

2019 SBA Fact Sheet

UKRAINE

Key points

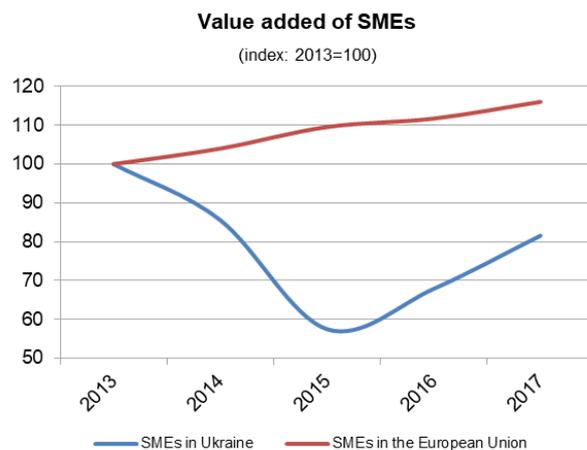
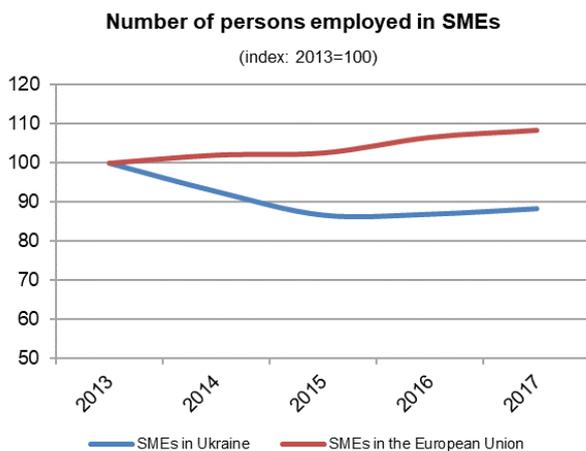
Past SME performance¹: SMEs in Ukraine account for 61.4 % of employment and 47.2 % of value added, lower than the respective EU averages of 66.5 % and 56.4 %. SMEs played an important role in the upswing of the Ukrainian ‘non-financial business economy’ in 2016-2017, where SME value added increased by 20.2 %, while value added of large firms increased by 18.3 %.

Implementing the Small Business Act for Europe (SBA):

Ukraine performs below the EU average in internationalisation and in ‘second chance’. However, it scores within the EU average in ‘responsive administration’ principle. The constraints in data availability for a limited number of indicators need to be kept in mind when interpreting the overall results.

SME policy priorities:

‘Strategy for Small and Medium-sized Enterprise Development in Ukraine until 2020’ has identified six strategic directions for state SME support: creating favourable environment for SME development, improving access to finance, simplifying tax administration, promoting entrepreneurial culture and developing entrepreneurial skills, promoting SMEs’ internationalisation, and improving competitiveness and developing the innovation potential of SMEs.



About the SBA fact sheets:

The Small Business Act for Europe (SBA) is the EU’s flagship policy initiative to support small and medium-sized enterprises (SMEs). It comprises a set of policy measures organised around 10 principles ranging from entrepreneurship and ‘responsive administration’ to internationalisation. To improve the governance of the SBA, the 2011 review of it called for better monitoring. The SBA fact sheets, published annually, aim to improve the understanding of recent trends and national policies affecting SMEs.

Table of Contents

Key points.....	1
1. SMEs — basic figures.....	2
2. SBA profile.....	3
3. SBA principles.....	4
3.1 Entrepreneurship.....	4
3.2 'Second chance'.....	4
3.3 'Think Small First' and 'Responsive administration'.....	5
3.4 State aid & public procurement.....	5
3.5 Access to finance.....	6
3.6 Single market.....	6
3.7 Skills & innovation.....	6
3.8 Environment.....	6
3.9 Internationalisation.....	7
4. Interesting initiative.....	8

1. SMEs — basic figures

Class size	Number of enterprises			Number of persons employed			Value added		
	Ukraine		EU-28	Ukraine		EU-28	Ukraine		EU-28
	Number	Share	Share	Number	Share	Share	Million €	Share	Share
Micro	1 506 916	95.9 %	92.9 %	2 419 700	34.1 %	29.4 %	10 243	15.4 %	20.5 %
Small	52 821	3.4 %	5.9 %	984 900	13.9 %	20.2 %	8 485	12.7 %	17.6 %
Medium-sized	9 500	0.6 %	1.0 %	953 400	13.4 %	16.9 %	12 681	19.0 %	18.1 %
SMEs	1 569 237	99.9 %	99.8 %	4 358 000	61.4 %	66.5 %	31 411	47.2 %	56.3 %
Large	2 347	0.1 %	0.2 %	2 739 800	38.6 %	33.5 %	35 180	52.8 %	43.8 %
Total	1 571 584	100.0 %	100.0 %	7 097 800	100.0 %	100.0 %	66 591	100.0 %	100.0 %

These are data for 2017 provided by the State Statistics Service of Ukraine and Eurostat (Structural Business Statistics Database) and were processed by DIW Econ. 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 advantage of using Eurostat data is that the statistics are harmonised and comparable across countries. The disadvantage is that for some countries the data may be different from those published by national authorities.

SME shares of employment and value added in the Ukrainian 'non-financial business economy' in 2017 were lower than the average shares for EU SMEs. They amounted to 61.4 % of total SME jobs and 47.2 % of total SME value added, compared to the EU SME averages of 66.5 % and 56.4 %, respectively. *Wholesale and retail trade* contributed the highest share of total SME value added in Ukraine, at 34.9 %, and also the greatest share of SME employment, at 41.3 %. Ukrainian SMEs were most strongly represented in *wholesale and retail trade*, accounting for 53.4 % of all firms in the sector. For EU SMEs, *wholesale and retail trade* was also, on average, the most important sector, although the average sector shares of total SME value added and total SME employment were much lower in the EU, at 22.1 % and 24.6 %, respectively.

Ukrainian SMEs were far less productive than EU SMEs. In 2017, the average productivity of EU SMEs was EUR 43 604, six times greater than the average productivity of Ukrainian SMEs, which amounted to only EUR 7 208. Moreover, in terms of employment, the average Ukrainian SME consisted of 2.8 people, around one person less than the average EU SME, which employed 3.9.

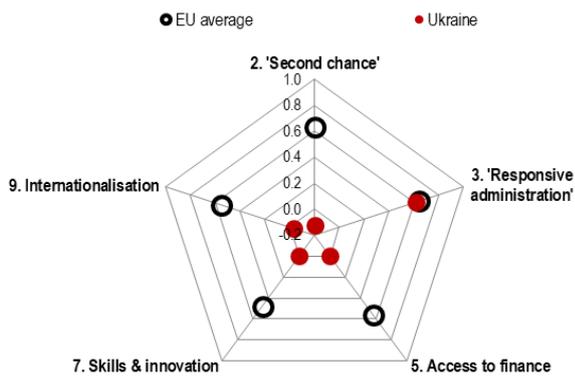
In Ukraine's 'non-financial business economy', SME value added and SME employment fell sharply in 2013–2017, by 18.4 % and 11.6 %, respectively, with most of this development occurring in 2013–2015, where value added fell by 42.6 %. This falls within the same time frame as the illegal annexation of the Crimean peninsula by Russia and an ongoing military conflict in the east which caused sharp contraction of GDP. In contrast, during the same period, EU SMEs generated growth of 16.0 % in value

added and 8.4 % in employment. This negative development of Ukrainian SMEs was due to the poor performance of several sectors. Most notably, *wholesale and retail trade*, which accounted for an average share of 38.5 % of total SME value added in 2013-2017, decreased by 27.6 %.

Most recently, in 2016-2017, Ukrainian SME value added grew by 20.2 %, a remarkable two-digit growth rate for a one-year period, while employment increased by 1.6 %. However, this strong increase has to be evaluated in the context of the significant fall of SME value added and SME employment in

previous years. The two sectors, *wholesale and retail trade* and *manufacturing*, were the main SME growth drivers, due to their size and significance for SMEs in the Ukrainian 'non-financial business economy'. *Wholesale and retail trade* generated a rise of 23.1 % in value added, while value added growth in *manufacturing* was 28.1 %. Consequently, in terms of value added, Ukrainian SMEs significantly outperformed EU SMEs, which generated a rise of only 3.8 % in the same one-year period. However, the 1.7 % average increase in EU SME employment was almost identical to the 1.6 % employment rise of Ukrainian SMEs.

2. SBA profile²



The overall SBA profile for Ukraine is weak. Ukraine performs below the EU average in internationalisation and in 'second chance'. However, it scores within the EU average in the 'responsive administration' principle.

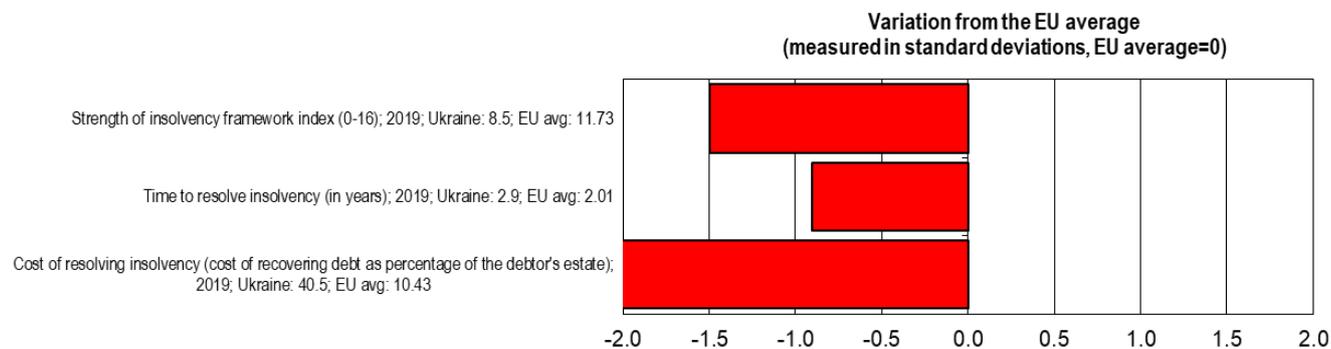
3. SBA principles³

3.1 Entrepreneurship

Regarding the indicators related to this principle, no sufficient data has been collected recently. It is therefore not possible to

draw any general conclusions on the performance on entrepreneurship vis-à-vis the EU average.

3.2 ‘Second chance’

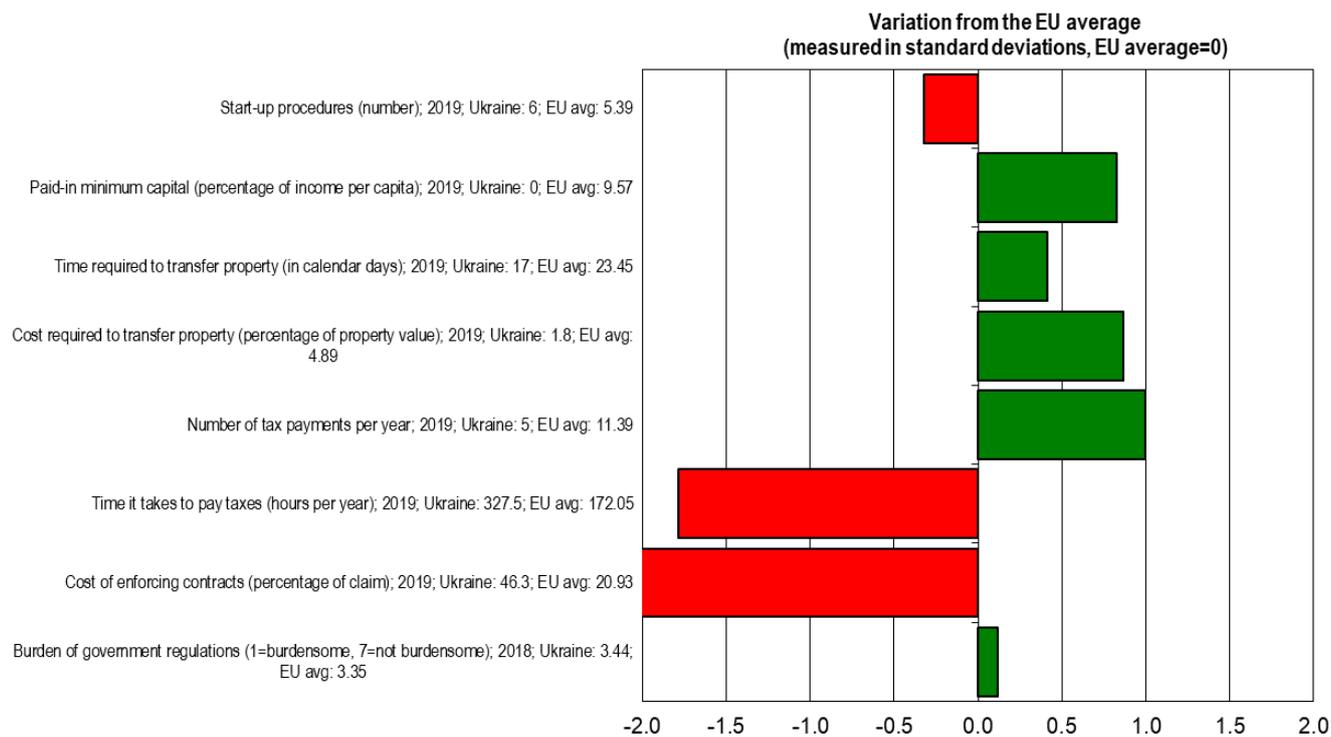


Note: Data bars pointing right show better performance than the EU average and data bars pointing left show weaker performance.

‘Second chance’ refers to ensuring that honest entrepreneurs who have gone bankrupt get a second chance quickly. Ukraine performs below the EU average in this area. All available

indicators score below the EU average: the cost of resolving insolvency, the strength of insolvency framework index and the time to resolve insolvency.

3.3 ‘Think Small First’ and ‘Responsive administration’



Note: Data bars pointing right show better performance than the EU average and data bars pointing left show weaker performance.

The ‘think small first’ principle is meant to be a guiding principle for all policy- and law-making activities. It requires policymakers to take SMEs’ interests into account at the early stages of the policy-making process. The principle also calls for newly designed legislation, administrative rules and procedures to be made simple and easy to apply. ‘Responsive administration’ refers to public administration being responsive to the needs of SMEs.

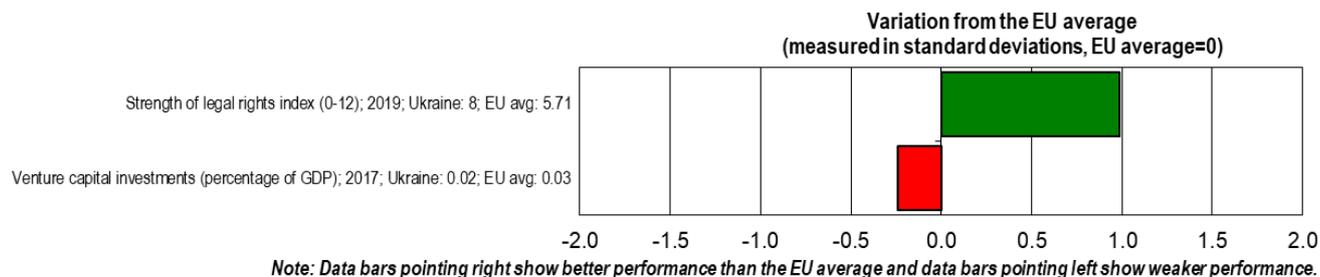
Ukraine performs in line with the EU average in this SBA principle. The number of tax payments decreased from 135 in 2012 to 5 in 2019. On the other hand, while still remaining well below the EU average, the time required to pay taxes has halved (from 657 hours in 2012 to 327 hours in 2019). Furthermore, the country performs below the EU average when it comes to the cost of enforcing contracts. Ukraine performs above the EU average in paid-in minimum capital requirements, and the cost required to transfer property.

3.4 State aid & public procurement

Regarding the indicators related to this principle, no sufficient data has been collected. Therefore, it is not possible to draw any

general conclusions on the performance on state aid & public procurement vis-à-vis the EU.

3.5 Access to finance



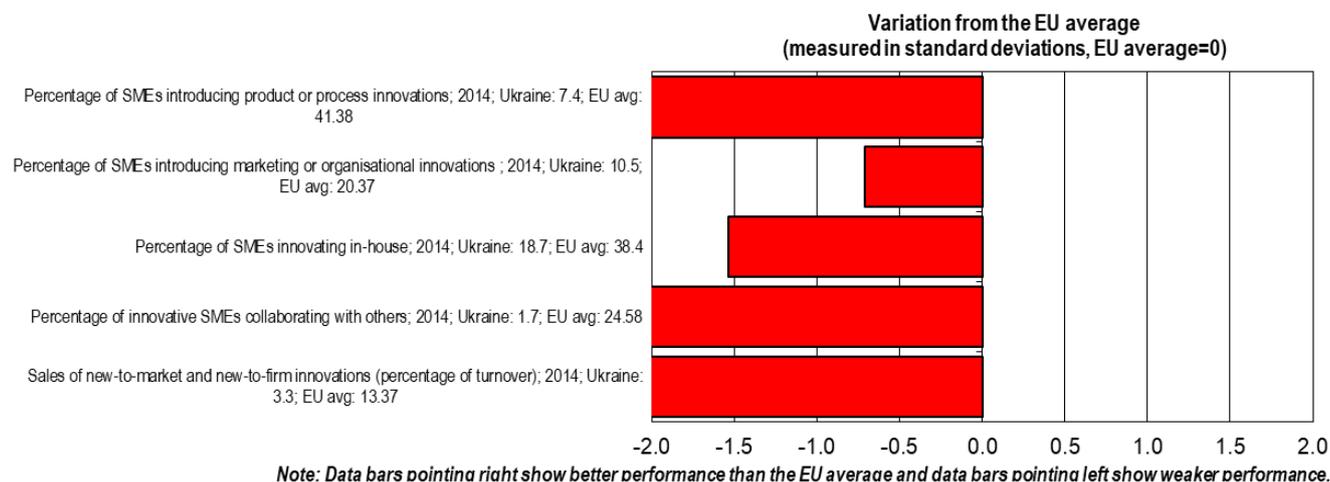
The data available for this principle covers two indicators. The strength of legal rights index performs well above the EU

average. Venture capital investments represented 0.02% of the GDP in 2017, being in line with the EU average.

3.6 Single market

As Ukraine is not an EU Member State, there is no relevant comparable data regarding the single market.

3.7 Skills & innovation



All indicators in skills & innovations score below the EU average. The latest available data on their development, however, dates from 2014. Only 7.4% of SMEs introduce product or process innovations (compared to 41.4% for the EU average) and 10.5% introduce marketing or organisational innovations (compared to

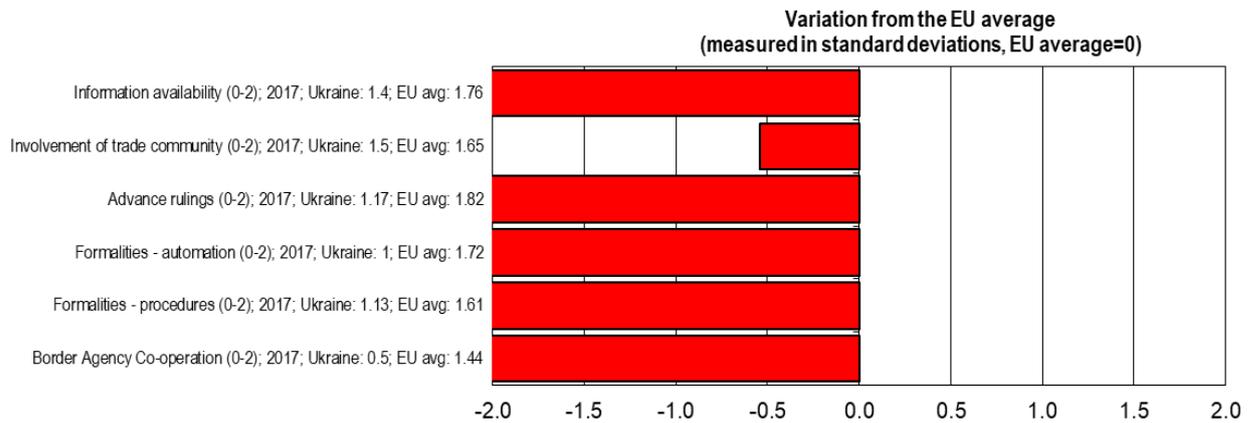
20.4% for the EU average). Furthermore, the country performs relatively low when it comes to the proportion of sales of new-market and to new-to-firm innovations (expressed as percentage of turnover) with 3.3% in 2013 compared to the EU average of 13.4%

3.8 Environment

Regarding the indicators related to this principle, no sufficient data has been collected. Therefore, it is not possible to draw any

general conclusions on the performance on environment vis-à-vis the EU.

3.9 Internationalisation



Note: Data bars pointing right show better performance than the EU average and data bars pointing left show weaker performance.

Ukraine performs below the EU average in internationalisation. Indicators such as the availability of information, advance rulings, formalities automation and procedures, and border agency co-operation score substantially below the EU average.

The involvement of the trade community also scores below the EU average, however, only slightly, scoring 1.5 (compared to 1.65 EU average).

4. Interesting initiative

Below is an example of an initiative from Ukraine to show what governments can do to support SMEs.

Reform of state inspections' system

Before the 2016 reform, the inspection system in Ukraine was very problematic, it was the major source of corruption and pressure on business. At the outset of the reform, the Better Regulation Delivery Office (BRDO), which is an independent think tank working under the auspices of the EU-funded project, was tasked to lead on the reform efforts as part of its business environment improvement mandate.

BRDO has supported the Government of Ukraine to develop and implement the concept for the reform of the inspection system, prepare a new risk assessment methodology for undertaking state control measures, and launched an online Inspection Portal for planning the inspections. It became mandatory for the inspection authorities to publish on the portal their plans for conducting inspections, provide justification for inspections in line with the risk assessment criteria, and disclose information about the results of such inspections.

The Inspection Portal has proven to be a great success, with over 1.3 million visitors to date, more than 143 thousand planned inspections in the system, and over 90 thousand inspection results freely available online for the users' access. This is a significant contribution to transparency, fight against corruption in Ukraine and efforts to improve the relationships and trust between the business and the state.

References:

www.inspections.gov.ua

Important remarks

The European Commission produces the SBA fact sheets, which combine the latest available statistical and policy information. Produced annually, they help to organise the available information to facilitate SME policy assessments and monitor SBA implementation. They take stock and record progress. They are not an assessment of national policies. Rather, they should be regarded as an additional source of information to improve evidence-based policy-making. They do not and cannot reflect all measures the government has taken over the reference period. This SBA fact sheet is not related to other SBA assessments carried out with a different methodology.

SME Performance Review:

https://ec.europa.eu/neighbourhood-enlargement/policy/policy-highlights/sme-performance-review_en

Small Business Act:

http://ec.europa.eu/growth/smes/business-friendly-environment/small-business-act/index_en.htm

Entrepreneurship and SMEs:

<https://ec.europa.eu/growth/smes>

Endnotes

¹ The two graphs below present the trend over time for the variables. They consist of index values for the years since 2008, with the base year 2008 set at a value of 100. As from 2017, the graphs show estimates of the development over time, produced by DIW Econ on the basis of 2008-2016 figures from Eurostat's Structural Business Statistics Database. 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). They do not cover enterprises in agriculture, forestry and fisheries or largely non-market service sectors such as education and health. A detailed methodology can be consulted at: <http://ec.europa.eu/growth/smes/business-friendly-environment/performance-review/>

² The 2019 SBA fact sheets benefited substantially from input from the European Commission's Joint Research Centre (JRC) in Ispra, Italy. The JRC made major improvements to the methodological approach, statistical work on the dataset and the visual presentation of the data.

³ The policy measures presented in this SBA fact sheet are only a selection of the measures the government took in 2018 and the first quarter of 2019. Only those measures were selected which are expected to have the highest impact in the SBA area in question.