CENTER FOR INTERNATIONAL PRIVATE ENTERPRISE

INSTITUTE FOR ECONOMIC RESEARCH AND POLICY CONSULTING

UKRAINE: BUSINESS LEADERSHIP IN POST-WAR RECOVERY

Brief Report on the Results of the Small and Medium Business Survey

June 2024

Executor of the project:		Institute for Economic Research and Policy Consulting (IER)
Financial support:		Center for International Private Enterprise (CIPE)

Authors of the report:

Yevhen Anhel, Senior Research Fellow at the Institute for Economic Research and Policy Consulting

Vladyslav Baskov, research fellow at the NGO "Institute for Economic Research and Policy Consulting"

Oksana Kuziakiv, executive director of the NGO "Institute for Economic Research and Policy Consulting"

The survey was conducted with the support of the Center for International Private Enterprise (CIPE). The views, conclusions and recommendations presented in the study are those of the authors and do not necessarily coincide with the official position of CIRE or its employees.

NGO "INSTITUTE FOR ECONOMIC RESEARCH AND POLICY CONSULTING",

01054 Kyiv, Ukraine, str. Reitarska 8/5-A,

tel.: +38(044) 278-63-42; +38 (044) 278-63-60; fax: +38(044) 278-63-36

institute@ier.kyiv.ua
www.ier.com.ua
Facebook IED

Content

Introduction

In April and June 2024, IER specialists, with the support of the Center for International Private Enterprise (CIPE), conducted a study "Ukraine: Business Leadership in Post-War Recovery", which included the organization of **two surveys of** small and medium-sized businesses. We bring to your attention to **the second report** based on the results of the **June 2024 survey**.

The purpose of the study "Ukraine: Business Leadership in Post-War Reconstruction" is to assess the role of small and medium-sized enterprises in the reconstruction of the country, assess the specific needs and problems of SMEs, and formulate policies for their better integration into economic recovery efforts, including the participation of SMEs in public procurement and the implementation of integrity standards.

Small and medium-sized enterprises play a crucial role in Ukraine's economic landscape and have the potential to shape the country's economic recovery and growth in several ways:

A. **Employment.** Small and medium-sized enterprises are the main source of employment, as they provide jobs for a large part of the population. They reduce unemployment and stimulate economic activity in both urban and rural areas.

B. **Innovation and Entrepreneurship. SMEs** are often centers of innovation and entrepreneurship. They bring new ideas to market, promote competition, and drive technological advancements, which can have a positive impact on economic development.

C. **Local economy. Small** and medium-sized enterprises tend to be deeply rooted in local communities. Their success has a direct impact on the well-being of these communities, contributing to local development and prosperity.

D. **Resilience and adaptability.** SMEs are often more flexible and adaptable to changing economic conditions than large corporations. Their ability to deploy and respond to market challenges can be crucial in times of economic uncertainty.

E. **Export and international trade.** SMEs often engage in export activities, helping to diversify Ukraine's export portfolio and reduce its dependence on a limited number of goods. This can contribute to a more stable and resilient economy.

Small and medium-sized enterprises are a vital component of Ukraine's economic structure, and their well-being is closely linked to the overall economic situation in the country. Understanding their challenges, needs, and engagement in recovery is critical to shaping sound policies and initiatives aimed at strengthening Ukraine's economic resilience and growth prospects. This highlights the importance of conducting surveys of SMEs to gather information.

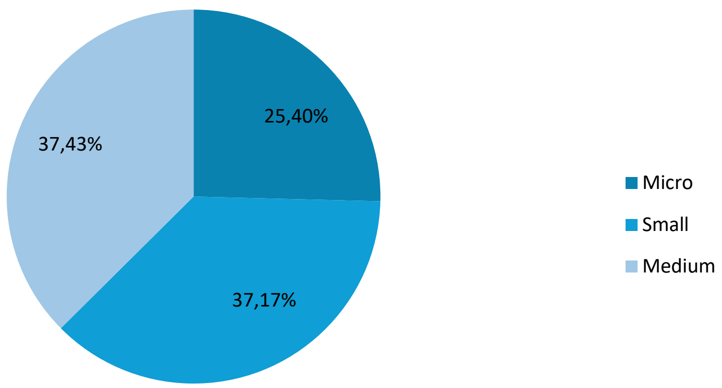
The Center for International Private Enterprise (CIPE) is a global organization that works to strengthen democracy and build competitive markets in many of the world's most challenging environments. Working alongside local partners and tomorrow's leaders, CIPE advances the voice of business in policymaking, promotes opportunity, and develops resilient and inclusive economies.

The views, conclusions, and recommendations presented in the study are those of the authors and do not necessarily coincide with the official position of CIPE or its employees.

Sample description

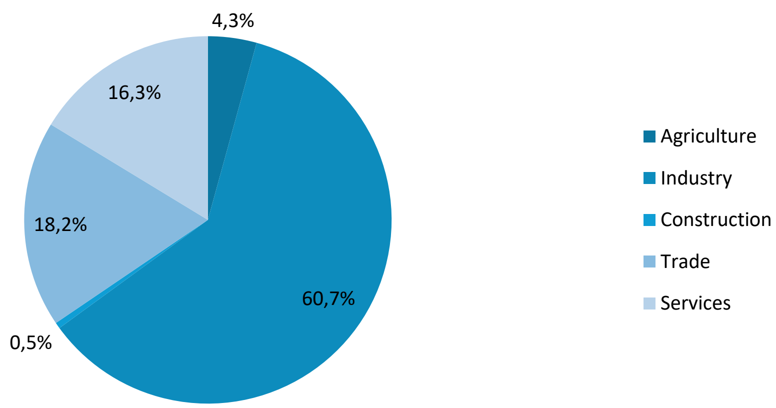
- The field phase of the survey was conducted from May 22, 2024, to June 10, 2024.
- As part of the study, 374 small and medium-sized businesses were interviewed. Micro- (25.4%), small (37.2%) and medium-sized (37.4%) subjects are approximately equally represented.

Figure 1. Distribution of surveyed SMEs by size of entities, % of respondents



- Most of the surveyed companies are representatives of industry (60.7%).
- The shares of representatives of trade (18.2%) and services (16.3%) are smaller. Also, among the respondents, 4.3% are representatives of agriculture and 0.5% of construction.

Figure 2. Distribution of surveyed SMEs by sector, % of respondents

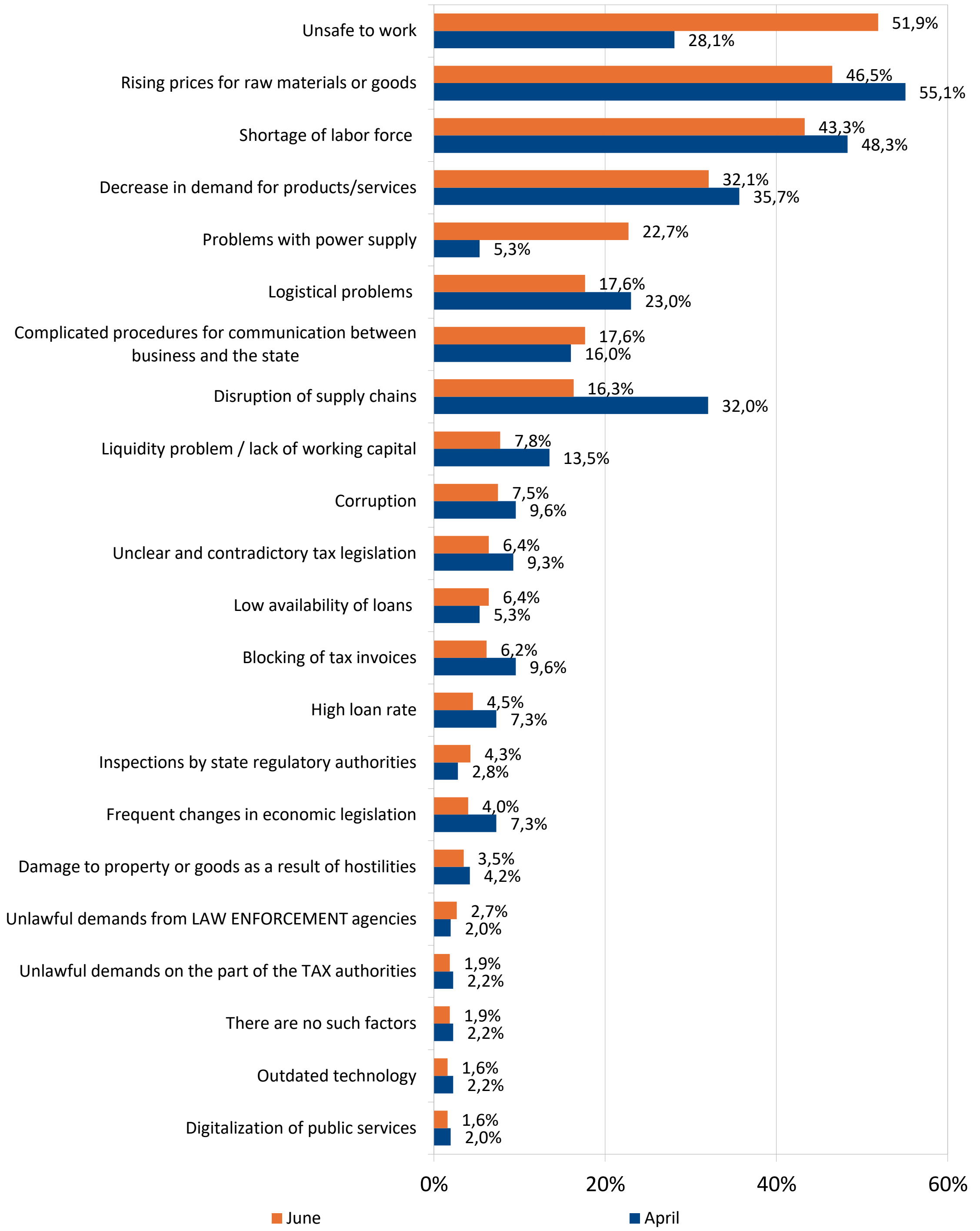


- Among the industrial sectors, the food industry (21.4% of the total number of respondents), light industry (8.0%), chemical industry (5.4%) and mechanical engineering (4.0%) are best represented.
- Most respondents represent Volyn (9.4% of the sample), Lviv (8.3%), and Khmelnytskyi (7.8%) regions.
- Due to the full or temporary occupation or negative consequences of hostilities, the sample does not include businesses in Mykolaiv, Kherson, Donetsk, Luhansk regions, the Autonomous Republic of Crimea, and the city of Sevastopol.
- Only 1.3% of surveyed SMEs reported that they relocated during the war.

The state of SMEs during the war

- In June 2024, among the top 3 factors limiting growth, SMEs most often indicated danger to work, rising prices for raw materials/supplies/goods, and labor shortages.
- The situation has changed compared to April, when among the top 3 factors were rising prices, labor shortages, and a decrease in demand for products and raw materials. Security challenges have become more urgent given the intensification of shelling of Ukrainian infrastructure by the aggressor state.

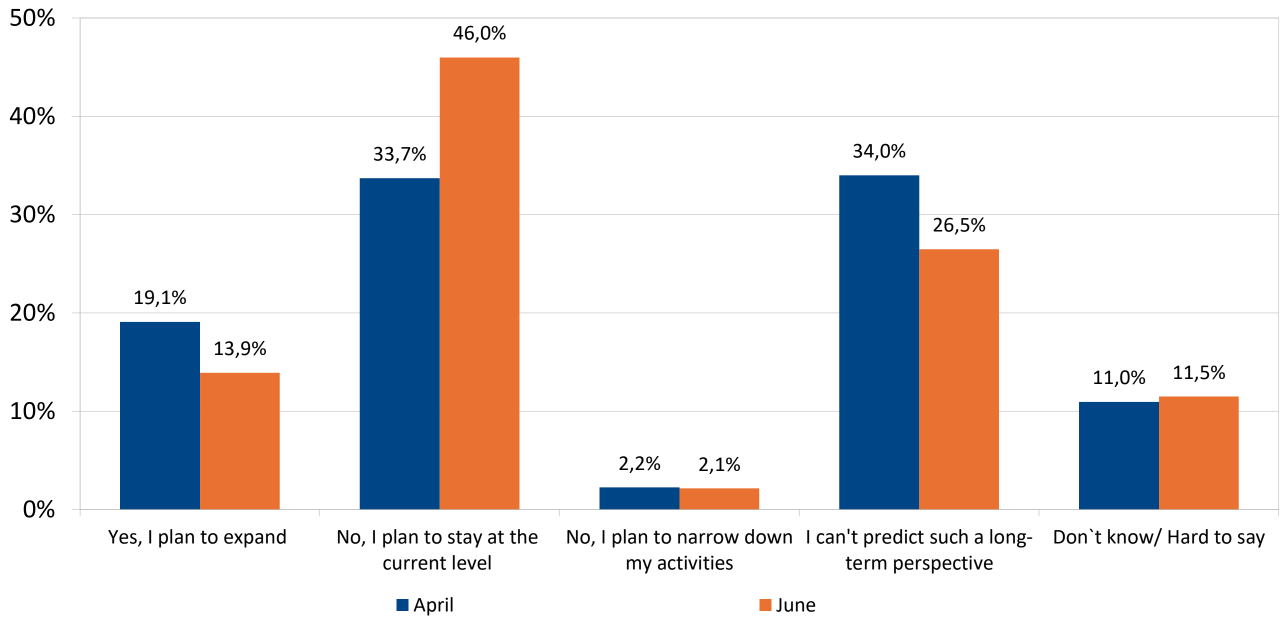
Figure 3. Growth limiting factors, % of respondents[1]



[1] Respondents could choose up to 5 answer options, so the sum of answers may exceed 100%.

- Danger to work has reached the first place in the rating of limiting factors: more than half of the respondents (51.9%) indicated it, which is almost twice as much as in the previous wave of the survey (28.1% of respondents and the 5th place).
- The increase in prices for raw materials/goods fell to second place, but this was indicated by almost every second respondent (46.5%). The absolute indicator decreased slightly compared to the previous wave – it was 55.1%.
- Labor shortages as a result of conscription and/or departure of employees to other places fell from second to third, and the absolute value of the indicator decreased from 48.3% to 43%.
- Almost a third of respondents (32.1%) complained about a decrease in demand.
- The urgency of electricity supply problems has increased from 5.3% in the first wave of the survey to 22.7% in the second. This is due to the massive attacks of the aggressor state on the Ukrainian energy infrastructure and the beginning of power outages.
- Corruption as an obstacle to growth was reported by 7.5% of respondents. At the same time, less than 5% of respondents indicated such obstacles as unlawful demands of law enforcement agencies (2.7%), unlawful demands of tax authorities (1.9%), and inspections by state regulatory authorities (4.3%). That is, in general, the experience of interaction between business and government is not so often a factor that can limit growth.
- Overall, SMEs have a high level of uncertainty. Particularly, 26.5% of SMEs indicated that they could not predict plans for the next two years, and another 11.5% simply could not answer. Uncertainty has slightly decreased compared to the previous wave when 34.0% could not predict plans and 11.0% could not give answers.
- The share of companies that plan to expand their own enterprises over the next two years decreased from 19.0% in the first wave to 13.9% in the second.
- Most often, SMEs do not plan any changes – 46.0% of respondents (it was 33.7% in the previous wave).
- Only 2.1% of respondents indicated that they plan to narrow down their activities (2.2% in the first wave).

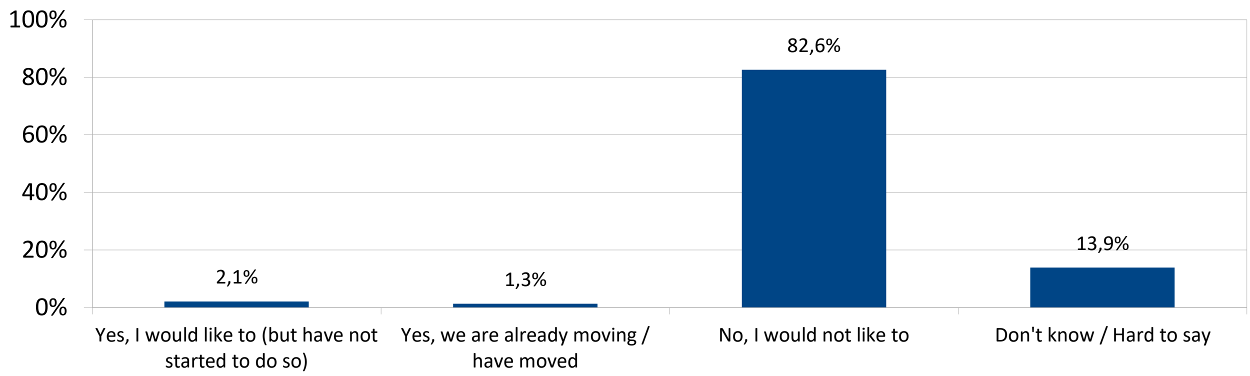
Figure 4. Plans for the next two years, % of respondents



Relocation abroad

- The vast majority (82.6%) do not want to move their own business abroad.
- 2.1% (8 respondents) of respondents expressed their desire to relocate abroad (but have not yet started doing so), while another 1.3% (5 respondents) have already started doing so or have already done so.[2] The result obtained allows us to conclude that only a small part of the business wants to move its business abroad. In the study sample, this is a total of only 13 respondents.

Figure 5. Would you like to move your business abroad, % of respondents[3]



- Even fewer respondents who would like to relocate their business or are already relocating / have been relocated were able to answer questions about the details of the relocation. Accordingly, only limited data analysis on such a small subsample is possible. Specifically, only 2 respondents know exactly how to relocate. The rest either do not know (5 respondents) or cannot answer (1 respondent).
- Among those who reported their desire to move their business abroad, Poland was most often chosen as the place of relocation (5 respondents). The rest of the respondents who answered the question indicated other EU countries (2 respondents).
- Among the main advantages of Poland, respondents name several factors that can be grouped into several categories:
  - security situation;
  - favorable business climate (stable economy, simpler rules for doing business, support for SMEs from the state);
  - logistical convenience (proximity to Ukraine, no problems with crossing the Ukraine-EU border);
  - other factors (developed infrastructure, availability of partners, available raw materials, ease of understanding and use of the language).

Experience of interaction with authorities

Blocking of tax invoices

- 26.7% of respondents have never encountered the blocking of tax invoices, and 13.9% did not provide an answer.
- Among SMEs that have faced the blocking of tax invoices, respondents are more likely to indicate an improvement in the situation – 26.2% of all respondents. This indicates an

---

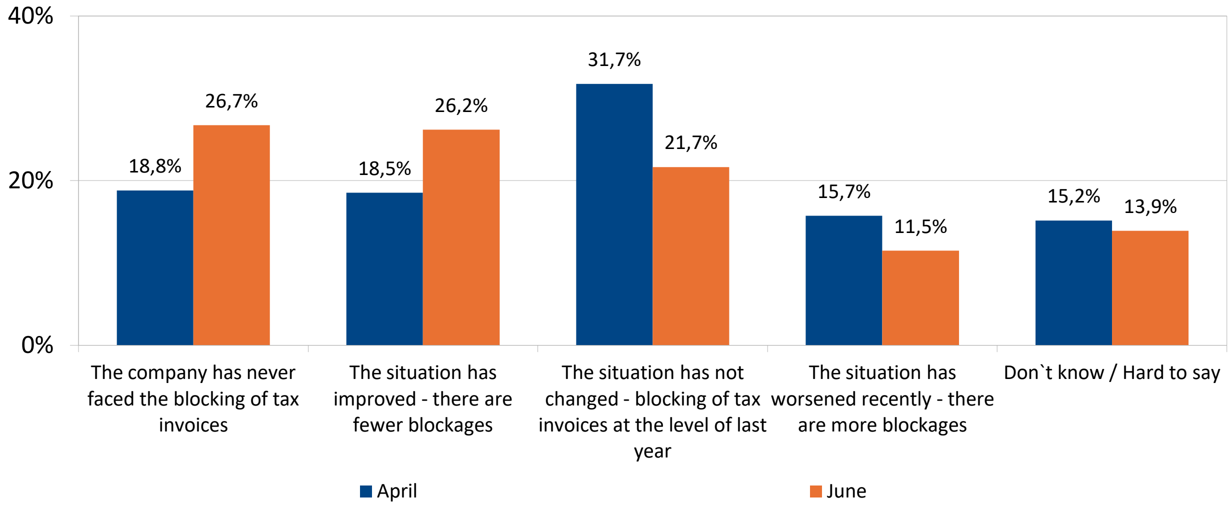
[2] The question does not make it possible to establish at what stage of relocation or relocation planning the interviewed enterprises are.

[3] We don't know at what stage of the transfer, we don't know...

improvement in the situation, as the indicator increased compared to the previous wave (it was 18.5%).

- 11.5% say that the situation with the blocking of tax invoices has worsened (it was 15.7%), while 21.7% say that the situation remains unchanged (it was 31.7% of respondents).

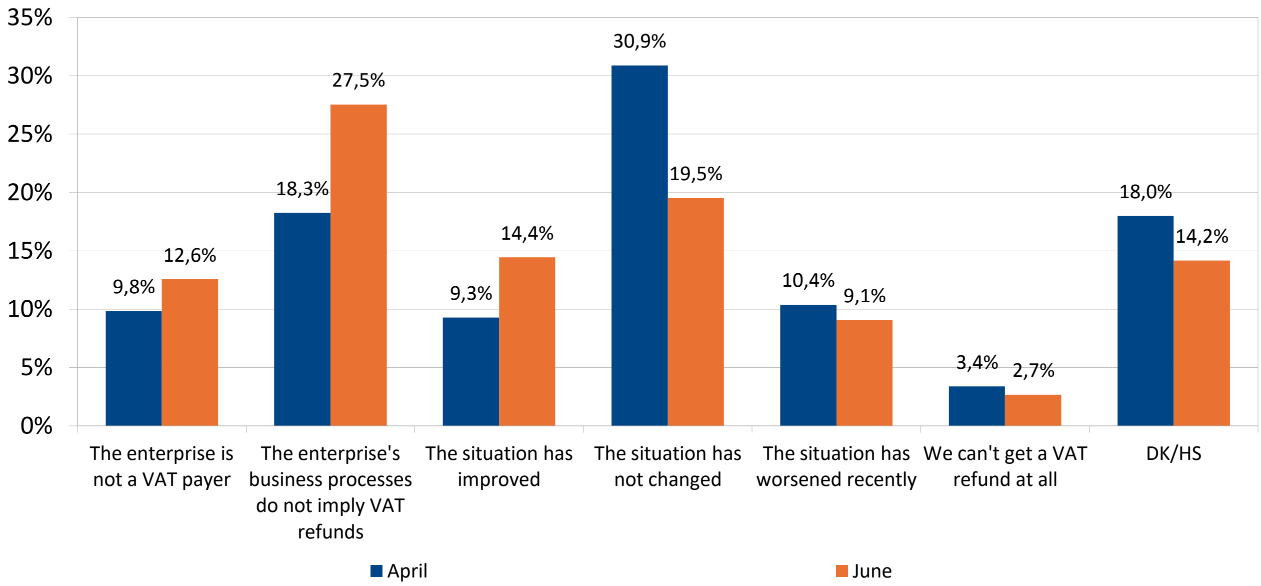
Figure 6. In your opinion, has the situation with the blocking of tax invoices changed over the past few months, % of respondents



VAT Refund

- SMEs also assessed the situation with VAT refunds to businesses. At the same time, 12.6% of respondents indicated that they are not VAT payers, and for 27.5% – business processes do not imply VAT refunds.

Figure 7. In your opinion, has the situation with VAT refunds changed recently for businesses, % of respondents



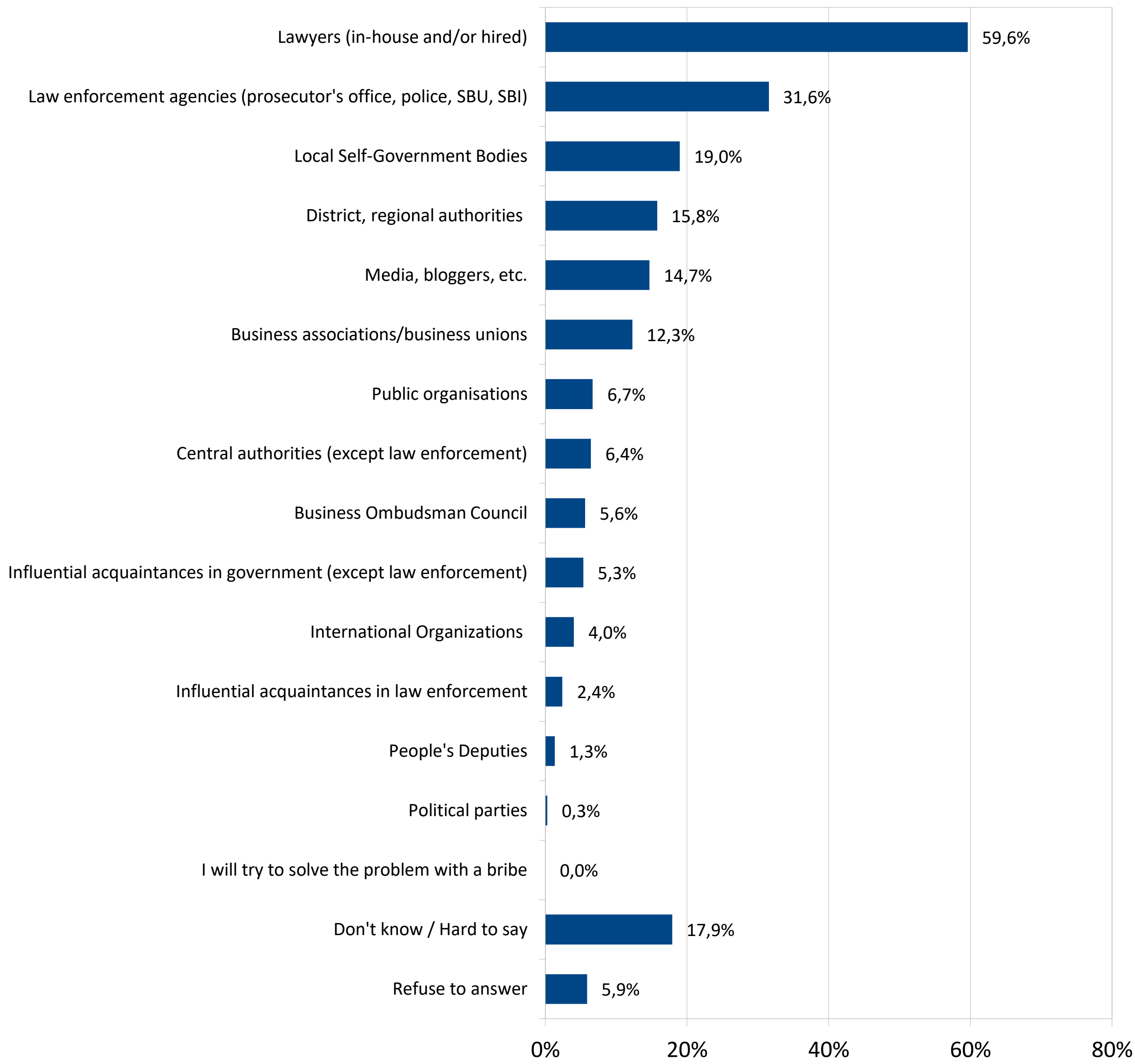
- 14.4% indicate an improvement in the situation with refunds (it was 9.3% in the previous wave), and 9.1% indicate a deterioration (it was 10.4%).
- At the same time, 2.7% cannot receive a VAT refund at all (it was 3.4%).
- 19.5% indicate that there are no changes (it was 30.9% in the previous wave of the survey).

- There is a high level of uncertainty about this question – 14.2% of SMEs could not provide an answer.

Business Integrity

- More than half (59.6%) of respondents said they would turn to lawyers (in-house or hired) in case of pressure from law enforcement agencies. That is, most businesses initially rely on independent solutions to issues with the help of lawyers.

Figure 8. Who will you turn to first if your company is pressured by law enforcement agencies (police, SBU, prosecutor's office, SBI), % of respondents[4]



- Almost one in three (31.6%) reported that they would contact law enforcement agencies.
- One in five (19.0%) will apply to local self-government bodies. At the same time, another 15.8% plan to apply to district and regional authorities.
- 17.9% of respondents could not answer, and 5.9% refused to answer this question.

[4] Respondents could choose up to 3 answer options, so the sum of answers may exceed 100%.

- More than half (52.9%) of respondents have their own code of ethics or code of conduct.
- Additionally, more than a third of companies implement specific policies: business partner verification (42.0%), anti-corruption policy (37.2%), and compliance program to monitor adherence to rules and regulations (35.0%).

Figure 9. Which of the following documents aimed at ensuring management integrity and minimizing business risks have been implemented in your company, % of respondents[5]

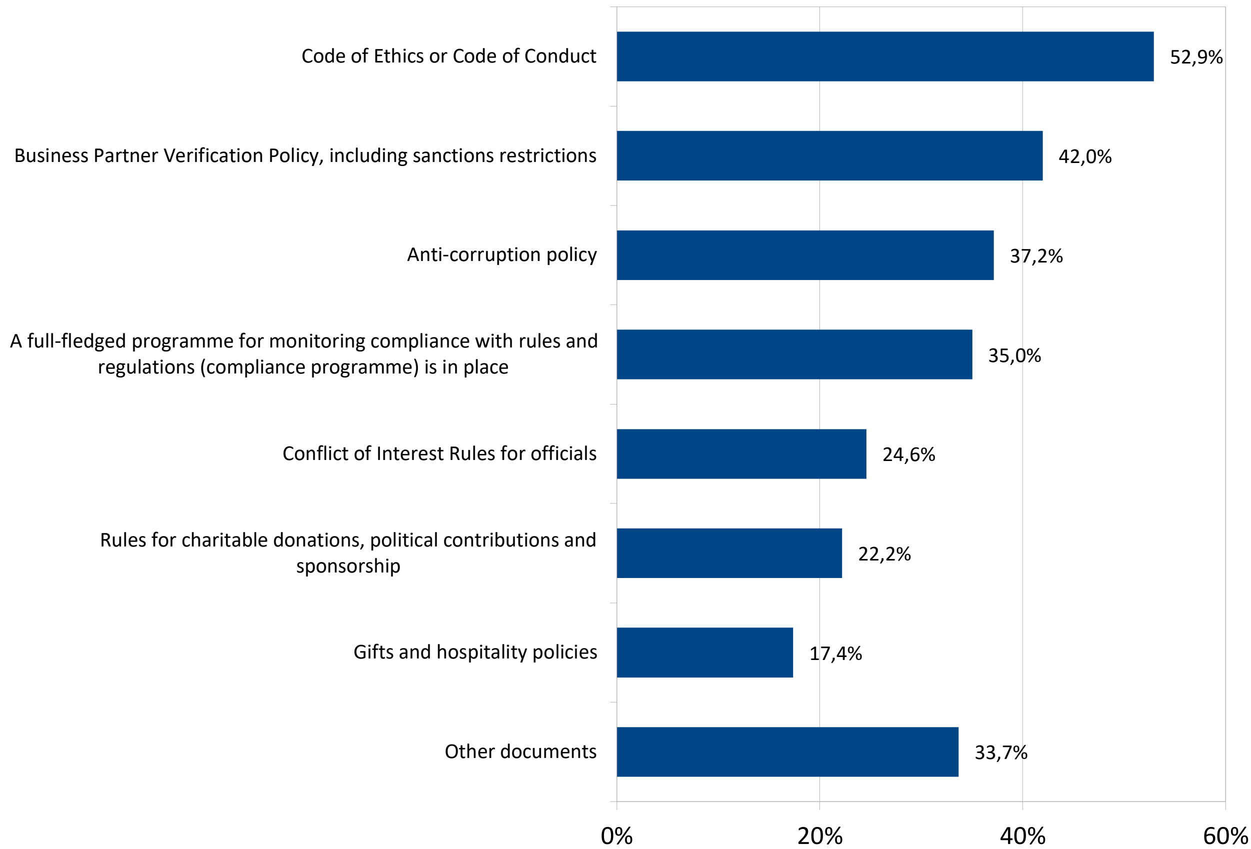
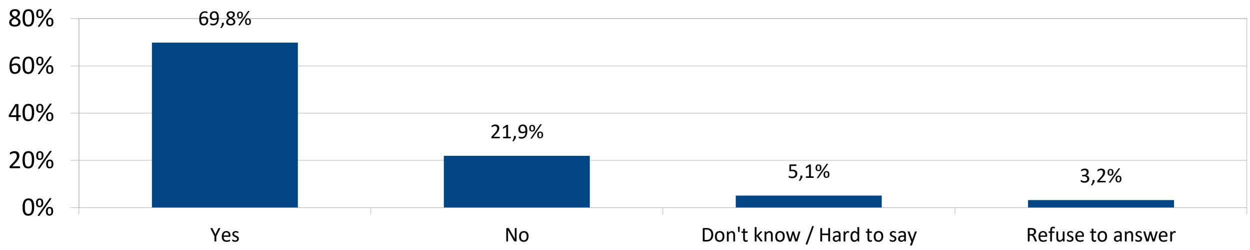


Figure 10. Does your company have a communication channel for employees through which they can report violations of internal procedures, % of respondents

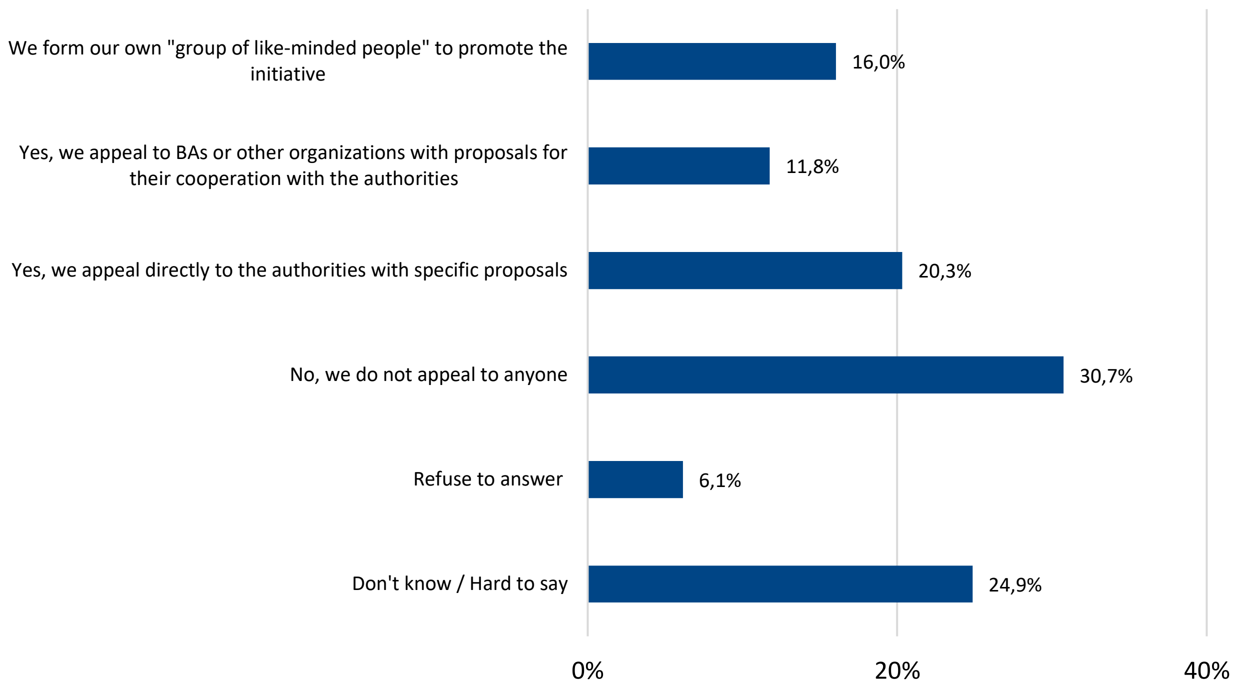


- 69.8% of respondents have a communication channel for employees through which they can report violations of internal procedures. However, 21.9% reported of no such channel. 5.1% could not answer, and 3.2% refused to answer.
- 38.2% of respondents reported that their company is taking certain initiatives to address corruption issues in its own industry or region.
- Specifically, 20% of enterprises prepare appeals directly to the authorities with specific proposals; 16% form "groups of like-minded people" to promote initiatives; and 11.8%.

[5] Respondents could choose up to 2 answer options, so the sum of answers may exceed 100%.

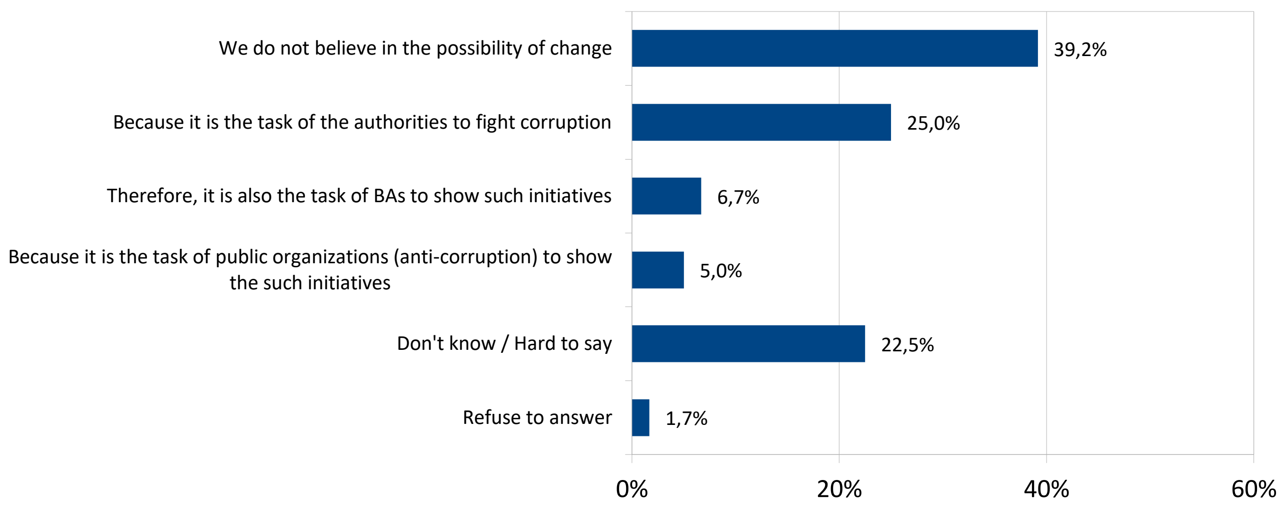
prepare appeals to BAs or other organizations with proposals for their cooperation with the authorities.

Figure 11. Does your company take any initiatives to address the problems of corruption in your industry or region, % of respondents



- At the same time, 30.7% reported that their company does not take any initiatives to address corruption in the industry or region. The main reasons cited include a lack of faith in the possibility of change (39.2%) and the position that this is the task of the authorities (25%). However, 6.7% believe that this is the work of BAs, and 5.0% believe that this is the task of anti-corruption public organizations.

Figure 12. Why doesn't your company take the initiative to solve the problems of corruption in your industry or region, % of respondents



Methodology

To conduct the study, two questionnaires were developed, which contained: 1) general questions to track the dynamics of change, and 2) special questions. While creating the draft questionnaire, representatives of leading business associations and think tanks were able to comment on the draft questionnaire while it was being created.

To form the sample for the survey, we took as a basis a representative sample of small and medium-sized enterprises (both legal entities and individual entrepreneurs) in the industry. Also, we supplemented it with representative samples for SMEs in trade, services, and agriculture. Together, these sectors form the backbone of small and medium-sized enterprises, making the sample representative of the SME sector as a whole. The survey was conducted only for subjects where the number of employees, including the manager, is more than one person. This, in particular, made it possible to weed out sole proprietors without employees, which does not meet the study's goals.

The data was collected through a combination of several data collection methods: telephone interviews of business representatives with the answers entered into the online form 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.

The field stage of the second wave of the survey based on questionnaire No. 2 was conducted from May 22, 2024, to June 10, 2024. A total of 374 representatives of SMEs (enterprises and sole proprietors) representing the most important sectors of the economy and most of the available regions of Ukraine were interviewed[6].

[6] The field stage of the first wave of the survey based on questionnaire No. 1 was conducted from March 18, 2024 to April 22, 2024. A total of 356 representatives of SMEs (enterprises and individual entrepreneurs) representing the most important sectors of the economy and most of the available regions of Ukraine were interviewed.