



Assessment of
the Impact of the War
on Micro-, Small-, and Medium-sized
Enterprises in Ukraine



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This assessment has been developed by the Centre for Economic Recovery (CER) and Advanter Group under the United Nations Development Programme (UNDP) project “Support to Ukraine” implemented in cooperation with Ministry of Economy of Ukraine.

Micro, small, and medium-sized enterprises (MSMEs) are the backbone of Ukraine’s economy, comprising 99.98% of all business entities, providing 74% of all jobs, and creating 64% of value added. In 2022 UNDP carried out a “Rapid Assessment of the War’s Impact on Micro, Small and Medium Enterprises in Ukraine” in cooperation with the Ministry of Economy of Ukraine and with support from Switzerland to identify immediate challenges after the invasion. Current assessment provides a snapshot on the status of MSMEs as of the end of 2023 and includes a comprehensive analysis of the impact of war and challenges faced by MSMEs in Ukraine in the ensuing period and highlights their resilience and adaptability in the face of adversity. The assessment identifies MSME needs and provides a set of recommendations to increase MSMEs resilience and underpin recovery and sustainable growth of Ukrainian economy. A gender lens has been applied throughout the assessment.

This assessment is based on a wide range of primary and secondary data collected in multiple surveys undertaken in various time intervals from March 2022 to December 2023, and substantive desk research conducted in December 2023. The analysis enabled to identify the impact of key economic, political, and social trends and governmental actions on MSME’s operations.

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CONTENTS

GLOSSARY	4
INTRODUCTION	5
KEY FINDINGS	8
SECTION I. ECONOMIC CONTEXT AND MSME SECTOR OVERVIEW	11
SECTION II. IMPACT OF THE WAR ON MSMEs	25
SECTION III. SECTORAL SNAPSHOTS	30
SECTION IV. REGIONS SNAPSHOTS	38
SECTION V. GENDER SNAPSHOT	43
SECTION VI. STATE SUPPORT FOR MSMEs DURING THE WAR	47
SECTION VII. MSMEs BAROMETER	54
RECOMMENDATIONS	58
METHODOLOGY	61
FIGURES	64
LIST OF CHARTS AND TABLES	81

GLOSSARY

5-7-9 programme	is a state programme aimed to reduce the cost of loans for small (including micro- and medium-sized) business entities. It is financed from the state budget and covers a portion of the interest on loans obtained from commercial banks.
MSMEs	<p>are micro-, small-, and medium-sized enterprises. The classification of enterprises into these categories is determined by criteria such as the balance sheet value of assets/annual turnover and the number of employees. To be classified into a specific category, a company has to meet at least two of the criteria set by the Law of Ukraine “On Accounting and Financial Reporting in Ukraine”:</p> <ul style="list-style-type: none"> ■ Micro-enterprise: balance sheet assets valued at– up to EUR 350,000; annual turnover of up to EUR 700,000; and a maximum of up to 10 employees. ■ Small enterprise: balance sheet assets valued at up to EUR 4 million; annual turnover of up to EUR 8 million; and – a maximum of 50 employees. ■ Medium-sized enterprise: balance sheet assets valued at up to EUR 20 million; annual turnover of up to EUR 40 million; and a maximum of–250 employees.
Ministry of Economy of Ukraine	the body in the central government of Ukraine responsible for creating and realizing state economic and social development policies (business economics); regulating consumer prices; industrial, investment, and trade economic policies; developing entrepreneurship; technical regulation and security of consumer rights; and inter-agency coordination of economic and social cooperation of Ukraine with the European Union.
National Bank of Ukraine (NBU)	the central bank of Ukraine – the government body responsible for the unified state policy in the country’s monetary circulation field, including strengthening the national currency, the hryvnia.
Oblast	the main first-level administrative division of Ukraine.
Relocation	transfer of business activities and assets from one geographic location to another in search of a more favourable and secure business environment.
The State Statistics Committee of Ukraine (SSCU)	the government agency responsible for collecting and disseminating statistics in Ukraine.
UBI (Ukrainian Business Index)	a composite index that shows business activity, and its expected ability to increase turnover and generate employment. When the UBI is below 50, businesses hold a pessimistic outlook regarding further developments.



INTRODUCTION

Photo credit: UNDP Ukraine

In February 2022, Russia launched a full-scale invasion of Ukraine, resulting in an ongoing war which was a big shock for the Ukrainian and the global economies. The country's resources had to be redirected towards state defence and finding solutions to mitigate the impact of the war on the well-being of citizens and businesses. The assessment examines how the consequences of the war affected the activities of micro-, small, and medium-sized businesses in Ukraine, as well as their state as of the end of 2023. Moreover, the assessment provides important region-specific insights into MSME operations given that regions in Ukraine were affected in different ways by military operations. The focus is on assessing how businesses, government and other stakeholders have responded to various challenges arising from the war, which include disruptions in logistics chains, forced displacement of population, changes in trade and transportations routes and similar. Using a representative polls of the owners and managers of Ukrainian MSMEs, the assessment sheds light on key obstacles, issues and risks hindering business development. It also assesses the effectiveness of state programmes intended to stimulate the economy from an enterprise (based on size and industry) perspective, as well as the needs and priorities of small businesses for Ukraine's post-war recovery, which could have a significant impact on society as a whole.



The Government of Ukraine

consistently introduces business support initiatives

The Government of Ukraine consistently introduces business support initiatives, hence the initiatives outlined in this report serve as illustrative examples of state support to businesses and may not cover all existing initiatives or regions where such programmes are implemented. In addition, the report features selected examples of initiatives supporting MSMEs in Ukraine, funded by both donor community and private businesses.

In Ukraine the distinction between micro-, small, and medium-sized businesses is quite blurred. As a legal standard, companies are classified into MSME categories based on the number of employees and the volume of company's turnover. However, due to various tax optimization schemes, a single company can operate as a collection of micro-enterprises, which at some point in time can eventually merge into a single company. Micro-companies are generally registered as individual entrepreneurs and benefit from simpler tax accounting regulations compared to larger firms. From this perspective the findings of the assessment are applicable to all types of businesses, regardless of size. Survey responses from micro-, small, and medium-sized companies showed no significant difference. The assessment also examined women's and men's perspective on their companies' activities and performance and on the Ukrainian economy development prospects.



Surveys and studies

conducted among MSMEs in December 2023 to January 2024.



15 online primary data collection surveys

of MSMEs between 2 March 2022, and 7 January 2024.



An overview and analysis of the Ukrainian legislation

Assessment methodology

This assessment is based on a wide range of primary and secondary data collected through substantive desk research in December 2023. The data collection can be grouped into several primary sources:

- Surveys and studies conducted among MSMEs in December 2023 to January 2024.
- Fifteen online primary data collection surveys of MSMEs between 2 March 2022, and 7 January 2024.
- An overview and analysis of the Ukrainian legislation related to the state response to business needs and challenges in times of war.
- Data from the State Statistics Service of Ukraine regarding the historical contribution of MSMEs to Ukraine's economy.

All historical data expressed in Ukrainian hryvnia were converted into United States dollars using the average UAH/US\$ exchange rate of the National Bank of Ukraine (NBU) for the respective year. This conversion was performed solely for informational purposes.

Gender-disaggregated analysis was conducted where applicable data were accessible.



KEY FINDINGS

Photo credit: UNDP Ukraine

only
9.6%
of companies are
suspended or almost
out of business

The Ukrainian economy has remained resilient thanks to the collaborative efforts of the government and business, rapid restoration of destroyed and damaged critical infrastructure, and consistent financial support from international partners.

Micro, small, and medium-sized enterprises (MSMEs) are the backbone of Ukraine's economy, comprising 99.98 percent of all business entities in Ukraine, providing 74 percent of all jobs, and adding 64 percent of value.

- Despite devastating impact of the war, MSMEs have exhibited exceptional resilience. Shortly after immediate shock from Russia's invasion, businesses began to adapt to the new economic context.
- Since the start of the full-scale invasion, 64% of MSMEs have temporarily suspended or closed their business activities. However, a vast majority have resumed their operations and, in October 2023, only 9.6% of companies that have suspended are at risk of closing their business.
- MSMEs exhibit a cautious outlook about the country's economic perspective, attributing it to the unpredictable national situation, insufficient demand, and workforce shortages. Having already downsized, most businesses do not intend to reduce their staff further, seeing their workforce as a prerequisite for a gradual recovery of the economy in 2024.
- Most companies have substantial unused capacity, which they plan to start utilizing gradually throughout 2024. If there is demand, the businesses are ready to increase their turnover by approximately 50 percent.
- Despite the ongoing war, businesses have successfully adapted to the situation and maintained financial stability. While companies require additional financing, they are cautious about attracting new investments given the unpredictable environment.
- Security situation is recognized as the primary factor influencing relocation decisions. Managers anticipate a swift return to the previous locations once the war ends.
- There are significant regional differences in the impact of the war on MSMEs. Enterprises located in eastern and southern regions of Ukraine have suffered losses approximately 1.5 times higher than those in the west of the country. Despite this, businesses in eastern Ukraine expressed optimism and positive expectations about their prospects for recovery in 2024.

In 2024,

businesses anticipate a decline in orders, but there is a growing proportion of companies foreseeing market stabilization.

- The majority of companies are oriented to the domestic market, with limited presence in foreign markets. Enterprises in construction and in trade sectors are most involved in foreign economic activity. Most companies reported losses of up to USD 100,000. The scale of financial losses varied across sectors, with the construction sector suffering the most and agriculture, telecommunication, marketing, consulting and design services experiencing the least impact.
- Enterprises led by women have demonstrated the same level of resilience as those led by men. Women entrepreneurs tend to focus more on local markets, while men are more inclined to manage businesses with a regional level or national presence. Men tend to display somewhat greater optimism regarding the economic prospects of Ukraine in 2024.
- The government is providing significant support to MSMEs through state credit initiatives, employment programmes, tax reductions, grants for starting new businesses, and financial aid for displaced companies. About a quarter of companies have benefited from state or international assistance to stimulate their business activities, with half of these companies deeming this support essential for their survival. Businesses consider these programmes to be effective and share a common view in sustaining and expanding them.
- While most businesses anticipate a decline in orders, there is a cautious optimism as an increasing number of companies foresee market stabilization. Companies are planning to retain their existing staff, recognizing a skilled workforce as the foundation for recovery and growth.
- Businesses have flagged labour shortages, wage increase in the market, and overall economic outlook for Ukraine as notable risks for their recovery.
- Businesses have identified the following priorities related to state policies and the business ecosystem: improving the regulatory framework, increasing access to finance and markets, harmonizing legislation and standards with the European Union (EU), addressing the root causes of low economic development, and fostering entrepreneurship.



SECTION I.

ECONOMIC CONTEXT AND MSME SECTOR OVERVIEW

Photo credit: UNDP Ukraine





around
5%

the overall GDP
growth for 2023

9.6% of
businesses are still
suspended or almost out
of business during the
ten months of 2023

Macroeconomic context

Despite facing unprecedented losses and challenges due to the war, Ukraine managed to maintain relative macroeconomic and price stability and overcome significant production disruptions and consequences of workforce outflow caused by the displacement.

The preliminary data from the Ministry of Economy indicates that the overall GDP growth for 2023 is estimated at around 5 percent, a substantial improvement compared to the 28.8 percent decline in 2022, according to the State Statistics Service.

Several factors, such as improvements in the energy sector and external financial assistance from international partners are contributing to the GDP recovery.

Fastest rates of recovery are observed in following sectors:

- **Construction** – the significant financing dedicated to restoring critical infrastructure damaged by military actions has boosted the investment demand and enabled comprehensive reconstruction. According to the State Statistics Service data, the construction sector experienced remarkable growth, expanding by 20.9 percent in the first nine months of 2023, compared to the same period of 2022.
- **Domestic Trade** – demonstrates increasing consumer demand and supply of goods. The turnover in the retail trade increased by 11.6 percent.
- **Agriculture** – the favourable weather conditions have led to an increase in crop yield and harvesting area for almost all crops. In addition, the opening of trade routes for Ukrainian grain and agricultural products contributed to partial recovery of export volumes in this sector. According to the Ministry of Agrarian Policy and Food of Ukraine, the grain harvest as of 11 January 2024, was 15 percent higher compared to the same period in 2023, while the yield was 18.2 percent higher.
- **Processing Industry** – the recovery is attributed to restored demand for investment products, such as engineering and construction materials. There has also been an increase in the raw material base from agriculture, specifically the production of food products, beverages, and tobacco products, as well as demand from related activities. Overall, industrial production increased by 2.4 percent, in particular in the processing industry, which saw an 8 percent increase. Within the processing industry, the highest growth rates were seen in mechanical engineering products (15.3 percent);



15%
higher

the grain harvest
as of January 11,
2024 than on t
he same date
in 2023

furniture, other products, repair and assembly (15.2 percent); rubber and plastic, and other non-metallic mineral products (16.4 percent); food products, beverages and tobacco products (11.6 percent) and chemical products (12.2 percent).

Notwithstanding exceptional economic resilience, Ukrainian economy is grappling with significant challenges. Based on preliminary data from the National Bank of Ukraine (NBU), the Ministry of Economy has calculated that the value of exports of goods declined by 16.8 percent in the period January - November 2023, compared to the same period in 2022. Similarly, the value of goods and services exported experienced 12.4 percent decrease during this timeframe. However, imports of goods saw 15.5 percent increase from January to November 2023 compared to the same period of 2022. Overall imports of goods and services increased by 8.3 percent.

There has been a shift in the trend of service imports. After a slight growth of 0.9 percent in the January-August 2023 period, there was a notable decline in September-November 2023 which stood at 6.1 percent lower than the same period in 2022. This decrease can be largely attributed to the reduction in the import of travel services by 7.3 percent. Given the scale of forced displacement in the country, travel services accounted for 70.6 percent of all service imports in January - November 2023, indirectly indicating that Ukrainians are gradually returning home.

Forced displacement remains a significant concern, with millions of Ukrainians currently residing abroad. According to United Nations data, as of the end of 2023, there were 6,343,000 Ukrainian refugees worldwide, with most of them, 5,939,000, residing in Europe.

Ukraine's international partners have played a significant role in providing foreign aid to stabilize the economy during the war. The Ministry of Finance of Ukraine calculated that in 2023, the State Budget of Ukraine received approximately USD 42.5 billion in international financial aid, totalling approximately USD 75 billion since the beginning of the war up to January 1, 2024. These funds have been essential in financing the country's priority budgetary requirements – in particular social expenditures – and have been instrumental in upholding Ukraine's financial stability.

The international assistance helped to partially stabilize the macroeconomic situation in the country and facilitate transition to recovery. According to NBU estimates in 2024 (as shown in [Table 1](#)), the economy is projected to grow by 3.6 percent, accompanied by moderate inflation of 9.8 percent. However, there will be a significant balance of payments deficit due to considerable military expenditures, exerting pressure on the currency's exchange rate.

Table 1.Macroeconomic trends,
NBU figures

Indicator	2022	2023	2024*
GDP, UAH billion	5,191	6,625	7,730
Real GDP growth %	-29,1	4,9	3,6
Consumer Price Index (CPI) growth, % (December to December)	26,6	5,8	9,8
CPI growth % (average)	20,2	12,9	8,3
Balance of current accounts, \$ billion	8	-7,3	-11
Gross NBU reserves, \$ billion	28,5	41,8	44,7
Growth of average nominal wages %	6	17,7	15,8
Exports of goods, \$ billion.	40,9	33	35
Exports of goods and services, \$ billion.	57,5	50	52
Exports of goods and services % of GDP	35,9	29,6	26,4
Imports of goods, \$ billion.	-55,6	-59	-63
Imports of goods and services, \$ billion.	-83,3	-86	-88
Imports of goods and services % of GDP	52	51	44,8
Rate of coverage of imports with exports (goods and services), %	69,1	58,1	59,1
Balance of foreign trade in goods and services % of GDP	-16,1	-21	-18
Current Account Balance, account balance, \$ billion USD	8.0	-7.3 (-11.0%)	-11.0 (-17.2%)
International Reserves, reserves, \$ billion USD	28.5	41.8 (38.3%)	44.7 (42.6%)

Source: NBU



6.343
million

refugees from
Ukraine were
recorded worldwide
at the end of 2023

Estimates and forecasts from the International Monetary Fund (IMF) are somewhat more pessimistic (Table 2). These projections may not fully consider the adaptability and flexibility of Ukrainian businesses. One of the objective of this study was to gather additional insights from managers of MSMEs regarding business prospects, which could enhance the parameters for the estimates.

In the long term, businesses are anticipating an acceleration in economic growth, with projected rates of up to 6.0 percent in 2025 and 7.5 percent in 2026. However, these forecasts assume that there will be no significant changes in safety and security situation. This means that, in the baseline scenario, the economy will operate merely with the productive assets currently operational on the territory controlled by the Government of Ukraine. That is, under the baseline growth assumptions, Ukraine may not be able to reach the pre-war levels of real output within the projection horizon.

Despite the security uncertainty, Ukraine has the potential to accelerate its development by increasing the efficiency of its existing economy, reducing the size of the shadow economy, and establishing favourable conditions for

* Forecast

Table 2.Macroeconomic trends,
IMF figures

IMF	2022	2023	2024*
Real GDP	-29,1	2	3,2
Consumer Prices	20,2	17,7	13
Current Account Balance	5	-5,7	-7,2
Unemployment	24,5	19,4	10,6

Source: IMF

doing business. The planned integration with the EU can also expedite the convergence of income levels with those of EU member states by 2030-2050, presenting significant incentives for economic development.

MSME SECTOR OVERVIEW

Key findings:

- Ukrainian MSMEs have shown remarkable resilience, with nearly 91 percent of businesses resuming their operations since the beginning of the war.
- The biggest obstacles to MSME growth include the unpredictable situation in the country, reduced demand for products and services, and labour shortages.
- Human capital is considered the main factor contributing to future growth in the country.
- Entrepreneurs exhibit cautious optimism about Ukraine's economic prospects.

The Ukrainian MSMEs suffered a significant impact due to the full-scale Russian invasion in February 2022. The loss of vast territory, the evacuation of citizens, the loss of certain enterprises, the disruption of economic ties and trade blockade by Russia and Belarus resulted in 29 percent decline in Ukraine's GDP in the first year of the war. Consequently, 31.7 percent of enterprises either completely or almost completely ceased their operations, while the remaining operational companies experienced a 31.2 percent decline in turnover compared to 2021.

According to the latest Advanter Group survey, almost 91 percent of businesses have resumed their activities since the beginning of the war. Only 9.6 percent of businesses were still suspended or on the verge of closure in October 2023, compared to 33.8 percent and 46.8 percent closed in September 2022 and in June 2022 respectively. This is indicating that the country is returning to growth path and the increase in GDP during the second and third quarters of 2023 supports this trend.

* Forecast

In this section, we will analyse the main problems that have emerged in the MSME sector as a consequence of structural changes in Ukraine's economy.

Following the dramatic collapse in 2022, the number of both legal entities and individual entrepreneurs increased by 2 percent in 2023 (Table 3). The only regions where the number of enterprises decreased were Donetsk and Luhansk oblasts, which are situated at the frontline of the combat operations. The largest increase in number of enterprises was recorded in Volyn, Zakarpattia, Lviv and Chernivtsi oblasts, as well as in the city of Kyiv.

The number of individual entrepreneurs has seen a significant increase, from 1,409,430 individual entrepreneurs registered on 1 October 2022, to 1,549,858 a year later, representing a 10 percent increase (Table 4). As expected, the number of registered entrepreneurs decreased in

Table 3.

Number of legal entities registered, by region of Ukraine (excluding the temporarily occupied territories of the Autonomous Republic of Crimea and the city of Sevastopol)

Name of territory	Total number of legal units as of 1 October 2022	Total number of legal units as of 1 October 2023	Change %
Ukraine	1,458,248	1,488,098	2,0
Vinnitsya	34,864	35,718	2.4
Volyn	24,181	25,023	3.5
Dnipropetrovsk	107,843	110,474	2.4
Donetsk	92,651	92,056	-0.6
Zhytomyr	33,180	33,767	1.8
Zakarpattia	25,674	26,555	3.4
Zaporizhzhia	50,953	51,411	0.9
Ivano-Frankivsk	30,915	31,606	2.2
Kyiv	76,964	79,120	2.8
Kirovohrad	26,293	26,676	1.5
Luhansk	41,246	41,020	-0.5
Lviv	79,747	82,390	3.3
Mykolaiv	51,376	51,890	1.0
Odesa	91,022	93,087	2.3
Poltava	35,548	36,093	1.5
Rivne	24,949	25,674	2.9
Sumy	25,426	25,667	0.9
Ternopil	23,571	24,176	2.6
Kharkiv	87,285	88,810	1.7
Kherson	29,328	29,338	0.0
Khmelnyskyi	31,641	32,182	1.7
Cherkasy	30,599	31,004	1.3
Chernivtsi	17,013	17,547	3.1
Chernihiv	23,521	23,693	0.7
Kyiv city	362,458	373,121	2.9

Source: State Statistics Service of Ukraine

Donetsk, Luhansk, and Kherson oblasts, while almost all other regions saw a rapid increase. There are several reasons for this:

- the closure of enterprises led to forced unemployment, prompting individuals to establish their own businesses as a coping strategy;
- the system of taxation and tax benefits was simplified during martial law;
- opportunities to tax optimization were made available in the transition from being a hired worker to becoming self-employed.

The number of individual entrepreneurs has already surpassed the pre-war levels, indicating the popularity of this business model in Ukraine during the war (Figure A-1).

Table 4.

Number of individual entrepreneurs registered, by region of Ukraine (excluding the temporarily occupied territories of the Autonomous Republic of Crimea and the city of Sevastopol)

Region	as of 1 October 2022	as of 1 October 2023	Change %
Ukraine	1,409,430	1,549,858	10,0
Vinnitsia	47,664	54,802	15,0
Volyn	30,365	35,124	15,7
Dnipropetrovsk	107,708	122,432	13,7
Donetsk	68,870	67,429	-2,1
Zhytomyr	35,331	40,520	14,7
Zakarpattia	35,388	38,507	8,8
Zaporizhzhia	48,249	49,079	1,7
Ivano-Frankivsk	41,511	47,218	13,7
Kyiv	84,229	97,161	15,4
Kirovohrad	25,203	28,703	13,9
Luhansk	38,834	37,199	-4,2
Lviv	99,483	113,289	13,9
Mykolaiv	35,333	38,363	8,6
Odesa	94,086	102,257	8,7
Poltava	43,380	49,496	14,1
Rivne	32,609	37,300	14,4
Sumy	28,798	31,880	10,7
Ternopil	30,032	33,373	11,1
Kharkiv	117,712	122,391	4,0
Kherson	26,697	24,937	-6,6
Khmelnyskyi	43,993	49,827	13,3
Cherkasy	38,273	43,020	12,4
Chernivtsi	32,297	35,605	10,2
Chernihiv	28,064	31,646	12,8
Kyiv city	195,321	218,300	11,8

Source: Ministry of Economy of Ukraine

According to NBU data, businesses had somewhat lower expectations for their enterprises' performance in December 2023 (Figure 1). However, the index of expectations of business activity (IODA) was at a higher level compared to December 2022, reaching 45.7 (as opposed to 42.1 in December 2022 and 49.1 in November 2023). Specifically, the IODA in:

- Domestic trade was 46.9 (42.1 in December 2022 and 50.9 in November 2023);
- Industry – 46.9 (43.4 and 49.2 respectively);
- Services – 44 (41.8 and 48.4 respectively); and
- Construction sector - 42.1 (35.6 and 40.6, respectively).

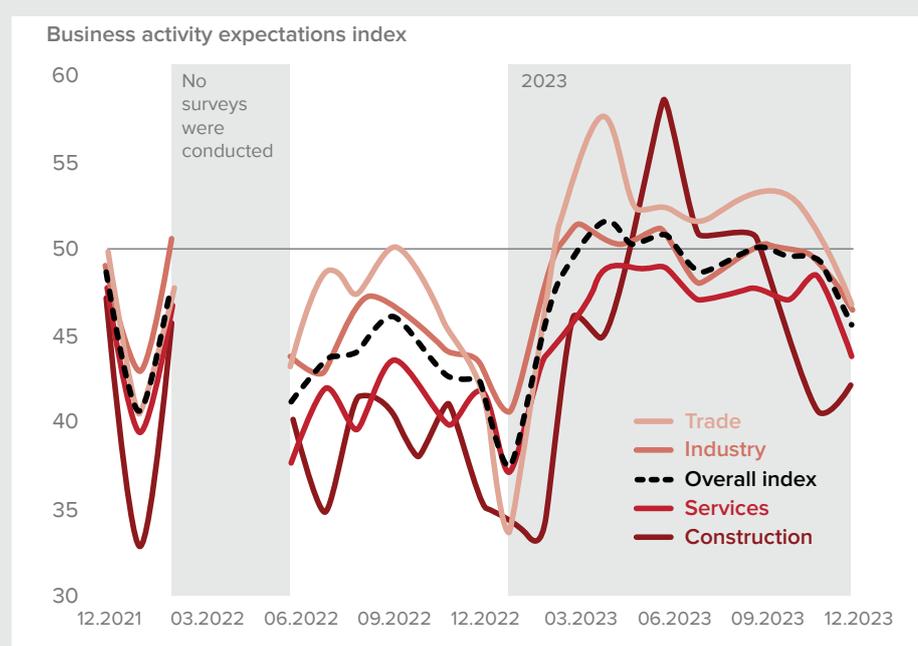
Another index, the Ukrainian Business Index (UBI), which is calculated based on surveys of Ukrainian business entities) shows slightly positive trends (Figure 2). In November 2023, the UBI was 37.3 (out of 100 possible), slightly higher than a year earlier (36.3). Overall, the UBI value has been gradually recovering since June 2022, when the lowest values were observed. This slight uptick in the index suggests that businesses are becoming weary of the uncertainty and stagnation of the market conditions, even as the number of customer orders and production remains unchanged. While businesses have stopped stockpiling since August 2023, however the index still lies in the zone of negative business expectations (I below 50).

The latest survey findings

The latest survey has also gathered information on MSMEs perceptions regarding the impact of the war on conditions of doing business, the growth outlook and the key obstacles in the business ecosystem etc.

Figure 1.

Business expectations worsened in November



Source: NBU

Figure 2.

Trends in UBI, 2020-2023



Source: authors' calculations based on the surveys

The pessimistic business expectations are notably influenced by the ongoing war and internal economic challenges in Ukraine. The most significant obstacles hindering business development are (Figure 3):

1. Unpredictability of the situation in Ukraine and the domestic market
2. Unforeseen actions of the state that can have a negative impact on businesses
3. Insufficient number of financially solvent customers
4. Insufficient number of available skilled workers
5. Insufficient capital

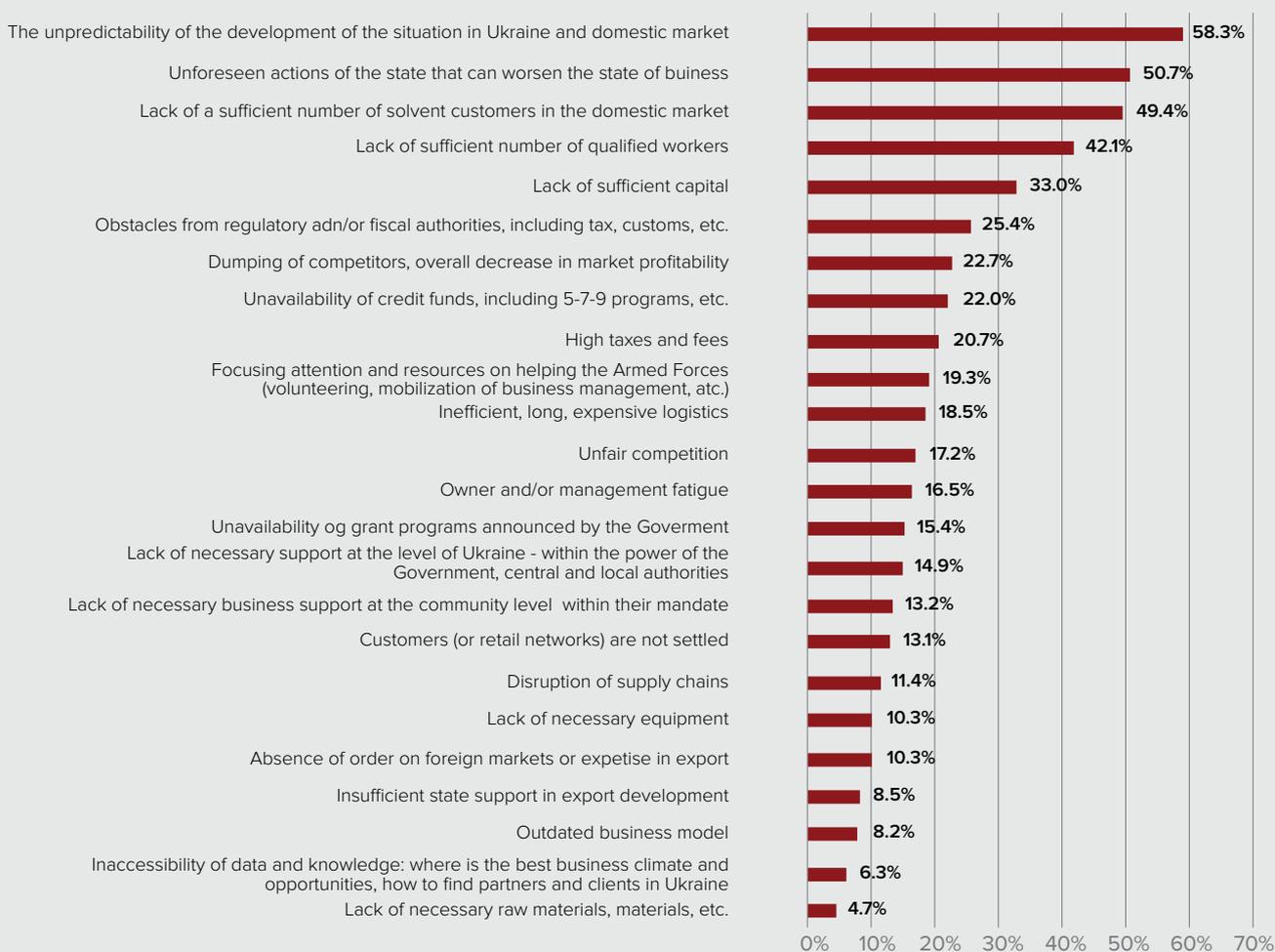
Each of these top five challenges is recognized by at least a third of the surveyed enterprises.

Businesses are encountering difficulties with sales mainly due to the population's low purchasing power and the insufficient export opportunities. In comparison to similar countries in Central and Eastern Europe, Ukraine has the lowest ratio of export share by small and medium-sized enterprises (SMEs) in total exports. This is largely attributed to difficulties in conducting international trade operations, including customs procedures, settlements, and tax system intricacies. Other factors contributing to this situation, include uncertainty, lack of know-how, a focus on the domestic market, and cross-cultural differences. Merely 17.9 percent of SMEs are involved in export activities, with the goods they typically export being low-margin products.

According to the World Bank, Ukrainian SMEs invest three times less in research and development (R&D) than European SMEs. This is largely due to resource constraints compared to other countries and insufficient collaboration between the R&D and real sectors.

A major obstacle to business recovery is the shortage of financial resources. The limited access to finance hinders MSMEs' ability to expand their operations. The high interest rates on loans from commercial banks exacerbates this challenge. To alleviate this

Figure 3. What prevents you from restoring and developing your business now?



Source: authors' calculations based on the surveys

47.7% faced the problem of blocking tax invoices

89% of companies optimize tax payments due to pressure from tax authorities and/or actions of competitors

problem, the 5-7-9 state preferential lending programme has been established. However, there are administrative hurdles in obtaining funds through this programme, with 22 percent of survey respondents stating difficulties in accessing these loans. The entrepreneurial culture in Ukraine continues to be relatively limited. Despite the relatively inexpensive, straightforward and efficient process of registering a business, along with a moderate regulatory burden, Ukraine ranks low in terms of companies' taking entrepreneurial risks.

There is still a lack of open access to information in licence registers. About 16.0 percent of enterprises encounter difficulties due to the lack of access to registers.

In 2022-2023, one of the major challenges was the logistical constraints for Ukrainian exports caused by the blockade of Ukrainian ports by the Russian Federation.



16.0%

of enterprises
have problems
due to lack of access
to registers

over 71%

of companies are
not involved in supply
chains with international
firms

57.2%

of small and
medium-sized
businesses in Ukraine
operate exclusively
in the domestic
market

Businesses continue to encounter various problems in relations with government bodies. These economic-related issues include blocking of tax invoices, and delays to logistics at the border. (Figure A-2):

The main concerns affecting 64 percent of businesses are related to decrease in purchasing power and aggregate consumption. In addition, several issues that significantly impede business development are shown in Figure A-3:

- Informal employment.
- Increased production costs.
- Ban on foreign business trips for men.
- More complicated logistics.
- Difficulties in securing working capital.
- Limited support from the state and local authorities.

Power interruptions, including rising energy costs, such as gas and electricity.

More than 71 percent of companies are not involved in supply chains of international firms (Figure A-4). More than half (57.2 percent) of MSMEs businesses in Ukraine exclusively operate in the domestic market (Figure A-5). Encouragingly, 8 percent of respondents express an interest in starting foreign economic activity in 2024. Major barriers that Ukrainian companies face when entering foreign markets are lack of European clients (35.6 percent), stiffest financial resources (34.5 percent) and limited skilled specialists (21.8 percent) (Figure A-6). Currently, 26.2 percent of Ukrainian companies are participating in supply chains of international companies, which is lower than the percentage observed before the start of the full-scale invasion (28.9 percent) (Figure A-4).

Forty-three percent of businesses are either already involved in international markets or have plans to enter them, while more than half of companies are not even considering such a possibility (Figure A-5).

Although the average amount of additional financial resources required to implement business development strategies over three years is USD 950,000 per company, almost half of the companies only need small investments at the level of USD 30,000 to USD 300,000. This indicates that certain financial support programmes could greatly ease the process of companies entering international markets (Figure 4).

The main investment priorities that may drive business development in 2024 include (Figure A-7):

- machines, equipment, and inventory
- marketing

1 <https://data.worldbank.org/indicator/GB.XPD.RSDV.GD.ZS?view=chart>



43%

of companies are already involved or are planning to enter international markets

- workforce development, including training and upskilling and reskilling.

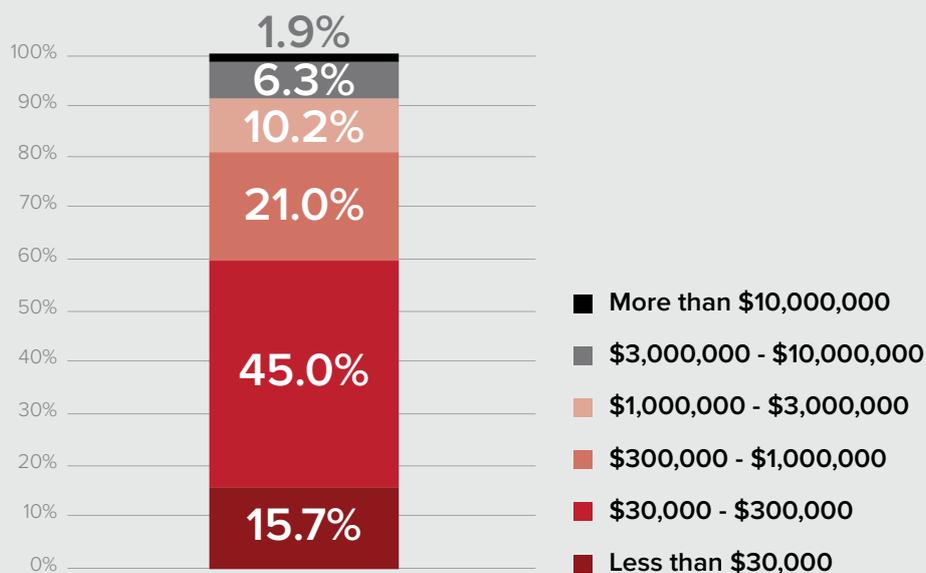
Interestingly, nearly a quarter of respondents have opted for less ambitious goals, not planning any investments at all. The average planned investments by MSMEs in 2024 is USD 160,000 per company; however, almost 60 percent of companies only plan investments of up to US 30,000 (Figure A-8).

The primary sources of financing in 2024 are typically enterprise’s funds or loans from the domestic market. Almost 80 percent of companies do not consider attracting foreign investment (Figure A-9) due to difficulty in obtaining funds for small enterprises and less favourable conditions compared to those of domestic sources and commercial banks.

According to the self-assessment conducted by businesses, the expected weighted average rate of business growth between 2023 and 2024 is 11 percent (Figure 5). However, a third of businesses

Figure 4.

What additional financial resources does your business need (in addition to your available resources) to implement your business development strategy within 3 years?



Source: authors’ calculations based on the surveys

expect a decrease in turnover, while 20 percent expect a similar turnover level until 2023, 20 percent foresee a growth comparable to the weighted average indicator, and 26 percent expect a significant increase in turnover. More than half of the enterprises do not see prospects for turnover growth in 2024.

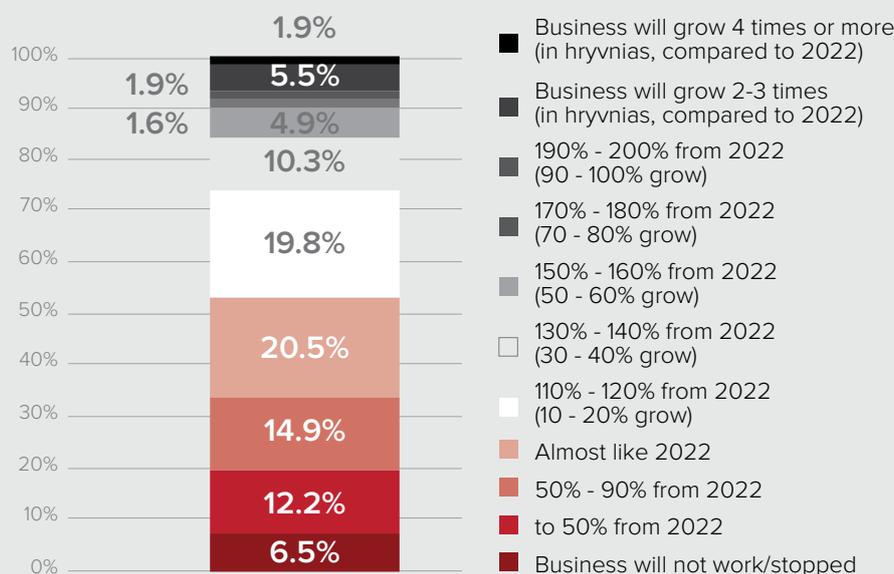
Most enterprises expect either retaining or to increasing the number of employees in 2024. Specifically, 42.5 percent of enterprises expect to maintain their current workforce, while 40.5 percent expect an increase of up to 40 percent (Figure A-10). Only 7.3 percent of

enterprises anticipate a restructuring that could entail reducing their employees count by up to 40 percent. Finally, 5.7 percent of enterprises expect a reduction of number of employees ranging from 50-100 percent, potentially leading to business closure. Overall, the expectations related to the number of employees in 2024 can be considered (slightly) optimistic and may result in incremental wage increases.

The assessment of MSME regarding their financial conditions in 2024 is very similar. Around a third of respondents expect an improvement in their financial situation, another third does not expect any changes, and a fifth expects a deterioration. The distribution of answers is fairly balanced, with businesses equally divided between anticipating a

Figure 5.

Forecasts for 2024 regarding your business compared to 2023 (in UAH)



Source: authors' calculations based on the surveys



42.5%

of all enterprises expect to maintain the current staff

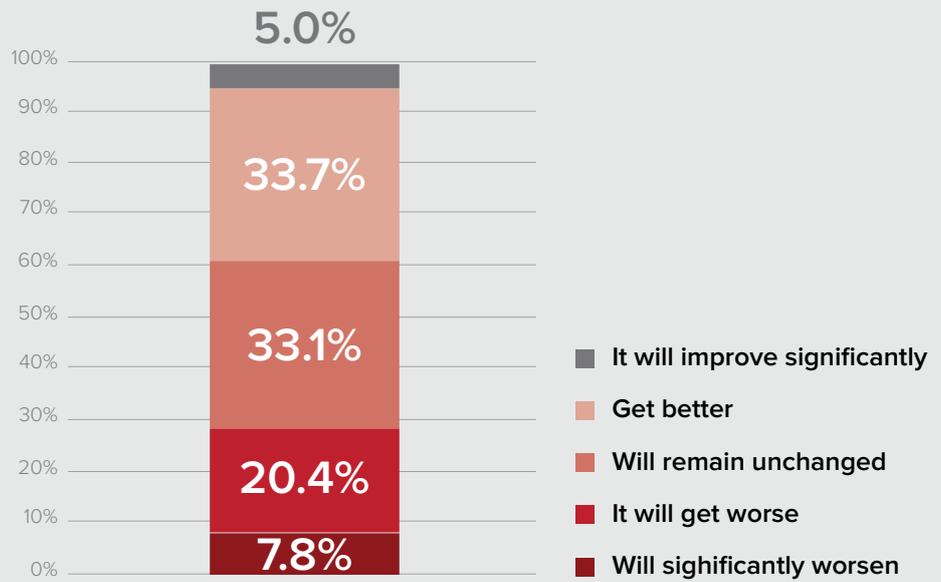
sharp improvement or a sharp deterioration. This suggests a moderate level of business optimism for the year 2024 (Figure 6).

Despite holding moderate optimism about the development of their own businesses, entrepreneurs have a much a markedly pessimistic outlook on the prospects for the Ukrainian economy (Figure A-11). Nearly 23 percent of respondents expect a significant drop in GDP, while 15.7 percent predict a moderate decline, and 22.6 percent expect zero growth. Consequently, over 60 percent of respondents do not foresee any growth prospects for the Ukrainian economy in 2024.

At present, the primary focus of entrepreneurs is centred on safeguarding human capital in their enterprises. They are actively pursuing opportunities to retain their most valuable employees,

Figure 6.

What are your expectations regarding the financial and economic conditions of your enterprise in 2024?



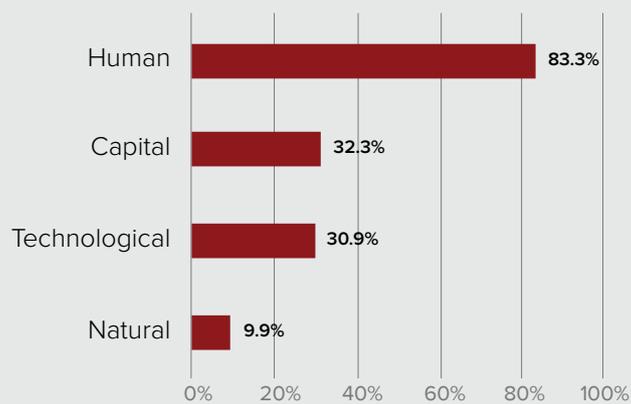
Source: authors' calculations based on the surveys

Almost 23%
of respondents expect a significant drop in GDPmarket

at least until the end of the war (Figure 7). This underscores the prevalent challenge in the market to secure talented personnel and the corresponding trend of rising wages. Preservation of capital or its restoration through reparations or other payments, as along the acquisition of new technologies, are also deemed important tasks. Interestingly, the survey results show that one in ten entrepreneurs mentioned the importance of natural resources in the post-war reconstruction, which indicates a conceptual shift towards a post-industrial economy among entrepreneurs.

Figure 7.

What resources will be key to post-war recovery for your company?



Source: authors' calculations based on the surveys



SECTION II.

IMPACT OF THE WAR ON MSMEs

Photo credit: UNDP Ukraine



6%

of companies were forced to cease operations for more than 1 year

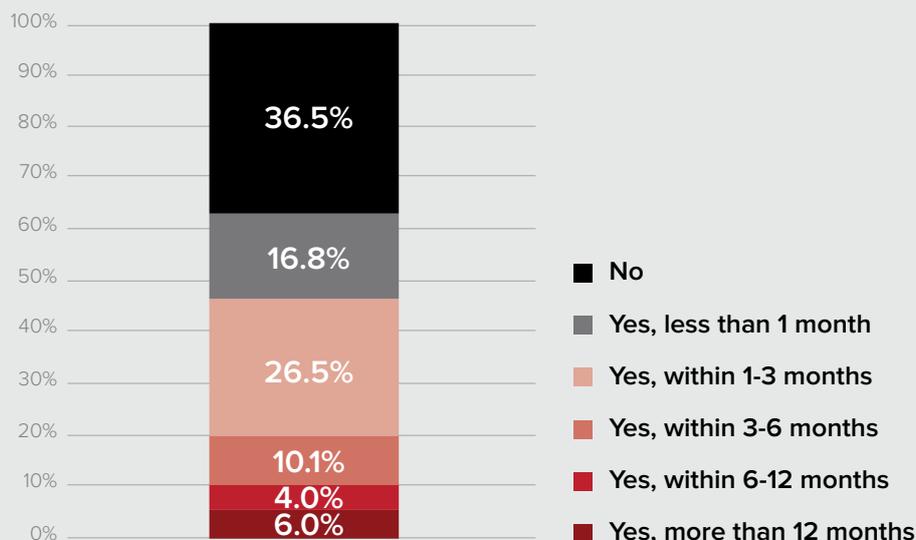
Key findings:

- Two-third of Ukrainian SMEs had to cease operations completely or partially during the full-scale invasion. 36.5 percent of businesses managed to continue operations without interruptions, while 6 percent had to shut down for a year or longer.
- Businesses currently harbour significant idle capacity, with a plan to gradually begin utilizing them in 2024.
- Despite the ongoing war, the business community has adapted to the situation, ensuring financial stability.
- There has been no widespread dislocation of businesses from regions affected by hostilities to other regions in Ukraine. Businesses considers security to be primary factor for relocation; hence they anticipate a prompt return to the de-occupied territories following the end of the war.

The war has had a profound impact on Ukrainian economy. Some businesses have been forced to shut down or relocate to safer areas. Displacement of skilled professionals has necessitated, significant restructuring within

Figure 8.

Has your company gone out of business due to the full-scale invasion?



Source: authors' calculations based on the surveys

enterprises. As per survey findings, two-third of Ukrainian SMEs had either fully or partially ceased operations completely during the full-scale invasion. Only 36.5 percent of businesses were able to continue operations without interruptions, while 6 percent had to shut down for a year or longer (Figure 8).

War hostilities has led to a decline in use of production capacities in Ukraine. Following the invasion in February 2022, the level of utilization of production capacities among MSMEs decreased from 72.4 percent to 45.7 percent (Table 5). In 2023, companies made strides to gradually restore their capacity utilization; with the weighted average rate reaching 53.4 percent. According to MSMEs forecasts, this weighted average percentage is expected to further increase to 56 percent in 2024.

Table 5.

Weighted average level of capacity utilization

Weighted average level of capacity utilization	Percentage
Before the full-scale invasion	72,4%
2022	45,7%
2023	53,4%
2024 (forecast)	56,0%

Source: authors' calculations based on the surveys



Only 9.5%

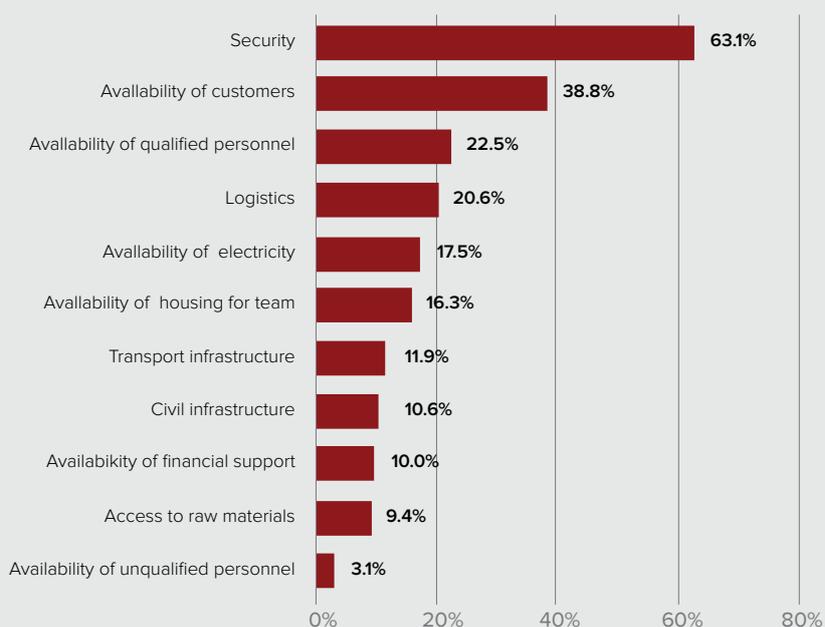
of companies indicated that they had no financial losses as a result of the war

The latest survey results indicate that there was a limited number of businesses relocating from the war affected regions to other parts in Ukraine. Since the beginning of the large-scale aggression, over 13 percent of existing enterprises have been either fully or partially relocated. Only 4.3 percent of respondents relocated their companies (Figure A-12). Main reasons indicated by companies for relocation included their concerns about the security situation (mentioned by 63.1 percent of companies), availability of consumers (38.8 percent of surveyed companies), and access to a qualified workforce (22.5 percent of surveyed companies). However, it is important to acknowledge that the survey does not include information about enterprises in the occupied territories that may have been destroyed, closed, or robbed. It is plausible to assume that many businesses tried to relocate to other regions in order to continue operations amidst the challenging circumstances.

Security emerged as the primary factor influencing businesses decisions on choosing a region for relocation (Figure 9). Businesses also took into account factors such as proximity to customers, availability of a skilled workforce in the region, essential logistics and infrastructure availability. These insights allow us to conclude that given the significant importance of security, businesses will be able to relocate relatively swiftly to previous areas after the end of the war.

Figure 9.

What were the main factors that influenced your choice of a new region in case of relocation?

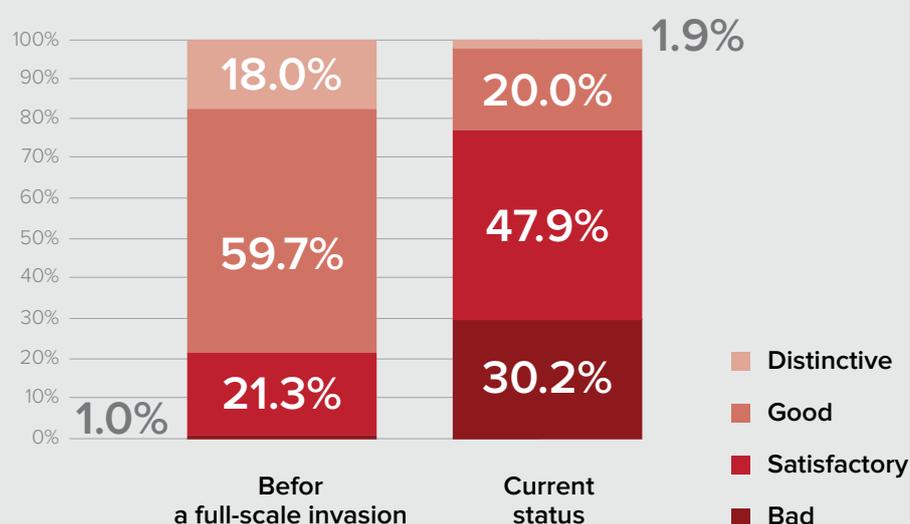


Source: authors' calculations based on the surveys

The financial losses suffered by companies due to the war vary significantly. Only 9.5 percent of companies indicated having no financial losses, while approximately 10 percent of companies incurred losses amounting to up to USD 10,000. The weighted average amount of financial losses across companies is USD 227,000 (Figure A-13).

Figure 10.

How do you assess the current financial and economic conditions of your enterprise?



Source: authors' calculations based on the surveys

Before the full-scale invasion, 59.7 percent of companies considered their financial and economic conditions to be good, while 18.0 percent assessed their company's condition as excellent. Currently, almost a third of SMEs (30.2 percent) in Ukraine consider their financial and economic conditions to be bad, with an additional 47.9 percent assessing their condition as satisfactory. Only slightly over 20 percent of companies in Ukraine consider their financial and economic conditions to be good or excellent (Figure 10).

5%
The weighted average reduction in the number of employees in 2023 compared to 2022

Despite grappling with financial losses, 47 percent of entrepreneurs indicate an improvement in their business results in 2023 compared to 2022. However, when compared to 2021, only 27 percent of enterprises have seen an improvement, underscoring substantial recovery requirements in order to reach pre-war levels (Figure A-14).

16%
The weighted average reduction in the number of employees in 2023 compared to 2021

In 2023, the number of MSME employees dropped by 5 percent compared to 2022, and by 16 percent compared to 2021. These statistics stand markedly lower than earlier estimates for expected job losses, affirming the notion that entrepreneurs are actively striving to retain their workforce (Figure A-15, A-16).

Businesses are actively seizing opportunities to restore full-time employment. The proportion of workers engaged in part-time jobs has notably decreased, plummeting from nearly 25 percent to 13 percent from 2022 to 2023. Factors, such as labour mobility and rising wages have contributed to this shift, prompting companies to bring workers back to full-time positions, in order to retain them (Figure A-17).

Approximately two-thirds of companies do not employ internally displaced persons, while for another fifth they comprise up to 10 percent of the total number of employees (Figure A-18). Around 15 percent of companies have a significant number of internally displaced persons on their payroll. The weighted average of workers holding internally displaced status is 9.8 percent.



SECTION III.

SECTORAL SNAPSHOTS



25%

of companies have made a complete relocation or opened additional offices and branch offices in the western regions of the country

only 11.5%

construction companies did not stop their activities

76.9%

of IT and agricultural companies did not stop their activities during the entire period of the full-scale invasion

Key findings:

- Sector such as manufacturing, construction, food services, hotels, and tourism bore the brunt of the adverse consequences of the war, while the agriculture, telecommunications, and marketing, consulting and design sectors exhibited resilience.
- A third of the companies ceased operations due to the ongoing war for more than three months.

Over half of companies reported financial losses of up to \$100,000 because of war.

The majority of companies primarily target the domestic market, with limited presence in foreign markets. Notably, enterprises in the construction and in trade sectors show significant involvement in foreign economic activities. Majority of companies suffered losses of up to USD100,000, although the impact varied considerably across sectors. The agro-industrial and telecommunication sectors experienced the least impact from the war, while the construction sector bore the brunt of the consequences. The processing industry incurred substantial financial losses, while losses in the service sector were the smallest.

Based on the official government data, the war caused significant losses for large and medium-sized enterprises in Ukraine. In the first nine months of 2022, these companies reported an aggregate loss of UAH 134.7 billion (Table 6). In the equivalent period of 2021, these companies had a profit of UAH 321.8 billion. The biggest losses were incurred in the manufacturing sector (UAH 82.7 billion) and in the energy sector (electricity, gas, steam and conditioned air supply) (UAH 75.9 billion). Although there was a gradual recovery in profitability of Ukrainian enterprises in 2023, total profits reached only 27 percent of the pre-war levels.

A significant share of large and medium sized enterprises that previously reported losses have now restored their pre-war profitability levels (Table 7). Presently, three out of four businesses are profitable, compared to merely one out of two in 2022 were profitable. Among the industries, the smallest share of profitable enterprises is noted in mining and quarrying; electricity, gas, steam, and conditioned air supply; as well as water supply, sewerage, and waste management. It is important to mention that all these industries operate under some form of price regulation.

The first year of the war resulted in a collapse of GDP and had a negative impact on all sectors of the national economy (Figure A-19). However, economy begun to gradually recover in 2023, and this trend is expected to continue in 2024. The growth in GDP can be primarily attributed to increase in investments and a reduction in the trade balance deficit.

1 Without taking into account the temporarily occupied by the Russian Federation and part of territories where the military actions are/were conducted.

2 The information is formed based on reports actually submitted by enterprises.

Table 6.

Profit/loss of large and medium-sized enterprises by type of economic activity, January - September 2021-2023

Branch	January-September 2021 Profit/loss, UAH million	January-September 2022 Profit/loss, UAH million	January-September 2023 Profit/loss, UAH million
Industry	321,833.6	-134,712.8	87,963.3
Mining and quarrying	159,185.0	25,917.8	33,374.2
Manufacturing	143,857.8	-82,702.7	71,870.6
production of foodstuffs, beverages and tobacco products	18,547.2	-11,015.1	38,305.0
textile industry, sewing of clothes, leather, leather articles and other materials	1,001.7	160.4	2,565.9
manufacture of wood products, manufacture of paper and printing	6,205.8	1,709.8	4,680.3
manufacture of coke and refined petroleum products	9,786.8	-3,293.6	-665.6
manufacture of chemicals and chemical products	12,247.0	-26,715.4	5,835.0
manufacture of basic pharmaceutical products and pharmaceutical preparations	4,512.1	3,391.6	3,928.0
manufacture of rubber and plastic products, manufacture of other non-metallic mineral products	11,854.3	-10,455.7	8,465.9
manufacture of basic metals, manufacture of fabricated metal products, except machinery and equipment	73,051.0	-21,086.9	-7,486.9
engineering	3,893.9	-14,704.3	12,842.5
manufacture of computer, electronic and optical products	433.2	184.4	2,280.0
manufacture of electrical equipment	261.6	445.9	985.3
manufacture of machinery and equipment, not included into other groups	481.8	-10,393.8	2,235.9
manufacture of motor vehicles, trailers, semi-trailers and other transport equipment	2,717.3	-4,940.8	7,341.3
manufacture of furniture and other manufacturing, repair and installation of machinery and equipment	2,758.0	-693.5	3,400.5
Electricity, gas, steam and conditioned air	19,968.0	-75,872.6	-16,507.8
Water supply, sewerage, waste management	-1,177.2	-2,055.3	-773.7

Source: State Statistics Service of Ukraine

Table 7.

Profit/loss of large and medium-sized enterprises by area of economic activity January-September 2021 - 2023

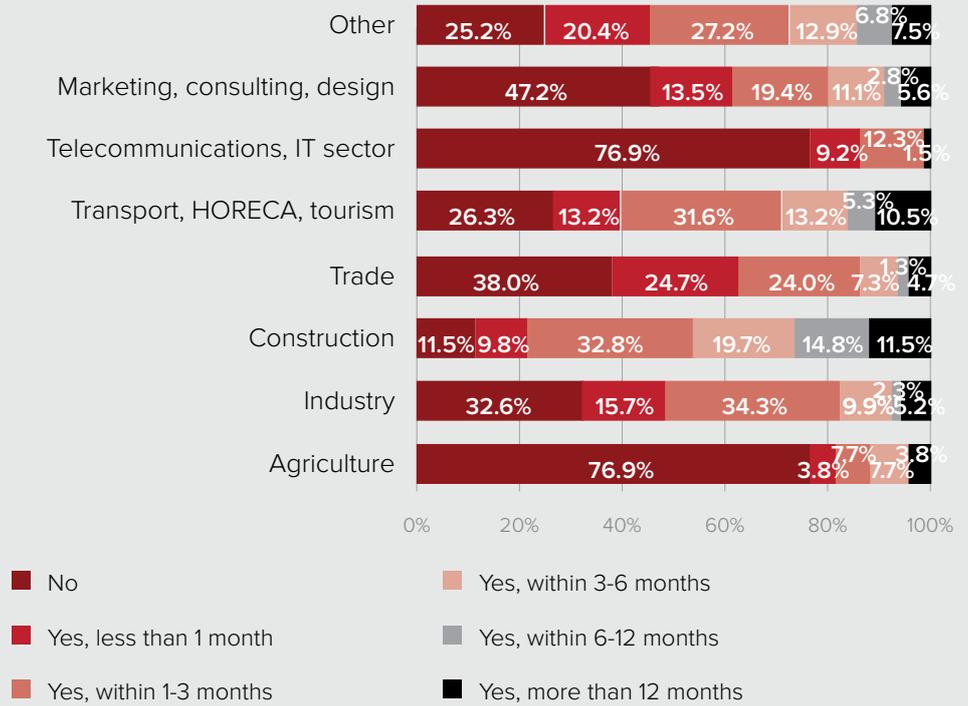
Sector	January-September 2021	January-September 2022	January-September 2023
Industry	74,9	56	73,8
Mining and quarrying	74,4	46,3	62,8
Manufacturing	79,3	60	80,8
production of foodstuffs, beverages and tobacco products	74,1	66,1	82,2
textile industry, sewing of clothes, leather, leather articles and other materials	84,6	74,3	89,6
manufacture of products of wood, manufacture of paper and printing	93,0	67,4	82,1
manufacture of coke and refined petroleum products	64,3	50	63,6
manufacture of chemicals and chemical products	81,3	54,5	73,1
manufacture of basic pharmaceutical products and pharmaceutical preparations	97,8	76,2	82,6
manufacture of rubber and plastic products, manufacture of other non-metallic mineral products	87,2	51,1	84,3
manufacture of basic metals, manufacture of fabricated metal products, except machinery and equipment	82,6	56,6	76,8
engineering	73,9	54,9	78,0
manufacture of computer, electronic and optical products	82,1	66,7	89,7
manufacture of electrical equipment	67,4	57,5	77,8
manufacture of machinery and equipment , not included into other groups	79,2	50,6	70,6
manufacture of motor vehicles, trailers, semi-trailers and other transport equipment	68,5	54,9	81,4
manufacture of furniture and other manufacturing, repair and installation of machinery and equipment	74,4	50	83,0
Electricity, gas, steam and air conditioning supply	57,9	47,3	48,8
Water supply, sewerage, waste management	58,7	26,2	52,1

-
1. Excluding territories temporarily occupied by the Russian Federation and the part of territories where the military actions are/ were conducted.
 2. Information compiled based on reports submitted by enterprises.

Source: SSCU

Figure 11.

Has your company gone out of business due to the full-scale invasion?



Source: authors' calculations based on the surveys

(Figure A-20).

The full-scale invasion forced Ukrainian businesses to temporarily suspend their activities. The construction, hospitality, and tourism sectors were most

Figure 12.

Are you currently engaged in foreign economic activities?

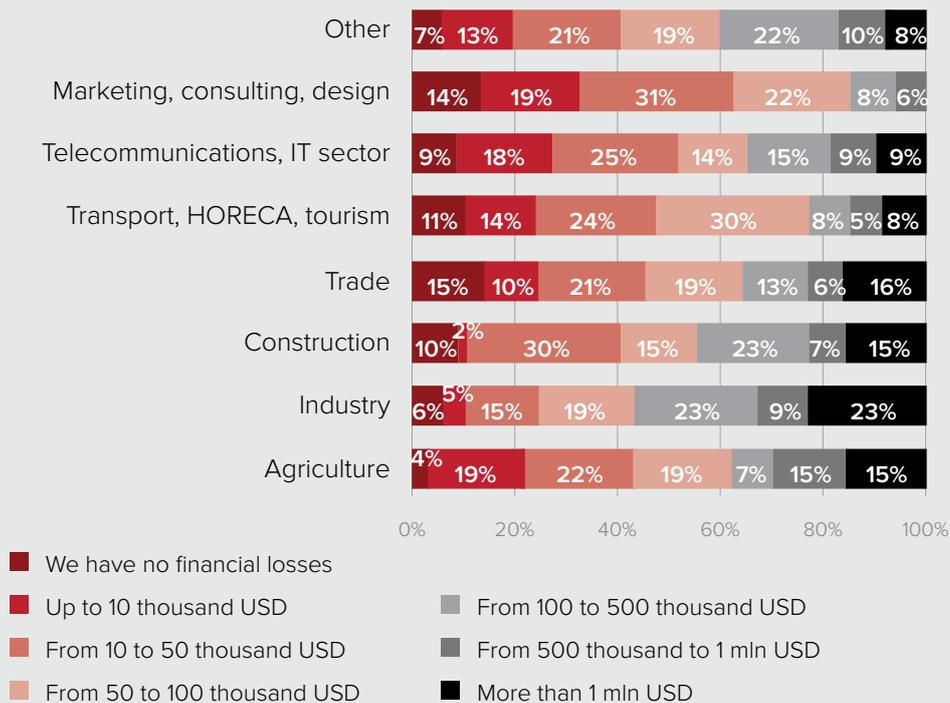


Source: authors' calculations based on the surveys

affected (Figure 11). Only 11.5 percent of construction companies were able to sustain their operations, with 26.3 percent experiencing interruption of 6 months or longer. The least affected sectors were the informational technology (IT) and agriculture, with 76.9 percent of companies in these sectors keeping the operations throughout the entire period of the full-scale invasion.

Figure 13.

How do you estimate your financial losses because of the full-scale invasion?



Source: authors' calculations based on the surveys

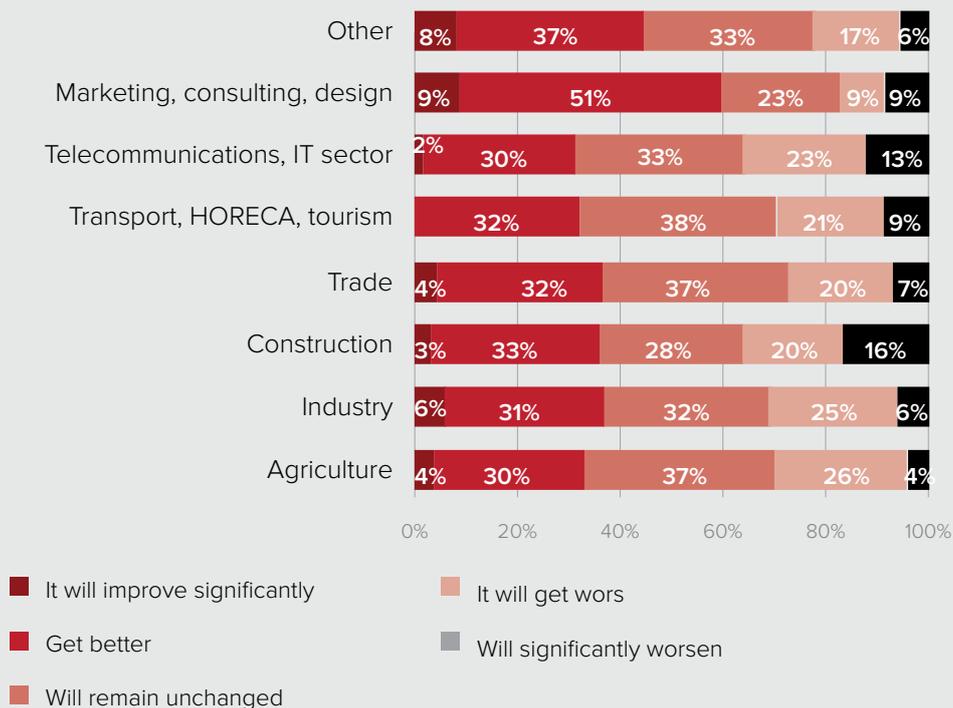
The majority of respondents indicated that their company did not relocate during the full-scale invasion. The IT industry is the most mobile sector, with 25 percent of companies either completely relocating or opening additional offices and branch offices in the Western region of the country (Figure A-21).

Over half of respondents indicated that their companies are not involved in foreign economic activity. The industrial sector is the only sector oriented towards foreign markets, with 59 percent of companies participating in foreign economic activity. Among these companies, 15 percent are engaged in export operations, 14 percent in import operations, 20 percent in both export and import operations, and 10 percent are planning to enter international markets in 2024. Companies in the trade sector predominantly focus on importing goods and services, accounting for 32 percent of respondents (Figure 12).

Merely 9.5 percent of respondents indicated that their company did not incur any financial losses because of full-scale invasion. Sectors such as marketing, consulting, and design encountered the smallest losses,

Figure 14.

What are your expectations regarding the financial and economic conditions of your enterprise in 2024?



Source: authors' calculations based on the surveys

61.2%
of companies believe that the Ukrainian economy will not grow next year or will have a recession

with 14 percent of companies reporting no financial losses, similarly 15% of companies in the trade sector reported no losses. On the other hand, the industry suffered incurred the greatest financial losses with 55 percent of industrial companies experiencing losses of USD100,000 or more (Figure 13).

Approximately, three-fifths (60.7 percent) of companies estimate that they will need additional financing of up to USD 300,000 over the next three years. IT companies as well as those in the marketing, consulting, and design sectors have the lowest financial needs with 34 percent and 24 percent respectively estimating a need of less than USD 30,000. The construction sector indicated the highest need for additional financing, with 14 percent of construction companies estimating their financing needs above USD 10 million. Similarly, 12 percent of companies in the industrial sector expressed the need for financing exceeding USD10 million (Figure A-22).

A significant majority of companies (79.3 percent) do not have plans to attract foreign investment. The hospitality sector stands out with the largest proportion of companies planning to attract foreign investments, with 26 percent of companies expressing such intentions, while only 5 percent of respondents within the construction sector announcing plans to attract foreign investments above USD 1 million. (Figure A-23).

Representatives of marketing, consulting, and design sectors are most optimistic regarding their turnover growth. In this sector, 25 percent

of companies anticipate a growth of 50 percent or more, indicating significant optimism, while 11 percent forecast a 30-50% increase in their turnover. The IT sector also anticipates significant growth, with 20 percent of companies forecasting an increase of over 50 percent compared to their 2023 results. Eighteen percent of companies in the industrial sector have the same forecast (Figure A-24).

The industrial sector and construction are expected to experience the greatest increase in employment. In the industrial sector, 55 percent of companies anticipate an increase in the number of their employees, with 30 percent planning for a slight increase of up to 10 percent, 21 percent aiming to hire an additional 20-40 percent of staff, and 4 percent intending to increase their workforce by more than 50 percent (Figure A-25).

Approximately 71.8 percent of companies do not expect their financial and economic conditions to deteriorate in 2024. Sectors such as layout, consulting, and design display the most optimism, with 60 percent of companies believing their financial and economic conditions will either improve or significantly improve. The most pessimistic expectations are held by companies in the IT and construction sectors, where 36 percent of companies in both sectors expect a deterioration in their financial and economic conditions (Figure 14).

Three-fifths (61.2 percent) of companies believe that Ukraine's economy will not grow or may enter recession in the upcoming year (Figure A-26). The construction sector holds the most negative expectations with almost half (47 percent) of companies anticipating a decline of Ukraine's economy in 2024.



SECTION IV.

REGIONAL
SNAPSHOTS

Photo credit: UNDP Ukraine

Key findings:

- There are important regional differences, with enterprises located in the Eastern and Southern regions of Ukraine encountering approximately 1.5 times greater losses than those in the Western part of the country.
- Businesses in the Eastern regions of Ukraine exhibit the greatest potential for recovery in 2024.
- About a third of companies report having outstanding tax debts.

18.2%

of companies in the east of the country were forced to suspend their activities for more than 12 months as a result of aggression

The eastern and southern regions bear the brunt of the full-scale invasion. In the aftermath of the aggression, 18.2 percent of companies in the east were compelled to halt their operations for more than 12 months, while in the southern regions, 12.7 percent of companies ceased operations for 12 months or more (Figure A-27).

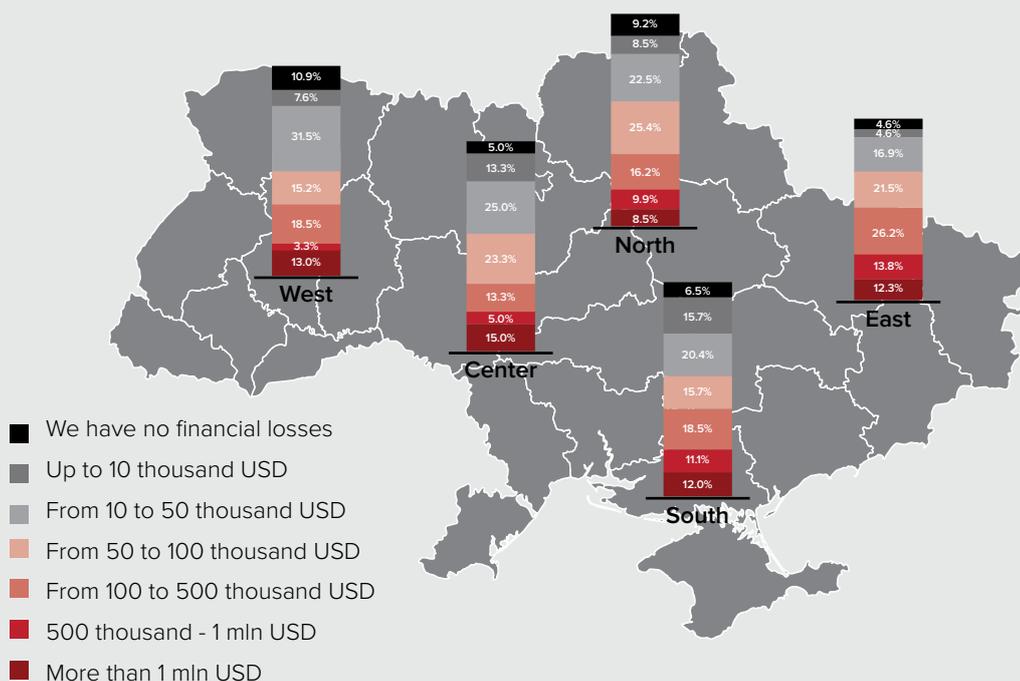
Most companies in western and northern regions are involved in foreign economic activity (Figure A-28), with 51.6 percent of companies in the western and 37.9 percent in the northern regions participating in importing or exporting goods. In contrast the eastern region has the smallest proportion of companies engaged in export-import activities at 33.8 percent.

Companies in the western and northern regions suffered the least losses due to the full-scale invasion, with only, 10.9 percent of respondents from the western region and 9.2 percent from the northern region stating that they did not incur losses because of the aggression (Figure 15).

Companies located in the eastern and northern Ukraine have expressed the highest need for additional financing over the next three years. Ten percent

Figure 15.

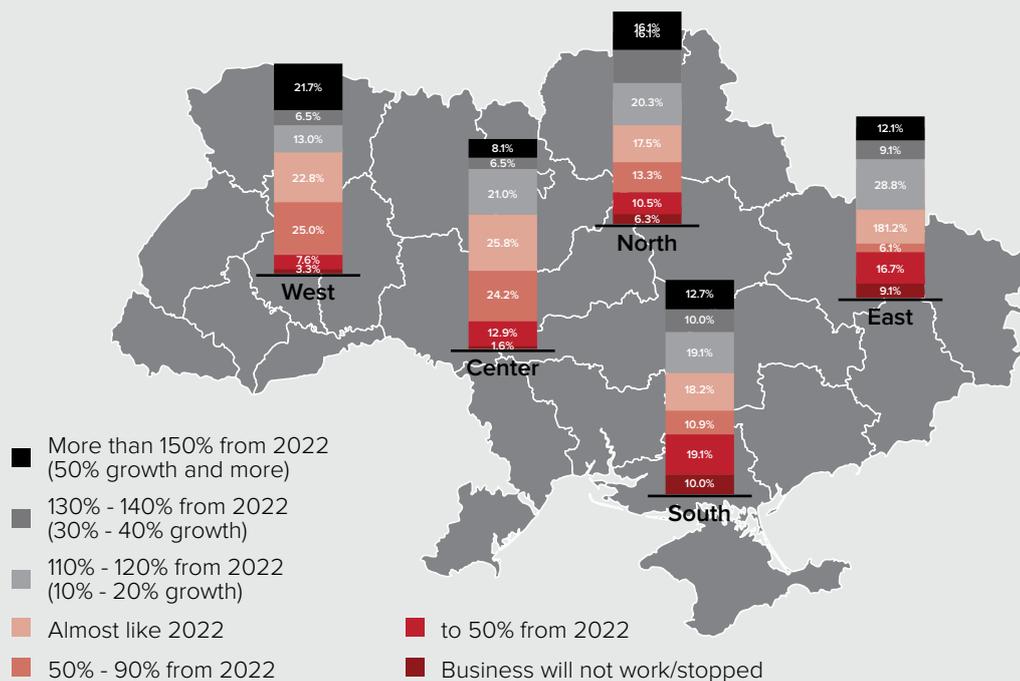
What do you estimate your business' financial loss to be due to a full-scale invasion?



Source: authors' calculations based on the surveys

Figure 16.

Forecasts for 2024 regarding your business - compared to 2023 (in hryvnias)



Source: authors' calculations based on the surveys

of the respondents from the eastern region estimate a need to be higher than USD 3 million, while in the northern region this indicator stands at 9.8 percent (Figure A-29).

Companies in the West and North regions have highest expectations for growth of their company's turnover between 2023 and 2024. 32.2 percent of companies in the North expect 30 percent or higher growth, while 28.2 percent of companies in the West region, expect this level growth (Figure 16).

The highest increase in the number of employees is expected in Western Ukraine. Approximately half (56.1 percent) of companies in Western Ukraine expect augmenting their workforce, with 30.3 percent forecasting a slight increase of 10 percent, 20.2 percent expecting a moderate increase of

Table 8.

Termination and reorganization of legal entities

Region	Total	Total % of enterprises by region
Dnipropetrovsk	313	1.9%
Donetsk	77	5.1%
Zaporizhzhia	175	3.6%
Luhansk	20	9.3%
Mykolaiv	109	2.9%
Sumy	132	4.3%
Kharkiv	276	2.8%
Kherson	44	7.5%
Chernihiv	131	4.2%
Ukraine	4,118	2.3%

Source: authors' calculations based on the surveys

Table 9.

Businesses with tax debts

Region	Total	% of enterprises by region
Dnipropetrovsk	5,031	30,2%
Donetsk	438	29,0%
Zaporizhzhia	1,375	28,3%
Luhansk	61	28,4%
Mykolaiv	1,281	34,5%
Sumy	943	30,9%
Kharkiv	2,613	26,6%
Kherson	139	23,6%
Chernihiv	1,152	37,3%
Ukraine	55,386	31,0%

Source: authors' calculations based on the surveys

20-40 percent and 5.6 percent planning a significant increase of over 50 percent. Companies in eastern Ukraine also display some optimism, with approximately 84 percent of companies stating that they will at least maintain the current level of employees (Figure A-30).

Representatives of companies in the Western and Eastern regions have the most optimistic outlook about their companies' financial and economic conditions in 2024. Similarly, companies in the Northern part of the country also have positive expectations. In the west, 43.8 percent of companies anticipate an improvement in their financial and economic situation. In the east, this percentage is slightly lower, at 42.2 percent. Additionally, 37.2 percent of companies in the north also expect an improvement in their financial and economic conditions (Figure A-31).

In Kherson and Luhansk oblasts (as seen in Table 8), a higher-than-average proportion of enterprises—7.5 percent and 9.3 percent respectively—ceased operations or underwent reorganization in 2022, which is significantly higher than the national average (2.3 percent).

Table 10.

Enterprises with real estate

Region	Total	% of enterprises by region
Dnipropetrovsk	3,536	21,2%
Donetsk	451	29,9%
Zaporizhzhia	1,157	23,8%
Luhansk	65	30,2%
Mykolaiv	1,078	29,1%
Sumy	964	31,6%
Kharkiv	2,228	22,7%
Kherson	193	32,7%
Chernihiv	1,068	34,6%
Ukraine	41,513	23,2%

Source: authors' calculations based on the surveys

Table 11.Net income (revenue),
2022, million UAH

Region	Total	Dynamics %
Dnipropetrovsk	2,041,631	40,5%
Donetsk	159,628	-5,4%
Zaporizhzhia	385,279.6	-38,9%
Luhansk	10,013.25	161,7%
Mykolaiv	196,934	0,6%
Sumy	162,919.1	17,0%
Kharkiv	474,689.8	-38,2%
Kherson	19,548.2	-18,7%
Chernihiv	218,733.3	110,0%
Ukraine	16,550,387	28,2%

Source: authors' calculations based on
the surveys

In the Chernihiv and Mykolaiv oblasts in 2022, 37.3 percent and 34.5 percent of enterprises respectively had outstanding tax debts, this is higher than the average for Ukraine, 31 percent (Table 9).

The share of companies that own their working premises is higher than the share of companies that are renting. (Table 10). Specifically, in Luhansk, Mykolaiv, Sumy, Kherson, and Chernivtsi region there are nearly 1.5 times more companies that own their working premises in comparison to the average level in Ukraine. On the other hand, Dnipropetrovsk and Kharkiv regions fall below the national average in terms of share of companies that own their premises.

In 2022, companies located in frontline regions of Zaporizhzhia, Kherson, and Donetsk oblasts experienced significant declines in their net income. At the same time, Chernihiv Oblast, which had been under occupation by Russian troops from February to April 2022, exhibited a twofold increase in income. Firms in Luhansk Oblast also showed increase in income, attributed to the sale of warehouse stocks (Table 11).

Almost all regions reported a decrease in the number of companies and associated loss of profit. Mykolaiv, Donetsk, Dnipropetrovsk, Kherson, and Kharkiv oblasts suffered the highest proportion of losses (Table 12).

Table 12.Net profit/loss, 2022,
million UAH

Region	Total	Trend %
Dnipropetrovsk	-29,984	-117,8%
Donetsk	-13,839	-174,8%
Zaporizhzhia	5,303.78	-89,8%
Luhansk	733.42	50,1%
Mykolaiv	-17,664.3	-276,9%
Sumy	2,433.57	-78,4%
Kharkiv	-3,160.07	-116,2%
Kherson	-3,146.78	-371,2%
Chernihiv	18,535.18	4,2%
Ukraine	-30,890.3	-103,0%

Source: authors' calculations based on
the surveys



SECTION V.

GENDER
SNAPSHOT



78.5%
of all enterprises
were represented
by men



21.5%
of all enterprises
were represented
by women

1 Note: In the survey 78.5 percent of responses came from enterprises managed by men were represented by men, and 21.5 percent by women.

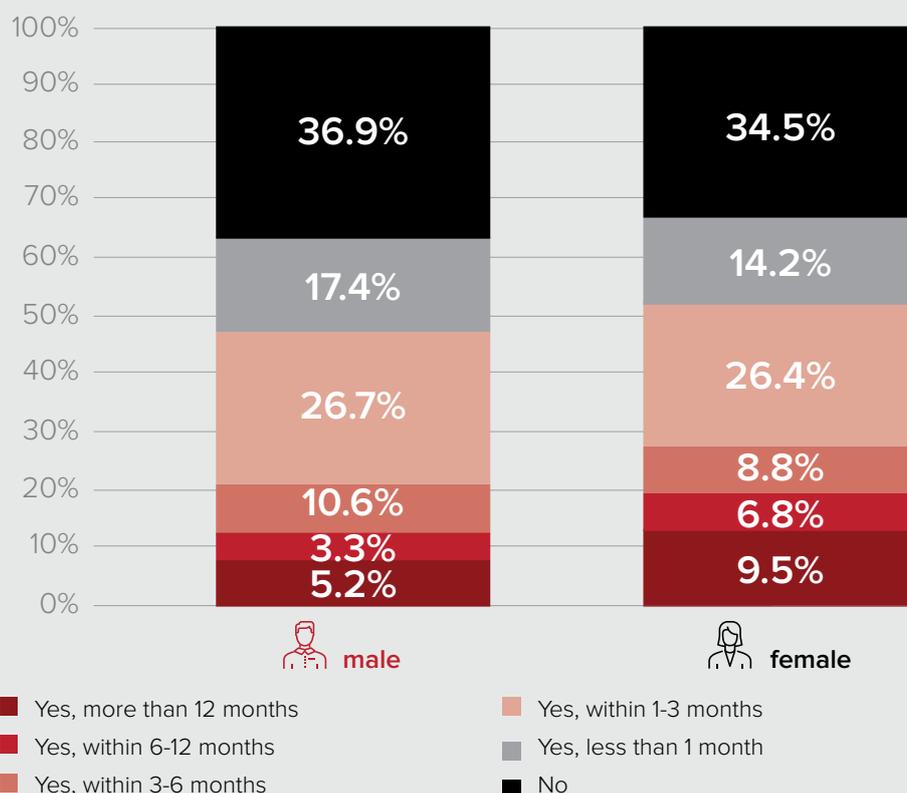
Key findings:

- Enterprises led by women on average have the same level of resilience as those led by men. However, 9.5% of women managers closed their business compared to only 5.2% led by men. A nuanced insight into business decisions of women managers highlights that in case of imminent danger, women are more inclined to consider the safety of their employees and to suspend or close their businesses.
- Women entrepreneurs tend to concentrate more on local markets, while men are more inclined towards managing businesses present at regional level and nationwide. Despite these differences, enterprises led by women have achieved the same rate of success as those led by men.
- Men tend to display somewhat greater optimism regarding the prospects for the development of Ukraine’s economy in 2024 compared to women.

In Ukraine, gender-based inequalities are low, and both men and women take active part in public life and business¹. The difference in the outcomes between enterprises led by male and female managers is relatively minor. However, differences emerge in the perceptions of the current economic landscape, as well as prospects for 2024. Women are more inclined to prioritize the safety of their business, as evidenced by a higher frequency of business closures in times of danger. While only 5.2 percent of men managers halted their business, 9.5 percent of women managers chose to do so. (Figure 17).

Figure 17.

Has your company gone out of business due to the full-scale invasion?

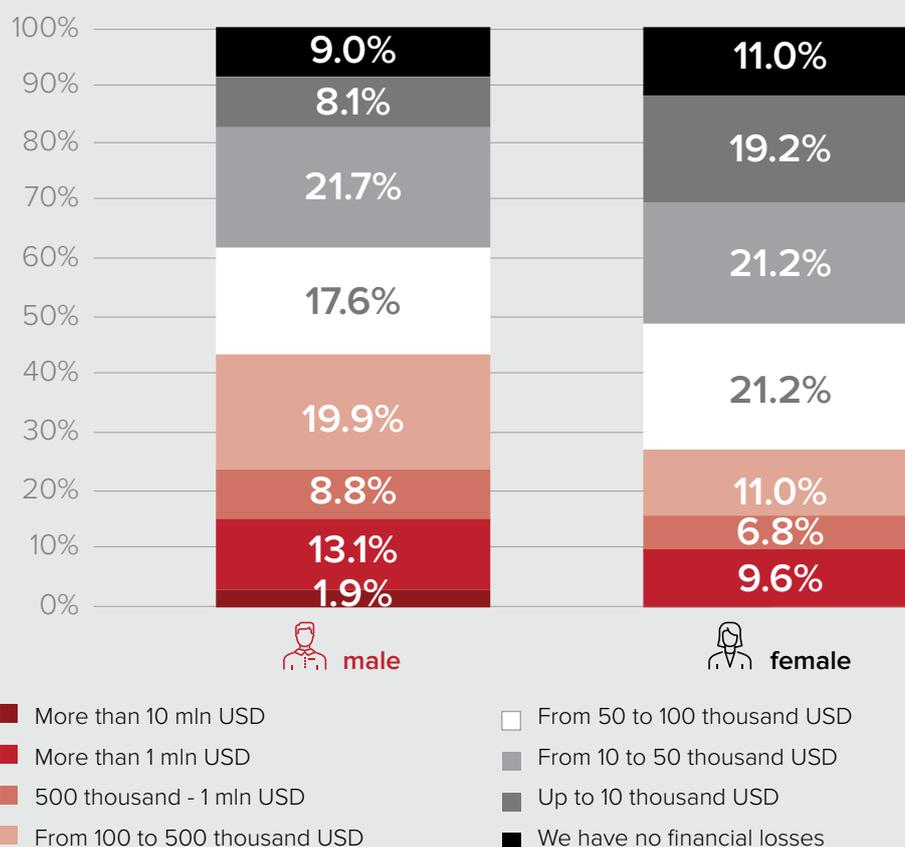


Source: authors' calculations based on the surveys

The difference in the decision to relocate the business was marginal between women and men managers and business owners. The vast majority of respondents (87.8 percent of women and 86.2 percent of men) opted not to move their business, while 3.4 percent of women and 4.6 percent of men decided to move to a new region (Figure A-32).

Figure 18.

What do you estimate your company's financial losses due to the war to be?



Source: authors' calculations based on the surveys



only
20%
of women and men
plan to get foreign
investments

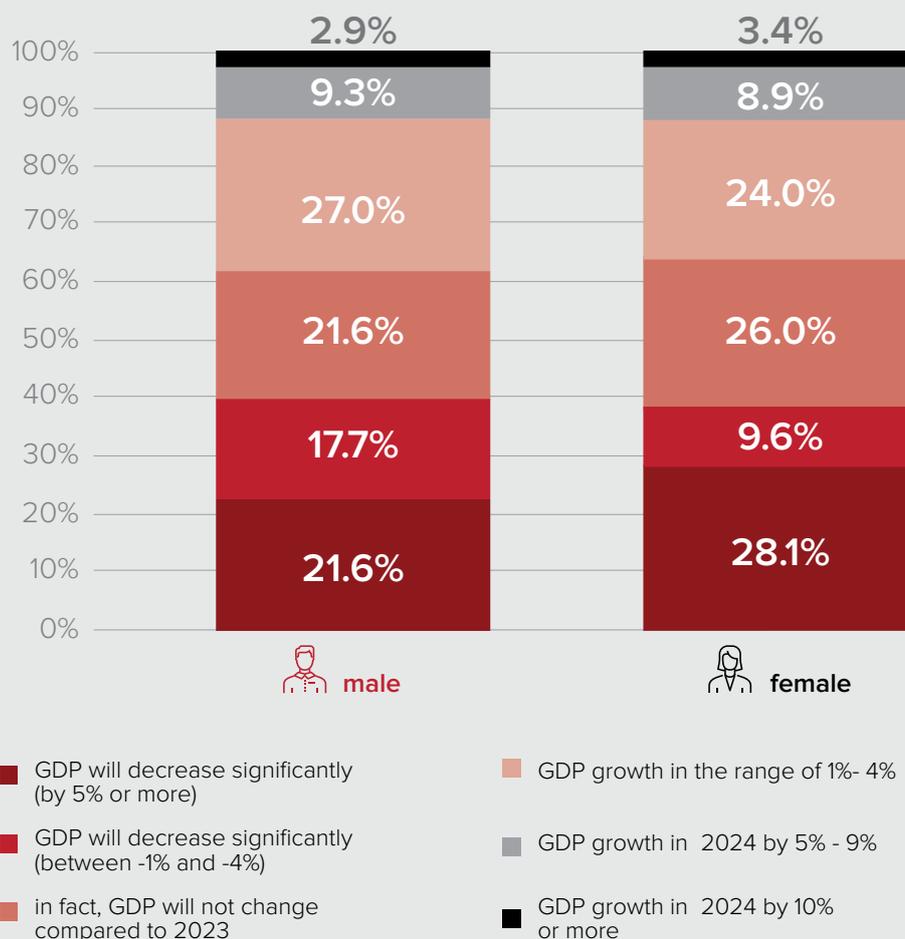
Three-fifths of respondents (61.8 percent of women and 55.9 percent of men) do not conduct foreign economic activities (Figure A-33). This difference is mainly related to the field of business led by men and women. Women typically select business sectors that cater to local needs in specific areas, such as selling products or providing services. On the other hand, men tend to manage businesses with a regional or national reach. Losses from the war of MSMEs-managed by women, are slightly lower than those managed by men (Figure 18).

Lower levels of losses in enterprises led by women translate into a lower requirement for additional resources. Specifically, 75 percent of women-managed MSMEs anticipate relatively lower need for additional resources to recover and grow their businesses (up to USD 300,000 for the next 3 years), whereas 43.2 percent of male managers estimate their financial needs as relatively high (more than USD 300,000 for the next 3 years). (Figure A-34). It should be noted that only 20 percent of both women and men managers plan to secure foreign investment (Figure A-35).

MSME expectations related to outlook for 2024 are nearly identical among women and men managers (Figure A-36). Overall, a moderately pessimistic scenario with expectations of non-critical losses prevails among managers. At the same time, female managers are more likely to try to retain their existing staff compared to male managers (Figure A-37). This difference in opinion likely stems from the smaller size of businesses

Figure 19.

How do you assess the prospects of the Ukrainian economy in 2024?



Source: authors' calculations based on the surveys

managed by women and the challenges for downsizing without fully shutting down activities. The most significant difference between men and women managers is related to their opinions on the prospects of the Ukrainian economy in 2024 (Figure 19). Approximately 40 percent of women and men expect the economy to decline, yet women are more pessimistic about the severity of the decline. Specifically, 21.6 percent of men and 28.1 percent of women managers expect a significant economic downturn.

...рювання виконується з правої сторони
ють, повинна стояти прямо, без напру-
чайну поставу



SECTION VI.

STATE SUPPORT FOR MSMEs DURING THE WAR

Photo credit: UNDP Ukraine



over
UAH 130
billion

of loans (34 mln. USD)
financed by program
“5-7-9” in 2023

Key findings:

- During the ongoing war, the state extended substantial support to MSMEs through various initiatives such as state credit programmes, employment schemes, tax incentives, grants for starting new businesses, and financial assistance to displaced companies.
- About a quarter of companies received aid either from state or international resources to stimulate their business for half of these MSMEs, such assistance was key to business survival.

Amid the conflict between the Russian Federation and Ukraine, there was a noticeable decline in business activity, particularly within the MSME sector. Several factors contributed to this trend, including the destruction of production capacities, business relocation, logistical constraints, financial difficulties, restricted access to resources, and lower demand. Nearly a third of enterprises have either ceased or downsized their operations, resulting in direct losses of USD 87 billion. The restoration of business activity was facilitated by the wartime economic policy introduced by the government, the main elements of which were:

1. Implementation of several important decisions on deregulation.

Opening and relocating businesses require quick and stable guarantees for connecting to existing infrastructure, and a simplified approach to the state’s monitoring and oversight activity.

2. New tax policy aimed at reducing the fiscal burden on enterprises.

Fiscal incentives have been introduced for businesses based in industrial parks, which help to attract foreign investments and develop prospects for Ukrainian manufacturers to relocate enterprises to the territory of industrial parks, resume work, and create jobs in the wartime conditions.

3. Interest-free loan programmes for all business sectors.

At the beginning of the full-scale invasion of Ukraine, all restrictions on borrowers under the Affordable Loans 5-7-9 Programme were lifted by a government decision, with a simultaneous increase in the maximum loan amount per borrower to UAH 60 million (USD 1.5 million), and the interest rate for loans was set at 0 percent per annum.

To expand opportunities for entrepreneurs to receive state support, the government made changes to the regulations governing the provision of financial state support within the 5-7-9 Programme. In particular, restrictions on receiving state support for certain categories of enterprises affected by hostilities have been lifted. Additionally, the changes aim to focus the 5-7-9 Programme exclusively on MSMEs.



9,554

Ukrainians were identified as winners, who will receive micro-grants from the state in the total amount of 2,268 million hryvnias

In 2023, the 5-7-9 Programme financed over UAH 130 billion (USD 34 million) of loans, while direct budgetary expenditure exceeded UAH 16 billion (about USD 400 million). In 2024, Programme expenditure was planned to be UAH 18 billion.

4. Employment stimulation.

To stimulate the employment of displaced persons, employers received compensation for labour costs of UAH 6,700 (USD 183) in 2023 (compared to UAH 6,500 in 2022) for each displaced person employed. For these individuals, the Unified Social Contribution (ESC) is paid for a period of two months. In 2023, 8,134 applications for compensation were submitted for 14,703 employed internally displaced persons, and 7,544 favourable decisions were made to provide compensation to 14,374 internally displaced persons.

There is also a programme that encourages the hiring of persons with disabilities. The state reimburses expenses for making reasonable accommodation in a workplace for persons with disabilities, for sums ranging from UAH 67,000 to UAH 100,500 per workplace.

5. The e-Robota Program.

To promote entrepreneurial activities and job creation, the government has launched grant programmes called e-Robota. These provide grant assistance or co-financing to entrepreneurs who are starting or expanding their businesses. Since 1 July 2022, the following programmes have been successfully implemented:

- The Own Business Microcredit Programme provides microgrants to individuals starting or expanding their businesses. Following the programme results in 2022, microgrants worth UAH 776.6 million were approved for 3,321 entrepreneurs, contributing to the creation of 8,313 jobs.

On 29 December 2023, 9,554 Ukrainians were identified as winners, who will receive micro-grants from the state worth a total of UAH 2,268 million. These business projects are expected to generate more than 20,000 new jobs.

- Grant programmes were launched in April 2023 to support veterans to start or develop their own businesses.

By 31 December 2023, the government had allocated UAH 100 million to 241 grant recipients to create or develop veteran-owned businesses.

- A grant programme is also available to establish or develop processing enterprises. In 2022, grants worth UAH 1,428.7 million were approved for 269 entrepreneurs, contributing to the creation of 5,020 jobs.



25%

compensation of the cost of agricultural machinery for Ukrainian farmers when buying Ukraine-made machinery

13.1%

of companies received assistance from the National Government

10.1%

from international organizations

5.2%

from non-governmental organizations

4.5%

from local authorities

As of 29 December 2023, positive decisions were made to award grants to 381 recipients for a sum of UAH 1,953.6 million.

Also, within the e-Robota framework, there is a grant programme to establish or develop horticulture, berry farming, and viticulture, as well as a grant programme to initiate or develop greenhouse farming.

In total 12,000 grants worth a total of UAH 5 billion were issued via e-Robota in 2023.

6. State support for production.

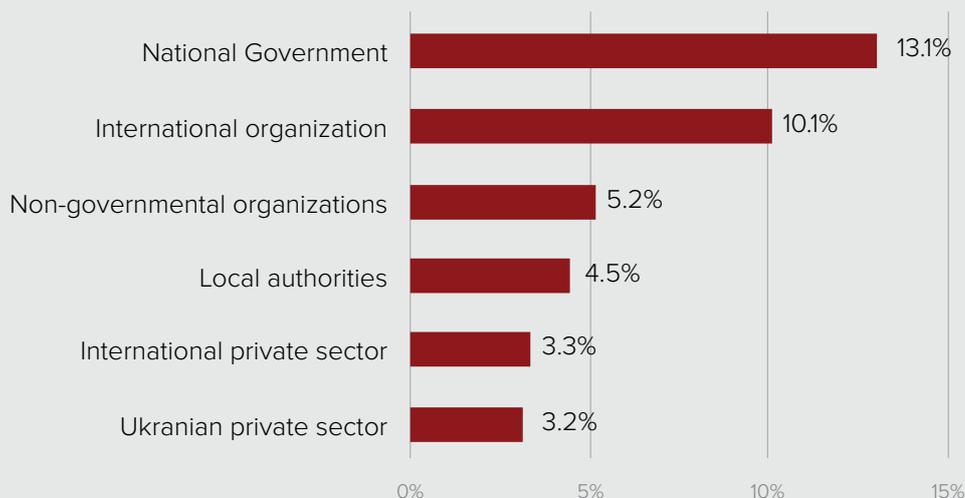
The Ministry of Economy of Ukraine launched several programmes stimulating production in domestic firms:

- Financial support from the state to modernize production. Through this programme, firms can apply for grants for processing. The maximum value of a grant is UAH 8 million for up to 500 of target companies.
- Stimulating demand for Ukrainian products. When buying agricultural machinery for Ukrainian production, Ukrainian farmers receive compensation of 25 percent of the cost of this equipment.
- Prioritizing the Ukrainian manufacturer in public procurement of mechanical equipment. In all public procurement of mechanical equipment, the localization rate should exceed 20 percent in 2024. Ordering Ukrainian goods facilitates the work of dozens of other Ukrainian enterprises, providing employment. If Ukrainian goods are purchased, up to 40 percent of their value is returned to the budget in the form of taxes.
- Export Credit Agency (ECA). This programme stimulates non-commodity exports and shipping insurance, thereby enhancing the country's export potential, and creating more jobs in domestic firms. Banks accept the ECA insurance contract as collateral when issuing loans for executing export contracts; this enables insurance of the risk of non-receipt of payments under a foreign economic agreement. ECA provides insurance coverage of the export of goods, works, and services of Ukrainian origin, with the exception of those specified in Article 8 of the Law of Ukraine "On Financial Mechanisms for Stimulating Export Activity". In 2023, this programme supported UAH 7.5 billion worth of exports.

Since the start of the full-scale invasion, companies have received support from the national government, international organizations, non-government organizations, local authorities, and the foreign and Ukrainian private sectors. In total, 13.1 percent of companies received assistance from the national government, 10.1 percent from international

Figure 20.

Has your company received support since the invasion?



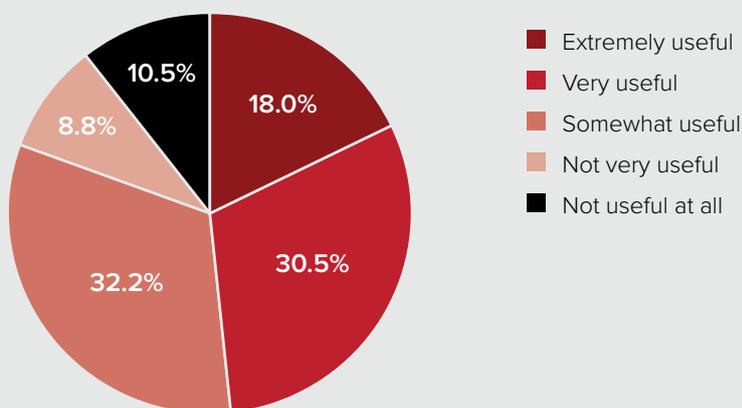
Source: authors' calculations based on the surveys

organizations, 5.2 percent from non-governmental organizations, and 4.5 percent from local authorities (Figure 20).

The top five support instruments used by SMEs during the full-scale invasion (Figure A-38) include: the 5-7-9 Programme (14.8 percent), grant programmes (10.3 percent), tax benefits (8 percent), assistance for internally displaced persons (7.6 percent), and grants from Ukraine's international partners (6.5 percent).

Figure 21.

How useful was this help?



Source: authors' calculations based on the surveys

Of the companies that received assistance during the full-scale invasion, nearly half (48.5 percent) found the support helpful or very helpful. For 32.2 percent, the help was somewhat useful (Figure 21).

According to the MSME assessment (Figure A-39), assistance from the international organizations was deemed the most useful, with 77.1 percent of respondents considering such assistance useful or extremely useful. The support provided by the international private sector was also effective, as 73.9 percent of respondents considering such assistance useful or extremely useful).



84 areas

of state supervision
and control and
over 30 inspection
bodies, with functions
duplicating in 24
areas and 15 areas
needing liquidation

What else do MSMEs need?

In addition to external assistance, MSMEs have identified the specific needs that should be addressed by state economic agencies. The priorities include eliminating corruption (66.7 percent), improving access to credit (42.4 percent), implementing judicial reform (36.4 percent), digital tool for reservation of personnel under mobilization (32.6 percent), and implementing tax reform (32.5 percent). (Figure A-40), These priorities underscore the significance of simplifying business processes, improving administrative efficiency, and protecting business rights. It is evident, that legal reforms are crucial for providing the necessary framework to support MSMEs and foster economic development of Ukraine.

The practical measures required by businesses to thrive and navigate challenges effectively include the following:

1. Reducing uncertainty at all levels, particularly addressing the consequences of the war, and adapting to the prevailing conditions. Businesses seek a reduction in regulation to enhance their ability to respond flexibly to new challenges and uncertainties.
2. Providing assurance from the state that certain regulations concerning MSME activities will remain stable. This is particularly important for government lending programmes that offer soft loans for a year, but without a guarantee that funds will be available for subsequent loan, which forces the business to accumulate excess resources instead of investing them in their growth and development.
3. It is important for the government to address prevailing practice of large enterprises optimizing their taxes or avoiding paying taxes on labour by using legislative loopholes from MSME regulations. This requires action from the government, so tax advantages are granted only to genuine MSMEs, thus preventing unfair practices, and creating a level playing field for businesses of all sizes.
4. To incentivize the growth of SMEs, restoring demand for goods and services is crucial, which can be achieved by encouraging the return of forcibly displaced people, workers, and students to Ukraine. This will enable SMEs to increase their turnover, start new profitable activities, and drive Ukraine's economic development. SMEs expect concrete measures from the state to stimulate the voluntary return of Ukrainian citizens to their homeland.
5. Supporting business associations that can collectively gather and analyse market information is vital. These associations can play a significant role in developing and providing specific recommendations to government organizations on existing incentives for economic development and addressing business obstacles, thus contributing

to creating a more favourable environment for business growth and development.

It is important to highlight that these identified priorities and measures apply equally to micro, small, and medium-sized businesses. In Ukraine different types of businesses are closely interconnected and actually work as a whole. Therefore, the aforementioned priorities and measures are pertinent for all businesses irrespective of their scale.

Achieving recovery, growth, and macro-financial stability hinges on the development of a robust economy with high value-added component (including through advancement of MSMEs). Both foreign and domestic businesses harbour significant expectations related to economic, financial, and socio-political landscape of the country, particularly concerning the rule of law and the capacity of the public administration to ensure stability and predictability. A thriving private sector depends on the availability of both financial and human capital both of which are essential for sustained growth and prosperity in the business environment.



SECTION VII.

MSMEs
BAROMETER



the absolute majority

of companies have come to realize the importance of preserving the existing workforce and, in general, do not plan layoffs

Key findings:

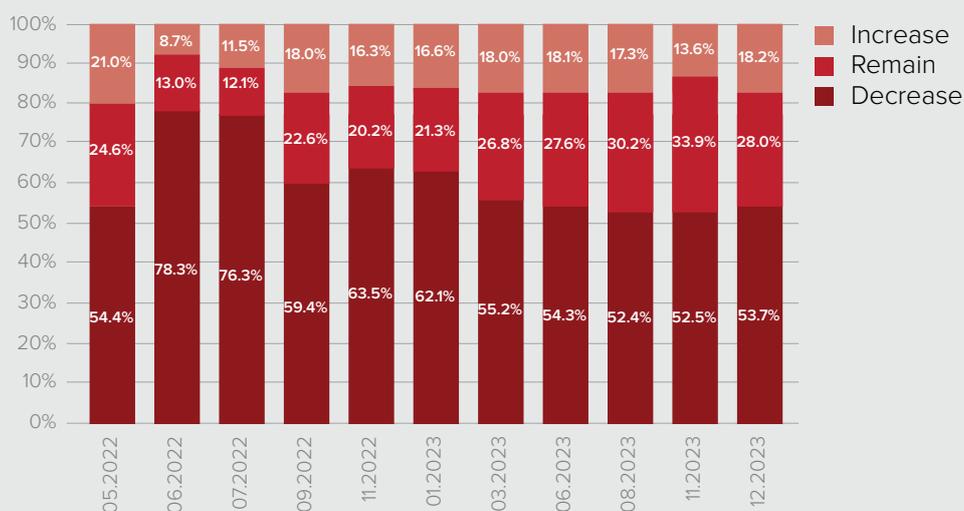
- While businesses expect a drop in orders, the growing number of companies are predicting market stabilization.
- The majority of companies prioritize retaining their workforce and, in general do not plan on implementing layoffs.
- About half of companies have already stabilized their output volumes with their stock of inventory, indicating that significant shocks are not expected in 2024.

In this section, we analyse trends related to business expectations based on the communications with MSMEs from May 2022 to December 2023¹

Following the initial shock of the war in 2022, there was a notion that things would soon be back to normal resulting in some optimism by businesses regarding recovery of their orders. However, by June 2022, businesses began to realize that the war would last a long time, leading them to adapt to the new realities. Almost half of the businesses successfully adapted and expected either to maintain or even improve their current situation (Figure 22).

Figure 22.

Change in the number of orders received by the business from customers compared to the previous month



Source: authors' calculations based on the surveys

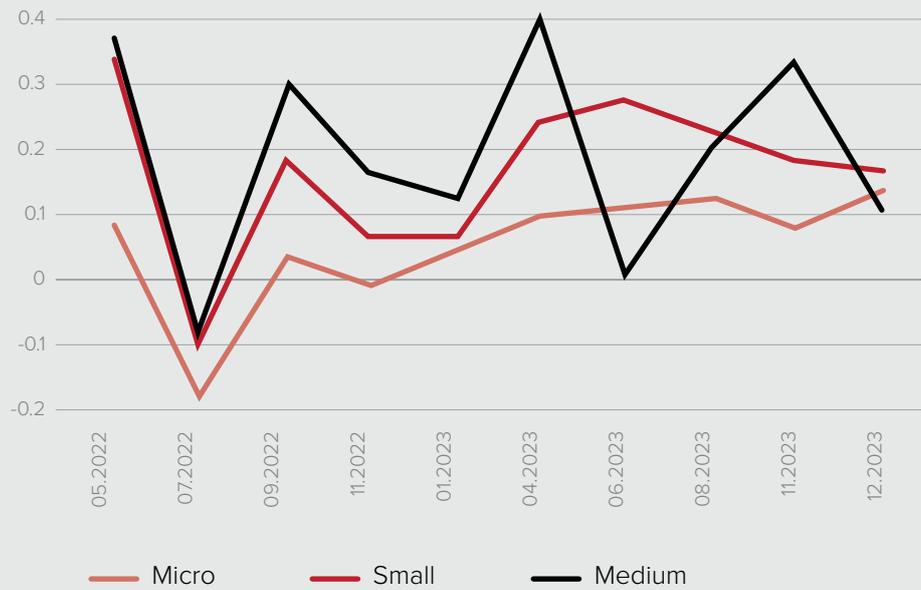
Based on the data, an index² of optimism regarding existing orders was calculated for enterprises of various sizes. Figure 23 shows trends in the index of optimism for micro-, small, and medium-sized enterprises. From September 2022 onwards, there has been a notable uptick in optimism across all types of enterprises. Significant fluctuations observed for medium-sized enterprises can be attributed to their limited representation within the total sample. Overall, the findings for each enterprise type show relatively similar results. Small enterprises are slightly more optimistic than micro-enterprises, and medium enterprises are more optimistic compared to small ones. This higher confidence is mainly due to the larger financial cushion of larger enterprises.

1 In May 2022, the Advanter group began to actively communicate with businesses regarding the impact of the war and their economic and financial condition.

2 Expectation of growth was given the value of 1, expectation of decline was -1, and the evaluation of remain the same was assigned 0. The index is a weighted average for each type of enterprise, to which the number 0.5 was added. This makes it easy to analyse the value of the index: values above 0 indicate optimism in enterprises, and below zero – pessimism..

Figure 23.

Optimism index of enterprises of different sizes regarding the number of orders from customers.



Source: authors' calculations based on the surveys

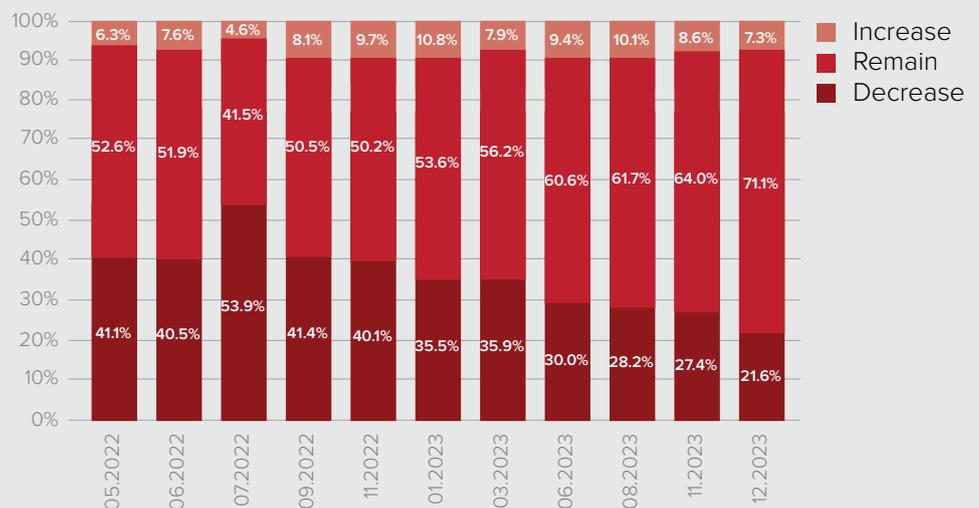
While the number of employees has reached a stable point for majority of enterprises, there has been a decline in the share of firms that are increasing their number of their employees (Figure 24).

The index of optimism related to number of employees has shown a constant upward trend since July 2022, potentially signalling the existing workforce shortages in the labour market. The high optimism among medium-sized enterprises in January 2023 likely stemmed from the anticipation that the war situation will improve, which then took a dive in autumn 2023. Overall, the index shows similar trends for optimism levels across companies regardless of their size.

The MSME sector as a whole has stabilized its production volumes. Some 40 percent of firms claim stable production volumes, while a

Figure 24.

Change in the number of employees (full-time and part-time of the business compared to the previous month.

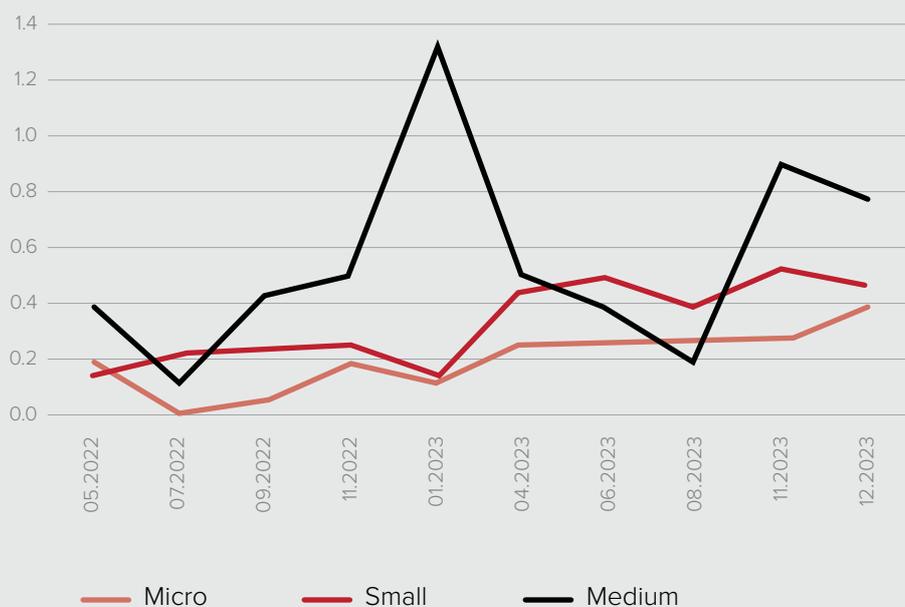


Source: authors' calculations based on the surveys

similar share of firms experience reductions in production on a monthly basis. The outlook for 2024 suggests that the share of companies facing decreased production volumes is expected to gradually decrease to 30 percent (Figure A-41). This projection is supported by a declining trend in inventories (Figure A-42). About half of companies have already stabilized their output volumes in conjunction with their inventory levels, signifying that significant shocks are not anticipated in 2024.

Figure 25.

Optimism index of enterprises of different sizes regarding the number of employees.



Source: authors' calculations based on the surveys

Businesses are anticipating difficulties for the Ukrainian economy attributed to the loss of logistics routes, and a decline in orders. Trend analysis further suggests that in 2024, the proportion of companies ordering fewer inputs is likely to decrease, albeit gradually over the course of the year (Figure A-43).



RECOMMENDATIONS

TRAIKO
16

Photo credit: UNDP Ukraine

To mitigate the negative impact of war and mobilization and to support the resilience and growth of Ukrainian MSME businesses, this assessment identified the following recommendations:



Improve access to finance for MSME resilience and development

- **Improve access to finance:** MSMEs face greater challenges accessing finance than large enterprises. There is a need to address the barriers, adapt regulation and develop instruments and programmes to enhance MSMEs' access to finance.
- **Preferential and long-term lending for businesses:** Financial sustainability and business growth require stable and long-term financing. Long-term loans at preferential rates will support MSMEs to manage cash flows soundly and preserve operating business parameters, while at the same time providing financial space for growth and development projects.
- **Introduce new financing instruments:** Given the increased risks in an unpredictable environment, affecting traditional sources of investment, it is important to deepen the capital market and develop new financing instruments that cover the risk of uncertainty, and can leverage private sector financing.



Enhance human capital and labour market flexibility

- **Enhance human capital:** In the context of war and economic uncertainty, all companies have prioritized keeping their workforce and have recognized the importance of preserving and enhancing human capital. In order to increase the productivity and competitiveness of enterprises, expanded investment in human capital is needed to adapt and develop employees' technical, soft and digital skills.
- **Job creation strategies:** Closure of enterprises and displacement have resulted in unemployment, pushing multiple individuals to start their own businesses as a coping strategy. Programmes and a supportive ecosystem are needed to further the growth of these start ups and facilitate their transformation into sustainable businesses. Additionally, targeted initiatives should be designed and implemented to create new employment opportunities while safeguarding existing human capital.
- **Wage growth:** Wage growth as a result of emerging labour shortages needs to be mitigated with initiatives focused on human capital investments, reskilling and upskilling, with the goal of increased MSME productivity.

- **Support for war-affected population:** Programmes to support small and medium-sized businesses that employ the war-affected population, including women, youth, internally displaced persons, veterans and persons with disabilities need to be scaled up.



Enhance MSMEs' competitiveness

- **Investment in technology and modern business practices:** While MSMEs exhibited exceptional resilience there is a need to enhance business management practices, adoption and absorb of new technologies and finding new forms of work, all with the goal of increasing competitiveness. Ukrainian MSMEs invest three times less in research and development than European MSMEs due to resource constraints and insufficient collaboration between the R&D and real sectors. Support programmes should be developed for MSMEs to enhance investments and absorption capacities for green and digital technologies, and upscale business modernization and restructuring.
- **Export opportunities:** Most MSMEs are focused on domestic markets and do not effectively leverage international markets for their growth and competitiveness. The low internationalization of Ukraine's MSMEs needs to be addressed by creating comprehensive policy frameworks and business development instruments that will facilitate and support the inclusion of businesses in international supply and value chains and their integration into the EU single market.
- **Transportation, trade facilitation and routes:** Regardless of enterprise size, new and effective transportation routes and corridors and streamlined trade procedures and regimes are critical for overcoming difficulties resulting from the war. Therefore, programmes and investments that will open new corridors for delivering goods to markets, enhance delivery logistics, and simplify foreign economic transactions are essential to help businesses expand their reach and competitiveness.



METHODOLOGY

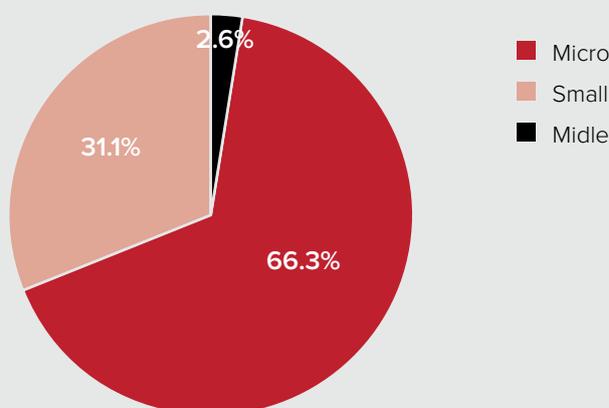
Photo credit: UNDP Ukraine

The Rapid Assessment of the War's Impact on Micro-, Small and Medium-sized Enterprises in Ukraine 1 was conducted in 2022 in the immediate aftermath of the invasion. The rapid assessment focused on analysing state statistical information, expert opinions, and various development scenarios. In the current assessment, the main focus is on capturing and analysing the views of managers and owners of micro-, small, and medium-sized businesses. This means obtaining and analysing individual information that was not biased by aggregated indicators. The Rapid Assessment was completed in October 2022 and took into account the data for 2022, which was characterized by the beginning of the war, shocks from the occupation of territories, and the loss of some enterprises. In 2023, businesses adapted to new conditions, and therefore, this assessment contains important information specifically about the ability of MSMEs to work in wartime conditions.

This assessment is based on primary data from various surveys and research conducted during the war, including the results of surveys conducted continuously between 2022 and 2024. Fifteen online surveys were carried out between 2 March 2022 and 7 January 2024, with the number of respondents ranging from 207 to 934. Methodologically, the surveys were carried out with the help of Google Forms, which were sent to the managers of all types of MSMEs.

Figure 26.

Sizes of businesses in the sample



Source: authors' calculations based on the surveys

Analysing trends of survey responses of business representatives over time enables consideration of how business attitudes, assessment of new challenges, and adaptation to new realities have changed over time. The development of state policy on stimulating the activity of MSMEs would benefit from such analysis.

During the latest survey, conducted between 20 December 2023 and 8 January 2024, the answers of 696 respondents (543 males and 153 females) were received and analysed (Figure 26). Interviewed entrepreneurs represent all regions of Ukraine and various industries. The vast majority are micro-businesses (66.3 percent) with a turnover of

1 www.undp.org/ukraine/publications/rapid-assessment-wars-impact-micro-small-and-medium-enterprises-ukraine

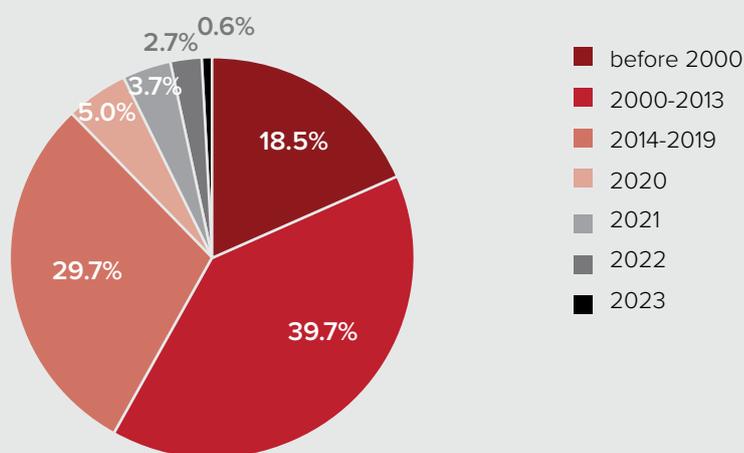
up to \$26,000; 31 percent are small businesses with a turnover of up to \$2.6 million, and 2.6 percent are medium-sized businesses.

Almost 83 percent of the questionnaires were completed by operations managers and only 17 percent by top managers or owners. This makes the research very important for understanding the relationship of business to changes in the country, and significantly distinguishes this research from all others.

Most companies have been in the market for quite some time, which allows them to compare the change in the business climate in the country (Figure 27). In particular, 88 percent of companies were founded before 2020.

Figure 27.

MSMEs by year of founding



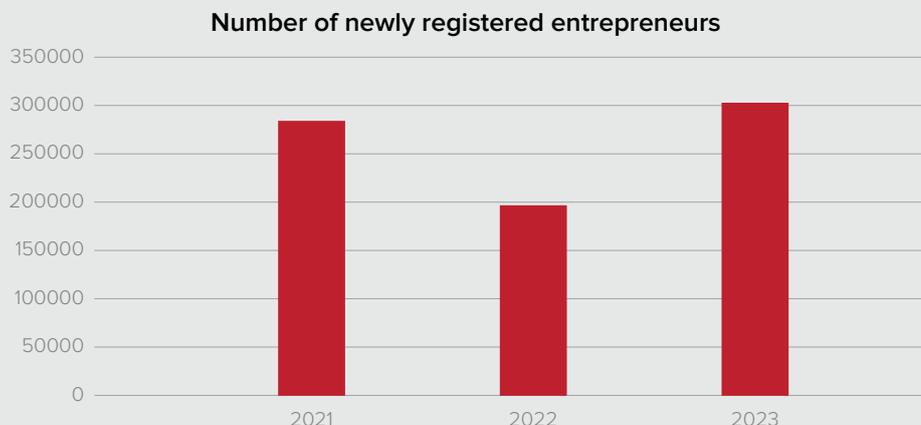
Source: authors' calculations based on the surveys

Thirty-two percent of companies work throughout Ukraine, 10 percent - only in the capital, and 7.8 percent - in Kharkiv Oblast. The proportion in other regions is from 0.29 percent (Ternopil Oblast) to 4.17 percent (Vinnytsia Oblast). Companies are fairly evenly distributed across industries: 11.35 percent work in wholesale trade; 10.2 percent in retail; 8.76 percent in construction; 8.19 percent - in the IT sector; and 7.33 percent in service provision. In total, responses from companies in 30 areas of activity were analysed.

FIGURES

Figure A-1.

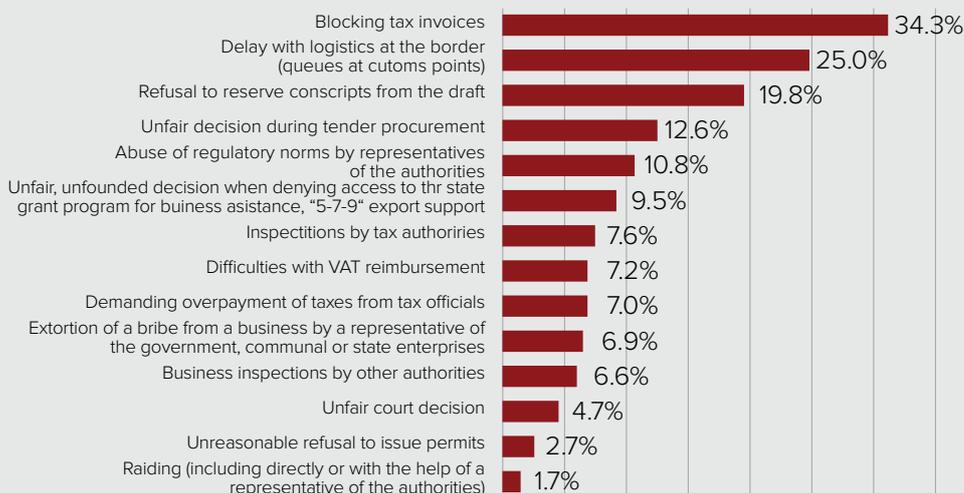
Number of newly registered individual entrepreneurs



Source: <https://opendatobot.ua/analitics/foconomics-2023-12>

Figure A-2.

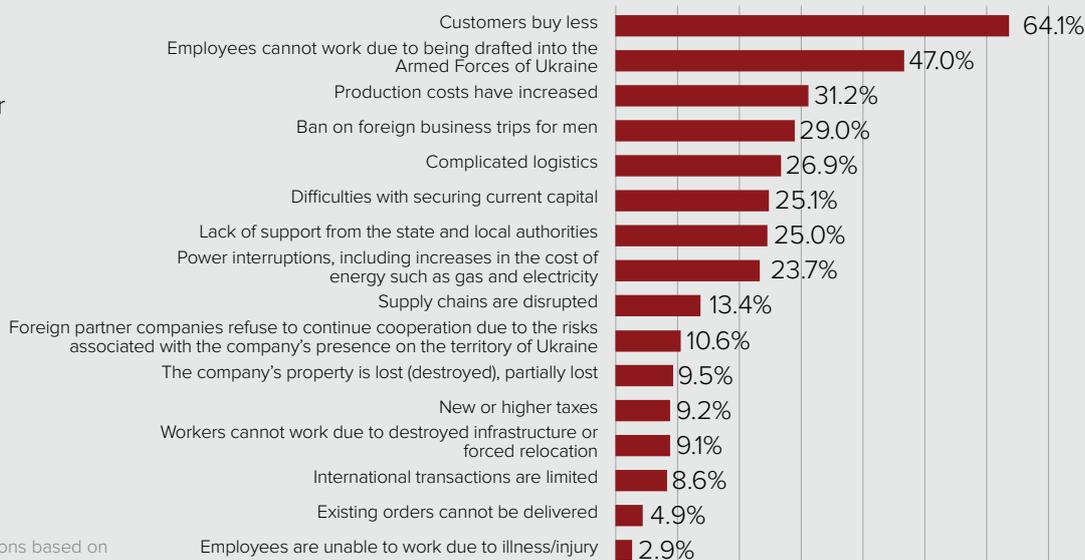
What problems has your business faced in the past two months in engagement with authorities?



Source: authors' calculations based on the surveys

Figure A-3.

Main obstacles for doing business

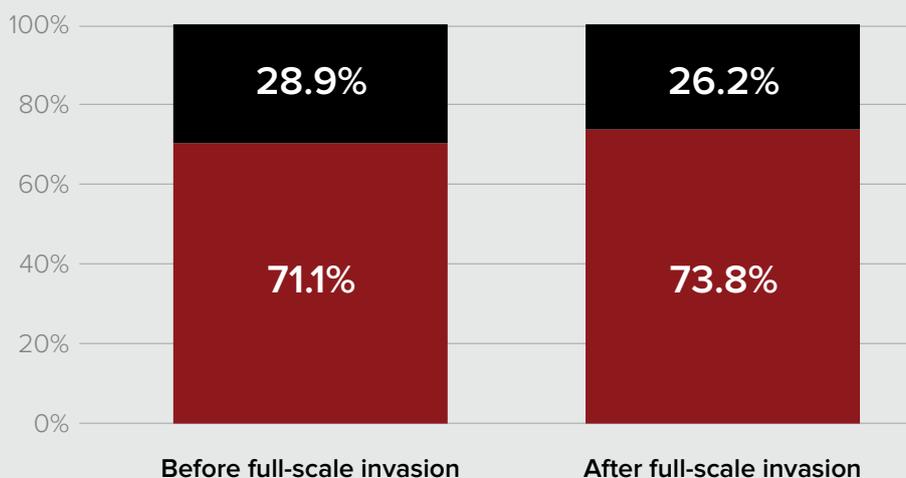


Source: authors' calculations based on the surveys

Figure A-4.

Companies' participation in supply chains of international companies

- No
- Yes

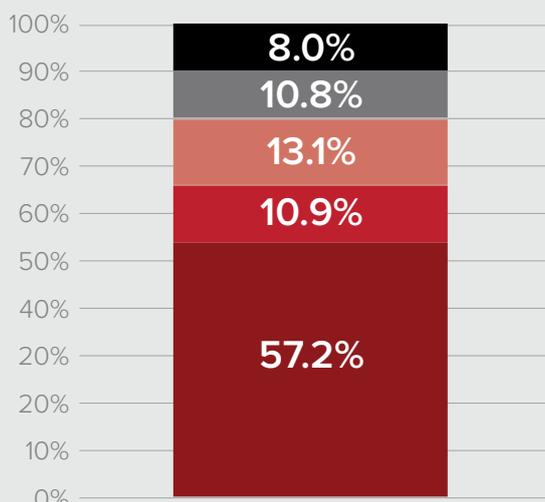


Source: authors' calculations based on the surveys

Figure A-5.

Are you engaged in foreign economic activity as of now?

- We plan to enter international markets in 2024
- We carry out export and import operations
- We only carry out import operations
- We only carry out export operations
- We do not carry out foreign economic operations



Source: authors' calculations based on the surveys

Figure A-6.

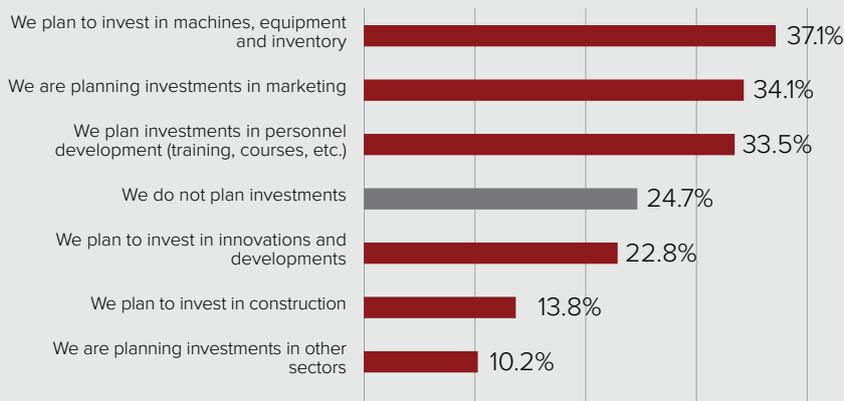
What are the main obstacles to the integration (greater integration) of your company with the European market?



Source: authors' calculations based on the surveys

Figure A-7.

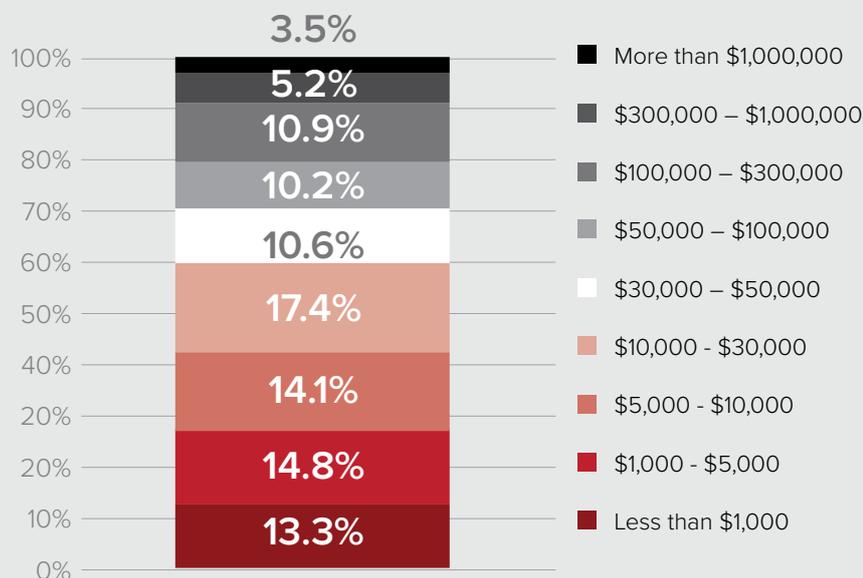
Do you plan to invest in business development in 2024?



Source: authors' calculations based on the surveys

Figure A-8.

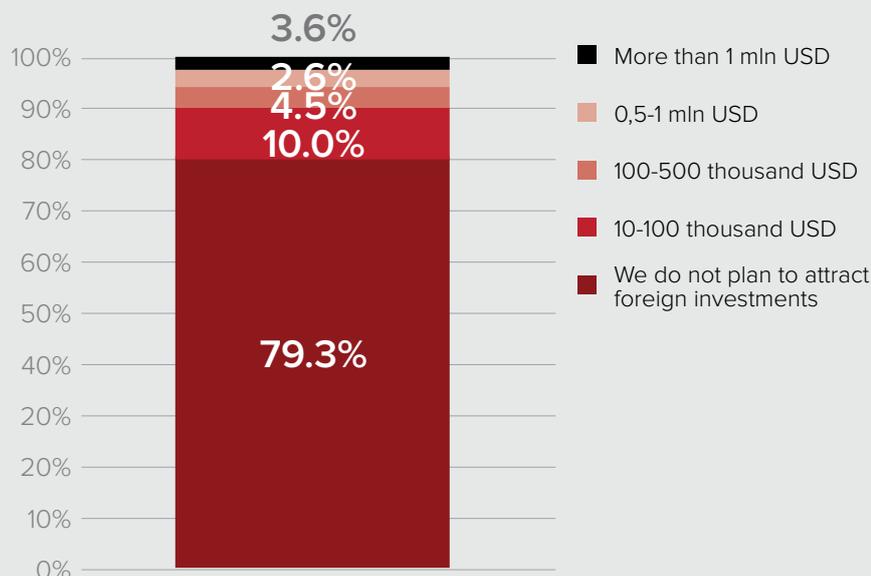
How much do you plan to invest in business development in 2024?



Source: authors' calculations based on the surveys

Figure A-9.

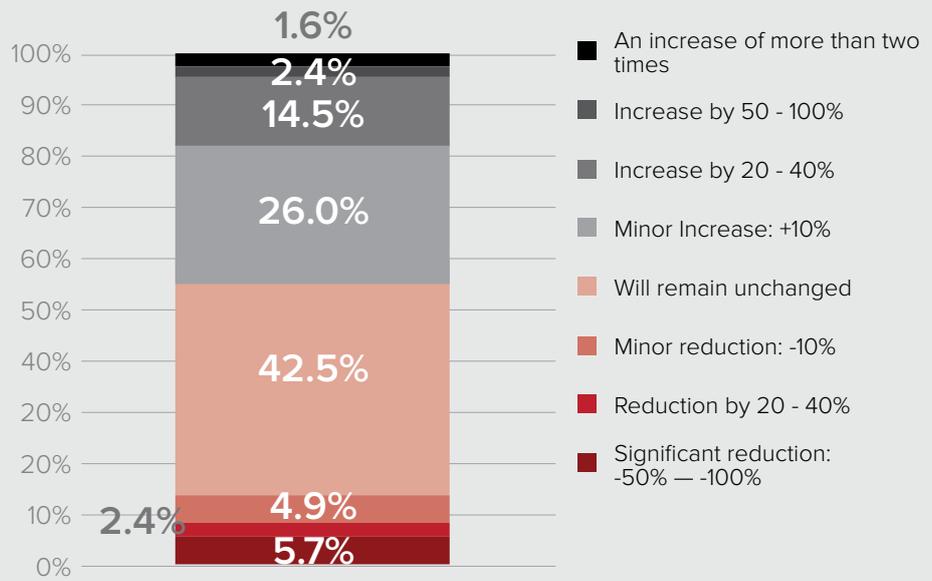
Do you plan to attract foreign investment? If so, how much do you plan to raise?



Source: authors' calculations based on the surveys

Figure A-10.

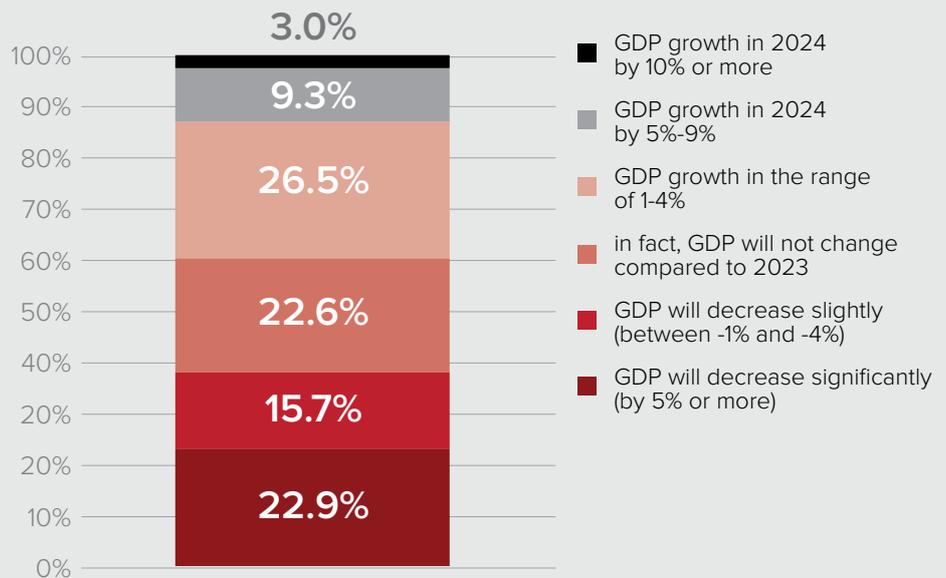
To what extent do you plan to change the number of personnel in the company in 2024 (as a proportion of those currently employed)?



Source: authors' calculations based on the surveys

Figure A-11.

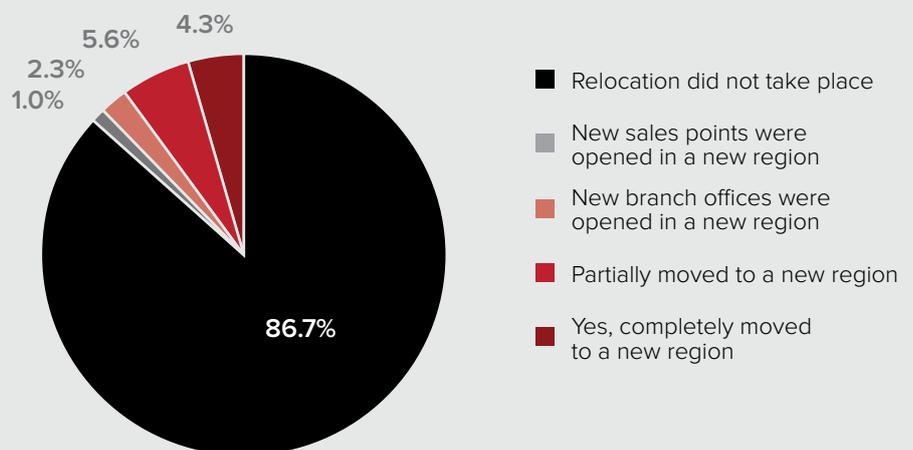
How do you assess the prospects of Ukraine's economy in 2024?



Source: authors' calculations based on the surveys

Figure A-12.

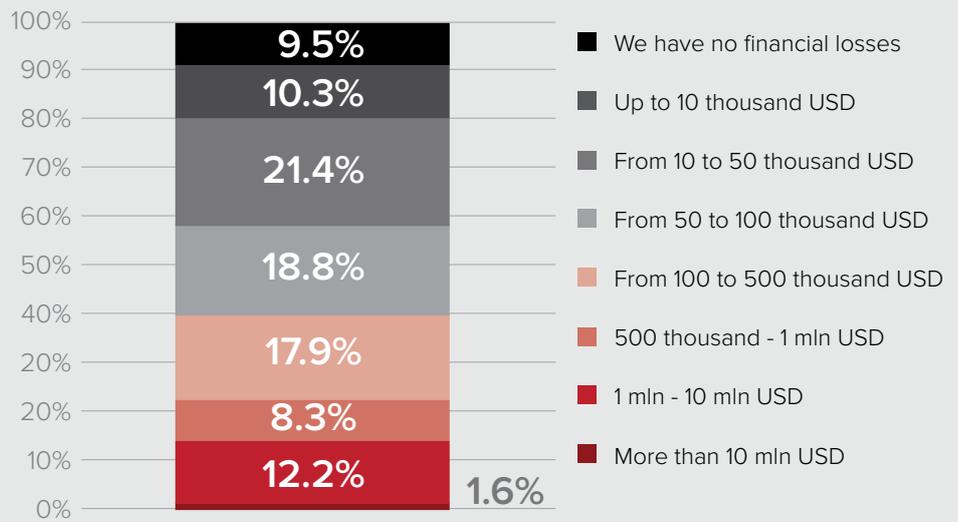
Did the business relocate due to the war?



Source: authors' calculations based on the surveys

Figure A-13.

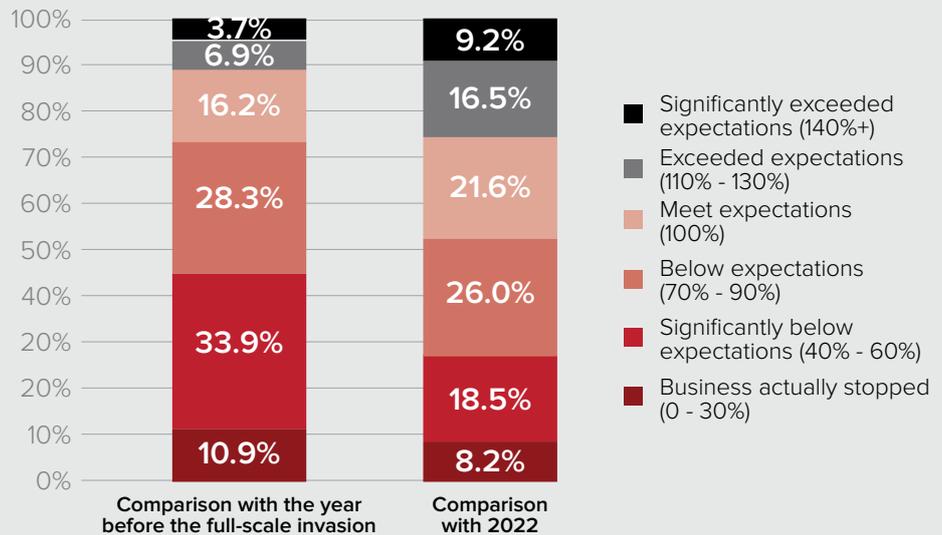
How do you estimate the financial loss of the company due to the full-scale invasion?



Source: authors' calculations based on the surveys

Figure A-14.

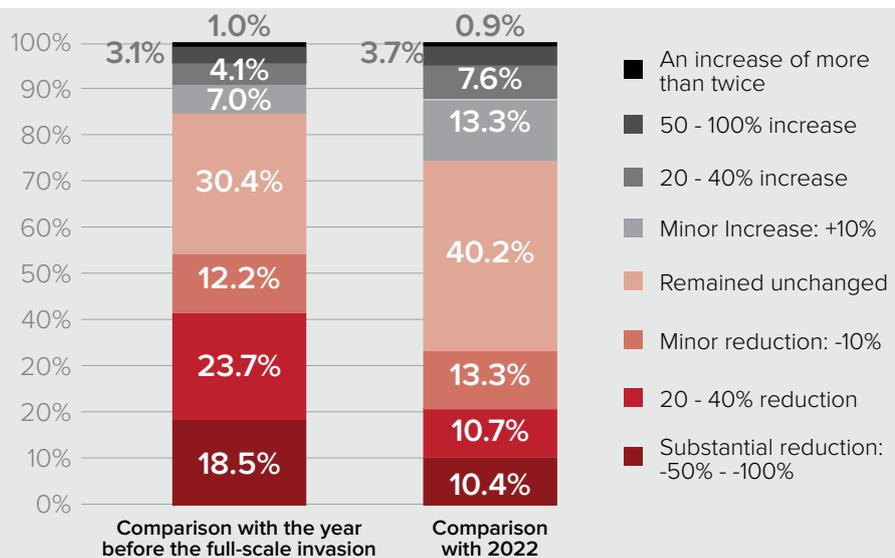
How do the business results in 2023 compare to the same period in 2022? (dollar equivalent)



Source: authors' calculations based on the surveys

Figure A-15.

How has the number of personnel changed in 2023 compared to the period before the full-scale invasion and 2022?

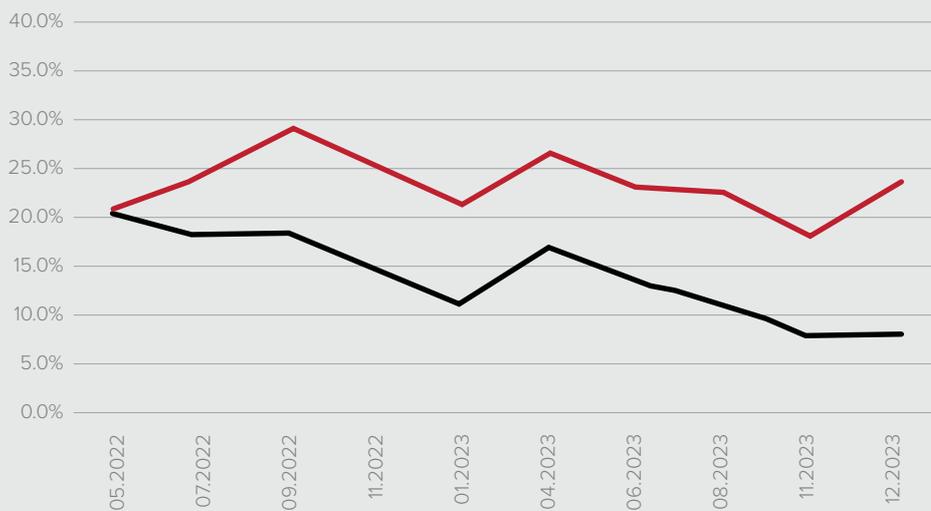


Source: authors' calculations based on the surveys

Figure A-16.

How have personnel numbers changed (in relation to 23 February 2022)

- The share of personnel (as of February 23, 2022) sent on vacation
- The share of personnel (in relation to 23.02.2022) that is currently reduced

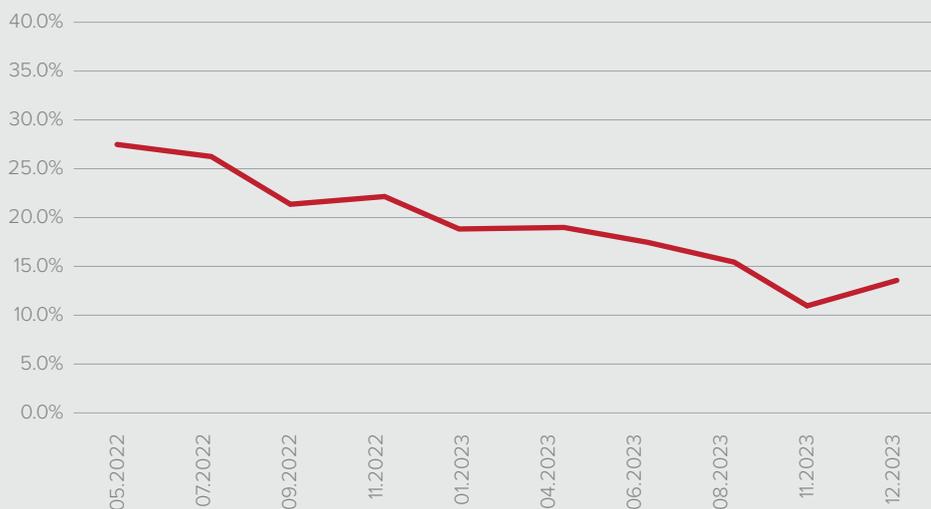


Source: authors' calculations based on the surveys

Figure A-17.

Proportion of staff with reduced salaries

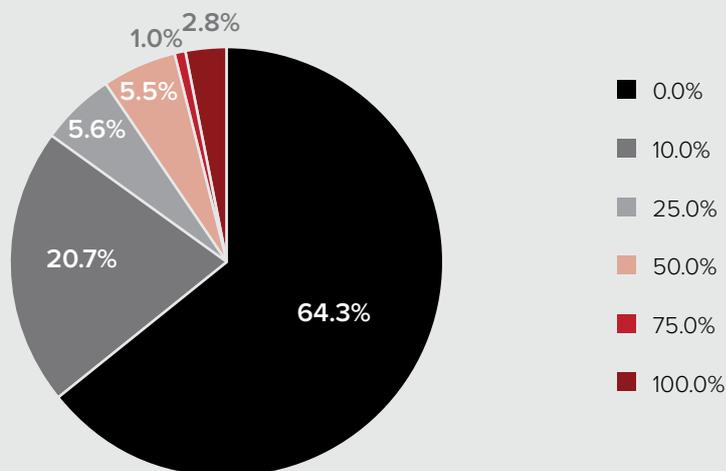
- Part of the staff, from those working at the moment, is working under conditions of salary reduction



Source: authors' calculations based on the surveys

Figure A-18.

What proportion of workers (of those hired since the start of the full-scale invasion) have internally displaced status?

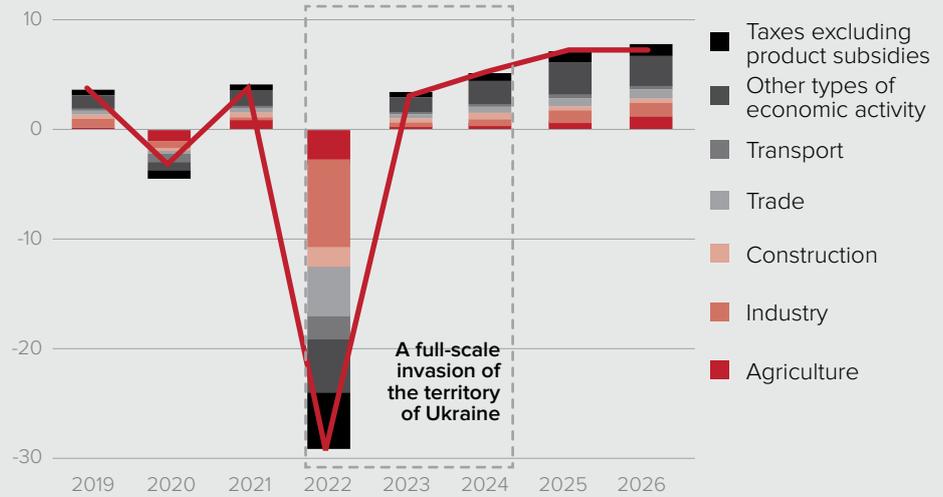


Source: authors' calculations based on the surveys

Figure A-19.

Change in contributions of major economic sectors to GDP, in percentage points

— GDP

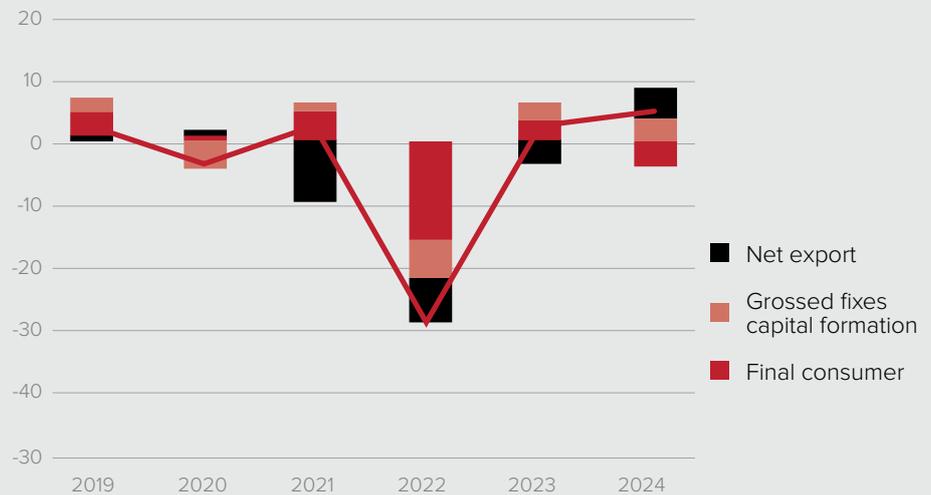


Source: SSCU, Ministry of Economy of Ukraine calculations

Figure A-20.

Contributions of demand components to GDP growth, in percentage points

— GDP grow, %

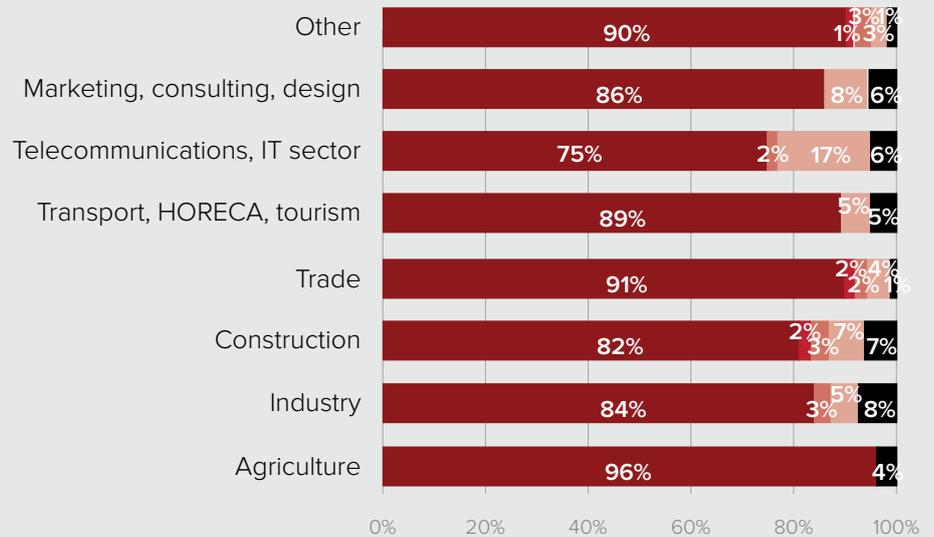


Source: SSCU, Ministry of Economy of Ukraine calculations

Figure A-21.

Relocation of MSMEs

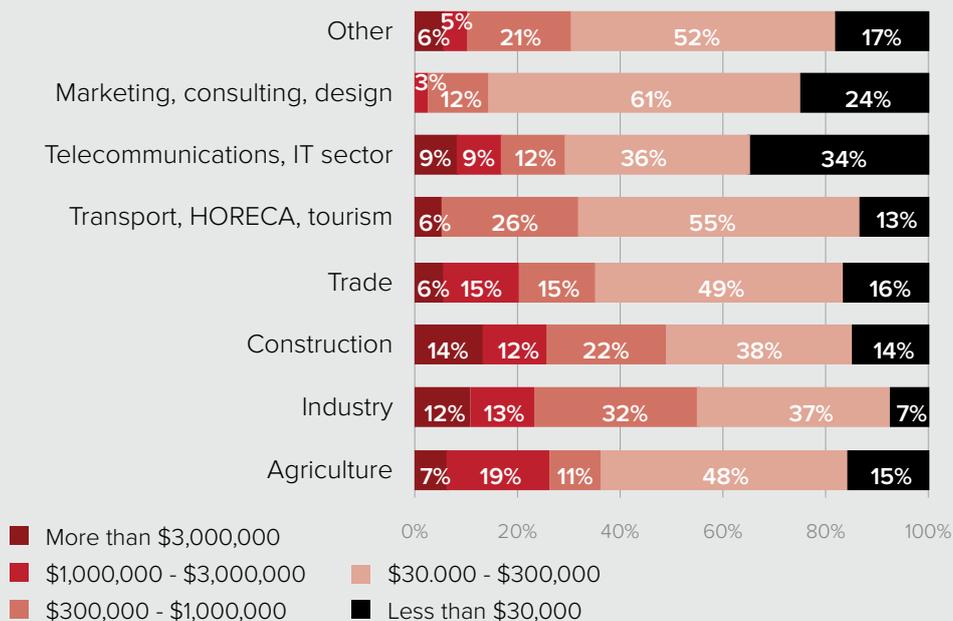
- Relocation did not take place
- New sales points were opened in a new region
- New branch offices were opened in a new region
- Partially moved to a new region
- Yes, completely moved to a new region



Source: authors' calculations based on the surveys

Figure A-22.

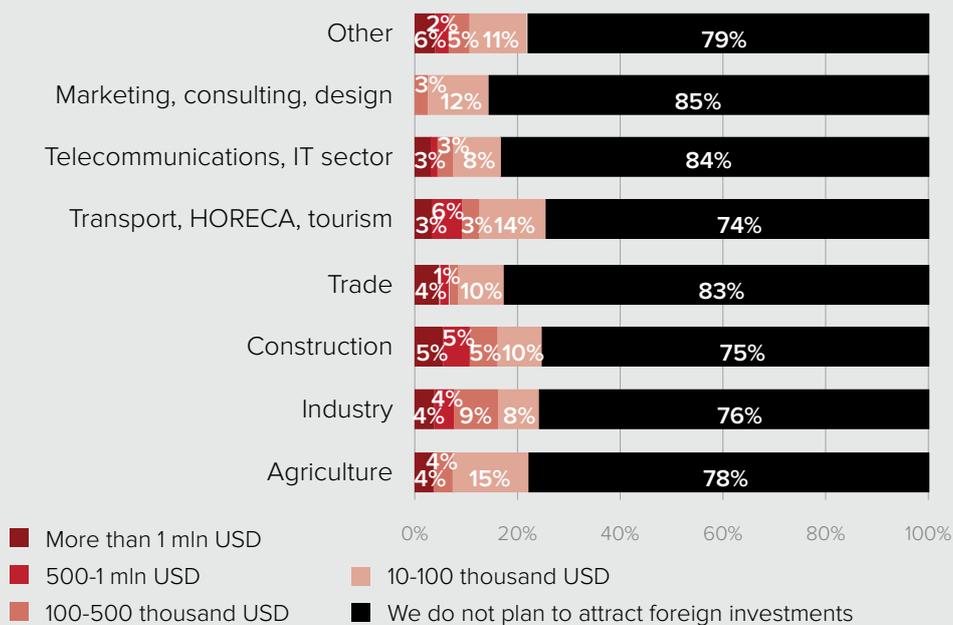
What amount of additional financial resources does your business need (in addition to your available resources) to implement your business development strategy for the next three years?



Source: authors' calculations based on the surveys

Figure A-23.

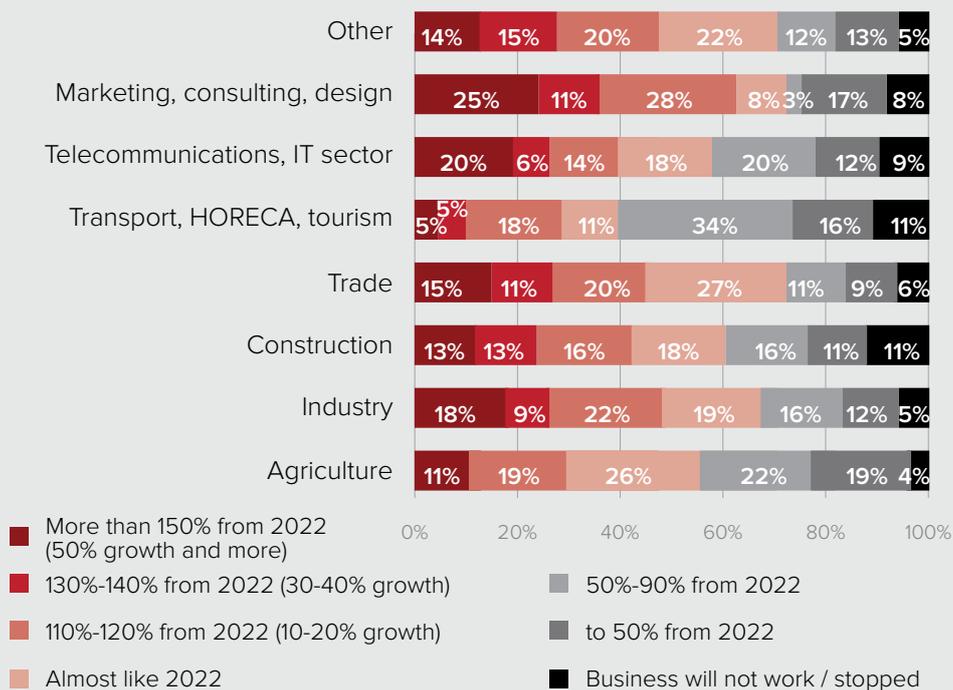
Do you plan to attract foreign investment? If so, how much do you plan to raise?



Source: authors' calculations based on the surveys

Figure A-24.

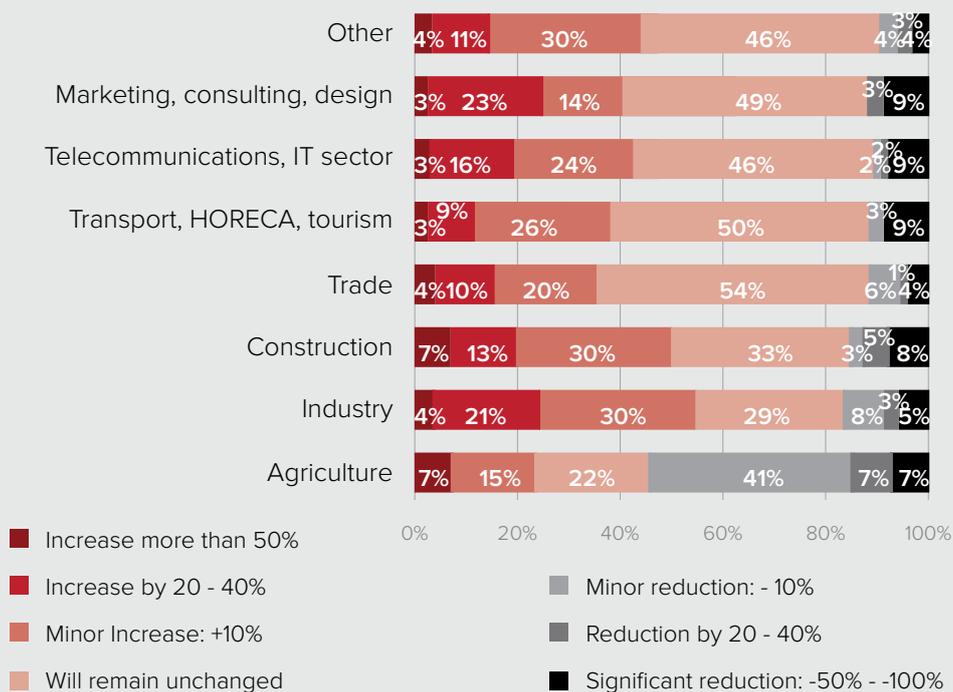
Forecasts for 2024 for your business - compared to 2023 (in hryvnias)



Source: authors' calculations based on the surveys

Figure A-25.

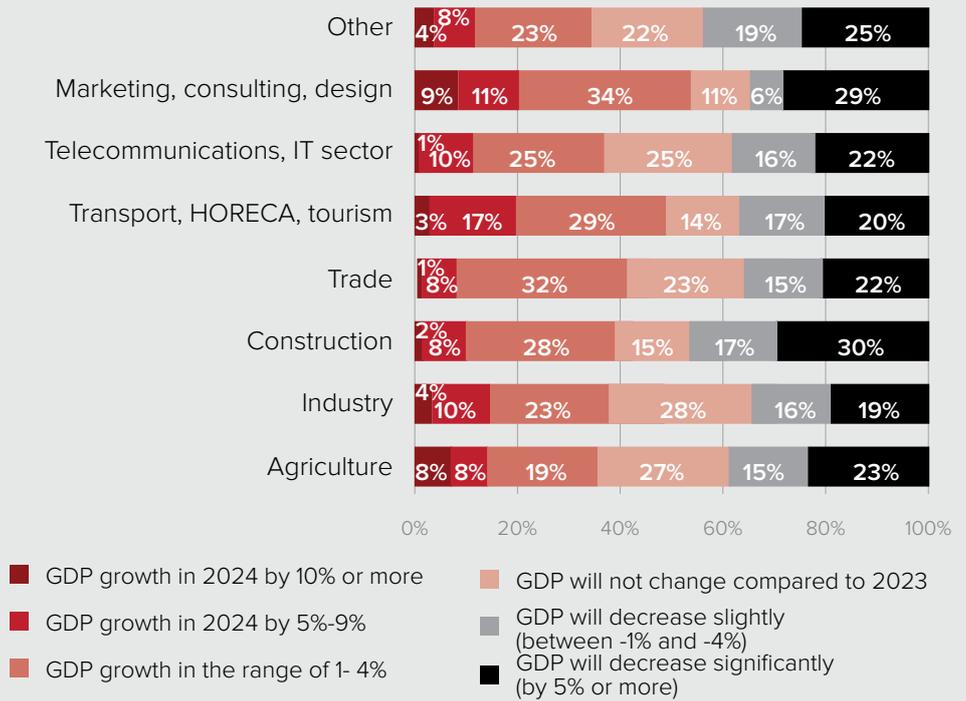
To what extent do you plan to change the number of personnel in the company in 2024 (as a percentage of those currently employed)?



Source: authors' calculations based on the surveys

Figure A-26.

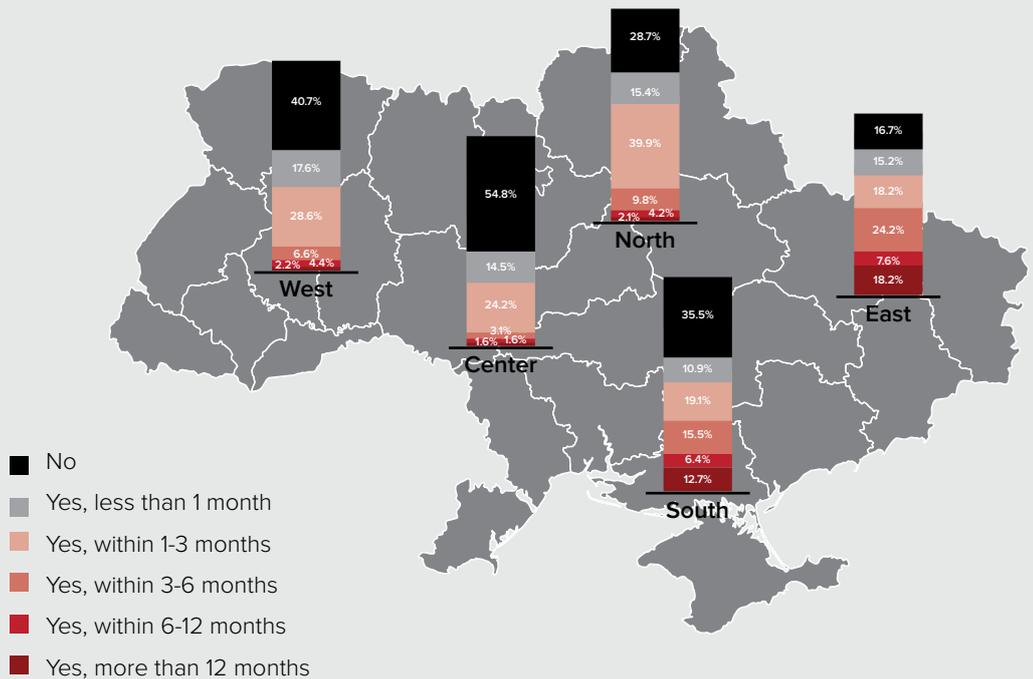
How do you assess the prospects of Ukraine's economy in 2024?



Source: authors' calculations based on the surveys

Figure A-27.

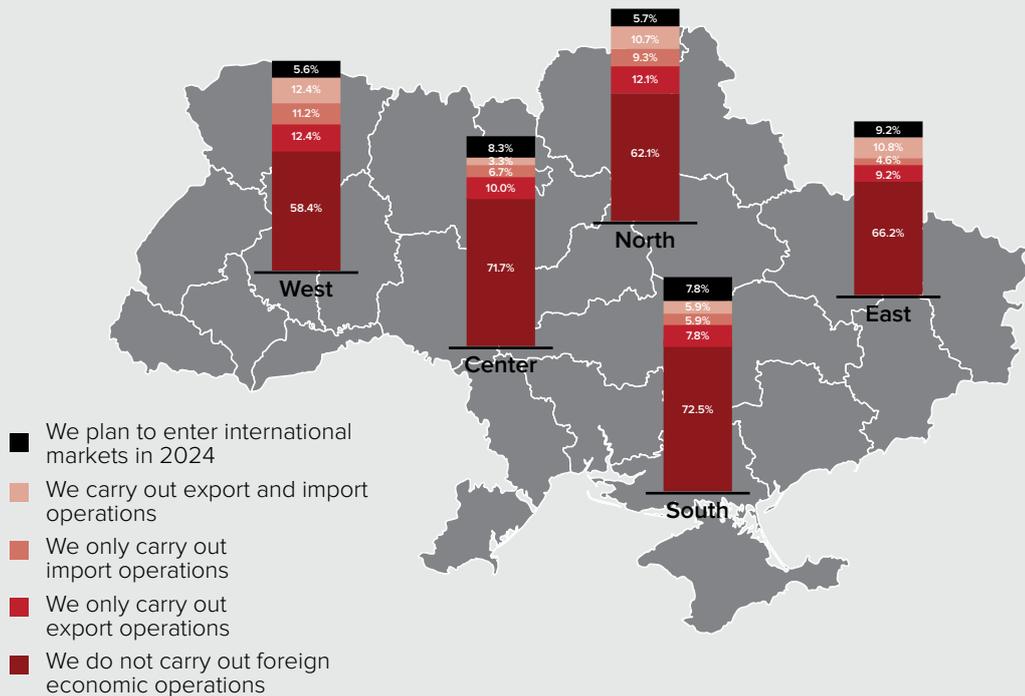
Has your company gone out of business due to the full-scale invasion?



Source: authors' calculations based on the surveys

Figure A-28.

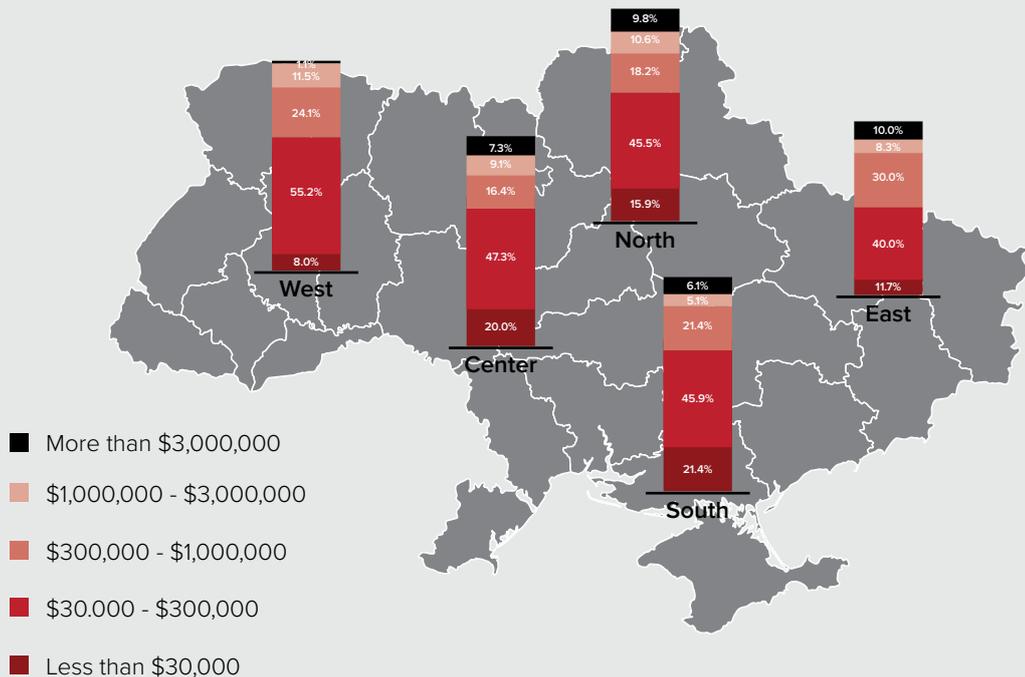
Are you engaged in foreign economic activity now?



Source: authors' calculations based on the surveys

Figure A-29.

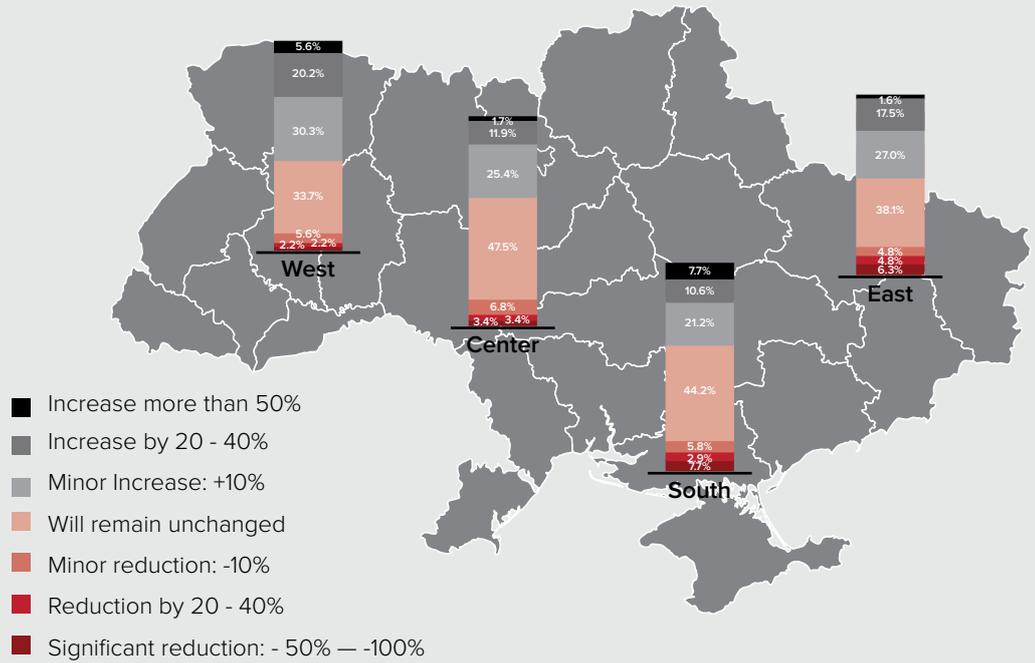
What amount of additional financial resources does your business need (in addition to your available resources) to implement your business development strategy for the next three years?



Source: authors' calculations based on the surveys

Figure A-30.

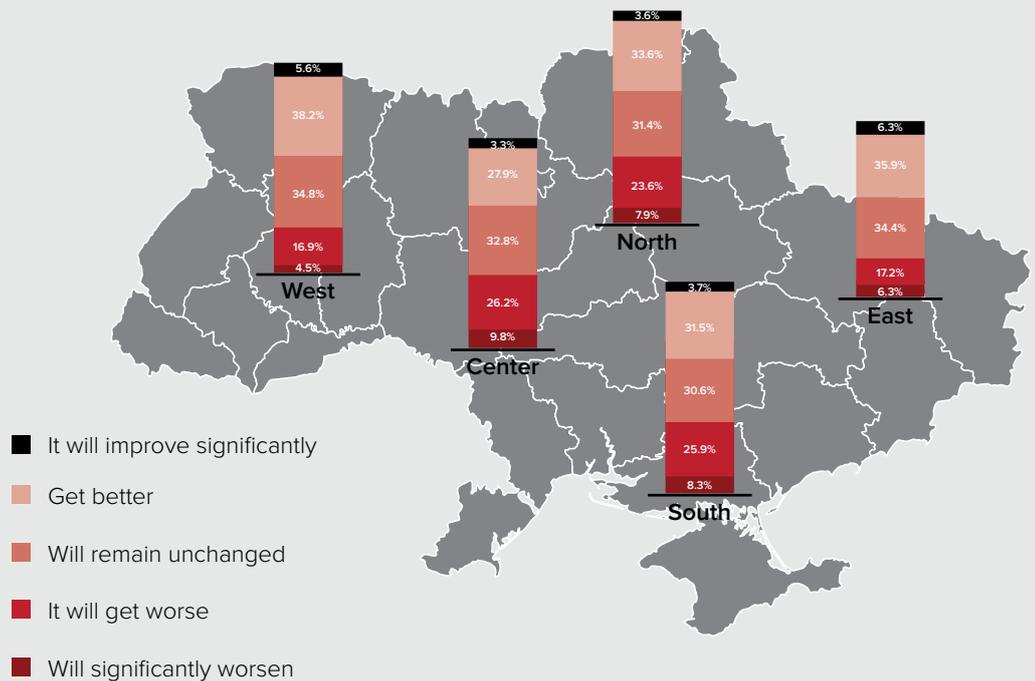
To what extent do you plan to change the number of personnel in the company in 2024 (as a proportion of those currently employed)?



Source: authors' calculations based on the surveys

Figure A-31.

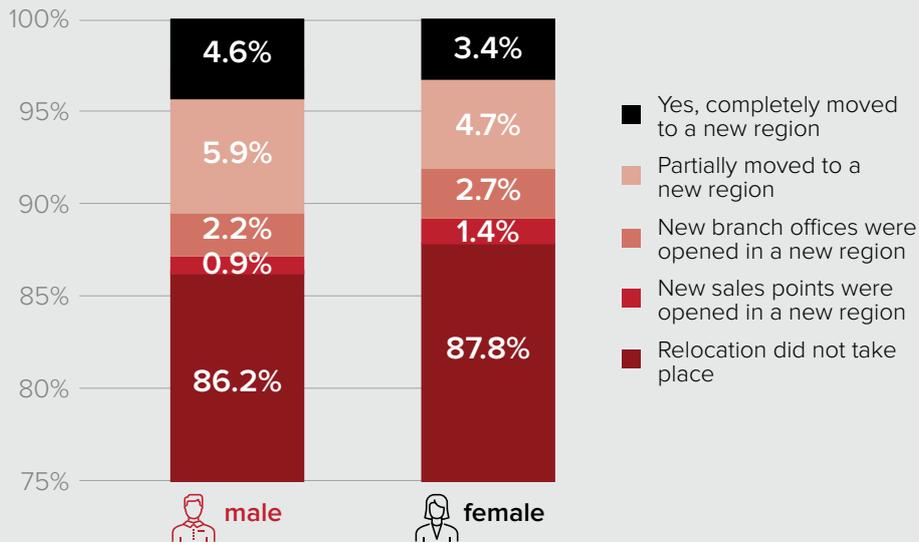
What are your expectations regarding the financial and economic conditions of your enterprise in 2024?



Source: authors' calculations based on the surveys

Figure A-32.

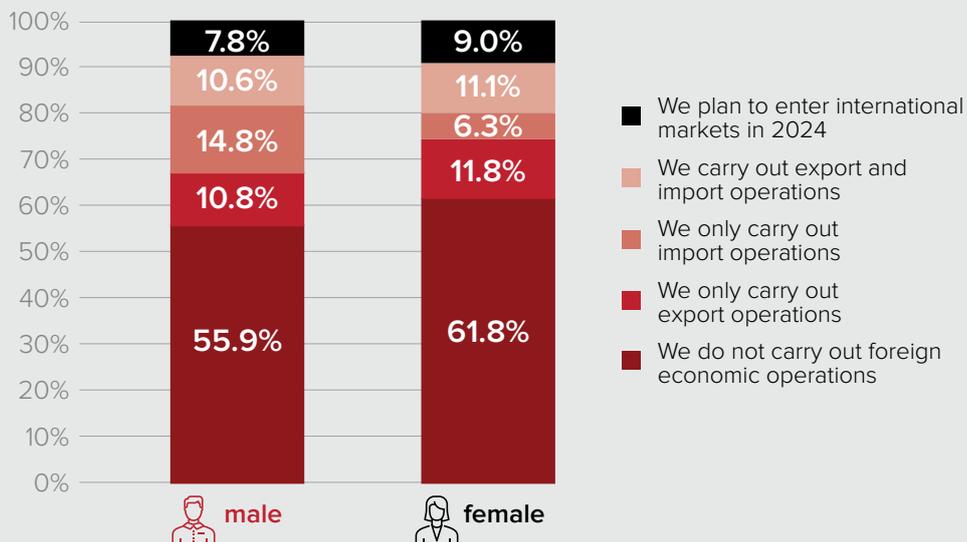
Did the business relocate because of the war?



Source: authors' calculations based on the surveys

Figure A-33.

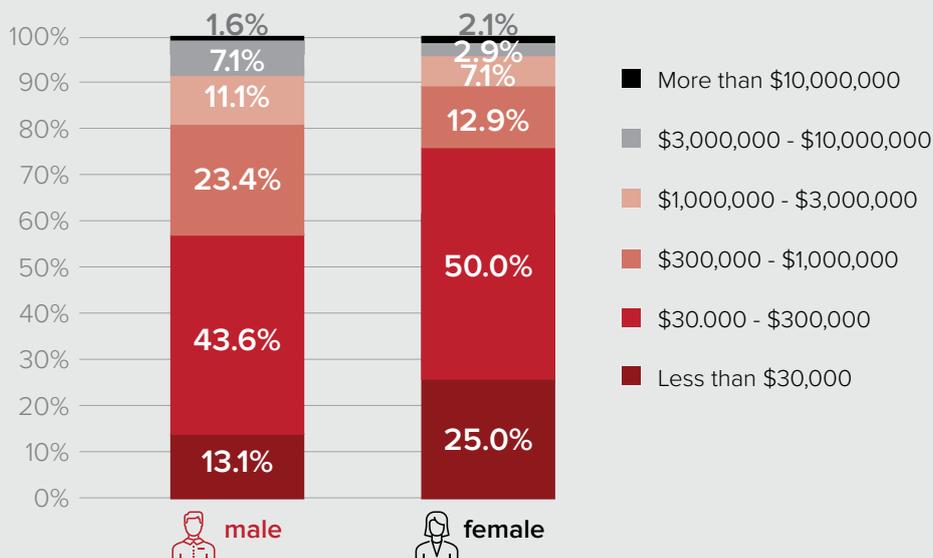
Are you engaged in foreign economic activity currently?



Source: authors' calculations based on the surveys

Figure A-34.

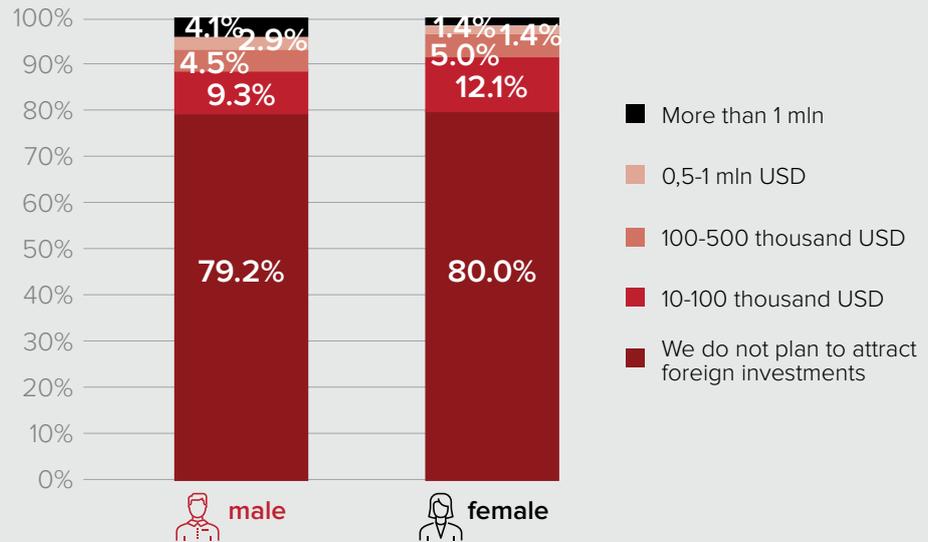
What amount of additional financial resources does your business need (in addition to your available resources) to implement your business development strategy for the next three years?



Source: authors' calculations based on the surveys

Figure A-35.

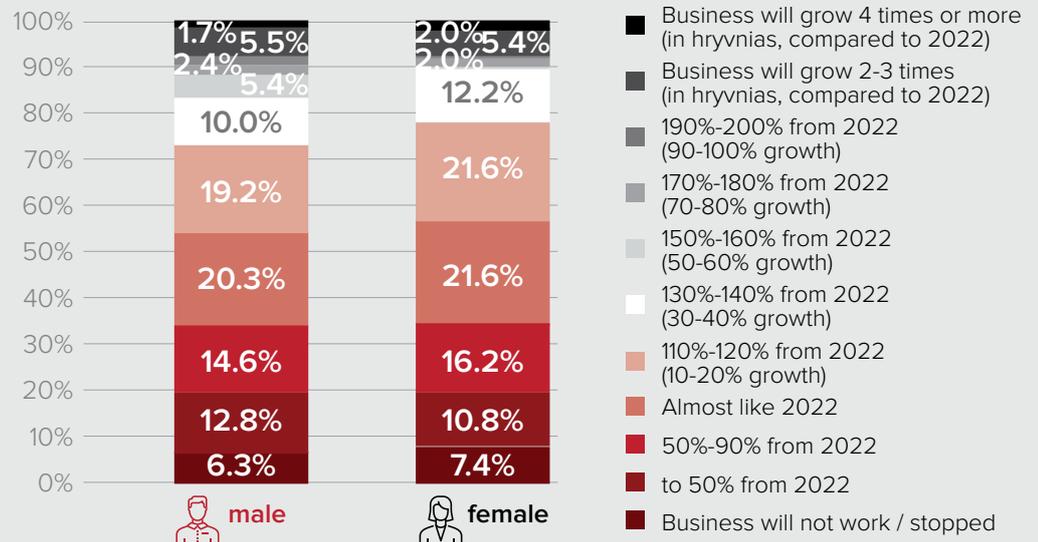
Do you plan to attract foreign investment?
If so, how much do you plan to raise?



Source: authors' calculations based on the surveys

Figure A-36.

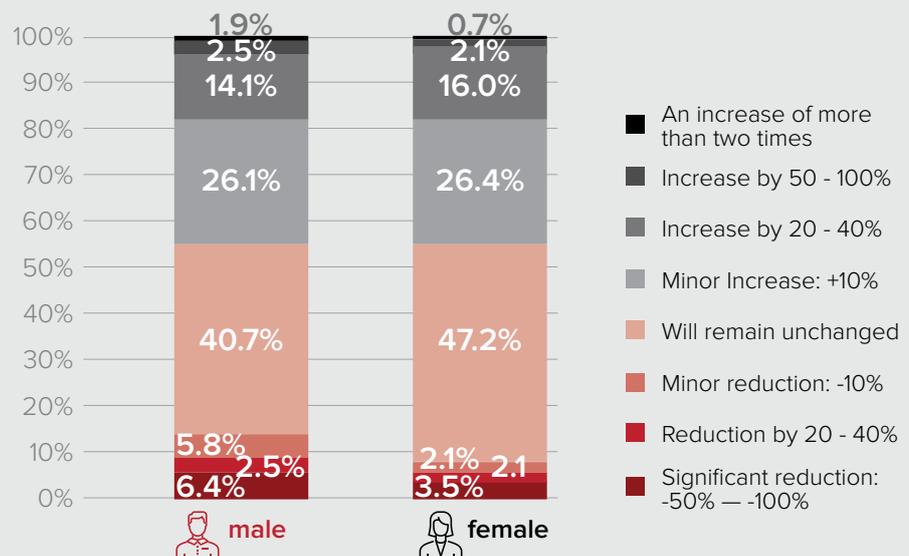
What are your forecasts for 2024 regarding your business - compared to 2023 (in hryvnias)



Source: authors' calculations based on the surveys

Figure A-37.

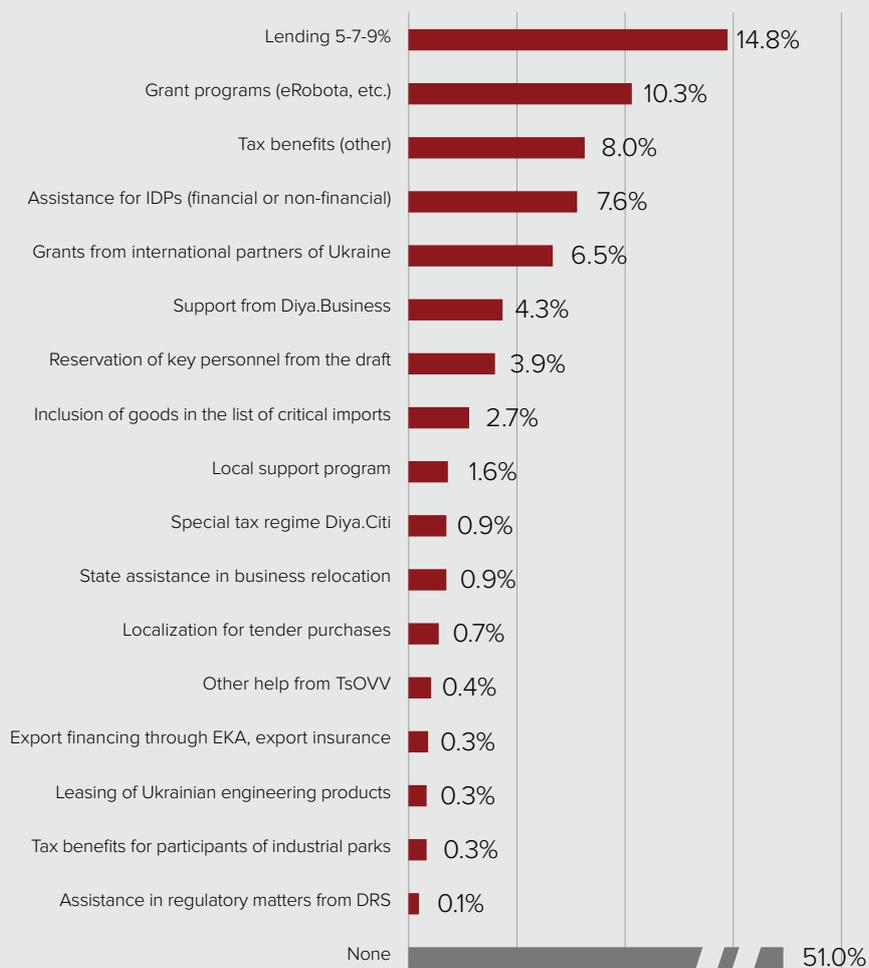
To what extent do you plan to change the number of personnel in the company in 2024 (as a proportion of those currently employed)?



Source: authors' calculations based on the surveys

Figure A-38.

What types of state aid have you used since 24 February 2022?

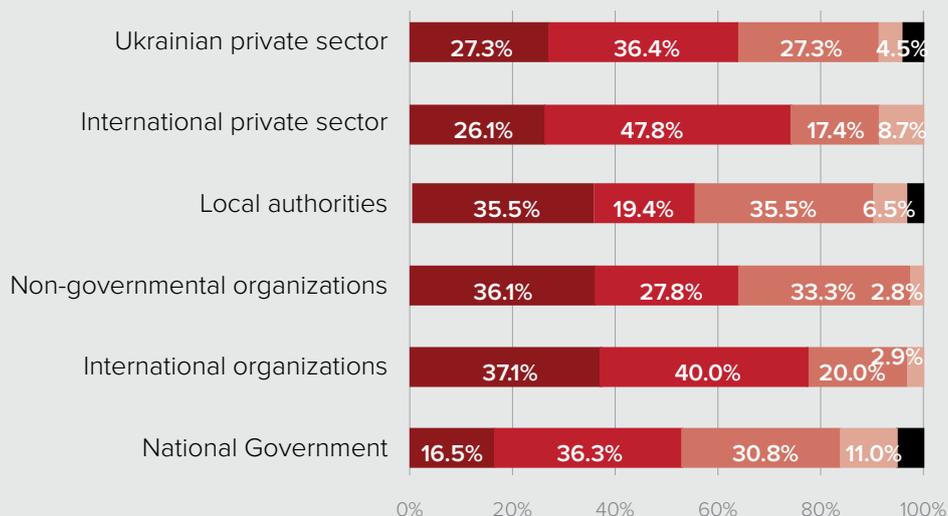


Source: authors' calculations based on the surveys

Figure A-39.

Which organizations' help was the most useful?

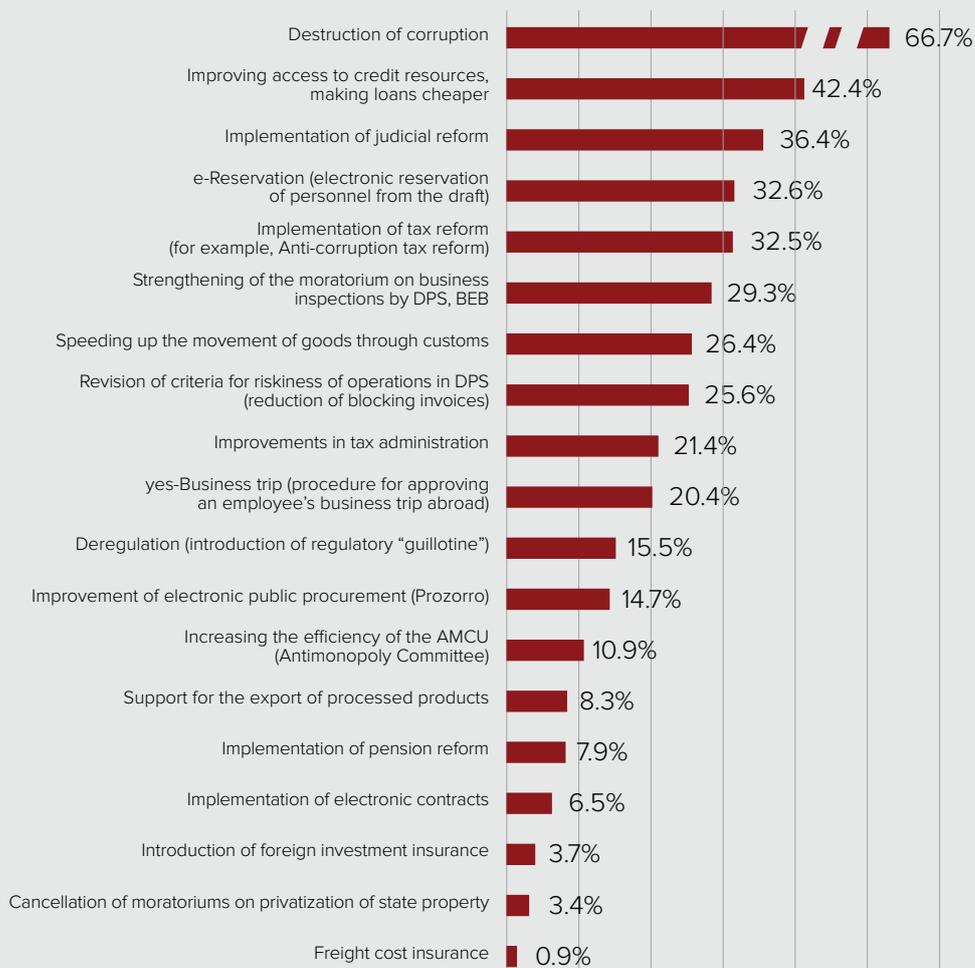
- Extremely useful
- Very useful
- Somewhat useful
- Not very useful
- Not useful at all



Source: authors' calculations based on the surveys

Figure A-40.

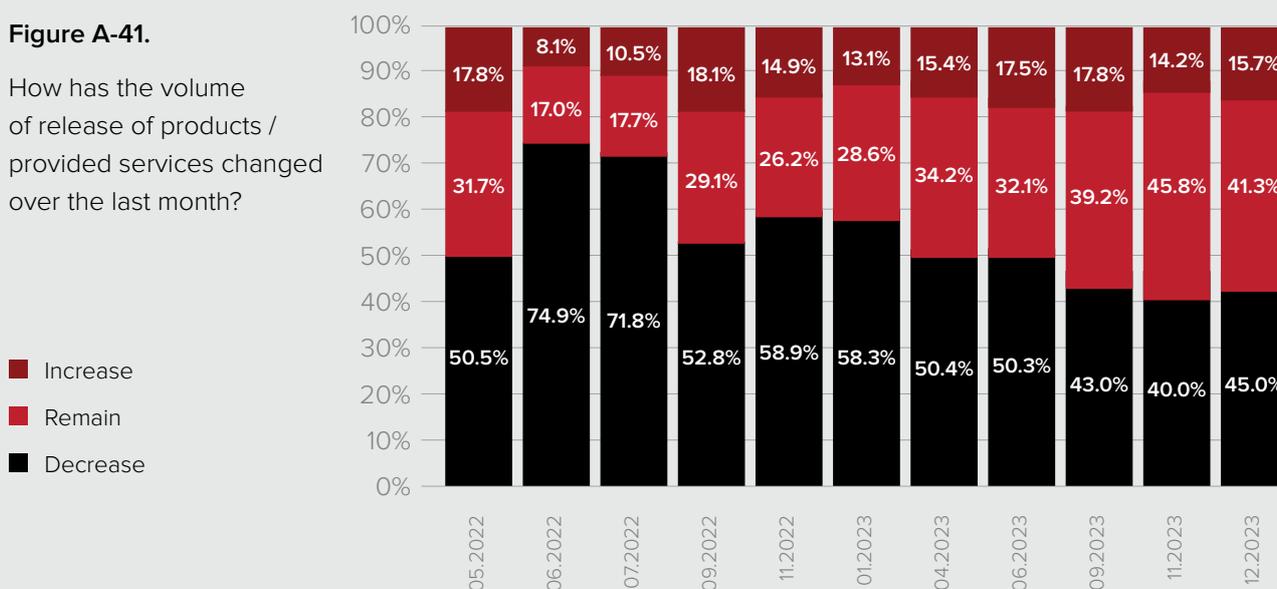
Which of the listed tasks are most important for the economic power bloc to resolve and implement?



Source: authors' calculations based on the surveys

Figure A-41.

How has the volume of release of products / provided services changed over the last month?

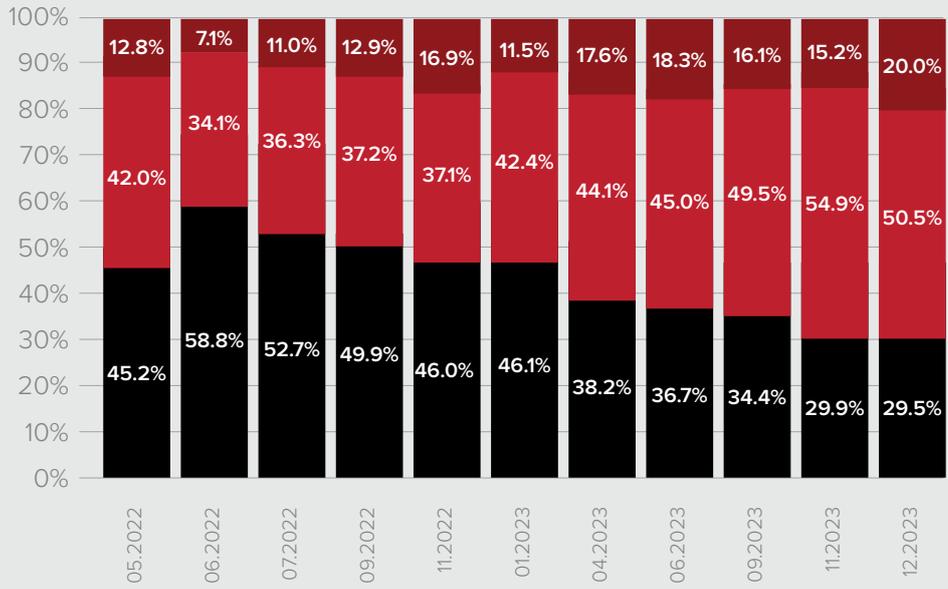


Source: authors' calculations based on the surveys

Figure A-42.

How has the general level of inventories changed over the last month?

- Increase
- Remain
- Decrease

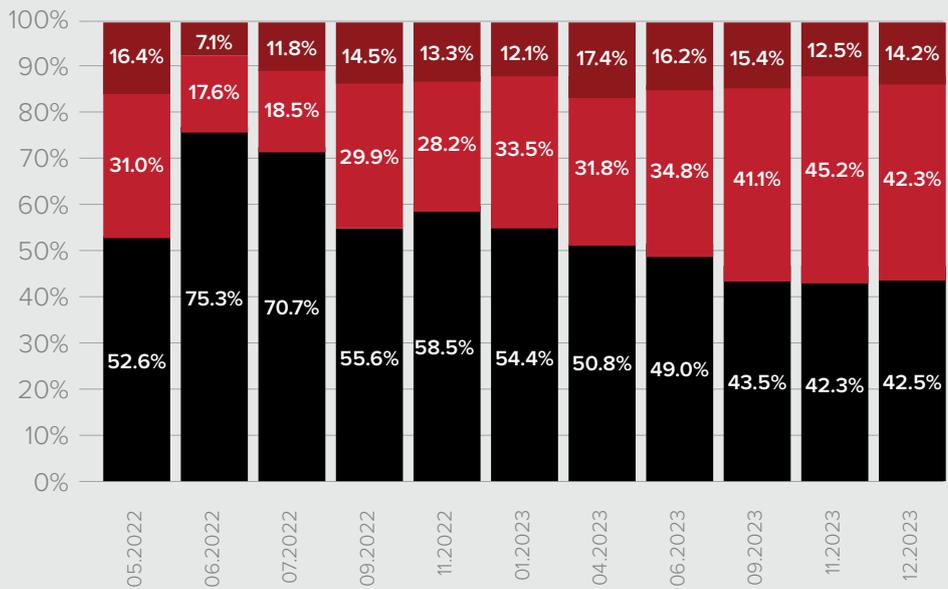


Source: authors' calculations based on the surveys

Figure A-43.

How has the number of your ORDERS to your suppliers changed over the last month?

- Increase
- Remain
- Decrease



Source: authors' calculations based on the surveys

LIST OF CHARTS AND TABLES

Tables

Table 1.	Macroeconomic trends, NBU figures	15
Table 2.	Macroeconomic trends, IMF figures	15
Table 3.	Number of legal entities registered, by region of Ukraine (excluding the temporarily occupied territories of the Autonomous Republic of Crimea and the city of Sevastopol)	16
Table 4.	Number of individual entrepreneurs registered, by region of Ukraine (excluding the temporarily occupied territories of the Autonomous Republic of Crimea and the city of Sevastopol)	17
Table 5.	Weighted average level of capacity utilization	28
Table 6.	Profit/loss of large and medium-sized enterprises by type of economic activity, January - September 2021-2023	33
Table 7.	Profit/loss of large and medium-sized enterprises by area of economic activity January-September 2021 - 2023	34
Table 8.	Termination and reorganization of legal entities	41
Table 9.	Businesses with tax debts	42
Table 10.	Enterprises with real estate	42
Table 11.	Net income (revenue), 2022, million UAH	43
Table 12.	Net profit/loss, 2022, million UAH	43

Figures

Figure 1.	Business expectations worsened in November	18
Figure 2	Trends in UBI, 2020-2023	19
Figure 3	What prevents you from restoring and developing your business now?	20
Figure 4	What additional financial resources does your business need (in addition to your available resources) to implement your business development strategy within 3 years?	22
Figure 5	Forecasts for 2024 regarding your business compared to 2023 (in UAH)	23
Figure 6	What are your expectations regarding the financial and economic conditions of your enterprise in 2024?	24
Figure 7	What resources will be key to post-war recovery for your company?	24
Figure 8	Has your company gone out of business due to the full-scale invasion?	27

LIST OF CHARTS AND TABLES

Figure 9.	What were the main factors that influenced your choice of a new region in case of relocation?	28
Figure 10.	How do you assess the current financial and economic conditions of your enterprise?	29
Figure 11.	Has your company gone out of business due to the full-scale invasion?	35
Figure 12.	Are you currently engaged in foreign economic activities?	35
Figure 13.	How do you estimate your financial losses because of the full-scale invasion?	36
Figure 14.	What are your expectations regarding the financial and economic conditions of your enterprise in 2024?	37
Figure 15.	What do you estimate your business' financial loss to be due to a full-scale invasion?	40
Figure 16.	Forecasts for 2024 regarding your business - compared to 2023 (in hryvnias)	41
Figure 17.	Has your company gone out of business due to the full-scale invasion?	45
Figure 18.	What do you estimate your company's financial losses due to the war to be?	46
Figure 19.	How do you assess the prospects of the Ukrainian economy in 2024?	47
Figure 20.	Has your company received support since the invasion?	52
Figure 21.	How useful was this help?	52
Figure 22.	Change in the number of orders received by the business from customers compared to the previous month	56
Figure 23.	Optimism index of enterprises of different sizes regarding the number of orders from customers.	57
Figure 24.	Change in the number of employees (full-time and part-time of the business compared to the previous month.	57
Figure 25.	Optimism index of enterprises of different sizes regarding the number of employees.	58
Figure 26.	Sizes of businesses in the sample	63
Figure 27.	MSMEs by year of founding	64
Figure A-1.	Number of newly registered individual entrepreneurs	65
Figure A-2.	What problems has your business faced in the past two months in engagement with authorities?	65
Figure A-3.	Main obstacles for doing business	65
Figure A-4.	Companies' participation in supply chains of international companies	66

LIST OF CHARTS AND TABLES

Figure A-5.	Are you engaged in foreign economic activity as of now?	66
Figure A-6.	What are the main obstacles to the integration (greater integration) of your company with the European market?	66
Figure A-7.	Do you plan to invest in business development in 2024?	67
Figure A-8.	How much do you plan to invest in business development in 2024?	67
Figure A-9.	Do you plan to attract foreign investment? If so, how much do you plan to raise?	67
Figure A-10.	To what extent do you plan to change the number of personnel in the company in 2024 (as a proportion of those currently employed)?	68
Figure A-11.	How do you assess the prospects of Ukraine's economy in 2024?	68
Figure A-12.	Did the business relocate due to the war?	68
Figure A-13.	How do you estimate the financial loss of the company due to the full-scale invasion?	69
Figure A-14.	How do the business results in 2023 compare to the same period in 2022? (dollar equivalent)	69
Figure A-15.	How has the number of personnel changed in 2023 compared to the period before the full-scale invasion and 2022?	69
Figure A-16.	How have personnel numbers changed (in relation to 23 February 2022)	70
Figure A-17.	Proportion of staff with reduced salaries	70
Figure A-18.	What proportion of workers (of those hired since the start of the full-scale invasion) have internally displaced status?	70
Figure A-19.	Change in contributions of major economic sectors to GDP, in percentage points	71
Figure A-20.	Contributions of demand components to GDP growth, in percentage points	71
Figure A-21.	Relocation of MSMEs	71
Figure A-22.	What amount of additional financial resources does your business need (in addition to your available resources) to implement your business development strategy for the next three years?	72
Figure A-23.	Do you plan to attract foreign investment? If so, how much do you plan to raise?	72
Figure A-24.	Forecasts for 2024 for your business - compared to 2023 (in hryvnias)	73

LIST OF CHARTS AND TABLES

Figure A-25.	To what extent do you plan to change the number of personnel in the company in 2024 (as a percentage of those currently employed)?	73
Figure A-26.	How do you assess the prospects of Ukraine's economy in 2024?	74
Figure A-27.	Has your company gone out of business due to the full-scale invasion?	74
Figure A-28.	Are you engaged in foreign economic activity now?	75
Figure A-29.	What amount of additional financial resources does your business need (in addition to your available resources) to implement your business development strategy for the next three years?	75
Figure A-30.	To what extent do you plan to change the number of personnel in the company in 2024 (as a proportion of those currently employed)?	76
Figure A-31.	What are your expectations regarding the financial and economic conditions of your enterprise in 2024?	76
Figure A-32.	Did the business relocate because of the war?	77
Figure A-33.	Are you engaged in foreign economic activity currently?	77
Figure A-34.	What amount of additional financial resources does your business need (in addition to your available resources) to implement your business development strategy for the next three years?	77
Figure A-35.	Do you plan to attract foreign investment? If so, how much do you plan to raise?	78
Figure A-36.	What are your forecasts for 2024 regarding your business - compared to 2023 (in hryvnias)	78
Figure A-37.	To what extent do you plan to change the number of personnel in the company in 2024 (as a proportion of those currently employed)?	78
Figure A-38.	What types of state aid have you used since 24 February 2022?	79
Figure A-39.	Which organizations' help was the most useful?	79
Figure A-40.	Which of the listed tasks are most important for the economic power bloc to resolve and implement?	80
Figure A-41.	How has the volume of release of products / provided services changed over the last month?	80
Figure A-42.	How has the general level of inventories changed over the last month?	81
Figure A-43.	How has the number of your ORDERS to your suppliers changed over the last month?	81