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

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

The assessment provides a comprehensive analysis of the impact of war and challenges faced by MSMEs in Ukraine, while highlighting their resilience and adaptability in the face of adversity. The assessment identifies MSME needs and provides a set of recommendations to increase MSMEs resilience and support recovery and sustainable growth of Ukrainian economy. A gender lens has been applied throughout the assessment and its recommendations.

KEY FINDINGS

Resilience of MSMEs: Despite the devastating impact of the war, MSMEs exhibited exceptional resilience. Since the start of the full-scale invasion, 64% of MSMEs have temporarily suspended or closed their business activities. However, a vast majority have resumed their operations and, in October 2023, only 9.6% of companies that have suspended are at risk of closing their business.

Financial Losses: Despite the ongoing war, businesses have successfully adapted to the situation and maintained financial stability. A majority of companies reported financial losses of up to USD 100,000 attributed to the war. The scale of financial losses varied across sectors, with the construction sector suffering the most and agriculture, telecommunication, marketing, consulting and design services experiencing the least impact.

Regional Disparities: There are important regional differences, with enterprises located in the Eastern and Southern regions of Ukraine encountering approximately 1.5 times greater losses than those in the Western part of the country.

Support and Recovery: Approximately a quarter of companies benefited from various state or international assistance programmes, which was crucial for the survival of half of these businesses. The feedback from businesses highlights continuing need for and importance of expanding these support programs (Figure 1.3).

Resilience and Factors driving Recovery

Ukrainian businesses proved to be resilient amid the ongoing conflict, with 84% of suspended companies managing to partly renew their business activities within a period of up to 6 months. This recovery is mirrored in the GDP growth, with a preliminary estimate at 5% for 2023, a sharp reversal from previous year's decline. Factors driving this recovery include improvements in energy supply, external financial aid, and growth in construction, trade, agriculture, and processing industry.

Despite challenges related to transport and logistics, export blockades and economic sanctions, Ukraine has managed to maintain macroeconomic stability and the economy is projecting future growth. The government and business sectors are navigating through these adversities with strategic measures, such as opening up of alternative trade corridors and leveraging international financial support, demonstrating a resolved push towards economic revitalization and sustainable growth.

IMPACT OF WAR ON MSMES AND OUTLOOK

The war deeply affected Ukraine's economy, disrupting most small and medium-sized businesses. Compared to pre-war levels at 72.4%, the utilization of MSME production capacity sharply dropped to 45.7% in 2023 and is expected to grow to 56% by 2024. If there is increased demand, the businesses are ready to increase their turnover by approximately 50%. Only 4.3% of companies relocated due to security concerns and access to consumers and skilled labour.

The impact of war on financial performance of companies varies significantly based on sector and region. Only 9.5% of companies indicated that they had no financial losses as a result of the war and some 10% of companies had modest losses of up to USD 10,000. On average the financial loss due to the war is USD 227,000 per company.

While financial outlook has worsened, with over 77% of businesses viewing their situation as bad or satisfactory, companies still exhibit optimism about post-war recovery and forecast to maintain full-time employment and integrate IDPs into their workforce. Having already downsized, most businesses do not intend to reduce staff further, seeing their workforce as a prerequisite for a gradual recovery of the economy in 2024.

GENDER SNAPSHOT

The survey[1] results highlight that enterprises led by women on average have the same level of resilience as those led by men. However, 9.5% of women managers closed their business compared to only 5.2% led by men. A nuanced insight into business decisions of women managers highlight that in case of imminent danger, women are more inclined to consider the safety of their employees and to close their businesses.

In terms of business recovery, women-managed enterprises expressed relatively lower needs for financial resources, compared to their male peers. Specifically, 75% of women managers stated that the level of required financial resources is up to USD 300,000 for the next 3 years, compared to 56.8% of male peers.

Figure 1-1.
How do you estimate the financial loss due to a full-scale invasion?

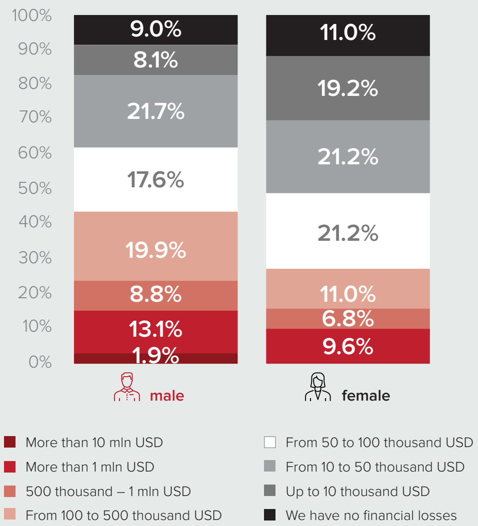
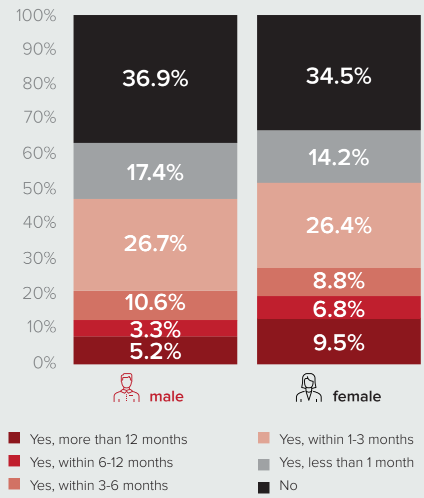


Figure 1-2.
Has your company gone out of business due to the full-scale invasion?

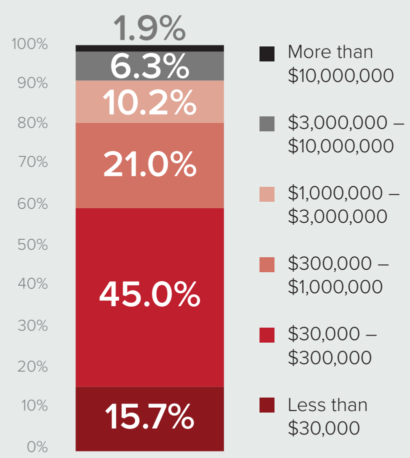


SECTORAL SNAPSHOTS

Compared to a pre-war aggregate profit of UAH 321 billion, the Ukrainian industrial sector recorded losses of UAH 134.7 billion in 2022, with manufacturing and energy sectors facing the most significant impacts. Manufacturing suffered UAH 82.7 billion in losses, and the energy sector, including electricity and gas, lost UAH 75.9 billion. By 2023, enterprises only managed to recover to 27% of their pre-war profit levels.

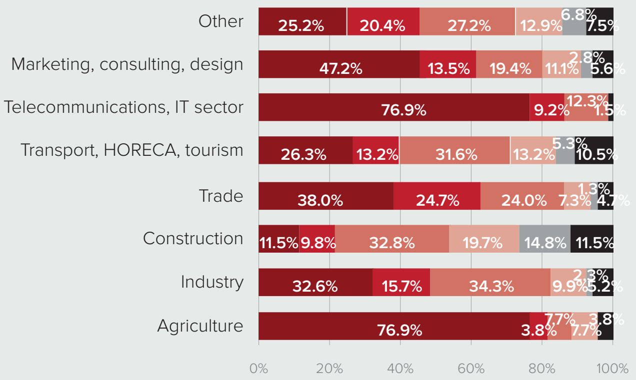
Survey results indicate that the war has most adversely affected industries such as manufacturing, construction, food services, hotels, and tourism, while IT and agriculture have shown resilience. Notably, 55% of the industrial sector reported losses exceeding USD 100,000, and a significant portion of construction businesses were severely disrupted. Nearly two-thirds of companies across various sectors anticipate a need for additional financing, up to USD 300,000 in the next three years, with requirements varying widely. Over 10% of firms in construction and industry need more than USD 10 million. Despite these challenges, 80% of businesses lack structured investment plans, and foreign investment attraction is largely not considered, except in the HORECA sector, where over a quarter of the companies are looking to attract foreign investors.

Figure 1-3.
What additional financial resources does your business need (in addition to your available resources) to implement your business development strategy within 3 years?



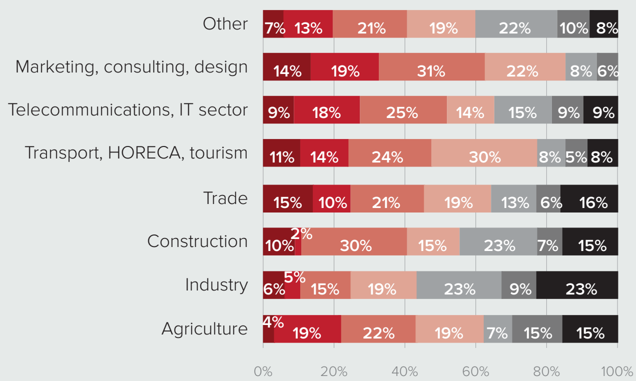
1 The sample of surveyed MSMEs included 78.5% of male-led and 21.5%.women-led businesses

Figure 1-4.
Has your company gone out of business due to the full-scale invasion?



- No
- Yes, less than 1 month
- Yes, within 1-3 months
- Yes, within 3-6 months
- Yes, within 6-12 months
- Yes, more than 12 months

Figure 1-5.
How do you estimate the financial loss due to a full-scale invasion?



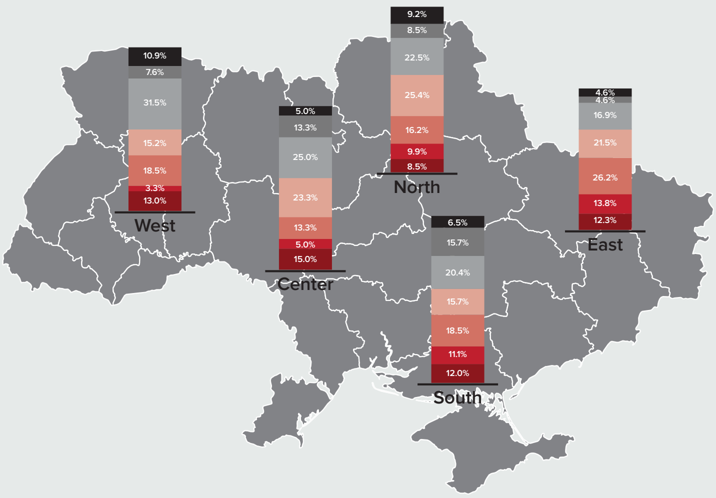
- We have no financial losses
- Up to 10 thousand USD
- From 10 to 50 thousand USD
- From 50 to 100 thousand USD
- From 100 to 500 thousand USD
- From 500 thousand to 1 mln USD
- More than 1 mln USD

REGIONAL SNAPSHOTS

There are important regional differences, as companies located in the eastern and southern regions of Ukraine experienced more pronounced operational halts, resulting in approximately 1.5 times greater losses compared to their peers in the western regions. In addition, companies in the western and northern regions are more engaged in foreign economic activities, providing them an additional buffer from market shocks. Specifically, half of the companies from the western region are engaged in foreign markets compared to only a third of companies in the eastern region.

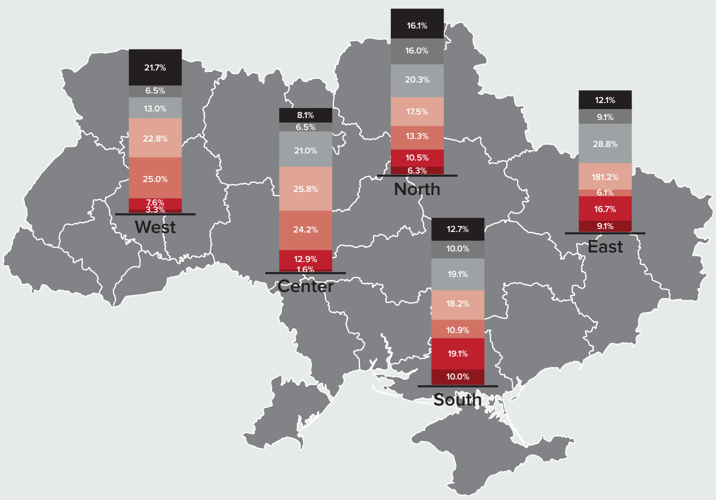
Demand for additional financing is notably higher in the eastern and northern regions, while the companies in the western region are expecting significantly higher turnover and job growth in 2024.

Figure 1-6.
How do you estimate the financial loss due to a full-scale invasion? Source: own calculations



- We have no financial losses
- Up to 10 thousand USD
- From 10 to 50 thousand USD
- From 50 to 100 thousand USD
- From 100 to 500 thousand USD
- 500 thousand – 1 mln USD
- More than 1 mln USD

Figure 1.7.
Forecasts for 2024 regarding your business – compared to 2023



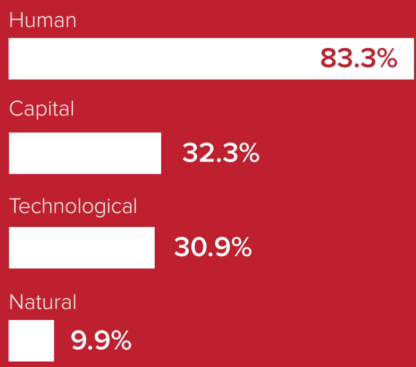
- More than 150% from 2023 (50% growth and more)
- 130% – 140% from 2023 (30% – 40% growth)
- 110% – 120% from 2023 (10% – 20% growth)
- Almost like 2023
- 50% – 90% from 2023
- to 50% from 2023
- Business will not work/stopped

RECOMMENDATIONS

The assessment resulted in a set of recommendations with a goal to mitigate the negative impact of war and mobilization and to support the resilience and growth of Ukrainian MSME businesses. Figure 1.8. provides granular insights on priorities for recovery.

- **Improve Access to Finance**: Related to access to finance, MSMEs face more considerable challenges when compared to large enterprises. There is a need to address the barriers, adapt regulation and develop instruments and programmes to enhance MSMEs' access to finance.
- **Preferential and Long-Term Lending for Businesses**: Financial sustainability and business growth require, stable and long-term financing. Long-term loans at preferential rates will support MSME sound cash flow management and preservation of operating business parameters and at the same time provide financial space for growth and development projects.
- **Introduce New Financing Instruments**: Given the increased risks in an unpredictable environment that impact the traditional sources of investment, it is important to deepen the capital market and develop new financing instruments that cover the risk of uncertainty and can leverage private sector financing.
- **Enhance Human Capital and Labour Market Flexibility**: Against the context of war and economic uncertainty, all companies have prioritized keeping their workforce and have recognized the importance of preserving and enhancing human capital. To increase productivity and competitiveness of enterprises, expanded investments are needed to adapt and develop employees' technical, soft and digital skills.
- **Job Creation Strategies**: Enterprise closures and displacement have led to unemployment, prompting many to start their own businesses for survival. There's a need for support programs and an ecosystem to help these startups grow into sustainable businesses. Also, targeted initiatives and incentives are essential to create jobs and protect existing human capital.
- **Wage Growth**: Wage growth, resulting from emerging labour shortages, needs to be mitigated with initiatives focused on human capital investments, reskilling and upskilling with goal of increased MSME productivity.
- **Support for War-Affected Population:** Programs and incentives that support small and medium-sized businesses to employ war-affected population, including women, youth, IDPs, veterans and persons with disabilities need to be scaled-up.
- **Enhance MSMEs competitiveness through investments in technology and modern business practices**: MSMEs have been resilient but need to improve management practices, adopt new technologies, and find innovative work forms to stay competitive. Investment in R&D by Ukrainian MSMEs is significantly lower than in Europe, due to resource shortages and weak R&D collaboration. Expanded support programs are essential to boost investment in green and digital technologies and facilitate business modernization.
- **Export opportunities**: A majority of MSMEs are focused on domestic markets and do not effectively leverage international markets for their growth and competitiveness. The low internationalization of Ukraine's MSMEs needs to be addressed with comprehensive policy frameworks and business development instruments that will facilitate and support inclusion of businesses in international supply and value chains, including integration into the EU single market.
- **Transportation, Trade Facilitation and Routes**: For businesses of all sizes, establishing new transportation routes, enhancing trade processes, and simplifying trade regimes are crucial to mitigate war impacts and accelerate growth. Investments in programs that open new corridors, improve logistics, and ease foreign transactions are vital for expanding business reach and competitiveness.

Figure 1-8. What resources will be key to post-war recovery for your company?



MSME Survey Methodology

This assessment is the result of periodic surveys of MSMEs, performed between March 2022 and January 2024. In total 15 surveys were conducted, covering enterprises across sectors/industries and regions. The latest survey was carried out in December 2023 and January 2024 with 696 responses from business managers and owners (543 from men and 153 from women). The majority of respondents are micro-businesses (66.3%) with a turnover of up to USD 261 thousand, 31.1% are small businesses with a turnover of up to USD 2.6 million, 2.6% are medium-sized businesses.

Read full version of report here: