

# Visible and latent consequences of COVID 19 for the regulation of social and labor relations in the field of SMEs of Ukraine

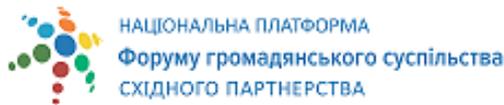
**99,9%** of  
business entities

**79%**  
of employed  
population  
of Ukraine

# SMEs

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The Ukrainian National Platform of the Eastern Partnership Civil Society Forum (<http://eap-csf.org.ua/>) is a network of more than 140 non-governmental organizations in Ukraine that advocates Ukrainian interests within the framework of the Eastern Partnership. The platform is part of the Eastern Partnership Civil Society Forum (EaP CSF).

The Eastern Partnership Civil Society Forum is unique multi-layered regional civil society platform aimed at promoting European integration, facilitating reforms and democratic transformations in the six Eastern Partnership countries - Armenia, Azerbaijan, Belarus, Georgia, Moldova and Ukraine. Serving as the civil society and people-to-people dimension of the Eastern Partnership, the EaP CSF strives to strengthen civil society in the region, boost pluralism in public discourse and policy making by promoting participatory democracy and fundamental freedoms. The EaP CSF is a non-partisan bona fide non-governmental organisation.

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## List of abbreviations

<b>GDP</b>	Gross Domestic Product
<b>State Labor Service</b>	State Labor Service of Ukraine
<b>State Statistics Service</b>	State Statistics Service of Ukraine
<b>STS</b>	State Tax Service of Ukraine
<b>SES</b>	State Employment Service of Ukraine
<b>EU</b>	European Union
<b>SSC</b>	single social contribution
<b>CMU</b>	Cabinet of Ministers of Ukraine
<b>Ministry of Economy</b>	Ministry of Economic Development, Trade and Agriculture of Ukraine
<b>IMF</b>	The International Monetary Fund
<b>SMB</b>	Small and medium-sized businesses
<b>SMEs</b>	Small and medium-sized enterprises
<b>NBU</b>	National Bank of Ukraine
<b>IE</b>	individual entrepreneur

## SUMMARY

Labor, employment, labor income - these issues have been and remain at the epicenter of interests, life values of the economically active population of Ukraine and the economy as a whole.

Given the complex and ambiguous realities of today, which have resulted from the COVID-19 pandemic, it is extremely important to find out and understand what is "behind the scenes" and causes unstable social and labor dynamics.

Small and medium-sized businesses (SMB) are the driving force for economic development. The SMB sector provides 79% of the total number of jobs and is the basis of the social and labor sphere of Ukraine. At the same time, small and medium-sized businesses are the sector of the economy that suffered the most during the coronary crisis, which had a direct impact on the situation on the Ukrainian labor market.

The assessment of the real state of the social and labor sphere and the solution of the issues of the sphere of labor and employment should be based on a meaningful analysis of statistical data, elucidation of the root causes of changes as well as social and labor transformations. This, in turn, should contribute to the formation of new thinking, new worldviews and values, a new economic culture, without which it is impossible to embark on the path of sustainable, human-oriented development.

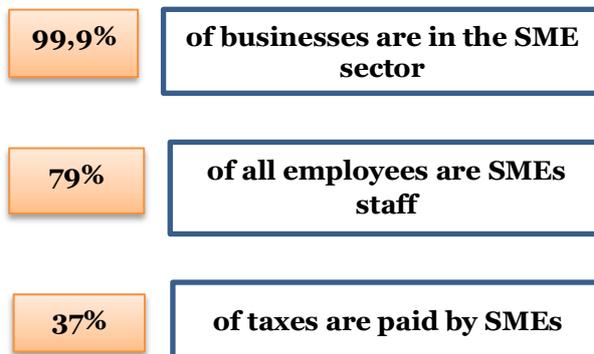
The purpose of this publication is to identify and analyze the visible and hidden consequences of COVID-19 for the regulation of social and labor relations in the field of SMB of Ukraine and to develop recommendations for overcoming them. These are changes in all components of social and labor development, which occurred under the influence of epidemiological, quarantine and restrictive factors, which after the announcement of the coronavirus pandemic COVID-19 radically changed the economic and social life of the country.

## SMEs IN COVID-19 PANDEMIC

The COVID-19 pandemic has changed the world. Coronavirus has halted the global economy, while unprecedented quarantine measures have left thousands unemployed. All over the world, small and medium-sized businesses have been hit hard by the pandemic.

Small and medium business in Ukraine is the basis of the economy and the financial condition of the ¾ of working population of Ukraine depends on its development. That is why it is very important to identify and constantly monitor the needs of SMEs to eliminate or reduce the impact of COVID-19 on the sector.

### The share of SMEs in the economy of Ukraine<sup>1</sup>



There are 1.8 million small and medium-sized enterprises in Ukraine (16.5 thousand medium-sized enterprises, 339 thousand small enterprises, 1.48 million individual entrepreneurs (IE) and

only 446 large enterprises). Only 19.8% of SMEs operated as legal entities, the rest as individual entrepreneurs (IE).

Due to significant competition, small and medium-sized enterprises are often more efficient than large ones. In Ukraine, labor productivity in small enterprises in different years was 10-20% higher than labor productivity in large ones. In terms of the number of employees, medium and small enterprises significantly outnumber large and micro enterprises. If we compare the number of staff members and employees, then in large enterprises it will be the same number of people, in the medium deviations is small, but in small and micro businesses there are much more staff members than employees.

According to the latest official data, the medium-sized business staff is 2,784.5 thousand people, and its employees amount to 2,782.4 thousand, i.e. the difference is only 2,045 people. At the same time, 4,173.7 thousand people are staff of small business, of which 2,603.2 thousand are employed, the difference of 1,570.5 thousand people is working business owners. Micro-enterprises created 3,033,000 jobs, of which 1,479.7 thousand were employees, and the difference was 1,553.3 thousand. Therefore, owners and founders of small and micro businesses not only create jobs and hire employees, but also work

<sup>1</sup> Covid-19 economic stimulus program: "economic recovery". Anex to the State Program of economic stimulation to overcome the negative consequences of restrictive measures to prevent the occurrence and spread of coronavirus disease (COVID-19) for 2020-2022:

<https://www.kmu.gov.ua/storage/app/sites/1/18%20-%20Department/18%20-%20PDF/07.2020/programa.pdf>

independently at their own enterprises<sup>2</sup>.

It should be borne in mind that IEs are not exclusively self-employed - they can hire employees. Thus, 1.48 million individual entrepreneurs have 1.09 million employees<sup>3</sup>.

2020 and the corona crisis brought to the fore the issue of SME survival and job preservation. Now, more than ever, it is important for small and medium-sized businesses to have the necessary financial resources to support their employees.

Quarantine measures have had a significant negative impact on SME activities. The restrictions **have led to the fact that:**

- some sectors were not able to function properly due to the ban on activities;

- falling incomes have led to a loss of solvency of Ukrainians, and consequently to a decrease in demand for products from consumers;

- some SME entities failed to meet quarantine restrictions and were forced to close;

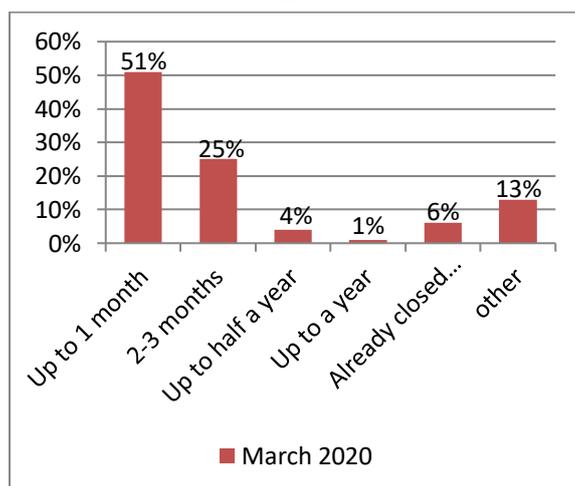
- a significant number of enterprises in the field of SMEs do not have sufficient financial resources to quickly overcome the consequences of COVID-19;

- the shadow employment sector and hidden unemployment continue to grow;

- there was a breakdown of value chains and, as a consequence, a negative impact on the economy as a whole.

In Ukraine, 29% of domestic companies were forced to suspend their operations due to quarantine, while 6% closed their businesses completely. One third of business owners (mostly small and medium-sized) recorded a drop in income by 25-50%, a third - 50-75%, and another third (mostly micro level), recorded a drop in income by 90-100% since the beginning of quarantine. The same entrepreneurs laid off up to 50% of the staff. At the same time, 51% of enterprises were able to last only 1 month, and every fourth business - had the potential to withstand 2-3 months of work in quarantine and not go bankrupt. Only 3% indicated that their business will be able to work for a long time under the necessary conditions (rental vacation, remote access for employees, reviewing the business model)<sup>4</sup>.

#### **How long can a business work during the quarantine without closing down?**



Source: Union of Ukrainian entrepreneurs and Ukrainian Marketing Group

#### **The second half of April turned out to be the most**

<sup>2</sup> Structural changes in the economy. State statistics Service of Ukraine: <http://www.ukrstat.gov.ua/>

<sup>3</sup> State statistics Service of Ukraine: <http://www.ukrstat.gov.ua/>

<sup>4</sup> Coronavirus VS business: half of entrepreneurs will hold in quarantine for no more than a month [https://www.althoughda.com.ua/publications/2020/04/2/658857/?fbclid=IwAR10GYjWY12R3tosRVtTomG9tbujq\\_8ONaOCupafT MmXTO1Yd9](https://www.althoughda.com.ua/publications/2020/04/2/658857/?fbclid=IwAR10GYjWY12R3tosRVtTomG9tbujq_8ONaOCupafT MmXTO1Yd9)

**critical for Ukrainian business.** As of April 27, 277 thousand entrepreneurs were suspended in Ukraine due to the ban. At the same time, most of them - 76% or more than 211 thousand individual entrepreneurs were related to work in the markets. Also, more than 14.7 thousand entrepreneurs in the field of planned medicine and dentistry, 13.6 thousand in the field of education, 10.4 thousand - in the field of entertainment, 8.4 thousand - in the field of tourism, 8.4 thousand - sports, 8.5 thousand - in the field of individual services, 1.8 thousand - transport were left out of business<sup>5</sup>.

Thus, the most negative impact was exerted by those activities for which quarantine bans were the most extensive - retail, transport, service sectors.

Coronavirus has changed the culture of doing business. Forced changes during the quarantine period became a catalyst for business transformation. The ban on mass gatherings, the closure of establishments, and the minimization of contacts forced businesses to go online. However, 35% of SMEs could not retrain due to the peculiarities of the business model. Obviously, tourism, transport, cinemas, offline events could not be quickly and completely reconfigured. While delivery services, on the contrary, received an increase in customer

traffic and were able to continue to operate more or less stably.

**To reach the pre-quarantine level of development**, according to 20% of entrepreneurs it will take six months, and for 39% - about one year. For another 17% it will take two years, and for 7% - more than two years. 10% cannot predict the required recovery time, and only 4% have not lost the pace of development during quarantine<sup>6</sup>.

Currently, the business is in a rather traumatic situation - despite a significant reduction in income, entrepreneurs still have to meet their financial obligations.

Small businesses do not yet have enough strength to afford to work at a loss for some time, and therefore need enhanced support from the state.

About 42% of small and micro businesses are not ready to return to strict quarantine, 29% said they are ready to worsening of the situation in the country, and about 29% of respondents do not know exactly how their business will react to the return of strict quarantine<sup>7</sup>.

Small business is thousands of jobs, the basis for regional development and the formation of a strong middle class. At present, it is important for Ukraine's economy to keep small businesses afloat and protect them from the negative effects of the pandemic.

SMEs are usually more mobile in terms of adapting to the

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<sup>5</sup> Quarantine has left almost 280 thousand Ukrainian entrepreneurs without work: <https://www.unian.ua/economics/finance/karantin-zalishiv-bez-roboti-280-tisyach-ukrajinskih-pidpriyemciv-novini-ukrajina-10974785.html>

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<sup>6</sup> 60% of companies will need up to one year to recover from quarantine: <https://eba.com.ua/60-kompanij-znadobytsya-do-odnogo-roku-na-vidnovlennya-pislya-karantynu/>

<sup>7</sup> More than 40% of small business owners fear re-entering the lockdown <https://eba.com.ua/bilshe-40-malyh-pidpriyemtsiv-ne-gotovi-do-posylennya-karantynu/>

economic environment. At the same time, they do not have such financial "airbags" as large corporations. Therefore, it is much

more difficult for them to survive a stoppage at work and save jobs.

## SME LABOR MARKET DURING THE CORONA CRISIS

The sphere of labor and employment is not an isolated autonomy. On the contrary, it is closely connected with all spheres and components of the economic and social system and actively responds to the changes taking place there. That is why the restriction of a significant number of business structures through the introduction of quarantine measures has made significant changes in the scope of employment.

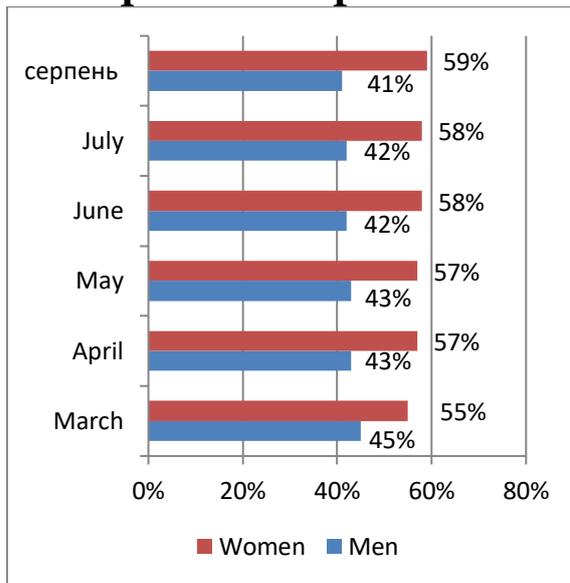
During March-July 2020, there was a rapid increase in the number of unemployed; decrease of the number of Ukrainians working abroad (labor migrants); reduction of household incomes due to reduction of wages, job losses and incomes of individual entrepreneurs. Unemployment increased both as a result of the release of labor in the middle of the country due to reduced economic activity in the context of limiting the activities of a number of sectors of the economy for the period of quarantine, and due to the return of some workers from abroad.

Since the beginning of the quarantine (from March 12 to August 31), **444 thousand people have received the status of unemployed**, which is 64% more than in the same period

last year. The highest unemployment rate is registered in wholesale and retail trade - 17%, processing industry - 14%, agriculture - 8%. As of August 31, the total number of unemployed was over 488,000. April turned out to be the most critical for the labor market, as well as for business. Since May, after the removal of some quarantine restrictions, the number of registered unemployed has gradually begun to show a declining trend. Thus, in April, 149 thousand people received the status of unemployed, in May their number was 97 thousand people, in June - 75 thousand people, in July - 68 thousand, in August - 49 thousand. In the regional aspect, during the quarantine period, the highest unemployment rate was recorded in Dnipropetrovsk, Kharkiv, Lviv and Vinnytsia regions.

**The unemployment rate for women is significantly higher than the unemployment rate for men.** The causes of inequality in employment of women and men include legal restrictions, the structure of the economy, opportunities for child care, the impact of culture and the peculiarities of public policy.

### Percentage of men and women among the unemployed during the quarantine period <sup>8</sup>



Source: State Employment Service

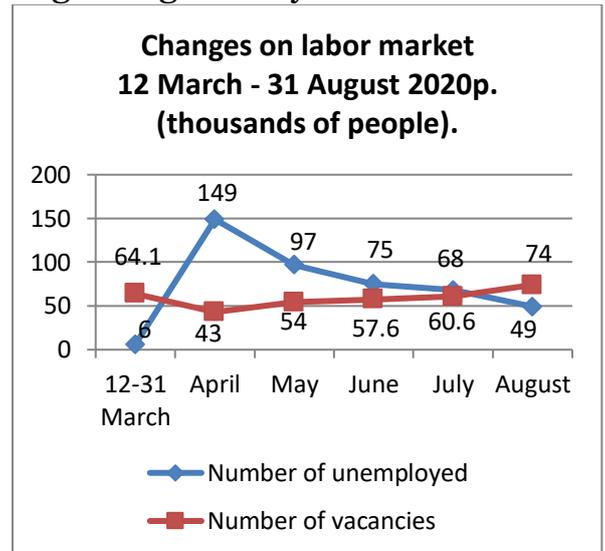
Despite the fact that **young people** are an age group that is quite dynamic and flexible, most easily adapted to changes in society, **a third of the unemployed registered during the coronavirus, belong to this category of workers.**

Age groups among the unemployed population: 31% - up to 35 years; 29% - from 35 to 45 years; 26% - from 45 to 55 years, 14% - over 55 years. Education: 51% - higher education, 32% - vocational and technical education, 17% - general secondary education.

In early autumn, the labor market gradually began to emerge from the crisis. The number of vacancies in comparison with the

<sup>8</sup> Data on the number of registered unemployed and the provision of services to them, as well as the number of registered vacancies (January-August 2020): <https://www.dcz.gov.ua/publikaciya/1-dani-shchodokilkosti-zareyestrovanyh-bezrobitnyh-ta-nadannya-yimposlug-takozh>

quarantine period increases and returns to the indicators of the beginning of the year.



Source: State Employment Service

Since the beginning of the year, more than 409 thousand people have been employed, including 262 thousand during the quarantine period (from March 12 to August 21). In particular:

- in agriculture - 45% of all employed;
- in the processing industry - 14%;
- in the field of trade - 13%<sup>9</sup>.

Based on official data from the State Statistics Service on the number of employed in Ukraine and the number of unemployed, only about 2.7% of Ukrainians (444 thousand out of 16.6 million people) lost their jobs during the corona crisis, while according to opinion polls, this figure is in range from 15% to 20% (from 2.5 to 3.4 million people).

The big difference is due to the differences between the data used in the calculation. Only part

<sup>9</sup> The main achievements of the Ministry of Economy over the past six months. 04.09.2020: <https://www.me.gov.ua/News/Detail?lang=uk-UA&id=475d15a3-2a87-4db2-baca-e460766f50c4&title=OsnovniDosiagnenniaRobotiMinekonomikiZaOstanniPivroku&isSpecial>

of the employed population is reflected in the official figures. It does not take into account the self-employed, people who work informally, hidden unemployment rates, etc. Therefore, they reflect only the lower limit of the number of those who actually lost their jobs.

**Hidden unemployment**, i.e. workers' unpaid vacations or "downtime" when only part of the salary is paid or worker is transferred from the full rate to the partial rate, has become an important component of the labor market in Ukraine during the coronavirus.

If in March only 7% of working Ukrainians **worked part-time**, in April this figure rose to 20%. Extrapolating these figures to the workforce, we see that the number of people who switched from full-time to part-time employment was about 1.9 million. As of May, about 15% of employees were sent on unpaid vacation. This was another 1.2 million Ukrainians<sup>10</sup>.

***So at the peak of the corona crisis, more than 3 million Ukrainians were in a state of hidden unemployment, which was about 17% of the employed population***<sup>11</sup>.

The use of **remote forms of employment** has become quite common during the quarantine period. For part of the business, the remote form of work of

employees has become a way out of the situation. Existing research shows that during the COVID-19 pandemic, **more than 35% of workers started to work from home**<sup>12</sup>.

Despite the easing of quarantine and the return of business to pre-quarantine conditions, **almost 60% of SMEs are considering the possibility of permanently switching to full or partial online**. Many companies plan to leave remote work or a combined schedule so that people come to the office 1-2 days a week and work remotely the rest of the time. From 56% to 87% of employers in various fields are willing to leave marketing, IT, HR, accounting, sometimes sales on a remote or flexible schedule<sup>13</sup>.

**The shadow sector** in Ukraine is an important component of the labor market. According to official data, the share of the shadow sector is estimated at **21% of the country's GDP**. According to the State Statistics Service, 3.4 million unofficially employed people were registered in the first quarter of 2020 in economic spheres, the situation is as follows: 1.4 million people are informally employed in agriculture, 578.7 thousand people in trade and construction, 207.7 thousand people in industry, and 129.4 thousand people in

<sup>10</sup> How many people lost their jobs in Ukraine due to the crisis? 31.07.2020: <https://tns-ua.com/news/oglyad-materialnogo-stanu-ukrayintsiv-infografika>

<sup>11</sup> How many people lost their jobs in Ukraine due to the crisis? 31.07.2020: <https://tns-ua.com/news/oglyad-materialnogo-stanu-ukrayintsiv-infografika>

<sup>12</sup> Explanatory Note to the draft Law of Ukraine "On Amendments to Certain Legislative Acts on Improving the Legal Regulation of remote work" 03.09.2020: [http://w1.c1.rada.gov.ua/pls/zweb2/webproc4\\_1?pf3511=69838](http://w1.c1.rada.gov.ua/pls/zweb2/webproc4_1?pf3511=69838)

<sup>13</sup> Unemployment growth and remote work trend: how has the labor market in Ukraine changed in six months? 09/13/2020: <https://hromadske.radio/publications/zrostan-nia-bezrobittia-y-trend-na-dystantsiyku-iak-za-pivroku-zminyvsia-rynok-pratsi-v-ukraini>

transport, in temporary accommodation and catering - 85.1 thousand people<sup>14</sup>.

***At the same time, according to opinion polls, there are 4-5 million workers in the shadow sector.*** All of these people are at increased risk for dismissal.

The positive dynamics towards the reduction of the number of unemployed (149 thousand in April and 48 thousand in August 2020) should indicate an improvement in the labor market. However, given the fact that with the reduction of unemployment, which we are currently seeing, at the same time the rate of payment of the single social contribution decreases - this may indicate the relocation of some jobs to the shadow sector.

An important factor in the functioning of the Ukrainian economy is the export of workforce in the form of **labor migration** of our compatriots. And this area of economic activity has also been strongly affected by the COVID-19 pandemic.

Ukraine is among the top ten donor countries for international migrants in the world. There are no exact data on the number of Ukrainians working abroad. According to various estimates, it ranges **from 3** (data from the State Statistics Service of Ukraine) **to 5 million people** (data from public organizations in the field of labor migration).

***From 160 to 500 thousand citizens*** returned to

Ukraine due to quarantine, some of whom lost the opportunity to earn money abroad. These are mostly those who had short-term contracts. Long-term migrants, many of whom have permanent residence permits and sometimes the citizenship of recipient countries, are more likely to stay abroad.

Working migrants did not immediately enter the domestic labor market, remaining inactive for some time and living on accumulated stocks.

Ukrainians play a significant role in the EU seasonal labor market. In 2019, Ukrainians took first place in the number of residence permits for seasonal work in Finland, which was one of the first to state the need for labor migrants from Ukraine. The need for Ukrainian workers is also present in many other European countries, including Germany, which requires 300,000 workers, France - 200,000, and the United Kingdom - 80,000.<sup>15</sup>

The need for Ukrainian workers in Europe is confirmed by proposals in the labor market. Thus, in July, the number of job offers for Ukrainians increased by 20%. In the top countries - Poland, the Czech Republic and Germany. At the beginning of the summer, the Jooble website registered 6.7 thousand vacancies related to employment in other countries. In

<sup>14</sup> Undeclared work does not protect against fines. 08/25/2020: <https://www.dcz.gov.ua/novyna/nezadeklarov-ana-pracya-ne-zahyshchaye-vid-shtrafu>

<sup>15</sup> Germany, France, Britain: the expert named the countries with the greatest need for Ukrainian workers: <https://www.unn.com.ua/uk/news/1867783-nimechchina-frantsiya-britaniya-ekspert-nazvav-krayini-z-naybilshoyu-potreboyu-v-ukrayinskikh-zarobitchanakh>

July, the number of such vacancies increased to more than 8,000<sup>16</sup>.

The level of earnings in the recipient countries is much higher than in Ukraine, and the shortage of labor, and especially cheap labor of migrant workers after the epidemic, remained. Accordingly, after the opening of the borders, we see an increase in the number of migrant workers trying to return abroad.

The labor market is an important component of any national economy. The relationships between them strongly influence their development. Under quarantine, this effect is especially important. After all, it is from the labor market that the economy receives the workforce it needs. And it is the qualitative and quantitative characteristics of the existing labor force that the possibilities of structural transformation of the economy largely depend on.

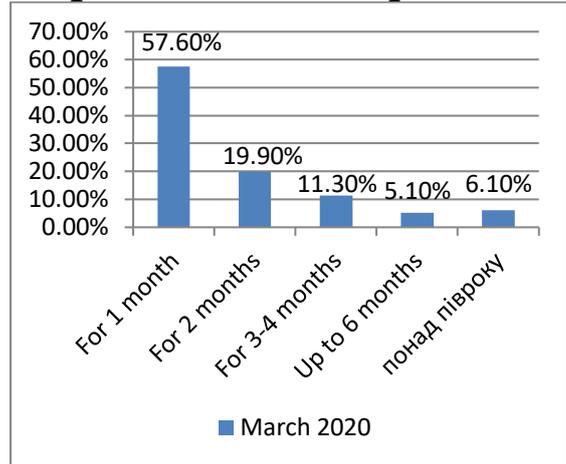
Employees and members of their families are both providers and consumers of goods and services. At the same time, the magnitude of their demand directly depends on the level of wages and available savings, which, in turn, affects the dynamics of the national economy.

Sociological polls conducted in late March 2020. show that for 57.6% of Ukrainians their savings, provided they stopped receiving income, will be enough for less than a month<sup>17</sup>.

<sup>16</sup> Over the past month, offers to work abroad for Ukrainians have increased by 20%: <https://opendatabot.ua/blog/454-gastarbeiter>

<sup>17</sup> 75% of Ukrainians will have enough savings for only a month of quarantine: <https://zn.ua/ukr/ECONOMICS/75->

### For how long will your family have enough savings and disposable income in quarantine?



Source: "New Image Marketing Group" together with ZN.UA.

Back in January 2020, experts expected an increase in the average salary by the end of the year in the range of 20-25%. However, due to the coronavirus pandemic, its level, by contrast, fell by 10-15%<sup>18</sup>.

In late June - early July 2020, in the coming months, 35.2% of employers intended to reduce wages, while 64.7% said they would keep wages at current levels. At the same time, almost half of the respondents reported that the material motivation of employees had already been reduced<sup>19</sup>.

In total, quarantine has forced more than 10 million Ukrainians to "tighten their belts", as switching to part-time, unpaid

[ukrayinciv-zaoschadzhen-vistachit-lishe-na-misyac-karantynu-343560\\_.html](http://ukrayinciv-zaoschadzhen-vistachit-lishe-na-misyac-karantynu-343560_.html)

<sup>18</sup> Salaries in Ukraine will not increase at least until the beginning of 2021, and this is a global trend - 3M: <https://www.unian.ua/economics/finance/zarplati-v-ukrajini-ne-zrostatimut-minimum-do-pochatku-2021-roku-i-ce-zagalnosvitoviy-trend-zmi-novini-ukraine-11030618.html>

<sup>19</sup> Pandemic transformed the labor market: how wages have changed, the approach to work and employees: <http://budport.com.ua/news/18655-pandemiya-transformuvala-rinok-praci-yak-zminilis-zarplati-pidhid-doroboti-i-spivrobotnikiv-infografika?fbclid=IwAR18LckQf5W4oh7i4GOxQEAqSMTms7Pw5gF6eFGepOhUwYzolGgD4qE3mY>

vacaion and dismissal directly affect the level of income of citizens.

After September 1, 2020 in Ukraine the minimum wage was increased to five thousand hryvnias. As a result of the increase of the minimum wage, the level of income of citizens will increase and consumer demand in

the domestic market may increase, which in turn will be able to somewhat offset the negative impact of the crisis. At the same time, it should be borne in mind that raising the minimum wage will increase the tax burden on wages, which, in turn, may stimulate the growth of the "shadow" wage sector.

## CORONAVIRUS PANDEMIC: GOVERNMENT ACTION TO SUPPORT BUSINESS AND LABOR MARKET STABILIZATION

Following the good example of European countries in supporting business during the crisis caused by the COVID-19 outbreak, Ukraine tried to adapt existing state support programs and created several new temporary schemes to support and budget business financing for the quarantine period.

From March 1 to May 31, 2020, **individual entrepreneurs were exempted from paying the single contribution (SSC) for themselves.** In this case, this period is included in the insurance period for the payment of pensions, other state assistance, social insurance.

From March 1, 2020 to the last calendar day of the month (inclusive), in which the quarantine expires, **no penalties are applied for violation of tax legislation, non-payment or late payment of SSC, failure to submit (late submission) reports on payment of SSC.**

On March 18, 2020, **a moratorium was established on conducting documentary checks on the correctness of accrual, calculation and payment of SSC.** September 9, 2020 The Cabinet of Ministers of Ukraine has extended the moratorium on state control and inspections of businesses, which will be in force for six months after the end of quarantine.

The program "**Affordable loans 5-7-9%**" provides loans to small and medium-sized businesses. As of mid-September 2020 issued 3,238 loans totaling UAH 7.8 billion <sup>20</sup>: 57% - in the field of agriculture; 15% - industrial processing, 15% - trade and production. The leaders in the amount of made agreements are Kharkiv (9%), Lviv (7%) and Kyiv (7%) regions <sup>21</sup>.

According to preliminary estimates of the Government, the program was to help create more than 90 thousand new jobs in the first year and attract about UAH 2 billion in domestic investment to Ukrainian economy (in the field of microbusiness)<sup>22</sup>. However, opinion polls show that only 11% managed to get a loan under this program, 10% - still waiting for a decision on their application, 27% refused to participate, 25% - plan to apply for the program, 16% - do not plan participate in the program due to non-compliance of their activities with the criteria for obtaining a loan, and 11% due to lack of interest. Only 11% turned to commercial banks, while - 89% of

<sup>20</sup> Weekly summary according to the results of the program "Affordable loans 5-7-9%": 305 new loans for over a billion hryvnias. 15.09.2020: [https://mof.gov.ua/uk/news/pidsumki\\_tizhnia\\_za\\_rezultat\\_ami\\_programi\\_dostupni\\_kreditiv\\_5-7-9\\_305\\_novikh\\_kreditiv\\_na\\_ponad\\_miliard\\_griven-2426](https://mof.gov.ua/uk/news/pidsumki_tizhnia_za_rezultat_ami_programi_dostupni_kreditiv_5-7-9_305_novikh_kreditiv_na_ponad_miliard_griven-2426)

<sup>21</sup>The main achievements of the Ministry of Economy over the past six months. 04.09.2020: <https://www.me.gov.ua/News/Detail?lang=uk-UA&id=475d15a3-2a87-4db2-baca-e460766f50c4&title=OsnovniDosiagnenniaRobotiMinekonomikiZaOstanniPivroku&isSpecial>

<sup>22</sup> Oleksiy Honcharuk: In two weeks, state-owned banks have already issued available loans for UAH 27.1 million at 5-7-9%, with another 2,500 applications in progress: <https://www.kmu.gov.ua/news/oleksij-goncharuk-za-dva-tizhni-derzhavni-banki-vzhe-vidali-dostupnih-kreditiv-na-271-mln-grn-pid-5-7-9-v-roboti-shche-25-tis-zayavok>

entrepreneurs addressed the state. Among the loans issued, small amounts predominate. In particular, 50% of individual entrepreneurs managed to get a loan of up to UAH 500,000, 20% - from UAH 500,000 to UAH 1 million, 17% - from UAH 1 to 3 million and another 13% received a loan in excess of UAH 3 million. In addition, according to data for September 2020, during the participation in the program, most companies did not change the staff – as was reported by 59%, and only 18% of businesses created two or more jobs<sup>23</sup>.

In fact, from the first days of quarantine, the Ukrainian authorities began to develop and implement anti-crisis measures in the labor market. Already on April 2, 2020 norms came into force that amended labor legislation and the law on employment, which **regulated remote (home) work and flexible working hours.**

During the quarantine, a number of **legislative changes** were introduced, which concerned **conditions of registration by the employment service and receiving unemployment benefits:**

- the possibility of submitting applications for unemployment status and unemployment benefits remotely;

- the minimum amount of unemployment benefits for the period of quarantine and for 30 days after its completion was

increased from UAH 650 to UAH 1,000.;

- Unemployed persons registered with the employment service are granted benefits from the first day of acquiring the status, even for those who were fired during the quarantine period of their own volition.

In May 2020 the Government has unveiled and launched a plan to create conditions for increasing employment aimed at tackling unemployment due to the pandemic, **which provides for the creation of 500,000 jobs in the field of SMEs.** The Government plans to create jobs with the help of utilities and state-owned enterprises, through state support and simplification of business conditions.

**From July 1, 2020** in accordance with the Law of Ukraine "On the State Budget of Ukraine for 2020" **the subsistence level for the main social and demographic groups was increased.** For able-bodied persons, the subsistence level is UAH 2,197. Accordingly, social benefits have increased, including unemployment benefits. After July 1, the maximum unemployment benefit is UAH 8,788 per month.

On July 15, 2020 The Cabinet of Ministers of Ukraine adopted a resolution "Some issues of providing and refunding funds aimed **at financing partial unemployment benefits** for the period of quarantine...", which provides for the redistribution of more than 4.72 billion UAH from the COVID-19 to the Compulsory

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<sup>23</sup> More than 40% of small business owners fear re-entering the lockdown <https://eba.com.ua/bilshe-40-malyh-pidpryyemtsiv-ne-gotovi-do-posylennya-karantynu/>

State Social Insurance Fund Ukraine in case of unemployment. The allowance is set for each hour for which the employee's working hours have been reduced, at the rate of two-thirds of the tariff grid or salary, but not more than the amount of the minimum wage per month.

According to the Ministry of Economy, under the program of partial unemployment as of September 4, 2020 employers submitted more than 230,000 files of documents. This allowed to make payments and save jobs for 370 thousand citizens, of which 180 thousand - IEs. As of August 31, 2020, UAH 2.3 billion was financed<sup>24</sup>.

After September 1, 2020 The State Labor Service has launched an inspection campaign, during which measures of **state control over compliance with labor legislation on the detection of unregistered labor relations** will be carried out. Control measures will refer to business entities in which the results of the information campaign found a discrepancy between the actual number of employees and the

Register of Insured Persons, in which there is no positive dynamics of employment, companies for which there are complaints about the employer's violations of labor laws.

According to the State Labor Service, as part of the information campaign that preceded the inspections, inspectors visited more than 155 thousand employers and found a discrepancy between the actual number of employees and the employment contracts of about 100 thousand people.

Financial and administrative liability may be applied to legal entities and individual entrepreneurs who use hired labor without registration of employment. Financial responsibility applies to legal entities and individual entrepreneurs, if they are employers, and administrative liability - to officials of enterprises, as well as to individual entrepreneurs. Financial liability can be applied simultaneously with administrative liability.

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<sup>24</sup> The main achievements of the Ministry of Economy over the past six months. 04.09.2020: <https://www.me.gov.ua/News/Detail?lang=uk-UA&id=475d15a3-2a87-4db2-baca-e460766f50c4&title=OsnovniDosiagnenniaRobotiMinekonomikiZaOstanniPivroku&isSpecial=true>

## CONCLUSIONS

The coronavirus pandemic has changed the established system in a matter of months, significantly affecting people's lives. Ukraine is no exception: the economic downturn, rising unemployment, changes in the functioning of all spheres of life.

The SME sector has suffered the most from the COVID-19 pandemic, as small and medium-sized businesses have been virtually shut down.

During the 6 months of quarantine, the business has to some extent adapted to the new conditions. Gradually, companies are returning to work - even those areas that were completely limited in their activities. But full recovery is still far away. Restrictions still exist, not everyone was able to start work in full. In addition, the economic situation itself is quite difficult. Purchasing power is declining, "financial reserves" of entrepreneurs have been exhausted, budget problems are accumulating. Business feels this every day of its work. Therefore, it is worth talking about adaptation rather than business recovery.

Under the influence of the COVID-19 pandemic, the Ukrainian labor market has undergone significant changes. According to official data, more than 444 thousand Ukrainians lost their jobs due to quarantine in Ukraine. According to opinion polls, the number of Ukrainians who lost their jobs during the corona crisis reached more than 3 million people.

The quarantine model of the labor market has also led the shadow economy to a state of crisis, which was even stronger than the crisis of the official one. At the same time, the instruments of state support here are quite limited: it is almost impossible to subsidize employers in the "shadow" at the expense of the budget in order to save jobs.

Almost all businesses in the SME sector have reduced their employment or sent employees on vacations. The share of companies that laid off workers was relatively small - the vast majority of companies noted the transition to remote employment and transfer of workers to downtime, which will have long-term consequences. Despite the easing of quarantine and the return of businesses to pre-quarantine conditions, almost 60% of SMEs are considering the possibility of going online in whole or in part forever. Many companies will leave remote work or a combined schedule so that 1-2 days a week people came to the office and all the other time worked remotely. From 56% to 87% of employers in various fields are willing to leave marketing, IT, HR, accounting, sometimes sales on a remote or flexible schedule<sup>25</sup>.

Recently, the labor market has been gradually recovering from the shock caused by the corona crisis. However, the next

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<sup>25</sup> Unemployment growth and remote work trend: how has the labor market in Ukraine changed in six months? 13.09.2020:  
<https://hromadske.radio/publications/zrostantia-bezrobittia-y-trend-na-dystantsiyku-iak-za-pivroku-zminyvsia-rynok-pratsi-v-ukraini>

wave of quarantine could cause significant damage to the labor market. Therefore, we should expect even greater losses and new job cuts. If during the first wave 17% of the labor force were in a state of hidden unemployment, then in the case of the second - this figure will be much higher. If earlier employers, even with a small "airbag" (for 1-4 months) could pay salaries to employees, then in the case of the second wave of quarantine restrictions, they will be forced to dismiss these employees, or transfer to part-time work. As a result, a new rise in unemployment, job and income losses is to be expected.

To mitigate the negative impact of quarantine on the SME sector, the government has developed a number of measures aimed at: short-term tax breaks, credit vacations, reimbursement of wages, etc.

At the same time, a study of Ukraine's current business support programs and the needs of small and medium-sized enterprises shows that there is a gap between the needs of SMEs and the support tools implemented by the Government.

Tax benefits and employment support are minimal in size and coverage. The 5-7-9% affordable lending program is the most targeted tool for SME needs. At the same time, the program is not popular among enterprises in the sector due to complex procedures and lack of trust in it by SMEs.

Today, both government and business are, so to speak, "walking on the edge of a knife", balancing between preventing rapid spread of the virus and mass diseases, on one hand, and economic losses from restrictive measures, on the other. The unpredictability of coronavirus disease does not allow accurate predictions, including quarantine in general, and business to save jobs in particular.

No country is ready to repeat the measures of total quarantine restriction. But the period of adaptive quarantine will last a long time. As a result, much of the anti-crisis measures regarding SMEs will be extended. At the same time, no new support measures are being introduced.

## RECOMENDATIONS

Support for the SME sector, job retention and faster return of the unemployed to work are crucial for the country.

Every country in the world is trying to soften the impact of the pandemic on business and provide opportunities for further development. But at the same time, no country is trying to compensate for all SME losses. The success of Ukraine's economy in 2020-2021 will largely depend on government action, the ability of enterprises to adapt to new conditions, changes in demand that have already occurred, and the willingness of workers themselves to adapt to new labor market conditions.

Probably the appropriate response to the crisis were measures to optimize costs, develop strategies to capture new markets and technologies that facilitate access to finance and the necessary materials, online methods of organizing work and interaction with customers. It can already be stated today that with the available support and optimism, small and medium-sized businesses in Ukraine have a chance to overcome the crisis situation, albeit with significant losses.

Coronary crisis has shown the importance of prompt collection and processing of information. However, official statistics and opinion polls show pictures that are radically different from each other. It is very difficult to determine the real level of the

problem from open data. Therefore, it is necessary **to organize operational statistics of the labor market and business environment** in such a way that it allows you to see the undistorted real picture. In the event of a second wave of morbidity and the need to return to quarantine restrictions, it is important that government support be targeted at the sectors most affected in order to keep the labor market from mass layoffs. This requires quality data, which is currently lacking.

***Helping SMEs - both employers and the self-employed.*** Resumption of SME business should include the following steps:

- exempt business entities that do not dismiss employees from payment of SSC and personal income tax until the end of quarantine. So the business will not optimize the work at the expense of staff;

- provide information support to small businesses about the measures taken, assistance from the state;

- introduce vacations or deferred payment of taxes for individual entrepreneurs with income below a certain level. The specific level should be determined by the State Tax Service by analyzing the data of IE reports for previous periods.

***Growing trust in the state.*** Own funds or support from affiliated companies will be the main source of SME recovery after

quarantine. Only a small part of enterprises plan to use a bank loan. There are several reasons for this: lack of sufficient information, complexity of procedures, high percentage of refusals to provide loans. Therefore, it is worth using credit instruments that are more individual. In particular, the "5-7-9" program can be reconfigured to provide overdrafts and credit lines to small businesses that will face liquidity gaps, as well as to finance credit vacations on interest payments for those who already have credit.

***Interaction of authorities at the national and local levels.*** According to official statistics, quarantine did not significantly affect the level of employment. During the quarantine period, 444 thousand people received the status of unemployed, which is only 2.7% of the employed population. But these statistics do not take into account the quantitative indicators of hidden unemployment and the shadow sector - most of those are less well-off people who do not have an "airbag" in case of dismissal. Territorially, the highest unemployment rate was recorded in Dnipropetrovsk, Kharkiv, Lviv and Vinnytsia regions. Therefore, it is necessary to clearly guide the mechanisms of business support in future. If the coronary crisis continues, it is necessary to continue to use mechanisms that would help businesses not to lay off employees and continue to pay them part of the salary, but you need to understand the limit beyond which temporary anti-

crisis support ends and starts keeping (at the expense of taxpayers) afloat companies unable to recover, and retain people who could become productive in other areas. Therefore, clear targeting will be important here<sup>26</sup>.

Businesses that optimize payroll taxes will find it easiest to limit their labor costs by not paying salaries, "envelope bonuses" and layoffs. Therefore, the key emphasis should be made on supporting these workers through the employment service and the social protection system.

***Reducing the level of hidden unemployment and shadow employment.*** Hidden unemployment and shadow employment can be a time bomb. These people are in a "suspended" state. In the near future, they may return to full-fledged work or be fired, depending on the economic situation. Therefore, this part of the labor market should be included in the data analysis in order not to underestimate the scale of the problems.

***Labor migration*** will be an important factor for Ukraine in the near future. Although its effects have so far been largely beneficial to migrants and the Ukrainian economy, this may change in the long run if emigration begins to harm price competitiveness, the investment climate and public finances. Therefore, labor migration must be taken into account when analyzing statistics,

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<sup>26</sup> What was the situation on the labor market during quarantine and is there a recovery?: <https://ces.org.ua/wp-content/uploads/2020/07/>

it must be part of the strategic planning of Ukraine's policy. As there are no short-term tools to halt the current outflow, Ukraine should try to adapt to net emigration and take advantage of it, mitigating the negative effects it causes.

***Social dialogue must receive a new impetus.*** World experience shows that social dialogue is a tried and tested effective tool for regulating social and labor relations, solving a wide range of socio-economic problems. Ukraine needs to ensure transparent communication in the state-business-people triangle and move towards constructive social dialogue, especially at the sectoral and local levels, resolve issues of employment, social partnership and social protection, working conditions and gender equality.

***New approaches to business process planning.*** The coronavirus has created a new reality in which we will now live and work. The business culture of 2019 was based on cases and

status. Now the source base is not only experience, but also adaptability, the ability to quickly make the right decision in the new conditions of uncertainty. Flexibility and willingness to change is an important feature of modern business success.

***Adhering to the rules of work organization during quarantine is a task for both employers and employees.***

Labor safety and health measures are individual for each enterprise and should be developed on the basis of risk assessment. Each company can play an important role in controlling the outbreak by taking measures to combat the spread of coronavirus.

Timely prevention and compliance by both employers and employees can reduce lost working days due to illness and stop or slow the spread of COVID-19 if it enters one of the workplaces.