Rapid Assessment of the War’s Impact on Micro, Small and Medium Enterprises in Ukraine

This publication was developed by the PricewaterhouseCoopers Advisory LLC under the Swiss-Ukrainian Project “Strengthening MSME Business Membership Organizations in Ukraine,” which is implemented by the United Nations Development Programme (UNDP) in Ukraine in cooperation with the Ministry of Economy of Ukraine and with the support of Switzerland.

The study focuses on the current status of MSME business activity across different regions and industries, on key challenges and issues caused by the war and on major changes that have occurred compared to the pre-war period. It also aims to identify support available to MSMEs from various stakeholders, such as the government, local authorities, donor organizations and the private sector. The objective was to provide a holistic view on the needs of MSMEs and on support already available to identify areas of additional interventions in order to bring immediate recovery and sustainable post-war growth. This rapid assessment is based on a wide range of secondary data collected by the substantive desk research and related to March-May 2022.

This report summarizes the key findings from the assessment and presents observations about possible actions in response to challenges currently being faced by MSMEs in Ukraine. It aims to provide a snapshot of the current consequences of the war on the MSME sector. It is not a full-fledged study, and is based on secondary data of various surveys and research conducted during the war.

The views, conclusions or recommendations expressed in this document are those of the authors and compilers and do not necessarily reflect the views of the Government of Switzerland, the United Nations Development Programme in Ukraine or other United Nations agencies.

The material presented in this study is subject to copyright. As UNDP welcomes the dissemination of its knowledge, this publication may be reproduced, in whole or in part, for non-commercial purposes and should be duly referenced. Maps, graphic images etc. are used for illustrative purposes only and do not necessarily reflect the position of UNDP concerning the legal status of any country (territory) or concerning the delimitation of its frontiers or boundaries.

United Nations Development Programme in Ukraine
1 Klovsky Uzviz Kyiv, Ukraine 01021, Ukraine
Tel.: +380 (44) 253-9363, www.undp.org/ukraine

Cover photo: Oleksandr Vorobiov / UNDP Ukraine
## LIST OF ACRONYMS

<table>
<thead>
<tr>
<th>Acronym</th>
<th>Full Form</th>
</tr>
</thead>
<tbody>
<tr>
<td>ACC</td>
<td>American Chamber of Commerce</td>
</tr>
<tr>
<td>BMO</td>
<td>Business membership organization</td>
</tr>
<tr>
<td>CC</td>
<td>City Council</td>
</tr>
<tr>
<td>EBA</td>
<td>European Business Association</td>
</tr>
<tr>
<td>ESG</td>
<td>Environmental, social and governance</td>
</tr>
<tr>
<td>EU</td>
<td>European Union</td>
</tr>
<tr>
<td>GDP</td>
<td>Gross Domestic Product</td>
</tr>
<tr>
<td>HoReCa</td>
<td>Hotel – Restaurant – Café/Catering</td>
</tr>
<tr>
<td>IDP</td>
<td>Internally displaced person</td>
</tr>
<tr>
<td>ILO</td>
<td>International Labour Organization</td>
</tr>
<tr>
<td>IOM</td>
<td>International Organization for Migration</td>
</tr>
<tr>
<td>ITFC</td>
<td>Ukraine Investment and Trade Facilitation Center</td>
</tr>
<tr>
<td>MAPF</td>
<td>Ministry of Agrarian Policy and Food of Ukraine</td>
</tr>
<tr>
<td>ME</td>
<td>Ministry of Economy of Ukraine</td>
</tr>
<tr>
<td>MSMEs</td>
<td>Micro, small and medium enterprises</td>
</tr>
<tr>
<td>OECD</td>
<td>Organisation for Economic Co-operation and Development</td>
</tr>
<tr>
<td>OMA</td>
<td>Oblast Military Administration</td>
</tr>
<tr>
<td>SMEs</td>
<td>Small and medium enterprises</td>
</tr>
<tr>
<td>UIRD</td>
<td>Ukrainian Index of Retail Deposit Rates</td>
</tr>
<tr>
<td>UNHCR</td>
<td>Office of the United Nations High Commissioner for Refugees</td>
</tr>
<tr>
<td>USAID</td>
<td>United States Agency for International Development</td>
</tr>
</tbody>
</table>
## GLOSSARY

<table>
<thead>
<tr>
<th>Term</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business membership organization (BMO)</td>
<td>Non-profit organizations in which companies or individual entrepreneurs are members. Such organizations are guided democratically by the decisions of their members, take collective actions and deliver a wide range of requested services for their members. The term BMO refers to chambers of commerce, business associations, federations and apex bodies, employers’ organizations and others.</td>
</tr>
<tr>
<td>City Council (CC)</td>
<td>Legislative body of a municipality or local government area.</td>
</tr>
<tr>
<td>Micro, small and medium enterprises (MSMEs)</td>
<td>Categories of enterprises depending on such criteria as the balance sheet value of assets/annual turnover and number of employees. To fall under a specific category a company should meet at least two of the following criteria set by the Law of Ukraine «On Accounting and Financial Reporting in Ukraine»:</td>
</tr>
<tr>
<td></td>
<td>- Micro enterprise: balance sheet value of assets – up to EUR350,000/ annual turnover – up to EUR700,000 and number of employees – up to 10 employees.</td>
</tr>
<tr>
<td></td>
<td>- Small enterprise: balance sheet value of assets – up to EUR4.0 mn / annual turnover – up to EUR8.0 mn and number of employees – up to 50 employees.</td>
</tr>
<tr>
<td></td>
<td>- Medium enterprise: balance sheet value of assets – up to EUR20.0 mn / annual turnover – up to EUR40.0 mn and number of employees – up to 250 employees.</td>
</tr>
<tr>
<td>Oblast</td>
<td>Main type of first-level administrative division of Ukraine.</td>
</tr>
<tr>
<td>Oblast Military Administration (OMA)</td>
<td>National-level branch of the Government of Ukraine that administers an oblast under martial law.</td>
</tr>
<tr>
<td>Relocation</td>
<td>Transfer of business activities and assets from one geographic location to another in search of a more favourable and secure business environment.</td>
</tr>
</tbody>
</table>
LIST OF CHARTS AND TABLES

Charts

Chart 1. Share of enterprises led by women/men, 2021 14
Chart 2. Snapshot of the Ukrainian MSME sector in 2020 16
Chart 3. Gross sales of enterprises by industry and share of women-led businesses 17
Chart 4. Structure of gross sales by industry and enterprise size before the war, 2020 18
Chart 5. Status of business activity compared to pre-war, April 2022 20
Chart 6. Change of business activity of SMEs compared to pre-war, March-May 2022 21
Chart 7. Working mode of the Ukrainian population by regions, April 2022 22
Chart 8. Expected revenue in 2022 as compared to 2021 level, March 2022 23
Chart 9. Percentage of SMEs planning to pay to suppliers for goods, services or raw materials compared with the pre-war period, April 2022 23
Chart 10. Staff changes at SMEs, 2022 24
Chart 11. Business transformation caused by the war, 2022 25
Chart 12. Relocation of companies, April 2022 25
Chart 13. Displacement of residents by regions, April 2022 26
Chart 14. Savings of the Ukrainian population, April 2022 28
Chart 15. Main purchases of the Ukrainian population during the war, March-April 2022 29
Chart 16. Challenges faced by MSMEs in the pre-war period, February 2022 32
Chart 17. Relocation of companies from the warfare territories, May 2022 45
Chart 18. Working mode of the Ukrainian population, April 2022 61
Chart 19. Geography of business relocation, May 2022 61
Chart 20. Direct losses of SMEs from 24 February to 07 May 2022 62
Chart 21. IDPs by macro-region of origin, May 2022 62
Chart 22. Demographics of IDPs, May 2022 63
Chart 23. Demographics of refugees, March-April 2022 63
Chart 24. Reasons for purchasing goods of common and new brands, March-April 2022 64

Tables

Table 1. State support for business during the war 65
Table 2. Examples of local support for businesses during the war 67
Table 3. Examples of donor support initiatives for business during the war 69
Table 4. Examples of private support initiatives for business during the war 71
INTRODUCTION
Foreword

On 24 February 2022 Russia launched a full scale and unprecedented war against Ukraine, causing disruption in business activity, damage to people, cities and infrastructure, and having a devastating impact on Ukraine’s economy. This rapid assessment of the war’s impact on Ukrainian micro, small and medium enterprises (MSMEs) seeks to provide elements to better analyse how the crisis has affected their business activities and to design response measures in support of business continuity and recovery.

The study focuses on the current status of MSME business activity across different regions and industries, on key challenges and issues caused by the war and on major changes that have occurred compared to the pre-war period. It also aims to identify support available to MSMEs from various stakeholders, such as the government, local authorities, donor organizations and the private sector. The objective was to provide a holistic view on the needs of MSMEs and on support already available to identify areas of additional interventions in order to bring immediate recovery and sustainable post-war growth.

This report summarizes the key findings from the assessment and presents observations about possible actions in response to challenges currently being faced by MSMEs in Ukraine. It aims to provide a snapshot of the current consequences of the war on the MSME sector. It is not a full-fledged study, and is based on secondary data of various surveys and research conducted during the war.

Assessment methodology and limitations

This rapid assessment is based on a wide range of secondary data collected by the substantive desk research and related to March-May 2022. The data collection can be grouped into several major sources:

- Surveys and studies conducted among MSMEs and citizens of Ukraine
- Ukrainian legislation related to the state response to business needs and challenges in time of war
- News related to the support initiatives published on the websites of both state and local authorities of Ukraine
- News published on the websites of business associations, international donor organizations related to support initiatives during the war
- Data of the State Statistics Service of Ukraine related to the historic contribution of MSMEs to the Ukrainian economy.

As to surveys completed by other research organizations, preference was given to those studies which were conducted on a periodic basis, enabling one to draw conclusions about trends in a quickly changing war environment.
Given the rapid nature of the assessment and limited time frame for data collection, the report has a number of limitations set out below:

- **Time limitation**: this assessment was conducted within a short time period (May 2022), and it may not capture any recent developments made by the time this report is published.

- **Official statistics**: due to martial law the State Statistics Service of Ukraine has not published any fresh data for 2022.

- **Survey limitations**: the two major surveys among MSMEs used for the purposes of this rapid assessment were conducted by the Advanter Group and Gradus Research Company. The Advanter Group ran four waves of the survey covering from 207 to 934 respondents between 2 March and 7 May 2022. The data were collected online. No details about the structure of the sample by business size or geography of the respondents was provided. The data of the Gradus Research Company were collected via mobile applications of 303 respondents representing MSMEs, but without information on their geographical location. It should be noted that given ongoing hostilities and possible disruptions with mobile and internet connection, respondents from the war affected territories of Ukraine may have had difficulties with participating in the surveys. Hence they could be underrepresented.

- **Data disaggregated by the size of enterprises**: as mentioned above, some of the studies do not disclose full information on the sample structure and do not specify whether they included micro-businesses. Therefore, in this assessment referring to SMEs or MSMEs depends on the terminology used in a specific study, unless micro-businesses were specifically mentioned among respondents.

- **Central and local government business support initiatives**: the Government of Ukraine and local authorities introduced business support initiatives on a regular basis. The initiatives covered in this report were chosen as illustrative examples of what state authorities offered to business and do not necessarily represent all existing initiatives, nor all oblasts where such initiatives may have been introduced. The list of oblasts that were analysed as part of this assessment is shown in the respective section of the report.

- **Donor and private business support initiatives**: for the purposes of this assessment, donor and private business support initiatives are shown as examples of the support available for MSMEs in Ukraine. Due to the time limitation of this rapid assessment, only selected initiatives have been covered.

- **Exchange rate**: all historical period data denominated in Ukrainian hryvnia were translated into US dollars at the average UAH/USD exchange rate of the National Bank of Ukraine for a respective year. This was done purely for information purposes.

- **Gender-disaggregated data**: gender differentiated analysis was undertaken where the data were available.
EXECUTIVE SUMMARY
The MSME sector is a major contributor to the Ukrainian economy. It accounted for 73 percent of the country’s employment and generated 63 percent of gross sales in 2020. Before the war, almost two-thirds of Ukrainian MSMEs were located in the regions which were or are still exposed to active land warfare. The number of persons employed by MSMEs was almost twice as high and the sales generated as almost three times higher in those regions compared to the rest of the country that has not been involved in active land warfare.

At the time of this assessment, active land warfare continued in five oblasts, four of which are among the most industrialized oblasts of the country. In total these oblasts employed almost 1.1 mn people (77 percent of which by MSMEs) and generated UAH1,247.4 bn (US$ 46.3 bn) of gross sales (60 percent of which by MSMEs) in 2020. Manufacturing was a dominant sector in all these oblasts (except for Kharkiv oblast), followed by retail and wholesale trade, agriculture and construction. Furthermore, the share of women-led businesses is higher in these oblasts as compared to the average in the country.

Results of recent surveys conducted among Ukrainian MSMEs show that about 50 percent of enterprises operated at only 10-60 percent capacity of the pre-war level as of mid-April 2022. They also confirm that MSMEs are more susceptible to the shocks caused by the war than large enterprises (only 14 percent of MSMEs operated at full capacity versus 41 percent of large enterprises as of mid-April 2022). Any major downsizing of activities practically means the cessation of operations for MSMEs as they have a limited ability to diversify their economic activities and thus face more challenges with transformation and adaptation.

MSMEs usually have lower financial leverage and fewer options to attract additional financing. Therefore, immediate shocks from Russia’s invasion forced a large share of the MSME sector (22 percent as of mid-April 2022), which had already been severely hit by COVID-19, to cease operations. However, one month after the outbreak of the war, business had begun to adapt to the new economic context as evidenced by the share of “closed” enterprises among MSMEs: 22 percent in mid-April versus 75 percent at the beginning of March.

The business revival, however, is gradual and gains momentum with time. This is due to the fact that a large share of MSMEs need either to relocate to safer territories in Ukraine or to undergo some transformation. More than half of MSMEs completed, initiated or plan to transform their business to revive operations. Around one-third of MSMEs surveyed by Gradus Research Company have fully relocated, are in the process of relocation or plan to relocate production facilities to relatively safer regions.

Business activity will hardly recover to the level of 2021. More than half of SMEs forecast 2022 revenues to be below 50 percent of the 2021 level.
This is the result of a number of factors, such as disruption in business activities due to security risks, a drop in consumer demand, breaks in supply chains and difficulties with logistics. The latter two factors also drive the margins downwards due to increased cost of input materials and services. With the drop in sales and underutilized production capacities, businesses were unable to avoid staff redundancies, which peaked to 33 percent among MSMEs in April 2022. At the same time, there is a mismatch between demand and the labour supply in certain industries (especially in such labour intensive sectors as agriculture and textiles, apparel and footwear) and across all geographical regions due to the massive displacement of people and relocation of enterprises.

The war has brought new challenges and aggravated some existing ones for MSMEs. Breaks in supply chains and the shrinking demand for goods and services on the domestic market has increased the need for companies to search even more actively for new business partners and clients and to explore opportunities in foreign markets. Both access to financing and affordability of lending resources have become a top issue for MSMEs since the war started. Commercial banks have practically stopped active lending to MSMEs, and credit resources for working capital and project financing are now available only via state government programmes.

In addition to the above challenges, MSMEs have to deal with the risks and consequences of the war, including losses from destruction of assets, personnel safety risks, destroyed infrastructure and cybersecurity attacks. Exporters face significant challenges with transportation of products to foreign markets, given the blockade of the Ukrainian seaports by the Russian navy and rail and truck bottlenecks in transport channels. Many importers have suffered from foreign currency restrictions introduced by the government, while exporters are not able to recover their VAT due to suspension of the electronic system of the VAT refund administration.

In the short term, MSMEs will not be able to overcome these challenges on their own, and it is critical for all key stakeholders to pool their efforts in facilitating economic revival by means of business transformation, the development of new supply chains, the establishment of business partnerships and cooperation, cost optimization and financial support. The focus should be on industries that have prospects to become growth drivers of the country’s economic development (e.g. agriculture, food industry, IT, construction and infrastructure).

The action plan for the successful development of MSMEs should call for technological innovation, promotion of environmental, social and governance (ESG) sectors and impact investment, job creation, facilitation of a conducive environment for social and solidarity enterprises and deepening economic ties with the European Union (EU) countries. These actions should also take into consideration regional specifics in order to address potential disbalances in the economic development caused by the war.
SECTION I.

MSME SECTOR OVERVIEW

Photo credit: Oleh Matsko / UNDP Ukraine
Micro, small and medium-sized enterprises (MSMEs) play an important role in the Ukrainian economy. According to the data of the State Statistics Service of Ukraine, MSMEs represented about 99.9 percent of business entities in the country in 2020 (almost 83 percent of them were microenterprises)\(^3\). The contribution of Ukrainian MSMEs in employment and gross sales are close to the indicators of developed countries, i.e. of 73 percent and 63 percent respectively. The contribution to value added was 70 percent in 2020.

According to the data of the State Statistics Service of Ukraine as of 1 November 2021, the share of women-led businesses remains quite low. It is higher among micro-enterprises, but it decreases with the increasing number of employees at an enterprise (see Chart 1).

According to the results of the survey\(^4\) conducted by UNDP within 1,000 of Ukrainian MSMEs at the beginning of February 2022, less than one-third of respondents are or have been members of business membership organizations (BMOs): 22 percent of respondents are current members of BMOs, while an additional 7 percent of MSMEs were members of BMOs in the past. The largest share of respondents-BMO members is among medium-sized and small enterprises (26 percent and 19 percent, respectively), while the lowest – among micro-enterprises (6 percent).

Business activities of MSMEs\(^5\) are concentrated in several historically established regional business centres. As shown on Chart 2, Kyiv city accumulated the largest share of MSMEs in 2020, both by quantity and by their contribution to the economy. Thus, more than a quarter of Ukrainian MSMEs were based in Kyiv, employing almost 22 percent of people working at Ukrainian MSMEs and generating 42 percent of total MSME gross sales. Together with Kyiv city, Kyiv oblast holds the top position in terms of MSME representation. Then, it is followed by Dnipropetrovsk, Odesa, Kharkiv and Lviv oblasts. The smallest contributor to MSME sector activities is Luhansk oblast, given that since 2014 most of the oblast is not controlled by the Ukrainian government.
To estimate the impact of the war on the economic activity of MSMEs based on their location, all oblasts were split into two groups, according to the extent of warfare happening since 24 February (see Chart 2). Chart 2 shows that 65 percent of enterprises were located on territories affected by conflict, employing about 64 percent of employees and generating about 73 percent of gross sales of the Ukrainian MSMEs.

The group of oblasts exposed to active land warfare can be further split into two subgroups. The first one includes liberated oblasts from Russian occupation, but no longer exposed to active warfare. These include Chernihiv, Dnipropetrovsk, Kyiv, Mykolaiv, Sumy and Zhytomyr oblasts and the city of Kyiv. The second subgroup consists of oblasts which are still exposed to active land warfare. These include Donetsk, Kharkiv, Kherson, Luhansk and Zaporizhzhia oblasts.

The contribution of MSMEs of the liberated oblasts to the Ukrainian economy before the war is quite significant. According to the data of each oblast Main Departments of the State Statistics Service of Ukraine, almost 3.3 mn people were employed by all enterprises in these oblasts in 2020, of which 65 percent were employed by MSMEs. Enterprises of the region generated UAH6,367.3 bn (US$236.2 bn) of gross sales, with a 61 percent contribution from MSMEs.

Those oblasts still exposed to active land warfare traditionally accounted for a significant share of the country’s economy. Overall, these oblasts jointly employed almost 1.1 mn people (77 percent of which by MSMEs) and generated UAH1,247.4 bn (US$46.3 bn) of gross sales (60 percent of which by MSMEs) in 2020. Manufacturing is a dominant sector in all these oblasts except for Kharkiv oblast, where it is second to the retail and wholesale trade sector. In fact, these five oblasts generate almost 31 percent of the country’s gross sales in manufacturing.

Agriculture is the third sector in terms of gross sales in these five oblasts after manufacturing and trade, totalling 32 percent of the country’s gross sales in the sector. The occupied territories contributed 16 percent of the country’s construction gross sales.

The average share of women-led businesses in these oblasts was 39 percent, which is higher compared to other territories of Ukraine (34 percent). The highest share of women-led businesses was in Donetsk and Luhansk oblasts (45 percent and 43 percent respectively).

The impact of the war on the Ukrainian economy is large. Chart 3 shows that oblasts that were or are still exposed to active warfare generate the most gross sales of all major economic sectors of Ukraine. More than three quarters of gross sales of all major economic sectors except for agriculture and construction were generated in these oblasts.
Chart 2.
Snapshot of the Ukrainian MSME sector in 2020

<table>
<thead>
<tr>
<th>Oblast</th>
<th>Number of MSMEs, thousands</th>
<th>Number of employed at MSMEs, thousands</th>
<th>Sales of MSMEs, UAH billions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kyiv City</td>
<td>244.4</td>
<td>2,965.0</td>
<td>4,584.0</td>
</tr>
<tr>
<td>Donetsk</td>
<td>4.1</td>
<td>7.3</td>
<td>6.3</td>
</tr>
<tr>
<td>Kherson</td>
<td>2.2</td>
<td>N/A</td>
<td>2.6</td>
</tr>
<tr>
<td>Mykolaiv</td>
<td>3.1</td>
<td>2.2</td>
<td>1.8</td>
</tr>
<tr>
<td>Zaporizhzhia</td>
<td>N/A</td>
<td>2.6</td>
<td>4.3</td>
</tr>
<tr>
<td>Luhansk</td>
<td>N/A</td>
<td>N/A</td>
<td>0.6</td>
</tr>
<tr>
<td>Donetsk</td>
<td>2.5</td>
<td>8.9</td>
<td>8.2</td>
</tr>
<tr>
<td>Kharkiv</td>
<td>6.6</td>
<td>6.7</td>
<td>7.7</td>
</tr>
<tr>
<td>Poltava</td>
<td>3.0</td>
<td>2.0</td>
<td>3.9</td>
</tr>
<tr>
<td>Cherkasy</td>
<td>2.6</td>
<td>2.8</td>
<td>3.2</td>
</tr>
<tr>
<td>Zhytomyr</td>
<td>1.6</td>
<td>2.3</td>
<td>1.5</td>
</tr>
<tr>
<td>Sumy</td>
<td>1.6</td>
<td>1.5</td>
<td>2.4</td>
</tr>
<tr>
<td>Dnipropetrovsk</td>
<td>8.2</td>
<td>7.3</td>
<td>8.9</td>
</tr>
<tr>
<td>Khmelnytskyi</td>
<td>5.7</td>
<td>3.2</td>
<td>5.9</td>
</tr>
<tr>
<td>Rivne</td>
<td>1.6</td>
<td>1.5</td>
<td>2.1</td>
</tr>
<tr>
<td>Dnipropetrovsk</td>
<td>4.1</td>
<td>2.5</td>
<td>2.0</td>
</tr>
<tr>
<td>Kherson</td>
<td>2.2</td>
<td>N/A</td>
<td>2.3</td>
</tr>
<tr>
<td>Zhytomyr</td>
<td>1.6</td>
<td>1.5</td>
<td>2.3</td>
</tr>
<tr>
<td>Odesa</td>
<td>6.8</td>
<td>1.7</td>
<td>4.6</td>
</tr>
<tr>
<td>Mykolaiv</td>
<td>3.1</td>
<td>1.8</td>
<td>2.3</td>
</tr>
<tr>
<td>Zakarpattia</td>
<td>1.8</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>Chernivtsi</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>Lviv</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>Volyn</td>
<td>1.6</td>
<td>2.1</td>
<td>2.1</td>
</tr>
<tr>
<td>Ternopil</td>
<td>1.4</td>
<td>2.5</td>
<td>2.5</td>
</tr>
<tr>
<td>Chernihiv</td>
<td>1.7</td>
<td>1.5</td>
<td>2.3</td>
</tr>
<tr>
<td>Kharkiv</td>
<td>6.6</td>
<td>7.7</td>
<td>5.8</td>
</tr>
<tr>
<td>Odesa</td>
<td>6.8</td>
<td>5.8</td>
<td>5.8</td>
</tr>
<tr>
<td>Kyiv</td>
<td>27.1</td>
<td>41.7</td>
<td>37.5</td>
</tr>
<tr>
<td>Zaporizhzhia</td>
<td>4.1</td>
<td>4.3</td>
<td>4.3</td>
</tr>
<tr>
<td>Rivne</td>
<td>1.6</td>
<td>1.1</td>
<td>1.2</td>
</tr>
<tr>
<td>Khmelnytskyi</td>
<td>2.0</td>
<td>1.5</td>
<td>3.2</td>
</tr>
<tr>
<td>Zhytomyr</td>
<td>1.6</td>
<td>1.5</td>
<td>2.1</td>
</tr>
<tr>
<td>Mykolaiv</td>
<td>3.1</td>
<td>2.3</td>
<td>1.8</td>
</tr>
<tr>
<td>Ternopil</td>
<td>1.8</td>
<td>1.5</td>
<td>3.2</td>
</tr>
<tr>
<td>Kyiv City</td>
<td>27.1</td>
<td>41.7</td>
<td>37.5</td>
</tr>
<tr>
<td>Donetsk</td>
<td>2.5</td>
<td>8.9</td>
<td>8.2</td>
</tr>
<tr>
<td>Poltava</td>
<td>3.0</td>
<td>2.0</td>
<td>3.9</td>
</tr>
<tr>
<td>Cherkasy</td>
<td>2.6</td>
<td>2.8</td>
<td>3.2</td>
</tr>
<tr>
<td>Zhytomyr</td>
<td>1.6</td>
<td>2.3</td>
<td>1.5</td>
</tr>
<tr>
<td>Sumy</td>
<td>1.6</td>
<td>1.5</td>
<td>2.4</td>
</tr>
<tr>
<td>Dnipropetrovsk</td>
<td>8.2</td>
<td>7.3</td>
<td>8.9</td>
</tr>
<tr>
<td>Khmelnytskyi</td>
<td>5.7</td>
<td>3.2</td>
<td>5.9</td>
</tr>
<tr>
<td>Rivne</td>
<td>1.6</td>
<td>1.5</td>
<td>2.1</td>
</tr>
<tr>
<td>Dnipropetrovsk</td>
<td>4.1</td>
<td>2.5</td>
<td>2.0</td>
</tr>
<tr>
<td>Kherson</td>
<td>2.2</td>
<td>N/A</td>
<td>2.3</td>
</tr>
<tr>
<td>Zhytomyr</td>
<td>1.6</td>
<td>1.5</td>
<td>2.3</td>
</tr>
<tr>
<td>Odesa</td>
<td>6.8</td>
<td>1.7</td>
<td>4.6</td>
</tr>
<tr>
<td>Mykolaiv</td>
<td>3.1</td>
<td>1.8</td>
<td>2.3</td>
</tr>
<tr>
<td>Zakarpattia</td>
<td>1.8</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>Chernivtsi</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>Lviv</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>Volyn</td>
<td>1.6</td>
<td>2.1</td>
<td>2.1</td>
</tr>
<tr>
<td>Ternopil</td>
<td>1.4</td>
<td>2.5</td>
<td>2.5</td>
</tr>
<tr>
<td>Chernihiv</td>
<td>1.7</td>
<td>1.5</td>
<td>2.3</td>
</tr>
</tbody>
</table>

The largest share of gross sales generated in oblasts exposed to the war is in the information and telecommunications sector – 90 percent and the lowest in agriculture – 54 percent. The share of women-led businesses varies across industries with the highest representation of 47 percent in other services sector and lowest in construction (16 percent)\(^7\).

As shown on Chart 4, MSMEs generally have a lower contribution to gross sales of the economic sectors in territories which were or are exposed to active warfare. However, significantly larger gross sales in such oblasts make the contribution of MSMEs in these territories in absolute terms still considerably larger compared to the contribution of MSMEs in territories not exposed to active warfare. This is the case, except for industries with a high representation of large enterprises, e.g. manufacturing, transport and logistics and IT. Once the impact of large enterprises is excluded, the difference in the size of the MSME sectors in war-affected and non-war-affected oblasts is smaller.

---

\(^7\) State Statistics Service of Ukraine, 1 November 2021.
Chart 4.
Structure of gross sales by industry and enterprise size before the war, 2020 (Percentage)

<table>
<thead>
<tr>
<th>Oblasts where land warfare took place</th>
<th>Oblasts where no land warfare took place</th>
</tr>
</thead>
<tbody>
<tr>
<td>24 Large</td>
<td>17 Large</td>
</tr>
<tr>
<td>39 Medium-sized</td>
<td>11 Medium-sized</td>
</tr>
<tr>
<td>14 Small</td>
<td>20 Small</td>
</tr>
<tr>
<td>7 Micro</td>
<td>35 Micro</td>
</tr>
<tr>
<td>16 Confidential data for large and medium-sized</td>
<td>17 Confidential data for large and medium-sized</td>
</tr>
<tr>
<td>51 Large</td>
<td>32 Large</td>
</tr>
<tr>
<td>38 Medium-sized</td>
<td>7 Medium-sized</td>
</tr>
<tr>
<td>5 Small</td>
<td>35 Small</td>
</tr>
<tr>
<td>Confidential data for medium-sized and small</td>
<td>Confidential data for medium-sized and small</td>
</tr>
<tr>
<td>22 Confidential data for medium-sized and small</td>
<td>Confidential data for medium-sized and small</td>
</tr>
<tr>
<td>45 Other services</td>
<td>1 Other services</td>
</tr>
<tr>
<td>1 Confidential data for small and medium-sized</td>
<td>Confidential data for small and medium-sized</td>
</tr>
<tr>
<td>58 Agriculture</td>
<td>50 Agriculture</td>
</tr>
<tr>
<td>17 Transport and logistics</td>
<td>12 Transport and logistics</td>
</tr>
<tr>
<td>9 Medium-sized</td>
<td>24 Transport and logistics</td>
</tr>
<tr>
<td>6 Small</td>
<td>11 Transport and logistics</td>
</tr>
<tr>
<td>Confidential data for small and medium-sized</td>
<td>Confidential data for small and medium-sized</td>
</tr>
<tr>
<td>15 IT and telecommunications</td>
<td>33 IT and telecommunications</td>
</tr>
<tr>
<td>34 Large</td>
<td>23 Large</td>
</tr>
<tr>
<td>35 Medium-sized</td>
<td>10 Large</td>
</tr>
<tr>
<td>16 Small</td>
<td>13 Large</td>
</tr>
<tr>
<td>12 Micro</td>
<td>21 Large</td>
</tr>
<tr>
<td>Confidential data for small and medium-sized</td>
<td>Confidential data for small and medium-sized</td>
</tr>
<tr>
<td>11 IT and telecommunications</td>
<td>30 IT and telecommunications</td>
</tr>
<tr>
<td>34 Large</td>
<td>11 IT and telecommunications</td>
</tr>
<tr>
<td>25 Medium-sized</td>
<td>30 IT and telecommunications</td>
</tr>
<tr>
<td>33 Small</td>
<td>Confidential data for small and medium-sized</td>
</tr>
<tr>
<td>14 Medium-sized</td>
<td>27 Confidential data for small and medium-sized</td>
</tr>
<tr>
<td>Confidential data for small and medium-sized</td>
<td>Confidential data for small and medium-sized</td>
</tr>
<tr>
<td>15 IT and telecommunications</td>
<td>Confidential data for small and medium-sized</td>
</tr>
<tr>
<td>15 IT and telecommunications</td>
<td>Confidential data for small and medium-sized</td>
</tr>
</tbody>
</table>

Note: Legislation protects the confidential data of companies and individuals. Therefore, statistical data are not available for some enterprises. In large measure, data for large and medium-sized enterprises are confidential for the following sectors: agriculture, manufacturing, construction, trade and vehicle repair and transport and logistics. Similarly, in some oblasts data of medium- sized and small enterprises are confidential for the IT sector and other services sector. The retail trade and wholesale sectors include vehicle repair.

SECTION II. IMPACT OF THE WAR ON MSMEs
Existing data points to evidence that MSMEs are severely affected by the war compared to large businesses. The latter have been more resilient to the shocks, as evidenced by the relatively smaller share of large enterprises that ceased operations in mid-April compared to every fifth business from the MSME sector. The situation has been improving, however, as more MSMEs adapt to the new environment and resume their operations, though with half significantly downsizing their activities (i.e. operating at only 10 to 60 percent of pre-war capacity).

According to the recent polls held by the Advanter Group and by the American Chamber of Commerce (ACC), after one and a half months of the war, 78 percent of SMEs and 91 percent of large enterprises continue to operate in full or at reduced capacity (see Chart 5). Large enterprises have demonstrated a more stable performance: there are almost three times more fully functioning large enterprises than SMEs (41 percent vs 14 percent), and only 2 percent of large enterprises have ceased operations, compared to 22 percent of SMEs. It should also be noted that 34 percent of SMEs were functioning only at 10 to 30 percent capacity of their pre-war level (see Chart 6).

Nevertheless, business activity of Ukrainian SMEs shows gradual revival. The Advanter Group conducted a series of surveys in March-May 2022 among SMEs showing a decrease in the percentage of SMEs reporting the suspension of their operations, as demonstrated in Chart 6. The number of SMEs that were operating at 10-30 percent capacity at the beginning of May increased by almost three times compared to the beginning of March, suggesting that such SMEs may have resumed their operations after ceasing them at the start of the war.
The number of enterprises operating at 40-60 percent capacity also increased fourfold (6 percent in early March against 24 percent in early May), and those operating at almost 100 percent capacity – by six times (2 percent vs 12 percent).

The revival of business activity is also evidenced by the number of Ukrainians who are gradually beginning to return to work after dealing with emergencies, relocation and other security issues. The largest share of the working population (among those who had a job before the war) is in western and central Ukraine (69 percent and 62 percent, respectively), while the lowest in the east of Ukraine (44 percent). This also implies that a major part of functioning business is located in the western and central oblasts of Ukraine.

According to the survey of the Rating Group\(^1\), 59 percent of respondents were working as of the end of April compared to 46 percent as of mid-March (see Annex I). The share of those who were working in the usual mode increased to 35 percent vs 25 percent in mid-March. At the same time, the share of the survey respondents who were not working as of the end of April decreased to 39 percent from 53 percent as of mid-March.

According to the same survey, 63 percent of men and 54 percent of women had a job at the end of April. The results of the survey held by Info Sapiens\(^2\) at the end of March show that 79 percent of those who are working are salaried employees, 21 percent – self-employed or individual entrepreneurs.

---

\(^1\) Rating Group. Ninth nationwide poll: socio-economic problems during the war, April 2022.

\(^2\) Info Sapiens. Public opinion research: population losses from the war, March 2022.
The largest share of the population continuing to work is in western Ukraine – 69 percent vs 29 percent of those who do not work\textsuperscript{13} (see Chart 7). In southern and central Ukraine, the split of the working and non-working population (among those who had a job before the war) is 54 percent vs 44 percent and 62 percent vs 37 percent, respectively. The eastern region is the most affected by the war, where only 44 percent of the population continues working, and over half are not working. Judging by the share of the working population, one can conclude that the majority of fully or partially functioning businesses are concentrated in western and central Ukraine. Enterprises located in the east, 40 percent of which are women-led\textsuperscript{14}, are facing the biggest operational challenges.

Despite some revival of business activity, MSMEs are facing liquidity issues due to the fall in demand, reduced customer orders and declining cashflows from operations. In response, enterprises have revised their cost base, cutting staff costs and delaying payments to suppliers. More than half of SMEs forecast 2022 revenues to be below 50 percent of the 2021 level.

Despite the revival of business activity, 79 percent of enterprises reported lower revenues in April 2022 compared to the pre-war period, as per the results of the survey completed by Gradus\textsuperscript{15}. According to the same survey, 61 percent of enterprises reported a drop in revenues from 50-99 percent compared with the pre-war level, and 18 percent of enterprises – a drop of 1-49 percent. At the same time, 7 percent of enterprises stopped generating revenue, and only 9 percent reported revenue in the pre-war amount and above.

\begin{table}[h]
\centering
\begin{tabular}{|c|c|c|c|c|}
\hline
Region & Work in the usual mode & Work remotely/partially & Don't work & Other \\
\hline
West & 43 & 26 & 29 & 2 \\
South & 32 & 22 & 44 & 2 \\
Center & 36 & 26 & 37 & 1 \\
East & 26 & 18 & 53 & 3 \\
\hline
\end{tabular}
\caption{Working mode of the Ukrainian population by regions, April 2022 (Respondent answers, expressed as percentage)}
\end{table}

\begin{itemize}
\item West includes Chernivtsi, Ivano-Frankivsk, Khmelnytskyi, Lviv, Rivne, Ternopil, Volyn and Zakarpattia oblasts; South – Dnipropetrovsk, Kherson, Mykolaiiv, Odesa and Zaporizhzhia oblasts; Centre – Cherkasy, Chernihiv, Kirovohrad, Kyiv, Poltava Sumy, Vinnytsia and Zhytomyr oblasts and the City of Kyiv; East – Donetsk, Kharkiv and Luhansk oblasts. The temporarily occupied territories of the Autonomous Republic of Crimea and Donbas region did not take part in the survey.
\item Source: Rating Group, survey of 1,200 citizens of Ukraine held on 26 April 2022.
\end{itemize}
According to the survey held by the Advanter Group\textsuperscript{16}, 65 percent of SMEs forecast 2022 revenues to be below 50 percent of the 2021 level and only 16 percent in the range between 50 and 100 percent (see Chart 8). Only 12 percent of SMEs have more optimistic forecasts and plan to increase their revenues in 2022 above 2021 levels.

Some positive signs of adaptation to the new realities and challenges caused by the war by businesses are evidenced by the recent trends in settlements of SMEs with suppliers for goods, services and raw materials. According to the survey conducted by Gradus\textsuperscript{17}, if in March only one in four companies (24 percent) planned to pay invoices, the same as before the war, then in April the share of such companies increased to 40 percent (see Chart 9). Moreover, the share of those who did not plan to pay supplier invoices fell from 29 percent in March to 16 percent in April.

\textbf{Chart 9.}

Percentage of SMEs planning to pay to suppliers for goods, services or raw materials compared with the pre-war period, April 2022

(Respondent answers, expressed as percentage)

\begin{table}[h]
\centering
\begin{tabular}{lcccc}
\hline
          & March 2022 & April 2022 \\
\hline
100\% or more of the pre-war payment level & 24 & 40 \\
50\%-99\% of the pre-war payment level & 16 & 19 \\
1\%-49\% of the pre-war payment level & 14 & 13 \\
Will not pay at all & 29 & 16 \\
Hard to say & 17 & 11 \\
\hline
\end{tabular}
\end{table}

Source: Gradus, survey of 303 enterprises held on 12-22 April 2022.
Despite the revival of business activity in April and the gradual resumption of SMEs’ operations, the share of staff redundancies increased to 33 percent in April compared to 21 percent in March (see Chart 10). A total of 42 percent of SME employees who continued working received a reduced salary and one in three employees had been sent on leave (paid/unpaid or partially paid). According to the survey conducted by Gradus, 17 percent of MSMEs sent employees on paid or partially paid leave (7 and 10 percent, respectively) and employees of 15 percent of MSMEs were sent on unpaid leave.

The total number of SME employees made redundant since the war’s outset is estimated at 1.2 mn people. The share of staff redundancies at micro-enterprises was almost 2.3 times higher than in medium-sized enterprises.

**Chart 10.**
Staff changes at SMEs, 2022
(Respondent answers, expressed as percentage)

- Share of staff redundancies
- Share of staff on leaves
- Share of staff that continue working

<table>
<thead>
<tr>
<th>Category</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Micro</td>
<td>42%</td>
</tr>
<tr>
<td>Small</td>
<td>24%</td>
</tr>
<tr>
<td>Medium</td>
<td>28%</td>
</tr>
<tr>
<td>Share of staff with salary cuts</td>
<td>42%</td>
</tr>
<tr>
<td>Share of staff that continue working</td>
<td>33%</td>
</tr>
<tr>
<td>Share of staff redundancies</td>
<td>33%</td>
</tr>
<tr>
<td>Share of staff on leaves</td>
<td>34%</td>
</tr>
</tbody>
</table>

**Source:** Advanter Group, survey of 276 owners and CEOs of SMEs held on 11-13 April 2022.

MSMEs are adapting to the new environment and responding to the war challenges either by relocating to safer regions or by undergoing a business transformation. This should lead to increases in the share of MSMEs that resume their operations and also to an improvement of their ability to operate at higher capacity. At the same time, more than two thirds of MSMEs have not relocated and 38 percent of MSMEs believe they do not require a business transformation.

According to the recent survey of Gradus held in April 2022, more than one third of MSMEs do not require business transformation and more than a half of MSMEs require, undergo or have completed a business transformation (see Chart 11). Thus, 52 percent of MSMEs have the potential to increase their business activity in the future as a result of transformation.
As per the results of the survey held by Gradus, 21 percent of MSMEs that wanted to relocate have already done so, or are in the process of relocation; another 10 percent see the need for relocation, but have not yet moved their business (see Chart 12). For 13 percent of companies, any business transformation also triggers the need for relocation. Almost 2 out of 3 enterprises do not require business relocation, another 7 percent have not yet made any decision on the issue.
According to the survey of the Advanter Group\textsuperscript{23} conducted on 4-7 May 2022, the share of SMEs that have relocated increased to 24 percent, including 20 percent of enterprises that have moved within Ukraine and 4 percent that relocated abroad (see Annex I). Relocation abroad is primarily performed by the companies providing IT, professional services (marketing, consulting and design) and health and social assistance. This includes women employees given the restrictions on men leaving the country under the country’s present martial law, and the relocation of IT infrastructure and the setting up of legal entities abroad to mitigate the commercial risks of doing business (e.g. banking operations).

Since 24 February 2022, 6.6 mn people have left Ukraine and 1.9 mn have returned to Ukraine (as of 23 May 2022)\textsuperscript{24}. Another 7.1 mn people have been displaced within Ukraine (Internally Displaced Persons (IDPs))\textsuperscript{25} and an additional 1.1 mn among non-displaced people are considering moving\textsuperscript{26}. The flows of IDPs and refugees creates additional pressures on the labour market, on social infrastructure and on housing of the hosting oblasts of Ukraine and of foreign countries.

A survey conducted by the research panel “Own opinion”\textsuperscript{27} shows that, since the beginning of the war, three fourths of the Ukrainians remained in their area of residence, and almost one in five citizens of Ukraine has relocated within Ukraine (see Chart 13). A total of 62 percent of the population of Ukraine from the east were forced to leave their homes, with half of them moving within Ukraine and 12 percent fleeing abroad.

<table>
<thead>
<tr>
<th>Region</th>
<th>Stayed in the region</th>
<th>Moved to another region</th>
<th>Left Ukraine</th>
</tr>
</thead>
<tbody>
<tr>
<td>West</td>
<td>91</td>
<td>3</td>
<td>6</td>
</tr>
<tr>
<td>Center</td>
<td>90</td>
<td>4</td>
<td>6</td>
</tr>
<tr>
<td>South</td>
<td>77</td>
<td>14</td>
<td>9</td>
</tr>
<tr>
<td>North</td>
<td>67</td>
<td>23</td>
<td>10</td>
</tr>
<tr>
<td>East</td>
<td>38</td>
<td>50</td>
<td>12</td>
</tr>
</tbody>
</table>

Note: West includes Chernivtsi, Ivano-Frankivsk, Khmelnytskyi, Lviv, Rivne, Ternopil, Volyn and Zakarpattia oblasts, Centre – Cherkasy, Dnipropetrovsk, Kirovohrad, Poltava and Vinnytsia oblasts, South – Kherson, Mykolayiv, Odessa and Zaporizhzhia oblasts, North – Chernihiv, Kyiv, Sumy and Zhytomyr oblasts and the City of Kyiv, East – Donetsk, Kharkiv and Luhansk oblasts. Temporary occupied territories of the Autonomous Republic of Crimea and Donbas region did not take part in the survey.

Source: Research panel “Own opinion”, survey of 4,676 citizens of Ukraine held on 9-11 April 2022.
According to the results of the International Organization for Migration (IOM) survey, most IDPs have relocated to Kyiv oblast (13 percent), Dnipropetrovsk oblast (12 percent), Lviv oblast (8 percent), Kharkiv oblast (8 percent) and Poltava oblast (7 percent). Almost two thirds of IDPs are women. 40 percent of all IDPs are over 46 years old, who usually face additional barriers when accessing the labour market. A total of 47 percent of IDP households indicated that at least one member of their family was a child aged from 5 to 17 (see Annex I). Over two thirds of IDPs have relocated to an urban village or rural area with one fourth moving to large cities.

As per the same IOM survey, 4.5 mn of the Ukrainian population have already returned to their place of habitual residence (compared to 2.7 mn in Round 4 of the same survey held on 29 April – 03 May 2022).

According to the figures, 38 percent are returnees originally from the north, 21 percent from Kyiv, another 18 percent are from the east, the rest are from the south (10 percent), west (10 percent) and centre (5 percent). 23 percent of all IDPs intend to return home in the next two weeks.

As per research of the Razumkov Centre, 83 percent of refugees are women, 62 percent of refugees – in the age from 30 to 49 years old, three quarters have higher or incomplete higher education, one in four is a professional and one in five is an entrepreneur (see Annex I). Men under the age of 60 are prohibited from leaving Ukraine under martial law.

Based on the answers of the survey held by Gradus, 77 percent of refugees plan to come back at the first opportunity, 13 percent will stay abroad and 10 percent have not yet decided (see Annex I).

As a result of the war, many Ukrainians have lost their homes, incomes and savings. The consumer purchasing power of the Ukrainian population has significantly deteriorated, so expenditures are made primarily on essential goods, such as food, clothing and medicine. Preference is for goods produced domestically.

According to the survey held by the Operational Sociology, one third of citizens of Ukraine lost the source of their income during the war. Residents of eastern and southern regions suffered the most with 50 percent and 37 percent, respectively, losing their income. Incomes decreased significantly for 40 percent of the Ukrainian population while incomes remained unchanged for only 22 percent of respondents.

The results of the same survey demonstrate that 39 percent of the citizens of Ukraine do not have any savings (see Chart 14). This is especially true for the central (45 percent), the southern (44 percent) and eastern (39 percent) Ukraine. One in five respondents have enough savings for less than a month, and about 30 percent have savings for a period of two to six months.
Loss of income and lack of savings have significantly affected the purchasing power of the Ukrainian population. The survey of Gradus\(^{33}\), illustrated in Chart 15, shows that Ukrainians spend most of their income or savings on food (58 percent of respondents). At the same time, almost 90 percent of respondents note an increase in food prices and two thirds mention the unavailability of some products\(^{34}\).

One third of Ukrainians also spend their income and savings on clothing and hygiene products, which is primarily caused by the forced, unprepared change of residence as a result of the war. One third of Ukrainians also spend money on medicines. However, if in the western regions medicine is purchased on a need basis, in the southern regions, for example, consumers stock-up in expectation of facing logistical issues with future purchases of medicines.

There have also been changes in consumer habits\(^{35}\) (see Annex I): in 39 percent of cases, consumers buy new brands because they want to support domestic producers, in 44 percent of cases – because of the lack of other brands. The latter is due to a change in the place of residence, as consumers are not able to find products of their usual choice, and the availability and selection of products in stores is limited.

This represents a window of opportunity for local producers as their products are cheaper and easier to deliver compared to imports.

---

\(^{33}\) Gradus. What Ukrainians buy during the war, April 2022.

\(^{34}\) Gradus. The attitudes, emotions, and actions of Ukrainians during the full-scale war between Russia and Ukraine, April 2022.

\(^{35}\) Gradus. What Ukrainians buy during the war, April 2022.
Chart 15.

Main purchases of the Ukrainian population during the war, March-April 2022

(Respondent answers, expressed as percentage)

<table>
<thead>
<tr>
<th>Item</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Food</td>
<td>58%</td>
</tr>
<tr>
<td>Medicines and vitamins</td>
<td>33%</td>
</tr>
<tr>
<td>Clothes and shoes</td>
<td>30%</td>
</tr>
<tr>
<td>Hygiene products</td>
<td>29%</td>
</tr>
<tr>
<td>Household chemicals</td>
<td>17%</td>
</tr>
<tr>
<td>Products for pets</td>
<td>17%</td>
</tr>
<tr>
<td>Goods for children</td>
<td>14%</td>
</tr>
</tbody>
</table>

Note: Respondents could choose several answers.

Source: Gradus, survey of 1,019 citizens of Ukraine held on 28 March 2022.
SECTION III.

INDUSTRY SNAPSHOTS
According to a February 2022 survey among 1,000 Ukrainian MSMEs, the top three challenges faced by businesses in the pre-war period were (see Chart 16): (i) lack of understanding of their business needs by the state authorities (65 percent of respondents); (ii) the complexity of the legislation governing businesses (65 percent of respondents); and (iii) difficulties in finding employees (63 percent of respondents).

Other issues, such as difficulties with the search for new business partners and clients (44 percent of respondents), limited access to credit (30 percent of respondents) and lack of information on foreign trade were deemed less important.

State programmes introducing support to different industries and changes in legislation simplifying the business environment (see Section IV) have brought some clarity to issues related to a lack of understanding and to the complex legislation.

Finding employees with the right skills has become critical given the significant displacement of people (both inside and outside the country) caused by the war. Many women have become either refugees or IDPs, while a significant share of the working-age male population was mobilized into the army. About a quarter of MSMEs have relocated to safer regions and are in search of employees in new locations.

This requires proper communication and exchange of information about vacancies and job seekers, but also quick retraining opportunities in order to satisfy the labour demand in local markets.

Disruptions in supply chains, shrinking demand for goods and services and logistical issues have forced companies to search even more actively for new business partners and clients, and to undergo business transformations in order to become more resilient and adaptive to external shocks. This in turn requires good knowledge of latest technologies and innovative approaches.

If before the war the cost of financing was considered more of an issue than access to credit (57 percent of those respondents interested in preferential terms do not consider lack of access to credit a problem), access to external financing has now also become limited due to high credit risks.

In addition to the above challenges, MSMEs must deal with the risks and consequences of the war. Many businesses have incurred losses from destruction of assets (e.g. inventory, equipment and property) (see Annex I). Because of ongoing hostilities and shelling, the country’s infrastructure is being destroyed which causes breaks in supply chains and logistical channels. The drop in demand and decrease in household incomes has forced businesses to downsize their operations.
Chart 16.
Challenges faced by MSMEs in the pre-war period, February 2022
(Respondent answers, expressed as percentage)

Note: The indicator near each challenge represents percent of all respondents who answered "critical" and "rather critical" to the respective question about challenges MSMEs face.
Concerns over the physical safety of employees brings additional instability into business operations, given that most Ukrainian enterprises do not have properly equipped bomb shelters. A risk of cybersecurity attacks is widespread among MSMEs due to extensive use of Russian business software (e.g. accounting software 1C). Also, many companies cannot resume their operations as the territories where their operations are located require demining. The situation is particularly critical for agriculture.

Companies involved in foreign trade face significant challenges with logistics. The blockade of the Ukrainian seaports by the Russian navy has caused the redistribution of trade flows and overloaded transport channels for rail and trucks. It has also caused bottlenecks at storage capacities and border crossings, resulting in shipment delays. Many importers have also suffered from foreign currency restrictions (see Section IV) introduced by the government leading to supply chain breakdowns in many industries which were dependent on imports. Due to the suspension of the electronic system of VAT refund administration, exporters are not getting their VAT refunds and are experiencing serious liquidity issues.

Brief overviews for the industries with a high representation of MSMEs and focusing on the specific challenges faced by enterprises as a result of the war are presented below.

**Retail and wholesale trade**

In 2021, with a sales volume reaching UAH4.8 tn\(^37\) (US$176.7 bn), the retail industry accounted for 14 percent of Ukraine’s gross domestic product (GDP)\(^38\). It is one of the most war-affected industries. Logistical issues and staff shortages dominated in the initial war period, while liquidity gaps, changes in consumer demand and the closure of outlets are currently affecting the industry. According to the Association of Retailers of Ukraine, almost 30 percent of outlets are closed or destroyed\(^39\). E-commerce, jewellery, entertainment and fashion segments suffered the highest losses (online orders dropped fivefold, 85 percent of jewellery outlets closed)\(^40\). In contrast, food, pharmaceutics and gas stations had a stable performance – more than 80 percent of them continue operating.

Western regions of Ukraine are facing growing consumer demand and supply shortages, while the regions exposed to the war face a decline in consumer demand and in limited supply channels. Nevertheless, most outlets located in territories affected by hostilities continue operating but have shifted to a shorter workday.

The government has declared a comprehensive package of financial support to the sector, including a “5-7-9%” credit programme and state guarantees (see Section IV).
In wartime, when a significant part of population has moved out of large cities and relocated to smaller towns and villages, smaller retailers can benefit from inflows of customers.

**Challenges**

- **Logistical issues**: destroyed logistical and transport infrastructure in war-affected territories – for example, 21 percent of storage areas were destroyed in the Kyiv region.\(^{41}\)
- **Break in supply chains**: the product range is limited due to the government-imposed restrictions on critical imports and to the limited supply of domestic producers, and this creates problems with the stable replenishment of inventory.
- **Declining demand**: due to the shrinking internal market and declining purchasing power of consumers, the demand for certain products (non-food and medium-/high-price segments of goods) has plunged.
- **Security risks and labour shortages**: risks of shelling or active warfare negatively affect the stable working regime of retail outlets, many of which do not have bomb-shelters and customers are asked to leave in cases of air raid alerts; population displacements caused by the war also create labour shortages in war-affected regions.

**Food and beverages**

In 2021, the food industry generated UAH679.7 bn of gross sales\(^{42}\) (US$24.9 bn) with the export share totalling 30 percent. Acknowledging the importance of a stable food supply, the government has undertaken a range of special measures to stabilize the food market, including capping prices for basic goods (e.g. bread), conducting public procurement\(^{43}\), supporting business relocation and extending coverage of the “5-7-9%” credit programme (see Section IV). The First Vice Prime-Minister Yulia Svyrydenko has stressed the importance of industry in Ukraine’s recovery, calling for a refocus from selling crops to food processing and to the production of higher-margin goods that require less transport capacities to export\(^{44}\).

Food sales are currently affected by the limited savings and incomes of Ukrainians with 34 percent of Ukrainians having lost all their income and 39 percent without any savings (see Section II). Although 58 percent of Ukrainians on average spend their savings on food, their decreasing purchasing power indicates they are refocusing on buying cheaper food in the short-term. Ukrainians tend to prefer buying the cheaper domestic goods that are usually available. In order to build new supply chains, the Government of Ukraine has established the National Food Security Platform\(^{45}\) which brings together the local authorities, food producers, farmers, retailers and international organizations to satisfy the needs for food.
Challenges

- **Declining demand**: the fall in consumer demand due to migration and the decrease in purchasing power (especially for goods in the mid- and high-price ranges); further price pressures are due to the increasing cost of raw agricultural products and energy.
- **Logistical issues**: destroyed logistical hubs and transport infrastructure, especially on the war-affected territories.
- **Break in supply chains**: reduced production within Ukraine and the suspension of imports are leading to shortages in components and ingredients.
- **Payment delays from large retail chains**: the problem existed before the war but the retail industry crisis has further exacerbated the issue.

**Textile, apparel and footwear industry**

In 2021, gross sales of the textile, apparel and footwear industry reached UAH28.3 bn\(^{46}\) (US$1.0 bn), and the industry grew faster than the manufacturing sector in general. Textiles, apparel and footwear exports totalled UAH12.0 bn\(^{47}\) (US$0.4 bn) which is almost three times lower than imports. Over 80 percent of the Ukrainian textile, apparel and footwear industry exports is destined for European countries.

Many Ukrainian producers work based on tolling agreements with European companies (i.e. product design, raw materials and component parts are supplied by European companies while Ukrainian manufacturers provide the skills, labour and equipment necessary to make or finish the product). Thus, 44 percent of imports are supplies and materials for domestic production.

More than a half (54.4 percent\(^{48}\)) of over 2,500 textile, apparel and footwear industry enterprises employing over 130,000 people are located in territories which were affected by warfare or where hostilities are still taking place. Nevertheless, the industry has been less negatively affected by the war than some other sectors. The industry was recognized as critical for the country’s defence and received government support from the first day of the war. During 24 February – 4 April 2022, the government concluded 68 contracts with domestic textile, apparel and footwear industry companies for a total value of UAH3.2 bn (US$109.4 mn) solely in the field of military clothes manufacturing\(^{49}\).

The government has also contracted the manufacturing of footwear, personal protection equipment and other industry products. To ensure full and timely fulfilment of contracts, the government included a range of goods in the list of critical imports and regularly keeps updating it\(^{50}\).
Goods included in the critical imports category range from basic supplies and materials, such as yarn, stitching, fabrics and buttons to production equipment and spare parts. Some of the supplies needed for production of military goods, such as fabrics and stitching for body armour vests, are imported under simplified rules of humanitarian aids imports.

According to Denys Kudin, the First Deputy Minister of Economy of Ukraine, the textile, apparel and footwear industry, together with several other sectors critical for household well-being and defence capability of the country, will continue receiving special attention and support from the government. Currently, the central and local government authorities are supporting industrial enterprises in their relocation to western regions of Ukraine.

Accordingly, the industry is among those sectors that have quickly adopted to new conditions and redirected their sales channels at supplying the Ukrainian army. Many fashion clothes and footwear brands, such as Andre Tan, One by One, Kachorovska and many others, refocused on manufacturing military clothes, harnesses, body armour vests and other military goods. The industry is mentioned as one of the leaders in the relocation of production facilities to western regions of the country.

One of the examples is the Dukor company from Kyiv which relocated to Ivano-Frankivsk oblast and is going to restart production of military uniforms and other goods for the army. Furthermore, some of the companies whose production facilities were seriously damaged during the warfare are trying to restore production on site as soon as possible. One such company, Textile-Contact, plans to restore production of 10,000 metres per day of camouflage twill fabric for the army in Chernihiv starting from the beginning of June.

There are also private initiatives aimed at connecting domestic producers with potential consumers. One such initiative is UkrBrandsNow.com – a non-profit information project created by the interface designer Kyryro Dushka.

### Challenges

- **Labour shortage:** given the high representation of women in the industry (75 percent of the sector’s labour force), the industry has been seriously affected by population displacements and by the migration of women abroad.
- **Relocation of production facilities:** some enterprises have complex utility systems and equipment (especially in the textile industry, with large weaving machines) which makes relocation quite difficult.
- **Breakdowns in foreign trade logistics:** due to the Russian blockade of the seaports, foreign trade by sea with countries of the Black Sea and...
Mediterranean regions has been disrupted. Air transportation is on hold for security reasons, and railway and road routes to Europe are overloaded. A significant share of foreign trade flows which previously were transported by marine and air routes have switched to road transportation, and a significant share of humanitarian aid and military supplies also enter the country by road.

- Curtailing of cooperation with leading clothing brands: warfare has put the timely filling of clothes manufacturing orders placed by leading clothing brands at Ukrainian plants on the tolling scheme basis at risk. This leads to the loss of orders to other countries.

Agriculture

According to the Ministry of Agrarian Policy and Food (MAPF), the share of agriculture, including forestry and fishing, in Ukraine's GDP was 10 percent in 2021. Agricultural products accounted for the largest share of Ukraine's 2021 export (about 28 percent).

Total direct damages to the industry caused by the war have not yet been assessed, but according to estimates of the Kyiv School of Economics, they stand at US$873.0 mn.

As a result of the war, crop quality and yields per hectare may deteriorate. According to preliminary data, about 20-30 percent of arable land may remain unsown. The decline in agricultural production will range from 40 to 70 percent depending on the crop and the situation in each region.

About 400,000 tons of grain (30 percent of all stock) were expropriated from farmers in the temporary occupied territories of Ukraine.

The government provides support to farmers easing the customs regime for the import of agricultural equipment, fuel and covering the cost of financing (see Section IV). According to MAPF, farmers require about UAH100.0 bn (US$3.4 bn) to finance the sowing campaign in the spring.

MAPF launched an e-platform to collect farmers’ needs related to the sowing campaign and a platform to facilitate logistical routes.

The Russian blockades of seaports led to the crisis with the export of agricultural products from Ukraine. A total of 96 percent of the total grain volume historically was transported via seaports.

Railway transportation of grain, which is mainly to seaports, dropped fourfold in March 2022 compared to February 2022 and 22 mn tons of agriculture products (grain, barley, sunflower and other crops) are blocked.
Meanwhile, the share of grain transported to western border crossings increased from 2 percent in February to 55 percent in March. Grain exports by land reached 1.0 mn tons in April while seaport capacities in the pre-war period allowed the export of up to 6 mn tons per month\(^67\).

The EU, the UK and Canada have temporarily lifted all duties and quotas on agricultural exports from Ukraine. Poland has announced plans to create a «dry port» on the border with Ukraine in order to increase export capacities of Ukrainian agricultural products\(^68\).

The EU has already eased ecological requirements for Ukrainian trucks carrying crops to specific EU countries. Currently, many countries and international organizations are trying to unblock Ukrainian seaports to stabilize the food security worldwide.

The price for Ukrainian agricultural products has risen in international markets. For example, the Black Sea Wheat price grew by 43 percent\(^69\) on international commodity exchanges since the beginning of the war. However, limited export capacities and growing operating costs (cost of fertilizers, seeds, fuel and transportation) may level out resulting in a positive market situation.

**Challenges**

- **Lack of diversified export channels**: while seaports in the southern Ukraine are blocked, new export routes by railroad to seaports in Romania and the Baltic countries have not yet been established. At the same time, the government introduced export licensing\(^70\) (wheat, corn, sunflower oil, chicken meat and eggs) and has banned the export of certain categories of agricultural produce (cattle, rye, oat, buckwheat, millet, sugar, salt) to mitigate the risk of food crises in case of prolonged war activities.

- **Lack of working capital to start the sowing campaign**: due to logistical issues farmers are struggling to sell/export last year’s crop, and are therefore experiencing shortages of working capital. The problem is even more critical for small farmers who lack access to storage facilities and export channels and who are being forced to sell their crop at a significant discount.

- **Logistics constraints**: there is shortage of storage capacity, as almost 50 percent of the wheat was stored in elevators and farms located where hostilities were taking place, and farmers were forced to transport and store grain in safer regions. Agricultural companies have experienced shortages of fuel, vehicles and drivers, while tariffs for the transportation of grain cargo by rail increased by 15 percent year to year in the Q1, 2022.

---


\(^69\) [https://www.barchart.com/futures/quotes/KF*0](https://www.barchart.com/futures/quotes/KF*0)

\(^70\) [https://zakon.rada.gov.ua/laws/show/207-2022-%D0%BF#Text](https://zakon.rada.gov.ua/laws/show/207-2022-%D0%BF#Text)
- **Limited supply and growing prices of inputs**: this includes seeds, fertilizers, small livestock, breeding stock, veterinary medicines, animal feed ingredients, fuel (deficit of fuel reached 40 percent during the sowing campaign); and distortions in local labour markets due to internal migration and army mobilization causing labour shortages in certain regions.

- **Break of supply chains**: pig producers across Ukraine have problems with slaughtering and selling pigs due to the broken logistical and supply chains.

- **Suspension of electronic system of VAT refund administration**: this has resulted in the accumulation of VAT refunds for exporters, causing additional liquidity issues and working capital constraints. This also placed exporters at a disadvantage compared to importers who have transitioned to a simplified tax regime – the 2 percent single tax – and who are exempt from import VAT.

- **Security risks**: access to land is limited given concerns over safety, i.e. there are credible reports of unexploded ordinance and mines, and of military casualties lying unburied in fields.

---

**Transport and logistics**

Based on estimates, as of the end of April 2022, 23,574 km of roads (approximately 14 percent of all roads), 277 bridges and bridge crossings, 2 seaports and 11 civilian airports were damaged, destroyed or seized. Major damages to the transport infrastructure were caused in eastern, northern and southern Ukraine. Total damages are estimated at US$42 bn.

The storage infrastructure has also suffered heavy losses. Since the beginning of hostilities, 138 storage facilities were damaged or destroyed, estimated at US$225.0 mn in losses. For example, the Kyiv region lost 325,000 sq.m. of storage space (21 percent of the total storage space).

The Russian blockade of Ukrainian seaports significantly limits foreign trade activities. On the other hand, it stimulates the development of rail and road logistics via western border crossings.

Ukraine and Poland have agreed to set up a joint logistics venture to accelerate Ukrainian export by rail to the EU and world markets. In addition, the Ministry of Infrastructure of Ukraine eased the licensing of truck haulages to stimulate freight traffic. Local authorities in the western Ukraine have set up a database of warehouses to assist businesses in their search for warehouse space.

Ukraine is also contemplating the signing of a special transport agreement with the EU to liberalize road haulage. It will mean lifting all restrictions on road haulage within the EU.
Currently, EU countries have placed limits on the number of international permits for Ukrainian road haulers. The war also forced businesses to transfer logistical hubs to western Ukraine, while logistical centres in war-affected territories remain empty or destroyed.

Many businesses (in the food and furniture industries, for example) are looking for various options to diversify asset security risks.

While it is not always possible to relocate complex production facilities, warehouses and stocks can be transferred to more secure regions further away from production. This requires the transformation of logistical chains.

**Challenges**

- **Delays in deliveries:** damaged transport and logistical infrastructure, fuel limits at gas stations, lack of information about safe routes cause delays in deliveries; the situation is further complicated by 1,500 military checkpoints all over Ukraine. The government has promised to reduce the total number of checkpoints to 800-900.

- **Blockade of seaports and limited capacity of alternative routes:** exporters, mainly agricultural companies, are looking for alternative transport channels by rail and trucks, but new export routes by railroad to seaports in Romania and Baltic countries require an easing of EU transit rules and the modernization of railroad infrastructure (the difference between the EU and Ukrainian rail-track systems reduces the capacity of border crossings). Also, restrictions on the number of international permits for Ukrainian road haulers reduces export capacities.

- **Reduced freight traffic volumes:** international carriers have stopped transit through the territory of Ukraine due to security considerations; insurance companies refuse to insure cargoes passing through the territory of Ukraine; freight services are not currently included in the list of critical imports, so payments for the services are not possible in foreign currency; and the slowdown in business activity and reduced export volumes have had a negative impact on freight traffic.

- **Breakdown in supply chains:** business transformations and relocations have impacted existing relationships between clients and freight carriers.

- **Increased cost of freight:** due to increased fuel prices, lack of vehicles and drivers, freight costs have almost doubled compared to the pre-war period, and tariffs for rail transportation increased by an average of 25 percent year to year in the QI, 2022.
Construction

In 2021, the volume of construction reached UAH258.1 bn (US$9.5 bn), including civil engineering (60 percent), non-residential buildings (25 percent) and residential buildings (15 percent)\(^82\). The index of construction output increased by 8 percent year to year in 2021 and continued its growth in January 2022 (+3 percent year to year)\(^83\). The length of repaired and built roads comprised 7,288 km in 2021.

The war is having a negative effect on both construction companies and suppliers of construction materials. When the war began, all construction was frozen due to the risk of assets being damaged/destroyed.

According to the Ministry for Communities and Territories Development, approximately 6,800\(^84\) residential buildings were damaged, as of the beginning of April 2022. The parliament is developing a procedure to secure housing for people whose homes were destroyed and to provide monetary compensation to people whose homes were damaged (draft law #7198). According to Olena Shuliak, the Chairman of the presidential political party “Sluga Narodu”, the total amount of compensation is estimated at UAH875.0 bn (US$29.9 bn).

Provision of housing is a high government priority. It may also stimulate a revival in the residential real estate market. In addition, the government is easing the construction of residential apartments for IDPs through changes to land use regulations, cancellation of customs duties on construction materials and the simplification of non-tariff barriers (permits and licenses). Infrastructure development is another source of income for the construction industry. The government has already provided UAH1.4 bn (US$47.9 mn) from the reserve fund to counter the consequences of hostilities, with a primary focus on infrastructure reconstruction.

Consumer demand is another major factor influencing the industry. While large and medium companies are more resilient to consumer demand fluctuations, small businesses are more sensitive, especially those providing reconstruction and repair works. Currently, there is no place in Ukraine absolutely secure from air strikes, but western Ukraine is considered to be safer, so consumer demand has started to pick up there, a trend also driven by the large inflow of IDPs.

Challenges

- The lack of access to the state register of property rights on real estate creates risks in appealing any real estate sale contract and makes it impossible to compensate damage.
- Frozen demand on the commercial and residential real estate markets: according to recent data\(^85\), the frequency of visits to the LUN online real estate platform remains very low in war-affected oblasts (12-23 percent

---

\(^82\) http://www.ukrstat.gov.ua/openstat/openstat2019/pdf/ovb_vsd/ovb_10-20ue.xls
\(^83\) http://www.ukrstat.gov.ua/openstat/openstat2021/udp/udp_11_21_ue.xls
\(^84\) https://ua.interfax.com.ua/news/economic/820582.html
\(^85\) https://www.eprawda.com.ua/news/2022/04/15/685672/
in April from the level of February 2022) and relatively low in non-affected oblasts (48-67 percent in April from the level in February 2022).

- **Increased cost of construction**: growing costs of metal and electricity, as well as restricted imports of construction materials, are driving up real estate prices. This reduces the already low purchasing power of potential customers and lowers margins for real estate developers.

**Information and telecommunications**

In 2021, the IT industry generated 4 percent of Ukraine’s GDP and 6 percent of foreign currency proceeds[^86]. With the beginning of the war, the IT industry has swiftly adapted to new challenges, demonstrating signs of resilience. According to the IT Ukraine Association[^87], 55 percent of IT companies have renewed their operations at 50-80 percent capacity, while about 40 percent of them continue business as usual.

Most of the IT industry is export oriented, and 81 percent of IT companies managed to retain 80-100 percent of their contracts. The clients who have terminated their contracts with Ukrainian IT companies are mainly foreign public entities with strict risk regulations. Among those IT companies that provide services to domestic clients half have suspended their operations.

A total of 46 percent of IT specialists became IDPs[^88], 14 percent fled abroad, mainly to Poland and Germany. Among those who relocated, the highest shares are in Chernihiv (89 percent of IT specialists), Kharkiv (87 percent of IT specialists) and Kyiv (80 percent of IT specialists). And 84 percent of IT specialists continue working full-time. After completing their relocation during the first month of the war, IT companies have focused their attention on further business development.

**Challenges**

- **Difficulties in attracting new clients**: foreign companies are unwilling to take on risks associated with the war in Ukraine and asked for project teams to be relocated to safer areas to mitigate cybersecurity and personnel security risks.

- **Labour shortage**: the share of men in the Ukrainian IT sector is 71 percent[^89], therefore, mobilization into the army forces has significantly affected the industry. When the war is over, many IT specialists mainly (men) may decide to relocate abroad for security reasons.

- **Infrastructure constraints**: IT specialists can continue working only in territories with stable internet connections. If the war intensifies, unstable internet connections are considered to be a high risk. The Ministry of Digital Transformation has provided access to the Starlink stations to partially mitigate this risk.

[^87]: [https://itukraine.org.ua/how-the-it-industry-is-contributing-to-ukraines-victory.html](https://itukraine.org.ua/how-the-it-industry-is-contributing-to-ukraines-victory.html)
[^88]: [https://dou.ua/lenta/articles/war-migration-map/?from=fp_top_m_also](https://dou.ua/lenta/articles/war-migration-map/?from=fp_top_m_also)
[^89]: [https://dou.ua/lenta/articles/ukrainian-it-during-war/](https://dou.ua/lenta/articles/ukrainian-it-during-war/)
SECTION IV.

SUPPORT FOR BUSINESSES DURING THE WAR

Photo credit: Oleh Matsko / UNDP Ukraine
Central and local government initiatives

Since the start of the war the government has introduced a number of legislative changes and state programmes to ease doing business and to support Ukrainian enterprises in this unprecedentedly difficult time. This includes financial support, simplifications in tax and customs regimes and removal of certain regulations, licensing, moratorium on state inspections for example.

The state authorities provide information and consultation support to business, keeping them informed about legislative changes. Such support is provided through various tools, such as: hotlines (e.g., the Diia Business virtual centre), chat bots (e.g., chat bots of the State Tax Inspection and the Ministry of Economy), etc.

An overview of the central government initiatives is presented in Table 1 in Annex II. A comprehensive list of the central government initiatives for MSMEs is provided on the platform Diia.Business90 which is updated on a regular basis. The platform also includes the list of initiatives proposed by international donors and private businesses.

The government has also launched the State Programme to support business relocation91 to nine western oblasts: Chernivtsi, Ivano-Frankivsk, Khmelnytskyi, Lviv, Ternopil, Vinnytsia and Zakarpattia and the southern parts of Rivne and Volyn oblasts. Over 500 enterprises have already completed the relocation.

The programme covers all enterprises including small businesses employing from 10 to 20 people. Priority is given to strategic enterprises and companies producing necessity goods (e.g. food, clothes). Applicants can file their requests at https://auction.e-tender.ua/#/register. Applications are handled by the Ministry of Economy (ME). Transportation services are provided by JSC Ukrposhta and JSC Ukrainian Railways92. Local government administrations in the designated nine oblasts provide further support with finding suitable production premises, connection to utilities, housing for relocated employees or finding new personnel.

In addition, on 1 April 2022, the Parliament introduced changes to the Law on Leasing of State and Municipal Property93 which provides a discounted preferential lease rate (UAH1 per s.m.) on state or municipal property for relocated businesses during the first six months.

According to the information of ME94, over 1,500 applications for relocation support have been received by ME, over 500 companies who applied have already completed their relocation, out of which over 300 have relaunched their operations in new locations and another 50 are installing the equipment and connecting communications to relaunch operations at the earliest possible date (see Chart 17).
Oblast state administrations and city councils are also developing initiatives which are complementary to central government programmes. Local initiatives are mainly focused on the revival and support of business activity, including support for business relocation, employment and investment opportunities. Some oblasts even provide additional incentives in the form of financial support, requiring obligatory re-registration of an enterprise on the territory of the oblast and/or creation of jobs.

Examples of individual initiatives of state administrations of Dnipropetrovsk, Ivano-Frankivsk, Kharkiv, Kyiv, Lviv, Ternopil, Vinnytsia and Zakarpattia oblasts are presented in Table 2 in Annex II.

**Donor support**

With the start of the war, many donor organizations continued implementing their programmes in Ukraine with the exception of cases where programme activities were under severe security risks (i.e. focused on regions where active warfare was underway), or where programme objectives were no longer among the top priorities of stakeholders. New initiatives have been launched aimed at supporting Ukrainian MSMEs during war, both within already existing programmes or as new projects developed specifically to mitigate the negative consequences of the war. Such initiatives can be grouped into two major categories: (i) grants and (ii) integrated support (see Table 3 in Annex II).

Some of the programmes and projects are specifically aimed at oblasts which were exposed or are still exposed to active land warfare, such as the microgrant initiative of the “EU4Business: SME Competitiveness and Internationalization” programme95.

---

There are also examples of initiatives developed for MSMEs outside Ukraine on condition that their activities are related to Ukraine’s development (fast-track grant programme for Ukrainian youth launched by the Ukrainian-Danish Youth House96).

Some programmes provide targeted support to women and vulnerable groups. For example, the Project “Business Support During the War and in the Post-War Period”97, launched by USAID Competitive Economy Program through the NGO “Ukraine Investment and Trade Facilitation Centre” (ITFC), is targeted primarily at women-led businesses.

**Private support initiatives**

Private companies and funds started launching MSME support initiatives immediately at the outbreak of the war. Most of these initiatives were related to spreading information about changes in legislation and on the specifics of operating under martial law (see Table 4 in Annex II). Information support initiatives were launched by private companies, business associations, NGOs and other organizations through various channels, but mainly through websites, social networks and various messenger groups.

One of such initiative was launched by Liga Zakon, a subsidiary of the Liga Group and a leading developer of informational and legal systems98. Another type of initiative includes specific industry support aiming at satisfying vital needs of the population, such as agriculture and the food industry, manufacturing of clothing and footwear. One such example is the “Liteprom” hub for textile, apparel, and footwear companies in the city of Khmelnytskyi99. There are also examples of integrated support and marketplace activities, such as Google for Startups Ukraine Support Fund100 or “Do Business with Ukrainians”101 launched by the Ukrainian Catholic University Business School.
CONCLUSIONS AND RECOMMENDATIONS
In addition to some entrenched challenges faced by Ukrainian MSMEs which now have become even more critical, the war has brought new shocks. The future of the MSME sector in Ukraine depends to a large extent on how well MSMEs are able to overcome these challenges and adapt to the new environment. This rapid assessment survey aims to identify current critical business needs of MSMEs and to propose rapid responses to help businesses in Ukraine survive this crisis.

The study is based on the review and analysis of secondary information and available open data. The development of more structural and systemic support focused on the business revitalization after the war requires more in-depth analysis taking into consideration specifics by business size, subsector, gender of the owner, geographic location, among other factors. This should involve a combination of primary and secondary data and quantitative and qualitative research tools.

Even though a gradual revival of business activities among MSMEs took place in April-May 2022, the position of large businesses is more stable, which may continue and in the long-term lead to structural changes in the Ukrainian economy. MSMEs should seek to consolidate their efforts in order to increase competitiveness and to optimize costs. This could be done by establishing common purchasing, trade or shared services groups (e.g. the Supply Chain Resilience platform[102]; assisting MSMEs in retaining and restructuring existing supply chains; sourcing raw materials, goods and services; promoting partnership and building supply chains with Ukrainian producers in the EU markets; and establishing cross-border contacts among business, academia and governments.

Businesses relocated to the western and central regions require support with the smooth integration into the local economy. Local governments and international donors have launched initiatives to facilitate MSMEs’ access to financing, to available production premises and to partnerships and new technologies (e.g. the business support platform Save Business Now).

The survey also highlights the high share of women-led businesses in Donetsk and Luhansk oblasts. Support to women-led businesses relocating from the eastern regions may facilitate the sharing of good practices and encourage development of women entrepreneurship in hosting communities, both among relocated IDPs and the local population seeking job opportunities.

Further support may include specific programmes for women-led businesses in western Ukraine and self-employment and requalification programmes for IDPs (e.g. the USAID Competitive Economy Program launched the project Business Support During the War and in the Post-War Period[103] providing grants and seminars for women entrepreneurs and women in need for development of their business skills).
The war has brought safety and security risks to the top of the agenda for many Ukrainian MSMEs. Companies must adapt to the new realities ensuring personnel safety; developing safe logistical routes in coordination with the local authorities; performing land demining with assistance from the State Emergency Service; and mitigating cybersecurity and business continuity risks which have increased due to cyber-attacks and physical loss of information and property. International donor organizations and BMOs play a crucial role in providing advice to Ukrainian enterprises on business security risks, on the sharing of best practices and on approaches to the protection of online business processes, mitigation of cyber-attack risks, among others (e.g. EU4Business Programme\textsuperscript{104}).

The destruction and damage of production assets, the breakdown in supply chains and distribution channels has led to a high demand in working capital and project financing, which is now mainly limited to the state government programmes. Both access and affordability of lending resources have become a top issue for MSMEs since the outbreak of the war.

Despite active government support (via the 5-7-9\% loan programme), including targeted programmes for certain industries (e.g. agriculture and retail), MSMEs continue facing serious liquidity gaps. In April 2022, only 3,115 loans were issued for the total amount of UAH13.2 bn (US\$450.8 mn)\textsuperscript{105}, and banks rejected 40 percent of all credit applications received within the 5-7-9\% loan programme\textsuperscript{106}.

Agriculture received 68 percent of available financing, 16 percent was allocated to the wholesale and retail trade, while processing industries received only 9 percent\textsuperscript{107}. MSMEs from oblasts affected by war hostilities do not have access to financing (the credit portfolio of the 5-7-9\% loan programme increased by 1 percent in affected oblasts since the end of February 2022)\textsuperscript{108}. Commercial banks have practically stopped active lending to MSMEs due to the reassessment of current credit risks and the build-up of additional reserves\textsuperscript{109}.

The situation may change if: (i) the National Bank of Ukraine eases the regulations concerning mandatory reserves by commercial banks for the period of martial law; (ii) the government provides additional state guarantees for loans issued by commercial banks to MSMEs; or (iii) the government launches targeted state support programmes for a wider range of industries.

However, additional alternative financial mechanisms might be required to support MSMEs’ recovery in order not to accumulate high debt leverage in the MSME sector which would be difficult to sustain in the future. Grants provided by international donors, in addition to factoring arrangements and attracting private investment, may bring additional financial support to Ukrainian MSMEs.

\textsuperscript{104} https://eu4business.org/uk/ua/news/eu4business-nadzirae-ekstremu-pidtrimku-ukrainskikh- ---------------------------------------------------------------------------------
The blockade of seaports, limited land transport capacities and the suspension of electronic VAT refunds have had a major impact on the export-oriented agriculture, food processing, textile, apparel and footwear industries. Weak demand on the local market cannot compensate for losses from lost export revenues. Ukraine’s international partners believe that the primary goal is the unblocking of the seaports in order to renew foreign trade and mitigate the risks of a global food crisis.

Easing customs regulations to the EU and other countries creates new opportunities for Ukrainian MSMEs, which require support and guidance on exporting to the EU countries (e.g. support in product certification). The ITFC launched an initiative supporting Ukrainian women entrepreneurs focused on the promotion of their goods in external markets and on helping to find international business partners110.

The Entrepreneurship and Export Promotion Office of Ukraine provides support to businesses interested in exporting to the EU by conducting assessment of the business readiness to export, providing assistance with the foreign market analysis and market entrance. Ukrainian businesses may also focus their efforts on substitution of Russian exports whose position has become weaker in the European market.

Finding employees with the right skills and knowledge has become even more difficult with the start of the war due to such additional factors as mobilization, labour migration (both external and internal) and destroyed housing in the war-affected regions. Shortages of labour are significant in oblasts which have been liberated and oblasts where hostilities continue. Internal displacement has made labour less expensive, but there is a mismatch between IDP skillsets and employers’ needs.

The problem is relevant for most industries (especially for labour-intensive industries, such as agriculture, textiles, apparel and footwear), with the exception of the service industries where consumer demand has fallen significantly (e.g. tourism, HoReCa, entertainment).

Unlike other problems, labour shortages require more time to be solved due to existing demand and supply imbalances. It requires the active involvement of both the government and business to assess current and future business needs in the labour force and to redesign state educational programmes to align them with the change in demand.

The further development of dual education may accelerate the employment of IDPs. Other steps may include the design of active labour market programmes for IDPs, creating incentives for MSMEs to employ IDPs and stimulating business revitalization in the liberated oblasts. The government is also considering establishing an e-mobilization platform for companies to reserve critical staff and to avoid their mobilization into the army.
Responding to the drop in purchasing power of consumers

Falling personal incomes, lack of savings, migration abroad and uncertainties over the future have negatively affected Ukrainian population’s consumption. Stable demand exists only on necessity goods (mainly locally produced, if cheap imports are not available) thereby shifting MSMEs’ product portfolios to lower price segments. This also encourages MSMEs to optimize production costs to maintain an acceptable profit margin. In addition to refocusing to foreign markets, MSMEs may benefit from public procurement aimed at meeting the needs of the government in wartime (most relevant for the food and textile, apparel and footwear industries).

In turn, the government should conduct information campaigns to increase awareness of businesses about opportunities in public procurement. Furthermore, MSMEs may benefit from participation in the sharing economy (i.e. access to equipment or assets instead of ownership) and from the introduction of new payment models to address the purchasing power issue.

Supply chain restoration

There are many factors that are currently affecting supply chains in Ukraine, including damaged logistical routes and hubs, lack of fuel, restrictions on imports, among other factors. The problem was severely felt by the agriculture sector during the sowing campaign and is less relevant for such sectors as IT and the creative industries. MSMEs are looking for support in establishing new and safe logistical routes, in exploring new business partnerships and in diversifying supply channels.

Recent changes in the legislation on industrial parks can facilitate the development of new supply chains and manufacturing clusters on the basis of industrial parks. The Agro.Food.Tech Park in Lviv oblast was announced in April 2022 to attract businesses looking for new supply chains. The establishment of industrial parks is also aligned with the government’s priorities to develop value-added food processing and production.

Facilitating public-private dialogue

The government has recently introduced a number of initiatives to ease doing business and stimulate business activity. However, certain regulations (e.g. limitations on critical imports, capping fuel prices) have not been fully aligned with business priorities. This suggests the need to strengthen coordination between the government and business in exchanging views to increase the effectiveness of the state initiatives. Business with facilitation from BMOs also needs to be more involved in the development of Ukraine’s recovery programme.

---

As revealed by the rapid assessment, the 65 percent of MSMEs are located in the territories where active warfare took place. Although the damage caused by the war is not fully assessed due to ongoing hostilities, the losses are likely to be substantial, including to transport, storage infrastructure, commercial and residential property.

For example, the recent survey\textsuperscript{112} indicates that total losses from destroyed and damaged industrial enterprises reached US$10.7 bn in mid-May 2022. MSMEs will require financial support to restore production assets and replenish stocks in order to resume operations.

War-affected territories will continue to remain at risk of repeated hostilities and destruction in the future, and any commercial lending will require guarantees or insurance to hedge the risks of war and physical damage. Alternatively, MSMEs will move to more safer regions within Ukraine or abroad, increasing the risk of poverty and social distress in the war-affected regions.

In addition, central and local government support to companies located in the western regions of Ukraine, including relocation from war-affected territories, may result in uneven economic development of the country. The relocation of companies from war-affected regions positively benefits the local economies of the hosting regions, providing an additional boost to the development of the local infrastructure and labour markets.

As a concluding remark, it should be noted that new programmes aimed at supporting business revitalization should include a stimulus for MSMEs to introduce more innovative and sustainable practices that incorporate the principles of the circular and green economy, net-zero impact, reducing the energy intensity of production and promoting cooperation. In the short-term perspective, the support should be focused on further business transformation and adaptation to the new realities.

This could include assistance in building new supply chains and partnerships, optimizing cost production, introducing new financing mechanisms and financial support. Agriculture, the food industry and wholesale and retail trade are of utmost importance in the short-term to support the country in wartime. In the mid-term perspective, when the war is over, MSMEs will require support with a sustainable recovery through the introduction of innovative practices, the attraction of ESG and impact investments, job creation and adaptation to EU standards and regulations.

Promoting the development of industries with a high potential to become drivers of economic development (agriculture and food, IT, construction and infrastructure) is an important priority. Another key priority is to ensure a fair and well-balanced development of both the conflict-affected and non-affected regions with a historically high representation of MSMEs.

\textsuperscript{112}https://kse.ua/about-the-school/news/during-the-week-the-damage-caused-to-ukraines-infrastructure-in-the-war-increased-by-31-billion


9. Cabinet of Ministers of Ukraine (2022). The Government provides an opportunity to any Ukrainian company to obtain a loan of up to UAH60.0 mn at 0% during the martial law under the Program «5-7-9%», https://www.kmu.gov.ua/news/uryad-nadaye-mozhlivost-otrimati-kredit-do-60-mln-qrn-bud-yakomu-ukrayinskому-pidprijemstvu-pid-0-na-chas-voyennogo-stanu-za-programou-5-7-9


16. DOU (2022). Ukrainian IT during the first month of the war. More than 60% left their homes. https://dou.ua/lenta/articles/ukrainian-it-during-war/

17. DOU (2022). Where did IT-specialists move because of the war? Migration map. https://dou.ua/lenta/articles/war-migration-map/?from=fp_top1m_also


25. Gradus (April 2022). Diagnostics of the state of Ukrainian business during the full-scale war between Russia and Ukraine. Gradus.


32. Interfax-Ukraine (2022). As a result of the war in Ukraine, almost 6.8 thousand houses were destroyed or damaged – Chernyshov, https://ua.interfax.com.ua/news/economic/820582.html


34. IT Ukraine Association (2022). How IT industry is approaching Ukraine’s victory, https://itukraine.org.ua/how-the-it-industry-is-contributing-to-ukraines-victory.html


42. Kyiv City Council (2022). The Kyiv City Rada has settled the comprehensive support of Kyiv business during the martial law, https://kyivcity.gov.ua/news/u_kiyvskiy_misky_radi_vregulyuvali_pitania_kompleksno_pidtrimiki_subyektiv_gospodaruvannya_kiyeva_pid_chas_di_voyennogo_stanu/

43. Kyiv School of Economics (2022). Direct damage caused to Ukraine’s infrastructure during the war has reached $88 billion, https://kse.ua/about-the-school/news/direct-damage-caused-to-ukraines-infrastructure-during-the-war-has-reached-88-billion/
44. Kyiv School of Economics (2022). During the week, the damage caused to Ukraine’s infrastructure in the war increased by $3.1 billion, https://kse.ua/about-the-school/news/during-the-week-the-damage-caused-to-ukraines-infrastructure-in-the-war-increased-by-3-1-billion/

45. LB.ua (2022). By the end of May, the EU may lift all restrictions on Ukrainian road transport, Kubrakov, https://lb.ua/economics/2022/04/16/513635-kintsya_travnya_ies_mozhe_znyati_vsi.html


47. Lviv Oblast Military Administration (2022). Exports and imports under martial law: a digest has been prepared Lviv oblast businesses, https://loda.gov.ua/news?id=66864

48. Lviv Oblast Military Administration (2022). Farmers of the oblast have been offered a piece of advice on the technology of growing vegetable products, https://loda.gov.ua/news?id=67131

49. Lviv Oblast Military Administration (2022). In Lviv oblast, a program to support agriculture has been approved: what the funds will be used for, https://loda.gov.ua/news?id=67109


54. Lviv Oblast Military Administration (2022). The State Property Fund will hold an online event on current objects for rent for businesses planning to relocate to Lviv oblast, https://old.loda.gov.ua/news?id=66980


63. Ministry of Economy of Ukraine (2022). The First Deputy Prime Minister presented a plan of economic measures to defeat the Russian aggressor, [https://www.me.gov.ua/News/Detail?lang=uk-UA&isSpecial=True&id=0e3efe7e-84a4e-478c-8589-8163bc24b23&title=PershaVitsepremirministrPerseduvPlanEkonomicnihkhZakhodivDliaPeremogiNadRosiiskimAgres orom](https://www.me.gov.ua/News/Detail?lang=uk-UA&isSpecial=True&id=0e3efe7e-84a4e-478c-8589-8163bc24b23&title=PershaVitsepremirministrPerseduvPlanEkonomicnihkhZakhodivDliaPeremogiNadRosiiskimAgres orom)


70. President of Ukraine (2022). If the world does not help Ukraine unblock its ports, the energy crisis will be followed by a food crisis, https://www.president.gov.ua/en/news/yaksho-svit-ne-dopomozhe-ukrayini-rozblokuvati-porti-slidom-75245


73. Razumkov Centre (March 2022). Ukrainian refugees: attitudes and assessments. Razumkov Centre.

74. Research panel “Own opinion” of RESEARCH.UA (April 2022). Ukrainians and the war. Research panel «Own opinion».


77. Ternopil City Council (2022). Ternopil micro-entrepreneurs, future entrepreneurs, including IDPs, are invited to become part of the project “Mini EcoSystem Regional Networks”, https://ternopilcity.gov.ua/news/59044.html

78. Ternopil City Council (2022). The register of vacant land plots and premises for enterprises that evacuated their business to the territory of Ternopil community has been updated, https://ternopilcity.gov.ua/news/58911.html


90. UNDP (2022). Strengthening MSME Business Membership Organizations in Ukraine. UNDP.

91. Vinnytsia City Council (2022). Vinnytsia is creating a database with a list of facilities where the evacuated business can be located, https://www.vmr.gov.ua/u-vinnynska-formuiut-bazu-danych-z-perelikom-obiektiv-de-mozhet-torgovlia-boevzakhodov-anbannosti-biznes


ANNEXES
ANNEX I. ADDITIONAL INFORMATION

Chart 18.
Working mode of the Ukrainian population, April 2022
(Respondent answers, expressed as percentage)

Source: Rating Group, survey of 1,200 citizens of Ukraine held on 26 April 2022.

Chart 19.
Geography of business relocation, May 2022
(Respondent answers, expressed as percentage)

Source: Advanter Group, survey of 934 SMEs held from 4-7 May 2022.
Chart 20.
Direct losses of SMEs from 24 February to 07 May 2022
(Respondent answers, expressed as percentage)

Note: Direct losses include lost resources, goods, fixed assets, relocation costs, forced overpayments (excluding lost profits).

Source: Advanter Group, survey of 934 owners and CEOs of SMEs held on 04-07 May 2022.

Chart 21.
IDPs by macro-region of origin, May 2022
(Respondent answers, expressed as percentage)

Note: West includes Chernivtsi, Ivano-Frankivsk, Khmelnytskyi, Lviv, Rivne, Ternopil, Volyn and Zakarpattia oblasts, Centre — Chernovskyi, Kirovohrad, Poltava and Vinnytsia oblasts, South — Kherson, Mykolaiv and Odesa oblasts, North — Chernihiv, Kyiv, Sumy and Zhytomyr oblasts, East — Dnipropetrovsk, Donetsk, Kharkiv, Luhansk and Zaporizhzhia oblasts.

Source: IOM, survey of 2,001 citizens of Ukraine held on 17-23 May 2022.
Chart 22.
Demographics of IDPs, May 2022
(Respondent answers, expressed as percentage)

IDPs by age group

<table>
<thead>
<tr>
<th>Age Group</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>18-24</td>
<td>10%</td>
</tr>
<tr>
<td>25-35</td>
<td>25%</td>
</tr>
<tr>
<td>36-45</td>
<td>25%</td>
</tr>
<tr>
<td>46-59</td>
<td>23%</td>
</tr>
<tr>
<td>60+</td>
<td>17%</td>
</tr>
</tbody>
</table>

IDPs by sex

<table>
<thead>
<tr>
<th>Gender</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Male</td>
<td>64%</td>
</tr>
<tr>
<td>Female</td>
<td>36%</td>
</tr>
</tbody>
</table>

Share of IDP households with children and older persons

- Infants (<1 year old): 5%
- Children aged 1-5: 21%
- Children aged 5-17: 47%
- Older persons (>60): 49%

Note: IOM, survey of 2,001 citizens of Ukraine held on 17-23 May 2022.

Chart 23.
Demographics of refugees, March-April 2022
(Respondent answers, expressed as percentage)

Refugees by age group

<table>
<thead>
<tr>
<th>Age Group</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>18-29</td>
<td>19%</td>
</tr>
<tr>
<td>30-39</td>
<td>36%</td>
</tr>
<tr>
<td>40-49</td>
<td>26%</td>
</tr>
<tr>
<td>50-59</td>
<td>8%</td>
</tr>
<tr>
<td>60+</td>
<td>11%</td>
</tr>
</tbody>
</table>

Refugees by sex

<table>
<thead>
<tr>
<th>Gender</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Male</td>
<td>17%</td>
</tr>
<tr>
<td>Female</td>
<td>83%</td>
</tr>
</tbody>
</table>

Refugees of returning to Ukraine

<table>
<thead>
<tr>
<th>Option</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>To return at the first opportunity</td>
<td>77%</td>
</tr>
<tr>
<td>To stay abroad</td>
<td>13%</td>
</tr>
<tr>
<td>No decision</td>
<td>10%</td>
</tr>
</tbody>
</table>

Source: 1. Razumkov Centre, survey of 101 refugees held on 15 March – 1 April 2022 (data on refugees by age group and by sex). 2. Gradus, survey of 1,027 citizens of Ukraine held on 20 April 2022 (data on the refugees’ intentions to return to Ukraine).
Chart 24.
Reasons for purchasing goods of common and new brands, March-April 2022
(Respondent answers, expressed as percentage)

<table>
<thead>
<tr>
<th>Reason</th>
<th>Common brands</th>
<th>New brands</th>
</tr>
</thead>
<tbody>
<tr>
<td>Support for domestic producers</td>
<td></td>
<td>39</td>
</tr>
<tr>
<td></td>
<td></td>
<td>41</td>
</tr>
<tr>
<td>They are cheaper</td>
<td>19</td>
<td></td>
</tr>
<tr>
<td></td>
<td>20</td>
<td></td>
</tr>
<tr>
<td>They are easy to find in stock</td>
<td>14</td>
<td></td>
</tr>
<tr>
<td></td>
<td>30</td>
<td></td>
</tr>
<tr>
<td>Absence of products of other brands</td>
<td>13</td>
<td></td>
</tr>
<tr>
<td></td>
<td>44</td>
<td></td>
</tr>
</tbody>
</table>

Note: Respondents could choose several answers.

Source: Gradus, survey of 1,019 citizens of Ukraine held on 28 March 2022 and 1 April 2022.
ANNEX II. INITIATIVES TO SUPPORT BUSINESS

Table 1. State support for business during the war

<table>
<thead>
<tr>
<th>Tax and customs</th>
<th>Financial support</th>
<th>Deregulation</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Introduction of a 2 percent single tax for all enterprises with an annual turnover not exceeding UAH10.0 bn (no VAT and no profit tax);</td>
<td>• State Credit Programme “5-7-9%” was extended to all Ukrainian enterprises to access loans up to UAH60 million under zero percent during martial law period and one month after (when the interest rate increases to 5 percent p.a.). Funding is available for investment projects, the refinancing of existing loans or for working capital needs;</td>
<td>• Moratorium on state inspections</td>
</tr>
<tr>
<td>• Cancellation of social security tax for the 1st and 2nd groups of taxpayers and of social security tax for mobilized employees of taxpayers of the 3rd tax group (simplified tax regime);</td>
<td></td>
<td>• Introduction of a declarative approach to approving business activity which requires state approval/licensing during martial law (out of over 600 approvals and licenses only around 20 remained, e.g. for medicine production, handling radioactive waste)</td>
</tr>
<tr>
<td>• Exemption from land and ecology taxes for companies operating on territories where active land warfare is ongoing;</td>
<td>• State Financial Support to cover interest costs of agricultural companies, including small and medium enterprises with an annual turnover not exceeding EUR20 mn. The maximum credit amount shall not exceed UAH50.0 mn for the purpose of financing agricultural activity (sowing) during martial law and for a six month period. The maximum state guarantee under portfolio loans is 80 percent;</td>
<td>• Cancellation of licensing of seed material and registration of agricultural vehicles during martial law;</td>
</tr>
<tr>
<td>• Cancellation of excise tax and decrease of VAT from 20 percent to 7 percent on fuel;</td>
<td></td>
<td>• Introduction of certain changes aimed at simplifying regulations of labour relationships during martial law, including:</td>
</tr>
<tr>
<td>• Exemption from payment of import VAT for the 1st - 3rd groups of taxpayers, including those that switched to a single 2 percent tax but excluding those taxpayers from the 3rd group who remained on a 3 percent single tax;</td>
<td>• Labour agreements with employees can be temporarily suspended or a downtime can be declared</td>
<td></td>
</tr>
<tr>
<td>• Exemption from import duties for all goods except for alcohol and tobacco;</td>
<td>• The duration of unpaid leave is not limited during martial law</td>
<td></td>
</tr>
</tbody>
</table>

---

2. https://zakon.rada.gov.ua/laws/show/2120-%D0%90-%D0%A5
### Tax and customs
- Custom declaration for the 1st and 3rd groups of taxpayers (with the exception of those taxpayers from the 3rd group who remained on a 3 percent single tax) by submission of a preliminary customs declaration
- Custom clearance is reduced to one hour.

### Financial support
- **State Guarantee Programme**\(^8\) for loans of MSMEs operating over one year and not subject to bankruptcy procedures. Loans can be awarded for a period of 1 to 10 years and in an amount up to UAH100.0 mn at UIRD+6 percent and with the collateral not exceeding 60 percent, and agricultural producers with collateral of 20 percent.
- Monthly compensation of UAH6,500 to companies for employing an IDP during a two-month period and a one-time allowance for taxpayers on a simplified tax regime from war-affected regions.
- Since July 2022, the government launched the grant programme “eRobota” to stimulate startups and economic activity of MSMEs. The programme envisages the provision of grants from UAH250,000 to up to UAH8.0 mn depending on the type of business and industry\(^9\).

### Deregulation
- Transfer of employees to new jobs/locations can be made without prior agreement of an employee due to the risk of military activity; also changing essential work conditions is possible without a prior two-month notification
- Termination of labour relationships upon employer’s initiative is possible during sick leave or vacation and immediately upon employee’s initiative if an employee is at risk due to hostilities
- Exempting employers from obligation of paying salary in circumstances of war hostilities or force majeure until relaunch of business activity (e.g. after relocation to secure regions or cease of warfare)
- Increased possibilities for women to work in night shifts, in hazardous conditions.

---

9. [https://dia.gov.ua/services/categories/gromadyanism/erobota](https://dia.gov.ua/services/categories/gromadyanism/erobota)
Table 2. Examples of local support for businesses during the war

<table>
<thead>
<tr>
<th>Business revival and development</th>
<th>Business relocation</th>
<th>Investment and innovation</th>
<th>Information support</th>
<th>Industry support</th>
</tr>
</thead>
<tbody>
<tr>
<td>▪ Ivano-Frankivsk OMA established a platform for business support Save Business Now(^9). The purpose of the platform is to provide comprehensive information on financial and other business support in Iva-no-Frankivsk and Ivano-Frankivsk oblast. The platform is to serve enterprises that have relocated to Ivano-Frankivsk oblast from war-torn areas and local businesses that are seeking to adapt to new circumstances. This platform also offers access to expert advice, training and offline meetings with the business community;</td>
<td>▪ Lviv OMA, in cooperation with the State Property Fund, conducts online events to spread information about rental premises available for relocation(^8) and launched a Telegram channel to facilitate the search of premises available for relocation(^8);</td>
<td>▪ Regional authorities also promote industrial parks as an excellent opportunity for businesses seeking relocation. One such example is the establishment of the Agro.Food.Tech Park in Lviv oblast(^6). The project design includes not only production facilities and warehouses, but also residential buildings with a shopping, entertainment and social infrastructure;</td>
<td>▪ In Ternopil oblast a chatbot on labour issues was developed(^7). It provides advice to relocated companies, online consultations or answers to frequently asked questions;</td>
<td>▪ As small farmers are facing liquidity issues and do not have expedited access to loans due to martial law, Lviv OMA has developed a comprehensive programme of financial support to agricultural producers(^9). The programme provides for four areas: soft loans for farmers, compensation of interest on loans and financial leases, partial compensation for the cost of seeds and subsidies for breeding cows;</td>
</tr>
<tr>
<td>▪ Trainings for IDPs on how to start own business are held in Lviv(^10). Similar trainings are planned in Chervonoahrad, Drohobych and Styri;</td>
<td>▪ Ivano-Frankivsk OMA also explores opportunities with the State Property Fund for the rent and privatisation of premises by relocated enterprises(^14);</td>
<td></td>
<td></td>
<td>The Kyiv CC provides support to businesses operating in Kyiv during the martial law(^20), including certain exemptions from payment of rent on municipal property, discounts to HoReCa in case of installation of summer terraces and support to transport companies providing services to Kyiv residents free of charge.</td>
</tr>
<tr>
<td></td>
<td>▪ Ternopil OMA offers both premises and land plots and various types of benefits for businesses in case of moving to this oblast(^15);</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

---

\(^{9}\) [https://mvk.if.ua/news/57841](https://mvk.if.ua/news/57841)
\(^{10}\) [https://loda.gov.ua/news?id=66689](https://loda.gov.ua/news?id=66689)
\(^{13}\) [https://loda.gov.ua/news?id=66419](https://loda.gov.ua/news?id=66419)
\(^{15}\) [https://loda.gov.ua/news?id=67073](https://loda.gov.ua/news?id=67073)
\(^{17}\) [https://loda.gov.ua/news?id=66864](https://loda.gov.ua/news?id=66864)
\(^{19}\) [https://loda.gov.ua/news?id=67071](https://loda.gov.ua/news?id=67071)
<table>
<thead>
<tr>
<th>Business revival and development</th>
<th>Business relocation</th>
<th>Investment and innovation</th>
<th>Information support</th>
<th>Industry support</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ternopil CC within the Erasmus+ EU Programme invites microbusiness and future entrepreneurs to take part in the «Mini EcoSystem Regional Networks» project. The main objective of the programme is to provide training of business leaders from local communities, self-employed citizens and micro businesses on the sustainable development of local communities. Upon the initiative of Lviv OMA, experts, scientists, representatives of financial institutions offer free of charge consultations for farmers on the technology of growing vegetable products, change and expansion of markets during the war, access to funding.</td>
<td>Zakarpattia OMA, Ternopil CC and Vinnytsia CC have established databases/registers of premises, land plots and warehouses available for relocation.</td>
<td>Within the implementation of the Programme to promote innovation, scientific and technological development in Lviv oblast for 2021-2025, Lviv OMA has announced a competition of innovative military projects with UAH5.0 mn funding for 2022. This year production of high-tech equipment and/or military and dual-use goods and cybersecurity information technologies are approved as thematic areas.</td>
<td>Telegram channels and chatbots were launched in several oblasts (Lviv, Ivano-Frankivsk, Dnipropetrovsk) to help unemployed persons find vacancies and employers to post job opportunities. The channels also contain information on activities of the regional branches of the State Employment Service of Ukraine; A hotline on business support and development has been set up in Ternopil and Kharkiv oblasts. It provides information on government initiatives, business resumption, business relocation assistance, cooperation with regulators, supply chains, cooperation, and more. In addition, Kharkiv OMA re-established the Coordination Council for Business and the Economy.</td>
<td></td>
</tr>
</tbody>
</table>

---

30 [https://oda.te.gov.ua/dyalnist/ekonomika/pidbrimka-biznesu](https://oda.te.gov.ua/dyalnist/ekonomika/pidbrimka-biznesu)
33 [https://oda.te.gov.ua/news?id=67280](https://oda.te.gov.ua/news?id=67280)
Table 3. Examples of donor support initiatives for business during the war

<table>
<thead>
<tr>
<th>Grant support</th>
<th>Integrated support</th>
</tr>
</thead>
<tbody>
<tr>
<td>The IOM announced a grant programme within the Project “SME Boost: Economic Integration of Internally Displaced People and Business Recovery”[^34] funded by KfW Development Bank on behalf of the German Federal Ministry for Economic Cooperation and Development (BMZ). Grants of up to EUR4,500 are provided to operational micro-enterprises which have recently relocated to Chernihiv, Kyiv (excluding Kyiv City), Lviv, Sumy and Zakarpattia oblasts operating in the following sectors: hospitality, restaurants, and catering; information and telecommunications; textile, apparel and footwear; transport and logistics; production of foodstuffs by private farms; small-scale commodity production; and related industries.</td>
<td>The “EU4Business: SME Competitiveness and Internationalization” Programme, co-financed by the EU and German Government and implemented by Deutsche Gesellschaft fur Internationale Zusammenarbeit (GIZ) GmBH, introduced an initiative to support SMEs through business associations in the form of clusters, chambers of commerce and industry, and NGOs in local communities[^37]. The goals of the new initiative are: saving jobs and supporting the Ukrainian economy; integrating internally displaced persons and women into local value chains and business networks; helping SMEs to diversify their business models and considering digital delivery of products and services; and involving the Ukrainian diaspora in helping Ukrainian businesses.</td>
</tr>
<tr>
<td>The “EU4Business: SME Competitiveness and Internationalisation” programme have supported about 300 war-affected micro- and small enterprises[^35]. The microgrants worth EUR4,000 in hryvnia equivalent were distributed on 13 May 2022 via Diia platform. Grants were provided to enterprises registered in Chernihiv, Donetsk, Kharkiv, Kherson, Kyiv, Luhansk, Mykolaiv, Sumy and Zaporizhzhia oblasts, in accordance with the current legislation of Ukraine, as of 31 December 2021 at the latest. The programme covered enterprises that continued business operations and those that needed to fully restart their activities after relocating.</td>
<td>Another Initiative of the “EU4Business: SME Competitiveness and Internationalisation” Programme is emergency support to Ukrainian SMEs during the active war phase[^38]. In addition to the microgrant programme, the programme provides consultancy support to businesses aiming at business processes reorientation and at strengthening their resilience. It also includes the component of equipment procurement to programme partners, including SMEs, to provide resources for their daily operations and for relaunching production. This mainly covers the needs in IT equipment and solutions but also involves direct support to restart business via partners.</td>
</tr>
<tr>
<td>The Ukrainian-Danish Youth House has launched a EUR150,000 fast-track grant programme to support Ukrainian youth, including youth organizations, civil society organizations working with youth, artists and others[^36]. Individual applicants from Ukraine must be registered as individual entrepreneurs (sole proprietors) and be 15-35 years old.</td>
<td>USAID Competitive Economy Program through the NGO ITFC launched the Project “Business Support During the War and in the Post-War Period”[^39]. The project aims to resume/launch SMEs, including the businesses of women entrepreneurs, and to form a clear vision of the current situation and of prospects for business development.</td>
</tr>
</tbody>
</table>

[^36]: [https://theyouthhouse.org/support-grants](https://theyouthhouse.org/support-grants)
Grant support

- The programme is aimed at young civil society based in Ukraine or in Denmark but working to support the democratic development of Ukraine and to strengthen the ties between young Ukrainians and Danes. The programme is administered by the Secretariat of the Ukrainian-Danish Youth House on behalf of the Danish Cultural Institute in Copenhagen. The Ukrainian-Danish Youth House is financed by the Ministry of Foreign Affairs of Denmark on the grant basis.

- USAID “Dream and Act” programme with the support of International Research and Exchanges Board (IREX) launched a grant programme for Ukrainian youth businesses. Participants will receive grants of US$10,000 for the realization of business goals. Preferences will be provided to social enterprises and businesses operations which fulfil the immediate social needs of Ukrainians (e.g., food, cloth, housing, medical and rehabilitation services) under conditions of war and in the post-war period.

- The Ukrainian Social Venture Fund, in partnership with European Venture Philanthropy Association (EVPA) and with support of the EU Directorate-General for Neighbourhood and Enlargement Negotiations (DG NEAR), launched the Social Enterprises for Emergency Call smart grants programme. The Programme offered smart grants in amounts ranging from UAH100,000 to UAH300,000 per one social enterprise. Grants will be aimed at: production/provision of existing goods/services; the launch of new goods or services that meet the needs of war time and address the needs of civilians affected by conflict; and the provision of goods and services for vulnerable groups, enabling them to survive war and to continue their activities.

- The support includes a grant programme for women entrepreneurs and “Business Resilience Platform” seminars for women entrepreneurs, family business owners and women in need for development of their business skills and skills in the fields of psychological support and first aid.

- The International Labour Organization Project “Inclusive Labour Markets for Job Creation in Ukraine” financed by the Ministry of Foreign Affairs of Denmark (DANIDA) launched a new initiative “Support Ukrainian People and Business”. The initiative is implemented by Federation of Employers of Ukraine. The main goal is supporting Ukrainians through domestic production. The initiative will provide support to domestic food producers through placement of orders for food packages, which then will be supplied to Ukrainian regions suffering the most from Russian military aggression. Astarta-Kiyv and “Believe in Yourself” Foundation already joined this initiative.

- The consulting project “Fostering Economic Participation of Vulnerable Groups, including IDPs in the Sea of Azov Region”, commissioned by BMZ and implemented by GIZ, prolonged its operation in Ukraine to support small businesses in the war period and broadened its target region from the Sea of Azov region to Ukraine’s entire territory. The support is provided through an expert consulting service in all spheres of business activities, including tax and legal consulting, management consulting, advisory services on business certification, accounting and marketing consulting, IT-consulting and foreign trade consulting.

---


Table 4. Examples of private support initiatives for business during the war

<table>
<thead>
<tr>
<th>Information support</th>
<th>Industry support</th>
<th>Integrated support</th>
<th>Marketplace support</th>
</tr>
</thead>
<tbody>
<tr>
<td>Liga Zakon, a subsidiary of Liga Group and a leading developer of information- and legal systems, created a special page on its website providing all the necessary information to support businesses during war. The materials presented on the webpage include legal acts, analytical publications, recommendations and clarifications related to business activities in wartime.</td>
<td>ITFC implements the “Help Women Agro in Ukraine” initiative to support Ukrainian female entrepreneurs working in agriculture who have suffered from the war with Russia. The initiative includes the following measures: financial support, partnership and cooperation with international partners aiming at promotion of products at external markets; mentorship; involvement of leading experts in sharing their international experience; a stipend on participation in international training programmes on business skills in agricultural improvement; and more.</td>
<td>An IT enthusiast introduced the initiative “KeepGoing” aimed at supporting micro- and small enterprises and creative professionals. The initiative provides media, information, financial and crowdfunding support to enterprises/teams of up to 50 people or family businesses, victims of the war.</td>
<td>Community of the Ukrainian Catholic University Business School (LvBS) together with international experts from different industries launched the MSME support platform, “Do Business with Ukrainians”. It is a marketplace where an MSME producer may fill-in the application form specifying goods and/or services the company wants to sell abroad. In parallel the platform is searching for foreign companies interested in buying such products.</td>
</tr>
<tr>
<td>The Association of Milk Producers created a special website section called “For businesses in time of war”45. The section provides structured recommendations on different aspects of an agricultural company operations in dairy and related production. It also provides the analysis and clarifications in relation to legal and regulatory changes introduced by the central authorities under the martial law. The Facebook page of the association is updated even more often than the website and contains information on state support programmes.</td>
<td>NWO LLC developed a multifunctional hub for textile, apparel and footwear companies called “Liteprom” in Khmelnytskyi city. The Hub combines online and offline platforms ensuring customized presentation of each resident as a manufacturer of products and/or services with its range of products, prices, and conditions of cooperation to potential counteragents all over the world. The Hub has its own facility with over 500 showrooms that are maintained by the hub’s own team.</td>
<td>The Industry4Ukraine platform through its cluster committee has created the Cluster4Ukraine initiative. One of the goals of the initiative is providing support to MSMEs. Among the actions of the initiative are relocation, support and the start of production facilities in relatively safe regions. Currently, participants of the initiative include the engineering, automation and machinery (EAM) clusters from Kharkiv, Kyiv, Zaporizhzhia, and the Ukrainian Maritime Cluster, the Vinnytsia Industrial Automation and Instrumentation Cluster, the Poltava Center 4.0, and several clusters from Khmelnytskyi and Lviv. The initiative is supported by Ukrainian Council of Business consisting of 90 business associations.</td>
<td></td>
</tr>
<tr>
<td>The IT enthusiast introduced the initiative “KeepWomen in Agro” to support female entrepreneurs in agriculture. The initiative aims to provide food and other support to women-owned micro-enterprises in Ukraine.</td>
<td>The initiative includes the following measures: financial support; partnership and cooperation with international partners aiming at promotion of products at external markets; mentorship; involvement of leading experts in sharing their international experience; a stipend on participation in international training programmes on business skills in agricultural improvement; and more.</td>
<td>The initiative includes the following measures: financial support; partnership and cooperation with international partners aiming at promotion of products at external markets; mentorship; involvement of leading experts in sharing their international experience; a stipend on participation in international training programmes on business skills in agricultural improvement; and more.</td>
<td>The initiative includes the following measures: financial support; partnership and cooperation with international partners aiming at promotion of products at external markets; mentorship; involvement of leading experts in sharing their international experience; a stipend on participation in international training programmes on business skills in agricultural improvement; and more.</td>
</tr>
</tbody>
</table>

44 https://www.solutions.edin.ua/en
45 https://avm-ua.org/uk/
46 https://industrial4ukraine.net/publications/ukrainian-clusters-initiative-cluster4ukraine/
47 https://nwo.com/about
48 https://liteprom.com/about
49 https://business.dia.gu.ua/wartime
50 https://www.facebook.com/UkrainianDairyAssociation/
52 https://biz.ligazakon.net/aktualno/11677_bznes-pd-chas-vyni-dopovnyutsya
The NGO “Business People Club of Ukraine” created a Telegram channel “Support to Entrepreneurs. Business People’s Club of Ukraine”53. The channel covers the following issues: requests for operational business needs of participants; requests for free of charge consultations in the fields of accounting, legal aspects, logistics, security, IT, and more; requests for cooperation and partnerships; information on willingness to provide assistance, resources or services to other Club participants on a voluntary basis or under special conditions. Also, the Club is very active on its Facebook page. It often reposts announcements about state and private business support programmes and provides other valuable information materials for its members and businesses in general.

The Organic Initiative association launched a grant programme for Ukrainian organic producers54. The goal of the programme is to preserve and develop organic sector capacity in the medium- and long-term perspective in Ukraine and also to support organic producers located in Chernihiv, Kharkiv, Kyiv, Sumy and Zhytomyr oblasts. In the first stage, support will be provided in the form of coverage of organic production certification costs, purchases of organic products for further distribution among IDPs, vulnerable groups and others, and access to plant protection agents, fertilisers, seeds, and more.

Google for Startups Ukraine Support Fund has launched the programme providing financial support to 50 companies founded in Ukraine during 202255. Each of the companies will receive financing from the fund of US$5.0 mn in total, Google Cloud and support from Google managers. The programme aims at supporting Ukrainian start-ups, strengthening the start-up community and building the foundation for the recovery of Ukrainian economy. Social enterprises receive preferences in the selection process.

The National Electronic Exchange LLC launched the online platform called “One2One”56. The platform is sort of a marketplace providing entrepreneurs with free of charge services on resource exchange (e.g. personnel, equipment, technologies, capacities) to load underutilized production capacities, streamline business processes or fulfill other goals.