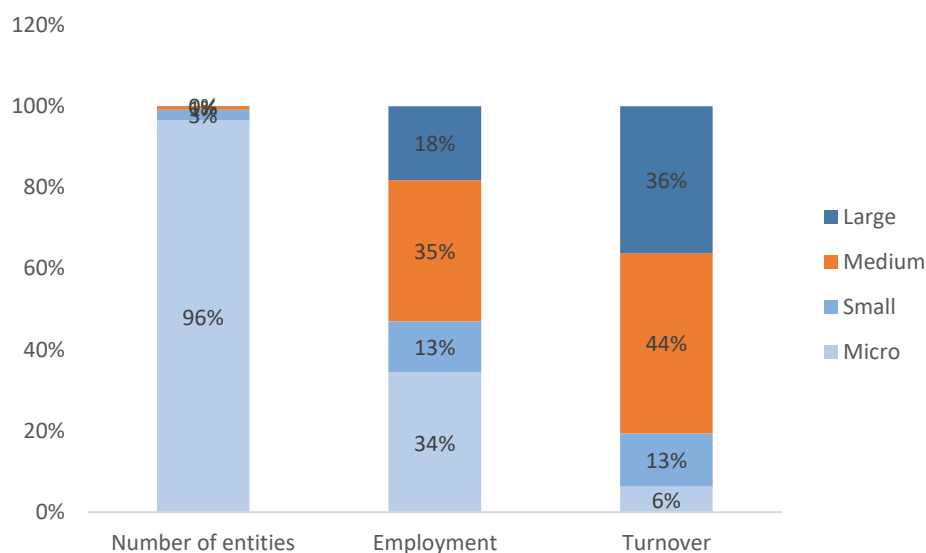
2. PORTRAIT OF A MEDIUM-SIZED ENTERPRISE IN UKRAINE

The role of medium-sized businesses according to official statistics

Number of enterprises

According to the latest available data from the State Statistics Service of Ukraine, in 2022¹³ there were almost 1.7 million business entities in Ukraine. This number, in particular, included 494 large enterprises, 14.8 thousand medium-sized enterprises, 246.6 thousand enterprises. small (including 206.2 thousand micro) and 1 million 470 thousand. individual entrepreneurs. Thus, the total number of small and medium-sized businesses amounted to 1 million 732 thousand units. This is 11.4% (or 17.4 thousand units) less than in 2021, However, the 2022 estimate does not take into account the temporarily occupied territories and territories where hostilities are taking place. It should be noted that only SMEs can be individual entrepreneurs. **However, among medium-sized entities registered as sole proprietors, there were only 254 units in 2022 (309 in 2021).**

Figure 1. Indicators of the activity of business entities by size (2022)¹⁴



Source: State Statistics Service of Ukraine

The large number of sole proprietors indicates both the popularity of the simplified taxation system and the use of schemes with sole proprietors to optimize the tax burden among larger businesses. As a result, in 2021, the number of sole proprietors reached one of the highest rates in the last decade. According to 2022 estimates, sole proprietors accounted for 85% of the total number of SMEs, which is the highest figure in more than a decade.

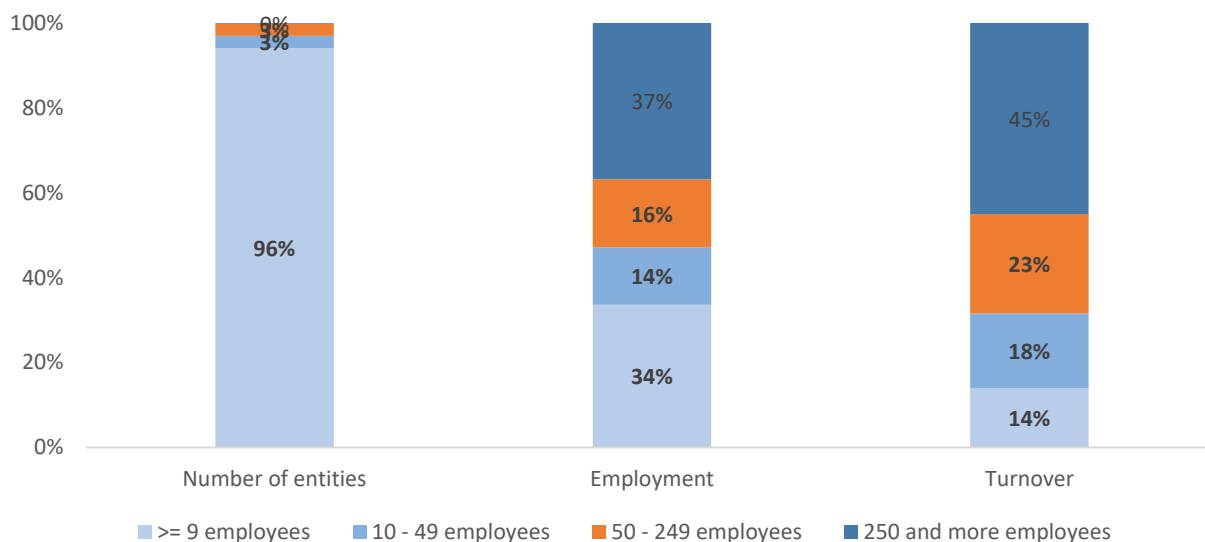
In the regional context, Kyiv as the capital has always been the main economic center. It is also the main center of medium-sized businesses. In 2020, Kyiv accounted for 16% of all SMEs and every third large enterprise. At the same time, there were almost 4,000 medium-sized enterprises in Kyiv, or one in four (23%) medium-sized enterprises in Ukraine, as well as 96,000 or one in four (27%) small enterprises. Thus, the largest share of medium-sized businesses in the country is registered in Kyiv. However, part of this business can also operate in regions where production facilities are concentrated.

¹³ See. SSOU 2023.

¹⁴ Note: The data includes data for 2022 and does not include the territories temporarily occupied by the Russian Federation and part of the territories where hostilities are (were) taking place. Information for 2021-2022 is based on the reports submitted by enterprises and the reassessments of indicators.

As already mentioned, due to methodological peculiarities, the available official statistics ambiguously reflect the structure of Ukrainian business in terms of size. To illustrate this problem, we can also use the data of the State Statistics Service, which publishes part of the structural statistics of business grouped by the number of employees. According to these data, the number of large business entities is an order of magnitude higher – 3022 units in 2022, which is six times more than the number of enterprises according to the two criteria. At the same time, the number of medium-sized entities (from 50 to 249 enterprises) is smaller – 11433 units. Such results may indicate that the role of medium-sized businesses may be overestimated in Ukrainian statistics.¹⁵

Figure 2. Indicators of the activities of business entities by the number of employees (2022)



Source: State Statistics Service of Ukraine

Employment

At the end of 2022, the SME sector employed 6.1 million people or 82% of all those employed by business entities. At the same time, the highest share of employment was accounted for by medium-sized enterprises – 2.6 million people. At the same time, 1.4 million people were employed by large enterprises, 1.4 million by small enterprises (including micro-enterprises), and individual entrepreneurs employed 2.1 million people. Thus, it is a medium-sized business that could be called one of the main employers in Ukraine. In particular, in 2021, the SME sector accounted for almost half (47%) of all employees of working age (15 – 70 years old), while medium-sized enterprises provide jobs for every fifth employed person (19%).

However, the grouping of enterprises' performance indicators by the number of employed employees indicates that in 2022, entities with 250 or more employees employ more than twice as many employees as entities with 50 – 249 employees (2.8 million people versus 1.2 million people). Thus, among enterprises, large enterprises (250+ employees) account for more than a third (36.8%) of employees, while medium-sized enterprises (50 – 249) account for only 16.1%. Thus, according to the criterion of employment, medium-sized enterprises provide half as many jobs as medium-sized enterprises defined by two criteria (2.6 million versus 1.2 million).

Sales volumes

The SME sector accounted for 64% (UAH 7.1 trillion) of the total volume of products (goods and services) sold by business entities in 2022. Given the full-scale war, we see a significant decline in sales compared to 2021.

¹⁵ See https://ukrstat.gov.ua/druk/publicat/kat_u/2022/zb/12/Dsvsmm_21.pdf.

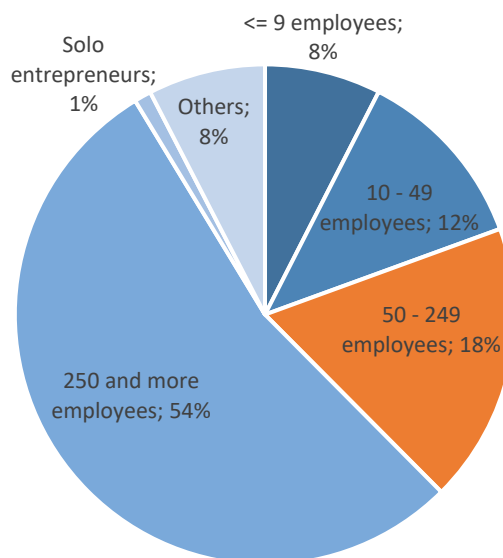
At the same time, before the war, there was a significant real increase in sales of enterprises – by 21% for SMEs and 29% for large enterprises. In addition, over the past decade, the share of SMEs in the volume of stable sales has been growing. As a result, in 2020 and 2021, the corresponding figure was the highest. Medium-sized enterprises were the locomotive of SMEs, as they accounted for 60% of the total volume of SME sales in 2021. According to 2022 estimates, the share of medium-sized enterprises increased to 69%. In addition, the share of medium-sized entities in total sales increased to 44%. This is also the result of a significant drop in small business sales. In particular, the State Statistics Service assessment indicates that the sales volume of small business entities has almost halved.

If we analyze sales volumes only by the employment criterion, the role of business entities with 50 – 249 employees are significantly lower. For example, entities with 250+ employees account for 45% of sales, 50 – 249 employees – 23%, 10 – 49 employees – 18%, and 1 – 9 employees – 14%. In absolute terms, the sales of medium-sized enterprises in terms of size are half as much as those of medium-sized enterprises in terms of two criteria (UAH 2.5 trillion versus UAH 4.9 trillion).

Export

The State Statistics Service of Ukraine publishes data on exports and imports by size of the enterprise based on the criterion of the number of employees, which only confirms a certain heterogeneity of the methodology for collecting and analyzing statistical data. According to 2022 data, there were 22679 exporters in Ukraine, most of whom belonged to the SME sector. Only 875 exporters had more than 250 employees. At the same time, there were 5,680 micro-enterprises, 5,350 small enterprises, 2,597 medium-sized enterprises, and 6,046 sole proprietorships. At the same time, large enterprises prevailed in terms of exports – they accounted for 53.8% or USD 23.7 billion. United States. The share of large businesses fell compared to 2021 (68.3% or USD 46.5 billion). At the same time, despite the decline in exports, the share of medium-sized enterprises (50-249 employees) increased from 14.8% (USD 10 billion) to 18.1% (but USD 8 billion). Micro and small enterprises provided 7.5% and 11.9% of the volume, respectively, and 1.1% of exports were made through individual entrepreneurs. However, due to the lack of analysis of consolidated financial statements, the share of small and medium-sized businesses may be significantly lower.

Figure 3. Export of goods by business entities by the number of employees



Value added

Small and medium-sized businesses accounted for 70.2% of value added in 2020 (only 59.9% of GVA in 2013). Thus, the role of SMEs has grown over the past decade. At the same time, the largest contribution falls on medium-sized enterprises, which in 2020 provided 36.5% of added value. Small enterprises provided another 33.7% of GVA. According to the State Statistics Service, the role of small and medium-sized enterprises is even higher than that of large ones, which accounted for 27.5% of GVA. However, as already indicated, the statistical methodology is imperfect in distinguishing between business groups of different sizes. Thus, the results for medium-sized businesses may be quite different.

Sectoral distribution

Considering the specifics of markets and production processes, we see that in some industries the weight of medium-sized businesses is more significant. If medium-sized business entities make up only 0.9% of the total number of all entities, then, for example, in the processing industry it is 3.5% (in particular, 7.5% in food production, 12.9% in metal production). Thus, in some sectors, the weight of medium-sized businesses is greater than in others.

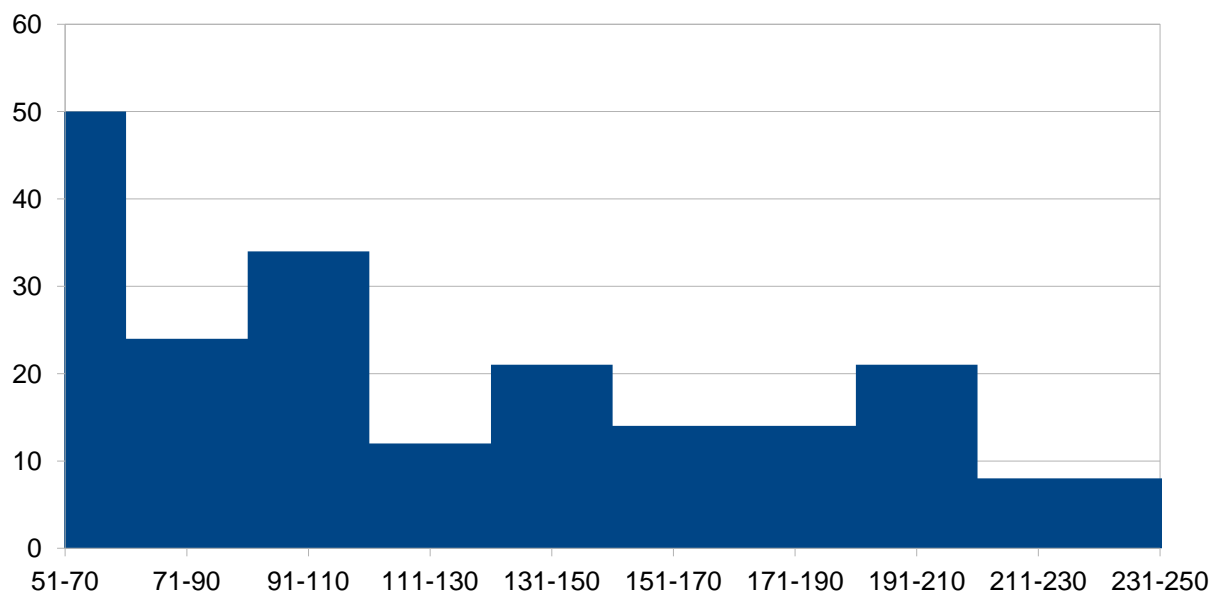
Conclusions: Due to methodological peculiarities, the available official statistics ambiguously reflect the structure of Ukrainian business in size. Despite this, all statistics confirm that medium-sized businesses are one of the pillars of the Ukrainian economy, providing every fifth job and a third of added value.

Characteristics of the average medium-sized enterprise (according to the survey)

Current number of employees in the company

The average number of employees among the 206 surveyed companies is 124 people. At the same time, the median number of employees is 109 people. Such a shift towards smaller enterprises is well reflected in the distribution of the number of enterprises by the number of employees. Enterprises with 51 to 100 employees account for 46% of all respondents, while only 10% with 201 to 250 employees. In fact, we see (see Fig. 1) confirmation of the pattern that the number of enterprises decreases with the increase in the number of employees. That is, at the heart of medium-sized businesses are enterprises that are closer to small ones in terms of the number of employees.

Figure 4. Distribution of the number of enterprises by the number of employees



This situation is somewhat different from calculations based on data from the State Statistics Service of Ukraine. In 2022, there were 193 employed persons for every medium-sized enterprise in the processing

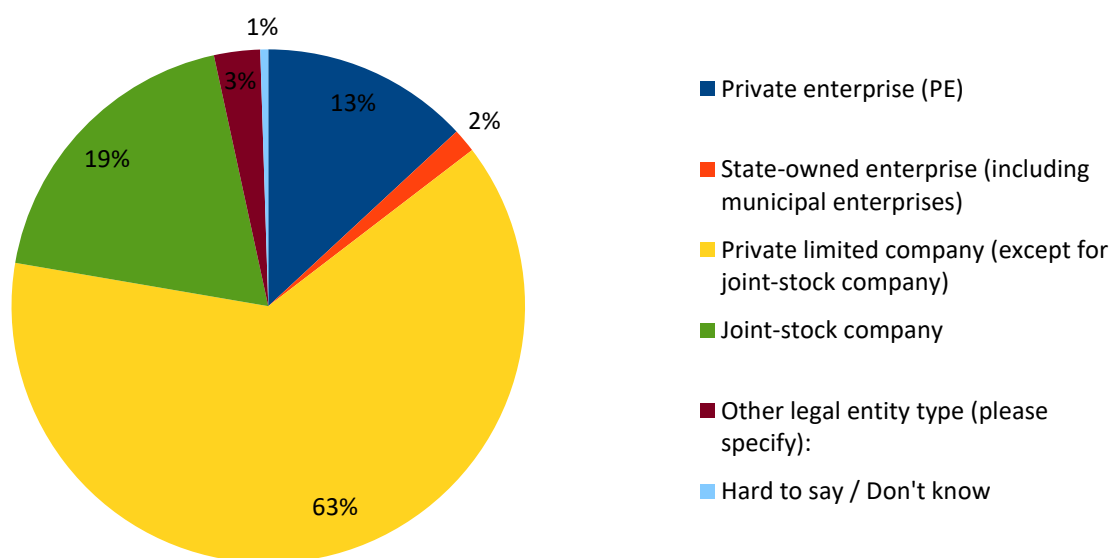
industry¹⁶. However, it should be borne in mind that official statistics also include medium-sized businesses that have more than 250 employees, but the annual income is insufficient for large entities (at least 50 million euros). Accordingly, due to such enterprises, we can see a shift in the results of the official statistics in the direction of big business.

At the same time, if we analyze the official statistics, which group indicators only by the number of employees employed, the situation is radically different. In particular, the average number of employees in 2022 was 107 people for medium-sized enterprises. At the same time, this result has remained at the same level in recent years. These results are in line with the results of our survey. Such observations confirm the problems of official statistics, which does not allow for an unambiguous analysis of the role of medium-sized businesses (see the section *Role of medium-sized businesses according to official statistics*).

Organizational and legal form of the enterprise

According to the organizational and legal form, the majority (63%) are limited liability companies (all types of companies except joint-stock companies). The second place is occupied by joint-stock companies (PJSC, PrJSC) — 19%, and the third — private enterprises (PEs) with a share of 13%. For comparison, in 2003 about two-thirds (66%) of medium-sized industrial enterprises were represented by joint-stock companies with a vague ownership structure¹⁷.

Figure 5. Distribution of medium-sized enterprises by organizational and legal form (% of respondents)



Sectoral distribution

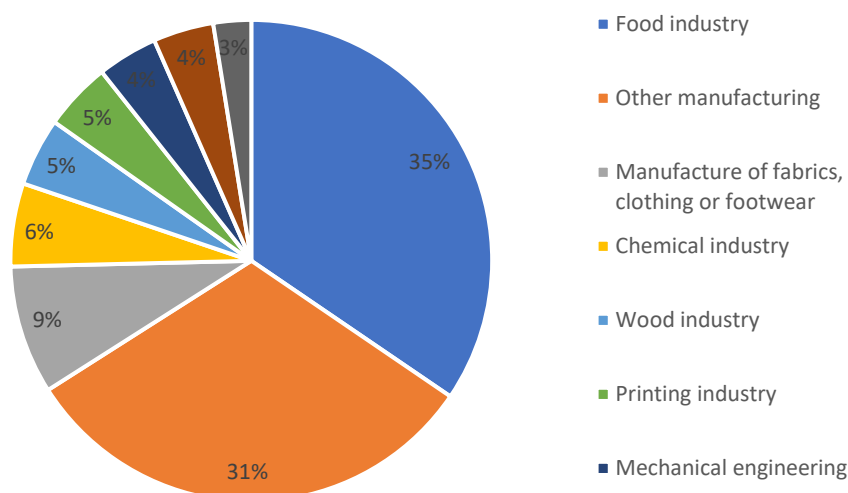
The most common industries in the sample (among enterprises belonging only to the processing industry) are the food industry (68 enterprises or 35%), the production of fabrics, clothing or footwear (17 enterprises or 9%) and the chemical industry (11 enterprises or 5%). Slightly fewer respondents represent the woodworking industry (5%), the printing industry (5%), mechanical engineering (4%), the production of building materials (4%) and the production of metal and metal products (3%). At the same time, other industries account for 62 enterprises or 31%.

¹⁶ Manufacturing industry enterprises are surveyed

¹⁷ See. IER 2003

In general, such a distribution partially reflects the sectoral distribution according to official statistics and the current state of business in the sector (in particular, medium-sized businesses). In particular, in 2022, the food industry accounted for 24% of medium-sized processing industry enterprises (according to the grouping of enterprises by the number of employees). The production of fabrics, clothing or footwear accounted for 8%, the chemical industry – 5%, which roughly corresponds to the results obtained in the surveys. At the same time, the share of individual industries are higher: mechanical engineering – 16%, and metal production and metalworking – 11%.¹⁸Such a situation may be due to structural changes in the economy, given the decline of the economy and the occupation and destruction in some regions of Ukraine. At the same time, it is the food and light industries that have demonstrated the greatest resilience compared to other industries, and¹⁹ therefore may be more willing to respond to surveys.

Figure 6. Export of goods by business entities by the number of employees Distribution of medium-sized enterprises by industry, % of respondents



Conclusions: at the heart of a medium-sized business is a business that is closer to a small business than to a large one in terms of the number of employees. Among medium-sized businesses, the food industry, light industry, and mechanical engineering are of great importance.

How do stakeholders see medium-sized businesses in Ukraine (according to in-depth interviews)

What are the criteria for determining a medium-sized business?

Let's talk about determining the size of a business. Most surveyed experts agree with the definition of a medium-sized business, which is fixed in the Commercial Code of Ukraine. At the same time, the size of enterprises is primarily considered through the prism of the number of employees. A medium-sized enterprise is perceived primarily as a business entity that employs 50 to 250 people. In addition, some respondents also mention the criterion of the volume of products sold. According to the respondents, "there are no other criteria", "a normal definition, a fairly clear classification", etc. Despite this, representatives of various industries and expert circles see several problems with applying such criteria or recognize them as insufficient.

¹⁸ Own calculations according to the State Statistics Service of Ukraine.

¹⁹ See. New Monthly Business Survey.

Some respondents highlight **the shortcomings of data collection** in Ukraine, which cast doubt on the feasibility of statistics. Due to the lack of mechanisms for analyzing the activities of groups of enterprises and individual entrepreneurs, Ukrainian statistics cannot track businesses that have been fragmented to minimize tax payments. According to some respondents, many medium-sized enterprises have registered sole proprietors, through which the company's true turnover is concealed. In particular, it also goes on employment through a sole proprietorship. According to one of the respondents, "Therefore, I would not take the financial element to the evaluation level, so it is an obstacle to the analysis of statistical data." According to another expert, in enterprises that employ sole proprietors, "all turnover is located where no one sees it." For example, medium-sized agricultural enterprises with many registered sole proprietors are cited. Therefore, according to an industry representative, financial indicators cannot be adequate for estimating the size of a business. It should be noted that the widespread use of such schemes is also confirmed by a survey of medium-sized enterprises conducted within the framework of this study (see the section *Use of the "splitting scheme"*). In addition, at the regional level, financial and industrial groups can act through a number of small and medium-sized enterprises, which also interferes with the analysis of the situation. As one of the representatives of business associations noted, "if you take the enterprises and all the related enterprises with the help of which this enterprise operates, there may actually be thousands of employees, huge turnovers, but this is not in the statistics." That is, due to the shortcomings of statistics, we do not see big business according to the statistics of small and medium-sized enterprises.

In addition, today such criteria have become hostages of war and economic recession. According to one of the experts, today, because of the war, it is impossible to assess the situation from a formal point of view. In particular, in some large companies, the number of employees has decreased to an average size. Many employees of medium-sized enterprises ended up abroad.

Some experts also note that **the criteria are generally imperfect for analyzing** businesses of all sizes. In particular, the problem of distinguishing between small and micro businesses is also indicated, because they are often considered as one group of business and are confused. At the same time, as one of the respondents points out, small and micro enterprises have "completely different ideas, problems and working conditions." In addition, the relevance of the criteria may also depend on the type of business activity. For example, a logistics company that organizes transportation may have a small number of employees but a huge turnover. At the same time, cleaning services require a significant number of employees.

It should be noted that only a narrow part of the surveyed respondents understands the methodological problems of statistical data collection in detail. Only one highly specialized expert noted that in the EU, unlike Ukraine, data is collected because of consolidated reporting. As an example, data collection for an innovative survey of enterprises is given, in which European respondents indicate information about cooperation (counterparty or partner), to determine the affinity of businesses.

- **The vision of the criteria for the size of enterprises is somewhat different from the field of activity or industry.** At the same time, the need for additional criteria is also different. While some respondents consider the number of employees and turnover to be reasonable and sufficient, others suggest certain **additional criteria** that in some cases could correct the shortcomings of the statistics. Among the proposals from the respondents:
- It is possible to consider **the geographical concentration of the business**, in particular, to determine whether it is a locally oriented business. However, it must be remembered that medium-sized businesses are not necessarily regional.
- It is necessary to add **the criterion of fixed assets and determine the size of the** enterprise according to two criteria out of three (number of employees, turnover and fixed assets). The need for the fixed

asset criterion stems from the fact that a business does not always have production assets. Representatives of individual industries also determine additional criteria that reflect the specifics **of production or the needs of activities**. In particular:

- Representatives of the agricultural sector consider the size of the business according to the size of the land fund. According to one of the respondents, a medium-sized enterprise in the agricultural sector has approximately 1000-5000 hectares of land under management. At the same time, according to the respondent, such an enterprise has a clear regional reference, which brings us back to the criterion of geographical concentration.
- At the same time, another representative of the agricultural business counts the company's medium-sized business from 500 hectares to 50 thousand hectares, given that large businesses with hundreds of thousands of hectares also operate.
- According to one of the representatives of the food industry, medium-sized production employs from 100 to 500-600 people, and at the same time the production capacity is 100-400 tons of products per day.
- One of the business associations has developed its own criteria for the size of the business, which are somewhat reduced compared to the official ones, since 249 employees and 50 million euros of turnover is a very large business. At the same time, the membership fee of the enterprise depends on the size of the business, which forced it to adjust the classification in accordance with its own needs.

An additional characteristic of medium-sized business is the presence of a more developed management system, which already distinguishes it from small business. As many respondents point out, medium-sized businesses already have a more developed management vertical, structure and separate departments to perform certain functions, and a strategy for finding employees. Medium-sized businesses can afford, for example, to already have an export manager. In contrast, in a small business, regardless of industry, many highly specialized functions are performed by the owner. For example, in a small farm, the owner also works in the field, but on average, he is engaged in management activities. As a result, a medium-sized business is already a business that can grow and theoretically grow into a large business. That is, big business already has the attributes of a large one. One of the respondents provides an example of scaling small outlets, which demonstrates the importance of the structure criterion in determining the size of the business:

"A person can have one small point of sale at first and then scale it to 20 outlets. However, the work model will be closer to a small business despite the number of employees. If you don't have a structure, you're still a small business, even if you have a thousand sole proprietors."

It is important to note that **some respondents perceive the issue of determining the size of a business purely through the prism of different working conditions and benefits**. A representative of one of the associations points out that it is not so important to divide a business by turnover or number of employees as by industry. That is, state support ("preferential support") should be directed primarily to producers, and "Other conditions should be for companies that are engaged in purely buying and selling, purely reselling goods." At the same time, government officials point out that the criterion of the number of employees remains important for determining the recipients of grant support and training programs from donors. According to one of the respondents, the classification is not fundamental, but they begin to talk about problems when enterprises do not meet the qualification requirements of the programs. This applies to industrial enterprises

(for example, machine-building). According to the respondent, it would be possible to increase the maximum limit of the criteria for the number of employees and turnover for them. However, such a change is simply a modification of the existing criteria (as, for example, in the United States), and not the introduction of additional ones.

Industries with a significant presence of the medium size enterprises

Most of the surveyed stakeholders focus on the role of medium-sized businesses in the manufacturing sector. This is in line with the opinion of some experts who believe that it is necessary to keep the focus on manufacturing enterprises, which are the basis of the economy and generate added value. Respondents identify medium-sized businesses in the following sectors of the processing industry:

- **Agricultural sector:** in addition to large companies, there is a lot of medium-sized (for example, crop production, fruit growing).
- **Food industry: among the examples, the production** of flour, bread, juices, dominated by medium-sized enterprises. At the same time, medium-sized businesses are also present in other industries, for example, confectionery production. At the same time, this is a confectionery business on a regional scale.
- **Furniture production**
- **Clothing and footwear production:** According to one of the respondents, 50 employees are not enough to develop their own brand. There are enterprises for special tailoring, etc.
- **Pharmaceuticals and medical products:** such industries do not correspond to the level of small businesses, since production requires large investments.
- Certain types of **mechanical engineering** are on the shoulders of medium-sized enterprises (agricultural machinery, drone production after the start of the war, etc.).

In contrast to the manufacturing sector, medium-sized businesses are few in trade, as medium-sized companies are constantly under pressure from large networks. However, there may be retailers that do not go beyond the city or region. In addition, one of the respondents included distributors, equipment suppliers, etc., in medium-sized businesses.

In the context of the service sector, respondents see medium-sized businesses in the service sector, including restaurants, dry cleaners, and taxis. However, according to one of the experts, such a business is fragmented into small pieces, so it is difficult to identify. In addition, transport services are under developing, the medium-sized businesses are present in road transportation, among the owners of railway cars.

Also, medium-sized businesses are present in the IT sector, which has been dynamically developing in Ukraine in recent years. According to one of the respondents, among the leading IT companies, we see medium-sized businesses that gravitate towards large ones. However, there are few medium-sized businesses in the creative industry. The creative industries are dominated by microbusiness and self-employment (creative agencies, small clothing brands, etc.). In Ukraine, among the creative activities, a small number of medium-sized businesses can be seen only in the film industry and film production.

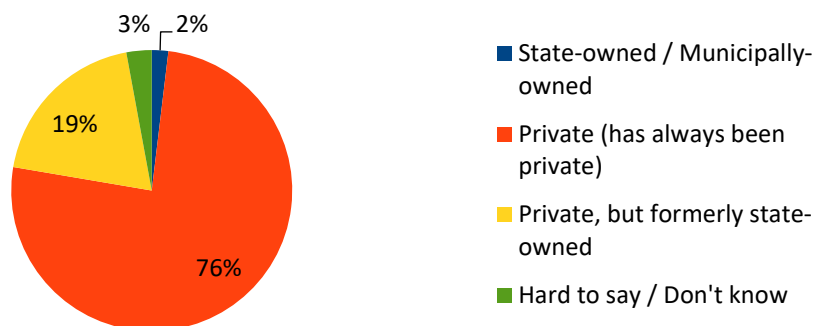
It should be noted that some respondents project their vision of where it would be important to develop medium-sized businesses to identify key sectors. For example, some respondents note that today the most important medium-sized business is in critical industries. We are talking about necessities, transport, and the defense industry. One of the respondents points out that medium-sized businesses are important for setting up mass production, for example, drones. Representatives of some stakeholders point out that the production of building materials needed for reconstruction is also important.

3. SOURCES OF EMERGENCE FOR MEDIUM-SIZED ENTERPRISES IN THE UKRAINIAN ECONOMY

How companies reached the current number of employees

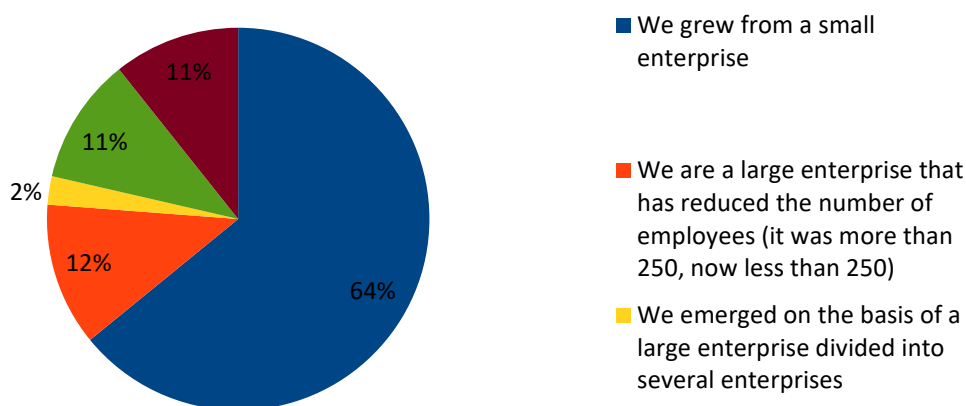
The vast majority of respondents are private enterprises. Among them, 76% have always been private, and 19% are former state-owned enterprises. At the same time, in our sample, only 2% of state-owned or municipal enterprises. At the same time, 3% of medium-sized enterprises could not answer the question.

Figure 7. Distribution of surveyed companies by form of ownership



It's worth noting that the 2003 IER study was predominantly characterized by the presence of medium-sized enterprises that emerged due to the privatization of former state-owned enterprises, accounting for a significant 88% of the respondents. This phenomenon was typical in transition economies, where medium-sized businesses often formed as part of the workforce optimization process resulting from privatization efforts. At the same time, the share of medium-sized newly established medium-sized enterprises was insignificant – only 3.5% of such enterprises in 2003²⁰. However, over the past 20 years, the structure of the Ukrainian economy and business sector has changed significantly, which is reflected in the growing role of medium-sized businesses that have grown based on new small businesses or the distribution of large ones (see also the section *Sources of Medium-Sized Enterprises*). Such changes allow us to assert that in two decades, despite the economic crises and not always favorable business climate, a new private business sector has grown.

Figure 8. Enterprises by ways to achieve average size (% of respondents)



²⁰ See. IER 2003

The question of how the company reached the current number of employees confirms the recorded positive trend in the development of the business sector since 2003. Most companies surveyed report that they have achieved their size by growing from a small business in the past (64%). That is, almost two-thirds of medium-sized businesses have grown organically from small entities to larger entities. At the same time, only 15% are large enterprises in the past, which have reached their size by reducing the number of employees (12.1%) or by fragmenting them into separate enterprises (2.4%). Among the answers "Other" (11%), the majority are variations of the answer "It has always been like this".

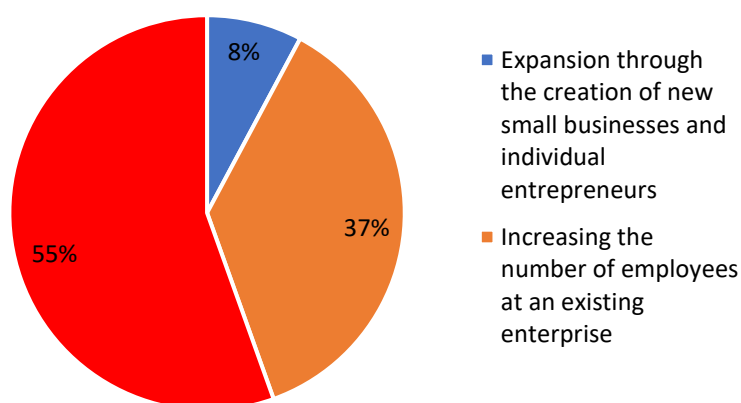
The natural development of the business sector is also confirmed by the recorded pattern: the fewer employees in the enterprise, the more common is the answer about growth from small to medium size. Among respondents with 51 to 100 employees, the share of such enterprises is 71%. In contrast, the more employees a company has, the more responses there are about a decrease in the number of employees from large to medium (for entities with 201 to 250 employees, it is 19%).

Conclusions: Over the past two decades, despite economic crises and not always a favorable business climate, a new private business sector has grown. Most medium-sized businesses are private enterprises that have never been state-owned. Two-thirds of medium-sized enterprises have emerged because of growth from small businesses.

Ways to expand small business and possible impediments

The results of the study show that small businesses mostly do not have plans to expand to the size of medium-sized ones (more than 50 employees). 55% of surveyed small businesses said they did not want to increase the number of employees. At the same time, 37% indicate that they would increase the number of employees in an existing enterprise if it were necessary to choose a strategy for growth to a medium size. Another 8% indicated that they would create new small businesses and sole proprietors. This only confirms a certain level of spread of the "splitting scheme" among Ukrainian businesses due to the popularity of the simplified taxation system (see chapter *Using a "splitting scheme" as an obstacle to small business growth*). However, in 2003, this indicator was nearly three times higher (22%).

Figure 9. Ways to Expand Small Business²¹



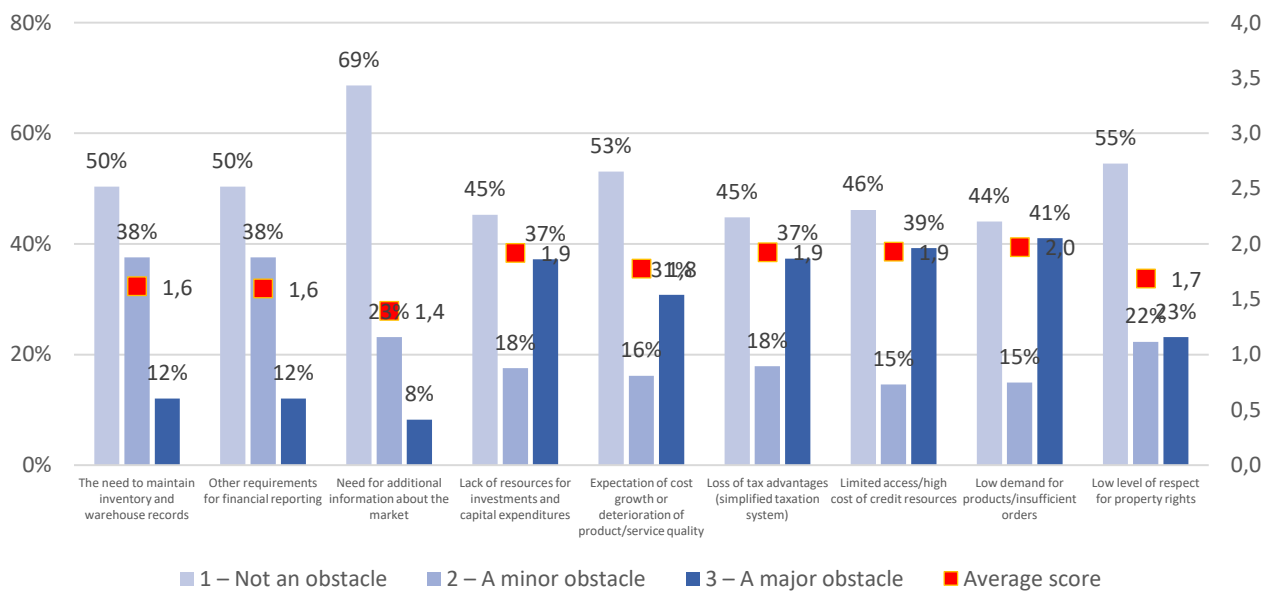
By comparison, in the 2003 IER study, 45% of small businesses expected to increase employment between 2004 and 2006, while only 5% expected to reach the 50 employees' threshold. Thus, small businesses mostly

²¹ According to the IER New Monthly Enterprise Survey

did not declare the potential for growth to medium-sized businesses. A similar situation in 2003 and 2023 may be due to both special obstacles to the development of small businesses, and simply by the specifics of its work and the lack of need to grow (see Fig. *Obstacles to Small Business Growth*).

It should be noted that the fear of losing the simplified taxation system is one of the most significant obstacles that arise with the loss of the status of a small enterprise and the transition to the category of medium-sized enterprises. In particular, the loss of tax advantages is a significant obstacle for 37% of surveyed small businesses. At the same time, businesses are less afraid of other changes, in particular, the need to maintain commodity and warehouse accounting (a significant obstacle for 12% of small enterprises), other requirements for accounting (also 12%). This may be the reason why 8% of respondents see the possibility of expansion through the opening of new small businesses and registration of sole proprietorships.

Figure 10. How problematic are the obstacles to losing the status of a small enterprise and moving to the category of medium-sized enterprises in 2023 (rated on a scale on a scale: 1 – Not an obstacle, 2 – Minor obstacle, 3 – Significant obstacle)



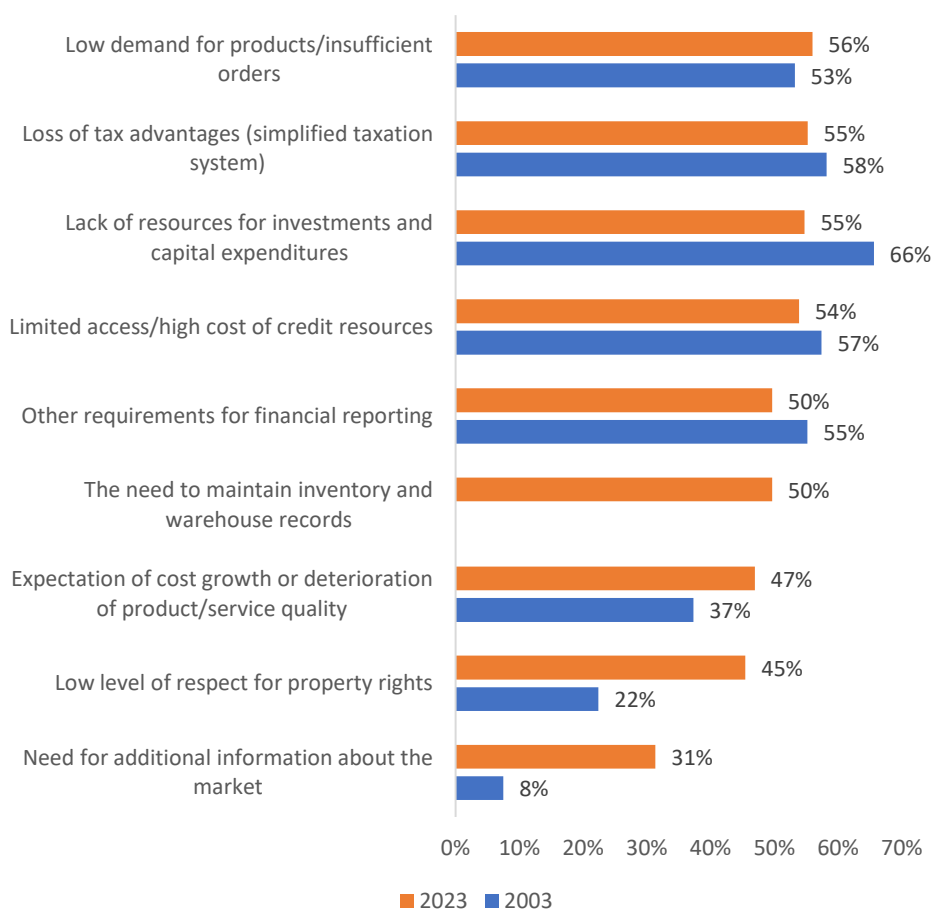
However, the issue of changing taxation is not the main challenge for small entrepreneurs. In the first place in terms of problems is low demand for products and lack of orders (a significant obstacle for 41% of respondents). In addition, small entrepreneurs point to a lack of financial resources for doing business, in particular, limited access/high cost of credit resources (a significant obstacle for 39%) and lack of resources for investment and investment (37%). As a result, the highest average assessment of problematic for low demand is 2.0 points, and a slightly lower score (1.9 points) is for loss of tax advantages, lack of resources for investment, and limited access to credit resources.

Other hurdles are lesser challenges when growing a small business to the size of a medium-sized one. For example, for 69% of respondents, the need for additional information about the market is not an obstacle (but a significant obstacle for 8%). Also, for 55%, the low level of observance of property rights is not an obstacle, although the same obstacle is significant for 23% of respondents.

If we compare the top 5 main obstacles of 2023 and 2003, their list has remained almost unchanged, except for ranking. In 2003, the main obstacle was the lack of resources for investment and investment – for 66% of respondents. In 2023, this obstacle is in second place with 55% of respondents. Also, just like 20 years ago, the fear of losing tax advantages is on the second step (58% in 2003 versus 55% in 2023). At the same time, small businesses are also afraid of other accounting requirements (50% in 2023 versus 55% in 2003). Low

demand was at 5- In 2003 (53%), it moved to the first place in 2023 (56%), which may also be due to the impact of the war.

Figure 11. Comparison of the problematic obstacles to the growth of small enterprises to medium size in 2003 and 2023



It should be noted that some impediments have become significantly important for the business over the past 20 years. Businesses have become more likely to lack information about markets, which may be the result of the development of the private sector and the internationalization of business (it was 8% in 2003 versus 31% in 2023). The relevance of the issue of respect for property rights has also doubled – from 22% in 2003 to 45% in 2023. In 2023, businesses more often indicated expectations of an increase in production costs or a deterioration in the quality of products/services (47% vs. 37% in 2003).

The results of other studies show that the state of business during the war is partly dependent on its size. According to the New Monthly Enterprises Survey²², small entities show worse production performance. For example, as of September 2023, 43% of micro and 22% of small exporting enterprises could not resume exports. For comparison, this figure was 14% for medium-sized enterprises and 8% for large enterprises. Also, among micro and small enterprises the level of capacity utilization remains lower compared to the pre-war period. In September 2023, only 26% of micro-enterprises, 51% of small, but 60% of large and 65% of medium-sized enterprises worked at almost full capacity (75 – 99%, 100% or more). Despite this, micro and small businesses have better expectations for the company's performance for the next 2 years – the Index of Expected Changes in Business Activity is +0.30 for micro entities and +0.17 for small ones, but only +0.10 for medium-sized ones.

²² IER New Monthly Enterprises Survey, 2023, http://www.ier.com.ua/ua/trade_facilitation/survey

If we look at the obstacles for small businesses that businesses have faced since the beginning of the full-scale Russian invasion, we see an increase in prices for raw materials, semi-finished or finished goods they sell in the first place – 48% of respondents indicated. However, this obstacle is common to subjects of all sizes (48% for the entire sample). On the second rung of obstacles for small businesses, we see a decrease in demand for products/services with 36%, which is slightly higher than the average for the entire sample (33%). On the third line is the shortage of labor (employees) due to conscription and/or departure of employees to other places (35% vs. 32% at the country level).

Impediments to growth of small business according to stakeholders

As demonstrated in our previous discussions and survey findings, small businesses face obstacles to conducting their operations that are on par with those encountered by other categories of enterprises.²³ At the same time, impediments to growth for small businesses are low demand, potential loss of tax advantages, lack of resources for investment, and limited access to credit resources. Stakeholder representatives were also asked to assess the main obstacles to business growth from small to medium-sized sizes.

- **Lack of desire or need to grow.** According to some respondents, not all entrepreneurs feel a desire to grow or do not know why they need it, they have a completely different "scale of thinking". One of the business representatives pointed out that it may simply be comfortable for small businesses to remain at this level of activity. Small businesses may feel that they are the best and most actively adapting to market conditions. It is important that small businesses understand why they should grow. At the same time, working at the level of small business can be a **conscious choice**, considering the type of product, etc. A representative of one of the business associations points out that in the food industry, some manufacturers deliberately choose not to scale to "leave a certain craft element."
- **Lack of vision.** According to one of the representatives of the expert community, business owners may lack a vision or strategy where to grow. Accordingly, they "cannot formulate either the need for finances, or a business plan, or set the right task." A business owner must understand why he needs to increase the number of shops, expand the product line, rent additional premises, or produce more products. Without such a vision, it is impossible to formulate a business plan and get funding.
- **Potential loss of tax advantages.** According to stakeholders, small businesses may be afraid of growth due to the fear of additional attention from the tax authorities after going beyond the simplified taxation system. Small businesses are in a more advantageous position, as the tax authorities are not interested in "running after small" enterprises. According to one of the interviewed experts, the basic instinct may be at work – "you cannot show everything that is there, so as not to attract the attention of too vigilant authorities once again." As a result, even though tax rates in Ukraine are lower, administration is more complicated, and the risks associated with inspections are much higher. In this context, there is a general question of greater control over medium-sized businesses, because "there are assets, there are control procedures in terms of financial reporting, more stringent."
- **Unpredictability of the state's actions. Today, during the war, there is a** high level of uncertainty about the future for enterprises. At the same time, unexpected decisions from the state are also possible. In this context, it is worth mentioning one of the examples of a business representative who complained about the sudden cancellation of the possibility of paying a 2% single tax, which broke the business process for many businesses and affected the execution of contracts.
- **Lack of effective demand in the country.** As one of the respondents noted, today more than a part of many citizens go to food, which only confirms the insolvency of the population. This is influenced by the economic situation and the ability to earn money for consumption. According to one of the experts, "in order for there to be demand within the country, there must be production, so that a

²³ At the same time, it should be noted that the New Monthly Enterprises Survey primarily concerns the manufacturing sector, so the situation in other sectors may be different.

person can buy something, he must sell something, that is, produce and sell. If production develops in the country, then people will have money."

- **The problem of finding markets.** This problem is partly due to the lack of effective demand. On the other hand, it is pointed out that businesses lack the ability to sell themselves in new markets. Experts also mention the problems of entering networks, as well as simply not knowing languages. In this context, short-sightedness regarding the need to diversify markets is also manifested. Individual companies grow due to large orders from a single customer (e.g., furniture manufacturers for large chains), but can't find other customers (but this can also be limited by the terms of exclusive contracts).
- **Labor shortage.** The majority of respondents note that Ukrainian businesses are experiencing a workforce crisis during a full-scale war. Therefore, small businesses can also experience similar problems when scaling their work.
- **Problems of scaling the business model.** According to one respondent, small business may have trouble scaling successful models. For example, business owners are not sufficiently protected, have limited control over the managers that need to be hired after the business expands.
- **Fear of delegating business management.** According to one of the representatives of business associations, managers (owners) of small enterprises often combine different management functions (for example, they are also engaged in exports, etc.). At the same time, after the growth of the business, it is difficult to overcome the barrier that you need to let go of many functions, recruit managers and delegate authority to them.
- **Lack of financial resources.** For small companies engaged in production, there is a lack of available resources or resources are very expensive. Businesses may lack investment, grants, and loans. In addition, a representative of one of the business associations notes that "banks are not flexible, and they are forced to work if there were no war," given the requirements of the NBU, which are needed to ensure financial stability. All this restricts access to credit, makes the credit resource expensive.
- **Weak policies to support small businesses.** One of the respondents explained a similar problem of small business using the example of the development of creative industries. In the developed countries of Europe and America, there is a whole support infrastructure, which includes financial mechanisms ("English investment") and physical infrastructure (vacant premises from municipalities, hubs).

As a result, we see that, in general, the general outlines of obstacles for small businesses are common to representatives of all businesses. However, it is the characteristic features of these problems in the activities of small enterprises that often prevent them from growing to the level of medium-sized businesses.

Conclusions: More than half of small businesses have no plans to expand to the size of medium-sized ones. The obstacles for small businesses are no different than those for the other enterprises, but they can have a greater impact on the resilience of enterprises during the war and on growth opportunities. Small businesses are constrained from growing to medium-sized by low demand for products, fear of losing tax advantages ("simplified"), lack of resources for investment and investment, limited access/high cost of credit resources, and other requirements for financial statements. Over the past 20 years, only the ranking of obstacles has changed.

Using the "splitting scheme" as an obstacle to growth

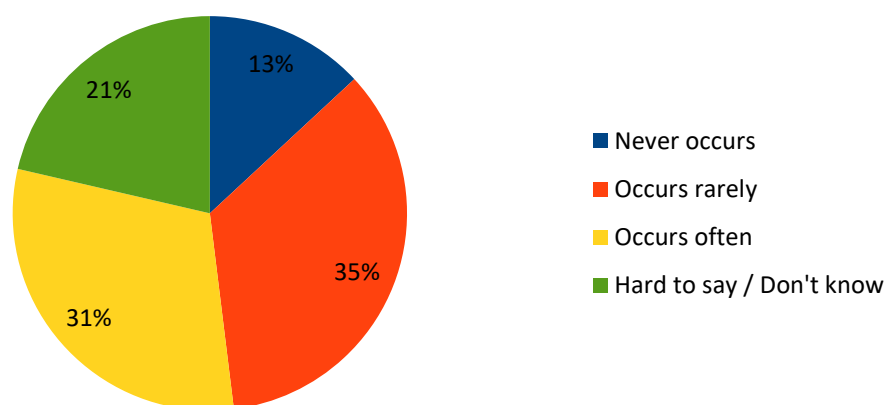
There are cases when medium and large enterprises use the "splitting scheme" (register their divisions as separate legally independent enterprises / sole proprietors) to reduce the tax burden or regulatory burden, including simplification of accounting procedures. These schemes are a serious challenge for an imperfect system of statistics, because they do not allow to adequately assess the role of medium-sized businesses and businesses of different sizes in the economy in general (see also section 1. *What are the criteria for*

determining the size of a business?). To analyze this question, respondents were asked to assess the prevalence of similar business fragmentation practices in their industry.

The obtained results indicate a wide spread of the "splitting scheme" among medium-sized enterprises. In particular, only 13% of enterprises reported the absence of such a scheme in their own industry. On the other hand, 35% of companies indicate that this practice is rare, and at the same time, 31% of respondents reported frequent use of the "splitting scheme". At the same time, 21% of respondents could not give an answer ("It's hard to say / I don't know").

In 2003, the IER also investigated the use of the simplified taxation system scheme to minimize the tax burden. At that time, 58% of the surveyed companies reported that splitting schemes are used in their field of activity (rarely or often) to obtain tax benefits that can be enjoyed by small businesses. **That is, the situation has not changed over the past 20 years, and about two-thirds of businesses still report the prevalence of such splitting schemes to minimize the tax burden.**

Figure 12. Distribution of the "splitting scheme" (according to the surveyed medium-sized enterprises).



The experts interviewed in the study confirm the frequent use of such schemes, which hinders both the collection of statistical data and the growth of the business itself. Companies use schemes to optimize the payment of taxes through sole proprietors and refuse to organize work on white. As we have already seen above, the fear of losing the simplified taxation system is one of the main obstacles to the growth of small businesses. That is why such small business entities often choose to register additional sole proprietors for expansion. That is, the simplified system restrains the growth of some small enterprises to medium-sized ones (for more details, see also the *Impediments to Small Business Growth*).

According to one of the experts, medium-sized businesses today are dying out precisely among the shadow schemes. After all, today he is "driven ... in the sole proprietorship zone, and most of the business is located there, that is, it is not monitored, that is, there is cash and so on." That is, in fact, a medium-sized business is a business that has come out of the shadows and come to the attention of the state, all regulatory authorities, etc.

The interviewed experts point out that the conditions for doing business should be such that the division of large and medium-sized businesses into smaller ones for tax optimization is not profitable. As noted, today some companies have special legal departments that deal with the work of the "anthill of sole proprietors" - registration of sole proprietors, their reporting, etc. Another business representative describes such schemes as "a monster that is really thousands of sole proprietors, but formally with one owner, and this is a

billionaire." At the same time, the expert notes that this is not the worst scheme of business, since some entrepreneurs provide services or sell on the Internet without registering a business entity at all. None of the respondents approved of such "splitting schemes".

Despite the spread of splitting schemes, some medium-sized businesses still choose more transparent schemes of work, which are needed for access to bank lending. As one of the experts points out, "there are certain aspects that slightly indicate that they do not need to be divided, because they need to have an integral property complex, legal entities, so that it is a clear structure, so that they can receive funding... This, of course, restrains them from fragmentation."

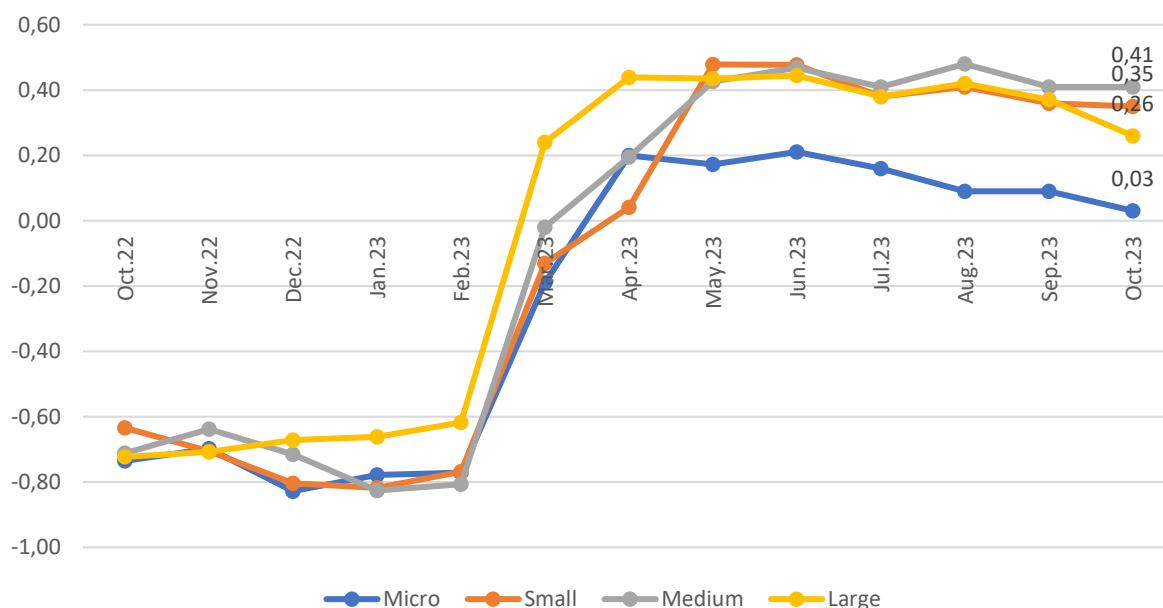
Conclusions: Over the past 20 years, the situation has not changed, and about two-thirds of businesses still report the prevalence of such splitting schemes to minimize the tax burden. Frequent use of such schemes, which interferes with both the collection of statistical data and the transparent growth of small businesses to medium-sized ones.

4. THE STATE AND FUTURE OF MEDIUM-SIZED BUSINESSES IN UKRAINE

Medium-sized businesses during the war

If we compare the situation at Ukrainian enterprises with the same period last year, it is medium-sized enterprises that feel the best. They have the highest value of the Business Recovery Index – 0.41 (as of October 2023). For comparison, the corresponding index was 0.35 for small enterprises, 0.26 for large enterprises and 0.03 for micro enterprises.

Figure 13. Business Activity Recovery Index (by size)



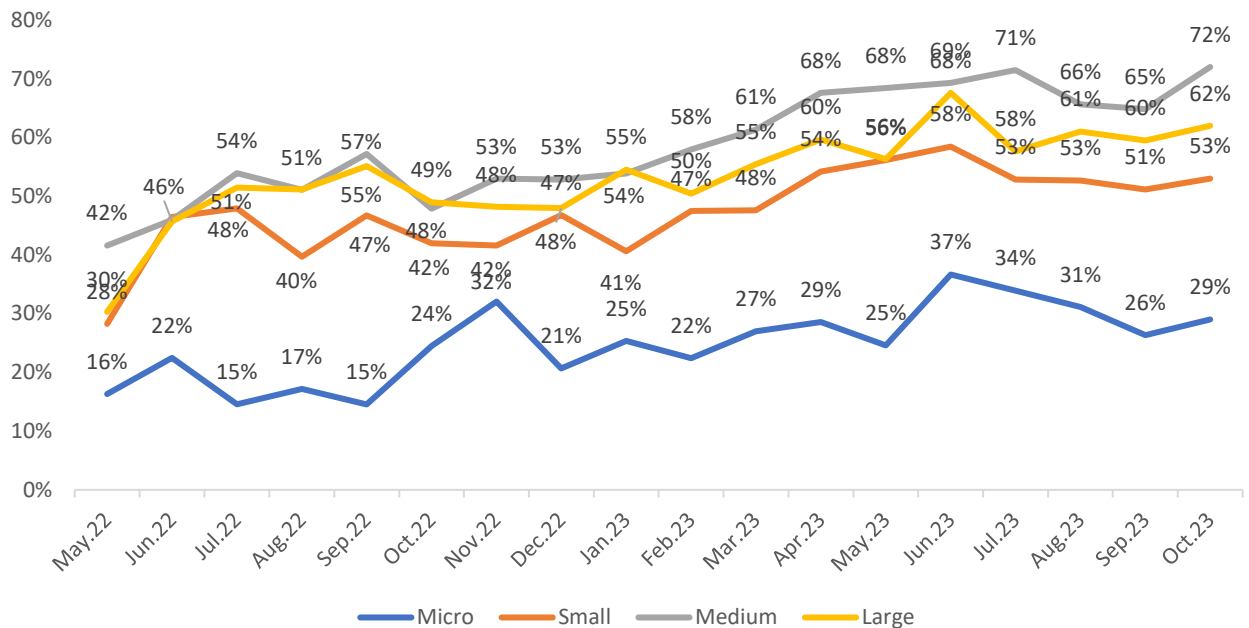
At the same time, medium-sized businesses are the least optimistic about the possibility of expanding production over the next 2 years. The corresponding Index of Expected Changes in Business Activity in the next two years was only 0.12 for medium-sized businesses, but 0.15 for small businesses, 0.28 for micro businesses, and 0.33 for large businesses.

In terms of the pace of recovery in production volumes, medium-sized businesses are ahead of small and micro businesses, but lag behind large ones. In particular, the Index of Production Changes in October was +0.17 for medium-sized enterprises, but +0.28 for large enterprises, +0.09 for small and -0.20 for micro. Similarly, medium-sized businesses demonstrate, together with large businesses, the best growth rates of other production indicators – sales, new orders, exports, stocks of raw materials. At the same time, medium-sized businesses tend to have the highest level of optimism about the expected changes in production indicators. For example, the Index of Expected Changes in Production is +0.45 for medium-sized enterprises, but +0.33 for large, +0.29 for small and +0.24 for micro. Also, medium-sized businesses have the highest values of the indices of expected changes for sales, exports, and new orders.

The results of the New Monthly Enterprises Survey indicate that medium-sized companies are showing the best pace of production recovery. In October 2023, 72% of medium-sized enterprises worked at almost full and full capacity compared to the pre-war period. At the same time, large businesses were almost always behind in terms of capacity utilization. In particular, in October, the corresponding figure was 62% for large enterprises. Small and micro businesses lag further behind – the corresponding figures are 53% and 29%, respectively.

Medium-sized business in Ukraine: Terra incognita or "hidden" Mittelstand

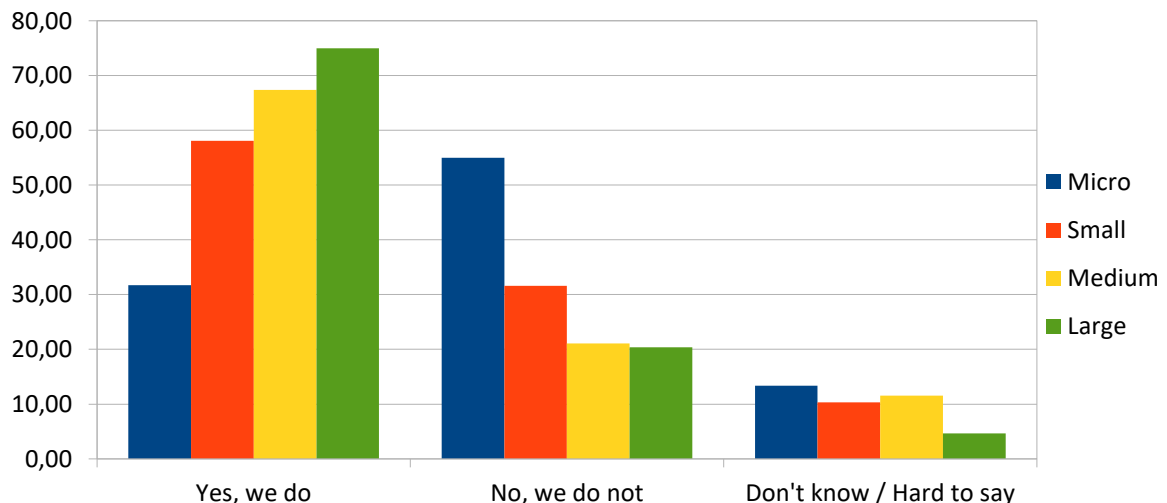
Figure 14. Share of enterprises operating at almost full and full capacity (75 – 99%, 100% or more) compared to the pre-war period (by size of enterprises, %)



As with all businesses, there remains a high level of long-term uncertainty among medium-sized enterprises. 60% of medium-sized enterprises cannot predict their activities in a two-year perspective (as of October 2023). Similar results are also achieved by large (61%) and small (57%) businesses. In the six-month perspective, the uncertainty is less – only 11% of medium-sized enterprises cannot assess changes in the financial and economic situation and the general economic environment. For Comparison, at the same level, the uncertainty of large businesses, and at small and micro enterprises, the uncertainty is higher.

Despite the long-term uncertainty, most businesses responded positively about having a business plan or growth strategy that they follow. For medium-sized enterprises, this figure is 67%. Compared to enterprises of other sizes, we can see that the result is higher for large enterprises (75%), and for small and micro enterprises it is lower (58% and 32%, respectively). The opposite trend is noticeable among the answers about the lack of a business plan/development strategy. The lack of a business plan/strategy was reported by 21.1% of medium-sized businesses, and 11.6% chose the answer "Hard to say / Don't know".

Figure 15. Availability of the company's business strategy (% of respondents by size of enterprises)



Conclusions: During the full-scale invasion, medium-sized businesses showed a higher level of resilience compared to entities of other sizes. At the same time, medium-sized businesses are the least optimistic about the possibility of expanding production over the next 2 years, and also experience a high level of uncertainty.

The role of medium-sized business in the economy of Ukraine

The question of the advantages of medium-sized businesses directly depends on the place of enterprises of this size in the business sector. To analyze this problem, representatives of stakeholders were asked to assess the role of medium-sized businesses, as well as how medium-sized enterprises differ from large and small ones.

According to stakeholders, medium-sized business is an important attribute of economic and social development. According to one of the respondents, "medium-sized business is a sign, a sign of quality, a sign of some achievements for business." If big business is perceived within the framework of certain traditional ideas that it is associated with oligarchs, then medium-sized business reflects the development of society. Large enterprises are mainly some kind of production that existed before, and **medium-sized enterprises are mainly new businesses created during the years of Ukraine's independence.** Accordingly, medium-sized business is an indicator of "sustainability, maturity of the economy".

Medium-sized enterprises are the result of business maturity. In fact, medium-sized enterprises that have grown from smaller entities are the result of a meaningful over-desire through different levels of business development. According to one of the respondents, medium-sized enterprises outgrew all previous levels. In a sense, such enterprises have been selected. In particular, according to another respondent, out of a hundred small enterprises, only 5 medium-sized ones can grow.

Medium-sized enterprises outgrow the level of small family businesses. Medium-sized enterprises are already forced to form a standardization system, better structure, be interested in process automation and better management, be interested in participation in business associations to protect their rights, implement more serious approaches to work (other requirements for financial reporting), because medium-sized businesses already need access to lending. According to one of the respondents, medium-sized businesses are already so structured that they potentially could grow into a large one Company. At the same time, such a situation may have the opposite side of the coin, because medium-sized enterprises, specially manufacturing ones, can be clumsy as large ones.

A representative of one of the business associations points out that "in the most medium-sized company, it is felt that it is already some kind of small corporation." To manage a team of more than 50 employees, a certain corporate culture is already needed: "it is simply impossible to manage a hundred or 150 people, purely on some family or friendly ties." For some experts, this maturity of medium-sized businesses is an argument why medium-sized entities are closer to large businesses.

Medium-sized businesses are an important bridge between businesses of different sizes. It is a medium-sized business that can scale and transform into a large one over time. At the same time, small and medium-sized enterprises can be part of large businesses that test ideas on a smaller scale, etc. According to one of the respondents, medium-sized business is in a sense an assistant to big business, because it can ensure its market when there is a failure (if it produces similar products or provides similar services). To illustrate the cooperation of businesses of different sizes, it is necessary to give a lengthy quote from one of the business representatives, which emphasizes both the need for synergy of businesses of different sizes and the place of medium-sized enterprises:

"I studied in Taiwan for a month in 1994.... I remember the speech of their Deputy Minister of Economy, who drew two large empty glass cups. And so, in one he says heavy

stones are large, and here they are lighter, fine sand. And he tells you how to do it optimally so that this glass is the largest weight. If you pour fine sand, then there will be a lot of it, but it will weigh so much, if there are stones, it will not weigh more than sand, because there are a lot of air gaps between them. It cannot fit snugly together. If you take these large stones and sprinkle them with fine sand, then and then this vessel will be the heaviest. This was a clear demonstration of the idea of cooperation, links between large and medium-sized, small businesses. I don't know how to implement it."

It should be noted that the respondents' opinions are divided on whether medium-sized businesses are closer to small or large. Most likely, such a situation can affect both the different size of a medium-sized business and its industry affiliation. One of the interviewed experts pointed out that the **maturity of medium-sized businesses may depend on the sector**.

Some stakeholders point to the following factors that indicate a slight difference between small and medium-sized businesses:

- **Medium-sized businesses are psychologically closer to small ones.** At the same time, medium-sized businesses remain weaker compared to large ones. Medium-sized enterprises are already under more scrutiny than small businesses, while they do not have sufficient influence and capacity to protect and influence processes in the country.
- **The size of the business can change** as the situation falters due to the volatile economic situation. That is, the enterprise periodically changes its size between medium and small businesses.
- One of the interviewed experts drew attention to the fact that **medium-sized enterprises are closer in productivity to small ones.** According to one of the interviewed experts, in 2020 there was an interesting situation: according to official data, small businesses in Ukraine overtook the productivity of medium-sized ones, but this may be a Ukrainian peculiarity. At the same time, in general, "the difference between medium and large was greater than between small and medium."

Given the maturity of medium-sized businesses, some respondents point to important advantages of medium-sized businesses compared to both small and large businesses. In particular, medium-sized businesses are more stable than small businesses, due to their higher level of organization. It is also easier for medium-sized businesses to customize their goods, because small businesses have higher costs for them, and it is more difficult for large businesses to change production. According to some experts, small batches and customization of goods are best obtained in medium-sized enterprises.

According to a representative of one of the business associations, medium-sized businesses can also be a driver of recovery, because they also provide jobs for small and micro businesses, while coping without significant support from the state. Another business representative also pointed out that medium-sized businesses **are now showing themselves to be the most viable during the war** (within the agricultural sector they represent). Small business develops situationally, depends on donor aid, and the big one is over-indebted. Another respondent also emphasizes that medium-sized enterprises are the most adaptable and risk-averse companies. As the respondent points out, "medium-sized businesses, due to the fact that, firstly, they are mostly not in debt, they have always worked on their own funds, they are more mobile, they are more elastic to various challenges, they today demonstrate a greater ability to respond to the challenges that time provides." Similar observations are also confirmed by the results of the New Monthly Survey of Companies. This study testifies to the high rates of recovery of medium-sized businesses (industrial enterprises), which are closer to large enterprises. In addition, medium-sized enterprises have the highest level of capacity utilization compared to the situation before February 24, 2022 (see the *section Medium-sized businesses during the war*).

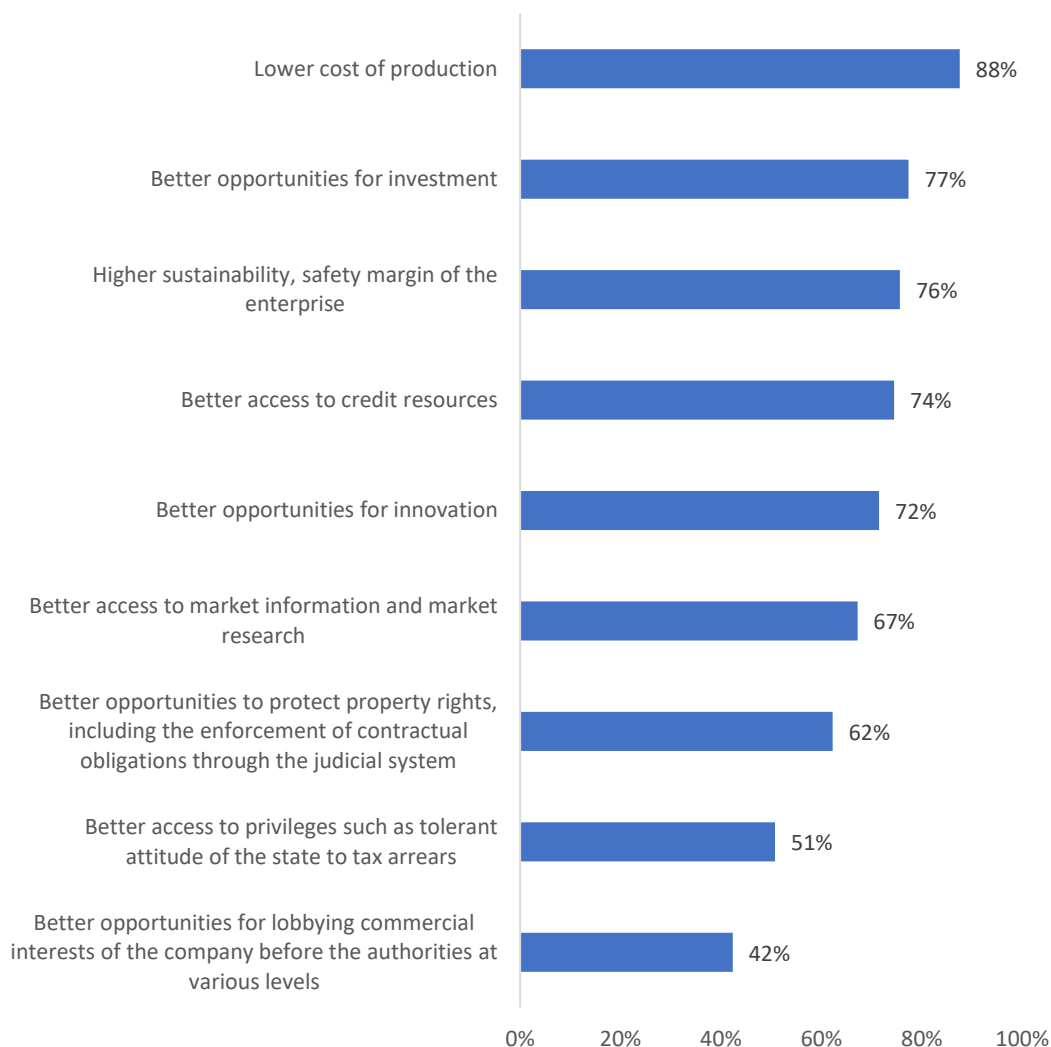
Advantages of medium-sized businesses

Medium-sized enterprises were asked to evaluate the main advantages of businesses of their size compared to small entities (less than 50 employees). To do this, respondents could choose a rating on a three-point scale, where 1 – "Not an advantage", 2 – "A slight advantage", and 3 – "A significant advantage". The results rank the strengths of medium-sized businesses.

From the point of view of managers of medium-sized enterprises, the lower cost of production is the main benefit. 88% of respondents indicate that the "size effect" is a slight or significant advantage (26% and 61%, respectively). Better opportunities for investment and investment (77%), high resilience of enterprises (76%) and better access to credit resources (72%) are also important.

It can be concluded that most of the **factors are an advantage for medium-sized businesses.** In contrast, the least important advantage is the ability to protect one's rights before the authorities (less than half of the respondents (42%) identified it as an advantage. Better access to privileges, such as better attitude of the tax authorities, was indicated by 51% of respondents.

Figure 16. Advantages of medium-sized businesses compared to small ones (% of medium-sized enterprises surveyed)



It is important to highlight that respondents also put forth additional advantages that medium-sized businesses possess in comparison to their smaller counterparts. These strengths include a greater ability to

attract qualified employees, more efficient internal management and communication processes, and a stronger reputation.

It is worth noting that a study of medium-sized businesses by the IER team in 2003 identified a similar list of advantages. At that time, the most important advantages of the heads of medium-sized enterprises were lower costs and better access to credit resources. At the same time, other factors were mostly not a strong advantage. Similar changes over the past 20 years may be the result of the growing experience of Ukrainian business and a better understanding of what is a medium-sized business²⁴.

Challenges and obstacles to the growth of medium-sized businesses

As part of in-depth interviews with stakeholders, the main problems, and obstacles to the growth of medium-sized businesses were analyzed. On the one hand, respondents pointed to problems that hinder the activities of medium-sized enterprises. On the other hand, respondents also assessed which obstacles hinder the growth of medium-sized businesses. As a result, some of the obstacles to growth are consonant with the factors that also hinder the development of small business. It's about the lack of funding, workforce, the unpredictability of the business climate, etc. In principle, the entire business sector operates under similar rules and conditions, within the common framework of the general business climate. However, the experience of medium-sized businesses may differ from that of small and large businesses. According to one of the respondents, the **concentration of all business problems is concentrated in the segment of medium-sized businesses**. At the same time, another respondent noted that medium-sized businesses are more experienced and can solve problems better than small ones.

Like small businesses, not all medium-sized businesses have the need or ambition to grow to a large size.

One of the respondents believes that a company with 100-200 employees is already doing well, brings good income to the owner and can cover most of his life and business development needs. In fact, many medium-sized business owners may already be self-sufficient in their businesses. Another expert noted that it may simply not make sense for medium-sized enterprises to grow because big business is cumbersome. Therefore, "if they [enterprises - IER] feel more comfortable in this size, then there is no point in growing into a big one." In this context, the conservatism of medium-sized companies that were established before the 2000s is also reported. General managers of such businesses often do not allow them to develop in accordance with new practices due to their conservatism, because they are used to working in the old way. And this can hinder business growth.

One of the representatives of the agricultural business gives the example of a medium-sized agricultural enterprise that had 3-5 thousand hectares of land. According to him, the business owner explained his reluctance to expand the land bank because of the need to keep all affairs under his control, because this is the amount of land that can be "traveled around in one day." In addition, there is no need to delegate authority to people who can "tell stories" about what is happening on the lands in the neighboring district or region. In fact, this corresponds to a similar problem for small businesses, which are not ready to give up direct management of business processes. In a medium-sized business, the owner remains the CEO of the business. According to one of the respondents, it is the problem of the owners to switch to corporate governance and break away from operational work.

The unpredictability of the situation also affects the ability of medium-sized businesses to expand. According to one of the experts, the situation in the domestic market is unpredictable. Constant shelling by missiles and drones does not make it possible to plan the work of enterprises normally. In addition, the unpredictability of the state's actions, which can worsen the state of business, also influences. Even under martial law, there are changes, in particular, the abolition of special taxation conditions. Discussions are underway on changes

²⁴ See. IER 2003

in tax legislation, etc. According to the respondent, this situation keeps entrepreneurs in suspense, because they do not know what to expect tomorrow.

Much like their smaller counterparts, medium-sized businesses share concerns about attracting increased attention from **tax and regulatory authorities as they expand their operations**. One expert suggests that the tax administration system can significantly threaten both medium and small businesses more than larger enterprises. These businesses may apprehend the possibility of a heavier tax burden. As discussed earlier, it's evident that tax-related changes contribute to the overall uncertainty faced by businesses. Furthermore, medium-sized businesses encounter similar challenges to large enterprises in areas such as the judicial system and customs, underscoring the broader issues spanning businesses of varying sizes. Quotation of our respondent:

“Well, for example, the judicial system is primarily interested in medium and large, because they constantly find themselves in these different situations, and they are forced to use our clumsy, still corrupt judicial system. The same is customs, customs make problems from medium and large, first. Although the big one has learned to work thanks to authorized economic operators, the big one has made itself such a window of opportunity a little. Therefore, the customs also focused more on large businesses, because small ones carry almost minimal anything there. They usually use the services of medium and large. So there are certain peculiarities, the fact that the large one is cut off, and the middle one is left alone with the problems. Yes, there is such a thing”!

The blocking of tax invoices is an example of both the unpredictability of the situation and the problems of the tax system. One of the respondents said that the **abnormal operation of the SMKOR** (system for monitoring the compliance of tax invoices / adjustment calculations with the criteria for assessing the degree of risk) was the **most at risk**. In particular, the system has the so-called "cut-off" criteria, which do not allow blocking micro businesses with a turnover of up to UAH 500 thousand and large businesses with taxes paid of UAH 10 million per year. According to the expert, "the blow to the system of blocking tax invoices hit medium-sized businesses."

Medium-sized businesses are experiencing a lack of demand, **due to low solvency**. **In principle, the problem of the domestic market is common to all businesses**. However, one of the experts noted that **businesses of different sizes react differently to the decline in domestic demand and the domestic market**. Medium-sized businesses suffer more because they are less robust than large businesses and less mobile than small businesses. As for foreign markets, then it is more difficult for medium-sized businesses to find new opportunities compared to large ones. However, according to the respondent, it is easier for medium-sized businesses to rebuild logistics for export.

Competition is also a challenge for medium-sized enterprises, as growth forces large corporations and global players to enter new markets and compete. This more complex competition takes time, particularly to find a new workforce, change in technology, and so on.

Medium-sized businesses are hampered **by the problem of lack of funding and investment**. To go beyond medium-sized businesses, you need to sell your business idea and attract additional investment. The problem of lack of funding is common with businesses of other sizes. Medium-sized businesses may not always be able to take advantage of available lines of credit. For example, the 5-7-9 program²⁵ has many limitations. Medium-

²⁵ State program to support the development of small and medium-sized businesses (Ed. note)

sized businesses have worse opportunities to attract bank financing. For example, large businesses can raise larger amounts cheaper. Medium-sized businesses may lack collateral to get credit funds on turnover. This issue is especially acute for enterprises that have been destroyed and do not have collateral. As one of the respondents noted, there are no tools for such support. In comparison, small businesses have more opportunities to receive grants for different purposes.

One of the respondents also notes that **medium-sized businesses suffer more from insurance restrictions**, which have a negative impact on exports: "I reiterate that in relation to large businesses, medium-sized businesses do not have the assets to fulfill the obligations of any production there." As another exporter noted, business needs trade finance tools.

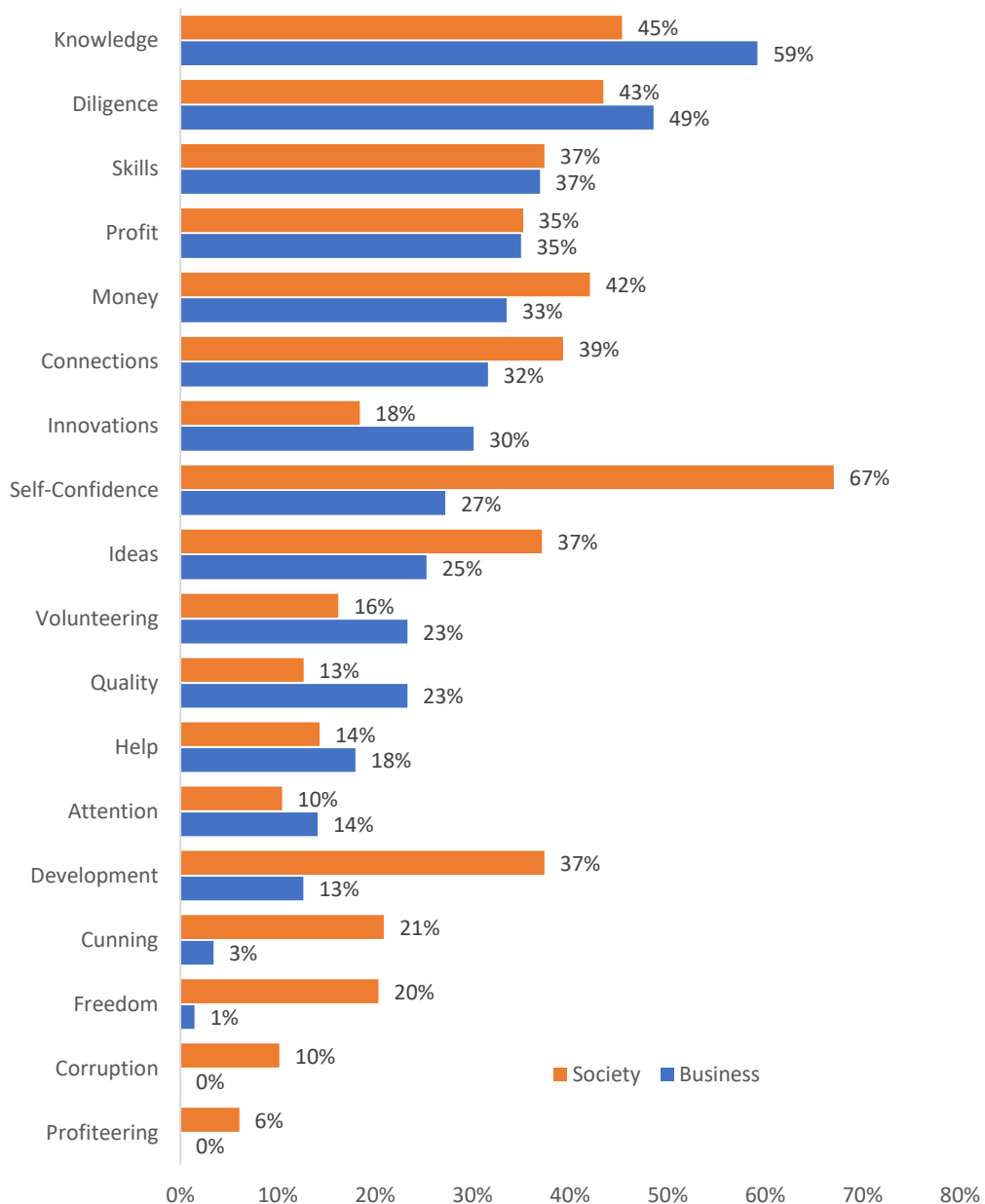
Businesses of all sizes are experiencing **a labor shortage**. **In fact, this is one of the** general obstacles that also hinders the development of medium-sized businesses. According to one of the respondents, the issue of labor force is less serious for small businesses, but it is medium-sized businesses that face it the most. As an example, some agricultural enterprises did not even sow because there were no tractor drivers. Due to the mobilization that is a consequence of Russia's full-scale military invasion of Ukraine, companies lack specialists in narrow fields.

5. VALUES OF MEDIUM-SIZED BUSINESSES

The Image of Entrepreneurship: Perception through the Eyes of Society and Business

As part of the study, business representatives were asked to describe people who are engaged in business today in Ukraine with the help of association words (no more than 5 words could be chosen). As a result, the word "knowledge" is in the first place with 59% of respondents. Among the other top 5 associations, we see "hard work" (49%), "skills" (37%), "profit" (35%) and "money" (33%). Summarizing the results, business representatives mostly characterize entrepreneurs as hardworking people with important knowledge and skills who make a profit.

Figure 17. What words are associated with people who are engaged in entrepreneurship in Ukraine? (% of respondents).



At the same time, society as a whole sees entrepreneurs primarily as self-confident individuals. The word association "confidence" was reported by two-thirds (65%) of respondents. Other important characteristics include "knowledge" (50%), "hard work" (44%), "skills" (43%), "money" (35%) and "ideas" (35%). In some ways, this image mirrors the barriers that deter citizens from starting a business. In particular, the lack of knowledge is one of the main obstacles why not everyone is ready to try to start their own business.

Accordingly, the word "knowledge" is more relevant for members of the public, but the importance of knowledge is also understood by business representatives. In this context, 37% of respondents among both samples indicated the word "skills" as an association.

Less relevant in the image of an entrepreneur are words that relate to ideas and social responsibility of business. For example, the word "freedom" is associated with entrepreneurs for only 1% of respondents among business representatives. On the other hand, 20% of society associates entrepreneurship with freedom, however, this obstacle is also at the bottom of the ranking for this sample. Respondents from both surveyed groups also mentioned associations such as "help" (18% among businesses and 14% among the public) and volunteering (23% among businesses and 14% among the public) less often.

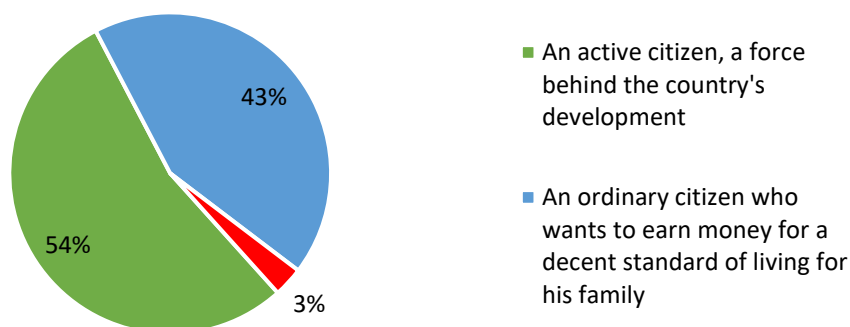
Some of respondents associate entrepreneurs with words that indicate the important social role of business. Members of the public chose such characteristics as "volunteering" (16%) and assistance (14%). At the same time, business representatives rate such roles somewhat higher – 23% for "volunteering" and 18% for "help".

Positively, the negative characteristics of entrepreneurship were at the bottom of the ranking of association words. For example, managers and owners of medium-sized businesses do not associate entrepreneurs with negative characteristics at all. Not a single respondent chose the options of corruption and profiteering. A part of society has negative associations with entrepreneurship: 6% chose "profit", and 10% chose "corruption". However, both association words also occupy the last ribbons of the ranking.

It is important to note that the spread of negative associations is different for those members of society, I am not ready to start a business. Among this subsample, the word "corruption" is associated with 18% of respondents, and "profit" - among 10%. Thus, the reluctance to start a business can also be influenced by certain negative stereotypes about doing business.

However, in general, among the respondents of both surveys (medium-sized businesses and the public), positive characteristics of people engaged in entrepreneurship prevail. Only a small part of society has negative associations with the word "entrepreneur".

Figure 18. Who is an entrepreneur in Ukraine today? (% of respondents)²⁶

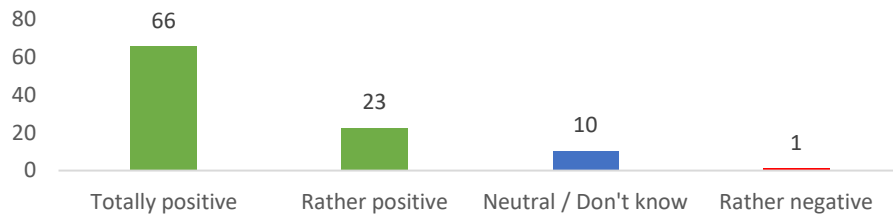


If we analyze the specific complex characteristics of entrepreneurs, then 54% of respondents believe that an entrepreneur is an active citizen, a driver of the country's development (among those who were able to choose one of the answer options). For 43% of respondents, entrepreneurs are ordinary citizens who want to earn money for a decent standard of living for their families. However, there are still 3% of respondents who believe that entrepreneurs want to enrich themselves at the expense of their fellow citizens. That is, in

²⁶ Public Opinion Polls

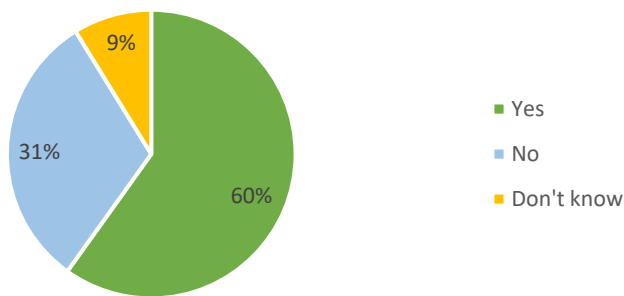
this context, a positive image of the entrepreneur prevails, which is consonant with the analysis of words-associations.

Figure 19. How do you feel about the role of entrepreneurship in the development of Ukraine today? (% of respondents)



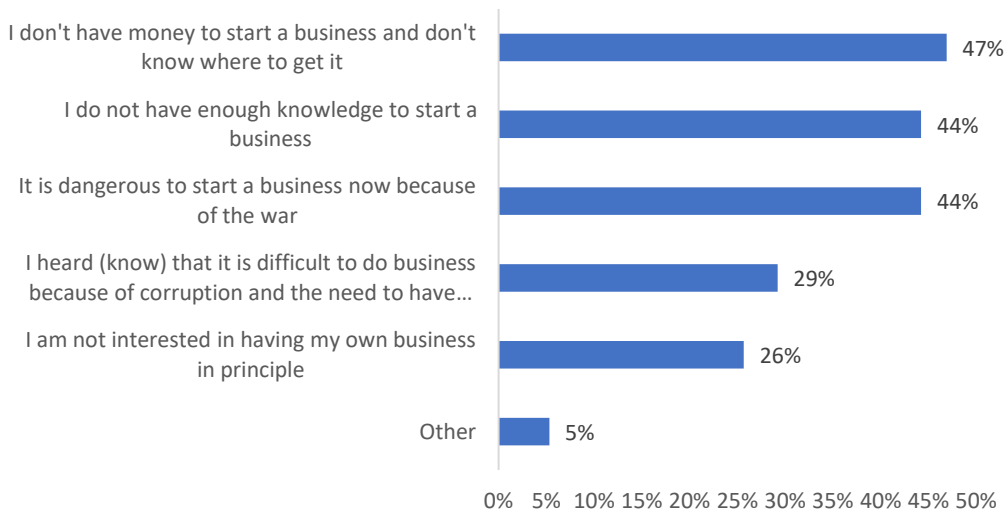
Answers to a direct question about the roles of entrepreneurship also indicate that most of the public surveyed positively perceives the role of entrepreneurship for the development of Ukraine today. 66% of respondents are completely positive about the role of entrepreneurship in Ukraine today, and another 23% are rather positive. Only 1% of respondents indicated a rather negative attitude. The rest cannot assess the role of entrepreneurship or have a neutral attitude (only 10% of respondents).

Figure 20. Would you do business in Ukraine now? (% of respondents)



The predominantly positive attitude of society towards entrepreneurs is also evidenced by the willingness of the majority of respondents to start their own business in Ukraine, if there was an opportunity to do so. 60% of respondents reported such a desire. At the same time, 31% of respondents are not ready to start a business. There is also a certain level of uncertainty, as 9% of respondents could not answer the question.

Figure 21. Reasons why people are not willing to launch business in Ukraine today.



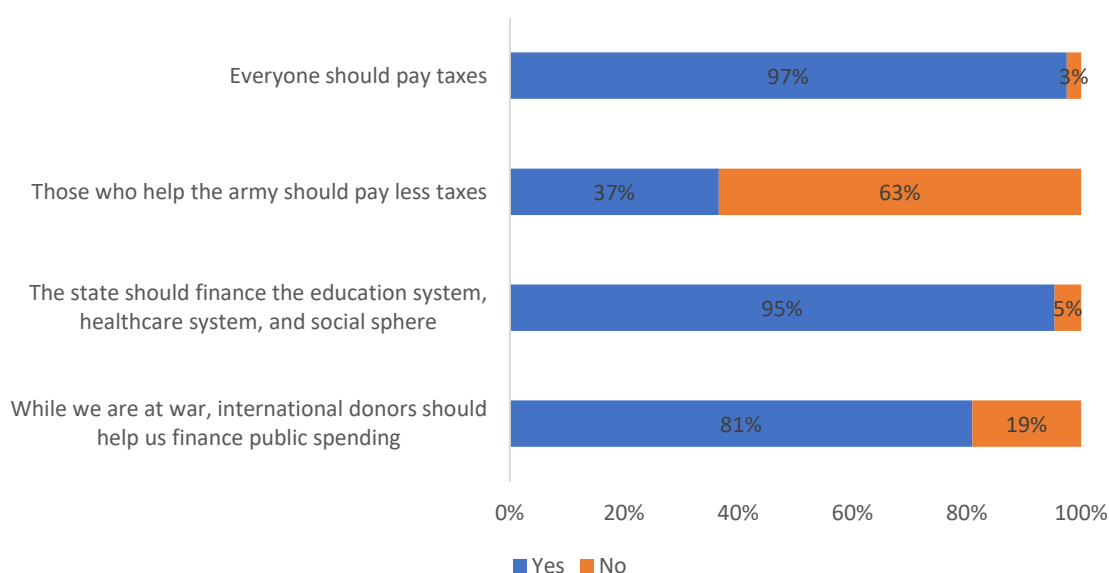
Conclusions: Both among business representatives and public, positive characteristics of people engaged in entrepreneurship prevail. Only a small part of society has negative associations with the word "entrepreneur". Business representatives characterize entrepreneurs as hardworking people with important knowledge and skills who make a profit. At the same time, public considered entrepreneurs primarily as self-confident individuals.

Medium-sized businesses and unscrupulous practices

Tax evasion

Traditionally, it is believed that in Ukraine enterprises are forced to avoid paying taxes. Therefore, respondents were asked to assess the level of tax payments today and in 2019 (the last year of the "peaceful" and "pre-COVID" year). According to the results obtained, today medium-sized businesses evade paying 22% of tax liabilities. At the same time, the situation has slightly worsened compared to 2019, when the corresponding figure was 17%. Thus, the new challenges of the COVID-19 pandemic and the full-scale war have slightly reduced the level of tax payments among medium-sized businesses.

Figure 22. Do respondents agree with statements about paying taxes and government spending (% of respondents)



Despite the high level of tax evasion, taxation is perceived by medium-sized businesses as an important obligation. 98% of respondents agree that everyone should pay taxes. It can also be concluded that paying taxes is perceived as an important duty to society. For example, 76% of medium-sized enterprises agree that it is necessary to pay taxes to earn respect before society. At the same time, 24% do not support such a thesis, which can be reflected in the results of tax evasion.

At the same time, it seems that for a significant part of business, paying taxes is only one of the elements of "responsibility to society". Only 37% of respondents agree that entrepreneurs who help the army should pay less taxes. That is, for 63% of respondents, assistance to the Armed Forces is a separate type of responsibility to society, which is not related to taxes. Such an attitude to tax liabilities can also be reflected in the vision of the social role of the state. 95% of respondents agree that the state should finance the education system, the health care system and the social sphere.

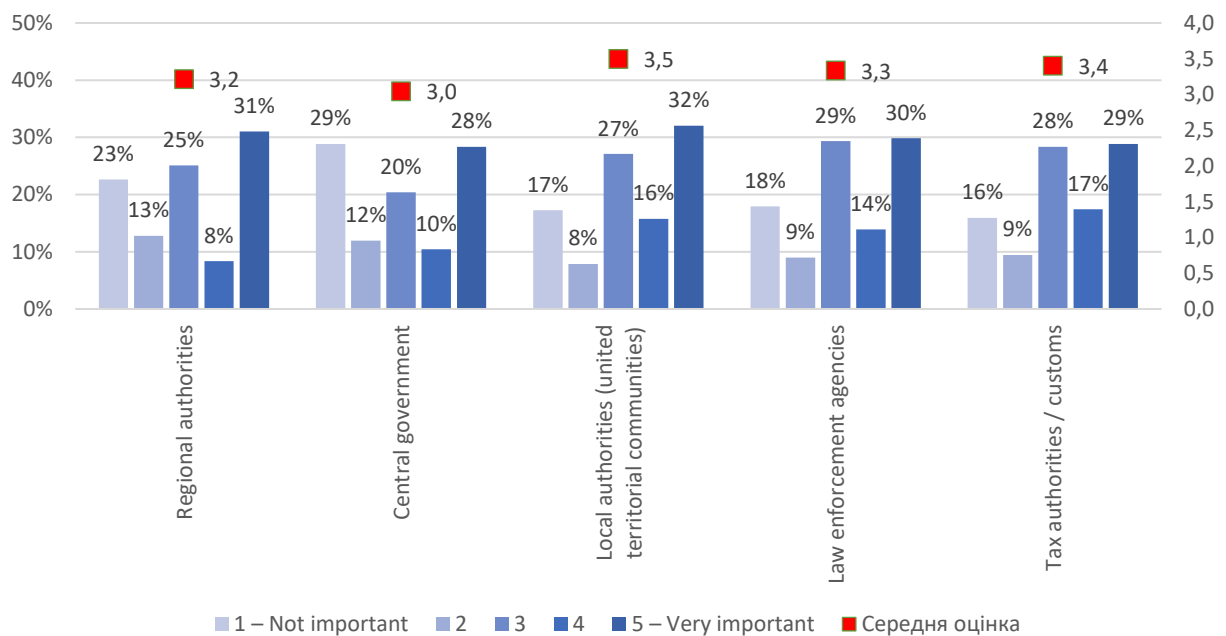
However, medium-sized businesses also understand that the taxes paid are not enough to finance public spending. According to 81% of respondents, international donors should help Ukraine while the country is at war. This clearly resonates with the results of in-depth interviews. Stakeholders often point out that

international aid is one of the driving forces for the survival of the state since the own forces of Ukrainian business are not enough.

Informal relations with the authorities

Traditionally, big business has been considered the main beneficiary of "friendship" with the authorities in Ukraine. The result of this was the creation of a significant layer of Ukrainian oligarchic business, which had a key influence on politics in Ukraine. Oligarchic parties used to play a key role in determining the rules of the game in economic policy. However, at a lower level, we can also talk about the use of such informal relations between government and business. At the level of regions, districts or individual cities, some medium-sized enterprises have a strong economic impact due to the creation of a significant number of jobs and the payment of taxes. As mentioned earlier, in some regions there are completely or almost no large enterprises (at least according to official statistics), and the economy is based on the work of medium-sized enterprises (which may actually be part of large regional business groups).

Figure 23. The importance of informal relationships with different authorities (average score on a scale from 1 – Not important to 5 – Very important)



As part of the study, medium-sized enterprises were asked to rate the importance of informal relationships with different authorities (average score on a scale from 1 – Not Important to 5 – Very Important). The results show that informal relations between officials remain relatively important for a significant part of business. Average assessments of the importance of such relations with various authorities range from 3.0 to 3.5 points.

According to medium-sized enterprises, the most important are the ties of businesses of their size with local authorities (amalgamated hromadas) – the average assessment of importance is 3.5 points. There is also a higher level of importance of relations with tax authorities/customs – 3.4 points. At the same time, the importance of other authorities is lower: law enforcement agencies – 3.3 points, regional authorities – 3.2 points. At the level of medium-sized enterprises, relations with the central government are the least important.

It should be noted that 28% of surveyed medium-sized enterprises indicate that links with central authorities are not important. This is the highest figure among all authorities. At the same time, this figure is only 16%

for the tax / customs, 17% – for local authorities (ATCs) and law enforcement agencies. In contrast, informal relations with local authorities (32%) and regional authorities (31%) are most often mentioned.

Is it appropriate to talk about the "oligarchy" of medium-sized businesses at the local level?? (interviews with stakeholders)

The term "oligarchy" usually refers to a group of individuals or organizations exercising significant control over a particular sector or industry. In the context of medium-sized businesses at the local level, the term "oligarchy" does not make sense to use since such enterprises are usually not as dominant as large corporations. However, a group of medium-sized enterprises can strongly influence a particular region or sector, especially if they control a significant part of the local economy or market. That is why we decided to ask the experts.

As part of in-depth interviews, respondents were asked to assess the issue of informal relations between medium-sized businesses and government. According to the hypothesis, medium-sized enterprises are sufficiently large business entities at the level of regions, districts, or individual cities, and, accordingly, can have a certain economic and political influence on the ground. Therefore, the respondents were able to answer the question of whether it is possible to talk about the so-called "oligarchy" or its features among medium-sized businesses at the local level. As a result, stakeholders are divided.

It is safe to say that the issue of oligarchs and political influence is primarily strongly associated with big business. As one of the business representatives pointed out, big business in Ukraine has always been oligarchic. At the same time, medium-sized businesses have always found themselves between a hammer and an anvil. Big business could come to an agreement with the authorities. In addition, to stop a large enterprise, the decision of the top officials of the state is required. According to another business representative, even to enter the foreign market, the support of various ministries is needed. In contrast, small businesses are simply not interesting for the authorities. Medium-sized businesses are exactly right remaining the main victim in order to "milk" it. At the same time, the third business representative noted that oligarchy does not depend on the size of enterprises at all, and there is also a large non-oligarchic business.

Some respondents categorically deny the idea that anyone other than big business can be called oligarchic. According to one of the experts, a considerable influence on the government is inherent only in large oligarchic businesses that once privatized large enterprises. And it is big business that is trying to influence the place and the central government. And such a business tries to hold its deputies and even parties. According to another respondent, oligarchs exercise political influence through the adoption of the necessary political decisions. that are beneficial to their business. At the same time, the use of contact with those who have power on the ground ("aunt head of the tax office", "uncle head of the regional court") is just a corruption story, abuse of office and corrupt business. At the same time, the respondent does not associate such a corrupt business with the history of medium-sized businesses in general.

Some of experts emphasize that at the state level, the relationship between business and government is more negative. The influence of a major oligarch as an economic player is much greater. In small communities, businesspeople have only limited influence. As one of the respondents noted, he does not know such enterprises that have at least regional media to spread their influence. And attempts to influence local authorities do not give grounds to call them oligarchs. According to another expert, various financial and industrial groups also operate at the regional level, which are big businesses that work through a number of small and medium-sized enterprises, but they have also not yet grown up to oligarchic influence at the state level.

However, some of respondents believe that medium-sized businesses in a city, even a small one of regional significance, may have political ties with local authorities, and therefore in a certain sense may well be oligarchic. At the same time, even at the village level, the owner of a single store, which is the center of the economic life of the settlement, is also in a certain sense an oligarch who is treated with respect by the authorities. According to the expert, "depending on the size of the settlement, respectively, the oligarchy may also vary." Another respondent drew parallels with Soviet times, when the heads of collective farms were "the king of God in their village councils." It is similar in scale to medium-sized businesses in the agricultural sector. And in fact, an analogous situation remains today as well, because "whoever is the main taxpayer is, as they say, the one who orders the waltz-baston." At the same time, according to the respondent, such a situation needs to be changed at the level of the state and at the level of the psychology of citizens. One of the interviewed experts notes that "on the ground, in the regions, if a person owns, say, a sufficient amount of money, then, of course, he will want to further follow Maslow's pyramid to self-determine, to express himself, so that everyone knows about it." That is, again, we are talking about the psychology of behavior of individual business representatives.

One of the business representatives points out that at the level of small towns, district centers, **one enterprise with up to 250 employees can really be of decisive importance for the city. Not only employees of the enterprise get jobs, but also employees of other businesses that sell products, transport them to other regions, etc.** In addition, it sometimes develops the accompanying social infrastructure, for example, kindergartens. According to the representative of the expert community. The government is forced to work with such medium-sized businesses on the ground, because it is necessary to solve socio-economic problems, such cooperation is greater than with small businesses. Therefore, quite conditionally, such businesspeople can be called oligarchs, but only within the framework of a territorial community, city, or town. As another respondent noted, "Perhaps in certain territories, yes, they can be considered some local oligarchs." At the same time, another business representative emphasizes that the attention of local authorities to such medium-sized enterprises is not an example of oligarchic influence. It's just that communities can first pay attention to the needs of such business, since they have more weight for the economy: "the damage to the community will be much greater if this enterprise is not heard." As we can see above, the results of the survey show that informal relations with local authorities are the most important for medium-sized enterprises.

In general, the examples provided by the respondents show that the features of oligarchic influence are isolated and cannot be associated with all medium-sized businesses. As one of the respondents noted, medium-sized enterprises at the regional level can indeed have an impact on decision-making, but they are not oligarchic.

One of the business representatives notes that **it is because of weakness that small and medium-sized businesses use corruption: "they are small and weak, they are very often forced to succumb to this temptation in this way to get out of the situation."** Even access to a room or the opening of a "booth on the street" is limited even due to the requirements of Prozorro. Accordingly, enterprises must either use corruption, because "this is a very simple way: You are for me, I am for you, everything is clear." The second way is "manipulation with knowledge, using a public organization or association." In contrast, big business invests money in making systemic decisions it has television, the press, speeches in parliament, and big business associations. At the same time, medium-sized businesses work through business associations, "as is customary throughout the civilized world, lobbying for their rather white interests." A medium-sized enterprise at the city level with a population of 100,000 is too shallow a story to compare with a large enterprise employing 3,000-5,000 employees. However, in fact, such a business can be formative for the village.

One of the interviewed experts stressed that the problem of oligarchizing has a deep history in the context of the development of the economy of independent Ukraine. 20-30 years ago, after privatization, the so-called red directors came into business, and this is probably where the oligarchic and criminal culture came from. **However, medium, and large businesses need to get out of this bubble and have a "new mindset". It is necessary to innovate and move away from the methods of non-economic competition.** In fact, we are talking about the conservatism of business behavior, which was mentioned above. According to one of the experts, there are entrepreneurs who are "strong managers" who "lobby their interests, try not to let strangers into their garden, everything is divided there."

Conclusions: The features of oligarchic influence are isolated and cannot be associated with all medium-sized businesses. Medium-sized enterprises at the level of a region or locality can indeed have an impact on decision-making, but they do not correspond to large oligarchic businesses.

6. MEDIUM-SIZED BUSINESSES AND MIDDLE CLASS

Economic Development, Medium Business, and Middle Class

As mentioned earlier, medium-sized businesses hold considerable importance in driving the economic progress of any country, and Ukraine is no different. Ukraine boasts a diverse landscape of medium-sized enterprises in their organizational structures. In this section, in collaboration with participants from our in-depth interviews and insights shared by experts, we will explore what defines a medium-sized business in Ukraine, particularly its economic and societal significance. When researching this subject, it becomes inevitable to consider the extent to which the "medium-sized business" concept corresponds with that of the "middle class."

The definition of "middle class" is one of the most ambiguous in the sociological and economic literature²⁷. Still, the most recent research tends to define the middle class based on "middle income"²⁸. Empirically, with this approach to defining the middle class, the latter will not always include medium-sized businesses. In this case, the middle class includes highly educated employees with a high-income level who are not part of a medium-sized business. On the other hand, entrepreneurs are business owners, whom we call medium-sized; in terms of their influence on social processes, they can belong to both the upper stratum of the middle class and the "upper class." Studies aimed at analyzing the middle class and economic development have found that there is a positive relationship between these two factors²⁹. In other words, the larger the middle class, the higher the economic growth rate. The key role here is played by the fact that part of the middle class is entrepreneurs. Entrepreneurial values, especially pronounced in the middle class, stimulate economic development.³⁰ The German Mittelstand holds a distinctive position, serving as a near-equivalent of the middle class regarding its impact on economic development and its role in shaping the liberal agenda.³¹

How middle-class and medium-sized businesses intersect in Ukraine and whether medium-sized businesses foster economic development are key inquiries in this chapter. Additionally, we will explore whether medium-sized businesses can embody the liberal values typically associated with the middle class. This section will delve into these queries to seek comprehensive answers.

What is the middle class in Ukraine?

As part of the study, respondents were asked to assess the role of medium-sized businesses in the formation of the middle class. To do this, stakeholders could first outline their own perceptions of the relevant group of people in the Ukrainian context.

For most respondents, the concept of middle class is primarily tied to the amount of income of an individual or an entire household. On average, the announced financial criteria range from 2 to 5 thousand US dollars. Although for some respondents, an income of 20 thousand per person is also the middle class. According to the respondents, representatives of the middle class can have comfortable living conditions, can "afford all basic and not only basic needs", "can go to the store and not really look at the price tags", financial and work autonomy, can invest and have passive income, buy real estate and cars. In the context of the war, the opinion was also voiced that the middle class has a financial cushion that "allows without minimal losses to relocate, for example, for a certain time, at least within the country, I mean, and not to feel a deterioration in the fundamental financial situation in that economy." At the same time, one of the experts notes that the middle class in today's realities of Ukraine are those people who stay afloat and have no debts.

²⁷ Graziano P.: Report The Middle Class and Social Cohesion

²⁸ OECD 2018: Under Pressure: The Squeezed Middle Class

²⁹ Graziano P.: Report The Middle Class and Social Cohesion

³⁰ Graziano P.: Report The Middle Class and Social Cohesion

³¹ The Federal German Industries (BDI) <http://surl.li/onhzm>

A number of stakeholders emphasize that the financial criterion is not enough to fully distinguish the middle class. In their opinion, the middle class is not about money, but about role in society. A representative of the middle class not only earns money, but also helps to develop his country in the process. In addition, values and criteria for intellectual development are important. According to one of the experts, the middle class "should be more progressive in terms of social responsibility, and, possibly, environmentally." Among other characteristics, such people "know how to distinguish information" and "find time to do something useful for society." The business representative stressed that the middle class is proactive and socially active people: "Most people with higher education, these are people with a proactive public position... That is, they are people of civil society, they are consumers of culture." Such people are the locomotive of the development of the state. Another expert was surprised that Ukrainian middle class considers itself as such only because of the size of its income, while representatives of the middle class should also have such traits as "aristocracy, patriotism." According to one of the experts, the middle class includes people with lower incomes, but with a certain job status, including public intellectuals, cultural figures, etc.

According to many respondents, there are few representatives of the middle class in Ukraine, or there is almost no middle class at all. One of the experts stressed that previously only 1% of the population of Ukraine self-identified themselves as middle class, and 64% considered themselves poor. The war only worsened the situation, causing a decline in living standards. In addition, part of the middle class simply moved abroad. Another of the respondents reports that there is almost no middle class in Ukraine, which is a problem for the state. According to one of the business representatives, "As soon as a powerful middle class appears in Ukraine, Ukraine will be a completely different state.

One of the experts notes that not only medium-sized businesses, but also the entire sector of small and medium-sized enterprises should be identified with the middle class. Individual entrepreneurs, owners of many private enterprises, etc., may all fall under the criteria of the middle class. In contrast, another expert noted that not all small businesses can be included in the middle class. As indicated, there are small businesses in Ukraine that earn more than the middle class, but all thanks to preferential tax instruments. In addition, in general, for all small businesses, this situation looks completely different. It is also obvious that the middle class includes some large businesses (mainly management), but large businesses also do not have the opportunity to pay large salaries to employees. However, again, medium-sized businesses are not only business representatives, but also representatives of the public sector, culture, and others. According to one of the experts, our middle class also includes the public sector, while our public sector is more powerful than in a number of European countries.

Most respondents agreed that medium-sized business can be one of the sources of formation of the middle class in modern Ukraine. Representatives of medium-sized businesses can fit well under the definition of the middle class, but we are talking primarily about owners and top managers with high salaries. It is important that ordinary employees of such a business cannot be attributed to the middle class, given the current low salaries. At the same time, the role of businesses of other sizes is no less important.

Conclusions: The concept of middle class is tied both to the amount of income of an individual or an entire household, and to its role in society. However, in Ukraine, the middle class is underdeveloped. Medium-sized business is one of the sources of the formation of the middle class in modern Ukraine.

[Is the medium-sized business a bearer of liberal values in Ukraine?](#)

A significant part of the respondents gave a positive answer to the question about the liberality of medium-sized businesses.

The participants of the focus group noted that small and medium-sized businesses should be considered as a carrier of relevant values. However, some respondents said that there are restrictions that prevent small businesses from being more liberal. For example, the problem of dependence - "some of them [small businesses], on the contrary, may be very dependent on the state, or on some other enterprises near which they are served." Another important idea is that with an increase in size, the company begins to think about broader things than the specifics of its own production - "small business, it is more focused on speed and maximum efficiency... The goal of medium-sized businesses... It goes a little beyond the material."

At the same time, the big one has its own set of obstacles that prevent it from being called liberal. First of all, they say that big business satisfies its status, and "too much liberalism, on the contrary, will create additional competition for it, which it wants to avoid by using some political influence there." Also, the conservatism of big business is explained by greater hierarchy and over-regulation.

Unlike small and large businesses, medium-sized businesses have a number of advantages that make them more liberal. Medium-sized businesses are often innovative and "usually self-made", which distinguishes them from older large businesses. At the same time, unlike small businesses, medium-sized businesses have enough information and resources to assess the environment around them and react. Respondents also note that "small and medium-sized businesses are inclined to freedom, to development, to the search for some new things. And these people very calmly perceive the free development of others, which is precisely a sign of liberal values, when a person sets not only his priorities as something that needs protection, but understands that the protection of the possibility of self-realization by as much of society as possible, the free development of a person, this is precisely the result of economic freedom, which is built through the development of medium-sized businesses as well... This is also the defense of liberal values, which are the essence of entrepreneurship as such, free enterprise, first of all."

However, most are hesitant to answer unequivocally positively, about the existence of a connection between medium-sized business and liberal values.

When it comes to responsibility and liberal values, age appears in different ways. On the one hand, companies at the beginning of their development may not yet be experienced - "small businesses, they probably do not all know what corporate social responsibility is... They already know a little about medium-sized businesses, and they are already starting to implement it. But on the other hand, liberal values are more inherent in younger companies, including due to the lack of Soviet upbringing - "which were created not so long ago, they are carriers of values, especially if we are talking about environmental values, values to meet the requirements of foreign markets now, including in the Ukrainian market... It depends on the age of the company, on the age of the same owners and managers... Soviet heritage... A lot of them are still imprisoned." Other factors are also mentioned, including the influence of the industry or the personality of the owner and his experience.

The impact of the war is also noted, both in the context of the fact that businesses created after the 14th year have a slightly different picture of the world, and the fact that "military actions were more aimed at ethical and social ones, reorienting these values."

A more negative assessment is given by those who talk about the situational nature of liberal views of business. There may be a discrepancy between what the business says to the outside and its culture of relations with employees or partners, also due to the fact that softness can be used by others. "Unfortunately, these liberal values, they manifest themselves when you need to solve some problem, when you need to defend some of your interests, and for it to be constant, consistent, unfortunately, this does not happen."

Sometimes they talk about how the concept itself is blurred, and that everyone has their own understanding of liberality. This is said both in the Ukrainian context, claiming that there is no common basic level of understanding, and in the global context, declaring a change in the very concepts of liberality/conservatism.

Also, although it is said that "many SMEs do not have a formalized vision of development", there are also theses that the absence of media coverage does not mean the absence of relevant considerations, because the presence of media is a matter of practicality.

As for the motivations and values that business articulates, there may also be protest - "If our state were fair, not corrupt, and the laws were strictly enforced, the law is the same for everyone. If someone is caught, imprisoned, law enforcement agencies work properly, the judicial system works properly, then in most enterprises it would be comfortable to work in such conditions. It is not the presence of rules that is a problem here, but the fact that for some these rules work, for others they do not, that is, the system is selective... They oppose the system..." As for participation in politics, there are also warnings and words about the need for professionalism, prudence and professionalism.

It is related to the question of the driving force, so a positive answer to the first often leads to a positive answer to this question as well.

Can medium-sized businesses become a driver of change?

Among those respondents who did not give an unequivocal affirmative answer, it is usually about what is not the driving force today, due to low representation or because now the issue of survival is more acute than the issue of development. "*Medium-sized businesses will get richer, and their number will increase, then their political influence will also grow,*" the respondents say.

Small enterprises can often be found in clusters, along with medium-sized ones. It is also really easier for small businesses to mobilize people to defend their own interests "*at a demonstration, going to the Verkhovna Rada, to the Office of the President.*" However, it is also easier for him to promise and not deliver, while as the size increases, it becomes more difficult to ignore the needs of the business. As for financial capacity, it is noted that small business is more about employment than state income.

At the same time, big business has the ability to lobby for certain norms, but often may not be interested in changes, which is discussed in more detail in the question of liberal business values.

Those who replied that medium-sized businesses are already a driving force for change noted its stability and competitiveness, and that it "*is probably the main source of jobs and innovation.*" It is noted that such drivers can be considered precisely unions and associations, in which an active role is played by medium-sized businesses, which look a little further than their own problems. Businesses of all sizes need cooperation, and attention to the medium can be justified by the fact that investments in it are more effective.

Positive answers are often about cases of successful promotion of changes by medium-sized business associations, and how they are able to self-organize when problems press. For example, in the issue of providing electricity during blackouts, "*small businesses, they rent premises somewhere in medium-sized ones, in large enterprises, in shopping centers, and so on, which most of them are already provided, with electricity, heat, and everything else. And for medium-sized businesses, these and other issues were problematic and remain problematic today. Then he begins to give his voice.*"

Although the ability of medium-sized businesses to amalgamate is assessed rather positively, it is noted that it is not united on a permanent basis, but only in cases where common problems begin to really press. With a specific goal and vision, medium-sized businesses are capable of self-organization. "*Medium-sized businesses, they still feel their potential, their horizon of development, scaling, and they are interested in changing the situation,*" they comment on the positive trends in the behavior of medium-sized businesses. It

is also noted that business often lacks personal contact with the authorities, and it is increasingly ready to take the initiative in finding appropriate connections.

A negative view of the possibility of change by medium-sized businesses sounds in the context of the fact that it is still quite individualistic, and must learn to trust and cooperate. Lack of trust in state institutions is widespread, but the level of business trust in associations remains questionable. More positive respondents also note the need to exchange useful experiences of cooperation and achievements, and to create mechanisms to support such exchanges.

The presence of liberal values is an important prerequisite that is addressed in the relevant question. One important remark was that it is the middle class that brings change, and medium-sized businesses can only contribute to this by shaping it.

CONCLUSIONS

Due to methodological peculiarities, the available official statistics ambiguously reflect the structure of Ukrainian business in terms of size. Despite this, all statistics confirm that medium-sized businesses are one of the pillars of the Ukrainian economy. According to official statistics, medium-sized businesses provide every fifth job and a third of added value. **The definition of medium-sized enterprises needs to be clarified and standardized in various legislative acts of Ukraine.**

At the heart of a medium-sized business is a business that is closer to a small business than to a large one in terms of the number of employees. However, medium-sized businesses primarily have a more developed management system, which sets them apart from small businesses. Among medium-sized businesses, the food industry, light industry, and mechanical engineering are of great importance.

Over the past two decades, a new private business sector has grown in Ukraine, despite economic crises and not always favorable business climate. The majority of medium-sized businesses (76%) are private enterprises that have never been state-owned, while in 2003 the majority were privatized state-owned enterprises (88%). Two-thirds of medium-sized enterprises have emerged as a result of growth from small businesses, confirming the organic growth of businesses in recent decades.

In 2023, more than half (55%) of small businesses did not want to expand to the size of medium-sized businesses. The top 5 main obstacles to the growth of small enterprises to medium size in 2023 and 2003 remained almost unchanged, but the ranking of obstacles has changed (low demand for products, fear of losing tax advantages ("simplified" system), lack of resources for investment and investment, limited access / high cost of credit resources, other accounting requirements). At the same time, the weight of the lack of information about the markets has quadrupled, and the low level of compliance with property rights has doubled, although these problems are on the last steps of the ranking of obstacles. It is noteworthy that complex administration on the general taxation system and accounting requirements have been an obstacle to the growth of small businesses to medium-sized ones for 20 years.

Over the past 20 years, the situation has not changed, and about two-thirds of businesses still report the prevalence of "splitting" schemes to minimize the tax burden. However, during this period, the share of small businesses that, in case of growth, intend to create new small businesses and sole proprietors, has decreased: the figure decreased from 22% in 2003 to 8% in 2023. The frequent use of such schemes hinders both the collection and analysis of statistical data and the transparent growth of small businesses to medium-sized ones.

During the full-scale invasion, medium-sized businesses showed a higher level of resilience compared to entities of other sizes. Medium-sized businesses (including manufacturing) can be a driver of recovery. **This emphasizes that it is necessary to take into account the potential and needs of medium-sized manufacturing businesses when planning the recovery and modernization of Ukraine. In addition, the realization of the potential for the growth of small businesses to medium-sized ones is important for the development of the Ukrainian defense industry.**

Medium-sized businesses experience a low level of optimism about the possibility of expanding production over the next 2 years, and also experience a high level of uncertainty. **The state and needs of medium-sized businesses should be sufficiently taken into account as part of the SME Recovery Strategy until 2027.**

Both among representatives of business and society as a whole, positive characteristics of people who are engaged in entrepreneurship prevail. Only a small part of society has negative associations with the word "entrepreneur". Business representatives mainly characterize entrepreneurs as hardworking people with important knowledge and skills who make a profit. At the same time, society sees entrepreneurs primarily as

self-confident individuals. More than half of the surveyed (54%) representatives of society believe that an entrepreneur is an active citizen, a driver of the country's development.

For most respondents, the concept of middle class is primarily tied to the amount of income of an individual or household. However, in Ukraine, the middle class is not only about money, but also about role in society. Medium-sized business can be one of the sources of formation of the middle class, which is lacking in Ukraine today. Some medium-sized businesses are carriers of liberal values and can be a driver of change in the country.

METHODOLOGY

Overall approach

1. Conducting desk research
 - a. analysis of literature on medium-sized business research in Ukraine,
 - b. Analysis of the Literary Relationship between the Concepts of "Middle Class" and "Medium Business" in Scientific Literature (Ukrainian and English)
 - c. analysis of legislation on the definition of medium-sized businesses in Ukraine and the EU
Based on the results of desk research, a review is prepared, which will serve as the basis for the preparation of the relevant section in the report
2. Preparation for the field stage. An important part of the research is the collection of data from direct stakeholders. In particular, these are:
 - a. representatives of medium-sized businesses (to find out the main obstacles, challenges and development plans, as well as the values of the orientations of this group)
 - b. representatives of small business (issues of growth, tax regimes, value orientations)
 - c. young people (to find out the attitude to entrepreneurship in general, small and medium-sized businesses)
 - d. Representatives of big business (for comparison)
 - e. Experts – analysts (to discuss the results of the survey, discuss the issue from the point of view of political economy)
 - f. Representatives of government and business environment

During the preparation of the field stage, the following was developed:

- Questionnaire for medium-sized enterprises
 - Questionnaire for small and large enterprises
 - Questionnaire for young people
 - A set of questions for experts
 - A set of questions for in-depth interviews
3. Conducting the field stage
 - a. Conducting a business survey (200 medium-sized enterprises) (telephone survey, conducted by the IER interview team)
 - b. Conducting a representative survey of the entire business (500+)b (telephone survey, conducted by the IER interview team)
 - c. Conducting an expert discussion (up to 10 experts, online)
 - d. Conducting in-depth interviews (up to 20) (conducted by IER staff, online or live)
 - e. Conducting a survey of young people (using the "snowball" method by sociology students undergoing internships at the IER)

Analysis of the data obtained and writing individual texts based on the results

In-depth interviews with stakeholders

In order to assess the place and role of medium-sized businesses in the economy of Ukraine, the IER conducted a survey of stakeholders using the method of in-depth interviews.

In-depth interviews were conducted with 22 respondents. The field phase of the study lasted from September 26 to November 3, 2023.

An in-depth interview is a qualitative method of public opinion research, which consists in the use of standardized tools (guide), which contains questions common to all respondents. At the same time, the guide leaves room for additional questions, clarifications, examples, and details from each individual respondent.

The advantage of in-depth interviews as a research method is the opportunity to study in detail the opinion of respondents, find out why they hold certain views and how they explain their opinion or actions. However, like other qualitative methods, the survey by the method of in-depth interviews does not ensure representativeness due to the insufficient number of respondents and does not provide an opportunity to make quantitative comparisons of the results obtained.

In order to ensure that there are different views on the situation in the field of culture and on the economic potential of this sphere, the IER selected respondents representing different stakeholders: representatives of business and business associations, civil servants at the national and regional levels, academics, experts on entrepreneurship development and representatives of civil society.

Sample of the medium-sized enterprises' survey

The field phase of the survey lasted from June 19 to July 14, 2023.

The largest share of the sample by sector (197 enterprises or 96%) was made up of industrial enterprises. Also, among the surveyed businesses there are representatives of agriculture (4 enterprises or 2% of the sample), trade (3 enterprises or 2% of the sample), the service sector and construction account for only 2 enterprises, that is, less than 1% of the total sample.

The surveyed companies are located in Vinnytsia, Volyn, Dnipropetrovsk, Zhytomyr, Zakarpattia, Zaporizhzhia, Ivano-Frankivsk, Kyiv, Kirovohrad, Lviv, Odesa, Poltava, Rivne, Sumy, Ternopil, Kharkiv, Khmelnytskyi, Cherkasy, Chernivtsi and Chernihiv regions and in the city of Kyiv. In each of these regions, there are from 1 to 19 surveyed enterprises.

The average age of the surveyed business representatives is 46 years. Most of the respondents have higher education (191 respondents or 93% of the sample), 14 people or 7% have specialized secondary education. On average, respondents have been working in their last position for about 10 years.

Public Survey Sampling

The field phase of data collection lasted in June and October 2023. A total of 364 representatives of society were interviewed.

Employees (45% of respondents) and students (25%) primarily represent the sample. Other groups of respondents include executives or managers (9%), self-employed (9%), civil servants (6%), pensioners (2%), military personnel of the Armed Forces of Ukraine and police officers (1%), as well as 2% of the unemployed.

Surveyed representatives of society live primarily in large cities (67%), as well as in medium-sized cities (21%), towns (6%) and villages or towns (6%).

The majority of respondents have higher education – 67% of respondents. Also, among the respondents there are 4% of candidates / doctors of sciences (PhDs), 12% of the, — graduates of vocational schools and 15% of respondents have only the level of school education received at that time.

Gender distribution: 58% female, 42% male. The average age of the respondents was 30 years.