


UKRAINE

1. Introduction

In Ukraine, small and medium-sized enterprises (SMEs) play an important role in job creation and internationalisation. However, Ukrainian SMEs face substantial challenges, including a lack of access to alternative sources of finance, excessive administrative burden and low productivity. In 2020, the number of employees who were forced to work part-time or to take unpaid leave increased sharply compared to 2019, rising by 28.3% and 233.7%, respectively¹. Economic activity in the *manufacturing* sector, as measured by the index of industrial production, declined by 6.9%². Ukrainian SMEs have been hit particularly hard by the pandemic – 84% have experienced a decline in turnover and 25% have had to reduce their number of employees³.

In Ukraine, SMEs play an important role in the 'non-financial business economy'. In 2019, they contributed 52.9% of total value added and 63.8% of total employment, only slightly less than the respective EU averages of 53.3% and 65.0%. However, SME productivity, measured as value added per person employed, was only EUR 10 100 in 2019, roughly one quarter of the EU average of EUR 42 600. SMEs in Ukraine employ an average of 2.8 people, against the higher EU average of 3.7.

Figure 1: Number of enterprises, persons employed and value added in 2019



	Number of enterprises			Number of persons employed			Value added		
	Ukraine		EU-27	Ukraine		EU-27	Ukraine		EU-27
	Number	Share	Share	Number	Share	Share	€ billion	Share	Share
Micro	1 609 689	95.8%	93.3%	2 659 900	35.8%	29.6%	16.961	18.8%	18.7%
Small	58 125	3.5%	5.7%	1 071 100	14.4%	19.7%	15.432	17.1%	17.0%
Medium-sized	10 099	0.6%	0.9%	1 012 155	13.6%	15.8%	15.336	17.0%	17.3%
SMEs	1 677 913	99.9%	99.8%	4 743 155	63.8%	65.2%	47.730	52.9%	53.0%
Large	2 444	0.1%	0.2%	2 696 654	36.2%	34.8%	42.550	47.1%	47.0%
Total	1 680 357	100%	100%	7 439 809	100%	100%	90.280	100%	100%

Source: These data are based on data provided by the State Statistics Service of Ukraine. The data cover the 'non-financial business economy', which includes industry, construction, trade, and services (NACE Rev. 2 sections B to J, L, M and N), but not enterprises in agriculture, forestry and fisheries and the largely non-market service sectors such as education and health. The following size-class definitions are applied: micro firms (0-9 persons employed), small firms (10-49 persons employed), medium-sized firms (50-249 persons employed), and large firms (250+ persons employed).

2. Key strengths

Ukraine's SMEs are on a par with EU SMEs in terms of internationalisation

A number of public support measures have been adopted in recent years to support the internationalisation of SMEs. The Export Promotion Office, which provides training and organises trade missions and fairs in different countries, and the Export Credit Agency, which provides export insurance services, were established. Ukraine also joined the OECD 'Arrangement on Officially Supported Export Credits'⁴. As a result, the share of SMEs exporting goods in 2019 was slightly higher than the EU average.

Ukrainian SMEs play an important role in job creation

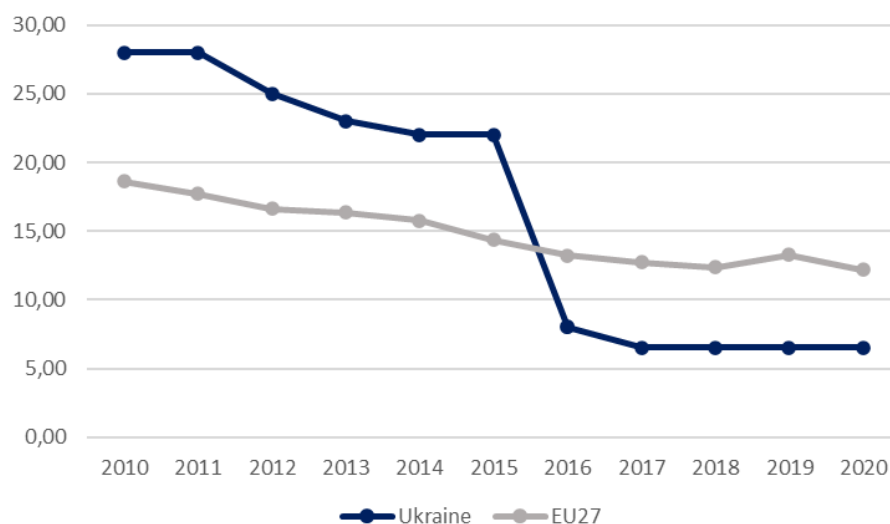
Ukraine's SMEs account for 73.2% of employment (excluding agriculture), outperforming most EU countries. Over the last decade, this share has been growing, partly due to a decrease in employment in large companies and an increase in the number of new jobs in the SME sector⁵.

There have been a number of policy measures aimed at creating employment in SMEs. Since 2018, Ukrainian SMEs have been able to receive smaller credits if they create jobs for members of low-income families and veterans, thanks to a project sponsored by the World Bank and the Ministry of Social Policy of Ukraine. The State Employment Service of Ukraine also supports job creation by providing one-time payments and training to help unemployed people to launch their own business⁶.

It is relatively easy to start a business in Ukraine

It only takes 6.5 days to start a business in Ukraine – approximately half the EU average. In addition, paid-in minimum capital is not required and the total cost of starting a business is significantly below the EU average. The time and cost to register property are also significantly below the EU average. All these indicators have significantly improved over the last decade⁷.

Figure 2: Time to start a business (days)



Source: World Bank's Doing Business, 2020⁸

In 2020, the Diia.Business project (*Розпочато широкомасштабний проєкт з підтримки бізнесу Diia.Business*) was launched. It is a large-scale development project offering entrepreneurship support and services through an online platform, as well as offline support via centres and hubs for entrepreneurs in different regions of Ukraine⁹.

3. Key challenges

Alternative sources of finance remain underdeveloped in Ukraine

According to Invest Europe, Ukraine lags behind EU countries in the share of private equity funding for businesses, with investment only representing 0.025% of GDP in 2019. The level of venture capital investments in SMEs also remains low, amounting to only 0.004% of GDP in 2019. This results from the high levels of uncertainty due to the economic and political instability in the country, which have decreased inflows of venture capital from abroad¹⁰.

The programme 'Affordable loans 5-7-9' (*Фінансова підтримка суб'єктів малого та середнього підприємництва Програма 5-7-9*) – designed to improve SMEs' access to credits at record-low interest rates (5-7-9%)¹¹ – has been a major step in improving SMEs' access in general to finance. In 2020, this programme was expanded and updated, aiming to minimise the negative consequences of the COVID-19 pandemic for Ukrainian SMEs¹².

Administrative burden has been decreasing but still remains relatively high

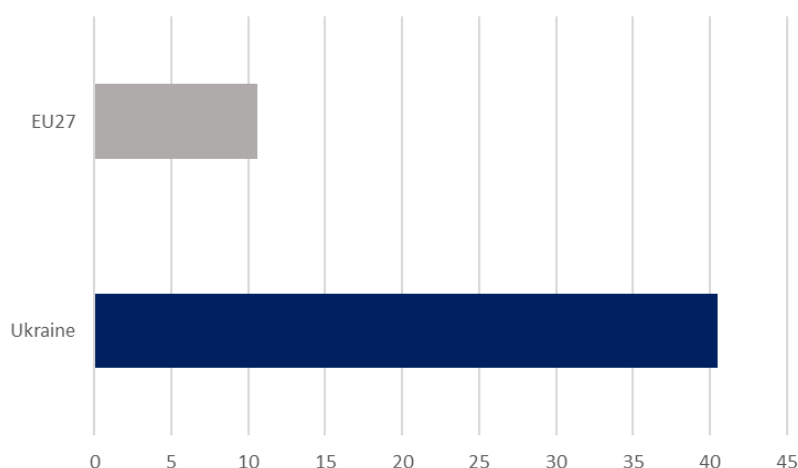
Despite progress, the burden of government regulations remains above the EU average¹³. SMEs describe the administrative burden as significant, and claim it did not improve in 2020¹⁴.

In Ukraine, administrative procedures are more complex and legislation can be ambiguous and contradictory. Businesses in the country spend 328 hours a year paying taxes – 91% more time than the EU average¹⁵. Administrative burden also affects custom procedures. The cost of documentary compliance, both for export and import, is significantly above the EU average¹⁶.

Insolvency procedures are a major weakness for Ukraine's business framework

According to the World Bank's Doing Business 2020 report, resolving insolvency is very problematic in Ukraine, costing 40.5% of the debtor's estate – four times the EU average¹⁷.

Figure 3. Cost to resolve insolvency (% of the debtor's estate)



Source: World Bank's Doing Business, 2020¹⁸

This is caused by complicated procedures and a weak judicial system that leads to extremely low recovery rates, a long resolution time – almost 3 years, one more than the EU average – and very high costs. This is also reflected in the cost of enforcing a contract, which reaches 46% of the claim – significantly above the EU average of 20.3%¹⁹.

In 2019, a new law on bankruptcy (*новий Кодекс про банкрутство*) was enforced to improve the situation. According to this law, there is no minimum requirement of debt volume to begin a bankruptcy procedure. It also provides better protection to creditors²⁰.

The productivity of Ukrainian SMEs is relatively low

Ukrainian SMEs lag behind the EU average in terms of value added per employee, as well as compared to the performance of large companies²¹.

The average value added generated by an SME employee was 58% of that of a large company, while the EU average was 64%. However, this gap shrank between 2015 and 2019²².

4. Other key SME-related brief insights



IMPACT OF COVID-19 CRISIS ON SMES

Small businesses and micro businesses were hit the hardest by COVID-19 in 2020. According to the Ukrainian Chamber of Commerce and Industry, approximately 700 000 small businesses in the service sector closed and between 3.5-4 million jobs were lost²³. Several financial support programmes and other measures to support SMEs and entrepreneurs were launched, such as exemptions from contributions to social security or a reduction in taxes.



SCALE-UP ENVIRONMENT

Although statistics on high-growth enterprises are not available for Ukraine²⁴, there are some signs that the scale-up ecosystem is developing in the country. There are several equity funds as well as several incubators offering scale-up programmes. The Business Development Fund offers credit and loan programmes, including 'Affordable Loans 5-7-9' aimed at supporting SME growth²⁵.



GREEN TRANSITION OF SMES

According to the 2020 OECD SME Policy Index, Ukraine has improved as regards the green transition of SMEs – however, it is still below the Eastern Partnership countries' average²⁶. The SME Development Strategy 2020 envisages several actions to promote the green transition of SMEs, such as long-term and low-interest credit for green products and technologies²⁷. However, Ukraine does not currently offer any specific regulatory incentives for SMEs, apart from general tax preferences for energy efficient equipment.



DIGITALISATION OF SMES

There has only been moderate adoption of digital technologies and business models by SMEs, despite a relatively high share of businesses employing ICT specialists in Ukraine²⁸. The creation of the Ministry of Digital Transformation in 2019 aimed to address these challenges²⁹. In 2020, the Ministry launched the online service Diia (*Портал Дія*), which provides public services online to entrepreneurs and people in general, in order to spur further SME digitalisation.



ACCESS TO FINANCE

Access to finance is the area where Ukraine has made the most significant progress in recent years³⁰. The government launched the State Programme 'Affordable Loans 5-7-9', which granted approximately EUR 517 million in credit and loans to over 5 300 SMEs, which may have contributed to this progress. Of the 7 575 loans, 62% of the money went to refinance existing loans at lower rates³¹.

¹ Based on data from the State Statistics Service of Ukraine, available at:

http://ukrstat.gov.ua/operativ/operativ2017/gdn/kpvnz/kpvnz_ek/arh_kpvnz_ek_u.htm

² Based on data from the State Statistics Service of Ukraine, available at:

http://ukrstat.gov.ua/operativ/operativ2018/pr/ipp_vd_m/ipp_vd_m_u/arh_ipp_vdm_u.html

³ Based on data from a study by UNDP on 'COVID-19 in Ukraine: Impact on Households and Businesses', available at: https://www.ua.undp.org/content/ukraine/en/home/library/democratic_governance/covid-19-in-ukraine--impact-on-households-and-businesses.html

⁴ OECD (2020), *Monitoring the Implementation of Ukraine's SME Development Strategy 2017-2020*, available at: <https://www.oecd.org/eurasia/competitiveness-programme/eastern-partners/Monitoring-the-Implementation-of-Ukraine%E2%80%99s-SME-Development-Strategy-2017-2020-ENG.pdf>

⁵ Ukrstat (2019), *Expert calculations based on Ukrstat data on number of persons employed of entities of large, medium, small and micro-entrepreneurship by type of economic activity in 2010-2019*, available at: http://ukrstat.gov.ua/operativ/operativ2019/fin/pssg/kzpsg_vsmm_ek_2010_2019_u.xlsx

⁶ See Note 4.

⁷ World Bank (2020), *Doing Business ranking*, available at: <https://www.doingbusiness.org/en/rankings>

⁸ Ibid.

⁹ Government of Ukraine (2020), *Diia.Business portal*, available at: <https://business.diia.gov.ua/>

¹⁰ Invest Europe (2019), *Investing in Europe: Private Equity activity*, available at:

https://www.investeurope.eu/media/3052/20200512_invest-europe-investing-in-europe_-_private-equity-activity-2019-final.pdf

¹¹ Government of Ukraine (2020), *State Program 'Affordable Loans '5-7-9%'*, available at: <https://5-7-9.gov.ua/>; <https://zakon.rada.gov.ua/laws/show/28-2020-%D0%BF#Text>

¹² Ministry of Finance of Ukraine (2020), *Government expands the opportunities of the State Program 'Affordable Loans '5-7-9%'*, available at:

https://www.mof.gov.ua/en/news/uriad_rozshiriv_mozhlivosti_programi_dostupni_kreditu_5-7-9-2116

¹³ World Economic Forum (2019), *Global Competitiveness Report 2018-2019*, available at:

http://www3.weforum.org/docs/GCR2018/GCI_4.0_2018_Dataset.xlsx

¹⁴ Business Ombudsmen Council (2020), *Evaluation of the Implementation of the SME Development Strategy 2020 in Ukraine and further policy directions*, available at:

https://boi.org.ua/media/uploads/system_bigproblemssmalbusiness/3_2020_system_ua.pdf

¹⁵ See Note 7.

¹⁶ IER (2020), *Quarterly report on Business Climate Assessment*, available at:

http://www.ier.com.ua/files//Regular_products/BTS/Industry/QES_ukr_01_2020.pdf

¹⁷ See Note 7.

¹⁸ Ibid.

¹⁹ Ibid.

²⁰ Nataliya Tyschenko (2019), *Bankruptcy Code of Ukraine: New Opportunities for Creditors and Debtors*, *Liga & Zakon*, available at: https://uz.ligazakon.ua/ua/magazine_article/EA012742

²¹ See Note 4.

-
- ²² Ukrstat (2019), *Expert calculations based on Ukrstat data on value added at factor costs of entities of large, medium, small and micro-entrepreneurship by type of economic activity in 2013-2019*, available at: http://ukrstat.gov.ua/operativ/operativ2020/fin/pssg/dvvsq_vsmm_ek_2013_2019_u.xlsx
- ²³ Manos, E. (2020), *After COVID-19 shock: how to boost Ukraine's economic recovery*. UNIDO. 2020. Available at: <https://www.unido.org/stories/after-covid-19-shock-how-boost-ukraines-economic-recovery>
- ²⁴ OECD (2019), *Compendium of Enterprise Statistics in Ukraine 2018*, available at: <http://www.oecd.org/eurasia/competitiveness-programme/eastern-partners/Compendium-Enterprise-Statistics-Ukraine-2018-EN.pdf>
- ²⁵ See Note 4.
- ²⁶ OECD et al. (2020), *SME Policy Index: Eastern Partner Countries 2020: Assessing the Implementation of the Small Business Act for Europe*, available at: <https://doi.org/10.1787/8b45614b-en>
- ²⁷ Government of Ukraine (2017), *SME Development Strategy 2020*, available at: <https://www.kmu.gov.ua/npas/250167535>
- ²⁸ Ukrstat (2019), *Expert calculations based on Ukrstat data on ICT usage at enterprises in 2018-2019*, available at: http://ukrstat.gov.ua/operativ/operativ2018/zv/ikt/viktp2018-2019_u.xls
- ²⁹ See Note 4.
- ³⁰ Ibid.
- ³¹ Cabinet of Ministers of Ukraine (2020), *Overview of the State Programme 'Affordable loans. 5-7-9' implementation'*, available at: doingbusiness.org/content/dam/doingBusiness/country/u/Ukraine/UKR.pdf