

# The promotion of business resilience in wartime and post-war recovery

By Yaroslav Zhalilo, Dr.Sc., Distinguished Research Fellow, GLOBSEC

## Summary

*The resilience of businesses facing wartime risks is the cornerstone of the country's resilience in a protracted full-scale war. Its strength in the medium- and the long run is based on the adaptive capacity of businesses to wartime challenges, combined with their inclusion in economic turnover. The paper examines the path toward resilience by focusing on macro-level policies, enhancing the institutional framework for businesses to network and supporting the internationalisation of businesses. The suggested policies should be accounted for in the agenda of international support of Ukraine.*

## Problem

The initial stage of a full-scale war has shown the capacity of a large part of Ukrainian entrepreneurs to withstand the war-generated threats and risks. After the first shocking months, **businesses started to recover**, at least in the territories not involved in active combating. **Thus, developed entrepreneurship is one of the anchors of Ukraine's resilience to aggression.**

Meanwhile, this initial recovery has been based chiefly on exhausting the pre-war accumulated reserves and restoring usual business models, where business-as-usual was still possible, based on available resources and market preferences.

However, the ability of businesses to maintain resilience over the long term during an extended war is heavily dependent on their ability to recover from losses caused by the war, overcome obstacles and risks to activities, and adapt business models to new challenges and changing markets. The problems accumulated during the months of the active war are systemic and often reach beyond the individual strengths to handle them. While the initial flexibility was somewhat based on the endogenous potential of businesses, medium- and long-term resilience needs additional coordinative and promotive actions to reach the synergy of adaptive capacities of single companies.

## Purpose

**The networking model of business resilience will likely prove to be the most effective approach.** This perspective is based on active horizontal communication, the realised potential of entrepreneurial initiative, and a high level of internationalisation. Strengthening the resilience of businesses requires a set of complementary policies that would promote their adaptiveness to current challenges and their functional inclusion in national economic processes.

**The policies are considered at three main tracks, namely: macro-level policies,** creating the regulatory, macroeconomic, and technical frameworks to better adapt businesses facing wartime challenges; strengthening **institutional framework** that favours the effective networking of companies and the creation of integral territorial and sectoral systems; involvement of exogenous factors by promoting the **internationalisation of businesses.**

## Recommendations

### Macro-level policies promoting long-term resilience of business

The government is expected to **coordinate policies of executive power, enabling businesses to adapt to wartime challenges** based on rationalised regulations, an improved framework of market play and networking, and technical solutions, helping to adapt business processes. The promotion of the long-term resilience of business in wartime should represent the following policies:

- i. **Clearly determined, transparent, and time-specific policy of compensation for losses incurred because of the war.** In the first stage, this policy includes a rapid assessment of losses and damages. Due to the immense damage, some standard procedures would need to be implemented, which accelerate the process. Because of limited resources, in the second stage, the criteria of eligibility, priority and optimal methods of compensation should be established. The definite perspective of compensation strengthens the strategic planning of businesses, in particular, if some kinds of compensation will be securitised.
- ii. **New digitalised regulatory system** based on indirect oversight and a view of control institutions as a service. This should significantly reduce the costs of regulatory compliance for businesses. Digitalised regulation is a convenient alternative to excessive simplification of tax and licensing policies, which significantly reduces the scope of available instruments of structural policy.
- iii. **Better access to markets for small and medium-sized businesses.** This means promoting retail networks in low-populated territories, including war-torn ones, supporting SMEs' involvement in public procurement, where appropriate – directly engaging them in supplying defence and humanitarian needs.
- iv. **A policy of fair competition.** The limited capacity of market equilibrating mechanisms in wartime calls for special efforts to prevent monopolisation and other anti-competitive behaviour. The best possible practices to reveal anti-competitive violations should be identified and implemented.

The **European state aid principles** should be adapted to the realities of wartime recovery. However, the aid provided to restore business activity should not distort markets or endanger small entrepreneurs.

- v. **Full-scale supply of infrastructure services:** transportation, wholesale warehouses, and primary processing of raw agriproducts, to name a few. As private companies can provide the majority of services, special attention should be given to liberated and war-damaged regions, where initially, these services could be supplied by public (including municipal) providers. These public providers could need material aid in vehicles, storage and processing equipment, etc.
- vi. **Better access to financial resources for businesses.** The experience of government-promoted loans under the “**Affordable 5-7-9 % loans**” programme allows the spreading of this practice for wartime. However, the complete realisation of business recovery potential must ease the provision of market-based loans.
- vii. **A steady supply of centrally provided services.** This supply critically depends on the consequences of Russian attacks - evident from the **crisis in the electricity sector**. However, stability is also crucial in providing telecommunication services (mobile phone and internet, broadband internet), banking services, post, railways, centralised gas supply, etc.
- viii. **Proper labour supply.** Government institutions and regional and local authorities should join their efforts to collect and exchange information concerning supply and demand at local labour markets and organise rapid requalification and training of employees to cover the gaps for employers.
- ix. **Optimised protection of businesses from security risks.** Doing business in zones of high military risk (e.g., at the territories near the border with Russia and close to the frontline) could be promoted by special tax regimes, the implementation of special insurance from military risks, and tight communication of businesses with the local defence forces.

## Institutional promotion of adaptive businesses

Efficient business networking and communications with local authorities and central power institutions can significantly improve the adaptiveness of businesses. **The creation or development of special business institutions should be supported, improving organisational performance and promoting communications.**

**The institutions should be represented by the following:**

- i. **Involvement of conventional business promotion institutions** (technoparks, industrial parks, business incubators) in solving the issues of the current recovery, relocation of businesses, and planning the post-war recovery. Regional and local **Development Agencies** should play an important role. In some regions, these institutions are declared as **European Integration Offices** – this is why they are more involved in promoting local businesses' communications with European partners.
- ii. **Public-private partnerships implementation.** Local communities and companies can sign long-term contracts to serve local needs on a long-term basis. This practice can promote the creation of clusters of local entrepreneurs. Communities can participate in these partnerships through existing municipal production, premises, and logistics capabilities.
- iii. **Local communities' involvement in supporting businesses.** Communities have enough opportunities for business promotion even within their current competencies: organisational and informational promotion to process local resources, suggesting business projects to solve acute problems of communities, "last mile" support, etc.
- iv. Associations **of relocated enterprises**, which should be promoted to act in close contact with existing central and local business associations and local authorities – this eases the recovery of business communications and market penetration at the new locations.
- v. **Cooperation development.** The models of possession/use of critical equipment and access to vital services otherwise unavailable to small entities and relocated businesses can significantly improve their adaptiveness. This cooperation can touch upon, for example, agricultural machines, vehicles, building machinery, transportation, primary processing and storage services, etc.
- vi. **Establishment of regular consultancy for businesses.** Local and national private institutions, analytical, research, and educational organisations can give consultations on a commercial basis and be paid by grant support from international donors. The subject of the consultations should be specific features of resilience in the wartime economy:
  - building diversified supply chains, spatial repositioning of production;
  - assessing and forecasting demand
  - digital instruments of recovery and resilience
  - physical security of production and personnel.

## Internationalisation of business promotion

The openness of the economy is considered one of the pillars underpinning Ukraine's resilience to wartime risks. Transfer to long-term resilience will require improving the capacity of the business to use its potential. **The internationalisation of business in wartime needs to be promoted through specific steps:**

**i. Reaching special agreements which enhance the positions of Ukrainian companies in foreign markets:**

- **expand agreements** with primary trade partners and security guarantors in the Black Sea region "**Grain Initiative**" aimed at recovering commercial cargo shipping from seaports to wider commodity groups, use "grain corridor" to import the necessary goods for Ukrainian agriproducers: such as machinery, chemicals, and seed materials. Also, the initiative **announced by Ukraine in Davos** is to include the opportunity to use the "corridors" for steel export;
- further **develop alternative routes** for the export/import of goods through the western border of Ukraine with both road and rail traffic based on a **road transport agreement with the EU** concerning the optimisation of custom proceedings, construction of new border crossings, improvement of transit capacity of existing ones, and building export logistical infrastructure (warehouses, trans-shipment terminals, etc.). For the war period, these measures should be taken on the territories of EU countries close to the Ukrainian border;
- finalise the **Agreements on Conformity Assessment and Acceptance of Industrial Goods (ACAA)**;
- introduce **simplified mechanisms of customs control** for SMEs on the principle of "one-stop shop";
- **expand the dialogue** on the roadmap to **implement the Carbon Border Adjustment Mechanism in Ukraine, including transition periods** necessary for the post-war recovery and reaching energy independence.

**ii. Strengthening the competitiveness of Ukrainian companies** by promoting their compliance with technical, legal, and managerial requirements of main export markets:

- support the adaptation of producers to the technical requirements of export markets by providing consultancy services and equipment for quality control facilities, promote appropriate technologies and equipment, and share best practices;
- promote the organisation (methodology and legislation) of export consortia of SMEs, facilitating export logistics and activities on export markets;
- provide information support about export opportunities in partnership with business associations and chambers of commerce.

**iii. Providing financial support for companies – exporters** using the experience of trade partners:

- widen the scope of the **Export-credit agency (ECA)**, additionally capitalise it partially with the involvement of foreign aid. It is essential to operate following international practice, particularly – spreading the activity of ECA to commodity loans;
- integrate credit lines for exporters and export guarantees into international support and recovery programmes;
- fully restore automatic VAT refunds to exporters.

## Strengthening communications with European partners

Strengthening the capacity of business internationalisation can significantly benefit from proper communication with European partners that can share best practices and consult decision-making processes at central and local levels and businesses.

Recommendations include the following:

- harmonise recovery projects with the headlines of **European industrial policy**, including digitalisation, energy efficiency, circular economy, clustering, sustainable development, etc.;
- share the experience of **Instrument for Pre-Accession Assistance** implementation;
- spread the use of **Industry 4.0** to traditional sectors;
- emphasise food security, at least in wider Europe, including both the EU and Ukraine;
- adapt to climate change, primarily, but not exclusively, in agriculture;
- implement the Green Deal in the core sectors of the economy;
- prepare a national strategy on the circular economy on a prospective basis for the involvement of centralised and decentralised (FDIs) financing;
- implement modern smart-specialisation principles in the post-war recovery of towns and regions based on the instruments of the **European smart-specialisation (S3) Platform**;

expand cross-border cooperation and participation in Euro-regional initiatives as a mechanism to develop local communities and make steps toward Ukraine's EU membership.

## Conclusion

The guidelines mentioned above can improve Ukrainian businesses' adaptive capacity and resilience, thus strengthening the country's ability to economically withstand Russian aggression. Hence, these points should be on Ukraine's international support agenda. Strengthening the capacity of local businesses to produce despite the wartime risks, this track of support will have a solid accelerating influence on the national economy, with a high return on this "investment" into Ukraine's victory.

In particular, the agenda of international aid should envisage the corresponding informational, methodical, and organisational support, supply of necessary equipment within aid packages, involvement of European partners at the levels of governmental institutions, local self-governance, businesses in ensuring the cornerstones of business resilience mentioned above. Supporting business resilience in the wartime period can easily bridge to intense post-war recovery with extensive inclusion of local Ukrainian resources and human and entrepreneurial potential.

6) The promotion of business resilience in wartime and post-war recovery