

RFI

NO. 16

THE BUSINESS ENVIRONMENT IN LIBERATED AND FRONTLINE COMMUNITIES



LEGEND

- CAPITAL
- OBLAST CAPITAL
- 'LPR' / 'DPR' CAPITAL
- NOTABLE SETTLEMENTS
- CLAIMED RUSSIAN CONTROL
- 'DPR' PRE 24 FEB
- 'LPR' PRE 24 FEB
- ASSESSSED RUSSIAN ADVANCES
- ASSESSSED RUSSIAN CONTROLLED TERRITORY
- DEOCCUPIED AREAS
- FRONTLINE
- BUSINESS RELOCATION AREAS REVIEWED

Map source:
Lines of control provided by OCHA Ukraine

The Business Environment in Liberated and Frontline Communities

Many businesses have been forced to adapt, close up shop indefinitely, or relocate to safer regions of Ukraine in response to the Russian invasion. The choices that business owners and entrepreneurs make greatly impact the communities around them, whether they provide necessary goods and services or employ residents who are supporting families. The public response to these choices is often deeply complex: locals in liberated areas are divided over how to view businesses that remained open during the occupation; on the other hand, they may hold fleeing entrepreneurs responsible for economic decline in their areas. This RFI explores the business environment in regions most heavily affected by the conflict, with a focus on business dynamics, migration, government support, and unemployment, especially in deoccupied and frontline regions.

Business Life in Frontline and Deoccupied Areas

Closures and openings

Business activity has greatly declined in deoccupied and frontline regions across Ukraine. In deoccupied [Kherson](#) oblast, the [destruction](#) of critical infrastructure during the Russian retreat, now compounded by regular [strikes](#), presents major barriers to maintaining or reopening stores and companies. Shortly following the successful Ukrainian counteroffensive in autumn 2022, [Kharkiv oblast](#) governor Oleh Synyehubov [stated](#) that 70% of businesses in the region were idle, though as of February 2023 the [majority](#) of high-traffic businesses (supermarkets, pharmacies, markets, restaurants) in the oblast center were operational. In [Mykolaiv city](#), major employers like the port [remain closed](#) – local sources, however, reported that an increasing number of small businesses such as hairdressers and cafes have been functioning since the new year. In government-controlled [Donetsk oblast](#), major retail carriers like [Silpo](#), [ATB](#), and [Varus](#) had [closed](#) nearly all outlets by mid-2022. Respondents in [Sumy](#) and [Chernihiv oblasts](#) reported that there are few businesses left in areas bordering Russia due to constant shelling. The presence of mines has interrupted the agricultural and forestry industries in deoccupied areas of these oblasts and **resulted in the [occasional death of workers](#)**. Due to the occupation of part of [Zaporizhzhia oblast](#), industrial production fell in 2022 by 45% and agricultural production by 86% [compared to 2021](#).

Local sources in all regions reviewed said that the **small shops (especially grocery stores), pharmacies, bakeries, and cafes are the most likely to remain open** regardless of the security risks or degree of destruction in the area. Respondents in Donetsk oblast said that the main exceptions include heavily damaged cities like [Lyman](#), where many stores remain closed and a large segment of the population relies on humanitarian aid. Another popular, and in some cases thriving, business sector is **the transportation of persons and cargo in private vehicles**, likely due both to reduced public transport and high demand for courier services in areas where many key goods are unavailable. Per a source in [Kharkiv city](#): “Cab companies have been working despite the dangerous situation in the city.

Some haven't raised their prices, which has been a real boost to residents' well-being, what with the limited amount of urban transport available."

Changing circumstances for remaining businesses

Local sources noted that the challenges faced by small and medium-sized businesses in the regions surveyed include **material destruction, the population's decreased purchasing power, logistical problems, a shortage of trained specialists, and unsteady power supply**. Many businesses previously relied on markets in Russia; for example, a respondent in Chernihiv said that the [Slowyanski wallpaper factory](#) in [Koryukivka](#) used to sell most of its products north of the border, and they have not found sufficient alternative markets to offset the lost sales. Other businesses had **adjusted production to wartime needs** – per a source in Kharkiv: "One private entrepreneur had been producing clothes ... but when he resumed work, he sewed tactical clothing for the military along with various accessories."

Respondents in all regions **reported layoffs** within those large businesses that remain open. Some claimed that many entrepreneurs are now trying to reduce costs by working directly with producers instead of through intermediaries. A respondent in Sumy told of an acquaintance who coordinated a team of accountants that continued functioning amid budget shortfalls, working on a volunteer basis until it was possible to pay salaries again. Practices like these may provide much-needed social activity or distraction for employees, but may also open the door to exploitation. Furthermore, the respondent noted that her contact later ran into **problems with the tax authorities, who suspected her of paying employees unofficially**.

Recovery and support

Notwithstanding these challenges, respondents in all regions (with the exception of Donetsk oblast) reported more and more cases of small and medium-sized businesses reopening, though often further away from the front line. The fastest-developing spheres mentioned include the production and sale of windows, doors, and building materials, as well as logistics, construction, private health clinics (including dentistry and psychological services), pharmacies, hairdressers, restaurants, and specialized stores. While some production has been relocated abroad, as was the case with the damaged [Sandora juice factory](#) in Mykolaiv, local sources said that some progress is being made to reintroduce local production. Local entrepreneurs interviewed for this piece shared that factors influencing their decision of whether to restart operations include **security concerns, availability of financing, the need to train new staff, and access to affordable supplies**.

Support for businesses across Ukraine has come in the form of **tax breaks, loans, and grants from the national government**, and in some cases, **programs from international donors**. In 2022, the national government enabled the majority of Ukrainian businesses to switch to a [single tax](#) at a rate of 2% while also removing the annual income cap and continually adding exemptions, granting some the right not to pay taxes altogether. According to sources in Chernihiv oblast, this 2% flat tax has greatly helped small entrepreneurs resume operations. For agricultural businesses, the central government introduced a [national minimum tax](#) aimed at stimulating the use of agricultural land. **Authorities have also expanded loan and grant programs for businesses**, such as the [Affordable Loans 5-7-9%](#) program established during the pandemic, through which the central government distributed funds among

banks to guarantee loans issued to small and medium-sized businesses. The central government also launched a [series of grant programs](#) for small and medium-sized businesses for equipment purchases, new business formation, greenhouse construction, and other initiatives. In Mykolaiv, respondents noted that officials have actively promoted the area's interests, resulting in the region being selected for the [EU4Business](#) program, through which 20 small and medium-sized businesses will receive 1.8 million Ukrainian hryvnia (UAH) in support.

Business Migration from Frontline Areas

Who is relocating where

Many businesses have fled communities that have suffered occupation or attack, with many seeking refuge further away from the front line. Some businesses have [decamped](#) for western Ukraine; others have [evacuated](#) to the European Union. Still others have moved to nearby regions, especially to [Odesa](#) and [Dnipropetrovsk oblasts](#). According to respondents, **many more businesses have been displaced within their own regions, relocating operations across the front line, from occupied areas to government-controlled areas.**

Many large companies have transferred production westward. In Kharkiv oblast, local sources spoke of **large enterprises in various stages of exit from the region, all of which plan to return only after the cessation of hostilities.** [Logity](#), a logistics firm, has closed its offices in Kharkiv city and opened several in western Ukraine ([Lviv](#), [Ivano-Frankivsk](#)), as well as an office in Poland. The well-known [Kulynychi](#) commercial bakery is currently planning its exit from the region and the construction of a [new facility](#) in Lviv. Respondents in Chernihiv oblast reported similar stories, with large manufacturers like emergency and industrial vehicle maker [Pozhmashina](#) and pet product manufacturer [Collar transferring part](#) of their production facilities to western Ukraine. In all of these cases, **locals reported that corporations have moved many of their employees to new facilities:** “Collar [transferred](#) some of its employees and all of its top managers, along with their families,” reported a source. “They saved 100% of their jobs as a result.” In Sumy, a source claimed that the large plastic producer [Technology](#) plans to hold onto a recently completed facility at home, while permanently relocating part of its production to [Ternopil](#) (Note: we could not find open-source corroboration of Technology's plans).

Similar dynamics were reported with regard to small and medium-sized businesses, as well as government institutions. In Sumy oblast, **respondents indicated that the majority of the IT sector and their employees had left** for western Ukraine, while **small trade and service sector businesses had gone** to Odesa and Kyiv oblasts, western Ukraine, and in some cases, abroad. In Kharkiv, sources spoke of a wholesale and retail door and door accessories store currently under construction, displaced from [Luhansk oblast](#). Respondents also mentioned **new family businesses** like cafes, restaurants, and textile stores resettled in Chernihiv from Kharkiv and Donetsk oblasts, catering establishments opened in Zaporizhzhia by people displaced from [Mariupol](#), and a flower stand launched in Mykolaiv by a man from Kherson oblast. **Many have reopened businesses within their region of displacement**, like a car repair shop in Kharkiv city relocated from [Kupyansk](#) after its liberation and a family-run shoe store from [Voznesensk](#) (which saw [heavy fighting](#) in March 2022) that relaunched at reduced scale in Mykolaiv.

Government entities have also relocated, such as the entire [Kherson oblast administration](#), which moved to [Kryvyi Rih](#) before partially returning to Kherson city in November following its liberation. A local source in Sumy recounted the story of a special needs orphanage that evacuated to Germany before resettling in western Ukraine, leaving staff to rotate between Sumy oblast and the new facilities: “Employees do not know what will happen with them next. After all, the regional leadership hasn’t given permission to return the entire orphanage because of constant shelling near the border.”

Public assistance mechanisms

Respondents spoke of various government programs available to migrating businesses, although sources reported the prevailing belief that **existing support would be insufficient given the scale of their challenges**, which include dismantling parts of their facilities, moving large equipment, procuring private vehicles for transportation, and establishing new supply chains and sales channels. Locals spoke of a [national program](#) to help businesses move from frontline and occupied regions to safer areas of the country. At the regional level, sources mentioned various government efforts to aid migrating businesses. For example, [state support](#) has helped more than 100 Kharkiv entities relocate, with local governments assisting the companies’ search for new offices and employees. **However, the impression among all respondents close to the front line was that the cost of relocating and rebuilding was borne by entrepreneurs themselves.**

Unemployment

Difficulties finding or maintaining work

Respondents in all areas surveyed reported rising unemployment in their communities. Some regional governments [predict](#) 2023 unemployment rates will stand at around 20%. There are, however, [signs](#) that the labor market is improving in some of Ukraine’s oblasts – including one featured in this report, Kharkiv. Local sources in all regions surveyed reported that **teachers, lawyers, scientists, service workers, and even construction workers find it especially difficult to find employment, especially those who are older** and may have trouble gaining new skills. Unemployment in frontline regions like Kherson or Mykolaiv often contains a gendered component: many new businesses that have opened have been described as “women’s” work: hairdressers, salons, and cleaning services. Per a source in Mykolaiv: “Finding a job as a man who can’t drive is nearly impossible.” By contrast, in safer cities like Sumy or Chernihiv, a shortage of working-age men (due to mobilization and evacuation) has led to a high demand for so-called “male specializations” like welding, mechanics, woodcutting, and especially truck driving. Despite such demand, **some men refuse to work as drivers on routes that pass through checkpoints, as mobilization summonses may be handed out in such locations.** A source in Chernihiv said that “there’s one truck company I know with a 79-year-old driver and they can’t cope with so many work orders.”

A respondent in Kharkiv said that **hospitals and clinics have a difficult time finding specialists like anesthesiologists, gynecologists, and neurologists.** Other sources noted that community members have been quietly laid off even from large companies and plants that continue to operate at a reduced capacity, and that this is more common outside of large cities. Moreover, parents of school-age

children, especially mothers, face additional challenges if circumstances require them to stay home to supervise their children's online learning. In such cases, they often must find online work or forego employment until in-school classes resume.

Responses to unemployment

Respondents said that many workers in industries that have shed jobs are learning new skills and trying to enter new markets, with highly educated professionals trying their hand at driving, cleaning, sales, or, in oblasts like Sumy or Chernihiv, forestry and farming. A source in Kharkiv oblast said that **many young people have turned to IT training in hopes of finding online work for international companies.**

The "[Army of Reconstruction](#)" project, a central government initiative paying minimum wage (6,700 UAH a month, approx. 182 USD) to unemployed persons for various types of "socially useful" work (constructing road checkpoints, cutting firewood for distribution, removing war debris, distributing humanitarian aid, etc.), hired over 3,300 unemployed persons in 2023. Others in need apply for aid and social subsidies, **though state unemployment assistance has [decreased](#)** from 9,750 UAH monthly (approx. 255 USD) to the minimum wage of 6,700 UAH, and will be limited to 90 days.

Despite such difficulties, local sources said that **some internally displaced persons choose to remain in host cities closer to the front line** (Zaporizhzhia, Mykolaiv, [Kramatorsk](#)) rather than relocate to regions with more plentiful employment opportunities – some are said to be "playing the waiting game," hoping that deoccupation or improved security conditions will allow them to return home and begin work again. Those who do find jobs in other towns or regions, however, are seen by respondents as unlikely to return home even after deoccupation. Local sources noted that, for men, chronic unemployment may provide motivation to join the army to provide for their families. On the other hand, **those unwilling to join the army may avoid official work, which is thought to increase one's chances of receiving a conscription notice.** Respondents across all regions surveyed said that unemployment among men may lead to heightened public disorder or domestic strife, including increased divorce rates and domestic violence.

Public Perceptions, Hopes, and Resentments

Attitudes toward businesses

According to local sources in deoccupied areas, feelings toward businesses that remained open during the occupation are mixed. Many locals reported feeling grateful that stores, cafes, and pharmacies continued to serve the community. **Stores and outlets that pivoted to baking bread during hard times were especially praised,** as were all providers of basic goods and services. Farmers in Kherson who adapted by selling their produce in Crimea or other occupied regions prompted more mixed feelings, though some reportedly helped their reputations by purchasing goods that were hard to find and bringing them back to their communities. While some residents viewed such actions as collaboration with the occupying authorities, others said they understood that hard times called for hard decisions and that people were mainly trying to survive. **Feelings were decidedly cooler toward establishments that refused to accept hryvnias during the occupation.**

Local sources reported that there were minimal feelings of anger toward businesses that relocated further away from the front line. Per a source in Kharkiv oblast: “Relocation led to mass unemployment and people are angry, but not at the businesses or their directors. Most of the people I spoke with were sad or disappointed ... especially when large operations like Kulynychi were relocated, which for many of us is a symbol of Kharkiv.” **Anger is reportedly directed more toward remaining companies that withhold or reduce salaries, or toward local authorities** (especially in Kherson oblast) perceived as providing insufficient support or incentives to entrepreneurs who may be looking to return. Respondents in Sumy and Chernihiv oblasts reported resentment toward the Ministry of Reintegration for **not granting tax relief to businesses in areas deoccupied in April 2022**.

Assessments of potential recovery and economic growth

Local sources reported diverse opinions regarding the capacity within frontline and deoccupied regions for economic growth in the near future. **Statements of optimism were often associated with support from Ukraine’s international partners** – per a source in Chernihiv oblast: “The people I know are optimistic. They believe that after the victory there will be grants, help from the West, investment, reconstruction, and [a new] Marshall Plan.” Residents younger than 45 were most likely to express optimism. According to respondents, the deoccupation of parts of Kherson, Kharkiv, and Donetsk oblasts were also sources of mass euphoria and hope, though these sentiments have dimmed following months of stalemate between the Russian and Ukrainian armies.

Pessimism was observed more among entrepreneurs, local sources stated, likely due to the vast amount of work needed to revive the economies of conflict-affected regions, especially areas with heavily damaged infrastructure. Per a respondent in Donetsk oblast:

We have active hostilities in our region, so it’s too early to talk about economic prospects. But Donetsk was the industrial heartland of Ukraine, and so much has been completely destroyed. [Ilyich Iron](#), [Azovstal](#) ... we supplied the US, Italy, Poland and Turkey, but these were shelled and completely destroyed. It’ll take us years to catch up. This isn’t pessimism among the local population, it’s realism. Everyone understands that Donetsk isn’t likely to remain an industrial region.

Many of these pessimists decide to leave for other regions without plans to return – better conditions in areas like Lviv, [Poltava](#), [Vinnytsia](#), and Ternopil **reportedly reinforce impressions of economic inviability in frontline areas**.

The content compiled and presented by Left Bank Analytics (LBA) is by no means exhaustive and does not reflect LBA’s formal position, political or otherwise, on the aforementioned topics. LBA is a project of COAR Global. The information, assessments, and analysis provided by LBA are only to inform humanitarian, stabilization, and development programs and policy.

