

CHAPTER 6.

Priority sectors for small and medium enterprises as drivers of economic growth

SME POLICY INDEX IN ASSESSMENT OF BUSINESS DEVELOPMENT LEVEL IN UKRAINE

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Due to the importance of small and medium business development for economic growth it is essential to analyze the main benefits and constraints for its creation and further development. The mentioned analysis could be conducted by using different international rate methodologies namely Doing Business, Economic Freedom Index, SME Policy Index, etc.

In the research, it is reasonable to analyze SME Policy Index aimed at revealing the main business strengths and weaknesses. This index is applied for emerging economies regarding monitoring and evaluation progress in SME development policies.

The SME Policy Index was developed by Organization for Economic Co-operation and Development (OECD), the European Commission, the European Training Foundation (ETF) and the European Bank for Reconstruction and Development (EBRD). The structure of index is presented by 10 principles of the Small Business Act for Europe (SBA), based on the best practices of doing business in the EU.

The assessment of the SME Policy Index is focused on the Eastern Partner (EaP) region, countries-representatives of which have almost similar conditions and business features exemplified as vast agricultural land area, considerable energy and natural resources, well-educated workforce, different trade agreements etc.

EaP region consists of Armenia, Azerbaijan, Belarus, Georgia, the Republic of Moldova and Ukraine. The first assessment of these countries was carried out in 2012 identifying the main challenges for business development.

The second assessment was made in 2016 main idea of which was to highlight key developments and challenges in comparison with the 2012 results. The analysis mainly covers the policy environment for micro, small and medium-sized enterprises [1].

The main idea of the assessment reports is to define the degree of approximation to the EU practices and standards. The principles of SBA were made up for creation of equal conditions for SME and support of business development and competition [2].

The mentioned above assessment provides the officials with the detailed analysis of SME policy implementation and recommendations for its improvement. It also defines strengths and weaknesses in creation, implementation, control and monitoring processes compared to previous country achievements.

The SME Policy Index can be considered as the comparative analytical tool of EaP economies development. The fig. 1 presents the methodology of SBA assessment.

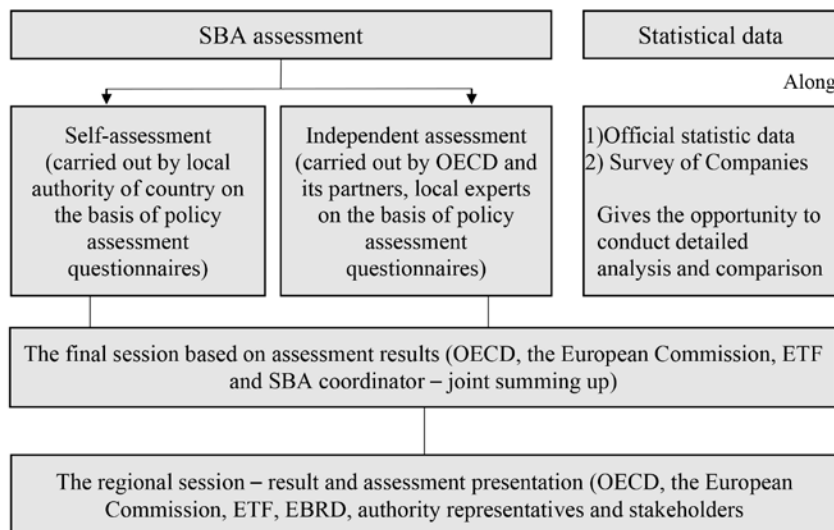


Fig. 1. Methodology of SBA assessment (formed by author on the basis of [1,3])

Along with methodology 10 SBA principles play the pivotal role for scope of SME Policy Index for every country, which are represented in Table 1.

Table 1

Thematic areas for SBA principles

Thematic area	Indicator	Assessment framework
Institutional, regulatory and operational environment	3.Regulatory framework for SME policy making	3.1. Institutional framework SME definition Availability of statistical data Inter-governmental co-ordination in SME policy-making SME development strategy SME policy implementation agency or equivalent Measures to tackle the informal economy (Planning and design, Implementation, Monitoring and evaluation) 3.2. Legislative simplification and regulatory impact analysis Legislative simplification and regulatory guillotine Regulatory impact assessment (Planning and design, Implementation, Monitoring and evaluation) 3.3. Public-private consultations Frequency, transparency and formality of Public-private consultations (Frequency and transparency, Private sector involvement, Monitoring and evaluation)
	4.Operational environment for SMEs	4.1. Company registration Implementation: One-stop-stop company registration Online registration Administrative identification numbers in dealing with the public administration Silence-is-consent principle Performance: Number of days, administrative steps and cost of issuing company registration certificate Number of days, minimum capital

Thematic area	Indicator	Assessment framework
		<p>requirements and cost for completing the overall registration process</p> <p>4.2. Interaction with government services (e-government)</p> <p>Online filling of tax returns and social security returns</p> <p>Extension to other services (e.g. e-pensions, e-procurement, e-cadastre etc.)</p> <p>Reporting on enterprise statistics</p> <p>Electronic signature (or equivalent)</p> <p>Connection between the databases of different public administrations, companies providing information only once, unless for updates (Planning and design, Implementation, Monitoring and evaluation)</p>
	2.Bankruptcy and second chance for SMEs	<p>2.1. Bankruptcy procedures</p> <p>Laws and procedures on distressed companies, receivership and bankruptcy, including debt settlement</p> <p>Implementation</p> <p>Performance</p> <p>Bankruptcy time</p> <p>Cost (% of estate)</p> <p>Recovery rate (cents on dollar)</p> <p>2.2. Second chance</p> <p>Promoting positive attitude towards giving entrepreneurs a fresh start</p> <p>Discharge from bankruptcy</p>
Access to finance	6. Access to finance for SMEs	<p>6.1. Legal and regulatory framework</p> <p>Creditor rights Register</p> <p>Credit information bureau Banking regulations</p> <p>Stock market</p> <p>6.2. Bank financing</p> <p>Lending practices</p> <p>Credit guarantee scheme</p> <p>6.3. Non-bank financing</p> <p>Microfinance Leasing</p> <p>SLAs Factoring</p>

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Thematic area	Indicator	Assessment framework
		<p>6.4. Venture capital</p> <p>Legal framework</p> <p>Implementation</p> <p>Monitoring and evaluation</p> <p>6.5. Financial literacy</p> <p>Planning, design and implementation</p> <p>Monitoring and evaluation</p>
Human capital	1. Enter-preneurial learning and women's entre-preneurship	<p>1.1. Entrepreneurial learning</p> <p>Policy development</p> <ul style="list-style-type: none"> – policy partnership – policy development – monitoring and evaluation <p>Policy implementation:</p> <ul style="list-style-type: none"> – non-formal entrepreneurial learning – good practice exchange – key competence — lower secondary education – key competence — upper secondary education – entrepreneurial experience – entrepreneurship in vocational education and training – entrepreneurship in higher education – higher education cooperation with business – good practice exchange in higher education <p>1.2. Women`s entrepreneurship</p> <ul style="list-style-type: none"> – policy support framework – institutional support – good practice exchange – training
	8A. Enterprise skills	<p>Training needs analysis</p> <p>Training for start-up firms</p> <p>E-training for SMEs</p> <p>Training for SME growth</p> <p>Quality assurance</p> <p>Training for internationalization of enterprises</p>

Thematic area	Indicator	Assessment framework
Support measures for competitiveness improvement of SMEs	5A. Support services for SMEs and start-ups	<p>5A.1. SME support services provided by the government</p> <p>Inclusion of business development services in policy framework</p> <p>Information support (e.g. website, campaigns)</p> <p>Business development infrastructure (e.g. incubators)</p> <p>Tailored support services for different SME segments (e.g. start-ups, exporters etc.)</p> <p>(Planning and design, Implementation, Monitoring and evaluation)</p> <p>5A.2. Government initiatives aiming at stimulation of private business support services development</p> <p>Policy framework</p> <p>Information on private business support services (e.g. B2B portal)</p> <p>Financial incentives for SMEs to use private business development services (e.g. co-financing mechanisms, vouchers, etc.)</p> <p>Business plan competitions</p> <p>(Planning and design, Implementation, Monitoring and evaluation)</p>
	5B. Public procurement	<p>Cutting tenders into lots</p> <p>Information and publication of public procurement</p> <p>Penetration of eProcurement</p> <p>Ensuring that payments are made on time</p> <p>Openness to foreign enterprises, either SMEs or large</p> <p>Setting proportionate qualification levels and financial requirements</p> <p>Allowing SMEs to bid jointly, i.e. to rely on the economic and financial standing and technical ability of other undertakings</p> <p>(Planning and design, Implementation, Monitoring and evaluation)</p>

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Thematic area	Indicator	Assessment framework
	8B. Innovations	<p>8B.1. Policy framework for innovation</p> <p>Innovation strategy</p> <p>SME inclusion in innovation strategy</p> <p>Coordination body</p> <p>IP legislation</p> <p>(Planning and design, Implementation, Monitoring and evaluation)</p> <p>8B.2. Government institutional support services for innovation SMEs</p> <p>SME and research institutions linkages</p> <p>Institutional support services (e.g. incubators, science and technology parks, innovation centers, etc.)</p> <p>Financial support for innovation infrastructure</p> <p>Information support</p> <p>(Planning and design, Implementation, Monitoring and evaluation)</p> <p>8B.3. Government financial support for innovative SMEs</p> <p>Financial support recognized in innovation strategy</p> <p>Financial support schemes</p> <p>R&D tax incentives</p> <p>(Planning and design, Implementation, Monitoring and evaluation)</p>
	9. SMEs in Green Economy	<p>9.1. Environmental policies targeting SMEs</p> <p>Inclusion in SME strategies</p> <p>Responsible government body</p> <p>Private sector consultation</p> <p>Budget mobilization</p> <p>Sector-specific policies targeting SMEs</p> <p>Operationalization of government body</p> <p>Effective co-ordination with stakeholders</p> <p>(Planning and design, Implementation, Monitoring and evaluation)</p> <p>9.2. Incentives and instruments</p> <p>Regulatory incentives</p> <p>Financial incentives</p> <p>Private sector consultation</p>

Thematic area	Indicator	Assessment framework
		Evidence of SME benefits from incentives Sectoral approaches in environmental permitting and compliance Environmental management systems Guidance of SME environmental compliance (Planning and design, Implementation, Monitoring and evaluation)
SME internationalization	10. Internationalization of SMEs	10.1. Export promotion Export promoting program Export promoting agency Support services for SMEs Export finance (Planning and design, Implementation, Monitoring and evaluation) 10.2. Integration SMEs into global value chains Business linkage programs Industrial competitiveness clusters Supplier development programs (Planning and design, Implementation, Monitoring and evaluation)
	7. Standards and technical regulations	Overall coordination and general measures Technical regulations Conformity assessment Standardization Metrology Accreditation Market surveillance

Source: formed by author on the basis of [1,3]

Though, it is necessary to analyze indicators described in table 1 for detailed examination of SME policy development in Ukraine.

Taking into consideration such current urgent problems existed in Ukraine as conflict on the east of the country and long-term lack of key reforms, the economy stagnation and recession could be observed as the main constraints for creation and implementation of SME support policy. As the result from 2012 SBA assessment little progress occurs for the majority of business spheres in Ukraine.

Besides, the positive moments of business development within 2012-2016 include implementation of the key measures for business registration simplification, extension of e-government services, elimination of trade

technical barriers, EU standards adoption and so on. On the other side, a lack of access to finance and real long-term strategy for SME could be considered as the constraining force for business development.

For deeper understanding the level of economic conditions' favorableness in Ukraine it is essential to analyze the macroeconomic situation in the country (table 2).

Table 2

The main macroeconomic indicators within 2010-2015 in Ukraine

Indicator	Unit	2010	2011	2012	2013	2014	2015	2016
GDP growth	%, compared to previous year	0,3	5,5	0,2	0,0	-6,8	-9,8	2,3
Inflation rate	%, on average	9,4	8,0	0,6	-0,3	12,1	43,3	12,4
State balance	% GDP	-2,8	-3,2	-4,6	-4,8	-3,1	-3,2	n/a
Balance of current operations	% GDP	-2,2	-6,3	-8,1	-9,2	-4,0	-1,4	-3,8
Export of goods and services	% GDP	50,7	49,8	47,7	43,0	49,2	n/a	n/a
Import of goods and services	% GDP	53,6	56,4	56,4	52,1	53,2	n/a	n/a
Net DFI	% GDP	4,2	4,3	3,8	1,8	0,1	n/a	n/a
External debt	% GDP	86,0	77,2	76,5	78,6	97,6	131,5	129,6
Gross reserves	% GDP	24,5	18,6	12,9	10,6	n/a	n/a	n/a
Private sector lending	% GDP	62,4	56,5	53,6	59,1	n/a	n/a	n/a
Unemployment coefficient	% total amount of labor forces	8,1	7,9	7,5	7,3	10,5	11,5	n/a
Nominal GDP	bln US dollars	136,0	163,3	175,7	179,6	130,7	85,4	94,2

Note: n/a — data not available

Source: formed by author on the basis of [4-7]

From the table 1 tendency of external debt sharp growth and GDP decline can be seen. Although there was noticeable rise of the inflation rate within analyzed period, that negatively influenced business development. Additionally, the amount of direct foreign investments significantly dropped in 2014, which proved the low level of attractiveness of Ukrainian economy.

However, criteria of micro, small and medium enterprises are used for SME Policy Index calculation, that's why the next step of the research should be dedicated to analyses of such important indicators in dynamics as number of enterprises, their turnover and number of employees (fig. 2-4).

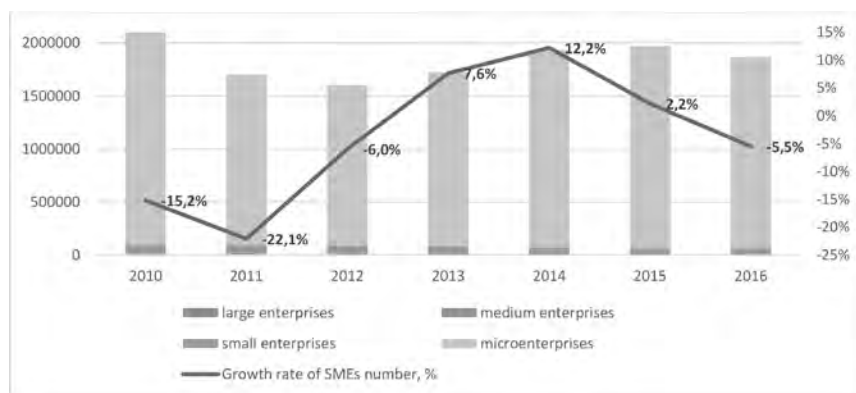


Fig. 2. Number of enterprises in Ukraine according to its size in 2010-2016, units (formed on the basis of [9])

Analyzing fig. 2 it can be specified that in 2016 in total SMEs made up more than 99 % of the legal entities in Ukraine. Overall, it is clear that while the growth rate of SME number fluctuated, the general trend was downwards from 2,2 millions of entities in 2010 to 1,8 millions of entities.

In 2016, the private sector constitute in Ukraine was represented by 95,6 % of microenterprises, 2,6 % of small and almost 1 % of medium enterprises.

The chart from fig. 3 provides the dynamics of number of people employed in Ukraine within time period of 2010-2016, which decreased from 8,4 million people in 2010 to 6,5 million people in 2016. Almost all analyzed period of time it can be observed negative growth rate of employed people for SMEs.

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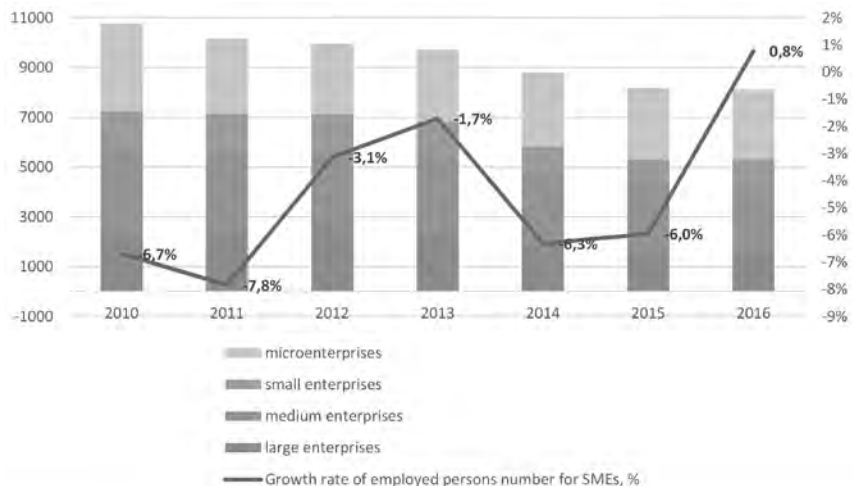


Fig. 3. Number of employees in Ukraine according to enterprise size in 2010-2016, thousands of individuals (formed on the basis of [9])

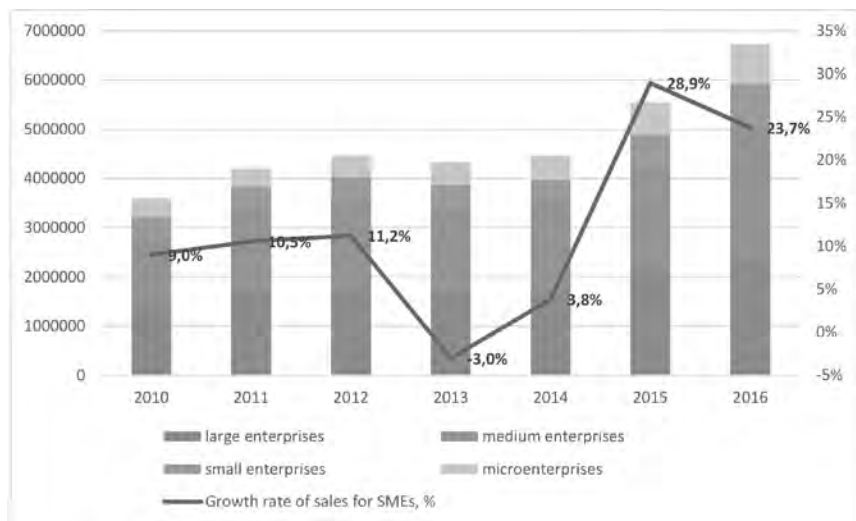


Fig. 4. The total turnover of enterprises in Ukraine according to its size in 2010-2016, millions of hryvnias (formed on the basis of [9])

The share of SMEs in employment remained stable over all time period and equaled approximately 77 %, herewith the share of medium enterprises in employed individuals was about 32 %. That's why the significant imbalance can be marked because the share of medium enterprises is low than 1 % of total legal entities in Ukraine.

Fig. 4 shows the positive dynamics in turnover increasing in Ukraine within 2010-2016 with the growth rate about 87 % in 2016 by comparison with 2010. But the highest percentage have been observed for large and medium sized enterprises, equaled at about 30 % each.

The considered tendencies of business development in Ukraine (table 2, fig. 2 -4) relate to SBA assessment, rates of which are illustrated in fig. 5.

Fig. 5 shows the main changes in results of SME Policy Index for Ukraine evaluated according to each SBA principle. The positive tendency of growth can be observed for the majority of principles, but exceptions also exist, which are connected with innovations and SME internationalization. The highest growth is showed by 7 dimension — standards and technical regulations and 1 dimension — entrepreneurial learning and women`s entrepreneurship.

Some of positive sides of changes are related to strengthening the institutional, regulatory and operational environment (dimension 3 — Regulatory framework for SME policy making, 4 — Operational environment for SMEs and 2 — Bankruptcy and second chance for SMEs).

The progress mainly was achieved because of implementation of the deregulation of economic activity, the streamlining of business registration and the use of e-government tools.

The weaknesses remain in the areas of bankruptcy, regulatory impact assessment, overall regulatory burden for businesses. Lack of SME strategy and action plan enhance unsystematic way of SME policy in Ukraine and gaps in the institutional framework for SMEs.

The rank of Ukraine in dimension 6 — access to finance— was improved in 2016 compared to 2012 SBA assessment (the absolute difference equals 0,63) because of strengthening the coverage of private credit bureaus and financial literacy. But such problems as bank insolvencies, currency fluctuations, high interest rates are among these which could complicate access to finance for SMEs.

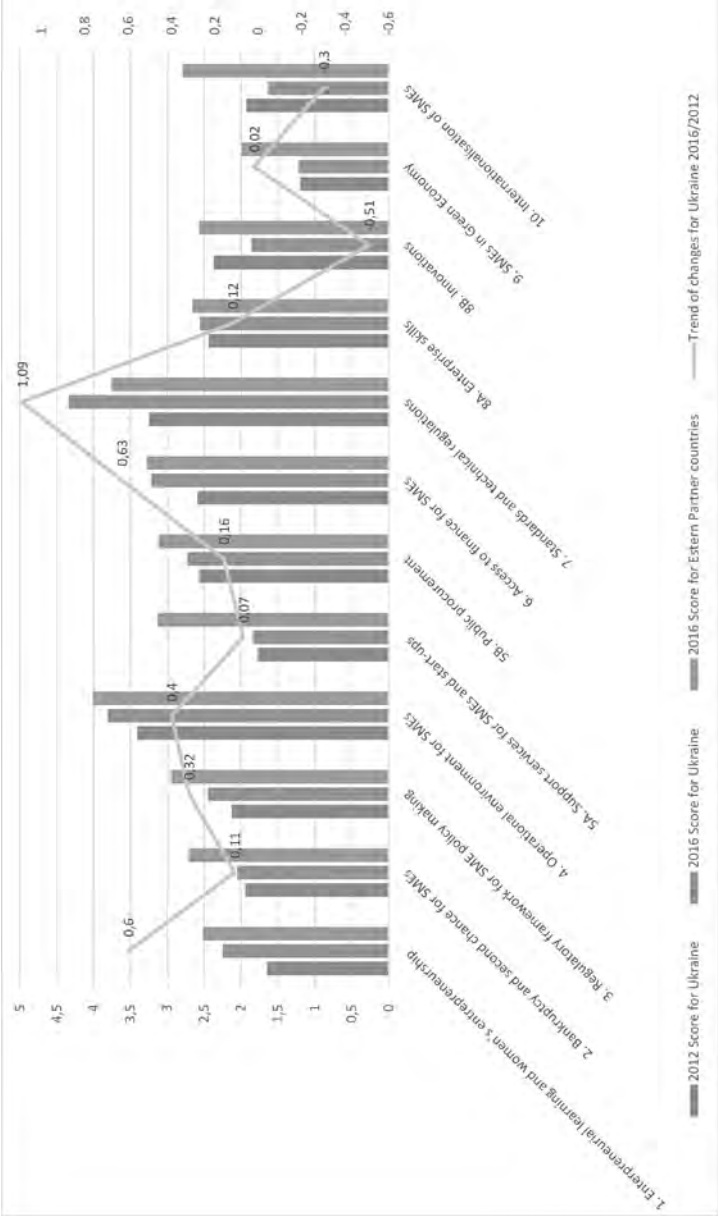


Fig. 5. SME Policy Index in Ukraine in 2012 and 2016 and EaP countries in 2016
(formed by author on the basis of [1, 8])

Dimension 1 — Entrepreneurial learning and women's entrepreneurship and dimension 8A — enterprise skills introduce such area as promoting skills and entrepreneurship development. The positive change includes institutional support for lifelong entrepreneurial learning (SME strategy including entrepreneurial learning developed by the Ministry of Economic Development and Trade). There is no specific policy for women's entrepreneurship development in Ukraine.

Development of SME skills is not in focus of SME policy agenda, the difference between 2016 and 2012 SBA assessment is about 0,12.

Taking into account SME competitiveness, namely Dimension 5A — Support services for SMEs and start-ups, 5B — Public procurement, 8B — Innovations and 9 — SMEs in green economy, it can be seen very limited progress since 2012. Insufficient funding and lack of a clear strategy, especially in the sphere of implementing initiatives for competitiveness improvement, constraint business development in overall.

There is no real support for innovative SMEs, which exists only in operational official documents. The lack of coordinated efforts for SME green economy promotion and cooperation mechanisms for business development services are among characteristic features of SME policy in Ukraine. The adoption of new procurement system, exemplified ProZorro, became the first step in compilation with EU standards and simplifying access to this market for Ukrainian SMEs.

The final stage of assessment is analysis of supporting SME internationalization (Dimension 10 — Internationalization of SMEs and 7 — Standards and technical regulations). Such great results of difference in these dimensions mainly were achieved because of signing of the DCFTA with the EU which opened opportunities for export to the largest market.

Due to DCFTA assignment four new laws on standardization, metrology, conformity assessment and sectoral legislation were adopted in 2014-2015 aligning with EU regulations. But shortage of export promotion strategy aimed at complementation these regulatory acts and initiatives remain as constraints for widening business opportunities.

2016 SME Policy Assessment [1] includes roadmap for policy reforms in Ukraine detailed for 5 thematic areas described in table 1.

So, institutional structure of SME policy implementation in Ukraine is now on restructuring stage. Deregulation and simplifying of administrative

procedures can be considered as positive changes. But lack of complex approach for business development constraints SME doing business.

Long-term strategy of SME development, including creation of more attractive legislative system, improving effectiveness of consultation between public and private sectors, in particular interest intermediation of SMEs in legislative adoption, enhancing cooperation between academia and business, creation incentives for innovative activity of SMEs should become among the priority measures for implementation by Ukrainian authorities,

Therefore, international rating, namely SME Policy Index should be examined as the way for economy evaluation in aspect of business development, underlying the main strengths and weaknesses, which could be useful for investors, financial and governmental institutions and other market participants.

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