

INTRODUCTION

Donetsk and Luhansk oblasts have been significantly affected by the conflict in eastern Ukraine. Before the introduction of the COVID-19 quarantine measures, the socio-economic situation and labour market of both areas had been heavily impacted by the conflict. Until 2014, the region was characterized by a large presence of industrial enterprises which facilitated employment of the population. However, with the onset of the conflict, the number of accessible industrial enterprises shrunk as some found themselves on the side of the line now being non-government controlled area (NGCA)¹, and others stopped operating. Some of the businesses moved from the region unable to adapt to the conflict environment. According to the data of the Ministry of Social Policy of Ukraine (MoSP) from 2014 to 2020, almost half of the 1.4 million² registered internally displaced persons (IDPs) moved to government-controlled areas (GCA) of Luhansk and Donetsk oblasts leaving their homes, work and livelihoods. The unemployment rates in the Donetsk and Luhansk oblasts increased from 9 per cent and 8 per cent, respectively, in 2014 to 14 per cent and 15 per cent in 2019. These rates were the highest compared to the other oblasts, a fact which testifies to the higher vulnerability of these conflict-affected regions to unemployment³. By the end of 2018, 7,967 micro-enterprises operated in Donetsk Oblast GCA and over 2,797 operated in Luhansk Oblast GCA⁴ which was considerably lower compared to 2013 (23,049 in Donetsk Oblast and 8,963 in Luhansk Oblast, respectively)⁵.

The State Employment Service (SES) data indicate a drastic increase in unemployment levels from the start of the quarantine period. At the end of April 2020, the number of unemployed registered with SES in Donetsk and Luhansk oblasts increased by 68 per cent and 34 per cent, respectively, compared to the end of April 2019. At the same time, the number of open vacancies in April 2020 in both oblasts decreased by 64 per cent and 14 per cent, respectively, compared to the same period in 2019⁶. In the postquarantine period, the business sector is expected to play an important role in ensuring the economic activity in the region and cre-



Photo: IOM / Anna Pochtareenko

Ivan is an IOM grantee from Sloviansk, Donetsk Oblast. His meat-processing plant is a family business running since 1999 and employs around 30 staff. The business is currently operating at a third of the capacity it was working at before the outbreak of the conflict. In 2014, the plant's premises were occupied by armed groups, and the production facility was burned down. The owners and employees of the plant restored everything on their own, and IOM provided assistance in the form of much-needed equipment.

ating employment opportunities for IDPs and host communities' members.

The present study is a part of a series of express surveys assessing the impact of COVID-19 and quarantine measures on IOM beneficiaries who received in-kind livelihood assistance in the framework of IOM Ukraine's emergency and stabilization programmes from 2016 to 2019, and on other local enterprises in the targeted communities. IOM has been supporting conflict-affected micro- and small enterprises in Ukraine's Eastern Conflict Area since 2016 and is continuing to do so during the COVID-19 pandemic. Since the disease outbreak IOM has continuously observed the situation of these enterprises to identify resilience strategies that would help them sustain future shocks.

¹ The list of business associations located in the settlements of Donetsk and Luhansk oblasts, on the territory where public authorities temporarily do not exercise their powers. <https://glavcom.ua/news/fond-derzhmayna-oprilyudniv-perelik-pidprijemstv-ordlo-yaki-vin-ne-kontrolyuje-414128.html>

² UNHCR Registration of the Internally Displaced Persons <https://bit.ly/UNHCR-IDPs>

³ Unemployment rate (according to ILO methodology) by regions 2019. <https://bit.ly/УкрстатБезробіття-19>

⁴ https://ukrstat.org/uk/operativ/operativ2013/fin/kp_reg/kp_reg_u/kp_reg_u_2018.htm

⁵ https://ukrstat.org/uk/operativ/operativ2013/fin/kp_reg/kp_reg_u/kp_reg_u_2013.htm

⁶ Number of registered unemployed and number of vacancies (according to data of the State Employment Service in 2019 and 2020). <https://www.dcz.gov.ua/publikaciya/1-dani-shchodo-kilkosti-zareyestrovanyh-bezrobitnyh-ta-nadannya-yim-poslug-takozh>

SURVEY METHODS AND GEOGRAPHICAL COVERAGE

This report specifically analyses the challenges faced by micro-enterprises in the government-controlled conflict-affected areas of Donetsk and Luhansk oblasts focusing on identifying the impact of COVID-19 and related quarantine restrictions. Four hundred and ninety-one (491) respondents from the

IOM beneficiary database were interviewed from 11 to 12 May 2020 via phone. One fifth (121) of the respondents were IOM beneficiaries who received in-kind livelihood assistance through IOM projects from 2016 to 2019 and others were local entrepreneurs who previously applied for livelihood support.

RESPONDENTS' PROFILE

Fifty-eight per cent (58%) of the respondents were interviewed in Donetsk Oblast and 42 per cent of the respondents were interviewed in Luhansk Oblast. The sample included both urban and rural businesses. Among all the surveyed micro-enterprise owners, 58 per cent operated in the services sector, 26 per cent worked in retail and 11 per cent in the production sector. Five per cent (5%) of the interviewed reported running their activity in the agriculture sector⁷. The proportion of women among the surveyed was 53 per cent. The share of IDPs among the interviewed was 33 per cent.

Figure 1. Distribution of respondents by business sectors



Figure 2. Gender distribution of respondents



KEY FINDINGS

OPERATIONAL STATUS

Forty-one per cent (41%) of the respondents reported that their business was not functioning, and 59 per cent of the respondents confirmed that their business was still operating at the time the survey was conducted (11–12 May). The share of respondents who reported the operational status of their business was almost twice higher compared to the share of functioning businesses indicated by the previous business owners survey carried out from 27 March to 4 April 2020⁸. Differences in the portions of the operating business can be explained by gradual weakening of the quarantine measures. However, among those respond-

ents who continued to work during the quarantine, 38 per cent introduced new business modalities including online sales (23%)⁹ and delivery services (17%)¹⁰ which also could support keeping their business functioning.

From the businesses surveyed, IDP-owned enterprises appeared to be at a greater risk of closure due to restrictions, with 49 per cent not continuing their operations as opposed to 36 per cent of host community businesses.

This 13 per cent difference in IDP and host community-owned businesses which stopped operating reflects the **increased economic vulnerability of IDPs due to their**

Figure 3. Operational status of the business

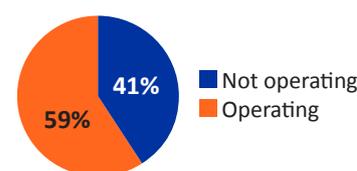
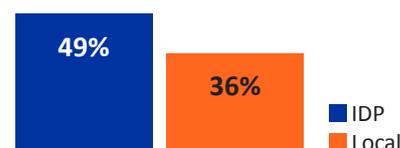


Figure 4. Shares of those who confirmed their business not operating, by IDP status



displacement circumstances. The results of the National Monitoring System on the situation of IDPs

⁷ 24 respondents reported that their business belongs to the agriculture sector.

⁸ http://ukraine.iom.int/sites/default/files/iom_ukraine_covid-19_impact_express_surveys_report_a4.pdf

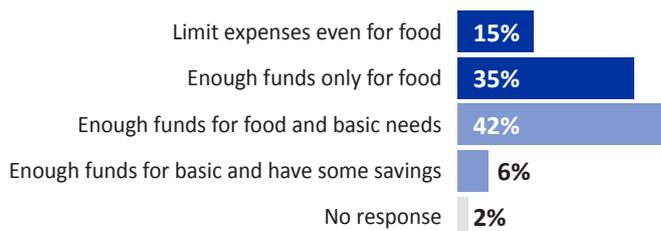
⁹ Note: Respondents could choose more than one option

¹⁰ Note: Respondents could choose more than one option

(NMS) consistently showed that the IDPs' monthly income per household member was lower compared to the income of the host communities members¹¹. The data collected within the latest available NMS, which was completed shortly before the introduction of the quarantine measures in late March 2020, showed reduced well-being of general IDP population residing in Luhansk and Donetsk oblasts. Half of the IDPs (50%) surveyed in the region assessed their financial situation as "enough funds only for food" or "have to limit expenses even for food" (figure 3) once other essential costs such as rent and medicine had been covered. Half of the IDP population in Donetsk

and Luhansk oblasts reside in rented housing, and, as demonstrated by the NMS data, rental expenses account for a substantial portion of their expenditures.

Figure 5. IDPs' self-assessment of the financial situation of their households (Donetsk and Luhansk oblasts)



CHALLENGES FACED BY BUSINESSES DURING THE QUARANTINE

The most common reasons mentioned by the respondents for closing their business were the quarantine restrictions imposed by the authorities (89%). Twenty-nine per cent (29%) of businesses which had to shut down their operations said they would not be able to reopen without external support after the quarantine restrictions were partially lifted from 11 May¹².

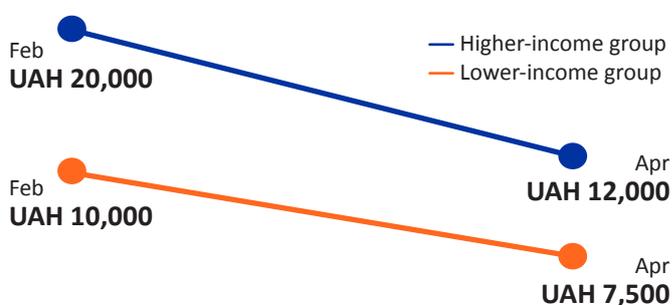
The operating businesses were facing such problems as the decrease in demand for services or goods (55%) and consequent decrease in sales (49%). Seven per cent (7%) of respondents reported problems due to supply chain breakdowns.

To estimate losses the businesses endured during the quarantine, the respondents were divided into two income groups based on their prequarantine revenue levels: the first group with lower sales included enterprises with monthly sales ranging from UAH 5,000 to UAH 50,000 and the second group included enterprises with UAH 51,000 to UAH 250,000 in sales monthly. The median value of current monthly sales within the first group decreased by 25 per cent – from UAH 20,000¹³ in February to UAH 15,000¹⁴ in April. The decrease was even more acute among the enterprises from the second group, with median monthly sales value dropping by 44 per cent – from UAH 100,000¹⁵ in February to UAH 56,000¹⁶ in April¹⁷.

The reduction in sales is reflected in changes in the respondents' monthly net personal income. While the respondents from the lower sales group lost 25 per cent

in their personal income during the quarantine (from UAH 10,000 in February to UAH 7,500 in April), those from the higher sales group lost up to 40 per cent in income (from UAH 20,000 in February to UAH 12,000 in April).

Figure 6. The dynamics of the micro-enterprise owner's personal income, median values



Most respondents stated they needed financial support to cover their fixed expenses (mostly rent), a finding also reflected in the previous IOM Express Survey. Similarly to other indicators, fixed costs varied, with the lower sales group spending on average UAH 6,600 and the higher sales group spending on average UAH 20,000 to cover fixed monthly costs. The economic shock caused by the quarantine restrictions has also impacted the employees of surveyed businesses. On average, each enterprise had to dismiss one in three employees which is reflective of the State Employment Service data.

¹¹ IOM National Monitoring System Report, September 2019. http://ukraine.iom.int/sites/default/files/nms_round_15_eng_screen.pdf

¹² The results of the analysis showed that female respondents were less confident in the ability to restart a business without external support compared to the males (34% of women and 23% of men said they are unable to restart a business without external support).

¹³ The sample size is 102 respondents.

¹⁴ The sample size is 68 respondents.

¹⁵ The sample size is 47 respondents.

¹⁶ The sample size is 38 respondents.

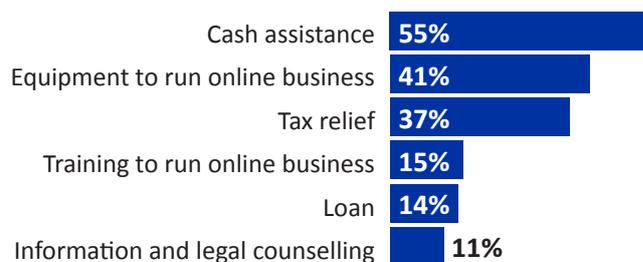
¹⁷ The respondents whose revenue level amounted to less than UAH 5,000 and higher than 250,000 were excluded from the analysis as the outliers.

SUPPORT REQUIRED

Most of the surveyed operating businesses (55%) indicated the need for financial assistance to cover their fixed operation costs, including staff wages; 41 per cent needed equipment to help run businesses online; 37 per cent said they wanted additional tax deductions (either tax holidays or tax reduction); 15 per cent stated they required training on online business management (figure 7).

The respondents highlighted that they wanted to receive financial assistance via preferential lending, or payment deferral for existing loans (14%). Besides, the respondents indicated the need for more up-to-date information on finance and taxation, including legal counselling (11%), supplies of PPEs/antiseptics (6%), deferring utility payments (6%), subsidies for rent or its cancellation (5%). Approximately a third (32%) of the respondents confirmed that the support would help to rehire the employees who were terminated or laid-off during the quarantine. The most frequently mentioned

Figure 7. Support necessary for keeping operational status of business (six most frequently mentioned), operating business



type of support desired by non-operating businesses was cash assistance (55%)¹⁸.

Among both operating and non-operating businesses, 48 per cent of the respondents would like to optimize their taxation through the support of legal counselling.

CONCLUSION

As a result of the COVID-19 quarantine restrictions, both the host community and IDPs had to limit their business activities, dismiss employees and endured significant losses. Because of their preexisting vulnerabilities, the impact on IDPs and IDP-owned businesses was greater and they appear more at risk of being unable to recover from the economic shock of COVID-19 control measures. The share of the IDPs who reported shutting their business down is significantly higher compared to the host community business owners. In addition, the economic impact of restrictions has highlighted the limitations of household spending capacity with both IDP and local populations reporting the need to restrict their expenditures, even for food, which furtherly indicated the limited revenues of micro- and small businesses to manage their

reopening. Female-owned businesses appear to be at a greater risk as well, with more female than male entrepreneurs reporting difficulties to restart operations after some of the restrictions have been lifted. This highlights the importance of considering the impact of COVID-19 from a gender perspective to ensure responses effectively address those different needs. As for considerations for assistance packages for current and future waves, host and IDP-owned businesses identified cash assistance, material assistance, technical training on online sales modalities, low-interest loans or greater tax reliefs to be able to restart operations, re-employ their staff and regain their economic status. They also require legal counselling and wider access to information to be able to timely respond to the challenges they face.



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¹⁸ The sample size is 32 respondents.