

SfS C1 'Business Friendly Administration' (BFA)

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Introduction

One of the U-LEAD with Europe project's Top Initiatives concerns Thematic Support Packages (TSPs), an Initiative designed to build capacity within Amalgamated Hromadas (AHs) so that they can perform or improve the performance of duties for which they are responsible. There are three main types of TSP:

- "Start-up" packages: help AHs to take the first steps immediately after formation (e.g. budget preparation);
- "Steps for Leaders" (SfL): provide Heads or Deputy Heads of AH administrations with an overview of legislation, priorities and potential strategic direction in key areas;
- "Steps for Specialists" (SfS): provide AH staff with sectoral insights into what concrete improvements they could make and how.

Both "Steps" cover 12 themes divided into three clusters. The topic of this document concerns Cluster C and focuses specifically on C1. Business Friendly Administration (BFA). This document provides background information to be read in conjunction with two presentations that have also been prepared:

- A "Steps for Specialists" presentation to be delivered as a 1.5 day Training of Trainers (ToT) for U-LEAD Regional Office (RO) staff. The ToTs will deliver the training to AHs;
- A "Steps for Leaders" presentation to be delivered as a 0.5 day ToT event for RO staff to subsequently train AH Leaders.

This analytical note and the associated SfS presentation have been designed to focus on principles, to be relatively simple and to have a strong practical element, so as to enable AHs to use the information, especially the examples presented. It is a combination of theory and practice. The SfL presentation is a summary of the SfS presentation.

Following discussion with the U-LEAD team, C1. Business Friendly Administration covers the themes of Local Economic Development (LED), Small and Medium-sized Enterprise (SME) Development, as well as Business Friendly Administration (BFA) as they are connected. It also includes an element of focusing on the effect of the COVID-19 pandemic, as it is essential for AHs to recognise its potential to destroy local businesses and thus the need for them to engage with and support local businesses through a turbulent but currently indeterminate economic period.

The Business Friendly Administration (BFA) course comprises the following modules:

- Module 1: Local Development Partnerships
- Module 2: Enabling Entrepreneurship in AHs
- Module 3: BF Infrastructure and Actions by AHs/IMC Consortia
- Module 4: Preparing AHs for Business Development
- Module 5: Active AH Engagement with Business

Module 1: Local Development Partnerships

1.1 Strategic Planning

There is no law in Ukraine that requires or regulates strategic management in local self-government. AH leaders must think strategically because of the need to make choices with limited resources. Since no municipality can achieve every one of its ambitions to the maximum extent possible, it is essential to prioritise. In doing so, it is necessary to distinguish between strategic management and strategic planning.

See U-LEAD (2019) [Reader for Leaders Successful hromada: delivering citizen-oriented services and facilitating sustainable development](#)

1.1.1 Strategic Management and Planning

Strategic management (SM) is about how AH leaders deal with the major dilemmas they face, across all of their responsibilities. From an economic perspective, this means asking:

- How can we make our AH more prosperous?
- How do we bring investment to the AH?
- How can we assist enterprises to create well-paid jobs?
- How can we encourage people to stay in the AH and attract new residents?
- How can we ensure people are satisfied with the services we provide?
- How to stimulate businesses to register in hromadas where they operate?

SM is basically the: **“Formulation and implementation of the organisation’s major goals and initiatives on behalf of stakeholders (citizens and businesses) based on consideration of resources and assessment of the internal and external environments.”** (Readers for Leaders, 2019, p.14)

AH leaders must prioritise and have a **vision and long term goals**, based on a process of involving the key stakeholders in the locality. SM is about setting a clear direction involving **four elements**:

- Developing a vision for the future of the AH and turning it into strategic goals;
- Seeing the ‘whole picture’ by involving the key stakeholders and making connections;
- Linking the strategic goals to resources by making choices and thus prioritising;
- Putting the strategy into action by delegating, motivating, working in partnership, managing relationships, monitoring performance, making changes, etc.

SM is discussed in detail in U-LEAD materials such as the Reader for Leaders (2019). The rest of the focus is on Strategic Planning at AHs.

Strategic Management (SM) and Strategic Planning (SP) are directly connected. **If SM is about “what”, SP is about “how” to achieve the vision and strategic goals of the AH.** There are two main tools for doing so, both of which are discussed below, namely **Local Development Strategies** and **Plans of Socio-Economic Development**.

1.1.2. Visions and goals

A critical aspect of strategic management and planning is setting the vision and strategic goals. The Readers for Leaders (2019, Chapter 1) stresses that vision and strategic goals of the AH authority should become the foundation of every key process and activity:

- It should be the basis for budgeting and budget execution;
- It should determine the staffing and skills that the AH authority needs;
- It should provide the basis for deciding on investments in infrastructure and designing and delivering services that meet citizens' expectations of a better quality of life;
- It should capture the strengths, weaknesses and comparative advantages of the local economy and show a sustainable path to future development and prosperity;
- It should cement cohesion in the community, by ensuring residents' welfare, well-being and access to opportunities.
- It should provide the basis for preparing and putting forward key development projects for external funding from central government and international sources.

The **vision** should be based on analysis and stakeholder engagement (see below) and be ambitious but realistic, constrained only by the AH's mandate and available resources. The AH also needs to develop both high level strategic goals (top priorities; 3-5 year timescale) to achieve the vision, as well as operational goals (connected with the strategic goals; monthly, quarterly, annual). These issues are discussed in detail in the Readers for Leaders (Chapter 1) and are illustrated in the Diagram below.



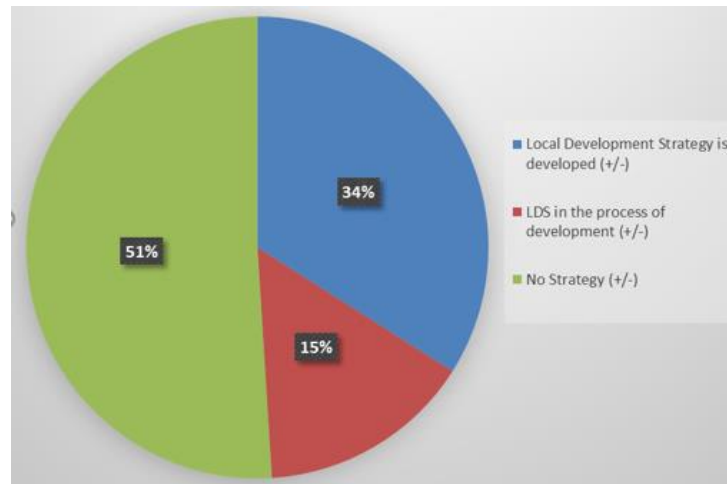
1.1.3. Involving stakeholders

The Readers for Leaders (2019, pp.23-29) also sets out the need to engage and involve stakeholders as part and parcel of the process of strategic management and planning. It notes that the **principal stakeholders are the local citizens** in all its diversity (including gender aspects youth, elderly, minorities, etc.). Others also have to be embedded in the strategic process, including **businesses** (the main focus of this paper, since they contribute to the AH budget through taxes, fees and charges, act as clients of the AH authority, and provide jobs, income, goods and services), as well as **visitors, local civil society organisations (CSOs)**, such as NGOs, chambers of commerce and other business associations, trade unions, youth groups, etc.

Various parts of this paper discuss different aspects of involvement of stakeholders, such as information provision (e.g. website), consultation (e.g. on a new programme), public private dialogue, etc. The issues of **communicating with and involving stakeholders is an underlying principle** throughout the process of becoming a Business Friendly Administration.

1.1.4. Local Development Strategies / Plans

Although **not mandatory**, many AHs have or plan to create **Local Development Strategies (LDS)**. The latest data available (U-LEAD, 2020) “Overview of the Local Development Strategies” shows that 450 out of 1029 AHs had developed LDS and 155 were in the process of developing them. This is illustrated in the Diagram below.



The Ministry for Regional Development, Construction and Public Housing and Utilities of Ukraine (MinRegion) has issued guidance on how to create these Strategies “[Guidelines on the Formation and Implementation of Strategic and Programmatic Documents for the Socio-Economic Development of the United Territorial Community](#)” (2018).

The Guidelines define two types of documents:

- Local Development Strategy (5-7 years);
- Plans (programme) of socio-economic development.

The typical **LDS structure** is illustrated below.

Box 1: Guidelines for Local Development Strategies

Example: [Piskivska \(local\) Development Strategy 2018-2025](#)

I Introduction (methodology, participants)

II Community Development Analysis

1. Socio-economic analysis
2. Results of survey - key indicators
3. SWOT Analysis - Conclusions
4. Comparative advantages, challenges, risks
5. Community Development Scenarios
6. Implementation of tasks

III Strategic Vision, Development Goals and Tasks

1. Strategic Vision
2. Development Goals - Strategic and Operational Tasks
3. Strategic Goal 1. The development of the economy on a sustainable and innovative basis
4. Strategic Goal 2. Creating a comfortable living environment and European quality of service
5. Strategic Goal 3. Civil Society Development and Improvement of Community Governance
6. Strategic Goal 4. Tourism and Recreational Development
7. Coherence of the Strategy of Development of the Piskivska CTC with other strategic documents

IV. Action Plan for the Strategy, Time frame, means of fulfilment

V. Implementation and monitoring of the Strategy

VI. Catalogue of technical tasks and projects of local development for 2018- 2020

Tentative financial plan for implementing the Strategy

The Piskivska Consolidated Territorial Community (local) Development Strategy 2018-2025 example in the Box above highlights some of the **basic principles** involved, namely:

- Strategic and operational goals for the long-term (5-7 years);
- Link to the State Strategy for Regional Development of Ukraine and the relevant Regional Development Strategy;
- Establishment of a Working Group which may include representatives of village, town, city council, NGOs, enterprises/entrepreneurs, academics, politicians, etc.;
- Preparation of strategic goals and a detailed action plan, as well as a link to resources.

Local Development Strategies are expected to be made mandatory based on the draft law [“On Amendments to the Law of Ukraine” On Principles of State Regional Policy](#) developed by MinRegion that is under discussion but not yet submitted to the Verkhovna Rada for approval.

1.1.5. Socio-Economic Plans

The **Plan (programme) of Socio-Economic Development (PSED)** has also been subject to the previously mentioned [guidance](#). The structure of PSEP is quite similar to the LDS process described earlier. Unlike the LDS, **the PSED is mandatory** and is directly linked to state transfers. When a strategy is developed for 5-7 years, the plan is a one-year document according to the Law on [‘State forecasting and development of programmes of economic and social development of Ukraine’](#).

According to the MinRegion Guidance, the PSED is a document that is developed, as a rule, for the implementation of the Local Development Strategy. It ensures its implementation, specifies tasks and activities within the LDS; responsible executors, deadlines for implementation of measures, approximate amounts of funding, sources of funding and indicators for assessing the effectiveness of the measures.

The Box below illustrates an example of the PSED.

<p>Box 2: Plan of Socio-Economic Development of Vyshnivets 2020</p> <p>I Introduction</p> <p>II Analytical part</p> <ol style="list-style-type: none">1. Geographical location and description of adjacent territories2. Demographic situation, labour market3. The state of development of infrastructure4. Dynamics and features of socio-economic development (SWOT analysis)5. Financial and budgetary situation <p>III Goals and priorities of OTG development for 2020</p> <p>IV Main Tasks and Mechanisms for Implementing the Plan</p> <p>V Financial Support for the Plan</p>
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1.1.6. Link to AH Budget and Implementing AH strategies

The reality is that the best of strategies often “sit on the shelves” once they are completed. There are many reasons for this but the key one is that they are often not linked to the budgetary process, which is a key aspect of strategic management.

The relevance of the above issues is recognised in the Readers for Leaders (2019, p. 39-43),

which notes that The **AH budget is the main vehicle for delivering these strategic goals**, which must be financed by securing **income sources** (including external funding from central government and international sources, as discussed in Module 4). This means that the budget should be planned and executed around priorities and there are advantages to formulating a strategic framework as the foundation for medium-term budgeting.

1.2. LED/SMEs development/business friendly administration (BFA)

1.2.1. AH responsibilities in enterprise development

When it comes to local development, AH leaders tend to focus primarily on social issues and infrastructure (e.g. schools, cultural centres, etc.). They generally fail to consider the private sector as one of their main priorities. Consequently, AH leaders are neither well-informed about the private sector in their territory nor aware of their needs and priorities. This needs to change and is one the main reasons for Business Friendly Administration training course.

The U-LEAD Reader for Leaders (Chapter 9, Local Development, 2019) stresses that **growing the local economy is central to the everyday life in AHs**, since it influences **jobs, living standards and quality of life**. A thriving local economy generates (self)employment, disposable incomes and prosperity, which in turn results in greater business activity, leading to a virtuous cycle of further investment resulting in local people opting to remain in the locality and contribute to the local community.

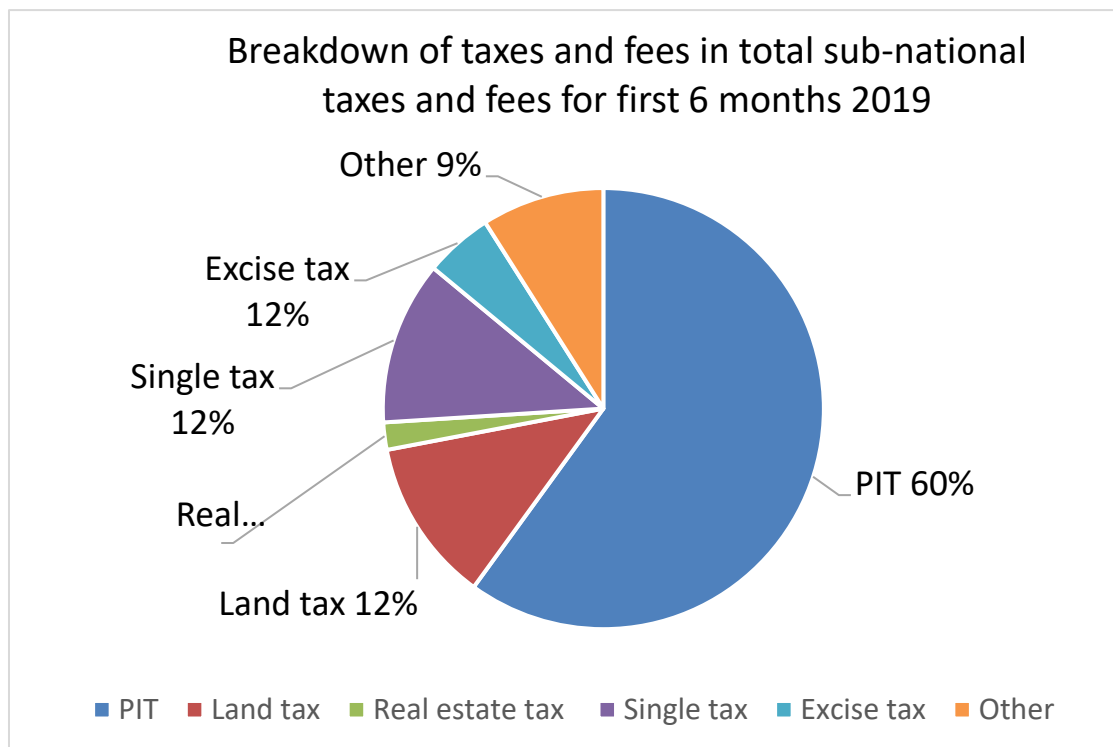
Ultimately, a strong focus on local businesses leads to the **generation of tax and other revenues** that enable the AH to invest in better education and training, health and social care, water and waste management, transportation and other key services. **The more local business there is, the greater the revenues and thus services.**

Put simply, AHs benefit from revenues that derive from local economic activity, including **Personal Income Tax (PIT), single (фізична особа-підприємець, ФОП /FOP) taxes, land and property**. Another potential contributor to AH resources comes from the profits generated by **municipal enterprises**. The Diagram below shows the sources of potential AH revenues (U-LEAD, 2019, p.106).

Potential "own revenues" for AHs (2019)

Own-source revenues	Shared taxes and fees
<ul style="list-style-type: none"> • Single tax • Property tax (including land tax, real estate tax, and transport tax) • Fee for parking spots • Tourism fee • Part of the net profit (income) of municipal unitary enterprises and their associations, which is credited to the budget • Fee for depositing temporarily available funds of the local budgets • Administrative fines and other penalties • Fees for the licenses for certain business activities and certificates, which are issued by executive bodies of local councils and local executive bodies • Administrative fee for state registration of legal entities, individual entrepreneurs and public organisations, proprietary rights to real estate and their encumbrances • State duty • Revenues from the sale of derelict property 	<ul style="list-style-type: none"> • Personal income tax (60% of total sum paid on the territory of AH) • Excise tax from retail sale of excisable goods by legal entities (100% of total sum) • Excise tax on produced or imported fuel (13.44% of total sum) – until the end of 2019 • Enterprise profit tax for enterprises and financial institution in communal property (100% of total sum) • Rental fees for special use of forests, water resources and mineral resources of local significance for extraction (100% of total sum) • Rental fee for the use of mineral resources for the extraction of oil, natural gas and gas condensate (3% of total sum)

The Diagram below (U-LEAD, 2019, p.107) demonstrates the **disproportionate fiscal impact of the Personal Income Tax (PIT)** on AHs budget. Its share varies from 30% to 70% of AH total tax revenues.



The fact that **AHs are able to retain 60% of PIT** from the employees of enterprises that are registered in its territory is a **major incentive to stimulate new firms and help expand existing businesses**, thus creating more and better jobs, generating higher revenues and incomes. It also shows that **the fight against the grey economy** (and salaries in “envelopes”), the need to **improve tax administration and compliance** and the need to raise **the business registrations in the AH**, are all crucial for the AHs.

This means trying to become a **Business Friendly Administration (BFA)** that:

- Retains existing businesses or attracts existing businesses to register in the locality;
- Encourages new entrants by stimulating start-ups and facilitating inward investors;
- Fosters the growth ambitions of both new and established businesses.

While AHs can rely on state subventions and other fiscal transfers in the short-term, **a strong local economy is essential for ensuring a financially viable and sustainable AH** in the long run. Although economic development may not be a strict legal requirement, there is a very good reason for all AHs to focus on this aspect. Internationally, **it is good practice for municipalities to engage with Local Economic Development (LED), Small and Medium-sized Enterprise (SME) develop and become a Business Friendly Administration (BFA)**. It not only increases revenues but it also generates cooperation and trust between the public and the private sector. There is a **lot of common ground**. Both sides want stability and long-term prospects and they rely on each other for this. In working towards these common goals, regular and effective **communication** with each other is critical in enhancing those common interests and maintaining trust and cooperation.

1.2.2. Definitions and links between LED / SME support / BFA

When we discuss the AHs becoming Business Friendly Administrations (BFA), we use this as a term connecting three interrelated aspects, as discussed in detail below, namely:

- Local Economic Development (LED): this is a framework for economic development based on cooperation between AHs, businesses and the local community;
- Small and Medium-sized Enterprise Development (SME): this is about supporting different types of enterprise, including self-employed (FOP), with various measures;
- Business Friendly Administration (BFA): this is about recognising and responding to the needs, costs and priorities of businesses.

Local Economic Development (LED)

See Bertelsmann Foundation [Strategic Management in Local Economic Development](#)

Local economic development (**LED**) is the process by which public, business and NGOs work jointly to create better conditions for economic growth and employment generation with the aim to improve the prosperity and quality of life for all within a certain area.

It means AHs working to build up the economic strength of a local area to improve its economic future and the quality of life of its inhabitants based on its unique local conditions. It involves a **collaborative process** to understand and act strategically on its own strengths, weaknesses, opportunities and threats so as to make the local area more attractive to business, workers and supporting institutions.

LED is founded on the **principle** that enterprises create wealth, jobs and improve living standards in AHs. However, businesses depend on favourable local business conditions to achieve prosperity. AHs thus have a critical role in creating favourable environments for business success and job creation. LED is fundamentally a **partnership between local government, business and community interests**.

LED is brought about through a **LED strategy**, typically five years with short-, medium- and longer-term deliverables. The **focus of LED is broader** than SMEs or being business friendly. LED Strategies are discussed in detail in Module 4, Section 4.2.2.

Small and Medium-sized Enterprise (SME) Development

Although a lot of attention is given to large firms, **SMEs are the key to sustainable economic growth and prosperity** in developed, developing and transition countries. They are crucial to the economy in terms of sheer **number of firms, employment, value added, productivity, innovation**, etc. The Law “On Development and State Support of Small and Medium-Sized Businesses” and the Commercial Code of Ukraine regulate the sector. The data show that SMEs dominate the business base, representing **95% of companies** ([UkrStat, 2019](#)), as illustrate in the Table below.

Type	Employees	Number, 2018
Small, including	10-49	339374
<i>micro</i>	0-9	292772
Medium	50-199	16057
Large	200 +	446
Total		355877

Enterprises take **various legal forms**, such as a Limited Liability Company (LLC). In addition, according to the data of State Fiscal Office of Ukraine, as of beginning of 2020, there were **1,9 million self-employed individuals** (фізична особа-підприємець / FOP) in Ukraine. The different forms have different legal obligations (business registration, potentially VAT registration, tax declarations, etc.) and thus must **interact with public administration** at different levels of government. The FOPs are as important to support as the SMEs themselves.

There is a constant process of **birth** (start-ups) and **death** (closure, bankruptcy) and **AHs have a critical role to play by providing support** to start-ups, micro-enterprises and SMEs as they evolve, within the limits of available resources (budgets and staff). AHs must analyse the needs of SMEs, liaise with them and their stakeholders (e.g. Chambers and business associations) and create favourable conditions for establishment of start-ups and business growth.

Business Friendly Administration (BFA)

Business friendliness can be defined as an **explicit attempt by local government to reduce the regulatory and non-regulatory barriers, costs, risks and uncertainties in commercial activity to stimulate and support local business growth, local business retention and the attraction of new business to the local area.**

The **business environment** is of critical importance. **Rules and regulations** are necessary for a fair and functioning society as they safeguard people's rights as consumers, employees, investors or innovators. Enforced properly, they create a "level playing field" for all enterprises, allow fair competition and stimulate economic development. But regulatory compliance creates costs for businesses and ultimately their customers. Hence, they **should be designed to be administered as easily as possible**, without losing their effectiveness.

Seen from this perspective, the hromadas' primary role in economic development is to **create the right conditions for businesses** to set-up, invest, grow and employ, through the way it spends its budgets and interacts with the private sector. All enterprises should find an AH that is "**open for business**", ready and willing to answer questions and aid all enterprises, new and existing, FOB and SME. The AH should support business in seeking **quick and efficient solutions**. Moreover, the AH should maintain **continual communication** with businesses. This covers well-elaborated regulations, high quality public administration to implement them, and predictable, impartial and efficient justice to enforce them (see 1.5 below).

1.2.3. AHs and National and Regional Policy System

AHs do not operate in a policy vacuum. While AHs tend to focus their efforts on their specific localities, it is important to be aware of the fact that the **regional economic development framework** (Regional Development and Smart Specialisation Strategies) is of major relevance, as is the **national policy framework**, not least the National SME Strategy of Ukraine and the related Action Plan). To a lesser extent, the AHs and the businesses within their localities are also responding to the **European** (Accession Agreement and Deep and Comprehensive Free Trade Area) **and global opportunities**. In order to engage effectively with LED, SME and BFA development, **AHs must link with these wider processes**.

National SME and Regional Development

The [Strategy for SME Development in Ukraine 2020](#) (Decree of the President of Ukraine No.

5, 24 May 2017) and the Government's [Action Plan](#) (Cabinet of Ministers Order No. 292, 10 May 2018) form the basis for SME development in Ukraine. The objective of the Strategy is **to facilitate business development in Ukraine, create favourable conditions for opening and running SMEs, and expand the SME sector by consolidation of all stakeholders' efforts to ensure socio-economic development of the country and raise standards of life.** The strategy has six strategic directions:

- Creating a favourable environment for SME development;
- Improving access to finance for SMEs;
- Simplifying tax administration for SMEs;
- Promoting an entrepreneurial culture & developing entrepreneurial skills;
- Promoting SME exports / internationalisation;
- Improving competitiveness & developing the innovation potential of SMEs.

The Action Plan is based on priorities to be achieved within those six strategic directions. AHs should be aware of its intentions and priorities yet determine their own focus in reflection of the specificities and unique needs of their local economy. This is often converted by municipalities, such as cities, into an **SME Programme**. The Ministry of Economic Development, Trade and Agriculture (MinEconomy) and the MinRegion have issued joint guidance on how cities and AHs may develop their SME Programmes. This is discussed in more detail in Module 4, Section 4.2.2.

Regional Development Strategy and Smart Specialisation

Ukraine has a draft [National Strategy for Regional Development 2027](#), whose objectives are:

- Strengthening the competitiveness of the regions;
- Territorial socio-economic integration and spatial development;
- Effective governance in the regional development sphere.

Furthermore, the 24 Oblast State Administrations have coordinated the elaboration of their own Regional Development Strategy (RDS), one aspect of which focuses on SMEs. The Box below shows the content of the **Chernihiv RDS** for illustrative purposes.

It is critical for all AHs to ensure that their development plans are consistent with those of the regional and to a lesser extent the national RDSs.

Box 3. Chernihiv Region Sustainable Development Strategy until 2027

I Introduction & Strategy preparation process

II Socio-economic development trends and problems

1. Geography, administration, urban planning, economic development, structure of the economy, etc
2. Sectors: Industry, Agriculture, Tourism sectors, etc.
3. Investment (national and international), business environment, research, intellectual property and innovation
4. Infrastructure: transport, Communication, Energy, Utilities
5. Social infrastructure: Education, Healthcare, Culture and leisure, Physical culture and sports
6. Other: social security, families, civil society, information, disparities, environment, gender, budget

III Main issues and Development Scenarios

1. SWOT Analysis
2. Comparative advantages, challenges and risks
3. Scenarios for the development of the region until 2027

IV Strategic vision of Chernihiv

V Strategic goals

SG 1 Human potential development

SG 2 Comfortable and safe living conditions
 SG 3 *Increasing regional economic competitiveness*
 3.1. Realization of regional investment potential, increase of investment receipts
 3.2. Sustainable development of the agro-industrial complex
 3.3. Development of high-tech industrial production
 SG 4 *Accelerated innovative development of priority areas of economic activity*
 4.1 Increasing the production of quality agricultural raw materials and the development of its in-depth processing
 4.2. Development of "green" technologies and bioeconomy
 4.3. Development of information, information and communication technologies and their implementation
VI Compliance with the State strategy of the Regional Development of Ukraine
VII System of monitoring and evaluation
 Environmental assessment of the draft Sustainable Development Strategy for the period up to 2027

As can be seen in the box above, there is a **very strong economic / SME / business environment element** within the RDSs. The AHs operate within policy, institutional, financial and other ambit of the Regional Development Strategy of their Oblast. It is **neither possible nor desirable to develop a stand-alone approach**. It should also be noted that an important element of the new RDSs is the incorporation of a [Smart Specialization](#) (S3) approach withing the RDS, which aims to boost growth and jobs by enabling regions to identify and develop their areas of competitive advantage. S3 is a strategic way to create productive collaboration between actors with the objective of stimulating innovation-driven growth (see Box below).

Box 4: Smart Specialisation (S3): an important new concept in Ukraine

Smart specialisation is an innovative approach that aims to boost growth and jobs by enabling each region to **identify and develop its own competitive advantages**. Smart specialisation is a **place-based approach**, meaning that it builds on the assets and resources available to regions, and on their specific socio-economic challenges in order to identify unique opportunities for development and growth. A **strategy** means making choices for investment. Regions should support only **a limited number of well-identified priorities for knowledge-based investments and/or clusters**. **Specialisation** means focusing on **competitive strengths and realistic growth potentials** supported by a critical mass of activity and entrepreneurial resources. Setting **priorities** should be an inclusive process of stakeholders' involvement centred on "**entrepreneurial discovery**", that is, an interactive process in which market forces and the private sector are **discovering and producing information about new activities**, and the public sector assesses the outcomes and **empowers the actors most capable of realizing this potential**.

For example, the **Chernihiv RDS (Box above)** emphasises the following S3 potential:

- Increasing the production of quality agricultural raw materials and the development of its in-depth processing;
- Development of environmental technologies;
- Development of information, ICT and their implementation in various spheres of life and production.

It is important for AHs to **link with the regional S3 focus** and seek to further these policy priorities, where relevant to their territories.

Unless AHs connect with the new development agenda created by their RDS and the S3 element of it, they are less likely to access the resources available (e.g. [State Fund for Regional Development](#)) and other opportunities. At the moment, there is no direct connection between smart specialization priorities and financial sources (e.g. SFRR) but regions are likely to pay more attention to financing of smart priorities.

European Economic Development Frameworks

AA and DCFTA

The EU and Ukraine have provisionally applied the [Deep and Comprehensive Free Trade Agreement](#) (DCFTA) since January 2016. DCFTA means both sides will mutually open their markets for goods and services based on predictable and enforceable trade rules so that new opportunities will be created for the EU and Ukraine businesses, investors, consumers and citizens. By more closely aligning Ukraine's regulations with EU legislation, the DCFTA

will promote higher quality standards for products and will increase the levels of consumer and environmental protection. The DCFTA will create business opportunities in both the EU and Ukraine and will promote real economic modernization and integration with the EU. Higher standards of products, better services to citizens, and above all Ukraine's readiness to compete effectively in international markets should be the result of this process.

The DCFTA is part of the broader [Association Agreement](#) (AA) between the EU and Ukraine that creates a framework for co-operation between them. The Ukraine - EU AA is ambitious, covering reforms on economic recovery and growth, governance and sector co-operation in more than 30 areas, such as energy, transport, environment protection, **industrial and SME cooperation**, social development and protection, equal rights, consumer protection, education, training and youth as well as cultural cooperation.

Small Business Act

When it comes to the topic of this training programme, the main policy document is the **Small Business Act (SBA)**, which sets 10 principles to guide the conception and implementation of policies both at EU, country (and potentially regional and local) level, so as to bring added value, create a level playing field for SMEs and **improve the legal and administrative business environment**. The 10 SBA principles are illustrated in the Box below.

Box 5: Small Business Act for Europe: 10 Principles

1. Create an **environment** in which entrepreneurs and family businesses can thrive and entrepreneurship is rewarded
2. Ensure that honest entrepreneurs who have faced bankruptcy quickly get a second chance
3. Design rules according to the "**Think Small First**" principle
4. **Make public administrations responsive to SMEs' needs**
5. Adapt public policy tools to SME needs: facilitate SMEs' **participation in public procurement** and better use State Aid possibilities for SMEs
6. Facilitate SMEs' **access to finance** and develop a **legal and business environment** supportive to **timely payments** in commercial transactions
7. Help SMEs to benefit more from the opportunities offered by the Single Market
8. Promote the upgrading of skills in SMEs and all forms of innovation
9. Enable SMEs to turn environmental challenges into opportunities
10. Encourage and support SMEs to benefit from the growth of markets

Source: [Small Business Act for Europe](#)

1.2.4 AH Role within the LED/SMEs/BFA Ecosystem & COVID-19

The challenge for the AHs is to put all the above together. This requires them to recognise that they are not solitary, independent players, but **connected to the European, national and regional policies** that affect the business sector. A focus on LED requires AHs to understand their role in knitting together the needs of the local community, as well as of the business sector. At the same time, they need to understand the needs of different types of enterprise and FOB in terms of policies and support measures. Finally, they also need to be aware of the fact that the **local business environment strongly influences potential, new and established enterprises** in terms of the local rules and regulations, meaning that they need to create a business friendly administration that listens to and engages with local businesses. Module 2 focuses specifically on what it means to be a BFA.

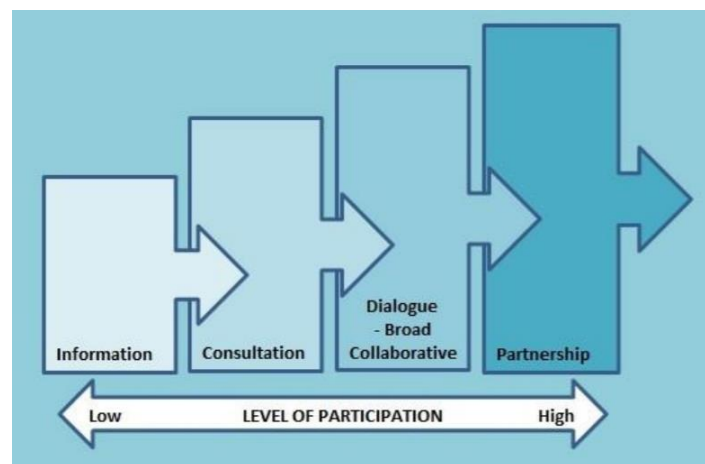
1.3 Local Development Partnerships with Businesses (principles, who, how)

It is increasingly recognised that **constructive relationships need to be established** between public authorities, civil society or NGOs and the private sector (large and small

businesses). In this context, **partnerships between AHs and the business sector are a precondition** of effective efforts to create a business friendly administration and environment. Local development partnerships between AHs and the business sector and their representatives requires a **willingness to engage proactively and in a spirit of cooperation**.

1.3.1 Levels of engagement: information, consultation and PPD

The involvement between an AH and stakeholders such as NGOs and business representatives, in the different steps of the political decision-making process, varies according to the degree of intensity of participation. **Four distinct levels of increasing participation exist**, as illustrated in the Diagram below.



- **Information provision to business:** access to information is the basis for all subsequent steps in the involvement of stakeholders in the political decision-making process. This is a relatively low level of participation which usually consists of a **one-way provision of information from public authorities and no interaction** with stakeholders is required or expected. An example would be a document on a website (see Section 3.2.1);
- **Consultation with business:** public authorities ask NGOs and other stakeholders such as business representatives for their opinion on a specific policy topic or development. Consultation usually includes the authorities **informing NGOs and businesses of current policy developments and asking for comments, views and feed-back**. The initiative lies with the public authorities, not with the NGOs and businesses. Consultation is relevant for all steps of the decision-making process, especially for drafting, monitoring and (re)formulation of policy;
- **Dialogue with business:** a broad dialogue is a **two-way communication** built on **mutual interests and shared objectives** to ensure a **regular exchange** of views. It ranges from conferences to specialised meetings between NGOs/businesses and public authorities and is wide-ranging. A collaborative dialogue is built on mutual interests for a specific policy aim, such as relating to LED/SME/BFA issues, and usually leads to a **joint plan or project**. Collaborative dialogue consists of regular meetings and often leads to agreed outcomes;
- **Partnership with business:** implies **shared responsibilities** in each step of the political decision-making process from agenda setting, drafting, decision and implementation of policy initiatives. It is the highest form of participation and is only realistic to aspire to in the case of mature BFAs.

1.3.2. PPD partnership: principles, example, dos and don'ts

In the context of partnerships, an appropriate definition is: *“Public Private Dialogue” refers to the structured interaction between the public and private sectors in promoting the right conditions for private sector development, improvements to the business climate... It is about stakeholders coming together to define and analyse problems, discuss and agree on specific reforms, and then working to ensure that these ideas become a reality.”* (World Bank, 2009, p.5, emphasis added - Review of World Bank Group Support to Structured Public-Private Dialogue for Private and Financial Sector Development)

PPD with business can lead to substantial improvements by generating **policy-relevant insights, validate policy and regulatory proposals, build consensus and momentum for change and secure ownership and participation by stakeholders**. Both sides have something to gain through participation in PPD:

- AHs: can gain input and insights on business conditions, bolster legitimacy, obtain support for or extend its BFA role in the local economy;
- Private sector: can draw attention to problems and secure support for business development, such as streamlining local regulations. The business sector can cooperate with AHs in establishing a supportive and predictable business environment.

Below we set out some examples of AH – business partnerships to illustrate what is possible to do.

AH PPD Partnership

An example of where **PPD with the private sector** has been established is Nizhyn town and later AH. Nizhyn considered that it was important to establish a new basis for cooperating with the SME sector because the town lagged behind Chernihiv in terms of SME development and there was little understanding of its importance among local authorities and the business community. The PPD is illustrated in the Box below.

Box 6: Nizhyn Cooperation with Businesses: Example of PPD

Steps of establishing PPD

- 1. Creation of the Task Force on Development of SME part of the Strategy of Nizhyn Town Sustainable Development until 2027**
 - Task Force of 15 members, 7 of which were representatives of the private sector
- 2. Development of SME part of the Strategy of Nizhyn Town Sustainable Development until 2027:**
 - Module 1: Introduction to the Pilot Programme. Analysis of SME sector;
 - Module 2: Vision and Strategic objectives for SME development. Coordination with national documents;
 - Module 3: Implementation of SME policy on regional/local level. Good practice.
 - Module 4: Action Plan. Implementation, monitoring and evaluation;
 - Module 5: Public-Private Dialogue. Finalising strategic planning documents.

Representatives of businesses actively participated in all Modules, participated in development of all TORs
Two applications to the State Fund for Regional Development were prepared.

- 3. Creation of the Task Force on implementation, monitoring and evaluation of the progress in attaining the operational goal of SME Development, as part of the Strategy of Nizhyn Town Sustainable Development until 2027**
 - Officially approved by the Order on Nizhyn town mayor #227, 11.09.2018, including regulations on the functioning of the Task Forces;
 - Number of working group participants become members of implementing and M&E body in Nizhyn: 10 out of 15;
 - Task Force includes 17 members, 9 of them are from private sector;
 - Regular meetings and reports on attaining the operational goal;

- Joint work on implementation of initiatives indicated in the operational goal (e.g. Nizhyn business school)

Source: FORBIZ Progress Report, official documents of the Nizhyn Town Council

The **principles** that AHs would need to consider in establishing PPD are:

- Business should be involved in strategic planning from the very beginning;
- Task Forces on SME development should be balanced in terms of number of representatives from the public and private sectors;
- Business should be encouraged to take part in the life of the AH, not only to solve certain problems but to help in the AH's development;
- Business should obtain evidence that their ideas and suggestions are supported;
- PPD should not be stopped after the adoption of strategic document; rather, business should be actively involved in monitoring and implementation of SME related initiatives.

1.3.3. AH Partnerships (e.g. Regional Agency of AH, Chernivtsi - RAC)

The fact is that **most AHs are quite small and rural in nature**. This means that although adjacent areas may theoretically compete for economic/SME development, in many cases it may make much more sense for **groups of geographically adjacent AHs to cooperate on economic development matters** through a joint approach. This could be in relation to the LED/SME/BFA strategy, as well as in pursuing **specific projects**, such as the establishment of a common business incubator where it would not make sense for an AH to do it alone.

Some examples of AH Partnerships for Local Development exist. The [Vynnytsia Regional Association of Local Self-Government Bodies](#) and the [Regional Agency of AH, Chernivtsi \(RAC\)](#) were both formed as initiatives by active Mayors of hromadas in the respective regions. They have **39 and 19 AH respectively members**. Both represent their members to the respective regional Oblast State Administrations and have a particular interest in negotiating the allocation of funds (i.e. subsidies on education and health, grants from Regional Funds, share of the road fund) to their members and also attracting funding from other (international) sources.

Members of the RAIF highlight the lobbying carried out to secure extra funding for AHs in mountainous regions (special funding) as their particular function. Three Mayors of AHs are also members of the Regional Council in Ivano Frankivsk, which is helpful for lobbying and being informed. For **both regional associations**, dealing with the **business environment is of high importance for creating economic development**, including for more revenues to service provision.

The **RAC is an agency focusing on Local Economic Development**. The members of the two associations found that it is **important to develop more inter-AH cooperation**, including with Ukrainian cities, and also **negotiate more systematically with the oblast** on municipal financing. An important message is that it is important to consider such tool where it makes sense to do so, taking into consideration the membership and other costs involved.

Box 7: Example of Vinnytsia Regional Association of Local Self-Government Bodies

The Vinnytsia Regional Association is a not-for-profit association that is devoted to protecting the interests of local self-government bodies in the Vinnytsia region. The Regional Association was founded in April 2012 with the active support of Polish development assistance and Vinnytsia Regional Council, among others, bringing together more than 478 local councils, including 39 AHs. The Vinnytsia Regional Association is run by a Secretariat from the Centre for

Communications, External Relations and Fundraising and the Centre for Organisational and Legal Support, Investment.

Main tasks and activities:

- Information, methodological and practical services that facilitate economic, social and cultural development of local communities;
- Meetings, training activities and working meetings
- Representation of the interests of members at the regional and state level
- Platform for analysis and discussion AH issues (lobbying)
- Development a network of experts to provide advisory and legal assistance to the members
- Network of partnerships in Ukraine and 12 international partners (e.g. Poland, Italy, France, Georgia, Azerbaijan and USA)
- Fundraising by applying for and implementing grant projects to develop local communities
- Consultation & information about its activities (e.g. "Bulletin of Vinnytsia self-government")
- Active website on the Association and its members, competitions, good practice, development funds, etc.
- Social networking , including Facebook", "Instagram", "Twitter", "Telegram", "LinkedIn", etc.

Source: <http://sg.vn.ua/en/about-us/istoriya/>

The **principles** that AHs would need to consider in establishing **inter municipal cooperation** are illustrated in the Diagram below, though it must be stressed that this can be a complex process involving many tools, ranging from informal mechanisms (e.g. Memorandum of Cooperation) to complex legal forms (e.g. Public Private Partnerships).



A 5 step process can be envisaged (see [Inter-municipal Cooperation in Planning and Service Delivery: Analysis and Recommendations](#)):

- Context: two or more AHs become aware of the common challenges for development;
- Analysis: they examine the obstacles to development, as well as the common potential;
- Development: they set common goals, priorities and specific activities;
- Implementation: they create institutions and distribute costs, benefits and responsibilities;
- Evaluation: they monitor and evaluate progress and recalibrate the future activities.

For further information see the Council of Europe's [Toolkit Manual Inter-Municipal Cooperation](#). For a database of Polish examples of IMC see this [link](#).

Exercise: Development of intermunicipal cooperation: steps and principles

1.3.4. Partnerships with Oblast/RDA, SMEDO, InvestUkraine, chambers

In addition to the previously mentioned forms of partnership, it is also **important for AHs to establish cooperation with a number of key institutions**, if it is to successfully implement a LED/SME/BFA approach. AH's are not alone and there are many institutions whose job it is to support the same agenda, even if their main role is not to directly support AHs.

Regional Structures (Economic Development Department, Regional Development Agency)

The Oblast's Economic Development Departments (EDDs) are responsible for charting the

course of economic development, including SME development, at the regional level. The EDDs perform this role through various initiatives, including:

- Regional Development Strategies, including a small businesses and a Smart Specialisation focus (see 1.4 above);
- SME Programmes: set out diverse initiatives to support small businesses (see 4.2.3);
- Operation of the Regional Development Fund, including SME development (see 4.5.2);
- Other initiatives, such as the Entrepreneurship Development Funds (EDF) and Regional Development Agencies (RDA), to support small businesses (see 4.5.2).

It is of crucial importance for the AHs not only to **build excellent cooperation and partnerships** with the regional level structures, especially the EDDs, RDAs, EDFs, etc. These **relationships will pay off in the medium to long term**, in terms of being successful in ensuring that regional opportunities and funds flow towards well networked AHs.

SME Development Office (SMEDO)

SMEDO is an advisory body of the MinEconomy with responsibility for SME matters:

- SME information: www.sme.gov.ua (there is also the Ministry of Digital Transformation's Diia portal: www.diia.gov.ua);
- SME strategy and action plan: coordination, monitoring and evaluation (see 1.3.2);
- SME programmes/projects: aspects of EU programmes, pilots on SME Support Points (see Module 3.2.3), SME factoring through the ProZorro procurement platform, etc.

Since **SMEDO is the principal resource focusing on small businesses**, it is important for AHs to understand this body and its activities, such as the SME Support Points within the Centres for Administrative Services (SNAPs). SMEDO is also aware of the **latest developments** in terms of policy, measures to support small businesses, donors active in the country, new sources of SME funding, etc.

Chambers of Commerce and Business Associations

Each region has a multiplicity of business management organisations (BMOs), including the regional offices of the Chambers of Commerce and Industry, as well as sectorial and other business associations. It is essential for all AHs to do a **stocktake of all such organisations** within their territories and understand their membership and services, and support their needs. AH communication with businesses should be **open, transparent and inclusive**, enabling all businesses and BMOs to **establish long term cooperation** with the AH (see communication issues in 1.5, Module 5). For example, many AH's are interested in developing investment projects and to attract investors to their localities. This means working with the local, regional and national BMOs active in relevant sectors to generate contacts and opportunities, such as based on particular industries or sectors (see 3.2.5).

Exercise: Establishment of cooperation with business associations: benefits for AHs

UkraineInvest <https://ukraineinvest.com/>

Some AH's are interested in **attracting foreign direct investment (FDI)** to local opportunities. If so, they need to develop the necessary orientation and tools, including developing Investment Passports and Business Proposals (see 3.2.3). However, **AHs are not alone** in this effort. In particular, they need to **build cooperation with InvestUkraine** since it has regular contact with **existing and potential investors** and their particular needs. UkraineInvest is **actively looking for investment opportunities** in these areas:

- Agribusiness / Agritech;
- Energy / Alternative Energy;
- Manufacturing;
- Aerospace and technology;
- Infrastructure;
- Information Technology;
- Fashion, etc.

Even if a particular AH's investment priorities do not fit the broad range of sectors mentioned above, UkraineInvest is an important organisation to maintain good working relations with. Many potential investors contact them and express their needs. UkraineInvest can potentially match investors with a particular AH or business proposal.

Module 2: Enabling Entrepreneurship in AHs

2.1 Understanding entrepreneurship (risk, types of firm, development goal)

The **business environment** is of critical importance because rules and regulations are necessary for a fair and functioning society. Yet **rules and regulations create compliance costs for businesses** so must be designed to be business friendly. In this context, the hromadas' key role is to **create the right conditions for businesses to set-up, invest, employ and grow**. Creating a business friendly environment for potential entrepreneurs and existing SMEs is one of the key challenges of AH administrations. But this means AHs understanding the different types of business, recognising the risks they face, and their **role in supporting businesses to start, survive and grow**. This brings major benefits to AHs.

2.1.1 Business risk

Without local businesses, there can be no additional AH revenues and thus neither high quality public services nor civil servants to administer those services. **The more local businesses and employment there is, the higher the revenues an AH can generate.**

But every potential and actual entrepreneur must take into consideration the **risk of failure**, as well as the potential reward of business success in the form of profit. 12% of all enterprises are born and 7% die in Ukraine per year (UkrStat, 2017). An international rule of thumb is that **20% of new businesses will close within 1 year and 50% within 5 years**. In 2020, because of the COVID-19 pandemic, there will be a vastly increased rate of business failure, resulting in significant employment loss and thus potential revenue loss for AHs. **Start-ups and on-going businesses involve taking on risk. AHs must recognise this and seek, not only to be friendly, but to actively nurtured firms to increase their survival rate and help them to grow, innovate and export.**

2.1.2 Different business types and needs

There are very different types of entrepreneur and enterprise, as illustrated below:

- **Potential entrepreneurs:** need information (registration, tax, licensing, etc.), advice, signposting (directing to relevant service providers) and similar forms of support;
- **Informal or survivalist entrepreneurs:** need light touch support and encouragement for formalisation, thus becoming viable and contributing to local/national revenues;
- **Self-employed (FOB):** need information (registration, tax, bookkeeping, etc.) and then administrative support and regulatory/tax simplification;
- **Micro businesses:** need support with legal issues, tax, planning, premises, licensing, permitting, etc., including reliable utilities, training, subsidies, business advice, etc;
- **Small and Medium-sized businesses:** need more sophisticated services such as access to finance, business consulting, cluster/value chain/supply chain/ smart specialisation support, public procurement, etc. to help them grow and develop;
- **Large businesses / Multi-National Corporations (MNCs):** need support with land, planning, licensing and permitting, infrastructure, utilities, tax and incentives, etc.
- **Social enterprises:** apply commercial strategies to seek improvements in financial, social and environmental well-being, which include social impact as well as profits.

AHs have a role and responsibility to support all these types of business. The very different types of businesses need different forms of support. Smaller ones have few capacities. In all cases, the starting point is that they need a AH that is a BFA.

2.2. How to be a BFA

See Department of Trade and Industry (2006) [Streamlining Business Registration in LGUs: Good Practices](#) / Development Policy Research Unit (2006) [Impact of Municipal Regulations on SMMEs](#), Working Paper 06/107 / Work Bank (2009) [Local Taxes, Regulations, and the Business Environment](#) / PLEDDG (2016) [Express analysis: Local Business Climate](#) in selected cities of Vinnytsia, Zaporizhia, Ivano-Frankivsk and Poltava regions.

There is no rocket science to being a BFA, as long as the political and operational commitment exists. The main elements are highlighted below, starting with the key elements of being business friendly, such as knowing the local enterprises and their needs, creating small business friendly regulations, streamlining registration, licensing and permitting, considering the effects of taxes and other charges, developing small business friendly procurement and payment rules, using land, infrastructure and building to promote business development and mitigating the effects of COVID-19 on businesses.

2.2.1. Count & analyse local MSMEs

The **foundation** of everything is for the AH **to understand how many enterprises there are, their nature and their needs**. Without this basic information, it is not possible to be a BFA: the AH is simply working blind. The AH must develop the necessary information and analysis.

Official Statistics

It is necessary to **collect, analyse and regularly update national, regional and local statistics** on FOB and micro, small, medium and large enterprises. The relevant official statistics, in the form of a timeseries, should be collected and analysed through the national statistics office, Oblast and local SNAPS and tax offices. Key sources are presented in the Table below.

Source	Type of information	Link
State Statistical Office	Number of SMEs, SMEs' turnover, SMEs' employment etc. by types, sectors, regions;	http://www.ukrstat.gov.ua/
Oblast State Statistical Offices	Number of SMEs, SMEs' turnover, SMEs' employment etc. by types, sectors, regions;	http://www.ukrstat.gov.ua/work/region.html
State Fiscal Service of Ukraine	Custom statistics; tax revenues by regions	http://sfs.gov.ua/mytna_statystyka/ http://sfs.gov.ua/diyalnist-/pokazniki-roboti/nahodjennya-podatkov-i-zboriv--obovjaz/nahodjennya-podatkov-i-zboriv/
Regional offices of State Fiscal Service of Ukraine	Custom statistics	http://sfs.gov.ua/pro-sfs-ukraini/struktura-/teritorialni-organi/
Open Data Portal	List of legal entities and individual entrepreneurs in Ukraine; list of by-laws and regulations; taxes	https://data.gov.ua/dataset
Open Date Set Publisher	Online service for the formation of standardized sets of open data; list of local regulations	https://opendata.in.ua/map
Platform of Better Regulation	Statistics on legal entities and individual entrepreneurs in Ukraine by sectors and regions	https://regulation.gov.ua/catalogue/indexes/map
State portal for	Information on administrative services, including online; list of	https://my.gov.ua/info/services/bylife

administrative services	SNAPS	situation
State employment service	Information on employment/unemployment	https://www.dcz.gov.ua/analytics/vie w https://www.dcz.gov.ua/storinka/vidkryti-dani
Regional State employment services	Information on employment/unemployment	https://www.dcz.gov.ua/map/regionalni-dsz

Enterprise Surveys

The main means by which the nature of the business sector can be understood, is by AHs **undertaking business surveys (quantitative) and/or hold discussions with a sub-set of them (qualitative analysis)**. These do not need to be done expensively through market research companies. There are many on-line and other survey tools available for questionnaires, data collection and analysis (free and paid versions):

- SurveyMonkey: <https://www.surveymonkey.com>
- SurveyGizmo.com: <https://www.surveygizmo.com>
- Questionpro: <https://www.questionpro.com>
- Typeform: <https://www.typeform.com>
- Survio: <http://www.survio.com>
- Google forms: <https://www.google.com/forms>

They should result in the following type of **information about local enterprises**:

- Types of firm active in the local economy: self-employed, micro, small, medium and large;
- Barriers and challenges, connected with doing business in the locality;
- Time, cost and other effort involved in doing business in the locality;
- Satisfaction with various business services (e.g. registration, licensing, taxes, etc.);
- Priorities for reform / communication / cooperation with the locality, etc.

Qualitative Analysis

The above statistical information should be supplement and deepened through qualitative discussions such as **meetings, workshops or focus group discussions** (see Module 5) with both businesses (individually or in groups) and AH administrators, to deepen the analysis and determine what is possible to improve / simplify / streamline, etc.

This **analysis will directly influence the reform agenda of the BFA** and will be assessed to determine the impact and recalibrated to allow new actions to be implemented over time.

2.2.2. By-laws & regulations (incl. M-Test)

AHs have the power to **make regulations that affect local businesses positively or negatively**. However, business' **capacities to comply vary according to the size of enterprise**. A medium-sized business with many employees, including lawyers, tax advisors, accountants, etc. is better able to implement complex legislation that has costly implementation requirements than a small business of 5 people or a FOB with none. Small business owners argue that **regulations and their administrative burden affects them more** because of lack of managerial capacity and inability to outsource to specialists. It takes their time away from tasks that are directly linked to sales and profit.

Therefore, it important for AHs to always “[Think Small First](#)” when they prepare new regulations that affect the business sector. A first consideration will be **whether possible new regulations will mean a disproportionate compliance burden on small enterprises**. If so, then consideration must be given to alternative proposals or mitigation measures. This is the reason why **it is compulsory for village, town and city councils to use the SME-test (M-test) to calculate the costs and benefits** on small businesses before passing new regulations (see Box below).

Box 7: The M-Test is Compulsory for new Regulations

Local governments (village, town and city councils) are required to use the M-Test) to calculate the costs and benefits for small and micro businesses arising from their new regulations.



M-Test process:

1. Consultations with representatives of micro and small businesses on impact of draft regulations.
2. Measurement of the impact of draft regulations on micro and small businesses.
3. Calculation of costs of micro and small businesses to comply with regulatory requirements, including:
 - a. Estimation of "direct" costs of micro and small businesses (e.g. purchase of necessary equipment, maintenance costs, etc.).
 - b. Estimation of costs of administrative procedures for micro and small businesses and reporting.
4. Budget expenditures for the administration of the regulation.
5. Development of mitigation measures for micro and small business arising from proposed regulations.

Source: SRS (2015) [User Guide: Small Business Test \(M-test\)](#); Law of Ukraine "On Principles of State Regulatory Policy in the Sphere of Economic Activity" [Resolution 11 March 2004, No. 308, Annex 4 Small Business Test \(M-Test\)](#), <https://tools.regulation.gov.ua/m-test>

It is essential to undertake **consultation and dialogue** with the business sector to understand the possible intended and unintended effects of draft regulations. If the impact will be negative, AHs must consider **alternatives and/or mitigation measures**, namely ways to reduce the likely compliance costs. AH regulations must generally be **accessible, transparent, predictable, impartial, enforced**, etc.

2.2.3. (Re)Registration of FOB/Enterprises

All new entrepreneurs need to register as self-employed (natural person) or company (legal person). This is usually done through the Centres for Administrative Services (SNAPS). It is

essential for the registration process to be as simple as possible, including electronic and human support to ensure that the potential entrepreneurs are assisted. The **time, procedures and costs involved should be minimised**.

They also need signposting to other registration services, such as the tax authorities (e.g. for VAT registration). In this context, a U-LEAD survey has found that **50% of firms that are operating in AHs are actually registered elsewhere**, such as the Oblast centre. While this is not illegal, it means a **potential revenue loss for the AH** and efforts should be made to **encourage them to re-register locally**, especially if they perceive the AH to be business friendly.

Another important issues is the existence of **informal enterprises**. While many are survivalist in nature, it is feasible to **encourage viable entrepreneurs to formalise** (i.e. register their businesses). This has potential benefits for the entrepreneur (less risk, access to services and finance, such as grants from donors and loans from banks), as well as the AH (additional revenue) and citizens (better services).

2.2.4. Licenses, permits and certificates

Many **newly registered businesses** require some form of permit, license, certificate, etc. The same may apply to **established businesses** since regulations change over time and licenses and permits may need to be renewed. A BFA recognises that this is a key area where they can support new and existing businesses, including potential large investors. Examples, include **trade permits, zoning and land-use permits** (e.g. in the manufacturing sector), **health permits** (e.g. in the food sector), **environmental permits, fire and safety permits, professional licenses, special permits** (e.g. alcohol and gambling), etc. These may be issued only once or need to be renewed from time to time.

Therefore, a BFA will seek to **ensure the following elements**:

- Publicly available and up-to-date electronic inventory of all licenses, permits, certificates;
- Publicly available information, timelines, costs, appeals/complaints procedure, etc.;
- Process to reduce “red tape” by streamlining paperwork, procedures, signatures;
- One-stop-shop for all licenses, permits, certificates, including support and renewal;
- Satisfaction surveys to obtain feedback on time, cost, bureaucracy, quality of service;
- Train staff to provide excellent customer service and monitoring to improve services.

2.2.5 Taxes, charges and levies

AHs have a direct impact on businesses via policies such as property valuation, user charges and levies collection. As a result, businesses bear not only the direct costs involved but also the indirect costs, such as time and effort required to administer. These costs are borne by the firm through its staff or by hiring specialist who do the necessary paperwork. **The direct and indirect costs of conducting business should be minimised.**

The Diagram below illustrates a Typology of local own-source revenue instruments.

Instrument	Revenue Source	Examples
Standard taxes	Compulsory payment; base varies by instrument	(a) Profit or corporate income tax (b) Property (land and building) taxes
User charges	Revenue from sales of goods and services provided directly by the government	(a) Utility fees (water, gas, electricity) (b) Garbage collection fees
Regulatory fees	Revenue from licenses and permits for regulated activities, and delivery of administrative services	(a) General business/trade license fees (b) Construction permits (c) Examination and inspection fees
- Interests - Royalties and concession fees - Rents and fees for usage rights	Revenue from public assets, property resources under government custody, and natural resources to which property rights are not assigned	(a) Admission fees (national parks, historical sites) (b) Road and bridge tolls (c) Public works (rents on buildings, hire charges)
Fines and penalties	Punishment for non-compliance with the law or regulation	(a) Traffic/parking fines (b) Penalty for late payment/notification

Source: L, Corthay (2009) [Local Taxes, Regulations, and the Business Environment](#)

The most obvious charges include the ones below, though others may exist such as debt collection, credit control, etc.):

- **Property taxes** (land, real estate, transport, etc.): charges to owners of property (owned, occupied or being developed) can have differential effects on the business sector, depending on maturity of business, sector, etc. Factors that impact on businesses include **rates, thresholds, frequency of payment, arrears handling**, etc.
- **Levies and User Charges** (e.g. parking, tourism, rental fees, fines and penalties, etc.): these vary greatly from locality to locality and while these are relatively small, their **rate and administration** can affect business formation and growth.

A BFA will wish to introduce similar systems as discussed in the licenses, permits, certificates section to **ensure transparency and reduce red tape** to the minimum, thus reducing costs, as well as compliance burdens for small businesses.

2.2.6. Local Public Procurement and Payment Policies

A BFA develops effective public procurement policies (purchasing goods, works and services). The public sector's huge purchasing power is a **potential source of conflicts of interest and corruption** (e.g. embezzlement, undue influence, bribery, fraud, etc.), so public procurement is subject to strict regulations and monitoring mechanisms to reduce the risks, guarantee competition and ensure good value for money. [The Law of Ukraine "On Public Procurement"](#) sets **thresholds and procedures for procurement** by all, including AHs, as indicated in the Diagram below. The "ProZorro" e-procurement system offers free access to all public purchasing data on all tenders, so enhances transparency and fairness in the bidding process while reducing costs.

Замовники, визначені п.1-3 ч.1 ст.2 Закону	Замовники, визначені пунктом 4 ч.1 ст.2 Закону	Як проводити закупівлю:	
до 50 тис. грн.		Звіт про договір про закупівлю (у т.ч. з використанням електронних каталогів)	Закупівлі на суми, менші за вартість, встановлену п.1, 2 ч.1 ст.3 Закону
від 50 до 200 тис. грн. (1,5 млн. для робіт)	від 50 до 1 млн. грн. (5 млн. для робіт)	Спрощена закупівля або звіт про договір про закупівлю з підстав, передбачених ч.7 ст.3 Закону	
від 200 тис. грн. (1,5 млн.) до 133 тис. євро (5150 тис. євро для робіт)	від 1млн. грн. (5 млн.) до 133 тис. євро (5150 тис. євро для робіт)	Відкриті торги (15 днів) Конкурентний діалог Переговорна процедура	Закупівлі, вартість яких перевищує межі, встановлені п.1,2 ч.1, ст.3 Закону
від 133 тис. євро (5150 тис. євро для робіт)		Відкриті торги з публікацією англ. мовою (30 днів) Торги з обмеженою участю Конкурентний діалог Переговорна процедура	

Source: <https://infobox.prozorro.org/articles/planuvannya-zakupivelnosti-diyalnosti>

See Changes in the Law since 19 April 2020 <https://infobox.prozorro.org/articles/yak-zminyatsya-publichni-zakupivli-dlya-postachalnika-pislya-19-kvitnya-2020> / Simplification of procedures due to COVID 19 <https://infobox.prozorro.org/news-mert/shchodo-zmin-vnesenih-do-poryadku-zakupivel-u-zv-yazku-iz-covid-19>

AHs tend to see procurement purely as a process from tendering to contracting. But a key part of being a BFA is to **develop public procurement policies that promote small business engagement, growth and innovation**, since this involves a significant portion of the local annual budget. Public procurement can be used to **encourage small businesses and employment** in and around the AH. Possibilities for **BFA procurement**, within a framework which is transparent, competitive and cost-effective, are to:

- Develop a regularly updated **supplier database** with a list of prospective local providers for goods and services which are regularly tendered;
- **Advertise opportunities, raise awareness, give information and support** to SMEs;
- **Streamline registration, administrative and other requirements** to encourage participation in local procurement processes;
- Procurement may not be split into parts or items of a lesser value purely in order to avoid more stringent processes for requirements of a higher value so this means that certain projects are too large for SMEs to tender for, despite having the capacity to perform some part of the larger project. It is possible to **unbundle suitable project tenders to ensure that SMEs can access them**, while complying with the procurement law;
- Use **procurement below ProZorro thresholds to support small businesses** (and potentially others, such as social enterprises, local community suppliers, etc.), for example by giving **preference to local suppliers and small enterprises**;
- **Pay invoices from small businesses within 30 days**, otherwise they may avoid public

procurement if they expect long delays that impact their cashflow and risk tolerance;

- Create **Key Performance Indicators for assessing MSME use of public procurement** and monitor policy.

In a country known to experience corruption and other issues, stimulating local business' access to procurement has to be done carefully and fully in compliance with all the laws.

2.2.7. Land, Infrastructure and Premises

A recurrent issue raised by SMEs is that they have **limited access to affordable land and/or business premises**. A key part of being a BFA is to ensure that AHs assets are deployed to support business development. This means that the public land must be used for residential, leisure, as well as developed for business purposes, including the necessary infrastructure and buildings. This is not just about **new facilities**. Often, **derelict or underutilised properties can be converted** into business-oriented infrastructure, such as co-working spaces (e.g. in libraries or formerly empty buildings), as well as business centres, business incubators and similar (see Module 3).

The issue of **land/infrastructure/premises** is particularly important for the AHs that have the capacity to **attract national and foreign direct investment**. This shifts the emphasis from a business friendly administration to an "Investor-Ready" administration (see Investment Passports, Business Proposals and Partnerships Hubs in Sections 3.2.4 – 3.2.5).

The various **Business Development Tools** available to AHs are discussed in detail in Module 3.

2.2.8. COVID-19: 2 phase

During 2020, the COVID-19 pandemic has resulted in the most catastrophic global economic situation in about a century. It is far worse than the 2007-9 Financial Crisis, World Wars I and II, and worse still than the Great Depression of the 1930s. It is the **fastest and deepest economic crisis ever witnessed**, it is being imposed by governments simultaneously and its impacts will continue, in phases, until a vaccine is developed. Its **effect is extremely serious for formal MSMEs and potentially catastrophic for informal entrepreneurs**. It threatens health, livelihoods, pensions, poverty, hunger, destitution, etc. **If informal and formal MSMEs are not supported, tax revenues and thus public service provision, such as education and health, will be undermined for years to come**, seriously affecting the ability of nations to develop economically and reduce poverty and inequality. The Box below illustrates the situation in Ukraine.

Box 9: Effects of Covid-19 Quarantine on the Business Sector in Ukraine

A survey of the business sector by the Union of Ukrainian Entrepreneurs (SUP) highlighted the following issues:

- One third experienced a reduction in revenues of 90-100% since the beginning of quarantine;
- This has led to a reduction of up to half of the employees, mostly in micro firms (0-9 employees/ 5 million UAH);
- Small and medium sized businesses have seen reductions of 25-50% in turnover and 10-25% in staff (10-249 employees);
- Large have seen reductions 10-25% in turnover and predict 25% reductions in staff (250+ employees /100 million UAH+ turnover);
- Almost 60% continue to do business during quarantine but are mostly large and medium-sized companies according to SUP;
- 51% can withstand only one month of quarantine; 25% can continue for two to three months;
- 29% have suspended their activities for the quarantine period and 6% have closed their business (mostly SMEs);
- Only 3% of respondents indicated that their business could be open for a long time under the necessary conditions (rent vacation, remote access for employees, revision of business model, etc.);
- 42% of business owners were negative about quarantining until 24 April 2020; a third were undecided;

- 48% of the companies believe that after 24 April it will be necessary to relax restrictive measures (quarantine only for vulnerable).
 - One-third consider it optimal to have an individual approach for each region and only 1% expect the quarantine to end completely.
- Source: SUP/Ukrainian Marketing Group/U-LEAD, 02 April 2020

What applies to the national level, affects the regional and local level. It must not be imagined that it is the role of the government or the oblasts to deal with the effects of COVID-19. Enterprises are registered and operating in the localities and AHs have a key role to play.

MSME surveys point consistently to **abrupt, severe disruptions and escalating concerns** on the part of MSMEs and entrepreneurs: over half of MSMEs face **severe losses** in revenues and a significant proportion fear **imminent bankruptcy**, only having a few weeks' / months' worth of financial reserves to withstand COVID-19 crisis. Size matters: **start-ups, micro enterprises, self-employed and informal entrepreneurs** are much more vulnerable than bigger enterprises.

Three points are worth making about the current **Outbreak Phase**, which is expected to last around 6 months. Firstly, measures to **provide urgent liquidity, preserve human capital and retain productive capacity** are the top priorities during this time. Key considerations in providing support are that it must be rapid, transparent and time-bound to mitigate the impact of an unforeseen disruption, with a focus on keeping viable firms alive and retaining jobs. Secondly, **informal entrepreneurs and MSMEs are highly dependent** on social networks and family and community-based financing, and many of them are women-owned. They may be harder to reach but they must not be forgotten in the palette of MSME measures to be developed. Thirdly, the **focus should be on the (sub)sectors most affected** by the COVID-19 crisis, which includes accommodation and food services, segments of manufacturing, wholesale and retail trade, and real estate and business activities, entertainment, recreation and other services such as tourism. AH's have the power to help in the short, medium and long term, as per the Table below.

Table Possible Anti-COVID-19 Measures by Local Government

Measure	Objective
Property tax waivers / delays/ exemptions	To help MSMEs to protect their capital or liquidity, the public sector may introduce tax waivers /exemptions /delays for the whole economy or for business of a certain size, certain sectors of the economy, etc. Business rates (e.g. annual property tax, single tax) are paid if MSMEs use a building for non-domestic purposes (e.g. shops, offices, pubs, factories).
Registration, Licenses & Permits	The cost of operating licenses and other costs related to business registration can be reduced at the local level. These measures are very useful for MSMEs experiencing major cash flow problems.
Rent	When MSMEs experience temporary financial difficulties, the public sector may introduce rent waivers, reductions or subsidies, since these are a significant fixed cost for businesses.
Public procurement, & payment delays	It is possible to introduce measures on the timely payment to MSMEs in public procurement and other contracts with private companies at large. Timely payments to SMEs by their clients is a topic of great concern to MSMEs worldwide and more so in times of crisis.
Soft, zero interest loans and grants	The public sector may introduce direct financial support to SMEs, such as new credits granted at low or no interest, for example to MSMEs in heavily affected sectors. Another option is to provide grants during the crisis period.
Credit guarantees	The public sector may increase the volume of guarantees provided by state-funded credit guarantee schemes. They may also reduce the collateral requirements, adjust the grace period for interest rates, establish lending quotas and simplify and accelerate the credit guarantee approval process.
Skills training	The period of lockdown and slowdown is an opportunity to invest in human resource capacities, supporting re-skilling of workers, to boost productivity and resilience of MSMEs through subsidies to MSMEs for training and strengthening the training system to the needs of MSMEs, perhaps with a territorial and sectoral perspective.

Informal economy	Locations with a large informal economy may not be able to protect jobs/informal economic activity through these kinds of measures. They can offer immediate relief measures such as cash transfers or in-kind benefits/vouchers/targeted cash transfers/one-off cash payments, etc. for people to receive food, medical care, creation of temporary employment/public works schemes, etc.
Information support	Local authorities should inform SMEs about possible legislation changes, measures adopted at the national and local level; possible getting of services on-line (e.g. getting unemployment benefits)

Source: based on Ricardo R Pinto (2020) Supporting MSMEs and Entrepreneurs During the Covid-19 Crisis, paper for the Deutsche Gesellschaft für Internationale Zusammenarbeit GmbH (GIZ)

Exercise: Development of measures that the AHs can provide to small businesses

2.3. Principles for creating a BFA

Business friendliness can be defined as *“Explicit attempts by local government to reduce the regulatory and non-regulatory barriers, costs, risks uncertainties in commercial activity to stimulate and support local business growth, local business retention and the attraction of new business to the local area.”*

The publication [Business Friendly Councils: Guidelines and Case Studies](#) (2014) represents a concerted effort on the part of 14 local authorities to become Business Friendly Administrations, which led to **six principles**, which are necessary to establish underpin a **BFA culture** that understands and responds to local business needs, while balancing the need for business compliance requirements with social and environmental considerations.

Everything depends on the context within which the **principles** work and the specific **ways in which an AH chooses to interpret and apply them**. Each AH must understand its challenges and use the opportunities that exist in order to change and become a BFA.

2.3.1. Build excellent relationships and partnerships – heart of BFA

Building excellent relationships with the business sector and others (e.g. educationalists, NGOs, CSOs, etc.) **is at the heart of being a BFA**. However, it must be acknowledged that **there has traditionally been conflict, rather than partnership, between the public and the private sector in Ukraine**. AHs need to understand this context and choose to **change the dynamic** via the following elements (see section 2.2):

- Understand how local businesses operate, their needs and goals and how AHs can help them to understand their statutory responsibilities;
- Excellent relationships are built over time and AHs need to invest in long-term relationship management, including identify the best ways to interact and communicate;
- Relationships are hard won but easily lost. Formalising key council-business relationships (e.g. PPD forums, Memorandum of Understanding, etc.) ensures continuity;
- Prioritise organisations that are critical to build partnerships with and start communicating as early as possible, rather than towards the end of a project.

2.3.2. Context matters: identify local challenges and local business needs

AHs need to identify the **key challenges** affecting their local economy and acknowledge that no business climate is perfect for every kind of company. Rather, different types of firms will have different requirements from BFAs. Once they understand their local business, sectorial composition and links to the region, they can identify **partnerships and other collaborative initiatives** that can help overcome structural barriers and effectively meet the collective needs of local enterprises (see Section 1.5). AHs can address the challenges by:

- Finding comparative activities regionally, nationally and internationally and learning from them;
- Piloting business friendly processes / services to test and finetune them;
- Developing and implementing local economic development strategies in active partnership with business stakeholders, thus generating buy-in from partners.

2.3.3. Provide clarity and certainty for business decision-making

Business needs clarity and certainty regarding planning requirements, regulations, etc. in order to make sound, long-term decisions. This is particularly critical for major investments. AH policies, strategies, programmes, action plans as well as regulations need to be internally coherent in order to be implemented by staff in a consistent way. This may require appropriate up-skilling of AH staff and, if necessary, change how they view and how perform their role.

2.3.4. Make interactions with businesses count

AHs interact with businesses in multiple ways and each one has the potential to improve or undermine a business's relationship with the administration (see Module 5). AHs should:

- Identify the conflict points with businesses and seek to overcome them;
- Engage with businesses when planning something that will impact on them and seek their views on how to mitigate any potential negative impacts;
- Be willing to change the AHs' responses based on business feedback and needs;
- Ensure communication with businesses on AHs' activities, decision making processes, so that businesses know why they are – or are not – undertaking certain activities.

2.3.5. Be proactive and look for opportunities to support businesses

AHs can help businesses to **leverage new opportunities by being proactive**, such as recognising the supply chain opportunities for MSMEs through local public procurement:

- Sufficient allocation of resources should be made to support the effective facilitation and co-ordination required to scope and develop new opportunities as they are identified;
- Identify "win-win" opportunities by focusing on solutions that provide mutual benefits;
- Time is a cost for business so a BFA must adopt a process for registration, licensing, permitting, etc. to ensure processing in a timely, low-cost and efficient manner.

2.3.6. Respond rapidly to business during emergencies – COVID-19

In **emergency situations** (e.g. natural disaster, COVID-19, etc.) AHs must respond rapidly and flexibly to business needs. In **post-disaster situations**, the agenda for AHs and their partners should be kept simple, namely, to help local businesses in any way possible. To achieve this, AHs need to:

- Establish role clarity for agencies to improve their ability to respond rapidly;
- Establish excellent communication to provide information and deliver assistance;
- Bring in the necessary technical skills and financial and other assistance to help.

The short-term **costs of such intervention are much smaller than the cost of permanently losing productive capacity, human capital and tax and other revenue**. It also builds trust.

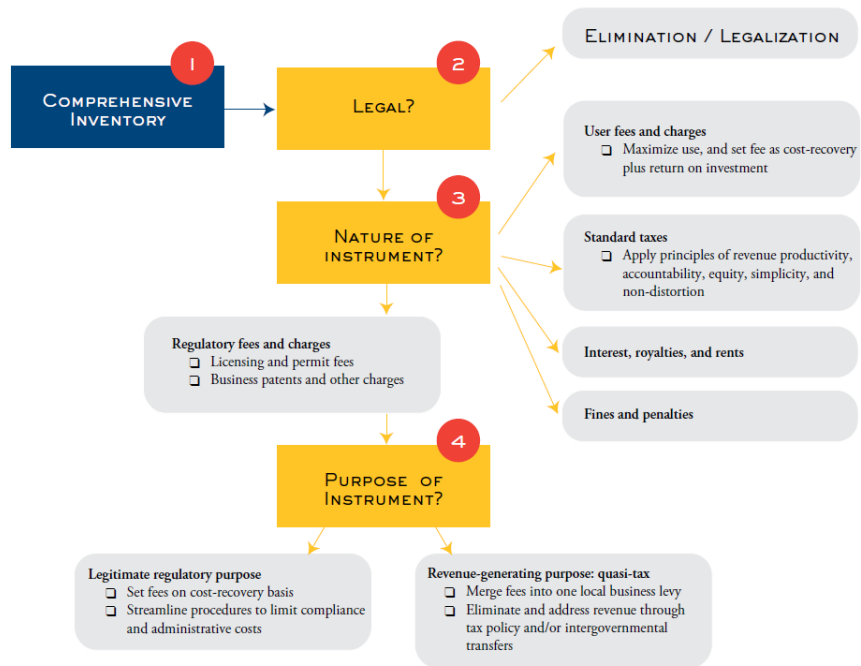
2.4. Process of Becoming a BFA

AHs that aspires to become BFAs will set-up a **process for reforming the local business environment** over time. However, this requires a recognition that an AH does not become a BFA by accident but by design. In other words, a BFA needs to establish a continuous improvement process by looking regularly at the stock of taxes, charges and other regulations to do with registration, licensing, permitting, etc. and seeking to streamline them. This requires, firstly, a willingness to simplify and thus reduce the cost and risks to local businesses. It also means recognising that the rationalization of regulatory instruments may affect local public finances, so effective options need to be offered to compensate for lost revenues and deliver sustainable local reforms.

An aspiring BFA will need to consider introducing a variant of the following **four step BFA process** (see Diagram below) for streamlining existing local regulations, using the example of business taxes. It can be used and adapted to establish a process for other aspects of regulations and the business environment:

1. Do comprehensive **inventory** of all instruments involving a payments by businesses.
2. **Check the legality** of the instrument. If the legal basis is not robust, then eliminate or legalize the instrument if it serves a legitimate purpose using the M-Test (see Box 8).
3. **Categorise** inventoried instruments based on the standard definitions such as user fees and charges, standard taxes, rents/interest and fines and penalties).
4. Single out **regulatory fees** and assess the purpose of the instrument:
 - a. When it serves a legitimate **regulatory purpose**, keep the instrument and streamline the process. Fees should generally be set on a **cost-recovery basis**.
 - b. When it serves primarily a **revenue generating purpose**, when no regulatory function is performed, or when revenue collected is greater than the cost of regulating, the instrument is effectively a “**disguised**” or “**quasi**” **tax**. Three options should be considered: i) to eliminate quasi-taxes; ii) to convert them into a business levy; iii) to abolish and rely on other fiscal instruments to compensate for the revenue loss.

The process of reforming the local business environment over time is illustrated in the Diagram below.



Source: (L Corthay, 2009) [Local Taxes, Regulations, and the Business Environment](#)

Module 3: BF Infrastructure and Actions

3.1 Business Promotion Tools

There is theoretically a large number of business promotion tools, both “hard” and “soft”, that could potentially be utilised by AHs. However, everything depends on the context in terms of whether it makes sense or not to be deployed in a particular AH or a partnership of AHs. A manual has been prepared by U-LEAD specifically for AHs on “Business Promotion Tools” (2020). This is based on Ukrainian research which identified 50+ possible business promotion tools, aggregated into 15 groups which are considered to have the greatest potential in AHs. The Box below lists the business promotion tools that have the potential to be applied in AHs.

Box 10: Business Promotion Tools Applicable in the AH / Ukrainian Context

1. Business coordinator
2. List of business services providers
3. Fundraising for business
4. Information tools (Webpages, Facebook page, Corporate e-mail and phone etc.)
5. Education for businesses (Webinars, Online courses, Seminars, Forums, Business visits etc)
6. Ideas for business (Buying a franchise, Standardized business cases etc)
7. Promotion and support of youth entrepreneurship projects (Leadership camps, Seminars and master classes, Visits to enterprises, Training courses, Start-up competitions, Career Advisor etc)
8. Strategy management (selection of hromadas' niche, Strategic sessions etc)
9. Community property management (Inventory of property, Preparation of property for privatization or lease, Privatization or lease of property, Investment passports, Short-term use of communal premises for training and events etc).
10. Legalization of business (Analysis of business in the community, popularization of legalization of business, Public PR business that pays taxes etc)
11. Popularization of the idea of entrepreneurship (Social advertisement, Awards for entrepreneurs etc)
12. Cooperation and business associations (Value added chains, Cooperatives, Local business associations etc)
13. Business promotion programs (Allocation of budget to promote business in the community, Voucher schemes, Micro-grants for start-ups, Tax rebates or refund mechanism etc).
14. Development of basic infrastructure (Roads, Water, gas and other types of communication facilities, Internet coverage etc).
15. Development of social infrastructure (Healthcare, Education Entertainment etc)

Source: Business Community NGO Club (2020) Business Promotion Tools

Below, a **sub-set of the potential Business Promotion Tools are presented** to illustrate what is involved. AHs interested in pursuing them will need to perform the necessary preparatory work to decide if and how to implement them.

3.2. Examples of Key BFA Infrastructure

The preceding Box lists what is possible to do, as well as the most promising business promotion tools that can be deployed in the AH context. Of course, these **need to be assessed by each AH, or combination of AHs, to determine what makes most sense in a particular economic context.** This could be done through the LED/SME/BFA strategizing and action planning process, which would result in the activities / projects / programmes to be prioritised for implementation. This may also involve use of feasibility studies, business planning and cost benefit analyses, especially in the case of expensive and complex business infrastructure. These are all issues that are discussed in Module 4.

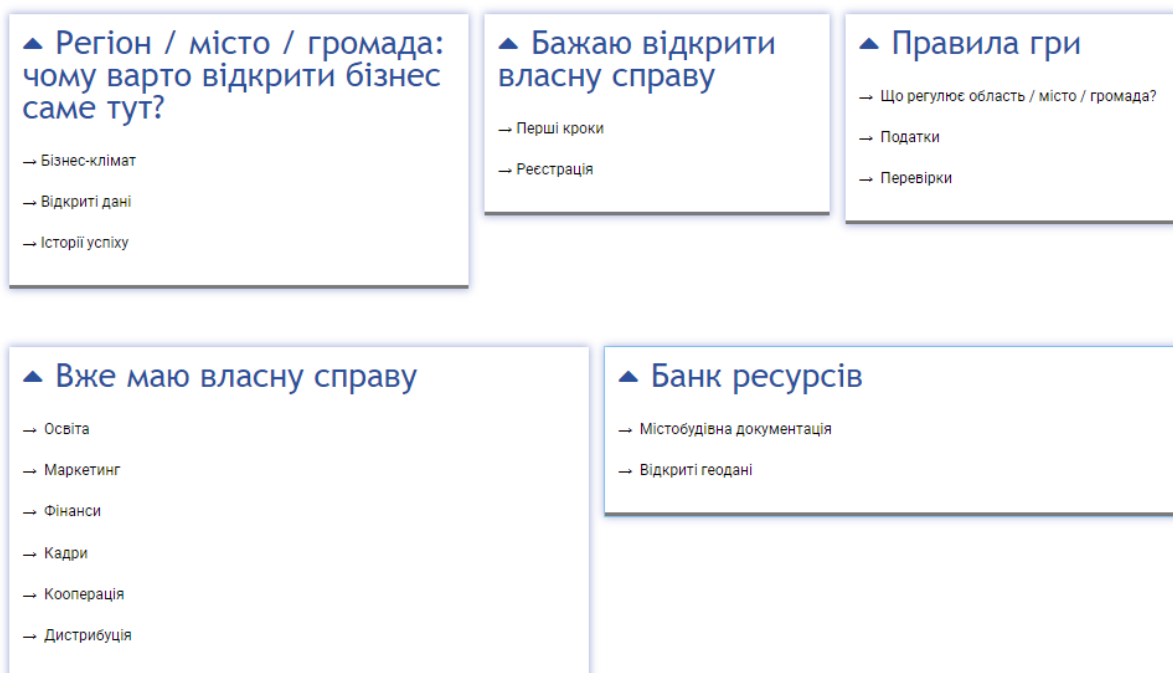
Below we set out examples of **“hard” infrastructure-oriented (physical), as well as “soft” actions that a BFA might wish to prioritise**, given the earlier comments about specificity. Hard infrastructure is typically physical (land/buildings) in nature and involves relatively large costs connected with staff, refurbishment, rent, equipment, etc. There are many examples of soft infrastructure (e.g. websites, virtual incubators, networking, clusters, etc.) and they are generally much less expensive and may well constitute better value for money in the AH context. It is a **combination** of the two that normally works best.

3.2.1 Business Friendly Websites

Websites are crucial in presenting the AH to the rest of the world in at least four ways:

- Communication: they are a powerful tool for towns to communicate with citizens and they allow site visitors to get quick access to relatively simple types of information;
- Participation: they expand opportunities for citizens to engage in and be informed;
- Access: enable AHs to communicate with visitors and residents in a way they are increasingly accustomed to, namely online;
- Economic Development: offer an opportunity to showcase the economic development / SME / investor opportunities and be a driver of economic development.

Every AH presents various types of information in different ways. However, research has been done in Ukrainian oblasts, cities and AHs in order to determine the **type of information that could be most usefully presented by AHs through their websites**. The Diagram below illustrates the kind of **information that is necessary for AHs to prepare**, from a business perspective.



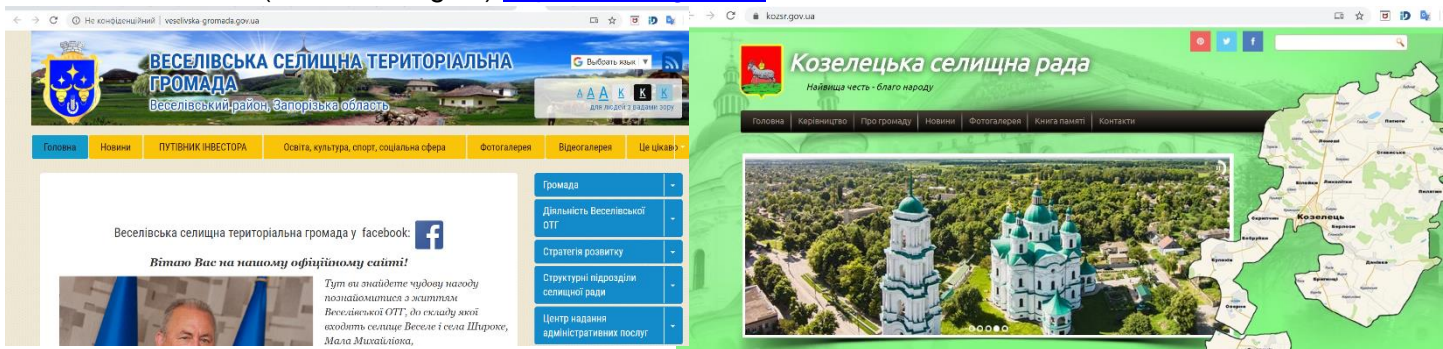
Source: FORBIZ (2019) Regional / Local Dimension of National SME Portal: Concept Development & Implementation

An AH aspiring to become a BFA should take the above business requirements into

consideration in deciding what makes most sense for their locality. Efforts are underway to programme the above structure into the Diia (www.dii.gov.ua) and SME Portal (www.sme.gov.ua), so that AHs just need to add their information without incurring programming costs. However, at the time of writing, this option is not yet available.

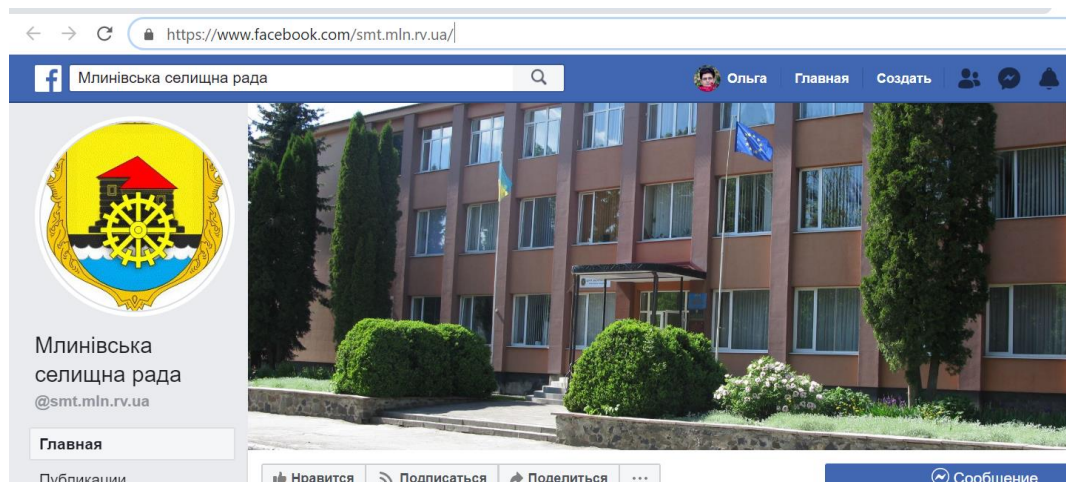
In the meantime, examples of business-friendly AH websites include the following:

- Veselivska AH (Zaporizhzhya region) <https://veselivska-gromada.gov.ua/>
- Kozelets AH (Chernihiv region) <https://kozsr.gov.ua/>



Many AHs have and actively promote Facebook pages:

- Example: Mlynivska AH (Rivne region) <https://www.facebook.com/smt.mln.rv.ua/>



3.2.2 Start Business Challenge Localisation - <https://sbc.regulation.gov.ua/>

A BFA will wish to **minimise the challenges involved in starting a business in its locality**. This is crucially important since barriers such as complexity, lack of information, cost and other forms of “red tape” are known to hinder potential entrepreneurs from becoming active entrepreneurs who contribute to the AHs revenues and enable them to improve services to all citizens over time.

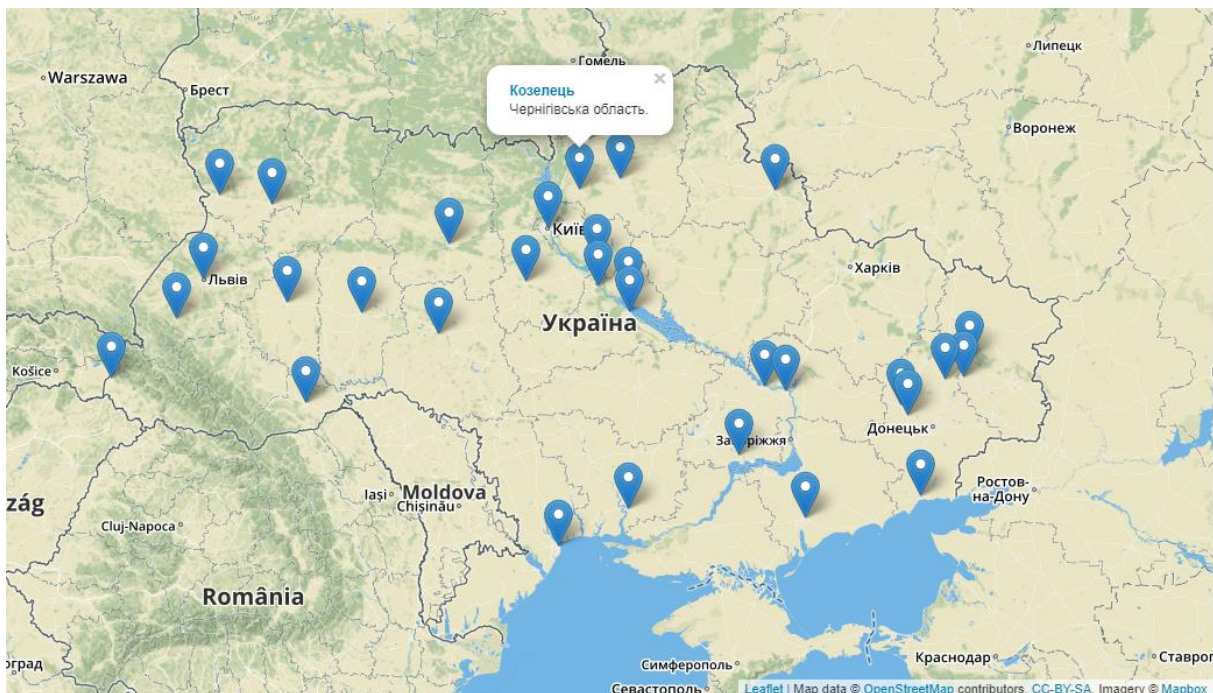
The “Start Business Challenge” (SBC) project makes the process of business registration transparent in every part of Ukraine, thus creating more favourable business climate. It offers **176 customized, step-by-step, ready-to-use instructions for the establishment of different types of businesses** (e.g. restaurant, kindergarten, taxi service, etc., including:

- Procedures to register business (including online ones);
- Cost and the duration of procedures;
- Documents needed and instructions;
- Public requirements and regulations for businesses;
- Possibility provide feedback for unreasonable / superfluous documents / payments, etc.

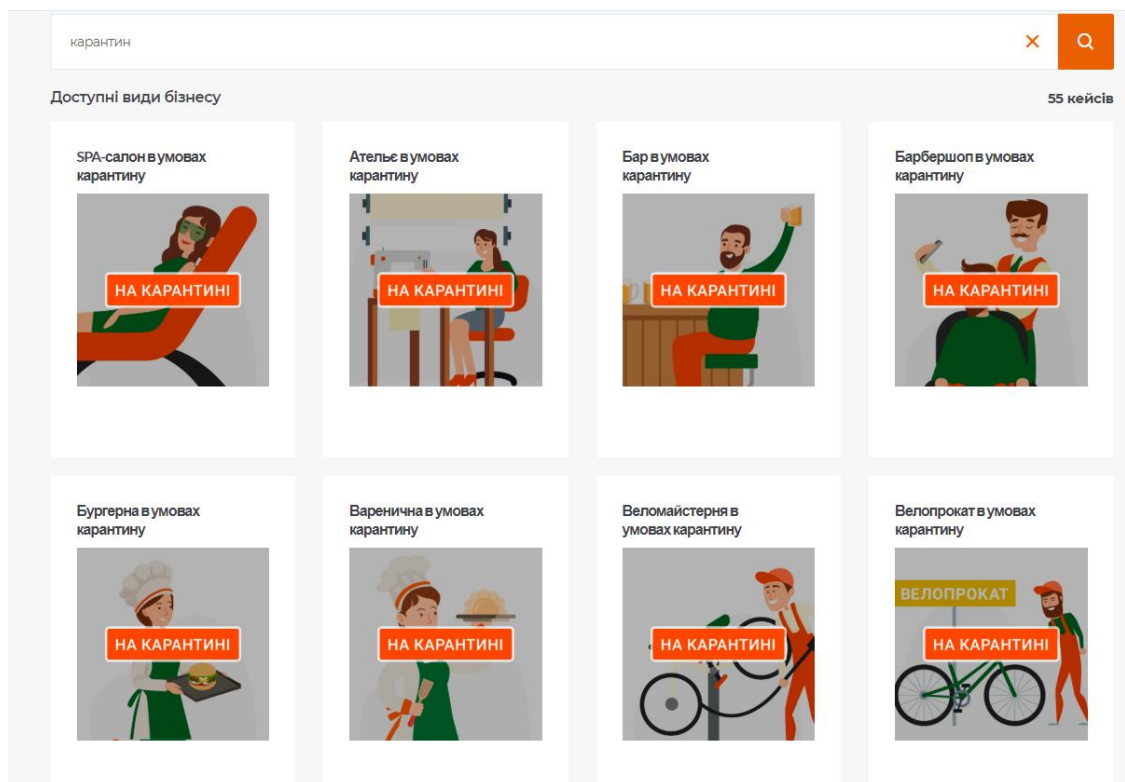
However, **the procedures for starting a business at the local level have their own specificities** regarding issues such as connecting to the electricity grid, land plot registration, obtaining building permits, aspects of taxation, etc. A feature of the SBC is that it allows **the “localisation” the business procedures** on the basis of information provided by local authorities (villages, towns and cities). If AHs choose to add their local information, it allows potential entrepreneurs to be aware of all the local requirements, so register quickly and smoothly.

32 Ukrainian cities are active on the SBC platform, including AHs, e.g. Nizhyn and Kozelets (Chernihiv region), Kaniv (Cherkassy region), Bakhmut (Donetsk region), Kamians'ke (Dnipropetrovsk region) and others. A BFA will wish to make good use of this electronic tool by adding it's specific information to the SBC.

Map of cities, joined SBC



Business cases during the quarantine (55 cases in total) are available by link [https://sbc.regulation.gov.ua/?Startups\[name\]=%D0%BA%D0%B0%D1%80%D0%B0%D0%BD%D1%82%D0%B8%D0%BD&fbclid=IwAR2DkQWP6OX31ln-oo4u_dm6aqsoZIyGREdvXBnSSrk5Z1LES9qI0cbHmgk](https://sbc.regulation.gov.ua/?Startups[name]=%D0%BA%D0%B0%D1%80%D0%B0%D0%BD%D1%82%D0%B8%D0%BD&fbclid=IwAR2DkQWP6OX31ln-oo4u_dm6aqsoZIyGREdvXBnSSrk5Z1LES9qI0cbHmgk)



3.2.3 SME Support Points within SNAPs

Another action that can be a key part of a BFA, such as in relatively small AHs, is to establish an **SME Support Point (SSP)** within the existing Centres for Administrative Services (SNAPs). This is the place where, among many other administrative services, potential and existing physical (FOBs) and legal (MSMEs) entrepreneurs must register and regularly engage with the SSP for getting the necessary information for doing business in Ukraine, such as information about business establishment, local and national tax policy, employment, access to finance, support programmes etc.

MEDTA and SMEDO are piloting the SSPs in order to establish them in the country. A couple of staff are trained on all the necessary steps and information required to **assist a potential entrepreneur to become registered, thus reducing time, cost and stimulating entrepreneurship** at the local level. The SSP also **support early stage enterprises**, thus increasing their prospect of surviving and becoming profitable and sustainable.



There are **four main services** provided by SSPs:

- Information: all aspects of becoming an entrepreneur;
- Registration: all aspects of registering;
- Signposting: connecting potential and early stage entrepreneurs with others, such as licencing, permitting, taxation, finance, etc. service providers;
- Basic business services: simple advice such as opening or doing business, useful contacts, and partners, training and business events, access to finance, etc.

12 SSPs have been established by MEDTA/SMEDO, **8 of which are located within AH SNAPs**. This is a low cost solution for providing simple but necessary support to potential and actual entrepreneurs. Examples of SSPs include Veselovska AH (Zaporizhzhya region), Kotelets and Nizhyn AHs (Chernihiv region), Bilozirska and Shpolyanska AHs (Cherkassy region) and Velykohavivska, Boikevetska and Shumsk AHs (Ternopil region).

Below, we present the map of SSPs.

II. Мапа Інформаційних пунктів підприємця



3.2.4 Attracting Investment to AHs **SUP report: end May: U-LEAD**

In order to assist AHs, U-LEAD has prepared a Guide for AHs on How to Attract Investments (2020). The Investment Guide presents a holistic approach to increase the investment attractiveness of the community, attract and support investment. It concentrates on the elements that make-up the **cycle of work with investors to attract investment**:

- Prerequisite: allocation of AH resources to facilitate the investment attraction function;
- Data: collection of data on the AH and the investment facilities for investors;
- Selection: criteria for selecting key objects of the AH to be involved in investments;
- Materials: such as investment passports (general idea of the AH and the main areas of investment) and business proposals (specific facilities for investment);
- Communication: finding potential investors and communicating with them.

The creation of Investment Passports and Business Proposals are discussed below, as they are important tools /actions that other AHs might wish to emulate.

Investment Passports:

The **Investment Passport** is a comprehensive document for potential investors on the AH's current investment priorities, the most attractive industries and investment facilities, investor requirements, investor benefits and a description of possible support from the community.

The **purpose** of Investment Passport preparation is to:

- Present the AH to the world's business community and disclosing its strengths;
- Provide contacts for potential investors;
- Provide an offer of long-term interaction and presenting the next steps to deepen cooperation and the general negotiation framework for cooperation;

The process of preparation of investment passport allows the Hromada to better understand its strengths and weaknesses. The **components** of an Investment Passport are:

- General overview of AH: demography, economy, logistics, land, budget, contacts, etc.
- Benefits for investors: local taxes and tariffs, bureaucratic procedures, support, etc.
- Selection of industries/investment projects: industry data, resources, land, buildings, etc.

The **structure** of the Investment Passport is illustrated below:



Source: Guide for AHs on How to Attract Investments (2020).

The Investment Passport document can then be **distributed among all stakeholders** (local / regional / national business, business associations, etc.) but should be updated annually. Examples of Investment Passports are illustrated below.



КОНКУРЕНТНІ ПЕРЕВАГИ РАЙГОРОДОЦЬКОЇ ГРОМАДИ

Райгородоцька ОТГ є новоствореною, прогресивною громадою, зацікавленою у сталому розвитку та плідній довгостроковій співпраці з потенційними інвесторами.

ЗРУЧНА ЛОГІСТИКА

- Громада знаходиться на автомобільній дорозі регіонального значення Р-31 Бердичів-Літин
- Відстань від населених пунктів до адміністративного центру складає від 3 до 17 км
- Всі 11 населених пунктів громади забезпечені під'їзними шляхами з твердим покриттям в гарному стані.

ЛЕГКІСТЬ ВЕДЕННЯ БІЗНЕСУ

- Якісний адміністративний супровід та максимальна партнерська взаємодія з боку Райгородоцької сільської ради
- Оперативне прийняття рішень (у тому числі позачергові рішення сесій та виконкомів).
- Відсутність корупції та рівні правила для всіх
- Знижені відсоткові ставки орендної плати за землю для стратегічно важливих для громади проектів

НАЯВНІСТЬ ІНВЕСТИЦІЙНО ПРИВАБЛИВИХ ОБ'ЄКТІВ

- У комунальній власності громади є ряд вільних земельних ділянок не с/г призначення та виробничі приміщення, підготовлені до передачі в оренду

ОРІЄНТОВНА ВАРТІСТЬ

Вартість оренди визначається на переговорній основі

УМОВИ ВИКОРИСТАННЯ

Оренда, за умови зацікавленості інвестора громада готова на зміну цільового призначення землі

ПОТУЖНІСТЬ СЕС

Проектна потужність – 20 МВт





РЕЗЮМЕ ІНВЕСТИЦІЙНОЇ ПРОПОЗИЦІЇ

Райгородська ОТГ є новоствореною, прогресивною громадою, зацікавленою у сталому розвитку та гідній довгостроковій співпраці з потенційними інвесторами. Райгородська громада пропонує інвесторам долучитись до побудови сонячної електростанції на ділянці площею 15,7069га., яка розташована в межах села Велика П'ятигірка. Більше інформації про об'єкт інвестування – див. на с. 5-7 інвестиційної пропозиції.

Якщо вас зацікавила ця інвестиційна пропозиція, напишіть, або зателефонуйте нам. Будемо раді надати додаткову інформацію та обговорити можливості співпраці.

Мельничук Наталя
Із-за наявк фінансово-економічного відділу Райгородської сільської ради
Телефон: +38-097-937-5307
Facebook: <https://www.facebook.com/419429708843707/>
Web-site: <http://raygorodka.gromada.org.ua/>
Адреса: 13362, Житомирська обл., Бердичівський р-н, с. Райгородок

15,7 ГА
Площа ділянки під СЕС

20 МЕТРІВ
Відстань до підключення електрифікації

10 КВ
Напруга найближчих ЛЕП

ТРАНСФОРМАТОРНА ПІДСТАНЦІЯ
100м від території ділянки

ПІД'ЇЗНІ ШЛЯХИ
Асфальтована дорога

ЦІНА ОРЕНДИ
Визначається через аукціон



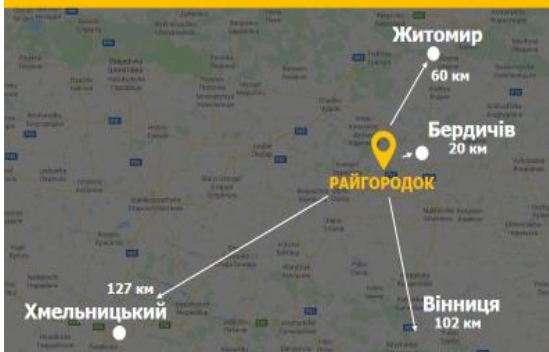
ЗАГАЛЬНИЙ ОГЛЯД ТА ЮРИДИЧНИЙ СТАТУС ДІЛЯНКИ



- Площа ділянок: 15,7069 га
- Розташування: с. Велика П'ятигірка
- Координати: 49.872207, 28.483127
- Відстань від житлової зони: 50 м
- Форма власності: комунальна
- Власник – сільська рада
- Зонування: відсутнє
- Кадастровий номер: 1820881200-09-000-7044
- Цільове призначення: землі запасу
- Використання землі: попереднє – господарчий двір; на даний час – не використовується
- Форма передачі ділянки інвестору: оренда
- Оціночна вартість: відсутня
- Ціна продажу/оренди: визначається через аукціон



РОЗТАШУВАННЯ БОБРИЦЬКОЇ ОТГ



ІНФРАСТРУКТУРА ТА ДОСТУПНІСТЬ ДІЛЯНКИ

- Газифікація: наявна в межах села Велика П'ятигірка
- Електрифікація: наявна в межах села Райгородок
- Водопостачання: відсутнє
- Забрудненість: не відомо
- Рівень підґрунтових вод: 5 м
- Геологічні дослідження: не проводились
- Ризик затоплення чи зсувів: відсутній
- Будинки чи інші наземні конструкції: залишки будівель
- Найближчі міста:
 - Бердичів (10 км)
 - Житомир (55 км)
- Найближча дорога нац. значення: М21 Виступівка-Амгулів-Подільський (Е583 Житомир-Роман)
- Найближча залізн. станція: Бердичів, 20 км
- Найближчий аеропорт: Вінниця, 106 км
- Найближча річка: р.Гнилогіль, 6,5 км



ПЕРЕВАГИ ІНВЕСТИВАННЯ



- ФІНАНСОВІ ПЕРЕВАГИ, ЯКІ ПРОПОНОУЄ ГРОМАДА**
 - Створення у закупки фінансів
 - Створення в отриманні необхідної дозвол, оформлення необхідних документів.
 - Прийняття рішення сільської ради про пільгові ставки податків та зборів в межах власної компетенції
 - Зонувальний кодекс, який надає 18 років за 1 кВт*год енергії для сонячних електростанцій
- ІНФРАСТРУКТУРНІ ПЕРЕВАГИ, ЯКІ ПРОПОНОУЄ ГРОМАДА**
 - Наявність земельних ділянок та інших умов для реалізації інноваційних проектів
 - Наявність ліній електропередач 10 кВ
 - Близькість сонячної ради на території Райгородської ОТГ 110 кВ/10кВ/10
 - Логістична зручність розташування і громади
 - Прокладення розподільної траси Р-31 Бердичів-Пілипи
 - Близькість до м.Бердичів та м.Житомир (обласний центр)
- ІНШІ ПЕРЕВАГИ, ЯКІ ПРОПОНОУЄ ГРОМАДА**
 - Інформаційна підтримка інвестора
 - Готовність та бажання Райгородської сільської ради виконувати заповнені будівельно-монтажних робіт та набувачем точної ділянки (директу) в рамках реалізації екологічних проектів
 - Наявність трудових ресурсів
 - Приклади успішних інвестицій



ОГЛЯД ГАЛУЗІ

Завдяки зменшенню тарифів, діючим до 2020 року, власники сонячних електростанцій можуть продавати електроенергію дешевше та отримувати за це компенсацію. Тариф за зеленим тарифом вартість 1 кВт*год енергії для промислових об'єктів складає 0,18 євро, 2020-2023 роки – 0,16 євро, 2025-2029 роки – 0,14 євро. Державні заводи інвесторів, гарантують, що стимулюючи заводи, що діля на момент початку промислової експлуатації наведеної сонячної електростанції замовляють наведені.

В Житомирській області понад 310 діючих приватних сонячних міні електростанцій та одна промислова промислова СЕС – "Ганусь".

Планується залучення інвестицій в будівництво ще 7 СЕС а саме:

- Ugrade Energy (Бельгія) – на 30 МВт,
- Global Ecoower SA (Франція) – на 20 МВт,
- Alkantara Energy Limited (Данія) на 65 МВт,
- Modus Energy International B.V. LLC (Літва) – на 35МВт
- GESS (Італія) – на 10 МВт,
- «Іней Інтерпрайст» (Україна) на 55 МВт
- «Інфотек енергопроект» (Україна) – на 30 МВт.



ВИМОГИ ДО ІНВЕТОРІВ



- УМОВИ ДЛЯ ІНВЕСТИВАННЯ**
 - Назва громади зазначена в розшифрованій копії акту енергії та побудови СЕС на своїй території. Громада має ділянку 15,7069га у с. Велика П'ятигірка, яку може надати інвесторам для побудови сонячної електростанції, які готові виконати наступні умови:
 - Обов'язкова реєстрація банків на території Райгородської ОТГ
 - Створення робочих місць та офіційна оплата праці
 - Стати в внеску найвищої участі в розвитку інфраструктури ОТГ
 - Вкласти співучасть у соціальних проєктах ОТГ
 - Не пошкодити екологічній умові навколишнього середовища, збереження природних ресурсів
- ПОРЯДОК ІНВЕСТИВАННЯ**
 - Реєстрація банків на території ОТГ
 - Відкриття банківського рахунку
 - Виключення земельної ділянки та її відведення
 - Отримання висновку даних для проєктування області
 - Розробка проєктної документації та експертиза проєкту будівництва
 - Фінансування підготовчих та будівельних робіт
 - Прийняття в експлуатацію зазначених будівельних об'єктів
 - Пайова участь у розвитку інфраструктури населеного пункту
 - Державна реєстрація рішення проєкту на території майже



ПРО ГРОМАДУ

- Утворено**
03 Січня 2019 року
- Сільради, які об'єдналися**
Райгородок, Андришівка, Буринь, Велика П'ятигірка, Меруціїв
- Площа громади**
14 886 га
- Бюджет**
26 230 900 грн – бюджет ОТГ на 2019 рік
- Населення**
3 989 осіб
- Економічно активне населення ОТГ**
2 313 осіб
- Рівень безробіття**
33%

Shyroktivska Hromada (Zaporizhzhya region)



Business Proposals

Business Proposal are **comprehensive documents for potential investors** on attractive objects for investing, investor requirements, benefits for investors and a description of community support for each individual investment facility/industry. They give information about the AH's competitive advantage and advantages which it offers to investors.

The **components** of the Business Proposal are:

- Description of AHs: positive message, location, statistics, resources, existing firms;
- Investment project: area and key statistics, utilities, photos, cadastral map, etc.
- Investment advantages and support from AHs: local taxes and tariffs, bureaucratic procedures, communication, support, absence of corruption risk, etc.

This document is distribution to stakeholders such as business associations, companies, etc.

The **structure** of the Business Proposal is illustrated below:



Source: Guide for AHs on How to Attract Investments (SUP, 2020).

Business Proposals, based on the 108 ideas received by U-LEAD, include the following:

- Logistics, such as storage and transportation of goods leveraging cheaper rental of premises in AHs as opposed to in oblast capitals;
- Processing of fruit and vegetables, as rural AHs are a key source of agricultural produce;
- Manufacture of furniture based on exploitation of wood resources;
- Car maintenance and repair services, locating such businesses in AHs along highways allows for easy accessibility but with reduced costs in comparison to urban centres.

An example of business proposal: "Mini factory for the production of dried foodstuffs", Pryyutivska AH, Kirovohrad region.

ІНВЕСТИЦІЙНИЙ ПРОЄКТ
«МІНІ-ЗАВОД ПО ВИРОБНИЦТВУ СУШЕНИХ ХАРЧОВИХ ПРОДУКТІВ»

РОЗТАШУВАННЯ

ЩО ЦЕ?
Це висхідне технологічне підприємство, яке здатне виробити подібний нарядит з будь-якого сировинного продукту (будь-якої фракції) з великими термінами придатності у відповідності з умовами міжнародних стандартів, та зможе випускати понад 250 кг продукції в день на одиницю обладнання харчової промисловості, серед них: рівні суші, і складні за складом їжі-смакові добавки в сухому вигляді.

ОПИС ОБ'ЄКТУ:

- Ділянка кадастровий номер: 3903081600 02 000 9214
- Тип власності: комунальна
- Цільове призначення – 18.00 Земля міської
- Загальна площа: 12 1479 кв. м з якою пов'язана площа забудованої площі
- Місце з м. Олександрія (місце), частково асфальтована
- Близькість до інфраструктури – ПЗС, водопостачання тощо
- Тип ділянки – бізнес-парк, територія колишнього Міжгоспострою

U-LEAD
З БЕРУ ПОЮ

КОНКУРЕНТНІ ПЕРЕВАГИ

1. Близькість до автомобільних трас та залізничі
2. Зростаюча власна сировинна база – не менш ніж 100 т ягідних культур (4,5 га насаджень, до 1000 т вишні (50га саду в приватній власності) на території громади з перспективою збільшення
3. Близькість до міста Олександрія (місце), що створює можливість залучення досвідченого технологічного та управлінського персоналу
4. Можливість повноцінного завантаження виробничих потужностей за рахунок переробки трав, грибів, овочів, злаків
5. Низька собівартість продукції в порівнянні з закордонними аналогами
6. Швидка окупність інвестицій

Загальний об'єм інвестицій **€1млн**
Потужність виробництва **250 кв.м**

Середня ринкова ціна сушеної продукції **€ 12,5/кг**

Середня прибутковість **106%**

ROI **16 місяців**
Термін реалізації проекту **16-18 місяців**

ЕКОНОМІКА



U-LEAD
з Європою

МІСЦЕВА ВЛАДА ТА ЕКСПЕРТИ
ПРОЄКТУ ГОТОВІ ДОПОМОГТИ
НА ВСІХ ЕТАПАХ ПРОЄКТУ:

1. На початковому етапі можливе встановлення згоди відносної ставки орендної плати за землю.
2. Забезпечення адміністративного супроводу інвестиційного проєкту
3. Спрощення процедури на вигоду до виробства харчових продуктів
4. Сертифікація за стандартами ISO та HACCP
5. Пошук співробітників – керівників, технологів, спеціалістів
6. Забезпечення контактів із розробниками та виробниками обладнання.
7. Відшукання (добір) місцевих партнерів та інших органів державної влади та місцевого самоврядування
8. Сприяння у залученні фінансів
9. Сприяння у розвитку допоміжної інфраструктури – складів, вивезення сміття, освітлення прилеглої території, освілення топу
10. Оперативне прийняття рішень (у тому числі позовового рішення сесії та виконавці).
11. Можливість виділення земельної ділянки в оренду терміном на 49 років
12. Сприяння у формуванні пауету документів
13. Надання консультацій щодо реєстрації підприємства на території ОТГ



ВИМОГИ ДО ІНВЕСТИТОРІВ



Source: developed by SUP under ULEAD support

Exercise: Investment passports and proposals: find balance between truth and attractiveness

3.2.5 Partnership Hubs **SUP to provide 2 slides and text by 12 June 2020**

Once an AH has created an Investment Passport (general idea of the community and the main areas of investment) and one or more Business Proposals (specific facilities for investment and AH requirements for investors), it is necessary to **engage with potential investors, both national and international**. U-LEAD has helped create Partnership Hubs, which are basically a **brokerage** bringing AHs and investors together, for this purpose.

Add DIAGRAM: illustration needed for Presentation

The Partnership Hub principle can be used by AHs based on the following **principles**:

- Xxx; discuss with SUP how AHs can do it on their own without U-LEAD support
- Xxx;
- Xxx.

Example of investment digest issued by Shumsk AH (Ternopil region)



Шумська міська рада презентувала новий розділ на офіційному веб-сайті сайті громади - «Путівник інвестора». Цей розділ спрямований на промоцію інвестиційних можливостей громади, презентацію її потенціалу та залучення інвестицій. Кожен користувач має можливість отримати вичерпну інформацію щодо інвестиційних проєктів та

земельних ділянок потенційно привабливих для власного бізнесу.

«Путівник інвестора» – це ресурс, що своєчасно оновлюється, відповідає вимогам сьогодення і ставить за мету максимально задовольнити інформаційні потреби потенційних інвесторів та значно полегшує пошук необхідної інформації. Розділ містить перелік актуальних пропозицій інвесторам. Вся інформація подана з вичерпним описом, фото та контактами для подальшої комунікації та співпраці. Громада демонструє, що відкрита для серйозних проєктів у різних сферах бізнесу та співробітництва як з вітчизняними, так і зарубіжними підприємствами та готова зробити цей процес максимально відкритим, простим та доступним.

Детальніше про інвестиційні пропозиції можна дізнатися за посиланням: [Путівник](#)

Source: Guide for AHs on How to Attract Investments (SUP, 2020).

3.2.6 Business Promotion Tools Piloted in AHs **BCC to provide 2 slides and text by 22 June 2020/U-LEAD end May 2020**

As discussed above, U-LEAD has undertaken research on AH-oriented Business Promotion Tools resulting in a short list of most useful tools, which have been piloted in AHs. The key features of these piloted tools highlighted in the Table below.

U-LEAD/BCC

The pilots illustrate that is possible for AHs to implement BFA activities within a relatively short period of time and with relatively limited resources.

3.2.7 Business Support Centres

SME Support Points within SNAPs (see 3.2.3) deal with basic entrepreneurial matters, such as information, signposting and simple assistance to potential and early phase entrepreneurs and companies. Larger AHs with more dynamic economies may go beyond this and deliver a range of **Business Development Services (BDS)**, with an emphasis on more sophisticated forms of support to **assist SMEs to grow, be more productive, innovate and export**.

This often means establishing a **Business Centre (BC)** to deliver services to mostly existing entrepreneurs and business (rather than start-ups) with the aim of strengthening the job creation potential and competitiveness of local businesses. The Box below illustrates some of the **key services and the principles involved** in establishing a Business Centre.

Box 11: Business Promotion Tools Applicable in the AH / Ukrainian Context

Starting-up

Initial assessment of demand and provision of BDS in the area, institutions and forms of support to MSMEs
Established as local NGO / a not-for-profit company with a board AHs, associations, successful entrepreneurs
Hire local staff members, such as manager and experts in business, training and other BDS

Running the BC

Detailed assessment of demand and supply of the BDS market and product the SMEs are willing to pay for
BC acts as an innovative force, offering new and value adding products and services
BC Business and Marketing Plan
Training of BC staff with customised capacity building packages

Clients

Non-paying: potential and early stage entrepreneurs
Paying clients: small firms, medium and larger enterprises, donors and national/regional governments

Possible services

- Business training: start-up and management training
- Access to finance: network with financial institutions and assist with applications etc
- Marketing: advice on marketing strategies, product design, design of promotional materials etc.
- Access to markets: regional, national and foreign markets, contacts to foreign and local entrepreneurs, producer groups, business travel to national or international fairs, etc.
- Bidding advice: help entrepreneurs to participate in tenders (procurement, applications for funding, etc.)
- Technology and innovation: advise on technology transfer, innovation, going green, digital transformation
- Consulting: on specific issues (production process, machinery, financial management, human resources)

Source: [ILO Business Centres for Small Enterprise Development](#); Author

The more **sophisticated BDS** are illustrated below. Instead of direct service delivery, BCs should try to stimulate a BDS market by using existing commercial service providers (local, regional and national) by **outsourcing the more sophisticated or complex business services**, thus supporting local businesses indirectly. The BC must recognise its value added and its limitations.

Table 2: Main Types of Business Development Services (BDS)

1. Market access	<ul style="list-style-type: none"> • Market research • Market information • Trade fairs • Product exhibitions 	<ul style="list-style-type: none"> • Advertising • Packaging • Marketing trips and meeting • Subcontracting & outsourcing, etc.
2. Infrastructure	<ul style="list-style-type: none"> • Storage and warehousing • Transport and delivery • Telecommunications 	<ul style="list-style-type: none"> • Internet access • Computer access • Secretarial services, etc.
3. Policy and advocacy	<ul style="list-style-type: none"> • Training in policy advocacy • Analysis of policy constraints and opportunities 	<ul style="list-style-type: none"> • Direct advocacy on behalf of MSMEs • Sponsorship of conferences • Policy studies, etc.
4. Input supply	<ul style="list-style-type: none"> • Linking SMEs to input suppliers • Improving capacity to deliver quality inputs 	<ul style="list-style-type: none"> • Facilitating establishment of bulk buying groups • Information on input supply sources, etc.
5. Training and technical assistance	<ul style="list-style-type: none"> • Mentoring • Feasibility studies • Business plans • Franchising • Management training 	<ul style="list-style-type: none"> • Counselling / advisory services • Legal services • Financial and tax advice • Accountancy and bookkeeping • Technical training, etc.
6. Technology and product development	<ul style="list-style-type: none"> • Technology transfer / commercialization • Linking MSMEs and technology suppliers 	<ul style="list-style-type: none"> • Facilitating technology procurement • Quality assurance programmes • Design services, etc.
7. Alternative financing mechanisms	<ul style="list-style-type: none"> • Access loans • Factoring • Equity financing 	<ul style="list-style-type: none"> • Access to guarantees • Facilitating supplier credit • Equipment leasing and rental, etc.

Source: ILO, [Assessing Markets for Business Development Services](#)

There are many models of BC in Ukraine. Some are stand alone, such as [Lviv Centre for entrepreneurship support under Lviv City Council](#). The Centre, established by local authorities, provide providing mainly informational and consulting support to entrepreneurs, as illustrated in the Diagram below.

Львівська міська рада Центр підтримки підприємництва Львівська міська рада

КОНСУЛЬТАЦІЇ ДЛЯ ПІДПРИЄМЦІВ

Консультації надаються за умови ПОПЕРЕДНЬОЇ РЕЄСТРАЦІЇ!

НАДАННЯ РОЗ'ЯСНЕНЬ З ПИТАНЬ:

- Реєстрації підприємницької діяльності
Понеділок 16:00-18:00
- Місцевих податків та зборів
- Єдиного податку
- Податку на нерухоме майно
Середа, п'ятниця 10:00-12:00
- Погодження режиму роботи
Понеділок, четвер 14:00-16:00
- Оренди та приватизації комунального майна
Четвер 10:00-12:00
- Оформлення землекористування для ведення підприємницької діяльності
Понеділок, п'ятниця 10:00-12:00
- Розміщення зовнішньої реклами
Вівторок 10:00-13:00
Четвер 10:00-12:30
- Укладання колективних договорів
Вівторок 16:00-18:00
Середа 14:00-15:00
- Щодо фінансових програм міста підтримки суб'єктів підприємницької діяльності
Вівторок, п'ятниця 14:00-16:00
- Дозвільно-погоджувальних процедур у сфері архітектури та містобудування
Понеділок, четвер 14:00-16:00
- Пайових внесків
Вівторок, четвер 14:00-16:00

ПОСЛУГИ МІСЬКОГО ЦЕНТРУ ЗАЙНЯТОСТІ:

- надання допомоги на започаткування власної справи безробітним; компенсація
- роботодавцям за створення нових робочих місць
Четвер 16:00-18:00

Реєструйтесь, надіславши електронного листа або у телефонному режимі

(032) 254-60-15, (032) 297-57-64 cpp.lviv@gmail.com cpp.lviv

Напрямки діяльності

Місія: створення комфортного клімату для підприємницької діяльності у Львові

- Навчання
 - «Вчимося бізнесу»
 - Шкільне підприємництво»
 - «Соціальне підприємництво»
 - «Жінки в бізнесі»
 - Цикл навчання для експортерів
- Консультування

Безоплатні кваліфіковані консультації підприємцям та усім зацікавленим щодо юридичних, фінансових, організаційних питань започаткування та розвитку бізнесу.
- Підтримка бізнесу
 - Програма компенсації відсотків по кредитах для підприємців
 - Надання виставкових ваучерів
 - Програма розвитку місцевих товаровиробників



Some AHs have established Centres with donor support. For example, the [Centre "Tserber" \(Merefenska AH, Kharkivska oblast\)](#) was established with USAID DOBRE Support.

USAID FROM THE AMERICAN PEOPLE

Місцеві органи влади у партнерстві з міжнародними організаціями

Місцеві органи влади у партнерстві з міжнародними організаціями

Місцеві органи влади у партнерстві з міжнародними організаціями

Місцеві органи влади у партнерстві з міжнародними організаціями

Місцеві органи влади у партнерстві з міжнародними організаціями

Створення Центру розвитку бізнесу «Цербер» на території Мереф'янської громади

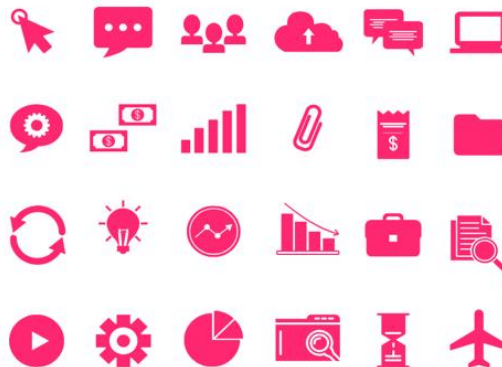
Діяльність Центру розвитку бізнесу «Цербер»

- Створення Бізнес-асоціації
- Послуга «Бізнес-інкубатор»
- Послуга «Швидка юридична допомога»
- Послуга «Бізнес-освіта»
- Послуга «Академія фінансової грамотності»
- Створення інформаційно-консультаційного центру з надання послуг у сфері оподаткування та права в Мереф'янській ОТГ
- Послуга «Експортний кейс»
- Послуга «Бізнес-Call-center»

Other BCs offer a package of services, such as the ChernihivBusinessHub, as illustrated in the Diagram below.

УСІ ПОСЛУГИ В ЄДИНОМУ МІСЦІ

- Консультації
- Експертна підтримка
- Менторська підтримка
- Освітні програми
- Розвиток інновацій
- Обмін знаннями та досвідом
- Комунікаційний простір



3.2.8 Co-working Spaces

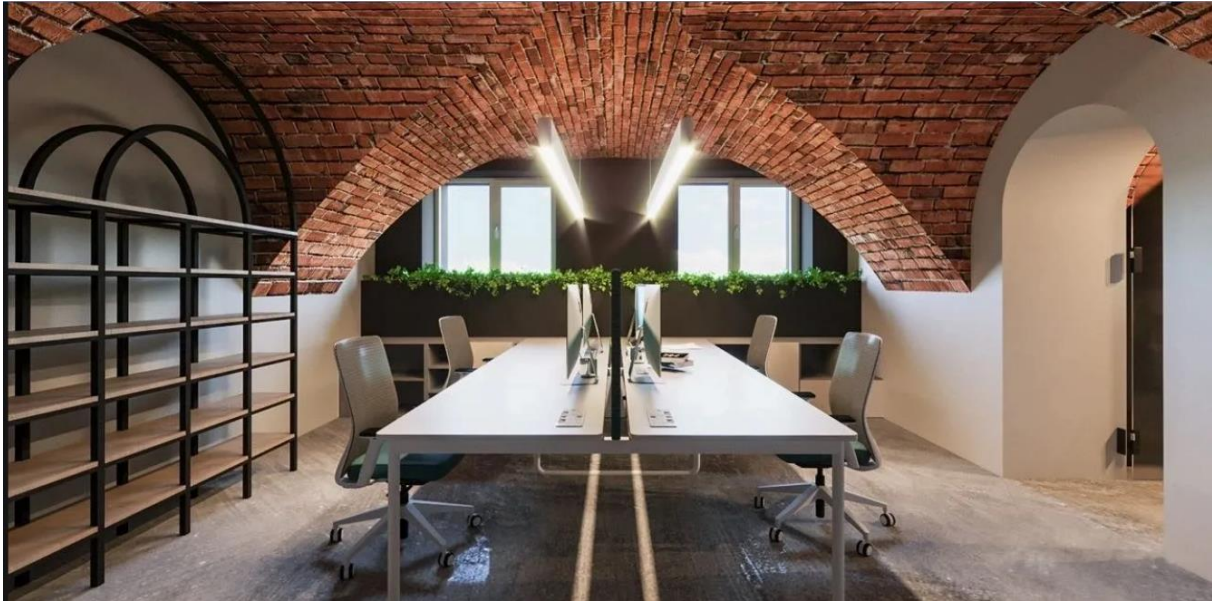
Co-working spaces are basically **shared workplaces** utilised by different sorts of knowledge professionals, mostly self-employed / FOB, working in various degree of specialisation in the knowledge economy. Co-working spaces are **open space offices furnished with desks, internet connections and often meeting rooms, private office spaces and other equipped rooms** rented to freelancers, professionals, start-ups or micro-businesses.

Co-working is an alternative to the traditional office which has **grown exponentially** as freelancing increases and ICT platforms stimulate new business models. It involves both access of **shared physical assets** (office, infrastructure, cafeteria, etc.) and the **sharing of intangible assets**, such as information, knowledge, etc. Co-working spaces often involve the **reuse of derelict, vacant or underused buildings** (e.g. libraries), contributing to public services as well as economic/SME development.

Therefore, co-working spaces have the potential to play a significant role in local economic development, for example to stimulate digital transformation, green economy and innovation locally. Many have examples exist in Ukraine such as:

- 'VeteranHub', focus on ATO veterans: <https://veteranhub.com.ua/about>
- 'Hub 4.0', focus on Industry 4.0 <https://4hub.com.ua/ua/mesto-dlya-raboty/>
- 'Chasopys', no specific focus, <http://coworking.chasopys.ua/en/>
- 'ChernihivBusinessHub', no specific focus, <https://rdch.agency/%D0%BA%D0%BE%D0%B2%D0%BE%D1%80%D0%BA%D1%96%D0%BD%D0%B3>

Coworking spaces can be flexible, such as part of business centre (as in the case of the ChernihivBusinessHub) or separate space (as in the case of 'Chasopys').



Coworking Zone in ChernihivBusinessHub

3.2.9 Business Incubators

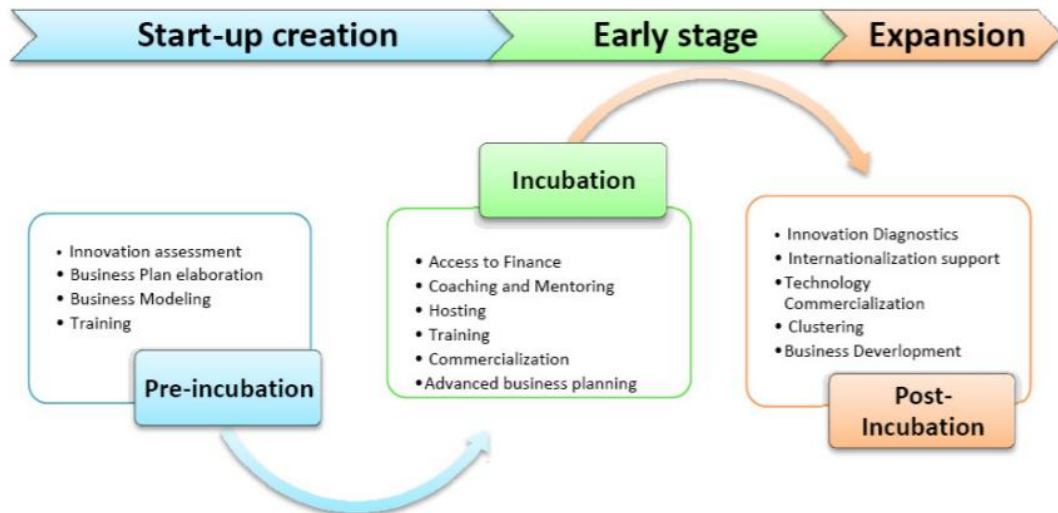
Business incubators support new enterprises, promote entrepreneurship and increase employment by creating new job opportunities at the local/regional and national level. The term “incubator” is a general concept to define supportive institutions which **focus on growth and development of new firms that provide them the chance to develop**. The key point is that business **incubators can dramatically increase the survival and growth rates of newly established firms**. Incubators reduce failure rates of newly established businesses below 10%. Business incubators provide **affordable space, shared support services, and business development assistance** in an environment conducive to enterprise creation, survival, and early-stage growth.

There are **five services** that are generally considered to be central to incubation:

- Access to physical resources: office space, furniture, computer network, etc.;
- Office support: mail, internet, copying services, computer network, book-keeping, etc.;
- Access to financial resources: business angels, venture capitalists, banks, projects, etc.;
- Entrepreneurial start-up support: business plan, legal/accounting advice, etc.;
- Access to networks: potential customers and suppliers, specialist service providers (lawyers, accountants, tax specialists, etc.), financial institutions (banks, venture capitalists etc.), public and private research organisations and development institutions (e.g. regional development agencies, chambers of commerce, etc).

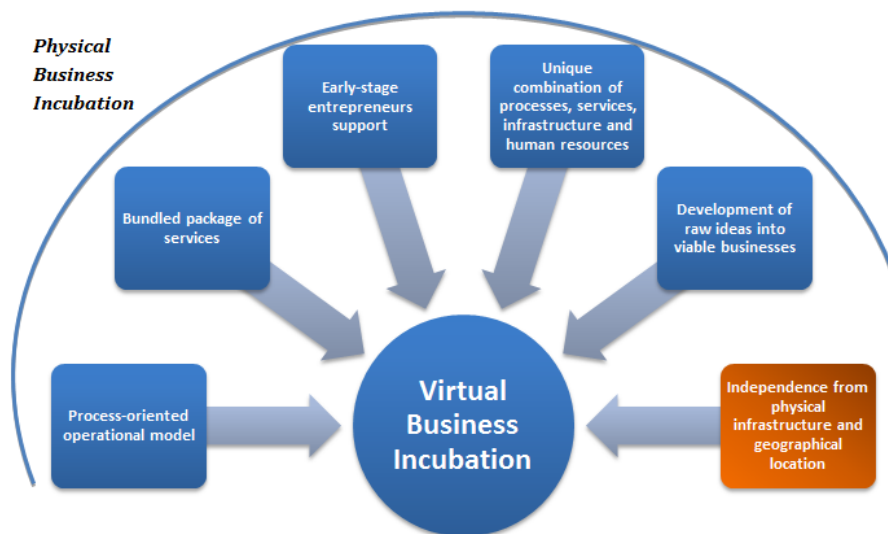
Access to networks is widely regarded as **the most important element of the incubation process**, allowing tenant firms to access the critical resources they need such as knowledge, technology, financial capital, human capital, etc. thus overcoming some of the difficulties associated with the liability of being small or new, and support to develop cooperative relationships which are critical at the early stages of business formation.

There are generally **three stages of incubation**, as illustrated below for an innovation-oriented business incubator.



Source: EC (2019) [The Smart Guide to Innovation Based Incubators](#)

Another option is to create a **virtual business incubator**. The traditional incubator model requires both premises and staff, so is relatively expensive to operate. By contrast, the virtual model allows a start-up or established company to obtain the advice of a business incubator without physically being located there. The virtual model suits entrepreneurs who need the advice that an incubator offers but wish to maintain their own offices, warehouses, factories, etc. A **virtual incubator agreement is normally established with an existing incubator**.



Source: [Virtual Business Incubator Framework](#)

The best know example of business incubators in Ukraine are:

- Open data incubator 1991 <http://1991.vc/en/about-incubator/>
- iHub <https://ihub.world/?lang=en>

Having physical premises 1991 and iHub also act as virtual incubators providing to their residents networking and connection to potential investors.

WHAT IS 1991?

1991 incubation programs help startups find a common language with businesses and governmental institutions bodies to create joint projects.

NICHE INDUSTRY PROJECTS

infrastructure, agro, energy

E-SERVICES

for citizens

ANALYTICAL SYSTEMS

for state bodies and businesses

SMART CITY SOLUTIONS

for municipalities

3.2.10 Other

As highlighted in section 3.1 above, there are many different types business promotion tools that might make sense to implement in the AH context. It is worth briefly highlighting **three of the more sophisticated tools which offer a great deal of potential**, especially for larger, urban AHs or inter municipal partnerships of AHs.

Local Public Enterprises

Local public enterprises (LPE) are a popular model of public service delivery in many countries, such as OECD countries, where **LPEs are active in a wide range of services**, such as infrastructure services where market failures or high transaction costs are evident. Typical areas of operation for LPEs are classic public services like **water and sewage, waste collection, electricity distribution but also urban planning and development**. The former often have high transaction costs, natural monopolies and general market failures.

One of the most common types of LPE is a **consortium** owned by several local authorities for the provision of different types of services for which a single municipality is too small. Cooperation reaps efficiency gains derived from **economies of scale**. The incentive for AHs to organise this way is largest in those cases **where individual municipalities do not operate at optimal scale and where the aggregation of production of several territorial jurisdictions yields significant returns to scale**. There are clear incentives to establish LPEs but there are also **risks**, such as administration (several territories), fiscal transparency (e.g. misuse of off-budget options), accountability, risk sharing, coordination, heterogeneity of interests, political capture and special interests, etc. (see S Saussier, M Klein (2014) [Local Public Enterprises: A Taxonomy](#)).

Examples of municipal companies in Ukraine include:

- '[Dobrobut Zakhid](#)', a municipal agriculture enterprise;
- "[Territorial centre for providing social services of Pidvolochysk village council](#)", providing social services;
- '[Novopskovzhytlo](#)', providing maintenance of facilities, collection of safe waste, construction of buildings.

Clusters and value chains

Clusters and value chains are key economic development tools. The underlying premise of

both approaches is that individual firms often face sector-level constraints that they cannot address alone, so efforts to increase competitiveness must go beyond supporting individual firms, since inter-firm cooperation is important. The two approaches have common intellectual roots in Harvard’s Michael Porter, who played a key role in developing both theories.

The differences between the two is that whereas the **value chain** approach considers a broad market system and the development of products/services from input suppliers to end-market buyers, the **value chain** approach focuses on the flow of a developmental process. It differs from a supply chain in its emphasis on creating value in each segment of the chain.

The **cluster** approach focuses on **geographic concentrations of interconnected companies and their interactions**. In particular, it concentrates on the synergies between these enterprises, including those between firms in different segments of the value chain. As a result of this geographic focus, the cluster approach does not always focus on the entire value chain but on core and supporting companies in specific locations. It sees collaboration between cluster members as the source of resolutions of common problems.

The Diagram below shows the **differences and similarities** in value chain/cluster approaches.

Variable	Value Chain	Cluster
Definition	The value-creating flow of a good from raw materials, production, commercialisation and ultimately, delivery to end-users / customers	A geographic concentration of inter-connected businesses, suppliers, and associated institutions creating direct and indirect synergies amongst themselves
Geographic Focus	Entire value chain, regardless of location	Typically, industry firms in a concentrated geographical area, which may or may not include the entire value chain
Composition	All companies in the product flow; usually defines stakeholders more narrowly to include enterprises primarily, but also some public sector entities	Stakeholders who (directly or indirectly) create synergies; usually defines stakeholders more broadly and more formally

Source: USAID (2008) [Value Chains and the Cluster Approach](#), microREPORT #148

The European Cluster Collaboration Platform (ECCP)

The European Cluster Collaboration Platform (ECCP) launched in 2016 and is an action of the Cluster Internationalisation Programme for SMEs funded under COSME. The ECCP provides networking and information support for clusters and their members aiming at improving their performance and increase their competitiveness through trans-national and international cooperation. The ECCP provides the following services:

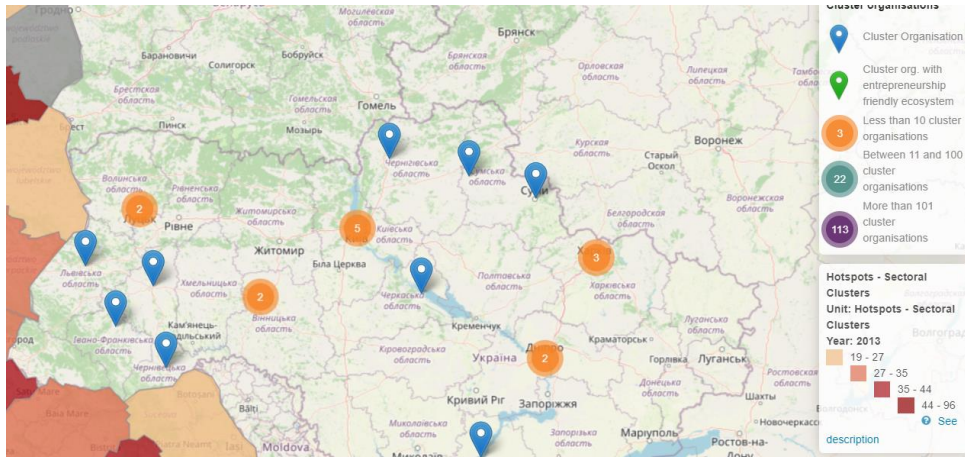
- Dynamic mapping of over 1,000 profiled cluster organisations worldwide;
- Matchmaking events supporting the development of cooperation between clusters in

Europe and beyond;

- Unique database on regional, national, international and sectoral cluster networks;
- Partner search facility, where clusters can exchange their offers and demands.

At the moment, 23 Ukrainian Cluster organisations (including IT, agriculture, space and creative industries) with 332 SME members are [registered on the platform](#).

Map of Ukrainian clusters-members of the European Cluster Collaboration Platform



Source: <https://www.clustercollaboration.eu/vibrant-platform-service-cluster-organisations>

Examples of clusters in Ukraine include:

- [Cherkasy IT Cluster](#), ICT;
- [Association «Ukrainian logistics alliance»](#), Transportation and Logistics;

Participants and projects of [Cherkassy IT cluster](#):

Учасники та партнери

«Черкаси ІТ кластер» нині об'єднує 13 ІТ-компаній з Черкас

SPD Ukraine
SOFTWARE PRODUCT DEVELOPMENT

EK
ekreative

INTERLINK

Active::Bridge

Проекти

Це наші основні напрями діяльності

Навчання
Підготовка фахівців

Тренінги
Підвищення кваліфікації

Лекції
Тематичні заходи

Хакатони
Командне розв'язання задач

Олімпіади
Усі змагання з програмування

Трансляції
Трансляція значних подій

Examples of value chains in Ukraine include:

- [TM 'Chumak'](#), growing and processing of agriculture products;
- [Novokramatorsky mashinostroitelny zavod](#), metallurgy.

Example: Activities of Novokramatorsky mashinostroitelny zavod <http://nkmz.com/en/>

	25 number of workshops	105 ^{km} extent of railway tracks	328 ^{ha} total area	8803 ^{persons} number of employees
Steel-making production capacity:	253 ^{ths tpy} liquid steel	45 ^{ths tpy} steel castings	35 ^{ths tpy} iron castings	105 ^{ths tpy} forgings out of ingots
Machining capacity:	140 ^{ths tpy}			

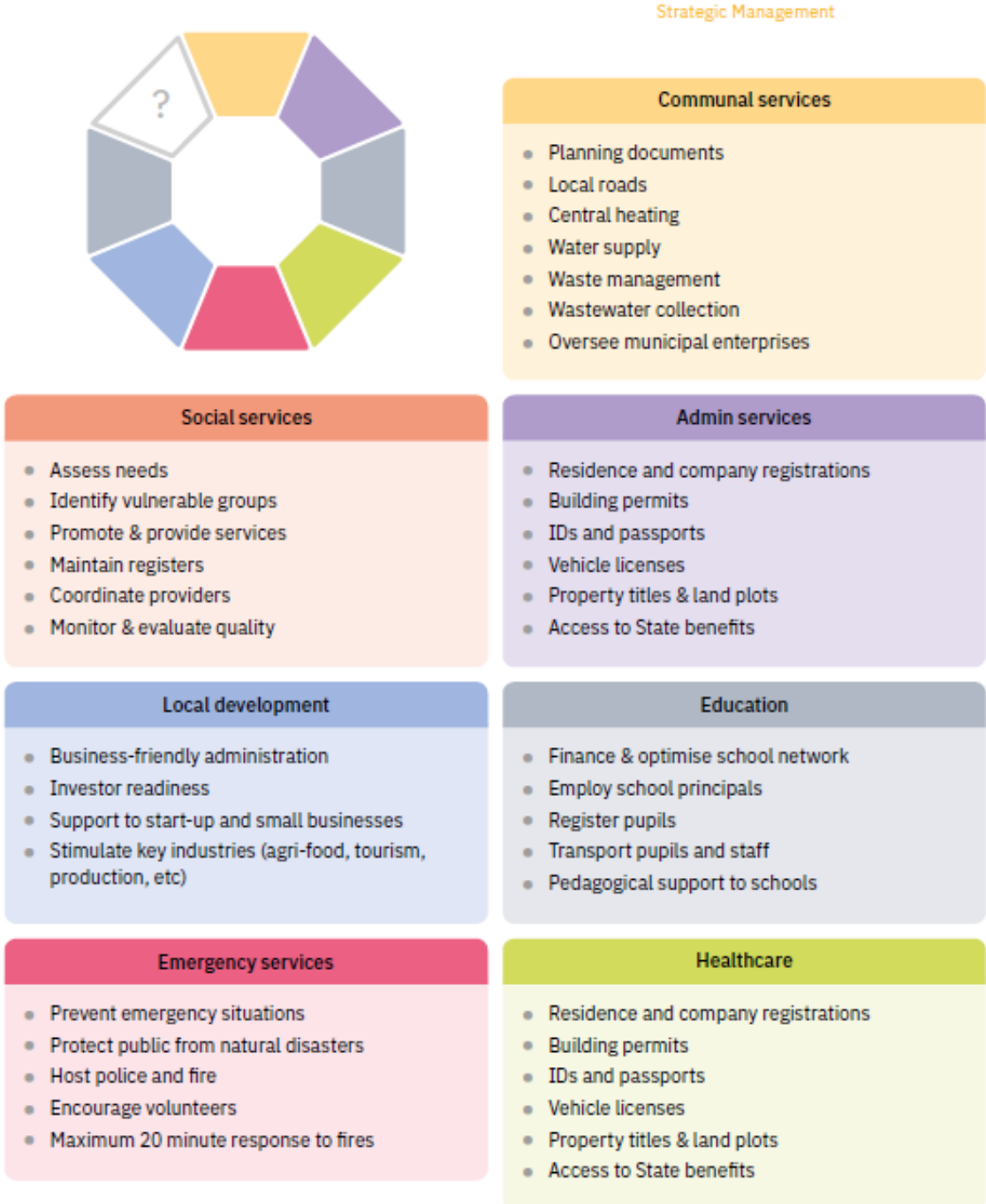


Exercise: creation of SME support infrastructure in AHs: main steps and avoiding mistakes

Module 4: Preparing AHs for business development

4.1 AH Responsibilities and LED / SME / BFA

AHs operate with an extensive **mandate** which covers **many obligations and opportunities**, the key ones of which are summarised in the Diagram below (U-LEAD, 2019, p.19).



This demonstrates the centrality of local development to AHs. A Council of Europe survey (of 705 AHs with a 73% response rate, 2018/9) found that **local economic development and the development of entrepreneurship** was recognised as being a **special focus of AH activities by 40%**, namely the **third most important issue** after education (65%), road

infrastructure (42%), with healthcare (35%) being the fourth most important factor.

4.2 Development Strategies / SME Programmes / BFA Activities

4.2.1 Context for LED/SME/BFA Focus

The U-LEAD Reader for Leaders (2019) sets out the general process for creating a strategy for the vision mission and strategic goals of AHs, including a business orientation, drawing on multiple sources, including:

- Situation analysis (data, information and other evidence) of the current situation;
- Identification of major challenges, including the results of SWOT analysis;
- Assessment of citizens’ and businesses’ current needs and future expectations;
- Inputs from sectoral policies and strategies prepared by the AH (e.g. education policy, local development strategy) or by relevant national or regional institutions.

In Module 1, it was noted that AHs may create a Local Development Strategy (LDS) and most have done (over 50%) or are doing so. However, they must create the mandatory Plan (programme) of Socio-Economic Development (PSED). It was also noted that legislation being prepared is likely to require the preparation of **Local Economic Development (LED)** strategies, though this is not yet the case. Even if it is not mandatory to do so, the underlying argument of this analytical note is that **it is important for AHs to develop a greater focus on the LED, the SME and the BFA aspects**, as discussed below.

4.2.2 LED Strategy

Focus of LED Strategies and Action Plans

Module 1 defined LED as the: **“process by which public, business and non-governmental organisations work jointly to create better conditions for economic growth and employment generation with the aim is to improve the prosperity and quality of life for all within a certain area.”**

An LED strategy can be developed in **five steps** (see Bertelsmann Foundation [Strategic Management in Local Economic Development](#)).

Economic Development Stakeholder Engagement

LED is broad in nature and depends the **public** (AHs), **private** (businesses and associations) and **non-governmental** (NGOs, trade unions, academic, community, etc.) **sectors**. The first step in the strategic planning process is to **identify the stakeholders** with an interest in developing the local economy, as illustrated in the Diagram below.



<ul style="list-style-type: none"> • AH, technical departments • Regional government • Sectorial institutions: health, education, transportation, etc. • Institutions of research and higher learning • Utilities 	<ul style="list-style-type: none"> • Large corporations • Micro, small and medium-sized entrepreneurs • Banks and financial groups • Chambers of Commerce • Other business support organisations • Professional associations • Trade unions • Land / property developers • Think tanks and BDS providers • Media 	<ul style="list-style-type: none"> • Community leaders and groups • Local educational institutions • Local religious institutions • Other NGOs representing e.g. disadvantaged populations (e.g. disabled), environmental issues, cultural, arts, cultural and historical interests, sports, etc.
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Establishing **good working relationships and structures** that engage stakeholders in the LED process should lead to beneficial long-term public/private/non-governmental partnerships. The issue of partnerships for economic development was discussed in Module 1.

Local Economy Assessment

Each local economy is unique and the assessment should not be limited by an administrative boundary such as a AH, but rather defined by the **economic relationships in a geographic area**, such as the hinterland and could possibly involve multiple AHs. The local economic assessment identifies the **strategic direction for the local economy**. This is done through a SWOT / PESTLE analysis and should not repeat the information available in either the Local Development Strategy (LDS) or the Socio-Economic Plan, which are much more general in nature (see Section 1.1), though they may include economic elements.

The LED assessment identifies public, business and non-governmental resources, analyses existing **quantitative and qualitative information** and establishes Key Performance Indicators (KPIs) for future use in monitoring and evaluation. The level and depth of data and analysis will depend on its **availability, budget, timeline and nature** of the local economy.

Important Categories of Data	
<ul style="list-style-type: none"> • Current economic activities and trends • Inventory of businesses • Population trends • Physical infrastructure • Natural resources • Local geography • Community attributes • Business culture 	<ul style="list-style-type: none"> Local private sector development and management capacity Local government capacity Local leadership Human resources and skills Availability of finance Local R&D Local training facilities Other local conditions affecting business

Comparative information on the activities of other AHs or national / international good practice examples is always useful to take into consideration. The process considers a **wide range of economic development opportunities** across all key sectors and the analysis usually points towards **projects and programmes** that will strengthen the economic base of the AH or the wider local economy.

Strategy and Action Plan Creation

The LED strategy aims to achieve a **holistic approach to economic development**, which means **balancing the economic development needs with the social and environmental ones**. The Diagram below shows the LED strategy **components**, which are common to all strategies.

Important Categories of Data	
Vision	Describes stakeholders' consensus on the preferred economic future of the community.
Goals	
Objectives	Are based on the overall vision and specify desired outcomes of the economic planning process.
Programmes	Set the performance standards and target activities for development (time bound and measurable).
Action Plans & Projects	Set out approaches to achieving realistic economic development goals (time bound and measurable). Implement specific components. They are prioritized and costs established (time bound and measurable).

Strategy Implementation

Implementation of the LED strategy is driven by a **detailed Action Plan** containing prioritised **tasks, responsible parties, deadlines, human resource and financial needs, Key Performance Indicators (KPIs) and monitoring, evaluation system**. The Action Plan contain a mixture of projects/programmes:

- “Quick wins”: short-term projects that are important in building momentum and trust;
- Medium- to long-term projects: more expensive to implement and often require to be “championed” by stakeholders, according to their resources and level of commitment.

The Box below illustrates some of the measures that could be contained in a LED strategy.

Box 12: Possible LED Measures
<p>Each AH must decide upon the key projects and programmes at core of its LED strategy. Below are the typical primary (1-5) and secondary (6-10) measures, depending on the particular local circumstances:</p> <ol style="list-style-type: none">1. Improving the Local Business Investment Climate: measures include improving processes and procedures for business registration, taxation, etc. These should complement and ensure consistency with reforms or measures that may be taken at the national/regional level to improve the investment climate;2. Investment in Hard Strategic Infrastructure: improving the built environment for businesses including transport infrastructure (roads, rail, air and sea) and utilities (industrial and potable water, waste disposal, gas and electricity, telecommunication systems);3. Investment in Sites and Premises for Business: improving the provision and availability of land and sites, premises and units for productive economic and business development such as commercial and industrial sites and premises, as well as managed workspace and business units. LED prioritises capital investments that serve the community's priorities for business development and income generation, as well as basic services, in order to maximize investment returns.4. Investment in Soft Infrastructure: improving the commercial environment for businesses through, for example, regulatory reform, skills training and business-focused education, R&D, “one-stop shop” advisory services, business networking, guidance to accessing capital and finance sources, etc.5. Encouraging Local Business Growth: enabling and/or providing advice, support and resources to enable existing local

business to grow with the goal of retaining and strengthening existing local business.

6. **Encouraging New Enterprise:** enabling the provision of advice, technical support, information and resources to support individuals to set-up new businesses.
7. **Promoting Inward Investment:** attracting business to a community from elsewhere in the country or from other countries. This option needs careful weighing of the costs and benefits.
8. **Sector (and Cluster/Value Chain) Development:** focuses on facilitating linkages and interdependence amongst firms (including suppliers and buyers), supporting services (including training institutions and banks) in a network of production (and sale) of products and services. They stimulate local and regional collaboration to facilitate industry networking and bring the key relevant actors together.
9. **Area Targeting/Regeneration Strategies:** addressing specific area-based problems, such as regenerating a rundown town/city centre, a declining commercial zone or neighbourhood, etc.
10. **Integrating Low Income or Unemployed Workers:** via programmes to mainstream the poor and disadvantaged populations into the economy. Ensuring that new investment and growth extends employment and other opportunities to low-income people, including those in the informal sector.

Source: Bertelsmann Foundation (pp.12-13); Author

Strategy Review (Monitoring and Evaluation)

There should be a six monthly or at least an annual review of progress based on the monitoring, evaluation and reporting system for assessing progress and intervening, if needed. Alongside the review of the entire strategy, systems should be in place to monitor the progress of every project.

Link between strategies and programmes

The LED and the SME/BFA elements can be linked. For example, the Ministry of Economic Development, Trade and Agriculture (MinEconomy) has issued the [Guidance on the integration of SME development at Oblast City and AH level \(Methodology for Long-Term SME Development Planning at Oblast, City and Community Levels\)](#), 2019) jointly with the Ministry of Regional Development, Building and Housing and Communal Services (MinRegion). This sets out a step-by-step process involving:

- Forming a balanced working group of public and private sector stakeholders;
- Elaborating the SME-related operational goal at the regional / local level;
- Preparing documents for implementing the SME-related operational goal.

The process is illustrated in the Diagram below, including the role of the private sector.



4.2.3 SME Programmes

LED has a broad focus, as illustrated by the Box above. Economic development is promoted in its widest sense, including a focus on communities, the environment, etc. If desired, **AHs can focus on the enterprise dimension in much greater detail**, such as by preparing **SME Programmes** to specifically address the needs of new and existing local enterprises.

Module 1 defined SME development and the process by which they can be supported at national, regional and local level. The SME Programmes are designed according to the [Guideline on Elaborating and Implementing Regional and Local Programmes of SME Development](#) (2012), which contains instructions for their design. The Box below illustrates the content of an SME Programme.

Box 13: Illustration of SME Programme: [Selydove SME development programme for 2019-2020](#)

1. Creating favourable environment for the development of SMEs

- Increasing information support
- Implementation of the "think small first" principle

2. Promotion of entrepreneurial culture and development of entrepreneurial skills

- Ensuring the development and promotion of entrepreneurial culture
- Participation in the Global Entrepreneurship Monitor
- Conducting a European SME Week in Ukraine on a regular basis
- Incentives for lifelong learning
- Entrepreneurship support for key groups (internally displaced persons, dismissed or retired, youth, older generation)
- Promoting social entrepreneurship
- Promoting corporate social responsibility of SMEs

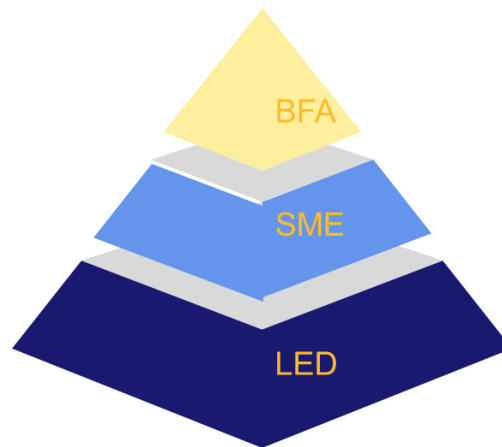
3. Strengthening the competitiveness and innovation potential of SMEs

- Modernization of the existing infrastructure to support SMEs
- Activation of technology transfer
- Promotion the greening of SMEs
- Using the opportunities of the EU's Programme Horizon 2020 for Research and Innovation
- Using the opportunities of the EU Programme "COSME"

4. Financial support for SMEs

4.2.4 BFA Activities

Whereas LED has a broad economic orientation and SME development has a specific focus on supporting enterprises, aspiring to be a **BFA has a still narrower focus**, as illustrated below.



As discussed in Module 1, business friendly means: **Explicit attempts by local government to reduce the regulatory and non-regulatory barriers, costs, risks uncertainties in commercial activity to stimulate and support local business growth, local business retention and the attraction of new business to the local area.** As discussed in Module 2, an aspiring BFA needs to focus on the following issues:

- Structure of local businesses;
- Creating by-laws and regulations;
- (Re)Registration of FOB/Enterprises;
- Obtaining licenses, permits and certificates;
- Taxes, charges and levies;
- Local public procurement and payment policies;
- Land, infrastructure and premises;
- COVID-19 support.

The **principles and process** for creating a BFA were also covered in Modules 1 and 2.

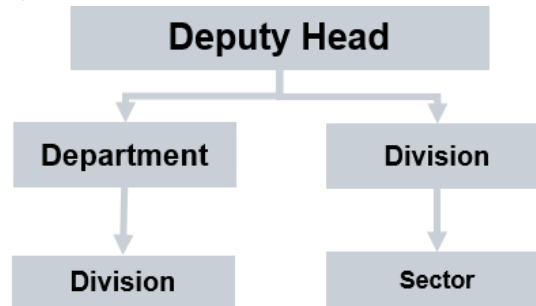
4.3 Implementation of LED/SME/BFA Focus

The scope of LED activity is very broad, whereas SME development is narrower and BFA is the most focused or all. This has implications for implementation of their respective activities. **Various institutional models are possible**, depending on the particular emphasis selected by an AH. However, whatever model selected, there is a need for a **Business Champion**, who will be the “face” and “catalysis” for the LED/SME/BFA activities.

4.3.1 Economic/SME/Business Development Department

The U-LEAD Reader for Leaders (2019) discusses the general organisational aspects of AHs, including an Economic Development focus. Here, we simply discuss the issue of how a business orientation could be operationalised within an aspiring BFA. Creating **an appropriate organisational arrangement** to develop and implement a BFA approach, including LED and SME development, is of **critical importance**. There are a number of **different institutional options** where a LED/SME/BFA function could be located:

- **Department / Division / Sector:** an **LED focus** is typically very comprehensive, involving all AH departments, as well as many other stakeholders. Therefore, there is a need to organise the economic development function well, usually by institutionalising it in the form of a **Department** led by Deputy Head. An **SME development focus** is narrower and could be institutionalised as a **Division** within a Department. A **BFA focus**, since it is narrower still, could be institutionalised as a **Sector** within an administration.



- **Agency:** LED/SME agencies can improve coordination and synergy with different governmental and non-governmental entities, as well as a sustainable institutional framework which avoids interruptions caused by political / election cycle. The broader and more complex the function, the more it may be suitable to create an agency;
- **Mayor's Office:** a narrow BFA focus could be institutionalised within the AH Leader's office as. It would enjoy high profile and facilitate coordination within the administration, though the function could be closely associated with the Leaders' tenure;
- **Economic / Business Officer:** a likely scenario in smaller and/or more rural settings would be to appoint a Business Officer (BO) as the principal operational resource, possibly also with a rural development focus. Small AHs are not likely to have both and economic and a business officers, so the economic officer should be business-oriented.

Box 13: Business Officer: example of a job description

Job Summary

An organised, efficient, and communicative liaison officer to coordinate between our organisation and many stakeholders in the public and private sector. In this role, you will act as the intermediary between our administration and the business sector. You will build relationships and partnerships with the private sector, including developing a good understanding of their problems and needs. You will liaise with the Leadership and others within the administration to address the challenges and opportunities faced by local business, including leading reforms to become a Business Friendly Administration. This means streamlining procedures, resolving issues, maintaining regular communications, and generally building a long-term relationship with local businesses.

Duties and Responsibilities

- Act as the point of contact for all business inquiries;
- Develop and maintain strong relationships with local businesses and associations/chambers;
- Act as the coordinator within the administration in terms of problem solving for businesses;
- Develop and maintain data, analysis and knowledge of local business and their needs;
- Incorporate LED/SME/BFA priorities / measures withing AH policies, strategies and plans;
- Monitor, coordinate, and communicate the strategic objectives of the BFA;
- Foster relationships with international, national and regional LED/SME/BFA stakeholders;
- Coordinate regular business surveys, information /consultation events, discussions, etc.
- Proactively address issues that could occur between the business and the AH;
- Ensure regular communication with local businesses and other stakeholders;
- Monitor sources of LED/SME/BFA funding, such as Calls for Proposals;
- Coordinate applications for funding;
- Coordinate implementation of LED/SME/BFA projects;
- Undertake monitoring and evaluation of LED/SME/BFA strategies, programmes, plans and projects.

Education

- University Degree in Economics, Business Studies or similar.

Experience, Knowledge and Skills

- Experience of working with the private sector, including business support organisations, chambers, business associations
- Experience of cooperation with public sector institutions, including local, regional and national government
- Experience of developing strategies, business plans, applications for funding and similar
- Experience of using quantitative and qualitative data and tools such as Excel, surveys, etc.
- Experience of running meetings, group discussions, workshops, presentation, etc.
- Excellent presentation, communication and networking skills

It is for each administration to determine the most suitable institutional arrangement, based on the degree of policy priority given to LED/SME/BFA issues. Many factors will influence the decision, including **size, economic potential, budget, development priorities, etc.**

The Head of the LED Department / SME Division / BFA Sector / Business Officer would take the **lead in implementation**, including **communication and building partnerships** within the AH (different departments and stakeholders from the community and business sectors) as well as beyond the AH boundaries, such as other AH partners, OSA, Ministries, Donors, IFIs, NGOs, Business Associations, etc.

4.3.2 The Business Champion (Mayor)

As discussed in the previous section, LED and entrepreneurship are critical AH services and need to be prioritised accordingly. **AHs can only aspire to become BFA if they prioritise the business sector**, which also means the need have a clearly defined **Business Champion**. There is only one person that can perform this role in AHs. The **Mayor/Leader**.

The Mayor/Leader must act as the Business Champion, since this role requires status, leadership and concerted political commitment. Being a BC means being:

- Led by the BFA principles set out in Module 2;
- The point of contact for all strategic business issues;
- The connector that links businesses with the rest of the AH;
- The communicator in terms of information, consultation and PPD;
- The catalyst for ensuring the AH administration becomes and remains a BFA.

The nature of AHs and how power and decision-making works mean that without the **Mayor/Leader understanding and proactively performing the role of Business Champion**, it is not feasible to aspire to become a BFA in a full sense. The Business Champion would need to work hand in glove with the Head of the LED Department / SME Division / BFA Sector / Business Officer to ensure effective coordination within the AH.

Exercise: Defining structure/person responsible for business development in AH

4.4 Preparing BFA projects (e.g. applications & investment projects)

A manual has been prepared for AHs on “Attracting Investments” (CIVITA/SUP, 2020) which touches upon various aspects of project preparation from a domestic and foreign investment perspective. Here, we focus on how to select projects, how to make applications to

implement the selected projects and the possible sources for funding for them.

4.4.1 Selecting Projects

It is now important to discuss the selection of projects for implementation. The project ideas will already have been generated via the strategizing process, leading to an approved LED/SME/BFA strategy / programme / plans. As discussed in Section 4.2.2 above, there should have a **list of possible “quick wins” short-term projects** that are important in building momentum and trust, as well as **medium- to long-term projects** which are “championed” by stakeholders, according to resources and commitment. The quick wins should be possible to implement with the AH’s own resources (see Section 4.5 below).

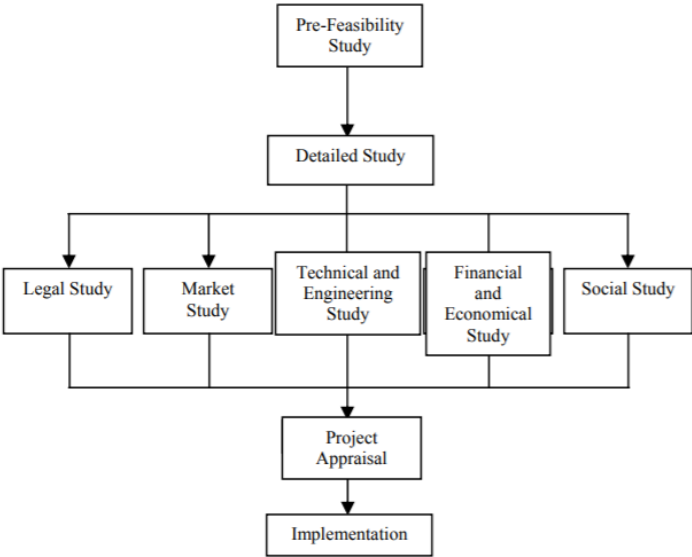
Projects with larger resource requirements and a longer timeframe would normally need to go through a selection process, such as a **Feasibility Study**, to verify whether the project can be technically and financially implemented and, where relevant, a **Business Plan**. If there are alternative or competing options, comparing the costs and expected benefit of each project provides data (e.g. new jobs, incomes, revenue, value-for-money) with which to help prioritize projects (i.e. using **Cost Benefit Analysis**). These three tools are discussed below.

4.4.2 Technical Tools

Pre-Feasibility and Feasibility Studies

Before committing to complex and costly projects, it is normally relevant to undertake a feasibility study. **A public feasibility study** tends to focus on the **cost** of the assets and of **externalities**, expresses the financial and the externalities **benefits**, and any **side-effects** of the project on other projects or the economy, environment, community, etc. and **seeks to maximise benefits to society as a whole**. An **externality** is an economic term referring to a **cost or benefit** incurred or received by a third party that has no control over the creation of that cost or benefit. An externality can be both **positive or negative** and can stem from either the production or consumption of a good or service. Air pollution from motor vehicles is an example of a negative externality.

A **traditional feasibility study** implies the collection and arrangement of data of different project alternatives to extract information to **appraise each alternative** in order to support decision-making. The process is highlighted in the Diagram below.



A feasibility study seeks to clearly establish **whether a project will work and achieve its expected results**. It evaluates in detail a project's technical design, costs and benefits, social and environmental aspects, institutional issues, financial aspects, feasibility of investments, etc. They are usually carried-out in the **preparation stage** of the project cycle.

The steps are self-evident in the Diagram. **The environmental, sustainability and governance issues also need to be addressed**. In the **project appraisal step**, the expected economic, social and environmental elements of the project are analysed using a variety of techniques to decide the project feasibility.

It may be possible to bypass some of the steps of the traditional approach. Historical data and experiences about the market, technical and engineering requirements, and financial and economical input may be used, saving time and cost. Nevertheless, they can be complex and so it **may be necessary to commission external expertise**. In which case, the AHs may choose to perform a **pre-feasibility study** instead, which is a preliminary assessment of viability of the project during the identification stage of the project cycle. Pre-feasibility studies generally cover the same subjects as feasibility studies but in much less detail. Consequently, they can be produced much more quickly and cheaply. They may also not need to involve external experts.

Variable	Feasibility Study	Pre-Feasibility Study
Same feature (concept/purpose)	Presenting technical, environmental, social, policy assessment of feasible options/solutions for the proposed project/programme, and proposing outcomes and recommendations with the most feasible and sound options for the project/programme	
Key differences	<ul style="list-style-type: none"> • Uses primary and secondary data sources • Incorporates in-depth technical design studies for the proposed technological solutions • May involve detailed engineering study / analysis with testing work and on-site appraisals • Includes deeper analysis and testing of each feasible option 	<ul style="list-style-type: none"> • Can rely on secondary data sources complemented by primary sources (as needed) • Makes use of existing evaluation reports for previously implemented / ongoing projects • Uses proven technologies and solutions with track record to demonstrate the feasibility of proposed technological solutions • Assesses feasible options using existing / available data, studies, resources

Source: [Guidance for preparing a pre-feasibility study](#)

Business Plan

The AH may prepare structured **Business Plans**, for example for new infrastructure such as the creation, establishment and sustainability of a Business Incubator (see Module 3 above). The business plan content is shown in the Diagram below.

Box 14: Structure of a Business Plan: 3 years

General Structure
Cover sheet
 Statement of purpose
 Table of contents
 The content of the plan

Content of the Business Plan
Description of the business

General description
Services / products
Marketing and competition
Competition
Pricing
Sales
Advertising
Management
Overview of operations
Operating procedures
Key personnel
Special requirements (e.g. insurance, machinery, testing, etc.)
Financials
Financial data
Loan applications
Capital equipment and supply
Balance sheet
Breakeven analysis
Pro forma income projections (profit & loss statements)
Three-year summary
Assumptions upon which projections were based
<i>Governance and Sustainability statement</i>

Business Plans are a well-established tool that AHs are familiar with. The illustration above would need to be customised to the particular type of initiative being examined.

Cost Benefit Analysis

Cost-Benefit Analysis (CBA) is an analytical tool for judging the economic advantages or disadvantages of an investment decision by assessing its costs and benefits in order to assess the welfare change attributable to it. In the context of this course, CBA is a powerful tool for **individual project appraisal** and/or **comparing different projects** to determine which one offers the greatest benefits.

The standard CBA involves **7 steps**, as illustrated below

1. Description of the context.
2. Definition of objectives.
3. Identification of the project.
4. Technical feasibility & environmental sustainability.
5. Financial analysis.
6. Economic analysis.
7. Risk assessment.

When conducting a CBA, the main methods of arriving at the overall results is to calculate the **Net Present Value (NPV)**. The NPV of a project refers to the difference between the present value of the benefits and the present value of the costs. If **NPV > 0**, it follows that the project has economic justification to go ahead. This is represented by the **equation**:

$$NPV = \sum \text{present value of total future benefits} - \sum \text{present value of total future costs}$$

Since costs and benefits are expressed in **monetary terms** they are **directly comparable with one another**. Also, costs and benefits are valued in terms of impacts on the whole community, rather than the interests of one particular individual or group, which is important from a public authority perspective.

After following steps above, a CBA can compare two or more projects. The Diagram below implies that Project Alternative 1 would be selected, as it offers a higher NPV.

Project Alternative 1	Project Alternative 2
Present value of Costs = UAH 80 million	Present value of Costs = UAH 9 million
Benefits = UAH 150 million	Present value of Benefits = UAH 20 million
NPV = UAH 150m – UAH 80m = UAH 70m	NPV = UAH 20m – UAH 9m = UAH 11m
From this CBA example, it can be seen that both investment proposals provide a net positive outcome. However, the NPV suggests investment option 1 provides a better outcome as the NPV of UAH 70 million is greater than the NPV of option 2 (UAH 11 million).	

Undertaking a CBA is a complex process which is beyond the scope of this training course. For further information, see the following documents:

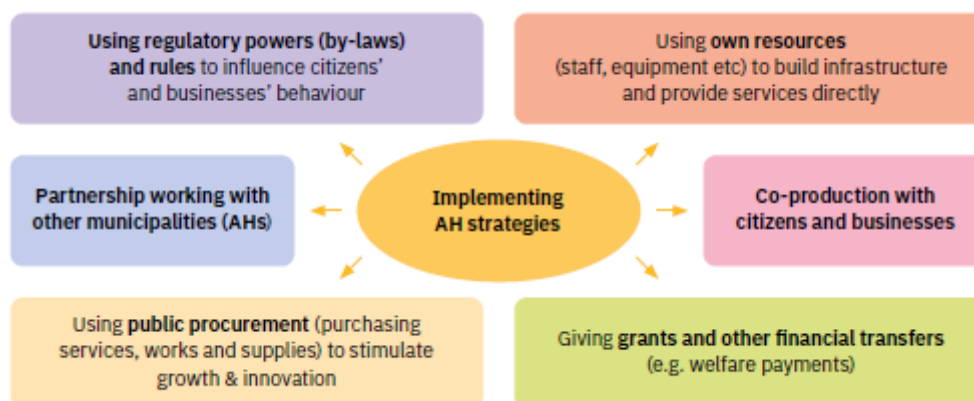
- European Commission (2014) [Guide to Cost-Benefit Analysis of Investment Projects](#)
- HM treasury (2018) [The Green Book: Central Guidance On Appraisal And Evaluation](#)

4.5 Funding LED/SME/BFA Activities

Planning and strategizing is important but **economic development needs to be lubricated by money in the form of public and/or private expenditure/investment**. A meaningful implementation of a LED/SME/BFA strategy / programme / action plan **requires dedicated internal funds**. Without this, they will take effort to prepare but then will simply “gather dust on the shelf”. This is all too often the case in Ukrainian AHs, regions and national government. However, **the dedicated internal funds must be found and these can be used to leverage external sources of funding**, such as national government, bilateral and multilateral donors. Other sources include financial institutions, we well as private investors, national and international.

4.5.1 AH Budget

The U-LEAD Reader for Leaders (2019) notes that the AHs can draw upon **six instruments to fund its strategies / programmes / action Plans**, as shown in the Diagram below.



Obtaining and maintaining a credible and consistent source of funding to achieve the LED/SME/BFA aims is a **considerable challenge for AHs**, especially as economic development is not a mandatory responsibility. In determining and agreeing a municipal budget, the **LED/SME/BFA focus competes with other priorities** such as infrastructure and education for limited resources. It is often a challenge for AH leaders to justify allocating

scarce resources to LED/SME/BFA efforts when other decisions are also pressing for the development of the municipality.

Because of the above, it is critical important to have **political, as well as business and community support to secure LED/SME/BFA resource allocation**. It is also fundamentally important for the AH to understand that business encouragement is a **major potential contributor to future revenue growth** (see Module 1). The key sources of funding for LED SME/BFA initiatives include:

- Municipal revenues raised from property tax, business tax and user fees;
- Sale or renting of local municipal-owned industrial or commercial buildings and land;
- State intergovernmental transfers.

4.5.2 External sources

There is nothing to stop AHs from tapping into other sources, some on a non-commercial (e.g. non-repayable grants) and others on a commercial (repayable principal and interest) basis such as:

- Commercial Banks: loans, guarantees and other financial products;
- International Financial Institutions: e.g. EBRD/KfW/EIB's soft loans, etc.
- Private sector: funding such as sponsorship, investments, etc.;
- National and regional state sources: such as funds and competitive applications;
- International donors: usually in the form of technical assistance, grants and soft loans;
- Foundations, NGOs, etc. technical assistance, grants, co-financing, etc;

Some of the main non-commercial sources available to AHs are highlighted below.

However, for AHs to be successful, they must be aware of all the main source of grants, loans, guarantees, etc. They should **regularly collect and distribute this information** to the relevant departments within the AH, as well as to the wider stakeholders (chambers, association, business clubs, NGOs, educational establishments, etc.). In particular, they must be aware of the **start and deadline dates** for Calls for Proposals, as well as their **focus and eligibility criteria**. Where these are cyclical in nature (e.g. Regional Development Fund), AHs should prepare applications for priority LED/SME/BFA activities.

The Table below provides brief information on **key initiatives at the time of writing**. These are only indicative, since the situation is constantly changing, new projects start and others close. AHs must deploy resources to be up-to-date on the possible new opportunities to obtain financial and non-financial support. In the case of private sector, it is recommended to follow the U-LEAD Guidance on Investment (2020).

Table 2: Key Sources of LED/SME/BFA Support

	Institution	Focus	Resources	Link
National	Fund for Regional Development	Support of projects developed in the frame of regional development strategies	Grants	https://new.dfr.minregion.gov.ua/pro-dfr/yak-podati-proyekt
	Ukrainian Start-up/Innovation Fund	Support of start-ups	Grants	https://usf.com.ua/
	Fund for	5-7-9 Programme	Loans &	https://5-7-9.gov.ua/

	Entrepreneurship		guarantees	
Regional	Entrepreneurship Development Funds	Providing trainings and financial support for entrepreneurs	Soft loans	E.g. Chernihiv region http://rfpp.cn.ua/
	SME Programme	Promotion and support of SMEs at the regional/local levels, including financial support	Grants & soft loans	E.g. Chernihiv city https://chernigiv-rada.gov.ua/miski-programy/id-1877/
Donors	Western NIS Enterprise Fund (WNISEF)	A \$150 million regional fund investing in small and medium-sized companies	Grants	https://wnisef.org/uk/
	USAID ERA	Rapid-response grant support to micro and SMEs operating in Donetsk and Luhansk oblasts and have the potential to benefit vulnerable populations	Grants	https://www.dai.com/our-work/projects/ukraine-economic-resilience-activity https://www.facebook.com/ERAUkraine/
	USAID CEP	CEP supports selected industries in key sectors: IT, furniture and wood processing, tourism and film industry	Grants	https://www.facebook.com/usaidep.ua/ www.cepukraine.org
	U-LEAD	Enhancement of the capacities of key stakeholders at the national, regional and local levels to implement the regional policy and decentralisation reforms	Grants	https://www.facebook.com/ULEADwithEurope/
	UNDP	Restoring infrastructure to provide conflict-affected communities with access to basic services, supporting economic opportunities through providing assistance to MSMEs, young people and IDPs.	Grants	https://www.ua.undp.org/content/ukraine/en/home/recovery-and-peacebuilding/component-one.html
EU	COSME	EU programme for the Competitiveness of Enterprises and SMEs support SMEs: access to finance, internationalisation and access to markets, competitiveness and entrepreneurial culture	Grants	https://ec.europa.eu/growth/smes/cosme_en
	Horizon2020	Horizon 2020 is the world's biggest research and innovation programme focusing on SMEs	Grants	https://ec.europa.eu/programmes/horizon2020/en/what-horizon-2020

Some regions issue inform about available opportunities, such as the [Chernihiv Digest](#).

4.5.3 Making Applications for Funding

There are many potential sources of non-commercial funding (EU, national, regional, NGO, donors, projects, etc.) that AHs can apply for (see Section 4.5.2 below). However, these are **normally competitive in nature** and require applicants to understand the Application Cycle, and ensure that they meet the eligibility criteria and other good practice elements, in order to be successful.

Application Cycle

Once the decision is made about which projects to select, the AH funds it through its own resources, commercial finance or partly or fully from **applications** made to government, donors, IFIs, etc. When making applications for funding, whether large or small, it is necessary to understand the **Project Application Cycle** as illustrated below, since many initiatives are tendered regularly (annually, quarterly, etc.), such as the Regional

Development Fund.

Grant Lifecycle	
Pre-award Phase	Funding Opportunity Announcement Application Review
Award Phase	Award decisions Notification
Post Award Phase	Implementation Monitoring and Evaluation Reporting Closeout

The more the AH is aware of the target initiative’s Project Application Cycle, not least the **eligibility criteria and the deadlines**, the more they can prepare in advance, thus enhancing the chance of success. However, it should be noted that while the **preparation of an application** itself is important is a small part of the process. The **effective implementation of a successful application is the key element**, since this is what creates potential benefits for the AH’s citizens and businesses. It is also **essential for the use of public funds to be transparent** through a **monitoring, reporting and evaluating system**. If the AH does not perform this effectively, it will affect its chances of success with future applications.

Application Form

Each application form is different but their **content** is broadly the same:

- Guidance: eligibility criteria, instructions, evaluation criteria, contact person, deadlines;
- Application form: applicant details, idea/goal, substance, KPIs, outputs and impact;
- Attachments/Confirmations: receipts, audit, monitoring, reporting, visibility, etc.

The next Box shows the Fund for Regional Development’s application form as an example. In this particular case, the applications must be submitted [on-line](#).

Box 15: Fund for Regional Development (SFRR) Application Form

I. Registration card of the project

II. Project content

1. Registration card of the project submitted for SFRR
2. Content of the project

III. Project

1. Abstract of the project
2. Detailed description of the project
 - 2.1. Description of the problem to be solved by the project
 - 2.2. The purpose and objectives of the project
 - 2.3. The main activities of the project
 - 2.4. Schedule of project activities
 - 2.5. Quantitative and qualitative indicators of project effectiveness
 - 2.6. Project innovations

IV. Project budget

1. Total project budget
2. Budget schedule by expenditure items

3. Expected sources of funding
 4. Calculation of project cost
- V. Annexes**

Source: <https://zakon.rada.gov.ua/laws/show/z0488-15>

Tips for Making Applications

Every application form is different. Even applications for the same initiative are likely to change from Call to Call for Proposals, since each institution aims to learn from previous rounds of applications and may target different groups, use different approaches, etc.

However, **20 generic tips** may be offered:

1. Check the guidance and application form carefully to ensure that it is really of interest to the AH.
2. Check that you are eligible to apply and obtain approval to proceed from the AH Leaders.
3. If anything is unclear, contact the responsible person to clarify at the beginning.
4. Develop a checklist of all essential information and deadlines.
5. Establish a team to secure all the necessary information, analysis and expertise.
6. Meet the precise requirements of the application/guidance. Be clear, concise and specific.
7. Try to establish a relationship with the funder's contact point and ask follow-up questions.
8. Assume the reader has little knowledge of the AH / the project and everything must be evidenced.
9. Use qualitative (quotes, case studies) and quantitative (statistics, surveys) information.
10. Ensure a clear statement of the goal, inputs, outputs/ KPIs and impacts/outcomes.
11. Identify potential problems or risks and how to respond to them if they arise.
12. Include the full budget details, including in-kind or financial or other contribution.
13. Demonstrate that the necessary time and resources will be invested to implement effectively.
14. Demonstrate commitment to good governance (avoiding corruption) by demonstrating full transparency.
15. Demonstrate commitment to monitoring, reporting, provision of evidence (e.g. receipts), etc.
16. Demonstrate support via letters of support (Leaders, MSMEs, Chambers, NGOs, VIPs, etc.)
17. Ensure the application includes everything the prospective funder requires.
18. Proof-read the content fully to ensure readability and focus.
19. Ensure that the application is submitted by the deadline.
20. Prepare carefully for the interview.

Following the above tips does not guarantee successful applications but will greatly increase the chances of success. If an AH is unsuccessful, it should always **ask for feedback** as to why the application was unsuccessful with the aim of learning from the experience. Try and try again and **perfect the art of making applications** for funding. The business sector and the community will benefit.

4.5.4 Contracting

Whether the project involves an application or an investment deal, it is essential for the contract to be **checked by experienced lawyers before signature**. In the case of state or donor funding, the contractual requirements are usually not as complex and often involved **Memorandum of Understanding / Cooperation**, rather than a contract as such. However, contracts involving the private sector, such as Business Proposal-related contracts (see 3.2.4 above), need to be **carefully considered both from a legal and technical perspective**, since they often involve strict requirements for both sides, sometimes stretching for decades, that may involve financial risks, penalties etc.

The simple **10 tips** in the Box help assess a contract before signature. The AH must obtain the **specialist legal expertise** before it commits to contractual commitments.

Box 16: 10 Tips for Agreements

1. Put it in writing: oral agreements are legal and binding in many situations, they are often difficult or impossible to enforce in court.
2. Keep it simple: insist on short, clear sentences; do not sign what you do not understand.
3. Deal with the right person: negotiate with the person with authority to negotiate and sign officially.
4. Identify each party: use the correct legal names of the parties so it is clear who is responsible for performing the obligations.
5. Spell out all of the details: the agreement should set out the rights and obligations of each party in detail.
6. Specify payment obligations: for example, who pays whom, when, how and the conditions for making payments.
7. Agree on circumstances that change/suspect/terminate the contract: e.g. for missing important deadlines, for inadequate quality, etc.
8. Agree on the way to resolve disputes: specific how to handle a dispute, including arbitration / mediation instead of courts.
9. Pick a state law to govern the contract: if the parties are in different locations, define the place for settling disputes.
10. Keep it confidential: specify the business information each party will keep strictly confidential while performing the contract.

Source: [Legal Encyclopaedia](#)

4.5.5 Implementation Project Manager

Depending on the nature of the contractual commitments and the size and complexity of the project, it may be necessary to assign an **individual or a team** to manage the project:

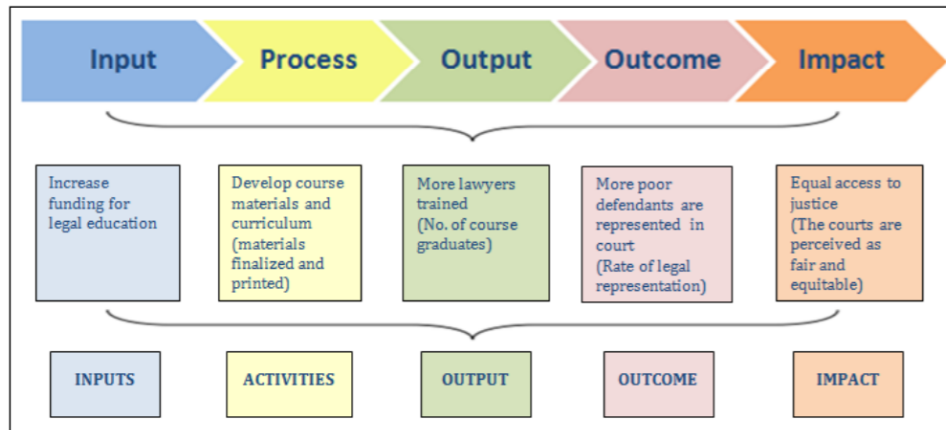
- **Non-commercial projects:** the implementation of successful applications for public funds typically involve nominating a member of staff and allocation of part of their time to interact with the funder and coordinating implementation of the project. Larger and more complex projects, such as a for example, the creation of a business incubator, industrial zone, etc. may require a dedicated project management team for implementation;
- **Commercial projects:** investment projects and similar are serious undertakings that can result in profits and/or losses and penalties if not implemented well. AHs must devote the necessary resources to ensure implementation on time and according to the contractual obligations.

The **Project Manager** coordinates an LED/SME/BFA project from start to completion. A Project Manager should identify, appraise and liaise with other potential resources in fulfilment of the project objective, and plan and direct project workflow on a day-to-day basis. The Project Manager will **report**, as required, to internal and external parties including the AH, donors, the LED/SME/BFA steering group, and business and community partners, and must develop **effective relationships** with all of the key stakeholders.

4.5.6 M&E and Reporting

All funders, public and private, require AHs to implement the agreed projects according to an agreed plan and to achieve the expected impact. This requires understanding of the **Monitoring and Evaluation (M&E) process**, including **transparent reporting**:

- **Activities:** the actions of AH and partners that are designed to meet a project's objectives;
- **Indicators:** quantitative or qualitative variables that provide a simple and reliable means to measure achievement, to reflect the changes connected with an intervention;
- **Inputs:** the raw materials that provide a basis for the projects can include money, technical expertise, personnel, equipment, etc.;
- **Outputs:** the tangible and intangible products that result from project activities;
- **Outcomes:** the benefits that a project or intervention is designed to deliver;
- **Impacts:** higher level strategic goals, such as increased investment, profit, etc.



DFID (2013) [Indicators of Inputs, Activities, Outputs, Outcomes and Impacts](#)

AH's will need to establish the basis for project **monitoring** by collecting the necessary data (sometimes called Key Performance Indicators – KPIs). They will need to **report** on project progress during implementation and/or at the end of the project. An M&E system typically also involves **evaluation**, which is the process that gauges the success of the project in meeting its objectives. The key **difference between monitoring and evaluation** is that while **monitoring is a continuous activity**, performed at the functional level of management, **evaluation is a periodic activity**, performed usually at the end of the project.

Example of SME related indicators:

1. Dynamics of places in independent ratings:
 - annual assessment of the business climate;
 - Regional Doing Business;
2. Number of registered legal entities.
3. Number of registered individual entrepreneurs (FOPs).
4. Number of legal entities that have ceased their activities.
5. Number of individual entrepreneurs who have ceased their activity.
6. Number of employees in SMEs.
7. The number of employees employed by SMEs on average per enterprise.
8. Number of enterprises engaged in export activities.
9. Growth rate of sales of products (goods, works, services) by SMEs in the region.
10. Dynamics of revenues to local budgets from the activities of SMEs in the region.

Exercise: development of the project related to SME support in AH: defining idea, tasks, actions.

Module 5: Active AH Engagement with Businesses

5.1 Communicating with local businesses

AHs have **multiple communication target audiences**, such as citizens, local businesses, national, regional and local policy makers, media, potential investors, etc. Therefore, they need to develop customised communication tools for them. In terms of the business sector, **the vast majority of MSMEs are simply unaware of national, regional and local government policies and initiatives**. They are far too busy trying to be profitable to pay much attention to strategies, action plans, policies and changing rules and regulations. With the advent of COVID-19, this will be even more the case, as they focus on survival.

Module 2 highlighted six Principles of Creating a BFA, which rely on good communication:

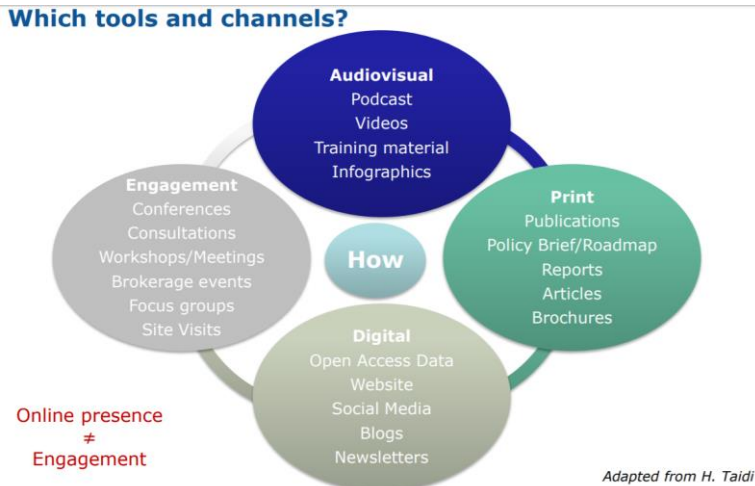
- Build excellent relationships and partnerships;
- Identify local challenges and local business needs;
- Provide clarity and certainty for business decision-making;
- Make interactions with businesses count;
- Be proactive and look for opportunities to support businesses;
- Respond rapidly and flexibly to business after major emergencies.

Module 1 Section 1.5 Local Development Partnerships with Businesses discussed the importance of providing **information, consultation and public private dialogue** with businesses. This Module discusses how to communicate with existing businesses and potential investors. It starts with the main Communication Tools and Channels and then discusses Communicating with Potential Investors and Businesses.

The **Business Champion** (i.e. the Mayor/leader - see Section 4.3.2) is expected to be the principal communicator with the business sector on a regular basis.

5.1.1 Communication Tools and Channels

From an LED/SME/BFA perspective, the AH needs to engage with existing local businesses on a regular basis. In addition to determining the target group, it is necessary to select the **communication tools and channels** that make sense for the business audience in a particular AH. The Diagram below illustrates the main tools and channels in general.



It is worth highlighting two communication tools in particular:

Digital

- Website: this remains the **most important tool** from a business perspective. The training stressed the necessity for **business-oriented data and up-to-date information** (see Section 3.2.1 Business Friendly Website);
- Social media: websites can be effectively supplemented with **use of social media posts**, such as Viber groups, once the AH has identified the number, structure, etc. of local businesses (see Section 2.2) and build a long-term relationship with them. This offers the capacity to deliver **targeted information and announcements**, such as new/updated laws and regulations, tax rates, emergency measures (e.g. COVID-19) and similar.

Engagement

- Meetings: it is important to hold **meeting with individual businesses, groups or their representative business associations and chambers**. Meetings should be **focused** (e.g. a specific business issue), **timely** (e.g. before a problems occurs), **short** (e.g. up to 60 minutes), **open** (i.e. not limited to particular partners) and lead to a **follow-up** (e.g. a concrete action). An example would be to identify the barriers and problems businesses face. However, such meetings should not be one-offs, but be held **regularly** and be led consistently by the Business Champion (see section 4.3.2) to build relationships of trust;
- Workshops: are a **single event** that should last up to **2 hours** in the case of businesses (they can, in theory, last days or weeks), which are designed to **engage participants** with ideas, problems, skills, techniques, etc. which they can use or to enable the AH to gain **business insights and possible solutions**. They are usually **small (5-15 participants)** and designed to get people to **work together and informally**. They have to be planned in advance, **well-moderated and focused** to maximise engagement. They should lead to **closure and follow-up**. An example would be the presentation of a draft policy, strategy, investment project, etc, planned by the AH;
- Surveys: it is important to **conduct regular business surveys** to understand emerging **needs and barriers**, especially in the business environment. This allows a BFA to address the issues that matter (see Section 2.2.1 for more information and on-line tools);
- Focus groups: involves having a group of businesses come together to have a **guided discussion** led by an experienced moderator and lasting about 90 minutes. Each business can share its opinions, solutions and other feedback about the topic that the AH is interested in finding about. They all answer the same **set of questions** posed by the moderator to allow collection of **consistent feedback** from businesses. An example would be their experience of registering and how the process could be streamlined.

It is important for this section to be read in conjunction with 2.3 Principles for creating a BFA since communication is at the heart of being a BFA.

Responding to business input

Nothing **destroys trust and cooperation** with the business sector more than participating in an event, such as a meeting / workshop / focus group, and not receiving any follow-up from the organisers. This reaction is natural, since businesses are devoting their time and good will to support the AH.

Therefore, **it is essential for AHs to always respond to the business input**. If there is a

meeting, the AH should set out the **next steps**. If there is a workshop / focus group / survey, a short **summary** should be provided to the participants, etc. This acknowledges the time and other input by businesses and **builds long-term partnership and trust**.

Exercise: Establishment of cooperation with business associations: benefits for AHs in attracting investments

5.2 Communicating with potential investors / businesses

5.2.1 Communication Budget

The Guide for AHs on How to Attract Investments (2020) notes the importance of collecting and presenting information to investors (Investment Passports, Business Proposals), and stresses not only the importance of effective communicating but also the **need to secure a budget to communication** for items such as:

- Preparation and printing of investment passports and project proposals, etc.;
- Travel to national and international events and for negotiations with potential investors;
- Harmonization and registration of legal status of objects attractive to investors;
- Arranging the travel of potential investors to the community.

The Guide for AHs on How to Attract Investments (2020) notes that without a communication budget, there is a high risk that work connected with attracting investments will not be conducted at all, due to competing and evolving pressures. The need for a **dedicated budget** applies to LED/SME/BFA issues, which investment is an important sub-component of.

5.2.2 Communication target groups

It is necessary to establish and maintain communication with **three main types of business investor/business**:

- **Businesses located within the AH:** the businesses already active in the community are the most accessible. It is important for a BFA to **engage with them regularly**, at least once per year, but more frequently (e.g. quarterly) in the case of larger AHs. The meeting cycle should include dates agreed in advance to allow planning and preparation. It should be **led by the Business Champion** and **structured around AH needs** (e.g. consultation on future plans, tax matters, infrastructure projects, etc.), **as well as emerging business problems and bottlenecks** (e.g. new problems being experienced by business, such as connected with COVID-19, need to streamline business costs/procedures, etc.);
- **Potential investors at the regional and national level:** the Guide on Investments (2020) notes two main forms of investment. Firstly, **franchising**, which mainly requires communication with the relevant representative and little contact with headquarters of the franchise, and is thus easier to manage. It is an arrangement where one party (the franchiser e.g. McDonalds) grants another party (the franchisee) the right to use its trademark or trade-name as well as certain business systems and processes, to produce and market a good or service according to certain specifications. Secondly, **direct investments**, which requires more communication efforts on the part of the responsible AH official since it requires **establishment of a stable contact** and **organisation of a series of meetings** until the final decision to invest. The investor will then appoint a project manager who will be responsible for the object in AHs. The communication will

then involve the **project manager, the managing director, as well as Heads of AH** (i.e. the Business Champions). The language and practices of communications are normally national in nature and thus normally well-established;

- **Potential Foreign Direct Investors (FDI)**: a sub-set of AHs will be in a position to realistically engage with and communicate with potential FDIs. The communication involved is similar to the potential regional and national investors, but involves additional features. It is necessary for the Head of AH/Business Champion to **speak high level English or engage a high quality professional interpreter**. It pays to invest in **understanding the business culture and practice specificity** of the potential investor. It is even more important to engage effectively with their local representatives and the necessity of a communication budget is reinforced in the case of international investors. For further information see the Guide for AHs on How to Attract Investments (2020).

5.2.3 Key Communication Tools

Regardless of the particular type of investor, there are three generic aspects which are important for AHs to consider and prepare for: **making presentations, pitching projects and negotiating deals**. While the latter is self-evident, it is important to understand the difference between a presentation and a pitch. A **presentation** involves giving **facts to provide potential investors with information** about the decision they will ultimately make. In a **project pitch**, they are being **called take the investment action desired by the AH**, so it is a performance, rather than a presentation. And **negotiations are more an art than a science**, so require practice to perfect.

Websites

This important communication tool has already been discussed Module 3 (3.2.1 Business Friendly Websites).

Making presentations

After the preliminary round of introductions, it is customary for the AH to do a **short presentation** (20 minutes) about the **community** and the **potential investment object**. The presentation leads to a **discussion** and often a **visit to the investment object**.

At **subsequent stages** of engagement with potential investors, the **content** of the presentations will become **progressively more focused and detailed**.

Making **effective presentation** is of crucial importance. Below are **10 tips** making effective presentations:

1. Less is more: a presentation summarises information and each slide contains a simple takeaway.
2. Use the 10/20/30 rule: presentations should have 10 slides, last no more than 20 minutes, and contain no small fonts (30+).
3. Be consistent: it does not have to be beautiful (though it helps) but must be visually consistent (colours, fonts, logos, etc.).
4. Break it up: If you have many points on a subject, add a slide; a few words/an image are more powerful than much text and charts.
5. Know your stuff: do the research and know the subject matter well; avoid inauthenticity and inability to answer questions.
6. Provoke thinking, not questioning: avoid blanket statements and inflated numbers or you lose attention; use latest data and sources.
7. Beginning and end: start with a hello and a smile; add contact details and thank investors for coming and listening.
8. Practice it: this improves performance, confidence, tone, timing and humour (light, clean and relevant, no politics or divisive issues).
9. Make sure it works: allow time to set-up and test, especially if using new or online technology.
10. Use an assistant: focus on delivering the content but have someone available to fix technical issues in real time.

Pitching projects

The presentation gives facts to the potential investors to help them decide but in **pitching**

the project, the AH is calling them to take the investment action that the AH want them to take. This is the core of the presentation. Below are 5 tips for effective project pitches:

1. Create a connection: try to connect before you start. You will be working together, so getting to know them helps.
2. Keep it short and sweet: there is only one shot in a pitch. Use keywords and be persuasive but not overwhelming.
3. Preparation is key: research the issues they are most likely to be interested (location, logistics, land/building features, taxes and incentives, human capital, etc.) and anticipate potential concerns (e.g. corruption, transparency, long term planning, etc.).
4. Get them hooked: be excited about the project proposal from the AH perspective, as well as from the potential investor's viewpoint.
5. Make it visual: show them the project proposal. Visuals show professionalism, commitment and leave lasting impressions.

The pitch is usually followed by a **site visit** (see Guide for AHs on How to Attract Investments (2020)).

Exercise: pitching of investment idea

Negotiating deals

There are multiple articles, papers and books on negotiating successfully. Negotiating is not necessarily something that can be taught since it is generally **considered to be more an art than a science**. Like with so much in professional life, the more you do it, the easier it becomes. Nevertheless, below is a summary of **15 key issues** involved in **negotiating deals with the private sector**.

1. Listen and understand the other party's issues and points of view: the best negotiators listen actively to the other side and seek to understand their key issues so as to formulate an appropriate response: what is important, their limitations, their flexibility, etc.
2. Be prepared: research the company, the key person (e.g. LinkedIn, web), similar deals they did, competitor offerings, etc.).
3. Keep negotiations professional and courteous: establish a good, long-term relationship. A collaborative, positive tone is best.
4. Understand the deal dynamics: who has the leverage / wants the deal more; has timing constraints; what alternatives they have, etc.
5. Always draft the first version of the agreement: a fundamental principle is that you (your lawyers) prepare the first draft. You frame the deal structure, key points and gain momentum. Avoid what aspects that other side will just not agree to. Balance is key.
6. Be prepared to "play poker" and walk away: know in advance what your walkaway price/deal is. Use market data to back it up.
7. Avoid "negotiating by continually conceding": if the potential investor keeps coming up with new and unreasonable demands, caving in disadvantages you in the negotiation. If you must concede something, try and get something in return to maintain balance.
8. Time is the enemy of many deals: the longer the negotiation, the more likely that something will derail it. So be prompt at responding, get lawyers to turn documents around quickly and keep the momentum going. Do not rush negotiations or make unnecessary concessions. Understand when time is on your side and when time could be your enemy.
9. Do not ignore alternatives: by negotiating simultaneously with two or more parties, you can often obtain better pricing or contractual terms. Avoid exclusive negotiations with one potential investor until you have reached the best price / terms available.
10. Do not get hung up on one issue: avoid getting stuck on a seemingly intractable issue. Set it aside and make progress on other issues. A creative solution may come later or the problematic issue may lose some of its salience.
11. Identify the real decision-maker: understand their authority in the negotiations. Engage with the ultimate decision-maker.
12. Never accept the first offer: potential investors expect their first offer to be rejected. Counter-offers and negotiation lead to the two parties being satisfied that they struck the best deal that they could, and thus be more committed to closing the deal.
13. Ask the right questions: ask questions such as: is this the best offer, what else can you throw into the deal without cost to us, what is your desired timing, how can local citizens/businesses benefit, etc.
14. Prepare a Letter of Intent to reflect the deal: this covers the key terms of a deal and expedites getting to an agreement, save on legal costs, and maintain deal momentum. It is more informal and easier to agree (e.g. letter of intent).
15. Get the best advisors and lawyers possible: the larger and more complicated the deal, the more essential it is to have high quality expertise to help negotiate and draft contracts. The selected experts must have experience of doing deals like the one being worked on (i.e. not a general practitioner lawyer). Quality advisors may not be cheap but are worth it.

Forbes (2016) [Tactics For Successful Business Negotiations](#), R Harrock