

# CASE Network Reports

## Transfer of Know-how for Small and Mid-size Businesses in Georgia, Moldova and Ukraine

### White Paper: Ukraine

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## **List of Acronyms and Abbreviations**

CASE	Center for Social and Economic Research
CF	Cohesion Fund
COSME	Competitiveness of Enterprises and Small and Medium-sized Enterprises
DCFTA	Deep and Comprehensive Free Trade Area
EAFRD	European Agricultural Fund for Rural Development
EBA	European Business Association
EC	European Commission
EEN	Enterprise Europe Network
EMFF	European Maritime and Fisheries Fund
ERDF	European Regional Development Fund
ESF	European Social Fund
EU	European Union
EUR	Euro
FTA	Free Trade Agreement
GDP	Gross Domestic Product
GMU	Georgia, Moldova, and Ukraine
IAI	Investment Attractiveness Index
IBRD	International Bank for Reconstruction and Development
ICI	Investment Climate Index
ICT	Information and Communication Technologies
IER	Institute for Economic Research and Policy Consulting
IFC	International Financial Corporation
ISPA	Instrument for Structural Policies for Pre-Accession
JSC	Joint Stock Company
Ltd.	Private Limited Company
NGO	Non-Governmental Organization
PHARE	Poland and Hungary: Assistance for Restructuring their Economies
QES	Quick Enterprise Survey
SAPARD	Special Accession Programme for Agriculture and Rural Development
SBA	Small Business Act for Europe
SMEs	Small and Medium-Sized Enterprises
V-4	The Visegrad Four (Countries) – Poland, Czech Republic, Hungary, and Slovakia
USD	American Dollar
WEF	World Economic Forum

## **The authors**

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**Jozef Simuth** after graduating from Comeniu University, started to work at City university as a lecturer of management courses. Later on he joined the programs of School of management where he served at different academic and administrative roles. Apart from the academic work, he has been running a private company focused on corporate education, e-learning projects and SME business development consultancy. The main focus of his research is on lifelong learning of SME owners and managers, use of ICT in LLL. He received PhD at Comenius University in the field of general psychology. He is member of Slovak association of psychologists and of European learning style and individual differences network.

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## **Executive Summary**

This project aims to assist SMEs in Georgia, Moldova and Ukraine by providing support to stakeholders in their efforts to develop analytical and policy advocacy capabilities and by opening new channels of communication between SMEs and NGOs in the Visegrad Four countries (Czech Republic, Hungary, Poland and Slovakia) and the rest of the European Union. The aim is to facilitate the transfer of knowledge and to establish a permanent platform for sustainable cooperation that will bring SMEs in the beneficiary countries closer to EU standards, markets, and business opportunities.<sup>1</sup>

The objective of this document is to deliver the complete findings and outcomes of the project aimed at Ukraine. This White Paper serves as an authoritative document with action plans, budgets, and a tangible way for the beneficiary country stakeholders to move forward with the agenda of small and medium-sized business development.

The first part presents an overview of the collected background information and contains basic data on the countries, including some key macroeconomic comparisons as well as rankings in major competitiveness reports such as the *Doing Business* report by the International Bank for Reconstruction and Development or the *Global Competitiveness Report* by the International Financial Corporation. This section also identifies the project stakeholders and provides an overview of the situation of small and medium-sized enterprises in Ukraine. It also includes the findings of two surveys implemented by the Slovak-Ukrainian team.

Based on the findings, the “Discussion and Recommendations” section presents various perspectives on the problems of SMEs in Ukraine using the experience of the accession process of Slovakia, specific examples of key initiatives that led to the resolution of the problems, as well as case studies from various industries. It stresses the involvement of all parties including the EU, local governments, civil society, business associations, and the SMEs themselves.

The “Selection of Project Interventions” section is a summary of the alternative courses of action that could be taken to improve the situation of SMEs in Ukraine based on previous project information. These include a wide range of actions such as provisions and reforms in the areas of overall regulatory framework, business

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<sup>1</sup> The project was implemented by CASE – Center for Social and Economic Research (PL), in cooperation with CEVRO Institute (CZ), ICEG European Center (HU), Vysoká škola manažmentu/School of Management (SK). The project was funded by USAID and Visegrad Fund.

activities expansion, the overcoming of bureaucratic obstacles, the tax system, anti-corruption measures, unfair competition, discriminatory practices by authorities, and information about the implementation of EU norms and regulations. It also mentions the utilization of EU funds for programs aimed at SMEs, the development of state-level strategies, the establishment of institutions specifically aimed at SMEs, the cooperation of businesses in various areas, the development and involvement of NGOs in SME issues, continuous learning aimed at increasing the effectiveness and efficiency of businesses, the enhancement of the innovative potential of businesses, the education of entrepreneurs in order to help them better understand their genuine interests and advocate for them, or the promotion of associations of SMEs and coherence in their joint efforts.

This section also proposes a general framework for the actions to be taken that are the most important/urgent, can produce tangible positive results, are consistent with the objectives of the project, make sense in terms of the competitive advantages of the Visegrad country teams (given the lessons learned in these countries, the specific experience of experts, and the needs of the beneficiary countries), and that are feasible within the scope of this project.

More specifics regarding the actions to be taken are provided in the “Road Map” section, e.g. the proposed deadlines, budgets, responsible people/institutions, justifications, a detailed description of the actions, and expected outcomes. The set of actions consists of roundtables, a contact list, workshops, and ideas for new projects in the area. It also lists some concrete provisions to be taken by various stakeholders (including the project team) which are beyond the scope of this project.

Further information such as the competitiveness report facts, statistical data, the survey questionnaire, contact lists, activity plans and reports etc. can be found in the Appendix.

# 1. Introduction

This project aims to assist the small and mid-sized enterprises (SMEs) in Georgia, Moldova and Ukraine with the main objective being to provide assistance to the stakeholders in the EU Eastern partnership countries in their efforts to develop analytical and policy advocacy capabilities and by opening new channels of communication with the SMEs and NGOs in the V-4 countries and the rest of the European Union (EU). This effort is intended to facilitate the transfer of knowledge and the establishment of a permanent platform for a sustainable co-operation which will bring SMEs in the beneficiary countries closer to EU standards, markets, and business opportunities (Project Description, 2013).

Smaller businesses are one of the most important engines of economic development in market economies. At the same time, SMEs are a group that can particularly benefit from EU membership. The relatively inexpensive and skilled labor force, decent infrastructure, and cultural and geographical proximity to the EU are all factors that increase the competitiveness of SMEs in the three beneficiary countries. However, as of now, most of them are not ready to take advantage of these opportunities for reasons that are both internal and external to the firms. Internal factors include lack of capital, insufficient business skills, language barriers, and lack of knowledge of EU regulations and rules. External factors relate mostly to the unfavorable business environment, in particular red tape, corruption, and non-transparent and unstable tax systems.

The objective of this document is to deliver a general overview of the project by presenting its findings and outlining the most important outcomes, namely, an overview of the collected background including basic data from various sources, recommendations for concrete actions to be taken and their anticipated effects, and a selection of the project's interventions aimed at Ukraine, the beneficiary country assigned to the Slovak team of *Vysoká škola manažmentu v Trenčíne* (School of Management in Trenčín).

The key outcome of the paper is a road map – a very specific plan of actions including schedules, budgets, and other details within the scope of this project that will help the beneficiary country to cope with problems regarding the agenda of small and middle business development using the expertise and experience of institutions and stakeholders accumulated throughout the Slovak EU accession process. It includes a wide range of activities including a discussion of the project

results with various Ukrainian stakeholders, workshops aimed at increasing knowledge about EU markets, legislation and standards, as well as strategic and institutional moves.

## 2. Overview of the Collected Background

### 2.1. Definition of SMEs

Based on the definition of the European Commission (EC), we understand an SME to be a business that has less than 250 employees, or a turnover equal to or less than 50 million EUR, or a balance sheet equal to or less than 43 million EUR (EU recommendation 2003/361). There was originally a small difference in definition of SMEs in Ukraine: The number of employees for small and medium sized companies was the same (maximum 250 employees for medium-sized and maximum 50 employees for small companies). The maximum amount of turnover (gross income from sales of products) was defined as follows: max. 100 mil. UAH for medium-sized and 70 mil. UAH for small companies. Recently a change of the Ukrainian Commercial Code was adopted, where the definition was adjusted: Now it complies with the one of the European Commission, without the balance sheet condition (only number of employees and turnover as in table 2.1 are considered).

**Table 2.1 SME definition by the European Commission**

Company category	Employees	Turnover	or	Balance sheet total
Medium-sized	< 250	≤ € 50 m		≤ € 43 m
Small	< 50	≤ € 10 m		≤ € 10 m
Micro	< 10	≤ € 2 m		≤ € 2 m

*Source:* Own calculations.

### 2.2. Basic Data

According to the “Doing Business Report” of the International Bank for Reconstruction and Development (IBRD), Ukraine ranks 96th among the group of 189 compared countries (Doing Business, 2015). Surprisingly for some, one of the project’s beneficiary countries, Georgia, is in the top 15. Meanwhile, Poland is 32nd, Slovakia is 37<sup>th</sup>, the Czech Republic is 44<sup>th</sup> and Moldova is 63<sup>rd</sup>. The IBRD has been analyzing business regulations and the ease of doing business since 2003. One of the best performers in recent

years was Poland thanks to four new reforms – property registration, tax payment systems, contract enforcement, and insolvency resolution.

Ukraine showed some improvements as three reforms were introduced in the following areas: starting a business (the elimination of capital requirements for company incorporation), property registration (shorter registration periods), and payment of taxes (online system introduced). On the other hand, the construction regulation is considered complicated and some economists claim that former reforms were only a “façade” of improvement. Ukraine ranks 183<sup>d</sup> here. As the report states, the development in countries can be heterogeneous – a country can have substantial progress in one area, while other areas remain less developed. The general performance of other countries can be seen in the Appendix 1.

The following table is an overview of the key economic indicators in the V-4 and the beneficiary countries including gross domestic product (GDP) per capita and unemployment rates. Data are in current USD. Purchasing power parity (PPP) GDP is gross domestic product converted to international dollars using purchasing power parity rates. An international dollar has the same purchasing power over GDP as a USD has in the United States. (World Bank Data, 2013). However, due to the changing situation in Ukraine, we observe currently (November 2014) an increase of inflation to more than 19% and the economic growth is negative.

**Table 2.2 Selected macroeconomic indicators (V-4 and GMU), 2013**

Country	GDP per capita (USD)	Economic Growth	GDP per capita PPP (USD)	Inflation	Unemployment
Czech Republic	18 861	-0.9%	27 344	1.4%	7.0%
Georgia	3 602	3.2%	7 165	-0.5%	15.0% <sup>1</sup>
Hungary	13 134	1.1%	22 878	1.7%	10.2%
Moldova	2 230	8.9%	4 669	4.6%	5.8% <sup>1</sup>
Poland	13 432	1.6%	23 275	1.0%	10.3%
<b>Slovakia</b>	<b>17 689</b>	<b>0.9%</b>	<b>26 114</b>	<b>1.4%</b>	<b>14.2%</b>
<b>Ukraine</b>	<b>3 900</b>	<b>1.9%</b>	<b>8 788</b>	<b>-0.3%</b>	<b>8.2%</b> <sup>1</sup>

Source: World Bank, Eurostat.

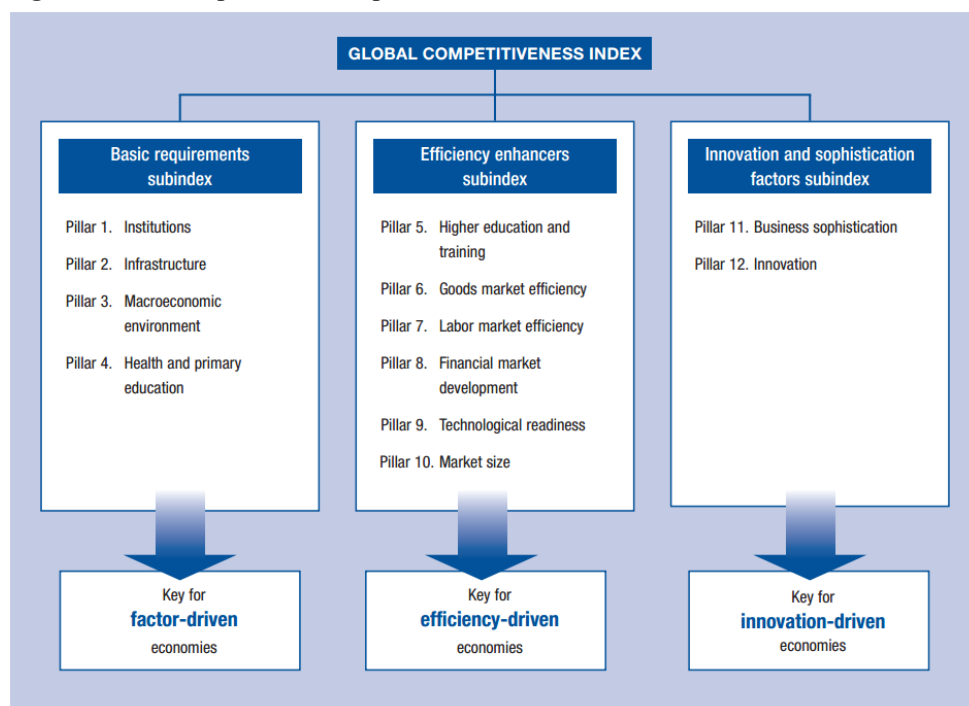
<sup>1</sup> Estimate.

In the Global Competitiveness Index constructed by World Economic Forum (WEF), Ukraine ranks 84<sup>th</sup> out of 148 countries. This index evaluates 12 areas (called pillars of competitiveness), among which are institutions, macroeconomic environment, education, labor market efficiency, business sophistication and innovations. A detailed list of areas is presented in Figure 2.1.

In the report, countries are categorized into three groups according to their level of development: factor-driven economies, efficiency-driven economies, and innovation-driven economies. Ukraine moved to the second group (efficiency-driven economy) in 2012 for the first time. The details of the categorization of other countries are presented in Appendix 2.

The report identifies institutions as the weakest among the 12 pillars of competitiveness in Ukraine. This area is ranked 132nd. However, other areas, such as technological readiness and ICT use need also improvement, especially in regions outside of Kiev and Sevastopol, as presented in the Ukrainian Competitiveness Report (2012).

**Figure 2.1 Twelve pillars of competitiveness**



*Source:* The Global Competitiveness Report 2013-2014.

Unfortunately, recent and consistent data on the business climate in Ukraine is quite scarce because the most reliable and comprehensive survey done on a regular basis by the International Financial Corporation (IFC) since the end of 1990s has been discontinued, and the last one (2010) is already outdated due to the tremendous institutional changes that have occurred since then. The WEF's data described above can be complemented only by the Quick

Enterprise Survey (QES), routinely run by the Institute for Economic Research and Policy Consulting, although on a relatively small non-representative sample of 300 manufacturing mid-sized enterprises. The main recent results are shown in Table 2.3.

**Table 2.3 Main impediments for doing business according to the QES (2013)**

<b>Impediments to production growth, %</b>	<b>Q1'13</b>	<b>Q2'13</b>	<b>Q3'13</b>
Shortage of skilled workers	9.4	13.4	9.8
Shortage of orders/sale	61.4	56.9	60.8
Shortage of inputs	20.1	18.5	21.7
Liquidity problems	53.9	54	60.9
Unstable political situation	12.9	10.2	9.6
Shortage of capacities	4.4	6.7	4.5
Access to credits	20.4	17.9	16.2
Corruption	6.6	7.3	4.4
Shortage of energy	3.1	3.8	3
Unfavorable regulatory environment since 2002	46.7	55.6	52.9
High regulatory burden (unfavorable regulatory environment)	33.5	43.8	42.1
Excessive taxation (tax rate and tax administration)	54.9	47.6	36.3
Outdated technology	10	15.3	13.6
High interest rate	30.7	42.2	49.7
Frequent changes in economic legislation	17.2	15.3	14.9
High competitive pressure	41.4	36.5	35.8
Other	14.7	13.4	12.5

*Source:* Institute for Economic Research and Policy Consulting.

“Unfavorable regulatory environment” is an integral indicator that represents the number of respondents that have positively rated at least one of the impediments such as “high regulatory burden”, “frequent changes in economic legislation” or “corruption”. Unfortunately, this methodology does not allow for distinguishing the effects of high tax burden and the problems in administration of taxes.

According to a special survey run by the same institution in 2013, a decrease in the payroll tax is the most desired reform for the respondents (78.1%). Leveling the playing field ranks second (43.9%), followed by “state aid to enterprises” (which technically means the opposite) which was selected by 38.9% of the respondents. This reflects either an enormous level of ambivalence – hence, a lack of understanding of the basic things – among entrepreneurs or a deep split between two major groups, the one that enjoys special privileges and the one that is ready to compete fairly. 35.4% clearly wish to abolish privileges for individual



firms and industries, while 29.2% desire government support for energy-saving technologies and innovation. Finally, 36.4% demand an effective mechanism for law enforcement. The remaining reforms offered in this survey are supported by less than 26% of respondents.

Yet another source of data about business climate in Ukraine is the survey run by the European Business Association (EBA) among its members (about 100 observations), which represent a large part of the foreign as well as domestic investors in various industries.

The Integral Tax Index calculated in this way includes components related to tax legislation, administration, tax burden and “overall quality”. It has remained at the level of 2.32-2.42 (on a 5 point scale) since 2011, which means “mostly negative”. Another specific index that was calculated only for 2013 relates to the court system. Its integral performance is assessed as 2.02, with confidence as low as 1.72. The third specific index evaluates customs. They perform slightly better than others, with an integral rating of 2.81, which even reached 3 in previous years.

The most popular however is the Investment Attractiveness Index (IAI)<sup>2</sup> comprised of the Investment Climate Index (ICI) and respondents’ expectations. This index hit 2.72 in Q1 2014, the highest value since Q1 2011. This is a 0.91 improvement since Q3 2013. The ICI also improved, from 1.6 to 2.0, which is also the highest score since Q3 2011. These improvements, compared to extremely low previous values, certainly reflect the effect of ousting the Yanukovich regime, which was very unfavorable for most genuine foreign investors but a few privileged ones. Still, both values remain low in absolute terms, and are far from satisfactory, which means that the real work is still ahead.

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<sup>2</sup> Methodology: EBA Investment Attractiveness Index is assessed as the mean value of the responses to the following five questions:

- What do you think about the investment climate in Ukraine?
- How would you estimate the investment climate for your company in Ukraine at the moment compared to the previous three months?
- What are your expectations of the investment climate in Ukraine over the next three months?
- In your opinion, would it be profitable for new entrants to invest in Ukraine over the next three months?
- What are your expectations of the business environment of your primary industry over the next three months?

## 2.3. Stakeholder Identification and Overview of Key SME Initiatives in Slovakia

According to the report of the European Commission on Small Business Act for Europe (SBA) implementation in the Slovak Republic (2013), SMEs in Slovakia create 99.9% of all business subjects in Slovakia, which corresponds with the EU27 average. Also, the contribution to the country's overall employment is close to the EU average (67.3%), as is the contribution to the country's economic value creation (55.9%).

**Table 2.4 Institutional units by ESA95 and size category by number of employees, Dec 31, 2013**

Institutional units by ESA95	Number of employees: 0 - 9	Number of employees: 10 - 49	Number of employees: 50 - 249	Number of employees: 250 - 499	Number of employees: 500 - 999	Number of employees: 1 000 +	Total
Total institutional units *	422 806	19 491	4 112	405	214	132	624 173
Non-financial corporations, public	280	172	85	29	21	27	634
Non-financial corporations, private	118 299	10 209	1 608	143	65	20	149 903
Non-financial corporations, foreign controlled	19 479	2 246	928	139	96	59	30 342
Financial corporations, public	3	3	3	-	-	1	10
Financial corporations, private	651	34	9	1	1	-	746
Financial corporations, foreign controlled	139	62	26	10	5	7	261
Public government	2 146	3 853	1 281	70	22	17	7 508
Non-profit institutions serving households	37 148	748	88	11	4	1	52 556
Households	244 661	2 164	84	2	-	-	382 213

Source: Statistical Office of the Slovak Republic.

\* Including units with an uncertain number of employees

**Table 2.5 Legal units by legal form and size category by number of employees, Dec 31, 2013**

<b>Legal form</b>	<b>Number of employees: 0 - 9</b>	<b>Number of employees: 10 - 49</b>	<b>Number of employees: 50 - 249</b>	<b>Number of employees: 250 - 499</b>	<b>Number of employees: 500 - 999</b>	<b>Number of employees: 1 000 +</b>	<b>Total</b>
Total*	422 806	19 491	4 112	405	214	132	624 173
Joint stock companies	3 369	984	585	124	75	51	5 760
Limited liability companies	127 521	10 827	1 811	170	88	41	164 970
Other trading partnerships	949	68	19	1	-	3	1 211
Cooperatives	805	475	150	10	13	1	1 546
State enterprises	2	4	11	1	-	3	21
Subsidized organizations	133	295	215	9	3	-	661
Budgetary organizations	1 793	3 529	1 059	56	14	5	6 463
Self-employed persons	222 449	2 072	82	2	-	-	352 709
Self-employed farmers	17 251	70	2	-	-	-	21 925
Freelancers	4 961	22	-	-	-	-	7 579
Other legal forms	43 573	1 145	178	32	21	28	61 328

Source: Statistical Office of the Slovak Republic.

\* Including units with an uncertain number of employees

**Table 2.6 Legal units by legal form and economic activity as of Dec 31, 2013**

Economic Activity	JSC	Ltd.	Other trading firms	Cooperatives	State firms	Subsidized orgs	Budgetary orgs	Self-employed persons	Freelancers	Self-employed farmers	Other legal forms	Total
Slovak Republic	5 760	164 970	1 211	1 546	21	661	6 463	352 709	21 925	7 579	61 328	624 173
Agriculture, forestry and fishing	139	2 833	9	718	6	4	2	13 081	23	7 573	2 039	26 427
Mining and quarrying	18	143	1	1	-	-	-	40	1	-	3	207
Manufacturing	647	13 264	103	100	3	3	-	55 657	33	-	560	70 370
Electricity, gas, steam and air conditioning supply	94	404	2	2	1	-	-	16	9	-	20	548
Water supply; sewerage, waste management and remediation activities	71	687	4	3	1	43	1	524	-	-	28	1 362
Construction	331	13 365	51	58	-	9	2	79 891	5	-	892	94 604
Wholesale and retail trade; repair of motor vehicles, motorcycles	1 145	48 858	294	240	-	-	1	92 286	110	-	2 327	145 261
Transportation and storage	157	6 706	19	7	2	4	2	13 882	251	-	825	21 855
Accommodation and food service activities	115	6 270	30	6	-	5	22	13 390	1	-	233	20 072
Information and communication	279	8 359	82	16	-	7	1	10 247	-	-	154	19 145
Financial and insurance activities	193	734	10	9	-	-	1	3 606	8 879	-	71	13 503
Real estate activities	901	9 811	79	261	1	10	6	2 163	-	-	10 151	23 383
Professional, scientific and technical activities	992	28 361	397	73	2	45	57	33 364	7 524	-	487	71 302
Administrative and support service activities	456	14 124	95	41	1	26	2	10 971	139	6	377	26 238
Public administration and defense; compulsory social security	5	5	-	-	-	9	3 236	-	-	-	9	3 264
Education	30	1 846	5	4	1	196	2 690	4 437	1	-	1 096	10 306
Human health and social work activities	80	5 551	5	2	2	19	364	1 143	4 926	-	1 563	13 655
Arts, entertainment and recreation	95	1 947	16	5	1	280	76	2 235	21	-	10 747	15 423
Other service activities	12	1 702	9	-	-	1	-	15 776	2	-	29 746	47 248

Source: Statistical Office of the Slovak Republic.

Below is the framework/structure of key initiatives and institutions regarding SMEs in Slovakia. One of the goals of this document is to provide an overview of these in a systematic manner. They are divided into three main categories/levels: EU, state, and organizational, although there are some overlaps (e.g. in case of structural funds that are EU sponsored, but applied at the national level). More specific information on SME development initiatives in Slovakia can be found in parts 2.5 (Factor Framework) and 3 (Discussion and Recommendations).

### **EU Level**

- Small Business Act for Europe – the key strategic document of the European Union on SMEs reflecting the EC’s political will to recognize the central role of SMEs in the EU economy which puts in place a comprehensive SME policy framework for the EU and its Member States;
- Structural Funds (Cohesion, Social, Regional Development):
  - Current operational programs in the Slovak Republic, e.g. Competitiveness and Economic Growth, Employment, and Education (managed directly by ministries or minister agencies at the national level within the National Strategic and Reference Frame - NSRR) – <http://www.nsrr.sk/en>;
  - Former operational programs (grant schemes supporting tourism, SMEs, Operational Programme Industry and Services) and pre-entry funds – PHARE, ISPA, and SAPARD.
- The EU Framework Programme for Research and Innovations (Horizon 2020, COSME) – <http://ec.europa.eu/programmes/horizon2020/>;
- European Investment Bank – <http://www.eib.org/>;
- Special Instruments – e.g. JEREMIE ([http://ec.europa.eu/regional\\_policy/thefunds/instruments/jeremie\\_en.cfm](http://ec.europa.eu/regional_policy/thefunds/instruments/jeremie_en.cfm)).

### **State/Government/Sector Level**

- Slovak Business Agency (formerly National Agency for Development of SMEs) – information and projects supporting SMEs, micro-loans, incubators and support/services for start-ups, venture capital, EU structural funds – <http://www.sbagency.sk/en/slovak-business-agency>;
- Slovenská agentúra pre rozvoj investícií a obchodu (Slovak Investment and Trade Development Agency) – design and use all kinds of stimuli to increase the influx of foreign investment while promoting Slovak

companies in their effort to transform into successful high performers in the globalized world market – <http://www.sario.sk/en>;

- Ministry of Economy of the Slovak Republic – the main governmental platform for the SME agenda – <http://www.economy.gov.sk/>;
- Other ministries and specialized institutions with a related agenda, e.g. Central Office of Labor, Social Affairs and Family – <http://www.upsvar.sk/> or Central Government Portal <https://www.slovensko.sk/sk/titulna-stranka>;
- Secondary Schools and Universities – specialized education on trade, business, and economy (high schools, higher education, educational programs etc.) – <https://www.minedu.sk/about-the-ministry/>.

### **Organizational Level**

- NGOs – providing services, consultations, information, and education for SMEs, e.g. Pontis – <http://www.nadaciapontis.sk/>, Cesta – information and consulting portal for small businesses <http://www.malepodnikanie.sk>;
- Private consulting, lifelong education and vocational training – e.g. Business and Innovation Centre – BIC Bratislava, Ltd.: business and innovation consulting, transnational technology transfer, financial consulting, regional development, support in the EU Framework Programmes for research, technology development and innovation (FP7 & CIP), project management and investment consulting; coordinator of the Enterprise Europe Network representation in Slovakia, one of the co-founders of the SPICE (Science Parks and Innovation Centre Expert) Group and of the Slovak Association of BICs and RAICs – <http://www.bic.sk/index.php?lang=en>;
- Associations:
  - Slovenská asociácia malých podnikov (Slovak Association of Small Enterprises) – <http://samp-msp.sk>;
  - Slovenská živnostenská komora (Slovak Chamber of Self-Employers) – <http://www.szk.sk/uvodna-stranka/>;
  - Podnikateľská aliancia Slovenska (Business Alliance of Slovakia) – <http://www.alianciapas.sk/>;
  - Združenie mladých podnikateľov Slovenska (Association of Young Entrepreneurs of Slovakia) – <http://www.zmps.sk> (see also Business Angels).

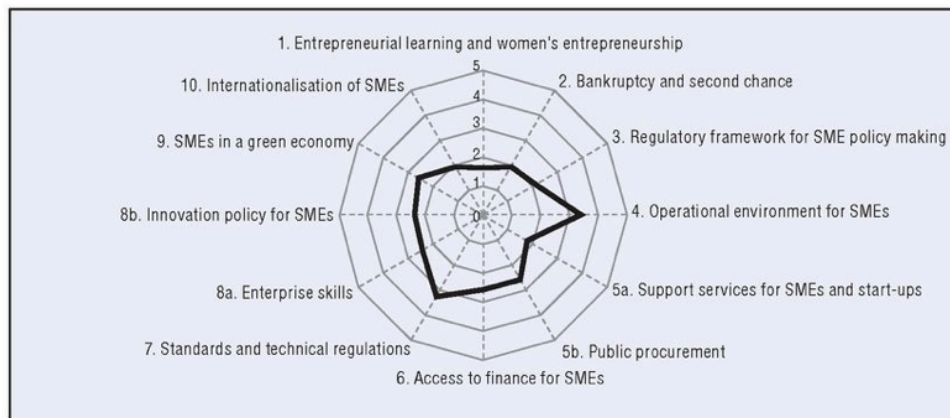
- Chambers:
  - Slovenská obchodná a priemyselná komora (Slovak Chamber of Commerce and Industry) – a gateway to successful business in Slovakia – <http://web.scci.sk/index.php>;
  - Slovak-Ukrainian Chamber of Commerce – services for business with Ukraine, business contacts, joint ventures, investment consulting, trade missions, fair trades, conferences.
- Banks – e.g. Unicredit Bank (implementer of EU program JEREMIE – support for SMEs);  
<http://www.unicreditbank.sk/sk/Podnikatelia/Uvery/JEREMIE-program>;
- Media – e.g. Trend – <http://www.etrend.sk>, Hospodárske noviny – <http://hnonline.sk/>, Slovak News Agency – <http://www.sita.sk/> and associated specialized portals – <http://www.podnikam.webnoviny.sk/>;
- Mentoring partnerships – e.g. Nexteria - <http://www.nexteria.sk>, Business Angels – <http://zmps.sk/nase-aktivita/business-angels.html>;
- Clusters – e.g. Automotive Cluster – West Slovakia – <http://www.autoklaster.sk>.

See also Appendix 3.

## **2.4. SMEs in Ukraine**

The progress report on the implementation of the Small Business Act for Europe in Ukraine by the OECD (2012) claims that Ukraine's commitment to SME development showed some progress in deregulation and the simplification of administrative procedures. On the other hand, there is still a lot of room for improvement. Besides the continuously deteriorating business environment, the OECD states that the main problem is “no coherent approach to SME policy making, no efficient strategy, policy tools and resources”. Directives remain on paper and without implementation. Lifelong entrepreneurial learning will require greater engagement of all stakeholders working in partnership, particularly to address entrepreneurship as a key competence at all levels of education. The institutional framework for SME policy making needs strengthening and support with public-private dialogue and monitoring tools as well as the provision of business services and export promotion” (p. 271).

**Figure 2.2 SBA Scores for Ukraine**



*Source:* OECD (2012).

Reliable and consistent statistical data in this field is scarce. Even the definition of SMEs in Ukraine is not fully compatible with European standards. It is set by the Commercial Code of Ukraine, which does not have a definition for microenterprises. This increases the problems of allocation of the already limited support in the SME sector. Individual entrepreneurs account for approximately 84% of the total number of registered and active businesses in the country and their contribution to employment is about 26% of people (including owners).

The ratio of smaller business to the overall number of business entities in Ukraine is similar to Slovakia's and meets EU standards (more than 99%). However, employment (especially in the sector of medium-sized firms) continued to decrease by approximately 10% yearly over 2007 and 2010. According to the OECD (2012) employment in the SMEs sector accounted for about 58% of total employment in Ukraine in 2010. In terms of turnover, the SME sector contribution continued decreasing as it dropped from 60.7% in 2007 to 51.2% in 2010. The problem of data inconsistency however causes tremendous differences in various sources. Some data indicate that the numbers worsened dramatically in the two years of Yanukovich's government. In 2011, the World Bank estimated that the SME economy creates about 20% of total employment in Ukraine with the majority of employees (approximately 60%) working in micro and small firms. Official data from the State Statistics Service of Ukraine are presented in Appendix 4.

Based on the available information, the sectors with a large share of SMEs are real estate operations, rent, engineering, business services, construction,



and hospitability. The agriculture (including hunting and forestry) and industry sectors have a larger proportion of medium-sized companies (see also Appendices 4 and 5).

Smaller businesses are concentrated in larger cities. The main export-oriented sectors are industry and agriculture. Because of the complexity of business regulation, a lot of formally registered businesses also run informal operations. The main causes of the existence of informal firms are poor protection of property rights, poor administration of taxes, a high tax burden, and corruption.

See also Appendix 6 (Contact List, Ukrainian Stakeholders).

## **2.5. The Factor Framework for SME Development**

Based on the research of competitiveness factors as taken into consideration by the Doing Business and Global Competitiveness Reports, the strategic initiatives and documents of government organizations, and the research and experience of the authors in the field of smaller business, a general framework of SME development factors has been constructed (Table 2.7).

The objective was to summarize all possible factors that can have an impact on SME competitiveness. The framework can serve as a basis for the identification of key topics and stakeholders as well as to the development of the survey questionnaires (see part 2.6). Some factors were hard to categorize based on their particular level (macro, sector, micro) so their listing in the respective category is based on its prevailing relevance.

We shall discuss/comment on the selected factors and their impact on SME development and related matters (such as examples of the involvement of specific stakeholders, cases, or other topics) later in the paper. In this way we can interpret our method of constructing the research with the use of the above sources as well as our own perspective regarding the specifics of the situation in the target countries (Slovakia and Ukraine).

**Table 2.7 Factor framework for SME development**

<b>Level/Factors</b>	<b>Key Topics/Stakeholders</b>
<b>Macro (International/State/General External)</b>	
Macroeconomic, Market, and Demographic Indicators	GDP (per capita), growth rate, unemployment rate, inflation rate, market size, demography
Political Climate	Democracy, ruling parties/coalitions, influential people/groups, corruption, international commitments/memberships
Legislation/Justice	Laws, policies, tax system, bureaucracy, law enforcement
Institutions/Infrastructure	Government institutions and organizations, financial sector, non-government sector, transportation, telecommunications
Culture	Language, history, traditions, customs, consumer preferences, dynamics, entrepreneurial spirit
<b>Sector (Business/Industry)</b>	
Education	General level, secondary and higher education system, lifelong/vocational education
Competition	Rivalry, traditional sectors, sources of competitive advantage, cooperation of businesses (associations, clusters, projects etc.)
Resources	Raw materials, people, capital, other important inputs
Norms	State/international norms/standards (technical, ecological etc.)
Technology	Technological level/readiness, investments, advancement
<b>Micro (Management/Organization)</b>	
Leadership	General business management abilities (business functions), visions, strategies, technical, systematical, and interpersonal skills, ethics
Organizational Culture	Values and behaviors supporting organizational success in various business environments
Human and Social Capital	Skills, training, talent management, information and knowledge management, communication, relationships, motivation
Innovations	Technology, processes, products, patents, licenses

Source: Own calculations.

## **2.6. Questionnaire Evaluation and Other Findings**

As part of the project, a uniform questionnaire (see also Appendix 7) was prepared and sent out to various stakeholders and experts. We received 67 relevant responses. Targeted organizations included: ministries and other policy actors, SME organizations, agricultural associations, think tanks and expert groups, banks dealing with SME financing and local representatives of international organizations.

Here we analyze the results. The questionnaire was given in Ukrainian. In this analysis, we use the English terms of the questionnaire.

In the first part of the questionnaire, respondents were asked to evaluate to what extent the factors listed were impeding the development and activities of SMEs in their country. On a 1-4 scale, 1 represented “not at all”, 2 represented “somewhat”, 3 stood for “significantly”, 4 meant “very significantly”. NA was provided when the respondent did not/could not answer. Respondents were asked to mark “help” in case they thought that an intervention by the GMU Project would be advisable and welcome. However, the “help” answers were infrequent (see below).

The questions targeted six domains relevant for the development and daily activities of SMEs. The main domains were:

- Labor and skills,
- Red tape/bureaucracy,
- Tax burdens,
- Law and order,
- Market specificities,
- Finance and other issues.

In the table below, we provide the average value of the responses given to the seriousness of the obstacle (without the “NA” answers), and the number of “help” responses out of the 67 respondents who considered that the project and V4-GMU experiences could add to the solution of the given problem.

Further, we discuss the most significant and other interesting results of the survey and provide important comments by the respondents.

**Table 2.8 Summary of the Questionnaire Results**

<b>1</b>	<b>Labor &amp; Skills</b>		
A	Low market skills of entrepreneurs/Inadequate business education	2.55	0
B	Lack of business experience	2.18	1
C	Lack of experience in foreign trade, in EU in particular	2.93	3
D	Lack of knowledge of EU regulations	3.07	4
E	Lack of language skills and contacts abroad	2.88	1
F	Low availability of high skill workers	2.73	1
G	Low availability of low-skill workers	1.79	1
H	Demographics/low number of young labor market entrants	1.86	0
I	High emigration	1.56	0
J	Expensive labor/Mismatch between labor cost and productivity	2.03	0
K	Employer-employee conflicts	1.85	0
L	Low labor market flexibility	2.07	0
M	High syndicalization/Excessive power of labor unions	2.25	0
N	Low labor ethics	2.59	1
O	Low business ethics	2.65	1
<b>2</b>	<b>Red Tape/Bureaucracy</b>		
A	Difficulties in registering company	1.98	0
B	High cost of market entry	2.92	0
C	Difficulties to expand business activities/bureaucratic obstacles	3.08	0
D	Non-transparent/inconsistent regulations	3.22	0
E	Poor overall regulatory framework/Excessive burden of regulations	3.29	0
F	Foreign trade barriers	2.82	0
G	Institutional differences with EU	2.91	0
<b>3</b>	<b>Tax burden</b>		
A	Unstable and non-transparent tax rules and/or their applications	3.27	0
B	High cost of compliance	3.00	0
C	High effective SME presumptive tax rates	3.06	1
D	High effective personal income tax rates	2.71	0
E	High effective corporate income tax rates	2.84	0
F	High effective value added tax/trade tax rates	3.15	0
G	High custom charges	2.71	1
H	Other high taxes and fiscal fees/charges	2.89	1
<b>4</b>	<b>Law and order</b>		
A	Weak property rights/weak contract enforcement	3.06	0
B	Crime and violence (low safety)	2.80	0
C	Corruption/Clientelism/Favoritism	3.47/3.42/3.42	0/0/0
D	Weak judiciary	3.59	0
<b>5</b>	<b>Market</b>		
A	Small market size/Weak demand	2.82	0
B	Barriers for exports to foreign markets	2.79	0

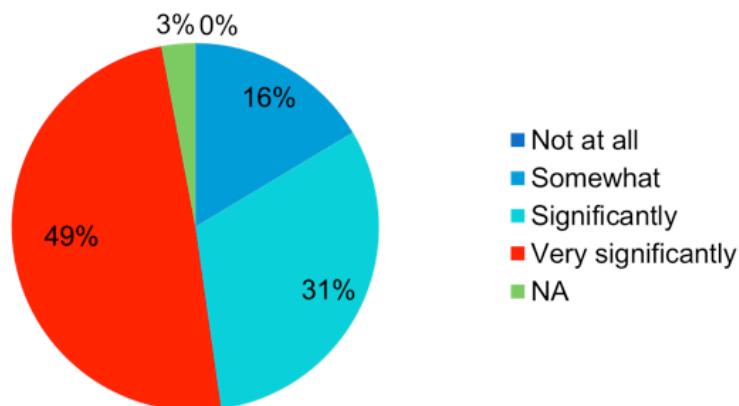
C	Unfair competition/Uneven playing field/Informal economy	3.09/3.11/2.69	0/0/2
D	Monopolization/Excessive market power of some participants	2.95	1
E	Weak market position of SMEs	2.89	1
F	Weak professional organizations of SMEs	2.81	2
G	Weak analytical and policy advocacy of SME organizations	2.76	1
H	Discriminatory practices of authorities	3.11	0
I	Unfair privileges for foreign investors	2.18	1
J	Macroeconomic instability (demand, inflation, exchange rate)	3.28	0
K	Political instability	3.52	0
L	Insufficient market information/governmental support for SMEs	2.71/2.75	0
M	Weak support/lack of support by international organizations	2.51	1
N	Low level of activities of venture capital	2.48	1
6	<b>Finance and other</b>		
A	Difficulties in accessing financial services	2.89	0
B	High cost of credit	3.52	1
C	Inappropriate infrastructure	2.97	0
D	Weak professional organizations of SMEs	2.86	1
E	Difficult access to internet/Lack or low quality of business websites	1.55	0
F	Lack of open communication channels with EU	2.44	0

Source: Own calculations.

### 2.6.1. Overview of the Most Significant Results

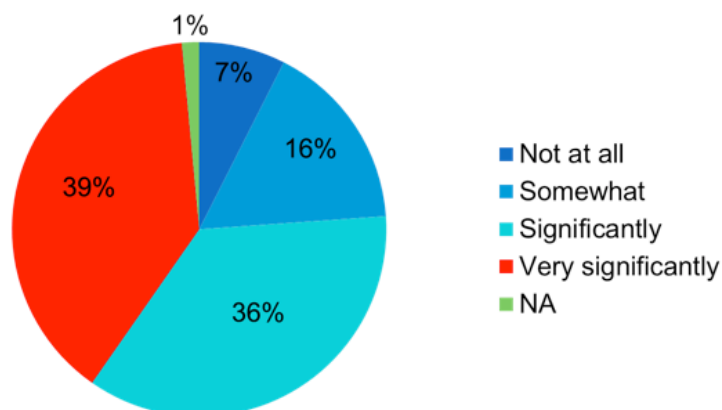
Some of the results that have a high level of significance are presented in the figures below.

**Figure 2.3 Poor overall regulatory framework/Excessive burden of regulations (3.29 out of 4)**

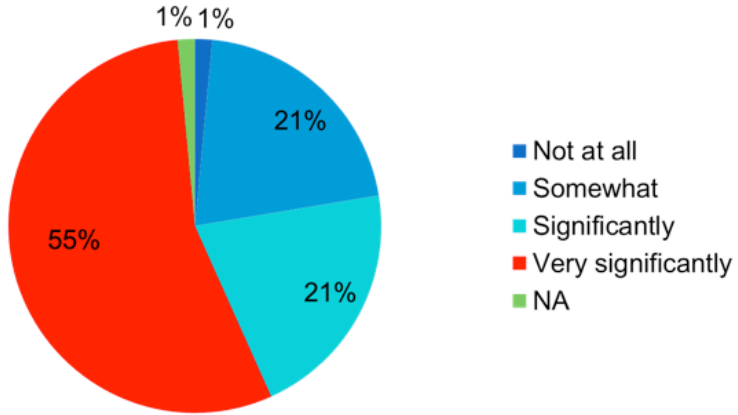


*Related:* Non-transparent/inconsistent regulations: 3.22.

**Figure 2.4 Difficulties to expand business activities / bureaucratic obstacles (3.08)**

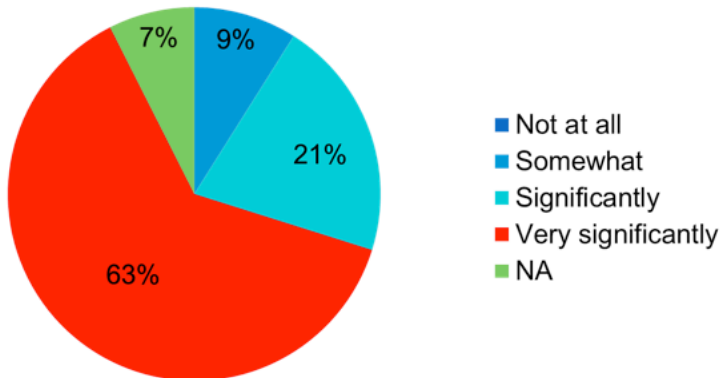


**Figure 2.5 Unstable and non-transparent tax rules and/or their applications (3.27)**



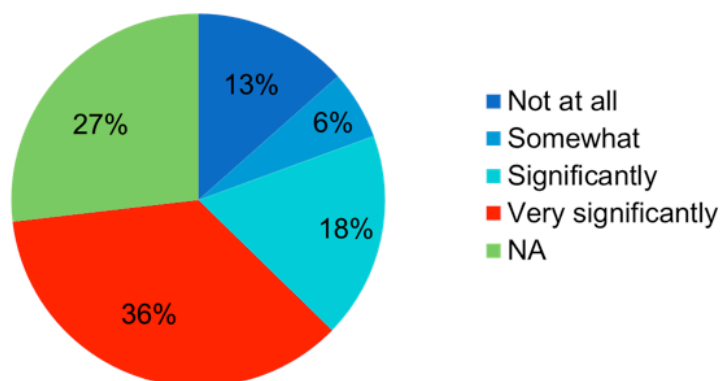
*Related:* High effective SME presumptive tax rates: 3.06 and High effective value added tax/trade tax rates: 3.15.

**Figure 2.6 Corruption (3.47)**



*Related:* Weak property rights/weak contract enforcement: 3.06 and Weak judiciary system: 3.59.

**Figure 2.7 Lack of knowledge of EU regulations (3.07)**



### **Other Selected Results**

#### High Impediments:

- Unfair competition: 3.09;
- Discriminatory practices of authorities: 3.11;
- Macroeconomic instability: 3.28;
- Political instability: 3.52;
- High cost of credit: 3.52.

#### Low/Moderate Impediments:

- High syndicalization/Excessive power of labor unions: 1.25;
- Difficult access to internet/Lack or low quality of business websites: 1.55;
- Employer-employee conflicts: 1.85;
- Demographics – low number of young labor market entrants: 1.86;
- Difficulties in registering company: 1.98;
- Unfair privileges for foreign investors: 2.18;
- Lack of business experience: 2.18;
- Lack of open communication channels with EU: 2.44.



## **Major Comments by Respondents**

Here are selected comments of respondents, especially those that represent suggestions for changes:

- We need a stable political situation; reduce the cost of credit; fight corruption;
- Don't take the entire industry, but only a certain sector, and the example of successful change and improvements in it to prove the feasibility of participation in the project;
- Give priority to, or at least ensure equality between private and public enterprises in the field of technical services;
- One of the best means to ensure the competitiveness of regional economies and the world economy is clustering. Cluster association today is one of the most effective forms of innovation processes and forms of regional development, in which individual companies and entire systems are able to reduce their costs through joint cooperation of technology. It's worthwhile to consider the establishment of technological industries;
- The development of the material base, new technologies;
- Deregulation of the state, the introduction of minimum most transparent procedures for interaction between the government and SMEs;
- Ensure a fair trial; change relationships between taxes and businesses;
- Joint roundtables;
- Work of Parliament, Cabinet;
- Providing simplified licensing procedures (the collection of permissions that are entitled to the beginning of production should take no longer than 5 working days in general; must be a principle "allowed to produce any product that is not prohibited by law"), the possibility for industrial production to have taxation based on the simplified system (flat tax) – to reduce the time for reporting and financial burden on the manufacturer;
- Take the first 10 countries in the ranking with the best conditions for doing business, and apply these laws in Ukraine;
- Financing business associations;
- Note the new sectors of business, for example, innovative entrepreneurship and e-business;
- Organize a regional appellate board of public organizations of vetoing any supervisory authority;

- Business and industry associations should collaborate together closer and should create an information space. This could be used as a tool to inform people about changes in legislation, international trade, and economic processes. Institutions could use it to share information and support in obtaining international investments and grants for their industries, and to exchange international experience in production and trade;
- Elimination of corruption and bureaucracy, building a supply chain for products in Europe, informing entrepreneurs on norms and standards in Europe as well as a list of required documents and processes for their preparation, the organization of a "Euro Exhibition" in which Ukrainian producers can advertise their products to European countries and organize sales;
- Ensure the monitoring of compliance; create the conditions for business development in the publishing business – remove discriminatory rules and practices such as preferential tariffs for the delivery of certain media, media funding from the budget (state and municipal), corruption in land issues for kiosk selling press, monopolizing the supply of newsprint in Ukraine, etc;
- Dissemination of information and knowledge of working with the EU and working in the EU, for example during training and on the Internet; meetings with representatives of SMEs, and practical examples of cooperation.

Table 2.9 summarizes further findings collected through interviews with foreign entrepreneurs doing business in Ukraine. These finding can be used as a supplement to the data obtained in the questionnaire survey.

**Table 2.9 Selected statements of foreign entrepreneurs in Ukraine**

<b>Statement/Opinion</b>
"The economy of Ukraine is divided among about 15 families that promote their own interests."
"Medium-sized companies almost do not exist there. There is a problem with so called "rajdierstvo" – which means that many successful and growing companies are taken over by larger companies with the assistance of the state administration and unfavorable conditions for the founders of these companies."
"...local oligarchs do not want foreign competition, they are not interested in sharing their business - there is little real support for FDI..."
"Ukraine's national interest is superior to the interest of foreign investors."
"Communication by email does not work; excessive use of the mobile phone is another phenomenon in Ukraine..."

“Over 80 per cent of young people (18-25 years old) and 95 per cent of older (more than 25) do not speak any English.”

“Young people have very little motivation to learn foreign languages.”

“I discovered that for our employees, 'please and thank you' are completely unknown concepts, I had to start on a much more fundamental customer communications level...”

“One of the standard answers (especially in banks) to get rid of the customer and the problem is: "the system does not work. “

“The whole business in Ukraine is built on personal recommendations, as this is the only reliable way to avoid fraudsters.”

*Source:* Own calculations.

According to the small focus-group research conducted in the spring of 2013 (Dubrovskiy, 2013), a non-performing court system and blatant violations of the law by bureaucrats were named among the most important impediments. These problems have more than offset most of the government’s efforts in deregulation. Another major problem in this area was the deliberately poor targeting of those efforts: instead of focusing on the most important impediments to entrepreneurship, the government tried and succeeded in improving their Doing Business ratings (a “façade” deregulation). And, of course, the entrepreneurs complained about the extremely poor protection of property rights, to put it mildly. In fact, the same “law enforcement” agencies that would be expected to exercise such protection were the main violators.

Such an extremely poor performance of the market and law enforcement institutions is confirmed by the detailed WEF ranking. Namely, Ukraine is rated 143<sup>d</sup> (out of 148 countries) in “Property rights” thanks to the notoriously poor protection of the intellectual ones, 144th and 146th in “Efficiency of legal framework” in settling disputes and challenging regulations, respectively, 139<sup>th</sup> in “Judicial independence”, etc. All of these indicators deteriorated during the Yanukovich rule. In combination with other adverse factors, such as increasing tax pressure and lack of access to financing (to a large extent related to the poor protection of property rights), this has led to sharp decrease in the number of business entities per capita (from 67 per 1000 of population in 2009 to 35 in 2012). This has been accompanied by an equally sharp decrease in employment in the SME sector of about 2 million of employed (including entrepreneurs and the self-employed), which constituted about 1/3 of total employment in the SME sector in 2009. These adverse developments were at the core of current economic crisis in Ukraine.

There is hope that after the ousting of Yanukovich some real reforms will start that would allow for real improvements in the business conditions, improvements

that are sorely needed for renovation of growth. The new Ukrainian authorities are quite sensitive to the recommendations and pressure of the civil society that has become quite vibrant due to Maidan events. We believe that civil society, NGOs and stakeholder groups will continue playing the important role of driver in further reforms. In this respect, the constructive support of civil society, the support of specific projects (in financial terms, but also in the form of consulting and know-how transfer) is desirable. We discuss their role in more detail in the following text. Also, within the road maps, we propose specific actions to support civil society, NGOs and stakeholder groups.

## **2.7. Quick Enterprise Survey Evaluation**

Within the Quick Enterprise Survey (QES) that was prepared in spring 2014 by the Institute for Economic Research and Policy Consulting (IER), CASE Ukraine included a set of specific questions. These questions were related to the expected impact of the Free Trade Agreement (FTA) on the responding enterprises. The QES covered about 300 manufacturing firms from different regions of Ukraine. The sample consists of about 100 entities of each size: large companies (over 250 employees), medium-sized (50-250) and small companies (less than 50). The main results are summarized in Tables 2.10 and 2.11.

The number of optimistic responses exceeds the number of pessimistic responses in all categories (small, medium-sized, and large firms). We observe that small and medium sized enterprises are less optimistic than large entities in terms of potential gains related to closer cooperation with EU. We assume that the economy was strongly negatively affected by the previous Yanukovich/Azarov policies as well as by the current crisis in the East. The possible negative consequences of the Deep and Comprehensive Free Trade Area (DCFTA) are therefore perceived as less severe. According to experts from IER, small entities are mostly oriented towards domestic markets and probably feel confident enough in their market niches, so they do not expect any major changes.

The survey states that there is a substantial problem with Russian sanctions – about 48% of large firms were afraid of their consequences. This can have an indirect impact on small and medium sized companies. Larger companies seem to be more aware of the fact that FTA and potential export opportunities in EU markets require certain changes in the production and adoption of Western safety and production standards: 35% of large companies perceive this as an issue, while only 17% of small and 22% of mid-size companies share this opinion. This supports the assumption that the readiness of Ukrainian companies to start adopting different standards is rather mixed. In the SME segment, this area is probably underestimated.

Among the factors that might limit their opportunities related to the FTA, respondents mentioned many general factors that are considered major obstacles in doing business in Ukraine: overregulation, administration of taxes, poor protection of property rights, red tape. These factors were also identified by our study as major impediments. Another problem, albeit of secondary importance, is the lack of knowledge of EU rules and markets.

Generally, we consider the findings of the QES to be consistent with the findings of the study presented in part 2.6.

**Table 2.10 What do you expect from the association with the EU and the DCFTA?**

	Small	Mid-size	Large
Great loss	7%	7%	2%
Possible loss	12%	17%	9%
No influence	49%	36%	21%
May win	28%	33%	59%
Great win	4%	6%	9%
No benefits from association with EU	42%	39%	30%
Starting to export products to EU	23%	29%	41%
Growing export to EU	5%	18%	30%
Starting to import	11%	13%	19%
Cooperation with EU enterprises	25%	14%	13%
Other	4%	0%	1%

*Source:* Quick Enterprise Survey. Institute for Economic Research and Policy Consulting, 2014.

**Table 2.11 Which kinds of risks are you afraid of regarding the association with the EU and DCFTA?**

	Small	Mid-size	Large
No potential risks	53%	43%	24%
Increasing competition from foreign investors on the production market	6%	10%	6%
Increasing competition in imports	19%	20%	22%
Increasing competition from foreign investors on the labor market	2%	6%	0%
Sanctions from RF	11%	21%	48%
Necessity to reorganize production according to the new safety standards	17%	22%	35%
Other risks	2%	0%	4%

*Source:* Quick Enterprise Survey. Institute for Economic Research and Policy Consulting, 2014.

### **3. Discussion and Recommendations for Concrete Measures**

Based on the research findings, we recommend focusing on both the external and internal factors identified in part 2.5. Whereas the expert survey deals more with the issues related to the “macro” view and civil society development in the beneficiary countries, including a strong SME sector with reasonable and supporting regulations, the responsibility of the firms themselves as well as the role of the third sector in helping and enhancing SMEs development are also important.

The data confirm that the role of SMEs in the national economy is significant and can hardly be substituted by a few big players. Even the slow economic growth in Ukraine has not benefited the whole country, but rather select, large industrial firms headed by politically connected elites. They used an illiberal political system to guarantee control over economic policy that ensured them profit at the expense of the broader society including SMEs, which is a major source of frustration all over the country (Hetman, 2008). The macro factors such as political climate and legislature/justice therefore play a fundamental role in assuring the competitiveness of the national economy as a whole as well as the individual players in it. Reforms are necessary in this regard.

The responsibility of the “players” mentioned in the previous sentence is another perspective on the problem of SME development. The negative influence of the external environment such as taxing and bureaucracy together with the limitations in capital availability for smaller and new businesses remain big issues for SMEs in Slovakia (which, nowadays, is related rather to the political preferences of different ruling parties). However, more emphasis is placed on overall business effectiveness and efficiency, the qualities of business leaders (from proficiency in business functions such as operations, marketing etc. through the ability to design business models and formulate strategies to the complete set of soft skills), organizational culture, human and social capital, use of technologies, innovations etc. (Kubička, 2013). After all, there is no need or will for financing without the vision, talent, and knowledge of the key people behind the new projects even if capital is generally more accessible in developed

market economies. Besides, new knowledge can be equally as essential in the ability to attract capital as in finding innovative ways to raise it (e.g. crowdfunding).

This area is also a good example of how the importance of external and internal factors overlaps in the domain of SMEs development. The EU, state, and financial sectors providing grants, venture capital, and guaranteeing low-interest loans for viable and innovative projects are still important stakeholders.

The role of non-governmental organizations and the mutual cooperation of businesses is crucial as well. An area in which this is particularly important is in pursuing the legitimate interests of SMEs. This is working quite well in Slovakia. There are business associations and organizations focusing on different aspects of business and/or on the dissemination of important information (e.g. legislation, business knowledge, funding opportunities etc.) from several sources which is aimed at various groups (business types, legal entities, industries etc.). This is seen as a necessary supplement to the official sources including the EU (see below) and governmental institutions. As an example, the very active presence of the Alliance of Entrepreneurs in the Slovak Republic can be mentioned.

In discussions with local experts and association representatives (e.g. with the president of the Slovak Association of Small Enterprises), we often heard the notion that it is important that associations representing SMEs collaborate closely with the government and official authorities regarding the law, and any rules and changes of the official legislation related to SMEs. For instance, the current discussion in Slovakia relates to the depreciation of assets for tax purposes and the impact of the changes in depreciation modes on the income tax amounts and net profit of companies. Also, the consequences on investment of companies are being discussed. The role of associations representing SMEs is to sensitively present the positions and opinions of companies, create relevant relationships with the authorities and through argumentation or own analyses and explanations, search for ways to improve the position of SMEs in the country. On the other hand, the experts also mentioned that without the honest interests of the government and its institutions (including local authorities) and openness towards companies, the dialogue does not work. The willingness of the government to accept the SMEs, to acknowledge their role and contribution in the economy, is essential here.

Based on the analysis of the available case studies and preliminary interviews with entrepreneurs in Ukraine, we identified a few specific issues. One of them is the standardization of production according to “western” norms. Logically, due to the legacy of past Ukrainian governments, many requirements in terms of packaging, product labeling, and presenting the composition of products correspond to local (or Russian) rather than European standards. From the EU

perspective, adapting and changing products may not be seen as a problem, but from the perspective of Ukrainian companies, this is perceived as an issue.

The association agreement between the EU and Ukraine could start positive processes in relation to the technical standardization of products. Some of our respondents implicitly expressed an aversion to such changes though. Another problem is the different entrepreneurial culture as well as the general business setting, as expressed by foreign entrepreneurs who do/did business in Ukraine (see Table 2.9). We also consider the change of entrepreneurial and business culture to be a major challenge.

As the accession process continues, according to the Copenhagen Criteria, candidates “must demonstrate that they have achieved the stability of institutions guaranteeing democracy, the rule of law, human rights, respect for and protection of minorities, the existence of a functioning market economy as well as the capacity to cope with competitive pressure and market forces within the Union. Membership presupposes the candidate's ability to take on the obligations of membership, including adherence to the aims of political, economic and monetary union”. The confirmation of candidacy status also automatically triggers support mechanisms in order to help countries prepare for accession, including financial incentives as well as help in transforming transportation infrastructures, improving the environment, building institutions and making social reforms (Mařovčiková, 2011). Since 1998, the European Commission has produced regular reports, which include recommendations for opening bilateral intergovernmental conferences, in which it reviews the progress of each applicant state towards accession in light of the Copenhagen criteria, in particular the rate at which it is adopting the *acquis communautaire* (EU legislation). The Commission's report serves as a basis for taking the necessary decisions on the conduct of the accession negotiations (European Commission, 1998).

The situation of both countries (Ukraine and Slovakia) regarding SMEs and entering the European Union was quite similar approximately two decades ago. Being part of the former communist bloc and having gained their independence only recently (1991 Ukraine, 1993 Slovakia), they had a similar starting position (e.g. in 1993 the GDP per capita PPP in current international USD was 5195 in Ukraine and 7135 in Slovakia). Even the early developments in Slovakia took a similar course as Ukraine's (World Bank). Development in the later years, especially after Slovakia got rid of Meciar's government, has been very different. Slovakia quickly changed direction towards the European Union and the economic difference between the two countries is evidently in favor of Slovakia. The World Bank data show that while the Ukrainian GDP (measured by the same methodology as above) is stagnating (8788 USD), Slovakia's more than tripled (25333 USD).



Although the dependence on Russia (in many ways, not only economic) was naturally greater in the past, Slovak citizens and businesses have not always been completely certain about their country's new course. Slovak authorities however, have largely succeeded in promoting the advantages of EU membership. In the business sphere, this was enabled by effective information dissemination accompanied by the meaningful utilization of pre-entry European funds. SAPARD, for instance, was a Community framework for supporting sustainable agricultural and rural development in the central and eastern European applicant countries during the 2000-2006 pre-accession process. It was designed to solve problems affecting the long-term adjustment of the agricultural sector and rural areas and to help implement the *acquis* in matters of the common agricultural policy and related policies. ISPA provided assistance for infrastructure projects in the EU priority fields of environment and transport. Its objectives were to familiarize the candidate countries with the policies, procedures and the funding principles of the EU, help them catch up with EU environmental standards, and upgrade and expand links with the trans-European transport networks. The objectives of PHARE were to strengthen public administration and institutions to function effectively inside the European Union, promote convergence with the Community's extensive legislation and reduce the need for the transition period as well as increase economic and social cohesion (European Commission).

The EU funds are still an important source of financing of a variety of actions, provisions, and projects with relevance to, regarding, or directly aimed at small and middle businesses. The European Union is currently at the beginning of the programming period 2014-2020. It provides funding for a broad range of projects and programs covering areas such as regional and urban development, employment and social inclusion, agriculture and rural development, maritime and fisheries policies, research and innovation, and humanitarian aid. Over 76% of the EU budget is managed in partnership with national and regional authorities through a system of "shared management", largely through five big funds – the structural and investment funds such as the European Regional Development Fund (ERDF) for regional and urban development, the European Social Fund (ESF) for social inclusion and good governance, the Cohesion Fund (CF) for economic convergence by less-developed regions, the European Agricultural Fund for Rural Development (EAFRD) and the European Maritime and Fisheries Fund (EMFF).

The funds are distributed through a number of operational programs in the Slovak Republic. The one with the direct impact (in the upcoming period to be strongly oriented towards the support and financing of innovations and start ups) in the programming period 2007-2013 was the program Competitiveness and Economic Growth. The newly proposed operational programs in this area

are Research and Development and Human Resources. Other funding programs are managed directly by the EU. These are provided in the form of grants for specific projects in relation to EU policies, usually following a public announcement known as a call for proposals. Part of the funding comes from the EU, part from other sources. Horizon 2020 is the biggest EU Research and Innovation program ever with nearly 80 billion EUR of funding available over seven years (2014-2020), not to mention the private investment that this money will attract. It promises more breakthroughs, discoveries and world-firsts by taking great ideas from the lab to the market. COSME is the EU program for the Competitiveness of Enterprises and Small and Medium-sized Enterprises (SMEs) running from 2014 to 2020 with a planned budget of 2.3 billion EUR. COSME will support SMEs in the following areas: better access to finance, access to markets, supporting entrepreneurs, more favorable conditions, and business creation and growth (European Commission).

Effective utilization of EU funds can become an important factor in helping the SME sector to conform to European/western standards. It can also play a key role in the modernization, innovation, and utilization of the full potential of the sector as well as the whole economy. The European Commission puts a lot of effort into effectively informing about its activities as well as in disseminating information about various aspects of the European Union for various audiences. The main source is the EU official web page <http://europa.eu> available in English as well as in the official languages of all member countries. SMEs can find information such as EU policies, funding opportunities, various kinds of reports, statistics, data, and important initiatives, e.g. Enterprise Europe Network, Europe Direct etc.

The EU success story of Slovakia is not just comprised of numbers and successful moves/initiatives at the European and state levels. A lot of Slovak businesses or even whole industries can be examples for the ones in the newly entering or candidate countries. One of the Slovak traditional sectors that expertly managed its reorientation to western markets is definitely the wine industry. That is true not only for the traditional producers like Hubert J. E., but also for emerging firms such as Matyšák, Mrva & Stanko or Elesko, which became respected export articles. Slovakia is also seeking new sources of economic development. This is reflected in the support and growing number of successful startups. Some of them are becoming globally competitive in the new economy. The most frequently cited success story is the producer of security software ESET.

In spite of the current complicated domestic and international political situation, Ukraine continues in the accession process with the European Union. The political part of the Association Agreement was signed in March 2014. The economic part followed in June 2014. These acts are not only a political declaration of the continuing approximation of Ukraine towards membership

in the EU. The agreement commits Ukraine to economic, judicial and financial reforms to converge its policies and legislation to those of the European Union. Ukraine committed to gradually conform to EU technical and consumer standards. The EU agreed to provide Ukraine with political and financial support, access to research and knowledge, and preferential access to EU markets (BBC, 2014). This development and the result of the recent Ukrainian parliamentary elections can also be important big steps enhancing the process of improvement of the situation of the SME sector in the country.

## 4. Selection of Project Interventions

### 4.1. Summary of the Actions Recommended

- Further reforms, especially in the fields of:
  - Overall regulatory framework and excessive burden of regulations;
  - The enabling of business activities' expansion and the overcoming of bureaucratic obstacles;
  - Tax rules and/or their applications;
  - Fight against corruption;
  - Unfair competition;
  - Discriminatory practices of authorities;
  - Macroeconomic instability;
  - Political instability;
  - High cost of credit;
  - Approximation to EU norms and regulations.
- Utilization of EU funds for programs aimed at SMEs in various areas (e.g. the newest initiative aimed at helping institutions, citizens, and businesses in Georgia and Moldova aimed at improvements in competitiveness, legislative reforms in the field of approximation of quality norms, support for export and investment opportunities, and information campaigns or pre-entry funds as used in the V-4 countries);
- Development of state-level strategies and the establishment of institutions specifically aimed at SMEs (e.g. the Slovak Business Agency);
- Cooperation of businesses in various areas (e.g. clusters, associations, and specifically organizations advocating the interests of SMEs – similarly to the Alliance of Entrepreneurs in the Slovak Republic);
- Development and involvement of NGOs in SME matters (e.g. Cesta – malepodnikanie.sk or Pontis in Slovakia);
- Continuous learning, increasing effectiveness and efficiency, and the enhancement of the innovative potential of businesses themselves;

- Enlightenment of entrepreneurs in order to help them better understand their interests and advocate for them;
- Promotion of SME associations and coherence in their joint efforts.

## 4.2. Feasible Actions by the Project

The following table provides a general framework for the proposal of actions that are a subset of interventions recommended in previous sections of the paper. These are the most important/urgent, can produce tangible positive results, are feasible within the scope of this project, and are consistent with the objectives of the project (for which the Visegrad country teams possess a sort of comparative advantage given the lessons learned in these countries, the specific experience of our experts, and the needs of the beneficiary countries).

**Table 4.1 Proposed actions**

Action	Description
Dissemination of the project results to various stakeholders in beneficiary countries	Identification of a sample of stakeholders that can cooperate in the research and discussing project results with them (e.g. conference, round tables, workshops, informally etc.).
Presentations of the project findings in various forums in the beneficiary countries	Presentation of project results in beneficiary countries (utilizing the various contacts of project team members) and in related institutions (government, international, associations, academic etc.) in the EU. The V-4 countries involved in the cooperation with the beneficiary countries should get acquainted with the project (similar channels as above can be used).
Establishment of a permanent platform, making project results available to various audiences	Complete documentation of the project including contact with the team leaders (or possibly all members) should be made available through an easily accessible channel (e.g. a web page).
Follow up (e.g. applying for additional funds to be able to provide more channels and assistance for cooperation and information dissemination for the beneficiary countries)	In order to help the beneficiary countries with specific provisions aimed at SME development, we intend to apply for additional funding (e.g. establishing and running a V4-GMU SME Development Portal, organizing conferences, seeking out contacts and cooperating with governments and NGOs to help them prepare various programs focused on SMEs, non-profit projects in the beneficiary countries etc.).

*Source:* Own calculations.

## 5. The Road Map

This chapter offers a list of concrete actions based on the findings of the project, the expertise of the project team and the pre-entry as well as current experience of its members in the field of SMEs from the Slovak Republic. It contains very specific information about the actions including proposed deadlines, budgets, responsible people/institutions, justifications, detailed descriptions, and expected outcomes. Some of these actions were carried out before the submission of this White Paper.

### 5.1. Actions of the Slovak-Ukrainian Team within the Scope of the Current Project

#### 1. The Roundtables

**Description:** Two roundtables with elements of a focus group with 10-15 stakeholders at each roundtable including experts, government officers, SME representatives, civil society leaders, to prepare the ground for the implementation of the actions described below. The discussion will be about feasibility, readiness, contacts, and other key issues identified by this project.

**Responsible parties:** CASE Ukraine and its partners.

**Dates and Places:** Roundtable 1 – June 23, 2014 Odessa; Roundtable 2 – July 1, 2014 Kharkiv.

**Justification:** A group of stakeholders should be formed that will understand and be ready to adopt the planned recommendations and move the matters of SME development forward in Ukraine. Special attention will be devoted to the sectors chosen on the basis of a survey performed in Ukraine which indicated that 33.3% of heavy industry, 25% of machinery, 30.4% of light industry and 32% of food industry representatives see the benefits of being able to export goods to the EU after signing association and free trade agreements with EU. Therefore, we add representatives from these business sectors to the main stakeholders of the project as well as the other experts and government officers who can make changes from the top level.

**Expected outcome:** Better understanding of the actions to be taken. Identification of some potential partners and leaders who will take responsibility for the implementation of the proposed actions.

See also Appendix 8 (report summarizing key findings and recommendations identified during the roundtables).

## 2. **The Contact List**

**Description:** In order to be able to successfully implement the recommendations of this paper, it would be helpful for the stakeholders in the beneficiary country to have an up-to-date and verified list of organizations and people who could be contacted for possible cooperation/assistance. The list would include business associations, NGOs, governmental organizations, companies, consultants and others active in the field of SMEs in the Slovak Republic.

**Responsible party:** Vysoká škola manažmentu.

**Deadline:** September 30, 2014.

**Justification:** The problem of general contact lists is that they aren't verified so the cooperation from the addressed institutions isn't guaranteed. The list will only contain organizations and people contacted in advance, relevant to the project, and who are ready to help.

**Expected Outcomes:** Enabling the cooperation of the Ukrainian stakeholders with their relevant counterparts in the beneficiary country on specific matters related to this project (see also below and Appendix 3).

## 3. **Workshop 1: Information pathways to EU markets, legislation and standards – in the food industry and other sectors**

**Description:** A workshop with up to 15 stakeholders, representatives of food industry associations. The workshop will focus on the ways of finding information on EU markets, legislation and standards, cooperation with EU administrative bodies and the ways of disseminating the information to food industry representatives. The Slovak expert will be presenting the experiences, approaches, and best practices of old and new EU countries. The participants will provide feedback and ask specific questions. Possible solutions fitting Ukraine will be chosen or put together.

**Responsible parties:** Vysoká škola manažmentu, Ukrainian partners.

**Date and Place:** November 26, 2014 (9.00-13.00), venue: Kyiv Chamber of Commerce and Industry.

**Justification:** The food industry was identified as one of the main stakeholders of this project in Ukraine. In a follow up survey, we identified that 32% of food industry representatives would start exporting their goods to the EU. However, 26.9% of these representatives indicated a lack of knowledge of EU laws and 38.5% felt they lacked the ability to adapt their production to EU standards. Meanwhile, 23.1% also say they lack knowledge about EU markets, partners in EU countries, and the ability to adopt their production to EU markets. These findings are in line with the SME stakeholder survey described in this paper where the *Lack of experience in foreign trade, in the EU in particular and Lack of knowledge of EU regulations* were indicated as significant factors impeding the development and activities of SMEs in Ukraine, and in which 4 respondents thought that an intervention by the GMU Project would be advisable and welcome.

**Expected outcome:** Stakeholders will gain understanding on how to efficiently search and analyze information on EU standards and legislation. The stakeholders will gain know-how on how to disseminate information on EU standards and legislation to SMEs operating in the food industry while respecting the needs and particularities of Ukraine.

#### **4. Workshop 2: Resources and communication channels for the dissemination of knowledge about EU markets and rules**

**Description:** A workshop with up to 15 project stakeholders. The workshop will focus on the resources and communication channels needed for the dissemination of knowledge about EU markets and rules. Slovak experts will be explaining the situation in Slovakia and will present examples and case studies and discuss the experiences of participating stakeholders. Participants then will discuss the best ways to make an easily accessible, highly informative, sustainable and popular platform for the further exchange of information and dissemination of knowledge.

**Responsible parties:** Vysoká škola manažmentu, Ukrainian partners.

**Date and Place:** November 26, 2014 (14.00-18.00), venue: Kyiv Chamber of Commerce and Industry.

**Justification:** Small and middle entrepreneurs in V-4 countries members can provide a lot of experience, case studies and best practices regarding these matters in the pre-entry and early member periods. The Slovak experts can share and discuss those with the Ukrainian stakeholders. They also have experience in learning the EU rules, adjusting to them, and using them in their further business operations.

**Expected outcome:** The stakeholders will gain understanding of the resources and communication channels available for the dissemination of knowledge about



the EU markets and rules. Together with the presenting Slovak experts, they will try to identify and then implement effective solutions that are applicable in Ukrainian conditions.

See also Appendix 9 (detailed information regarding workshops).

## **5. A Follow-Up Project**

**Description:** A collection of ideas or the preparation of a new project specifically aimed at the actions proposed by the documents of particular teams, e.g. special purpose international cooperation between the V-4 and beneficiary countries, improvements in education (vocational, secondary, academic), special purpose conferences (e.g. SME strategy, establishment of associations/clusters) etc. The actions proposed below (see Actions beyond the Scope of the Project) can also be good ideas for such a project.

**Responsible parties:** Project leader, teams.

**Deadline:** December, 2014.

**Justification:** The problem of many of the above mentioned actions is the relatively low level of control of the project team over their realization. This team is already motivated and has a lot of experts and contacts who can further assist in matters of SME development in beneficiary countries.

**Expected Outcomes:** Increasing the chances and speed of implementation of the recommendations of the project in various regards and thus contributing to the overall development of SMEs.

## **5.2. Actions beyond the Scope of the Project**

### **1. Making the SME agenda a priority and using a systematic approach to provide support to this sector**

**Description:** Even though the structure of stakeholders in Ukraine is very similar to that in the Slovak Republic, the difference is in activity, coordination, priorities, and power of particular players. As mentioned above, the support of SMEs has to be a joint effort of government (enhanced by the European Union as part of the EU accession process), civil society (supported or advised by international organizations/cooperation), and the small and middle businesses themselves. Under the leadership of the responsible ministries (Ministry of Economic Development and Trade), a coherent and up-to-date SME development strategy should be prepared and institutional support should be provided as the cornerstones for the creation of a working SME ecosystem

similar to the one described in part 2.3 of this paper. The strategy could include a working SME Agency (similar to the Slovak Business Agency), utilization of the EU development funds (even in the pre-entry period, see also below), or support of start-ups.

**Responsible parties:** Ukrainian government in cooperation with the third sector, and representatives of various stakeholders.

**Deadline:** ASAP.

**Justification:** In spite of the proven importance of the SME agenda, without a coherent strategy and a systematic approach, efficient and effective development in this area will not be possible. Correct analyses and the setting of concrete goals and deadlines, together with showing clear political will to implement the strategy is absolutely crucial.

**Expected outcomes:** A clear road map towards the future of the SME sector in Ukraine containing goals, institutional support, legislative changes, financial and educational matters etc.

## 2. Enterprise Europe Network

**Description:** EEN is helping small companies make the most of business opportunities in the European Union. The EEN helps businesses when they do not know where to start when looking for international partners, do not have the resources to apply for EU funding, or have no idea who could finance their business. The EEN brings together business support organizations from more than 50 countries, which are connected through powerful databases and know Europe inside out. They have been working together for years, some even for decades. The network is currently represented by Ukrainian Foundation for Entrepreneurship Supporting ([http://ufpp.gov.ua/en/enterprise\\_europe\\_network\\_ta\\_ukrana](http://ufpp.gov.ua/en/enterprise_europe_network_ta_ukrana)). EEN partners get limited financing through the EU and have to re-apply for the upcoming programming period. A call for expressions of interest for Business Cooperation Centers in third countries is currently open ([http://ec.europa.eu/easme/business-cooperation-centres\\_en.htm](http://ec.europa.eu/easme/business-cooperation-centres_en.htm)).

**Responsible parties:** Private sector, NGOs.

**Deadline:** ASAP.

**Justification:** EEN experts can help with finding international business partners, sourcing new technologies and applying for EU funding or finance. They can also advise on issues such as intellectual property, going international, or EU law and standards. As the deadline approaches, this topic is also recommended for the third roundtable.

**Expected outcome:** A starting point and advisory capacity for SMEs throughout Ukraine to get oriented in and start utilizing opportunities in the European market.

### 3. Train the Trainers Course

**Description:** A short-term (one week) course on various entrepreneurship topics and skills. This activity aims at the training the trainers. The purpose is to facilitate the exchange of ideas between experts from Visegrad countries and Ukrainian experts who can then train entrepreneurs. Transfer of know-how related to new business (case studies of successful start-ups) and doing business in Central Europe and in Western countries will be crucial elements of this 1-week-course.

**Responsible parties:** Project team, various stakeholders.

**Deadline:** December 31, 2015.

**Justification:** The focus on experts will increase the chances of know-how transfer as well as support changes in the business culture in Ukraine.

**Expected Outcomes:** The course will give a European perspective to groups of Ukrainian experts and entrepreneurs. It will support their ability to create functioning business connections with the European Union.

### 4. Business Exchange Programs

**Description:** Representatives of existing SMEs will visit Visegrad countries and will participate in workshops with their local counterparts from the same/similar industries. The aim of the program is to enable Ukrainian managers of SMEs to understand the problems, context and main challenges of local businesses. A secondary goal is to establish real business connections.

**Responsible parties:** Project team, various stakeholders.

**Deadline:** December 31, 2015.

**Justification:** A direct exchange of ideas facilitated by a professional expert will promote knowledge transfer and understanding of Ukrainian SMEs in relation to EU issues.

**Expected Outcomes:** This short-term (up to five days) program will increase Ukrainian entrepreneurs' understanding of local (EU) markets, issues, problems. SMEs will gain a new perspective and the motivation to search for trade opportunities within V-4 countries.

## 6. Conclusion

Many studies of developed countries indicate that a large portion of their economic success is related to a strong SME sector. This project aims to assist SMEs in Ukraine in their efforts to develop the analytical and policy advocacy capabilities necessary by opening new channels of communication between SMEs and NGOs in the V-4 countries and the rest of the EU. It is expected that this will facilitate the transfer of knowledge and help establish a permanent platform for sustainable co-operation which will bring SMEs in Ukraine closer to EU standards, markets, and business opportunities.

This document presents the research activities in a format that is understandable to a general audience, especially readers not involved in the project or those who are not well-versed in the research area. It provides the basic data to help diagnose the current situation of SMEs in Ukraine and compare it with the situation in the Slovak Republic. It aggregates both quantitative and qualitative data from various stakeholders. Most importantly, it provides the perspective of the Slovak team regarding possible solutions for transferring know-how from the Visegrad countries (specifically Slovakia) to Ukraine. The authors propose both general actions for handling the SME agenda in the beneficiary country as well as more specific ones aimed at a smaller (but nevertheless important) group of stakeholders that can bring results within the scope of this project.

The main recommendations and proposed measures are summarized in part 4 (selection of project interventions) and part 5 (road map) of this report. For the reinforcement of a functioning ecosystem that supports SMEs is crucial to continue with necessary reforms on the state level, to intensify cooperation of businesses, NGOs and other organizations in various areas (e.g. clusters, associations, and specifically organizations advocating the interests of SMEs), as well as a good utilization of the European funds for the programs aimed at SMEs.

Although all of the proposed measures and actions entail some risk (as they are partially or completely out of the hands of the project team) or have a limited scope, the authors believe that in spite of the current unfavorable state of affairs (complicated political/economic situation, conflict in the Eastern Ukraine), this project will be useful in improving the situation of small and mid-size entrepreneurs in the country.

The participants of this project have expressed their readiness to continue assisting all three beneficiary countries in their endeavors. One of the proposals of this White Paper is to use the findings as well as the conclusions of the final conference to put together a new initiative to raise funds that would enable the continuation of project activities and the proposal of further actions.

# Appendix 1. Ranking on the Ease of Doing Business

**TABLE 1.1** Ease of doing business ranking

Rank	Economy	DTF score	Rank	Economy	DTF score	Rank	Economy	DTF score
1	Singapore	88.27	64	Cyprus	66.55	127	Mozambique	56.92
2	New Zealand	86.91	65	Croatia	66.53	128	Lesotho	56.64
3	Hong Kong SAR, China	84.97	66	Oman	66.39	128	Pakistan	56.64
4	Denmark	84.20	67	Sao Paulo	66.17	130	Iran, Islamic Rep.	56.51
5	Hong Kong, Rep.	83.40	68	Albania	66.06	131	Tanzania	56.38
6	Norway	82.40	69	Tonga	65.72	132	Ethiopia	56.31
7	United States	81.98	70	Ghana	65.24	133	Papua New Guinea	55.76
8	United Kingdom	80.96	71	Morocco	65.06	134	Kiribati	55.48
9	Finland	80.83	72	Mongolia	65.02	135	Cambodia	55.33
10	Australia	80.66	73	Guatemala	64.88	136	Kenya	54.98
11	Sweden	80.60	74	Botswana	64.87	137	Yemen, Rep.	54.84
12	Iceland	80.27	75	Kosovo	64.76	138	Gambia, The	54.81
13	Ireland	80.07	76	Vanuatu	64.60	139	Marshall Islands	54.72
14	Germany	79.73	77	Kazakhstan	64.59	140	Sierra Leone	54.58
15	Georgia	79.46	78	Vietnam	64.42	141	Uzbekistan	54.26
16	Canada	79.09	79	Trinidad and Tobago	64.24	142	India	53.97
17	Estonia	78.84	80	Azerbaijan	64.08	143	West Bank and Gaza	53.62
18	Malaysia	78.83	81	Fiji	63.90	144	Gabon	53.43
19	Taiwan, China	78.73	82	Uruguay	63.89	145	Micronesia, Fed. Sts.	53.07
20	Switzerland	77.78	83	Costa Rica	63.67	146	Mali	52.59
21	Austria	77.42	84	Dominican Republic	63.43	147	Cote d'Ivoire	52.26
22	United Arab Emirates	76.81	85	Seychelles	63.16	148	Lao PDR	51.45
23	Latvia	76.73	86	Kuwait	63.11	149	Togo	51.29
24	Lithuania	76.31	87	Solomon Islands	63.08	150	Uganda	51.11
25	Portugal	76.03	88	Namibia	62.81	151	Benin	51.00
26	Thailand	75.27	89	Antigua and Barbuda	62.64	152	Burundi	51.07
27	Netherlands	75.01	90	China	62.58	153	Sao Tome and Principe	50.75
28	Mauritius	74.81	91	Serbia	62.57	154	Algeria	50.69
29	Japan	74.80	92	Paraguay	62.50	155	Djibouti	50.48
30	Macedonia, FYR	74.11	93	San Marino	62.44	156	Iraq	50.36
31	France	73.88	94	Malta	62.11	157	Bolivia	49.95
32	Poland	73.56	95	Philippines	62.08	158	Cameroon	49.85
33	Spain	73.17	96	Ukraine	61.52	159	Comoros	49.56
34	Colombia	72.29	97	Bahamas, The	61.37	160	Sudan	49.55
35	Peru	72.11	97	Dominica	61.37	161	Senegal	49.37
36	Montenegro	72.02	99	Sri Lanka	61.36	162	Suriname	49.29
37	Slovak Republic	71.83	100	St. Lucia	61.35	163	Madagascar	49.25
38	Bulgaria	71.80	101	Brunei Darussalam	61.26	164	Malawi	49.20
39	Mexico	71.53	102	Kyrgyz Republic	60.74	165	Equatorial Guinea	49.01
40	Israel	71.25	103	St. Vincent and the Grenadines	60.66	166	Tajikistan	48.57
41	Chile	71.24	104	Honduras	60.61	167	Burkina Faso	48.36
42	Belgium	71.11	104	Lebanon	60.61	168	Niger	47.63
43	South Africa	71.08	106	Barbados	60.57	169	Guinea	47.42
44	Czech Republic	70.95	107	Bosnia and Herzegovina	60.55	170	Nigeria	47.33
45	Armenia	70.60	108	Nepal	60.33	171	Zimbabwe	46.95
46	Rwanda	70.47	109	El Salvador	59.93	172	Timor-Leste	46.89
47	Puerto Rico (U.S.)	70.35	110	Switzerland	59.77	173	Bangladesh	46.84
48	Romania	70.22	111	Zambia	59.65	174	Liberia	46.61
49	Saudi Arabia	69.99	112	Egypt, Arab Rep.	59.54	175	Syrian Arab Republic	46.51
50	Qatar	69.96	113	Palau	59.50	176	Mauritania	44.21
51	Slovenia	69.87	114	Indonesia	59.15	177	Myanmar	43.55
52	Panama	69.22	115	Ecuador	58.88	178	Congo, Rep.	43.29
53	Bahrain	69.00	116	Maldives	58.73	179	Guinea-Bissau	43.21
54	Hungary	68.80	117	Jordan	58.40	180	Haiti	42.18
55	Turkey	68.66	118	Belgie	58.14	181	Angola	41.85
56	Italy	68.48	119	Nicaragua	58.09	182	Venezuela, RB	41.41
57	Belarus	68.26	120	Brazil	58.01	183	Afghanistan	41.16
58	Jamaica	67.79	121	St. Kitts and Nevis	58.00	184	Congo, Dem. Rep.	40.60
59	Luxembourg	67.60	122	Cabo Verde	57.94	185	Chad	37.25
60	Tunisia	67.35	123	Guayana	57.83	186	South Sudan	35.72
61	Greece	66.70	124	Argentina	57.48	187	Central African Republic	34.47
62	Russian Federation	66.66	125	Bhutan	57.47	188	Libya	33.35
63	Moldova	66.60	126	Grenada	57.35	189	Eritrea	33.16

Source: Doing Business, 2015.

## Appendix 2. Global Competitiveness Index: Countries at Each Stage of Development

Stage 1: Factor-driven (38 economies)	Transition from stage 1 to stage 2 (20 economies)	Stage 2: Efficiency-driven (31 economies)	Transition from stage 2 to stage 3 (22 economies)	Stage 3: Innovation-driven (37 economies)
Bangladesh	Algeria	Albania	Argentina	Australia
Benin	Angola	Bosnia and Herzegovina	Barbados	Austria
Burkina Faso	Armenia	Bulgaria	Brazil	Bahrain
Burundi	Azerbaijan	Cape Verde	Chile	Belgium
Cambodia	Bhutan	China	Costa Rica	Canada
Cameroon	Bolivia	Colombia	Croatia	Cyprus
Chad	Botswana	Dominican Republic	Estonia	Czech Republic
Cote d'Ivoire	Brunei Darussalam	Ecuador	Hungary	Denmark
Ethiopia	Gabon	Egypt	Kazakhstan	Finland
Gambia, The	Honduras	El Salvador	Latvia	France
Ghana	Iran, Islamic Rep.	Georgia	Lebanon	Germany
Guinea	Kuwait	Guatemala	Lithuania	Greece
Haiti	Libya	Guyana	Malaysia	Hong Kong SAR
India	Moldova	Indonesia	Mexico	Iceland
Kenya	Mongolia	Jamaica	Oman	Ireland
Kyrgyz Republic	Morocco	Jordan	Panama	Israel
Lao PDR	Philippines	Macedonia, FYR	Poland	Italy
Lesotho	Saudi Arabia	Mexico	Russian Federation	Japan
Liberia	Sri Lanka	Montenegro	Seychelles	Korea, Rep.
Madagascar	Venezuela	Namibia	Slovak Republic	Luxembourg
Malawi		Paraguay	Turkey	Malta
Mali		Peru	Uruguay	Netherlands
Mauritania		Romania		New Zealand
Mozambique		Serbia		Norway
Myanmar		South Africa		Portugal
Nepal		Suriname		Puerto Rico
Nicaragua		Sweden		Qatar
Nigeria		Thailand		Singapore
Pakistan		Timor-Leste		Slovenia
Rwanda		Tunisia		Spain
Senegal		Ukraine		Sweden
Sierra Leone				Switzerland
Tanzania				Taiwan, China
Uganda				Trinidad and Tobago
Vietnam				United Arab Emirates
Yemen				United Kingdom
Zambia				United States
Zimbabwe				

Source: Global Competitiveness Report, 2013-2014.

## **Appendix 3. Contact List, Slovak Stakeholders**

1. **Slovak Business Agency – <http://www.sbagency.sk/en/slovak-business-agency>**
  - projects supporting SME, micro-loans, incubators, venture capital, structural funds of EU;
  - Contact person: Ing. Branislav Šafárik, General Director, Tel: +421250244500, Fax: +421250244501, E-mail: [agency@sbagency.sk](mailto:agency@sbagency.sk).
2. **Slovak Investment and Trade Development Agency – <http://www.sario.sk/en>**
  - design and use all kinds of stimuli to increase the influx of foreign investment while promoting Slovak companies in their effort to transform into high-performance subjects successful in the globalized world market;
  - Contact person: Róbert Šimončíč, CEO, Tel: +421258260112, Fax: +421258260109, E-mail: [director@sario.sk](mailto:director@sario.sk).
3. **Ministries and specialized institutions – Central Government Portal <https://www.slovensko.sk/sk/titulna-stranka>**
  - Ministry of Economy of the Slovak Republic – <http://www.economy.gov.sk/aboutus-tzz/129946s>, contacts: Mgr. Dagmar Hlavatá, Tel: +421248547028, Email: [dagmar.hlavata@mhsr.sk](mailto:dagmar.hlavata@mhsr.sk).
4. **Schools and Universities – <https://www.minedu.sk/about-the-ministry/>**
  - City University of Seattle/Vysoká škola manažmentu v Trenčíne - <http://www.vsm.sk/us/>, contacts: Mgr. Jozef Šimúth, PhD., Ing. Andrej Piovarči, PhD. and PhDr. Erik Kubička, MBA, Tel: +421268204500, Email: [jsimuth@vsm.sk](mailto:jsimuth@vsm.sk), [apiovarci@vsm.sk](mailto:apiovarci@vsm.sk), [ekubicka@vsm.sk](mailto:ekubicka@vsm.sk).
5. **Chambers of Commerce**
  - Slovak Chamber of Commerce and Industry – a gateway to successful business in Slovakia <http://web.scci.sk/index.php>; contact person: Peter Mihók, President, Tel: +421254131228, Fax: +421254131159, E-mail: [predseda@sopk.sk](mailto:predseda@sopk.sk);
  - Slovak-Ukrainian Chamber of Commerce – services for business with Ukraine, business contacts, joint ventures, investment consulting, trade



missions, fair trades, conferences, contacts: Tel: +421556251353,  
E-mail: suopk@suopk.sk.

## **6. Non-Governmental Organizations**

- non-governmental organizations providing services, consultation, information, and education for SME;
- Pontis – <http://www.nadaciapontis.sk/> (contact person: Lenka Surotchak, Executive Director, Tel: +421257108111, Fax: +421257108120, E-mail: [pontis@nadaciapontis.sk](mailto:pontis@nadaciapontis.sk), Cesta – information and consulting portal for small businesses <http://www.malepodnikanie.sk> (contact person PhDr. Erik Kubička, MBA, Tel: +421918654999, E-mail: [ekubicka@ices.sk](mailto:ekubicka@ices.sk)).

## **7. Private Consulting and Education**

- Business and Innovation Centre – BIC Bratislava, Ltd.: business and innovation consulting, transnational technology transfer, financial consulting, regional development, support in the EU Framework Programmes for research, technology development and innovation (FP7 & CIP), project management and investment consulting; coordinator of the Enterprise Europe Network representation in Slovakia, one of the co-founders of the SPICE (Science Parks and Innovation Centre Expert) Group and of the Slovak Association of BICs and RAICs – <http://www.bic.sk/index.php?lang=en>, contact person: Roman Linczényi, Director, Tel: +421254417515, Fax: +421254417522, E-mail: [linczenyi@bic.sk](mailto:linczenyi@bic.sk).

## **8. Associations**

- Slovak Association of Small Enterprises – <http://samp-msp.sk>, contact person: Vladimír Sirotko, CEO, Tel.: +421243330930, E-mail: [actoris@actoris.sk](mailto:actoris@actoris.sk);
- Slovenská živnostenská komora – <http://www.szk.sk/uvodna-stranka/>, contact person: Tomáš Novotný, Chairman, Tel/Fax: +421244461400, E-mail: [riaditel@szk.sk](mailto:riaditel@szk.sk);
- Podnikateľská aliancia Slovenska (Business Alliance of Slovakia) – <http://www.alianciapas.sk/>, contact person: Robert Kičina, Executive Director, Tel: +421258233481, E-mail: [pas@alianciapas.sk](mailto:pas@alianciapas.sk);
- Združenie mladých podnikateľov Slovenska (Association of Young Entrepreneurs of Slovakia) – <http://www.zmps.sk> (see also Business Angels), contacts: Tel: +421259324344, Fax: +421259324350;
- Slovenská poľnohospodárska a potravinová komora (Slovak Agricultural and Food Chamber) - <http://www.sppk.sk/>, contacts: Ing. Milan Semančík, chairman, Tel: +421250217103, Email: [msemancik@slnet.sk](mailto:msemancik@slnet.sk).

## **9. Banks**

- Unicredit Bank (implementator of EU program JEREMIE – support of SME) – <http://www.unicreditbank.sk/sk/Podnikatelia/Uvery/JEREMIE-program>, contact: +421445476870;
- Slovenská záručná a rozvojová banka (Slovak Guarantee and Development Bank – loans and guarantees for SMEs) - <http://www.szrb.sk/en/Default.aspx>, contact: Tel: +421257292111, Email: [info@szrb.sk](mailto:info@szrb.sk).

## **10. Media**

- Trend – <http://www.etrend.sk>, Hospodárske noviny – <http://hnonline.sk/>, Slovak News Agency – <http://www.sita.sk/> and associated specialized portals/servers – <http://www.podnikam.webnoviny.sk/>.

## **11. Mentoring partnerships**

- Nexteria – <http://www.nexteria.sk/>, contact person: Silvia Valovičová, Office Manager, Tel: +421907353886, E-mail: [office@nexteria.sk](mailto:office@nexteria.sk);
- Business Angels – <http://zmps.sk/nase-aktivity/business-angels.html>.

## **12. Clusters**

- Automotive Cluster – West Slovakia – <http://www.autoklaster.sk>, contact person: Roman Bíro, Director, Tel: +421910777887, E-mail: [biro@autoklaster.sk](mailto:biro@autoklaster.sk).

## Appendix 4. Selected Organizational Statistics, Ukraine

Table A.4.1 Number of enterprises by type of economic activity<sup>1</sup> in 2013

	Total, units	Of which							
		Large enterprises		Medium enterprises		Small-scale enterprises		Of which	
		Units	(%) of the total number of enterprises of corresponding type of economic activity	Units	(%) of the total number of enterprises of corresponding type of economic activity	Units	(%) of the total number of enterprises of corresponding type of economic activity	Microenterprises	
							Units	(%) of the total number of enterprises of corresponding type of economic activity	
<b>Total</b>	<b>393327</b>	<b>659</b>	<b>0,2</b>	<b>18859</b>	<b>4,8</b>	<b>373809</b>	<b>95,0</b>	<b>318482</b>	<b>81,0</b>
of which									
agriculture, forestry and fishing	49965	26	0,0	2934	5,9	47005	94,1	41590	83,2
industry	49762	378	0,8	5533	11,1	43851	88,1	33246	66,8
construction	36380	11	0,0	1212	3,3	35157	96,7	29447	80,9
wholesale and retail trade; repair of motor vehicles and motorcycles	110517	169	0,1	3715	3,4	106633	96,5	93132	84,3
transportation and storage, postal and courier activities	16707	37	0,2	1266	7,6	15404	92,2	12261	73,4
accommodation and food service activities	10178	2	0,0	419	4,1	9757	95,9	8013	78,7
information and communication	14999	12	0,1	410	2,7	14577	97,2	12376	82,5
financial and insurance activities	5082	8	0,1	375	7,4	4699	92,5	3943	77,6
real estate activities	33870	3	0,0	610	1,8	33257	98,2	30024	88,6
professional, scientific and technical activities	33994	7	0,0	814	2,4	33173	97,6	29921	88,0
administrative and support service activities	17334	3	0,0	1077	6,2	16254	93,8	13128	75,7
education	2383	–	–	65	2,7	2318	97,3	1898	79,6
human health and social work activities	4942	–	–	263	5,3	4679	94,7	3485	70,5
arts, entertainment and recreation	2372	3	0,1	108	4,6	2261	95,3	1971	83,1
other service	4842	–	–	58	1,2	4784	98,8	4047	83,6

<sup>1</sup> Excluding data on banks and budget organizations, and without the changes by enterprises of main type of activity in 2013.

Source: State Statistics Service of Ukraine. Available at: <http://www.ukrstat.gov.ua/> [cit. 2014-09-02].

**Table A.4.2 Number of employees at enterprises by type of economic activity<sup>1</sup> in 2013**

	Total, thsd.per sons	Of which							
		Large enterprises		Medium enterprises		Large enterprises		Of which	
		Units thsd. persons	(%) of the total number of enterprises of corresponding type of economic activity	Units thsd. persons	(%) of the total number of enterprises of corresponding type of economic activity	Units thsd. persons	(%) of the total number of enterprises of corresponding type of economic activity	Thsd. persons	(%) of the total number of enterprises of corresponding type of economic activity
<b>Total</b>	<b>7285,3</b>	<b>2383,7</b>	<b>32,7</b>	<b>3009,8</b>	<b>41,3</b>	<b>1891,8</b>	<b>26,0</b>	<b>734,4</b>	<b>10,1</b>
of which									
agriculture, forestry and fishing	659,9	42,9	6,5	412,9	62,6	204,1	30,9	74,6	11,3
industry	2897,6	1357,9	46,9	1204,2	41,5	335,5	11,6	89,2	3,1
construction	359,5	8,6	2,4	164,2	45,7	186,7	51,9	68,4	19,0
wholesale and retail trade; repair of motor vehicles and motorcycles	1139,6	320,1	28,1	374,4	32,8	445,1	39,1	205,9	18,1
transportation and storage, postal and courier activities	906,4	536,0	59,1	264,0	29,1	106,4	11,8	33,5	3,7
accommodation and food service activities	127,7	... <sup>2</sup>	... <sup>2</sup>	... <sup>2</sup>	... <sup>2</sup>	58,7	45,9	21,5	16,8
information and communication	216,3	76,7	35,5	62,6	28,9	77,0	35,6	32,5	15,0
financial and insurance activities	62,0	8,4	13,5	32,6	52,7	21,0	33,8	9,5	15,3
real estate activities	195,1	2,5	1,3	58,5	30,0	134,1	68,7	67,4	34,6
professional, scientific and technical activities	259,5	11,6	4,5	116,0	44,7	131,9	50,8	68,8	26,5
administrative and support service activities	282,4	... <sup>2</sup>	... <sup>2</sup>	... <sup>2</sup>	... <sup>2</sup>	103,7	36,7	30,8	10,9
education	24,4	—	—	9,7	39,8	14,7	60,2	5,4	21,8
human health and social work activities	87,3	—	—	49,4	56,6	37,9	43,4	12,2	14,0
arts, entertainment and recreation	35,3	6,9	19,6	18,6	52,8	9,8	27,6	3,7	10,6
other service	32,3	—	—	7,1	22,0	25,2	78,0	11,0	34,1

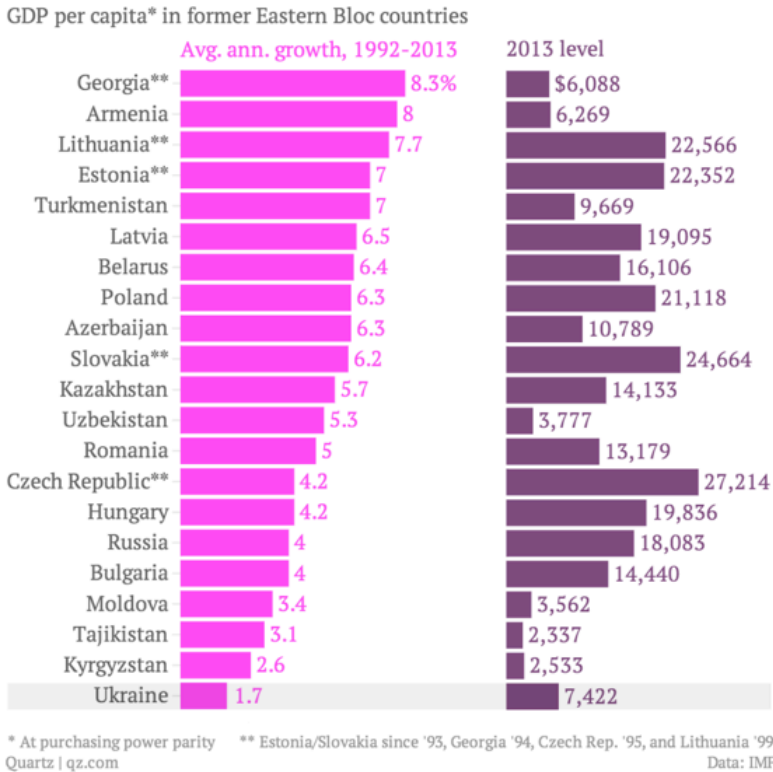
<sup>1</sup> Excluding data on banks and budget organizations, and without the changes by enterprises of main type of activity in 2013.

<sup>2</sup> Information is confidential according to Ukraine Law on the State Statistics.

Source: State Statistics Service of Ukraine. Available at: <http://www.ukrstat.gov.ua/> [cit. 2014-09-02].

# Appendix 5. Ukraine in Economic Data – Based on Selected Studies

Figure A.5.1 GDP per capita (PPP) in former Eastern bloc countries



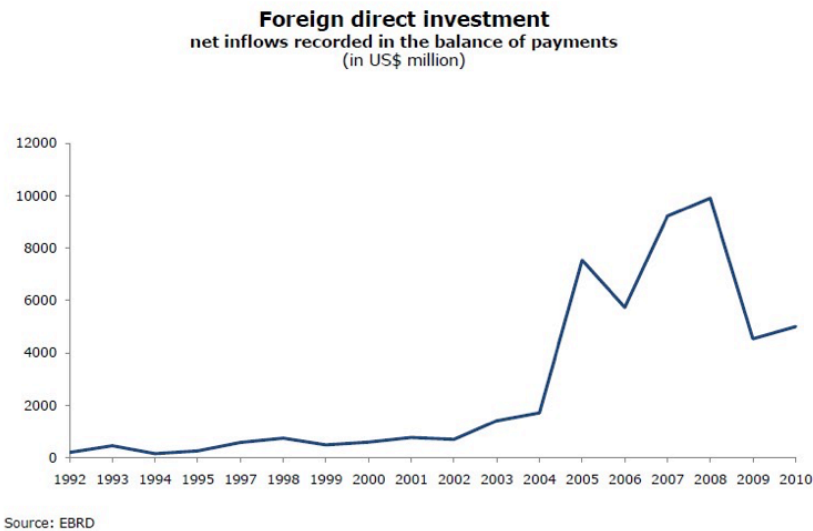
Source: International Monetary Fund.

Figure A.5.2 Development of real GDP and steel prices in Ukraine, 2003-2008



Source: Ukrainian authorities, Metal Bulletin, In: Finance and Development, magazine of IMF.

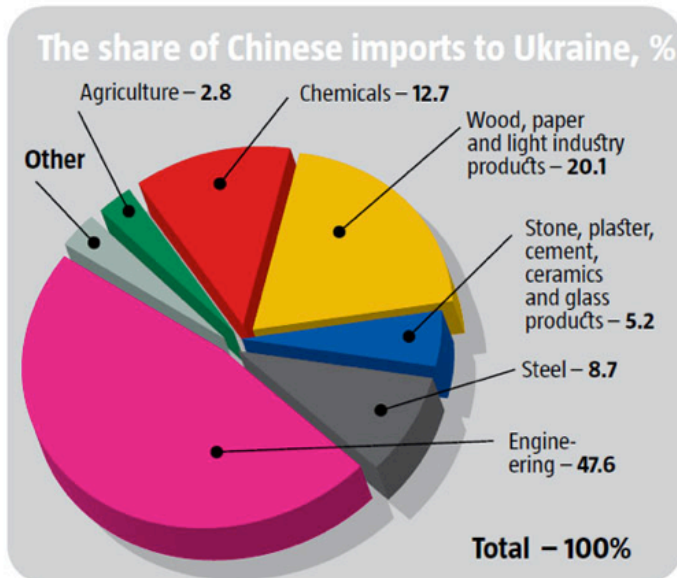
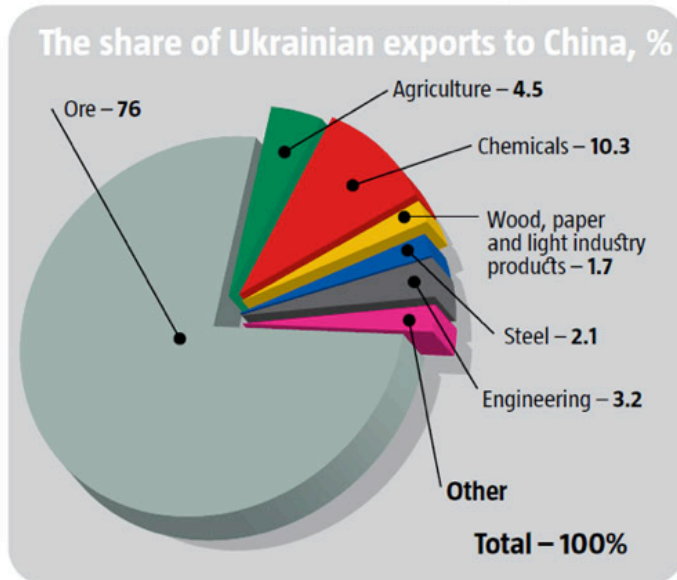
Figure A.5.3 Foreign Direct Investment in Ukraine, 1992-2010



Source: European Bank for Reconstruction and Development, In: Ukraine: the "blue" reform programme 2010-2014, Institut für Ost- und Südosteuropaforschung.

Figure A.5.4 Structure of Ukrainian – Chinese Exports and Imports, 2011

### Ukraine as a resource colony and a market for Chinese industrial produce



Source: State Statistics Committee, 2011

Source: European Bank for Reconstruction and Development, In: Ukraine: the "blue" reform programme 2010-2014, Institut für Ost- und Südosteuropaforschung.

## Appendix 6. Contact List, Ukrainian Stakeholders

Organization	Name of the head
Acting Chairman of the Union of Small, Medium and Privatized Enterprises of Ukraine	Bykovets Vyacheslav Mikhailovich
Association "Khmelnitsky Open Markets"	Snihovskyy Alexander
Center for development of Small and Medium entrepreneurship the Donetsk CCI	Anufriev Maksym
Chairman of the All-Ukrainian public organization "Land Owners"	Dobrovolska Elena
Chairman of the Kharkiv regional organization "Association of Private Employers"	Alexander V. Chumak
Chamber of Commerce of Ukraine	Chizhikov Gennady Dmitrievich
Co-Chairman of the Board of Ukrainian Public Organization "Ukrainian Association of Taxi"	Antonjuk Andrew S.
Confederation of Employers of Ukraine	Alexey V. Miroshnichenko
Council of Entrepreneurs under the Cabinet of Ministries of Ukraine	Kozachenko Leonid P.
Deputy Chairman of the Board of the Internet Association of Ukraine	Tatyana Popova
Director of Department of business deregulation of the Federation of Employers of Ukraine	Gostev Natalia V.
Director of the NGO "Centre for Commercial Law"	Danishevska Valentina
European Business Association	Anna Derevianko
President by the National committee of the ICC (International Chamber of Commerce)	Schelkunov Vladimir I.
President-Chairman of the NGO "Ukrainian Union of Fire and Technical Safety"	Platkevych Boris S.
Public Council under the State Service of Ukraine on Regulatory Policy and Entrepreneurship Development	Mikhailidi Pavel
Symferopol CCI	Alexander Basov
Vice-President of the All-Ukrainian public organization "Ukrainian Union of Industrialists and Entrepreneurs"	Petukhov Ivan
<b>The authorities</b>	
Ministry of Economic Development	Sergey M. Koval
MP	Kseniya Liapina
MP	Kuzhel Alexandra V.
MP	Prodan Oksana Petrovna
State Service of Ukraine on Regulatory Policy and Entrepreneurship Development	Mikhail Brodsky



<b>Organization</b>	<b>Name of the head</b>
<b>Think tanks</b>	
Center for International Trade Development	Tsygankova Tatiana
Center. O.Rozumkova	Yurchishin Vasil
Institute for Economic Research and Policy Consulting	BURAKOVSKY Igor V.
<b>Business associations, regional</b>	
Agency for Local Initiatives, Entrepreneurs Club Makeevka	Zubok Valery G.
Agency for Sustainable Development of Lugansk region	Elena Osipova
Association "Regional Construction"	Pasko, Vladimir G.
Association of Employers of trade and public catering Lviv region	BERMES Zenoviy M.
Association of Small and Medium Business Donbass	Skachkov Igor
Association of small and middle business	Sergei Davydov
East-Ukrainian Business Incubator	Smorodin Anna Y.
Entrepreneurs Club of Donbass	TESNOVSKYY Petro
Kharkiv businessmen club	Vasiliev, Alexander B.
Lugansk City Council business	Donini Olga
Luhansk Oblast NGO "Coordination of expert center alternative regulatory policies, and support entrepreneurs"	Bogut Marina N.
Luhansk Regional Branch Trade unions taxi Ukraine	RADCHENKO Iryna
Odessa Regional Association of Employers of Southern Ukraine	Borshchenko Yuri
Opticians Association of Ukraine	SENYK Alexander
RRC "Business Initiative"	KOLOMIETS Larisa
Ukrainian Association for the protection of public health (Luhansk branch)	Libnah Grigory
Zhytomyr Regional Union of Entrepreneurs	VODERATSKYY Yuri
<b>Business Association (nationwide)</b>	
"Ukrconsulting" Association	LIHOVID Oleg E.
All-Ukrainian Association "new formation"	Kredysov Vyacheslav
Association "Industrial Television Committee"	Gursky Dennis K.
Association "International Bureau of brandy"	Vadim O. Hnatiuk
Association "Telecommunication Chamber of Ukraine"	LYAKHOV Alexander
Association for Energy Independence of Ukraine	Gursky Konstantin E.
Association of Employers of trade and commercial sectors of the economy Ukraine	Valuev Edward Anatolyovych
Association of Home Appliance and Electronics	Oleg Ivanov
Association of International Freight Forwarders of Ukraine	PRYKHODKO Yuri Nikanorovych
Association of Management Development and Business Education	Ushakov Nina

<b>Organization</b>	<b>Name of the head</b>
Association of Outdoor Advertising Ukraine	PALAMARCHUK Roman
Association of Pharmaceutical Producers of Ukraine	Bagriy Petro
Association of Realtors Ukraine	BOVSUNOVSKA Svetlana
Association of Shipbuilders of Ukraine "Ukrsudprom"	Lissitzky Victor I.
Association of Specialists in Ukraine real estate	Fursa Lyubov A.
Association of Taxpayers of Ukraine	Danyluk Oksana G.
Business Association for the legal market	Khomenko Natalia Petrovna
Confederation of Employers of Ukraine	Kolishko Rodion A.
Congress of Private Employers	IVCHENKO Oleg
Fumigation Association of Ukraine	PIDBEREZNYAK Tamara
Information Technology Association of Ukraine	Perohanych Yuri
International Association of Business and Economics	Igor Petrovich Fedorenko
Kiev organization of employers and trade services	TERESHCHENKO Vita E.
LE "Business Initiative"	MIHONIK Andrei
League of food producers	Gennady Dmitrievich Kuznetsov
League of Insurance Organizations of Ukraine	HUDYMA Natalia
Professional Association of Registrars and Depositories (PARD)	KIY Alexei Nikolaevich
Travel Association of Ukraine	VYHRYSTENKO Boris
Ukrainian Association for Quality	Kalita Peter Y.
Ukrainian Association of Furniture	Vyacheslav Pavlov I.
Ukrainian Association of Investment Business	Tripolska Olga
Ukrainian Association of Press Publishers	Alexey V. Pogorelov
Ukrainian Federation of Employers in sphere of Tourism of Ukraine	Tatyana Timoshenko
Ukrainian Partnership Bureau	Sukhoriabov Andrew E.
Ukrainian trade association	Kishko Igor Y.
Union crisis-managers of Ukraine	Tymoshenko Victoria A.
Union of Leaseholders and Entrepreneurs	HMILOVSKYY Victor Mechislavovich

# Appendix 7. Transfer of Know-How for Small and Mid-Size Enterprises in Georgia, Moldova and Ukraine (Expert Questionnaire)

**I. By how much do the listed below factors impede the SMEs in your country (starting a company and/or running business operations)?**

1 = Not at all

2 = Somewhat

3 = Significantly

4 = Very significantly

NA = No answer / Not applicable / Don't know

HELP = Help needed (an intervention by the GMU Project would be advised and welcome)

Interviewed experts are asked to select one answer in each row (1, 2, 3, 4, or NA) and check out "HELP" whenever they find it appropriate.

<b>1</b>	<b>LABOR &amp; SKILLS</b>						
A	Low market skills of entrepreneurs / Inadequate business education	1	2	3	4	NA	HELP
B	Lack of business experience	1	2	3	4	NA	HELP
C	Lack of experience in foreign trade, in EU in particular	1	2	3	4	NA	HELP
D	Lack of knowledge of EU regulations	1	2	3	4	NA	HELP
E	Lack of language skills and contacts abroad	1	2	3	4	NA	HELP
F	Low availability of high skill workers	1	2	3	4	NA	HELP
G	Low availability of low-skill workers	1	2	3	4	NA	HELP
H	Demographics / low number of young labor market entrants	1	2	3	4	NA	HELP
I	High emigration	1	2	3	4	NA	HELP
J	Expensive labor / Mismatch between labor cost and productivity	1	2	3	4	NA	HELP
K	Employer-employee conflicts	1	2	3	4	NA	HELP
L	Low labor market flexibility	1	2	3	4	NA	HELP
M	High syndicalization / Excessive power of labor unions	1	2	3	4	NA	HELP
N	Low labor ethics	1	2	3	4	NA	HELP
O	Low business ethics	1	2	3	4	NA	HELP

<b>2</b>	<b>RED TAPE</b>						
A	Difficulties in registering company	1	2	3	4	NA	HELP
B	High cost of market entry	1	2	3	4	NA	HELP
C	Difficulties to expand business activities / bureaucratic obstacles	1	2	3	4	NA	HELP
D	Non-transparent / inconsistent regulations	1	2	3	4	NA	HELP
E	Poor overall regulatory framework / Excessive burden of regulations	1	2	3	4	NA	HELP
F	Foreign trade barriers	1	2	3	4	NA	HELP
G	Institutional differences with EU	1	2	3	4	NA	HELP

3		TAX BURDEN					
A	Unstable and non-transparent tax rules and/or their applications	1	2	3	4	NA	HELP
B	High cost of compliance	1	2	3	4	NA	HELP
C	High effective SME presumptive tax rates	1	2	3	4	NA	HELP
D	High effective personal income tax rates	1	2	3	4	NA	HELP
E	High effective corporate income tax rates	1	2	3	4	NA	HELP
F	High effective value added tax / trade tax rates	1	2	3	4	NA	HELP
G	High custom charges	1	2	3	4	NA	HELP
H	Other high taxes and fiscal fees/charges	1	2	3	4	NA	HELP

4		LAW AND ORDER					
A	Weak property rights / weak contract enforcement	1	2	3	4	NA	HELP
B	Crime and violence (low safety)	1	2	3	4	NA	HELP
C	Corruption / Clientelism / Favoritism	1	2	3	4	NA	HELP
D	Weak judiciary	1	2	3	4	NA	HELP

5		MARKET					
A	Small market size / Weak demand	1	2	3	4	NA	HELP
B	Barriers for exports to foreign markets	1	2	3	4	NA	HELP
C	Unfair competition / Uneven playing field / Informal economy	1	2	3	4	NA	HELP
D	Monopolization / Excessive market power of some participants	1	2	3	4	NA	HELP
E	Weak market position of SMEs						
F	Weak professional organizations of SMEs						
G	Weak analytical and policy advocacy of SME organizations						
H	Discriminatory practices of authorities	1	2	3	4	NA	HELP
I	Unfair privileges for foreign investors	1	2	3	4	NA	HELP
J	Macroeconomic instability (demand, inflation, exchange rate)	1	2	3	4	NA	HELP
K	Political instability	1	2	3	4	NA	HELP
L	Insufficient market information/governmental support for SMEs						
M	Weak support/lack of support by international organizations						
N	Low level of activities of venture capital						

6		FINANCE AND OTHER					
A	Difficulties in accessing financial services	1	2	3	4	NA	HELP
B	High cost of credit	1	2	3	4	NA	HELP
C	Inappropriate infrastructure	1	2	3	4	NA	HELP
D	Weak professional organizations of SMEs	1	2	3	4	NA	HELP
E	Difficult access to internet / Lack or low quality of business websites	1	2	3	4	NA	HELP
F	Lack of open communication channels with EU	1	2	3	4	NA	HELP

II. List below the sectors (such as Agriculture, Food processing, Textile, etc.) that need help and would benefit the most from the GMU Project

	Sector	Comments
1		
2		
3		
4		

III. Provide other comments that would help making the GMU Project a success

## **Appendix 8. Report of Roundtables in Odessa (June 23) and Kharkiv (July 1)**

There were up to 10 active participants in Odessa and co-speaker Evgeniy Diaknov, a local economist, also participated. Participants discussed different topics. Most of all, there were complaints regarding the absence of clear and straightforward evenly enforced "rules of the game" – an extremely important thing that is, however, difficult to solve within this project.

Among the relevant things, I would mention concerns about consumer safety demands, quotas for agricultural production, and the large portion of SMEs that feel vulnerable (according to our survey).

In Kharkiv, the round table was held as a part of large business forum. There were 7 participants, but they were exactly of the kind we needed. We received some really useful practical feedback and ideas, such as:

1. Collect as many useful links as possible (e.g. on the standards, other documentation, aid programs, etc.) in one place on the portal;
2. Upload practical advice and draft documents (e.g. contracts, applications, etc.);
3. Information about the EU tenders;
4. Help in organizing the business associations for joint marketing research on the EU market;
5. Arrange the Ukrainian translation of the documentation on the EU standards - if it has not been translated yet. This point we should check with stakeholders and donors, since I would imagine that this is already under way.

We gained also a few potentially useful contacts.

In both events, great interest was shown by the local media which resulted in a number of publications and TV broadcasts.

Vladimir Dubrovskiy, July 12, 2014.

# Appendix 9. Workshop Information

## **Workshop 1: Information pathways to EU markets, legislation and standards – in the food industry and other sectors.**

**Description:** The workshop will have up to 15 stakeholders from the food industry. It will focus on the ways of finding information on EU markets, legislation and standards, cooperation with EU administrative bodies and how to disseminate the information to food industry representatives. The Slovak expert will present the experiences, approaches, and best practices of old and new EU countries. The participants will provide feedback and ask specific questions. Possible solutions fitting Ukraine will be chosen or put together.

**Responsible parties:** Slovak team with cooperation with Ukrainian partners.

**Date and Place:** November 26, 2014 (9.00-13.00), Kyiv.

**Requirements:** projector with VGA connector, meeting room.

### **Outline**

#### 1. Introduction

- Introduction of lecturers (5 min);
- GMU project introduction (20 min);
- Introduction of participants and specification of expectations, clarification of approach, partial adjustments of topics based on requirements of participants (20 min).

Approach of the workshop: Finding and understanding information about EU markets, standards and law: From general through sector all the way to a case study of a specific company. Case studies and examples from Slovakia.

#### 2. Implications of institutional and legislative framework of EU accession for SMEs: From association agreement to full membership and institutionalization of EU legislation in Slovakia (45 min):

- Brief explanation of institutions and process of EU accession:
  - Overview of the European Union material;
  - Pre-entry funds and HYZA case.
- Lessons learned from Slovakia:

- Regular reports from the Commission on Slovakia's progress towards accession;
  - Closer look at SMEs and Common Agricultural Policy.
3. Adopting to the EU legislation: Information sources and case studies (45 min):
- EU official page – regulations, directives (CAP, Small Business Act etc);
  - Enterprise Europe Network;
  - Governmental organizations – ministries, agencies (Agriculture, SARIO, Slovak Business Agency);
  - NGOs – associations (see next point), chambers (Slovak Agricultural and Food Chamber), EurActiv, malepodnikanie.sk;
  - Communication with authorities/initiatives of interest groups (SAMP);
  - Own effort – education, transfer of skills, startups (boom in Slovakia);
  - Case studies – food/wine industry, single point of contact, (best info).
4. Discussion with participants (60 min):
- work in smaller groups;
  - proposals of solutions fitting Ukraine.
5. Wrap-Up (15 min):
- Summary of findings;
  - Suggestions for follow-up project(s).

**Workshop 2: Resources and communication channels for the dissemination of knowledge about EU markets and rules.**

**Description:** A workshop with up to 15 project stakeholders. The workshop will focus on the resources and communication channels needed for the dissemination of knowledge about EU markets and rules. Slovak experts will be explaining the situation in Slovakia and will present examples and case studies and discuss the experiences of participating stakeholders. Participants then will discuss the best ways to make an easily accessible, highly informative, sustainable and popular platform for the further exchange of information and dissemination of knowledge.

**Responsible parties:** Slovak team with cooperation with Ukrainian partners.

**Date and Place:** November 26, 2014 (14.00-18.00), Kyiv.

**Requirements:** projector with VGA connector, meeting room.

## **Outline**

### 1. Introduction:

- Introduction of lecturers (5 min);
- GMU project introduction (20 min);
- Introduction of participants and specification of expectations, clarification of approach, partial adjustments of topics based on requirements of participants (20 min).

Approach of the workshop: Workshop will search for answers to these questions: How to get the information about EU markets and rules to the ones that need it? And **how to** apply the information and find resources to help SMEs accommodate.

### 2. Enabling reorientation, Part I: European pre-accession and structural funds (example of Slovakia and implications for Ukraine) – (45 min):

- Pre-accession funds (PHARE, ISPA, SAPARD);
- Cohesion Fund, Structural Funds (ERDF, ESF), and Common Agricultural Policy (EAFRD);
- National Strategic Reference Framework: Organization of EU funds in Slovakia (including examples, e.g. ISO, tourism, malepodnikanie.sk etc);
- New sources of development (FDI and innovation, ESET case study).

### 3. Enabling reorientation, Part II: Channels and strategies for EU knowledge dissemination (45 min):

- Strategy and communication mix (how to transfer the Slovak experience into Ukraine?):
  - EU official page (language);
  - Enterprise Europe Network (financing);
  - Government role (translating/customizing legislative, providing info in Ukrainian language);
  - NGOs;
  - Communication with authorities/initiatives of interest groups.
- Example of EU funds organization and information strategy in Slovakia (NSRF).

### 4. Discussion with participants (60 min):

- Work in smaller groups;
- Proposals of solutions fitting Ukraine.



5. Wrap-Up (25 min):

- Summary of findings;
- Suggestions for follow-up project(s).

**Resources related to workshops:**

1. EUR – Lex: *Access to European Union law*. Available at: <http://eur-lex.europa.eu/homepage.html>
2. EUROPEAN COMMISSION. 1998. Regular Report from the Commission on Slovakia's Progress towards Accession. Available at: [http://ec.europa.eu/enlargement/archives/pdf/key\\_documents/1998/slovakia\\_en.pdf](http://ec.europa.eu/enlargement/archives/pdf/key_documents/1998/slovakia_en.pdf)
3. EUROPEAN COMMISSION. 1999. Regular Report from the Commission on Slovakia's Progress towards Accession. Available at: [http://ec.europa.eu/enlargement/archives/pdf/key\\_documents/1999/slovakia\\_en.pdf](http://ec.europa.eu/enlargement/archives/pdf/key_documents/1999/slovakia_en.pdf)
4. EUROPEAN COMMISSION. General Food Law. Available at: [http://ec.europa.eu/food/food/foodlaw/index\\_en.htm](http://ec.europa.eu/food/food/foodlaw/index_en.htm)
5. MATOVCIKOVA, D., SUTHE M. & WHITE M. (2011). Overview of the European Union: A Guide to Understanding the European Union. Vysoka skola manazmentu and City University of Seattle: Trencin, Slovakia.
6. SUTELA, P. (2012). *The Underachiever: Ukraine's Economy Since 1991*. Carnegie Endowment for International Peace. Available at: <http://carnegieendowment.org/2012/03/09/underachiever-ukraine-s-economy-since-1991#>

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EUROPEAN COMMISSION. 1998. Regular Report from the Commission on Slovakia's Progress towards Accession. Available at: [http://ec.europa.eu/enlargement/archives/pdf/key\\_documents/1998/slovakia\\_en.pdf](http://ec.europa.eu/enlargement/archives/pdf/key_documents/1998/slovakia_en.pdf) [cit. 2014-10-28].

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