BUSINESS AND COVID-19: HOW ARE UKRAINIAN ENTERPRISES STRUGGLING TO SURVIVE THE CRISIS?

ANALYTICAL CENTER FOR ECONOMIC AND LEGAL RESEARCH AND FORECASTING
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Key Highlights

The Federation of Employers of Ukraine (FEU) conducted an enterprise survey between 10 and 27 April 2020 to assess the impact of the COVID-19 pandemic on its member enterprises. The survey results highlight the key challenges and needs of Ukrainian enterprises resulting from COVID-19.

Public policy measures put in place to contain the spread of the virus resulted in significant operational disruptions for 84 per cent of surveyed enterprises. Almost one quarter of enterprises reported a complete shutdown of their business, while 40 per cent operated partially at the time of the survey. Another one fifth operated at full capacity, but remotely.

Prolonged lockdown measures would pose a serious threat to the sustainability of 96 per cent of surveyed enterprises. Almost one third of enterprises anticipated that their business could remain open for the next 2-3 months and nearly one fifth indicated that their business could remain open for the next 3-6 months under the current restrictions. A further one fifth of enterprises, however, reported that their operational capacity was in distress and their business would be cut after only two months.

Collapsing demand and supply are straining the finances of 98 per cent of surveyed enterprises. More than half reported a high level of financial impact (over 50 per cent decline in revenue/sales), almost 40 per cent reported a medium impact (a decline in revenue ranging from 20 to 50 per cent) and a further 20 per cent reported a low impact (up to a 20 per cent decrease in revenue).

Roughly half of enterprises surveyed do not have access to financial resources to overcome the challenges resulting from COVID-19 crisis. Almost 30 per cent of enterprises were relying on loans and grants to compensate for liquidity shortages, while another 30 per cent were relying on their own cash reserves.

Despite existing challenges, 89 per cent of surveyed enterprise have been able to retain their workforce. Of the 11 per cent of enterprises that had to release workers, 30 per cent dismissed over a third of their workforce, while another 30 per cent reduced a small proportion, between 1 and 5 per cent.

If the restrictions continue, the prospects of job cuts are worrying with 36 per cent of surveyed enterprises signalling that they will be forced to resort to layoffs. Of these enterprises, 28 per cent plan to downsize over a third of their workers and a further 28 per cent plan to release 11-20 per cent of their workforce.

While government support schemes aim to be a lifeline for business, the overall perception was that they were not aligned to the real needs of the enterprises. The majority of enterprises assessed government support measures as failing to meet their needs (58 per cent) or as meeting them only partially (39 per cent).

Looking to the future, business sentiments in Ukraine are showing confidence with the largest share of enterprises (97 per cent) signalling readiness to fully resume operations. Over 40 per cent of enterprises anticipated they would need 1-3 months to fully restore operations, while 15 per cent anticipated that the recovery would take 3-6 months. A further 13 per cent envisaged that it would take more than six months to fully recover.

Policy recommendations stemming from the survey are structured around three pillars: financial incentives, tax incentives and administrative incentives. FEU members were consulted on these policy recommendations, which have been reaffirmed by the survey findings. The recommendations include access to liquidity (cheap or interest free loans), wage subsidies, reduction of tax rates, exemption from payment of taxes/social contributions, deferral of tax and loan payments, temporary bans on some imports, among others.
ABOUT THE SURVEY

The FEU Analytical Center for Economic and Legal Research and Forecasting, with the technical support of the International Labour Organization (ILO), conducted a survey between 10 and 27 April 2020 to assess the impact of the COVID-19 pandemic on its member enterprises in Ukraine.

THE PURPOSE OF THE SURVEY WAS TO GATHER FIRST-HAND INFORMATION ABOUT BUSINESS OPERATIONS DURING THE COVID-19 PANDEMIC: CHALLENGES, SATISFACTION WITH GOVERNMENT SUPPORT MEASURES, NEEDS OF ENTERPRISES RESULTING FROM COVID-19, EXPECTATIONS AND OVERALL BUSINESS SENTIMENT.

The online survey for FEU was developed based on the ILO Enterprise survey tool: Assessing the needs of enterprises resulting from COVID-19.

The survey was conducted among business founders, owners and managers. Information about the survey was made available to the respondents through the FEU website and social media networks (Facebook and Twitter). In addition, information about the survey and an invitation to participate were sent to FEU members via email.
PROFILE OF SURVEYED ENTERPRISES

A total of 121 enterprises covering the majority of regions of Ukraine responded to the survey. All surveyed enterprises were established before 2018.

Distribution of surveyed enterprises by type of ownership

The overwhelming majority of surveyed enterprises (83 per cent) were privately owned.

Distribution of surveyed enterprises by size

Of enterprises surveyed, 29 per cent employed up to 10 workers, 35 per cent employed 11-100 workers, a further 10 per cent employed 101-250 workers and 26 per cent were those with 251 workers or more.

Note: Definitions of enterprise size vary by country and are usually based on the number of employees, the annual turnover or the value of the assets of an enterprise. For this survey, a standard classification used by the ILO was adapted to enable a global assessment of the impact of COVID-19 on enterprises which is being conducted by the ILO. Microenterprises are defined as enterprises with up to ten employees, small enterprises are those with 10-100 employees, medium-sized enterprises are those with 100-250 employees, and large enterprises are those with 251 employees or more.
Distribution of surveyed enterprises by sector

The largest share of enterprises surveyed operate within the machine-building and metal processing sector (18 per cent), followed by transportation (16 per cent), construction (13 per cent) and trade (7 per cent).
Almost one quarter of surveyed enterprises reported a complete shutdown, whereas 40 per cent operated partially at the time of the survey. Only slightly more than a quarter operated at full capacity, either on site (16 per cent) or remotely (20 per cent).

What has been the level of financial impact (revenue or sales) on your business and disruption to business operations?

More than half of enterprises surveyed assessed the financial impact of the crisis on their businesses as high (over 50 per cent decline in revenue/sales), whereas 38 per cent perceived it as medium (20-50 per cent decline). A relatively small proportion (7 per cent) felt the financial impact was low (up to 20 per cent decline) and 2 per cent indicated there was no impact at all. None of the enterprises surveyed noted a positive impact of the crisis on their businesses.
BUSINESS OPERATIONS DURING THE COVID-19 PANDEMIC

Does your enterprise have a written business continuity plan?

On average, 53 per cent of surveyed enterprises do not have a business continuity plan.

Did you change your business operations to protect your enterprise against COVID-19?

Overall, 81 per cent of surveyed enterprises had to change their operations in response to the crisis.
Does your enterprise have adequate access to sanitizers and other personal protective equipment and products?

To ensure business continuity during the quarantine period, employers have to create safe working conditions, among other things. Therefore, when asked if their enterprise had access to sanitizers and personal protective equipment, almost three quarters of respondents noted that they had adequate access to such means of protection.

- Yes: 74%
- No: 26%
Current state of business operations

Have you dismissed any workers due to COVID-19?

Overall, 89 per cent of surveyed enterprises were able to retain their workforce, whereas 11 per cent were forced to dismiss some workers.

If yes, what is the share of workers released?

Of enterprises that dismissed workers, 30 per cent released over a third of their workforce while another 30 per cent dismissed a small share between 1 and 5 per cent.
Do you plan to dismiss any workers if COVID-19 persists?

If the current restrictions are maintained, the prospects of job cuts are worrying with 36 per cent of enterprises signalling that they will lay off workers.

If yes, what percentage of your workforce do you plan to dismiss in the next quarter?

Of these enterprises, 28 per cent plan to dismiss over a third of their workers and a further 28 per cent plan to dismiss 11-20 per cent of their workforce if the current situation persists.
Key challenges faced by enterprises

Which are the key challenges your enterprise currently faces resulting from COVID-19?

While operating during quarantine enterprises indicated that they were most affected by: incapacity of business partners to operate normally (74 per cent), incapacity of suppliers to provide inputs on time (49 per cent) and working capital deficit (34 per cent).*

*Respondents could choose more than one answer to this question.

If the current restrictions persist, how long will your business be viable?

Almost one third of enterprises anticipate they will be able to operate for the next 2–3 months under the current restrictions. Nearly one fifth expect their business will be viable for 3–6 months, while another one fifth expect their business can survive for only 1–8 weeks. Only 6 per cent of enterprises surveyed have not been affected by the crisis.
**Looking to the future**

**How long would it take your enterprise to fully restore operations after COVID-19?**

More than 40 per cent of enterprises responded they would need 1–3 months to fully restore operations; 15 per cent anticipated that it would take 3–6 months to complete recovery efforts, while a further 13 per cent envisaged that it would take more than six months to recover. Only 3 per cent of enterprises expected the worst-case scenario of being temporarily or permanently closed.

![Bar chart showing the distribution of recovery times.](image)

**Do you have your own funding (such as cash on hand or savings) or access to alternative/external sources of funding (such as loans or grants) to help your business recover from COVID-19?**

Almost 50 per cent of surveyed enterprises indicated they did not have access to any source of funding to help their business recover; 29 per cent were relying on loans and grants, while another 28 per cent were relying on their own cash savings.*

*Respondents could choose more than one answer to this question.
Do support measures announced by the Government satisfy your most urgent needs?

The majority of surveyed enterprises indicated that government support measures did not meet their needs at all (58 per cent) or only partially satisfied them (40 per cent).
What are the top priority measures that public authorities can take to mitigate the economic impact of COVID-19 on businesses?

According to enterprises surveyed, mitigation measures should align with the following priorities and provide incentives as outlined:

Priorities for the implementation of government support schemes

- protecting and supporting local producers;
- implementing import substitution with the aim of developing the domestic production and supply of raw materials;
- supporting businesses to overcome financial difficulties after the state of emergency is lifted;
- encouraging job creation in order to preserve the workforce in Ukraine;
- supporting strategic projects in the energy and telecommunications sectors. Financial incentives
ENTREPRISES’ MOST URGENT NEEDS - HOW CAN GOVERNMENT HELP?

For employers

- lifting lease payments for the use of municipal and state-owned real estate assets;
- revoking any residual value of lease payments for 2020;
- providing decreased lending rates in the medium term (2-3 years);
- providing loans to enterprises to pay wages to workers;
- providing non-refundable financial aid in the amount of 50 per cent of the received income/salary;
- paying subsidies to farmers;
- providing low-interest loans to business entities to protect and preserve their solvency during the quarantine period and another two months;
- maintaining adequate working capital of enterprises and avoiding drastic reduction in consumption;
- guaranteeing low-interest loans to pay wages and energy bills – at an interest rate set equal to a discount rate of the National Bank of Ukraine with a repayment term of one year – offered to business entities under the general taxation system for at least three months after the quarantine has ended.

For workers

- rendering financial support to workers who lost their jobs;
- paying partial unemployment benefits to avoid layoffs;
- providing guaranteed support to the entire population, following the examples of Germany and the United States.

Tax incentives

- implementing tax relief measures during the pandemic;
- granting temporary tax relief for at least three months after the quarantine has ended;
- reducing income tax rates;
- cancelling charges on payroll (Unified Social Contribution and individual income tax);
- cancelling penalties and interests for the late payment of taxes;
- reducing tax burdens (value added tax, income tax, land tax) for at least six months.

Administrative incentives

- resuming operation of urban and suburban transport;
- resuming operation of the construction sector;
- placing state orders in industry;
- reviewing labour legislation;
- allowing retail shops and accommodation facilities that can implement measures to prevent the spread of COVID-19 to operate, which will enable enterprises to resume their activity;
- imposing a moratorium on any increase in prices by monopolists in the relevant markets;
- banning any scheduled or unscheduled on-site inspections by state authorities until the end of 2020;
- imposing temporary restriction to import to Ukraine goods (especially second-hand clothes), the analogues of which are produced by Ukrainian manufacturers;
- approving national protocols and procedures for health-care facilities working under quarantine conditions;
- revoking bylaws adopted by local governments in favour of uniform quarantine requirements.

The majority of surveyed enterprises require additional sources of funding, particularly those indicated above.
Enterprises’ Most Urgent Needs – How Can Government Help?

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