

Institutional space of sustainable development: Structure, motives, and conditions of development in Ukraine

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Abstract. The massive destructive processes and security challenges faced by Ukraine in defending its right to choose a development model have heightened the problem of defining institutional conditions for the structural transformation of the economy and aligning its parameters with sustainable development priorities. The purpose of this study was to model scenarios for the development of the business environment under various types of institutional structures and to determine the possibility of creating an institutional basis for Ukraine's sustainable development in the face of global security challenges. The study was based on the conceptual framework of the institutional environment. The study identified institutional gaps in the business environment that distort the motivational foundation of Ukraine's sustainable development concept and lead to the dominance of corrupt elements in the decisions and actions of economic actors. The consequences of the influence of extractive institutional factors on the choice of behaviour strategies by economic entities were systematised. The study characterised the differences in the impact of extractive and inclusive institutions on economic processes. Using the motivation vectors of business representatives, government authorities, and the public, scenarios for the development of the business environment were modelled, and their results were presented from the perspective of sustainable development goals. The concept of developing an environment of "entrepreneurial inclusivity" as an institutional basis for sustainable

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development was conceptualised, emphasising its role as a stimulator of proactive and effective innovative activities. The goals of developing innovative infrastructure were defined as a set of institutions of collective action that enable the reduction of risks in the innovative activities of enterprises and enhance their efficiency. The conditions under which the business community will be motivated to develop such institutions were identified. The role of civil organisations in institutional change processes and the development of institutions of collective action was emphasised. The findings of this study have practical significance for shaping the institutional mechanism to implement innovation and technological structural shifts in Ukraine's economy in the context of sustainable development goals during its post-war revival

Keywords: extractive institutions; inclusive institutions; entrepreneurial inclusivity; scenarios of economic behaviour; innovative infrastructure; structural changes in the economy

Introduction

The concept of sustainability preservation has become a priority for most economically advanced countries that have solidified their positions in global markets, amassed considerable resource potential, and primarily view progress through the lens of enhancing the quality of life and the activities of most society members. At the same time, countries that do not belong to the “golden billion” strive to improve their position in the global distribution of labour, resources, and civilisation's benefits. One of the ways to achieve progress is to implement structural shifts in national economies, considering global technological trends and accumulated economic potential. This process is quite complex, requiring an in-depth analysis not only of the strategic development perspectives of the economy in new structural contours but also the identification of necessary institutional conditions to minimise the risks of the transitional period and achieve better competitive positions in pursuing sustainable development goals.

This is crucial for Ukraine, whose economy has been characterised by predominantly raw material export orientation with a low level of added value for many years. Clearly, its post-war recovery will not occur in the previous format. Radical structural changes are necessary, which, on the one hand, would compensate for the losses of economic potential through the development of more technological sectors, and on the other hand, would eliminate the monopoly control in areas that determine the level of national security. The predominance of economic egoism among powerful business players hinders the achievement of maximum social benefit from the activities of their business structures. Overcoming this egoism in a market economy is only possible through institutional regulation. Institutional factors are now unquestionably recognised as determinants of scenarios and dynamics in the development of national economies. Therefore, when developing vectors for institutional changes and forming mechanisms for ensuring compliance with formalised institutions defined in relevant laws, it is important to align the institutional environment with the country's strategic development goals. The relevance of these issues is not only for Ukraine but also for the global economic community, and it has shaped the goals, tasks, structure, and content of this study.

The impact of institutions on the development of societies and economies is a subject of scientific interest for many contemporary researchers, as world history provides rich material for this purpose. In the context of forming institutional conditions to achieve sustainable development goals, research by D. Acemoglu and J. Robinson (2012) is valuable. By analysing the institutional environment of many countries, the researchers identified a connection between the dominant type of institutions in this structure and the

pace of economic growth. Their study concluded that economic institutions, by their nature, can serve various roles (regulatory-constraining or motivating), providing a basis for their typological division into extractive and inclusive. D. Acemoglu and J. Robinson (2012) discovered a pattern: countries with a prevalence of inclusive institutions in the legislative regulation of economic processes achieve higher rates of economic growth.

The concept proposed by D. Acemoglu and J. Robinson (2012) has gained widespread academic recognition and has become the basis for analysing the quality of various institutions of public governance. For instance, I. Asei (2018) relied on it to analyse the reasons and identification of accelerators of economic development in Japan and China. When assessing the effectiveness of institutional means of economic development management, M. Zhang *et al.* (2023) placed particular emphasis on incorporating safeguards against corrupt activities of officials into these institutions. The institutional nature of corruption is unquestionable, and its prevalence in various spheres of human activity reduces the effectiveness of regulatory norms and mechanisms in the country's institutional field.

Such a conclusion was drawn, for example, by S. Pyatska-Ustych (2018), indicating that the high level of corruption in Ukraine has formed a kind of “corruption trap” hindering the development of entrepreneurial activity. V. Blikhar *et al.* (2022), examining the level of corruption in EU countries and comparing their manifestations with the reality of Ukraine, noted that for Ukraine to join this European community, it is necessary to significantly strengthen the fight against illegal activity schemes.

Moreover, corrupt schemes are most widespread in the domain of state interaction with entrepreneurs, substantially exacerbating the operation of small and medium-sized businesses. Corruption risks particularly affect the dynamic capabilities of small and medium-sized businesses, washing away resources that could be invested in scaling the business or its development through the implementation of innovative projects. This contradicts the sustainable development goals, which declare the interconnectedness of economic, social, and environmental priorities in all their complexity. Such interconnectedness is recognised as a defining feature of sustainability. Therefore, in recent times, an increasing number of researchers have been considering the concept of inclusive growth in the context of achieving sustainable development goals. Thus, A. Uniyat and Z. Yuzvin (2019) emphasised the need to involve as many layers of the population in entrepreneurial activity as possible, operating with the concept of “inclusive economy”. S. Didukh (2020) uses the term “inclusive development” for the same purpose.

The purpose of this study was to outline the contours and model scenarios of business environment development under diverse types of institutional structures and to identify possibilities for creating an institutional foundation for Ukraine's sustainable development in the face of global security challenges.

Literature review

In the scientific literature, the terms “inclusiveness” and “inclusive development” are mostly used concerning the unhindered fulfilment of opportunities for individuals of different race, physical characteristics, gender, ethnicity, income levels, etc. Specifically, this perspective defines the Inclusive Development Index (Menendian *et al.*, 2021). Many researchers emphasise the need for state support for social entrepreneurship from this perspective, highlighting its significance for the harmonious development of society (Schin *et al.*, 2023).

Such focus solely on this understanding of inclusion is debatable. While it aligns with the goals of sustainable development (promoting social progress), it narrows the scope of research to the analysis of human resource structures and does not provide analytical material for addressing the issue of designing progressive structural changes sector by sector. Such changes should enhance the national economy's ability to increase the complexity of its production, adding greater value, and forming competitive advantages for global markets. This increases the country's participation in international trade of high-margin goods and services, economically supporting the achievement of other sustainable development goals – both social and environmental (Zamazi *et al.*, 2021).

Tax instruments can play a pivotal role in facilitating structural changes that stimulate development through innovation. This emphasis is highlighted by L. Buiak *et al.* (2020), T. Gross and P. Klein (2022). D. Stoilova (2017) also points out the expediency and priority of tax regulation for economic growth, aiming to incentivise capital flow into sectors driving technological change trends. Numerous researchers from various countries have undertaken the task of examining the impact of economic institutions on the dynamics of economic growth. E. Liko and L. Shahini (2023) synthesised studies spanning from 2008 to 2022 across 24 European and Asian countries. Notably, their research delves into global processes associated with the financial crisis and the repercussions of COVID-19 pandemic. E. Liko and L. Shahini (2023) narrowed the focus of economic institutions to those related to taxation, whether direct or indirect. In their conclusions, they highlighted the positive impact of tax policies on economic growth. These findings are crucial in the context of optimising tax instruments concerning the balance between extractive and inclusive institutions, especially considering the significant variations in tax policies across the studied countries based on their levels of economic development.

Specific aspects of using institutional influence for implementing structural changes in line with defined priorities can be found in the studies of Ukrainian researchers. Thus, P. Putsenteilo *et al.* (2020), emphasising the crucial role of agriculture in Ukraine's economy, analysed the institutional framework of this market segment. The researchers highlighted the need to develop criteria for assessing the effectiveness of economic institutions in terms of their motivating

(regulatory) power on market participants' behaviour. However, their recommendations primarily concern the agrarian sector of the economy and do not focus on the effects of extractive and inclusive institutions on the processes of structural change that align with the goals of sustainable development. These changes relate to both the structure of the consumer market and the ways agricultural products are presented, collectively affecting economic efficiency, and influencing farmers' decisions regarding business development and diversification. Therefore, institutional support for agribusiness development should be multifaceted and balanced based on criteria of synergy in creating consumer value (Stadnyk *et al.*, 2020).

I. Zvarych and O. Zvarych (2021) set the task of forming the institutional foundations of an innovative model for the development of the national economy at the regional level. However, the researchers considered institutions not in terms of rules of economic behaviour but as organisations that contribute to the implementation of the state's strategic priorities. Specifically, in terms of increasing the level of innovation in the results of economic activities, the researchers focused on the development of innovation infrastructure. I. Zvarych and O. Zvarych (2021) noted the need to accommodate the resource specifics of regions and considered several types of innovation systems that could be useful considering this specificity. These findings are valuable in terms of determining ways to increase the rationality of structural changes at the regional level – their implementation will contribute to improving the efficiency of innovation activities and better utilisation of the resource potential of regions. Therewith, to build and operate such innovative systems, it is vital to create relevant organisational and economic conditions that will promote the implementation of inclusivity principles.

In this context, research by the Institute for Economics and Forecasting of the National Academy of Sciences of Ukraine deserves attention (Bobukh *et al.*, 2020; 2022). The purpose of the cited study was to substantiate the institutional changes necessary to improve the structure of the national economy, identify groups of extractive and inclusive institutions in Ukraine's institutional field. The researchers acknowledged the problem of preserving an extractive economic structure, which carries significant corruption risks, and identified key areas for increasing its inclusivity. Recommendations were made for improving state structural policy using an institutional approach. However, their recommendations primarily relate to the pre-war economy. The current state of Ukraine's economy has dramatically deteriorated, with extensive damage to the industrial sector, transportation, and energy infrastructure, substantial loss of the country's intellectual potential, and more than a third of the productive results of economic activity. Furthermore, changes have been introduced to the institutional field, aimed at accumulating resources for defence needs, which enhance its extractive nature, fail to stimulate entrepreneurial initiative, and expand the opportunities for corrupt schemes. This, alongside physical destruction, threatens the stability of the national economy, its ability to sustain life and development. The danger of preserving the dominant role of extractive institutions in Ukraine's institutional field in the post-war period requires further investigation to develop ways to eliminate it. This defined the purpose of current study.

Materials and methods

The theoretical and methodological foundation of this study is based on institutional economic theory, particularly the concept of the institutional environment proposed by D. Acemoglu and J. Robinson (2012). The methodology of this study relied on researchers' findings regarding the impact of a country's institutional structure (the balance between extractive and inclusive institutions) on its economic dynamics. To further develop this conclusion in the context of ensuring economic stability amid destructive structural changes, the study employed scientific approaches from the theory of the entrepreneurial society and the theory of value. The research hypothesis was as follows: To achieve the post-war revival of Ukraine's economy on the principles of sustainable development, an institutional environment of "entrepreneurial inclusivity" must be established. To identify the characteristics of this environment, the conditions, and processes of its development, the following methods were employed. Institutional analysis – to identify the primary gaps in Ukraine's institutional environment that distort the motivational influences on economic actors, thereby hindering the achievement of sustainable development goals. Graphical modelling – to determine scenarios for the development of the business environment under different types of institutional structures. Analysis, synthesis, a systemic approach, and scientific abstraction – to formulate the concept of the "entrepreneurial inclusivity" environment as the institutional foundation for Ukraine's economic sustainability during a period of global security challenges.

The official statistical reporting (State Statistics Service of Ukraine, 2023; *The shadow economy...*, n.d.) served as the statistical basis for the thesis on the need for substantiated changes in the institutional field of economic activity from the standpoint of their compliance with the sustainable development goals of Ukraine. The material framework of the study included the analysis of a series of adopted laws and regulations of the Government of Ukraine. Specifically, the analysis of changes in the current legislation of Ukraine regarding the terms of registration (correction) of tax invoices in the Unified Register (ERPN) (Law of Ukraine No. 2260-IX, 2022) helped it possible to illustrate their negative impact on economic activity. Their implementation sharply worsened the regulation of these processes and led to the freezing of significant business funds. This caused a massive increase in court appeals by entrepreneurs to unblock activities and necessitated additional legislative adjustment of these processes (Resolution of the Cabinet of Ministers of Ukraine No. 1428, 2022). To assess the potential ability of state institutions to provide significant economic preferences to business entities in priority sectors for the sustainable development of Ukraine, the legal framework for the functioning of industrial parks formed in 2021-2022 was analysed (Law of Ukraine No. 1710-XX, 2021; Law of Ukraine No. 2330-IX, 2022; Law of Ukraine No. 2331-IX, 2022). This gave reason to claim that the state has taken justified steps towards increasing the level of inclusiveness of the business environment, since the preferences fixed in the package of institutional support for the activities of participants of industrial parks allow expanding the circle of industrial producers at the expense of small and medium-sized businesses that have limited investment resources.

Results and discussion

D. North (1990) emphasised the need for institutional regulation of economic processes in a market economy. The researcher noted that institutions, comprising formal and informal norms and rules of social behaviour, serve as the environment for economic laws to manifest. He underscored that economic policy of a state is expressed through institutions and recommended considering their regulatory capabilities when substantiating institutional changes in countries with transitional economies. Considering the sustainable development goals, D. North's (1990) recommendations can be interpreted as the necessity to create a suitable institutional environment within a country. From the standpoint of the cumulative motivational vectors of institutions and their influence, this environment should be conducive to the achievement of sustainable development goals. Robust institutional support should also be provided to sectors crucial for ensuring the competitiveness of the national economy.

Unfortunately, the process of institutional change in Ukraine occurred without a clear understanding of the connection between legislative instruments governing economic activity and the overall socio-economic development outcomes. The institutions were formed under the powerful lobbying of the interests of economic players who could utilise specific leverage over authorities to create preferences for affiliated business structures. Such preferences were embedded in certain laws or subordinate regulations, forming the basis for unequal resource exchanges in economic processes (extractive institutions) (Acemoglu & Robinson, 2012).

Extractive institutions are "designed to extract incomes and resources from one group of people to benefit another" (Acemoglu & Robinson, 2012). Often, they relate to systems of licensing, taxation, and transfer pricing, where corresponding preferences can be established. This creates conditions for certain economic agents to appropriate maximum income from the utilisation of limited natural resources. Additionally, the application of some laws may contain reservations (e.g., restricted access to e-declarations of government officials), making it challenging for society to effectively monitor their activities and giving rise to corrupt practices.

Inclusive economic institutions "encourage large numbers of people to participate in economic activities" (Acemoglu & Robinson, 2012). From the definitions provided by researchers, three crucial conditions that motivate economic activity emerge: "respect for private property, an unbiased legal system, and the provision of public services to create a competitive environment where individuals can exchange and contract" (Acemoglu & Robinson, 2012). Institutions protecting private property in conjunction with an impartial judicial system stimulate asset accumulation and business development. Meanwhile, institutions limiting monopoly rights in rent-seeking businesses, combined with a simplified regulatory framework for small and medium-sized enterprises, create an environment of competition for resources and markets. This enhances the utilisation of the country's resource potential and increases the capacity to generate added value within the national economy.

However, market reforms in Ukraine were accompanied by the fusion of political power and capital, leading to the emergence of business players whose interests shaped the institutional landscape. This resulted in the monopolisation of resource utilisation in the country in favour of the least efficient technological segments (with minimal added value).

Additionally, the changing of political elites only worsened the legislative situation, as the legislative field was reconstructed in favour of new players. Consequently, with each iteration of power, new institutional gaps appeared. This amplified the extractive nature of regulatory norms in favour of selected business groups rather than the broader society. Moreover, shortcomings in enforcement (where there is almost no accountability for the outcomes of decisions made by regulatory authorities) continue to motivate public officials to create corrupt schemes, further diversifying their means of extracting additional streams of economic results.

The mentioned phenomena and processes illustrate the deliberate and incentivised formation of corrupt schemes at the legislative level. Combating them can only be achieved through introducing necessary institutional changes to laws and other regulations, requiring significant efforts and time to overcome legislative opportunism. Therewith, corrupt schemes are caused not only by the imperfections of the legal framework for economic activities or its intentional distortion in favour of certain individuals. Much more manifestations of corruption are observed in the implementation of regulatory functions of public administration – due to inadequate incentives and punishments for unlawful actions in the “state-business” relationship. According to M. Kopytko *et al.* (2022), during 2019-2021, considerably less than half of the officials accused of corrupt acts received confirmation of their guilt in the court process and were convicted.

A. Abramova *et al.* (2022) considered the improvement of regulatory policy as an effective means of combating corruption – both by ensuring the stability of taxation conditions and by differentiating tax rates and limiting their maximum value to 30%. At the same time, researchers also suggest improving the system of tax regulation, striving for its maximum depersonalisation through digitalisation. Such recommendations are sound and extremely relevant considering the urgent need to intensify economic activity in Ukraine so that the economy can sustain the burden of military expenditures. However, changes in the regulatory mechanism must be justified not to cause a deterioration of the economic situation due to the deformation of the control system (when minor violations in financial reporting automatically block further transactions of enterprises, making their further activities impossible). An example of such “depersonalised regulation” is the change in the deadlines for the performance of tax obligations, which occurred at the end of 2022, causing the blocking of almost 2 million tax invoices. According to the Law of Ukraine No. 2260-IX (2022) dated May 12, 2022, new deadlines for registration (correction) of tax invoices in the Unified Register have been established for value added tax (VAT) payers. The law was adopted to prevent the so-called “tax optimisation”, but even minor transactions were affected by it, which substantially complicated the work of accountants. Therefore, a month later, approximately 11,000 VAT payers received the status of risky, which makes their further business activities impossible and causes the destruction and bankruptcy of the business itself. On average, unblocking a business through the court takes 1.5 years, during which funds are frozen, do not take part in circulation, reducing the ability of the enterprise to effectively conduct business. And only after numerous complaints of business owners and public participation to solve the problem, in December 2022, the Resolution of the Cabinet of Ministers No. 1428 (2022) amended this law, excluding

from monitoring the tax invoices with the volume of supplies under UAH 5,000. This alleviated the problem slightly but did not solve it entirely.

It is important to emphasise that the significant inertia in eliminating such evident “failures” in administering certain aspects of economic activity is a consequence of the lack of comparable responsibility of the executor of regulatory functions for the results of the implementation of his decisions. This collective administrative irresponsibility serves as an effective motivator for representatives of domestic officials to create different corruption schemes. Such schemes diversify the ways in which they extract additional streams of economic results that are created by others.

Such relations between representatives of the government and business represent a clear threat to the economic security of Ukraine, which was emphasised by Y. Rudnichenko *et al.* (2020) and I. Nestoryshen *et al.* (2021) in their studies. They back up their conclusions by modelling scenarios of the influence of state institutions on the ecological niche of business entities, predicting the possible results of management decisions under the current institutional environment considering the evolution of the business environment (both internal and external). Therefore, even the most promising areas of economic activity in Ukraine such as the IT industry (it has shown the greatest stability in security challenges, providing up to 44% of the total export of services by Ukraine in 2022) in 2023 began to stagnate as a result of the removal of benefits from value added tax. The volume of revenues from the sale of services in the industry decreased by 16% in the first quarter against the same period in 2022 (State Statistics Service of Ukraine, 2023), and its participants began to move business abroad more intensively. And if at the beginning of the war such experts still maintained Ukrainian jurisdiction, such manipulations with taxes motivate them to abandon it.

From the standpoint of the economic security of Ukraine in its current state and in the post-war period, it is also problematic to preserve of the current structure of the agricultural sector, which is focused on large-scale production of goods with a low degree of processing (Pushak *et al.*, 2021). And the transition from January 1, 2024, to the next stage of land reform, which allows legal entities to purchase land plots of up to 10,000 hectares, poses a major threat to the development of farms, which will become unable to compete with large agricultural companies. Under these conditions, the practice of monocultural land use will be established, which may pose a threat to Ukraine’s food security. However, the attempts of small businesses to suspend the introduction of the second stage of the reform until the end of war (since the current deterioration of the financial condition of farms does not allow them to compete with large agricultural companies in land purchase) were not successful. The motivators (arguments) of big agrarian business turned out to be stronger than the arguments of the farming community.

Overall, based on the conclusions of behaviourism, it can be argued that corruption on the executive level is a manifestation of the extractive feature of economic institutions in matters of regulatory function implementation. If the incentives and disincentives embedded in the regulatory mechanism (the enforcement mechanism) are not sufficiently significant to influence the behaviour of economic agents (in this case, government officials) in the specified regulatory field, they will primarily be guided by their

personal interests. Due to the flaws in the existing legislation, which inadequately defines the conditions for classifying the actions of public servants as corrupt, they cannot be subject to effective penalties. This opens wide opportunities for some of them to intervene in business activities without just cause, disrupting the established business processes. In the long term, due to the substantial inertia of legislation, such practices will adversely affect the economic processes. Summarised below are the causal relationships between the content of extractive institutions and their impact on economic processes:

- ▶ non-transparent public procurement system – shadowed misappropriation of funds from budgets at all levels reduces resources for the implementation of socially significant programs;
- ▶ unjustified tax privileges for specific economic sectors – gaining additional competitive advantages inhibits innovation renewal in the industry;
- ▶ informal “taxation” of businesses by regulatory authorities – “resolving issues” with regulatory authorities hinders the reform of economic activities and the transition of businesses from the “shadow” sector;
- ▶ non-transparent tariff-setting system for housing and communal services – leads to the effective subsidisation of energy companies at the expense of the population and absence of positive improvements in the provision of quality services;
- ▶ artificial restrictions on participants in investment and privatisation competitions during tender procedures – limits access to markets for more efficient participants and leads to budget overruns;
- ▶ insufficient property rights protection – risks of hostile takeovers of successful businesses and disregard for innovative development factors;
- ▶ lack of transparency in the control of state credit guarantees and the refinancing of troubled banks – illegal misappropriation of credit funds results in budget losses due to reduced profitability of the banking sector;

- ▶ weak control over “off-the-books schemes” for withdrawing funds from state-owned enterprises through affiliated intermediary structures – low efficiency of state-owned enterprises reduces revenue for budgets;

- ▶ underdeveloped information infrastructure – information asymmetry regarding the market conditions leads to the proliferation of cyberattacks to obtain insider information.

The cumulative result of the action of extractive economic institutions in Ukraine not only leads to an increase in income inequality among the population and a reduction in consumer demand but also hinders the prospects for economic growth. Businesses are not motivated to invest capital in innovative activities due to uncertainty concerning the asset preservation in the future. In wartime, the opportunities for business development are further compromised by the risk of physical destruction, leading to a complete lack of allocation of funds for innovation. In other words, the motivational priorities of economic actors do not focus on long-term business development goals but shift towards short-term gains. The most active market participants seek to engage in the acquisition of illegitimate rent income (in 2021, the size of the shadow economy in Ukraine ranged within 31-33%, according to various estimates, and during times of war, it has become even larger) (The shadow economy..., n.d.).

Conversely, a completely different set of motivational priorities arises with the dominance of inclusive institutions. These institutions not only create a space of equal opportunities for economically active individuals but also, through organisational and economic means, support the aspirations of societal members with limited natural capabilities. As a result, the potential for creativity and diversity within the entire socio-economic system increases. Such an environment can be referred to as an environment of “entrepreneurial inclusion”, which operates based on the value-oriented management (management that aims to create consumer value). Its development changes the nature of structural processes in the economy (Table 1).

Table 1. Motivational accents of extractive and inclusive institutions and their influence on socio-economic processes in the country

Characteristics of the socio-economic system	Motivational determinants in an institutional environment with different dominance of formal institutions	
Type of institutional structure	Dominance of extractive institutions	Dominance of inclusive institutions
Predominant type of economic behaviour among the most active market participants	Rent-seeking, innovation-destructive (seeking opportunities to gain status, administrative, and political rent and appropriating illegitimate income from it)	Innovation-active, constructive (seeking sources of innovation and technological rent formation to obtain legitimate rent income)
Social response in society and the broader business environment	Negative (unjustly) – proliferation of entrepreneurial opportunism	Positive (justly) – fostering entrepreneurial creativity
Motivational vector of structural changes	Hindrance to progressive structural changes in the socio-economic system	Stimulating progressive structural changes in the socio-economic system
Structural processes in the national economy	Unbalanced structuring of the national economy by sectors and sources of growth based on restricting access to the country’s natural resources potential	Balanced structuring of the national economy by sectors and sources of growth, considering the potential of the country’s resource diversity

Source: developed by the authors of this study

In Figure 1, the possible scenarios for the development of the economy with the dominance of extractive and inclusive

institutions are outlined, based on the motivational response of entrepreneurs to the methods of gaining competitive

advantages in business development processes. Like most motivational processes, this response is shaped by the external stimuli and prompts actions considering the value preferences of the economic participant. Since economic institutions are functionally designed to regulate the behaviour of economic

players, their content should encourage choices that align with the goals of system sustainability (or its development). Let us briefly characterise these scenarios, relying on the main conclusions of the theory of the entrepreneurial society, which places entrepreneurial interests at the core of economic behaviour.

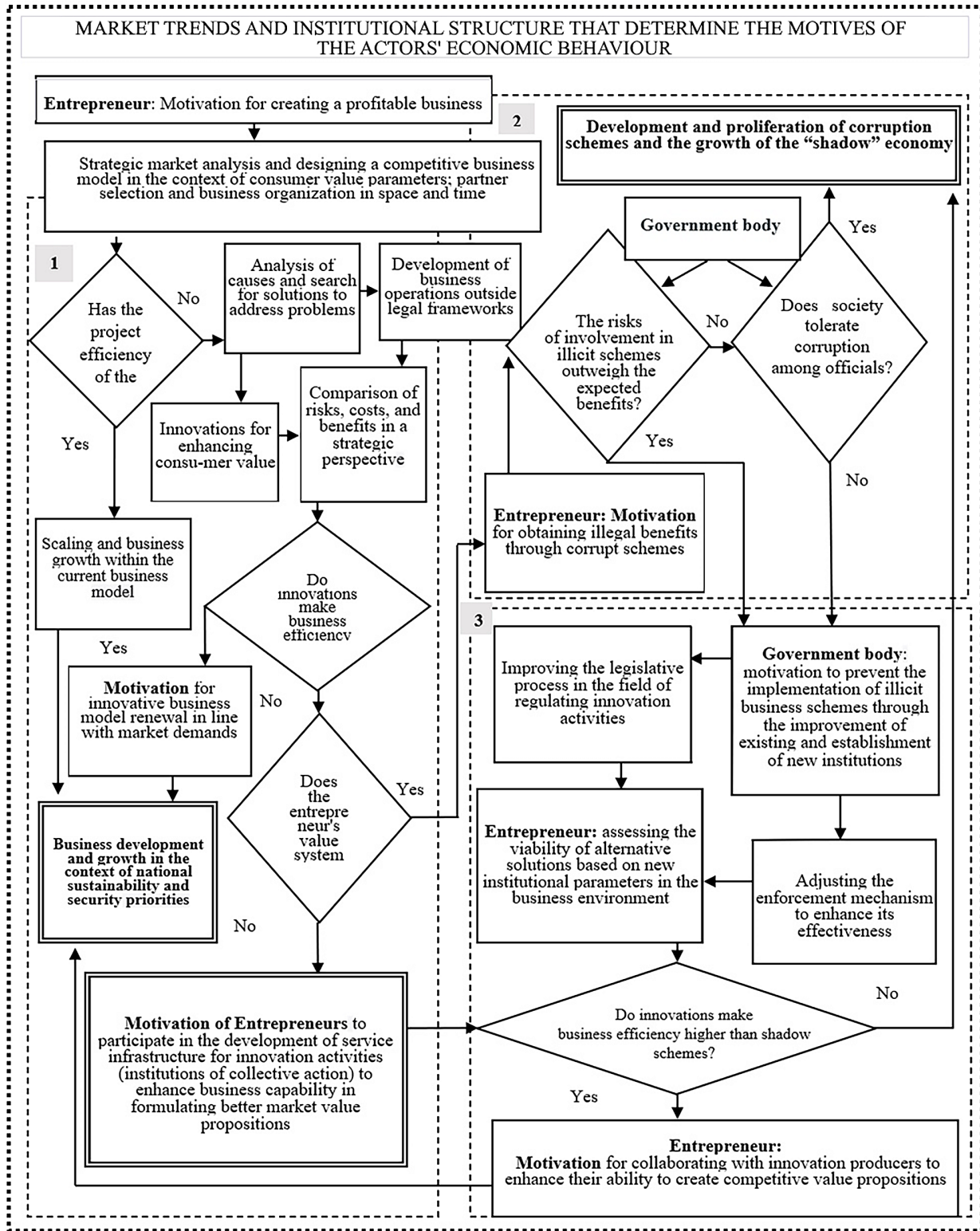


Figure 1. Modelling of the economic behaviour of market agents under distinct types of institutional environment structure

Source: developed by the authors of this study

Scenario 1. This scenario is implemented through high activism of civil society, which contributes to the development of a robust institutional environment with an effective enforcement mechanism. This environment fosters the institutional alignment of interests between businesses, government authorities, and society around the sustainability goals.

This is reflected in the current rules of economic behaviour that do not contain unjustified exceptions. It is inherent in countries with a prevalence of an individualistic and risk-taking behaviour among economic agents, leading to an innovative and dynamic economic development. In such an environment, entrepreneurs and managers make decisions based on their personal understanding of market trends and the ability of their business models to generate competitive value propositions, considering the specifics of target consumer groups. Competitiveness of value propositions requires technological excellence in business processes and innovation in creating new products and services. This creates a demand for intellectual labour and increases the value of service innovation infrastructure, which can enhance the innovation process through information enhancement, thereby improving its efficiency. Both aspects stimulate the society's interest in acquiring new knowledge, consequently fostering the creation and practical application of new knowledge, providing a new impetus to economic growth and social progress.

Scenario 2. This scenario is implemented through a paternalistic-communal behaviour archetype of society members, resulting in the weakness or underdevelopment of civil influence institutions. The institutional environment in such a society is developed based on the consensus between an oligarchic business and a political elite (whose interests are fulfilled through legislative and executive authorities) regarding the distribution of public goods through extractive institutions. The interests of society are nominally considered (based on a conscious lowering of social standards of living). With each political manoeuvre, adjustments are made to institutions (including enforcement mechanisms) in favour of other privileged individuals. The cyclical and irreversible nature of this mechanism for redistributing public goods leads to structural economic imbalances, with an overemphasis on low-risk activities that do not require long-term investments. The country's export potential mainly relies on primary raw material processing products.

An unreasonably low rent for the consumption of natural resources results in irrational and even predatory resource utilisation, harms the environment, and does not encourage deeper processing, which provides higher added value. In such an economy, complex intellectual labour is not valued, reducing the value of education and increasing the risks of further degradation of the workforce. In summary, the economic system ceases to be competitive, while the country's social progress becomes unattainable.

Scenario 3. Increasing the role of civil society while adhering to the established rules of economic behaviour and forming new institutions is aimed at reducing the extractive nature and corruption in the enforcement mechanisms of old institutions and transitioning to an institutional space of "entrepreneurial inclusion". This structure is dominated by institutions ensuring an equal access to limited resources for the economic actors, transparency in competitions for the best project formation of "economic growth points", and "joint action" institutions for information support of

innovation and technological renewal (development) of operational/production systems of small and medium-sized forms of entrepreneurship. The significance of innovative infrastructure and its role as "institutions of collective action" for many participants in economic relations is highlighted. These institutions can provide valuable informational support for restructuring business processes and transitioning businesses into new models of creating consumer value.

Based on tax and other economic or organisational preferences, economic entities can undergo innovative restructuring of production with lower capital expenditure. Such preferences can increase the interest of strategic investors in implementing more extensive innovative projects, enriching the economy with innovative solutions – both in terms of technologies and environmentally friendly resource utilisation, as well as more competitive propositions of consumer values for target markets. Clearly, innovation and technological upgrading of production need to be organisationally prepared according to criteria aligning with international quality standards. It should also be supported by sufficient economic preferences (e.g., easy access to credit resources and production infrastructure, preferential tax regimes, etc.).

In Ukraine, such preferences are available in industrial parks, for the functioning of which the corresponding legislative framework was formed in 2021-2022 (Law of Ukraine No. 1710-IX, 2021; Law of Ukraine No. 2330-IX, 2022; Law of Ukraine No. 2331-IX, 2022). According to the Law of Ukraine No. 5018-VI "On Industrial Parks" (2012), their residents are granted the following preferences: exemption from import VAT and customs duties on equipment listed in the Ukrainian Classification of Goods for Foreign Economic Activity (UCC FEA); exemption from income tax for 10 years for specified types of activities; the right of local self-government bodies to establish benefits on local taxes, and more.

Industrial parks can serve as a platform for the technological upgrade of relocated enterprises, fostering the processes of innovative restructuring of outdated business models. According to K. Larionova *et al.* (2022), innovative restructuring should be performed considering the strategic priorities of national economic development, ensuring its competitiveness in the international economic space.

Relocation/establishment of high-tech industrial enterprises within industrial parks can create so-called "growth points" in the region by involving local producers in the creation of consumer values. Such collaboration will not only result in more efficient utilisation of the region's resource potential but also address social issues, such as the creation of additional jobs, income growth, and the development of civil infrastructure. Moreover, participants can obtain the status of a strategic partnership, increasing their investment opportunities and accelerating business development in promising areas.

Furthermore, thanks to the localisation of manufacturing entities in industrial parks, regional government authorities can better monitor businesses' compliance with environmental safety requirements. Such safety is an integral component of sustainable territorial development, and its level should be evaluated based on parameters established for the region, the aggregate of which is substantiated and sufficient to ensure the economic stability of the region (Hryhoruk *et al.*, 2021).

The third scenario of development in Ukraine is entirely feasible. Considering the rapid growth of civic engagement

among Ukrainians united by the goal of victory, they can be motivated to unite around the goals of sustainable development. This requires reducing the level of regulation in the economic interaction space by fiscal and procedural elements. By provoking corruption, these elements diminish the resource potential of businesses and limit entrepreneurial initiative, which is crucial for the country's survival and development in times of war and post-war recovery.

Catalysts for transformational processes should be civil society organisations. It is through their efforts that changes in the vectors of economic behaviour of major economic players towards sustainable development priorities can be achieved. At its core is the motivation of the entrepreneurial community to take an active part in the design and creation of value propositions for the market, in line with the concept of value-oriented management (Stadnyk & Zamazii, 2015). This will shift the focus of government entities at various levels of management from designing more powerful extractive institutions for budget replenishment to creating an institutionally favourable environment for effective interaction among all economic actors, referred to as the "entrepreneurial inclusion" environment. In this environment, new business ideas will be generated, and new financial flows will be formed.

In this environment, inclusive economic institutions should dominate. They will not only create equal opportunities for economic activity for all market participants in terms of competitive conditions but also provide additional incentives (through reasoned benefits) for the economic involvement of vulnerable segments of society. In Ukraine, there are already many people who need such support due to partial physical disability resulting from the ongoing war. Most of them are economically active individuals who can fulfil themselves even in such a state. Some support (economic or organisational) at the initial stage of starting their business will enhance their motivational aspirations for self-fulfilment. This will increase the economic and social activity of the population and expand the potential for the growth of Ukraine's intellectual capital. The development and utilisation of creative potential by individual workers and creative teams will contribute to increasing the economic complexity of domestic enterprises, transforming the entire entrepreneurial sector into a creative one in terms of seeking ways to create competitive advantages for companies. In this context, innovative infrastructure plays a crucial role, acting as "institutions of collective action" for consumers of their services. Staying outside direct competitive struggle, these institutions can provide them with the necessary informational support for reconfiguring existing business processes or radically transforming businesses into a new model of creating consumer value.

In the context of sustainable development goals, the focus is primarily on providing informational and legal support for the transfer of advanced technologies that can be utilised by business entities for business development. Small businesses, particularly those lacking their own analytical centres, are especially interested in such services. At the same time, their activities would be beneficial not only for society overall but also for stimulating economic activity, creating new jobs, and ensuring the effective and environmentally sustainable utilisation of regional resource potentials. Therefore, the emergence of such institutions (as components of market infrastructure) can occur not only

as a result of structuring the market space through various transformational projects but also through the self-organisation of the interested individuals.

According to K. Arrow (1974), the societal need for the emergence of collective action institutions can be assessed through the costs associated with their creation and functioning, known as "collective action costs". These costs result from the imperfections of the institutional environment, where market institutions inadequately guide the behaviour of economic agents towards acceptable forms of market interaction. The necessity for the formation of collective action institutions arises to safeguard against breaches of agreements between entities, requiring the establishment of institutions that reduce risks in market transactions. Specifically, qualified legal aid contributes to lowering transaction costs, such as non-payments, contract breaches, or increased expenses for insurance and guarantees. The activity of a patent office can ensure the protection of intellectual property rights for innovative products through the registration and use of trademarks, patents for inventions, acquisition, and sale of licenses, among other measures.

The development of elements of innovation infrastructure now falls under the responsibility of regional government authorities and local self-government. The demand for their services is negatively influenced by institutional factors, including public loyalty to the shadow activities of entrepreneurs and the low efficiency of regulatory structures tasked with controlling entrepreneurial activities and combating shadow schemes (figure 1; scenario 2); inconsistency between the functions performed by infrastructure elements and those actually needed to expedite the process of business establishment or development (due to the lack of proper material and technical base and insufficient efficiency of advisory services).

Minimising the influence of these factors also lies in the motivational plane – at the intersection of the interests of entrepreneurs and the bearers of the power of state administration. It is necessary for these interests to be complementary, increasing the overall social profit. For example, the benefit from the operation of technology transfer centres (TTCs) is manifested in the following: for manufacturing enterprises carrying out innovative restructuring – in increasing the validity of decisions related to the transfer of technologies that meet the criteria strategically important for the development of competitive advantages for successful operation in the selected market segment, while reducing their costs associated with technological renewal of production; for the region – in increasing the revenues to local budgets due to the increase in the number of profitable enterprises. In addition, the technological advantage of such enterprises can expand their market opportunities and will improve the general dynamics of socio-economic development of the region.

Therefore, one of the criteria for evaluating the effectiveness of the operation of the TTCs at the regional level should be the excess of revenues to the local budget from production enterprises (clients of the TTCs) over the costs of its creation incurred by local budgets. Formally, this can also be expressed through the value of net present value (NPV):

$$NPV = \sum_{t=0}^T (\Delta D_t - E_t) \alpha_t = II, \quad (1)$$

where T is the period of operation of the TTC; D is the additional revenues to the local budget from TTC clients in the t^{th}

year; E is the current expenses for the operation of the TTC in the t^{th} year, financed from the local budget (e.g., rent of premises); q_t is the discount factor; I is the initial investments in the creation of the TTC, financed from the local budget.

Therefore, the economic profitability of the operation of the TTC for the region can be partially estimated by the value of the aggregate NPV in the planned period, received from enterprises that carried out the technological transfer. Partly because the development of high-tech entrepreneurship can act as a catalyst for integration processes in the business environment, increasing the overall resource and market opportunities of the participants of such associations and increasing the amount of added value in the regional dimension.

In the conditions of war, the task of developing innovation infrastructure is not considered a priority for regional management authorities. Therefore, the leading role in this development lies with the entrepreneurial environment. The motivational basis for the self-organisation of businesses in creating and developing innovation infrastructure is the expectation that the benefits derived from using their services (D_i) will exceed the income they would have by operating independently within the current legal framework D_p :

$$D_i > D_p, \quad (2)$$

Such expectations will serve as the basis for expanding the functional purpose of innovation infrastructure elements towards the qualitative development of services that will be more in demand by the business environment of a particular region, considering the structure of its resource potential. Overall, the development of an “entrepreneurial inclusion” environment requires active dialogue, interaction, and partnership within the “business-government-society” triad. This allows for a focus on concrete issues, participants, available resources, and opportunities for the development of local communities and regions and can become an effective institutional mechanism to achieve post-war recovery and sustainable development goals in Ukraine.

Conclusions

The massive destructive processes and security challenges faced by Ukraine in defending its right to choose a development model have heightened the problem of defining institutional conditions for the structural transformation of the economy and aligning its parameters with sustainable

development priorities. In the context of the necessary institutional changes, the study analysed the development of Ukraine’s institutional environment. It was concluded that its structure is saturated with extractive institutions formed at the legislative level and further reinforced by corruption schemes for the redistribution of financial flows. The consequences of the influence of extractive institutional factors on the behaviour strategies of economic entities were systematised. The main motivational factors of the institutional environment were identified, with a focus on the dominance of extractive and inclusive institutions from their impact on social and economic processes in the country.

Using graphical modelling, scenarios for the development of Ukraine’s economy were presented, highlighting key motivational vectors of the economic actors influencing this process. The authors’ position was expressed that for Ukraine to transition to sustainable development, there should be a predominance of inclusive institutions in the structure of the institutional space, which create favourable conditions for the establishment and functioning of entrepreneurship in line with sustainable development priorities. Such an institutional space is referred to as the “entrepreneurial inclusion” environment. In this environment, a special role is assigned to the service infrastructure of innovation activity as an information platform for the effective creativity of entrepreneurial structures in creating high-value consumer values. The study outlined conditions under which economic actors would be motivated to develop such institutions. It was emphasised that through the cooperation of the entrepreneurial community, civil organisations, and government bodies, a consensus can be reached in defining key points of economic growth for Ukraine in its post-war recovery and resource synergy in achieving sustainable development goals. Future research will cover the development of recommendations for strengthening the inclusive component of the institutional environment of Ukraine in the context of improving the conditions for the establishment and functioning of entrepreneurship following the sustainable development goals.

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Conflict of interest

The authors of this study declare no conflict of interest.

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Інституційний простір сталого розвитку: Структура, мотиви та умови розвитку в Україні

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Анотація. Масштабні деструктивні процеси та безпекові виклики, з якими зіткнулася Україна, відстоюючи своє право на вибір моделі розвитку, актуалізували проблему визначення інституційних умов структурної трансформації економіки та узгодження її параметрів з пріоритетами сталого розвитку. Метою статті було моделювання сценаріїв розвитку бізнес-середовища за різних типів інституційних структур та визначення можливості створення інституційного підґрунтя для сталого розвитку України в умовах глобальних безпекових викликів. Дослідження ґрунтується на концептуальних засадах інституційного середовища. Виявлено інституційні прогалини в бізнес-середовищі, які спотворюють мотиваційну основу концепції сталого розвитку України та призводять до домінування корупційних елементів у рішеннях і діях економічних суб'єктів. Систематизовано наслідки впливу екстрактивних інституційних чинників на вибір стратегій поведінки суб'єктами господарювання. Охарактеризовано відмінності у впливі екстрактивних та інклюзивних інститутів на економічні процеси. З використанням векторів мотивації представників бізнесу, органів влади та громадськості змодельовано сценарії розвитку бізнес-середовища та продемонстровано їх результати з точки зору цілей сталого розвитку. Концептуалізовано концепцію формування середовища «підприємницької інклюзивності» як інституційної основи сталого розвитку, підкреслено його роль як стимулятора проактивної та ефективної інноваційної діяльності. Визначено цілі розвитку інноваційної інфраструктури як сукупності інститутів колективної дії, що дозволяють знизити ризики в інноваційній діяльності підприємств та підвищити її ефективність. Визначено умови, за яких бізнес-спільнота буде мотивована до розвитку таких інститутів. Підкреслено роль громадських організацій у процесах інституційних змін та формуванні інститутів колективної дії. Результати дослідження мають практичне значення для формування інституційного механізму реалізації інноваційно-технологічних структурних зрушень в економіці України в контексті пріоритетів сталого розвитку під час її післявоєнного відродження

Ключові слова: екстрактивні інститути; інклюзивні інститути; підприємницька інклюзивність; сценарії економічної поведінки; інноваційна інфраструктура; структурні зміни в економіці