

NEWSLETTER

INTERNATIONAL

 ENGLISH VERSION

UKRAINE



RECONSTRUCTION OF UKRAINE: FREQUENTLY ASKED QUESTIONS



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WAR AND RECONSTRUCTION IN UKRAINE – FAQs

The Russian invasion into Ukraine has caused significant economic damage to the country. Important industrial centers have been occupied by Russia, and many residents have fled abroad.

However, there is hope for a rapid recovery in the post-war period due to substantial international reconstruction aid commitments. The reconstruction of infrastructure and housing requires significant investments, with financing seemingly secured through pledges from the European Union and the United States. The reconstruction will trigger enormous demand for construction materials, services, and capital goods of all kinds.

It is also expected that Ukraine will leverage its significant potential in the services and outsourcing sectors, particularly, in areas such as IT or shared services for functions such as finance and administration. The future close integration with the European Union will further facilitate business activities.

Despite the current complicated situation, many international companies are already strategically preparing for the post-war period by assessing local market potential and making the necessary arrangements to establish subsidiaries.

The CT Executive Search and Henniger Winkelmann Consulting Ukraine desk supports companies in analyzing investment potential and offering market entry solutions for the Ukrainian market. We receive many inquiries, particularly, from medium-sized enterprises. In this newsletter, we answer the most frequently asked questions.

CT UKRAINE DESK

Through its Ukraine desk, and in cooperation with HWC, CT Executive Search offers services such as:

- executive search
- recruitment of entry and mid level personnel
- market entry consulting
- business process outsourcing

We assist companies in establishing themselves effectively and successfully in Ukraine, leveraging our strong networks and up-to-date knowledge of political and legal conditions. With our local team and extensive project experience in Ukraine, we guarantee high-quality project execution even under current conditions.

“DON'T START WHEN EVERYONE ELSE STARTS”

How are your business operations in Ukraine currently running?

Surprisingly, our business is doing well despite the circumstances that suggest otherwise. Even in the year of war, we were able to acquire new customers. Some of them are involved in humanitarian tasks or specialize in working in crisis areas in one way or another due to the war. We have also gained IT customers engaged in software development. They are currently actively recruiting personnel.

Our existing customer base was already heavily focused on IT prior to the war and has largely remained in Ukraine, which has put us in a relatively good position. However, other industries such as renewable energy or goods distribution are struggling in Ukraine. Companies in these industries have often had to reduce their workforce, which has also affected our work load in the areas of accounting outsourcing and outstaffing.

To what extent is it currently possible to maintain 'normal' business operations in Ukraine?

Without wanting to downplay things, everyday life in many parts of Ukraine continues to be relatively normal, apart from the shelling. This is particularly true in Kyiv and western Ukraine. Of course, it is different in the occupied territories and areas close to the front line.

In the quieter regions, it is relatively safe, and companies are largely functioning normally. The curfew in Kyiv was shortened by one hour as of March 26, which is a positive sign. At this point, it's very easy to open a company in Kyiv and western Ukraine, and Ukrainian institutions actively promote this.

The impact of the war varies by region, and it depends heavily on the location, whether there is reliable electricity and water supply. For example, in Kherson, many things are still not functioning, and certain areas of the region are mined and need to be cleared before normal life can resume there.

In Kyiv and parts of western Ukraine, there are occasional drone attacks, some of which are successful. However, compared to last year, projectiles are now hitting targets only sporadically, and the shelling has become less intense. We had a power outage in our office only two or three weeks ago. Most companies now have generators, and we have one as well. It's not ideal, but it ensures the functionality of the office.

Logistics in Ukraine are running almost as usual. Train tickets are in high demand because there are no more domestic flights within Ukraine. Expats also often travel to Ukraine by train. Large companies have set up their own shuttle services for mail and goods.



Sven Henniger

is a partner at Henniger Winkelmann Consulting (HWC LLC), a Kyiv-based company specializing in accounting outsourcing and market entry consulting for Ukraine. Mr. Henniger has been working in Ukraine since 2008, and has successfully supported many renowned companies in their market entry efforts over the years. Mr. Henniger is an Associate Partner at the Ukraine Desk of CT Executive Search.

What is the current demand for foreign products like?

This is difficult to assess. In general, practically all products are available in stores today, just like before the war. However, there have been shortages of some goods, such as generators, for which new procurement channels had to be developed to meet the sudden demand. In general, everything has become more expensive but remains available.

Most international companies continue their business operations in Ukraine, especially, in the construction materials and automotive sectors. Companies whose Ukrainian plants manufacture goods for foreign markets are independent of local demand and their business operations are practically uninterrupted. There are also no significant impacts on the IT sector.

Companies whose Ukrainian locations in Donbas have been overrun by the war usually cannot continue their operations. In agriculture, actors are currently risk-averse and are postponing investments that may not be necessary.

In summary, it can be said that there is no blanket answer regarding the impact of the war and its implications for European businesses as a whole in Ukraine.

What opportunities arise from the upcoming reconstruction for foreign companies?

Each company knows best which foreign market is of interest to them. Even in times of peace, Ukraine could experience double-digit growth due to the enormous backlog of development. The war damage has multiplied this growth potential by a factor of X. Much will need to be rebuilt from scratch, and in some ways, the situation is comparable to the post-World War II era. We are already talking about 400 billion euros in reconstruction costs. In principle, any company can participate in the reconstruction. The reconstruction will not primarily be a question of costs, so Western European companies can also be involved. Therefore, companies must already consider how they want to position themselves for participation in the reconstruction. If a peace treaty is signed, then all companies will want to be in Ukraine. It will be difficult to obtain appointments, land, and licenses, as institutions and service providers will be at full capacity. Therefore, it is important to find the right timing for engagement in Ukraine. It could be today or tomorrow, but one should not start only when everyone else has already begun.

What steps should a company take to show its active interest in the Ukrainian market?

In my opinion, companies should proceed cautiously, and step by step. Although the country has a lot of potential, it is important to keep the big picture in mind and not get overwhelmed. A central question is whether the company's products or services are relevant to Ukraine and fit into the reconstruction efforts. If so, the company should consider the appropriate strategy. This strategy will, of course, depend on the products and services to be marketed. Companies involved in

construction materials, for example, may consider local production more quickly than companies that could import their goods over longer distances. A phased approach involving import, local presence, and possibly local production is always advisable. The transition to each new stage should always be thoroughly evaluated and carefully decided.

How attractive is Ukraine from a legal and tax perspective?

The tax burden in Ukraine is lower than in most Western European countries, but administrative overhead is higher. Therefore, careful planning is essential. It should also be noted that the Ukrainian mentality is different from that of other European regions. Companies should be aware of the issue of corruption and adhere to their compliance standards.

INTERVIEW

"PREPARING FOR THE POST-WAR ERA"

What is the current situation on the Ukrainian job market?

Since the Russian attack in February of last year, the Ukrainian job market has also been in turmoil. One of the factors is the migration triggered by the war. On one hand, many men have returned who were working as labor migrants in Poland before the war. At the same time, millions of women and children have fled from Ukraine, mainly to Poland, Germany, and various countries in East Central Europe. The latter sometimes continue to work remotely for their employers, wherever possible, but their departure still has an impact on companies' operations.

Men of conscription age who remain in the country are usually not allowed to leave Ukraine. Departure is only possible in exceptional cases, for short periods of time, with significant reasons. The standards are strict, and companies whose employees do not return face significant penalties. Conscriptions do indeed affect the business activities of companies in Ukraine. So far, production companies have been more affected by conscriptions than IT companies or management consultancies. Men who have already served are preferred in terms of conscription. It is currently difficult to estimate how things will develop further in this regard.

What's the status quo regarding unemployment and remuneration?

Due to the overall difficult situation during the war year, many local and international companies have had to scale back their activities, which has caused significant disruptions on the Ukrainian job market. According to an estimate by the Ukrainian Ministry of Economy, the number of unemployed at the beginning of 2023 was 2 million, with refugees abroad and people in occupied areas not



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taken into account. The National Bank of Ukraine (NBU) reported an average unemployment rate of 25.8 percent for 2022, according to a report by GTAI. In the year before the outbreak of the war, unemployment was still at 9.8 percent.

The longer the war lasts, the better integrated the Ukrainians who have fled abroad become in their host countries. It remains to be seen how many of them will be interested in returning to Ukraine after the end of the war. Younger and better-educated individuals are likely to see their future outside of Ukraine.

Given the inflation rate of over 26 percent last year, many Ukrainians are suffering from decreased real wages. A recent GTAI report cited the Ukrainian statistics agency with a decline of about 20 percent.

Which positions are currently in demand for recruitment?

The demand for executives is currently moderate. Companies that are preparing for the post-war era and want to explore the market are mainly interested in representatives or consultants, who can conduct market analysis and establish contacts with potential distribution partners and end customers. In fact, many local specialists are currently willing to work in an advisory or temporary capacity.

How do you find executives in Ukraine under the current circumstances?

International companies currently have particularly good chances of filling management or representative positions. Ukrainian managers who want to improve their career prospects have few alternatives at the moment. Kyiv and Western Ukraine is currently an employer's market for executives in general, and there are candidates available who would not normally be available in normal times. In other areas, such as accounting and finance, there is indeed a local shortage of personnel due to migration to Western countries.

The fastest way to find candidates is through direct search by a recruitment agency, which can identify, approach, and pre-select qualified candidates. Thorough screening and reference checks should be part of the selection process.

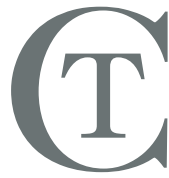
Flexibility is required due to travel restrictions. Male Ukrainian candidates usually cannot travel for interviews, so personal interviews can only take place in Ukraine, typically in the relatively safe western parts of the country. However, in practice, video interviews are sufficient for most companies.

How does one employ staff in Ukraine?

Companies that are new to Ukraine typically enter the market gradually. Often, hiring a local employee based on a service contract is considered. However, this arrangement is not recommended as it can lead to permanent establishment risks and tax issues, depending on the contract structure.

The best way to recruit at this point is through an outstaffing service provider. This provider will handle the salary payments and all applicable social contributions, thus, establishing a full-fledged employment relationship without the need for the company to set up a legal entity in Ukraine.

The third option is employing staff through a local branch. The establishment of a company in Ukraine should be budgeted for two to three months, which includes internal company processes and opening local bank accounts.



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