

Restoration of the Country Through Support of Entrepreneurship

Olena Lesnaya (PhD in State Administration, Associate Professor, Educational and Scientific Institute "Institute of Public Administration" of V.N. Karazin Kharkiv National University, Kharkiv, Ukraine)

*Corresponding author: Olena Lesnaya

Received: November 23, 2022

Published: December 30, 2022

Abstract. The article examines Ukraine's economic losses from the war with the terrorist country Russia at the national level and in the regions, it is determined that one of the levers of economic development can be the entrepreneurial initiative of citizens, support of small and medium-sized enterprises, changes in the functioning of private entrepreneurship, problems and the current state are considered.

Ways of reconstruction using tax levers are proposed. The main proposals include a tax amnesty for the occupied territories, tax benefits and an interest-free loan for the restoration of fixed capital.

Keywords: war, economic losses, development, recovery, entrepreneurship, taxes.

Introduction. War is a horror of any period of existence of civilization. Genocide and purposeful extermination of a people, liquidation of a nation is a crime against humanity. Almost a year has passed since the beginning of the war, and Russia, losing on the battlefield, strikes the civilian population, residential buildings, destroys cities, roads, bridges, destroys the production base, infrastructure, while the surviving population from the territories pursues a policy of extermination.

At that time, many people left for the west of the country and beyond. Many plan to stay, many wish to return home. But the border territories and those territories that were under occupation suffered immeasurably psychologically, physically, economically, and despite the longing and sadness for their native home, many people simply do not have it anymore, to return to these regions to live and raise children requires not only courage, but also the economic background.

At this time, many articles, speeches, international studies, channel telegrams are dedicated to the analysis of the current state and forecasts for the future, but the issue of solving the problems facing Ukraine does not lose its relevance.

The purpose of the study was to review the current situation regarding the destruction caused and to develop proposals for ways to improve the existing situation and restore it through the support of entrepreneurial activity.

Materials and methods. During the research, the methods of analysis and synthesis, analytical research and comparative analysis were used.

Results and discussion. The European Commission and the World Bank estimated the damage caused by Russia's war against Ukraine at 349 billion dollars, and this is as of June 1, 2022, not including the occupied territories, where it is practically impossible to conduct an analysis [4].

According to the assessment of the Kyiv School of Economics, the Ministry of Reintegration, the Ministry of Regional Development, as of August 8, 2022, the total amount of damage to the

infrastructure is 110.4 billion dollars (direct losses), and the need to restore the destroyed is 188 billion dollars, in just one week the amount of losses increased by 2.1 billion dollars, which tells us that this is not the end and the amount is not final. By August 8, the military of the aggressor countries captured, destroyed, and damaged 15.3 thousand high-rise buildings, 115.9 thousand private houses, 388 enterprises, 43.7 thousand units of agricultural machinery, 1991 shops, 511 administrative buildings, 106.1 thousand cars, 764 kindergartens, 934 medical facilities, 634 cultural buildings, 119 social sphere objects. The largest share of direct losses belongs to housing construction and infrastructure.

Indirect costs of industries amounted to 129.1 billion dollars as of August 8, industry was the most affected – 29.8 billion dollars, agro-industrial complex, and land resources – 23.4 billion dollars, infrastructure – 18.2 billion dollars [1].

Also, the fact that as of July 14, the Russian army struck 17,314 civilian objects and 300 military ones [3] is a vivid confirmation of the genocide against the Ukrainian people. Cases of violence and abuse of civilians have been recorded. According to various sources, more than 9 million people left Ukraine, almost 90% of them are women and children. Only on November 15, 2022, Russia launched 90 missiles over Ukraine, because of which enterprises, the power system, and residential buildings were affected.

Currently, due to the war in Ukraine, GDP is expected to fall by 35-40% by the end of the year. About 25% of the population will live in poverty by the end of 2022, and by the end of 2023, the impoverishment of the people is possible up to 55%, according to Arup Banerjee, Regional Director of the World Bank in Eastern Europe [3]. That is, this year every fourth, and next year – every second. Since the beginning of the war, 37% of Ukrainians have lost their jobs and have not found a new one, 67% of those who had a job before the war, 36% work full-time, 19% remotely or part-time, and only 6% have found a new job [6].

In 2023, the revenues of the state budget are expected to be 1.3 trillion UAH, and expenditures are expected to be 2.6 trillion UAH. which is twice as much as income, the deficit will amount to UAH 1.3 trillion and exceed more than 20% of GDP. Ukraine has reduced all budget plans and programs as much as possible, the most funds are directed to defense – UAH 1,141.1 billion, or 18.2% of GDP, and to liquidation of the consequences of armed aggression – UAH 35.5 billion. [7].

If considered in terms of percentages, 43% of budget expenditures are directed to the army and security, 17% to social programs, 12% to debt service, 7% to medicine, 6% to education and only 2% to reconstruction and reconstruction. And according to the plan, Ukraine only has enough for half, it is difficult to find such a complex budget currently. The president believes that Ukraine needs \$38 billion to cover the budget deficit in 2023. And it emphasizes the need for \$17 billion to begin rebuilding critical infrastructure, including schools, housing, and energy facilities [8].

For further analysis, we suggest looking at war losses by region (Table 1).

Table 1. War losses by region as of 11/15/2022 (created by the author based on [5]).

Region	Schools	Roads	Hospitals	Residential area
Kyiv region	167	1 402,3 km	122	7,451 MSM
Zhytomyr region	77	49,3 km	24	0,526 MSM
Chernihiv region	125	1512, 0 km	63	4,767 MSM
Sumy region	46	1 584,6 km	19	1,029 MSM
Poltava region	1	63 km	0	0,020 MSM
Dnipropetrovsk region	22	75 km	7	0,366 MSM
Kharkiv region	476	3 890,8 km	145	9,578 MSM
Luhansk region	160	2 959,4 km	20	12,021 MSM
Donetsk region	449	2 695,2 km	176	17,324 MSM
Zaporizhzhia region	83	3 872,3 km	32	0,960 MSM
Kherson region	82	3 941,0 km	51	0,504 MSM
Mykolayiv region	158	1 809,4 km	82	4,048 MSM
Odesa region	11	0,2 km	1	0,256 MSM
Kirovohrad region	5	0 km	0	0 MSM
Cherkasy region	14	0 km	1	0,011 MSM
Vinnitsia region	13	0 km	5	0,037 MSM
Khmelnyskyi region	1	0 km	0	0 MSM
Chernivtsi region	0	0 km	0	0 MSM
Ternopil region	0	0 km	0	0,074 MSM
Ivano-Frankivsk region	0	0 km	0	0 MSM
Zakarpattia region	0	0 km	0	0,027 MSM
Lviv region	0	0 km	0	0,026 MSM
Volyn region	1	0 km	0	0 MSM
Rivne region	2	0 km	0	0,006 MSM

Currently, Ukraine finds itself in extremely difficult conditions of the need to develop the economy and a shortage of resources. In these conditions, one of the points of support should be the Ukrainian economy, entrepreneurial initiative, and the desire to work for the welfare of the nation and each individual citizen, therefore the development of small and medium-sized businesses both at the national and regional levels is one of the important tasks that will contribute to the development

of the economy. reduction of unemployment, growth of production volumes, incomes, and taxes to budgets.

For this, it is necessary to consider the state of private entrepreneurship. The highest rate of enterprises that have completely ceased their activities is 63.9% – in the East of the country, on average in Ukraine it is 39.9%. Overall, 57.3% of enterprises in the West and 56.6% in the North reduced their activity volumes. In the central part and in the South of Ukraine, less than half of such enterprises are 44.9% and 46.9%, respectively [9].

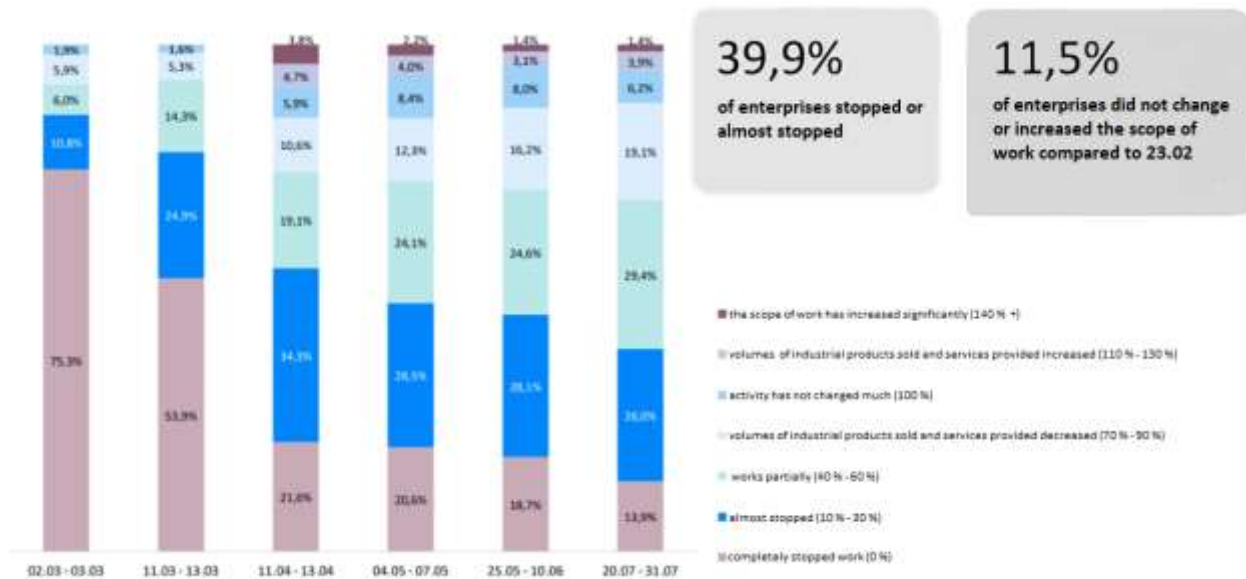


Fig. 1. The state of business compared to the period up to February 24, 2022 [9].

In general, as of February 24, 2022, Ukrainian business estimates the total losses at \$87 billion. More than half of enterprises in the Center of Ukraine (50.6%) and more than a third of enterprises in the West (38.9%) have insignificant losses. In the East of Ukraine, 8.2% of enterprises experienced the largest direct losses: from 1 million dollars to 5 million dollars, and 2.7% — more than 5 million dollars. [9].

The necessary amount of financing for the restoration of production and adjustment of business processes for most enterprises varies from 30 to 300 thousand dollars. However, there are enterprises that need more than 10 million dollars financial aid: 1.5% in the East, 1.3% in the South, 0.9% in the North, and 0.8% in the West [9].

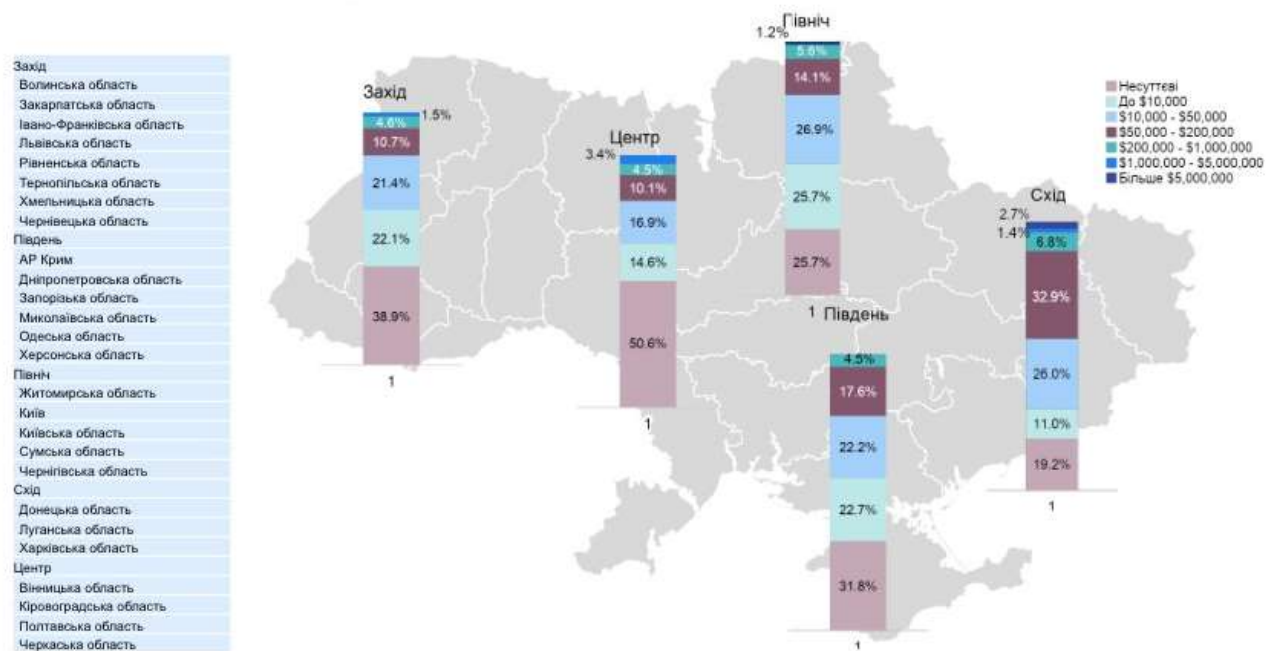


Fig. 2. Assessment of direct business losses from February 24, 2022 [9].

The main obstacles to business development in 2022 were:

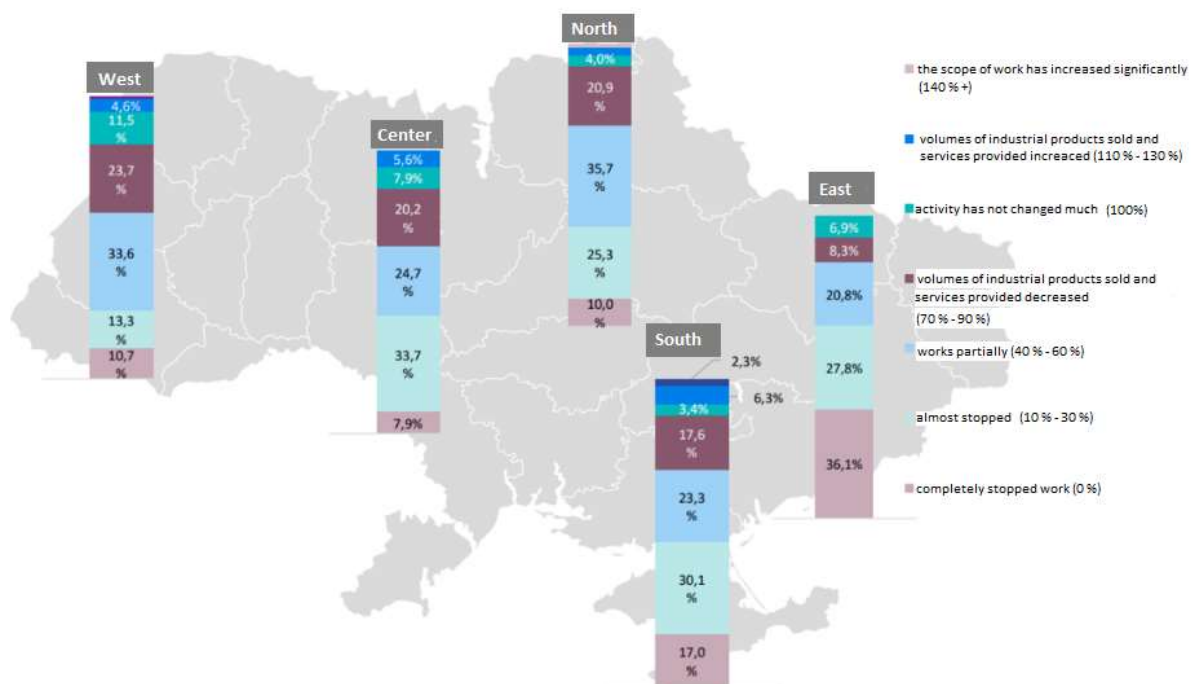
- lack of a sufficient number of solvent customers on the domestic market – 62%;
- unpredictability of the development of the situation in Ukraine and the domestic market – 48%;
- lack of sufficient capital – 43%;
- unforeseen actions of the state that can worsen the state of business – 29%;
- unavailability of credit funds, including – the 5-7-9 program, loans at 0%, etc. – 28%;
- destruction of supply chains – 26%;
- inefficient, long, and expensive logistics – 23% [10].

That is, the need for financing does not lose its relevance and is the main one.

Currently, there are many business support projects operating in Ukraine, they are discussed in detail in the study "Analysis of the current state and development of new proposals for creating favorable conditions for entrepreneurship in Ukraine." They include:

- Compensation for employment of IDPs 6500 UAH. monthly for each employed person during the war and one month after its end.
- The program for the relocation of Ukrainian productions aids in choosing a place of relocation, transportation, placement, and restoration of logistics.
- e-Robota – government grant program for business support;
- lending at 0% within the framework of the "5-7-9" program;
- financial support of veteran businesses;

- USAID program "Competitive Economy of Ukraine";
- "EU4Business: competitiveness and internationalization of SMEs";
- the program for expanding women's entrepreneurship opportunities of the Estonian Council for Refugees, the Zaporizhia Charitable Fund "Unity for the Future" and Garage48;
- the GURT resource center provides mini-grants to entrepreneurs who provide critical needs of the population of Ukraine and employment of IDPs;
- "RE: start. A safe space for your business";
- "TERRA. Course for sustainable development";
- "Business support during the war and in the post-war period."



West	Center	North	South	East
Volyn region	Vinnitsia region	Zhytomyr region	Crimea	Donetsk region
Transcarpathian region	Kirovohrad region	Kyiv	Dnipropetrovsk region	Luhansk region
Ivano-Frankivsk region	Poltava region	Kyiv region	Zaporizhzhia region	Kharkiv region
Lviv region	Cherkasy region	Sumy region	Mykolaiv region	
Rivne region		Chernihiv region	Odesa region	
Ternopil region			Kherson region	
Khmelnitsky region				
Chernivtsi region				

Fig.3. Business need for financing [9].

But, in our opinion, there is little advertising of these programs, with an explanation of the conditions and requirements for obtaining funding, it is necessary to promote the popularization and

accessibility of these programs. It is necessary to create a single online platform, which will provide information about existing projects and programs both throughout Ukraine and territorially.

It is expedient to improve regional programs for supporting small and medium-sized enterprises, considering the realities and modern needs of each region, to work out the measures necessary to be carried out on the ground, the most relevant and promising directions for development, to determine those territories, production capacities that can be transferred for use by private enterprises.

At this time in Ukraine, a lot of damage was caused by shelling, destroyed, and damaged buildings, it is possible, as a measure to support and promote the development of entrepreneurship, to develop and implement a program aimed at financing and restoring damaged capital property. Its essence is to provide the entrepreneur with benefits in the payment of income tax on the amount spent on the restoration of production facilities, repair and reconstruction of the premises, and investments in fixed capital, if there is documentation confirming the money spent in these areas. When the enterprise starts working after restoration, the amount of income tax is reduced by the amount spent in the estimate documentation for repairs, and the entrepreneur begins to pay income tax to the budget after returning the money spent on repairs from the profits received. For a small and medium-sized entrepreneur, this may take a certain period, several months, and for them the tax payment will begin after the reimbursement of the spent funds.

Under these conditions the budget will not receive a certain amount of funds, but if these entrepreneurs do not start working, it will not receive them anyway, and the proposed approach will provide an opportunity to quickly update, repair, launch and create new jobs. In the conditions of small and medium-sized businesses, these may be small amounts, but they will contribute to the faster recovery of the country, and can become an important argument for investing own or borrowed funds in reconstruction.

At the same time, it is necessary to develop a mechanism for providing interest-free loans for the renewal of fixed capital. This will contribute to the reintegration of the occupied territories, the restoration of those where hostilities took place and those representatives of entrepreneurship that suffered because of the war. The possibility of technological renewal of fixed capital and the development of production on a new, higher technological base do not lose their relevance. It is even possible to introduce the provision of loans under the scheme minus a certain percentage. When one amount is taken, and after investing, and starting work, putting the fixed capital into operation, (or even starting to receive profits, or after a year - the deferral mechanism is established for each individual direction, depending on the industry), the return of the loan begins, but for a smaller amount than received. How much less can be determined as a percentage depending on the industry

or territory, or the percentage of damage to the enterprise. That is, we have a scheme minus 10% or 20% or more from the original number of returns to the borrower's institution.

An important measure is the introduction of a tax amnesty in the form of a full write-off of debts in the territories that were under occupation for the entire time of occupation, amnesties to be granted according to the territorial affiliation of the location, and to extend their effect for three months after the liberation of the territories. We believe that this time should be enough for demining, restoration of infrastructure, work of state services and recovery of small and medium-sized enterprises.

It is possible to introduce support for small and medium-sized enterprises in the form of assistance through regional mutual guarantee societies, which are created with certain contributions from the regional budget, voluntary contributions of participants, other sources of funding are possible. The purpose of the activity will be guaranteeing loans for participants when receiving loans for specific business projects, carrying out an expert assessment of these projects for their viability, level of their profitability, consulting implementation support, which guarantees the effectiveness of project implementation. The functioning of such institutions will play a significant role in solving the problem of financial and credit provision of business entities, will increase their chances of obtaining assets without attracting budget funds.

Now it is difficult for private entrepreneurship to access material means of labor, to solve this problem it is possible to develop programs for co-financing leasing payments. It can be effective to create regional leasing institutions in each region with the aim of providing long-term use of machines, equipment, and mechanisms for the reconstruction and renewal of production capacities. This will contribute to the restoration of fixed capital and faster repair of damaged equipment, restoration of production areas and reconstruction of damaged ones. At the regional level, it is better to see which areas of activity are useful for the region to develop, what can be done effectively using leasing forms of lending, where to direct aid. For the development of the region, the expansion of the leasing of production equipment will be useful to attract foreign leasing companies to work in the region, acting as a guarantor when concluding contracts and introducing the practice of reimbursing part of the interest on leasing equipment from the budget. It will be effective to attract international technical assistance, to co-finance the creation of such an organization, or on a case-by-case basis, as a source of additional funds for a leasing agreement.

The experience of the Kharkiv region is useful for the reconstruction and reintegration of entrepreneurship. As part of the Small and Medium Business Development Promotion Program, in accordance with the Procedure for the use of regional budget funds allocated for micro-crediting of small and medium-sized business entities, micro-loans were granted to business entities. They were provided on a reverse basis under the business plans of projects in the priority directions of the

development of small and medium-sized enterprises. Based on the results of the competition for the best project, several projects were selected, an interest-free loan was granted, an analysis of the implementation of business projects, the targeted use of funds and monitoring of loan repayment was carried out. Further application of this practice will be useful for the regions and the country.

Conclusions. Existing programs and grant contests are measures to support entrepreneurship with "manual control" that are effective, but they will not be enough for everyone. And the creation of publicly available opportunities and equal conditions, which can be used by all who wish, in our opinion, will be more effective in the conditions of development and recovery. This approach can be used for as long as the government deems necessary.

Funding. The author state, that there was no funding from any state or private agencies for this study.

References.

1. The total amount of direct documented damage to infrastructure is \$110.4 billion, the minimum needs for the restoration of destroyed assets have increased to \$188 billion. August 10, 2022. *Kyiv School of Economics (KSE). Official website.* URL: <https://kse.ua/ua/about-the-school/news/zagalna-suma-pryamih-zadokumentovanih-zbitkiv-infrastrukturi-skladaye-110-4-mlrd-minimalni-potrebi-u-vidnovlenni-zruynovanih-aktiviv-zrosli-do-188-mlrd/#:~:text=%D0%B4%D0%BE%20%24188%20%D0%BC%D0%BB>.
2. Ihor Pylypiv. Due to the war, the level of poverty in Ukraine increased tenfold - World Bank. October 16, 2022. *Analytical Internet portal "Ekonomichna Pravda".* URL: <https://www.epravda.com.ua/news/2022/10/16/692679/>.
3. Lototska N.Z. since the beginning of the war, the Russians have struck more than 17,000 civilian objects, 300 military ones. *LB.UA.* URL: https://lb.ua/society/2022/07/15/523225_z_pochatku_viyini_rosiyani_zavdali_ponad.html.
4. Novikov V. The World Bank assessed the damage caused by the war in Ukraine. What it means? *Analytical Internet portal "Ekonomichna Pravda".* URL: <https://www.epravda.com.ua/rus/columns/2022/09/16/691558/>.
5. Ukraine recovery plan. Map of destruction. Official website. URL: <https://recovery.gov.ua>.
6. More than a third of Ukrainians lost their jobs after the start of the war – poll by Vitaly Sayenko. *Unian Information Bureau.* URL: <https://www.unian.ua/economics/other/bilshe-tretini-ukrajinciv-vtratili-robotu-pislya-pochatku-povnomasshtabnoji-viyini-12000855.html>.
7. The Verkovna Rada of Ukraine adopted the state budget for 2023. *Ukrinform.* URL: <https://www.ukrinform.ua/rubric-economy/3606924-rada-uhvalila-derzavnij-budzet-na-2023-rik.html>.

8. The level of poverty in Ukraine has increased tenfold since the beginning of the full-scale war - the World Bank. *Information portal 5UA*. URL: <https://www.5.ua/ekonomika/riven-bidnosti-v-ukraini-vid-pochatku-povnomasshtabnoi-viiny-zris-udesiatero-svitovyi-bank-290242.html>.
9. State and needs of business in Ukraine: regional trends, summer 2022. *Information web resource "Decentralization gives opportunities"*. URL: <https://decentralization.gov.ua/news/15408>.
10. Ukrainian business in the conditions of war: analysis of the situation for five months. *Diia Business. Official website*. URL: <https://business.diia.gov.ua/cases/novini/ukrainskij-biznes-v-umovah-vijni-analitika-stanu-za-pat-misaciv>.