



USAID
FROM THE AMERICAN PEOPLE



INSTITUTE
FOR ECONOMIC RESEARCH
AND POLICY CONSULTING

Sectoral Analysis: Light industry

September 2024

Authors: Oleksandra Betliy, Yevhen Anhel

The analysis is based on the results of the Special Survey of Enterprises "Export in Wartime", which was conducted by the IER in August 2024 (Methodology is presented in the Annexes).

The report and its results do not necessarily reflect the views of the United States Agency for International Development or the United States Government.

This report became possible due to the support of the American People through the United States Agency for International Development (USAID) under the Competitive Economy Program in Ukraine.

Executive summary

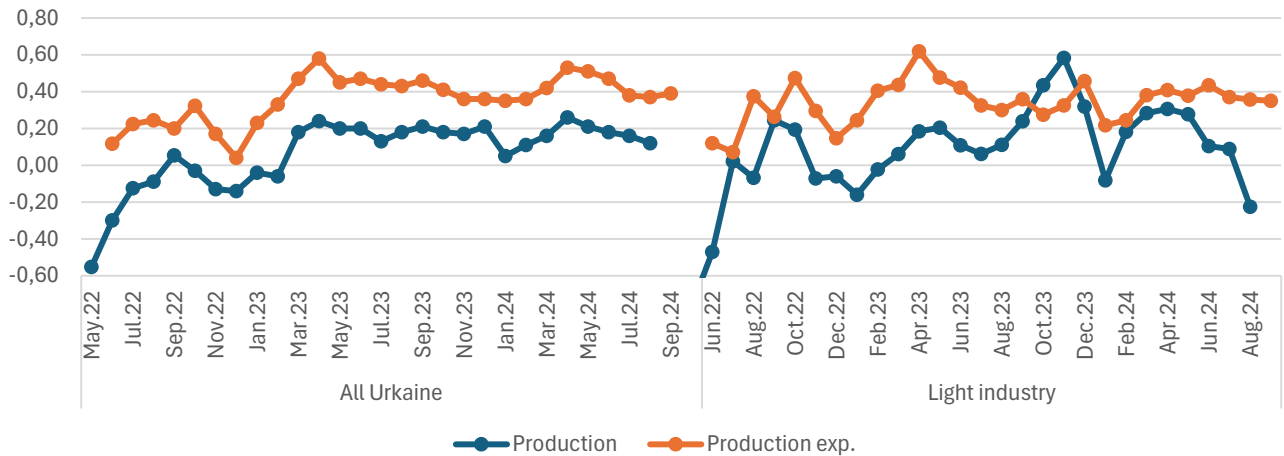
- In the first months of the full-scale war, light industry enterprises that are respondents to the IER survey showed a greater drop in production than other industries. At the same time, business adapted quite quickly, including due to the ability to reorient themselves to military orders. As a result, in some months, the share of light industry enterprises that reported an increase in their production was higher than the average in Ukraine.
- At the same time, it is likely that smaller companies turned out to be more adaptive and dynamic. Thus, according to the State Statistics Service, light industry reduced production during the period of full-scale war. This is probably due to the fact that large companies were unable to provide logistics or maintain demand and enter new markets.
- The main impediments to the activities of light industry companies, as well as to other companies, are problems with access to electricity. This is one of the reasons for the rather volatile performance of companies in the industry. Another reason is likely to be volatile demand and a lack of long orders. At the same time, most companies that exported their products before February 2022 continue to do so.
- An important impediment to the operation of the industry is also the lack of labor. That is why the *SkillsAlliance* program, which the government launched together with international partners, is becoming extremely important. The program is designed to introduce training and retraining for the adult population.
- While the level of uncertainty remains high, most companies have positive expectations for future development.

Production indicators

Production

- According to a survey conducted by the IER, the situation in the light industry deteriorated in the second quarter of 2024. **There is a tendency towards deterioration of production indicators in the light industry. Although this reflects the situation for the entire processing industry at the country level, it is happening somewhat faster.** Thus, in August, the *Index of Production Changes* was negative at the level of minus 0.22. This was the result of a significant decrease in the share of companies reporting production growth (only 10% compared to 34% on average in the first seven months of 2024). At the same time, the share of companies that reported a reduction in production is almost 33% compared to 18% in January-July. In other sectors of the economy, there were no such striking changes. Probable reasons for the deterioration of the situation are problems with availability of electricity, labor shortages, and demand problems (see below).
- **Although the manufacturing index declined, there was no significant deterioration in production expectations.** This may indicate that companies assess the current deterioration of the situation as temporary. In general, *the Index of Expected Changes in Production* for Light Industry was 0.35 in August (0.37 on average for seven months of 2024 and 0.36 in June). At the same time, on average in Ukraine, this Index was 0.39 in August. But in general, the light industry has traditionally shown a lower level of optimism in recent years.

Figure 1. Production Change Index



Demand & Sales

- Estimates of demand among light industry enterprises reflect a downward trend in other production indicators.** The value of the *Sales Change Index* for light industry was minus 0.13 in August, which is the lowest level since January 2023. At the same time, since February 2023, this is the first negative value of the Index for this sector of the processing industry. This change was due to an increase in the share of companies that reported a drop in sales in August to 36% compared to 11% in July. Share of enterprises, which reported an increase in sales, remained comparable to July at 23%, but was down significantly from 38% in the previous 12 months.

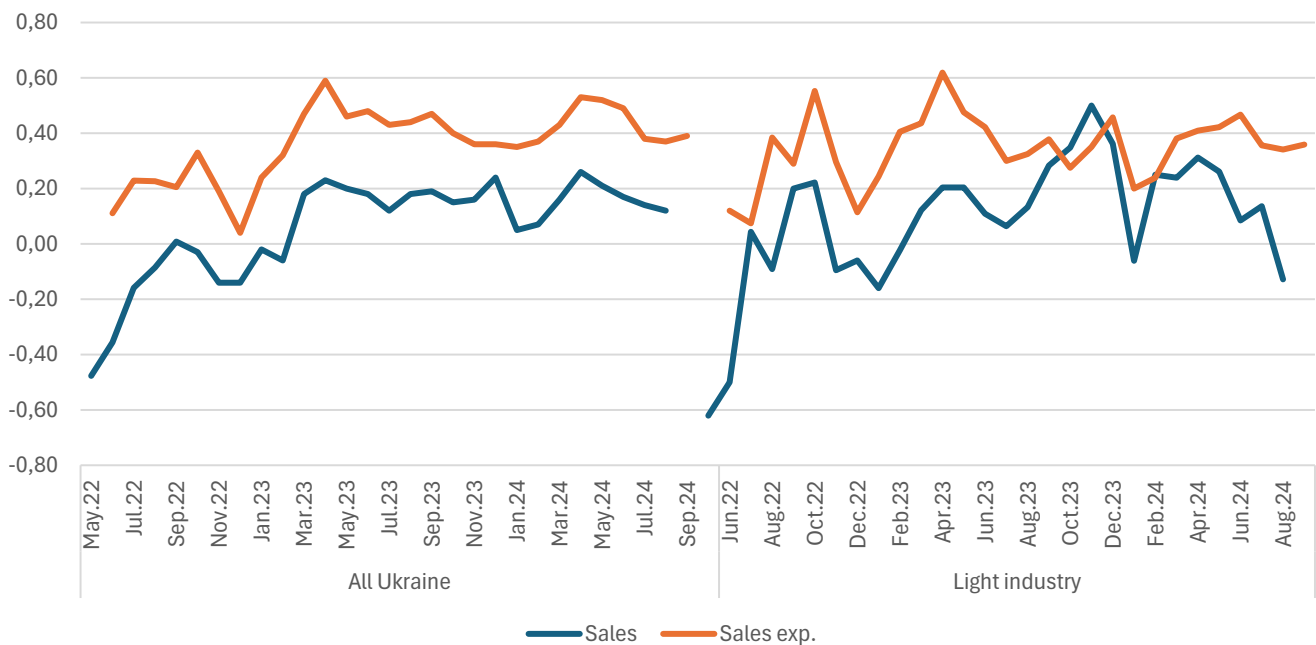


Figure 2. Sales Change Index

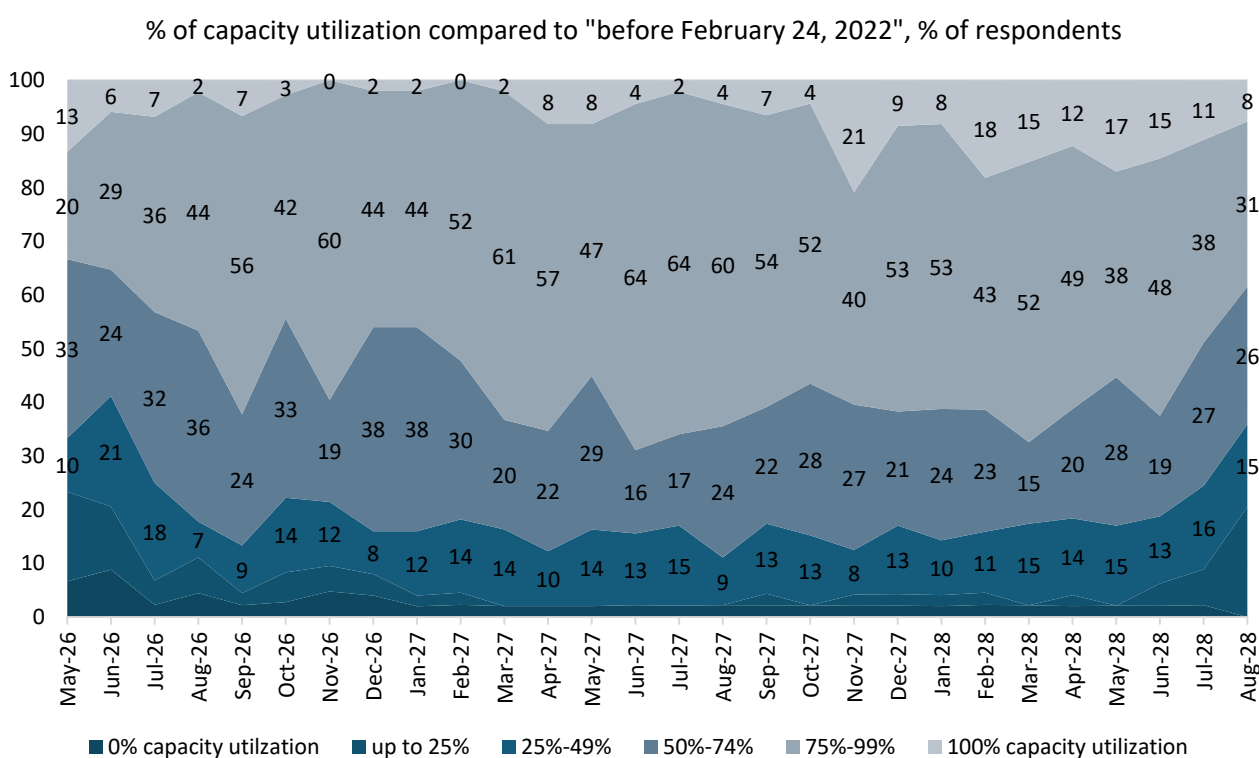
- Despite the drop in actual sales, companies in the industry remain optimistic about their sales expectations.** The index of expected sales changes for light industry was 0.36 in August, which is almost in line with the level of the first seven months of this year. At the same time, the value of the Index does not differ significantly from the indicators for all companies participating in the IER survey. In August, 41% of

light industry companies reported an expected increase in sales, while only 5% reported an expected decline in sales.

Capacity utilization

- **Light industry companies have not yet reached indicators close to full production capacity.** In the IER survey, 8% of companies reported that they are working at full capacity, and another 31% at capacity, which is 75-99% of what it was before the full-scale war. At the same time, these indicators are quite close to the average indicators for the survey sample: 10% and 31%, respectively.
- **At the same time, capacity utilization is very volatile in 2024.** Thus, in August, 21% of companies reported operating up to 25% of the capacity they had until February 2024. The most likely reason for this could be a power outage in July. Thus, it was because of them that light industry companies reported losses of 15% of their working time. Another reason for the variability in capacity occupancy rates may be unstable orders, as well as problems with logistics.

Figure 3. The impact of the war on the work of enterprises (% of respondents)



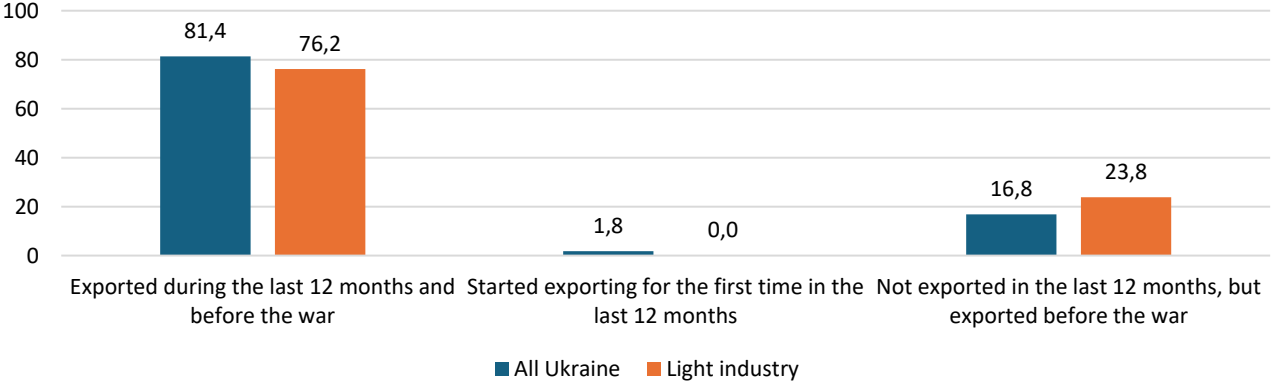
Export of the sector

- In light industry, among those surveyed in August 2024, 52.5% of enterprises (those that were able to answer) were or are exporters (61.7% at the level of Ukraine).¹
- **In August 2024, the majority of light industry exporters reported the continuation of foreign economic activity. 76% of companies in the industry reported that they exported before the war, and also**

¹ It should be noted that such a high level of business involvement in export activities also reflects the peculiarities of the survey sample, which, first of all, reflects enterprises representing the manufacturing industry.

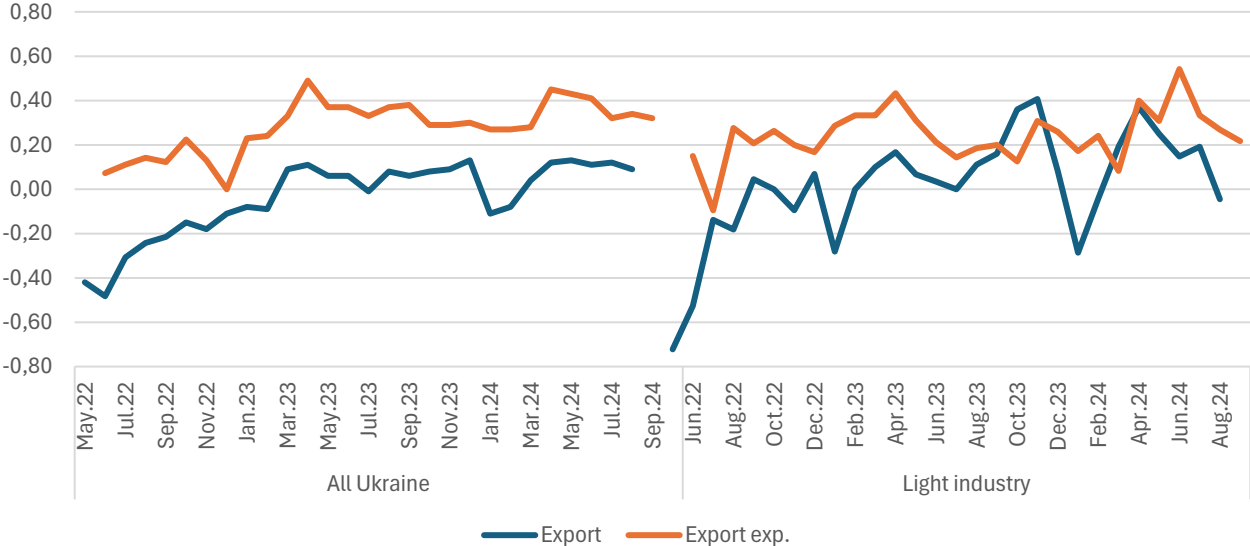
continued to export over the past 12 months. This is slightly less than in the country as a whole, where there were 81% of such companies. None of the surveyed companies started exporting during the full-scale war. At the same time, almost 24% of companies reported a halt to exports. This may be due to both the loss of sales markets and longer and more expensive logistics. Another reason may be the reorientation of production to order for the Armed Forces of Ukraine.

Figure 4. Impact on export activities, December 2023 (% of exporters surveyed)



- In general, the index of export changes in light industry during the full-scale war is slightly higher than the average in Ukraine. However, in August, the *Export Change Index* was negative in the industry, which corresponds to both sales and production indicators. At the same time, the decline in the Index was due to both an increase in the share of exporters in the industry who reported a decrease in exports, and a drop in the share of those who reported an increase in exports (18% and 23%, respectively, in August). At the same time, the share of companies that reported the immutability of exports remained constant. Overall, The Export Change Index is volatile, which likely indicates the dependence of industry enterprises on impediments such as problems with access to electricity, complex and expensive logistics, and problems with demand.

Figure 5. Export Change Index

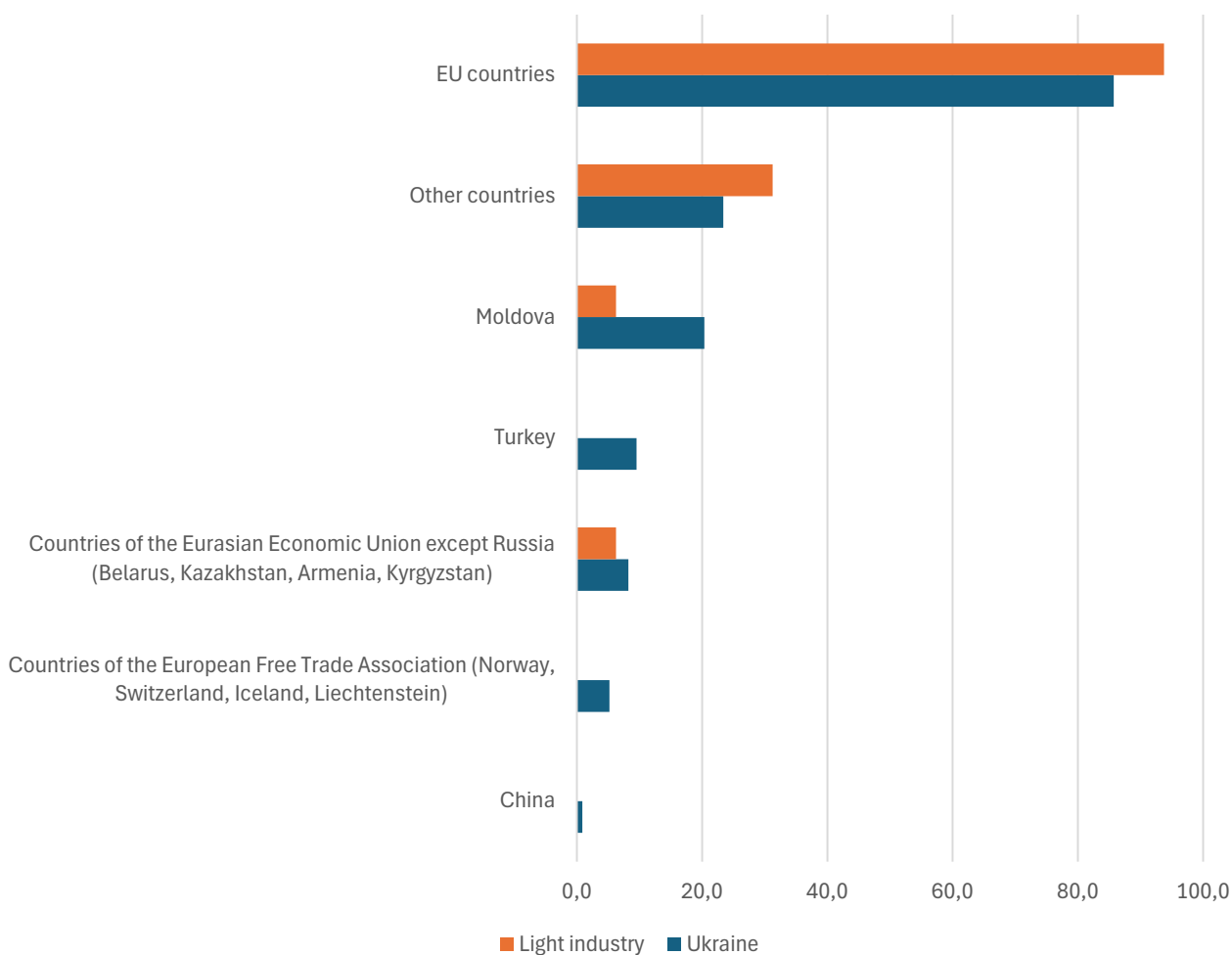


- Expectations for short-term export growth in the third quarter deteriorated significantly compared to the second quarter of 2024: 0.24 in July-August and 0.39 in the second quarter, respectively. Expectations in the industry are now worse than the average in Ukraine, while they used to be more comparable. The deterioration in expectations was primarily due to an increase in the share of companies

that reported a decrease in exports to 8.7% in August, compared to no such companies in the second quarter. Still, 30% of light industry companies expect an increase in exports.

- **The main export destination for light industry enterprises is the EU countries, which is expected given the change in logistics routes.** At the same time, the share of goods exported to the EU is almost 94% compared to 86% for all companies that took part in the survey. A higher share than for other companies is occupied by other states. At the same time, the share of light industry goods exported to Moldova is significantly less than other goods.

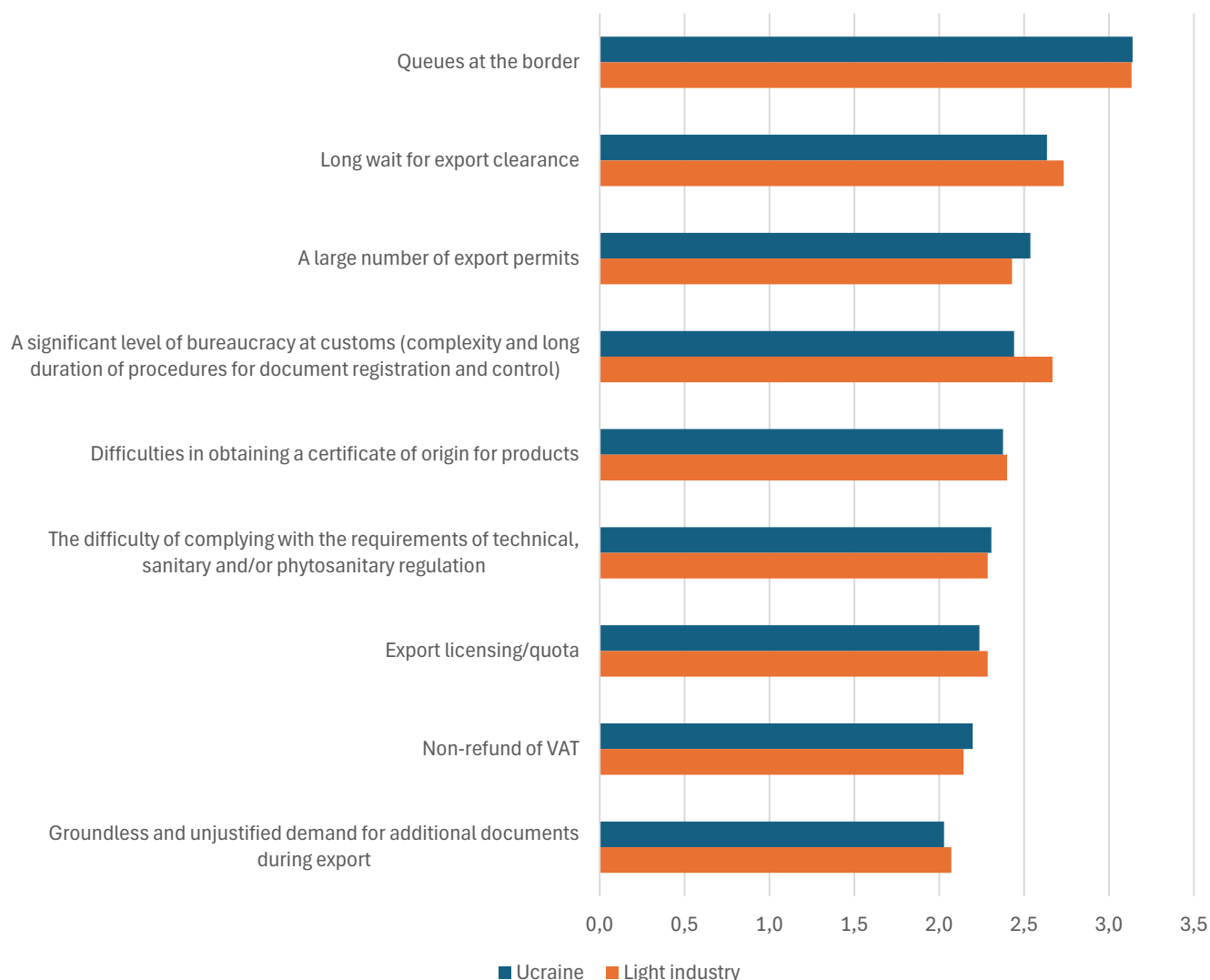
Figure 6. Main export destinations, August 2024 (% of surveyed exporters)



Non-tariff barriers to exports

- **An important result of the survey is that most exporters are quite moderate in their assessment of the presence of non-tariff barriers to exports.** The average score of the nine such barriers included in the survey was 2.5 (on a 5-point scale) for light industry enterprises and 2.4 for all enterprises that took part in the survey. Most of the barriers that were offered to respondents arise mainly from "sometimes", "rarely", or "never" at all.
- After recalculation into grades on a 5-point scale, the main impediment for exporters from light industry is queues at the border – 3.1 points (among all exporters, also 3.1 points and 1st place). On the second step in terms of prevalence is a long wait for export clearance – 2.7 points (2.6 for all enterprises and also 2nd place). Equally important for light industry enterprises was a significant level of bureaucratization and customs, which ranks fourth for other companies. A large number of permits and difficulties in obtaining a certificate of origin for products are the next most important barriers for exporters from the light industry.

Figure 7. Non-tariff barriers to exports of light industry enterprises



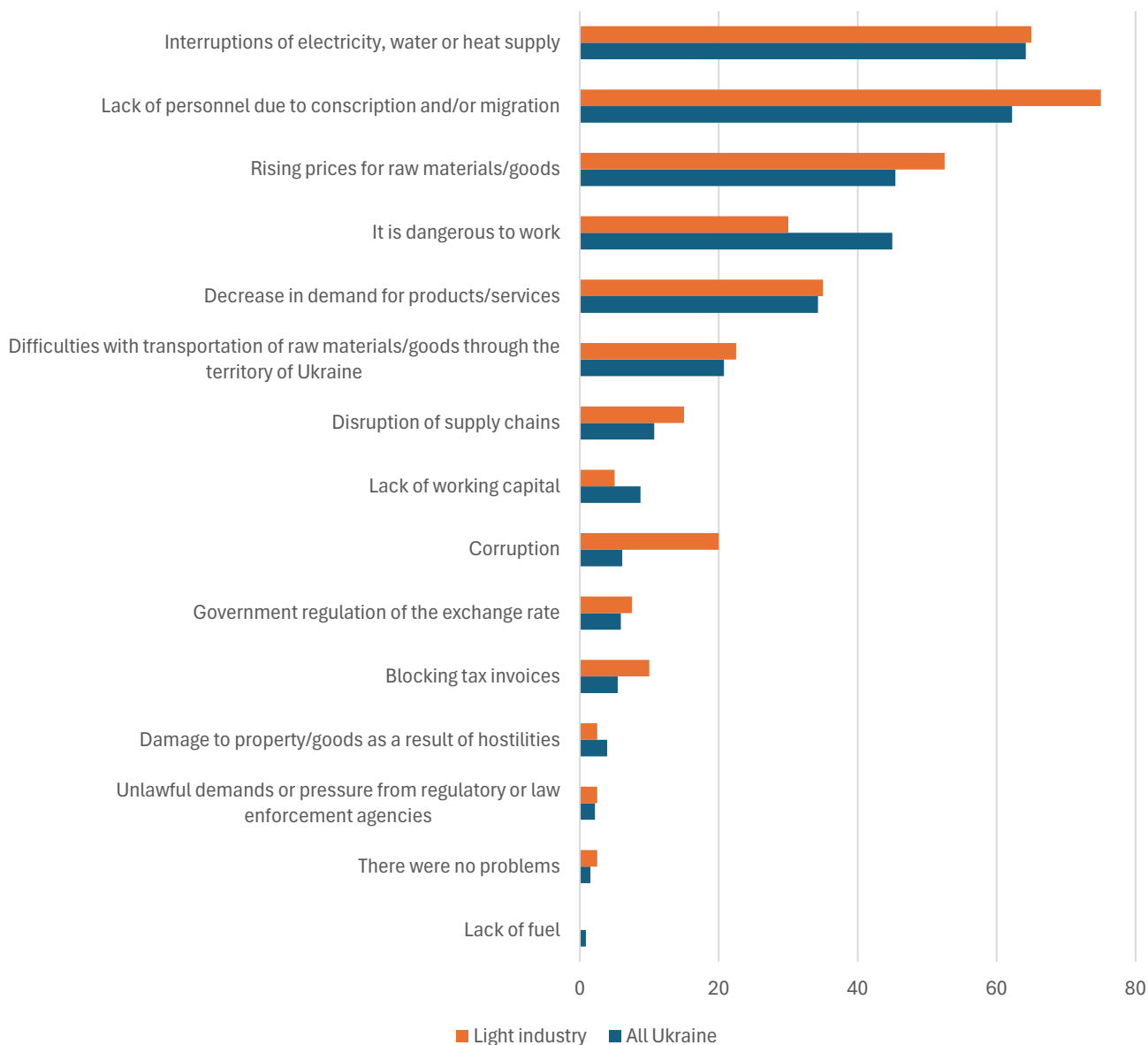
- **At the same time, most enterprises reported that they had some problems with customs control.** There were 68% of such companies compared to 46% in the total sample. At the same time, only 32% reported that such cases did not occur or they were rare, while the total share of such companies in the total sample was 47%.

Impediments to Activity

- **In August, the biggest impediment to the activities of light industry enterprises was the lack of labor due to the mobilization and/or departure of employees.** At the same time, the share of companies that reported this impediment doubled to 75%. At the same time, problems with access to electricity are still a very significant impediment (for 65% of companies in the industry). Larger companies have the opportunity to provide their work at the expense of imported electricity, but it is more expensive, and therefore less affordable for light industry enterprises. The purchase of generators makes enterprises in the industry less competitive compared to foreign companies. Therefore, it is not surprising that that 52% of companies in the industry identified as an impediment "Rising prices for raw materials and supplies, or goods that produce".
- In general, light industry enterprises consider most of these impediments to be more significant. A particular difference is the assessment of coping as an impediment to doing business: 20% of light industry

companies identified it as an impediment, while the share of such companies in Ukraine is 6.1%. This partially resonates with the answers of exporters, in particular, regarding non-tariff barriers, where barriers in which possible corruption risks can be traced were more significant.

Figure 8. The most important problems for the surveyed business in the light industry, August 2024 (% of respondents)²



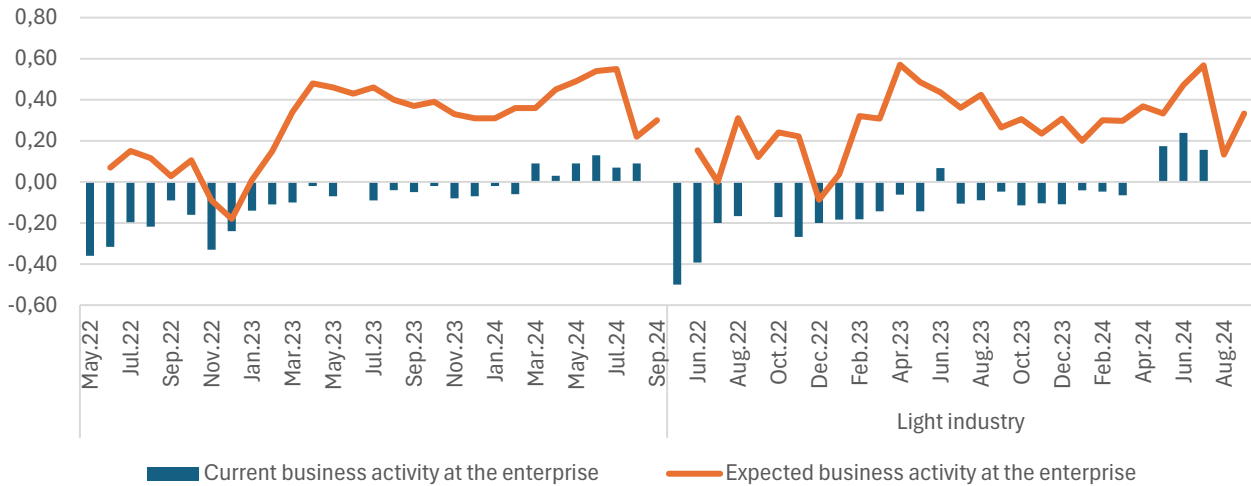
Expectations and uncertainty

- **In August 2024, the average period of provision of new orders for the surveyed light industry enterprises was 7 months, which is comparable to the average for Ukraine (7.1 months).** Until now, most enterprises in the industry have orders for short periods of time. In particular, only 10% of respondents have orders for 12 or more months (18.7% among all respondents). At the same time, 30% of light industry companies are not provided with orders even for one month.

² The sum of the answers may exceed 100 percent, as respondents had the opportunity to choose several options.

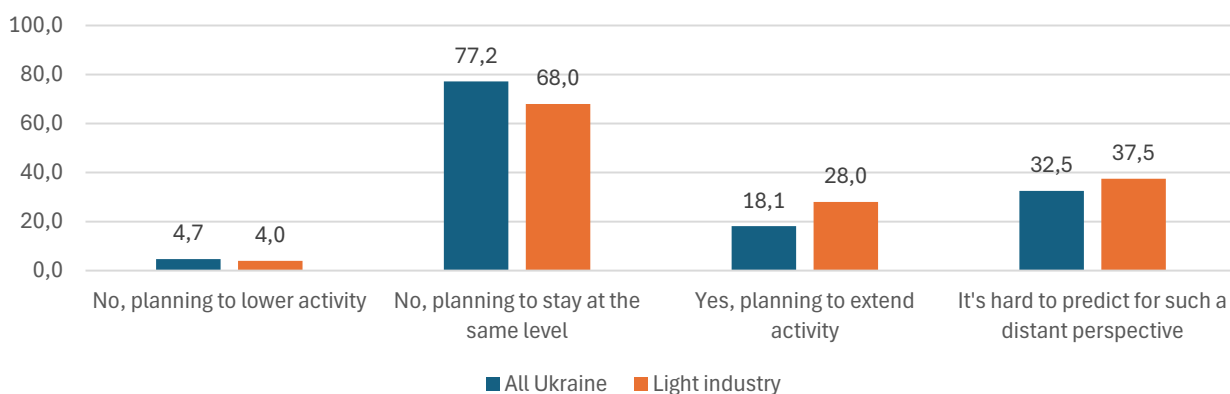
- Assessments of their own financial and economic situation by light industry enterprises are quite volatile, which is probably due to the presence of impediments, in particular in the form of access to electricity.** The index of the current financial and economic situation for the light industry in August 2024 was zero (0.09 for all respondents) compared to 0.3 in the second quarter. In particular, 17% of companies in the industry assess the situation as "good", 64% as "satisfactory" and 18% as "bad". At the same time, 37% of surveyed companies expect their financial and economic situation to improve over the next six months, and 59% think that that the situation will not change. In general, such answers are more optimistic than in July, when companies faced very big problems due to power outages, but they are significantly worse than in the second quarter of 2024.

Figure 9. Financial and economic situation at the enterprise now and expectations for 6 months, indices



- The level of uncertainty for light industry enterprises remains high.** In August, 30% of companies in the industry could not answer the question about the expected change in their financial and economic situation (the corresponding share for the entire sample was 20%). At the same time, 37.5% of companies said they could not predict the activities of their enterprise for the next two years (32.5% at the country level). Among those who can answer this question, the majority (68%) indicate that they plan to stay at the current level (77.2% among all respondents). At the same time, 28% predict the expansion of activities for the next 2 years, which is significantly higher than the sample average of 18%. Thus, the enterprises of the industry are generally more optimistic than the general situation.

Figure 10. Do you plan to expand your company's activities over the next two years?, % of respondents



- There is a high level of uncertainty about long-term plans.** In particular, 30% of respondents in the light industry (32.5% of all respondents) did not indicate that they cannot predict in the long term.

Appendices

Survey Methodology

- This report presents the results of the light industry based on a special survey of enterprises "Export in wartime", which the IER conducted in August 2024. The data was collected through a combination of several data collection methods: telephone interviews of business representatives with responses to the online form entered by the interviewers and, in a small number of cases, self-completion of the online form by representatives of enterprises who during the previous telephone contact expressed a desire to enter the data into the online form themselves. All answers – both filled in by the respondents themselves and provided to the interviewers by phone – were collected in one database. At the end of the survey, the IER experts monitored and cleaned the data and analyzed the responses.
- In this survey, in particular, we continue to study the indicators of the business climate and conjuncture that the IER examines in quarterly surveys of industrial enterprises within the framework of the Business Opinion project. These are, in particular, indicators that numerically show changes from month to month of such important business indicators as production and sales volumes, export volumes, stocks of raw materials and supplies, the number of new orders, etc., as well as business expectations for their changes in the next 3 and 6 months.
- Such indices are calculated according to a single methodology. We count the answers as +1 when the company responds that the indicator has increased, 0 if it has not changed, and -1 if it has decreased, and the result is a balance between positive and negative responses. For example, if out of a hundred respondents, twenty indicated an increase in production, fifty respondents indicated a decrease in production, and thirty noted that everything remained unchanged, then the corresponding value of the index will be -0.30. A positive (negative) value of the index means that the share of enterprises where production has increased is larger (smaller) than the number of those where production has decreased. For a more accurate measurement at the microdata level, each response is weighted taking into account the size of the enterprise in terms of the number of employees.
- With the help of such indices, it is possible to track the dynamics of changes in these indicators, compare them over time and quickly assess the general direction of changes in the conditions for doing business and the situation at enterprises.
- For the purposes of writing sectoral reports, the IER also included a set of special questions on the significance of non-tariff barriers for exporters.
- The field phase of the survey lasted from August 14 to August 30, 2024.

Sample

- A total of 458 enterprises were interviewed. They are located in Vinnytsia, Volyn, Dnipropetrovsk, Zakarpattia, Zaporizhzhia, Zhytomyr, Ivano-Frankivsk, Kyiv, Kirovohrad, Lviv, Odesa, Poltava, Rivne, Sumy, Ternopil, Kharkiv, Khmelnytskyi, Cherkasy, Chernivtsi, Chernihiv regions and in the city of Kyiv. In each of these regions, from 4 to 36 enterprises were interviewed³.
- The majority of the sample was made up of industrial enterprises – 406 enterprises or 88.6% of the sample. Among them, food (125 units or 27.3%), light industry (40 units or 8.7%) and mechanical engineering (37 units or 8.1%) prevail.
- Among the surveyed companies are enterprises of various sizes, which are determined by the number of employees. Of these, micro-enterprises (up to 10 employees inclusive) – 65 or 14.2% of the sample, small

³ The survey indicated the region in which the company was located at the time of the survey.

(from 11 to 50 employees) – 135 or 29.5% of the sample, medium (from 51 to 250 employees) – 152 or 33.2% of the sample, and large (more than 250 employees) – 106 or 23.1% of the sample.

Performance indicators of enterprises and the business environment

Performance indicators of enterprises and the business environment, change indices (August 2024)

	All Ukraine	Light industry
Production	0.12	-0.23
Expected changes in production	0.39	0.35
Sales	0.12	-0.13
Expected Sales Changes	0.39	0.36
Export	0.09	-0.05
Expected changes in exports	0.32	0.22
Accounts receivable	-0.10	-0.07
Expected changes in accounts receivable	-0.08	-0.17
Accounts payable	-0.10	-0.16
Expected changes in accounts payable	-0.16	-0.25
Tax arrears	-0.19	-0.11
Expected changes in tax arrears	-0.17	-0.44
Raw material stocks	0.12	-0.13
Expected changes in raw material stocks	0.26	0.22
Stocks of finished products	0.00	-0.08
Expected changes in inventories of finished goods	0.08	0.08
New orders	0.05	-0.13
Expected changes in new orders	0.34	0.31
Prices for raw materials and supplies	0.29	0.41
Raw Material and Material Prices Expectations	0.34	0.46
Prices for finished products (selling prices)	0.24	0.21
Prices for finished products (selling prices) expectations	0.32	0.38
Number of employees	-0.02	-0.08
Expected changes in the number of employees	0.07	0.15
Number of employees on forced vacations	0.01	-0.04
Expected changes in the number of employees on forced leave	0.01	0.04
Skilled Workers	0.49	0.64
Unskilled workers	0.33	0.37
Assessment of the financial and economic situation	0.09	0.00
Expected changes in the financial and economic situation	0.30	0.33
Assessment of the business environment	0.04	-0.11
Expected changes in the business environment	0.26	0.19
Do you plan to expand your business in the next two years?	0.15	0.24
How do you assess the financial and economic situation of your company in the current month, compared to the same period in 2021?	0.15	-0.03