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Final Report

# IMPACT OF WAR ASSESSMENT

Rapid assessment of the impact of war in Ukraine on micro- and small enterprises in the worst-affected areas of Ukraine as well as in regions where the security situation is relatively stable – opportunities and challenges for strengthening employment and income generation

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The final report was developed by National Consultant Dmytro Lyvch and a team of analysts, as a result of the rapid assessment of the impact of war in Ukraine on micro- and small- enterprises in the worst-affected areas of Ukraine as well as in regions where the security situation is relatively stable. The overarching aim was to identify opportunities and challenges for strengthening employment and income generation.

The Assessment was conducted in April-May 2022 under the framework of project, "SME Boost: Economic Integration of Internally Displaced People and Business Recovery" (SME Boost) implemented by IOM Ukraine and funded by KfW Development Bank on behalf of the German Federal Ministry for Economic Cooperation and Development (BMZ).

The contents of this report are the sole responsibility of the project team and can in no way be assumed to reflect the views of the International Organization for Migration.

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## EXECUTIVE SUMMARY

### BACKGROUND

As of May 5, 2022, Ukraine has been resisting the unprovoked Russian military invasion for more than 70 days. Due to the massive attacks on the civilian population, approximately [10.5 million people](#)<sup>1</sup> have been displaced either within Ukraine or have been forced to leave the country. More than [400 enterprises](#)<sup>2</sup> have been relocated from the combat zones to safer regions ( and only an estimated 200 have managed to restore their production processes). This has led to a tremendous impact on the economy as a whole and on the employment of the population. The war has affected micro-, small and medium-sized enterprises (MSMEs) to a greater extent due to their generally fewer resources and less resilience in comparison to bigger businesses.

Thus, the purpose of this project was to conduct a rapid impact assessment of the war on micro-and small- enterprises in the worst-affected areas of Ukraine ,as well as identify opportunities and challenges for strengthening employment and income generation in regions where the security situation is relatively stable. The findings of this final report, are based on both the desk and field research. To achieve all objectives, the Project team incorporated all the research questions defined by Terms of Reference (ToR) and developed a comprehensive approach covering analysis of the key macroeconomic indicators, analysis of the most affected sectors of the economy (primary, secondary, and tertiary sectors, as well as cross-sectoral aspects - financial system, logistics and infrastructure and labour market). This report consists of three main chapters and two annexes, including:

- **Our Approach** (a brief description of the research methodology);
- **Chapter 1. Impact of war on the economy** (general assessment of the economic situation via keydimensions);
- **Chapter 2. Micro- and small businesses' needs assessment** (assessment of the needs and challenges ofmicro-and small enterprises);
- **Chapter 3. Recommendations** (actionable recommendations based on the key insights gained throughthe research);
- **Annex 1. List of conducted interviews;**
- **Annex 2. Questionnaire.**

### ECONOMIC ACTIVITIES OF MSMMES AND ECONOMIC OUTLOOK SINCE THE START OF THE WAR

The Russian invasion has catastrophically damaged the Ukrainian economy leading to a decrease in the living standards of Ukrainians. To mitigate the negative impact of the almost 45%-worth Gross Domestic Product (GDP) decline<sup>3</sup>, the Government of Ukraine (GoU) has launched a contractionary monetary policy and an expansionary fiscal policy. The measures have been designed to support businesses and the population. Despite the fact that Ukraine is a developing economy, its sectoral economic structure is more similar to those of the developed nations: 65% of its GDP<sup>4</sup> is contributed by its tertiary sector (services of various kinds). Moreover, over the years the secondary (manufacturing) and primary (agriculture and mining) sectors have contracted in terms of GDP and employment. However, the primary and secondary sectors have suffered the most in terms of the loss assets, as Russia's military action has been destroying predominantly physical infrastructure. On the other hand, the tertiary sector has turned out to be more mobile than expected and managed to preserve economic activity even in the frontline regions.

The financial system of Ukraine has weathered the crisis relatively well because of sound fiscal and monetary policies and robust foreign financial aid. The amount of direct financial aid to employees and employers has been significant, but at the moment, the GoU has not managed to establish a continuous or sustainable stream of benefit payments due to their ever-increasing budget deficit. In addition, small and micro-enterprises still lack grant-based funding for their innovative projects, as the traditional financial sector cannot support them due to their high risks. Unfortunately the GoU also does not have sufficient resources, at this time, to issue any risk-guarantee agreements. Yet the needs for extra

funding can be covered by international aid or frozen reserves of the Russian banking system.

The logistical system of Ukraine has been significantly damaged and the naval blockade of the Ukrainian sea ports has pressurized Ukrainian exports. Therefore, the railroad is being prepared to take over the majority of cargo exports and passenger transportation. This is facilitated by the construction of “dry ports” and new subsidized routes. It is worth noting, that the governmental relocation program has had moderate success: 60% of the applications for the governmental logistical support have been approved, and our interviewees have left predominantly moderately positive responses<sup>5</sup>. However, the surveys suggest that small and microenterprises demonstrate little or no interest in the available relocation opportunities, which can be due to the insufficient information campaigns or the program inapplicability (e.g., most of the small and microbusinesses in Ukraine are service-oriented and thus are disinterested in relocation). Historically, the frontline regions of Ukraine had the largest levels of urbanization, population density and contained the largest part of the country’s population as well as the workforce. Since the start of the war, a significant share of people from these regions, previously employed in the tertiary sector, have become unemployed. Furthermore, a significant share of people have decided to seek refuge abroad or relocate within the borders of the country.

### BUSINESS NEEDS OF MICRO- AND SMALL- ENTERPRISES TO CONTINUE/RE-START THE OPERATIONS

Based on the analysis, we suggest to consider three buckets of needs:

**General needs applicable to all Ukrainian enterprises:** (1) Searching for new contractors due to disruption of value chains; (2) Access to finance to replenish working capital, modernization and re-profiling of production; (3) Reduction of bureaucracy burden; (4) Access to workforce to replace workers who have been mobilized or have moved to a safer place; (5) Tax changes.

**Specific needs of relocated Ukrainian enterprises:** (1) Transportation of equipment; (2) Production area to accommodate production facilities; (3) Relocation of workers to a new place; (4) Financing for the re-start; (5) Search for the new contractors; (6) Search for workers with specific skills in the new areas.

**Specific needs of enterprises in areas that have been damaged/destroyed:** (1) Recovery of the basic infrastructure, (2) Demining of areas for business activities, (3) Finance for the recovery of business activities, (4) Access to workforces in order to replace workers who have been mobilized or have moved to a safer place.

### ACTIONABLE RECOMMENDATIONS TO REVIVE MICRO- AND SMALL- ENTERPRISES

Based on the analysis, we provide two sets of recommendations:

#### Recommendations for the GoU:

- Provide communication and analytical support to businesses on how to: e.g. adapt to current challenges; finding new suppliers and buyers, etc.
- Expand the available loan programs (credit guarantees, compensation of interest rates, etc.) to improve the businesses’ access to finance.
- Streamline the access to foreign markets via simplifying the access to seaports of Gdansk and Constanta, expanding export credit agency programs, simplifying customs procedures, providing transport licences and increasing the capacity of railways and highways to EU countries.
- Deregulate the labour market and expand the employment support programs (i.e., effective operations of the State Employment Service) to combat increasing unemployment.
- Provide safe access to the basic infrastructure as a first priority on the de-occupied territories.

#### Recommendations for the international development partners of Ukraine:

- Consult/finance the search of new partners for Ukrainian enterprises (e.g., organize regional forums for relocated enterprises).

- Support Ukrainian enterprises in funds attraction via: (1) issuing grants/vouchers for advisory services to prepare applications for funding; (2) disseminating information on existing funding opportunities.
- Support Ukrainian enterprises in accessing foreign markets via: (1) export promotion campaigns; (2) export advisory services; (3) granting access to the global e-commerce platforms; (4) communication campaigns to replace Russian goods with Ukrainian ones.
- Provide technical support to the GoU in: (1) carrying out the reforms of the labour market and (2) issuing grants for employment of IDPs.
- Provide targeted financial instruments to re-start of the business activities of the businesses from primary war-affected territories.

## POTENTIAL PROJECTS AIMED TO MEET THE IDENTIFIED NEEDS

In order to identify the specific potential interventions 5 project proposals have been developed, including as follows:

### PROJECT 1: SUPPORTING MSMEs IN THE RESTARTING OF OPERATIONS

**Brief description:** Helping MSMEs that have been most affected by hostilities by providing the financial instruments for the restoration of the production process.

### PROJECT 2: ESTABLISHING PRODUCTION CLUSTERS IN WESTERN UKRAINE

**Brief description:** Helping local authorities with establishing production clusters bringing together both relocated and existing businesses in their communities. This could include both horizontal (producers of similar products) and vertical (producers at different stages of value chains) cooperation.

### PROJECT 3: ASSISTANCE WITH RELOCATION TO WESTERN UKRAINE

**Brief description:** Providing MSMEs with financial instruments for relocation, including:

1. Small grants for financing the transportation services;
2. Vouchers for acquiring advisory services.

### PROJECT 4: SUPPORTING UKRAINIAN MSMEs IN ENTERING NEW MARKETS

**Brief description:** Providing MSMEs with support in entering the EU's markets (market selection, export strategy, B2B matchmaking, certification) through vouchers.

### PROJECT 5: FACILITATION OF THE RETRAINING OF IDPs

**Brief description:** Assisting local State Employment Centres in launching effective re-training programs for IDPs, who have relocated to western Ukraine. The purpose is to equip them with the necessary skills for employment in their new places of residence.

### PROJECT 6: CONSTRUCTING MODULAR BUILDINGS FOR IDPs

**Brief description:** Assisting local governments with the organization of residence for internally displaced persons (IDPs) in western Ukraine. A particular interests is given to IDPs who are employed by relocated/local businesses.

The intervention logic of the potential projects is described in Chapter 3.



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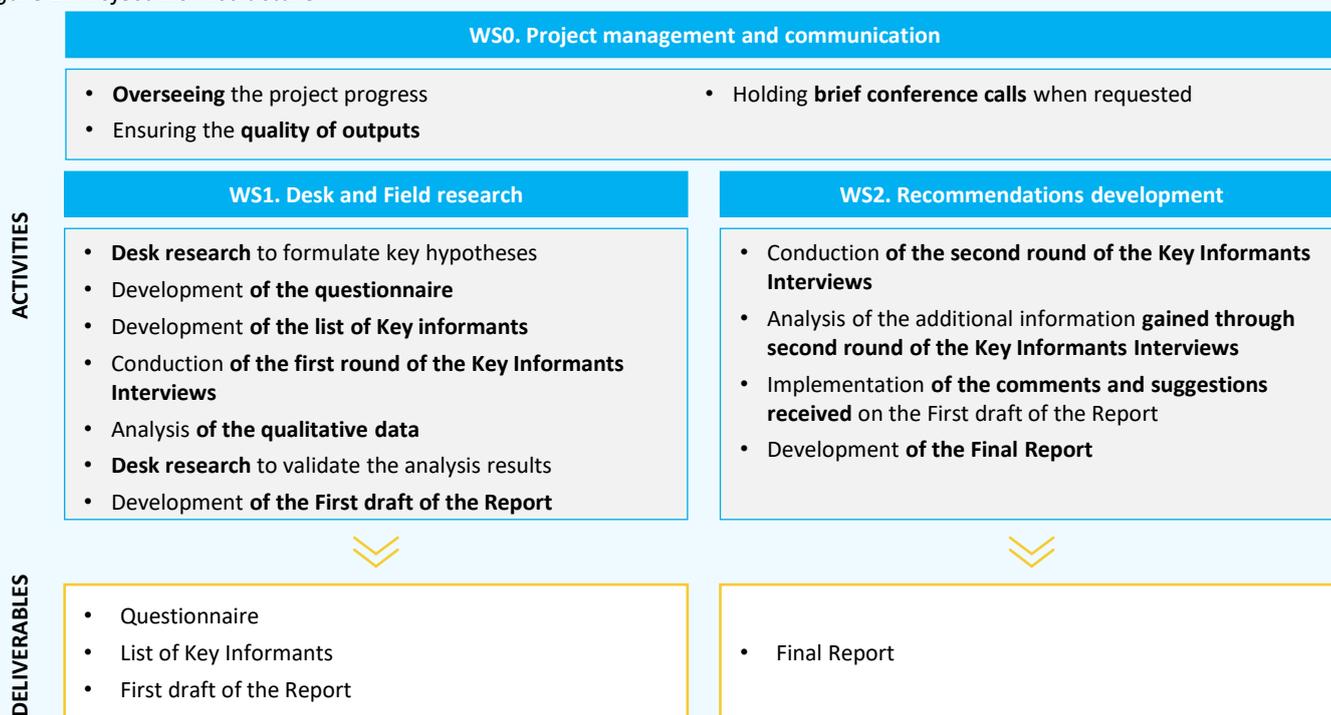
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## OUR APPROACH

### WORK ORGANIZATION STRUCTURE

In order to successfully meet all the stated objectives, the project team has developed a methodology based on the provided Terms of Reference. The proposed scope of work was divided into two main workstreams (see **Figure 1**): **WS1. Desk and Field research**; **WS2. Recommendations development**. The project activities also included the **WS0. Project management and communication**. This conventional division used for the purpose of this assessment was based on the security situation when the assessment was being conducted.

Figure 1. Project work structure



Source: Project team

**WS1. Desk and Field research** was focused on the development of a questionnaire, conducting interviews and analysis of the qualitative data gained through the interview process. Moreover, in order to contribute to the general understanding of the impact of the war in Ukraine on micro- and small-enterprises an additional desk research exercise was performed. It was focused on the validation of the gained information from the third-party sources to ensure the overall quality of the deliverables. Thus, as a result of the **WS1**, the project team developed a *questionnaire, a list of the key experts for the interviews and a first draft of the Report*, based on the first round of conducted interviews.

- **Desk research** | To conduct the desk research publicly available information from the government institutions, think tanks and research organizations was used. Also, the project team used the results of several surveys done by Gradus Research in order to gain the most recent available data which could be used for the assessment.
- **Development of the key informants list** | To fully assess the economic impact of the war on the MSMEs, representatives of both state and non-state actors were included in key informants list. Thus, the identified key stakeholders included: (1) Government Institutions, including representatives of the State Employment Service; (2) Local Governments in “Active fighting zone” / “Relatively safe zone” / “Safe zone”; (3) Local State Employment Centres, (4) Hromadas; (5) Business Support Organizations; (5) Relocated Companies.
- **Development of the questionnaire** | The project team grouped the questions proposed by IOM representatives into three categories including: *I. Economic activities of MSMEs and general economic outlook, II. Business needs to continue / restart the operations, III. Actionable recommendations.* (see Annex 2)

- **Development of the interview tracker** | A separate tool was developed to provide better management of the interview process, contact data collection and representation of all identified stakeholders. To collect the contacts for further interviews, several sources were used including: open data on the website of the institutions, contacts provided by IOM team as well as the personal contacts of the project team. (*The Interview tracker is available [here](#)*)
- **Conduction of the first round of key informant interviews** | As of 05.05.2022, the project team has conducted **27 interviews** with representatives of all the targeted groups (6 with representatives of government institutions, 4 with representatives of local government, 11 with business support organizations and 6 with business representatives). It is also important to mention, that several of the respondents also de facto represent different stakeholders (for example, representatives of business support organizations often have active businesses themselves). To collect their contact information, the snowball interview sample method was used for the conduction of the interviews. This entails gaining additional contacts from the already interviewed respondents. Interviews were conducted via the Google Meets platform, via phone and in one case via email.<sup>6</sup> Interview notes were taken during the interviews and later these interview notes were used to analyse the information. The average interview duration was approximately 40 minutes (*See Annex 1*).

**WS2. Recommendations development** included several parts: analyzing the insights gained through the second round of the conducted interviews, as well as updating the identified bottlenecks and opportunities (if needed). This stage also included implementation of the comments and suggestions received to the first draft of the report. As a result of the **WS2**, the project team has delivered the final report both in Ukrainian and English.

**WS0. Project management and communication.** In order to ensure the high quality of all deliverables as well as keep IOM representatives updated regarding the research progress, communication between the Consultant and IOM representatives was held regularly and on demand.

## TECHNICAL APPROACH

Taking into account the aim set by IOM through SME Boost project (funded by the KfW Development Bank on behalf of the German Federal Ministry for Economic Cooperation and Development (BMZ)) to assess the situation and propose recommendations for strengthening Ukrainian business capacity to operate and provide critically needed goods and services for IDPs and host communities, as a well as for the conflict-affected populations, the project team has developed the logical approach presented on **Figure 2**.

To better understand the impact of the war on Ukrainian micro- and small businesses, both damages to physical assets (destroyed infrastructure, production facilities, etc.) and economic losses (impact on employment rates, disruption of value chains, etc.) were investigated, with a strong focus on the latter. In terms of the economic impact, firstly the key macroeconomic indicators were analysed, including GDP, inflation etc. All three types of economic sectors (primary, secondary and tertiary) were assessed.

Figure 2. Logical approach to the assignment

INPUTS	IMPACT OF THE WAR		
<b>DAMAGES:</b> destroyed infrastructure; destroyed storage facilities; destroyed production facilities, etc.	<b>ECONOMIC LOSSES:</b> decrease in economic activities (increase of unemployment); displacement of the workforce (both internal and external); disruptions in the value chains, etc.		
PROCESS	ANALYTICAL PROCESS		
Research question (TOR)	Approach	Source	
<b>(1) Analysis of the economic activities of micro- and small- enterprises and economic outlook since the start of the war</b>			
What changes have occurred in supply chains since the start of the war? How does that impact Ukrainian businesses, import capacity and economy overall?	<b>Analysis of the key value chains of primary, secondary and tertiary sectors of the economy with additional assessment of the functional sectors, including financial system, transport and logistics and the labour market</b>	<ul style="list-style-type: none"> <li>Analysis of the latest survey on business activities</li> <li>Interviews with key stakeholders (Governmental institutions, Business support organizations, etc)</li> <li>Analysis of the publicly available data (analytical reports, statistics)</li> </ul>	
How has the war impacted logistics within the country and its adjustment in terms of delivery time, transportation mode, new routes identified etc.?			
How is the financial system responding to the crisis? Has there been a decrease in financial products for MSMEs including loans, worsened lending conditions, increased interest rates etc.?			
What sectors have lost the most workforce? What are the interventions undertaken by business to sustain its workforce, by the state to mitigate massive layoffs?			
<b>(2) Analysis of business needs to continue/re-start the operations</b>			
What are the main needs of existing micro- and small- enterprises in the regions where the security situation is relatively stable? What sectors of economy should be prioritized?	<b>Assessment of the business needs with a focus on both categories of companies – relocated and those which located in relatively safe zones of Ukraine</b>	<ul style="list-style-type: none"> <li>Analysis of the latest surveys on business needs</li> <li>Interviews with key stakeholders (Governmental institutions, Business support organizations, etc.)</li> <li>Analysis of the publicly available data (analytical reports, statistics)</li> </ul>	
What support is needed for micro- and small- enterprises that are relocating/plan to relocate to the regions where the security situation is relatively stable?			
What services and/or programs on the national/oblast level facilitate relocation of enterprises ? What resources are offered (land, premises, relocation grants and so on) Needs of micro- and small- enterprises in and close to the regions where the active fighting is going on?			
What are the main needs of existing micro- and small- enterprises in the recently recovered regions?	<b>Assessment of the business needs</b>		
<b>(3) Development of the actionable recommendations to revive micro- and small- enterprises</b>			
Which services and incentives shall be in place to support business in Ukraine, in which sectors of the economy? What are the key barriers and amplifiers identified?	<b>Development of the recommendations based on the identified needs both for the Government and for international organizations.</b>	<ul style="list-style-type: none"> <li>Analysis of the latest surveys on business needs</li> <li>Analysis of the publicly available data (analytical reports, statistics)</li> </ul>	
What can be done by the Government to support micro- and small- enterprises and stimulate employment and business continuity in Ukraine?			
What can be done by the international community to support micro- and small- enterprises and stimulate employment and sustain business and economic activity in Ukraine?			
OUTPUTS	RECOMMENDATIONS		

Source: Project team

Additionally, three key cross-sectoral categories have been analysed, including the financial system, logistics and labour market. Those categories (both sectoral and cross-sectoral) were chosen in order to answer all of the required questions as well as to ensure the coverage of all affected sectors. To develop a set of actionable recommendations, the needs of both the relocated and the non-relocated companies were assessed and grouped. In order to obtain the latest information, several surveys, which had been conducted by Gradus, American Chamber of Commerce and others, were used. The key recommendations were also partially validated with the representatives of business support organizations as well as with representatives of businesses.

# CHAPTER 1

## IMPACT OF WAR ON ECONOMY

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## CHAPTER 1. IMPACT OF THE WAR ON THE ECONOMY

### 1.1 MACROECONOMIC OVERVIEW

Due to the economic, fiscal and financial reforms, Ukraine had tackled the COVID-19 pandemic better than it was anticipated and effectively started economic recovery in 2021<sup>7</sup>. The Ukrainian economy grew by 3.4% in 2021 as the domestic demand started to rebound after the easing of pandemic restrictions<sup>8</sup>. Unemployment stood relatively high at the level of 10,3% for 2021, with positive trends for improvement<sup>9</sup>.

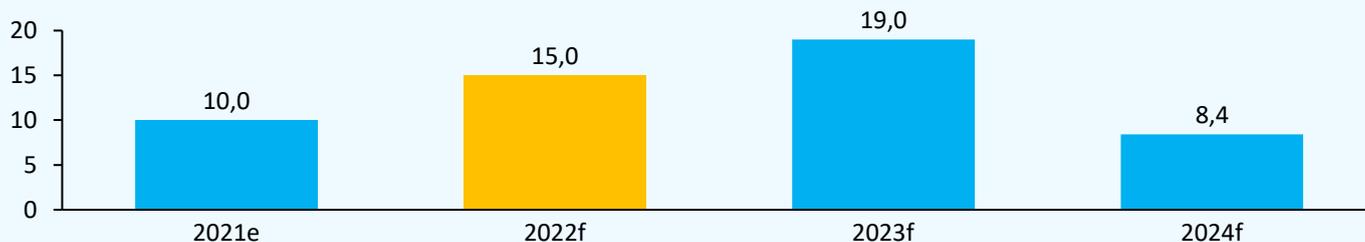
Figure 3. Projected real GDP growth, at constant prices, %



Source: World Bank

However, since the start of the Russian invasion, the Ukrainian economy has suffered substantial losses: the tentative projection of GDP decline by the Ukrainian government is -35-40% (under the assumption that the Russian-occupied territories would not expand, and the hot war will not last longer than several months)<sup>10</sup>. The International Monetary Fund (the IMF) provides more conservative figures, estimating the expected decline in GDP at the level of -35%<sup>11</sup>. The World Bank's forecast matches that of the Ukrainian government, predicting a 45,1% decline in GDP "under conditions of significant uncertainty"<sup>12</sup>. In **Figure 3**, the projected real GDP growth is presented.

Figure 4. Projected inflation (CPI)



Source: World Bank

By the end of the year, the consumer price index is expected to reach 15%, which is 10% higher than the initial target of the National Bank of Ukraine (the NBU). The forecast is based on an assumption that NBU will uphold its promise to keep the exchange rate fixed or pegged near the pre-war level, as such action will substantially slow the rise in prices on imported consumer goods<sup>13</sup>. On the other hand, the World Bank projected inflation for 2022 as presented in **Figure 4**.

The major causes of the forecasted GDP decline is the decrease in private consumption (-45%) and the decrease in the capital investment rate (-58%) supplemented by the downfall of exports (-80%)<sup>14</sup>. As a consequence, the Ukrainian economy is suffering from both demand and supply shock. Despite the fact that at first glance, the supply-side issues outweigh the demand-side losses due to the physical destruction of capital, in the long run the downfall of domestic consumption will be worsened by the massive demographic crisis that followed the Russian invasion.

To prevent financial collapse, the GoU has introduced contractionary monetary policy (imposed capital control, banking sector restrictions), and expansionary fiscal policy (announced tax deferrals, subsidies and other measures aimed to support business and financial sectors)<sup>15</sup>.

However, as the budgetary fiscal gap started to increase due to the decrease in military financing and liberalization of import controls, tax revenues dropped sharply. In response, international partners have provided substantial funding (grants, loans etc.) which should sustain the Ukrainian economy for a prolonged period of time<sup>16</sup>.

Further projections of the developments of the wartime Ukrainian economy are subject to a higher uncertainty; depending on the course of military action, economic forecasts will be updated with either positive or negative adjustments. The World Bank estimates that in the coming years, a major reconstruction effort is expected to push growth to over 7% by 2025 amid a slow restoration of productive and export capacity and gradual return of refugees<sup>17</sup>. However, according to the estimates of the Ukrainian government, a total amount of up to **USD 600 billion** will be needed for the Ukrainian economy Recovery plan<sup>18</sup>.

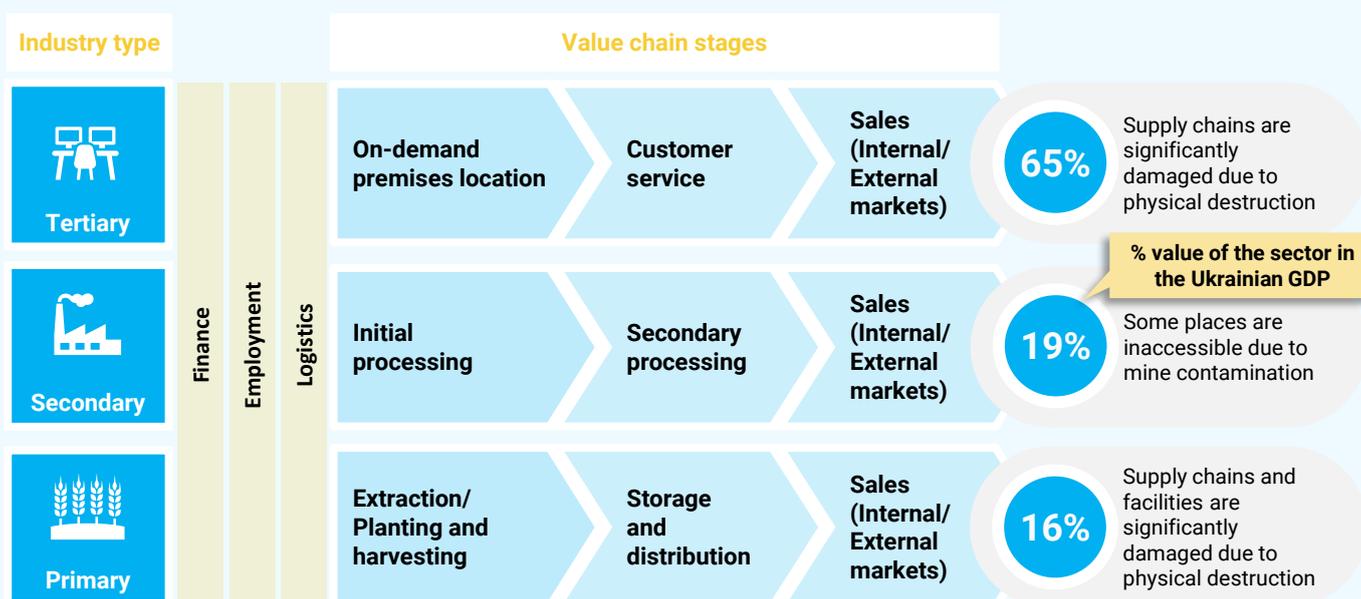
### KEY TAKEAWAY:

Ultimately, the Russian invasion has unleashed catastrophic damage to the Ukrainian economy and threatens to cause a lasting decrease in the living standards of Ukrainians. To mitigate the negative impact of almost **45% GDP** decline, the government has launched a contractionary monetary policy and an expansionary fiscal policy. The measures taken are designed to mitigate the negative impact of the GDP decline on both businesses and ordinary citizens. However, the increased fiscal deficit threatens MSMEs with fiscal contraction unless a robust financial aid is provided to the GoU.

## 1.2 SECTORAL ASPECTS

Since the Soviet era, the Ukrainian economy was often described with the use of the Three-Sector Hypothesis: according to the theory, the economy is divided into primary sector (agriculture and mining), secondary sector (manufacturing, including construction) and tertiary sector (services)<sup>19</sup>. Although such model can be described as overly simplistic, it is often used to describe the wartime economy of a country<sup>20</sup>. Enterprises from the primary sector are non-eligible for relocation for physical purposes (they depend on land and natural resources). The mobility of the secondary sector is also low, as it is dependent on long supply chains, warehouses and other logistical infrastructure. This chapter provides a brief overview of the Ukrainian economy using one of the modifications of the three-sector model, which divides the Ukrainian economy into three sectors and aims to estimate its potential transformation after the war-induced value chain disruption.

Figure 5. Main sectors of the Ukrainian economy with their approximate share in GDP



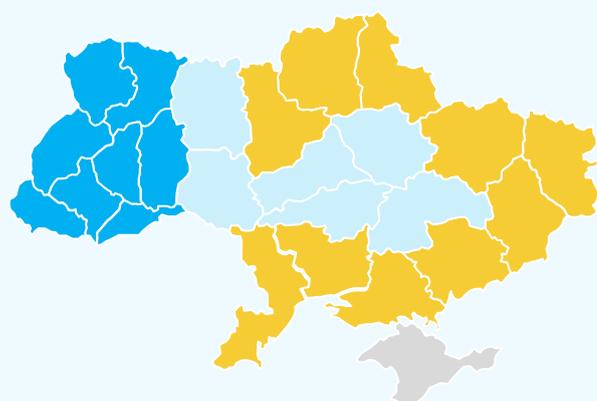
Source: Project team, State Statistics Service

Although precise numbers vary based on different methodologies (our estimates are provided on **Figure 5**), most of the sources confirm that the services sector constitutes over 50% of the Ukrainian GDP. Ukraine has a strong primary sector: it is estimated that the agricultural sector (up to 10% of GDP) combined with the extraction of raw materials contributes in total 27% to the GDP. The Ukrainian manufacturing sector is diverse and its contribution to the GDP ranges between 10% and 25%<sup>21</sup>. The value chains in the primary and secondary sectors are generally more complex than the ones in the services or tertiary sector. Furthermore, their geographical location and relative immobility made them more vulnerable, at the start of the full-scale war, in terms of infrastructure destruction.

The second key component of our study is the regional framework established by the Ministry for Communities and Territories Development of Ukraine (Minregion). This classification divides Ukraine into 3 types of strategic regions: Frontline regions (10 oblasts bordering Russia or the maritime coast), which are currently partially occupied by the Russian troops or exist under significant threat of invasion; Supporting regions (6 oblasts in the centre and middle west of the country), which are providing logistical support for the army, including humanitarian aid deliveries and production of critical products; and Safe regions (8 oblasts bordering the European Union), which were largely unaffected by military actions and are contributing most to the logistical support of the country (a detailed distribution can be seen from **Figure 6**).

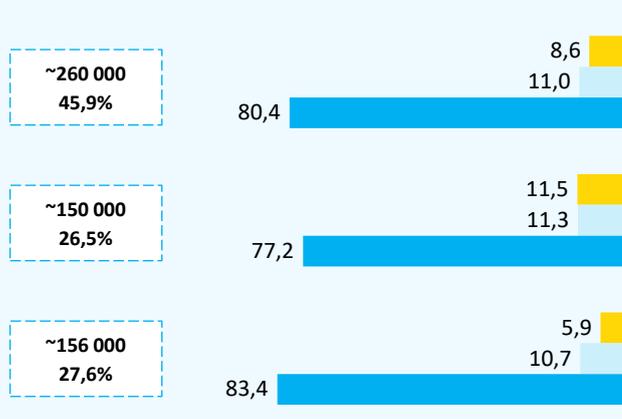
Figure 6. Differences in sectoral contribution to the economy of frontline, supporting and safe regions, number of enterprises and GRP%<sup>22</sup>

#### TYPES OF REGIONS (ADOPTED FOR THE PURPOSE OF THIS ASSESSMENT FROM MINREGION'S INFORMATION)

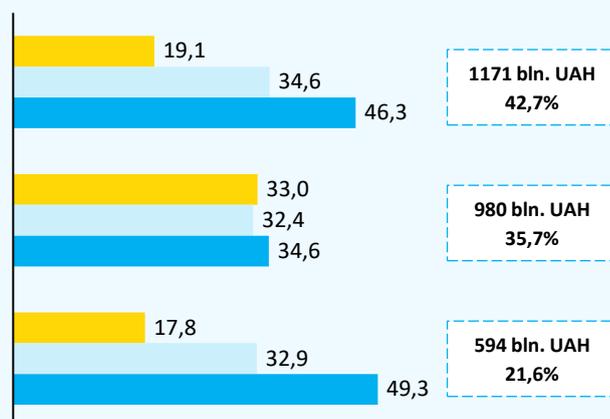


- **FRONTLINE REGIONS**  
Regions that are directly threatened by the military invasion or invaded by Russia; Business activities on these territories are minimal.
- **SUPPORTING REGIONS**  
Regions that are relatively safe for the business activities and play a crucial role in logistics for defence and humanitarian cargos.
- **SAFE REGIONS**  
Regions that are mostly safe for the business activities with minimal risk of invasion.

Differences in sectoral contribution to the economy of frontline, supporting and safe regions, number of enterprises, % (excl. Kyiv)



Differences in sectoral contribution to the economy of frontline, supporting and safe regions, GRP, % (excl. Kyiv)



Number of enterprises in the group of regions

Primary Secondary Tertiary

GRP generated by the group of regions

Source: Project team, calculated based on data from the State Statistics Service of Ukraine

According to the State Statistics Service of Ukraine, in 2021 Ukraine had over 698 thousand active enterprises. Approximately, 156 thousand (or 22%) of these were located in the safe regions, 150 thousand (21%) were located in the supporting regions and nearly 260 thousand (37%) were located in the frontline regions. 133 thousand enterprises (19%) located in the city of Kyiv alone, increased the combined share of endangered businesses up to 56%<sup>23</sup>. As illustrated by Figure 6, enterprises within all three types of the regions are located more or less evenly in terms of sectoral distribution. Under the Ukrainian Functional Classification of Economic Activities (“КВЕД-2010”)<sup>24</sup>, over 7% of active enterprises belong to the primary sector, 12% belong to the secondary sector, and over 81% belong to the tertiary sector.

However, the number of enterprises in the frontline regions is 1.3-2.5 times higher than in the supporting and safe regions in almost all sectors. Therefore, the share of endangered enterprises in the frontline regions is nearly 45% in the primary sector, 35% in the secondary sector and 37% in the tertiary sector. Assuming that most production activities in the frontline regions have come to a halt, it can be argued that the primary and secondary sectors contributed the most to the decline in Ukraine’s GDP.

Unfortunately, in terms of the value added the regional map of Ukraine looks much less equalized. The frontline regions used to contribute most in terms of Ukraine’s GDP: according to the 2020 data, their share in the total output was 33%. Together with the amount of added value produced by the Kyiv-based enterprises, this number would amount to 56%. The supporting and safe regions accounted for about 27% and 17% of Ukraine’s GDP respectively<sup>25</sup>. Notably, the largest share of the primary-sector enterprises are located in the supporting regions. Therefore, the basis of Ukraine’s exports (namely ores and agricultural production) could have a good chance of maintaining their export levels, if it was not for logistical issues and missile strikes. According to US intelligence, since the beginning of the war, Russia has struck more than 1,900 missile strikes on critical infrastructure within Ukraine, including warehouses and manufacturing plants<sup>26</sup>.

Service enterprises, located primarily in the regional urban centers and oriented at the local population, have experienced a significant drop in demand due to the mass migration of civilian populations from their regions. Therefore, regional differences can partially explain the significantly different sectoral impact of the war on local economies, which will be discussed in more detail in subsection 1.3.3.

### Primary sector (agriculture & mining)

The mining industry has been hit significantly since the start of the war: many large enterprises have been ordered to cease operations under the danger of airstrikes, while others have decreased their production due to the lack of export opportunities or because of logistical issues<sup>27</sup>. The risk of a protracted war in Kharkiv, Luhansk, Donetsk, Zaporizhzhia and Kherson oblasts has endangered the supply of agricultural produce too - as the share of the frontline regions in the production of staple goods constitutes 23% for wheat, 3% for corn, 21% for barley and 20% for sunflower seeds<sup>28</sup>. Even after the liberation of the regions in the north of Ukraine, about 13% of the country’s total territory is contaminated with Russian minefields. In the areas where the fighting has taken place, farmers have suffered from unexploded ordnance, improvised explosive devices, spilled fuel and mining of the territory, which has made it impossible to conduct economic activity. In addition to significant theft and destruction of equipment<sup>29</sup>. Moreover, the entire agricultural industry faces logistical problems due to the Russian blockade of Ukrainian ports, which leaves most producers unable to sell their stored products abroad<sup>30</sup>.

On the positive side, overall, the sector employs only about 17% of the Ukrainian working-age population, which makes its losses insignificant in terms of unemployment. Furthermore, some mining industry enterprises have resumed operations or have managed to continue since the start of the war<sup>31</sup>. Lastly, despite the initial pessimistic forecasts about the prospects of the Ukrainian agricultural sector (reduction of cultivated areas by 13% from 28.4 to 24.8 million hectares), the first part of the sowing campaign after the withdrawal of Russian troops from northern Ukraine has been successfully completed<sup>32</sup>.

Although the price of some categories of fertilizers has already increased by 70% in domestic Ukrainian markets, according to the respondents, most farmers have been shielded from the detrimental impacts of this rise for now, as they expected the prices for fertilizers to increase in autumn 2021 and took care to purchase them in advance for the current season. Thus, at the moment, most do not have problems with their supply or use<sup>33</sup>. However, in the event of a long war, farmers will need logistical and financial support throughout the wartime, to purchase the necessary mineral fertilizers and ensure safe harvesting, storage and distribution of crops. It is worth noting, that this task that will be much more difficult for small farmers without coordinated support from the GoU and foreign donors<sup>34</sup>.

The biggest problem concerns the supply of nitrogen and potash fertilizers, as a significant part of them were imported by Ukrainian farmers from Belarus or was produced in the affected areas of Ukraine (Ostchem Group plant in Severodonetsk and state-owned enterprise “Sumykhimprom” in Sumy). According to the respondents, if the issue of sales of agricultural products is not resolved by the end of summer, the harvest of winter crops will be endangered<sup>35</sup>.

### Secondary sector (manufacturing & construction)

As it was mentioned earlier, the estimated losses of the manufacturing industry are significant. The frontline regions have the largest share of the secondary sector: many manufacturing enterprises were located in the northeast and the southeast of the country and therefore were the first ones to suffer from the direct military action. According to the calculations of the Centre for Economic Strategy (hereinafter - CES), the loss of industrial assets amounts to USD 6.7 billion (about a hundred industrial enterprises have been reported damaged or destroyed). Including, metallurgy that lost at least 30% of its assets<sup>36</sup>. The enterprises from the secondary sector are predominantly large enterprises, which constitute 72% of the total sector added value<sup>37</sup>. Only 18% of the gross value of the secondary sector is created by small and micro-enterprises<sup>38</sup>.

According to our interviewees, some of the manufacturing enterprises still had economic ties with Russian suppliers and distributors even after the start of the political confrontation in 2014, which made them vulnerable to the start of this war<sup>39</sup>. This was confirmed in our survey by the responses of business support agencies representatives and regional administrations in the frontline regions<sup>40</sup>. Additionally, relocations were not feasible for some manufacturing enterprises, as they are still relying on their supply chains and stocks of spare parts<sup>41</sup>. Similarly, some of the producers were specializing in high-yield or highly specialized markets, which has made their products unnecessary in the war-time economy and has made them suffer most, either due to the downfall of domestic demand or due to the destruction of their supply chains. Detailed information and regular updates on the general state of affairs in different industries of the sector is provided on a regular basis in the [publications of the GMK Center \(Eng\)](#).

### Tertiary sector (services)

The services industry has been hit hard as well, especially in the regions close to active combat due to the significant decrease in demand for all but essential services. The two key reasons for this are 1) prioritization of the expenses by households and 2) general decrease in population due to their displacement. Entertainment and leisure businesses have suffered the greatest losses due to lack of demand<sup>42</sup>.

Other enterprises in this sector also expect a decrease in income, but there is a regional specificity - some enterprises in western regions are expecting an increase in income due to the increased demand because of the influx of internally displaced persons in the region. The regions hope to attract IT workers and technical specialists as the lack of the latter has been demonstrated by the significant increase in real wages during the last 3 years and survey results in the 2018 EBA research<sup>43</sup>.

Unfortunately, discrepancies between the supply and demand of vacancies in the job market in western Ukraine have been a long-lasting problem even before the start of the war<sup>44</sup>. To mitigate its adversary effects, several regional administrations have announced grants and technical support for innovative companies that have decided to move to the region. There is a growing support for the creation of IT hubs in the satellite cities of the rapidly growing agglomerations of Lviv and Ivano-Frankivsk<sup>45</sup>. However, according to the respondents, such a policy is a matter of concern for the frontline regions, as local authorities argue that relocation of IT companies to other oblasts will reduce tax revenues of the frontline budgets and limit their capacity for post-war recovery<sup>46</sup>.

There are similar trends in the retail sector, as respondents stressed the decrease in demand in most affected regions for most of the consumer services<sup>47</sup>. However, in the western regions of Ukraine there is a rising demand for essential commodities, as well as for some other categories of consumer goods<sup>48</sup>. Moreover, respondents also noticed that big retail networks are experiencing heavy logistical troubles due to the hostilities in some of the key oblasts (mostly Kyiv oblast which had a large amount of storage facilities, some of which have been destroyed or access has been hindered). On the other hand, according to the respondents from government institutions, small retailers in the western regions have mostly found suppliers from other countries, thus logistical problems have affected them less<sup>48</sup>.

#### KEY TAKEAWAY:

Despite the fact that Ukraine is a developing economy, its sectoral economic structure is more similar to those of the developed countries: **65%** of its GDP is contributed by its Tertiary sector (services of various kinds). Over the years the secondary (manufacturing) and primary (agriculture and mining) sectors have become less important both in terms of GDP and in terms of employment. As military action destroys predominantly physical infrastructure, according to the three-sectors model, the primary sector and the secondary sector should have suffered the most (in terms of the lost assets) in the frontline regions, defined by the Ministry for the Communities and Territories Development of Ukraine. However, despite the fact that these regions (both including and excluding the city of Kyiv), make the largest contribution to the Ukraine's GDP, most of those enterprises there belong to the Tertiary sector and therefore are much more mobile than could be expected.

### 1.3. CROSS-SECTORAL ASPECTS

As mentioned before, the three-sector model of any economy has its limitations. To overcome this, we have supplemented our review with three cross-sectoral economic dimensions, which are crucially important for the well-being and development of a war-time economy in general, and small and micro-enterprises in particular: the financial system, logistics and labour market. The following chapter contains detailed information on the recent developments in each of these three dimensions.

#### 1.3.1. FINANCIAL SYSTEM

Since 2014, the financial system of Ukraine has become much more resilient to external shocks. Hardened by the COVID-19 pandemic, in light of the news on the upcoming Russian invasion, banks and other financial institutions increased their capital reserves<sup>49</sup>. Ukraine's financial regulators have also acted rapidly: the Government has introduced an expansionary fiscal and a contractionary monetary policy to combat stagflation and capital outflow in the first weeks since the start of the invasion.

##### Monetary policy

Despite its intention to revise its policy before the start of the war (with inflation at 10% in January, which was 5% above the inflation target), the National Bank of Ukraine (the NBU) decided to keep its key policy rate at 10%<sup>50</sup>. The NBU also froze the exchange rate at the level of UAH 29.25 per USD: private banks and credit unions were allowed to deviate from the official exchange rate by only 10%. These measures limited the ability of the NBU to conduct an independent macro financial policy. However, fortunately, due to the timely response of the international community, the foreign currency reserves of the NBU were further reinforced by over USD 3.3 billion. Approximately USD 1.4 billion was financed under the Rapid Financial Instrument (hereinafter – RFI) provided by the International Monetary Fund.

Although at the beginning of April the foreign currency reserves of the NBU had increased to the level of USD 28.1 billion due to the robust foreign financial aid<sup>51</sup>. Further arbitrage pressure on the foreign currency market in future will likely force the NBU to divert from such policies, unless a robust financial aid will be provided to the country during the year. To relieve part of the pressure, the NBU has already revised some of its policies as of March 23<sup>52</sup>.

On the positive side, under the new regulations of the NBU, citizens were allowed to withdraw cash from their debit cards even in shops and pharmacies, which joined the new initiative of the bank called “Financial defense”. Such actions, aligned with powerful information campaigns, have increased the confidence of the civilian population and helped to stabilize the system.

The public trust in the financial system of the country has been significantly improved, as a result of an efficient monetary policy. Cash withdrawals have significantly decreased and, despite several cyber-attacks online banking services have been working almost flawlessly with no major glitches having been reported. Illustratively, more than 70% of PrivatBank customers still receive remittances in foreign currency from abroad; online, by card and through a mobile application<sup>53</sup>. Additionally, some of the global payment platforms like Revolut, Payoneer, and PayPal have simplified access for Ukrainian citizens in order to ensure a better connection of the Ukrainian financial system with global markets<sup>54</sup>. Subsequently, all of the aforementioned actions have made the Ukrainian financial system more resilient.

The NBU will be able to maintain a fixed exchange rate only as long as Ukraine receives significant amounts of financial assistance. It is worth noting, that in the long run, the communication policy of regulators on explaining the peculiarities of the financial system during the war and the post-war reconstruction has potential for development. A particular area is the publication of regular metrics on economic renewal, such as inflation expectations, publications on financial literacy, etc.

### Fiscal policy

On March 15, the Ukrainian government announced a war-time tax reform<sup>55</sup>. The key features of the new system were the introduction of significant tax cuts for SMEs and large businesses alike (partial abolishment of VAT taxes, import duties and some of the excise taxes).

Before the war, there were two systems of taxation in terms of corporate tax:

- General system, with 18% of corporate tax paid from profits, and 20% of value added tax for most of the products.
- Simplified system, which included several groups with different tax rates that were significantly lower compared to the general system.

After the war started, on March 15th, in order to stimulate the business activity, the GoU adopted changes to the Tax Code of Ukraine and other legislative acts<sup>56</sup>. The following provisions were introduced:

- Individual entrepreneurs using 1st and 2nd groups of the simplified taxation system had a right not to pay the single tax.
- Individual entrepreneurs using 2nd and 3rd groups and legal entities using the 3rd group of simplified tax system had a right not to pay the single social contribution for their employees who were mobilized in the Armed Forces.
- Businesses (both individual entrepreneurs and legal entities) gained an opportunity to switch to the 3rd group of the simplified tax system. In such case, those businesses had to pay only 2% of the single tax charged on revenue.

According to the law adopted on March 15, only businesses with an annual turnover lower than UAH 10 bln were allowed to switch to the new simplified system, although later this limitation was abandoned. Therefore, as of now, almost every business may choose the simplified taxation system.

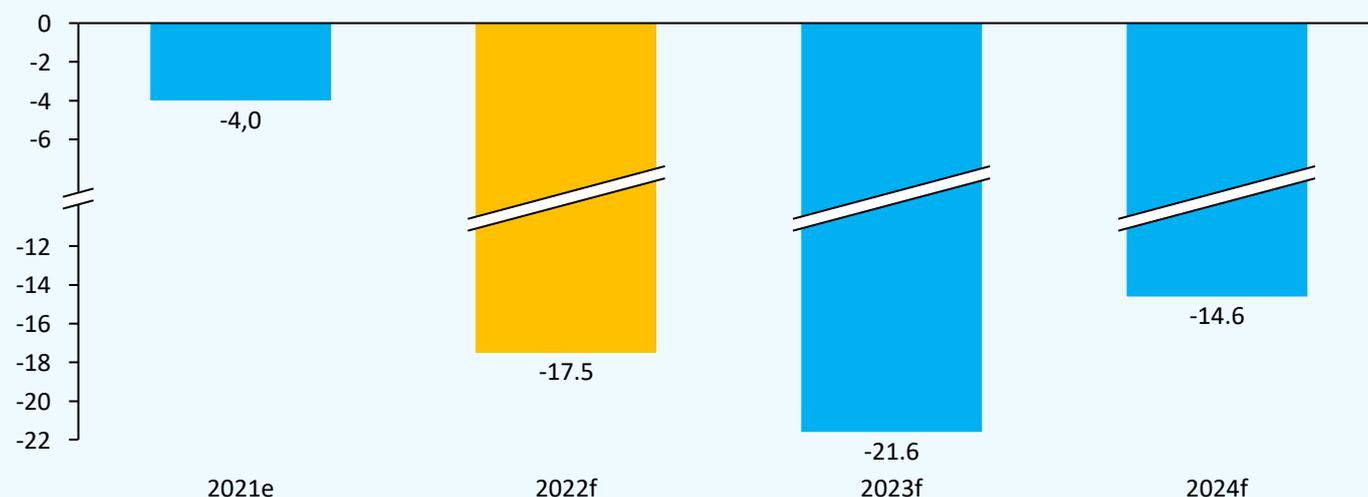
According to the information provided by the surveyed experts, such novelty was perceived as controversial: 70% + of the surveyed MSMEs are not willing to transition to the new system of taxation (primarily because it makes even those companies taxable, which are running at a loss)<sup>57</sup>. Nonetheless, according to the recent information provided by the GoU, nearly 200,000 entrepreneurs have still taken advantage of the new tax reform and switched to the 2% "turnover tax" option<sup>58</sup>.

In order to support the Ukrainian army and civilian population, on March 10, the GoU introduced a list of critical imports in order to simplify the process of custom clearance for medical, food and armaments supply<sup>59</sup>. Payments for the purchase of foreign goods that are not specified in the list of critical imports have been essentially forbidden<sup>60</sup>.

On March 23, the GoU further liberalized the customs regulation, allowing humanitarian aid to avoid complicated clearance procedures<sup>61</sup>. The fact that the list of the introduced measures included removal of VAT payments on imported goods, (the tax that constitutes nearly 40% of the total budget revenue of Ukraine - UAH 540 billion) was the primary reason why the customs managed to collect only a fifth of the planned revenues in March (instead of the expected UAH 39 billion, the budget received UAH 7 billion or 18%)<sup>62</sup>.

Therefore, some of the estimates demonstrate that even with the amount of foreign funding provided, Ukraine may still experience a total of 18% fiscal deficit this year<sup>63</sup>. On **Figure 7**, the projected fiscal deficit of the consolidated state budget for 2022-24 is presented.

Figure 7. Projected fiscal deficit of the consolidated state budget for 2022-24, % GDP



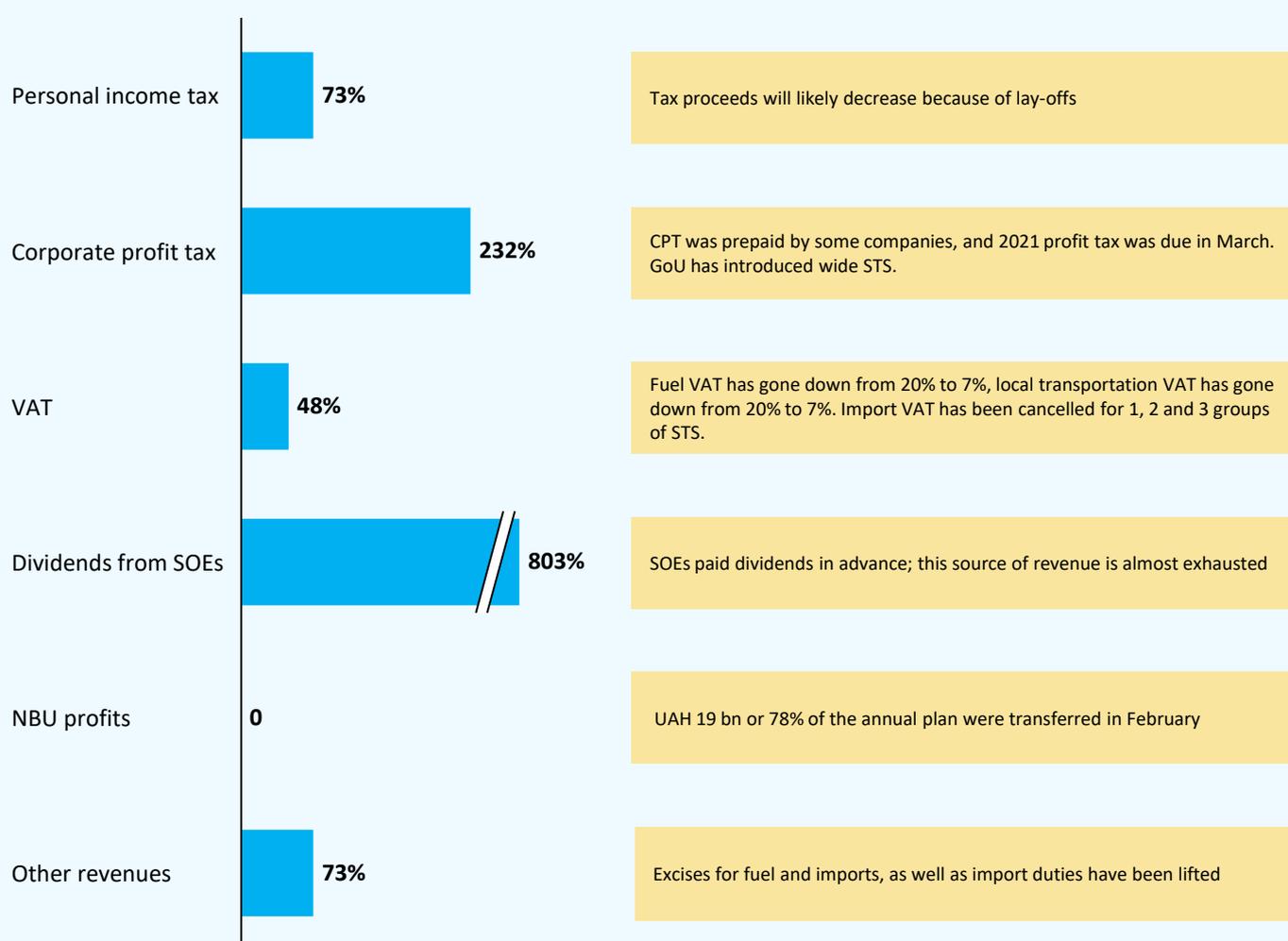
Source: *War in the Region, World Bank ECA economic update, spring 2022, p. 100*

According to the World Bank forecast, the total budget deficit for 2022 will approach 17.5% GDP. Detailed CES estimates based on the fiscal performance in March suggest that the monthly budget deficit will amount to USD 2.8 billion<sup>64</sup>. Most of the losses come from the decrease in value added tax (VAT) payments (-52%), as well as from the decrease in revenues from personal income taxes (-27%), excise taxes and other types of taxes (tax on resource extraction, eco tax, import duties, etc.) (-27%).

The increase in corporate income tax revenue, as well as in dividend payments from the state-owned enterprises (SOEs), demonstrated on Figure 8, can be explained by the request from the GoU from March 25<sup>65</sup>. However, this measure means that the Government is likely to face shortages in budget income in future months later this year.

The International Monetary Fund estimates the total budget deficit for 2022 at 17.8% of GDP and forecasts the public debt to reach 86.2% of Ukraine's GDP<sup>66</sup>. For this reason, on the 11th of April, the Ministry of Economic development announced the introduction of changes to the list of critical imports in order to re-introduce import taxation to decrease budget deficit and provide some degree of protection for local industries<sup>67</sup>. Traditional international financial institutions headed by the IMF agreed to provide a loan of USD 15 billion for Ukraine by the end of the year – however, such an amount of funds is not enough to cover the budget deficit. In response and in search of alternative sources of funding, the Government of Ukraine asked for a USD 50 billion package of direct annual financial aid<sup>68</sup> from the G7 nations. According to preliminary information, the countries have agreed to a compromise solution on this issue: the Ministers of Finance of G7 countries have promised the Ukrainian government a USD 24 billion support package<sup>69</sup>.

Figure 8. Changes in the monthly tax revenue by tax types, % of 1/12 of annual plan



Source: Centre for Economic Strategy: Ukrainian economy during the war

If such support indeed takes place, the Ukrainian government will have no need to reintroduce harsh customs control and tax measures (20% VAT, excise taxes, import duties) on all imported goods, which will help to slow down the increase in consumer prices and protect the vulnerable population. Such financing will also help to avert current UNDP forecasts where 90% of the Ukrainian population will be pushed below the poverty line or face extreme economic vulnerability in case of a prolonged war with Russia<sup>70</sup>.

Overall, the effects of the fiscal policy of the Ukrainian government (in particular - the freshly-designed social security schemes and tax cuts) on small and micro-enterprises and the economy in general is hard to estimate due to the lack of operational data. Still, the preliminary data suggests that the Government's measures have been effective at least in the short run. Thanks to the preliminary dividend payments done by the state-owned enterprises (SOEs) in March, the Government was able to fulfil all their necessary social obligations and maintain a budget deficit at a relatively low level. Moreover, since the full-scale invasion of the Russian Federation, the number of applications for bankruptcy has fallen from 1,100 in February 2022 to just 16 in March and April in total<sup>71</sup>.

Nonetheless, thanks to the proactive monetary government policy at the beginning of the war, the society has reinstated its trust in the financial system of the country. Although the total amount of funds on checking and deposit accounts has decreased by USD 28 billion since the start of the war, the latest information suggests that the trend line has changed as 2/3 of the banks have seen their deposits increase in the first half of April<sup>72</sup>.

Financial aid to the public in Ukraine has also been robust. As of April 15, 2022, Ukraine has received nearly \$900 million<sup>73</sup> from various humanitarian-aid organizations and non-profits, which have helped to avert a refugee crisis and support people in the frontline regions.

### Government support

To improve economic security and support private businesses, since the onset of war, the Ukrainian government has allocated UAH 2.3 billion for a program of soft (subsidized) loans for entrepreneurs with low interest rates, also known as "Affordable loans under 5-7-9% interest", or just "5-7-9"<sup>74</sup>. According to the information provided by the Ministry of Finance of Ukraine, the program has allocated 1,391 loans to entrepreneurs with a total value of UAH 3.95 billion. In addition to this, the state-owned bank Oschadbank has launched a program to support businesses relocation. In line, with the banks limits, loans of up to UAH 60 million will be provided to replenish working capital for the period of up to 36 months, as well as for investment needs. The interest rates will start from 0% when attracting funding under the state "5-7-9%" program, with a repayment period of up to 60 months. At the same time, state guarantees will cover up to 50% of the loan on a portfolio basis<sup>75</sup>.

However, the respondents note that only those companies that used credit resources before the start of the war and have had a good credit history in general can apply for this program<sup>76</sup>. Companies that have applied for the program for the first time have reported difficulties in obtaining the soft loans. Respondents attribute this to the reluctance of banks to take additional risks. In particular, a representative of one of the business support organizations noted:



*"Enterprises with complex value chains have suffered the most from the conflict: they need the support of high-tech manufacturing companies with their reorientation to exports. Due to the poor track record of existing governmental export support instruments, small businesses have little confidence in such programs. As a result and due to limited funding, tenders from large companies (USD 20-30 million) win the competition for financial support. In contrast to small and microenterprises, large companies can obtain preferential permission from banks for execution of advance payments of only 10% of the contract value", a representative of a business support organization has reported.*

Such complaints are confirmed by the data on the activities of the Export Credit Agency (the ECA). Despite the fact that the process of its establishment began in 2016, the agency launched operations only in 2021. In the first 9 months of its launch, the agency concluded a total of just 4 contracts and received revenue in the amount of UAH 116,000 (only 1.8% of the planned amount). The total amount of insured export insurance contracts for 2020-2021 was about USD 0.9 million, which makes for 0.0067% of export contracts which the agency could have helped to insure. The total value of export contracts eligible for preferential insurance in 2021 was USD 13.4 billion<sup>77</sup>.

Despite the fact that in November 2021 the authorized capital of the agency was increased from UAH 200 million to UAH 2 billion, as of February 2022, according to the official publication on the agency's website, the ECA managed to issue only UAH 12.55 million in loan financing for 6 companies in 2021 and UAH 2 million for 1 company in 2022<sup>78</sup>. One of the potential reasons for such a low result is the low analytical capacity of the agency (the ECA has a total of 36 employees) and legal constraints that prevent companies of certain types of economic activities from using the agency's services. The failure of an effective information campaign on existing opportunities could also have been part of the low popularity of the instrument: almost none of the business support organizations we interviewed knew about the [Decree of Cabinet of Ministers of Ukraine No.312 of March 18 2022](#) that allowed entrepreneurs to combine the GoU business support program "5-7-9" and the ESA export incentives<sup>79</sup>.

Measures of financial support for laid-off employees in the affected regions and tax benefits for a number of enterprises have become successful tools that have supported the activities of Ukrainian small and micro enterprises. Although these opportunities continue to exist only in the context of maintaining a large budget deficit, with continued foreign funding and the promotion and support of soft loans and enterprise transformation, this policy can be a successful start for the recovery of the Ukrainian economy<sup>80</sup>.

Branches of state-owned banks in the occupied regions found themselves in a dire situation. According to our interviewees, in the north-east of the country, which was liberated only in early April, some agricultural traders were forced to provide barter-based PPE (Agricultural Pesticide Protective Equipment) due to the inability to make full payments<sup>81</sup>. Almost a month later, in terms of supporting the operations of small and microenterprises, the overall picture of state and international assistance does not look as good as it could. Among the available systematic challenges are:

- Exporting small and micro enterprises have problems with advance payments for their export deliveries. Some of our respondents complained that foreign subcontractors no longer agree to make advance payments for the goods ordered from Ukraine before they reach EU territory. In addition to this, the access to international payment platforms like PayPal is still limited for Ukrainian businesses, which makes it impossible to access some export promotions e-sales platforms like Etsy<sup>82</sup>.
- The insurance market is going through difficult times. Vyacheslav Chernyakhovsky, CEO of the Insurance Business Association, notes that two-thirds of insurance companies have seen a 50-90% drop in revenue as many businesses are having problems with insuring of their new production facilities or product deliveries<sup>83</sup>.
- The Export Credit Agency of Ukraine doesn't have sufficient financial resources to provide insurance for the shipments of large quantities of non-critical goods from Ukraine<sup>84</sup>.
- Since the [ACAA agreement](#) between the EU and Ukraine has not been adopted yet, Ukrainian producers are facing difficulties with getting the required conformity certificates to export their products to the EU. Additionally, export restrictions in the form of export licenses aimed at the creation of food security in Ukraine create further problems for the exporters<sup>85</sup>.

The aforementioned issues are confirmed by the statements by the European Business Association, (the EBA), as 57% of their SME members (from all over Ukraine) have stopped or suspended their activities during the war time due to the direct threat of military actions, despite the available Government funding<sup>86</sup>. According to the survey conducted by the Gradus research company, the situation with microbusinesses is similar: approx. 39% of companies have stopped or frozen operations, and another 20% are «almost inactive»<sup>87</sup>.

#### KEY TAKEAWAY:

The financial system of Ukraine has weathered the crisis relatively well, in terms of both private and public finances. To a large extent, such resilience can be explained by the robust foreign financial aid, but the domestic fiscal and monetary policies have helped to provide necessary results to support Ukrainian business and population.

The amount of direct financial aid to the employees and employers has been significant, but at the moment the Ukrainian government has not established a continuous stream of benefit payments to the IDPs due to the ever-increasing budget deficit. Thus, the Ukrainian government remains in need of extra funding to promote businesses and prospective infrastructure projects of relocated enterprises. One of the ways of providing aid would be project-based financing, based on the model of the Economic Cooperation Administration (ECA) of the Marshall plan, the OECD and other global organizations.

Small and microenterprises lack access to grant-based funding for the innovative projects. The traditional financial sector can't support them due to their high risks and the Ukrainian government lacks the finances to provide insurance for the enterprise. The gap can be filled by foreign aid from donors and international organizations or frozen reserves of the Russian central bank. The financing can be administered based on the experience of the European Bank for Reconstruction and Development or similar models.

### 1.3.2 LOGISTICS AND INFRASTRUCTURE

The war has had a major impact on the supply chains in all regions of Ukraine. As some of the largest enterprises of industrial and agricultural sectors require maritime transport for export shipments, Russian occupation of the southern regions and the coastline of the Sea of Azov and the Black Sea has resulted in a major loss of export markets for Ukraine. In particular, the maritime blockade of the Ukrainian sea ports poses a serious threat to the Ukrainian agricultural sector and steel industry. Even before the start of the war, estimated losses from the naval blockade due to “Russian military exercises” in the Black Sea and the Sea of Azov amounted to the level of USD 170 million per day<sup>88</sup>.

In the north eastern regions of Ukraine, which were liberated by the Ukrainian armed forces in early April, a large number of important transport facilities had been physically destroyed, thus creating significant problems within the supply chains of these regions. In particular, the destruction of bridges over rivers and roads in Chernihiv, Sumy and Kyiv regions created significant obstacles to the recovery of the transport network<sup>89</sup>. According to the respondents<sup>90</sup>, the temporary crossings over the rivers have an average limited capacity (of up to 5 tons), which makes it impossible to supply the necessary construction materials and equipment for the reconstruction of some regions. The situation with logistics is further complicated by the increased demand for vehicles for the army. Although cases of nationalization of private property are not common, some of the interviewed representatives of business associations<sup>91</sup> have noted that in the absence of proper guarantees from the Government, companies are afraid to move their operations back to the frontline regions:



*«A client, who provides 40 cars for the needs of regional representatives of his company, instructed his employees to remove corporate labels from the cars due to the fear that the representatives of the territorial defence forces will confiscate them for the needs of the army», a representative of one of the business support organization has reported.*

In addition, the Ukrainian government's attempts to return customs clearance for imported cars threatens the domestic car market with a deficit as previously, their total value amounted to more than USD 1.3 billion<sup>92</sup>.

As a result of the de-blockade of Kyiv and the north eastern regions of Ukraine, the general state of transportation in the country has began to recover rapidly. Road and railroad connections between some regions remain problematic (often due to the frequent missile attacks on railroad infrastructure), but in general the Ukrainian government has already managed to restore transport connections in most of the liberated regions<sup>93</sup>. In the framework of the interview series, a representative of one of the unions of Ukrainian enterprises said:



*«After the logistics situation improved, export-oriented enterprises began to endure the crisis relatively easily (the situation was worse for others because of the significant drop in domestic demand). However, their situation is not ideal too: as an example, one of the device-making companies, which is a member of the union, has received an order from India to produce 100 devices, but it is still unable to fulfill it due to the lack of spare parts (the electroplating supplier's company has suffered from the bombing, the rest of the parts came from China - now there are no components). And there are lots of similar cases...».*

There is a strong need for the logistical and technical support for Ukrainian exports which could be provided by international partners. For example, the governments of the EU Member States could abolish quotas on cargo transit permits for Ukrainian truck shippers to EU Member States and facilitate the development of transitory infrastructure. In particular – construction of dry ports for the transshipments between Ukrainian and the EU railroads (Polish and Slovakian border), as well as additional bridges over the Tisza and Danube rivers on the Romanian border.

According to the respondents of our interviews, businesses are ready to invest in transshipments infrastructure, if the state continues to invest in road construction and railway modernization<sup>94</sup>. The respondents have also highlighted, that there is a need to invest in multimodal terminals on the western border of the country in order to increase the volume of rail transshipments. According to one representative of a government agency.



*«In order to fully restore the export of agricultural products, it is necessary to at least triple the capacity of Danube ports, railways and highways on the western border», - reported a representative of a government.*

Meanwhile, an extensive independent study done by the Kyiv School of Economics details the total direct infrastructure damage done by Russian troops in Ukraine (as of April 18) during the war had reached USD 84.8 billion<sup>95</sup>. On average, each week of war costs the Ukrainian government nearly USD 10 billion of direct and indirect losses<sup>96</sup>.

The data has been retrieved from the analysis carried out under the framework of “[Russia will pay](#)” project: overall, during the 54 days of Russia’s war against Ukraine, 23 thousand kilometers of roads, 37 thousand square meters of real estate were damaged, destroyed or seized. Compared to April 11, the number of damaged or destroyed objects has increased, and now at least 406 kindergartens, 605 educational institutions, 206 medical institutions, 154 factories and enterprises have been damaged by the war. The list of damage and destruction due to the war includes at least 68 administrative buildings, 277 bridges and bridge crossings, 11 military airfields, 17 airports and 2 ports. Also, as of April 18, at least 91 religious and 115 other cultural buildings have been damaged, destroyed or seized<sup>97</sup>.

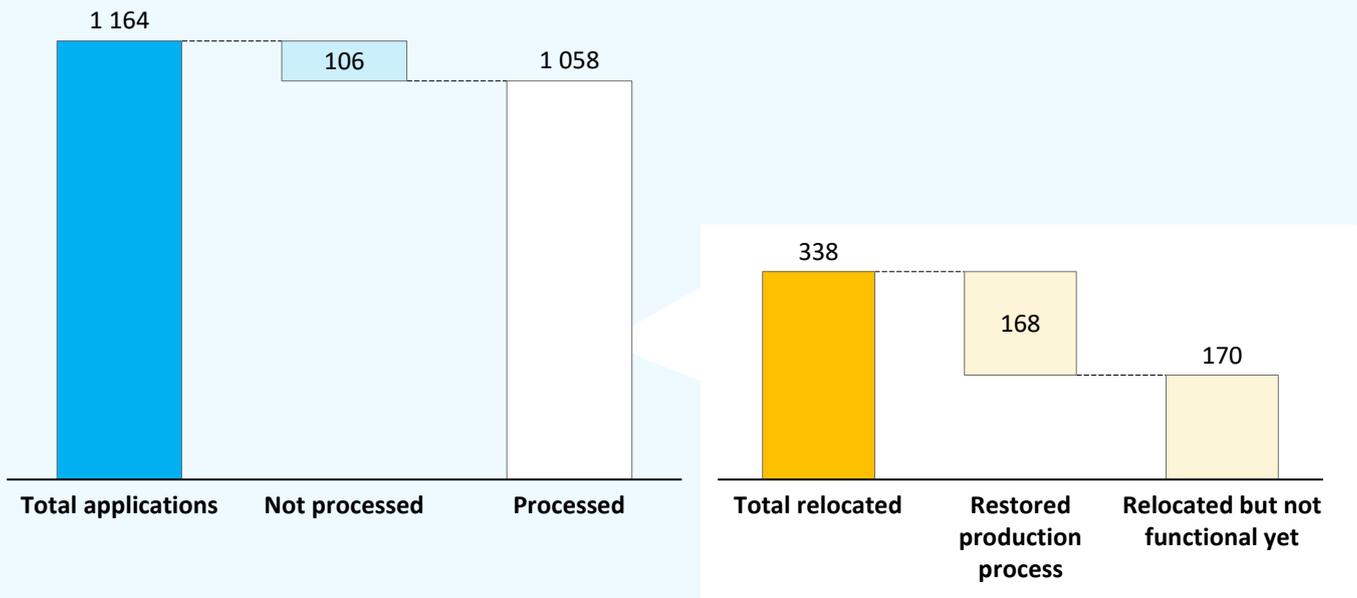
According to the estimates by the Ministry of infrastructure of Ukraine, the costs of repair works for 23,000 kilometers of public roads alone (13% out of the total of 170,000 kilometers) now amount to UAH 835 billion<sup>98</sup>. In addition to this, the cost of 273 destroyed bridges and overpasses will topple UAH 39 billion. Thus the total amount of necessary public infrastructure repairs has reached UAH 874 billion. Private households have already filed more than 66,000 claims of damaged or destroyed property through the "Diia" application. The overall Ukraine’s economic losses due to the war, taking into account both direct losses calculated in this project and indirect losses (GDP decline, investment cessation, outflow of labor, additional defense and social support costs, etc.), range from USD 564 billion to USD 600 billion<sup>99</sup>.

To counter the risk of physical destruction or military occupation by the Russian army, on March 8 the Ukrainian government announced a program of relocation for strategically important enterprises to the Safe regions of Ukraine. Nominally, any strategic enterprise responsible for the production of essential goods (bread; other foodstuffs; clothing, etc.) including micro enterprises with 10-20 employees, were allowed to participate in the program<sup>100</sup>.

As presented on **Figure 9**, by the end of March, the Ministry of Economy had reported 1,164 applications for relocation to safe areas, of which 1,058 have already been processed by the Government. However, the available information still suggests that relocation is not an easy option for small and micro business owners.

According to the data provided by the EBA, only 9.5% of enterprises have already relocated or are in the process of relocating abroad, entirely or partially<sup>101</sup>. The exact number of internally relocated MSMEs remains classified by the Ukrainian government, but on April 12 the Prime Minister of Ukraine stated that more than 250 state-supported manufacturing enterprises had relocated to other areas. 121 of them were already fully operational in their new locations, while others were in the process of relocation. Another 430 companies on the list were still waiting for their relocation<sup>102</sup>. Later, on April 17, the representative of the Ministry of Economy of Ukraine confirmed that a total number of more than 338 enterprises had already relocated from the combat zones to safer regions and at least 168 of them had already restored their production processes<sup>103</sup>.

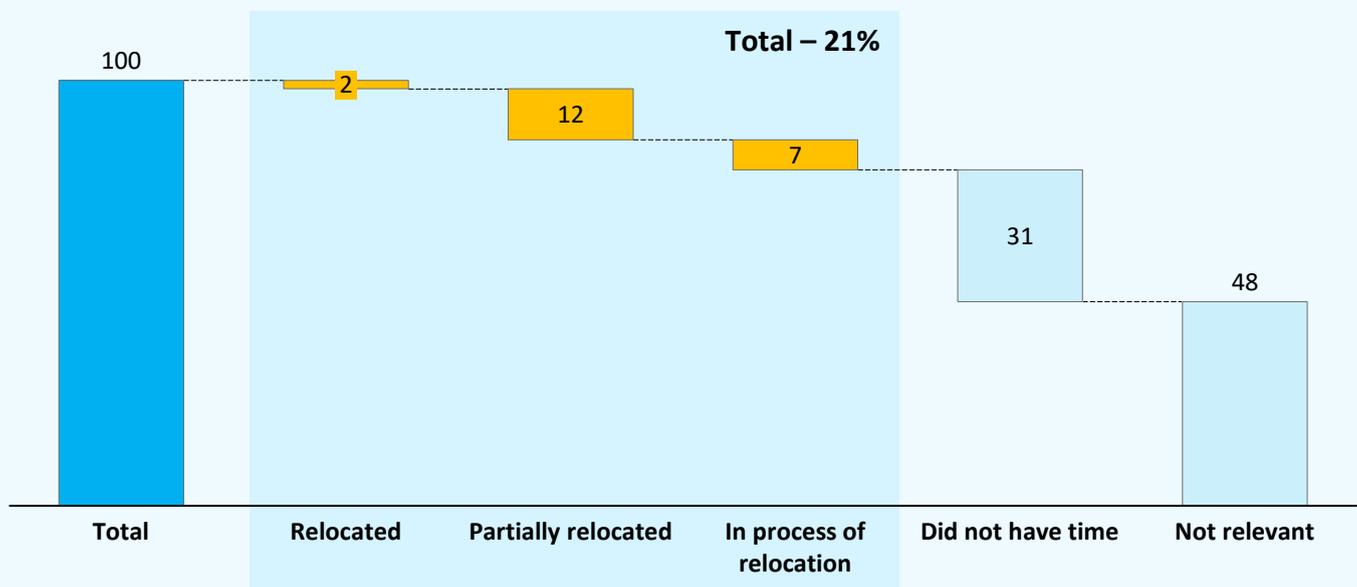
Figure 9. Results of the government-organized relocation of critical enterprises



Source: Project team based on the information from Ministry of Economy

Nonetheless, a survey conducted by the Gradus research company (presented on **Figure 10**) suggests that only 21% of small and microenterprises see necessity in relocation or deem it feasible due to the specifics of their business. Our interviews confirm that relocation to the safe regions of Ukraine remains unpopular among small and microenterprises<sup>104</sup>. The main complaints of business representatives from the frontline regions include supply chain disruptions, loss of labour forces due to migration and mobilization, and the destruction of warehouse infrastructure near large cities (Kyiv, Kharkiv). Many small and microenterprises (local shops, hotels or food production plants) still see no purpose in relocation.

Figure 10. The relocation process in Ukraine



Source: Gradus survey

Still, the Ukrainian government has launched a program that is extremely important for the wartime economy, which will help preserve critical sectors of the Ukrainian economy. Even though the results of the polls show low interest of MSMEs in relocation, regional state administrations and state enterprises (Ukrposhta, Ukrzaliznytsia) perform their work mostly efficiently and on time, which is confirmed by the results of our interviews.

The process of business relocation became complicated after the list of applications was hidden from the recipient regional administrations for security purposes: as of now, the process of application allocation is done internally by the Ministry of Economy. Some of interviewees have confirmed that this creates an information barrier that complicates the search process for the available locations and sub-contractors. As a result, discrepancies between the supply and demand of relocation options for various enterprises are likely to only increase.

However, our respondents suggest that internal logistics may also suffer due to the lack of drivers and technical specialists<sup>105</sup>. EBA experts forecast that the demand for technicians from both the relocated and the remaining enterprises will remain elevated even after the war ends. This is because, industries such as manufacturing, construction, agriculture, IT, medicine, logistics and retail will experience the most rapid development in the processes leading to the future reconstruction of Ukraine<sup>106</sup>.

#### KEY TAKEAWAY:

The logistical system of Ukraine has been significantly damaged in terms of both infrastructure and transportation capacities. The naval blockade of the Ukrainian sea ports has caused a significant blow to the Ukrainian exports. As a result, the railroad will have to play the critical role of the backbone for cargo exports and passenger transportation in the country; which will be facilitated by the construction of “dry ports” and new subsidised routes.

The governmental relocation program has been a moderate success: despite the data suggesting that only 60% of the applications for the governmental logistical support have been approved, our interviewees have left predominantly moderately-positive responses. However, the surveys indicate that small and micro enterprises demonstrate little to no interest in the available relocation opportunities, which can either suggest the failure of the state-backed information campaigns or highlight the difficulties of shifting production for predominantly service-oriented small and micro enterprises in Ukraine.

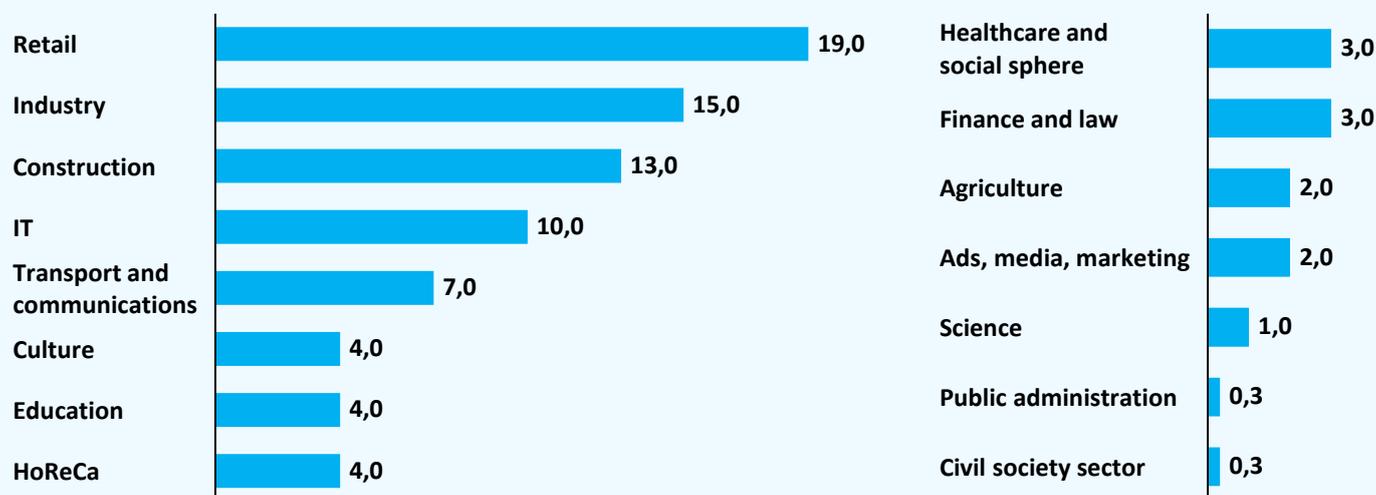
### 1.3.3 LABOR MARKET

Due to the lasting process of deindustrialization, in 2020 the largest share of Ukrainians (58%) were working in the tertiary sector of the economy (services). About 17% of the workforce was employed in the primary sector (including agriculture and mining) and only 19% were employed in the secondary sector (manufacturing). Non-surprisingly, after almost half of the primarily service-oriented enterprises suspended their operations after the war started and half of Ukrainians (53%) lost their jobs, according to the survey done by the independent sociological research company “Rating” on March 19, 2022<sup>107</sup>.

The detailed data also reveals that 22% of employees continued to work as usual, 21% switched to working remotely or part-time, and only 2% have found a new job. The highest unofficial unemployment rates were observed among the residents of the east of the country (74%), young people under 35 years of age (60%) and those who left their city (66%). Most of the currently working population is located in the western regions of Ukraine, while only a third of the labour force in the east remain employed: the other two-thirds have lost their jobs<sup>108</sup>.

However, shortly after the recent withdrawal of Russian troops from the north of the country, the labour market started to demonstrate some positive developments. A new poll done by the Rating group on April 6, 2022, suggests that more and more of the respondents started to return to the workforce<sup>109</sup>. Currently, 58% of those who had jobs before the war have resumed their work (compared to 46% in March); 7% more (29%) people report that their work process is almost normal; 4% more (26%) have switched to working part-time or remotely; and, the share of people who reported that they had lost their jobs due to the war decreased from 53% in March to 41% in April<sup>110</sup>.

Figure 11. Manpower losses in different sectors of the economy, % among respondents, March 2022



Source: "Ukrainians during the full-scale war between Russia and Ukraine", Gradus research and KSE, March 2022

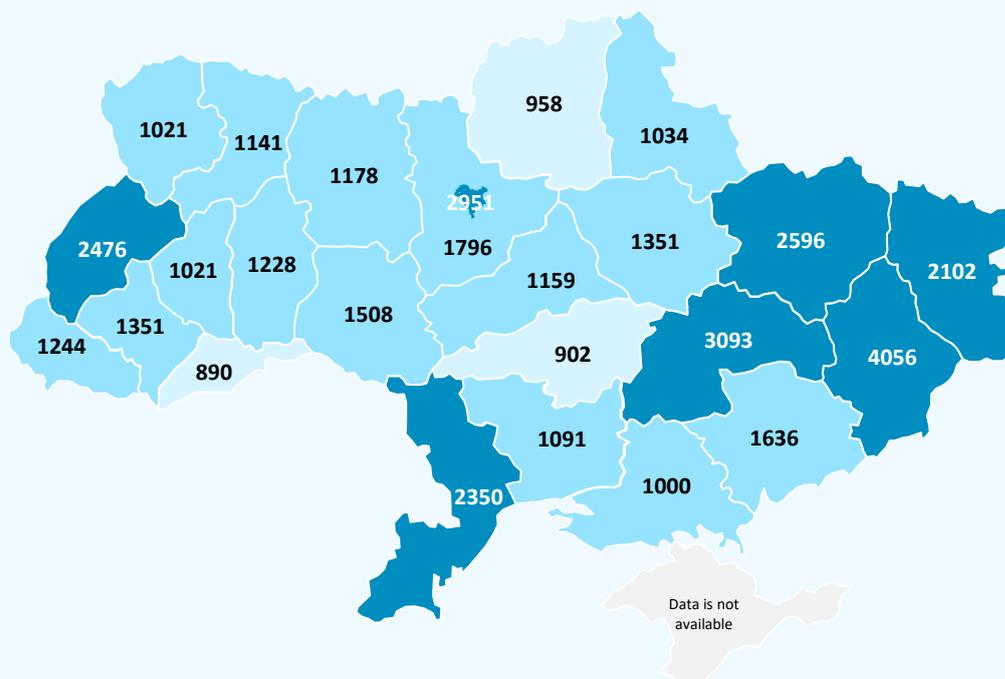
An alternative research done on March 23, 2022<sup>111</sup> by the KSE and the sociological research company "Gradus" suggests that retail and manufacturing industries are the most damaged areas of employment among respondents during the war. The data suggests that, among those respondents who lost their jobs during the war, 19% worked in retail and 15% were industrial workers (see **Figure 12**). The most resilient sectors of the wartime economy have turned out to be transportation services, utilities, education, healthcare and homecare. The number of people that have changed their jobs remains relatively low (2% in March and 3% in April)<sup>111</sup>. Partially, this can be explained by the low demand for the skills of internally displaced workers (IDPs). However, their employment in the shadow sector seems much more likely for security and financial reasons.

The same survey also demonstrated that 48% of the respondents, who left their permanent residence, have moved to a settlement within another region of Ukraine, 27% - to a settlement within the region of their permanent residence, and only 20% - abroad<sup>112</sup>. Among respondents who have changed their place of residence within Ukraine, 44% plan to stay where they are now, 22% plan to move further from the epicentre within Ukraine, and 15% plan to move abroad.

Given the personal financial situation and the indefinite duration of the war, among respondents, who were forced to leave their homes and live in a safer place due to the war, 43% are willing to live in places of temporary residence for up to one month, 11% - for 2-3 months, only 3% - for up to six months, and only 2% - up to a year.

Despite that, 24% of respondents claim they can live as temporarily displaced as long as they need to<sup>113</sup>. Our interviewees suggest that lack of resources or informational support on the availability of safe locations and affordable housing in the safe regions of Ukraine is a major issue for IDPs and plays as a major factor that stimulates them to move out of the country<sup>114</sup>.

Figure 12. Population in Ukraine by regions, thousand people, 2022



Source: State Statistics Service of Ukraine, 2022<sup>115</sup>

As can be seen from the **Figure 12**, Russian military action has disrupted some of the most highly populated regions of Ukraine. 6 out of 22 largest Ukrainian agglomerations have been damaged during the war, which has caused a major influx of IDPs within the country. The major routes for internal migration are western and central regions of the country. However, the supply of rentable residential space in the former is limited: as many people from the frontline regions cannot afford more expensive housing opportunities in the western part of Ukraine (in some places average rental price increased over 50%<sup>116</sup>), leaving several to opt to settle for cheaper options in the central regions<sup>117</sup>.

Information provided by the major real estate agencies suggests that the demand for short-term rental apartments in all safe regions has skyrocketed: the oblasts with the highest increase of short-term demand (daily rent basis) are Chernivtsi (+916%), Zakarpattia (+687%) and Khmelnytskyi (+536%). Surprisingly, the long-term demand for rental apartments with monthly payment options has risen even higher: threading regions are Kirovohrad (+1,300%), Ternopil (+785%) and Ivano-Frankivsk (+670%) oblasts<sup>118</sup>. One possible explanation for this may be the decrease in supply of rental apartments due to emigration of their owners or their withdrawal from the official market after the apartments were shared on the voluntary basis with relatives or friends.

The data from the Gradus survey supports such claims, as only 23% of people among respondents who were forced to leave their homes and live in a safer place pay for housing by themselves. 41% live there for free, for 16% the rent is paid for by friends/acquaintances/relatives and for 7% the rent is paid by a volunteer organization or government institutions<sup>119</sup>. Such information explains why most people prefer internal relocation to emigration. In addition, to the almost 3-fold difference between the numbers of Ukrainian refugees and IDPs, the UNHCR data suggests that almost 1 million of Ukrainians have already returned to the country since the start of the war.

The aforementioned Gradus survey suggests that 78% of respondents who have moved abroad intend to return to Ukraine as soon as possible, and only 9% are likely to stay abroad forever. This makes the task of job creation extremely important for the sustainable development of the western regions of Ukraine, her regional integration into the EU common market and the creation of lasting regional security.

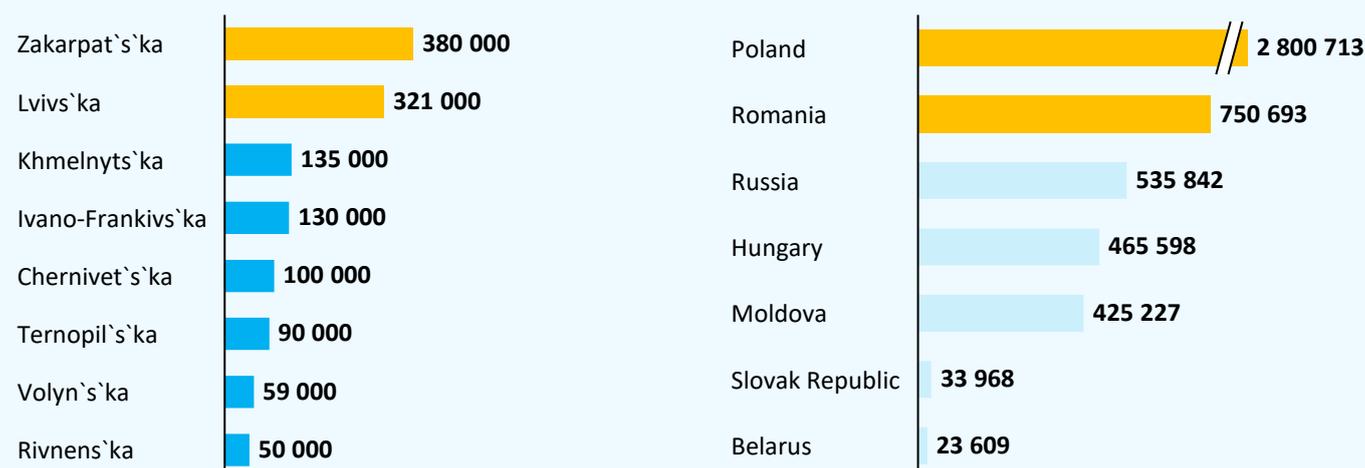
The local departments of the State Employment Service have confirmed that one of the key reasons that impedes MSMEs from relocation from endangered regions can be confined to the lack of housing opportunities for their employees. Unfortunately, most of the buildings that remain in the ownership of the State Property Fund of Ukraine after several rounds of small privatization are in poor condition, and therefore cannot be put into use for hospitality purposes. However, the Minister for Communities and Territories Development of Ukraine has created a [web portal](#) that allows placement of housing opportunities for IDPs, provided on a voluntary basis. However, due to the lack of an efficient marketing campaign, the portal is not widely used by the general population: therefore, resource allocation remains a problem even for regions with a surplus of available housing premises.

Due to the lack of information campaigns on the promotion of available housing and work opportunities, many IDPs are oblivious of safe options within the borders of the country and prefer to migrate abroad. According to the UN estimates, over 5 million people have already left Ukraine since February 24. Prior to that, 113,000 people were moved from the occupied Donetsk and Luhansk regions of Ukraine to the Russian Federation on February 21-23. If the UN estimates are true, almost 7 million people have been displaced internally and do, as of now, remain within the country's borders<sup>120</sup>.

Our polls among various experts, business associations and representatives of regional governments suggest that these losses have already led to labour shortages in some industries in the frontline regions (predominantly manufacturing, agriculture and construction industries). However, even in the safe zones of the country (western and central oblasts) the level of official workforce participation among the IDPs remains low due to mass mobilization, as many male technical specialists are being drafted in the army. Ultimately, leaving relocated businesses without qualified workers. Such an issue also creates an additional stimulus for illegal emigration and can potentially result in a slowdown of the economic growth even during the post-war economic recovery. Although the precise data on internal migration is unavailable, we have reasons to state that unlike most of the emigrants, IDPs that remain in the country do not yet represent an active part of the Ukrainian labour force. Ukraine has a rapidly aging population, and although UN data does not divide the migrants by age groups, there are reasons to suspect that the pool consists of predominantly younger generations, including women and children<sup>121</sup>.

Poland has been the largest recipient of Ukrainian refugees. In addition to 500 km of shared border with Ukraine, the country might have attracted refugees thanks to networking efforts: Poland had been a host for up to 1 million<sup>122</sup>. Ukrainian labour migrants even before the start of the conflict, which made it favourable for the welcoming of newcomers. On the contrary, the 2nd, the 4th and the 5th countries in the list – Romania, Hungary and Moldova – act as transitory points for the refugees due to the lack of job opportunities and robust government financial support for Ukrainian refugees in these countries<sup>123</sup>.

Figure 13. Number of IDPs (left chart) and refugees (right chart)



Source: Weekly Economic Monitor, 21.04.2022 (Ukraine Economic Outlook)

Meanwhile, within the borders of Ukraine the total numbers of IDPs in different regions also vary significantly: according to the records of the regional state administrations, demonstrated on **Figure 13**, Zakarpattia and Lviv oblasts have received almost 43% percent of the total number of officially registered IDP. The crucial problem is that official UN estimates of the number of Ukrainian IDPs do not match with the official statistics from the regional administrations. In contrast to the UN estimates of almost 7 million, the regional state administrations have reported only 1.6 million of IDPs are officially registered in their databases. One of the reasons for such differences between official and unofficial numbers may be the fact that the procedure for official registration has been liberalized relatively recently: over 130,000 people have already registered via the governmental portal “Diia”, according to the Minister of Social Policy of Ukraine<sup>124</sup>.

The second factor that may play a significant role, is illegal internal and external migration as some of the military-obligated internally displaced people decided to go into hiding after martial law was imposed within the country. Few of them have been indicated in the official state registries and therefore do not participate in the official labour force. According to the data provided by the State Employment Agency in Volyn Oblast, the number of officially unemployed people have decreased by 39%: from 18 thousand monthly registries in March 2021 to 11 thousand in March 2022<sup>125</sup>. One of the main reasons indicated by other respondents was military enlistment and lack of high-paid vacancies<sup>126</sup>.

This can be confirmed by the data provided by regional employment agencies. Worth noting is that there is no significant gender difference in the numbers of job applicants, as most of the IDPs migrate with their families<sup>127</sup>. However, there are significant age and qualification discrepancies: 30% of people that apply to the State Employment Centre for jobs are aged under 35, and only 2% are fresh university graduates. The participation rate among older generations also remains relatively low: only 15% of the applicants are in the pre-retirement age range (over 60)<sup>128</sup>.

To improve the social protections of the IDPs, the Cabinet of Ministers of Ukraine has decided to provide almost UAH 1.3 billion from the reserve fund of the state budget to finance unemployment benefits<sup>129</sup>. The application procedure for the financial benefits has also been simplified: now it can be ordered online via the “Diia” web portal (both the application for granting or renewing unemployment status and the application for granting or renewing unemployment benefits)<sup>130</sup>. Furthermore, on the basis of the Resolution of the Cabinet of Ministers of Ukraine 282-P of April 12, 2022, the Government decided to allocate UAH 200 million from the reserve fund of the state budget to pay compensations to employers for employed internally displaced persons. From the viewpoint of the Government, such a mechanism should help to restore economic activity, support IDPs and prevent unemployment<sup>131</sup>.

Loss of manpower will negatively affect almost all of the MSMEs in Ukraine, either directly or indirectly (as a result of decreased domestic demand on products or services)<sup>132</sup>. In general, mass migration negatively affects the internal business environment for small and micro enterprises that cannot reorient on exports due to the specifics of their business (restaurant, cafe or hotel-owners, farmers, some food producers, etc.). Military enlistment (or evasion from military service) also stimulates further brain drain of technical experts (mechanics, engineers and machine operators, drivers, medics, IT specialists) and stimulates growth of the shadow economy. Unfortunately, due to the lack of demographic data from the UN it is impossible to interpret both age and qualifications of migrants from Ukraine.

Our research suggests that such measures will not be effective in the long run if the government fails to provide IDPs with new jobs and career development opportunities. Respondents confirm that the regional State employment agencies do not have enough resources (both financial and human) to provide sufficient support for the internally displaced citizens of Ukraine. Furthermore, due to the lack of extensive technical training programs and robust information campaigns, the young part of the Ukrainian population does not apply for the services of the agencies. As an example, according to the information provided by the Volyn Oblast Employment Centre, of the 59 thousand IDPs in the region only 29 thousand applied for financial aid and only 570 people have reached the State employment service in search of vacancies. Meanwhile, the demand for new specialists in the region remains high: over 2,000 positions of medical personnel remain unfilled, and many manufacturing enterprises are still struggling to find professionals with the necessary technical skills. Due to the lack of funding, the regional state employment service managed to finance the re-qualification of only 20 workers during March<sup>133</sup>.

Information provided by the experts of the European Business Association suggests that the process of reconstruction and restructuring of the Ukrainian economy after the war will provide a lasting increase in demand for engineering and technical specialists as well as other blue-collar professionals such as bricklayers, welders, salesmen, drivers, etc<sup>134</sup>. In this view, urgent support in advanced technical training for IDPs and re-qualification programs for the aging population is needed in order to prevent the increase of fiscal pressure on the existing workforce.

**KEY TAKEAWAY:**

Historically, the frontline regions of Ukraine had the largest population density and contained the largest part of the country's population (as well as its workforce). Due to the specifics of the sectoral employment structure, since the start of the war a significant share of people that were employed within the Tertiary sector have become unemployed. A significant portion of people have decided to seek refuge abroad or relocate within the borders of the country. It is hard to estimate which one of the two is deemed as preferable by most of the population, as the numbers of the internally displaced population (IDPs) estimated by the Ukrainian regional state administrations and independent UN observers vary significantly. However, at the moment it can already be stated that IDPs are not active participants in the legal labour market of the rear regions and do not apply to the State Employment Centers due to the lack of proper incentives.

# CHAPTER 2

# MICRO- AND SMALL BUSINESS NEEDS ASSESSMENT

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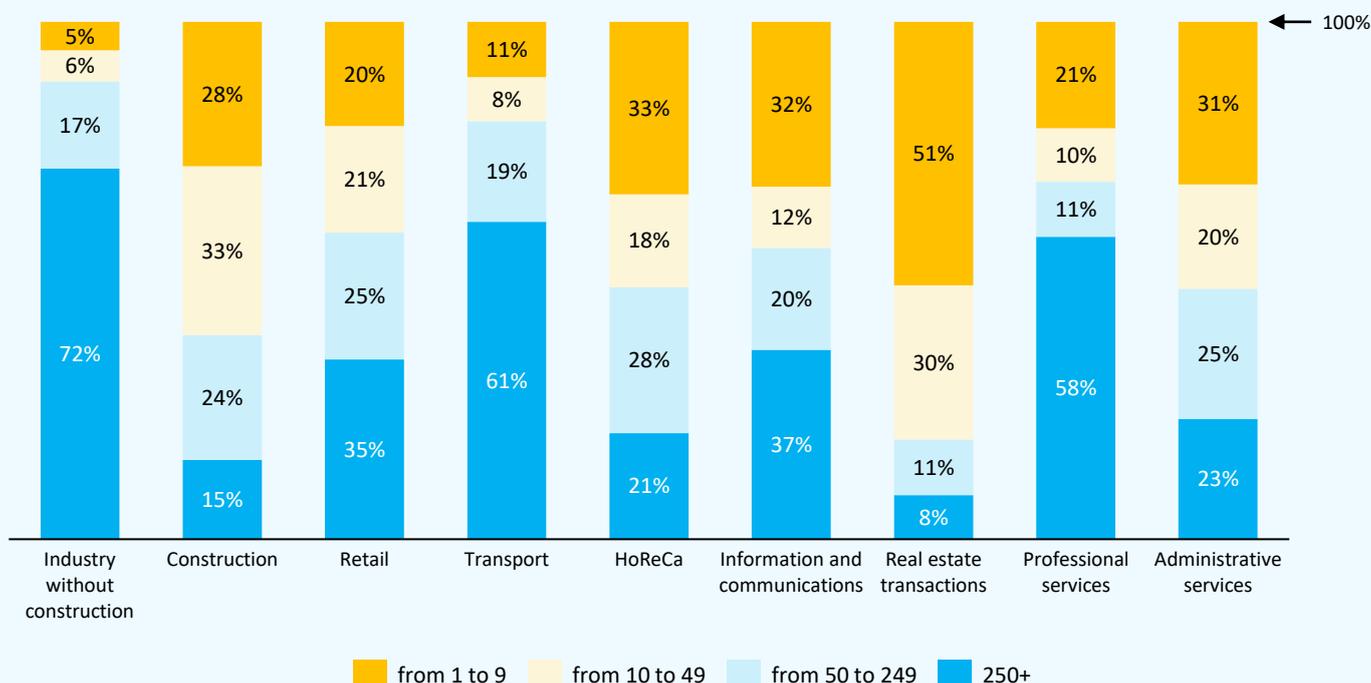
## CHAPTER 2. MICRO- AND SMALL BUSINESS NEEDS ASSESSMENT

### 2.1 OVERVIEW OF THE MSMEs SECTOR

Micro- small and medium businesses play a key role in Ukraine's economy, providing about 64% of value added, and 81.5% of employees<sup>135</sup>. So far, military action has taken place in 10 regions that accounted for approximately 50 percent of Ukraine's GDP (Kyiv, Chernihiv, Sumy, Kharkiv, Donetsk, Luhansk, Zaporizhzhia, Kherson, Mykolaiv and Odessa oblasts). As the predominant part of Ukrainian industrial enterprises were in the southeastern and northeastern parts of the country, the start of the war negatively affected enterprises of almost all production facilities there.

Small and micro enterprises predominantly belong to the field of professional and administrative services (21%, 31% respectively), retail (20%), construction industry (28%) and real estate (51%). Meanwhile, the manufacturing industry is dominated by large enterprises (72%). Therefore, damages done to the manufacturing industry was taken by predominantly medium enterprises and large enterprises. According to the respondents of our interviews, light industry (textiles, apparel, and shoemaking) turned out to be the most resilient to the crisis due to their relatively easy shift to government procurements (armaments supply).

Figure 14. Share of value added, by size of enterprise (UAH million) and industry type, 2018



Source: State Service of Ukraine, Collection of business statistics in Ukraine (EU4Business, OECD)

Based on the available data provided by the State Statistics Service of Ukraine, in 2018 Ukraine had 355,877 enterprises of all kinds situated in what is now categorized as the frontline regions. Estimations demonstrate that around 97,777 or 27% of them have suffered from the Russian military invasion and 93,141 or 95% of those are considered small and microenterprises<sup>136</sup>. The precise number or share of remaining active enterprises remains unknown, but our interviews suggest that Chernihiv and Sumy regions have suffered the most out of the regions that are now under full control of Ukraine. According to the data provided by regional chambers of commerce and industry, only a few enterprises of critical infrastructure were operational after one week since the regions' liberation. As it was mentioned earlier, over half of the MSMEs among members of the European Business Association (hereinafter - EBA) all over Ukraine have stopped or suspended their activities during the war time (57%)<sup>137</sup> with smaller businesses, following a similar pattern. Approx. 39% of companies have stopped or frozen operations, and another 20% are almost inactive, according to the survey by the Gradus research company<sup>138</sup>.

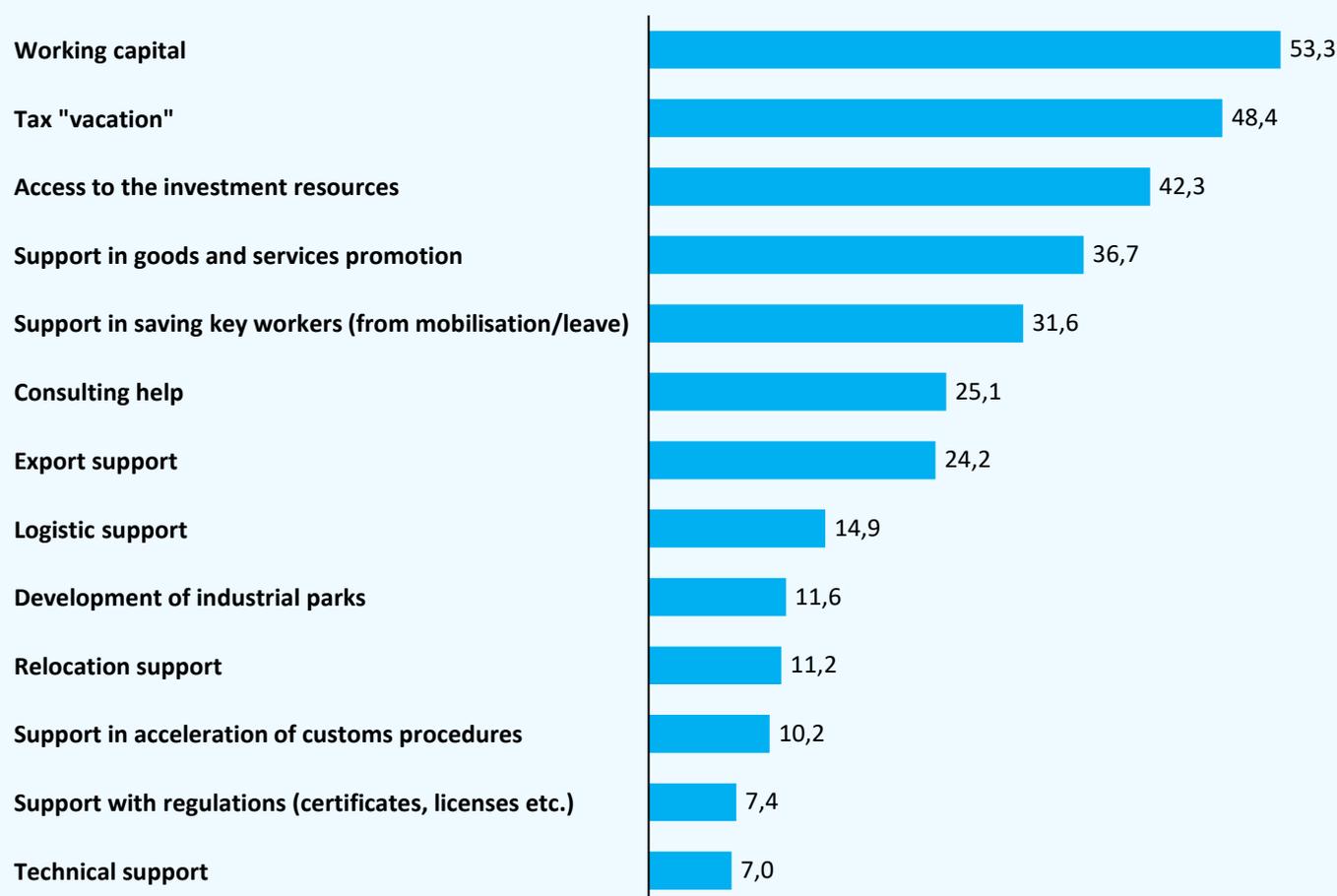
A poll conducted by the Advanter group suggests that the total direct losses of MSMEs during the first four weeks of the war is estimated at the level of USD 80 billion<sup>139</sup>. Moreover, many enterprises in Donetsk, Luhansk and Zaporizhzhia regions are already non-eligible for the relocation program due to the occupations of the territory by the Russian Federation. Furthermore, even manufacturing and food production enterprises in the liberated regions of Sumy and Chernihiv remain partially disconnected from the supply chains due to destroyed or damaged transport infrastructure (temporary bridges that have replaced the destroyed ones do not allow transition of heavy cargo).

## 2.2 KEY NEEDS OF AFFECTED BUSINESSES (INCLUDING RELOCATED COMPANIES)

Based on the interviews and desk research, we can conclude that the problems faced by the businesses are similar for different industries. In regard to regional specifics, businesses in the regions where hostilities have taken place or are taking place often have problems with access to utilities, and thus are unable to conduct normal activities. However, the solution to these problems directly depends on the security situation in the region, so infrastructure issues will not be discussed in detail in this report.

The available analysis has identified problems that are common to all enterprises and a separate a group of problems that relate to enterprises engaged in relocation. **Figure 15** illustrates the former as the main business needs identified in the survey of Gradus Research company. According to the poll, the most important business needs are working capital, tax breaks, and access to the investment resources. It is also important to highlight support with customs clearance and other regulatory issues.

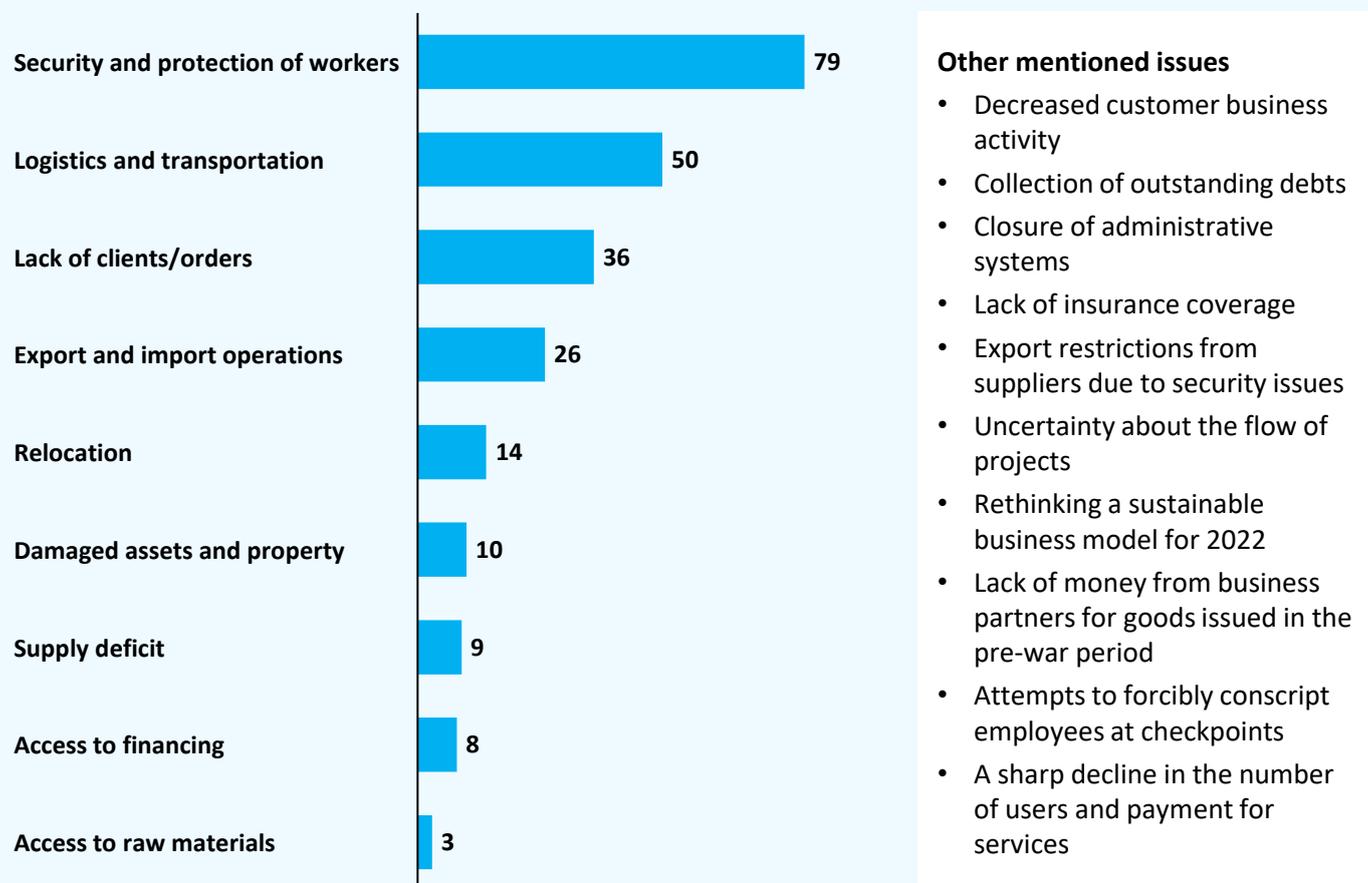
Figure 15. Main business needs identified, % (up to 3 variants could be chosen)



Source: [Gradus research](#)

Also, the parallel survey by the American Chamber of Commerce the identified key challenges which are shown on Figure 16 below.

Figure 16. Key Issues that hinder business activities mentioned by respondents (answer the question: What are the biggest challenges for your organization after 50 days of war, % (several options were available))



Source: American Chamber of Commerce [survey](#)

As a result of the analysis of the interview responses, the research team has decided to separate the needs of all companies into three groups: issues which are relevant for all companies, issues which are especially important for the relocated companies and issues which are relevant for the enterprises in areas that have been damaged/destroyed.

### All Companies:

**Search for new contractors** | Due to the loss of suppliers and customers, companies need to build new value chains. Moreover, the disruption of value chains has happened with respect to both external (foreign clients and suppliers) and internal (domestic clients and suppliers) counterparties. According to the interviewed experts<sup>140</sup>, an emergency platform for communication between sub-contractors, businesses and consumers called “Second Chance Bank” is currently being developed by the European Business Association (EBA). The purpose of the platform is to help solve the problem of finding new supply chains during the war-time period. Businesses requires state support in cooperation with international partners: according to the respondents<sup>141</sup>, the problems had arose not only due to logistical problems, but also due to the fears of international partners that Ukrainian contractors would not be able to fulfil their delivery commitments.

**Access to finance** | According to the respondents<sup>142</sup>, availability of accessible financial resources is the **greatest need** of all small and micro enterprises. Enterprises need finances to restore destroyed assets, support economic activity, modernize and restructure production. According to the interviewed experts<sup>143</sup>, the need to replenish working capital is especially critical. Affordable working capital loans are a critical condition for many businesses to survive.

The Government has expanded the Affordable Credits Program (5-7-9%), in accordance with the Government's decision of March 18, 2022. Any business during martial law and a month after its completion will be able to get a loan at 0%. After that, the loan rate will be 5%. The maximum loan amount was also increased to UAH 60 million. Any Ukrainian company will be able to get a loan - from microbusiness to big business, where the final beneficiaries with a share of over 50% are Ukrainians. The term of crediting under the program "5-7-9" will depend on the purpose of the funds. The loan for the implementation of the investment project and for the refinancing of the debt is provided for a maximum of 5 years. To finance working capital - for 3 years. Official sources state that during the martial law, more than 700 loans totalling more than UAH 2.5 billion have been issued<sup>144</sup>. According to some respondents<sup>145</sup>, the program is not yet popular due to the reluctance of banks to take risks, as well as the lack of appropriate competencies of entrepreneurs to apply for the program.

**Reduction of bureaucracy burden** | Some respondents<sup>146</sup> have said that deregulation of business conditions is one of the critical measures to maintain economic activity of enterprises. According to them, businesses will be able to find solutions to their problems, but the state should not hinder that with various bureaucratic procedures. It should be noted that some respondents have positively assessed those measures that have already been carried out by the state, especially in terms of simplification of export-import procedures.

**Access to workforce** | Due to the mobilization and evacuation of workers, some enterprises have lost a significant part of their employees. According to the respondents<sup>147</sup>, the solution of this issue strongly depends on the actions of local authorities. Thus, in some regions, local authorities are directly in contact with entrepreneurs and assist in making reservations for important employees, but in other regions, the local government, on the contrary, actively supports the mobilization of employees. The Government has also launched a program to encourage the employment of internally displaced persons. Under the program, employers are reimbursed for the cost of wages of employed internally displaced persons in the amount of UAH 6.5 thousand for each such employee for two months. The interviewed experts<sup>148</sup> have noted that it is necessary to continue this program to support further employment of internal displaced persons. However, most experts have noted<sup>149</sup> that **IDPs are currently not trying to find jobs and hope to return to their homes soon**. Some experts note<sup>150</sup> that in the first phase, only those people who had their own car to move and financial savings to live on relocated to the safe regions, but in recent weeks, more internally displaced people have moved from a socially insecure part of society. Several have arrived on evacuation trains and need social benefits – however, they are also more interested in temporary employment.

**Tax system changes** | The Government has adopted a decision to grant the right to use the simplified system of business taxation with a turnover of up to UAH 10 billion for the period from April 1, 2022 until the termination / abolition of martial law. The single tax rate for businesses using such "simplified" system will be 2% of turnover without VAT. However, according to the respondents<sup>151</sup>, businesses do not actively use this initiative due to bureaucratic procedures and lack of understanding of the duration of such an initiative. Therefore, additional communication and tax administration changes need to be introduced to further support businesses.

## Relocated enterprises:

On behalf of the Government the [Ministry of Economy](#) of Ukraine has launched the program of temporary relocation of enterprises from the war-torn regions. For companies that apply, conditions have been created to provide free transportation to the place of temporary relocation. According to the description of the program companies receive:

1. Assistance that will be provided in the selection of appropriate areas for production;
2. Relocation and resettlement of staff;
3. Selection of workers in the place of deployment after relocation.

The problems faced by entrepreneurs who have decided to relocate their business to the safe regions are described below.

**Transportation |** The first problem faced by companies wishing to relocate production is the search for relocation vehicles. Respondents have noted<sup>152</sup> that companies dare to relocate only when the security situation is critical and accordingly it is difficult to relocate due to the inability to find drivers who are ready to take company's equipment out under shelling. There are special programs from Ukrzaliznytsia and Ukrposhta for the companies that have made this decision in advance. However, according to a respondent<sup>153</sup> who has relocated their business, these options are not always available, as the railway requires equipment to be transported to the nearest railway station, unloaded, and delivered to new production sites, ( i.e. four loads instead of two). Regarding Ukrposhta, the respondents note that the company provides its services on a paid basis at a price that is many times higher than in private companies. Another problem is the lack of people for cargo work. Besides these remarks, all other respondents have assessed the state's efforts to organize this stage of relocation positively.

**Production Area |** Given the fact that each production has its own specifics, the enterprises have special requirements for production areas. Finding production space is a difficult task, but according to respondents<sup>154</sup>, the government and local authorities are actively helping companies. In particular, the State Property Fund and Ukrzaliznytsia are providing their unused production space for the needs of the relocated businesses. Local authorities are also actively cooperating with businesses to find vacant spaces. According to the respondents<sup>155</sup>, there are some cases of speculation on the price of rent for industrial space, but most landlords offer favourable conditions for relocated enterprises.

**Relocation of workers |** According to the respondents<sup>156</sup>, the resettlement of workers is the biggest problem when moving a company. Local authorities are actively helping businesses find a place to relocate workers, but due to the active influx of internal displaced persons there is a shortage of housing. Usually, employees of the enterprise are housed in schools or kindergartens. Respondents<sup>157</sup> hope that the construction of modular houses will help solve this problem. Also, business representatives have noted that they have mostly managed to save their workers and continued to pay salaries (however often smaller and depending on the current workload)<sup>158</sup>. Thus, the need to find new workers is not urgent, especially for the MSMEs.

**Financing for the start |** According to the respondents<sup>159</sup>, a significant number of businesses wishing to relocate does not have sufficient reserves of financial resources to start production after moving. To address these issues, some local governments issue grants for relocation in their regions (Lviv Regional State Administration), and grant projects have reformed their assistance programs (One respondent has stated that they have received a grant from USAID<sup>160</sup>). However, existing programs are not large-scale and do not cover existing business problems. Therefore, the relocated businesses need additional funding programs.

**Search for new contractors |** For relocated enterprises, this problem is more acute than for enterprises that continue to operate in safe areas. The interviewed experts have noted<sup>161</sup> that it is necessary to provide consulting assistance to companies before they move in order to determine the possibility of finding the necessary contractors in the place where the move is made.

## Specific needs of enterprises in the frontline regions:

**Recovery of the basic infrastructure** | The most significant problem is the restoration of basic utilities that were damaged as a result of hostilities (electricity and water supply)<sup>162</sup>. However, according to the respondents, the local authorities are solving these problems quite effectively and their solution depends on the end of hostilities<sup>163</sup>.

**Demining of areas for business activities** | Another specific problem is demining<sup>164</sup>. Demining takes place depending on the capabilities of the relevant public services. Unfortunately, businesses are not able to influence this process.

**Financing for the recovery of business activities** | Another problem is the restoration of destroyed infrastructure and replacement of lost (destroyed and stolen) equipment and inventories<sup>165</sup>. To restore lost infrastructure, equipment and inventories, businesses need special financial instruments.

**Hiring workforce to replace drafted or relocated workers** | In general, respondents have noted that most of the workers have been retained, but have repeatedly highlighted that some workers are threatened with mobilization (male workers), which complicates their production processes<sup>166</sup>. Moreover, some workers have relocated to safer regions, which has also negatively affected their work processes<sup>167</sup>.

# CHAPTER 3

# RECOMMENDATIONS

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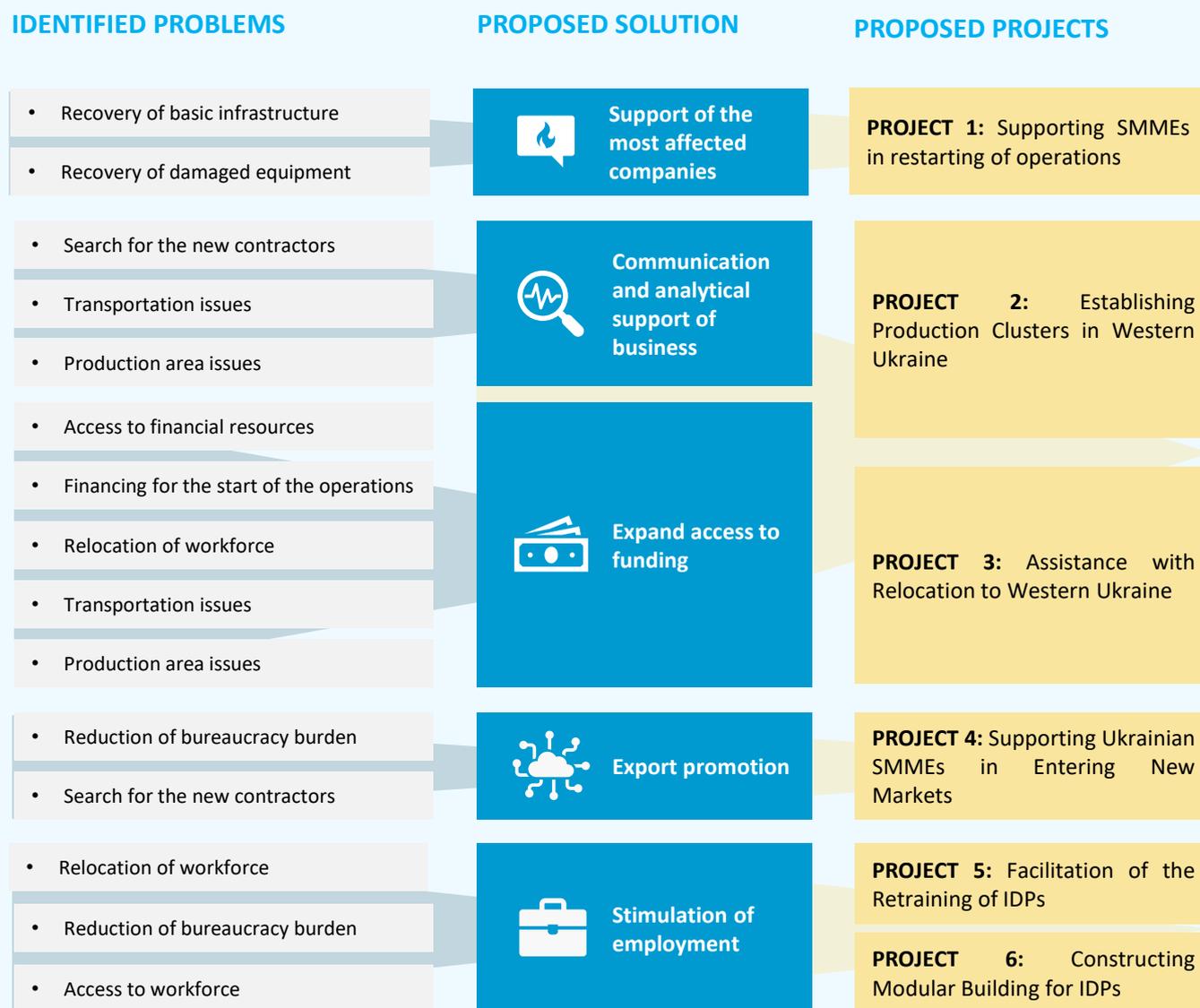
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## CHAPTER 3. RECOMMENDATIONS

**3.1 GENERAL RECOMMENDATIONS** | To address the identified issues, a set of recommendations has been developed based on the desk research and suggestions from the interviewed stakeholders. In order to deepen the identified recommendations a set of potential projects has been proposed on the matching matrix in **Figure 17** below.

Figure 17. Matching matrix of the identified problems and proposed solution



Source: Project team

**Support of the most affected companies** | As was mentioned by the interviewed business representatives<sup>168</sup> from the most damaged/destroyed territories of Ukraine, there are several issues which stand alone among other business` needs. Those needs mostly comprise of the need to finance the acquisition of the destroyed equipment<sup>169</sup> as well as connection to utilities (electricity, water supply, heat supply, mobile network etc.)

**Recommendation for the Government:** Provide safe access (including demining) to basic infrastructure and utilities as a first priority on the de-occupied territories.

**Recommendation for development partners:** Provide targeted financial instruments for the restart of business activities for the businesses from the directly war-affected territories.

**Communication and analytical support of business** | Many businesses are unable to adapt to their current situation due to the lack of reliable information. In particular, entrepreneurs need help finding contractors to replace lost suppliers. Some respondents<sup>170</sup> from the public sector have said that businesses return to them with a request to provide information on the possibility of selling their goods in other regions. Assistance is also needed in finding buyers in both domestic and foreign markets (Recommendations are given below). This assistance is especially relevant for relocating companies. One respondent<sup>171</sup> has said that a rapid assessment of the relocation effort would help many businesses to do so more successfully. Such an assessment could include an analysis of existing suppliers in the region, compliance of production areas with existing needs and analysis of possible markets. Respondents<sup>172</sup> have also noted that some companies do not use the existing programs because they do not know about such programs or do not understand how the programmes work. Therefore, according to the respondents, it is necessary to implement communication campaigns to disseminate information about the existing assistance programs and how they work<sup>173</sup>.

**Recommendation for the Government:** Establish simplified (electronic) financial and tax reporting, cancel unnecessary bureaucratic procedures (in particular - “Acts on the work performed” which do not exist under the IFS practice but are currently part of obligatory financial statements in Ukraine<sup>174</sup>. Establish [continuous statistical reporting](#) on the economic situation in different regions (either closed or open-ended), launch communication support tools for enterprises to find new contractors. Organize a transparent platform for the relocation of enterprises to the safe regions (at least non-strategic ones) to avoid discrepancies between the supply of and the demand for relocation space.

**Recommendation for development partners:** Finance the development of digital business support platforms. Provide grants to cover the services of consultants to find new contractors. Finance aforementioned initiatives of local authorities and the Government. Organize regional forums for relocated enterprises.

**Expand access to funding** | According to the report, affordable financing is one of the biggest needs of businesses. In particular, in the Gradus poll, more than 50 percent of respondents said they needed to replenish working capital<sup>175</sup>. Therefore, it is necessary to expand the existing programs. In particular, due to grant assistance, credit guarantees, interest rate compensation. Respondents have noted<sup>176</sup> that various financial instruments should be a tool to support the most affected sectors and regions. As an example, additional credit guarantees have been granted to companies from the most affected sectors and regions were given. Relocated enterprises have a special problem with access to finance. In particular, they need funding to transport, relocate workers, rent new production areas and start production in the new area. In addition, it is important to protect debtor companies that are unable to repay their loans (prohibit the confiscation of property, provide a deferral of loans, etc.). According to one respondent, international donors are already launching new grant programs for affected companies, but their size is still very small<sup>177</sup>.

**Recommendation for the Government:** Expand the existing loan programs, in particular - credit guarantees (involvement of international partners for the implementation of these programs), compensation of interest rates and the introduction of other concessional lending programs. Launch of additional programmes to support relocated enterprises.

**Recommendation for development partners:** Develop new grant programs, in particular those that would cover consulting services for small and micro enterprises, which would help businesses to form applications for existing loan programs. Launch communication campaigns to disseminate information about the existing opportunities and provide brief instructions on how to use them. Help with accommodation for relocated employees.

**Export promotion** | Given the significant decline in the domestic market, expanding exports and entering new markets is a critical condition for the survival of many enterprises. That is why it is more important than ever to strengthen economic diplomacy. In particular, to negotiate with international partners on the abolishing of tariffs on Ukrainian goods and services. Take measures to promote Ukrainian products, in particular to hold exhibitions and agree with the networks on special shelves for Ukrainian goods. A separate area is assistance in finding partners for Ukrainian companies. Despite the significant simplification of customs procedures, Ukrainian exporters are in dire need of assistance in obtaining the necessary certification. Also, some respondents noted the possibility of replacing Russian goods, so it is necessary to conduct an analysis of Russia's international trade and identify goods that can be manufactured in Ukraine<sup>178</sup>. In addition to the above-mentioned initiatives, it is necessary to provide alternative logistics routes for the export of products. In particular, it is necessary to promote the export of Ukrainian products through the ports of Gdansk and Constanta, increase the number and capacity of road customs crossings to the EU countries, increase the capacity of rail freight to Europe, and provide additional capacity to move cars from 1570 mm to 1435 mm. Respondents also noted the importance of building new multimodal terminals on the western borders<sup>179</sup>.

**Recommendation for the Government:** Negotiate with foreign governments on improvement of conditions for Ukrainian exporters (in particular with the leadership of Poland and Romania on the maximum promotion of Ukrainian exports through the ports of Gdansk and Constanta). Expand export credit agency programs. Further simplify customs procedures; Implement infrastructure projects to increase the capacity of railways and highways to EU countries. Accelerate procedures for Ukraine's accession to the [Arrangement on Guidelines for Officially Supported Export Credits](#) on preferential conditions. Advocate for Ukraine' accelerated accession to [The Agreement on Conformity Assessment and Acceptance of Industrial Products \(ACAA\) with the EU](#).

**Recommendation for development partners:** Provide grants for the services of consultants assisting in certification. Finance export promotion campaigns of Ukrainian enterprises. Improve access to the global e-commerce platforms for Ukrainian export-oriented MSMEs. Organize events dedicated to promoting currently operating Ukrainian enterprises. Launch online platforms or conduct promotional campaigns that would help replace Russian goods with Ukrainian ones in foreign markets.

**Stimulating employment** | Employment support measures are divided into three types: maintaining current employment, promoting the employment of IDPs and promoting self-employment. To maintain current employment, it is necessary to make the employee reservation system more efficient, as well as to reduce the tax burden on wages. In order to stimulate employment of IDPs, it is necessary to continue and expand the program of material encouragement of such actions, as well as to reform the labour legislation in terms of deregulation of the labour relations.

Deregulation of the labour relations may include: ensuring the flexibility of concluding an employment contract, including - for a specified period of time ("gig-contracts"); optimization of the procedure for termination of employment; elimination of the need to maintain outdated documentation regarding the determination of the mode of work, the procedure for granting leave to employees, etc. Those initiatives will benefit employers (in terms of reducing the resources needed for maintaining unnecessary documentation, more flexibility in hiring personnel, etc.) and workers (in terms of more flexible contracts, which could be better tailored to the needs of workers). Also, easier procedures will stimulate employers to hire people officially, which will be beneficial for workers as that will ensure the protection of the guaranteed rights.

Respondents have also noted the need to introduce retraining programs for IDPs to speed up the process of their employment<sup>180</sup>.

***Recommendation for the Government:*** Continue and expand the existing employment support programs. Reform the self-employment system. Reform the labour legislation (by adoption of the new Labour Code, which deregulates the field) and labour tax systems. Do a promotion campaign for the existing all-Ukrainian platform of housing opportunities for the IDPs "[Pryhystok](#)". Make amendments to some legislative acts of Ukraine on deregulation of labour relations e.g. the draft law №5388 "On Amendments to Certain Legislative Acts of Ukraine on Deregulation of Labor Relations" from Apr 16, 2022.

***Recommendation for development partners:*** Provide advisory and financial support to the government in carrying out the above-mentioned reforms. Issue grants for IDPs employment.

### 3.2.1 POTENTIAL PROJECTS | Supporting MSMEs in the restarting of operations

# TARGETED MSME SUPPORT

## PROJECT DESCRIPTION

As a result of the Russia's full-scale invasion, a significant number of enterprises have been directly affected by the ongoing hostilities, which have resulted in destroyed equipment, storage facilities, and production lines, disrupted communications and utility services, mined territories of the enterprises, etc. The proposed project is aimed at helping the most affected enterprises in restarting in recently de-occupied territories by providing them with means of production. The intervention is targeted on war-affected regions, which are controlled by the Ukrainian government (primarily northern regions).

## INTERVENTION LOGIC

- Assessment of the most affected sectors in the region at the level of Hromadas (potentially agriculture, forestry, logging (as not fully eligible for relocation) and others);
- Development of the financial instruments tailored to the identified sectors' needs together with the representatives of the local authorities and financing institutions (loans, instalments, lease programs, etc.);
- Communicating to the business representatives on the targeted areas of availability for the new financial instruments, collecting applications from businesses together with partner financial institutions;
- Shortlisting the applicants and providing support in dealing with legal issues (agreements with financial institutions, preparation of the lawsuits and reimbursement of the losses before resuming production processes);
- Providing support for acquisition of the needed equipment/connections to the infrastructure networks (if possible, the existing support programs could be adjusted to better address their needs).

### 3.2.2 POTENTIAL PROJECTS | Establishing production clusters in western Ukraine

# PRODUCTION CLUSTERS

## PROJECT DESCRIPTION

As a result of the Russia's full-scale invasion, many value chains have been disrupted, there has been decreased productivity and output of businesses in various sectors. The proposed solution is to facilitate the cooperation of producers in different value chains with a keen focus on increasing their efficiency. The project is aimed at helping local authorities with establishing production clusters, by assembling both relocated and existing businesses in their communities. This can include both horizontal (producers of same or similar products) and vertical (producers at different stages of value chains) cooperation. The intervention may be implemented both in relatively safe regions (western and, partially, central Ukraine), as well as regions that were heavily affected by hostilities and need support in recovery.

## INTERVENTION LOGIC

- Together with local authorities, identification of potential 'anchor' sectors for establishing clusters (agri & food, light industry, wood processing, etc.) is critical as existing local clusters could be used to amplify the potential intervention's effectiveness;
- Identification of sites / premises for locating clusters (if needed);
- Developing value propositions for potential cluster members, engaging businesses (both local and relocated) to clusters;
- Providing support in dealing with legal issues (agreement between cluster members);
- Supporting cluster members in organizing common input supplies (identification of potential suppliers, assistance with contracting). This can even be done through vouchers for advisory services;
- Supporting cluster members in organizing common sales (in the domestic market or when entering foreign markets (see Project 3) This can also be done through vouchers for advisory services.

### 3.2.3 POTENTIAL PROJECTS | Assistance with relocation to western Ukraine



#### PROJECT DESCRIPTION

Due to hostilities in some regions, many Ukrainian businesses have decided to relocate their businesses to relatively safe areas. While the Government of Ukraine has effectively helped those producers in identifying suitable sites / premises, many businesses face the financial burden in transportation of their production facilities, as well as lack of knowledge on how to reorganize their operations to better address current market needs. Therefore, the project is aimed at providing MSMEs with financial instruments for relocation, including: (1) Small grants for financing the transportation services, and (2) Vouchers for acquiring advisory services.

#### INTERVENTION LOGIC

- Small grants for relocation:
  - Designing the grant program, and the selection of criteria for businesses to be supported (small or medium-sized enterprise, availability of location for the transfer, etc.);
  - Launching an open call for applications (in cooperation with the Ministry of Economy which collects applications for state support with relocation);
  - Selection of businesses for support and providing them with small grants for micro (up to USD 5,000) and small (up to USD 20,000) businesses (the potential values of grants are based on the interviews with businesses).
- Vouchers for advisory support:
  - Identification of types of advisory support that may be provided under vouchers (e.g., development of business plans for relocating businesses, searching for suppliers and clients, etc.);
  - Selection and accreditation of consultants who will be providing advisory services;
  - Launching an open call for applications (in cooperation with the Ministry of Economy);
  - Selection of businesses for support and providing them with vouchers for micro ( up to USD 3,000) and small (up to USD 20,000) businesses (the potential values of vouchers are based on the interviews with businesses , although the final costs will depend on the type of services acquired).

Key focus of the project should be on the most affected sectors of the economy which 1) could relatively easily restore production processes; 2) could provide an employment opportunities for IDPs of different skills levels; 3) could be relatively easily scaled to meet demand. Preliminary those may include: small enterprises of the light industry, agriculture, logistics providers and enterprises in the related areas.

### 3.2.4 POTENTIAL PROJECTS | Supporting Ukrainian MSMEs in entering new markets

# EXPORT PROMOTION

## PROJECT DESCRIPTION

Promotion of Ukrainian export is a crucial initiative, as it may help to increase revenues of Ukrainian producers and increase currency inflows to the Ukrainian economy. The issue becomes even more relevant as many countries (the US, the EU, the UK) are abolishing custom tariffs and simplifying customs duties for Ukrainian exports. The aim of the project is to provide MSMEs with support in entering the EU markets (market selection, export strategy, B2B matchmaking, certification) through vouchers.

## INTERVENTION LOGIC

- Conducting an overview of the EU markets (with consideration of potential abolishment of all customs duties for Ukrainian producers) to identify the niches that can be filled by Ukrainian businesses;
- Forming a final list of products to be promoted within the initiative, and aligning the list with the Ministry of Economy to avoid a deficit in the domestic market;
- Identification of types of advisory support that may be provided under vouchers (e.g., market selection, export strategy, B2B matchmaking, support with certification);
- Selection and accreditation of consultants who will be providing advisory services (for different types of services different consultants shall be selected);
- Launching an open call for applications;
- Selecting businesses for support and providing them with vouchers for micro- (up to USD 5,000) and small (up to USD 20,000) businesses (the potential values of vouchers are based on the interviews with businesses, although the final costs will depend on the type of services acquired).

Key focus of the project should be on the enterprises from the industries with the biggest export potential, which should be identified and also correspond to several criteria, including: previous export experience, availability of marketplaces, availability of necessary conformity documentation or possibility of preparing/obtaining it, etc.

### 3.2.5 POTENTIAL PROJECTS | Facilitation of retraining for IDPs

# RETRAINING FOR IDPs

## PROJECT DESCRIPTION

As a result of the Russia's aggression, around 17.5% of Ukrainians have been forced to relocate within the country. In many cases, those people have migrated to regions with completely different structure of local economies (as their point of origin) and, therefore, may find significant difficulties in employment. The project is aimed at assisting local State Employment Centres in launching effective retraining programs for IDPs who have relocated to western Ukraine, in order to help them gain employment in their new residence.

## INTERVENTION LOGIC

- Identification of local communities with the highest inflows of IDPs, studying the skillsets of those IDPs, creating typical profiles of IDPs;
- Studying the sectoral landscape in local communities with the highest inflows of IDPs, identification of the sectors / businesses in which additional employment is possible;
- Studying the internal capabilities of local State Employment Centres and available retraining programs;
- Identification of needs for new / adjusted training programs in State Employment Centres;
- Identification of professionals from the private sector who can contribute to capacity building and the retraining of IDPs (representatives of potential employers);
- Organization and launch of new retraining programs, and launch of communication campaigns to attract IDPs to participate;
- Permanent monitoring of the efficiency of newly established / adjusted programs (keeping track of the number of IDPs who have been employed, quality of skill sets acquired, etc.).

Key focus of the project should be on the programs which will ensure obtaining of the fast and in-demand qualifications by the participants.

### 3.2.6 POTENTIAL PROJECTS | Constructing modular buildings for IDPs

# MODULAR BUILDINGS

## PROJECT DESCRIPTION

As over 7.7 million Ukrainians have been forced to relocate within the country (mostly to western Ukraine), accommodation of these persons has become a major challenge for local communities. The idea of the project is to provide assistance to local authorities with the organization of residence for IDPs in western Ukraine, especially for those IDPs who are employed by relocated / local businesses.

## INTERVENTION LOGIC

- Studying best practices of providing IDPs with accommodation (internationally and in Ukraine), identification of the most effective approaches and instruments;
- Together with local authorities, identification of demand for accommodation in communities in western Ukraine (identifying the number of IDPs in a community / neighbouring communities who need support with accommodation, studying the situation with the employment of IDPs, identifying key businesses which employ IDPs);
- Identification of potential sites for establishing modular building for IDPs;
- Calculating the number of investments needed for establishing modular buildings;
- Identification of potential service providers;
- Structuring investment projects, identification of a share which should be covered by local / oblast-level authorities, attraction of private funds (e.g., from businesses which employ IDPs), attraction of donor funding;
- Supporting local governments with the legal organization of the process.

# ANNEXES

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## ANNEX 1. LIST OF CONDUCTED INTERVIEWS

Name	Surname	Organization	Position
<b>Government institutions</b>			
Igor	Dyadyura	Ministry of Economy of Ukraine	Deputy Minister for Digital Development, Digital Transformation and Digitization
Oleksandr	Palazov	Ministry of Economy of Ukraine	Director of the Department of Regulatory Policy and Enterprise
Ivan	Lukeria	Ministry for Communities and Territories Development of Ukraine	Deputy Minister for Communities and Territories Development of Ukraine
Oleksii	Bakhtyrov	Reform Support Team of Ministry of Economy of Ukraine	Project manager
Olga	Gvozdiova	Entrepreneurship and Export Promotion Office	Advisor to Director
Taras	Semeniuk	Volyn Regional Employment Center	Deputy Director
<b>Local governments</b>			
Orest	Hryniv	Lviv OMA	Head of the Department of Entrepreneurship, Industry and Investment Policy
Valentyn	Voloshyn	Agency of Regional Development "Zakarpattia"	Project Manager
Igor	Pusklunets	Nadvirna Hromada	Deputy Mayor for Financial, Economic and Social Development
Serhii	Bostan	Chernivtsi City Council	Head of Department of Development
<b>Business support organizations</b>			
Mykola	Rudya	Kyiv Chamber of Commerce and Industry	Head of the Department of Business Cooperation
Andrii	Ierashov	Union of the Ukrainian Entrepreneurs	Head of Analytical Unit
Andrii	Dligach	Board	Founder
Larysa	Tsygan	Chernihiv Regional Chamber of Commerce and Industry	Vice President
Svetlana	Kolodyazhna	Sumy Regional Chamber of Commerce and Industry	Specialist on the legal support for entrepreneurs, head of the department
Volodymyr	Korud	Lviv Regional Chamber of Commerce and Industry	Vice President
Arsen	Didur	The Union of Dairy Enterprises of Ukraine	Executive Director
Andrii	Hlushchenko	GMK CENTER	Analyst
Serhii	Vovk	Centre for Transport Strategies	Director
Roman	Slastyon	Ukrainian Agribusiness Club	Director
Olena	Ayrault	European Business Association	Head of the project on SME support "Unlimit Ukraine"
<b>Business</b>			
Yaroslav	Lysak	Neverdark	Director ( <i>Production of Household goods</i> )
Yevheniy	Rykun	Agrarian farm "Yuliya" Cherkasy region	Director ( <i>Agri</i> )
Andriy	Kiselyov	Technostyle-pro	Director ( <i>Retail, production of furniture</i> )
Oleksandr	Hrabovskiy	Mobiprint	Owner ( <i>Production of branded goods, printing</i> )
Volodymyr	Osmolovych	Agrarian farm Chernihiv&Sumy region	CEO ( <i>Agri</i> )
Oleksiy	Soboleev	LanAgroProd	Head of Meat Production Department ( <i>Agri</i> )

## ANNEX 2. QUESTIONNAIRE

Question	Target group
<b>I. Economic activities of MSMEs and general economic outlook</b>	
<ul style="list-style-type: none"> <li>What changes have occurred in supply chains since the start of the war?</li> <li>How does it impact: Ukrainian business, import capacity, economy overall?</li> <li>What are specific changes in different regions?</li> <li>What are specific changes in different sectors of economy?</li> </ul>	Businesses, business associations, Ministry of Economy, RSAs` economic departments
<ul style="list-style-type: none"> <li>How did the war impact logistics within the country and its adjustment in terms of delivery time, transportation mode, new routes identified, etc.</li> </ul>	Businesses, business associations, Ministries, RSAs` economic departments
<ul style="list-style-type: none"> <li>How is the financial system responding to the crisis?</li> <li>Has there been a decrease in: financial products for MSMMEs including loans, worsened lending conditions, increased interest rates etc.?</li> </ul>	Businesses, business associations, Ministry of Economy, RSAs` economic departments
<ul style="list-style-type: none"> <li>What sectors are the most affected by the war and not producing and selling goods and services?</li> <li>In what regions does that occur?</li> <li>Did it result in the deficit of certain goods and products?</li> </ul>	Businesses, business associations, Ministries, RSAs` economic departments
<ul style="list-style-type: none"> <li>What sectors have lost the most workforce?</li> <li>What are the interventions undertaken by business to sustain its workforce, by the state to mitigate massive layoffs?</li> </ul>	Businesses, business associations, Ministries, RSAs` economic departments, State Employment Service, Regional Employment Centres
<ul style="list-style-type: none"> <li>Is there additional supply of workforce from IDPs?</li> <li>What skillsets are relocated to the relatively stable regions? Is there sufficient demand for their workforce?</li> </ul>	State Employment Service, Regional Employment Centres (from relatively stable regions)
<b>II. Business needs to continue / restart the operations</b>	
<ul style="list-style-type: none"> <li>What are the main needs of existing micro- and small enterprises in the regions where the security situation is relatively stable?</li> <li>What sectors of economy should be prioritized?</li> </ul>	Businesses, business associations (from relatively stable regions), Ministries, RSAs` economic departments (from relatively stable regions)
<ul style="list-style-type: none"> <li>What support is needed for micro- and small- enterprises that are relocating / plan to relocate to the regions where the security situation is relatively stable?</li> </ul>	Businesses, business associations (from regions significantly affected by war), Ministries, RSAs` economic departments (from relatively stable regions), Hromadas representatives (from relatively stable regions)
<ul style="list-style-type: none"> <li>What services and / or programs on the national / oblast level facilitate relocation of enterprises?</li> <li>What resources are offered (land, premises, relocation grants and so on)? Who is providing those resources (central / local governments / donors)</li> <li>What are the needs of micro- and small- enterprises in and close to the regions where the active fighting is ongoing? Which of those needs are currently not addressed?</li> </ul>	Businesses, business associations (from regions significantly affected by war), Ministries, RSA's economic departments (from relatively stable regions), Hromadas representatives (from relatively stable regions)

Question	Target group
<b>III. Actionable recommendations</b>	
<ul style="list-style-type: none"> <li>Which services and incentives shall be in place to support business in Ukraine?</li> <li>In what sectors of the economy should they be provided? How should they differ across regions?</li> <li>What are the key barriers and amplifiers?</li> </ul>	<p>Businesses, business associations (from regions significantly affected by war), Ministries, RSAs' economic departments (from relatively stable regions), Hromadas representatives (from relatively stable regions), Experts, Reform Delivery Office, Reform Support Teams, Entrepreneurship and Export Promotion Office</p>
<ul style="list-style-type: none"> <li>What can be done by the Government to support micro- and small- enterprises and stimulate employment and business continuity in Ukraine?</li> </ul>	<p>Businesses, business associations (from regions significantly affected by war), Ministries, RSAs' economic departments (from relatively stable regions), Hromadas representatives (from relatively stable regions), Experts, Reform Delivery Office, Reform Support Teams, Entrepreneurship and Export Promotion Office</p>
<ul style="list-style-type: none"> <li>What can be done by the international community to support micro- and small- enterprises and stimulate employment and sustain business and economic activity in Ukraine?</li> </ul>	<p>Businesses, business associations (from regions significantly affected by war), Ministries, RSAs' economic departments (from relatively stable regions), Hromadas representatives (from relatively stable regions), Experts, Reform Delivery Office, Reform Support Teams, Entrepreneurship and Export Promotion Office</p>

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- <sup>58</sup> ["200,000 entrepreneurs switch to 2% turnover tax option", Finclub, April 21](#)
- <sup>59</sup> [The directive of the Cabinet of Ministers of Ukraine "On the Introduction of changes to the list of critical imports", March 10](#)
- <sup>60</sup> [Ibid](#)
- <sup>61</sup> ["The government has improved regulations that facilitate transportation of humanitarian aid to Ukraine from abroad", Ministry of Veterans Affairs of Ukraine, March 23](#)
- <sup>62</sup> ["What about public finances and whether Ukraine will have enough money" - An interview with the Minister of finance of Ukraine, "Economichna Pravda", April 5](#)
- <sup>63</sup> ["Tax cuts. What benefits does the adopted bill № 7137-d offer to businesses owners?", March 17](#)
- <sup>64</sup> [Centre for Economic Strategy: Ukrainian economy during the war, April 12](#)
- <sup>65</sup> [The directive "On some issues of dividend payments by public sector entities in 2022", Cabinet of ministers of Ukraine, March 25](#)
- <sup>66</sup> ["War sets back the global recovery", IMF, April 2022](#)
- <sup>67</sup> ["The list of critical imports will change in favor of Ukrainian industry", The Ministry for economic development, April 11](#)
- <sup>68</sup> ["Ukraine has asked G7 for \\$50 billion to cover budget deficit", Reuters, April 17](#)
- <sup>69</sup> ["G7 finance ministers pledge more than \\$24 bln to Ukraine", Reuters, April 21](#)
- <sup>70</sup> ["Every day of delayed peace will accelerate a freefall into poverty for Ukraine", UNDP, March 16](#)
- <sup>71</sup> ["Only 16 companies in Ukraine have gone bankrupt since the beginning of the war", Opendatobot, April 18](#)
- <sup>72</sup> ["The volume of deposits is growing in most Ukrainian banks", Finclub, April 19](#)
- <sup>73</sup> ["Philanthropic response to the war in Ukraine", Candid, April 21](#)
- <sup>74</sup> ["Changes to the program "Affordable loans 5-7-9%: support for the sowing campaign and business stimulus", Ministry of Finance, March 28](#)
- <sup>75</sup> [Oschadbank launches business relocation support program", Oshadbank, April 11](#)

SUMMARY	APPROACH	THE IMPACT OF WAR ON THE ECONOMY	BUSINESS NEEDS ASSESSMENT	RECOMMENDATIONS	ANNEXES
76		SME Boost "Impact of war assessment" Key informant interview. Group - Business support organizations, 27 April 2022 - 5 May 2022			
77		"Restart of the export credit agency has started", Ministry of Economy, November 3			
78		Ibid			
79		SME Boost "Impact of war assessment" Key informant interview. Group - Business support organizations, 27 April 2022 - 5 May 2022			
80		SME Boost "Impact of war assessment" Key informant interview. Group - Local Governments, Business support organizations. 05 April 2022 - 26 April 2022			
81		SME Boost "Impact of war assessment" Key informant interview. Group - Local Governments, Business. 05 April 2022 - 26 April 2022			
82		"On the specifics of PayPal operations in Ukraine", LigaZakon April 12			
83		"Business in the conditions of war: who suffered the greatest losses and how enterprises are restored", Ekonomichna pravda, March 23			
84		SME Boost "Impact of war assessment" Key informant interview. Group - Business support organizations. 05 April 2022 - 26 April 2022			
85		"Exports in the wartime period", Diia exports, 2022			
86		The state of business in Ukraine - statistics from EBA. European Business Association.			
87		"Diagnosing the state of Ukrainian business during the full-scale war between Russia and Ukraine", Gradus research and KSE, April 22			
88		Minus 60% of exports and hundreds of millions of dollars: how much can Ukraine lose due to Russia's naval "exercises", "Economichna pravda", February 11			
89		Roads destroyed and their restoration, Ukrinform, April 2022			
90		SME Boost "Impact of war assessment" Key informant interview. Group - Local Governments, Business support organizations. 05 April 2022 - 26 April 2022			
91		SME Boost "Impact of war assessment" Key informant interview. Group - Local Governments, Business support organizations. 27 April 2022 - 5 May 2022			
92		The direct damage to Ukraine's infrastructure during the war reached almost \$ 92 billion, KSE, May 3			
93		Roads destroyed by Russian occupiers repaired in Kyiv, Sumy and Chernihiv regions, UNIAN, April 8			
94		SME Boost "Impact of war assessment" Key informant interview. Group - Local Governments, Business support organizations. 05 April 2022 - 26 April 2022			
95		The total amount of direct documented infrastructure damage, The Evropeyska pravda, April 6, 2022			
96		Ibid.			
97		Direct damage caused to Ukraine's infrastructure during the war has reached \$84.8 bn, KSE			
98		In Ukraine, the Russian occupiers destroyed almost 23,000 kilometers of roads, Ukravtodor, April 5			
99		Direct damage caused to Ukraine's infrastructure during the war has reached \$84.8 bn, KSE			
100		Publication of the Deputy Prime Minister of Ukraine, Minister of Economy of Ukraine, March 29			
101		"Analysis of the current state of businesses", Advanter Group, April 14			
102		"On the government allocation of additional funds to support people and businesses", the PMU press office			
103		Publication of the Deputy Minister for the Economic development			
104		SME Boost "Impact of war assessment" Key informant interview. Group - Local Governments, Business support organizations. 05 April 2022 - 26 April 2022			
105		SME Boost "Impact of war assessment" Key informant interview. Group - Local Governments, Business support organizations. 05 April 2022 - 26 April 2022			
106		"There will be a lot of work... but later", EBA, April 19			
107		"Sixth national survey (March 19): Ukraine during the wartime period", Raiting group, March 25			
108		Ibid.			
109		"Seventh national survey (march 30-31): Ukraine during the wartime period", Raiting group, April 6			
110		Ibid.			
111		"Moods of Ukrainians and actions during full-scale war between Russia and Ukraine", Gradus research and KSE, April 2022			
112		Ibid.			
113		Ibid.			
114		SME Boost "Impact of war assessment" Key informant interview. Group - Local Governments, Business support organisations. 05 April 2022 - 26 April 2022			
115		All-Ukrainian census, State Statistics Service of Ukraine, 2022			
116		SME Boost "Impact of war assessment" Key informant interview. Group - Local Governments, 05 April 2022 - 26 April 2022			
117		"Where he moved, there he worked: can IDPs really find new jobs?"			
				Mind.ua, May 2	
				118 Changes in the housing market, Finance.ua, April 16	
				119 "Moods of Ukrainians and actions during full-scale war between Russia and Ukraine", Gradus research and KSE, April 2022	
				120 Refugees fleeing Ukraine (since 24 February 2022). UNHCR, April 2022.	
				121 Ibid.	
				122 "The number of Ukrainian workers in Poland was halved", October 5, 2021	
				123 "Warm hugs can cool down: how the crisis of Ukrainian immigrants will change Europe". Translation of material Economist by Forbes.ua, March 27	
				124 More than 130,000 people have registered as IDPs since martial law. Ministry of Social Policy of Ukraine, 30 of March 2022.	
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				126 SME Boost "Impact of war assessment" Key informant interview. Group - Local Governments, Business. 05 April 2022 - 26 April 2022	
				127 SME Boost "Impact of war assessment" Key informant interview. Group - Local Governments, Business support organizations. 05 April 2022 - 26 April 2022	
				128 Ibid.	
				129 The Cabinet of Ministers of Ukraine has decided to provide almost 1.3 billion UAH from the reserve fund to finance unemployment benefits	
				130 Cancellation and application for unemployment status, State services portal "Diia", 2022	
				131 The government has allocated the first 200 million hryvnias to compensate employers for the employment of internally displaced persons", State Labour Service in Kyiv region, April 22	
				132 SME Boost "Impact of war assessment" Key informant interview. Group - Local Governments, Business support organisations. 05 April 2022 - 26 April 2022	
				133 SME Boost "Impact of war assessment" Key informant interview. Group - Local Governments, Business support organisations. 05 April 2022 - 26 April 2022	
				134 There will be a lot of work... but later. European Business Association	
				135 Interview with a representative of the Ministry for Economic development, Zn.ua 2019	
				136 Project team calculations based on data obtained from the State Statistics Service of Ukraine, 2021	
				137 The state of business in Ukraine - statistics from EBA. European Business Association.	
				138 Ibid.	
				139 4th wave of research on SMMEs in Ukraine, Advanter Group, April 14	
				140 SME Boost "Impact of war assessment" Key informant interview. Group - Business support organization. 05 April 2022 - 26 April 2022	
				141 SME Boost "Impact of war assessment" Key informant interview. Group - Business support organizations, Local governments. 05 April 2022 - 26 April 2022	
				142 SME Boost "Impact of war assessment" Key informant interview. Group - Business support organization, Local governments, Business. 05 April 2022 - 26 April 2022	
				143 SME Boost "Impact of war assessment" Key informant interview. Group - Business support organization, Local governments, Business. 05 April 2022 - 26 April 2022	
				144 The amount of funds provided under the program "Affordable loans 5-7-9%", Ministry of Finance, April 18	
				145 SME Boost "Impact of war assessment" Key informant interview. Group - Business support organization, Business. 05 April 2022 - 26 April 2022	
				146 SME Boost "Impact of war assessment" Key informant interview. Group - Business support organization, Business. 05 April 2022 - 26 April 2022	
				147 SME Boost "Impact of war assessment" Key informant interview. Group - Business. 05 April 2022 - 26 April 2022	
				148 SME Boost "Impact of war assessment" Key informant interview. Group - Business support organization. 05 April 2022 - 26 April 2022	
				149 SME Boost "Impact of war assessment" Key informant interview. Group - Business support organization, Local governments, Business. 05 April 2022 - 26 April 2022	
				150 SME Boost "Impact of war assessment" Key informant interview. Group - Local governments. 05 April 2022 - 26 April 2022	
				151 SME Boost "Impact of war assessment" Key informant interview. Group - Business support organizations, Business. 05 April 2022 - 26 April 2022	
				152 SME Boost "Impact of war assessment" Key informant interview. Group - Government institutions. 05 April 2022 - 26 April 2022	

<sup>153</sup> SME Boost "Impact of war assessment" Key informant interview. Group - Business. 05 April 2022 - 26 April 2022

<sup>154</sup> SME Boost "Impact of war assessment" Key informant interview. Group - Business support organizations, Business. 05 April 2022 - 26 April 2022

<sup>155</sup> SME Boost "Impact of war assessment" Key informant interview. Group - Business. 05 April 2022 - 26 April 2022

<sup>156</sup> SME Boost "Impact of war assessment" Key informant interview. Group - Business support organizations, Local governments, Business. 05 April 2022 - 26 April 2022

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<sup>160</sup> SME Boost "Impact of war assessment" Key informant interview. Group - Business. 05 April 2022 - 26 April 2022

<sup>161</sup> SMME SME Boost Impact of war assessment" Key informant interview. Group - Business support organizations. 05 April 2022 - 26 April 2022

<sup>162</sup> SME Boost "Impact of war assessment" Key informant interview. Group - Business. 27 April 2022 - 05 May 2022

<sup>163</sup> SME Boost "Impact of war assessment" Key informant interview. Group - Business. 27 April 2022 - 05 May 2022

<sup>164</sup> SME Boost "Impact of war assessment" Key informant interview. Group - Business. 27 April 2022 - 05 May 2022

<sup>165</sup> SME Boost "Impact of war assessment" Key informant interview. Group - Business. 27 April 2022 - 05 May 2022

<sup>166</sup> SME Boost "Impact of war assessment" Key informant interview. Group - Business. 27 April 2022 - 05 May 2022

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<sup>168</sup> SME Boost "Impact of war assessment" Key informant interview. Group - Business. 27 April 2022 - 05 May 2022

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<sup>170</sup> SME Boost "Impact of war assessment" Key informant interview. Group - Local governments, Business. 05 April 2022 - 26 April 2022

<sup>171</sup> SME Boost "Impact of war assessment" Key informant interview. Group - Business support organization. 05 April 2022 - 26 April 2022

<sup>172</sup> SME Boost "Impact of war assessment" Key informant interview. Group - Local governments, Business. 05 April 2022 - 26 April 2022

<sup>173</sup> SME Boost "Impact of war assessment" Key informant interview. Group - Business support organization, Business. 27 April 2022 - 05 May 2022

<sup>174</sup> [European integration of accounting in Ukraine: why "acts on the performed work" should be abolished", Case Ukraine, April 18](#)

<sup>175</sup> ["Diagnosing the state of Ukrainian business during the full-scale war between Russia and Ukraine", Gradus research and KSE, April 22](#)

<sup>176</sup> SME Boost "Impact of war assessment" Key informant interview. Group - Business support organizations. 05 April 2022 - 26 April 2022

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