



**National Endowment
for Democracy**
Supporting freedom around the world



Ministry of Foreign Affairs
of the Czech Republic



SMALL BUSINESS ACT FOR EUROPE AND DEEP AND COMPREHENSIVE FREE TRADE AREAS - ROADMAP FOR ECONOMIC DEVELOPMENT OF MOLDOVA, GEORGIA AND UKRAINE USING EXPERIENCE OF LATVIA OVERCOMING ECONOMIC CRISIS

REPORT AND RECOMMENDATIONS

CONTENT

PART I. INTRODUCTION.....	3
PART II. COUNTRY REPORTS.....	4
GEORGIA.....	4
GEORGIA - 1. Legal and policy framework.....	4
GEORGIA - 2. Taxation	4
GEORGIA - 3. Institutions supporting entrepreneurs.....	8
GEORGIA - 4. Criteria defining SME status.....	10
GEORGIA - 5. Statistics	11
GEORGIA - 6. Access to finances for SMEs	13
GEORGIA - 7. Implementation of DCFTA agreement.....	15
GEORGIA - 8. Entrepreneur's and public opinion on entrepreneurship in the country	16
GEORGIA - 9. Conclusion: Main obstacles for successful entrepreneurship	17
GEORGIA - 10.The following Recommendations should be followed to promote SME development at this stage in Georgia ..	17
MOLDOVA.....	19
MOLDOVA - 1. Legal and policy framework.....	19
MOLDOVA - 2. Taxation	20
MOLDOVA - 3. Institutions supporting entrepreneurs.....	22
MOLDOVA - 4. Support programs for SME.....	25
MOLDOVA - 5. Statistics	27
MOLDOVA - 6. Implementation of DCFTA agreement.....	27
UKRAINE.....	28
UKRAINE - 1. Legal and policy framework.....	28
UKRAINE - 2. Taxation	29
UKRAINE - 3. Institutions supporting entrepreneurs	30
UKRAINE - 4. Criteria defining SME status.....	30
UKRAINE - 5. Statistics.....	31
UKRAINE - 6. Access to finances for SMEs	33
UKRAINE - 7. Implementation of DCFTA agreement.....	33
UKRAINE - 8. Entrepreneur's and public opinion on entrepreneurship in the country	34
UKRAINE - 9. Main obstacles for successful entrepreneurship	35
PART III. CONCLUSIONS AND RECOMMENDATIONS	36
Conclusions.....	36
Conclusions - 1. Legal and policy framework.....	36
Conclusions - 2. Taxation.....	36
Conclusions - 3. Institutions supporting entrepreneurs	36
Conclusions - 4. Criteria defining SME status	36
Conclusions - 5. Statistics	36
Conclusions - 6. Access to finances for SMEs	37
Conclusions - 7. Implementation of DCFTA agreement.....	37
Conclusions - 8. Entrepreneurs' and public opinion on entrepreneurship in the country.....	37
Recommendations.....	37

PART I. INTRODUCTION

This report is a result of a project "Small Business Act (SBA) for Europe and Deep and Comprehensive Free Trade Areas (DCFTA) - Roadmap for Economic Development of Moldova, Georgia and Ukraine using experience of Latvia overcoming economic crisis" supported by Eastern Partnership Civil Society Forum Re-granting Scheme.

The project was implemented by Small Business Association of Moldova (www.amb.md), Georgian association "Women in Business" (www.gawb.ge), European Business Association (Ukraine) (www.eba.com.ua), Business Union of Latvia (www.savieniba.lv).

The report is based on the findings of a study visit to Latvia, comprehensive country reports on the state of play of SME's in Georgia, Moldova and Ukraine, as well as a round table discussion with participation of entrepreneurs and government representatives.

The project partners and authors of this report extend their hope that the information gathered in this report will help SME's and their representatives to better understand state of play for SMEs in partner countries, seeking similarities and finding new ideas for support of SME development. We also hope that recommendations included in Part III will help SME organisations in Georgia, Moldova and Ukraine to provide reasonable proposals to their respective governments on economic reforms needed in order to allow SMEs to fully benefit from DCFTA.

Authors:

Gunta Misāne, Eduards Filippovs (Latvia)

Ihor Samokhodsky, Natalia Kovalenko (Ukraine)

Nino Elizbarashvili (Georgia)

Eugen Roscovaru (Moldova)

Organisations:

Small Business Association of Moldova

Georgian association "Women in Business"

European Business Association (Ukraine)

Business Union of Latvia

November, 2016

Through its Re-granting Scheme, the [Eastern Partnership Civil Society Forum](#) (EaP CSF) supports projects of EaP CSF members with a regional dimension that will contribute to achieving the mission and objectives of the Eastern Partnership Civil Society Forum. The donors of the re-granting scheme are the European Union, National Endowment for Democracy and Czech Ministry of Foreign Affairs. The overall amount for the 2016 call for proposals is 307.500 EUR. Grants are available for CSOs from the Eastern Partnership and EU countries. Key areas of support are democracy and human rights, economic integration, environment and energy, contacts between people, social and labour policies.

This publication has been produced with the assistance of the European Union. The contents of this publication are the sole responsibility of the project partners and can in no way be taken to reflect the views of the European Union.

PART II. COUNTRY REPORTS

GEORGIA

GEORGIA - 1. Legal and policy framework

SMEs development for Georgia is a primary concern to become self-reliant and fight unemployment and poverty in the country. The institutional and legal system of SME development in Georgia started to develop at the end of the 1990s. In 1999 a law "Support Small Enterprises" was passed defining the basic principles for the development of small and medium enterprises. In 2002 (Presidential Decree N 309 of June 22, 2002) special program "The program of the state assistance 2002-2004 for small and medium enterprises" was adopted that contributed to stabilising of activities for the growth of small and medium enterprises. During the last 10 years (2003 - 2012) Georgia has made significant progress in creating a dynamic business environment, has adopted more than 35 institutional and regulatory reforms, which has had a significant impact on the country's economy.

A result is significant progress in institutional framework environment for SME policy and the country continues to be one of the region's best performers in business environment reforms, and was ranked 24th out of 189 countries in the Doing Business 2016 report¹, a dramatic improvement over its 122nd ranking in 2005. The country scores particularly well on the indicators for registering property (1st in the world), dealing with construction permits (3rd), and starting a business (5th), although there is ample room for improvement in resolving insolvency (122nd).

The Government of Georgia has been undertaking certain activities to support the SME sector in accordance with the 2014 Government Program "For a strong, democratic and united Georgia", the Regional Development Strategy of Georgia for 2010-2017, and the Agriculture Development Strategy.

In March 2016 the SME Development Strategy of Georgia 2016 - 2020 and SME development Action Plan for 2016-2017 was developed. Strategy was prepared with consideration to Georgia's priorities and recommendation of SME Policy Index. It envisages a comprehensive approach to establishing a special framework for streamlining functions of Georgian Governmental institutions in terms of support fostering and facilitating the development of small and medium enterprises in Georgia. The strategy focuses on five major directions:

- Further improvement of the legislative and institutional framework as well as the operational environment for SMEs;
- Improvement of Access to Finance;
- SME skills development and promotion of entrepreneurial culture;
- Export Promotion & SME Internationalisation;
- Facilitation of innovation and R&D in SMEs.

For more information see also: Socioeconomic Development Strategy of Georgia „Georgia 2020"².

GEORGIA - 2. Taxation

Taxation System of Georgia – fundamental to state formation and the provision of state services – has long been an issue that has plagued Georgia. Before the Rose Revolution, there was widespread tax avoidance and evasion, reflecting state weakness and corruption, and had severely impact on service delivery. With political will, and specifically with the introduction of a new tax code in 2005, there has, however, been a major change in the Georgian fiscal landscape.

The tax legislation of Georgia consists of the Constitution of Georgia, international agreements and treaties, Tax Code and the sub normative acts passed in accordance with thereof. The present Tax Code, in accordance with the Constitution of Georgia, sets forth the general principles of formation and functioning of the tax system of Georgia, regulates legal relations connected

¹ <http://economy.ge/en/economy-in-figures/georgia-in-international-ratings>

² <http://www.adb.org/sites/default/files/linked-documents/cps-geo-2014-2018-sd-01.pdf>

with the movement of a passenger, goods; and means of transport across the economic border of Georgia, legal status of a person involved in legal relations, a taxpayer and a competent authority; sets forth the types of tax offences, responsibility for the violation of the tax legislation of Georgia, the procedures and conditions of appealing the unlawful actions of the competent authority and its officials, rule of resolving a tax dispute; regulates legal relations connected with the compliance with the tax liabilities.

The goal of the Government of Georgia is to create stable tax system, which will facilitate sustainable economic development and reduce the risks of economic shocks to the minimum. In order to ensure that Georgia still enjoys the status of an attractive place for doing business in future the current low tax pressure policy will be preserved going forward. It fully corresponds with Organic Law of Georgia on Economic Freedom, according to which the existing taxes can be raised or new taxes can be introduced only through a referendum. In this context, the main efforts of the Government of Georgia are directed towards sustaining the stability of the tax system and strengthening the tax administration.

During recent period taxes have been slashed, procedures streamlined, corruption eliminated and compliance greatly improved and deep and comprehensive reforms implemented aimed at creating a level-playing field for the development of private enterprise. All tax and customs reforms and innovations was designed and implemented for number of high-quality services: Restructuring, retraining and innovations such as e-filing have meant a more streamlined and effective Tax Administration.

Georgia is a country with low tax rates and transparent tax system. Tax and customs legislation is unified under one Tax Code and the collection of taxes and supervision of the tax environment is provided by Georgia Revenue Service. All tax administration procedures and customs clearances are online/web-based.

There are only 6 flat taxes in Georgia (see Table 1. Georgia tax code). Only property tax is a local tax, all other taxes are national. Personal income tax for interest, dividend and royalty is 5%. Georgia doesn't have payroll, social security, capital gains, wealth or inheritance tax. Furthermore, the Tax Code of Georgia gives an opportunity to the companies to use accelerated depreciation on capital assets (including full deduction during first year) and loss carry forward for corporate profit tax purposes (10 years).

TABLE 1. GEORGIA TAX CODE

N.	Type	Rate
1	Corporate Profit Tax	15%
2	Personal Income Tax	20%
3	Value Added Tax (VAT)	18%
4	Import Tax	0%, 5% or 12%
5	Excise Tax	on few selected goods
6	Property Tax	up to 1%

According to Tax Code of Georgia, if a company produces goods intended for export market, it can apply for a license about "Internal Processing Regime" to the Ministry of Finance. This license will grant the company a right to import raw materials without paying import/customs tax and VAT on these materials.

For micro and small business status holders there are special, preferential tax regimes. According to "Special tax regimes" of the N415 resolution The Tax Code (Chapter XII), natural person with micro-business status are not subject to income tax and small business status enjoy preferential taxation regime.

Tax Code of Georgia (March 2013) envisages special tax regimes.

Article 83. Special tax regimes shall be applicable to:

- a) Natural persons with a micro-business status;
- b) Entrepreneurial natural persons with a small business status;
- c) Persons with fixed taxpayers' status.

Article 84. Micro business

1. Micro business status can be granted to a natural person who does not use hired labour, carries out economic activity independently, and the gross income receivable thereof during a calendar year does not exceed 30,000 GEL (~11 620,25 EUR). 3. In agreement with the Budget and finance Committee of the Parliament of Georgia the Government of Georgia shall be entitled to prohibit the performance of a specific activity within the frame of which a micro business status may not be granted to a natural person; 5. The granting, cancellation of a micro business status, and the issuance of the micro business certificate shall be performed according to the rule prescribed by the Minister of Finance of Georgia.

Article 88. Small business.

1. A small business status may be granted to an entrepreneurial natural person whose gross income received from economic activity during the calendar year does not exceed 100,000 GEL (~38 575 EUR).
2. In agreement with the Budget and Finance Committee of the Parliament of Georgia, the Government of Georgia shall be entitled to prohibit the performance of specific activities in the scope of which small business status may not be granted to an entrepreneurial natural person.

TABLE 2: TAX RATES AND PAYMENT TERMS

TAX TYPE	TAX RATE	DECLARATION DEADLINES	PAYMENT TERMS
INCOME TAX	20%	No later than 1st April of next year In case of cessation of activities – in time of 30 working days	No later than 1st April of next year In case of cessation of activities – in time of 30 working days
FIXED INCOME TAX	Per calendar month – 10 GEL on 1 square meter		No later than 15th of the following month of the relevant
MICRO business TAX	exempt	No later than 1th April of next year	exempt
SMALL BUSINESS TAX	3%, 5% of total income	No later than 1th April of next year	Note: Person with the status of small business have to pay taxes no later than 15th of next month of every quarter
FIXED TAXES			The taxpayer which pays fixed taxes, does not submit the income/profit tax declaration to the tax authorities
•Supply of goods produced in Tandoor/or services provided by Tandoor	50 GEL on one Tandoor (the accounting period one calendar month)		
•Solarium Services	One workplace (solarium cabin) – 70 GEL per month		
•Pedicure and Manicure (including nails elongation)	One workplace (chair/table) – 30 GEL per month		
•Technical services of cars and repairing, including belts, tire recovery and regenerations, other services done on the territory intended precisely for car services. (carpet cleaning	Place for services for one car – 100 GEL; if it is impossible to define for how many cars the place is intended – for each 40sq.m – 100 GEL per month		

TAX TYPE	TAX RATE	DECLARATION DEADLINES	PAYMENT TERMS
•Hair cutting, correction, stacking (including hair elongation), colouring, curling, straightening, shaving, beard correction, makeup (including eyelash elongation), massage (excluding medical massage) eyebrow correction, epilation (excluding laser treatment), depilation and other cosmetic services.	One workplace (chair/desk/armchair) - 50 GEL (accounting period one calendar month)		
Dividend	5%		
Percent	5%		
Royalty	20%		
Income taxes are applied to commercial property located in international trade zone area and to lessees' income.	3%		
Amount of money paid for international telecommunication services and international freight transportation	10%		
Non-resident subcontractors oil and gas activities' earned income determined by the Georgian "oil and gas" law	4%		
For the non-resident individual the amount paid for the renal service	20%		
According to the code other amount of money is considered as income earned from Georgian sources	10%		
Profit tax	15%	No later than 1th April of next year: During the liquidation of enterprise - 15 days Note: current payments are paid: No later than 15th of May - 25% No later than 15th of July - 25% No later than 15th of September - 25% No later than 15th of December - 25% No later than 1th April of the next year;	No later than 1th April of the next year: During the liquidation of enterprise - 15 days No later than 1th April of the next year
VAT	18%	For each accounting period, no later than 15th of next month	For each accounting period, no later than 15th of next month
Reverse Charge			
Excise	Rates established	For each accounting period, no later than 15 th of next month	For each accounting period, no later than 15 th of next month

TAX TYPE	TAX RATE	DECLARATION DEADLINES	PAYMENT TERMS
Mobile communication services	10%		
Individual property tax	100 000 GEL – income families	No less than 0,05% and no more than 0,2%	No later than 1th of November of calendar year
	100 000 GEL and more – income families	No less than 0,8% and no more than 1%	
Enterprises/ organisations property tax	No more than 1%	No later than 1th April of next year: During the liquidation of enterprise – 15 days	No later than 1th of April of calendar year; current payment – no later than 15 th of June of tax year
The land tax	Agricultural land (ha)	No later than 1th of April of calendar year (enterprises/ organisations); no later than 1th of November of the calendar year (individual person)	No later than 15 th of November of the calendar year
	Meadows and pastures	From 1.5 GEL to 20 GEL	
	Arable land and personal plot	From 50 GEL to 100 GEL	
	The rate is determined by the local government, the amount of which shall not exceed the base rates 150%	0,24GEL	
	Non-agricultural (m ²) The rate is determined by the local government, according to which the base rate is multiplied on territorial coefficient, which may not be more than 1.5		

With the aim to increase foreign investment and export, to reinforce Georgia's trade-transit function internationally and to attract new international financial institutions, Georgia launched 3 Tax-Free Regimes:

- Free Industrial Zone (FIZ): exemption from most taxes for international operations registered within the FIZ of Kutaisi, dedicated to trading & services, heavy industries, warehousing & storage and manufacturing activities, Poti, developing state-of-the-art business centres, industrial and logistic parks and Tbilisi, which includes commercial & office buildings, university campus, hotel facilities, residential area, customs warehousing and logistics centres;
- Free Warehouse Enterprise: exemption from profit tax applied to income received from re-exporting goods and 0% VAT rate on the supply of goods to a VAT taxpayer;
- International Finance Company: wealth management, asset management, financial intermediation and other similar activities are not required to obtain a license from the National Bank of Georgia and are exempted from taxation.

With this purpose, considering the problems revealed, the process of tax administration is simplified; tax legislation is harmonised with the EU legislation and is going under improvement. The Georgian authorities are currently working on an overhaul of the country's corporate tax system, modelled on successful reforms made by Estonia.

For more information see also website of the Revenue Service of Georgia³.

GEORGIA - 3. Institutions supporting entrepreneurs

The **Ministry of Economy and Sustainable Development**⁴ is responsible for SME policy making in Georgia. Since 2012 Georgia has made significant progress in its institutional environment for SME development, in particular with the establishment of two major agencies dedicated to SME support. Georgia has improved the operational environment for businesses with the roll-out of one-stop-shop Public Service Halls and the extension of e-government services.

³ www.rs.ge

⁴ www.economy.ge

In March 2014 in the framework of building a knowledge-based and innovation-driven economy and to support SMEs development under the Ministry of Economy and Sustainable Development **Entrepreneurship Development Agency** (EDA)⁵ or "Enterprise Georgia" and **Georgia's Innovation and Technology Agency** (GITA)⁶ were established.

The main activities of EDA are Entrepreneurial learning, Improvement of access to finance, Export Promotion, Consultancy services. The agency supports SME development using both financial and non-financial instruments, including business skills development, entrepreneurial learning, export promotion, and access to finance.

With a staff of 35 and a budget of GEL 21,7 million in 2014, Enterprise Georgia is currently executing the state program "Produce in Georgia", launched in June 2014. The program targets industrial and agricultural production and has three components: financial assistance, technical assistance (advisory services, innovation etc.) and support for physical infrastructure. Produce in Georgia is implemented in close co-operation with commercial banks, which provide loans for beneficiaries. As of July 2015, 92 projects were supported under this program, more than half of them in the regions. The total volume of expected investment is around GEL 256.4 million, and around GEL 123 million in loans has been approved by commercial banks (EUR 104 million and EUR 50 million, respectively). The average loan size was approximately EUR 1.5 million, which suggests that beneficiaries are not limited to SMEs. Enterprise Georgia is involved in the implementation of 70 projects with an industrial profile, and 22 in the agriculture sector. Under this program the government has granted state-owned property with preferential terms to 37 investment projects.

In 2015, a new project – Supporting Micro and Small Businesses in Georgia – was launched in addition to the "Produce in Georgia" initiative. This aims to support micro and small businesses in the regions. On the financial front, co-matching grants are provided of up to GEL 5 000 (about EUR 2 000), with a minimum 20% cash participation by beneficiaries for single entrepreneurs, and up to GEL 15 000 (approximately EUR 6 000) for groups of entrepreneurs. Enterprise Georgia also provides consultancy services to beneficiaries. GEL 20 million (approximately EUR 8 million) has been allocated for the micro and small businesses component for 2015-17. A monitoring framework for "Produce in Georgia" is in place and independent evaluations are expected to assess its impact over the medium term.

In the framework of building a knowledge-based and innovation-driven economy and to support innovation and technological advancement, the Government of Georgia established Georgia's Innovation and Technology Agency (GITA) in February 2014 - as a main coordinator for the process of building an innovation ecosystem in the country.

The Agency aims to promote innovative entrepreneurship by improving access to financing and entrepreneurial learning, while ensuring a comfortable regulatory framework and supporting research commercialisation. GITA's main objective is to implement the Government's Innovation Strategy and to provide services and programs aimed at enhancing the innovation process in Georgia. GITA is supporting the creation of new businesses, start-ups and R&D commercialisation. GITA also provides assistance to existing SMEs to help them develop their products through innovative approaches.

In May 2016 the first Technology Park was opened with business incubators, innovative and fabrication laboratories equipped with high technology. The facility works with a one-stop-shop principle; it provides different types of services to transfer ideas to businesses. The facility is attracting foreign direct investments and encouraging international tech-based organisations and start-ups to open offices in Georgia.

In Tbilisi, innovation and fabrication laboratories (FabLabs) were established based in universities through public, private and academia partnerships. Massachusetts Institute of Technology (MIT) Bits and Atoms Centre named Georgia as a country of FabLabs, where in each corner of the country, people will get access to the high technology to test their innovative ideas and create new businesses. Also, Innovation Centres and e-Libraries are being created based on regional and village libraries, providing access to modern technology and information to local citizens. This will facilitate the speed of development in the region and fill the development gap which currently exists.

⁵ www.enterprise.gov.ge

⁶ www.gita.gov.ge/en

GITA is providing access to finance through different types of grant programs.

According to the law on Business Ombudsman **the Business Ombudsman** shall supervise protection of rights and legitimate interests of a person related to the entrepreneurial activities performed in the territory of Georgia, reveal the facts of violation of those rights and legitimate interests by an administrative body and facilitate restoration of violated rights in accordance with the rules stipulated by the present law.

In addition, Georgia's "**Entrepreneur Friendly**" Initiative exists to help local leaders build sustainable support programs for small businesses, all of which can be incorporated into the community's overall economic development plan.

The main goal of **The Association of Development and Support of Microfinance Organisations of Georgia** established in 2009 is to support the development of micro finance sector in Georgia, to defend the rights of micro finance institutions, to support their juridical guaranties and the coordination of their activities as well as to prepare proposals for alterations in the legislation in force in order to ensure the same tax regulations for the micro finance organisations as it is in the case of commercial banks. 18 micro finance organisations are members of the association.

GEORGIA - 4. Criteria defining SME status

Georgia currently has two definitions of SMEs, one set by the Law on Georgian National Investment Agency and another (in the Tax Code) used exclusively for tax purposes (Table 3). The Tax Code definition is limited to micro and small enterprises owned and/or operated by self-employed entrepreneurs.

The main definition does not define micro-enterprises and does not include a balance sheet criterion.

TABLE 3. GEORGIA: CRITERIA DEFINING SME STATUS

Company category	Staff headcount		Turnover		Balance sheet total
	Definition 1	Definition 2	Definition 1	Definition 2	
Micro		Self-employed (no hired labour)		≤ 30 000 GEL (EUR 12 800)	NA
Small	<20 employed	Self-employed (no hired labour)	≤ 500 000 GEL (EUR 213 000)	≤ 100 000 GEL (EUR 42 700)	NA
Medium-sized	≤100 employed	Self-employed (no hired labour)	≤ 1 500 000 GEL (EUR 640 000)		NA

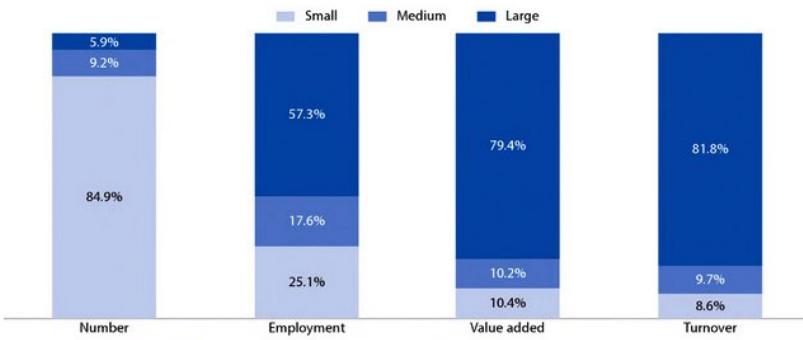
SMEs make a relatively significant contribution to Georgia's economy,⁷ making up 94,1% of enterprises (5 427 medium and 50 536 small enterprises), 42,7% of employment and 20,6% of value-added in 2013 (Table 4). No appreciable changes have been observed in recent years, although there has been a slight decrease since 2010 in their contribution to employment and in the total number of enterprises, and only a modest increase in SME contribution to total value added.

Between 2006 and 2013 (from GEL 2.4 billion to GEL 8.1 billion), SMEs' contribution to total GDP remains low, at about 15%. Moreover, the relative weight of medium-sized enterprises within the SME sector has been reduced, suggesting that businesses face problems in scaling up.

GRAPH 1. BUSINESS DEMOGRAPHY INDICATORS IN GEORGIA, 2013⁸

⁷ [http://www.etf.europa.eu/webatt.nsf/0/E5B597CD15164A86C125800A00334F97/\\$file/SME%20Policy%20Index%20Eastern%20Partners%202016_EN.pdf](http://www.etf.europa.eu/webatt.nsf/0/E5B597CD15164A86C125800A00334F97/$file/SME%20Policy%20Index%20Eastern%20Partners%202016_EN.pdf)

⁸ SME Policy Index SME Policy Index: Eastern Partner Countries 2016, OECD http://www.keepeek.com/Digital-Asset-Management/oecd/development/sme-policy-index-eastern-partner-countries-2016_9789264246249-en#.V9k_dDUx_pw#page2



GEORGIA - 5. Statistics

In 2014, Georgia's economy grew by 4,6% and the average real GDP growth for the first 11 months of 2015 was 2,9%.

It should be noted Georgia's economy is mainly based on a relatively small industrial sector and agricultural processing, which accounted for 24,4% and 9,2% of GDP respectively in 2014 (World Bank, 2015). Compared to an average annual gross domestic product (GDP) growth rate of 6,6% between the period 2010-2012, in 2013 growth rate fell to 3,3%, growth picked up again in 2014, reaching 4,7%, that was boosted by increased trading opportunities with the EU following the signing of the Association Agreement and DCFTA.

However, sustained economic growth has not led to the creation of new jobs and reduction of unemployment, which remains high (over 13%).

In 2011 - 2015 according to the number of operating enterprises, SMEs prevailed in most fields of economic activity, especially they were leading in hotel and restaurant sector (98,5%); real estate (98%); agriculture, hunting, forestry (98,7%); wholesale and retail trade (96%); transport and communication (92,5%); construction (96%); education (96%), etc., and even in manufacturing (96%).

TABLE 4. GEORGIA: MAIN MACROECONOMIC INDICATORS, 2010-2015

Indicator	Unit of measurement	2010	2011	2012	2013	2014 ^a	2015 ^b
GDP growth	Percent, y-o-y	6,2	7,2	6,4	3,3	4,7	2
Inflation	Percent, average	7,1	8,5	-0,9	-0,5	3,1	3
Government balance	Percent of GDP	-4,8	-0,9	-0,8	-1,2	-1,8	-3,1
Current account balance	Percent of GDP	-10,3	-12,7	-11,7	-5,7	-9,7	n.a
Exports of goods and services	Percent of GDP	35	36,2	38,2	44,7	42,9	n.a
Imports of goods and services	Percent of GDP	52,8	54,8	57,8	57,6	60,4	n.a
Net FDI	Percent of GDP	5,8	6,2	3,9	5,6	6,5	n.a
External debt	Percent of GDP	86,8	80,1	83,5	81,7	n.a	n.a
Gross reserves	Percent of GDP	19,5	19,5	18,1	17,5	16,3	n.a
Credit to private sector	Percent of GDP	30,5	32,1	33,7	39,4	n.a	n.a
Unemployment	Percent of total active population	16,3	15,1	15,0	14,6	12,4	n.a

TABLE 5. TURNOVER BY ORGANISATIONAL LEGAL FORMS

Year and quarter	Total	of which:							Other legal status of private law
		Limited liability companies	Joint stock companies	Joint liability companies	Limited partnerships	Cooperatives	Individual entrepreneur		
		Min. GEL							
		1	2	3	4	5	6	7	8
2012	...	42 048,0	33 798,7	4 092,4	34,0	10,3	0,7	2 368,8	1 743,1
2013	...	44 327,9	35 994,0	4 155,3	33,5	9,2	2,4	2 693,7	1 439,9

TABLE 5. TURNOVER BY ORGANISATIONAL LEGAL FORMS

Year and quarter	Total	of which:						Other legal status of private law	
		Limited liability companies	Joint stock companies	Joint liability companies	Limited partnerships	Cooperatives	Individual entrepreneur		
		Min. GEL							
		1	2	3	4	5	6	7	8
2014	...	50 064,7	40 758,3	4 660,4	38,4	15,1	0,5	2 935,7	1 656,2
2015	I	11 027,0	8 904,9	1 245,3	3,8	1,6	0,2	538,9	332,2
	II	12 848,5	10 634,4	1 154,5	7,0	3,0	0,4	618,7	430,5
	III	13 883,1	11 408,4	1 276,2	4,9	3,1	0,2	703,0	487,2
	IV	15 100,1	12 483,2	1 442,8	8,2	3,0	0,7	678,7	483,4
2016	I	12 729,8	10 193,0	1 335,7	3,0	3,1	0,1	629,3	565,8
	II	14 237,7	11 601,2	1 210,7	3,6	3,1	0,0	771,3	647,7

TABLE 6. TURNOVER BY TYPES OF OWNERSHIP

Year and quarter	Total	of which:				of which:
		State	Private		Private (local physical and legal persons)	
			1	2	3	
		Min. GEL				
		1	2	3	4	5
2012	...	42 048,0	1 992,2	40 055,8	27 024,0	13 031,8
2013	...	44 327,9	1 910,6	42 417,4	29 248,7	13 168,7
2014	...	50 064,7	1 927,6	48 137,1	32 683,7	15 453,4
2015	I	11 027,0	585,8	10 441,2	6 919,3	3 521,9
	II	12 848,5	454,8	12 393,7	8 465,0	3 928,7
	III	13 883,1	467,8	13 415,3	8 829,3	4 586,0
	IV	15 100,1	636,7	14 463,4	9 552,6	4 910,8
2016	I	12 729,8	595,7	12 134,2	7 771,3	4 362,9
	II	14 237,7	432,1	13 805,6	9 233,6	4 572,0

TABLE 7. NUMBER OF EMPLOYEES BY ENTERPRISE SIZE

Year and quarter		Total	of which:		
			Large	Medium	Small
		Persons			
		1	2	3	4
2012	...	514 387	304 672	72 429	137 286
2013	...	532 787	314 903	95 261	122 623
2014	...	565 902	332 036	89 382	144 484
2015	I	525 062	329 568	88 163	107 330
	II	547 665	339 873	94 712	113 081
	III	545 692	341 120	91 844	112 728
	IV	564 160	356 322	92 400	115 438
2016	I	541 289	352 004	83 610	105 675
	II	564 468	364 828	85 029	114 610

GEORGIA - 6. Access to finances for SMEs

The economic reforms implemented since 2004 have greatly boosted the stability of the banks and financial institutions in Georgia. This sector has gained strength and stability in several areas, including: capital adequacy, profitability, and asset quality and risk management. Georgia's financial services sector has proven to be resilient despite the global financial crisis and brief periods of political instability. Georgia's financial system is dominated by commercial banks, accounting for about 93% of sector asset. The Georgian banking system comprises of 20 commercial banks and has a high level of concentration, with the two largest banks accounting for about 60% of the banking sector assets. Current loan interest rates start from 11% for consumer loans, mortgage loans, auto loans, etc.

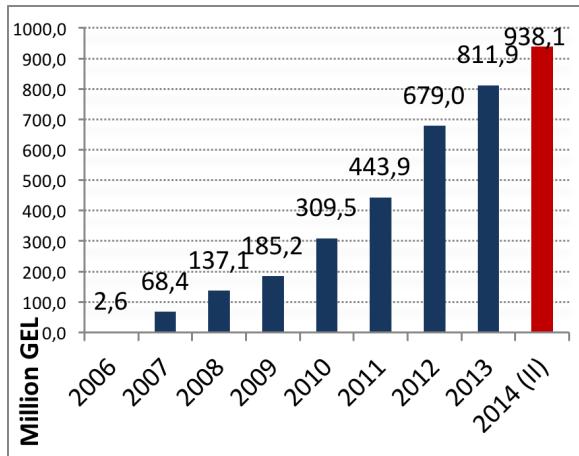
According to the World Bank Doing Business 2015 indicators, Georgia ranks 7 out of 189 economies on the ease of getting credit, indicating that the country's local regulations and institutions (credit information system, legal rights) support lending and borrowing processes. A number of measures implemented during the recent past enhanced the possibilities of an easier access to credit. In detail, central collateral registry was created with an electronic database accessible online; the civil code was amended to expand the range of assets which can be pledged as collateral; a new law was introduced on personal data protection.

Micro-finance institutions are the main alternative sources of financing in Georgia. The micro finance sector is the largest non-bank segment. It accounts for 5% of financial system assets and it includes 72 micro finance institutions. In 2013 compared to the previous year, the number of Microfinance organisations in Georgia increased by 8,1% and by 22,3 times compared to 2006. The sector grew by 260 times on the assets side for 7 years period. The maximum total amount of a microcredit extended by a Microfinance Organisation to a single borrower must not exceed 50 000 GEL.

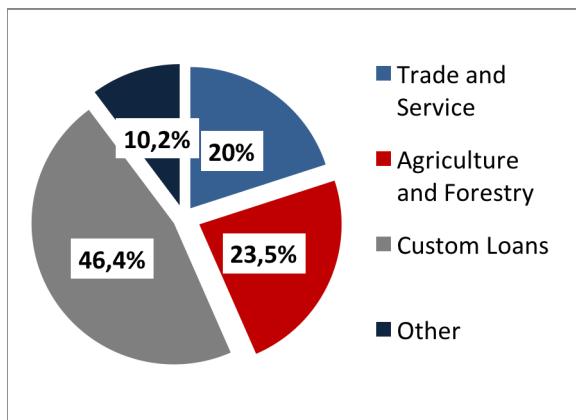
Despite their wide presence, micro-finance institutions lack capital and continue to rely mainly on international donor support. Other sources of non-bank finance remain underdeveloped and lack diversification. Leasing operations are gradually being developed, but do not yet provide a viable alternative for SMEs. Factoring services remain largely unused; improving the contract law framework for factoring transactions would support their development. Despite some developments in the regulatory framework governing investments and venture capital (through the adoption of the Law on Investment Funds), the

private equity sector in general and venture capital activities in particular are at an early stage. Overall, however, financial reporting quality amongst SMEs remains low and further constrains them in accessing bank finance.

GRAPH 2. TOTAL ASSETS OF MICROFINANCE ORGANISATIONS



GRAPH 3. STRUCTURE OF CREDIT PORTFOLIO



In addition, a number of Private Sector Support mechanisms have been launched since 2014. The government's new program "Produce in Georgia" is implemented in close co-operation with the commercial banks and includes interest rate subsidies (see below). Given the novelty of the program, its effectiveness has yet to be evaluated. In general, more commercially based support programs, such as a credit guarantee scheme, would prove more sustainable in the long term and be potentially less distortive for credit allocation.

In recent years, the government has taken a more proactive stance to support private sector development, with various financial and consultancy programs.

Preferential Agro-Credit Project: State Project since spring of 2013, access to financial resources identifies 3 components: Commodity interest-free credit for farmers - 0%; Agro preferential credits for medium and large farmers; Preferential credits for rural agro - industrial enterprises.

Spring Agricultural Program: Program offered agricultural cards to the Small Landowner Farmers. 710 000 farmers over whole country received agricultural cards with amount of 195,8 million GEL (119 million USD).

Produce in Georgia: state program envisages provisions of support to new and existing industrial manufacturing and agro-processing businesses through several instruments, including:

- Co-financing of interest rates on commercial loans extended by private local commercial banks;
- Co-financing of the interest rates on leased equipment provided by private leasing companies;
- Transfer of state property (both land and building) into private ownership for a symbolic price of GEL 1, with certain investment obligations;
- Co-financing of collateral requested by commercial banks;
- Provision of technical assistance.

The state program supported 139 businesses, out of which 93 are new business ventures starting their activities from the scratch. The companies have an anticipated investment value of GEL 360 million, with associated job commitments of 6,700. With the Government's support, commercial banks were able to issue loans for up to GEL 178 million. Based on detailed and constant analysis of the market, new commercially attractive components have been added to the program:

- Hospitality Industry Support Mechanism – Enterprise Georgia will support companies or business entities interested in the development of Hotel Industries in the country via provision of both soft loan in line with Franchising fee co-financing and technical assistance.
- Film Industry Incentives – Enterprise Georgia in partnership with the Georgian National Film Centre – will provide international and local filmmakers with 20% reimbursement of all qualified expenditures.

"Produce in Georgia" is implemented in close co-operation with commercial banks, which provide loans for beneficiaries. As of July 2015, 92 projects were supported under this program, more than half of them in the regions. The total volume of expected investment is around GEL 256.4 million, and around GEL 123 million in loans has been approved by commercial banks (EUR 104 million and EUR 50 million, respectively). The average loan size was approximately EUR 1.5 million, which suggests that beneficiaries are not limited to SMEs. Enterprise Georgia is involved in the implementation of 70 projects with an industrial profile, and 22 in the agriculture sector. Under this program the government has granted state-owned property with preferential terms to 37 investment projects. This aims to support micro and small businesses in the regions. On the financial front, co-matching grants are provided of up to GEL 5 000 (about EUR 2 000), with a minimum 20% cash participation by beneficiaries for single entrepreneurs, and up to GEL 15 000 (approximately EUR 6 000) for groups of entrepreneurs. Enterprise Georgia also provides consultancy services to beneficiaries. GEL 20 million (approximately EUR 8 million) has been allocated for the micro and small businesses component for 2015-17.

Micro and Small Business Support program: a new project supporting micro and small businesses in Georgia was launched in 2015 by Enterprise Georgia in addition to the Produce in Georgia initiative. The program aims at developing micro and small-scale enterprises via the provision of financial assistance mechanisms together with consulting services in order to provide the beneficiaries with the knowledge about modern business practices. The program covers all regions of the country except the capital. Overall the Micro and Small Business Support program will support the establishment and expansion of more than 3,000 enterprises, the creation of up to 5,000 new jobs and the re-qualification of more than 6,000 potential beneficiaries via trainings and individual consultations.

Despite the successes achieved the overall share of SME lending remains low and access to finance is still considered a key obstacle to SME development. SME lending has grown in recent years on the back of lower interest rates. Nevertheless, the overall share of SME lending in credit to the private sector remains chronically low, at around 16%. Collateralisation requirements remain high, coupled with relatively low acceptance of movable collateral in particular. Loan dollarisation also continues to be high, albeit decreasing as a result of a number of measures by the National Bank of Georgia to encourage local currency lending. This poses significant currency risks, especially for SMEs that tend to be non-exporters and thus are not naturally hedged against exchange rate fluctuations. The banking sector is highly concentrated, with the top five banks controlling more than 80% of assets. More competition in this sector could increase sustainable access to finance for SMEs. However, the policy response has largely taken the form of public and donor-funded programs, while relative little attention is paid to promoting the development of private markets for business development services.

GEORGIA - 7. Implementation of DCFTA agreement

On June 27, 2014, Georgia signed the EU Association Agreement, a document of vital importance. The DCFTA, an integral part of the Association Agreement, was ratified by the Georgian Parliament on July 18, 2014. In line with the provisional application of the Association Agreement, the DCFTA, which came into force on September 1, 2014, will enable Georgian entrepreneurs to ensure a place for Georgian products in one of the largest global markets. The agreement incorporates elements which will encourage improvements in the rule of law and in effective governance, as well as further moves towards a well-functioning market economy through the removal of tariff and non-tariff barriers.

The 2014-2017 Action Plan for the implementation of the DCFTA has been developed by the Georgian Government in coordination with the European Union. The DCFTA allows Georgian trade-related laws to generally match selected pieces of the EU legal framework. Georgia's adoption of EU approaches to policy-making will improve governance, strengthen the rule of law and provide more economic opportunities by expanding the EU market to Georgian goods and services. It will also attract foreign investment to Georgia.

TABLE 8. EU-GEORGIA TRADE IN GOODS 2013-2015, € BILLIONS

Year	EU imports	EU exports	Balance
2013	0.7	2.0	1.4
2014	0.7	1.9	1.3
2015	0.7	1.8	1.1

Georgia now has tariff-free access to the EU market of over 500 million consumers. In the first year of implementation of the DCFTA, the trade area, the EU's imports of Georgian products rose by 15%. Export of Agricultural and food products has increased by 19% compare to 2012 and exceeded \$612 million in 2015. Much of the increase was in traditional exports of commodities and raw materials. One of its most important goals, in fact, is that Georgia puts in place regulatory systems that are up to the same standards in the EU - across the board. Very often, the cost of adapting products or systems to comply with the rules in another market is too expensive for small scale producers.

The capacity of Georgian products to find a place in a sophisticated market like the European is encouraging for several reasons:

- It shows innovation in agriculture, a significant part of the economy;
- It shows that Georgia can be competitive in products with a high-value added, meaning they are profitable for the exporters;
- But most importantly this development is interesting because meeting the legal requirements to sell food in the EU is a major achievement

One of Enterprise Georgia's main activities is to help businesses comply with DCFTA requirements.

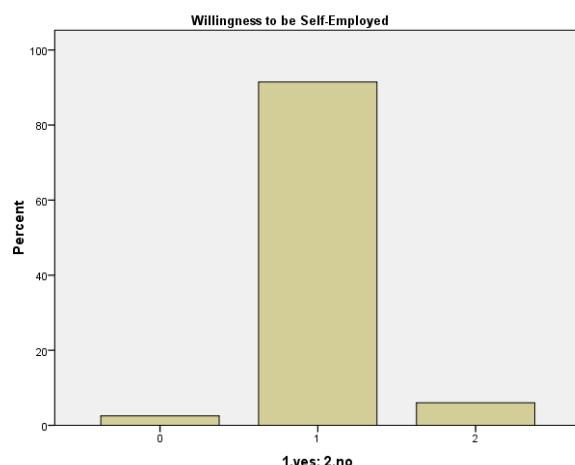
GEORGIA - 8. Entrepreneur's and public opinion on entrepreneurship in the country

The studies conducted during last decades showed that entrepreneurship is the main driving force for the economic growth in Georgia. Public opinion survey on attitude towards entrepreneurship in Georgia has been carried out analysing specific features of populations' attitude towards entrepreneurship, various aspects of entrepreneurial attitudes, future expectations, and identification of attractive sectors for self-employment. Research results are impressive and emphasise peculiarities of attitudes toward entrepreneurship in Georgia on example of Tbilisi.

According to the survey an impressive number of respondents - 91,5% express willingness to become self-employed (see Graph 4).

GRAPH 4. WOULD YOU LIKE TO BE SELF-EMPLOYED IF YOU COULD?

1. YES; 2. NO; 0. MISSING DATA

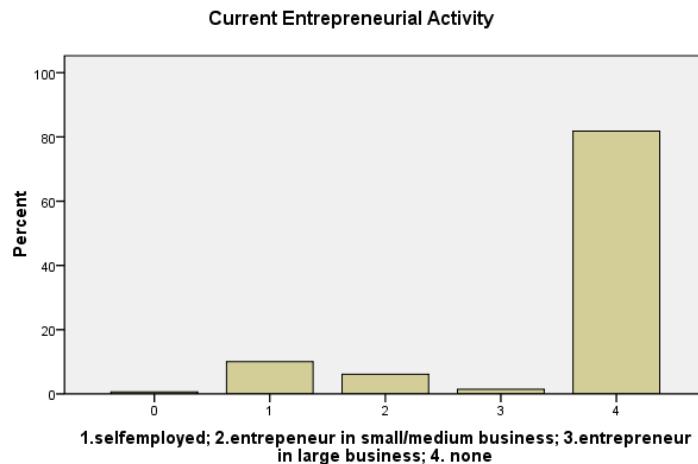


Over the last years on the background of successful reforms in Georgia negative moods towards entrepreneurship are weak. On the background of high unemployment the desire of becoming self-employed is strong. Positive attitudes of the

respondents in Tbilisi towards entrepreneurship indicates their self-confidence, feeling of social and political stability, expectations of success of market oriented economic reforms.

Despite of general willingness to become self-employed, current status of surveyed respondents show a different picture. Answers of the respondents to the question - "Are you currently an entrepreneur/self-employed?"- show that 81,8% of respondents do not run their own businesses, only 10% were self-employed, 6.1% were running small or medium size enterprise and 1.4% were running large business. (see Graph 5).

Graph 5. Are you currently an entrepreneur/self-employed?



GEORGIA - 9. Conclusion: Main obstacles for successful entrepreneurship

Basically there are 13 main obstacles facing an entrepreneur in Georgia. These barriers exist in varying degrees according to the cultural, social, economic and political characteristics of Georgia.

1. Lack of simplifying administrative regulations, reducing the tax burden;
2. Low demand of support measures for start-ups;
3. Lack of access to credit resource;
4. Lack of business experience and efficiency of SME support institutions for women;
5. Lack of budget resources;
6. Low level of competitiveness and quality consciousness of SMEs;
7. Lack of business insurance system;
8. Low investment in SME sector incl. women;
9. Unstable supply of energy resources for enterprises;
10. Large share of false products in market which decreases the efficiency of support measure;
11. Low payment ability among the most population;
12. Lack of SME Development regional infrastructure;
13. Lack of statistical information for evaluation start-up performance & SME growth training.

GEORGIA - 10. The following Recommendations should be followed to promote SME development at this stage in Georgia

1. Adopt a law on small and medium-sized enterprise with account of new reality;
2. Application of RIA – for the assessment of regulatory changes on SME sector;
3. Provision of information - on foreign market requirements and export possibilities for SMEs, by offering consultancy services & innovation support schemes through active policy measures;
4. Promotion of lifelong entrepreneurial learning – by promoting quality of education & entrepreneurial culture;
5. Improvement of SME skills - systematic approach to tracking small business skills for a more efficient and responsive training market;

6. Establish an administrative body that would actively participate in development of the state policy on SME, coordinate and monitor SME-related issues;
7. Based on the EU-Georgia Partnership and Cooperation Agreement, bring the SME status in compliance with the EU legislation to ensure harmonisation of the national legislation with European;
8. Establish SME Development Fund to promote SME development, including through the accessibility of cheap credit resources for novice entrepreneurs;
9. Ensure systematic practical use of regulatory impact assessment, the so-called "SME test";
10. Adopt antimonopoly legislation to foil cartel agreements and promote market access;
11. Firmly establish simplified procedures for fiscal accounting of SME in the Tax Code of Georgia;
12. Change the form of information request in the process of tax control and bring it in compliance with fiscal accounting standards;
13. Promotion of the importance of streamlined SME policies within Georgian administration – raise the profile of SME policies;
14. The results of the Assessment for external promotion on good/improved framework conditions – SME, putting emphasis on effective implementation of the Association Agreement including in such areas as education, R&D, standardisation, labour relations and others;
15. Support the strengthening of the EU-Georgia Business to Business contacts and the internationalisation of business activities in Georgia, in particular through expansion of their relations with European businesses;
16. Improved business environment for all enterprises (including SMEs) by:
 - simplifying administrative regulations, reducing the tax burden & fighting corruption,
 - facilitating free trade, promoting privatisation campaign,
 - initiating a policy partnership platform for promotion lifelong entrepreneurial learning.

MOLDOVA

MOLDOVA - 1. Legal and policy framework

The SMEs sector is of specific importance for the development of the Republic of Moldova. In the period of creation of market relations, the SMEs role was determined not only by the existent structure of the economy, in which a considerable share belonged to the kinds of activities preferred by small enterprises, but also by the availability of human resources having lost their jobs, unused equipment and secondary raw materials that could be optimally used by small-scale businesses.

In the past 20 years the SMEs sector in the Republic of Moldova has improved both quantitatively and qualitatively. Unsurprisingly, the global financial and economic crisis has had an adverse effect on SMEs. Recent studies on the specific impact of the crisis on the SMEs sector, make it possible to better tailor policies that aim to bolster growth in this sector despite a pervasive lack of market confidence.

SMEs constitute an essential share of the total number of economic entities in the Republic of Moldova; they create jobs and modest level of incomes, and supply the market with goods, contribute to the Gross Domestic Product (GDP) of the country (33%). It is very important that will come into effect from 12.16.2016 the new law on SMEs. This law will seek compliance with the 10 principles of the Small Business Act for Europe!

The main strategic document that regulates the entrepreneurial activity developed by the Ministry of Economy is the Strategy on Reform of State Regulation on Entrepreneurship Activity 2013-2020. The Strategy vision is to change the philosophy of the reform effort. In the past, the major focus was on deregulating - eliminating the unnecessary regulations and the excessive administrative requirements, which highlighted the quantity rather than the quality of reforms. Also was created policies and programs on SME (Small and Medium Enterprises). The long- and medium-term policy framework on the development of micro-, small and medium-size enterprises (SME) in the Republic of Moldova is provided by the Small and Medium Enterprise Sector Development Strategy for 2012-2020 and Action Plan of this Strategy for 2012-2014 and Action Plan of this Strategy for 2015-2017. This document meets the need to shift from the consumption-based economic development model to a new paradigm oriented toward exports, investments and innovations, as well as the political commitment of European integration and the global economic tendencies. The 2015 - 2017 Action Plan for the Implementation of the "Small and Medium Enterprise Sector Development Strategy 2012 - 2020" was adopted through Government Decision No 397 of 16.06.2015. The implementation of this plan will fasten the modification and approval of laws and regulations related to the SME sector.

State strategies to support the development of small- and medium-sized approved by Government decision and establish:

- the goals and objectives of state policy in the field of supporting micro, small and medium enterprises;
- target groups of micro, small and medium business covered by the strategic directions of the state policy;
- tasks and concrete measures to implement strategies, including their costs;
- sources of financing;
- public institutions responsible for implementing strategies;
- indicators for monitoring of the implementation and impact generated;
- monitoring;
- deadlines for implementation;
- other provisions necessary to implement the strategies.

Very important is Development Strategy for the implementation of the sector of small and medium-sized enterprises in the years 2015-2017 and Action Plan of this Strategy for 2015-2017. According to the official exchange rate set by the National Bank of Moldova as of 24 February 2016, the total cost of the Action Plan is 1,107,200,000 lei, including.: 243.6 million lei - the means provided in the state budget.; 800.3 million lei - means covered with the help of development partners.; 63.7 million lei -. Means unsecured funds. But from 2005 to 2016 the amount of fines planned in the state budget has increased 360 times.

A successful regulatory reform is an ongoing process of identifying and assessing problems, identifying solutions and reviewing the regulatory framework. The process also refers to the development of institutional capacities and stimuli for encouraging full implementation in practice of the amendments to the regulatory framework, with maximum positive impact on the private sector competitiveness. As a result, the actions taken to foster the regulatory reform in the Republic of Moldova so far can have a legal regulatory aspect – improving the legislation, as well as an institutional and administrative dimension. The legislative efforts made within the reform have included the principles of good regulation. In this regard, there are three phases of the guillotine process. "Guillotine no. 1" has served to eliminate the unnecessary regulatory acts of central public authorities and of the Government. "Guillotine no. 2" has referred to the laws setting the principles of good regulation for the future progress in improving the regulatory environment. It mandated the analysis of the regulation impact (ARI) as a nucleus of a more rational system in developing regulations. Finally, "Guillotine no. 2+" addressed the "permissive acts" in exactly the same way as "Guillotine no. 1" addressed the unnecessary regulations.

According to the National Development Strategy of Moldova for 2020, the Republic of Moldova envisages to improve the business environment so that by 2020 the risks and costs associated with every stage of the life cycle of business are smaller than in the other countries from the region, it being governed by the free competition principle. The impact of business environment improvement will result in more investments and exports, the growth of the number of reliable companies motivated to implement innovations, able to create attractive jobs, ensure high productivity and competitive production for export, sound effect through the advancement of the Republic of Moldova in the international classifications Doing Business, Global Competitiveness Report, Index of Economic Freedom and the Logistics Performance Index, exceeding the average level of the region. Optimising the procedures and term required for an economic entity to launch, conduct and liquidate the business by applying innovative approaches in business regulation, such as the digitalisation of public service delivery, as well as shifting the focus from inspections to counselling, the inspections being underpinned by the principle of the perceived risk, will considerably improve the business environment and diminish the unnecessary administrative costs and, implicitly, will provide economic development. Beside the direct stimulation of business, investments and foreign trade, the optimisation, through its innovative approach in public service delivery, will create a basis and significant incentive for innovations and for new jobs in the private sector. According to Doing Business 2017 Moldova was ranked the following places: Making it easier to pay taxes Introduced or enhanced electronic systems Latvia, Malaysia, Moldova... Making it easier to enforce contracts Expanded the alternative dispute resolution framework- Armenia, Brazil and Moldova introduced laws regulating voluntary mediation and setting incentives for the parties to attempt mediation. Other: GNI Per Capita (US\$) 2,220, Overall 44 47 up 3, Paying Taxes 31 55 up 24, Getting Credit 32 29 down 3, Income Category, Lower middle income.

MOLDOVA - 2. Taxation

The Tax Code regulates the general principles of taxation of the Republic of Moldova, the legal status of taxpayers, of the tax authorities and other participants in relations governed by tax legislation, principles for determining the object of taxation, responsibility for violating tax legislation, as well as the way how to contest the actions of tax authorities. The Tax Code is amended and supplemented annually, according to progress within the business environment, diversification of relations and forms of cooperation, the improvement of mechanisms of management and technological processes, development of informational technologies.

Tax Code. Taxes and their types.

The tax is a compulsory payment charge, which is not related to the performance of concrete and determined action by the authorised body or the person responsible for liability for or against the taxpayer who paid this payment.

Tax is a compulsory payment charge, which is not tax. Other payments within non-fiscal relations governed by the law are not part of compulsory payments, called taxes. In Moldova taxes levied by state and local governments.

The state taxes include:

- a) income tax;
- b) value added tax;
- c) excise duties;
- d) private tax;
- e) duty;
- f) tolls;
- g) wealth tax.

The local taxes include:

- a) real estate tax;
- a1) private tax;
- b) taxes on natural resources;
- c) tax on territory;
- d) the fee for organising auctions and lotteries on the territory of the administrative-territorial unit;
- e) fee for placement (location) advertising (advertising);
- f) local symbols application fee;
- g) fee for commercial units and / or services;
- h) market fee;
- i) accommodation tax;
- j) resort fee;
- k) fee for the provision of passenger transportation on the territory of municipalities, cities and villages (communities);
- l) fee for parking;
- m) fee to owners of dogs.

The total amount of income tax is determined:

- a) for individuals and individual entrepreneurs in the amount of:
 - 7% of annual taxable income that does not exceed 29640 lei;
 - 18% of annual taxable income that exceeds the amount of 29640 lei;
- b) for legal entities - in the amount of 12% of taxable income;
- c) households (farms) - in the amount of 7% of the taxable income;
- d) for operators whose income has been estimated in the amount exceeding 15% of estimated income to gross income recorded in the accounts of the entity.

Compulsory insurance premiums healthcare is set at 9% (4.5% each for each category of payers).

The individual contribution of state social insurance due by the employees, employees with individual employment contract, persons in work relations in the administrative act or by other types of civil contracts for execution of works or services, the people operating in elected or appointed to the executive authorities, judges, prosecutors, ombudsmen to be established in the amount of 6% of the monthly salary and other rewards.

Social security contributions. The size 23% in payroll and other payments employer, legal entity or individual, employer assimilated to:

- Persons employed by individual employment contract, persons in work relations in the administrative act or by other types of civil contracts for execution of works or services, except those specified;
- Moldovan's contracted projects, international institutions and organisations, regardless of the source of financing activities, where international agreements to which Moldova is party provide exemption from payment of contributions for compulsory social insurance;
- Persons who work in elected or appointed to the executive authorities;
- Judges, prosecutors, ombudsmen.

Determine the following odds of V.A.T. :

- a) standard rate - amounting to 20% of the taxable value of imported goods and services and supplies made in Moldova;
- b) The reduced VAT rates - 8% and 6%:
 - 8% - for bread and bakery products, milk and dairy products, delivered in Moldova, excluding foods for - the reduced 8% VAT rate applies to supplies of bread and bakery products and milk and dairy products, except for baby- food which is VAT exempt
 - the reduced 6% VAT rate applies to the supply/import of natural and liquefied gas.
- c) Zero VAT rate . 0% VAT rate is applied to:
 - The export of goods and services;
 - All kind of international transportation for passengers and goods;
 - Electricity, thermal energy and hot water provided to the population;

- Goods and services imported to the Free Economic Zones ;
- Services provided on territory of Moldova by light industry entities under customs regime of active processing;
- Import goods for official use of diplomatic missions in Moldova;
- Import goods for the purpose of technical assistance; Goods delivered to duty-free stores.

INCOME TAX

Income tax is regulated by Parts I and II of the Tax Code of the Republic of Moldova and by the Law on Income Tax Administration and Enforcement of Parts I and II of the Tax Code.

The persons specified in Article 90 retaining a tax amounting to 10% of income received by individuals who run businesses from sending in possession and / or use (lease, rent, usufruct) movable property and real estate, except for renting land.

- The persons specified in Article 90 Budget withhold and pay the tax in the amount of:

- 6% dividend, including the form of shares or share-party except those related to undistributed profits obtained in the fiscal periods 2008 to 2011 inclusive;
- 15% of dividends, including the form of shares or share-parties related to undistributed profits obtained in the fiscal periods 2008 to 2011 inclusive;
- 15% of the amount withdrawn from equity related capital increase of the net profit allocation and / or other sources found in capital between shareholders (associates) in the fiscal periods 2010 to 2011 inclusive in accordance with the level of holding lodged in capital;
- 12% of the royalties paid for the benefit of individuals.

The provisions of the first and second indents of this paragraph shall also apply to dividends paid during the prior fiscal period.

- Each payer of gains is to withhold and pay the tax to the budget in the amount of:

- 18% of gains from gambling, except earnings from promotional campaigns and / or lotteries;
- 18% of earnings from promotional campaigns and / or lotteries in which the value of each gain more than 10% of the personal exemption set out in Article 33. (1), but not exceeding 50 thousand;
- 25% of earnings from promotional campaigns and / or lotteries in which the value of each gain is equal to or exceeding 50 thousand.

- The subjects of taxation individuals not engaged in entrepreneurial and transmit persons specified in Article 54 and other than those specified in Article 90 persons in possession and / or use (lease, rent, usufruct) real estate , pay tax at 5% of the contract value. Persons mentioned are obliged, within 3 days from the date of conclusion of the contract, contract to the tax register in the jurisdiction where they are served. This tax is payable monthly at the latest on the 2nd of the current month or in advance. If the property has been transmitted in possession and / or use (lease, rent, usufruct) after 2 payment deadline this month will be the day from the moment of conclusion. The amount of tax paid in advance will not be refunded from the budget.

- The persons specified in Article 90 retaining a tax in the amount of 2% of the payments made for the benefit of individuals, except individual entrepreneurs and households (farms), the income received by them related to the delivery of cultivation and production horticulture in kind, including nuts and nut-derived products, and production of animal husbandry in natural form, in live weight and sacrificed, except natural milk.

- Retention final tax established by this article exempts the beneficiary of gains and income specified in para. (3)(31)(33)(34) and (35) from their inclusion in the composition of gross income and from declaring.

MOLDOVA - 3. Institutions supporting entrepreneurs

Government

Government carries out domestic and foreign policy of the state, the general management of public administration and is accountable to Parliament. Relations between the Government and the President of Moldova is regulated by the Constitution. In the exercise, is guided by its program of activities approved by Parliament.

General issues related to the competence of Parliament in accordance with its mandates government:

- 1) promotes alive Moldovan laws, decrees Presidential and control the execution of decisions and orders of the Government;
- 2) establishes the functions of ministries, other central administrative authorities and those subordinated to ensure maintenance of central public administration authorities within the limits of funds approved for that purpose by Parliament;

To exercise constitutional powers and those under this law and to carry out the laws, the Government adopts decisions.

Directives are issued by the Prime Minister for the internal organisation of the Government.

Government decisions and orders signed by the Prime Minister.

Some decisions countersigned by the Ministers who are bound to their implementation - decisions on budget execution, use of domestic and foreign loans and credits, conducting financial-economic and social reforms, management of public property - namely, the *Minister of Finance, Minister of Economy*.

Ministry of economy

The Ministry has a mission to ensure national economic growth by streamlining the regulatory framework of entrepreneurial activity, the creation of premises for business development, technological development and competitiveness, creating an attractive investment environment, contribute to the actions of monopolising the internal market and elimination of anticompetitive practices, as well as international economic cooperation.

List of administrative authorities subordinated and monitored by the Ministry of Economy:

- 1) subordinated - Public Property Agency, Licensing Chamber, Energy Efficiency Agency, Consumer Protection Agency, Principal State Inspectorate for Technical Supervising of Dangerous Industrial Objects, State Energy Inspectorate, National Institute of Metrology, National Institute of Standardization;
- 2) monitored - National Accreditation Centre (MOLDAC)

List of public institutions where the Ministry of Economy is founder:

Organization for Small and Medium Enterprises Sector Development (ODIMM), Investment and Export Promotion Organization (MIEPO), Consolidated Unit for Implementing and Monitoring Energy Projects (UCIPE), Implementation Unit for the Grant provided by the Government of Japan to Moldova, Implementation Unit for the World Bank project for competitiveness enhancement

Ministry of Finance

The mission of the Ministry is to develop and implement state policy on public finances.

The Ministry of Finance is the specialised body of central public administration, with legal personality, subordinated to the Government, which develops and promotes the unique policy of the state of public finances. The Ministry has bank accounts and treasury seal with the State Emblem and its name in the state language and other stamps and headers.

Prime minister's Economic Council

Government Decision no. 631 of 22 August 2011 (amended by Government Decision no. 1004 of 28 December 2012). The overall objective of the Economic Council is to improve the competitiveness of the Moldovan private sector and help it benefit to the maximum extent possible from the Deep and Comprehensive Free Trade Area. The Prime minister's Economic Council has a special focus on initiatives aimed at developing the SME sector and improving competition. The objective of the Council is to improve the competitiveness of the Moldovan private sector and help it benefit to the maximum extent possible from the Deep and Comprehensive Free Trade Agreement. Moldova has significant and visible improvement in the ease of doing business by promoting business climate reforms crucial for economic growth and sustainable job creation. Moldovan companies have recently gained free access to the European Union market. Promotes public-private sector dialogue to improve the business environment, eliminate major constraints to the private sector development, ensure a clear, functioning, non-discriminatory and transparent regulatory framework, improve the quality of public services for the business sector, cut red tape and bureaucracy and minimise the risk of corruption, the corruption prevention component being one of the central consideration of the Council interventions. The Economic Council is comprised of three major groups of stakeholders:

- Representatives of business associations and private sector;
- Heads of state institutions (ministries, independent agencies);

- Donor organisations active in the field of business climate reforms in Moldova.

General business development and investment directorate

General business development and investment directorate consists of the following units:

- Investment and export promotion policies directorate
- Policies regulating entrepreneurship activity directorate
- Investment and competitiveness policies directorate

ODIMM

Moldova was created Organisation for Development of Small and Medium Enterprises (ODIMM), which has the status of non-commercial organisation under the Ministry of Economy, and seeks to implement state policy on supporting the development of micro, small and medium enterprises in accordance with strategies to support the development of this sector and other government strategies and programs.

Organisation for Development of Small and Medium Enterprises (ODIMM) is a public, non-commercial, created by Government Decision no. 538 of 17 May 2007 working in coordination of the Ministry of Economy and partnerships with other central and local authorities, business associations, business support providers and SMEs.

ODIMM mission is to contribute to enhancing the competitiveness of the national economy by supporting the development of small- and medium-sized enterprises (SMEs) in Moldova through implementation, monitoring and evaluation of sector programs and international projects.

The task focuses on the following areas:

- Creating opportunities for launching and developing successful businesses, particularly in rural areas;
- Training and amplification culture and entrepreneurial skills;
- Facilitating SME access to financial resources;
- Facilitating SMEs' access to information resources;
- Boosting public-private dialogue;
- Support the development of business support infrastructure;
- Develop and implement programs and projects for the development of the SME sector;
- Management of the State Loan Guarantee (FGC);
- Provide consulting services and training to managers and employees of SMEs;
- Creating and developing a network of business incubators in Moldova;
- Support the formation of clusters and innovation networks;
- Supporting the development of associations and business support institutions;
- Cooperation with similar national and international organisations.

ODIMM works to support SME sector development in Moldova, in accordance with Government priorities set out in its strategies and programs to support small and medium enterprises sector.

Licensing Chamber

Is public body specialised in the Ministry of Economy, which implements state policy regulating the licensing of entrepreneurial activity, according to the competence, and ensuring control over compliance with the license conditions set by the laws that expressly regulates activities licensed, compliance with which is mandatory to conduct activities that genre. Chamber granted licenses for activity established by law, has the task of ensuring a strict licensing conditions necessary for practicing entrepreneurial activities, the exclusion of harming the rights and legal interests and health of citizens, environment and state security.

E-transformation Department

E-Transformation Department's mission is to ensure the synchronisation of sectoral policies and strategies with technological modernisation program in order to achieve effective governance of the tasks and objectives of the authority, increase its operational performance and quality of services delivered to citizens.

Institutional communication platform

Institutional communication platform is a permanent advisory structure that integrates the key factors involved in policy implementation balanced economic development of the country. The platform was established by the Minister of Economy Nr. 140 of 30 July 2013 and meets representatives of institutions and organisations at national and regional level, promoting balanced economic development of the Republic of Moldova and its contribution to creating and harnessing the potential of developing country regions.

The working group of the State Commission for regulating entrepreneurial activity

The working group of the State Commission for regulating entrepreneurial activity was established by Government Decision no. 1429 of 16.12.2008, meets in session every Wednesday at the Ministry of Economy and shall:

- Monitor the activity of public administration authorities with regulatory powers in the field of entrepreneurial activity;
- Evaluate statistics and other information on the impact of state regulation on business activity;
- Examines and approves the acts of regulatory impact analysis on the need for drafting laws and regulations regarding state regulation of business activity; etc

MOLDOVA - 4. Support programs for SME

1. EU program for the Competitiveness of Enterprises and small and medium enterprises (SMEs) 2014-2020 (COSME).

COSME is the EU program for the Competitiveness of Enterprises and small and medium enterprises (SMEs) which runs from 2014 to 2020 and has a planned budget worth EUR 2.3 billion, with leverage able to provide funds up to 25 billion. At September 29, 2014 Moldova became the first member country of the Eastern Partnership, he joined the cosmos. Moldova's participation in COSME provides access to various projects, such as Enterprise Europe Network (Enterprise Europe Network) and is another step in the economic cooperation between Moldova and the European Union. The program will support Moldova to develop and enhance the competitiveness of SME sector, thus contributing to the successful implementation of the Association Agreement and Free Trade Area comprising a Deep and Comprehensive Moldova - EU.

2. Program attracting remittances into the economy - PARE 1+1.

PARE 1+1 aims to mobilise human and financial resources of Moldovan migrant workers in Moldova's sustainable economic development by stimulating the creation and development of small and medium enterprises by migrant workers and remittance recipients. The program will activate the rule "1 + 1" so every euro invested in remittances will be substituted with a leu (MDL) in the form of grants under the pilot program.

3. National youth economic empowerment program.

Development of entrepreneurial skills and knowledge of youth based on the optimal management of resources and facilitating access for young entrepreneurs to financial resources necessary to launch and develop their own business.

4. „Efficient business management program,” funded from the State Budget Increase in entrepreneurship skills to ensure efficient management of the business. Target group: Future entrepreneurs and active entrepreneurs who practice economic activities in any legal form.

5. Special loan Guarantee Fund. Facilitating micro and small enterprises access to financial resources. Target group: micro and small enterprises operating throughout the territory of Moldova.

6. Provision of consultancy experts from Germany etc.

On 19 July, by Law no. 153 of 07/01/2016 came into force amendments to the Law on internal trade nr. 231 of 23.09.2010, providing for simplification of launching a commercial activity. Under the new law, the operating authorisation for commercial and service shall be substituted by simply notifying the town hall. Exceptions are some business with increased risk for human health and the environment, which is necessary for launching additional health or sanitary-veterinary authorisation.

The solutions for reforming the regulatory system will be efficient and sustainable if they are supported by enforcement and implementation mechanisms. To this end, efforts will be made to more actively involve the private sector in the initiation, development and review of regulations. Other important participants in this process are the courts that will need to promptly and accurately respond to the notifications made by individuals and businesses regarding the violation of their rights by public institutions, especially, in terms of the timely issue of permissive documents, provision of a transparent complaints system against all the institutions involved in business and foreign trade regulation, non-involvement of public institutions in the entrepreneurship activity, in case there are no obvious reasons and recovery of damage caused by them in the short term.

Competition is a vital factor for actuating domestic economy, improving the business environment and increasing its attractiveness both for the launch of new businesses and for their development. To ensure efficient and fair competition, the Republic of Moldova envisages to develop and implement a national program on competition and state support by replicating the best European practices to prevent, repress and restrict anti-competition activities of the economic entities and of public administration authorities.

Interesting is the results of the third edition of Moldova Business Week, which took place from 4 to 7 October 2016. Over 1500 companies, representatives of government and development partners, over 80 speakers from Moldova and abroad, over 15 business events proved to be an effective platform to promote Republic of Moldova's image on the international arena as a location for investment with a range of amenities and an open economy. In Moldova operates 9 business incubators and 6 industrial parks. They benefit from European grants and budget support.

The establishment of new enterprises will also be encouraged through the dissemination of success stories in the field of entrepreneurship and by supporting the entrepreneurship spirit, especially, among women, who represent only 27.5% of all the entrepreneurs. The existing mechanisms that provide trainings to small and medium enterprises and financial and logistics support will be extended and diversified. Also, officially launched a pilot project dedicated to the development of female entrepreneurship "Women in Business", which aims to provide financial and non-financial support by awarding grants to businesses managed by women. The "Women in Business" was initiated according to the Government Sector Development Strategy for Small and Medium Enterprises for 2012-2020 and the Action Plan for implementing the strategy for the period 2015-2017, which provides easier access to finance women entrepreneurs , training and information resources. The program was launched for three years and aims to provide financial support for entrepreneurship and more than 400 women, mostly in rural areas of the country. The program budget is 51.5 million lei (MDL). The Government has approved a bill that requires the creation of the Consultative Council for SMEs.

Additionally, the efforts will focus on developing the capacity of quality infrastructure intended to facilitate exports and encourage the implementation of advanced technologies in local companies, including in agriculture so as to ensure the security of consumption. In addition, the implementation of reforms in health regulation and administration can optimally improve productivity and efficiency in the Republic of Moldova.

The economic activity of companies has direct environmental impact. At the same time, the rigid regulations on environment protection impose compliance costs for conducting business. Although these costs are justified from the perspective of sustainable development, there is a risk that the businesses will perceive them as excessive. In this regard, the new regulations will aim at assessing the environmental impact with a view to equally distribute the administrative burden on the economic entities without distorting the market mechanisms and creating prerequisites for unfair competition. The Ministry of Economy started implementing the green economy concept, which will result in the growth of social wellbeing and human capital, considerably reducing the environmental risks and problems with a view to achieve sustainable development and poverty elimination. The green economy represents an economic environment with less harmful effects on the environment and substantial benefits for the society as a whole and for each individual. To this end, the Ministry of Economy joined international programs and platforms of green economy, such as the "Greening Economies in the Eastern Neighbourhood", EaP Green Program", Green Industry Platform, etc.

In a broad meaning, the quality of business environment affects the investment activity and economic development through administrative and compliance costs and risks associated with the opacity of regulations and discretionary enforcement of sanctions. The promotion of intelligent regulation and of a horizontal approach and the establishment of inter-operational standards in the field will create conditions for capitalising all the business development opportunities.

MOLDOVA - 5. Statistics

National Bureau of Statistics informs that, in 2015 the number of small and medium sized enterprises (SME) was 49,8 thousand enterprises, or with 0,5 thousand enterprises (1,0%) less than in 2014. The sector of small and medium sized enterprises represents about 97,2% from the total number of enterprises.

The number of employees working in SME constituted 281,4 thou. persons, which is 55,1% of total number of employees. The turnover in SME in 2015 summed up 86824,6 mio.lei, 30,8 of total turnover in economy.

MOLDOVA - 6. Implementation of DCFTA agreement

Moldova's efforts to increase market-based competition have been enhanced with the negotiation and the subsequent signing of the Deep and Comprehensive Free Trade Agreement (DCFTA) with the EU. The DCFTA has made Moldova improve many of the current legal provisions concerning free market competition and state aid to some economic sectors, so as to ensure a fair, market-based economy. However, the implementation is still deficient given political interference in the market, raising many questions about equal application of the legislation. Nevertheless, more than half of Moldova's exports are currently directed to EU markets. The national currency (the Moldovan leu) has been fully convertible since its launch and no entry or exit obstacles for products are in place. The importance of administered pricing is apparently low, however in most the areas where the state is the only actor providing services prices are considered higher than their real value. According to National Bureau of Statistics, the informal sector has increased to 28% of the GDP in recent years.

In the World Bank's Doing Business Report 2015, Moldova ranked 63rd, an improvement of 19 places in comparison with the 2014 report, mainly due to positive developments in easing the conditions for starting a business, paying taxes and obtaining a loan.

The entanglement between business and politics, reflected in privileged access to political decision-makers by the business elite, still hampers fair competition. Although investments are formally protected by law, there are cases of arbitrary rulings supported by corrupt judges, impeding the free operation of markets.

UKRAINE - 1. Legal and policy framework

In March 2012 "Law on Development and State Support of Small and Medium Business in Ukraine" was adopted. A new definition of SMEs was introduced through above mentioned Law⁹.

According to the Resolution of the Cabinet of Ministers of Ukraine of 20.08.2014 No. 459 the Ministry of Economic Development and Trade of Ukraine is responsible for development and implementation of the state policy in the area of SME development. To solve the problems that restrain development of the SME sector as well as at creation of conditions to fully unleash SMEs potential the Ministry of Economic Development and Trade of Ukraine has developed draft of the "Strategy of Development of Small and Medium-sized Businesses in Ukraine" for the period until 2020 (based on essential European principles). Currently the draft of Strategy is on the official web-site of the Ministry for public discussions¹⁰. Also the Ministry has organised several meetings to discuss the draft Strategy with representatives of international organisations, business associations and civil society.

Limited budget sources for entrepreneurship development have significantly restricted the state support for SME development. To support SME development, currently the Ministry of Economic Development and Trade of Ukraine is executing the following programs: UNDP financed "Strengthening of membership business organisations of SMEs"; EU program SURE - creating 15 regional business support centres. Ukraine recently also has signed up for EU program COSME. As of now COSME is in the process of ratification.

Action Plan for deregulation of economic activities was adopted in March 2015 and is currently being implemented. Key measures have been introduced to create favourable conditions for doing business. At the end of 2015 60 % of tasks determined in the Plan were completed. Currently (mid 2016) the Ministry of Economic Development and Trade of Ukraine has developed the updated version of Action Plan considering:

- (i) abolition of redundant, obsolete and excessive (duplicating) regulations, cancellation or transfer of inefficient, non-relevant functions of the State to private sector;
- (ii) introduction of control from creating new barriers to business;
- (iii) introduction of best international practices.

In 2015 Ukraine introduced the principle of cost-benefit analysis and SME-test. This will significantly improve the quality of a regulatory decision-making process and ensure the implantation and approximation of the national regulatory legislation with European legislation.

⁹ An abstract in English is available by the link <http://zakon0.rada.gov.ua/laws/anot/en/4618-17>

¹⁰ The text in Ukrainian is available by the link <http://www.me.gov.ua/Documents/Detail?lang=uk-UA&id=29c94bc5-77f2-44af-bbf4-5f13e382a3b2&title=ProektPostanovikabinetuMinistrivUkrainiproZatverzhenniaStrategiiRozvitkuMalogoSerednogoPidprimnitstvaVUkrainiNaPeriodDo2020-Roku>

UKRAINE - 2. Taxation

There is a simplified taxation system in Ukraine. The taxpayers pay a Unified (single) tax. Table 1 represents general taxation situation which doesn't contain some specifications and peculiarities.

TABLE 1. TAXATION SYSTEM IN UKRAINE

Groups of taxpayers of a Unified (single) tax	Tax	Legal Form	Staff	Activity	Year turnover shouldn't exceed per year
The first group	≤10 percent of the minimum wage	Sole traders	No employees	Retail sale of goods from trade places and provision of provision household services to people	300 000 UAH (10 605 EUR)
The second group	≤20 percent of the minimum wage	Sole traders	≤10 employees	Production/ sale of goods and services provision (including household services) to single tax payers and people, restaurants	1 500 000 UAH (53 025 EUR)
The third group	3% when VAT is paid separately 5% when VAT is included into single tax	Sole traders and legal entities	No limits	Services and trade with some minor restrictions	5 000 000 UAH (176 750 EUR)
The fourth group	From 0,16% to 5,4% of a normative monetary value of each hectare of the land in use	Agricultural producers		Share of agricultural commodity production for the previous tax (reporting) year equals or exceeds 75 percent.	

Source: The Tax code of Ukraine.

THE GENERAL TAXATION SYSTEM INCLUDES VARIOUS TAXES, INCLUDING:

- Corporate Profits Tax- 18%
- Personal Income Tax- 18%
- Value added tax (VAT) - 20%
- Social Security Contribution- 22% (maximum cap – 25 living wages)

TABLE 2. DATA ON PAYMENTS OF SOME TAXES BY SMES IN UKRAINE

Year / Tax	Payment of single tax, million UAH	Volume of VAT paid, million UAH
2012	3 236,8	806,6
2013	4 620,8	820,8
2014	5 044,9	783,1

Source: State Fiscal Service of Ukraine.

There are some important currency restrictions in Ukraine

Among other numerous currency restrictions since 9 June 2016 until 14 September 2016¹¹ (the period of the restriction is regularly prolonged):

- 65% of earnings in foreign currency received from abroad will be subject to mandatory conversion by servicing banks into the local currency (subject to certain exceptions);
- the limit on cash withdrawals in foreign currency from the bank accounts per 1 person are set in the equivalent of UAH 100,000 (3535 EUR).

UKRAINE - 3. Institutions supporting entrepreneurs

Since 2014 the **Ministry of Economic Development and Trade of Ukraine** is responsible for development and implementation the state policy in the area of SME development on the national level (Resolution of the Cabinet of Ministers of Ukraine of 20.08.2014 No. 459).

On regional level responsible for implementing state policy in the area of SME development are regional state administrations which provide support for SMEs. Each region has unique business support environment. There are many **non-governmental organisations** who are dealing with SME support and development. According to the preliminary data in Ukraine there are following support infrastructures:

- business centres ≈300;
- business incubators ≈ 50;
- techno parks ≈70;
- funds for SME support ≈160.

Business Ombudsman Council (BOC) has been established in Ukraine. The BOC is funded through the Multi-donor Account for Ukraine set up at the European Bank for Reconstruction and Development (EBRD) in 2014. The donors of the Multi-donor Account for Ukraine include Denmark, Finland, France, Germany, Japan, the Netherlands, Poland, Sweden, Switzerland, the United Kingdom and the United States. Business Ombudsman Council is meant to be the first point of contact for companies seeking redress against unfair treatment. The new institution provides for greater transparency of business practices in Ukraine¹².

UKRAINE - 4. Criteria defining SME status

A new definition of SMEs was introduced in March 2012 in the "Law on Development and State Support of Small and Medium Entrepreneurship in Ukraine". The new definition includes micro enterprises for the first time. It is mostly aligned with the EU definition although it does not include a balance sheet criterion.

The State Statistics Service of Ukraine has started to produce data using this new definition.

TABLE 3. SME DEFINITION IN UKRAINE

Company category / criteria	Headcount	Annual turnover
Micro	≤10 employees	≤ EUR 2 million
Small	≤50 employees	≤ EUR 10 million
Medium-sized	All enterprises that do not fall into the category of small or large enterprises	
Large	≥250 employees	≥ EUR 50 million

¹¹ <http://www.bank.gov.ua/document/download?docId=32236400> (in Ukrainian)

¹² Statistics of complaints is available in English by the link <https://boi.org.ua/en/>

Source: Law No. 4618-VI of 22 March 2012 on Development and State Support of Small and Medium Enterprises in Ukraine – amendments to the Commercial Code of Ukraine No. 436-IV of 16.01.2003.

UKRAINE - 5. Statistics

According to statistics the SME sector occupies the key place in the economy in terms of quantity (i.e. number of registered legal entities), employment and sales.

As of 2014 the share of small and medium enterprises in Ukraine accounted for more than 99,9% out of the total number of 1,93 million registered businesses in Ukraine. Out of them medium sized businesses total 16,6 thousand (i.e. 0.9% of total number of business entities), small and micro enterprises (including self-employed individuals) account for 1,9 million (99,1% of total number of registered legal entities), while large enterprises accounted for only 497 as of 2014.

The SME sector plays a significant role in the Ukrainian labour market. In total, SMEs employ 6,9 million of labour age population (including 2,5 million self-employed individuals), accounting for 78,2% of total number of the employed in business entities, or 40% of employed population of total working age population.

At the same time, SMEs generated 60,9% of sales (in goods and services), out of which 1 735,9 billion UAH by medium enterprises (38,9% of total sales), by small (including micro enterprisers) – 981,3 billion UAH (22% respectively).

TABLE 4. MAIN INDICATORS ON SMES DEVELOPMENT IN UKRAINE, 2012-2014*

Indicator / Year	2012	2013	2014
Number of SMEs, particularly:	1 599 429	1 721 411	1 931 664
Micro	1 510 776	1 637 180	1 859 887
Small	68 103	65 021	55 159
Medium-sized	20 550	19 210	16 681
Number of engaged (thousand persons) particularly:	7 473	7 345	6 882
Micro	2 851	2 915	1 396
Small	1 434	1 376	2 719
Medium-sized	3 188	3 054	2 766
Number of employed (<i>thousand persons</i>) particularly:	6 136	5 896	5 185
Micro	1 575	1 536	1 299
Small	1 376	1 308	1 122
Medium-sized	3 186	3 052	2 764
Turnover of SMEs (<i>million UAH</i>) particularly:	2 698 733	2 617 062	2 717 194
Micro	438 100	460 657	486 635
Small	478 187	473 060	494 665
Medium-sized	1 782 446	1 683 344	1 735 894

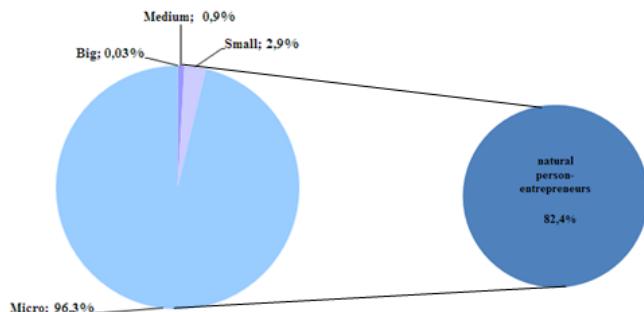
Source. State Statistic Service of Ukraine, 2015. Data represented without consideration of banking sector, budget institutions, and legal entities of temporarily occupied territory of the Autonomous Republic of Crimea and Sevastopol as well as part of antiterrorist operation zone.

TABLE 5. MAIN INDICATORS ON SMES DEVELOPMENT IN UKRAINE, 2012-2014*

SME share in	Ukraine	EU 28
Number of enterprises	99,8%	99,8%
Employment	59,8%	66,9%
Turnover	52,2%	57,9%

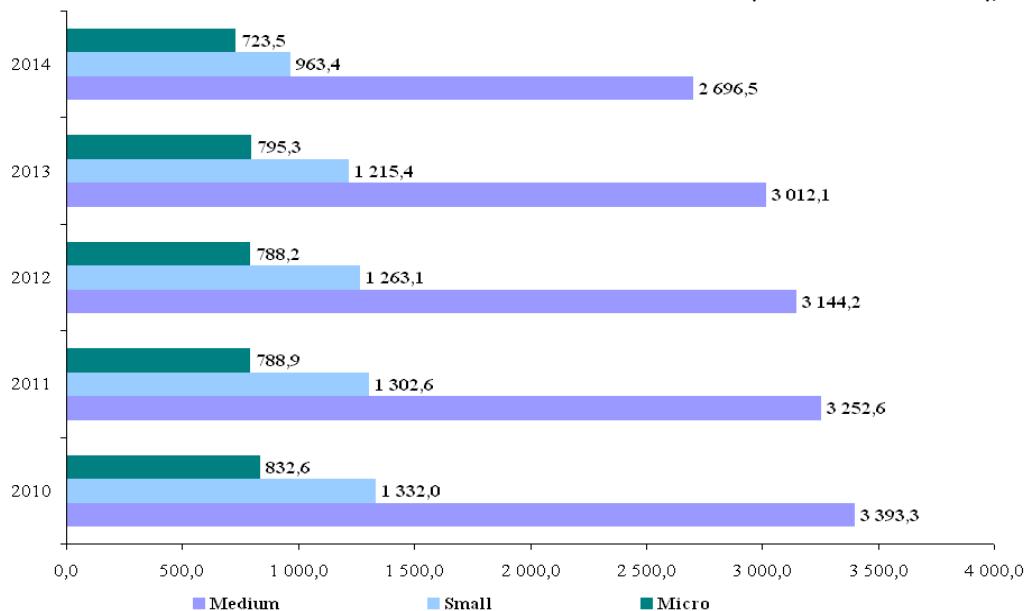
It's obvious that micro and small businesses are the largest groups of enterprises in Ukraine. Thus, the micro-enterprises are 96,3% of all enterprises and small enterprises – 2,9%. In addition, the biggest share has natural persons employed – 82,4% (see Graph 1).

GRAPH 1. NUMBER OF SMES (SHARE IN TOTAL), 2014



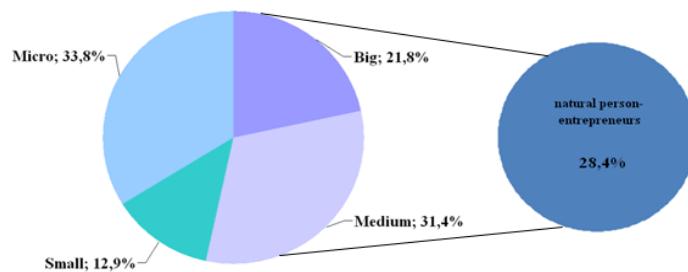
In Ukraine SMEs sector is an important source of jobs for economically active population (see Graph 2). For the period 2010-2014 the number of employees in SME sector slightly decreased: in medium enterprises by 696,8 thousand persons, in small enterprises – by 386,6 thousand persons, in micro enterprises – 109,1 thousand persons.

GRAPH 2. NUMBER OF EMPLOYEES BY SIZE OF ENTERPRISE IN UKRAINE (THOUSAND PERSONS), 2010-2014



As of today the biggest employers in Ukraine are micro-sized enterprises employing 33,8% of employed population and medium-sized enterprises – 31,4 % accordingly. Natural-person entrepreneurs provide work for 28,4% of employed population (see Graph 3).

GRAPH 3. NUMBER OF EMPLOYEES BY SIZE OF ENTERPRISE IN UKRAINE, % TO TOTAL



UKRAINE - 6. Access to finances for SMEs

Currently Ukraine doesn't have large scale governmental programs for supporting entrepreneurs. Previous program included program specialised institution – Ukrainian Fund for Entrepreneurship Support that ended in 2013. Since then almost no State Budget financial resources are provided for SME development and support.

On regional level executive authorities may develop special programs for SME support and development for short and medium period.

State Farmers Support Fund of Ukraine

The farms may address the fund for a return financing. Financial support is provided on a competitive basis, on a rotating basis in an amount not exceeding 250 000 UAH (8835,5 EUR). The budget program "Providing loans to farmers" in 2016 provides 15,8 million UAH.

There are number of international programmes for Ukrainian entrepreneurs considering access to finance, advisory services, business skills development etc.

Ministry of Economic Development and Trade of Ukraine is executing following programs for SME support and development:

- UNDP "Strengthening SME business membership organisations"¹³;
- EU SURE – creating of 15 regional business support centres¹⁴;
- Recently Ukraine has signed EU program COSME¹⁵. As of now COSME is in the process of ratification.

Horizon 2020

Ukraine has joined Horizon 2020. With a budget of almost € 80 billion for 2014-2020, Horizon 2020 is the largest multinational program dedicated to research and innovation. The top five priority areas with retained participation from Ukraine have been environment (including Climate Change); transport (including aeronautics); nano sciences, nanotechnologies, materials and new production technologies; food, agriculture and fisheries, biotechnologies; and space.

UKRAINE - 7. Implementation of DCFTA agreement

The EU and Ukraine have provisionally applied their Deep and Comprehensive Free Trade Agreement (DCFTA) since January 1, 2016. DCFTA is a part of the broader Association Agreement (AA) that political and cooperation provisions have been provisionally applied since November 2014.

¹³ http://www.ua.undp.org/content/ukraine/en/home/operations/projects/poverty_reduction/strengthening-small-and-medium-enterprises-business-membership-o.html

¹⁴ http://europa.eu/rapid/press-release_IP-15-5215_en.htm

¹⁵ https://ec.europa.eu/growth/smes/cosme_en

There is Joint Proposal for a COUNCIL DECISION - Recommendation on the implementation of the EU-Ukraine Association Agenda¹⁶.

The Cabinet of Ministers of Ukraine has developed and adopted detailed Action Plan on Implementation of the Association Agreement between Ukraine and the EU¹⁷ (approved by resolution of the Cabinet of Ministers of Ukraine of 17 September 2014 No 847-р). It stipulates precise action, implementation timeline and responsible Ukrainian agency.

Ukrainian Government regularly publishes reports on Implementation of the Association Agreement between the EU and Ukraine¹⁸.

Though signing of the DCFTA opened the largest market in the world, Ukraine lacks a comprehensive export promotion strategy. The main source of information on export opportunities for SMEs is website www.ukrexport.gov.ua created by Ministry of Economic Development and Trade of Ukraine.

The OECD company survey suggests that more than 80% of SMEs are not aware of any programmes encouraging companies to export or link to multinational companies. The most important barriers for access to international markets quoted by SMEs are lack of home government assistance and incentives, shortage of working capital to finance exports and excessive transportation costs. While the DCFTA is expected to boost FDI in Ukraine, there are no specific government policies promoting or facilitating the integration of Ukrainian SMEs into global value chains and/or FDI backward linkages benefiting local entrepreneurs.¹⁹

In 2015 the European Business Association surveyed more than 100 small and medium sized businesses from 11 regions of Ukraine.²⁰ The survey showed that there are challenges in providing information to representatives of small and medium sized businesses on the EU-Ukraine Deep and Comprehensive Free Trade Area. The vast majority of respondents (80,4%) are not familiar with the activities of the EU aid programs for small and medium business in Ukraine. The respondents cited a number of aspects which SMEs lack to fully benefit from the opportunities the EU-Ukraine Deep and Comprehensive Free Trade Area offer, specifically:

- loans and investment (15%);
- knowledge of the EU market (13,5%);
- opportunities for manufacturer expansion (13%); and
- partners in EU countries (12%).

UKRAINE - 8. Entrepreneur's and public opinion on entrepreneurship in the country

Over years several surveys of entrepreneurs' and public opinion on entrepreneurship status and problems facing SMEs have been conducted in Ukraine. Some of them are provided by non-governmental Ukrainian institutions, some- by national educational and research bodies, some- by projects financed by international donor's support programs.

For example:

- Poll of entrepreneurs about governmental support for SMEs²¹.

Results: 69% of managers reported that they needed online resource where they could find information about the terms and conditions of business and changes in legislation. 59% believe that support from the state will reduce the number of documents required for doing business, and 43,6% - will help transfer of administrative services in electronic form.

¹⁶ <http://eur-lex.europa.eu/legal-content/en/ALL/?uri=CELEX%3A52015JC0004>

¹⁷ http://www.kmu.gov.ua/kmu/control/en/publish/article?art_id=248402403&cat_id=248402399

¹⁸ http://www.kmu.gov.ua/kmu/control/en/publish/article?art_id=248402431&cat_id=248402399

¹⁹ OECD, et al. (2015), *SME Policy Index: Eastern Partner Countries 2016: Assessing the Implementation of the Small Business Act for Europe*, OECD Publishing, Paris. DOI: <http://dx.doi.org/10.1787/9789264246249-en>

²⁰ http://www.eba.com.ua/static/committees/reg_aff/General_report_DCFTAs-Challenges_and_Opportunities_for_SMEs_GE_MD_UA_11052016.pdf

²¹ http://www.ier.com.ua/ua/sme_development/working_papers_sme?pid=5013

- Annual estimation of business climate in Ukraine²².

Results: The paradox of the research is the fact that the majority of Ukrainian SMEs (86%) sees the state as a "barrier" or "enemy" for business and almost the same share (89%) expects direct or indirect support from the state. At the same time, businesses rely significantly more on local authorities (62%) than on national authorities (government - 30%, President - 25%, to Parliament - 22%).

- Index of freedom and opportunities for entrepreneurship in Ukraine²³.

Main "worse" indicators: effectiveness of the judicial system, corruption, - use of credit resources, level of governmental support (benefits, preferences etc.), high level of regulatory burdens.

- Index of doing business for small and medium-sized business in Ukraine²⁴.

The negative obstacles for SMEs are: monopoly, rights protection, taxation, order of closing enterprises.

UKRAINE - 9. Main obstacles for successful entrepreneurship

General situation in Ukrainian economy influences SME development negatively. New initiatives introducing and implementing comprehensive institutional framework for growth is needed. The government is facing the challenge of building a new political and economic model under significant time pressure while needing both to address a backlog of issues and simultaneously to implement reforms in all key areas.

The core economic reforms should be implemented right now are: deregulation, public procurement reform, state owned enterprises governance, tax reform, financial sector reform, export promotion.

1. Taxation system: Simple and friendly taxation system is very important for small businesses. Unified (single) taxation system creates favourable conditions for Ukrainian SMEs.
2. eGov. Corruption together with bureaucracy is among the most important obstacles for SMEs in Ukraine. Implementation of eGov system could be of high importance for Ukrainian SMEs in order to overcome corruption and bureaucracy.
3. Limited access to finance as well as insufficient infrastructure for this purpose. Obviously there is a need in existing of one-stop-agency for providing financial support for SMEs.
4. Advisory centres for citizens on regional level: providing assistance in using eGov services, social security, employment, filing tax reporting, land issues and others.
5. Promotion of SME development: including promotional actions, campaigns, etc.
6. Providing wider access to public information, including allowing secondary use of public data for business in the form of open data.

²² http://www.ier.com.ua/ua/sme_development/working_papers_sme?pid=5292

²³ <http://www.ibf.com.ua>

²⁴ <http://fortetsya.org.ua/news/11794-2016-07-15-08-59-44>

PART III. CONCLUSIONS AND RECOMMENDATIONS

Conclusions

Conclusions - 1. Legal and policy framework

Each country finds its own way of defining legal and policy framework to support SME growth in their country: whether there are specific programmes, strategies, plans devoted to SME growth or the support is mainstreamed in overall government agenda.

Although it must be noted, that written programmes, plans undeniably increases accountability of the government as it provides better tools to business organisations for follows the implementation of these plans.

Conclusions - 2. Taxation

SMEs provide most of the work places in all countries and it should be prized if governments recognise the significance of micro and small enterprises by providing more understandable, simplified taxation systems with lower tax rates for micro and small enterprises.

Even if all countries show that there are simplified procedures in place there still are room for improvement as indicated by entrepreneurs' opinion about current state of play. Moreover there are signs and attempts by governments to "take a step back" and introduce new restrictions on simplified tax procedures as result of inability to ensure sufficient tax administration/ collection.

Conclusions - 3. Institutions supporting entrepreneurs

Clear structure of institutions supporting SME development is a crucial starting point when building support system. Business incubators, competence centres, technology transfer centres, business organisations, government agencies etc. could become crucial turning point for a beginner businessman.

Establishment of a Business Ombudsmen entity like in case of Ukraine and Georgia is a significant achievement if accepted by all involved parties.

Conclusions - 4. Criteria defining SME status

Some of the countries have adopted similar approach to SME definition as adopted in EU countries however there are some parallel local classifications in some of the countries (e.g. Georgia) that might cause few misunderstandings when trying to compare the state of play of SMEs in these countries, limiting the precision of comparison of the role of SMEs in the economy of the country in question.

Conclusions - 5. Statistics

Statistical data in all countries show that SMEs play significant role in the economy of the country, being the largest number of business entities, biggest or significant employer, providing considerable share in country's GDP.

TABLE 1.SME ROLE IN ECONOMY: COMPARISON

SME share in	Ukraine	Georgia	Moldova	Latvia	EU 28
Number of enterprises	99,8%	94,1%	97,2%	94%	99,8%
Employment	59,8%	42,7%	55,1%	66,48%	66,9%
Turnover	52,2%	18,3%	30,8%	45%	57,9%

Conclusions - 6. Access to finances for SMEs

If a government or foreign entities are managing financial support programs to entrepreneurs they should not be scattered over indefinite number of institutions forcing entrepreneurs to spend their time by trying to find these opportunities. Strong business organisations also can serve as a point of access, providing information and knowledge on these opportunities in one place.

Conclusions - 7. Implementation of DCFTA agreement

Signing Deep and Comprehensive Free Trade Agreement (DCFTA) agreements is only a small step to providing access to European market. Creating products and services that are interesting for customers in these markets, finding export channels and distribution networks is challenge that all enterprises interested in export are currently facing.

Creating export support structures, enabling closer and more frequent B2B contacts are instruments that could help business to overcome glass barriers.

Conclusions - 8. Entrepreneurs' and public opinion on entrepreneurship in the country

Public opinion pools and more specifically opinions of entrepreneurs are a good indicator of state of play in the country and sometimes allows for future predictions. Countries showing readiness of people to become self-employed or entrepreneurs could rejoice and hope for more activity in the business arena. However one must remember that real movement could be dependent on whether necessary support structures, programmes and taxation systems are introduced.

Recommendations

Following recommendations are developed on the basis findings of a partner study visit to Latvia, comprehensive country reports on the state of play of SME's in Georgia, Moldova and Ukraine, as well as a round table discussion with participation of entrepreneurs and government representatives. Examples given in recommendations are based solely on the experience of Latvia and it does not exclude existence of other, better solutions in other countries. It is upon each of the partner country to decide if these recommendations are possible to implement for their current situation.

- Following closely the implementation of decisions accepted

Thoroughly developed laws, strategies and programs supporting SME development are only as good as their implementation results. The role of SME associations, business organisations is to closely follow that decisions taken are implemented, evaluate the impact of government programs and suggest changes if they happen to have negative impact on the SMEs life. Effective co-operation between government and business society could prove to be beneficial for both parties – receiving free of charge expert consultancy on one side and gaining possibility to defend business interests on other side. Finding access points to government officials or creating new consultancy formats is a way that should be explored.

- Simplification of taxation system for micro enterprises

There are a lot of enterprises that never going to grow to become business leaders. At the same time, there are many new businessmen who just get started and not always are very knowledgeable on tax issues. Introduction of an easily manageable, understandable, flat rate tax to enterprises could prove to be useful to ignite entrepreneurial spirit even in an economic downturn period. This proved to be effective in Latvia with introduction of Microenterprise tax in 2011. Tax rate is 9% from turnover that should be paid 1 per quarter. Tax replaces state social contributions, both for employees and proprietors, business risk state fee as well as personal income tax or corporate income tax depending on legal form of taxpayer. Legal form of Microenterprise tax payer could be Limited Liability Company or individual merchant or individual performing economic activity without registration as an individual merchant. To qualify for status of Microenterprise taxpayer the following criteria shall be met: employee's income does not exceed EUR 720 per month, turnover does not

exceed EUR 100 000 per year, the number of employees may not exceed five. However close attention should be paid to avoid that the tax regulation is not used to avoid paying full scale of labour taxes by simply registering employees under micro taxpayers therefore diminishing their social security guarantees in future. After serving its role during economic downturn in Latvia, this tax regulation currently is undergoing changes with government defining new support systems to start-ups, business beginners and forever-small ones.

- Wider use of eGovernment services for SMEs

Time is one of the essential resources for entrepreneurs. It should not be wasted standing in lines to submit papers to government institutions, to receive permissions, to register an enterprise. Every personal contact also creates situations that are favourable for corruption; bringing together person who wants to request payment for its everyday duties and person who would be ready to pay for a "blind eye" turned to some imperfections. To save money and time and diminish risks of corruption, most of the state services should be provided electronically - in a fast and transparent way. Use of e-signature and other e-services are lowering administrative costs for entrepreneurs.²⁵

- Providing government services closer to people and SMEs

Even if most of the government services are available online, still there are and will be persons who are not sufficiently computer literate to use them; therefore government should take steps to bring government services closer to its clients. For example in Latvia in co-operation with municipalities currently a number of Government and Municipal Joint Client Service Centres are opening. The plan is to open them in all municipalities of Latvia till 2020 therefore bringing government closer to its people. Main services currently are: assists in using eGov services, social security, employment, filing tax reporting, land issues, providing all municipal services and others. The number of involved government institutions is rising constantly.²⁶

- Access to government information

The data the government already has in one or another register should be available to another government institution. It is an unforgivable waste of resources to request an enterprise for submitting a note from a governmental institution to another governmental institution (e.g. submitting certification from Tax authority in case of public procurement). At the same time these data should be available for secondary use to private companies (pursuant to the rights of private data security). For example data available to Company register of Republic of Latvia is available for analytical services developed by Lursoft²⁷, Ltd. Although not for free, it is an important decision-making support for business persons, leading managers and financiers (Company comparison, Financial ratios of industries, Financial analysis, Extended analysis of companies, Valuation of company, Relationship graph, Insolvency statistics). Also there is a strong movement requesting that all data gathered by public institutions should be available in an open data format to allow public access to their secondary use.

- Approximation of EU approach to classification of SMEs

Although for small, growing countries EU classification of enterprises sometimes might seem ambitious, classifying 90% of enterprises or more in the zone of small and micro enterprises; it proves to be advantageous when it comes to seeking SME support on EU level. The smallest always are supported more. It also allows for better comparison between countries, easier reasoning when explaining needs of SMEs in your country on European level.

- Establishment of "one-stop-agency" for entrepreneurs

Recently established or experienced enterprise either of them would appreciate if all government programs supporting business would be available under one roof, without making enterprises to spend time and energy finding available resources. Latvia has taken a step forward to this goal by creating Altum - a one-stop-agency for entrepreneurs to get state and EU supported financial instruments. Altum administers programs targeted towards: Development of

²⁵ www.latvija.lv

²⁶ www.latvija.lv/pakalpojumucentri

²⁷ www.lursoft.lv

Entrepreneurship, Energy Efficiency, SME Growth program, Agriculture Working Capital program, Micro lending programs, Business Start-up Loans, Agriculture land purchase program, Loan guarantees for agriculture, Loan guarantees, Export credit guarantees, Mezzanine loans, Risk capital funds – venture, risk and expansion capital, Support for organisation of training, Renovation of multi-apartment buildings, Housing guarantees for families with children.²⁸

- Promotion of entrepreneurial spirit

Providing state support to SMEs, creating favourable business environment for SME development is only one side of the process; other side is people who dare to risk and start their own business. Showing benefits of private business, encouraging people to take a step and start business, providing support tools for SMEs, is an essential part of business environment development in every country. Promotion of entrepreneurial spirit could be well performed both by government and business organisations. For example, Business Union of Latvia - an association representing SMEs in Latvia has been active in promoting entrepreneurial spirit. Its major event promoting SMEs is Small Business Day in Latvia on third weekend of every November (activity that has been acknowledged by European Enterprise promotion awards as National winner in 2014). Similar activities are easy to be transferred to other countries as they are organised on a very cost effective basis.²⁹

- Occupational health and safety (OHS)

It is not a secret that due to limited resources of time and finance, sometimes, insufficient knowledge results to down grade of working environment and raises risks of accidents at workplaces. Latvia invests a lot in prevention by offering different practical tools for entrepreneurs. Not only seminars and paper brochures are distributed via different channels but there are various internet based systems sufficient to keep OHS issues up-to-date for almost every company, except those who work in specific areas with higher risk levels (for instance, OiRA: free and simple tools for a straightforward risk assessment process ³⁰).

²⁸ www.altum.lv

²⁹ www.mazabiznesadiena.lv

³⁰ <https://osha.europa.eu/en/tools-and-publications/oira>