

# **Market Conditions and Business Environment in the Priority Sectors of the Economy in Donetsk, Luhansk, and Zaporizhzhia Oblasts of Ukraine**

**Assessment of the Impact of  
the COVID-19 Pandemic on Micro,  
Small and Medium-sized Enterprises**

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The views expressed herein are those of the authors and do not necessarily reflect the views of the United Nations Development Programme. The data and analysis provided in the report are based on the results of the survey and statements made by representatives of surveyed companies. Unless stated otherwise, the data and analysis concern government-controlled areas of Donetsk and Luhansk oblasts.

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## List of acronyms

<b>COVID-19</b>	Coronavirus Disease of 2019
<b>EUR</b>	Euro
<b>FDI</b>	Foreign direct investment
<b>GDP</b>	Gross domestic product
<b>IT</b>	Information technology
<b>MSME</b>	Micro, small and medium-sized enterprises
<b>PE</b>	Private entrepreneur
<b>UAH</b>	Ukrainian Hryvna
<b>USD</b>	United States dollar
<b>YoY</b>	Year over year

# Executive Summary

By the end of November 2020, the number of COVID-19 infections in Ukraine reached 745 thousand, including over 23 thousand in Donetsk Oblast (the government-controlled area), over 6 thousand in Luhansk Oblast (the government-controlled area) and almost 32 thousand in Zaporizhzhia Oblast.

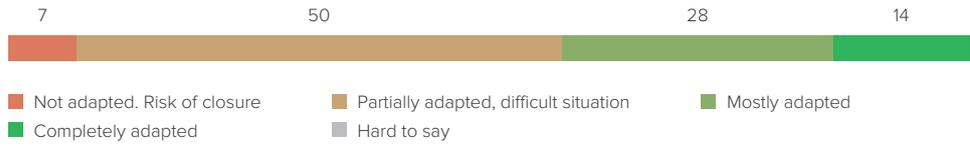
The COVID-19 pandemic and the subsequent economic slowdown have had tremendous impact on Ukraine's economy. In the second quarter of 2020 economic growth was -11.4%, whereas in the third quarter it was -3.5%. Industrial production fell by 6.8% (YoY) in January-October 2020; the decline in Donetsk, Luhansk and Zaporizhzhia oblasts was 8.3%, 11.5% and 10.5%, respectively. Agricultural output fell by 14.2%, amid drought, and by 3.7%, 9.9% and 11.2%, in Donetsk, Luhansk and Zaporizhzhia oblasts, respectively. The construction sector, however, recovered in the third quarter of 2020 with 1.9% growth (YoY), with Donetsk Oblast's growth of 40% (YoY), and Luhansk and Zaporizhzhia oblasts recording declines of 8.7% and 35%, respectively. Retail trade demonstrated strong rebound at 7.6%, having declined by 15% (YoY) in April 2020, with growth of 2.6%, 5.8% and 15% in Donetsk, Luhansk and Zaporizhzhia oblasts, respectively. An unfavourable external economic environment and the COVID-19 pandemic harmed Ukraine's international trade, though dynamics somewhat improved in the third quarter of 2020. Overall, exports of goods proved to be more resilient to adverse economic conditions. As a result, exports fell by 5.6% (YoY) in January-September 2020. For Donetsk, Luhansk and Zaporizhzhia oblasts this figure was 19.3%, 20.5% and 8.6%, respectively. Imports dropped by 14.3%. Economic turbulences have affected the labour market; the unemployment rate climbed to 9.2% in the first half of 2020, and to 14.5%, 15.2% and 10.4% in Donetsk, Luhansk and Zaporizhzhia oblasts, respectively. The impact of the pandemic has been felt extensively across the business sector.

## Survey results

In order to evaluate the extent of impact of the COVID-19 pandemic on micro, small and medium-sized enterprises, United Nations Recovery and Peacebuilding Programme, in partnership with the Kyiv School of Economics, conducted a survey of 1005 enterprises, including 788 micro-businesses, 164 small companies and 53 medium-sized enterprises, from government-controlled areas of Donetsk Oblast (394 companies) and Luhansk Oblast (294), as well as, from Zaporizhzhia Oblast (317). They have represented nine priority sectors identified in earlier studies as the most promising in economically lifting the region; Industry and Engineering Services (67 companies), Textiles and Clothing (79), Hospitality (383), Ceramics (20), Food Processing (91), Poultry and Eggs (17), Dairy and Beef (13), Grain and Oilseeds (322), and Fruits and Vegetables (13). 45% of all employees in the surveyed firms have been women. The largest share of women workers has been in Textiles and Clothing, Hospitality, Dairy and Beef and Poultry and Eggs.

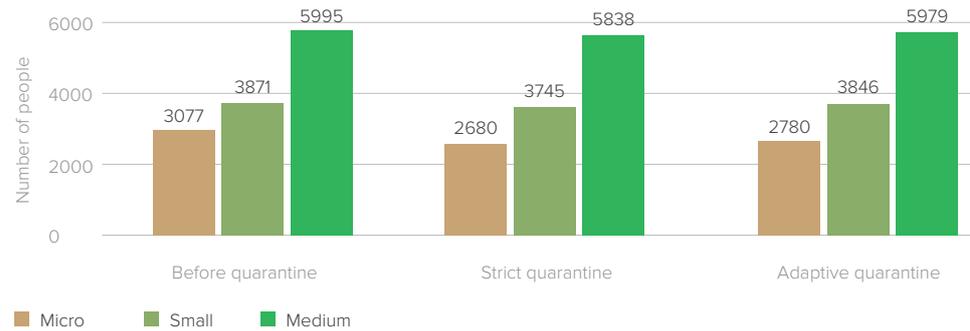
As far as the impact of the COVID-19 pandemic is concerned, for the majority of the companies it has been difficult to adapt to the new conditions. 7% of businesses have not been able to adapt and may have been at the risk of closure, while another 50% have adapted only partially and described their situation as difficult. At the same time, 42% of companies have mostly or entirely adapted (Figure I).

Figure I. Adaptation



The COVID-19 pandemic has had an impact on employment. Overall, the number of employees in the surveyed companies fell by 5% during strict quarantine.

Figure II. Aggregate employment change in the surveyed companies due to the COVID-19 pandemic



As a result, 30% of companies expect sales to decrease in 2020, 39% expect them to remain the same as in 2019, whereas 12% expect an increase (Figure III). Projections for the year 2021 have been more optimistic; 7%, 32% and 24%, respectively (Figure IV). 49% of companies expect that it will take a year or less for them to recover, 11% expects the recovery to last between a year and two years and only 2% think it will take longer.

Figure III. Sales expectations in 2020

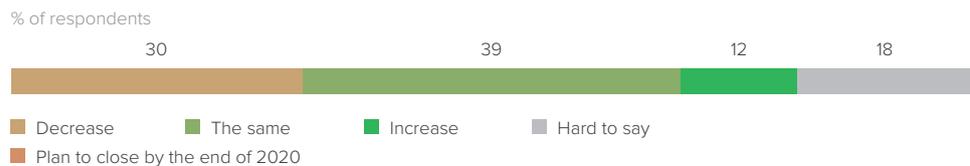


Figure IV. Sales forecast for 2021 compared to the period before March 2020<sup>1</sup>



As far as particular sectors are concerned, non-agricultural sectors have been affected to a greater degree by the pandemic than agricultural ones. In **Textiles and Clothing** many enterprises closed during the period of strict quarantine. Demand dropped as the sector has not been a priority in consumers' spending and due to transport restrictions. The response to the situation by entrepreneurs has been to wait, to alter the type of production to respond to new demand (e.g. by sewing masks) and to

<sup>1</sup>Also Includes plans to close by the end of 2020.

accept online orders for future deliveries. In **Hospitality** most of the businesses had to stop working when strict quarantine was introduced. Those who were allowed to operate experienced losses. However, the effects of the COVID-19 related measures within the sector have varied significantly, as Hospitality has been among the most heterogeneous industries. In **Ceramics** many companies reduced their production volume or stopped operating during strict quarantine. As an adaptation measure, some producers have switched to online sales. Despite the limited success in this regard, Ceramics has been considered one of the sectors most interested in online sales, marketing on social media and websites. Among the surveyed sectors, **Industry and Engineering Services** have been ranked fourth by negative effect in 2020. Companies have identified decreased demand, disruption of sales channels, closure of shops, prohibition of work, ceasing of trade with non-government controlled areas and disruption in procurement and transportation, as key negative factors for their operations. In response, the sector has become one of the best adapted to the remote work mode. For all the sectors, access to external financing has been very limited and the share of enterprises with savings to cover shortages of funds has been very low.

In contrast, **Food Processing** enterprises were allowed to work during the period of strict quarantine and the majority of them (79%) have continued to operate without an interruption. Sales have fallen, however, due to lower demand and disruption of sales channels and transportation. To adapt to the new circumstances, companies have altered work mode arrangements and have reoriented production towards new domestic destinations.

As far as agricultural sectors are concerned, **Poultry and Eggs** has been one of the least affected. Enterprises within the sector have not stopped operating, partly due to the nature of their production processes. Some of the companies have not been affected at all, while for other sales have dropped due to the disruption of sales channels. Those who have been selling their goods on marketplaces and to restaurants have been affected to a greater extent. Overall, **Dairy and Beef** has also been better off than many other sectors. Production has continued, however, disruptions in sales channels have affected the operations. Companies have been using online sales and direct delivery to customers to compensate for market losses. Plans for further business development have been postponed. The **Grain and Oilseeds** sector has also been among the least affected by the COVID-19 pandemic. It has mostly continued to operate with little disturbance. Among the challenges it has faced have been problems with input supply (fertilizers, chemicals), decreased demand and fewer buyers. In order to adapt, some of the employees have been working remotely or have taken leave. Businesses have reoriented to domestic suppliers. Among the agricultural producers, the **Fruits and Vegetables** sector has been affected more than other sectors. Businesses have suffered from disrupted sales, lower demand, issues with the supply of fertilizers, purchases of seeds, increased prices of inputs and the shortage of workforce. As an adaptation strategy some companies have switched to delivering ordered produce directly to customers. Having faced new challenges, some producers have chosen to expand into Food Processing in the future.

Moreover, the survey has shown that the number of exporters among the companies has been very small – 63 out of 1005, and almost half of them have been Grain and Oilseeds producers. Exporters in almost all sectors have their exports decreased during quarantine, with the exception of Grain and Oilseeds producers, for whom export volumes have not changed. The main reason for the decrease has been problems concerned with the transportation of goods.

Overall, 36% of surveyed companies have been managed by women. This ratio has varied across the sectors: the highest share of women-led companies has been in Textiles and Clothing (66%) and Hospitality (50.4%). The share of women managers has been the highest in micro-business (41%). 4% of women-managed companies have stopped their operations since March 2020. Women have been more pessimistic in their evaluation of economic situation, which could be attributable to sectoral gender patterns. Women have been more represented in the Hospitality sector, which has been subject to the harshest quarantine restrictions, and in the Textiles and Clothing industry for whom the demand dropped significantly during quarantine. Women have also been more represented in micro-businesses, which have been found to be less resilient against the economic shock caused by the COVID-19 pandemic.

### Policy Recommendations

In response to the COVID-19 pandemic and economic slowdown, tailored and targeted policies are necessary as various sectors and various types of companies have been affected differently. The highest negative impact has been observed in labour intensive non-agricultural sectors, which either rely on customers' physical mobility, are niche sectors with limited demand, or represent industries for which demand can dwindle, in the short term, without any impact on consumers' well-being. It also needs to be noted that MSMEs in Luhansk Oblast have tended to be more vulnerable, compared to those in Donetsk and Zaporizhzhia oblasts. Moreover, micro enterprises have been affected to a significantly greater degree than small and medium-sized companies. Out of 788 micro-businesses, 2.3% stopped operating, whereas 7.9% have had difficulties to adapt and may have been on the verge of bankruptcy. Women seem to have been more affected by the economic slowdown resulting from the COVID-19 pandemic, due to sectoral gender patterns.

For effective development of micro, small and medium-sized enterprises it is important that a steady supply of a qualified and skilled labour force is available, one which matches the market demand. However, it has transpired from the survey that MSMEs in the three oblasts need further capacity building in this respect.

Moreover, reliable financing is at the centre of the private sector's development. Nevertheless, a lack of external financing has been identified as the most important factor inhibiting business development and expansion in the region. The limited role of bank credit stems from the fact that banks have been unwilling to provide loans citing high risks. Consequently, for the MSMEs to be able to develop and expand, the efforts must focus on ensuring that access to finance is improved. With limited financial resources of their own and the inability to access sufficient credit on the market, support for MSMEs must include providing expertise and options on seeking new and innovative financing resources, domestic and international, private and public.

The survey has also shown rather limited digitalization and a limited online presence of MSMEs in the three examined oblasts. Consequently, taking into account the global trend of the digitalization of commercial activities and the economic downturn caused by the COVID-19 pandemic, it is necessary to train entrepreneurs how to use Internet and online instruments.

The survey has shown a very limited level of collaboration within each sector. However, creating clusters is one of the most effective ways to build a robust industry composed of micro, small and medium-sized businesses. The need for creating well

managed and effective clusters is particularly important for small crop producers such as in Fruits and Vegetables, to attract investors, partly in Food Processing. To a great extent it is also the case of Dairy and Beef, Poultry and Eggs and Grain and Oilseeds. Consequently, efforts at creating clusters of production must be improved.

The survey has shown that the number of companies exporting their products has been limited. Considering the limited consumption capabilities of the local population, internationalization efforts must be improved for the companies to be able to tap international markets. Export can increase through external promotion and establishing partnerships. A digital presence can serve this purpose. So can the participation in online and offline fairs. Internationalization efforts can be improved through foreign direct investment (FDI). The key to success lies in adequate strategizing of FDI. Investments need to be in those sectors which will advance development, making economic growth greener and more inclusive, and jobs more productive. Capacity building on international norms and standards needs to take place, particularly, for companies exporting agricultural products.

The COVID-19 pandemic has illustrated the importance of enhancing resilience within the private sector and ensuring that MSMEs are increasingly less vulnerable towards external shocks. Research shows that resilience can be achieved through structural economic transformation which leads to economic diversification. Greater economic diversification can be achieved through enhancing backward and forward linkages and thus production value chains around clusters.

Ultimately, the survey has clearly shown the need for government intervention in addressing the adverse effects of the COVID-19 pandemic in the MSMEs, as well as continuously facilitating further business development. Business support measures should include further reduction of regulatory and financial burden, as well as building trust between the private and public sectors. Government should better communicate quarantine requirements. National and local governments should improve policy consistency and ensure better coordination.



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# Introduction

Eastern Ukraine is a region facing particular development challenges; first, as in the rest of Ukraine, the predicaments relate to the lower middle-income status, with limited resources to lift the population out of poverty and establish a long-term trajectory of fast economic development; second, the lack of a thriving private sector composed of local micro, small and medium-sized enterprises (MSMEs), which would serve as the backbone of development advancements; third, instability caused by the armed conflict; and finally and most recently, economic slowdown caused by the COVID-19 pandemic.

The three oblasts of Donetsk, Luhansk and Zaporizhzhia examined in this report contribute 10.5% to Ukraine's GDP (in the case of Donetsk and Luhansk oblasts the data and analysis concern government-controlled areas). Within that group Donetsk Oblast is responsible for 5.4%, Zaporizhzhia Oblast for 4.1%, and Luhansk Oblast for 1%.<sup>2</sup> Their combined value of output amounted to around USD 32 billion in the year 2019. The main sectors of the local economy are base metal production, mining, utilities, food processing, and machinery production in Donetsk Oblast; base metal production, electricity, food processing, and machinery production in Zaporizhzhia Oblast; and agriculture, utilities, chemical industry, cardboard production, and machinery production in Luhansk Oblast. Many of those sectors are dominated by large companies and not MSMEs; a result of the heritage of economic structure from the past.

Due to the armed conflict in the east of Ukraine, the examined oblasts have lost a significant share of their industrial potential. As a result, Donetsk Oblast's contribution to Ukraine's GDP decreased by 50%, compared to 2013, while that of Luhansk Oblast's decreased 3.5 times.<sup>3</sup> Prolongation of the conflict has aggravated the process of destruction of infrastructure, the outflow of investment and personnel, and reduction of tax revenues. The COVID-19 pandemic and subsequent economic slowdown have exacerbated the situation even further.

Indeed, the COVID-19 pandemic has had a tremendous impact on the Ukrainian economy. The first virus case was detected on 3 March 2020. The Government's response was the introduction of nationwide strict quarantine, which started on 12 March 2020. Restrictions included: a ban on visiting educational institutions, restrictions on mass gatherings, staying in public places without a face mask, visiting recreation areas, the work of business entities and organisations which provided for the reception of visitors. Moreover, transport and border restrictions were introduced (a ban on long-distance transport, except for private cars, air and rail travel). Strict quarantine restrictions lasted for two months and were replaced by an adaptive quarantine on 20 May 2020.

By the end of November 2020, there were 745 thousand registered cases of COVID-19 in Ukraine, and 377 thousand of them were active cases.

Initially, the number of cases of COVID-19 per 100,000 inhabitants in Donetsk, Luhansk and Zaporizhzhia oblasts were fewer than in the rest of Ukraine. However, the number started to surge in August. The pace of growth became twice as high as

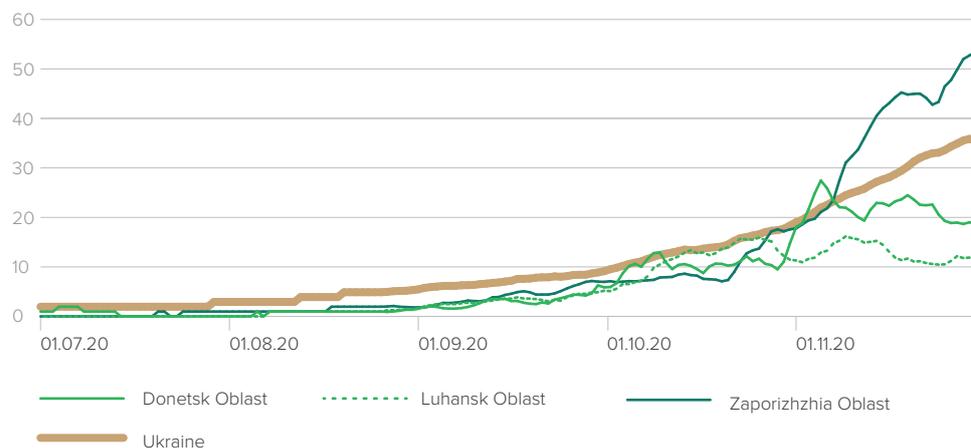
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<sup>2</sup>State Statistics Service of Ukraine: <https://ukrstat.org/en>

<sup>3</sup>State Statistics Service of Ukraine: <https://ukrstat.org/en>

in Ukraine on average, and some of the areas within the oblasts were reclassified into yellow, orange, and ultimately, red categories. At the end of November 2020, the epidemiological situation in Luhansk and Donetsk oblasts was better than for the entire Ukraine, whereas in Zaporizhzhia Oblast the number of new cases per 100,000 inhabitants exceeded that of Ukraine's average.

Figure 0.1. New COVID-19 cases per day, 7-day average, per 100,000 inhabitants



Source: Center for Public Health of the Ministry of Health of Ukraine

Table 0.1. COVID-19 cases in Donetsk, Luhansk and Zaporizhzhia oblasts

Oblast	Date	Total number of cases	Active cases	Recovered	Deaths
Donetsk	30/07/2020	881	224	645	12
	30/08/2020	1418	526	871	21
	30/09/2020	3477	2331	1090	56
	30/10/2020	10392	8761	1525	106
	30/11/2020	23157	10469	12280	408
Luhansk	30/07/2020	126	31	94	1
	30/08/2020	315	126	187	2
	30/09/2020	1091	501	576	14
	30/10/2020	3635	2257	1302	76
	30/11/2020	6350	2104	4075	171
Zaporizhzhia	30/07/2020	790	172	597	21
	30/08/2020	1596	653	918	25
	30/09/2020	4128	2635	1429	64
	30/10/2020	9909	7480	2311	118
	30/11/2020	31608	25997	5313	318

This report examines the impact of the COVID-19 pandemic on micro, small and medium size enterprises in eastern Ukraine, and, more precisely, in the three oblasts of Donetsk and Luhansk (both, in the government-controlled areas) and Zaporizhzhia. The assessment, based on the survey of 1005 micro, small and medium-sized enterprises and conducted between 21 July and 3 September 2020 has been focused on COVID-19 related changes in the business environment and market conditions relevant to MSME's operations and development. The survey's questionnaire covered the period from 3 March 2020, when the virus reached Ukraine, until 3 September 2020, thus included the period of strict quarantine, which lasted from 17 March 2020 until 20 May 2020, and the period afterwards during adaptive quarantine.

The MSMEs have been divided into nine priority sectors, identified as the most important and promising value chains as far as sustainable development in the region is concerned, and thus catalysers of developmental advancements.<sup>4</sup> They include:

- **Industry and Engineering Services:** manufacture of rubber and plastic products, manufacture of fabricated metal products, manufacture, repair and installation of machinery and equipment, manufacture of electrical equipment, architectural and engineering activities; technical testing and analysis, repair of computers, household goods and personal items;
- **Textiles and Clothing:** textiles manufacturing, manufacture of wearing apparel, manufacture and repair of leather and related products;
- **Hospitality:** temporary accommodation, food and beverage services, leasing and operating of real estates, travel agencies, tour operators and related activities, libraries, archives, museums and other cultural activities, sports, amusement and recreation activities;
- **Ceramics:** manufacture of clay building materials, manufacture of ceramic household and ornamental articles and other porcelain and ceramic products;
- **Food Processing:** production of meat products, processing and preserving of fish, crustaceans and molluscs, processing and preserving of fruits and vegetables, manufacture of vegetable and animal oils and fats, manufacture of grain mill products, starches and starch products, manufacture of bakery and farinaceous products, manufacture of soft drinks and bottled waters;
- **Poultry and Eggs:** raising of poultry and processing and preserving of poultry meat;
- **Dairy and Beef:** processing and preserving of meat, manufacture of dairy products;
- **Grain and Oilseeds:** growing of cereals, leguminous crops and oil seeds;
- **Fruits and Vegetables:** growing of vegetables and melons, roots and tubers.

The report is composed of the following parts. Chapter One presents the overview of the economic situation in Donetsk, Luhansk and Zaporizhzhia oblasts. It provides information on GDP change, industrial production, agriculture, construction and retail, international trade and foreign direct investment, labour market and public finances. Chapter Two contains the overview of Ukraine's policy response to the COVID-19 pandemic in terms of regulatory and other measures, particularly, in the context of support for MSMEs, and, partly, specific to Donetsk, Luhansk and Zaporizhzhia oblasts. Chapter Three, upon the presentation of the methodology used in the survey, examines MSMEs in the nine priority sectors, in terms of adaptation to quarantine measures, expectations of sales, impact of the pandemic on employment, companies' urgent needs, digitalization efforts, preferred mode of communication, and available or desired sources of information and financing. It subsequently discusses MSMEs' export, perception on government support and gender issues. Chapter Four provides policy recommendations as to which companies and what kind of support they need.

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<sup>4</sup>(a) UNDP (2019) Economic Development & Value Chain Enhancement in Donetsk and Luhansk Oblasts. Report by the United Nations Recovery & Peacebuilding Programme; (b) UNDP (2020) Value Chain Assessments for Southern Donetsk and Southern Zaporizhzhia Oblasts (Azov Sea Region). Report by the United Nations Recovery & Peacebuilding Programme.



## 1.

## Overview of the economic situation in Donetsk, Luhansk and Zaporizhzhia oblasts

In 2020, negative growth of the Ukrainian economy was already visible in the first quarter of the year (-1.3% YoY, January-March) prior to the acceleration of the pandemic, amid an unfavourable external economic environment and, ultimately, the rapid spread of COVID-19. The latter led to the introduction of strict quarantine measures on 12 March 2020. As a result, in the second quarter of 2020, recorded economic decline was 11.4% (YoY), whereas in the third quarter 3.5% (Figure 1.1). The negative trends have been visible in industrial production and construction, agriculture and retail, and international trade and foreign direct investment. In November 2020, the consumer price index was 3.8%.

Figure 1.1. GDP growth and inflation, % change



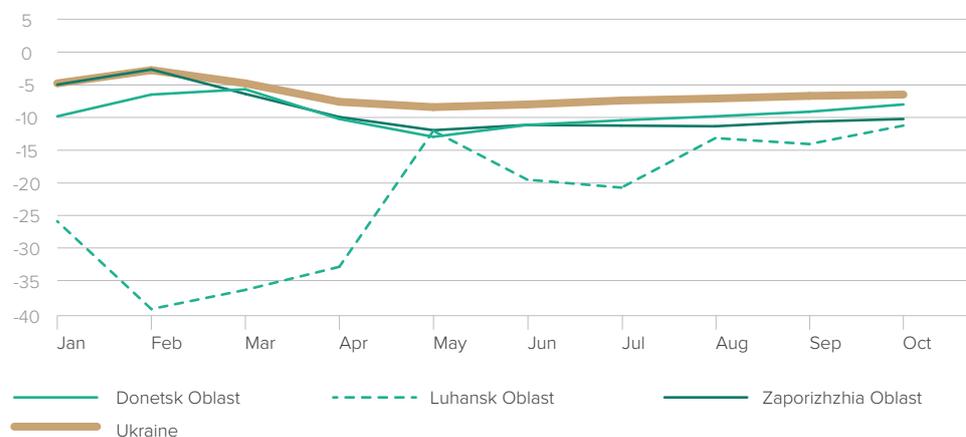
Source: State Statistics Service

### 1.1. Industrial production

The unfavourable external economic environment and the COVID-19 pandemic negatively affected industrial production in Ukraine. Industrial output's cumulative decline was 6.8% (YoY) in January-October 2020 (Figure 1.2). The worst hit were: machinery production (-22%), metallurgy (-12%), textiles (-10%), and manufacturing of wood products and paper (-8%). Machinery production continues to suffer from the loss of the market of the Russian Federation. However, it was the textile production

which was initially affected the most by the quarantine measures, with the fall of more than 35% (YoY) in April-May 2020. In June-August 2020, the fall continued at 6.5%, whereas at the end of October 2020, the sector almost recovered (-0.7% change, YoY). However, cumulatively in January-October 2020, textile industry declined by 10% YoY.

Figure 1.2. Industrial production, % change



Source: State Statistics Service

In Donetsk, Luhansk and Zaporizhzhia oblasts, the negative dynamics was, on average, greater than in the rest of Ukraine. It was expected, given the structure of the economy in the region and its reliance on those sectors that experienced deeper decline, i.e. base metal production, mining, coke and machinery production. The decline in industrial production in Donetsk Oblast amounted to 8.3% (YoY) in January-October 2020, with the worst dynamics in textile (-28%), mining (-16%), machinery (-16%), chemical industry (-11%), coke and oil refinery (-9%), and rubber and plastic (-8%). In Luhansk Oblast, industrial production fell by 11.5% (YoY) in January-October 2020. Metallurgy was significantly affected and nosedived 42%, whereas machinery production fell by 8%. Textile production dropped by 21%, the production of rubber and plastic fell by 19%, food industry plunged 16%. Industrial output in Zaporizhzhia Oblast fell by 10.5% in January-October 2020 compared to the same period in 2019. The decline in textiles was more pronounced at 28%. In comparison, machinery production fell by 9%, metallurgical production dropped by 8% and production of rubber and plastic decreased by 10%.

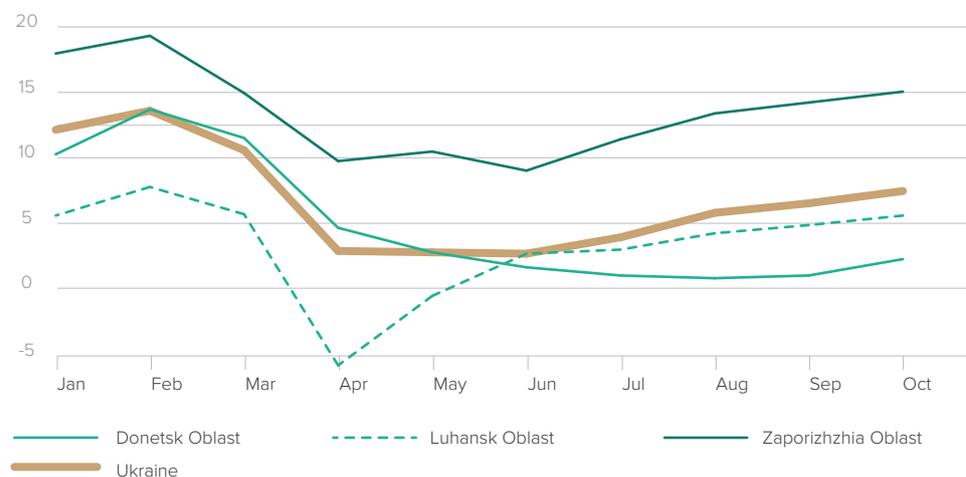
## 1.2. Agriculture, construction and retail

Regarding other sectors of the economy, Ukraine's agricultural output fell by 14.2% (YoY) in January-October 2020, amid drought and subsequently lower yields. The COVID-19 pandemic also had a negative impact on the sector, however, to a lesser extent compared to industrial production. At the same time, agricultural production dynamics varied in the three examined oblasts. In January-October 2020, it declined by 3.7% (YoY) in Donetsk Oblast, by 9.9% in Luhansk Oblast, and by 11.2% in Zaporizhzhia Oblast.

Although in January-August 2020, the construction sector experienced a decrease of 2.8% (YoY) in Ukraine, by October it bounced back and recorded growth of 1.9%. The dynamics in the three examined oblasts has been very different. In Donetsk Oblast, construction is believed to have rebounded strongly in May-October 2020, after an initial decline, most likely due to government spending on infrastructure construction.

As a result, cumulative growth in January-October 2020 was 40% (YoY). In Luhansk Oblast, however, construction output declined by 8.7%, while in Zaporizhzhia Oblast by 35%.

Figure 1.3. Retail trade turnover, % change



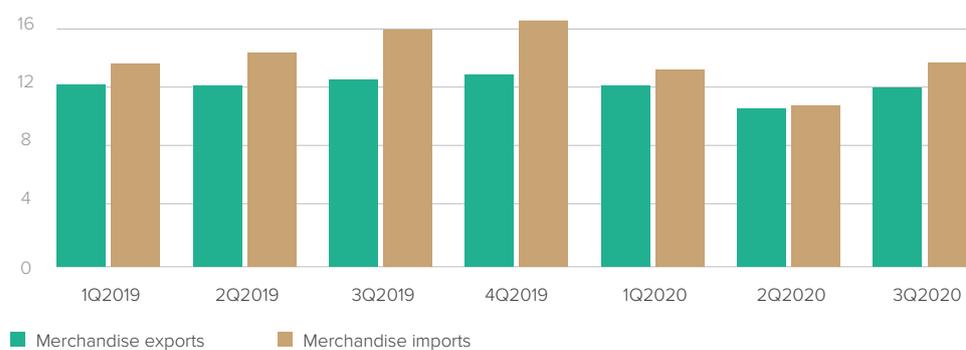
Source: State Statistics Service

Retail trade demonstrated strong recovery after a fall of 15% (YoY) in April 2020, with a positive trend starting in June. Overall, cumulative growth accelerated to 7.6% (YoY) in January-October 2020 (Figure 1.3). A similar situation can be observed in the three examined oblasts. In Donetsk and Luhansk oblasts retail trade grew by 2.6% and 5.8%, respectively, while in Zaporizhzhia Oblast, cumulative growth amounted to 15%. Positive retail trade dynamics can be connected to a robust IT sector growth, personal money transfers from abroad and discounts offered in the sector. Online trade has also increased, however, it still constitutes a fraction of retail trade.<sup>5</sup>

### 1.3. International trade and foreign direct investment

An unfavourable external economic environment and the COVID-19 pandemic harmed Ukraine's international trade. At the same time, exports of goods proved to be more resilient to adverse economic conditions. Exports fell by 5.6% (YoY) in January-September 2020, while imports dropped by 14.3%.

Figure 1.4. Exports and imports of goods, USD billion



Source: State Statistics Service

<sup>5</sup>According to the State Statistics Service of Ukraine, the share of online retail trade in retail trade was less than 2% in 2019.

At 44%, almost half of Ukraine's exports were food and agricultural products in January-September 2020. Their export decreased by merely 1% (YoY) in that period. However, in the same period, the export of base metals decreased by 17%. It was as a result not only of the COVID-19 pandemic, but also the trade-related tensions between the United States and China, as well as the EU mirror import restrictions on steel imports, which created significant barriers for Ukrainian metallurgical producers. Exports of mechanical engineering products also decreased (-2.9%), while mineral products export fell by 4.5%. At the same time, exports of the chemical industry increased (by 5.9%, YoY, January-September 2020), as did exports of industrial products and wood products. In addition, exports of services fell by 13.4%, exports of transport services, including pipeline and air, fell by 23%, however, exports of IT services increased by 23%.

As far as the three examined oblasts are concerned,<sup>6</sup> the dynamics of exports was significantly lower than for Ukraine in general, which is attributed to the structure of the local economy and, in particular, a high share of base metals in export. The decline in exports in Donetsk Oblast was 19.3% (YoY) in January-September 2020. 81% of Donetsk Oblast exports were base metals, which dropped by 16%. Export of mineral products (6% of total exports) dropped by 22%, whereas export of vegetables (2.2% of total exports) fell by 38%. However, export of machinery production (8% of total) grew by 12%. Overall exports amounted to USD 2.9 billion, which is 8% of all Ukrainian exports. Main destinations of Donetsk exports were Italy (21%), the Russian Federation (13%), Turkey (12%), Poland, the United States, China, United Kingdom, Spain, and the United Arab Emirates.

Overall exports from Luhansk Oblast fell by 20.5%. However, 33% of Luhansk Oblast exports were chemical products and, in January-July 2020, this sector's export grew by 52% (YoY). Still, it was not enough to offset the decline in other sectors. For instance, the exports of paper and paperboard (24% of total exports) fell by 33%, and exports of textile products fell by 20%. Overall exports amounted to USD 98 million, which is 0.3% of all Ukrainian exports. The main destinations of Luhansk Oblast's exports were Germany, Poland, the Russian Federation, France and Belarus.

Exports from Zaporizhzhia Oblast fell by 8.6%. Base metal exports (54% of the oblast's export) declined by 15%, exports of vegetables (11% of total) fell by 3.6%. At the same time, exports of machinery (16% of total) grew by 21%, and oil and fats export grew by 29%. Overall exports amounted to USD 2.1 billion, which is 6% of all Ukrainian exports. The main destinations of Zaporizhzhia exports were China, the Russian Federation, Turkey, the United States, Italy, Egypt and Germany.

The stock of foreign direct investments (FDI) in Ukraine slightly decreased in the second quarter of 2020 to USD 50.3 billion (compared to USD 51.4 billion at the end of 2019), due to the exchange rate depreciation. Out of this amount, Donetsk Oblast accounted for USD 2.7 billion, Luhansk Oblast for USD 0.4 billion, and Zaporizhzhia Oblast for USD 1.6 billion (Kyiv itself accounted for USD 23 billion). At USD 221 million, net FDI inflow to the economy was considerably lower in January-October 2020 compared to the same period of 2019 (USD 4.5 billion), nevertheless remained positive.

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<sup>6</sup>As far as oblast level analysis of international trade is concerned, it should be treated with caution, as the exporters may be located in different oblasts than the producers.

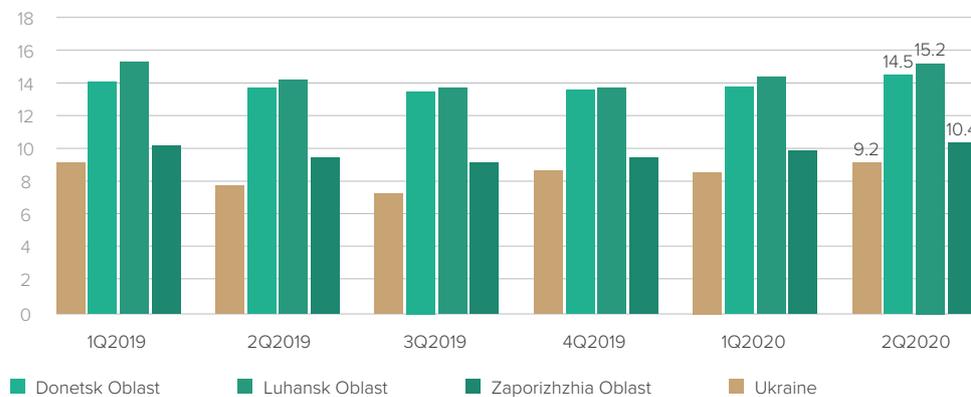
## 1.4. Labour market

As the labour market felt the consequences of the lockdown with a delay, the unemployment rate in the first quarter of 2020 was 8.5%, hence lower than the 9.1% rate in the first quarter of 2019. In the first half of 2020, however, unemployment climbed back to 9.2% (Figure 1.5).

In the three examined oblasts the unemployment rate has been higher; especially in Donetsk and Luhansk oblasts, with 14.5% and 15.2%, respectively in the second half of 2020. In Zaporizhzhia Oblast, the unemployment rate was 10.4%.

After the growth in real wages became negative in April 2020 (-1.4% YoY), it rebounded back to 10.6% (YoY) in October 2020. A positive change is now observed in all three examined oblasts. Real wages have increased by 10.2% (YoY) in Donetsk Oblast, by 13% in Luhansk Oblast and by 11.3% in Zaporizhzhia Oblast. Still, the level of wages in Luhansk Oblast lags behind the average of the national economy.

Figure 1.5. Unemployment among persons aged 15-70, %



## 1.5. Public finances

In 2020, Ukraine has faced a challenging task with government debt repayment and financing of a large budget deficit. The economic downturn due to COVID-19 reduced budget revenue, while spending increased. As a result, the planned budget deficit for 2020 increased over three times from UAH 96 billion to UAH 298 billion. At 7% of GDP, it is expected to be a record high for recent years. The deficit is planned to be financed with new government borrowing, and primarily domestic government debt. In January-October 2020, the state budget received 100% of the planned (for that period) revenue. At the same time, expenditures of the general fund of the state budget amounted to 90% of the January-October plan. Still, expenditure increased 12.3% compared to the same period of 2019.

The budget revenues of local authorities fell by 18% (YoY). The main reason for this was the decrease of transfers from the state budget to the general fund of local budgets. It is due to the fact that in 2020, local budgets would not cover certain expenditures related to the implementation of state social protection programmes. These expenditures are covered from the state budget directly. The same situation is observed in Donetsk, Luhansk and Zaporizhzhia oblasts, in which budget revenue, including transfers, decreased by 17%. However, if one does not consider the transfers from the state budget, then the budget revenue in Donetsk and Zaporizhzhia oblasts remained the same as in 2019 and in Luhansk it increased by 7%.



# 2.

## Overview of Ukraine's policy response to COVID-19 pandemic

Ukraine's policy response to the COVID-19 pandemic has comprised of quarantine restrictions, travel bans, as well as monetary and fiscal measures, social sector's measures, and support for MSMEs (see the list of the main COVID-19 related legislative changes in Annex I).

### 2.1. Regulatory and other measures

In April, by making amendments to the Budget-2020-act, the parliament established the COVID-19 Response Fund.<sup>7</sup> The Fund is intended to be operational for the period of quarantine, plus 30 days. The total amount of the fund has been UAH 66 billion.

According to the Ministry of Finance of Ukraine, by 24 July 2020, the Government allocated UAH 66 billion of the Fund as follows:<sup>8</sup>

- UAH 16 billion to the health care system, including the provision of personal protective equipment to healthcare workers, increased salaries, the purchase of necessary equipment for hospitals, and the construction, reconstruction and repair of health care facilities;
- About UAH 7 billion to finance the unemployment fund, 2.7 billion of which has been for partial unemployment benefits;
- UAH 1.2 billion has been allocated by the Ministry of Social Policy for individual entrepreneurs who could not work due to quarantine restrictions and have children under 10-year-old;
- UAH 2.5 billion for additional payments to servicemen, police and other relevant categories of employees;
- UAH 35 billion to the reconstruction, repair and maintenance of roads.

By 9 October 2020, UAH 29.8 billion (45%) of the Fund was spent. According to the Ministry of Finance of Ukraine, the major payments included social assistance (unemployment and partial unemployment assistance, etc.) – UAH 9.2 billion; healthcare (financial assistance to medical workers, etc.) – UAH 4.3 billion; reconstruction and maintenance of roads – UAH 13.6 billion.<sup>9</sup>

<sup>7</sup>[http://w1.c1.rada.gov.ua/pls/zweb2/webproc4\\_1?pf3511=68570](http://w1.c1.rada.gov.ua/pls/zweb2/webproc4_1?pf3511=68570)

<sup>8</sup>[https://mof.gov.ua/uk/news/uriad\\_rozpodiliv\\_66\\_mlr\\_d\\_grn\\_z\\_fondu\\_borotbi\\_z\\_covid-19-2299](https://mof.gov.ua/uk/news/uriad_rozpodiliv_66_mlr_d_grn_z_fondu_borotbi_z_covid-19-2299)

<sup>9</sup>[https://mof.gov.ua/uk/news/z\\_fondu\\_borotbi\\_z\\_covid-19\\_uzhe\\_vitracheno\\_maizhe\\_30\\_mlr\\_d\\_grn-2481](https://mof.gov.ua/uk/news/z_fondu_borotbi_z_covid-19_uzhe_vitracheno_maizhe_30_mlr_d_grn-2481)

In addition, the Government prepared a list of goods and services necessary to fight coronavirus, including medicines and disinfectants, antiseptics and medical equipment, and simplified the relevant procurement procedures (Resolution N° 225 “Some issues of procurement of goods, works and services required for the implementation of measures aimed at preventing the occurrence and spread, localization and elimination of outbreaks, epidemics and pandemics of coronavirus disease (COVID-19) in Ukraine”).<sup>10</sup>

However, the results of independent monitoring showed certain irregularities during the procurement procedures, concerning the use of the Fund's resources. In particular, according to Transparency International Ukraine, about 25% of purchases in Kyiv were made with violations of the procedures (82 out of 325 purchases). The most common violations included the lack of annexes to contracts, as well as purchase of goods that were not listed for simplified procurement.<sup>11</sup>

Moreover, after the pandemic outbreak in March 2020, the National Bank of Ukraine mitigated excessive currency fluctuations resulting from the growing domestic demand for foreign currencies through the sale of foreign currency reserves.<sup>12</sup> In addition, the National Bank introduced a mechanism for long-term (5 years) refinancing for banks along with existing short-term refinancing to support bank lending and liquidity.<sup>13</sup> On 12 June 2020, for that purpose the National Bank also cut the key interest rate from 8% to 6% – the lowest level of the key policy rate since Ukraine gained its independence.<sup>14</sup>

Various measures to strengthen social support for certain categories of citizens during the quarantine were introduced:

- **Unemployment assistance:**<sup>15</sup> UAH 6 billion was allocated to the Compulsory State Social Insurance Fund of Ukraine to provide financial assistance in case of unemployment, and in particular for:
  - partial unemployment assistance – UAH 4.723 billion for SMEs during the quarantine period to cover the cost of wages to their employees whose working hours were cut;<sup>16</sup>
  - unemployment assistance – UAH 1.277 billion to increase the minimum amount of unemployment assistance payments from UAH 650 to UAH 1,000;
- **Pension payments:**<sup>17</sup> Additional payments for pensioners and indexation of pensions by 11% from May 2020 was introduced;
- **Subsidies for housing and communal services:**<sup>18</sup> Additional reimbursement of utility costs for recipients of housing subsidies in the amount of UAH 300 per family, on average, during the quarantine period was introduced.<sup>19</sup> In addition, a 50% increase in the consumption threshold of the utilities eligible for the subsidy programme, including electricity, cold and hot water, sewage and natural gas for cooking and

<sup>10</sup><https://zakon.rada.gov.ua/laws/show/225-2020-%D0%BF#Text>

<sup>11</sup><https://ua.interfax.com.ua/news/general/682369.html>

<sup>12</sup><https://bank.gov.ua/ua/about/covid19>

<sup>13</sup><https://bank.gov.ua/en/news/all/natsionalniy-bank-zaprovdjuye-dovgostrokove-refinansuvannya-dlya-pidtrimki-kredituvannya-ta-likvidnosti-bankiv>

<sup>14</sup><https://bank.gov.ua/en/news/all/natsionalniy-bank-ukrayini-zniziv-oblikovu-stavku-do-6>

<sup>15</sup><https://zakon.rada.gov.ua/laws/show/308-2020-%D0%BF#Text>

<sup>16</sup><https://www.kmu.gov.ua/news/uryad-vidiliv-6-mlrd-grn-dlya-finansuvannya-dopomogi-po-bezrobittyu>

<sup>17</sup><https://zakon.rada.gov.ua/laws/show/251-2020-%D0%BF#Text>

<sup>18</sup><https://zakon.rada.gov.ua/laws/show/247-2020-%D0%BF#Text>

<sup>19</sup><https://www.kmu.gov.ua/news/uryad-dodatkovu-kompensuye-otrimuvacham-subsidij-oplatu-zhkp-u-serednomu-na-300-grn-na-period-karantinu>

heating purposes, was implemented. Simplified procedure for enrolment in the housing utilities subsidy programme for citizens who lost their jobs due to quarantine and became registered as unemployed were adopted;<sup>20</sup>

- **Child assistance for individual entrepreneurs (certain categories):** assistance for single taxpayers of Group I-II who have children under 10-year-old.<sup>21</sup>

Other regulatory measures were introduced on a temporary basis in order to overcome the deficit and increase the supply of anti-epidemic goods for the domestic market, as well as in order to control price increases for essential goods during quarantine. They included:

- Exemption from import duties and VAT on imports and/or supply of goods needed to combat coronavirus – medicines and medical devices, medical equipment, as well as their priority for customs clearance;<sup>22</sup>
- Temporary restrictions (prohibition, licensing) on exports of anti-epidemic goods (including masks, respirators, medical gowns, medical gloves, alcohol, etc.), as well as certain food products (buckwheat). These restrictions were gradually lifted in July-August 2020;<sup>23</sup>
- Temporary introduction of a number of new conditions for the production and record keeping of ethyl alcohol and disinfectants (until 30 April 2020);
- Introduction of changes to personal income tax, VAT, corporate income tax and export duty to encourage businesses and individuals to participate in measures aimed at combatting the spread of COVID-19;<sup>24</sup>
- Temporary state regulation of prices for goods of high social significance (buckwheat, sugar, flour, rye-wheat bread, pasta, milk, chicken eggs, mineral water, butter, chicken) and anti-epidemic goods (personal protective equipment, medicines, antiseptics, etc.). Retailers have been required to declare (online) increases in retail prices of 5% or more as compared to retail prices when the regulation entered into force.<sup>25</sup> Price regulation is valid from 18 May 2020 until the end of quarantine.<sup>26</sup>

## 2.2. Tax legislation and state support for business

Various measures were aimed at reducing the financial burden of businesses and preventing a decline in activities as a result of quarantine restrictions.

**Changes in tax legislation** (Laws N°533-IX and N°540-IX) aim at reducing the tax and administrative burden for taxpayers during quarantine (from 1 March 2020).<sup>27</sup> They include:

- Exemption of individual entrepreneurs, individuals involved in independent professional activity and farmers from accrual and payment of the single social contribution to compulsory state social insurance from 1 March 2020 till 31 May 2020;
- Exemption of individual entrepreneurs and legal entities from accrual and payment for

<sup>20</sup><https://covid19.gov.ua/prohramy-sotsialnoi-pidtrymky>

<sup>21</sup><https://zakon.rada.gov.ua/laws/show/329-2020-%D0%BF#Text>

<sup>22</sup><https://zakon.rada.gov.ua/laws/show/540-IX#Text>

<sup>23</sup><https://zakon.rada.gov.ua/laws/show/1109-2019-%D0%BF#n25>

<sup>24</sup><https://www2.deloitte.com/ua/en/pages/press-room/tax-and-legal-alerts/2020/2020-04-02-covid-19.html>

<sup>25</sup><https://zakon.rada.gov.ua/laws/show/341-2020-%D0%BF#Text>

<sup>26</sup><http://dp.consumer.gov.ua/55333>

<sup>27</sup><https://zakon.rada.gov.ua/laws/show/533-IX#Text>

land used for commercial activities, as well as from real estate tax for non-residential premises (for March 2020). Previously, this «tax holiday» was designed for two months (March, April), but was later reduced to the month of March due to the risks of significant losses to local budgets;

- Restrictions on the application of most sanctions for violations of tax legislation committed during the quarantine period;
- Moratorium on documentary and factual tax inspections – from 18 March 2020 to 31 May 2020 (except for unscheduled inspections for VAT refunds in the amount of more than UAH 100 thousand), as well as, until 18 May 2020, for documentary inspections on the correctness of the single social contribution (SSC) payments;<sup>28</sup>
- Suspension of the submission of annual property and income declarations until 30 June 2020;
- Postponement of the introduction of registrars of calculated operations (RCO) for single taxpayers of Group II-IV – until 1 January 2021 (for certain categories of individual entrepreneurs) and 1 April 2021 (for everybody else);<sup>29</sup>
- Increased limits of annual income for single tax-payers – individual entrepreneurs and legal entities who are subject to the simplified tax system. This provision has been introduced on a permanent basis and will enable a higher number of entrepreneurs to switch to the simplified tax system:
  - for the 1<sup>st</sup> group - from UAH 0.3 million to UAH 1 million;
  - for the 2<sup>nd</sup> group - from UAH 1.5 million to UAH 5 million;
  - for the 3<sup>rd</sup> group - from UAH 5 million to UAH 7 million;
- Local authorities received the right to decide on reducing local rates of single tax for 2020.

**Moratorium on scheduled business inspections:** A moratorium was introduced on carrying out planned business inspections, except for supervision of high-risk business entities, sanitary and epidemiological control, and state price regulation. However, unscheduled inspections have not been prohibited.<sup>30</sup>

**Support for employers and employees of the MSME sector:** Partial unemployment assistance was introduced for employers of the MSME sector who reduced or terminated their activities due to the quarantine.<sup>31</sup> This assistance has been intended to help employers pay salaries of their employees and prevent their dismissal. In order to receive the assistance it is necessary to apply to the local employment centre. Insured persons with whom the employer has an employment contract are entitled to partial unemployment benefits.

According to the Ministry for Development of Economy, Trade and Agriculture of Ukraine, by 4 September 2020, more than 230 thousand applications were submitted to employment centres by employers. Payments were made to 370 thousand individuals, of which 180 thousand were individual entrepreneurs. The Government allocated UAH 2.7 billion for this programme, and by 31 August 2020, UAH 2.3 billion was already spent.<sup>32</sup>

<sup>28</sup><https://zakon.rada.gov.ua/laws/show/533-IX#Text>

<sup>29</sup>This provision was extended until 1 January 2022, following the Law N°1710-IX, 01.12.2020.

<sup>30</sup><https://zakon.rada.gov.ua/laws/show/540-20#n321>

<sup>31</sup><https://zakon.rada.gov.ua/laws/show/540-IX#Text>

For comparison, according to the State Employment Service, by 31 August 2020, the number of officially registered unemployed was 477.7 thousand, which is 73% more than in the same period of 2019. During the quarantine period (from 12 March 2020 to 31 August 2020), 444.4 thousand people received the status of unemployed. Unemployment benefits were received by 400 thousand people. In total, since the beginning of the 2020, more than 409 thousand individuals have found employment, including 260 thousand during the quarantine period.<sup>33</sup>

**Loan programmes for financial support of micro and small businesses:** the “Affordable Loans 5-7-9%” programme was expanded with a package of anti-crisis measures to support micro and small businesses.<sup>34</sup> They have included:<sup>35</sup>

- Support for investment projects related to the production of medicines, medical devices, medical equipment, as well as refinancing of loans to micro and small entrepreneurs for these purposes – a loan of up to UAH 3 million for up to 5 years with an interest rate of 3%;
- Liquidity support through a loan to replenish working capital to cover regular expenses (expenses for salaries, rent and utility bills, etc.) – a loan of up to UAH 3 million for up to 2 years with an interest rate of 3%;
- Refinancing of existing debt on loans in Ukrainian banks – unlimited maximum loan amount up to 5 years with an interest rate of 0% (until 31 March 2021) – for businesses whose annual income does not exceed EUR. 10 million.<sup>36</sup>

According to the Ministry for Development of Economy, Trade and Agriculture of Ukraine, over the first 6 months of the “Affordable Loans 5-7-9%” programme, the authorized banks issued almost 3,000 (2,933) loans totalling UAH 6.8 billion.<sup>37</sup> The most popular among businesses was refinancing loans at 0% (by 7 September 2020, UAH 5.5 billion was provided, which is 81% of all allocated funds). In addition, entrepreneurs received UAH 1.1 billion in capital investments (16%) and UAH 157.6 million worth of funds to replenish working capital.<sup>38</sup>

In terms of industries: 57% funds were allocated to agriculture; 15% - industrial processing, 15% - trade and production. The leaders in terms of the amount of concluded agreements were Kharkiv (9%), Lviv (7%) and Kyiv (7%) oblasts.<sup>39</sup>

**Credit holidays:** The National Bank of Ukraine recommended banks to introduce a special grace period for servicing loans to those borrowers who have experienced financial difficulties due to the quarantine and have been unable to service loans on time. There have been several options for loan restructuring: (a) full or partial exemption from the payment of the loan body for the period of quarantine with a corresponding loan extension; (b) capitalization of interest payments. Moreover, banks have been strongly advised not to alter the terms of loans to the detriment of their customers as a result of restructuring.

<sup>32</sup><https://www.kmu.gov.ua/news/osnovni-dosyagnennya-roboti-minekonomiki-za-ostanni-pivroku>

<sup>33</sup><https://www.dcz.gov.ua/novyna/rynok-praci-pislya-karantynnogo-lita>

<sup>34</sup><https://zakon.rada.gov.ua/laws/show/28-2020-%D0%BF#n9>

<sup>35</sup><https://5-7-9.gov.ua/>

<sup>36</sup>The maximum amount of state support cannot exceed EUR. 200,000 for any three-year period.

<sup>37</sup>The loan under the Program can be obtained from Oschadbank JSC, Ukrgasbank JSB, PrivatBank JSC CB, Ukreximbank JSC, Bank Lviv JSCB, FUJB PJSC, BANK ALLIANCE JSC, KREDOBANK JSC, PJSC «BANK VOSTOK», JSC «Raiffeisen Bank Aval», JSC «TASKOMBANK», JSC «Alfa-Bank», JSC CB «GLOBUS», JSC «MEGABANK», JSC «POLYCOMBANK», JSC «CREDIT AG, as well as CreditVest Bank and OTP Bank.

<sup>38</sup><https://www.me.gov.ua/News/Detail?lang=uk-UA&id=464a9d21-bc80-45f9-bc22-e4931d165baa&title=330-NovikhDostupnikhKreditivNaSumuV652-MilionaGrivenVidaliZaMinuliiTizhden>

<sup>39</sup><https://www.kmu.gov.ua/news/osnovni-dosyagnennya-roboti-minekonomiki-za-ostanni-pivroku>

### 2.3. Regional countermeasures in Donetsk, Luhansk and Zaporizhzhia oblasts

Donetsk and Zaporizhzhia oblasts are among the top 10 oblasts in terms of state and local budget expenditures in absolute terms to combat COVID-19.<sup>40</sup>

Table 2.1. Expenditures of state and local budgets to combat COVID-19 in the three oblasts, by 8 September 2020

Oblasts	Local budgets' expenditure	State budget' expenditure
Donetsk	UAH 144.5 billion	UAH 35.3 billion
Luhansk	UAH 45 billion	UAH 73.7 billion
Zaporizhzhia	UAH 80.7 billion	UAH 105.2 billion

Source: Accounting Chamber of Ukraine<sup>41</sup>

The funds have mainly been spent on medicines, medical equipment, masks, antiseptics, rapid tests, transportation of patients, providing food to patients, overhaul, etc.<sup>42</sup> Local authorities also allocated funds for additional payments to healthcare workers.

Business support measures carried out at the local level included reduction/abolition of local taxes. For example, the city council of Energodar exempted individual entrepreneurs of groups I and II from paying the unified tax from 1 May to 31 December 2020. At the local level, they have also continued SME support programmes that have been planned and have been negotiating new programmes with international donors.

Local authorities set up new mobile public service centres at the entry-exit checkpoints in Donetsk and Luhansk oblasts<sup>43</sup> so that Ukrainian citizens could receive pensions or use administrative services, even if there were restrictions at the crossing of the contact line.<sup>44</sup>

In Zaporizhzhia Oblast, the Centre for Combating Coronavirus STOPCOVID19 was established at the end of August 2020.<sup>45</sup> The main tasks of the centre have been:

- to inform people about COVID-19 and anti-epidemic measures;
- to prepare health care facilities for the second wave;
- to unite business people, activists, journalists and other concerned people to combat COVID-19.

<sup>40</sup>[https://public.tableau.com/views/COVID-19UKRAINE/COVID\\_19?:display\\_count=y&publish=yes&:origin=viz\\_share\\_link&:showVizHome=no](https://public.tableau.com/views/COVID-19UKRAINE/COVID_19?:display_count=y&publish=yes&:origin=viz_share_link&:showVizHome=no)

<sup>41</sup>[https://public.tableau.com/views/COVID-19UKRAINE/COVID\\_19?:display\\_count=y&publish=yes&:origin=viz\\_share\\_link&:showVizHome=no](https://public.tableau.com/views/COVID-19UKRAINE/COVID_19?:display_count=y&publish=yes&:origin=viz_share_link&:showVizHome=no)

<sup>42</sup><https://mof.gov.ua/storage/images/COVID-19%20%D1%82%D0%BE%D0%B2%D0%B0%D1%80%D0%B8%20%D1%96%20%D0%BF%D0%BE%D1%81%D0%BB%D1%83%D0%B3%D0%B8.jpeg>

<sup>43</sup><https://www.slovoidilo.ua/2020/07/30/novyna/bezpeka/donbasi-vidkryut-novi-punkty-propusku>

<sup>44</sup><https://www.ua.undp.org/content/ukraine/en/home/presscenter/pressreleases/2020/EU-and-UN-to-transfer-mobile-ASCs-to-communities-in-Donetsk-oblast.html>

<sup>45</sup><https://www.zoda.gov.ua/news/51791/u-zaporizkiy-oblasti-stvoreno-tsentr-protidiji-koronavirusu-STOPCOVID19.html>

# 3.

## Impact of the COVID-19 pandemic on the selected sectors of the economy in Donetsk, Luhansk and Zaporizhzhia oblasts

Chapter 3 examines the situation caused by the COVID-19 economic shock within the nine prioritized sectors of the economy in Luhansk, Donetsk and Zaporizhzhia oblasts. The assessment focuses on COVID-19 related changes in the business environment and market conditions relevant to MSMEs' operations and development. The analysis focuses on the following sectors:



Industry and Engineering Services



Textiles and Clothing



Hospitality



Ceramics



Food Processing



Poultry and Eggs



Dairy and Beef



Grain and Oilseeds



Fruits and Vegetables

The aforementioned sectors have been identified in separate studies as the most promising to ensure further developmental advancement of the three examined oblasts of Ukraine.

### 3.1. Methodology

The analysis draws upon a survey of 1005 MSMEs in Donetsk, Luhansk and Zaporizhzhia oblasts (Table 3.1), including 394 MSMEs in Donetsk Oblast, 294 in Luhansk Oblast and 317 in Zaporizhzhia Oblast. Within each oblast, sectors have been distributed proportionally according to the MSMEs data of the State Statistics Service of Ukraine. Share of least represented sectors has been enlarged to provide meaningful analysis of the sectors.

The analysis is structured by sectors, as the effects across the sectors vary significantly. At the same time, the impact of the COVID-19 pandemic across the oblasts within the

same sector has been homogeneous. Therefore, observations of the three oblasts are merged without weighting.

Table 3.1. MSMEs surveyed, by oblast

	Donetsk Oblast	Luhansk Oblast	Zaporizhzhia Oblast	Total
Industry and Engineering Services	9	10	48	67
Textiles and Clothing	41	15	23	79
Hospitality	204	51	128	383
Ceramics	18	2	-	20
Food Processing	28	21	42	91
Poultry and Eggs	14	3	-	17
Dairy and Beef	6	4	3	13
Grain and Oilseeds	74	188	60	322
Fruits and Vegetables	-	-	13	13
<b>Total</b>	<b>394</b>	<b>294</b>	<b>317</b>	<b>1005</b>

For those sectors that are widely present in all three oblasts, the number of observations has allowed for comparison across the region and the size of enterprises. These sectors included: Food Processing, Textiles and Clothing, Hospitality, and Grain and Oilseeds. The Fruits and Vegetables sector has been analysed for Zaporizhzhia Oblast only, whereas Ceramics and Poultry and Eggs have been analysed for Donetsk and Luhansk oblasts. This is in line with the earlier studies, which identified the most promising sectors for further development in the respective oblasts.

In addition to the survey, focus groups and structured interviews have been conducted in all identified sectors. A total of 71 respondents have been interviewed as part of the focus groups and in in-depth interviews, including, 33 in Donetsk, 20 in Luhansk and 18 in Zaporizhzhia oblasts. Six focus groups have covered such sectors as Hospitality, Textiles and Clothing, Food Processing and Industry and Engineering Services. 24 in-depth interviews have been held in Ceramics (8), Textiles and Clothing (1), Poultry and Eggs (3), Dairy and Beef (5), Grain and Oilseeds (4), Fruits and Vegetables (3). A total of 51 micro-businesses, 11 small and 9 medium-sized businesses have been interviewed.

### 3.2. Industry and Engineering Services

**Among the surveyed sectors, Industry and Engineering Services have been ranked fourth by negative effect in 2020. The business representatives have identified decreased demand, disruption of sales channels, closure of shops, prohibition of work, ceasing of trade with non-government controlled areas of Donetsk and Luhansk oblasts and the Autonomous Republic of Crimea, and disruption in procurement and transportation, as key negative factors for their operations. In response, the sector has become one of the best adapted to the remote work mode.**

Table 3.2. Number of surveyed companies in Industry and Engineering Services

	Donetsk Oblast	Luhansk Oblast	Zaporizhzhia Oblast	Total
Micro	7	10	35	52
Small	1	0	9	10
Medium	1	0	4	5
<b>Total</b>	<b>9</b>	<b>10</b>	<b>48</b>	<b>67</b>

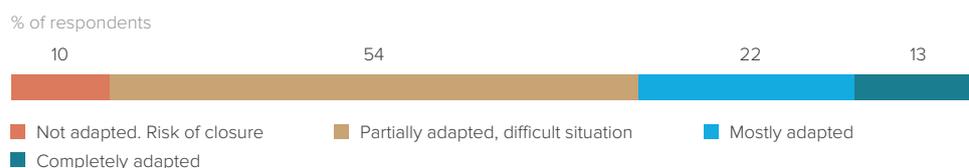
The primary focus in Industry and Engineering Services has been Zaporizhzhia Oblast. Overall, 67 businesses have been surveyed in Donetsk, Luhansk and Zaporizhzhia oblasts (Table 3.2), including 52 micro-enterprises and PE (private entrepreneurs), 10 small and 5 medium-sized companies. 36% of employees in the industry have been women (Figure 3.1).

Figure 3.1. Share of women and men employees in Industry and Engineering Services



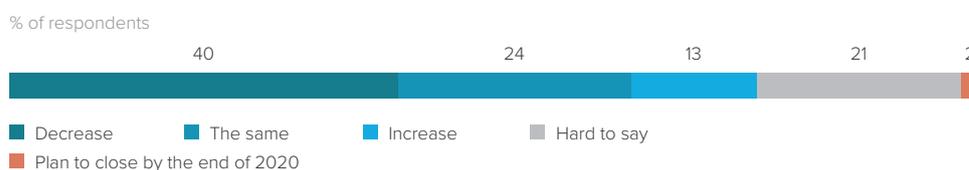
Out of 67 surveyed companies, one stopped operating in March 2020 and remained closed at the time of the survey. 10% of businesses have not been able to adapt and may have been on the verge of bankruptcy, and 54% of companies have partially adapted, but the situation has remained difficult for them. At the same time, 35% of businesses have mostly or entirely adapted to the situation (Figure 3.2).

Figure 3.2. Adaptation of Industry and Engineering Services



40% of all companies in the sector expect sales to decrease in 2020, 24% expect them to be the same as in 2019, and 13% expect an increase (Figure 3.3). The reasons for decreased sales have included: postponed purchase decisions, disruption of sales channels, closure of shops, prohibition of work, ceasing of trade with the non-government controlled areas of Donetsk and Luhansk oblasts and the Autonomous Republic of Crimea. Those companies for whom the strict quarantine measures coincided with their high season of operations have suffered the most (for example, repair of agricultural machinery). The decrease in sales has also concerned online selling.

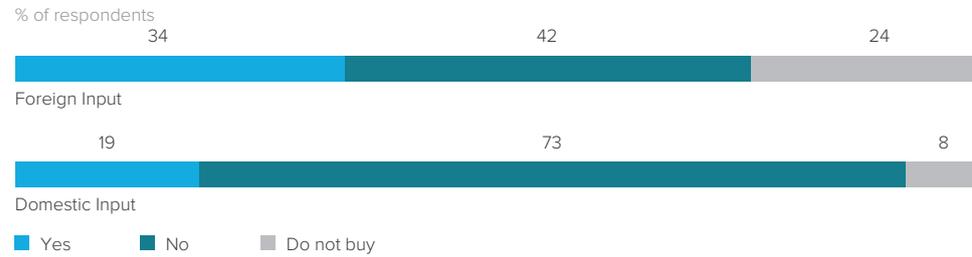
Figure 3.3. Sales expectations in 2020 in Industry and Engineering Services



25% of companies have had problems with transporting their products. These problems included delays of transportation, delays at customs, closed borders, queues, the prohibition of travel to other oblasts as well as to neighbouring towns and villages, decrease in the number of vehicles available, the shortage of people. Businesses have been forced to wait until the strict quarantine restrictions were eased, and, in the meantime, to use alternative delivery services, to search for detours for delivery routes and even to pay bribes. 34% of businesses have had difficulties with supplies of imported goods (Figure 3.4). 16% of companies have replaced imported inputs with domestic ones. The rate of replacement has been higher for Industry and Engineering

Services compared to other sectors; an indication of a comparatively larger burden for the industry.

Figure 3.4. Difficulties with procurement of domestic and foreign inputs in Industry and Engineering Services



To address some of the consequences of economic slowdown, 62% of companies have identified decreasing operational costs as the most viable option. However, only 51% of these have managed to reduce them. In most cases, companies have saved on personnel expenses and have reduced input purchases (Figure 3.5).

Figure 3.5. Ways of reducing operational costs in Industry and Engineering Services

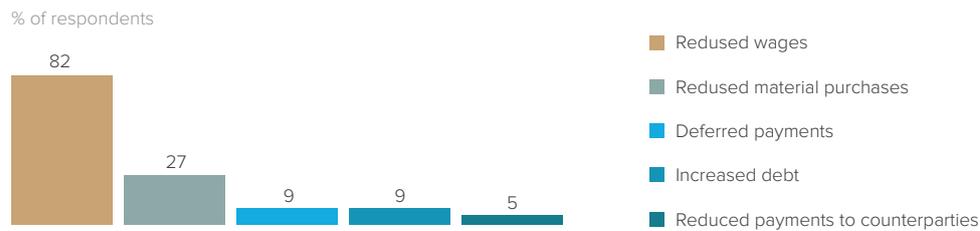
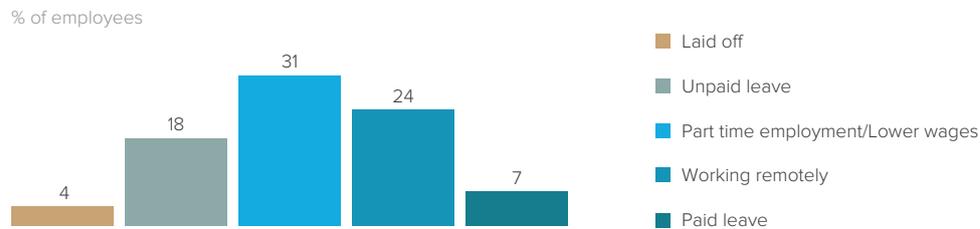
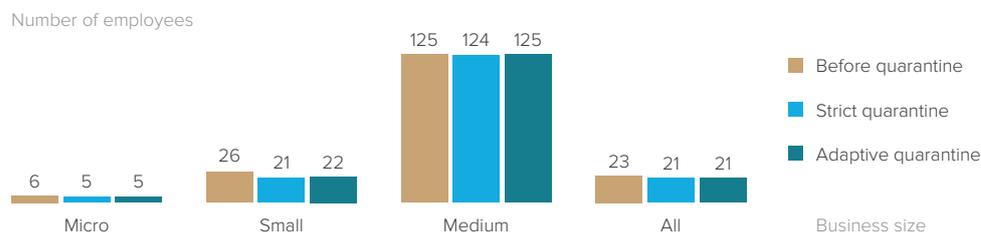


Figure 3.6. Share of employees affected in Industry and Engineering Services



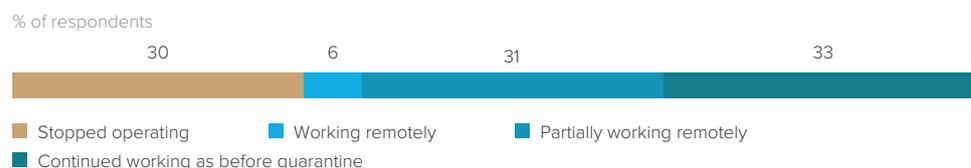
Unlike in many other sectors, sending people to unpaid leave has not been the most widespread option for companies in Industry and Engineering Services. The highest share of employees (31%) has received lower wages. Still, 4% of employees have been laid off, and 18% have been sent on unpaid leave. On the other hand, 24% had to opt for working remotely (Figure 3.6), which has been one of the highest rates among the examined sectors. As a result, the average number of employees per firm has decreased slightly, as indicated in Figure 3.7.

Figure 3.7. Average number of employees in Industry and Engineering Services



30% of companies stopped operating during the period of strict quarantine, while 33% have continued to work as before. The share of remote operations has been higher compared to other industries – 6% of firms have switched to remote work entirely, while 31% have switched to remote work partially (Figure 3.8). 32% of companies have considered remote work as efficient; one of the highest rates among sectors.

Figure 3.8. The effect of strict quarantine on companies' work mode in Industry and Engineering Services



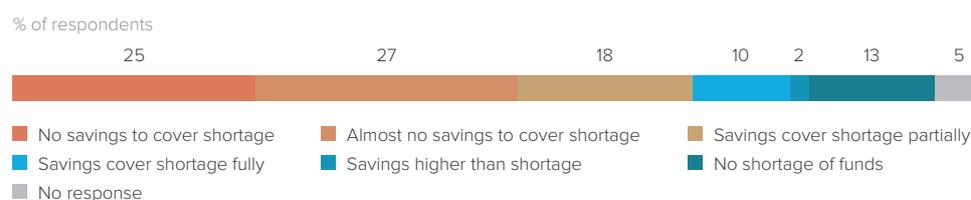
Additional external financing would have been an important instrument of support for MSMEs during the COVID-19 pandemic. Access to external financing for MSMEs has, however, been very limited in Industry and Engineering Services. Primary sources of financing for companies have included their revenues and savings (Table 3.3). Bank credit has been the third most frequent option, named by 12% of respondents.

Table 3.3. Sources of financing in 2020 in Industry and Engineering Services

Source of financing	% of respondents
Own revenues	85
Own savings	25
Bank credit	12
Loan from relatives/friends	7
External investors	6
Non-refundable financial assistance from company co-founders or third parties	4
Loan from business partners	3
Technical support projects	1

However, 52% of businesses have had either no savings or almost no savings to cover their shortage of funds (Figure 3.9). For 18% savings could partially cover the shortage, whereas 12% savings have been able to cover them completely. 13% of respondents have indicated that they have not experienced any shortage of funds.

Figure 3.9. Availability of savings to cover shortage of funds in Industry and Engineering Services



46% of companies have considered the possibility of external financing of long-term investment. The most frequent sources considered have been bank credit, technical support projects, and external investors (Table 3.4).

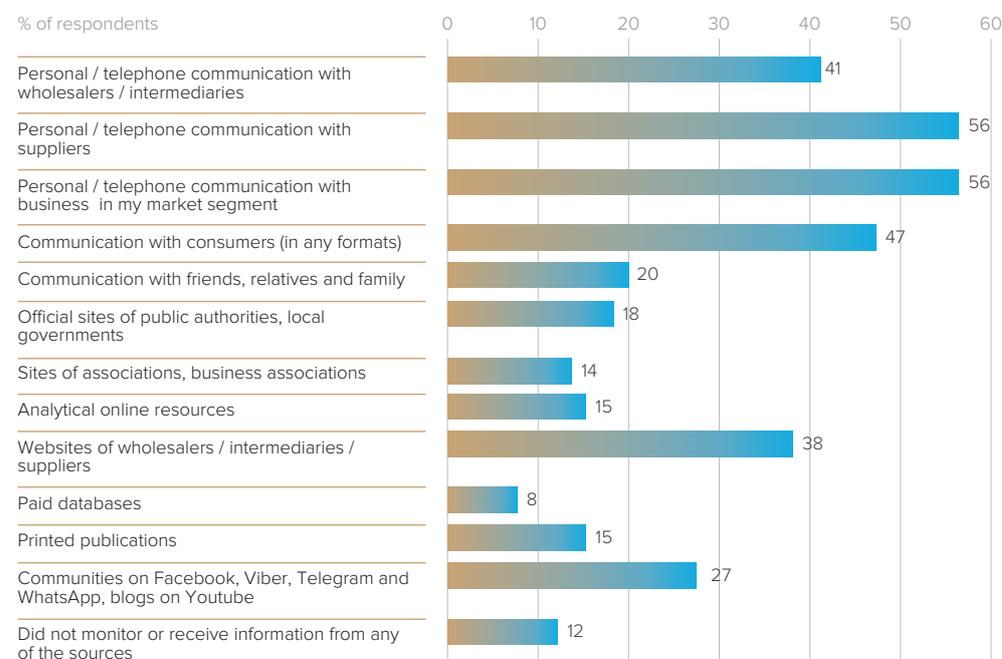
In addition to the limited access to financing, official and structured cooperation which could have contributed to strengthening of MSMEs in the sector during the COVID-19 pandemic, has also been very limited. Only one company out of 67 has been a member of a sectoral association.

Table 3.4. Potential additional sources of financing of long-term investment in Industry and Engineering Services

	% of respondents
Bank credit	55
Own revenues	48
Technical support projects	45
External investors	29
Non-refundable financial assistance from company co-founders or third parties	19
Own savings	16
Loan from business partners	13
Loan from relatives/friends	13

Moreover, sources of information for business operation and development have been dominated by informal channels. The most widely used sources of information have been personal communication with other businesses and with customers, friends, family, suppliers, and intermediaries. Websites of wholesalers, intermediaries and suppliers have also often served that purpose (Figure 3.10).

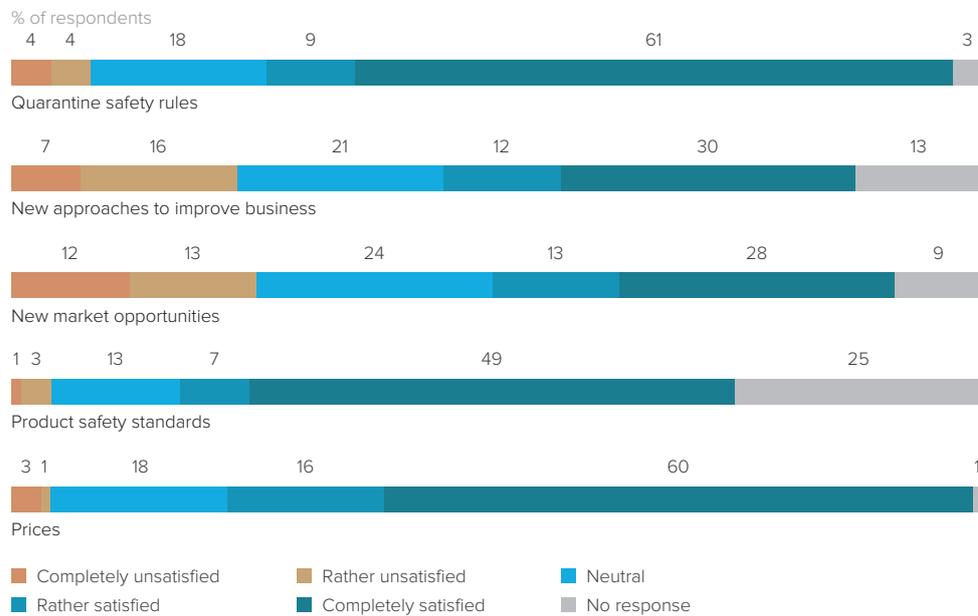
Figure 3.10. Sources of information for businesses in Industry and Engineering Services



Most of the companies have been rather satisfied or completely satisfied with the quality of available information on sectoral market prices, product safety standards and quarantine safety rules (Figure 3.11). A lower level of satisfaction has been associated with knowledge of market opportunities and new approaches to business. Although

similar trend has been observed across the examined sectors, companies in Industry and Engineering Services have, in general, been more satisfied with the available information.

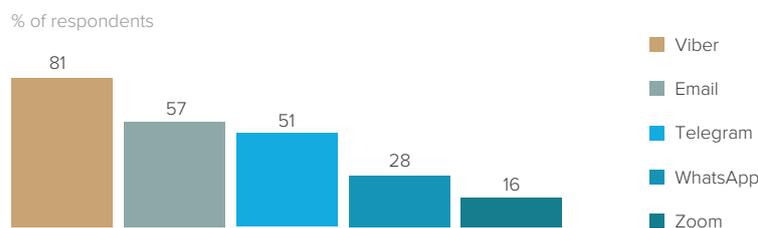
Figure 3.11. Level of satisfaction with available information in Industry and Engineering Services



The level of digitalization – captured by various proxy measures – has, as in other sectors, rather limited. Although most businesses (61%) have kept their annual budget records in electronic form, some 16% have planned their budget on paper, while 22% have not kept their annual budget records at all.

As for communication channels, Viber application has been used the most (81%) of businesses. 57% have used e-mail (Figure 3.12).

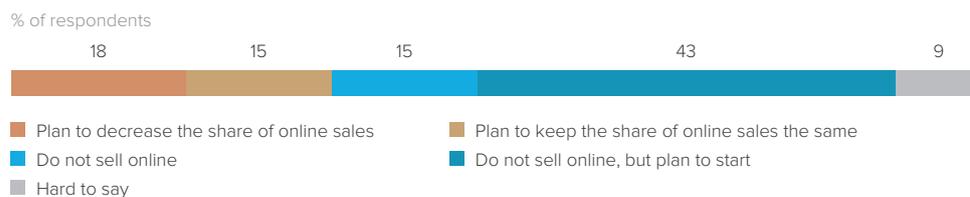
Figure 3.12. Communication channels with employees, partners, suppliers in Industry and Engineering Services



32% of businesses have been selling online. Their share of online sales has increased slightly after March 2020 – from 19% to 21%. Around 18% of enterprises would like to increase their share of online sales and 15% have not sold online, but plan to start. Still, almost half of companies (43%) do not sell online and do not plan to start selling online (Figure 3.13).

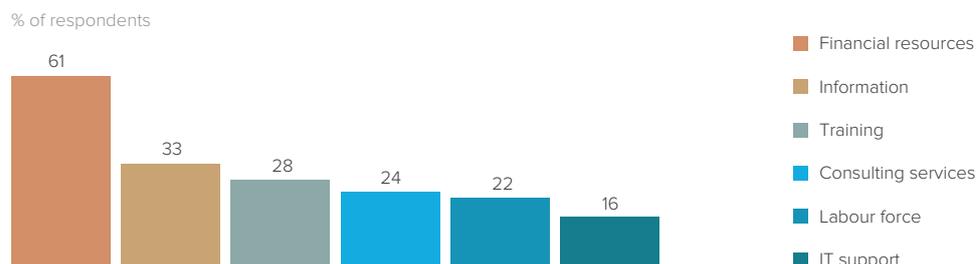
Around 25% of businesses would be interested in social media marketing – Facebook (25%), Instagram (19%), and YouTube (24%). 24% of companies have been interested in creating a website for their business purposes, while 36% have not. 40% already have a website. The share of businesses with the available website has been one of the highest among the sectors.

Figure 3.13. Plans to sell online in Industry and Engineering Services



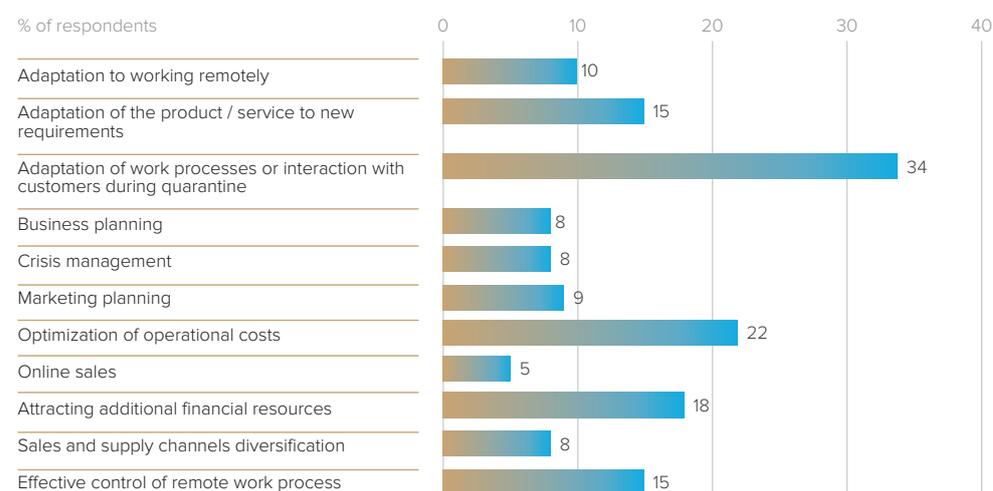
MSMEs in Industry and Engineering Services have been foremost in need of financial resources and, to a somewhat lesser degree, of information, training and consulting services (Figure 3.14).

Figure 3.14. Types of support needed by MSMEs in Industry and Engineering Services



To various degrees, businesses have lacked knowledge on adaptation to new conditions and requirements concerned with work and production processes, ways of optimizing operational costs and raising additional financial resources (especially in Luhansk Oblast), crises management and others (Figure 3.15).

Figure 3.15. Lack of knowledge and skills to adapt to new conditions during quarantine, by topics, in Industry and Engineering Services



As opposed to 2020, sales forecasts for the year 2021 have been more optimistic. The same share (24%) of companies expect 2021 sales to be at a pre-crisis level and 18% expect them to increase. 8% think that sales will be lower compared to the pre-crisis level. However, there have been high level of uncertainty felt among the respondents as almost half of companies could not provide an answer to this question (Figure 3.16).

The majority of companies do not expect long-lasting negative effects of the COVID-19 pandemic on sales. 28% of respondents believe that it will take up to six months to

return to the pre-crisis level, whereas 21% believe it will take between six months and a year. 15% of companies have not been affected by the pandemic, as far as sales are concerned (Figure 3.17).

Figure 3.16. Sales forecast for 2021 compared to the period before March 2020 in Industry and Engineering Services<sup>46</sup>

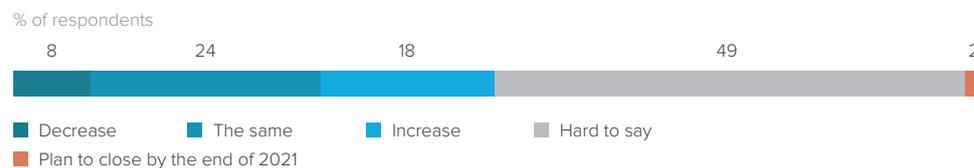
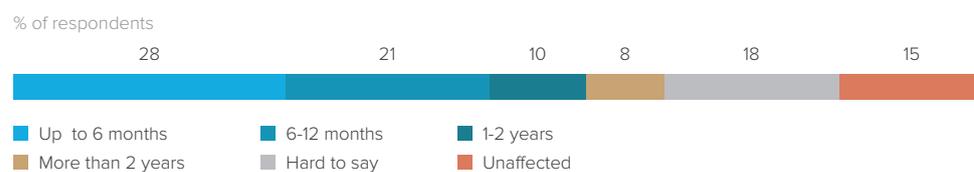


Figure 3.17. Expected time of recovery in Industry and Engineering Services



### 3.3. Textiles and Clothing

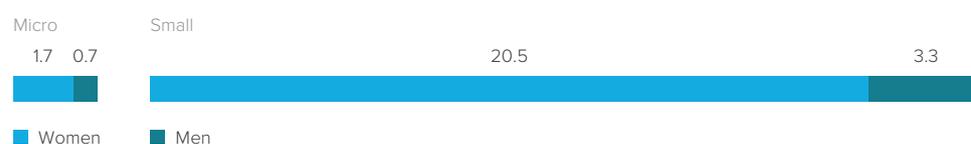
**Textiles and Clothing industry has been among the most affected by the COVID-19 pandemic and subsequent economic slowdown. Many enterprises closed during the period of strict quarantine. Demand dropped as the sector has not been a priority in consumers' spending and due to transport restrictions. The response to the situation by entrepreneurs has been to wait, to alter the type of production to respond to new demand (e.g. by sewing masks) and to accept online orders for future deliveries.**

Seventy-nine businesses have been surveyed in Donetsk, Luhansk and Zaporizhzhia oblasts (Table 3.5), including 70 micro-enterprises and PE, 8 small and one medium-sized company. Around 85% of employees in the industry have been women.

Table 3.5. Number of surveyed companies in Textiles and Clothing

	Donetsk Oblast	Luhansk Oblast	Zaporizhzhia Oblast	Total
Micro	37	12	21	70
Small	3	3	2	8
Medium	1	0	0	1
<b>Total</b>	<b>41</b>	<b>15</b>	<b>23</b>	<b>79</b>

Figure 3.18. Average number of women and men employees in companies in Textiles and Clothing



<sup>46</sup>"Plan to close by the end of 2021" also includes "plan to close by the end of 2020".

Out of the companies which initially stopped operating in March 2020 two did not resume operations at the time of the survey; both in Donetsk Oblast. One of them, however, plans to resume operations. The financial resources needed for this has been estimated at UAH 85,000.

Despite continuing its operations, 19% of companies have not been able to adapt and may have been on the verge of bankruptcy. 56% have partially adapted, however, the situation for them remains difficult. The most challenging situation has been in Luhansk Oblast (Figure 3.19). The share of micro-businesses who have not been able to adapt at all has been higher compared to small businesses, though the overall situation has been similar for all sizes of companies examined.

Figure 3.19. Adaptation in Textiles and Clothing

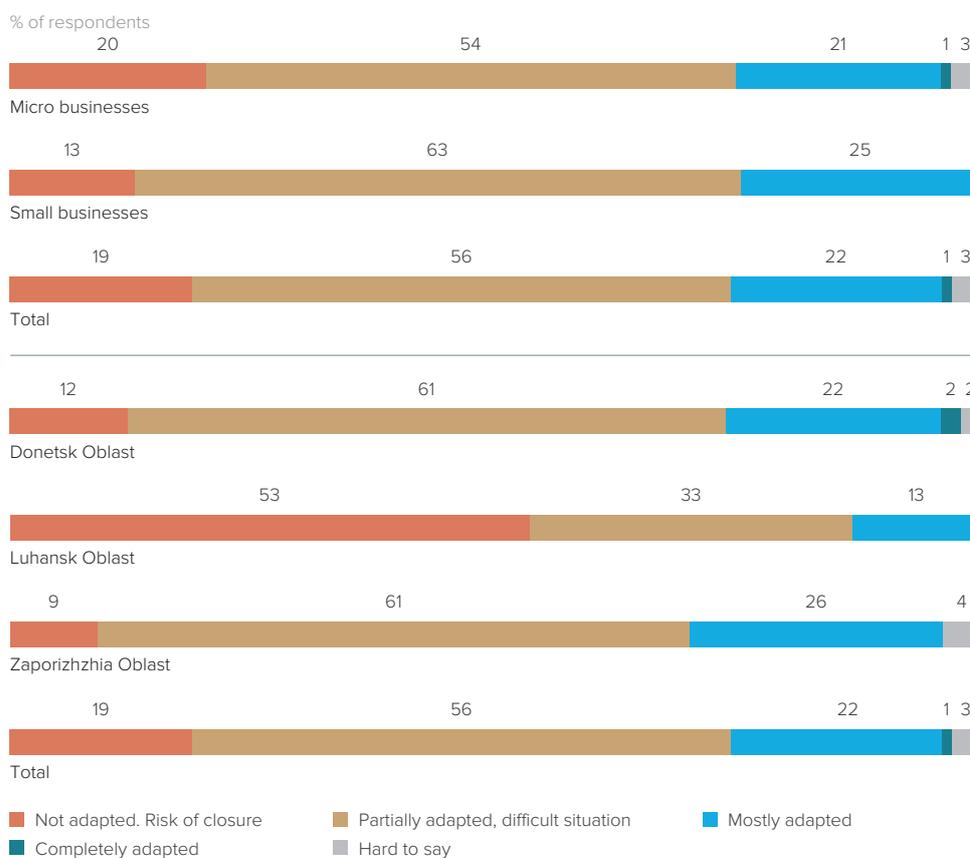
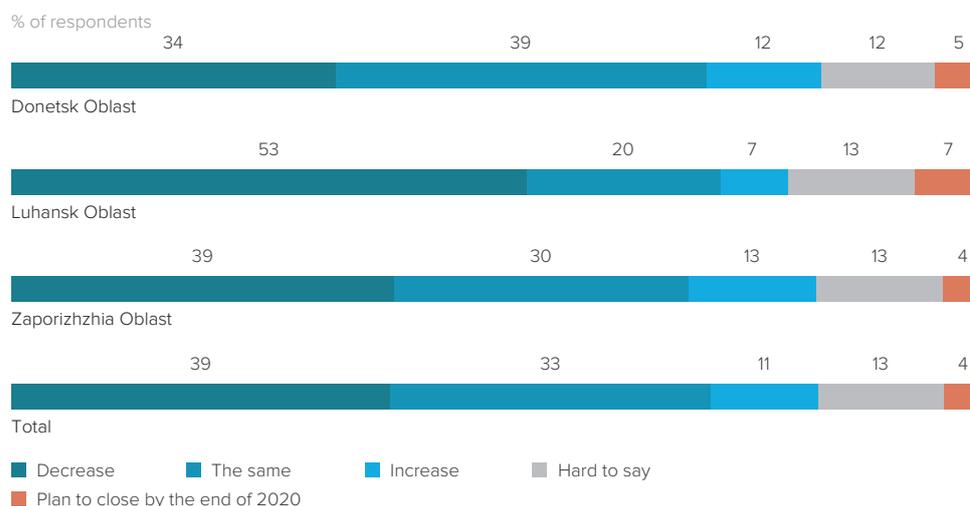


Figure 3.20. Sales expectations in 2020 in Textiles and Clothing

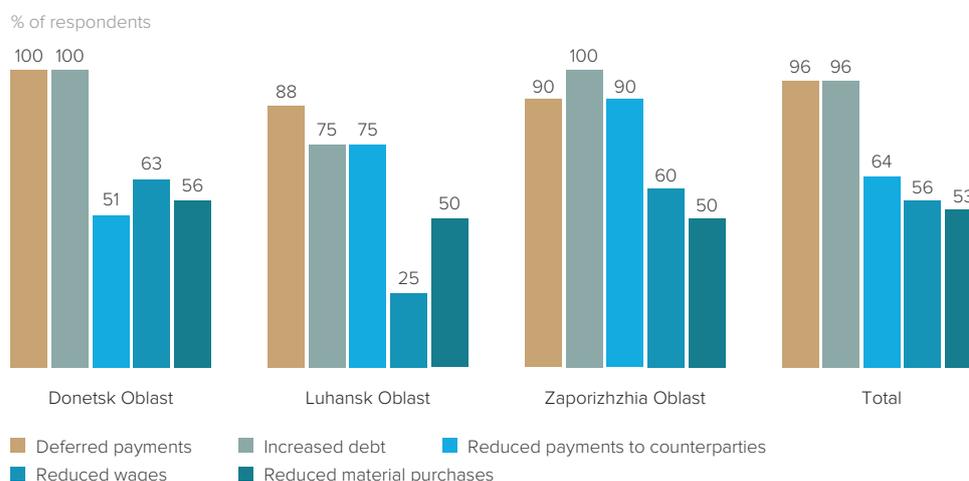


39% of all companies in the sector expect sales to decrease in 2020, 33% expect to stay the same, whereas 11% expect to increase (Figure 3.20). The most pessimistic prognosis has been for Luhansk Oblast.

Around 13% of companies have had problems with the procurement of domestic inputs, and 24% have had problems with foreign inputs. About 19% of companies indicated that they have been in the process of replacing foreign supplied goods with domestic ones for production purposes.

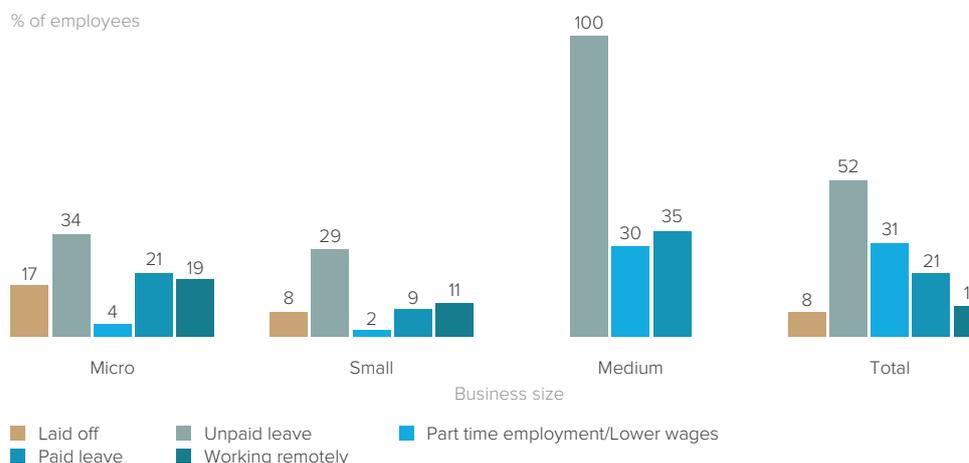
To address some of the consequences of economic slowdown, 77% of companies have identified decreasing operational costs as the most viable option. However, only 74% of these have managed to reduce them. In most cases, companies have increased debt, deferred payments, reduced payments to counterparties and reduced material purchases (Figure 3.21).

Figure 3.21. Ways of reducing operational costs in Textiles and Clothing



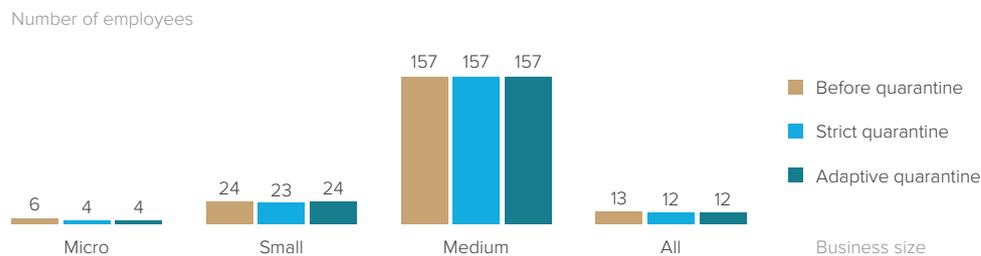
The share of employees that have been sent on unpaid leave (52%) or have been laid off (8%) in Textiles and Clothing has been the highest among sectors. Working remotely has not been widespread, especially in larger firms (Figure 3.22). Although the only medium-sized company in the sample initially sent all its employees on unpaid leave, it subsequently utilised other employment modalities.

Figure 3.22. Share of employees affected in Textiles and Clothing



The average number of employees decreased slightly during the period of strict quarantine and has remained lower during the adaptive quarantine as compared to the period before March 2020 (Figure 3.23).

Figure 3.23. Average number of employees in Textiles and Clothing



39% of companies stopped operating during the period of strict quarantine in Textiles and Clothing. Most, however, resumed work afterwards. At the same time, 35% have continued to work as usual. This includes more than half of firms in Zaporizhzhia Oblast. Only 5% of businesses have switched to remote work entirely (10% of companies in Donetsk Oblast), whereas 19% have switched to that mode partially (Figure 3.24). Only 15% of companies have considered the working remotely mode as effective.

Figure 3.24. The effect of strict quarantine on companies' work mode in Textiles and Clothing

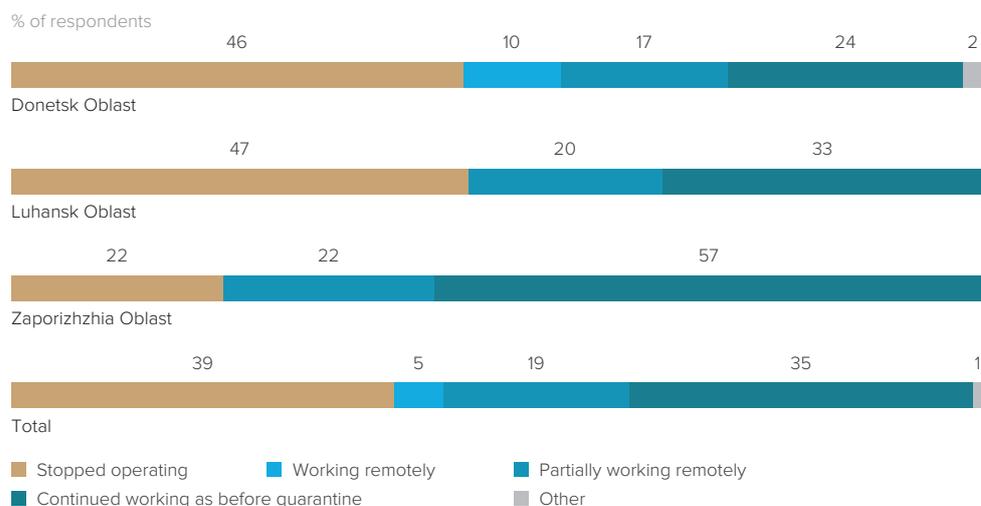


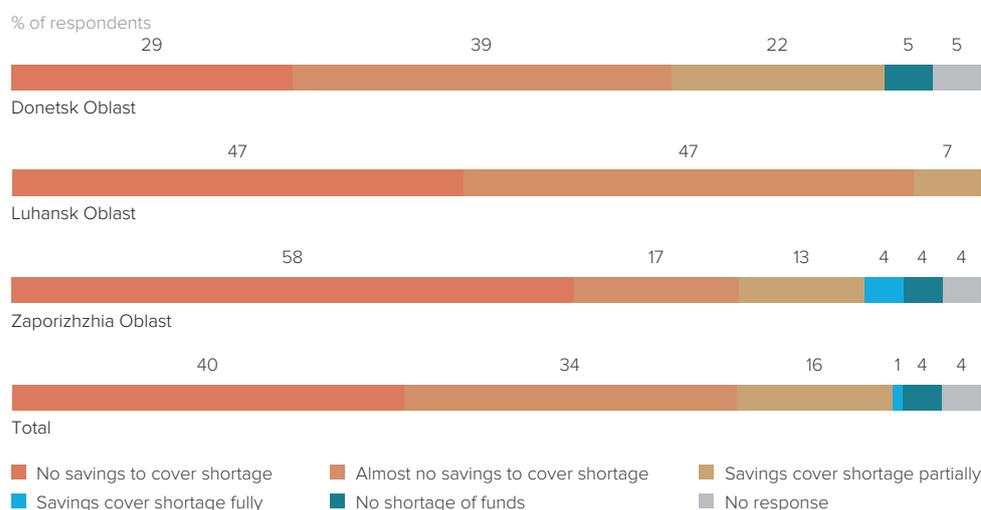
Table 3.6. Sources of financing in 2020 in Textiles and Clothing

	Donetsk Oblast	Luhansk Oblast	Zaporizhzhia Oblast	Total
Own revenues	85	73	91	85
Own savings	41	47	26	38
Loan from relatives/friends	15	20	4	13
Bank credit	15	-	-	8
Technical support projects	5	7	4	5
Loan from business partners	5	-	4	4
Non-refundable financial assistance from company co-founders or third parties	-	7	4	3
External investors	-	7	-	1

Access to external financing for MSMEs in Textiles and Clothing has been very limited. Primary sources of financial resources have included companies’ own revenues and savings, as well as loans from friends and relatives (Table 3.6). Bank credit has been the fourth most frequent option in Donetsk Oblast, whereas technical support projects have been for Luhansk and Zaporizhzhia oblasts. The number of businesses that has used bank credit in 2020 has been among the lowest within the examined sectors. The caution has been dictated by the lack of confidence as far as economic development in the future is concerned.

Moreover, 74% of businesses have had either no savings or almost no savings (94% of MSMEs in Luhansk Oblast) to cover their shortage of funds caused by the lack of economic activity. The level of savings has been one of the lowest among the examined sectors. For 16% of companies, savings could partially cover the shortage and only one company has enough savings to cover the shortage entirely. 4% of companies have not experienced any shortages (Figure 3.25).

Figure 3.25. Availability of savings to cover shortage of funds in Textiles and Clothing



40% of companies have considered the possibility of external financing of long-term investment. Among them, the most frequently indicated sources have been technical support projects, bank credit, and loans from relatives and friends, in addition to own revenues (Table 3.7).

Table 3.7. Potential additional sources of financing of long-term investment in Textiles and Clothing

Source of financing	% of respondents
Technical support projects	75
Own revenues	56
Bank credit	16
Loan from relatives/friends	16
External investors	13
Own savings	13
Loan from business partners	6
Non-refundable financial assistance from company co-founders or third parties	3

In addition to the limited access to financing, official and structured cooperation in the sector which could have contributed to strengthening of MSMEs during the COVID-19 pandemic has been limited. 5% of surveyed companies have been members of sectoral associations and 5% have had membership of civic organizations.

Moreover, the most widely used sources of information for business operation and development have been business communities on Facebook, Viber, Telegram and WhatsApp, and YouTube, personal communication with customers, friends, family, suppliers, and intermediaries (Figure 3.26). After the COVID-19 outbreak, official websites of public authorities and local governments have become increasingly popular as information sources.

Figure 3.26. Sources of information for businesses in Textiles and Clothing

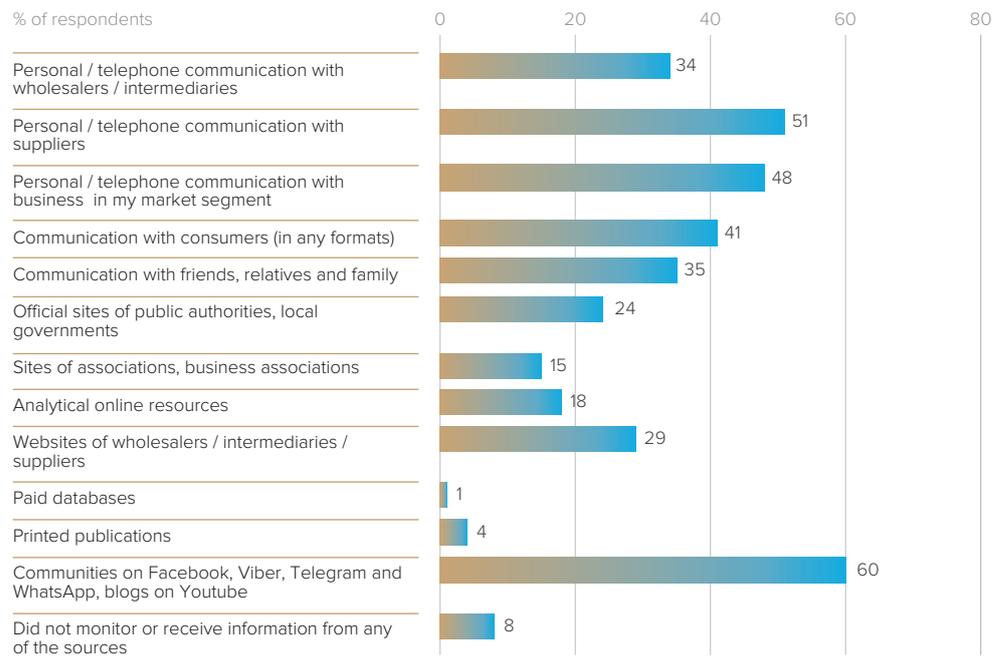
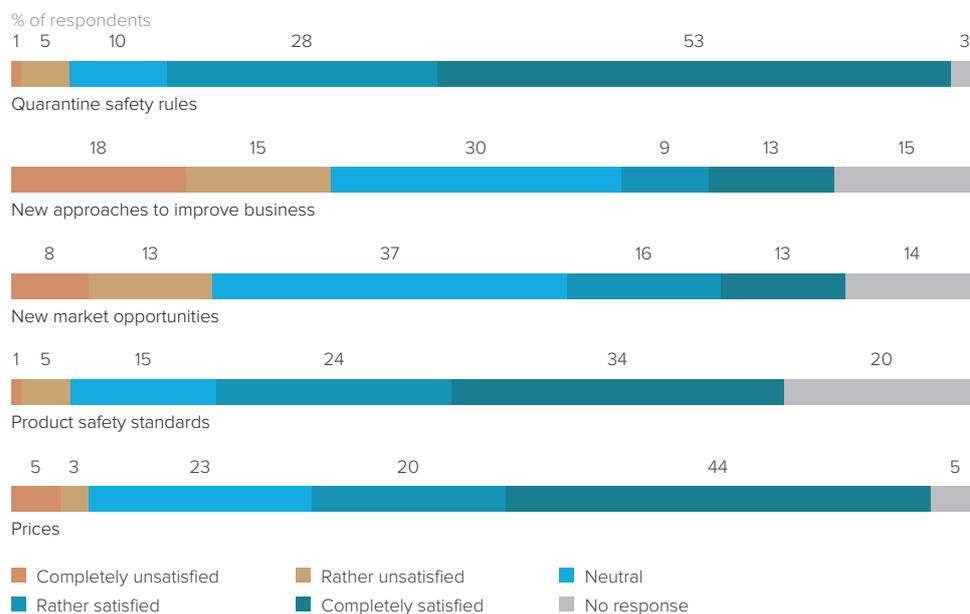


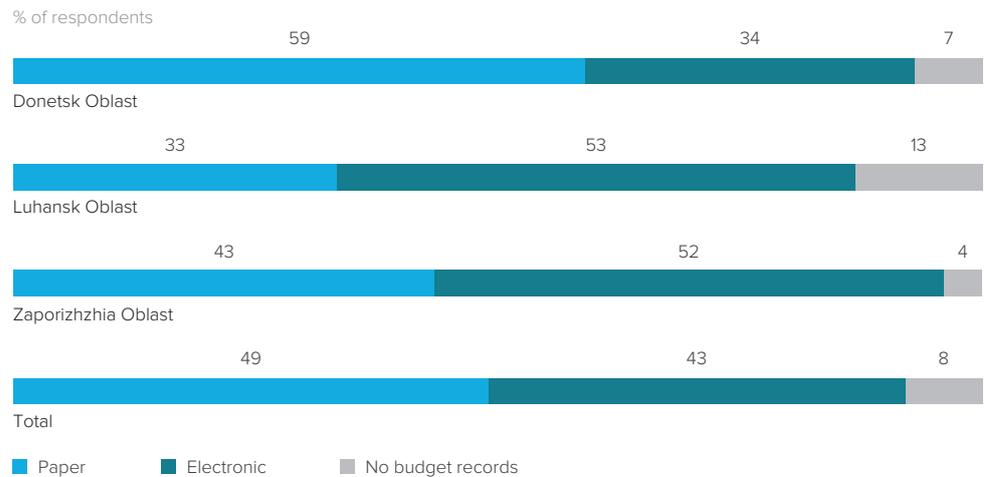
Figure 3.27. Level of satisfaction with available information in Textiles and Clothing



The majority of the companies have been rather satisfied or completely satisfied with the quality of information on market prices of their products, as well as the quarantine safety rules. There is a greater need for information on how to improve business and use new market opportunities (Figure 3.27). Except for the quarantine safety rules, companies have been less satisfied, compared to other sectors, such as Industry and Engineering Services and Hospitality.

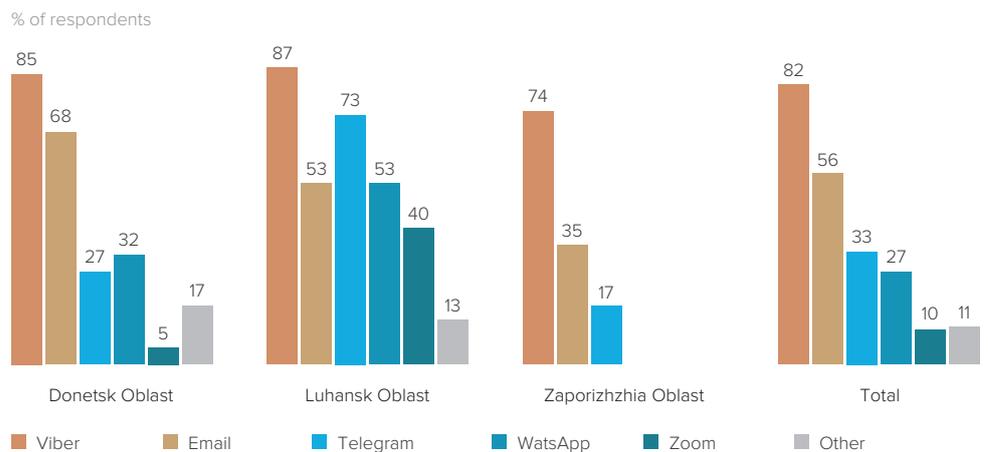
As far as digitalization is concerned, almost half of businesses (49%) have kept their records concerning budgets in paper form and 43% used electronic form. 8% have not kept the budget records at all.

Figure 3.28. Budget records in Textiles and Clothing



As for electronic communication channels, Viber application has been preferred as 82% of businesses have used it, whereas 56% have used e-mail (Figure 3.29).

Figure 3.29. Communication channels with employees, partners, suppliers in Textiles and Clothing



29% of businesses have been selling online (Figure 3.30). It has been the third highest result among the examined sectors. Around 27% of enterprises would like to increase their online sales and 25% would like to start selling online. The percentage of businesses willing to increase online sales has been the highest in Luhansk Oblast (Figure 3.31).

Figure 3.30. Selling online in Textiles and Clothing

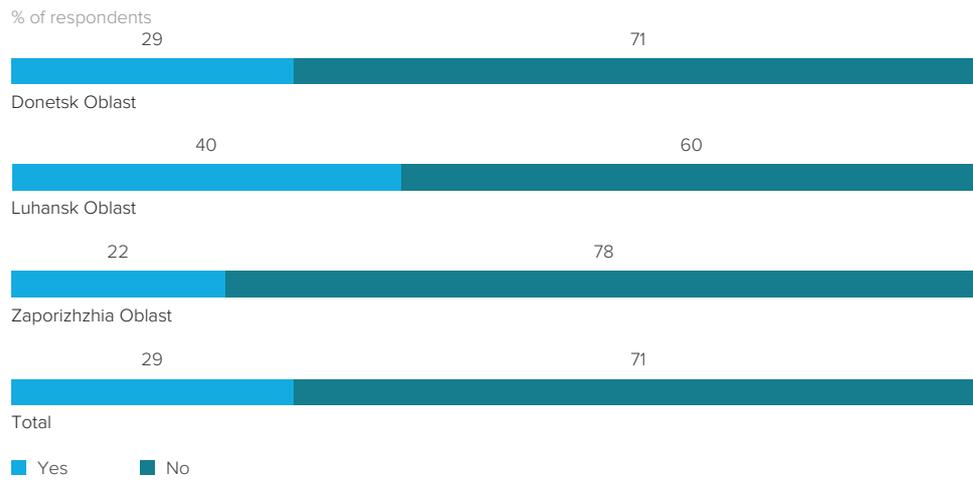
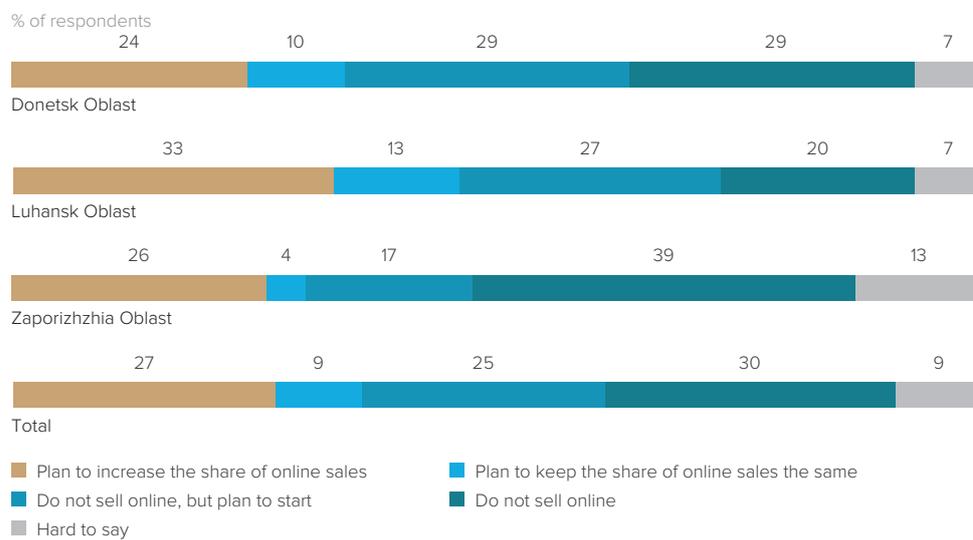
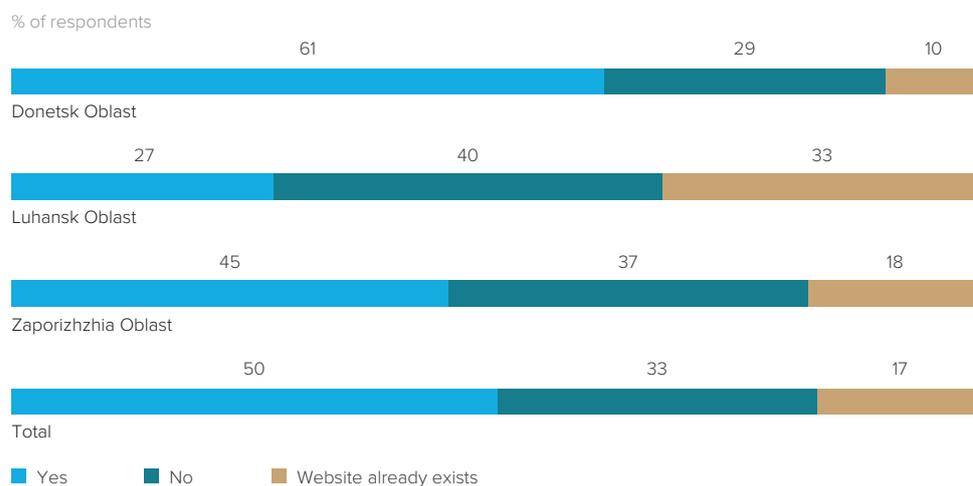


Figure 3.31. Plans to sell online in Textiles and Clothing



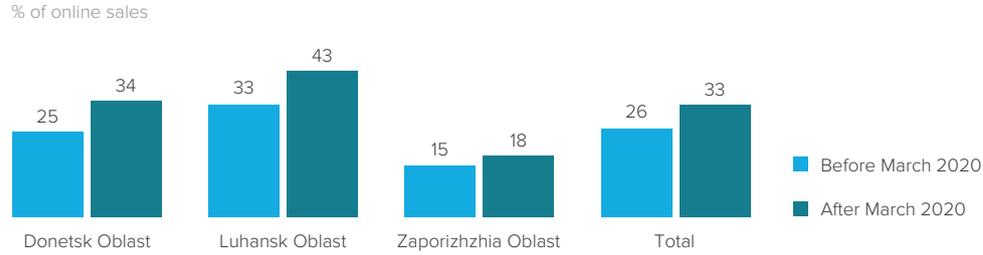
More than 60% of businesses have been interested in marketing on social media (Facebook, Instagram), and 55% have been interested in doing so on YouTube. 50% of companies would like to have a website, which is the highest rate among sectors, while 33% have not been interested in having one (Figure 3.32).

Figure 3.32. Relevance of having a website created in Textiles and Clothing



The share of online sales increased after March 2020 from 26% to 33% for companies in all the examined oblasts due to the closure of shops during the quarantine. This change has been one of the largest among the surveyed sectors (Figure 3.33).

Figure 3.33. Share of sales through online channels in Textiles and Clothing



Among the identified needs, financial resources have been named as the most important, followed by access to information. The need for training and consulting services has also been significant (Figure 3.34).

Figure 3.34. Types of support needed by MSMEs in Textiles and Clothing

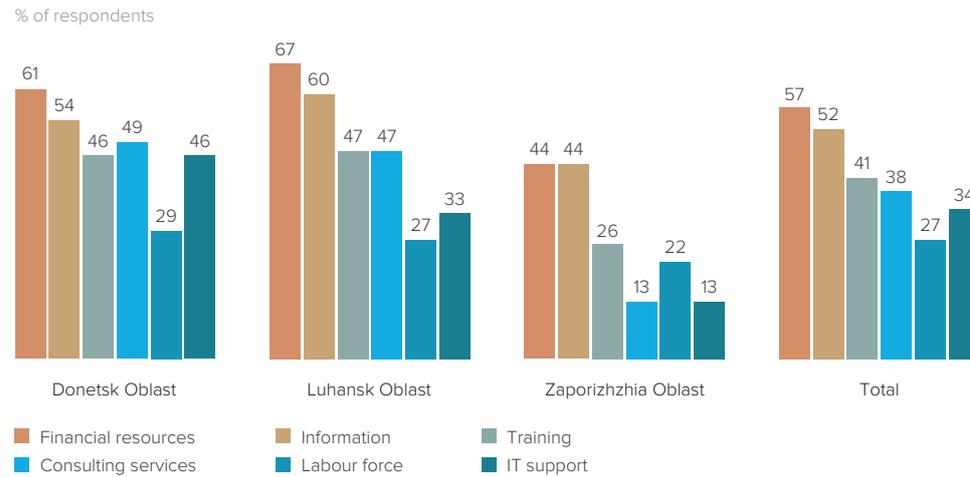
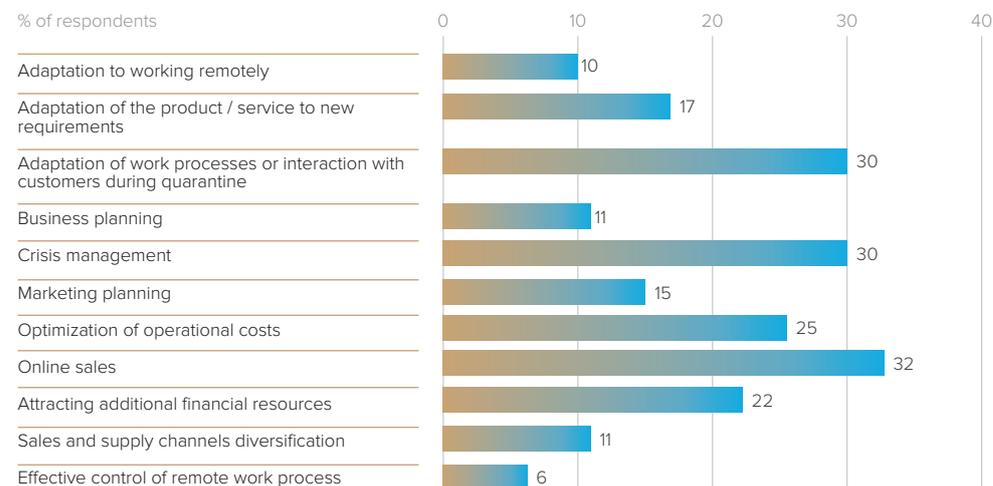


Figure 3.35. Lack of knowledge and skills to adapt to new conditions during quarantine, by topics, in Textiles and Clothing



During the period of strict quarantine, businesses in Textiles and Clothing suffered from a lack of knowledge and skills particularly in online sales, as well as in adaptation of work and production processes to new requirements, crisis management, optimization of operational costs, and raising additional financial resources (Figure 3.35).

During the focus groups, one of the participants noted interest in professional training:

*«[As far as] some master classes on professional development [and] certification training [are concerned], for some reason, there are often such trainings for hairdressers, but there are no such courses for us. [There are] many courses on the development of beauty salons [...], but we do not have [them] for sewing, in the city. On Instagram, I [can] see, there are different courses, but still, [one needs to] pay [for them], you need to buy [those] courses.» (Atelier, Donetsk Oblast)*

40% of companies expect 2021 sales to be at the pre-crisis level, 19% expect them to increase, whereas 15% think that sales will be lower compared to the pre-crisis level. This has been one of the most pessimistic forecasts among sectors. This pessimism has been more visible in Luhansk Oblast (Figure 3.36).

Figure 3.36. Sales forecast for 2021 compared to the period before March 2020 in Textiles and Clothing<sup>47</sup>

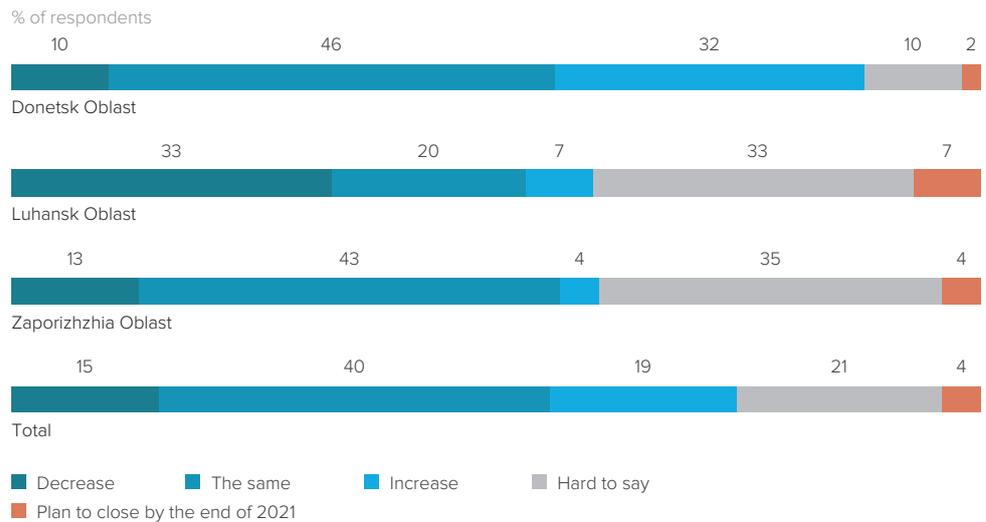
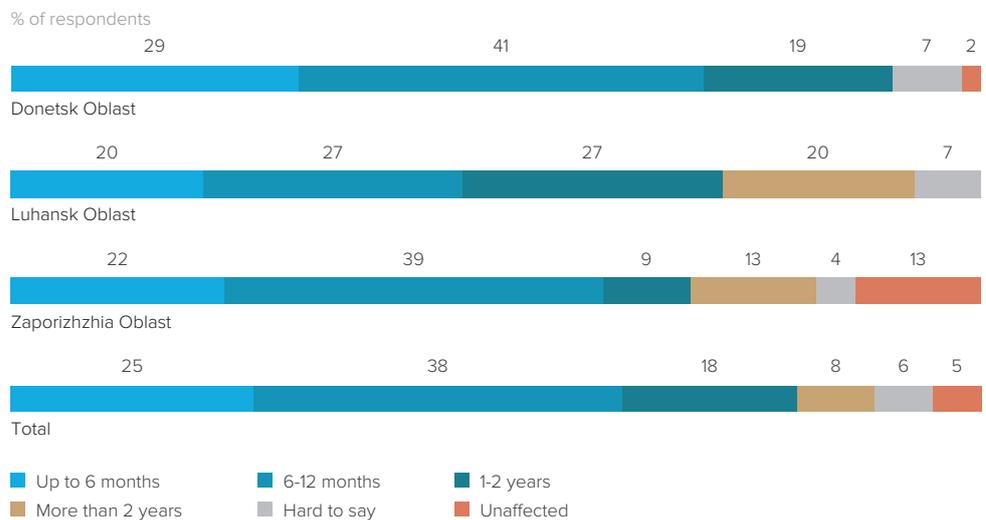


Figure 3.37. Expected time of recovery in Textiles and Clothing



<sup>47</sup>“Plan to close by the end of 2021” also includes “plan to close by the end of 2020”.

The majority of companies do not expect long-lasting negative effects of the COVID-19 pandemic on sales. 25% of companies believe that it will take up to six months to return to the pre-crisis level, whereas for 38% this period will last between six months and a year (Figure 3.37).

### 3.4. Hospitality

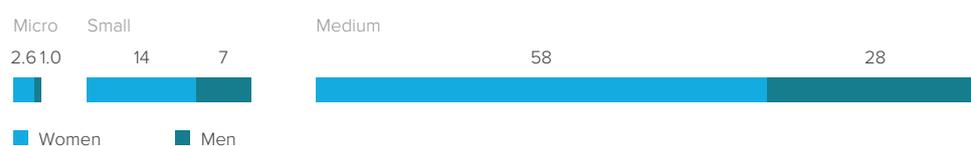
Hospitality has been one of the worst affected sectors by the COVID-19 pandemic and subsequent economic slowdown. Most of the businesses stopped working when strict quarantine was introduced. Those who were allowed to operate experienced losses. However, the effects of the COVID-19 related measures within the sector have varied significantly, as Hospitality has been among the most heterogeneous industries.

383 businesses have been surveyed in Donetsk, Luhansk and Zaporizhzhia oblasts, including 349 micro-enterprises and PE, 27 small and 7 medium-sized companies (Table 3.8). Around 70% of employees in the industry have been women.

Table 3.8. Number of surveyed companies in Hospitality

	Donetsk Oblast	Luhansk Oblast	Zaporizhzhia Oblast	Total
Micro	185	47	117	349
Small	16	4	7	27
Medium	3	0	4	7
<b>Total</b>	<b>204</b>	<b>51</b>	<b>128</b>	<b>383</b>

Figure 3.38. Average number of women and men employees in companies in Hospitality



Eleven (3%) out of 383 surveyed companies remained closed at the time of the survey, having stopped operating when strict quarantine had been introduced (Figure 3.39). However, eight (73%) of them plan to resume operations (Figure 3.40), at an estimated expense of between UAH 50,000 and UAH 250,000 each.

Figure 3.39. Stopped or continued operations since March 2020, in Hospitality

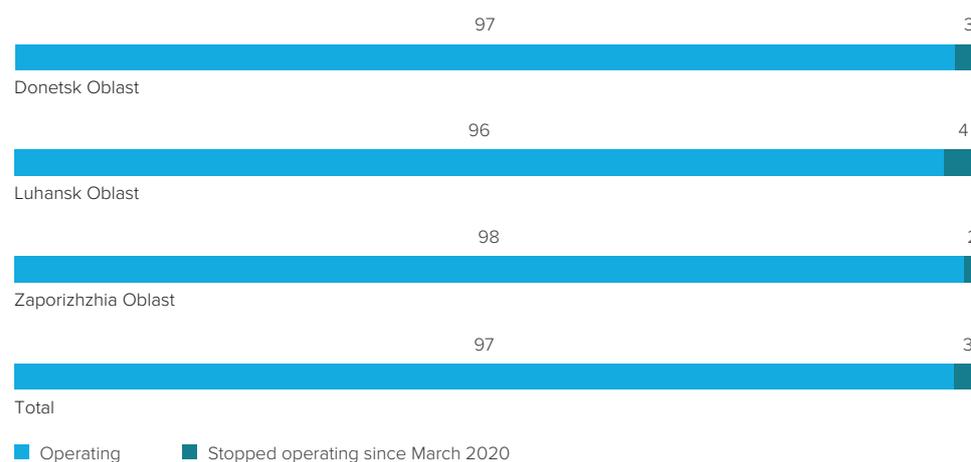
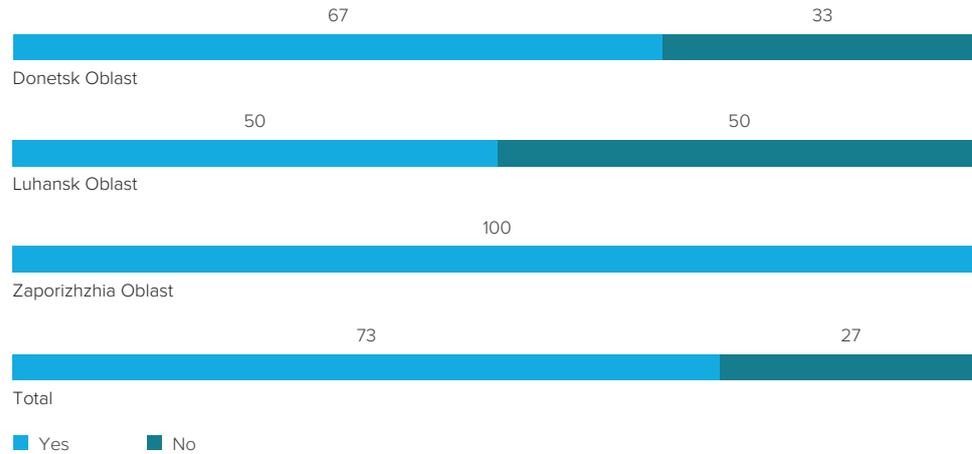


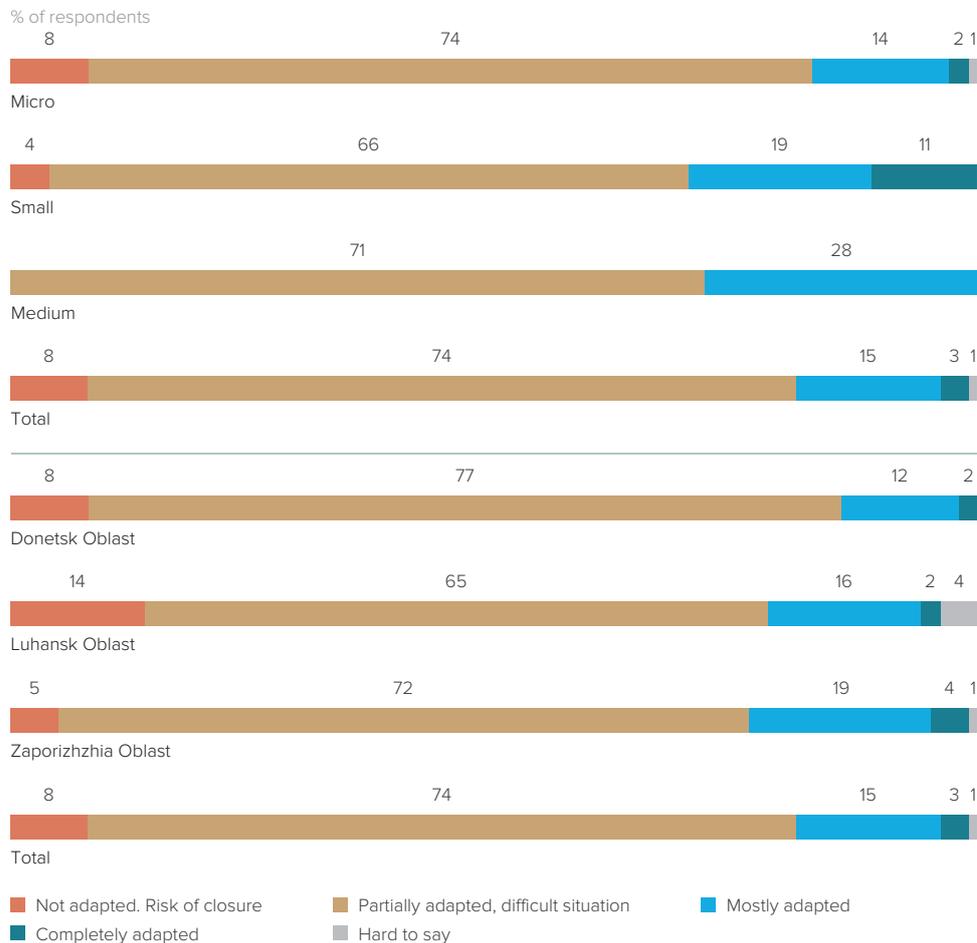
Figure 3.40. Plans to resume operations in Hospitality



Despite continuing operations, almost 8% of companies have not been able to adapt and may have been on the verge of bankruptcy. 74%, however, partially adapted, though situation has continued to be difficult (Figure 3.41). Although the sector has not been in the lead by the share of enterprises on the verge of bankruptcy, the share of businesses in a difficult situation has been the largest among the examined industries.

It has been harder to adapt for micro-businesses. 82% of micro-companies have not been able to adapt or adapted only partially, while the same measure for small and medium enterprises has been 70% and 71%, respectively (Figure 3.41). None of the medium-sized companies have been on the verge of bankruptcy.

Figure 3.41. Adaptation in Hospitality



Most of the cafes and catering companies were closed during the period of strict quarantine. Even if it was possible for some to continue operating, in many cases, the revenues were lower than the operational costs, as revenue flows fell due to the smaller number of customers, whereas costs increased due to the additional purchases of disposable tableware, gloves, masks, and other necessary utilities. Once many of the establishments opened during adaptive quarantine, the recovery has been gradual and slow. In non-resort-based hotels, the demand has remained low. As the resort hotels were able to open during the holiday season, they were in greater demand due to the limited opportunities for holidays abroad. Still, in 2020 the number of domestic holidaymakers and particularly of guests from abroad has been low. For some establishments it has been challenging to meet new safety rules. As a result, one surveyed company has remained closed due to the fear of spreading COVID-19. Some establishments have made attempts to switch to food delivery and have hoped to become popular prior to possible new restrictions.

47% of all surveyed companies in the sector expect sales to decrease in 2020, 26% expect them to stay the same, whereas 8% expect them to increase. Share of businesses which expect sales to fall in 2020 has been the largest among the surveyed sectors (Figure 3.42).

Figure 3.42. Sales expectations in 2020 in Hospitality

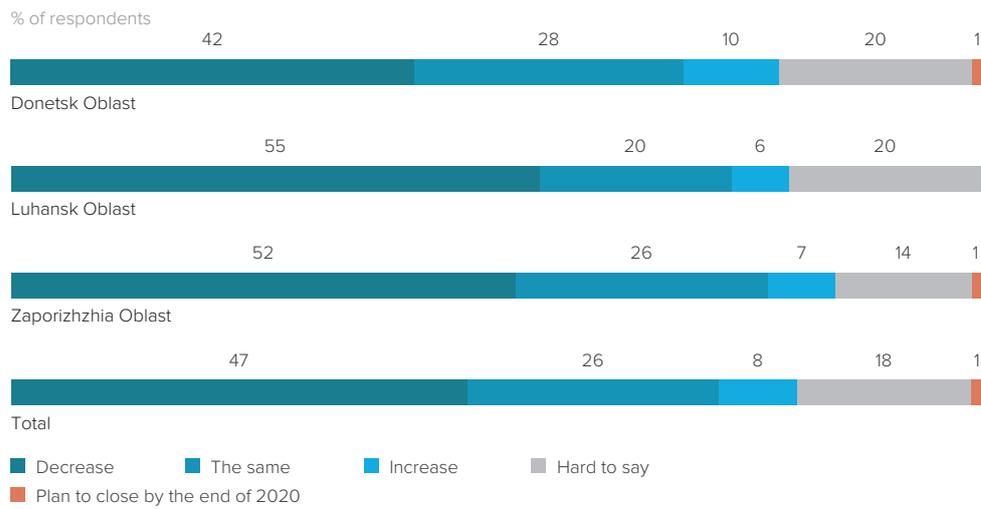
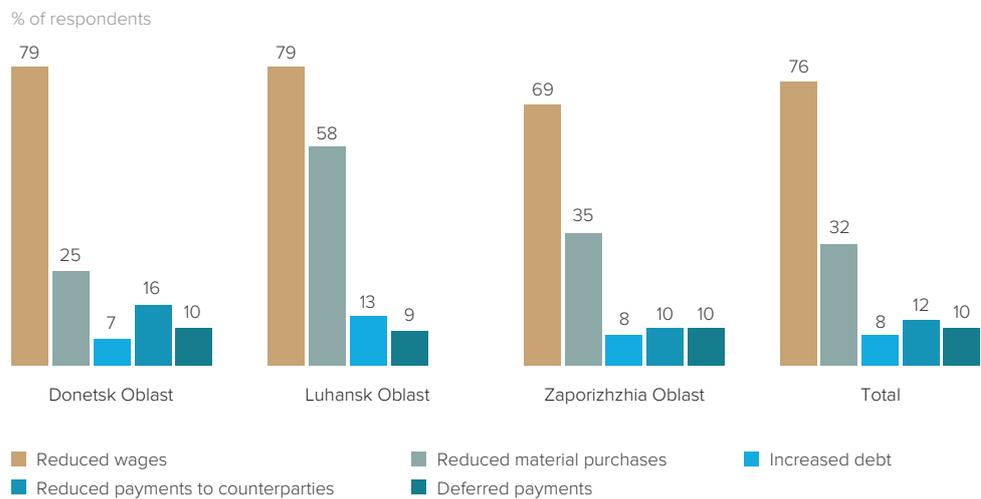


Figure 3.43. Ways of reducing operational costs in Hospitality

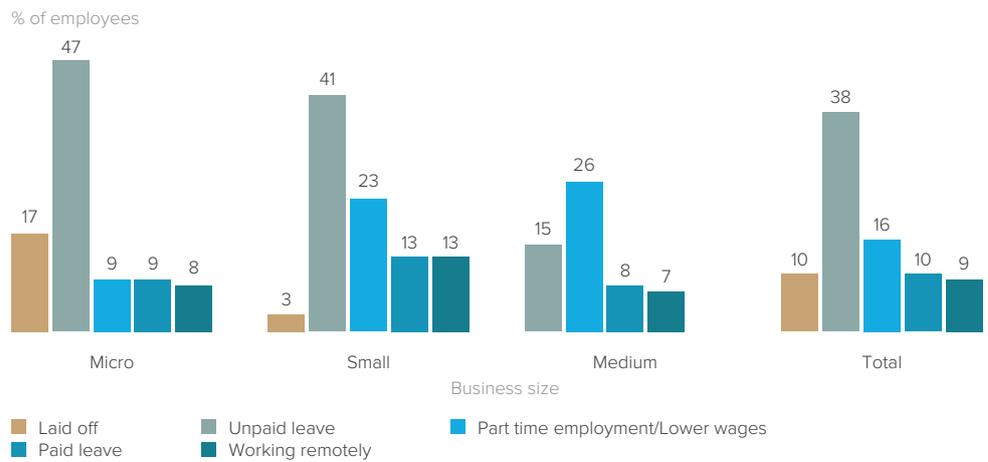


To address some of the consequences of economic slowdown, 72% of companies identified reducing operational costs as the most viable option. However, only 68% of these have managed to reduce them. In most cases, companies have cut personnel expenses and have reduced input purchases (Figure 3.43).

Between 8% and 9% of companies have had problems with the procurement of domestic and foreign inputs, but for the majority of businesses this has constituted a minor inconvenience. Around 7% of companies have replaced foreign supplied goods with domestic ones, and 10% have been substituting with locally produced goods in the region.

During the period of strict quarantine, employees were laid off or sent on unpaid leave. However, businesses have strived to retain their best employees, and in other cases, the most vulnerable have been supported (for example, a single mother who also happened to be an orphan). Overall, around 10% of employees in Hospitality in the examined oblasts lost their jobs, 38% have been sent on unpaid leave, and 16% have either switched to part-time mode or have been offered lower wages. Compared to medium-sized companies, micro and small businesses have sent more employees to unpaid leave or laid them off (Figure 3.44). No employee of the medium-sized enterprises has been laid off, whereas the preferred mode to adjust to new circumstances in the category has been part time employment and reduced wages.

Figure 3.44. Share of employees affected in Hospitality



The share of sector’s employees working in micro-businesses has decreased by 3.8 percentage point, an indication that micro-businesses have suffered to a greater degree than small and medium-sized enterprises (Figure 3.45). As expected, the average number of employees decreased during the period of strict quarantine (Figure 3.46).

Figure 3.45. Employment structure in Hospitality

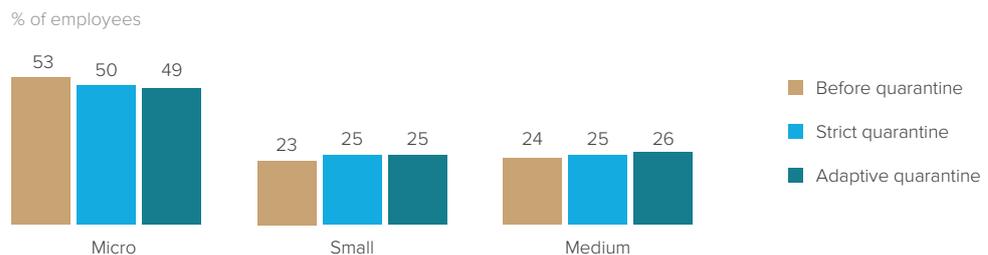
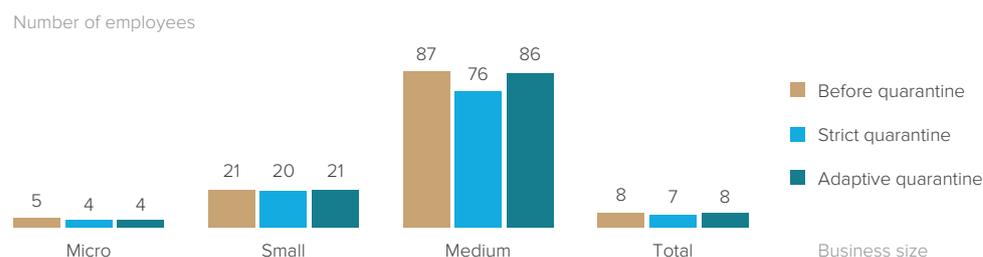
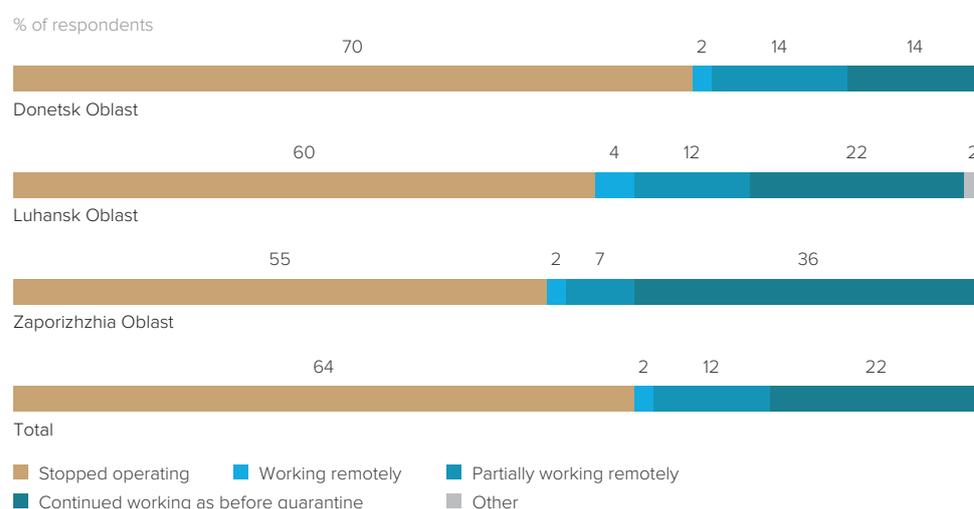


Figure 3.46. Average number of employees in Hospitality



Initially, 64% of companies stopped operating during the period of strict quarantine in Hospitality (70% in Donetsk Oblast). Overall, 22% of companies have continued to work as usual. Working remotely has not been considered feasible for most companies in the sector, hence only 2% of businesses have switched to remote work entirely and 12% have switched partially (Figure 3.47). Only 9% of companies have considered the remote work mode effective.

Figure 3.47. The effect of strict quarantine on companies' work mode in Hospitality



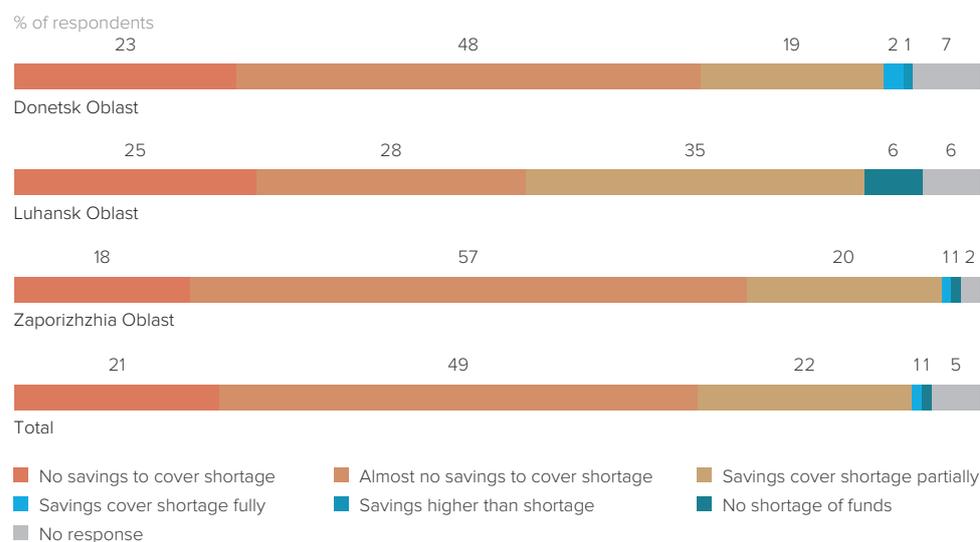
Access to external financing for MSMEs in Hospitality has been very limited. Primary sources of financial resources have included own revenues and savings, and loans from friends and relatives. Bank credit has usually been the fourth most frequent option, named by 13% of respondents in Zaporizhzhia Oblast, 10% in Donetsk Oblast and only 2% in Luhansk Oblast. Technical support projects have been a more preferred option in Luhansk Oblast (Table 3.9).

Table 3.9. Sources of financing in 2020 in Hospitality

	Donetsk Oblast	Luhansk Oblast	Zaporizhzhia Oblast	Total
Own revenues	85	83	75	82
Own savings	30	47	45	37
Loan from relatives/friends	11	14	11	11
Bank credit	10	2	13	10
Loan from business partners	2	16	6	5
Non-refundable financial assistance from company co-founders or third parties	6	-	4	4
Technical support projects	1	10	4	3
External investors	1	2	5	2

70% of businesses have had either no savings or almost no savings to cover the shortage of funds for business operations. The situation in Hospitality has been one of the worst among the sectors. Luhansk Oblast has performed better in that respect than Donetsk and Zaporizhzhia oblasts (Figure 3.48). Savings could only partially cover the deficit for another 22% of companies. For only 1% of companies, savings could cover the deficit completely and 1% companies have not experienced any shortages.

Figure 3.48. Availability of savings to cover shortage of funds in Hospitality



Nevertheless, 35% of companies have considered the possibility of financing long-term investment. The most frequent sources considered have been own revenues, technical support projects, bank credit, and own savings (Table 3.10).

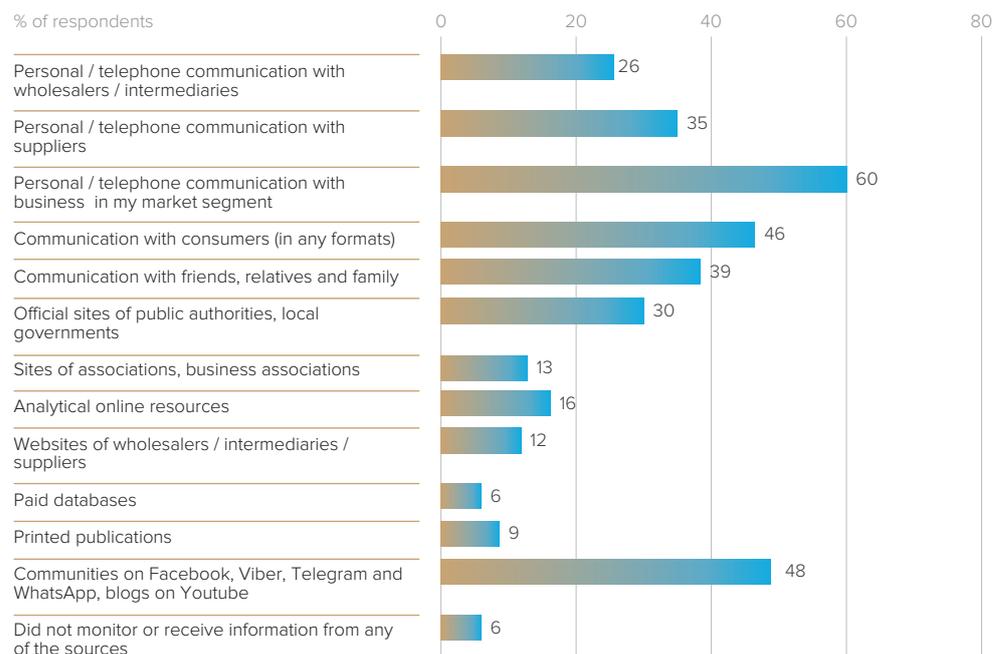
Table 3.10. Potential additional sources of financing of long-term investment in Hospitality

	Micro	Small	Medium	Total
Own revenues	60	58	32	59
Technical support projects	51	41	68	51
Bank credit	29	33	-	29
Own savings	26	33	-	26
Non-refundable financial assistance from company co-founders or third parties	13	24	32	14
External investors	9	24	32	11
Loan from business partners	12	-	-	10
Loan from relatives/friends	7	17	-	8

In addition to limited access to financing, official and structured cooperation, which could have contributed to strengthening of MSMEs during the COVID-19 pandemic, has been limited. Only two companies out of 383 (0.5%) have participated in a cooperative, and 3% of companies have been members of sectoral associations.

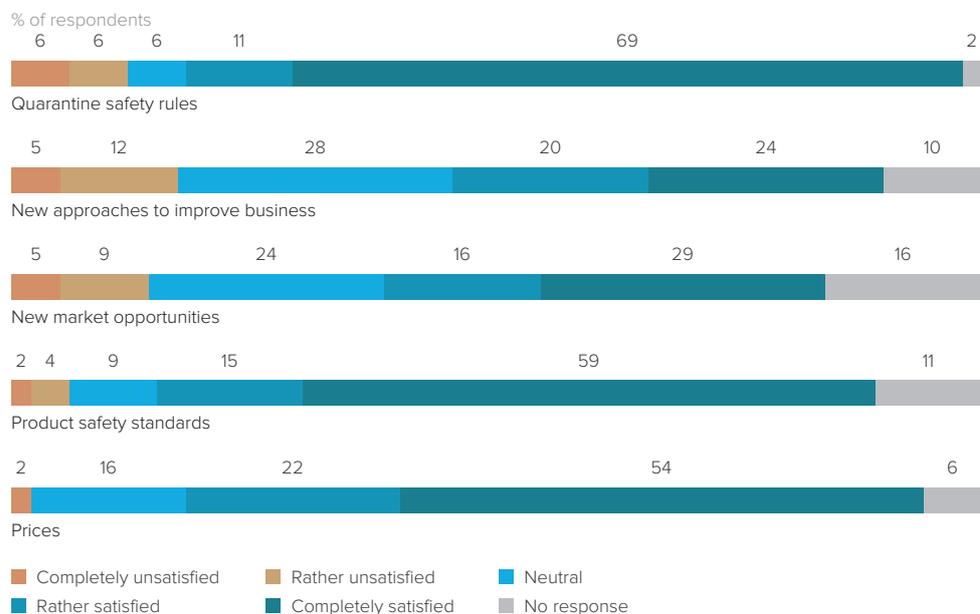
The most widely used sources of information for business operation and development have been communication exchange with business communities on Facebook, Viber, Telegram and WhatsApp, as well as YouTube, personal communication with customers, friends, family, suppliers, intermediaries. After the COVID-19 outbreak, official websites of public authorities and local governments have increased their popularity (Figure 3.49).

Figure 3.49. Sources of information for businesses in Hospitality



Most of the companies have been rather satisfied or completely satisfied with information they could obtain on the quarantine safety rules, sectoral market prices and Hospitality safety standards. There has been a greater need for information on how to improve business and enhance market opportunities (Figure 3.50).

Figure 3.50. Level of satisfaction with available information in Hospitality



As far as current level of digitalization is concerned, most of the businesses (71%) have kept their budget records in electronic form. Still, almost 23% have continued to use paper format. 6% have not kept budget records at all (Figure 3.51).

As for communication channels, Viber application has been the most popular; 78% of businesses have used it, whereas 46% have used e-mail (Figure 3.52).

Figure 3.51. Budget records in Hospitality

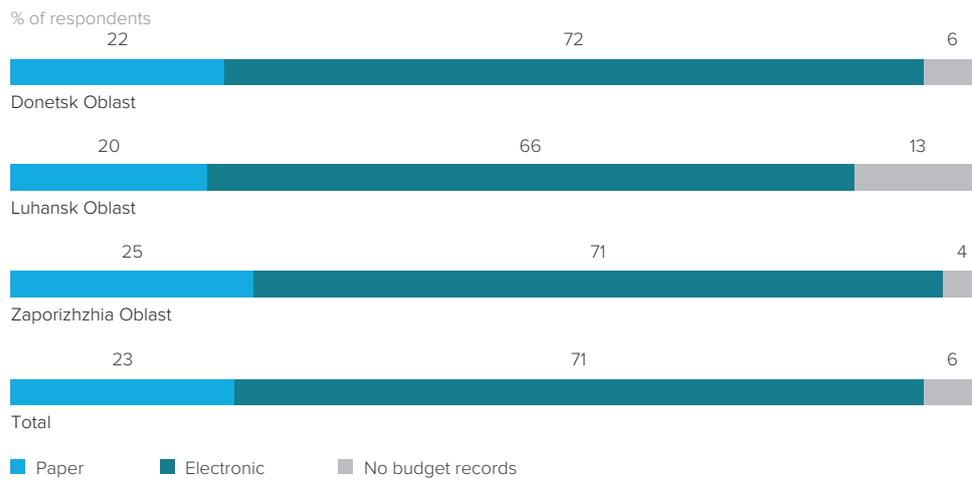
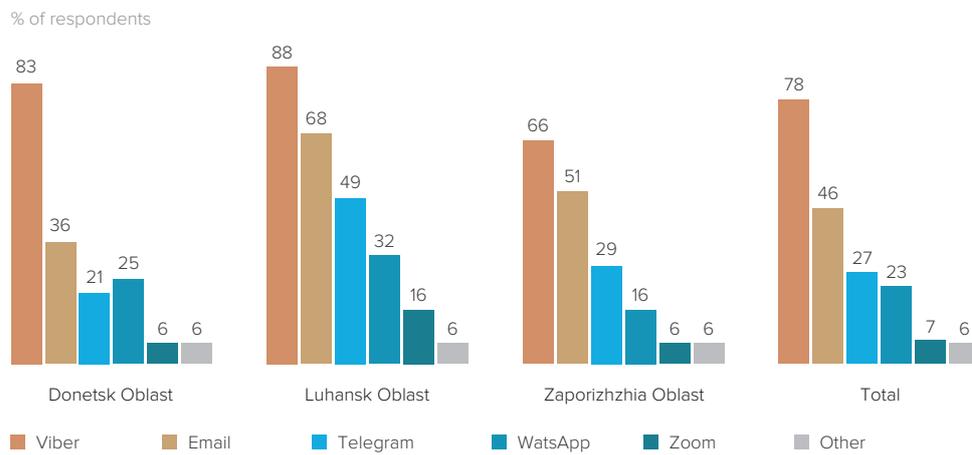
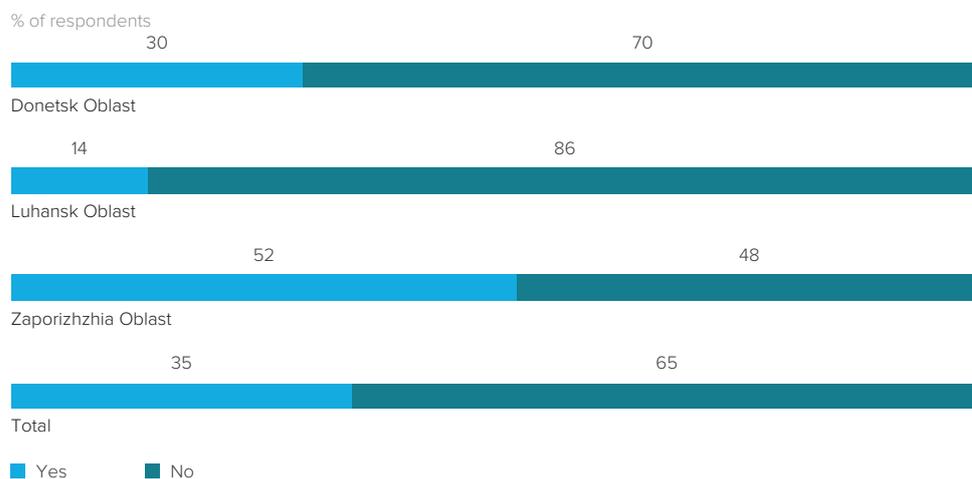


Figure 3.52. Communication channels with employees, partners, suppliers in Hospitality



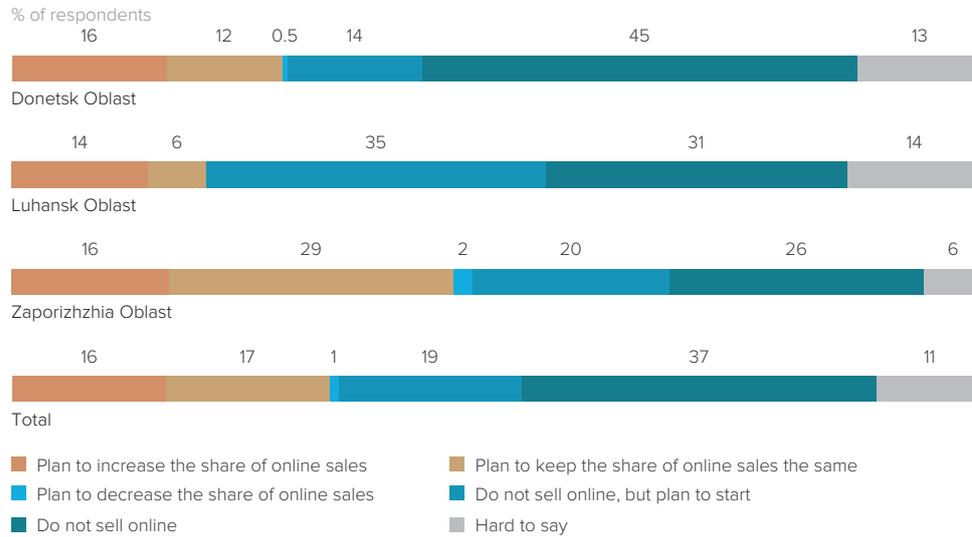
35% of businesses have been selling online. This has been the highest share across the sectors. However, the figure has varied across the oblasts, with the lowest percentage of online sales in Luhansk Oblast (14%) and the largest share in Zaporizhzhia Oblast (52%) (Figure 3.53).

Figure 3.53. Selling online in Hospitality



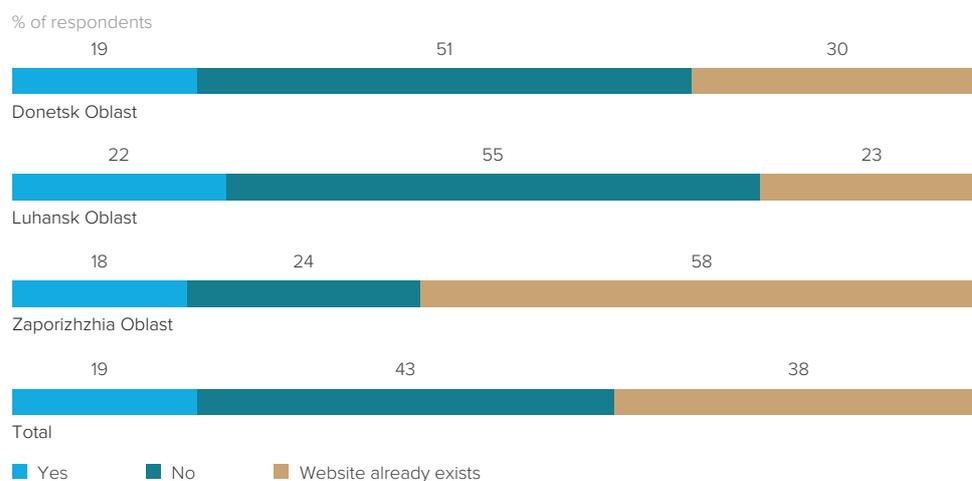
Around 16% of enterprises would like to increase their share of online sales and 19% would like to start selling online. Given the low number of companies selling online in Luhansk Oblast, not surprisingly, there has been an interest in catching up – the share of businesses willing to start selling online is considerably higher in Luhansk Oblast (Figure 3.54).

Figure 3.54. Plans to sell online in Hospitality



Around 40% of the businesses have been interested in marketing on social media (Facebook, Instagram), and 26% on YouTube. 19% of companies in Hospitality have been interested in having a website for their business purposes, while 43% have not been. Zaporizhzhia Oblast has had the highest share of businesses with websites (58%), while Donetsk and Luhansk oblasts have had high share of those who have not been interested in having a website at all (51% and 55%, respectively) (Figure 3.55). Share of online sales has increased from 29% to 32% after the introduction of strict quarantine (Figure 3.56).

Figure 3.55. Relevance of having a website created in Hospitality



Financial resources have been identified as the most important type of support needed. It has especially been the case for Luhansk Oblast. Access to information and training have also been considered important (Figure 3.57).

Figure 3.56. Share of sales through online channels in Hospitality

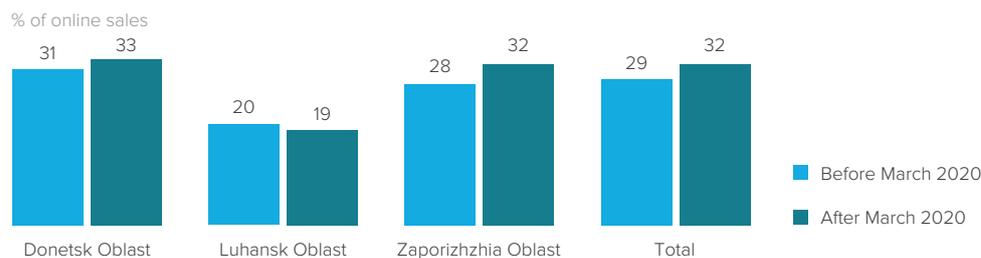
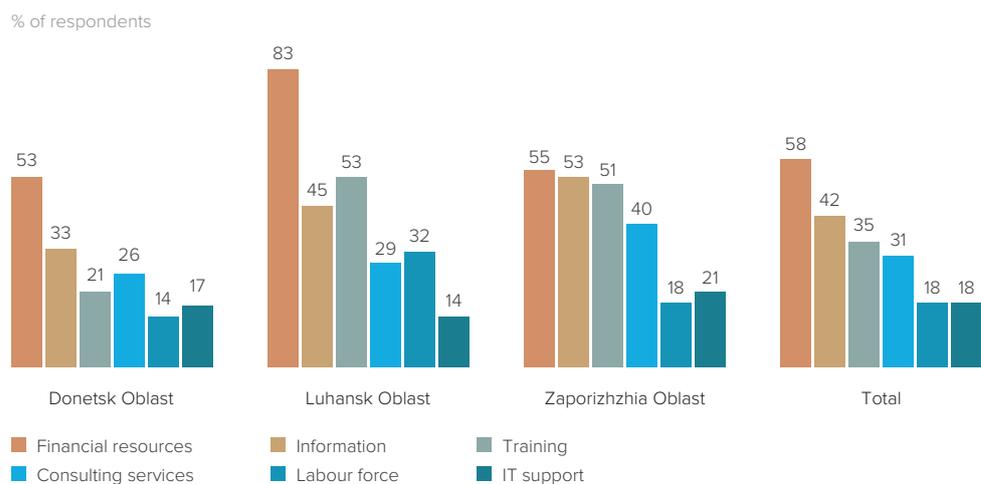
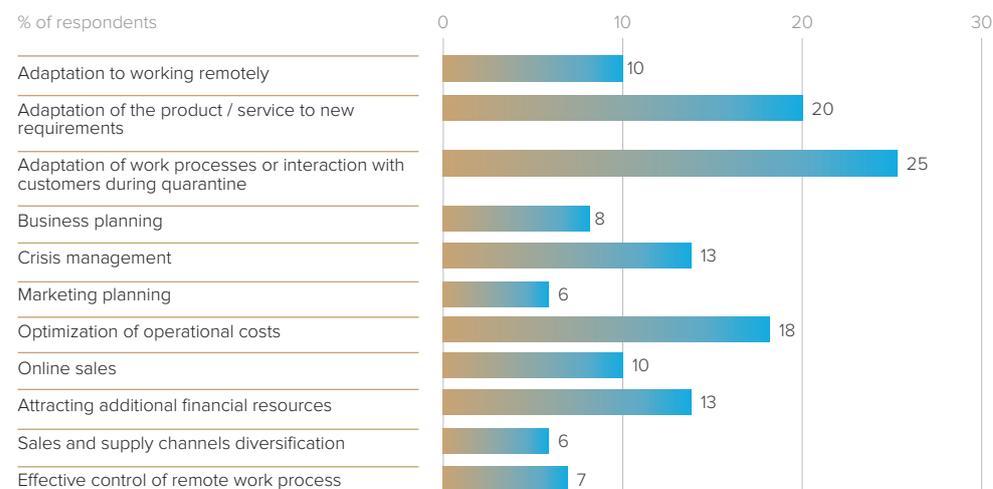


Figure 3.57. Types of support needed by MSMEs in Hospitality



During the period of strict quarantine, businesses suffered from a lack of knowledge on adaptation of the work and production processes to new requirements, optimization of operational costs, raising additional financial resources (especially in Luhansk Oblast), crisis management, and remote work adaptation (Figure 3.58).

Figure 3.58. Lack of knowledge and skills to adapt to the new conditions during quarantine, by topics, in Hospitality



2021 sales forecasts have been more optimistic than 2020. 25% of companies expect 2021 sales to be at the pre-crisis level, and 28% of respondents expect them to increase. Only 7% think that sales will be lower compared to the pre-crisis level. In Luhansk Oblast the perception has been more pessimistic (Figure 3.59).

Figure 3.59. Sales forecast for 2021 compared to the period before March 2020 in Hospitality<sup>48</sup>

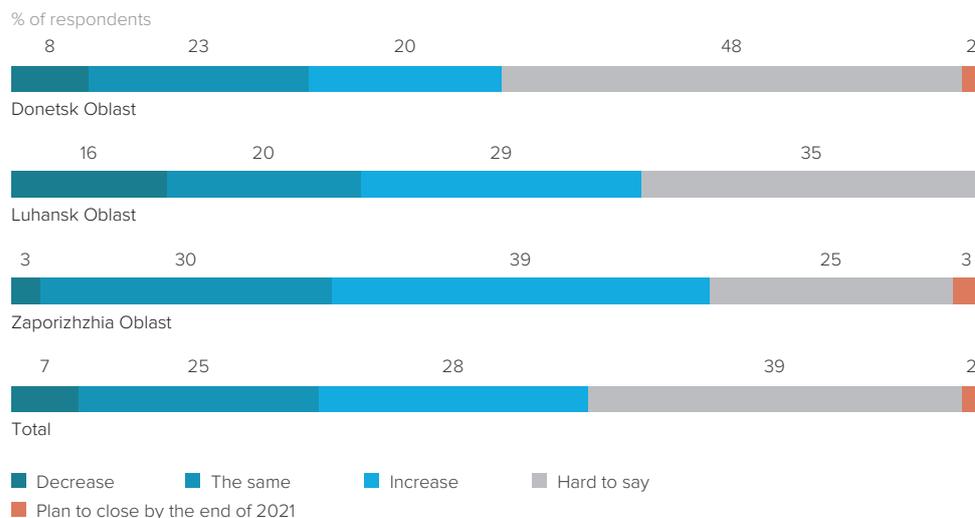


Figure 3.60. Expected time of recovery in Hospitality

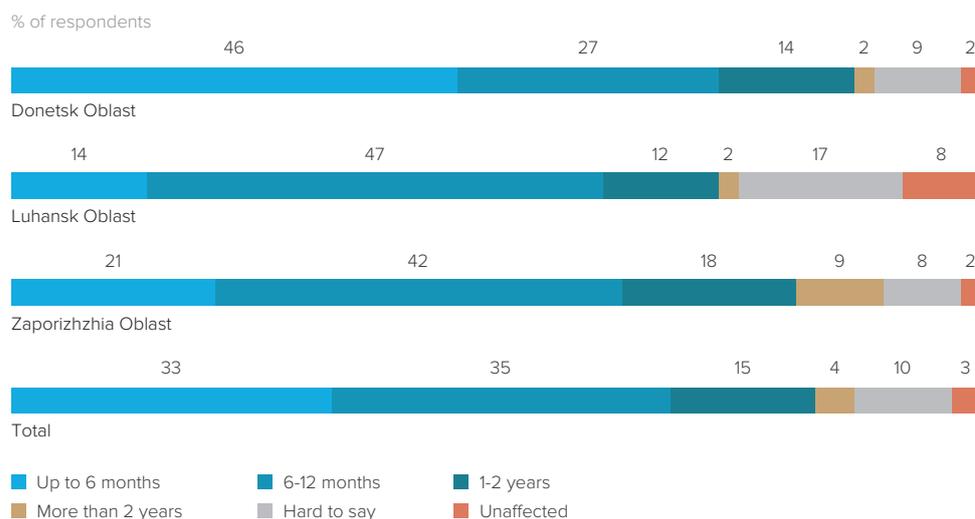
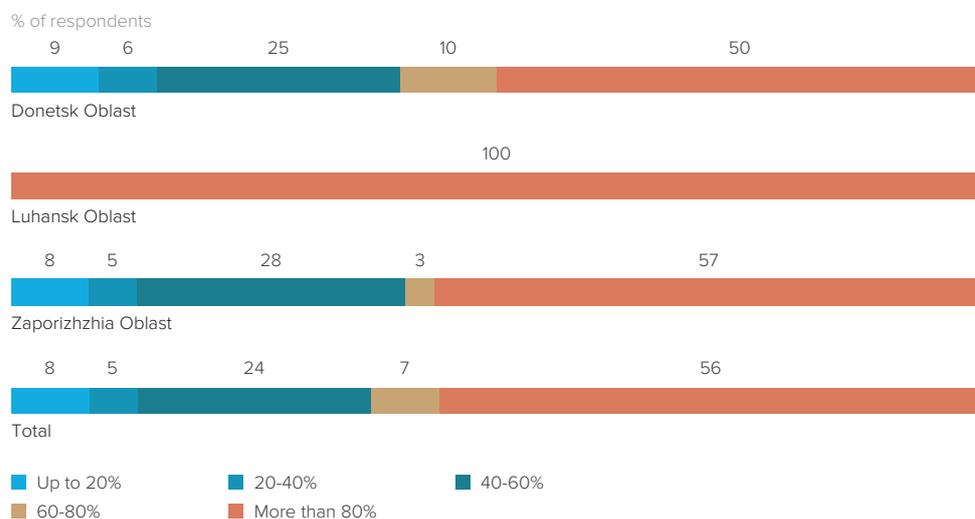


Figure 3.61. Share of employees to be laid off in case of reintroduction of strict quarantine in Hospitality



<sup>48</sup>"Plan to close by the end of 2021" also includes "plan to close by the end of 2020".

The majority of companies do not expect long-lasting negative effects of the COVID-19 pandemic on sales. 33% of respondents believe that it will take up to six months to return to the pre-crisis level and 35% think it will take from six months to a year (Figure 3.60).

If strict quarantine was introduced again, most of the companies indicated they would have to lay off more than 80% of employees (Figure 3.61).<sup>49</sup>

### 3.5. Ceramics

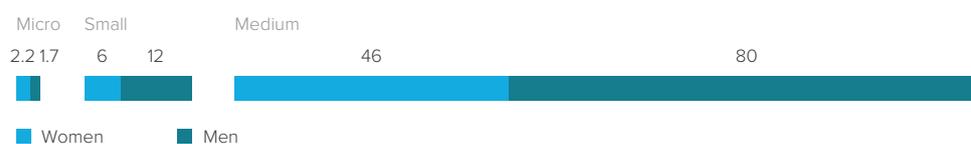
**Ceramics has been among the most negatively affected sectors by the COVID-19 pandemic. Many companies have reduced their production volume or stopped operating during strict quarantine. Moreover, access to external financing has been very limited, even in comparison with the other sectors. The share of enterprises with savings has also been one of the lowest. As an adaptation measure, some producers have switched to online sales. Despite the limited success in this regard, Ceramics has been considered one of the sectors most interested in online sales, marketing on social media and websites.**

Twenty enterprises have been surveyed in the Ceramics industry; from Donetsk (18) and Luhansk (2) oblasts, including 15 micro-enterprises and PE, two small and three medium-sized companies (Table 3.11).<sup>50</sup> The majority of sector's employees have been men (Figure 3.62).

Table 3.11. Number of surveyed companies in Ceramics

	Donetsk Oblast	Luhansk Oblast	Total
Micro	13	2	15
Small	2	0	2
Medium	3	0	3
<b>Total</b>	<b>18</b>	<b>2</b>	<b>20</b>

Figure 3.62. Average number of women and men employees in companies in Ceramics



The negative impact of COVID-19 epidemic has been felt through disrupted sales channels, lower demand (as a result, for example, of closed marketplaces), and restrictions on travel across the oblasts, which has resulted in both restricted supply and lower sales. As a consequence, two of surveyed companies have stopped operating since March 2020, though they plan to resume their operations.

Altogether, 20% of companies have not able to adapt and may have been on the verge of bankruptcy. It has been the highest rate among the examined industries. 50% of the companies have partially adapted but the situation has remained difficult for them. 30% of businesses have mostly adapted and 15% have completely adapted (Figure 3.63).

<sup>49</sup>Only 116 respondents out of 383 surveyed chose to provide an answer to this question (and only 8 in Luhansk oblast).

<sup>50</sup>The sample may not be entirely representative of the sector due to the limited number of surveyed companies.

40% of all companies in the sector expect sales to decrease in 2020. This is the third most negative expectation among industries. 40% of businesses expect sales to remain the same, and 10% expect them to increase (Figure 3.64).

Figure 3.63. Adaptation in Ceramics

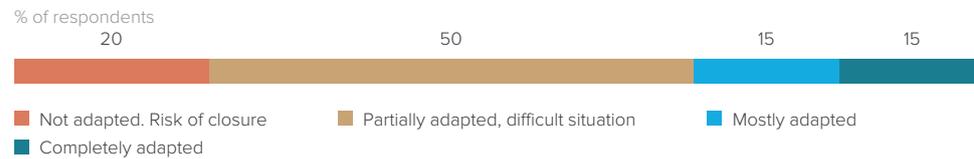
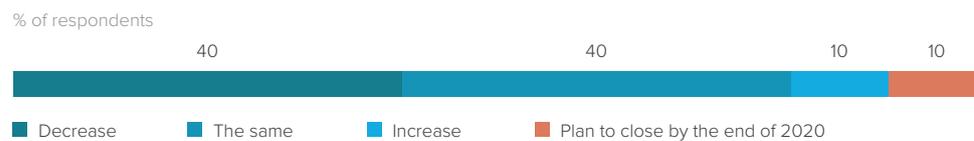


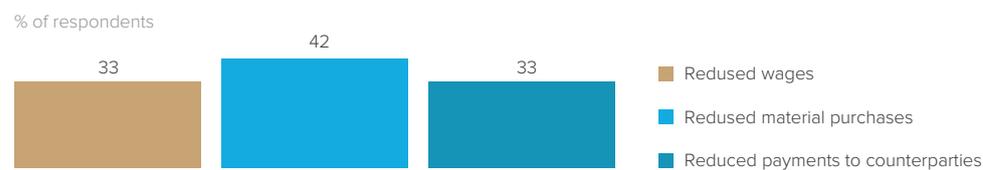
Figure 3.64. Sales expectations in 2020 in Ceramics



In view of economic slowdown, 85% (17 out of 20) of businesses indicated that reducing operational costs would have been the most viable option, however, only 71% of them (12 out of 17) have managed to do so.

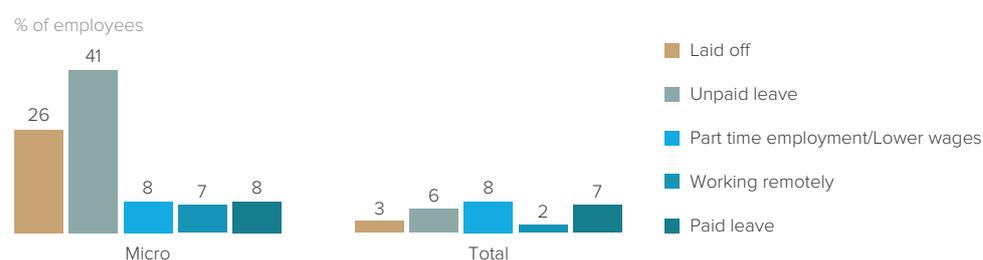
Four companies (33%) have reduced wages of staff, and another four have reduced payments to counterparties (Figure 3.65). 42% (5 out of 12) have had to decrease purchases of materials. None of the firms have increased debt by applying for bank credit, despite the problematic situation. This has been indicative of limited availability of bank credit to the industry.

Figure 3.65. Ways of reducing operational costs in Ceramics



Overall, around 3% of employees have lost their jobs (26% in micro-businesses). 6% have been sent on unpaid leave (41% in micro-businesses), 7% on paid leave, and 8% have switched to a part-time work mode or have accepted lower wages. Though the overall employment situation has not looked dramatic, micro-enterprises have been affected to a much larger extent (Figure 3.66). In the middle-sized enterprises (200 employees or more) some women-workers have had to go on involuntary leave because kindergartens had been closed.

Figure 3.66. Share of employees affected in Ceramics

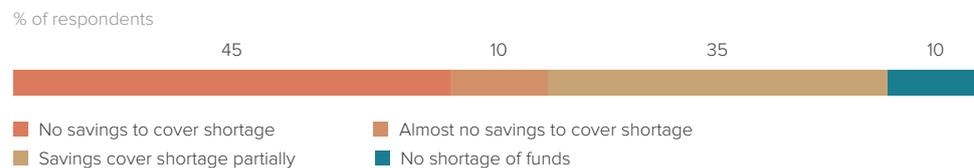


The average number of employees per company in the sector have only changed slightly. Before March 2020 it was 29.5 whereas during quarantine it has been 28.5.

Access to external financing for MSMEs in Ceramics has been worse compared to other sectors. Primary sources of investment funding have been companies' own revenues (95%) and their savings (30%). One company have had a bank loan and one has used a technical support project as source of financing.

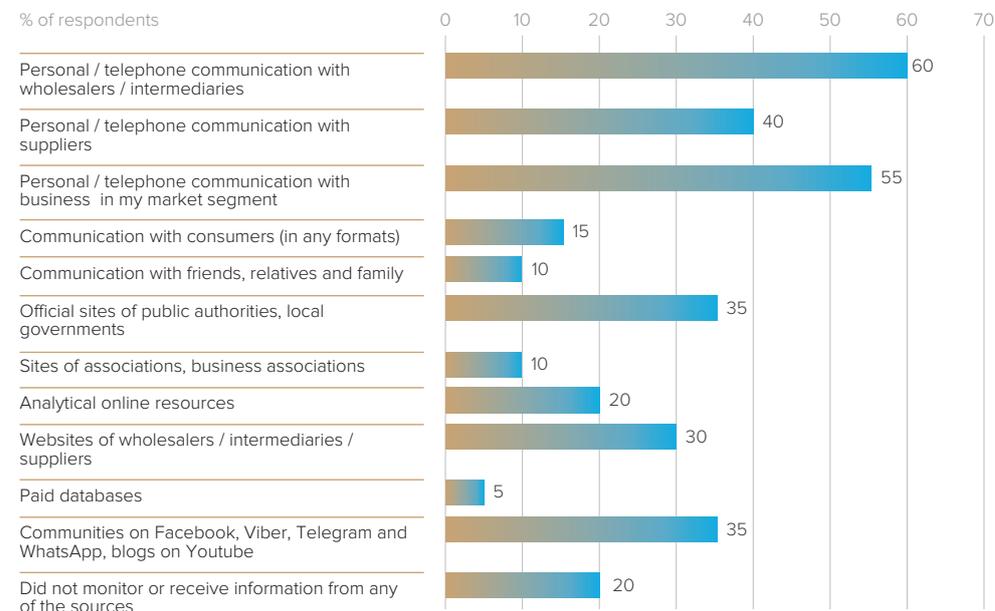
Additionally, 55% of businesses have had either no or almost no savings to cover their shortage of funds. 35% have been able to partially cover their deficit, 10% have been able to fully finance their operations during quarantine. Only middle-sized enterprises have had any financial reserves at their disposal (Figure 3.67). Moreover, only two companies out of 20 have been considering external sources of financing for their long term investment.

Figure 3.67. Availability of savings to cover shortage of funds in Ceramics



Official and structured cooperation in the sector seems higher than in many other sectors. 20% (4 out of 20) of surveyed MSMEs have been members of business associations.

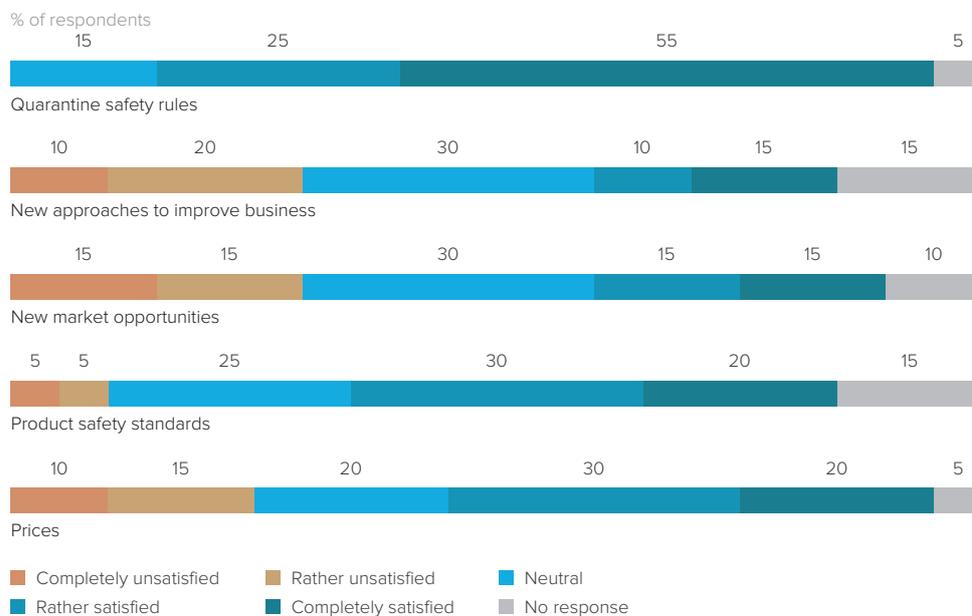
Figure 3.68. Sources of information for businesses in Ceramics



The most widely used sources of information for business purposes have been personal and telephone communication with wholesalers and business communities. Also, very popular have been communication using Facebook, Viber, Telegram and WhatsApp, as well as YouTube, personal communication with customers, friends, family, suppliers, intermediaries (Figure 3.68). After the COVID-19 outbreak, official websites of public authorities and local governments have become more popular as source of information, despite them being perceived as difficult to navigate and outdated.

Most of the companies have been rather satisfied or completely satisfied with the quality of information on quarantine safety rules, whereas a half of enterprises has been happy with information on market prices of their products and relevant safety standards. There has been a greater need identified for information on how to improve business development and use new market opportunities (Figure 3.69).

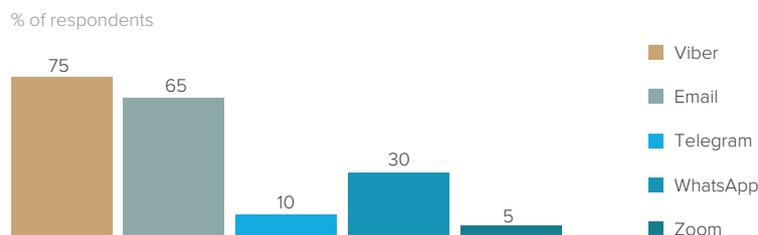
Figure 3.69. Level of satisfaction with available information in Ceramics



As far as the level of digitalization is concerned, most of the businesses (75%) have kept the budget records in electronic form. Still, almost 25% of all companies have maintained budget records on paper.

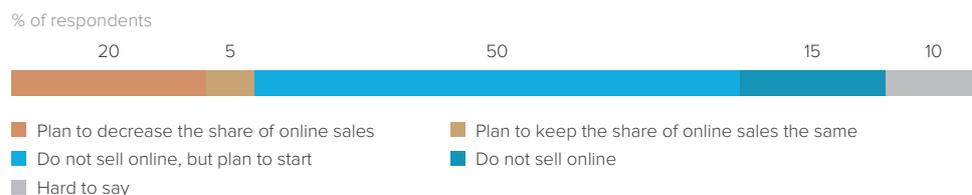
As for the communication channels, Viber application has been the most popular; 75% of businesses have used it. E-mail has also been popular as 65% of companies have used it for business purposes (Figure 3.70).

Figure 3.70. Communication channels with employees, partners, suppliers in Ceramics



Only 25% of companies in Ceramics have been selling online. It has not been the lowest rate among the examined industries, though lower compared to Textiles and Clothing and Industry and Engineering Services. Nevertheless, the interest in selling online, marketing on social media and creating a website for business purposes has been one of the highest among selected industries. COVID-19 quarantine restrictions have revealed clear benefits related to selling online. 20% of enterprises would like to increase their share of online sales and 50% would like to start selling online (Figure 3.71).

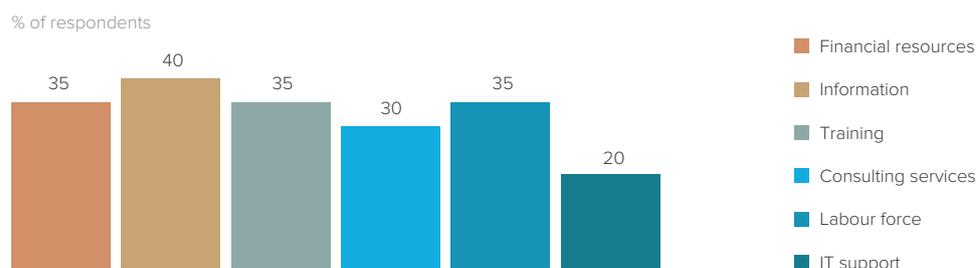
Figure 3.71. Plans to sell online in Ceramics



Indeed, around 55% of businesses have been interested in marketing on social media (Facebook, Instagram and YouTube), whereas 45% of companies have been interested in creating a website for their business purposes, while 25% have not. 30% of companies in Ceramics already has a website. Share of online sales have increased significantly after March 2020 from 28% to 40%.

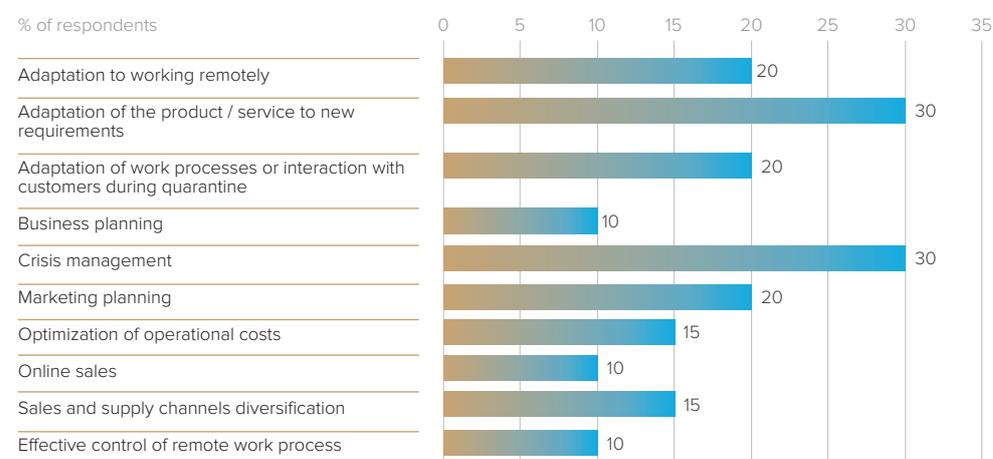
Among companies' needs, information, financial resources, labour force and training have been identified as priorities (Figure 3.72). Training in marketing, accounting and legal issues have been particularly sought. One company has been interested in training on the production of tableware and decoration.

Figure 3.72. Types of support needed by MSMEs in Ceramics

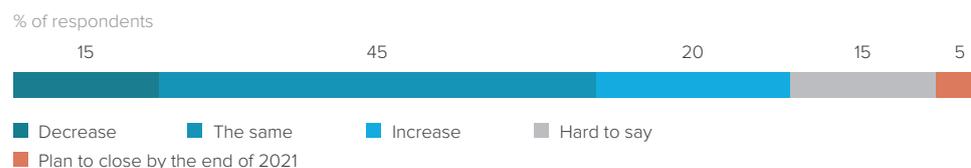


During the period of strict quarantine, businesses suffered from a lack knowledge on adaptation of the work processes (including working remotely) and products to new requirements, crisis management and marketing planning (Figure 3.73).

Figure 3.73. Lack of knowledge and skills to adapt to new conditions during quarantine, by topics, in Ceramics

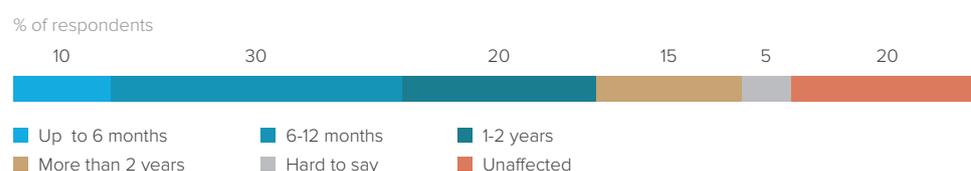


2021 sales forecasts have been more optimistic. 45% of companies expect 2021 sales to be at the pre-crisis level and 20% of respondents expect them to increase. Only 15% think that sales will be lower compared to the pre-crisis level (Figure 3.74).

Figure 3.74. Sales forecast for 2021 compared to the period before March 2020 in Ceramics<sup>51</sup>

40% of companies do not expect long-lasting negative effects of the COVID-19 pandemic on sales. 10% of respondents believe that it will take up to six months to return to the pre-crisis level and 30% - from six months to a year. At the same time, another 35% believes that it will take more than a year to recover (Figure 3.75).

Figure 3.75. Expected time of recovery in Ceramics



### 3.6. Food Processing

Food Processing enterprises were allowed to work during the period of strict quarantine and the majority of them (79%) have continued to operate without an interruption. Sales have fallen due to lower demand and disruption of sales channels, i.e. closed shops, marketplaces, and transportation hubs. Those who have been cooperating with supermarkets have performed better. Some companies have experienced a shortage of inputs as their suppliers have not always been allowed to operate. Those enterprises who export their products have also been negatively affected. To adapt to the new circumstances, companies have bought vehicles to transport employees, have reduced staff and have reoriented production towards new domestic destinations.

Ninety-one businesses have been surveyed in Donetsk, Luhansk and Zaporizhzhia oblasts, including 62 micro-enterprises and PE, 23 small and 6 medium-sized companies (Table 3.12). 49% of employees in the industry have been women.

Table 3.12. Number of surveyed companies in Food Processing

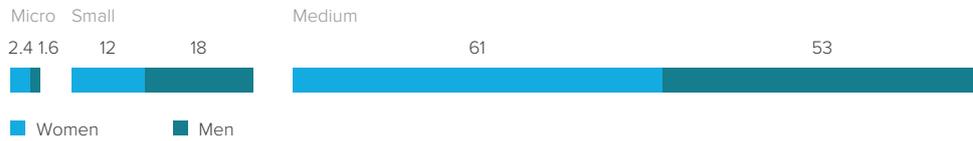
	Donetsk Oblast	Luhansk Oblast	Zaporizhzhia Oblast	Total
Micro	16	13	33	62
Small	8	7	8	23
Medium	4	1	1	6
<b>Total</b>	<b>28</b>	<b>21</b>	<b>42</b>	<b>91</b>

The situation in Food Processing has been better than in many other sectors. One out of the 91 surveyed companies have stopped operating since March 2020 and have remained out of business even after strict quarantine was lifted. Only 2% of businesses

<sup>51</sup>"Plan to close by the end of 2021" also includes "plan to close by the end of 2020".

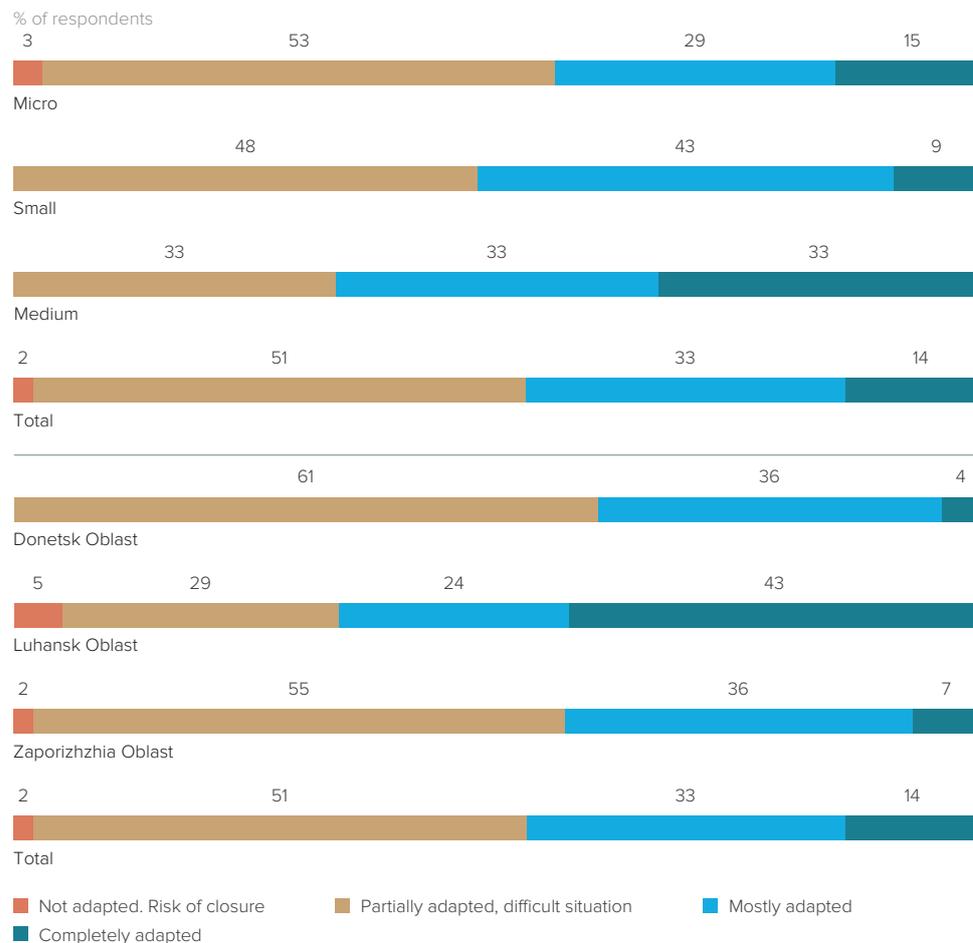
have not been able to adapt and may have been on the verge of bankruptcy. 51% of companies have partially adapted but the situation has been difficult for them. At the same time, almost half of businesses have mostly or completely adapted (Figure 3.77).

Figure 3.76. Average number of women and men employees in companies in Food Processing



It has been harder to adapt for micro-businesses. 56% of micro-companies have not been able to adapt or adapted only partially, while the same measure has been 48% and 33% for small and medium-sized enterprises, respectively (Figure 3.77). Wherever companies have managed to increase sales through particular channels, this has been through online selling and sales to end-consumer directly.

Figure 3.77. Adaptation in Food Processing



23% of all companies the sector expect sales to decrease in 2020, 44% expect them to remain the same, and 18% expect them to increase. Despite the nature of the sector's products, Food Processing companies have had demand for their goods fallen. Sales channels have been disrupted, (i.e. closed marketplaces and other venues), while those who have catered for supermarkets have performed better. Some of the companies have experienced a shortage of inputs as their suppliers have not always been allowed to operate (Figure 3.78).

59% of companies identified decreasing operational costs as the most viable option to deal with the shortage of funds caused by economic slowdown. However, only 67% of these have managed to reduce them. In most cases, companies saved on personnel expenses and, in the case of Luhansk Oblast, equally reduced input purchases (Figure 3.79). 18% of companies have had problems with the procurement of domestic inputs. Around 8% of them have replaced foreign supplied goods with domestic ones.

Figure 3.78. Sales expectations in 2020 in Food Processing

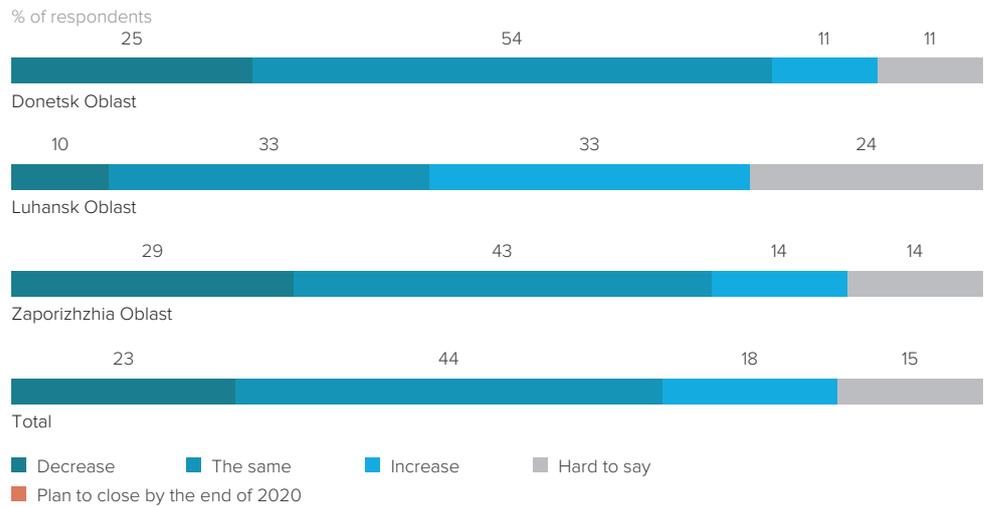
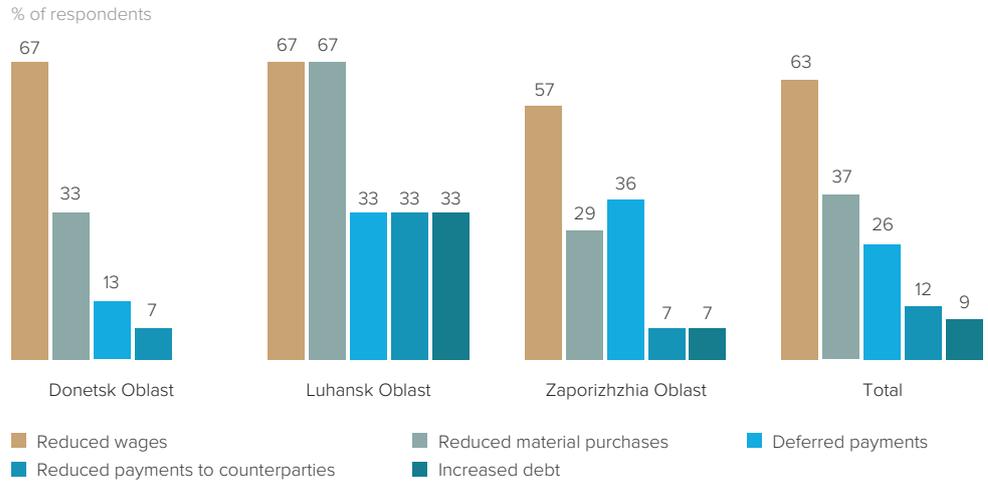


Figure 3.79. Ways of reducing operational costs in Food Processing



The share of employees who have lost their jobs or have been sent on leave has been considerably lower in Food Processing than in other surveyed sectors. 3% have been laid off and 8% have been sent on unpaid leave. The micro-businesses have been affected to a greater degree. At the same time, they have been more flexible as far as working remotely mode is concerned (Figure 3.80). Nevertheless, the average number of employees per firm slightly decreased once strict quarantine was introduced. In the medium-sized enterprises the average number of employees subsequently increased, surpassing slightly the number from before March 2020 (Figure 3.81).

21% of companies stopped working during the period of strict quarantine. The majority (63%) have continued working as before and 15% have switched to remote operations wherever possible. Except for the examined agricultural sectors, Food Processing has had the highest rate of companies that continued working during strict quarantine (Figure 3.82).

Figure 3.80. Share of employees affected in Food Processing

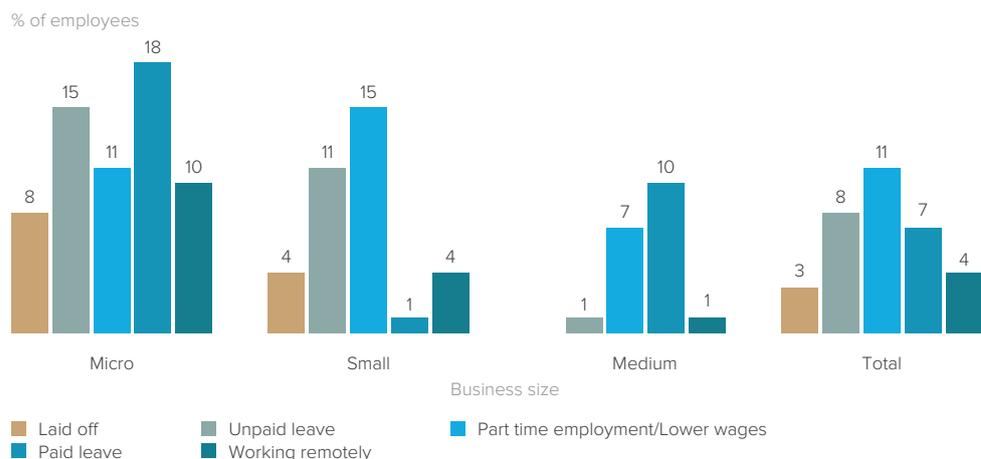


Figure 3.81. Average number of employees in Food Processing

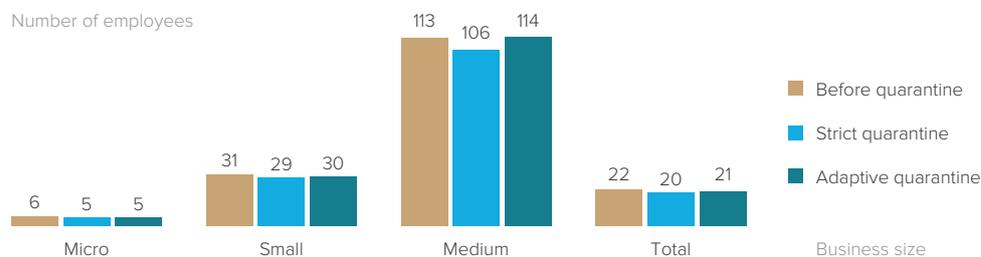
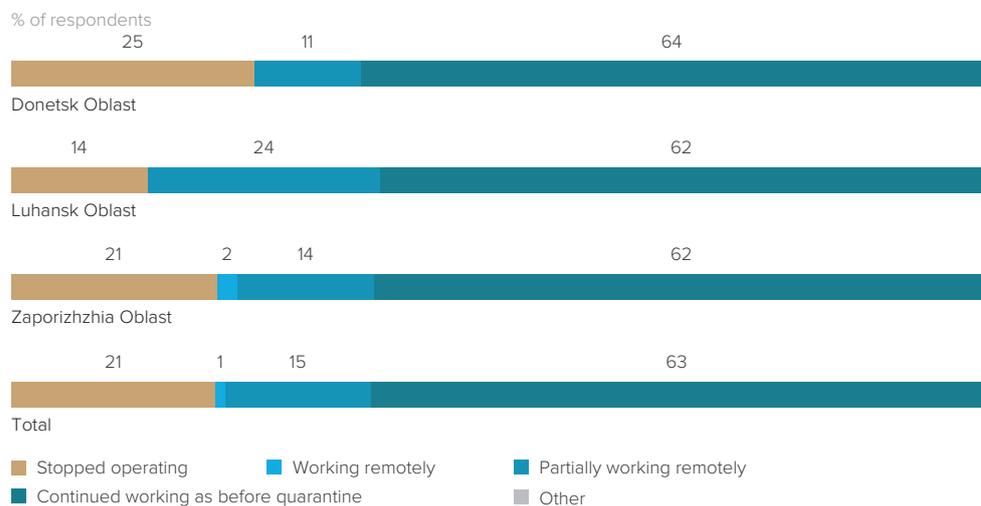


Figure 3.82. The effect of strict quarantine on companies' work mode in Food Processing



Like in all other industries, access to external financing for MSMEs in Food Processing has been very limited. Primary sources of financing have included companies' own revenues and savings. Bank credit has been the third most frequent option, named by 11% of respondents (Table 3.13).

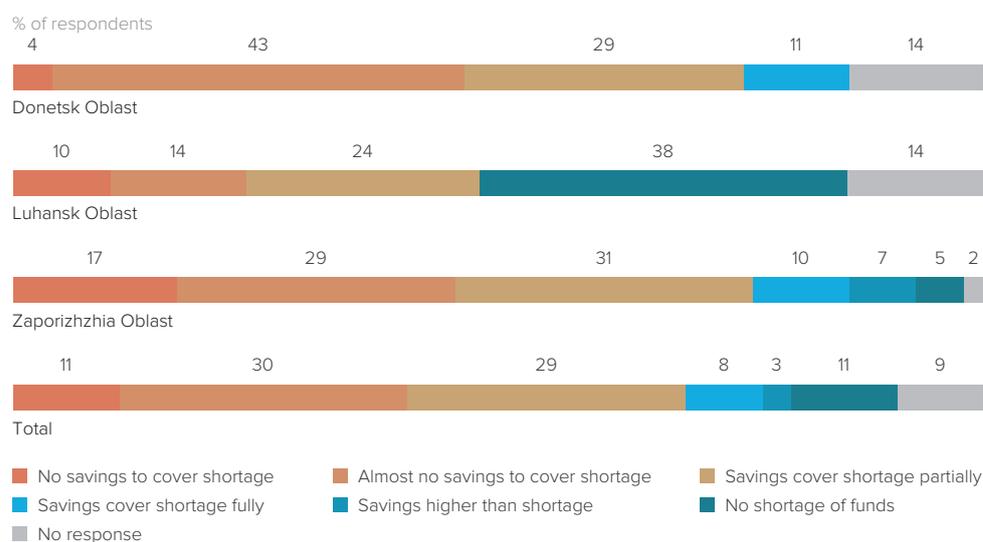
In addition, 41% of businesses have had either no savings or almost no savings to cover their shortage of funds (Figure 3.83). Though it may seem high, it has been one of the lowest rates among the examined sectors. For those companies whose sales dropped and sales channels were disrupted during the period of strict quarantine, savings have depleted significantly. For 29% of companies and PEs, savings could partially cover the

shortage of funds in their businesses and 11% of respondents have enough or more savings to cover the shortage completely. 11% of companies have not experienced any shortage of funds in their business operations.

Table 3.13. Sources of financing in 2020 in Food Processing

	Donetsk Oblast	Luhansk Oblast	Zaporizhzhia Oblast	Total
Own revenues	79	90	86	85
Own savings	21	24	36	29
Bank credit	4	19	12	11
Loan from business partners	4	-	19	10
Financial assistance from company co-founders or third parties	4	10	12	9
Loan from relatives/friends	11	-	10	8
Technical support projects	4	-	2	2
External investors	-	5	2	2

Figure 3.83. Availability of savings to cover shortage of funds in Food Processing



49% of companies have considered the possibility of external financing for long-term investment. The most frequent sources considered have been bank credit and technical support projects, in addition to internal sources such as own revenues and own savings (Table 3.14).

Table 3.14. Potential additional sources of financing of long-term investment in Food Processing

	Micro	Small	Medium	Total
Own revenues	80	54	50	71
Bank credit	43	62	100	51
Technical support projects	47	54	-	47
Own savings	23	15	-	20
External investors	17	31	-	20
Loan from relatives/friends	13	8	-	11
Financial assistance from company co-founders or third parties	10	15	-	11
Loan from business partners	10	15	-	11

Official and structured cooperation in the sector has been limited. Only 5 companies out of 91 (5.5%) have been members of associations.

The most widely used sources of business information have been personal communication with business communities on Facebook, Viber, Telegram and WhatsApp, as well as YouTube, personal communication with customers, friends, family, suppliers, intermediaries (Figure 3.84). After the COVID-19 outbreak, official websites of public authorities and local governments have become more popular as source of information.

Figure 3.84. Sources of information for businesses in Food Processing

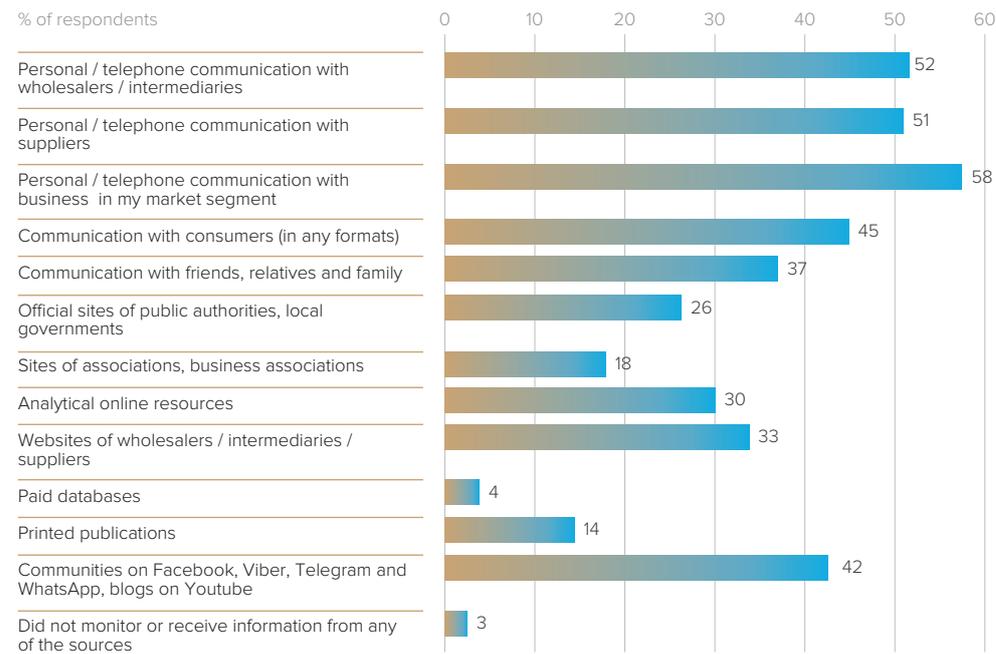
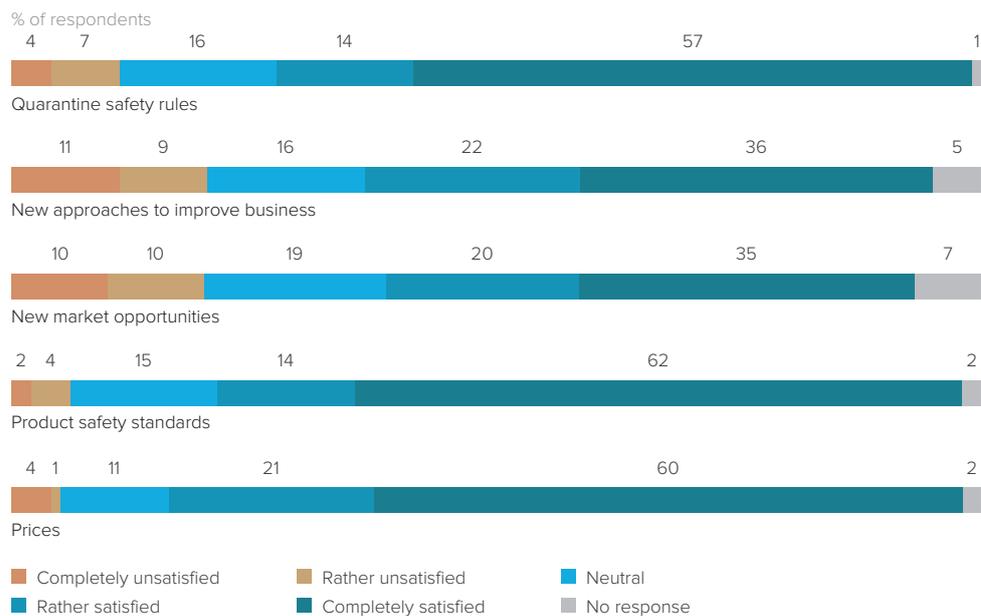


Figure 3.85. Level of satisfaction with available information in Food Processing

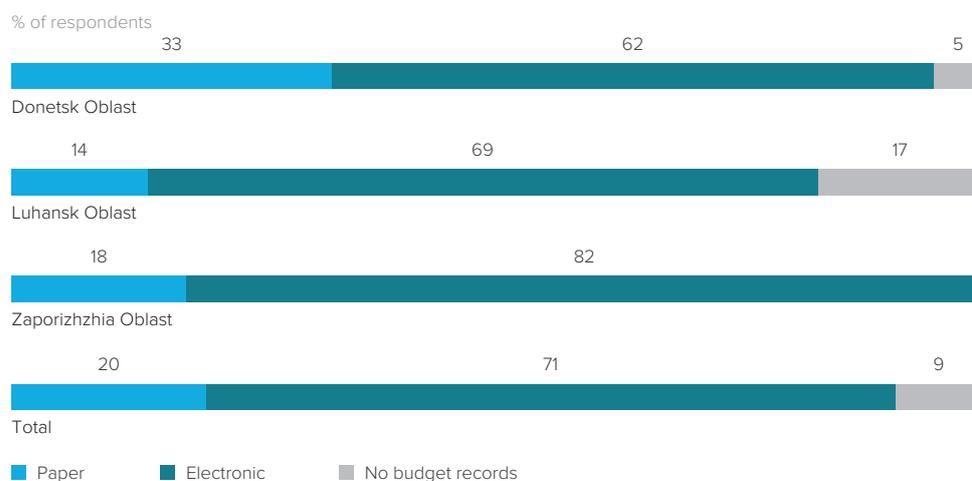


Most of the companies have been rather satisfied or completely satisfied with the quality of information on prices, products safety standards and the quarantine safety

rules. Compared to other sectors, higher share of companies has been satisfied with the availability of knowledge on market opportunities and new approaches to business. This degree of satisfaction can be attributed to the fact that the sector has been less affected by the economic slowdown crisis, than, for example, Textiles and Clothing or Hospitality, and therefore there have been more opportunities to continue developing businesses (Figure 3.85).

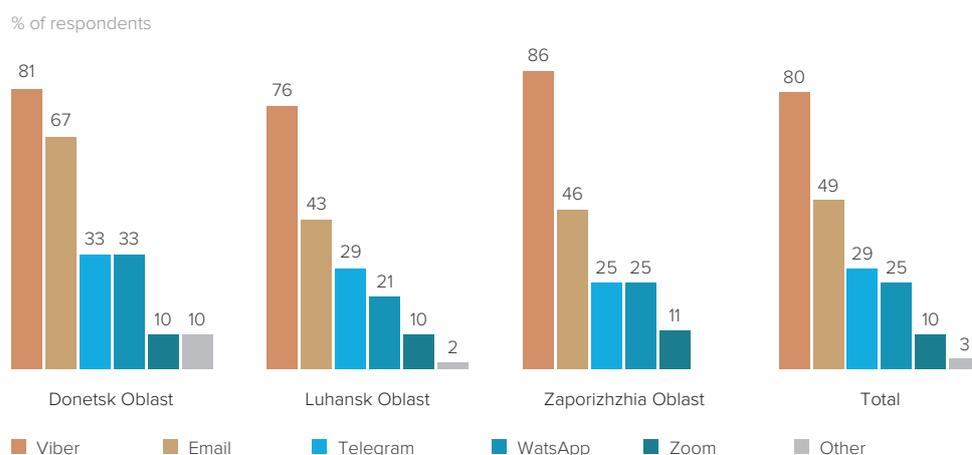
Most of the businesses (71%) have kept their budget records in the electronic form. Still, almost 20% have planned and recorded their budget on paper. 9% have not kept budget records at all. The share of the electronic form has been one the highest among the examined sectors (Figure 3.86).

Figure 3.86. Budget records in Food Processing



As for communication channels, Viber application has been the most popular; 80% of businesses have used it, while 49% have used e-mail (Figure 3.87).

Figure 3.87. Communication channels with employees, partners, suppliers in Food Processing



21% of businesses have been selling online. However, this figure has varied across the oblasts, with the lowest share in Luhansk Oblast (10%) and the largest share in Donetsk Oblast (29%) (Figure 3.88).

Around 14% of enterprises would like to increase their share of online sales, and 30% would like to start selling online (Figure 3.89).

Figure 3.88. Selling online in Food Processing

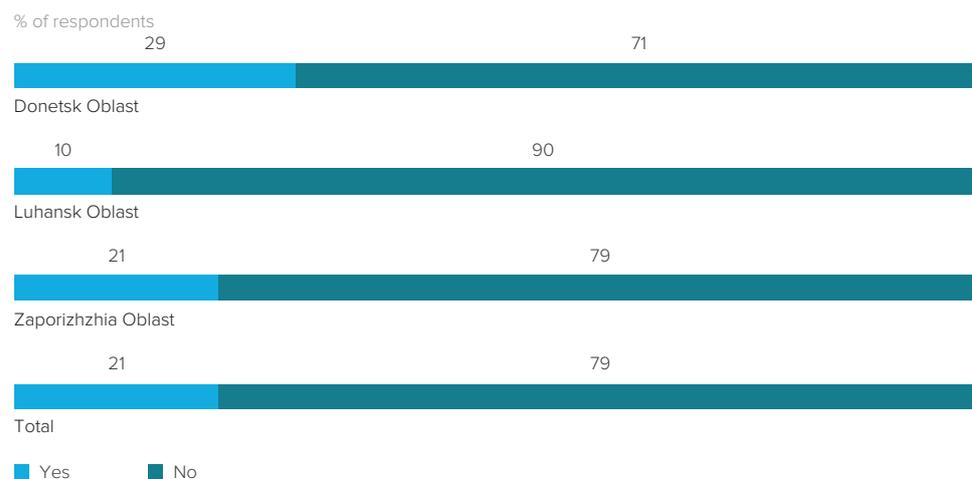
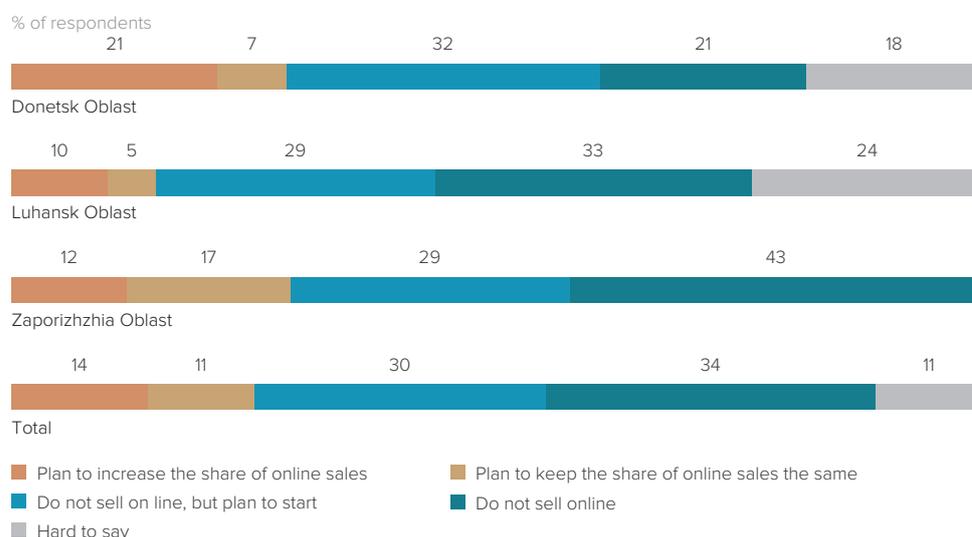
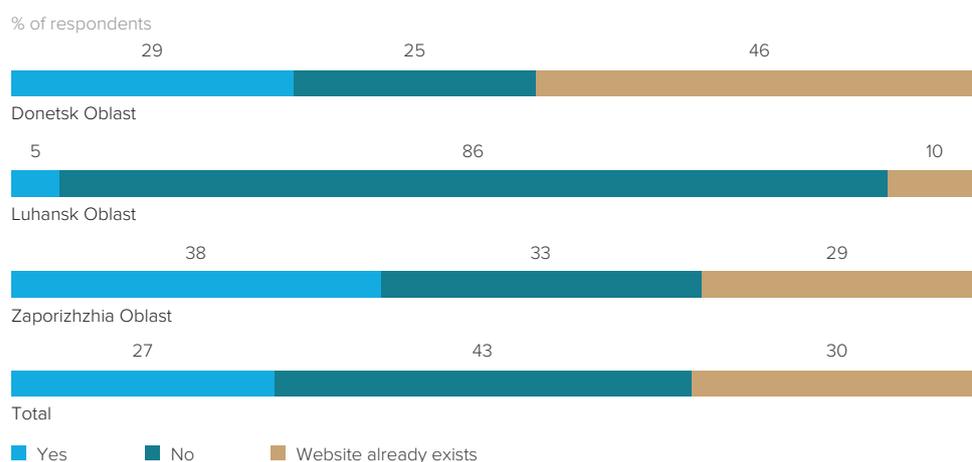


Figure 3.89. Plans to sell online in Food Processing



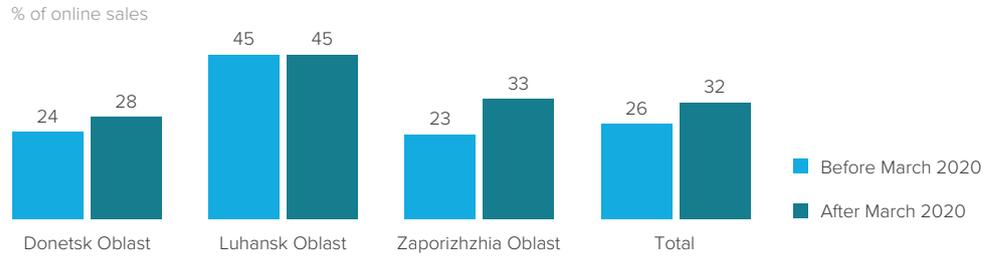
Around 45% of the businesses have been interested in marketing on social media; Facebook (45%), Instagram (36%), and on YouTube (23%). 28% of companies have been interested in creating a website for their businesses, while 43% have not (86% in Luhansk Oblast) (Figure 3.90). Almost half of the companies in Donetsk Oblast already has a website.

Figure 3.90. Relevance of having a website created in Food Processing



Quarantine restrictions have had a positive effect on online sales. Their share has increased since March 2020 from 26% to 32%. This has been one of the largest growths among sectors (Figure 3.91).

Figure 3.91. Share of sales through online channels in Food Processing



Financial resources, particularly in Luhansk Oblast, have been identified as the main necessity for micro, small and also medium enterprises, as they have lacked adequate access to credit. The need for greater access to information, training and consulting has also been identified (Figure 3.92).

Figure 3.92. Types of support needed by MSMEs in Food Processing

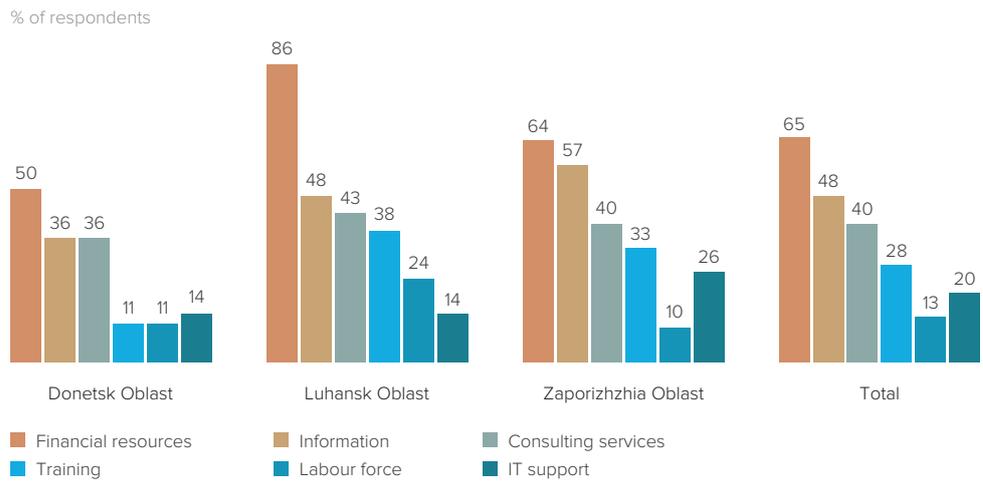
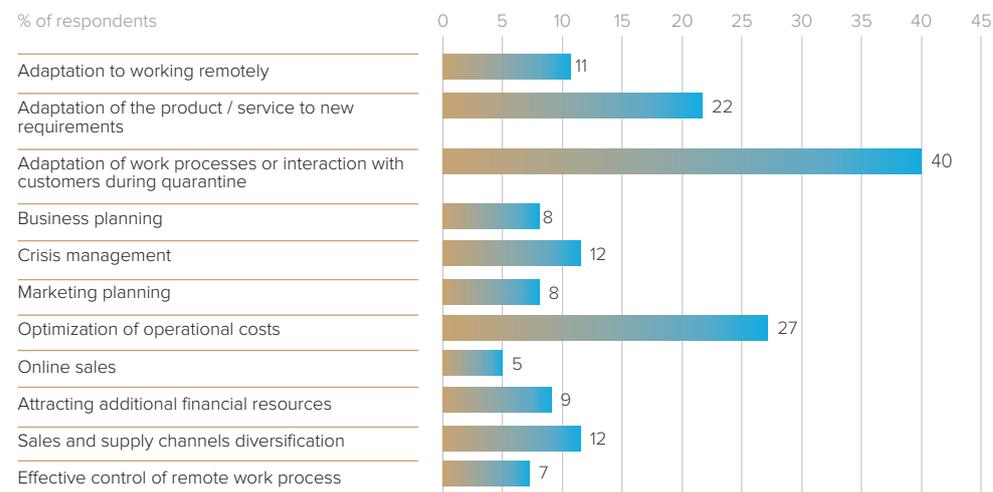


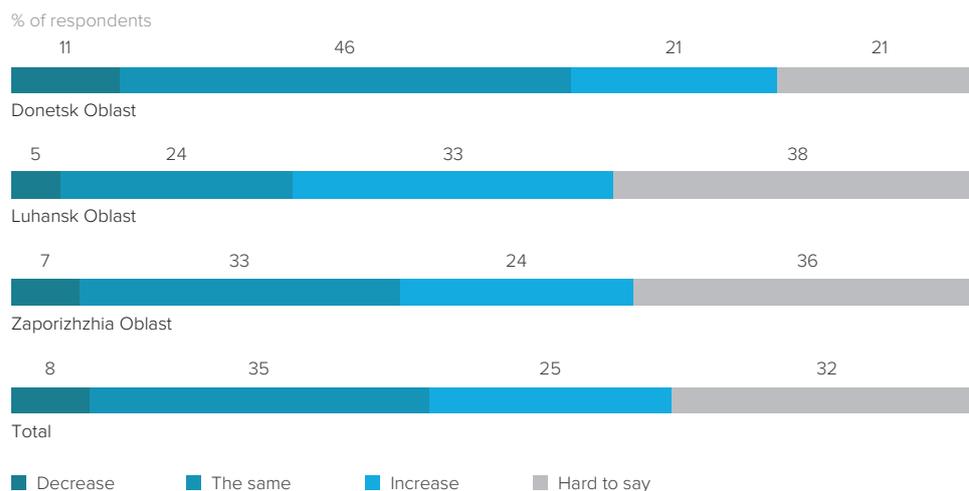
Figure 3.93. Lack of knowledge and skills to adapt to new conditions during the quarantine, by topics, in Food Processing



During the period of strict quarantine, businesses suffered from a lack of knowledge on adaptation of the work processes and products to new requirements and optimization of operational costs (Figure 3.93).

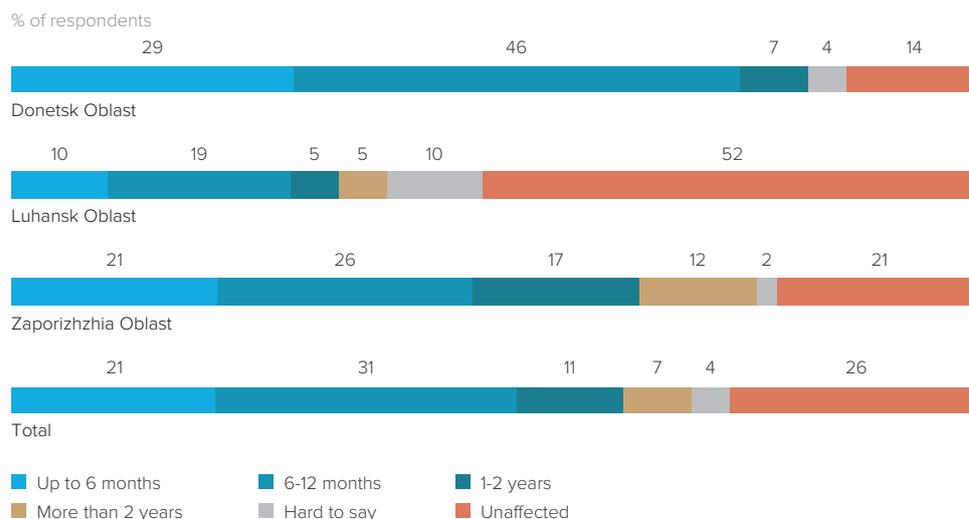
2021 sales forecasts have been moderately optimistic. 35% of companies expect 2021 sales to be at the pre-crisis level, and 25% of respondents expect them to increase. Only 8% think that sales will be lower compared to the pre-crisis level (Figure 3.94).

Figure 3.94. Sales forecast for 2021 compared to the period before March 2020 in Food Processing



The majority of companies do not expect long-lasting negative effects of the COVID-19 pandemic on sales. 21% of respondents believe that it will take up to six months to return to the pre-crisis level and 30% think it will take from six months to a year (Figure 3.95).

Figure 3.95. Expected time of recovery in Food Processing



### 3.7. Poultry and Eggs

The Poultry and Egg sector has been one of the least affected. Enterprises within the sector have not stopped operating, partly due to the nature of their production processes. Some of the companies have not been affected at all, while for other

**sales have dropped due to the disruption of sales channels. Those who have been selling their goods on marketplaces and to restaurants have been affected to a greater extent.**

The Poultry and Egg sector has been surveyed in Donetsk (14 companies) and Luhansk (3 companies) oblasts, and the survey has included 10 micro-enterprises and PE, three small and four medium-sized companies (Table 3.15).<sup>52</sup> A low number of surveyed companies has reflected the number of businesses in the region. Around 47% of employees in the industry have been women (Figure 3.96).

Table 3.11. . Number of surveyed companies in Poultry and Eggs

	Donetsk Oblast	Luhansk Oblast	Total
Micro	7	3	10
Small	3	0	3
Medium	4	0	4
<b>Total</b>	<b>14</b>	<b>3</b>	<b>17</b>

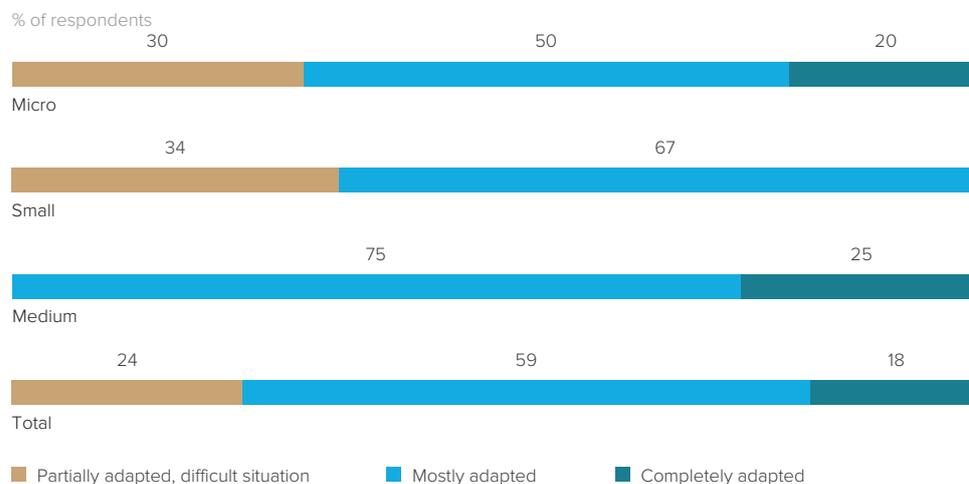
Figure 3.96. Share of women and men employees in Poultry and Eggs



Poultry and Egg sector has been one of the least affected by strict quarantine. Companies have managed, to a significant degree, to adapt to the new conditions. While 24% of companies have had their situation described as difficult and managed to adapt only partially, 59% have mostly adapted, and 18% have completely adapted (Figure 3.97).

It has been harder to adapt for micro and small businesses. 30% (3 out of 10) of micro-companies and one out of three small companies have adapted only partially. In comparison, among medium-sized firms, 75% (3 out of 4) have mostly adapted and one has adapted completely (Figure 3.97).

Figure 3.97. Adaptation in Poultry and Eggs, by company size



<sup>52</sup>The sample may not be entirely representative of the sector due to the limited number of surveyed companies.

Ten out of 17 companies (59%) expect their sales in 2020 to be at the same level as in 2019. One company (6%) expects lower sales and three (18%) expect higher sales (Figure 3.98).

Figure 3.98. Sales expectations in 2020 in Poultry and Eggs



Employment in the Poultry and Egg sector has not been affected by COVID19 pandemic. None of the employees of the surveyed businesses have been laid off, sent on unpaid leave or received lower wages. Only some of the employees (2%) have switched to the working remotely mode and have gone on paid leave (1%), mainly from administration. The average number of employees has remained the same in all types of companies.

Overall, 88% of companies in Poultry and Eggs have not adjusted their working processes and have operated as before the strict quarantine. Overall, only one company out of 17 has stopped and subsequently limited its operations and another one used the remote working mode.

Main sources of financing for companies have included own revenues and, to a lesser degree, loans from relatives and friends. 18% of companies have used bank credit as source of finance in 2020, which has been one of the highest rates among the sectors (Table 3.16).

Table 3.16. Sources of financing in 2020 in Poultry and Eggs

Source of financing	% of respondents
Own revenues	94
Loan from relatives/friends	24
Bank credit	18
External investors	12
Own savings	12

Five (29%) companies have had either no savings or almost no savings (Figure 3.99) and thus would not be able to use savings to cover the shortage of funds. For the majority of companies (59%), savings could partially cover the shortage, whereas one company has had enough resources to cover the shortage entirely.

Figure 3.99. Availability of savings to cover shortage of funds in Poultry and Eggs

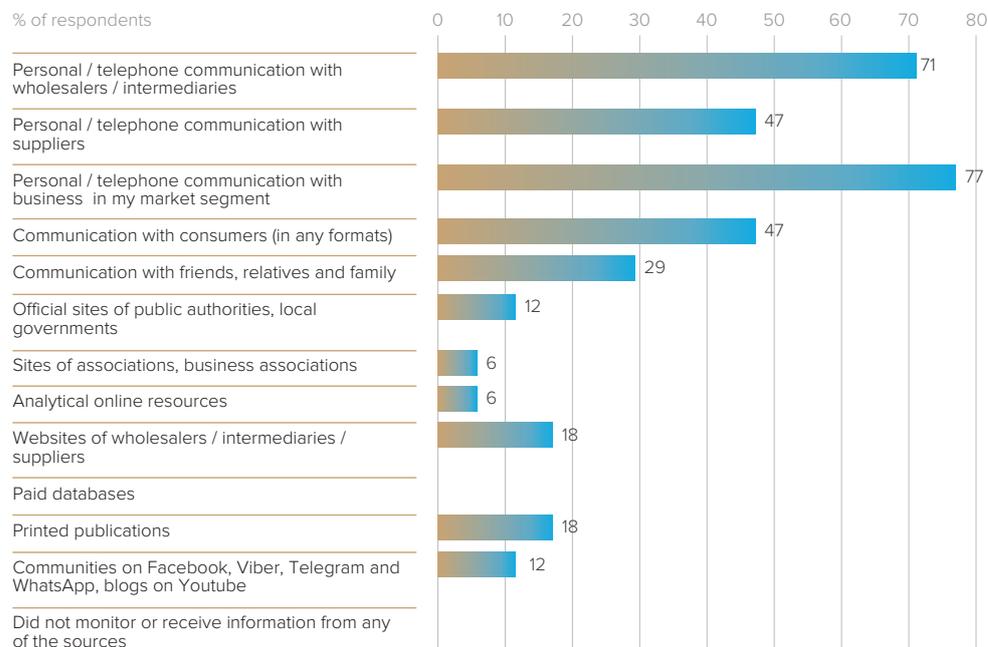


Official and structured cooperation in the sector has been limited. Only one out of 17 companies has been a member of a sectoral association.

The most widely used sources for business-related information have been personal and telephone communication with wholesalers, suppliers and other Poultry and Eggs

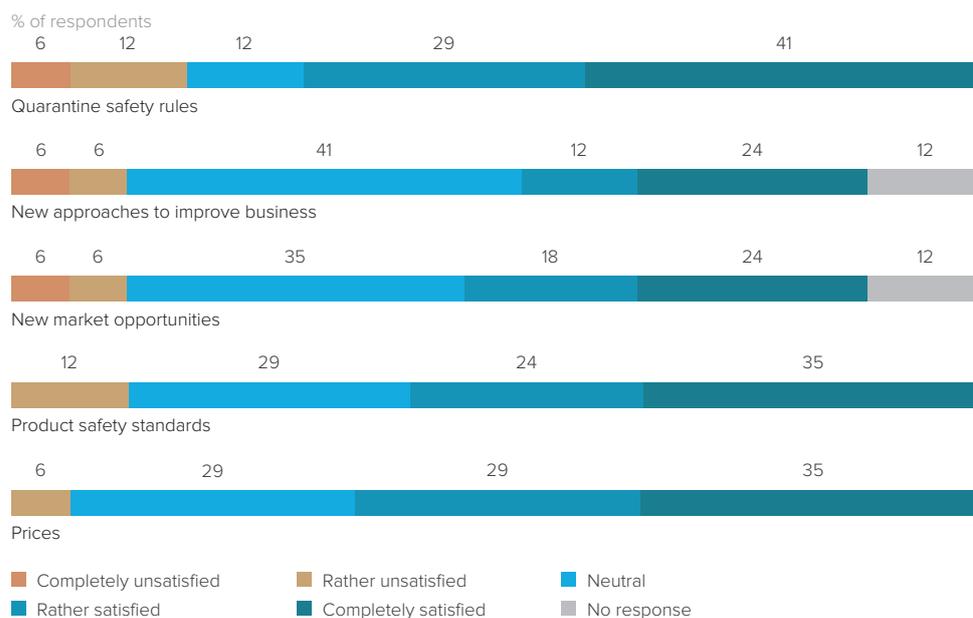
producers. Facebook, Viber, Telegram and WhatsApp, as well as YouTube have not been widely used, but after the COVID-19 outbreak, together with official websites of public authorities and local governments have become more popular (Figure 3.100).

Figure 3.100. Sources of information for businesses in Poultry and Eggs



Most of the companies have been rather satisfied or completely satisfied with the quality of information on market prices of their products and products safety standards, as well as quarantine safety rules. Respondents have been less satisfied with the range of information on new market opportunities and approaches to improve business (Figure 3.101).

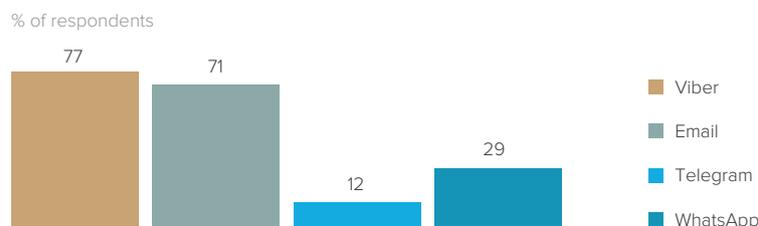
Figure 3.101. Level of satisfaction with available information in Poultry and Eggs



Digitalization level in Poultry and Eggs has been below the average among the examined industries. 65% of businesses have preferred keeping their budget records

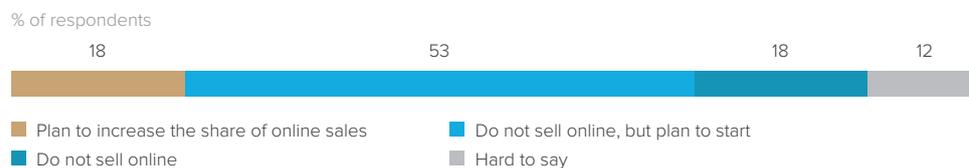
in electronic form, whereas the rest has preferred paper format. As for communication channels, Viber application and electronic mail have been the most popular; 77% and 71% of businesses have used these instruments, respectively. WhatsApp has been the third most popular channel (29%) (Figure 3.102).

Figure 3.102. Communication channels with employees, partners, suppliers in Poultry and Eggs



Poultry and Eggs has been characterized by a low level of online sales – only 2 out of 17 firms (overall 12%) have used this sales channel. However, the limited use of online sales has been quite common in the food sector in Ukraine. Only 18% of enterprises (3 out of 17) would like to increase their share of online sales, another 18% have not sold online, whereas 53% (9 out of 17) have had plans to start online selling in the future (Figure 3.103). One of the two companies that have been selling online has managed to increase sales significantly from 10% to 35%, while the share of online sales of another company remained unchanged.

Figure 3.103. Plans to sell online in Poultry and Eggs



Due to low online presence of companies in the sector, firms have not been interested in social media marketing. Only three companies have had websites, and another four have been interested in creating one. However, almost 60% of MSMEs have not considered having a website for business purposes at all (Figure 3.104).

Figure 3.104. Relevance of having a website created in Poultry and Eggs

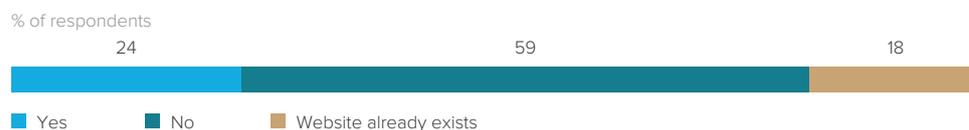
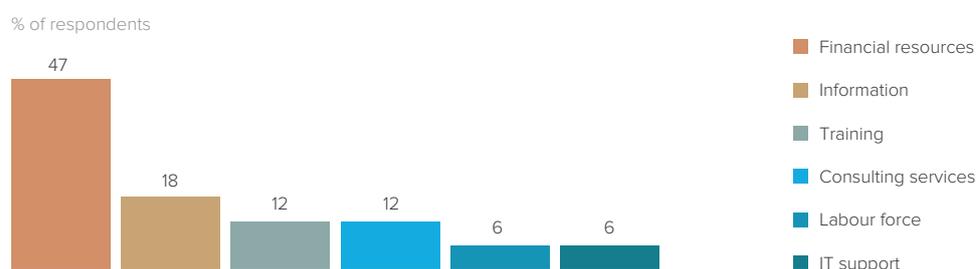


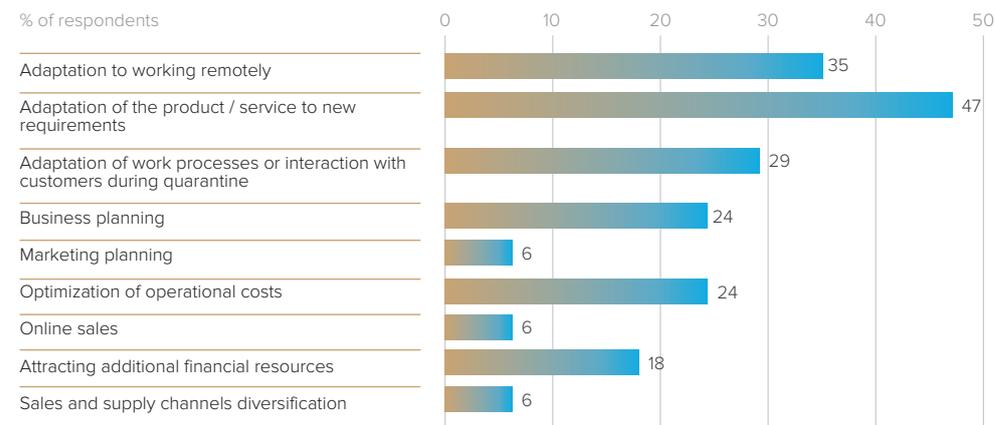
Figure 3.105. Types of support needed by MSMEs in Poultry and Eggs



Access to financing has been named as one of the main types of support needed (by more than 47% companies). It has especially been the case for Luhansk Oblast. The need for information has also been voiced (by three companies). Training and consulting services have shared third place with 12% of responses each (Figure 3.105).

During the period of strict quarantine, businesses suffered from a lack of knowledge on adaptation of the work processes (including the working remotely mode) and products to new requirements, business planning and optimization of operational costs (Figure 3.106).

Figure 3.106. Lack of knowledge and skills to adapt to new conditions during quarantine, by topics, in Poultry and Egg



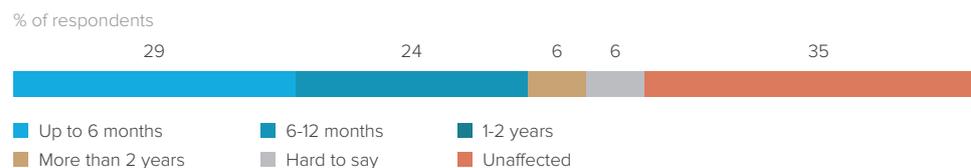
2021 sales forecasts have been quite optimistic. 29% of companies expect 2021 sales to be at the pre-crisis level and 24% of respondents expect them to increase. No one expects lower sales compared to the pre-crisis level (Figure 3.107).

Figure 3.107. Sales forecast for 2021 compared to the period before March 2020 in Poultry and Eggs



The majority of respondents (53%) do not expect long-lasting negative effects of the COVID-19 pandemic on sales. 29% of respondents believe that it will take up to six months to return to the pre-crisis level, and 24% - from six months to a year. More than 35% of the respondents have not been affected at all (Figure 3.108).

Figure 3.108. Expected time of recovery in Poultry and Eggs



### 3.8. Dairy and Beef

Overall, Dairy and Beef has been better off than many other sectors. The effects of the COVID-19 pandemic have been similar to those in Poultry and Eggs. Production

**has continued, however, disruptions in sales channels, i.e. closed marketplaces and no exhibitions, have affected the operations. Companies have been using online sales and direct delivery to customers to compensate for market losses. Plans for further business development have been postponed.**

Only 13 businesses have been surveyed in Donetsk (6), Luhansk (4) and Zaporizhzhia (3) oblasts, including six micro-enterprises and PE, two small and five medium-sized companies (Table 3.17).<sup>53</sup> 60% of employees in the industry have been women (Figure 3.109).

Table 3.17. Number of surveyed companies in Dairy and Beef

	Donetsk Oblast	Luhansk Oblast	Zaporizhzhia Oblast	Total
Micro	3	1	2	6
Small	0	1	1	2
Medium	3	2	0	5
<b>Total</b>	<b>6</b>	<b>4</b>	<b>3</b>	<b>13</b>

Figure 3.109. Share of women and men employees in Dairy and Beef



Dairy and Beef sector, similarly to Poultry and Eggs, has been one of the least affected by strict quarantine. The negative impact has been mainly due to problems with sales channels and closures of marketplaces.

A dialogue during a focus group meeting:

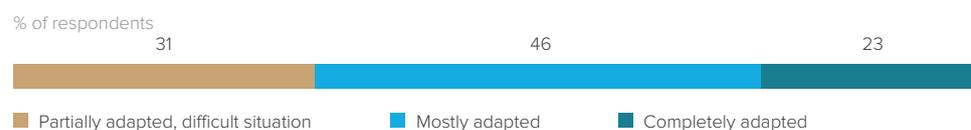
*“As I understand it, most entrepreneurs lost because they did not know how to sell products, right?”*

*“Yes, they didn’t know, because their channel was closed, and they couldn’t switch to the new one quickly, probably due to the lack of experience. Our percentage of online sales also could be much higher, but there [are] no [additional] possibilit[ies] yet in the conditions in which we operate”.*

Producer of Dairy and Beef products. Zaporizhzhia Oblast, micro-enterprise.

None of the companies at the time of the survey were closed or not able to adapt to new conditions. While four companies (31%) have described their situation as difficult being only able to adapt partially, six (46%) have mostly adapted, and three (23%) have completely adapted (Figure 3.110). Nevertheless, one company has had plans to close by the end of 2020.

Figure 3.110. Adaptation in Dairy and Beef

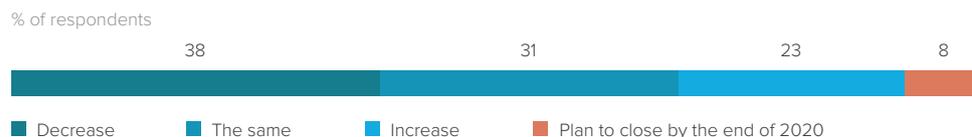


<sup>53</sup>The sample may not be entirely representative of the sector due to the limited number of surveyed companies.

Those who have been selling their products to butter factories or have been able to reorient themselves, for example, to selling online, through Viber groups, or personal door-to-door delivery, have suffered less. For companies that were selling their products in another oblasts, the business has been more affected by travel restrictions.

Opinions on estimated sales volume in 2020 have varied. Many companies (38%) expect sales in 2020 to be lower than in 2019, 31% expect them to be the same, and 23% expect higher sales (Figure 3.11).

Figure 3.11. Sales expectations in 2020 in Dairy and Beef



4 out of 13 businesses (31%) have had to reduce operational costs. Companies have decreased payments to counterparties, reduced wages and input purchases (Figure 3.112). 3 out of 13 (23%) companies have had problems with the supply of domestic inputs (Figure 3.113). Delays in procurement of packaging and spare parts for equipment during strict quarantine were particularly affecting businesses.

Figure 3.112. Ways of reducing operational costs in Dairy and Beef

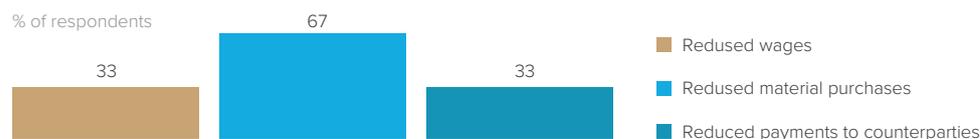
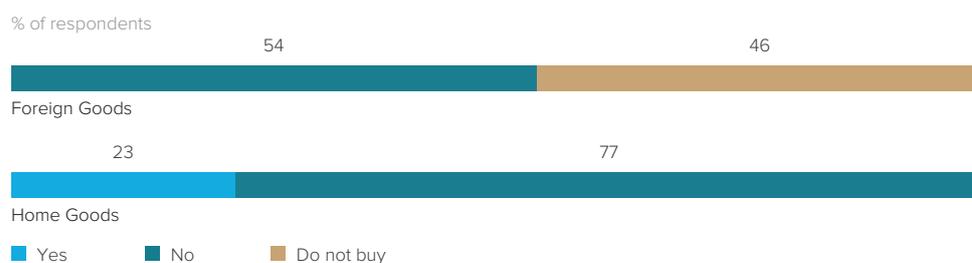


Figure 3.113. Difficulties with procurement of domestic and foreign inputs in Dairy and Beef



Very few employees (0.4%) have lost their jobs in the sector, however, 12% have been sent on unpaid leave. Part time mode and lower wages had to be accepted by 0.7% of employees, whereas paid leave by 15%. The share of employees laid off or sent on unpaid leave have been one of the lowest among the examined sectors. The average number of employees has remained the same throughout quarantine.

During the period of strict quarantine, 69% of companies did not change their working modalities. Out of the remaining 31%, the following measures were implemented: three companies partially used the working remotely mode (mainly for administration staff) and one company stopped operating (Figure 3.114).

Primary sources of financing in 2020 have included companies' own revenues and, to a lesser extent, savings and bank credit. Technical support has been mentioned by two out of 13 companies and one mentioned financial assistance from co-founders (Table 3-18).

Figure 3.114. The effect of the strict quarantine on companies' work mode in Dairy and Beef

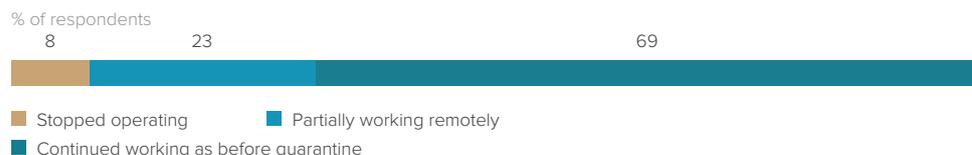


Table 3.18. Sources of financing in 2020 in Dairy and Beef

Source of financing	% of respondents
Own revenues	85
Bank credit	31
Own savings	31
Technical support projects	15
Non-refundable financial assistance from company co-founders or third parties	8

In addition, 23% of companies have had no savings at all and another 31% have had almost no savings to cover their shortage of funds. For 23% savings could cover the shortage partially and for 15% - entirely. One company has not recorded a deficit (Figure 3.115).

Figure 3.115. Availability of savings to cover shortage of funds in Dairy and Beef products



Nine companies out of 13 (69%) have been considering various sources of financing of long-term investment, among them, technical support projects, own revenues, bank credit, own savings and external investors (Table 3.19).

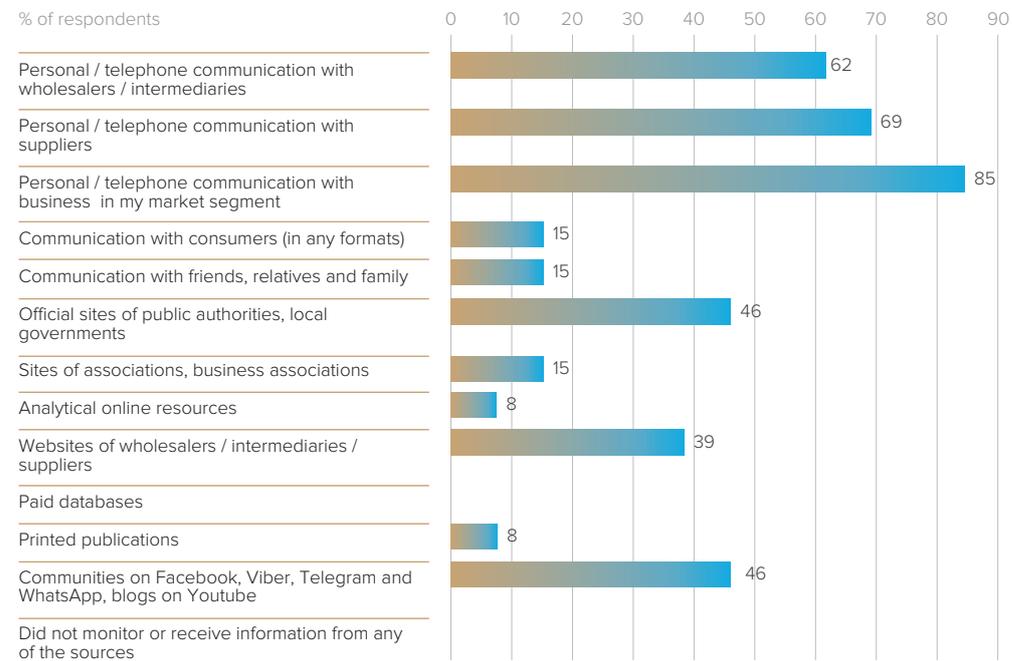
Table 3.19. Potential additional sources of financing of long-term investment in Dairy and Beef

Source of financing	% of respondents
Technical support projects	67
Own revenues	44
Bank credit	33
Own savings	22
External investors	11

The most widely used sources of business information have been personal and telephone communication with wholesalers, suppliers and other Dairy and Beef producers. Official websites of public authorities and local governments have also been widely used. Their popularity as source of information increased after the COVID-19

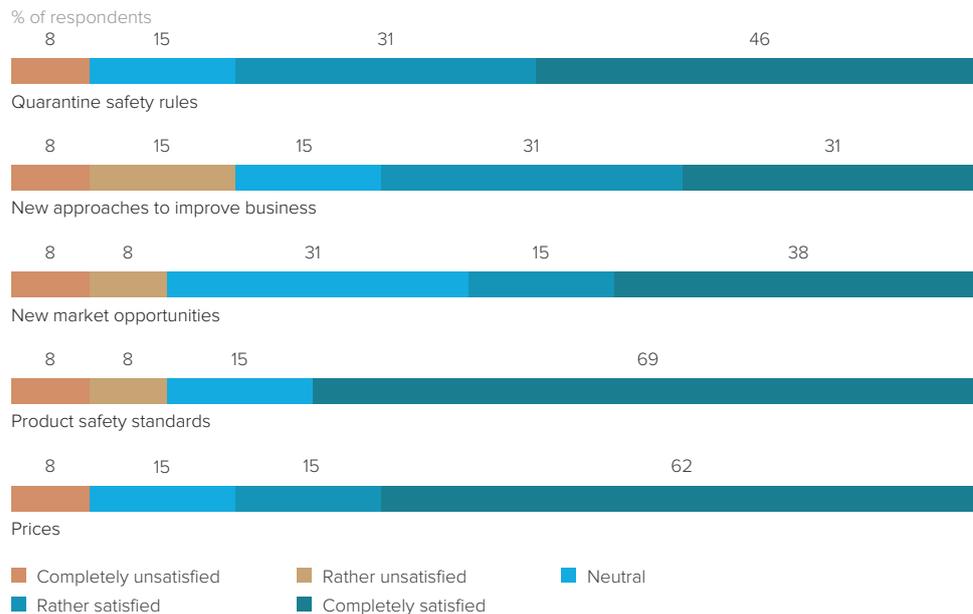
outbreak; so did communication on Facebook, Viber, Telegram and WhatsApp, as well as YouTube (Figure 3.116).

Figure 3.116. Sources of information for businesses in Dairy and Beef



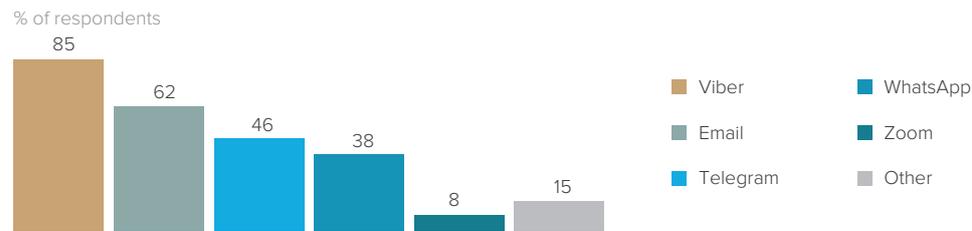
The majority of companies in Dairy and Beef have been satisfied with the information available to them. 10 out of 13 companies (77%) have been rather satisfied or completely satisfied with the quality of information on market prices of their products and 9 out of 13 (69%) with quarantine safety rules. At the same time 3 out of 13 companies (23%) have not been satisfied with the information on new approaches to improve business. Two companies have not been satisfied with information on new market opportunities and product safety standards (Figure 3.117).

Figure 3.117. Level of satisfaction with available information in Dairy and Beef



As far as digitalization is concerned, most of the businesses (almost 62%) have preferred keeping their budget records in electronic form, whereas 38% have chosen the paper format. As for communication channels, Viber application and electronic mail have been the most popular; 85% and 62% of businesses have used these instruments, respectively. Telegram (46%) and WhatsApp (38%) have also been quite popular as communication channels (Figure 3.118).

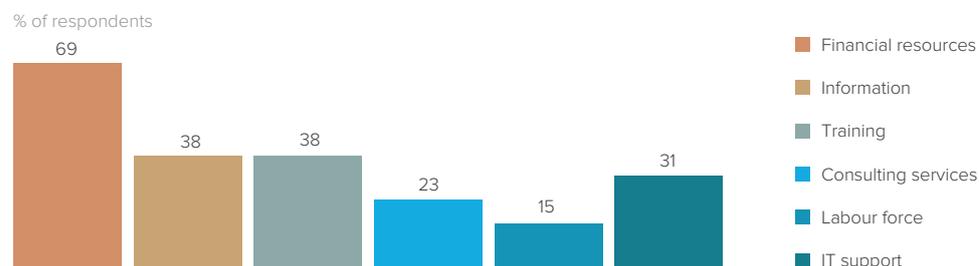
Figure 3.118. Communication channels with employees, partners, suppliers in Dairy and Beef



Four out of 13 MSMEs have been selling online, a relatively high rate among the examined sectors. Five out of the remaining nine companies have had plans to start selling online. Dairy and Beef has been one of those sectors who have benefited from online sales and has managed to offset the negative impact of disruption of usual sales channels. Therefore, companies have been interested in marketing on social media, including Facebook (54%), Instagram (39%) and YouTube (31%). However, only 8% of companies have had websites; nevertheless, 46% have been interested in creating one. At the same time, the same number has not considered having a website for their business purposes at all.

Financial resources have been identified as the main type of support needed (69% or 9 out of 13 companies). The need for information and training has also been considered significant (38% each). Four companies have been interested in IT support and three in consulting services (Figure 3.119). The need in IT support has been higher compared to other sectors, which can be attributed to the large share of those companies who either have been selling online or intend to.

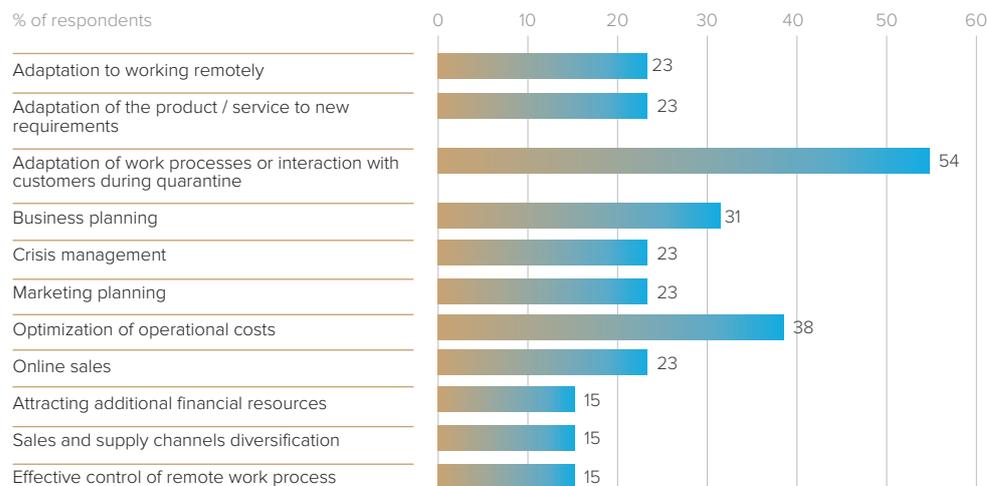
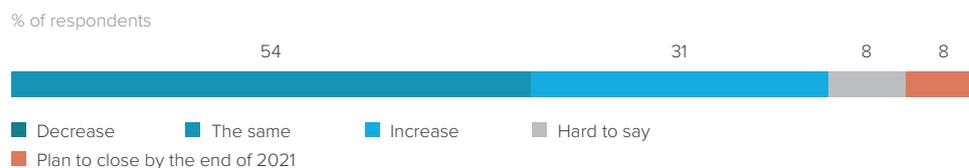
Figure 3.119. Types of support need by MSMEs in Dairy and Beef



During the period of strict quarantine, businesses suffered from a lack of knowledge particularly on adaptation of the work processes, optimization of operational costs and business planning (Figure 3.120).

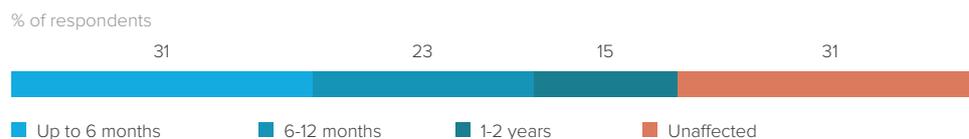
54% of companies (7 out of 13) expect 2021 sales to be at the pre-crisis level and 31% (3 out of 13) expect them to increase. No one expects lower sales compared to the pre-crisis level, similar to the Poultry and Egg sector. It has been one of the most positive outlooks among the examined industries (Figure 3.121).

Figure 3.120. Lack of knowledge and skills to adapt to new conditions during quarantine, by topics, in Dairy and Beef

Figure 3.121. Sales forecast for 2021 compared to the period before March 2020 in Dairy and Beef<sup>54</sup>

The majority of companies (54%) do not expect long-lasting negative effects of COVID-19 pandemic on sales. 31% of respondents believe that it will take up to six months to return to the pre-crisis level and 23% think it will be six months to a year (Figure 3.122).

Figure 3.122. Expected time of recovery in Dairy and Beef



### 3.9. Grain and Oilseeds

Grain and Oilseeds sector has been among the least affected by the COVID-19 pandemic. It has mostly continued to operate with little disturbance. Among the challenges it has faced have been problems with input supply (fertilizers, chemicals), decreased demand and fewer buyers. In order to adapt, some of the employees have worked remotely or have taken leave. Businesses have reoriented to domestic suppliers and private transportation means have been used to ferry workers.

322 businesses have been surveyed in Donetsk, Luhansk and Zaporizhzhia oblasts, including 211 micro-enterprises and PE, 89 small and 22 medium-sized companies (Table 3.20). Around 26% of employees in the industry have been women.

<sup>54</sup>“Plan to close by the end of 2021” also includes “plan to close by the end of 2020”.

Companies in the sector have mostly managed to adapt to the new conditions. Only 2% of businesses have not been able to adapt and some may have been on the verge of bankruptcy. 21% of companies have described their situation as difficult and have only managed to adapt partially. Firms in Luhansk Oblast, which have constituted the majority of surveyed companies, have done better at the adaptation processes than those in Donetsk and Zaporizhzhia oblasts, as 78% of them have mostly or completely adapted. The adaptation has been harder for micro-businesses. 24% of them have not been able to adapt or adapted only partially, while the same measures for small and medium enterprises have been 19% and 13%, respectively (Figure 3.124).

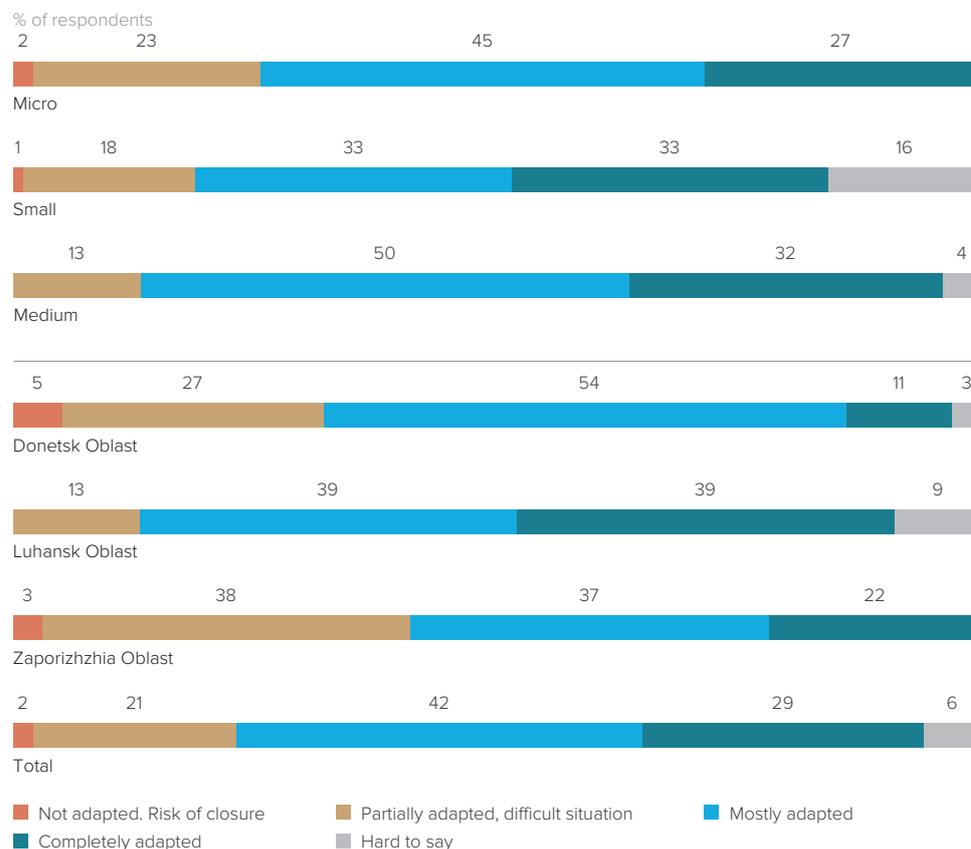
Table 3.20. Number of surveyed companies in Grain and Oilseeds

	Donetsk Oblast	Luhansk Oblast	Zaporizhzhia Oblast	Total
Micro	52	113	46	211
Small	13	67	9	89
Medium	9	8	5	22
<b>Total</b>	<b>74</b>	<b>188</b>	<b>60</b>	<b>322</b>

Figure 3.123. Average number of women and men employees in companies in Grain and Oilseeds

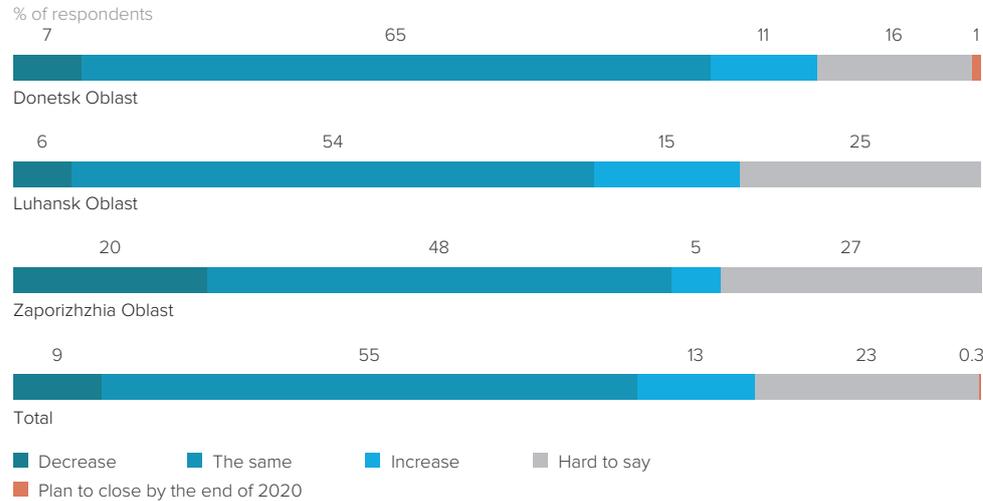


Figure 3.124. Adaptation in Grain and Oilseeds



Most of the companies expect sales in 2020 to be at the same level as in 2019. 9% expect lower sales (in Zaporizhzhia Oblast - 20%) and 12% expect higher sales. (Figure 3.125).

Figure 3.125. Sales expectations in 2020 in Grain and Oilseeds

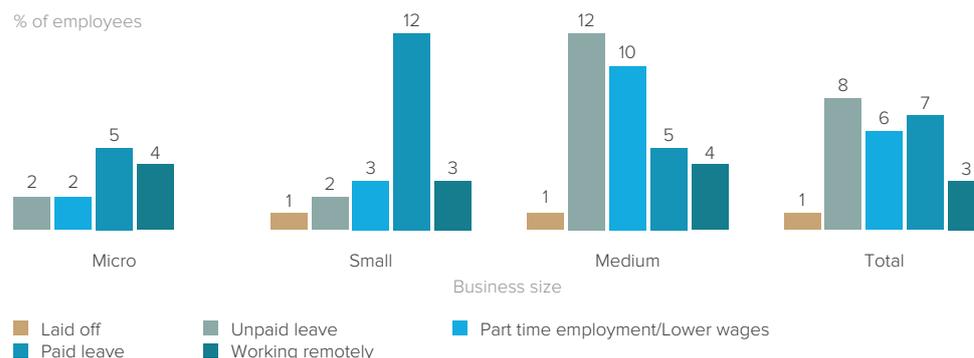


Only 24% of companies identified decreasing operational costs as the viable option to address economic slowdown caused by the COVID-19 pandemic. Of those, 38% have managed to do so (overall 29 companies out of 322). In most cases, companies have reduced costs by deferring payments and reducing employees.

Some companies experienced minor problems with the procurement of domestic (4% of companies) and foreign (3% of companies) inputs, fertilizers in particular, during strict quarantine. For the majority of businesses this has not been a significant problem. Around 10% of companies have replaced foreign inputs with domestic ones, and 17% have been substituting both foreign and domestic with local goods. Administration staff in many cases have switched to the working remotely mode or have taken leave. Businesses have used private means of transportation to ferry workers. The shares of employees employed in micro, small and medium enterprises have remained the same before, during and after the period of strict quarantine.

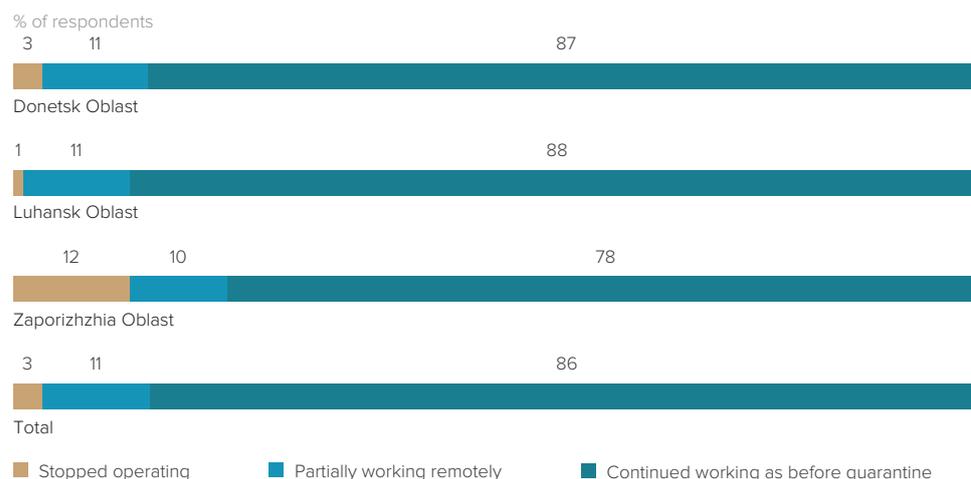
Overall, 1.2 % of employees have lost their jobs. 8% have been sent on unpaid leave and 7% have switched to part-time work or have accepted lower wages. Medium-sized companies have been more active in sending their employees to unpaid leave and offering part-time work. The working remotely mode has not been equally popular among all business groups (Figure 3.126).

Figure 3.126. Share of employees affected in Grain and Oilseeds



86% of companies did not change their working processes and have operated as before the period of strict quarantine. Overall, only 3% of companies stopped their operations during strict quarantine. Zaporizhzhia Oblast has been the most affected in this aspect (almost 12% of companies stopped working). 11% of companies have used the working remotely modality wherever it has been possible (Figure 3.127). The majority of companies have not considered remote working effective.

Figure 3.127. The effect of strict quarantine measures on companies' work mode in Grain and Oilseeds



Access to external financing for MSMEs in the sector has been very limited. Primary sources of financing for companies have included own revenues and savings, loans from friends and relatives and bank credit, the latter named as the fourth most common option by 15%, 11% and 8% companies in Zaporizhzhia, Luhansk and Donetsk oblasts, respectively (Table 3.21).

Table 3.21. Sources of financing in 2020 in Grain and Oilseeds

	Donetsk Oblast	Luhansk Oblast	Zaporizhzhia Oblast	Total
Own revenues	97	98	95	97
Own savings	16	29	28	26
Loan from relatives/friends	5	12	22	12
Bank credit	8	11	15	11
Loan from business partners	1	7	9	6
External investors	5	1	12	4
Technical support projects	1	4	2	3
Non-refundable financial assistance from company co-founders or third parties	5	-	10	3

In addition, almost 39% of companies have had either no savings or almost no savings to cover their shortage of funds. For another 35% of companies, savings could cover the shortage of financial resources partially, while 4% have enough financial resources to cover the shortage completely. 6% of companies have not recorded a deficit (Figure 3.128).

56% of companies have considered the possibility of additional financing of long-term investment. The most frequent sources considered have been companies' own revenues, technical support projects and bank credit (Table 3.22).

Figure 3.128. Availability of savings to cover shortage of funds in Grain and Oilseeds

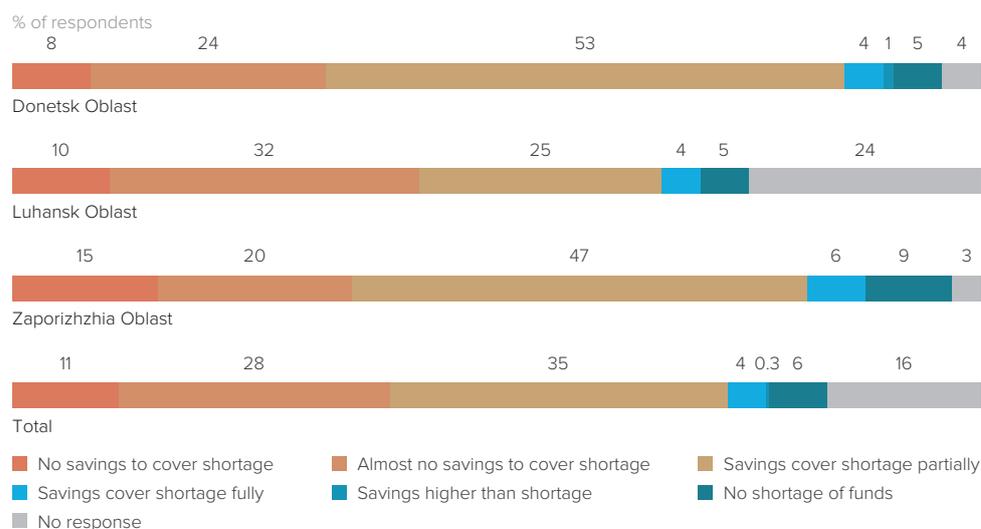


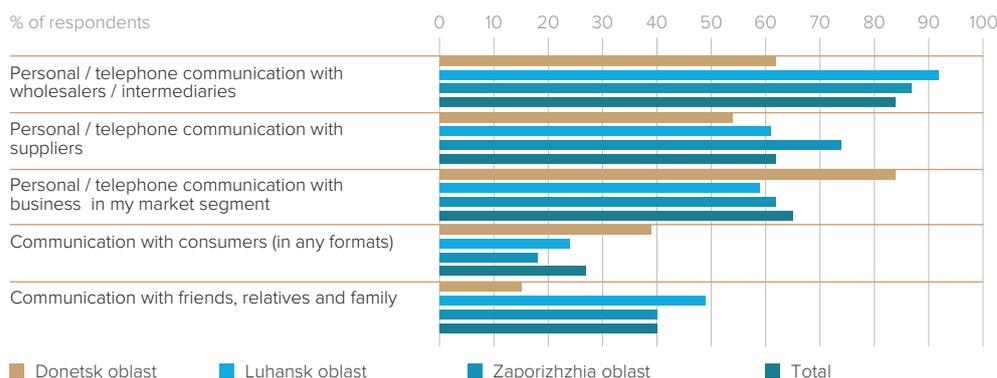
Table 3.22. Potential additional sources of financing of long-term investment in Grain and Oilseeds

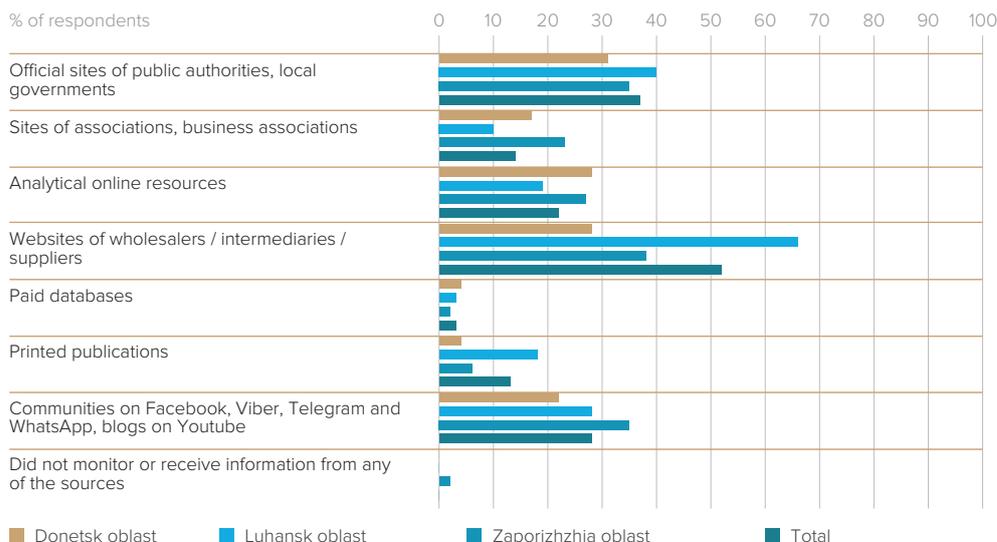
	Micro	Small	Medium	Total
Own revenues	87	70	81	81
Technical support projects	57	51	31	53
Bank credit	39	20	25	32
Own savings	13	9	-	11
External investors	9	12	13	10
Loan from business partners	13	3	-	9
Loan from relatives/friends	12	-	-	7
Non-refundable financial assistance from company co-founders or third parties	2	7	38	7

Official and structured cooperation in the sector has been extremely limited. Only two companies out of 322 (0.6%) have been part of a cooperative and 4% have been members of sectoral associations.

The most widely used sources of business information have been personal communication with wholesalers, suppliers and other Grain and Oilseeds producers. After the COVID-19 outbreak, official websites of public authorities and local governments, and communities on Facebook, Viber, Telegram and WhatsApp, as well as YouTube, have increased their popularity (Figure.3 129).

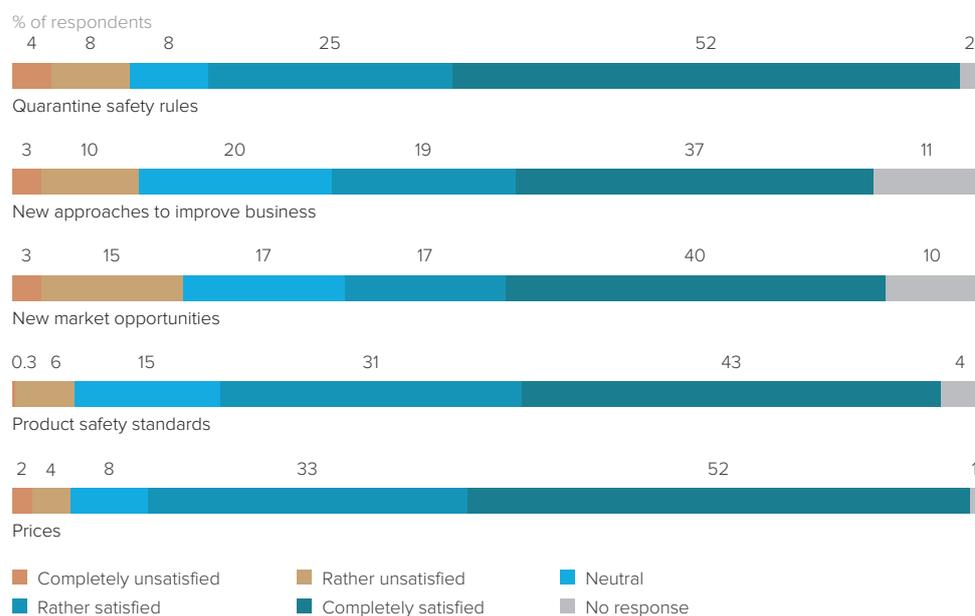
Figure 3.129. Sources of information for businesses in Grain and Oilseeds





Between 74% and 85% of companies have been rather satisfied or completely satisfied with the quality of information on market prices of their products, product safety standards and quarantine safety rules (Figure 3.130). 57% and 56% of companies, respectively, have been satisfied with the information available to them on new market opportunities and new approaches to improve business. On the other hand, 18% of companies have been unsatisfied with the information on new market opportunities.

Figure 3.130. Level of satisfaction with available information in Grain and Oilseeds



In contrast to companies from many other examined sectors, most of the businesses (61%) in Grain and Oilseeds have preferred keeping their annual budget in a paper form. This has been particularly the case in Luhansk Oblast (87%). A marginal share of companies has not kept the budget records at all. There has been a significant variation across the oblasts; companies in Donetsk Oblast have preferred electronic budgeting (85%), while companies in Luhansk Oblast have used paper format (Figure 3.131).

As for communication channels, Viber application and electronic mail have been the most popular; 78% and 70% of businesses, respectively, have used these instruments (Figure 3.132).

Figure 3.131. Budget records in Grain and Oilseeds

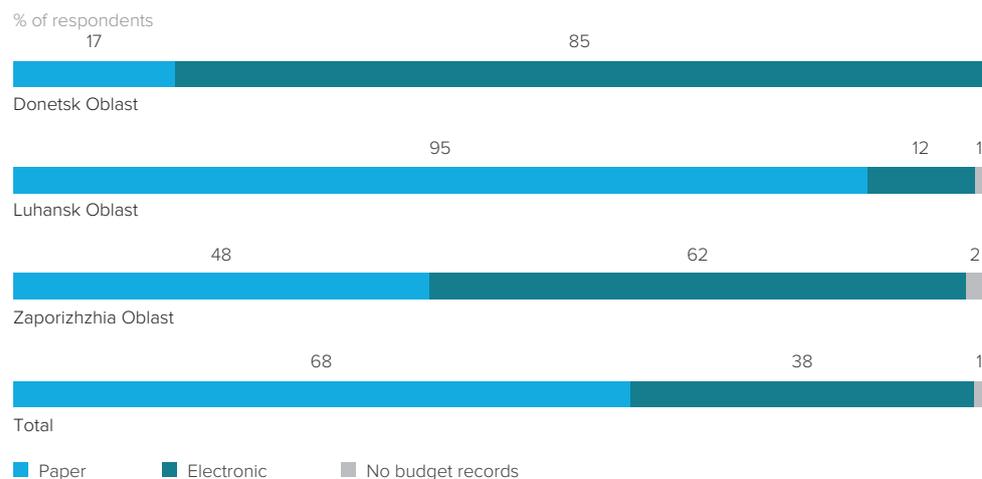
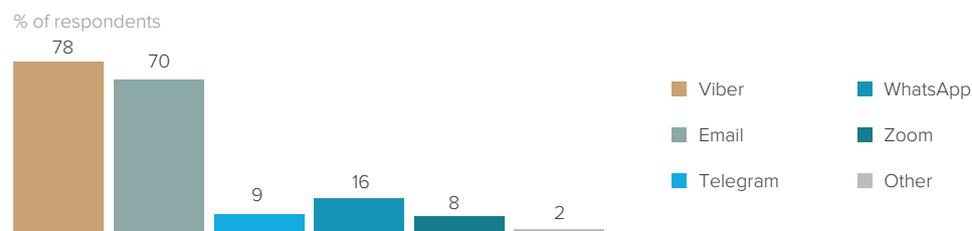
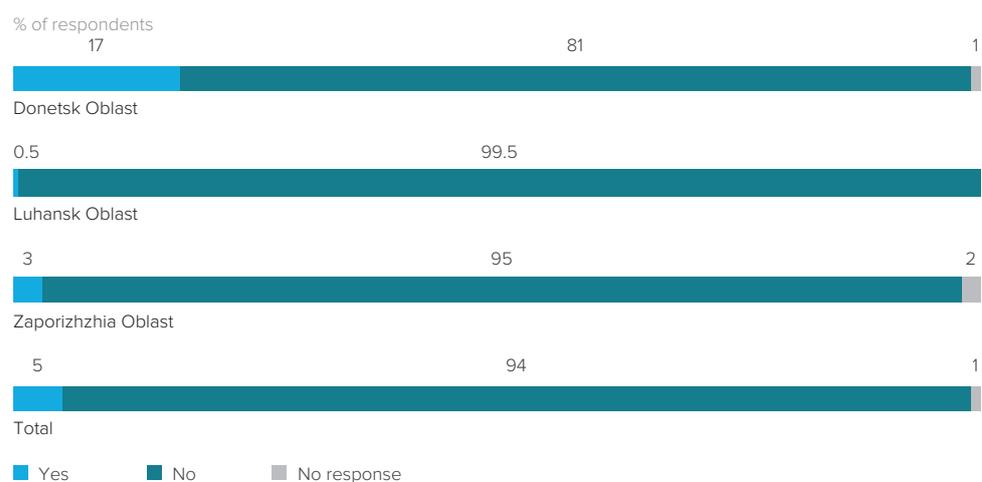


Figure 3.132. Communication channels with employees, partners, suppliers in Grain and Oilseeds



Grain and Oilseeds have been characterized by low online sales. Overall, only 5% of companies have used this sales channel. However, the figure has varied across the oblasts, with the lowest share in Luhansk Oblast (0.5%) and the largest share in Donetsk Oblast (17%) (Figure 3.133).

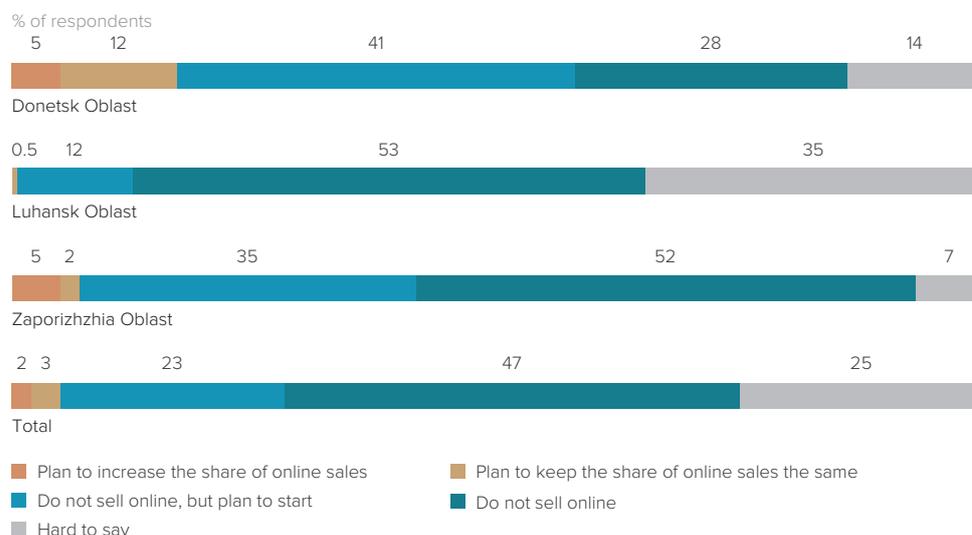
Figure 3.133. Selling online in Grain and Oilseeds



Only 2% of enterprises would like to increase their share of online sales and 23% would like to start selling online. Overall, the companies in Grain and Oilseeds sector have not been interested in shifting into online selling as they have been satisfied with usual sales channels, while online channels have been believed to be inconvenient and providing low turnover. This has been especially visible among firms in Luhansk and Zaporizhzhia oblasts (Figure 3.134). Nevertheless, for companies which sell online,

share of online sales have increased by 8 percentage points after March 2020 (from 20% to 28%).

Figure 3.134. Plans to sell online in Grain and Oilseeds



Due to the low online presence of companies in the sector, firms have not been interested in marketing on social media. Only 21% have been interested in marketing on Facebook, 9% on YouTube and 8% on Instagram. Only 10% of companies have had a website and 13% have been interested in creating one. Companies in Zaporizhzhia Oblast have had a website more often (27%) than firms in Donetsk (19%) and Luhansk (0.5%) oblasts and have indeed been more interested in having them created (Figure 3.135).

Figure 3.135. Relevance of having a website created in Grain and Oilseeds

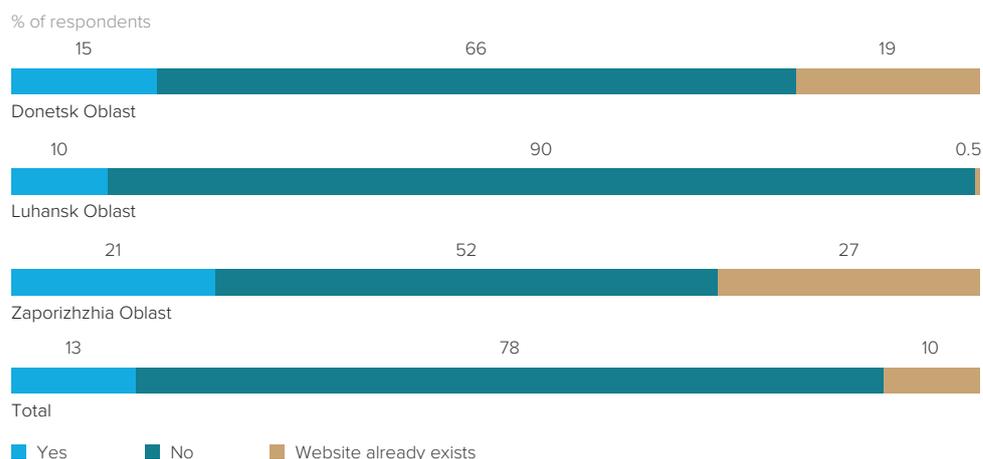


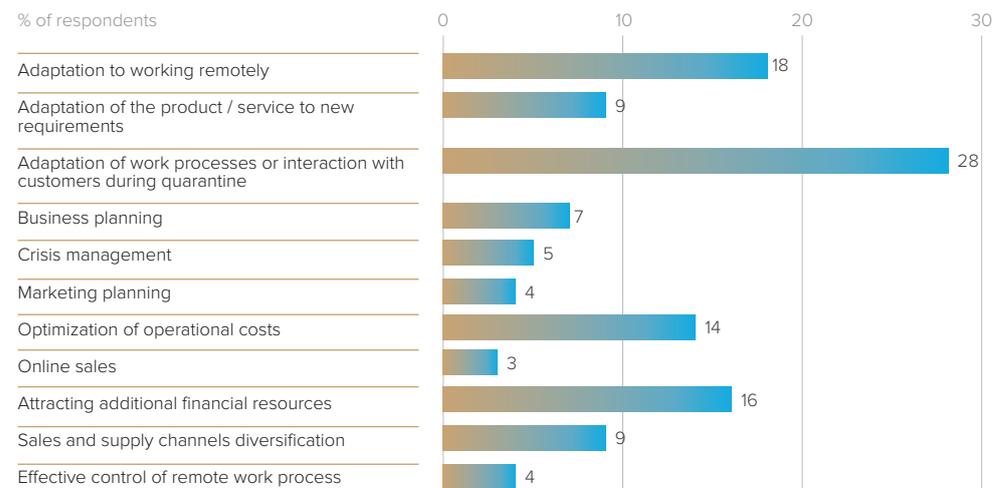
Figure 3.136. Types of support need by MSMEs in Grain and Oilseeds



As far as the type of support needed by companies in Grain and Oilseeds sector is concerned, financial resources have been in particular demand; to a greater extent in Luhansk Oblast than in other oblasts (Figure 3.136).

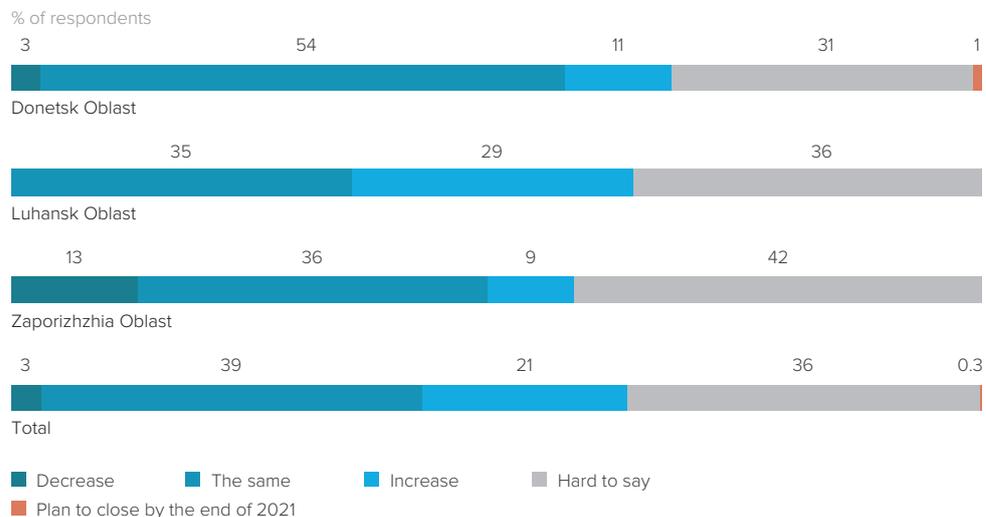
During the period of strict quarantine, businesses suffered from a lack of knowledge on adaptation of the work processes (including the working remotely mode), interaction with customers during quarantine (e.g. using masks, reducing the number of employees in the room, etc.), additional financial support generation and optimization of operational costs (Figure 3.137).

Figure 3.137. Lack of knowledge and skills to adapt to new conditions during quarantine, by topics, in Grain and Oilseeds



2021 sales forecasts have been optimistic. Almost 62% of companies expect 2021 sales to be at the pre-crisis level, while 33% of respondents expect them to increase. Only 5% think that sales will be lower compared to the pre-crisis level. Companies in Zaporizhzhia Oblast have been, on average, less optimistic than those from other oblasts (Figure 3.138).

Figure 3.138. Sales forecast for 2021 compared to the period before March 2020 in Grain and Oilseeds<sup>55</sup>



<sup>55</sup>“Plan to close by the end of 2021” also includes “plan to close by the end of 2020”.

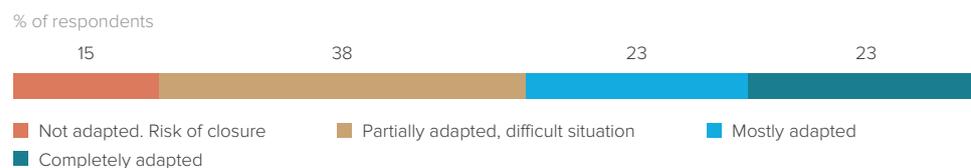
### 3.10. Fruits and Vegetables

Among the agricultural producers, the Fruits and Vegetables sector has been affected more than other sectors. Businesses have suffered from disrupted sales channels and closed marketplaces, lower demand, issues with the supply of fertilizers, purchases of seeds, increased prices of inputs and the shortage of workforce. As an adaptation strategy some companies have switched to delivering ordered produce directly to apartments and houses of customers. Having faced new challenges, some producers have chosen to expand into Food Processing in the future.

Thirteen surveyed businesses in the Fruits and Vegetables sector have all been from Zaporizhzhia Oblast, as the sector has been identified as a priority for this particular oblast in an earlier study. All represented firms have been micro-businesses.<sup>56</sup> Around 39% of employees in the industry have been women and, on average, a company has employed 1.1 women and 1.7 men.

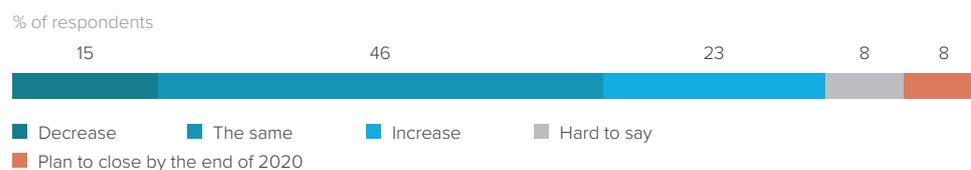
Out of the surveyed companies, one stopped operating during strict quarantine, two (including the one which stopped operating) have not been able to adapt and may have been on the verge of bankruptcy and 5 have partially adapted but the situation has remained difficult for them (Figure 3.139).

Figure 3.139. Adaptation in Fruits and Vegetables



Two companies in the sector expect sales to decrease in 2020, six expect them to be the same as in 2019, whereas three expect them to increase (Figure 3.140). One company plans to close its business by the end of 2020.

Figure 3.140. Sales expectations in 2020 in Fruits and Vegetables



Two companies have managed to reduce operational costs by deferring payments, reducing payments to counterparts, increasing debt (one company), decreasing materials purchases and reducing wages.

The average number of employees has not changed during strict quarantine period and has remained as before its introduction (3.9 employees). Companies have used two approaches to optimize their internal processes – paid leave for their employees (6.5%) and partially working remotely (3.2%) (five companies has considered this work mode as ineffective). None of the employees have lost their jobs and none have been sent on unpaid leave.

<sup>56</sup>The sample may not be entirely representative of the sector due to the limited number of surveyed companies.

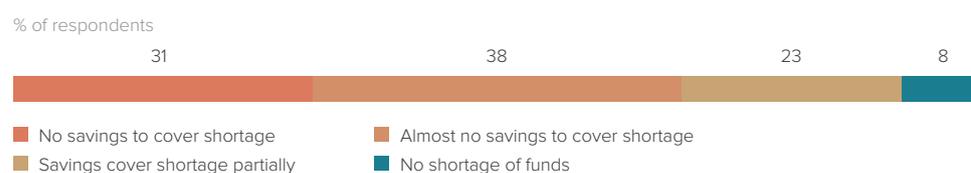
Access to external financing for companies in the sector has been very limited. Primary sources have included: own revenues and savings, and loans from friends and relatives. Only one company has used bank credit or an external investor (Table 3.23). Although this situation has been common for companies in all targeted sectors, the limited role of bank credit and external investors in Fruits and Vegetables has been associated with the significant degree of informality in the sector. Farmers have been reluctant to report their revenues and thus have experienced obstacles in obtaining credit and attracting investors.

Table 3.23. Sources of financing in 2020 in Fruits and Vegetables

	% of respondents
Own revenues	100
Own saving	38
Loan from relatives/friends	23
Non-refundable financial assistance from company co-founders or third parties	15
Loan from business partners	15
External investors	8
Bank credit	8

69% of businesses have had either no savings or almost no savings to cover their shortage of funds. It has been one of the worst rates among the examined sectors. This could be attributable to the sectors' production cycle. Usually, small vegetable producers take a loan (mostly from unofficial sources and using unofficial ways) during wintertime to buy supplies for the production of their goods. As many farmers producing vegetables tend to sell their produce immediately after its harvesting, as they suffer from a lack of storage capacity, the quarantine restrictions have prevented them from doing so. Subsequently, they had to repay their informal loans using savings (Figure 3.141).

Figure 3.141. Availability of savings to cover shortage of funds in Fruits and Vegetables



62% of firm have considered the possibility of financing of long-term investment. The most frequent sources mentioned have been own revenues, technical support projects, bank credit and own savings.

Moreover, 4 out of 13 businesses (31%) have been members of a business associations, which has been the highest rare among sectors.

The most widely used sources of business information have been personal communication with suppliers, other businesses in the Fruits and Vegetables sector, wholesalers, and customers (Figure 3.142).

Most of the businesses have been rather satisfied or completely satisfied with the quality of information on market prices of their products, quarantine safety rules and

product safety requirements. There has been a greater need for information on new market opportunities (Figure 3.143).

Figure 3.142. Sources of information for businesses in Fruits and Vegetables

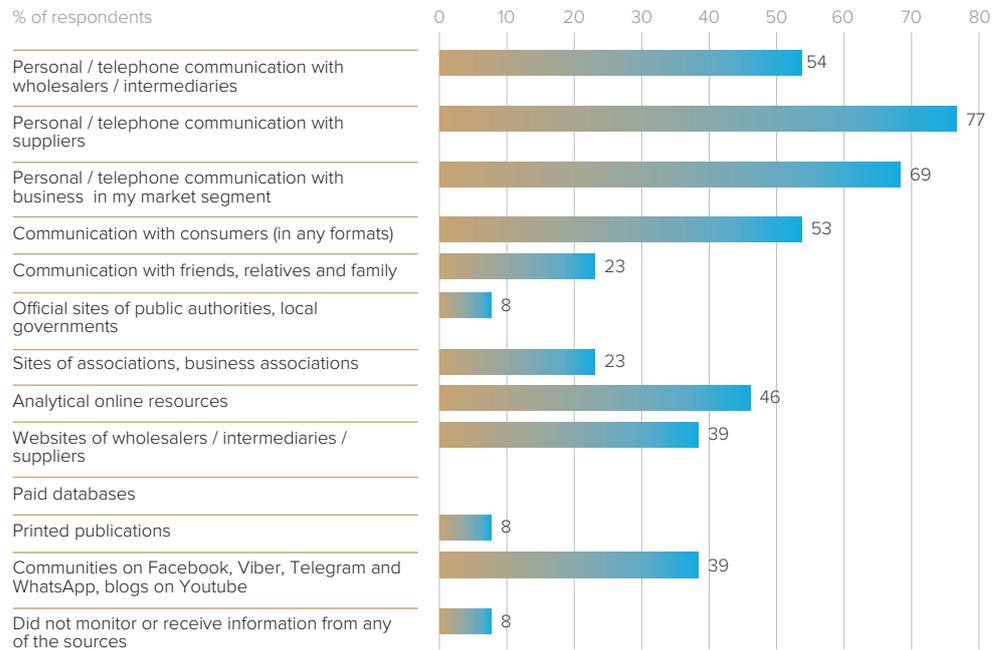


Figure 3.143. Level of satisfaction with available information in Fruits and Vegetables

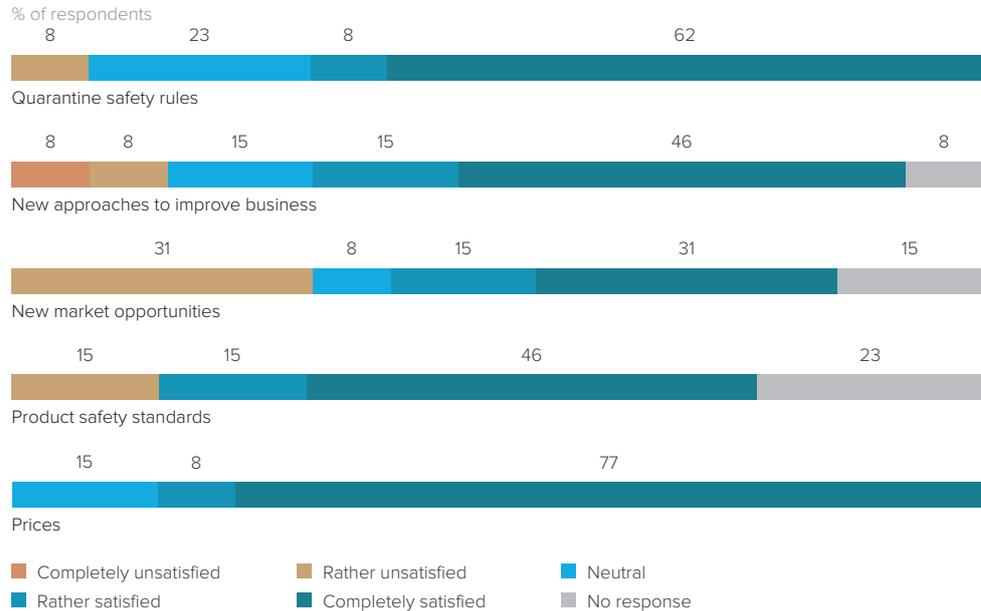
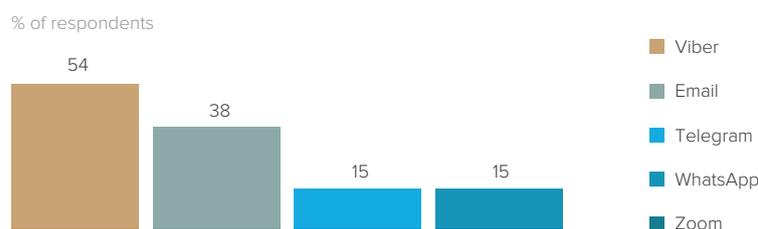


Figure 3.144. Communication channels with employees, partners, suppliers in Fruits and Vegetables



Most of the businesses (54%) have kept their budget records in an electronic form. Still, 38% have planned and recorded budget on paper, which has been the highest rate among sectors. One company has not kept budget records at all.

As for the communication channels, Viber application has been the most popular, though even Viber has been used less frequently (by 54% of companies) compared to the other examined sectors. 38% of firms have used e-mail for business communication (Figure 3.144).

Two out of 13 companies have been selling their products through online channels, six have not had plans to start selling online, though four plan to do so in the future. In general, agricultural companies have mostly sold their product to middlemen (Figure 3.145).

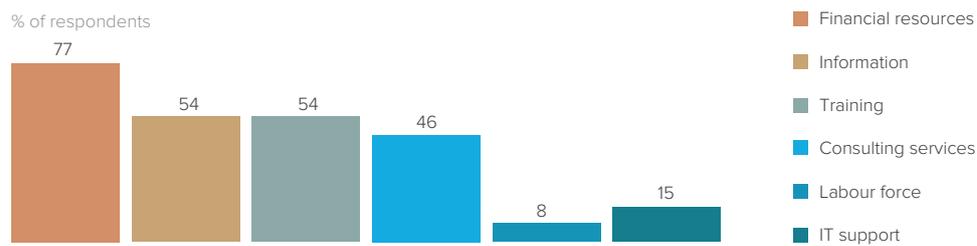
Figure 3.145. Plans to sell online in Fruits and Vegetables



Farmers have been quite interested in marketing on social media – Facebook (46%), Instagram (31%), and YouTube (23%). Five companies have been interested in creating a website for business purposes; however, the same number of firms has not. Three producers have had a website.

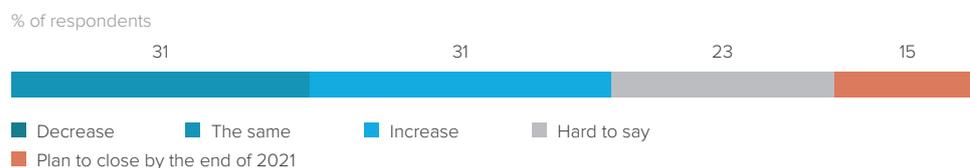
Financial resources have been identified as the main type of support needed. The need for information, training and consulting services has also been significant. Two companies out of 13 has indicated the need for IT support (Figure 3.146).

Figure 3.146. Types of support needed by companies in Fruits and Vegetables



As far as forecast for 2021 are concerned, the outlook has been one of the most positive among the examined sectors. None of the surveyed companies expects sales in 2021 to be lower than in 2019. Such an optimistic view could be explained by higher prices of vegetables after the strict quarantine was eased. As a result, physical sales may have been lower, but the revenues have increased (Figure 3.147).

Figure 3.147. Sales forecast for 2021 compared to the period before March 2020 in Fruits and Vegetables<sup>57</sup>



### 3.11. Export

The number of exporters among the surveyed companies has been very small – 63 out of 1005 and almost half of them have been Grain and Oilseeds producers (Table 3.24). Exporters in almost all sectors have their exports decreased during quarantine. The only exception has been Grain and Oilseeds producers, for whom export volumes have not changed. The main reason for the decrease has been problems concerned with the transportation of goods. Lower demand and disruption of sales channels have been identified as reasons to a lesser extent.

Table 3.24. Share of exporters in the sample

	Number of exporters	Share of exporters	Total number of companies
Industry and Engineering Services	13	19.4%	67
Textiles and Clothing	5	6.3%	79
Hospitality	2	0.5%	383
Ceramics	5	25.0%	20
Food Processing	4	4.4%	91
Poultry and Eggs	0	0.0%	17
Dairy and Beef	2	15.4%	13
Grain and Oilseeds	31	9.6%	322
Fruits and Vegetables	1	7.7%	13
<b>Total</b>	<b>63</b>		<b>1005</b>

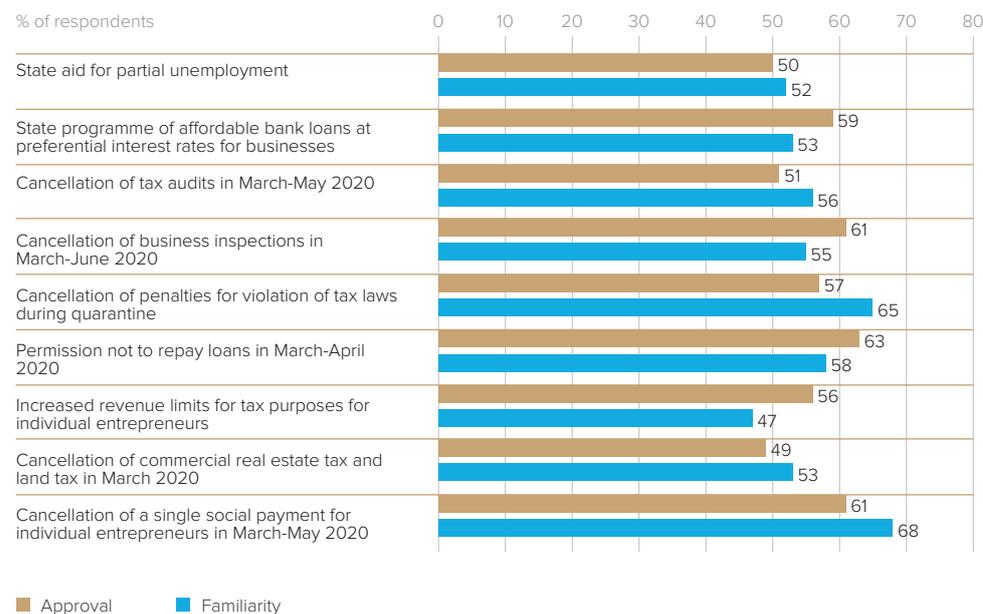
### 3.12. Perceptions on government support

Focus groups and individual interviews complementing the survey have shown that the level of knowledge about available state support has varied significantly among businesses, even within sectors. Entrepreneurs have not applied for assistance to the extent available. The reasons behind this has been a lack of knowledge and mistrust towards authorities and institutions responsible for inspections. Some businesses have found out about the available assistance by chance; some have been called by the employment centres. On average, participants of trainings provided by international organizations have been better informed. Although information has been available on websites, many participants of the survey have argued that they did not know how to find it. Those who have established channels of communication with other market participants have had better access to information.

Indeed, a considerable share of businesses have not been aware of government support. The level of familiarity has ranged between 47% to 68%, depending on the policy measure. In particular, only 47% of surveyed companies have had knowledge on the increase in revenue limits for tax purposes for individual entrepreneurs; only 52% have been aware of partial unemployment benefits, and only 53% of the state programme “Affordable Loans 5-7-9%”. At the same time, entrepreneurs have been aware of: cancellation of a single social payment for individual entrepreneurs in March-May 2020 (68%)<sup>58</sup>; cancellation of penalties for violation of tax laws during quarantine (65%)<sup>59</sup>; permission not to repay loans in March-April 2020 (58%)<sup>60</sup>; cancellation of tax audits in March-May 2020 (56%)<sup>61</sup>; cancellation of business inspections in March-June 2020 (55%)<sup>62</sup> (Figure 3.148).

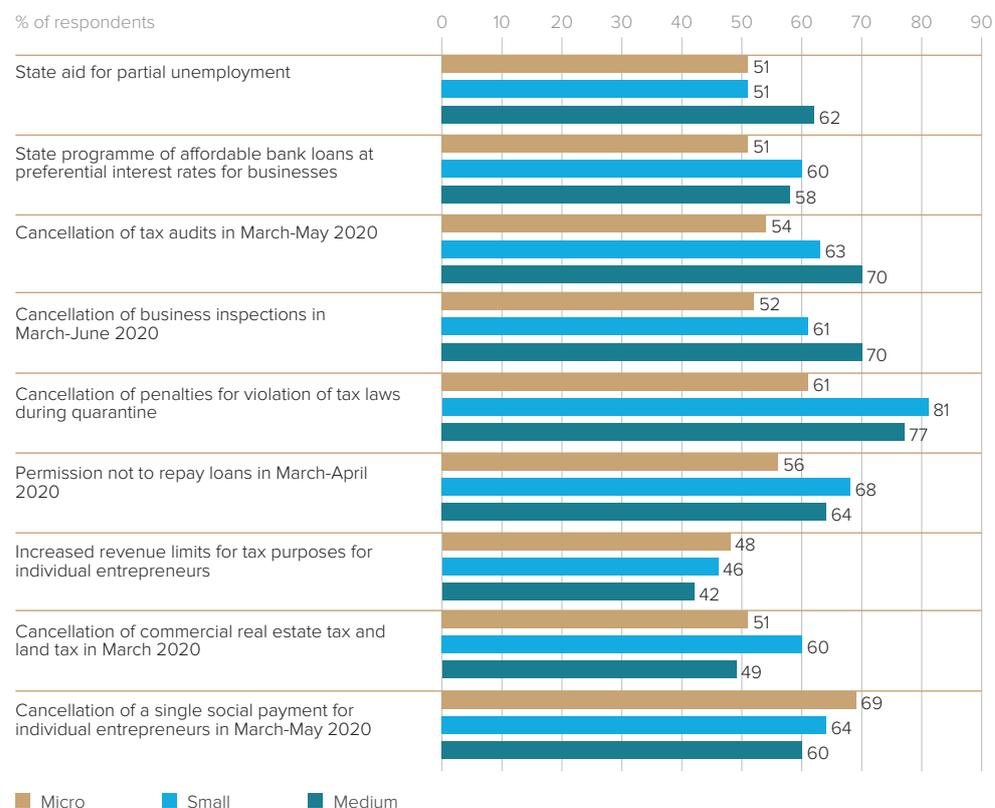
<sup>57</sup>“Plan to close by the end of 2021” also includes “plan to close by the end of 2020”.

Figure 3.148. Awareness and approval of government support measures for businesses



In general, micro-enterprises have been less aware of both state aid and rules in connection with the COVID-19 pandemic (Figure 3.149).

Figure 3.149. Awareness of government support measures, by company size



<sup>58</sup>Exemption of individual entrepreneurs, individuals involved in independent professional activity and farmers from accrual and payment of the single social contribution to compulsory state social insurance from 1 March 2020 till 31 May 2020 (Law N°533-IX).

<sup>59</sup>Restrictions on the application of most sanctions for violations of tax legislation committed during the quarantine period (Law N°533-IX).

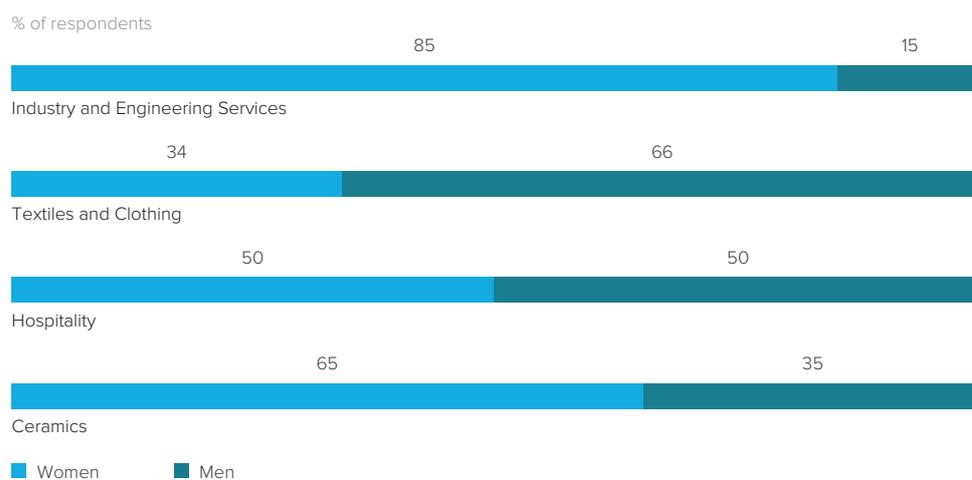
The survey has also found that there have been concerns about the aid of the State Employment Service being taxed and about state administration being unable to provide definite information in this regard. There have also been fears that after inspections, entrepreneurs would have to pay fines that would be higher than the amount of assistance received. Businesses have stated that the State Employment Service stopped paying regular assistance and instead started providing COVID-19 related support. This support has, however, been lower compared to the regular assistance.

There have been complains about the implementation of business support measures. In response to the COVID-19 pandemic, regulations concerning discounts and exemptions from state property rent payments were introduced. However, it has been argued that while not being paid, the rents have continued to accrue due to the lack of appropriate implementation mechanisms. Moreover, actions at the state and local levels have not been coordinated. For example, the State Property Fund has provided exemptions from rent payments, while local authorities have often increased land rent.

### 3.13. Gender

Overall, 36% of surveyed companies have been managed by women in 9 targeted sectors in Donetsk, Luhansk and Zaporizhzhia oblasts. This ratio has varied across the sectors: the highest share of women-led companies has been in Textiles and Clothing (66%) and Hospitality (50.4%), while men have dominated Poultry and Eggs (94%), Industry and Engineering Services (85%) and Grain and Oilseeds (80%) (Figure 3-150). The share of women managers has been the highest in micro-business (41%), lower in small business (22%) and the lowest in medium-sized business (13%) segments (Figure 3.151). 4% of women-managed companies have stopped their operations since March 2020, while this share has been 1% for men-managed companies (Figure 3.152).

Figure 3.150. Gender and MSME managers, by sector



<sup>60</sup>The National Bank of Ukraine’s recommendation for banks to introduce a special grace period for servicing loans to those borrowers who have experienced financial difficulties due to quarantine and have been unable to service loans on time (National Bank of Ukraine Board Resolution No. 39, 3 April 2020).

<sup>61</sup>Moratorium on documentary and factual tax inspections – from 18 March 2020 to 31 May 2020 (except for unscheduled inspections for VAT refunds in the amount of more than UAH 100 thousand), as well as, until 18 May 2020, for documentary inspections on the correctness of the single social contribution (SSC) payments (Law N°533-IX).

<sup>62</sup>A moratorium on carrying out planned business inspections, except for supervision of high-risk business entities, sanitary and epidemiological control, and state price regulation. (Law N°540-IX). Unscheduled inspections were not prohibited.

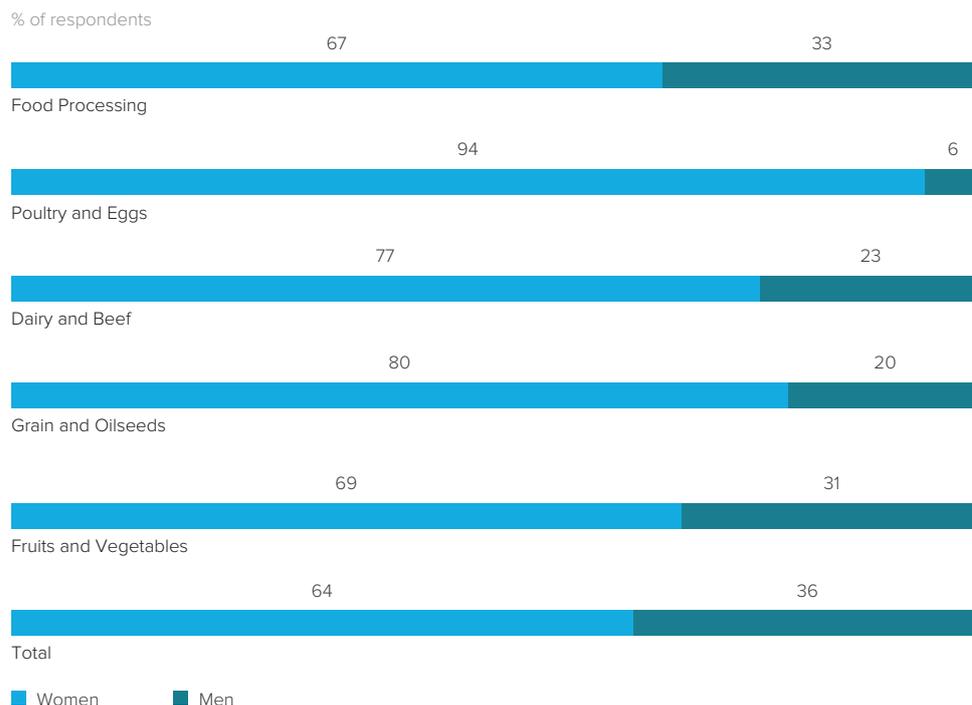


Figure 3.151. Gender and MSME managers, by company size

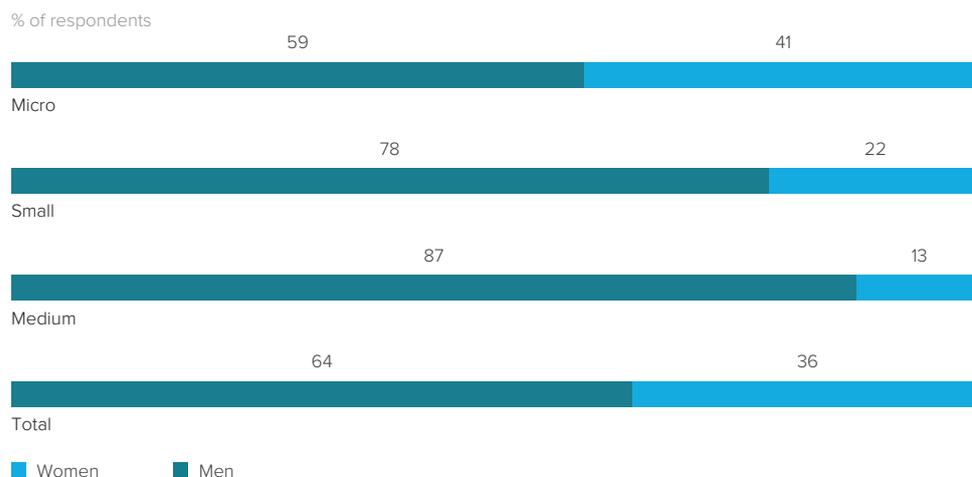
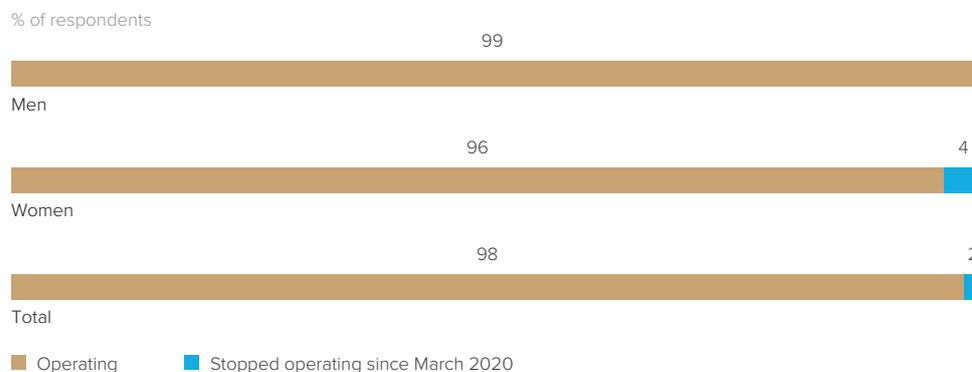


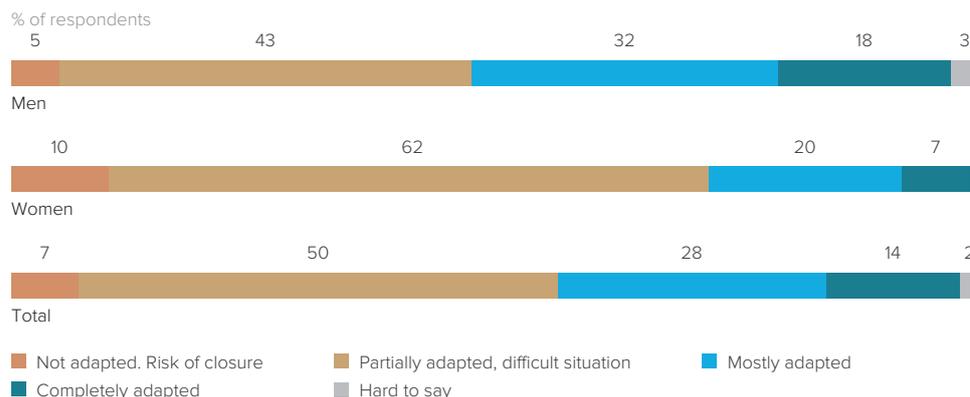
Figure 3.152. Business continues to operate vs. stopped operating, by gender



Women have been more pessimistic in their evaluation of economic situation, a result of adaptation problems. Although 27% of women-led companies have either completely or mostly adapted to the new conditions, 62% have partially adapted and have been in

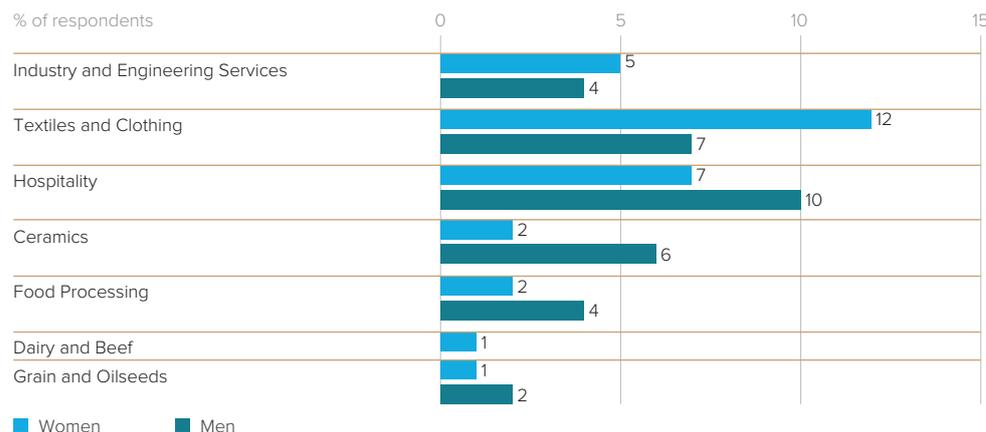
a difficult situation. 10% have not been able to adapt and their businesses may have to be closed. The respective rates for men-managed companies have been 50%, 43% and 5% (Figure 3.153). Such differences could be attributable to sectoral gender patterns. Women have been more represented in the Hospitality sector, which has been subject to the harshest quarantine restrictions, and in the Textiles and Clothing industry for whom the demand dropped significantly during quarantine. Women have also been more represented in micro-businesses (than in other types of companies) which have been less resilient against the economic shock related to the COVID-19 pandemic.

Figure 3.153. Gender and business adaption



The examined sectors have demonstrated a different gender pattern in labour adaption to the economic slowdown. Women employees have more often been laid off compared to men employees in Hospitality (10% vs 7%), Ceramics (6% vs 2%), Food Processing (4% vs 2%) and Grain and Oilseeds (2% vs 1%); men have been more often laid off in Textiles and Clothing (12% vs 7%), Industry and Engineering Services (5% vs 4%) and Dairy and Beef (1% vs 0%) (Figure 3.154).

Figure 3.154. Share of employees laid off, by gender



In five sectors women have been sent on unpaid leave during quarantine more often – Textiles and Clothing (54% vs 36%), Hospitality (39% vs 33%), Industry and Engineering Services (23% vs 18%), Food Processing (5% vs 3%) and Ceramics (9% vs 4%). Men have been sent on unpaid leave more often in Grain and Oilseeds (9% vs 5%) and Dairy and Beef (14% vs 11%) (Figure 3.155).

The situation has been marginally different in the case of paid leave. Women have been sent on paid leave during quarantine more often in Textiles and Clothing (20%

vs 16%), Dairy and Beef (17% vs 12%), Ceramics (11% vs 4%), Grain and Oilseeds (10% vs 6%), Food Processing (10% vs 5%) and Fruits and Vegetables (7% vs 5%). Men have been sent on paid leave more often in Hospitality (12% vs 9%), Industry and Engineering Services (8% vs 6%) and Poultry and Eggs (2% vs 1%) (Figure 3.156).

Figure 3.155. Share of employees on unpaid leave, by gender

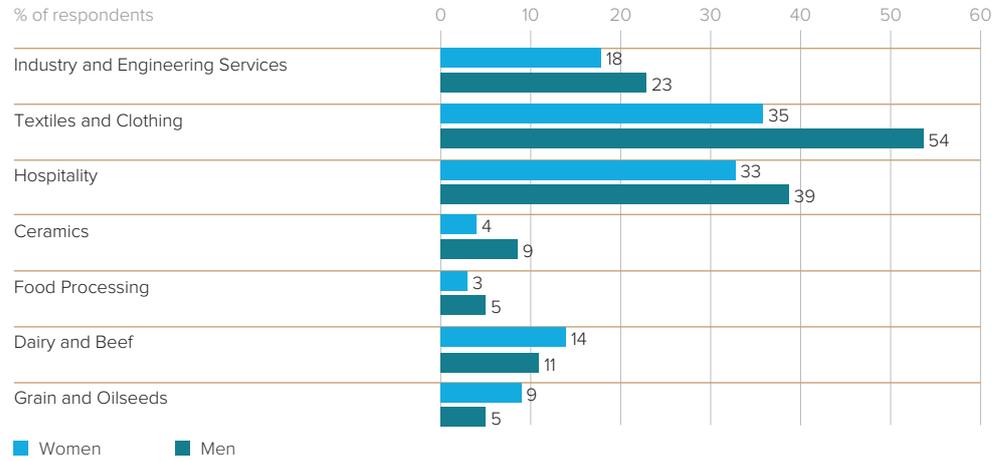


Figure 3.156. Share of employees on paid leave, by gender

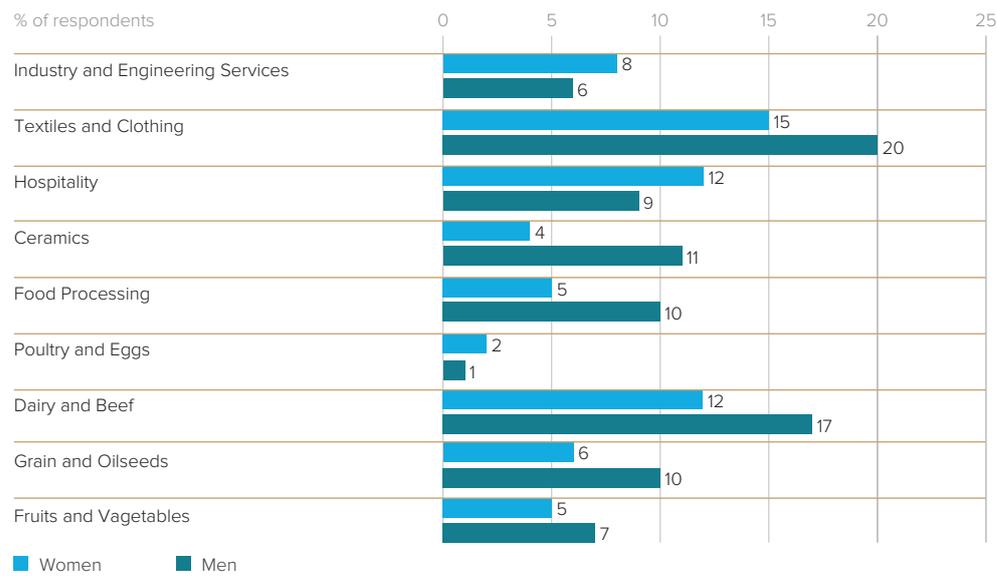
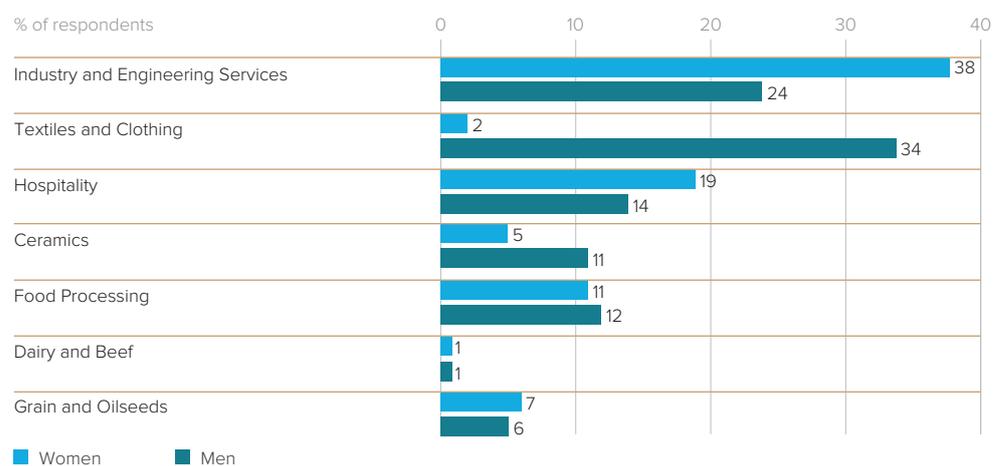


Figure 3.157. Share of employees in part-time employment or on lower wages, by gender



Lower wages and part-time employment have actively been used as instruments during quarantine. Women have been more often subject to these policies than men in Food Processing (12% vs 11%), Ceramics (11% vs 5%) and, particularly, Textiles and Clothing (34% vs 2%). The opposite has been the case in Hospitality (19% vs 14%) and Industry and Engineering Services (38% vs 24%) (Figure 3.157).

# 4.

## Policy Recommendations

The COVID-19 pandemic and subsequent economic slowdown has extensively affected the Ukrainian economy and prospects of growth. It has added to the multi-layered development challenges of eastern Ukraine. It has impeded the development of micro, small and medium-sized enterprises in the region. Considering the crucial role of MSMEs in sustainable development and poverty reduction, it is important that tailored, evidence-based and decisive policies are implemented to avert the situation and to enable a creation of a thriving private sector composed of local MSMEs.

Tailored policies are necessary as various sectors and various types of companies have been affected differently. Although the COVID-19 pandemic has been felt across sectors, its impact has varied substantially. The highest negative impact has been observed in labour intensive non-agricultural sectors, which either rely on customers' physical mobility (e.g. Hospitality), are niche sectors with limited demand (e.g. Ceramics), or represent industries for which demand can dwindle, in the short term, without any impact on consumers' well-being (e.g. Textiles and Clothing, Industry and Engineering Services). Those companies which have done relatively well during the pandemic, have been in the agricultural sector. Although Food Processing and Fruits and Vegetables have experienced some difficulties in the chain of production, Poultry and Eggs, Dairy and Beef and Grain and Oilseeds have been affected to a minimal extent. This is not surprising, considering their importance as food providers and the fact that they must operate on a perpetual, cyclical basis. However, as they often must rely on seasonal credit and are vulnerable towards weather patterns, their relatively good standing during the pandemic has by no means been a certainty. Moreover, it is important to note that the difference in how sectors have fared during the pandemic has also been the result of regulatory measures. For obvious reasons, most of agricultural companies have been allowed to operate, while for others the Government had to prioritize health issues over economic factors. Consequently, policy responses must take into consideration that sectors have been affected differently. Non-agricultural companies may require more support.

Moreover, while the effects of the pandemic may have varied across industries, it has been similar in all three examined oblasts. It needs to be noted, however, that MSMEs in Luhansk Oblast have tended to be more vulnerable, compared to those in Donetsk and Zaporizhzhia oblasts. The pandemic seems to have had a larger negative effect on sales therein, in addition to the MSMEs having lower access to financing and lower savings. This has impacted their expectations on future developments and recovery after the economic crisis (outside of the Grain and Oilseeds sector, which witnessed a good harvest in 2020). Consequently, while policy consideration should address predicaments in all examined oblasts, additional attention should perhaps be paid to Luhansk Oblast, despite its much more limited contribution to the country's GDP as compared to Donetsk and Zaporizhzhia oblasts.

### Micro-enterprises

Second, the survey has clearly shown that micro enterprises have been affected to a significantly greater degree than small and medium-sized companies. Out of 788 micro-businesses, 2.3% stopped operating, whereas 7.9% have had difficulties to adapt and may be on the verge of bankruptcy. The corresponding numbers for small and medium-sized businesses are as follows: none of the small and medium-sized enterprises stopped operating, 2.4% of small companies and none of the medium-sized companies have been on the verge of bankruptcy. Micro companies usually have fewer financial resources and are more vulnerable to various shocks, hence their relatively worse standing as a result of the pandemic. Although they have been responsible for 22% of employees within the surveyed group of companies, larger support should be lent to micro businesses, who are more vulnerable to shocks than other companies. Undoubtedly, micro companies will continue to feature extensively in the economic landscape of eastern Ukraine.

### Gender

Third, women seem to have been more affected by the economic slowdown resulting from the COVID-19 pandemic. Women-managed businesses have demonstrated a lower level of adaptation to the new conditions, mostly, however, due to sectoral gender patterns. Women have dominated Hospitality, the sector which has been subject to the harshest quarantine restrictions, and Textiles and Clothing and have been more represented in micro-businesses, which are less resilient to economic crises. Moreover, adaptation strategies seem to affect women more negatively. Although, there are sectoral specifications, in general, women have more likely been laid off or sent to unpaid/paid leave during quarantine. In view of the results of the survey, gender mainstreaming must take priority. Consequently, women entrepreneurs, as well as sectors in which women constitute an important part of the labour force must be supported.

### Capacity building

For effective MSME development it is important that a steady supply of a qualified and skilled labour force is available, one which matches the market demand. It is important that cadres are trained and well prepared to engage in business activity. Particularly important is the quality of human capital among entrepreneurs. However, it has transpired from the survey that MSMEs in the three oblasts need further capacity building in this respect. A significant percentage of local companies (56%) have not been able to adapt to the new conditions caused by the pandemic or only adapted partially. At the same, time, entrepreneurs have been interested in broadening their expertise. Nevertheless, although respondents have revealed their interest in training, particularly in legal, accounting, and marketing issues, many could not clearly formulate their specific needs. This is indicative of the necessity to enhance the capacity building across the priority sectors. Moreover, the survey has also observed that entrepreneurs have often been unaware of risk management and contingency planning practices. This, in addition to poor adaptation skills, necessitates further capacity building in resilience.

Moreover, Textiles and Clothing and Ceramics producers have been interested in training concerned with production technics and technologies. This calls for adequate interventions in the vocational educating training system as a whole, in addition to boosting sectoral trainings. Indeed, the VET system in the three examined oblasts has

been supported by UNDP in their efforts to ensure that the courses offered are more attuned to market needs.

### **Financing for development**

Reliable financing is at the centre of the private sector's development. Nevertheless, a lack of external financing has been identified as the most important factor inhibiting business development and expansion in the region. The survey has shown that most of the companies have used their own revenues (88%) and their own savings (32%) for long-term investment purposes, whereas bank credit has been used by 11% of firms. At the same time, the majority of companies (55%) cannot even consider further expansion as they have no savings or almost no savings to cover the shortage of funds for operations; a dire situation caused by the COVID-19 pandemic and economic slowdown. The limited role of bank credit stems from the fact that banks have been unwilling to provide loans citing high risks and interest rates have been too high for companies to accept.

Consequently, for the MSMEs to be able to develop and expand, subsequently increasing their share of the market, the efforts must focus on ensuring that access to finance is improved. With limited financial resources of their own and the inability to access sufficient credit on the market, support for MSMEs must include providing expertise and options on seeking new and innovative financing resources, domestic and international, private and public. At the same time, efforts must focus on building a thriving and competitive banking sector in the region, which will allow for easier access to credit. For instance, the government programme of affordable loans launched as a measure to combat the COVID-19 induced economic crisis has created conditions for banks to adapt their risk management processes and to enable their closer collaboration with micro, small and medium-sized companies.

### **Digitalization and online presence**

Digitalization lies at the centre of activities aimed at the development and expansion of firms in any given sector. The survey has shown, however, rather limited digitalization and a limited online presence of MSMEs in the three examined oblasts. Although many have used electronic budgeting records, the majority does not possess websites. Moreover, some have not been interested in online marketing and selling online, even though, in many sectors, online sales have become a vital adaptation strategy, especially in Ceramics, Food Processing, Dairy and Beef, and Textiles and Clothing. The largest share of those who would like to create a website for business purposes has been in Textiles and Clothing, Ceramics, Dairy and Beef, and Fruits and Vegetables. Advertising on social media is also becoming increasingly popular.

Consequently, taking into account the global trend of the digitalization of commercial activities and the economic downturn caused by COVID-19, it is necessary to support MSMEs in developing, launching and promoting online stores. It is also important to train the entrepreneurs how to manage online stores, create digital advertisement and run promo campaigns on web and social media. Online presence is particularly relevant for niche sectors such as Ceramics.

Given the quarantine restrictions imposed in the country and the subsequent suspension of business exhibitions and networking activities, it is also necessary to use online tools to mend the disrupted economic ties. More MSMEs from the target areas should be promoted through vehicles such "East Expo" online exhibition, providing

them with professional presentation videos, photos and other advertisement content. This will help create a recognizable brand and subsequently tap new markets.

### Clustering

The survey has shown a very limited level of collaboration within each sector. In the leading sector of Fruits and Vegetables, 31% of companies have belonged to a sectoral business association; for Ceramics this rate has been 20%; however, for Grain and Oilseeds – only 4% and for Poultry and Eggs – 1%, whereas for Textiles and Clothing it has been – 5%.

However, historical analysis shows that closer collaboration of MSMEs within a given sector effectively contributes to the development of the latter. In fact, creating clusters is one of the most effective ways to build a robust industry composed of micro, small and medium-sized businesses. Companies pull resources together to negotiate input prices, share equipment wherever necessary and are better positioned to attract investment in sectors constituting backward and forward linkages.<sup>63</sup> Clusters lower the costs of market access. On the other hand, firms compete with each other, which forces them to be more innovative and henceforth this increases their level of competitiveness. This has been the case of the historic European development model as well as the contemporary Asian model.<sup>64</sup> The need for creating well managed and effective clusters is particularly important for small food/crop producers such as in Fruits and Vegetables to attract investors (forward linkages) in Food Processing. To a great extent it is also the case of Dairy and Beef, Poultry and Eggs and Grain and Oilseeds. Consequently, efforts at creating clusters of production must be encouraged. This concerns not only agricultural companies, but also non-agricultural ones such as in Textiles and Clothing. In the case of Ceramics, this clustering, to a large extent already existent in the city of Slovyansk and its vicinity, will serve the purpose of more effective branding and promoting products.

### Internationalization

The survey has shown that the number of companies exporting their products has been limited. The number of exporters in the sample has been small – 63 out of 1005 MSMEs and almost half of them have been in Grain and Oilseeds. At the same time, in Ceramics, 5 companies (20% of surveyed firms) have exported their products and this is by far the highest share within priority sectors. The pandemic has further decreased the volume of exports across the sectors.

Considering the limited consumption capabilities of the local population, and the loss of some traditional markets due to political events, in order for the MSMEs in the targeted sectors to develop and expand, internationalization efforts must be improved for the companies to be able to tap international markets, particularly that of the European Union, which presents unparalleled opportunities. This is in line with common and successful practices among middle-income countries to accelerate the rate of development. Consequently, efforts must be enhanced to increase the share of exported goods produced in the three examined oblasts. There are various ways to achieve this.

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<sup>63</sup>Norbu, N.P., Tateno, Y., Bolesta, A. (2019) Structural transformation, backward and forward linkages and job creation in Asia-Pacific Least Developed Countries. Paper presented at the WIDER-ESCAP Conference “Transforming economies - for better jobs”, Bangkok, Thailand, 11-13 September 2019.

<sup>64</sup>Bolesta, A. (2015) *China and Post-Socialist Development*, Policy Press: Bristol, United Kingdom.

Export can increase through external promotion and establishing partnerships. A digital presence, as discussed above, can serve this purpose. So can the participation in online and offline fairs. For example, over the years the “East Expo” initiative has proved to be a well working platform to improve market access, help MSMEs establish new business relations, and give its participants a competitive advantage.

Internationalization efforts can be improved through foreign direct investments. However, the three examined oblasts have not been a major FDI destination within the country. For example, Donetsk Oblast have accounted for USD 2.7 billion of FDI, Luhansk Oblast for USD 0.4 billion, and Zaporizhzhia Oblast for USD 1.6 billion, whereas Kyiv itself has accounted for USD 23 billion. Consequently, a policy improving the FDI stream into the region is necessary. The key to success lies in adequate strategizing of FDI. Investments need to be in those sectors which will advance development, making economic growth greener and more inclusive, and jobs more productive. They need to contribute to the overall development strategy of the region and the country, based on the government’s vision, comparative advantage and indeed latent comparative advantage.

However, for internationalization to happen, capacity building on international norms and standards of traded goods needs to take place. Particularly, companies exporting agricultural goods which have not been processed must fulfil requirements which are often very strict and demanding.

Finally, although all sectors would benefit from greater internationalization, some may need this more than others. Grain and Oilseeds are already well positioned, and their experiences should be studied by companies in other agricultural sectors. Undoubtedly, eastern Ukraine can, with adequate regional strategies and policies, increasingly become a major exporter of agricultural products. Another sector, which must focus on the export market is Ceramics. Its success will depend on the cluster-wide efforts to create a common brand, which will increasingly be recognized outside of the country. Hospitality, on another hand, is a peculiar case. Although foreigner-focused tourism is considered export of services, internationalization of the sector in eastern Ukraine would mean the introduction of international hotel chains. Apart from the fact that attracting foreign investors into the local Hospitality sector may be an arduous task, from a job creation perspective and for long-term development prospects, the preferred structure would be one composed of locally owned MSMEs.

### **Building resilience through structural transformation and economic diversification**

The COVID-19 pandemic has illustrated the importance of enhancing resilience within the private sector and ensuring that MSMEs are increasingly less vulnerable towards external shocks. As indicated above, MSMEs have had extensive difficulties in adapting to new conditions of strict and adaptive quarantines. Therefore, efforts must increase in ensuring greater resilience towards external shocks. Research shows that this can be achieved through structural economic transformation which leads to economic diversification. More diversified economies are, in general, better prepared to cope with adverse conditions. It is important that companies are well prepared and capable of coping with external shocks, which affect global demand and supply, interrupt channels of economic interaction and reduce people’s purchasing power.

In the short term, within-sector structural economic transformation is particularly needed in the three examined oblasts. This is due to the fact that five out of nine priority sectors

are agricultural sectors or related sectors and research shows that the most effective poverty reduction efforts can be achieved through restructuring agriculture.<sup>65</sup> This can be achieved through mechanization, greater commercialization of the agricultural sector,<sup>66</sup> as well as diversification within the sector's production. The latter is especially important in the process of building resilience against shocks and external factors. The importance of development of the agricultural sector, and thus its structural transformation, has been highlighted by Ukraine's government in its presentation of the "Audit of the Ukrainian economy and Vectors of economic development until 2030" in November 2020.<sup>67</sup> Moreover, greater economic diversification can be achieved through enhancing backward and forward linkages and thus production value chains around clusters. Ultimately, structural transformation may lead to the emergence of latent comparative advantage and creation of new sectors, more resilient towards external shocks.

### Regulatory measures and policies

The survey has clearly shown the need for government intervention in addressing the adverse effects of the COVID-19 pandemic in the MSMEs, as well as continuously facilitating further business development.

Business support measures should be directed at all MSMEs, as they have been severely affected by the crisis, and foremost, micro-businesses. They should include further reduction of regulatory, bureaucratic, and financial burden. These measures as well as streamline procedures should be made more accessible. The survey has shown that entrepreneurs have not been able to leverage fully some government support measures due to the lack of implementation procedures. For instance, respondents have pointed out that although government regulations provided for discounts and exemptions from state property rent payments, the rents have continued to accrue because there has been no effective mechanism to implement this provision.

Moreover, better information on support measures, rules and requirements are needed, as well as more efforts to build a greater degree of trust between stakeholders. Local government should better communicate quarantine requirements as they change frequently. Companies have not utilized the available instruments to the extent possible. The main reasons for this have been a lack of knowledge and mistrust. Indeed, some respondents have found out about the opportunities by chance, while some received calls from the Employment Centre. They have also feared they would be subject to more inspections in case of receiving state support, which may result in fines and sanctions being higher than the amount of state assistance received.

It is clear that MSMEs need to receive support in their existing and planned export activities, particularly if their strategies aim at new markets. It is important they have better access to market access information and enjoy simplified custom procedures.

Ultimately, longer-term recovery plans and measures for MSMEs in the affected sectors and regions will be needed. In particular, these measures should also enhance the resilience of MSMEs and build their capacity to overcome future crises.

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<sup>65</sup>ESCAP (2019) Asia-Pacific Countries with Special Needs Development Report 2019: Structural transformation and its role in reducing poverty. United Nations: Bangkok, Thailand. [https://www.unescap.org/sites/default/files/publications/CSN%20Report\\_01-5-2019.pdf](https://www.unescap.org/sites/default/files/publications/CSN%20Report_01-5-2019.pdf)

<sup>66</sup>UNCTAD (2018) The Least Developed Countries Report 2018. Entrepreneurship for Structural Transformation: Beyond Business as Usual. United Nations: Geneva. [https://unctad.org/system/files/official-document/lcr2018\\_en.pdf](https://unctad.org/system/files/official-document/lcr2018_en.pdf)

<sup>67</sup><https://youtu.be/KPLmOsYMjjs>

Finally, national and local governments should improve policy consistency and ensure better coordination of efforts on the national and regional level. For example, the State Property Fund has provided exemptions from rent payments, while some local authorities have increased the land rent, concurrently.

### **The role of the international community**

The role of the international community has been clearly defined and the results of the survey have confirmed its main elements:

Foremost, providing capacity building. The survey's and focus groups' participants have appreciated the availability of trainings on various aspects of enterprise management, planning, marketing and financing. Those who participated in previous trainings have appeared to be more active, better adapted, able to identify more possibilities to develop business, have better access to information, including information on government support. Consequently, capacity building activities, in this regard, need to continue.

Secondly, as a platform for cooperation and the facilitator of interaction of various stakeholders of the process of sustainable development. The survey has illustrated that what is required is better coordination of policies and regulatory measures to cater for the needs of MSMEs, more efficient exchange of information not only on the changing situation related to COVID-19 and quarantine measures, but also on general economic conditions and business opportunities, and closer collaboration among companies to build more robust value chains. The survey has shown a limited degree of sectoral self-organisation and collaboration and indeed, a limited willingness to do so, which has had a negative impact on the development opportunities of a number of priority sectors.

Finally, support by the international community for regional strategy development and policy formulation aimed at enhancing economic resilience is needed. This strategy must have as its target the development of a robust private sector comprised of local MSMEs. They will be the supporting partners for the government policies to restructure the local economy, to accelerate growth and to make it greener and more inclusive and to ultimately achieve SDGs.



# Annex I.

## The list of main legislative acts of Ukraine aimed at preventing the occurrence and spread of COVID-19 and supporting businesses and citizens during the pandemic and quarantine (March-November 2020):

- Resolution of the Cabinet of Ministers of Ukraine (CMU) N° 211 “On prevention of the spread of the COVID-19 acute respiratory disease caused by the SARS-CoV-2 coronavirus in Ukraine”, 11.03.2020.
- Law of Ukraine N° 530-IX “On amendments to certain legislative acts of Ukraine aimed to prevent the occurrence and spread of coronavirus disease (COVID-19)”, 17.03.2020.
- Law of Ukraine N° 533-IX “On amendments to the Tax Code of Ukraine and other laws of Ukraine on support taxpayers for the duration of measures aimed to prevent the occurrence and spread of coronavirus disease (COVID-19)”, 17.03.2020.
- Resolution of the CMU N° 225 “Some issues of procurement of goods, works and services required for the implementation of measures aimed at preventing the occurrence and spread, localization and elimination of outbreaks, epidemics and pandemics of coronavirus disease (COVID-19) in Ukraine”, 20.03.2020.
- Resolution of the CMU N° 251 “On issues of raising pension benefits and providing social support to certain categories of population in 2020», 01.04.2020.
- Law of Ukraine N° 540-IX “On amendments to some legislative acts that aim to provide additional social and economic guarantees due to the spread of coronavirus disease (COVID-19)”, 2.04.2020.
- Law of Ukraine N° 553-IX “On amendments to the Law of Ukraine «On the State Budget of Ukraine for 2020”, 13.04.2020.
- Resolution of the CMU N° 283 «On amendments to the procedure for providing financial state support to micro and small businesses», 15.04.2020.
- Resolution of the CMU N° 329 “Some issues of social support for families with children”, 22.04.2020.
- Law of Ukraine N° 587-IX “On amendments to some laws of Ukraine aimed to increase the capability of Ukraine’s healthcare system to counteract the spread of the coronavirus disease COVID-19”, 07.05.2020.
- Law of Ukraine N° 591-IX “On amendments to the Tax Code of Ukraine and other laws of Ukraine on additional support to the taxpayers for the period of measures aimed at preventing occurrence and spread of the coronavirus disease (COVID-19)”, 13.05.2020.
- Resolution of the CMU N° 392 «On the establishment of quarantine to prevent the spread of the COVID-19 acute respiratory disease caused by the SARS-CoV-2 coronavirus in Ukraine and the stages of mitigation of anti-epidemic measures», 20.05.2020.
- Resolution of the CMU N° 641 «On the introduction of quarantine and the stepping up anti-epidemic measures in the area with a significant spread of COVID-19 acute respiratory disease caused by the SARS-CoV-2 coronavirus », 22.07.2020.

- Resolution of the CMU N° 956 «On amendments to the Resolution of the Cabinet of Ministers of Ukraine of July 22, 2020 N° 641», 13.10.2020 (on extending and tightening the adaptive quarantine till 31.12.2020).
- Resolution of the CMU N° 1100 «On amendments to the Resolution of the Cabinet of Ministers of Ukraine of July 22, 2020 N° 641», 11.11.2020 (on introducing the «weekend quarantine» during 14.11- 30.11.2020).
- Resolution of the CMU N° 1171 “Some issues of payment of social assistance for children of individual entrepreneurs”, 25.11.2020.
- Law of Ukraine N°1071-IX “On social support to insured persons and business entities for the period of implementing restrictive anti-epidemic measures introduced to prevent the spread of the COVID-19 acute respiratory disease caused by the SARS-Co V-2 coronavirus in Ukraine”, 04.12.2020.

