



Ilko Kucheriv
Democratic Initiatives
Charitable Foundation



FRIEDRICH NAUMANN
FOUNDATION For Freedom.

Ukraine and Belarus



PROBLEMS AND NEEDS OF UKRAINIAN SMALL AND MEDIUM -SIZED ENTERPRISES IN THE WAR CONDITIONS



Фонд
Демократичні ініціативи
імені Ілька Кучеріва



FRIEDRICH NAUMANN
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This analytical report is the result of a project of the Ilko Kucheriv Democratic Initiatives Foundation, implemented with the support of the Friedrich Naumann Foundation for Freedom in Ukraine. The report presents the results of the authors' research. The study results do not necessarily reflect the position of the Office of the Friedrich Naumann Foundation for Freedom in Ukraine.

PREFACE

Small and medium-sized enterprises (SMEs) are one of the most important components of the Ukrainian economy. In 2021, SMEs [generated](#) about 60% of national GDP, provided about 7 million jobs and accounted for 40% of tax revenues. In the face of a full-scale Russian invasion, SMEs continue to be an important factor of the country's resilience.

SMEs are paying taxes that Ukraine uses for security and defense needs. This is very important in the context of existing [restrictions](#) on the government's use of international financial assistance for military needs.

Moreover, [research](#) on IDPs' needs shows that the need for employment is extremely relevant for IDPs. Jobs allow millions of Ukrainians to integrate into communities in their new place of residence, earn money to provide for their needs and feel at least some confidence in the future. SMEs play a major role in job creation, which emphasizes the role of SMEs as a factor of national resilience.

Therefore, it is necessary to analyze the key needs and problems of Ukrainian SMEs in the context of war to understand how to strengthen the sustainability of SMEs.

METHODOLOGY OF THE STUDY

In the course of the study, 10 focus group discussions (FGDs) were conducted with representatives of SMEs from different sectors of manufacturing (3 FGDs), trade (3 FGDs) and services (4 FGDs).

The study also included 30 in-depth semi-structured interviews with entrepreneurs with equal representation of 5 target audiences:

- enterprises operating in the regions close to the zone of combat actions (Zaporizhzhya, Mykolaiv, Kharkiv regions);
- enterprises operating in the liberated territories of the north of Ukraine (Sumy, Chernihiv, Kyiv regions);
- enterprises whose physical assets were damaged or destroyed as a result of combat actions;
- enterprises that relocated after the beginning of the Russian invasion;
- enterprises operating in regions remote from the war zone, but also suffering from the negative consequences of the war.

Focus groups and in-depth interviews were conducted in October and November 2022. Respondents were assured of their privacy. All quotes are anonymized so that the respondent cannot be identified.

Moreover, in order to try to find solutions to the problems identified by the SMEs, 10 expert interviews were conducted with representatives of leading Ukrainian think tanks, business associations and government officials. The expert interviews will be published on the Ilko Kucheriv Democratic Initiatives Foundation's social networks.

PROBLEMS OF SMALL AND MEDIUM ENTERPRISES (SMES) RECOVERY AFTER THE BEGINNING OF THE RUSSIAN INVASION

1.1 Renewal of enterprises' activities after the first 1-2 months of the full-scale war

During the first weeks after the Russian invasion on February 24, 2022, SMEs in most industries ceased their operations partially or completely. This period was characterized by the highest degree of uncertainty about the future of the country, and the most pressing issue was ensuring the personal safety of people.

Enterprises in the sectors that provide basic needs of citizens, such as public catering and pharmacies, almost did not stop working.

"Our manufacturing didn't work for 4 days, we didn't earn anything, because all orders were suspended. However, trading was working all the time. [...] The workload has even increased. People always need food. With the war stress came... Men go to war, evacuate people and so on. And imagine a woman sits at home in shock from everything that is happening around. What will she do? She goes to buy a cake. And in general, people always need food." - entrepreneur, confectionery industry, Dnipro

However, this is a rather rough generalization, since the behavior of enterprises even in these industries was affected by security factors, decisions of top management, personal decisions of company employees to move to another region, etc.

"We belong to the crucial infrastructure for servicing people, because we are the pharmacy sector. Therefore, we did not stop working even on the first day of the war. Although the network pharmacies were closed and opened after a certain period of time. We did not even think about it. We had a clear position that we work because people need medications." - entrepreneur, pharmacy sector, Chernihiv region

"I did not suspend my operations. Most pharmacies in the area were closed, including network pharmacies. They had the ability to work, but no one did anything. The owners just minded their own business and waited." - entrepreneur, pharmacy sector, Kyiv

The recovery of business activity on a larger scale began in April-May, when Russian troops were forced out of the north of Ukraine and in particular from the city of Kyiv. This gave citizens confidence that the capital had survived and that Ukraine as a state would be preserved. The shock of the first weeks of the war gradually decreased.

"We have stopped working almost completely for a month and a half. We gave the vehicles of the company to the drivers who worked with these vehicles. If they considered it necessary to evacuate with their families - they could take the car and leave. If they wanted to volunteer, they could take a car and go to help civilians or the military. [...] We tried to move part of the enterprise's vehicles to Lviv, but could not rent housing for the staff there. [...] We returned to Kyiv in late April - early May. And from that moment

we gradually started to resume our operations. [...] What about main challenges that we faced. Firstly, our logistics were disrupted due to the checkpoints on the roads, and secondly, there were disruptions in the GPS operation when the air raid alert started in Kyiv. Thirdly, the import of spare parts from abroad was interrupted." - entrepreneur, transportation services, Kyiv

"I am the director of a mall that includes a restaurant, a supermarket, a hotel and a cinema. When the war started, we had a complete business shutdown, we did not work for about 60 days. And starting from the first days of May we returned to regular operations. Of course, at first there was a decrease in the customer rate, about 50-60 percent compared to the pre-war period. Currently, as of September, we have reached the pre-war indicators. That is, if we exclude inflation and price increases, we have reached the pre-war results." - entrepreneur, shopping mall, Chernihiv region

This trend is also confirmed by the monitoring [study](#) on the business condition and needs conducted by the Center for Innovation Development, the Office for Entrepreneurship and Export Development, the national project Diia.Business together with AdvanterGroup.

According to the study, while in early March about 75% of enterprises suspended their operations completely, in mid-April and early May this figure was about 21-22%. Moreover, during this period, a segment of about 15% of businesses has already appeared in which the volume of work has been restored by 100% or even increased:

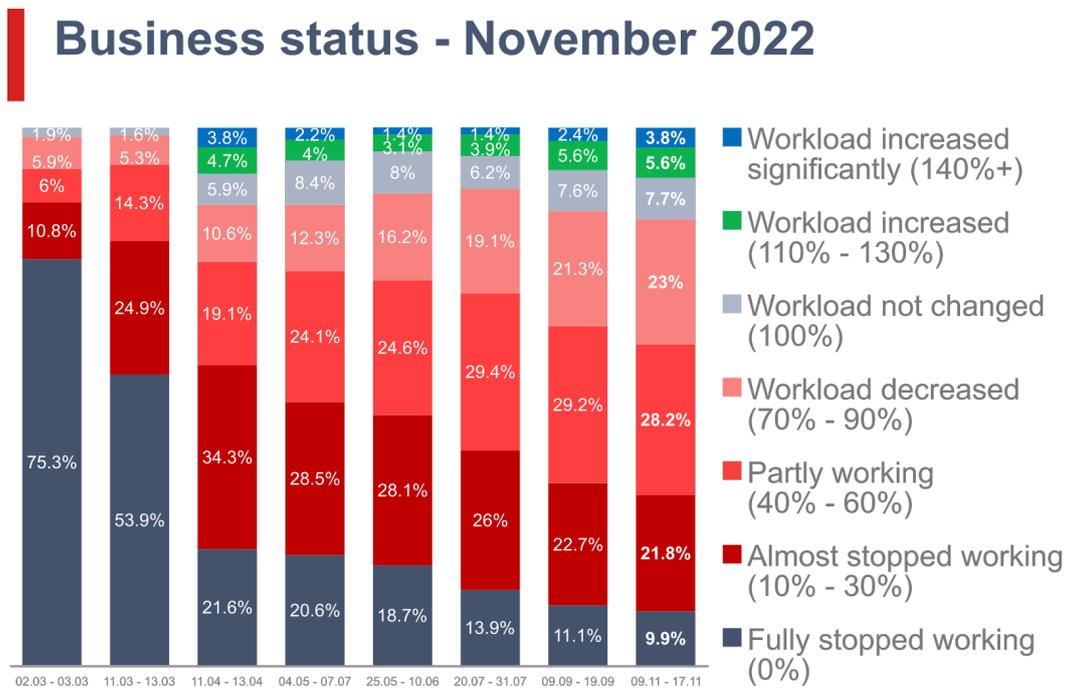


Chart 1. State of enterprises as of 11.2022. Source: <https://t.me/adligach/638>

1.2 SMEs loss of staff due to full-scale war

Most enterprises lost part of their staff after the start of the full-scale Russian invasion. Some employees were recruited or voluntarily joined the Armed Forces of Ukraine, while others moved to other regions of Ukraine or abroad for security reasons. This has had a varying impact on the ability of businesses to recover and continue operations.

"As for the employees. We have not fired anyone and our director said that if the situation improves, he will be waiting for everyone at work. [...] We have people who are mobilized. Mostly, those are executive workers. These are the people who are responsible for the main work of our company, and many workers were mobilized. [...] Unfortunately, there is no possibility to resume our work. Our main employees were mobilized to the Armed Forces of Ukraine." - entrepreneur, construction industry, Kyiv region

However, the situation with the loss of employees also changed over time. After the first few months, some people who were refugees or IDPs were able to return home and resume work at their enterprises.

"In total, we had 60 employees. One man joined the Armed Forces from the first day of the war, and one person was mobilized. About 12 people became refugees. Some of them were IDPs, and some went abroad. We lost up to 25% of our staff. Some people found themselves under occupation when Russian troops were advancing in Chernihiv region. They came back after the Russian troops were repelled from our territory. We did not fire anyone during this time. And over time, IDPs and people from abroad began to return. Only one person did not return. This person decided to stay abroad. She asked us to fire her according to the law, and we did so. We have not fired a single person on our own initiative." - entrepreneur, pharmaceutical industry, Chernihiv region

The issue of employees' departure was relevant not only for the regions closest to the combat zone. Companies from the western regions of Ukraine also often reported the leaving of some employees (mostly abroad).

Often these were qualified employees who, firstly, possessed specific skills necessary for the work of the enterprise, and secondly, had already worked at these enterprises for some time and were familiar with the peculiarities of their operations.

"We had a staff outflow. Despite the fact that we live in a relatively safe region, we lost almost 50% of the staff in the first month. And we had to look for new employees and teach them. And of course, among these people there were both local and internally displaced persons. And even among those whom we hired, some people eventually went abroad. And we had to recruit new staff again and train them again. It requires additional investment, additional energy, when you don't understand how long you will be able to work with this employee." - entrepreneur, food production, Zakarpattia region

Enterprises in the western regions of Ukraine were able to partially compensate for the lost employees by hiring IDPs. However, after the liberation of the north of Ukraine and stabilization of the situation at the frontline, a significant number of IDPs returned home. At the same time, not all those qualified employees who left the western regions of Ukraine at the beginning of the war returned home. This caused a new wave of staff shortage for enterprises in the western regions of Ukraine.

"A huge number of our employees left. Those who left were people with education and skills. Today it takes several years of hard work to train a professional confectioner. Let alone ophthalmologists. Many of these people have left. There is a personnel shortage. After the start of the full-scale war, a lot of IDPs appeared in Zakarpattia. We had about 10-15 people coming to us every day via the employment center. We filled the vacancies that we had. However, three or four months later people began to leave, and those positions became vacant again. Nobody among our qualified workers who left right after the war wants to go back. We had a young woman working for us; we were training her to be a sales manager. And in ophthalmology it's really very difficult. She and her husband decided to stay in Estonia and are not going back. Unfortunately, we are losing very important staff, top-level professionals." - entrepreneur, food and healthcare industry, Zakarpattia region

Moreover, after a significant part of IDPs from large cities in the north of Ukraine (including Kyiv) returned home, the demand for goods and services of SMEs from the western regions of Ukraine decreased.

"I cannot say that things have become worse for me since the beginning of the war. On the contrary - it became better, because a lot of IDPs arrived. There were many more people in the town than before. People from Kyiv were very surprised that we have cheaper prices. So with the beginning of the war my business improved dramatically. And now it has become even worse than before the full-scale war. Why? IDPs have gone home. And many locals are fighting on the war. There are not many people in the city, small salaries. Everyone is saving money, because in winter we need money for heating. And all of this negatively affects the business." - entrepreneur, trade in agricultural food products, Ivano-Frankivsk region

1.3 Reduction and recovery of demand for goods and services that are not essential for survival

Immediately after the Russian invasion, the biggest losses were suffered by those industries that do not provide basic needs of people or require long-term planning. Entertainment, tourism, media production, handmade crafts, advertising and many other industries were not a priority for consumers during the shock of the first months of full-scale war.

"We have a company that provides services for the installation of automatic irrigation, which means that sprinklers water the lawns. And we were doing quite well before the war. We had not a single order after the war started. No one has asked for it. People just do not spend money on such things now." - entrepreneur, Kyiv

"I work in the field of video production. I shoot and edit ads and films. When the war started, all activities were suspended. No one needed advertising services, but there was a little workload on social projects, and on volunteer projects, but it was not paid. Sometime in late August, clients began to return, mostly those with whom I worked previously. There are no new ones. People do not need advertising or anything like that now." - entrepreneur, Kyiv

The construction industry requires large investments and long-term planning and involves a significant number of risks, which is most likely the reason why this industry started to recover late and is still in perhaps the worst condition among others.

Some businesses have been expanding the list of services they provide to compensate for the loss of demand and make profits.

"I have a small catering company. We are engaged in making banquets, conferences, weddings, celebrations, etc. And after February 24, who could celebrate anything? The first three months we suspended our work almost entirely. And then we started looking for new types of services to keep the business running. We have slightly expanded and modified the services we provide. For example, we make deliveries. Earlier we were engaged in serving dishes, organizing a buffet, but now we can just make deliveries." - entrepreneur, Kyiv region

However, after the first few months, business activity in the country gradually recovered, including the demand for services which most Ukrainians didn't need in February-March because of the war.

"Our business is the production of honey chocolate, sweets and peanut pastes. We have a small family business. We take honey from our own apiary. [...] At first, when the enemy invaded the territory of Ukraine, we did not work at all for two months, there was no possibility to carry out logistics, there was no understanding of whether there

would be demand and need for such goods. And also our products are not essential goods and the price is relatively high. [...]Now we feel an increase in demand for our products and there is a need to hire another person for production. We have a young woman working with us on a probationary period. " - entrepreneur, Chernihiv region

The above mentioned [survey](#) of the state and needs of business can provide quantitative data that will allow for a more accurate understanding of the state of different industries.

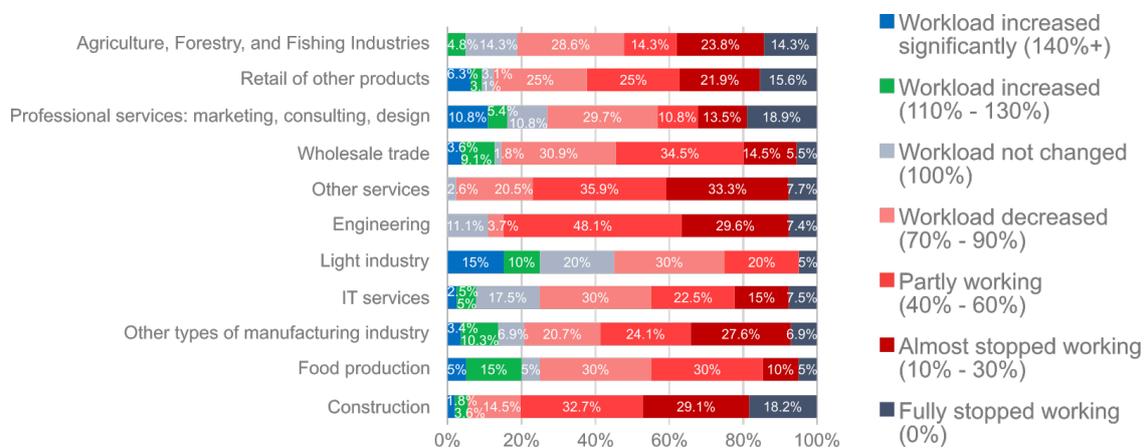


Chart 2. State of industries as of 11.2022. Source: <https://youtu.be/OaEtfToKN78?t=334>

According to the study results, the sphere of professional services, such as marketing, consulting and design, is actively recovering. And these services can hardly be called essential services for a survival of a person. At the same time, the construction sector is recovering more slowly, as also shown by the results of the DIF research.

Thus, we can say that the skew of demand in the market towards essential goods and services is gradually fading. However, surely it is not completely gone, because due to the fall in purchasing power, Ukrainians are forced to limit the consumption of goods and services.

1.4 Disruption of supply chains and ties between enterprises

Almost not a single enterprise has a closed cycle of production of its goods and services. In one way or another, most enterprises depend on the supply of raw materials, components, consumables either from other Ukrainian enterprises or from foreign partners.

The disruption of logistics became one of the most common problems of Ukrainian entrepreneurs after the start of the full-scale war. The established partnerships between Ukrainian enterprises were disrupted. Very common are the situations when enterprise A, which supplied raw materials to enterprise B, was forced to move to another region / lost its capabilities due to the loss of employees / was damaged as a result of hostilities / was occupied / experienced its own logistical difficulties, etc. Because of this, enterprise B can no longer rely on cooperation and is forced to look for other partners and suppliers, temporarily reducing its own production volumes.

"There were problems with buying glass containers in Ukraine. Mainly because the warehouses or enterprises that produced it were either damaged or destroyed." - entrepreneur, food production, Zakarpattia region

"The market of construction materials has become very unstable, it is impossible to calculate the cost of works. Some of the factories with which we cooperated, unfortunately, were destroyed. For example, a roller shutter factory in Dymarka" - entrepreneur, construction industry, Kyiv region

"The main problem was with the suppliers. Chaos, confusion. Many enterprises shut down, many of them jacked up prices. And speculators appeared immediately. Plus, previously sugar, margarine, and everything else had been brought to us, but now we had to go look for them ourselves. We used to haul the sacks ourselves, load them into the cars. Somehow we found something" - businessman, public catering, Dnipro

The import of foreign goods and components to Ukraine has also become significantly more difficult. The cases of improper functioning of customs were reported.

"Thanks to "Nova Poshta", logistics in Ukraine is functioning. However, there are certain difficulties with foreign suppliers. Here you have to constantly keep inventing ways to transport goods in Ukraine, nearly resorting to smuggling. For example, a person I know is at war now. He needed a simple cable for programming the radios, so that the communication channels were protected. It was impossible to bring a simple cable costing 20 euros to Ukraine. We had to take it to Germany, and from Germany we had to smuggle it here. Thanks to personal networks, we manage to solve these issues somehow." - entrepreneur, computer equipment trade, Dnipro

"On the eve of the full-scale invasion, one of my friends brought a large shipment of

goods from China. He paid all customs duties for this shipment. However, due to the invasion, the goods remained at the customs terminal. In March-April, the customs office charged such payments that now this entrepreneur is thinking not to take the goods at all. The total value of the goods is more than 700 thousand dollars - that's several containers. They just keep charging customs duties and do not even want to hear that there is a war in Ukraine. They did not even offer any discounts, nothing." - entrepreneur, furniture production, Kyiv region

Nevertheless, with time, business activity is recovering. The ties in the economy that had been established for decades, but were severed in one day on February 24, 2022, are gradually being restored. Some of the enterprises that stopped working at the beginning of the full-scale war are restoring their operations and partnerships with other enterprises. New market players are also emerging to replace those that could not recover after the outbreak of full-scale war.

"We also had to get out of different situations. Suppliers of some goods simply disappeared at some point. It was impossible to call or otherwise contact them. And certain goods simply were not available for some time. Now some suppliers are coming back. There are new people who come with offers to supply goods." - entrepreneur, coffee shop, Kirovohrad region

Nevertheless, as in the case of demand recovery, the problem of disrupted supply chains cannot be considered completely solved. According to the sixth monthly [survey](#) of Ukrainian enterprises conducted by the Institute for Economic Research and Policy Consulting in October 2022, logistics problems are relevant for 41% of businesses and are the third most common problem of entrepreneurs.

A few months ago, logistics was the second most common problem, until Russia started massive shelling of Ukrainian critical infrastructure in October, which highlighted the problem of electricity, water and heat supply interruptions. Problems with the import of goods to Ukraine, according to the IERPC survey, were important for about 15% of the surveyed enterprises. Among the respondents in the study of the Democratic Initiatives Foundation, import problems were also mentioned much less frequently, but these problems clearly require attention and response from the authorities.

| | All | Micro | Small | Medium | Large |
|--------------------------------------------------------------------------------|-----|-------|-------|--------|-------|
| Raw materials/goods prices growth | 70% | 73% | 70% | 72% | 67% |
| Electricity, water or heat supply outages | 51% | 41% | 41% | 53% | 65% |
| Raw materials/ goods logistics difficulties on Ukrainian territory | 41% | 29% | 43% | 42% | 43% |
| Dangerous to work | 33% | 16% | 32% | 35% | 37% |
| Decrease in demand on products/services | 29% | 43% | 33% | 23% | 27% |
| Supply chain disruption | 28% | 20% | 22% | 30% | 35% |
| State regulation of currency exchange rates | 25% | 16% | 28% | 24% | 25% |
| Lack of working capital | 23% | 31% | 26% | 20% | 19% |
| Lack of labor force due to military mobilization and/or departure of employees | 16% | 2% | 14% | 23% | 15% |
| Lack of fuel | 13% | 27% | 12% | 9% | 13% |
| Property or goods damage due to combat actions | 6% | 10% | 5% | 4% | 7% |
| Corruption | 1% | 0% | 0% | 1% | 2% |
| No problems | 1% | 0% | 1% | 2% | 3% |

Table 1. Problems faced by enterprises during the war. Source: [Institute for Economic Research and Policy Consulting](#)

1.5 The inflation and rise in prices for utilities

The most common problem faced by entrepreneurs both in the first months after the invasion and nowadays is inflation and its effects: rise in price of raw materials/components/consumables and decrease in purchasing power of the population.

Due to the national currency devaluation, the purchase of raw materials, components and consumables for entrepreneurs becomes more expensive. This forces entrepreneurs to raise prices for their products and services for consumers. However, entrepreneurs should take into account the decrease in the purchasing power of the population and keep prices at an affordable level, so as not to lose the remaining demand.

"One of our main components is flour. Most of the problems started with flour. At first it was impossible to find it at all. Salt rose from 6 hryvnias to 30. People even took it for 50 hryvnias. Now the price has stabilized at 20 hryvnias. Due to this reason the cost of production increased. We did not raise prices for a long time. However, we were forced to make prices higher. We actually worked without profit for some time. - entrepreneur, production of food, Dnipro

"We felt that... if a regular cab driver used to come every morning to get a cup of coffee in our shop, now he comes every two days. We are forced to raise prices, because eventually we will suffer losses. We're very dependent on the dollar exchange rate." - entrepreneur, coffeeshop, Dnipro

"We do not keep prices. We charge our customers whatever prices we have. Everyone understands the situation. We did not just raise prices to earn more money. There has not been a war in our country yet, but there have already been several revolutions, defaults, there were periods when the exchange rate changed very much. We have already experienced a lot over the past 26 years. Therefore, it was a shock for us, of course, but we think that the time will come and we will reach the volume we had before." - entrepreneur, printing services, Kyiv

Even those entrepreneurs who have mostly restored the volume of revenues, note that the volume of revenues is comparable to the February volumes in hryvnia equivalent, but in terms of purchasing power this money has a different value.

"If we measure the money turnover in dollars, we have decreased turnover, but in hryvnias we have added about +60% compared to February 24." - entrepreneur, furniture production, Chernihiv region

Declining profits due to inflation and efforts to maintain employee salaries lead to the problem that enterprises have less money for their development, investments in equipment, saving funds for unpredictable expenses, etc. This highlights the problem of finding operating funds to support and develop enterprises in the current circumstances.

"What we did to somehow compete and make the final price of our product more or less consumer-friendly... We reduced our own income. That's all we did. Salaries of employees have not changed, they have even grown a little. But the inflow of funds that can be invested in our production and business development has decreased. We are waiting for better times, when the war is over, then we will be able to earn more money for our own development. That's all." - entrepreneur, furniture production, Kyiv region

Another problem related to inflation is the rise in the cost of utilities, which also leads to additional expenses for enterprises and a decrease in operating funds. This problem is especially relevant for industries that work with heating equipment that consumes large amounts of electricity.

Since October, when Russia began to launch massive missile strikes on Ukrainian critical infrastructure, the problem of interruptions in electricity, water and heat supply has become more pressing, leading to prolonged outages and disruptions of enterprises' operations.

"The main vulnerability of fast food companies today is the electricity. Firstly, we have to close when it is turned off. [...] Moreover, last month we paid 5.80 UAH per kilowatt of

electricity, this month it is already 6.30 UAH. Extra 0.50 UAH per kilowatt is a big sum. Everything is dependent on the equipment that fries, steams and cooks. And heating equipment consumes much more energy than cooling equipment. We have to collect sales for 3-4 days just to cover the debt for electricity." - entrepreneur, fast food industry, Kyiv

"Now the holding of online events has become complicated by the fact that during the online broadcast the electricity and, accordingly, the Internet can be turned off. And today we had the exact same situation. An hour before we were to start two broadcasts, the power was cut off. We switched to the generator. Then 10 minutes before the end of the broadcast, the electricity turned on and the generator shut down. Therefore, the Internet was lost for a while and there was also a delay. And everyone is very nervous because of this. And all clients call and text me at the same time: what happened, where is the broadcast?" - entrepreneur, public events, Kyiv region

Entrepreneurs also mentioned advance payments for electricity. However, these payments are not mandatory and were not mentioned often.

"Each of the entrepreneurs who are present at the current discussion is well aware that we all pay for electricity a month in advance. "Oblenergos" are private companies. The question at hand is: is there any way to influence these people so that we don't have to pay for electricity in advance? That would be a very serious support. Today it is not easy due to inflation and rising prices of products" - entrepreneur, sphere of production of food products and medical services, Zakarpattia region.

"I do not pay advance payments at all. Sorry, I am not able to lend to Mr. Akhmetov. They somehow predict the level of consumption, and I have to pay, for example, UAH 8,000 for the utilities that were consumed this month and another UAH 12,000 for the next month. Of course, this money will be included in the payment next month. However, this is a drain on my operating funds." - entrepreneur, computer equipment trade, Dnipro

"I do not have the opportunity to pay in advance. My funds are constantly in operation, I need to order raw materials. And advance payments, sorry..." - entrepreneur, fast food industry, Kyiv

1.6 Blocking of tax invoices

The problem of blocking tax invoices is not an objective consequence of the war, as it was for all the above problems. However, this problem became especially severe in the period after the beginning of the full-scale Russian invasion.

"Starting from May, they started blocking our tax invoices. From time to time, the tax authorities block our tax invoices for no reason. And all my friends encounter this problem constantly. It is without any justification at all. In my opinion, for the period of martial law, the blocking of tax invoices should be banned altogether." - entrepreneur, agriculture, Chernihiv region

Blocking of tax invoices creates the need for enterprises to spend resources on bureaucratic procedures in relations with the tax authorities. In addition, according to entrepreneurs, it can create risks for enterprises trying to attract operating funds from external sources, which, as shown in the previous section, is very relevant issue in the current conditions in Ukraine. The problem of blocking tax invoices requires a [systematic](#) response from the authorities so that this problem stops creating obstacles to the recovery of business activity in Ukraine.

"We have now several tax invoices blocked. It was done automatically. Without warning. The tax system database automatically sees that we have supplied herbal tea to our colleagues. For some reason, the tax system did not see that our company is allowed to make such operations and we are producers of herbal tea. I do not know why they did not see it, although we used to supply tea previously and we had no problems with it. [...] And, by the way, this is considered a tax debt. If I apply for a loan, the bank will tell me: listen, you have a debt to the state. You are a bad counteragent and we cannot give you a loan. We automatically fall into the zone of a risky enterprise. When my colleagues told me about it, I did not believe it. But about a month ago, I faced it myself and realized that this is really a problem." - entrepreneur, tea production, Cherkasy region

ENTREPRENEURS' ASSESSMENT OF STATE POLICY MEASURES AIMED AT SUPPORTING SMES AFTER FEBRUARY 24

Immediately after the Russian invasion and to some extent even shortly before it, the Ukrainian authorities made a number of decisions aimed at promoting the survival and recovery of Ukrainian businesses. Some of these decisions were tactical and aimed at supporting SMEs in the conditions of the greatest uncertainty of the first few months of the war, while others were intended to have an effect in the longer term. After almost 10 months of full-scale war, it is reasonable to assess to what extent certain policy decisions have been useful for SMEs and helped them to survive and resume their operations.

2.1 One-time assistance for entrepreneurs and employees

In early March 2022, in the framework of eSupport project, Ukrainians from the regions where combat operations took place could receive a one-time [assistance](#) in the amount of UAH 6500. Employees for whom the single social contribution is paid, as well as individual entrepreneurs of all groups who submitted reports for the last quarter of 2021, could receive the assistance. According to Prime Minister of Ukraine Denys Shmyhal, about 5 million citizens [received](#) payments, and the total amount of payments amounted to almost UAH 31 billion.

Many entrepreneurs took advantage of this opportunity and this step was positively assessed, because in the period of the first shock, when most enterprises stopped their work, these funds helped enterprises to financially support their employees.

"What about the support of employees, in March the state compensated all employees UAH 6500, and since April and May we have been paying salaries ourselves." - entrepreneur, shopping mall, Chernihiv region

"If we talk about help from the government, we have part of the enterprise registered as an individual entrepreneur. As you remember, individual entrepreneurs were paid 6 thousand hryvnias. The government did it, we got it. Everything is all right in this sense. I think that the state has much more problems now than our industry. Yes, it is also important as a part of economy, but we somehow cope with our challenges by ourselves. - entrepreneur, public events industry

In addition to one-time assistance to employees and individual entrepreneurs, the support was provided to entrepreneurs who employed internally displaced persons. This decision was also a positive tactical step that helped entrepreneurs to support their employees.

"Some people from our city left in the first days, but the IDPs came to us. We hired them. We even received UAH 6500 per person. The accounting and personnel department were able to do it. We gave this money back to the people. That is, we did not take it for ourselves, as our state anticipated, but we just gave it to people." - entrepreneur, confectionery industry, Dnipro

2.2 Opportunities to get operating funds

2.2.1 Lending opportunities

The state program "Affordable Loans 5-7-9%" was [created](#) in February 2020 to facilitate access of small enterprises to lending. In the conditions of war, as noted in subsection 1.5, the problem of raising operating funds has become particularly urgent for entrepreneurs. Given inflation and the need to keep prices for goods and services at an affordable level, businesses have less and less profit to invest in their development and recovery.

Among the entrepreneurs who took part in the DIF survey, there were different experiences of raising additional funds through lending. Some entrepreneurs positively evaluated this program, although they noted some of its limitations, in particular, that credit funds could be obtained only for goods, but not for equipment.

"There is some help from the state. As for loans, our two entrepreneurs took loans. In April we took out three loans. However, loans could be taken not for equipment, but only for goods. We took interest-free loans, there were very favorable terms. We took loans from Privatbank. I would say that there were no delays. The only thing I wish was that it should not be pledged against some real estate. Of course we pledged real estate. That was the only condition. Well, today we are well aware of the state of our banks. And how many crooks there are in our country, who take out loans and then the loans are not paid back. In general, I have not seen any problems with loans, thank God, we were even asked to take them." - entrepreneur, food production and medical services, Zakarpattia region.

However, not all entrepreneurs had successful experience in receiving loans. Moreover, one of the participants described a case when the loan funds could not be obtained even after successful review of the application by the bank. The reason for this remained unknown.

"We even hired a professional financial expert who has extensive experience in obtaining loans. We spent about two months negotiating with almost all these banks. We were told that everything was OK, our application was approved. And then nothing moved further. The status of our application is approved, but after that just silence. We have waited two months. Then we wrote an official letter. We wrote to Privatbank, to Oschadbank. We asked a specific question: please tell us when and where we can come and get our loan approved by your bank? The answer was as follows: this information is confidential. You will be informed additionally. That's the answer." - entrepreneur, tea production, Cherkasy region

Some entrepreneurs are suspicious of the need to make a pledge when applying for a loan. In their opinion, the necessity of a pledge limits the range of entrepreneurs who can take a loan.

"There are little points in this lending that are not advertised. Technically, it is mandatory to have a pledge. It feels like it's, roughly speaking, the same "money for a while" from some questionable companies that give you money against a pledge of your apartment, car or other property." - A entrepreneur, advertising services, Kyiv

Also, entrepreneurs who have tried to get a loan under this state program noted that there is a specific list of property that can serve as a pledge when obtaining a loan, and this also limits the availability of these loan funds.

"A loan under this state program cannot be obtained against a pledge of equipment, except for a very narrow list. If, for example, you have a hand tool, even if it is very expensive... Let's say the cost of the tools is UAH 50 000, and the total cost of tools in your possession is UAH 2 million, then this property cannot be used as a pledge to get a loan. When the war started, there were problems with getting a loan against an apartment as a pledge. It became possible to get a loan only against the pledge of movable vehicles." - entrepreneur, urban development, Kyiv

This evidence is certainly not enough to draw conclusions about the success of the program as a whole and, as one respondent rightly pointed out, banks in the current environment should also be making measures to secure loan repayment. Nevertheless, as we can see, the respondents also had negative experience with the program. Therefore, certain aspects of its functioning can be improved and simplified to make financial resources even more accessible to potential consumers.

In general, the majority of respondents either did not want to "deal with the state", or relied on their own efforts, or did not feel the need for such lending.

2.2.2 Grant programs from the Ukrainian government (eRobota program) and international assistance for Ukrainian entrepreneurs

In general, awareness of grant programs from the Ukrainian government or international assistance opportunities for the development of Ukrainian entrepreneurs was rather low among the entrepreneurs who participated in the survey. Only a few survey participants had participated in such programs, including the eRobota project [launched](#) in June 2022.

One of the study participants noted the restrictions imposed by the terms of the grant program. The restrictions include strict adherence to the business plan and the purchase of equipment specified in it. Given the delay in receiving funds and dynamic changes in the market situation, this creates significant obstacles to the implementation of the business plan. Moreover, under the terms of the program, it is necessary to employ people. In case of payment delays, the employees will not have equipment to work with and create goods and services that bring profit to the enterprise.

"I'm in the middle of the road for this grant. In the middle of the way I stopped, calculated everything and realized that after all the changes in the terms of the competition, it turns out to be absolutely unprofitable for me. [...] These grants are being awarded in waves. People who applied in the first wave in early June received confirmation of their applications. Now these people have received money in their accounts, but now they are faced with the fact that they cannot get and use the money for their intended purpose from these accounts in Oshchadbank. During the implementation of the program, the Ministry of Economy changed the target expenditure items. They almost completely removed marketing, advertising, and purchase of goods. Many online stores wanted money for raw materials and for the purchase of goods for sale. These items of expenditures were removed, leaving mostly equipment. But there are nuances with the equipment there, too. For example, in your business plan, you specified a machine of a certain model. However, by the time you have received the money, that machine may have already cost twice as much. And you can only use the amount allocated to that particular machine model in your business plan. Also, that model may not be available, and you can't spend that money on another model. [...] From the moment the grant is approved, within 15 days you have to register the enterprise, in case it is not registered yet. And within the first 6 months you have to hire two full-time employees with all taxes paid. People who received grant application confirmations in the first wave, but have not received money so far, have already hired employees a long time ago. And they are already paying salaries to employees. However, the employees can't work, because the company hasn't received money for equipment yet. So I decided to wait and see how the program would progress. This is because it is not profitable for me to get the application approved and then hire people who will be out of work. The Ministry of Economics, as I understand it, began to see where opportunities for misuse of funds, tax evasion, and so on could arise. Then they began to block off these opportunities. But eventually the terms of the grant program became not attractive at all, it seems to me. Probably, it is much easier to take a regular loan and develop your business, without reporting to anyone." - business, tourist industry, Kyiv

Another respondent, who was interested in the possibilities of Ukrainian and international grant programs, considers eRobota a good project and is going to participate in it, although she has not yet applied.

"A fairly successful state program is "eRobota". It requires a responsible approach to writing a business plan with all the calculations. Under the program, you have to employ one or two employees. If you hire one employee, you will receive assistance in the amount of UAH 140 000, if you hire two employees - UAH 250 000. You return these funds by paying taxes from your enterprise in the future. For example, I write a project for 3-5 years, then I pay a single tax and a single social contribution for employees. In this way, I return the money to the budget. Thus, there is a benefit for the government,

and for us it is a good opportunity to get funds to expand our activities. The program is valid until the end of the year, and I am going to apply for it" - entrepreneur, sweets production, Chernihiv region

Among the international programs, respondents particularly mentioned the IREX program, which provides both training and funds for enterprise development, as well as the Support.ua initiative, which allowed to obtain small financing for business needs.

"I participate in the IREX program, which provides training for young entrepreneurs under 35 years old, and also provides funds that can be immediately used for business development. I am pleasantly surprised by this program, because the mentors are very good. I communicate with my mentor, but I can also consult with other mentors who are very experienced and have experience working in Ukraine and abroad, and in various fields. [...] This is important, because you can get funds for development, but you still need to know how and where to invest them wisely. At first, I thought about one direction for the development of my business, but when I talked to the mentor, I adjusted my plans." - entrepreneur, sweets production, Chernihiv region

In general, as already mentioned, there was low awareness of Ukrainian and international assistance programs among entrepreneurs, but there is a demand for such information. To participate in such programs, it is also important to be able to write grant applications and administer grants, which requires specific skills. Business associations and unions of entrepreneurs could help entrepreneurs with this. On the other hand, studies [show](#) that only about one third of enterprises in Ukraine are members of business associations or business clubs.

2.3 Reducing the regulatory burden

The government's decision to reduce the regulatory burden was a state policy measure that did not cause any objections from entrepreneurs either at the conceptual or implementation level. According to the [resolution](#) of the Cabinet of Ministers of Ukraine dated March 13, during the legal regime of martial law the planned measures of state supervision (inspections) were canceled. At the same time, in some cases, unscheduled inspections may be appointed if there are threats to the rights and interests of Ukrainian citizens and the state as a whole. Moreover, the State Regulatory Service [has not proposed](#) an inspection plan for 2023.

In addition, the mandatory introduction of cash registers for individual entrepreneurs was [abolished](#). At the same time, the survey participants noted that they support fiscalization as a concept, but in practice there were problems with its implementation.

"I can say for sure that there were no inspections during this time. Everyone works trusting each other. [...] And cash registers have been abolished for now. It is really a problem, especially for those who are not yet trained. [...] I watched various training

materials on how to work with the cash register. In my field of work it is extremely difficult. Let's say I am crystal honest, I will input all the parameters of the goods. A specific case: I brought two tons of watermelon, sold one and a half tons. Tell me, if the watermelon was exposed to the sun, how many kilograms did it lose? Or I brought two tons of potatoes, from which, after unloading, the soil fell off, something fell out of the truck while unloading, and some part of potatoes appeared to be rotten and we threw it away. Should we record all these losses?" - entrepreneur, trade in agricultural food products, Ivano-Frankivsk region

"I would like the innovations with fiscal cash registers to be canceled. There are provisions on keeping records of goods that are in the warehouse. I had a warehouse, but it was not a product that I just bought and then resold. That is, I bought profiles for eaves, we cut them to a certain size. I could not make a warehouse accounting, because I have scraps, I have defects. If this accounting of warehouses was introduced in my sphere, I would rather close down, because it is simply unrealistic for me to do it. This is something terrible. The problem is not in the tax. We have a small tax, in fact. The problem is the complication of work. So I installed a cash register, I made the whole system, I started selling. But I did not pay more taxes as a result. It's just another extra hour I have to sit in the evening instead of doing my business" - entrepreneur, interior decoration production, Kyiv

"I support fiscalization. The problem is that we were told to install cash registers, but there was no clear understanding of what to do. What if I have cashless payments, what if I have a key card? [...] I understand that fiscalization is needed to prevent concealment of income. Of course, all this is necessary, but we also need information support - who does what, who to contact if necessary. Perhaps it's only me who has such a situation... But since December last year, before the introduction of cash registers, I was constantly talking with tax inspectors. No one could give me clear information. Everyone said: let's wait and see what will happen." - entrepreneur, tourism industry, Kyiv region

2.4 Tax reduction for certain categories of taxpayers

After the beginning of the full-scale Russian invasion, taxation for certain categories of taxpayers was [reduced](#). In particular, individual entrepreneurs of groups 1 and 2, who are single tax payers, may not pay the single tax and are freed from the obligation to pay the single social contribution for themselves. Individual entrepreneurs of the 3rd group may pay the single tax at the rate of 2% if they wish.

Certainly, the list of changes in the tax legislation is much [wider](#), but these are the changes that were most often mentioned by the survey participants and most actively communicated by the Ukrainian authorities. These changes were positively assessed by the survey participants, as they helped entrepreneurs to preserve operating funds at the beginning of the invasion, when the demand for their products and services fell the most and uncertainty was the greatest.

"I want to say "thank you!" for the decision on the individual entrepreneurs of the group 1. The government allowed not to pay the single tax. The young woman, who is our employee and partner, is an individual entrepreneur of the first group, and she does not pay tax, it helps her a lot. I am an individual entrepreneur of the 3rd group and we were allowed to switch to the single tax rate of 2% compared to 5% before. I took advantage of this opportunity, and I am also grateful, because it allows to save some money." - entrepreneur, clothing production and repair, Chernihiv region

However, this decision was not a panacea for everyone. Enterprises that are not single tax payers and have employees working under employment contracts suffered heavy losses in the first months.

"When there are no revenues and the team consists of at least 25-30 people, for whom it is necessary to pay single social contribution and other taxes... No matter how much you reduce salaries, such expenditures can put any enterprise down. Those, who had some operating funds, survived this period when there were no revenues at all for several months. And if this business is registered as a VAT payer, it is even more difficult. What is the way out? You can have people work part-time or go on vacation at their expense, pay them unofficial wages. That is, there are ways to avoid fines, and at the same time not to pay so much money to the state budgets. Someone does it. But, it is not the way we want things to be done..." - entrepreneur, furniture production, Kyiv region

The problem of high taxes for companies working with employees under employment contracts has not disappeared. Respondents whose enterprises are registered as legal entities (LLC, JSC) did not feel the tax reduction.

"What worried us was taxes. For example, for individual entrepreneurs the government reduced taxes from 5% to 2% for the wartime period. For legal entities (LLCs), I did not see any tax relief. For example, what we were most interested in was income taxes,

which are quite high." - entrepreneur, printing services, Kyiv

Thus, the systemic flaws of Ukraine's tax policy remain unresolved. Reducing and making taxes optional for individual entrepreneurs will further facilitate the transition of enterprises to work with their employees as individual entrepreneurs instead of using employment contracts.

2.5 Compensation for physical assets of enterprises damaged as a result of hostilities

In September, the Ministry of Justice [published](#) an algorithm of actions for obtaining future compensation for property damaged or destroyed as a result of hostilities. This includes physical assets of enterprises that were damaged or destroyed.

It is clearly too early to talk about the practical implementation of this program. Given the scale of destruction caused by the Russian aggression, enormous resources are needed to compensate for the losses of all citizens of Ukraine and entrepreneurs in particular.

In the current circumstances, it is obvious that the Ukrainian state does not have such resources, and the future origin of these resources is also unknown. To a large extent, this issue depends on the decisions of Ukraine's partner countries: what resources they will be ready to provide to Ukraine for reconstruction; whether they will be ready to direct the seized Russian assets in these countries to compensate for the damage caused to Ukraine.

The DIF survey involved entrepreneurs from Kyiv region whose physical assets were damaged or destroyed due to Russian aggression. According to their reports, the reconstruction in the damaged cities of Kyiv region is currently being carried out largely by the efforts of the residents themselves.

"To date, almost nothing has been restored in the city of Irpin. Only those who are rebuilding at their own expense are restored. Poland has sent us assistance. In Bucha, I saw modular towns for those who have no place to live. However, the issue is not fully resolved. And basically it is already October." - entrepreneur, Kyiv region

Entrepreneurs have doubts about the effective implementation of the property compensation program in the future, even when the resources appear for this. Doubts relate, firstly, to the ability of state representatives to objectively assess the value of lost property. Secondly, the bureaucratic aspects of the process. Entrepreneurs assume a significant number of refusals to compensate due to the need to provide all documentary evidence of ownership of the property, the need to prove the fact of destruction of property due to hostilities, etc.

"Assessment of these raw materials is a complicated thing. Try to assess the actual barn board. The customer may assess its value. For example, an architecture bureau. And government agencies can not estimate this cost at all. Therefore, they will not compensate properly. I do not even think about it." - entrepreneur, urban planning, Kyiv

"The program is needed, but it will just work slowly. There are many unclear things. Someone has not registered land, someone has undocumented construction. If there is even one piece of paper missing, you are not included in this program." - entrepreneur, Kyiv region

As for the source of resources to compensate for these losses, entrepreneurs expect that a significant part of these resources will be confiscated Russian assets, and hope for the government's efforts in relations with partner countries to achieve the confiscation of these assets in favor of Ukraine.

"...There were goods, there were assets, there was equipment. There is anything clear about compensating for destroyed assets yet. I expect that after the war the government will take care of involving seized Russian assets for compensations." - entrepreneur, interior decoration production, Kyiv

2.6 Decisions of local councils and central authorities to abolish/reduce rents for SMEs

To facilitate business sustainability, central and local authorities have also taken measures to abolish rent or create favorable conditions for entrepreneurs to rent property. This process requires decisions of different levels of government depending on the ownership of a particular property. For example, the State Property Fund in May [introduced](#) discounts on rent of state property in the regions affected by the war. In April, the Kyiv City Council [exempted](#) tenants of municipal property in Kyiv from rent.

However, not in all regions the authorities made such decisions in the favor of entrepreneurs. This was stated by entrepreneurs from Chernihiv region, as well as from Dnipro where respondents also noted the high rate of land rent.

"We have rental relations with commercial structures, with the state and we also rent municipal property. Commercial structures made concessions on rent on their own initiative. For a certain period, they canceled it altogether, and then made discounts. I am also very grateful to the government, which made the decision to exempt state property from rent. The same decision was made in Kyiv. We rent 93 square meters in Kyiv. We have two objects there for which we pay utility bills, but we do not pay rent. And I am very ungrateful to the officials of Chernihiv region who are not progressing in this direction at all." - entrepreneur, pharmaceutical industry, Chernihiv region

LONG-TERM PERSPECTIVES FOR IMPROVING PUBLIC POLICY TO FACILITATE SME RECOVERY

In the conditions of war, the possibilities to promote business recovery by means of economic policy are limited, as the state of business depends on many non-economic factors, primarily security ones.

According to Advanter Group's [research](#) in November, power outages cause about 28% of business losses in daily turnover, and these losses are growing with each new Russian shelling of Ukrainian critical infrastructure. New air defense systems will do much more to reduce these losses in daily business turnover than any government economic policy measures.

In fact, all the enormous problems described in Section 1 that SMEs face did not arise because Ukrainian economic policy was so flawed either. The reason for these problems was the full-scale Russian war against Ukraine. In just one day the war broke economic ties that have been built up over decades, caused inflation and a decrease in the purchasing power of the population, forced millions of people to change their place of residence, which changed the structure of demand in the market dramatically.

Nevertheless, apart from the problems with the implementation of already existing policy decisions mentioned in Section 2, respondents mentioned long-term problems that should be solved in the future to improve the business environment in Ukraine.

3.1 Changes in tax policy

- **Unpredictability of the state policy vector and excessive frequency of regulation changes**

Many respondents noted that excessively frequent changes in regulations cause tactical problems for entrepreneurs: complicate accounting, tax administration.

"Reforms and changes are good, but not so much and not so often. I have recently talked to my accountants. We have an LLC. Accountants have been complaining to me since March that there are constant changes in regulations regarding LLCs. This is just some kind of madness. There are constantly some trainings on these innovations, and it has been accumulating since March. They say that it is easier to close this LLC, because it is unrealistic to work in it." - entrepreneur, public events industry, Kyiv

However, in the conditions in which Ukraine finds itself today, changes in technical regulations seem to be an expected phenomenon. A bigger problem for business is that there is currently no sense of unity among political elites as to what the government's economic policy will be, which makes it difficult for entrepreneurs to predict the risks to their work.

"Now the problem is that our government does not know what tax policy to develop. There is no single vision. There are several groups developing different projects. For example, Shurma from the Presidential Office offers the 10-10-10 model, the Ministry of Economy offers some other ideas, and there is Hetmantsev... That is, there is no single

center that makes decisions on economic and tax policy. In the banking sector, there is the National Bank, and the decision making is more centralized." - entrepreneur, restaurant business, Dnipro

• Gap in taxation of different categories of taxpayers

1) Individual entrepreneurs vs legal entities

As noted above, policy measures to reduce the taxation of individual entrepreneurs were perceived positively. However, respondents note that for legal entities, there was no tax relief.

"What worried us was taxes. For example, for individual entrepreneurs the government reduced taxes from 5% to 2% for the wartime period. For legal entities (LLCs), I did not see any tax relief. For example, what we were most interested in was income taxes, which are quite high." - entrepreneur, printing services, Kyiv

However, according to [Law 2120-IX](#) (amendments to the Tax Code and other laws dated 15.03.2022), the third group of single tax payers may be individual entrepreneurs and legal entities – enterprises of any organizational and legal form, whose income does not exceed UAH 10 billion during the calendar year.

Clause 9.3 of the law imposes certain restrictions on the list of legal entities that can be single tax payers of the third group. However, the generally applied restriction is the revenue limit of UAH 10 billion. Given the devaluation of the national currency in 2022 and the [inflation forecast](#) for 2023, in the short term *it may be reasonable to revise the revenue limit, which was set in April 2022 under a fixed hryvnia exchange rate.*

2) Individual entrepreneur vs. official employment under an employment contract

The high taxes paid by employees working under an employment contract (18% income tax, 1.5% military tax, and 22% single social contribution) remain a pressing issue. With the reduction of the single tax for individual entrepreneurs and the possibility of not paying the single social contribution, the difference in taxation between an individual entrepreneur and an employee has only increased, which will encourage businesses and employees to resort to "tax optimization."

When considering the possibilities of reducing the tax burden, it is obviously necessary to take into account related policy areas that require funds collected as taxes. The income tax is a source of revenues for local budgets, which is critical especially for those regions affected by the ongoing combat actions and where a number of enterprises are not operating. The single social contribution is a source of funding for the pension fund, which was [chronically short of funds](#) even before the full-scale Russian invasion.

This study cannot answer the question of whether it is worth reducing these taxes in times of war and what effects it may have. However, in the long run, first, the problem of the gap in

taxation between individual entrepreneurs and employees must be resolved.

Second, simplification of the tax administration should be a priority. After all, as both entrepreneurs in the focus groups and experts in the interviews noted, the amount of taxes in Ukraine is not excessively high. The problem is to establish mechanisms that will allow for the fastest and easiest payment of these taxes.

Thus, tax innovations after February 24, 2022 were useful for certain categories of entrepreneurs. However, the systemic flaws of the tax system of Ukraine remain relevant.

3) To pay VAT or not to pay?

A large disparity in the taxation volume between different categories of taxpayers leads to a crisis in the growth of enterprises. In particular, there are cases when an enterprise creates a network of individual entrepreneurs in order not to become a VAT payer, because in this case the amount of taxation increases significantly. Such ways of "tax optimization" impede the development of brands and create an administrative burden on entrepreneurs themselves.

"There's this question of how to scale the business, at what point should we start paying VAT? I just came to the point where I run out of relatives and start running out of employees who can be registered as an individual entrepreneur. The limits after which you become a VAT payer are ridiculous, especially considering the current exchange rate. [...] Officially my company belongs to me by 5%. And many people do as I do, no one is hiding it. I have a franchise agreement with all the individual entrepreneurs, and they work under my name, under my administrative management.

• Reforming the value added tax

When it comes to long-term reform of Ukraine's tax system, the reform of the value added tax is a debatable issue. Among the entrepreneurs who took part in the survey, there were supporters of quite radical opinions on the abolition of VAT and its replacement/supplementation with a capital withdrawal tax.

"We must abolish the harmful VAT tax, which was invented for the conditions when the economy was booming. For the economy, which is in decline, it is terribly harmful. We need to introduce the tax that we have been talking about for so many years - the capital withdrawal tax. How many years we have been talking about it, but nothing has been done." - entrepreneur, computer equipment trade, Dnipro

It is worth mentioning that according to the [EU Directives](#), the minimum VAT rate in the EU countries should be 15%. Therefore, as an EU candidate country, Ukraine will not be able to abandon VAT if we still aspire to become an EU member in the future.

Nevertheless, the discussion on VAT reduction and its effects has been going on for a long time. The 10-10-10 tax reform concept currently being developed by the Ukrainian authorities includes a VAT reduction. Moreover, the Ukrainian authorities have already managed to [convince](#) the European Commission that a VAT rate of 10% (i.e., lower than the required minimum level in the EU) is appropriate, at least for the transition period and provided that all VAT exemptions are abolished.

3.2 Rule of law

Like the security issues mentioned at the beginning of this section, the situation with the rule of law in the country directly affects economic development, stimulating business activity, investment attractiveness of the country, etc. The need for reforming the courts was the keynote of all focus groups during the study, so that the courts become a reliable tool for protecting the legitimate interests of entrepreneurs, as well as for the reliable implementation of laws. After all, no good law will lead to the public good if it is not properly implemented.

"Our judicial system is a mess. I am afraid to go to court on any issue, I know that it will turn out sideways." - entrepreneur, Kyiv

The independence of the judiciary, according to respondents, is also the key to eradicating corruption in Ukraine. Entrepreneurs noted digitalization as one of the reform areas that allows reducing corruption risks in Ukraine.

"I have seen a very big advantage in the development of digitalization of our country. And I believe that there would be fewer corruption schemes if digitalization expanded in all sectors. I personally faced the problem that at the beginning of the year we were told to install cash registers en masse. And a cash register would cost me \$ 700 at that time, despite the fact that all funds go through my account. For more than a month and a half I could not find out from my tax officer whether I had to install this cash register. Thanks to digital services, the human factor falls out, when a person has the opportunity to be arrogant somewhere." - entrepreneur, tourism industry, Kyiv region

However, unfortunately, respondents point to a decrease in the effectiveness of one of such digital tools for fighting corruption in public procurement - ProZorro.

"There was a bright start of "ProZorro" in 2015. At the beginning, no one understood what corruption schemes could be in this system. And now "Prozoro" works if the public procurement is for tens of thousands of hryvnias. And if it is for tens of millions of hryvnias, then there are already well-known mechanisms of how to set the terms of the tender so that only one company participates in the procurement. Technically, everything is done according to the law, but actually these are discriminatory tender requirements." - entrepreneur, computer equipment trade, Dnipro

Finally, the rule of law will ensure the property rights of entrepreneurs, protect the company from raider attacks and racketeering, which is characteristic of "local business cultures" in some regions of Ukraine.

"Maybe you know the X cafe. When they had a few locations, nobody expressed any interest in them. When they started expanding all over the city and started making network of coffeeshops, bandits came to them. I'm actually from another city, but living here sometimes I say to my husband, "Let's do this, let's do that." And he tells me "well, you know, you have to negotiate it. Not just with the local authorities, but with those bandits". I said, "What do you mean by that, do you still have such a phenomenon as bandits?" And he says - so it never left our city. And so this X cafe was forced to pay the gangsters.

CONCLUSIONS

The full-scale war that Russia started against Ukraine on February 24, 2022, was the biggest shock for Ukraine and its economy in all 30 years of our country's independence. In just one day, the war broke the economic ties between enterprises built over decades, caused inflation and a decline in the purchasing power of the population, forced millions of people to change their place of residence, which radically changed the structure of demand in the market.

The Ukrainian people and state have withstood the enemy, and after 10 months of war we can say that the Ukrainian economy is gradually recovering from the losses it suffered in the first shocking months. The Ukrainian government has taken a number of measures aimed at facilitating the recovery of business in the conditions of war. To date, it is important to summarize the experience of SME recovery in order to highlight the problems that remain the most pressing today and require attention from the Ukrainian government and civil society.

It is also important to assess how effective the policies that were implemented to help businesses recover were: what were the positive effects of these policy measures, what shortcomings in the design of these measures should be corrected, what systemic problems in economic policy remain unresolved.

- As early as in the summer, Ukrainian small and medium-sized enterprises were actively recovering from the effects of the February-March shock. Immediately after the Russian invasion about two thirds of Ukrainian enterprises stopped their work. There was also a dramatic decline in demand for goods and services that are not related to the provision of basic human needs.

After the invaders were expelled from the north of Ukraine and from suburbs of Kyiv in particular in early April 2022, there was confidence that the capital and the state as a whole had survived. This fact contributed to the return of a significant number of IDPs to large cities in northern Ukraine, including Kyiv, and the gradual restoration of business activity. During the same period, businesses began to gradually resume operations, and demand for wide range of goods and services gradually began to recover.

- The most widespread problems of SMEs at the beginning of the full-scale war and to this day include the disruption of logistics chains: disruption of established cooperation between enterprises in the production of goods and services, disruption of traditional ties between entrepreneurs and suppliers, problems with the transportation of goods within the country and the import of goods from abroad.

Different aspects of logistics are recovering differently. Over time, barriers to domestic transportation have softened, entrepreneurs have gained experience in importing foreign goods to Ukraine. Some suppliers have returned to work with partner companies after the situation on the frontline stabilized, and new players are emerging in the market. However, the situation with the resumption of cooperation between enterprises is more difficult, especially if the physical assets of enterprises were damaged or destroyed. Economic ties that were built during the years of independence

and were disrupted on February 24, 2022, are gradually being restored, but this process is far from completion.

- Perhaps the biggest and most common problem of SMEs is inflation and its consequences. On the one hand, inflation makes the purchase of raw materials, components and consumables more expensive for enterprises, which forces entrepreneurs to raise the price of their goods and services. On the other hand, inflation reduces the purchasing power of the population. With this in mind, entrepreneurs should keep the prices affordable. The objective consequence of this process is a decrease in enterprise profits. That is why the possibility of raising operating funds is a very important issue for entrepreneurs.
- As for the possibilities of raising funds within Ukraine, the survey participants have both positive and negative experience of participation in the state program "Affordable Loans 5-7-9%" or the grant program from the Ukrainian government "eRobota". There are both bureaucratic shortcomings in the work of these programs (delayed payouts of grants, unreasonable refusals of loans) and certain conditions of these programs that make them unattractive to potential consumers (for example, a narrow list of possible pledged property for obtaining a loan).

Given the high urgency of the operating funds problem, the functioning of state grant programs and lending requires regular internal assessment of problems in their implementation and opportunities to make these programs more and more accessible to consumers. As for international sources of assistance, there is a low level of awareness of such opportunities among Ukrainian entrepreneurs. There is potential for awareness raising activities of business associations and civil society organizations in this area, as it is necessary not only to disseminate information about international assistance opportunities among Ukrainian entrepreneurs, but also to train them to work with these programs, write and administer grant applications, etc.

- Ukrainian entrepreneurs were unequivocally positive about the government's initiatives to reduce the regulatory burden, postponement of the establishment of fiscal cash registers for individual entrepreneurs, simplification of taxation for certain groups of individual entrepreneurs, which helped small entrepreneurs to save more operating funds in the most difficult periods.

However, some shortcomings of the tax system in Ukraine remain unresolved. In particular, it may be appropriate to revise the income limit for legal entities that can be single tax payers of the third group (it was set in April 2022 under the conditions of a fixed hryvnia exchange rate). Secondly, with the reduction of the single tax for individual entrepreneurs and the possibility of not paying the single social contribution, the difference in taxation between an individual entrepreneur and an employee has only increased, which will encourage businesses and employees to resort to "tax optimization."

Third, there is also a large gap in the amount of taxation between single tax payers and VAT payers. This gap hinders the development and scaling of enterprises, as enterprises in the process of growth are also resorting to various ways of "tax optimization" in order to avoid becoming VAT payers. In particular, by registering many individual entrepreneurs who allegedly own parts of the company.

All these issues regarding the design of the tax system of Ukraine remain relevant and the task of the Ukrainian authorities is to find the right time and way to start implementing systemic reforms in the tax legislation of Ukraine.

- Finally, the state of SMEs and the Ukrainian economy in general depends not only on the economic policy of the government. Today, it is obvious that the fate of the Ukrainian economy and SMEs is largely in the hands of the Air Defense units of the Armed Forces of Ukraine, which repel enemy attacks on Ukrainian critical infrastructure. It is these attacks that lead to interruptions in electricity, water and heat supply, and hence to interruptions in the work of enterprises.

However, corrupt judges are no less harmful than Russian missiles to the Ukrainian economy and SMEs. The need for the rule of law was the keynote of almost all focus groups and interviews conducted within the framework of the study. After all, even the best economic policy measures will not work if the relevant regulations are not properly implemented and enforced by the law enforcement system. While in the case of repelling Russian air attacks, the majority of Ukrainian citizens can only believe and hope in the professionalism and heroism of Ukrainian soldiers, the restoration of the rule of law in Ukraine is exactly the area where the efforts of civil society are required.