



ANNEX 1

of the Commission Implementing Decision on the financing of the Annual Action Programme, part 1, in favour of Ukraine for 2020 to be financed under the general budget of the Union

Action Document for EU4BUSINESS: Support to Small and Medium Enterprises (SMEs) in Ukraine

ANNUAL PROGRAMME/MEASURE

This document constitutes the annual work programme in the sense of Article 110(2) of the Financial Regulation and action programme/measure in the sense of Articles 2 and 3 of Regulation N° 236/2014.

1. Title/basic act/ CRIS number	EU4BUSINESS: Support to Small and Medium Enterprises (SMEs) in Ukraine CRIS number: ENI/2020/042-435 financed under the European Neighbourhood Instrument	
2. Zone benefiting from the action/location	European Neighbourhood region, Ukraine The action shall be carried out at the following location: Ukraine	
3. Programming document	Single Support Framework 2018-2020 for Ukraine	
4. Sustainable Development Goals (SDGs)	Main SDGs - 1: No poverty; 8: Decent work and economic growth; Other significant SDGs - 9: Industry, Innovation and Infrastructure; 10: Reduced Inequality; 11: Sustainable Cities and Communities.	
5. Sector of intervention/ thematic area	Economic growth and job creation	DEV. Assistance: YES
6. Amounts concerned	Total estimated cost: EUR 20 000 000 Total amount of European Union (EU) contribution: EUR 20 000 000	
7. Aid modality(ies)	Project Modality	

and implementation modality(ies)	Direct management through procurement Indirect management with entrusted entity(ies) to be selected in accordance with the criteria set out in section 5.3.2 and 5.3.3.			
8 a) DAC code(s)	25010 - Business Policy and Administration – 25% 25030 - Business development services – 25% 32130 - Small and medium-sized enterprises (SME) development – 30% 15112 - Decentralisation and support to subnational government – 15% 33110 - Trade policy and administrative management- 5%			
b) Main Delivery Channel	Private Sector Institutions – 60000; Indirect Management Institutions to be defined at a later stage.			
9. Markers (from CRIS DAC form)¹	General policy objective	Not targeted	Significant objective	Principal objective
	Participation development/good governance	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
	Aid to environment	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Gender equality and Women's and Girl's Empowerment	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
	Trade Development	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
	Reproductive, Maternal, New born and child health	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	RIO Convention markers	Not targeted	Significant objective	Principal objective
	Biological diversity	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Combat desertification	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Climate change mitigation	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Climate change adaptation	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	10. Global Public Goods and Challenges (GPGC) thematic flagships	Not applicable		

SUMMARY

Further improvements in the business and investment climate and the regulatory and operational environment will help sustain economic reforms and reinforce Ukraine's transition to a fully-functioning market economy in line with the EU-Ukraine Association Agreement. Companies that export, import, and are part of global value chains are more competitive, more productive, and more likely to innovate and trade, thus Ukraine's SMEs need to raise their capacities and competitiveness sufficiently to enter foreign markets and in particular fully benefit from Deep and Comprehensive Free Trade Area with the EU.

The proposed action will support these goals through two activity domains:

1) strengthening sustainable policy frameworks and business support ecosystem at national and local levels, with specific focus on SMEs. The behavioural and institutional changes enabled by targeted technical assistance will help to solidify economic strategic planning capabilities and G2B² digital trends in Ukraine, and will also support institutional reform at the national level. Better economic and institutional integration of Ukraine into the EU business networks and programmes will be ensured. The local activities will accompany the decentralisation reform from the local economic development angle and will contribute to better integration of SME priorities into the local development agenda.

2) strengthening sustainable business competitiveness and internationalisation by engaging with SMEs, as well as business intermediary organisations in a targeted manner. The support actions will be designed to offer a high degree of flexibility, needed to quickly capture fast-evolving private sector development needs, especially for new product/services/business models development. The planned grant mechanisms will capture the needs of main private sector actors and provide direct assistance packages for innovations development, start-ups and scale-ups, and export-ready companies/clusters depending on their lifecycle needs. In the selection of SME to be supported, a detailed attention will be given to the sustainability track record of the company, and preference given to financing with a positive environmental and/or social impact, and projects which introduce principles of circular economy.

1 CONTEXT ANALYSIS

1.1 Context Description

Since the Revolution of Dignity Ukraine has been moving on the path towards closer political and economic cooperation with the EU, with EU-Ukraine Association Agreement (AA), including its Deep and Comprehensive Free Trade Area (DCFTA), serving as blueprint for reform efforts.

In 2014-2015 the Ukrainian GDP contracted by 16% due to difficult political circumstances and economic crisis, illegal annexation of the Crimean peninsula by Russia and an ongoing military conflict in the east. Since 2016, economy started to slowly recover (GDP grew by 2.4% in 2016, 2.5% in 2017, and 3.3% in 2018), largely on the back of household consumption and investments in fixed assets, and thanks to increasingly successful redirecting of trade from Russia to the EU. In 2018, the volume of remittances to Ukraine increased by 19% and reached a record level of \$14.4 billion³.

The economy heavily relies on its primary sector, and particularly agriculture and fisheries (10.2% of the value added in 2017), mining and utilities (10.5%); the weight of the manufacturing sector remains low at 12.4%. Similarly, exports are highly concentrated around agricultural commodities, steel and basic chemical products, although exports of services, driven chiefly by IT services, is growing fast. Social and environmental sustainability of businesses needs to be strengthened.

DCFTA had a clearly positive effect on Ukrainian exports to the EU, both in size and composition. Between 2013 and 2018, exports to the EU increased by 20% (and by 54% in fixed prices of 2013). The share of the EU among export destinations rose to 42%

² Government to Business

³ <https://www.worldbank.org/en/news/press-release/2019/04/08/record-high-remittances-sent-globally-in-2018>

from 27%. DCFTA had also a positive effect on the commodity composition of Ukraine's exports. The concentration of exports declined by 21% from 2013 to 2018 and the share of processed goods increased from 32% to 41%. New products appear in the export basket, even though their value (2% of exports to the EU) is still low. In general, these and other numbers obtained in the 2019 economic analysis of the free trade agreements done by the German Advisory Group for Ukraine, Moldova and Georgia, point to an overall positive effect of DCFTA and a closer economic integration of Ukraine with the EU.

Since 2015 Ukraine has undertaken a number of initiatives directly or indirectly benefiting SMEs: better regulation, more transparent public procurement, state inspections reform, export promotion, and adoption of the SME Development Strategy and Action Plan. In addition, Ukraine has become associated to the EU programme for Competitiveness of Small and Medium-sized Enterprises (COSME) and to Horizon 2020. Over the last few years, Ukraine has gained additional points to take 71st place in 2019 World Bank Doing Business ranking (up from 142nd in 2010) and further progress is expected shortly. Institutional state support to SMEs is nascent, but Export Promotion Office (now a state-owned enterprise evolved from a donor-funded project), just established National Start-up Fund, as well as SME Development Office (project-based) could be building blocks of a more streamlined and consolidated support infrastructure.

Recent presidential and parliamentary elections have opened a new policy-making cycle and a window of opportunity to position SME sector as the driver of Ukrainian growth and economic diversification. Therefore, it is the right time to launch the proposed action.

1.2 Policy Framework (Global, EU)

The key reference documents in the EU for the proposed action are: (i) AA-DCFTA; (ii) The Small Business Act for Europe (SBA), and (iii) a renewed EU Industrial Policy Strategy 'Investing in a smart, innovative and sustainable Industry'.

The AA entails the implementation of profound reforms by the Government of Ukraine, including in the economic and trade development domains. The agreement provides for an enhanced cooperation agenda between the EU and Ukraine in the improvement of the business and investment climate, and development of SMEs. In its Title V Chapter 10, the AA stipulates that: i) the Parties shall develop and strengthen their cooperation on industrial and enterprise policy, thereby improving the business environment for all economic operators, but with particular emphasis on SMEs; ii) the Parties shall cooperate in order to implement strategies for SME development, achieve greater competitiveness, simplify regulations, encourage innovation, support export promotion activities and facilitate modernization and restructuring of both Ukrainian and EU industry in certain sectors.

The SBA is an overarching framework for the EU policy on SMEs. Its ten principles on SME policy and support can be grouped into four priority areas: promoting entrepreneurship, reducing regulatory burden, access to finance, and access to markets and internationalization. These principles have been transposed into the Ukraine's SME Development Strategy 2020, making the first step towards integration of the EU policy framework into the national system.

A Renewed EU Industrial Policy Strategy aims at empowering European industries to continue delivering sustainable growth and jobs, and become world leaders in innovation, digitisation and decarbonisation.

The proposed action contributes to the implementation of the EU Eastern Partnership 2020 deliverables, such as Deliverable 4: Regulatory environment and SMEs development; 6: New job opportunities at local and regional level; and 8: Trade and DCFTA implementation. It is also directly linked to the 'Economic development and market opportunities' objectives of the Single Support Framework for EU support to Ukraine 2018-2020. Many of them will still be valid beyond 2020, since, for example, legislation and regulatory framework in Ukraine will continue to be progressively aligned with EU standards, and Ukrainian public administration will need additional support to be fully capable to implement them in practice.

The action is part of the broader EU economic intervention in Ukraine which, through both macroeconomic and microeconomic strategies, influences the economic environment. Macroeconomic interventions include, on top of the four operations of Macro-Financial Assistance programmes, which have disbursed since 2014 some EUR 3.31 billion in conditional loans on the back of IMF programmes, a number of general and sectoral budget support operations, as well as the provision of technical expertise in pursuing regulatory reforms in Public Finance Management and Public Sector Reform more generally. The proposed action will build on the progress of wider public sector reforms in the country, and will provide an opportunity for a stronger engagement on private sector/SME development front.

1.3 Public Policy Analysis of the partner country/region

Since 2015, the main public policy priorities were driven by the Strategy for Sustainable Development "Ukraine 2020" which focused on eight priority reforms, including Deregulation and Development of Entrepreneurship. The ambition to position Ukraine into the Top 30 in the ease of Doing Business rating, and in Top 40 in the global competitiveness index was formalised as the key Government KPIs for the mid-term. As of 2019, there is very modest progress in this regard.

Decentralisation and State Governance reform was also prioritised by Ukraine 2020 strategy. So far the decentralisation reform has already brought a significant irreversible progress on territorial-administrative reform in terms of amalgamation of communities. This has increased the level of income and autonomy of local budgets, thus creating incentives to support local economic development to increase local tax base. As a part of this reform, Ukraine is reforming the existing centres for administrative service provision which are offering a range of administrative services for both citizens and business. The EU support (U-LEAD project) has built capacities of local authorities to perform their new responsibilities, and has a component on attracting investment and local economic development, which is a good base for further progress in this area through the proposed action.

There are plenty of horizontal and sectoral strategic policy papers, defining priorities for the national export development, SME support, regional and cross-border cooperation development, innovation and hi-tech industries support.

The Export Strategy of Ukraine (Strategic Trade Development Roadmap (2017 - 2021) aims to orient Ukraine's trade development and envisions moving Ukraine into

"knowledge- and innovation-based exports for sustainable development and success in global markets". The Strategy has three objectives: (a) to create an enabling environment that stimulates trade and innovation for diversified exports; (b) to develop business and trade support services that improve the competitiveness of enterprises, in particular SMEs; and (c) to strengthen the skills and competencies that enterprises, in particular SMEs, require to engage in international trade. Based on considerations related to potential for innovation, SME development, and global demands, the strategy defines a list of seven priority sectors for extensive support. These are: (1) ICT, (2) creative services, (3) tourism, (4) aircraft repair and maintenance, (5) aerospace and aviation parts, (6) machinery, (7) food and beverages. Efforts have been made to design robust sub-sector development plans for each of the priority sectors, and define key implementation measures. The International Trade Council and the Export Promotion Office were established as mandated institutions to steer the trade priorities and their implementation.

The Strategy for Small and Medium-sized Enterprise Development in Ukraine until 2020 and its accompanying Action Plan envisage about 30 actions grouped along six priority directions: (1) Creating favourable environment for SME development; (2) Improving SME access to finance; (3) Simplifying tax administration for SMEs; (4) Promoting entrepreneurial culture and developing entrepreneurial skills; (5) Promoting SME export/internationalisation; and (6) Improving competitiveness and SME innovation potential. The SME Development Office was set up with EU support in October 2018 to help implement these priorities and ensure donor and interagency coordination.

The industrial development and innovation support priorities have been widely debated, but not formally approved as of today. Overall, there is about a hundred horizontal and sectoral strategies relevant for private sector/SME development. Across such web of documents, the need for consolidation and prioritization is clear. In this respect, the Public Administration Reform (PAR) is relevant to improve the policy analysis and strategic planning, and facilitate an overall coordination and streamlining of the Government activity.

Since most of the strategies were developed before the adoption of 2030 Agenda and Sustainable Development Goals (SDGs), SDG targets adapted for Ukraine have only partially been incorporated into Ukrainian government policies⁴.

1.4 Stakeholder analysis

At the central government level, the main stakeholder is the Ministry of Economic Development, Trade and Agriculture (MEDTA) which is formally in charge of SME development, but also of export promotion, industrial policy, public procurement, and technical regulations. MEDTA supervises Export Promotion Office and SME Development Office, and is responsible for mainstreaming the EU COSME programme instruments in Ukraine. Other stakeholders at the central level include the Ministry of Finance (supervising National Start-up Fund), Ministry of Science and Education (in charge of innovation policy and of mainstreaming EU research and innovation programmes (currently Horizon2020), Ministry of Communities and Territories

⁴ <http://www.ua.undp.org/content/ukraine/en/home/library/sustainable-development-report/sdg-goals-ua-govt-strategies-summary.html>

Development (in charge of decentralisation reform) and the Ministry of Digital Transformation.

MEDTA coordinates the work of other ministries on the implementation of the SME Development Strategy and should play the role of SME advocate vis-a-vis other central authorities, to promote SME-friendly policies and regulations. Across the government, common vision is needed on the key role of SMEs in economic growth, sectoral and geographical diversification of economic activity, productivity and innovation growth, coupled with common understanding of the heterogeneity of the sector and the needs and potential of its different segments.

SME support agencies at the central level include: Export Promotion Office (state enterprise), National Start-up Fund (state enterprise), SME Development Office (project-based). These are nascent organisations with relatively limited resources, at very different stages of maturity (EPO of the longest tenure), still searching for sustainable business model where they can add most value and lacking regional/local presence. Business Ombudsman is a valued recourse for business in case of problems with regulations or authorities, even though it still has not been formalised as a state institution.

Local authorities (especially in amalgamated communities) and their associations become very important stakeholders due to the decentralisation progress. They have gained strong incentives to develop local business to increase their local tax base and be able to fulfil their obligations and demonstrate tangible economic and social benefits to citizens. Association of Ukrainian Cities is the major association which advocates for the interests of local government and helps its members with local economic development, including support to SMEs.

Private sector, its associations and clusters⁵ will be the main beneficiaries of the Action. Proactive and vocal business intermediary organisations (BIOs)⁶, promoting responsible business behaviour and business integrity principles, will be engaged into cooperation. For example, the Union of Ukrainian Entrepreneurs (SUP) is a young vibrant association with over 650 members which works to protect SME interests and support a favourable business environment in Ukraine.

1.5 Problem analysis/priority areas for support

In defining priority areas for support, it is important to remember how heterogeneous the SME⁷ landscape in Ukraine is: out of the 1.57 million companies in 2017, micro companies represented 95.9% of the total (small: 3.3%; medium: 0.6%; large: 0.2%). While micro companies are numerous, their share in national value added (roughly 15%) and total employment (roughly 35%) is proportionally limited and productivity

⁵ Clusters are defined as groups of firms, related economic actors, and institutions that are located near each other and have reached a sufficient scale to develop specialised expertise, services, resources, suppliers and skills.

⁶ Business intermediary organizations (BIOs) include business membership and business support organisations.

⁷ The Ukrainian taxonomy, also used by the OECD and adopted here, follows the EU taxonomy on the staff count criteria only. The EU taxonomy: Large (≥ 250 staff and $> \text{EUR } 50\text{M}$ turnover or $> \text{EUR } 43\text{M}$ balance sheet total); Medium (< 250 staff and $\leq \text{EUR } 50\text{M}$ turnover or $\leq \text{EUR } 43\text{M}$ balance sheet total); Small (< 50 staff and $\leq \text{EUR } 10\text{M}$ turnover or $\leq \text{EUR } 10\text{M}$ balance sheet total); Micro (< 10 staff and $\leq \text{EUR } 2\text{M}$ turnover or $\leq \text{EUR } 2\text{M}$ balance sheet total). SMEs include all companies except "Large". Source: National Statistic Agency (UkrStat); OECD SBA Assessment 2019

low. Small and medium companies (together 3.9% of the total) contribute around 32% of value added and 26% of total employment. Together, micro, small and medium companies in Ukraine account for 47% of value added and 61% of employment, lower than the respective EU averages of 56% and 67%.

The above data show that not all SMEs contribute equally to growth and job creation. Depending on the objective to be achieved, different SME segments must/must not be targeted. The majority of SMEs have no ambition to grow their business. In reality, relatively few high-growth innovative companies create the majority of jobs: estimated 3-6% of companies with 10 or more employees create between a third and a half of jobs in Europe. The target groups will be carefully selected for different activity streams in the proposed action to maximise its development potential.

The proposed action aims to create incentives for SME growth and investments. It will build on previous EU4Business programmes, and will also be structured along the EU4Business strategic directions/policy areas, in the same way as they are defined for the overall private sector portfolio in the Eastern Partnership region. The action will take into account lessons learnt (see section 3 below), and seek synergies with other EU programmes in Ukraine, as well as with EU-wide programmes succeeding COSME and Horizon2020, if Ukraine joins them.

However, direct support measures and tools widely used in the EU Member States cannot always be simply transposed to Ukraine because the scale of available financial support is not comparable. Even though EU has devoted substantial funds to help develop the Ukrainian SME sector (EUR 156 million under EU4Business in years 2009-2017), the figures pale compared to allocations for "Competitiveness of SMEs" theme under European Structural and Investment Funds only in the years 2014-2020 (for example, much smaller Lithuania was allocated EUR 1.4 billion and Poland EUR 14 billion). Therefore, it's necessary to look for more innovative tools to achieve similar results with smaller funding; focus rather on improving availability and quality of services by BIOs than on direct support to SMEs; and also consider ways to leverage additional funding sources such as substantial remittances from labour migrants which may be turned into business investments in local communities.

With regards to specific priority areas (structured along the EU4Business strategic pillars):

Pillar 1. Improving Access to Finance

Ukraine continues to be a capital-scarce and macro-economically instable country, this leads towards high financing costs. While international donors contribute to ease financial constraints by injecting grants or guarantees into the credit system, such mechanism has not always given optimal results. While this action will not focus on access to finance per se, it will accompany the additionality and impact of (ongoing and future) EU support to the credit market via grants or financial instruments. At the same time, within the scope of the action a few small grant/ voucher schemes will be foreseen for specific purposes, where, for example, microenterprise or small business will be set up/expanded through a matching grant with the migrant capital; or when there is likelihood of a new market creation by supporting a business innovation or a digital solution. The full set of criteria will be developed at the contracting stage.

Pillar 2. Strengthening Policy and Regulatory Frameworks

Improved regulatory and operational environment will benefit all business, but especially SMEs whose transaction costs to comply are proportionally higher than for large business. Despite some tangible improvements facilitated by the deregulation and state inspections reform in recent years, the regulatory environment needs further mainstreaming to improve the doing business conditions (and effectively increase Ukraine's WB/Doing Business rating as the main benchmark for attracting investments). So far the Government focused on deregulation by means of cancelling the outdated and/or illegal acts, but little new smart regulation has been introduced, especially at the primary legislation level. The responsible institutions in charge of SME policymaking and implementation need to be further strengthened to maintain regular dialogue with the private sector, advocate for its interests and ensure an effective all-of-Government coordination and vision for the SME sector. At local level, there are great incentives for local economic development created by decentralisation, but the capacities to shape up the local business climate and business support measures, including for mobilising remittances, is quite low. Therefore, targeted technical assistance, coupled with small matching grants for priority projects, would be in great demand, in particular for leveraging migrant capital and other alternative investment, where this is feasible.

Pillar 3. Improve Knowledge Base and Business Skills

Numerous business consultancy programmes have been provided for Ukrainian SMEs, and there is significant knowledge and understanding of the situation and needs of the private sector to date. The donor projects were complemented by local initiatives, as a result of which many consulting centres were launched providing business advice and training to businesses. However, a comprehensive picture of the country-wide capacities in this regard, as well as quality parameters and costs attached to such services are missing. In addition, the recent SME surveys show that many of the traditional business services need to be revisited⁸ and fine-tuned in order to provide more tailor-made services and serve the innovation- and competitiveness development needs in the most efficient and flexible way.

Pillar 4. Access to Markets and Internationalization

Companies that export and are part of global value chains are more competitive, more innovative, and more likely to grow. In addition, exporting and joining global value chains can help Ukrainian companies to raise profitability and retain workers, which in turn will help address the issue of growing labour migration. But SMEs need to raise their capacities and competitiveness sufficiently to enter foreign markets. While the DCFTA opens up opportunities, Ukrainian companies need to comply with EU standards and product requirements. Finding business partners abroad is also one of the biggest barriers preventing SMEs from going international. In 2018 24% of Ukrainian exporters faced obstacles when trading across border, the main ones being: inadequate quality of transport infrastructure, Ukraine's unpredictable trade policy, excessive bureaucracy at customs, and large number of permits required to export. Therefore, there is a need to further develop export capacities of the most promising and export-ready SMEs from sectors high up the value-chain and with growth and job-creation

⁸ The EU4 Business "Investing in SMEs in the Eastern partnership" Ukraine report 2019 contains a survey of local SMEs indicating that "some SMEs believe that [general] consultancy services are no longer as helpful" [...]

potential, and facilitate their partnerships abroad. In addition, there is a need to support SMEs in complying with the EU technical regulations and quality standards, and engaging with the relevant actors for more efficient trade facilitation.

The above considerations, as well as lessons learnt and potential complementarities with other initiatives inform the choice of priority areas, structure of the action and its intended target groups as detailed in section 4 below. Given that sustainability is at the core of the renewed EU Industrial Policy Strategy, in the selection of SME to be supported, detailed attention will be given to the sustainability track record of the companies, giving preference to the companies with a positive environmental and social impact.

2 RISKS AND ASSUMPTIONS

Risks	Risk level (H/M/L)	Mitigating measures
Lack of progress on key reforms.	M	Continuous policy dialogue and monitoring of the security situation and macroeconomic indicators; enhanced cooperation with new Parliament and Government to keep on structural reforms implementation.
The new Government of Ukraine fails to indicate a clear economic development strategic direction and stick to it.	M	Continuous policy dialogue to ensure that new policy directions are well-defined and duly taken into account in the implementation of the programme.
Decentralisation process is stalled with revert trends of revenue and authority centralisation.	M	Continuous policy dialogue and cooperation with Ukrainian authorities at all levels to strengthen decentralisation processes; increased support to local economic initiatives.
SME support is not a priority for the new Government	L	Increased awareness-raising activities on the role of SMEs in the economy; coordinated engagement with other donors, civil society and private sector to advocate for small business development.
Ukraine discontinues participation in the EU programmes.	L	Continuous policy dialogue and awareness-raising about benefits and value added of EU networks.
Private sector (SMEs and business intermediary organisations) are not willing to engage into the programme.	L	Robust communication and awareness-raising activities; sufficient level of flexibility in the design of the programme to respond to emerging and ad hoc private sector demands and support needs.
Assumptions		
<ul style="list-style-type: none"> • Overall political situation in the country is stable; Government is committed to maintaining macroeconomic and financial stability. • Government is committed to support economic integration with EU. 		

3 LESSONS LEARNT AND COMPLEMENTARITY

3.1 Lessons learnt

Past and ongoing projects, policy dialogue on economic, financial and trade cooperation in Ukraine has led to the following lessons learnt:

- Need to more clearly define target SME segments since the term "SME" covers a wide range of enterprises who contribute differently to the economy and need different support tools, focus on SMEs with growth ambition and potential to scale up;
- Better tailoring of funding modalities to the nature of the action and needs of the beneficiaries, ongoing consultations in the context of rapidly changing business environment are helpful to better align projects activities and outputs with the priorities and the most urgent needs of beneficiaries; more flexibility to meet changing needs;
- Under conditions of ongoing decentralisation, legal and regulatory changes made in the area of private sector/SME development at the national level should also foresee the take-up and adoption at regional and local level, therefore, a local programming component should be foreseen to support effective knowledge dissemination and take-up of innovative economic development models;
- Technical expertise provided to the Ukrainian public administration in the legislative and regulatory environment should aim to rationalize, consolidate and prioritize numerous policies and development strategies, at times resting on weak empirical research. At the same time, effective implementation actions should be foreseen where priorities and expected results are clear to avoid endless strategizing;
- Reserved funding for pilots: projects that foresee the establishment of entities/piloting programmes should be complemented with some funds to test capacity developed in practice without the need to source the funds at a later stage;
- Many of the traditional business services provided by the donor community over the last few years need to be revisited, as well as the way they are delivered. In particular, general business consultancies are less in demand, and need to be adapted to provide more tailor-made services and growth incentives, and ensure their sustainability;
- Most of the business services provided across the country can be classified under few headings (one-on-one business consultancies; general trainings and seminars; B2B⁹ events; B2C¹⁰ events; SMEs study trips; participation to international fairs, etc.). As there is a wide discrepancy in the quality levels and costs attached to similar services, there is a need to create quality and price standards in line with national and international market levels. At the same time, it's important to ensure enough space and flexibility for provision of innovative/non-standard services in the rapidly changing business environment and global business development tendencies;
- The vast majority of Ukrainian SMEs are interested in loans and guarantees/hedges covering loans up to a maximum corresponding value of EUR 250,000 in UAH equivalent – with most requests being within the 100,000 threshold, which should be available within a reasonable timeframe. The financial instruments provided with EU support need to be further fine-tuned to serve the demand for smaller loans and

⁹ Business-to-Business

¹⁰ Business-to-Customer

enhance the disbursement levels of the funding backlogs accumulated by IFIs under the EU access to finance programmes;

- Well-targeted and organized communication ensuring high EU recognition and visibility are dependent on allocation of dedicated and adequate budget; and availability of communication experts that work with technical experts on popularizing EU4Business benefits and concrete results among target audiences.

The above lessons learnt, obtained through the recent evaluation of the EU4Business bilateral programming, SME surveys run by the EU4Business secretariat and own research and analysis of the private sector/SME development programmes across the country will be addressed in the initial design of the action, and will be further defined at contracting stage (e.g. SME segments to be targeted through specific activities).

3.2 Complementarity, synergy and donor co-ordination

Complementarity and synergies will be sought with other EU programmes already running in Ukraine, primarily those having an impact on the business environment in the framework of pan-European and EU4Business regional initiatives, coordinated with the other relevant EU projects, as well as the initiatives provided by major international donors and IFIs.

Pan-European and EU4Business regional programmes

Currently, Ukraine has access (apart from financial instruments) to the EU framework Programme for Competitiveness of SMEs (COSME) which co-funds: Enterprise Europe Network, the world's largest network of business support organisations whose goal is to help SMEs expand abroad and become more competitive and innovative; Erasmus for Young Entrepreneurs, which supports newly-established or potential entrepreneurs to learn from more experienced foreign peers; collaboration, capacity building, and internationalization of clusters and their SME members; IPR¹¹ helpdesks for companies trading with China, South-East Asia and Latin America. All these infrastructures are likely to remain under the COSME successor programme in 2021-2027, which Ukraine is likely to join, and can be further leveraged into the development programming in Ukraine to fill the gaps and complement existing support.

Horizon 2020 had set 20% budgetary target for SME beneficiaries to support their leadership in enabling and industrial technologies. Horizon2020 supports also development of pan-European network of Digital Innovation Hubs, which help SMEs with digital transformation. Horizon Europe as the successor programme in 2021-2027 is likely to maintain innovative SME support tools and continue to be of interest to Ukrainian hi-tech SME segments.

Within the regional EU4Business portfolio, the most relevant is the Mayors for Economic Growth (M4EG) initiative which supports municipalities in Eastern Partnership countries to more actively facilitate local economic development through capacity building, peer-learning, and (limited) grants to implement projects. Most of other ongoing or planned initiatives focus on access to finance instruments, which will remain very relevant for maximising the impact of other private sector related activities in the country.

¹¹ Intellectual Property Rights

Other relevant EU projects

EU4PAR, e-governance and anti-corruption initiatives provided by the EU will set the ground for more robust and holistic strategic planning, policy development and coordination, human resource management, administrative service delivery across the Government, including the use of digital tools. These will be important building blocks for advancing the regulatory and economic policymaking at new quality level and engaging with civil service and state institutions in a more professional way.

For local programming, the expertise accumulated by U-LEAD and Support to the East initiatives will provide useful insights on how to better support local economic development and leverage the SME interests into local initiatives.

The action will also be complementary to the new EU support to agriculture and small farm development in Ukraine which will boost the agri-potential of Ukraine and mitigate further depopulation of rural areas by strengthening of target agricultural value chains and securing the access of small farms to financing.

Other donors and IFIs programming

Among bilateral donors, USAID is most active in private sector and business competitiveness support. The Competitive Economy Programme (USD 45 million, 2018-2023) aims to encourage start-up businesses and SMEs, increase domestic market competition, and support the competitiveness of Ukrainian firms in international markets. Other donor initiatives, notably by Global Affairs Canada, UK Aid, Swedish and Swiss Cooperation Programmes, are of smaller scale and of complementary nature.

Among IFIs, EBRD, EIB and KfW carry out significant programmes targeted at SMEs and providing combined technical assistance and financial instruments to increase their productivity and competitiveness. The IFC and World Bank also support SME-focused investment climate and financial sector development programmes.

Donor coordination

Coordination on private sector development was limited to quarterly or semi-annual meetings between MEDTA and major donors largely for exchange of information or discussion of Ministry priorities and funding needs. The EU has played the main coordination role until October 2018 when the SME Development Office was established. Among other tasks, the Office is assigned by the Ministry with the inter-ministerial and donor coordination mandate, which foresees the creation of the high-level donor coordination committee on SME programming and administration of the coordination agenda between the Ministry and major donors. While SMEDO is designing the engagement parameters, the EU Delegation continues to have informal, ad hoc meetings with peer agencies for cross-check of operational priorities and alignment of efforts in the private sector development domain.

4 DESCRIPTION OF THE ACTION

4.1 Overall objective, specific objective(s), expected outputs and indicative activities

The overall objective of the action is to contribute to sustainable and equitable economic growth in Ukraine thereby ensuring better productivity, higher employment, and poverty reduction.

Specific objectives of the action are:

1. Strengthen sustainable policy frameworks and business support ecosystem at national and local levels, with specific focus on SMEs;
2. Enhance sustainable entrepreneurship and business competitiveness and internationalisation, especially by SMEs.

Expected outputs of the action:

- 1.1 Improved economic policymaking and implementation actions of national authorities, with a focus on SMEs;
 - 1.2 Effective inclusion of Ukraine into the pan-European business-support programming (under MFF 2021-2027);
 - 1.3 Strengthened regulatory and operational frameworks for SMEs at local level;
 - 1.4 Innovative business support measures at local level (developed via selected priority projects).
-
- 2.1 Innovative products/services/business models by SMEs, including use of digital tools (developed via selected priority projects);
 - 2.2 Improved delivery of business advisory services by BIOs;
 - 2.3 Effective business integration and trade links in European and global markets;
 - 2.4 Enhanced clusters management practices and strategic connections.

Tentative indicators for overall and specific objectives, and for each of the outputs are provided in Appendix (as part of draft Logical Framework Matrix).

Component 1: Strengthening sustainable policy frameworks and business support ecosystem at national and local levels, with specific focus on SMEs.

Further improvements in business and investment climate, regulatory and operational environment will help to sustain economic reforms undertaken since the Revolution of Dignity, and reinforce Ukraine's transition to a fully-functioning market economy based on SMEs. Sound economic policymaking will enable strengthening of the private sector, notably SMEs, and support its further integration into the EU market, as foreseen by the AA/DCFTA. Therefore, the main objective of this component will be to support the Ukrainian institutions responsible for the economic policymaking and policies implementation, and to deliver technical assistance and grants aimed at achieving concrete results in business climate and business services improvements at national and local levels.

Activities under this component will focus on the following:

- 1.1. Support to economic policymaking and implementation actions of national authorities, with a focus on SMEs

The assistance will include further analysis and development of best economic policy options, aligned with the EU and international best practices, enhancement of regulatory impact assessment tools, and other measures aimed at improvement of legislative, institutional and operational environment for business, including systemic

recommendations issued by the Business Ombudsman Council¹². Efforts will be made to facilitate greater use of digital tools and data contributing to the transparency, integrity and predictability of the business environment. In this regard, full compatibility and cross-linkages with other horizontal or sectoral e-governance or digitalisation initiatives will be ensured.

1.2. Support to inclusion of Ukraine into the pan-European business-support programming

The activities will be tailored to run concurrently with 1.1 for easy and coherent integration of EU policies and principles into the national policy framework. Targeted assistance will be provided for relevant Government authorities to fully access the new pan-European business-related programmes under the MFF 2021-2027 (successors of COSME and H2020). The relevant implementation structures, such as new Enterprise Europe Network consortia in Ukraine, will be facilitated for Ukraine's closer and more strategic engagement with the EU business support infrastructure. Efforts will be made to ensure that the new consortia can better represent the business/innovation capacities of Ukraine and provide a good geographical coverage/access points given the size of the country.

1.3. Support to regulatory and operational frameworks for SMEs at local level

A set of measures will be envisioned for localizing and streamlining national regulatory and business support tools and at integrating SME priorities into the local development agenda. Specific focus will be made on exploring the preconditions for leveraging remittances into local communities and developing the necessary incentives to convince the labour migrants to re-invest back home. Although investment is one of the least common economic activities among migrants, such investments generate significant contributions to the local economy and generate additional jobs- In most cases they are formalised and contribute to the tax system and can create a stable income for migrant households.¹³

1.4. Priority projects to develop innovative business support measures at local level

Technical assistance under 1.3 will be reinforced by a number of concrete business support projects, identified as local priorities and selected on a competitive basis. For this purpose, a pool of grants will be available and would be distributed on a competitive basis among local partners, who will meet the award criteria (to be defined at a later stage). Such local business support projects would aim to develop innovative business support measures and improve local business support service delivery, contribute to better integration of small business interests into the local policymaking and strengthen the public-policy dialogue at the primary level. For more innovative local employment and business support incentives, and to prevent further migration outflows, a series of pilot projects on leveraging remittances may be tested with most advanced and willing communities in various parts of the country. Such initiatives must be feasible in terms of productivity and employment creation, as well as have good prospects of scalability, for example through the Association of Ukrainian Cities, which can serve as best models and experience aggregator for such innovative local economic

¹² <https://boi.org.ua/en/recommendations/>

¹³ https://publications.iom.int/system/files/pdf/manual_de_remesas_en_0.pdf

development scheme, and further promote it among its 500+ municipal members. In addition, given the pilot nature of the scheme, different implementation and management modalities may be tested to evaluate the effectiveness, efficiency, and scalability potential of each, including for example Moldovan ‘PARE 1+1’-inspired approach.

Component 2: Enhancing sustainable entrepreneurship and business competitiveness and internationalisation, especially by SMEs.

This component will enable direct support and advisory services to the SME sectors and clusters, and also individual SME segments with high potential of innovative products/services/business models development. Building on the lessons learned from the activities provided via the EU4Business Support Centres programme in 2016-2020, and of similar business support services provided by other donors and IFIs in Ukraine, this component will also help to further enhance the capacities of a wide spectrum of BIOs to develop and deliver high-quality traditional, but also innovative/tailored business consultancy services to those Ukrainian SMEs and industries with the highest potential for economic integration with the EU. While Component 1 targets authorities at national and local level to build and improve public business support system, Component 2 aims to supplement it by: reinforcing capacities and services of BIOs (which are indispensable part of business support framework); and by providing services to SMEs until the public business support system at national and local level can fill the gap.

Activities under this component will focus on the following:

2.1. Priority projects to develop innovative products/services/business models by SMEs, including use of digital tools

A pool of grants (grant vouchers) will be available and distributed on a competitive basis among the SMEs (and/or their sectoral associations where appropriate for effect of scale). The award criteria will be defined at a later stage to reflect the emerging productivity growth ideas or digitalisation needs. Such projects will enable the identification and initial support to innovative products/services/business models with a potential for growth and scaling up domestically and internationally. While grants under 1.4 aim to assist public authorities at local level to support SME development frameworks in their locality, answering to their local business needs, activities under 2.1 aim to support innovative and high-potential SMEs directly or via their associations.

2.2. Support to delivery of business advisory services by BIOs

Lessons learnt from the previous set of programmes will allow establishing a list of priority services and priority industries on the basis of their value-added potential, scalability, existing and potential economic linkages with other sectors and potential to join global value chains. Following the initial needs assessment, we will draw up a list of training needs, ranging from generic/universal ones to more tailored/sector-specific, also taking into account needs of different segments of SMEs, or gender-specific needs, as well as value-added of EU support (SME needs either not served by private consulting market or not affordable for SMEs). The generic types of advisory services will be procured from BIOs on rotating basis, while ensuring the best quality and price standards. The innovative/tailored business support needs with relatively

niche/region/sector-specific demand will be serviced through open calls for BIOs/private consultants via grant vouchers, including in support of innovations developed under 2.1. Innovative cost-effective delivery methods (e.g. group consulting in peer group instead of one-on-one consulting, e-learning, combinations thereof) will be encouraged and their relative effectiveness tested to develop recommendations. SMEs benefiting from advisory services should participate in costs-sharing. Indirect outcome of the activity will be strengthening of BIOs and private consulting market offering to SMEs affordable and high-quality services across all regions of Ukraine.

2.3 Support to business integration and trade links in European and global markets

Targeted activities will be designed to encourage more SMEs to overcome barriers to access European and global markets and to support exporting SMEs. While participation in trade fairs, information and training, as well as market research activities could be continued or expanded in complement to those offered by the Enterprise Europe Network, additional services to ensure compliance with DCFTA requirements (like support for quality standards and/or IPR enforcement) could be offered. Activities will target SMEs with potential and ambition to expand to other markets either by exporting directly or joining international value chains as (sub)suppliers. Activities should be linked to support under 2.2 and could target SMEs in regions with weaker links with European and global markets, and could also include facilitating e-commerce and business links between East-West of Ukraine.

2.4 Support to clusters management practices and strategic connections

SME participation in clusters leads to more innovation and growth, and clusters can more easily engage in cross-sectoral and cross-border collaboration, helping SMEs to internationalise. The existing/nascent Ukrainian clusters with a good growth potential will be identified and supported for domestic expansion and/or internationalisation, including under EU programmes, if they're deemed export-ready. The activities will comprise capacity-building to strengthen cluster management practices and facilitate strategic partnerships for the selected clusters to increase their growth potential.

4.2 Intervention logic

The action will perform under the EU4Business umbrella and will include two major activity domains which will directly contribute to sustainable and equitable economic growth in Ukraine, resulting in better productivity, higher employment and effective poverty reduction.

Component 1 will focus on strengthening sustainable policy frameworks and business support ecosystem at national and local levels, with specific focus on SMEs. The behavioural and institutional changes enabled under activity stream 1.1 will run in parallel and will be highly complementary to the results envisioned under the EU4PAR and e-governance initiatives, helping to solidify economic strategic planning capabilities and G2B digital trends in Ukraine. Activity stream 1.2 will support better economic and institutional integration of Ukraine into the EU networks and programmes. The local activities (1.3 and 1.4) will support the decentralisation reform from the local economic development angle and will complement the U-LEAD and M4EG projects in support of local initiatives. For more innovative local employment and business support incentives, and to prevent further migration outflows, the programme may test some remittances mobilisation pilots as part of 1.4.

Component 2 will target the private sector and will encompass several activity streams which will directly contribute to sustainable business competitiveness and internationalisation by engaging with SMEs largely at sector level and individually (where justified, since this is more costly and less effective for economy of scale), as well as BIOs which may include various types of business associations on condition of their proactive approach and adherence to business integrity standards. The support actions will be designed to offer a high degree of flexibility, needed to quickly capture fast-evolving private sector development needs, especially for new product/services/business models development. Thus, the proposed separate activity streams (2.1-2.4) will capture the needs of main private sector actors and provide direct assistance packages for innovations development, start-ups and scale-ups, and export-ready companies/clusters depending on their lifecycle needs, paying attention to environmental and gender aspects in their operations which can ensure more sustainable and equitable growth. The support will be directed towards non-agricultural SMEs, as this specific segment will be serviced through another EU action (EU support to agriculture and small farm development in Ukraine).

4.3 Mainstreaming

The action will promote non-discrimination and gender equality by providing equal opportunities for decision-making, participation, and realisation of human and economic rights by men and women, while especially encouraging women-led SMEs.

Environmental aspects will be primarily addressed by promoting environment-friendly management and development practices with target SMEs and their associations. The policy advice provided to national and local policy makers will also include environmental, gender and social equality considerations.

The implementation actions will favour electronic communication tools and e-based/paperless systems, to reduce the consumption of paper and benefit the environment. Video-conferencing and other remote communication means for running capacity-building activities will be encouraged, where possible, to minimise the use of emissions associated with road and air travels.

The programme will promote good governance and anti-corruption principles and institutional cultures of openness, accountability and transparency, thus strengthening the values of a service-oriented administration based on transparent operating procedures and ethical norms and standards, as well as inclusive and evidence-based approaches to creating policies and legislative acts.

4.4 Contribution to SDGs

This intervention is relevant for the United Nations 2030 Agenda for Sustainable Development. It contributes primarily to the progressive achievement of SDGs 1: No poverty and 8: Decent work and economic growth, while also contributing to SDGs 9: Industry, Innovation and Infrastructure; 10: Reduced Inequality; 11: Sustainable Cities and Communities.

5 IMPLEMENTATION

5.1 Financing agreement

In order to implement this action, it is foreseen to conclude a financing agreement with Ukraine.

5.2 Indicative implementation period

The indicative operational implementation period of this action, during which the activities described in section 4 will be carried out and the corresponding contracts and agreements implemented, is **60 months** from the date of entry into force of the financing agreement.

Extensions of the implementation period may be agreed by the Commission's responsible authorising officer by amending this Decision and the relevant contracts and agreements.

5.3 Implementation modalities

The Commission will ensure that the EU appropriate rules and procedures for providing financing to third parties are respected, including review procedures, where appropriate, and compliance of the action with EU restrictive measures.

5.3.1 Procurement (direct management)

Procurement contract(s) will be concluded to support economic policymaking and implementation actions of national authorities, and encourage better Ukraine's inclusion into the pan-European business support programming (outputs 1.1. and 1.2 of Component 1).

5.3.2 Indirect management with entrusted entities

A part of this action, aimed at achievement of outputs 1.3-1.4 of Component 1, may be implemented in indirect management with an entity that will be selected by the Commission's services using the following criteria:

- extensive experience in providing technical assistance and administering grant schemes for local development
- strong local networks supportive of decentralisation process and local economic empowerment and entrepreneurship/SME development at a local level, which would be essential for implementation of the proposed activities.

The implementation entails providing technical assistance for local authorities and other relevant local level partners, and organisation and management of calls for proposals for local authorities and other eligible partners to implement a selection of local priority projects, inter alia attracting investments of migrant capital into microenterprises and small business in their home communities.

5.3.3 Indirect management with entrusted entities

Another part of this action, aimed at achievement of outputs 2.1-2.4 of Component 2, may be implemented in indirect management with either the same as in 5.3.2 or another entity which will be selected by the Commission's services using the following criteria:

- extensive experience of private sector development in transition economies, including innovation management, promotion of digital tools and business models, cluster support and value chains development
- experience of working with SMEs directly and via BIOs
- profound knowledge and technical expertise related to Free Trade Agreements implementation and various aspects of trade promotion and trade facilitation activities, including with a focus on sustainable, green growth.

The implementation will mainly include organisation and management of the calls of proposals for the SMEs and their associations, as well as BIOs, to help increase Ukraine's business competitiveness and internationalisation. Targeted technical assistance may also need to be provided to private sector partners.

5.3.4 Changes from indirect to direct management mode due to exceptional circumstances

If negotiations with the entity(ies), identified for implementation of outputs 1.3 -1.4 (as described in section 5.3.2 above) fail, that part of this action may be implemented in direct management in accordance with the implementation modality provided in section 5.3.1.

5.4 Scope of geographical eligibility for procurement and grants

The geographical eligibility in terms of place of establishment for participating in procurement and grant award procedures and in terms of origin of supplies purchased as established in the basic act and set out in the relevant contractual documents shall apply.

The Commission's authorising officer responsible may extend the geographical eligibility in accordance with Article 9(2)(b) of Regulation (EU) No 236/2014 on the basis of urgency or of unavailability of products and services in the markets of the countries concerned, or in other duly substantiated cases where the eligibility rules would make the realization of this action impossible or exceedingly difficult.

5.5 Indicative budget

	EU contribution (amount in EUR)	Indicative third party contribution
Component 1 composed of:	7 500 000	
- Procurement (direct management) – cf. section 5.3.1	4 000 000	
- Indirect management with partner TBD – cf. section 5.3.2	3 500 000	
Component 2 composed of:	12 000 000	
- Indirect management with partner TBD – cf. section 5.3.3	12 000 000	
Evaluation (cf. section 5.8) Audit/ Expenditure verification (cf. section 5.9)	500 000	N.A.
Communication and visibility (cf. section 5.10)	N.A.	N.A.
Total	20 000 000	

5.6 Organisational set-up and responsibilities

The EU Delegation will ensure coherence among all action components and involved stakeholders. It will carry out routine monitoring of the activities carried out by the contractors. The results indicators and targets will be reviewed on annual basis and revised, if appropriate, in line with the beneficiaries' needs and ambitions.

In order to ensure coordination between the action components and the numerous stakeholders, a Steering Committee, involving the Ministry of Economic Development, Trade and Agriculture of Ukraine, will be established to guide the action implementation. The Committee will also include representatives of the beneficiaries, the implementing partners and the EU Delegation, and may include also other stakeholders and donors. It will meet at least on semi-annual basis, to be agreed during the inaugural meeting of the partners of this action. This will be supplemented by regular meetings at component level.

5.7 Performance and Results monitoring and reporting

The day-to-day technical and financial monitoring of the implementation of this action will be a continuous process, and part of the implementing partners responsibilities. To this aim, the implementing partners shall establish a permanent internal, technical and financial monitoring system for the action and elaborate regular progress reports (not less than annual) and final reports. Every report shall provide an accurate account of implementation of the action, difficulties encountered, changes introduced, as well as

the degree of achievement of its results (outputs and direct outcomes) as measured by corresponding indicators, using as reference the Logframe matrix or the partners strategy.

SDGs indicators and, if applicable, any jointly agreed indicators as for instance per Joint Programming document should be taken into account.

Reports shall be laid out in such a way as to allow monitoring of the means envisaged and employed and of the budget details for the action. The final report, narrative and financial, will cover the entire period of the action implementation.

5.8 Evaluation

Having regard to the nature of the action, mid-term and final evaluations will be carried out for this action and/or its components via independent consultants contracted by the Commission.

The mid-term evaluation will be carried out for problem solving purposes, with particular attention to the level of expected results achievement and corrective measures in case of deviations or lack of effectiveness. The final evaluation will be carried out for accountability and learning purposes at various levels (including for policy revision), taking into account the fact that this is a large programme with a nationwide coverage and there are a few piloting elements attached to it.

The evaluation reports shall be shared with the partner country and other key stakeholders. The implementing partners and the Commission shall analyse the conclusions and recommendations of the evaluations and, where appropriate, in agreement with the partner country, jointly decide on the follow-up actions to be taken or any adjustments necessary, including, if indicated, the reorientation of the project.

Evaluation services may be contracted under a framework contract.

5.9 Audit

Without prejudice to the obligations applicable to contracts concluded for the implementation of this action, the Commission may, on the basis of a risk assessment, contract independent audits or expenditure verification assignments for one or several contracts or agreements.

It is foreseen that audit services may be contracted under a framework contract.

5.10 Communication and visibility

Communication and visibility of the EU is a legal obligation for all external actions funded by the EU.

This action shall contain communication and visibility measures which shall be based on a specific Communication and Visibility Plan of the Action, to be elaborated at the start of implementation.

In terms of legal obligations on communication and visibility, the measures shall be implemented by the Commission, the partner country (for instance, concerning the reforms supported through budget support), contractors, grant beneficiaries and/or

entrusted entities. Appropriate contractual obligations shall be included in, respectively, the financing agreement, procurement and grant contracts, and delegation agreements.

The Communication and Visibility Requirements for European Union External Action (or any succeeding document) shall be used to establish the Communication and Visibility Plan of the Action and the appropriate contractual obligations.

- Appendix 1: Glossary
- Appendix 2: Indicative Logframe Matrix (for Project Modality)

APPENDIX 1 – GLOSSARY

AA	Association Agreement between the EU and Ukraine
ATC	Amalgamated Territorial Communities or <i>Hromadas</i>
BIOs	Business Intermediary Organisations
BRDO	Better Regulation Delivery Office
CEP	Competitive Economy Program (US-funded)
CoM	Cabinet of Ministers of Ukraine
COSME	Competitiveness of Small and Medium-Sized Enterprises
DCFTA	Deep and Comprehensive Free Trade Area
DGs	Directorates General
EBA	European Business Association
EU	European Union
EUD	European Union Delegation
GDP	Gross Domestic Product
GoU	Government of Ukraine
ICT	Information and Communication Technologies
IFI	International Financial Institution
IPR	Intellectual Property Rights
MEDTA	Ministry of Economic Development, Trade and Agriculture of Ukraine
MCTD	Ministry of Communities and Territories Development
M4EG	Mayors for Economic Growth Programme (EU-funded)
NGO	Non-governmental Organisation
OECD	Organisation for Economic Cooperation and Development
PAR	Public Administration Reform
SBA	Small Business Act for Europe
SME	Small and Medium Enterprises
SUP	Union of Ukrainian Entrepreneurs
U-LEAD	Ukraine – Local Empowerment, Accountability and Development Programme (EU-funded)
UN	United Nations
WB	World Bank
WEE	Women's Economic Empowerment
WEF	World Economic Forum

APPENDIX 2 - INDICATIVE LOGFRAME MATRIX (FOR PROJECT MODALITY)

	Intervention logic	Indicators	Baselines (incl. reference year)	Targets (incl. reference year)	Sources and means of verification	Assumptions
Overall objective: Impact	Contribute to sustainable and equitable economic growth in Ukraine thereby ensuring better productivity, higher employment, and poverty reduction.	GDP annual growth rate	3% in 2019	Positive trend for the period 2021-2024	National statistics Reports prepared by IFIs (WB and UN data), Ukrainian Government, and EU services	<i>Not applicable</i>
		Unemployment rate	9.3% in 2019	At least 1% reduction of unemployment by 2024		
		Poverty headcount ratio at national poverty lines (% of population)	2.4 (2017)	At least 1% reduction by 2024		
Specific objective: Outcome	SO1) Strengthened sustainable policy ¹⁴ frameworks and business support ecosystem at national and local levels, with specific focus on SMEs	WB Doing Business rating	71 st place (2019)	Gradual improvement of rating annually throughout 2021-2024	National and regional statistics Reports prepared by IFIs, Ukrainian Government, and EU services Other donors reports National and local media reports	Overall political situation in the country is stable; Government is committed to maintaining macroeconomic and financial stability. Government is committed to support economic
		Existence of coherent and consolidated ¹⁵ economic policies and degree of their implementation (national level)	Over 100 policy documents relevant for private sector/SME development, many adopted in 2015-2016, , partial implementation	Gradual rationalisation and consolidation of national economic policies by 2024, in alignment with AA/DCFTA, adequate implementation		

¹⁴ Policy framework includes strategic documents, laws and by-laws.

¹⁵ Consolidation means smaller number, clearer hierarchy and better cross-linkages among economic policies and strategies.

		Contribution of SMEs into local ¹⁶ tax base (if possible, disaggregated by men- and women-led SMEs)	TBC	At least 10% increase in contributions	(especially on public-private dialogue)	reforms and continue economic integration with EU The private sector (SMEs and business intermediary organisations) are incentivised to participate in the programme.
		Evidence of public-private dialogue ¹⁷ mechanisms in policy-making	Weak and ineffective public-private dialogue	Regular and effective public-private dialogue in place		
	SO2) Enhanced sustainable entrepreneurship and business competitiveness and internationalisation, especially by SMEs	WEF Global Competitiveness Index	83 rd place (2018)	Gradual improvement of rating annually throughout 2021-2024		
		Percentage of client businesses involved into trade activities / trade activities with EU (where possible, disaggregated by men- and women-led SMEs)	TBC	At least 5% increase by 2024		
		Percentage of client companies reporting turnover growth (where possible, disaggregated by men- and women-led SMEs)	TBC	At least 5% increase by 2024		
		Percentage of client businesses reporting sustainable business models (with environmental and/or social effects)	TBC	At least 5% increase by 2024		

¹⁶ Local partners will be selected at a later stage based on agreed criteria.

¹⁷ As per OECD-DAC definition: all forms of interaction between the state and the public sector relating to the design of public policies. This interaction can be more or less institutionalised – investment councils, formal discussion forums, and informal social networks.

Outputs	1.1 Improved economic policymaking and implementation actions of national authorities, with a focus on SMEs	Number and nature of legislative and regulatory priorities/policies identified by the GoU for advancing the business environment	3 priorities being implemented as of 2019 (deregulation, risk-based inspections, SME support)	At least 5 priorities identified and addressed by 2024	National and regional statistics Reports prepared by IFIs, Ukrainian Government, and EU services	<ul style="list-style-type: none"> • Overall political situation in the country is stable; Government is committed to maintaining macroeconomic and financial stability. • Government is committed to support economic reforms and continue economic integration with EU • National and local authorities supportive of SMEs • Decentralisation reform continues • Justice sector reform is implemented • The private sector (SMEs and business intermediary organisations) are incentivised to participate in the
		Extent to which digital and open data solutions are applied in G2B relations	17 major tools used by businesses ¹⁸	New/consolidated G2B digital tools and solutions are in place and widely used	Other donors reports (CEP, U-LEAD) Reports and surveys prepared by independent think tanks and/or business associations (BRDO-SUP, EBA and others)	
		Level of competence and integrity of national economic policymaking and implementation institutions (Parliament, Government agencies and other relevant stakeholders)	Average level of competence and integrity; GoU private sector/SME support system nascent/ineffective	High level of competence and integrity; GoU private sector/SME support system in place and well-integrated into the GoU institutional ecosystem	Project(s) reports and surveys	
	1.2 Effective inclusion of Ukraine into the pan-European business	Level of participation of GoU agencies in EU programming committees	Ad hoc participation	Regular and active participation with EU peers		

¹⁸ inspections.gov.ua; prozorro.gov.ua; sbc.regulation.gov.ua; portal.pfu.gov.ua; cabinet.sfs.gov.ua; map.land.gov.ua; ngo.land.gov.ua; e.land.gov.ua; kap.minjust.gov.ua; online.minjust.gov.ua; dpvs.hsc.gov.ua; e-driver.hsc.gov.ua; e-services.dsns.gov.ua; e-dabi.gov.ua; my.gov.ua; eia.menr.gov.ua; usr.minjust.gov.ua

	support programming	Extent to which institutional partnerships/implementation consortia for pan-European programmes ensure business and innovation-support background and geographical balance (among them those reporting inclusion of WEE ¹⁹ priorities)	1 EEN consortium of 7 partners, with mostly research-related background; concentrated in Kyiv 3 EYE intermediary organisations in 3 regions	New partnerships/consortia with predominantly business and innovation-support background and geographical balance across the country		programme.
	1.3 Strengthened regulatory and operational frameworks for SMEs at local level	Municipal/regional Doing Business rating or similar surveys of small business perceptions	2019 data for target regions/cities	Improved ratings in selected regions/cities by 2024		
		Extent to which local policies, institutions and frameworks are responsive to SME needs, especially those led by women	Weak inclusion of SME needs into local economic development (LED) priorities	Strong local SME support measures and policies in place (including for women-led enterprises)		
	1.4 Innovative business support measures ²⁰ at local level (developed via priority projects)	Number of local projects implemented in selected regions/cities	No specific SME projects	At least 40 local projects (2 years x 1 call x at least 20 projects @up to 50 K each) - out of them at least 5 pilot projects on remittances	National and regional statistics Reports and surveys prepared by independent think tanks and/or business	

¹⁹ Women's Economic Empowerment

²⁰ Business support measures primarily include policy/regulatory decisions and business support services, but in well-justified cases may also envisage certain elements of business support infrastructure.

					associations (BRDO-SUP, EBA and others) Project(s) reports and surveys	
	Level of involvement of SMEs into the local economic development activities	TBC		At least 10% increase in participation by 2024		
2.1 Innovative products/services/business models by SMEs, including use of digital tools (developed via priority projects)	Number of projects implemented	0		At least 40 projects (2years x 2 calls/y x at least 10 projects @up to 10K each)	See above	
	Percentage of hi-tech/new industry oriented companies involved (disaggregated by men- and women-led SMEs)	0		At least 30%	See above	
2.2 Improved delivery of business advisory services by BIO ²¹ s	Number and type of BIOs involved in service delivery	15 EU4Business centres in 2019		At least 30 intermediaries (≈24 regional + 7 for NES ²² priority sectors)	See above	
	Number and quality of advisory services	TBC at the time of needs assessment		At least 10 generic packages; at least 5 innovative/tailored	See above	

²¹ Business intermediary organizations (BIO) include business membership and business support organisations.

²² National Export Strategy priority sectors: (1)ICT, (2)creative services, (3)tourism, (4)aircraft repair and maintenance, (5)aerospace and aviation parts, (6)machinery, (7)food and beverages

	2.3 Effective business integration and trade links in European and global markets	Number of partner business associations/export ready clusters (among them those reporting inclusion of WEE ²³ priorities)	1 EU4Business-Ready2Trade association (berries) in 2019	At least 10 partner business associations/export ready clusters	See above	
		Type and quantity of business partnerships established in the EU/global markets	TBC	At least 10 new partnerships	See above	
	2.4 Enhanced clusters management practices and strategic connections	Number of businesses which are cluster members (disaggregated by men- and women-led SMEs)	TBC at the time of clusters identification	At least 10% increase in membership, including by women-led enterprises	See above	
		Number of projects initiated by clusters	TBC at the time of clusters identification	At least 15 new projects	See above	

²³ Women's Economic Empowerment