

# Monitoring the Implementation of Ukraine's SME Development Strategy 2017-2020





Policy Insights

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**Please cite this publication as:**

OECD(2020), *Monitoring the Implementation of Ukraine's SME Development Strategy 2017-2020*, OECD Publishing, Paris, [www.oecd.org/eurasia/competitiveness-programme/eastern-partners/Monitoring-the-Implementation-of-Ukraine's-SME-Development-Strategy-2017-2020-ENG.pdf](http://www.oecd.org/eurasia/competitiveness-programme/eastern-partners/Monitoring-the-Implementation-of-Ukraine's-SME-Development-Strategy-2017-2020-ENG.pdf)

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## Foreword

In promoting long-term economic growth, Ukraine has sought to improve its policy framework for the development of small and medium-sized enterprises (SMEs). Its reforms have largely been informed by the recommendations provided under the 2016 *SME Policy Index* developed by the OECD and partner organisations (European Commission, EBRD and European Training Foundation), providing an analysis and benchmark of SME policy design and implementation against the ten principles of the Small Business Act (SBA) for Europe.

Building on the findings of the 2016 SBA assessment, the Cabinet of Ministers of Ukraine in May 2017 adopted an *SME Development Strategy until 2020*, followed by an Action Plan on SME Strategy implementation for the period up to 2020 (hereinafter – the Action Plan). The Ministry for Development of Economy, Trade and Agriculture (MDETA) has been responsible for implementing the Strategy, while the SME Development Office (SMEDO) and a Co-ordination Council were set up in order to assist with policy co-ordination. To ensure proper implementation of the SME Development Strategy, MDETA sought OECD support to help strengthen its institutional and monitoring capacity.

Within the context of the OECD project “EU4Business: From Policies to Action”, implemented with the financial support from the EU under the EU4Business initiative, the OECD analysed the monitoring framework of Ukraine’s SME Development Strategy and provided guidance on identifying relevant key performance indicators to track progress in implementation. Throughout the project, the OECD supported public-private consultations among relevant stakeholders to ensure a whole-of-government approach to SME policy implementation. In carrying out analytical and capacity building activities, along with thematic workshops, the project has helped to strengthen the analytical capacity of representatives of MDETA, SMEDO and the broader SME community.

This peer review note provides an overview of Ukraine’s SME sector, and thoroughly analyses the *SME Development Strategy until 2020* and its six strategic directions. After assessing progress for each of the strategic directions – including improving access to finance, simplifying tax administration, and promoting competitiveness and innovation – the note provides recommendations regarding further policy areas for assessment. Moreover, in drawing on international good practices, it includes suggestions regarding key performance indicators to help improve Ukraine’s ability to track progress in achieving its SME strategy targets.

This peer review note has benefitted from inputs obtained through fact-finding missions in February and November 2019, and regular exchanges with stakeholders working on promoting SME growth. It was peer reviewed at the OECD Eurasia Competitiveness Roundtable on 18 June 2020.

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## *Acknowledgements*

This report summarises the work carried out by the OECD Eurasia Competitiveness Programme (ECP) under the OECD Eastern Europe and South Caucasus Initiative (EESCI) Steering Committee, in consultation with the Government of Ukraine and with the participation of private sector and international organisations. This project was funded under the EU4Business Initiative of the European Union.

Representatives from several Ukrainian ministries, government agencies, private sector associations, non-governmental organisations and other stakeholders should be acknowledged for their availability to meet with the OECD team and share valuable insights for the development of this note. Notably, the OECD would like to extend its gratitude to the representatives of the Ministry for the Development of Economy, Trade and Agriculture (MDETA), including Minister Tymofiy Mylovanov, First Deputy Minister Pavlo Kukhta, and Deputy Minister Dmytro Romanovych. Additional contributions were received from Oleksandr Palazov, Deputy Director of the Entrepreneurship Development and Regulatory Policy Department at MDETA, as well as Andrii Remizov and Iryna Vasylichuk.

Significant contributions were also received from the SME Development Office, notably Andriy Slabinskiy, Director, and Olena Kravchenko, Advisor on SME Statistics & Monitoring. Other representatives of the Government of Ukraine, government agencies and public institutions should also be acknowledged for their important contribution to the project, including Tetyana Korotka, Deputy Business Ombudsman, and Iaroslav Gregirchak, Deputy Business Ombudsman at the Business Ombudsman Council.

OECD further extends its gratitude to the representatives of the EU4Business FORBIZ project in Ukraine, notably Ricardo Pinto, Senior SME Policy Advisor; Matthias Halder, Team Leader and Senior SME Policy Expert; Nataliya Balandina, Senior SME Policy Advisor; and Bogdana Aleksandrova-Efe, Senior SME Policy Advisor. A number of EU representatives also provided valuable contributions, including Kristi Raidma and Dorota Przuldzka.

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Final editorial and visual support was provided by Christopher Marquardt (Editor), Kristin Sazama and Vanessa Berry-Chatelain (OECD Global Relations Secretariat), and administrative support was provided by Eugenia Klimenka (OECD Eurasia Division).

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## *Acronyms and Abbreviations*

BRDO	Better Regulation Delivery Office
BSC	business support centre
BSO	business support organisation
CGS	credit guarantee scheme
CEA	central executive authorities
CIS	Commonwealth of Independent States
CMU	Cabinet of Ministers of Ukraine
COSME	Competitiveness of Enterprises and SMEs
DCFTA	Deep and Comprehensive Free Trade Area
EBRD	European Bank for Reconstruction and Development
EEN	Enterprise Europe Network
EPO	Export Promotion Office
ETF	European Training Foundation
EU	European Union
FDI	foreign direct investment
GDP	gross domestic product
GEM	Global Entrepreneurship Monitor
GUF	German-Ukrainian Fund
HR	human resources
ICT	information and communications technology
IDP	internally displaced person
IFC	International Finance Corporation
ILO	International Labour Organization
IMF	International Monetary Fund
KPI	key performance indicator
MDETA	Ministry for Development of Economy, Trade and Agriculture
MTOT	Ministry of Temporarily Occupied Territories and IDPs
NBU	National Bank of Ukraine
NCP	National Contact Point
NGO	non-governmental organisation
PPD	public-private dialogue
OECD	Organisation for Economic Co-operation and Development
R&D	research and development
RIA	regulatory impact assessment
SBA	Small Business Act
SD	strategic direction
SFS	State Fiscal Service
SME	small and medium-sized enterprise
SMEDO	SME Development Office
SRS	State Regulatory Service
SOE	state-owned enterprise
SURE	Support to Ukraine to Re-launch the Economy
TTO	technology transfer office
UCCI	Ukrainian Chamber of Commerce and Industry
VAT	value-added tax
WB	World Bank

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## Executive Summary

In 2017, the Cabinet of Ministers adopted an SME Development Strategy outlining six strategic directions, followed by an Action Plan for implementation a year later. Along with improving policy framework, access to finance and tax administration, the strategic directions foresaw promoting SME exports, competitiveness, skills growth, and innovation. These initiatives have contributed to improving the environment for the growth of SMEs, which currently account for 64.6% of employment and 52.8% of value added in Ukraine. Moreover, the country has progressed in international rankings, including the OECD *SME Policy Index 2020* and the World Bank's *Doing Business 2020*. However, to ensure the sustainability of the reforms and to maximise their effectiveness, this note monitors the progress of the strategy by evaluating policy achievements and gaps, identifying and tracking key performance indicators, and developing recommendations. The findings presented are based on information received and analysed up to January 2020. Therefore, the assessment does not include policy measures and changes that arose after the outbreak of the Covid-19 pandemic.

**In creating a favourable environment for SME development**, Ukraine has improved informational support for SMEs by ensuring the availability of data and online resources. Positive steps have been taken towards improving licensing, easing business liquidation, ensuring SME access to public procurement, and promoting public-private dialogue. Moreover, key performance indicators (KPIs) monitoring the institutional framework and the SME operational environment reveal progress. Ukraine has also sought to **ease SME access to finance** through commercial and non-bank institutions. Laws, action plans and concept notes have been drafted on financial leasing and non-traditional sources of financing, though they remain on hold. KPI assessment reflects mixed results, with lower interest rates on SME loans in foreign currency and higher rates on loans in national currency, and a reduction in the availability bonds and promissory notes provided through non-bank institutions.

**In simplifying tax administration**, Ukraine has improved value-added tax (VAT) refunds for SMEs through an automatic refund mechanism. In protecting the SMEs from late payments, the government has sought to use an e-procurement system, while drafting legislation to prevent payment delays. In addition, a draft law has been developed on labour market flexibility, though it remains on hold. KPI analysis of this strategic direction reveals improvements, as informal employment has fallen and tax payments have increased. To promote **skills-building and entrepreneurship culture**, Ukraine has progressed in developing start-up support programmes and scholastic clubs, while engaging in export activities and promoting responsible conduct. However, more should be done to improve financial literacy, to foster social entrepreneurship, and to stimulate life-long learning. KPIs reveal significant improvement in women's entrepreneurship and enterprise skills growth, and slight progress in higher education and training.

Ukraine has been working towards boosting **SME export and internationalisation** by improving legal framework and complying with EU standards. Notably, Council on International Trade, Export Promotion Office and Export Credit Agency have been established. While engaging with OECD bodies, Ukraine has launched trainings and projects, including the Export Academy and SheExports, for export promotion. KPIs demonstrate improvement in Ukrainian exports of goods and services, particularly towards

the EU countries. Lastly, Ukraine has sought to promote **SME competitiveness and innovation** by improving institutional capacity of business associations, supporting knowledge and technology transfer, and modernising the existing SME support infrastructure by engaging in Horizon 2020 and EU programmes, and National Contact Point trainings. KPI assessment reveals significant progress in the share of innovative SMEs and innovative industrial SMEs, though more should be done to increase R&D expenditure.

In analysing and monitoring the implementation of the strategy, the main findings of this report are as follows:

- Firstly, Ukraine should further strengthen its institutional framework in promoting a **favourable environment for SME growth**. The newly established SME Co-ordination Council is an important step in the right direction, but adequate resources are needed for the Council to operate effectively and to fulfil its mandate. While facilitating co-ordination among central and local executive authorities in implementing the strategy, the Council could provide a good platform for public-private dialogue. Furthermore, Ukraine should consistently carry out regulatory impact assessment for policies affecting SMEs, and monitor data on de-registration of liquidated enterprises.
- Secondly, a strong emphasis should be placed on further improving **SME access to finance**. Ukraine should work more with international partners to expand programmes for SME access to finance and broaden the use of credit guarantee schemes, while promoting non-bank financing, e.g. by reforming the factoring framework. More broadly, Ukraine should continue **promoting competition** within the banking sector, which, in the long run, would be critical for ensuring affordable financing for SMEs. To further **simplify tax administration**, the government needs to ensure consistency in tax payments and refunds, and better address late-payment issues.
- Thirdly, Ukraine should work more towards **skills-building and developing an entrepreneurial culture**. While gathering statistics on skills growth and social entrepreneurship, Ukraine could join the Global Entrepreneurship Monitor (GEM) to analyse attitudes towards business and entrepreneurial activities. In **promoting competition and innovation among SMEs**, current business support services, innovative activities, and R&D expenditure should be monitored. These activities could help promote **SME internationalisation**, which further entails institutional co-operation and supporting export promotion.
- Finally, this note provides suggested **key performance indicators (KPIs)** to conduct process and impact evaluations of the strategy. Process evaluation concerns the effectiveness of policy implementation, while impact evaluation concerns the results of the strategy, covering changes and improvements within the SME sector. These indicators may be used by relevant bodies (including the Co-ordination Council and SMEDO) to monitor the strategy, clarify objectives, and address shortcomings.

More broadly, ensuring strong institutional framework and commitment from the relevant stakeholders is key for strategy design, monitoring and implementation. This requires cost analysis to secure the budget for the implementation period, while prioritising targets, developing a unified reporting template, and standardising indicators for horizontal and vertical policy co-ordination. Moreover, a future SME Strategy and Action Plan should avoid duplicate actions across strategic directions to ensure consistency and to ease implementation, monitoring and evaluation.

Subsequent to the conduct of the current assessment, SMEs have been particularly impacted by the outbreak of the Covid-19 pandemic, and by the ensuing implementation of containment and social distancing measures. The latter resulted in a simultaneous shock in supply and demand, considerably reducing the economic activity in the country. Businesses have been experiencing significant drops in revenues, decline in output, and many of them risk severe liquidity shortages. In addition to the short-term support measures adopted, specific strategies will be needed in the medium/long-term: in this post-crisis context, SMEs' recovery can be fostered by facilitating access to finance (e.g. through credit lines and loan guarantees), by supporting more flexible regulation, as well as promoting their digital transformation.

Table 1 below summarises the main recommendations for the way forward.

**Table 1. Summary of recommendations: way forward**

Strategic Direction	Way Forward
Creating a favourable environment for SME development	<ul style="list-style-type: none"> <li>• Ensure regular review of the national regulatory policy by state authorities</li> <li>• Ensure effective development of public-private dialogue through co-ordinating bodies</li> <li>• Ensure monitoring and de-registration of liquidated enterprises</li> <li>• Ensure that the Business Ombudsman institution is embedded</li> <li>• Ensure that the Co-ordination Council implements its mandate</li> </ul>
Improving SME Access to Finance	<ul style="list-style-type: none"> <li>• Collect data on the value of leasing contracts</li> <li>• Ensure implementation of the pilot project on the partial credit guarantee scheme</li> <li>• Continue reforming the factoring framework</li> <li>• Establish programmes with international partners to ease access to finance</li> <li>• Stabilise and promote competition in the banking sector</li> </ul>
Simplifying SME tax administration	<ul style="list-style-type: none"> <li>• Ensure that VAT refunds are executed consistently throughout the budget year</li> <li>• Address late-payments issue by enforcing sanctions against deadline violations</li> <li>• Develop legal framework for labour market flexibility</li> </ul>
Promoting entrepreneurship culture and develop entrepreneurial skills	<ul style="list-style-type: none"> <li>• Join the Global Entrepreneurship Monitor (GEM)</li> <li>• Promote the development of social entrepreneurship in Ukraine</li> <li>• Close the gap in SME skills-intelligence data</li> </ul>
Promoting SME Export/Internationalisation	<ul style="list-style-type: none"> <li>• Ensure that the Export Promotion Office (EPO) has adequate resources</li> <li>• Ensure that Export Credit Agency (ECA) is operational</li> <li>• Promote entrepreneurship training among youth, women and internally displaced persons</li> <li>• Ensure policy co-operation with the Council on International Trade, ECA and EPO</li> <li>• Ensure the development of special electronic platforms related to export</li> </ul>
Improving SME competitiveness and innovation	<ul style="list-style-type: none"> <li>• Conduct a study of the BSO market and business support services</li> <li>• Ensure that local SMEs contribute to regional development</li> <li>• Monitor the implementation of a co-financing mechanism for agricultural SMEs</li> <li>• Ensure that TTOs play bridging role between science and industry</li> <li>• Ensure that innovation surveys are conducted regularly</li> </ul>

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## Introduction

### *Economic context and recent policy developments*

Following an economic slowdown in its major trading partners, a domestic political crisis, the Russian seizure of Crimea, and the eruption of armed conflict with Russian-backed separatists in the east of the country, Ukraine suffered a 15.7% contraction in GDP in 2013-2015. However, since 2016 it has experienced a modest recovery, with rising wages, strong consumer credit growth and high inflows of remittances. Real GDP growth recovered to 3.3% in 2018, and growth for 2019 continued at about the same rate (3.2%) (IMF, 2020<sup>[1]</sup>). But the measures adopted in response to the Covid-19 pandemic have taken a toll on the economy, which the IMF expects to contract by 7.7% in 2020 (IMF, 2020<sup>[1]</sup>). Inflows of foreign direct investment (FDI) have been weak and volatile, and exports, albeit having increased modestly after years of contraction, are dominated by low-value-added sectors and commodities.

In real terms, GDP per capita in 2018 was almost 10% below its 2008 peak and still more than 5% below the pre-conflict levels of 2013. Ukraine's main economic policy challenge is thus to make up lost ground and put the country back on a path of long-term income and productivity convergence with the advanced economies. Achieving this goal and ensuring a post-Covid crisis recovery will require both substantial structural reforms in a wide range of fields and substantial improvements in the business environment for start-ups and small and medium-sized enterprises (SMEs).

Since 2013, Ukraine has made considerable progress in many of these areas. Notwithstanding severe internal and external challenges, it has introduced a flexible exchange rate regime supported by disciplined fiscal and monetary policies, and it has undertaken significant energy and financial sector reforms. Together with the signature of the EU-Ukraine Association Agreement and the creation of a Deep and Comprehensive Free Trade Area (DCFTA) with the EU, these have helped restore macroeconomic stability and growth. Moreover, the government has undertaken a major banking system reform, and has introduced e-government for public procurement and value-added tax (VAT) repayments, as well as professional governance for a small number of the most important state-owned enterprises (SOEs). Finally, a Business Ombudsman Council was created and is operating effectively, and new anti-corruption institutions were established.

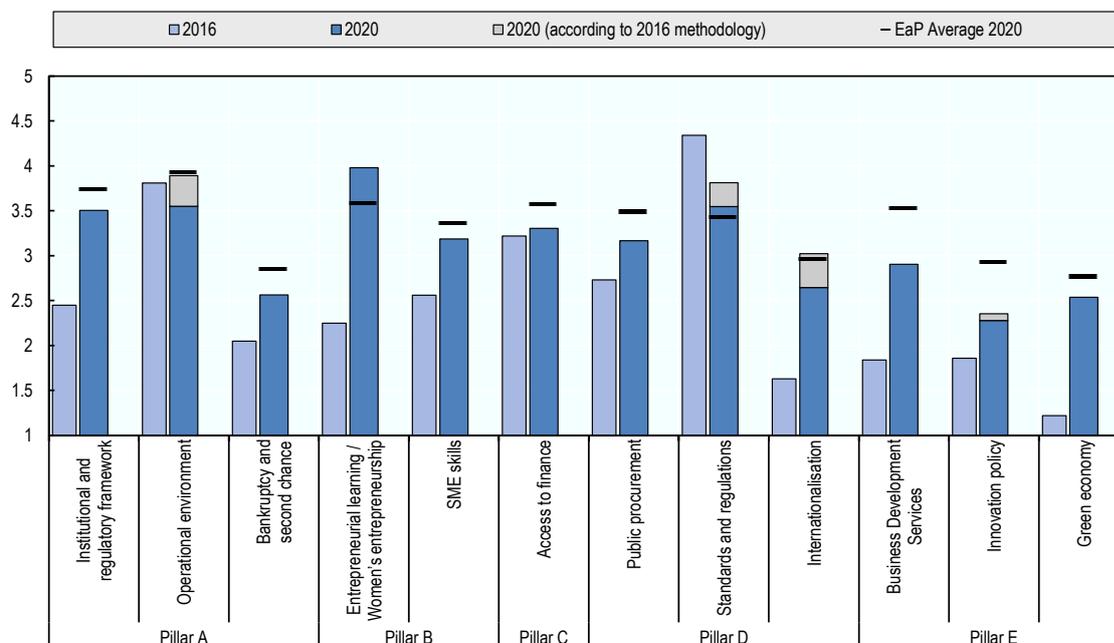
The ambitious reform agenda undertaken by the government since 2014 contributed to the achievement of important progress, reflected in Ukraine's improvement in the World Bank *Doing Business* exercise. In fact, Ukraine has risen 19 positions since 2016, ranking 64th in 2019-20. Seven out of the ten key indicators were improved, and key reforms were introduced and contributed to improved scores in the areas of dealing with construction permits, protecting minority investors, getting electricity, trading across borders, and registering property (World Bank, 2019<sup>[2]</sup>).

Recent reform achievements also find reflection in Ukraine's 2020 scores in the SME Policy Index (Figure 1), which assesses policies and institutions for SME development against the ten principles of the EU's Small Business Act for Europe. Particularly noteworthy are improvements in the areas of SME greening, integrating entrepreneurship as a key competence into the key policy documents guiding the national education agenda, and supporting women's entrepreneurship. Ukraine has also made important progresses in

SME internationalisation, delivering support services to SMEs, modernising the SME support infrastructure, and developing effective institutional and regulatory frameworks.

**Figure 1. SME Policy Index scores for Ukraine**

Country scores by dimension, 2020 vs. 2016



*Note:* Methodological changes have been introduced to the 2020 assessment and should be taken into account when observing trends in SME Policy Index scores.

*Source:* (OECD, EC, EBRD and ETF, 2020<sup>[3]</sup>)

1. However, the Covid-19 crisis has considerably affected the national economy, particularly the SME sector. Like most EaP governments, the Ukrainian authorities responded to the pandemic with containment measures, which significantly slowed down economic activity. Businesses, and SMEs in particular, have seen their revenues severely decline, and risk facing liquidity shortages (OECD, 2020<sup>[4]</sup>). In order to tackle the economic and social consequences of the crisis, the government has implemented a series of measures to support businesses and households (Box 1).

#### **Box 1. Ukraine's economic response to the COVID-19 pandemic**

The government responded to the economic crisis with a broad set of measures. On April 13, the parliament approved the creation of a UAH 64.7 billion (USD 2.4 billion) Fund to Counter Covid-19. The support package encompasses the following policy responses, providing targeted support for SMEs (information as of 29 May 2020):

- partial unemployment allowance programme for SMEs that had to suspend their activities during the lockdown, amounting to two-thirds of the salary rate for each hour of lost work time (up to the minimum wage – UAH 4,723);
- adjustment of the “Affordable Loans 5-7-9%” programme, initially started in January 2020, to help businesses refinance existing loan, cover the cost of payroll and have a facilitated access to finance: SMEs can thereby borrow up to USD 110,000 with no interest until 31 March 2021;
- targeted support for individual entrepreneurs, including child assistance and temporary tax exemptions;
- tax measures: temporary suspension of tax on commercial real estate and land, of tax inspections, of interest payments for taxpayers and social security contributors; temporary cancellation of fines for violation of tax regulation; and postponement of personal income tax declaration;
- rent relief for the duration of the lockdown;
- prohibiting credit institutions from raising interest rates on loans already issued;
- legislative changes enabling businesses to adopt more flexible working hours.

The government is looking to provide loan guarantees for SMEs and to increase support to pay wages. It also announced a new programme to provide SMEs (with an annual turnover of under USD 10.8 million) with loans at 3% interest per annum for up to two years. On May 27, it approved an Economic Stimulus Program to Combat Effects of the COVID-19 Epidemic. In addition, social support measures have been implemented (e.g. increase in unemployment benefits and pensions, utility bill subsidies for vulnerable groups, etc).

Moreover, the state-owned PrivatBank had announced a “credit holiday” until the end of May. The National Bank of Ukraine also took several measures, intervening to support the highly volatile local currency, bank liquidity and lending. It notably decreased the key interest rate to 8% and introduced a long-term refinancing mechanism for banks up to 5 years.

Source: (OECD, 2020<sup>[4]</sup>).

### ***The SME sector in Ukraine***

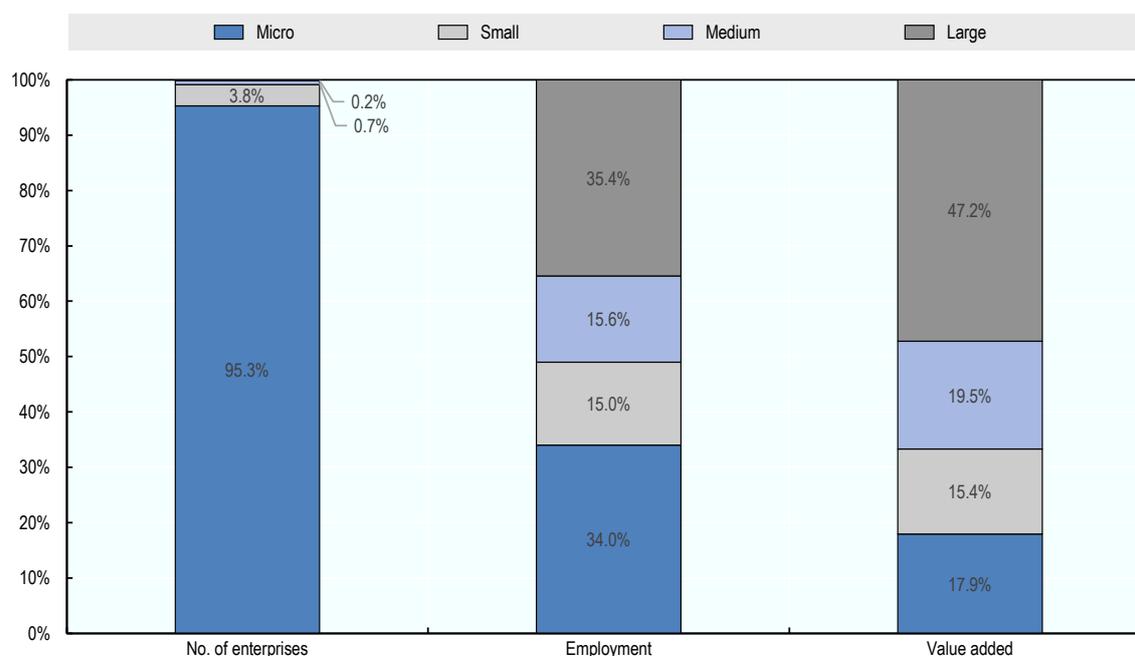
Ukraine is still using the SME definition that was introduced in 2012, which defines micro, small and large enterprises based on employment and turnover criteria. This is broadly in line with the EU definition. In order to facilitate comparability with EU countries, Ukrstat (the State Statistics Service of Ukraine) also uses a definition of SMEs based on employment only (Table 2).

**Table 2. Definition of micro, small, medium in Ukraine**

	Micro	Small	Medium	Large
Employment	≤ 10 employees	≤ 50 employees	All enterprises that do not fall into the category of small or large enterprises	≥ 250 employees
Annual income	≤ EUR 2 million	≤ EUR 10 million		≥ EUR 50 million

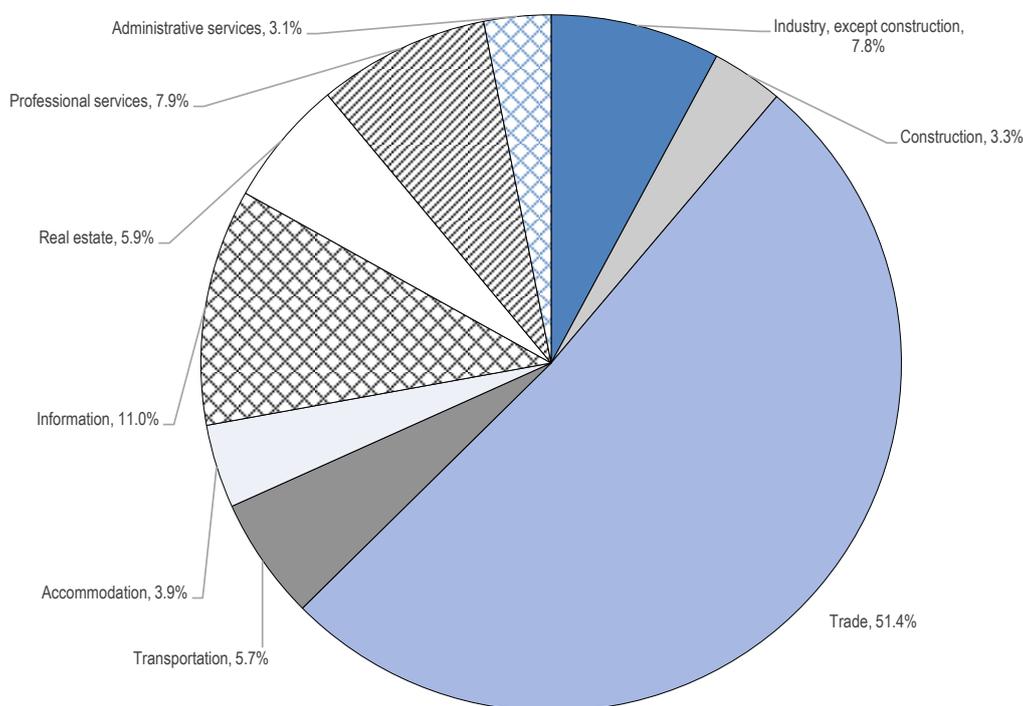
Source: Commercial Code of Ukraine Art. 55, as of March 22, 2012.

In 2018, the share of SMEs operating in the business sector, including micro enterprises, was 99.8%. Micro enterprises represented 95.3% of all business entities, small enterprises 3.8%, medium enterprises 0.7%, and large enterprises 0.2%. SMEs accounted for 64.6% of the total business employment in Ukraine and generated 52.8% of value added in the business sector (Figure 2).

**Figure 2. Business demography indicators in Ukraine by company size, 2018**

Source: (SSSU, 2019<sup>[5]</sup>)

In the same year, more than half of Ukraine's SMEs operated in wholesale and retail trade, and the share of enterprises operating in high-value-added sectors – such as information and communications (11%, against 5% in 2015), industry (7.8%), and professional, scientific and technical activities (7.9%) – has grown (Figure 3).

**Figure 3. Sectoral distribution of SMEs in Ukraine, 2018**

*Note:* Includes sectors B-N (ISIC Rev. 4)<sup>1</sup> excepting financial and insurance activities. Data do not include the agriculture sector.

*Source:* (SSSU, 2020<sup>[6]</sup>)

### ***SME Development Strategy 2017-2020***

#### ***SME Strategy and institutional framework for its implementation***

The *Strategy for Small and Medium-sized Enterprise Development in Ukraine until 2020* was adopted on 24 May 2017 by decree of the Cabinet of Ministers (CMU, 2017<sup>[7]</sup>).<sup>2</sup> It reflects the priorities set out in other strategic documents of the government, such as *Sustainable Development Strategy: Ukraine 2030*, *Export Strategy of Ukraine: Roadmap for Strategic Development of Trade 2017-2021*, *National Programme of Reform of State Supervisory Authorities*, etc. The document sets forth the government's commitment to developing a competitive SME sector in Ukraine in line with Small Business Act (SBA) for Europe principles and based on the recommendations provided by the OECD, ETF and EBRD in the *SME Policy Index: Eastern Partner Countries 2016*.

The Strategy document is overall well-structured and comprehensive. It includes an SME sector analysis, outlines the institutional framework for SME policy, identifies the main

<sup>1</sup> For detailed information on classification of activities please refer to the UN's International Standard Industrial Classification of All Economic Activities:

[https://unstats.un.org/unsd/publication/seriesM/seriesm\\_4rev4e.pdf](https://unstats.un.org/unsd/publication/seriesM/seriesm_4rev4e.pdf)

<sup>2</sup> All references to the SME Development Strategy refer to the following source: CMU (2017), *Strategy for the Development of Small and Medium-Sized Enterprises in Ukraine for the period up to 2020*, Cabinet of Ministers of Ukraine.

barriers to SME sector development, and sets an overall objective of the Strategy and six strategic directions (SDs) of state action (Figure 4).

**Figure 4. SME Development Strategy of Ukraine 2017-2020**

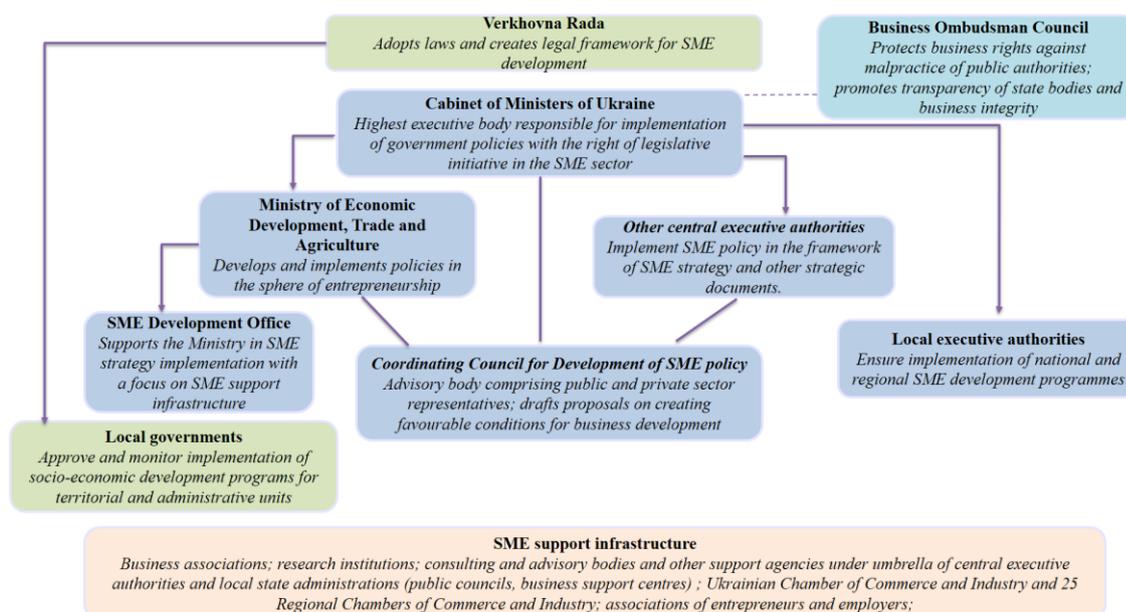


Note: the figure depicts main objectives and strategic directions

Source: (CMU, 2017<sup>[7]</sup>)

The institutional framework for SME policy, as an important element for effective strategy implementation, requires particular attention and is outlined in Figure 5.

**Figure 5. Institutional framework for SME policy in Ukraine**



Source: (CMU, 2017<sup>[7]</sup>); (CMU, n.d.<sup>[8]</sup>)

The framework has been improved significantly since the beginning of the policy cycle. An SME Development Office (SMEDO) was established in October 2018 as an advisory body to the Ministry for Development of Economy, Trade and Agriculture (MDETA). In October 2019, the Cabinet of Ministers of Ukraine established a Co-ordination Council on Micro and Small Entrepreneurship Development, including representatives from relevant ministries, state agencies, civil society and business support organisations (CMU, 2019<sup>[9]</sup>).

The Strategy also describes mechanisms for its implementation and monitoring (see Chapter 1). As for the Strategy funding, multiple financial sources are foreseen, including allocations from the state budget (by each state authority responsible for the implementation of respective actions under the strategy), financing through international technical assistance programmes, and funds from other sources. The Strategy does not, however, contain a cost analysis.

On 10 May 2018, a year into the implementation, the government adopted a corresponding Action Plan (CMU, 2018<sup>[10]</sup>).<sup>3</sup> The Ministry for Development of Economy, Trade and Agriculture co-ordinated and developed the SME Action Plan with the support of the EU-funded FORBIZ project and the involvement of relevant SME stakeholders, namely executive authorities, business associations, business support organisations, representatives of international and donor organisations. The Action Plan includes measures, responsibilities, deadlines, resources, and key performance indicators (KPIs) to monitor the implementation of the Strategy. To avoid overlap between different government strategies and to facilitate the implementation of the SME Strategy, a number of actions and measures of the SME Strategy were removed from the Action Plan to be implemented under other strategic documents; this will in principle facilitate reporting and improve inter-ministerial co-ordination. As a result, the Action Plan contains five strategic directions and a list of actions implemented under other strategic and programme documents (Annex 1 of the Action Plan).<sup>4</sup> Moreover, a cost analysis has not been carried out for the Action Plan.

Both the Strategy and the Action Plan have been elaborated with international support, in particular with the engagement of experts from the FORBIZ project. Consultations with other central executive authorities, civil society, SME sector representatives and international partners were conducted at the stages of preparation and finalisation of the document.

While the Action Plan serves as a roadmap for the implementation of the SME Strategy, the Co-ordination Council on SME policy, established on 28 October 2019, provides institutional framework. The Council aims to ensure that cross-cutting actions under the Action Plan for which different ministries are responsible are co-ordinated and implemented. Some of the responsibilities of the Council are as follows:

- preparation of strategic decisions on the implementation of reforms in the field of SME promotion;
- preparation of recommendations and proposals on the formation and implementation of state policy in the field of SME promotion;

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<sup>3</sup> All references to the Action Plan for the SME Development Strategy refer to the following source: CMU (2018), *Action Plan on SME Strategy implementation for the period up to 2020*, Cabinet of Ministers of Ukraine.

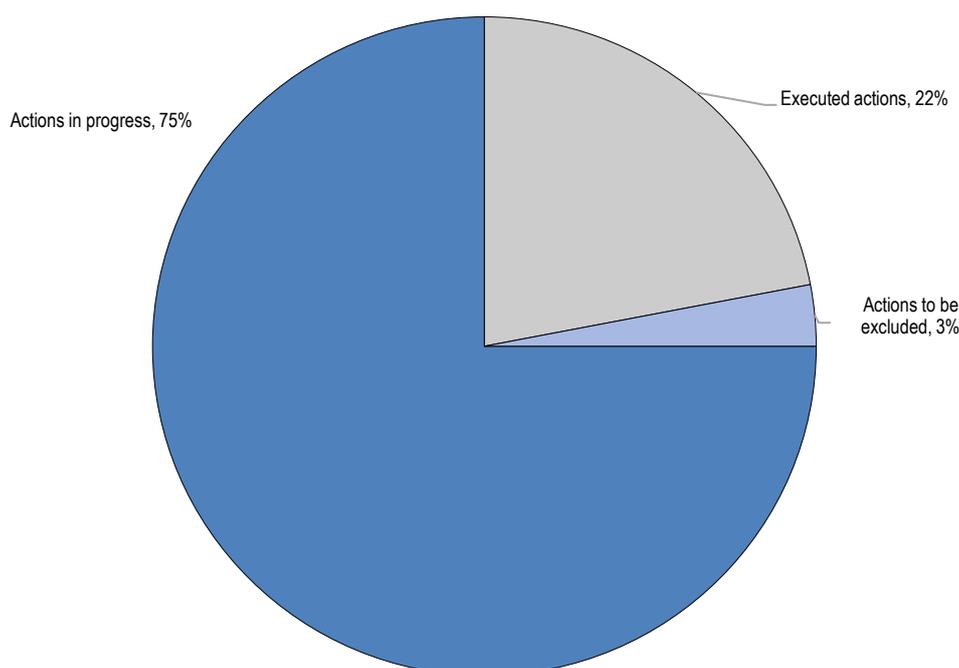
<sup>4</sup> The strategic direction on SME export/internationalisation being fully implemented under the *Export Strategy of Ukraine: Roadmap for Strategic Development of Trade 2017-2021*.

- identification of mechanisms and ways to solve challenges in promoting SME development; and
- carrying out explanatory work on the application of registrars of settlement operations in accordance with the laws on registrars of settlement operations, their servicing and cashback.

### *Reporting and monitoring arrangements*

The Ministry for Development of Economy, Trade and Agriculture (MDETA) is supposed to prepare semi-annual reports on the implementation of the SME Strategy Action Plan and submit them to the Cabinet of Ministers of Ukraine (CMU). Central executive authorities (CEAs) and regional state administrations report quarterly to MDETA. The Ministry has elaborated a template for summarising information on implementation status by strategic direction and by responsible institution. It has also developed a monitoring table that quantifies progress in implementation of actions by MDETA and other state bodies as shares of total actions implemented by responsible institution for the given period. As of December 2019, 22% of the actions foreseen have been executed, and 75% are being implemented (Figure 6).

**Figure 6. Progress in SME Strategy implementation**



Source: (SMEDO, 2020<sup>[111]</sup>)

Due to the late adoption of the Action Plan (May 2018) and lengthy internal procedure of control on reporting between CMU, MDETA and CEAs, MDETA has not provided reports to CMU on a semi-annual basis, as required by the Action Plan. Instead, the first report on SME Strategy implementation covered the period from Q2 2018 to Q1 2019 and the next report will cover Q2–Q4 2019.

### *Performance indicators for monitoring progress in the SME sector*

The Action Plan includes performance indicators for each activity. Where possible, given the nature of the activity, the indicators are quantitative but without targets. Implementation reports provide useful information on each planned activity, but they are mostly narrative and not directly related to performance indicators. Setting targets for quantitative indicators and explicit reporting on their current values would increase the precision of assessment (e.g. a distinction could be made between "some" and "good" progress). The use of simple presentational tools to highlight the most important activities (in terms of delays or weak implementation) would facilitate steering of implementation by decision makers.

The SME Strategy includes a set of KPIs, including 2017 values and 2020 targets. Following joint efforts by Ukrstat and the OECD's Statistics and Data Department, as well as the National Bank of Ukraine (NBU), the availability and scope of data on the SME sector are improving. The indicators of the SME Strategy generally match the objectives and will be a useful tool for the final evaluation. Some of the indicators can be considered as relating to the overall results of the Strategy, and others as relating to specific strategic directions. The overall indicators are reviewed in Table 3; the report addresses specific indicators, with some additional suggestions, in the respective chapters on each strategic direction.

**Table 3. Suggested KPIs for monitoring progress in the SME sector**

KPI	Description/rationale	Baseline value <sup>2</sup> (year)	Most recent value (year)	Source of data
Value added of SMEs (% of total value added)	A standard indicator of the overall development of the SME sector	51.2 % (2017)	52.8 % (2018)	Ukrstat, Activity of Large, Medium, Small and Micro-entrepreneurship entities, 2018, table 3.4.
Turnover (sales) of SMEs (% of total turnover)	A standard indicator of the overall development of the SME sector	54.7 % (2016)	55.7 % (2018)	Ukrstat, Activity of Large, Medium, Small and Micro-entrepreneurship Entities, 2018, table 3.1.
Profits of SMEs before taxation (% of total profits) <sup>3</sup>	An auxiliary indicator of the overall development of the SME sector	64.2 % (2016)	58.5 % (2018)	Ukrstat, Activity of Large, Medium, Small and Micro-entrepreneurship Entities, 2018, table 2.22.
Net profits of SMEs before taxation (% of total net profits) <sup>3</sup>		12.4 % (2016)	52.6 % (2018)	
Employment in SMEs (% of total employment) <sup>4</sup>	A standard indicator of the overall development of the SME sector	62.8 % (2016)	64.6 % (2018)	Ukrstat, Activity of Large, Medium, Small and Micro-entrepreneurship Entities, 2018, table 3.1.
Growth in SME employment (in absolute terms, thousand people) <sup>5</sup>	A standard indicator of the overall development of the SME sector	4214.5 (2016)	4385.2 (2018)	Ukrstat, Basic indicators activity of business entities with distribution on the subjects large, middle, small and micro-entrepreneurship

Notes: <sup>1</sup> Data in the table are based on the standard Eurostat definition of SMEs, except for profits. <sup>2</sup> Baseline year is 2016, if available, since the SME Strategy was approved in 2017. <sup>3</sup> Share of profits is calculated from data on enterprises that made profit in a given year, while net profits are calculated by deducting total losses from total profits. Natural-person entrepreneurs are not included. <sup>4</sup> Employment measured as number of persons employed. <sup>5</sup> Employment measured as number of persons employed and natural-person entrepreneurs are not included.

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The first three KPIs in the table were introduced in the Strategy and are related to the overall objectives. However, the share of SME profits in total business profits fluctuates by around 10 percentage points from year to year with no clear trend, even when one looks only at profit-making companies. Such volatility does not make it a good indicator for tracking the results of the Strategy over time. This is why in the table we propose another indicator: the share of employment in SMEs. There has been a steady increase in the employment share since 2013, when it stood at 59%. Based on current trends and assuming the implementation of the Strategy, the employment share of SMEs could increase further until 2020.<sup>5</sup>

When assessing the progress of indicators against targets set by the Strategy, one must be aware that the targets were set using 2015 data, which the most recently available data at the time of drafting, when the figures for value added, sales and employment did not include natural-person entrepreneurs and where available only on the national SME definition. This makes it difficult to directly compare the current statistic, with the targets. Nevertheless, the table above documents the improvement of SME shares in turnover and employment, which both indicate a positive development of the SME sector. Moreover, data based on national definition indicate also an increase of the SME share in value added (from 62.3% to 64.3%).

For international comparison, the standard Eurostat approach is to use the number of employees as the sole criterion of company size. Such internationally comparable data on Ukrainian SMEs were published in the *OECD Compendium of Enterprise Statistics in Ukraine in 2018*, providing data for 2017 and partly for 2016, the Ukrstat publication *Activity of Large, Medium, Small and Micro-Entrepreneurship Entities 2018* provides comparable data for 2018 and dates back to 2013 (SSSU, 2019<sub>[5]</sub>) (OECD, 2018<sub>[12]</sub>).

The overview table relies on these internationally comparable data, when available. However, most of the SME statistics are based on the national definition, which combines the number of employees with the company turnover. SME shares calculated on the national definition basis are higher than those reported in the table, probably because some enterprises that were classified as SMEs on the basis of turnover had more than 250 employees. For example, the share of SME employment in 2018 was 81.5% using the national definition compared to 64.6% on the Eurostat definition, but both methodologies indicate an increase compared to 2016.

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<sup>5</sup> Along with tracking the growth of employment in SMEs, monitoring the share of employment is relevant, as the figures are more stable from year to year and reflect dynamics in employment. For example, employment in SMEs may increase, yet the share of employment in SMEs may decrease due to higher employment growth in larger enterprises. It is worth noting that during 2016-2018, both the share and the number of employees increased in SMEs, while employment in large companies fell.

## 1. Monitoring SME Strategy implementation

The report presents the assessment of the SME Strategy implementation across six strategic directions (SDs) and along two levels of analysis: monitoring of progress in implementation and monitoring of results, with analysis of key performance indicators (KPIs). The main findings are therefore structured by strategic direction at the level of priority actions, and include respective analytical sections, as well as a section with recommendations going forward.

### SD 1 Creating a favourable environment for SME development

This strategic direction covers different aspects of the business environment (i.e. regulatory policy, institutional framework, information infrastructure, etc.), that aim to create favourable conditions for SME growth and competitiveness. It foresees six priority actions and respective measures to achieve the stated objective. While Ukraine's position improved in the World Bank's *Doing Business* rankings and across specific categories (such as protecting minority investors and dealing with construction permits), the country still falls behind Belarus, Georgia and Moldova in overall rankings.

#### *Monitoring progress in implementation*

##### *1. Increase the level of information support, including through improving state statistical system<sup>6</sup>*

The Strategy foresees the creation of a dedicated SME web portal designed to provide SMEs with access to information, in a user-friendly format, on various aspects of doing business (i.e. starting a business, getting administrative services, available means of financing, state support programmes, etc.). The implementation of this measure was postponed due to technical issues related to the launch of a web portal within the existing MDETA website and then following its merger with the Ministry of Agriculture in September 2019. The state informational portal for SME ([www.sme.gov.ua](http://www.sme.gov.ua)) was launched in October 2019 and its maintenance will be the responsibility of the SME Development Office.<sup>7</sup> In addition to the abovementioned areas, the portal contains information on public procurement for SMEs, exporting opportunities, inspections, standards and certifications, and opportunities for businesses within the EU Competitiveness of Enterprises and Small and Medium-sized Enterprises (COSME) programme.

This direction implies the publication of additional SME statistics. The State Statistics Service of Ukraine is to produce 15 additional indicators to monitor entrepreneurship development. As a result, four additional indicators were added in 2018: export volumes

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<sup>6</sup> This action is carried out within the SME Strategy, but also under the *2015-2017 Action Plan for Implementing the National Strategy for Regional Development until 2020*, which envisages introducing the European statistical reporting system at the regional level, in Nomenclature of Territorial Units for Statistics (NUTS) format (NUTS 2 region). See <https://ec.europa.eu/eurostat/web/nuts/background>.

<sup>7</sup> It is worth noting that the SME Development Office has started establishing targeted SME support programmes to promote their development across Ukraine.

by enterprise size class, churn rate of SMEs, share of R&D expenditure as a percentage of GDP, and share of exports by SMEs.<sup>8</sup> Further production of statistical indicators is to be carried out according to the Action Plan. The data on the number of SMEs that received online orders to sell goods or services, and on the number of SMEs that purchased goods and services online, was published on the website of Ukrstat (MDETA, 2018<sub>[13]</sub>).

In addition, publication of a yearly report on the state of development of SMEs in Ukraine covering statistical and analytical data, and presenting the results of SME policy outcomes as well as information on the state support programmes for SMEs, is planned under this action. While a report for 2018 is not available on the MDETA web-site, Ukrstat has produced a statistical bulletin on key entrepreneurship data for 2010-2017 (broken down by enterprise size) and made it available on its website (SSSU, 2019<sub>[5]</sub>). A report for 2019 is expected to be finalized and published by the end of Q1 2020.

The MDETA has also included a measure on supporting the third round of the SBA assessment in Ukraine, conducted by the OECD, ETF and EBRD. Over the assessment period (September 2018 to October 2019), MDETA co-ordinated the data collection process and filled out the SBA questionnaire and statistical sheet using the data provided by line ministries and agencies. In addition, the Ministry helped organise three public-private working group meetings in Kyiv on women entrepreneurship, life-long learning and SME skills, and ensured Ukraine's representation at regional SBA stakeholder meetings in Brussels (2018) and Paris (2019).

## *2. Ensure application of the “Think Small First” principle<sup>9</sup>*

Under this action, the government envisaged measures to support implementation of the updated regulatory impact assessment (RIA) methodology (which now includes an SME test) and to ensure the rolling review of regulations in key economic sectors.

MDETA planned to carry out a study of effectiveness of RIA implementation by state executive authorities by Q4 2018. This measure is considered as completed with the publication of the report by the State Regulatory Service (SRS) on the implementation of national regulatory policy by the state executive authorities in 2017 (SRS, 2018<sub>[14]</sub>). In addition, the analysis of RIA implementation by state executive authorities was included in the SRS analytical report for 2018, which is an important step towards ensuring effective RIA implementation across different levels of government (SRS, 2019<sub>[15]</sub>).

In addition, in 2018, the SRS provided methodological support to the executive authorities for the implementation of the updated RIA methodology and SME test, an effort involving more than 200 consultations with central executive authorities (CEAs) with 98 responses submitted in writing, and over 2200 consultations with local self-governments (SRS, 2018<sub>[16]</sub>). Throughout Q1-Q3 2019, 170 consultations with CEAs and 56 responses in writing were provided by the SRS (SRS, 2019<sub>[17]</sub>). Moreover, in 2018 the SRS conducted two workshops to present standardised sets of open data for regulators within its project “Regulatory Map of Ukraine” with the support of experts of the “Transparency and Accountability in Public Administration and Services” (TAPAS) project (SRS, 2018<sub>[16]</sub>).

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<sup>8</sup> For reference please visit the website of the State Statistics Service of Ukraine [http://www.ukrstat.gov.ua/operativ/menu/menu\\_u/zed.htm](http://www.ukrstat.gov.ua/operativ/menu/menu_u/zed.htm)

<sup>9</sup> “Think Small First” principle relates to the notion of supporting the growth of small and medium-sized enterprises under the Small Business Act for Europe (SBA), which Ukraine has sought to integrate in its strategic focus (<http://eu4business.eu/news/ukraine-sets-sme-development-office-eu-support>)

To facilitate the development of regulatory acts for policy makers, an online web platform on RIA implementation was launched ([www.tools.regulation.gov.ua](http://www.tools.regulation.gov.ua)), four seminars on conducting RIA were carried out by the SRS for MDETA in 2018 (MDETA, 2018<sub>[13]</sub>), and a webinar on RIA and SME-test application covering 300 representatives of central and local executive authorities was held in 2019 (MDETA, 2019<sub>[18]</sub>).

Furthermore, a rolling review of regulations in five key economic sectors is carried out on a regular basis.<sup>10</sup> Thus, in 2018, 1298 regulatory acts in construction (79), energy (258), agriculture and food safety (200), transport and infrastructure (41), and ICT (91) were reviewed (MDETA, 2019<sub>[19]</sub>). Regulatory acts restricting businesses' access to markets constitute a separate category in the process; in 2018, 629 of them were reviewed.

In addition, in order to reduce administrative burden from the state control authorities on SMEs, the Better Regulation Delivery Office (BRDO) launched a pilot module of the integrated automated system of state supervision, which contains information on planned inspections by different state control authorities (SRS, 2018<sub>[16]</sub>).<sup>11</sup> As of October 2019, 34 inspection bodies (out of 38) had joined the system and disclosed information about their inspections on the dedicated portal ([www.inspections.gov.ua](http://www.inspections.gov.ua)). Moreover, a set of criteria for determining the degree of risk of business activity in 72 areas of state oversight (out of 85) and the frequency of planned government oversight was developed by SRS and state supervisory authorities and approved by the government (SRS, 2019<sub>[17]</sub>).

### *3. Simplify business liquidation procedures*

The law of Ukraine regulating liquidation procedures for enterprises specifies timelines and conditions for removing the enterprise from the respective registers upon liquidation. Under this action, MDETA envisaged ensuring consistent implementation of the provided timelines to help decrease the number of complaints regarding the failure of the state authorities to de-register liquidated enterprises. Thus, in Q3 2018 the number of legal persons unregistered from the state registers controlling business activities increased by 33% compared to Q2 2018, which could be evidence of improved de-registration procedures (MDETA, 2018<sub>[13]</sub>).

### *4. Improve licensing and permits system<sup>12</sup>*

Under this action, the government plans to ensure the protection of business rights from misconduct and inaction of state licensing authorities by developing and submitting the respective draft law to the CMU. On 3 October 2019, the draft law “On Amendments to the Code of Administrative Offenses to Strengthen the Protection of Business Entities against Unlawful Actions or Inactions of Licensing Authorities” was approved by the parliament (Verkhovna Rada, 2019<sub>[20]</sub>). The law provides for sanctions for public authorities, ranging from 50 to 150 non-taxable minimum incomes<sup>13</sup> (i.e. approx. EUR 170 to EUR 5100), depending on the gravity and type of administrative offence (i.e. denial in

<sup>10</sup> The defined priority economic sectors include a) agriculture, with a focus on food safety, b) construction, c) energy, d) transport and infrastructure, and e) information technologies and communications.

<sup>11</sup> Also implemented as part of the Action Plan for De-regulation of Commercial Operations (August 23, 2016).

<sup>12</sup> Also implemented as part of the Action Plan for De-regulation of Commercial Operations (August 23, 2016).

<sup>13</sup> In the case of administrative or criminal offences, the non-taxable minimum income stands at UAH 960 (approx. EUR 34).

granting permit/license on grounds not provided for by law; violation of timelines for the issuance of permits/licenses; delayed registration of a public entity in the Single State Register of Legal Entities, Individual Entrepreneurs and Public Formations; refusal to renew or revoke the permit documents, etc.).

In addition, the Ministry of Energy and Environmental Protection is working on improving the legal framework regulating the use of subsoil and developing an electronic system for applications for special permits for subsoil use. Moreover, the information system “Portal of e-services of the State Agency of Water Resources of Ukraine” ([www.e-services.davr.gov.ua](http://www.e-services.davr.gov.ua)) was introduced to enable online interaction with clients and issuance and cancellation of permits for special water use for legal entities.<sup>14</sup>

### *5. Enhancing SME access to public procurement*

Increasing SME participation in public procurement is among the priorities of the SME Strategy. Therefore, MDETA envisaged three types of measures:

- First, MDETA plans to introduce a new field in the registration card of each e-procurement participant indicating the category of business entity based on its size class.<sup>15</sup> In April 2019, the ProZorro, electronic public procurement system, saw the new field on enterprise size class integrated (ProZorro, 2019<sub>[21]</sub>). The action is thus marked as complete.
- Secondly, in order to increase the number of procurements in which SMEs can take part, MDETA envisaged amending the law “On Public Procurement” through a new draft law that would set rules for procurement below certain thresholds. The draft law was approved by Verkhovna Rada on 19 September 2019 (Verkhovna Rada, 2019<sub>[22]</sub>).
- Finally, MDETA foresaw a number of activities to raise SMEs’ awareness (e.g. training events, seminars and round-tables) of opportunities to participate in public procurement through the electronic ProZorro system. Thus, over the course of 2018, MDETA conducted a free training cycle on public procurement, using a “business breakfasts” format, for around 900 participants in total (DoZorro, 2018<sub>[23]</sub>). The training is ongoing and covers different aspects of public procurement.

### *6. Ensure development of the public-private dialogue*

In order to ensure effective public-private dialogue (PPD), according to the Action Plan, MDETA sought to increase the efficiency of the Council of Entrepreneurs. A permanent advisory body under the Cabinet of Ministers since 2008, the Council of Entrepreneurs was recently subject to liquidation. However, following the involvement of NGOs appealing to the Cabinet of Ministers, its liquidation was overturned, though a decision regarding its future activities has been postponed.

In addition, the Action Plan envisaged a law “On Business Ombudsman Institution” to ensure the sustainability of the Business Ombudsman’s operations in Ukraine. The draft law was submitted to the Verkhovna Rada of Ukraine and adopted at the first reading in 2016. In September 2019, the draft law was included in agenda of the second session of the Rada, though it remains on hold.

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<sup>14</sup> For more information please visit the following website

<https://www.kmu.gov.ua/en/reformi/efektivne-vryaduvannya/rozvitok-elektronnih-poslug>

<sup>15</sup> Criteria are number of persons employed and total turnover (Ukrstat definition of SMEs).

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Further examples of established consultation platforms are as follows:

- The Business Protection Commission, a temporary advisory authority within the Cabinet of Ministers of Ukraine (CMU, 2019<sup>[24]</sup>). The main tasks of the Commission include: business entities' appeals regarding work obstruction, violations of rights and legitimate interests by state and local authorities and their representatives.
- A Complaints Board for the decisions, actions or omissions of the state register, state registration entities, or territorial bodies of the Ministry of Justice (Anti-Raid Office) (Ministry of Justice, 2020<sup>[25]</sup>).
- An SME working group within the Ministry of Digital Transformation to facilitate dialogue between state authorities and SMEs (Ministry of Digital Transformation, 2019<sup>[26]</sup>).
- The “PRODialogue” Effective Regulation Platform developed to facilitate interaction between the private and public sectors through online consultations, participation in public events and research.<sup>16</sup>

Moreover, in improving SME business environment, the Co-ordination Council could also serve as a platform to help promote public private dialogue, along with the SME Development Office. While working with relevant ministries and agencies in monitoring the implementation of the SME Development Strategy, the Co-ordination Council also includes members from non-governmental organisations representing micro and small businesses.

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<sup>16</sup> For reference please visit the following website <https://regulation.gov.ua/dialogue>.

**Table 4. Overview of assessment results: SD1 Creating a favourable environment for SME development**

Action	State of play	Progress
Increasing the level of information support	State informational portal for SME was launched in a test mode. State Statistics Service produces SME indicators according to the Action Plan implementation- 4 indicators in 2018. Yearly MDETA report on SME strategy implementation developed but not approved by the Cabinet of Ministers to enable its publication. Support in carrying out the third round of the SBA Assessment in Ukraine ensured.	
Ensuring the application of the "Think Small First" principle	A study of effectiveness of RIA implementation by state executive authorities in 2017 conducted by the State Regulatory Service (SRS); the 2018 report is missing. Online platform on RIA launched and methodological support to executive authorities provided by SRS. Rolling review of regulations in five key economic sectors is ongoing, with 1298 regulatory acts reviewed in 2018.	
Simplify business liquidation procedures	Evidence shows a 33% increase in the number of legal persons removed from relevant state registries upon their liquidation as compared to Q2 2018.	
Improve licensing and permits system	The draft law on ensuring the protection of business rights from misconduct and inaction of state licensing authorities approved by the parliament.	
Enhance SME access to public procurement	ProZorro system enhanced by adding field showing enterprise size on participants' cards. Training and promotion of SME participation in public procurement carried out, incl. through ProZorro business breakfasts.	
Ensure development of PPD	SME Development Office (SMEDO) established in October 2018 to take on functions of the Entrepreneurship Council in terms of PPD development.	



### **Monitoring results**

The key performance indicators (KPIs) set by the Strategy relevant for this SD are Ukraine's progress in the World Bank's *Doing Business* indicators, with the target of being ranked among the top 20 countries in 2020 and third out of six Eastern Partnership countries in the *SME Policy Index 2020* based on an average score across all 12 dimensions.<sup>17</sup> Another indicator of the Strategy linked to this SD relates to monitoring the SME market

<sup>17</sup> The SME Policy Index does not include a ranking based on an average score, although this indicator is monitoring Ukraine's position. According to a 2016 assessment, based on its average score Ukraine averaged last in the overall rankings among the EaP countries.

share in total sales, though the targets, objectives and monitoring mechanisms for this indicator remain unclear, and the calculations are not regularly provided.<sup>18</sup> Table 5 includes some additional KPIs Ukraine may want to consider monitoring in SD1.

**Table 5. Suggested KPIs to monitor progress in creating favourable environment for SMEs**

KPI	Description/rationale	Baseline value <sup>1</sup> (year)	Most recent value (year)	Source of data
Overall performance in WB Doing Business – rank	A composite indicator including areas addressed in this SD: starting a business, resolving insolvency, enforcing contracts, dealing with construction permits	83 (2016)	64 (2020) <sup>2</sup>	WB <i>Doing Business</i> dataset <sup>2</sup>
Overall performance in WB Doing Business – score		63.04 (2016)	70.20 (2020)	
Best regional performance – score <sup>3</sup>		78.19 (Georgia)	83.70 (Georgia)	
SME Policy Index – average score across all dimensions <sup>4</sup>	A composite indicator of quality of SME policies	2.5 (2016)	3.1 (2020)	OECD SME Policy Index publications
Average number of participants in public procurement procedures <sup>5</sup>	Better access to public procurement for SMEs is expected to increase the average number of participants	1,21 (2016, first half)	<i>Not currently available</i>	Ukrstat until 2016. ProZorro does not currently publish data
Reduction of number of contacts between enterprises and inspections	A more comprehensive and risk-based approach to inspections will reduce the number of needed contacts.	16% (2016)	<i>Not currently available</i>	Data for 2016 reported in the SME Strategy
Number of complaints on failure of the state authorities to de-register the liquidated enterprise <sup>5</sup>	Simplified liquidation is a specific focus of this SD as part of improving bankruptcy procedures.	<i>Not currently available</i>	<i>Not currently available</i>	MDETA

Notes: <sup>1</sup> The baseline year is 2016 since the SME Strategy was approved in 2017. <sup>2</sup> *Doing Business* reports are based on data from the previous year (e.g. DB 2020 refers to situation in 2019). <sup>3</sup> Comparator countries are those of the Eastern Partnership. <sup>4</sup> Calculated as the average of Ukraine's scores in 12 dimensions of the Index. <sup>5</sup> Calculated as the total number of participants in procurement procedures divided by the total number of public procurement procedures. <sup>5</sup> Data for this suggested indicator currently does not exist.

The overall WB *Doing Business* indicator shows some progress over recent years but falls short of the ambitious target set in the Strategy. It is generally more instructive to look at changes in scores rather than ranks, as ranks also depend on the performance of comparator countries in the Eastern Partnership. Among the areas pertinent to this SD, resolving insolvency and enforcing contracts remain critical to the further improvement of the business environment. On the other hand, strong improvement was noted in dealing with construction permits. As to Ukraine's performance in the *SME Policy Index 2020*, the country has shown significant improvements in institutional framework and operational environment for SMEs. It is more meaningful to look at the country's progress in the Index in terms of scores and not the ranking, which is why the average score across all dimensions, rather than the ranking, is reported.

<sup>18</sup> The indicator is titled “Частка ринків із конкурентною структурою, відсотків загального обсягу реалізованої продукції” [translated as “Market share with competitive structure, percentage of total sales”].

To complement the composite policy indicators of the Strategy, three additional KPIs are proposed in the table, each of which relates to specific activities of this SD. Reduction in the number of contacts with inspections was mentioned in the Strategy as part of efforts to reduce the unnecessary administrative burden of inspections on complying businesses. The indicator on the number of complaints regarding de-registration of liquidated enterprises was used in reporting on the Action Plan. It remains to be checked by MDETA whether data on the additional three KPIs suggested in the table could be provided on a regular (at least annual) basis.

### *Way forward*

Building on the results achieved to date, the government could consider the following actions:

- **Ensure regular yearly review of the implementation of the national regulatory policy by the state executive authorities.** Such report was produced for 2017, but is absent for 2018. Regular monitoring of the RIA and SME-test application would contribute to a better understanding of the state of regulatory policy application in the country, help identify the main challenges to its application, and effectively address them – as well as build good internal practice towards consistent and uniform RIA and SME-test application across different levels of government.
- **Ensure effective development of public-private dialogue.** Using the Co-ordination Council as a platform for building a meaningful public-private dialogue would complement SMEDO’s efforts to identify and attract active BSOs capable of representing SME interests. Moving forward, the government should ensure that the private sector is consistently involved in the Council’s meetings and that its feedback is considered and acted upon where relevant and compatible with public interest.
- **Ensure regular monitoring and de-registration of liquidated enterprises** by producing data on the number of complaints from businesses regarding the failure of the state authorities to perform the deregistration within the provided time limits.
- **Ensure that the Business Ombudsman institution is legally embedded in Ukraine** and has the resources necessary to enhance its activity in protecting businesses against unlawful actions or inactions by the state authorities through adoption of the draft law “On Business Ombudsman” by the parliament.
- **Ensure that the Co-ordination Council carries out work in accordance with its mandate.** More broadly, in monitoring the implementation of the SME Development Strategy, it is necessary to strengthening institutional framework and ensure that the Co-ordination Council has sufficient resources to clarify policy goals and objectives, and co-ordinate processes among the key actors involved. The Council should also focus on using key performance indicators to monitor progress, while limiting overlaps across strategic directions, objectives and activities as part of developing a favourable policy framework for SMEs.

## SD 2 Improving SME access to finance

This strategic direction foresees actions to improve SME access to finance, including through enhancing financing by commercial banks and non-banking institutions, encouraging the use of promissory notes, and introducing a factoring mechanism.

Ukraine's financial sector is burdened by a high number of non-performing loans, along with mismanagement by the key state-owned banks and the weak financial position of the Deposit Guaranty Fund.<sup>19</sup> Most SMEs in Ukraine are able to operate despite their low leverage and UAH-denominated loans; however, the high cost of financing limits their ability to borrow, in particular for long-term investments.

The current average interest rate is 17%, a rate of return that very few businesses can match. Of the amount borrowed, approximately 90% is used to pay for the working capital, while 10% is used for investment. Even so, the banks have observed a significant increase in investment demand from SMEs. There is also a significant demand for guarantees, which remain higher than what is available through the EU4Business and other programmes available to support SME growth (EU4Business, 2018<sup>[27]</sup>).

### *Monitoring progress in implementation*

#### *1. Enhancing SME financing by commercial banks<sup>20</sup>*

Political and macro-economic challenges in Ukraine limited the availability of financing through commercial banks. During the early 2000s, the banking sector witnessed strong credit expansion and rapid growth. However, the global financial crisis of 2007-2008 strained the banking and financial sectors, contributing to the emergence of non-performing loans. Despite a brief period of economic stability, in 2014 Ukraine witnessed currency devaluation, high inflation and recession, which was exacerbated by the conflict in Eastern Ukraine. While the central bank imposed foreign exchange controls, credit quality deteriorated and non-performing loans increased from 19% to 24% over the year. As a result, the banks began experiencing insolvencies and restructuring. The number of operating banks has fallen from 163 to 77 since 2015, while the balance sheet was reduced from USD 83.5 billion to USD 49.6 billion during 2014-2018.<sup>21</sup> This served to limit competition within the banking sector and the availability of credit, as the banks became more cautious of their lending activities (OECD, EC, EBRD and ETF, 2020<sup>[3]</sup>) (OECD, 2018<sup>[28]</sup>).

Ukraine has been working towards rehabilitating the banking sector. Notably, the Deposit Guarantee Fund was set up to cover the liquidation of banks, while the National Bank of Ukraine (NBU) introduced new standards for banking regulations in line with the EU directives and best practices. Moreover, in October 2019, the parliament approved an Action Programme to attract private investments within state-owned banks, while reducing the state's share in the banking sector by up to 20% (CMU, 2019<sup>[29]</sup>).

Despite some improvement in loan conditions, the restructuring within the banking sector has provided obstacles for SME financing. For one, the reduction of the number of banking

<sup>19</sup> The current share of non-performing loans are approximately half of the total loans borrowed.

<sup>20</sup> Also implemented as part of the Comprehensive Programme for the Ukrainian Financial Sector Development until 2020: develop the NBU's credit register, secure development of credit bureaus co-operation, and consolidate available information on credit histories.

<sup>21</sup> For more information, please visit <https://index.minfin.com.ua/ua/banks/stat/count/2019/>

institutions has undermined competition within the sector, thus limiting the potential for SMEs to borrow at affordable rates. The interest rates for SMEs remain high, nearing 20% for funds borrowed in local currency. While percentage is lower for loans borrowed in foreign currency, the volatility of the hryvnia poses risks. For another, the remaining banks in Ukraine have been formed only as joint-stock companies, thus limiting room for developing specialised, co-operative, or municipal banks. Similarly, the absence of legal definition of microfinancing has limited the opportunities for developing microfinance institutions, leading to the underdevelopment of the sector.

While working towards restructuring the banking sector, the government has sought to ease SME access to financing through financial support schemes. Notably, this action envisages the development and use of the credit guarantee schemes (CGSs) for SMEs. Having analysed international practices in this regard and consulted relevant stakeholders – i.e. the International Financial Corporation/World Bank (IFC/WB), the Ministry of Finance, the National Bank of Ukraine and the German-Ukrainian Fund (GUF) – MDETA together with SMEDO, with the support of IFC/WB, developed a draft concept note on the mechanism of a partial CGS to be implemented in Ukraine. The draft concept was sent for approval to CMU. Furthermore, MDETA together with SMEDO envisaged carrying out a pilot project on partial CGS with the support of the partner-banks of German-Ukrainian Fund (GUF), while playing a facilitation role in the process. However, after the KfW Development Bank left the GUF's board, the implementation of the pilot project on partial CGS and the approval of the CGS concept were postponed until Q1 2020 and Q2 2020, respectively (MDETA, 2019<sup>[18]</sup>). The leading role has been undertaken by the Ministry of Finance of Ukraine, which actually became a sole owner of GUF and took a function to reshape the GUF into an Entrepreneurship Development Fund.<sup>22</sup>

In December 2019, GUF signed an agreement with the partner financial institutions on the new fund programme “FinancEast”. The aim of the programme is to renew financing of investment projects of micro, small and medium-sized enterprises (MSMEs) registered or operating in the Government-controlled territories of Donetsk and Luhansk oblasts through banks and leasing companies (partner institutions), namely Oschadbank, Ukrgasbank and OTP Leasing. In order to implement the FinancEast programme, the European Union through KfW in the framework of the EU4Business initiative provided a grant of EUR 9.5 million (GUF, n.d.<sup>[30]</sup>).

In January 2020, the CMU adopted a resolution to launch a 579 programme under which affordable loans will be provided to businesses at a rate of 5%, 7% or 9% per annum from 1 February 2020. The state support programme for SMEs will allow participants to receive up to UAH 1.5 million of affordable credit at 5, 7 or 9% to create or expand their own businesses. The government has identified a mechanism for the use of budget funds in the framework of the Entrepreneurship Development Fund. In 2020, UAH 5 billion of GUF's budget has been provided for this programme.<sup>23</sup> A website has also been set up (<https://5-7-9.gov.ua/>) in order to provide details regarding the programme, with additional online and informational support provided through SMEDO.<sup>24</sup> Moreover, SMEDO has been

<sup>22</sup> For reference please visit the following website <http://guf.gov.ua/uk>

<sup>23</sup> For more information on the 579 programme please visit the following website <https://www.kmu.gov.ua/news/derzhavna-programa-dostupni-krediti-5-7-9>

<sup>24</sup> For reference please visit the following website <https://sme.gov.ua/579start/>

working closely with the ILO in preparing a training programme with respect to lending activities and is planning to launch a regional tour to carry out trainings for SMEs.

Furthermore, in December 2018, the Ukrainian Startup Fund (USF) was launched by the initiative of the Cabinet of Ministers of Ukraine. The mission of the fund is to support innovation projects and to assist Ukrainian entrepreneurs in creating successful companies by providing pre-seed and seed funding for start-ups.<sup>25</sup> In December 2019, the first calls for proposals were issued (CMU, 2019<sub>[31]</sub>).

Finally, Ukraine Enterprise Support Fund, established in 1995, is a state-owned non-profit organization that provides preferential financial support to entrepreneurship using public funds in accordance with programs approved by the Government.<sup>26</sup>

## *2. Enhancing the use of promissory notes*

The Ministry of Finance planned to carry out activities to promote the awareness of and the use of the promissory notes by SMEs. This activity will be partially implemented under the *National Programme on Development of the Financial Sector until 2020*, which sets larger goals in terms of financial literacy of the population. While the relevant action plan for the Programme is being developed, the State Fiscal Service (SFS) has expressed its readiness to conduct seminars and provide necessary information on the circulation of promissory notes to interested categories of the business population, including SMEs. MDETA, in turn, has organised consultations with the Agency for the Development of a Promissory Notes Market in Ukraine and addressed letters to the Independent Association of Banks of Ukraine and banking institutions to gather their proposals for ways to boost SME use of promissory notes (MDETA, 2018<sub>[13]</sub>). However, MDETA has received no such proposals from the institutions mentioned; accordingly, MDETA has suggested removing this activity from the Action Plan.

In addition, this action also envisaged development of amendments to the Law “On promissory notes circulation in Ukraine” with the aim of bringing it into conformity with the Geneva Convention on promissory notes (Verkhovna Rada, 2001<sub>[32]</sub>). However, after the analysis of the law on promissory notes circulation and consultations with relevant stakeholders,<sup>27</sup> the action was removed from the Action Plan as it was deemed unnecessary.<sup>28</sup> This is partly because the Law was not seen as noncompliant with the Convention, and Ukraine has no formal obligation to comply (MDETA, 2019<sub>[18]</sub>).

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<sup>25</sup> For reference please visit the following website [www.usf.com.ua](http://www.usf.com.ua)

<sup>26</sup> For more information on Ukraine Enterprise Support Fund please visit the following website <http://ufpp.kiev.ua/>

<sup>27</sup> The Agency for the Development of a Promissory Notes Market, the Independent Association of Banks of Ukraine, and the State Office for Co-ordination of European and Euro-Atlantic Integration.

<sup>28</sup> The Law “On promissory note circulation” contains references revealing compliance with the Geneva Convention of 1930 “On Providing a Uniform Law for Bills of Exchange and Promissory Notes”. Moreover, it is worth noting that while Ukraine has acceded, it has not yet ratified the convention due to reservations on the Annex II of the Convention (UN, 1930<sub>[89]</sub>).

### 3. *Enhancing financing by non-banking institutions*<sup>29</sup>

This action foresees ensuring support for the adoption of the draft law “On Credit Unions”, which would facilitate access to finance for small firms, particularly small agricultural enterprises. In 2018, following the rejection of this draft law, a new draft law, “Amendments to some legislative acts of Ukraine on activities of the credit unions” (Verkhovna Rada, 2019<sub>[33]</sub>), was developed and sent to the parliament’s Committee for consideration in September 2019. The National Commission Regulating Financial Services carried out its analysis of the draft law and in October 2019, prepared a corresponding conclusion to support its adoption.

### 4. *Bridge SME financing gap by providing factoring services*

This action aimed to develop and submit the draft law on “Amending the Civil Code of Ukraine on financial services” to the CMU. As a part of co-operation with the EU-FINREG Technical Assistance Project, the National Commission Regulating Financial Services has established a Committee on Improvement of the Regulatory Environment for Financial Companies that includes reform of the factoring framework among the activities of its working plan.

However, the MDETA reports that, after stabilisation of the factoring market in 2016, it was necessary to shift the focus towards the leasing market (MDETA, 2018<sub>[13]</sub>).<sup>30</sup> In particular, aligning Ukrainian leasing legislation with international best practices appeared to be a priority. Thus, MDETA suggested refocussing this action towards the promotion of leasing services among SMEs. As a starting point, MDETA, with consideration of European good practices, developed the draft law “On financial leasing” and submitted it to the parliament on 29 August 2019 (Verkhovna Rada, 2019<sub>[34]</sub>). The draft law was examined by the responsible parliamentary committee in September 2019, but has not been adopted yet.

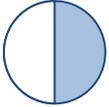
At the same time, the National Commission Regulating Financial Services publishes the information on key performance indicators of financial companies and lessors on its website and provides a list of financial institutions included in the State Register of Financial Institutions (NCRFS, n.d.<sub>[35]</sub>) (NCFRS, 2020<sub>[36]</sub>). According to the Law of Ukraine “On Amendments to Some Legislative Acts of Ukraine regarding Improvement of Functions in State Regulation of Financial Service Markets”(so called “Split law”), the National Bank will take oversight of factoring and leasing institutions from July 2020, which gives more transparency and trust to the market (Verkhovna Rada, 2019<sub>[37]</sub>). It is important to mention that SMEDO, together with ProZorro, is developing the product “factoring for SMEs in public procurement”, which will enable SMEs that lack financing to participate in public procurement, since factors (banks) will provide them with finance.

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<sup>29</sup> Also implemented as part of the Government's Priority Actions Plan for 2018 (March 28, 2018): development and submission to the CMU of draft laws on enhancing legislation in the sphere of innovation to use venture capital and crowdfunding opportunities and attract funding from informal investors (business angels) to support innovative activities, technological start-ups and clusters.

<sup>30</sup> Also implemented as part of the *Comprehensive Programme for the Ukrainian Financial Sector Development until 2020*: draft laws designed to enhance the development of financial leasing by amending the legislation to recognize lessors as creditors, develop mechanisms for returning property, and enhance taxation (NBU, 2015<sub>[88]</sub>).

**Table 6. Overview of assessment results: SD 2 Improving SME access to finance**

Action	State of play	Progress
Enhancing SME financing by commercial banks	A draft concept note on the mechanism of the partial credit guarantee scheme (CGS) developed and a pilot project on partial CGS granting conceptualised, but implementation postponed due to changes in GUF's Board.	
Enhancing the use of promissory notes	Action Plan for the <i>National Programme on Development of the Financial Sector until 2020</i> under development.	
Enhancing financing by non-banking institutions	The draft law "On Amendments to Some Legislative Acts of Ukraine on Activities of the Credit Unions" developed but removed from parliament's Committee agenda.	
Bridging the SME financing gap by providing factoring services	Committee on Improvement of the Regulatory Environment for Financial Companies (which includes reform of factoring framework among activities of its working plan) was established. Draft law "On Financial Leasing" elaborated and under consideration by the parliament.	



### ***Monitoring results***

The Strategy did not foresee any key performance indicators for this strategic direction. Table 7 presents the suggested KPIs and the values as available.

**Table 7. Suggested KPIs to monitor progress in SME access to finance**

KPI	Description/ rationale	Baseline value <sup>1</sup> (year)	Most recent value (year)	Data source
Outstanding bank loans to SMEs (as % GDP) <sup>2</sup>	A standard indicator of availability of bank financing for SMEs	12.6 % (2018)	<i>Not currently available</i>	National Bank of Ukraine, dataset 'Loans to SMEs', series 'Loans granted by deposit-taking institutions to non-financial corporations'. Ukrstat for GDP.
Interest rates on loans to SMEs – national currency <sup>3</sup>	A standard indicator of cost of financing for SMEs	19.5 % (2018)	20.3 % (M11-2019)	National Bank of Ukraine, dataset 'Loans to SMEs', series 'Interest rates of deposit-taking of new business on loans to non-financial corporations'
Interest rates on loans to SMEs – foreign currency <sup>3</sup>		7.4 % (2018)	7.1 % (M11-2019)	
Bonds and promissory notes issued by non-financial corporation (mln UAH) <sup>4</sup>	The indicator captures some of alternative ways of financing	86.9 (2016)	69.6 (2018) 72.5 (Q3-2019)	National Bank of Ukraine, dataset 'Securities other than shares issued by residents'
Share of capital investment financed by own funds of enterprises and organisations	Indirect indicator of availability of external investment finance	69.3 % (2016)	70.8 % (2018)	Ukrstat, dataset 'Capital investment by financing source'

Notes: <sup>1</sup> Baseline year is 2018 where data for earlier years are not available. <sup>2</sup> Calculated as the average of monthly data for total nominal value of outstanding loans to medium, small and micro enterprises and individual entrepreneurs, in both national and foreign currency, divided by the nominal GDP. Data for 2019 is currently unavailable, analysis of first three quarters of 2019 reveals 12.8%. <sup>3</sup> Calculated as the simple average of interest rates charged to medium, small and micro enterprises; individual entrepreneurs excluded due to missing data. <sup>4</sup> Nominal value at the end of period.

The National Bank of Ukraine (NBU) publishes data on loans and interest rates provided by banks to companies (i.e. non-financial corporations and individual entrepreneurs), broken down by company size and currency. Such data are commonly used to monitor changes in access to financing by SMEs. Although the data depend on general macroeconomic and financial sector conditions, they may also reflect the effects of specific policy actions such as credit guarantee schemes.

Data on other channels of financing are scarce. Two indicators are nevertheless suggested in the table (although breakdowns by company size are not yet available). The NBU provides data on issues of bonds and promissory notes by non-financial corporations, and the Ukrstat reports on sources of financing of capital investments. The SME Strategy referred to other relevant data (e.g. loans by non-bank financial institutions, value of leasing and factoring contracts, value of assets of venture funds), but it remains to be seen whether the figures reported in the Strategy can be regularly updated. For example, data on the value of leasing assets by type of assets are provided quarterly by the National Financial Services Commission.

At present, the Commission does not produce or disclose publicly data on leasing contracts broken down by enterprise size class. At the same time, Ukraine's participation in the OECD Scoreboard on Financing SMEs and Entrepreneurs, which began in 2019 (the first publication of Ukraine's results is foreseen for the 2020 edition of the Scoreboard), should help improve the production of SME financing statistics and provide a better picture on the state of SME access to finance.

### *Way forward*

In order to ensure better access to finance for SMEs and based on the planned activities by the government, further steps in this direction could include the following:

- **Collect data on value of leasing contracts, and potentially tracking SMEs' use of these services.** Despite the legal framework in place for leasing activities and the leasing services offered by major banks in Ukraine, leasing's overall penetration remains low at less than 1% of GDP, compared to 4-14% in countries in Central Europe (OECD, EC, EBRD and ETF, 2020<sup>[31]</sup>). However, the scarce data on SME use of leasing services (i.e. occasional SME surveys) do not provide a full picture of the issues SMEs face or the types of leasing services SMEs use (i.e. value, type of leasing assets). Therefore, collecting data on the value and type of leasing services (broken down by enterprise size class or type of ownership) would be an important step towards developing targeted state measures for promoting SME use of leasing.
- **Ensure the implementation of the pilot project of a partial credit guarantee scheme (CGS).** Running a pilot project on partial CGS, assessing the results, then adopting the relevant legal framework for the mechanism would facilitate the implementation of further CGS projects in Ukraine – while also building knowledge within the government on the mechanism's use and possible improvements.
- **Continue to reform the factoring framework.** The current legal framework for factoring, as set out in the Civil Code and the Commercial Code of Ukraine, does not meet modern factoring needs and impedes SME use of factoring services. Thus, an important step would be to reform the factoring framework – by implementing the working plan of the dedicated Committee of the National Commission for State Regulation of Financial Services Markets, with the support of EU-FINREG project.
- **Establish more programmes with international partners on access to finance.** Decreasing the cost of borrowing would increase SMEs' ability to take loans, especially for long-term investments. This can be done through programmes and tools that provide a lower cost of financing, such as partnerships with banks in smaller cities where SMEs have limited funding opportunities. In this regard, the focus of such programmes should be not only on investment, but on guarantees as well. Additional indicators could be developed to monitor a number of banks involved in such programmes and the share of SMEs benefitting from them, and their breakdown by types of settlement.
- **Stabilise and promote competition within the banking sector.** While reducing the scope for financial crime and improving corporate governance in state-owned banks, reforms are necessary to withdraw insolvent banks from the market, to disclose banks' ultimate beneficial owners, and to enhance creditor's rights (Kahkonen, 2018<sup>[38]</sup>). In addition, more should be done to increase due diligence, prudential regulation, and responsible conduct to limit financial risk (OECD, 2011<sup>[39]</sup>) (OECD, 2019<sup>[40]</sup>). More broadly, long-term policies to help promote competition should be developed to help improve market efficiency and to ease access to affordable finance.

### SD 3 Simplifying SME tax administration

This strategic direction aims to increase the transparency and efficiency of tax administration system in Ukraine, in particular when it comes to VAT refunds, late-payments issues and labour market flexibility – the last of which reduces the attractiveness of official employment and contributes to abuse of the simplified tax system.

#### *Monitoring progress in implementation*

##### *1. Ensuring effective VAT refund*

In order to implement this action, the government plans to conduct a monitoring of the operations of the VAT Refund Registry. During the implementation process, MDETA learnt that although the Ministry of Finance has been carrying out the monitoring of the technical aspects of the registry's operations on a regular basis, the results of such monitoring have not been made publicly available due to their technical nature. At the same time, the State Fiscal Service has been publishing the information on the VAT refund volumes on its website on a monthly basis (SFS, 2019<sup>[41]</sup>) (SFS, 2019<sup>[42]</sup>). Thus, the monitoring of the VAT Refund Registry is being carried out, and the measure has accordingly been removed from the Action Plan (MDETA, 2018<sup>[13]</sup>). However, the VAT refund process has been uneven throughout the last year due to budget shortages.<sup>31</sup>

After the VAT refund registry was launched in 2017, one of the aims of the government was to raise SMEs' awareness of its availability and benefits.<sup>32</sup> The Ministry of Finance duly conducted a number of awareness-raising activities and reported high levels of business awareness of the registry based on the high number of visits to the registry. The SFS reports a refund of UAH 32.8 billion during January-February 2019, which is 39.1% more than for the same period in 2018 (SFS, 2019<sup>[43]</sup>).

##### *2. Addressing late payments within public procurement contracts*

In order to protect SMEs from late payments issued within the framework of e-procurement contracts, the government planned to expand the contract management module of the ProZorro electronic procurement system to enable the State Treasury to exercise control over the amount and timeliness of contract payments.<sup>33</sup>

Thus, a decree on regulating the interaction between the e-procurement system, the single portal for the use of public funds, and the information system of the State Treasury was prepared by MDETA and the Ministry of Finance and approved by the Ministry of Justice; it entered into force in March 2019 (MDETA; Ministry of Finance, 2019<sup>[44]</sup>). It ensures electronic communication of three information systems and enables enhanced management of public procurement contracts. Upon the adoption of the legal framework facilitating information exchange, it would be important to ensure the implementation of this regulation.

Another measure foreseen under this action concerned the elaboration and approval by the Cabinet of Ministers of Ukraine (CMU) of new legislation providing for prevention of

<sup>31</sup> Data on the volume of 2018-2019 VAT refunds are available here: <http://sfs.gov.ua/diyalnist-vidshkoduvannya-pdchv/informatsiya-pro-obsyagi-vidshkoduvannya/>

<sup>32</sup> The registry may be found on the following site: <https://cabinet.tax.gov.ua/registers/vat-refund>

<sup>33</sup> Along with challenges related to procurement, enforcing payments from larger companies for SMEs is necessary to ensure limiting potential for the latter's bankruptcy.

contractual payment delays between business entities within the ProZorro system, with respect to the provisions of Directive 2011/7/EU of the European Parliament and the Council of 16 February 2011. However, during the implementation of the measure, MDETA learnt that such a draft law would infringe the contractual parties' rights to fix timeframes for payments freely, which is provided under the Civil Code. Moreover, the EU-Ukraine Association Agreement Action Plan does not contain the requirement of Ukraine's compliance with the Directive 2011/7/EU. Therefore, the measure was not implemented and removed from the Action Plan.

While fixing the timeframes for contractual payments is a right of parties that should be respected, delays in payment within the set timeframes should be considered as violations of the terms of contract, and the law should provide for dissuasive and proportionate sanctions in this regard. However, in order to address the late-payment issue at the legislative level, the solution should be found jointly by the State Treasury and MDETA, including support from the Ministry of Justice on the enforcement of this solution.

In addition, data are needed on the number of late payments within the procurement system, so the trend in payments can be analysed and issues remedied effectively.

### 3. *Increasing labour market flexibility*<sup>34</sup>

Revising labour legislation is one of the primary means to address deficiencies of the existing labour market regulations that lead to abuse of the simplified taxation system.<sup>35</sup> Therefore, the Action Plan envisaged development and submission for approval by the CMU of the draft legal acts regulating:

- remote work; and
- employment of persons under multilateral employment contracts involving business entities providing employment mediation services, as well as those who hire employees for further outsourcing.

In response to this need, the Ministry of Social Policy has developed a draft law on promoting productive employment (Ministry of Social Policy, 2019<sub>[45]</sub>). Public consultations are currently being held to discuss the draft, and a working groups with relevant stakeholders have been created. In December 2018, the draft law was presented at the meeting of the Steering Board of the State Fund for general mandatory social security in case of unemployment (MDETA, 2018<sub>[13]</sub>). Because the approval of the draft law is now expected in Q2 2020, the implementation of this measure has been delayed. Meanwhile, the Ministry of Social Policy has amended the Licensing Conditions for Conducting Business Mediation on Employment Abroad, and approved a new form of reporting of information on the number of people employed through employment mediation services, as well as the procedure for its submission.

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<sup>34</sup> Also implemented as part of the Government's Priority Actions Plan for 2018 (March 28, 2018): approval of the Draft Labour Code (registration no. 1658) by the parliament.

<sup>35</sup> Also implemented under the Action Plan for Implementing the Strategy for Reforming the Public Finance System 2017 – 2020 (May 24, 2017) : revised conditions for using the simplified taxation system with regard to categories of individuals, types of operations, cap on income, and tax rates.

**Table 8. Overview of assessment results: SD 3 Simplify SME tax administration**

Action	State of play	Progress
Ensuring effective VAT refund	Automatic VAT refund system (registry) in place and fully operational since 2017; Information on the amount of VAT refund is provided on a monthly basis by the SFS on its website; SME community is aware about the available automatic VAT refund mechanism and uses it widely.	
Addressing late payments issue	Decree modifying the contract-management module within the ProZorro system for introduction of State Treasury control over the volumes and timeframes for contract payment adopted and in force. The draft decree regulating the maximum term for payment under the contract rejected.	
Increasing labour market flexibility	The draft law on promoting productive employment developed and undergoing public consultations.	

 Not started   
  Initiated   
  Under implementation   
  Advanced implementation   
  Completed

### Monitoring results

2. The Strategy did not foresee any KPIs for this strategic direction. Table 9 sets out the suggested KPIs with the values for the baseline year and the most recent available year.

**Table 9. Suggested KPIs to monitor the effectiveness of SME tax administration**

KPI	Description/rationale	Baseline value <sup>1</sup> (year)	Most recent value (year)	Source of data
Paying taxes (WB Doing Business Score)	A general indicator of administrative simplicity of tax compliance	74.66 (2016)	78.05 (2020)	WB Doing Business dataset <sup>3</sup>
Comparison – best regional performance <sup>2</sup>		83.78 (Azerbaijan)	89.19 (Georgia)	
Number of weeks to obtain VAT refund (WB Doing Business Score)	A specific indicator related to the focus of the Strategy on improvement of the VAT system	14.3 (2016)	14.3 (2020)	WB Doing Business dataset
Comparison – best regional performance		10.2 (Georgia)	10.2 (Georgia)	
Share of informal employment in total employment <sup>4</sup>	More effective tax administration will contribute to the objective of reducing informal employment.	24.3 % (2016)	21.6 % (2018)	Ukrstat Economic Activity of Population in Ukraine (annual publication)

Notes: <sup>1</sup> Baseline year is 2016 since the SME Strategy was approved in 2017. <sup>2</sup> Comparator countries are those of the Eastern Partnership. <sup>3</sup> *Doing Business* reports are based on data the year prior to publication (e.g. *DB 2020* refers to situation in 2019). <sup>4</sup> Includes persons employed at enterprises of the informal sector, contributing family members, and persons who worked according to oral agreement or had no social guarantees.

The suggested result indicators are related to the principal focus of this strategic direction, which is simplification of tax administration. They show some progress, mainly due to a reduction in social-contributions rates and a modest reduction in the total time required to comply with taxes (which, however, remains the highest among comparator countries).

The SME Strategy underlined two specific issues affecting SME liquidity: arrears in VAT refunds (UAH 16 billion in October 2016) and delays in payments to SMEs under public procurement contracts. Should the Ministry of Finance or SFS be able to update the information on arrears in payments, it could usefully be added to the list of KPIs.

Another important goal of this strategic direction is to reduce informal employment in SMEs. The data Ukrstat provides on the share of informally employed persons is based on statistical definition, but not separately for persons employed in SMEs. Moreover, while Ukrstat contains data regarding the total number of employees and the number of contracted employees, it remains unclear whether the former dataset contains informal employers as well.

### *Way forward*

Going forward, the government could take the following steps to facilitate SME tax administration:

- **Ensure that VAT refunds are executed consistently throughout the budget year.** To avoid VAT refund issues stemming from budget shortages,<sup>36</sup> careful budget planning and efficient management of delayed payments would be important, including through monitoring and reporting delays in VAT refunds.
- **Address the late-payments issue within public procurement by enforcing sanctions against violations of contractual payment timeframes.** While setting timeframes for contractual payments is the right of contracting parties (as provided by the Civil Code of Ukraine), breaching obligations to respect those timeframes should be sanctioned in an effective, dissuasive and proportionate way.
- **Ensure increased labour market flexibility through adoption of a law** that would provide for remote work and employment, so as to encourage further outsourcing. This could potentially help reduce labour informality and decrease the abuse of the simplified tax system by certain companies.<sup>37</sup>

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<sup>36</sup> At the end of 2018, VAT refunds were temporarily stalled by the Ministry of Finance due to budget shortages, though they were restarted in 2019.

<sup>37</sup> Certain employers make their employees register as individual entrepreneurs so that the employer can avoid paying social security charges and applicable taxes.

## SD 4 Promoting entrepreneurship culture and develop entrepreneurial skills

This strategic direction envisages nine actions to promote entrepreneurship culture and develop entrepreneurial skills. While most of these actions are relevant for achieving this goal, some of them repeat actions from other strategic directions (e.g. encouraging participation in EU COSME programme from SD6; enhancing training of SMEs on export activities from SD5).<sup>38</sup>

### *Monitoring progress in implementation*

#### *1. Ensure development and promotion of entrepreneurship culture*

Holding various events demonstrating successful SME business projects was defined as one of the ways to promote entrepreneurship culture. Thus, in 2018, around 47 events across 16 cities were held for representatives of SMEs with a focus on access to knowledge, access to finance, access to markets, and the business environment. In addition, 20 interactive events for youth aimed at teaching the basics of doing business were carried out during the 2018 Global Entrepreneurship Week in four regions of Ukraine.

Measures to raise awareness of opportunities offered by EU programs Horizon 2020 and COSME were also implemented. In 2018, the MDETA organised 34 regional events with the participation of over 1400 representatives of SMEs, business associations, and public sector to promote the benefits of COSME. In addition, seven roadshows<sup>39</sup> (i.e. promotion campaigns) on opportunities offered by Horizon 2020 and EU COSME programme were held (MDETA, 2018<sub>[13]</sub>).

The Ministry of Education and Science of Ukraine and the NGO “Youth Entrepreneurial Partnership” (YEP) began establishing entrepreneurship clubs in higher-education institutions. As of December 2018, clubs had been established in 25 institutions across Ukraine (Box 2).

Moreover, in December 2019, the Ministry of Digital Transformation launched a hotline for entrepreneurs (<https://thedigital.gov.ua/hotline>), while the government seeks to launch additional initiatives to provide further support.

The USAID Competitive Economy Program (CEP) in Ukraine for 2018-2023 helps business start-ups and SMEs become more competitive in domestic and international markets. CEP’s principal objectives are: a better business enabling environment, support for new and innovative industries and firms, and export and trade promotion.<sup>40</sup>

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<sup>38</sup> It is worth noting that some of the specific actions are covered across other strategic directions, notably with respect to export activities, which can be found under SD5, and the COSME programme, which can be found under SD6. In developing future Strategy and Action Plan, this report recommends avoiding overlaps across strategic directions to ease the monitoring and implementation of selected objectives.

<sup>39</sup> The roadshows were attended by 241 SMEs. Multiple leaflets were prepared by the EU Forbiz project to raise awareness amongst SMEs on the following topics: Horizon 2020, EEN, EYE, EU COSME, European Cluster Collaboration Platform, European Intellectual Property Rights Helpdesk and SME Innovation Associate.

<sup>40</sup> For more information on the USAID Competitive Economy Program please visit the following website <https://www.usaid.gov/ukraine/economic-growth>

### Box 2. Entrepreneurship clubs in Ukraine

On 12 March 2018, the Ministry of Education and Science of Ukraine and NGO “Youth Empowerment Platform” (YEP) signed Memorandum on Co-operation and Interaction. Among other elements, the memorandum foresaw the creation of business networks, or entrepreneurship clubs, at universities, providing students with an opportunity to transform their research projects into business ventures, while developing an entrepreneurship culture and promoting a start-up movement. Some of the activities would involve holding lectures with entrepreneurs, discussing new ideas and projects, and seeking advice for developing start-ups.

While universities and faculties initiate the establishment of the clubs, YEP provides methodological and organisational support in ensuring their operation. Activities are planned by a team of student volunteers under the supervision of university staff. Since the launch of the initiative, 25 clubs have been developed across 13 Ukrainian cities, involving 110 students.

*Note:* More information on YEP clubs may be found here: [www.yepworld.org/ua/yepclub/](http://www.yepworld.org/ua/yepclub/)

## 2. Participation in GEM

It was planned that Ukraine would participate in the Global Entrepreneurship Monitor (GEM) in 2019. However, due to the lack of financial resources to carry out GEM, the MDETA decided to postpone implementation until Q4 of 2020 (MDETA, 2019<sub>[18]</sub>).

## 3. Conduct an EU SME week regularly

This action envisages holding the European SME week in Ukraine on a regular basis. In 2018, 50 events in 16 regions of Ukraine were conducted, among which was a National SME Development Forum held jointly by MDETA, the Ukrainian Chamber of Commerce, and the EU FORBIZ project (MDETA, 2018<sub>[13]</sub>) (UCCI, 2018<sub>[46]</sub>). In 2019, various events in 16 cities organised with the support of donor-funded projects took place in October-December within the framework of the European SME Week in Ukraine, including the Third Business4Women forum, the investment forum “RE:think. Invest in Ukraine” that took place in Mariupol, Donetsk oblast, the international forum “Innovation Market”<sup>41</sup> and the third annual National SME Development Forum in Kyiv (DCCI, 2019<sub>[47]</sub>).

## 4. Stimulating life-long learning

This action foresees increasing collaboration between SMEs and vocational and higher education institutions, with the aims of adapting academic curricula to labour market needs and improving the methodological principles of mid-term forecasting of labour market needs on the basis of EU best practices. Moreover, co-ordination mechanisms would require strong support from MDETA and the Ministry of Education.

In this respect, in 2018, the CMU approved the Concept of training specialists in the dual form of education (MDETA, 2018<sub>[13]</sub>). In April 2019, the CMU approved the Action Plan

<sup>41</sup> For reference please visit the following website <https://innovationmarket.com.ua/>

for implementation of the Concept for the period of 2019-2023 (CMU, 2019<sub>[48]</sub>). It is reported that around 800 employers – among which are large enterprises such as Ukrzalisnytsya, the state-owned railway monopoly – are involved in ensuring relevant professional experience for students of dual education. Moreover, MDETA is promoting social partnerships that involve SMEs in order to ensure private sector participation in the educational process. In addition, a number of exhibitions of works by students of vocational education establishments (e.g. the Worldskills Ukraine Forum) were organised to increase the prestige of industrial worker jobs. During 2017-18, 80 vocational education standards developed through a competency-based approach were approved by the Ministry of Education and Science (MDETA, 2018<sub>[13]</sub>). The State Employment Service reports having provided vocational education training to around 36 000 unemployed people over January-June 2019, and career counselling services to 1.8 million people, including through a dedicated online platform ([www.profi.dcz.gov.ua](http://www.profi.dcz.gov.ua)) (Ministry of Social Policy, 2019<sub>[45]</sub>).

In addition, MDETA – along with other line ministries,<sup>42</sup> state institutions and the Joint Representative Body of Employers – submitted proposals to change the “Methodology of forming a medium-term forecast of the needs for specialists and industrial workers on the labour market”. In August 2018, MDETA held a meeting to discuss submitted proposals (Ministry of Social Policy, 2019<sub>[45]</sub>). However, due to the ongoing structural reform of the education system, the government decided to postpone implementation of the measure until Q4 2020, as the draft law “On amendments to the laws of Ukraine on financing higher education” was sent to the parliament’s Committee for consideration on 27 September 2019 (Verkhovna Rada, 2019<sub>[49]</sub>).

##### *5. Enhance training on SME export activities*

To implement this action, the Action Plan envisages promoting the participation of SMEs in the EU programme “Erasmus for Young Entrepreneurs”. While such participation could be beneficial for SME export activities, it is not directly linked to the task of the Action Plan which foresees a wider set of training programmes to build SMEs’ capacity, and awareness of opportunities, to export.

Furthermore, the indicated measure to achieve this goal – events to raise awareness of opportunities to participate in EU COSME programme – have already been mentioned for previous actions. Moreover, it is not specifically related to training in export activities. In this regard, training courses, seminars, and consulting services provided by the Export Promotion Office’s (EPO) Exporter Education Department for businesses (including SMEs) willing to export would be a more relevant measure to implement this action (notably, the National education programme “Export Revolution in Ukraine”) (EPO, 2018<sub>[50]</sub>) (MDETA, 2018<sub>[51]</sub>).

##### *6. Business start-up support for certain categories of people<sup>43</sup>*

Under this action, the government seeks to promote entrepreneurship among certain categories of people, such as internally displaced persons (IDPs), demobilised military personnel, youth and seniors.

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<sup>42</sup> Ministry of Social Affairs, Ministry of Social Policy, Ministry of Education and Science, State Statistics Service, Institute for Demography and Social Studies of the National Academy of Sciences of Ukraine.

<sup>43</sup> Also implemented as part of the 2018 Action Plan for Implementing the Poverty Prevention Strategy (February 14, 2018).

In 2016, with the support of the World Bank, the Ministry of Social Policy launched a pilot project called “Helping Hand” to employ members of low-income families and IDPs in the Kharkiv, Poltava and Lviv oblasts; in 2018 this was extended to the Chernihiv, Zhytomyr and Donetsk oblasts. As of June 2018, 4135 unemployed people had taken part in the programme (in the first three regions covered), 1030 had been employed, and 157 had started their own businesses since the programme launch in 2016. In addition, in January 2018, the CMU adopted a law allowing enterprises to receive microcredit if they create jobs for members of low-income families, IDPs and veterans (MDETA, 2018<sup>[13]</sup>). In December 2018, based on the experience of “Helping Hand”, the Ministry of Social Policy prepared a draft law to provide financial assistance for members of low-income families wishing to start their own businesses. However, no progress has since been reported on this draft law.

Another project<sup>44</sup> aiming to stimulate entrepreneurship activity of IDPs through provision of training, distribution of grants for enterprise creation and growth was carried out by USAID in eight regions of Ukraine throughout August 2016 - February 2019.<sup>45</sup> As a result, 996 persons completed courses on the basics of entrepreneurship and 155 grants were allocated to the course graduates (43 grants for enterprise development and 112 mini-grants for starting the business) (MTOT, 2019<sup>[52]</sup>). Through co-operation with GIZ, the Ministry of Temporarily Occupied Territories and IDPs is ensuring professional integration of IDPs in selected amalgamated communities of six regions of Ukraine in September 2017-July 2021 (MTOT, 2019<sup>[53]</sup>).

In addition, in Q1-Q2 2018, State Employment Service conducted 3200 seminars on how to start a business. There were 38 000 participants, and 834 insured unemployed people received a one-time allowance to start their own businesses.<sup>46</sup> Over January-June 2019, 3300 seminars with 36 600 participants were held, and 1258 people started their own businesses with the help of the one-time allowance – including 550 women, 568 people under the age of 35 511 unemployed, and 42 IDPs, among others (Ministry of Social Policy, 2019<sup>[45]</sup>).

In November 2018, the CMU approved the Action Plan for the implementation of the Strategy on integration of IDPs and long-term internal displacement solutions for the period until 2020 (CMU, 2018<sup>[54]</sup>). The plan contains provisions on enhancing IDPs’ competitiveness in the labour market, including through stimulating the employment of IDPs by SMEs and facilitating IDPs’ access to micro-credit in the agriculture sector (actions 8 and 9 of the Action Plan) (MTOT, 2018<sup>[55]</sup>).

### *7. Improve financial literacy*

This action envisages the development and implementation of educational and training courses as well as publication of information materials, with a view to increasing the financial literacy of SMEs – thereby facilitating their access to finance and enhancing their

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<sup>44</sup> Economic Opportunities for People Affected by Conflict (EOPAC), running from August 2016 till February 2019.

<sup>45</sup> The project was implemented by the Ukrainian Women’s Fund in partnership with Business Arena and eight local non-governmental organisations, in collaboration with the Ministry of Temporarily Occupied Territories and IDPs and the National Assembly of People with Disabilities (<https://eopac.org.ua/en/about/>).

<sup>46</sup> The payment is lump-sum and may not exceed 360 calendar days, though the calculation of the exact sum depends on the length of service (Ministry of Social Policy, 2015<sup>[87]</sup>).

ability to start and run a business. As this action relies on the implementation of another action (i.e. the establishment of regional and local business support centres), it is still to be implemented (MDETA, 2019<sub>[18]</sub>).

At the same time, the National Bank of Ukraine (NBU) has been implementing initiatives to improve SMEs' financial literacy. For example, throughout 2019, NBU carried out regional "Economic Express" financial awareness days, designed to encourage citizens to pay more attention to managing their finances, to prepare youth to make informed financial decisions, and to inform businesses about recent regulatory decisions. As of November 2019, 5 509 people had participated in this programme.<sup>47</sup> Moreover, in June 2019 the NBU presented a vision for a financial literacy strategy with a focus on creating an educational information centre and a communication focus, though this has yet to be adopted (Ministry of Finance, 2019<sub>[56]</sub>).

In addition, the recently launched SME web portal contains a dedicated section on "Financial Literacy for Business" and SMEDO has signed a memorandum of co-operation with the Deposit Guarantee Fund to enhance and promote the financial literacy of entrepreneurs (SMEDO, 2019<sub>[57]</sub>).<sup>48</sup>

Finally, Ukrainian bodies, including the Ministry of Education and Science and the Ministry of Finance, have been involved in carrying out a financial literacy campaign for the general population through social media, including Facebook. The government also provides some financial literacy training, mostly through donor-funded projects, but a coherent provision of training programmes that target entrepreneurs is still missing (OECD, EC, EBRD and ETF, 2020<sub>[3]</sub>).

The EU-EBRD programme "EU4Business Network of Business Support Centres in Ukraine" aims to improve the competitiveness and ability to access finance of Ukrainian SMEs through the provision of business advice and capacity building, as well as preparation for financing from the EBRD and other financial institutions. Fifteen Business Support Centres are now active across the country. In addition, more than 78 SMEs have accessed business advice under the programme and EUR 17 million in finance has been provided by the EBRD in finance (EU4Business, n.d.<sub>[58]</sub>).

#### 8. Foster the development of social entrepreneurship<sup>49</sup>

To implement this action, the government planned to assess the state of development of social entrepreneurship in Ukraine, and then to prepare proposals for draft legal acts to support social entrepreneurship, taking into account best international practices.

To this end, a *Green Book on Social Entrepreneurship in Ukraine* was developed by Ukrainian and international experts.<sup>50</sup> Furthermore, a working group was established

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<sup>47</sup> More information on the programme may be found on the following website:

<https://events.bank.gov.ua/nbuexpress/#program>

<sup>48</sup> More information on the Deposit Guarantee Fund may be found on the following website

<http://www.fg.gov.ua/en/>

<sup>49</sup> Also implemented as part of the 2018 Action Plan for Implementing the Poverty Prevention Strategy (February 14, 2018).

<sup>50</sup> Ukrainian Philanthropists Forum and Institute of Inclusive Development (NGOs) also contributed to this project. For more information, please visit the following website:

[https://socialbusiness.in.ua/knowledge\\_base/zelena-knyha-sotsial-noho-pidpriemnytstva-v-ukraini/](https://socialbusiness.in.ua/knowledge_base/zelena-knyha-sotsial-noho-pidpriemnytstva-v-ukraini/)

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(comprising representatives of civil society organisations, charity foundations, MDETA, and the Ministry of Social Policy, as well as international experts and entrepreneurs engaged in social entrepreneurship) and has developed a draft “Concept note on the development of social entrepreneurship in Ukraine” and submitted it to the CMU for approval.<sup>51</sup> The government has suggested removing this action due to its completion (MDETA, 2018<sub>[13]</sub>). However, it would be important to ensure the adoption of the draft concept by CMU in order to ensure the effectiveness of the measure, i.e. adoption of the strategic document and its implementation for enhanced social entrepreneurship in Ukraine. The due date has been postponed till Q4 2020.

Box 3 provides further background on social entrepreneurship in Ukraine.

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<sup>51</sup> Annual Social Entrepreneurship Conferences and related work has been carried out by the Canadian PLEDDG Partnership for Local Economic Development and Democratic Governance project. Moreover, the EU4Business Programme has supported the Ukrainian Philanthropists Forum in implementing “Social Entrepreneurship: Achieving Social Change from the Bottom Up”.

### Box 3. Social entrepreneurship in Ukraine: The state of play and priorities for development

A *social enterprise* can be defined as a business with primarily social objectives whose profits are principally reinvested back into the business or community to solve social problems.

Ukraine does not formally recognise such an organisational and legal form as a social enterprise, and the legislation does not provide a proper definition of a social enterprise. Instead, an enterprise wishing to pursue a social goal must choose from a variety of organisational and legal forms in carrying out such operations (such as setting up a charitable organisation or promoting entrepreneurship through a civil society organisation).

Since 2015, social entrepreneurship in Ukraine has been growing, due to significant donor support for efforts to address social issues stemming from the conflict in eastern Ukraine – primarily the socio-economic integration of IDPs, ATO veterans, and women and children from the areas affected by the conflict.

Thus, according to Ukraine’s *Directory of Social Enterprises*, the number of social businesses grew from 41 in 2013 to 150 in 2017. Social enterprises are predominantly small (usually employing up to five persons); they mainly operate in the agricultural production and sale, food industry and public catering, and garment manufacturing sectors; and they pursue the goals of employing socially vulnerable population groups (IDPs, ATO veterans, disabled persons, etc.) and generating profit to support NGOs.

However, despite this growth, social enterprises in Ukraine face a number of challenges, among which are the following:

- *Legal framework.* The legal framework lacks a definition of *social enterprise* and recognition of a specific organisational and legal form for social enterprise activities. This ultimately limits government support for this type of enterprise and creates misunderstandings with fiscal authorities.
- *Lack of access to finance.* Social entrepreneurs in Ukraine have limited access to loans, investment and private funds, and available donor funds are often insufficient for sustainable development of an enterprise.
- *Need for skills and human capital development.* Despite abundance of expertise, knowledge, technologies, and innovations brought in by international donor organizations, social enterprises in Ukraine report having no strong teams for enterprise development, no strategic programmes, and no financial and communications plans.

In addition, among the main barriers to the development of social entrepreneurship in Ukraine is the lack of systemic interaction and communication between social enterprises and the existing gap in measuring the social impact of enterprises’ activities. The government of Ukraine could address these challenges and barriers through dedicated programmes, particularly within the framework of the SME policy.

Source: (PACT., 2018<sub>[59]</sub>); (Nazaruk, 2019<sub>[60]</sub>)

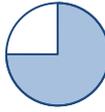
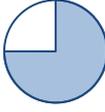
## 9. Facilitate SME social responsibility

In order to implement this action, the government aims to develop and submit to the CMU draft legal acts on the implementation of the state policy on enhancing corporate social responsibility in Ukraine. Thus, in January 2019, MDETA developed a draft order “On approval of the Concept of realisation of the state policy to enhance the development of corporate social responsibility in Ukraine for the period until 2030” and submitted it to the

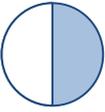
CMU in April 2019 (MDETA, 2019<sub>[18]</sub>). Although this action has been removed from the Action Plan as completed, it will be crucial to ensure that the draft document is adopted.

In addition, to promote social responsibility (including among SMEs), MDETA held three training events, four presentations at the national and regional levels and the 2<sup>nd</sup> Forum of Responsible Business in October 2018 in Kyiv with international partners (Ministry of Social Policy, 2019<sub>[45]</sub>).<sup>52</sup> Moreover, in line with the OECD *Guidelines for Multinational Enterprises* (OECD, 2011<sub>[61]</sub>), a publication titled “Responsible Business Conduct: Recommendations” was developed, a National Contact Point was established under MDETA, and a dedicated website (<https://ncp.gov.ua>) was set up to inform businesses in Ukraine about corporate social responsibility practices around the world.

**Table 10. Overview of assessment results: SD 4 Promote entrepreneurship culture and develop entrepreneurial skills**

Action	State of play	Progress
Ensure development and promotion of entrepreneurship culture	Events to promote entrepreneurship culture held across 16 cities; 20 interactive events for youth to learn basics of doing business conducted. Awareness-raising activities held for SMEs about opportunities of participation in Horizon 2020 and EU COSME programme; The Ministry of Education and Science and YEP started establishing entrepreneurship clubs in higher education institutions.	
Participation in GEM	GEM implementation postponed to Q4 2020 for lack of funding.	
Conduct EU SME week on regular basis	EU SME Weeks held in 2018 and 2019 jointly with donors and partners.	
Stimulating life-long learning	In 2018, the Concept on training specialists in the dual form of education was approved by the CMU and the Action Plan for its implementation (for 2019-2023) was approved in April 2019. In 2018, 800 employers involved in ensuring relevant experience for students of dual education; events to increase the prestige of industrial jobs conducted. 80 vocational education standards approved over 2017-2018. Proposals for changes to the ‘Methodology of forming a medium-term forecast of the needs for specialists and industrial workers on the labour market’ discussed at inter-ministerial meeting.	
Enhance training on SME export activities	Training events, seminars and consulting services provided by Export Promotion Office for all businesses willing to start or enhance their exports.	
Business start-up support for certain categories of people	A pilot project on the employment of members of low-income families and IDPs, “Helping Hand”, launched in 2016 and extended in 2018. In January 2018, CMU adopted a law allowing enterprises receive microcredit if they create jobs for members of low-income families, IDPs and ATO veterans. State Employment Service conducts regular seminars on starting a business and provides one-time payments to help insured unemployed to launch businesses. Action Plan for the ‘Strategy on integration of IDPs and long-term internal displacement solutions for the period until 2020’ envisages measures to support IDPs’ starting a business.	

<sup>52</sup> The event was sponsored by the Centre for CSR Development and the National Contact Point under MDETA, with the support from the Embassy of the Kingdom of the Netherlands (<https://ncp.gov.ua/the-second-forum-of-responsible-business.html?lang=en>).

Improve financial literacy	In 2019, NBU carried out regional “Economic Express” financial awareness days. SMEDO signed a memorandum of co-operation with the Deposit Guarantee Fund to enhance and promote the financial literacy of entrepreneurs. The Ministry of Finance carries out a financial literacy campaign for general population.	
Foster the development of social entrepreneurship	Green book on social entrepreneurship in Ukraine elaborated with donor support. Concept on development of the social entrepreneurship in Ukraine submitted to the CMU for approval.	
Facilitate SME social responsibility	A draft order “On approval of the Concept of realization of the state policy on promotion of development of CSR in Ukraine for the period until 2030” developed and submitted to CMU for approval. A publication based on <i>OECD Guidelines for Multinational Enterprises</i> , “Responsible Business Conduct: Recommendations”, developed. A website to inform businesses on CSR ( <a href="http://ncp.gov.ua">ncp.gov.ua</a> ) set up.	

 Not started   
  Initiated   
  Under implementation   
  Advanced implementation   
  Completed

### Monitoring results

The Strategy did not foresee any KPIs for this strategic direction. There is indeed a lack of national statistical data that could be used to monitor results of this SD directly. Table 11 presents some international rankings related to this dimension as suggested KPIs.

**Table 11. Suggested KPIs to monitor development of entrepreneurial skills and culture**

KPI	Description/rationale	Baseline value <sup>1</sup> (year)	Most recent value (year)	Source of data
SME Policy Index – Entrepreneurial learning and women’s entrepreneurship (1-5) Comparison – best regional performance <sup>2</sup>	An indicator of quality of policies that support formal and informal learning of entrepreneurship skills and women’s entrepreneurship	2.25 (2016) 2.70 (Georgia)	3.98 (2020) 4.25 (Moldova)	OECD SME Policy Index publications
SME Policy Index – Enterprise skills (1-5) Comparison – best regional performance <sup>2</sup>	An indicator of quality of policies that support training of SMEs	2.56 (2016) 3.00 (Georgia)	3.19 (2020) 4.03 (Georgia)	OECD SME Policy Index publications
Global Competitiveness Index – Higher education and training (1-7) Comparison – best regional performance <sup>2</sup>	An indicator of quality of secondary and tertiary education including management schools	5.0 (2015-16) Ukraine (rank 34/140)	5.1 (2017-18) Ukraine (rank 35/137)	World Economic Forum Global Competitiveness Reports
Global Competitiveness Index – Skills (0-100) Comparison – best regional performance <sup>2</sup>	A new indicator focused on education level and specific skills of the workforce <sup>3</sup>	68.9 (rank 45-46/140) (2018) (Georgia, Ukraine)	69.9 (rank 44/141) (2019) (Ukraine)	World Economic Forum, Global Competitiveness Reports

Notes: <sup>1</sup> Baseline year is 2016 since the SME Strategy was approved in 2017. <sup>2</sup> Comparator countries are those of the Eastern Partnership. <sup>3</sup> In the latest edition of the Global Competitiveness Report, this indicator replaced the indicator on Higher education and training. Baseline year is 2018, as earlier data are not available.

Ukraine lagged behind most of its regional peers in the 2016 edition of the SME Policy Index on dimensions related to policies and institutions supporting entrepreneurial skills and learning. By contrast, it is a regional leader in the broader indicators of education quality and workforce skills, as measured by the Global Competitiveness Index. Useful international indicators of entrepreneurship culture and motivation are provided also by the Global Entrepreneurship Monitor (GEM), which Ukraine has not yet joined. In any case, a more precise insight into the quality of entrepreneurship skills and pervasiveness of entrepreneurial culture can only be gained through national indicators which would need to be developed by Ukrstat in co-operation with government institutions.

For example, given the Strategy's emphasis on the promotion of entrepreneurship among women and youth, business register data could be used to produce data on the gender and age structure of individual entrepreneurs and SME owners and managers. Survival rates of new SMEs would provide indirect information about managerial and entrepreneurship skills. The unemployment registry could perhaps provide data on exit from unemployment to entrepreneurship. More generally, the collection of statistical data on business activities should be made more gender sensitive (OECD, EC, EBRD and ETF, 2020<sup>[3]</sup>).

With the completion of ongoing curriculum reforms, it will become useful to monitor enrolment of students in entrepreneurship-related education and life-long learning programmes, and to track their post-education employment. Similarly, this approach could benefit from improving evaluation of study material and entrepreneurial competences across competences across educational establishments. A more systematic approach to regular assessment of SME skills and workforce needs and deficits, compared with projections of skills supply from educational institutions, would be highly informative for the design of supporting policy measures. Given the importance of data for design and implementation of the SME Strategy, MDETA/SMEDO should take the lead in developing a systematic approach to gathering SME skills intelligence (skills demand, skills supply and skills forecasting) on a regular basis.

### *Way forward*

To provide for the continuous development of SME skills and create a favourable environment for the development of an entrepreneurial culture, the government could consider the following, based on the analysis of the actions implemented so far:

- **Join the Global Entrepreneurship Monitor (GEM).** GEM's Adult Population Survey will provide analysis of the characteristics, motivations and ambitions of individuals starting businesses, as well as social attitudes towards entrepreneurship in Ukraine. Securing the necessary budget for this exercise would be an important element in this regard.
- **Promote the development of social entrepreneurship in Ukraine.** Ensuring that the draft Concept "On the development of social entrepreneurship in Ukraine" is adopted by the CMU, and the Action Plan and its monitoring mechanism are developed, would promote the development of social entrepreneurship in Ukraine.
- **Close the gap in SME skills intelligence data** by developing a systematic approach to gathering relevant data (skills demand, skills supply and skills forecasting) on a regular basis. Given the scope of its mandate, SMEDO could build capacity and take the lead in this exercise.

## SD 5 Promoting SME Export / Internationalisation

This strategic direction is to be fully implemented under Ukraine's Export Strategy 2017-2021 (Roadmap for Strategic Development of Trade), adopted on 27 December 2017. Previously foreseen actions on SME internationalisation under the SME Development Strategy are therefore addressed under actions 6-8 of the Action Plan for the Implementation of the Export Strategy.

### *Monitoring progress in implementation*

#### *1. Creating favourable conditions for SME export*

This action foresees strengthening the institutional framework to promote innovation and to protect the intellectual property rights (at the legislative level and through the implementation of the Concept of Reforming the State System of Legal Protection of Intellectual Property).

In the area of intellectual property rights, the government has worked to strengthen the legislative framework and align it with the EU standards. Therefore, a number of draft laws have been developed and approved:

- The draft law “On effective management of property rights of copyright holders in the field of copyright and (or) related rights” was approved on 15 May 2018 by the parliament and came into force on 22 July 2018 (Verkhovna Rada, 2018<sub>[62]</sub>).
- The draft law “On amendments to some legislative acts of Ukraine on improvement of the protection of the right to build semiconductor products” was approved by parliament on 19 September 2019 and came into force on 26 September 2019 (Verkhovna Rada, 2019<sub>[63]</sub>).
- The draft law “On amendments to certain legislative acts of Ukraine on improving legal protection of geographical indications” was approved by parliament on 20 September 2019 (Verkhovna Rada, 2019<sub>[64]</sub>).
- The draft law “On amendments to Article 5 of the law of Ukraine "On the distribution of copies of audio-visual works, phonograms, videograms, computer programmes, databases” was approved by parliament on 4 September 2018 and came into force on 4 October 2018 (Verkhovna Rada, 2018<sub>[65]</sub>).

3. In addition, the laws below were developed, though they are either pending approval or were not approved:

- The draft law “On institutional changes in the state governance of the intellectual property sphere” was developed and prepared for consideration by relevant central executive authorities (MDETA, 2018<sub>[66]</sub>).
- The draft law “On amendments to some legislation on the regulation of copyright and related rights” was received by parliament on 1 February 2018. On 7 February 2019, the draft law was returned for revision to the submission initiator (Verkhovna Rada, 2018<sub>[67]</sub>).
- The draft law “On amendments to some legislative acts of Ukraine on improving the legal protection of intellectual (industrial) property” was not approved by parliament on 29 August 2019 (Verkhovna Rada, 2018<sub>[68]</sub>).

- The draft law “On amendments to some legislative acts of Ukraine on improving legal protection of inventions and utility models” was not approved by parliament on 4 September 2018 (Verkhovna Rada, 2018<sub>[69]</sub>).

In the area of exports, in 2017, the CMU established the Council on International Trade as an advisory body to the CMU. Its mandate is to improve the co-ordination and co-operation of institutions involved in development and implementation of strategies for international trade. The Council met for the first time in April 2018 to discuss priorities for 2018 and to adopt a 2018 work plan. The Council has five working groups that cover such issues as simplification of trade procedures, export promotion, development and monitoring of strategic documents on international trade, improving customs tariff regulation and trade protection systems, and monitoring trade relations with Russia (MDETA, 2018<sub>[70]</sub>).

Over time, Ukraine has worked to build institutional capacity through the establishment of bodies, notably the Export Promotion Office (EPO) under MEDTA that currently has a central role in SME export and internationalisation activities. Established in 2018, EPO was created on the basis of the existing donor-funded advisory body of the same name. The EPO is currently responsible for implementing educational projects for exporters, trading missions and exhibitions in the countries that represent potential for exports of Ukrainian goods and services.<sup>53</sup>

In February 2018, the government established an Export Credit Agency (ECA) to protect Ukrainian exporters from the risk of financial losses in their engagement with foreign contracts.<sup>54</sup> While offering insurance, reinsurance and guarantees covering up to 90% risk on foreign trade agreement contracts, the ECA assists with introducing financial technologies and engaging with international and foreign financial institutions to secure lending. Moreover, the Agency helps promote competitiveness of Ukrainian goods and services, entering complex markets and assessing business development strategies. As of November 2019, the Export Credit Agency has been formed as a joint-stock company with an authorised capital of UAH 200 million.

Moreover, Ukraine has finalised the second stage of joining the Arrangement on Officially Supported Export Credits of 1978 (and the five annexes to it) and the OECD Working Party on Export Credits and Credit Guarantees.

Thus, through the above-mentioned measures, the government has started building institutional infrastructure facilitating export activities, including for SMEs, and this represents an important positive development.

## *2. Stimulating SME export by providing relevant training and information*

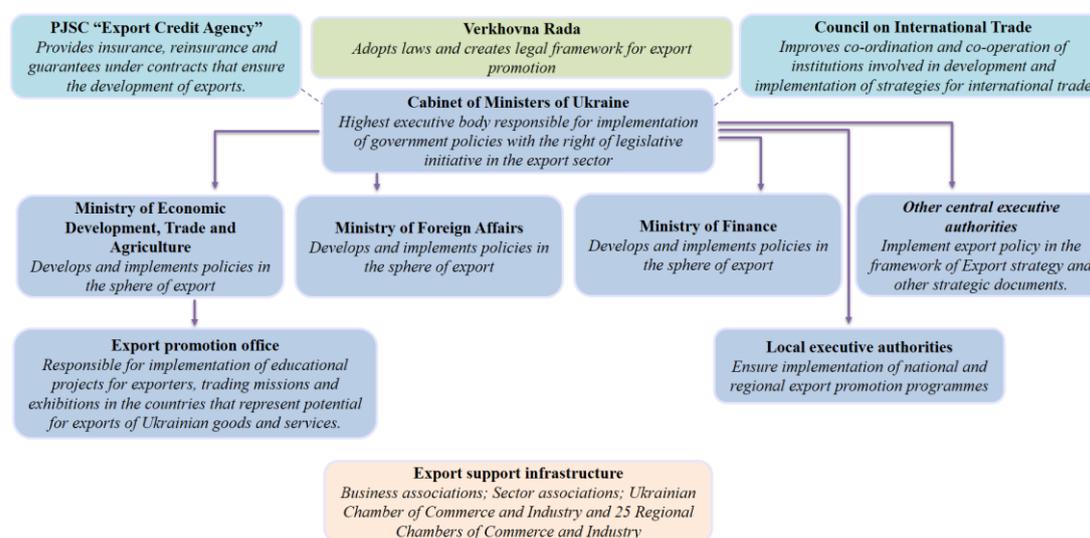
Under this action, the government envisages promotion of entrepreneurial activity among enterprises (especially SMEs) and youth in the area of export. In 2018, Ukrainian SMEs engaged in exporting activities comprise 2.3% of the overall SME sector and concentrate their exports mostly in wholesale and retail trade, and motor vehicles and motorcycles economic sectors. SMEs accounted for 26.1% of total value of Ukrainian exports.

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<sup>53</sup> For more information on the Export Promotion Office please visit the following website <https://epo.org.ua/pro-nas/>

<sup>54</sup> The draft law “On amendments to some laws of Ukraine on ensuring the effective functioning of the Export credit agency” was approved by the government on 14 March and registered within the parliament on 23 April 2018. On 29 August 2019, the draft law was withdraw from Verkhovna Rada.

**Figure 7. Export Support Institutional Framework**



Source: (MDETA, 2017<sup>[71]</sup>)

In this respect, during the first two quarters of 2018, ten educational seminars in Kyiv and one regional educational event for exporters in Vinnytsya were conducted. In September 2018, the Export Promotion Office conducted four educational seminars with over 300 participants in live communication and 1200 participants online (in Kyiv, Dnipro, Lviv and Odesa), bringing together key professional representatives, entrepreneurs and exporters from various industries, executive authorities and educational programme experts on export education in Ukraine. The events contributed to the promotion of creative products and the development of a systemic approach towards the sustainable expansion of Ukrainian businesses into foreign markets (MDETA, 2018<sup>[70]</sup>).

This action also aims to improve managerial skills among employees of operating enterprises, in particular SMEs, with regard to exporting activities. The Export Promotion Office is one of the major actors in terms of educational programmes for exporters in Ukraine. Thus, in partnership with the Marketing Institute of Estonia, it launched a two-year educational programme for exporters called “Export Revolution Ukraine”, which includes webinars, online and offline training with case studies for participating companies (EPO, 2019<sup>[72]</sup>). The programme is structured across two levels: a basic level for companies that are only just starting to develop their export activities; and an advanced level for exporters that aims to develop the professional skills of foreign-trade managers and to help exporters develop strategic action plans. In 2018-19, the first two stages of the programme took place, with more than 2150 participants taking part at both levels of studies. After the course was completed, 90% of companies reported on the benefits of the programme in terms of increase of their exports. In addition, more than half of the participants have continued interacting with each other and have even started common projects. EPO has held training courses for exporters in the framework of an Export Academy, while the first sectoral programme Creative Export in Ukraine, launched in 2018, advises exporters in creative industries on how to enter foreign markets (EPO, 2019<sup>[73]</sup>) (EPO, n.d.<sup>[74]</sup>).

The EU FORBIZ project has also provided support to remove technical barriers to trade (TBT) and familiarise the business community with EU requirements for products for export purposes through six workshops on conformity assessment, metrology,

standardisation, assessment of non-harmonized measuring instruments, and three fora and Technical Regulations & Export potential (Kharkiv, Odessa and Kyiv). There were 1 200 participants, of which 650 were SMEs.

In addition, in February 2018, the Canada and Ukraine Trade and Investment Support (CUTIS) Project<sup>55</sup> organized a discussion seminar on the validation of preliminary data from the Barriers to Trade and Development study with 17 participants from scientific and research organizations. In April 2018, it also conducted a general preparatory training course titled “International Trade in Services: Peculiarities of Negotiations” with 39 participants, and jointly with experts from UNCTAD conducted specialized training on “commitment formulation in trade in services” with 17 participants (MDETA, 2018<sub>[70]</sub>).

The final measure of this action foresees ensuring that the education system meets the needs of enterprises, in particular SMEs. Thus, in March 2018, the Ministry of Education and Science and the NGO “Innovation Partnership Platform” signed a memorandum to develop a network of business incubators where students and academic representatives will be taught how to translate the results of their research into concrete business solutions. In addition, co-operation is envisaged to improve the regulatory framework for the development of start-ups in universities and to solve problems of developing innovative entrepreneurship. In May 2018, the Platform conducted a training course titled “Best Practice in Entrepreneurship Education: Creative Teaching Methods”, where the experience of Estonia in education and the development of academic entrepreneurship was presented to more than 100 participants from over 20 universities (MDETA, 2018<sub>[70]</sub>).

### *3. Ensuring equal rights and opportunities for women and men in exporting SMEs<sup>56</sup>*

This action seeks to improve managerial skills among employees of operating enterprises, especially SMEs, and to enhance the competences of SMEs under the leadership of women and youth. In this respect, the Export Promotion Office, with the support of the CUTIS project within the platform SheExports, conducted 35 online and offline educational and informational events with 320 participants and 6000 views in 2018 (see Box 4). Moreover, within this platform, the initiative “She Exports Ambassadors” was launched and a survey of 330 women in business was conducted to analyse the needs of women entrepreneurs who want to enhance the competitiveness of their businesses, their export activities, and their willingness to become mentors for other women in business in Ukraine. In addition, for the first time a delegation of business women was formed to represent Ukraine at the International Forum “She Trades Global 2018” in Liverpool (MDETA, 2018<sub>[70]</sub>).

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<sup>55</sup> For more information on the CUTIS project please visit the following website <https://cutisproject.org/en/>

<sup>56</sup> Also implemented as part of Concept of the National Social Programme for Securing Equal Rights and Opportunities for Men and Women until 2021 (April 05, 2017); 2018 Action Plan for Implementing the Poverty Prevention Strategy (February 14, 2018).

#### Box 4. SheExports programme in Ukraine

SheExports programme was launched in 2017 in order to support women's participation in entrepreneurship and international trade as part of promoting Ukraine's export potential. With Canada as the primary contributor, the programme has been designed to analyse female involvement in business and exports, promoting outreach and highlighting success stories, while supporting female empowerment in the global community. Notably, fifty-five women entrepreneurs from Ukraine participated in the SheTrades Global Online Community, and two Ukrainian delegations attended the ITC SheTrades Global Business Festival, among other events. Moreover, Ukraine has become a signatory to the Joint Declaration on Trade and Women's Economic Empowerment, while the programme has continued to work with the ITC in connecting three million women entrepreneurs to the market by 2021. Additional initiatives have included *Ukraine: IT Inspires for Change*, along with new business models and manufacturing processes as part of supporting Ukrainian female entrepreneurs and business owners to increase their participation.

*Note:* For more information on the SheExports programme please visit the following website <http://sheexports.org/>

In July 2018, the CUTIS project, in the framework of support for women in business, held a conference in Kyiv titled "The Canadian Experience in Corporate Governance: A Diversity Principle" with 51 participants (27 women and 24 men). Finally, in February 2018, a seminar on "Organizing Work to Support Women from Rural Areas in Starting their Own Businesses" was conducted by the Ministry of Social Policy of Ukraine for employees of regional state administrations who are responsible for gender policy implementation (MDETA, 2018<sup>[70]</sup>).

**Table 12. Overview of assessment results: SD 5 Promote SME Export / Internationalisation**

Action	State of play	Progress
Creating favourable conditions for SME export	<p>The law "On effective management of property rights of copyright holders in the field of copyright and (or) related rights" came into force on 22 July 2018.</p> <p>The law "On amendments to some legislative acts of Ukraine on improvement of the protection of the right to build semiconductor products" came into force on 26 September 2019.</p> <p>The law "On amendments to Article 5 of the law of Ukraine 'On the distribution of copies of audio-visual works, phonograms, videograms, computer programmes, databases'" came into force on 4 October 2018.</p> <p>Council on International Trade established by CMU in July 2017.</p> <p>State Institution "Export Promotion Office of Ukraine" created in 2018.</p> <p>Export Credit Agency was founded in 2018.</p> <p>Ukraine joined the Arrangement on Officially Supported Export Credits 1978 (along with its five annexes) and the OECD Working Party on Export Credits and Credit Guarantees.</p>	
Stimulating SME export by providing relevant training and information	EPO conducts training programmes for exporters, including SMEs in the framework of various projects: Export Academy, Export Revolution Ukraine, Creative Export Ukraine, SheExports, as well as other training events in the regions.	
Ensuring equal rights and opportunities for women and men in the SME sector	<p>35 online and offline educational and informational events with 320 participants and 6000 views conducted within the platform "SheExports".</p> <p>The initiative "She Exports Ambassadors" launched and a survey of 330 women in business conducted.</p>	



### ***Monitoring results***

The Strategy included only one KPI related to internationalisation of SMEs, namely the share of exporting SMEs. Although this is a critical indicator, additional indicators of export activity are needed. While internationalisation and increased exports are the main objectives of this strategic direction, improved protection of intellectual property rights will also support SMEs' RDI activities. KPIs for SME research, development and innovation are discussed below under Strategic Direction 6.

**Table 13. Suggested KPIs to monitor progress in SME internationalisation**

KPI	Description/rationale	Baseline value <sup>1</sup> (year)	Most recent value (year)	Source of data
Share of exporting SMEs in total number of SMEs	Measures the spread of exporting activities among all SMEs.	4.4 % (2016)	2.3 % (2018)	Ukrstat dataset Exports of goods by number of hired workers by types of economic activity. <sup>3</sup>
Share of exports by SMEs in total values of exports <sup>4</sup>	Standard indicator of SME export activity.	30.2 % (2016)	26.1 % (2018)	Ukrstat dataset Exports of goods by number of hired workers by types of economic activity. <sup>3</sup>
Growth of SME exports (nominal, USD)	Standard indicator –included as the share alone may not show the dynamics of exports.	-3.5 % (2016)	-5.3 % (2018)	Ukrstat dataset Exports of goods by number of hired workers by types of economic activity. <sup>2</sup>
Comparison: Growth of exports of large enterprises		-4.6 % (2016)	10.4 % (2018)	
Share of all exports of goods to EU countries in total values of exports	Indicator of reorientation of trade, all companies.	37.1 % (2016)	42.6 % (2018)	Ukrstat dataset Dynamics of the geographical structure of foreign trade in goods.
Share of all exports of services to EU countries in total values of exports	Indicator of reorientation of trade, all companies.	30.5 % (2016)	34.2 % (2018)	Ukrstat dataset Dynamics of the geographical structure of foreign trade in services.

Notes: <sup>1</sup> Baseline year is 2016 since the SME Strategy was approved in 2017. <sup>2</sup> Natural person entrepreneurs are not included in the calculation of these indicators. <sup>3</sup> Data are based on the employment-only definition of SMEs. The title of the source table refers to 'exports of goods', but since data are provided for all activities of NACE, we assume the total is exports of 'goods and services'. <sup>4</sup> The share of SMEs exports is calculated without taking into account the value of exports which are not allocated by company size.

Following the approval of the SME Strategy, Ukrstat began providing data on exports by SMEs. Data are based on the internationally comparable employment-only definition of SMEs. The KPI of the Strategy – that is, the share of SMEs that engage in exporting – shows no progress for the first two years of the Strategy's implementation, so it seems that the target of 9% by 2020 was too ambitious. However, it is important to note and monitor the differences between groups of enterprises. While the share of exporting micro companies is low and stagnating, the shares for small and medium-size enterprises are both higher and have increased from 2015 to 2017. In 2018, the share of exporting companies declined in all categories, including large enterprises.

In addition to the number of exporters, it is important to look at the value of exports. The table thus suggests two additional indicators: the share of SMEs in total exports, and the growth rate of SME exports. Both indicators are lower in 2018 compared to 2016, but there are considerable variations in dynamics of exports between years. As part of promoting value added in exports, Ukraine should work more towards promoting SME integration into global value chains, as further elaborated in Box 5.

### Box 5. Ukraine's integration into global value chains

While analysing total exports, it is necessary to assess Ukraine's engagement in global value chains (GVCs), which contribute to increasing productivity, job growth and living standards. Considering its strategic location, fertile agricultural land and a large population of educated workers, Ukraine has strong potential to boost exports and increase value added through value chain participation, particularly for small and medium-sized enterprises. In addition, the EU-Ukraine Association Agreement and DCFTA have eased Ukraine's potential to increase exports towards the EU countries. However, Ukraine's overall engagements in global value chains has remained limited, with its share in global exports declining from 0.35% to 0.28% between 2008 and 2017. Moreover, as the country has focused mostly on exporting commodities and natural resources, there have been limited opportunities to promote technology transfers and knowledge spill-overs, and to increase its production of higher value-added products.

More recently, Ukraine has demonstrated slight improvement in export promotion and integration in global value chains. Considering lower labour costs compared to its neighbouring countries, Ukraine has attracted investments in the automotive sector, while promoting service exports by engaging in telecommunications and ICT services. Nevertheless, more should be done to attract and sustain investments, notably in higher value-added and capital-intensive products, while promoting SME internationalisation and capacity building. This will require continuing structural reforms, particularly in strengthening the rule of law and property rights, while improving anticorruption architecture and judiciary, and streamlining regulatory environment. Additional elements include strengthening competition policy and reforming the SOE sector and privatisation processes, while promoting efficiency in financial intermediation.

*Source:* (World Bank, 2018<sup>[75]</sup>)

Finally, activities of this strategic direction related to standardisation and certification of products, together with the DCFTA in general, should ease exporters' access to the EU markets. The Strategy thus expects a reorientation of exports away from Russia and towards the EU member states. The share of exports going to the EU shows that such reorientation is indeed taking place at a considerable pace – although the increase of the share of exports to the EU in recent years is at least partly due to the fall of exports to the Commonwealth of Independent States (CIS) countries since 2013 (by 68% for goods and by 36% for services). Unfortunately a breakdown by company size is not available for this KPI.

#### *Way forward*

Going forward, the government could step up its efforts to ensure that the institutional framework established under the Export Strategy of Ukraine is fully operational and meets its objectives. Thus, the government could consider the following:

- **Ensure that Export Promotion Office (EPO) is adequately resourced to accomplish its assigned responsibilities effectively.** After its transfer to a public entity, the government should ensure that the EPO has adequate financial and human resources to carry out its tasks and build its internal capacity, so that it can expand its provision of support services in line with the SME demand.
- Ensure that the Export Credit Agency (ECA) is operational and the support provided through it **is based on principles of accountability and transparency.**

- Strengthen **dedicated training for youth, women, and IDP entrepreneurs engaged in export activity** by expanding the regional reach of such training and tackling the specific issues this type of entrepreneur faces when exporting.
- Ensure that **SMEDO and the Co-ordination Council on SME Policy co-operate with the Council on International Trade, the Export Credit Agency and the Export Promotion Office** in order to provide coherent implementation of this strategic direction, which is covered under the *Export Strategy of Ukraine: Roadmap for Strategic Development of Trade 2017-2021*.
- **Ensure the development of special electronic platforms related to export**, like “Export to the European Union”. These platforms would be useful, especially for SMEs, because SMEs cannot attract advisory services.

## SD 6 Improving SME competitiveness and innovation

This strategic direction focuses on eight actions designed to enhance competitiveness and innovation of Ukrainian SMEs. It contains more actions than the other SDs. However, some actions mentioned previously in the Strategy were missing from the Action Plan, as apparently they appeared to be too broad or too specific and were included as measures or activities in different SDs or strategic documents (i.e. launch of targeted initiatives on clusters and value chains; promotion of FDI; creation of SME-FDI linkages; encouraging R&D; expansion of the range and quality of services provided to SMEs; improving the quality of consulting services for SMEs).

### *Monitoring progress in implementation*

#### *1. Strengthen institutional capacities of business associations*

The government foresees analysing the existing business support organisation (BSO) infrastructure in order to identify weaknesses in its operation, including when providing services to SMEs, and to ensure that BSOs efficiently represent business interests in the framework of a public-private dialogue. In 2018, MDETA and SMEDO conducted an initial survey of BSOs to identify their readiness to participate in public-private dialogue and to advocate the interests of SMEs (Strykun, 2018<sup>[76]</sup>). Next, recommendations and draft programme were elaborated to strengthen the institutional capacities of BSOs, with a focus on providing services to SMEs. It is further planned to hold consultations on the developed programme and conduct a study of the BSOs market and the market of business support services provided by BSOs. Due to the lack of funding for research, however, the government has postponed the implementation of this action (MDETA, 2019<sup>[18]</sup>).

#### *2. Ensure that regional specificities of SMEs are taken into account*

This action seeks to ensure consistency at the level of national, regional and local policy making in terms of SME development (i.e. regional and local development strategies with SME components, or regional SME development strategies), in particular making sure that regional specificities are taken into account. As part of this action, MDETA, SMEDO and EU’s “Support to Ukraine to Re-launch the Economy” (EU4Business-FORBIZ) project developed methodological recommendations for long-term planning of SME development at the level of regions and amalgamated communities. In June 2019, the recommendations were approved by MDETA and the Ministry of Regional Development, Building and

Housing, and published online (MDETA, 2019<sup>[77]</sup>). Later, they were sent to MDETA and to all regional state administrations for further use in the development of regional SME strategies. Finally, the methodology was presented at a national conference titled “Regional Policy of SME Development: From Theory to Sustainable Development” held on 14 June 2019 (MDETA, 2019<sup>[18]</sup>).

In addition, the Action Plan envisages development and approval by the CMU of the draft law “On mandatory allocation of a certain percentage of regional development budget to fund SME financial and lending programmes”. In 2018, it was reported that the Ministry of Finance was conducting preparatory work for the implementation of this measure, which was due in Q1 2019; no further information has since been provided (MDETA, 2018<sup>[13]</sup>).

### *3. Modernising the existing SME support infrastructure*

This action seeks to implement a pilot project to establish a network of SME Support Points (SSPs) at local and regional levels, and the use of existing SME support infrastructure. MDETA and SMEDO have developed a concept framework to establish SSPs (subsequently called SME Info-Point (SIP)) at the local administrative centres for the provision of administrative services. The objective of this framework is to develop institutional capacity to provide guidance and support for potential entrepreneurs in their involvement with state and non-governmental bodies. Ukraine had previously set up similar frameworks, including business support centres and consultation points in Ternopil, funded primarily by the state through EU support (MDETA, 2018<sup>[13]</sup>).

With support from FORBIZ, MDETA and SMEDO carried out pilot projects on the functioning of the SIP network in Zaporizhzhya, Cherkasy and Chernihiv regions. The project aims to introduce a mechanism that would provide advisory support for SMEs through information collection and capacity building. It is planned to last until the end of 2020, after which the methodological recommendations of MDETA and the formation of SIPs at local levels will be approved. As of 1 January 2020, six pilot SIPs have been launched and are implemented at three administrative levels, including cities, regional centres, and amalgamated communities. The project is implemented in collaboration with regional authorities and development agencies, and it envisages the involvement of the existing support centres and consultation points set up in Ternopil.

The main emphasis of the project has been training the representatives of local institutions in providing SME support services through SIPs. Trainings include interacting with clients and organisations that support SMEs with issues concerning export, financing and intellectual property. Other elements concerned launching a business and seeking state and donor assistance on labour, taxes, and public procurement. SIP information tools included Start Business Challenge, a web-portal for entrepreneurs and information analytical systems, among other resources. Moreover, the trainings have also involved sessions on attracting funds from the State Regional Development Fund for the operation of SIPs (MDETA, 2018<sup>[13]</sup>).

Along with the aforesaid initiative, the EBRD is working on establishing a regional network for Business Information Support Centres across fifteen regions in Ukraine with EU support. This has further envisaged capacity building activities on working with SMEs for existing institutions, including regional Chambers of Commerce, business associations, and NGOs. SME support is mainly provided through specialised measures focusing on export-oriented businesses. Within the framework of the same project, an online business service platform “merzha” is being created (at the time of writing, a pilot version of the portal

merzha.com.ua was available). This project is expected to continue until the end of August 2020.

Moreover, FORBIZ and SMEDO are involved in developing a Centre for the Support of Entrepreneurship, Innovation and Start-ups in Chernihiv. Initiated by the Chernihiv Regional State Administration, this became a first SME project to be funded partially by the State Regional Development Fund.<sup>57</sup> At the time of writing, preparatory work has been underway to develop a framework for its functioning. Along with engaging in new projects, Ukraine has sought to continue the development of the Rural Advisory Institute and agricultural co-operatives. This initiative was initially developed under the Ministry of Agriculture (before it merged with MDETA). Following the Ministry of Agriculture's work in 2018 and the implementation of state support programmes, 44 agricultural co-operatives were established (MDETA, 2018<sub>[13]</sub>). Moreover, in 2019, a mechanism for state co-financing of advisory services was launched, which will primarily be used by rural SMEs. However, the assessment of the effectiveness of the co-financing mechanism should involve monitoring the number of SMEs using it.

Furthermore, in 2000, the State Finance Institution for Innovation was established to provide financial support for innovative activities for economic entities with different types of ownership.<sup>58</sup>

In addition, local and regional authorities are launching initiatives to modernise their business support infrastructure, particularly for SMEs. Notably, SMEDO seeks to map out the existing SME support mechanism to ease access to relevant stakeholders, including the key processes and actors involved, such as SIPs. Better co-ordination and consolidation efforts, as well as support from donors and international projects, will be central to developing a sustainable framework and to monitor performance.

The Ministry of Digital Transformation is in the process of establishing Consulting Zones to support potential and existing SMEs by providing professional consultations on business systematization, financial management, government interaction, business psychology, human resources, marketing and sales, access to finance. There will be two components: online platform and offline hubs in each region.<sup>59</sup>

#### *4. Enhance the transfer of knowledge*

This actions seeks to promote academic entrepreneurship by facilitating co-operation between existing business incubators/parks in higher education and state-owned research institutions with a focus on SMEs (i.e. virtual incubators/science parks, exchange of knowledge, good practices, expert pooling, consultants' network, etc.). The Ministry of Education and Science reports having conducted a number of events with partner organisations – such as the Ukrainian Festival of Innovation (May 2018 and May 2019), training in “Best Practices in Academic Entrepreneurship” (May 2018), and training in the

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<sup>57</sup> For more information on the State Regional Development Fund please visit the following website <http://dfrr.minregion.gov.ua/>

<sup>58</sup> For more information on the State Finance Institution for Innovation, please visit the following website <https://www.sfi.gov.ua/>

<sup>59</sup> For more information on the Consulting Zones please visit the following website <https://www.kmu.gov.ua/news/komanda-ministerstva-cifrovoyi-transformaciyi-prezentovala-proyekti-z-cifrovoyi-osviti-ta-rozvitku-malogo-ta-serednogo-biznesu>

transfer of technologies and management of innovation activity (September-November 2018).

As part of this action, the government planned to develop a network of consultants within higher educational institutions to share best practice in transferring scientific and academic achievements to entrepreneurs. Thus, in September 2018, the Ministry of Education and Science, in co-operation with the NGO Youth Entrepreneurial Partnership (YEP), started creating entrepreneurship clubs in higher educational institutions. As of December 2018, the clubs had been established in 25 institutions across Ukraine (this was mentioned earlier under Action 1 of SD4). In addition, since 2018, a programme of co-operation between the Ukrainian Chamber of Commerce and Industry (UCCI) and the Institute of International Relations of Kyiv National Taras Shevchenko University has offered internships to university students at UCCI and foresees lectures by members of UCCI at the Institute (MDETA, 2018<sub>[13]</sub>).

### 5. Enhance technology transfer

The Strategy envisages raising the currently low level of SME investment in R&D through effective technology transfer from universities and research institutions to businesses through a network of technology transfer offices (TTOs).

Thus, in 2018, the Ministry of Education and Science conducted an analysis of activities of higher educational establishments and research institutions in Ukraine on technology transfer and academic entrepreneurship for the period 2014-18. The survey covered 275 institutions across Ukraine and the results were published on the Ministry's website (Ministry of Education and Science, 2018<sub>[78]</sub>).

Moreover, in order to increase the number of technologies transferred by higher education institutions and scientific institutions to the real sector of economy, a project<sup>60</sup> to establish regional technology-transfer centres is being conducted by the Ministry for Communities and Territories Development of Ukraine with financial support from the EU. Three pilot technology transfer centres were established in 2019.<sup>61</sup>

In addition, the government has sought to encourage co-operation between academic and research institutions with SMEs by conducting awareness-raising and promotion activities as well as capacity-building events. For example, in 2018 the Ministry of Education and Science was a co-organiser of the third international "Innovation Market" forum, where the Ministry showcased the activities of TTOs in selected educational establishments in Ukraine, presented the benefits of participation in the European innovation scientific programme EUREKA, showed achievements of Ukrainian innovators, i.e. award-winners of the annual Ukrainian Festival of Innovation (MDETA, 2018<sub>[13]</sub>).

While the implementation of the envisaged measures is an important step towards better understanding the state and scope of activities of TTOs, it is important to ensure that the TTOs do indeed perform their bridging role between science and industry, and that they are involved in technology commercialisation through licensing or formation of academic spin-offs (OECD, EC, EBRD and ETF, 2020<sub>[31]</sub>).

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<sup>60</sup> Sectoral Policy Support Program - Support for Regional Policy of Ukraine.

<sup>61</sup> The Interregional Office for Technology Transfer was set up under MinEdu and UkrINTEI, and regional centres for knowledge transfer and technology transfer was set up under higher education institutions in Odessa and Kharkiv regions.

## 6. Enhancing SME greening

The government foresaw three measures under this action. First, the Ministry of Energy and Environmental Protection was to carry out awareness-raising activities about the benefits of introducing “greening” practices, with a focus on SMEs. The Ministry reported having established a rating of “Top-100 enterprises – biggest polluters” in 2017. In addition, in 2018, a roundtable was held to discuss the draft laws on “The system of state biosecurity at the stages of creation, experimentation, transportation and usage of the GMO” and on “Packaging and package waste”, and a public discussion was held on the draft “Concept on implementation of the state policy on industrial pollution”. With regards to SMEs, the website of the project Green Mind-2018 (<http://www.greenmind.com.ua/en>) contains information regarding the requirements for promoting environmental protection and sustainability, and the cost of the life cycle when engaging in public procurement (MDETA, 2018<sub>[13]</sub>).

Second, in order to meet the requirements of Directive 2003/87/EU and further amendments 96/61/EU, the Ministry of Energy and Environmental Protection developed a draft law “On monitoring, reporting and verification of greenhouse emissions” that was approved by the Committee on Environmental Policy, Environmental Management and Consequences of the Chernobyl Disaster of Verkhovna Rada (hereafter the Committee on Environmental Policy). To enable the implementation of this draft law upon its approval, a number of by-laws were developed to comply with EU Regulation 600/2012 and EU Directive 2003/87/EU.

Moreover, in order to implement EU Regulation 2037/2000 (on ozone-depleting substances) and Regulation 842/2006 of the European Parliament (on fluorinated greenhouse gases), the Ministry of Energy and Environmental Protection developed a draft law “On ozone-depleting substances and fluorinated greenhouse gases” that was approved by the Cabinet of Ministers and registered in the parliament. Following a positive review by the Parliament Committee on Environmental Policy, the draft law was submitted to the parliament and is pending.

Further, the Ministry of Energy and Environmental Protection developed a draft “Concept on implementation of state policy on industrial pollution until 2028”. The concept aims to reduce industrial pollution by regulating activities and introducing provisions through permits to limit emissions. In 2018, a public consultation was held to discuss the developed Concept, and the draft document is expected to be submitted for approval by the CMU. On 22 May 2019, the CMU issued the Order on “Approval of Concept on implementation of state policy on industrial pollution” (CMU, 2019<sub>[79]</sub>). Draft Order “On Approval of the Action Plan for the Implementation of the Concept on implementation of state policy on industrial pollution” is available on Ministry’s web-site (Ministry of Energy and Environmental Protection, 2019<sub>[80]</sub>). Implementation of this measure has been postponed as legal acts developed by the Ministry require further approval.

Third, the Ministry planned to enhance implementation of sustainable consumption and production models by SMEs – i.e. green practices for doing business – including implementation of environmental management systems and environmental certification and marking according to ISO requirements. MDETA and the Ministry of Energy and Environmental Protection reported having conducted the International Innovation Forum “Innovation Market” and the “Green Mind - 2018” international forum for sustainable business development in order to promote green practices for doing business. The events gathered representatives of large, medium-sized and small businesses, as well as

representatives of regional and local state governments, business associations, civil society and academia.

In order to enhance environmental certification and ISO marking, in 2018 a number of national standards of the ISO 14000 IDT series were developed by the National Technical Committee 82 (i.e. ISO 14024:2018, IDT; ISO 14026:2017, IDT; ISO/TS 14027:2017, IDT; ISO 14046:2014, IDT) and submitted to the National Standardisation Body for approval. The Sub-Committee of the Technical Committee on Standardisation also carried out a review of 13 environmental standards of the same series, i.e. ISO 14 000 IDT, for various goods and services (MDETA, 2018<sub>[13]</sub>).

Furthermore, the Ministry of Energy and Environmental Protection's official website provides access to the Single Registry on Environmental Impact Assessment ([www.eia.menr.gov.ua](http://www.eia.menr.gov.ua)) and ensures provision of the electronic service "Environmental Impact Assessment" on a permanent basis (Ministry of Energy and Environmental Protection, 2019<sub>[81]</sub>).

### *7. Taking advantage of Horizon 2020 programme opportunities*

This action envisages raising awareness of SMEs of the opportunities offered by the Horizon 2020 programme.<sup>62</sup> In this respect, eight information events on the topic "Opportunities for SMEs to Participate in the Horizon 2020 program" have taken place (MDETA, 2018<sub>[13]</sub>). As of December 2019, 227 Ukrainian organisations won grants in "Horizon 2020" and Ukrainian participants won 163 grants with a total amount almost EUR 27 million (Ministry of Education and Science, 2019<sub>[82]</sub>). In addition, thanks to the support of the international technical assistance project EU4Business-FORBIZ, MDETA carried out seven events aimed to raise the awareness of innovative SMEs in Ukraine with regard to opportunities to participate in the Horizon 2020 programme.

Moreover, to ensure the development and training of National Contact Points (NCPs) of the Horizon 2020 programme on opportunities for participation in the programme for Ukrainian representatives, a number of training courses, seminars and webinars take place on a monthly basis.

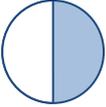
### *8. Using opportunities offered through EU COSME Programme*

Under this action, the government planned to facilitate SME participation in EU COSME programme (2014-2020), including in the Enterprise Europe Network (EEN). As of December 2018, MDETA, with the assistance of international technical experts, had carried out 38 events on the opportunities provided by COSME – with more than 1400 representatives of the business sector, NGOs, business associations and public authorities participating. In addition, 40 agreements on co-operation between Ukrainian and EU businesses were signed, 8 entrepreneurs did paid internships in the EU, and 20 Ukrainian clusters were registered on the EC's "European Cluster Collaboration Platform" (<https://www.clustercollaboration.eu>). EEN Ukraine provided Ukrainian business sector with 24 free consultations on marketing and innovative management. As an additional measure, MDETA developed and launched a website devoted to EU COSME programme activities in Ukraine which became part of [sme.gov.ua](http://sme.gov.ua) portal (MDETA, 2018<sub>[13]</sub>).

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<sup>62</sup> For more information on the Horizon 2020 programme please visit the following website <https://ec.europa.eu/programmes/horizon2020/en>

**Table 14. Overview of assessment results: SD 6 Improve SME competitiveness and innovation**

Action	State of play	Progress
Strengthen institutional capacities of business associations	Initial survey of BSOs conducted to assess readiness to participate in public-private dialogue and advocate the interests of SMEs. Recommendations and draft programme to strengthen institutional capacities of BSOs elaborated.	
Ensure that regional specificities of SMEs are taken into account	Methodology for long-term planning of SME development at the level of regions, cities and amalgamated communities developed and approved by MDETA; ready for use at regional and local levels. Draft law "On mandatory allocation of a certain percentage of regional development budget to fund SME financial and lending programmes" to be developed by the Ministry of Finance.	
Modernise the existing SME support infrastructure	A pilot project on Info point for SME is being carried out in 3 selected regions. Complemented by BSCs across 15 regions established in the framework of the EBRD project. Capacity building activities on agricultural co-operation conducted and co-financing mechanism on consulting services for agriculture SMEs in place.	
Enhance the transfer of knowledge	Entrepreneurship clubs established in 25 institutions across Ukraine.	
Enhance technology transfer	Survey conducted of higher educational establishments and research institutions in Ukraine on technology transfer and academic entrepreneurship in 2015-2018. Awareness-raising and promotion activities carried out to encourage co-operation between academia and SMEs.	
Enhance SME greening	Four draft laws discussed and ready for adoption by the parliament. Draft "Concept on implementation of state policy on industrial pollution until 2028" and a graphic tool for its implementation developed. Innovation Forum "Innovation Market" and International Forum for sustainable business development "Green Mind 2018" held. Several national standards developed; 13 others reviewed by the Technical Committee on Standardisation.	
Use opportunities of Horizon 2020 programme	10 start-ups received funding within the Horizon 2020 program and 7 promotional events were conducted with EU support in 2018. Training courses, seminars and webinars for National Contact Points take place on a monthly basis.	
Use opportunities offered through COSME	38 promotional events conducted and around 40 co-operation agreements signed between Ukrainian and EU businesses. 20 clusters registered on the EC "European Cluster Collaboration Platform". Website devoted to the EU COSME programme) launched which became part of sme.gov.ua portal. Awareness raising for COSME.	



### Monitoring results

The Strategy includes three KPIs related to this strategic direction, as reviewed in Table 15 with some additional suggestions.

**Table 15. Suggested KPIs to monitor progress in SME competitiveness and innovation**

KPI	Description/rationale	Baseline value <sup>1</sup> (year)	Most recent value (year)	Source of data
Innovative SMEs (% of all SMEs)	A standard indicator based on standardized enterprise innovation survey methodology	17.0 % (2014-16)	26.5 % (2016-18)	Ukrstat publication 'Наукова та інноваційна діяльність України 2018' (2019), table 7.3. <sup>2</sup>
Innovative enterprises (% of all enterprises)		18.4 % (2014-16)	28.1 % (2016-18)	
Share of SMEs implementing innovative products or processes (% of all SMEs)	A sub-indicator focusing on technological innovation	10.6 % (2014-16)	8.8 % (2016-18)	Ukrstat publication 'Наукова та інноваційна діяльність України 2018' (2019), table 7.3
Share of innovative industrial SMEs (% of all industrial SMEs)	A sub-indicator focusing on innovations of industrial SMEs	17.9 % (2014-16)	27.1 % (2016-18)	Ukrstat publication 'Наукова та інноваційна діяльність України 2018' (2019), table 7.3
Share of R&D expenditure in GDP	Standard indicators of investment in R&D activities	0.48 % (2016)	0.45 % (2017)	Ukrstat publication 'Наукова та інноваційна діяльність України 2018' (2019), tables 5.2 and 5.4.
Share of business sector in total R&D expenditure		36.9 % (2016) (0.18 % of GDP)		
Expenditures of industrial enterprises on innovation activities, incl. R&D (% of GDP)	An indirect indicator suggested due to lack of other data	0.97 % (2016)	0.34 % (2018)	Ukrstat dataset Total expenditure on innovation activity
Total expenditure on R&D – applied research and (experimental) development (% of GDP)	An indirect indicator suggested due to lack of other data	0.39 % (2016)	0.37 % (2018)	Ukrstat dataset Research and development expenditure by type

Notes: <sup>1</sup> Baseline year is 2016 since the SME Strategy was approved in 2017. <sup>2</sup> Publication in English would be titled “Scientific and innovative activity of Ukraine, 2018”.

Ukrstat conducted three surveys of enterprise innovation activity using a standardised Eurostat methodology, which is the appropriate source of data for the Strategy's indicators on share of innovative SMEs and those SMEs that have implemented product and process innovations. The most recent survey for the 2016-2018 period shows a strong increase of the share of innovative SMEs in total and in the industrial sector, while the share of SMEs implementing technological innovation remains below 10%.

The Strategy included another standard indicator, enterprise spending for R&D activities, but data are available with a considerable lag. In 2016, the enterprise sector contributed 36.9% to the total R&D spending which amounted to 0.46% of GDP. The share of total R&D spending in GDP has been declining since 2013 when it stood at 0.70% of GDP. Given the lag in data availability, we suggest using two proxy indicators that were provided on time. The first is spending by industrial enterprises on innovation activities, which includes spending on R&D but is not broken down by company size. Focusing on the total

amount of innovation spending and not only R&D is also in line with the objectives of the Strategy. The second indicator is total spending by all sectors (not just businesses) on applied research and (experimental) development, which at least partially supports innovations in the business sector.

The proposed indicators focus on the objective of increasing SME competitiveness through innovation activity. Results of other activities in this SD – such as improving the overall support infrastructure and quality of services for SMEs, SME greening, and promotion of FDI – will be reflected in the KPIs of other strategic directions, notably those related to SME exports and value added. It would also be premature to introduce an indicator of SME development at the regional level as the government's activities have so far been mostly related to co-ordinated strategy development at the regional and local levels.

### *Way forward*

As further steps to ensure the competitiveness of Ukrainian SMEs, government should focus on the following:

- **Conduct a study of BSOs market and the market for business support services provided by BSOs.** This would be an important first step towards strengthening BSO infrastructure to the benefit of SMEs. Putting in place a programme to build the institutional capacities of BSOs, as well as mechanisms to track the programme's implementation and monitor its efficiency, would be an important second step towards enhancing BSO infrastructure. The latter is the focus of the draft programme already prepared and resource mobilisation is required.
- **Ensure that SMEs at the local level can effectively contribute to regional development** through provision of business support services via a network of BSCs and the possibility of allocation of funds from the regional development budget for SME financing (i.e. adoption of a dedicated law, putting in place financing mechanism).
- **Monitor the implementation of the co-financing mechanism for agricultural SMEs in rural areas** to assess its efficiency and enhance its reach and impact.
- **Make sure that TTOs are performing their bridging role between science and industry**, and that they are involved in technology commercialisation through licensing or formation of academic spin-offs.
- **Ensure that innovation surveys are conducted regularly** based on a standardized Eurostat methodology, and continue collecting statistical data on business expenditures for R&D.

## 2. Recommendations for developing the new SME Strategy

### Recommendations on the implementation process

The SME Development Strategy and its Action Plan were adopted a year apart, and no proper costing of the Strategy was carried out to ensure that the government has, or is capable of generating, sufficient budget to ensure the implementation of the foreseen actions. **Carrying out a proper cost analysis** for an Action Plan in the future would create financial certainty in the implementation period and provide for flexibility throughout the policy cycle in terms of funds allocation according to the set strategic priorities. The government could draw on the *Methodological Guidance for Costing of Structural Reforms*, developed by the Centre of Excellence in Finance of Slovenia, or the *Strategy Toolkit* of OECD SIGMA, to prepare costing of the upcoming strategic document guiding the SME policy (CEF, 2019<sup>[83]</sup>) (Vági, P. and E. Rimkute, 2018<sup>[84]</sup>).

Moreover, Co-ordination Council should receive both policy and budgetary support for its activities to ensure strong horizontal co-ordination among governmental and non-governmental actors. The Council should further work towards achieving objectives and targets set out in the Action Plan, while monitoring the key performance indicators for better policy co-ordination.

**Prioritising actions under the Strategy** would be another important element to ensure that its main targets are achieved, even if the budgetary resources are squeezed during implementation. The OECD's "Prioritisation Tool" for selecting priority reform measures (OECD, 2018<sup>[85]</sup>), developed to support economic reform programmes, could be used by MDETA to guide its priority-setting process within the upcoming SME Strategy.

When it comes to the **process of implementation of the Strategy**, two things could be done to improve its monitoring.

- MDETA could consider **developing a unified reporting template** that the various public bodies responsible for implementing SME Strategy would fill in. This would greatly facilitate MDETA's work in consolidating inputs from a number of implementers and would ensure that the information provided by the latter is relevant to the assigned task under the SME Strategy.
- The existing MDETA monitoring tool could be improved by **integrating standardised indicators to measure progress in implementation** in terms of status, timeliness and cost efficiency/ funding of measures. This would provide for a better understanding of progress and flag important issues to address. A template of process indicators developed by the OECD could be further adapted by the Ministry in this regard (OECD, 2018<sup>[86]</sup>).

Finally, when elaborating the subsequent Strategy and Action Plan, the government should make sure **not to duplicate actions and measures across different strategic directions** (SDs). Even though some actions might fit under various SDs (e.g. taking advantage of opportunities under the EU COSME and Horizon 2020 programmes), it would be important to make a decision on including those in the SD where they seem most relevant and can produce the greatest desired impact (for example, the SD on entrepreneurship and culture skills). If needed, a reference to those actions could be integrated into other SDs that benefit

from their implementation. This would ensure consistency throughout the document and streamline reporting.

### Recommendations for further evaluation of the SME Strategy

The SME Strategy stated that, “to ensure that monitoring and evaluation of the Strategy implementation are transparent, open, and unbiased, an independent assessment may be made with engagement of international experts, research institutions, and other qualified parties. Results of such assessment will serve a basis for drafting a new strategy after the year of 2020”. The Action Plan set the deadline of Q4 2020 for such an independent assessment. Some general guidelines for evaluation are provided here to assist the authorities in their efforts towards preparing the next SME Development Strategy. A more technical document, focusing on methodological aspects of evaluation, was also shared with MDETA and SMEDO.

There are two basic questions which the external evaluation should answer:

- (1) Was the Strategy designed and implemented in such a way that it could have had a meaningful impact on the development of the SME sector? (process evaluation)
- (2) How much of the improvement in the SME sector can be attributed to the measures and actions of the Strategy? (impact evaluation)

#### *Process evaluation of the SME Strategy*

The process evaluation needs to assess the effectiveness of implementation, for which the regular implementation reports prepared by MDETA and SMEDO will be a most useful input. Implementers of measures will be able to highlight the main difficulties they encountered during implementation. This information should be complemented by engaging key target groups and stakeholders in the evaluation process to appraise their views on the quality and inclusiveness of Strategy preparation and implementation. The key questions are: “How were they involved in the design and implementation of the strategy?” and “How was their feedback reflected in the documents and in the actual implementation of measures?”

#### *Impact evaluation of the SME Strategy*

Impact evaluation should begin with a comprehensive analysis of the current situation in the SME sector and the key remaining obstacles to its development. The current situation should be compared with the one presented in the analytical part of the Strategy, to assess the changes and improvements. Data used in the analytical part of the Strategy should be updated and complemented with new data that were not available at the time, as well as findings of research studies on the SME sector. Such initial analysis will help assess whether the Strategy itself was based on sound analysis of the situation and, more importantly, lay solid analytical grounds for preparation of the strategy for the next period.

The KPIs and targets set by the Strategy, as well as additional indicators suggested by this report, will provide a first important insight into the results and impact of the Strategy. But the most difficult challenge for any impact evaluation is to assess how much the Strategy has indeed contributed to the documented improvements. While surveys of beneficiaries or focus groups may provide information on how useful they found the measures, a thorough quantitative analysis of data, using statistical and econometric estimations, is required to assess the impact more precisely. For example, a commonly used method is to compare the performance of SMEs that received support from a measure with a sample of comparable

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SMEs that did not receive support. Another possibility is regression analysis; for example, adding a policy variable (e.g. value of SME loan guarantees issued) to a regression that identifies other factors influencing the level of loans or interest rates for SMEs may give a good estimate of policy impact. Therefore, evidence base needs to be improved to carry out a meaningful evaluation of the real impact of implemented measures.

It is usually not possible to assess each measure of the strategy separately and with advanced methods, due to data and resource constraints. Impact evaluation should thus focus on measures that were intended to address the most critical issues in the SME sector, and those on which most resources and efforts were spent in implementation. Simpler approaches, such as trend analysis or a critical summary of existing research, may be used for less central measures.

Finally, the evaluation should not neglect the financial aspect of Strategy implementation. Although the Action Plan was not costed and the implementation reports do not provide information on resources spent, it should be possible to at least estimate the total amount of financial resources engaged for Strategy implementation, from both the national budget and international assistance. From the financial point of view, it is also important to at least qualitatively address the question of dead-weight losses, which occur when resources are spent on supporting activities which SMEs would have carried out even if there was no state support. Overall, comparing resources spent with achieved results will provide an insight into policy efficiency and help improve the allocation of resources between measures in the next strategy.

Entrusting the evaluation to an external evaluator is the standard best practice to ensure transparent and unbiased assessment.<sup>63</sup> But that does not imply that MDETA and SMEDO (as institutions responsible for the Strategy) have no important role in the evaluation process. Quite the contrary: they will need to take the lead role in steering the evaluation process, facilitate the involvement of stakeholders, oversee and support the evaluator, and engage the policy makers in discussion, and act on the evaluation's findings. Most importantly, they will need to make sure that the recommendations from the evaluation are taken on board in the preparation of the next strategy.

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<sup>63</sup> EU FORBIZ has been involved in evaluating the progress of the SME Development Strategy.

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## **EU4BUSINESS**

The EU4Business Initiative covers all EU support for small and medium-sized enterprises (SMEs) in the region of the Eastern Partnership which brings together the EU, its member states and six partner countries: Armenia, Azerbaijan, Belarus, Georgia, Moldova and Ukraine.

[www.eu4business.eu](http://www.eu4business.eu)

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## **MONITORING THE IMPLEMENTATION OF UKRAINE'S SME DEVELOPMENT STRATEGY 2017-2020**

The Government of Ukraine has embarked in an important effort to support the SME sector, adopting a comprehensive SME development strategy in 2017 and improving its institutional framework for SME policy, notably with the creation of the SME Development Office (SMEDO) and the inter-ministerial Co-ordination Council on Micro and Small Entrepreneurship Development. Throughout 2019, the OECD reviewed the implementation status of the SME development strategy in close co-operation with the Ministry for Development of Economy, Trade and Agriculture. This note summarises the main findings of this joint work, provides recommendations for future policy actions as well as targeted advice on how to build an effective, result-oriented monitoring system.

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