

Key problems and needs of SMEs analysed almost a year after Russian invasion

Excerpts from comprehensive market research
of small and medium-sized enterprises (SMEs) in Ukraine

Commissioned by the EBRD



Швеція
Sverige

Supported by donors: the USA through the EBRD's Small Business Impact Fund* and Sweden through the EBRD's Women in Business programme

EBRD-commissioned research to assess the SME market

was carried out by the **Socioinform**
sociological centre

and supported by the following donors:
the **United States of America** through
the EBRD's Small Business Impact Fund*
and **Sweden** as part of the EBRD's
Women in Business programme

*donors to the Fund: the USA, Italy, Ireland, Korea, Luxembourg,
Norway, Switzerland, Sweden, Japan and the TaiwanBusiness-EBRD
Technical Cooperation Fund



Supported by donors: the USA through
the EBRD's Small Business Impact
Fund* and Sweden through the EBRD's
Women in Business programme

Contents

1. Assessment of the business environment: negative and positive trends
2. State of SMEs almost a year after the start of the war: activities, staff and relocation
3. Prospects for SMEs
4. Needs of SMEs
5. Research methodology and geography

Summary

The impact of the war on Ukrainian small and medium-sized enterprises (SMEs) is significant and generally negative, but most companies continue operating and planning for the future.

Based on the results of the quantitative (survey of 150 enterprises) and qualitative analysis (expert interview with 16 managers or their deputies) of SMEs in production and services that have not left the market, the condition and current needs of SMEs in Ukraine have been evaluated.

57%

maintain their pre-war activity

37%

operating but have reduced their output

6%

have suspended their operations

43%

income decreased

22%

employment decreased

New opportunities have opened up for certain enterprises (goods for the front and necessities).

A business that adapts its business models, looks for new sales markets, and offers creative and unique products feels more confident.



Companies need support/assistance and crisis recovery strategies during the war.

Assessment of the business environment



Supported by donors: the USA through the EBRD's Small Business Impact Fund* and Sweden through the EBRD's Women in Business programme

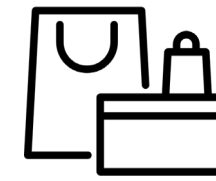
Enterprises surveyed

Area of activity



50%

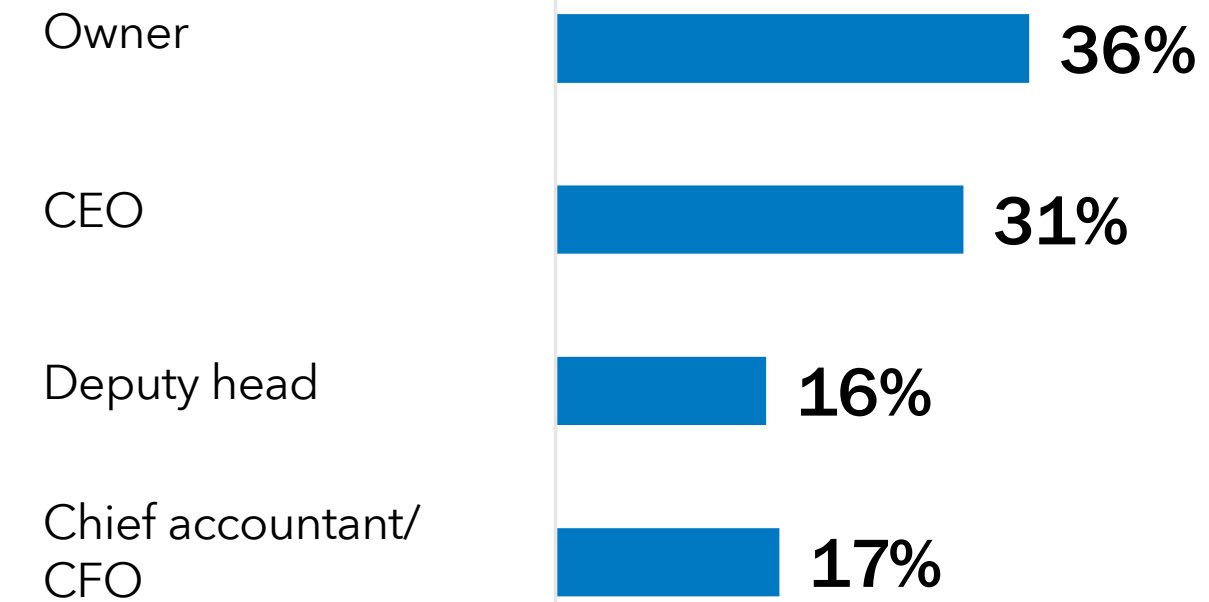
Production



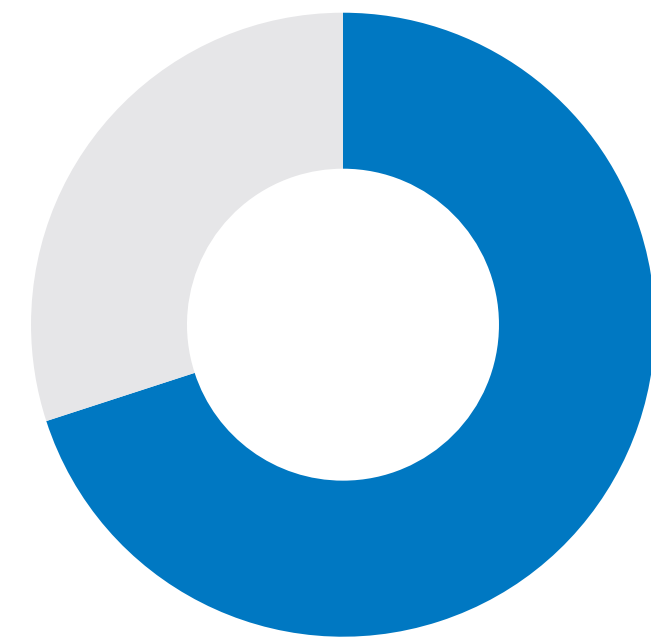
50%

Services

Surveyed employee's position



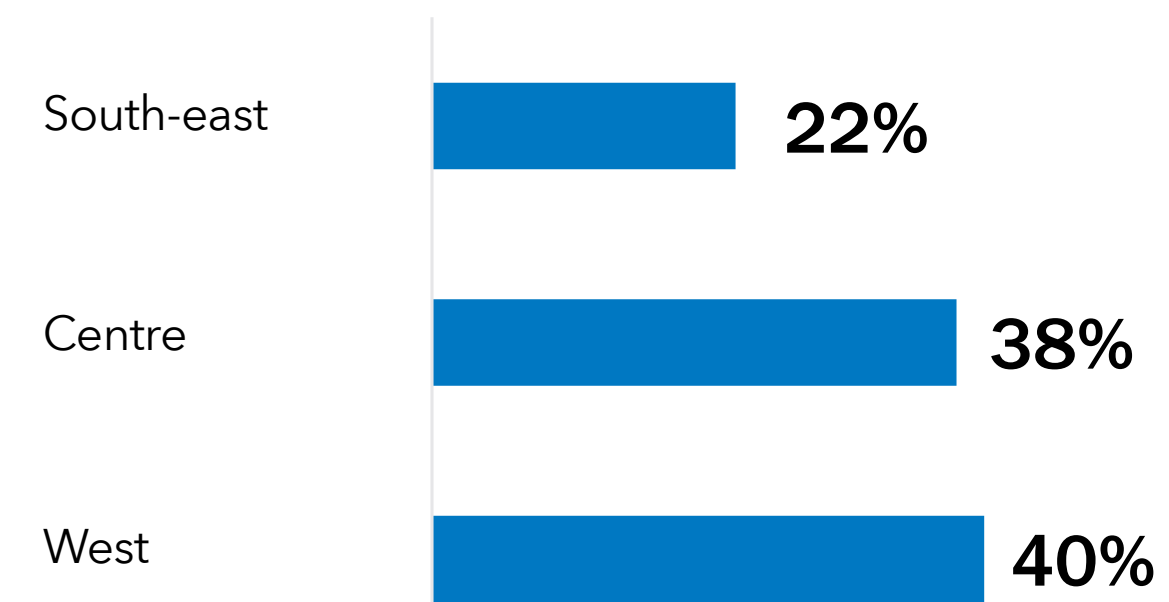
Business size prior to the war



70%
Small
(10-50 employees)

30%
Average
(51-499 employees)

Region*



*Relocated enterprises are included in the relocation region (9 of them moved from the south-east to the west, 1 to the centre; and 4 from the centre to the west).

Business registration

87%
Legal entity

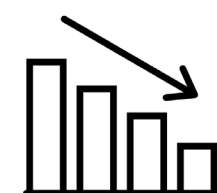
13%
Individual



Supported by donors: the USA through the EBRD's Small Business Impact Fund* and Sweden through the EBRD's Women in Business programme

Negative trends (-)

Consequences of the war on the business landscape of Ukraine



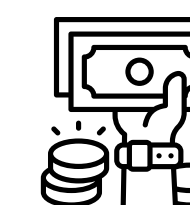
A drop in business activity
(in particular, a decrease in the number of operating enterprises)



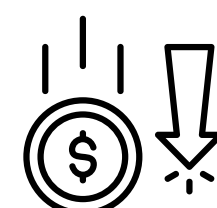
Loss of income
(net profit) of enterprises



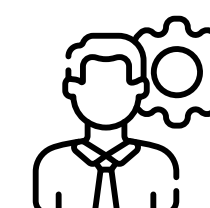
Decrease in the number of orders
Unstable load, in particular, due to: migration of people, lower solvency of citizens, austerity regime at enterprises, and local and central budget cuts



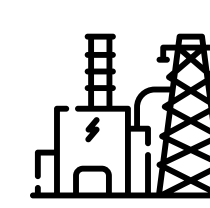
Total cost reduction: suspended investments, reduced salaries, part-time employment, and shut-down of loss-making operations



Deterioration of payment discipline
(more debtors). Suppliers request advance payments (a major concern for production enterprises)



Increased staff turnover
due to mobilisation and migration



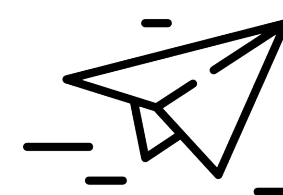
Destruction of energy infrastructure
(disruption of work stability)



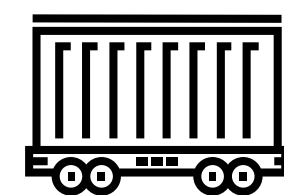
Relocated companies and enterprises near the front line lost certain equipment and employees

Positive trends (+)

The impact of the war was most devastating for SMEs, but the crisis in certain cases turned out to be a development opportunity.



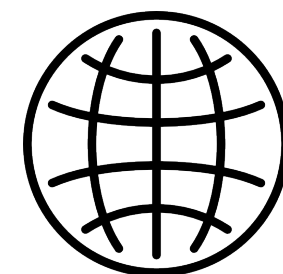
Some companies received new orders and expanded sales (in particular, due to a decrease in the number of competitors or an increase in government orders)



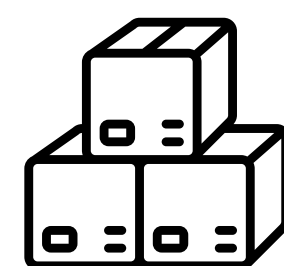
Due to the devaluation of the hryvnia and the disruption of logistics chains, Ukrainian manufacturers (as opposed to foreign ones) **now have more sales opportunities and price advantages**



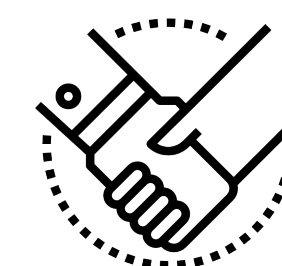
Businesses are becoming more efficient, searching for creative ways to make a profit



Companies have become more proactive in looking for export opportunities
The world became more open to Ukrainian businesses



Businesses shift to manufacturing **products with high added value** and search for niche/exclusive products



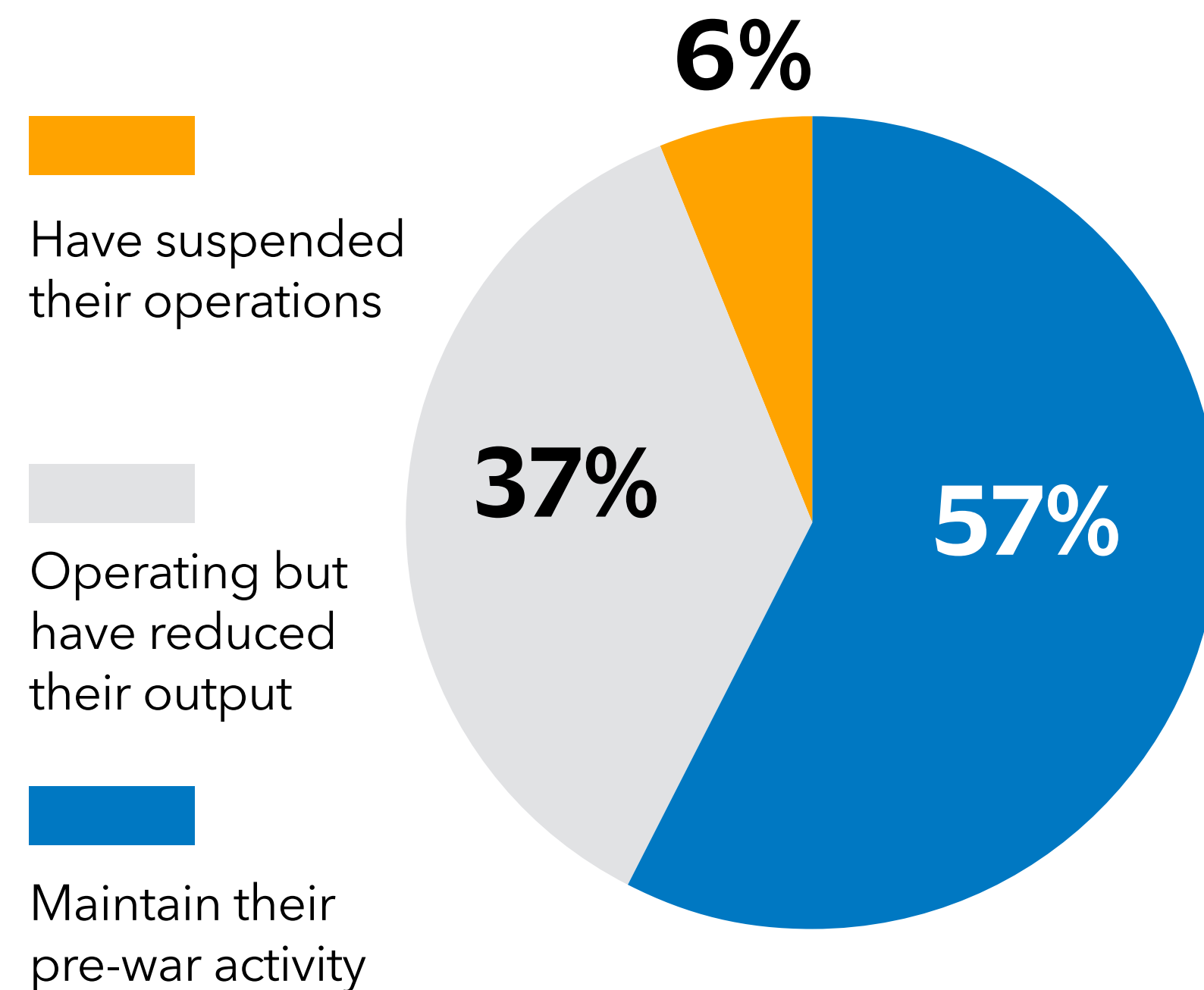
Ukrainian companies are more willing to cooperate

The state of SMEs almost a year after the start of the war



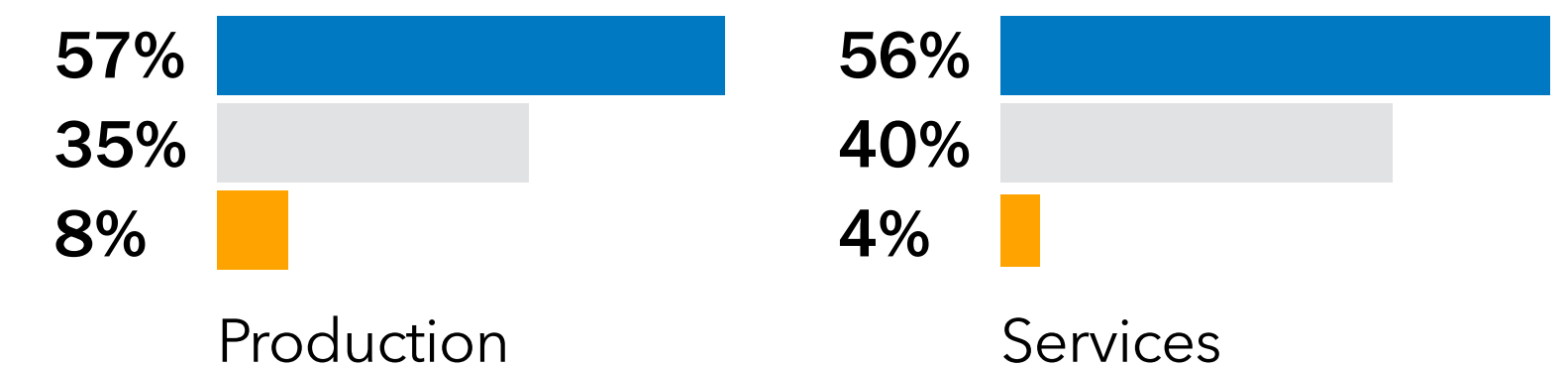
Supported by donors: the USA through the EBRD's Small Business Impact Fund* and Sweden through the EBRD's Women in Business programme

The condition of enterprises surveyed

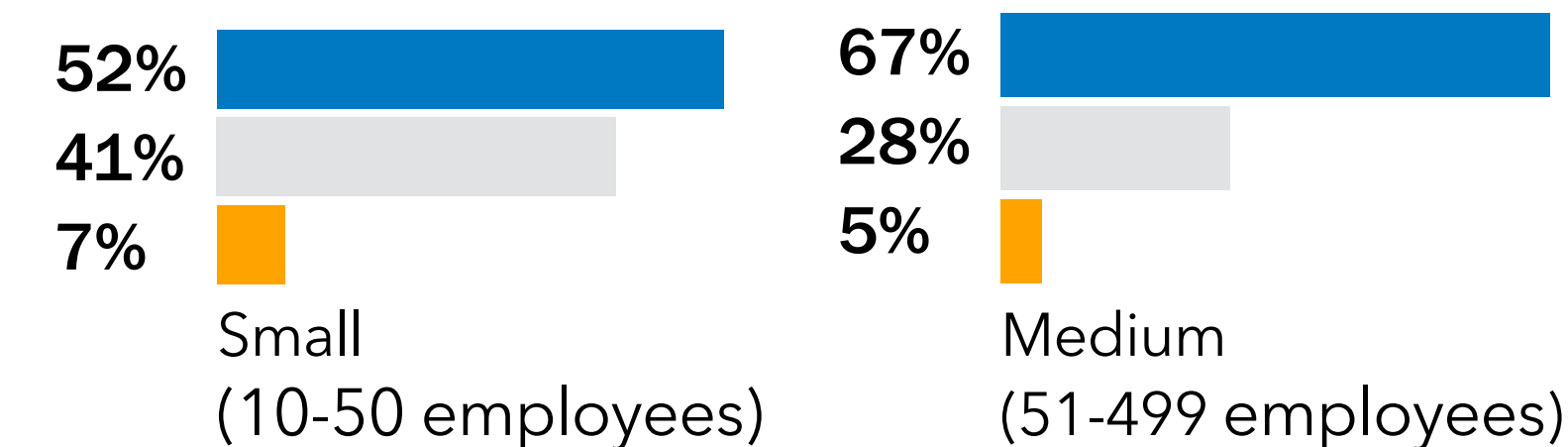


*From the surveyed enterprises whose directors or staff answered by phone. The share of enterprises that have temporarily shut down their operations may be higher. The survey aimed at assessing the needs of SMEs in the market covers only those enterprises that operate today or plan to resume operations in the future. If an enterprise shut down permanently as a result of the war, it was not included in the sample.

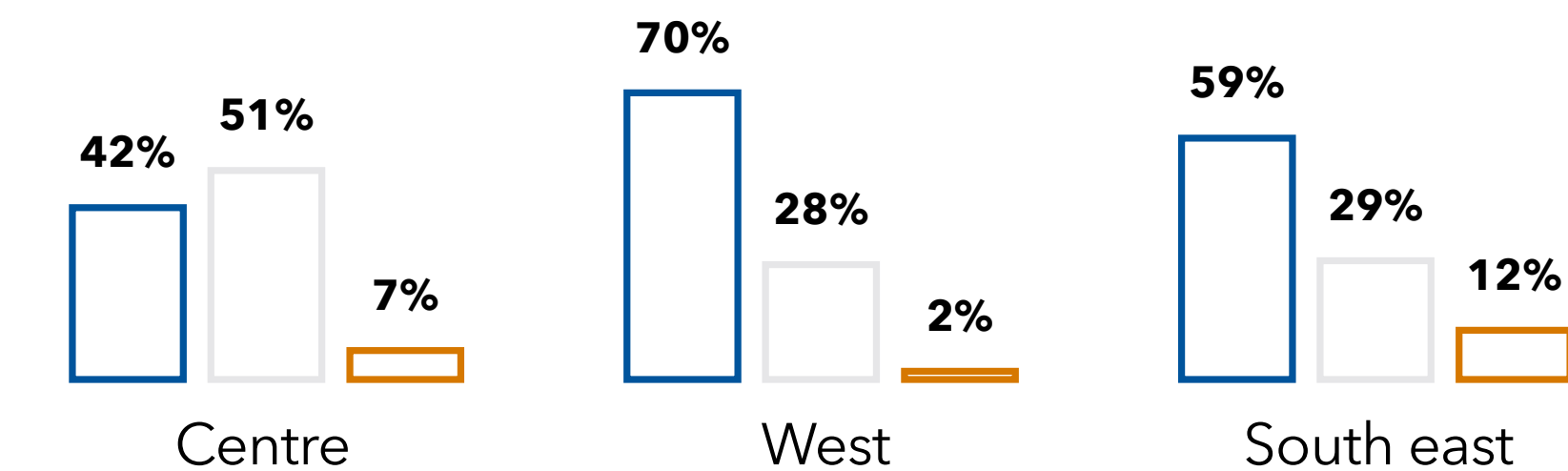
Area statistics



Size statistics



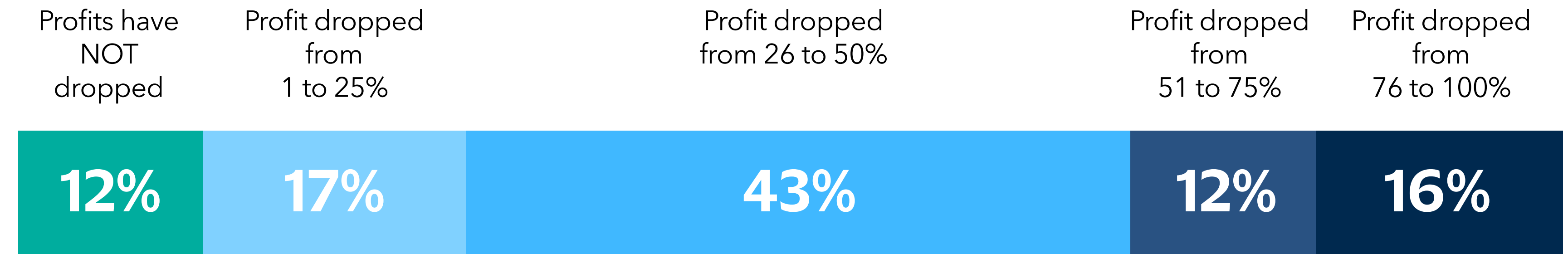
Regional statistics



Supported by donors: the USA through the EBRD's Small Business Impact Fund* and Sweden through the EBRD's Women in Business programme

Income of SMEs during the war

Loss of profit during a full-scale invasion



43%
average profit loss

Sector	Average
Production	45,0
Services	38,8

Region	Average
Centre	51,6
West	37,4
South east	39,4

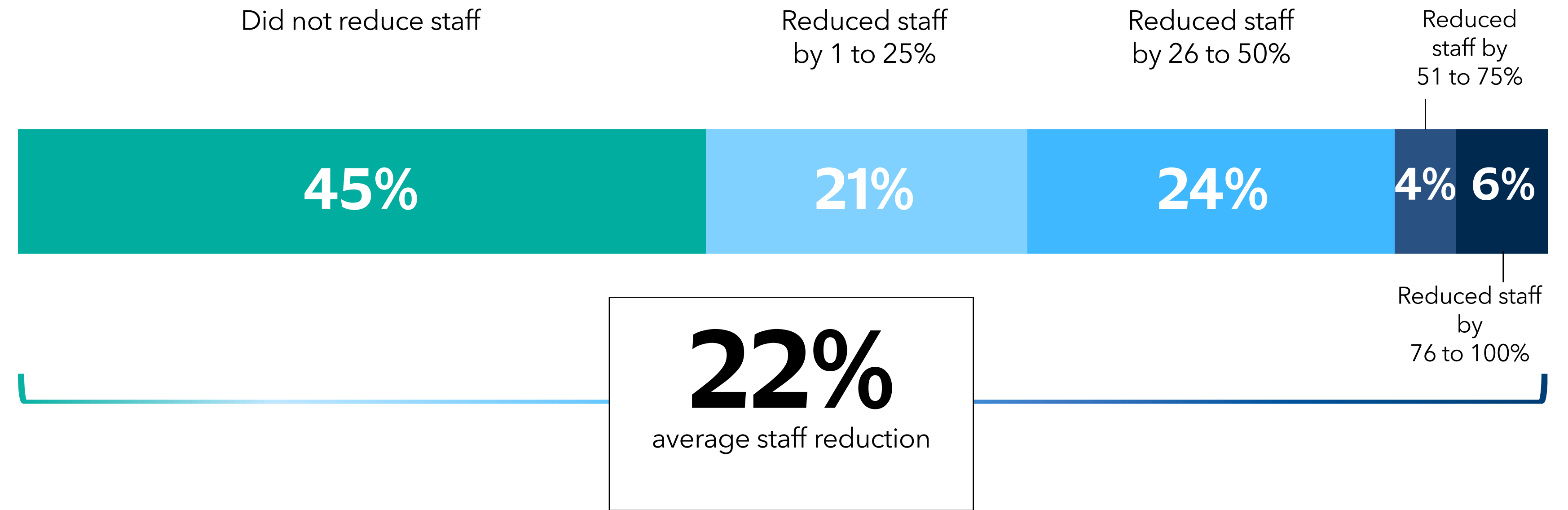
Most CEOs of production entities claim they are able to keep their enterprises afloat. However, the level of company income allows them only to maintain the staff and make mandatory payments. Profitability is either low or non-existent.



Supported by donors: the USA through the EBRD's Small Business Impact Fund* and Sweden through the EBRD's Women in Business programme

Staff in SMEs during the war

Staff reduction

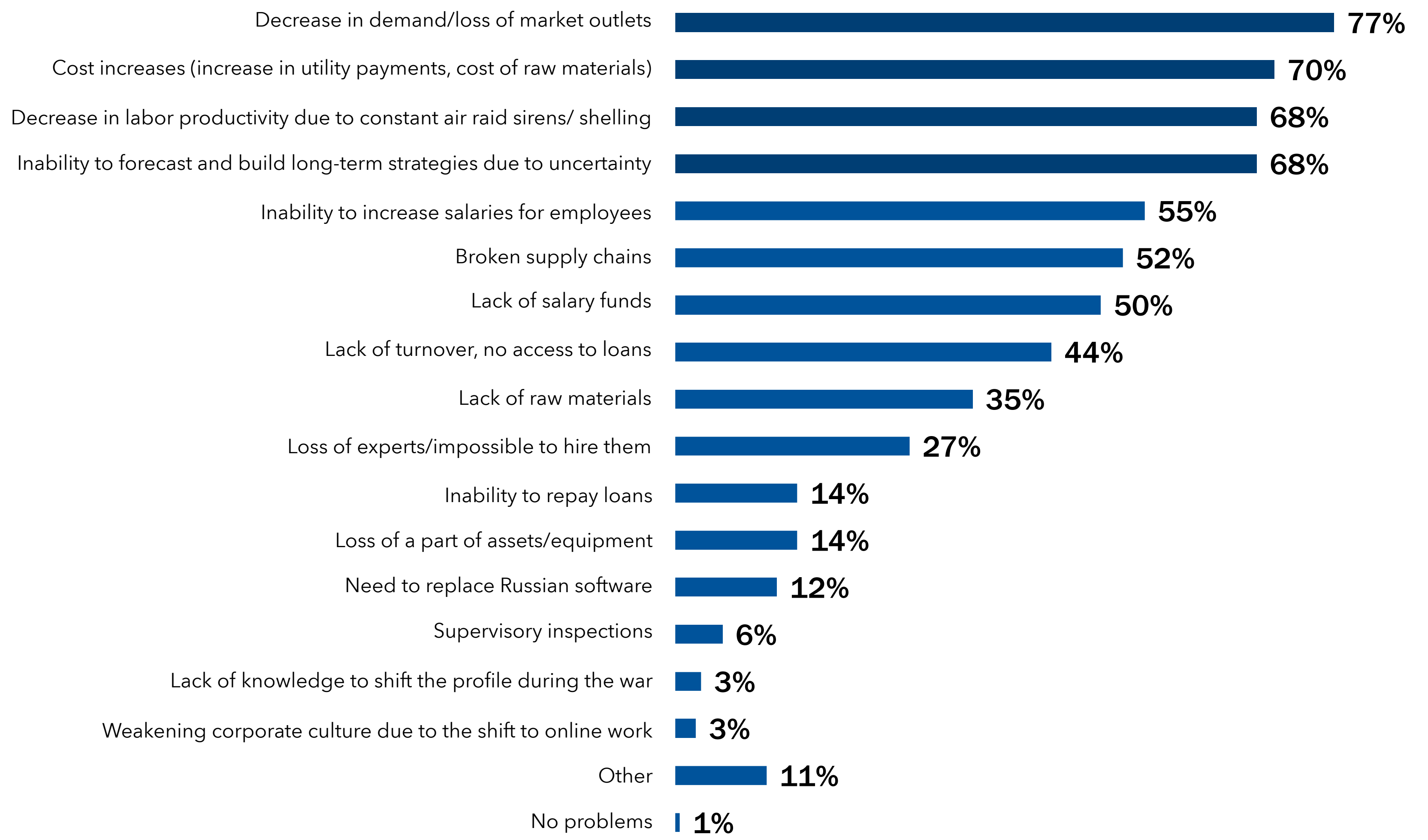


Region	Centre	West	South east
Average score	27,2	16,4	23,8



Supported by donors: the USA through the EBRD's Small Business Impact Fund* and Sweden through the EBRD's Women in Business programme

The key problems enterprises face during the war

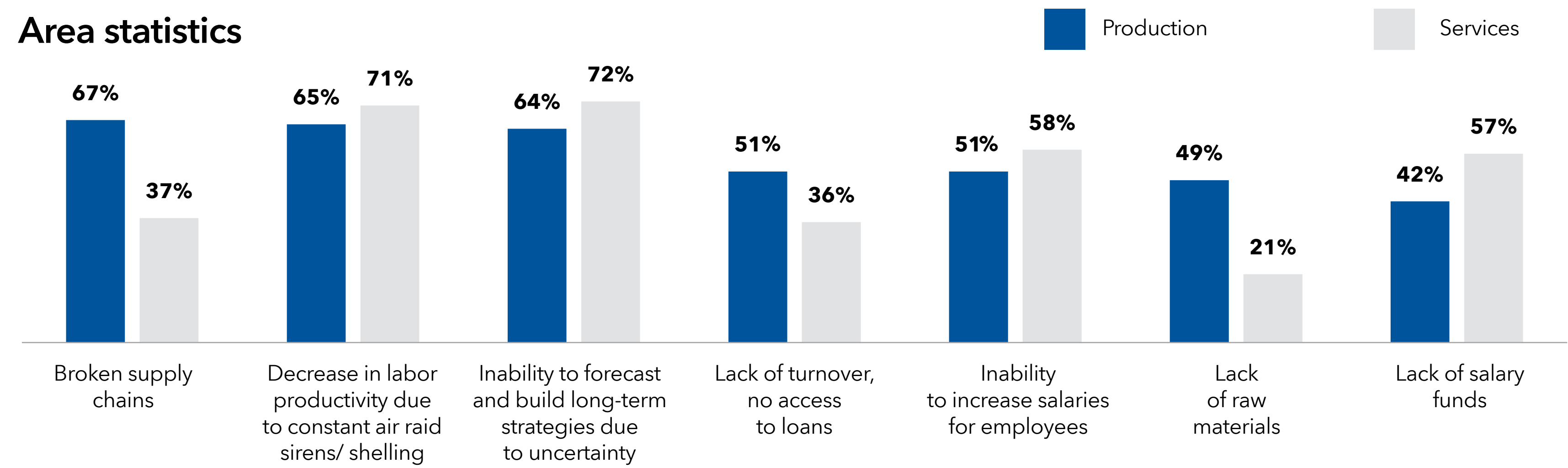


Supported by donors: the USA through the EBRD's Small Business Impact Fund* and Sweden through the EBRD's Women in Business programme

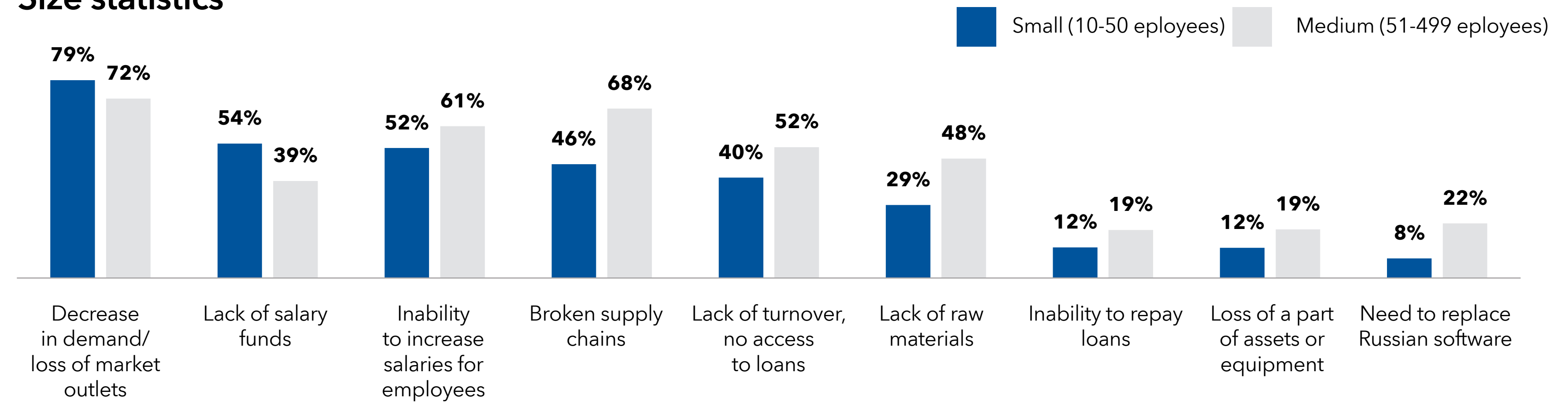
SMEs' key problems

Problems in which there is a significant difference

Area statistics

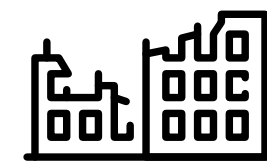


Size statistics

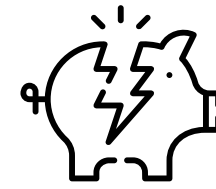


Supported by donors: the USA through the EBRD's Small Business Impact Fund* and Sweden through the EBRD's Women in Business programme

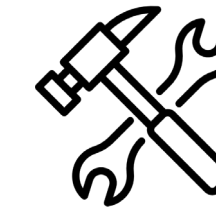
Specific problems of relocated SMEs



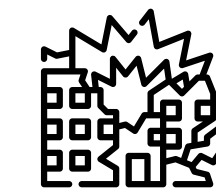
**Loss of part
of production
capacity**
(equipment,
personnel)



**Lack of funds to pay for
rented premises**
(the first payment is made
when signing the contract;
however, moving takes one
and a half to two months).
Excessive prices on the
homefront



**Issues with the
equipment installation**
(absence of necessary
machinery and
specialists)



**The poor condition of premises
offered for rent**
(for example, no repair, no
toilets). Need for businesses
to invest significant funds into
rented premises



**Inspections of supervisory
authorities (State Consumer
Services, State Emergency
Service).**
Significant investments
in the equipment of the
premises in accordance with
the requirements of the state



**Adaptation issues
to the new surroundings**
(the lack of networking,
information centres
for relocated businesses)



**Difficulties in finding
premises for rent**
(rare: part of the premises for SMEs
was provided by the government)

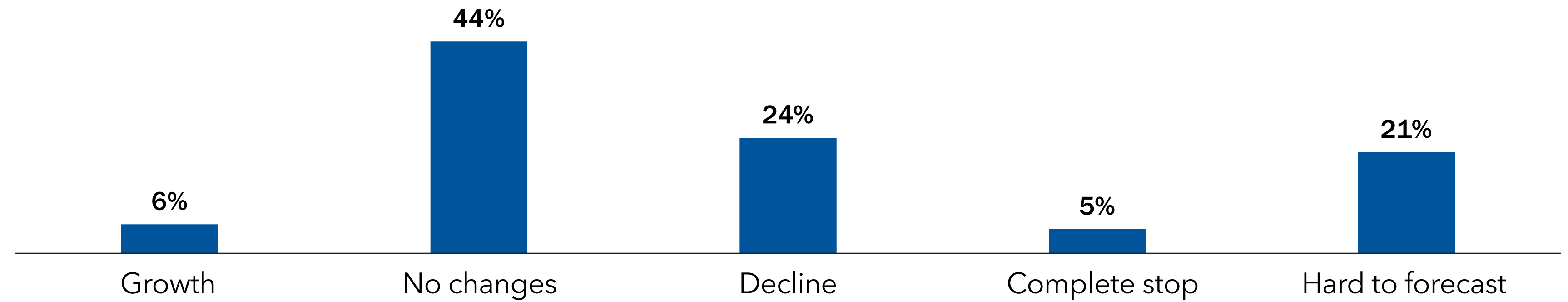
Prospects for SMEs



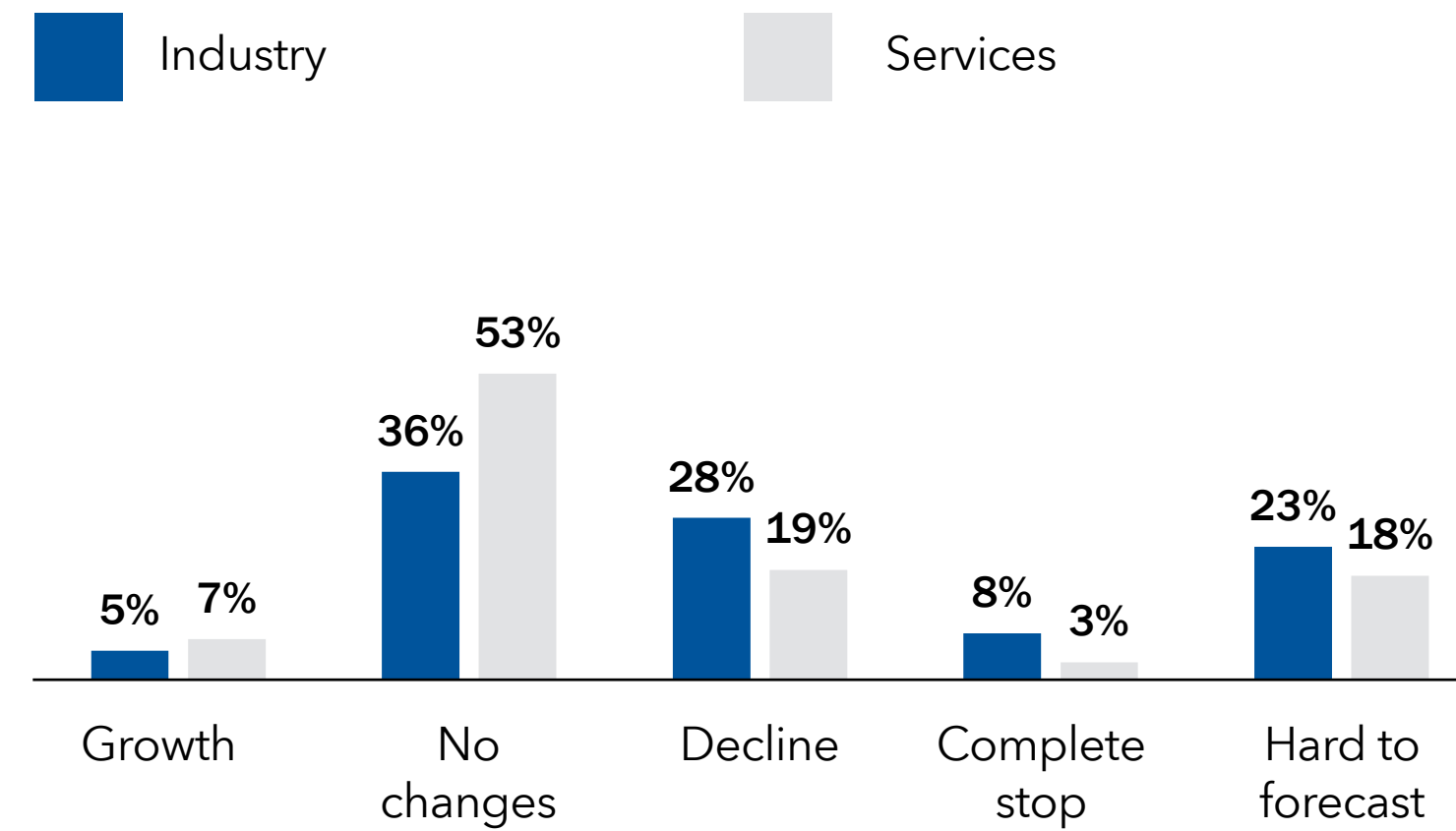
Supported by donors: the USA through the EBRD's Small Business Impact Fund* and Sweden through the EBRD's Women in Business programme

Prospects for SMEs

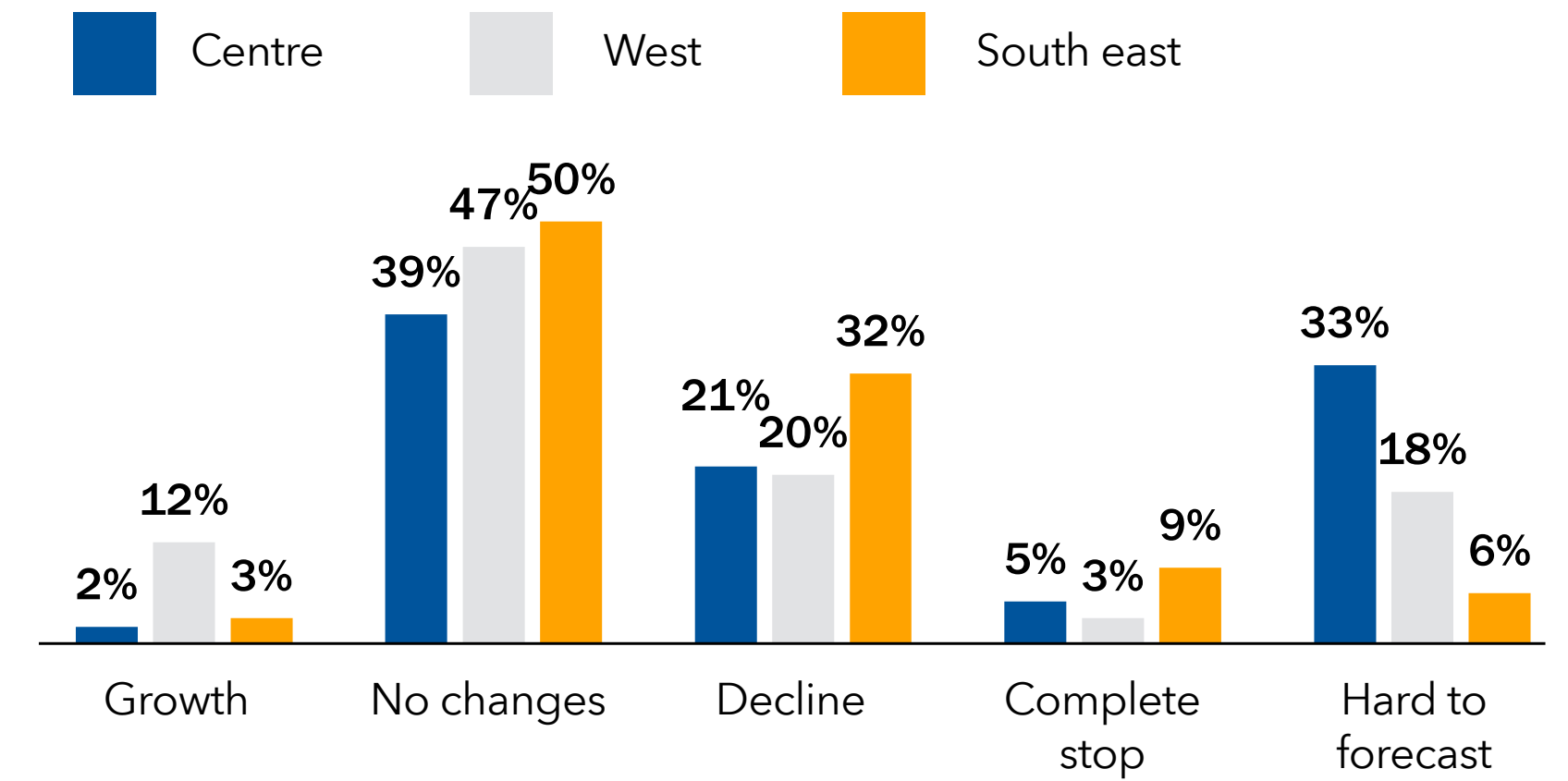
The projected condition of business in the next six months if the war continues



Area statistics



Regional statistics



Supported by donors: the USA through the EBRD's Small Business Impact Fund* and Sweden through the EBRD's Women in Business programme

Strategising

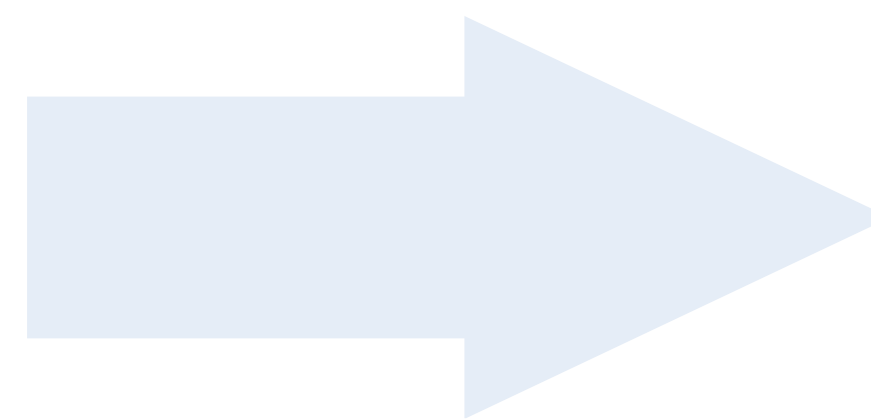
Most businesses do not design a long-term business strategy.

Planning horizon has shortened to a month.

Decisions will be made in accordance with financial indicators and security situation of future periods.

Businesses on the brink of survival will close if there is no improvement.

Companies that managed to stabilise the situation are determined to move in "baby steps".



Two-thirds of CEOs design short-term strategies (tactical solutions).

Only some of them work on a longer-term strategy.

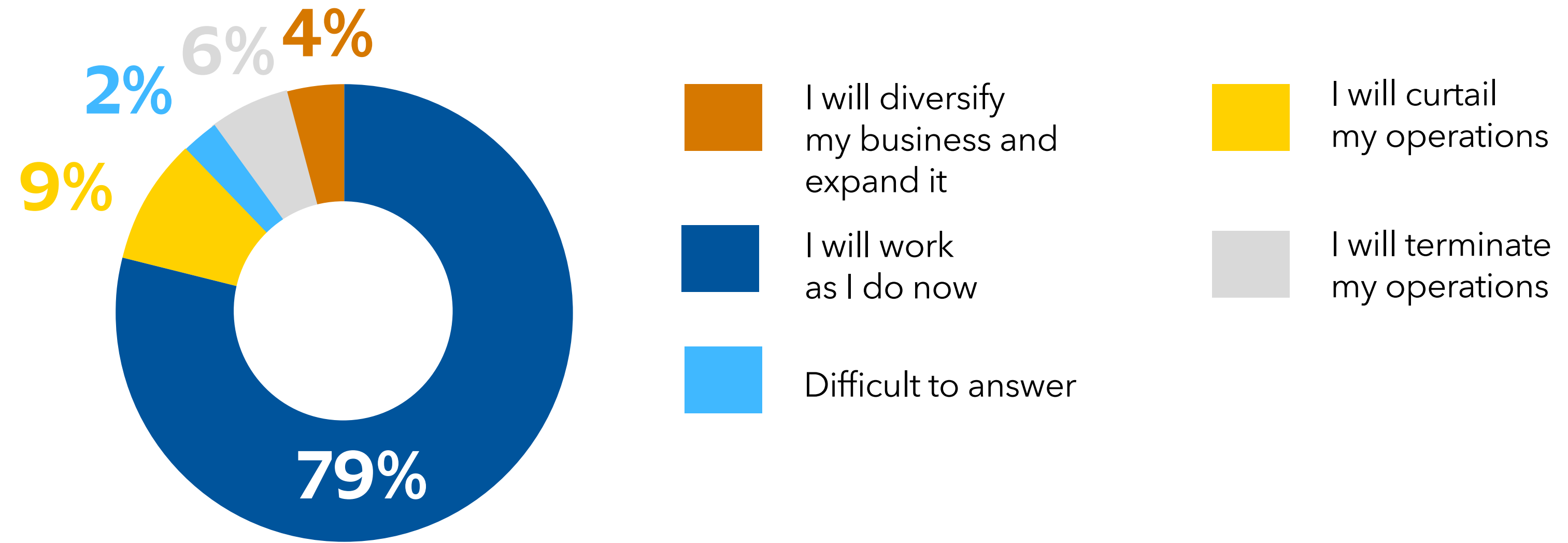
Strategy is **focused** on:

- searching for new sales markets (in particular, entering foreign markets)
- conversion and new business models
- creating an exclusive product/service
- business diversification
- searching for grant funding

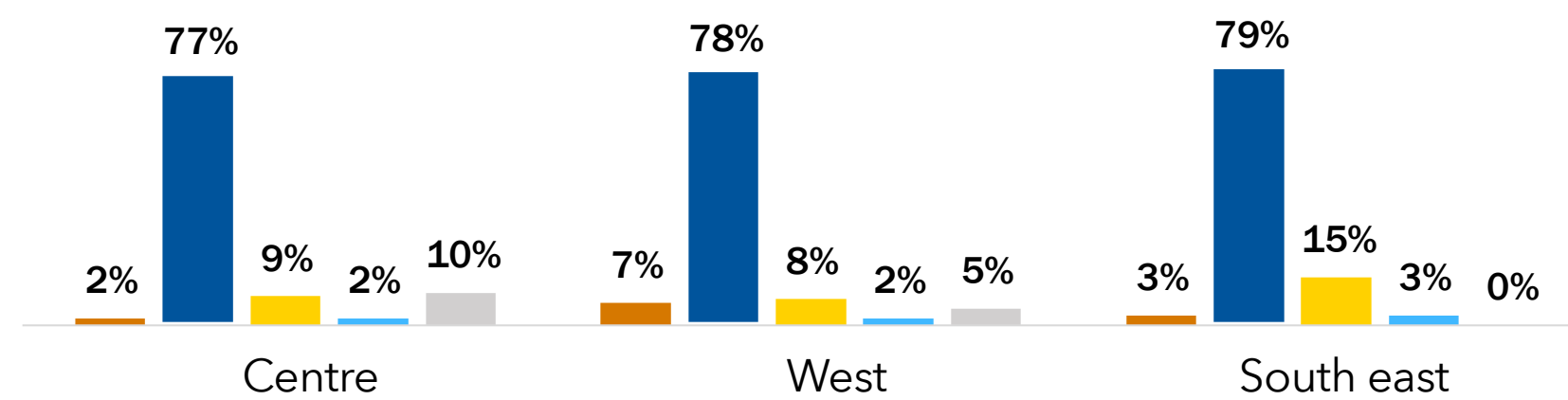


Opportunities for the development of SMEs

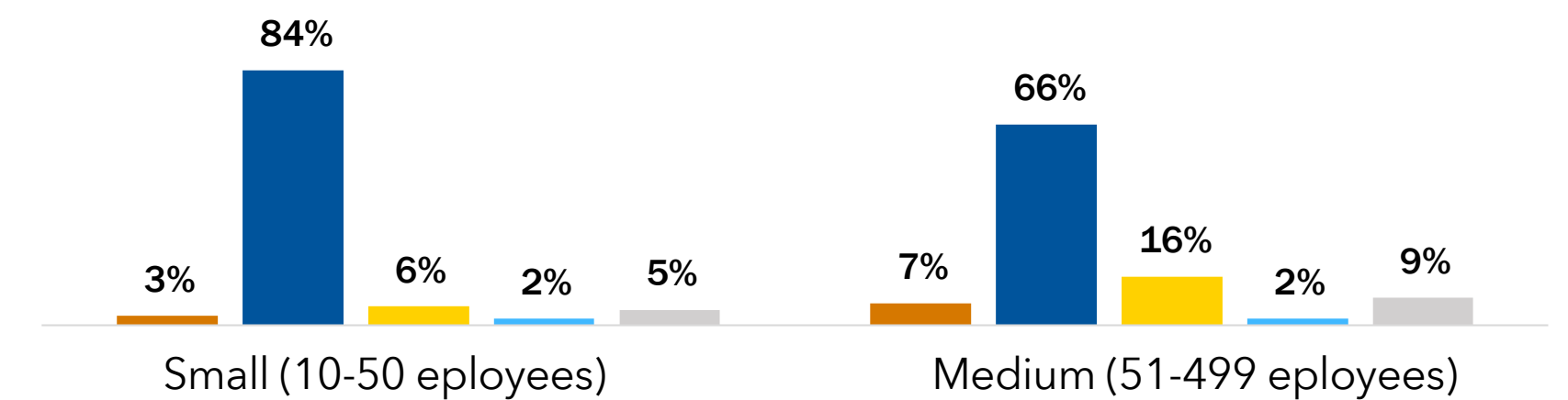
What CEOs will do if the war lasts for another six months



Regional statistics



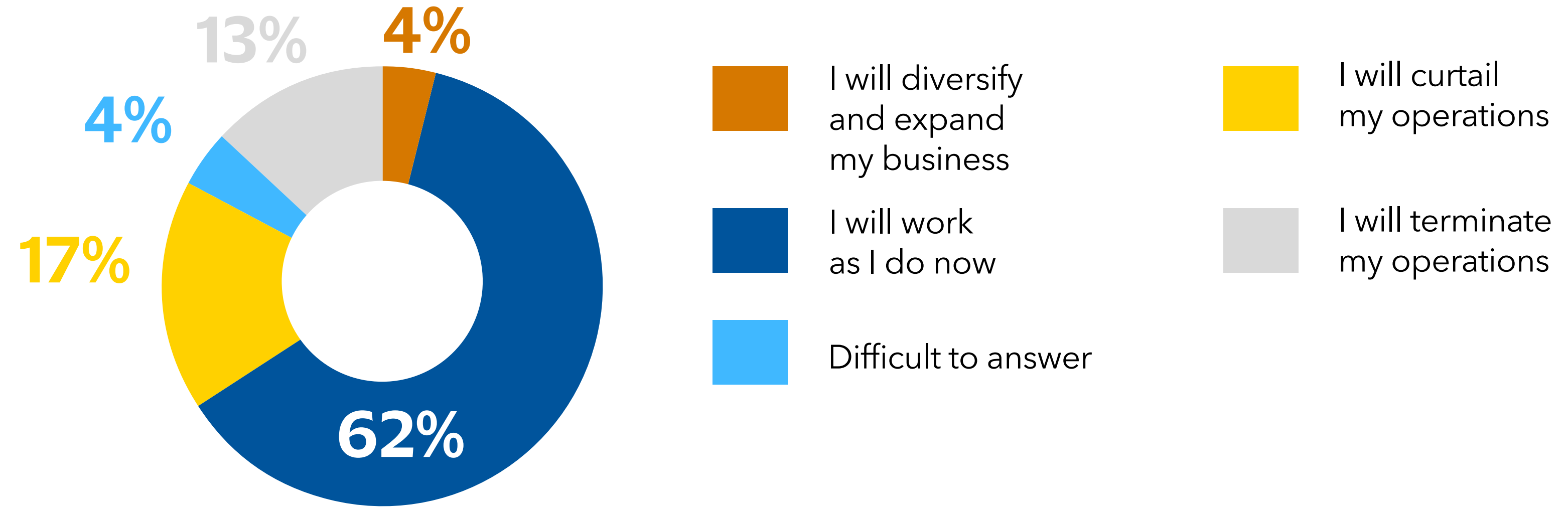
Size statistics



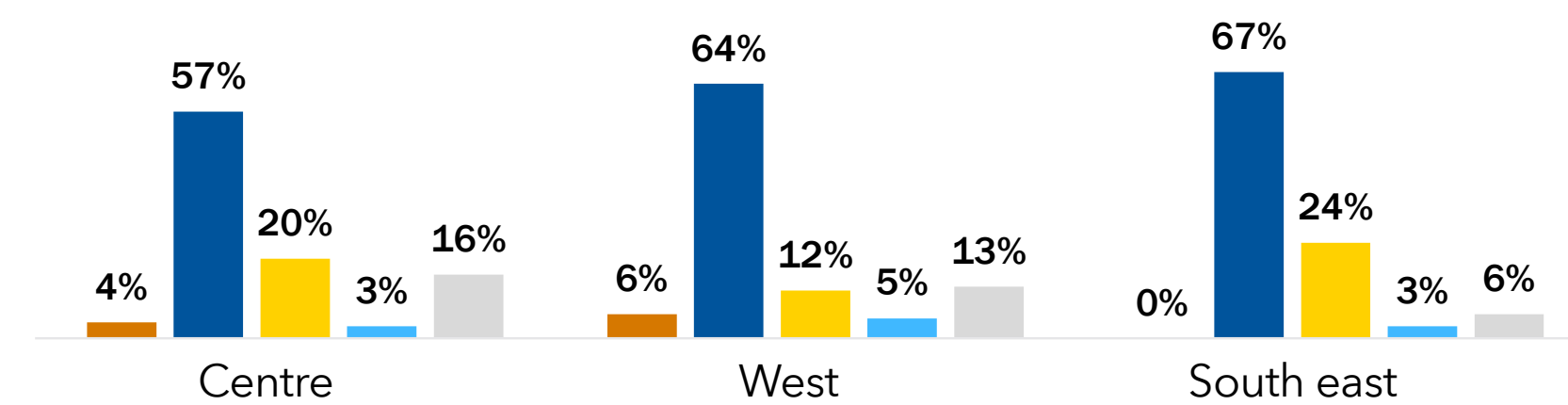
Supported by donors: the USA through the EBRD's Small Business Impact Fund* and Sweden through the EBRD's Women in Business programme

Opportunities for the development of SMEs

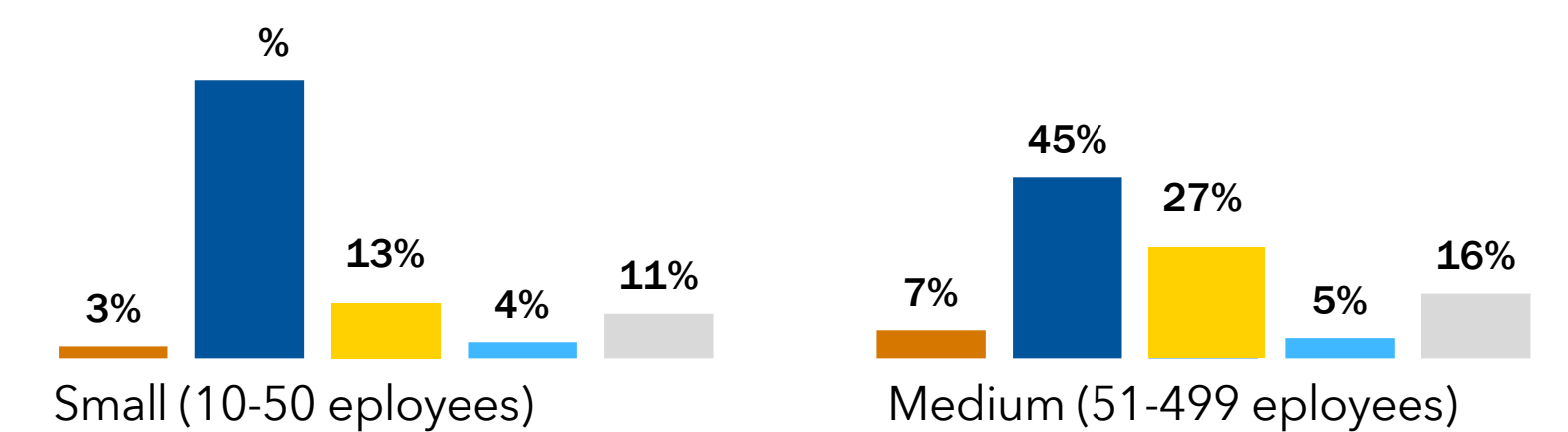
What CEOs will do if the war lasts a year or more



Regional statistics



Size statistics



Supported by donors: the USA through the EBRD's Small Business Impact Fund* and Sweden through the EBRD's Women in Business programme

Needs of SMEs

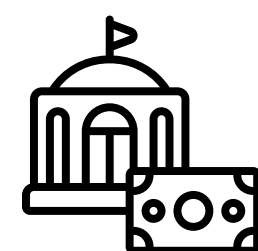


Supported by donors: the USA through the EBRD's Small Business Impact Fund* and Sweden through the EBRD's Women in Business programme

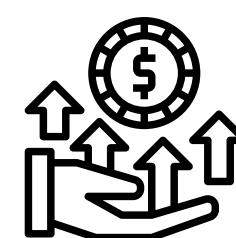


Needs of SMEs in Ukraine.

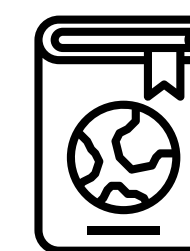
Lending, grant support and administrative levers



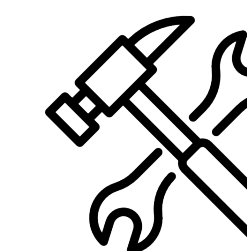
Grant support
(to purchase equipment, raw materials, software, and pay salaries)



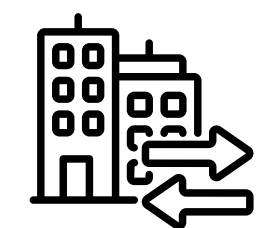
Preferential loans
(more important for the production sector, less important for the service sector)



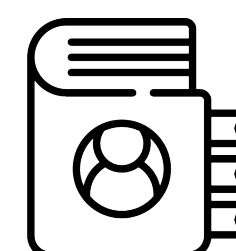
Grant financing of training trips and trips to exhibitions



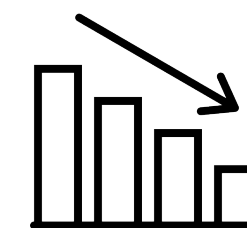
Assistance in upgrading the production
(only the production sector)



Assistance in relocation
(financial and logistical support)



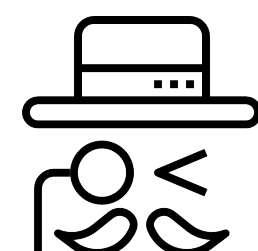
Assistance in reforming the country
(judicial, tax reform, and customs reform)



Reduction of taxes (customs payments, unified social contributions) and tax holidays (only the small production sector)



Overcoming corruption schemes: at customs, during tenders at local levels



Lowering the administration burden, cancelling inspections (important for relocated SMEs)



Rent cancellation or compensation (for relocated businesses)

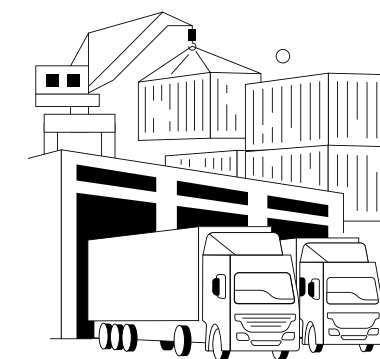
! Some entrepreneurs do not rely on aid and even avoid it

"International organisations only provide loans for foreign businesses. Or one has to move to another country. I would not like someone telling me how to develop my business." (Medium production sector)

"I don't know whether we need aid. We got accustomed to solving all problems by ourselves." (Small services)

Non-financial business needs

The needs of production and service sector SMEs are very similar. The most frequent requests are related to the expansion of sales markets (primarily to foreign markets). Services facilitating business adaptation to new conditions and legal consulting are needed. The possibilities of grant support in wartime are also important. Other needs were rarely mentioned.



Assistance in arranging export activities, the exporter support programme

- Help with finding customers and action algorithm
- Promotion of Ukrainian businesses in the foreign markets
- Participation in international exhibitions
- Consulting on the documentation required for export and the special features of taxation and document circulation in the European Union
- Marketing research of foreign markets
- Cooperation with foreign businesses, contacts/ communication activities
- Training on how to sell on international platforms (Amazon, eBay)



Assistance in expanding sales markets

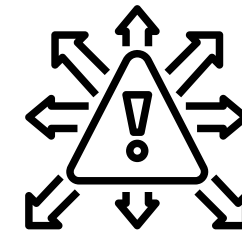
- Consulting on expanding sales markets and searching for customers
- Marketing consulting/training
- Sales training (only medium services)
- Networking for idea-based and financial collaborations (creation of a nationwide online platform)
- Networking in places of relocation

Non-financial business needs



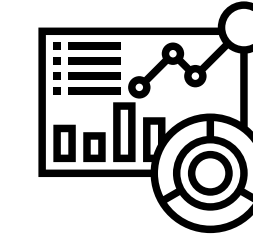
Legal advice and accounting

- Interaction with governmental agencies
- Updating legislation
- Copyright protection (seldom)



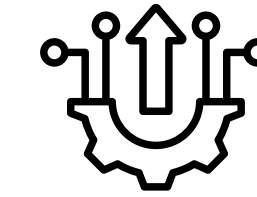
Crisis management

- Consulting
- Advice from businesses and enterprises in similar situations



Conversion and reconstruction

- Providing information (statistical and marketing) for conversion purposes
- Consulting on finding a new niche
- Strategy development
- Staff retraining



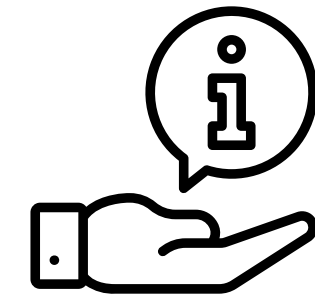
Upgrading the enterprises

(production sector only)

- Consulting on new technologies and upgrading
- Trips to modern production facilities
- Creating a website to gather ideas for innovative goods and services

Currently, the needs of SMEs are covered by universal programmes only while businesses need a case-by-case approach

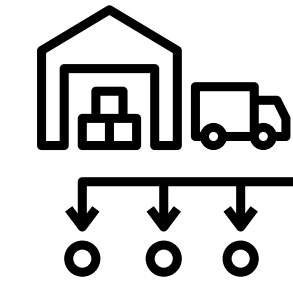
Non-financial business needs



Information about available grants for SMEs, training and assistance with the preparation of grant applications



logistics arrangements to/from Ukraine
(small production sector only)



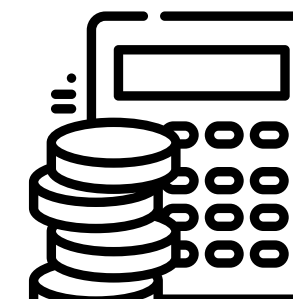
Assistance with business relocation



Access to software for management processes
(for example, CRM systems)



Psychological assistance to staff
(stress results in difficulty focusing on work)



Accounting
(medium services only)

Hierarchy of SME needs

What kind of support other than a loan could be helpful?

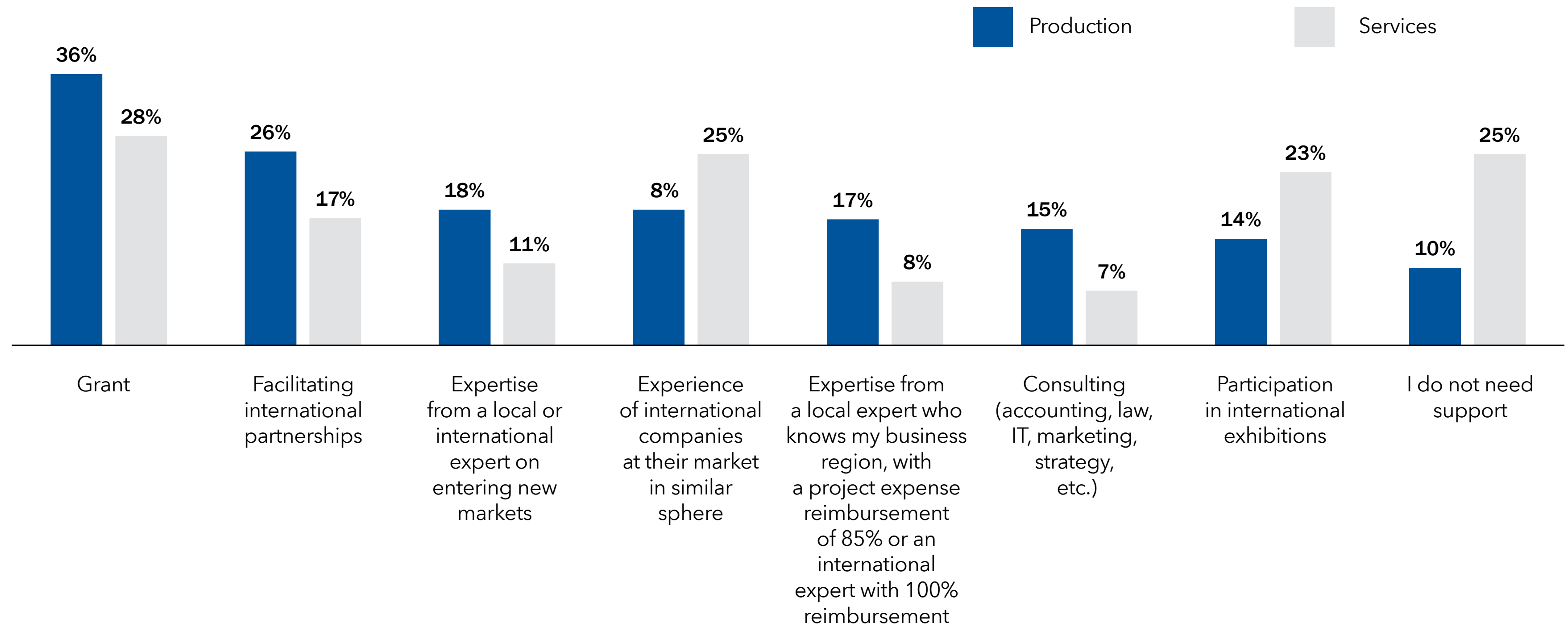


Supported by donors: the USA through the EBRD's Small Business Impact Fund* and Sweden through the EBRD's Women in Business programme

Hierarchy of SME needs

Alternatives with a meaningful difference

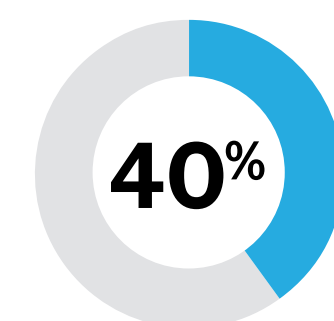
Area statistics



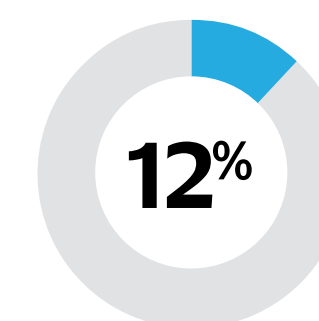
Supported by donors: the USA through the EBRD's Small Business Impact Fund* and Sweden through the EBRD's Women in Business programme

Request for SME consulting

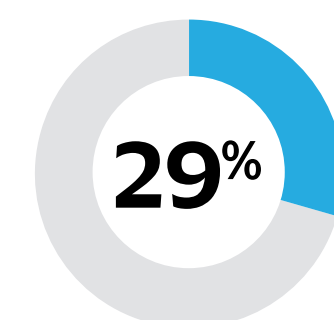
What consulting services would your company be interested in?



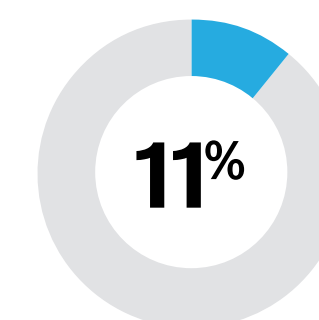
Marketing
(market and consumer research, branding, and web-based solutions)



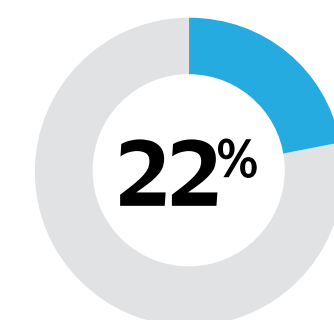
Energy efficiency and environmental protection



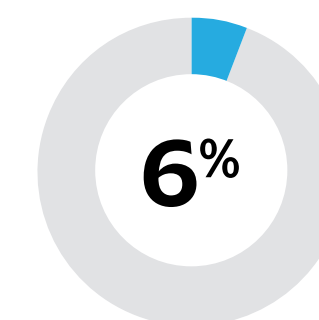
Strategy
(planning, development of business plans and export strategies)



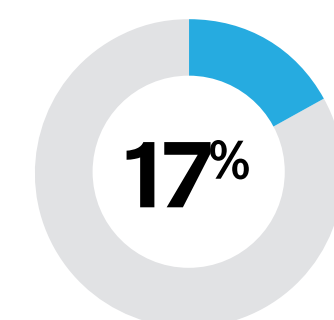
Organisational development
(organisational structure, personnel efficiency, etc.)



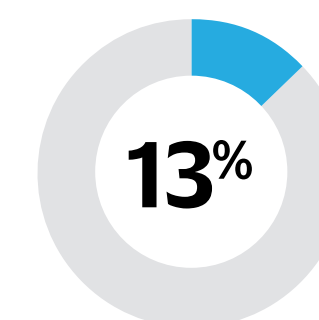
Information technologies
(development of IT systems, accounting systems, CRM, etc.)



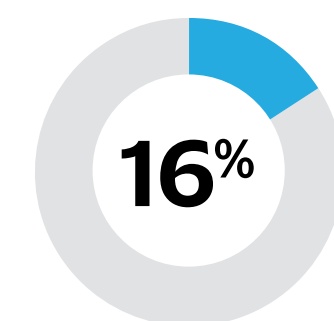
Financial management
(improvement of management accounting, transition to International Financial Reporting Standards)



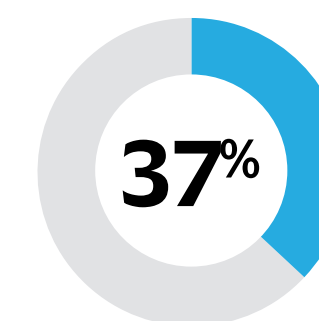
Operational efficiency
(optimisation of business processes, logistics solutions, etc.)




Quality systems
(certification according to international standards, food safety, occupational safety, etc.)



Engineering solutions
(technical documentation, architectural and infrastructural projects, etc.)



I do not need information



Research methodology and geography

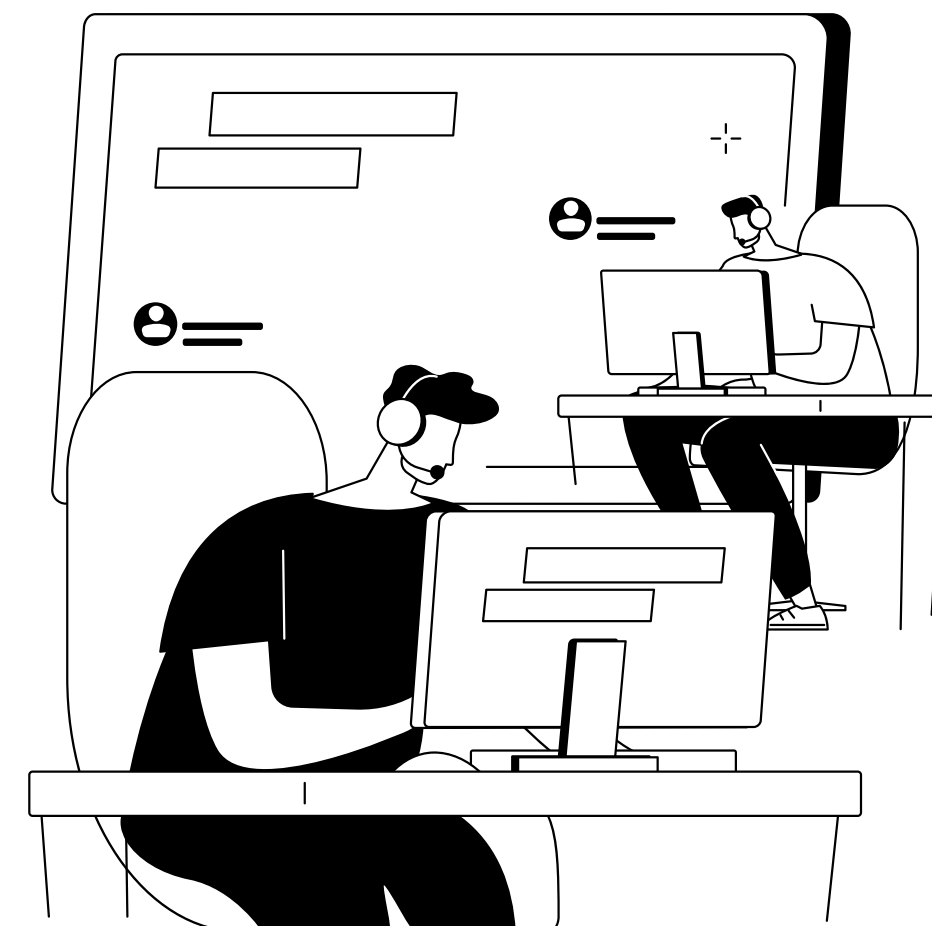


Supported by donors: the USA through the EBRD's Small Business Impact Fund* and Sweden through the EBRD's Women in Business programme

Parameters

Qualitative survey

- 16 expert interviews with owners/CEOs and senior executives of production and service sector SMEs
- Dates: September and October 2022



Quantitative research

- 150 questionnaires (production and service sector SMEs that are operating or planning to resume operations in the near future)
- Standardised telephone interview using the CATI method
- The sample is random (mechanical method of selection - by step)

The principle of sampling: two databases of SMEs (production and service sectors) by EDRPOU code (in descending order) were arranged, and the selection of enterprises (number of enterprises/per sample) was determined. Additionally, 10 relocated enterprises were interviewed by the booster.

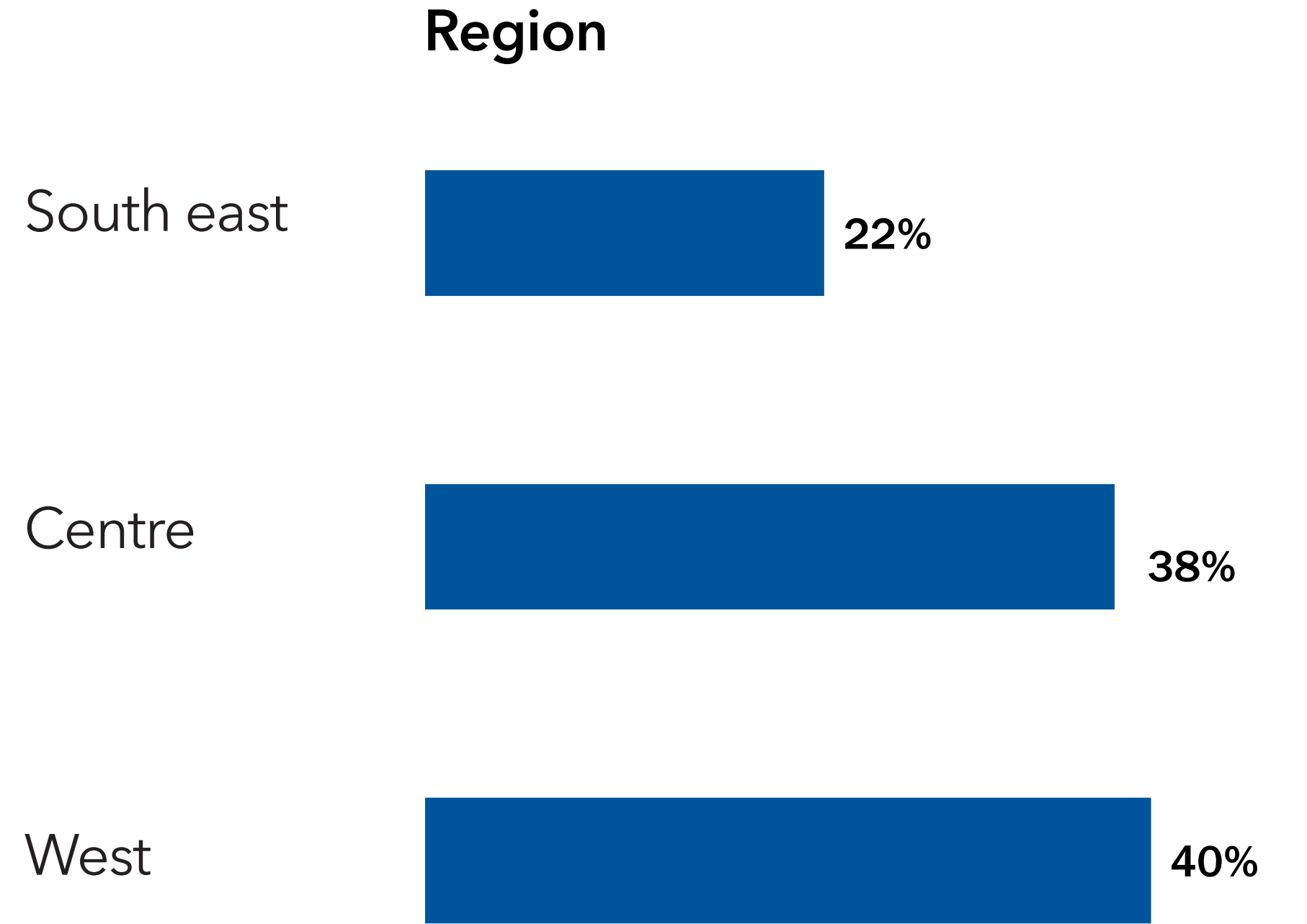
- Error +/- 8.2 per cent
- Dates:
November and December 2022



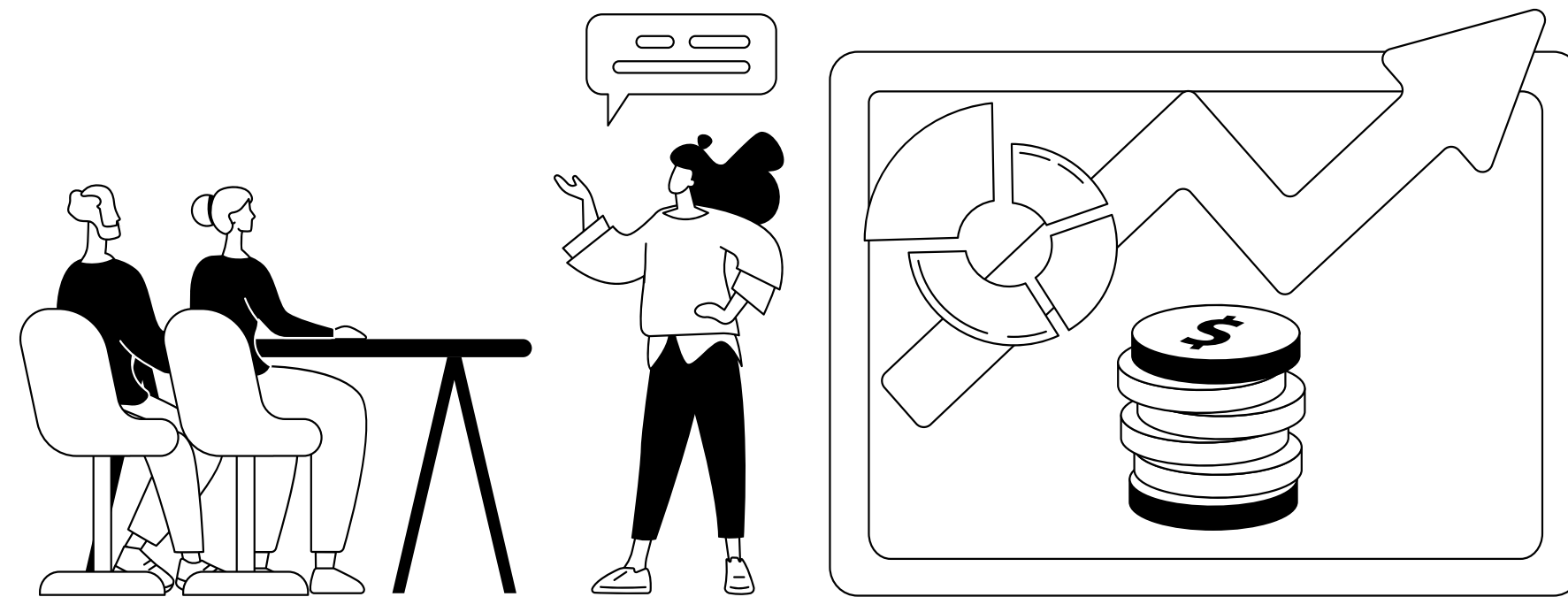
Supported by donors: the USA through the EBRD's Small Business Impact Fund* and Sweden through the EBRD's Women in Business programme



Methodology



- | | |
|------------|---|
| Centre | Vinnytsia
Zhytomyr
Kyiv
Kirovohrad
Poltava
Sumy
Cherkasy
Chernihiv |
| West | Volyn
Zakarpattia
Ivano-Frankivsk
Lviv
Rivne
Ternopil
Khmelnyskyi
Chernivtsi |
| South east | Donetsk
Dnipropetrovsk
Zaporizhzhia
Mykolaiv
Odesa
Kharkiv |



Supported by donors: the USA through the EBRD's Small Business Impact Fund* and Sweden through the EBRD's Women in Business programme

The EBRD and international donors are providing support to:

 merezha

<https://www.merezha.ua/>



Business Ombudsman Council
<https://boi.org.ua/>

LTTBusinessGuide

<https://businessguide.ebrd.com.ua/>

With the support of the EBRD and donors 80 businesses will be relocated.
Details: <https://www.ebrd.com/ebrd-ukraine-asb-sme-relocation-support>



Supported by donors: the USA through the EBRD's Small Business Impact Fund* and Sweden through the EBRD's Women in Business programme

**Read the news on the EBRD
Facebook page**

EBRD: Advice for Small Businesses in Ukraine
<https://www.facebook.com/ebrdbasukraine>