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the People of Japan



Overcoming obstacles to business development in Donbas: review and recommendations

Executive Summary

About the study

This publication highlights economic trends, existing problems and obstacles to business development in conflict-affected regions of Ukraine and includes key recommendations for improving the business environment. The report has been commissioned by the project “Economic and Social Recovery of Donbas Region” implemented by the United Nations Development Programme in Ukraine and financially supported by the Japanese government. The study has been conducted by “International Marketing Group of Ukraine” company. It included a series of telephone surveys and round tables with the representatives of small and medium enterprises (SMEs) from Donetsk and Luhansk regions, state authorities, employment centres, business-associations and voluntary service organizations.

Views presented in this report are those of the authors and do not necessarily reflect the views and policies of UNDP and the Government of Japan.

Business barriers

A drastic worsening of socio-economic situation in eastern regions of Ukraine is one of the key challenges for national economic development. The socio-economic development of Donetsk and Luhansk regions is characterized by the following:

- closures, breaking of economic relations, and physical destruction of manufacturing facilities;
- damage of social infrastructure and life support systems;
- loss of housing and property by population;
- complications in rendering critical residential services, medical support, and social and education services to the local population;
- decline in industrial output, massive cessation of SMEs;
- large-scale jobs cutting and unemployment growth;
- discontinued financial and banking services;
- distorted transport infrastructure and information and communication systems;
- falling domestic demand due to falling real incomes of households;
- deteriorating quality of life in the communities and growing number of internally displaced persons hosted locally;
- drastic deterioration of environment and ecological situation in eastern regions;
- high uncertainty about the mid-term local economic development outlook.

Ten principal obstacles to entrepreneurship development and creation of new jobs have been identified; namely, constrained access to:

1. Financial resources;
2. Markets;
3. High quality administrative services;
4. High quality business services;
5. Information for doing business;
6. Energy supply;
7. Advanced technologies;
8. Qualified workforce;
9. Business partners from outside the region;
10. Shipping and logistical services.

Key recommendations

To improve the business environment and stimulate the creation of new jobs in Donetsk and Luhansk regions one should:

- facilitate access of SME representatives to financial resources (e.g. by partial compensation of interest on loans, encouraging financial institutions to cooperate with SMEs originating from Donbas);
- provide information support to entrepreneurs on business entry and development and on potential partners and markets;
- establish cooperation and links with business entities from other Ukrainian regions and foreign states, particularly, encourage joint initiatives of entrepreneurs coming from Donetsk or Luhansk regions and those coming from other regions of the country, with the view of establishing business partnerships;
- restore critical transport infrastructure and streamline procedures for passing the contact line;
- enhance the quality of administrative services to SMEs and simplify the permit procedures for doing business;
- encourage the application of advanced technologies by regional enterprises.

Restoration of economic development should be based on sustainable development principles, and cover economic, social, and environmental aspects of development.

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