

THE ROLE OF STATE SUPPORT IN THE DEVELOPMENT OF THE HOTEL AND RESTAURANT BUSINESS IN THE CONTEXT OF CRISIS PHENOMENA AND EUROINTEGRATION PROCESSES

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Abstract. The article presents the results of a study of the state of the hotel and restaurant business in Ukraine in general and the Transcarpathian region in particular in the context of crisis phenomena. The authors analyse the peculiarities of functioning of hospitality enterprises in the context of military operations on the territory of Ukraine. The research provides an analytical review of the legislative framework and social factors that have influenced the activities of hospitality enterprises in conditions of instability. It also identifies the problems and prospects for the development of the hotel and restaurant business in the context of overcoming the consequences of military operations, European integration processes and legislative changes, and outlines promising ways of future recovery of the hospitality sector as a component of tourism. The *purpose* of the article is to conduct an analytical study of the state of the hotel and restaurant business in the post-covid period and the active phase of the military conflict, and also the impact of state regulation on overcoming such destructive factors against the background of Ukraine's European integration processes. *Methodology.* The study was conducted on the basis of an analysis of statistical indicators of the performance of temporary accommodation (accommodation) and catering enterprises, based on analytical and statistical materials of official statistics of the Zakarpattia Oblast for the period from 2020 to 2024, provided by the Main Department of Statistics in the Zakarpattia Oblast. The legal framework and regulatory documents related to the identified issues were analysed. The paper analyses the state and needs of SMEs in Ukraine as assessed by local hromadas, as well as an analytical study based on a survey of owners of hotel and restaurant businesses in Zakarpattia Oblast through personal interviews. The monitoring study covered 50 enterprises of different sizes and different forms of ownership. *Results.* The publication analyses the factors that stimulate the activity of enterprises in the accommodation sector, describes the destructive factors that suppress or complicate the activity of enterprises in this sphere of economic activity, and considers the state policy aimed at supporting the hotel and restaurant business and the tourism sector in general. The authors identify the commonality of problematic issues for the hromadas of Ukraine on the way to the future post-war reconstruction of the hospitality and tourism sector, as well as the functioning of this sector today. The research lists the opportunities for business on the way to European integration and the challenges associated with it. As a result, the authors suggested ways to accelerate and facilitate the integration of the local hotel and restaurant business, improve the legislative framework at the state and local levels for the development of the hotel and restaurant sector and its de-shadowing, and also emphasised the importance of close cooperation of SMEs with state and local authorities in terms of support, development promotion, investment prospects and implementation of European legislation in the activities of such enterprises.

Keywords: efficiency, economy, crisis, COVID-19 pandemic, hospitality, hotel and restaurant business, European integration processes, legislation, potential.

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1. Introduction

The hotel and restaurant business is an integral part of every country's economy, playing an important role in the development and sustainability of the national economy. This sector includes a wide range of businesses, from small family-run restaurants and hotels to large chain hotels and internationally renowned restaurants. It should be noted that the impact of the hospitality industry on the national economy is significant, as it creates new jobs and supports related industries, which in turn stimulates the growth of tax revenues, improves the level of service and the lives of the local population, and contributes to the level of tourist, international and investment attractiveness.

Ukraine enjoys a favourable geographical location and high tourism and recreational potential, which has led to the development of a number of resorts and health facilities. However, the impact of destructive factors such as COVID-19 and especially the hostilities in the eastern and central parts of the country has brought significant changes to the operations of the hotel and restaurant business. First of all, they have put the accommodation and food services sector under the question of its overall survival, and also shifted consumer flows towards the western regions of Ukraine. That is why the focus of this study is mainly on one of the most stable regions in the current situation – Zakarpattia Oblast.

The region has a unique recreational potential, which has led to the formation of climatic and balneological resorts, a network of healthcare facilities of various types and forms of ownership (Kahanets-Havrylko, 2024). The concentration of accommodation and catering companies is largely due to the location of recreational, health resort and skiing complexes, which require beds to meet the demand of tourist flows, especially in the high season.

Levkulych V. (Levkulych, 2021) studied the hotel and restaurant business of the Zakarpattia Oblast, tourism and socio-economic potential, Sechi L., Moscarelli R., Pileri P. (Sechi, 2020) considered the problems of infrastructure development in the hotel, restaurant and tourism business, the functioning of the hotel and restaurant business in the context of crisis phenomena was studied by Hodia I., Korsak R., Malska M. (Korsak, Hodia, 2020; Malska, 2020), the impact of the European integration processes on the expansion of the range of services was discussed by Svitlynets O., Korsak R., Koval O. (Korsak, Svitlynets, Koval, 2022), Kahanets-Havrylko L. and Hushtan T. dealt with social issues in the tourism sector (Kahanets-Havrylko, 2024), however, the aspect of state regulation and support by local hromadas in the context of European integration processes, which impose both prospects for development and a heavy baggage of obligations on the hotel and restaurant business, has been insufficiently studied.

2. Economic Efficiency in a Volatile Environment

The hotel and restaurant business is inherently sensitive to political, economic, social and, in general, almost any changes, while retaining high growth and development prospects. Thus, in the period before the emergence of COVID-19, some analytical forecasts indicated that by 2023, the profits of the international hotel and restaurant business were expected to increase by about 1.7 billion USD only due to corporate spending, but everything changed unexpectedly and the planned growth period turned into a complete collapse for many companies, and those that survived were on the verge of survival (Harley Cannard, 2020).

In general, the exceptions among hotel and restaurant complexes that managed not only to maintain but also to improve their economic performance were those located in suburban areas and in the environment of natural attractions. In addition, during the high season, demand was higher for establishments located in resort areas (Malska, 2020).

It should be noted that in 2020, the number of temporary accommodation and catering businesses in Zakarpattia Oblast was 3,597, of which 207 were legal entities and 3,390 were individual entrepreneurs. In general, the share of hospitality enterprises in relation to the total number of enterprises in the region was about 10.9%, of which enterprises accounted for 3.1% and individual entrepreneurs for 7.8% (Official website of the State Statistics Service, 2024).

As of 2021, the situation has changed, namely, in the Zakarpattia Oblast, the number of temporary accommodation and catering businesses has decreased, both on the part of legal entities and individual entrepreneurs, and amounted to 3,418 enterprises, of which 202 were legal entities and 3,216 small entrepreneurs (Official website of the State Statistics Service, 2024). However, their ratio to the total number of enterprises in the region remained unchanged.

The year 2022 was a turning point for Ukraine, as the business sector was just beginning to show signs of stabilisation, tourist traffic was growing, and entrepreneurs who had survived the most difficult periods of the coronavirus crisis tried to use all the methods available to them, such as forecasting the number of visitors, expanding the scope of services, maximising marketing activities and introducing innovative technologies at an affordable level. Nevertheless, this was not enough, as the hostilities on the territory of Ukraine made their own undeniable adjustments. Thus, as of 2022, 4,082 hotel and restaurant businesses operated in Zakarpattia Oblast, which is one of the westernmost and, accordingly, the quietest, of which 3,221 were individual entrepreneurs, accounting for 7.9% of the total

number of business entities in the relevant sector of the economy, and 861 were legal entities (Official website of the State Statistics Service, 2024).

The military aggression has added new challenges for Ukrainian businesses, causing many companies to suspend operations due to security concerns and falling demand, which in turn led to massive layoffs and business closures. At the same time, the volume of sales of temporary accommodation services decreased sharply from 20,120,453.6 UAH in 2021 to 7,830,835.3 UAH in 2022; in the catering sector from 87,164,865.0 UAH in 2021 to 30,350,550.0 UAH in 2022, which led to the inability to cover costs. At the same time, the profitability of temporary accommodation facilities dropped significantly from 25.3% to -22.3%, and that of catering facilities from 3.5% to -5.5% (Official website of the State Statistics Service, 2024).

A clear indicator of performance is direct tax revenues from the industry under study. Thus, as of 2023, the revenue from the tourism sector in Zakarpattia Oblast, which includes accommodation and catering, amounted to 62,784,000 UAH, compared to 51,730,000 UAH in 2022 and 42,168,000 UAH in 2021 (State Agency for Tourism Development, 2024).

In view of the above, it can be noted that military aggression has led to serious challenges for Ukrainian enterprises, causing the closure of many hospitality businesses throughout Ukraine, massive layoffs and the inability to cover costs. At the same time, the economic efficiency of Zakarpattia enterprises in the crisis conditions is marked by significant fluctuations in the number of business entities, which indicates dynamic changes in the industry that affect its development and competition. Despite these fluctuations, the ratio of the share of hospitality enterprises to the total number of enterprises in the region remained relatively stable, indicating a certain resilience of the hospitality sector in the face of change and the ability to adapt, while the impact of destructive processes on the dynamics and development of enterprises is undeniable.

3. Social Issues of the Hotel Business in the Time of Crisis

In February 2022, the steady flow of people affected by the hostilities in eastern Ukraine who were trying to cross the border with the European Union gradually changed their motivation, as a new concept of "calm regions" was formed, where internally displaced persons, or so-called "internal tourists", created an increased demand for temporary accommodation and catering services.

Despite the recovery in demand, businesses in the sector, mostly small and medium-sized, remained in a vulnerable financial position due to the previous difficult years of the pandemic. Legislative measures

aimed at supporting the industry did not cover all entities, putting their existence at risk.

The Research Report of the Initiative for Economic Recovery of Ukraine indicates that representatives of regional military administrations and hromadas across Ukraine, who were interviewed, identified the following as the main obstacles to stabilising the development of the hotel and restaurant business and future recovery: disruption of supply chains (according to 87.5% of RMAs and 51.6% of hromadas); insufficient number of solvent customers in the domestic market (68.8% and 57.9%); uncertainty in the development of the situation in Ukraine and in the domestic hospitality market (56.3% and 57.9%); lack of skilled workers (68.8% and 34.1%); lack of capital (56.3% and 44.4%) (Figure 1). (Research on the state and needs of small and medium-sized businesses (SMEs) in Ukraine as assessed by urban communities and regional military administrations (RMAs), 2024).

Due to its geographical location, Zakarpattia Oblast is the farthest from the frontline, so the situation in the hospitality sector differs significantly from that in the eastern and central regions. That is why, in order to assess the social problems of the hospitality sector, 50 entrepreneurs with up to 9 employees and 10 to 49 employees were interviewed. In this regard, it is noticeable that the bulk of entrepreneurs are owners of SMEs, which are known to be in the greatest need of support, as they lack sufficient capital and a reliable "airbag" to overcome instability factors. About 80% of respondents are of working age (38 to 60 years old), with more than 55% combining their entrepreneurial activity with their main job in a field unrelated to hospitality, and 23% of respondents are engaged in other (different from hospitality) entrepreneurial activities.

The main motivations for conducting their business were mentioned by 22% of entrepreneurs as continuation of the family business; 60% of them mentioned good geographical location and availability of recreational areas nearby, which allows for a fairly successful business, especially in the high season; 18% wanted to develop in a new and promising direction.

The survey identified the main problems and obstacles in the activities of hospitality companies in the current crisis conditions. The main problems that were common to 80.4% of the responses were the following:

1. High costs of resources required to support the business (82%), including the cost of equipping facilities, expanding the number of rooms, advertising, marketing, etc., which may lead to higher prices for services, which in turn will reduce the flow of visitors and limit the number of potential customers.
2. Uncertainty or instability (95%) about how the situation will develop due to the hostilities on the territory of Ukraine, including staff and customer anxiety, unpredictability in tourist flow, reduced

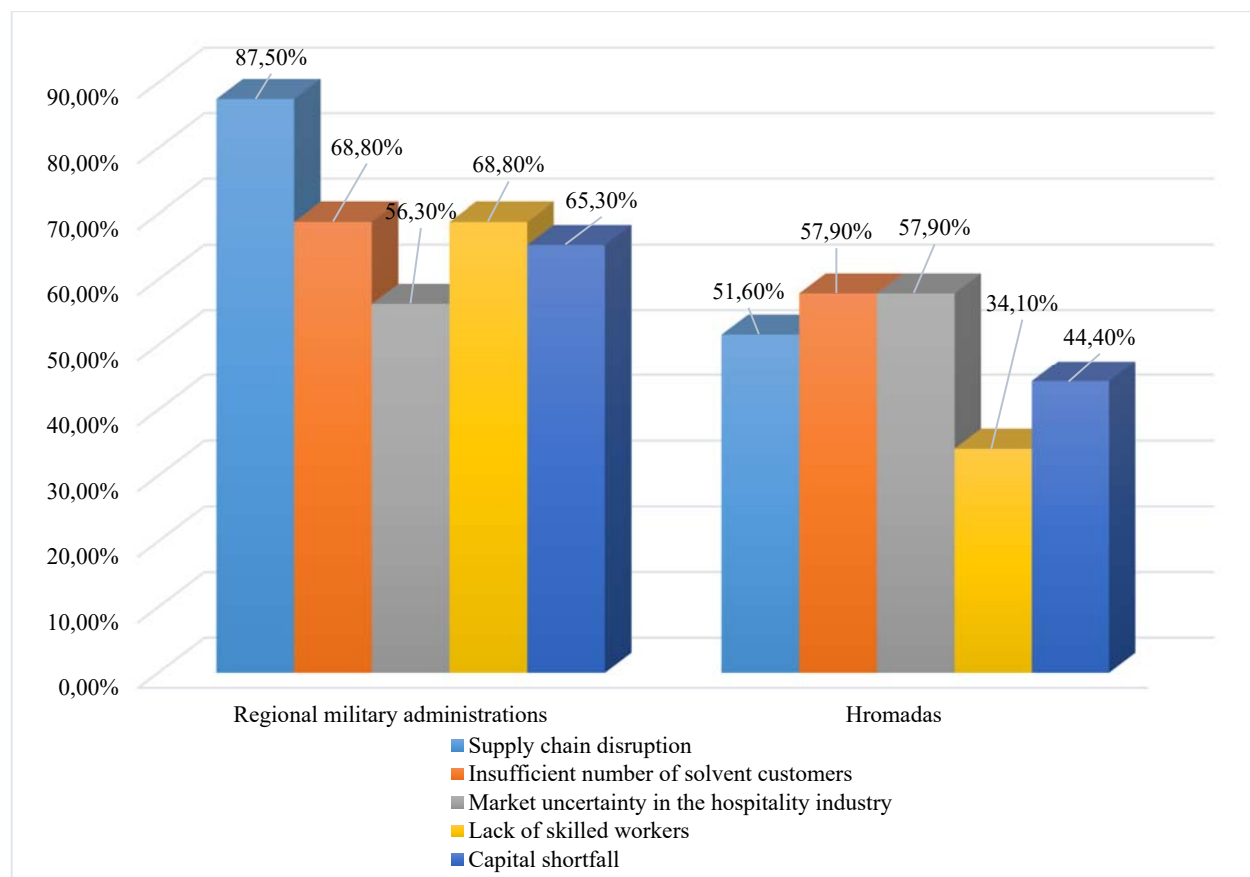


Figure 1. Main obstacles to stabilising the development of the hotel and restaurant business in Ukraine during the recovery period

Source: based on (Research on the state and needs of small and medium-sized businesses (SMEs) in Ukraine as assessed by urban communities and regional military administrations (RMAs))

demand for hospitality services, interruptions in product supply or even the possibility of a loss of safety for employees and guests.

3. Lack of qualified staff (76%) to meet the needs of visitors. After all, a modern customer comes to an accommodation facility with a list of requirements not only for safety and shelter, but also for food, psychological support, online services, prompt response to changes, etc.

4. New legislative requirements (67%). In connection with the European integration processes taking place in Ukraine, the signing of the Association Agreement between Ukraine and the European Union and the need to harmonise the legislation of our country with European standards in various fields of activity, including the hotel and restaurant business. There is a need to comply with the requirements for improving the quality of service in accommodation facilities, as well as with the legislation on food safety management – the HACCP system. The relevant changes require not only clarifications, staff training, and a government support programme for such implementation, as all these innovations require additional costs (The Order of the Ministry of Agrarian

Policy of Ukraine "On Approval of the Requirements for Development, Implementation and Application of Actual Procedures Based on the Principles of the HACCP System", 2024).

5. The need for state support (82%), which, according to entrepreneurs, should be reflected in the development of measures at the state level to attract foreign investment in the development and promotion of hospitality and tourism, as well as the development and implementation of state support programmes that would help restore the hospitality sector in the post-war period and help support the activities of enterprises today. After all, entrepreneurship requires specific solutions that will bring actual results, not just on paper.

However, it should be noted that not only government support alone can save the hospitality industry, as effective management of a hotel company in a crisis involves timely identification of crisis situations and application of the most effective strategies to overcome them (Korsak, Hodia, 2020). In general, the current situation in all hotel and restaurant businesses is new and quite challenging for each owner. However, for many establishments that have managed to stay

in the market, leaving the so-called "comfort zone" should be an incentive to develop and improve their own innovative, technological, organisational and production processes.

4. State Policy in the Context of European Integration

The hotel services market, although very vulnerable, is able to adapt to changes, especially in times of crisis, when government support becomes extremely important, and nevertheless in the process of European integration.

Although in 2012 the Order of the Ministry of Agrarian Policy of Ukraine No. 590 dated 01.10.2012 approved the requirements for the development, implementation and application of permanent procedures based on the principles of the HACCP system, which is one of the EU requirements, the system has not been fully implemented at all enterprises to date, as it is perceived not as a prospect for development, but as a new barrier to business (The Order of the Ministry of Agrarian Policy of Ukraine "On Approval of the Requirements for Development, Implementation and Application of Actual Procedures Based on the Principles of the HACCP System", 2024).

That is why additional clarification in this area could convince entrepreneurs otherwise and accelerate the transition to ensuring the safety of their customers' food, increasing the competitiveness of enterprises and attracting potential consumers.

One of the turning points for Ukraine was September 16, 2014, when the Association Agreement between Ukraine and the EU was ratified, which opened up opportunities at the legislative level to promote the domestic tourism product to the European market and strengthen its position in the European hospitality market (Grynko, 2016).

In 2017, the Tourism and Resorts Development Strategy for the period up to 2026 was adopted. In this strategy, the state defined a number of provisions, including harmonisation of national standards with international requirements, development of a network of temporary accommodation and catering facilities, promotion and popularisation of the domestic tourism product, development of the tourism industry in general, as well as harmonisation of qualification requirements and standards of higher education in higher education institutions that provide training in the field of tourism and resorts, as well as standards of professional training of applicants (The Order of the Cabinet of Ministers of Ukraine "On Approval of the Strategy for the Development of Tourism and Resorts for the Period up to 2026", 2024). This strategy was intended to give impetus to the development of not only the hospitality sector, but also all related areas,

to promote cooperation with local governments and hromadas with SMEs. It was also intended to provide opportunities for attracting foreign investment, which would also have a positive impact not only on the tourism potential of Ukraine but also on the growth of the country's economy as a whole.

On November 4, 2020, the Law of Ukraine "On Amendments to the Tax Code of Ukraine on State Support for Culture, Tourism and Creative Industries" was signed, designed to mitigate the effects of the coronavirus crisis on the hospitality sector in particular. Thus, clause 74 stipulates: "Until January 1, 2023, transactions for the supply of temporary accommodation services provided by hotels and similar temporary accommodation facilities shall be taxed at a rate of 7%." (The Law of Ukraine "On Amendments to the Tax Code of Ukraine on State Support for Culture, Tourism and Creative Industries", 2024)

Following the watershed events of 2022, a strategic Roadmap "Recovery of small and medium-sized businesses in the tourism and hospitality sector in 2023-2033" was developed, and this publication was made possible with support from the United States Agency for International Development (USAID) under the Competitive Economy of Ukraine Programme (Roadmap "Recovery of small and medium-sized businesses in the tourism and hospitality sector in 2023-2033", 2024). The initiative was aimed at restoring Ukraine's business sector in the post-war period, which brings many challenges, but also many prospects, such as building a new structure of the hotel and restaurant sector that will meet modern market requirements, competitiveness, regional development, investment attractiveness and interdisciplinary cooperation. Obviously, the roadmap is essentially just a plan for future actions, but it is the joint, clearly defined activities of business and the state that will determine the future implementation of the strategy for recovery and development, and thus the revival of Ukraine's tourism and hospitality sector.

In summary, the history of the hotel business in Ukraine has included the ratification of the Association Agreement with the EU, the adoption of the Tourism and Resorts Development Strategy, and the adoption of a law on tax support for the industry during the corona crisis. The Strategic Roadmap, developed with the support of USAID, aimed at restoring the tourism and hospitality sector in Ukraine in the aftermath of the conflicts, opens up new opportunities for modernising the industry, ensuring its competitiveness and investment attractiveness. Thus, state support inextricably follows the development and implementation of legislative norms in line with those of EU countries, but the main task is to explain such norms to entrepreneurs, as many of them perceive them as obstacles rather than prospects.

That is why, in our opinion, closer cooperation between the state and business will help to overcome misunderstandings and resistance to inevitable changes.

5. Conclusions

The study confirms that the hostilities and the post-coronavirus period have significantly weakened the position of Ukraine's hotel and restaurant business, sometimes even destroying it altogether. The direction of the "forced tourist flow" away from the conflict line has become an artificial stimulus for the development of the accommodation and catering sector in the western regions of the country, including Zakarpattia Oblast. That is why the authors analysed the changes that accompanied this crisis period in the context of European integration processes, which were reflected in fluctuations in the number of operating hospitality businesses and noted the sector's high flexibility to change.

In assessing the social issues of the hospitality sector in Zakarpattia Oblast, it was noted that it is quite pragmatic and its conclusions about the destructive factors affecting the business of temporary accommodation echo those of the whole of Ukraine. This suggests that the strategy of state support and post-war recovery will be relevant for the whole country, with the only difference being the degree of immediate need for financial injections depending on the extent of the damage.

It should be noted that the importance of qualified personnel at enterprises is undoubtedly important, as a large number of employees went abroad during the military conflict, which led to a shortage of them in relatively quiet regions of the country, which have experienced an increased burden in the form of "internally displaced persons".

Moving forward with the future of post-war recovery and development, it is important to remember the

importance of cross-sectoral cooperation, and the development of tourism and hospitality needs to be seen in the context of a wide range of interlinkages with other sectors such as transport, culture, education and innovation.

The state regulation of business activities in the tourism and hospitality sector is aimed at stimulating integration into the framework of the European Union's legislative requirements, which is primarily a development rather than an obstacle to business. That is why close cooperation in terms of holding dialogues with entrepreneurs, explaining prospects, and assisting in implementation is the cornerstone that will give entrepreneurs a sense of support.

The development of a strategic Roadmap for the recovery of SMEs in the tourism and hospitality sector is a sign that Ukraine has the support of the European Union and creates hope for a brighter future in reviving the hospitality sector. Overall, the success of this strategy will depend on close cooperation between all stakeholders, openness to change and a willingness to work together towards revival.

Discussion. Due to the martial law in Ukraine, it is extremely difficult for state and local authorities to support the tourism and hospitality sector, but analysing the results of activities in accordance with the regulations adopted in the pre-war period, it can be noted that all the norms are being observed to the maximum extent possible in the current conditions. Certainly, there are still many challenges ahead for hospitality entrepreneurs, as recovery is not an easy process. That is why it is believed that the development of research towards the development of specific effective and motivated proposals based on similar experience in overcoming the consequences of similar crises in the world will allow to maximise the relevance of the action plan for their future implementation in practice.

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