

**Improving local capacity to promote and sustain entrepreneurship and SMEs development in Chernobyl affected territories by transferring best practices and experience of using smart instruments for boosting business**



**Project Final Report 2015**

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**Kyiv 2015**

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## Annotation

Reporting Period	January – December 2015 (12 months)
Donor	The Government of the Republic of Poland (through the Ministry of Foreign Affairs of the Republic of Poland)
Country	Ukraine
Project Title	Improving local capacity to promote and sustain entrepreneurship and SMEs development in Chernobyl affected territories by transferring best practices and experience of using smart instruments for boosting business
Project ID (Atlas):	00084268
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Implementing Partner(s)	United Nations Development Programme in Ukraine (Responsible party) State Regulatory Service of Ukraine (reorganized State Service for Regulatory Policy and Entrepreneurship Development of Ukraine (National Implementing Partner)
Project Start Date	October 2014
Project End Date	31 December 2015
Total project budget	99,978.00 USD
UNDP Contact Person	Ms. Katerina Rybalchenko, Senior Programme Manager, UNDP Ukraine, katerina.rybalchenko@undp.org
Report prepared by	Ms. Natalia Olshanska, Project Advisor, nataliaolshanska@gmail.com

## Purpose of the Report

This report represents a **Final Substantive Report (narrative)** summarizing activities, impact and lessons learned of the project “Improving local capacity to promote and sustain entrepreneurship and SMEs development in Chernobyl affected territories by transferring best practices and experience of using smart instruments for boosting business” funded by the Government of the Republic of Poland under the Third-party cost-sharing agreement signed between the Ministry of Foreign Affairs of the Republic of Poland (The Donor) and the United Nations Development Programme (UNDP in Ukraine) on 02 October 2014.

This report is prepared in line with UNDP Donor Reporting Guideline and structured using the donor reporting template applicable to projects that receive non-core resource contributions through third party cost sharing agreements.

In line with UNDP Donor Reporting Guideline, a **final financial report** (project financial data) will be submitted to the Donor within six months after the date of completion of the agreement by 30 June 2016.

## **Acronyms**

ACSM	Advocacy, Communication and Social Mobilization
ATLAS	Corporate business platform of UNDP
AWP	Annual Work Plan
BIP	Business Information Point
CO	Country Office
NGO	Non-Governmental Organization
SMEs	Small and Medium Enterprises
tbd	to be determined
PARP	Polish Agency for Enterprise Development
PIU	Project Implementation Unit
UN	United Nations
UNDP	United Nations Development Programme
USD	United States Dollars

## **I. Executive summary**

Stimulating growth of local small businesses is an important part of Ukraine's socio-economic development agenda, as well as post-Chernobyl recovery of the affected regions of Ukrainian Polissya.

The "Improving local capacity to promote entrepreneurship and SMEs development in Chernobyl affected territories by transferring best practices and experience of using smart instruments for boosting business" small-scale project was targeted at strengthening the local business support in three Chernobyl affected municipalities of Zhytomyr oblast through set up and building capacities of information and consultancy points for local entrepreneurs, skills development and advocacy.

The project, funded by the Government of the Republic of Poland and implemented by UNDP in Ukraine in collaboration with the Polish Agency for Enterprise Development during 15 month (2014-2015), managed to produce important results and compiled a valuable set of recommendations for implementation and replication of similar initiatives in Ukraine.

By the end of 2015 the information network of one Entrepreneurship Support Centre and two Entrepreneurship Support Points was well established and promoted, other business support infrastructure in the targeted municipalities supported, a cluster initiative among construction materials manufacturers initiated, media campaigns held and Chernobyl affected regions (municipalities) promoted as examples of successful local business support cases.

The project would like to point out the great and fruitful cooperation with the Donor Representatives (specialists and director of the Department of international cooperation of the Ministry of Foreign Affairs of the Republic of Poland), the PARP experts, representatives of the Polish Embassy to Kyiv, State Regulatory Service of Ukraine, the Ministry of Economic Development and Trade of Ukraine, targeted local authorities and specialists, as well as other counterparts.

## II. Background

### 2.1. Project genesis

The project idea has grown from the experts' observations and findings made during the implementation of UNDP project "Mainstreaming environment in the local strategies in Chernobyl-affected areas of Ukraine" that was funded by the Government of the Republic of Poland and implemented during 2012-2013 in 3 rayons of Ukrainian Polissya, incl. Korosten'.

Following the site visit to Korosten' (the biggest town affected by Chernobyl accident) in April 2013, the project concept to support entrepreneurship and SMEs growth in Chernobyl affected areas by transferring best Polish experience was developed by UNDP Ukraine team in collaboration with PARP experts.<sup>1</sup>

In summer 2014 the concept was approved by the Polish Ministry of Foreign Affairs for funding split between two complementary projects implemented by PARP and UNDP in Ukraine.

The projects were tailored to maximize the output from the planned activities and effectively utilize the organizations' expertise available. Broadly, PARP provided expert support and Polish experience transfer, and UNDP secured national advice, local capacity building and technical support.

PARP and UNDP-led projects were managed independently under interorganizational rules and procedures, excluded overlap in the use of project resources and followed the internal reporting requirements.

This report mostly covers the UNDP-led project activities with references to joint events and results obtained in collaboration with PARP during 2015 as well as project outputs and lessons learned relating to the project implementation in 2014-2015.

### 2.2. Project strategy

#### Project scope

Creating an enabling environment and effective support for SMEs is not easy, particularly in the specific circumstances of Ukraine's political situation and the current economic conditions. Moreover, effective policy targeted at SMEs support shall be primarily developed, adopted and enforced *at the national level*, ensuring a conducive regulatory environment, supporting networks and availability of suitable business finance.

Further, the local governments – in partnership with other stakeholders – can and should play a crucial role in shaping the local business environment in which SMEs and entrepreneurship can flourish, providing appropriate business information, supporting skills development, diverse business services and infrastructure.

The project was *targeted at improving the local business climate* of 3 municipalities and rayons in Zhytomyr oblast (Korosten', Ovruch, Luhyny) affected by Chernobyl catastrophe

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<sup>1</sup> The Polish Agency for Enterprise Development is a government agency subordinated to the Minister of Economy of Poland. PARP was established with the task to implement entrepreneurship support instruments, with particular consideration given to needs of small and medium-sized enterprises (SMEs).



and other factors quite common for small municipalities as well as relatively fair developed rural regions of Ukraine.

Consequently, the project was to influence the local level policy and practice related to SMEs and entrepreneurship support, including:

- 1) Maintaining proper public-private dialogue;
- 2) Skills development and training support for young/new entrepreneurs;
- 3) Informational support of entrepreneurship;
- 4) Development of business support infrastructure.

## Project objectives

In line with the defined needs, the project aimed to stimulate the creation of SMEs in Chernobyl affected areas by strengthening the local business support through provision of comprehensive information services, knowledge transfer and skills development.

**The specific objectives of the project included:**

- ✓ **Help improving the local business environment for SMEs:**
  - Building positive cooperative relations between local administration (authorities) and entrepreneurs.
  - Developing business support infrastructure.
  - Enhancing business support services for local entrepreneurs.
- ✓ **Support diversification of the local economic activity:**
  - Identifying business sectors that can be beneficial for the region.
  - Promoting prioritized business sectors at the local level.
  - Catalyze local cluster development
- ✓ **Promote entrepreneurial spirit** through targeted small business-oriented advocacy.

The approved project strategy was translated into three primarily activities:

**ACTIVITY 1:** Streamlining access to business support information for local SMEs and micro enterprises through local information points.

### Planned actions/activities for 2015:

1. Improve technical capacity of information points.
2. Strengthen capacity of existing information points for provision of business consultancy services.
3. Create local information points' network.

**ACTIVITY 2:** Stimulating cluster initiatives in Chernobyl affected areas.

### Planned actions/activities for 2015:

1. Provide support to the inception stage of cluster's development.
2. Promote cluster cooperation between Ukraine and Poland.

**ACTIVITY 3:** Establishment of SMEs-oriented multi-sectoral platform for stakeholders' consultations and advocacy campaigning including.

### Planned actions/activities for 2015:

1. Develop region-specific advocacy target after consultations with local stakeholders (driven by small enterprises and local governments)

2. Organize an advocacy campaign and open public discourse on local small businesses' achievements and challenges.
3. Produce recommendations on improving local capacities to promote SMEs development

### Quick overview of the project activities and results in 2014:

During 3 months of implementation in 2014 the project in close cooperation with the Polish experts has completed the following important **activities**:

- ✓ Local needs, gaps and barriers for SMEs and entrepreneurship development were studied and analyzed;
- ✓ The concept of Business Information Points organization, based on the local capacities and needs, was developed and presented to the stakeholders from 3 targeted municipalities;
- ✓ Polish experience in providing support to SMEs start-up and development, as well as information and consultancy services has been transferred;
- ✓ Cluster principles and advantages explained and demonstrated for the local business representatives;
- ✓ Laid basis for the effective advocacy component to be realized in 2015.

## III. Progress Review

### 3.1. Streamlining access to business support information for local SMEs and micro enterprises through local business information points

#### Building technical capacity of local business information points (Entrepreneurship Support Centre and Points)

After the decision to create business information points had been taken by all 3 targeted municipalities (Korosten', Ovruch and Luhyny) in December 2014 and the concept of the business information points functioning was suggested by PARP experts and agreed by local stakeholders, UNDP project procured the necessary furniture and office (incl. hardware and software) equipment to help organize the consultancy and information points.

Municipalities has provided office spaces, employed specialists, covered utilities and supplies expenses. Finally, by mid-April 2015 the Business information center in Korosten' (named and further referred to the Entrepreneurship Support Centre) and Entrepreneurship Support Points in Ovruch and Luhyny have been established, equipped, staffed and fully operational.

The Entrepreneurship Support Centre in Korosten' is located in the city center approximately 300 meters away from municipality building. The Entrepreneurship Support Points in Ovruch and Luhyny are located at municipality buildings.

*In the photo: arrival of computer equipment to Korosten' Center for entrepreneurship support*





## Building expert capacity and laying a basis for “visibility” of Entrepreneurship Support Facilities

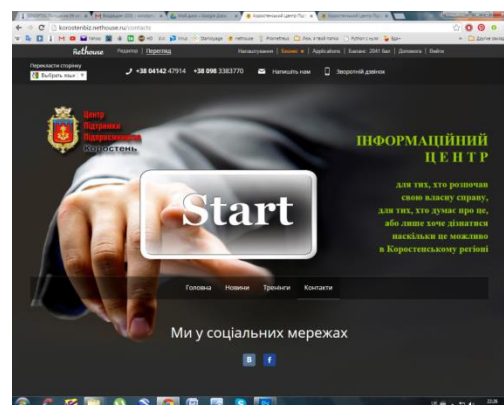
The project was essentially aimed at building up the capacity of the established business information (and communication) facilities. This meant improved availability of the “Entrepreneurship Support Centre” expertise to respond to inquiries and requests that may arise among potential entrepreneurs and general public. The Centre's representatives were to become a “know-it-all” entry point for any local residents, interested in getting involved in small business endeavors.

The Centre’s strategy had to be based upon intimate understanding of target audiences' real needs in terms of the information they lack. It sought to ensure the involvement of locally relevant opinion makers/partners, put it simply – 'trust centres' for local audiences. Hence, the Korosten’ Entrepreneurship Support Center was lucky to employ Mr. Volodymyr Borovkov, a knowledgeable expert with municipal and state service experience, as the Centre’s director.

Special attention was paid to the Centre's on-line presence (that eventually proved totally right as most of the information requests were received via Internet). Apart from offering assistance in putting together necessary paperwork for registering new business or extending the existing one, the Centre was meant to inspire. It had to help ordinary people make educated decisions with regards to starting a business, present compelling case studies, show how in the times of crisis entrepreneurship could become more than a way to survive.

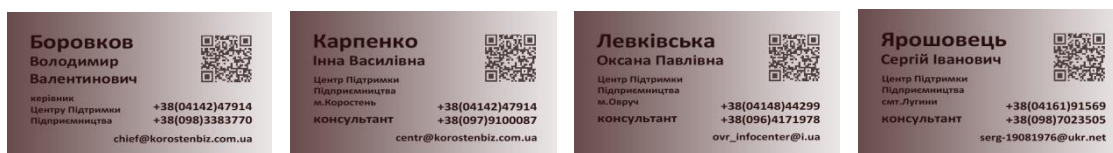
Bearing the above tasks in mind, the following actions were taken by the project during February – May 2015 to equip the Centre’s personnel with necessary skills and ensure the Centre’s “visibility”:

- ✓ Centre's web page was created <http://korostenbiz.com.ua/>
- ✓ Centre's accounts were registered on most popular social networks on the web;
- ✓ A short 'concept line' documentation (information kit) describing the Centre's activities was compiled;
- ✓ Working meetings were held with local press, presenting the Centre’s campaign plans and discussing possible co-operation formats;
- ✓ A training workshop on effective communication work in social networks was held for local actors;
- ✓ A “round table”, involving local entrepreneurs was organized to discuss the Centre's potentially most useful formats of interaction with its key target audiences;
- ✓ Official launch of “Entrepreneurship Support Centre” was held involving high-level guests.
- ✓ The Entrepreneurship Support Centre’s director participated in local TV talk-shows discussing a small business in the region.



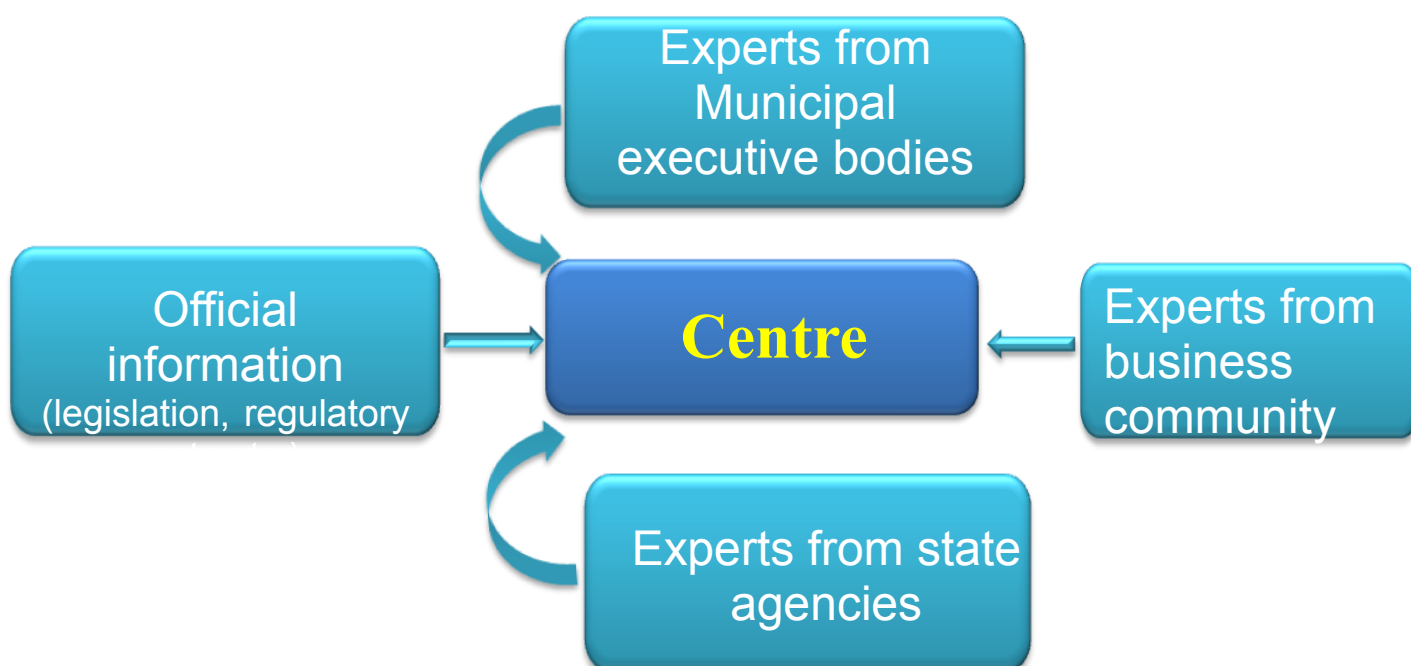
*In the photo: The Entrepreneurship Support Centre's Director on Local TV*

Thus, by mid-April 2015 four specialists (two in Korosten', one in Ovruch and one in Luhyny) were employed to by municipalities and trained by the project to become experts of the Entrepreneurship support centre and points network in the targeted rayons.

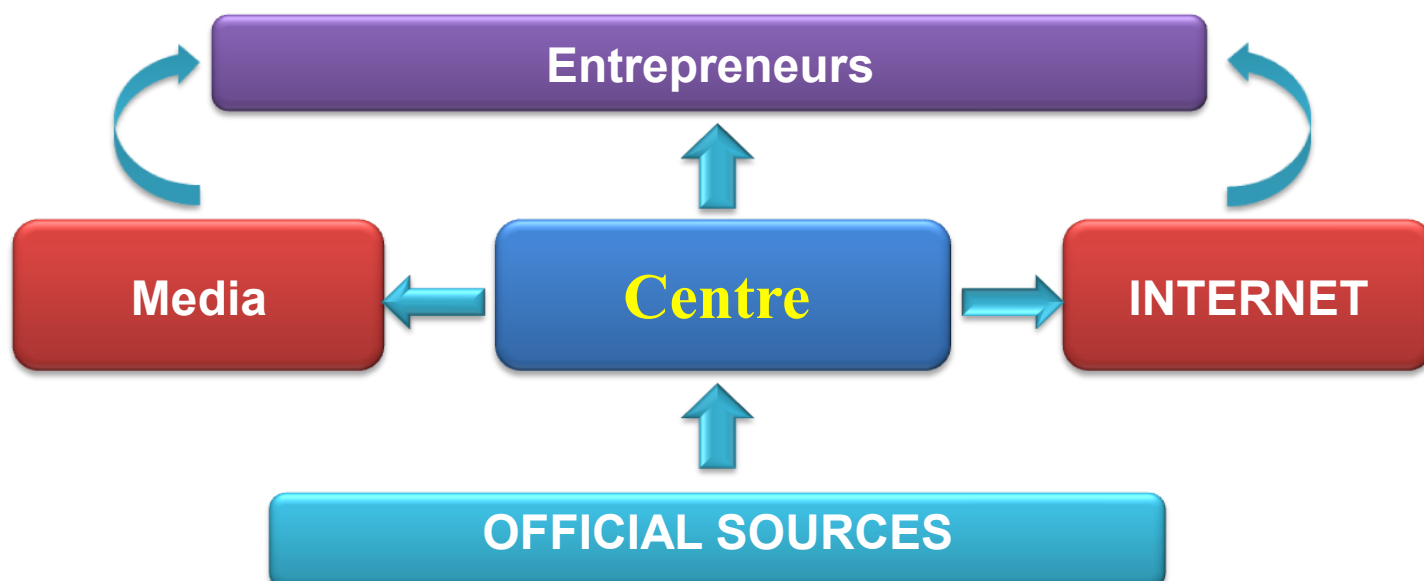


While the Entrepreneurship Support Centre's could not directly involve many specialists, specific consultations and clarifications to the Centre's clients are provided by municipal specialists (tax office, employment service, land cadaster) and sometimes even by state agencies' employees upon the Centre's request. Picture 1 and Picture 2 below show the scheme of the Entrepreneurship Support Centre's and Points' operation.

Picture 1. Expert and Information sources of the Centre



Picture 2. Functional diagram of the Entrepreneurship Support Centre



## Presentation and Official opening of the Entrepreneurship Support Center in Korosten' and other promotion events

Once equipped and staffed, the Entrepreneurship Support Centre and Points were presented for the local public in the city of Korosten' on 21 April 2015. The event was attended by the mayors of the cities of Korosten' and Ovruch, experts of entrepreneurship development offices, representatives of local fiscal agencies, businesses and regional mass media (*Video available at: <https://www.youtube.com/watch?v=frlhn9yc5Dw>*).

The Centre's presentation participants pointed out that promoting the advantages of transparency among local businesses had to be one of the top priorities for the Centre's activities, along with maintaining a fruitful dialogue between local authorities, businesses and media. A high profile event (bringing together international experts, local businessmen and general public) aimed at raising awareness about the Centre's activities and functions was planned for the end of May.



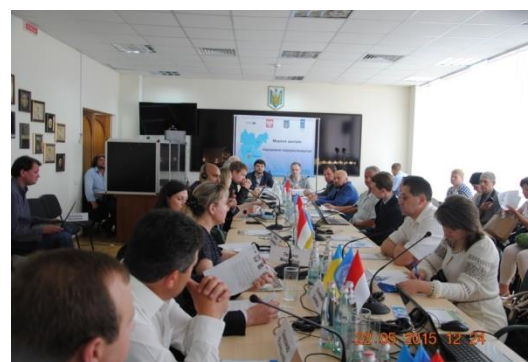
On 22 May 2015 the Entrepreneurship Support Centre was officially opened in Korosten'. The opening ceremony got together representatives of the local authorities (Zhytomyr oblast state administration, Korosten', Ovruch and Luhyny municipalities) and businesses, state agencies (Ministry of Economic Development and Trade and the State Regulatory Service of Ukraine), donor and international organizations (Embassy of the Republic of Poland and UNDP), national and local experts

(*Video available at: <https://www.youtube.com/watch?v=f8OebIZYkJ4>*)

Supporting business growth through establishment of the Entrepreneurship Support Centre was a precedent in the field of business infrastructure improvements at regional level in a difficult time for the country facing unprecedented economic challenges. The Centre was presented as being able to provide advice and training for newcomers, particularly secondary school leavers and university graduates and currently unemployed to obtain information and skills on how to identify, choose, and practically engage in profitable business; as well as



serve the established businesses to help find new opportunities and expand operations. Same day the round-table "Promoting small and medium business: opportunities for growth" was organized in Korosten' to discuss the role of local business support infrastructure and learning opportunities from the Polish experience of boosting SMEs. The discussion focused mostly on the strategic role of the Centre in view of local realities and yet available local instruments for boosting entrepreneurship. The need for having the business





support center, however, despite the lack of local experts and the difficult tasks set for it, was not questioned by any of the panelists – as the entrepreneurship at its core is about having a can-do attitude, about showing initiative and resourcefulness, and finally about making things happen.

### **UNDP grant assistance to the Entrepreneurship Support Centre's operation**

As the newly opened Centre for Entrepreneurship Support in Korosten' and its smaller prototypes in Ovruch and Luhyny tried to establish their credibility as facilitators of business-related activities and information in the targeted rayons, it was decided (upon the recommendation of the Project monitoring mission held in end-May 2015) to support the Centre with the small grant to assist in realization of its services provision action plan developed for 2015.

However, since the Entrepreneurship Support Centre in Korosten' and its branches in the towns of Ovruch and Luhyny have been established and staffed by municipalities (it was done to ensure viability of the business support infrastructure beyond the project timeframe), the Center itself could not become a grantee and/or receive any direct financial support.

In the above circumstances a Korosten'-based NGO "Regional Development Agency" was chosen to serve the purpose of supporting the Center for Entrepreneurship in expansion of its operations and activities planned for 2015, as this cooperation was also supported by Korosten' municipality.

Activities under the small grant arrangement amounted to 4,965.00 USD and included:

- organization of a training center in the Entrepreneurship Support Centre;
- development of various training modules to be used by the Centre experts;
- conducting trainings for potential entrepreneurs (including the unemployed, women, people with disabilities, internally displaced persons);
- conducting needs/gaps study of local business opportunities and dissemination of results;
- development of a detailed Concept program to support entrepreneurship in the Korosten' region in 2016-2017 years ( to be approved by Korosten' municipal council in January 2016).

### **First Results of the Entrepreneurship Support Centre's and Points' operation in 2015 (May-December)**

During 7 months of 2015 the Entrepreneurship Support Centre and Points network provided 84 business-related consultations. Most requests related to business registration/de-registration procedure, municipal land rent procedure/issues, investor attraction basics/procedure, labor contracts for micro enterprises, advice on current tax rates, online reporting to state tax authorities, business correspondence with foreign partners.



The Centre has become a local "clearing-house" for business related-information due to prompt compilation and dissemination of important business-related communications, including national and local regulatory acts, experts' clarifications and explanations, regional news.

The core services of the Entrepreneurship Support Centre and Points are highlighted in the table below:

Clients	Local authorities and specialists	SMEs	Entrepreneurs
<b>SERVICES</b>	Seminars and trainings for “trainers” and specialists	Information services	Starting a business information
	Support in maintaining public-business dialog	Marketing services, search of international partners	Presentation of successful entrepreneurial models
	Support in building international economic relations	Trainings and consultations	Business skills development and training support for young entrepreneurs

By the end of 2015 the Centre’s experts have been able to provide additional (non-core) services like:

- market surveys,
- marketing strategies development;
- business plans development;
- attraction of loan capital;
- making presentations;
- assistance in negotiations.

Furthermore, the Entrepreneurship Support Centre’s and Points’ specialists presented the Polish experience they learned during the study visit to Poland (during 1-7 November 2015) to local businesses and authorities at the seminar organized in Korosten’ on 3 December 2015.



### ***3.2. Supporting cluster development initiatives in targeted rayons***

As the objective of the project cluster component was in helping design smart specialisation and assisting the region in developing competitive advantages through clusters, the project as well aimed at identifying those areas of the economy in which the region has significant growth potential or expansion opportunities.

Thus, the Entrepreneurship Support Centre’s specialists together with UNDP experts developed the Terms of Reference for Market research to identify the most promising sectors (industries) for business development in Korosten’, Ovruch and Luhyny rayons. The research was conducted by a reputable Ukrainian company during October 2015. Machine building, construction, excavating, stone- and wood-processing, chemical and food industries are the most promising in Korosten’, while excavating, food-processing and wood-processing industries along with agriculture are the key sectors in Ovruch rayon. Luhyny should rely mostly on wood-processing and agriculture. Moreover, all three rayons have extensive potential for B2C services, including horeca (hotels, restaurants and cafe), transportation (including maintenance) services and other domestic services.

Viewing clusters as prospective economic engines of the local economy, the project facilitated the initial stage of forming a construction materials manufacturers cluster of Korosten' and Slovyansk (a city in the East of Ukraine) companies. The idea is very promising as Donbas region including Sloviansk city (retaken by Ukrainian military forces in July 2014 after separatists occupation in April 2014) requires a lot of construction materials to proceed with urgent reconstruction of the massive damages made to infrastructure and housing due to warfare in the eastern Ukraine during 2014-2015.

As cluster formation is a voluntary process, the project played mostly a mediator's role in collaboration between Korosten'-based and Slovyansk-based companies. The parties also agreed to open trading houses both in Korosten' and Slovyansk to promote sales of the final products.

### ***3.3. Establishment of SMEs-oriented multi-sectoral platform for stakeholders consultations and advocacy***

As the project was making efforts to facilitate application of the business support instruments at the local level in targeted municipalities/rayons, maintaining fruitful public-private dialogue, SMEs-oriented advocacy and communication were among the primary tasks completed by the project (as described in the section **Laying a basis for “visibility” of Entrepreneurship Support Facilities** above).

Moreover, the project promoted the approach replication beyond the core municipalities and produced recommendations on possible replication and improving local capacities to promote SMEs development.

Two public round tables and one mini-conference was organized by the project during September-December 2015 to discuss key challenges, present lessons learned from the regional projects and raise awareness on the crucial need of cooperation between various stakeholders in order to allow the real support message to the communities and SMEs. These events included:

- **A multi-stakeholder round-table in Korosten'** on 08 September 2015, participated by representatives of Kyiv oblast administration, Chernihiv municipality and NGOs, Nizhyn, Novograd-Volynski and Sarny municipalities, aimed at presenting the project approach, Korosten'-Ovruch-Luhyny experience and other business support infrastructure initiatives (for example a municipal Industrial park “Korosten” established and duly registered by Korosten' municipality during 2015).
- **A local workshop in Nizhyn** (Chernihiv oblast) on 15 October 2015, participated by Nizhyn rayon and municipal authorities, NGOs and entrepreneurs, presenting the Entrepreneurship Support Centre concept and project lessons learned.
- **A mini-conference “Improving the local business environment for private sector development in Ukraine”** on 4 December 2015 in Kyiv aimed at presenting the project results, lessons learned and recommendations, determining the most effective tools to support SMEs at local level, discussing the most successful local initiatives for boosting business and finding out if the project replication can make difference. The mini-conference gathered together 46 participants – representatives of Ukrainian national and local governments (the Ministry of Economic Development and Trade of Ukraine, Kyiv oblast administration, Korosten', Ovruch, Luhyny municipalities), international projects (UNDP, USAID, CIPE, PROMIS), prominent experts (prof. Jerzy Osiatynski, prominent Polish economist, former Minister of Finance, Mr. Pavlo Sheremeta, prominent Ukrainian economist, former Minister of



Economy), Ukrainian Business Membership Organizations and NGOs.

Based on the observations, outputs and discussions resulted from the numerous meetings with local authorities, media, entrepreneurs and SMEs representatives during 2014-2015, a team of the project experts' compiled a **Set of recommendations for possible replication of similar projects in other parts of Ukraine**. The recommendations are provided in the Annex 1 hereto.

### **3.4. Project delivery in 2015**

In line with UNDP Donor Reporting Guideline, the Project **Financial report 2015** (an annual certified financial statement as of 31 December 2015) will be submitted to the Government of the Republic of Poland no later than 30 June of the following year (2016).

The project expenses in 2015 amounted to 88,522.33 USD that together with 2014 delivery of 10,301.50 USD made the total project expenses 98,823.83 USD (or 98,8 % of the total project budget).

## **IV. Conclusions, lessons learned and recommendations**

### **Conclusions. Project success factors**

The project activities and results were unanimously acknowledged as successful by the Project Board held on 12 November 2015 in Kyiv. The project strategy and experience were recommended for replication under further initiatives related to promoting entrepreneurship among IDPs and local communities. The Minutes of the Project Board Meeting are attached hereto as Annex 2.

Among **the key project success factors were: 1)** proper focus and strategy; **2)** partners' commitment.

#### **Success Factor 1: Proper focus**

The regional economic development can happen organically only if it takes place within a clear policy framework that is well communicated and supported by all the main stakeholders. Regions and local authorities have only limited degrees of freedom within which they can operate. This is especially true for Ukraine now, as the decentralization process has just started and local authorities still have very limited influence on the business regulatory framework. Successful business boosting strategies, however, require a degree of focus. Regions and localities need to decide where their strengths and capabilities lie and then play to them. A clear understanding and examination of relative competitive advantage and local potential are central to developing this focus, vision and further strategy for improving local business environment. The above includes:

- Strategic Planning (review of existing competitive advantages);
- Flexible framework of objectives;
- Identification of policy priorities;
- Articulating links with other aspects of regional strategy.

#### **Success factor 2: Partners' commitment**

Genuine (vs. declared) political will to develop and implement a local policy and support measures required for building favorable local business environment and boosting entrepreneurship is key to the success of any initiative. This means real commitment to

changes and development, and also proper implementation arrangements within municipality (or regional authorities), including:

- Corresponding organizational structure;
- Identification and commitment of resources;
- Proper land use planning;
- Communication, advocacy and confidence building.

**Other important success factors included:** **3)** Involvement of international (Polish) expertise, cooperation with reputable organization (PARP); **4)** Continuous public-private dialog; **5)** Availability of local experts; **6)** Local success stories; **7)** Efforts (initiatives) coordination.

Having the above factors in place, the project team had to simply support the targeted local authorities in the following steps aimed at creating a foundation for local business development:

- ✓ Deciding on implementation targets,
- ✓ Inspiring confidence,
- ✓ Providing infrastructure investment,
- ✓ Establishing networks,
- ✓ Skills development,
- ✓ Cluster initiatives support,
- ✓ Advocacy and communication.

The project was lucky to cooperate with the local authorities committed to SMEs and entrepreneurship development. Korosten' and Ovruch municipalities had proper vision and strategic plan and provided strong support to local businesses. Korosten' municipality was developing its business support infrastructure (e.g. municipal administrative services shop, industrial park, coworking center, "local businesses council") in parallel with the project support, using best practices observed in Poland and elsewhere.

## Lessons learned

### **1) One size does not fit all, a region-specific agenda is required.**

Responding to the challenge of promoting SMEs is not a straightforward matter for local and regional authorities. The local authorities across Ukraine (as well as the huge number of local authorities across Europe) face very diverse circumstances in terms of the natural, human, physical and financial resources at their disposal and the particular (often urgent!) needs of their communities. It is not possible or even advisable for each of them to adopt the very same approach to support the SMEs development.

### **2) Targeted communication and continuous public-private dialogue** are the main primary instruments for improving local business environment.

### **3) Online services are the future of business support services.**

The detailed analysis of lessons learned and recommendations are provided in the Annex 1 here below.

## ANNEX 1

PARP



### SET OF RECOMMENDATIONS FOR FURTHER DEVELOPMENT AND REPLICATION OF ENTREPRENEURS SUPPORT CENTRES IN THE REGIONS OF UKRAINE

During the year of 2015 number of experts, commissioned by United Nations Development Programme in Ukraine (UNDP) with financial support from the Polish Government and in cooperation with the Polish Agency for Entrepreneurship Development (PARP), have carried out a range of activities in support of Small and Medium Enterprises (SME) in the regions of Ukraine. These activities were implemented within the framework of the project 'Improving local capacity to promote and sustain entrepreneurship and SMEs development in Chernobyl affected territories by transferring best practices and experience of using smart instruments for boosting business'.

This paper presents key findings and outlines recommendations for continuing effective efforts in support of SME in the regions of Ukraine. There are no obvious answers as to what or who is in the best position to dramatically improve the situation: state policies, local administrations or western donors. The report does not offer ready-to-use, one-fits-all answers. However, it does offer an analysis that may be useful in the process of reaching conclusions and designing strategic technical assistance plans.

The views, & findings and recommendations are those of the authors and compilers of this publication and do not necessarily represent the views of the UNDP, Donor or PARP.

**Kyiv 2015**

## **Purpose:**

The purpose of this report is to directly and pragmatically address the question of how one can best assist local and regional authorities to initially support entrepreneurship development and help maintain favourable local business climate. After providing an initial orientation in the form of a brief overview of the main issues and bottlenecks, the report provides a set of recommendations based on practical experience and lessons learned during the project implementation and replication activities. The focus of the report is on the peculiarities and directions of communication and consultancy support to SMEs provided through Entrepreneurship support/communication Centres.

## **I. Executive Summary**

**It is hard to overestimate the importance of the issue in question. More than half of Poland's GDP is generated by SME, i.e. companies employing only few people, securing the wellbeing of their families by themselves. There are no more than 10% of such companies in Ukraine. More than ever it is important to understand how to help local communities in the regions of Ukraine to work for themselves. This is especially true for internally displaced persons (IDPs), who lost their jobs and real estate and are facing difficult choices in terms of providing their families with steady income.**

The growth of SME in the regions of Ukraine has been frustratingly low since Ukraine gained independence. There were (and still are) relatively objective reason for such state of affairs. General shape of Ukraine's economy, excessive centralization of government practices, bureaucracy and corruption are 'usual suspects' in terms of what hindered proper development of SME outside major cities of Ukraine. It seemed that little (if anything at all) could be done at the grass root level.

These factors directly affected key challenge with regards to building up a favorable environment for SMEs: *lack of motivation* on behalf of key stakeholders. As situation changes, namely certain promising prospects of real de-centralization are beginning to take shape, more region-specific causes for such lack of motivation are becoming more obvious.

On-site 'needs analysis', as well as both informal and formal consultations with key stakeholders under the project, discovered that lack of *information* and, importantly, *communication between stakeholders* are key obstacles on the way to improve the situation.

While information gap seems to be technically fairly easy to deal with, realistically "technical" work has virtually no chance of succeeding without addressing fundamental issue, upon which the effectiveness of any support initiatives in this field depends: *building the trust between stakeholders*. As this paper will argue, it calls for a particular methodology and style of potential interventions. In its substance they should focus on *educating* rather only 'informing' and *establishing real dialogue* rather than following the tradition of one-way communication practices.

Such methodology was envisioned by project's experts in establishing and enabling activities of "Local entrepreneurship support/communication centres", first of which was open in the town of Korosten', Zhytomyr oblast'. Similar initiatives were discussed in other relatively small towns near Chernobyl area.

Project's experts have identified a great interest both in SMEs development issues in general and establishing communication body to support it among key local stakeholders. There's equally a very obvious lack of technical expertise and practical experience in the field to take on such tasks. First months of Korosten' centre's operation uncovered factors and processes that will pose significant challenges affecting technical assistance programs

in developing SMEs in the regions. They have also pointed to out some effective tools and activities, significantly contributing to centre's main mission: building *well-informed trustworthy relationships between key stakeholders at local level*.

This set of recommendations will outline in some detail a number of communication activities which with systemic approach have a reasonable chance of succeeding. It will also present a general outline of key stakeholders that will definitely need to be involved in order for these interventions to bring tangible results. Recommendations are based on lessons learned and prospects discovered during practical implementation of on-site activities in the regions of northern part of Ukraine.

## **II. Background**

While small and medium enterprises (SMEs) are the backbone of the economy of EU countries, its development in Ukraine in general is still really slow. Technically, numbers of registered businesses have a tendency towards falling, future prospects seem unclear. Situation is especially difficult in relatively small regional cities and towns of Ukraine.

Importantly, a significant amount of questions and doubts as to the future of small and medium businesses are being raised both by the entrepreneurs and general public at the local level. This is exacerbated by the lack of knowledge or even access to basic information on the nuances of opening and running a successful SME. The establishment of the Centre in Korosten' within the project came at the time when on the one hand there was an obvious need for a clearinghouse for information, on the other it immediately had to deal with significant challenges.

1) Against the background, laid out above, a **remarkable lack of 'two-ways' communication lines could be detected between various state institutions**, whose direct or indirect responsibility is to foster the development of small businesses at the local level. This is even more surprising to find in the region, where *local authorities* are truly enthusiastic about contributing to making real difference with regards to developing SME in their region. Until recently one of the key factors, affecting local authorities' attitudes towards proactive work in this area was the fact that key administrative decisions regarding SME were effectively being made in Kiev. There were no real financial incentives as well, as growing business would not be contributing to local budgets as income taxes were being collected centrally. In some regions, however, local authorities are more optimistic, placing their hopes on administrative reform which in theory allows for substantial de-centralization.

2) **Local actual and potential entrepreneurs are wary of dealing with local authorities and regulating bodies.** Unclear regulations, massive amount of paperwork, fears and perceived risks (corruption in state institutions, leading to 'extortion' etc.) discourage local communities from considering opening and developing their enterprises.

3) Despite its importance, the **issue is not placed high enough on the public agenda**. Its profile would have to be raised to the point where enough public interest is generated in order to carry on a sensible debate, point to key problems and discuss opportunities. That is especially important given general scepticism as to the future of SMEs in the current circumstances which in turn raises certain doubts about the effectiveness of the Centre itself.

4) **Local journalists are not skilled enough to provide much needed quality coverage** of even basic SME related news and issues, let alone initiate in-depth public debate. Challenges, fears, stereotypes and prospects of SME market at the local level are not being

discussed in public domain. Centre's personnel needed to acquire communication skills, which would be effective, up-to-date and, importantly, relevant.

**Most importantly, at the regional level there is no platform for meaningful, *honest and often 'difficult' debate* between these stakeholders. Already at the initial stage of project's implementation it became obvious that *every stakeholder* has its questions, doubts, fears and preconceived notions.** Many of these were never addressed before with representatives of all the stakeholders present in the same room. While somewhat 'heated' at times, such open discussions under the project at the very least revealed most (if not all) of the needs and concerns. Realistically, far from eliminating them, *open dialogue* has certainly brought about the understanding of the need for particular information and particular type of communication. It made *relevance* a main focal point of building Centre's methodology.

The Centre needed a very convincing, scientifically proved “base of evidence” to support its mission statement: “local entrepreneurship has a future here”. That requires feasibility studies, market opportunities analysis, “green books” of challenges and opportunities, facing local businesses.

That also requires an ongoing support for Centre's communication efforts, both formal and (perhaps, more importantly) informal in order to establish an environment, prepared to debate key local business development issues in a constructive and systemic way.

Series of meetings focusing on practicalities of business development were needed in order to promote the tradition of open discourse on the subject, which has notoriously been discussed in either awkward, “officialised” or unprofessional way.

**The “Local entrepreneurship support/communication Centre” had to become a proactive player and a mediator, as opposed to a mere depository of technical information. That was its principal challenge and main mission.**



### **III. Recommendations**

Project's implementation has shown that it is an establishment of the Communication Centre as a hub for ongoing SME support activities that could and should be used as an 'entry point' into working in this sphere. **Whichever type of intervention a particular technical assistance programme will decide upon: public awareness campaigns, expert support, small grants to local entrepreneurs or internally displaced persons, Communication and Support Centres are likely to be the most effective tools for a well-informed and coordinated activities.**

It is therefore recommended by the experts of the project to consider establishing and supporting Communication and Support Centres in target regions. Based on project's experience, in order to be most effective the Centres should be involved into:

#### ***a) targeted information/communication work***

The information and analysis, presented by Communication and Support Centres, should not be 'generic', i.e. effectively irrelevant. At best, such approach will have no real effect on the situation. At worst, it will further contribute to developing stereotypes and prejudices. The main initial goal of any Centre's activities is understanding of the target audience. A tailor-made approach should be adopted for a particular region, as its specificity may dictate different priorities. As project's lessons show, in one region one of the key audiences may be farmers, in other – students or IDPs, in yet another – state institutions, which may require adopting a particular approach.

*Regular presentations, round tables or media campaigns* should be focused on a particular target audience rather than presenting 'one-fits-all' format of information. As in every other domain, understanding SMEs relevant audiences is more often than not a key factor upon the effectiveness of further actions will ultimately depend.

There are various ways of drawing the *map of target audiences* – *task force analysis, interviews, focus groups* – and it is highly recommended to conduct such regular 'needs analysis' in order to formulate priorities for further interventions.

#### ***b) development of region specific recommendations based on expert market opportunities research***

Responding to the challenge of promoting SMEs is not a straightforward matter for local and regional authorities. The local authorities across Ukraine (as well as the huge number of local authorities across Europe) face very diverse circumstances in terms of the natural, human, physical and financial resources at their disposal and the particular (often urgent!) needs of their communities. It is not possible or even advisable for each of them to adopt the very same approach to support the SMEs development.

Based on the lessons learned during project's implementation the most important information key stakeholders (and potential target audiences) need is a professional, region-specific and evidence based research on business opportunities availability. While sounding like an obvious kind of information any entrepreneur-to-be would gather, this kind of analysis is actually technically unavailable or even unobtainable for many people in the regions, for example former state enterprise workers or villagers.

Likewise, local authorities often require reliable information on the spheres of SME development they should focus on. While sometimes having intimate knowledge of the

situation in their 'region' (rayon), they would appreciate analysis on what kind of local businesses may be succeeding in neighboring regions.

It was reiterated time and time again during numerous events within the framework of the project implementation that such a research or survey would be a great start to the process of attracting interest to both Centres' activities in particular and getting involved with SMEs at local level in general. While not necessarily funds- or human resources consuming and with proper promotion, availability of such information will be a great asset.

Combined with intimate knowledge of local stakeholders, such data puts Centers in a perfect position to build from the outset a motivated audience with which they could continue to work in a productive and effective way. However, in a rapidly changing environment it is advisable to update such a research on a regular basis.

### ***c) proactive coordination and facilitation work with the stakeholders***

As the background analysis outlined above suggests, the role of a mediator and facilitator is the key goal of the Centres' activities if they are to become truly indispensable and realistically useful component of supporting sustainable development of SMEs in the regions of Ukraine. As most of the issues hindering the development of SMEs will require significant amount of mutual understanding and cooperation at the local level, *proactive coordination of stakeholders* is in essence the Centres' genuine mission statement.

There is a variety of formats that could be used for such work. However, it needs to be taken into account that *round tables, informal meetings, presentations, 'press-clubs', on-site visits etc.* with variable regularity will only be effective if the process of their preparation takes into account several critically important factors:

- The events (in whatever format) should be as *specifically focused on a particular issue with regards to SMEs as possible*. Based on the research discussed above the Centres should prioritize particular aspects of SMEs related subjects that are of an immediate and practical interest to the stakeholders. Initial 'getting to know each other's concerns' meetings quickly become unfocused, chaotic and unproductive. Regularity and the formats of these events should be decided depending upon the 'urgency' or 'importance' of the issue in question.
- Needless to say, the Centres should offer competent expertise during the course of the events. Facilitation of stakeholders 'consultation events' should be based upon evidence supported information to trigger off a discussion and serve as a point of reference. This will serve to establish Centres' authority in a field and further motivate participation in any following events. Inviting outside experts is highly recommended, as it offers an opportunity to hear an alternative point of view on the situation that may have been discussed several times already.
- The configuration of participants must be well thought through with regards to its adequacy. It is important to keep such events as open and transparent as possible, but it is equally important that relevant participants are able to voice their opinion. As mentioned above, Centres' ability to have a chance to influence the situation will depend on whether they'll manage to become a working dialogue platform. Based on the previous experience there is no lack of interest in the events in the regions that are well prepared and involve relevant players.

### ***d) expert support for key stakeholders in seeking funding from international technical assistance programmes***

Obviously, many future entrepreneurs lack start-up capital in order to embark on often tricky process of establishing SME. At the same time, there are number of international technical assistance programmes, providing either direct support or seed funding for small businesses. As a rule, however, potential applicants are naturally ill-equipped to handle application, project implementation and financial reporting processes. As a result, funding is being channelled through service NGOs with substantial track record, which for understandable reasons are unfortunately adopting universal, one-fits-all approach.

This is especially true with regards to IDP's, who often receive seed funding that has little if anything to do with their real needs or capabilities. There are examples of how such practice results in contra-productive precedents. Centres, among other things, should be concerned with motivating people to take up the opportunities to support their families, not inventing the ways of dodging the problem.

It would be advisable for Centres' staff to have sufficient experience in dealing with international donors and preparing grant proposal in order to enable local target audiences to have first-hand access to much needed funding sources.

#### ***e) networking efforts with Centres from different regions***

Project's activities which involved bringing together potential partners from other regions show that networking between similar initiatives (especially at early stages) is extremely useful. It has a positive effect on potential partners' motivation, it tells them about challenges ahead and explains how lessons learned from other regions' mistakes could be transformed into useful advice.

'Comparing the notes' also provides a useful forum for presenting lucrative business opportunities in partner regions. Naturally, fostering the growth of SMEs sector will require looking into possibility of expanding markets. Such exchange of 'market opportunity suggestions' was mentioned more than once at project's open events.

#### ***f) designing and conducting series of presentations in Kiev outlining business opportunities for national and international companies at regional level***

Business opportunities for Kiev based major companies in the regions of Ukraine will certainly depend on particular region's proximity to the capital. However, it would certainly be useful for just about any region to develop of strategy of presenting its attractiveness to major investors. Some of the regions that project has worked with have already explored the possibility of setting up 'industrial parks' which may lead to potentially beneficial negotiations.

It is important for the regional Centres to maintain their presence in the capital for a number of reasons. First of all, it raises their profile in the capital city of Ukraine, where principal financial and business opportunities are concentrated. Secondly, it provides them with the information, often unavailable unless they have face-to-face meetings with people who could be useful to them. Thirdly, this allows them to embark on networking efforts, far exceeding what they could hope for in their own towns. That includes donors, potential partners or investors.

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**One type of activities, which cuts across the typology outlined above is dealing with the media.** Or, to be more specific, with individual journalists - as in the regions of Ukraine people tend to know each other personally rather well. Predictably, there is no easy way to find a format of dealing with journalists in often understaffed, underpaid and completely dependent on their owners (whether government related or commercial) editorial offices.

That suggests that at the **local level journalists are best dealt with through *relationships rather than events***. Project's lessons of dealing with journalists have shown that handling much needed media coverage through attempting to deal with media owners may bring mediocre results at best.

Training may bring some results, but its effectiveness heavily relies on participants' motivation and the level of initial skill. It definitely should not be ruled out as one of the types of interventions within the framework of the broader set of efforts. However, effective communication at regional level will require 'special' relationships with locally renowned and recognized journalists, who are willing to be engaged into a meaningful discussion concerning their home town/region most pressing issues.

Forming that kind of relationship with representatives of local media may present one of the most demanding challenges for the Communication Centres, discussed in this paper.

#### **IV. Potential risks assessment**

As ever, a number of risks is involved in the process of changing public's perception with regards to a complicated and confusing SMEs development issue in the regions of Ukraine:

- Local authorities' reluctance to deal with the issue that will inevitably raise difficult questions. There's little that could be done if this were the case. Local elections, however, are over and whoever is in a power seat at the moment has probably little to fear.
- Centres' staff and resources are inadequate for the job at hand. This should be easily diagnosed and fixed if donors/project implementing organizations pay close attention to the process and monitor it regularly.
- No viable dialogue, which would result in the atmosphere among the local stakeholders when prospects considering building up SMEs in the region are clear and challenges explained and dealt with. No trust exists between actual/future SMEs and state authorities. As mentioned before, that should be the key point of concern for the Centres supporting SMEs in the regions of Ukraine.

**Building public trust is about systemic work. One of the key lessons project's experts learned during close to two years of working on various stages of project implementation is that it requires *hands-on, almost day-to-day* work and control. While micro-management would probably only do harm to mostly convoluted realities the SMEs Support Centres would have to deal with, a lack of attention would almost certainly renders project initiator's efforts ineffective.**