

Coping with turbulent times

How firms are adjusting, with EBRD support, to global value chain disruptions caused by Covid-19 and Russia's war on Ukraine¹

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Two large shocks to the global economy – the Covid-19 pandemic and Russia's invasion of Ukraine – have caused major disruptions to global value chains in EBRD countries of operations. This note draws on a recent enterprise survey across 15 countries by the EBRD's Office of the Chief Economist (OCE) to examine how firms have coped with the upheaval.² Many responded to Covid-19 disruptions by increasing stock of inputs and sourcing inputs from a larger number of suppliers than before; others have stepped up investment in digital technology such as inventory tracking and optimisation and automated warehousing. A majority of firms in all countries said they expected to be affected, either directly or indirectly, by the sanctions on Russia and Belarus, and many are coping with persistent labour shortages by hiring Ukrainian refugees. The EBRD has stepped up its support to affected countries with an expansion of the trade facilitation programme and other traditional instruments, the introduction of a new and innovative framework, and policy support for enhanced digitalisation and inclusion. Additional EBRD financing for ports is helping to ease supply chain disruptions and strengthening resilience to climate change, while a new Supply Chain Solutions Framework involves a partnership between the EBRD and selected banks to facilitate cheaper access to working capital finance. In addition, the EBRD is actively promoting the digitalisation of value chains, and is working with companies and authorities in countries most affected by the refugee crisis to help integrate refugees into the labour force.

Firms across the EBRD regions have had a torrid time in recent years, buffeted first by the Covid-19 pandemic since Q1 2020, and more recently by the fallout from Russia's invasion of Ukraine in February 2022. Those companies that operate within Global Value Chains (GVCs) have been particularly vulnerable to supply chain disruptions, ranging from shipping issues to labour shortages and problems arising from China's ultra-strict "zero Covid" policy. But how widespread has the damage been, what steps have firms taken to overcome these problems, and how has the EBRD helped improve the situation?

This note highlights some of the most interesting findings of an OCE survey of firms in 15 countries of operations. Based on discussions with selected teams across the Bank, this note

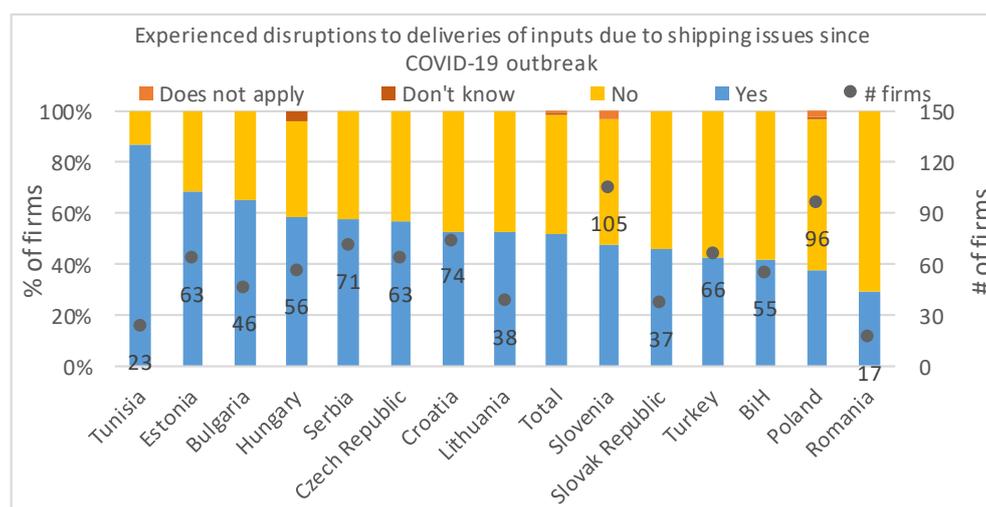
¹ Note prepared by Beatrice Ravanetti and Peter Sanfey, Country Economics, Strategy and Policy, Policy Strategy and Delivery, EBRD. We thank Helena Schweiger and Vincenzo Langella from OCE for providing us with the data and for guidance and comments. We have also benefited from helpful discussions with Onur Bingöl, Julia Brouillard, Camilla Committeri, Alejandra Cordero, Ivan Dzvinka, Libor Krkoska, Paolo Monaco, Marco Nindl, Svenja Petersen, Rudolf Putz, Artur Radziwill, Matthieu Riolacci, Bigali Sardarbekuly, Marko Stermseck, Alexa Tiemann and Levent Tuzun.

² OCE conducted a telephone survey between May and July 2022 on 815 firms from Bosnia and Herzegovina, Bulgaria, Croatia, Czech Republic, Estonia, Hungary, Lithuania, Morocco, Poland, Romania, Serbia, Slovak Republic, Slovenia, Tunisia and Türkiye. Morocco is excluded from the charts in this note because just five enterprises completed the phone survey. Caution should be used in interpreting results for individual countries because of the small samples in some cases.

also gives some examples of how the EBRD is working with partner country authorities, firms and banks to alleviate the impact of the crisis.³

The main findings of the survey are as follows:

- **Shipping issues have been particularly problematic since Covid-19.** Around 56 per cent of respondents who source inputs from China experienced some kind of disruptions to deliveries from there, while half had to cope with delays from third countries. Shipping issues were recognised as the primary cause of disruption by the majority of respondents and by more than 60 per cent in Tunisia, Estonia and Bulgaria.

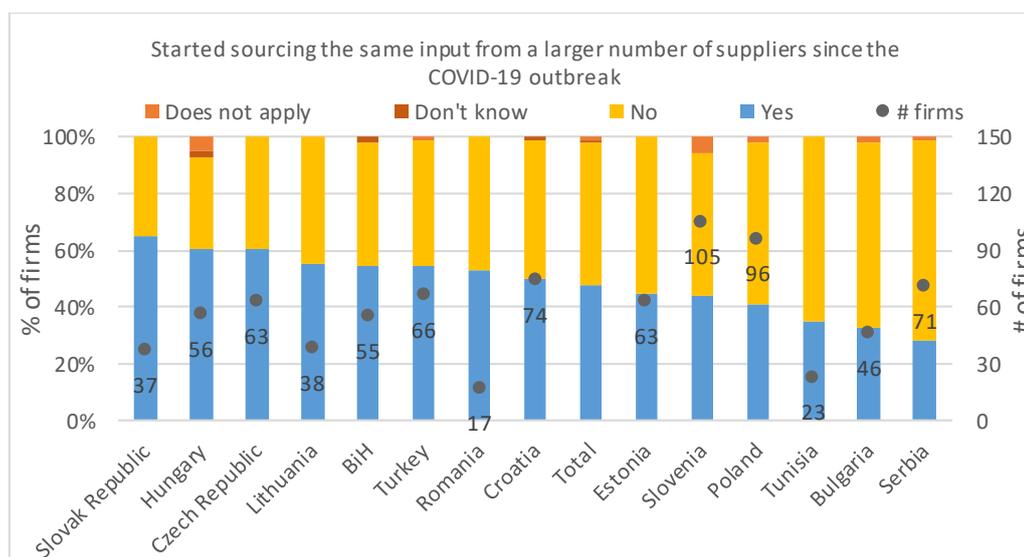


Source: EBRD Survey.

In response, the EBRD is stepping up its support to finance capacity expansion of major ports in its countries of operations (CoOs), including recent projects signed or in preparation in Poland, Egypt, Türkiye, Kazakhstan and Morocco. In Morocco, the EBRD has also assisted the National Port Agency in strengthening several Moroccan ports situated on the coastline, which is highly vulnerable to climate change. While short-term disruptions will likely ease in the future, EBRD support should remain instrumental in ensuring the overall resilience of supply chains, with a particular focus on vulnerability to climate shocks.

- **Companies are growing inventories and increasingly turning to more suppliers.** Three-quarters of respondents to the survey adopted at least one measure to increase the resilience of their supply chains, and 55 per cent of those surveyed have increased inventories of inputs. Nearly half of the sample, and more than 60 per cent in the Czech and Slovak Republics and Hungary, said they have started multi-sourcing inputs.

³ The EBRD Transition Report 2022-23, published on 22 November 2022, contains a comprehensive analysis of the results and other issues surrounding GVCs.



Source: EBRD Survey.

The EBRD's track record in providing support to improve warehouse logistics, including recent projects in Poland, Lithuania and Türkiye, was recently stepped up as part of the **Resilience and Livelihood Framework (RLF)**, in response to the disruptions faced by Ukraine and its neighbouring countries since the start of the war. As further examples, under the RLF, the EBRD has initiated projects in Ukraine and in the Slovak Republic with a project supporting the expansion of transshipment capacity to contribute to secured grain logistics from Ukrainian elevators.

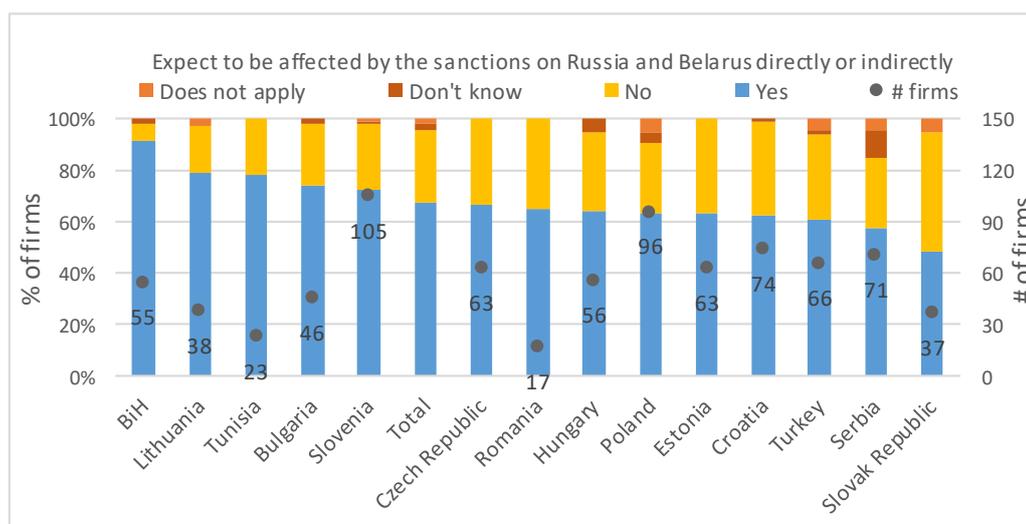
In addition, to ensure adequate financing and overall resilience of supply chains, the EBRD recently launched the €150 million **Supply Chain Solutions Framework (SCSF)**, which provides risk-sharing in supply chain finance (SCF) transactions of partner banks. The ultimate beneficiaries of the programme are suppliers, including SMEs, of larger and credit-worthy Anchor Buyers, which are able, through SCF, to access working capital financing that is both cheaper than alternative working capital solutions and less susceptible to market changes. With the successful roll out of the programme in Türkiye and Poland, the EBRD is laying the foundations to expand it to other countries, by designing a number of policy engagement projects in different areas: starting from the introduction of adequate legislation and regulation, to the establishment of best practices to make SCF more efficient (e.g., e-invoices, e-signature) in EBRD countries and raise awareness among SMEs.

- **Investment in technology is another response to Covid problems.** The pandemic has prompted many firms, including nearly 60 per cent of those interviewed in Bosnia and Herzegovina, to invest in digital technology, such as inventory tracking and optimisation, cargo tracking, and automated warehousing.

EBRD work in this area already includes support for digitalisation and automation of production or processes for SMEs (e.g., the Go Digital Pilot in Bosnia and Herzegovina), including assistance for warehouse automation and introduction of ERP systems (e.g., Romania DFF Aquila). As digitalisation of supply chains is an important precondition to ensure the efficiency and effectiveness of the SCF and to close the SME trade finance gap, the EBRD should further support the digitalisation

of value chains by rolling out the Digital Value Chain Initiative as part of the wider Supply Chain Solutions Framework.

- Sanctions on Russia and Belarus are having a major impact, both directly and indirectly, on companies elsewhere.** Since Russia's invasion of Ukraine began on 24 February 2022, around two-thirds of firms with suppliers in Russia, Belarus or Ukraine (which amount to 15 per cent of the whole survey sample) experienced disruptions in deliveries of inputs from these countries, and more than 30 per cent from other countries, due to shipping issues. 67 per cent of respondents in all countries said they expected to be affected by the sanctions, either directly, via their own exports, investments or direct suppliers in Russia or Belarus, or indirectly, via the impact on their direct suppliers outside of Russia and Belarus. The problems are particularly acute in Bosnia and Herzegovina, Lithuania, Tunisia and Bulgaria, where more than three-quarters of those interviewed say they expect to be affected. The crisis has led to increased demand for direct support by the EBRD to affected firms.



Source: EBRD Survey.

- Some firms are hiring refugees as a response to labour shortages.** Many of the countries included in the OCE survey are seeing historically low unemployment rates, and around 60 per cent of the sample said they struggled to recruit workers in the past year. Among these, a third said they had already hired some refugees, with particularly high numbers in Poland (more than 70 per cent of firms) and Lithuania (65 per cent).

The EBRD is involved in a number of projects in war-affected countries, which actively support access to employment and integration of refugees, notably in Poland, Lithuania, Romania and Moldova, with four recent projects in agribusiness and food retail. Building on the Bank's experience in the context of the Syrian refugee crisis, and in light of current labour shortages, the focus should be on inclusive procurement practices, facilitating access to job opportunities and training for targeted groups, and opening up traditionally male-dominated sectors to women and people with disabilities.

Looking ahead, as supply chain disruptions gradually unwind, the EBRD's role will remain crucial in ensuring their longer term resilience and sustainability. As part of its toolkit, the Bank will increasingly rely on its flagship Trade Facilitation Programme (TFP) to ensure continuous flows of trade and related finance. This programme, introduced in 1999, represents a primary crisis response tool, as demonstrated in the current situation in Ukraine where it is the only active programme in support of trade finance at present. It also contains an important development component in that it is accompanied by technical assistance and policy dialogue activities aimed at supporting the introduction of new products by clients. The EBRD's work in Greece represents an example of how the scope of the TFP can evolve from providing essential assistance to increase resilience of trade to supporting the roll out of new trade finance products, through both financing and tailored advisory services to partner banks.

Further innovative products such as the newly introduced SCSF will be key, particularly when at larger scale, in bridging SME trade finance gaps. This type of financing instrument, however, does not go beyond first-tier suppliers, making it difficult to reach SMEs in deeper tiers. Increasingly complex GVCs coupled with growing auditing requirements for firms to trace their supply chains and exercise appropriate due diligence⁴ further add to the need to have more control over value chains. Deep Tier Supply Chain Finance (DTSCF) represents a potential solution to these issues, as highlighted by the EBRD's Capital and Financial Markets Development team's initial study of the DTSCF state of play and the EBRD's potential value proposition. While DTSCF would provide accessible financing to SMEs in deeper tiers traditionally excluded from trade finance, the use of a centralised digital platform would also allow for better monitoring further along the value chain. For engaging in DTSCF transactions, the EBRD will continue its innovation journey in the supply chain sector, which started with the SCSF.

For an in-depth analysis of global supply chains in turbulent times, see Chapter 3 of the EBRD Transition Report 2022-23, available at: <https://2022.tr-ebrd.com/>.

⁴ For example, the adoption by the European Commission of a proposal for a Directive on corporate sustainability due diligence in February 2022, aims to ensure that EU companies address adverse impacts in their operations, including in their value chains inside and outside Europe.