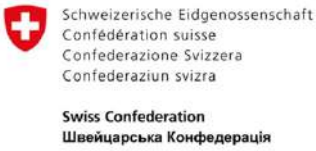




Ukrainian SMEs: Consequences, Challenges and Opportunities February 2024



**UKRAINE CRISIS
ANALYSIS TEAM**



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Main Findings

The war in Ukraine has presented the country with massive economic challenges. With millions displaced, livelihoods have suffered, as the government, private enterprises and NGOs struggle to adapt to the new reality. This report examines ways to best aid small and medium enterprises (SMEs) in Ukraine and identifies promising sectors of the economy for support. It also defines guidelines and effective approaches to take while engaging SMEs in Ukraine. Our main findings are as follows.

Retail trade and service-sector enterprises, including retail stores, bakeries, pharmacies, automobile repair shops, rural transportation services, and hairdressers, have done well under current circumstances. With typically short value chains and relatively limited equipment required there are opportunities in this sector for growth. Supporting such SMEs can provide wider societal benefits as well. Revitalizing shops, cafes, pharmacies, repair shops, and similar enterprises restores a sense of normalcy to daily life, thereby broadly **contributing to community resilience**.

There is also potential for **small-scale manufacturing SMEs** that contribute to the construction sector. SMEs involved in, for example, the manufacture of doors, windows and roofing materials, could potentially thrive should reconstruction efforts accelerate, as is planned.

For SMEs that are or wish to export, helping them **diversify their products** and **expand into new markets** can contribute to growth by reducing their dependence on specific trade partners.

Some necessary steps in achieving success in the above initiatives include the development of **specialized skills** that are required in technical and specialized sectors. In many cases this could be best accomplished through partnerships with educational institutions or vocational training centers.

To best achieve these aims, efforts must be made to improve the overall operating environment for SMEs. **Advocacy efforts** are needed to push for policy reforms that address issues related to taxation, regulation, and bureaucratic red tape, which are currently a hinderance to business recovery. **Greater coordination and effective partnerships** among NGOs, government bodies, and private enterprises can streamline interventions and ensure a more comprehensive engagement. Ensuring local communities voices are taken into account is also critical.

Introduction

This research report examines how various business sectors have been affected by the war. It specifically addresses the challenges faced by SMEs and looks at current markets and emerging opportunities. The authors carried out a comprehensive analysis of local markets and value chains, focusing on identifying sectors with economic growth potential and assessing transitions that may be required for sectors that have previously been dependent on the Russian and Belarusian markets, focusing in particular on opportunities within the small-scale manufacturing, construction, and retail trade and service-sectors. The report also looks at the difficulties faced by businesses that have been forced to relocate. The authors appraise what SMEs across Ukraine need to restart, emphasizing market-oriented interventions that foster sustainable development. Finally, we offer programmatic considerations for agencies involved in supporting SMEs in Ukraine.

Methodology

We have taken a multi-faceted approach to gathering and analyzing the relevant data, which was gathered from both primary and secondary sources. Secondary data was collected through an extensive desk review process, involving quantitative analysis derived from sources that include the DIIA digital initiative, the European Business Association, the United Nations, the World Bank, UkraineInvest, and the Center for Economic Strategy (CES). For primary data, 18 Key Informant Interviews (KIIs) were conducted that covered SMEs (8), local authorities (4), business associations (1), local NGOs involved with SMEs (3), and industry experts (2). These collective insights were cross-checked, validated, and triangulated to offer a comprehensive understanding of Ukraine's SMEs. Our work also builds on UACAT's previous SME-related research,¹ including an examination of the challenges faced by relocated SMEs as well as livelihood opportunities for IDPs.

Local Markets

Local markets in Ukraine encompass a range of industries and sectors, each of which contributes to the country's economy in distinct ways.

Agriculture is Ukraine's largest economic sector. Ukraine is known as the breadbasket of Europe due to its prodigious production of grains such as wheat, barley, and corn. It is also a major producer of sunflower seeds, sugar beets, and rapeseed. In 2021² some 14% of the country's population – primarily rural residents – were employed in the agricultural sector. It contributed 10.9% to GDP and accounted for 41% of export income. The following year, agriculture's share of GDP fell to 8%,³ while its contribution to total exports surged to 53%.⁴ This increase can be attributed to a shift in the industrial landscape. Ukraine's largest industrial companies, which are primarily located in the country's eastern regions, were

damaged or destroyed by Russian attacks. Those that managed to continue operations faced substantial difficulties due to frequent blackouts.⁵

The secondary sector in Ukraine includes various **manufacturing** and **industrial activities**. According to the World Bank, in 2021 some 25% of the workforce was employed in this sector, contributing 23.5% to GDP.⁶ The manufacturing sector includes industries such as metallurgy, machinery, chemicals, and textiles. Prior to the full-scale invasion, Ukraine had a strong industrial base, particularly in heavy machinery, steel, and aerospace.

By 2021, the **service sector** employed 61% of the workforce and contributed 51.8% to GDP.⁷ This sector includes an array of industries, including finance, retail, IT, hospitality, dining, catering, and tourism, among others. The IT industry in particular is growing rapidly and has gained international recognition. It is comprised of over 4,000 companies with expertise that ranges from nanotechnologies and blockchain to AI and game development. Eighteen Ukrainian companies are part of the top 100 global outsourcing firms. The industry has attracted major clients, including Nasdaq, Amazon, Adobe, SAP, and Microsoft, making it an important player in global IT services.⁸

Favorable sectors before and after the full-scale invasion

Prior to the full-scale invasion, sectors such as IT, agriculture, e-commerce, retail, pharmaceuticals, medicine and renewable energy showed economic promise.⁹ The war has extensively damaged residential and non-residential buildings and infrastructure, which require urgent reconstruction. Multiple sectors, including tourism, have been badly affected and many industrial and manufacturing facilities and warehouses have been destroyed.

The war has also provoked mass migration: according to the UN, as of July 2023 more than 6 million refugees had left Ukraine,¹⁰ mostly women with children. As a result, businesses whose primary customer base consisted of women aged 20-40 living in regional cities have been hit hard.

According to business ombudsman Roman Washuk, organizations seeking to support the SME sector in Ukraine should focus on companies in areas directly affected by the hostilities, as these are zones where the government is not actively involved. For the successful return of people to areas retaken by Ukraine, there is a need to restore normal living conditions and **reestablish basic services** such as stores, bakeries, pharmacies, car repair stations, hairdressers, and so on.

Construction materials will become a priority for recovery efforts and this industry will be among the country's fastest growing, offering opportunities for producing essential materials such as glass, cement, ceramics, bricks, and iron.¹¹ SMEs in this sector have a critical role to play, as they often supply larger construction firms. The furniture industry also

has high export and domestic potential. However, skilled labor shortages - particularly due to male workers being called up for military service - pose a significant challenge for this sector.

Agriculture: Ukraine's agricultural resources - which include abundant farmland, a favorable climate, fertile soil, and competitive production costs - promised significant growth in food production and exports.

As of February 24, 2023, the war has resulted in US\$8.72 billion in damages to the agriculture sector, while aggregate losses total US\$31.50 billion.¹² Damage to machinery and equipment have accounted for most of these losses, followed by stolen inputs and outputs and the destruction of storage facilities.

Figure 1. Total agricultural sector damage

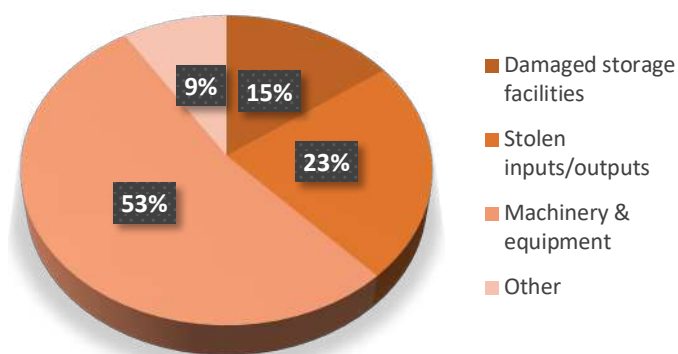


Figure 2. Total agricultural sector losses

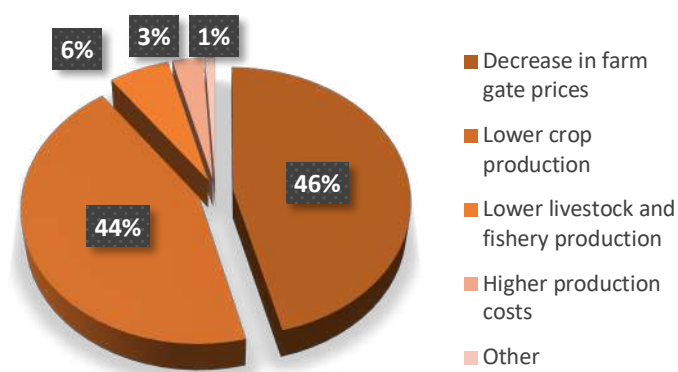


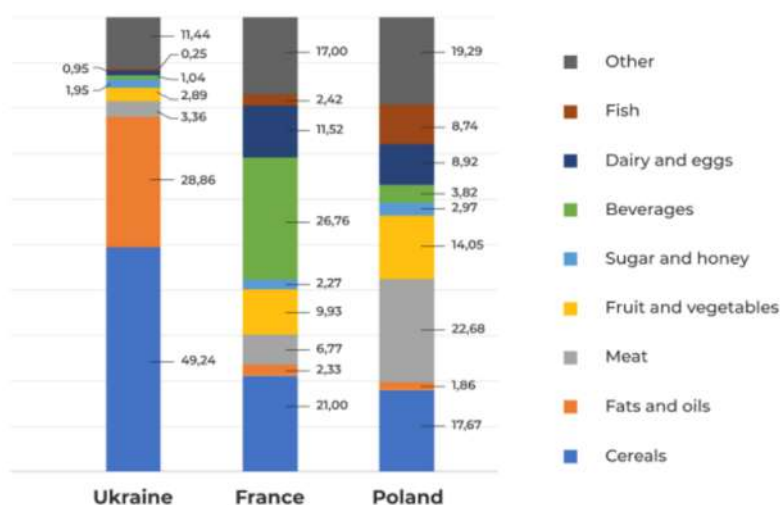
Table 1. Damage, loss and needs by oblast (in millions of \$)

Oblast	Damage	Loss	Needs
Cherkaska	0.8	1,580.8	802.7
Chernihivska	230.8	1,889.3	1,321.1
Chernivetska	0.0	180.8	91.7
Dnipropetrovska	1.0	1,827.1	929.4
Donetska	959.5	1,446.6	2,290.0
Ivano-Frankivska	-	72.3	36.6
Kharkivska	1,206.9	2,984.8	3,449.0
Khersonska	1,410.7	2,136.7	3,296.9
Khmelnyska	-	1,044.4	529.4
Kirovohradska	1.1	1,552.6	788.9
Kyivska	457.0	1,777.7	1,616.3
Luhanska	2,499.8	1,167.3	4,448.4
Lvivska	-	384.5	194.9
Mykolajivska	385.9	1,686.4	1,477.1
Odeska	1.0	1,334.8	678.3
Poltavska	0.4	1,985.1	1,006.9
Rivnenska	-	483.6	245.1
Sumska	115.5	1,509.1	951.0
Ternopilska	-	771.4	391.0
Vinnyska	-	2,034.2	1,031.1
Volynska	-	353.3	179.1
Zakarpatska	-	44.8	22.7
Zaporizka	1,447.2	2,445.2	3,520.0
Zhytomyrska	0.0	795.1	403.0
Total	8,717.7	31,487.7	29,700.6

Despite these significant losses, agriculture is keeping the Ukrainian economy afloat. It also has untapped potential in terms of processing fruits, vegetables, dairy, and meat.¹³

Ukrainian food exports are severely under-diversified. Raw and semi-finished products of cereals account for nearly 49% of the country's total food exports, whereas this figure is less than 21% in countries such as France and Poland. Processing 50% of its raw materials, primarily corn and wheat, would generate an additional \$30 billion annually in export revenue. Limited export routes for raw agricultural products make this even more of a necessity.

As a result of the destruction of the Kakhovka dam and its effect on water supplies and irrigation, there is also an urgent need to help local residents transition to alternative livelihoods, such as livestock and animal husbandry.

Figure 3. Ukraine's export structure compared with peer countries (in %)

Source: FAO Statistical Yearbook

The services sector

Prior to the full-scale invasion, Ukraine's **IT industry** had become one of Europe's largest exporters of IT services, growing by 25-30% annually and generating over 4% of GDP.¹⁴ This was due to the presence of a cost-effective talent pool, high levels of technical education, and a favorable business environment.

In the current climate, clients have grown increasingly wary of the risks associated with outsourcing operations to Ukraine due to factors such as Russian aggression, blackouts, mobilization, business travel constraints, and the broader global economic environment.

This has made it very difficult to secure new contracts and clients¹⁵ and has led many IT companies to relocate abroad. As a result, although the sector continues to grow, much of this growth is happening outside of Ukraine.¹⁶ In the first half of 2023, Developers of Ukraine (DOU), the country's largest IT community,¹⁷ reported 16% fewer job postings compared to the second half of 2022. In addition, in April 2023 the number of responses per listing reached 28.5, a record for DOU.¹⁸

Overall, the service sector has proved to be both resilient and adaptable. **Automotive repair** and **wholesale and retail trading** have emerged as popular areas for SMEs.^{19,20} Both the repair and energy sectors must contend, however, with a shortage of qualified personnel, including turners, mechanics, car mechanics, and specialists in renewable energy installations and maintenance.

The transportation sector is extremely promising and is playing an important role in ongoing recovery efforts, particularly in those areas directly affected by the war. Russian attacks have extensively damaged transportation infrastructure, both public and private, severing connections between rural areas and urban centers.²¹ Aiding the transportation sector - which could include supporting SMEs that provide rural transportation services - would not only address an immediate need for connectivity but also contribute significantly to the country's overall recovery.

The transportation sector will also need longer-term support for recovery, particularly as concerns maritime transit, due to the severe damage to seaports. There is an opportunity for developing rail connections with the EU, which would involve gauge changes²² and a more general infrastructure upgrade. The current Ukrainian border blockade, notably by Poland, is disrupting recovery efforts, hindering the movement of goods and people, and exacerbating the challenges that the transportation industry already faces. Addressing the blockade and investing in comprehensive infrastructure upgrades are critical for unlocking the full potential of the transportation sector across Ukraine.

Business relocations

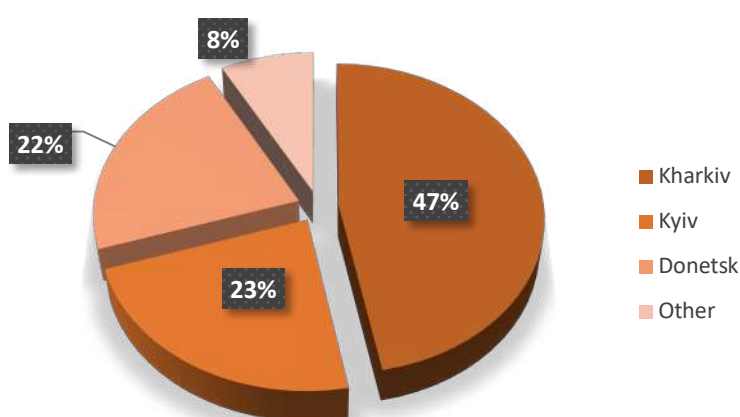
It is helpful to apply the three-sector model (primary, secondary and tertiary) to **Ukraine's current economy**.²³ When the war began, many businesses had no choice but to abandon or relocate their enterprises. Each sector faced different challenges.

- Since primary sector companies depend on land and natural resources, they were not able to relocate.
- Mobility for secondary sector businesses was also low, as it is dependent on long supply chains, warehouses, and other logistical infrastructure.
- By contrast, there were fewer barriers to relocation for the service sector, given the relatively short value chain and relatively limited equipment required.

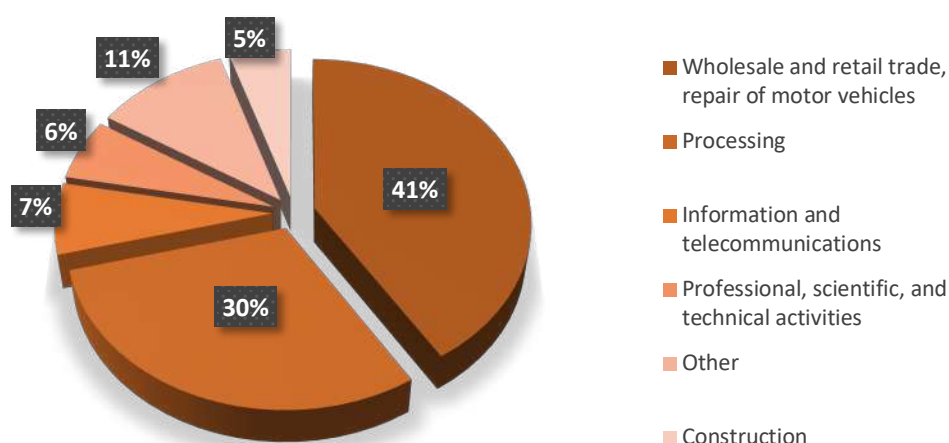
According to data from the Ministry for the Economy, 1,918 relocation applications had been filed as of November 2023. Of these, 841 (44%) companies were successful in relocating, 667 (35%) were operational at their new locations, and 52 chose to return to their original sites. Comparing these figures to the data from our April 2023 study on displaced businesses and the labor market in Ukraine's western oblasts, we note that **only 41 companies opted for relocation over the last six months**. This reluctance to relocate can be traced back to the previously mentioned limitations, which include agriculture's dependency on land and the secondary sector's reliance on intricate logistical networks.

Nearly half of these companies (47%) relocated from Kharkiv Oblast, followed by Kyiv Oblast (23%), and Donetsk Oblast (22%). Most of them relocated to the Lviv (24%), Zakarpattia (14.5%), Chernivtsi (9.8%), Ivano-Frankivsk (8.3%), Ternopil (6.3%), and Khmelnytsky (7.3%) regions.

Figure 4. Business relocation by oblast of origin



Of the companies that have resumed operations at their new locations, the largest share are active in either wholesale and retail trade or in vehicle repair (40.7% of the total), followed by processing (30.2%), information and telecommunications (6.7%), professional, scientific and technical activities (6.2%), and construction (4.4%).

Figure 5. Business relocation by industry

Sectors reliant on the Russian and Belarusian markets

Russia was one of Ukraine's major trading partners until the start of the war in 2014. The trade relationship covered energy resources, agricultural products, machinery, and manufactured goods, among other commodities.

The volume of trade with Belarus was generally lower than that for Russia. Trade between Ukraine and Belarus included machinery, chemicals, agricultural products, and consumer goods. Since 2014, Ukraine has pivoted away from Russia and began to rely on Belarus for petrol (78%), bitumen (60%), electricity, fertilizers, and various other goods.²⁴

Prior to 2014, many SMEs in Kharkiv's light textile industry - the hub of Ukrainian garment production²⁵ - traded with Russia due to its proximity. The sprawling Barabashovo Market, now severely damaged, served as a central hub for these companies, and previously employed between 40,000 and 80,000 workers. After the start of the war in 2014 and until 2022, however, Russia's trading partners in Ukraine were primarily big industrial companies.²⁶ Now, however, SMEs and larger companies are seeking to shift their focus to European markets, but to do so often requires significant investment in new equipment due to differing standards.

Ukrainian companies could potentially use this opportunity to win customers away from their Russian and Belarusian competitors by offering alternative Ukrainian products. For example, Poster, an IT company, suggests that the Ukrainian government and partner countries should take stronger measures and promote Ukrainian alternatives to Russian software still in use in Ukraine, such as accounting applications sold by the Russian firm 1C.

Many service sector companies are trying to enter new markets abroad, but it is too early to speak about success stories. When even industry leaders such as Nova Poshta, Uklon, Monobank, and Liki24 face challenges when tackling international markets, the prospects for SMEs can seem particularly daunting.²⁷

Challenges for businesses

Lack of financial resources

This is a significant challenge for SMEs, which, unlike their larger counterparts, typically lack financial reserves. Without collateral to secure a loan, banks are reluctant to lend. Interest rates are prohibitively high, ranging from 20% to 30%. For businesses that have been destroyed or damaged, or those that have lost both markets and clients, the idea of repaying such loans is unfeasible.

Shortage of working capital

Government lending programs offering rates of 5% to 9% and grants from INGOs are not universally available. Such programs are prevalent in Ukraine's western regions, but less so in frontline oblasts or areas that have returned to Ukrainian control, which are the most in need. A second problem posed by the lack of working capital is that businesses are required to pay on delivery, since credit terms that were obtainable before the full-scale invasion are no longer available.

Shortage of specialists

In frontline oblasts and areas that have returned to Ukrainian control – Kharkiv, Mykolaiv, Kherson, Chernihiv and Sumy oblasts – it is extremely difficult to find specialized workers, primarily due to evacuations and mobilization.

Grant providers often set specific employment requirements, which creates difficulties as fulfilling them may not be realistic under the current circumstances. A car repair firm in Posad Pokrovske (Kherson Oblast) is a good example of this. The owner was given a grant on the condition that he hire a certain number of workers. Although he hired and trained staff, they kept getting conscripted for military duty. This led the owner to consider hiring an accountant – a position not directly related to the core functions of the business – solely to fulfill the terms of the grant. One solution to this, as suggested by a representative of the Kharkiv Regional Entrepreneurship Support Fund and echoed by other respondents, would be to hire workers using civil law contracts, rather than traditional employment agreements.

Demographics

Demographics are another factor that has an impact on both SME growth and wider economic issues. According to a member of the National Academy of Sciences of Ukraine, the population situation in Ukraine was in crisis even before the full-scale invasion. Mortality rates have exceeded birth rates every year since 1991, leading to a shrinking population. Economic downturns starting in 2014, combined with changes in reproductive behavior have accelerated this decline. Over the past three decades, the population has decreased by an estimated 10 million, affecting the entire territory of Ukraine, including areas currently

under occupation. The full-scale invasion has only exacerbated these trends, particularly due to migration. As of December 2023, the UNHCR has estimated that there are over 6 million Ukrainian refugees worldwide.²⁸

Addressing the demographic challenges in Ukraine requires a holistic approach. Improving this trend will involve focusing on developing the social sphere, including childcare and care for seniors, as well as creating a robust labor market and raising income levels. Practical aspects that citizens thinking of returning to Ukraine will likely consider important include the state of housing, labor market prospects, and the ability to earn a living, since long-term social benefits may be limited. Factors such as the war's duration, the condition of social infrastructure, and the situation with schools and education will also influence these decisions.

Reconstruction

Key informants acknowledged the difficult and time-consuming nature of finding construction companies and workers to carry out repairs, but stressed that the task is not impossible. Although fewer companies are currently active in this market, many provide services, including SMEs that offer elements such as doors, windows, and roofing materials to larger construction companies. This sector has growth potential.

According to a representative of the Economic Development Department of Mykolaiv City Council, obstacles to reconstruction efforts also include insufficient raw and building materials, and war damage to technical equipment. Restoring damaged property and equipment, administrative buildings, and production and storage facilities will be essential in order to sustain the construction sector's operational cycle.

Respondents noted that the government is focused on rebuilding critical infrastructure, with residential properties a lesser priority. This acknowledged lack of support for the private sector could leave privately-owned properties and businesses without the support they need for their recovery and reconstruction efforts. Ongoing demand for assistance for the private sector is likely. National and international NGOs could take this opportunity to fill the void left by the government's limitations when it comes to the private sector, particularly by supporting SMEs, which often lack the resources to get back on their feet.

According to the CES,²⁹ NGOs and charity initiatives involved in reconstruction must contend with a series of challenges, including - as mentioned above - a lack of contractors and qualified specialists, shortages of materials, and higher logistical costs. In addition, the CES noted several government-related issues, such as the influence of local authorities' interests³⁰ and unclear information provided by them, such as, for example, the scale of damages or the number of children enrolled in a given school. Finally, the CES also cited inadequate coordination between local authorities and donors.³¹

Lack of clients and reduced consumer purchasing power

According to the latest survey by Diia.Business in August 2023,³² the three main obstacles to business recovery are the unpredictability of the situation in Ukraine, unforeseeable government actions and the lack of solvent clients. The representative of the Economic Development Department of Mykolaiv City Council also cited lack of clients and orders as problems businesses currently face.

In 2022, poverty surged from 5.5% to 24.2%, pushing an additional 7.1 million people below the poverty line, many of them rural residents.³³ As regards consumers, the Info Sapiens Consumer Confidence Index stood at 79.9 points in October 2023 (when the index is below 100, it indicates negative consumer sentiment). For the first time since the summer of 2022, the expectations of Ukrainian consumers were negative.³⁴

Governmental issues

According to the NGO SaveFOP, to maintain stability under martial law, there is a pressing need for the government to enforce the law. Frequent changes in legislation pose challenges for entrepreneurs, making adaptation difficult. SaveFOP added that many laws, particularly aspects of the tax code, seem to exist only on paper, presenting significant hurdles for businesses seeking to operate effectively in wartime. Government authorities introducing new legislation without proper consultation adds to the complexities faced by businesses.

Roman Washuk noted that, instead of extending assistance, local authorities often penalize firms for failing to submit tax documents promptly, even when such documents were destroyed during the occupation. He cited a company that incorrectly listed the building number of their address as 46, rather than 46a. This led to the company spending a year in court appealing a €1 million fine (\$26,000). While some instances of this kind are linked to cases of corruption, the primary obstacles are bureaucracy, unrealistic deadlines, and conflicting messages from various government departments. For instance, although the Ministry for the Economy offers grants to startups, the tax authorities withhold VAT refunds over concerns about new businesses' alleged "suspicious" activities. This disparity illustrates the complex and challenging environment in which businesses must operate.

Security

Ongoing hostilities make recovery challenging for a number of oblasts, including Kherson, Mykolaiv, Zaporizhzhia, Donetsk, and Luhansk, and the border regions of Chernihiv, Sumy, and Kharkiv oblasts. Government grants are not given to entrepreneurs located in territorial communities under occupation or in areas where hostilities are taking place as defined by the Ministry of Reintegration,³⁵ such as Kherson city. This impairs the ability of certain local SMEs to resume their business activities.

A representative of Entrepreneurial Unity, an NGO in Zaporizhzhia, paints a bleak picture of the current situation in Zaporizhzhia: “Survival is a daily struggle, with development a distant hope. It feels as though we’ve regressed to the economic conditions of the 1990s. The exodus of residents is palpable, compounded by alarms that sound 10-12 times a day, constant explosions, and challenges that include salary reductions and a notable decline in purchasing power. This harsh reality has forced many businesses to close, with operational levels hovering at a mere 30% of prewar capacities”. According to this respondent, even large corporations have been obliged to introduce substantial cuts, reducing monthly wages from ₪15-20,000 (\$400-\$500) to around ₪10,000 (\$260) for roles that entail the same workload and level of responsibility.

Recommendations and Lessons Learned

Funding is a core necessity to facilitate the recovery process – a priority highlighted by every respondent. NGOs should prioritize providing financial support for SMEs in various sectors, whether in the form of grants, low-interest loans, building materials or donations of equipment, especially to those in frontline oblasts and areas returned to Ukrainian control.

According to *Forbes*, the most significant international and state grant programs for business development are the work of five agencies: USAID, eRobota, the International Organization for Migration (IOM), Global Communities, and Mercy Corps, with financial support provided by the Swiss Agency for Development and Cooperation (SDC).³⁶

A Mercy Corps initiative to provide 15 annual grants of \$20,000 to support relocated SMEs met with an overwhelming response. Since May 2022, the organization has received 292 applications – or 20 requests for each grant.

Initially, the program was intended for businesses that had relocated to the Ivano-Frankivsk, Lviv, and Ternopil oblasts, for which it received 155 applications. Recognizing the growing interest and the government’s emphasis on rebuilding the Kyiv, Sumy, and Chernihiv oblasts, in July 2023 Mercy Corps extended the program’s geographical perimeter to include these areas. This resulted in a significant surge in applications, including 93 applications from Kyiv Oblast alone between late July and the end of November. Nevertheless, despite the nearly 300 applications, the program’s limited funding has restricted support to the most severely affected businesses.

Supporting relocated businesses in Ukraine’s western oblasts offers many benefits. The region primarily consists of service-oriented businesses, and the influx of companies from eastern oblasts helps with diversification efforts, fosters regional development, boosts labor productivity, and catalyzes economic transformation. These relocations also translate into tax revenues and generate employment.

Internally displaced persons (IDPs) in the west of Ukraine must often choose between seeking work abroad or returning to the riskier eastern, southern and border oblasts. Supporting relocated businesses in the west is important for providing stability and sustainable livelihoods, mitigating the need for IDPs to choose potentially risky alternatives.

That said, the KIs we spoke with consistently noted that aid, including support to SMEs, has been concentrated in Ukraine's western regions, seemingly at the expense of those eastern and southern areas that have been directly affected by the war. This perceived disparity in aid distribution since the start of the full-scale invasion nevertheless needs to be taken into consideration, as many in the country's east and south feel overlooked. The western portion of the country is advancing towards the developmental stage, while the eastern and southern oblasts still require significant recovery efforts.

In light of this disparity, more effort is also required to help businesses in areas formerly under Russian control to get back on their feet. This realignment would help to address the acute needs of communities that have endured significant hardship and are in dire need of recovery support.

Focus on businesses with social impact. Encourage and support businesses in war-affected areas that prioritize social impact and offer essential services, such as shops, pharmacies, repair firms, etc. Prioritize initiatives that create jobs and restore daily life. Direct support for SMEs thus indirectly fosters general community resilience. Aid could also extend to reconstruction efforts in damaged areas, providing essential resources for revitalization.

Address gaps and opportunities in business support. Although local authorities, with support from international organizations, are prioritizing agriculture for investment, there is less emphasis on non-agricultural livelihoods. Livelihood opportunities in retail trade and service-sector enterprises, such as retail stores, bakeries, pharmacies, automobile repair shops, rural transportation services, and hairdressers, as well as small-scale manufacturing SMEs that contribute to the construction sector, such as those involved in the manufacture of doors, windows and roofing materials, could potentially thrive with financial support, depending on the specifics of the local business environment.³⁷

Specialized training and skill building: Develop specialized training programs to address the shortage of skilled labor, particularly in technical and specialized sectors. This could include partnerships with educational institutions or vocational training centers to bridge the skills gap and enhance jobseekers' employability.

Advocacy and policy reform: Advocacy efforts are needed to push for policy reforms that ease bureaucratic hurdles, improve access to funding, and create a conducive environment in which to do business. Addressing issues related to taxation, regulation, and bureaucratic red tape can significantly aid business recovery.

Collaborative initiatives and partnerships: Encourage partnerships between NGOs, government bodies, and private enterprises to foster a comprehensive approach to support. Joint efforts can streamline resources, knowledge, and networks for greater impact and reach a wider spectrum of businesses in need. Engage with local communities to understand their specific needs and facilitate initiatives that foster economic growth. Support community-driven projects that promote sustainable development and empower local entrepreneurs.

Diversification of exports and market expansion: Assist SMEs in diversifying their export products and expanding into new markets, thereby reducing dependency on specific trade partners. Support efforts to enhance agricultural processing within Ukraine to add value and boost export revenues.

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About Ukraine Crisis Analysis Team

The Ukraine Crisis Analysis Team's (UACAT) mandate is to guide development and humanitarian programs and operations through in-depth context, anticipatory and thematic analysis. Our work ensures the development of evidence-based programming.

The information and analysis in this report are shared on a strictly nonattributable basis to inform humanitarian and development actors and policymakers on the rapidly changing Ukrainian context.

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