This action is funded by the European Union

ANNEX 1

of the Commission Implementing Decision on the Special Measure 2015 for Private Sector Development and Approximation in favour of Ukraine

Action Document for EU Support to Ukraine to Re-launch the Economy (EU SURE)

1. Title/basic act/ CRIS number	**EU Support to Ukraine to Re-launch the Economy (EU SURE)** CRIS number: ENI/2015/032-789 Financed under the European Neighbourhood Instrument
2. Zone benefiting from the action/location	Ukraine The action shall be carried out at the following location: Ukraine – nationwide, the Technical assistance team will be based in Kiev.
3. Programming document	Not applicable (It is a Special Measure)
4. Sector of concentration/ thematic area	Not applicable (It is a Special Measure)
5. Amounts concerned	Total estimated cost: EUR 55 million. Total amount of EU budget contribution: EUR 55 million.
6. Aid modality(ies) and implementation modality(ies)	Project Modality Direct management - procurement of services. Direct management - Participation in EU Programme *Horizon 2020*. Indirect management with the European Bank for Reconstruction and Development (EBRD).
7. DAC code(s)	32130

8. Markers (from CRIS DAC form)	**General policy objective**	**Not targeted**	**Significant objective**	**Main objective**
	Participation development/good		x	

	governance			
	Aid to environment		x	
	Gender equality (including Women In Development)		x	
	Trade Development		x	
	Reproductive, Maternal, New born and child health	x		
	RIO Convention markers	**Not targeted**	**Significant objective**	**Main objective**
	Biological diversity	**x**		
	Combat desertification	**x**		
	Climate change mitigation	**x**		
	Climate change adaptation	**x**		
9. Global Public Goods and Challenges (GPGC) thematic flagships	N/A			

SUMMARY

In the aftermath of 2014 political changes and macroeconomic adjustments, the new Ukraine's Government is committed to undertake a broad range of reforms and to improve the business climate in order to rebalance its economy. Against this background, the action has been designed to support the development of the SMEs across the Ukrainian regions and to contribute to the re-launch of the Ukrainian economy to create growth and employment. This also includes the conflict affected areas and neighbouring regions actively participating in the re-integration of internally displaced persons (IDPs).

The action includes 2 main components:

i) At national level it will provide technical assistance/policy advise to complete the ongoing SMEs deregulation and the national and regional economic development strategies, and to create a web info portal for SMEs; it will also include a contribution to the participation of Ukraine in EU programmes related to private sector development (*Horizon 2020*).

ii) At regional level it will provide business advice and entrepreneurial skills for SMEs, through a network of Business Support Centers. It will also facilitate the access to finance by exploiting the synergies between the business advice services provided by this action and a complementary EU funded action run in parallel (Ukraine – NIF/EIB Guarantee Facility worth EUR 40 million: this facility will provide local commercial banks with an effective risk management tool to increase their capacity to absorb increased funding demand from SMEs – with an expected leverage of 7 - 8, it can generate around EUR 300 million of new SMEs loans).

1. CONTEXT

1.1 Sector/Country/Regional context/Thematic area

An assessment of economic indicators since its independence in 1991 shows Ukraine performing much below its potential. As Europe's sixth largest consumer market, the country has several endowments that can enable much higher levels of economic growth and a better distribution of prosperity. It has good access to international markets, being geographically strategically located. It has a vast area of some of the world's most fertile agricultural land. Moreover the Ukrainian population is well educated, while the country also enjoys a long-established comparative advantage in the metals sector as well as in other manufacturing and technology industries.

The absence of long-term strategies, institutional weaknesses, entrenched political divisions and widespread corruption have made it difficult for successive Ukrainian Governments to implement structural and lasting reforms. After a problematic transition in the 1990s, the high economic growth rates in the early 2000s were largely driven by favourable external conditions that allowed Ukraine to reap quick wins in the metals and chemicals sectors on the back of the global commodities boom. Soaring steel prices and, for much of the period, cheap natural gas imports from Russia supported significant improvements in the country's terms of trade, while highly liquid international capital markets simultaneously fuelled foreign direct investment inflows into the country.

Relying mostly on a narrow base of commodity derived exports, Ukraine was hard-hit by the global economic crisis in 2008. Subsequent recovery was slow and virtually stalled in 2013 due to increasingly rent-seeking attitude of the Yanukovych Government. The by then already extremely fragile economy rapidly deteriorated in 2014 resulting from the fall out of the annexation of Crimea by Russia and Russia's persisting support to the separatists in the Eastern Donbas region. This has caused a 8.2 % decline in GDP, while the decline for 2015 is expected to be 2.3%. Inflation at 20% as of November 2014 is on the rise. The national currency lost over half its value towards the US dollar and the euro as of January 2014 and after the establishment of a flexible exchange rate-setting mechanism.

Following the changes in Government especially after the elections in October 2014, there is now wide consensus suggesting urgent and far-reaching reforms of the rules and regulations for doing business in Ukraine. Encouraging innovation and diversification in the private sector and promoting small and medium sized enterprises (SME) is considered a cornerstone to offer alternatives to the several large scale industries that increasingly become obsolete and are shrinking. Important triggers for these changes derive from the re-orientation of the economy towards EU integration resulting from the adoption of the Association Agreement (AA) in 2014 and the implementation of the Deep and Comprehensive Free Trade Agreement (DCFTA) starting from January 2016. Several support measures related to reforms in rule of law, control of corruption and more conducive financial markets have been asked for in the conditions for macro-economic assistance as provided by the International Monetary Fund (IMF), International Financing Institutions (IFIs), EU and others. An important part of the additional assistance mainly provided through IFIs following the changes in Government in spring 2014, targets the re-organisation of the banking sector and support of credit lines for private sector development.

The potential for robust SME sector to contribute in the re-launch of the Ukrainian economy is considered high. The contribution from SMEs to GDP of around 12% so far is rather low as compared to the relatively high number of companies registered. Most of the SME activities concentrate in the five biggest cities, which suggests a significant scope for expansion to regional and local agglomerations in other parts of this comparatively highly urbanised country.

Promotion of SME development will also be of particular importance in view of need for (re-) integration of the high number of population displaced from the conflict affected areas in the East. In this context, this action contributes to socio-economic reintegration allowing IDPs to be part of the economy re-launch. The physical destruction of several traditional and often loss-making large scale industries and mines in the Donbas region is accelerating the need for creation of alternative employment. This offers challenges and opportunities in other parts of the country for population migrating out of the region on a permanent basis, as well as for those that return or have stayed back.

1.1.1 Public Policy Assessment and EU Policy Framework

The implementation of **the EU- Ukraine Association Agreement including the Deep and Comprehensive Free Trade Agreement (AA/DCFTA)**, will entail an enhanced reform agenda, and will open up the scope for a number of significant additional gains for Ukraine, not only in its external trade, but also in the improvement of its investment climate. The creation of a friendlier enabling environment for entrepreneurs, in which small businesses can be established and grow would be a major achievement.

In concrete, 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.

Whereas Government policies have been mostly ineffective or even discouraging SME development, at the same time there have been some initiatives attempting to improve the situation. A new Law on Development and State support to SMEs in Ukraine entered into force on 1 January 2013. The Law fixes the definition of a SME very close to that of the EU and clarifies the main directions of state policy for SME support and development. A new Agency for Regulatory Policy and Entrepreneurship Development was created on the basis of the Law. A Decree of the Cabinet of Ministers from 7 January 2015 stipulates for the re-organization of the Agency. It will be responsible only for the regulatory policy while the functions on SMEs support have been transferred to the Ministry of Economic Development and Trade (MoEDT). In the latter part of 2013 a **National Programme for Small and Medium Entrepreneurship 2014-2020** was drafted. The Programme defines in its annex 42 measures coupled with respective concrete activities which must be implemented by which agencies and what is the time frame and source of funding. It is expected that the Programme will be substantially revised by the new Government or a new programme will be drafted for the period 2015-2020. So far Government funding for innovation and SME promotion has remained very limited (around EUR 1-2 million per year) and was never fully disbursed.

The **Coalition Agreement (November 2014)** between the five political parties entering in the pro-European coalition envisages specific measures on regulatory policy, business development and competition environment such as replacement within one year of the current system of business regulation with the European one; elimination of excessive regulation of business through reduction of the number of permits, permission and consent procedures; improvement of tax administration and reduction of number of taxes to nine; improvement of competition environment; support to access to external markets and shift from the present administrative control to business support, among others. Introduction of an efficient system of support of domestic agricultural producers, first and foremost – family farms, is also envisaged.

The **policy dialogue** in the sector within the Partnership and Cooperation Agreement was carried out through the relevant EU-Ukraine Sub-Committee, the Eastern Partnership Platform on Economic Integration and Convergence with EU Policies, and in the framework of the implementation of the ongoing programmes and projects. It is expected that this dialogue will continue within the Association Agreement related committees.

The European Commission has sent last November 2014 a proposal to the MoEDT on the establishment of policy dialogue on technical regulations, standards, conformity assessment and related quality infrastructure, as well as on the issue of streamlining SME policies in line with the Small Business Act for Europe (SBA) and to apply the "Think Small First'" Principle via deregulation efforts, but also by providing direct support to SMEs.

Regular dialogue is ongoing with the relevant professional, civil society and "think tank" organisations and business associations.

The negotiation on **Ukraine's participation in the EU Programme *Horizon 2020*** has been completed and the signature of the corresponding agreement is expected to take place in early 2015. *Horizon 2020* funds high-potential innovation through a dedicated SME instrument.

Ukraine has also started negotiations for the participation in COSME, the EU programme for the Competitiveness of Enterprises and Small and Medium-sized Enterprises (SMEs).

Almost all regions of the country local authorities have put in place **Regional Development Agencies**, with a strong attention to the support of local investments and the activation of the local initiatives. Effectiveness of these agencies is highly variable, generally depending on the participation of international donors that focus on the existing potentialities at regional and local level.

This action is in line with the principles and orientations of the recent Communication from the Commission on "A stronger Role of the Private Sector in Achieving Inclusive and Sustainable Growth in Developing Countries" [COM(2014)263 final].

1.1.2 Stakeholder analysis

- **Main Stakeholders**:
    - Ministry of Economic Development and Trade, responsible for the state policy on SMEs development and Entrepreneurship support; Ministry of Education and Science;
    - State Service for Regulatory Policy;
    - Regional & Local Authorities;

- Banks;
- SMEs and business intermediary organizations.

- **<u>Beneficiaries</u>**:
  - SMEs and **Business Support Centres** (BSCs) which will be established with the support of the Programme;
  - Business intermediary organizations (Business membership and Business Support Organizations);
  - Ministry of Economic Development and Trade; Regional and municipal authorities (especially Regional Development Agencies) and their associations, scientific and research institutes and similar innovation-related organizations which will be invited to join the BSCs; Ministry of Education and Science;
  - Indirectly, the whole population of the selected regions will benefit from the job opportunities created in newly established SMEs and increasingly competitive existing SMEs.

1.1.3 Priority areas for support/problem analysis

The <u>main constraints</u> for private sector development are the following:

- <u>Non conducive business environment for SMEs growth</u>: Over-regulation and frequent inconsistencies in the rules and requirements governing SMEs, combined with a lack of legal awareness, and relevant knowledge amongst entrepreneurs, creates an environment for "rent-seeking behaviour" amongst those bureaucratic structures responsible for the registration, control, and closure of SMEs. As a consequence, SMEs prefer to be informal and below the radar of Government supervision.
  The regulatory environment requires extensive reform in order to encourage legitimate enterprise development. This involves: i) De-regulation; ii) Simplification of licencing, regulation and inspection; iii) Consistency and fairness in implementation of the laws; iv) A stronger legal framework for insolvency.

- <u>Lack of a comprehensive strategy for private sector development and weak institutional set up for private sector policy formulation and implementation</u>: there is a clear need of capacity building in the responsible Government agencies, as well as a need for authorities to understand Government's role in private sector development.

- <u>Lack of quality services for SMEs and lack of a network of business support organisations</u>: Despite there are hundreds of organisations registered as business support organisations in Ukraine, the range and quality of services provided to SMEs tends to be low and the market for business support services remains underdeveloped, both on the supply and the demand side.

– <u>Shortage of entrepreneurship traditions and knowledge</u>: This is the result of the Soviet heritage combined with the lack of operational business support infrastructure (business incubators, techno-parks, etc.).

– <u>Restrained access of SMEs to external, particularly mid- and long-term, financing</u>: This is caused, besides the recent deterioration of market conditions, by the banks' poor competence in risks assessment and management, and consequent conservative approach.

– <u>Slow innovation capacity</u>: In particular, SMEs in Ukraine are concentrated in sectors with relatively low potential for productivity and growth such as retail trade, while other sectors in manufacturing which have higher potential for innovation and growth are particularly under-developed.

– <u>Low internationalisation</u>: While in some sectors such as the agro-processing there are good perspectives to increase exports, there is no state programme in support to SMEs internationalization.

2. RISKS AND ASSUMPTIONS

Risks	Risk level (H/M/L)	Mitigating measures
Further deterioration of the overall macroeconomic situation of the country in general, and more in particular in the East, due to the conflict in the Donbas region. This may affect any policy aiming at promoting the private sector development and the creation and investments of SMEs.	M/H	Continuous policy dialogue and close monitoring of the security situation in the East.
Lack of progress of the national regulatory framework and deterioration of the conditions of implementation of several administrative policies (SME policy, taxation, registration, etc…).	M	Continuous policy dialogue and enhanced cooperation with the Ukrainian authorities.
High turnover of civil servants staff of ministries and agencies, low absorption capacity and inadequate professional competences of civil servants.	M	Support Ukrainian authorities by targeted trainings and capacity building (through the TA component).
Reduced effective capacity and margin of manoeuvre for regional and local authorities to properly implement their development strategies in the current unstable environment. The same risk applies to almost all public non-governmental organisations that could potentially be involved in the establishment of the	M	Capacity building to be provided at national/regional/local level, complemented by other existing projects (i.e.: regional development 2013).

Business Support Centres, like the universities, research institutes, regional or local development agencies.		
Assumptions When the action will start its implementation phase (indicatively second half 2015) the overall political situation of the country remains at least stable at current levels; The regulatory framework and its implementation have improved – or at least not deteriorated further - due to the improvement of the general economic and political situation in the coming years; The new reform-oriented Government is committed to move against conflict of interest and corruption, thus improving the business environment in particular for SMEs; The Government of Ukraine remains committed to support the action.		

3. LESSONS LEARNT, COMPLEMENTARITY AND CROSS-CUTTING ISSUES

3.1 Lessons learnt

a) It is difficult to promote and efficiently implement reforms unless these **reforms are supported through specific programmes and demanded and supported by local interest groups**. The Association Agreement between the EU and Ukraine will be an important driver for reforms in favour of the private sector. The strengthening of the private sector eventually contributes to lay strong and concrete foundations for ongoing reforms.

b) Supporting only the access of SMEs to better business services without **improving the access to finance** cannot ensure tangible results. It is expected that strengthening existing and new Business Support Centres will contribute to the successful disbursement of the loans for the private sector foreseen in the European Financial Institutions programmes such as the DCFTA Facility.

c) **Regional and municipal authorities** are **closer to the needs and problems of the private sector** and generally understand better the consequences of industrial restructuring. Therefore, they are expected to support more actively SMEs development in the selected regions and will be actively involved in action implementation. At the same time in some occasions the **resistance to change may be high at regional and municipality levels**. The action success will depend on the implementing organization's ability to set up modus operandi with the authorities and mobilize local businesses around the action ideas.

d) **Need for a more constructive dialogue with the private sector and civil society**, as well as the need to regularly conduct impact assessments to assess regulatory changes on SMEs.

3.2 Complementarity, synergy and donor coordination

EU funding at bilateral level:

a) **''Ukraine – NIF Guarantee Facility as part of the ENI regional project DCFTA Initiative East'' (EUR 40 million 2015 - 2018, running in parallel and complementing the proposed action).** This support will lead to the origination of approximately EUR 300 million new SMEs loans to cover the segment of the SME market, in which enterprises do not have the appropriate financial history or are lacking sufficient levels of collateral and thus falling outside the current credit criteria of the commercial banks.

b) **"Sector Competitiveness Strategy for Ukraine, Phase 3 - Sustaining Reforms" (EUR 2 million, 2013-2015).** This project is implemented by OECD and aims at enhancing the competitiveness of the Ukrainian economy by building Ukrainian institutional capacity in policy making and co-ordination in specific sectors.

c) "Support to Ukraine's Regional Development Policy" (EUR 5.3 million, 2012 - 2016). Supports strengthening the capacity of Ukrainian authorities and other stakeholders to develop and implement effective regional development policies. Part of the strategies relates to economic development in general and concretely to SMEs development. It is coupled with grants for local authorities and NGOs.

d) **"Improvement of the food safety control system in Ukraine" (EUR 3.6 million, 2014 - 2016).** Contributes to the improvement of food safety in Ukraine from "farm to fork" by aligning the Ukrainian legislation, institutional infrastructure and the system of state controls with the regulatory and administrative practices of the EU. Following its successful implementation, it will be easier for SMEs to import and export foodstuffs.

e) **"Promoting mutual trade by removing technical barriers to trade between Ukraine and the European Union"** (**Technical assistance EUR 6.5 million, Budget support: EUR 38 million, 2011 - 2015)**. Implements policy measures to remove technical barriers to trade between the EU and Ukraine, including the modernisation of the institutional framework for quality assurance.

f) **"Harmonisation of Public Procurement system in Ukraine with EU standards", (EUR 4 million, 2013 - 2016).** Contributes to development of a public procurement policy and legal framework, institutional infrastructure, improvement of transparency and integrity of the public procurement in Ukraine. It will also contribute to better access of SMEs to public procurement.

EU funding at multi-country level:

SME Panel and SME Flagship: The SME Panel was launched in 2010 in order to support the development of SMEs and to improve the business environment in partner countries. The Panel is particularly addressed at Government officials, the appointed Small Business Act (SBA) coordinators of the partner countries as well as business and SME associations. Handson support to SMEs in the region through the SME Panel and its integrated SME Flagship is done on three levels: i) At policy level, the EU works with the OECD and other partner organisations to assist Eastern partner countries in drawing up effective SME policies. This is done through the SBA Assessment as well as a project to implement the recommendations of the Assessment. The EU also co-finances a project of the World Bank (STAREP) which has the purpose to improve financial reporting in partner countries. ii) In terms of assistance to Business Support Organisations (BSOs), the EU initiated a vast networking programme between BSOs from partner countries and the EU – East Invest. The East Invest Programme aims to promote trade and investment through networking and consolidation of business and SME associations in the Eastern partner region. So far more than 80 BSOs have participated in the programme. iii) In order to support SMEs directly and to provide them with better access to finance a wide range of programmes involving European Financial Institutions (EBRD, EIB and KfW) have been developed under the umbrella of the Neighbourhood Investment Facility. Additionally, the DCFTA Facility for SMEs has been established for the three countries which have signed an AA/DCFTA with the EU. The DCFTA Facility has the purpose to support SMEs in order for them to be able to: Finance necessary investments to comply with the provisions of the DCFTA; Seize trade opportunities with the EU and within the region which have been opened up due to the DCFTA; and Benefit from the inflow of foreign direct investment.

International Financing Institutions (IFIs)

a) **The European Bank for Reconstruction and Development (EBRD)** provides the Ukrainian banking sector with long-term senior and subordinated loans and equity funding combined with technical assistance. The SME sector is one of EBRD’s target areas. In December 2013 the EBRD adopted the Small Business Initiative (SBI). It is about having a more strategic approach towards SMEs development. The EBRD's Small Business Support (SBS) team works to improve access of SMEs to business advisory services through the Business Advisory Services (BAS) and the Enterprise Growth Programme (EGP).

   SBS significantly expanded its operations in 2009 but is active in Ukraine since 1996. To date, over EUR 7 million of funding has been mobilised, enabling 430 enterprises to access business advice and industry expertise, with 335 projects involving local consultants and 95 bringing the expertise of international industry advisers. Team’ specific initiatives include Women in Business programme and Export Promotion.

   In addition, sector and market development activities are implemented to develop the capacity of local consultants and the SME support infrastructure in Ukraine. These efforts also include EBRDs commitment to broadening the expertise of beneficiaries and stakeholders.

b) **The European Investment Bank (EIB**) relatively recently obtained the mandate to work with the SMEs sector. They provide credits to local partner banks for on-lending to SMEs. Currently EIB works through four banks and negotiations are ongoing with a fifth one. Credit lines amount to nearly EUR 400 million.

c) **The KfW** portfolio in Ukraine amounts EUR 200 million, 50% of which are in support to SMEs through the financial sector. Support focuses mainly on SMEs involved in green tourism, agriculture, fisheries, small hotels, and light manufacturing.

d) **The International Finance Corporation (IFC)** has several SME-focused credit lines and guarantees to Ukrainian banks, leasing companies, and large agro-producers that indirectly benefit SMEs. Funding of SME-focused projects has amounted to over EUR 150 million. Investments projects are supported through Technical assistance such as help in building capacity for energy efficiency loan products and implementation of social and environmental management.

e) The **World Bank** is mainly working on de-regulation in selective areas with focus on licences and permits. Additionally, a financial sector development programme is under implementation, aiming at improving transparency of the banking system and strengthening law enforcement. The Export development project brings support to export crediting. The Bank is also preparing a large (USD 300 million) loan programme entitled "Competitiveness Enhancement with focus on growth and jobs". The programme will tentatively have 3 components: i) Investment climate improvement with focus on the regulatory policy (aiming at the reduction of administrative barriers and support to the establishment of e-government); ii) Innovation and entrepreneurship; iii) Export competitiveness (metrology, standardization and food safety).

<u>Other donors</u>

a) **The US Agency for International Development (USAID**)'s objectives for Ukraine include improving local government support for SMEs and promoting private sector business associations and advocacy groups. Recent SME-focused initiatives have included a one-stop shop project for business licensing and permits, aiming to reduce corruption and alleviate the bureaucratic burden for SMEs, as well as, guarantee programmes in the energy efficiency and agricultural sectors. A new project entitled "Leadership in Economic Governance" (USD 5 million, 5 years) has been recently approved. It will mobilize local expertise to propose SMEs policies, advocate for their adoption and support their implementation in at least three regions. It aims at improving the country's business enabling environment in line with the EU principles and practices. The "Ukraine trade policy programme" will build the capacity of the MoEDT on WTO related matters such as disputes settlement and trade remedies.

b) **The Swiss Agency for Development and Cooperation (SDC)** and the Swiss Investment Fund for Emerging Markets support SMEs through investments in private equity funds e.g. through Dragon Capital's Europe Virgin Fund.

c) **GIZ** provides advisory and capacity building services to businesses throughout Ukraine's regions, focusing on sustainable economic development and energy efficiency. The project "Sustainable economic and employment promotion" (2009-2014) supported the improvement of the instruments for economic promotion in the regions of the Autonomous Republic of Crimea and in Chernivtsi and Donetsk. The programme "Support to Green Modernization of Ukrainian Economy" (EUR 5 million, 2014-2017) supports the drafting of a Strategy for the modernization of the Ukrainian economy, the establishment of regional green economy platform and the upgrading of business services related to energy- and resource-efficient technologies.

d) **The Swedish International Development Cooperation Agency, SIDA** adopted a new strategy on Market development in April 2014. More resources will be dedicated to private sector development within the strategy implementation in the next years.

e) **The Canadian Government** is about to approve in the beginning of 2015 a new Strategy for support to Ukraine. It will include support to regional and local development and direct support to SMEs and their organizations.

Donors' coordination

Coordination on private sector development so far has been limited to a number of ad-hoc meetings for exchange of information between the MoEDT and the main donors. Acknowledging the need for improvement, the EU will make promoting better donor coordination part of the proposed action. This falls also within the scope of intensification of coordination as part of the implementation of AA/DCFTA.

3.3 Cross-cutting issues

Environment, gender equality, good governance, and human rights will be directly targeted cross-cutting issues for this project.

In addition, special attention will be paid to: i) women in business; ii) vulnerable groups (disabled unemployed people and internal displaced people from the conflict affected areas); iii) youth - talented graduates willing to start an early productive life and iv) corruption-related issues.

The project will implement measures to address the identified gender issues such as the lack of equal opportunities for women in access to finance, access to employment, career advancement and remuneration.

4. DESCRIPTION OF THE ACTION

4.1 Objectives/results

The **overall objective** of the action is to contribute to sustainable and inclusive economic growth in Ukraine to enhance employment opportunities, regional prosperity and national cohesion.

The __specific objectives__ are:

SO1) To strengthen the capacity of Ukrainian national, regional and local authorities and other stakeholders to develop and implement effective economic development policies, including SMEs policy.

SO2) To contribute to re-launching the national economy by supporting development of the SME sector and increasing capacity for entrepreneurial skills training at the regional level.

The **__expected results__** are:

R1.1 Enhanced capacity of national, regional and local authorities to develop and implement effective economic development policies, including SMEs policy.

R2.1 A number of operating Business Support Centers with an extensive network of agents to cover at least 15 regions of Ukraine.

R2.2 Competitiveness of at least 15 regions of Ukraine strengthened.

R2.3 Innovative and diversified start-ups initiatives have grown in the selected regions.

R2.4 Access to administrative and legal services is improved at local and regional level.

R2.5 Access to financing and to innovative financial services is improved in the selected regions, by exploiting the synergies between the business advice services provided by this action and the EUR 40 million Ukraine – NIF/EIB Guarantee Facility (see point 3.2).

R2.6 Increased capacities for training in entrepreneurial skills as required by the innovating and expanding business communities in the selected regions.

R2.7 Internationalisation of SMEs has improved in the selected regions, in line with the establishment of the DCFTA between the EU and Ukraine.

R2.8 In the areas affected by the conflict, namely where there is high concentration of IDPs, a substantially improved business enabling environment is created to generate growth and employment for both local populations and Internally Displaced Persons (IDPs), contributing to their social-economic reintegration.

4.2 Main activities

__Component 1 – National level__

A1.1) General coordination of the action and support to its implementation.

A1.2) Support to drafting/update and implementation of strategic documents, relevant for economic development, including a comprehensive policy to promote and improve the investment climate for small and medium enterprises.

A1.3) Support to drafting and implementation of a simplified private sector regulatory framework in line with EU legislation.

A1.4) Set up of an 'easy to access web portal' and information services for SMEs to provide national and international legal and market information (complementary to existing information structures).

A1.5) Support to improving existing Ukraine's legislative and institutional framework for Public-Private Partnerships through a participatory process.

A1.6) Support to consultative dialogue with main stakeholders (local authorities, business associations, SMEs representatives, Civil Society, think tanks, etc.).

A1.7) Participation in EU programme *Horizon 2020*.

A1.8) Support/advice to the Ukrainian authorities enabling their effective participation in the EU programmes COSME and *Horizon 2020*.

Component 2 – Regional level

A2.1) Set-up a number **of Business Support Centers (BSC) and a network of partners across the country to cover at least 15 selected regions (using existing structures if available), in association with EBRD, local business organisations, banks and local/regional authorities**. The BSC will help improve the competitiveness of the SME sector by connecting local small businesses to a network of local consultants and international industry experts. Business advice will be tailored according to the size of the company and the complexity of the challenges. BSC will also advise SMEs on how to access to financing. In addition, sector and market development activities will be implemented to develop the capacity of local consultants and the SME support infrastructure. Targeted economic sectors will depend on the economic profile of the region and activities should aim but not be limited to the following **key sectors**: agriculture, innovation, improvement of provision of public services and infrastructures energy efficiency and green economy. Support to SMEs to adapt to and benefit from the establishment of the DCFTA between the EU and Ukraine will be among the main tasks of the BSC.

A2.2) Formulation and implementation of a scheme to build business skills in cooperation with business associations, unemployment agencies in the selected regions.

4.3 Intervention logic

At national, policy level, the Technical Assistance provided under this action will strengthen the capacity of Ukrainian national, regional and local authorities and other stakeholders to develop and implement effective economic development policies, including SMEs policy. This capacity building combined with the political will of the ruling pro-European Coalition will create favourable conditions for sustainable and inclusive economic growth at national level.

The activities **at regional level** related to business advice and access to networks will be implemented by the EBRD. The selection of at least 15 regions (covering two-third of the country) will be done by the EU Delegation in consultation with the Ukrainian authorities and the EBRD and will be based on clear selection criteria (political will, economic profile – recovery potential, geographical diversity and innovative potential). These activities will be complemented by regional programme funded separately (the so called Ukraine – NIF/EIB

Guarantee Facility), to improve access to finance in cooperation with Ukrainian commercial banks. As a whole, this regional component will support the development of the SME sector and increase regional capacities for training in entrepreneurial skills in at least 15 selected regions. Thus, new employment opportunities will be created, regional prosperity increased (particularly in the areas affected by the conflict) and better national cohesion achieved.

5. IMPLEMENTATION

5.1 Financing agreement

In order to implement this action, it is foreseen to conclude a Financing Agreement with the partner country, referred to in Article 184(2)(b) of Regulation (EU, Euratom) No 966/2012.

5.2 Indicative implementation period

The indicative operational implementation period of this action, during which the activities described in section 4.2 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 authorising officer responsible by amending this decision and the relevant contracts and agreements; such amendments to this decision constitute technical amendments in the sense of point (i) of Article 2(3)(c) of Regulation (EU) No 236/2014.

5.3 Implementation modalities

5.3.1. Participation of Ukraine in the EU programme Horizon 2020 - the Framework Programme for Research and Innovation (2014-2020) (direct management)

Implementation of sub-component A1.7) *Participation in the EU programme Horizon 2020* of section 4.2 above will take the form of a reimbursement of up to 50% of the corresponding yearly participation fee over a period of three years.

Considering the governmental nature of the institution (Ministry of Education and Science) that has been designated by Ukraine for being in charge of this programme, modalities of the reimbursement will be defined through the introduction of specific provisions in the Financing Agreement. Payment will be made on an annual basis after receiving evidence of the payment of the total fee for the corresponding year. No pre-financing is foreseen under this scheme.

A Participation Agreement is expected to be signed on 20.03.2015, according to the terms of which Ukraine is associated to *Horizon 2020* - the Framework Programme for Research and Innovation (2014-2020) as of 01.01.2015 and its financial contribution is due as of that date. It is therefore appropriate to allow retroactive co-financing of this participation and the Commission authorises that the cost of the financial contribution of Ukraine for its participation in *Horizon 2020* - the Framework Programme for Research and Innovation (2014-2020) may be recognised as eligible as of 01.01.2015.

The Government of Ukraine confirmed the willingness to benefit from this financial support in November 2014.

5.3.2 Procurement (direct management)

Subject in generic terms	**Type (works, supplies, services)**	**Indicative number of contracts**	**Indicative trimester of launch of the procedure**
Component 1 – TA at national policy level	Services	1	Q4 2015-Q1/2016
Evaluation and Audit	Services	2	Q2/2018 and Q1/2021
Visibility	Services	1	Q4/2015-Q1/2016

5.3.3 Indirect management with an international organisation

A part of this action may be implemented in indirect management with the **EBRD** in accordance with Article 58(1)(c) of Regulation (EU, Euratom) No 966/2012. This implementation entails the implementation of **Component 2 - regional level (activities A2.1 and A2.2)**. This implementation is justified because of the large previous experience and geographical coverage of the EBRD in the SMEs sector in Ukraine. A wide range of complementary instruments offered by the EBRD will secure a comprehensive approach to SMEs support ranging from advisory services to advice on access to finance, catering to enterprises at various development stages while addressing market challenges. It will also capitalize on extensive experience in related initiatives to support SMEs, undertaken by the EBRD with EU financing across the region. The EBRD works on a cost-sharing basis (for the training – meaning that people trained will have to pay some minor fees), which will ensure an effective use of funds as well as allowing leverage of mobilized financing.

The entrusted entity would carry out the following budget-implementation tasks: procurement and grant award procedures and management of corresponding contracts and payments.

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, subject to the following provision.

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 realisation of this action impossible or exceedingly difficult.

5.5 Indicative budget

	EU contribution (amount in EUR)
Component 1 – Policy level – Procurement (direct management)	7.000.000
Component 1 – Participation in EU programme *Horizon 2020* (direct management)	7.000.000
Component 2 – Indirect management with the EBRD	40.000.000
Evaluation & Audit	400.000
Communication and visibility	600.000
Totals	**55.000.000**

5.6 Organisational set-up and responsibilities

Component 1: The Delegation of the European Union to Ukraine will carry out routine monitoring of the activities carried out by the Contractors. Objectively verifiable indicators (OVI), both qualitative and quantitative, will be revised in close coordination with the Ministry of Economic Development and Trade and other beneficiaries' needs and ambitions.

Component 2: The monitoring of the day to day implementation will be carried out by the EBRD under its standard procedures, based on benchmarks to be agreed with the project beneficiaries and with the EU Delegation to Ukraine. It will include periodic assessment of progress and delivery of specified project results towards achievement of action objectives.

In order to ensure co-ordination between the action components and the numerous stakeholders, a Steering Committee (SC) will be established to guide action implementation. The SC will include representatives of the beneficiaries, the implementing partners and the European Union. The Consultant providing the TA will ensure the proper functioning of the

SC, including preparation of the agenda, sending the invitations, preparation and follow up of the minutes. The SC will meet at least twice per year.

5.7 Performance 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 partner's responsibilities. To this aim, the implementing partner 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 (for project modality) or the list of result indicators (for budget support). The report 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.

The Commission may undertake additional project monitoring visits both through its own staff and through independent consultants recruited directly by the Commission for independent monitoring reviews (or recruited by the responsible agent contracted by the Commission for implementing such reviews).

5.8 Evaluation

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

The mid-term evaluation will be carried out for problem solving purposes, in particular with respect to defining to what extend the expected results are being achieved and proposing mitigation measures in case of deviations.

The final evaluation will be carried out for accountability and learning purposes at various levels (including for policy revision), taking into account in particular the fact that this is a large programme in support to SMEs in Ukraine and a relevant impact is expected to be achieved at all levels.

The Commission shall inform the implementing partner at least one month in advance of the dates foreseen for the evaluation missions. The implementing partner shall collaborate efficiently and effectively with the evaluation experts, and inter alia provide them with all necessary information and documentation, as well as access to the project premises and activities.

The evaluation reports shall be shared with the partner country and other key stakeholders. The implementing partner 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 and any adjustments necessary, including, if indicated, the reorientation of the project.

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.

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 and supported with the budget indicated in section 5.5 above.

In terms of legal obligations on communication and visibility, the measures shall be implemented by the Commission, the partner country, 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 Manual for European Union External Action[1] shall be used to establish the Communication and Visibility Plan of the Action and the appropriate contractual obligations.

[1] Document published at https://ec.europa.eu/europeaid/node/17974

APPENDIX - INDICATIVE LOGFRAME MATRIX (FOR PROJECT MODALITY) [2]

The activities, the expected outputs and all the indicators, targets and baselines included in the logframe matrix are indicative and will be quantified during the inception phase and updated during the implementation of the action without an amendment to the financing decision. The indicative logframe matrix will evolve during the lifetime of the action: new lines will be added for listing the activities as well as new columns for intermediary targets (milestones) when it is relevant and for reporting purpose on the achievement of results as measured by indicators.

	Intervention logic	Indicators	Baselines (incl. reference year)	Targets (incl. reference year)	Sources and means of verification	Assumptions
Overall objective: Impact	To contribute to sustainable and inclusive economic growth in Ukraine to enhance employment opportunities, regional prosperity and national cohesion.	GDP growth Unemployment level reduction Growth of regional economies in the selected regions Regional disparities in terms of GDP per capita in comparison with Kiev region reduced	GDP in 2015 Level of unemployment in 2015 Contribution of the regions to the national GDP GDP per capita in the 10 regions and Kiev in 2015	X % average growth for the period 2016-2020 xx % reduction of unemployment rate between 2016-2020 x % average economic growth in the regions for the period 2016-2020 x % reduction of disparities between 2016-2020	National and regional statistics Reports prepared by Ukrainian Government, European Commission, and other international donors (IFIs)	**Assumptions:** i) Overall political situation of the country has stabilized; ii) Government is committed to improve the business environment ; iii) Government committed in its support to the programme.

[2] Indicators aligned with the relevant programming document are marked with '*' and indicators aligned to the EU Results Framework with '**'.

	Intervention logic	Indicators	Baselines (incl. reference year)	Targets (incl. reference year)	Sources and means of verification	Assumptions
Specific objective: Outcome	SO1) To strengthen the capacity of Ukrainian national, regional and local authorities and other stakeholders to develop and implement effective economic development policies, including SMEs policy. SO2) To contribute to re-launching the national economy by supporting development of the SME sector and increasing capacity for entrepreneurial skills training at the regional level.	Strategic documents, including a comprehensive policy to promote and improve the investment climate for SMEs are adopted and its implementation started. WB/IFC Doing business ranking. Number of supported SMEs, start-ups.	N/A 96 N/A	xx economic development policy documents developed . xx deregulation measures adopted and implemented. Within the first 30 best performing countries. 2000 SMEs supported	Project reports, Government reports, Regional administrations reports, other donors reports, Business climate survey including Doing Business, legislative acts adopted.	**Assumptions:** i) Overall political situation of the country has stabilized; ii) Government is committed to improve the business environment ; iii) Government committed in its support to the programme.
Outputso	1.1 Enhanced capacity of national, regional and local authorities to develop and implement effective economic development policies, including SMEs policy. 2.1 A number of operating Business Support Centers with an extensive network of agents to cover at least 15 regions of Ukraine. 2.2 Competitiveness of at	Number of policy documents developed. SBA Assessment scores Level of businesses satisfaction from the development policies implementation. Number of supported SMEs, including women-led.	N/A 2015 SBA assessment scores XX % of businesses satisfied in 2015 in the selected regions (tbd) N/A	10 policy documents, incl.National SMEs strategy developed. Improved SBA scores At least 50 % of businesses satisfied by 2020. 10 000 SMEs supported, out of which 30% women-led/owned	National and regional statistics, Project reports, Government reports, Regional administration reports, SME policy Index report, Other donors reports and surveys, Surveys undertaken by the TA	**Risks:** Further deterioration of the overall macroeconomic situation of the country. Lack of progress of the national regulatory framework; deterioration of the conditions of implementation of policies (SME policy, taxation, registration, etc…).

	Intervention logic	Indicators	Baselines (incl. reference year)	Targets (incl. reference year)	Sources and means of verification	Assumptions
	least 15 regions of Ukraine strengthened.	Growth of private investments in the regions.	To be defined by the TA	25 % increase of private investment at the end of the project		High turnover of civil servants staff, low absorption capacity; inadequate professional competences . Reduced effective capacity and margin of manoeuvre for regional and local authorities to properly implement their development strategies in the current unstable environment.
	2.3 Innovative and diversified start-ups initiatives have grown in the selected regions.	Number of start-ups supported, including women-led.	N/A	500 start-ups established, out of which 30% women-led.		
	2.4 Access to administrative and legal services is improved at local and regional level.	Level of satisfaction of businesses from the administrative and legal services.	To be defined by surveys in the beginning of the project.	At least 50 % of businesses satisfied.		
	2.5 Access to financing and to innovative financial services is improved in the selected regions by exploiting the synergies between the business advice services provided by this action and the EUR 40 million Ukraine – NIF/EIB Guarantee Facility.	Volume and number of loans disbursed as a result of the advice provide by the project, including to women-led businesses.	N/A N/A	EUR 400 million of loans to SMEs disbursed, 10000 loans disbursed, out of which 30 % to women-led SMEs		
	2.6 Increased capacities for training in entrepreneurial skills as required by the innovating and expanding business communities in the selected regions.	Number of people trained by EBRD , including women.	N/A	10000 people trained, out of which 30 % women.		
	2.7 Internationalisation of SMEs has improved in the selected regions.	Number of exporting SMEs in the regions. Volume of exports from the regions.	To be defined by surveys in the beginning of the project.	50% increase of the number of exporting SMEs and of the volume of their exports.		

	Intervention logic	Indicators	Baselines (incl. reference year)	Targets (incl. reference year)	Sources and means of verification	Assumptions
	2.8 In the areas affected by the conflict, a substantially improved business enabling environment is created to generate growth and employment for both local populations and IDPs.	Regional growth and employment rates.	2015 data	30% economic growth and 20% increase of the employment rate		