

Recent initiatives to increase financial SME support in Ukraine: Assessment and policy recommendations

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Executive Summary

- While micro, small and medium-sized enterprises (SMEs) are an important element of a more diversified and dynamic economic structure in Ukraine, their development is impeded by a number of factors
- One of the typical, often-reported barriers is the lack of access to finance
- Indeed, our calculations show that the demand for SME finance outstrips supply, resulting in a **financing gap of EUR 10.3 bn (2021), up from EUR 9.3 bn (2016)**
 - Increase for the period in absolute terms, but decline in relative terms (in % of GDP)
- Since 2020, the government has increased mainly via the Business Development Fund (BDF) its financial support to SMEs through a number of new initiatives, e.g.:
 - “5-7-9” interest subsidy programme
 - State loan portfolio guarantees
 - Anti-crisis support to SMEs due to pandemic situation
- These, as well as other initiatives, **helped to cushion the impact of the Covid-19 pandemic on Ukraine’s SMEs**, which is a positive development
- At the same time, the ongoing recovery gives the opportunity to better align the programmes with policy objectives, focusing on financing new investments and jobs, and especially on micro enterprises; the role of guarantees should be strengthened
- Furthermore, the conditions of the support shall be regularly reviewed and linked closer to market developments (market interest rates, inflation) while the fiscal costs need to be kept in mind

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1. Introduction

Background:

- Micro, small and medium-sized enterprises (SMEs) are an important element for a more diversified and open economic structure in Ukraine.
- SMEs stand for 99.9% of the number of economic entities, 62.3% of sales turnover and 74.9% of employment (Annex 1).
- In 2016-2020 Ukraine improved the country's positions in the OECD SME Policy Index 2020 (Annex 2). However, "Access to Finance" (Pillar C) was then a part where not much progress was demonstrated.
- **This study builds on our previous works on SME finance (see GET PB/02/2016 and PB/08/2018)**

Purpose of this Policy Study:

- Provides updated statistics on SME development in Ukraine
- Discusses Ukraine's position in the OECD SME Policy Index 2020 and their special research 'Monitoring the Implementation of Ukraine's SME Development Strategy 2017-2020'
- Updates the supply and demand of SME finance, and the resulting financing gap
- Analyses and assesses domestic and international financial support initiatives for SMEs in Ukraine, taking also into account COVID-19 related issues

2. Recent development

- In 2020, the Business Development Fund (BDF) was established on the basis of German-Ukrainian Fund, and the ambitious “5-7-9 Programme” was launched with the financing from the state budget.
- It was also decided that newly developed loan guarantee schemes will be run by the BDF in addition to its conventional activities.
- The EU has also increased existing SME programmes as an emergency support package for the Eastern Partnership countries, including Ukraine.
- Like everywhere else around the world, during 2020 Ukrainian SMEs were hit hard by the COVID-19 outbreak.
- According to the European Business Association (www.eba.com.ua) survey on SMEs, only 14% were not affected, 44% lost up to 50% of revenues, 33% lost 50-75% of revenues and 7% of respondents are considering closing. 63% believe that it would take more than one year to return to pre-crisis levels.
- To address the adverse impact of the crisis, new governmental initiatives aimed at both increasing support for SMEs and combating the pandemic aftermaths.

3. SME Finance: Updating the financing gap

Methodology:

- We collected the most recent data about the number of SMEs (Annex 1).
- For the purpose of estimating SME demand for financing, we used the assumption that they are able to raise and service certain amounts of debt and equity in relation to their size.
- We calculated the following new demand from this data:
 - Average equity per company: own equity divided by number of businesses in a group and multiplied by 30%.
 - Average debt: The sum of long-term liabilities and current liabilities divided by the total number of businesses in a group and multiplied by 30%.
 - As these data are only available for companies, we assumed the same numbers for other form of SMEs.
- The ultimate demand is based on the assumption that all participants are fully aware of such financing. However, we assumed that from 10% to 25% of them would be interested and willing to invest and require finance (with lower probabilities for private entrepreneurs due to weaker financial skills), while the rest would use their own funds and have no intention to raise any external financing, or temporarily do not operate.
- Supply is based on available statistics and on our estimations if there is no such data. The difference between demand and supply represents the financing gap.

3. SME Finance: Updating the financing gap

SME demand for financing - 2021

Economic unit	Number	Average equity (per one), EUR m	Average debt (per one), EUR m	Probability of taking SME financing	Total demand for equity, EUR m	Total demand for debt, EUR m	Total demand, EUR m
Micro company	313,380	0.02	0.04	25%	1,235.10	3,325.07	4,560.17
Small company	48,948	0.10	0.22	25%	1,230.13	2,645.32	3,875.45
Medium company	17,751	0.64	1.57	25%	2,829.44	6,983.57	9,813.01
Micro PEs	1,550,633	0.02	0.04	10%	2,444.56	6,581.10	9,025.66
Small PEs	10,017	0.10	0.22	15%	151.04	324.81	475.86
Medium PEs	378	0.64	1.57	20%	48.20	118.97	167.17
Farmers	47,603	0.10	0.22	25%	1,196.33	2,572.64	3,768.96
Other SMEs	28,500	0.02	0.04	25%	112.33	302.39	414.72
Total	2,017,210	-	-		9,247.14	22,853.87	32,101.01

Source: State Statistics Service of Ukraine (as of 31st December 2019), own estimation

3. SME Finance: Updating the financing gap (cont.)

SME supply for financing – 2016 vs. 2021

Type of Financing	2016		2021	
	Supply of equity, EUR m	Supply of debt, EUR m	Supply of equity, EUR m	Supply of debt, EUR m
Loans from Ukrainian banks	-	10,167	-	14,404
- incl. State Programme 5-7-9	-	-	-	1,428
- incl. Loan guarantee schemes	-	-	-	313
SME credit lines by IFIs arranged through partner Ukrainian banks	-	1,000	-	600
Leasing and factoring companies	-	392	-	312
Credit unions	-	25	-	21
Own equity	5,484	-	5,975	-
Equity funds	200	-	300	-
Startup financing	111	-	200	-
Total supply	5,795	11,585	6,475	15,338













Source: National Bank of Ukraine, National Commission for State Regulation of Financial Services Markets (suspended from 1st July 2020 due to transfer of functions to the NBU), State Statistics Service of Ukraine, Ukrainian Association of Lessors, own estimation, note: we assumed that on average, 15% of the equity on SMEs' balance sheets as reported in national statistics is available for financing.

3. SME Finance: Updating the financing gap (cont.)

Financing gap - 2016

Type of finance	Demand	Supply	Financing gap	% of demand
Equity, EUR m	6,669	5,795	874	13%
Debt, EUR m	20,006	11,585	8,421	42%
Total, EUR m	26,674	17,380	9,294	35%

Financing gap - 2021

Type of finance	Demand	Supply	Financing gap	% of demand
Equity, EUR m	9,247 	6,475 	2,772 	30% 
Debt, EUR m	22,854 	15,338 	7,516 	33% 
Total, EUR m	32,101 	21,813 	10,288 	32% 

Source: Own estimation

3. SME Finance: Updating the financing gap (cont.)

Conclusion:

- Comparing supply and demand, we see that the absolute total financing gap estimated at EUR 9.3 bn in 2016 increased to EUR 10.3 bn in 2021, despite growing financial support, due to the number of factors:
 - After the comprehensive crisis of 2013-2015, Ukraine's GDP recovered from EUR 84.8 bn in 2016 to EUR 131.7 bn in 2020.
 - The equity financing gap increased by EUR 1.9 bn inter alia due to the COVID-19 impact.
 - The debt financing gap continues to make up the biggest part with EUR 7.5 bn, however it reduced from EUR 8.4 bn in 2016.
 - In our previous report, we estimated the supply of bank loans to SMEs at EUR 10.2 bn. Starting from October 2017, the NBU provides precise monthly data on loans to SMEs. According to them, since that time loans to SMEs have increased from EUR 13.0 bn to EUR 14.4 bn nowadays, so we now used this figure in our analysis.
 - As currently, the government speeded up efforts covering the gap through domestic state programmes, we reduced our estimation of financing supply from IFIs from EUR 1.0 bn to EUR 0.6 bn.

4. Instruments to address the financing gap

- In our PB/06/2016, we suggested the following measures to improve SME's access to finance:
 - Adopt legal and regulatory reforms and consider credit guarantees to improve access to finance
 - Address the current decline in lending to SMEs
 - Work towards a regulatory framework that facilitates banks' access to longer term and local currency funding and promote competition in the banking sector to encourage banks to offer more competitive rates and reach out to new segments
 - Support viable alternatives to bank financing by putting in place adequate legal frameworks for the provision of non-bank financial products and services
- After five years, we noticed overall good progress in meeting these recommendations, especially in the availability of instruments to address the financing gap
- These steps helped to establish key elements of a balanced institutional infrastructure for financial SME support, which was lacking
- The start of these programmes coincided in time with (and to some extent was accelerated by) the need to combat the negative COVID-19 fallout for SMEs
- However, a detailed analysis of each programme is required

4. Instruments to address the financing gap (cont.)

- Since 2020, Ukraine has established two state agencies and reserved budget funds to introduce the most typical and proven governmental instruments to address the financing gap:

Instrument	Role	State Agency	Amount of declared support* (2021)
Loan refinancing	Boost loans through improving loan conditions	Business Development Fund	UAH 47.5 bn
Interest subsidies	Make loans more attractive through reduced interest rates	Business Development Fund	
Credit guarantees	Support businesses with insufficient collateral	Business Development Fund	UAH 10 bn
Startup financing	Support newly created innovative businesses with grants	Ukrainian Startup Fund	UAH 440 m

Source: Own estimation, *This amount is not a direct finance and includes combination of supportive instruments further explained

4.1 Creation of the Business Development Fund

- As we suggested in our PB/08/2018, setting up a dedicated SME credit guarantee fund would take time and bear many risks
- As we recommended a “two-window”-model was finally chosen. As we assumed, the German-Ukrainian Fund (GUF) was used as a foundation to establish the Business Development Fund (BDF) (<https://bdf.gov.ua>)
 - GUF was initially established as a non-profit financial institution by Presidential Decree in 1998 and operated according to GoU’s Regulation since 1999
 - Initial ownership structure of GUF was NBU 31.25%, GoU 31.25% and KfW 37.5%.
 - In 2019, both KfW and NBU exited, so the current structure is GoU (MinFin) 100%.
- As we also proposed, a new statute of BDF was developed and approved.
- SME policy and its implementation are performed by another state agency, the SME Development Office (SMEDO) (<https://sme.gov.ua>) that was established in October 2018 within the framework of the EU-funded FORBIZ project, supported by the EU4Business Initiative.

4.1 Creation of Business Development Fund (cont.)

BDF: Structure

- BDF acts on the basis of a new statute approved by MinFin on 14th February 2020 and further amended on 18th February 2021. According to it, BDF is a non-banking non-profit institution with a special status.
- BDF is governed by the General Meeting of shareholders, the Supervisory Council and the Executive Director.
- The Supervisory Council approved rules of providing the financial services by BDF on 18th February 2020.
- Any non-banking legal entities providing guarantees to third parties as a service should be licensed according to the Law of Ukraine 'About Financial Services and State Regulation of the Financial Services Market' #2664-III dated 12th July 2001
- Activities of such legal entities were previously supervised by the National Commission of Financial Services Market Regulation (NCFSMR). However, starting from 1st July 2020 its functions were taken over by the National Bank of Ukraine (NBU) as a result of the so-called 'split law'.
- BDF obtained NBU's general license for foreign currency transactions #2, dated 5th July 2006.

4.1 Creation of Business Development Fund (cont.)

BDF: Tasks and objectives:

- The GoU is determined to develop the BDF into a full-fledged state institution for financial and other related support of SMEs in Ukraine.
- According to the new statute BDF achieves this objective through operations with selected banks, non-banking institutions and other providers, which:
 - Provide or have intention to provide loans to SMEs
 - Contribute to SME's access to finance through sharing or decreasing risks, and by other respective means
- BDF performs the following functions:
 - Provides technical assistance to partners
 - Identifies and participates in supportive programmes of other institutions
 - Executes governmental programmes
 - Increases awareness for its activities

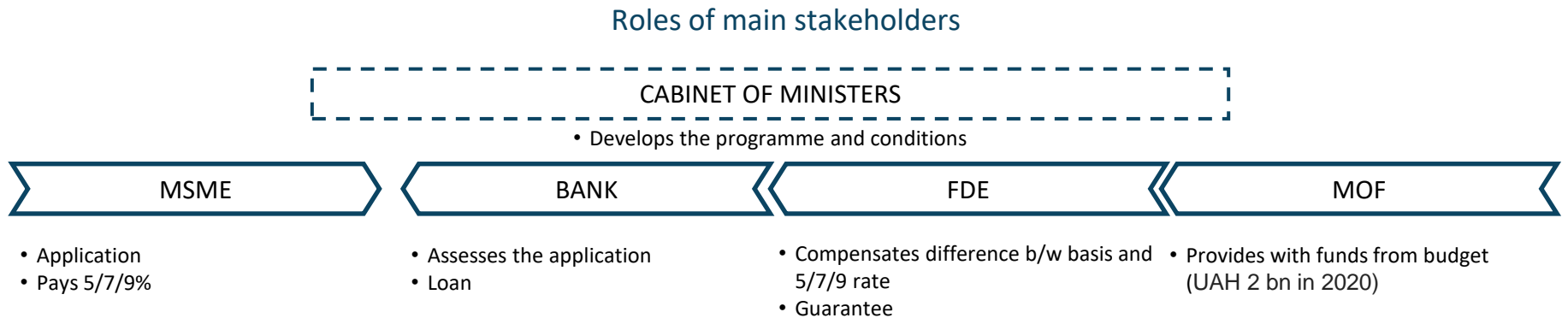
4.1 Creation of Business Development Fund (cont.)

- The main tool of BDF activity are credit programmes.
- BDF implements programmes for SMEs as a second-tier institution, acting through partners by:
 - Arranging financial resources
 - Compensating interest rates
 - Extending credit guarantees (only in case of compensating interest rates)
 - Providing anti-crisis support due to the pandemic situation.
- The partners provide loans to SME target groups, which are described in each programme.
- BDF continues to provide several SMEs programmes ‘inherited’ from the old GUF in cooperation with international donors, an overview of which is provided in section 4.5.
- The former GUF had a rather small outreach and low level of capitalization. According to their official reports, by mid-2018 the volume of all SME loans since the start of the fund was UAH 343 m, with 105 loans provided overall and 236 new jobs created.
- The government wished to transform the fund into a more powerful institution for financial SME support.

4.2 Launch of 5-7-9 Programme

- The 5-7-9 Programme (<https://5-7-9.gov.ua>) is supposed to be the main instrument of the BDF. It was announced in the end of 2019 by newly elected President Volodymyr Zelensky and launched by the government in February 2020.
- It is provided according to the GoU's Regulation 'On Providing Financial State Support to SMEs' #28, dated 24th January 2020, with further amendments.
- The volume of the programme is currently set at UAH 4 bn and it plans to contribute to the creation of 90 thsd. jobs.
- The name of the programme is derived from the subsidized interest rates for different types of SMEs:
 - 5% p.a. - for SMEs with annual revenue of up to UAH 50 m and where at least 2 jobs are created during the first quarter;
 - 7% p.a. - for SMEs with annual revenue up to UAH 50 m;
 - 9% p.a. - for SMEs with annual revenue more than UAH 50 m;
 - 0% and 3% only during quarantine and after, for production of medicines and medical devices
- There is an additional interest rate reduction for borrowers which borrow at interest rates of 7% or 9% p.a. These can be reduced further by 0.5% for each new job created on the last day of the reporting quarter compared to the date of the Loan Agreement. However, in any case, the final interest rate can not be less than 5% p.a.

4.2 Launch of 5-7-9 Programme (cont.)



Source: MOF, MDETAU

- Since its launch, the programme was amended several times
- The latest version of the programme was approved by the government on 28th December 2020. According to it, the programme has three components:
 - Compensation of interest rates on loans provided to SMEs for the purposes specified in the programme;
 - Provision of guarantees on a portfolio basis to the authorized banks for loans granted to SMEs exclusively in the case of compensating interest rates
 - Provision of anti-crisis support to SMEs due to pandemic situation
- Please see detailed terms and conditions in Annex 2.

4.2 Launch of 5-7-9 Programme (cont.)

- After its launch, the programme has been both criticized and praised

Position of critics:

- The refinancing component and interest subsidies were among the most controversial issues.
- In August 2021, twelve major foreign banks present in Ukraine issued a letter to the NBU and Ministry of Finance with a call to review the programme terms and conditions.
- They remarked that budget funds - instead of supporting businesses affected by quarantine and helping to finance investment projects or creating new jobs - are used for providing cheap working capital for solvent businesses.
- Typical programme participants were agricultural businesses which remained resilient during pandemic compared to other companies.
- They believe that this may carry fiscal and level playing field risks for the national economy and price risks for the borrowers.
- Credit guarantee component is not working quite well due to hard access.

4.2 Launch of 5-7-9 Programme (cont.)

Position of advocates:

- In response to this appeal, Ministry of Finance and state-owned Privatbank outlined the following benefits of the programme:
 - Transparent and clear SME friendly rules based on the world best practices
 - It supported 21.5 thsd. SMEs to survive and preserve jobs during a difficult pandemic period
 - Nowadays, it contributes to an active economic recovery, stimulates the development of the SMEs as well as the creation of new businesses.
- National Banking Association of Ukraine (www.nabu.ua) organized a round table with with the Union of Ukrainian Entrepreneurs (www.sup.org.ua) and pointed out additional benefits:
 - It obviously helped to ease access to finance for SMEs
 - Banks started to compete for clients not only with rates, but with service, process efficiency and affordability, which benefits the end consumers
 - They recommended to re-focus the programme to micro SMEs which currently make just 20% of participants

4.2 Launch of 5-7-9 Programme (cont.)

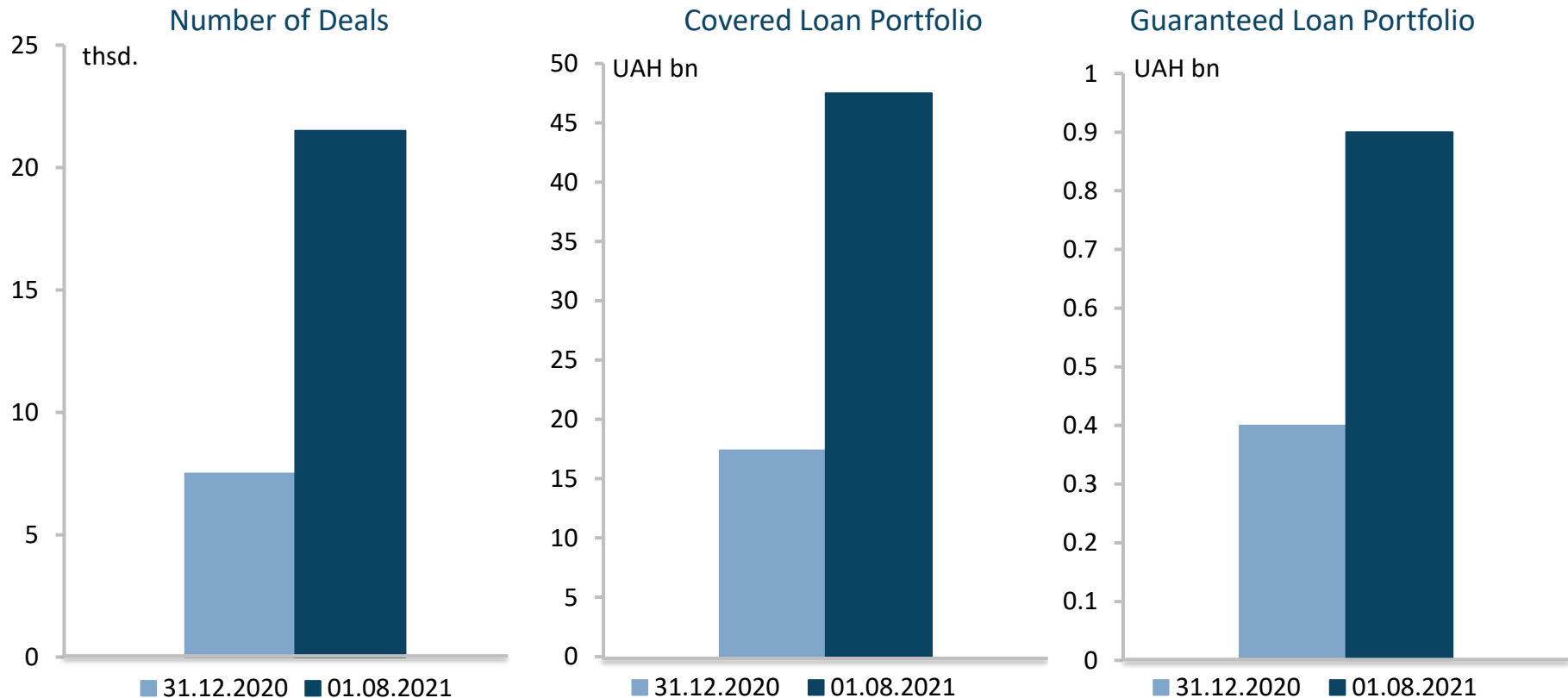
- Since the start in February 2020, the number of banks has increased to 34 which represents almost half of all banks in Ukraine:



Source: BDF

4.2 Launch of 5-7-9 Programme (cont.)

- Ministry of Finance and BDF provide regular updates on the status of the programme, thereby boosting business awareness and public interest to it
- The programme demonstrated good progress in recent months:



4.2 Launch of 5-7-9 Programme (cont.)

- Other results were achieved as of 31st December 2020*:
 - 55% of loans represented agriculture, 18% trade, 16% industry and 8% services
 - 64% of loans were provided for refinancing, 18% for investment loans and 18% for anti-crisis measures
 - 80% of loans were arranged for small enterprises and 20% for microbusinesses
 - 78% for legal entities and 22% for private entrepreneurs
 - The programme contributed to the creation of 9.5 thsd. jobs and the preservation of 121.4 thsd. jobs
 - Most active banks in terms of volumes were Raiffeisen Bank Aval, FUIB and Credit Agricole followed by state-owned Oschadbank, Ukrgasbank and Privatbank.

* Source: BDF

4.3 Launch of state loan portfolio guarantees

- The most recent progress observed in state financial support to SMEs was the adoption of the Law of Ukraine #873 dated 3rd September 2020, which reserved an amount of UAH 5 bn in the state budget to provide (partial) state loan portfolio guarantees during 2020.
- This amount was doubled in 2021 to UAH 10 bn and is supposed to be renewed every year. Such a decision is to be made by the Cabinet of Ministers of Ukraine upon agreement with the Verkhovna Rada's Committee on the budget, to ensure partial fulfillment of debt obligations on the loan portfolio of banks, provided to SMEs.
- The amount of such guarantees shall not exceed 80 percent of the total amount of such debt obligations on the loan portfolio and 80 percent on each individual loan.
- The procedure for selecting participating banks and the conditions for providing state guarantees on a portfolio basis, as well as the amount and type of collateral provided by such entities, was approved by the Cabinet of Ministers of Ukraine on 14th July 2021. State-owned Ukreximbank was appointed as a governmental agent and a guarantee provider.

4.4 Continuation of former GUF programmes

The BDF continues to operate a number of GUF legacy programmes

Microloan Programme						
Borrower	No. of employees	Max loan, EUR	Max tenor	Industries	Currency	Interest Rate
Private entrepreneurs	N/A	25000	3 years (for working capital), 5 years (for investments)	Production, services, agro, trading (for PE and micro only)	EUR, UAH	Market Rate
Micro	< 20	25000				
Small	< 250	100000				
Medium	< 500	250000				
Prioritized Industries Programme						
Borrower	No. of employees	Max loan, EUR	Max tenor	Industries	Currency	Interest Rate
Private entrepreneurs	< 250	100000	3 years (for working capital), 5 years (for investments)	Agriculture, food industry, small hotels, green tourism, restaurants and public catering, light industry, projects related to energy efficiency and energy saving, import substitution, increased productivity and job creation in underdeveloped/depressed regions.	UAH	UIRD + Margin
Micro and Small	< 250	100000				
Rural Settlements Programme						
Borrower	No. of employees	Max loan, EUR	Max tenor	Industries	Currency	Interest Rate
Private entrepreneurs	< 250	250000	3 years (for working capital), 5 years (for investments)	Production, services, agro, trading (for PE and micro only) to support SMEs in rural settlements with less than 100,000 inhabitants.	EUR, UAH	Market Rate
Micro and Small	< 250	250000				
Investment Programme						
Borrower	No. of employees	Max loan, EUR	Max tenor	Industries	Currency	Interest Rate
Private entrepreneurs	N/A	250000	2 years (for working capital), 6 years (for investments)	Production, services, agro	UAH	UIRD + Margin
Micro	< 20	250000				
Small	< 250	250000				
Medium	< 500	250000				

4.5 Launch of the Ukrainian Startup Fund

- The Ukrainian Startup Fund (<https://usf.com.ua>) was established by Ministry of Finance with a statutory capital of UAH 390 m with a further increase by UAH 50 m. It was registered in December 2018 and started to accept grant applications in December 2019.
- USF's mission is to promote the creation and growth of technology startups in Ukraine at an early stage of development, in order to increase their global competitiveness. For that purpose, the fund provides grants without equity participation and finances training of startup initiators in national and international accelerators.
- The fund issues grants to startups in the early stages of development. A project in the pre-seed stages can receive a grant of USD 25,000, startups in the seed stages can receive a grant of USD 50,000. Thus, one startup can receive a total of USD 75,000.
- Target sectors are artificial intelligence (AI), augmented reality (AR / VR), big data (BigData), blockchain, cybersecurity, defense, medicine and healthcare, travel, financial technology (FinTech), educational technology EdTech), robotics, professional services, software as a service (SaaS), manufacturing, e-commerce, Internet of Things (IoT).
- As of 31st July 2021* the fund reviewed 3,000 grant applications and approved about 200 startups for a total amount of UAH 135 m.

* Ministry of Finance (<https://minfin.com.ua/2021/08/07/69364222/>)

4.6 EU support for Ukrainian SMEs

- In April 2020, the EU announced an emergency support package for the Eastern Partnership countries (Armenia, Azerbaijan, Belarus, Georgia, the Republic of Moldova, and Ukraine). The EU's response to the Covid-19 pandemic assumed EUR 200 m of existing credit lines and grants to SMEs across the region
- This increases the total volume of all SME support programmes in Ukraine by EUR 100 m to EUR 600 m*, including some of them provided through the BDF:

#	Programme	Donors	Supportive instrument	Area	Partner Banks	Amount
1.	DCFTA Initiative East, DCFTA SME Direct Finance Facility	EIB, EIF	Loans	All regions	Through BDF (please see 4.4)	EUR 73 m
2.	InnovFin SME Guarantee Facility	EIB, EIF	Loans for innovative SMEs	All regions	N/A	EUR** 50 m
3.	Neighbourhood Window	EFSE, KfW	Loans	All regions	Kredobank, ProCredit Bank Ukraine, Agroprosperis Bank, West Finance and Credit Bank, OTP Leasing	EUR** 50 m

Sources: *Euukrainecoop, ** Own estimation

4.6 EU support for Ukrainian SMEs (cont.)

#	Programme	Donors	Supportive instrument	Area	Partner Banks	Amount
4.	EU4Business	EBRD, KfW, EIB	Loans at reduced interest rates in UAH and hard currency	All regions	N/A	EUR 300 m
5.	Regional programmes	KfW, BDF	Investment loans at 50% reduced interest rates	Kyiv City, Ternopil Region	Megabank** Procreditbank Ukrgasbank Oschadbank Creditwestbank Kredobank Bank Lviv Piraeus Bank***	EUR ~ 20 m
6.	FinancEast	KfW, BDF	Grants covering 50% of value of agricultural machinery, equipment and vehicles, installation, construction or reconstruction of premises purchased on lease or credit	Donetsk and Luhansk Regions	Ukrgasbank Oschadbank OTP Leasing	EUR 9.5 m
7.	Emergency support package	EBRD, EIB, UNDP, GIZ	Grants, loans and knowledge for inclusive and sustainable growth	All regions	N/A	EUR 96 m

* For Kyiv City only, ** For Ternopil Region only

5. Summary and Policy Recommendations

- We recommend to continue further efforts on improving access to SME finance in the short term:

#	Subject	What to do?	How to do?
1	Loans to SMEs	Address the current criticism of refinancing component and interest subsidies in the 5-7-9 programme to gradually transform it for the support of new businesses Re-focus on the support of micro SMEs.	Cooperate with IFIs and governmental agencies on further improvements in the legal and regulatory framework. Budgetary constraints (i.e. fiscal costs) and changing market conditions (increasing inflation and market rates) need to be taken into account. Launch a portfolio guarantees mechanism for micro SMEs.
2	Loans to SMEs	Evaluate and monitor results, provide periodical reviews of SME programmes	Provide evaluation and monitoring by the government and BDF internally and by independent advisers externally according to the following factors: relevance, effectiveness/impact, efficiency, sustainability.
3	Loans to SMEs	Expand sources of financing and technical assistance for SMEs	Cooperate with IFIs on getting access to EU and other programmes. Coordinate with EU SURE to arrange a Loan Guarantee Facility (LGF)
4	Non-bank financial products and services	Support viable alternatives to bank financing by putting in place adequate legal frameworks for the provision of non-bank financial products and services	Cooperate with business associations representing leasing, factoring, credit unions venture capital and business angel financing to improve the legal and regulatory framework.
5	Education and training	Promote financial literacy among the public and build financial management and business planning skills among small business owners	Continue enhancing financial skills of SMEs by training entrepreneurs in how to raise financing: cooperation with banks and investors, basics of finance, business planning, financial projections, etc. Train SME how to raise alternative financing such as leasing, factoring, credit unions, venture capital, business angel financing, etc.

Source: Own research

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About the German Economic Team



Financed by the Federal Ministry for Economic Affairs and Energy, the German Economic Team (GET) advises the governments of Ukraine, Belarus, Moldova, Kosovo, Armenia, Georgia and Uzbekistan on economic policy matters. Berlin Economics has been commissioned with the implementation of the consultancy.

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Implemented by



Annex

Annex 1. SMEs in Ukraine: Overview

Annex 2. Terms and Conditions of 5-7-9 Programme

Annex 3. OECD SME Policy Index on Ukraine

Annex 4. OECD Monitoring the Implementation of Ukraine's SME Development Strategy 2017-2020

Annex 1: SMEs in Ukraine: Overview

Number of companies

Economic unit	As of 31 December 2014		As of 31 December 2019		% change
	Number*	Share	Number*	Share	
Micro company	278,922	81.8%	313,380	82.3%	+12%
Small company	45,676	13.4%	48,948	19.9%	+7%
Medium company	15,906	4.7%	17,751	4.7%	+12%
Large company	497	0.1%	518	0.1%	+4%
Total	341,001	100.0%	380,597	100.0%	+12%

Number of private entrepreneurs (PE)

Economic unit	As of 31 December 2014		As of 31 December 2019		% change
	Number*	Share	Number*	Share	
Micro PEs	1,580,965	99.4%	1,550,633	99.3%	-2%
Small PEs	9,483	0.6%	10,017	0.6%	+6%
Medium PEs	712	0.0%	378	0.1%	-47%
Total	1,591,160	100%	1,561,028	100%	-2%

Source: State Statistics Service of Ukraine, *excluding the Autonomous Republic of Crimea, Sevastopol and the conflict area in Eastern Ukraine.

Annex 1: SMEs in Ukraine : Overview (cont.)

Sales turnover - companies

Economic unit	As of 31 December 2014		As of 31 December 2019		% change
	UAH bn*	Share	UAH bn*	Share	
Micro company	231	5.5%	612	6.4%	+165%
Small company	474	11.4%	1,228	12.7%	+159%
Medium company	1,723	41.3%	4,168	43.2%	+142%
Large company	1,743	41.8%	3,631	37.7%	+108%
Total	4,171	100.0%	9,639	100.0%	+131%

Sales turnover – private entrepreneurs (PE)

Economic unit	As of 31 December 2014		As of 31 December 2019		% change
	UAH bn*	Share	UAH bn*	Share	
Micro PEs	256	88.5%	818	92.5%	+220%
Small PEs	20	7.1%	40	4.5%	+97%
Medium PEs	13	4.4%	26	2.9%	+104%
Total	289	100.0%	884	100.0%	+206%

Source: State Statistics Service of Ukraine, *excluding the Autonomous Republic of Crimea, Sevastopol and the conflict area in Eastern Ukraine.

Annex 1: SMEs in Ukraine : Overview (cont.)

Value added - companies

Economic unit	As of 31 December 2014		As of 31 December 2019		% change
	UAH bn*	Share	UAH bn*	Share	
Micro company	81	6.6%	222	8.1%	+173%
Small company	136	11.0%	347	12.7%	+156%
Medium company	487	39.4%	1,176	42.8%	+142%
Large company	531	43.0%	1,000	36.4%	+108%
Total	1,234	100.0%	9,639	100.0%	+122%

Net Income – companies

Economic unit	As of 31 December 2014		As of 31 December 2019		% change
	UAH bn*	Share	UAH bn*	Share	
Micro company	-102	17.3%	15	2.8%	n/a
Small company	-77	13.0%	75	14.2%	n/a
Medium company	-206	34.9%	247	47.1%	n/a
Large company	-205	34.7%	187	35.8%	n/a
Total	-590	100.0%	884	100.0%	n/a

Source: State Statistics Service of Ukraine, *excluding the Autonomous Republic of Crimea, Sevastopol and the conflict area in Eastern Ukraine.

Annex 1: SMEs in Ukraine : Overview (cont.)

Number of employed - companies

Economic unit	As of 31 December 2014		As of 31 December 2019		% change
	Thousand*	Share	Thousand*	Share	
Micro company	724	11.5%	778	12.1%	+8%
Small company	963	15.3%	968	15.1%	+1%
Medium company	2,697	42.8%	3,053	47.6%	+13%
Large company	1,915	30.4%	1,608	25.1%	-16%
Total	6,298	100.0%	6,408	100.0%	+2%

Number of employed – private entrepreneurs (PE)

Economic unit	As of 31 December 2014		As of 31 December 2019		% change
	Thousand*	Share	Thousand*	Share	
Micro PEs	2,253	90.2%	2,391	91.6%	+6%
Small PEs	175	7.0%	183	7.0%	+4%
Medium PEs	70	2.8%	37	1.4%	-47%
Total	2,498	100.0%	2,610	100.0%	+4%

Source: State Statistics Service of Ukraine, *excluding the Autonomous Republic of Crimea, Sevastopol and the conflict area in Eastern Ukraine.

Annex 1: SMEs in Ukraine (cont.)

Bank loans - companies

Economic unit	As of 31 December 2017		As of 30 June 2021	
	UAH m*	Share	UAH m*	Share
Micro company	112,939	13.6%	156,131	21.3%
Small company	111,054	13.4%	83,883	11.5%
Medium company	209,521	25.2%	220,926	30.2%
Large company	310,948	37.5%	193,365	26.4%
Undefined	85,470	10.3%	77,694	10.6%
Total	829,932	100.0%	731,999	100.0%

Bank loans – private entrepreneurs

Economic unit	As of 31 December 2017		As of 30 June 2021	
	UAH m*	Share	UAH m*	Share
Micro PEs	1,332	33.8%	2,508	27.0%
Small PEs	364	9.2%	265	2.9%
Medium PEs	337	8.6%	695	7.5%
Undefined	1,909	48.4%	5,804	62.6%
Total	3,942	100.0%	9,272	100.0%

Source: National Bank of Ukraine, *excluding the Autonomous Republic of Crimea, Sevastopol and the conflict area in Eastern Ukraine.

Annex 2. Terms and Conditions of 5-7-9 Programme

Eligibility Criteria for partners:

- Be compliant with regulatory requirements
- No arrears of taxes, fees and other payments to the budget
- No sanctions against bank, its beneficial owners and related parties imposed by Ukraine, OECD or the EU during the last 12 months
- Availability of technologies and procedures for lending to SMEs
- Existence of a separate unit in the bank responsible for lending to SMEs, credit products for SMEs and a working loan portfolio of SMEs
- Existence of a strategic plan for financing of SMEs (business strategy, target parameters, limits on credit exposures, etc.).

Annex 2. Terms and Conditions of 5-7-9 Programme (cont.)

Eligibility criteria for SMEs:

- Duly registered as a legal entity or an entrepreneur
- Working more than 12 months for operating entities and less than 12 months for newly created entities
- Participants and the ultimate beneficial owner (controller) are private individuals and residents of Ukraine
- Average number of employees not more than 50
- Annual revenue should not exceed EUR 20 m at the time of application, including related companies
- The amount of state support under the Program will not exceed the equivalent of EUR 200 thsd. (UAH ~6.5 m), including related companies
- Profitable for the last 4 quarters for operating entities
- Availability of a realistic and sound business plan for newly created entities
- Does not fall under certain restrictions defined by Article 13 of the Law of Ukraine "On Development and State Support of Small and Medium Enterprises".

Annex 2. Terms and Conditions of 5-7-9 Programme (cont.)

	Compensation of interest rates
Annual revenue	Up to EUR 20 m
Loan amount	UAH 0.1 - 50 m
Own contribution	>10% for operating entities >15% for newly created entities
Purpose of loan	<ul style="list-style-type: none"> • Acquisition of new and used fixed assets, their modernization • Acquisition of non-residential real estate without the right to lease <ul style="list-style-type: none"> • Construction and reconstruction of premises (except office) • Acquisition of intellectual property rights (franchising) • Replenishment of working capital needs (up to 25% of the investment project cost)
Currency	UAH only
Interest rates	<ul style="list-style-type: none"> • 5% p.a. - for SMEs with up to UAH 50 m and where at least 2 jobs are created during the first quarter; • 7% p.a. - for SMEs with revenue up to UAH 50 m; • 9% p.a. - for SMEs with revenue from UAH 50 to UAH 100 m
Further reduction of interest rates	Interest rates of 7% or 9% p.a can be reduced by 0.5% for each new job created on the last day of the reporting quarter compared to the date of the Loan agreement. In any case, final interest rate can not be less than 5% p.a.

Source: BDF

Annex 2. Terms and Conditions of 5-7-9 Programme (cont.)

	Compensation of interest rates (cont.)
Max tenor	5 years – for investment loans 3 years – for working capital loans
Max lender's fee	1%
Security	Object of lending, movable and immovable property - commercial real estate, special equipment, fixed assets, incl. those purchased on credit, deposit

	Credit guarantees (related only to compensation of interest rates)
Max coverage	50% for operating entities 80% for newly created entities
Guarantee fee	0.5% one-off
Exception	Not available for refinancing loans

Source: BDF

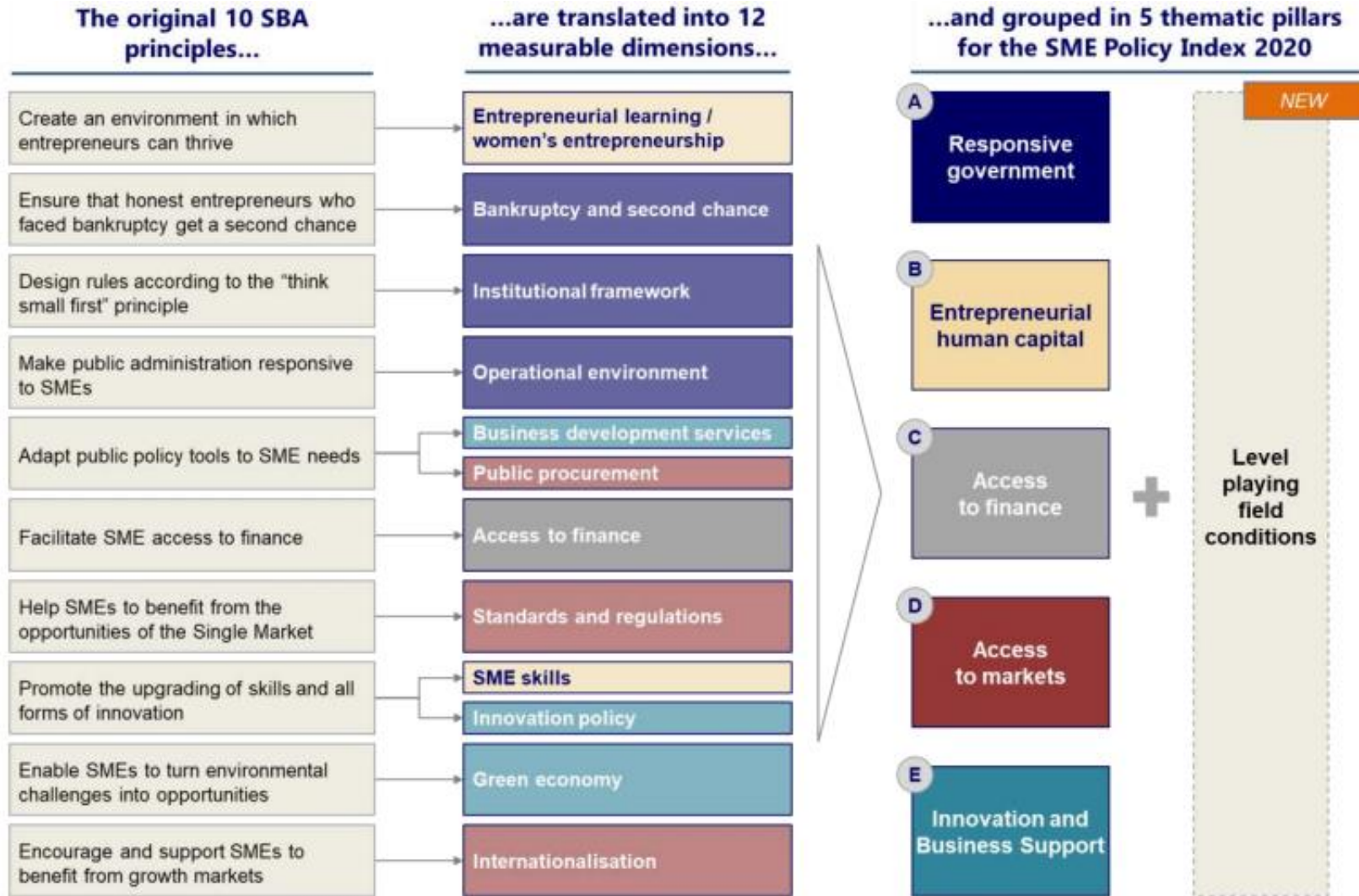
Annex 2. Terms and Conditions of 5-7-9 Programme (cont.)

	Anti-crisis support to SMEs due to pandemic situation
Annual revenue	Up to EUR 20 m
Max amount	For A and B: UAH 3 m For C: less than equivalent of EUR 200 thsd. (UAH ~6.0 m)
Purpose of loan	A) Investment projects related to the production of medicines, medical devices, medical equipment, as well as refinancing of loans for these purposes B) Supporting the liquidity of SMEs through replenishment of working capital to cover fixed costs (to pay salaries, rent and utility bills, etc.) without reference to the expenses under investment project C) Refinancing of existing debt on loans in Ukrainian banks by granting a new loan and/or changes in the terms of the current loan agreement in order to provide state support, in the form of interest compensation provided by the programme
Interest rates	3% p.a. for A and B 0% for C
Max period of compensation	For A and B: 5 years – for investment loans and 2 years – for working capital loans, for C: till 31.03.2021 with 3% p.a. after this date
Guarantees	Up to 80% for A and B only

Source: BDF

Annex 3: OECD SME Policy Index on Ukraine

Principles of assessment were changed and grouped into 5 pillars



Annex 3: OECD SME Policy Index on Ukraine

- Since 2016, Ukraine's position improved but still remained below the Eastern Partnership countries average.
- The launch of 5-7-9 Programme intends to improve "Access to finance" (Pillar C) ranking.

Pillar	Dimension	UKR 2020	UKR 2016	EaP average 2020	UKR 2020 (2016 methodology)
A	Institutional and regulatory framework	3.50	2.45	3.74	3.50
	Operational environment	3.55	3.81	3.92	3.89
	Bankruptcy and second chance	2.56	2.05	2.85	2.38
B	Entrepreneurial learning / Women's entrepreneurship	3.98	2.25	3.58	n.a.
	SME skills	3.19	2.56	3.36	n.a.
C	Access to finance	3.31	3.22	3.57	3.23
D	Public procurement	3.17	2.73	3.49	3.17
	Standards and regulations	3.55	4.34	3.43	3.81
	Internationalisation	2.64	1.63	2.96	3.02
	Business development services	2.90	1.84	3.53	2.90
E	Innovation policy	2.28	1.86	2.92	2.35
	Green economy	2.54	1.22	2.77	2.54

Source: OECD(2020), *Monitoring the Implementation of Ukraine's SME Development Strategy 2017-2020*

Annex 4. OECD Monitoring the Implementation of Ukraine's SME Development Strategy 2017-2020

OECD overview of assessment results in improving access to finance for SMEs

Action	State of play	Progress
Enhancing SME financing by commercial banks	A draft concept note on the mechanism of the partial credit guarantee scheme (CGS) developed and a pilot project on partial CGS granting conceptualised, but implementation postponed due to changes in GUF's Board.	
Enhancing the use of promissory notes	Action Plan for the <i>National Programme on Development of the Financial Sector until 2020</i> under development.	
Enhancing financing by non-banking institutions	The draft law "On Amendments to Some Legislative Acts of Ukraine on Activities of the Credit Unions" developed but removed from parliament's Committee agenda.	
Bridging the SME financing gap by providing factoring services	Committee on Improvement of the Regulatory Environment for Financial Companies (which includes reform of factoring framework among activities of its working plan) was established. Draft law "On Financial Leasing" elaborated and under consideration by the parliament.	

	Not started		Initiated		Under implementation		Advanced implementation		Completed
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Source: OECD(2020), *Monitoring the Implementation of Ukraine's SME Development Strategy 2017-2020*