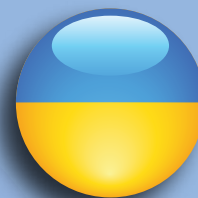


STRONGER ECONOMY

#eu4business



EU4Business

Investing in SMEs in the Eastern Partnership

Ukraine

COUNTRY REPORT
JUNE 2019



10 YEARS 
EaP | Eastern
Partnership

1. Recent economic developments in the country

Economic recovery accelerated to 3.3 per cent in 2018 on the back of robust domestic demand. Private consumption increased by 8.9 per cent, benefiting from the 12.5 per cent growth of real wages which came on top of a cumulative 30 per cent growth in 2016-17. An increase in average pensions, rising inflows of remittances and strong consumer credit growth of 24.2 per cent also helped to boost private consumption. Remittances increased by 17.5 per cent in nominal US dollars in 2018, reaching 8.3 per cent of GDP. Inflows from Poland, amounting to one-third of all remittances in 2018, nearly doubled in the period 2016-18.

Recovery in investment continued, with fixed capital formation growing at the rate of 14 per cent. After a modest recovery in 2017, the growth rate of exports of goods and services turned negative in 2018, while imports rose by just 3.2 per cent, in spite of strong domestic demand, partly because of a substantial reduction of gas imports. Credible monetary policy has helped maintain a relatively stable exchange rate and a gradual reduction of inflation to 8.8 per cent year-on-year in February 2019. In December 2018, the IMF Executive Board approved a new 14-month Stand-By Arrangement for US\$ 3.9 billion.

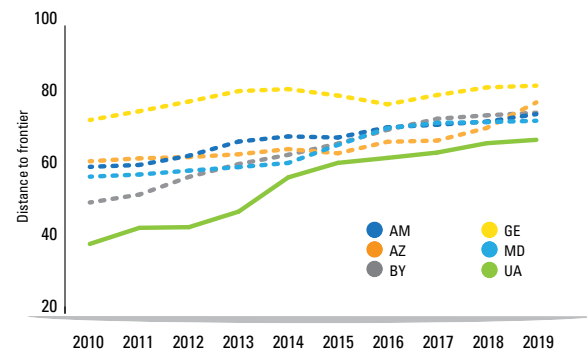
A deceleration of growth in the main trading partners and domestic political uncertainties arising from the twin elections are expected to cause a temporary slowdown of real growth to 2.5 per cent in 2019. Reinvigorated pursuance of the reform agenda in the aftermath of the elections, combined with monetary easing, would facilitate sturdier corporate activity, with real growth strengthening to 3.0 per cent in 2020. With large foreign debt repayments in 2019-2020 posing a major downside risk, maintaining cooperation with official creditors remains vital for a continuation of the economic recovery.

(<https://www.ebrd.com/where-we-are/ukraine/overview.html>)

2. Business environment: Ukraine and the EaP

The six Eastern Partner countries have been making steady progress in improving the business climate for SMEs. This overview of the Doing Business indicator of the World Bank shows how Ukraine has improved over the years, gradually closing the wide gap with the best performing countries of the region and the world ('distance to frontier'). Ukraine started off below 40% of that distance to frontier but stands now at almost 70%.

Doing Business - Distance to frontier, EaP

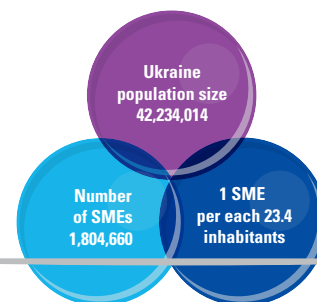


Source: Doing Business, World Bank, www.doingbusiness.org¹

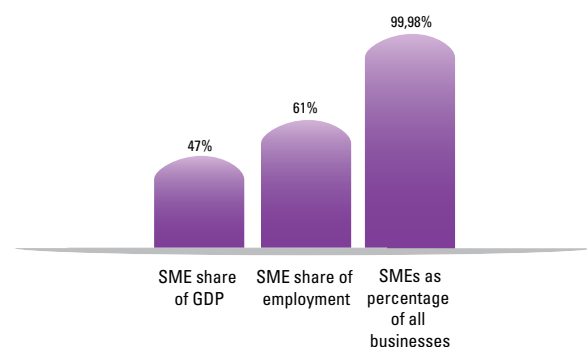
3. National SME performance

a. Share of SMEs in the economy

Ukraine has one of the highest number of SMEs per capita across the EaP, and also the highest share of employment generated by the SME sector. However, SMEs' share in GDP comes to less than half of national economic output.



State of affairs of SMEs in 2017



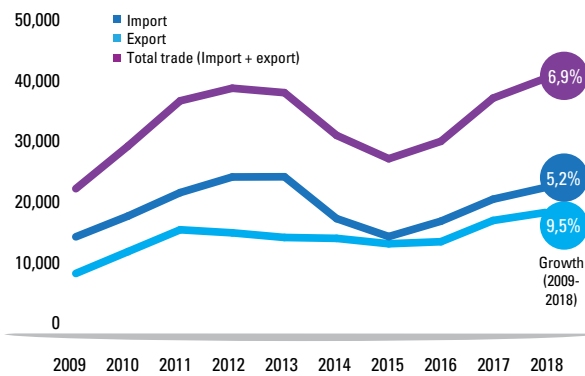
Source: OECD Eurasia Competitiveness Programme and Official Yearbook of the National Statistics Institute, 2018

¹ An economy's ease of doing business score is reflected on a scale from 0 to 100, where 0 represents the lowest and 100 represents the best performance. For example, an ease of doing business score of 75 in Doing Business 2018 means an economy was 25 percentage points away from the best regulatory performance constructed across all economies and across time.

b. Trade with the EU

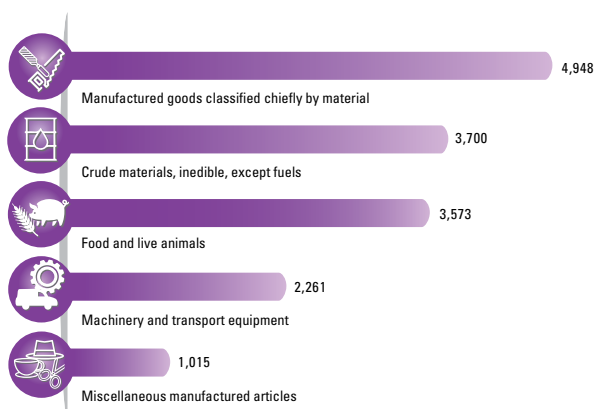
There has been a faster growth in exports to the EU than imports from it, although trade in both directions has been on the rise. Ukraine currently imports EUR 22.1 billion and exports 18 billion worth of goods and services from and to the EU respectively.

Trade figures (EUR million)

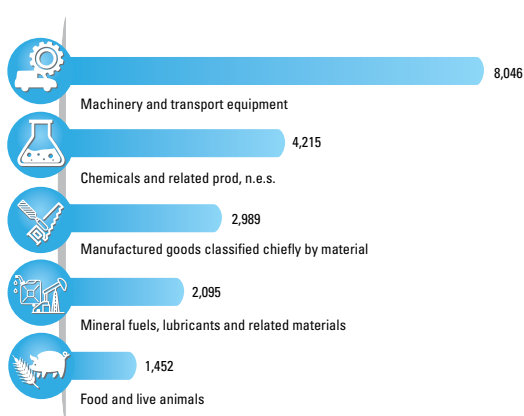


Below are the top products exported from Ukraine to the EU and those imported the other way.

Top exported products in 2018 (EUR million)



Top imported products in 2018 (EUR million)



All trade data from DG trade

(https://webgate.ec.europa.eu/isdb_results/factsheets/country/).

4. SME legislation and institutional framework

Building on the findings and recommendations of the SME Policy Index 2016, the Government of Ukraine has taken important steps to improve its policy environment for small and medium-sized enterprises. In May 2017, the Cabinet of Ministers approved Ukraine's SME Development Strategy for the period until 2020. An SME Development Office was established in October 2018, with the mandate to provide full technical assistance to the Ministry of Economic Development and Trade (MEDT) in the implementation of the SME Strategy and Action Plan.

Key SME legislation in the country

Strategy for SME Development in Ukraine until 2020, adopted in May 2017

Name and date of establishment of the SME agency

SME Development Office (SMEDO), October 2018

Achievements in improving the SME climate

- Improved institutional, regulatory and operational frameworks** through: the ongoing review of regulations in key economic sectors (in 2018, reviewing 629 acts restricting access to markets for businesses); the systematic and obligatory application of RIA and introduction of the SME-test; the introduction of a new Bankruptcy Code in 2019, providing for a better protection of creditor rights; the revision of the public procurement law in 2016 and the establishment of ProZorro, an e-procurement system.
- The **introduction of entrepreneurship as key competence** into the national curriculum at all levels of education and the new concept for modernized vocational education both aim at enhancing SME and entrepreneurial skills in the young population.
- Increased support to **SME internationalisation**, through important efforts in the area of harmonisation with EU standards under the Ukraine-EU Association Agreement (60% of product and sectoral standards adopted so far); the adoption of the Export Strategy 2017-2021 and establishment of an Export Promotion Office with donor support (now fully integrated in the MEDT structure); the adoption of the law on e-commerce (2015) and electronic trust services (2018).

EU4Business: From Policies to Action progress (OECD)

The OECD has an intense agenda of co-operation with the Government of Ukraine. In 2018, the OECD-Ukraine Memorandum of Understanding was renewed and an Action Plan for cooperation put in place. In the framework of the project, the OECD has been working primarily with the Ministry of Economic Development and Trade. The project is structured around country-level and regional-level activities.

At the **country level**, throughout 2018, the OECD supported the State Statistics Service of Ukraine (Ukrstat) in improving its capacity to collect, harmonise, analyse, publish and disseminate official SME statistics. This work resulted in the publication of a *Compendium of Enterprise Statistics in Ukraine 2018*, produced by the OECD in close co-operation with Ukrstat. In addition to this, the OECD conducted a workshop on SME financing statistics in May 2018 in Kyiv. As a result of the workshop, in March 2019, Ukraine officially joined the 'OECD Scoreboard on Financing SMEs and Entrepreneurs'.

The OECD also contributes to strengthening the institutional capacity of the government, and in particular of the Ministry of Economic Development and Trade to monitor the implementation of the SME strategy and strengthen the policy-making process.

The first workshop on monitoring Ukraine's implementation of the SME Development Strategy took place in February 2019, providing the outline of the project and sharing good practice tools to monitor the implementation of strategies and actions plans. The results of this project will be presented in March 2020 at the OECD Eurasia Competitiveness Roundtable.

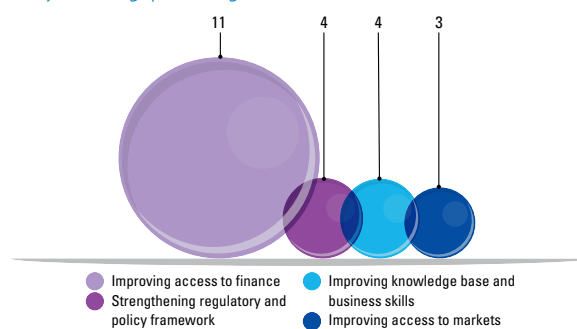
At the **regional level**, Ukraine participates in the third round of the SBA Assessment, which will result in a regional benchmark to be published by March 2020. The new exercise is more ambitious than the previous editions, and relies on a new methodology that goes beyond the scope of SME policy to incorporate overall business environment conditions, including the topics of competition, business integrity and contract enforcement. For this activity, the OECD works closely with the SME Development Office and the Ministry of Economic Development and Investments to support the government in strengthening its public-private dialogue activities.

5. EU4Business portfolio for the country

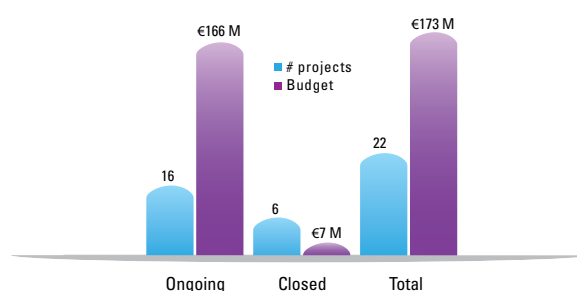
The total number of projects in Ukraine is 22, of which the largest group focuses on improving access to finance. Of the 22 projects, six have been closed and the others are ongoing, with a total value of almost EUR 173.2 million.

a. Impact to date

Projects by priority area - Ukraine



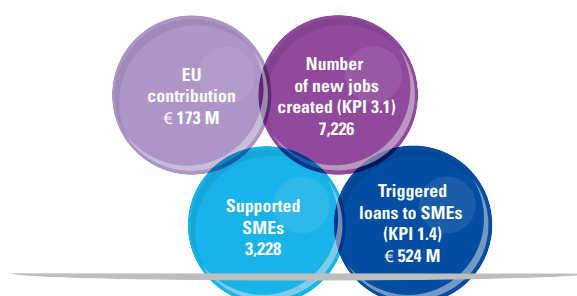
Ukraine country portfolio



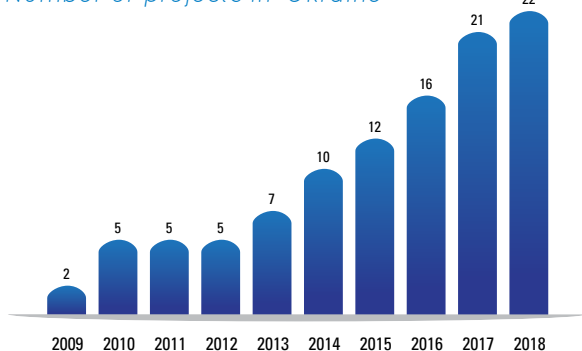
b. Implementation progress - 10 years of EU4Business in the country

The funds invested by the European Union have triggered additional loans and financial assistance in the country, effectively tripling the assistance. This benefitted 3,228 Ukrainian SMEs and created an estimated 7,226 jobs, beyond the jobs that were sustained. The number of projects in the country, and with it the EU's assistance, has been on a steady rise over EU4Business's ten years of operation..

Implementation progress



Number of projects in Ukraine



Source: EU4Business Secretariat project database

6. Stakeholder assessment

a. Findings from the SMEs - Focus group assessment, Kyiv, 21 March 2019

i. Key issues

Finance options remain expensive, especially with the depreciating local currency, and interest rates are very high. Loans rarely cover working capital, which is much needed by many firms. Equipment purchase and expansion of activities is also critical, but the view is that the EU4Business programmes involve a lengthy process for obtaining a loan and are associated with excessive administrative hurdles.

Potential consumers abroad are often not familiar with Ukrainian products despite the perceived competitive quality. This often calls for lower prices to establish a

market presence abroad, leading to initial losses. The supply chain needs to be organised so that each member understands the process of value creation and how it influences the price of a product (e.g. berries). Problems with the certification process include no cover for the relatively high costs of quality audit and other standardisation requirements.

Some view the assistance application procedures as complex, and advantageous for English-speakers. Additionally, they say they face old-school apparatchiks in the commercial banks, who do not understand SME needs. Participants mentioned that the advisory services provided by consultants are not effective enough because they often provide only general advice and are not qualified to deal with sector specific problems. Organising a meeting with foreign producers from the same industry is seen as more effective than consultants-generalists.

ii. SMEs' own needs assessment/priorities

Participation in fairs and exhibitions is seen an effective tool for improving access to markets. Workshops with industry specialists who could brief their Ukrainian counterparts on market trends and opportunities would be highly beneficial. It would be a major asset to have such individuals hired by the Ukrainian counterparts for a while to improve processes in the firms. Standards and certification top the list of needs among SMEs, especially in the less traditional industries. Smaller firms face a steep learning curve in how to reach the final customer in the EU market, given their very little understanding of the pricing of equipment, logistics and transportation, etc.



SMEs discussed the need to intensify contacts between the public and the private sector in order to improve industrial regulation. Certain advocacy activities are seen as useful to receive the necessary support, and to level the playing field and lower fiscal and bureaucratic costs to SMEs. That said, individual lobbying of mostly politically connected businesses needs regulation, as it has increased the already high levels of corruption. At that higher level, reforms of the judiciary, introduction of alternative dispute resolutions, and predictability of regulation must be fostered urgently.

b. Views of the implementers - Ukraine EU4Business Roundtable, Kyiv, 22 March 2019

i. Key issues

Participants agreed that coordination and integration of programmes create important synergies to SMEs, including the combination of different capacity building programmes and trainings for SMEs. Nonetheless, some SMEs believe the consultancy services are no longer as helpful, as their businesses are supplied with a general package. Various technical assistance programmes have left a visible progress in improving financial literacy.

Some of that support is nonetheless still needed, as many SMEs struggle with pre-investment preparation of financial, investment and sometimes also transformation plans in the form of consolidation of reporting, audit, legal restructuring and refining of strategic vision. Reaching a financing contract may take a year, sometimes even two years to prepare. Technical assistance increasingly aims at increasing efficiency, thus making financial products cheaper for the end customer.

The Ukraine Berries Association (UBA) with its 30 members at present, accounting for 15% of berry exports from Ukraine, provided an interesting case study. Its main problems are lack of financing (both for investment needs and working capital), technical support and transfer of knowledge, as well as skilled labour. What hinders SME growth is the lack of expertise and skills in certifications, packaging, marketing, branding, etc., for which tailored advisory and coaching is increasingly provided as well as participation in trade fairs.

Ukrainian SMEs are sometimes comfortable with the status quo and live in their own 'bubble'. Another SME problem is not understanding the point of competition. However, they can get out of the bubble by witnessing the success stories of their peers. Many companies are not yet willing to broadly disclose the receipt of EU funding, but would happily engage in peer-to-peer meetings.

ii. Suggestions of the Roundtable going forward

Advisory services provided by consultants for SMEs need to move away from their general nature and be tailored to business specifics. Consulting firms need to provide experts who are truly knowledgeable about specific SME needs, such as through peer-to-peer learning, where SMEs can host peers for sector-specific advice.

Communicating EU4Business programmes in a very simple language is encouraged, as sometimes SMEs get lost in the quantity of legalistic information. The EU4Business Secretariat can further engage in compiling and publishing booklets with simpler guidance, e.g. clearly-stated interest rates and ready-to-use instructions for SMEs interested in EU4Business programmes.

The role of the Secretariat is not to select an optimal programme for an SME, but to inform SMEs about the range of opportunities that fulfil their requests. Therefore, clean mapping of opportunities with always up-to-date information on i.e. partner banks, interest rates and other important elements of the programmes is important. Monitoring impact closer and with better segmented target audience, then reporting on it, would benefit future programming.

c. Summary of recommendations for next planning cycle

- More targeted, expert support, rather than general capacity building and financial literacy.
- Market expansion through sufficient understanding of certification and standardisation procedures.
- Accessing beyond the capital, working closely with the intermediary banks and training their staff.
- Tailored simpler outreach products (brochures, website) with practical information, easy to follow and mapping the sources of assistance.
- Sharing knowledge through successful peer-to-peer exchange in entrepreneur-only events.
- Greater coordination (also beyond EU4Business) and post-implementation assessment of impact so as to better tailor future programmes.
- Government efforts in levelling the playing field, reducing corruption and further fiscal and regulatory transparency is greatly appreciated by SMEs.



EU4Business

Ukraine:

Investment loan just a phone call away



“

*Entrepreneurs,
do not be afraid!
One phone call
allows you to
achieve your
dreams.”*

Olga Radinovich

Director of Reabilitimed LLC

SME Finance Facility Phase II



With an investment loan from the KfW programme of the EU4Business SME Finance Facility Phase II implemented by German-Ukrainian Fund (GUF), Reabilitimed LLC was able to increase production and quality, create additional jobs and give the company confidence to provide its customers with the orthopaedic products they need.



EU4Business

Ukraine:

How to grow blueberries:
lessons from Chile for Ukrainian producers



“

*It's great that the
Eastern Partner-
ship: Ready to
Trade project,
allowed us to go
to Chile and focus
on things that have
not yet been done
in Ukraine.”*

Ivan Grechkovsky

CEO of the 'Family Garden' company

Eastern Partnership:
Ready to Trade project



As part of the 'Eastern Partnership: Ready to Trade' project, funded by the EU under its EU4Business initiative, the International Trade Centre (ITC) and the Ukrainian Berries Association (UBA) organised a study tour to Chile for exporting berry companies from Ukraine. This allowed Ukrainian entrepreneurs to get useful export tips from the world's leading producer and exporter of blueberries.

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