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DEVELOPMENT OF STARTUP ECOSYSTEMS: CHALLENGES AND OPPORTUNITIES

The development of startup ecosystems is a key factor in ensuring innovation-driven growth, enhancing economic competitiveness, and integrating national markets into the global space. For Ukraine, this topic is of particular importance in the context of post-war reconstruction, attracting investment, and accelerating the processes of European integration. For the European Union, the relevance of studying startup ecosystems is driven by the need to overcome internal barriers, strengthen regional cohesion, and create conditions for sustainable development under global competition. The rapid expansion of sectors such as GreenTech, FinTech, and artificial intelligence underscores the transformative role of startups in shaping future economic trajectories. At the same time, the resilience of startup ecosystems has become a decisive factor in responding to global crises, fostering adaptability, and sustaining long-term growth.

Startup ecosystems have become an essential driver of economic growth, innovative solutions, and integration into global markets. For Ukraine and the European Union (EU), this topic is particularly relevant, as the development of entrepreneurial initiatives determines economic competitiveness, stimulates technological breakthroughs, and creates new opportunities for cooperation. At the same time, both regions are affected by common and specific challenges, which highlights the need for a comprehensive analysis of their ecosystems, identification of intersections, and pathways for further integration. The purpose of this article was to identify common and specific problems of the startup ecosystems of Ukraine and the European Union, outline prospects for development, and formulate proposals for organisational and political mechanisms that can ensure their sustainable functioning and mutual integration.

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proposals for organisational and political mechanisms that can ensure their sustainable functioning and mutual integration.

Table 1. Key challenges for start-ups in the EU and Ukraine

Barrier	EU Startups	Ukrainian Startups
Access to Funding	Most money goes to rich regions; smaller areas don't get much.	Very little investment; war and risks make it worse.
Talent Shortages	Big companies hire most skilled workers; rules make moving workers across countries hard.	Many skilled workers leave the country.
Regulatory Complexity	Different laws in each country make it hard to grow.	Rules are unclear and not flexible.
Market Fragmentation	Different languages and cultures make cross-border growth hard.	Same problem – hard to grow across regions.

Access to funding remained a critical barrier for startups, impacting their ability to scale and compete in global markets. In Ukraine, early-stage funding was particularly limited due to a nascent venture capital ecosystem and an over-reliance on external investors. This dependency often led to challenges in retaining intellectual property and skilled talent within the country, creating vulnerabilities in long-term innovation and economic growth. Conversely, while the EU benefits from substantial investment volumes, disparities in funding distribution were a persistent issue.

Ukraine faced significant brain drain, with skilled professionals emigrating to pursue better opportunities abroad. This migration diminished the local talent pool, limiting the capacity of startups to grow and innovate. In the EU, while the region boasts a highly educated workforce, startups often struggle to compete with multinational corporations offering higher salaries and superior benefits. Additionally, bureaucratic obstacles to hiring international talent constrain

efforts to build diverse, competitive teams, further limiting the dynamism of the ecosystem. Regulatory and market fragmentation posed additional hurdles for startups. In Ukraine, inconsistent enforcement of regulations and bureaucratic inefficiencies delayed business operations and inflated operational costs, deterring both domestic and foreign entrepreneurs. In the EU, despite efforts at harmonisation, the regulatory landscape remained fragmented, with each member state maintaining distinct legal frameworks and compliance requirements. This lack of uniformity created barriers for startups seeking to scale across borders, imposing significant financial and administrative burdens that stifle innovation and growth.

Digital transformation was another pivotal trend, with AI, fintech, and health tech driving innovation globally. Ukraine's robust IT industry aligned well with these trends, positioning the country as a hub for AI development, software outsourcing, and fintech solutions. The skilled and cost-effective workforce was a significant advantage. In parallel, the EU benefited from well-structured regulatory frameworks and digital initiatives, such as the Digital Europe Programme (n.d.), which supported the adoption of advanced technologies. Enhanced market access for Ukrainian startups, targeted upskilling programs, and public-private partnerships in health tech could deepen the impact of digital transformation in both ecosystems. Decentralised Finance (DeFi) and blockchain were also gaining traction in Ukraine and the EU, offering innovative solutions in financial inclusion, digital identities, and payment systems (Blockchain Observatory & Forum: Conclusion report, n.d.). Ukraine's proactive approach to cryptocurrency and blockchain adoption positions it as a regional leader, while the EU provided a secure regulatory environment for blockchain startups. Collaborative frameworks and pilot projects for blockchain applications, particularly in public services, could strengthen these advancements.

Emerging regional hubs were reshaping the innovation landscape. In Ukraine, cities like Lviv and Kyiv were becoming vibrant tech ecosystems, driven by concentrated talent and growing international interest, though infrastructure and funding access remain challenges. Similarly, non-traditional hubs in the EU, such as Barcelona, Stockholm, and Lisbon, were diversifying the region's startup environment with competitive tax regimes and dynamic entrepreneurial networks.

Throughout the EU, startups encountered a fragmented market environment shaped by divergent consumer preferences, legal systems, and linguistic diversity. These factors can obstruct the realisation of pan-European business strategies. Nevertheless, the Single European Market offered substantial opportunities for cross-border growth by reducing trade and regulatory barriers among member states, positioning the EU as one of the most accessible and integrated economic blocs globally. Spain continued to underperform in research and development investment relative to other major EU economies. Both public

and private sector contributions to R&D remained low, and collaboration between academic institutions and industry actors was often limited. However, the country increasingly benefited from EU-level funding instruments, particularly Horizon Europe (EU research and innovation framework programme, n.d.), which promote knowledge transfer and transnational research initiatives. Innovation performance across the EU was similarly uneven.

The graph clearly depicts a substantial and persistent disparity in the absolute volume of venture funding between the two regions, with Europe consistently securing significantly higher capital compared to Ukraine.

The development of clusters in Ukraine helped the development of Ukrainian business. This development was ensured by integration into global production and distribution networks with a reduction in the processing of raw materials with low added value. The Ukrainian economy had certain advantages over the EU countries. Such advantages included low labour costs, quantity of labour resources and logistics. The economic relations between Ukraine and the EU can be characterised as gradually growing. More than 70% of Ukrainian IT exports were outsourced software development services. Ukrainian developers were integrated into more developed ecosystems and chains of other countries.

The presented Figure 1. illustrates the comparative trends in Venture Funding for Europe and Ukraine from 2018 to 2024, measured in USD billions.

Early-stage startups in the European Union (EU) continued to face significant challenges in securing adequate capital, despite overall growth in venture investments. However, these investments were unevenly distributed across the region. Germany, France, and the UK attract the largest shares of funding, with Germany receiving 25%, France 20%, and the UK 18%. These countries mainly drew investments in sectors such as FinTech, AI, GreenTech, HealthTech, and EdTech. On the other hand, peripheral regions, which encompass a range of diverse sectors, received only 8% of the total venture capital. This disparity underscored a critical issue: the lack of "patient capital" in less central regions, which impedes the growth of high-potential, innovative startups that often require long-term investment. Consequently, this uneven distribution of funding hindered the broader development of the EU's entrepreneurial ecosystem. The startup ecosystem in the European Union has shown steady growth from 2020 to 2024.

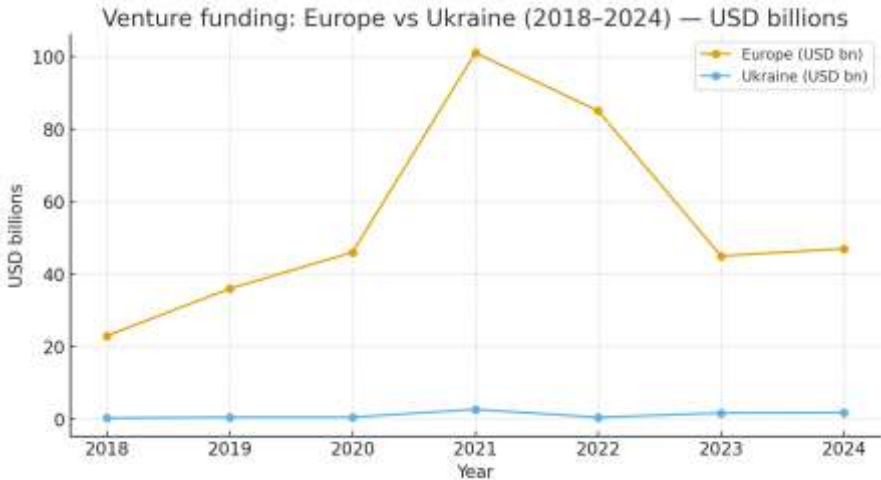


Figure 1. Venture funding: Europe vs Ukraine (2018-2024), USD billions

Major startup ecosystems such as London, Berlin and Paris continued to dominate the European innovation landscape, benefiting from established networks, robust talent pools and favourable regulatory frameworks. However, secondary centres such as Amsterdam, Stockholm and Barcelona were gaining importance, reflecting the geographic diversification of innovation activity on the continent. FinTech remained a leading area of investment, supported by Europe’s mature financial services industry and growing consumer demand for digital and decentralised financial solutions. Artificial Intelligence (AI) continued to be a critical area of focus, with applications spanning multiple industries, increasing efficiency and creating significant value propositions for both businesses and consumers. Green technologies were experiencing accelerated funding streams due to increased regulatory pressures and societal demands. The growth of new startup ecosystems highlighted the interplay between local policy support, international cooperation, and availability of skilled labour as critical factors for development. These trends highlighted a nuanced picture in which traditional hubs maintain their leadership while new hubs and technology verticals contribute to the overall dynamics