



EU4Business

COUNTRY REPORT

UKRAINE

May 2017

 Armenia  Azerbaijan  Belarus  Georgia  Moldova  Ukraine

INVESTING IN SMEs IN THE EASTERN PARTNERSHIP



Ukraine



EU4Business

STRATEGIC PRIORITIES



1

Improving
access to
finance



2

Strengthening policy
and regulatory
frameworks



3

Improving
knowledge base
and business skills



4

Improving
access to
markets





EU4BUSINESS ON THE WAY TO ECONOMIC GROWTH

Reinforcing economic resilience and promoting stabilisation at the EU's borders are key goals of both our new Neighbourhood Policy and of our Eastern Partnership initiative. Citizens across the Eastern Partnership countries aspire to economic development and greater prosperity. They are awaiting concrete and tangible results, such as getting a good job or growing their businesses.

It is in this spirit that the European Union launched the EU4Business initiative. The objective is to support our partner countries' commitment towards improved business climates and to support their SMEs and entrepreneurs in investing in their skills, in their ideas and reach-out to new market opportunities.

Our Eastern neighbours have all made considerable progress in promoting SMEs. Most have also made substantial progress in the design and implementation of business and investment climate reforms. This includes the simplification of business-related legislation, streamlining technical barriers to trade and upgrading quality infrastructure, and the improvement of the legal and regulatory environment in the financial sector. Partner countries are also increasingly aware of the need to support SMEs not only financially, but also by creating dedicated SME agencies and assistance programmes, and specific instruments to encourage SME access to finance and stimulate exports.

Under EU4Business, the EU and its partners have also achieved a lot, supporting countries in the design and implementation of SME policies, encouraging public private dialogue, reinforcing the role of business support organisations, as well as providing access to finance to SMEs. Through our DCFTA facility for example, the EU provided €200 million of grants which will unlock at least €2 billion of new investments. As a result of our joint efforts, more than 90 000 enterprises received already increased access to finance while about 93 000 jobs have been supported! You will read even more of our achievements in this report.

However, there are still important challenges ahead. Access to finance is often limited to foreign currencies exposing SMEs to currency risks. Many SMEs in the region remain tied in low valued-added sectors. Enhancing SME capacities to become more innovative, and to connect to new markets is especially pertinent today as some SMEs have been cut off from traditional markets. We should therefore consider additional support to realise quick commercial wins while fully benefiting from the opportunities offered by closer economic cooperation with the EU. I know that the three DCFTA signatories face a particular challenge in that respect. We have already achieved a lot. Let us now keep the momentum to further improve EaP countries' economic resilience, to support SME trade with the EU and to deliver concrete and positive impact for the life of all people.

Johannes Hahn

Commissioner for European Neighbourhood Policy and Enlargement Negotiations

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CHAPTER 1:

COUNTRY OVERVIEW

1.1 Country overview – overall update on the economic situation

Gross domestic product (GDP)

According to the State Statistics Committee of Ukraine (SSCU) data, in nine months, 2016 real GDP growth constituted 5% in comparison with the same period of the previous year. The growth was driven by domestic consumer and investment spending, while net exports had a negative contribution. Investments in fixed assets went up by 17.6% year-on-year due to improved profits and business outlooks of the private sector and increased government expenditures on transport infrastructure. Over nine months in 2016, the private consumption of households rose by 4.3% year-on-year resulting from the growth of real income and saving withdrawals. In terms of industry breakdown, the upturn in trade (+7.1%) and real estate (+5.3%) mostly contributed to the real GDP growth. However, the decline in finance and insurance (-24.6%) was the main reason for the slowdown of economic recovery. This was mainly caused by significant losses experienced by the Ukrainian banking sector resulting from the low quality of credit assets and risky or non-compliant activities of some banks and a subsequent tough regulatory policy of the National

Bank of Ukraine (NBU). The number of operating Ukrainian banks reduced in 2016 – from 113 as at 31 December 2015 to 100 as at 31 December 2016. According to the NBU, in 3Q2016 real GDP grew by 2% compared to 3Q2015, keeping the same structural dynamics as in 2Q2016.

Investments

As of 30 September 2016, gross investments in Ukraine were estimated at USD 45.2 bn. During 9 months 2016 the net inflow of foreign direct investments (FDI) was USD 3.1 bn. compared to USD 2.2 bn. in 9m15. The increase is mainly explained by the additional capital injections from Ukrainian banks' foreign parent companies. It is worth noting that additional capitalization was mostly realized through conversion of subordinated debt into equity to the decomposition of liability side of Ukrainian banks rather than to the increase of real investments into the economy. The macroeconomic stabilization and moderate improvements of investment climate in 2016 had minor influence on the inflow of FDI.

Table 1: Key macroeconomic indicators of Ukraine (Economic situation) ⁽¹⁾

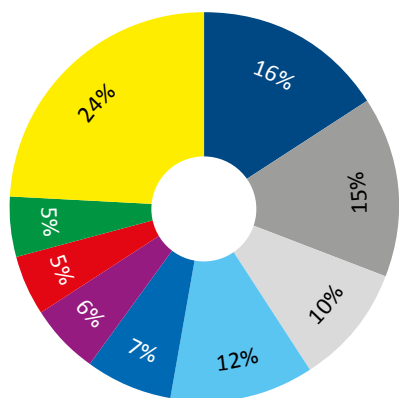
INDICATOR	UoM	Dec 13/ 2013	Dec 14/ 2014	Dec 15/ 2015	Sep 2016/ 9 months 2016
Nominal GDP	UAH'bn	1,465	1,587	1,979	1,650
Real GDP change	%	0	-6.6	-9.9	5.0
Foreign direct investments	USD'm	58,157	45,916	43,371	45,152
Gross external debt	USD'm	142,079	126,308	118,729	116,015
Official NBU reserves	USD'm	20,416	7,533	13,300	15,589
UAH/USD average exchange rate	UAH	7.99	11.89	21.84	25.44
CPI	%	-0.3	12.1	48.7	14.5
PPI	%	-0.1	17.1	25.4	19.6
Unemployment rate	%	7.7	9.7	9.5	9.6
Nominal average salary	UAH	3,274	3,476	4,207	4,989
Nominal average salary growth	%	7.9	5.9	20.5	24.4
Real average salary growth	%	8.2	-6.5	-20.2	9.1

Source:

⁽¹⁾ SSCU, NBU



Figure 1: Ukrainian GDP breakdown, 9 months 2016 ⁽²⁾



- Taxes on products
- Trade
- Agriculture
- Manufacturing
- Transport
- Real Estate
- Mining and quarrying
- Public administration and defense

Foreign trade

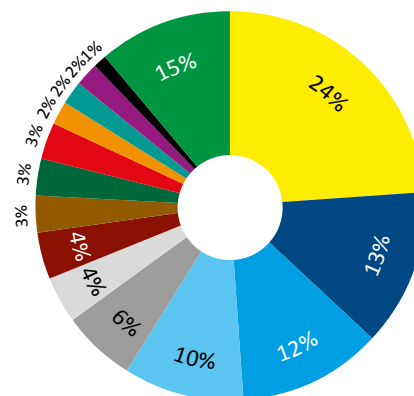
During 9 months 2016, export of goods and services dropped by 9.8% year-over-year. The drop in export mainly was caused by consistently falling global prices of metals and cereal crops. The decrease in export can be decomposed into less than expected positive or negative changes in the industries like machinery and equipment, mineral products, chemical industry products and ferrous and non-ferrous materials that fell by 19.3%, 19.2%, 90.0% and 17.5%, respectively.

During 9 months 2016, import of goods and services decreased by 0.8% year-over-year. Decline in import of mineral products (-40.9%) was compensated by the increase in machinery (38.2%), metals (13.3%) and other products. It is worth noting that compared to the same period last year the import decrease slowed down as a result of improved domestic demand, lower exchange rate volatility and growth in spending on imported natural gas.

Source:

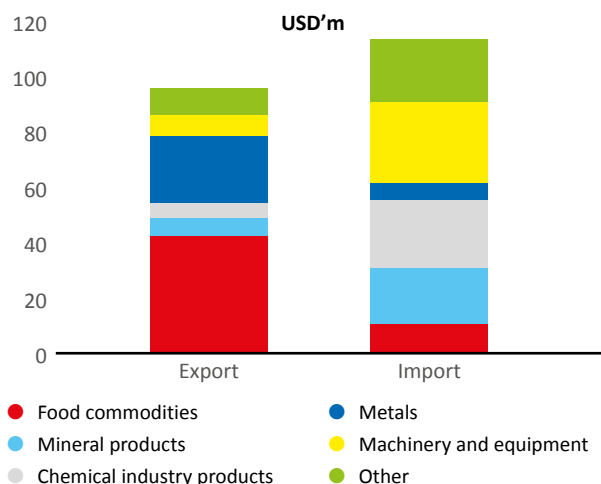
⁽²⁾ SSCU, NBU, EY calculations
⁽³⁾ SSCU
⁽⁴⁾ NBU

Figure 2: Geographical structure of direct foreign investments in 9 months 2016 ⁽³⁾



- Cyprus
- Netherlands
- Germany
- Russia
- Austria
- United Kingdom
- Virgin Islands
- France
- Switzerland
- Italy
- Hungary
- Poland
- USA
- Belize
- Other

Figure 3: Product structure of Ukrainian export and import, 9 months 2016 ⁽⁴⁾



During 2014-2016 the geographical structure of the Ukrainian trade significantly changed: shares of the Russian Federation and CIS decreased, while shares of EU countries increased. These trends indicate reorientation of the Ukrainian producers on the European markets due to removal of trade restrictions and deterioration of trading relationships with the Russian Federation.

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Inflation

During 9 months 2016, the National bank of Ukraine reported a significant decrease of consumer year-over-year inflation. According to the SSCU data, the inflation based on consumer price index (CPI) went down to 14.5% compared to 49.9% for 9m15. Macroeconomic stabilization achieved in 2016, lower exchange rate volatility and the increase in domestic food supply due to trade and transit restrictions imposed by Russian Federation are likely explanations to the inflation slowdown. Year-over-year inflation of 14.5% was caused by the increase in prices of housing and utility services, in particular gas, water supply and electricity (+47.2%). During 9 months 2016, producer inflation based on producer price index (PPI) was 19.6% mainly due to increases in energy price, in particular coal (+15.5%), crude oil and natural gas (68.4%).

Labour market

The key feature of the Ukrainian labor market is the significant regional disproportion in terms of employment and wages: the largest Ukrainian cities are characterized by lower unemployment rates and higher wages in comparison with other regions.

Average nominal monthly wage for 9 months 2016 reached UAH 4,989 and increased by 19% y-o-y in nominal terms. However, due to hryvnia devaluation, average wages in real terms for 9 months 2016 increased only by 9.1% y-o-y.

During 9 months 2016 the following industries were characterized by greatest changes in nominal wages: professional, scientific and technical activity (+32%), information and communication sector (+30%), construction (+30%).

Since 1 January 2017 the Government increased the minimum wage by 120% from its current level – up to UAH 3,200. The main government justification for such step was the belief that it should decrease the size of the shadow economy, which share today might be as high as 50% according to experts assessment.

But small businesses may be unready to increase wages and respectively to pay increased taxes and it could lead to closure of businesses, dismissal of employees or, opposite to the expected effect, moving the business to the shadow.

Sovereign ratings

As of 1 March 2017 international rating agencies Standard&Poor's (S&P) and Fitch determined Ukrainian sovereign rating as highly speculative with stable outlook. This indicates that currently Ukraine is able to meet financial commitments but unfavourable market conditions may adversely affect its solvency. S&P and Fitch upgraded Ukraine's sovereign rating based on the macroeconomic stabilization achieved in 2016, improved fiscal discipline and continuing cooperation with IMF. At the same time, Moody's estimated Ukraine to have considerable default risk. The Caa3 rating gives evidence for high vulnerability of Ukrainian economy to external shocks and existing real probability of sovereign default.

Table 3: Sovereign ratings as of 1 March 2017 ⁽⁶⁾

TYPE OF RATING / AGENCY	STANDARD & POOR'S	FITCH	MOODY'S
Long-term rating in foreign currency	B-	B-	Caa3
Short-term rating in foreign currency	B	C	-

Conclusions

During 9 months 2016 Ukrainian macroeconomic indicators improved: the inflation slowed down, the industrial production started its recovery, the external debt was partly restructured, incomes slightly grew in real terms. On the other hand, Ukraine still heavily relies on the financial aid from its donors in maintaining macroeconomic stability.

Source:

⁽⁵⁾ NBU

⁽⁶⁾ Standard & Poor's, Fitch ratings, Moody's

Table 2: Geographical structure of trade for nine months 2016 (billion USD) ⁽⁵⁾

COUNTRY	EXPORT		IMPORT		BALANCE
	Value	% change y-o-y	Value	% change y-o-y	
EU	11,487	4.1	15,977	3.9	4,490
Russian Federation	4,610	(19.1)	4,314	(33.0)	(296)
CIS (excl. Russian Federation)	2,542	(24.1)	3,918	7.0	1,376
Other countries	14,116	(9.4)	12,579	12.4	(1,537)
Total	32,755	(8.0)	36,788	0.3	4,033

Since the beginning of 2016 Ukrainian economy began its slow recovery. Real GDP growth turned positive for the first time since 4Q2013, the industrial production demonstrated small but persistent growth and real wages went up. At the same time Ukrainian export showed negative dynamics due to unfavourable conditions on external markets and current challenges facing Ukrainian producers to shift their focus to other markets as a result of trade restrictions with Russian Federation. The current account was yet in deficit of 2.5 bn. USD during 10M2016 exerting additional pressure on Ukrainian balance of payments and exchange rate and threatening fragile economic recovery. According to the NBU, the need to finance current account deficit caused by falling export coupled by significant scheduled payments to service foreign currency denominated debt will be the biggest challenge facing Ukraine in short-/medium-term.

According to Oxford Economics, the economy will continue its recovery and by 2020 the real GDP growth will increase to 2.5% with inflation going down to 6.0%. Growth rates will depend on the number of domestic and external factors such as global commodity prices' dynamics and political situation inland.

1.2 Country overview – overall update on the political situation

In December, the Ukrainian government introduced a strategy for socio-economic reforms for 2017-2020. The strategy included fighting corruption and improving business conditions as its main elements. Electronic declaration of income and assets continues to be an important element of the fight against corruption. On January 1st, the second stage of income e-declaration was completed. At this stage, all judges and non-top government officials submitted statements on their assets and incomes. Based on this information, the NABU has started investigations. The Agency expects to finalize its work before April 2017.

Other structural reforms carried out during the year include the unification of energy tariffs, which has eliminated a main source of high-level corruption through re-commercialization of subsidized gas, and the introduction of the electronic ProZorro public procurement system, which has made the public

procurement more transparent and automatized, thus minimising human intervention into decision-making process.

Although with some delays, Ukraine continues the implementation of measures agreed with the IMF to regain access to the IMF Extended Fund Facility Program. In particular, at the end of December, the government nationalized the largest Ukrainian bank – PrivatBank, which had become insolvent due to a large volume of non-performing loans provided to related parties of former shareholders. This step should path a way for the further stabilization in the country's banking sector. However, the additional cost of this nationalization for Ukrainian taxpayers might be as high as USD 5.5 billion (more than 6% of the country's annual GDP).

At the end of 2016, the Verhovna Rada voted for the new state budget for 2017 with a deficit of 3% to GDP. The NBU also introduced some measures aiming at the liberalization of foreign exchange currency controls. In particular, the NBU introduced measures to facilitate the repatriation of capital. All above should provide a platform for the future positive decision of the IMF board regarding the disbursement of the next tranche to Ukraine.

Ukraine's reform agenda continues to move forward although at a slow pace. In November 2016, the main priorities of reform initiatives were concentrated in the areas of deregulation and fighting corruption. In particular, on November 3, the Ukrainian Government adopted a series of progressive laws, which annulled 367 resolutions and acts. These regulations were considered as "business unfriendly". The decision was prepared and backed by representatives of businesses and the expert community. In addition, the Government imposed an embargo on any inspections until the end of 2017, which should positively affect businesses and stimulate economic growth in the country. The Government also adopted legislative amendments aimed at improvement of the business climate in Ukraine.

Source:

⁽⁷⁾ Consensus prognosis based on the forecasts by Oxford Economics, Economist Intelligence Unit, International Monetary Fund, BMI Research and National Bank of Ukraine

Table 4: Main macroeconomic forecasts ⁽⁷⁾

ITEM	2016	2017	2018	2019	2020	2021
Real GDP growth (%)	1.1	2.5	3.0	3.0	2.5	2.5
CPI (%)	16.0	11.1	8.9	7.5	6.5	6.0
PPI (%)	11.9	6.0	6.0	6.0	6.0	5.5
Average exchange rate (UAH/USD)*	25.55	28.28	30.27	31.92	33.37	34.73

* Average exchange rate projections were based on the purchase price parity

In January 2017, the General Prosecutor Office (GPO) reported several dozens of cases in which government officials were caught while committing corruption acts. The list of arrested corrupt officials includes local judges, prosecutors, MP's assistants, fiscal service officers, employee of the National bank, etc. On a negative side, due to cumbersome procedures for arresting government officials, most suspects were not detained and their cases were not even sent to courts for further legal actions. These facts emphasize the necessity to speed up the judicial system reform. This point along with the need to create a special anticorruption court were mentioned in the current resolution on Ukraine of the European Council.

The Ministry of Economic Development and Trade of Ukraine approved a plan to improve Ukraine's position in the Doing Business Report of the World Bank. The plan aims to place Ukraine within the top-30 countries in the next 5 years. This might be a significant step forward for improving the quality of the investment climate in the country, which is currently rated as number 80 out of 190 countries. The major bottlenecks in this rating are (i) the position of Ukraine in dealing with construction permits (140/190) and (ii) getting electricity (130/190). However, other steps to improve the business environment are required.

1.3 Country overview – overall presentation of the SME sector

SME definition

In 2012, the Government of Ukraine brought its classification of SMEs into alignment with the European Union's definition for comparability of statistics, although the EU definition uses three criteria (annual number of employees, revenue or total assets) instead of two. The SME definition in Ukraine and the EU is summarised in the tables to the left.

SME sector in Ukraine

As of end of 2015, there were about 58,776 SMEs in Ukraine (17.1% out of all enterprises), which contributed significantly to employment – 59.3% (3.5 million persons in 2015). There were also 1,630,878 private entrepreneurs, out of which small and medium ones comprised only 0.3%.

As at Dec15 57% of the SME's operated in manufacturing, trade and agriculture.

As at 31 December 2015 there were 58,776 businesses and 4,289 private entrepreneurs falling under definition of SME or 3.2% of the total number of businesses (incl. private entrepreneurs). The loss of Crimea and the conflict in Donbas resulted in stoppage of statistical reporting by a significant number of companies. The graph below shows dynamics in number of SMEs over the last years.

Table 6: EU's MSME definition ⁽⁸⁾

CATEGORY	AVERAGE NUMBER OF EMPLOYEES	ANNUAL REVENUE
Single entrepreneur and Micro enterprises	0-10	<EUR 2m
Small enterprises	10-50	<EUR 10m
Medium enterprises	51-250	<EUR 50m
Large enterprises	>250	>EUR 50m

Table 7: EU's MSME definition ⁽⁹⁾

CATEGORY	AVERAGE NUMBER OF EMPLOYEES	ANNUAL REVENUE	TOTAL ASSETS
Single entrepreneur and Micro enterprises	0-10	<EUR 2m	<EUR 2m
Small enterprises	10-50	<EUR 10m	<EUR 10m
Medium enterprises	51-250	<EUR 50m	<EUR 43m
Large enterprises	>250	>EUR 50m	>EUR 43m

Source:

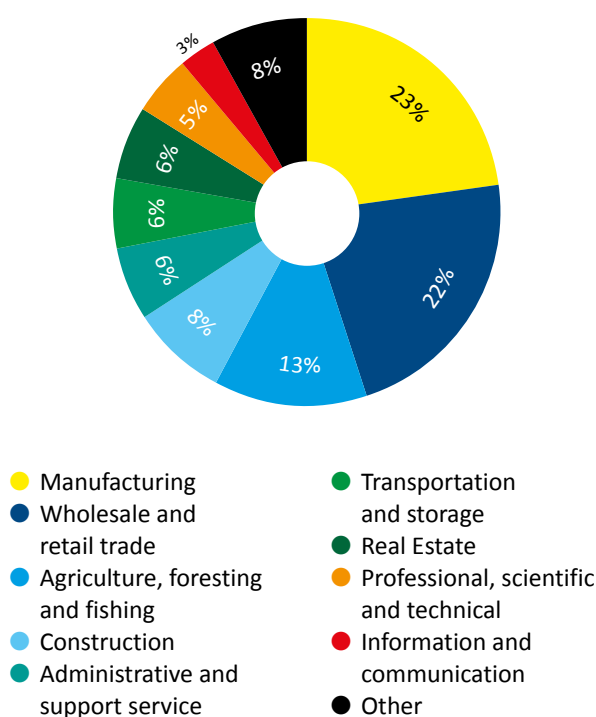
⁽⁸⁾ Commercial Code of Ukraine

⁽⁹⁾ <http://ec.europa.eu/>

Table 8: Key statistics for MSME as at Dec15/ 2015 ⁽¹⁰⁾

INDICATOR	MICRO	SHARE %	SMALL	SHARE %	MEDIUM	SHARE %	LARGE	SHARE %	TOTAL
Number of entities	284,241	82.8	43,573	12.7	15,203	4.4	423	0.1	343,440
Number of employees'000	691	11.7	885	15.0	2,605	44.2	1,709	29.0	5,890
Production, UAH'm	203,535	5.1	457,506	11.5	1,585,078	39.7	1,745,077	43.7	3,991,196
Value added, UAH'm	100,174	4.8	229,832	10.9	867,983	41.2	907,184	43.1	2,105,172.1

Figure 4: SME distribution by industry (by number of entities) as at December 2015 ⁽¹¹⁾



In 2015, the number of medium companies declined by 19% respectively as compared to 2013. Excluding Donbas and Crimea this reduction was 11% for medium business. Number of small enterprises decreased by 21% in 2013-2015. This may reflect businesses falling to lower brackets and business closures due to low demand and liquidity problems. About 2,000 businesses were declared bankrupt and entered liquidation in 2014 and 2015.

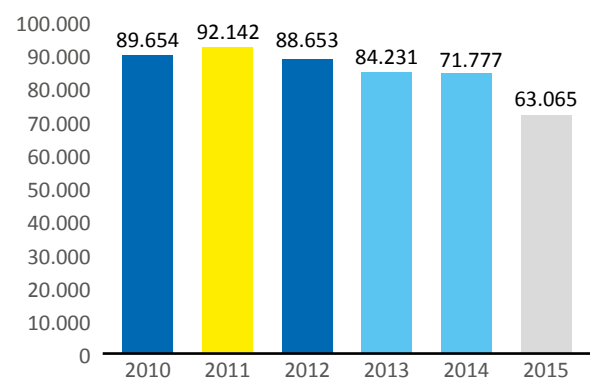
Legal framework

In 2012 the Law of Ukraine on Development and State Support of Small and Medium Enterprises in Ukraine was signed. Although it introduces a number of important instruments (financial support in the form of state lending programmes, issue of guaranties, compensation of interest rates; informational and advisory assistance, etc.) for supporting SMEs, the representatives on the SME sector in the Ministry of Economic Development and Trade of Ukraine commented that the Law was not implemented due to absence of financial support from the state budget.

In 2015 it was proposed to adopt a new version of the Law of Ukraine on Development and State Support of Small and Medium Enterprises in Ukraine. The Draft Law was accepted in the first reading in January 2015. The Draft Law changed and expanded the goals and principles of state policy in the sphere of SME and set priority areas: deregulation, reduction of regulatory costs of SME's, simplification of the companies' registration and business activity.

Currently the Draft Law is being prepared for the second reading.

Figure 5: Number of SMEs ⁽¹²⁾



Source:

⁽¹⁰⁾ Ukrstat

⁽¹¹⁾ Ukrstat

⁽¹²⁾ Ukrstat



Draft SME Development Strategy

There is a special department within the Ministry of Economic Development and Trade of Ukraine (MEDT) - Entrepreneurship Development and Regulatory Policy Department - devoted to SME policy and support and other activities not related to SMEs. The Department comprises of four directorates:

- Entrepreneurship Development with two divisions (Entrepreneurship Development and Deregulation). Entrepreneurship Development division deals directly with SMEs. Currently there are only five people working in the Entrepreneurship Division. The division's tasks are designing and implementation of SME development and support policies in Ukraine. It currently has no SME funds and requires policy strengthening and implementation support, probably in the form of an SME Agency.

Deregulation Division includes also five people. The division works on cancellation of excessive regulatory restrictions and inefficient control procedures, abolition of excessive licensing and certification procedures, monitoring, implementation expertise and other restrictions for business. The division is supported by Better Regulation Delivery Office (BRDO) currently supported by the FORBIZ project. BRDO's mission is to promote the effective regulation and better economic freedoms in Ukraine (with priority for SMEs). For this purpose, BRDO is implementing an inclusive and open process to optimize regulatory relations that will lead to mutual trust and partnership between the state and business.

Ministry representatives commented that Entrepreneurship Development directorate is understaffed and it still has open vacancies.

- Administrative Services Directorate provides services (licenses, permits and etc.) for SMEs and others
- Customers' Rights Control and Protection
- Social and Humanitarian Sphere

There is also a Department for International Programs Coordination that coordinates the process of contracts signing with EU and other donors and monitors international programs in different spheres (incl. SMEs).

In 2015 MEDT designed a draft SME Development Strategy that was under discussion for three months. During January-March 2016 the Government had 12 presentations and public discussions of the Strategy with executive authorities, business associations,

business support organizations and research institutions, representatives of international and donor organizations and SMEs. MEDT received 63 official comments to the draft Strategy. After improvements of the Strategy it was adopted on 24 May 2017.

The Strategy is designed to:

- Optimize the use of the limited state budget for SMEs support (there was no budget available during the military conflict in eastern Ukraine)
- Improve coordination with other reform programmes (Strategy 2020)
- Create a central SME institution to promote and coordinate SME policy measures
- Improve SMEs support infrastructure
- Embed a number of EU programmes and international donor financing into the SMEs promotion instruments.

We discuss the Strategy goals in detail in respective section next page.



CHAPTER 2:

EU4BUSINESS PROJECTS UNDER IMPLEMENTATION

In the tables below we present some details on active EU4Business initiatives implemented in Ukraine.

EU4Business initiatives in the sphere of improving access to finance ⁽¹³⁾

1. NEIGHBOURHOOD WINDOW OF THE EUROPEAN FUND FOR SOUTH EAST EUROPE (EFSE)	
IMPLEMENTING AGENCY	KfW
COUNTRIES COVERED	Armenia, Azerbaijan, Belarus, Georgia, Moldova, Ukraine
TARGET BENEFICIARIES	SME
PURPOSE	The Fund aims to foster economic development and prosperity in the Southeast Europe & Caucasus region through sustainable provision of additional development finance.

2. SME FINANCIAL FACILITY I	
IMPLEMENTING AGENCY	KfW
COUNTRIES COVERED	Armenia, Azerbaijan, Belarus, Georgia, Moldova, Ukraine
TARGET BENEFICIARIES	SME
PURPOSE	<ul style="list-style-type: none">• The project provides credit enhancement support for SME lending.• Under the KfW window, the Credit Enhancement support takes the form of loss risk sharing cushion for Partner Financing Institutions (PFIs), provided for the portfolio of sub-loans funded under the KfW credit lines. Partner Financing Institutions can obtain up to a 50% recovery, capped at the limit of 10% of the disbursed amount of their respective credit lines.• In addition, the project provides technical assistance to participating PFIs, on a case-by-case basis in order to maximise the ability of the PFI to service the needs of the SME sector as well as to expand their SME financing to new areas and to develop new products for the target group, particularly in key, underbanked regions of the eligible countries.

3. FINANCIAL SECTOR INSTITUTION BUILDING AND CRISIS RESPONSE	
IMPLEMENTING AGENCY	EBRD NIF TF
COUNTRIES COVERED	Armenia, Azerbaijan, Belarus, Georgia, Moldova, Ukraine
TARGET BENEFICIARIES	SME
PURPOSE	<ul style="list-style-type: none">• Working in collaboration with the EU, the three financial institutions (EIB, EBRD and KfW) will pursue the following objectives through the regional SME Finance Facility: rebuild financial intermediaries' confidence to extend financing to SMEs, including micro-enterprises, following the financial crisis; enhance financial intermediaries' capacity to assess and monitor the related risks and manage their SME financing; strengthen and deepen the SME credit markets; expand financing options available to the real economy; promote continued development of market-based financial institutions and contribute to institution building; support expansion of private and entrepreneurial initiatives, working with local and international financial intermediaries.

Source:

⁽¹³⁾ Information provided by EC, EY analysis

4. GREEN FOR GROWTH - EXTENSION TO NIF EAST REGION

<i>IMPLEMENTING AGENCY</i>	EIB
<i>COUNTRIES COVERED</i>	Armenia, Azerbaijan, Georgia, Moldova, Ukraine
<i>TARGET BENEFICIARIES</i>	SMEs and households
<i>PURPOSE</i>	<ul style="list-style-type: none"> Provision of finance for investments in energy efficiency and renewable energies to small and medium-sized enterprises and households, primarily via local financial institutions.

5. REGIONAL ENERGY EFFICIENCY PROGRAMME FOR CORPORATE SECTOR

<i>IMPLEMENTING AGENCY</i>	EBRD
<i>COUNTRIES COVERED</i>	Armenia, Azerbaijan, Georgia, Moldova and Ukraine
<i>TARGET BENEFICIARIES</i>	Companies that operate in various industrial sectors, agri-business and processing of natural resources
<i>PURPOSE</i>	<ul style="list-style-type: none"> Enhance competitiveness of corporate enterprises through the optimal use of resources, technology innovation, and the introduction of best practice and improvements to the energy management practices of the client.

EU4Business initiatives in the sphere of legal and regulatory reform ⁽¹⁴⁾

6. STRENGTHENING AUDITING AND REPORTING IN THE COUNTRIES OF THE EASTERN PARTNERSHIP (STAREP)

<i>IMPLEMENTING AGENCY</i>	Centre for Financial Reporting Reform (CFRR) of World Bank
<i>COUNTRIES COVERED</i>	Armenia, Azerbaijan, Belarus, Georgia, Moldova, Ukraine
<i>TARGET BENEFICIARIES</i>	All those with an interest in corporate financial reporting, in both the public and private sectors and including both users and preparers of financial statements: Ministers of Finance, Senior government officials, professional associations, academia, standard setting bodies, tax authorities, central banks, financial market supervisors, private sector, business community
<i>PURPOSE</i>	<p>Regional program aimed at creating a transparent policy environment and effective institutional framework for corporate reporting. STAREP helps participating countries improve corporate financial reporting frameworks and raise the capacity of local institutions to implement these frameworks effectively.</p> <p>The program is structured along 5 components:</p> <ul style="list-style-type: none"> - Reform Momentum and Support - accounting education reform, - accounting and auditing standards, - financial sector practice forum, - country-level implementation support

7. SUPPORTING SME COMPETITIVENESS REFORMS IN THE EASTERN PARTNER COUNTRIES

IMPLEMENTING AGENCY	OECD (Organisation for Economic Co-operation and Development)
COUNTRIES COVERED	Armenia, Azerbaijan, Belarus, Georgia, Moldova, Ukraine
TARGET BENEFICIARIES	Public authorities, the private sector and civil society
PURPOSE	<p>The initiative aims to</p> <ul style="list-style-type: none"> • improve competitiveness in participating countries through better policy design and implementation • support private sector development with a focus on SMEs • foster economic development and stability <p>In Ukraine the Project was launched in 2009 to support the government in designing reforms, to strengthen Ukraine's economic development in prioritised sectors.</p> <p>Key objectives include:</p> <ul style="list-style-type: none"> • Strengthening Ukraine's competitiveness by enhancing the country's business climate at the sectoral level; • Developing sector-specific recommendations to help unlock the competitiveness of high-potential sectors and attract further FDI; • Supporting the implementation of selected sector-specific policy recommendations.

8. EU4BUSINESS: FORBIZ PROJECT

IMPLEMENTING AGENCY	GFA
COUNTRIES COVERED	Ukraine
TARGET BENEFICIARIES	Government
PURPOSE	<ul style="list-style-type: none"> • Technical Cooperation Facility will provide advice on deregulation in line with the commitments under the AA/DCFTA, capacity building and infrastructural support in priority areas

EU4Business initiatives in the sphere of improving knowledge base and business skills ⁽¹⁵⁾

9. EBRD SMALL BUSINESS SUPPORT PROGRAMMES – ENTERPRISE GROWTH PROGRAMME (EGP) AND BUSINESS ADVISORY SERVICES (BAS) – IN THE EASTERN PARTNERSHIP COUNTRIES PHASE II

IMPLEMENTING AGENCY	EBRD
COUNTRIES COVERED	Armenia, Azerbaijan, Belarus, Georgia, Moldova, Ukraine
TARGET BENEFICIARIES	SME
PURPOSE	<ul style="list-style-type: none"> • The programme is a continuation of the Small Business Support activities in the Eastern Partnership region. • The primary objective of the support is to assist economic transition and to achieve enterprise change in viable MSMEs across a broad range of sectors. • A secondary objective is to support Deep Comprehensive Free Trade Area-related activities in the countries that have signed, in 2014, association agreements (each providing for a Deep and Comprehensive Free Trade Area: Georgia, Moldova and Ukraine) and to help to create business opportunities for high performing SMEs to expand into new markets.

Source:

⁽¹⁵⁾ Information provided by EC, EY analysis

10. EU4BUSINESS: NETWORK OF BUSINESS SUPPORT CENTRES IN UKRAINE

<i>IMPLEMENTING AGENCY</i>	EBRD
<i>COUNTRIES COVERED</i>	Ukraine
<i>TARGET BENEFICIARIES</i>	SME
<i>PURPOSE</i>	<ul style="list-style-type: none">• At regional level the programme will provide business advice and entrepreneurial skills for SMEs, through a network of Business Support Centers (BSC) run in cooperation with EBRD. The BSC will help improve the competitiveness of the SME sector by connecting local small businesses to a network of local consultants and international industry experts. Business advice will be tailored according to the size of the company and the complexity of the challenges. BSC will also advise SMEs on how to access to financing and how to adapt to and benefit from the establishment of the DCFTA between the EU and Ukraine. The programme also support the EBRD direct lending to SMEs.

11. EBRD WOMEN IN BUSINESS PROGRAMME IN THE EASTERN PARTNERSHIP

<i>IMPLEMENTING AGENCY</i>	EBRD
<i>COUNTRIES COVERED</i>	Armenia, Azerbaijan, Belarus, Georgia, Moldova, Ukraine
<i>TARGET BENEFICIARIES</i>	Women-led SMEs
<i>PURPOSE</i>	<ul style="list-style-type: none">• The programme offers women-led SME business advisory services, training and mentoring.

12. EAST INVEST I

<i>IMPLEMENTING AGENCY</i>	EUROCHAMBRES
<i>COUNTRIES COVERED</i>	Armenia, Azerbaijan, Belarus, Georgia, Moldova, Ukraine
<i>TARGET BENEFICIARIES</i>	Business support organisations (Chambers, employers organisations, sector associations, etc.) and SME associations
<i>PURPOSE</i>	<ul style="list-style-type: none">• The overall purpose of the East-Invest programme is to develop mechanisms encouraging new flows of foreign direct investments and to strengthen the ongoing investment promotion process between the EU and the Eastern ENPI countries as well as between the Eastern countries, which will contribute to the enhancement of trade in the region.• East Invest provides training and technical assistance to SMEs in the Eastern Partnership countries, to enhance their networking and trading competences and opportunities

13. EAST INVEST II

<i>IMPLEMENTING AGENCY</i>	EUROCHAMBRES
<i>COUNTRIES COVERED</i>	Armenia, Azerbaijan, Belarus, Georgia, Moldova, Ukraine
<i>TARGET BENEFICIARIES</i>	Business support organisations (Chambers, employers organisations, sector associations, etc.) and SME associations
<i>PURPOSE</i>	<ul style="list-style-type: none">• Development of a conducive economic environment and competitive private sector• Enhancement of trade flows and investments between the EU Member States and the Eastern Neighbourhood• Facilitate long-term partnerships and trade between the SME and/or business associations from EU and SME and/or business association from the EaP countries, as well as within the EaP SME and/or business associations

EU4Business initiatives in the sphere of improving access to market ⁽¹⁶⁾

14. DCFTA SME DIRECT FINANCE FACILITY	
IMPLEMENTING AGENCY	EBRD
COUNTRIES COVERED	Georgia, Moldova, Ukraine
TARGET BENEFICIARIES	SME
PURPOSE	<ul style="list-style-type: none"> • Facility seeks to improve access to finance by providing guarantees schemes and technical assistance to increase the number of viable projects carried out by SMEs. • The Facility is also vital to support with adaptation to EU rules as per the requirements of the DCFTA. <p>The DCFTA SME Direct Support Facility aims to achieve the following:</p> <ul style="list-style-type: none"> • To improve access to finance for local SMEs in the region. • To mitigate the shortage of long-term financing. • To provide quasi-equity financing that is not available at all in most target countries. • To provide long-term local currency financing. • To help SMEs identify quality capital investment projects, assist in successful implementation. • To improve governance structure of SMEs and introduce SMEs to best practices. • To help strengthen the ability of financial intermediaries to finance SMEs through co-financing. • To help develop local financial markets in view of sustainable and market-based principles.

15. EIB DCFTA PROGRAMME	
IMPLEMENTING AGENCY	EIB
COUNTRIES COVERED	Georgia, Moldova, Ukraine
TARGET BENEFICIARIES	SME
PURPOSE	<ul style="list-style-type: none"> • The project provides support to the private sector, SMEs in particular, so that they can cope with the implied requirements and seize the new opportunities. In Ukraine a EUR 40 million Guarantee facility was established to create incentives among local banks to considerably increase their SMEs portfolio.

There are four EU4Business projects to be launched soon:

EU4Business projects planned in Ukraine ⁽¹⁷⁾

PROJECT TITLE	IMPLEMENTING AGENCY	DURATION	COUNTRIES COVERED	TARGET BENEFICIARIES
1. SME FINANCE FACILITY PHASE II WITH EIB	EIB	TBD	Ukraine	SMEs
2. EBRD DCFTA PROGRAMME PHASE 2	EBRD	TBD	Georgia, Moldova, Ukraine	SMEs
3. IMPROVING EXPORT COMPETITIVENESS	ITC	TBD	Armenia, Azerbaijan, Belarus, Georgia, Moldova, Ukraine	SMEs

Source:

⁽¹⁶⁾ Information provided by EC, EY analysis

⁽¹⁷⁾ Information provided by EC, EY analysis



CHAPTER 3:

EXISTING NATIONAL POLICIES AND FUTURE MEASURES PLANNED IN THE NATIONAL STRATEGY FOR SMES

3.1 SME policy environment

The Ukrainian SME policy environment includes three main elements:

- 1 The Entrepreneurship Development and Regulatory Policy Department (MEDT) is responsible for setting and implementing SME policy (since 2014).
- 2 The Law on Development and State Support of Small and Medium Enterprises in Ukraine (adopted in 2012) forms the basis for SME development and covers the following topics:
 - Principles and focus of SME policy;
 - SME development institutions (including a specially authorised SME implementing body);
 - SME consulting and advisory bodies;
 - Government support and infrastructure for SME development.
- 3 The Concept of the National Programme for SME's for 2014-2020 (adopted in 2013), but the Programme was not developed and is replaced by the SME Strategy and Action Plan that is currently under development.

3.2 Existing national measures for SMEs

The Law of Ukraine on Development and State Support of Small and Medium Enterprises in Ukraine stipulates the following types of State financial support for SMEs:

- partial compensation of interest rates on loans;
- partial compensation of leasing, factoring fees and charges for the use of guarantees;
- granting of guarantees and sureties on loans;
- issue of loans, including micro-loans for the development of own businesses;
- grant of loans for the purchase and implementation of new technologies;
- compensation of costs for the development of cooperation between SMEs and large enterprises;
- financial support for energy saving and environmentally friendly technologies.

Support to SMEs is provided via the Ukrainian Foundation for Entrepreneurship Supporting – a non-profit, government-funded organisation established to implement programmes aimed at providing Ukrainian SMEs with educational, consultative and also soft-term financial and credit support. In 2013 the Foundation issued 37 micro loans worth UAH 9 million, but it no longer issues loans to SMEs.

Currently, there are no active national measures directly related to SME development because there is no budget financing available due to the military conflict. However, there are some activities run by the Government in the sphere of business support: Export Promotion Office (initiated by the MEDT) operating since December 2016 that supports Ukrainian businesses in setting up exports. The Law of Ukraine on Development and State Support of Small and Medium Enterprises in Ukraine also says that local authorities may finance SME development from local budgets. According to representatives of the Ministry of Economic Development and Trade (MEDT) of Ukraine, some local authorities implement local SME support programmes, but there is no consolidated information on such support.

3.3 National SME strategy

In November 2016 MEDT and FORBIZ project's team presented updated Draft SME Development Strategy 2020. During the next three months the updated draft Strategy was discussed with stakeholders several times. Development of SME Development Strategy was led by MEDT with involvement of other ministries: Ministry of Finance, Ministry of Justice and others. The Strategy was adopted on 24 May 2017. Next page we present the summary of the SME Development Strategy 2020.

Goals of SME Development Strategy

The SME Strategy 2017-20 is based on the following **vision** – to create favourable conditions for opening, operating and growing business and strengthening the SME sector.

General targets:

- Ukraine is among the Top-20 countries in the World Bank "Doing Business" ranking
- Increase in share of innovative enterprises from 14.6% (2014) to 20%
- Growths in market share with competitive structure from 42.7% (2015) to 49.5%

SME-focused targets:

- Ukraine is in Top-3 SME Policy index across all pillars
- Increase in share of SMEs in Gross Value Added from 59.0% (2015) to 60.5%
- Increase in share of SMEs in total sales from 63.0% (2015) to 66%
- Increase in share of profit made by SMEs from 72.8% (2015) to 78%
- Increase in share of small firms-exporters from 5.9% (2014) to 9.0%
- Increase of SMEs introducing product or process innovations from 7.4% (2015) to 7.9%.

To fulfil the SME vision, **six strategic objectives** have been defined based on the preceding analysis, combined with international good practice (e.g. Small Business Act's principles, SME Policy Index):

- 1 Improvement of the SME regulatory, institutional and business environment
- 2 Improvement on access to finance for SMEs
- 3 Simplifying of tax administration for SMEs
- 4 Promotion of entrepreneurial culture and development of competitive human capital and skills
- 5 Promotion of SME export/internationalisation in context of EU-Ukraine Association Agreement / DCFTA
- 6 Facilitation of SMEs' competitiveness and innovation

3.4 Future measures planned in the National strategy for SME

SME Action Plan

Development of the SME Action Plan will be led and coordinated by the MEDT during three months after approval of the SME Strategy, with the involvement of the relevant SME stakeholders: executive authorities, business associations, business support organizations, representatives of international and donor organizations and the business. It will include measures, responsibilities, deadlines, resources, key performance indicators. According to the MEDT's representative Action Plan can be approved by the Cabinet of Ministers in the mid of 2017.

Role of SME Agency

Under the SME Strategy it is planned to separate SME policy making (MEDT) and SME Implementation (SME Agency).

The SME Agency will be established with the support of the donor community on the basis that the Government of Ukraine will take full responsibility for the future operational costs in order to make sure that it becomes sustainable. The SME Agency will report to the MEDT and it will be working on implementation of the SME Action Plan.

CHAPTER 4:

GENERAL CONCLUSION

In 2016 Ukraine made some progress in terms of economic reforms that could positively impact SMEs. The major efforts were aimed at fighting corruption and reducing administrative barriers for businesses. Major achievements included:

Major achievements included:

- Cancellation of 367 resolutions and acts that were considered as “business unfriendly” and adoption of legislative amendments aimed at improvement of the business climate in Ukraine
- Introduction of a strategy for socio-economic reforms for 2017-2020
- Adoption of the SME Development Strategy 2020 (under support of EU4Business FORBIZ project)

Despite the positive changes described above, SMEs still work under tough economic conditions facing such challenges as:

- Unstable economic and political environment
- Complicated and constantly changing regulatory environment, including taxation rules
- Limited access to finance, high interest rates on loans
- Lack of international experience and limited abilities for entering new markets









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