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► **To cite this version:**

Anatoliy Kostruba. Managing foreign business operations in Ukraine in the context of war. *Business Horizons*, 2024, 67 (1), pp.1-25. 10.1016/j.bushor.2024.01.003 . hal-04622241

HAL Id: hal-04622241

<https://hal.science/hal-04622241>

Submitted on 24 Jun 2024

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Managing foreign business operations in Ukraine in the context of war

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KEYWORDS

War in Ukraine;
Impact of war on
business;
E-residency;
Foreign business;
Ukraine

Abstract The development of foreign businesses is crucial for any nation's prosperity as they bring in valuable investments, international expertise, job opportunities for citizens, tax revenue, and industry growth. However, after the start of Russia's full-scale invasion of Ukraine in 2022, almost all foreign business operations within Ukraine were suspended; currently, businesses of every sort are in the process of resuming in the face of numerous challenges, including an unstable security situation, damaged infrastructure, disrupted supply chains, and highly unpredictable business conditions. The Ukrainian government lacks the strategic initiatives needed to substantially attract foreign business operations. The primary objective of this article is to examine Ukrainian legislation about foreign business endeavors, particularly focusing on the nuances of investment activities while also investigating the repercussions of military operations on foreign businesses. This article proposes the concept of e-residency as a means to entice foreigners into engaging in business activities within Ukraine, and explores other strategies aimed at attracting individuals from other countries to invest and participate in Ukraine's business landscape.

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1. Extraordinary challenges in extraordinary times

Military conflicts always pose extraordinary challenges for the business environment, especially for foreign companies operating under such conditions. Strategies that ensure their viability and development under war conditions become a

shaping factor for their success. Ukraine, having found itself in a state of military conflict, was no exception. Foreigners face incredible challenges running a business in Ukraine during this time of war. Ukraine may offer foreign ventures new opportunities for investment and development, but the current instability can pose risks and restrictions for business processes. Foreign investment and entrepreneurship should be seen as tools that can adapt to war conditions and bring particular benefits and support to the country

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<https://doi.org/10.1016/j.bushor.2024.01.003>

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during difficult times (Khomko & Kulhavets, 2016). How does the ongoing war in Ukraine affect foreign business in the country, and what innovative solutions can be applied to overcome these challenges?

The issue of conducting business by foreigners is important for any state as it ensures foreign investment in the state budget and provides a new impetus to the economy. In addition, a new company established by foreigners means the potential for new job creation and the provision of high-level services, which creates competition in the market and provokes other companies to develop and improve. Ukraine is no exception. Foreign investment in Ukraine amounted to approximately \$4.5 billion in 2019. Despite the 2020–2021 crisis caused by the global pandemic, investors continued to look for ways to invest in certain sectors of the Ukrainian economy (Ukraine Ministry of Finance, 2019), and despite the full-scale invasion by Russia, Ukraine remains an attractive investment destination for business. According to the National Bank of Ukraine (Ukraine Ministry of Economy, 2023), the volume of foreign direct investments in the Ukrainian economy was approximately \$1.3 billion as of December 31, 2022. According to the balance of payments published on the website of the National Bank, the net inflow of foreign direct investments was estimated at \$2.9 billion for the first 8 months of 2023 (The National Bank of Ukraine, 2023).

Ukrainian legislation does not contain the concept of an enterprise with foreign capital, so foreigners most often use the following forms to register a legal entity: limited liability company (LLC), additional liability company (ALC), joint stock company (JSC), joint venture (JV), and representative office of a foreign legal entity (Law of Ukraine No. 755-IV, 2003). An LLC is the most common form of business among nonresidents in Ukraine as it allows them to start a business and obtain a legal basis for staying in the country.

The establishment of an LLC has many advantages for foreign entities. It allows them to work with large investors and other legal entities for which the presence of an LLC is typically important. Looking at liability, there is no minimum amount of authorized capital for LLC registration in Ukraine and equity holders cannot be held liable for debts beyond their capital contributions. In addition, LLC registration allows a foreigner to fast-track legal residency in the country; by registering an LLC in Ukraine, a foreigner becomes a full-fledged owner of the company and, once they have obtained a work permit, will have an official basis for obtaining a residence permit in Ukraine.

While there is legislation that may put Ukraine at a disadvantage when it comes to direct foreign investment, foreign ventures also see advantages and prospects for development, including available land, cheaper labor compared to European countries, underdeveloped business areas, and new markets (Rybalchenko, 2021). However, the start of Russia's full-scale invasion of Ukraine in 2022 brought changes to all sectors, including the activities of foreign-owned businesses. Many foreign companies, even large ones, closed their businesses, and foreign businesspeople fled in fear of their lives.

The degree of uncertainty in the Ukrainian economy remains extremely high. This is reflected in the National Bank of Ukraine official forecast, which, even in the baseline scenario, expects real GDP to contract by more than 30% and inflation to remain above the inflation target throughout the forecast horizon until 2025.¹ Against the background of geopolitical tensions and conflict, foreign companies face unique challenges: increased risks, limited access to resources, and changes in the economic environment. However, these challenges may provide room for the development of innovative strategies. Innovations can help companies adapt to new realities and become a determinative factor in their sustainability and competitiveness. In the context of military conflicts, innovation can serve as a necessary tool for maintaining the functionality and development of a business.

In this article, I consider the peculiarities involved in the legal regulation of doing business by foreigners in Ukraine, the impact of the war on such business, and the options for finding possible ways to improve the promotion of foreign investment and business in Ukraine. This article aims to provide a comprehensive overview of the current situation, focusing on the unique obstacles and opportunities encountered by foreign businesses amid the ongoing conflict in Ukraine. By delving into the intricacies of governmental responses, legal frameworks, and the economic impact of the war, I suggest valuable insights and actionable strategies for foreign entrepreneurs and investors navigating this unstable economic environment.

Understanding the complexities of this scenario is crucial for stakeholders at all levels. Policy-makers and business owners should grasp the nuances of Ukraine's business environment during wartime to make informed decisions. This article,

¹ The National Bank of Ukraine has kept its key policy rate at 25% (The National Bank of Ukraine, 2023).

therefore, delves into the multifaceted aspects of foreign entrepreneurship in Ukraine and examines how the war has reshaped business practices, legal norms, and governmental policies and impacted multiple stakeholders. The objective is to analyze the present conditions and project future trends and opportunities, suggesting recommendations for resilience and growth in rapidly changing conditions.

2. Implications for foreign operations

First, let us consider the aspects of regulation and specific features of doing business by foreigners in Ukraine from a legal point of view and the war's overall impact on foreign operations.

2.1. Regulation and specifics of doing business by foreigners in Ukraine

Ukraine currently has several legal acts regulating the legal status of foreigners and stateless persons in the country, including the specifics of their participation in the domestic labor market and business (Shyra et al., 2020). According to the [Constitution of Ukraine \(1996\)](#), foreigners and stateless persons legally staying in Ukraine enjoy the same rights and freedoms and bear the same responsibilities as Ukrainian citizens, with the exceptions being established by the constitution, laws, or international treaties of Ukraine.

This guarantee also applies to the right of foreigners and stateless persons to engage in entrepreneurial or economic activities. In recent years, Ukraine has welcomed many foreign entrepreneurs who have chosen Ukraine to start and develop their businesses. With this in mind, I will provide a brief overview of the legal provisions governing the activities of foreign entrepreneurs in Ukraine (Yasynska et al., 2022).

Per Article 55 of the [Commercial Code of Ukraine \(2003\)](#), business entities are defined as participants in economic relations that carry out economic activities; exercise economic competence (i.e., a set of economic rights and obligations); have separate property; and are liable for their obligations within limits of this property, except as provided by law. Part 2 of the same article states: "The subjects of business activities are: [...] citizens of Ukraine, foreigners and stateless persons who carry out economic activities and are registered as entrepreneurs in accordance with the law" ([Commercial Code of Ukraine, 2003](#)). A similar provision is enshrined in Article 3 of the 1991 Law of Ukraine, which states

that foreign citizens may be founders of business associations on an equal footing with Ukrainian citizens and legal entities, except in cases established by legislative acts of Ukraine ([Law of Ukraine No. 1576-XII, 2003](#)).

2.1.1. Positive aspects of regulation

Foreigners can establish businesses in Ukraine based on the law, just like citizens. These businesses are set up as limited liability companies. To register a sole proprietorship in Ukraine, a foreigner needs to confirm his or her legal stay in Ukraine. That is, registration of a sole proprietorship requires a residence permit. This requires grounds, such as marriage to a resident or a work permit. While this legal requirement is understandable, it creates certain difficulties for foreigners. The state, realizing that a sole proprietorship can be a fairly popular form of entrepreneurial activity, is trying to find ways to make it more accessible to foreigners. One of these ways is to establish an e-residency. We will discuss this topic in Section 2.4. According to Article 4 of the Law of Ukraine ([Law of Ukraine No. 3773-VI, 2011](#)), if a foreign founder contributes at least €100,000 to the authorized capital of a Ukrainian legal entity, he/she will receive a temporary residence permit to stay in the country and control the activities of the enterprise. If the investor wants to be employed at the company, they can obtain a work permit for up to 3 years and a temporary residence permit for the same period.

2.1.2. Negative aspects of regulation

Not all scholars agree with current regulations. Dyka and Yushko (2019) emphasized that Article 4 ([Law of Ukraine No. 3773-VI, 2011](#)) has certain inconsistencies. First, to obtain residency, the amount of investment must be at least €100,000, which means that investors who contribute less will not have any privileges even though their contribution to the economy may be significant not only in terms of capital but also through job creation, dissemination of experience, development of certain industries, and competition. Second, regardless of the amount of investment in a particular enterprise, the investor does not have a 100% guarantee that they will be granted permission to employ foreigners following Article 42-10 of the Law of Ukraine ([Law of Ukraine No. 5067-VI, 2012](#)). These regulations can deter foreigners from investing in the development of entrepreneurship in Ukraine.

Foreign entrepreneurs also see a problem with the fact that foreigners have limited periods of stay in Ukraine and usually need immigration

permits to conduct business. The existing manifestations of corruption, formalism, and bureaucracy among authorities in migration, fiscal, and other areas should not be dismissed as they negatively affect the startup of businesses in Ukraine (Dyka & Yushko, 2019).

If a foreigner is both a founder of a company and its director, they will not be able to apply for a work permit. Therefore, there are certain obstacles at the stage of setting up a company, namely in hiring a foreigner as a director. A foreign investor will have to engage a Ukrainian citizen to act as a nominal director for the period of company registration in all necessary authorities, as required by Ukrainian law. To open a legal entity in Ukraine, a foreign citizen must obtain an individual taxpayer identification number. This number is an element of the State Register of Individuals of Ukraine and is retained by the taxpayer throughout his/her life. A foreigner must have an identification number to be registered as an entrepreneur. In business practice, entrepreneurship and business are usually identified, but this is only an external form. Business comprises a set of relations between all participants (e.g., consumers, employees) in economic relations involved in actions that include occupation, business, transaction, contract, entrepreneurship, business life, and profit.

Before the full-scale invasion of Ukraine, many foreign businesses operated in the country. Despite the difficulties faced by foreigners, they chose Ukraine for its resources and cheaper labor. In 2019, the percentage of foreign investment and business in general was quite high.

2.2. The impact of the war on the business activities of foreigners in Ukraine

The war caused huge losses to Ukraine's economy. This has left a significant impact on all business sectors, including those founded by foreigners. Many businesses suffered heavy losses, especially at the beginning of the war. Some entrepreneurs lost everything due to the brutal destruction and occupation of part of Ukraine's territories. However, on the whole, businesses tried to survive and continue working, despite all the efforts of Russia to destroy Ukraine's economy, both through hostilities and the energy crisis.

First, many foreigners who had established legal entities in Ukraine and owned businesses there fled upon the Russian invasion, fearing for their lives. Many businesses found themselves in areas of active hostilities and were forced to evacuate to safer regions or cease activities. Even those

businesses that were relatively far away from the shelling suffered from logistical problems and a lack of raw materials (Derevyanko et al., 2022).

In addition, in the fall of 2022, Russian troops began shelling Ukraine's critical infrastructure, which led to a shortage of energy capacity and power outages. The Russian shelling interrupts work processes, reduces productive hours, makes it difficult to plan, increases employee fatigue, increases costs due to the use of generators, and has other negative effects on companies' operations. Power outages are currently at the top of the list of business challenges, with companies also complaining about communication and internet outages and problems with employee booking and travel abroad. Currently, 88% of companies have mobilized employees, of which 73% have up to 10% of their staff, and another 15% have 10%–20%. In addition, 39% of companies have mobilized critical specialists, mostly IT professionals, engineers, and other technical specialists. This also harmed the business activities of foreigners.²

Some investors, unable to withstand the test of war, were forced to leave the market while others set up new Ukrainian units outside of Ukraine or in regions of the country that were less affected by the fighting. Many foreign companies remained in Ukraine and continued to operate even after the full-scale Russian invasion. As horrific as it may be in terms of death and destruction, war can also lay the foundation for new economic opportunities. It is more difficult for micro and small businesses than for large companies because their safety margin is much smaller. Moreover, entrepreneurs' assessment of their own financial stability is naturally deteriorating in times of war. Even in such circumstances, both large and small businesses are trying to support their staff and help the country as much as possible (Derevyanko, 2022).

2.2.1. Potential for future foreign business opportunities

In the post-war future, during the country's recovery, experts expect that domestic businesses will face a lack of knowledge, expertise, and technology as well as a shortage of personnel in the Ukrainian market. Most foreign businesspeople who have done business in Ukraine chose the country for its large number of skilled workers and labor force, which is cheaper than in many other

² 83% of EBA companies experienced a drop in business performance for 2022 (European Business Association, 2023).

European countries. Since numerous specialists have left the country and do not plan to return—indeed, some will not be able to return to work after the hostilities—this issue will be acute for foreign businesses. In addition, entrepreneurs may face increased competition, lack of solvent customers, and limited access to cheap financial resources.

The only business sector that showed growth during the war was the IT industry. According to the Minister of Economy of Ukraine Yuriy Svyrydov and preliminary estimates of the National Bank of Ukraine, the volume of exports of telecommunications, computer, and information services between February and November 2022 increased by 4% compared to the same period in 2021 (Kulikov et al., 2022). The volume of exports of telecommunications, computer, and information services from January to November 2022 increased by 7.3% compared to the corresponding period in 2021 and amounted to \$6.8 billion. Thus, it is likely this area should be further developed, and foreigners should be involved in its development.

After the end of the war in Ukraine, it is possible to foresee the potential for foreign business development in various sectors, including construction, energy, agriculture, IT, tourism, logistics, and trade. Infrastructure and construction development could be a key factor in Ukraine's post-war recovery. This industry covers a wide range of projects that aim to improve the country's physical and social infrastructure. In particular, foreign businesses can be involved in the restoration and improvement of the ground transportation network, including roads, bridges, tunnels, etc. Foreign construction companies can participate in projects for the reconstruction and construction of new vehicles. In addition, there will be a need to restore housing for people who have been evicted or lost their property. The situation is similar with social infrastructure and recreational facilities. All of these could become important industries for attracting foreign business.

The development of the energy sector has become an important factor in ensuring sustainable economic growth and energy independence. Ukraine has significant potential for electricity production from solar and wind energy. The development of solar farms and wind farms can help reduce dependence on polluting energy sources. Green development of the energy sector can lead to the creation of new jobs and promote innovation.

After the attacks by the Russian army on critical infrastructure, many facilities remain damaged or

destroyed. Foreign businesses can be actively involved in the restoration of energy facilities. Investments in energy efficiency will help reduce energy consumption and carbon emissions. Modernization of buildings and industrial enterprises can lead to significant energy savings. Diversification of supply sources and increased domestic energy production using renewable sources will help ensure supply stability and energy independence. Moreover, the restoration and modernization of old energy facilities will increase their productivity and reduce their negative impact on the environment.

Ukraine has a large land area with great potential for agricultural production. Rehabilitating and improving agricultural infrastructure could be a key step toward increasing food and raw material production. The introduction of modern technologies in agriculture can improve productivity, efficiency, and quality of production. The use of automation, drones, modern seeders, and processing machines can help improve yields. Foreign investors may be interested in investing in agriculture, technological development, and agricultural processing.

After the war in Ukraine ends, the technology and IT sector could become one of the key industries that will contribute to economic development, innovation, and foreign business attraction. Ukraine is known for its highly skilled IT workforce. After the war, the labor market may be more open to cooperation with foreign companies that can find talented developers, analysts, and engineers here. In addition, Ukraine has a vibrant startup ecosystem that fosters the development of new innovative projects. Foreign investors can participate in investing in promising startups and contribute to their development. However, it should be emphasized that foreign investment in IT should not wait for the end of the war. To this end, the government has created an e-residency that allows foreigners to engage in this area remotely. The specific features of this system will be discussed in Section 2.4.

Tourism development may also become an important area for attracting foreign business. Ukraine has a rich natural potential, including mountainous landscapes, river valleys, and sea-coasts. This creates opportunities for the development of ecotourism, skiing, beaches, and other types of tourism. Ukraine's rich history and cultural heritage can attract the interest of foreign tourists. The development of thematic routes, architectural monuments, museums, and other cultural sites can contribute to the development of cultural tourism. Gastronomic tourism is a

separate link; Ukrainian cuisine has its own unique features and tastes that can attract fans of such tourism. The development of recreational facilities through the involvement of foreign businesses may deserve special attention. This is important for the rehabilitation of Ukrainians affected by the war, the military, and foreigners who can visit such recreation areas for medical purposes.

Ukraine is still relevant to foreigners, and after the war, its importance will only increase. Logistics is vital for post-war reconstruction. Ukraine has a geographical location that makes it a potentially important transit point for trade between Europe and Asia. Foreign companies can invest in the development of logistics infrastructure that will help improve transportation links and reduce delivery times. These areas have the potential to create a variety of opportunities for foreign companies and investors looking to contribute to Ukraine's post-war development.

2.2.2. Current foreign investment during wartime

Large foreign businesses are currently operating in Ukraine despite the war. ArcelorMittal is perhaps the key foreign-owned investor in the steel industry. The conditions of the company's Ukrainian facilities are challenging. The primary challenge is a closed, unstable power supply due to Russian attacks on the energy infrastructure. There are also water problems due to the destruction of the Kakhovska hydroelectric power plant by Russian troops. Nevertheless, the company continues to invest in its production in Ukraine. Mauro Longobardo, CEO of ArcelorMittal Kryvyi Rih, told the media that the company invested \$120 million in its facilities in 2022 and plans to invest another \$130 million in 2023 (Shevchuk, 2023).

Investors are also active in the mining sector. In particular, Turkish giant Onur Group decided to invest in graphite ore mining in the Horodnyavskiy section of the Burtinskyi deposit in the Khmelnytskyi Region. In March 2023, the company received the relevant permit from the State Service of Geology and Subsoil of Ukraine. According to calculations of the explored reserves of this area, a powerful enterprise can be created with an annual capacity of 1 million tons for mining and processing of ore and the production of 55,900 tons of graphite concentrate. Development of the deposit may begin 7 to 12 months from the receipt of the permit. Onur Group plans to invest about 50 million dollars in the first phase of the deposit development (Shevchuk, 2023).

Irish company Kingspan Group is one of the largest investors that came to Ukraine during the full-scale invasion by the Russian Federation. The company is a world leader in the production of high-tech, energy-efficient building materials. The company is currently embarking on an investment project of over \$280 million. The plan is to build a construction technology campus in the Lviv region, which consists of 6 production zones that include the production of advanced insulation materials and solutions for centralized heating. The complex will focus on the production of construction products with high added value. In addition, the project envisages the creation of a green, low-carbon production facility, which will have a positive impact on the environment. The launch of production is planned for 2024.

Despite the war, German construction materials manufacturer Fixit is building a second plant in Ukraine. It will be located in Lviv. Fixit invested 5 million euros in the plant construction project even before the Russian invasion. Now Fixit has received investment insurance from the German government and invested an additional 7 million euros. Already at the end of 2023, the new plant in Lviv is planned to produce building materials for the reconstruction of the destroyed infrastructure in Ukraine.

Financial company Payoneer surveyed over 4,000 tech businesses in Ukraine. The survey showed that 70% of Ukrainian small and medium-sized businesses (SMBs) continued to operate during the war, and 63% of them retained most or all of their staff. Despite the war, 38% of these businesses plan to hire more staff this year. Nearly 64% of Ukrainian businesses were able to retain all or most of their customers during the conflict, demonstrating the resilience of the established Ukrainian technology industry. The experience of the COVID-19 pandemic helped 58% of businesses quickly adapt to new realities during the war. Joint volunteering and supporting the army boosted team spirit among 84% of these companies (Business Wire, 2022).

There are numerous examples of foreign businesses running in Ukraine under war conditions. Metro Ukraine, part of Metro AG—one of Germany's largest retail and wholesale groups—has adapted rapidly to the wartime situation. They support each other's stores to feed civilians and provide hot lunches for the army despite supply chain difficulties (Shehadi, 2022). Some of the most notable international companies that resumed operations during the war include McDonald's, H&M, LPP (Reserved, Cropp, House, Mohito, and Sinsay), Adidas, Samsung, and JYSK.

Thus, even though the war is ongoing in Ukraine, the country has continued to attract significant investment from foreign companies. The amounts of their investments vary, from tens of thousands to hundreds of millions of dollars. Most investor companies have had experience in Ukraine before the war and are investing in the development or expansion of already launched production (Shevchuk, 2023).

2.3. The current and future state of foreign investment

The Ukrainian government has repeatedly stated its intention to significantly increase the volume of foreign investment in the domestic economy. While in peacetime the failure to fulfill this promise could be compensated for in some way, in times of war raising additional funds is a matter of survival for the state itself. To date, many countries in the civilized world have declared their intention to contribute to the post-war reconstruction of Ukraine, which has been given the prospect of becoming an EU member. However, the national economy must work now because it forms the basis of support of Ukraine and its citizens by foreign defenders. Therefore, attracting investment in the face of the ongoing destructive war is one of the most important tasks for Ukrainian authorities currently.

Ukraine has more than a hundred regulations governing the activities of foreign investors in the country. These cover the entire investment process, from the definition of concepts and terms to the regulation of investment activities. Many regulatory documents are only tangentially related to the investment sphere but still have their specific impact on it. However, at the same time, experts see many shortcomings in the investment legislation, as well as in tax, customs, foreign economic, budgetary, and other legislation that has a direct or indirect impact on investment activities. This poses obstacles to attracting foreign investment and requires detailed consideration and improvement (Herzanych et al., 2015).

A specific feature of the domestic investment legislation is that certain aspects of the investment sphere are also regulated by the norms of economic, tax, currency, banking, financial, customs, civil, and land legislations; legal acts on privatization, entrepreneurship, innovation, securities, and the stock market; concessions, etc. It should be noted that a significant part of the domestic legislation is made up of international legal acts to which Ukraine is a party (i.e., multilateral international agreements and conventions aimed

at protecting foreign investment). Such documents include, in particular, the Convention on the Settlement of Investment Disputes between States and Nationals of Other States (ICSID, 1965), ratified in 2000 (Law of Ukraine No. 1547-III, 2000). In addition, there are a large number of intergovernmental agreements on the promotion and mutual protection of investments between the Government of Ukraine with the governments of the respective countries that regulate the main issues of relations between the parties to such an agreement in the field of investment activity.

Analysis of the regulatory state of Ukraine in the investment sphere shows that investment legislation requires further improvement. Despite the extensive system of legal acts, it is premature to talk about a coherent and mutually consistent system of legislation. The national legislation in the field of investment activity regulation is unstable, and the regulatory framework is subject to constant changes, as in the process of its formation some legal acts are adopted, others are canceled, or their provisions are reflected in other legal acts.

This is especially noticeable in the current conditions of martial law. At the present stage, a characteristic of the legal framework for regulating foreign investment in Ukraine is the presence of two large, unequal blocks of regulations: a special investment and an auxiliary one. The former defines the basic concepts of foreign investment, rights, and obligations of objects and subjects of investment activity with guarantees of protection of foreign investment in Ukraine, while the latter defines involvement in the field of foreign economics, innovation, customs, tax, currency, budget, credit, business, and other activities, which also affects the process of attracting foreign investment and implementation of investment projects. The analysis has shown that domestic instruments of state regulation of foreign investment, the use of which ensures short-term effects for investors (e.g., profit, land, labor) and long-term effects for the state (e.g., compliance with social standards, improvement of the environmental situation, support for cultural traditions), are to a greater extent enshrined in the supporting block of legislation. Amendments to the legislation should be supported by an assessment of the possible volume of foreign investment under various regulatory actions of the government, as well as by economic, organizational, and institutional measures aimed at improving the state's investment policy. Currently, the Ukrainian government plans to attract foreign investment, primarily in those sectors that have suffered the most

from the war. According to Prime Minister Shmyhal, the government will continue to harmonize Ukrainian legislation with EU legislation in the energy sector. The key tasks include strengthening Ukraine's energy security, increasing the investment attractiveness of the energy sector, and attracting foreign investment.

Effective crisis management and risk mitigation strategies are crucial for foreigners running their businesses in conflict zones. Disruption of supply chains is a primary challenge. Diversification of sourcing and manufacturing strategies can insulate businesses from complete shutdowns. Utilizing multiple regions for sourcing materials helps to maintain operations with less disruption during crises. Investments in digital transformation can help manage market uncertainty. Digital tools provide real-time data for quick, informed decisions, which are especially useful in volatile markets with fluctuating exchange rates and consumer behaviors.

Ensuring employee safety and well-being is vital for business continuity. This involves providing flexible working arrangements, comprehensive insurance, and mental health support to maintain productivity and morale during challenging times.

It is crucial to strengthen cooperation between the Ukrainian government and industry associations or chambers of commerce to facilitate a conducive business environment, especially in the context of conflict. This partnership can play a pivotal role in streamlining regulations. Close cooperation helps to adapt regulations that support business growth to the challenges of the conflict.

Joint initiatives between the government and business associations can foster a sense of stability and confidence among local and foreign investors, which is key to economic resilience. Such collaboration can also provide a platform for ongoing dialogue and feedback, ensuring that policies remain responsive and effective in meeting the evolving needs of businesses in a conflict-affected environment.

Ukraine has made several changes to its legislation to encourage companies to establish and develop in the country. For example, the government introduced a simplified taxation system for small businesses. Thus, the Ukrainian government is working on reducing the time and simplifying the procedures for registering companies, which minimizes the bureaucratic aspects of doing business. It is also currently providing access to electronic platforms for submitting documents and obtaining administrative services, which also can reduce bureaucratic barriers. This allows smaller

companies to pay taxes under a simplified procedure and at reduced rates, making business more attractive to entrepreneurs. Ukraine is actively developing electronic services for businesses and individuals. It is worth noting that Ukraine takes measures to support free competition. The Antimonopoly Law of Ukraine is aimed at ensuring free competition in the market, protecting consumer rights, and limiting monopoly power.

Ukrainian legislation should be revised not only to better attract foreign investment but also to bring it closer to European standards. In the eyes of many foreign investors, extant Ukrainian legislation often seems unclear and the system rife with bureaucracy and corruption. Ukraine ranked 64th in the latest World Bank Doing Business report ([World Bank, 2020](#)). Ukraine was classified as "light," the second-best category out of four. In the period from 2006 to 2014, the country advanced 100 positions, a huge show of progress. In the Global Competitiveness Forum Report ([Schwab, 2018](#)), Ukraine ranked 85th out of 141 countries and 116th out of 180 in Transparency International's Corruption Perceptions Index ([Transparency International, 2022](#)).

The heterogeneity of laws, bureaucracy, and corruption can indeed create difficulties for foreign investors. Unpredictable legislation can make the process of investing more complex and riskier. Improving the judiciary and establishing independent anticorruption bodies and other institutional reforms can improve the investment climate and promote business development. Given the martial law and the constant erosion of civilian infrastructure, infrastructure projects such as transport networks, energy, and information technology can make Ukraine more attractive to investors. Ukraine should develop these areas to increase foreign investment. This is very important at the moment, as the economy and the state must recover from the war.

2.4. E-residency and its impact on doing business by foreign nationals

Under war/conflict conditions in which physical security may be compromised, e-residency can be an effective tool to ensure businesses' security and normal functioning. E-residency can mitigate the challenges foreign companies face during times of war through its innovative capabilities and digital tools. E-residency is a government online service that allows foreigners to remotely access government services and do business from anywhere in the world. It involves obtaining an electronic resident card, which allows its holder to register a company in a foreign country online ([Haikalova,](#)

2021). An e-resident is a foreigner who has reached the age of 18, is not a tax resident of Ukraine, has received the relevant qualified electronic trust services, and whose information is entered into the e-residency information system (Law of Ukraine No. 2654-IX, 2022).

While e-residency has been discussed since 2020, the Law of Ukraine No. 2654-IX was not ratified until 2022. The relevant procedure was scheduled to launch on April 1, 2023. Among the main advantages of e-residency is the possibility of easier access to certain administrative services. In addition, the owner of the company can communicate with regulatory authorities and contractors in an electronic format to simplify the management and function of the company as much as possible.

The practice of e-residency is not new. Estonia and Lithuania were the first countries to prove its effectiveness (Levchenko et al., 2021). Features of electronic e-residency in Estonia and Lithuania are shown in Table 1.

E-residency has not been fully introduced yet in Ukraine but based on the Law of Ukraine No. 2654-IX (2022), its key features can be identified. The idea of the project is to attract foreigners to the jurisdiction of Ukraine, which in turn provides favorable tax conditions. Thus, every interested specialist can obtain e-residency status and work remotely from anywhere in the world as an individual entrepreneur and pay only 5% of the single tax.

The procedure for obtaining an e-residency in Ukraine is quite simple. First, an applicant must fill out a form on the web portal of the Diia public

service (Honcharov, 2021). Diia has proven itself positively, and many countries have already turned to Ukraine to implement an analog in their country. After registration and submission of the relevant documents, these are checked by qualified authorities per Ukrainian law. If all the documents meet the requirements, the foreign applicant receives an individual tax number and then undergoes an identification procedure at the Ukrainian consulate. The final stage entails gathering an electronic signature, whereafter Diia provides the e-resident with an electronic trust service (i.e., registers a business). In addition, the applicant should have a personal English-speaking manager to support his/her professional activities and will have the opportunity to open a bank account online. Ukraine clearly wants to attract foreign investment, reach the top level, and improve its image in the global technology market.

Per Article 70.1.2., however, certain persons cannot be e-residents. These include citizens of Ukraine; foreigners who have the right to permanent residence in Ukraine or are tax residents of Ukraine; stateless persons; persons receiving income originating from Ukraine for goods, works, or services (except for passive income); persons who are citizens (subjects), residents or persons whose place of permanent residence (stay, registration) is in states (jurisdictions) not included in the List of states whose citizens or residents may acquire the status of an electronic resident (Law of Ukraine No. 2654-IX, 2022).

This is a great advantage for the development of foreign business, especially in times of war. Many

Table 1. Features of e-residency in Estonia and Lithuania

E-residency in Estonia	E-residency in Lithuania
Estonia was the first country to introduce e-residency in December 2014. At that time, the online service had no analogs in the world.	Lithuania introduced this service in 2021.
In Estonia, e-residency status allows a foreigner to set up a company remotely, sign documents with an electronic signature, and pay taxes online.	In Lithuania, e-residency status allows foreigners to access the e-government portal and sign documents using an electronic signature. In the future, it will include the ability to establish and manage companies and conduct financial transactions.
The term of e-residency status in Estonia is 5 years.	The term of e-residency status in Lithuania is 3 years.
The process of obtaining a resident identification e-card in Estonia is completely remote: Application is completed online and credentials can be picked up at one of 45 issuing points globally.	To obtain a resident identification e-card in Lithuania, an applicant must physically be present in the country. This is because the Lithuanian e-residency system is at the beginning of its formation (Republic of Lithuania, 2023).
Any foreign citizen can acquire e-residency status to gain secure access to Estonian electronic services.	Participants can only do basic things, such as accessing state electronic services and using a digital signature.

foreign citizens left Ukraine after the start of the full-scale invasion. Others are afraid to come, even if they want to set up a business in Ukraine. With this in mind, the opportunity to open and manage a business in Ukraine remotely could provoke greater interest among foreigners and the development of the Ukrainian economy, which can certainly use help due to the war.

For example, in Estonia, this program has brought 63 million euros to the budget within 6 years. The program was used by 81,000 residents who opened 17,000 companies; out of more than 80,000 residents, the largest number of representatives are from Ukraine: 4,300 people (Fedorov, 2021). Therefore, e-residency will have a positive impact on the image of the state in the international arena. After all, a country that is ready to accept e-residents and create favorable business conditions for them will attract more international investment. And the products created by residents can turn Ukraine into a global IT brand.

Thus, although this procedure is not yet very common in the world, its advantages for both recipients and the state are absolutely clear. Advantages include:

- **Global access:** E-residency allows people to operate and manage their activities from any place in the world with internet access. This is important because it allows businesses to be flexible and respond to global opportunities.
- **Minimal bureaucracy:** The process of obtaining traditional physical residency in another country can be long and marred by bureaucracy. On the other hand, many countries offer e-residency with fewer administrative procedures and requirements.
- **Convenience:** E-residency includes the ability to use an electronic identification tool to conduct various business transactions, such as opening bank accounts, signing contracts, and more. This greatly simplifies the process of doing business.

The state also benefits from this innovation in the following ways:

- **Economic benefits:** Attracting e-residents can lead to increased investment, job creation, and economic growth. E-residents can do business, pay taxes, use banking services, etc., which brings in revenue to the state budget.

- **Increased competitiveness:** The introduction of e-residency can make a country more attractive to international businesses and professionals. This can contribute to the development of innovation, technology, and other important industries.
- **Increased circulation of capital and knowledge:** E-residents can bring with them capital, knowledge, and experience from different countries. This can increase the level of professional expertise in the country and facilitate the exchange of knowledge and technology.
- **Development of an innovative environment:** Attracting e-residents working in advanced industries can foster an innovative environment and stimulate research and development.
- **Strengthening international cooperation:** E-residency programs can attract foreign entrepreneurs and professionals, which helps to strengthen ties with other countries and expand international cooperation.
- **Tax revenues:** E-residents pay income, real estate, and other taxes, which can contribute to the growth of government tax revenues.

Taking into account all the advantages for both applicants and host countries, e-residency is a promising program for Ukraine. E-residency allows foreign entrepreneurs to register companies in Ukraine remotely; thus, they do not need to physically be present in the country. This helps to reduce the impact of travel restrictions and remote working conditions on the business creation process. The absence of the need to be present ensures the security of the foreign citizen and saves time as there will be no delays due to disruptions like air raids.

Table 2 highlights the key topics covered in this article, offering a clear and concise overview of the current challenges, government initiatives, and future opportunities for foreign businesses in Ukraine.

3. Applicable research and future considerations

While there are few studies on the war's impact on foreign investment in Ukraine, one can refer back to previous research that raises issues related to

Table 2. Summary of key article topics

Aspect	Details
Pre-war business environment	Ukraine had a favorable investment climate for foreign businesses. Common business forms for foreigners included LLCs, ALCs, JSCs, and representative offices.
Impact of war	A full-scale invasion in 2022 led to the suspension of businesses. Foreign businesses faced logistical problems, safety concerns, and operational disruptions.
Government response	<p>Introduction of e-residency and other measures to facilitate remote business operations.</p> <p>The Ukrainian government aims to significantly increase foreign investment as a crucial part of the state's survival strategy during the war. This is viewed as essential for the nation's economic stability and the well-being of its citizens.</p> <p>Ukraine has made legislative amendments to foster business establishment and development. This includes a simplified taxation system for small businesses, promoting a more attractive environment for entrepreneurs. Additionally, the government is focusing on digital services development to streamline business registration, reporting, and permit acquisition processes.</p>
Legal framework	The Antimonopoly Law of Ukraine is highlighted as a key measure to ensure free competition, protect consumer rights, and limit monopoly power. This law is part of the efforts to create a fair and competitive business environment.
Economic challenges	High economic uncertainty and projections of GDP contraction. Challenges in energy, logistics, and personnel.
Opportunities post-war	Potential in sectors like construction, energy, agriculture, IT, and tourism. Emphasis on digital transformation and innovative business models.
E-residency	Introduced as a means to attract foreign investment. Benefits include remote business management and a simplified administrative processes.
Recommendations	Simplify legal entity registration for foreigners, promote sectors with growth potential, provide incentives, and enhance digital business services.

foreign business in Ukraine (Le Bars & Guyon, 1998). In their article, Ukrainian researchers Dyka and Yushko (2019) analyzed the general features of foreigners' stay in Ukraine, where, among other things, they paid special attention to foreigners who are founders of legal entities in Ukraine. The researchers examined the peculiarities of the relevant special legislation and highlighted its advantages and disadvantages. In particular, they noted the problems present with the legislation and its application. Dyka and Yushko (2019) believe that it is advisable to change ineffective provisions of the legislation on the employment of foreigners by simplifying the procedure for obtaining work permits and extending the validity of such permits.

Zhyriy (2023) conducted an interesting study that provided data after a year of full-scale war in Ukraine. It specifically looked at how domestic

business adapted to the new reality. Zhyriy (2023) noted the main problems faced by foreign and domestic entrepreneurs and the ways they are trying to solve them. In addition, she cited specific government measures that have been taken to improve business operations and development, as well as to attract a greater foreign element. Zhyriy (2023) also provided specific opinions from experts in various fields of economics and law on the measures currently being taken, the unprecedented challenges, and ways to restore the activity of foreign entrepreneurs in Ukraine.

Since the war in Ukraine has become an unprecedented phenomenon, articles and works on this topic have been scarce in scientific and journalistic sources. There are only individual opinions and statistics. As such, this article has attempted to create a full picture of the changes that have taken place among foreign entrepreneurs in

Ukraine. Since a lot of damage has been done, it is advisable to consider some of the measures taken by the state to improve business activity as well as ways to solve the current problems.

The issue of foreigners doing business in Ukraine is extremely important. As already mentioned, Ukraine has a highly developed digital sector. The country has long had Diia, a mobile application, web portal, and brand of the digital state in Ukraine developed by the Ministry of Digital Transformation of Ukraine. Diia was first presented in 2019 and officially launched in 2020. The application is currently being implemented by other countries in cooperation with Ukrainian experts. Given this and the growth in IT during the war, further development should continue. The involvement foreigners in this industry will provide significant benefits to Ukraine and its economy. To this end, state-level creation of programs to attract foreign business investment to Ukraine is critically important.

The process of registering a company should be made as remote as possible. Currently, many foreigners are afraid to come to Ukraine because of the war, and getting a flight to Ukraine is problematic as the country's airspace is closed. Thus, the remote opening of a legal entity is a big boost in this direction. An important step in this regard is the previously mentioned e-residency; among other benefits, it provides an opportunity to remotely work in Ukraine as a sole proprietor. This can help attract potential foreign specialists to Ukraine without the need to physically visit the country. This creates benefits for both parties. A person will be able to officially provide services in Ukraine without the need to open an LLC and physically stay in Ukraine, and the state will receive tax revenues that were lost or remained in the shadows.

Since the beginning of the full-scale invasion, Ukrainian authorities have realized that businesses paralyzed by the war need immediate support measures. Therefore, in March 2023, a law regarding preferential business taxation was passed. Apart from that, customs duties and VAT on all imports were abolished, but they were reintroduced in June. The government has begun to open customs posts on the border with Poland, which has made it possible to increase the volume of goods transportation. Moreover, the state is actively providing soft loans for business development. According to the [Ukraine Ministry of Finance \(2019\)](#), entrepreneurs have received more than 18,000 loans from banks during the war, totaling 78 billion hryvnias.

In general, the implementation of the Cabinet of Ministers' idea to create a strategic stockpile of oil and oil products should prevent a sharp rise in fuel prices in the event of force majeure, which will allow businesses to avoid raising prices for their products ([Zhyriy, 2023](#)). Although [Zhyriy \(2023\)](#) revealed the impact of hostilities on foreign business in Ukraine, presented the pre-war situation in Ukraine, showed the impact of the war on the business of foreign citizens, and provided options for solving the current situation to attract foreign investment and encourage foreigners to do business in Ukraine, there are further research opportunities in studying the following topics:

- Impact on economic activity: The study can assess how the war affects the economic activity of foreign businesses in Ukraine. The analysis may cover changes in the level of investment, risks, and opportunities for business development.
- Innovation and adaptation of business models: Research can examine how foreign companies in Ukraine innovate and adapt their business models to survive in conflict.
- Risk management and security strategies: Analysis may focus on risk management strategies used by foreign companies to ensure the security of their operations in war conditions.
- Local community engagement: The study can explore how foreign businesses interact with local communities in war, including the social responsibility of business and promoting community development.
- Legal and tax aspects: The study can analyze the legal and tax aspects of doing business by foreigners in war conditions, including possible changes in legislation and tax rates.
- Impact on market competition: The study can explore how the war affects market competition, changes in market dynamics, and the distribution of market shares between foreign and local companies.
- International relations: Analysis may include an assessment of the impact of war on the international reputation of foreign businesses and their relationships with international partners.

4. Summary

Ukraine has extensive legislation on the establishment of businesses by foreigners. For a foreigner to work in Ukraine officially and legally, he/she must obtain a work permit. Only after obtaining a work permit can a foreigner be an official director of his/her company. If a foreign citizen is both a founder of an LLC and its director, they cannot apply for a work permit, as such a document can only be submitted on behalf of a registered legal entity. In this case, a person who is a citizen of Ukraine may be appointed as a director of the LLC. The state employment policy should prioritize Ukrainian citizens in the exercise of their labor rights, including in particular the right to employment. However, the domestic labor market needs high-quality foreign specialists, and a prerequisite for using the results of their work is transparent and clear legislation on the employment of foreigners. In this regard, to attract foreign capital to those sectors of the economy whose development is of strategic importance for Ukraine, it is advisable to change ineffective provisions of the legislation on the employment of foreigners, simplify the procedure for registering legal entities, and eliminate bureaucratic procedures as much as possible.

The war has had a huge impact on foreign business in Ukraine. Moreover, there is currently insufficient information on indicators of economic achievements from foreign economic entities due to active hostilities in those places where most foreign businesses were located. First, foreigners and many Ukrainians have gone abroad and many do not plan to return. The other part of the workforce was mobilized or went to defend Ukraine as volunteers. Hence, there is a shortage of highly skilled personnel and an outflow of consumers. Second, interruptions in electricity, communications, and the internet have complicated the work of enterprises and communication with foreign partners. Third, there is a problem with money transfers abroad, which is also faced by foreigners doing business in Ukraine. Fourth, many territories are occupied or destroyed. Fifth, new foreign investors are reluctant to open businesses in Ukraine because of the hostilities. All this has created significant obstacles for foreign enterprises. Foreigners may still face many problems after the war ends.

Despite these problems, some foreign businesses continue to operate in Ukraine. In order to develop the industry, the Ukrainian government needs to take steps that include tax incentives,

digitalization, and simplification of starting a business in Ukraine with foreign elements. Obvious candidates for attracting foreign investment are the energy and defense sectors, which require large investments for restoration and modernization and at the same time have good prospects in terms of future demand. There is also great potential in other technological industries, such as construction, agriculture, and manufacturing.

This article also highlights the law on e-residency that has already been adopted. It introduces fundamentally new changes to legal regulation. Before its adoption, foreigners could only establish a limited liability company in Ukraine. To set up a sole proprietorship, a foreigner had to first confirm his or her address of residence. Now, e-residency will allow foreigners to set up a sole proprietorship and receive related public services without being physically present in Ukraine. The introduction of e-residency is a big positive for Ukraine. It will provide easier access to the necessary administrative services for foreigners, eliminating bureaucratic obstacles and preventing possible corruption. Thus, for those who are eligible for e-residency and who want to provide their services in Ukraine, this form of entrepreneurship will be a great advantage. It could potentially attract many foreigners to Ukraine. In addition, the remote capabilities provided by e-residency are a great advantage in times of war.

Currently, it is possible to open a sole proprietorship through e-residency only for a small, clearly defined range of activities subject to clear conditions. However, if this project proves successful, the categories of activities will most likely be expanded and supplemented. For the state, this form will also lead to many advantages, including the ability to relate to foreign businesses that have significantly reduced their operations due to the war and to encourage economic development in times of martial law and war. In general, any boost to the economy is very important for Ukraine at the moment, not only for the state's existence but also for global democracy. At this stage, e-residency demonstrates benefits for all participants.

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