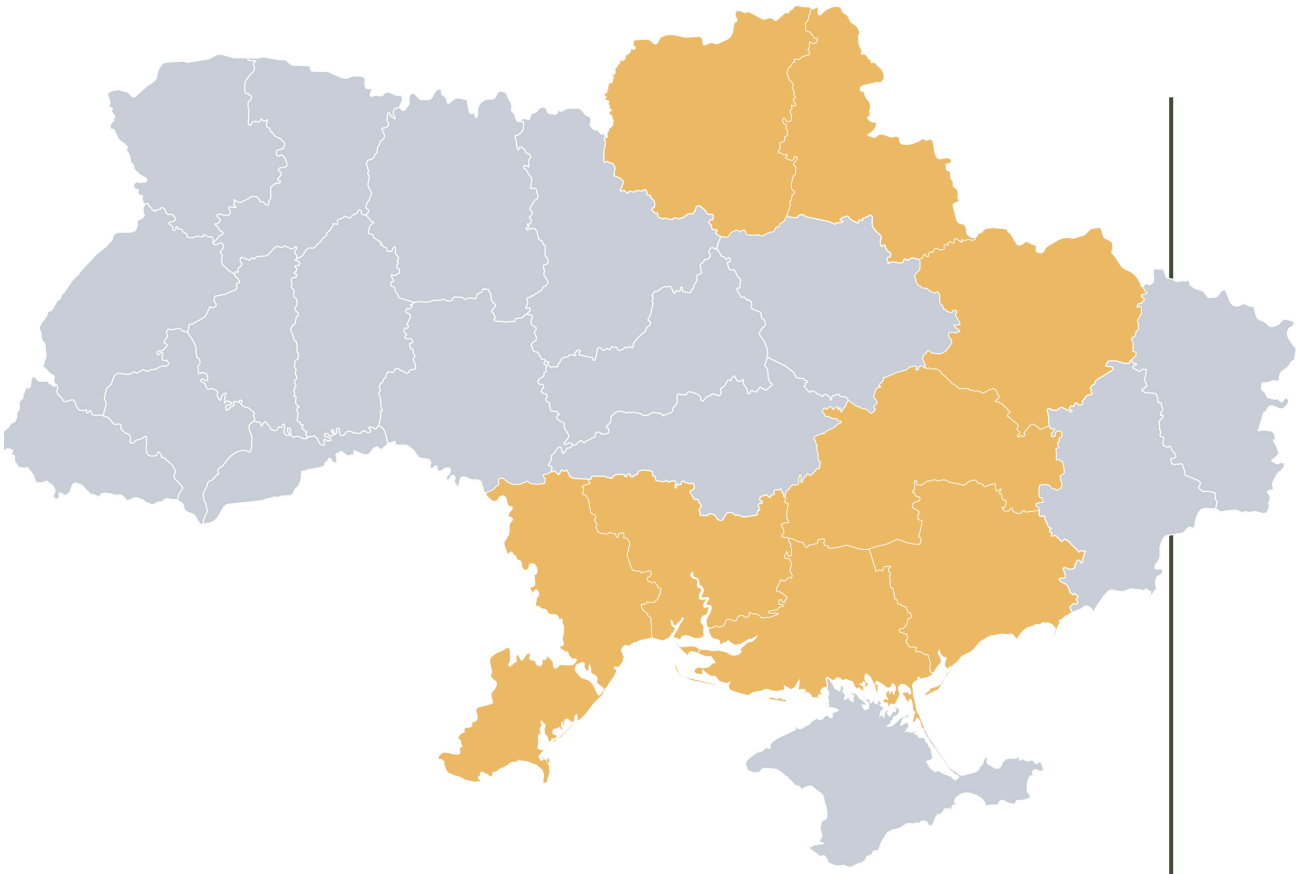
European Business Association

PROPOSALS

ON SUPPORTING BUSINESS IN FRONTLINE REGIONS



FRONTLINE REGIONS

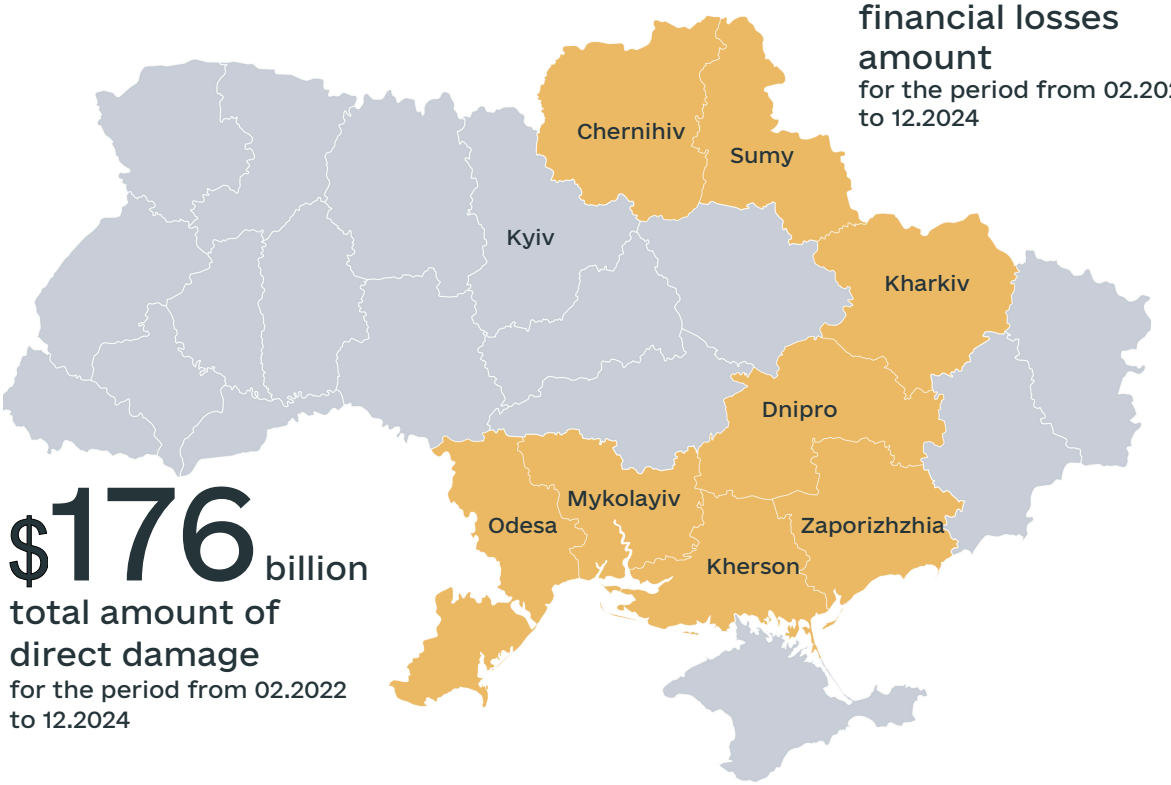
FRONTLINE REGIONS

According to the Fourth Rapid Damage and Needs Assessment (RDNA4), conducted by the World Bank Group, the Government of Ukraine, the European Commission, and the United Nations for the period from February 2022 to December 2024, the total amount of direct damage to buildings and infrastructure across various sectors is estimated at approximately $176 billion. The most severe destruction has occurred in the frontline regions.

The combined economic, social, and other financial losses amount to around $589 billion.

The largest losses are in trade and industry (approximately 36% of total damages), followed by agriculture, energy, extractive industries, and logistics.

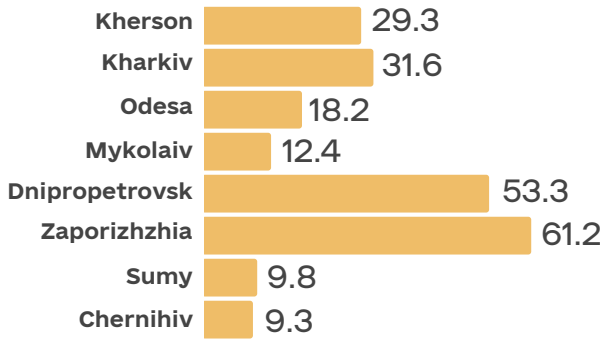
$589 billion
combined economic, social, and other financial losses amount
for the period from 02.2022 to 12.2024



$176 billion
total amount of direct damage
for the period from 02.2022 to 12.2024

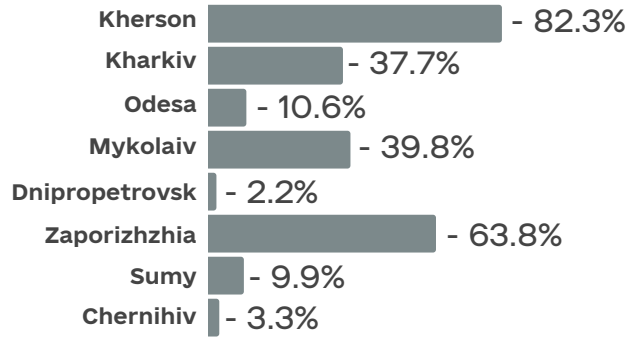
However, the actual amount, that would cover the cost of recovery and compensation, exceeds trillions of dollars.

Total esimate of losses by region, billion USD



Source: Fourth Rapid Damage and Needs Assessment (RDNA4)

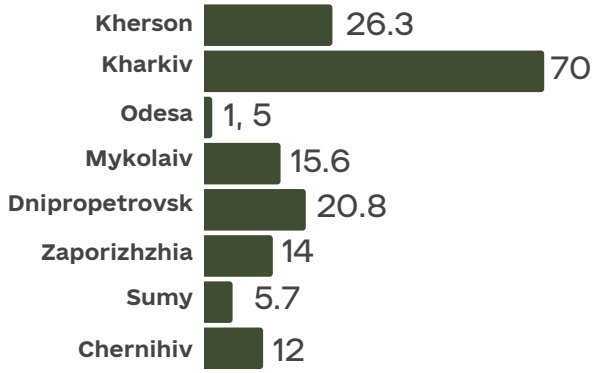
Change in the population of Ukrainian regions in 2024 compared to 2019, %



Source: Centre for Economic Strategy

The full-scale war has caused significant migration, both internal and external. Many people have been forced to relocate to regions less affected by active hostilities, which may lead to a rise in unemployment and social issues due to the lack of adequate living, educational, and employment conditions.

The number of facilities destroyed or damaged due to hostilities, thousand



Source: Various informational resources, Regional Military Administrations

The operation of Ukraine's ports during the war



Source: KSE Report on Direct Infrastructure Losses

The invasion has caused extensive damage to residential buildings and industrial facilities. The primary destruction of industrial sites occurred in the southeastern frontline regions of Ukraine, particularly in Kharkiv, Kherson, and Dnipropetrovsk regions, as well as across the rest of the country due to regular missile attacks.

Port areas have suffered significant losses. As of early 2024, direct losses to Ukraine's port infrastructure due to the war are estimated at USD 0.85 billion, including the destruction of seaports and inland water transport facilities.

RECOMMENDATIONS

FOR PRIORITY SUPPORT TO FRONTLINE REGIONS, BUSINESS ENVIRONMENT STABILISATION, AND RECOVERY CONDITIONS

FOR CENTRAL GOVERNMENT

WAR RISK INSURANCE

Establishing Compensation Mechanisms for Military Risks for Domestic and Foreign Investors

Solution

Amend the Terms and Procedures for Insurance (Reinsurance) of War and Political Risks in the Course of Activities of the Export Credit Agency, approved by the Resolution of the Cabinet of Ministers of Ukraine No. 388 dated April 9, 2024 (hereinafter – Terms), so that they apply to the investment objects located in the frontline territories under Ukrainian control. These territories must be included, at the time of concluding the investment insurance agreement, in the List of Territories Where Hostilities Are (or Were) Taking Place or That Are Temporarily Occupied by the Russian Federation, approved by the Order of the Ministry of National Unity of Ukraine No. 309 dated December 22, 2022 (hereinafter – List of Territories). Under the current version of the Terms, such investment objects are not eligible for investment insurance, which results in a lack of investments due to high risks.

TAX POLICY

Reduction of the military tax to 1.5% for frontline regions

Solution:

Amend subparagraph 1.3 of paragraph 16^1, subsection 10, section XX of the Tax Code of Ukraine to establish a military tax rate of 1.5% for the frontline territories under Ukrainian control (including territories where hostilities are or were taking place, according to the List of Territories).

FOR CENTRAL GOVERNMENT

TAX POLICY *(continuation)*

Reduction of the unified social contribution (USC) to 10% for employers in frontline regions

Solution:

Amend Article 8 of the Law of Ukraine "On the Collection and Accounting of the Unified Social Contribution for Mandatory State Social Insurance" No. 2464-VI dated July 8, 2010, to set a 10% USC rate for taxpayers conducting business activities in the frontline territories under Ukrainian control (including territories where hostilities are or were taking place, according to the List of Territories).

Temporary suspension of the automatic blocking mechanism for tax invoices in combat zones, war-affected areas, de-occupied zones, and up to 70 km from the frontline

A separate procedure for verifying and unblocking invoices for businesses operating under martial law with minimal time delays should be implemented. Accountability should be established for the State Tax Service of Ukraine for unjustified blocking of tax invoices and setting clear deadlines for their review and unblocking. Automating the unblocking process through transparent algorithms would help eliminate human influence in decision-making.

Introduction of a zero tax rate on land and real estate for at least one financial year, plus an additional six months (to ensure clear tax planning) **in the frontline territories under Ukrainian control** (including territories where hostilities are or were taking place, according to the List of Territories).

FOR CENTRAL GOVERNMENT

LOGISTICS

Direct compensation for logistics costs.

Solution:

Introduce a reimbursement mechanism for part of the transportation costs for businesses operating in Kharkiv Region and other frontline regions that transport goods to other regions of Ukraine or abroad. Provide compensation for enterprises involved in the logistics of humanitarian or critical goods.

Tax incentives for transport companies in frontline areas.

Solution:

Establish a reduced corporate tax rate or temporary exemption for transport companies servicing areas of active or potential hostilities. Introduce tax benefits for businesses engaged in the creation or modernisation of logistics warehouses and hubs in the frontline areas.

Infrastructure support for frontline regions.

Solution:

Modernise logistics infrastructure to reduce transportation costs. Develop state or public-private logistics hubs with favourable rental conditions for businesses.

FOR CENTRAL GOVERNMENT

LOGISTICS *(continuation)*

Tariff benefits for transportation.

Solution:

Provide railway tariff discounts for transporting goods from areas of active or potential hostilities, such as Kharkiv Region, to ports or other regions of Ukraine. Establish fixed logistics service rates for key transport routes from these regions.

Special economic conditions for logistics.

Solution:

Introduce a special insurance regime for transport operations in the frontline areas, with partial compensation of insurance premiums by the state. Launch a state programme for shared use of transport vehicles by small and medium-sized enterprises that cannot independently secure logistics.

MOBILISATION

Ensure transparent and predictable mobilisation measures that account for labour shortages, including clear employee reservation rules for businesses operating in frontline regions. Simplify business-related travel abroad for entrepreneurs with guaranteed return conditions. Consider increasing the quota for reserving conscripted employees to 100% for critically important enterprises in the frontline regions.

FOR CENTRAL GOVERNMENT

MOBILISATION *(continuation)*

Solution:

Amend paragraph 8 of the Procedure for Reserving Conscripts during Mobilisation and Martial Law, approved by Cabinet of Ministers Resolution No. 76 of 27 January 2023, to increase the reservation quota to 100% of the total number of conscripted employees in critically important enterprises in the frontline regions.

DEMINING

Simplify procedures for companies engaged in humanitarian demining and develop a centralised compensation programme for related costs. Provide training for demining specialists.

INFRASTRUCTURE

Provide state support for the construction of shelters at enterprises in the frontline regions.

FINANCING AND CREDIT

Increase in the scope of the "Affordable Loans 5-7-9%" programme, expanding its potential for large enterprises, particularly increasing the credit limit and repayment terms for manufacturing companies in the frontline regions.

FOR CENTRAL GOVERNMENT

FINANCING AND CREDIT *(continuation)*

The need for grant programmes to support businesses in the frontline regions, as many international donors do not provide funding to companies located less than 70-100 km from the frontline, and banks do not offer financing due to high risks. Development of preferential credit programmes for the frontline regions.

Solution:

If necessary, make the required amendments to the Cabinet of Ministers of Ukraine Resolution "On Providing State Financial Support" No. 28 of 24 January 2020.

Preferential lending for the restoration of damaged property in frontline regions.

Restructuring of loans for agribusinesses located in frontline regions for 3-7 years.

Reformatting of the e-Work programme:
Prioritise preserving existing jobs rather than creating new ones. Increase the maximum grant amounts threefold. Provide repeat grant funding.

Legislative reinforcement of the ban on seizing collateral from debtors – critical large enterprises involved in reconstruction in the frontline regions.

FOR CENTRAL GOVERNMENT

BUSINESS SUPPORT

Support and promotion of local producers operating in the frontline regions, with state orders for enterprises involved in reconstruction and those addressing humanitarian needs.

Priority supply of products from local producers in the frontline regions to the Armed Forces of Ukraine.

Encouragement of exports and participation of local businesses from the frontline regions in trade missions/exhibitions/fairs.

Support for the development of entrepreneurship among veterans of hostilities and internally displaced persons (IDPs).

Differentiation of alerts (businesses should be able to operate when there is no immediate danger).

EDUCATION

Review the shelter requirements and implement a differentiated approach.



Solution:

Establish varying safety requirements based on the region and actual threat levels, rather than applying uniform strict standards to all educational institutions. Allow the use of alternative shelters (e.g., basements of residential buildings, shelters in state institutions, underground parking) if they meet basic safety standards. Implement a gradual transition period for compliance, giving private institutions the opportunity to adapt their premises without the risk of losing their licence.

FOR CENTRAL GOVERNMENT

EDUCATION *(continuation)*

Simplification of requirements and access to financial support.

Solution:

Amend building regulations to allow the use of adapted shelter options that provide real protection but do not require huge investments. Enable private institutions to receive state or international grants for shelter arrangements and benefit from tax incentives for their installation.

Establish a simplified approval process for shelters in private schools that comply with adapted standards.

Provide educational institutions with the right to choose the learning format: blended or offline education, depending on the availability of shelters and the security situation in the region. Introduce a flexible monitoring model for compliance with standards to avoid mass closures of educational institutions. Develop a mechanism for cooperation between private institutions and local authorities for quick agreement on safety issues.

CREATION OF SPECIAL ECONOMIC ZONES (SEZS) IN FRONTLINE REGIONS

Attracting investments:
Hold international investment forums focused on SEZ opportunities, highlighting attractive conditions for investors. Implement investment protection guarantees for companies starting operations in the frontline regions.

Provide tax incentives for employers creating new jobs for local residents in SEZs.

FOR CENTRAL GOVERNMENT

ENCOURAGING THE RETURN OF ECONOMICALLY ACTIVE POPULATIONS

Introduce affordable housing programmes for workers in SEZs, including the possibility of compensating part of the costs for renting or purchasing housing. The construction of new housing as a key tool for retaining the workforce in the frontline areas should be supplemented by a programme for purchasing existing housing on the secondary market. This could become an effective way to quickly address the issue of attracting and retaining staff in these regions. It is proposed to extend these programmes not only to IDPs but also to all internal labour migrants without their own housing, but restrict such programmes to the regions of Chernihiv, Sumy, Kharkiv, Donetsk, Luhansk, Dnipropetrovsk, Zaporizhzhia, Kherson, and Mykolaiv.

Continuation of self-employment programmes for veterans and IDPs.

Develop retraining programmes and encourage women's professional engagement, including reviewing the possibility of changing the approach to restrictions on women's work in industry (particularly mining), as defined by part 1 of article 174 of the Labour Code of Ukraine, article 10 of the Law of Ukraine “On Labour Protection” No. 2694-XII of 14 October 1992, and the Ministry of Health's Order “On the Approval of the List of Hard Work and Work with Hazardous and Dangerous Working Conditions for Which the Employment of Women is Prohibited” No. 256 of 29 December 1993, taking into account the Ministry of Health's Order “On the Approval of Maximum Lifting and Moving of Heavy Items by Women” No. 241 of 10 December 1993.

FOR LOCAL AUTHORITIES

Simplify the process of obtaining approvals the process of obtaining for private businesses regarding the construction of shelters in the frontline regions.

Support local initiatives for infrastructure recovery (roads, bridges, energy networks) in the frontline regions.

Create conditions for the operation of private educational institutions and address the issue of offline education in the frontline regions.

Communicate with businesses regarding priority issues and their resolution.

FOR DONORS, INTERNATIONAL ORGANISATIONS, AND GOVERNMENTS

Expand grant programmes for businesses in the frontline regions.

Ensure access to financing for large enterprises, not just small and medium-sized businesses.

Develop compensation programmes for the costs of setting up shelters in frontline regions.

Organise grants to finance demining efforts.

Provide targeted grants for the frontline enterprises to compensate for transportation costs of delivering goods to other regions or countries.

FOR BANKS

Ensure loan restructuring for businesses in the frontline regions.

Ban the seizure of collateral from businesses in the frontline regions.

Relax the requirements for risky businesses when granting loans in the frontline regions.

Introduce preferential loans for transport companies operating in the frontline regions to purchase new vehicles or modernise equipment.

Provide long-term loans at minimal rates for the restoration of production capacities in the frontline regions.

GLOSSARY
OF USED TERMS

FRONTLINE TERRITORIES

Administrative regions that include frontline territories and/or territories where active hostilities were conducted (excluding Kyiv region). They include: Chernihiv, Sumy, Kharkiv, Dnipro, Zaporizhzhia, Kherson, Mykolaiv, and Odesa regions.

FRONTLINE REGIONS

Administrative regions that include frontline territories and/or territories where active hostilities were conducted (excluding Kyiv region). They include: Chernihiv, Sumy, Kharkiv, Dnipropetrovsk, Zaporizhzhia, Kherson, Mykolaiv, and Odesa regions.

WAR RISK INSURANCE

Insurance instruments covering losses or damages caused by war, applicable to investments in territories under Ukrainian control.

UNIFIED SOCIAL CONTRIBUTION (USC)

Mandatory employer-paid contribution to Ukraine’s state social insurance system; proposed for reduction in frontline regions.

SPECIAL ECONOMIC ZONES (SEZS)

Designated areas with preferential legal, tax, and administrative regimes aimed at stimulating economic recovery and investment.

AFFORDABLE LOANS 5-7-9%

A national programme offering preferential loans to Ukrainian businesses, suggested for expansion in frontline regions by increasing limits and eligibility.

TAX INCENTIVES

Relief measures such as reductions or exemptions from land, property, and income taxes to support recovery in affected regions.

INFRASTRUCTURE SUPPORT

State or donor investment into critical logistics, transport, and utility systems to ensure economic resilience in frontline regions.

THANK YOU FOR YOUR CONTRIBUTION TO THE CREATION OF THIS DOCUMENT

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