

Chapter 12. Ukraine: Small Business Act country profile

Despite ongoing economic and political challenges, Ukraine has made significant progress since the 2016 SBA Assessment, through continuous implementation of reforms in such fields as deregulation, public procurement, harmonisation with the EU acquis and bankruptcy procedures, as well as improving its institutional and regulatory framework for SME policy and developing entrepreneurship key competence as part of its ambitious New Ukrainian School reform. In 2018, the SME Development Strategy until 2020 was adopted and the SME Development Office was established to support the Ministry for Development of Economy, Trade and Agriculture of Ukraine in implementing the strategy and expanding the infrastructure for SME support.

Going forward, Ukraine should ensure the sustainability of its institutional and regulatory framework for SME policy, step up deregulation efforts and ensure the creation of level-playing-field conditions for SMEs through consistent enforcement of the corruption and competition legislation, as well as by granting broader budgetary autonomy to its competition authority. In addition, streamlining support for SME greening and internationalisation, and providing a range of business development services will help to improve the competitiveness of Ukrainian economy.

Key findings

Figure 12.1. SME Policy Index scores for Ukraine

Country scores by dimension, 2020 vs. 2016

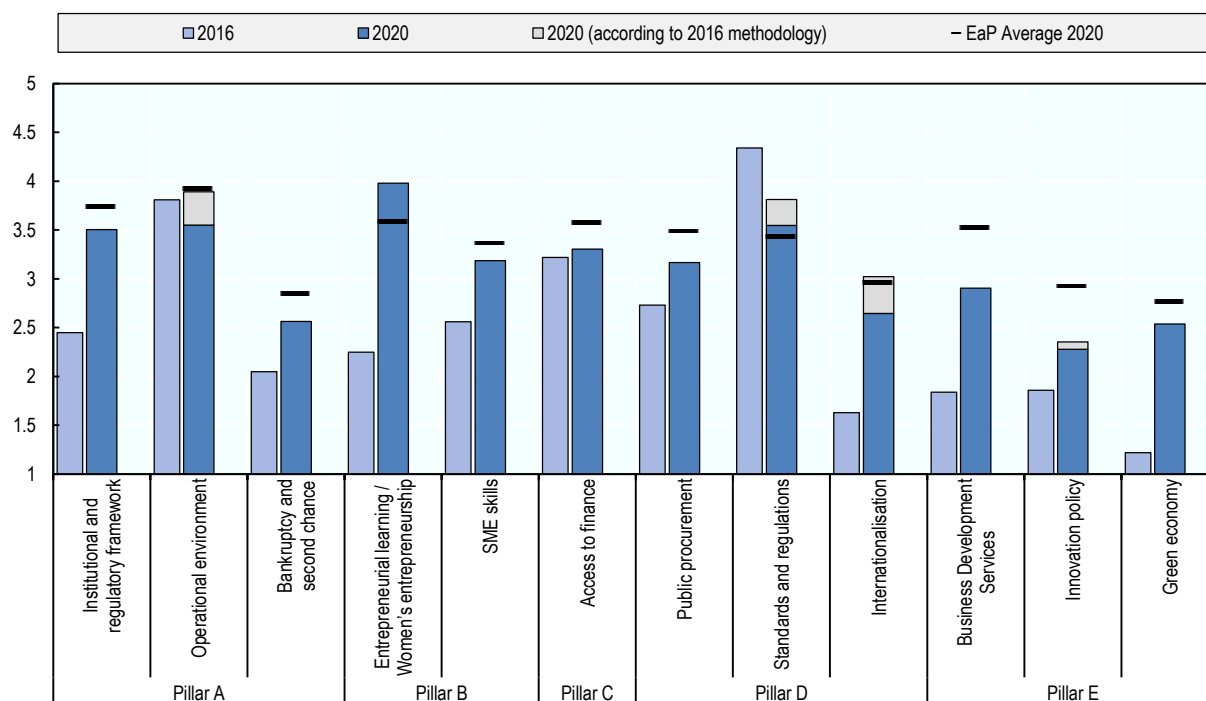
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Table 12.1. SME Policy Index scores for Ukraine, 2020 vs. 2016

Pillar	Dimension	UKR 2020	UKR 2016	EaP average 2020	UKR 2020 (2016 methodology)
A	Institutional and regulatory framework	3.50	2.45	3.74	3.50
	Operational environment	3.55	3.81	3.92	3.89
	Bankruptcy and second chance	2.56	2.05	2.85	2.38
B	Entrepreneurial learning / Women's entrepreneurship	3.98	2.25	3.58	n.a.
	SME skills	3.19	2.56	3.36	n.a.
C	Access to finance	3.31	3.22	3.57	3.23
D	Public procurement	3.17	2.73	3.49	3.17
	Standards and regulations	3.55	4.34	3.43	3.81
E	Internationalisation	2.64	1.63	2.96	3.02
	Business development services	2.90	1.84	3.53	2.90
	Innovation policy	2.28	1.86	2.92	2.35
	Green economy	2.54	1.22	2.77	2.54

Table 12.2. Implementation progress on SME Policy Index 2016 priority reforms – Ukraine

Priority reforms outlined in SME Policy Index 2016	Key reforms implemented so far
<u>Pillar A – Responsive government</u>	
Prepare and adopt an SME strategy and action plan adapted to Ukraine's context	SME strategy adopted in 2018, and SME Development Office established in 2018 to support its implementation
Implement a revamped RIA mechanism including an SME test	Revision of RIA methodology with integration of the SME-test; mandatory RIA application
Deepen and broaden the deregulation agenda with an SME focus	Rolling review of the regulatory acts in key economic sectors introduced in 2016
<u>Pillar B – Entrepreneurial human capital</u>	
Ministry of Education to assume a greater leadership role for entrepreneurial learning; appoint an entrepreneurial learning "ambassador"	Education reform, led by the Ministry of Education, included the New Ukrainian School concept based on 10 key competences, including "sense of entrepreneurship"
Conduct an independent evaluation of the key activities of the School Academy for Entrepreneurship	The School Academy for Entrepreneurship project has been finalised and evaluated, with the evaluation report serving as the basis for developing the New Ukrainian School concept
Improve data collection and intelligence on high-potential women's entrepreneurs	No systematic data collection system on women entrepreneurs is in place
Collect SME skills intelligence through regular surveys and sectoral working groups.	
<u>Pillar C – Access to finance</u>	
Strengthen creditors' rights by allowing them to seize collateral	Major clean-up and consolidation in the banking sector carried out
Set up an online platform for the collateral registry	Registry for security interests over movable assets became more accessible through integration of online registration and searchability functions
Improve the legal framework for venture capital	
Introduce an SME guarantee scheme	
<u>Pillar D – Access to markets</u>	
Continue to develop systematic market surveillance; adopt the 'Strategy of Technical Regulation System Development'	Continued harmonisation with EU standards and transposition of EU technical regulations into national legislation
Consider a new institutional framework and the introduction of export finance and targeted promotion initiatives	Export Promotion Office and Export Credit Agency established
Promote SME participation in public procurement	Public procurement mechanism enhanced through introduction of ProZorro
<u>Pillar E – Innovation and Business Support</u>	
Support the development of the private BDS market and consider potential public support schemes	Strategy on development of innovation activity until 2030 approved
Introduce regulatory and financial incentives for SME "greening"	SME strategy 2020 included actions aimed at increasing SME greening and developing green technologies

Context

Economic snapshot and reform priorities

In 2013-15 Ukraine experienced a 15.7% contraction in GDP against the backdrop of a slowdown in major trading partners, a domestic political crisis, and the Russian seizure of Crimea and the eruption of armed conflict in the east of the country. Since 2016, however, Ukraine has experienced a modest recovery supported by private consumption, a solid increase in wages, strong consumer credit growth and high inflows of remittances. Fixed investment, fuelled by residential construction, also contributed to the return to growth (EBRD, 2018^[1]). Despite 3.3% growth, GDP in 2018 was still 14.4% below the peak reached in 2008, just before the global crisis.¹ Fiscal pressures remain acute and medium-term growth prospects are uncertain (Table 12.3).

Ukraine's fragility is reflected in FDI inflows, which in recent years have been both weak and volatile. In 2017, they stood at USD 2.37 billion, well down from the levels of USD 10-11 billion a year seen a decade earlier. Following a few years of expansion, exports of

goods and services decreased modestly in real terms in 2017 (-3%) and continued falling in 2018 (-6%) in the face of weaker external demand (*according to the table below*). Exports continue to be dominated by low-value-added sectors and commodities: in 2018, vegetables and metals accounted, respectively, for 32% and 23% of total exports (WITS, 2019^[2]). This renders Ukraine vulnerable to volatility in commodity prices and regional development trends.

Despite these extremely difficult internal and external challenges, successive governments succeeded in restoring macroeconomic stability after the shocks of 2013-14: the introduction of a flexible exchange rate regime, disciplined fiscal and monetary policies, and significant energy and financial sector reforms all played a part. The recovery was also underpinned in part by improved access to European Union markets following the signing of the EU-Ukraine Association Agreement in 2014 and the creation of a Deep and Comprehensive Free Trade Area (DCFTA), though this came into force only in late 2017.

Ukraine has also made real progress on a number of structural reforms. A substantial clean-up of the banking system was undertaken that began to tackle related-party lending, resolved many undercapitalised banks and restored a degree of confidence in the sector. The country introduced e-government for procurement and VAT repayments, and a small number of critically important state-owned enterprises (SOEs) now have professional governance. With donor support (including that of the OECD), a Business Ombudsman Council was created and is operating effectively, and new anti-corruption institutions were established such as the National Anti-Corruption Bureau. Ukraine's decentralisation reforms have resulted in a major overhaul of territorial governance and are among the steps that polls suggest are viewed by citizens as bringing real benefits.

Table 12.3. Ukraine: Main macroeconomic indicators, 2013-18

Indicator	Unit of measurement	2013	2014	2015	2016	2017	2018
GDP growth*	Percentage, y-o-y	0.0	-6.6	-9.8	2.4	2.5	3.3
Inflation**	Percentage, average	-0.3	12.1	48.7	13.9	14.4	10.9
Government balance ¹ **	Percentage of GDP	-4.8	-4.5	-1.2	-2.2	-2.2	-2.2
Current account balance*	Percentage of GDP	-9.0	-3.4	1.8	-1.4	-2.2	-3.3
Exports of goods and services*	Percentage of GDP	43.0	48.6	52.6	49.3	48.0	45.2
Imports of goods and services*	Percentage of GDP	52.2	52.1	55.2	56.2	55.7	53.8
FDI net inflows*	Percentage of GDP	2.5	0.6	3.4	3.7	2.5	1.9
General government gross debt**	Percentage of GDP	40.5	70.3	79.5	81.2	71.6	60.2
Domestic credit to private sector*	Percentage of GDP	73.5	75.2	56.7	47.3	38.3	34.1
Unemployment ² *	Percentage of total active population	7.2	9.3	9.1	9.4	9.5	9.4
Nominal GDP*	USD billion	183.3	133.5	91.0	93.4	112.2	130.8

¹ General government net lending/borrowing.

² Data includes population aged 15-70. For 2013-2014, temporarily occupied territories of the Autonomous Republic of Crimea and Sevastopol are not taken into account; after 2015, the data do not include the temporarily occupied territories in Donetsk and Luhansk regions.

Source: *World Bank (2019^[3]), World Development indicators; **IMF (2019^[4]), World Economic Outlook, both accessed on December 2019.

Sustaining growth over the medium-to-long term will require further implementation of structural reforms and continued support from the international community, which will be contingent on further fiscal consolidation. In 2018, the IMF approved a 14-month, USD 3.9 billion Stand-by Arrangement. The country also benefits from EUR 4.4 billion in EU

Macro-Financial Assistance and an EUR 349 million loan under a Policy-Based Guarantee from the World Bank (EBRD, 2019^[5]).

Business environment trends

Since 2014, the government has embarked on an ambitious reform agenda envisaging structural reforms in all sectors of economy in order to meet its obligations under the EU-Ukraine Association Agreement and DCFTA. Key priorities have included deregulation, reforms of the justice sector, reforms in tax administration and a strengthened anti-corruption agenda. Progress has been palpable, albeit uneven, and resistance to some of the most sensitive measures has been strong.

However, the recognition of this progress has come with Ukraine's improved scores in the *trading across borders*, *getting electricity*, *dealing with construction permits* and *protecting minority investors* indicators of the World Bank's *Doing Business* exercise, in which Ukraine ranked 64th in 2020, 19 positions higher than in 2016 (World Bank, 2019^[6]).² The country ranked lower, at 85th, on the World Economic Forum's Global Competitiveness Index (GCI) 2019, which in part reflects the wider range of issues covered by the index (World Economic Forum, 2019^[7]).³ The GCI highlights persistent weaknesses in Ukraine's institutions, financial system, and innovation capability.

Since 2016, Ukraine has taken important steps to improve the environment for small and medium-sized enterprises. In May 2017, the Cabinet of Ministers approved Ukraine's first SME Development Strategy for the period until 2020. An SME Development Office within the Ministry for Development of Economy, Trade and Agriculture (MDETA) of Ukraine was established the following year, with a mandate to assist MDETA in the implementation of the SME Strategy, in particular with regard to business support infrastructure. However, despite these efforts, a recent survey of SMEs showed that tax administration, regulatory pressure and corruption remain important challenges for SMEs (EBA, 2019^[8]).

SME sector

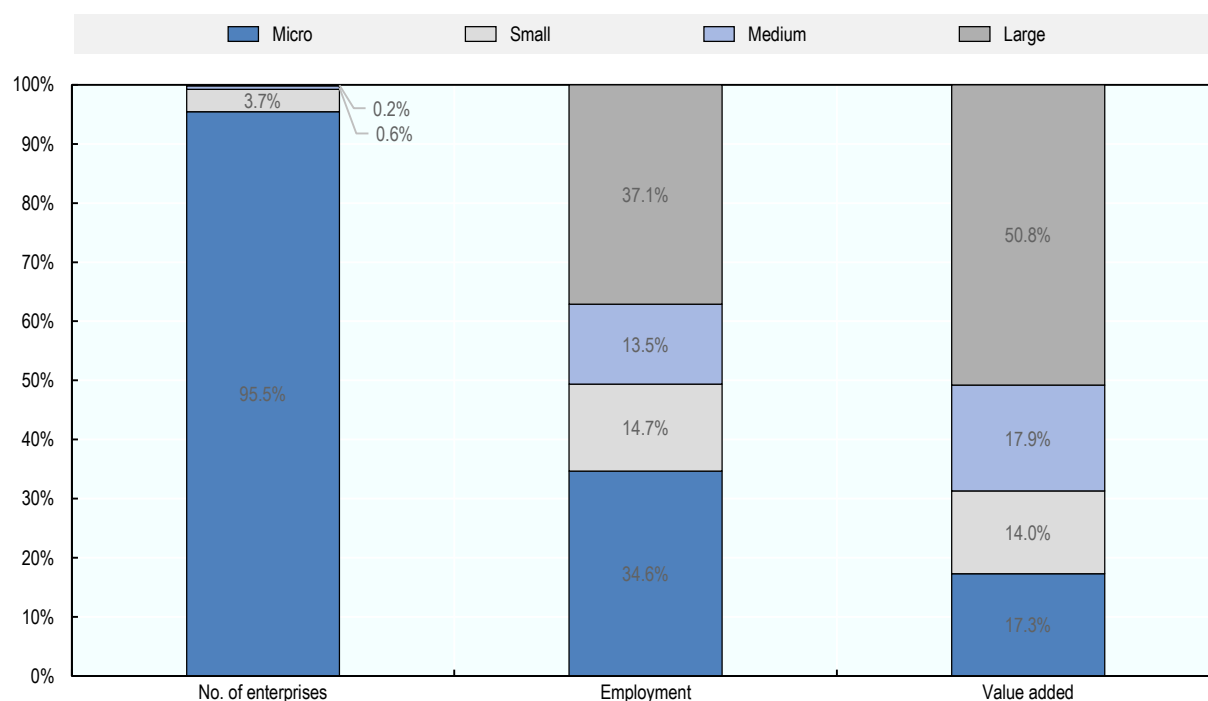
Ukraine's legal definition of SMEs, introduced in 2012, remains unchanged. It defines micro, small and large enterprises based on employment and turnover criteria, which is broadly in line with the EU definition⁴ (Table 12.4). When compiling statistics on SMEs, the State Statistics Service of Ukraine (Ukrstat) uses both the existing legal definition of SMEs and one based on employment only (State Statistics Service of Ukraine (Ukrstat), 2017^[9]) to allow for comparability with EU countries.⁵

Table 12.4. SME Definition 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 22 March, 2012.

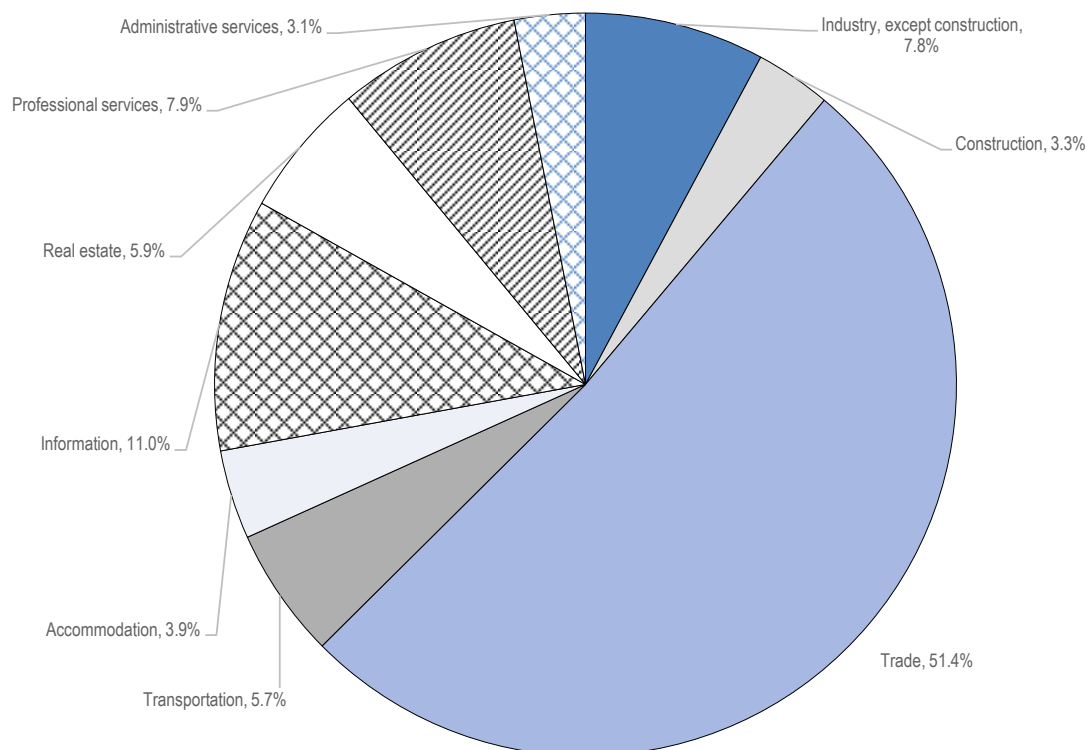
In 2018, SMEs made up 99.8% of all enterprises in the business sector, 96% of them being microenterprises. SMEs accounted for 63% of the total business employment in Ukraine and generated 49% of value added in the business sector (Figure 12.3).

Figure 12.2. Business demography indicators in Ukraine by company size, 2018

Source: State Statistics Service of Ukraine.

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The majority of SMEs in Ukraine still operate in the wholesale and retail trade (51.4%) and thus remain concentrated in low-value-added sectors. However, recent years have seen a growing number of SMEs in the IT sector (9% in 2018 versus 5% in 2015).

Figure 12.3. Sectoral distribution of SMEs in Ukraine, 2017

Notes: Sectors entail B-N (ISIC Rev. 4) excepting financial and insurance activities. Data do not include the agriculture sector.

Source: State Statistics Service of Ukraine, OECD (2018).

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SBA assessment by pillar

Level playing field pillar

Competition

Ukraine has made significant progress in competition policy, and competition law and enforcement now incorporate most of the relevant building blocks and practices of an effective competition law regime. The Antimonopoly Committee of Ukraine (AMCU) has most of the required powers and instruments at its disposal, and uses them for active enforcement against unlawful cartels, mergers, and abuses of dominance. The AMCU, being an autonomous and independent body, is authorised to compel undertakings to provide information for infringement investigations, conduct surprise on-site inspections (so-called “dawn raids”), apply financial penalties to all types of undertakings, offer remedies and block anticompetitive mergers.

The AMCU is certainly the most active enforcer in the EaP region, with a high level of merger enforcement activity (almost 1200 mergers reviewed in 2016-18) and cartel investigations (more than 400 in 2017-18), resulting in total fines of almost EUR 53 million, and a high number of *abuse-of-dominance* cases. In addition, the AMCU uses its powers to conduct market studies and to review state actions and regulations with regard

to unnecessary restrictions to competition. This will benefit SMEs in particular, as it helps to decrease barriers to entry and competition imposed by law or by state action, which is all the more important in an economic environment with large SOEs. Many of the AMCU's recommendations are taken into account in the process of amending draft laws and regulations. In addition to the competition enforcement powers, the AMCU is also the designated public-procurement appeal body and supervises the state aid system.

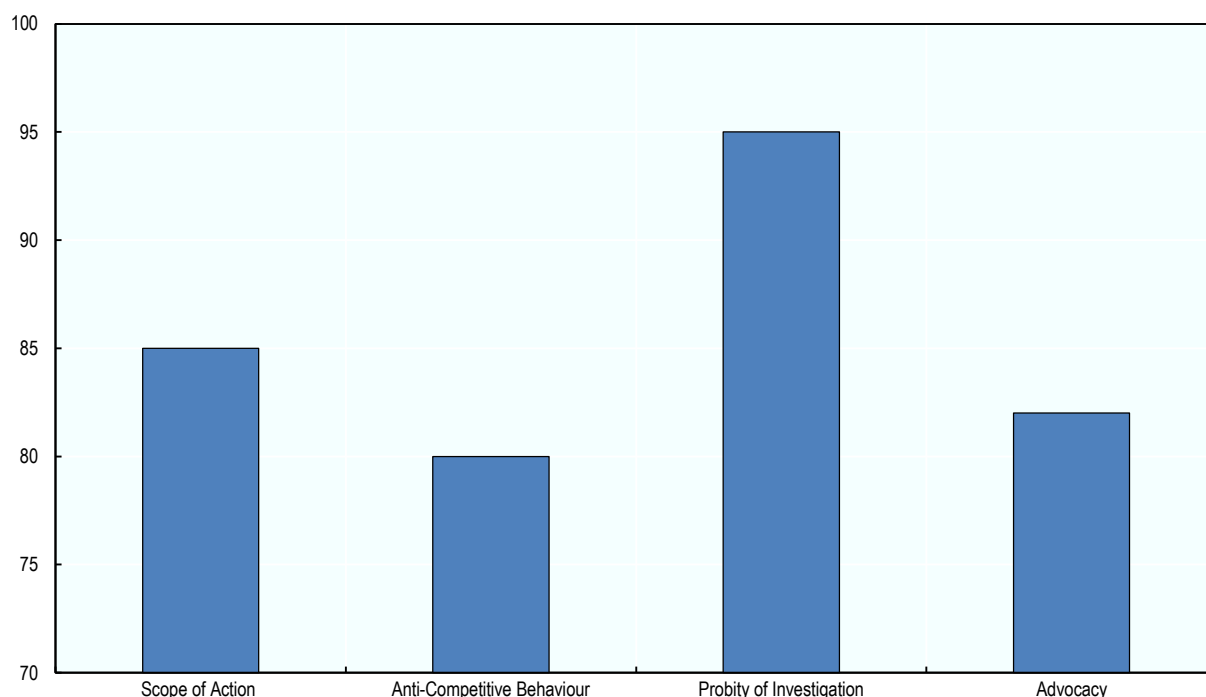
Ukrainian competition law has undergone many positive changes in recent years. Merger thresholds were increased and a local nexus was introduced, and a simplified review procedure was established, as well as the possibility of consultations with the AMCU. Block exemptions for vertical supply agreements and technology transfer agreements have been put in place. Transparency has been increased with the publication on its website of the AMCU's decisions, annual reports, and guidelines (on the assessment of horizontal and non-horizontal mergers, the calculation of fines, and the concept of control). Pending amendments include the exclusion of the seller's turnover from the calculation of merger notification thresholds, a methodology for relevant market definition, and a methodology for determining dominance of undertakings. The revised leniency programme allows for reduction of fines for subsequent applicants, and a settlement procedure has been introduced.

Nonetheless, some important challenges remain:

- In an economy with a high level of SOE activity, a significant degree of distrust in state institutions, and high corruption risks, the independence and qualification of the AMCU staff is of utmost importance. Only independent enforcement by highly qualified lawyers and economists can ensure that the AMCU fulfils its mandate in a neutral and effective way, to benefit all undertakings and consumers in the economy, regardless of their size, ownership or political affiliation. While the AMCU's budget experienced a significant increase over 2018-19, this may still be insufficient to attract and retain the kind of staff that is needed. The salaries and budget should be equivalent to other independent agencies' budgets and/or the judiciary, and they should not be subject to annual negotiations.
- The AMCU's extended responsibilities not only for competition enforcement, but also for public procurement and state aid, risk diluting its competition mandate and also expose it to strong resistance and political pressure from public and private stakeholders. Solutions to address this problem need to be found very soon, and at the least, it should be ensured that budget and staff allocation for the additional tasks is in line with the significant additional burden.
- The AMCU still lacks discretion to decide on and eventually dismiss incoming complaints based on their relevance and enforcement priorities. This occupies resources that could be used in a more meaningful way. Bureaucratic obstacles hinder effective enforcement, when the AMCU needs to seek a court authorisation to have fines enforced by the relevant authorities. This delays fine collection for 2.5–3 years.
- The decentralised organization of the AMCU (with a high number of staff in the regional offices) could be an obstacle to more-effective priority setting and staff distribution to the AMCU's various responsibilities, as well as to enforcement based on best practices.

Figure 12.4. Competition Policy in Ukraine

Percentage of formally adopted criteria, as of June 2019



Note: The chart above refers to the percentage of competition policy criteria formally adopted in the legal framework. It gives equal weight to all criteria. This does not illustrate actual enforcement activity in terms of relevance or quantity, and about the relevance of the criteria lacking or met.

Source: SBA questionnaire, interviews with AMCU representatives and business associations.

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Contract enforcement and alternative dispute resolution

The government has streamlined contract enforcement procedures under the Judicial Reform Strategy for 2015-2020. In 2017, a simplified procedure for small claims was introduced for the resolution of contractual disputes. The claim value for the simplified procedure must not exceed 100 subsistence minimums, i.e. around EUR 5 500, which is largely in line with the EU practice. However, a number of inconsistencies in terminology applied by the legislator leaves important room for judge's discretion that may lead to consideration of cases with EUR 25 000 claim value as a small claim.⁶

In order to enhance single judicial information system, responsible for documentation flow and exchange of information between the judicial system bodies and other institutions, as well as for publication of judgements and automatic distribution of cases, the government has worked on the Single Judicial Information and Telecommunication System since 2016. The System introduces a full-fledged e-court, enabling electronic communication between courts and litigants that includes e-filing, e-service of process and e-payment – along with a single register of court decisions, upgraded case-management tools for judges and lawyers, and enhanced automatic distribution of cases. In the beginning of 2019, a pilot version of e-court was launched in all local and appeal courts.

Another important development towards stronger contract enforcement was the adoption in 2016 of laws on “On Enforcement Proceedings” and “On Institutions and Persons that Enforce Decisions of Courts and Other Bodies” that introduced the enforcement of court decisions by private bailiffs. That was followed by the establishment of an online register of private enforcers, which in 2018 comprised 120 bailiffs. Going forward, it will be important that the government support the activity of private bailiffs by ensuring proper oversight of their operations while allowing them sufficient autonomy.

These considerable improvements have been reflected in the *Doing Business* score in enforcing contracts, as the quality of judicial process progressed from 8/18 in 2016 to 11.7/18 in 2020. However, the cost of enforcement remains the highest among the EaP countries, standing at 46.3% of the claim value (World Bank, 2019^[6]).

Ukraine has also taken steps to strengthen its property rights protection. The existing criminal offences framework was enhanced in 2017 to tackle IP violation, and the legal provisions regulating IP rights in Ukraine are largely in line with international standards. The Concept Note on intellectual property policy guides IP policy development and implementation. In the framework of the judicial system reform, the High Court on Intellectual Property was established in September 2017. However, specialisation in IP law was not among the requirements for selecting the Court’s judges, which is a major shortcoming for the efficiency and quality of the future court operations. As of this writing (mid-2019), the court is not yet functional and the final decision on judges’ appointment is still pending approval.

Businesses facing malpractice by the public authorities, state-owned or state-controlled bodies in their regard, can recur to the Business Ombudsman Council (the Council),⁷ which acts as an alternative dispute resolution (ADR) mechanism protecting the legitimate interests of businesses. At present, Ukraine lacks a quality legal framework for administrative procedure to provide for impartial, comprehensive and fair consideration of appeals filed by businesses against actions or inactions of public authorities (Business Ombudsman Council, 2019^[10]). Established in 2014 with the support of EBRD and OECD, the Council benefits from multi-donor funding which enables it to operate independently and provide high-quality services. Out of 1792 complaints received by the Council in 2018, 73% came from SMEs and most concerned tax issues (Business Ombudsman Council, 2018^[11]). Going forward, the government should ensure that the Business Ombudsman institution is embedded into the law to provide for the institution’s sustainability.

In addition to the Council, other ADR mechanisms are accessible for SMEs in Ukraine. Despite the absence of a dedicated law on mediation, mediation services to resolve commercial disputes are provided by private companies and business associations. In August 2019, Ukraine adhered to the UN Convention on International Agreements on the Settlement of Disputes by Mediation (Singapore Convention on Mediation). In order to meet the requirements of Article 9 of the Law of Ukraine “On International Treaties” and to prepare proposals for ratification of the Singapore Convention on Mediation, the Ministry of Justice established a working group to prepare proposals for ratification of Convention, as well as to prepare a draft Law of Ukraine “On Mediation”. The National Association of Mediators of Ukraine comprises more than 120 mediators and promotes mediation through awareness-raising and capacity-building activities, while the Ukrainian Mediation Centre provides training and carries out the certification of mediators. Moreover, the profession of the mediator was included into the national occupational standards framework. However, there is generally low awareness among SMEs of the benefits of ADR when resolving commercial disputes, and the government should step up its efforts

to promote ADR within the business community through awareness-raising campaigns, including in co-operation with the Council and other business associations.

Business integrity

Since 2014, Ukraine has achieved modest but gradual progress in Transparency International's Corruption Perceptions Index, moving from a score of 26/100 in 2014 to 32/100 in 2018 and ranking a still-low 120th out of 180 countries (Transparency International, 2018^[12]). The government introduced a comprehensive anti-corruption framework that included the adoption of the Anti-Corruption Strategy for 2014-2017 and the Law on Corruption Prevention in 2015. Ukraine has also established a number of anti-corruption institutions, such as the National Agency on Corruption Prevention (NACP), the National Anti-corruption Bureau (NABU), the Specialised Anticorruption Prosecutor Office (SAPO), the Agency for Recovery and Management of Assets (ARMA), and the High Anti-corruption Court (not operational yet). While external assessments point to some progress, it has been difficult to ensure the independence, effectiveness and even integrity of these new institutions (ACN, OECD, 2019^[13]).⁸

In May 2018, a new draft Anti-Corruption Strategy for 2018-2020 that includes a component on business integrity was submitted to the Parliament but has not been adopted yet. However, so far the government has not conducted a study of corruption risks in the private sector in co-operation with companies and business associations, which could help guide business integrity measures within the new strategy.

Prevention of corruption in the private sector has also been strengthened. The Amendments to the Law on State Registration of Legal and Physical Persons and Public Entities adopted in 2014 introduced mandatory disclosure of beneficiary owners of all companies in Ukraine. In 2017, a data set titled "Unified State Register of Legal Entities, Individual Entrepreneurs, and Public Formations" (containing information on beneficial owners of legal entities) was set up within the government's Unified State Open Data Portal, which enables easy access to and automatic processing of data. In 2019, the NACP established a register of persons, including legal entities, who have committed corruption-related offences.⁹ While this is an important development towards a more efficient corruption prevention in the private sector, the enforcement of the liability remains weak in the context of the overall poor prosecution of corruption. Going forward, the government should analyse and address the reasons of weak prosecution of criminal liability of legal persons. Furthermore, a verification system to check the validity of submitted data by companies should be put in place to provide for an accurate disclosure of beneficial ownership (ACN, OECD, 2019^[13]).

Businesses can report corruption using a variety of tools, such as a dedicated government hotline for entrepreneurs (launched in 2016) or direct reporting to law enforcement or anti-corruption bodies and the Business Ombudsman Council (BOC). A fairly comprehensive whistle-blower protection draft law generally in line with international good practices was developed in 2016 and submitted to Parliament. However, despite the rising number of reports on corruption by businesses reported by NABU¹⁰ and the BOC (Business Ombudsman Council, 2018^[11]),¹¹ the inefficient prosecution of corruption has undermined trust in the newly established institutions and could discourage further reporting (National Anti-Corruption Bureau of Ukraine, 2018^[14]).¹² Against this backdrop, the government should step up its efforts to reform the judiciary in order to provide for an efficient and impartial adjudication of corruption cases in Ukraine.

To promote business integrity, the NACP cooperates mostly with the Ukrainian Network for Integrity in Compliance (UNIC), an initiative supported by EBRD and OECD. UNIC has become an important institution promoting integrity policy, joining businesses' efforts for collective action against corruption and advocating for the introduction of measures to support compliance principles. In addition, UNIC plans to develop its internal Code of Conduct, carry out a certification of companies adhering to the network, and establish a monitoring system for business integrity and compliance. As next steps, the government should ensure that the NACP has enough capacities and resources to carry out the awareness-raising activities on business integrity, and provide for support of UNIC initiatives.

Pillar A – Responsive government

Institutional and regulatory framework for SME policy

Since the last SBA assessment in 2016, Ukraine has taken important steps to build an institutional and regulatory framework for SME policy. Policy changes have been driven by a combination of institutional reforms and substantial financial and technical support from international and bilateral donors. All those policy changes are reflected in the relevant increase in the score relative to the previous assessment. However, a few important SME policy building blocks should be further improved (i.e. the policy coordination mechanisms), while decisions on the structure of implementing institutions will have to be taken before the end of the current SME development strategy and re-negotiations of donor support in 2020-2021.

In 2015, the SME policy mandate was assigned to the Ministry for Development of Economy, Trade and Agriculture (MDETA), which led the elaboration of the country's first SME development strategy 2020, which was approved in 2017 after a process of consultations involving private sector organisations, state institutions and donors. The strategy sets six strategic directions: 1) development of a favourable business environment for SMEs, 2) enhancing access to finance, 3) simplifying tax administration, 4) promoting entrepreneurship, 5) promoting SME internationalisation and 6) improving competitiveness while developing innovation potential. The related action plan was approved in 2018, leaving limited time to achieve the pre-set objectives and targets.

The approval of the strategy and action plan set the conditions for stepping-up donor support. In October 2018, with the financial support of the EU and within the framework of EU Forbiz project, the SME Development Office (SMEDO), an advisory body within MDETA, was established. The Office is tasked with supporting the Ministry in implementing the SME strategy, co-ordinating activities on SME policy with other public authorities, developing SME support infrastructure and ensuring public-private dialogue. At the end of the current donor support cycle, a project evaluation will be conducted and the government will decide on the future of SMEDO. One option would be to transform the Office into a full-fledged SME Development Agency responsible for the implementation and monitoring of entrepreneurship development policy, with policy-making functions performed by MDETA.

SME support implementation is currently conducted mainly at the regional level and it relies largely on donor support (i.e. EU, USAID, GIZ), while SMEDO and the MDETA conduct regional pilot projects aimed at integrating regional initiatives with the national strategy. The MDETA has also put in place a monitoring mechanism for SME policy, producing regular monitoring reports on the implementation status of the SME Strategy.

SME policy co-ordination takes place through regional co-ordination councils and an inter-ministerial council established in April 2019.

The informal sector in Ukraine is relatively large and its share is estimated by the MDETA at 32% of the country's GDP in 2018. In this regard, actions have been taken to reduce labour informality, increase tax enforcement measures and simplify administrative procedures. A draft Action Plan to increase the transparency of labour relationships is under development and a new procedure for state supervision and control of compliance with labour legislation¹³ by companies was adopted by the government. However, a comprehensive strategy to fight labour and enterprise informality is still missing.

Ukraine has made good progress in creating more business-friendly regulations and updating its RIA methodology in line with OECD standards. The government should now make sure that the new methodology is systematically and consistently applied at all levels. The MDETA has elaborated two deregulation plans, 2015-2016 and 2016-2017, the latter extended until 2019; by the end of 2018, 57% of the planned measures had been implemented. The State Regulatory Service, as an authorised body, approves draft regulatory acts developed by executive bodies. Going forward, Ukraine should continue working towards consistent RIA application across all levels of government, ensuring that the public authorities are well-trained to conduct a quality assessment.

According to the Law on Basic Principles of State Regulatory Policy, 2015, public consultations must be conducted prior to the approval of new laws and regulations in the field of economic relations. A draft schedule of public-private consultations for the upcoming year is available on MDETA's website¹⁴. The Ministry also holds ad hoc consultations, including through its website. In addition, since 2014, the government has introduced a series of amendments to the Resolution of the Cabinet of Ministers of Ukraine "On ensuring public participation in the development and implementation of State policy" to revamp the mechanism of public councils (formed earlier under executive authorities) by expanding civil society participation in the decision-making process. Thus, public councils operate at the levels of ministry, other central executive authority, region, Kyiv city, district state administrations, and perform advisory and expert functions. For instance, in 2018, the public council under MDETA comprised 56 representatives of various associations, 70% of them representing business associations. For these processes to generate real policy improvements, the government must make sure that the public-private dialogue is inclusive and that feedback and recommendations from the private sector representatives are taken into account properly when SME policy issues are discussed.

Operational environment for SMEs

Ukraine has made some progress in improving the operational environment for SMEs, particularly via the provision of e-government services, the allocation of business licences and the simplification of tax administration. Albeit the improvements, the only modest performance in these two last sub-dimension, newly introduced in the assessment, contribute to the decrease in the score. Starting a business in Ukraine has become easier, if compared to the country's performance on the relevant indicator of World Bank's *Doing Business* in 2016. Regulatory reform in Ukraine has proceeded at an erratic pace over the last ten years and a medium-term regulatory reform strategy is not yet in place.

Since the introduction of the first e-government services in early 2000s, Ukraine has not had a comprehensive e-governance plan. The approval in September 2017 of the Concept on e-Governance was a turning point in this regard, with coordination and implementation roles assigned to the State Agency for e-Governance, in operation since 2014. To date, the

number of available e-government services in Ukraine stands at 120, with further plans to introduce an electronic signature system and to develop mobile services. Ukraine has also made significant progress in promoting open data, with the establishment of a Unified State Open Data Portal (<http://data.gov.ua>), which contributed to an improvement of 45 positions on the Open Data Barometer in 2017 (World Wide Web Foundation, 2018^[15]). In addition, Ukraine established a regional network of Centres for Administrative Services (CAS), acting as one-stop shops for the provision of a variety of administrative services (e.g. company registration, permits and property-related transactions). MDETA is now planning to leverage CAS's wide regional outreach, users' trust, and their understanding of the local context to offer more-advanced and tailored services for SMEs.

After having significantly simplified the company registration process through a number of reforms introduced in 2014-16, Ukraine reverted to this trend by introducing two additional administrative requirements, i.e. obligations 1) to certify the authenticity of signatures on documents submitted to the state register for state registration of legal entities (using a notarized signature card) and 2) to register employees with the State Fiscal Service. Thus, the number of procedures increased from four in 2016 to six in 2018 and the time required to complete the process grew from 5 to 6.5 days, while the overall cost marginally increased from 0.5% to 0.6% of the country per capita income. More recently, steps have been taken to simplify and broaden access to online registration, including the options to register legal entities and to select the applicable tax system online. The system has been operational since April 2019 and the process can now be completed in a matter of minutes. In addition, individual entrepreneurs can use an online service to register their company free of charge.

Ukraine has made incremental progress in the area of business licences and permits. Since 2014, 3 708 legislative and regulatory acts were reviewed under the deregulation action plans (Ministry for Development of Economy, 2019^[16]). The number of economic activities which are subject to licencing decreased from 56 to 33, and the number of activities requiring permits was reduced from 143 to 85.

Ukraine has introduced tax exemptions and a simplified tax regime for individual entrepreneurs and small companies. Consequently, the number of small enterprises and individual entrepreneurs benefitting from the simplified regime has significantly increased, reaching more than 1.3 million taxpayers as of 1 June 2019. In 2015, Ukraine also modified the social contribution regime by moving to a system fully based on employer contributions. Tax administration remains overall quite complex. According to the 202019 *Doing Business* report, the number of required tax payments per year is low (5), but the number of hours required to complete tax administration procedures is high (328), well above the regional average of 220. The post-filing index, which measures the efficiency of VAT reimbursement procedures and tax auditing procedures, is relatively good, measuring 86 over a scale of 100. Responding to the demand of the private sector organisations, the tax administration has recently improved VAT refund procedures, which now take on average 16 days (World Bank, 2019^[6]).

Bankruptcy and second chance

In April 2019 the Government of Ukraine reformed the insolvency framework with the publication of the new Bankruptcy Code of Ukraine, enhancing significantly its compliance with international standards. Ukraine currently holds the 146th rank in resolving insolvency in *Doing Business 2020*, but some experts expect an improvement of up to 80 places once the new Code enters into force (autumn 2019).

The new Bankruptcy Code notably 1) introduces the notion of personal bankruptcy for individuals, 2) enhances the protection of secured and unsecured creditors' rights and their participation to the decision-making process, 3) simplifies and expedites bankruptcy procedures while reducing the scope for appeal, and 4) introduces more-transparent sales procedures through e-platforms. Specialised institutions efficiently support the insolvency framework, i.e. commercial courts dealing with insolvency cases, the national bankruptcy register system with public access since 2015 or the Credit Registry of the National Bank introduced in 2018.

However, further efforts are required to promote and monitor the preventive measures and more systematically detect financially distressed companies. Although entrepreneurs fearing failure have access to pre-insolvency information through self-test websites and the “Start-Ukraine” seminar, no early-warning system is in place.

Moreover, Ukraine should consider implementing a dedicated policy strategy or information campaign to promote second chance for entrepreneurs seeking a fresh start. Relieving economic disabilities after bankruptcy – entrepreneurs seeking a fresh start cannot apply for a bank loan for 3 years and file for bankruptcy for five years – would also enhance market re-entry after bankruptcy.

Pillar B – Entrepreneurial human capital

This section focuses on the human capital dimensions of the Small Business Act for Europe. It first examines how entrepreneurial learning is addressed in the education system, focusing on entrepreneurship as a key competence – a factor in Ukraine's wider drive for competitiveness, growth and employment. It then discusses developments in women's entrepreneurship. Finally, both policies and support for SME training are addressed.

This assessment underlines the good progress of Ukraine has made in the area of entrepreneurial learning, women's entrepreneurship and enterprise skills. This stems from the fact that in recent years Ukraine has been putting skills and human capital at the centre of government's policies.

Led by the Ministry of Education and Science of Ukraine (MES), the government has invested significant resources in reforming the education system (primary, lower and upper secondary education) by making it competence-based. Continuity of efforts to implement the “New Ukrainian School” and the reforms aiming at the modernisation of the Vocational Education and Training system should be strongly supported with a particular focus on investment in teachers. The SME Strategy 2020 recognises the importance of investing in entrepreneurship skills for greater economic growth and competitiveness, and highlights the rise of women's entrepreneurship on the national political agenda.

Entrepreneurial learning

Since 2016, Ukraine has made good progress by integrating entrepreneurship as a key competence into the key policy documents guiding the national education agenda throughout all levels of education. Since 2016, the “New Ukrainian School” (NUS) concept has been put forward by the government and endorsed through the parliamentary adoption of the Law of Ukraine “On Education” in September 2017. The law supports the principles of lifelong learning, giving a central place to learning outcomes and key competences. New educational standards have been developed to support the implementation of the New Ukrainian School concept, which includes eleven key competences fully that are fully aligned with the European framework for key competences for lifelong learning (EC,

2018^[17]). The European competence frameworks for entrepreneurship and digital key competences, EntreComp (Bacigalupo et al., 2016^[18]) and DigiComp (Carretero, Vuorikari and Punie, 2017^[19]), were used to develop the new state education standard, the curricula framework and the teacher training programmes. The promotion of an entrepreneurial culture and development of enterprise skills is also part of the Action Plan that supports the SME Strategy 2020.

Implementation of the NUS government reform was launched in 2017. The national pilot programme started from the first grade of primary school in the academic year 2017/2018, covering 100 primary schools across all regions. The pilot programme was followed by full national implementation in the academic year 2018/2019, while the pilot started for grade 2 simultaneously, following the same model; the reform will continue in the future to cover a full 12-year education, applying a competence-based approach. At the same time, teachers are being retrained to enable them to teach the new competence-based curricula, including entrepreneurship as a key competence. In 2018, with the support of the European Training Foundation (ETF), 50 master trainers from all in-service Teacher-Training Institutes around the country and 25 regional NUS coordinators underwent training in the key competence approach, with further cascading into retraining of other teachers. It is important that the in-service teacher training is scaled up and focuses on the effects of competence-based curricula by applying more student-centred teaching methods. In parallel, future teachers also need to be fully prepared in the new way of teaching under NUS reform. The existing instruments used to monitor the implementation of the key competences served as a basis for developing reports outlining the impact student-centred teaching on students, teachers and schools. Rigorous monitoring takes place through surveys and focus groups with teachers, parents, school directors and other stakeholders who were involved in the New Ukrainian School reform. However, a systematic monitoring and evaluation framework for the key competences development within the whole education system (general education, VET and Higher Education) is not yet in place.

In Vocational Education and Training (VET), implementation towards a competence-based curriculum has yet to start at the system level. The new concept for modernised VET foresees updating the content and competences provided by the vocational education. It will include such key competences as entrepreneurship and financial literacy, general and vocational competences. Currently, the course "Basic principles of market economy and entrepreneurship" is part of the standard curricula. A new project funded with EUR 58 million from the EU is about to start and will support the modernisation of the VET system with the aim of delivering motivated, active and qualified graduates aspiring to permanent professional development, self-realisation and career growth (Ministry of Education and Science of Ukraine, 2018^[20]).

The new Standard of Higher Education includes the entrepreneurship key competence but it is not yet implemented across all faculties in all universities. However, there are many good examples in higher education where students get some entrepreneurial experience.

In order to ensure the development of innovative, entrepreneurial culture among students, MES together with NGO "Innovation Partnership Platform" established business clubs in 25 higher education institutions. MES regularly holds advisory activities for SMEs, e.g. an Information Day for SMEs "Opportunities and Challenges of Project Activities for Development of Small and Medium Enterprises in the Region" in 2018 (EUREKA¹⁵ Info Day). The 4th All-Ukrainian Innovation Festival in 2019, included a round table on the Development of Academic Entrepreneurship in Higher Education Institutions and Scientific Institutions of Ukraine. To increase the number of partnerships between higher

education institutions and businesses annual national forum "Business and Universities" was organised by MES and the Corporate Social Responsibility Centre.

To promote self-employment and entrepreneurship, a new action plan on the Concept of the State System of Career Counselling was approved in 2018. The plan includes entrepreneurship in career counselling for youth and envisages the establishment of youth centres to stimulate youth entrepreneurship through consultancy services, networking events and contests between young entrepreneurs. In addition, the State Employment Service provides career guidance services and courses on entrepreneurship, including the provision of professional education on entrepreneurship basics to the registered unemployed. Overall, Ukraine is investing in creating a more entrepreneurial spirit among its citizens through formal and non-formal education and training (e.g. through the organisation of different awards and competitions for the best entrepreneurial idea or best business plan for start-ups).

Women's entrepreneurship

According to Ukrstat, the women's employment rate in Ukraine is lower than the men's (52% and 62%, respectively). In terms of self-employment, men are more likely than women to work as employers or individual entrepreneurs: women account for 42% of all self-employed persons and for 33% of employers (UNDP, 2017^[21]).

Ukraine has made good progress on this dimension compared to the 2016 assessment, especially in terms of policy developments. The SME Strategy 2020 pays particular attention to the promotion of entrepreneurship among disadvantaged social groups, internally displaced persons (IDPs) and women. To avoid duplication, the Action Plan of the SME strategy does not include specific actions for supporting women entrepreneurs. Instead, it refers to two other strategic documents 1) the Ukraine's Export Strategy 2017-2021, which includes measures to enhance the competences of SMEs led by women and young people; and 2) the concept of the National Social Program for Equal Rights and Opportunities for Women and Men until 2021, which covers training and counselling for women start-ups, in particular in rural areas. A Decree of the Cabinet of Ministers on "Gender Expertise of Legislation", adopted in 2018, ensures equal rights and approaches to men and women across all legislation. Gender focal points exist in most public institutions at national and regional levels to ensure equal rights and opportunities for women and men, including in the area of business creation.

Although women's entrepreneurship measures are addressed within several strategic documents, the need to coordinate implementation of various cross-ministerial policies and to undertake systematic monitoring and evaluation has not yet been addressed. While there is no formal partnership at the national level promoting women's entrepreneurship, several active partnerships exist at local and regional levels that support and connect women entrepreneurs. For example, the Chambers of Commerce and Industry in Donetsk, Lviv, Chernihiv and Vinnystia have set up Businesswomen's Committees that represent interests of women entrepreneurs. Several NGOs are actively promoting women's entrepreneurship, for example, the "League of Professional Professional Women" and the "Ambassador of Women Entrepreneurs". However, despite the increased collective efforts from the non-governmental partners, there is still a need to raise awareness at the policy level to increase women's engagement and leadership as a contribution to economic growth at the national, regional and local levels.

A wide range of training courses targeting women entrepreneurs do exist through different programmes, mainly co-financed by donors. The "Women in Trade" programme

implemented under the “Canada-Ukraine Trade and Investment Support Project” (CUTIS) is helping women entrepreneurs overcome barriers in international markets. In terms of governmental programmes, several initiatives to support women entrepreneurs exist at the regional and local levels – the “Women’s Business School” in Bila Tserkva, for example. Moreover, the Export Promotion Office, with the support of the Canadian government and in partnership with the Embassy of the Netherlands, has developed a “Training Course for Women Business Owners” that prepares women entrepreneurs for international business, taking into account the principles of innovative entrepreneurship and the UN sustainable development goals. However, despite the existence of various training and business support programmes, sector-specific support for women is underdeveloped, especially in the creative industry, textile and fashion sectors that were identified as key areas for women’s entrepreneurship development by the SME Strategy.

Enterprise skills

With its new SME Strategy 2020, the Ukrainian government has clearly put human capital development at the centre of its business reforms. A recent study on “Skills for a modern Ukraine” from the World Bank refers to the importance of skills development in increasing employability and enabling workers to carry out their jobs more efficiently, use new technology, and innovate. Moreover, investment in skills allows firms to move up the value chain as they hire a more skilled labour force (Del Carpio et al., 2017^[22]). In 2018, when SMEDO was established under the MDETA, developing business support programmes for SMEs was stated as one of the Office’s objectives.

In general, Ukraine has started to invest well in developing the skills of entrepreneurs, and a variety of training programs now exist. At the national level, the Ukrainian Innovation Development Fund was created in 2018 with an annual budget of UAH 50 million (approx. 1.9 million EUR) and now provides financial, technical and advisory assistance to start-ups. Furthermore, the government is giving sufficient attention to supporting companies preparing for export – through an Export Promotion Office initiative called the “Export Revolution Programme”. At the regional level, skills development for SMEs is ensured through regional development strategies and provision of training services targeting youth, start-ups, women entrepreneurs and growing SMEs. After the start of the decentralisation reform in 2017, regional youth centres were established to provide financial and non-financial support for start-ups locally.

Regarding training for digital skills development, Ukraine does not fully utilise its unique positioning in online platform work in order to invest more in the development of digital skills of entrepreneurs beyond the ICT sector. Ukraine occupies the first place in Europe and the fourth place in the world, in terms of amount of financial flows and the number of tasks executed on digital labour platforms (ILO, 2019^[23]; Graham, Hjorth and Lehdonvirta, 2017^[24]). According to the same study, tasks such as graphic design, website development and programming are among the most popular tasks. If the government wishes to keep its leading position, it will be necessary to increase the digital skills of its citizens through training.

To efficiently invest in Ukraine’s human capital, a systematic SME skills analysis should be carried out on a regular basis. While no such analysis takes place regularly in Ukraine, some stand-alone initiatives are filling the gap. For example, the 2015-2016 Annual Business Climate Assessment (ABCA) project, funded by USAID, showed that lack of skills is one of the top barriers to SME growth. This finding was addressed through the 2020 SME Strategy, which envisages the provision of training and consultancy services in

export promotion, starting a business, and doing business in Ukraine. In addition, the Export Promotion Office collects information on the training needs of exporting SMEs at the national level, while at the regional level, training needs assessments are carried out through interviews with local SMEs. In the future, SMEDO would need to take the responsibility to collect and analyse data on the demand and supply of skills, as well as on future skills perspectives.

Furthermore, with the adoption of the smart specialisation approach in 2018, Ukraine should work to identify the future skills needs of SMEs in specific sectors and regions. The pilot programme carried out in three regions (Kharkiv, Odessa and Zaporizhia) was able to map the regions' economic, innovative and scientific potential, representing a good start toward a full-scale mapping. The reports, however, do not sufficiently cover the skills-development aspects.

Pillar C – Access to finance

Progress in facilitating access to finance for SMEs has been relatively slow since the last SBA assessment in 2016, partly on account of the need first to address the wider financial and macroeconomic challenges that Ukraine faced. More recently, though, the banking sector has stabilised and lending activity is picking up. In addition, a number of new initiatives by the government are underway to stimulate lending to SMEs. Many of these initiatives are still at an early stage but, if the government manages to bring them to implementation, they could contribute to improved availability of finance for SMEs. Efforts have been made to raise levels of financial literacy among the population, and this has also become an objective for entrepreneurs in particular.

Legal and regulatory framework

A legal framework for secured transactions is in place, including registries for security interests over both movable and immobile assets. Even though Ukraine scores relatively well in the World Bank's *Doing Business 2020* report in terms of the *Strength of creditor rights* index (8 out of 12), enforcement in particular remains an issue. For example, the recovery rate in insolvencies is only 9 cents on the dollar, by far the lowest in the region with an average of 33.45 cents, and significantly below the rate of OECD members at nearly 67.87 cents (World Bank, 2019^[6]). Reforms to strengthen both secured transactions and insolvency proceedings were initiated in 2016 and 2017, respectively. As a result, a new Bankruptcy Code came into effect on 21 October 2019. The new legislative framework will strengthen secured creditors' rights and participation vis-à-vis unsecured creditors and simplify the bankruptcy procedure. The new Code is an important step in the effort to improve Ukraine's insolvency framework, but its effectiveness remains to be tested.

A private credit information bureau is in place. Coverage increased rapidly between 2011 and 2014 (from 17% of the adult population to 48%) but has been stagnant since. Currently, only information from banks, credit unions, and other finance providers is collected. Retailers or utilities do not report any information. With regard to banking regulation, the National Bank of Ukraine (NBU) has begun implementing Basel III standards, with new requirements to be successively put into place over the coming years. Given the negative impact of foreign currency (FX) loan exposures after 2008, the NBU established strict requirements for FX lending; these were loosened in 2019 with a new Law on Currency and Currency Operation. FX lending to households continues to be prohibited, but it is possible to lend to businesses in FX and currently there are no mandatory requirements in place for banks to disclose and explain foreign exchange risks to unhedged business

borrowers. A number of licensed stock exchanges are in place in Ukraine, but the capital market infrastructure is fragmented and very little primary or secondary market activity exists. Market capitalisation as a percentage of GDP remains low.

Sources of external finance for SMEs (bank financing, non-bank financing, venture capital)

Between 2014 and 2017 Ukraine's banking sector went through a major transformation characterised by bank insolvencies, restructurings and consolidation. The number of banks operating nearly halved during that period and balance sheets shrank from USD 83.5 billion in assets in 2014 to USD 49.6 billion in the first half of 2018,¹⁶ leading to a major decline in credit availability (EBRD, 2018_[25]). Credit conditions were tightened, which severely affected SMEs' access to finance. Recovery is underway, and there are signs that loan conditions for SMEs are improving (according to a lending survey conducted by the NBU¹⁷), but interest rates remain high (18.8% for SMEs in 2018). As a result, according to an NBU enterprise survey, over 30% of SMEs report problems accessing finance for working capital. Furthermore, availability of longer tenors is an issue.

Measures to support SME access to finance are mainly IFI-led programmes or regional initiatives. Regional programmes mainly offer interest rate subsidies or guarantees to support SMEs, or subsets thereof such as small-scale farmers. Plans to establish a national credit guarantee scheme exist, but the exact design and timeline are still unclear. In 2018 and 2019, however, the government launched a number of financing support schemes for specific companies and purposes. One of them is the creation of a State Invention Incentive Fund with a budget of UAH 100 million. The fund's aim is to support the development and commercialisation of inventions. A pilot has been launched and is set to run until the end of 2019. In July 2019, the government also launched a new Innovation Development Fund. The fund's size is UAH 400 million and its structure is that of a grant programme to support start-up projects.

Non-bank financing could benefit from an improved regulatory framework to reduce fragmentation, and the sector is underdeveloped. Because no legal definition of microfinance exists, no dedicated microfinance institutions (MFIs) operate in the country. Microfinance is therefore primarily provided through credit unions (CUs), of which there were nearly 600 (active) at the time of the last assessment; but the number of CUs and their assets have been in decline since the onset of the financial crisis in 2008, partly due to efforts by the regulator to clean up the sector and withdraw licenses from insolvent or illiquid entities (Klimenko, Sokolova and Hasii, 2017_[26]). As of September 2018, 358 active credit unions were registered with the National Commission for State Regulation of Financial Services Markets (National Commission for the State Regulation of Financial Services Markets (Natcomfin), 2018_[27]). A new law to reform the regulatory framework for non-bank financial institutions has been adopted on 12 September 2019.¹⁸ A legal framework for leasing activities is in place and leasing is offered by major banks. Equipment leasing is prevalent, in particular for agricultural equipment (around one-third of leasing assets as of Q1 2019). Nevertheless, overall penetration remains low at less than 1% of GDP, compared to 4-14% in countries in Central Europe. Factoring is regulated through provisions in the Civil Code and the Commercial Code. As part of a co-operation project with the EU (FINREG), current legislation is being reviewed and the government is looking into ways to increase awareness and ease of use, but initiatives are at an early stage.

Access to equity capital is scarce. This includes venture capital, for which no specific legal framework exists. Instead, venture capital activities are governed by the Law “On Co-financing Institutions”, which does not contain a definition of venture activities. A new law for investments funds is being drafted to align Ukrainian legislation with EU regulation; this could provide an opportunity to clarify definitions and provide a more specific legal framework for venture activities. Activities are further inhibited by restrictions on institutional investor participation and limited shareholder protection (according to the *protecting minority investors* index of the World Bank’s *Doing Business* report). Nevertheless, according to the Ukrainian Venture Capital and Private Equity Association, activity has been picking up in recent years, with 115 investments for a total of more than USD 330 million in 2018, an increase of approximately 30% over 2017 (Ukrainian Venture Capital and Private Equity Association, 2019^[28]). A number of business angel networks have formed but activity is still at a nascent stage for a country of Ukraine’s size.

Financial literacy

Since the last SME Policy Index, no financial literacy assessment has been conducted by the government. However, a recent study by USAID and the National Bank of Ukraine (carried out using the OECD/International Financial Education Network methodology) suggests that more than half of the population lack a sound understanding of banking-related concepts, showing little improvement compared to a similar survey conducted in 2010. Financial education is particularly low among young people and women and in more remote regions. In 2012, financial literacy was introduced into school curricula as a pilot programme teaching the basics of business activity and personal finance management. Since then, supported by a new law on education passed in 2017 that recognises financial literacy as a key competence, the subject has been rolled out to an increasing number of schools and pupils, but full coverage has not been reached yet.

Improving financial literacy is also an objective of the SME Strategy 2020. A number of government-sponsored training programmes exist – for example, through the State Employment Service of Ukraine (SES) and international donors – but a coherent provision of training programmes that target entrepreneurs seems to be missing. In addition, there is a distinct absence of monitoring and evaluation mechanisms for the various initiatives that are already in place.

Pillar D – Access to markets

Public procurement

During the period covered by the assessment, public procurement was regulated by the public procurement law¹⁹ (PPL) promulgated on 25 December 2015, as amended. A new PPL,²⁰ including measures for supporting SME participation, has been prepared in order to meet Ukraine’s obligation²¹ to gradually align its legislation with the EU’s public procurement directives, including provisions for facilitating access by SMEs. In addition, the SME strategy includes recommendations on SME access to public procurement, but these have not been fully implemented yet.

The Ministry for Development of Economy, Trade and Agriculture (MDETA) has a Public Procurement Department (PPD) with regulatory, advisory and supervisory functions. The Anti-Monopoly Committee of Ukraine (AMCU) acts as the independent review body, and it has made it easy to submit complaints (and set strict time limits for their processing) – but the system’s effectiveness is hampered by a large number of complaints, many of which

are frivolous. In co-operation between the PPD and a number of institutions of higher education, training is available, mainly covering the formal requirements of the PPL and the use of ProZorro (see below). However, it does not yet fully match the needs of the large number of contracting authorities, many of which suffer a shortage of skilled and experienced staff and find it difficult to properly identify and describe needs, draft clear and unbiased specifications and set appropriate qualification requirements and award criteria.

The regular use of an e-procurement system called ProZorro²² is compulsory for all public authorities for procurement above the thresholds of UAH 200 000 for goods and services and 1 500 000 for works. Simplified procedures are foreseen for low-value contracts. ProZorro comprises a publicly owned and managed central public procurement data repository with facilities for publishing notices and accessing data, as well as an e-auction module (essentially, with price as the main award criterion), all accessible through a number of public procurement platforms. The latter, operating on a commercial basis, have to be used by contracting authorities and tenderers for carrying out public procurement procedures. A related website²³ is intended to facilitate monitoring of public procurement, but data on SME participation are not easy to extract. (See Box 12.1 for more details on both systems).

The PPL and related regulations currently include provisions on division into lots. Tender securities can be required but must not exceed 0.5% of the estimated contract value. Until the entry into force of the new PPL six months²⁴ from the date of its publication, there are no requirements for proportionality and contracting authorities can set qualification requirements as they deem appropriate, including none at all. There are also no limits on subcontracting. This has increased the risk of contracts being awarded to unqualified firms, thus distorting competition. Opportunities for wider SME participation, in fair competition, also suffer from frequent tendencies to reduce the value of individual contracts to amounts below the thresholds, and participation rates remain fairly low, also above the thresholds.

Addressing some of the current shortcomings mentioned, the new PPL introduces improved provisions likely to strengthen SME participation, such as:

- widening the range of award criteria, to include e.g. life cycle cost;
- regulations and procedures for simplified procurement of low-value contracts;
- rules for market consultations during procurement planning;
- clearer and more-explicit rules for the negotiated procedure; and
- more specific rules on qualification criteria and their application.

Its successful implementation will call for continued attention to regulatory and institutional development and, above all, improvement of current practices with respect to SMEs, as follows:

- strengthen and focus the review function and render it more effective;
- raise the knowledge and skill levels of contracting authorities, including aspects relevant for SMEs; and
- ensure proper application of requirements for proportional and adequate (but not excessive) qualification requirements, and promote the use of more specific award criteria other than price only.

Box 12.1. Ukrainian electronic public procurement system ProZorro and DoZorro

In December 2015, the government of Ukraine adopted amendments to the Law on Public Procurement to improve the transparency, efficiency and fairness of procurement systems through the use of electronic public procurement mechanisms. This reform had become particularly urgent given the significant losses in the state budget from corrupt practices in public procurement (estimated at 10-15% or UAH 35-52.5 billion of state budget annual expenditures) and as a part of fiscal consolidation measures. The electronic system ProZorro (<https://prozorro.gov.ua>) thus became obligatory for procurement procedures for all government authorities and natural state monopolies. ProZorro was built on an open data source and is the result of a collaboration between the government, the business sector, and the civil society, with important contributions of Transparency International experts and financial support from EBRD, USAID and other international donors.

According to the Ministry for Development of Economy, Trade and Agriculture (MDETA), the introduction of ProZorro is responsible for an estimated 7.53% of savings in government procurement, made possible via an open bids system that anyone can access. Since its launch in 2016, ProZorro has received wide international recognition, being awarded first place by both the World Procurement Awards and the Open Government Awards in 2016.

To complement this important innovation, improve transparency, and prevent theft at all stages of public procurement, Ukrainian civil society also introduced Dozorro (<https://dozorro.org>), an online platform designed to enable civil society to have some degree of control over public procurement. It offers the option to leave feedback, comments and information about a state customer, supplier, public and law enforcement authorities and about the procurement procedure. Moreover, as of today, the Dozorro community unites 24 professional civil society organisations across Ukraine that identify and submit complaints concerning violations in over 1 500 procurement processes every month.

Source: (Institute for Economic Research and Policy Consulting, 2018^[29]), (OECD, 2018^[30]).

Standards and technical regulations

Ukraine signed an Association Agreement (AA) including a Deep and Comprehensive Free Trade Area (DCFTA) with the European Union in 2014; the AA provisionally applied as of 2016 and fully entered into force in 2017. According to the DCFTA tariffs between Ukraine and the EU are set to gradually be removed and non-tariff barriers, such as technical barriers, are tackled through legislative approximation with the EU. Therefore, Ukraine adopted a series of laws in 2014 and 2015 that were aimed at bringing its institutional and legislative framework into closer to that of the EU. Approximation of technical regulations with the EU is almost completed (25 out of 27 technical regulations foreseen in the EU AA have been adopted). Out of the total number of national standards (around 22 000), almost 65% are aligned with international and European standards. At the same time, conflicting national standards, including GOSTs developed before 1992, have been abolished. Mandatory production certification, which was applied to 70% of products in 2009, has been abolished on 1 January 2018. A roadmap for initiating negotiations with the EU on an Agreement on Conformity Assessment and Acceptance of Industrial Products (ACAA) has been set up.

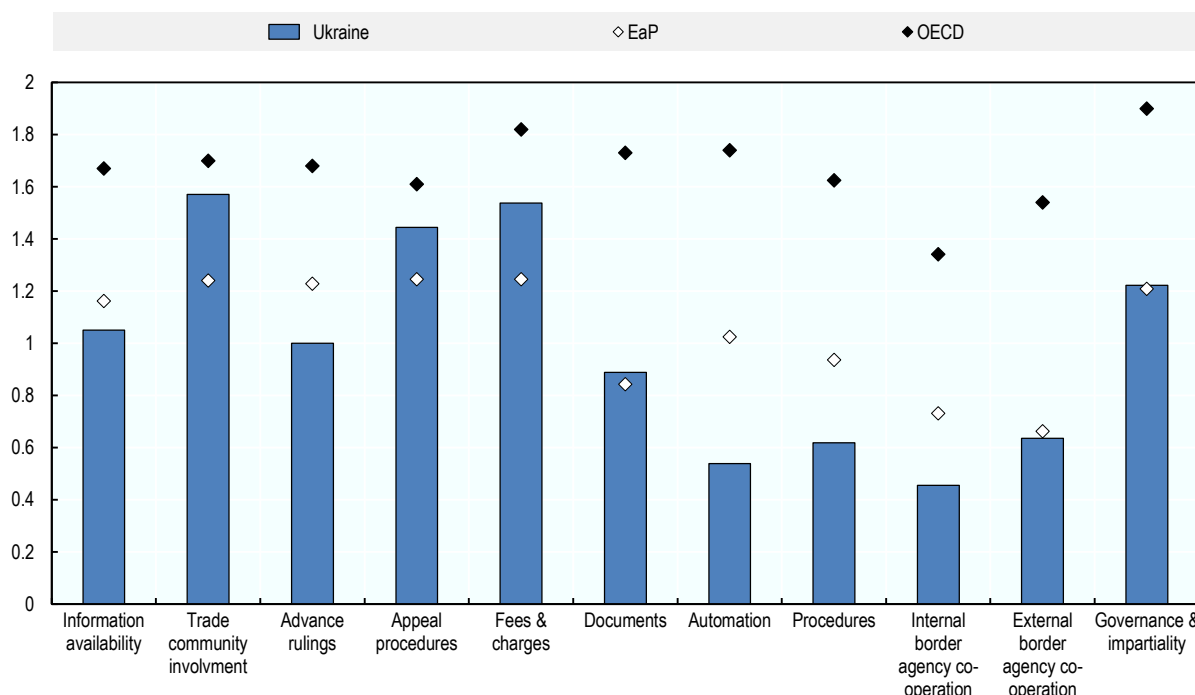
Given that SMEs point to low domestic demand as one of main challenges for their development, access to foreign markets, such as the EU Single Market, can offer additional business opportunities for small and medium firms.²⁵ To tap into trade opportunities, the government should help SMEs understand that the new quality infrastructure (QI) system can be beneficial. For example, some evidence suggests that most SMEs retain an idea of the mandatory character of certification and are unfamiliar with the concept of self-declaration. MDETA, the ministry responsible for the country's QI, has coordinated the adoption of a series of policy initiatives (with the support of international donors) that aim to support SMEs. Among them is the website "Communication Platform for Technical Regulation in Ukraine" (www.techreg.in.ua), which provides a platform SMEs can use to inform themselves about technical regulations and enter into online dialogue between businesses and state authorities; training is offered to SMEs on the use of standards in a train-the-trainer approach. The MDETA should continue its support for and commitment to the consistent implementation of these measures, while also working to coordinate and integrate promising policy initiatives – e.g. by the national SME development agency (SMEDO) or the Export Promotion Office (EPO) – to ensure that SMEs' costs for information search are low. One of the good practices would be to link SMEs and export web-portals, as well as to invite UkrNDNC (see below) and the National Accreditation Agency of Ukraine (NAAU) to contribute to the newly developed websites.

Finally, the country's QI institutions are gradually switching from a "control of compliance" mission towards the "feedback, participation-driven industrial service provision". For instance, the Ukrainian Scientific Research and Training Centre for Standardization, Certification and Quality (UkrNDNC), which has performed the functions of a national standardization body since 2015, sells standards online, publishes information on national standard projects, coordinates technical committees and engages in international twinning projects. UkrNDNC also encourages SMEs to participate in standardization and ensures SMEs have access to the texts of standards.²⁶ In a similar manner, the market surveillance authorities (the State Service on Food Safety and Consumer Protection established only in 2016) are currently working on policies to encourage citizens' participation in market surveillance and to raise citizens' awareness about consumer protection.

SME internationalisation

Ukraine's exports decreased by 12% from 2014 to 2017, mainly due to the drop in exports to the Russian Federation. However, the EU share in Ukraine's total exports stood at 42.1% as of mid-2018.²⁷ SMEs generated 27.0% of total exports in 2017, well below the EU average of 50%. Among key barriers for export, Ukrainian enterprises²⁸ mention insufficient quality of transport infrastructure, unpredictable trade policy of Ukraine, high levels of bureaucracy at customs and large number of permitting documents (Institute for Economic Research and Policy Consulting, 2019_[31]). In addition, the one-stop shop recently introduced within the customs services appears to be lacking expected efficiency in terms of length and automation of procedures²⁹. According to the World Bank's 2020 *Doing Business* report, Ukraine ranks 74th on trading across borders, up from 154th in 2015, with the time and costs needed to export significantly higher than the EaP and OECD average (66 hours and USD 192 in Ukraine compared to 2.77 hours and USD 35.46 in OECD countries). According to the 2017 OECD Trade Facilitation Indicators, Ukraine performs slightly below the EaP regional average and would benefit from continued improvements in the areas of *Information availability* and *Involvement of trade community* (OECD, 2017_[32]).

Figure 12.5. OECD Trade Facilitation Indicators for Ukraine, 2017



Note: TFIs take values from 0 to 2, where 2 designates the best performance that can be achieved.

Source: OECD, Trade Facilitation Indicators Database, <https://oe.cd/tfi>.

StatLink  <http://dx.doi.org/10.1787/888934087819>

Ukraine's 2017-2021 Export Strategy is the main strategic document guiding policy developments in the area of SME internationalisation. In 2016, with support of international donors, Ukraine established the Export Promotion Office (EPO), which was later restructured and since 2018 operates under the Ministry of Economy and Trade. The EPO provides a broad range of services such as training, export consulting, informational support (with the help of the EU's online tool Trade Helpdesk³⁰), and facilitation of the SME participation in trade missions. Moving forward, it is important that the EPO be adequately resourced and build internal capacity to expand the provision of support services in line with the Export Strategy and SME demand.

In 2018 Ukraine took steps to enhance SME access to trade financing by establishing an Export Credit Agency, which aims to provide enterprises with export insurance services. Moving forward, the government should ensure not only sufficient funding for the agency, but also accountability and application of transparent criteria for the export support that it will provide, as the preconditions for its sustainability and trust from the business community.

With the exception of a few isolated initiatives, there is no systemic approach to the development of supply chain linkages between SMEs and large investors. Concerning the usage of e-commerce among SMEs, the Export Strategy addresses this issue, and the legislation has been mostly harmonised with the EU acquis; however, lack of awareness among SMEs and limited training and support services in this area have prevented uptake of e-commerce in Ukraine.

Pillar E- Innovation and Business Support

Business Development Services

Ukraine has made significant progress both in delivering support services to SMEs and in modernising the SME support infrastructure, and both items have become a priority of the recently adopted 2020 SME strategy.

In October 2018, the SME Development Office (SMEDO) was established as an advisory body under the Ministry for Development of Economy, Trade and Agriculture (MDETA), with plans to set up and co-ordinate regional SME support centres and improve access to SME support infrastructure. Until the launch of the dedicated information portal for SMEs (www.sme.gov.ua) by MDETA and SMEDO in October 2019, USAID's Leadership in Economic Governance programme has offered the most comprehensive catalogue of business support institutions. Thus, the established SME portal met an urgent need of entrepreneurs in terms of availability of information on starting and developing a business in Ukraine.³¹

Most of the current SME support programmes are donor funded, while others are provided by commercial partners. For instance, the state bank Oshchadbank offers a programme called "Build Yours" (Будуй своє) in which firms can apply for mentoring support from CEOs of successful companies, as well as test their entrepreneurship skills and take study courses online. At the national level, the Ministry of Agriculture and Food (MAF), the State Agency on Energy Efficiency and Energy Saving (SAEE) and Anti-Monopoly Committee of Ukraine (AMCU) offer targeted BDS to SMEs through their offices or websites. In addition, the State Employment Service provides free individual and group consultations on starting and running a business, and issues a one-time payment to an insured unemployed person wishing to launch a business.

It is at the local level, however, that most support for SMEs is administered. Since 2008, following the adoption of the national programmes for industrial development and other strategic documents,³² Ukraine has been promoting innovation in economic sectors with high potential through the transfer of scientific innovation, the creation of industrial clusters in high-tech industries, and the establishment an effective ecosystem of technological parks, scientific and industrial clusters. Thus, to date, the vast array of SME support infrastructure includes business centres (329 as of January 2019), business incubators (62), techno/science parks (79) and industrial clusters, including 20 national clusters.³³ In 2018, all of the foregoing conducted 19 000 training events and seminars and 4 600 forums, round tables and conferences, attended by 330 000 participants. The EU via EBRD has also set up a network of Business Support Centres (BSCs) in 15 Ukrainian cities, providing training, seminars, consultations and other support services for businesses in the regions. In all regions of Ukraine, the State Employment Service is also leading the establishment of business development and consulting centres that providing advice and assistance in the planning and conduct of entrepreneurial activity.

The government publishes basic statistics on the number of business support institutions as well as on their activities (number of training events, seminars); these would, however, benefit from the use of result-oriented key performance indicators in order to measure the impact of BDS on participating SMEs and assess the effectiveness of the current support infrastructure. Furthermore, no demand-and-supply studies of the BDS market have been conducted and only a few (outdated) surveys, partially covering entrepreneurial skills among SMEs, have been carried out with donor support.

A first co-financing mechanism was developed by the MAF in early 2018, stimulating the uptake of BDS delivered by private providers and reimbursing up to 90% of the cost of advisory services in the agribusiness sector. Furthermore, the SME Strategy 2020 stipulates the expansion of the spectrum and quality of BDS provided to SMEs. Part of this is to be achieved through the provision of support to private consultancies in order to increase their professional standards and enhance their offer towards higher-value-added services. In the future, more could be done to develop a private BDS market – by, for instance, expanding the co-financing mechanism beyond the agribusiness sector and considering quality-certification programmes for private providers.

Innovation policy

Ukraine's policy framework for innovation has seen some moderate improvements since the 2016 SBA assessment. In late 2018, the government launched a public discussion on a draft "Strategy for Innovation Development for the period until 2030" which was approved in July 2019 and contains a focus on SMEs. Meanwhile, the most significant policy development has been the adoption of the "SME Development Strategy until 2020", where support for SME innovation appears as one of its six strategic directions.

On the institutional side, the competencies for designing and implementing innovation policy are shared between MDETA and the Ministry of Education and Science (MoES); while the MoES is responsible for creating an innovative environment at educational and scientific institutions, MDETA has a leading role in facilitating the commercialisation of inventions in the business sector. Also, in April 2017 the Cabinet of Ministers established the National Council for Science and Technology, with the objective of stimulating co-operation between researchers, government, and businessmen to provide inputs to state policy on science and technology. The very limited representation of the business sector in the Council, however, raises doubts on its ability to function as a meaningful advisory body for policy development. An alternative channel for the government's co-operation with the private sector is the annual All-Ukrainian Innovation Festival, organised by the MoES in partnership with Enterprise Europe Network, which seeks to identify and direct funding into innovative projects with significant commercialisation potential.

The innovation infrastructure benefits from a rather complete legal framework, with recently adopted laws regulating the activities of the numerous business incubators, industrial parks, and technology transfer offices (TTOs). While this is a welcome feature of Ukraine's innovation ecosystem, the actual performance of these facilities varies considerably. As an example, many of the new industrial parks appear to have only one single company among its residents, and the TTOs are rarely involved in technology commercialisation through licensing or formation of academic spin-offs (Stanković and Aridi, 2017^[33]). To overcome these limitations, the government has launched several Technology and Innovation Support Centres (hosted by universities, research institutions, innovation structures, and technology parks) in an attempt to offer advanced intellectual property rights management services, and to help bridge the gaps between research institutions and the real economy.

Financial support for innovation remains low. State resources have historically been directed to public research organisations through basic competitive mechanisms and with few incentives to collaborate with industry. Nevertheless, in 2018 Ukraine introduced a new mechanism for financing research on a competitive basis managed by the National Research Foundation, which selects and grants support to research and development of Ukrainian scholars with a budget of EUR 9 million for 2019. In the same year, the

government plans to start offering tools to support innovation in the private sector: the Innovation Development Fund will issue grants to provide financial, technical and consulting support for high-tech start-ups with the potential to scale-up internationally. The Fund's limited budget (EUR ~1.7 million for 2019), however, appears to represent only a small step towards a policy objective of a much grander scale.

Since 2015 Ukraine has been an associated member of Horizon 2020, the eighth EU's Framework Programme for Research and Innovation. To date, 117 Ukrainian organisations have participated in calls for proposals, unlocking funding of around EUR 17.2 million for 90 projects. In addition, with the support of the EU, Ukraine joined the European Innovation Council (EIC)³⁴ (with a total budget of over 2 billion EUR for 2019-2020, in pilot phase until 2021) to support the innovation activities of entrepreneurs and researchers. Furthermore, since 2015, 12 Ukrainian companies have taken part in the "EIC Accelerator (previously SME Instrument)"³⁵ (part of the pilot EIC pilot programme), a competition for SMEs that provides funding of EUR 50 thousand to assess the feasibility of an innovation idea and continues to provide EUR 2.5 million for development of a business plan and the subsequent commercialisation of the invention, respectively.

Overall, Ukraine has made some progress in the area of innovation policy. The government should sustain its reform efforts and further orient them towards increasing innovation activity in the SME sector. To do so, it could 1) introduce stronger incentives to commercialise publicly-funded research and ensure that TTOs perform their bridging role between science and industry and 2) closely monitor the impact of the new innovation grants and gradually phase-in additional tools so as to reach a larger set of beneficiaries.

Green economy policies for SMEs

Ukraine has made significant strides in expanding its approach to supporting the greening of SMEs. The SME Strategy 2020 calls for greening SMEs and developing green technologies. More specifically, Direction 2, which deals with access to finance, calls for encouraging financial institutions to provide long-term and low-interest credit for the development of green products and implementation of green technologies. The associated Action Plan has specific steps for greening SMEs, including developing ecological regulations and supporting the implementation of green practices, sustainable production, and Environmental Management Systems (EMS).

The next step will be ensuring that these plans translate into concrete and implementable policy. Currently Ukraine does not offer specific regulatory incentives for SMEs, although it is implementing risk-based environmental assessments. For SMEs seeking assistance in adopting greener practices, both the Ministry of Ecology and Natural Resources and MDETA are currently deemed responsible in the SME Strategy. Ensuring that there is one point of access for SMEs – a single entity that can support them in developing their business, including the adoption of sustainable and competitive practices – will aid in uptake.

Green public procurement, an effective tool for incentivising the uptake of green practices by industry, has been supported through a number of projects in Ukraine. These include "Transferring Experience with Green Public Procurement in Slovakia and Ukraine" (co-financed by SlovakAid), which ran from 2017-2019, and an EU-funded project on "Harmonization of Public Procurement System of Ukraine with EU Standards" implemented in 2014-17. In the framework of the SlovakAid project, an online educational course on green public procurement was developed. However, to ensure SME participation

in green public procurement, requirements need to be accessible and clear, and support in meeting them should be provided.

Sectoral analysis: SME perspectives on the agribusiness sector in Ukraine

Agriculture has historically been one of the main sectors in Ukraine's economy, while agribusiness has recently moved to the forefront of Ukrainian economy. In 2018, agriculture generated 10.1% GDP (State Statistics Service of Ukraine (Ukrstat), 2019^[34]), accounted for 5.9% of total employment (State Statistics Service of Ukraine (Ukrstat), 2019^[35]), and around 76 300 entities operated in the sector (State Statistics Service of Ukraine (Ukrstat), 2019^[36]). In 2017, agriculture accounted for 33.9% of total exports (Growth Lab, Harvard University, 2019^[37]). Under the DCFTA agreement, Ukraine has seen its quotas for agricultural products increased, which boosted agriculture exports to the EU (National Investment Council of Ukraine, 2018^[38]).

Evidence collected during the private sector focus group meetings³⁶ provided important insights on the main barriers faced by SMEs operating in the agribusiness sector in Ukraine:

- *Difficulties in getting financing:* The mechanism of agricultural receipts, introduced in 2014 in several regions to ease SME access to finance, has attracted only 9% of available funding in the industry. A number of SMEs still find it hard to benefit from the mechanism without having a credit history and face difficulties in meeting the conditions for obtaining the receipts.
- *Low productivity with high underlying costs* – namely inadequate use of technologies, techniques and modern varieties and breeds. This may seriously affect the competitiveness of Ukrainian agricultural products in the long run. While internationally accredited state laboratories for testing various agriculture food products exist, there is still a lack of specialised laboratories for certain product groups mainly produced by small businesses. Hence, small businesses have to use the services of foreign certification bodies, therefore facing higher costs.
- *Lack of SME capacity to implement voluntary certification:* Recent legislative amendments in the area of technical regulation introduced voluntary certification for a large number of products. In force since 2018, voluntary certification requires awareness and careful choice of the quality standards able to increase product competitiveness in the market. However, most SMEs report not having enough knowledge, skills and resources for its successful implementation.
- *Gaps in SME skills when it comes to non-technological innovation:* SMEs report having limited knowledge and resources to invest in marketing, branding or management, which leads to decreased competitiveness potential of the company and the product it sells.

Given the aforementioned challenges, the government could consider the following next steps:

- Update technical and technological capacities and processes according to export priorities through R&D stimulation, training and introduction of modern techniques in processing and farming.
- Identify laboratories' tests that are missing and develop the basis for a viable testing market by encouraging state and non-state players to become accredited laboratories in specific areas.

- Enhance the agricultural receipt facility and promote its use by SMEs.
- Promote voluntary certification mechanisms among companies through a series of awareness-raising and capacity-building activities on EU quality standards; encourage sectoral business associations to develop templates or lists of quality standards for different type of products to better leverage the products' competitive advantages.
- Conduct training events, seminars, and workshops on development of marketing, branding and management skills for SMEs, with focus on the agribusiness sector.

The way forward

Despite ongoing economic and political challenges, Ukraine has achieved substantive progress since the 2016 SBA Assessment. The government should maintain the momentum and continue implementing effective SME policies as follows.

- Ukraine has directed considerable effort towards creating a level playing field for all firms, but more could be done to ensure the effectiveness of undertaken reforms. In the area of competition, Ukraine needs to guarantee the independence of the AMCU and provide it with a clear and realistic mandate, while also enlarging AMCU's budget so it can attract and retain highly qualified lawyers and economists. In addition, AMCU's extended mandate – competition enforcement, public procurement and state aid – risks diluting its core competition mandate, and also expose it to strong resistance and political pressure from public and private stakeholders. Therefore, it is recommended ensure that budget and staff allocation for the additional tasks are in line with the significant additional burden. In order to provide for efficient contract enforcement, Ukraine should put in place a mechanism to monitor and effectively address the deficiencies of the e-court system. In addition, to provide for effective protection of the international intellectual property rights (IPR) of businesses, the government should ensure that the newly established High IP Court contains qualified judges, trained in IP law. Embedding mediation into the legal framework and promoting ADR use by SMEs for commercial dispute resolution would be important steps towards building ADR culture within Ukraine's business community. Furthermore, conducting a study of business integrity risks (with the active engagement of civil society and business associations, and a focus on SMEs) would be essential in the crafting of an efficient policy of corruption prevention in the private sector. Ensuring proper enforcement of criminal liability for corruption offences could be done through an initial analysis of deficiencies in the application of the liability mechanism in practice, given the low number of court cases in this regard. Finally, to provide for efficient protection of business rights against public authorities, the sustainability of the Business Ombudsman institution should be ensured through the adoption of a respective draft law.
- Many steps have been taken to improve the SME institutional and regulatory framework, including the establishment of SMEDO and the update of the RIA methodology. Next steps would be to carry out regular evaluations of SMEDO's effectiveness and advance its further integration into MDETA, as well as ensuring that the new RIA methodology is systematically and consistently applied at all levels of government. The Ukrainian bankruptcy systems would benefit from the introduction and monitoring of preventive measures. A proper early-warning

system for detection of insolvency at an early stage should be implemented. Moreover, Ukraine should consider implementing a dedicated policy strategy or information campaign to promote second chance for entrepreneurs seeking a fresh start.

- Ukraine has made good progress in the area of *entrepreneurial learning* given the focus on key competence developments within the New Ukrainian School reform, which includes entrepreneurship as a key competence. To put a particular emphasis on the development of the entrepreneurship key competence, the country would benefit from an entrepreneurial learning network of stakeholders to share experience, knowledge and good practices. A set of performance indicators should be developed, and a tracking system put in place for graduates. Continuous investment in the teacher force is critical by further upgrading teacher qualifications and providing internships for teachers in companies as well as giving rewards for "entrepreneurial" teachers at the system level.

A common and comprehensive vision is required to further promote *women's entrepreneurship*. National authorities should collect gender sensitive statistics (individual-level data in sex-disaggregated format, ex. when registering a new company) for a strong, evidence-based policy implementation. Existing action plans should include performance indicators in order to measure progress, and an overarching action plan could bring together all actions taken by the government and by NGO's. The government could strengthen the capacity of NGOs supporting women's entrepreneurship, to allow them to actively participate in the policy dialogue at local, regional and national level.

In the area of *SME skills*, SMEDO could take a lead in developing a regular and systematic skills intelligence system at national level, in close cooperation with education and training providers, the employer's organisations and other key stakeholders. Training needs analysis (TNA) for SME's should become a regular practice. In terms of training provision for SME's, authorities could consider to invest more in training in the area of green skills, resource efficiency, digital skills, supply chains and investment readiness.

- Going forward, bringing the large number of initiatives that are currently at drafting stage to fruition will be an important step towards strengthening the legal framework underpinning the various financial services that SMEs could benefit from. This includes the reform of the regulatory framework for non-bank financing instruments, the adoption of a specific legal framework for microfinance activities, the reform of factoring legislation, and the legislation on investment funds. Expanding the range of sources from which credit information can be collected can be helpful in increasing the coverage of the private credit bureau and allowing a larger number of individuals to build a credit history. In addition, a range of new financing support programmes have been put in place or are being developed; apart from a timely realisation of the various plans, it will be important to establish appropriate monitoring and evaluation mechanisms for them. These processes are an important step in determining the effectiveness of, and drawing lessons from, the reform of existing programmes so as to inform the design of future ones. Another area of focus would be increasing efforts to improve the financial literacy of the general population so that bank-related concepts are widely understood. For example, initiatives could be implemented through the Financial Literacy Strategy, if the document is adopted by the government. In addition, the availability of

entrepreneur-specific training in business planning, budgeting and different financing instruments should be widened to allow for easy access across the country. This will be important to provide SME owners and managers with the necessary skills to improve their accounting and business planning capacity and enable them to take advantage of different financing products.

- The introduction of the new public procurement law has led to great advancement and facilitates SME access to internal markets. However, the government could strengthen the review function of public procurement activities, focusing on the proper application of reasonable award and selection criteria other than price, on reducing frivolous complaints, and on the full correspondence of contracts and their execution with the terms of the tenders. Moreover, it would be important to strengthen the capacity of central institutions, investing in the knowledge and skills of contracting authorities, with a specific focus on aspects relevant to SMEs. With the aim of facilitating SME access to foreign markets, the government should support SMEs in understanding and using the new quality infrastructure (QI) system. It should also ensure that SMEs have easy access to available information (i.e. the techreg platform) and training in the use of standards in order to lower their costs for information search. In regard to SME internationalisation, Ukraine should ensure that the Export Promotion Office (EPO) is adequately resourced and builds the internal capacity necessary to expand its provision of support services in line with the Export Strategy and SME demand. It should then make sure that the Export Credit Agency is guaranteed sufficient funds and that its trade financing programme is transparent and accountable. Finally, the government should invest in SME integration into GVCs as well as in SME training in, and support services related to, the use of e-commerce.
- In order to further promote the performance in Innovation and Business Support, the government could, first of all, consider establishing a single information portal on entrepreneurship. The government could then measure the impact of BDS on participating SMEs and assess the effectiveness of the current support infrastructure, using result-oriented key performance indicators. Moreover, demand and supply studies of the BDS market could be conducted to align the BDS service offer with the actual needs of SMEs. Finally, more can be done to develop a private BDS market – for instance, by expanding the co-financing mechanism beyond the agribusiness sector and considering quality-certification programmes for private providers. Some steps have already been taken to improve the policy environment for innovation, and the government could now focus on introducing stronger incentives to commercialise publicly-funded research and ensuring that TTOs perform their bridging role between science and industry. In addition, the impact of the new innovation grants could be closely monitored and the government could gradually phase-in additional tools to reach a larger set of beneficiaries. Ukraine has recently developed many plans supporting the greening of SMEs, and these now need to be implemented. The government could provide information and direct support to SMEs on the benefits of the planned green public-procurement policies, and could develop a single window that SMEs can use to access information and support on greener practices and programs.

Conclusion

Table 12.5. Roadmap for policy reforms – Ukraine

Promoting a level-playing field for all enterprises
<ul style="list-style-type: none"> • Increase the budget and the budgetary autonomy of the AMCU, to ensure recruitment of highly qualified staff and to ward off corruption risks • Reduce the number of tasks given to the AMCU so it can focus on the enforcement of competition law • Ensure proper enforcement of criminal liability for corruption offences through an initial analysis of deficiencies in the application of the liability mechanism in practice • Embed mediation into the legal framework and promote ADR use by SMEs for commercial dispute resolution • Conduct a study of risks for business integrity with the active engagement of civil society and business associations • Ensure the sustainability of the Business Ombudsman institution through adoption of a respective draft law
Strengthening the institutional and regulatory framework and operational environment for SMEs
<ul style="list-style-type: none"> • Ensure that the elaboration of the new SME strategy is carried out based on inter-governmental and public-private consultations, building on the evaluation findings of the current SME strategy and ensuring proper monitoring mechanisms as well as sufficient resources for its effective implementation • Evaluate the effectiveness of SMEDO and decide on its place in the institutional framework for SME policy • Make sure that the new RIA methodology is systematically and consistently applied at all levels of government • Expand the regulatory reform process, focusing on areas where regulatory performance is particularly low (i.e. resolving insolvency and getting electricity) • Implement an early-warning system for detection of insolvency • Adopt a comprehensive and proactive second-chance strategy for bankrupt entrepreneurs
Promoting skills and entrepreneurship development
<ul style="list-style-type: none"> • Consolidate the current monitoring and evaluation (M&E) actions and create an M&E framework for the key competence developments within the New Ukrainian School reform, the VET modernisation reform, and Higher Education reforms • Have SMEDO take the lead in developing a systematic approach to gathering SME skills intelligence data (skills demand, skills supply and skills forecasting) on a regular basis • Put in place an overarching policy framework for women's entrepreneurship and develop a plan for awareness-raising, information and communication activities regarding women's entrepreneurship at both national and local levels • Ensure gender-sensitive data collection on business activities
Facilitating SME access to finance
<ul style="list-style-type: none"> • Complete reforms to strengthen the legal framework for non-bank financing instruments such as microfinance, factoring and venture capital • Complete the review of SME financing support mechanisms and ensure appropriate mechanisms are included to review and evaluate programmes
Supporting SME access to markets
<ul style="list-style-type: none"> • Ensure the Export Promotion Office (EPO) has sufficient funding and internal capacity to provide export support services and expand its services at the regional level • Ensure transparency and accountability of the trade financing programme provided through the Export Credit Agency • Introduce policy measures to support SMEs in using the EU standards and conformity assessment services in selected priority sectors • Continuously improve the effectiveness of market surveillance to make sure unfair competition on low-quality products is adequately sanctioned • Strengthen the review of public procurement activities, with a focus on the proper application of reasonable award and selection criteria, on reducing frivolous complaints, and on the full correspondence of contracts and their execution with the terms of the tenders • Conduct capacity-building activities to raise the knowledge and skills of contracting authorities, including SME-related aspects of public procurement
Enhancing SME competitiveness
<ul style="list-style-type: none"> • Monitor the impact of the new innovation grants and gradually phase-in additional tools to reach a larger set of beneficiaries • Introduce stronger incentives to commercialise publicly-funded research and ensure that technology transfer offices perform their bridging role between science and industry • Establish a single information portal on starting and developing a business in general, and on (quality-assured) BDS availability in particular; consider quality-certification programmes for private providers • Improve the monitoring and evaluation of current support programmes (particularly BDS programmes), measuring their impact on SME performance and assessing the effectiveness of the current support infrastructure • Provide information and direct support to SMEs on the benefits of the planned green public-procurement policies

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Notes

¹ Per capita GDP was down only 6.4%, an indicator of how much population Ukraine lost over the decade.

² In 2016, Ukraine ranked 83rd.

³ In 2016, Ukraine ranked 85th.

⁴ The legal definition of SMEs in the EU is based on employment, asset and turnover thresholds, with the additional obligation of satisfying an “independence from other entities” criterion.

⁵ For statistical purposes, the EU recommendation of 6 May 2003, C (2003) 1422, indicates the size of employment as the only identifying criterion for a micro, small, medium or large firm.

⁶ https://zib.com.ua/ua/print/134471-koli_spravi_neznachnoi_skladnoschi_stayut_maloznachnimi_.html.

⁷ For more details, see the “Business integrity” section in the “Level Playing Field in EaP countries” chapter.

⁸ See the “Business integrity” section in the “Level Playing Field in EaP countries” chapter.

⁹ Legal entities can go online and, by means of an electronic seal, receive a statement certifying absence of criminal penalty, which is obligatory for permission to participate in public procurement.

¹⁰ From 15 August 2016 to 21 January 2019, the NACP received 2,632 notices regarding possible facts of committing corruption or corruption-related offenses.

¹¹ In particular against actions of National Police and Security Service of Ukraine.

¹² As of December 2018, out of 635 opened cases on corruption, only 176 were directed to court by NABU, and 36 obtained a court decision.

¹³ Resolution of Cabinet of Ministers of Ukraine No. 823 from 21.08.2019 “On some issues on State Supervision and Control over Compliance with Labour Legislation”; Decree of Cabinet of Ministers of Ukraine Decree No. 649-p “On measures to unshadow employment relations”.

¹⁴ <http://me.gov.ua/Documents/List?lang=uk-UA&id=f73ee34d-89b5-4dd5-886e-8a5ad6e41eda&tag=OrintovniPlaniProvedenenniaKonsultatsiiZGromadskistiu>.

¹⁵ EUREKA is an intergovernmental network promoting innovative entrepreneurship within small and large enterprises, research institutes and universities, and acting as a platform for international R&D cooperation.

¹⁶ Net of FX effects.

¹⁷ NBU Bank Lending Survey Q3 2019, <https://bank.gov.ua/doccatalog/document?id=99904480>

¹⁸ Draft law No. 1069-2 On Amendments to Some Legislative Acts of Ukraine on Improving Functions in State Regulation of Financial Services Markets – “split law”.

¹⁹ See <https://zakon.rada.gov.ua/laws/show/922-19>.

²⁰ Adopted on 19 September 2019; see http://w1.c1.rada.gov.ua/pls/zweb2/webproc4_1?pf3511=66307

²¹ As set out in the Association Agreement between the EU and Ukraine.

²² See <https://prozorro.gov.ua>.

²³ See <https://dozorro.org>.

²⁴ The chapter on restricted tendering will only come into force after 12 months.

²⁵ In 2015, 38.5% of businesses experienced low demand for their products and services. However, this share grew by almost a half in 2016 and reached 58.5% (according to ABCA 2015 and 2016 surveys). More than half of Ukrainian SMEs operate only in the regional (local) market (52.8% in 2015 and 50.3% in 2016). Altogether, demand problems stimulated entrepreneurs to search for new customers. According to the survey, every second business was planning to expand its market (domestic and foreign). More than one-fifth of SMEs wanted to find new markets in the EU or other countries (21% in 2016, but 16.9% in 2015) and non-compliance with international standards was one of the export barriers for 10% of entrepreneurs.

²⁶ Law of Ukraine “On Standardization” Article 11.

²⁷ Data from State Fiscal Service of Ukraine.

²⁸ The enterprises sample consists of micro-enterprises (37.9%), small (30%), medium (20.1%) and large enterprises (12%).

²⁹ Only half of surveyed enterprises that have undergone customs procedures through the one-stop-show report that the time spent to fulfil the formalities at the border did not exceed the expected four hours. At the same time, more than half of enterprises that have electronically filed necessary documents within customs services had to submit those in paper format additionally.

³⁰ <https://trade.ec.europa.eu/tradehelp>.

³¹ “Many entrepreneurs expect from the government measures that would increase their knowledge on entrepreneurship: about 78% of respondents needed a single information portal about entrepreneurship.” F. Natalia, B. Victoria, F. Iryna and K. Oksana (2016), *Annual Business Climate Assessment Survey 2016* (Kyiv, Ukraine: Institute for Economic Research and Policy Consulting).

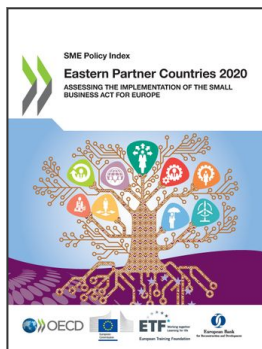
³² The National goal-oriented program for industrial development in Ukraine until 2017; The Concept of “State Target Economic Program of industrial development for the period until 2020”; The Concept of the “Strategy of development of high-tech industries by year 2025”.

³³ ECCP.eu, EaP PLUS Eastern Partnership+, Review of the state development of clusters in EaP countries, March 2017, pp. 31-35

³⁴ https://ec.europa.eu/commission/news/european-innovation-council-2019-mar-18_en

³⁵ <https://ec.europa.eu/easme/en/eic-accelerator-sme-instrument>

³⁶ Focus groups with the private sector representatives were held on 30 May 2018 and 20 May 2019, the latter gathering representatives from agribusiness, including from berries sector.



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