



THE ROLE OF THE PRIVATE SECTOR AND BUSINESS IN THE DEVELOPMENT OF SMALL TOWNS (A CASE STUDY OF UKRAINE AND THE USA)

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Abstract. *The article explores the impact of the private sector and business on the socio-economic development of small towns, focusing on a comparative analysis of Ukraine and the United States. The aim of the study is to substantiate the role of small businesses in driving regional development by examining their contribution to economic growth and social cohesion in communities across both countries. The research employed general scientific methods of cognition, including analysis, synthesis, comparison, generalization, induction, deduction, and a systematic approach. The findings reveal that small businesses are a crucial factor in the socio-economic advancement of small towns, promoting not only economic activity but also job creation, local market development, and improved quality of life. In the US, small businesses represent nearly 99.9% of all enterprises, generate over 43.5% of GDP, and employ around 46% of the workforce. In Ukraine, small and medium-sized businesses make up 90% of the entrepreneurial sector and account for 72% of product sales within the national economy. These figures underline the importance of small enterprises as the foundation of national economies and as engines of local development. Ukrainian examples highlight the capacity of communities to initiate and implement business projects even with limited state support. Meanwhile, the American experience illustrates a comprehensive support system for small businesses at both local and national levels. The US case emphasizes the importance of integrating small businesses into strategic community management. For Ukraine, promising directions include the implementation of institutional mechanisms to support business, such as the establishment of development centers, improved access to finance, and strengthened partnerships among authorities, businesses, and communities. The practical significance of the study lies in the potential to adapt American institutional models of small business support to the Ukrainian context of local development.*

Keywords: *small business, community, development, entrepreneurship, comparative analysis.*

Introduction

In today's global economic environment, the development of small businesses has become increasingly important as a universal mechanism for ensuring sustainable growth, social mobility, and economic diversification. Empirical data confirm that small businesses are the most adaptable elements of the economic system, capable of responding swiftly to challenges and ensuring the national economy's flexibility and resilience in times of crisis. Heavy reliance on large corporations, given their capital concentration, market monopolization, and limited regional presence, introduces



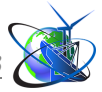
additional risks for both local communities and the nation as a whole. Therefore, actively encouraging small entrepreneurship – especially by engaging the population in self-employment – serves as a strategic alternative.

Promoting entrepreneurship among citizens not only helps reduce unemployment but also contributes to internal economic development by creating new production and service models tailored to local needs. Built on initiative, flexibility, and local awareness, small businesses form a foundation for social integration, expand the tax base, reduce regional disparities, and stimulate domestic demand. Consequently, government efforts to create a favorable environment for small entrepreneurship – through regulatory simplification, access to financing, tax incentives, and infrastructure support – should be viewed not merely as social policy but as a top priority in economic planning.

Focusing policy on unlocking the potential of self-employed citizens holds the key to building an economy that can withstand global shocks, with a dynamic employment structure and a higher degree of social cohesion. Small businesses are not just a path to individual prosperity but also a tool for collective development, making their support a long-term strategic necessity.

Literature Review

The role of the private sector and business in the development of small towns (based on the case of Ukraine and the USA) is mostly addressed in expert-oriented rather than academic literature, due to the applied nature of the topic and its close link to real economic processes. A publication on the USFCR Blog [1] examines large-scale USDA investments in small business support in the United States, while the Decentralization.ua platform [2] analyzes financial tools available to local authorities in Ukraine. DtKt.ua [3] provides insight into parliamentary hearings on challenges faced by SMEs in Ukraine, and the U.S. Chamber of Commerce (Melhorn et al., 2024) offers data on small business operations at the national level. Analytical content on Medium.com [6] and examples from Radiosvoboda.org [7] show how entrepreneurship transforms local communities. Forecasting materials from UIFuture [8] help assess future challenges, while JPMorgan Chase & Co. [9] provide in-depth statistics on small



business income in rural areas.

Despite the predominance of expert sources, the topic has also been addressed in academic research: C. White [10] conducted a case analysis of small town development strategies in the US; M. L. P. Medina et al. [4] identified key opportunities for small businesses in rural communities. These publications offer a valuable theoretical foundation for understanding regional development. Therefore, this study draws upon materials from USFCR Blog, Decentralization.ua, DtKt.ua, Radiosvoboda.org, Medium.com, UIFuture.org, U.S. Chamber of Commerce, JPMorgan Chase & Co., and academic sources from the South Florida Journal of Development and SPNHA Review. Despite the volume of available information, there is a clear lack of systematic comparative analysis. Accordingly, this study consolidates, organizes, and systematizes the material in accordance with the research topic.

Scientific novelty of the study: the research presents a comprehensive comparative analysis of small business development practices in small towns in Ukraine and the USA, with a particular focus on the potential integration of American experience into the administrative management systems of Ukrainian territorial communities.

Methodology and methods

The study applies general scientific methods of cognition, which enable a comprehensive approach to analyzing the influence of small business on the development of small towns in the context of Ukraine and the United States. In particular, analysis and synthesis methods are used to identify connections between entrepreneurial activity and socio-economic growth in communities; the comparative method serves to contrast business support practices in the two countries; inductive and deductive methods help formulate generalizations based on specific examples of local development; and the systematic approach allows for the assessment of small business as a component of the broader socio-economic structure. The study analyzes empirical case studies, statistical data, and regulatory frameworks, ensuring well-grounded conclusions and recommendations.



Purpose of the article

The aim of the article is to justify the impact of small business on regional development by analyzing its role in the economic and social advancement of local communities. In order to achieve this goal, the study will address the following tasks: highlight the significance of small business for the national economies of Ukraine and the USA; conduct a comparative analysis of the entrepreneurial ecosystems in both countries; examine successful community development practices using Ukrainian and American case studies; formulate conclusions regarding the potential adaptation of US experience to the administrative management of territorial development in Ukraine.

Research results

Local entrepreneurs play a pivotal role in the development of small towns in the United States by contributing to both economic stability and social cohesion. Their activities go beyond job creation and supporting local supply chains—they also shape a distinctive atmosphere that sets small towns apart from major urban centers. In many communities, business activity blends economic and social functions, with entrepreneurs often acting as opinion leaders, philanthropists, and agents of change [6].

The growth of business in small American towns offers several distinct advantages compared to larger urban areas. First and foremost, entrepreneurs benefit from:

1. lower living and business operating costs, which significantly reduce financial barriers at the startup stage;
2. close-knit social networks and a strong sense of community, which help build a stable customer base, trust, and long-term partnerships with suppliers and clients [4];
3. unique opportunities for tourism-based entrepreneurship that leverage local cultural heritage, natural resources, festivals, and historical landmarks. This creates space for launching hotels, restaurants, souvenir shops, and more, not only generating jobs but also stimulating related industries [4];
4. strong potential for agricultural enterprises due to access to fertile land and deep-rooted farming traditions. Additionally, there is a focus on meeting local needs—such as services for the elderly or medical care provision [4].



While small towns may have limited capital concentration, they still provide a favorable environment for small businesses. A combination of low operating costs, strong community support, access to both local and global markets, and the potential for unique, innovative business models makes them attractive places for entrepreneurship [4]. This pattern holds true across countries regardless of their development level-be it the United States or Ukraine.

Small-town business in the US has its own specific characteristics. It is largely represented by family-owned enterprises passed down through generations, becoming centers of stability and trust. Deeply embedded in the local context, these businesses have a keen understanding of customer needs and are well positioned to build lasting relationships with partners and consumers. They are typically agile and resilient, which is especially important in times of economic uncertainty [6].

Local restaurants that use regionally sourced ingredients help strengthen ties with the agricultural sector while also promoting environmental sustainability. At the same time, they often serve as cultural hubs that preserve local identity and boost tourism appeal [6].

Towns with a vibrant entrepreneurial ecosystem are more adaptive to external challenges such as economic downturns or demographic shifts. These communities show that entrepreneurship is not only a means of personal income but also a pathway to collective wellbeing, territorial identity development, and long-term growth [6].

Small businesses are essential to the US economy. They account for nearly 99.9% of all enterprises in the country, totaling over 33 million. They generate about 43.5% of the nation's gross domestic product-representing trillions of dollars in economic activity. Moreover, small businesses employ 45.9% of the American workforce, which equals more than 61 million people. Although most of these businesses operate without employees, those that do employ staff make up nearly half of the total US labor force. These businesses also offer competitive wages, averaging over \$63,000 annually. Therefore, small businesses not only contribute significantly to GDP growth but also serve as major employers and key drivers of the country's economic development [5].

According to statistical data, small and medium-sized businesses constitute 90%



of all enterprises in Ukraine and account for 72% of product sales within the national economy [3]. Business, particularly small and medium-sized enterprises, plays a fundamental role in the social development of local communities in Ukraine, creating not only economic but also social conditions that improve public wellbeing, reduce unemployment, and enhance quality of life. Small businesses in Ukraine are also important sources of innovation-driven economic growth. *Table 1* summarizes the areas in which socio-economic innovations influence the development of territorial communities.

Table 1 - Areas of socio-economic innovation impact on the development of territorial communities

Area	Essence of socio-economic innovation impact
1. Addressing social issues	Innovations target poverty reduction, inequality, improvements in healthcare and education, as well as responses to environmental challenges.
2. Stimulating economic growth	Innovations lead to the creation of new markets, products, and services, driving economic activity and momentum.
3. Ensuring equitable distribution of benefits	Innovations contribute to a fairer distribution of economic gains among different social groups.
4. Attracting investment	Innovative approaches help draw funding from private, public, and international sources.
5. Enhancing economic resilience	Innovations foster adaptive economies capable of responding to climate change, economic crises, and other global challenges.

Successful examples of territorial community development in Ukraine show that local businesses and entrepreneurial initiatives, supported by local authorities, have become real drivers of both economic and social uplift. In most cases, the development of small businesses – in agriculture, services, energy efficiency, or tourism – has laid the groundwork for community stabilization, increased income, job creation, and improved quality of life [7]. Let's take a look at several notable cases where the private sector and small businesses have contributed to the growth of entire communities.

In the Dunaivtsi community (Khmelnyskyi region), development began with the agricultural cooperative “Yahidnyi Ray,” founded by 43 local residents. Cultivating berries on municipal land using modern technology proved to be a successful agricultural enterprise model, providing stable employment, increasing yields (from 3



to 10 tons), and helping residents avoid labor migration. The community partnered by leasing land at a discounted rate, while local businesses supported the initiative with equipment and supplies [7].

In the Pokrovske community (Dnipropetrovsk region), success was driven by the development of the cooperative “Medok,” which specializes in honey production. By focusing on value-added processes such as processing, packaging, and branding, the community significantly boosted members’ incomes and expanded into new markets [7].

In the Baikovetska community (Ternopil region), a model of partnership between business, government, and the public helped grow the local budget fifteenfold. Local businesses, through tax contributions and participation in infrastructure and social projects, became a cornerstone of financial stability. A portion of the community’s revenue was allocated to social initiatives, improving residents’ quality of life [7].

In the Chuhuiv community (Kharkiv region), the energy service sector demonstrated effectiveness. Energy service contracts allowed for the modernization of heating systems in educational institutions, while local homeowners’ associations, operating as business entities in the housing management sector, joined the national “Enerhodim” program. As a result of the upgrades, annual energy cost savings exceeded 16% [7].

In the Novopskov community (Luhansk region), development was driven by an environmental initiative that also helped activate small local businesses in tourism and services. These were linked to organizing leisure activities, eco-events, and promoting local branding [7].

In the Avanhard community (Odesa region), a noteworthy example involves a youth initiative supporting businesses in the sports and recreation sector. The construction of skateparks – serving as infrastructure for both recreation and sports entrepreneurship – engaged the youth and enhanced the community’s appeal [7].

The Trostianets community (Sumy region) effectively responded to the COVID-19 pandemic by involving the local business sector in volunteer initiatives, logistics, and support for the medical infrastructure. While business development was not the



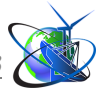
main focus here, the active involvement of local entrepreneurs in social projects underscored their ability to contribute to essential community processes [7].

The Novoborivska community (Zhytomyr region) demonstrated synergy between healthcare services and tourism. The medical sector featured quality outpatient services, while tourism centered around the “Weekend in the heart of Zhytomyr region” route. This created a foundation for local small business growth in hospitality, retail, and food service sectors [7].

In summary, the development of small businesses in territorial communities—in agriculture, energy services, tourism, sports, and social services—has become one of the key mechanisms not only for enhancing economic capacity but also for promoting social cohesion, infrastructure modernization, and population retention within the country. The success of communities that support local initiative and foster an enabling environment for entrepreneurship provides practical evidence of the effectiveness of decentralization.

Case analysis from small towns in the United States – Ord (Nebraska), Mitchell (South Dakota), Davidson (North Carolina), and Clinton (New Jersey) – offers a comprehensive conclusion about the role of business as a catalyst for local development. These success stories show that a critical factor is the community’s ability to integrate entrepreneurial activity into a strategic vision for the future, relying on local resources, human capital, and institutional capacity. Each community adopted a comprehensive development model grounded in business support through institutional mechanisms such as economic development offices and municipal business assistance programs. Zero-interest loans, tax incentives, educational support, and professional guidance served as key tools for activating grassroots economic initiative [10].

Ord, Nebraska implemented a successful revitalization strategy by supporting entrepreneurship and local investment. The establishment of an economic development office funded through a local tax enabled the provision of loans, grants, and business consulting. Active participation from schools and leadership programs helped promote youth entrepreneurship. The result was the creation of over 100 new businesses and



350 jobs.

Mitchell, South Dakota focused on technological advancement and education-business partnerships. Investments in telecom infrastructure and institutions like the Mitchell Technical Institute attracted new IT and medical companies. Local universities and businesses formed a pipeline of education and employment, helping retain young professionals in the community.

Davidson, North Carolina adopted “smart growth” strategies and urban preservation, emphasizing quality of life and collaborative community-led development. Business growth aligned with public policies, supporting stable and sustainable economic expansion.

Clinton, New Jersey leveraged its geographic proximity to metropolitan areas, educational infrastructure, and regional collaboration (via the 78/22 coalition) to support business. The town functions as a business incubator for remote workers and entrepreneurs, focusing on work-life balance, innovation, and sustainable development [10].

The Rural Energy for America Program (REAP) is among the most widely used federal initiatives for rural communities. The U.S. Department of Agriculture (USDA) plans to invest over \$1 billion in grants and loan financing throughout 2023 and 2024. With five grant rounds still available, there are numerous opportunities for businesses to apply. If your team is interested in participating, now is the time to evaluate how your facilities could benefit from upgrades through energy-efficient technologies. At USFCR (U.S. Federal Contractor Registration), we have already worked with many applicants since the program’s inception and look forward to continuing our support for rural farmers and businesses as they invest in themselves and their communities [1].

With the rise of e-commerce and remote work opportunities, entrepreneurs in small towns can now bring their products and services to a global market without leaving their local communities. Sectors with particular potential include the creative industries (such as design, IT, and content production) and niche manufacturing – for example, artisanal goods or specialty food products [4].



At present, Ukrainian businesses operate in a highly turbulent environment shaped by internal socio-economic factors and external geopolitical challenges [8]. One of the most pressing issues during wartime is the labor shortage caused by large-scale population migration and military mobilization. This leads to increased labor costs, which, while beneficial for workers, also drive up business expenses and reduce competitiveness—especially amid limited access to affordable credit and rising energy prices. Coupled with inflationary pressures, wage growth also becomes a pro-inflationary factor that prompts the National Bank of Ukraine to implement tighter monetary policy, further complicating access to loans for small and medium-sized enterprises [8].

Additionally, rising tax burdens, combined with uncertainty around the volume and timing of international aid, present further fiscal risks for businesses. Some enterprises are forced to turn to informal practices, which negatively affects both the transparency of the economic environment and the revenue streams of local budgets – the primary source of funding for territorial development strategies.

Despite a shared understanding of the importance of business as a driver of socio-economic growth, the Ukrainian and American models of supporting small enterprises at the local level differ significantly in implementation. In Ukraine, entrepreneurial activity often stems from civic initiative and self-organization. Despite limited government support, such efforts have led to positive transformations within communities. Several territorial communities have used local business projects in agriculture, energy efficiency, and tourism to stabilize their socio-economic environments. These successful examples demonstrate that even under conditions of extreme volatility – due to war, internal imbalances, and demographic decline – small enterprises can develop viable models by fostering horizontal connections between businesses, civil society, and local authorities.

The city of Lviv is a notable case. The local administration has systematically supported small businesses through partnerships, local branding, and spatial planning aimed at stimulating entrepreneurial activity. Special attention has been given to supporting war veterans, facilitating their reintegration into the economy and laying



the foundation for new entrepreneurial initiatives. The successful implementation of such programs in Lviv and its surrounding region has contributed to stable socio-economic development, particularly in rural areas. Key development priorities include investment in agriculture, creative industries, organic farming, tourism, digital technology, expanded internet access, and e-health services [2]. These efforts promote economic diversification, reduce dependence on traditional industries, and strengthen the economic self-sufficiency of communities.

The legal framework in Ukraine also enables entrepreneurial support: local governments are authorized to initiate and implement financial assistance programs for businesses, including non-repayable grants, voucher-based support, co-financing, and interest rate compensation schemes [2]. These tools, codified in the Law of Ukraine “On Development and State Support of Small and Medium Enterprises”, grant communities real authority to foster an entrepreneurial environment [2].

However, institutionalized state support for business in Ukraine remains generally limited, which hampers the scaling of positive practices.

In contrast, in the United States, public and municipal support plays a leading role in creating favorable conditions for small entrepreneurship. Local initiatives are often quickly taken up by government agencies that provide regulatory, financial, and advisory support. This is clearly seen in towns like Ord, Mitchell, Davidson, and Clinton, where communities have implemented comprehensive economic development models using specialized business support offices, interest-free loan systems, leadership programs, educational partnerships, and strategic planning tools. Federal programs, particularly in the field of energy efficiency, allow significant resources to be directed toward innovation in rural regions. These approaches ensure that entrepreneurship is integrated into long-term development strategies, with local businesses seen not only as economic agents but also as drivers of social change. The US administrative system therefore offers a strong institutional foundation that not only responds to grassroots initiatives but also actively fosters and scales them across regions.

The comparative analysis shows that the key advantage of the American approach



lies in its high level of institutionalized entrepreneurial support, which significantly reduces risks and enhances the predictability of the business environment. In contrast, the development of small businesses in Ukraine is often spontaneous, yet it demonstrates substantial potential to mobilize internal resources and social capital. Addressing the institutional asymmetry between the state and the business sector in Ukraine could pave the way for broader and more sustainable local economic development, which is particularly relevant in the context of post-war recovery.

Conclusions

Small businesses are a critical factor in the socio-economic development of small towns, supporting not only economic activity but also employment, the growth of local markets, and improvements in quality of life. In the United States, small businesses make up nearly 99.9% of all enterprises, generate over 43.5% of GDP, and employ more than 61 million people – about 45.9% of the workforce. In Ukraine, small and medium-sized enterprises account for 90% of all businesses and contribute 72% of national product sales. These figures highlight the fundamental role of entrepreneurship in the economic structures of both countries, underscoring its importance for local development.

Ukraine's experience proves that small businesses are not only a source of income but also a driver of innovative transformation in territorial communities. Even in the absence of systematic state support, communities have shown the ability to independently initiate and implement long-term entrepreneurial projects. In Dunaivtsi (Khmelnyskyi region), development is based on an agricultural cooperative; in Pokrovske (Dnipropetrovsk region), on honey processing; in Chuhuiv (Kharkiv region), on energy services; and in Novopskov (Luhansk region), on eco-tourism. Each of these examples confirms that local initiatives in agriculture, tourism, energy efficiency, and the creative economy have formed the foundation for sustainable development, social cohesion, and infrastructure modernization.

Unlike Ukraine, the US provides systematic and targeted support for small businesses. Local governments in cities like Ord, Mitchell, Davidson, and Clinton actively implement institutional support mechanisms—establishing economic



development offices, offering interest-free loans, running municipal grant programs, supporting vocational education, and engaging youth in entrepreneurship. Federal programs, particularly in energy efficiency, allow for the scaling of business initiatives at the national level. This experience illustrates the importance of integrating entrepreneurship into communities' strategic visions. For Ukraine, it would be beneficial to adopt institutional models of small business support, including the creation of local entrepreneurship development centers, expanding access to financing, involving businesses in development strategies, and strengthening partnerships between government, business, and civil society.

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