

# UNDP BMOs Phase II – Draft Elements for the Annex to the Agreement

## Description of the project / programme

The project is the continuation of the previous phase implemented by UNDP in Ukraine between 2015-2018. **The objective of the project phase II is to enhance growth and competitiveness and strengthen the voice of SMEs in Ukraine through more professional, demand-driven and client-oriented Business Membership Organizations.**

The objective will be achieved by:

- Strengthening organizational development and improving the governance of a larger set of BMOs,
- Facilitating access to and utilization of Business Development Services by SMEs,
- Facilitating professional public-private dialogue to improve the regulatory framework.

The project activities are designed upon the lessons learned in phase I and will support 20 newly selected BMOs representing different types of organizations, including up to 8 industry-specific BMOs, the Ukrainian Chamber of Commerce and Industry and up to 5 regional chambers, 6 universal (inter-sectoral) BMOs (including 2 newly created BMOs and 2 women's business associations). Phase II **selection process for BMOs** will build on the methodology of phase I. It will consist of a transparent and **competitive call for applications** that includes selection criteria on geography, sector, current organizational capacity, synergies with other SECO funded projects<sup>1</sup>, as well as BMOs motivation and expectations. A **Selection Committee** composed of UNDP, MEDTA and SCO will review the short-listed application and formulate recommendations. After the selection, UNDP will enter in MoU with the single BMOs.

### 1.1 Activities and expected results

The project will be structured in three components:

#### **Component 1: improved organizational capacity and governance of BMOs**

##### Key activities:

- a) *Deliver in-depth research on BMO sector:* the project will support the research and mapping of the BMO sector including issues of representativeness, service provision and involvement into the public-private dialogue. The study will serve to steer project activities and inform the Ministry of Economic Development, Trade and Agriculture of Ukraine (MEDTA)<sup>2</sup> in the implementation of the SMEs Development Strategy Action Plan.
- b) *Implement BMOs capacity development programme:* under this activity, selected BMOs will be assessed and supported in enhancing their capacity and improve their development plans, including specific targets and performance indicators to be achieved by each of the BMOs. Capacity development will include training and

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<sup>1</sup>Specific examples are: i) associations closely cooperating with the WEHU funded project Higher Value Added Trade from the Organic and Dairy Sector in Ukraine; ii) House Management Associations cooperating with WEIF funded project in developing a house management market in multifamily buildings (IFC Ukraine Residential Energy Efficiency UREEP Phase III); and iii) the WEIF funded ESG regional program (IFC ESG Program).

<sup>2</sup> Following the formation of the new Cabinet of Ministers in September 2019 the Ministries of Economic Development and Trade and Ministry of Agrarian Policy and Food were merged into Ministry of Economic Development, Trade and Agriculture.

coaching programmes on good governance, internal policies, management practices, accounting practices, strategic planning, fundraising, membership development, communication, advocacy, networking and/or possibly other topic areas identified for capacity development.

#### Expected results

- At least 15 out of 20 partner BMOs improved governance, organizational structure and processes in a sustainable manner (index of organizational capacity). Incomes from membership fees in selected BMOs, increased on average by at least 25%; at least 4 hubs/platforms established for BMO cooperation.

#### **Component 2: improved access to and utilization of BDS by SMEs**

##### Key activities:

- a) *BDS market assessment*: the project will carry out a BDS market assessment aiming to identify the unaddressed needs of SMEs and inform the Government, BMOs and other stakeholders in bridging the 'market gaps' in the provision of Business Development Services to SMEs. The assessment will look both into the supply and demand side of the market including the availability of providers, types and quality of services, access to and utilization of BDS by SMEs. The study should also help develop a nuanced BDS policy among BMOs and within the Government.
- b) *Support the development and rollout of BDS*: maximize the potential of selected BMOs as providers of BDS. Self-review and mapping of the current services provided and either improving their quality or exploring possibilities for offering new services. The project will assist BMOs' in self-analysis by conducting workshops with BMOs' staff members. Focus will be dedicated to those services that are not provided by private consultancies. Group purchasing has been already identified as a relevant BDS.

In parallel, the project will increase awareness among SMEs about the importance and benefits of BDS. Whenever feasible the project will share all available and valid information with MEDTA and SMEs Development Office (SMEDO).

- c) *Facilitate SMEs' take-up of BDS through a small grants scheme to BMOs*: the project will pilot a small grant scheme approach to support or launch the services that may have tangible impact on SMEs and have high probability of becoming a sustainable source of income for BMOs. Small grants to BMOs will be allocated on a competitive basis building upon the model used by the SCO scheme (SCO will be involved in the process). The purpose is to incentivize the offer by BMOs and to encourage initial take-up of BDS by underserved SMEs, as well as to facilitate access of SMEs to more sophisticated or previously unavailable services. UNDP and the SCO assess this as a needed tool to support BMOs. However, it involves some risks including additional HR burden and stakeholders competition for grants (with resulting feeling of unfair treatment if not selected). We propose to go ahead with the scheme but **to pilot-test this model with a limited amount of USD 50'000** over maximum 5 BMOs. If successful, the model will be scaled up to a limited amount of USD 200'000. In addition, the applicability of result-based financing will be tested.

#### Expected results

- At least 15 BMOs implement 2 new BDS on cost-recovery basis each; at least 10% of the partner BMOs' members benefit from Group Purchasing Organizations established or facilitated by BMOs

### **Component 3: effective public-private dialogue**

#### **Key activities**

- a) *Capacity building in advocacy strategy of BMOs:* the Project phase I has revealed that because of the relatively small size of most business associations they will continuously face restrictions in terms of resources (both human and financial) to effectively advocate for the interests of SMEs at the national level. For this reason the project will offer trainings on advocacy strategy and communication focusing on leveraging networks and build coalitions, rather than enable them to formulate proposals in-house. The project will help participating BMOs master the ability to identify advocacy targets, issues and facilitation of public-private dialogue. Development of in-house capacity will be supported where there are sufficient resources and structures in the BMOs (such as Chambers of Commerce and bigger sector-wide associations). Under this activity, the project will also support the Ukrainian Chamber of Commerce and Industry (UCCI) in its organizational reform directed at the creation of SME department and a research unit for advocacy purposes.
- b) *Strengthen cooperation between BMOs and market stakeholders:*
- Support the creation of BMO networks/coalitions and facilitate their cooperation with the Ukrainian Chamber of Commerce and Industry, relevant regional Chambers, and other bigger organizations. In particular, cooperation will be enhanced in the adoption of a common position when advocating for a change in the business environment at national level. BMOs supported under phase I of the project may serve as hubs or platforms for cooperation.
  - Support the preparation of evidence-based proposals for good deregulation policies of the business environment and other activities promoting business enabling policies.
  - Project phase I showed BMOs' high interest to influencing the formulation of requirements to skills and qualifications of the labour force. The project will facilitate cooperation between BMOs and VET and higher educational institutions to improve skill requirements and qualifications of the labour force.
- c) *Strengthen BMOs capacity to develop industry standards:* under this activity the BMOs will be assisted in designing and adopting the voluntary standards for goods and services of SMEs. The project will primarily work with the sector-wide BMOs to support the bottom-up debate on standards and self-regulation. The approach has been tested during the project phase I.
- d) *Promoting public-private dialogue (PPD) at local and national level:* the project will support both public (MEDTA/SMEDO) and private sector in designing and running concrete public-private dialogue initiatives distributed across the sectors and regions. In particular the project will replicate the experience of Open Regulatory Platform in other municipalities. In addition, the project will assist MEDTA in reviewing and updating the future SME Development Strategy. The current SME Development Strategy expires in 2020. The project will assist MEDTA in undertaking consultations with the private sector to review, design and implement of the new strategy.

**Expected results:** at least 3 laws and 10 sub-laws, consulted with BMOs, have been submitted to respective authorities for adoption; 15 out of 20 trained/coached BMOs established partnerships linkages and created networks/coalitions with other relevant organizations; at least 5 municipalities establish dialogue platforms to improve local regulations.

**Beneficiaries:** The ultimate beneficiaries of the project will be small and medium sized enterprises which will be assisted through Business Membership Organisations. The project will support 20 BMOs, therefore directly or indirectly reaching an estimate 15'000 SMEs.

## LogFrame

UNDP Strengthening SMEs Business Membership Organizations Phase II		Ukraine	UR-00806.20.01	
Strategy of Intervention	Key Performance Indicators	Means of Verification	External Factors (assumptions)	
Impact	Impact Indicators			
Increased growth and competitiveness of the Ukrainian SMEs contribute to economic development in Ukraine	<ul style="list-style-type: none"> <li>The share of the added value (by cost of production) of small and medium enterprises increased by 3 % of total added value; <u>Baseline: 52.5 per cent [2017]</u></li> <li>Number of jobs created and improved in enterprises with BMO membership grew by 3% <u>Baseline: 0</u></li> </ul>	- Impact assessment report using both quantitative and qualitative methods	- Ukraine's economy continues to recover. The Government prioritizes SME development and develops the necessary regulatory framework enabling the growth of SMEs.  External economic environment remains favorable to a process of SME policy reform and coherent decision-making.	
Outcomes	Outcome Indicators*			
<ol style="list-style-type: none"> <li>SME sector representativeness through professional BMOs has increased</li> <li>SMEs increasingly benefit from business development services provided by BMOs to enhance their competitiveness;</li> <li>Representative and effective public private-dialogue contributes to improvement of business environment for SMEs.</li> </ol>	<ul style="list-style-type: none"> <li>Organizational capacity of partner BMOs improved by 30% [<i>as per index of organizational capacity</i>]; <u>Baseline:</u> to be defined at project start following the selection of BMOs</li> <li>Aggregate membership of partner BMOs, increased at least by 20% average, including 2 organizations</li> </ul>	<p>Written analysis (financial records, project reports, ad-hoc reports), SME surveys, questionnaires, (evaluation sheets), interviews of selected beneficiaries;</p> <p>Publications in media, social networks, on official web-resources of the national and regional authorities, selected BMOs</p>	Cooperation with regional and national authorities depends on political and institutional stability of the latter. The project assumes as a baseline the existing institutional framework with several elements of it to be fully deployed during the project duration (such as SME Development Office). Following the outcome of Presidential and Parliamentary elections in 2019 there is a significant re-shuffling of the government at all levels as well as leadership and staff rotation.	

	<p>representing women entrepreneurs<sup>3</sup>.</p> <p><u>Baseline:</u> 0 per cent</p> <ul style="list-style-type: none"> <li>• Share of women entrepreneurs-members among the members BMOs increased by 20%</li> </ul> <p><u>Baseline:</u> TBD</p> <ul style="list-style-type: none"> <li>• Share of SMEs acquiring BDS from selected BMOs increased by 50%;</li> </ul> <p><u>Baseline:</u> TBD</p> <ul style="list-style-type: none"> <li>• Level of SMEs' satisfaction of BDS provided/facilitated by partner BMOs increased by 50%.</li> </ul> <p><u>Baseline:</u> TBD</p> <ul style="list-style-type: none"> <li>• Share of women among BDS customers of partner BMOs grew by 20%</li> </ul> <p><u>Baseline:</u> TBD</p> <ul style="list-style-type: none"> <li>• At least 6 industry-based standards have been developed by BMOs on the principles of self-regulation and have been implemented by industry-based SMEs;</li> </ul> <p><u>Baseline:</u> 0</p> <ul style="list-style-type: none"> <li>• Share of members of BMOs satisfied with the quality of Public-Private-Dialogue grew by 30%</li> </ul> <p><u>Baseline:</u> TBD</p>		<p>The Government completes re-design of functions of executive bodies by end of 2019, which would allow for effective cooperation to implement the project.</p> <p>The Government of Ukraine sustains trend in improving the regulatory environment in order to boost the economic growth.</p> <p>Self-government bodies continue to operate smoothly before and after local elections to be held in 2020, including municipalities.</p> <p>Business Membership Organizations play an increasingly important role as an interlocutor for the government and BDS provider for SMEs.</p>
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<sup>3</sup> While the results at outcome level will be shown as an aggregated figure for the group of partner BMOs, the performance targets will be specified for the various groups of BMOs during the inception phase and based on baseline assessment

Outputs	Output Indicators		
<p>1. Partner BMOs strengthened governance and organizational capacity to better represent the interests of SMEs</p>	<ul style="list-style-type: none"> <li>• At least 15 out of 20 partner BMOs, including 2 organizations representing women's entrepreneurship, improved governance, management and optimized internal processes and are able to maintain adequate organizational structure and processes. <u>Baseline:</u> 0</li> <li>• Incomes from membership fees in selected BMOs, including 2 organization representing women's entrepreneurs, increased on average by at least 25%; <u>Baseline:</u> TBD</li> <li>• At least 4 hubs/platforms established for BMO cooperation <u>Baseline:</u> 0</li> </ul>		<p>The selected BMOs are committed to improving the organizational capacity in line with the suggested benchmarks; BMOs make sure that their staff are given sufficient work time to complete the capacity development programs; BMOs select participants/nominates teams who can bring about change due to their standing in organization; SMEs are interested to join BMOs based on understanding of concrete benefits for business development and growth. BMOs continue to be a competitive institution for SMEs to receive advisory support from and benefit from the membership. Economic and legal environment is favorable for SMEs and they are able to cover the cost of BMOs membership</p>
<p>2. SMEs have better access to Business Development Services through BMOs</p>	<ul style="list-style-type: none"> <li>• At least 15 BMOs implement 2 new BDS on cost-recovery basis each; <u>Baseline:</u> 0</li> <li>• At least 10% members of the partner BMOs benefit from Group Purchasing Organizations established or facilitated by BMOs <u>Baseline:</u> TBD</li> </ul>		<p>The Government's policy prioritizes SME development; Macro-economic situation is stable and there is a trend in improving business environment; There is a demand for Business Development Services from SMEs, as well as readiness to use paid BDS; Selected BMOs have experience in providing Business Development Services and</p>

			Economic environment is favorable for SMEs and they are able to cover the costs of BDS
<p>3. Private sector and governmental side engaged in effective public-private dialogue</p>	<ul style="list-style-type: none"> <li>• At least 3 laws and 10 sub-laws, consulted with BMOs, have been submitted to respective authorities for adoption; <u>Baseline:</u> 0</li> <li>• At least 15 out of 20 trained/coached BMOs established partnerships linkages and created networks and coalitions with other relevant organizations; <u>Baseline:</u> 0</li> <li>• At least 5 municipalities or communities establish dialogue platforms to improve local regulations; <u>Baseline:</u> 0</li> <li>• At least 10 selected BMOs and 10 external BMOs establish cooperation to advocate for independent professional certification; <u>Baseline:</u> 0</li> </ul> <p>At least 10 selected BMOs lead the process of developing industry-based services and goods quality standards. <u>Baseline:</u> 0</p>		<p>The Government retains existing requirements regarding public consultations in policy-making</p> <p>Reform of public administration completed, which underpins strengthening capacity of the Government at central and local levels to develop evidence-based policies;</p> <p>Local government is open to cooperation with the private sector;</p> <p>External BMOs have capacities to cooperate, establish partnerships and participate in advocacy activities.</p>