


Challenges and needs of SMEs after two years of full-scale war

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

Commissioned by the EBRD

 Schweizerische Eidgenossenschaft
Confédération suisse
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Swiss Confederation
Швейцарська Конфедерація

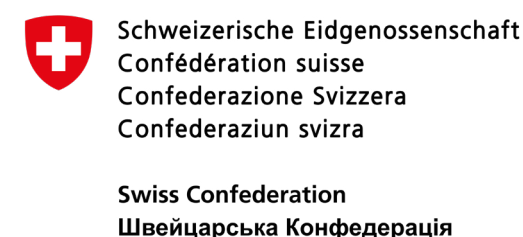


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Supported by donors: Switzerland through
the EBRD's Small Business Impact Fund*
and the European Union through the
EBRD's Women in Business programme.

EBRD-commissioned research to assess the SME market

was carried out by the **Socioinform** sociological centre and supported by donors: **Switzerland** through the EBRD's Small Business Impact Fund* and the **European Union** through the EBRD's Women in Business programme.



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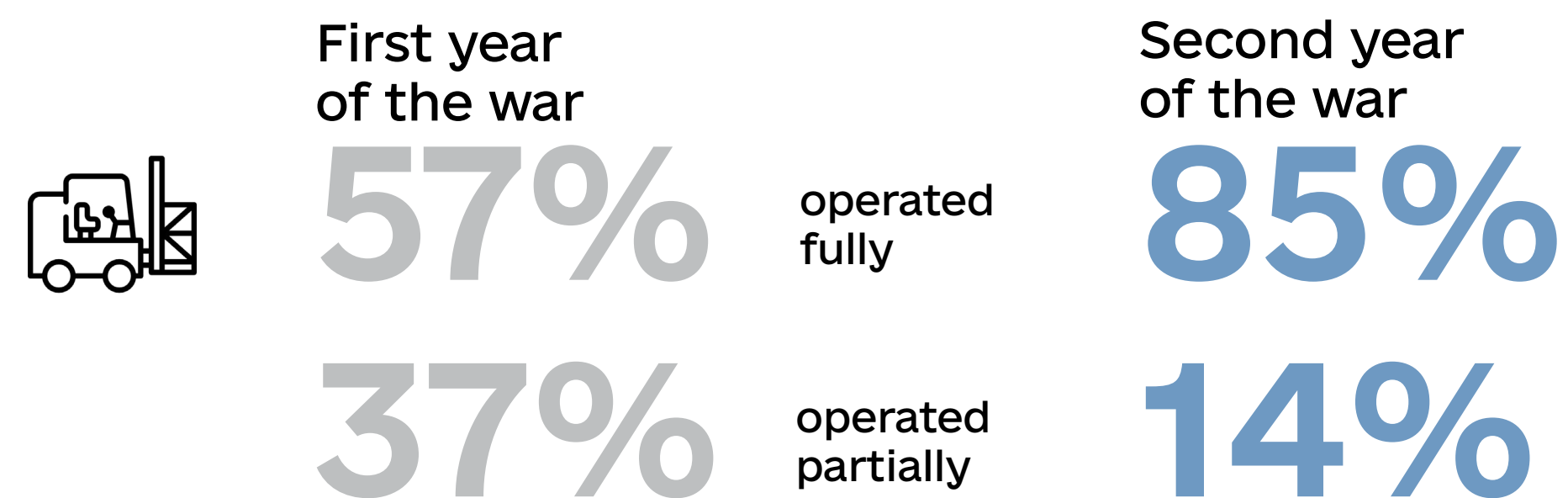
*Donors to the Fund: Italy, Ireland, Japan, Luxembourg, Norway, South Korea, Sweden, Switzerland, the United States of America and the TaiwanBusiness-EBRD Technical Cooperation Fund

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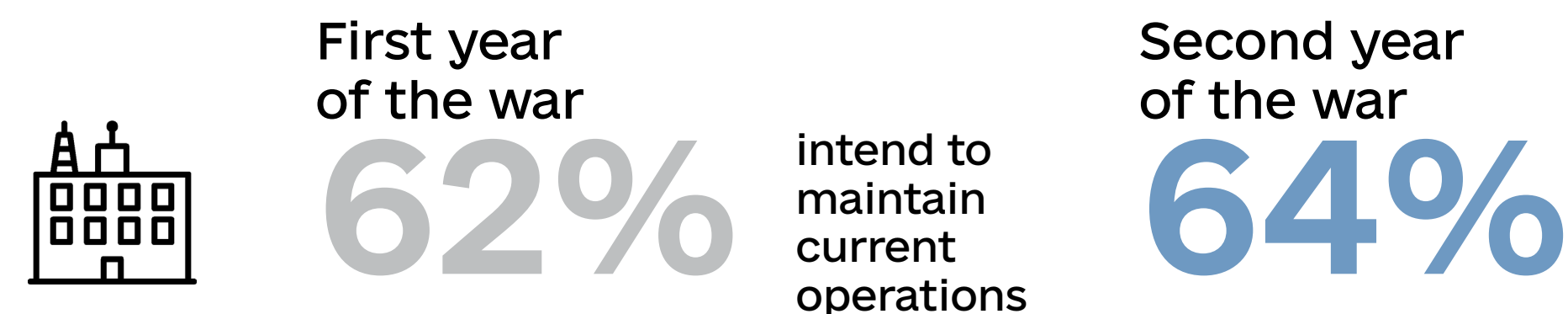
1. **Assessment of the business environment**
2. **State of SMEs after two years of full-scale war**
3. **Prospects for SMEs**
4. **Needs of SMEs**
5. **Research methodology and geography**

Summary

The study shows a certain degree of adaptation by SMEs to wartime conditions:



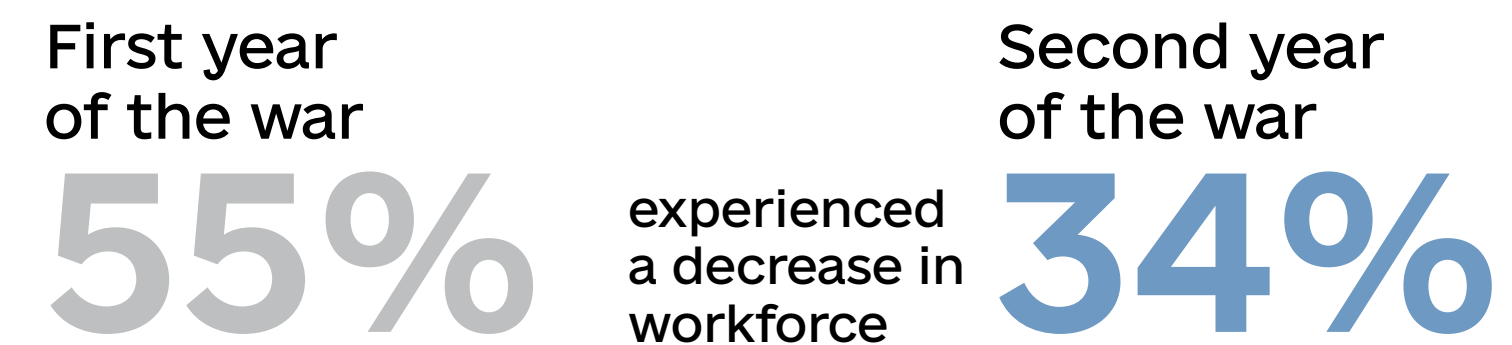
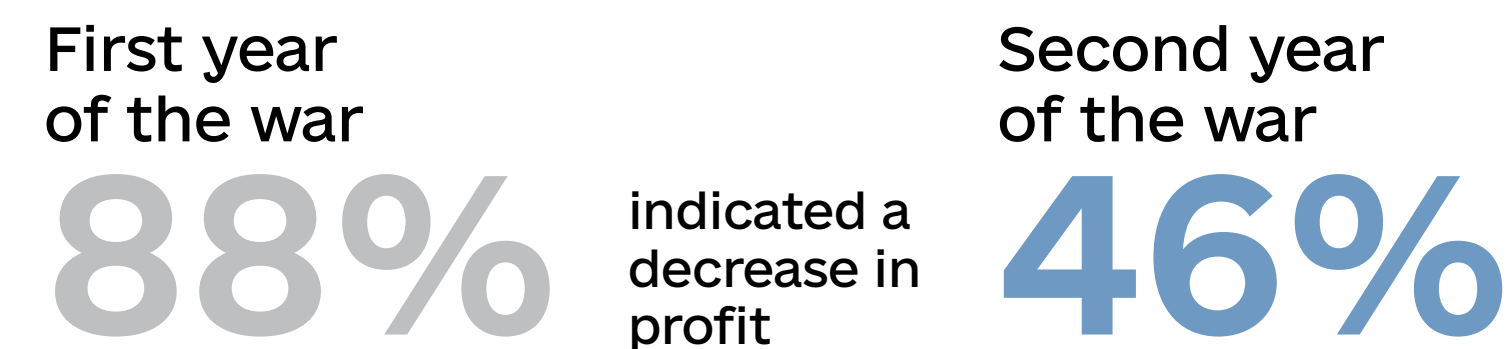
The share of businesses planning to maintain current levels of activity if the war persists for a year or more has remained stable.



Meanwhile, more SMEs are looking to diversify or expand their operations if the war lasts more than a year.



Quantitative research



In the second year of the war, the difficulty of doing business in Ukraine has decreased somewhat.

The assessment increased from "difficult" (2.7) to "neither difficult nor easy" (3.5) on a scale of 1 (very difficult) to 7 (very easy).

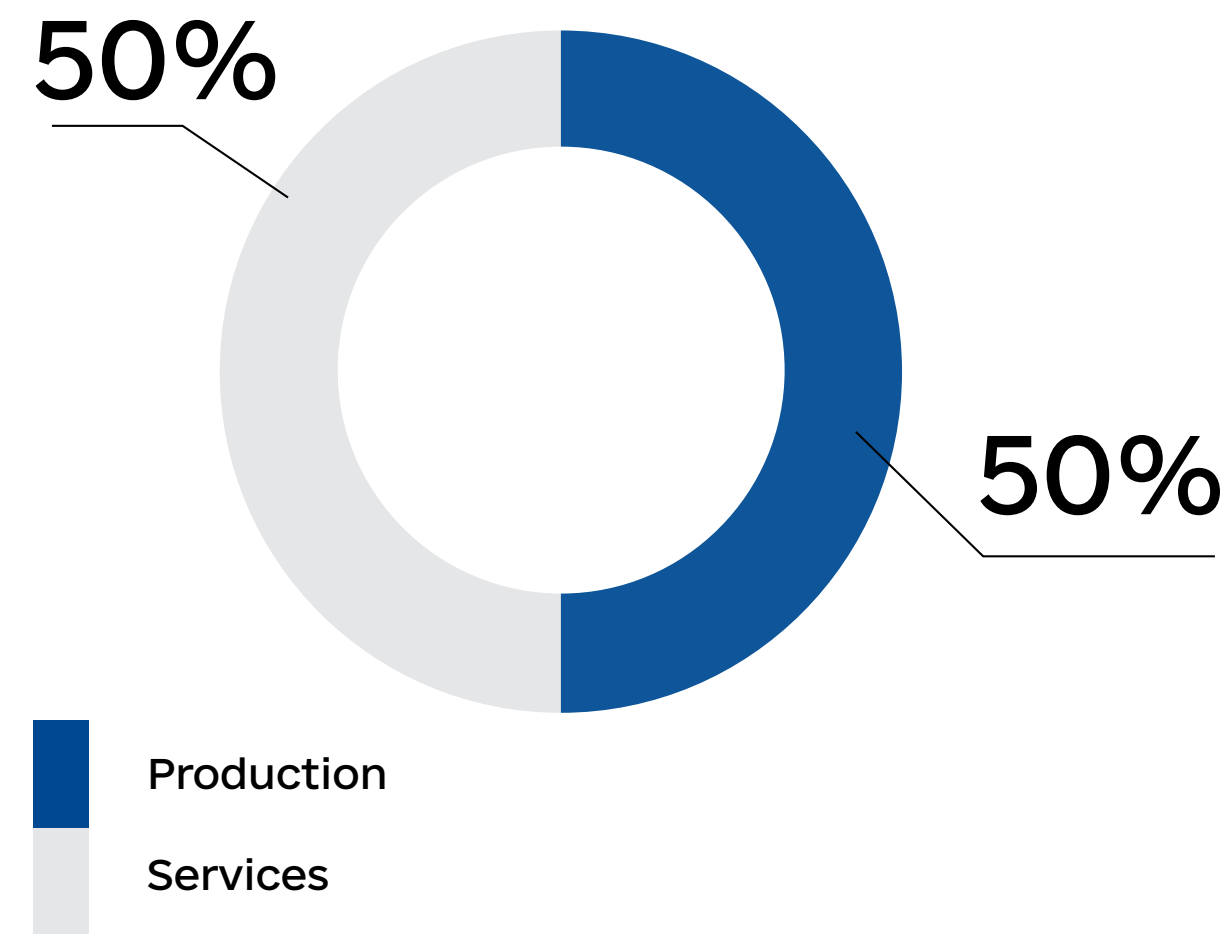


Assessment of the business environment

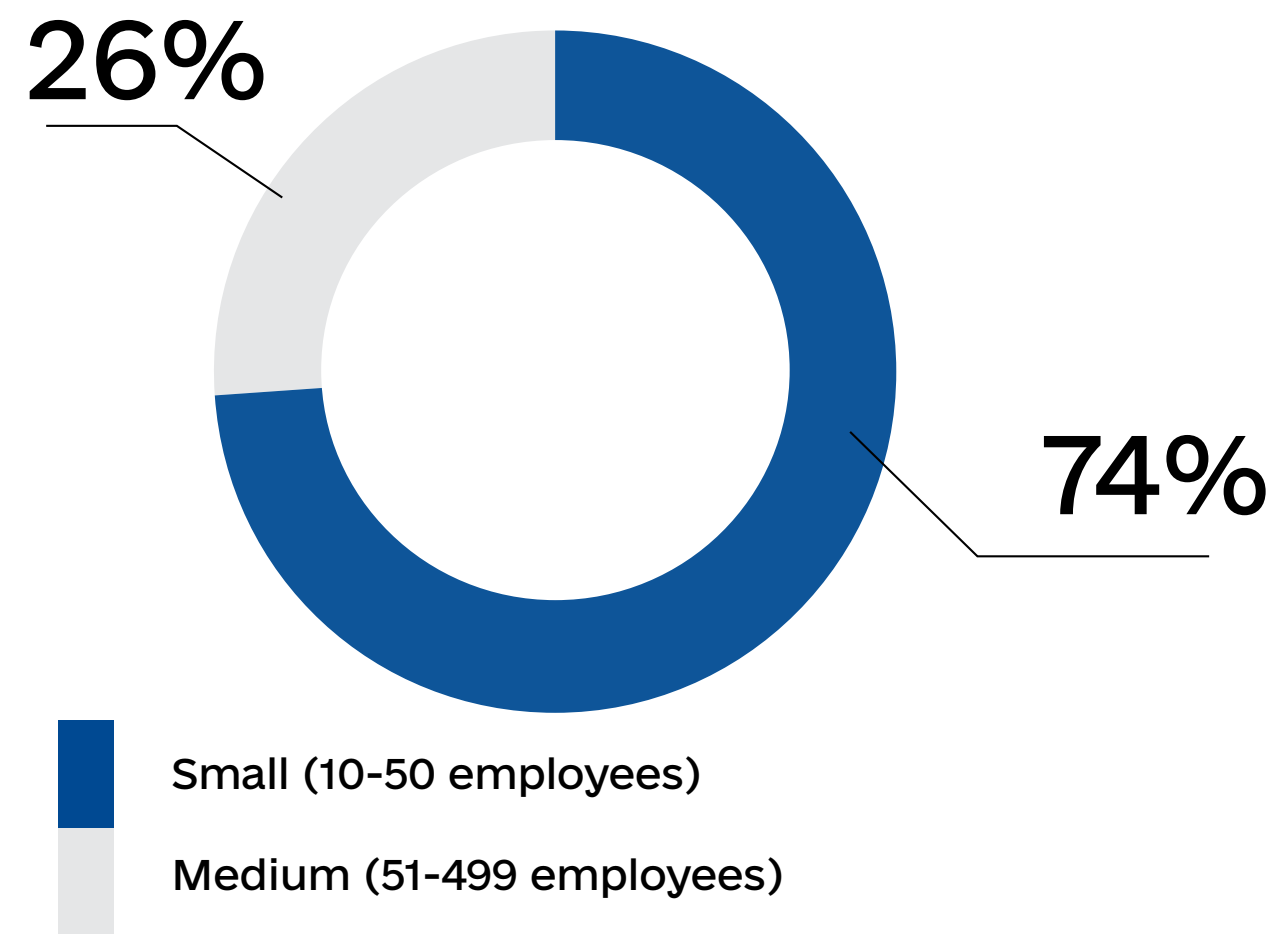
Enterprises surveyed

Quantitative research

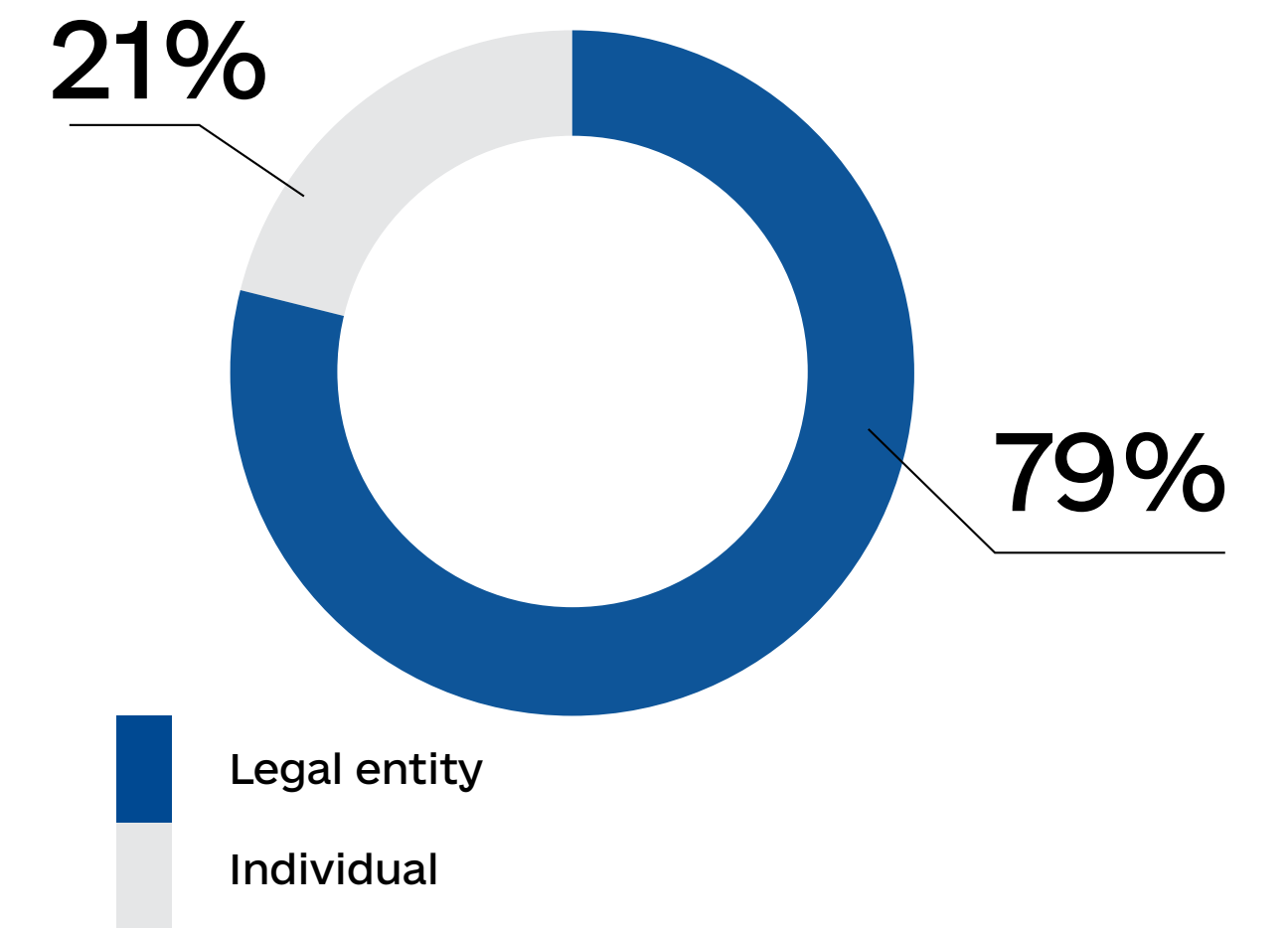
Area of activity



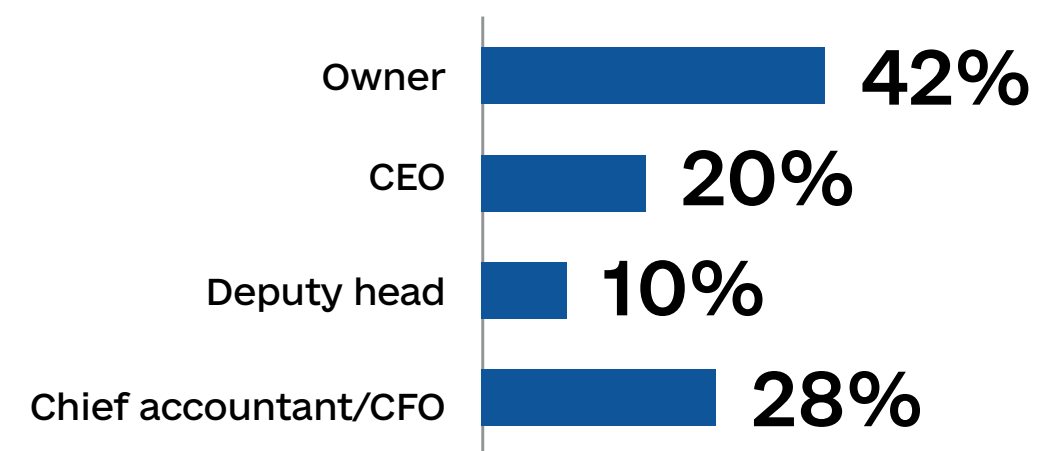
Business size



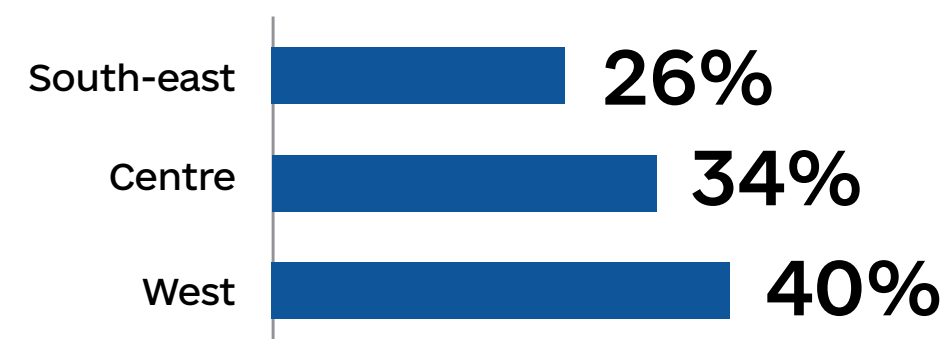
Business registration



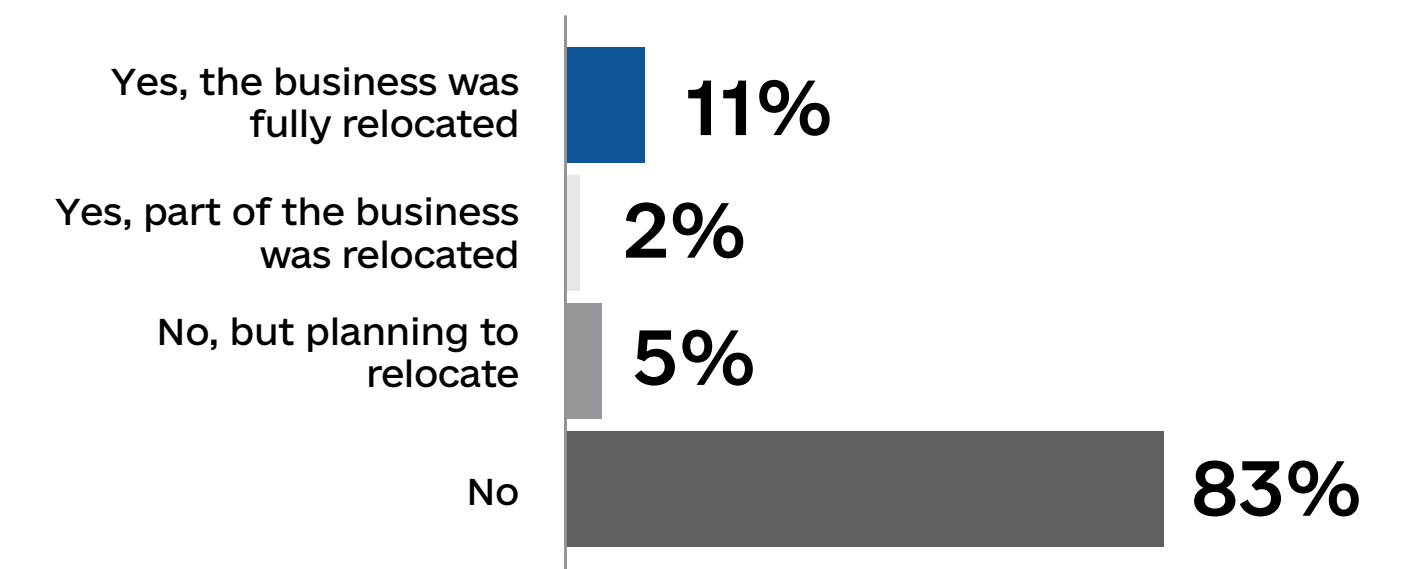
Surveyed employee's position



Region



Was the business relocated after 24 February 2022?



Note: Relocated enterprises are included in the relocation region (nine of them moved from the south-east to the west, three from the centre to the west and one from the south to the east).

The perceived difficulty of doing business in Ukraine

on a scale of 1 (very difficult) to 7 (very easy)

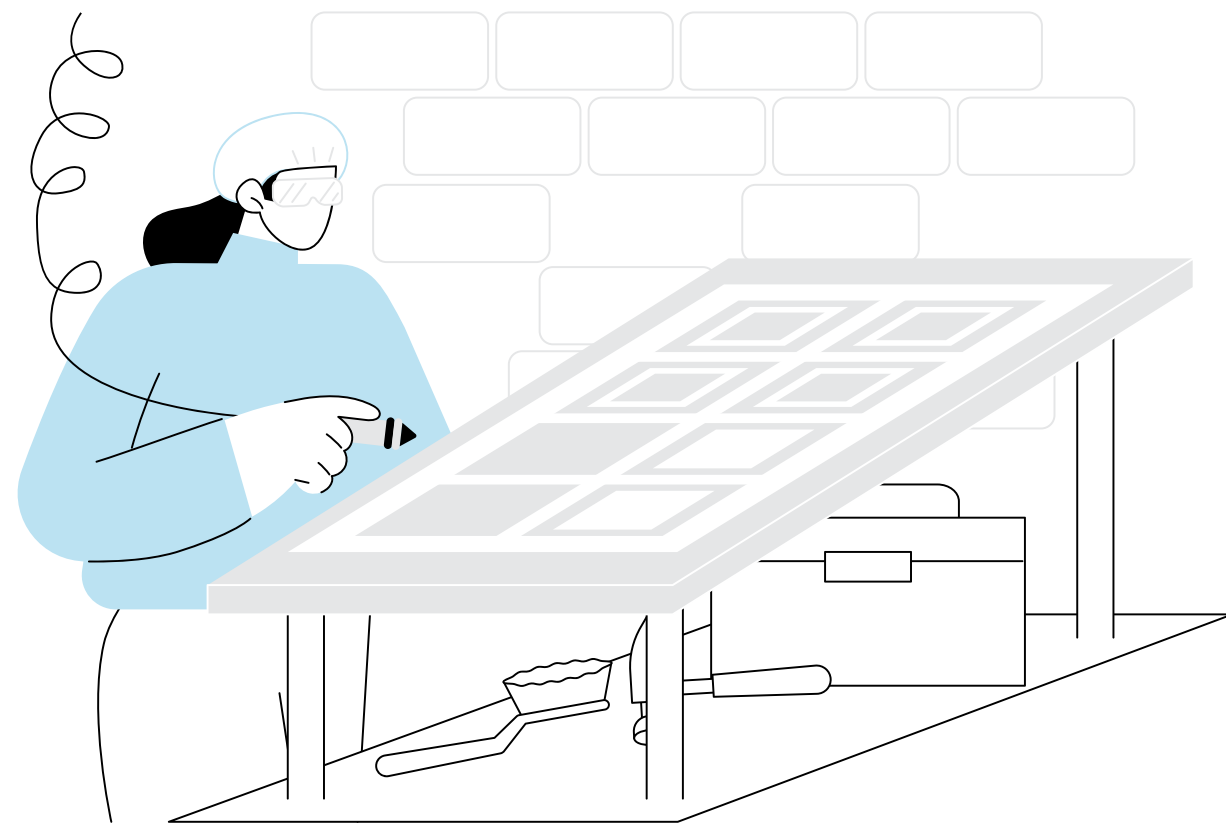


3.52

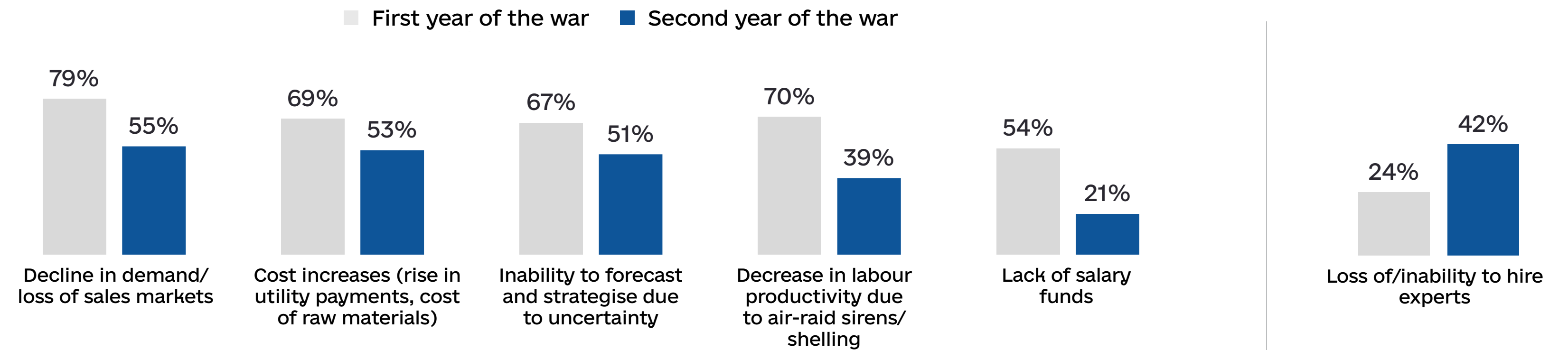
Average,
Second year of the war

2.72

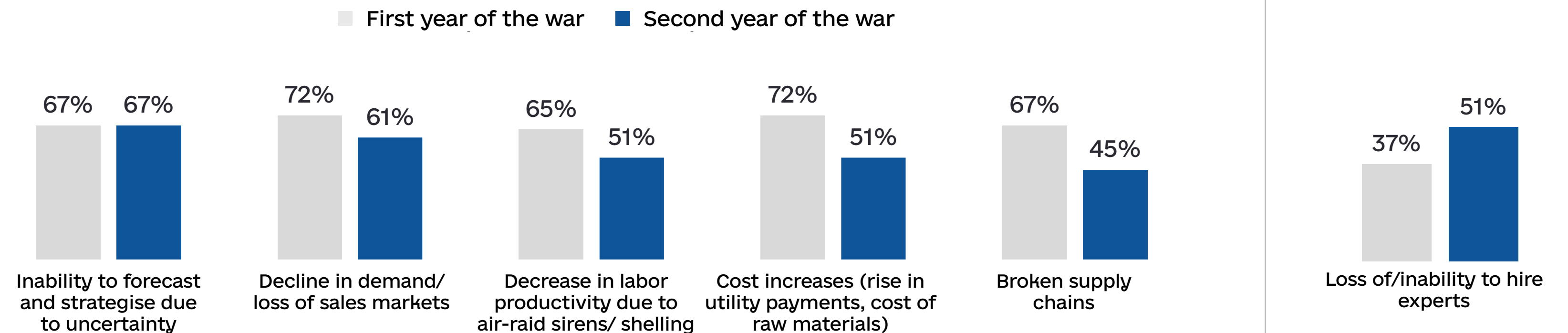
Average,
First year of the war



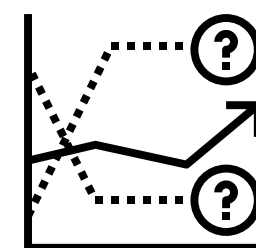
Top challenges faced by small businesses in wartime



Top challenges faced by medium businesses in wartime



SME trends



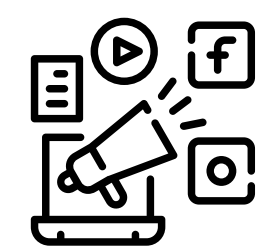
The war makes it difficult to compile forecasts, build strategic plans and invest in one's own business. To operate, companies require a certain level of physical safety, security of energy supply, resilience of general business activity, economic stability and reliable logistics chains.



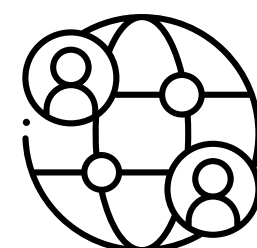
Managers are trying to maintain profitability by diversifying sales channels, entering new markets, launching competitive new products and services, and changing marketing strategies.



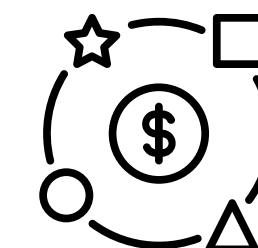
Faced with a lack of domestic stability, companies are turning to more predictable foreign markets. Consequently, advisory services on how to develop export activity, access foreign markets, obtain international certification and launch businesses abroad have become popular.



The expansion of domestic sales markets has sparked greater demand for advisory services on marketing, social media marketing and participation in trade fairs.



Because of the ongoing market transformation and relocation of businesses, the demand for networking (international/industry/local) is also growing.



Diversification, particularly by developing additional lines of business, has become an important task for SMEs.



In addition to grant and advisory support, business managers are looking for affordable loans.

Negative aspects (-)

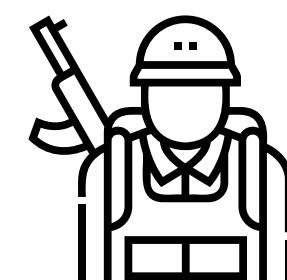


Sales rebound is not quick enough

Numerous negative factors are hampering exports, including the continued savings mode of the business-to-business segment, unstable demand, a lack of access to part of the domestic market, the population's reduced purchasing power and blocked borders.



Lack of payment discipline

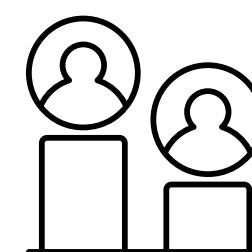
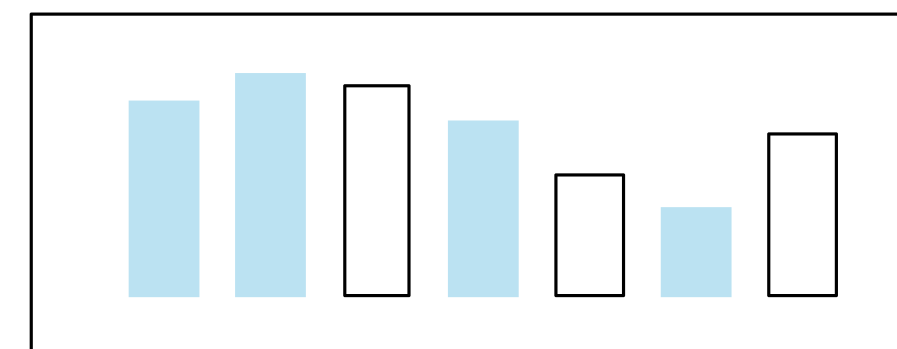


Lack of workforce

due to mobilisation and migration, leading to a human resource crisis.



Lack of investment



Increased competition from (donor-funded) NGOs in the social services space

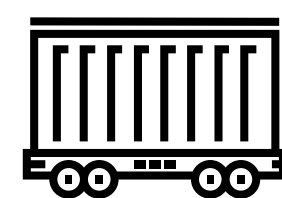


Positive aspects (+)

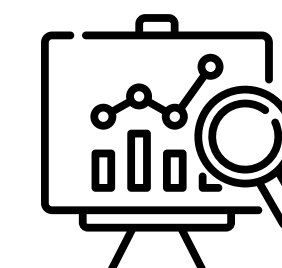
Two years on since Russia’s full-scale invasion, the business community has already adapted to wartime challenges. The upward trend in business activity that was noticeable at the end of the first year of the war, has continued somewhat, but the overall situation remains fragile. The strategic uncertainty of persistent war is hampering business development and creating new challenges. Companies that could not resume their operations in 2022 have had to close.



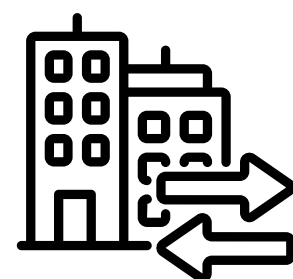
Increased business activity



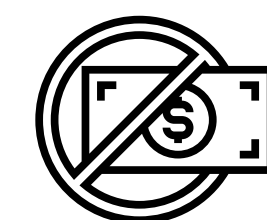
Partial sales recovery among industrial enterprises as they resume operations in de-occupied territories; resumption of export activity



Gradual resumption of investment/increased spending on development



Adaptation of relocated companies



Shrinking of the shadow economy due to new contracts with large buyers that operate 100 per cent legally

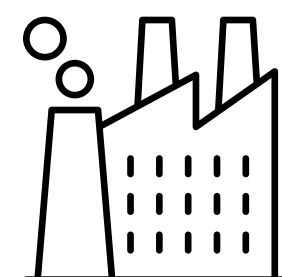




State of SMEs after two years of full-scale war

Although some businesses are still experiencing turbulence, most are rebuilding their position.

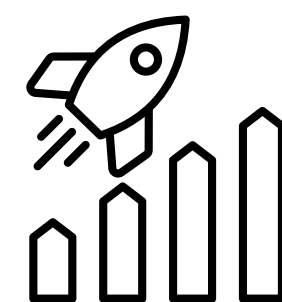
For example:



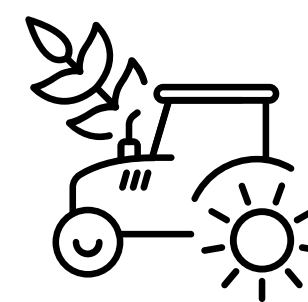
Industrial enterprises supplying critical/war goods
(particularly those under government contract)



Small businesses
that were able to diversify their activities without significant investment (owing to their available resource base)



Companies that boosted activity in new areas,
for example, entered a new part of the domestic market, launched new products, unlocked the potential of areas they had deemed less profitable or implemented innovations in production processes.



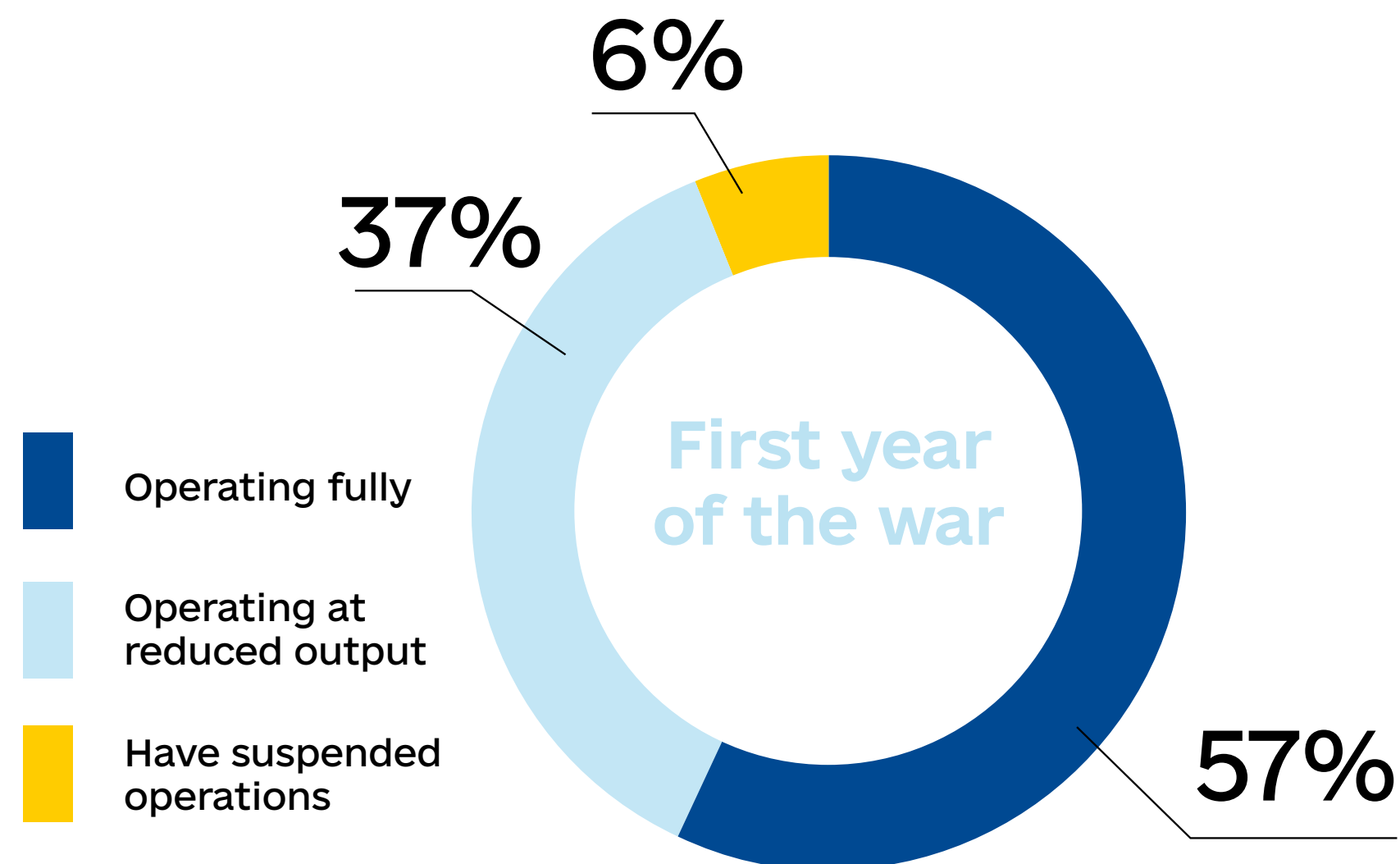
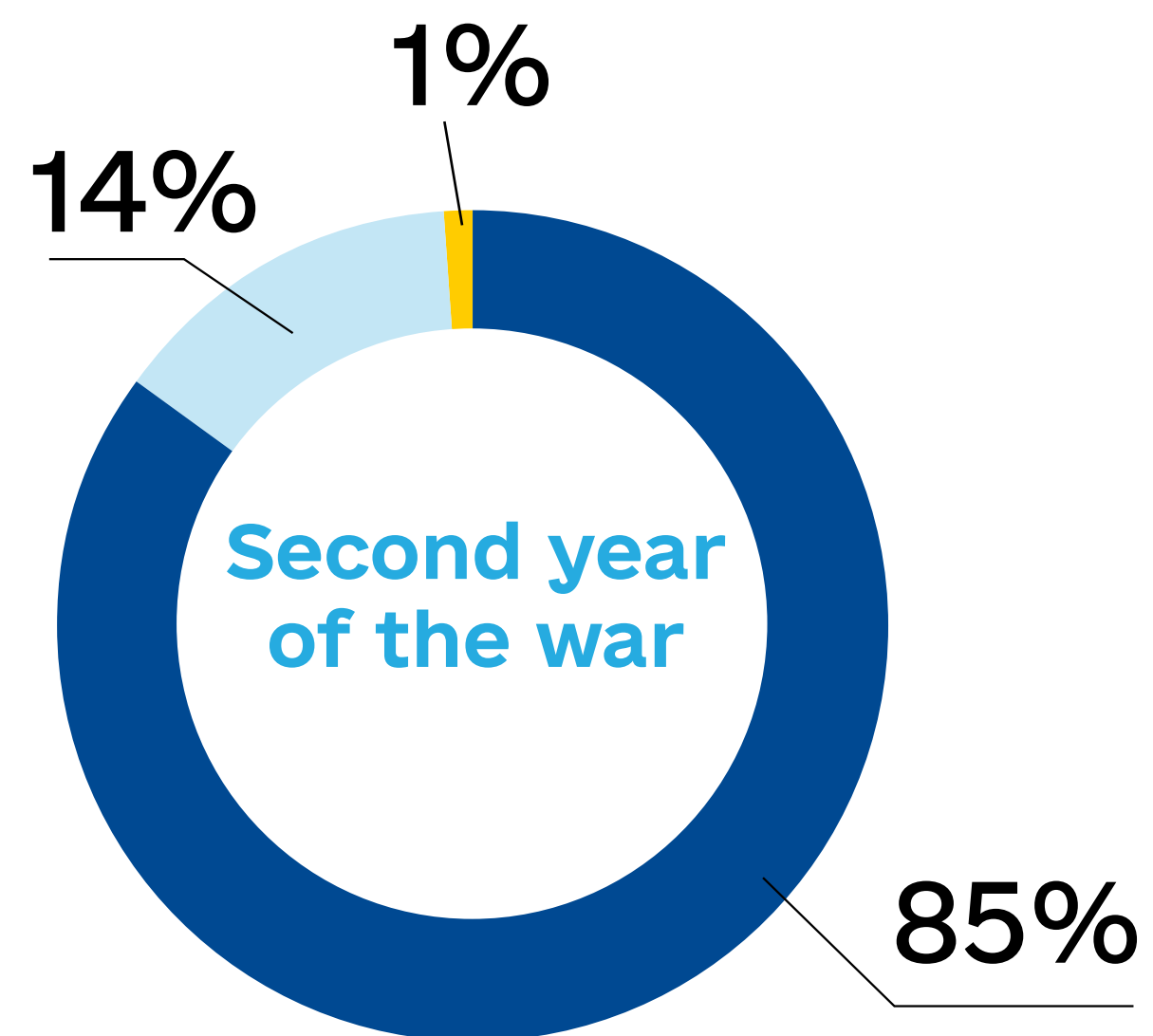
Companies associated with the agricultural sector
(farmers now have funds to buy fertilisers, pay for machinery repairs, and so on, thanks to the opening of the grain corridor)



“They started buying items for military purposes. We had not paid much attention to small parts in the past, but market prices have become quite high. Now we are paying more attention to them.”.
(Small firm)

“The state now needs our products. Volunteers and hospitals are buying them as there are a lot of wounded people. Even though a large number of people have left the country and we have lost territory, there is still demand for what we are producing.”
(Medium-sized firm)

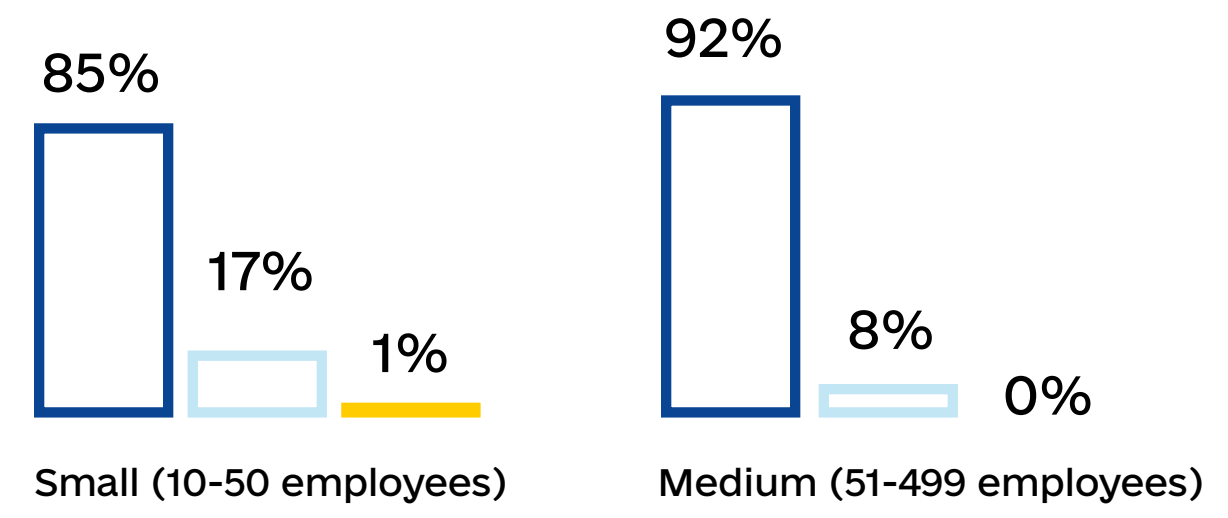
State of enterprises



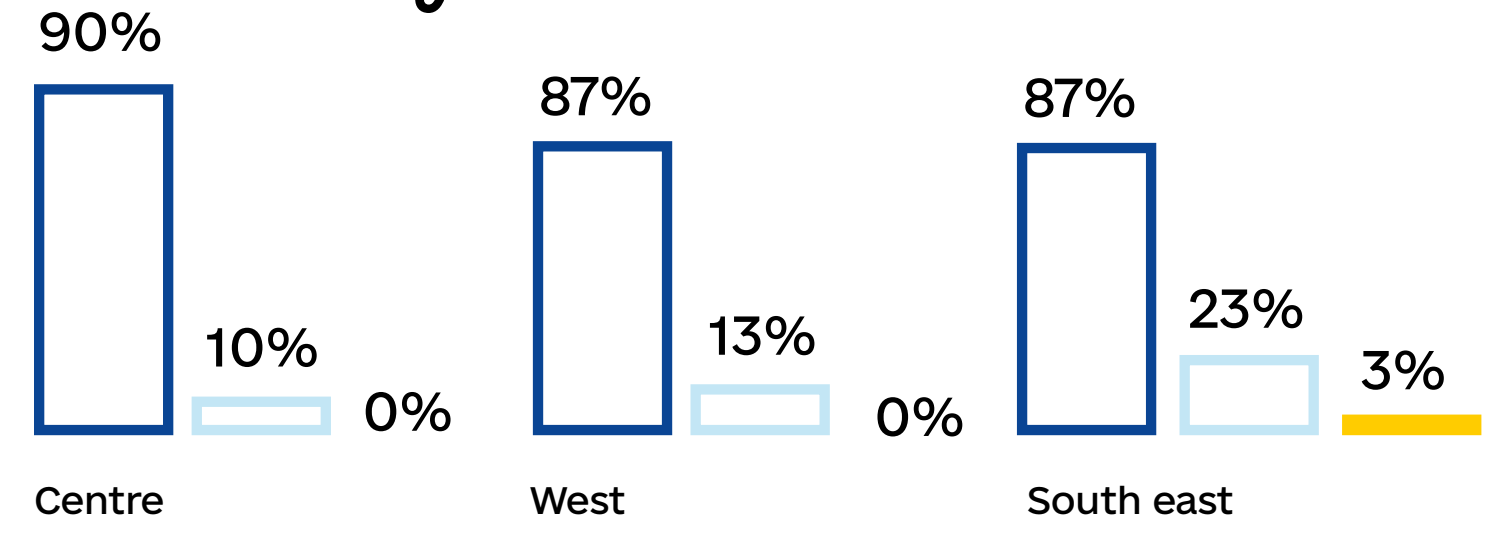
- Operating fully
- Operating at reduced output
- Have suspended operations



Size statistics*, second year of the war

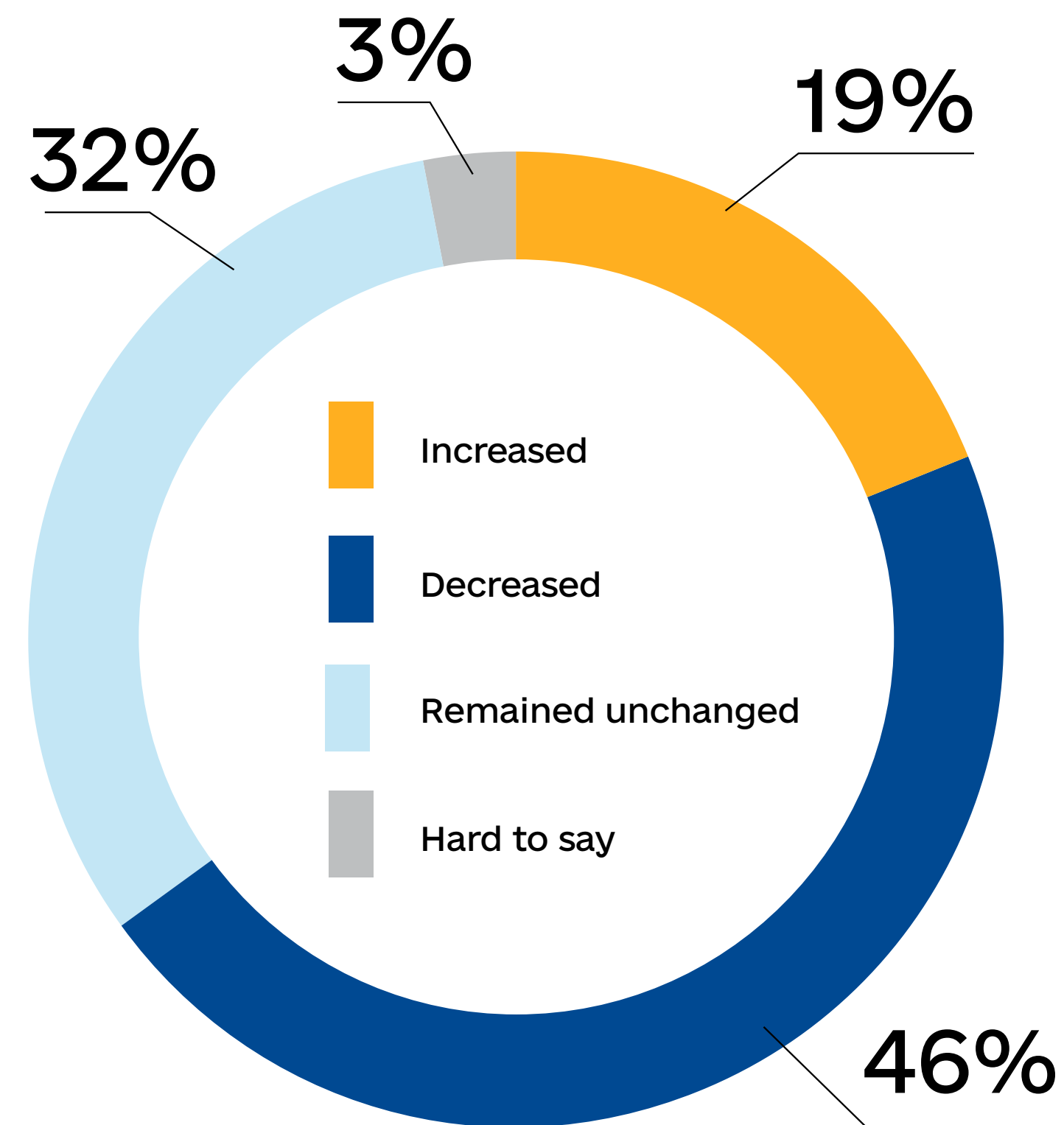


Regional statistics, second year of the war

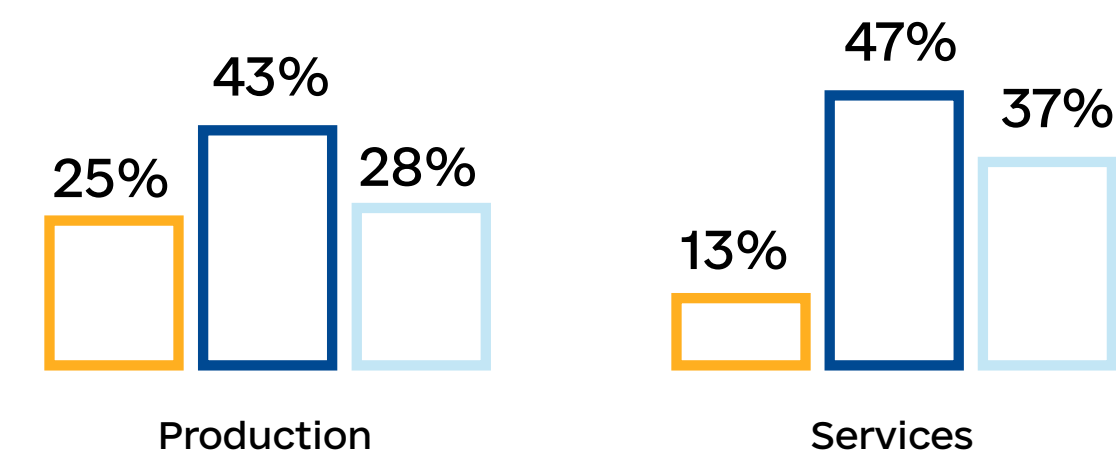


*Only those segments (by sector, size, or region) showing statistically significant differences are presented

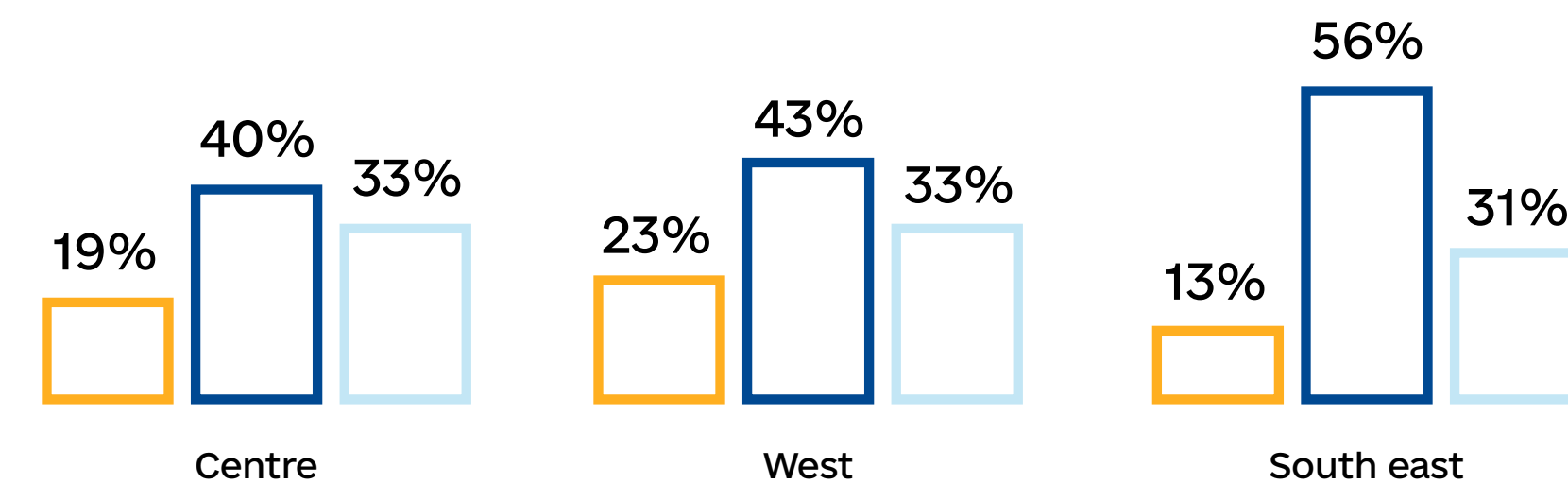
SME profit in the second year of the war



Area statistics



Regional statistics

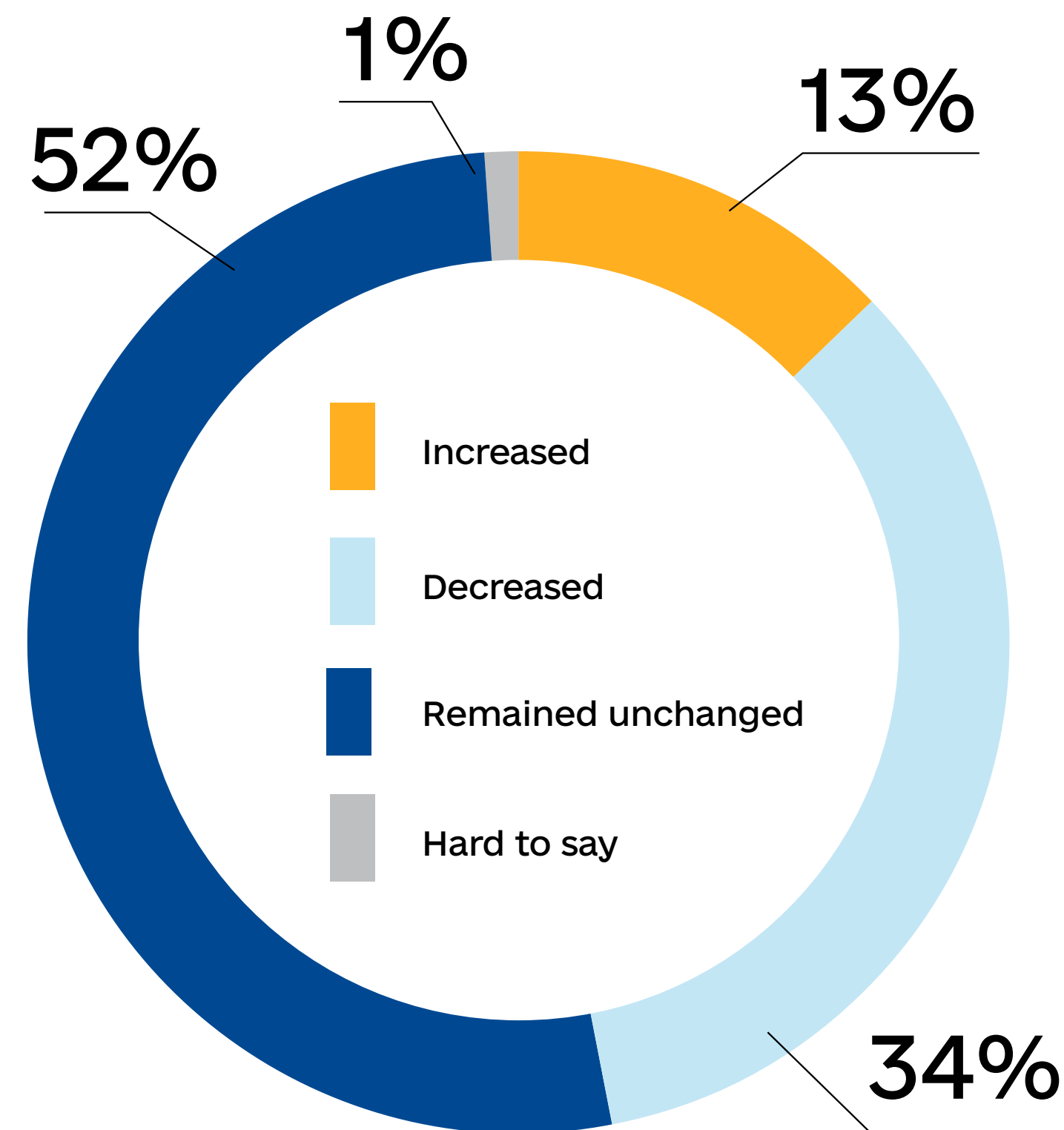


88%
indicated a decrease in profit in the first year of the war

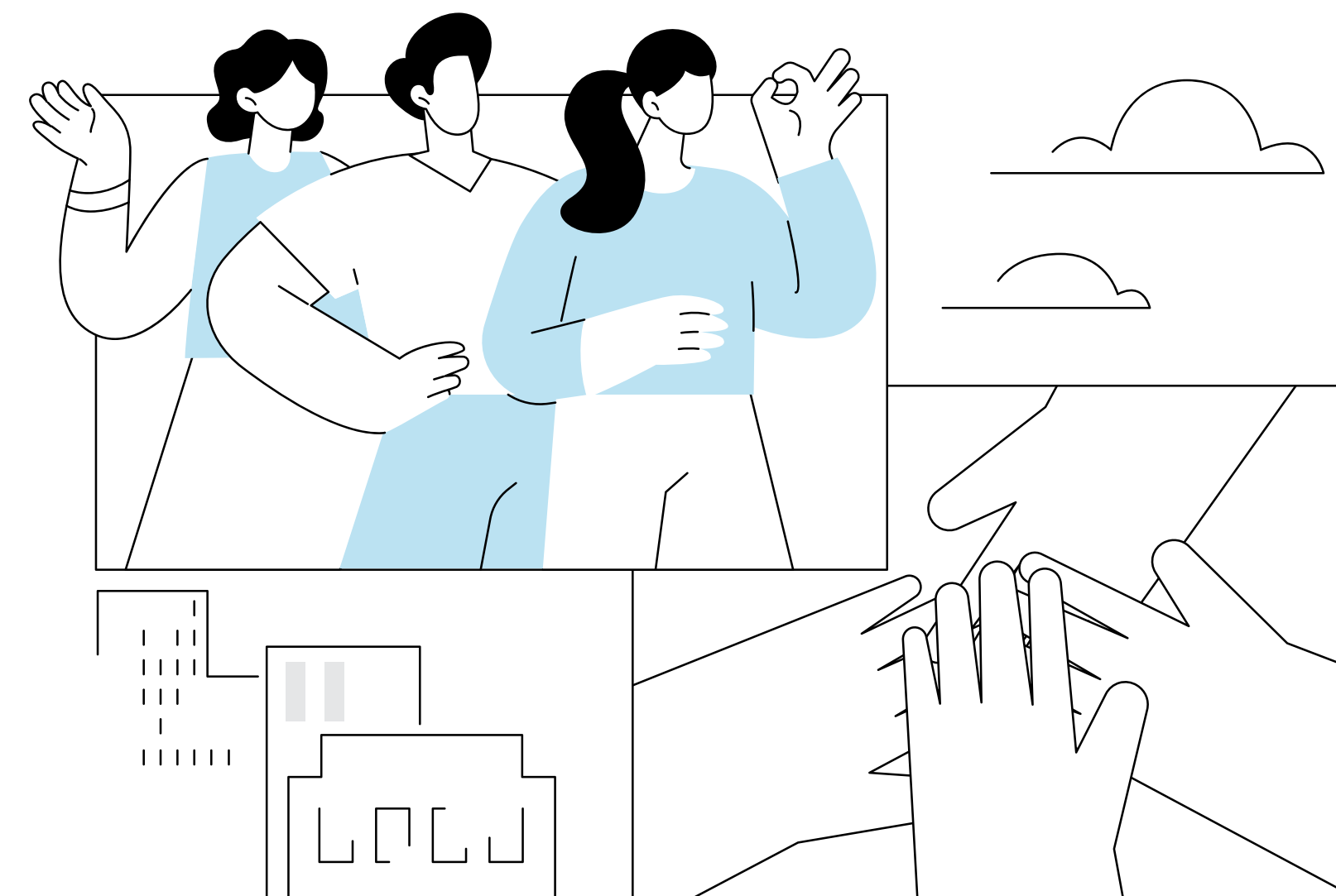
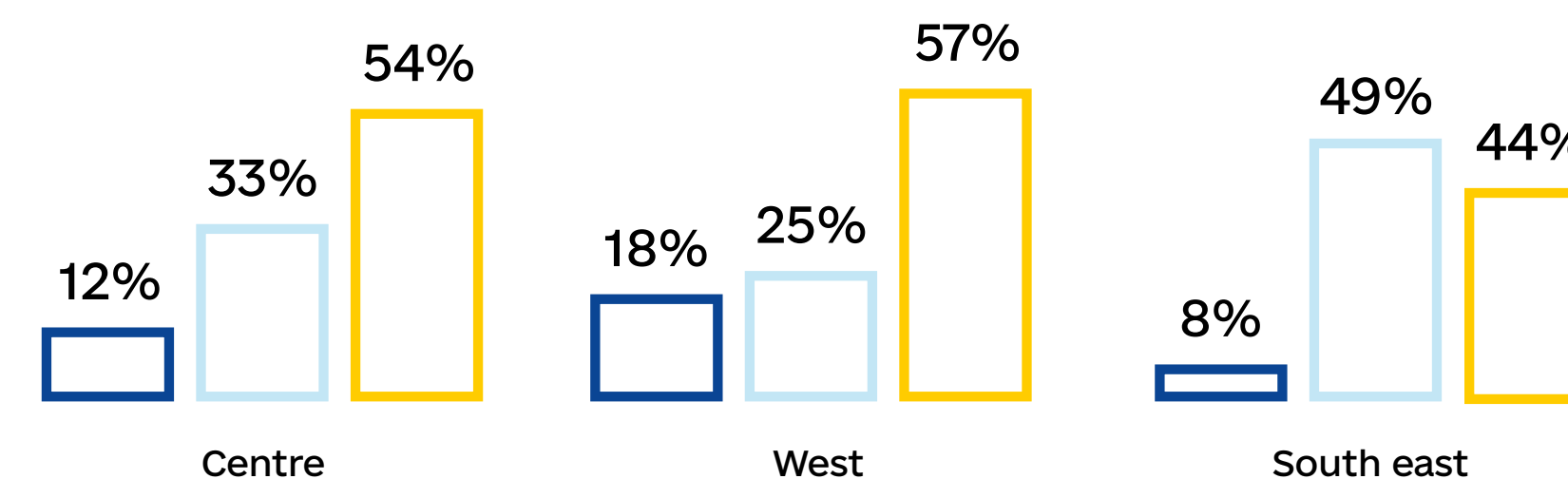


SME staff in the second year of the war

Quantitative research



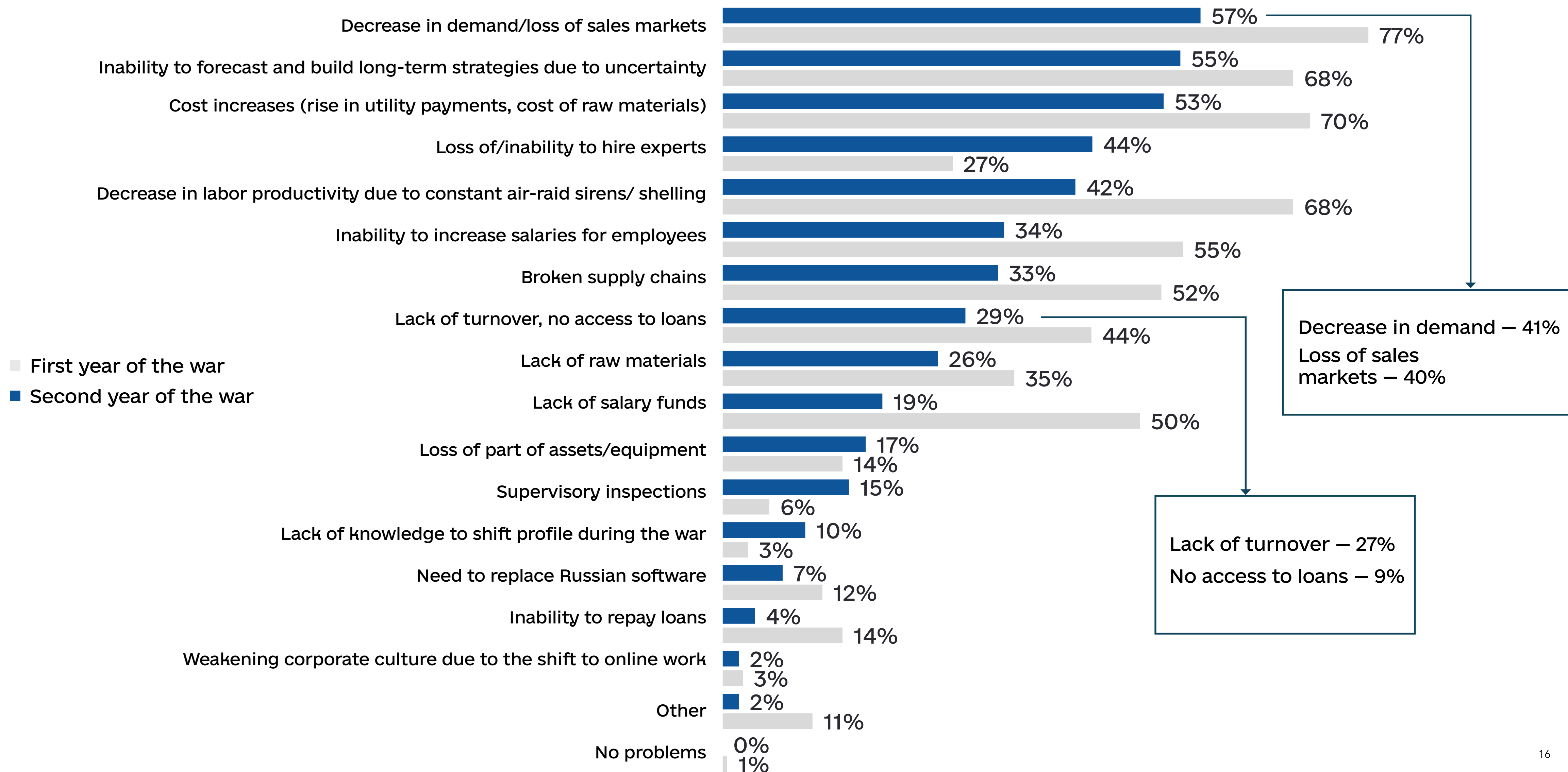
Regional statistics



55%
indicated staff reductions in the first year of the war

Key problems for enterprises

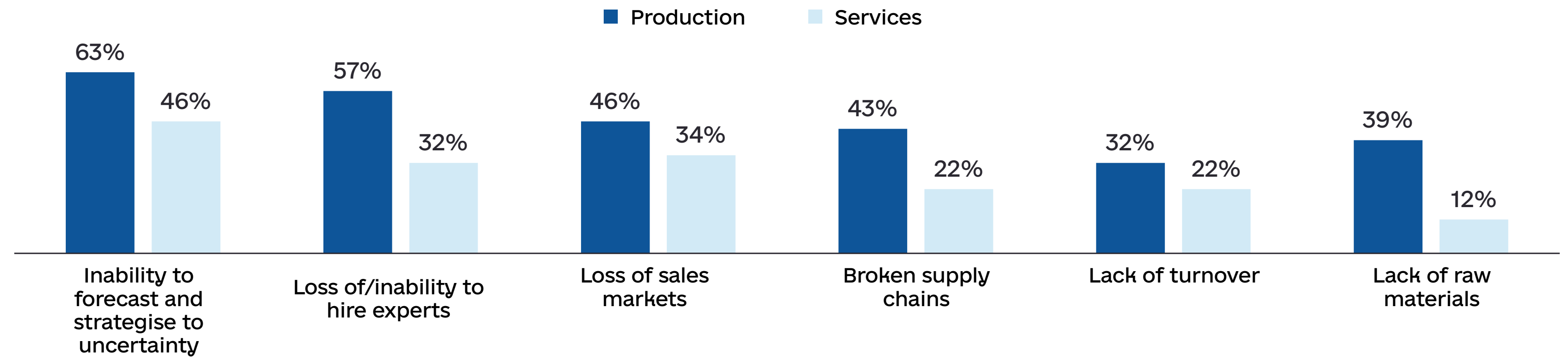
Quantitative research



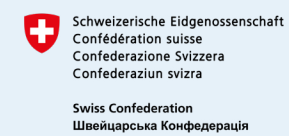
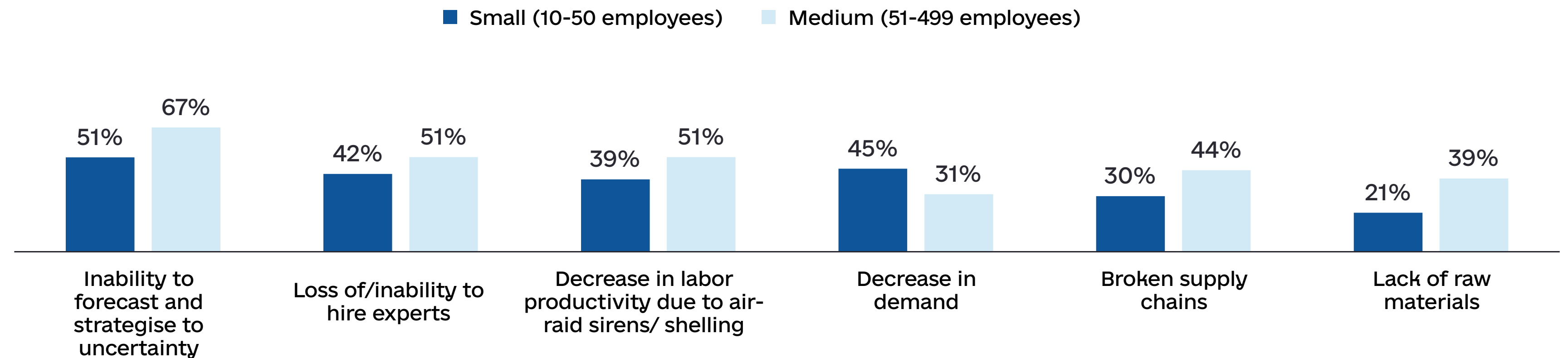
Key problems for enterprises

Quantitative research

Area statistics



Size statistics




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Supported by donors: Switzerland through the EBRD's Small Business Impact Fund* and the European Union through the EBRD's Women in Business programme.



Prospects for SMEs

 Schweizerische Eidgenossenschaft
Confédération suisse
Confederazione Svizzera
Confederaziun svizra

Swiss Confederation
Швейцарська Конфедерація



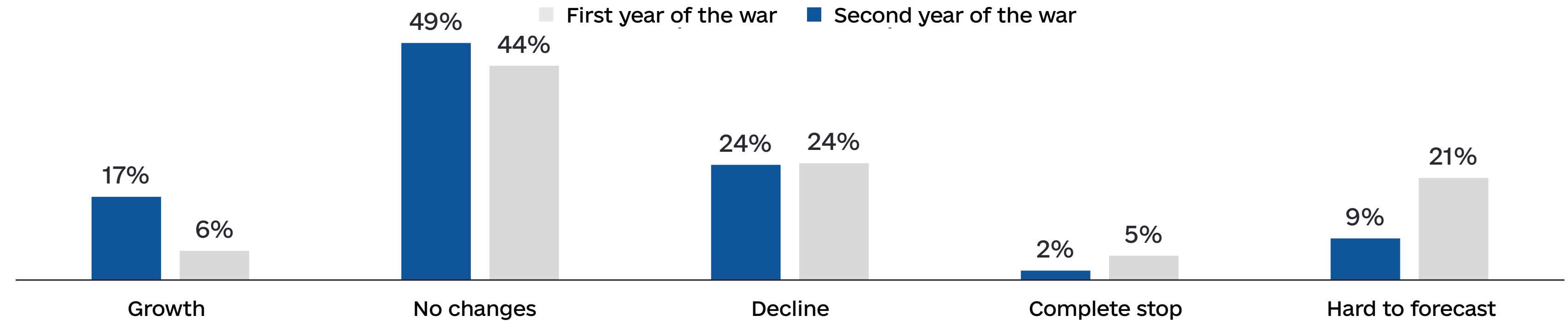
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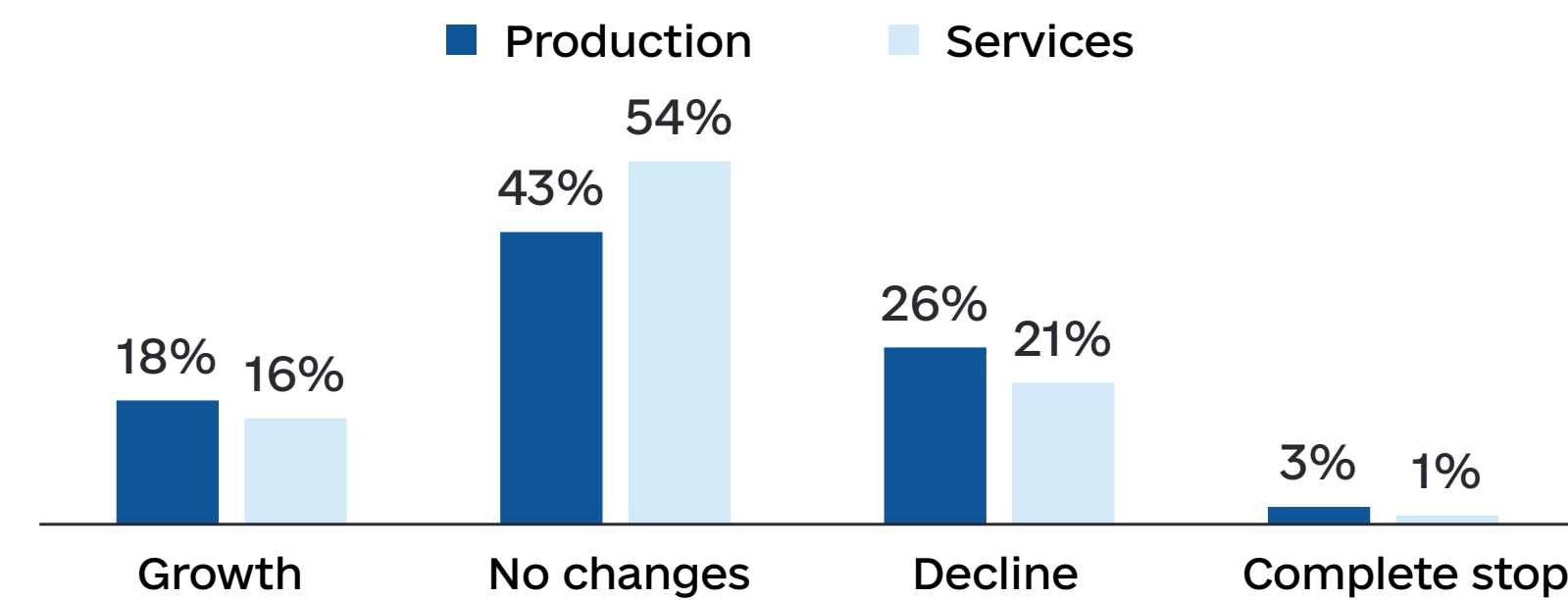
Projected state of business in the near term*

Quantitative research

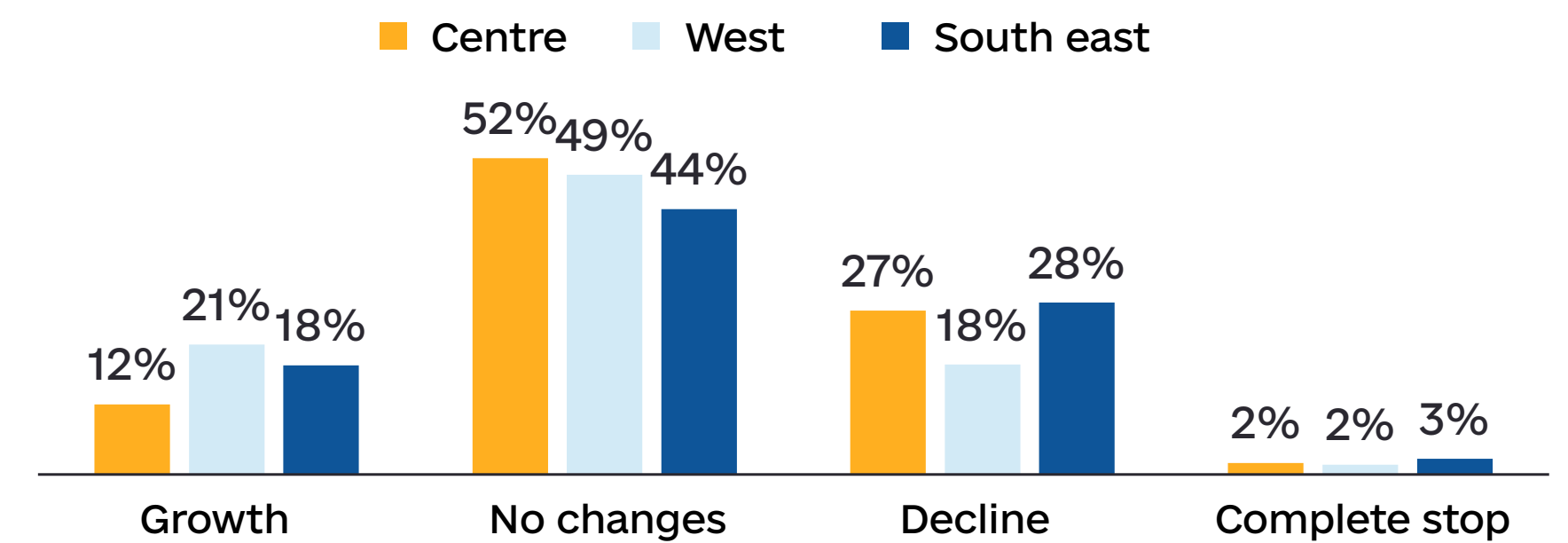
*In the first year of the war, the forecast was for six months; in the second year of the war, it is for a year



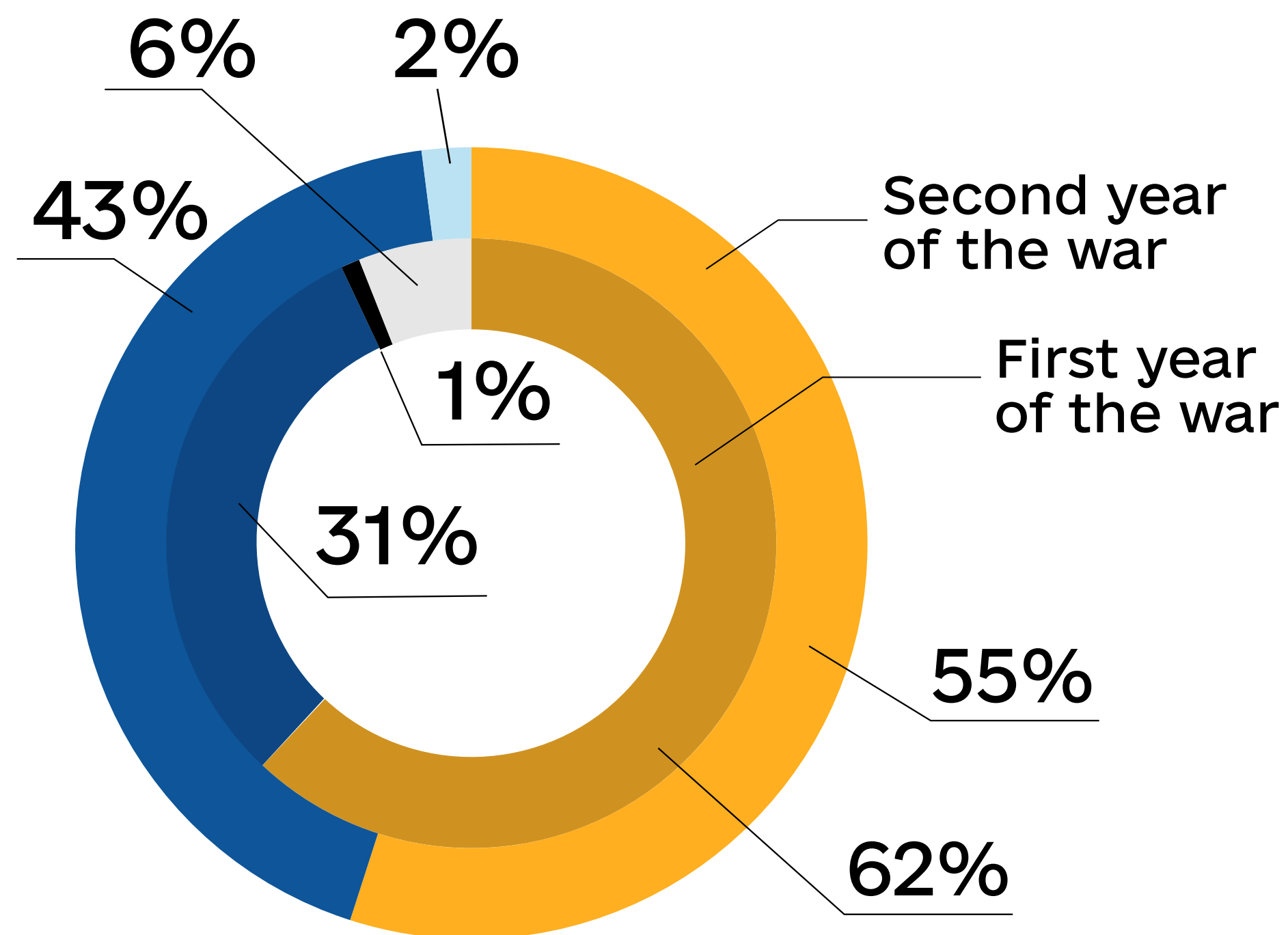
Area statistics, second year of war



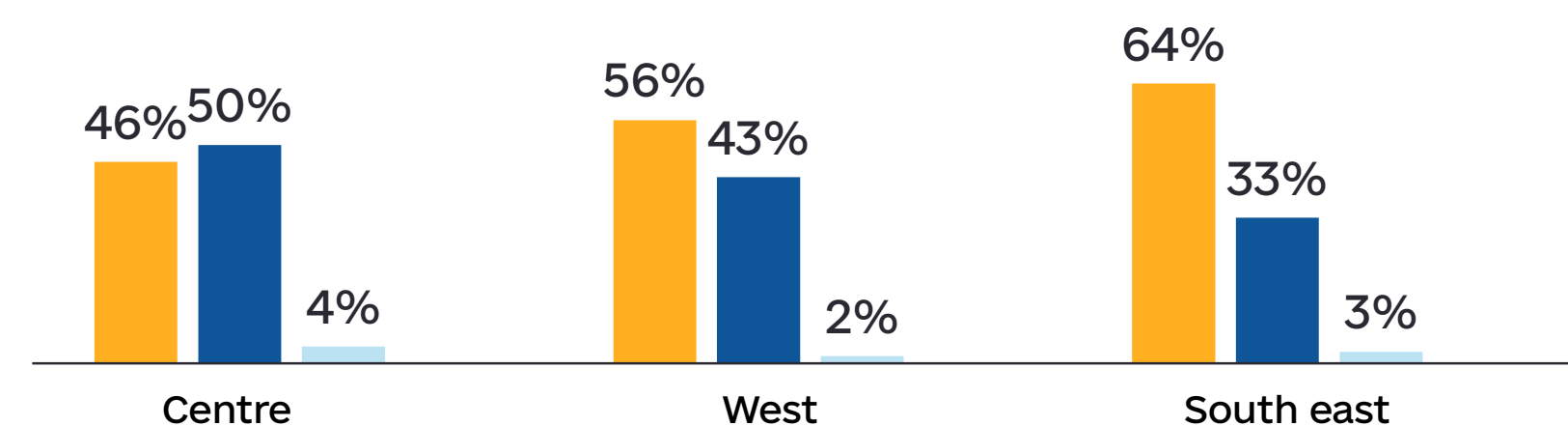
Regional statistics, second year of war



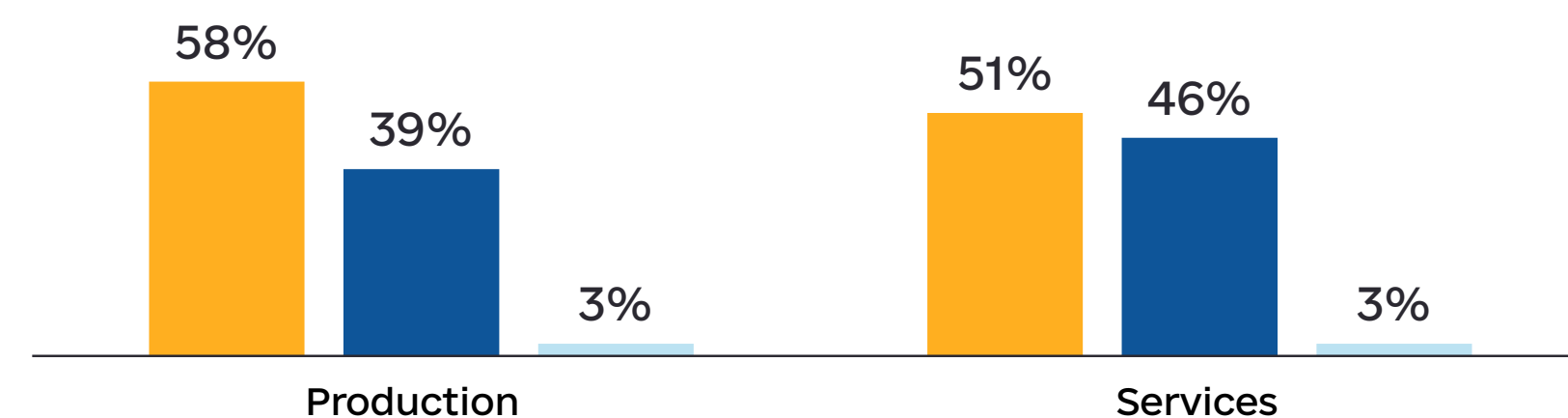
What CEOs will do if the war ends soon







Regional statistics,
second year of the war



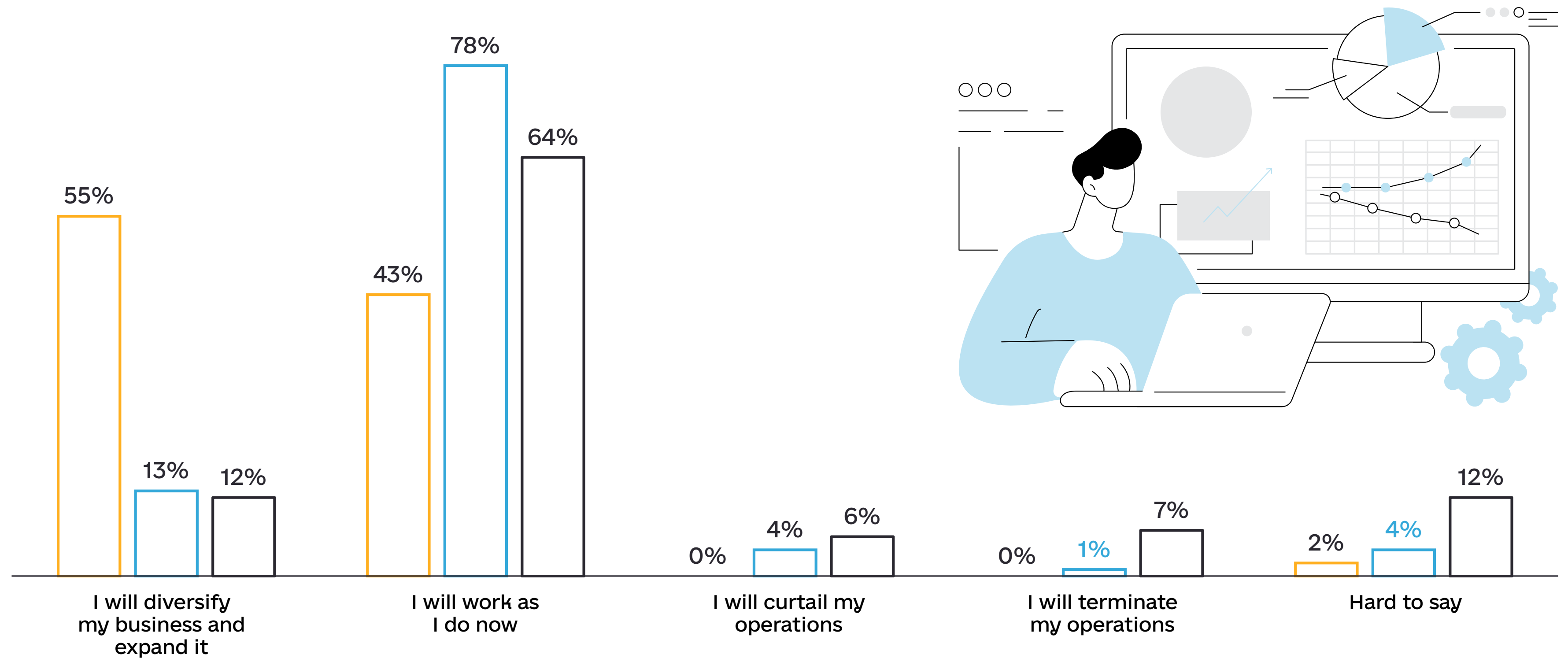
Area statistics,
second year of the war



-  I will diversify my business and expand it
-  I will work as I do now
-  I will curtail my operations
-  I will terminate my operations

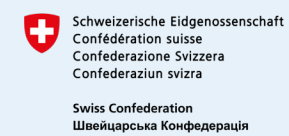
What CEOs will do if the war ...

▣ Ends soon
 ▣ Continues for another year
 Continues for several more years





Needs of SMEs



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the European Union

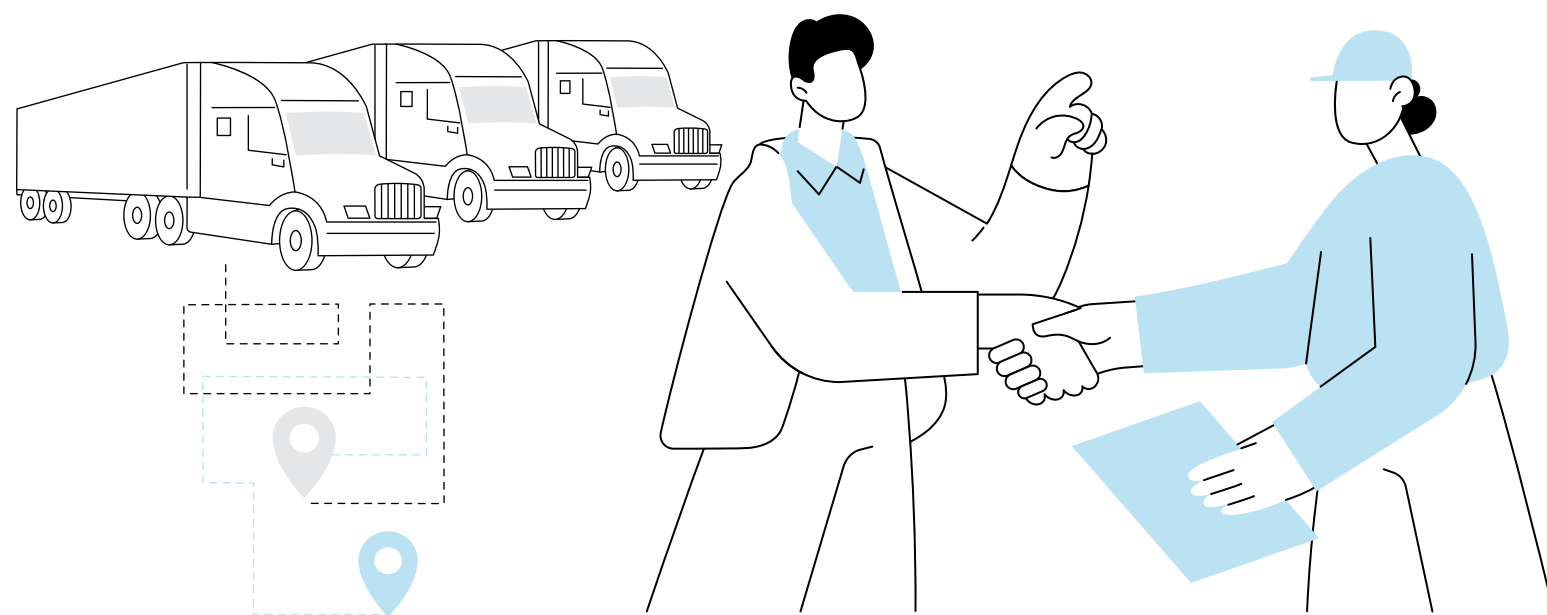
Supported by donors: Switzerland through the EBRD's Small Business Impact Fund* and the European Union through the EBRD's Women in Business programme.

SME needs in Ukraine: financial and administrative needs



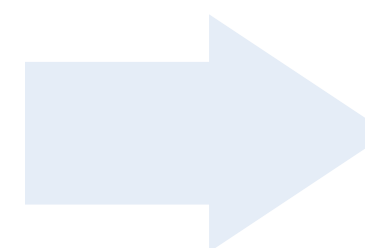
! The inability to exempt employees from conscription is a key challenge for companies during the second year of the war. Some employees have already been mobilised and it is highly challenging to hire new ones, as people are afraid of having to meet with representatives of military drafting centres.

Non-financial needs (1/2)



Companies in the SME, industry and service sectors have very similar needs. Most commonly, they mention expanding sales markets (by entering foreign markets or promoting products domestically) and setting up logistics for the import of raw materials. Getting help with modernisation is also important to many enterprises. Other needs were mentioned rarely or just once:

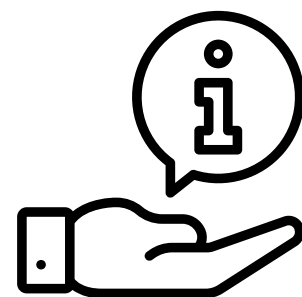
Assistance in setting up export activity, such as through an export support programme



Assistance in expanding the domestic markets

- Help with European Union (EU) certification procedures
- Help with finding clients, proper algorithms for action
- Promoting Ukrainian businesses on foreign markets
- Expanding/protecting export logistics routes/unblocking borders; logistics in Europe
- Creating collaborations with foreign businesses, networking/facilitating participation in trade fairs and communication events
- EU market analysis
- Training on how to sell through international platforms (Amazon, e-Bay)
- Consulting on how to open branches in the EU
- Advisory on how to expand sales markets and search for clients
- Promotion of local entrepreneurs by local authorities
- Promotion of business-to-business companies in business communities, on digital platforms
- Advisory/training on marketing
- Networking for business owners, creating partner relationships
- Opening marketplaces within local communities

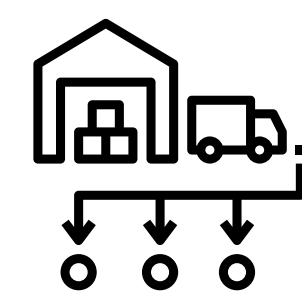
Non-financial needs (2/2)



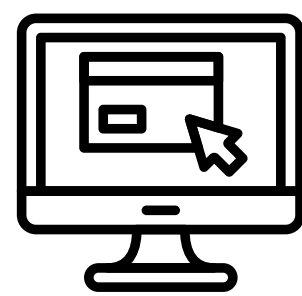
Getting information on grant opportunities for SMEs, helping to prepare grant applications



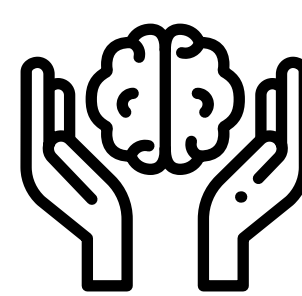
Attracting foreign investors to Ukrainian markets



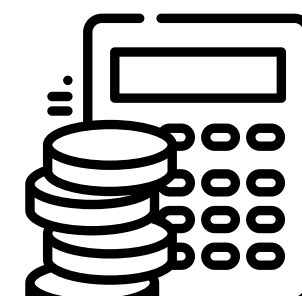
Internships/traineeships at EU enterprises (exchange of experience)



Organising on-the-job training for new employees/online training for employees in the service sector



Access to management software (in particular, CRM systems)

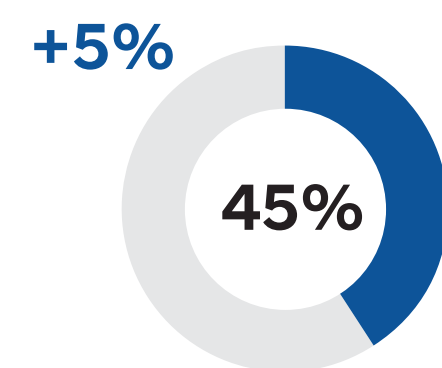


Selecting the correct software for business processes (accounting, management processes), in particular, finding alternatives to Russian software

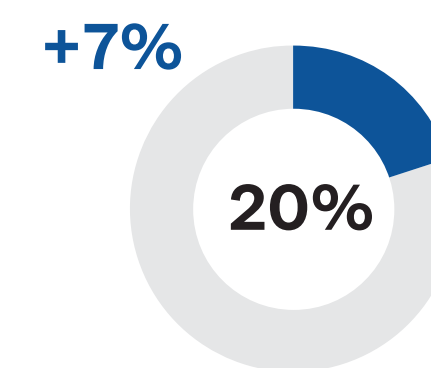


Request for SME consulting

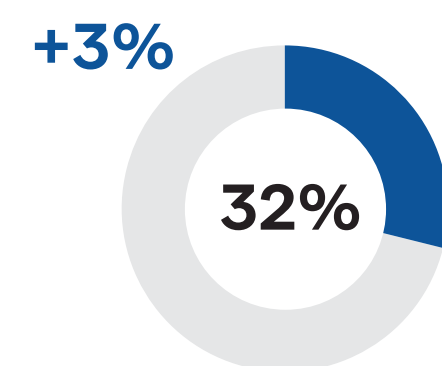
Consulting services companies are interested in



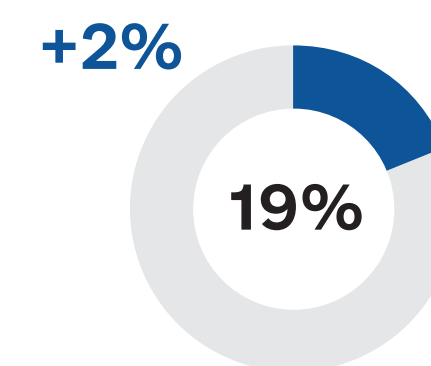
Marketing
(market and consumer research, branding, and web-based solutions)



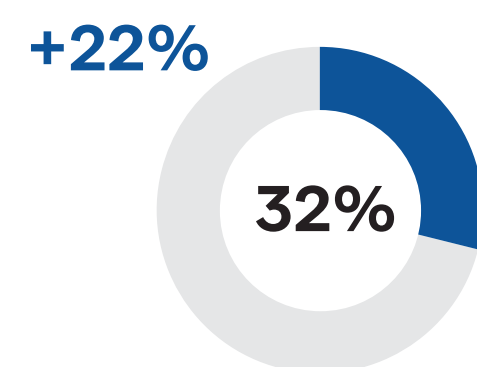
Quality systems
(certification according to international standards, food safety, occupational safety, etc.)



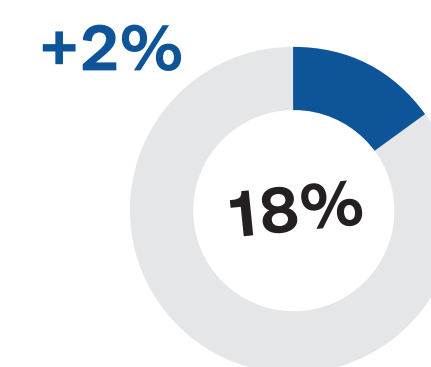
Strategy
(planning, development of business plans and export strategies)



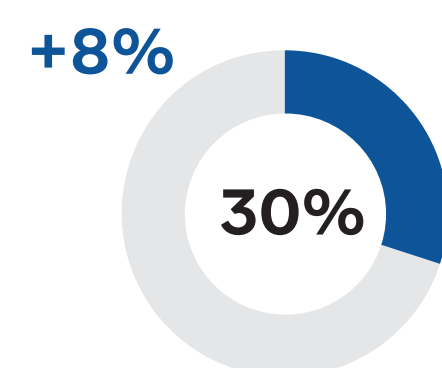
Operational efficiency
(optimisation of business processes, logistics solutions, etc.)



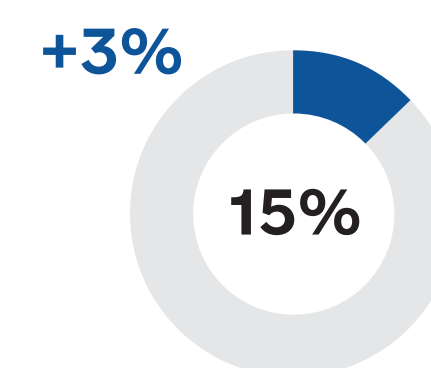
Financial management
(improvement of management accounting, transition to International Financial Reporting Standards)



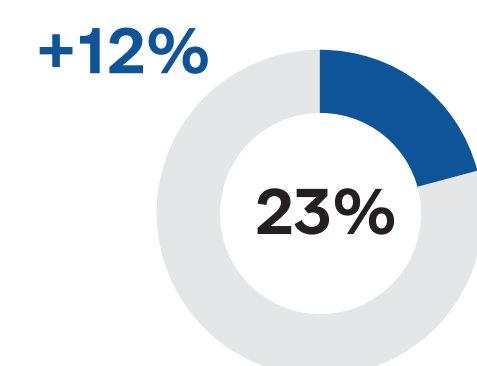
Engineering solutions
(technical documentation, architectural and infrastructural projects, etc.)



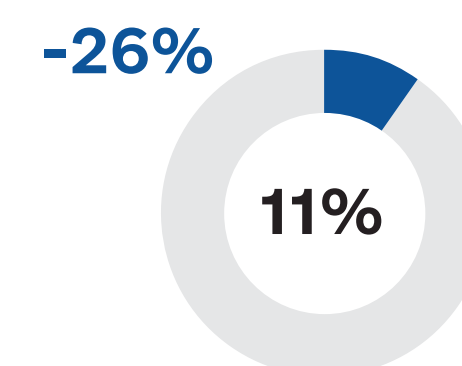
Information technologies
(development of IT systems, accounting systems, CRM, etc.)



Energy efficiency and environmental protection

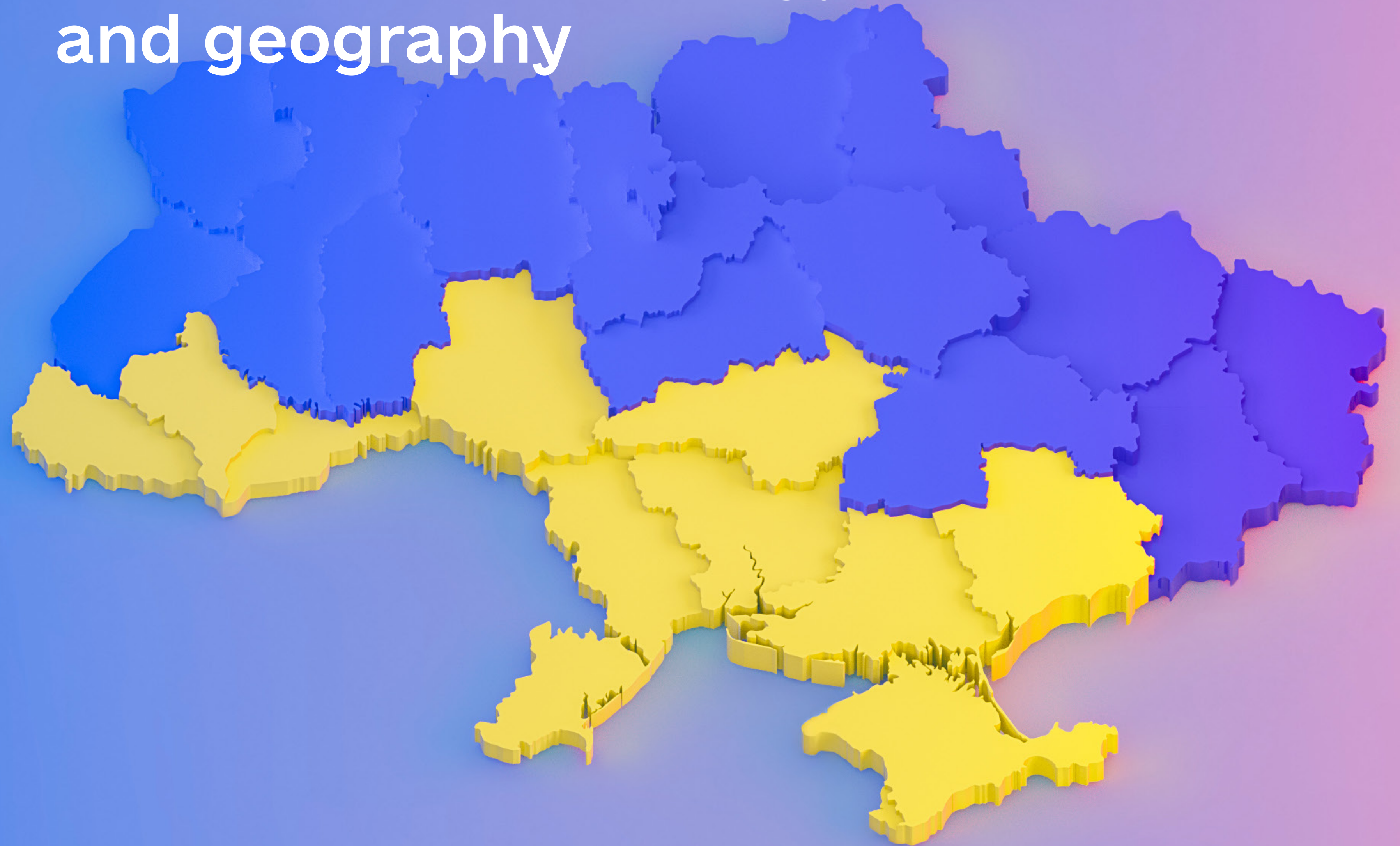


Organisational development
(organisational structure, personnel efficiency, etc.)



I do not need information

Research methodology and geography



Parameters

Qualitative survey

- **16 expert interviews** with owners/CEOs and senior executives of production and service sector SMEs
- **Dates:** March-April 2024



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)

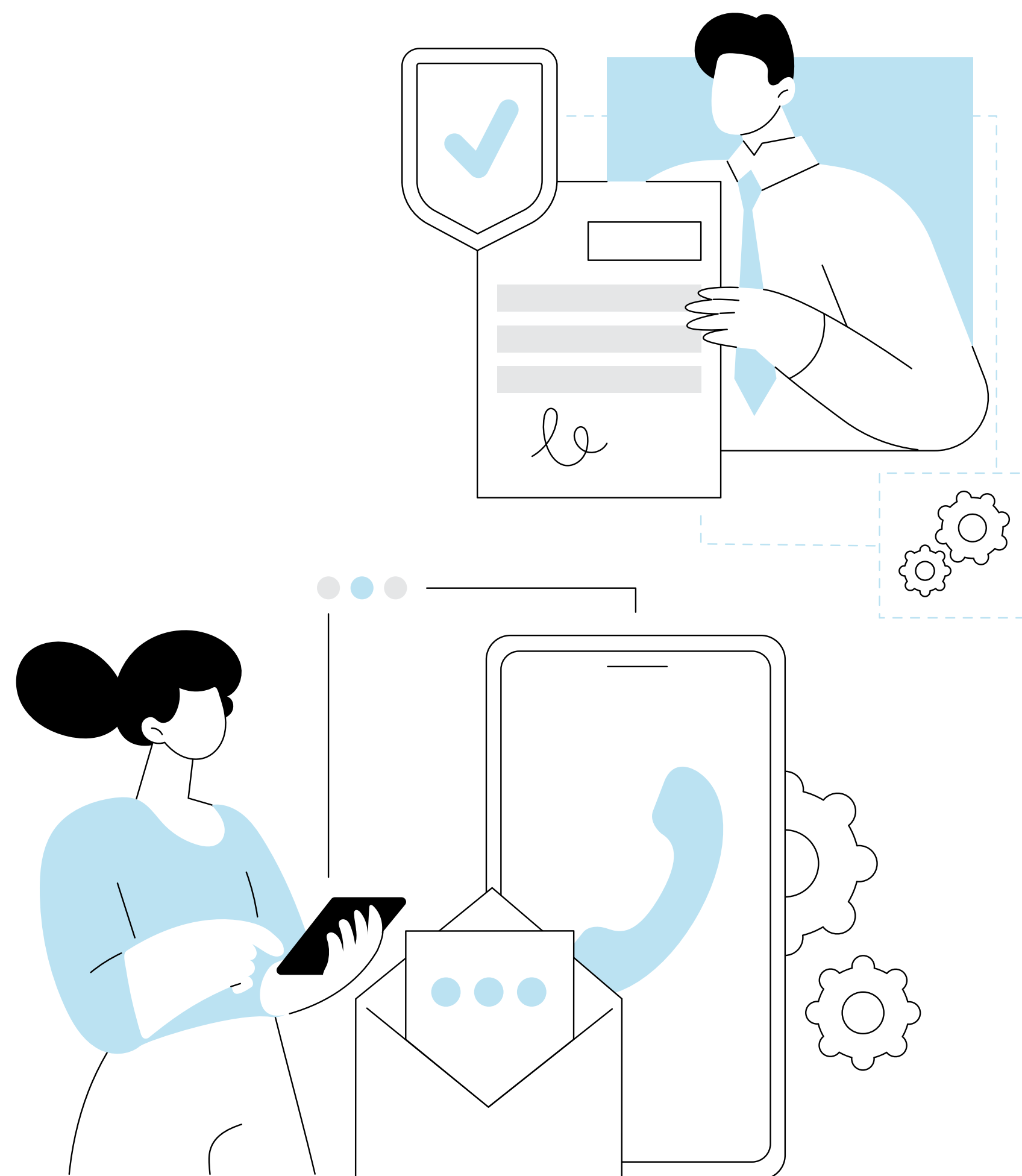
The principle of sampling: two databases of SMEs (production and service sectors) by EDRPOU code (in descending order) were arranged, and the selection of enterprises (number of enterprises/per sample) was determined. Additionally, 10 relocated enterprises were interviewed by the booster.

- **Additionally, 10 relocated enterprises** were interviewed by the booster.
- **Error +/- 8.2 per cent**
- **Dates:** March-April 2024



Methodology

Region



Centre

Vinnytsia
Zhytomyr
Kyiv
Kirovohrad
Poltava
Sumy
Cherkasy
Chernihiv

West

Volyn
Zakarpattia
Ivano-Frankivsk
Lviv
Rivne
Ternopil
Khmelnyskyi
Chernivtsi

South east

Donetsk
Dnipropetrovsk
Zaporizhzhia
Mykolaiiv
Odesa
Kharkiv
Kherson

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