

#SUPPORT #CHANGE #DEVELOP #BRAND #CREATE  
 #PRESENT #PROMOTE #ADVERTISE #INSURE #ADVERTISE  
 #SUPPORT #DEVELOP #FINANCE #CHANGE #INSURE #DEVELOP #VOTE #ADVERTISE  
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 #ENCOURAGE #ADVERTISE #SEARCH #CREATE  
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 #VOTE

## EXPORT STRATEGY OF UKRAINE

STRATEGIC TRADE DEVELOPMENT ROAD MAP 2017-2021

**This Strategic Trade Development Roadmap (STDR) was developed on the basis of the process, methodology and technical assistance of the International Trade Centre (ITC) within the framework of its Trade Development Strategy programme.**

ITC is the joint agency of the World Trade Organization and the United Nations. As part of the ITC mandate of fostering sustainable development through increased trade opportunities, the Export Strategy section offers a suite of trade-related strategy solutions to maximize the development payoffs from trade. ITC-facilitated trade development strategies and roadmaps are oriented to the trade objectives of a country or region and can be tailored to high-level economic goals, specific development targets or particular sectors, allowing policymakers to choose their preferred level of engagement.

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#### **The International Trade Centre (ITC)**

Street address: ITC, 54-56, rue de Montbrillant, 1202 Geneva, Switzerland

Postal address: ITC Palais des Nations 1211 Geneva, Switzerland

Telephone: + 41- 22 730 0111

Postal address: ITC, Palais des Nations, 1211 Geneva, Switzerland

Email: [itcreg@intracen.org](mailto:itcreg@intracen.org)

Internet: <http://www.intracen.org>

Layout: Jesús Alés – [www.sputnix.es](http://www.sputnix.es)

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	<b>Name</b>	<b>Designation</b>	<b>Organization</b>
<b>1</b>	Nataliya Mykolska	Deputy Minister - Trade Representative of Ukraine	Ministry of Economic Development and Trade of Ukraine
<b>2</b>	Oksana Markarova	Deputy Minister	Ministry of Finance of Ukraine
<b>3</b>	Olga Trofimtseva	Deputy Minister on European Integration	Ministry of Agrarian Policy and Food of Ukraine
<b>4</b>	Yuriy Fedchyshyn	Adviser to Prime Minister	Cabinet of Ministers of Ukraine
<b>5</b>	Oleksandr Danyleiko	Head of the Division of Economic Cooperation	Ministry of Foreign Affairs of Ukraine
<b>6</b>	Vyacheslav Tsymbal	Head of Department of Market Access and WTO Cooperation	Ministry of Economic Development and Trade of Ukraine
<b>7</b>	Leonid Vitkin	Head of Department of Technical Regulation	Ministry of Economic Development and Trade of Ukraine
<b>8</b>	Olesya Zaluska	STDR Navigator of Focal Point, Adviser to Minister	Ministry of Economic Development and Trade of Ukraine
<b>9</b>	Maryana Kahanyak	Head of Export Promotion Office Adviser to the Minister	Export Promotion Office, advisory body to the Ministry of Economic Development and Trade of Ukraine
<b>10</b>	Deborah Fairlamb	Deputy Director	UkraineInvest, Investment Support and Promotion Office advisory body to Cabinet of Ministers of Ukraine
<b>11</b>	Vitaliy Bigdai	Program Manager, Export Promotion Policy Program	Western NIS Enterprise Fund
<b>12</b>	Olexandra Brovko	Senior Trade and Investment Policy Expert	Canada-Ukraine Trade and Investment Support Project
<b>13</b>	Andriy Dligach	Expert, co-founder of NGO	NGO "New Country"
<b>14</b>	Olena Kudliak	Executive Director	Investment & Trade Facilitation Centre (ITFC)
<b>15</b>	Veronika Movchan	Academic Director, Head of the Centre for Economic Studies	The Institute for Economic Research and Policy Consulting (IER)
<b>16</b>	Anton Nanavov, Ph.D.	Associate Professor of World Economy and International Economic Relations of Institute of International Relations	Kyiv Taras Shevchenko National University
<b>17</b>	Sergii Svystil	Vice-president	Ukraine Chamber of Commerce and Industry
<b>18</b>	Volodymyr Vlasyuk	Director	Ukrainian Industry Expertise
<b>19</b>	Mariya-Khrystyna Koziy	Trade Lawyer	USAID Trade Policy Project

Technical support and guidance from the International Trade Centre was rendered through:

	<b>Name</b>	<b>Designation</b>	<b>Organization</b>
<b>1</b>	Marion Jansen	Chief Economist	International Trade Centre
<b>2</b>	Anton Said	Head Trade Strategy Programme	International Trade Centre
<b>3</b>	Darius Kurek	STDR Project Leader	International Trade Centre
<b>4</b>	Alberto Amurgo Pacheco	Lead Economist	International Trade Centre
<b>5</b>	Olga Khomula	International Consultant	International Trade Centre
<b>6</b>	Oleh Myroshnichenko	National Expert	International Trade Centre
<b>7</b>	Victor Deleplancque	International Consultant	International Trade Centre

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## Acronyms

AA	EU – Ukraine Association Agreement
ACAA	Agreement on Conformity Assessment and Acceptance of industrial products
BRDO	Better Regulation Delivery Office
CIS	Commonwealth of Independent States
CMU	Cabinet of Ministers of Ukraine
DCFTA	Deep and Comprehensive Free Trade Agreement
DFATD	Department of Foreign Affairs, Trade and Development of Canada
EBRD	European Bank for Reconstruction and Development
EEN	Enterprise Europe Network
EFTA	European Free Trade Association
EIB	European Investment Bank
EPO	Export Promotion Office
ESPI	Export Support and Promotion Institution
EU	European Union
FDI	Foreign direct investment
FTA	Free trade agreement
GATT	General Agreement on Tariffs and Trade
GCI	Global competitiveness index
GDP	Gross domestic product
GNI	Gross national income
GRP	Gross regional product
GVC	Global value chain
HACCP	Hazard analysis critical control point
HDI	Human development index
ICT	Information and communication technology
IDO	Innovation Development Office
IFC	International Finance Corporation
ILO	International Labour Organization
IMF	International Monetary Fund
IP	Intellectual property
IPO	Investment Promotion Office
IPR	Intellectual property rights
ITC	International Trade Centre
LPI	Logistics performance index
MEDT	Ministry of Economic Development and Trade of Ukraine
MFA	Ministry of Foreign Affairs of Ukraine
MRO	Maintenance, repair and overhaul
NBU	National Bank of Ukraine
NES	National Export Strategy
NGO	Non-governmental organization
ODA	Official development assistance
OECD	Organisation for Economic Co-operation and Development
OOF	Other official flows
POA	Plan of action
PPP	Purchasing power parity
R&D	Research and development
SEZ	Special economic zone
SMEs	Small and medium-sized enterprises
SOE	State owned enterprise

SPE	Special purpose entity
SPS	Sanitary and phytosanitary measures
STDR	Strategic trade development roadmap
TBT	Technical barriers to trade
TISI	Trade and investment support institutions
TSI	Trade Support Institutions
TSN	Trade support network
UCC	Ukrainian Chamber of Commerce
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Programme
UNECE	United Nations Economic Commission for Europe
UNWTO	United Nations World Tourism Organization
USAID	United States Agency for International Development
WB	World Bank
WDI	World development indicators
WEF	World Economic Forum
WIPO	World Intellectual Property Organization
WNISEF	Western NIS Enterprise Fund
WTO	World Trade Organization
WTTC	World Travel and Tourism Council

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## Executive summary

Ukraine is once again at crossroads. Having struggled with economic transformation, transitioning the country into a flourishing market economy has been a challenge. Enormous progress has been achieved, notably at the policy and regulatory levels, and strides have been made in economic integration. Yet the country has been less successful at stimulating entrepreneurship and promoting competition. Efforts to reform the business environment endure, but doing business remains gruelling. Outdated practices have been transposed into new systems, and this has afforded little by way of innovation and incentivizing new players to develop new businesses.

Transferring the benefits of a market economy to enterprises, especially small and medium-sized enterprises (SMEs), requires a deliberate effort at multiple levels. The Ukrainian Government, along with private sector champions of free enterprise have recognised that further action is needed where it counts – i.e. to enable enterprises to engage in new sectors, to become more competitive internationally and pursue new markets. This Strategic Trade Development Roadmap (STDR) is a joint response to orient Ukraine's trade development, to tackle constraints and to embrace opportunities for export development in a practical manner.

With an overall vision of moving Ukraine into “*Knowledge- and innovation-based exports for sustainable development and success in global markets*”, the STDR elaborates three objectives:

### 1. To create an enabling environment that stimulates trade and innovation for diversified exports

The structure of industrial production and exports has been stagnant in Ukraine. Largely dominated by the agricultural sector and heavy industry, export diversification has remained limited since independence, and the transition towards more technology intensive activities has proved to be difficult. Ukrainian exports mainly comprise -intermediary goods with a relatively low technological content. The country needs to diversify with a view to gradually transforming the economy into a more innovative, knowledge-based one to regenerate growth and competitiveness. As well as improve business and policy environment for trade.

### 2. To develop business and trade support services that improve the competitiveness of enterprises, in particular SMEs

Enabling policies and regulations are essential for enterprises to be competitive, and these must be supported by efficient and effective institutions. Trade and business support services in Ukraine remain largely at the embryonic stage, and there is a misalignment between the ambitions and the needs of enterprises. There are obvious gaps in institutional structure and services delivery in areas such as trade finance, certification, transport, cargo handling, trade promotion and branding. The country needs a coordinated network of institutions that remove barriers to trade and provide effective and affordable services along the value chain, and the phases of the international trade transaction.

### 3. To strengthen the skills and competencies that enterprises, in particular SMEs, require to engage in international trade

Having largely remained active in traditional sectors and in traditional markets, most enterprises, notably SMEs do not possess the knowledge and the skills required to engage in new international markets. Coupled with relatively low labour productivity, low labour mobility and a low level of entrepreneurship, enterprises find it difficult to be competitive in international trade. Despite a highly educated and skilled workforce, there exists a mismatch between skills that are required by industry, and those being churned out by the education system. The country needs enterprises that are equipped with business and international marketing skills, and that understand and can respond to the requirements of foreign buyers.

This STDR provides a systematic analysis of constraints that have impeded Ukraine from making progress on these three objectives and then offers a concrete plan of action to overcome them. To obtain early results, this plan of action details a series of activities to be implemented in the short- to medium-term timeframe. This was achieved through extensive consultations with public and private sector operators, leading to unprecedented levels of cooperation among stakeholders in Ukraine.

This STDR concludes by providing guidance for the implementation of the activities stipulated in the action plan. The effectiveness of implementation is likely to be contingent on the country's ability to align the efforts of the various institutions – public, private and civil society – with the priorities identified. The public-private dialogue platform that has been established to design the STDR should play a useful and potentially leading role in the implementation of the road map. It should be strengthened further to enable the successful management, monitoring and measurement of the implementation phase.

Modernizing the Ukrainian business environment and economy is at the core of this roadmap. A number of existing and potential sectors are prioritized and identified as being drivers of innovation and high value-addition, as well as having the potential to invigorate SME development and stimulate entrepreneurship. These sectors are:

- **Information and Communications Technology**, notably software development given the existing supply of programmers and annual number of graduates in this field.
- **Creative services**, including advertising and public relations services, crafts, design, film industry, fashion, publishing and other performing and visual arts;
- **Tourism**, focusing particularly on eco-tourism, adventure tourism, cultural, MICE and educational tourism;
- **Aircraft repair and maintenance**, complementing the established aviation industry.
- **Aerospace and aviation parts and components**, including aircraft.
- **Machinery**, including light machinery such as turbo propellers, gas turbines, pumps and insulated wires and cables for vehicles, as well as heavy machinery such as vehicles, railway and tramway locomotives and parts and components.
- **Food and beverages** industry, notably food ingredients, processed food and organic produce.

Market opportunities exist. Initial analyses suggest that Ukraine is trading below potential in a number of major countries including Canada, China, France, Germany, Ireland, Japan, Sweden, Switzerland, the United Kingdom and the United States.

The elaboration of detailed value-chain-driven, market-led sector strategies, along with cross-cutting trade support function strategies should be a useful next step to achieve the vision and strategic objectives laid out in this roadmap, and propel Ukraine into the dynamic economy it aspires to be.

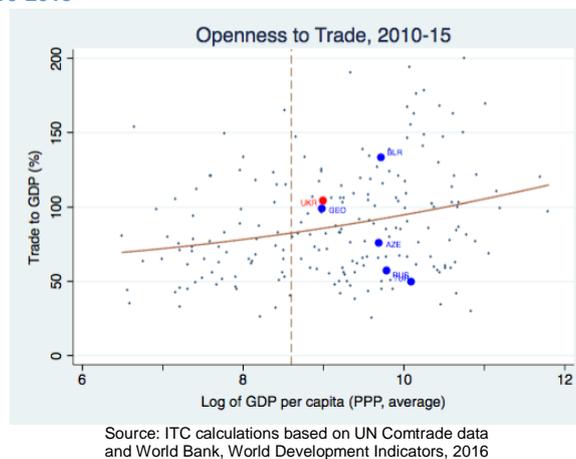
## Trade and investment in Ukraine

### Trade analysis

Ukraine's trade in goods and services has shown large fluctuations from year to year because of the successive shocks and disruptions that hit economic activity since 2008. **The phenomenon has been amplified by the fact that the Ukrainian economy is characterized by a high level of openness.** The level of openness – measured using the export-plus-import-to-GDP ratio – in Ukraine is, however, plateauing. Little progress has been observed over the past decade, with a stable trade to GDP ratio at around 100% (107.5% in 2015, WDI) with no clear upward trend, raising the question of trade competitiveness in the country. This high level of openness leaves Ukraine vulnerable, as the instability of world markets affects the Ukrainian economy strongly.

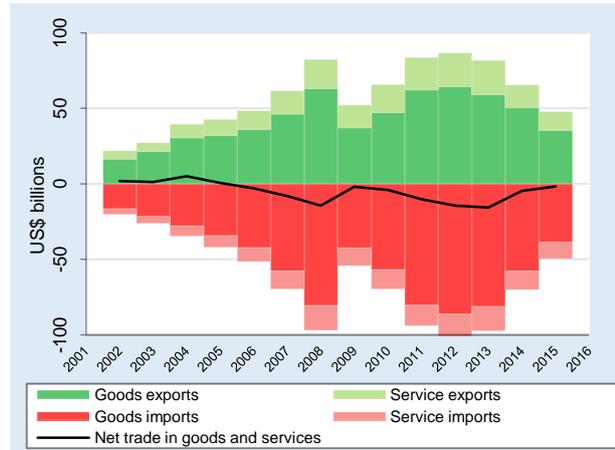
At the regional level, the Ukrainian economy compares favourably with Kazakhstan and Russia but is significantly less open than Moldova and Belarus, trade representing respectively 133% and 123% of the GDP in these countries.

Figure 1: Openness to trade, 2010-2015



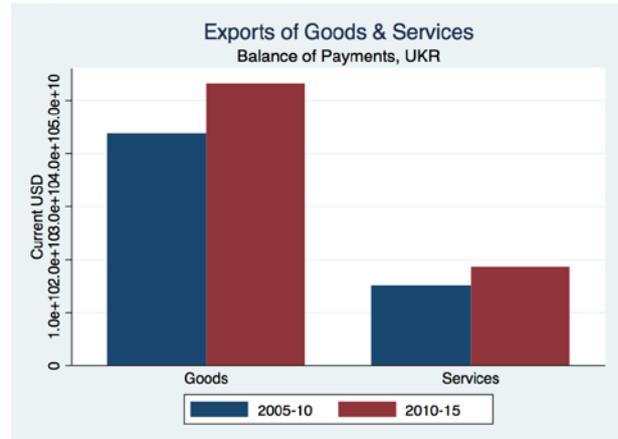
**Ukraine's trade deficit has been reduced significantly over the past decade**, reaching US\$ 1.69 billion in 2015, its lowest level since 2005 (WDI, 2016). As mentioned earlier, trade in goods and services have been characterized by large fluctuations in recent years owing to the successive disruptions of economic activity. It is also to be noted that the dollar value of the trade flows was also influenced by several sharp currency devaluations. Besides, the latter have not led to the expected boost in exports.

Figure 2: Net trade in goods and services (BoP, current US\$)



Source: World Bank, World Development Indicators, 2016

Figure 3: Exports of goods and services (BoP, current US\$)



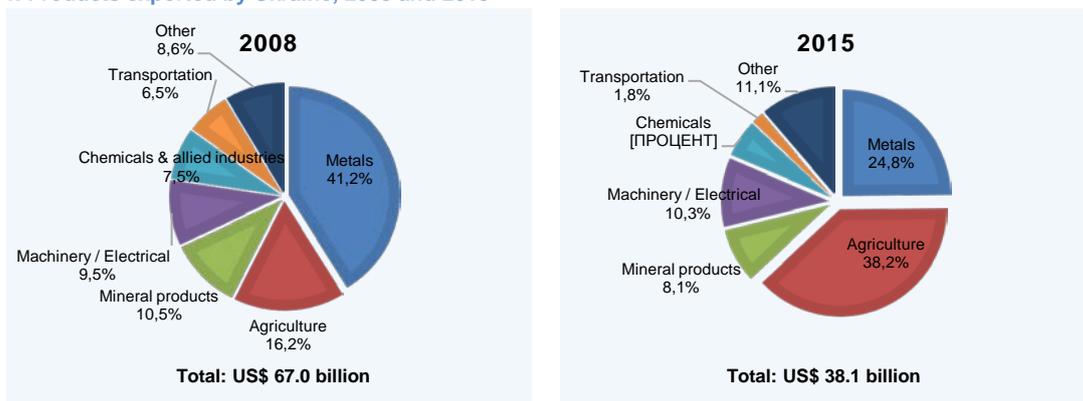
Source: World Bank, World Development Indicators, 2016

## Trade in goods

Ukraine’s export performance has been affected deeply by disruptions in production and falling global commodity prices. Goods export values in 2015 dropped by about 43% compared with 2008, from US\$ 67 billion to US\$ 38.1 billion in 2015, mainly reflecting reduced exports of iron and steel, machinery and vehicles.

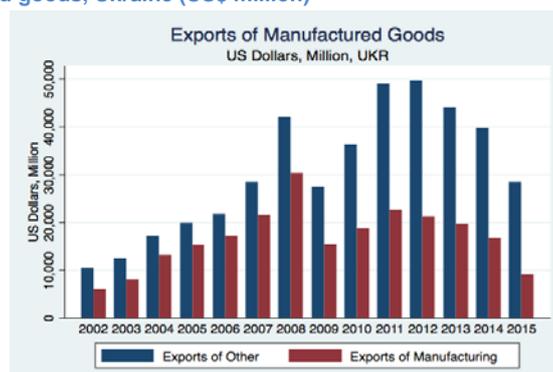
Traditionally led by iron and steel, Ukrainian exports of goods are now dominated by agricultural products, supported by good harvests in recent years and improved access to the EU market. Agricultural commodities, and grains and oilseeds in particular, represent about 38% of Ukraine’s total exports of goods in 2015, more than doubling its 2008 share (Figure 4). The share of metal, on the other hand, has been reduced to 25% over the same period, affected greatly by the recent drop in steel prices and the deterioration of economic ties with the Russia Federation, Ukraine’s largest importer of iron and steel. Finally, the manufacturing sector is suffering disproportionately, a worrisome situation considering that a strong manufacturing sector acts as a vehicle to create future growth (Figure 5).

Figure 4: Products exported by Ukraine, 2008 and 2015



Source: ITC calculations based on World Integrated Trade Solutions (WITS) and UN Comtrade data, 2016

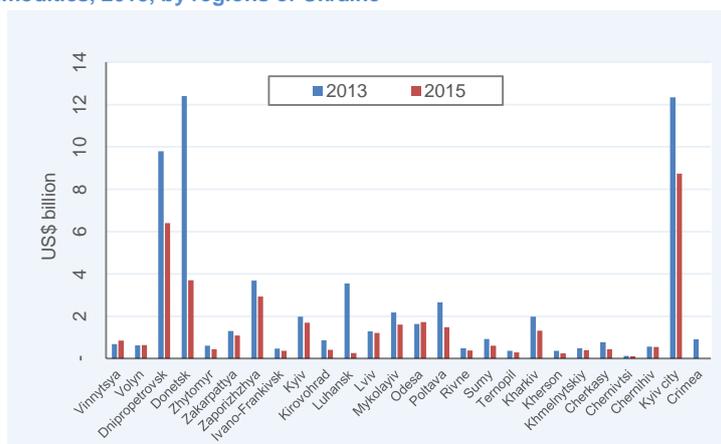
Figure 5: Exports of manufactured goods, Ukraine (US\$ million)



Source: World Bank, World Development Indicators, 2016

**Persisting armed conflict in certain areas of the Donetsk and Lugansk regions as well as the temporary occupation of the Autonomous Republic of Crimea and the city of Sevastopol (hereinafter “Crimea”) continue to affect trade severely in Ukraine.** From 26.6% in 2013, the share of Crimea and the regions of Donetsk and Luhansk in total Ukrainian exports of commodities dropped to 10.4% in 2015).<sup>1</sup> Between 2013 and 2015, exports from the Donetsk region decreased by 70% and from Luhansk by 93%. In value, export losses from these regions and from the temporarily occupied Crimea accounted for US\$ 12.9 billion out of the total US\$ 25.2 billion of Ukraine’s export losses in over the two-year period (Figure 6).

Figure 6: Exports of commodities, 2015, by regions of Ukraine



Source: State Statistics Service of Ukraine

**Note:** 2015 data excluding the certain areas of the Donetsk and Luhansk regions of Ukraine affected by the armed conflict as well as the temporarily occupied Autonomous Republic of Crimea and the city of Sevastopol

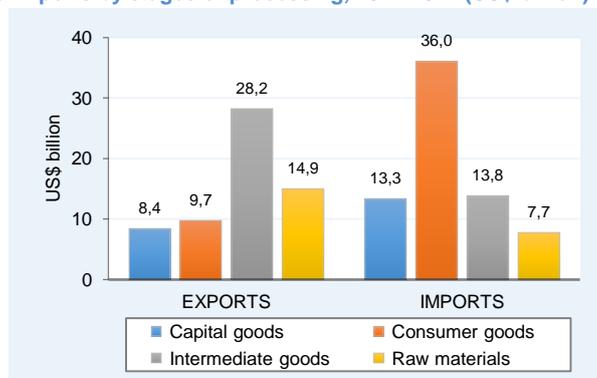
**The trade structure in Ukraine is characterized predominantly by intermediate goods on the export side and consumer goods on the import side.** Largely dominated by iron and steel and agricultural products, Ukraine’s exports of goods mainly comprise intermediary goods, to be used as inputs in the production of other final, consumer goods. Ukraine levies export duties on live cattle and hides, certain oilseeds (flax and sunflower) as well as on scrap metal.<sup>2</sup> Natural gas produced in Ukraine

<sup>1</sup> The Autonomous Republic of Crimea, the city of Sevastopol and part of the anti-terrorist operation zone being excluded from the State Statistics Service of Ukraine.

<sup>2</sup> Law of Ukraine No. 180/96-VR of 07.05.1996; Law of Ukraine No. 1033-XIV of 10.09.1999; Law of Ukraine No. 216-IV of 24.10.2002; Law of Ukraine No. 441-V of 13.12.2006.

is also subject to duties when exported in liquefied or gaseous form since 2008.<sup>3</sup> In 2015, the Parliament of Ukraine introduced a 10-year ban on export of unprocessed lumber to address the critical shortage on the domestic market.<sup>4</sup> Imbalances in a trade structure left over from Soviet times, led to unstable export earnings owing to the vulnerability of recurrent declines in trade.<sup>5</sup>

Figure 7: Ukrainian exports and imports by stages of processing, 2012–2014 (US\$ billion)



Source: World Integrated Trade Solutions (WITS), 2016

**The destinations of Ukrainian exports have become more diversified as Ukraine gradually reduced its orientation towards the CIS and Russian markets.** Affected severely by the persisting armed conflict in certain areas of the Donetsk and Lugansk regions as well as the temporary occupation of Crimea and the suspension of the free trade regime with Ukraine by the Russian Federation starting 1<sup>st</sup> January 2016, political and economic ties between the two countries have deteriorated. This has had a negative effect on Ukraine's exports and GDP. Although the Russian Federation remains one of the main trading partner of Ukraine, its share in total export from Ukraine dropped from 23.5% in 2008 to 12.7% in 2015 (UN Comtrade), representing only US\$4.8 billion worth of goods exported, its lowest level since 2003. The loss of the Russian market presents a dramatic challenge for Ukrainian export-oriented producers, especially in sectors relying heavily on the demand from Russia for machinery building, as an example. Export losses have only been partially compensated by reorientation towards other destinations.

Indeed, if Ukraine's exporters continue to rely heavily on traditional markets concentrated mostly in post-Soviet countries (CIS countries, including the Russian Federation still accounting for 20.5% of Ukraine's trade in 2015), other destination markets have emerged. Chief among them is the EU whose aggregate market share increased from 27.3% in 2008 to 34.1% in 2015. This happened partly because of free trade preferences provided to Ukraine by the EU after the agreement to sign the Association.<sup>6</sup> The Chinese and Indian markets have also become key destinations for Ukrainian commodities, together capturing more than 10% of the country's total exports of goods in 2015, from 2.3% in 2008.

Foreign markets are quite segmented for Ukrainian exports as machine-building products are orientated mainly towards post-Soviet markets, and the Russian Federation in particular, while exports to European markets constituted mostly of low value-added goods.<sup>7</sup>

<sup>3</sup> Law of Ukraine No. 309-VI of 03.06.2008. Export duty on gas is not applicable when exported to Members of the Energy Community.

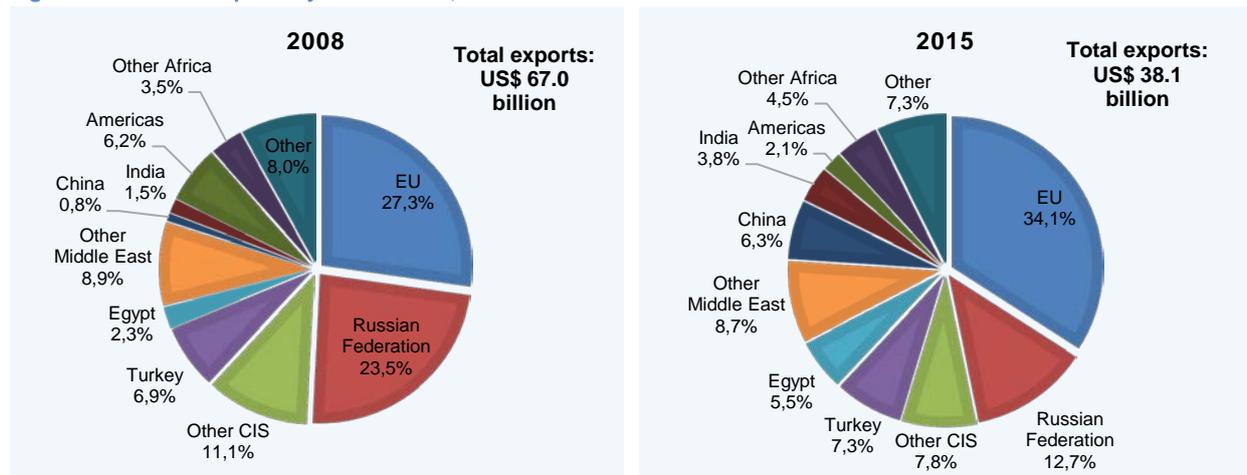
<sup>4</sup> Law of Ukraine No. 325-VIII 09.04.2015. For pine logs, the ban is applicable from 1 January 2017.

<sup>5</sup> Yaroslav A. Zhalilo (2015). *SMEs, Trade and Development in Ukraine*

<sup>6</sup> Yaroslav A. Zhalilo (2015). *SMEs, Trade and Development in Ukraine*. p. 6.

<sup>7</sup> *Ibid*

Figure 8: Ukrainian exports by destinations, 2008 and 2015

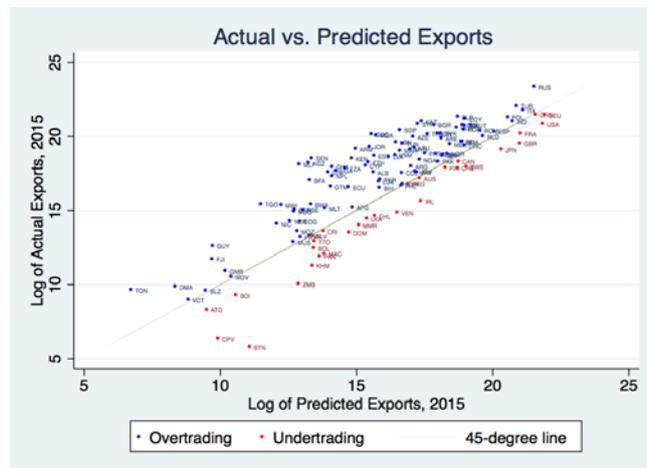


Source: ITC calculations based on World Integrated Trade Solutions (WITS) and UN Comtrade data, 2016

**There are several important markets that offer untapped export potential opportunities.** Estimation results presented in this strategy suggest that Ukraine is currently trading below potential with large countries such as the United States, Germany, the United Kingdom, France, Japan and Canada. The 75 countries with which Ukraine is currently trading below potential offer a ceiling of almost US\$ 6 billion of additional exports.<sup>8</sup> While these estimates apply to the export basket as a whole, they do not necessarily reflect a potential for trade expansion across every traded sector. A detailed analysis of markets representing significant opportunities for exports is to be further developed for each priority export sector.

Figure 9: Actual and predicted exports, gravity model

Table 1: Ukraine’s top ten under trading markets, 2015



Rank	Country	US\$
1	United States	1,935,971,968
2	Germany	1,150,496,128
3	United Kingdom	1,009,080,704
4	France	759,456,320
5	Japan	459,574,272
6	China	190,861,568
7	Sweden	120,487,504
8	Switzerland	76,122,616
9	Canada	46,610,696
10	Ireland	28,484,412
<b>Total all countries</b>		<b>5,918,056,535</b>

Source: ITC calculations based on World Integrated Trade Solutions (WITS) and UN Comtrade data six digits HS 2002 data

→ PoA reference: Activity 1.3.14

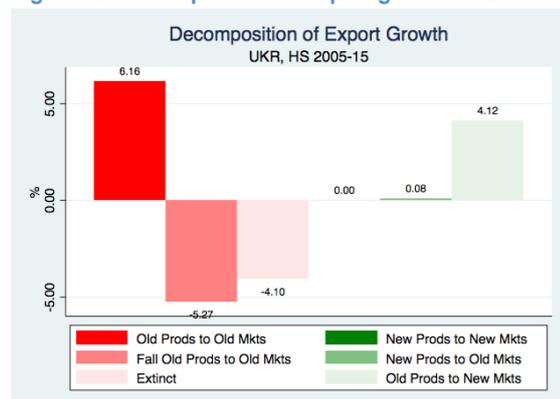
**The decomposition of export growth in Ukraine indicates that exports growth in the last decade has been almost exclusively driven by an intensification of trade in traditional products,** including agricultural products, metals and machinery and equipment. Figure 10 shows the decomposition of

<sup>8</sup> The complete list of the 75 under-traded countries is in Annex 3.

export growth during the past decade. Export growth can be decomposed between traditional products and markets intensification (in red) and diversification of products and markets (green).

While Ukrainian products have been mainly destined for traditional or established markets such as CIS countries and the EU, a number of commodities have nevertheless managed to reach new markets, including the booming Chinese and Indian markets, indicating encouraging signs of export diversification. Exports of new products, on the other hand, have been virtually non-existent, indicating that there has been limited to no innovation in Ukraine over the past decade. Finally, export growth in Ukraine has also been characterized by the contraction in exports of traditional products to established markets as well as by the extinction of numerous exported products.

Figure 10: Decomposition of export growth in Ukraine, 2005-2015



Source: ITC calculations based on World Integrated Trade Solutions (WITS) and UN Comtrade data, 2016

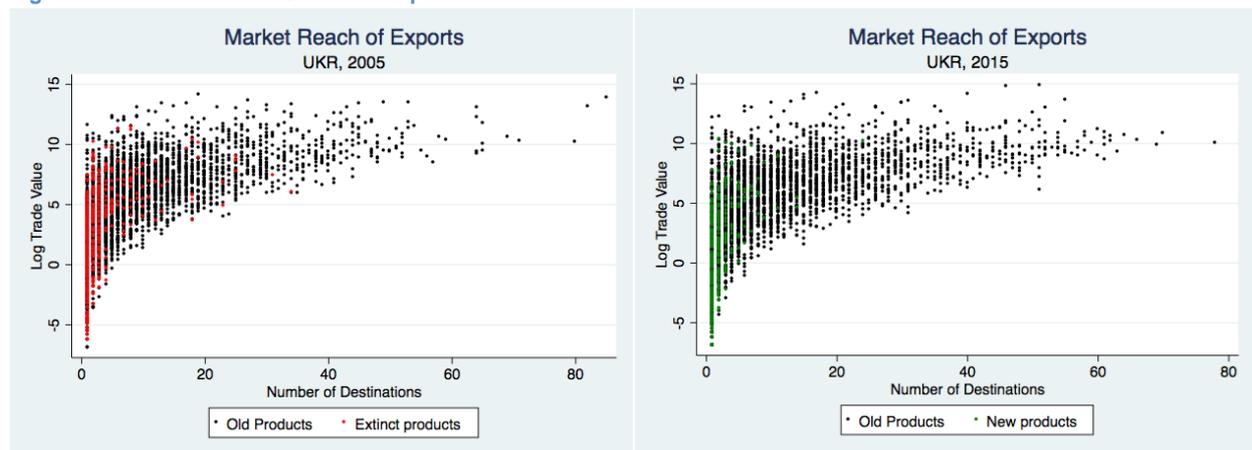
One of the lessons learnt from the decomposition of export growth is that there is an urgent need for Ukraine to diversify its products with a view to gradually transforming Ukraine into a more innovative, knowledge-based, economy to regenerate growth and to gain competitiveness. An insufficiently diversified export structure caused a significant slowdown of export activities in recent years when demand for Ukrainian products in international markets decreased.<sup>9</sup>

The analysis of the market reach of exports confirms that **market destinations have increased significantly between 2005 and 2015** (Figure 11).<sup>10</sup> The combined picture for Ukraine is one of an improving market reach with a high fatality rate of export flows and a low level of export births. This suggests high intermittency in the export relations, which could be a sign of poor quality.

<sup>9</sup> Yaroslav A. Zhalilo (2015). *SMEs, Trade and Development in Ukraine*

<sup>10</sup> The charts provide a comparison in two points in time of the number of destinations reached by each product. The red colour has been used for the products that are in the picture in 2005 but not in 2015: the extinct products. The green colour has been used for the products that were not in the snapshot picture in 2005, but are indeed there in 2015: the new products.

Figure 11: Market reach of Ukrainian exports



Source: ITC calculations based on World Integrated Trade Solutions (WITS) and UN Comtrade data, 2016

**Ukraine's involvement in global production networks has progressed significantly over the past decade but remains insufficient.** Exports and imports of parts and components as a share of total exports can be used to measure the extent to which the country is integrated in the regional and global value chains.<sup>11</sup> In fact, trade in parts and components can be seen as a proxy for exchanges in production networks.

In line with previous findings highlighting the predominance of intermediary goods in Ukraine's exports, the share of exports of parts and components in Ukraine's total exports has increased continuously over the past decade to exceed 20% in 2015. The role of imports of parts and components is, on the other hand, decreasing. The picture that emerges from this analysis is that the involvement of Ukraine in international value chains seems to be changing to the role of inputs provider, a situation that affects export competitiveness.

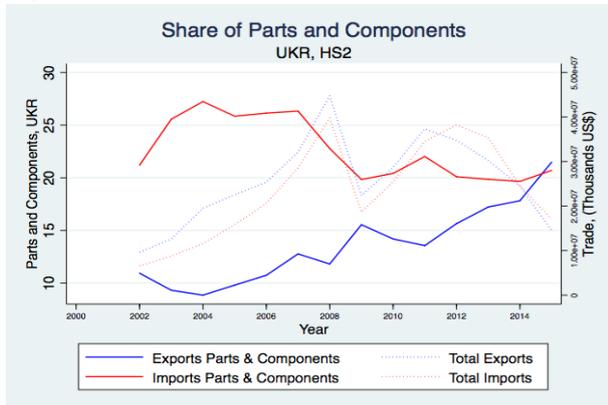
**There is a need to move to medium and high technology manufactured products to move up the global value chain (GVC).** Ukraine has hardly changed the structure of its exports since the onset of transition and continues to rely heavily on a few rather unsophisticated export commodities, generally produced with low levels of skills, dominated by steel and steel products as well as agricultural commodities. As highlighted by the OECD in a recent report, as Ukraine has found it very difficult to attract FDI, especially in non-traditional exports sectors, it is also failing to integrate its economy in GVCs where global multinational enterprises play a crucial role.<sup>12</sup> The OECD indicates further that FDI in manufacturing is heavily concentrated in metallurgy, where the end product is sold as a commodity in global markets.

The technological content of Ukrainian exports is overall relatively low with only 5% of exports classified as medium or high technology, compared with almost 37% in other developing economies, on average. As shown in Figure 13, the greatest increase in value of exports for the period 2010-2015 has been in commodities exports.

<sup>11</sup> There are two basic ways in which a country can be involved in international value chains: as an assembly powerhouse (importer of parts and components) and as an outsourcer (exporter of parts and components to other countries). A well-known stylized fact of globalization over the past decades has been that global trade in parts and components has expanded more dynamically than conventional trade in final goods.

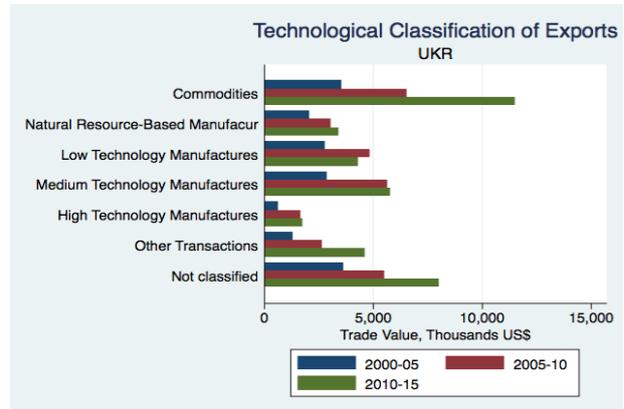
<sup>12</sup> OECD (2016). *Investment Policy Reviews - Ukraine 2016*. P. 35

Figure 12: Share of parts and components in exports and imports, Ukraine, 2002-2015



Source: ITC's calculation based on UN Comtrade

Figure 13: Technological classification of exports, Ukraine, 2005-2015



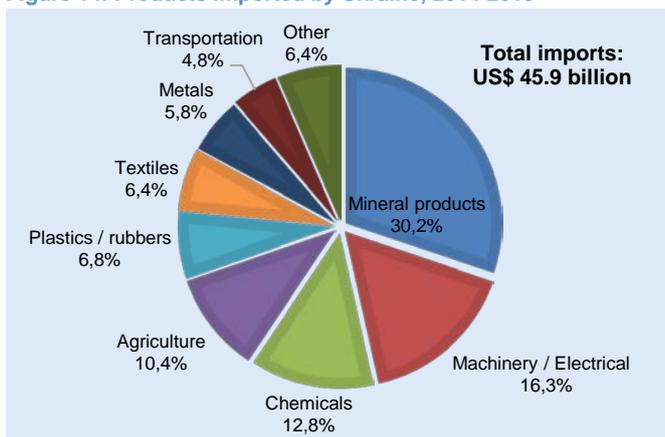
Source: ITC's calculation based on UN Comtrade

### Imports of goods

Imports of goods also declined sharply in recent years as the imported value has been more than halved over the period, from US\$ 85.4 billion in 2008 to US\$ 37.5 billion in 2015. A number of reasons can explain this drop in imports, including weak production activity, falling real household incomes and contraction of the domestic demand, hryvnia devaluation, introduction of the import surcharge, and lower commodity prices, especially hydrocarbons (WTO, 2016).<sup>13</sup>

As indicated above, the trade structure in Ukraine is characterized predominantly by consumer goods on the import side, the latter accounting for more than one third of the country's imports (Figure 14). The import structure is defined primarily by a high dependence on energy resources with natural mineral products accounting for 30.2% of Ukraine's commodities imports over the period 2014-2015. Other products include machinery and equipment (16.3%), chemicals and allied industries (12.8%) and agricultural products (10.4%).

Figure 14: Products imported by Ukraine, 2014-2015



Source: ITC calculations based on World Integrated Trade Solutions (WITS) and UN Comtrade data, 2016

The sharing of supplying markets for products imported by Ukraine has changed rapidly in recent years with the EU increasing its influence progressively, supplying 40.9% of Ukraine's total imports in 2015,

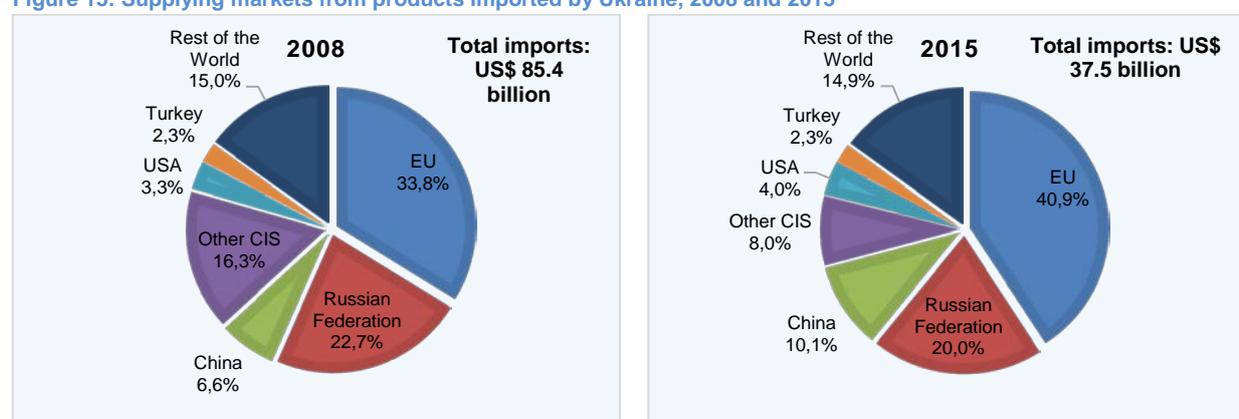
<sup>13</sup> WTO TPR/S (2016). P.16

from 33.8% in 2008. Germany accounted for about 25% of EU 28 total exports to Ukraine in 2015. Ukrainian imports from Europe are dominated by fuels, machinery and equipment and chemical and pharmaceutical products.

Despite the deterioration of economic ties with the Russian Federation, the country remains by far the supplier of commodities imported by Ukraine with a market share of 20% in 2015, though in decline compared with 2008 (22.7%). If the reliance on Russian energy goods has decreased significantly in recent years, Ukraine still imported about one third of its mineral fuels and oils from the Russian Federation in 2015, down from almost 70% in 2011-2012. Other important products supplied include machinery and fertilizers.

The share of other CIS countries in Ukrainian commodities imports have been halved between 2008 and 2015, from 16.3% to 8.0%, mainly owing to the drop in mineral products imports for these countries. Chinese exports, on the other hand, have gained market share, thanks to the resilience of electrical machinery and equipment exports.

**Figure 15: Supplying markets from products imported by Ukraine, 2008 and 2015**



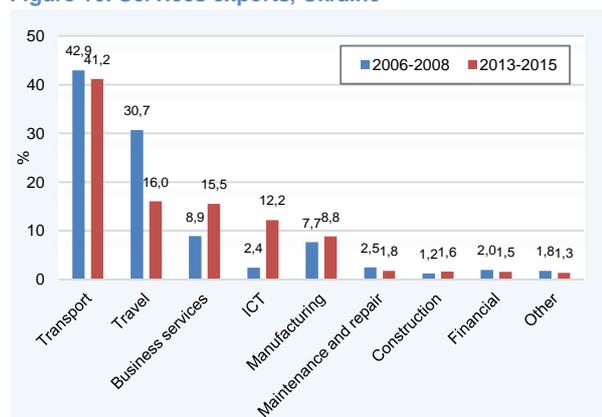
Source: ITC calculations based on World Integrated Trade Solutions (WITS) and UN Comtrade data, 2016

## Trade in services

Affected by the current macroeconomic instability, service exports have decreased significantly in recent years, dropping by about 36% in 2015 compared with 2008, though showing greater resilience than goods exports which dropped by about 43% over the same period. With US\$ 13.6 billion worth of services exported in 2014-2015, on average, Ukraine remains a net exporter of services with a trade surplus standing at around US\$ 2 billion (IMF).

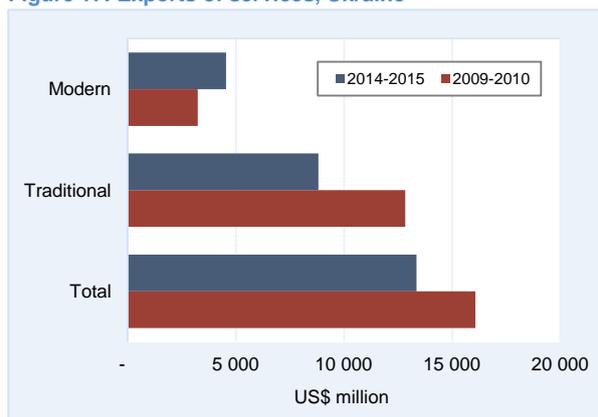
Service exports account for about 25% of total Ukrainian exports with very little change observed in the past decade. Being an important transit country for transporting natural gas and oil via pipelines, Ukrainian exports of services are largely dominated by transportation services (US\$ 5.8 billion in 2014-2015 on average, or 43.1% of total services exports), of which about 40% is attributable to pipeline transportation. The surplus for pipeline transport services decreased to US\$ 2.6 billion in 2015, down from US\$ 3.3 billion in 2013, but remained the principal contributor to the overall services surplus (UN Comtrade). Incoming tourism to Ukraine decreased drastically, from US\$ 5.1 billion in 2013 to just above US\$ 1 billion in 2015 while significant developments have been observed in the ICT services and business services, indicating encouraging signs of product diversification and a progressive transition towards modern services.

Figure 16: Services exports, Ukraine



Sources: ITC, UNCTAD, WTO trade in services database based on IMF statistics

Figure 17: Exports of services, Ukraine



Source: ITC calculations based on IFM Government Finance Statistics (BoP), 2016

In analysing exports of services, a distinction between modern and traditional services is useful. Modern services include telecommunications, computer and information, insurance and pension, finance, charges for the use of intellectual property and other business services, whereas traditional services include transport, travel, construction, manufacturing services (on physical inputs owned by others), maintenance and repair and personal, cultural and recreational services.

Modern services generate higher value added and present a higher degree of sophistication. Ukraine is moving slowly away from traditional services, reporting a significant increase in exports of modern services which are accounting for nearly 34% of all exports over the period 2014-2015, on average, compared with 20% in 2009-2010. Most importantly, while a contraction of the total exported value has been reported in recent years, exports of modern services have expanded, mainly owing to the booming of the ICT sector whose exported value has more than tripled between the 2009-2010 and 2014-2015, to exceed US\$ 2 billion.

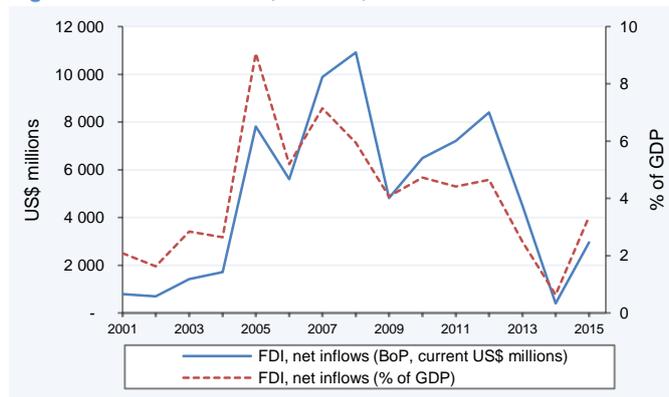
## Investment analysis

It was not until the mid-2000 that the country evolved as an investment destination and began to sell off large SOEs and attract investment, especially in the energy and telecom sectors. During the period 2000-2008, characterized by strong economic growth, FDI flows to the country grew by an outstanding annual average rate of 43.8% and peaked at US\$ 10.9 billion in 2008.

In the aftermath of the global financial crisis, however, FDI inflows more than halved to reach US\$ 4.8 billion in 2009. The rebound observed in 2010-2012 proved to be short-lived as net inflows, affected deeply by the unstable political situation and the prolonged crisis in the East of the country, fell to US\$ 410 million in 2014, hitting its lowest level in more than 15 years.

According to UNCTAD, the decline was attributed mainly to the withdrawal of capital by investors based in the Russian Federation and Cyprus. Although FDI flows to Ukraine increased more than six times to US \$3 billion in 2015, it is still below the level of 2012.

Figure 18: FDI net inflows, Ukraine, 2001-2015

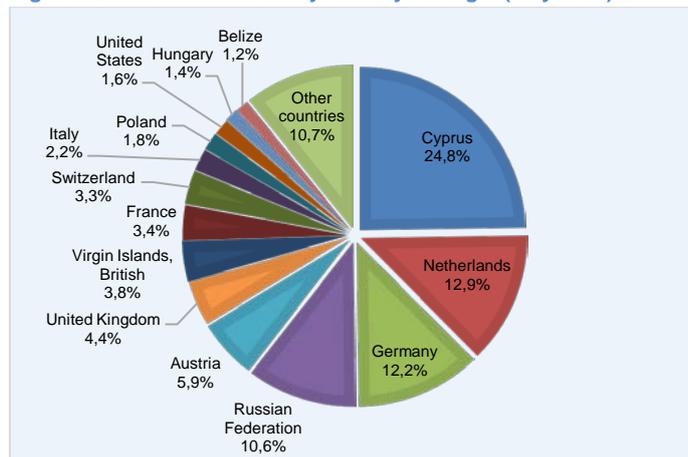


Source: ITC calculations based on UNCTAD and WDI databases, 2016

On 31 December 2015, the European Union accounted for 76.2% of the total FDI stock in Ukraine of US\$ 43.4 billion. The top three investing countries being responsible for almost 50% of total FDI include Cyprus (US\$ 11.1 billion), Germany (US\$ 5.8 billion) and the Netherlands (US\$ 5.4 billion) (State Statistics Service of Ukraine). Other significant investors include the Russian Federation, Austria, the United Kingdom, the British Virgin Islands, France, Switzerland and Italy.

The predominance of investors from Cyprus, by far the single largest country of origin, accounting for 24.8% of the inward stock on 1<sup>st</sup> July 2016, is mainly because of the fact that some Ukrainian investors channel investments through the Cypriot banking sector to re-invest in Ukraine through Special Purpose Entities (SPE), giving rise to “round-tripping” FDI (OECD).<sup>14</sup> The same observation can be made for investment originating from the British Virgin Islands, and Luxembourg. Given the importance of the phenomenon and the predominance of Cyprus in the inward FDI stock, the EU share is likely overestimated. Russian investment, on the other end, is likely underestimated as it is often channelled through SPEs domiciled in foreign countries, including Cyprus and Luxembourg.

Figure 19: Inward FDI stock by country of origin (July 2016)



Source: State Statistics Service of Ukraine

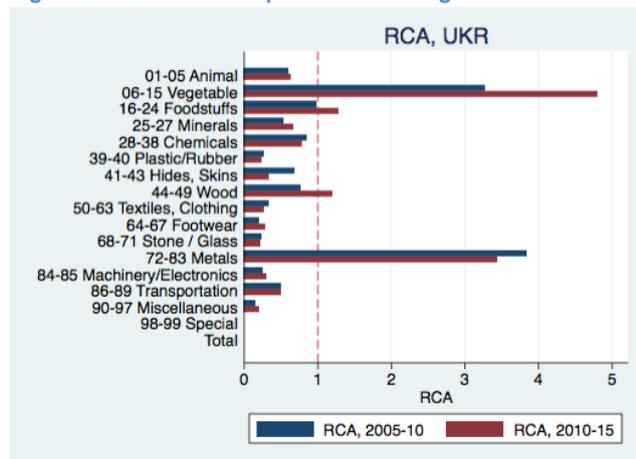
With regard to the sectoral distribution of the FDI inflow, the financial sector (financial and insurance activity) attracts the largest share of foreign investment in Ukraine with a share of inward FDI stock of

<sup>14</sup> OECD (2016). *Investment Policy Reviews - Ukraine 2016*. P. 43

27.3%, closely followed by the manufacturing sector (26.1%), especially in the production of metals, food and beverages. Metallurgy alone accounts for almost 47% of the total FDI stock in manufacturing and 12.2% of the overall FDI stock, a sector where the end product is sold as a commodity in global markets. Despite the country's comparative advantage in the agricultural sector, its share in total FDI stock remains very limited (1.2%), just exceeding US\$ 500 million.

Most FDI inflows correspond to mergers and acquisitions in the financial sector, mining and metallurgy, telecommunications, construction materials and food processing (OECD, 2016).<sup>15</sup> Overall, attracting FDI in Ukraine has proven difficult, especially in non-traditional export sectors. The country would benefit from attracting more export-oriented, efficiency seeking FDI projects in a broader range of manufacturing sub-sectors.<sup>16</sup>

Figure 20: Revealed Comparative Advantage across sectors



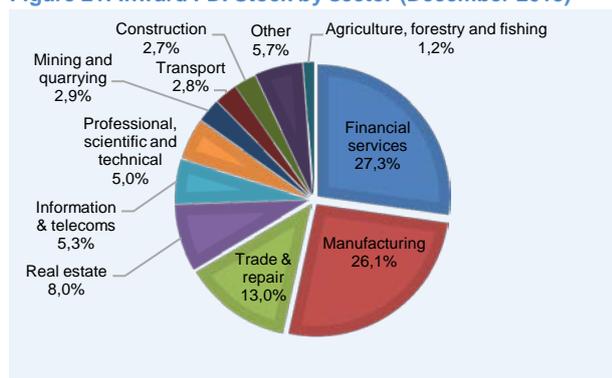
Source: ITC calculations based on WITS and UN Comtrade data, 2016

One of the lessons to be drawn from this analysis is that FDI inflows are very limited in labour intensive sectors, with the manufacturing sector, wholesale and retail trade, accommodation and food services capturing only 14.2% of FDI when their contribution to employment represent 38.8%. On the other hand, the share of financial services in total employment represented only 1.5% in 2015 while the sector captured 27.3% of FDI stock that same year (Figure 21).. As highlighted by the OECD, given the recent depreciation of the Hryvnia and competitive labour costs, Ukraine would be well placed to attract FDI into labour-intensive sectors.

<sup>15</sup> *Ibid.* P. 49.

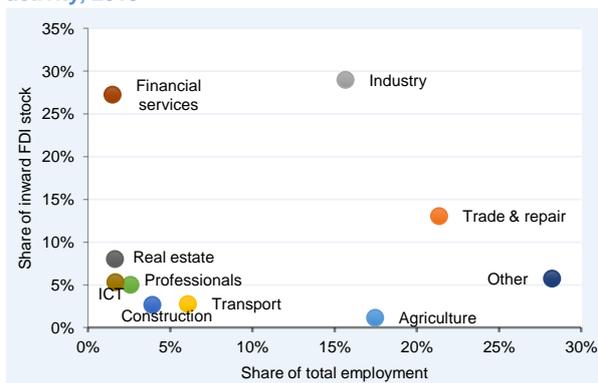
<sup>16</sup> *Ibid.* P. 35-36.

Figure 21: Inward FDI Stock by sector (December 2015)



Source: State Statistics Service of Ukraine

Figure 22: FDI and employment by type of economic activity, 2015



Source: State Statistics Service of Ukraine

### Key takeaways

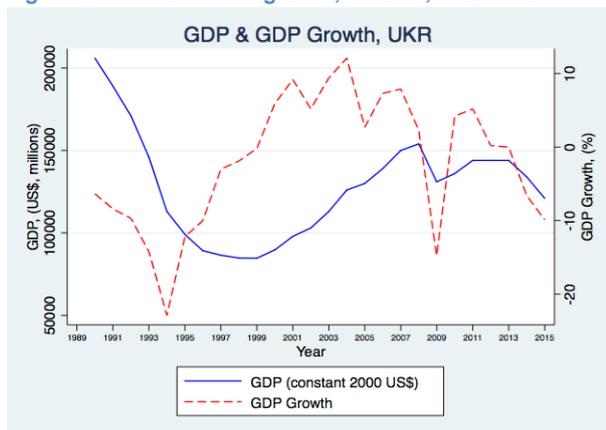
- Ukraine would benefit greatly from diversifying its export basket. Gradually transitioning to an innovation and knowledge intensive economy should produce gains in competitiveness and regenerate growth.
- New markets have only managed to offset the collapse of Ukraine's traditional export markets partially. Several important markets which yet remain untapped could offer opportunities for Ukraine's exports, notably China, Japan, the United States, Canada, as well as the EU and EFTA markets.
- Ukraine remains a net exporter of services, which represent today 25% of total exports and offer important opportunities for diversification and value addition, while expanding exports of modern services such as ICT.
- Ukraine would benefit from attracting FDI to more export-oriented manufacturing and labour intensive agricultural subsectors that provide scope for diversification, efficiency gains as well job creation, where current FDI inflows are limited.

## Economic environment

### Macro-economic environment

**GDP growth in Ukraine has been characterized by disruptions and high volatility.** While Ukraine's output contracted sharply after independence in 1991, the economy returned to growth in 1999, and real GDP grew strongly in the early 2000s, rising at an annual average rate of 7% during the period 2000–2008. Ukraine was then hit exceptionally hard by the global financial crisis that started in 2008 as funding dried up and external sources of financing became unavailable to the country's banks owing to the impact of the global recession. Consequently, the country reported a real GDP contraction of 15% in 2009. A strong economic rebound was observed in 2010–11 but a period of political turbulence since 2014 has taken a big toll on the economy, GDP falling by 6.6% in 2014 and 10.4% in 2015 (WTO, 2016). Some signs of stabilization of the economy have, however, emerged in 2015 as Ukraine has begun to implement reforms, which are supported by a new IMF programme. The Fund predicts a growth of 2.5% in 2017

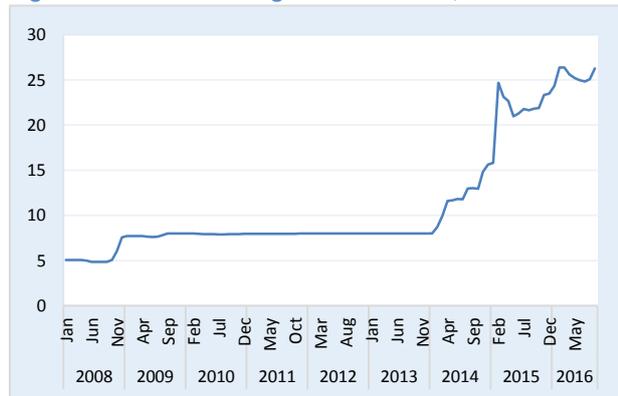
Figure 23: GDP and GDP growth, Ukraine, 1989-2015



Source: World Bank, World Development Indicators, 2016

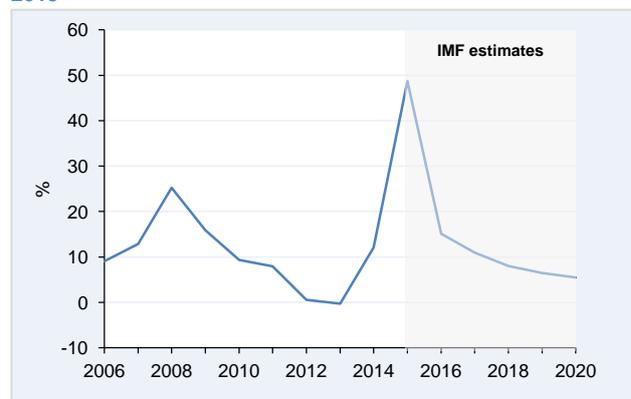
**The recent recession led to a depreciation of the exchange rate.** Depleting reserves of foreign exchange and steady downward pressure on the value of the hryvnia led to a series of measures<sup>17</sup> aimed at spurring exports and reducing the budget deficit, including exchange rate liberalization. The abandonment of the pegged exchange rate system and the sharp currency devaluation observed since March 2014, from around UAH 8.0/US\$ in early 2014 to around UAH 27/US\$ in January 2017, spurred inflation (the average consumer price rose by 48.7% in 2015 compared with 2014) and triggered a significant decline in consumption and investment.

Figure 24: Official exchange rates UAH/US\$, 2008-2016



Source: National Bank of Ukraine (NBU)

Figure 25: Inflation, consumer prices (%), Ukraine, 2006-2015



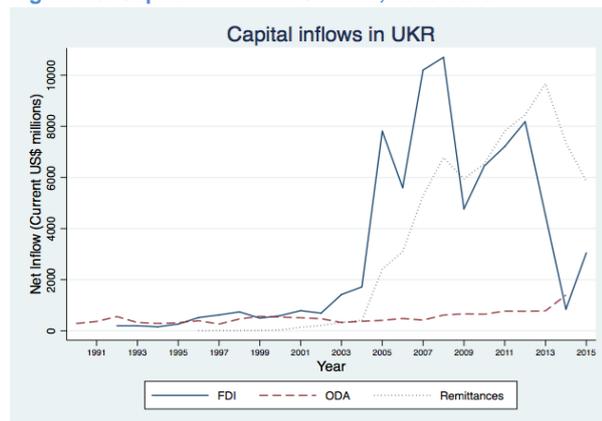
Source: IMF, World Economic Outlook Database, April 2016

**The recession has been accompanied by a consistent reduction of FDI flow into Ukraine.** Affected severely by the unstable political situation and the prolonged crisis in the East of the country, net FDI inflows fell to US\$ 410 million in 2014, hitting its lowest level in more than 15 years (Figure 26). According to UNCTAD, the decline was attributed mainly to the withdrawal of capital by investors based in the Russian Federation and Cyprus. A rebound was observed in 2015 with net inflows reaching US\$ 3 billion in 2015, owing mainly to large recapitalization needs in the banking sector and the privatization of the 3G mobile network through licence sales (UNCTAD).<sup>18</sup>

<sup>17</sup> WTO TPR/S (2016). P.7

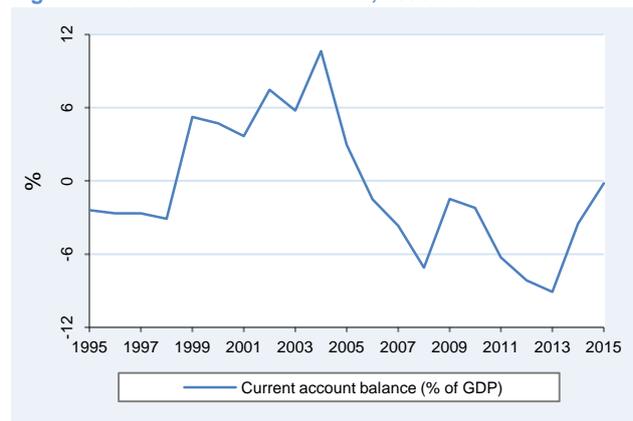
<sup>18</sup> UNCTAD (2016). *World Investment Report 2016*

Figure 26: Capital inflows in Ukraine, 1989-2015



Source: World Bank, World Development Indicators, 2016

Figure 27: Current account balance, 1995-2015



Source: IMF, 2016

**Recent measures have narrowed the current account deficit** to 0.2% of GDP in 2015, down from 9.0% in 2013. The improvement was owed mainly to the reduction of the trade balance deficit, as imports decreased while exports remained weak. Fiscal measures have notably been undertaken in recent years to reduce the public debt, including introduction of import surcharge.<sup>19</sup> Despite the narrowing of the current account deficit and restructuring of debt, external vulnerabilities are expected to persist. As highlighted in the World Bank's Economic Update,<sup>20</sup> Ukraine will require significant external financing to meet repayments on external debt of banks and corporates amounting about US\$ 8 billion per year during 2016-2018.

## Labour force and skills

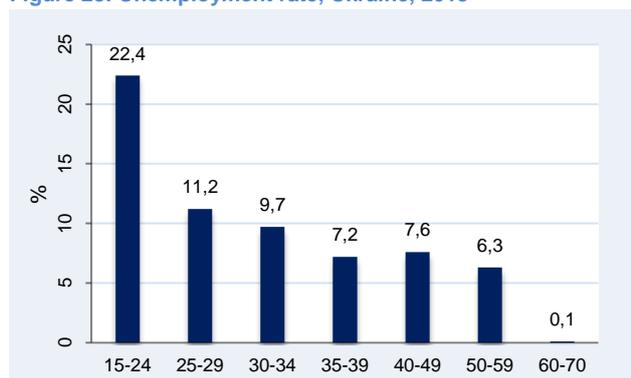
**The unemployment rate remains relatively high, especially for the youth.** In 2015, the economic activity rate of population aged 15-70 was 62.4% and 71.5% of working age with women's activity rate remaining significantly lower, only reaching 56.1%, compared with 69.3% for men (State Statistics Service of Ukraine). The number of unemployed people was estimated at 1,645,700 in 2015 (962,500 males and 692,200 females), with an unemployment rate of 9.1%, down 0.2 percentage point compared with 2014. Particularly affected by unemployment, young people under 30 represented 39% of the total unemployed population of Ukraine in 2015. There is a need for the strategy to focus on initiatives that could have a significant impact on reducing unemployment, paying particular attention to young people.

Employment is still largely dominated by industry and agriculture, as wholesale and retail trade industry, the agricultural sector and the industrial sector together accounted for 54% of the total employment, or almost nine million people, in 2015 (State Statistics Service of Ukraine).

<sup>19</sup> Ukraine imposed import surcharge on balance-of-payments grounds on 26 February 2015 for 12 months. The measure was entirely dismantled starting 1 January 2016

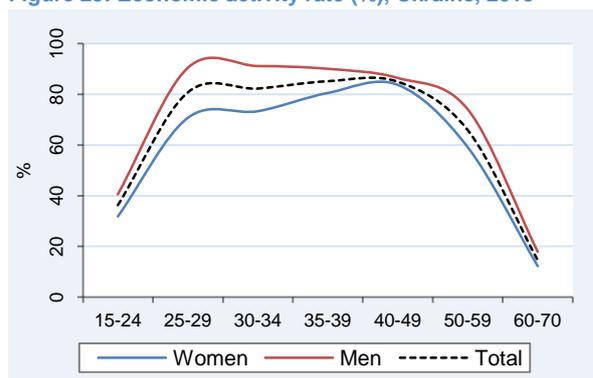
<sup>20</sup> World Bank, Ukraine economic update, September 22, 2016. Available at <http://documents.worldbank.org/curated/en/995361475475802965/Ukraine-economic-update-September-22-2016>

Figure 28: Unemployment rate, Ukraine, 2015



Source: State Statistics Service of Ukraine

Figure 29: Economic activity rate (%), Ukraine, 2015



Source: State Statistics Service of Ukraine

**Important skills mismatch exists in the Ukrainian economy.** Despite the good quality of the education system in Ukraine, availability of skilled labour and high level of qualifications of graduates, enterprises find it difficult to recruit employees with the right qualifications and skills. According to World Bank-OECD Enterprise survey from 2014, “38 percent of firms report that skills gaps prevent them from achieving their business objectives. The figure is even higher in the food-processing and IT sectors, where almost half of firms cite skills gaps. The survey also finds that “about 70 percent of firms reported that graduates from the general education system and technical vocational education and training (TVET) system lacked practical skills and up-to-date knowledge”,<sup>21</sup> which confirms that qualifications and skills produced by the education system are not aligned to the needs of enterprises. Not having a workforce with the right skills in key economic sectors such as IT and food processing limits firms’ productivity and growth potential through a wide range of consequences.<sup>22</sup>

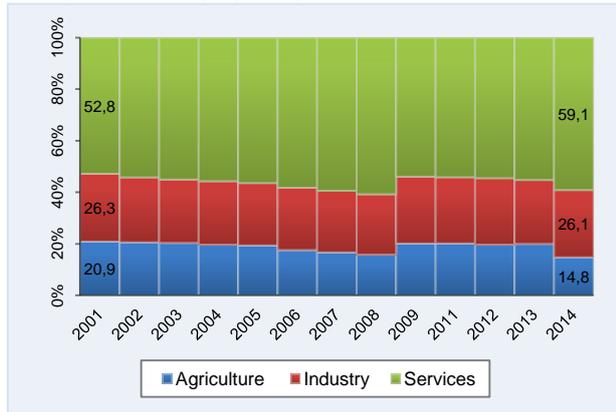
**Despite the significant increase in the contribution of the services sector to value added observed since the early 2000s, employment is still dominated largely by industry and agriculture.** Once called the “breadbasket of Europe”, Ukraine has traditionally specialized in agriculture. In the 1990s, agriculture accounted for around 20% of GDP, but its share declined gradually to 8.2% of GDP in 2010 (World Bank) following a reallocation of labour from agriculture to the industry and services sectors.

Employment in services has not taken off as expected as no profound changes in the composition of employment in Ukraine have been observed in the past decade. The participation of the labour force in services saw only a slight increase, from 52.8% of total employment in 2001 to 59.1% in 2014 (World Bank). Jobs in the industry have remained stable, accounting for about a quarter of the total employment, while the share of the agriculture sector in total employment decreased from 20.9% to 14.8%.

<sup>21</sup> Del Carpio, X et al (2017). *Skills for a Modern Ukraine*. Directions in Development. Washington: World Bank, 2017, p. 57

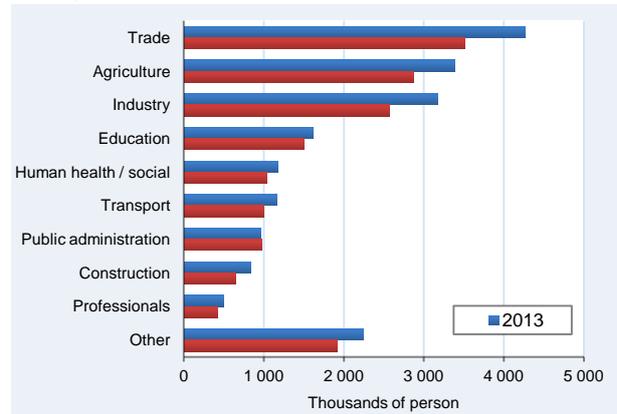
<sup>22</sup> *Ibid*

Figure 30: Composition of employment in Ukraine, 1992-2014 (% of total employment)



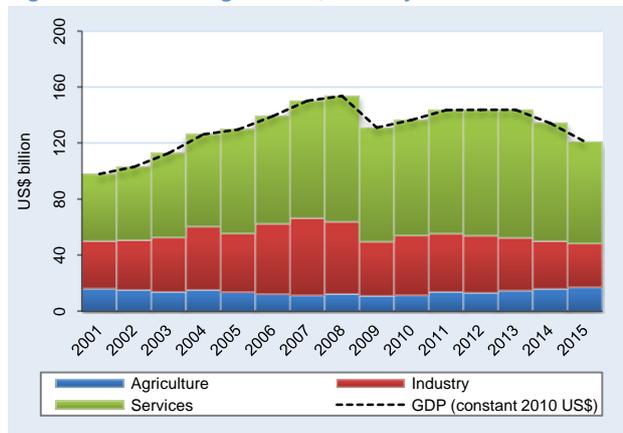
Source: World Bank, World Development Indicators

Figure 31: Employed population, by type of economic activity, 2013-2015



Source: State Statistics Service of Ukraine

Figure 32: Share of agriculture, industry and services in GDP, Ukraine, 1992-2015

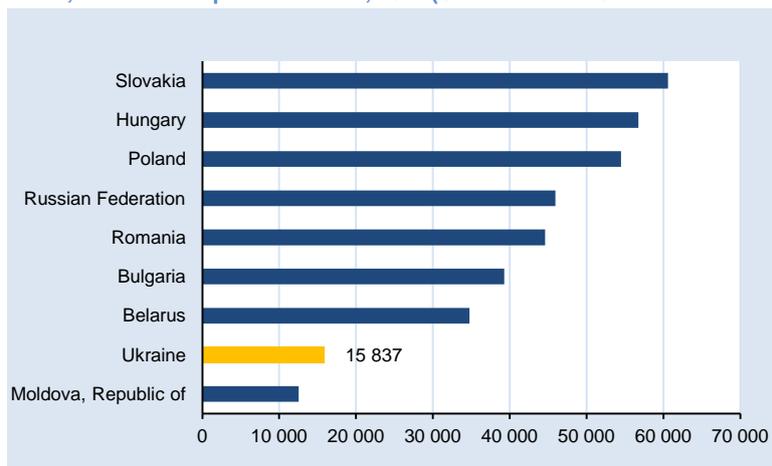


Source: World Bank national accounts data, and OECD National Accounts data files

**Very low labour productivity in Ukraine affects export competitiveness of the economy greatly.** According to the ILO, Ukraine ranked 132 out of 192 countries in output per worker in 2015, at US\$ 15,837 (GDP constant 2011 international \$ in PPP).<sup>23</sup> A number of reasons can explain the low labour productivity, including the production of commodities with low added value, the obsolete industrial structure, the important skills mismatch and the low internal labour mobility. The importance of the shadow economy is a contributory factor to the poor labour productivity performance of the country. At the regional level, Ukraine’s labour productivity lags most of its European and CIS peers, far behind the levels reported in Poland and Belarus, for instance, where the output per worker reached US\$ 54,473 and US\$ 34,759, respectively (ILO, 2015).

<sup>23</sup> ILO Database

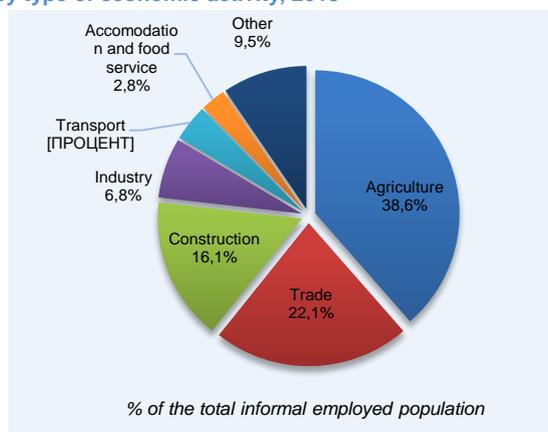
Figure 33: Output per worker, Eastern European countries, 2015 (GDP constant 2011 international \$ in PPP)



Source: ILO and World Bank, World Development Indicators, 2016

**The importance of the informal sector affects the overall efficiency of the labour and product market.** The State Statistics Service of Ukraine estimates that informal employment represented about 4.3 million people in 2015, equivalent to 26.2% of the total employed population of 16.4 million. Informal employment was concentrated in the agricultural sector (38.6%) and in the wholesale and retail trade and construction sectors (22.1% and 16.1%, respectively). Men, as compared with women, are more inclined to work informally (58.8%) (State Statistics Service of Ukraine). The informal sector or shadow economy affects labour and product market efficiency negatively while also having an effect on labour productivity to a great extent.

Figure 34: Informal employment by type of economic activity, 2015



Source: State Statistics Service of Ukraine

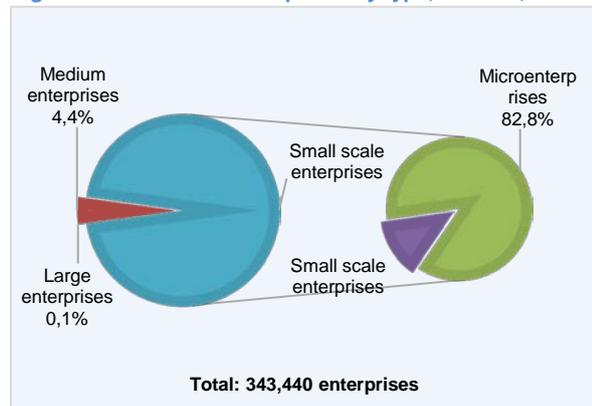
**In addition, the low internal labour mobility in Ukraine hinders the efficient allocation of resources in the labour market.** Internal labour mobility in Ukraine is low when considering the significant inter-regional disparities in wages and employment rates that could be expected to encourage workers to move from the regions that are lagging to regions where economic opportunities are most widespread.

The main barriers to internal mobility in Ukraine are institutional. Administrative procedures, high rates of home ownership, benefits tied to residence, inadequate human capital, and weak formal labour market institutions not providing workers with enough reliable information about labour market conditions outside their current place of residence, act as disincentives and impediments to workers' mobility (WB, 2015). Very expensive housing in leading regions where large economic gains can be made, including Kyiv,

Lviv and Odessa, combined with a lack of access to credit and underdeveloped mortgage markets, also limits the potential for internal labour mobility significantly.

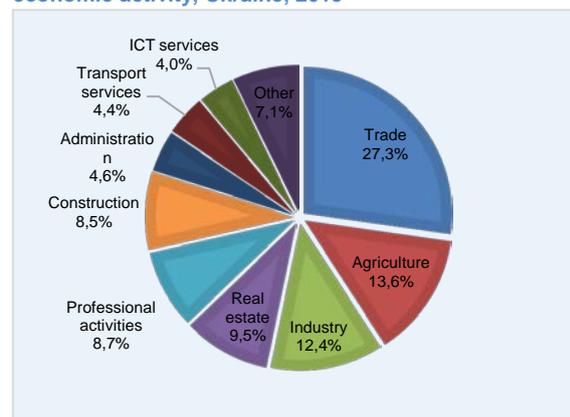
Removing existing barriers to internal mobility will be crucial to achieving a successful transition to a more competitive and dynamic economy as geographical mobility allows for a more efficient allocation of labour by enabling people with relevant skills to match with appropriate jobs, thereby enhancing labour productivity and tackling skills shortages.

Figure 35: Number of enterprises by type, Ukraine, 2015



Source: State Statistics Service of Ukraine

Figure 36: Distribution of economic entities by type of economic activity, Ukraine, 2015



Source: State Statistics Service of Ukraine

**The entrepreneurial landscape in Ukraine is dominated largely by SMEs.** Accounting for 99.8% of the total number of enterprises in Ukraine, and employing about two-thirds of the total workforce in the country<sup>24</sup> the SME sector is an important constituent of Ukraine's economy. According to the State Statistics Service of Ukraine, 82.8% of the 343,440 Ukrainian enterprises registered in 2015 employ fewer than 10 people (referred to as microenterprises), and 12.7% employ between 11 and 50 workers (small enterprises). Medium-sized enterprises (50–250 employees) account for 4.4% of total enterprises while only 0.1% of enterprises employ more than 250 workers.

The majority of enterprises is concentrated in the “wholesale and retail trade and repair of motor vehicles and motorcycles” sector, concentrating 27% of the national enterprises, followed by the agriculture sector (14%) and the industry (12%). The share of enterprises in business services provision is rather small: 4% of SMEs are concentrated in “information and telecommunication services” (ICT services); 9.5% in “real estate activities”; and 8.7% in “professional, scientific and technical activities” (professional activities) (State Statistics Service of Ukraine) (figure 36).

**Significant discrepancies in labour productivity between enterprises of different sizes have been observed at the national level.** Large enterprises sell 2.2 times more products per employee than small enterprises, and 2.7 times more than microenterprises.<sup>25</sup> The average yearly wage of a microenterprise employee is therefore significantly lower than in a large enterprise (the average wage in large Ukrainian enterprises was 1.5 times that of medium-sized enterprises and 2.7 times that of microenterprises according to the study).

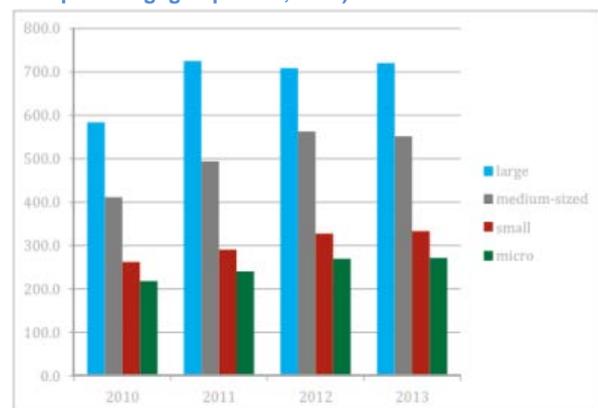
**The level of involvement of Ukrainian SMEs in export activity is relatively low.** The Enterprise Survey conducted by the IFC in Ukraine in 2013 indicates that only 11.8% of small enterprises with up to 20 employees exported directly or indirectly while 95.9% of their sales are intended for the domestic

<sup>24</sup>Yaroslav A. Zhalilo (2015). *SMEs, Trade and Development in Ukraine*

<sup>25</sup> *Ibid*

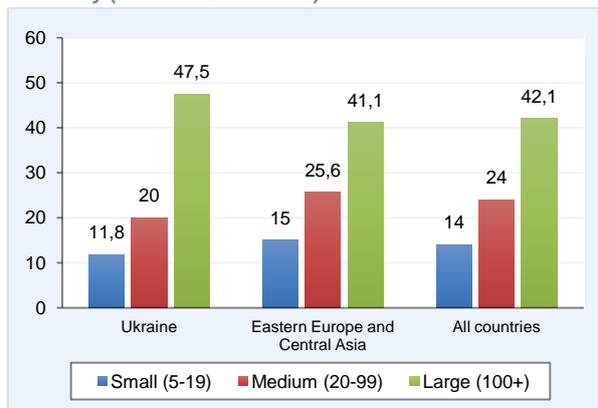
market.<sup>26,27</sup> The SMEs export activity is therefore rather low, and cannot be considered as a driver of short-term economic growth.<sup>28</sup>

**Figure 37: Labour productivity by entities size (products sold per 1 engaged person, UAH)**



Source: Zhalilo (2015)

**Figure 38: Percent of enterprises exporting directly or indirectly (at least 1% of sales)**



Source: Enterprise Surveys (<http://www.enterprisesurveys.org>), The World Bank.

### Key takeaways

- After a period of disruptive and volatile GDP growth the economy shows signs of stabilization with growth expected to reach 2.5% in 2017. This indicates that recent macroeconomic reforms have managed to stabilize the economy and that Ukraine will benefit from remaining enterprises on its reform path.
- SMEs represent 99.8% of all enterprises in the economy but their export activity is relatively low. Less than 20% of SME directly or indirectly involved in exporting. This indicates that long term growth requires better efforts directed towards integrating SMEs in export value chains.
- Labour productivity remains low mainly owing to an obsolete industrial structure, dominance of production of low value-added commodities and low internal labour mobility. Policies aimed at facilitating labour mobility, skills development and retraining as well as FDI attraction and technology transfer should boost labour productivity.

## Investment climate

FDI flows to Ukraine have proven particularly volatile in recent years. In addition to a context of an adverse geopolitical environment, important investment impediments include recurrent concerns about corruption, insufficient infrastructure development as well as a weak institutional framework and insufficient investors' protection.

### Key performance indicators

The Global Competitiveness Index (GCI) 2016-2017 ranks Ukraine at the 85<sup>th</sup> position out of 138 countries, down from the 79<sup>th</sup> position a year before. Based on an Executive Opinion Survey conducted by the World Economic Forum, the Index ranks the most problematic factors for doing business in

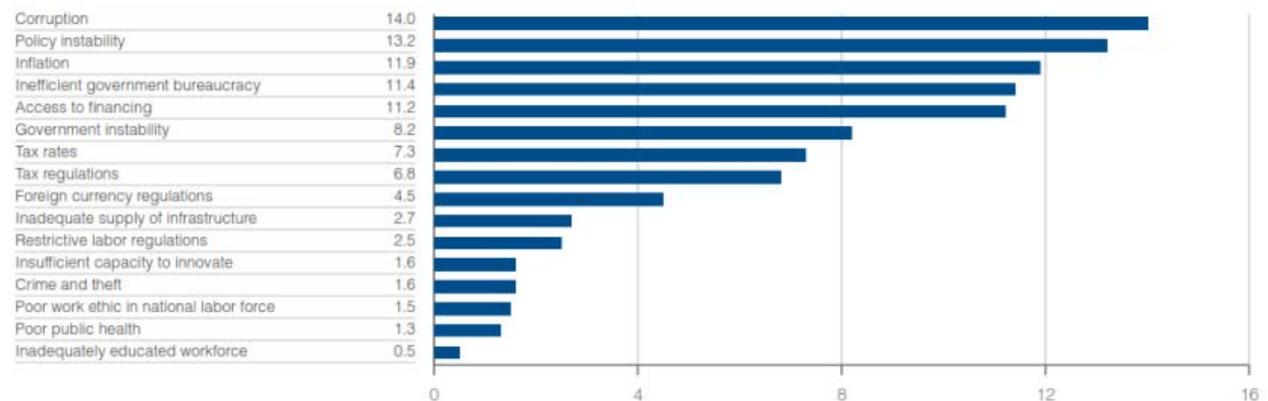
<sup>26</sup> Enterprise Surveys (<http://www.enterprisesurveys.org>), The World Bank.

<sup>27</sup> Ukrainian business owners and top managers in 1,002 enterprises were interviewed from January 2013 through November 2013.

<sup>28</sup> Yaroslav A. Zhalilo (2015). *SMEs, Trade and Development in Ukraine*

Ukraine as: corruption (14.0% of respondents), policy instability (13.2%), inflation (11.9%), inefficient government bureaucracy (11.4%) and access to financing (11.2%) Figure 39).

Figure 39: Most problematic factors for doing business<sup>29</sup>

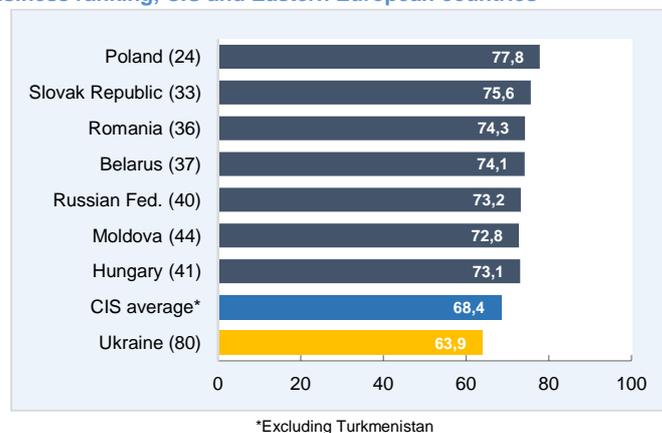


Source: World Economic Forum, Executive Opinion Survey 2016

Ukraine ranks 80 out of 190 countries in the World Bank's Doing Business 2017 report and lags most other CIS and Eastern European countries (Figure 40)

In the past few years, however, Ukraine has made significant progress in improving its investment policy framework and has introduced reforms aiming to ease the business climate and attract investors further. Improvements have especially been reported to simplify establishment and licensing procedures, resulting in the rapid progression of the country in the ease of starting a business ranking, at the 20<sup>th</sup> position in 2017 from rank 70 in 2015. Ukraine has also introduced tax reforms in 2015 resulting in better tax transparency (OECD, 2016).

Figure 40: Ease of doing business ranking, CIS and Eastern European countries



Source: World Bank (2017). Doing Business database.

### Investment climate overview

**The unstable political situation continues to create unfavourable conditions for Ukraine's economy.** The persisting armed conflict in certain areas of the Donetsk and Lugansk regions and the temporary occupation of Crimea that took place in the aftermath of the Revolution of Dignity

<sup>29</sup> Note: From the list of factors, respondents to the World Economic Forum's Executive Opinion Survey were asked to select the five most problematic factors for doing business in their country and to rank them between 1 (most problematic) and 5. The score corresponds to the responses weighted according to their rankings.

(Euromaidan) of November 2013-February 2014, have destabilized Ukraine significantly and affected its economy and its business environment to a great extent. In the short to medium term, Ukraine's economic performance will be determined by its measures for resolving the conflict affecting parts of the country (WTO, 2016)<sup>30</sup> and by its capacity to restore political stability.

**The macroeconomic instability affects the national business environment greatly.** The instability of the economy and the several devaluations of the hryvnia that have occurred over the past decade have generated uncertainty and volatility across the economy and have affected investors' confidence. Ukraine was ranked 128<sup>th</sup> in the macroeconomic environment pillar of the GCI, mainly owing to high inflation rates, the burden of the Government's debt and underperforming country credit rating.

Poor financial markets development also has a dampening effect on investment flows. Based on the performance of unsound banks, financial services do not meet business needs and there is also poor regulation of the securities exchange; Ukraine was ranked 130<sup>th</sup> in the financial markets development pillar of the GCI 2016-2017. In particular, strict foreign exchange regulations continue to pose a certain number of complications for exporters and foreign investors. While the NBU is phasing-out gradually currency and capital restrictions put in place in 2014-2015 to stabilize the situation in the money and foreign markets and prevent capital outflows from the country, a number of restrictions on payments and transfers for current international transactions remain in place. These regulations include a surrender requirement obliging legal entities to sell 65% of their foreign exchange proceeds from export<sup>31</sup> and the 120-day rule for completion of export and import transactions (delivery to payment)<sup>32</sup> as well as a prohibition on foreign currency transactions based under NBU's individual licences on amounts exceeding US\$ 50,000 per month. In addition, the prohibition on foreign currency purchases if the total amount of foreign currency in the client's accounts in all banks equals or exceeds US\$ 100,000 (or equivalent) still prevails. These regulations continue to affect the business environment and limit the possibility of long-term business planning and export strategy.

**Table 2: Ukraine and regional peers in international rankings**

International benchmark	Belarus	Moldova	Poland	Romania	Russian Federation	Ukraine
Doing Business, 2017 (World Bank) / 190	37	44	24	36	40	80
Global Competitiveness Index, 2016-2017 (World Economic Forum) / 138	n/a	100	36	62	43	85
Corruption Perception Index, 2015 (Transparency International) / 168	107	103	30	58	119	130
Index of Economic Freedom, 2016 (Heritage Foundation) / 178	157	117	39	61	153	162

**The investment climate continues to suffer owing to Ukraine's weak institutional framework.** The GCI ranking emphasizes Ukraine's weak institutional framework (in 129<sup>th</sup> place), suggesting that Ukraine continues to suffer from poor property and intellectual property rights protection, poor law enforcement, lack of transparency, wasteful government spending, poor protection of minority shareholders' interests, among others.

<sup>30</sup> WTO TPR/S (2016), p.10.

<sup>31</sup> In June 2016, the NBU eases surrender requirements for foreign exchange proceeds from exports from 75% to 65%.

<sup>32</sup> On 13 December 2016, the Board of the National Bank of Ukraine ("NBU") adopted Resolution No. 410 ("Resolution") which will be effective from 16 December to 16 June 2017. The resolution maintains for the extension of the cross-border settlements during 120 days.

In particular, corruption remains pervasive and oppressive. The business and investment climate continues to be hampered by an ‘over-bearing and opaque regulatory framework, and a judiciary ineffective in resolving commercial disputes in a consistent, timely and transparent manner’ (IMF, 2014).<sup>33</sup> The Executive Opinion Survey conducted by the World Economic Forum (2016) identifies corruption as the most problematic factor for doing business in Ukraine (Figure 39). The country is also perceived as one of the most corrupt countries, ranking 130 out of 168 economies in the Transparency International index in 2015.<sup>34</sup> Collusive ties between political and economic elites are seen as contributing to and facilitating corruption in all spheres of public life, from huge procurement contracts, to tax collection, to licences and permits for SMEs (IMF, 2014). It should be noted, however, that since 2015 Ukraine has taken steps on the path of eliminating unnecessary licensing and permits, as well as combating corruption through newly introduced public e-procurement “ProZorro” System.

This economic situation hinders fair competition, encourages under-the-table deals, and promotes corruption. Judicial independence is also questioned and favouritism in decisions of government officials has been reported.

#### Box 1: Investment governance

In December of 2014 there was established the National Investment Council as consultative and advisory body under the Administration of the President of Ukraine.<sup>35</sup> The Council aims to intensify the development of the investment potential of Ukraine, increase the volume of foreign investments, improve the investment climate in the country and ensure the protection of the investors' rights.

The Government liquidated the State Agency for Investments and National Projects of Ukraine in March 2015. Cabinet of Ministers transferred investment projects policy function to the Ministry of Economic Development and Trade (MEDT). The Ministry is currently in charge of defining the country's FDI policy, overseeing special incentives regimes, coordinating FDI-related strategies and plans and managing national investment projects.

In October of 2016, the Government launched UkraineInvest, Ukraine's Investment Promotion Office (IPO). This advisory body is subordinated to the Cabinet of Ministers of Ukraine and aims to support foreign investment attraction. As an organization with direct ties to and the support of the Government it is properly placed to facilitate assistance to investors.

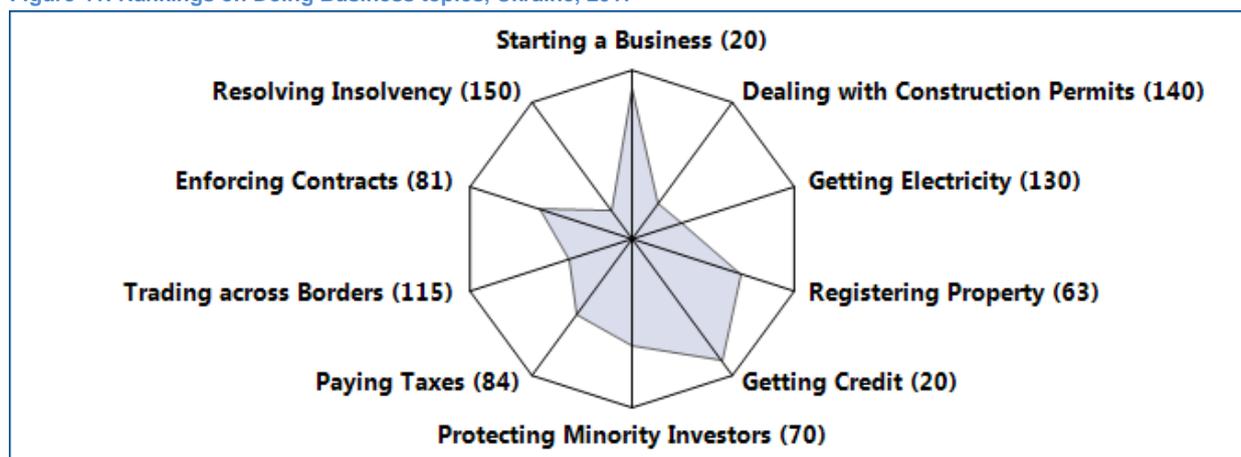
***The legal framework regulating competition in Ukraine is not conducive to attracting foreign investment.*** While Ukraine's investment legislation includes the principle of non-discrimination of foreign investment and general provisions on foreign investment protection, some restrictions apply only to foreign investment. In addition, the effectiveness of anti-monopoly policy appears to be weak, Ukraine ranking at the 136<sup>th</sup> position in the GCI 2016-2017, making it difficult for newcomers to compete in a fair and transparent manner, especially with the predominance of state monopolies and the presence of economic oligarchies.

<sup>33</sup> IMF (2014). *Government of Ukraine Report on Diagnostic Study of Governance Issues Pertaining to Corruption, the Business Climate and the Effectiveness of the Judiciary*. P.3

<sup>34</sup> Available from: <http://www.transparency.org/cpi2015>

<sup>35</sup> Decree of the President of Ukraine 24 December 2014 No. 950/2014 <http://zakon3.rada.gov.ua/laws/show/950/2014>

Figure 41: Rankings on Doing Business topics, Ukraine, 2017



Note: (Scale: Rank 190 centre, rank 1 outer edge)  
Source: Doing Business 2017, Economy profile - Ukraine

**Insufficient investors' protection affects the ability of companies significantly to raise capital in Ukraine.** The investment climate is affected greatly by the insufficient protection of investors in Ukraine. However, despite its 70<sup>th</sup> position in the Doing Business 2017 ranking of 190 economies regarding the strength of minority investor protection index, a significant progress has been achieved since 2016. Ukraine has changed its ranking for 31 points (101 ranking in 2016 out of 191 economies). Report Doing Business 2017 on Europe and Central Asia states that Ukraine has strengthened minority investor protections by requiring interested director or shareholder to be excluded from the vote, by requiring that proposed related-party transactions undergo external review, by introducing remedies in cases where related-party transactions are harmful to the company and also clarifying ownership and control structures.<sup>36</sup> Most of these changes were introduced by the Law of Ukraine "On amendments to some legislative acts of Ukraine on protection of investors' rights" No.289-VIII, adopted the Parliament in April 2016. Additionally, Law No.289-VIII raises the level of protection for minority shareholders, in particular, through introduction of the right for minority shareholders to sue directors directly and to initiate and maintain legal proceedings between the company and its directors for damages caused. In addition, minority shareholders get the right to be represented in the company's supervisory board.

**The procedures to resolve businesses insolvency in Ukraine remain inadequate.** Ukraine ranks 150 in resolving insolvencies, one of the lowest in the Doing Business indexes.<sup>37</sup> Investors need to have confidence in the possibility of unimpeded capital withdrawal in case of unfavourable conditions/risks and the host country should guarantee and enforce investment protection at the legislative level. In Ukraine the process of refund of investment is complicated owing to the long duration and high cost of the process of resolving insolvency. The Doing Business 2017 report indicates that resolving insolvency in Ukraine takes 2.9 years on average and costs 42% of the debtor's estate.

#### Investment incentives

**The investment incentives appear to be insufficient to trigger a surge of interest from domestic and foreign private investors.** According to the GCI 2017, the effect of taxation on incentives to invest in Ukraine has been extremely limited as the country sits at an unenviable 133th position out of 138 on this specific ranking.

<sup>36</sup> World Bank, 2017. Doing Business 2017: Equal Opportunity for All (ECA). Washington, DC: World Bank. Available at: <http://www.doingbusiness.org/reports/-/media/WBG/DoingBusiness/Documents/Profiles/Regional/DB2017/ECA.pdf>

<sup>37</sup> According to the WB, resolving insolvency index identifies weaknesses in existing insolvency law and the main procedural and administrative bottlenecks in the insolvency process.

Ukraine keeps a limited number of sectors that under certain conditions can benefit from VAT tax relief. Foreign investors are also eligible for specific tax provision for SMEs consisting in paying a single tax, exempting them from corporate income tax, land tax, communal taxes, duty for special use of natural resources and duty for obligatory state pension insurance. Individual entrepreneurs and companies with turnover of up to UAH 5 million can benefit from simplified tax regime of 3% from revenue per month if VAT payer, and 5% if not.

Companies operating in the manufacturing of energy-saving equipment or developing and implementing energy-saving projects also benefit from a 50-80% deduction in corporate income tax. There is also a special VAT regime for the agricultural sector until January 2018, allowing companies to retain VAT and transfer it to special bank accounts of agricultural producers that afterwards can be used for the business purposes of agricultural producers (OECD, 2016).

***The benefits granted to businesses operating in Special Economic Zones (SEZs) and priority development areas are limited.*** Ukraine has nine "special economic zones" and eight "priority development areas" established to encourage investment in regions characterized by high unemployment or fundamental structural changes (WTO, 2016). Each SEZ is governed by its own legislation with assistance programmes specific to that zone or priority development area. Tax advantages that were initially granted to entities operating in the SEZ priority development areas have, however, been removed as the state budget law for 2005 cancelled all tax privileges for these zones and areas.

Overall, support has been negligible in the priority development areas since 2008 as exemptions from land tax have been limited and exemptions from corporate income tax or import duty have been nil or negligible.

***The establishment of technological, science and industrial parks has also met with mixed results.*** These initiatives were tools to stimulate investment, and to promote research, job creation, and the development of modern production infrastructures.

#### *Technological parks*

The benefits provided to technological parks include accrual of income tax and import duty payments in special accounts; and zero interest loans, or interest compensation on loans contracted for techno-park projects. In the absence of credit support in recent years, however, the initiative seems dormant.

#### *Science Parks*

The stated objective of science parks is to promote science, technology and innovation at universities and research institutions, and to promote the commercialization of research results. Seventeen research parks have been registered thus far. Equipment and components for science, research or laboratory work, imported by the science parks themselves or by their partners, are exempt from the payment of customs duties in accordance with procedures prescribed in the Customs Code.

#### *Industrial parks*

Industrial parks incentives, established in 2012, provide for easier access to land for investors, the law foresees other advantages, including lower start-up costs and exemption from customs duties on certain equipment and components not manufactured in Ukraine. As of January 2017, there are 17 officially registered industrial parks in Ukraine (as per registry of the Industrial parks).<sup>38</sup>

### **Key takeaways**

<sup>38</sup> Register of the Industrial Parks

- Ukraine has made significant progress in improving its investment policy framework and has introduced reforms aiming to ease the business climate and attract investors further. Pursuing the policy reforms agenda flowing from commitments under the Association Agreement should have a decisive impact in the improvement of the business environment.
- The overall investment climate can be improved further to attract more foreign direct investment that can accelerate economic development. A stable and predictable regulatory policy, adequate investment incentives, coordinated management and strengthened competition rules should be the components to create an attractive business environment for investors.
- Ukraine should revalue how it approaches incentives for both domestic and foreign investors, especially by prioritizing sectors with potential for growth, innovation and job creation, but also better aligning FDI to regional development needs.

## Innovation system

Innovation is crucial for improving productivity, diversifying production and increasing value added. Mobilized resources from the public and private sector can provide a solid base for research and development in the country, especially through coordinated public policy initiatives. Attracting FDI, as a major driver of innovation through technology transfer and imports, will also be of utmost importance to move gradually towards a more innovative economy.

### ***Innovation governance and policy framework***

Parliament and Cabinet of Ministers of Ukraine set the regulatory framework for science and technology to operate, allocate funds, develop strategies and execute general control over the development and implementation of science, technology and innovation.

One of the major provisions of the “Law on Scientific and Technical Activity” that came into force on 15 January, 2016, is the creation of a permanent advisory body of the Cabinet of Ministers – the National Council of Ukraine – on the development of science and technology. It will ensure effective interaction of executive authorities and representatives of the scientific community in the formation and implementation of state policy in the field of scientific and technological activities. It will be composed of 24 leading scientists who will represent the entire global scientific community, and 24 agents of central executive bodies.

When the “Law on Innovation activities” was first adopted in 2002, multiple innovation programmes and plans were initiated by the President Administration, the Parliament and the Cabinet of Ministers. However, programme financing has been quite limited and few initiatives passed the preliminary phase of project development.

The linkages with the private sector are very important not only because of financial support, but also because of the development of strong industry-science linkages in the national innovation system. Enterprises can transfer the required information from their perspective about what would facilitate the activities of stakeholders and how to design the effective innovation policy (UNECE, 2013).<sup>39</sup>

The development of an uninterrupted chain from research to production is of utmost importance to benefit all stakeholders. Collaboration and consultation between different entities that participate in innovation process should be promoted highly by the authorities. This could include the development of a platform for communication of research organizations, financing providers and enterprises through

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<sup>39</sup> United Nations Economic Commission for Europe (UNECE) (2013). *Innovation Performance Review – Ukraine*. p 38.

information services, exhibitions, web networks, among others. The authorities should also encourage the development of innovation culture among the population.

**Box 2: Main reasons for the low innovation activity of industrial enterprises in Ukraine's economy**

- 1) Insufficient competition: enterprises that compete with import products are usually more active in terms of innovation. Government should create conditions to protect competition and avoid monopoly situations;
- 2) Dominance in the economic structure of primary industries, which are less prone to innovation processes;
- 3) Lack of tax incentives for innovative industries in Ukraine, no legislation base for innovation tax incentives or tax credits for companies that implement innovations;
- 4) Overall limited government funding of scientists: the low wages and the lack of recognition of the scientific professions in society, coupled with a lack of innovation infrastructure, lead to many scientists leaving the country.

Source: L.V. Lebedeva, (2014)

**Infrastructure and internationalization of innovation**

Innovation infrastructure comprises a set of businesses, organizations and institutions that provides information, communication, consulting, marketing, financial and other services which contribute to creating innovation. The traditional hard infrastructure networks (roads, bridges) are as important as growing soft infrastructure networks, such as wireless Internet or smart grid. Business centres, incubators, technology parks, leasing centres, financial and credit institutions, business support funds, investment, innovation funds and companies are part of a business support infrastructure. Generally, innovation infrastructure serves as the element that creates the conditions for fruitful innovation by providing various services.

Ukraine's innovative development is an important condition for the state's integration into the global economy. Modern economic development of Ukraine and its integration into the European space depends not only on adaptation of economic, fiscal, monetary and other policies, but also on such crucial factors as high technology, knowledge-intensive production, and human capital. The top priority of the state policy is to create an innovative model of economy at all levels – national, regional and local. In the formation of a new model of the national innovation system, the innovation infrastructure plays a key role, as it provides horizontal and vertical links between the participants of innovation processes. The high scientific and technological potential of Ukraine has not yet been fully exploited, although it could contribute dramatically to improving the innovation infrastructure. A major issue is that most of the researches carried out by Ukrainian scientists have no practical application, leading to an exclusion of scientific institutions from the market economy. This in turn makes the development of innovation processes by market forces virtually impossible, innovation being largely out of the market.

**Box 3: Innovation infrastructure constraints in Ukraine**

The "Concept of the State Target Economic Programme development of innovation infrastructure 2017-2021" has identified the following constraints related to the domestic innovation infrastructure:

- lack of a clear definition of normative legal acts of Ukraine of all elements of market innovation infrastructure;
- imperfection of the current legislation, namely in the determination of effective forms of investment incentives required for the installation of new forms of innovation infrastructure through exemption from import duty on machinery, equipment and components for materials;
- absence of a mechanism of contractual relations in terms of regulation for the use of state land and municipal property, on which new forms of innovation infrastructure can be created;
- lack of effective mechanisms in the field of transfer of technology and innovative products to domestic industrial companies;
- absence of incentives to support, enhance and attract innovation and investment for the development of innovation infrastructure;
- imperfect human resource capacity of innovation management.

Source: "Concept of the State Target Economic Program development of innovation infrastructure 2017-2021"

According to the Ministry of Education of Ukraine, there are currently 12 technology parks, 17 science parks, 28 innovative business incubators, 26 innovation centres, 23 innovation and technology clusters, eight non-banking financial institutions, nine centres of innovation and technology transfer, 49 centres for the commercialization of intellectual property, 29 contact points for EU Research and Innovation programme Horizon 2020 and about 40 other agencies working in the field of innovation. An important role is played by the State in the development of innovative services to the market. In 2015, the Cabinet of Ministers of Ukraine approved the project entitled "Concept of the State Target Economic Programme development of innovation infrastructure 2017-2020" aiming to create conditions for the development of innovation infrastructure that will facilitate the formation of an innovative model of the national economy growth. The project also aims at ensuring efficient use of national scientific and technological, innovative and educational potential, commercialization of scientific and technological developments, wide innovation and growth of competitiveness of Ukraine's economy. The programme will be financed by the State and local budgets, through investment, international assistance, public-private partnerships and venture investment, but support of the private sector has an important role to play in encouraging and sustaining innovation in Ukraine.

In December of 2016 the Government of Ukraine presented a Draft Medium-Term Plan of Priority Actions Until 2020.<sup>40</sup> The Plan stipulates the establishment of the Innovation Development Office aimed to support and encourage the development of innovative companies and start-ups by providing funding, necessary expertise and technical assistance at all stages of innovation in the real economy from the idea to the final product. As a result newly created hi-tech companies and start-ups will create new jobs, reduce "brain drain" from the Ukraine and raise the investment attractiveness of Ukraine.

#### Key takeaways

- The high scientific and technological potential of Ukraine has not yet been fully exploited to contribute to improving the innovation system of the country. A major issue is the limited practical application of the research carried out by the national scientific community. Better integrating scientific institutions in the market economy should provide a boost on innovation.
- A modern level of industrial and technological base and mechanisms to encourage innovation should be introduced. This can be done with the help of legislation changes and creation of different types of innovative structures as well as strengthened IP protection and IP-related incentives for innovating enterprises.
- Ukraine could learn from the best practices observed in many developed economies in terms of cooperation between universities and the business sector, development of joint training programmes, internship programmes for young enterprises as well as the different types of public-private partnerships.

→ **PoA reference:** Activities 1.1.1.—1.1.6. and 1.2.1.—1.2.3.

## National programmes, plans, and policies

### National strategies and development plans

The open and export-oriented Ukrainian economy requires proper foreign trade strategies. This position is shared by the key national policy making institutions and follows from the major development

<sup>40</sup> Cabinet of Minister of Ukraine. Discussion of the Draft Medium Term Plan of Priority Actions of the Government Until 2020 [http://www.kmu.gov.ua/control/uk/publish/article?art\\_id=249634799&cat\\_id=244828445](http://www.kmu.gov.ua/control/uk/publish/article?art_id=249634799&cat_id=244828445)

documents. The Ukrainian Government is particularly aware of the need to put in place a comprehensive strategy for promotion of Ukrainian trade and exports – National Export Strategy (NES). As trade is an integral part of the general national policy framework, it links with many other strategies and plans which are currently in place and being elaborated in other policy areas. Against this backdrop, an overview of existing development plans and strategies as well as of initiatives that are currently being developed has been conducted to identify areas of alignment that the STDR will build upon further, and gaps that the roadmap will eventually bridge.

*A list of trade-related development plans and initiatives relevant to the STDR is presented in Annex 1.*

#### National-level reforms

The **Strategy for Sustainable Development «Ukraine 2020»** represents the overarching strategic framework of the reforms in Ukraine. To implement the Strategy the Cabinet of Ministers adopted an annual-based plan of measures for the period 2015-2020. The purpose of reforms is to achieve the higher standards of life and decent place in the world for Ukraine. The Strategy provides for a total of 62 reforms and is built around four main pillars: 1. Development, 2. Security, 3. Responsibility and 4. Pride. The National Reform Council as an advisory body operationalizes the reforms and sets key performance indications. Trade-related areas are covered under pillar 1 – Development, and include: i) Deregulation and development of entrepreneurship, ii) SME development programme, iii) Tax reform iv) Customs reform and EU customs integration, and v) Ukrainian export development programme. Other key areas for export promotion are covered under pillar 4 – Pride, namely: i) Ukraine branding programme, ii) Innovation development programme, and iii) Tourism development programme. The Strategy also identifies priorities in many adjacent areas that should remove multiple impediments to exports widely recognized by business, Government and NGOs. The key performance indicators are linked indirectly to the successful implementation of the priority reforms while resource allocation schemes or mechanisms are not specified.

- Strategy “Ukraine - 2020” recognizes trade and export promotion as key areas of trade policy and drivers of economic development. Current reforms are, however, primarily legislative and regulatory in nature (WTO/AA compliance) or focus on institutional transformation or building.
- The STDR/NES is aligned with key reform areas and ongoing plans affecting exports identified in Ukraine 2020. This in turn represents an opportunity for identifying reform gaps along the export value-chain and for fast-tracking the implementation of priority actions in the STDR/NES.

The **Parliamentary Coalition Agreement «European Ukraine»** was adopted in the aftermath of September 2014 elections. It is a basis of Parliamentary coalition work and is aligned to the Strategy “Ukraine – 2020”. The document declares the implementation of the EU-Ukraine Association Agreement as the ground for future reforms.. It covers important export-related and neighbouring topics, including economic and business development, regulatory policy and competition as well as reforms in the financial sector (including currency liberalization, developing financial infrastructure), agriculture (including agricultural trade); as well as infrastructure, transport and education. The programme does not refer to implementation mechanism and implies Coalition responsibility while its provisions underpin the activities of the Government. Export-related chapters include generic actions and do not specify deadlines.

- The Coalition Agreement supports the reform directions of the Strategy "Ukraine-2020" and AA and proposes some additional plans along those lines.
- The STDR/NES considers specific export-related priorities set forth in the Coalition Agreement, in particular on market access for goods, services and public procurement, as well as standards, trade facilitation, and science and technology.

**Plan of legal support of reforms in Ukraine** is a parliamentary work programme that operationalizes Parliament's activities for 2016-2017 in respect of Coalition Agreement, Strategy "Ukraine- 2020", Cabinet of Ministers programme and Association Agreement implementation. The document lays out concrete initiatives as to adoption and amendments of laws broken down by sectors providing for legal basis, preparation/adoption deadlines, Part IV «*Macroeconomic situation stabilization and economic reforms*» contains chapters devoted to inter-sectoral reforms such as «*Trade Policy and Support of Exports*», including draft laws on export credit agency, trade fairs activity, protection of national producers from subsidized imports, establishment of German-Ukrainian Chamber of Commerce, financing of foreign trade representations and a number of CIS initiatives as well as other trade-related areas including customs, monetary policy, and infrastructure.

- The plan is a programming tool for adoption of legal measures for the implementation of the three overarching national documents.
- STDR/NES proposals that go beyond the current legislative plans are to be included in the legislative planning agenda and offer a vehicle for practical implementation of priority measures.

**Resolution of CMU No. 847-p "On the implementation of the Ukraine-EU Association Agreement"** adopts an Action Plan aimed at implementation of the AA. Measures foreseen for implementation of the trade part of the AA, also referred to as DCFTA, are contained in the chapter IV «Trade and issues related to trade» of the Action Plan with an implementation «corridor» 2016-2019. Chapter IV operationalizes Ukrainian DCFTA commitments and aims at legal harmonization with the EU regulatory environment as well as the required institution building. The plan is well structured and concrete in terms of the measures, deadlines, responsible institutions and the respective EU partners for implementation of DCFTA commitments. Budget and donor allocations are identified as funding sources for implementation.

- The STDR/NES considers both plans for implementation of the AA by identifying complementary actions and ensure that they are adequately sequenced relative to AA implementation. STDR/NES also offers the opportunity to develop actual implementation modalities where appropriate.

In addition, the Cabinet of Ministers aims at adoption of the **Medium-Term Plan of Priority Actions for the Government** for the period up to 2020. The document will contain a concrete action plan based on earlier prepared solutions and programme documents such as Presidential Strategy "Ukraine - 2020", the Programme of Action of the Government, the Association Agreement with the European Union, the Coalition Agreement and international commitments. The Plan is based on 5 key priorities and contains around 85 topmost activities of the Government through 2017-2020, among the main priorities are: economic growth, effective governance, human capital development, establishment of the rule of law and fight against corruption, security and defence.

#### Sector-level initiatives

**Strategy for the Development of Technical Regulation System until 2020** aims at the gradual integration of Ukraine into the EU Single Market, elimination of TBTs between the EU and Ukraine and effective mutual recognition of European and Ukrainian technical regulation systems. Thus, the Strategy covers legal harmonization with the EU, adoption of technical regulations and European standards, compliance with the EU technical regulation system, achieving European and international recognition of National Accreditation Agency, preparation for signing of the Agreement on Conformity Assessment and Acceptance of industrial products (ACAA). The implementation of the strategy relies heavily on the EU sectoral budget support and aimed largely at preparing Ukraine to ACAA signing.

- The STDR/NES identifies specific areas where priority action can be taken effectively, such as institutional and enterprises, in particular SMEs, capacity building for compliance at the national-level and in manufacturing-related priority sectors.

**Concept for Reforming the State System of Intellectual Property Protection in Ukraine** adopted in June 2016 by Cabinet of Ministers (for 2016 -2017) proposes a two-tier structure for the state IPR protection system through the creation of a national IP body accountable to MEDT based on the current Ukrainian IP Institute. The national IP body will perform a few public policy functions while the major IP policy competencies would belong to MEDT, as the main central executive body that formulates and implements national IP policy. The Concept also envisages harmonization of the national IP legislation with the EU law via implementation of the EU-Ukraine Association Agreement and ensuring proper functioning of DCFTA. Implementation is planned to be financed from the state budget allocations as well as by international technical assistance and bilateral donors. In August 2016, an Action Plan for implementation of the Concept was approved.

- The STDR/NES complements the IP Concept through activities related to training, education and awareness raising about the importance of IPR protection for exporting SMEs, especially in high-tech and creative industries. Basic information on IPR protection in exporting is to be included in the national portal for exporters.

**State Strategy of Regional Development** by 2020 provides for strategic vision and sets three major regional development goals: i) improving the competitiveness of regions, ii) territorial socio-economic integration and spatial development, and iii) effective governance in regional development. The Strategy contains operational objectives and tasks, which are further detailed in a mid-term Plan of Implementation. The financing is envisaged through the governmental sectoral programmes. The Plan of Implementation for 2015-2017 contains five “national” regional development programmes – Innovative Economy and Investments, Rural Development, Development of Human Capital, Tourism Development and All-Ukrainian Solidarity. At the oblast’ level, regional state administrations are responsible for development of their respective regional strategies for seven-year period together with action plans (for two periods of three and four years) which include pipeline of development projects. Funds for eligible projects are distributed by the State Fund for Regional Development with the budget of 1% of the Ukrainian State Budget revenues, annually.

- Export is not currently seen as one of the means to achieve objectives of the Regional Development Strategy. By ensuring coherence with the Regional Development Strategy, the STDR/NES is likely to contribute to regional development and reducing inter-regional disparities in the country, in particular through support to building supply capacities and measures connecting regions to international markets.
- To ensure an export-oriented dimension to the Regional Development Strategy, it is recommended that strategic frameworks for exports and competitiveness be subsequently developed at oblast or regional level, along the lines of the **Fruits and Vegetables Value Chain Development Roadmap for Southern Ukraine, 2016-2020**, developed by ITC with support of Sweden.

**National Strategy for Education Development** was adopted in 2013 along with the Plan of Actions and covers the period till 2021. It aims, among others, at increasing accessibility and competitiveness of education based on the requirements of innovative social and economic development. Its key strategic development directions are: increasing quality of education, introducing state standards for technical education, and optimization of technical schools’ network in view of labour market needs locally and regionally. The main implementation directions of the strategy are: update and modernization of educational legislation and system; formation of educational institutions’ budgets based on the number of students; multi-channel financing of educational system via introduction of subsidies, grants etc. The

Strategy also contains national monitoring and evaluation components as well as a chapter on the expected results.

- The document does not make sufficient emphasis on the mismatch between the qualifications offered by technical schools and universities the current and anticipated labour market needs. Similarly, labour force requalification problem is not touched.
- In view of serious strategic mismatches, these challenges should be addressed either in education development strategy or in STDR, while ensuring alignment and effective implementation coordination.

**Information Society Development Strategy** until 2020 was adopted by the Cabinet of Ministers in May 2013 and contains a section on e-economy. One of the main goals in e-economy is the development of e-business, implying the elaboration and usage of e-commerce tools; use of e-signature and ensuring e-safety; promotion of national payment system integration with international payment systems; introduction of e-reporting to decrease time spent preparing and submitting reports using “single window”. To do so, a legal base for e-commerce should be elaborated, in line with international standards. Implementation will be done via annual action plans and financed through state and local budgets, private investments as well as international technical assistance and donor funding.

- The strategy does not touch upon e-exporting which suggests that STDR/NES could contribute to shaping this type of policy also in the vein of EU-Ukraine Association Agreement implementation.
- It would be useful to address existing bottlenecks in cross-border trade such as impossibility to accept PayPal payments in the country, transportation, insurance and other services necessary for smooth e-exporting of goods from Ukraine.
- Export of e-services deserves a separate analysis as this area is well advanced in Ukraine.

#### Initiatives currently being developed

The remaining documents are in draft forms and are yet to be adopted by the Government. As they enter into force these strategies and plans will become part of the policy framework having an important bearing on Ukrainian exports.

**Comprehensive strategy for the implementation of Chapter IV "Sanitary and Phytosanitary Measures" Title IV "Trade and trade-related matters" of the Association Agreement (2016-2019)**, which is being developed, represents a Ukrainian commitment under the AA/DCFTA. The Strategy has been adopted but has not yet come into force pending the approval by the EU-Ukraine SPS subcommittee. Implementation of the SPS commitment is indispensable for maintaining access for Ukrainian agricultural products to EU markets and specific market segments.<sup>41</sup>

- As the access to the EU market has strategic significance for Ukrainian agricultural products, the STDR takes into account the existing challenges for implementation of the SPS strategy and plans for its timely implementation.

The concept of the **State Targeted Program for Agriculture Development** until 2020 has been developed and approved by the Cabinet of Ministers in late 2015. The Program itself is currently being finalized. The purpose of the Program is to create favourable conditions for effective development of the agricultural sector as to increase quantity and quality of supplied Ukrainian agriproducts to population,

<sup>41</sup> Based on the comments of Tony Wheale, EU-funded technical assistance project «Improvement of Food Safety Control System in Ukraine» Team Leader, phone interview, 22 September 2016

promote competitiveness and increase value-added. Some of the measures include increasing agricultural advisory, education, dissemination of innovative R&D, wide-scale nature conservation and environmental preservation measures, financial support including state support, credits and agricultural risks insurance, improving taxation of agriculture. Expected results are an increase in export volumes of agricultural goods by 3-4% and food processing industry by 5-7%.

- The programme is comprehensive in terms of implementation actions related to export support and promotion. It will be important to avoid duplication of efforts between MEDT and Agriculture and Food Ministry in specific areas including creation of a web portal for exporters, facilitation of participation in trade fairs, exporting advice, and promotion of “Ukraine” brand.
- To avoid duplication of efforts, the envisioned NES is to either identify one specific agricultural subsector as a priority or complement the programme by cross-sector actions.

**Current draft of the Strategy of High-Tech Industries Development until 2025** is a key government strategy aiming at innovative, technological and competitive model of economic development. The hi-tech strategy prioritizes nine promising sectors, namely agriculture; military-industrial complex; creation of new substances, materials and nanotechnology; ICT; energy; tech building; development of the human sciences, biomedical engineering, cell medicine, pharmacy; development of transit infrastructure; tourism and leisure and other areas of the economy. The strategy identifies five programmes: (1) Establishment of a hi-tech office, as an instrument to support innovative projects; (2) Development of export-oriented innovative ecosystem; (3) «Digital agenda for Ukraine»; (4) Attracting innovative multinational companies; and (5) «Hi tech nation» promoting high technologies and science for Ukrainian citizens and the youth in particular. The export-oriented programme includes a series of detailed promotion- and facilitation-related activities.

- The strategy does not identify specific measures aiming at linking the Ukrainian hi-tech industries and the national innovation system to markets, a gap that could be filled by STDR/NES, notably by prioritizing hi-tech sectors with high export potential.
- STDR and the envisioned NES ensure alignment and coordination of implementation efforts and complement the Hi-Tech strategy with a clear market-orientation and export-related aspects, notably focused on support for exporting enterprises in hi-tech industry sectors.

**Current draft Strategy of the Tourism and Resorts Development (DSTRD) until 2026** was developed by MEDT on the performance of Sustainable Development Strategy “Ukraine – 2020”. DSTRD aims to create favourable conditions to ensure the development of tourism and destinations, transform into a highly integrated global market sector. The strategy addresses five key areas: tourists’ safety; normative and legislative framework in the tourism and resorts sphere; the development of tourism infrastructure; human resources development; and marketing policy of tourism promotion in Ukraine. The following objectives have been identified: increase flow of inbound tourists; increase competitiveness of national and regional tourism products; increase job creation through employment and self-employment; create modern tourist information infrastructure; and increase dissemination of information about tourist resources of Ukraine in the global information space. Specific promotion measures include: i) promotion and marketing of the official tourist brand of Ukraine; ii) creation of tourism information web portal “Visit Ukraine”, and iii) promotion of Ukraine as a tourism destination in national and international exhibitions, fairs and conferences.

- Attention should be paid to synergies with other trade promotion measures currently under development to ensure alignment and avoid fragmentation and duplication of efforts, while ensuring effective coordination of implementation efforts.
- Given the cross-sectoral nature of this proposed strategy, the STDR and the envisioned NES is to focus on developing and promoting specific tourism segments (e.g. business tourism, conferences and events).

**Ukrainian Transport Strategy until 2030** is currently being drafted. The document is elaborated along the lines of Strategy “Ukraine-2020”, public administration reform and the EU-Ukraine Association Agreement’s tasks for transport development. The strategy proposes to position Ukraine as an international transport hub between Europe and Asia with safe, secure, effective, efficient, multi-modal and suitable transport systems and aims to address the following areas: i) industry restructuring; ii) approximation to the EU standards and policies; iii) extension of the Trans-European Networks (TEN-T) and regional transport cooperation (e.g. Europe-Caucasus-Asia (TRACECA)), iv) market liberalization; v) elimination of obstacles for transport and passenger flows; and vi) improving transport networks and upgrading the infrastructure.

- The new transport strategy addresses main concerns related to policy, infrastructure and market regulation. It does not, however, take into account external trade and trade facilitation aspects, such as border infrastructure, border cooperation, and management of transit flows or cross-border transport capacity.
- The STDR and the envisioned NES are to ensure that these key trade-related aspects are covered by either documents while avoiding overlaps and ensuring adequate sequencing of actions.

**SME Development Strategy (2017-2020)**, currently under development, has six strategic objectives (Regulatory, Institutional and Business Environment; Access to Finance; Tax Administration, Entrepreneurial Culture and Human Capital and Skills; Competitiveness and Innovation, one of this is to promote export / internationalisation, with a focus specifically on the needs of the SME sector. The SME Strategy points out that only 5.9% of Ukrainian SMEs are currently exporting and that there is great potential to increase this in order to make full use of AA/DCFTA as well as other global opportunities discusses. In the context of export, it focuses on issues such as involvement of SMEs in global value chains, increasing SME export readiness, increasing access to foreign markets through the Enterprise Europe Network (EEN), increasing among others the availability of export credit, insurance and guarantees for Ukrainian SMEs.

The SME Strategy is supplemented with an Action Plan covering the six strategic objectives, which sets out specific measures and their rationale, responsibilities, timeline, indicators of success and budget needs.

- The STDR/NES is to ensure synergies and avoid overlap, and where appropriate, identify implementation actions, in particular in priority sectors and cross-sector functions.

### Key takeaways

- The available strategic and programmatic policy documents of Ukraine suggest that it has put in place a rather coherent body of top-level plans with Presidential Strategy 2020, EU-Ukraine Association Agreement and Coalition Programme featuring prominently across all the other documents while these three are complementary among themselves. The analysis showed that the implementation of EU-Ukraine Association Agreement including chapter IV «Trade and trade-related matters» is a consensual political objective of President, Parliament and Government.
- As far as export policy is concerned, export-related initiatives and measures as well as adjacent areas can be found virtually in all the documents analysed, except in the regional development strategy.
- While such areas as hi-tech, agriculture and regional development, IPR and others have their respective strategies, there are other sectors (e.g. industry) where such documents are not yet available.
- Yet, financial and other resource planning across the board is mostly absent from the available strategic documents, which contributes to poor implementation results.
- In this context, the role of STDR/NES is manifold. First and foremost, STDR/NES is to ensure alignment among strategic documents, especially in those focus areas that are critical for exports, such as trade promotion and information, TBT, SPS, and access to finance. This means that implementation activities are to be defined, delineated and sequenced precisely across strategy documents to ensure coherence and logical division of labour.
- Furthermore, priority sector selection within STDR and the envisioned NES will take into account sector priorities in all other strategies, so as to avoid risks of duplication in implementation activities. This applies in particular to agriculture where strategy documents are very detailed and extremely comprehensive. Equally, standards and regulatory approximation and compliance are areas of potential overlap. The overriding criterion should be market or export orientation on the one hand and alignment of cross-sector trade support functions (e.g. promotion, regulatory harmonization) on the other.

→ **PoA reference:** Activities 1.1.1., 1.3.11. and 2.2.10.

### Trade policy overview (WTO agreements, preferential access)

Ukraine joined the World Trade Organization (WTO) in May 2008, which introduced opportunities to participate in multilateral trading system and cooperate better with states and group of states. Through liberalization of goods and services trade and efficient trade policy, Ukraine has prospects to increase its export volumes, diversify the range of national export production and establish free trade regime with country members. As a WTO member Ukraine has equal rights to be a part of creation and negotiation of the market access rules and to use the WTO disputes settlement mechanism to resolve quarrels between member states.

Ukraine's level of activity in WTO has increased in recent years. In 2015-2016, Ukraine has joined and ratified the Agreement on Trade Facilitation, the revised Agreement on Government Procurement, as

well as accepted the protocol amending the WTO's Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS). In 2016, Ukraine participated in 14 meetings of 6 different committees. Additionally, Ukraine has successfully undergone its first Trade Policy Review (April 2016) and has actively participated in the review of other countries such as United Arab Emirates, Turkey, Georgia, Russian Federation and United States of America. Ukraine has also become a more active user of the dispute settlement system having filed two requests for consultations (concerning railway equipment and traffic in transit) both against Russian Federation since the late 2015. On 10 December 2016, following unsuccessful consultations on measures affecting the importation of railway equipment and parts thereof (DS 499), Ukraine has requested establishment of the panel. So far, the panel has been established, but not yet composed.

However, resource and staff deficits are still felt across the board. Ukraine's relationship with the WTO has been irregular with a number of measures raising questions on the side of the WTO membership, particularly under the previous Governments (e.g. 13% import surcharge on certain goods in 2009, introduction of grain export quotas in 2011, safeguard measures on certain passenger cars, Goods Schedule renegotiation under GATT Article XXVIII:5).

Ukraine notifies the WTO Secretariat regularly on the planned TBT and SPS regulatory initiatives. The country's tariff lines are bound with the simple average rate of 6.1% (10.8% for agricultural products versus 4.9% for non-agricultural products). Ukraine's applied MFN rates were slightly below the bound levels at 9.6% (agriculture) and 3.6% (industrial goods) in 2015. With the exception of beers, wines, and some tobacco products, import duties are levied at ad valorem rates. The average applied MFN tariffs on industrial products exceed 10% only for clothing, footwear, various accessories, and articles of animal gut. In agriculture, the ad valorem MFN rates do not exceed 20% on any item other than sugar (50%) and sunflower oil (30%). Imports of raw cane sugar are regulated by an MFN tariff quota of 267,800 tons per year.<sup>42</sup>

In terms of market access, Ukraine has signed, over the past two decades, a number of regional and preferential trade agreements, including:

- **EU-Ukraine Deep and Comprehensive Free Trade Area (DCFTA)** provision became operational on 1 January 2016 and is part of EU-Ukraine Association Agreement signed in June 2014. It will ensure open markets for goods and services from both sides, based on aligned Ukraine's regulation with EU legislation and high quality standards.
- **Free trade agreement with the European Free Trade Association (EFTA)** was signed in 2010 and entered into force in June 2012. It covers the liberalization of trade in goods and services, investment opportunities and government procurement, promotion of competition in the economies and protection of intellectual property rights.
- **Agreement on free trade with the Former Yugoslav Republic of Macedonia** was signed and ratified in 2001. It aims to provide fair conditions of competition of trade and further promotion of investment and to gradually eliminate restrictions on trade in goods.
- **FTA with Montenegro**, signed in 2011 and ratified the year after, aimed to increase cooperation between countries by elimination of difficulties and restrictions on trade in goods and services.
- **The Treaty on a Free Trade Area between members of the Commonwealth of Independent States (CIS)** entered into force in September 2012. Signatories include Armenia, Belarus,

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<sup>42</sup> WTO TPRS (2016) p. 7.

Kazakhstan, Kyrgyz Republic, Moldova, Russian Federation,<sup>43</sup> Tajikistan and Ukraine. This Agreement aims to phase out export duties progressively between signatory countries with an envisaged end of implementation period in 2020.

- **Bilateral FTAs** with post-soviet countries, including **Turkmenistan** (date of entry into force: 1995), **Armenia** (1996), **Uzbekistan** (1996), **Azerbaijan** (1996), **Georgia** (1996), **Kazakhstan** (1998), **Kyrgyz Republic** (1998), **Moldova** (2005), **Tajikistan** (2002) and **Belarus** (2006).<sup>44</sup>
- **Canada-Ukraine Free Trade Agreement (CUFTA)** has been signed in July 2016 and needs to be ratified.

Ukraine is also currently engaged in negotiations to conclude free trade agreements with Serbia, Israel and Turkey.

The most important development in recent years has been the signing and provisional application of the Association Agreement in 2014, and the launch of DCFTA under its auspices in 2016. The Association Agreement is a treaty between the EU and Ukraine that provides for a comprehensive framework for conducting bilateral relations and strengthening close economic and political cooperation.<sup>45</sup> The DCFTA that accompanies the Association Agreement specifies the mechanisms for trade liberalization and economic reform. In particular, it:

*“will offer Ukraine a framework for modernizing its trade relations and for economic development by the opening of markets via the progressive removal of customs tariffs and quotas, and by an extensive harmonization of laws, norms and regulations in various trade-related sectors, creating the conditions for aligning key sectors of the Ukrainian economy to EU standards”.*<sup>46</sup>

The Association Agreement is considered as “the most advanced agreement of its kind ever negotiated by the EU”.<sup>47</sup> It belongs to so-called “integration-oriented agreements” as it contains provisions of the EU *acquis* that are to be applied as if a third country is a part of the EU.<sup>48</sup> The approximation of laws and regulations to the EU *acquis* covers, inter alia, the following areas: competition, public procurement, trade facilitation, intellectual property rights and trade-related energy matters.<sup>49</sup>

Although implementation of the DCFTA was postponed for a year owing to pressure from the Russian Federation, the Title IV of the Association Agreement came into force on 1 January 2016.<sup>50</sup> The Russian Federation responded by unilateral suspension of the free trade regime under the CIS FTA in relation to

<sup>43</sup> On 16 December, 2015 the President of the Russian Federation signed Decree No.628 unilaterally. Suspending the Agreement for a Free Trade Zone between the Russian Federation and Ukraine. On 25 December, 2015 the Federation Council approved the Decree.

<sup>44</sup> The Decision of the CIS Council on Free Trade Agreement of 18 October 2011 stipulates the list of bilateral free trade agreement that should be terminated upon CIS FTA entrance into force. Available from [http://zakon4.rada.gov.ua/laws/show/997\\_p01](http://zakon4.rada.gov.ua/laws/show/997_p01)

<sup>45</sup> European Commission. *EU–Ukraine Deep and Comprehensive Free Trade Area: Reading Guide*. Available from [http://trade.ec.europa.eu/doclib/docs/2013/april/tradoc\\_150981.pdf](http://trade.ec.europa.eu/doclib/docs/2013/april/tradoc_150981.pdf).

<sup>46</sup> European Commission. *EU–Ukraine Deep and Comprehensive Free Trade Area: Reading Guide*. Available from [http://trade.ec.europa.eu/doclib/docs/2013/april/tradoc\\_150981.pdf](http://trade.ec.europa.eu/doclib/docs/2013/april/tradoc_150981.pdf).

<sup>47</sup> European Council, Press Remarks by H. Van Rompuy, President of the European Council, Brussels, 25 February 2013, EUCO 48/13

[http://europa.eu/rapid/press-release\\_PRES-13-74\\_en.htm](http://europa.eu/rapid/press-release_PRES-13-74_en.htm) (09/11/2016)

<sup>48</sup> Petrov, Van der Loo, Van Elsuwege. *The EU-Ukraine Association Agreement: A New Legal Instrument of Integration Without Membership?* Kyiv-Mohyla Law and Politics Journal, 2015, No.1, p. 2.

<sup>49</sup> European Commission (2016). Trade: Ukraine. Available from <http://ec.europa.eu/trade/policy/countries-and-regions/countries/ukraine/>.

<sup>50</sup> Economist Intelligence Unit (2016). *Country report, Ukraine*. March.

Ukraine,<sup>51</sup> applying MFN import duty rates to goods of Ukrainian origin, banning imports of certain Ukrainian agricultural products, raw materials and food products,<sup>52</sup> and blocking the international transit from the territory of Ukraine to other trading partners. While Ukraine is less reliant today on traditional CIS markets than it was just a few years ago, these trade restrictive measures are still quite detrimental to the Ukrainian economy. Indeed, observers expect that they will likely offset any gains from the DCFTA in the short run. Such measures also have the potential to accelerate Ukraine's reorientation towards EU and other destinations.

#### Key takeaways

- Since the past several years Ukraine has been concentrating trade support efforts in the EU markets. Potential large, high growth markets (Asia, Africa) or closest markets (CIS countries) are not yet high on the agenda. Opportunities in those markets should be explored in order to diversify export markets. In the longer term, new FTAs could be envisaged with select trading partners.
- As negotiation of FTAs requires significant government resources, future decisions on negotiations should be based on objective criteria such as i) market size and dynamics, ii) complementarity of economies ("offensive interests"), and effective market entry capability of exporters.
- Ukraine should use opportunities offered by AA, EFTA and WTO for trade reforms, improvement of the operating environment for exporting enterprises, in particular SMEs, and provide information, training and support services for enterprises, including SMEs, for optimal use of existing market access.

→ **PoA reference:** Activities 1.3.2.—1.3.5.

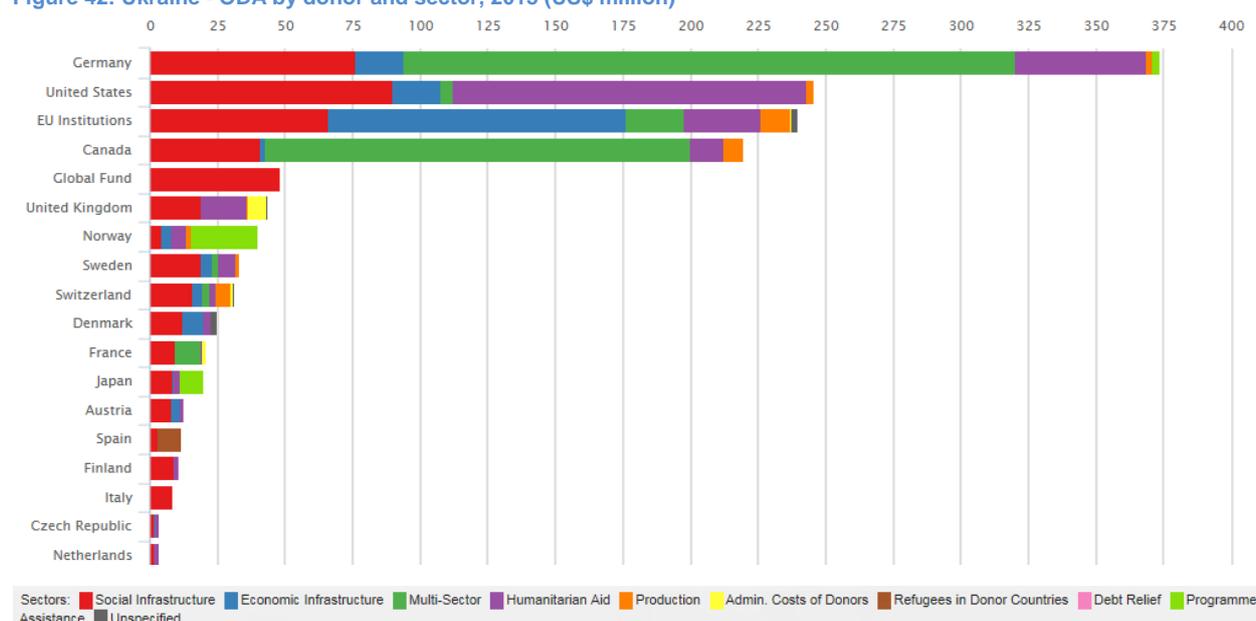
### International donors' activity

Overall, the net official development assistance (ODA) to Ukraine reached US\$ 1.458 billion in 2015 and 1.409 billion in 2014, a significant increase compared with 2013 and 2012 (US\$ 783 million and US\$ 768 million, respectively). The EU, through its different institutions, is by far the largest donor with disbursements amounting to nearly half a billion US\$ in 2014, mainly through programme assistance. Other key donors include Canada, the United States, Germany and Japan.

<sup>51</sup> The Order of the President of the Russian Federation "On Suspension by the Russian Federation of the Agreement on Free Trade Area Regarding Ukraine" No. 628.

<sup>52</sup> The Resolution of the Government of the Russian Federation "On Amendments to the Resolutions of the Government of the Russian Federation of 7 August 2014 No. 778 and of 31 July 2015 No. 774" No. 842.

Figure 42: Ukraine - ODA by donor and sector, 2015 (US\$ million)



Source: OECD Data – DAC Aid Statistics, 2015

The analysis of ongoing trade-related development activities is relevant insofar as it serves to identify the main thrusts of the various development actors and their initiatives, while also identifying duplication, gaps and areas of neglect. The latter is especially important as identified gaps will be analysed further, and addressed through specific interventions in the strategic plan of action (PoA).

Table 3: Donors' support and key interventions

Project	Status	Budget	Funding agency / lead implementer	Expected areas of intervention
Canada-Ukraine Trade and Investment Support Program (CUTIS)	Active 02/2016 - 12/2020	CAN\$ 13.8 million	Global Affairs Canada / Conference Board of Canada	<ul style="list-style-type: none"> <li>• Support of Ukrainian exports to Canada</li> <li>• Engagement of Canadian investments in Ukraine</li> <li>• Trade policy and administrative management</li> <li>• Trade facilitation</li> <li>• Trade promotion</li> <li>• SME development</li> <li>• Multilateral trade negotiations</li> <li>• Management and marketing capacities</li> <li>• Market access information about Canada</li> </ul>
Partnership for Local Economic Development and Democratic Governance (16 cities in four regions)	Active 03/2015 – 06/2021	CAN\$ 19.7 million	DFATD / Federation of Canadian Municipalities	<ul style="list-style-type: none"> <li>• Business support services and institutions</li> <li>• SME development</li> <li>• Democratic governance</li> <li>• Improving business climate</li> <li>• Business infrastructure</li> <li>• PPP development</li> <li>• Women entrepreneurship</li> </ul>
Leadership in Economic Governance (LEG/LEV)	Active 12/2014 - 12/2019	N/A	USAID / East Europe Foundation (EEF)	<ul style="list-style-type: none"> <li>• Improving the business environment</li> <li>• SME development</li> <li>• Institutional capacity building</li> <li>• Promote Public-Private dialogue</li> <li>• Reform promotion</li> </ul>
USAID Trade Policy Project (UTPP)	Active 04/2015 – 04/2017	\$2,9 million	USAID / IDG	<ul style="list-style-type: none"> <li>• Export diversification</li> <li>• WTO compliance</li> <li>• Market access information, including tools and training</li> <li>• Improving coordination on WTO issues</li> <li>• Customs procedures</li> <li>• Assistance with the implementation of the DCFTA</li> </ul>
Customs Reform Activity	Active 05/2016 – 05/2018	N/A	USAID / IBI International	<ul style="list-style-type: none"> <li>• Customs modernization</li> <li>• Trade facilitation</li> <li>• EU customs and border standards compliance</li> </ul>
Investment Climate Reform Project	Active 09/2016-12/2018	EUR 3.3 million	IFC	<ul style="list-style-type: none"> <li>• Business regulations</li> <li>• Agribusiness markets, including food safety</li> <li>• Trade facilitation and logistics related to river and sea port transportation</li> </ul>

Strengthening SME business membership organizations project	Active 03/2015- 03/2018	US\$ 1 million	Government of Switzerland (SECO) - UNDP	<ul style="list-style-type: none"> <li>Improving the business environment for SMEs</li> <li>Capacity building of business membership organizations</li> <li>Reinforcing public-private dialogue</li> </ul>
Ukraine Stabilization and Sustainable Growth Multi-Donor Account <sup>53</sup>	Active 11/2014 – 11/2017	EUR 13.5 million	European Bank for Reconstruction and Development (EBRD)	<ul style="list-style-type: none"> <li>Supporting economic reforms</li> <li>Improving the business climate</li> <li>Increasing access to finance</li> <li>Strengthening institutional capacity</li> <li>Combating corruption</li> </ul>
EU4Business - FORBIZ	Active 2016-2020	EUR 95 million (EU total funding, including a loan guarantee facility worth € 40 million)	International Technical Assistance, EBRD, EIB	<ul style="list-style-type: none"> <li>SME development</li> <li>National and regional economic development strategies</li> <li>Business advice and entrepreneurial skills for SMEs</li> <li>Access to finance (through a Loan Guarantee Facility)</li> </ul>
European Union Border Assistance Mission to Moldova and Ukraine (EUBAM)	Active 2005-2017	EUR 14.8 million (period 12/2015-11/2017)	EU	<ul style="list-style-type: none"> <li>Integrated border management</li> <li>Trade facilitation</li> <li>Intellectual Property Rights (IPR)</li> <li>Good governance</li> <li>Assist to fulfil the trade and business-related mandatory requirements under the AA</li> </ul>
Support for the implementation of the EU-Ukraine Association Agreement	Active 01/2016- 01/2019	EUR 7.7 million	EC / GFA consulting	<ul style="list-style-type: none"> <li>Institutional capacity building</li> <li>Interinstitutional coordination</li> <li>Legal approximation and policy implementation</li> <li>Communication and outreach</li> </ul>
Improvement of food safety control system in Ukraine	03/2014 - 03/2017	EUR 3.6 million	EC / Agriconsulting	<ul style="list-style-type: none"> <li>Harmonization of the legislation and institutions on SPS measures</li> <li>Food safety</li> <li>Laboratory</li> <li>Quality control</li> <li>WTO/GATT (TBT Agreement / SPS, etc.)</li> <li>Consumer Protection</li> <li>Capacity building</li> </ul>
Ukraine Horticulture Business Development Project UHBDP	2014-2021	US\$ 19.3 million	DFATD and MEDA	<ul style="list-style-type: none"> <li>Market development</li> <li>Access to Financial Market</li> <li>Workforce alignment</li> </ul>
Linking Ukrainian SMEs in the fruits and Vegetables Sector to Global and Domestic Markets and Value Chains	Active 03/2016 - 12/2019	US\$ 2.7 million	Government of Sweden/International Trade Centre (ITC)	<ul style="list-style-type: none"> <li>SME competitiveness</li> <li>Trade promotion</li> <li>Market and value chain linkages</li> <li>Improving BSOs capacities</li> </ul>
Project GEF UNIDO № 120321 "Introduction of energy management system standards in Ukrainian industry (UKR IEE)	2014 – 2018	US\$ 5.6 million	GEF UNIDO	<ul style="list-style-type: none"> <li>Energy efficiency</li> <li>Energy management systems in Ukraine</li> <li>Barriers to effective energy management systems in industry</li> <li>Introduction of national standard on energy management systems using the International Standard ISO 50001 "Energy management systems"</li> </ul>
Assistance in implementing SPS - liabilities (sanitary and phytosanitary) Ukraine to EU under the Association Agreement	01/2016 – 10/2017	EUR 1 million	EU	<ul style="list-style-type: none"> <li>Approximation of Ukrainian Law to EU Law</li> <li>Strengthening of administrative capacity</li> <li>Organization of information campaigns on rules and requirements for the EU market access</li> <li>Conducting regular dialogue on phytosanitary issues</li> </ul>
Support the implementation of the Association Agreement and the National Transport Strategy in Ukraine	01/2016 – 01/2019	EUR 3.7 million	EU	<ul style="list-style-type: none"> <li>Approximation of transport legislation of Ukraine to EU legal framework</li> <li>Updating the Transport Strategy of Ukraine in accordance with EU requirements</li> <li>Creation of information systems (European Security at sea and an electronic register for road transport)</li> </ul>
Promotion of trade through dialogue between civil society and public authorities (trade promotion dialogue)	01/2014- 12/2018	EUR 0,44 million	EU	<ul style="list-style-type: none"> <li>Implementation of Ukraine's obligations under the Association Agreement</li> <li>Simplification of administrative procedures to reduce costs for Ukrainian international trade participants</li> <li>Strengthening business associations' capacity for trade promotion</li> <li>Development of a standardized tool for monitoring and evaluation of the degree of the Trade Development implementation</li> </ul>

Source: Donor governments own information compiled by ITC, 2016 and Department on Coordination of International Programs of MEDT

<sup>53</sup> Contributions were made available in 2014 by Denmark, Finland, France, Germany, Japan, the Netherlands, Sweden, Switzerland, the United Kingdom and the United States. Italy and Poland joined the MDA in 2015.

### ***Other initiatives funded by European Institutions***

European Union Institutions are by far the main economic partner of Ukraine and are contributing hugely to the economic recovery of the country, especially through technical assistance programmes. In addition to the initiatives referred to in the table above, EU institutions have established several mechanisms and facilities aiming at supporting the development of the private sector, especially targeting SMEs. In particular:

- **DCFTA Facility for SMEs.** Part of the SME Flagship Initiative,<sup>54</sup> this facility, put in place by the European Commission – jointly with EIB and EBRD – will complement EU programmes that help small businesses grow and prepare for the new market opportunities of the DCFTA and help national authorities to implement their Association Agreements.<sup>55</sup> The facility will receive about EUR 200 million of grants from the EU budget.

- **EU4Business initiative** operates under Eastern Partnership Programme within the European Neighbourhood policy, initially called the SME Flagship Programme. It targets overall private sector development and focuses on small and medium-sized enterprises, supporting access to finance or business advice. It comprises projects mentioned above, among others. The current part of the programme has a budget of EUR 40 million consisting of advisory support through the opening – by EBRD – of 15 business support centres providing business advice (budget: EUR 28 million). An additional EUR 12 million is directed to loans for SMEs, giving priority to companies that already export and are willing to increase their share in foreign markets, or to companies that are about to start exporting.<sup>56</sup>

### ***Other initiatives funded by the United States of America***

The United States, through USAID programmes, is the second largest provider of ODA and is particularly active in supporting economic growth in Ukraine through the implementation of initiatives aiming at improving the business climate at the national and local levels and at encouraging domestic and foreign trade and investment.

#### ***The Western NIS Enterprise Fund (WNISEF)***

In addition to the programmes indicated in the table above, the United States Government, via USAID, has been funding the **Western NIS Enterprise Fund (WNISEF)** since 1994, a US\$ 150 million regional private equity fund for Ukraine and Moldova, investing in small and medium-sized companies. In 2015, after more than two decades of successful investment activities in some 118 small and medium-sized enterprises, which employed approximately 25,000 people and attracted US\$1.4 billion in investments, WNISEF launched a US\$35 million technical assistance program to boost exports, local economic development, impact investing and economic leadership development in Ukraine and Moldova. In particular, WNISEF has managed this technical assistance fund to provide the Government of Ukraine with new organizational capacities and tools to promote exports and attract foreign investments.

### ***World Bank Group initiatives***

The World Bank Group is also a major actor in providing support to Ukraine, notably through the **International Finance Corporation (IFC)**. Through a combination of investment and advisory services IFC partners with clients in strategic sectors crucial for Ukraine's sustainable development, with a focus on agribusiness, infrastructure, energy efficiency/cleaner production, and financial markets. Several

<sup>54</sup> Launched in 2009, the SME Flagship is a wide-ranging regional initiative of the EU, which aims to provide support to SMEs in the Eastern Partnership countries to tackle the common challenges hampering their growth: limited access to finance, difficulty to conquer new markets, lack of business skills and a difficult business climate.

<sup>55</sup> More information available on: [http://europa.eu/rapid/press-release MEMO-15-5013\\_en.htm](http://europa.eu/rapid/press-release_MEMO-15-5013_en.htm)

<sup>56</sup> From: <https://euukrainecoop.com/2016/05/31/eu4business/>

advisory services initiatives are ongoing in Ukraine, including the Financial Markets Public Outreach (FMPO) programme, which helps build local capacity to reduce non-performing loans, manage risk, and improve SME Banking capabilities through training and workshops.

## Ukraine's Trade Support Network (TSN)

National trade support network is meant to form a trade ecosystem that reacts dynamically to the needs of exporters in a wide range of services and areas of support such as policy and regulation, consulting services, trade financing and insurance, product testing and certification, international logistics and freight forwarding. Integrated TSN system contributes significantly to national competitiveness and more importantly is indispensable for realizing the overall development agenda of the country.

While Ukraine's international trade position changed rapidly in the last 2-3 years, the corresponding national trade support network did not catch up with these dynamics and consequently lack the level of quality as well as the range of services one would usually expect in a comparable context to support exporters effectively and efficiently in supplying their traditional market and expanding to new ones.

Overall, the Ukrainian TSN suffers from the lack of client orientation, significant service gaps and overlaps, regulatory limitations (e.g. in financial industry) as well as insufficient geographical coverage both nationally and internationally. Furthermore, insufficient institutional presence in key export markets coupled with limited availability of technical skills across trade support functions complicates the implementation of a results-oriented state export promotion policy further.

### Box 4: Export Promotion Office (EPO)

MEDT has initiated the EPO as a joint effort and reform-based initiative of the Government of Ukraine and the international technical assistance partners in order to boost and develop national capabilities for the export promotion policy in Ukraine.

As of today, EPO acts as one of the developing operational instruments, aiming to support contemporary export-friendly ecosystem between the governmental institutions and businesses community by developing export promotion institution. In accordance with the ministerial order №1861 dated 03 November 2016, EPO holds the legal status of an advisory and consultative body to MEDT.

Currently the EPO is a constituent part of the developing export promotion policy of Ukraine, and operates 4 branches to cover export information, export services, export education and business opportunities.

The EPO's vision and main goal is the development of the efficient export promotion system in Ukraine, running as one window approach for exporters and businesses, by fostering Ukrainian exporters up to the new levels, developing their internal and international market competitiveness, promoting Ukraine, as well as its products and services abroad.

Finally, the culture of trade-related services consumption in Ukraine is not well-anchored so that the segment of business services providers, such as business associations, is relatively weak in the overall trade support landscape which limits the provision of commercial trade-support services further.

## TSN survey and analysis

As a part of the STDR, a survey of trade support institutions was conducted to gain insights into the national trade support landscape, capacities, challenges and opportunities facing national public and private trade support institutions. Eighty-three institutions and organizations, public, private and civil society, participated in the survey.<sup>57</sup>

**Predominance of policy support institutions on TSN network (Figure 43):** With 53%, the policy support institutions are the largest category that clearly dominates the Ukrainian trade support landscape. They are followed by trade services category which represents 25% of the TSIs in Ukraine. Business Services and Civil Society are disproportionately the smallest TSI categories representing 10%

<sup>57</sup> Since the Ukrainian Ministry for Economic Development and Trade (MEDT) consists of multiple departments dealing with trade each of them is counted as a separate entity. Thus, MEDT is represented by 10 entries in the survey. Donor-financed technical assistance projects and donor organizations are counted into civil society network category (five entries). Those respondents that clearly represent private sector and do not provide any trade-related services, were excluded from the analysed sample.

and 12% of the TSIs respectively. This may suggest that these TSI segments are underdeveloped in Ukraine with the consequence that policy support institutions dominate the trade support landscape. On the other hand, the over-representation of policy support institutions can also be explained by the legacy of the past where the state participated in the economy. This does, however, indicate that non-state service providers in the network, especially business services and civil society institutions need to be developed and strengthened further so that they can play a bigger and more effective role contributing to export competitiveness of Ukraine.

Figure 43: TSIs categories and relative size

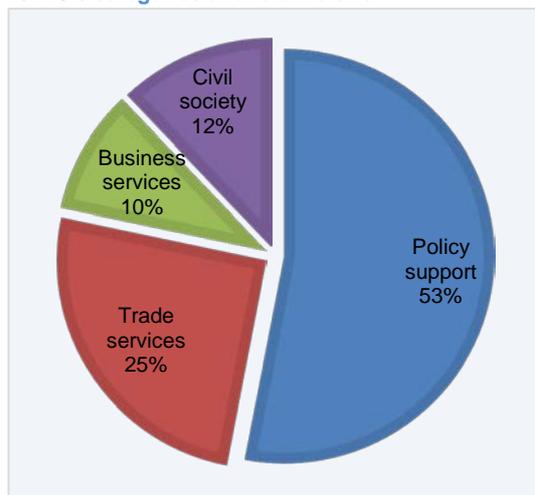
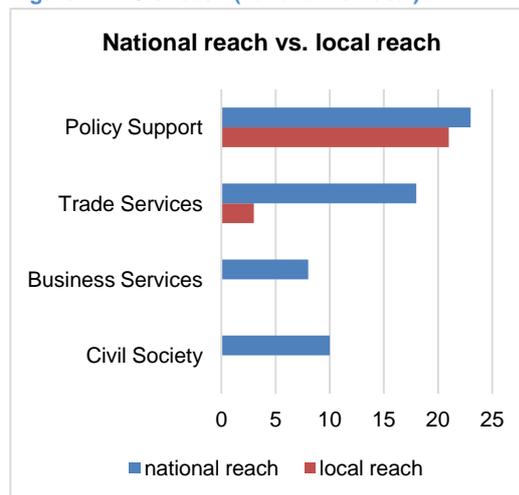


Figure 44: TSIs reach (national vs. local)



Source: Trade Support Network survey conducted in Ukraine by ITC in 2016

**TSN network with limited local reach (Figure 44):** In terms of reach, the policy support institutions are clearly the largest TSI category being active both at the national and local level. Among the three other categories only three trade services institutions reported being active at the local level, while all the remaining institutions have nation-wide reach. The overall result suggests that policy support institutions deliver different services at the local level from those delivered at the national level, which would be consistent with growing decentralization of state administration in Ukraine.

**TSN network with limited financial resources and blurred situation in terms of public and private funding source (Figure 46):** The survey revealed a somewhat blurred situation as it was based on scarce data. As expected, policy support institutions are predominantly funded from public sources, with a few exceptions. For the other categories results are somehow surprising as public and private funding sources are not consistent with the public or private status of TSIs. For the trade services and the civil society categories, which represent both public and private entities, one would expect a mix of public, private and other funding sources. Yet the trade services category reports being funded predominantly by private funding whereas civil society institutions report being funded essentially through public money. As for the business services category, which essentially represents private commercial entities, 25% of them report being funded from public sources.

Additionally the actual use and allocation of resources is unclear as the vast majority of TSI surveyed did not provide financial information. Preliminary results however indicated that 60-70% of resources were used by TSIs to cover their running costs, with only 30-40% of funds directly used on the delivery of their services, which may both suggest significant room for efficiency gains and for increasing delivery capacities in line with actual demand.

Figure 45: TSIs' average size

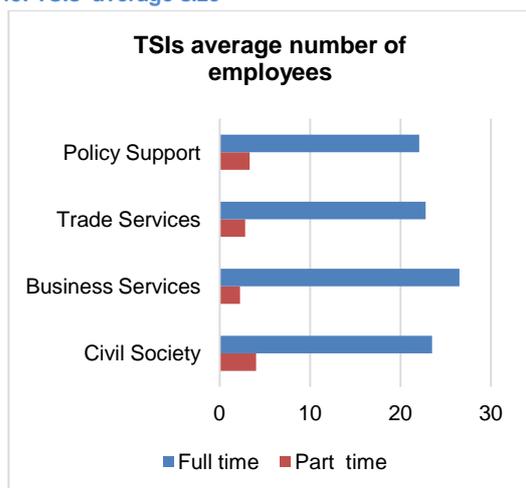
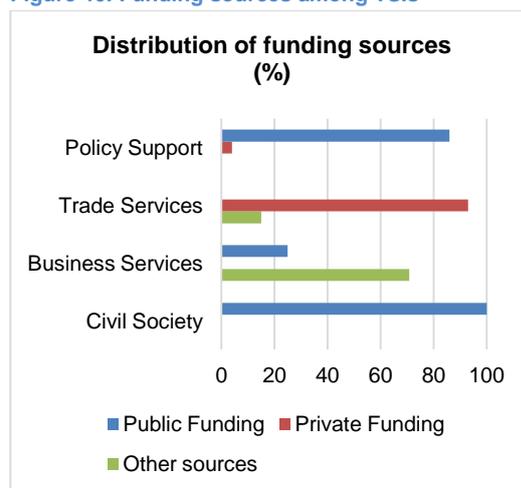


Figure 46: Funding sources among TSIs



Source: Trade Support Network survey conducted in Ukraine by ITC in 2016

### TSN service delivery analysis<sup>58</sup>

- **The TSI landscape in Ukraine is dominated by policy support institutions**, which are essentially public and parastatal actors, followed by trade services institutions. Overall, business services institutions are significantly less present or active in the Ukrainian institutions landscape for trade support.
- **The dismal presence of business service providers suggests that this category of institutions is underdeveloped**, does not play a significant role in trade and exports and denotes a limited number of actors in the market offering relatively expensive services. This suggests the need to build up this category by promoting the culture of consumption of business consulting services and increase competition among business service providers.
- **The number of TSIs in trade services is half the size of that classified in policy support.** However, the survey showed a “hyperactivity” of trade service institutions whereby they scored equally or even higher than policy support service providers. This should mean that the range and number of services proposed by trade service providers is the most dynamic out of the four TSI groups.
- **On the other hand, there seems to be a high concentration of actors across all service types in both service categories “building supply capacities of exporters” and “enabling market entry service categories”.** This suggests a lack of specialization and potential duplication in service delivery. This speaks in favour of a better division of labour and differentiation of services. Conversely, there appears to be relatively low capacity or services delivery in the *Enhancing the quality of business environment* category.
- **Obvious gaps in services delivery are to be found among services related to access to finance** (financial services for capital investment, export finance and export insurance) **as well as certification and transport and cargo handling services, branding and promotion.**

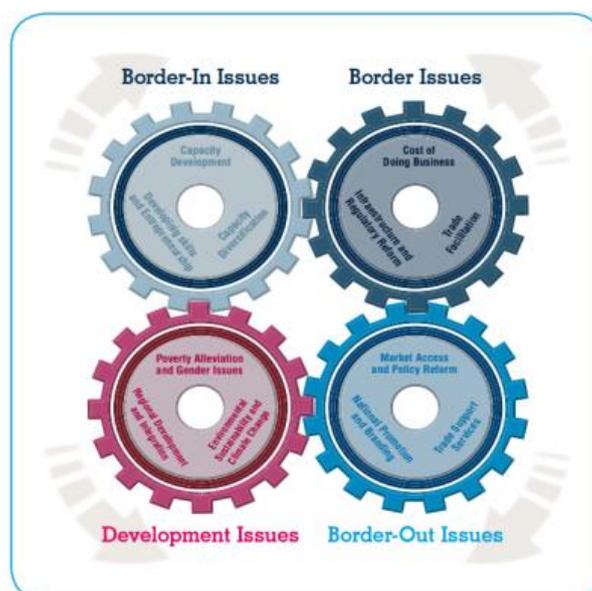
→ PoA reference: Activities 2.1.1.—2.1.6. and 2.2.1.—2.2.13.

<sup>58</sup> See detailed analysis in Annex 2.

## Key competitiveness constraints (4G)

### Competitive constraints affecting the value chain

A country's competitiveness depends on a number of factors ranging from supply of export goods and services, the quality of the business environment, market entry and the development impact of the country's trade, which is important to its sustainability. For an export strategy to be effective, it must address a wider set of constraints across all four dimensions of competitiveness. This integrated approach is illustrated by the four gears framework schematic on the right.



#### Supply-side constraints

Supply-side issues impact production capacity and include challenges in areas such as availability of appropriate skills and competencies, diversification capacity, technology and value addition in the sector's products.

#### Box 5: Border-in issues

##### Supply side constraints:

##### Capacity development

- The very low labour productivity in Ukraine affects export competitiveness seriously in Ukraine economy
- The low internal labour mobility in Ukraine hinders the efficient allocation of resources in the labour market
- Difficulties in accessing credit limit the development of SMEs and the dynamism of the Ukrainian private sector

##### Capacity diversification

- The low level of domestic and foreign direct investment (FDI) hinders the development of economic activity and the emergence of new sectors
- An inadequate innovation system in Ukraine impedes the development of new high value added sectors

##### Developing skills and entrepreneurship

- An important mismatch of skills hinders labour productivity gains and economic growth

#### Capacity development

##### ***The very low labour productivity in Ukraine affects export competitiveness seriously in Ukraine economy***

According to the International Labour Organization (ILO), Ukraine ranked 132nd out of 192 countries in output per worker in 2015, at US\$ 15,837 (GDP constant 2011 international \$ in PPP) (Figure 23). While the workforce is relatively educated in Ukraine, labour productivity is affected negatively by an important skills mismatch between the labour market supply and the requirements of the demand. This phenomenon is exacerbated by the inter-regional disparities and the low internal labour mobility.

The labour productivity in Ukraine is impacted further by the poor performance of the national innovation system, the ageing economic infrastructure of the country and the reliance on obsolete technologies as well as the lack of domestic and foreign investment. The pursuit of higher levels of productivity is also constrained by insufficient competition in some product market sectors. Finally, it is noted that the importance of the shadow economy in Ukraine is a contributory factor to the poor productivity performance of the country.

→ **PoA reference:** Activities 3.2.1.—3.2.6., 3.3.2., 3.3.4. and 1.2.2.

***The low internal labour mobility in Ukraine hinders the efficient allocation of resources in the labour market***

Internal labour mobility in Ukraine is low when considering the significant inter-regional disparities in wages and employment rates that could be expected to encourage workers to move from the regions that are lagging to regions where economic opportunities are most widespread. A recent World Bank Study<sup>59</sup> indicated that internal mobility in Ukraine is about half of what is expected when comparing Ukraine with other countries.

The main barriers to internal mobility in Ukraine are institutional. Administrative procedures, high rates of home ownership, benefits tied to residence, inadequate human capital, and weak formal labour market institutions not providing workers with enough reliable information about labour market conditions outside their current place of residence, act as disincentives and impediments to worker's mobility (WB, 2015). Very expensive housing in leading regions where large economic gains can be made, including Kyiv, Lviv and Odessa, combined with a lack of access to credit and underdeveloped mortgage markets, also limits the potential for internal labour mobility significantly.

Removing existing barriers to internal mobility is crucial to achieving a successful transition to a more competitive and dynamic economy. Geographical mobility allows for a more efficient allocation of labour by enabling people with relevant skills to match with appropriate jobs, thereby enhancing labour productivity and tackling skills shortages.

→ **PoA reference:** Activities 3.3.3. and 3.3.4.

***Difficulties in accessing credit limit the development of enterprises, in particular SMEs, and the dynamism of the Ukrainian private sector***

The Executive Opinion Survey conducted by the World Economic Forum (2016) indicates that access to financing was identified as one of the most problematic factors for doing business in Ukraine (Figure 39). SMEs in particular are facing specific access to finance challenges across sectors and value chains and these must be addressed to improve competitiveness.

Enterprises' access to credit has worsened in recent years in Ukraine with the banking crisis that erupted in early 2014. Triggered by deposit outflows, bank losses, and numerous banks not meeting regulatory requirements, the banking crisis led to the liquidation of numerous banks in the country and to a restructuring and recapitalization of the sector.

A direct consequence of the restructuring of the sector has been the tightening of credit conditions that have complicated enterprises' access to loans or other sources of financing. The expensive and

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<sup>59</sup> World Bank (2012). *In Search of Opportunities How a More Mobile Workforce Can Propel Ukraine's Prosperity*. Volume II: Technical Report, Report No. 68824-ECA

inadequate access to bank loans and grants are currently affecting the production capacity of the Ukrainian economy and are discouraging enterprises from applying for loans. Furthermore, on the demand side, and despite the recent progress that has been made regarding the rehabilitation of the banking system, restoring business confidence in the banking sector is likely to take time, especially as the macroeconomic environment remains unstable.

→ **PoA reference:** Activities 2.1.6., 2.2.12, and 2.2.13

**Further, the absence of export insurance services in the market hinders the development of export oriented enterprises.** As highlighted in the WTO's 2016 Ukraine Trade Policy Review, Ukraine provides no export subsidies for agricultural or non-agricultural products, and has no classic export credit or export guarantee agency. UkrEximBank, the State Export-Import Bank of Ukraine, whose traditional focus is the servicing of import and export transactions, does not currently perform this function, limiting businesses' access to finance further and increasing the risk borne by the exporters. The development of this financial market segment is hampered, among others, by a low level of transparency of Ukrainian businesses.

→ **PoA reference:** Activities 2.2.13.

### *Capacity diversification*

**The low level of domestic and foreign direct investment (FDI) hinders the development of the economic activity and the emergence of new sectors.** As mentioned earlier, affected seriously by the unstable political situation and the deterioration of the macroeconomic environment, FDI net inflows fell dramatically in the past years, amounting only US\$ 3 billion in 2015. Insufficient protections of intellectual property (IP), the lack of adequate protection of foreign investors, excessive bureaucracy and inefficient tax and legal system have also eroded investors' confidence. Further, the lack of a level playing field in certain key sectors affects negatively the attractiveness of the country, offsetting the country's many attractions as a potential investment.

Finally, according to the Commercial Code, foreign enterprises (i.e. wholly-owned by foreign capital) may not be established in industries "of strategic importance for the national security under the law", even if no exhaustive list defining the sensitive and strategically-important industries has been outlined.<sup>60</sup> Specific limitations on foreign ownership also apply in certain sectors.

→ **PoA reference:** Activities 1.1.2., 1.1.3., 1.2.1., 2.2.3., 2.2.13

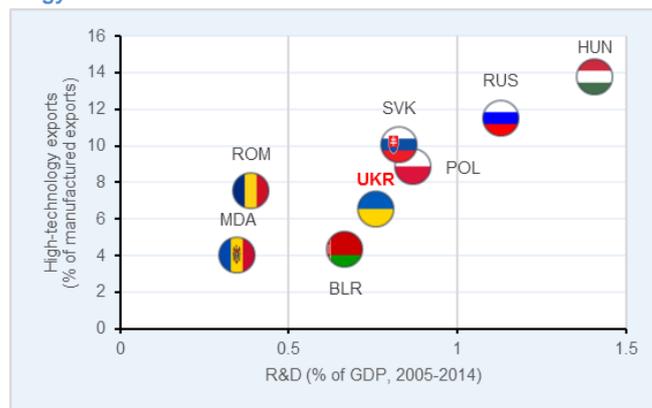
**An inadequate innovation system in Ukraine impedes the development of new, high value added, sectors.** Despite a healthy population of 1,165 researchers per million people (full-time equivalent, on average over the period 2005-2014) and one of the highest rate of R&D expenditures among CIS countries (0.76% of GDP, on average over the period 2005-2014),<sup>61</sup> second only to Russia, Ukraine high-technology exports represented only 6.5% of Ukraine's exports of manufactured goods in 2015<sup>62</sup> (figure 6). Ukraine, however, lags other non-CIS Eastern European countries such as Hungary, Poland and the Slovak Republic.

<sup>60</sup> Commercial Code of Ukraine, 2003, Article 117 (2).

<sup>61</sup> Expenditures for research and development are current and capital expenditures (both public and private) on creative work undertaken systematically to increase knowledge, including knowledge of humanity, culture, and society, and the use of knowledge for new applications. R&D covers basic research, applied research, and experimental development.

<sup>62</sup> High-technology exports are products with high R&D intensity, such as in aerospace, computers, pharmaceuticals, scientific instruments, and electrical machinery.

Figure 47: Science and technology indicators



Sources: United Nations, Comtrade database and United Nations Educational, Scientific, and Cultural Organization (UNESCO) Institute for Statistics.

This situation partly reflects the lack of an enabling environment to foster innovation and entrepreneurship and highlights the weakness of the linkages between the private sector and the scientific community, including universities and research institutes, which limit the passage of innovative ideas to the market. The poor alignment of property rights and economic incentives for R&D activities coupled with the limited access to modern technologies also hinder significantly the innovation potential of Ukraine, a key driver of productivity growth.

→ **PoA reference:** Activities 1.1.1.-1.2.3.

#### *Developing skills and entrepreneurship*

##### ***An important mismatch of skills hinders labour productivity gains and economic growth***

Literacy and school enrolment rates are high in Ukraine and it is widely acknowledged that the workforce is educated and highly skilled. However, and despite the increasing numbers of tertiary graduates in Ukraine, there is little evidence of increased labour productivity, suggesting that the supply of skills is mismatched to demand. In other words, the current education system does not seem to be providing the skills needed to succeed in the labour market. In fact, while enterprises in the country face a shortage of skilled workers, many university graduates cannot find employment or end up in jobs that do not use their skills (WB, 2015). This worrisome situation highlights the lack of linkages and communication between the education system and the industry as a whole. This mismatch of skills is further exacerbated by the limited mobility of the labour force in Ukraine (as mentioned above).

The gap appears to be particularly significant in the fields of business and marketing skills, including international trade, foreign languages and high technology, among others. A shortage of skilled labour has also been reported in some technical occupations owing to the expansion of the tertiary education. Soft skills also need to be developed further, including knowledge of business culture in foreign countries, negotiation skills, etc.

The level of entrepreneurial culture and managerial knowledge of the majority of businesses is insufficient and should also be developed further. The density of new businesses is low in Ukraine with only 0.92 new businesses per 1,000 working-age people in 2012, ranking 9 out of 11 economies in the CIS group<sup>63</sup> and ranked 99 globally.

<sup>63</sup> No data available for Turkmenistan

→ **PoA reference:** Activities 3.2.2., 3.3.2. 3.3.3. 3.3.4.

### Business environment constraints

Business environment constraints are those that influence transaction costs, such as regulatory environment, administrative procedures and documentation, infrastructure bottlenecks, certification costs, Internet access and cost of support services.

#### Box 6: Border issues

Business environment constraints
<b>Infrastructure and regulatory reform</b>
<ul style="list-style-type: none"> <li>○ Attainment of higher levels of productivity is also constrained by insufficient competition in some product markets sectors.</li> <li>○ Inadequate and obsolete transport infrastructure has become an impediment to economic growth</li> <li>○ The outdated and obsolete industrial structure inherited from the Soviet period has hampered economic growth</li> <li>○ Overregulation and cumbersome bureaucratic procedures discourage the development of a dynamic private sector</li> <li>○ Ineffective protection of intellectual property rights (IPR) creates unnecessary hurdles to growth</li> </ul>
<b>Trade facilitation</b>
<ul style="list-style-type: none"> <li>○ Lack of custom procedures efficiency remains an impediment for developing Ukrainian exports</li> </ul>
<b>Quality of institutional support</b>
<ul style="list-style-type: none"> <li>○ Insufficient level of institutional support and structured dialogue between Ukraine's state authorities and businesses hinders the development of the private sector</li> <li>○ Continued efforts are needed for the harmonization of the current system with the “<i>EU acquis communautaire</i>”</li> </ul>
<b>Cost of doing business</b>
<ul style="list-style-type: none"> <li>○ Complying with technical regulations and standards to export generates significant certification costs for Ukrainian exporters</li> <li>○ The high rate of taxation on the industry affects the competitiveness of businesses</li> </ul>

#### *Infrastructure and regulatory reform*

#### ***Attainment of higher levels of productivity is also constrained by insufficient competition in some product market sectors***

Developing free and competitive markets in Ukraine is a slow, tedious and complex process. As highlighted above, despite the progressive privatization of the economy engaged after the independence of the country, SOEs still contribute about 37% of Ukraine's GDP. Despite its overall poor economic performance and its combined losses, the public sector continues to dominate some key economic sectors – including infrastructure, mining, and energy – making it difficult for newcomers to compete in a fair and transparent manner. The predominance of state monopolies and the presence of economic oligarchies also result in distortions in the Ukrainian domestic market and unfair competition. Overall, important sectors are highly concentrated and are characterized, to a large degree, by high barriers to entry and exit that limit competition (OECD, 2014). The competition in Ukraine has also been impeded by a lack of transparency of the privatization process whereby pre-selection criteria could favour certain bidders or purposely restrict the playing field.

The public procurement system has long been opaque, affected by corruption and cronyism and dominated by a few people with vested interests, thereby contributing to creating unfair competition. However, Ukraine has recently taken steps to improve efficiency and transparency of its public procurement system,<sup>64</sup> The Government has developed and is gradually implementing the public e-procurement system called “ProZorro”, which efficiency has been recognized in the country and abroad.

More generally, competition is impeded by the poor business environment prevalent in the country. In this regard, reducing barriers to market entry and allowing the growth of new activities will be a crucial engine to boost competition and innovation and generate productivity gains.

→ **PoA reference:** Activities 1.3.1.-1.3.10

### ***Inadequate and obsolete transport infrastructure has become an impediment to economic growth***

While Ukraine has the potential to play a key role as a transit country given its strategic location encompassing key Pan-European corridors, the insufficient quality of Ukraine’s transport infrastructure – and roads in particular – currently prevents the country from achieving its potential and hinders the competitiveness of the economy. Efficiency improvements in the transport sector will therefore be particularly critical to raising competitiveness.

In 2015, freight traffic (in ton kilometres)<sup>65</sup> by road accounted for a mere 11% of the total freight turnover, while rail and pipelines accounted respectively for 62% and 26% of the freight volume (Table 7). A number of reasons can explain the underuse of road transportation, chief among them being a limited (hard surface) road network of only 160,000km in 2015 (State Statistics Service of Ukraine) and the overall poor state of the roads.<sup>66</sup> Lack of maintenance and poor planning coupled with continuous underfunding of the sector led to the progressive deterioration of the state-owned road transport network. Besides, the special fund for road repairs has had mixed results so far.

**Table 4: Cargo transportation, freight turnover, Ukraine, 2015 (mln.tkm)**

	mln.tkm	%
Total shipment of which by:	<b>315,342</b>	-
<i>Rail</i>	194,322	62%
<i>Road</i>	34,431	11%
<i>Water</i>	5,434	2%
<i>Pipelines</i>	80,944	26%
<i>Air</i>	211	0%

Source: State Statistics Service of Ukraine (2016)

Besides being impacted by the relatively poor quality of the transport infrastructure in Ukraine, the transportation of merchandizes also appears to be very expensive for exporters. According to the World Bank’s 2017 Doing Business report, the cost to export for Ukrainian businesses is US\$ 292 for documentary compliance, on average, which should be added to the US\$ 75 required for border

<sup>64</sup> The Government has developed and is gradually implementing the public e-procurement system called “ProZorro”

<sup>65</sup> A ton kilometre is a unit of measure of freight transport which represents the transport of one tonne of goods by a given transport mode over a distance of one kilometre.

<sup>66</sup> According to the World Bank, substantial portions of the network need to be upgraded to European technical and safety standards as an estimated 40% to 50% of all state roads would not currently meet adequate standards. World Bank Group (2015). *Ukraine Partnership: Country Programme Snapshot*

compliance (this cost is US\$ 100 for imports). High tariffs also apply on transportation, including exorbitant port fees that deteriorate the competitiveness of Ukrainian ports significantly. Overall, inland transportation appears to be the most expensive stage for economic operators in the export process. This relatively poor trade logistics performance affects the competitiveness of Ukrainian exporters significantly, especially operators relying on imports of inputs and intermediary goods to produce consumer goods.

→ **PoA reference:** Activities 1.3.11.-1.3.12.

***Outdated and obsolete industrial structure inherited from the Soviet period has hampered economic growth***

The lack of fiscal incentives to upgrade the key assets and to encourage businesses to invest in innovative production processes has also impeded the modernization of the economy and the gradual transition towards a more sophisticated and diversified industrial base.

→ **PoA reference:** Activities 1.1.2. and 1.2.1.

***Overregulation and cumbersome bureaucratic procedures discourage the development of a dynamic private sector***

Ukraine's competitiveness has been constricted by the country's long-lasting and deep-rooted attitude for overregulation. Although the Government recently undertook a number of measures to improve the business environment, including speeding up business registration and licensing,<sup>67</sup> existing – as well as potential – companies doing business in Ukraine still face a number of impediments and constraints to the development of their activities.

Although the country has moved up 50 places in the Starting a Business index under *Doing business* ranking in 2017 compared to 2015 up to 20<sup>th</sup> position globally, new businesses must still obtain many permits and certifications as well as complying with a protracted licensing process.<sup>68</sup> Significant constraints also remain in other key areas such as dealing with construction permits. According to the survey, dealing with construction permits in Ukraine requires 10 procedures and takes 67 days. Similarly, getting electricity involves cumbersome and time-consuming procedures, requiring five processes and taking on average 281 days (World Bank, 2017).

Further, the administrative burden faced by enterprises when complying with taxes – both in terms of tax amount and time spent – weigh heavily on Ukrainian businesses. According to the World Bank, although Ukraine reduced the number of tax payments during a year from 28 to 5 in recent years, enterprises still spend, on average, 350 hours a year filing, preparing and paying taxes. Overall, the complex nature of business regulation is cumbersome and time consuming for the senior management. These administrative costs imposed by the regulatory burden in Ukraine partly motivates the decision of many businesses, and SMEs in particular, to operate informally and is likely to put-off much foreign investment.

→ **PoA reference:** Activity 1.3.13

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<sup>67</sup> The World Bank reported that Ukraine has taken several steps in recent years to ease business start-ups, notably by reducing the time required for VAT registration and by eliminating business registration fees, by eliminating the requirement for registration with the statistics authority and by eliminating the cost for value added tax registration.

<sup>68</sup> It is to be noted that a new Law on Licensing Types of Business Activities was signed in March 2015 introducing a uniform licensing procedure and procedures for drafting and approving licensing conditions and reducing the number of licensable business activities from 54 types to 29.

***Ineffective protection of intellectual property rights (IPR) creates unnecessary hurdles to growth***

Although Ukraine is party to several World Intellectual Property Organization (WIPO)-administered treaties and a signatory state to several regional treaties in the area of intellectual property protection,<sup>69</sup> the black market for counterfeit and pirated goods remains significant, with sales of fakes representing an estimated turnover of US\$ 1.3 billion each year, according to the Ukraine Alliance Against Counterfeiting and Piracy (WTO, 2016).

The main problem lies in the lack of enforcement of the recently enacted IP laws. More particularly, the United States Trade Representative (USTR)<sup>70</sup> reported several issues of particular concern. These include (i) the administration of collection societies, a system described as unfair and non-transparent; (ii) the widespread (and admitted) use of illegal software by government agencies; and (iii) the failure to combat effectively widespread online infringement of copyright and related rights. Gaps in the IP legislation have also been reported.

This situation discourages potential foreign investors to establish business in Ukraine, hinders the spread of new technologies and impacts the competitiveness of Ukrainian exporters relying on foreign technologies for the production of goods for export.

→ **PoA reference:** Activities 1.1.3.

***Trade facilitation issues******Lack of customs procedures efficiency remains an impediment for Ukrainian exports development and prevents the internationalization of small and medium-sized enterprises***

Significant efforts have recently been made regarding the efficiency of customs authorities in Ukraine, particularly by releasing customs declarations more quickly, reducing the number of physical inspections and streamlining valuation procedures, including export-related customs clearance procedures.

The lack of efficiency of the clearance process, however, remains an impediment for developing Ukrainian exports as burdensome customs procedures increase the time and cost of trading across borders. Procedures to assess and validate the documentary evidence of compliance requires 11 documents and takes on average 96 hours to export (168 hours for imports), in addition to the 26 hours needed for border clearance (52 hours for imports) (World Bank, 2016). Globally, Ukraine stands at 110 in the ranking of 189 economies on the ease of trading across borders according to the Doing Business survey.

Slow procedures are partly explained by the lack of transparency and fairness of certificate verification procedures and declarations of origin by customs authorities as well as by the fact that the current national customs database is not yet hooked up with the State Fiscal Service of Ukraine. Customs procedures also have to be streamlined further and significant efforts have to be done to fight against widespread corruption among customs officers. It is to be noted that electronic system of information exchange at the Ukrainian customs launched in August 2016 partly introducing a the Single Window system should help Ukraine significantly to simplify customs procedures, reduce the time for control at the borders and minimize corruption. Still fully functional Single Window system should be settled in Ukrainian customs.

<sup>69</sup> In particular, the Deep and Comprehensive Free Trade Area within the Association Agreement with the European Union contains an entire chapter (Chapter 9, Articles 157-252) addressing in detail mutual standards of protection and the enforcement of intellectual property rights (WTO, 2016).

<sup>70</sup> 2016 Special 301 Report by USTR, April 2016 <https://ustr.gov/sites/default/files/USTR-2016-Special-301-Report.pdf>

→ **PoA reference:** Activities 1.3.7.-1.3.10.

#### *Quality of institutional support*

##### ***Insufficient level of institutional support and structured dialogue between Ukraine's state authorities and businesses hinders the development of the private sector***

Despite the reloading of the Council of Exporters and Investors of Ministry of Foreign Affairs of Ukraine and the Export Promotion Council of the Ministry of Economic Development and Trade of Ukraine, there is still room for improvement of communication between the Government, the private sector, and SMEs in particular, and the civil society on issues relating to the development of trade policies in general and exports in particular. A clear division of roles and responsibilities between the State and the private sector, which will provide for the successful implementation and enforcement of trade policies, should be settled. The reported lack of transparency of Ukrainian state authorities, and the resulting lack of trust between the business community and the State, have contributed partly to this insufficient level of dialogue.

The question of the quality of the trade support provided by trade and investment support institutions (TISI), and the Ukrainian Chambers of Commerce in particular, to businesses in Ukraine has also been raised, together with disparities between the different regions since the degree of sophistication and the capacities of the Chambers vary significantly from one region to another. The quality of the support is particularly affected by the limited institutional capacity of government agencies, in particular in the areas of export development, international buyers' requirements and culture, trade fairs participation, business ethics etc.

In order to rapidly remedy the situation MEDT has initiated the EPO as joint effort and reform-based initiative of the Government of Ukraine and the international technical assistance partners in order to boost and develop national capabilities for the export promotion policy in Ukraine.

As of today, EPO acts as one of the developing operational instruments, aiming to support contemporary export-friendly ecosystem between the governmental institutions and businesses community by developing Export Support and Promotion Institution further.

International trade in Ukraine also continues to suffer from the lack of alignment and coordination of the different authorities and institutions involved in trade policies and export development, including significant disparities in the provision and quality of support services at the regional level through the network of Ukrainian Chambers of Commerce. Similarly, the inter-connection and coordination between the different existing business associations appear to be weak, partly because of a lack of trust between organizations and links of some associations with public officials.

The TSN analysis section provides detailed insights into the current state of the TSN, and the implications on the country's export value chain.

→ **PoA reference:** Activities 2.1.1.-2.1.6, 1.3.3-1.3.5.

##### ***Harmonization of the current system with the "EU acquis communautaire" remains a daunting task for the authorities***

To negotiate the Agreement on Conformity Assessment and Acceptance of Industrial Products (ACAA) with the EU (and to be added as an individual protocol to the existing Association Agreement), Ukraine will need to harmonize its regulatory system with EU legislation, including the adoption of technical regulations and harmonized standards based on EU directives. Authorities will also have to ensure that

its institutions, including national standardization and conformity assessment bodies, accreditation agency, and market surveillance authorities, are aligned with EU practice.

While significant progress has already been made, in particular regarding the harmonization of standards, efforts still have to be undertaken to revise the technical regulations framework to complete the transition from a rigid system based on prior controls and widespread adherence to compulsory standards inherited from the Soviet Union to a WTO-compatible mixture of mandatory technical regulations and standards, voluntary by nature.

In the field of SPS measures, Ukraine has committed to align its food safety legislation with international standards and the EU *acquis communautaire*, the final objective being the recognition of the Ukrainian SPS system equivalence to that of the EU. In this particular area as well, additional efforts are needed, in particular to introduce HACCP procedures gradually and to improve the traceability of food products.

→ **PoA reference:** Activity 2.2.10, 1.3.1.

#### *Cost of doing business issues*

#### ***Complying with technical regulations and standards to export generates significant certification costs for Ukrainian exporters***

To export their goods and services, Ukrainian operators have to comply with various technical regulations, safety and quality standards through various certification schemes. Complying with these requirements to penetrate higher-end markets, and European in particular, has proven to be difficult because of the lack of recognition of national conformity assessments abroad, in particular in the EU.

More specifically, because of the absence, or limited availability, of certified bodies and laboratories, exporters are forced to seek the competent international expertise of accredited inspection, product testing and certification companies to have their products certified. These costly services contribute to the high certification costs faced by local operators and acts as a disincentive to engage in export.

→ **PoA reference:** Activities 2.2.10, 2.2.11.

#### ***The relatively high rate of taxation on the industry affects the competitiveness of businesses***

Although the rate of unified social contribution (USC) to be paid by the employer decreased in 2016, from 34.7% to 22%, the fiscal burden still impacts the productive capacity of the Ukrainian economy heavily. In addition to the USC, both residents and non-residents are subject to a standard corporate income tax rate of 18%.

→ **PoA reference:** 1.2.1.

#### **Market entry constraints**

Market entry constraints include issues such as market access, market development, market diversification and export promotion.

##### **Box 7: Border out issues**

<b>Market entry constraints</b>
<b>Market access</b>
<ul style="list-style-type: none"> <li>○ Underuse of preferential trade agreement that could offer opportunities for Ukraine's exports.</li> <li>○ Ukrainian exporters are facing difficulties complying with the technical regulations and standards</li> </ul>

applied by partner countries and the EU in particular.
<b>Insufficient access to market information</b>
<ul style="list-style-type: none"> <li>○ Limited knowledge of international market access requirements hinders export development</li> </ul>
<b>Absence of national promotion and branding</b>
<ul style="list-style-type: none"> <li>○ Lack of promotional activities limits the visibility of Ukrainian products abroad</li> <li>○ Ukrainian exports suffer from the negative image of the country</li> </ul>

### *Market access*

#### ***Underuse of preferential trade agreement that could offer opportunities for Ukraine's exports***

Despite preferential access to numerous markets (described earlier), Ukrainian exporters do not fully use these agreements to increase price competitiveness. Relatively weak market intelligence and insufficient market development support limit exporters from the benefits of open access to a number of markets. Overall, there is a clear lack of knowledge from the Ukrainian business community about the existence of trade agreements and the potential opportunities they represent. Trade support institutions do not offer training and do not fulfil the function of providing information. Few consultancy services are provided to exporters and as there is no single website that would gather all relevant information, it is difficult to access information on export procedures and formalities.

→ **PoA reference:** 1.3.2. and 1.3.3.

#### ***Ukrainian exporters are facing difficulties complying with the technical regulations and standards applied by partner countries and the EU in particular***

While some large Ukrainian companies have been working proactively to achieve compliance with the EU requirements alongside their respective value chain, for many businesses, and SMEs in particular, complying with conformity assessment measures applied by partner countries appears to be difficult owing to a lack of resources (human, technical, financial). The adaptation of sanitary and phytosanitary (SPS) standards might in particular be challenging for some companies.

Despite the existence of national standardization and conformity assessment bodies, the certification process companies have to go through to enter foreign markets may turn out to be tedious and cumbersome, as there is a limited number of accredited laboratories which only provide conformity assessment and certification services for a limited range of products. Coupled with the lack of consultancy or auditing services to enterprises, this situation leaves no other choice to businesses but to seek the costly services of foreign specialists and internationally recognized certification services.

→ **PoA reference:** Activity 2.2.10, 2.2.11

### *Insufficient access to market information*

#### ***Limited knowledge of international market access requirements hinders export development***

The limited access to market intelligence appears to be a major constraint for Ukrainian existing and potential exporters, as very little information is available on issues such as market requirements, distribution channels, packaging requirements and duty access, among others. There is, in particular, a lack of awareness about the preferential market access opportunities granted to Ukrainian products following the signature of several trade agreements and which remain largely untapped (see above). This lack of knowledge of market requirements not only affects negatively the development of exports from

Ukraine, it also prevents the design of relevant market entry and promotion strategies, critical to succeeding in a specific target market.

Overall, there is a lack of specific market information for businesses on exports and an absence of easily accessible and up to date (online) tools on international market requirements. Owing to the lack of resources and yet unavailable comprehensive vision of the trade support infrastructure, the support currently provided to the business community appears to be inadequate. Export specific skills and knowledge about export procedures and mechanism need to be provided at the enterprise level to generate a more systematic approach to market selection.

→ **PoA reference:** Activity 2.1.6, 2.2.5—2.2.7, 1.3.5.

#### ***Absence of national promotion and branding***

##### ***Lack of promotional activities limits the visibility of Ukrainian products abroad***

There is currently no common vision and strategy for the development and promotion of a Ukrainian brand abroad. A number of reasons can explain this situation, including the absence of a systematic approach for the creation of such a brand, the lack of public financial and human resources dedicated to export promotion, the traditional orientation to less demanding CIS markets, as well as the absence – until recently – of an Export Promotion Office.<sup>71</sup>

In addition, the number of trade missions abroad with the participation of country representatives for business and trade matters is insufficient owing to institutional distortions, duplication of functions and lack of institutional coordination between the Ministry of Economic Development and Trade (MEDT) and the Ministry of Foreign Affairs (MFA). The limited presence of trade attachés abroad results in limited promotion activities overseas and insufficient support to potential exporters. Beyond commercial attachés and commercial diplomacy through a pro-active trade policy, enhanced communication between businesses and trade missions should also be promoted and the coordination between the institutions involved in trade development improved. Trade promotion would also benefit from the establishment of monitoring mechanisms to ensure transparency and accountability of government activities.

→ **PoA reference:** Activity 2.2.1. — 2.2.4., 2.2.9.

##### ***Ukrainian exports suffer from the negative image of the country***

The persisting armed conflict in certain areas of the Donetsk and Lugansk regions and the temporary occupation of Crimea have affected deeply the image of the country internationally and, by way of consequence, the image of the goods and services the country produces. Current reforms and Strategy “Ukraine 2020” envisage the state programme of global promotion of Ukraine in the world. It aims to create a positive image of Ukraine as “*democratic, competitive state with a favourable business climate, with its own unique place in the global division of labour, integration into global value added chain*”.<sup>72</sup>

→ **PoA reference:** Activity 2.2.1.— 2.2.4. and 2.2.6.

<sup>71</sup> The Export Promotion initiative has been created under the aegis of the Ministry of Economic Development and Trade. Its mission is to support Ukrainian exporters in developing their market competences and as a result raise their competitiveness, by organizing business forum, B2B meetings, initiating promotional materials and Ukrainian products showcases.

<sup>72</sup> Ukraine Promotion Programme, Strategy 2020

## Development constraints

Social constraints include issues related to poverty reduction, gender equity, youth development, environmental sustainability and regional integration.

### Box 8: Development issues

Development constraints
<b>Poverty alleviation</b> <ul style="list-style-type: none"> <li>○ Poverty rates remain high as the socio-economic situation degrades</li> <li>○ Ukraine has to cope with an ageing and declining population</li> <li>○ The outward migration of skilled workers is a threat to the long-term economic growth</li> <li>○ Gender disparities persist</li> </ul>
<b>Regional development</b> <ul style="list-style-type: none"> <li>○ The national economy suffers from high inter-regional disparities</li> <li>○ The regional development policy needs to be adjusted to the specific needs of the regions</li> </ul>
<b>Environmental sustainability and climate change</b> <ul style="list-style-type: none"> <li>○ Environmental imbalance</li> <li>○ Lack of awareness about environmental norms and sustainable development goals</li> </ul>

### Poverty alleviation

#### **Poverty rates remain high as the socio-economic situation degrades**

The World Bank estimates that poverty has increased in Ukraine in 2015, a direct consequence of the contraction of disposable incomes resulting from the deep recession (real wages are estimated to have contracted by 13% between December 2014 and December 2015). As a result, the poverty rate (under US\$ 5/day in 2005 PPP) is estimated to have increased from 3.3% in 2014 to 5.8% in 2015, while moderate poverty is estimated to have increased from 15.2% in 2014 to 22.2% in 2015.<sup>73</sup>

#### **Ukraine has to cope with an ageing and declining population**

The country's ageing population and progressive decline in the working age group has natural implications for the economy, such as the continuous rise in pension payments, which may constrain the government's ability to spend on trade support infrastructures, and potential workforce shortages. One way to solve this problem was the initiative of the Ministry of Finance of Ukraine to work through an ambitious pension reform namely to increase the ceiling on retirement ages, from 55 to 60 for women and from 60 to 62 for men. The implications of this trend and policy measures necessary to address them are discussed further in the macro- and trade-level analysis section.

#### **The recent outward migration of skilled workers is a threat to the long-term economic growth**

With the recent recession that hit the country, migration of Ukrainian citizens, especially of young people, has been observed. Skilled as well as unskilled labour force is leaving the country and seeking better opportunities abroad, particularly in Poland and other European countries. Owing to a lack of recent data, it is difficult to estimate the extent of the migration.

→ **PoA reference:** Activity 3.1.1.—3.1.4., 3.3.1.—3.3.4.

<sup>73</sup> World Bank (2016), *Ukraine Economic Update*. April 1, 2016

### Gender disparities persist despite significant improvements

Despite the officially declared non-discrimination principle, there are signs of gender inequality. Ukraine's rank in the Gender Inequality Index (GII)<sup>74</sup> was 57 out of 155 countries in 2014. While women have full access to education and employment, they receive lower wages for equivalent positions and are much less represented in the political life of the country with a mere 11.8% of parliamentary seats held by them. Female participation in the labour market is 53.2% compared with 66.9% for men (UNDP, 2015).

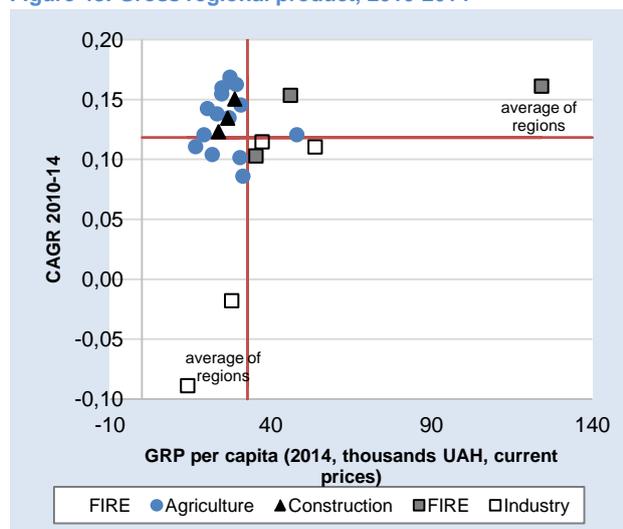
→ PoA reference: Activity 3.2.5.

### Regional development

#### The economy suffers from serious disparities between the different 'oblasts', both in terms of economic growth and income per capita

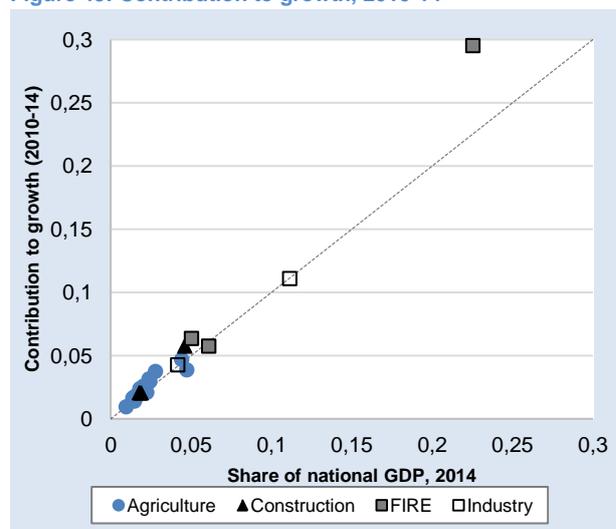
Regional specialization mainly explains inter-regional disparities (OECD, 2014) as regions that specialized in agriculture have reported lower levels of gross regional product (GRP) per capita and, overall, lower growth rate (Figure 47). Industrial and service oriented-regions, on the other hand, have overall reported a higher growth rate and, importantly, higher levels of GRP per capita. Over the years, the low level of competitiveness of the regions on the external markets, the imbalances on the internal, economic exchange between regions, and a significant reduction in output across the industries that manufactured end-products contributed to the deepening of disparities between the regions in terms of GRP growth.

Figure 48: Gross regional product, 2010-2014



Source: State Statistics Service of Ukraine

Figure 49: Contribution to growth, 2010-14



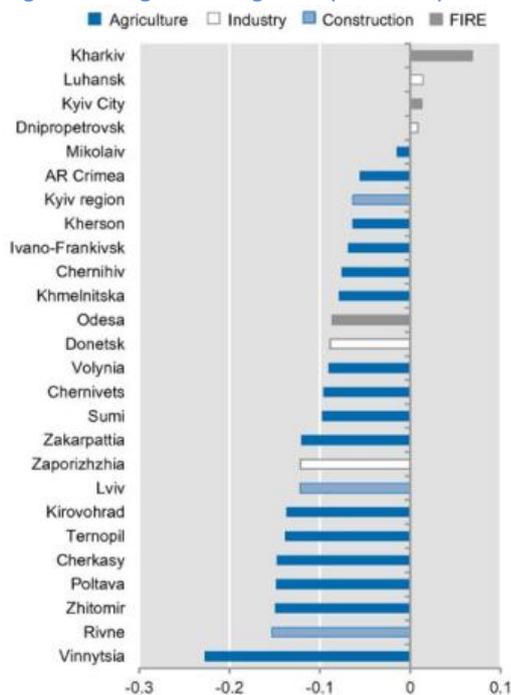
Source: State Statistics Service of Ukraine

Similarly, when looking at household income in Ukraine, industrial oblasts appear to have, on average, the highest median salaries, once again highlighting important disparities between regions. The median salary in the region of Donetsk was, for instance, UAH 6,002 in 2016, while it only reached UAH 4,028 in the Chernivtsi oblast. Specialized in high-skilled services, in particular finance, insurance and real estate (FIRE), the median salary in Kyiv is twice as high as in most regions, at UAH 8,649.

<sup>74</sup> The UNDP 2010 Human Development Report introduced the GII, which reflects gender-based inequalities in three dimensions, namely reproductive health, empowerment, and economic activity.

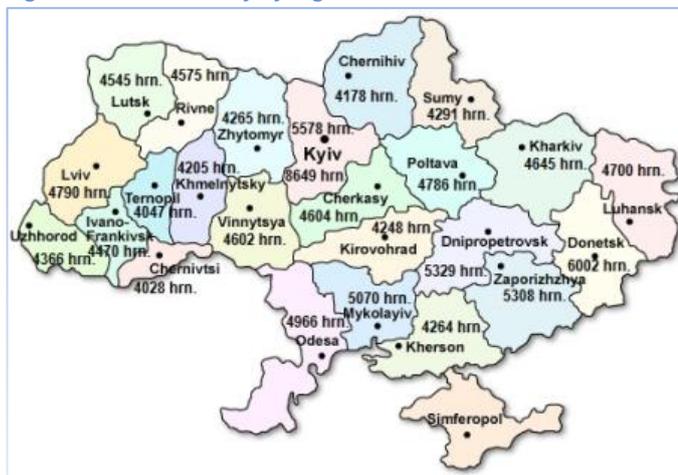
The OECD also indicated that improvements in regional HDI have mainly been observed in the major cities of Kyiv and Kharkiv and, to a lesser extent, in the industrial regions. On the other hand, no improvement in the index has been observed in the agricultural oblasts over the past decade, which translates to a decline in health, education, and material well-being (Figure 49).<sup>75</sup>

Figure 50: Regional HDI growth (2009-2010)



Source: OECD based on data from the State Service of Statistics of Ukraine

Figure 51: Median salary by region



Source: Ministry of Finance of Ukraine, July 2016

**The regional development policy needs to be adjusted to the specific needs of the regions**

Regional development policies are designed with a set of instruments aimed at balancing interregional disparities, including fiscal transfers to the local authorities. While this top-down approach eases regional development (OECD 2009, 2014), it does not take into consideration the specific need of each oblast. Regional modus operandi needs to be region specific.

In April 2014, the concept of reforming the local self-government and territorial authorities' organization in Ukraine was approved, which initiated decentralization reform. At the end of 2014, a decision to start fiscal decentralization was prepared, which took place during 2015-2016. In September 2016, the Cabinet of Ministers approved a plan to implement the concept of local self-government and territorial authorities' organization reform until 2018, providing the transfer of authority to local level.

Up until now, the high level of centralization and the strong vertical power structure in place have undermined the importance of the regions in the state economy, social and cultural sphere, society and politics. In addition, the overall limited capacity of the local authorities weakens the effectiveness of policy instruments and generally leads to policy-making failure.

<sup>75</sup> OECD (2014). *OECD Territorial Reviews: Ukraine 2013*. P.45.

Figure 52: Inter-regional transfer (thousand UAH)



Source: Draft of Budget plan for 2017

### *Environmental sustainability and climate change*

#### **Environmental imbalances**

Unregulated economic activities, ineffective implementation of regional development programmes and lack of monitoring system caused a number of environmental problems in Ukraine, including the degradation of soils (chernozems), excessive air and water pollution in industrial areas, and the disappearance of certain species of plants and animals owing to the destruction or deterioration of their natural habitat. The most affected regions are Dnipropetrovsk, Zaporizhia, Donetsk and Luhansk, because of the structure of their economic activities.

#### **Lack of awareness about environmental norms and sustainable development goals**

Given the current budget constraints faced by the Government, limited financial resources have been allocated for the implementation of the environmental regulations in place as well as for the promotion of the social importance of environmental activities. The contribution of the private sector, and large enterprises in particular, appears necessary especially in the long-term programme of safe man-made impact on the environment. To date, however, Ukrainian businesses do not seem to be willing to sacrifice the quick gain for the sake of environment, a situation that is not likely to change in the near future unless sufficient economic incentives are granted to enterprises for the adoption of clean technologies to reduce their impact on the environment.

→ **PoA reference:** Activity 1.2.3.

#### Key takeaways

- The analysis of competitiveness framework along its four dimensions (supply side capacities, business environment, market entry and development) makes it clear that addressing the binding constraints in the Ukrainian economy requires a holistic and integrated set of interventions. However, a number of areas that are critical for export competitiveness of Ukrainian enterprises requires to be specifically addressed. These are:
  - Trade information and promotion,
  - Transport and trade facilitation,
  - Skills development,
  - Innovation for exports
- Strengthening these cross-sector functions will enhance significantly the business environment in Ukraine and contribute to raise the competitiveness of not only the export-oriented sectors but of the national economy at large. An individual strategy will be developed for each cross-sector

## The way forward

Based on the comprehensive analysis of key aspects of Ukraine's trade performance, national economy, innovation and investment framework as well as the institutional landscape, development plans and the competitiveness constraints, the "way forward" lays down the key strategic framework of the STDR comprising the vision statement, the strategic and operational objectives, a selection of priority sectors and cross-sector functions, as well as the Plan of Action.

## Vision and strategic objectives

To guide the implementation of the STDR in the next three to five years, the vision statement set out below has been formulated and agreed upon by stakeholders who participated in the consultations for the design of this STDR. It represents the ambitions of the country as well as a consensus among stakeholders over the role of exports in the Ukrainian economy today and in the near future.

The following is a delineation of the proposed vision and strategic approach in this direction, agreed with all national trade stakeholders in Ukraine.

### ***"Knowledge and innovation-based exports for sustainable development and success on global markets"***

To realize the vision statement, strategic objectives have been formulated, which provide orientations that are to guide the implementation of the STDR in the three strategic areas where action is required over the following five years to bring about changes. The three strategic objectives are as follows:

#### **1. Create an enabling environment that stimulates trade and innovation for diversified exports.**

The current business environment does not stimulate innovation and the diversification of the economy sufficiently. As a result, important pockets of talent remain untapped, the economy continues to operate below its potential, and the export basket is highly concentrated on a few and relatively low value-added products. Breaking away from this status quo is a crucial objective of the strategy. This strategic objective aims at laying the ground for the development of a knowledge-based and innovation-driven export sector. Fostering collaboration in the area of innovation between businesses and educational institutions is a key element of this strategic objective. This will have to be followed by measures to ensure the protection of intellectual property rights, and the attraction of investment.

At the operational level, there are the following sub-objectives:

- 1.1. **Strengthen the institutional framework for innovation.** This is the supply side of innovation. Educational institutions, research centres and other trade support institutions have an important role to play as providers of technical and intellectual knowledge inputs that innovations require. In addition, the institutional dimension should also ensure a business environment that offers incentives to innovation, for example, guaranteeing the protection of intellectual property rights;
- 1.2. **Strengthen innovation capacities of enterprises.** This is the demand side of innovation. Develop awareness within enterprises that innovation requires a specific mind-set as well as skills, and competencies. Ensure that the innovations are translated into new or better product/services or market destinations;
- 1.3. **Improve business and policy environment for trade.** This operational objective aims at addressing key policy issues related to trade and trade facilitation, such as facilitate e-commerce, enhance trade negotiation capacities, improve transparency and streamline customs procedures.

Addressing these measures has a significant bearing on the quality of the business environment in particular for exporting SMEs.

## **2. Develop business and trade support services that improve the competitiveness of enterprises, in particular SMEs.**

Currently, enterprises face severe constraints owing to the nature of the business environment in which they operate. Some of these constraints have to do with the quality of trade support services that are available to enterprises. Trade support institutions should be coordinated better and offer a range of services to the enterprises, SMEs in particular, that can really make a difference for the managers. This means addressing the practical considerations of identifying foreign demand, and adapting the products and services to be able to meet this demand.

This strategic objective aims directly at the trade support institutions and their capacity to provide relevant foreign market intelligence on demand and the services required to help enterprises to tailor their current offering to be able to meet the identified demand best. A key element of this strategic objective is the upgrading of the quality infrastructure available and the technical regulations that apply. In addition, developing viable and sustainable financial solutions for enterprises and trade facilitation priorities are also important elements of this objective.

At the operational level, these are the following sub-objectives:

**2.1. Improve the coordination of the TSIs involved in trade policy and export development.** This operational objective aims to align the different trade and development policies in the country. In addition, it aims to improve the effectiveness of existing support mechanisms, and to tailor them to the needs of the enterprises, in particular SMEs;

**2.2. Strengthen business and trade support services for exporters.** This operational objective aims at enhancing existing export promotion efforts and improve market intelligence. It also aims to pursue the upgrading of the quality infrastructure and technical regulations while developing viable and sustainable financial solutions for companies.

## **3. Strengthen the skills and competencies that enterprises, in particular SMEs, require to engage in international trade.**

The long tradition of trade relationships with the Russian Federation has been severely damaged in recent years. This has pushed many exporters beyond their natural zone of comfort. Adjustments are taking place gradually but managers of enterprises are finding the adjustment process to the new situation particularly severe.

This strategic objective aims directly at managers of enterprises, in particular, to the enhancement of the skills, knowledge and competencies required to succeed in the international markets. A key element of this objective is to ensure that those with an entrepreneurial spirit find the necessary support in terms of training to develop their business idea and to succeed in the country (*to stop brain drain*). Another critical element of this objective is to ensure the alignment or even match between the skills that enterprises require and those currently developed by the education system. The formalization of the informal economy and the encouragement of labour mobility are also key considerations in this context.

At the operational level, these are the following sub-objectives:

**3.1. Stimulate entrepreneurial spirit among enterprises, in particular SMEs, and youth.** This operational objective aims to promote an entrepreneurial mind-set in the country (*a prize*). In addition, it aims to provide incentives to formalize informal employment and encourage labour mobility;

**3.2. Upgrade the managerial skills within existing s enterprises, in particular SMEs.** This operational objective focuses on existing enterprises. In particular, it aims to improve the managerial

skills of managers to help them to define their businesses better and deal with the production, marketing and finance functions;

### 3.3. Align the offering of the education system to the needs of the enterprises, in particular SMEs.

This operational objective aims to ensure better skills match in the labour market. It also aims to provide technical and managerial training/education to boost productivity.

## Priority sectors

Resources available for export development are limited. Defining priority sectors allows for a relevant and realistic allocation of resources for export development. To maximize its impact on trade competitiveness, the strategic roadmap must combine actions that are expected to have an influence on the wide economy with other more precise initiatives that target specific sectors of strategic importance.<sup>76</sup> The choice of priority sectors is therefore the first key consideration that will determine the kind of development process that the strategy is intended to trigger.<sup>77</sup>

### Selection criteria

A combination of quantitative and qualitative criteria and considerations is used to select priority sectors which will contribute to achieving the objectives of the STDR. Sectors matching these criteria need to offer a balanced mix of consolidated and emerging goods and services' sectors. The final choice must be aligned with the objectives of the STDR and strengthen the development trajectory intended by the strategy for the country. The criteria identified in Ukraine are the following:

- **Sectors that can drive innovation, upgrading, and high-value-addition:** The largest majority of stakeholders agreed on the perspective that the most relevant criteria should be the potential of any given sector to act as a driver of innovation for the overall economy. In this respect the sectors chosen should have positive spill-over effects on other sectors, for example, by contributing to upgrade the offer of related sectors. A preference for high value added sectors was expressed;
- **Sectors with potential for SME development:** The second most important consideration was the likely impact that the selected sectors can have on SMEs. By this choice the stakeholders intend to achieve a distribution of wealth biased towards large segments of the population. It is felt that the largest enterprises and businessmen already have important means at their disposal to be able to help themselves. However, SMEs are generally considered to be at higher risk and in need of assistance;
- **Sectors for which there is high demand in world markets:** Finally, the stakeholders agreed that the selection should prioritize sectors that are currently growing worldwide and are likely to be drivers of growth in the coming years. There was a clear view that Ukraine should focus on the sectors where the future growth of trade is most likely to happen.

Further considerations such as potential for employment generation, attraction of domestic and foreign investment, the existing comparative advantage, and the potential to plug the country into global value chains were factored in when making a final selection of sectors.

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<sup>76</sup> Sectors are groups of products or services that are closely related through their inputs, production and transformation processes, and that share a common value chain. Usually sectors are not limited to single products or single tariff lines but are built around clusters of products or services.

<sup>77</sup> The second key consideration has to do with the precise nature of the actions proposed at the sector level.

## List of priority sectors

The set of criteria introduced above was used to generate a long list of preselected sectors. This list was presented to the stakeholders during the course of the second consultation.<sup>78</sup> Table 8 summarizes the long list of preselected sectors against their relevance towards the selected criteria. For those sectors that have finally been selected, some snapshot descriptions are provided in the chapter.

**Table 5: Long list of sectors**

Sector	Drivers of innovation & high-value-addition	Potential for SME development	High demand in world markets
Chemicals	X		X
Educational services	X		
Energy & solid biofuels	X		X
Pharmaceutical products	X		X
Titanium products	X		
Aerospace	X	X	X
Construction services		X	
Creative services (Advertisement, movie industry, fashion, etc.)		X	
Medical services (Dental, reproductive, and transplantation)			
Wood products		X	X
Tourism (Mountains, historic, ethnic, & green)		X	X
Food industry (Processed food, ingredients, vegetables, fruits, berries, poultry, cheese, milk, organic, seeds, wheat, confectionary, nuts, honey, fisheries, & water)	X	X	X
Light industry (Toys, shoes, accessories, apparel, fashion clothing, ecological products)		X	X
Machinery (Energy, automotive, e-cars, railroad, green technologies & spare parts)	X	X	X
Transport & logistics		X	X
Information & Communication Technology (ICT)	X	X	X

Source: ITC calculations and STDR stakeholder consultations, 2016

The list of priority sectors has been narrowed down and refined further following a consultative and participatory process during which the relevance, capacity and readiness of the different sectors to meet the criteria was examined. The following sectors were finally selected to constitute the list of priority sectors for the roadmap:

- **Information & Communication Technology (ICT):** The sector mainly consists of software and research and development centres. There is a significant existing base of recognized programmers, established companies and large numbers of highly qualified graduates every year;

<sup>78</sup> The second consultation took place in Kyiv on 2-3 November, 2016.

- **Creative services:** The sector includes a diversity of subsectors such as advertising and public relations services, crafts, design, film industry, publishing and other performing and visual arts;
- **Tourism:** This sector constitutes a traditionally significant economic activity in Ukraine that has been particularly touched as a consequence of the current geopolitical context, but focusing more on eco-tourism, adventure, cultural, MICE and educational tourism, the sector can have a big potential;
- **Aircraft maintenance:** The sector comprises several aircraft repair and maintenance companies around the main airports of the country. Universities and technical institutes are training students on relevant skills;
- **Aerospace and aviation parts and components:** The Ukrainian aerospace industry is a consolidated sector producing well known aircrafts and spare parts and components.
- **Machinery:** The sector is dominated by light machinery, including turbo propellers, gas turbines, pumps and insulated wires and cables for vehicles. The heavy machinery industry includes vehicles, railway and tramway locomotives and parts and components. Ukraine is a relatively important industrial manufacturer by international comparison;
- **Food and beverages industry:** The food industry includes food ingredients, ready-made food and organic products and is already one of the most important sectors of the economy. It possesses an abundant resource base, human capital, established production and experience in food processing.

The mix of priority sectors includes a combination of services and goods that is coherent with other recent sector prioritization initiatives. For example, in 2015, Ukraine launched an investment promotion campaign "Invest Ukraine, Open for U" and has prioritized several sectors as the most attractive for foreign investors such as IT services and outsourcing, agribusiness, healthcare and pharmaceuticals, aerospace and energy efficiency.

Selected priority sectors can be classified into three types of sectors depending on their current stage of development and maturity as well as the type of support that might be required by the sector:

- Sectors that are currently declining or experiencing a sustained phase plateauing growth. These are sectors such as the aviation industry and the heavy machinery sectors. These sectors need some degree of reinventing;
- Sectors that are currently experiencing significant growth. This is the case of sectors such as ICT and the food industry. Generally these sectors are in a situation where they should capitalize on existing opportunities in international markets and integrate higher up in global value chains;
- Sectors in the infant (emerging) stage. These sectors require a concerted gradual effort in the form of institutional support, sector development and market intelligence to be able to reach the necessary degree of maturity and sophistication to become competitive. The creative industries and tourism would fall into this category.

#### Development trajectory

From a strategic standpoint, the rationale for focusing on a concrete set of sectors instead of others has a lot to do with the type of development process that the strategy is intended to trigger. In addition to the criteria discussed above, priority sectors are carefully chosen according to their overall potential for trade development, their spill over effects on other economic sectors that might be of interest and from a risk diversification perspective.

The choice of sectors proposed for Ukraine is intended to generate a significant amount of cross-fertilization among bundles of sectors while ensuring that failure to develop a sector will not impede the development of others. For example, gains in productivity by the software companies should eventually translate into gains on all the other priority sectors that use software. Similarly, better, safer and cheaper ingredients from the food industry will benefit the tourism sector as well as large segments of the population that are priced out of the market of imported food.

Following the above logic, the sectors have been grouped around three main clusters. As shown by Figure 52 there is a logical sequencing to the development of the clusters of sectors.

Figure 53: Development trajectory



Source: ITC calculations and STDR stakeholder consultations, 2016

The first cluster is intended to develop a leading group of sectors on high-value added activities and innovation. This cluster is centred on the aerospace sector and it includes a number of closely related sectors such as the software and ICT, aviation parts and components, maintenance services for the aviation industry and machinery. This is an aspirational cluster with a long-term perspective.

The second cluster is intended to contribute to improve the image of Ukraine abroad. This cluster is organized around tourism and the creative services. Attracting tourists and promoting the image of the country abroad by organizing events in Ukraine is the main aim. Kyiv, Lviv and Odessa have important natural and architectural endowments. The fashion, and movie and advertising industries blend well with the idea of improving the image of the country. These are sectors that could become a reality in the medium term.

The third cluster is intended to contribute to the transformation in Ukraine of raw materials into higher value-added products. This cluster hinges on the agro industry. It should be noted that it includes elements of innovation of the first cluster and it is complementary to the second cluster by contributing to improve the perception abroad of the image of the country. The goods and services linked to the processed food industry are an already existing reality in Ukraine that can benefit from support in the short term.

Within each of the clusters there is a combination of more consolidated sectors and other sectors that are in their infancy or have been subjected to significant structural changes recently. The clusters also

include goods and services as well as sectors that are already being exported with others that require further development to be traded internationally. This obeys a risk diversification rationale.

Priority sector snapshots

This section provides further information on the priority sectors. Furthermore, it is to be noted that each sector is the subject of a distinct sector strategy to be developed as part of the envisioned National Export Strategy. Precise scope of priority sectors in terms of their sub-segments of products and services are ultimately determined at that stage.

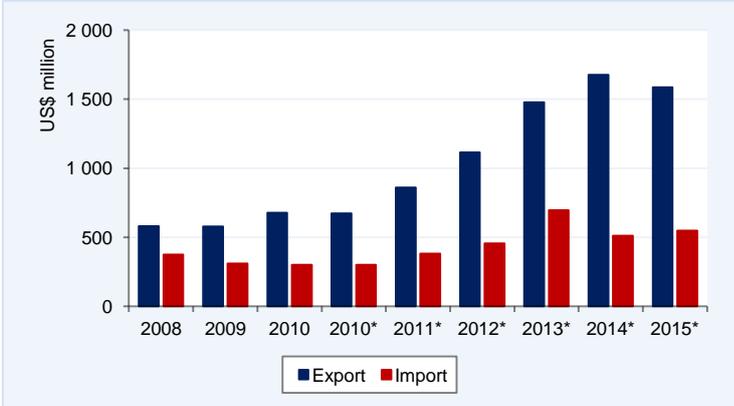
Information & Communication Technology (ICT)

According to the WTO, the IT industry in Ukraine comprises more than 500 outsourcing companies and 100 global research and development centres and employs more than 50,000 engineers.<sup>79</sup> The industry has grown exponentially over the last decade, from US\$ 110 million in 2003 to about US\$ 2.4 billion in 2014. Ukraine has also moved up 17 positions in the Global Services Location Index, and being ranked 24 was endorsement of its improvement in the competitiveness of its tax and regulatory costs.<sup>80</sup>

The rapid development of the communication and IT services sector has translated into large trade surpluses in recent years, with exports progressing at a dynamic compound annual growth rate exceeding 15% over the period 2008-2015, to reach US\$ 1.586 billion in 2015 (Figure 53). The significant developments observed in the ICT services are encouraging signs of product diversification and indicate a progressive transition towards modern services that must be supported.

It is also to be noted that many Ukrainian universities offered studies in computer science with different specializations including computer engineering, programming, system engineering etc. Kyiv Polytechnic Institute, Lviv Polytechnic University, Odessa Polytechnic University, and Sumy State University are the most reputed.

Figure 54: Trade of communication and IT services in Ukraine, 2008-2015



\* Excluding the certain areas of the Donetsk and Luhansk regions of Ukraine affected by the armed conflict as well as the temporarily occupied Autonomous Republic of Crimea and the city of Sevastopol

Source: State Statistic Service of Ukraine

Creative services

Creative services offer creativity for hire to other businesses. The enterprises in the creative services sectors sell a specialized technical service to satisfy the needs of companies that do not have this

<sup>79</sup> WTO TPR/G (2016). P.7

<sup>80</sup> *Ibid*

expertise themselves, including, for instance, design and production agencies, organization of events, the fashion industry, and advertising sector (promotional, branding, talent, public relations).

Ukraine has a limited number of SMEs in the creative industries. In Kyiv, Lviv, Kharkiv, Donetsk, Odessa and other major cities of Ukraine, creative clusters are created, that implemented special art projects in the field of traditional arts culture, creating new institutions such as creative industries agencies, creative residences, private galleries, etc. As initiatives remain at the level of individuals, the sector of creative economy does not yet exist as such in Ukraine.

Creative services in Ukraine include:

- Advertising agencies and PR agencies. The total volume of Ukrainian advertising market in 2014 amounted to UAH 9.06 billion.
- Fashion. There is an increasing demand for domestic items from Ukrainian consumers and a number of fashion shows and exhibitions have been created, including the International Fashion Festival "Ukrainian Fashion Week" and Mercedes-Benz Fashion Days.
- Cinema industry. The Ukrainian Parliament adopted the "law on the State Support of Cinematography in Ukraine" on 28 January, 2016. There are four National cinematography studios in UA, namely Dovzhenko Film Studios, Kyivnaukfilm, National Cinematheque of Ukraine, and Odessa Film Studio. There are also over 30 companies operating in Film, Television & Commercial Production Services.

The lack of reliable statistical information does not allow evaluating the development of creative industries in Ukraine, however, the UNCTAD database provides an overview of the international trade of selected types of creative products and services.<sup>81</sup> The structure of exports of creative products is dominated largely by "Design" creative products, including products for interior decoration, glassware, jewels, etc., with this segment accounting for about 75% of the sectors' total exports. These structural imbalances are primarily a consequence of underdevelopment of audio-visual products (mainly film industry) that in world exports account for almost 7%.

### **Tourism**

International tourism is a major category of international trade in services, accounting for 7% of the world's exports in goods and services in 2015, up from 6% in 2014, as the industry has grown faster than world trade over the past years (UNWTO). In 2015, international tourism marked an impressive six consecutive years of growth in terms of tourist arrivals, with a record total of 1.186 billion tourists travelling the world. The industry generated US\$ 1.260 billion in 2015 globally.

According to the World Travel Tourism Council (WTTC), the total contribution of Travel & Tourism to GDP in Ukraine was UAH 112.4 billion (5.3% of GDP) in 2015, directly supporting 214,500 jobs (1.2% of total employment). Taking into account jobs indirectly supported, the total contribution of the sector was 4.8% of total employment (843,000 jobs).<sup>82</sup>

Affected severely by the current geopolitical context, tourist arrivals in Ukraine have, however, dropped sharply in the past two years. Their number has been halved from 24.7 million in 2013 to 12.4 in 2015 (UNWTO). The vast majority of foreign citizens who visited Ukraine in 2015 originated from neighbouring countries (accounting for 87.8% of total international arrivals), dominated largely by Moldovans (35.4%) and Belarussians (15.2%) (Figure 55). A direct consequence of the drop in international arrivals is the collapse of earnings from international tourism, plummeting to their lowest level since 2003, barely

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<sup>81</sup> Classification of creative goods UNCTAD seven groups: "crafts" (carpets, yarn, woven products, etc.); "Design" (objects for interior and exterior, jewellery, toys, etc.). "Audiovisual works" (film production); "New Media" (recording media, video games); "Performing arts" (music and CDs); "Publishing" (books, newspapers, etc.); "Fine arts" (painting, photography, sculpture, etc.).

<sup>82</sup> World Travel Tourism Council (2016). *Travel & Tourism Economic Impact 2016 Ukraine*

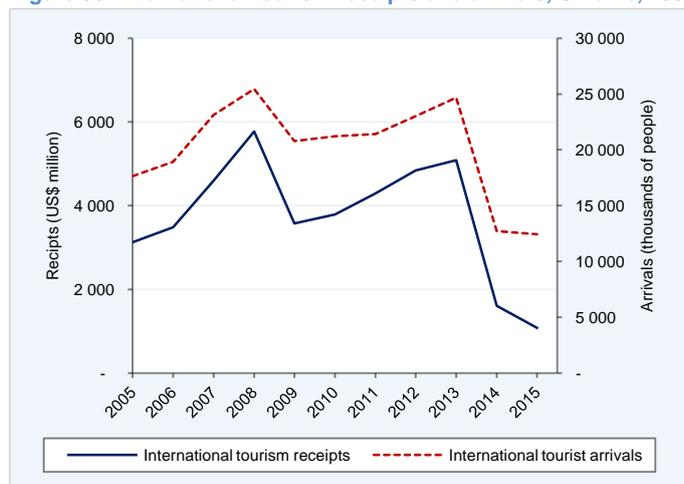
exceeding US\$ 1 billion in 2015. Further, the share of tourism in total services exports has shrunk dramatically in recent years, from more than 30% in 2008 to less than 10% in 2015.

The development of the industry is also hampered by an insufficient infrastructure: inadequate transport services for tourists, low quality of tourism services, inefficient and unsustainable use of natural resources, the lack of a clear strategy for the development of the tourism industry and its regulations, and lack of awareness and little information on hotels, recreation centres, sanatoriums, and on tours around the country.

Currently facing a declining growth phase, the Ukrainian tourism industry must reinvent itself, especially by developing its largely unexploited potential as a tourist destination. Numerous, though underdeveloped, promising opportunities include:

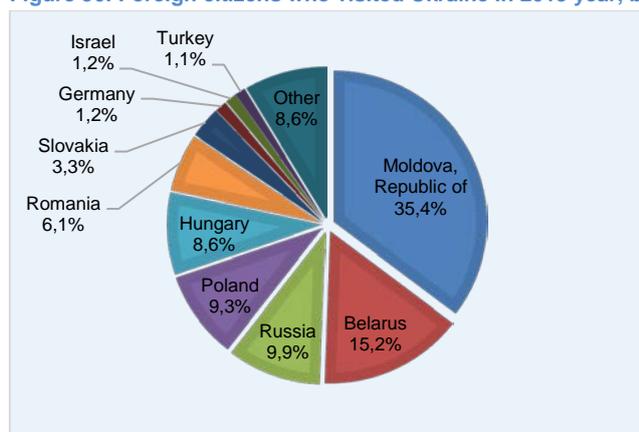
- Eco-tourism, in particular building on the potential of the Carpathian Mountains and the national parks;
- Adventure tourism, including sports tourism, mountain climbing, skiing, horse-riding, hiking and water sport and activities;
- Agro-tourism such as rural green tourism in farms and villages;
- Cultural tourism through the preservation and development of the historical and cultural heritage;
- Religious tourism, building on the 120 pilgrimage services that are engaged in the organization of excursions, trips and pilgrimages to holy places of Ukraine;
- Cruise tourism on the Dnipro river;
- Educational tourism, including the development and promotion of touristic offers such as school trips, study abroad experiences, skill enhancement and seminar vacations, among others.

Figure 55: International tourism receipts and arrivals, Ukraine, 2005-2015



Source: ITC calculations based on World Bank World Development Indicators, 2016

Figure 56: Foreign citizens who visited Ukraine in 2015 year, by countries



Source: State Statistics Agency of Ukraine based on data from the Administration of State Frontier Service of Ukraine

### Aircraft maintenance

The commercial aircraft Maintenance, Repair and Overhaul (MRO) is an essential requirement to ensure that aircraft are maintained in pre-determined conditions of airworthiness to transport passengers and cargo safely. Aviation maintenance refers to the overhaul, repair, inspection or modification of an aircraft or component. The industry is closely related to ensuring compliance with Airworthiness Directives, inspections and service bulletins. The sector's activities imply highly regulated tasks and require highly trained staff, licensed for the tasks they carry out.

The MRO global market was US\$ 135.1 billion in 2015, or three quarters of the US\$ 180.3 billion aircraft production market. Civil aviation represents 60% of the sector's activities, dominated by air transport, while military aviation accounts for the remaining 40%. The growth of air transport MRO is projected at 4.1% per annum till 2025 at US\$ 96 billion.<sup>83</sup>

The MRO industry in Ukraine comprises several enterprises specialized in aircraft repair and maintenance. The sector also benefits from the presence of the Ukrainian Scientific Research Institute of Aviation Technology, an institution engaged in software development, forecasting and analysis and normative documents in the field of aviation, and also performing technological design of aircraft and aircraft construction enterprises, as well as forecasting and identification of labour and material costs of production aircraft.

The sector can also rely on a network of universities specialized in the aviation industry and offering curriculums in a wide range of subject areas. The main institutions include, Kirovograd Flight Academy of National Aviation University, the National Aviation University (Kyiv) and the National Aerospace University of N. Zhukovsky, Kharkiv Aviation Institute

### Aerospace and aviation parts and components

The Aerospace sector comprises science, engineering and business to fly in the atmosphere of Earth (aeronautics) and surrounding space (astronautics). Aerospace manufacturing is a high-technology industry that produces "aircraft, guided missiles, space vehicles, aircraft engines, propulsion units, and related parts". In most industrial countries, the aerospace industry is a cooperation of public and private industries. Along with public space programmes, many companies produce technical tools and

<sup>83</sup> ICF International (2016). *MRO Industry Outlook*. Kevin Michaels, Vice President - Aerospace & MRO

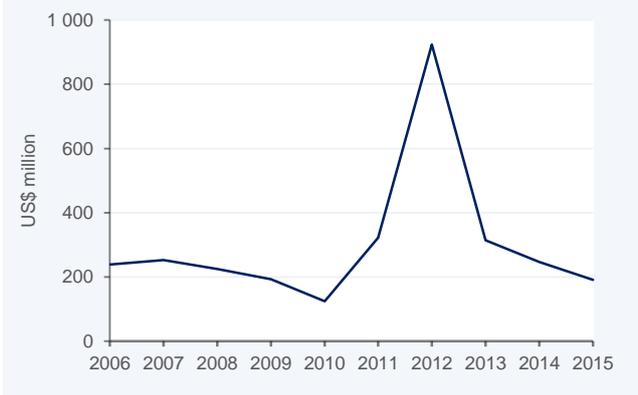
components such as spaceships and satellites. The leading aerospace manufacturers include Boeing, Airbus Group, SpaceX, Lockheed Martin, MacDonalD Dettwiler and Northrop Grumman.

For many years, Ukraine’s industry has been providing parts and components to the aviation and aerospace industries, including engines, radars, avionics and missiles, in particular to Russian enterprises for final installation in finished products. The deterioration of the geopolitical situation in the region has affected the trade of such components, with exports of ‘aircraft, spacecraft, and parts thereof’ (HS 88) amounting to only US\$ 191 million in 2015, or about 0.5% of Ukraine’s exports of goods. Ukraine now has to find a way forward in the world market on its own.

The Ukrainian aerospace industry has considerable potential for future growth, particularly capitalizing on the existing expertise and knowledge in the aircraft industry. A first step towards developing a competitive aeronautics industry in Ukraine indeed consists in strengthening the already existing production of aviation parts and components, develop partnerships with leading international manufacturers and increase the market reach of Ukrainian exports. Only by achieving this and by moving progressively up the value chain, can the country become a major player in the aerospace industry.

Other than the Antonov design bureau and its associated production plants, Ukraine has a number of valuable aerospace industrial assets, including specialized enterprises in the area of radar and electronic warfare technology, competencies in the design, configuration and production of air defence systems as well as the presence of production centres and design houses for the missile industry. Competencies also exist in the field of aero engine design and engine production.

Figure 57: Aircraft, spacecraft, and parts thereof (HS 88) exported by Ukraine, 2006-2015



Source: UN Comtrade

**Machinery**

Although the share of manufacturing sector in GDP declined significantly since the independence of the country, Ukraine remains an important industrial manufacturer by international comparison. Though decreasing, employment in the industrial sector in Ukraine remains significant, accounting for 2.6 million in 2015, or 15.7% of active employed population.

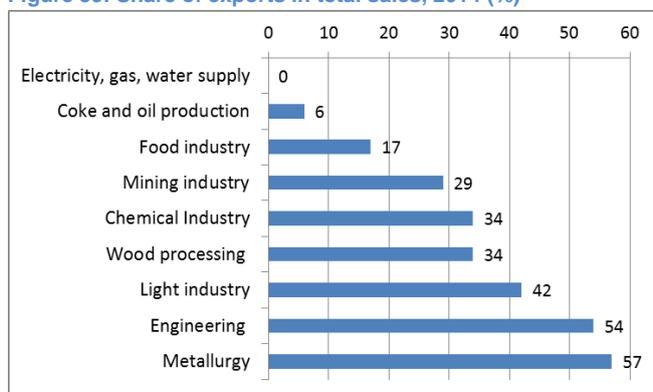
Exports of machinery from Ukraine are dominated by light machinery, including turbo propellers, gas turbines (HS8411) and pumps (HS8413 & 8414). Exports of insulated wires and cables (HS8544) for vehicles, aircraft or ships also account for important share of Ukrainian machinery exports. As shown in Figure 58 below, the fact that 42% of the sales of the light industry sector consisted of export earnings in 2014 indicates the sector is relatively competitive in international markets. The export performance in the heavy machinery industry has, however, been mediocre with exports of vehicles, including railway or tramway locomotives, not exceeding US\$ 400 million in 2015 and consisting mainly of parts and components.

**Figure 58: Manufacturing in Ukraine, value added, 1992-2015 (% of GDP)**



Source: World Development Indicators

**Figure 59: Share of exports in total sales, 2014 (%)**

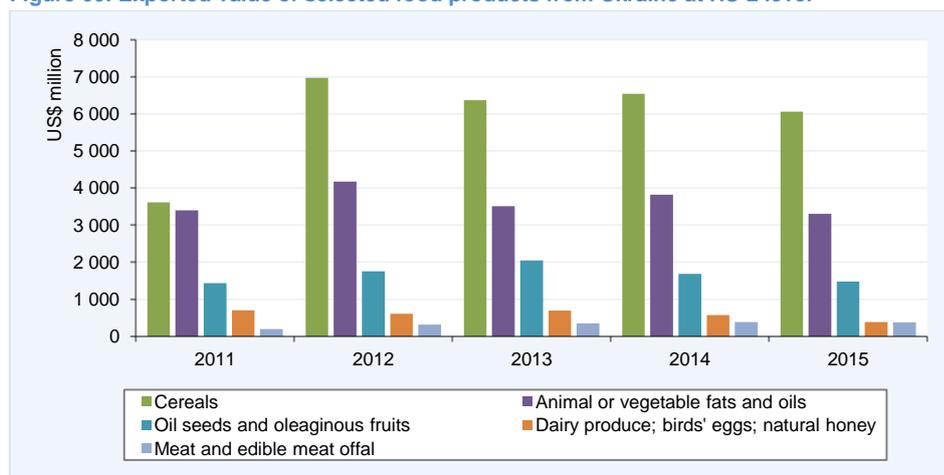


Source: UKR Stat

**Food processing industry**

The food industry including food ingredients, ready-made food and organic products is already one of the most important sectors of the economy of Ukraine, as it has an abundant resource base, human capital, established production and experience in food processing. Taking into consideration market conditions, its development can be carried out only through the introduction of new intensive technologies. However, most of the food products for export are primary products (Figure 59): maize, wheat, barley, fresh fruits and vegetables, and meat. All these products are processed in Ukraine and can be processed even more and exported with higher value added, namely because there is a growing food demand in the world.

Figure 60: Exported value of selected food products from Ukraine at HS-2 level



Source: ITC calculations based on UN Comtrade data, 2016

Ukraine has a big potential in production development and export of food ingredients, ready-made food, and organic products:

**Food ingredients** (fresh-cut and semi-processed products) include any food preparation, preserved food, fresh cut, frozen and prepared vegetables, juice concentrate, paste and any other products that are 'ready-to-eat' or 'ready-to-cook' and can be used either for direct consumption or for processing further. This type of production occupies an important element in the food processing industry. Big companies export their products abroad and have established channels to neighbouring countries, in Europe or Middle East, but a part of the production is also designated for the domestic market.

**Ready-made food** of Ukrainian products is quite large including confectionary, poultry, beverages, sunflower oil, honey, juices, tomato paste, canned vegetables, dairy etc. All these products are exported successfully, and there is still a big potential to discover new markets. For instance, under the DCFTA with the EU, Ukraine has used the annual quota for honey, sugar, barley cereals and flour, processed tomatoes, and grape and apple juices in the first three months of 2016.<sup>84</sup>

**Organic products** can help Ukraine find its niche in the organic growing interest in the world. Favourable climatic conditions and fertile soils can make Ukraine a competitive producer and exporter to Europe and other countries, but there is also a trend for raising demand on the domestic market. At present, in Ukraine the majority of organic producers are small processing productions and farms, and they face a number of issues with distribution and retail supply of their products, notably with certification and quantities.

## The Roadmap

Through the three strategic objectives, the present strategy builds around the key areas where action is required in the form of short-, medium- and long-term measures and recommendations which offer decision makers and stakeholders a sequenced road map to improve Ukraine's export performance and boost its competitiveness. The roadmap presents key measures only, all remaining actions are featured in the Plan of Action.

### Key measures in the short term (1–2 years; priority level 1)

<sup>84</sup> Government portal, 11.04.2016: [http://www.kmu.gov.ua/control/en/publish/article?art\\_id=248953466&cat\\_id=244314975](http://www.kmu.gov.ua/control/en/publish/article?art_id=248953466&cat_id=244314975)

These measures represent either “low-hanging fruit” which can be quick wins or upstream activities that require priority implementation to allow downstream activities to happen. These measures are critical as they will lay the groundwork for rolling out the key measures that will unlock the potential of Ukrainian enterprises to export.

- Establish the International Trade Council as a continuing dialogue platform between private sector associations and public institutions,
- Establish a formal network of key trade support institutions to coordinate trade support activities,
- Establish a single information center for exporters (Exporter First Stop Shop) as an export support and promotion institution for exporters and other international trade participants,
- Establish a single First Stop Export Web Portal linking key TSIs,
- Develop trade information and market intelligence tools and services,
- Develop and promote Ukrainian brand for export products and services,
- Conduct a skills mapping exercise in each of the priority sectors,
- Implement electronic Single Window for all import, export and transit procedures and formalities.

### **Key measures in the medium term (1–3 years; priority level 2)**

The following measures require the implementation of the upstream activities above and would typically take a longer lead time to start implementation. These key activities will produce most of the expected direct and tangible outcomes as a result of the strategy.

- Implement physical (Single Window Offices) at the main border points and crossings. Conduct awareness campaigns in university campuses to promote entrepreneurship and international trade among young people,
- Establish mechanisms to improve efficiency and transparency of customs clearance,
- Ensure access to trade information and transparency in line with WTO Trade Facilitation Agreement,
- Develop capacity-building programmes on business management practices,
- Ensure better skills matching in the economy,
- Promote knowledge-sharing, technology transfer and cooperation for innovation development with partner countries, from the EU,
- Assess options of stimuli and incentives for enterprises active in innovative sectors,
- Promote inter-connection and coordination among the different existing business and sectoral associations.

### **Key measures in the long term (3–5 years; priority level 3)**

The following represent substantial long-term support and investment measures, hence requiring longer preparation and implementation times. These measures are expected to shape export sector structure and competitiveness in the long run.

- Establish incubators and business accelerators focused on export-oriented SMEs,
- Integrate entrepreneurship and international trade courses within the national curriculum of primary, secondary, and education institutions,
- Promote corporate performance management (CPM) among export-oriented enterprises,
- Develop capacity-building programmes on business management practices,
- Reinforce labour market regulation to fight against informal employment and encourage labour mobility,
- Promote usage of innovation, development and integration of practices that reduce the environmental impact of production,
- Develop e-commerce infrastructure to make it easier to export goods in retail via Internet.

## Implementation management framework

The execution and impact of the plan of action is significantly based on the ability of stakeholders to plan these actions so as to generate a multiplying effect in the country. In other words, apparently separate actions need to be synchronized to reinforce each other and create sustainable positive effects for export development and increase the effectiveness of the STDR PoA.

The STDR is not the Roadmap of any specific institution; rather it is the Roadmap of Ukraine, and to ensure its success it is necessary to create the right environment and framework to enable its implementation. The following section presents some of the key success conditions considered fundamental for the STDR to be implemented effectively and achieve self-sustainability and long-lasting benefits for Ukraine.

### *High-level endorsement of the STDR*

Endorsement at the Ministry level is the most important step towards implementation of the STDR. In the absence of such official endorsement, the STDR will not be able to mobilize the national and international support required to structure and enable export development effectively.

### *Establish and operationalize a public and private coordinating platform and its subsidiary organ*

A key success criterion for STDR implementation is stakeholders' ability to coordinate activities, monitor progress and mobilize resources for the implementation of the STDR. It is recommended that the country establishes a platform for public–private deliberations that acts in an advisory capacity to the Government and the private sector over issues related to or affecting STDR implementation.

The formal dialogue platform will require a high level of involvement by members of TISIs (public and private), as their role is crucial and will impact the effectiveness with which the STDR is implemented. Likewise, the ability of the private sector to provide inputs to the STDR implementation process will influence significantly the success of the STDR.

The stakeholders group consulted during the design process is composed of a panel of representatives of key institutions, involving government ministries and institutional members. It also includes private sector representatives from all segments of the industry. As such, once its mandate is adjusted appropriately, this group of stakeholders could be well positioned to serve as the public–private platform responsible for the coordination of STDR implementation. It may be considered to nominate a secretariat that coordinates, monitors and mobilizes resources for implementing the STDR.

The main functions of the public–private platform would be the following:

- i. Act as a consultative group pertaining to the trade and enterprises, in particular SME, development areas, enabling the private sector and government representatives to identify priority issues;
- ii. Coordinate and monitor the implementation of the STDR by the Government, private sector, institutions or international organizations so as to ensure STDR implementation is on track;
- iii. Identify and recommend allocation of resources necessary for the implementation of the STDR;
- iv. Elaborate and recommend revisions and enhancements to the STDR so that it continues to respond best to the needs and long-term interests of the country;
- v. Propose key policy changes to be undertaken, based on STDR priorities, and promote these policy changes among national decision makers;

- vi. Guide the secretariat in its monitoring, coordination, resource mobilization, and policy advocacy and communication functions so as to enable effective implementation of the STDR.

As discussed above, the public–private platform is to be supported by a secretariat to complete the daily operational work related to implementation management of the STDR. The core responsibilities of the secretariat should be to:

- A. Support and organize the regular meetings of the public–private platform
- B. Monitor the progress and impact of STDR implementation
- C. Coordinate STDR implementation partners
- D. Mobilize resources to implement the STDR.

Specific tasks falling under these broad areas of activities include:

- Formulate project proposals, including budgets for implementation of activities of the STDR;
- Develop annual and biannual work plans for approval by the public–private platform;
- Collect information from project implementation and prepare regular monitoring reports to be submitted to the public–private platform;
- Advocate in favour of the STDR to public and private partners;
- Execute any other tasks as required by the public–private platform.

#### ***Planned governance framework In Ukraine***

A specific governance framework is planned to be established by the Ukrainian Government in the course of 2017 through Cabinet of Ministers Resolution prepared by the MEDT. It will be composed of an International Trade Council, an advisory public-private dialogue platform responsible for the implementation of the STDR/NES and trade facilitation and trade policy initiatives. The International Trade Council will be supported by an Executive Secretariat housed within the MEDT.

During the 1<sup>st</sup> and 2<sup>nd</sup> consultation for the preparation of the STDR, the high-level session of Ministries representatives was organized and attended by Vice-Minister of Ukraine, Ministers and Deputy Ministers of main Ministries, Advisors and Head of Prime Minister Office. Aimed at discussing issues and solutions for the Ukrainian economy in the context of reforms, structured around areas affecting Ukrainian trade and export competitiveness, this session laid the foundation of possible formalized dialogue structure between various Ministries and an opportunity for collaboration between them to implement the National Export Strategy and resolve key challenges at the policy level. This platform can serve as a Forum for inter-ministerial coordination of trade-related strategies, plans and initiatives. However, this forum should provide for a consultation channel with the private sector.

#### ***Role of the private sector in STDR implementation***

The private sector should benefit from STDR implementation through improved productive capacities, reduced costs of doing business, facilitated administrative procedures, enhanced access to finance, etc. However, the private sector clearly expressed during the STDR design process its willingness to contribute, directly or in partnership with public institutions, to the implementation of the STDR. Their implementation efforts can range from providing business intelligence to institutions to contributing to development projects, establishing processing and transformation units, advocacy, etc. In brief, the private sector's practical knowledge of business operations is essential to ensuring that the activities of the STDR are implemented and targeted effectively.

### *Sensitization of implementing institutions to build ownership*

The key implementing institutions detailed in the PoA need to be informed of the content of the STDR and the implications for their 2017–2021 programming. This sensitization is essential to building ownership further and it provides institutions with the opportunity to review the PoA to confirm the activities they can implement immediately, in both the medium and long terms. Such a programming approach will permit better resource allocation within the responsible agencies. This allocation can be formalized by integrating the activities of the STDR into the programme planning of the institution. While the financial dimension is often required, the human resource element is no less important.

### *Financial resource mobilization for implementation*

While resource mobilization is only part of the solution, it plays a crucial and indispensable role in supporting STDR implementation. An integrated resource mobilization plan should be elaborated as soon as the document is adopted. Resource mobilization involves planning the sequencing of communications with institutions, project design, project proposals/applications, and resource collection and management. This should facilitate, leverage and strengthen the impact of diverse sources of finance to support sustainable and inclusive implementation, including national resources and private investment.

**National resources through direct budget and support programmes:** The Government will need to validate defined minimum budget support towards the implementation of the different components of the STDR. This support for the STDR's activities will demonstrate the Government's commitment to the initiatives.

**National and foreign private sector investment:** The STDR should benefit from a solid channel of communication, capable of conveying reliable information to companies about export-related opportunities, and in turn of communicating to the Government the needs that investors have identified as necessary to operate successfully. Investment flow in Ukraine could serve as a valuable driver for certain specific areas identified in the STDR and requiring support. Even so, it must be targeted at specific prospects in order to benefit the industry's development as detailed in the way forward section of the present STDR.

## Plan of action

Strategic objective 1: Create an enabling environment that stimulates trade and innovation for diversified exports											
Operational objective	Activities	Priority 1=high 2=med 3=low	Implementation period					Target measures	Leading national institution	Supporting institutions or partners	Funding source
			17	18	19	20	21				
1.1. Strengthen the institutional framework for innovation	1.1.1. Strengthen the existing <b>innovation system</b> involving the different state authorities, the industry, research institutions, policy institutions as well as reinforce the innovation infrastructure via implementation of Strategy of High-tech Industries Development (to be adopted) till 2025.	1	x	x	x			Strategy of High-tech Industries Development till 2025 adopted; Improved inter coordination	Ministry of Economic Development and Trade of Ukraine	Ministry of Education and Science of Ukraine; Other state authorities; Newly created Innovation Development Office	
	1.1.2. Establish incentives and support mechanisms to attract <b>investment in innovation</b> , in particular: <ul style="list-style-type: none"> <li>Analyse the key constraints affecting investment activity and investors' protection, including sufficiency of regulation;</li> <li>Identify potential corrective measures and incentives;</li> <li>Develop legal basis and support implementation.</li> </ul>	1	x	x			Study with recommendations delivered; New regulation and incentive framework enacted	Ministry of Economic Development and Trade of Ukraine Ministry of Finance of Ukraine	Investment Promotion Office (IPO); Newly created Innovation Development Office; Donors		
	1.1.3. Ensure the <b>protection of intellectual property rights</b> and implementation of the Concept of State System Support of Protection of IP rights reform. Develop the mechanism and legislative framework for protecting national interests in the area of intellectual property based on the best practices.  This mechanism might include: <ul style="list-style-type: none"> <li>Incentives to register companies that own IP rights for innovative products and technologies in Ukraine,</li> <li>Penalties for selling exclusive IP rights abroad,</li> <li>Other necessary measures that will stimulate innovative businesses to export products and</li> </ul>	1	x	x			Mechanism and legislative framework developed and enacted in year 2	Ministry of Economic Development and Trade of Ukraine	Newly created Innovation Development Office; Newly created National IP Office		

	services instead of patents.												
	<p>1.1.4. Support the establishment of <b>innovation centres and sector clusters</b> in the regions that can develop and adapt innovative approaches to be applied by export-oriented businesses.</p> <p>These centres/clusters may also:</p> <ul style="list-style-type: none"> <li>• Offer possibilities for start-ups that want to promote/export innovation (assistance with rent, utilities charges etc.);</li> <li>• Create facilities for R&amp;D development (laboratories, technological parks, 3D printing scanning facilities, nanotechnology research facilities etc.);</li> <li>• Promote clustering (namely backward ties with suppliers, subcontractors), and</li> <li>• Elaborate specific programmes to support innovation in specific sectors or products or markets.</li> </ul>	1	x	x	x	x	x			<p>A cluster development plan developed and adopted in year 1; A sectoral innovation cluster pilot project identified and implementation started; One innovation support plan developed adopted in each priority sector in 2 years</p>	<p>Regional Authorities Business Associations</p>	<p>Ministry of Economic Development and Trade of Ukraine; Newly created Innovation Development Office; Business; Ministry of Education and Science; Donors</p>	
	<p>1.1.5. Promote <b>knowledge-sharing, technology transfer and cooperation for innovation development with partner countries</b>, from the EU in particular, through targeted workshops and knowledge sharing activities, (inter)-cluster collaboration, use of Horizon2020, COSME/EEN and European Grid Infrastructure opportunities.</p>	2	x	x	x	x	x			<p>Participate in at least two activities or events a year; One joint Ukraine-EU event organised in Ukraine</p>	<p>Ministry of Economic Development and Trade of Ukraine</p>	<p>Ministry of Education and Science of Ukraine; Newly created Innovation Development Office; Ministry of Foreign Affairs, Other state authorities; National Academy of Science of Ukraine</p>	
	<p>1.1.6. Create info tool and a list of <b>existing R&amp;D programmes</b> and mechanisms in place to promote innovation activities and disseminate information of those programmes among exporters. Those include, among others, programmes and activities under the on-going strategy for development of information society, the national strategy for education development, and others. Respective info tool and list should be updated and maintained on a quarterly basis. They should be linked to the <b>First Stop Export Web Portal</b> (under activity 2.1.3.) and referenced on websites of relevant authorities (MEDT, Ministry of Education and Science).</p>	1	x							<p>R&amp;D Info tool developed and operational; R&amp;D Info tool linked to First Stop Export Web Portal</p>	<p>Ministry of Economic Development and Trade of Ukraine</p>	<p>Ministry of Information Policy of Ukraine; Newly created Innovation Development Office; National Academy of Science of Ukraine</p>	

1.2. Strengthen innovation capacities of enterprises	1.2.1. Assess <b>options of stimuli and incentives for enterprises active in innovative sectors</b> , their impact and develop a comprehensive programme to provide support for enterprises developing modern technologies, installing innovative equipment and active in production and export of innovation-based products and services. The access to the programme should include clear eligibility criteria.	2		x	x			Assessment analyses conducted in year 2; Incentive framework consistent with activity 1.1.3. developed and enacted in year 3	Ministry of Economic Development and Trade of Ukraine	Ministry of Education and Science of Ukraine; Newly created Innovation Development Office; Investment Promotion Office (IPO); National Investment Council (Presidential Administration) Export Promotion
	1.2.2. Develop <b>innovation skills and competencies among enterprises</b> at educational institutions and at the enterprise level in line with Strategy of High-tech Industries Development till 2025, but also additionally: <ul style="list-style-type: none"> <li>Design and introduce innovation management courses in university faculties and business schools;</li> <li>Design and introduce innovation development and coaching schemes to be delivered by support institutions and business associations;</li> <li>Design and introduce an educational course on corporate, trade and IP law, which will cover provisions of domestic legislation and international treaties;</li> <li>Develop and organize regular seminars focused on corporate, trade and IP law for innovative businesses and start-ups;</li> <li>Create database on legislation focused on corporate, trade and IP law.</li> </ul> <p>Conduct awareness campaigns among enterprises regarding participation in and management of innovation projects and international cooperation opportunities, notably in the EU.</p> <p>Explore cooperation opportunities with the existing EU-wide IP portals (e.g. <a href="http://www.tmdn.org">www.tmdn.org</a>, <a href="http://www.innovaccess.eu">www.innovaccess.eu</a>, <a href="http://www.iprhelpdesk.eu">www.iprhelpdesk.eu</a>) for the purposes of education and provision of structured information to Ukrainian entrepreneurs (including SMEs).</p>	1		x	x			Awareness campaign launched in year 2; All activities started in year 2	Ministry of Education; Ministry of Economic Development and Trade; Educational Institutions	Newly created Innovation Development Office; National Academy of Science of Ukraine; UCC; Business and sector associations

	1.2.3. Promote usage of innovation, development and integration of practices that <b>reduce the environmental impact of production.</b>  To be conducted in conjunction with activity 1.2.2.	1	x	x	x	x	x	Awareness campaign including a sustainability component launched	Ministry of Ecology and Natural Resources of Ukraine	Ministry of Economic Development and Trade of Ukraine; Newly created Innovation Development Office	
<b>1.3. Improve business and policy environment for trade</b>	1.3.1. Develop e-commerce infrastructure to make easier export goods in retail via internet.  <ul style="list-style-type: none"> <li>Harmonization of Ukrainian legislation on e-commerce with EU legislation;</li> <li>Harmonization of e-ID and trust services standards with EU;</li> <li>Establish online trade dispute resolution system based on EU approach;</li> <li>Create online trust mark schemes for retail websites.</li> </ul>	1	x	x	x			Harmonization plan established in year 2; Online system operational in year 3; All activities started in year 3	Ministry of Economic Development and Trade of Ukraine	Other state authorities; National Bank of Ukraine; Newly created Innovation Development Office	
	1.3.2. Assess <b>current FTAs use and new FTA development.</b> Launch priority countries research of specific market opportunities.  Develop short- and mid-term Ukraine's plan for participation in the WTO activities such as, inter alia, General Council, DSB, Committees' meetings, Ministerial Conferences, DDA. Review efficiency (indicators) of Ukraine's participation in WTO and determine the directions of further development.	1	x	x				A list of market opportunities established and validated in year 2; WTO participation plan established in year 1 and regularly updated	Ministry of Economic Development and Trade of Ukraine	Other state authorities; Donors	
	1.3.3. Finalize Ukraine's <b>accession to the PEM Regional Convention</b> and prioritize the Pan Euro Mediterranean Member States for more preferential trade relations aimed at using diagonal cumulation options.  Support by providing information on opportunities for usage of diagonal cumulation options and conduct awareness raising campaign for enterprises.	1	x	x				Ukraine's accession to the PEM Regional Convention ratified; Awareness raising campaign for enterprises conducted in year 2	Ministry of Economic Development and Trade of Ukraine	Other state authorities; Donors	
	1.3.4. Assess capability and capacities of trade defence on foreign markets and develop strengthening plan.	1	x	x	x			Capacity building plan developed in year 1; Trade remedies legislation finalised and	Ministry of Economic Development and Trade of Ukraine	Other state authorities; Donors	

	<p>Establish mechanisms to <b>improve efficiency and transparency</b> and other formalities with trade remedies and finalize trade remedies legislation.</p> <p>Develop an International Trade IT-based solution for trade remedies, including procedures of calculation. Different stakeholders and participants should be allowed access to and could exchange information with investigating authority. Provide technical assistance for preparation of data collection and analysis with further integration into International Trade IT-based solution.</p>							<p>enacted in year 2; IT system for remedies operational in year 3</p>			
	<p>1.3.5. Reshape mechanisms to <b>improve efficiency</b> of Joint Intergovernmental Bodies (commissions, working groups, subcommittees) between Ukraine and partner countries. Focus on national interest, business interests and the priority markets.</p> <p>Develop country profiles, including problem issues of Ukrainian enterprises and link them into International Trade IT-based solution. Provide technical assistance for preparation of analytical reports and country profiles.</p>	1	x	x	x			<p>An overall efficiency concept developed and implemented in year 1; Capacity building project on trade analytics started in year 2</p>	<p>Ministry of Economic Development and Trade of Ukraine</p>	<p>Other state authorities; Donors</p>	
	<p>1.3.6. Implement <b>electronic Single Window</b> for all import, export and transit procedures and formalities (extensive definition) linked to a web-based portal (in line with recognized international standards (WCO/WTO/UNECE). In particular,</p> <ul style="list-style-type: none"> <li>Establish an implementation plan;</li> <li>Build capacity of customs and border agencies to operate in a single window environment;</li> <li>Ensure customs administration is equipped with the required IT systems.</li> </ul>	1	x	x	x			<p>Implementation plan established in year 1; Capacity building started in years 2 and 3</p>	<p>Ministry of Economic Development and Trade of Ukraine; Ministry of Finance of Ukraine</p>	<p>Other state authorities; Donors</p>	
	<p>1.3.7. Implement <b>physical (Single Window Offices)</b> at the main border points and crossings (land, ports and airports) that bring together all border agencies and enhance border agency cooperation, possibly jointly with the agencies of the neighbouring country (land). A pilot project for joint border agency cooperation with an EU Member State would be particularly useful. In particular:</p>	1	x	x	x	x		<p>Pilot project identified and confirmed in year 2; Implementation started in year 3</p>	<p>Ministry of Finance of Ukraine; State Fiscal Service of Ukraine</p>	<p>Ministry of Economic Development and Trade of Ukraine; Other state authorities; Donors</p>	

	<ul style="list-style-type: none"> <li>Establish an implementation plan</li> <li>Implement one project as a pilot</li> <li>Scale up progressively according to the plan.</li> </ul>										
	<p>1.3.8. Provide capacity building to support the <b>implementation of the “electronic Single Window”</b></p> <p>Develop “electronic Single Window” on the basis of recently launched electronic system of information exchange at the Ukrainian customs, especially to streamline administrative procedures and reduce regulatory burden faced by exporters.</p>	1	x	x	x				Capacity building programme developed and conducted in years 2 and 3	Ministry of Finance of Ukraine; State Fiscal Service of Ukraine	Ministry of Economic Development and Trade of Ukraine; Other state authorities Donors
	<p>1.3.9. Establish mechanisms to <b>improve efficiency and transparency of customs clearance</b> and other formalities with border control authorities based on Ukraine’s TFA commitments in this area and “doing business” ranking results.</p>	2	x	x	x				Establish an implementation plan to be presented; Select 3 priority commitments from Ukrainian notification to WTO and start implementation in year 2	Ministry of Finance of Ukraine; State Fiscal Service of Ukraine	Ministry of Economic Development and Trade of Ukraine; Other state authorities Donors
	<p>1.3.10. Ensure <b>access to trade information and transparency</b> in line with WTO Trade Facilitation Agreement, notably in one of the three WTO languages.</p>	2	x	x					Electronic Single Window operational; Increased access to trade information	State Fiscal Service of Ukraine	Ministry of Economic Development and Trade of Ukraine; Other state authorities Donors
	<p>1.3.11. Finalize the <b>transport strategy</b> of Ukraine.</p> <p>Provide technical assistance to align transport infrastructure policies better with the freight-intensive needs of the country, in line with recommendations of UNECE.</p>	1	x	x	x				Transport strategy adopted in year 1; Technical assistance project formulated in year 2	Ministry of Infrastructure of Ukraine	Ministry of Economic Development and Trade of Ukraine; UCC; Business and sector associations; Donors
	<p>1.3.12. Taking into account the main cross-border trade flows in and out of Ukraine as well as transportation needs in priority export sectors in this STDR, <b>identify priority infrastructure projects</b> for development or upgrading in the following main areas:</p> <ul style="list-style-type: none"> <li>Transport corridor Silk Route;</li> </ul>	2	x	x	x				Pilot projects identified; A medium-term programme developed	Ministry of Infrastructure of Ukraine	Ministry of Economic Development and Trade of Ukraine; UCC; Business and sector associations; Donors

	<ul style="list-style-type: none"> <li>Inland Water Ways (River Ports);</li> <li>Ukrainian railways;</li> <li>Regional airports.</li> </ul>											
	1.3.13. Establish <b>regular surveys</b> and quarterly joint reviews of the current <b>currency control situation</b> to develop joint plan of liberalization.	1	x	x	x				Quarterly or bi-annual survey conducted each year; Joint plan of liberalization developed and implemented	Ministry of Economic Development and Trade of Ukraine	National Bank of Ukraine Ministry of Finance of Ukraine; Export Promotion Office (newly created ESPI)	
	1.3.14. Improve the <b>statistical capacity</b> of the Ministry of Economic Development and other relevant bodies to collect and analyse relevant company-level data periodically on enterprises' competitiveness as well as analyse trade data. This activity intends to improve the understanding of the strengths and weakness of domestic enterprises and their export readiness as well as strategic trade interests. Policymakers will be able to design their export promotion and enterprises, in particular SMEs, support programmes and services better, and use the results to make evidence-based policy decisions (i.e. select FTA partners, select strategic export markets for export promotion).	2		x	x	x			Reach the level of 2012 on the overall statistical capacity (World Bank) in 2 years	Ministry of Economic Development and Trade of Ukraine	Export Promotion Office (newly created ESPI); Investment Promotion Office	

Strategic objective 2: Develop business and trade support services that improve the competitiveness of enterprises, in particular SMEs												
Operational objective	Activities	Priority 1=high 2=med 3=low	Implementation period					Target measures	Leading national institution	Supporting institutions or partners	Funding source	
			17	18	19	20	21					
2.1. Improve the coordination of the TSIs involved in trade policy and export development	2.1.1. Establish the International Trade Council under the Cabinet of Ministers of Ukraine as a continuing <b>dialogue platform</b> between sector associations and public institutions to discuss and advise on key trade-related policy issues, to convey sector-specific needs and concerns in terms of implementation of the Export	1	x	x				International Trade Council established in and first meeting held in year 1; 3 year work programme adopted	Ministry of Economic Development and Trade of Ukraine	Export Promotion Office (newly created ESPI); Business and sector associations; UCC		

	<p>Strategy.</p> <p>In the frame of this Council, develop mechanisms and tools for targeted consultations and <b>enhanced interaction between government agencies and the business community</b> on issues relating to the development of trade policies, such as trade facilitation, export promotion, market access, trade negotiation etc. Trade Council's mandate will be:</p> <ul style="list-style-type: none"> <li>• To coordinate and monitor the implementation of the National Export Strategy (NES) by the Government and as well as the private sector organizations, providing annual progress report to the Cabinet of Ministers;</li> <li>• To elaborate and recommend alterations to the (NES) to respond best to the changing needs and long-term interests of the national export community;</li> <li>• To identify and recommend resource allocation as necessary for the implementation of the NES;</li> <li>• To assess the effectiveness and lasting impact of the NES.</li> </ul>										
	<p>2.1.2. Based on the results of the TSI survey, establish a formal <b>network of key trade support institutions</b> to coordinate trade support activities, including but not limited to trade information and export promotion, to coordinate service provision better and allow better access to trade information and intelligence for operators.</p> <p>The membership in the network should be conditional upon compliance with clear and transparent criteria.</p> <p>The Network should be structured around:</p> <ul style="list-style-type: none"> <li>• One central entry point (First stop shop);</li> <li>• Affiliated TSIs;</li> <li>• A web portal.</li> </ul> <p>Review regulatory agreement framework to set up an efficient TSI Network.</p> <p>The Network should be formulated by the document,</p>	1	x	x				<p>Formal network of key trade support institutions established in year 1 and MoJ's among participating TSIs sign in year 2</p>	<p>Ministry of Economic Development and Trade of Ukraine</p>	<p>Export Promotion Office (newly created ESPI); Other state authorities; business and sector associations; UCC</p>	

	clearly delineating the roles and responsibilities of each institution - public and private - in order to foster greater coordination among supporting trade and export development service providers.											
	<p>2.1.3. Promote <b>inter-connection and coordination</b> among the different existing business and sector associations through:</p> <ul style="list-style-type: none"> <li>• Organization of joint initiatives and periodic events;</li> <li>• Publication of electronic monthly newsletter on export information and export promotion for exporters to be distributed through TSIs network etc.</li> </ul> <p>Develop a programme aimed at enhancement of sector associations as a voice of business.</p> <p>Help sector associations to coordinate with their counterparts in targeted priority markets.</p> <p>Involve them in internal consultations to enhance understanding and capacity on trade-related negotiation process (WTO, FTAs, etc.).</p>	2	x	x	x				Programme aimed at enhancement of association established in year 2; At least two initiatives/event conducted in year 3	Ministry of Economic Development and Trade of Ukraine	Export Promotion Office (newly created ESPI); Other state authorities; Donors	
	<p>2.1.4. <b>Raise awareness</b> among enterprises and entrepreneurs of the available trade and export support services and their benefits and promote the use of e-government services, including e-procurement, through:</p> <ul style="list-style-type: none"> <li>• Informational campaigns</li> <li>• Training workshops</li> <li>• Newsletters</li> <li>• Events</li> <li>• Sensitization campaigns</li> <li>• Public relations work</li> </ul> <p>Organize awareness-raising and information campaigns on export promotion services, particularly focusing on the regions.</p>	1	x	x	x	x	x	x	First awareness-raising and information campaign conducted in year 2 with follow up activities every year	Ministry of Economic Development and Trade of Ukraine	Export Promotion Office (newly created ESPI); Other state authorities	
	2.1.5 Establish a <b>physical Exporter First Stop Shop</b> as enquiry and information point for traders and exporters in the form of full-scale Export Promotion and Support	1	x	x	x				Physical Exporter First Stop Shop established in year 1; Increased number of	Ministry of Economic Development and Trade of Ukraine	Export Promotion Office (newly created ESPI); UCC; Other state authorities	

	<p>Institution (EPSI). EPSI should be developed based on Export Promotion Office activity.</p> <p><b>Exporter First Stop Shop</b> provides basic information and redirects operators to the relevant TSIs for specific advice. The First Stop Shop should include a hotline and social media applications as a means to communicate with enterprises.</p> <p>The First Stop Shop should maintain the First Stop Export Web Portal.</p>							enquiries			
	<p>2.1.6. Establish a single <b>First Stop Export Web Portal</b> linking key TSIs and referencing their trade-related services and information sources as well as information on the conditions and procedures of access to foreign markets.</p> <p>This can be done based on an existing export domain of MEDT (<a href="http://ukrexport.gov.ua/eng/">http://ukrexport.gov.ua/eng/</a>) that should be restructured or as a brand new portal.</p> <p>The First Stop Export Web Portal is to be hosted by a single coordinating body The web portal should serve as enquiry point (first stop shop) and redirect them to the relevant TSIs. The web portal should be as exhaustive as possible, updated and managed regularly.</p> <p>Elaborate, together with International Financial Institutions/Donors an <b>exhaustive list of existing financial support schemes and programmes</b> to support Ukrainian exports and disseminate information on those instruments, notably through this <i>First Stop Export Web Portal</i>.</p> <p>Conduct awareness-raising campaign of the First Stop Export Web Portal among enterprises and build permanent communication channels with them (to be conducted in conjunction with activity 2.1.4.).</p>	1	x	x				First Stop Export Web Portal operational in year 2; Increased number of enquiries	Ministry of Economic Development and Trade of Ukraine	Export Promotion Office (newly created ESPI); SE "Derzhzovnishinform" Ministry of Foreign Affairs; Other state authorities; International Financial Institutions; Donors	
<b>2.2. Strengthen business and trade support</b>	2.2.1 Provide support to <b>Ukrainian enterprises for participation in international exhibitions</b> and trade	1	x	x	x			Exhibition plan established and regularly updated;	Ministry of Economic Development and Trade of Ukraine	Export Promotion Office (newly created ESPI); Ministry of Foreign Affairs	

services for exporters	fairs with National Stands: <ul style="list-style-type: none"> <li>Define list of priority international and foreign exhibitions for five years;</li> <li>Develop national stand by fully or partly financing by the Government and grants;</li> <li>Awareness-raising campaign for enterprises;</li> <li>Support by providing information and plan of exhibitions, uniform stands;</li> <li>Capacity-building on how to network during the events.</li> </ul>							Increased number of participating companies per year		of Ukraine, UCC; Donors	
	2.2.2. Scale up current initiative to <b>organize trade missions for exporters</b> in key strategic markets for Ukraine to facilitate business contacts and explore opportunities for exports. Provide basic preparation of businesses for such missions. Ensure clear procedure and expected results. Make sure that personnel are highly skilled and work efficiently.  Develop an IT-based solution for all Trade missions organized by different stakeholders. Should be linked to or can be part of single <b>First Stop Export Web Portal</b> .	1	x	x	x	x	x	Trade missions plan accessible on First Stop Export Web Portal	Ministry of Economic Development and Trade of Ukraine	Export Promotion Office (newly created ESPI); Business and sector associations; UCC; Ministry of Foreign Affairs; Donors	
	2.2.3. Promote business linkages through <b>matchmaking programmes</b> for exporters and investors to be organized by business associations or local chambers of commerce, or a central export promotion (EPO (Newly Created Export Promotion/Support Institution)/ investment body (IPO) with the aim of prospecting business opportunities, matching partners and accompanying and advising on the business development process and contractual arrangements. Steps include: <ul style="list-style-type: none"> <li>Launching a pilot programme at one institution;</li> <li>Depending on success replicate and scale up;</li> <li>Communicate on key success factor and pitfalls through workshops and awareness-raising campaigns events.</li> </ul> Develop an IT-based solution for matchmaking organized by different stakeholders. Should be linked to	2		x	x	x		A matchmaking programme for exporters and investors developed in year 2 and started in year 3	Ministry of Economic Development and Trade of Ukraine	Export Promotion Office (newly created ESPI); Ministry of Foreign Affairs; Donors	

	or can be part of single <b>First Stop Export Web Portal</b> .												
	<p>2.2.4. Develop and promote Ukrainian <b>brand for export products and services</b> based on specific quality and eligibility criteria, including national value added, and particular focus on priority sectors.</p> <p>Develop branding plan and international promotion campaign to create positive image of Ukraine.</p>	1	x	x	x	x	x	x		<p>A Ukrainian country brand concept and plan developed or revamped in year 2; International promotion campaign started in year 3</p>	<p>Ministry of Economic Development and Trade of Ukraine</p>	<p>Export Promotion Office (newly created ESPI); Ministry of Foreign Affairs of Ukraine; Donors</p>	
	<p>2.2.5. Support <b>development and dissemination of market intelligence and market access requirements</b> to bring them to a standard level of operations, to ensure quality and effectiveness, including export promotion agencies/institutions, including local administrations' staff at regional state administration's department for economic development and trade Chambers of Commerce in the regions.</p> <p>Consider development and dissemination of market intelligence and market access requirements in cooperation with CBI, SIPPO, UKTI, USCS, ITC and other national and international trade promoting organizations.</p> <p>Should be linked to or can be part of single <b>First Stop Export Web Portal</b></p>	2	x	x	x	x	x	x		<p>Market intelligence disseminated through First Stop Export Web Portal and TSI Network; Key information on strategic export markets available online</p>	<p>Ministry of Economic Development and Trade of Ukraine</p>	<p>Export Promotion Office (newly created ESPI); Ministry of Foreign Affairs of Ukraine; Donors; Local Authorities</p>	
	<p>2.2.6. Create commercial/trade units within diplomatic missions (embassy networks) to provide information and business contacts in foreign markets.</p> <p>Build capacity of <b>trade staff in the foreign representations</b> (embassy networks) to provide information on trade conditions and facilitate business contacts in foreign markets.</p>	1	x	x	x	x	x	x		<p>Capacity building/training conducted as of year 2; Commercial/trade units created and operational in year 3</p>	<p>Ministry of Economic Development and Trade of Ukraine Ministry of Foreign Affairs</p>	<p>Export Promotion Office (newly created ESPI); Donors; Local Authorities</p>	
	<p>2.2.7. <b>Develop trade information and market intelligence tools and services</b> to provide enterprises with business-related information, including:</p> <ul style="list-style-type: none"> <li>Laws and regulations;</li> <li>Quality standards and technical regulations for entering foreign markets;</li> </ul>	1	x	x	x	x	x	x		<p>Trade information and market intelligence tools and services available online on First Stop Shop as of year 2; Capacity building programme conducted as of year 2</p>	<p>Ministry of Economic Development and Trade of Ukraine</p>	<p>Export Promotion Office (newly created ESPI); Donors; Local Authorities</p>	

	<ul style="list-style-type: none"> <li>• Export procedures;</li> <li>• Market opportunities for exports (specialization of foreign countries, their structure of exports/imports);</li> <li>• Market reports on target markets (buyer requirements, distribution channels, customer preferences and trends);</li> <li>• Analysis of competitive ability of UA innovative products &amp; services compared with foreign analogues;</li> <li>• Database of potential foreign partners.</li> </ul> <p>Market entry requirements should be available at First Stop Shop (physical and export portal).</p> <p>Provide technical assistance to ensure access to Trade Databases and build capacity of the MEDT/EPO/Newly Created Export Promotion/Support Institution.</p> <p>Besides, partnerships with foreign trade-promoting agencies and partners should be established and maintained (CBI, UKTI, USCS and others) for regular exchange of information and experience sharing. Attract commercial operators who have export expertise and experience. Develop representative offices of EPO (Newly Created Export Promotion/Support Institution in key markets).</p>										
	<p>2.2.8. Elaborate a <b>database of independent consultants/enterprises</b> that can provide sector specific and targeted market information to exporters. Such database could be created on the basis of the existing EBRD Business Advisory Services program in Ukraine. Make this information publicly available on the web-portal.</p> <p><b>Improve knowledge and skills of business consultants</b>, build a link between them and regional state administrations, and make their services more affordable/accessible for exporters in partnership with an IFI (e.g. EBRD).</p>	2	x	x	x			Database operational as of year 2; Improved access to business consulting services over time	Ministry of Economic Development and Trade of Ukraine	Export Promotion Office (newly created ESPI); EBRD; Donors; Business associations	

	<p>2.2.9. Create an <b>export support and capacity-building programme</b> to provide training, capacity-building, and advisory through sector and business associations, private enterprises and non-profit organizations providing trade support services to foster the emergence of private sector service providers and to fill existing service gaps.</p> <p>This programme is to be structured around:</p> <ul style="list-style-type: none"> <li>• Matching grants and competitive bidding to select providers, and</li> <li>• Monitoring and evaluation mechanism to measure efficiency.</li> </ul> <p>Participation of particular associations should be conditional upon clear evidence of their activism and value added for their members.</p>	1	x	x	x	x	x	x	Export support and capacity-building programme for exporters operational as of year 2 and conducted on at least annual basis	Ministry of Economic Development and Trade of Ukraine	Export Promotion Office (newly created ESPI); EBRD; Donors	
	<p>2.2.10. Implement <b>Strategy of development of technical regulations for the period until 2020</b> approved by Government Order № 44 from 19.08. 2015 <b>and the SPS Harmonization Strategy</b> approved by Government Order № 228 from 24.02.2016.</p>	1	x	x					Both strategies implemented by year 2	Ministry of Economic Development and Trade of Ukraine	Other state authorities UCC Business and sector associations Donors	
	<p>2.2.11. Provide technical assistance to negotiate and conclude <b>mutual recognition agreements</b> of conformity assessment results according to WTO Agreement on TBT and SPS.</p>	1	x	x	x	x	x	x	Training conducted on an annual basis	Ministry of Economic Development and Trade of Ukraine	Other state authorities	
	<p>2.2.12. Establish a system of financial support of Ukrainian enterprises including establishment and launching of <b>public export credit and insurance agency</b>. This activity could be implemented in collaboration with Ministry of Finance of Ukraine, and with the initial support of IFIs. For this also:</p> <ul style="list-style-type: none"> <li>• develop implementation plan;</li> <li>• create export insurance services programme;</li> <li>• create export credit guarantee scheme to guarantee export credits;</li> <li>• develop a mechanism of lending for export-oriented projects.</li> </ul>	1	x	x	x	x			Public export credit and insurance agency established and operational as of year 2; Increased number of agency operations	Ministry of Economic Development and Trade of Ukraine	Ministry of Finance of Ukraine; Donors	

	2.2.13. Promote <b>involvement of investments through non-bank financial institutions</b> , to develop proper legislation and institutional framework for venture fund (in coordination with NBU), to promote the investment of venture capital funds to stimulate innovation start-ups of enterprises.	1	x	x	x					Legal basis developed and enacted in year 2; First venture capital fund established in year 3	Ministry of Economic Development and Trade of Ukraine	Ministry of Finance of Ukraine; Export Promotion Office (newly created ESPI); Newly created Investment Development Office; Donors	
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### Strategic objective 3: Strengthen the skills and competencies that enterprises, in particular SME, require to engage in international trade

Operational objective	Activities	Priority 1=high 2=med 3=low	Implementation period					Target measures	Leading national institution	Supporting institutions or partners	Funding source
			17	18	19	20	21				
3.1. Stimulate entrepreneurial spirit among enterprises, in particular SMEs, and youth	3.1.1. Conduct <b>awareness campaigns</b> in university campuses to promote entrepreneurship and international trade among young people, in particular through: <ul style="list-style-type: none"> <li>Including practical projects in study curriculums at universities and business schools;</li> <li>Organizing entrepreneurship awards in cooperation with the private sector;</li> <li>Linking to and partnering with European and international entrepreneurship networks;</li> <li>Establishing internship programmes in successful enterprises – for students and for young entrepreneurs;</li> <li>Exposing the most promising students to the functioning of the best run companies in the world.</li> </ul>	2		x	x	x	x	Awareness campaign conducted in at least 3 university cities a year	Ministry of Education and Science of Ukraine	Other state authorities; Business and sector associations; Donors	
	3.1.2. Stimulate <b>entrepreneurial mind-set</b> nation-wide. Integrate entrepreneurship and international trade courses within the national curriculum of primary, secondary, and education institutions.  Design specific training programmes, including: <ul style="list-style-type: none"> <li>Creative thinking and activities in primary schools;</li> </ul>	1		x	x	x	x	National educational curricular revised and amended in year 3	Ministry of Education and Science of Ukraine	Other state authorities; Business and sector associations; Donors	

	<ul style="list-style-type: none"> <li>• Business plans preparation;</li> <li>• Starting and conducting a business;</li> <li>• Innovation management;</li> <li>• Leadership marketing and planning finance;</li> <li>• Exporting and running international business.</li> </ul>									
	<p>3.1.3. Establish <b>incubators</b> and business accelerators focused on export-oriented SMEs to drive entrepreneurship. Accompany and train entrepreneurs throughout the life-cycle of their business projects.</p> <p>These incubators and accelerators should be established in large cities and in regions in connection with training institutions (universities, polytechnics and technical schools).</p>	3			x	x	x	Conduct pilot project in one city in year 3; Scale up to other cities in following years	Local Authorities	Ministry of Economic Development and Trade of Ukraine; Business and sector associations; Donors; Export Promotion Office (newly created ESPI); Other state authorities
	<p>3.1.4. Organize nation-wide and regional <b>awareness campaigns to showcase success stories and share experience about entrepreneurship</b> and business development through:</p> <ul style="list-style-type: none"> <li>• promotional events</li> <li>• workshops</li> <li>• media campaigns</li> </ul> <p>Launch TV Show on successful entrepreneurship and export-oriented projects.</p>	2			x	x	x	Awareness campaign conducted in year 3	Local Authorities	Ministry of Economic Development and Trade of Ukraine
<b>3.2. Upgrade managerial skills within existing enterprises, in particular SMEs</b>	<p>3.2.1. Provide incentives to export-oriented <b>enterprises to offer training programmes</b> for their staff, including e-learning programme and to conduct enterprise-level skills upgrading and professional development programmes.</p> <p>Such incentives include:</p> <ul style="list-style-type: none"> <li>• Promoting skills development schemes between employers and employees: workers receive training in exchange for a commitment to stay in the company for a fixed period;</li> <li>• Encouraging enterprises, in particular SMEs, to hold systematic training for employees to introduce new methods of production, latest technologies and global best practices, learning foreign languages, exporting and doing international business.</li> </ul>	1			x	x	x	Incentive framework developed in year 2; Support programme piloted in one priority sector	Business associations; UCC	Universities; Ministry of Economic Development and Trade of Ukraine; Donors Export Promotion Office (newly created ESPI); Other state authorities; Local authorities; Ministry of Social Policy of Ukraine

	<p>3.2.2. Conduct a <b>skills mapping</b> exercise in each of the priority sectors to assess the current level of managerial skills among the different types of enterprises (e.g. small, medium, large).</p> <p>Identify skill gaps with respect to national and international best practices. Develop a <b>skill upgrading programme</b> for enterprises to reduce skills gaps. Sector associations in collaboration with local authorities should establish a joint training programme.</p>	1		x	x	x			Skills mapping completed in all sectors in year 2; Skills upgrading programme conducted as of year 3	Business and sector associations; Business; UCC; Local authorities	Ministry of Economic Development and Trade of Ukraine Ministry of Social Policy of Ukraine Other state authorities Donors EPO (Newly Created ESPI)	
	<p>3.2.3. Extend <b>foreign language</b> education programmes to potential exporters and technical and vocational education and training (TVET).</p> <p>Focus should be placed on languages for business. In particular, those that might be of higher strategic importance for the identified priority sectors (e.g. English, German, French, and Chinese).</p>	1	x	x	x	x	x	x	TVET programmes amended; Improved language skills in strategic languages over time	Business and sector associations; UCC	Ministry of Education of Ukraine; Ministry of Social Policy of Ukraine; NGOs; Donors; Export Promotion Office (newly created ESPI); Ministry of Economic Development and Trade of Ukraine; Local authorities; Educational Institutions; Newly created SME agency	
	<p>3.2.4. Promote <b>corporate performance management (CPM)</b> among export-oriented enterprises. This consists of ensuring effective planning, monitoring, and evaluating corporate results. A CPM programme needs to be sector-specific, aligned with the enterprise's strategic direction, practical, easy-to-use, and needs to provide an overall realistic picture of the enterprise's performance.</p> <p>The promotion of CPM should be done by business and sector associations through information sharing, events and training.</p>	2		x	x	x	x	x	First/pilot CPM established in at least one priority sector in year 3	Business and sector associations; UCC	Ministry of Education of Ukraine; Ministry of Social Policy of Ukraine; NGOs; Donors; Export Promotion Office (newly created ESPI); Ministry of Economic Development and Trade of Ukraine; Local authorities; Educational Institutions; Newly created SME agency	
	3.2.5. Focus on <b>strengthening capacity of female-run</b>	3		x	x	x			Women-run SMEs prioritised in capacity-	Business and sector associations;	Ministry of Education of Ukraine;	

	<p><b>SMEs</b> by promoting equal access to the activities for men and women and ensure equal business opportunities.</p>							building programme under the NES	UCC	Ministry of Social Policy of Ukraine; NGOs; Donors; Export Promotion Office (newly created ESPI); Ministry of Economic Development and Trade of Ukraine; Local authorities; Educational Institutions; Newly created SME agency	
	<p>3.2.6. Develop capacity-building programmes on <b>business management</b> practices, including:</p> <ul style="list-style-type: none"> <li>• Business and financial management</li> <li>• Operation management and sourcing</li> <li>• Quality management</li> <li>• Performance monitoring</li> <li>• Information systems</li> <li>• International marketing</li> <li>• Export strategies.</li> </ul> <p>Through training and advice, the programme should aim at:</p> <ul style="list-style-type: none"> <li>• Supporting enterprises in developing HR policies;</li> <li>• Supporting enterprises in developing management practices;</li> <li>• Building business and export skills of sector-specific enterprises with export potential.</li> </ul>	2		x	x	x	x	At least one programme developed per oblast; Improved business management practice	Business and sector associations; UCC; Local authorities	Ministry of Social Policy of Ukraine NGOs Donors Export Promotion Office (newly created ESPI); Ministry of Economic Development and Trade of Ukraine; Newly created SMEs agency; Educational Institutions	
<p><b>3.3. Align the offering of the education system to the needs of the enterprises, in particular SMEs</b></p>	<p>3.3.1. Reinforce labour market regulation to fight against <b>informal employment</b> and encourage labour mobility, notably through:</p> <ul style="list-style-type: none"> <li>• Conducting a comprehensive study to identify the causes of informal labour in Ukraine, including labour regulations, business environment and administrative procedures, taxation, etc.;</li> <li>• Developing detailed policy measures to encourage formal activities, dissuade informal ones, based on international best practice;</li> <li>• Update the Labour Code accordingly.</li> </ul>	1		x	x	x	x	Policy measures, including Labour Code, enacted in year 3	Ministry of Social Policy of Ukraine	Ministry of Finance of Ukraine; Ministry of Economic Development and Trade of Ukraine; Business and sector associations; UCC	

	<p>3.3.2. Ensure better <b>skills matching</b> in the economy through the following steps:</p> <ul style="list-style-type: none"> <li>Organize a round table gathering of industry and academia representatives to consolidate industry - academia linkages,</li> <li>Formalize a dialogue between the private sector and training institutes (universities, institutes, vocational training schools etc.) by establishing a working group.</li> <li>Translate solicited industry needs into academic offerings and develop dedicated curriculums comprising initial training and continuing vocational education and training,</li> <li>Revise vocational training school curriculums and programmes to make sure the alignment with industry needs.</li> </ul>	1	x	x	x				A public-private dialogue on skills development established in year 2; Education and training curricula revised based on skills mapping by year 3	Ministry of Education of Ukraine; Ministry of Social Policy of Ukraine	Ministry of Economic Development and Trade of Ukraine; Business and sector associations; UCC; Educational Institutions; Donors; Academia	
	<p>3.3.3. Analyse reasons for low labour mobility and develop policies to stimulate labour mobility based on results of the study.</p> <p>Develop a <b>nation-wide database of employment opportunities</b> across Ukraine to improve <b>labour mobility of men and women</b>. Targeted information tools to provide workers with reliable market information on labour opportunities and relocation options in other regions. This activity could include the following steps:</p> <ul style="list-style-type: none"> <li>Assess the existing information provided by labour market institutions and employment centres, as well as private sector about the employment conditions in the different regions;</li> <li>Link this information to a central information portal on labour and employment both in private and public sector.</li> </ul>	2		x	x	x	x	x	Study and recommendations completed in year 2; Database of employment opportunities in priority sectors online in year 3, other sectors in year 4	Ministry of Social Policy of Ukraine	Business and sector associations; UCC; NGOs; Donors	
	<p>3.3.4. Introduce a <b>nation-wide system of professional retraining</b> to redirect female and male workers to priority sectors and build the required skills in these areas. Such scheme should be based on international best practice (ILO) and should include in particular:</p> <ul style="list-style-type: none"> <li>Providing information about training and</li> </ul>	3			x	x	x		System of professional retraining at least in two priority sectors in place by year 3	Ministry of Social Policy of Ukraine	Ministry of Economic Development and Trade of Ukraine; Ministry of Education of Ukraine; Business and sector associations; UCC;	

	<p>education opportunities, notably retraining;</p> <ul style="list-style-type: none"> <li>• Creating incentives for retraining;</li> <li>• Introduce retraining schemes for job-seekers at the national level and in the regions.</li> </ul>									<p>Donors; Academia</p>	
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## Annexes

## Annex 1: Trade-related development plans and initiatives

Sector / area	Title of document	Responsible ministry or institution	Period or year	Status of document
<b>Cross-sectoral</b>	Presidential strategy for sustainable development «Ukraine - 2020»	Cabinet of Ministers	2015-2020	Adopted
<b>Cross-sectoral</b>	Parliamentary coalition agreement «European Ukraine»	Parliament (coalition)	2014-2020	Adopted
<b>Cross-sectoral</b>	Plan of legal support of reforms in Ukraine	Parliament	2016-2017	Adopted
<b>Cross-sectoral</b>	Plan of Action of the CMU	Cabinet of Ministers	2017-2020	Draft
<b>European Integration / implementation of AA</b>	Resolution of CMU No. 847-p "On the implementation of the Ukraine-EU Association Agreement"	Cabinet of Ministers	2014-2019	Adopted
<b>SME</b>	SME Development Strategy (2017-2020)	MEDT	2017-2020	Draft
<b>Regional Development</b>	State Strategy of Regional Development until 2020	Ministry of Regional Development	2014-2020	Adopted
<b>Agriculture</b>	State Target Programme of The Agricultural Sector Development until 2020	Ministry of Agrarian Policy and Food	2020	Draft
<b>Agriculture</b>	Comprehensive strategy for the implementation of Chapter IV "Sanitary and Phytosanitary Measures" of the Title IV "Trade and trade related matters" of Ukraine-EU Association Agreement	Ministry of Agrarian Policy and Food	2016-2019	Draft
<b>Technical Barriers to Trade</b>	Strategy for the development of technical regulation system until 2020	MEDT	2015-2020	Adopted
<b>Intellectual Property Rights</b>	Concept for reforming the state system of IPR in Ukraine and Action plan	MEDT, Department for Innovation and IP	2016-2017	Adopted
<b>High-Tech</b>	Strategy of high-tech industries development until 2025 and Plan of action until 2020 for Strategy of high-tech industries development	MEDT	2025	Draft
<b>Tourism</b>	Strategy of the Tourism and Resorts Development until 2026	MEDT, Tourism and Resorts Department	2026	Draft
<b>Export</b>	Law No.- 1792- VIII «On ensuring wide-scale expansion of export of goods (works, services) of Ukrainian origin through insurance, guarantees and decreasing costs of export credits»	Cabinet of Ministers	2016	Adopted
<b>Transport</b>	Transport Strategy of Ukraine until 2030	MEDT, Ministry of Infrastructure	2030	Draft
<b>Education</b>	National strategy for education development until 2021	Ministry of Education and Science	2021	Adopted
<b>IT</b>	Information society development strategy	Cabinet of Ministers	2020	Adopted

## Annex 2: Categorized list of TSI and The TSN service delivery analysis

### TSN structure

The TSIs representing the Ukrainian trade support network are broken down into four categories.

#### 1. Policy Support Institutions

##### 1.1 Central executive bodies

###### 1.1.1 Ministry of Economic Development and Trade

- Export Promotion Office
- Trade Defence Department of the MED&T of Ukraine
- Technical Regulation Department of the Ministry of Economic Development and Trade of Ukraine
- Seven additional entries from various MEDT departments

###### 1.1.2 Other central executive bodies, state commissions

- Ministry of Education and Science of Ukraine
- Ministry of Agrarian Policy and Food of Ukraine
- Ministry of Foreign Affairs of Ukraine
- State Fiscal Service of Ukraine (SFS) – two entries
- State Service of Export Control of Ukraine
- National Bank of Ukraine
- State Statistics Service of Ukraine
- National Commission for the State Regulation of Communications and Informatization (NCSRCI)

###### 1.1.3 Regional administrations and/or its departments

- Kyiv Region State Administration
- Ivano-Frankivsk Department for International Cooperation, European Integration and Touristic Infrastructure Development
- Zaporizhzhya Regional State Administration
- Economic Development and Trade Department of Sumy Oblast State Administration
- Department of economic development and regional policy of the Mykolayiv Regional State Administration
- External Relations, Foreign Economic and Investment Activity Department of Luhansk Oblast State Administration
- Lviv City Council - Lviv Investment Office
- Regional Development Department of Cherkasy Oblast State Administration
- Department of International Cooperation and European Integration, Rivne Regional State Administration
- Department of Foreign Economic Relations, Investments and CBC of Zakarpatska Regional State Administration
- Department of International Cooperation of Vinnytsia Regional State Administration
- Department of Economic Development, Trade and International Cooperation of Zhytomyr Regional State Administration
- Department of Economic Development and Trade of Zakarpatska Regional State Administration
- Chernivtsi Regional State Administration
- Lviv Regional State Administration
- Department of Investment and Innovation Development and Foreign Relations of Donetsk Regional State Administration
- Department of Rural Development, Implementation of Reforms and Agriculture of Donetsk Regional State Administration
- Department of Basic Industries Development of Donetsk Regional State Administration
- Department of International Cooperation and Fundraising of Ternopil Regional State Administration
- Department of Economic Development and Trade of Kherson Regional State Administration
- Poltava Regional State Administration

###### 1.1.4 Others

- SE "Derzhzovnishinform"
- Institute for Economics and Forecasting of National Academy of Sciences of Ukraine
- Council of Entrepreneurs under the Cabinet Ministers of Ukraine
- Export Promotion Unit

#### 2. Trade Services group included

##### 2.1 Business Associations

- Association of Industrial Automation of Ukraine (APPAU)
- UkrLeatherShoesIndustry League
- UKRMETALURGYPROM Association of Enterprises
- Ukrainian Food Export Board
- Association of Cement Producers of Ukraine "Ukrcement"
- Chinese Commerce Association
- European Business Association
- Canada-Ukraine Chamber of Commerce
- Ukrainian Agrarian Confederation
- Ukrainian Association of Furniture Manufacturers

- Federation of Employers of Ukraine
- Federation of Employers of Ukrainian Tourism Sector (FEUTS), Civil Society Platform Ukraine-EU (Working Group Three "Economic cooperation, free trade and cross-border cooperation")

## 2.2 Chambers of Commerce

- Ukrainian Chamber of Commerce and Industry
- Donetsk Chamber of Commerce and Industry
- Ternopil Chamber of Commerce and Industry
- Ukrainian National Committee of the International Chamber of Commerce

## 2.3 Others

- Ukrainian Corporation on Wine Growing and Wine Industry "Ukrwineprom"
- National Association of Dairy of Ukraine "Ukrmolprom"
- NGO Business Community Club
- Ukrainian public organization "Union of protection business"
- Kharkivska region public organization "Association of Private Employers"

## 3. Business services group included

### 3.1 Business Service Providers Associations

- UKRZOVNISHTRANS Association
- Ukrainian Bakers Association
- Independent Association of Banks of Ukraine (NABU)
- Association of International Freight Forwarders of Ukraine (AIFFU)

### 3.2 Law firm

- Sergii Koziakov & Partners Law Firm

### 3.3 State enterprises:

- State enterprise "Ukrainian Sea Ports Authority"
- SFTC Ukrinterenergo
- State Enterprise "Ukrainian Industry Expertise"

## 4. Civil society group included

### 4.1 Technical assistance projects

- Better Regulation Delivery Office
- USAID Trade Policy Project

### 4.2 Technical assistance providers

- Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH
- Swiss Cooperation Office in Ukraine

### 4.3 Research institutions

- Institute for Economic Research and Policy Consulting
- Kyiv Economics Institute at Kyiv School of Economics
- Investment & Trade Facilitation Centre

### 4.4 Business Associations that include exporters

- Ukrainian Federation of Metallurgists
- "Ukrainian Chemists Union"

### 4.5 Others

- Business Ombudsman Council

## TSI survey participants' distribution per category, national reach and formalized mandate

	Share, %	National Reach (vs Local Reach), %	Mandate formalized through statute
Policy Support Institutions	53%	57%	95%
Trade Services Institutions	25%	86%	95%

<b>Business Services Institutions</b>	<b>10%</b>	<b>100%</b>	<b>100%</b>
<b>Civil Society Institutions</b>	<b>12%</b>	<b>100%</b>	<b>100%</b>

#### TSN service delivery analysis

#### **TSN services related to: “Building the supply capacities of exporters”**

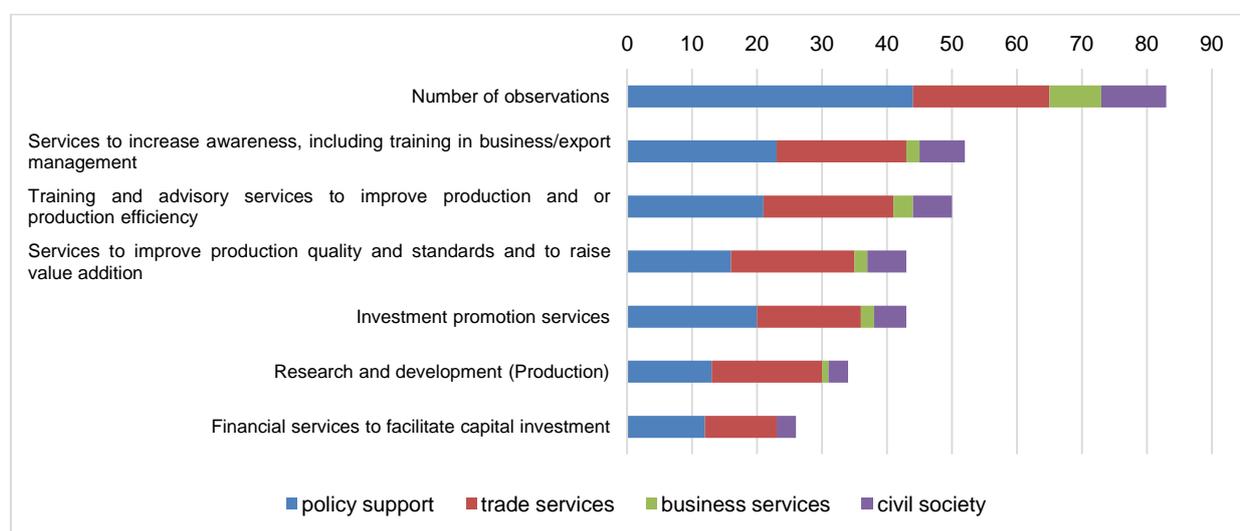
The survey results show that almost all TSIs polled provide services related to *building supply capacities of exporters*. With an average of 36 TSIs, this category is the largest in terms of actual number of TSIs providing such services, followed by the *enabling market entry* category. This denotes a high concentration of TSIs in this category. Furthermore, this category is clearly dominated by two types TSI: policy support institutions and trade services institutions.

Within this group the provision of the services related to *increasing awareness, including training in business/export management* and to *training and advisory services* are those provided by the largest number of polled TSIs, 52 and 50 respectively.

*Policy support* and *Trade services* providers are the most active in this category which may suggest a degree of overlap in the functions they perform. This may be particularly pronounced across *training and advisory services*, that are normally attributable to *trade* and *business service* providers rather than to *policy support* institutions.

This finding also points to apparent low degree of differentiation of services provided or an unclear division of labour among TSIs. It is important to note the low level of representation of *business service* providers in all services under this category, which suggests the need to increase efforts to develop and strengthen further the capacities in the business services segment for exporters.

Table: TSN services related to “Building the supply capacities of exporters”



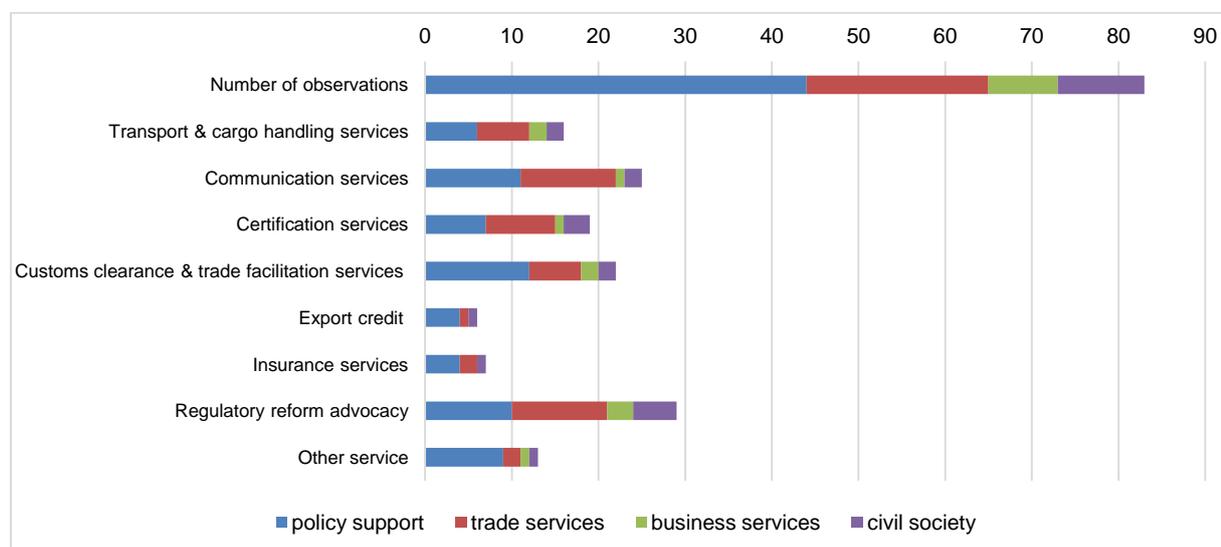
Source: Trade Support Network survey conducted in Ukraine by ITC in 2016

#### **TSN services related to: “Enhancing the quality of the business environment”**

*Enhancing the quality of business environment* appears to be the least developed category of services delivered by Ukrainian institutions with the average number of 17.1 institutions per type of services involved. *Regulatory reform advocacy* involves the largest number of TSIs (29) within this service category. With all categories of TSIs present, there is a likely overlap of services of this type. If key services contributing to a conducive business environment, such as transport and cargo handling services,

communication, certification, customs clearance and trade facilitation services, are covered, the number of service providers is significantly lower than in the supply capacity and enabling market entry categories.

Table: TSN services related to “Enhancing the quality of the business environment”



Source: Trade Support Network survey conducted in Ukraine by ITC in 2016

The survey results reveal a significant gap in services availability in the two categories related to financial services (*export credit* and *insurance services*), where only a handful of polled TSIs are active. Similar to the situation in the previous service category (*building supply capacities of exporters*), these results appear to corroborate low access to finance exporting enterprises. Noteworthy also is the absence of business services providers in this type of services. Indeed, the issue of export credit and insurance services development for exporters has been long debated in Ukraine with initiatives to develop public instruments, such as export credit and guarantee schemes as well as export insurance. However, progress so far has been modest, leaving Ukrainian exporters at a major disadvantage as compared with competitors. A special effort should be made to develop capacities of TSIs in this category of services.

#### **TSN services related to: “Enabling market entry”**

*Enabling market entry* is the second group of services rendered (after *Building the supply capacities of exporters*) where service provision rate is relatively high. Policy support and trade services institutions, which dominate the survey sample, dominate here as well.

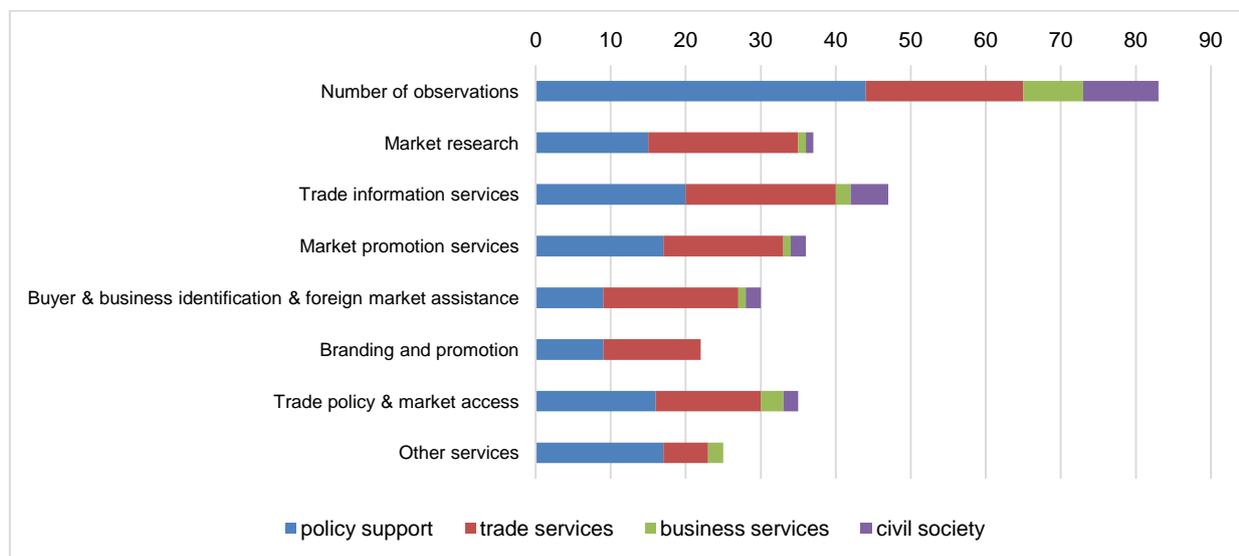
Among the unexpected results within this group is again the business services providers. They reported being least involved in the services on *Market research, Market promotion, Buyer & business identification and foreign market assistance* and *Branding and promotion*, which should normally be of interest to this type of service providers. This repeatedly suggests the need in developing the business service providers segment in Ukraine – particularly for these types of activities.<sup>85</sup> Contrasting with concerns expressed by exporters as to the lack of trade information and promotion services, it is noteworthy that a high number of TSIs report providing such services, with an average of 34.

The issue appears then to be with the dissemination and access to those services by exporters. Therefore, there is the need to build capacities of TSIs to disseminate their services better, to connect to clients and to build service and information networks for increased transparency and access to reliable information.

<sup>85</sup> From methodological point of view, however, the fact that private consulting companies were not included into the survey, may partly explain the lack of services provided by this category of TSI in the final results.

Similarly as for the *building supply capacities of exporter*, this service category is also dominated by policy institutions and trade services institutions.

Table: TSN services related to “Enabling market entry”

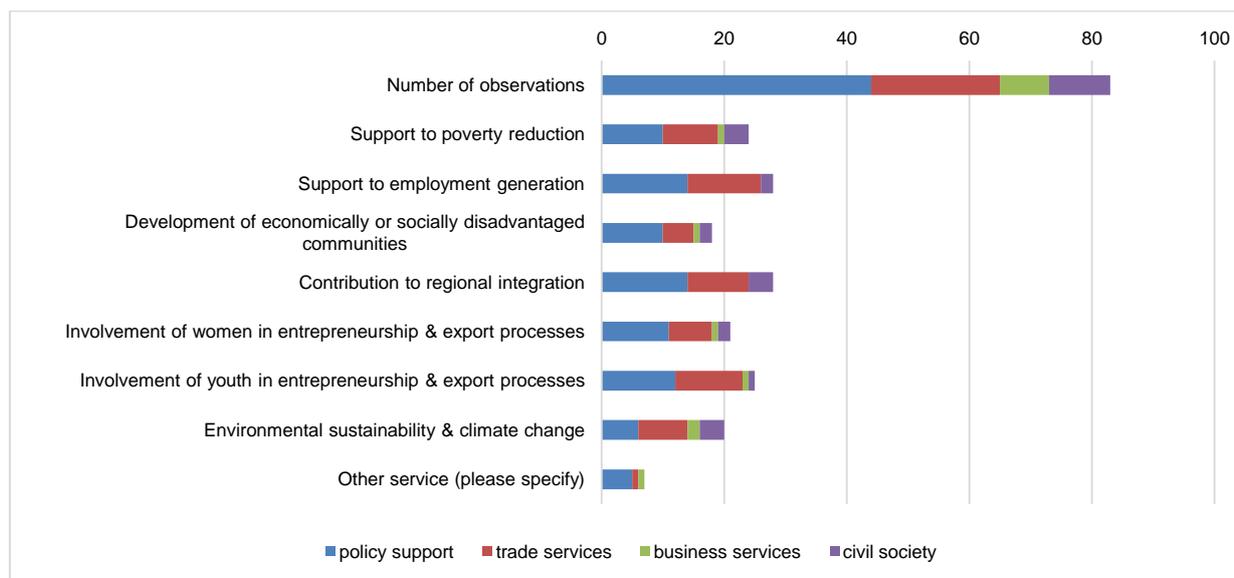


Source: Trade Support Network survey conducted in Ukraine by ITC in 2016

**TSN services related to: “Promoting development”**

*Promoting development* group of services is the third by the level of density of the services provided by TSIs (average 21.3 services per institution) which suggests low priority given by TSN to the aspect of *development promotion*. The least rendered services within the group (except “Other”) are *development of disadvantaged communities* (22%) and *involvement of women in entrepreneurship & export processes* (25%). The relative top scores within the group received *contribution to regional integration* (34%) and *support to employment generation* (25%).

Table: TSN services related to “Promoting development”



Source: Trade Support Network survey conducted in Ukraine by ITC in 2016

The responses suggest that *Business services* providers are not involved in support of *employment generation* and *contribution to regional integration*, which might be justified in view of their business orientation. On the other hand, the increase in the overall level of development services provision should probably be led by the State via policy support institutions or civil society organizations. They are best placed to start this change – also via proposal of development-minded trade policies.

## Annex 3: Countries with which Ukraine is currently trading below potential

Rank	Year 2015		USD
	Country		
1	USA	United States	1,935,971,968
2	DEU	Germany	1,150,496,128
3	GBR	United Kingdom	1,009,080,704
4	FRA	France	759,456,320
5	JPN	Japan	459,574,272
6	CHN	China	190,861,568
7	SWE	Sweden	120,487,504
8	CHE	Switzerland	76,122,616
9	CAN	Canada	46,610,696
10	IRL	Ireland	28,484,412
11	FIN	Finland	26,515,256
12	IRQ	Iraq	24,224,344
13	BGD	Bangladesh	15,869,783
14	VEN	Venezuela	11,751,507
15	UZB	Uzbekistan	10,046,070
16	SDN	Sudan	7,925,027
17	TKM	Turkmenistan	5,183,771
18	AGO	Angola	5,143,504
19	MKD	Macedonia	5,037,372
20	AUS	Australia	4,483,892
21	CHL	Chile	4,116,047
22	LKA	Sri Lanka	2,875,906
23	MMR	Myanmar	2,324,440
24	CMR	Cameroon	1,795,870
25	DOM	Dominican Republic	1,751,153
26	HKG	Hong Kong, China	1,516,740
27	GNQ	Equatorial Guinea	888,320
28	MAC	Macao	828,075
29	TJK	Tajikistan	793,386
30	GAB	Gabon	703,432
31	URY	Uruguay	702,399
32	PAN	Panama	699,558
33	KHM	Cambodia	559,879
34	TCD	Chad	484,815
35	ZAR	Democratic Rep Congo	481,036
36	BOL	Bolivia	421,932
37	HND	Honduras	401,892
38	ZMB	Zambia	365,419
39	JAM	Jamaica	293,410
40	LAO	Laos	289,835
41	TTO	Trinidad and Tobago	289,515
42	MNG	Mongolia	282,199
43	RWA	Rwanda	258,798
44	NAM	Namibia	241,495
45	GIN	Guinea	196,897

46	CRI	Costa Rica	153,918
47	PNG	Papua New Guinea	149,545
48	MRT	Mauritania	122,887
49	HTI	Haiti	110,821
50	BHS	Bahamas	108,166
51	SWZ	Swaziland	69,451
52	BTN	Bhutan	64,322
53	SLE	Sierra Leone	62,020
54	ERI	Eritrea	55,679
55	CAF	Central African Republic	50,817
56	SLV	El Salvador	38,072
57	BDI	Burundi	28,433
58	LSO	Lesotho	25,034
59	SYC	Seychelles	24,062
60	CPV	Cape Verde	19,649
61	GNB	Guinea Bissau	16,874
62	LBR	Liberia	13,453
63	LCA	St. Lucia	12,648
64	ATG	Antigua and Barbuda	9,263
65	GRD	Grenada	5,861
66	KNA	Saint Kits & Nevis	4,798
67	COM	Comoros	4,780
68	SLB	Solomon Islands	4,742
69	TMP	East Timor	3,586
70	VUT	Vanuatu	2,867
71	WSM	Samoa	1,804
72	STP	Sao Tome & Principe	1,653
73	FSM	Micronesia States	910
74	PLW	Palau	848
75	KIR	Kiribati	414
<b>Total all countries</b>			<b>5,918,056,535</b>

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