



JOINT EMERGENCY RESPONSE IN

# UKRAINE

Alliance 2015

UKRAINE-Economic Recovery  
Context Analysis and Strategy Design

## Acknowledgements

Thanks to all JERU management and support staff, WHH country director Derya Mutlu for the trust given, guidance and flexibility in the organisation of the consultancy tasks.



I hope the time spent together in Ukraine, and the exchanges, gave inspiration for designing successful projects.

## List of acronyms

CCD Collaborative Cash Delivery network  
CESVI Centro di Sviluppo Internazionale  
EBRD European Bank for Reconstruction and Development  
EIB European Investment Bank  
ESCP Ecole Supérieure de Commerce de Paris (European Business School-Leader in Entrepreneurship)  
EU European Union  
FAO Food and Agriculture Organisation  
GDP Gross Domestic Product  
GIZ German International Cooperation agency  
GMI Guaranteed Minimum Income  
HUS Housing and Utilities Subsidies  
IDP Internally Displaced Person  
ILO International Labour Organisation  
IT Information Technology  
IMF International Monetary Fund  
INGO International Non-Governmental Organisation  
IOM International Office for Migration  
JERU Joint Emergency Response in Ukraine  
LRRD Linking Relief, Recovery and Development  
MEAL Monitoring, Evaluation, Accountability and Learning  
MoSP Ministry of Social Protection in Ukraine  
MPCA Multi-Purpose Cash Assistance  
SDG Sustainable Development Goals  
SME Small and Medium Enterprises  
SOE State Owned Enterprise  
UN United Nations  
UNDP United Nations Development Programme  
UNHCR United Nations High Commission for Refugees  
USAID United States Agency for International Development  
USSR Union of Soviet Socialist Republics  
WHH Welthungerhilfe  
WB World Bank  
WFP World Food Programme

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JERU (Joint Emergency Response in Ukraine) is a partnership of 3 European NGOs, Welthungerhilfe, Concern worldwide and CESVI, all members of the Alliance 2015. Engaged since April 2022 in Ukraine, through humanitarian aid interventions, JERU decided to extend the scope of its interventions and support the country economic recovery process. JERU management contracted the services of an expert consultant, having experience with JERU organisations as economic development advisor, as well as management experience in recovery and development programming.

A contextual analysis consisted in a literature review and key informant interviews. First findings were validated through a webinar presentation and exchanges with key JERU staff. The analysis was complemented with stakeholder meetings in Ukraine (2 weeks visit) in 5 Oblasts from JERU intervention regions (Ternopil, Khmelnytsky, Poltava, Sumy and Kharkiv). Key contextual highlights are:

- Despite a functional social protection system, and exemplary innovative tools for reaching the most in need, the government services are outpaced in ensuring coverage and adequacy of support required. The IDP crisis called for direct Humanitarian interventions from International organisations in Ukraine, complementing the government and civil society efforts.
- The economic recovery process is a strategic path, for both ensuring the continuity of development programmes in Ukraine, and addressing impacts from the war on the increased poverty and vulnerability level (IDPs, unemployment).
- Ukraine is undergoing reforms aligning to international institution requirements (such as IMF) that intervened in response to different crisis since independence (inflation, Global financial crisis, Crimea crisis, Covid and now Russian invasion). Furthermore the candidate status given for EU integration further accelerates alignment requirements across all sectors in Ukraine. This presents both opportunities and risks that should be mitigated (high importance of the informal economy, complex farming systems with high level of small holder production).
- Agriculture is a main pillar of the economy. However rural poverty remains significantly high, and shows a complex disparity in the country economic wealth distribution.
- A Recovery plan is designed at national level. It aligns to the EU integration path and sustainable development goals. This provides the frame to actors engaged in economic recovery
- Ukrainian entrepreneurs and SMEs constitute a key potential for the economic recovery process. This is further supported through a vibrant innovation and digital transformation ecosystem.

Stakeholder meetings in Ukraine followed by a strategic workshop with key JERU staff in Kyiv, allowed the design of an economic recovery strategy. With a vision of creating sustainable growth and prosperity for all Ukrainians, through sustainability oriented approaches, JERU team validated the identification of 9 key activities.

Since the early 2000s, Ukraine is regularly in the international spotlight, whether for the mass protests of the Orange Revolution (2004) and the Maïdan Revolution (2013-2014), or for Russia's annexation of Crimea in 2014, followed by the conflict in the east and the invasion of Russia in 2022.

The country's independence in 1991 was the result of a long struggle against foreign powers which had long coveted and occupied Ukrainian lands. The word Ukraine (Oukraïna) first appeared in 1187 to designate the Pereïslav region south of Kyiv. The term Ukraine refers to different territories at different times. During the Cossack period (XVI-XVIII centuries), it was used to name central Ukraine. Becoming a member of the UN in 1945, Ukraine took its contemporary form in 1954, during the soviet period. Since the collapse of USSR, Ukraine is facing a four-fold challenge: nation-building, democratisation, economic transformation and social restructuring.

Humanitarian crisis started with the conflict in the East, following the annexation of Crimea. International Aid organisations engaged in the country providing emergency support to conflict affected population. On the 24<sup>th</sup> of February 2022, the Russian invasion of Ukraine led to an escalation of violence and a huge displacement of population that Europe hasn't seen since World War II. (Over 4 Million left Ukraine and over 7 Million moved internally to safer regions). The humanitarian aid intensified, and Welthungerhilfe, Concern Worldwide and CESVI started operations in the country through the Joint Emergency Response in Ukraine (JERU), responding to basic needs through Multi-Purpose Cash Transfer (MPCA) and other in-kind support (food, winterisation kits).

Russia's aggression in Ukraine is a major turning point in international relations. Diplomacy was not enough to prevent the escalation of Russian violence in Ukraine. Europe's values are under attack, and its ability to defend itself is being challenged. While support for Ukraine's defence helps to contain a full-scale invasion of the country, it is now keeping it in a highly uncertain situation. The fighting is taking place on a more or less established front line, but daily missiles and drone attacks are targeting the entire country, with a higher intensity on the capital Kyiv.

Despite this extremely difficult context, Ukraine is showing an impressive resilience attitude to keep its economy running. With courage and dedication, Ukrainians continue their efforts in building a strong nation and creating a sustainable growth with visions of peace and prosperity. The following report aims at providing relevant information to better understand the economic context in Ukraine, as well as current challenges and national plans (1<sup>st</sup> chapter). A strategy for economic recovery and development is proposed (2<sup>nd</sup> chapter), based on the consultant analysis, observations and consultations with key stakeholders in Ukraine, including the team from JERU. This document aims at providing references, guidance and inspiration to JERU members and teams in designing programmes and projects supporting the recovery and development efforts in Ukraine.

The consultancy consisted in two Phases. The first one consisted in both literature review and remote key informant interview, the second one consisted in stakeholder meetings in Ukraine, followed by a workshop in Kyiv with JERU key staff.

### Phase 1

a) Literature review and contextual analysis: The consultant collected and analysed available data from relevant sources on the web, and from existing JERU partner assessment reports. (References page 45)

b) Key informant interviews: The JERU programme managers provided the consultant with relevant contacts from Alliance 2015 partners in Ukraine, local implementing partner, FAO cluster/working group coordinators. Remote Interviews could validate key findings from the literature review, complement information. It provide also a clearer understanding of different roles and intervention from stakeholders in Ukraine.

c) Context analysis validation webinar: The context analysis from the desk review and key informant interviews was presented to JERU key staff, and advisor from WHH head office. A power point presentation was used to present key highlights, followed by an exchange with the webinar participants. The information provided allowed the validation of key findings. Identified challenges allowed JERU colleagues in Ukraine, to further proposed key stakeholders meetings in Phase 2.

### Phase 2

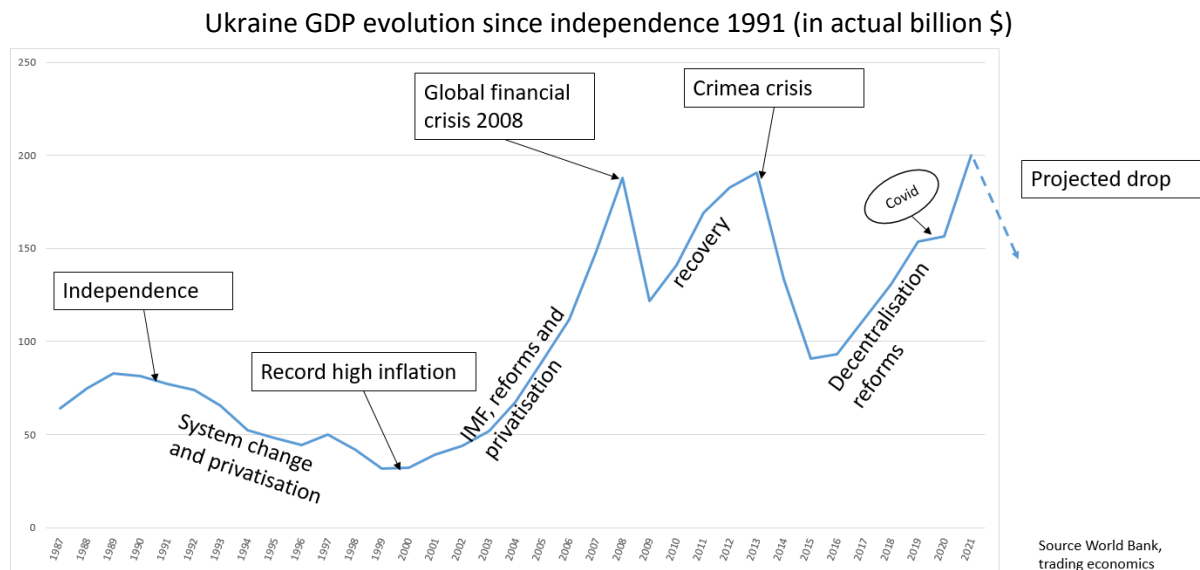
d) Ukraine visit/stakeholder meetings: The consultant visit in Ukraine will covered all targeted oblast (West and East Ukraine), as well as Kyiv. Stakeholders visit and key information collected are presented in the Chapter1.5 Oblast profile. The exchange allowed an optimal understanding of the role from key actors involved in economic recovery and development in Ukraine and targeted Oblasts. It allowed to identify major stakes and challenges, as well as potentials for intervention.

e) Workshop JERU strategic programming: A two days' workshop was organised in Kyiv, with key JERU staff from the coordination office, as well as Khmelnytsky and Poltava office. It gave the opportunity to provide relevant reference concepts and tools about entrepreneurial expertise, business modelling and sustainability orientation in economic development. Key highlights from the stakeholder meetings in Ukraine were presented too. JERU team validated the proposed economic recovery strategy and started the identification of pilot projects that could be started immediately.

The logistic organisation allowed the visit of 5 Oblasts (West and East) in a relative short period (2 weeks including travels). 14 different stakeholders were visited, but the time for each visit was a main limitation for the consultancy meetings. Some planned stakeholders could not be available, and the time in Eastern Oblast (especially in Kharkiv) had to be shorten due to security constrains.

However these limitations and constrains have not prevented the success of the consultant visit, who could collect important views and perspectives from different actors in Ukraine.

## 1.1 Ukraine Economic background

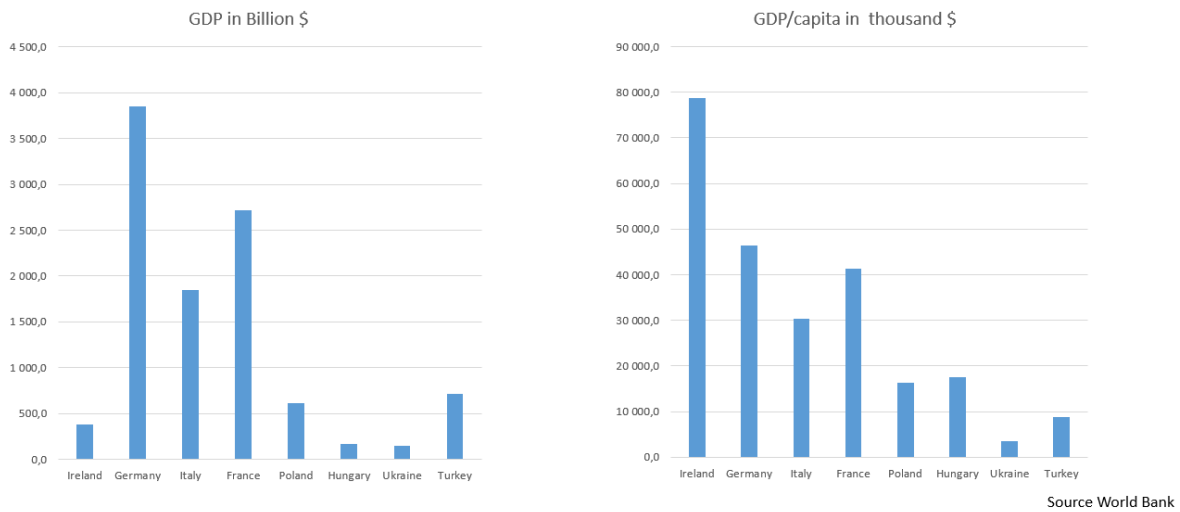


After the collapse of the USSR, Ukraine underwent a painful transition to a market economy: its GDP fell by 40% in the 1990s, reached a record high inflation, and did not recover until the early 2000s. The global financial crisis of 2008 hit the country hard, with revenues dropping and public debt doubling. The government turned to the International Monetary Fund (IMF), which had been providing aid since 1991, and approved a \$16.4 billion credit facility. In 2014, the conflict led to a sharp devaluation of the currency. Ukraine, which was on the verge of bankruptcy, again applied to the IMF, which provided loans up to 17.5 billion dollars over four years. The EU also allocated several billion euros, as did the United States. Ukraine is also receiving support from other countries, the World Bank (WB) and European banks. The IMF makes its loans conditional on the implementation of reforms which, historically, have focused on the judicial system and the fight against corruption, as well as the liberalisation of the market (gas, agricultural land). In June 2020, to deal with the Covid-19 pandemic, Ukraine obtained a new emergency loan from the IMF (5.5 billion dollars over 18 months) after pledging to pass two laws: the first on the sale of agricultural land (authorised from 1<sup>st</sup> of July 2021), the second making it impossible to return nationalised banks to their former owners (to satisfy the IMF's demand to clean up the banking sector). GDP will only contract by 4% in 2020 (compared to the 7% forecast) due to household consumption that remained solid thanks to rising wages and remittances from Ukrainian workers abroad (estimated between 3 million to 6 million). The effects of the crisis have also been limited by the high prices of export products, even though the economy remains heavily indebted, with increased military spending and loan repayments. It is also marked by a lack of investment linked to the business environment. The invasion of Russia in 2022 hits again the country hard, with a sharp decline in the GDP. However recent estimates by the investment promotion office of the Cabinet of Ministers in Ukraine, indicate a slight but positive growth in year 2023.

In 2020, the GDP per capita is one of the lowest in Eastern Europe and is only 20% of the EU average. However, this figure should be considered with caution given the level of the informal economy that is not considered in official statistics. Despite the country potential in resources, it remains one of the poorest country in Europe, when considering official macro level economic dimensions.

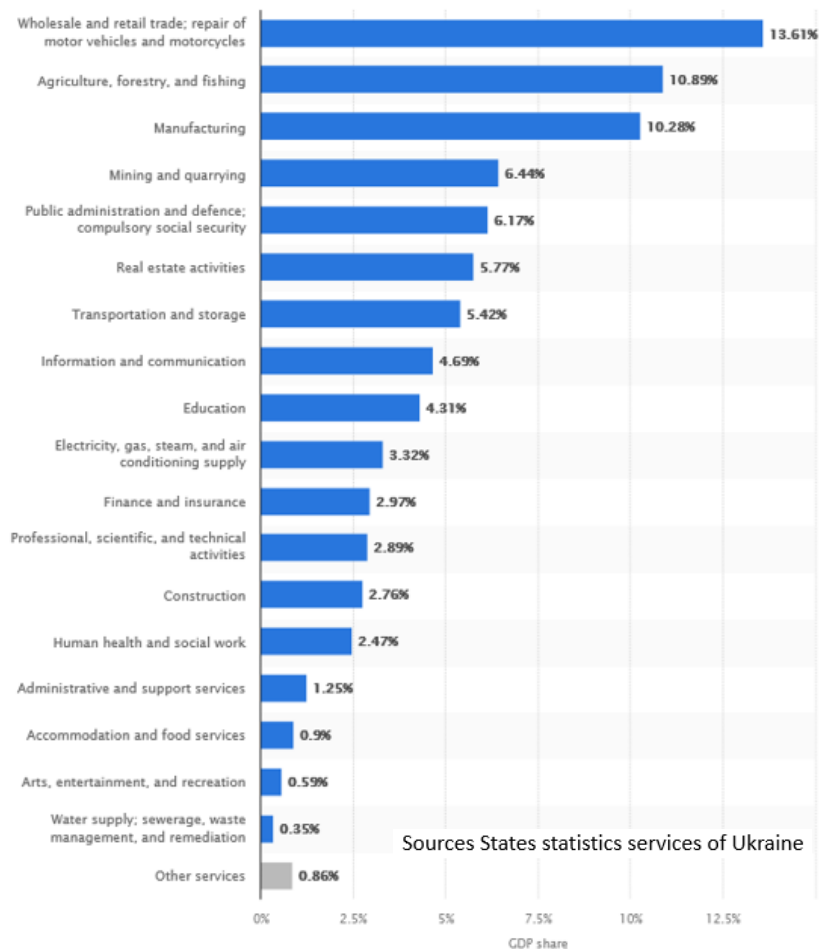


## GDP country comparison in 2020



The economy in Ukraine is mainly driven by Small and Medium Enterprises (SMEs) in wholesale, retail and manufacturing. Agriculture sector alone is the second highest contributor to the GDP. However, if we consider the extended actors in agriculture (suppliers, food processors, retailers), it contributes to over 20% of the GDP, making it the most important sector in Ukrainian economy.

## Distribution of the GDP per Sector in Ukraine in 2021



Ukraine's economic dependence on Russia is often mentioned. It is linked to the system of economic interdependence in the Soviet Union: as the second-largest industrial region after Russia, Ukraine supplied the rest of the USSR with foodstuffs, heavy industrial products and machine equipment in exchange for energy. The country's independence in 1991 only partially changed this status quo. Diversification of foreign relations was slow for structural reasons, which Russia exploited to serve its geostrategic interests. But the annexation of Crimea and the conflict in Eastern region in 2014 are changing the picture.

Dependence was particularly strong in the energy sector, which was Russia's main import to Ukraine. In 2005, Russia exported the equivalent of 74% of the country's natural gas needs and 85% of its oil. In 2014, relations between the two countries deteriorated. Under pressure, Ukraine reduced its energy dependence on its Russian neighbour. Since 2015, it no longer obtains its gas supplies from Russia, but from Central European countries (Slovakia, Poland). Ukraine is also reorienting its trade, accelerated by the entry into force in 2016 of the free trade agreement with the EU, to which Russia responded by suspending its own free trade agreement with Ukraine. The EU's share of merchandise exports rose from 34.1% in 2015 to 41.4% in 2018.

The Ukrainian economy is thus virtually no longer dependent on Russia, but the diversification of its trade outlets alone does not ensure at the moment stable growth.

#### Key facts on Ukraine economic background

- Agriculture is the biggest pillar of the economy
- Informal economy (not appearing in official statistics) is highly significant
- SMEs are well established, diversified and key drivers across all sectors
- The country has resources and wealth thanks to sectors like agriculture and mining. Repeated crises have hit its economy and increased its dependence on international donors, however without compromising its development potential.
- Closing economic and business relations with Russia means reorienting trade for Ukraine, through diversification of its export market outlets.

## 1.2 Poverty Profile

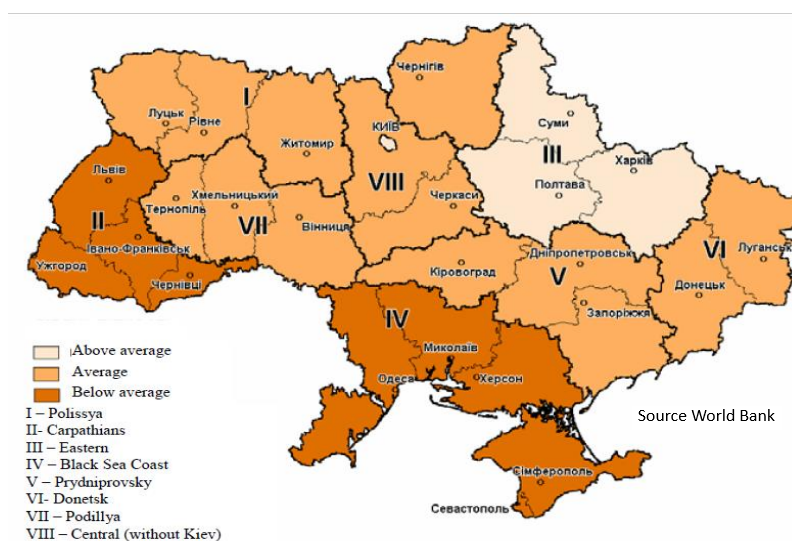
Ukraine has a complex socioeconomic situation and disparities in income and wealth distribution. The poorest groups typically include:

1. **Rural populations:** Rural areas in Ukraine often face economic challenges due to limited access to infrastructure, job opportunities, and public services.
2. **Unemployed and low-skilled workers:** The lack of job opportunities and high unemployment rates lead to poverty, particularly for those with low levels of education and skills. This group struggle to find stable employment and earn a sufficient income. Older age groups (45+) have trouble finding employment. They are socially vulnerable and have trouble competing in the labour market
3. **Elderly population:** Elderly individuals, especially those without sufficient retirement benefits or family support, experience financial difficulties. Pension reforms and economic instability in Ukraine have had an impact on the pension system, leading to challenges for many elderly citizens.
4. **Ethnic minorities:** Certain ethnic minority groups in Ukraine (Roma, Crimean Tatars, Romanians, Hungarians, Bulgarians, Moldavians), face higher levels of poverty and social exclusion.

Ukraine has made progress towards the Sustainable Development Goals (SDGs) over the past 15 years, including efforts to address poverty. Despite challenges, Ukraine has shown some progress in reducing poverty rates. From 2000 to 2019, the poverty rate in Ukraine decreased from around 53% to 14%, according to the World Bank, one of the fastest reduction rate in the region.

However, the overall improvement has been paralleled by an increasing poverty gap between rural and urban households, reflecting the fast but unbalanced economic growth: large cities have benefited from rapid industrial growth coupled with increased activities in construction and services, but rural areas have faced irregular weather and major restructuring of agricultural organizations. These developments have also defined a geographic picture of poverty where the more urban and industrial Eastern region have slightly lower poverty rates than those in the more rural and agricultural Western ones.

Regional poverty level map (2005)



According to World Bank, Poverty increased from 5.5% in 2021 to 24.2% in 2022, pushing 7.1 million more people into poverty and retracting 15 years of progress. The damages and impacts from the war are affecting first the Eastern regions, increasing their vulnerability and poverty rates. The proximity to combat line and Russian borders places the Eastern region in a higher risk position. This leads to low investments and services provision, increasing thus their vulnerability.

The internally displaced population (IDP) is today the major concern based on poverty and vulnerability criteria. According to the International Office for Migration (IOM) and the United Nation High Commission for Refugees (UNHCR) over 7 million people have been displaced so far. A rapid gender and conflict analysis conducted in August 2022 by JERU implementing partner Light of Hope in Poltava describes the conditions and status of the displaced families:

- The displaced households lost crucial means of living (house, jobs, social networks)
- They rely heavily on social assistance (Government, INGOs, host communities).
- They endure heavy psychological distress.
- Women have an important increase in responsibilities and workload
- As coping strategies, they use their savings, sell their goods and reduce food consumption
- Some find temporary jobs, often informal, in the host communities
- Their priorities is mainly about finding a proper and affordable shelter, and a source of income.
- Inflation and price increase are exacerbating the conditions for these vulnerable groups

War veterans are also of special concern, with dedicated social protection schemes from the government. The impact of injured or killed soldiers on vulnerable families will increase the risk to fall further into poverty.

#### Key facts on Ukraine poverty profile

- The Internally Displaced Population is the highest (over 7 million) vulnerable group and requires direct humanitarian assistance
- Poverty is significantly higher in rural areas.
- Unemployed and low skilled population have lower opportunities, unstable jobs and lower wages.
- Elders without sufficient government or family support, rely on part time job and other livelihoods (mainly in agriculture) to cover their needs
- The pre-war regional poverty map (higher in western Oblasts) should be considered now with an increased vulnerability from the Eastern Oblasts (Higher damages and proximity to combat line and Russian border)

## 1.3 Key Sector analysis

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### 1.3.1 Social protection

As many of the former republics, Ukraine inherited from the USSR a social security system and has undergone enormous changes since its independence. Ukraine's social security and pension system has undergone significant changes and reforms in 2003, 2010 and 2014-2015. The Ukrainian social protection system features a wide range of social assistance schemes covering an estimated 19 to 22 million people in the country. According to the World Bank and the International Labour Organization (ILO), effectively 73% of the population currently, either directly or indirectly, benefit from at least one social protection programme, especially the elderly, disabled, large families, war victims or veterans.

The Ministry of Social Policy of Ukraine (MoSP) is the national authority responsible for providing over 30 different cash-based social benefits to people that meet specific vulnerability and eligibility criteria, including low-income, unemployment, old-age, health conditions or disability. Programmes include pension benefits, unemployment grants, internally displaced people (IDP) housing allowance (e-Dopomoga) and programmes, such as the Guaranteed Minimum Income (GMI) and the Housing and Utilities Subsidies (HUS).

National social protection programmes have recently been scaled-up and continued to adapt by providing emergency and relief support in response to the internal displacement during the conflict in Donetsk and Lugansk regions and Crimea annexation in 2014, to the loss of income from the COVID-19 pandemic and the vastly increasing humanitarian needs during the current conflict.

Despite consistent Government spending on social safety nets, growing needs have outpaced coverage and adequacy of social benefits even before the current conflict began. According to World Bank and WFP, with additional flexibility to adjust coverage and adequacy of transfer values, existing social protection systems could better respond to the current and ongoing crisis.

The current and predicted challenges on the Social Protection system are:

1. The necessity to support IDPs and to provide social assistance and pension payments has put the welfare system in Ukraine under extreme stress. The invasion has resulted in massive employment losses. According to ILO, around 44 percent of jobs may be lost. World Bank projection indicate that almost 60% of the population could fall into poverty by 2023 (depending on the economic context and the course of the war). This will push millions more people onto social assistance.
2. The ability to finance additional and even existing social expenditures is highly constrained. There are significant new social expenditures because of the war, such as the survivor benefits, veterans' benefits, and disability. These expenditures are expected to be substantial and may reach one percent of pre-war GDP. The drop in GDP combined with the increased expenditures on defence has catastrophic consequences for social expenditures capacities.

The current conflict has exacerbated challenges of coverage for the most vulnerable through national social benefits and services, as well as adequacy of assistance provided, particularly in inaccessible areas. Sizable funding and resources are increasingly being provided by development donors through direct budgetary support to the Ukrainian Government, or through Humanitarian organisation funding. Humanitarian assistance is and will continue to complement social benefits whilst the conflict persists, which will help ensure some of the basic needs of conflict-affected, displaced, and other vulnerable populations are met.

The identified strategic social protection priorities combine relief and recovery objectives. These are:

#### Relief

1. Support people that were severely affected by the war while maintaining the integrity of the existing social safety nets. The war is destroying social protection infrastructure and displacing social workers. Vulnerable groups which require social services are unable to receive them. However the government investment in the digital tool, the Diia app, allowed to reach people in need. Only a month after the launch of the cash transfer programme on Diia, 3.5 million Ukrainians received support.
2. Protecting the financing of social expenditures is critical. The overwhelming damage to economic potential of Ukraine and a very large loss of GDP has resulted in massively reduced domestic resource mobilization capacity. Strategies to develop a financing approach that could prevent sweeping cuts to social expenditures needs to be urgently defined.

#### Recovery

1. Stimulating employment and preparing for long term recovery is key. More than 40% percent of people who had a job before the war are out of job. The public employment services are even more critical now and will need to adapt and strengthen skills matching and labour force activation capacities as a key input for aiding recovery and reconstruction.
2. Recovery-phase interventions should consider utilization of new technologies to strengthen the adaptability of the overall system. The Diia app offered the required tool to reach people in need of assistance. The services offered could be extended accordingly.
3. Building back better principle. The recovery interventions should align with development plans for sustainability, and increase efficiency of services offered, with a focus on community based services.

While WB and WFP engage with Ukrainian government on policy technical assistance for social protection system strengthening, INGOs collaborate through the Collaborative Cash Delivery Network (CCD) on a community of practice, data governance and advocacy.

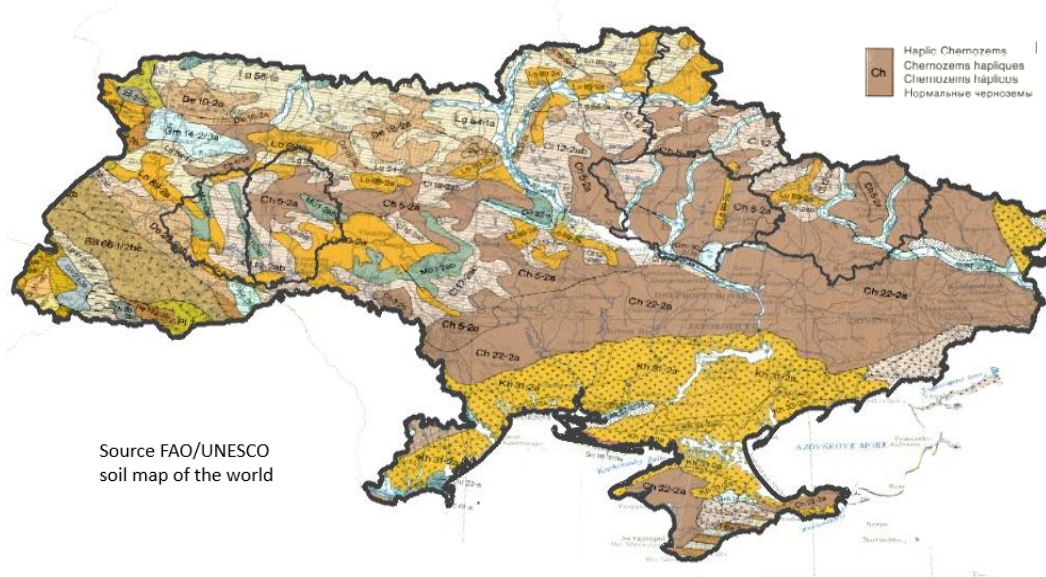
#### Key facts on Ukraine Social protection system

- Growing needs have outpaced coverage and adequacy (meeting basic needs) of social benefits
- Welfare system under extreme stress. Because of loss in GDP, there is a low ability to finance additional and existing social expenditure, while people in need of social assistance is increasing.
- Support is provided directly to the Ukrainian government through direct funding, and Humanitarian aid complement social protection services as long as the conflict persists
- Stimulating employment is a key strategy to both reduce the number of people requiring social assistance, and increase the financial capacity of social protection services.
- Digital tools (Diia app) was key in reaching the most in need, while services collapsed, and should be further used to leverage recovery interventions.

### 1.3.2 Agriculture

Wheat has been grown in Ukraine since ancient history, particularly in the steppe region, which is made up of fertile soil rich in organic matter called tchernoziom. These soils, also known as black soils or Chernozem soils, are of great importance in Ukraine and have significant agricultural and ecological value. These soils are characterized by their high fertility, dark colour, and rich organic matter content, making them highly suitable for agriculture. These soils have excellent water retention capacity and provide essential nutrients to plants, resulting in high agricultural productivity. Ukraine, owes much of its agricultural success to the presence of extensive areas of Tchernoziom soils. It is estimated that these black soils make up about 30% of the country's total land area. This extensive coverage allows for diverse agricultural practices and supports a wide range of crops, including grains (such as wheat, barley, and corn), oilseeds (such as sunflower and rapeseed), sugar beets, vegetables, and fruits. It is estimated that Ukraine contains around 30% of the world's total Chernoziom soil resources. This abundance of fertile black soils has played a pivotal role in establishing Ukraine as a significant agricultural powerhouse. Chernoziom soils are of immense importance to Ukraine, providing the foundation for its agricultural sector, supporting biodiversity, and contributing to the country's economic growth and food security.

Soil map of Ukraine (brown colour shows the extend of Chernoziom soils)



Source FAO/UNESCO soil map of the world

From the beginning of the 18th century, Ukraine was known as the breadbasket of Europe, thanks to the wheat production that developed on the fertile lands, and the resulting exports to the western Mediterranean. The city of Odessa, founded in 1794, became Ukraine's major port for exporting wheat, tobacco, sugar beet and corn to Europe. The nickname "breadbasket" lasted throughout the Soviet period, as Ukrainian agricultural production diversified. Little used after the end of the USSR due to a decline in agricultural production, the term reappeared in the 2010s, particularly in the media, as Ukraine gained ground as a global grain producer.

The Russian Revolution of 1917 deprived Europe of Ukrainian wheat. The ensuing civil war ruined agriculture, with wartime communism imposing compulsory purchase by force. In 1921, a famine claimed hundreds of thousands of victims in Ukraine. In 1931, despite a poor harvest, grain quotas and confiscation measures were maintained in Ukraine, which was deprived of 46% of its harvest, an exceptional and disproportionate confiscation that led to a particularly deadly famine. Out of a population of 30 million, nearly 4 million people died of hunger. Ukrainian agriculture was completely collectivized in 1935, but productivity remained relatively low due to organizational problems and

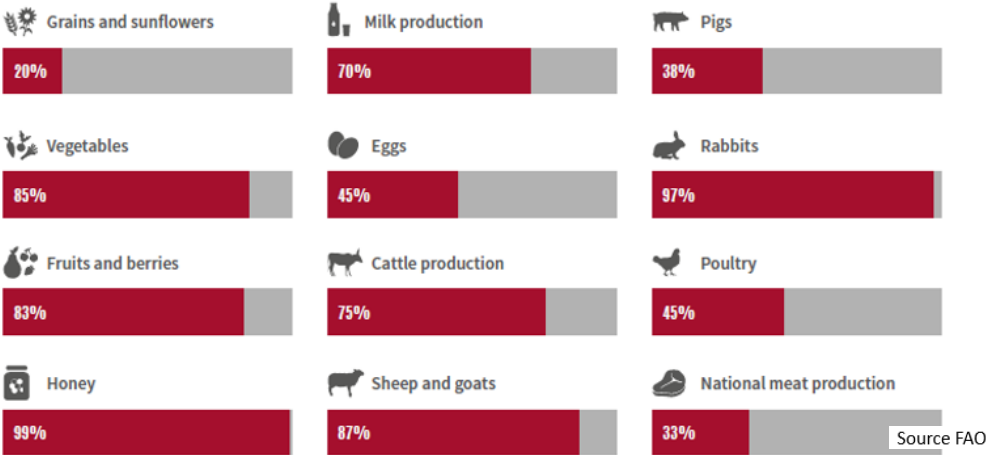
insufficient motivation of the peasants, who rather devoted themselves to their individual plots of land. After the Second World War, agricultural production took a long time to recover, and in the winter of 1946-1947, a new famine, caused by drought and several post-war factors, struck Ukraine, killing almost 500,000 people.

With Khrushchev's agricultural reforms launched in 1953 to increase production and fight malnutrition, Ukraine once again became the breadbasket of the USSR. In 1991, Ukraine still accounted for 35% of Soviet agricultural production, for a total area of just 3%. Reference to the "breadbasket" faded after the country gained independence, as agricultural production dropped. However, the symbol persisted: the most common interpretation of the yellow and blue Ukrainian flag, adopted at the time, was that of wheat fields under an azure blue sky.

Agricultural production recovered in the 2000s and now accounts for over 20% of Ukraine's GDP. The country has 42 million hectares of agricultural land, or 70% of its territory, including over 30 million hectares of arable land, a third of the EU's arable area. Since the 2010s, the country has become one of the world's leading grain producers: in 2018, it is the world's 8th largest wheat producer (5th largest exporter) and 5th largest corn producer. Ukraine is one of the world's biggest exporters of cereals and oilseeds, which suggests that the country will continue to be associated with wheat fields.

Gigantic farms resulting from the division of land at the end of the Soviet era definitely play a crucial role to the country's production potential. However small holder farmers contribute to more than 50 % of the total agricultural production. Furthermore, the Kyiv School of economics estimated that small holder farmers contribute up to 30 % in informal economy. While observing the landscape in Ukraine, you will find impressive vast fields of grains and oil seed crops, but also smaller vegetable gardens all around villages, dispersed grazing ruminants along roads and railways, and scattered fruit trees. While agriculture sector employs 22 % of the labour force, it do not represent the informal activity in family farming. Most Ukrainians have a plot of land in their extended family and contribute to farming activity according to seasonal tasks.

Small holder farming contribution to the total agriculture production in Ukraine in 2020



The agriculture sector in Ukraine is in a complex transition phase as it is pushed to integrate new reforms boosting its development while also looking at protecting rural and farming population, significantly engaged in the informal economy. Some of the key challenges in agriculture are:

- Overuse, improper land management and pollution (Industry/urbanisation) raising concerns about the loss of potential of Chernozem soils
- Droughts and other natural disasters threatens harvests, with concerned climate change negative impact prediction.



- Since 2001, the moratorium prohibiting the sale of agricultural land aimed at avoiding the destabilization of a sector that is crucial to employment and exports. Its gradual lifting, from July 1st 2021, aims at modernizing the sector, develop investment and increase growth. Prompted by the IMF, this measure is causing concern among the population, who fear a takeover by large foreign companies or oligarchs.
- Ongoing reforms and incentives to formalise the agriculture sector lead to strong concerns on the livelihood of the smaller farmers. The idea to introduce a minimum tax liability for every hectare of agricultural land brought intense media attention. The declared purpose of the bill is to fight agricultural product and land shadow markets. This initiative raised serious concerns that it would have a negative impact on small holder farms and will force some of them to lease their land to medium and large agribusinesses or even sell it off after launching the land market
- Structural obstacles persist resulting in the lack of financing and the slow pace of infrastructure modernization, especially in agro-food processing
- The direct impact of war consist in the loss of productive land areas, the increase in production costs, the collapse of input market in the Eastern regions, the decrease in revenues due to the difficulties in accessing new market, some land contaminated by land mines, and overall increased level of debt for producers.
- The Initiative on the Safe Transportation of Grain and Foodstuffs from Ukrainian ports, also called the Black Sea Grain Initiative, is an agreement between Russia and Ukraine made with Turkey and the UN. While it allowed to contain global food prices rise, the export level is estimated at 20%. The uncertainty of the agreement period, add challenges on grain producers.

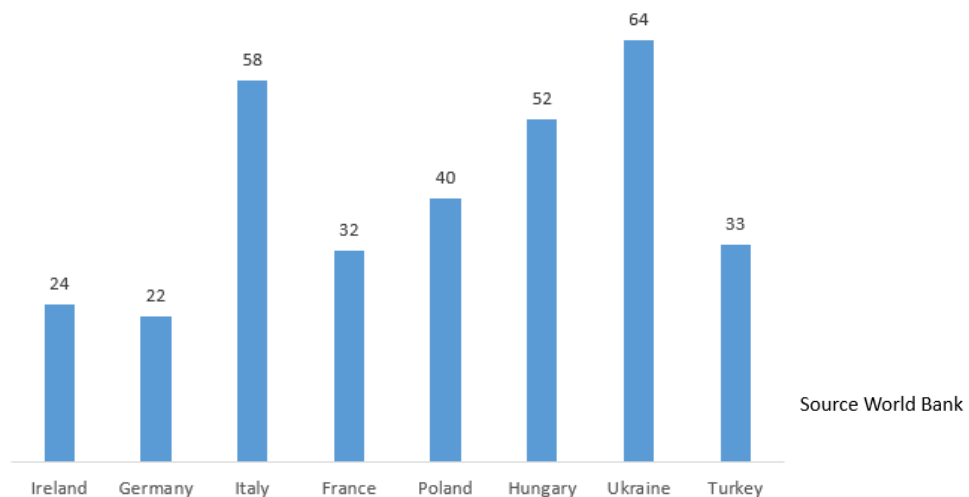
#### Key facts on Ukraine Agriculture sector

- Thanks to its unique soil resource and large arable land, Ukraine will remain a key global producer and exporter of grain and oil seeds
- Small holder farming is a major contributor to agriculture, with over 50 % of the total production. (especially high for vegetables, fruits, and livestock)
- Agriculture employs 22% of the workforce.
- Reforms required by the IMF and future integration to the EU raise concerns on impacting negatively small holder farmers.
- Potential for sustainable development in agriculture consist in the adoption and protection of sustainable production practices and local value chain development (Processing, distribution and trade)
- War impacted directly the East (Loss of land, collapse of the supply chain) and indirectly all other regions, by disturbing supply and commercialisation channels, and markets for producers. There is still a high level of uncertainty due to the fragile Black sea Grain initiative agreement, and the market outlets for producers, constrained by EU rules, regulations and standards.

### 1.3.3 Business ecosystem, entrepreneurship and innovation

The global ranking on the ease of Doing Business from the WB, is an analytical tool used to compare country economies and identify the topics in the business ecosystems that require improvement. Overall Ukraine is showing an increased performance on the ranking, but the progress is still considered slow, with further reforms required, to match and compete with EU countries or other EU candidate countries.

Global ranking Ease of Doing Business, 2020 (on 190 countries)



Challenges on getting electricity and resolving insolvency affect the country ranking the most, showing bad performance on these two topics. On getting electricity, Ukraine's low ranking can be attributed to lengthy procedures (time-consuming and burdensome for businesses), high costs for connection (especially for SMEs), inefficient infrastructure (Ukraine is one of the most energy-intensive countries in the world with energy intensity over 3 times higher than EU average) and lack of transparency for obtaining electricity connection. On resolving insolvency, the low ranking can be attributed to an inefficient legal framework (laws and regulations related to insolvency may lack clarity and efficiency), lack of specialized courts and inadequate creditor protection.

Ranking evolution 2019 to 2020 Ukraine Ease of Doing Business

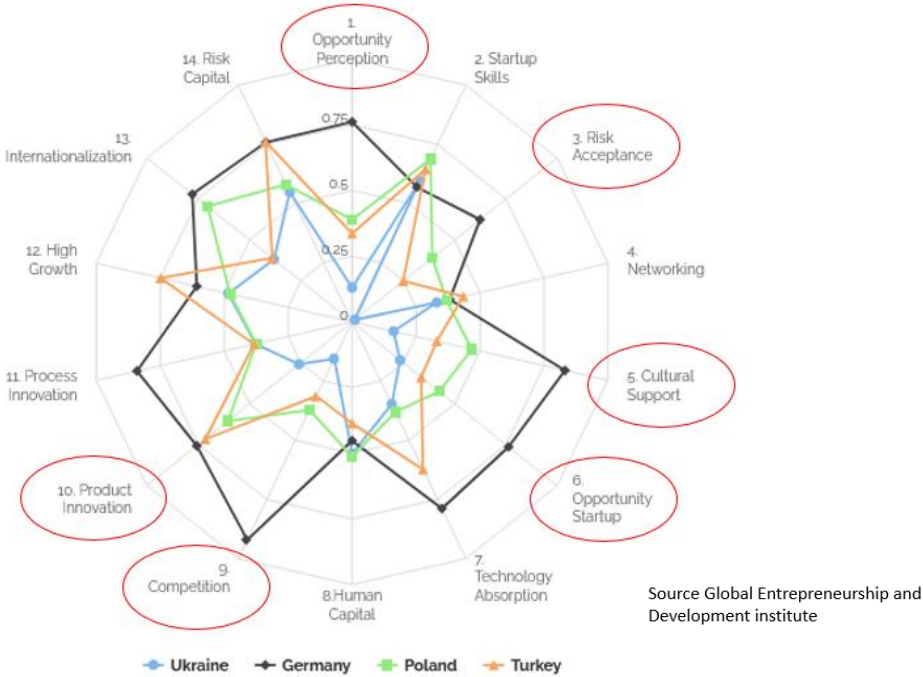
Topics	DB 2020 Rank	DB 2020 Score	DB 2019 Score	Change in score (% points)
Overall	64	70.2	69.1	↑ 1.1
Starting a Business	61	91.1	91.1	..
Dealing with Construction Permits✓	20	81.1	77.2	↑ 3.9
Getting Electricity✓	128	62.5	59.2	↑ 3.3
Registering Property✓	61	71.3	70.0	↑ 1.3
Getting Credits✓	37	75.0	75.0	..
Protecting Minority Investors✓	45	68.0	66.0	↑ 2
Paying Taxes	65	78.1	79.4	↓ 1.3
Trading across Borders✓	74	80.1	77.6	↑ 2.5
Enforcing Contracts	63	63.6	63.6	..
Resolving Insolvency	146	31.4	31.7	↓ 0.3

✓ = Doing Business reform making it easier to do business. ✗ = Change making it more difficult to do business.

Source World Bank

Ukraine's entrepreneurial context offers promising opportunities for growth, but several challenges require attention and strategic interventions. Enhancing access to resources (including financial capital and funding for start-ups and small businesses, business services and trainings), improving the regulatory environment, strengthening infrastructure, fostering innovation and collaboration, protecting intellectual property, and facilitating internationalization efforts are critical steps towards building a thriving entrepreneurial ecosystem in Ukraine. By addressing these challenges, Ukraine can unlock its full potential, fostering a vibrant entrepreneurial culture and driving economic development in the country.

Entrepreneurship ecosystem in Ukraine, 2019



Based on a benchmarking with 2 EU countries (Germany and Poland) and an EU candidate (Turkey), the 6 pillars in the Ukrainian entrepreneurship ecosystem that require priority focus for development are:



**Opportunity perception:** Extend to which individuals recognize and seize opportunities for entrepreneurship



**Risk acceptance:** willingness to take risk, and availability of resources to recover from failed ventures



**Cultural support:** cultural and social norms that support entrepreneurship, availability of role models and mentors



**Opportunity Start-up:** ease to start a business, level of bureaucracy and support services



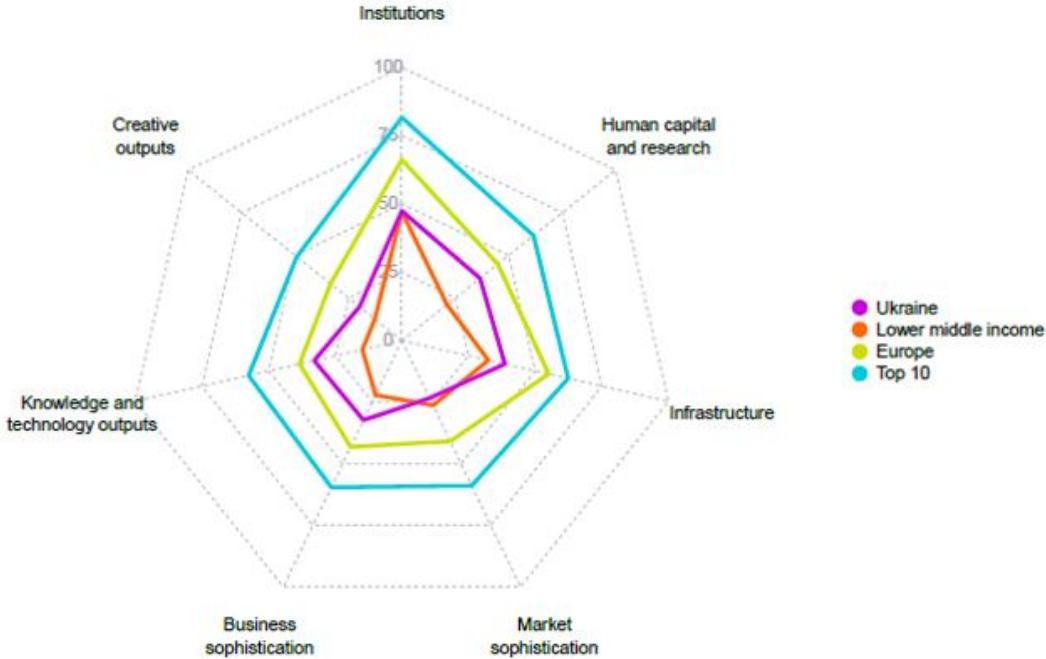
**Competition:** level of concentration in the market and ease of entry for new businesses



**Product innovation:** ability to develop and commercialise innovative products and services

Ukraine ranks 4<sup>th</sup> among 36 countries from the lower middle income group economies, highlighting the countries' performance on innovation. The country's strengths consist in a skilled workforce, a thriving IT sector, and a strong scientific research tradition, positioning it well in the global innovation landscape. However, challenges related to intellectual property rights, collaboration, and infrastructure development must be addressed to unlock Ukraine's full innovation potential. With continued efforts and strategic investments, Ukraine has the potential to become a leading innovation-driven economy.

Innovation ecosystem in Ukraine 2022



Source Global Innovation Index

- Key facts on Ukraine Business Ecosystem, Entrepreneurship and Innovation**
- According to EBRD, access to finance is one of the biggest barrier to the private sector development. Systemic challenges in the banking sector remain, credit interest rate are still high, and there is a lack of alternative financial resources (Microfinance institutions not actively operating)
  - The energy sector performance inhibits the development of businesses, constrained by lengthy procedures and costs to access energy.
  - Despite the growing awareness on opportunity perception and willingness to take risks associated with entrepreneurship, there is a lack of cultural support linked to a low availability of role models and mentors
  - Innovation capacity is the biggest strength, illustrated by the fast development of the Diia application, and initiatives from the Ministry of Digital Transformation (Diia Business centres).
  - The war severely impacted the private sector, with businesses forced to close, others relocating to safer areas, and all suspending partially or fully business activities. The loss of workforce and mismatch of skills after relocation are adding constrains on businesses, especially SMEs.
  - Given the ongoing reforms, the government engagement to align with EU laws and regulations and sustainability standards, the country human resources, international support and partnership (especially EU member countries), Ukraine may quickly unlock main private sector barriers and boost its economy.

## 1.4 EU integration and national frame for Economic recovery

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### 1.4.1 EU Integration frame

On the 23<sup>rd</sup> of June 2022, Ukraine became an official candidate for integrating the European Union. Candidate countries have to report on and fulfil the Copenhagen Criteria, also known as the membership criteria. These are the political, economic, and legal conditions that must be met by any country seeking membership in the EU. These criteria were established during the 1993 Copenhagen European Council and have since become the cornerstone of the EU's enlargement policy.

The 3 main pillars of the EU membership criteria are:

1. **Political:** stable institutions guaranteeing democracy, the rule of law, human rights, and respect for and protection of minorities.
2. **Economic:** functioning market economy and the capacity to cope with competitive pressure and market forces within the EU.
3. **Legal:** ability to adopt and implement EU laws and regulations, including those related to the single market, the common agricultural policy, and other areas of EU competence.

Prior to the official granting of candidate status, the European Commission listed several required reforms to be implemented by Ukraine (Reform of the constitutional court, continuation of the judicial reform, anti-corruption, anti-money laundering, implementation of the anti-oligarchic law, harmonization of the audio-visual legislation, change in legislation on national minorities). These are used as references for the on-going negotiation process for agreement on EU integration criteria. To integrate EU, Ukraine have to fully endorse the Acquis Communautaire (EU laws, policies, and regulations that have been established by the EU institutions over time).

Furthermore, Ukraine should align with sustainable development processes from the EU, such as the EU green deal. It includes objectives and plans on climate neutrality, renewable energy, energy efficiency, sustainable mobility, circular economy, biodiversity and sustainable agriculture.

### 1.4.2 Ukraine recovery conference

Initiated in 2017, the Ukraine Reform Conference is an international forum that focuses on supporting and promoting reform efforts in Ukraine. The conference provides a platform for Ukrainian government officials, international partners, civil society representatives, and experts to come together and discuss progress, challenges, and future steps regarding Ukraine's reform agenda.

The conference addresses various areas of reform, including governance, rule of law, anti-corruption measures, economic development, energy security, decentralization, human rights, and security sector reform. The primary goal is to assess the implementation of reforms, exchange ideas and best practices, and mobilize international support for Ukraine's transformation process.

The conference also serves as a means to strengthen Ukraine's ties with its international partners, foster diplomatic and economic cooperation, and promote Ukraine's integration into European structures. It provides an opportunity for participants to discuss political, economic, and social developments in Ukraine, and to coordinate efforts to advance its reform agenda.

Now called Ukraine Recovery conference, the international forum established key principles for the International Aid of Ukrainian recovery on the 4<sup>th</sup> of July 2022 in Switzerland. These are called the Lugano principles:

## The 7 Lugano principles for Ukrainian recovery process, 2022



### 1.4.3 Ukraine national economic recovery plan

A national recovery council was set up by the president of Ukraine to coordinate the national recovery plan development. In July 2022, the Ukraine's National Recovery plan is published and serves as a reference for the recovery process. This is a 10 years plan (up to 2032). It outlines 6 key priority areas for Ukraine's economic recovery and 5 guiding principles for implementation.

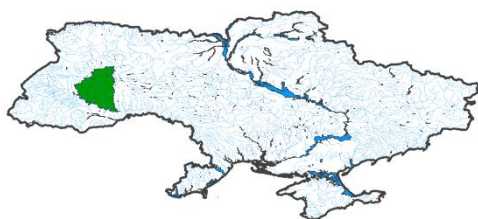


#### Key facts on Ukraine EU Integration process and National economic recovery plan

- The negotiation process for EU integration started and focuses first on the political pillar to guarantee democracy, the rule of law and human rights, as pre-requisite.
- Ukraine engagement with International partners, on required reform process, was accelerated through an international conference forum, now turned into the Ukraine Recovery conference
- Ukraine National plan for Economic recovery is set for a period up to 2032. It aligns to EU integration goal and sustainable development objectives.
- The EU integration path is acknowledged as a long and complex process.
- The EIB highlights the importance of leadership and accountability from Ukraine, in the recovery and development process. It emphasizes that Ukraine needs to become independent from International Aid once peace is ensured.

## 1.5 JERU Oblast profiles

### Ternopil Oblast

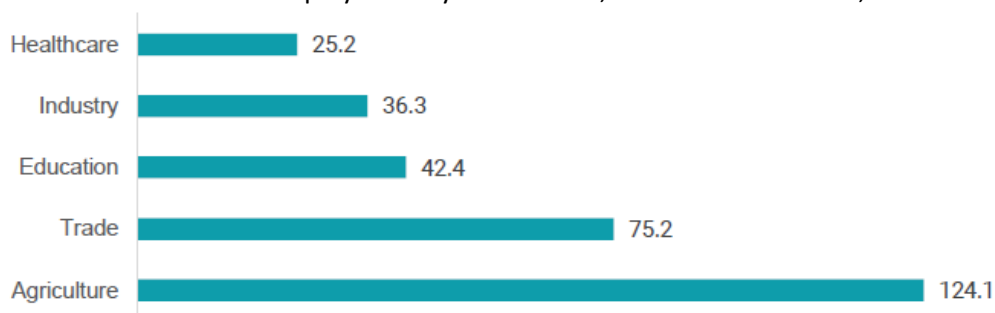


Data 2022 (Ukraine investment promotion office)

13,8 thousand km<sup>2</sup> (2 % of Ukraine's territory)  
Population 1 Million (Urban 46%-Rural 54%)  
Population density 75 person /km<sup>2</sup>

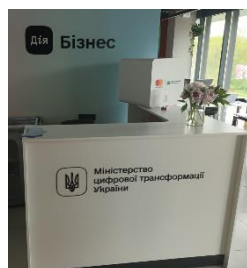
Available workforce 443 000  
Unemployment rate 11.9 %

Employment by main sector, in thousand workers, 2020



### Stakeholder meetings and consultant observations

**Diia Business centre in Ternopil city (16<sup>th</sup> of May 2023)** <https://business.diaa.gov.ua/en>



Diia Business centres is a unique and inspiring franchise model, designed and coordinated by the Ministry of Digital Transformation. The management of the business centre is allocated to a local NGO. In Ternopil, West Ukraine Digital <https://westdigital.org.ua/home/en> signed an agreement with the Ministry and is now responsible for the operation and management of the Diia business centre. Through a network of consultant in the private sector, it offers consultancy and other business services free of charge, as well as trainings on entrepreneurship and business management.

Main stakeholders are from the private sector (VISA, BNP Paribas), but also International agencies such as USAID, UNDP and GIZ that provide grants for SMEs. The network extend also to local Universities and business schools. In 2022, 58 events were organised by Diia Ternopil Business centre, with over 4,000 visitors. 1,700 consultancy services were provided. It also implement an acceleration programme for women entrepreneurship, and financial education trainings.



The overall implementation plan aligns with national programmes as the national office for entrepreneurship and SMEs development that set the strategic frame. Diia Business centre support also institutional capacities.

Diia business centre manager in Ternopil expressed openness to extend partnership with flexibility in designing new projects. Some gaps are identified in the food processing sector.

**Kopychyntsi Hormada (16<sup>th</sup> of May 2023)**





Recently established by the Government of Ukraine (June 2020), the Hormada is the basic subdivision of Ukrainian administration, similar to a municipality, that translates to community. It is equivalent to “Gemeinde” in Germany, or “Commune” in France.

Kopychyntsi Hormada is made of 5 villages (or settlements), with a total population of 15, 000 inhabitants. It hosts 1, 500 IDPs. Having a dedicated team for humanitarian aid, they coordinated and support IDPs.

Shelter is now the main challenge for IDPs and the Hormada designed an interesting model. Observing that many houses were left abandoned in the Hormada, they contacted the owners and facilitated an agreement to restore part of the house (isolation, water and sanitation) to ensure normal living conditions. The owner must then provide freely the house to IDPS for at least a year.

The Hormada supports also the relocation of businesses from the East. An abandoned Truck repair workshop building was sold to a relocated entrepreneur, who repaired the building to start its operation again.

There are ongoing development plans that may require support such as waste management. The Hormada is also looking to extend twinning and partnership with European municipalities, especially Germany as it could then access specific European grants for development.

### **Relocated SMEs from the East (16<sup>th</sup> of May 2023)**

The Hormada team brought us to the relocated SME, for visiting the site, that was abandoned and almost in ruins before being renovated by the relocated entrepreneur.

This case is an inspiring example for the Hormada support to a relocated SME, as well as the entrepreneurial resilience in starting business again

The company is specialised in furniture designing and manufacturing. They used to supply kindergartens and schools all over Ukraine, as main customers. Located in the East, the entrepreneur managed to save most of its equipment (some were destroyed and stolen after Russian invasion).

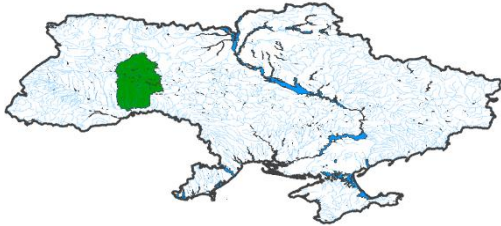
The entrepreneur lost market outlets (as many schools are in the occupied territory, or now closed). He used to employ 150 workers. After relocating, and starting operations again, he now employs 50 workers (10 from his former team, and 40 locally employed).

Having exhausted its own financial capacities for the investment needed in the renovation and relocation of its production site, he is in need of an additional 200 000 euros, to reach the same level of business activity (potential to employ additional 100 workers). However banks are refusing loans, and he does not find financial alternatives at the moment. The SME adapted to the conditions and explores new markets, using its network with Ukrainian administration. It now also supplies military administration with furniture.





Khmelnytski Oblast

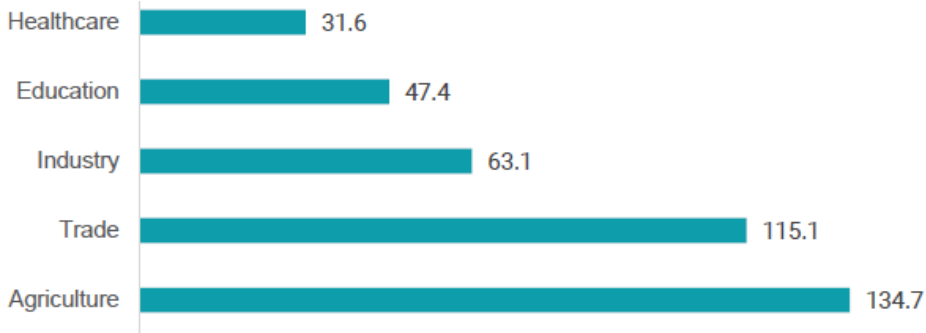


Data 2022 (Ukraine investment promotion office)

20,6 thousand km<sup>2</sup> (3 % of Ukraine’s territory)  
Population 1,2 Million (Urban 58%-Rural 42%)  
Population density 60 person /km<sup>2</sup>

Available workforce 552 000  
Unemployment rate 10.5 %

Employment by main sector, in thousand workers, 2020



Stakeholder meetings and consultant observations

**Smart Environment Khmelnytskyi (17<sup>th</sup> of May 2023)**

Smart Environment Khmelnytskyi is an old municipal company established in 1956. This is a State Owned Enterprise (SOE), now involved in an important waste management project for the city of Khmelnytski. In 1964, the Soviet administration decided to allocate the site of an old clay quarry as a depot for the city wastes. The quarry was 20 meters deep.



The city waste depot is now a huge hill of over 10 meters high on several hectares. In 2016, a project idea defined 3 main goals, the rehabilitation of the landfill, and an extension of 6 hectares, the construction of a waste processing plant and infrastructure development (trucks, education on waste management)

Smart Environment Khmelnytskyi obtained a loan from EBRD in 2020 of 28.5 million euros over 13 years. This is complemented by a grant of 6.5 million, and a contribution from the city of 3 million euros.

Ivan Pidoprygora is the project coordinator. With the project team, an inspiring and creative education centre hosts visitors and kids for raising awareness on waste management, with the slogan “Reduce, Reuse, Recycle”.



The main components of the project concerning the rehabilitation of the landfill is on hold. The rehabilitation requires international expertise, but the tender process resulted in no offers. In comparison, the city of Lviv, made the same tender before the war and obtained over 40 applications. This illustrates another impact from the war, where development projects are on hold, because of constraints in accessing international expertise.

Reforms are on-going for waste management, with new laws aligning to EU directives. Regional plans for waste management exist for all Oblasts, Hormada as beneficiaries, until 2030. It is mentioned however that there is a gap in expertise and organisation at Hormada level.

#### **Khmelnytskyi, City facility for economic development (17<sup>th</sup> of May 2023)**

8 Main programmes are promoted: (1) Buy Local Khmelnytskyi, (2) Support to attend International events (expenses covered), (3) Start-up support Programme (Competition once a year, 1st place 200 000 HUA, 2nd 150 000, 3rd place 100 000), (4) Industrial park created (Plans for electricity, Gas, Roads) attractive place for future investments, (5) Training for businesses (Pilot workshop, export for beginners), (6) School of Agrarian, Entrepreneurs in Agriculture, (7) Business forums organisation (entrepreneurs showing ideas), (8) Grant opportunities, support and guidance.

The city facility for economic development recommended us to pilot project and programmes for the integration in EU, with a focus on supporting dairy value chain actors (processing and trading). It emphasized on the importance on job creation, and suggested that Medium size enterprise (like the relocated business in Ternopil) have the highest capacity for job creation. Ideas could be developed with their cluster.

#### **Khmelnytskyi Regional development Office (18<sup>th</sup> of May 2023)**

On the national dress day, we visited the office for Regional development. The different sector representatives presented regional data for the entire Oblast. In Agriculture, different support programmes exist, targeting small holder farmers with incentives to formalise their activity. (Subsidies for animal raising, equipment). It also promotes the development of new crops, through provision of

seeds and subsidies up to 50% (lentil, rye, black wheat). Support for green houses, up to 2 ha, for vegetable gardening is proposed through Diia platform, but has low coverage so far, because of the challenging criteria of creating 25 permanent jobs (that may be unrealistic to farmers)

In the economic sector, the representatives indicated that 60 businesses are relocated in the region, but only 20 could start again operating. These have however an important potential for creating jobs, including for IDPs. The gap in the food processing sector is also confirmed.

In the employment sector, the regional development office representative presented data. IDPs number are not clearly defined, the statistics give numbers between 150 000 and 300 000. In 2022, among 3,500 IDPs who registered at the employment services, 570 found a job and 20 received a requalification training. In 2023, 1,147 IDPs registered to the employment office. Among them 80% are female. The official figures for unemployment dropped, as it is required to register on the mobilisation list first. The trainings offered require further support for mentorship to be efficient.

The recommendation for cooperation were provided and include the following:

- Grant programme needed with less constrains (Green house criteria, creation of 25 jobs)
- Support to the youth on Entrepreneurial skills
- Business hubs (Shared spaces and resources)
- Cash support for requalification trainings
- Solutions to be designed fast
- Cooperation/coordination ongoing with development programmes but limited resources
- Looking for starting a women business promotion programme

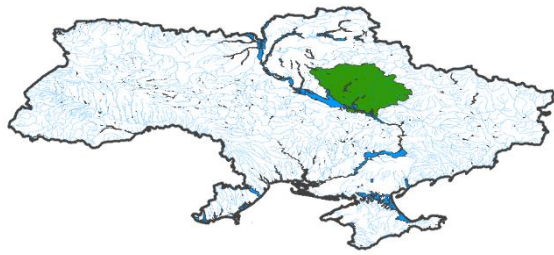
The EU flag in the administration office is the illustration of the country engagement in the EU integration path.

### **Khmelnyskyi: Collective centre for IDPs, (18<sup>th</sup> of May 2023)**

We visited a collective centre in Khmelnytskyi Oblast. This gave the opportunity to the consultant to exchange with IDPs and better understand the conditions and challenges they are facing. The main challenge is about finding a shelter. IDPs at the collective centres have a diversity of background and profile (Teachers, entrepreneurs, workers in mining industries). There are Elders and young children too. Many seem having found jobs locally, that may be however not formal nor permanent (in schools, hospitals, library). A former entrepreneur seems little aware, or not perceiving opportunities offered through the Diia platform for entrepreneurship and business support.

The Hormada humanitarian team is looking for shelter solution. They mentioned the idea of renovating abandoned kindergarten for large IDP families with kids. Mobility is also a major constrain in this rural Hormada, with inexistent or insufficient public transport.

The psychological distress could be felt, and without solving immediate priorities (mainly shelter), it seems delicate to ask for participation in qualification trainings or other targeted entrepreneurship programmes.

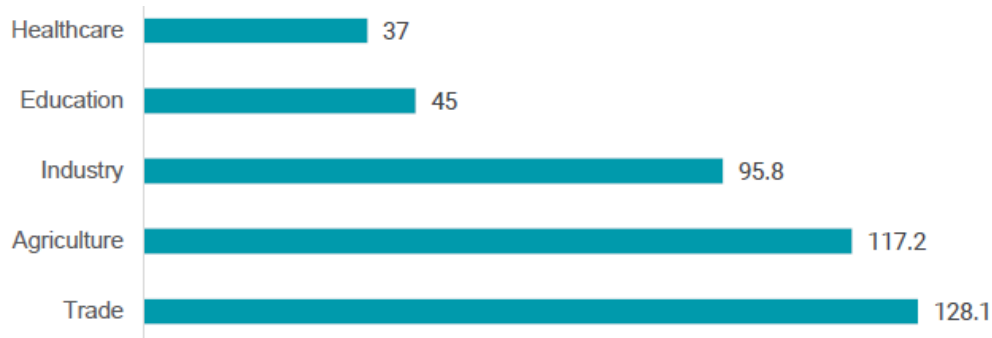


Data 2022 (Ukraine investment promotion office)

28,7 thousand km<sup>2</sup> (5 % of Ukraine's territory)  
 Population 1,4 Million (Urban 63%-Rural 37%)  
 Population density 48 person /km<sup>2</sup>

Available workforce 628 000  
 Unemployment rate 12.5 %

Employment by main sector, in thousand workers, 2020



Stakeholder meetings and consultant observations

**Poltava Employment office (22<sup>nd</sup> of May 2023)**

The employment services in Poltava indicated current challenges. Mostly the psychological impact from the war is affecting workers and staff at all levels. The office in Poltava emphasized on the importance on psychosocial support for its own staff, and on methods to communicate with IDPs and other programme recipients facing important distress. Soldiers coming back from war are a new challenge, both for assistance required and psychosocial support. In Poltava the registered unemployed people moved showing an official drop in data, from 15, 000 registered in 2021 to around 5,000 now. National programmes are providing subsidies for stimulating employment (for recruitment, for adaptation to disabled workers), and for professional technical education (Vouchers for vocational trainings). The private sector is not sufficiently connected to Vocational training centres that affects the quality of training provided.

The office further recommended to address mobility constrains, especially to IDPs who moved to rural or remote areas. Elders are also of specific attention, as pension received is not sufficient to cover the needs. These are looking for adapted part time jobs.

**Poltava: Diia Business centre, (22<sup>nd</sup> of May 2023)**



The Diia business centre franchise in Poltava by a local NGO called Poltava Platform. The services offered are similar to the Diia centre in Ternopil. In 2022 they had an average of 2,500 visitors and 120 expert consultation per month. The start-up entrepreneurs receiving support are rather involved in Coffee shops, restaurants or online shops. The agriculture sector seems well covered by big players, and not attractive to the youth. However gaps in food processing are again mentioned. The tourism and entertainment sector is in development, with a recent cluster established animating a network of museums. Diia business centres allocate a space for product and services promotion, to increase new business visibility. This

is called the pop up zone.



The businesses management and entrepreneurial training material consists in basic management tools. Publications are edited, with the support from stakeholders such as GIZ. It includes guidance on the different business functions (customer relation, product design, market analysis, competition, financial management, supply chain management, etc.)



The library also includes publication from successful local entrepreneur, giving advises and inspiration to starting entrepreneurs.

Diia business centre in Poltava recommended us to work at Hormada level. They suggested being careful with changing local plans to please external donors, as it could result in lowering the relevance and sustainability of the interventions. They warned also on the Humanitarian support that creates an assistance mind set.

Since 2021, the Head of Diia Business centre is also involved in an impact investment fund dedicated to the protection and valorisation of historical building. The profits are not returned to investors but used to fund local initiatives.

### **Poltava: regional development office, (22<sup>nd</sup> of May 2023)**

The regional development office team presented data and challenges in several sector. The war impacted logistic chains in the agriculture and mining sector, and led to a loss of markets. Grain silos were full at the beginning of the war. The black sea grain initiative and EU support programmes for shipment through railway allowed the movement of grain supplies. However the Grain initiative allows only 20% flow from what the region supplied before the war. Producers still ship the production but on loss, to get some liquidity. A 3 billion revenue loss is estimated for Agricultural farmers in 2022. Small holder farmers are supported through government subsidy programmes.

There are 200 000 IDPs in the region. Elders and large families are the most vulnerable. Half of the IDPs are in the city, whereas the other half in smaller cities and rural areas. Housing (Shelter) is the main priority. Temporary solutions are provided in schools, kindergarten, and social protection premises. Improvement of abandoned houses is implemented in cooperation with the Hormada and international NGOs.

Development project also halted, such as communal enterprises services for hormadas (management of waste, sorting).

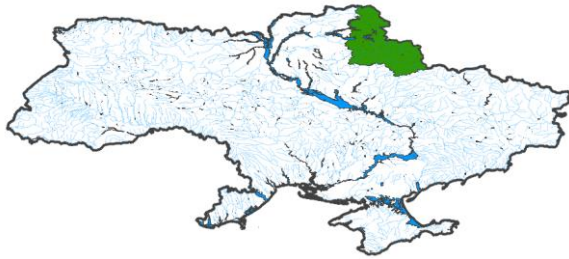
The regional development office monitors the process from the Ukraine Recovery Conference, especially on efficient energy use and environmental challenges.

Partnership exists with international organisations, especially for alignment and integration in EU

They recommended us to clarify and define our offer and competences, to better understand what services the organisation could provide. Potential for partnership could be on the Kitchen for school initiative from the first lady, skills development and re-qualification, support businesses in accessing markets, and facilitating networking with European partners.



## Sumy Oblast

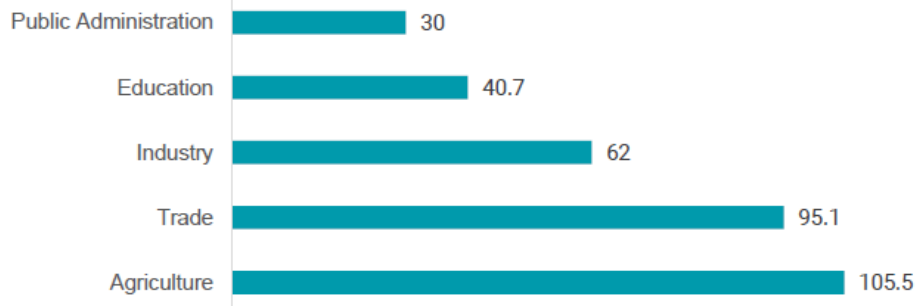


Data 2022 (Ukraine investment promotion office)

23,8 thousand km<sup>2</sup> (4 % of Ukraine's territory)  
Population 1,06 Million (Urban 70%-Rural 30%)  
Population density 44 person /km<sup>2</sup>

Available workforce 494 000  
Unemployment rate 10.1 %

Employment by main sector, in thousand workers, 2020

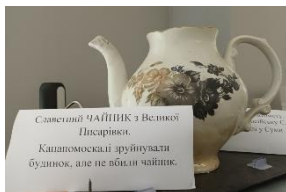


### Stakeholder meetings and consultant observations

#### **Sumy Light of Hope, Museum of Shame, (23<sup>rd</sup> of May 2023)**

JERU implementing partner Light of Hope organised an exchange with an IDP living in Sumy. He had a shop selling clothes in a now Russian occupied territory. Having lost his business, he is not thinking about starting one now, but after discussion, he found the idea of supporting IDP entrepreneur interesting. He received humanitarian aid support and government assistance in support of disabled (heart disease). He also mentioned the reluctance from other IDPs to register in official employment or other services fearing to be enlisted in the army.

The meeting took place in a building that also hosts a local media organisation. They collected items from Russian soldiers and established the museum of shame (A Russian army first Aid kit mentions a production date of 1968!). This illustrates the proximity of Sumy Oblast to the ongoing war, the city was also occupied before returning to Ukrainian control.



The unbreakable tea pot was found on a shelf of a destroyed building. This was the only item left after explosions and building collapse. It is now kept in the museum as a souvenir and symbol of resistance.

The war destroyed equipment (Tanks, missile, trucks), and soldier items are kept and displayed also in Kyiv and other region from Ukraine. Museum are already emerging, telling the story of the Russian invasion.

#### **Sumy regional development office**

The regional administration team presented facts from the region. Since 6 month ago, Sumy regional development office started cooperation in economic partnerships, to lessen dependency on humanitarian aid. There are ongoing programmes with USAID and GIZ. They indicated that Sumy has the longest border with Russia. Before the war the economic relationship with Russia were important,

there is now a feeling of being in a disadvantaged location because of the distance towards new markets in the West. There are around 8,000 IDPs in Sumy, half of them from the Oblast, moving out of the dangerous areas near the border.

Strategic plans exist for 5 business association, registered as NGOs, for a decentralisation process of business procedures and quality management in line with ISO 9001 standards. These are looking for partners. They are also involved in advocacy through SME association of Ukraine, contributing to the consultation process at the national government level.

There is an ongoing plan to establish a Diia business centre in Sumy, in partnership with Sumy University

GIZ in Sumy is supporting an EU programme called U lead supporting the decentralisation process in Ukraine. So far more than 100 entrepreneurs went to Germany, as part of EU exchanges.

The key recommendations provided are:

- Development of Milk processing sector (provision of funds and international partners)
- Mini processing facility (food security for the region).
- Financing SME affected by the war (international support for financing)
- Diming programme (need for machines and equipment and expert partners). 9 % of agriculture land remains uncultivated as it is too dangerous.

### **Sumy employment Office, 23<sup>rd</sup> of May 2023.**

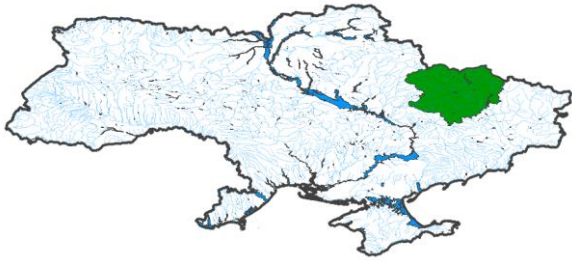
In charge of the employment services in Sumy, have stayed during the Russian invasion, and kept providing support to those in need. They were seeing themselves as the last resort, and provided humanitarian aid at the hardest times in Sumy. They facilitated then the targeting of recipient for WFP providing vouchers to unemployed.

The context in Sumy is specific. This is a highly agricultural region, with important forest cover. Because of mines in agricultural land, people left and lost their jobs. Sumy seems not attractive to IDPs, as there are low opportunities. Many industries were related to Russian markets, but now supply chains and market outlet are closed, it affected employment.

There are ongoing programmes to support SMEs through grants, with conditions of creating employment (2 permanent jobs), also targeting war veteran employment. There are compensation programmes for businesses affected by the war (direct support to keep employment). The office also supports temporary work creation for communal tasks through the army of Rebuilt.

The registered unemployed are mainly pre pension age categories (50+), and people living in rural areas.

The key recommendations provided are: (1) Collect directly ideas from the people, (2)Train/support businesses receiving support (Grants) (3) Each Hormada may have different sectors/ideas (4) Look for areas out of government support (areas close to the border) (5)High entrepreneurial mind set felt that gives high potential and opportunity for development.

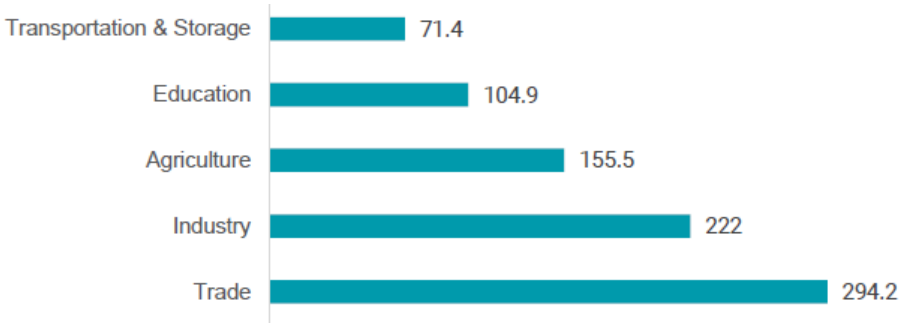


Data 2022 (Ukraine investment promotion office)

31.4 thousand Km<sup>2</sup> (5 % of Ukraine’s territory)  
Population 2, 6 Million (Urban 81%-Rural 19%)  
Population density 84 person /km<sup>2</sup>

Available workforce 1 300 000  
Unemployment rate 6.8 %

Employment by main sector, in thousand workers, 2020



**Peaceful Skies Kharkiv 24<sup>th</sup> of May 2023**

This local NGO is about to start implementing project with JERU. They organised the humanitarian support, when war started, through a network of volunteers and private sector (mainly local restaurants that provided free food to displaced population). Engaged with the people the most in need, the team from Peaceful Skies has a high understanding of local context, and capacity to work in the hard to reach areas.

They designs several models for supporting Ukrainians population. They rehabilitate shelters in rural areas, by providing heating equipment and isolating the house. They support Schools and kindergarten in the establishment of shelters against bombs and missiles.

A model to support unemployed aged 45+ is designed and ready to be piloted. 10 to 15 unemployed could be placed at employers and salaries covered for 2 to 3 months. This aims to demonstrate the capacity of this category of unemployed facing discrimination based on the age.

We visited a Social Hub from Peaceful Skies, which provides several services. Kids receive psychosocial support, and then participate in several activities (sports, drawing, English classes, school support). Specific events are organised for kids, such as hikes in nature and other entertaining activities.

The Social hubs hosts dancing classes for adult too, and organises many other events promoting Culture, knowledge and entertainment. These hubs are highly important, also as a place to reduce the stress caused by the war, and support Ukrainians families affected by the war. 11 such Social hubs are in place, with a plan to open 9 additional in Kharkiv.



Kids took the opportunity to exchange with the visiting consultant in English and gave drawings as a gift. Two young artists from Kharkiv.



**The Vision:** Create sustainable growth and prosperity for all Ukrainians

In line with the national recovery plan, the Sustainable Development Goals and the EU integration path, the vision (overall objective) of the Economic recovery strategy is to create sustainable growth and prosperity for all Ukrainians. The vision can be referred to, in projects formulation, to the impact level. The sources of information to measure progress will be provided through national implementation report of the recovery strategy, as well as SDG reports and especially on SDG 1: No poverty, SDG 2: No Hunger, SDG 8: Decent work and economic growth.

**The Approach:** 3 pillars to guide and design interventions, based on sustainability principles.

1. Systemic thinking: Social, economic and environmental systems are complex. Identifying stakeholders (individuals, entrepreneurs, SMEs, CSOs and other organisations, institutions) and understanding interactions is crucial in recognizing leverage points that allow focusing efforts on strategic interventions that have the greatest impact (e.g. food system approach, or market system approach). In business modelling, it also looks at the product life cycle (circular economy). In agriculture, the farming system approach will consider principles from agro-ecology.
2. Extended value creation: Interventions will not only focus on direct benefits, such as an increase in income or revenue, but will consider social effects, and environmental impact. Also, interventions addressing social or environmental challenges (e.g. Waste management) will consider economic impact, such as job creation and income generation.
3. Stakeholder engagement: Solutions and interventions are designed through stakeholder consultation (participative approach). Ownership of interventions should remain with local Ukrainian stakeholders. The focus will be on the people the project serves (IDPs, entrepreneurs, workers, farmers) by integrating their interests in designing interventions. Local institutions (Hormada) have the closest connection to communities, and should receive a focused support. Coordination and guidance support should continue through Oblast administration and regional development administration, including employment office.

Furthermore, the graduation approach and principle is taken into account, for a continuity and coherence of services provided to Ukrainians in need. Recipients from Humanitarian aid, will be considered in other economic recovery interventions, such as skills development, job placement, and support to entrepreneurial activities.

Given the complexity and regional differences in contexts; no standard model for activities would be applied. Each intervention will be site specific, taking into account the specific needs and interests from the people on the spot, as well as local stakeholders plans, strategies and capacities.

A set of 9 activities (none exhaustive list) is proposed:

1. Training for entrepreneurs
2. Support to SMEs
3. Promote employment
4. Support sustainable service development (Waste management)
5. Support sustainable value chain development in Agriculture
6. Support shelter provision for IDPs
7. Promote socio cultural activities and events
8. Strengthen Civil Society Organisation capacities
9. Extend Cash transfer intervention and social protection strengthening

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