

POLICY IMPLEMENTATION AND LEARNING IN A TRANSITION ECONOMY: ASSESSING THE EFFECTS OF SME POLICIES IN UKRAINE 1991 - PRESENT

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The SME sector carries great hopes and great burdens in the evolution of all transitional economies. It is difficult to imagine either rising overall living standards or social peace without sustained and healthy growth of this sector. -EBRD Transition Report¹

The end of communism in Eastern Europe initiated an era of extreme change as the region began transitioning to market economy democracies.² Unsurprisingly, the transition has progressed at differing speeds across the region, with the Central and Eastern European [CEE] nations now largely incorporated into the European Union [EU] while Central Asia [CA] has arguably regressed into government structures more closely resembling monarchy than democracy. The Eastern Partnership [EnP] nations fall somewhere in between CEE and CA in terms of transition progress and continued difficulties.³

This paper uses the EnP designation in order to examine the region from a European Union neighbour perspective in an attempt to understand the ongoing problems in the region from a Small and Medium Enterprise [SME] perspective. The research platform uses policy implementation to measure SME development, thus creating a new set of indicators for the region's future stability and growth

¹ Robert J. McIntyre, "Small Enterprises in Transition Economies: Casual Puzzles and Policy-Relevant Research," in *Small and Medium Enterprises in Transitional Economies*, ed. Robert J. McIntyre and Bruno Dallago (Houndmills, Basingstoke, Hampshire, New York: Palgrave Macmillan, 2003). from EBRD, "Transition Report," (1995), <http://www.ebrd.com/pubs/econo/1601.htm>.

² This paper was presented at the 10th Biennial Conference of the Australasian Association for Communist and Post-Communist Studies [AACaPS] in Canberra, 3-4 February 2011. It has been peer reviewed by the permission of the author, who retains the copyright.

³ EnP is a term created by the European Commission [EC] and is exceedingly appropriate as a grouping category for this research.

potential.⁴ This project aims to break down some of the complexities associated with the continued obstacles preventing a smooth transition for EnP nations, in order to clarify how the issues of one particular sector might be better resolved. It is hoped that results from the SME sector may also inform other sectors in the continued transition to market economy.

The research uses a multi-disciplinary approach, drawing on elements of economic and entrepreneurial theory, post-communist transition studies, and theories of policy design and implementation in order to create a new model for Policy Implementation Measurement. Using Ukraine as a case study, the end model may be used to predict expected policy implementation outcomes, to analyse outcomes that have already occurred, or to plan for future policy needs. The Policy Implementation Measurement model will be informed by Gunn's implementation criteria,⁵ but will be restructured to best represent the factors at stake for SMEs. The end result will be an original framework for measuring how the degree of policy implementation affects the growth and development of Small and Medium Enterprises [SMEs].

Although the research focuses on the Eastern Partnership region just outside of the European Union, the broader implications of its results could well extend much further. It is the hope of this research that elements of the final model for Policy Implementation Measurement will be useful across disciplines to policy implementation, transition studies and SME scholars in every region of the world.

The project has evolved in response to a series of central research questions.

- *Why is Ukraine, a nation with a wealth of human and natural resources, falling behind other Eastern European nations in the transition curve to a functioning market economy?*
- *How are changing socio-cultural norms in regards to a market economy culture and support for private enterprises acting to assist the growing SME sector in Ukraine?*
- *What types of policy learning are occurring within the decision-making and implementation sectors for Ukrainian SMEs and how are these learning processes contributing to the creation of more effective policy and implementation techniques?*

It is primarily from the last question, as it relates to SME growth and development, that this research launches, seeking to uncover the specificities of policy making and implementation in Ukraine as an indicator of transition successes and failures. In structuring this research, the project is influenced by four general findings drawn from the existing research literature.

1. Productive SME growth contributes to overall economic growth.

⁴ Joseph Alois Schumpeter, *The Theory of Economic Development: An Inquiry into Profits, Capital, Credit, Interest, and the Business Cycle*, Harvard Economic Studies (Cambridge, Mass.: Harvard University Press, 1961).

⁵ L. Gunn, "Why Is Implementation So Difficult?," *Management Services in Government* November (1978).

2. The transition climate of the post-Soviet states, along with the influence of external actors during the transition process, creates specific conditions that govern policy processes.

3. Policies often create effects that may be difficult or not yet possible to observe.

4. The four presidential administrations of Ukraine since independence in 1991 have applied significantly differing policy styles.

These primary assumptions represent the topical sections of the overall research project and are also used to structure this paper. After briefly touching on the research surrounding these assumptions,⁶ this paper then provides a preliminary critical analysis of Gunn's Implementation Criteria in regards to Ukrainian SMEs. The paper concludes with a final discussion and brief conclusions.

The end of 2011 will mark twenty years since the nation of Ukraine declared its independence and evaluations of its transition - be they economic, political, or socio-cultural - span many disciplines. Of the nations in the Eastern Partnership region, Ukraine has received an incredible amount of attention, no doubt due to its potentially powerful position as a giant both geographically and in terms of population. And although many aspects of Ukraine's transitioning economy are the subjects of scholarly work, such as an emerging body of economic analyses directly related to SME growth and performance, there is a gap in the research when it comes to associated policy studies. There is also a genuine nonexistence of policy implementation research in the area of SME policy anywhere in the EnP.⁷

This research provides a new analytical approach towards understanding the integral role of policy implementation in constructing a business environment in which SMEs may thrive. Without such knowledge, policy design for the SME sector operates independent of an analytical baseline, and will not be sufficiently informed as to the degree of effectiveness of policies already in place. The creation of such a policy implementation measurement model for the new nations of Eastern Europe is long overdue.

Small and Medium Enterprises[SMEs] as part of a growth economy

SMEs are once again enjoying a period of high recognition as a vital part of any healthy economy,⁸ but what is their exact importance? In his recent work on small enterprises in the newly free-market economies of Eastern Europe, Robert McIntyre denotes SMEs as central to "generating

⁶ Assumption four regarding the specificities of Ukraine is discussed throughout the review as appropriate.

⁷ This statement refers to English language published research.

⁸ A scholarly enthusiasm for large firms overshadowed SME studies during the 1970s and 1980s, Zoltan J. Acs, "The Historical Role of the Sme Sector in Developing and Developed Capitalist States," in *Small and Medium Enterprises in Transitional Economies*, ed. Robert J. McIntyre and Bruno Dallago (Houndmills, Basingstoke, Hampshire, New York: Palgrave Macmillan, 2003).

employment and an atmosphere of social stability",⁹ two features oriented towards promotion of economic growth. The European Bank for Reconstruction and Development identifies SMEs as key agents of growth,¹⁰ and in his capacity as President of the European Commission, Romano Prodi has said that:

There is mounting evidence that the key to economic growth and productivity improvements lies in the entrepreneurial capacity of an economy.¹¹

Prodi's use of the term 'entrepreneur' in connection with discussions of SME productivity is a well established habit among scholars and analysts. Joseph Alois Schumpeter generally receives credit for first intertwining SME analyses with those of the entrepreneur, presenting entrepreneurs as the "engine for economic growth" in his 1911 *Theory of Economic Development*.¹² Schumpeter stressed the role of the entrepreneur's SME as a "prime cause of economic development", though he did not use the precise terminology of *SME*,¹³ as that designation emerged after his era.¹⁴

Most commonly determined through number of employees, SME definitions tend to land in the same ballpark.¹⁵ This research uses the European Bank for Reconstruction and Development [EBRD] definition: 0-9 employees as a micro-enterprise, 10-49 employees as a small enterprise, and anything between 50-250 falling into the category of medium enterprise.¹⁶

SME owner typology

In his research on SMEs in Eastern Europe, Richard Scase spends considerable time discussing the different types of SME owners. Principally, he writes, two kinds of owners exist: true entrepreneurs who display a "commitment to capital accumulation and to business growth", and proprietors who "consume their profits rather than invest them".¹⁷

However, most scholars are not quite as purist as Scase, and tend to view SME owners on a continuum of blended qualities. Carree et al. hearken back to Schumpeter when they write that:

Most business owners are neither pure Schumpeterians nor pure shopkeepers but share the attitudes

⁹ McIntyre, "Small Enterprises in Transition Economies: Casual Puzzles and Policy-Relevant Research.", 1.

¹⁰ EBRD, "Transition Report."

¹¹ David B. Audretsch, Max C. Keilbach, and Erik E. Lehmann, *Entrepreneurship and Economic Growth* (New York: Oxford University Press, 2006), 12.

¹² Ibid., 3.

¹³ Martin Carree et al., "Economic Development and Business Ownership: An Analysis Using Data of 23 Countries in the Period 1976-1996," *Small Business Economics* 19, no. 3 (2002), p271.

¹⁴ This research has not been able to locate first mention of *SME* as a definitive term, but has noted the nowhere in Schumpeter's writings does he use the term.

¹⁵ IFC uses 0-50 employees; David Smallbone uses 0-200.

¹⁶ European Bank for Reconstruction and Development, "Sme Finance Facility," (London: EBRD, 2010).

¹⁷ Richard Scase, "The Role of Small Businesses in the Economic Transformation of Eastern Europe: Real but Relatively Unimportant?," *International Small Business Journal* 16, no. 13 (1997).

associated with these extremes in a varying degree.¹⁸

Carree et al. also indicate that the degree to which an SME owner engages in entrepreneurial versus proprietary behaviour has everything to do with external factors, such as presence of a shadow economy and lack of regulatory enforcement in the business environment.

How the entrepreneur acts at a given time and place depends heavily on the rules of the game and the reward structure in the economy.¹⁹ This idea aligns with a key belief of entrepreneurial scholar Casson that, "what is needed is not so much a theory of the success of the entrepreneur as a theory of the failure of those around him".²⁰ Casson also does much to explain why an SME owner might become a proprietor, rather than a true entrepreneur, by laying out the basic reasons why an individual makes the choices that lead to his or her SME ownership:

1. *Self employment constitutes the only option for work*
2. *Personal dignity and the desire not to work for someone else*
3. *Only part time work is necessitated and entrepreneurship is the best way to achieve this supplement other income*
4. *Standard employment is not fulfilling and does not make use of an individual's talents*²¹

It is interesting to note how three of these top four reasons for SME start up indicate truly self-sufficient ambitions behind SMEs. In turning now to characteristics of Ukrainian SMEs, it is important to keep such questions regarding individual motivation in mind.

Ukrainian SMEs as part of a Ukrainian growth economy

SMEs in Ukraine are facing steeper uphill struggles than many of their counterparts to their west, the recently acceded EU member states of Eastern Europe. The most recent International Finance Corporation [IFC] survey explained these difficulties via the following three conclusions.

- The Ukrainian economy needs sustainable long-term growth. This can be achieved through the development of SMEs, which have considerable potential to facilitate economic and social improvement.
- High regulatory pressure creates a difficult environment for doing business in Ukraine, impeding economic growth and the development of the private sector.
- The regulatory system with respect to businesses, including permits and inspections, weakens the country's competitiveness and increases the risk of corruption.²²

That a primary concern of the report is the need for "sustainable long-term growth", and this nearly two

¹⁸ Carree et al., "Economic Development and Business Ownership: An Analysis Using Data of 23 Countries in the Period 1976-1996.", 273.

¹⁹ William Baumol, "Entrepreneurship: Productive, Unproductive and Destructive," *Journal of Political Economy* 98, no. 5 (1990), 894.

²⁰ Mark Casson, *The Entrepreneur: An Economic Theory* (Oxford: Martin Robertson, 1982), 11.

²¹ *Ibid.*, 300.

²² IFC, "Business Environment in Ukraine," ed. International Finance Corporation (IFC in co-operation with European Commission, 2007), 17.

decades after the shift to a market economy began, is worrying. It is for this reason that groups such as the IFC have invested time and resources into learning more about the SME-related root causes of Ukraine's continued economic stagnation. A handful of the same problems regularly top the lists of SME surveys: excessive taxation and business registration procedures, licensing and inspection requirements, and lack of business assistance programmes and financing options.²³ And, according to the 2011 World Bank report on entrepreneurial conditions, Ukraine is still recognised as one of the worst nations in the region for SME business,²⁴ ranking highest for both tax payments, as well as for business hours spent preparing tax forms.²⁵ Such obstacles continually prevent Ukrainian SMEs from growing into a true market force, and while taxes frequently appear as among the most recognisable problems, others appear issues regularly top surveys as well.

Challenges from the shadow economy, from rent-seekers in the market, and the need for payment bribes to speed up registration and licensing processes constitute a few other commonly identified issues by Ukrainian SME owners. As do lack of workforce and management training, difficulties with new product development and production planning, and sales and marketing support.²⁶ And perhaps most alarming, was an oft stated problem regarding lack of knowledge of changing business legislation. In 2000, only 10.5% of those surveyed claimed to know recent legislative changes well. And in response to questions about where SME owners are getting their information about such changes in business legislation, 39% answered mass media. The second most common source of information was "friends and colleagues" at 29%, and government officials came only third, with 15%.²⁷

The aim here is not to paint a bleak picture of Ukrainian SMEs. In showcasing the enormous difficulties facing the small business sector, it would be inaccurate to overlook the successes that have transpired since 1991. The 2007 IFC report records 353,930 active SMEs operating in Ukraine, crediting them with 57% of the nation's total sales, and accounting for 61% of total employment.²⁸ In all of the surveys thus cited, SME owners maintained enthusiasm through their frustrations, and very few indicated plans to leave the SME sector. However, when broken down into per capita figures of

²³ David Smallbone and Friederike Welter, "The Distinctiveness of Entrepreneurship in Transition Economies," *Small Business Economics* 16 (2001). David Smallbone et al., "The Contribution of Small and Medium Enterprises to Economic Development in Ukraine and Belarus: Some Policy Perspectives," *MOCT-MOST: Economic Policy in Transitional Economies* 11, no. 3 (2001). M. Yacoub and B. Senchuk, "The State of Small Business in Ukraine," in *The IFC Survey of Ukrainian Small Enterprises*, ed. Center for Social Expertise and Forecasting of the Institute of Sociology (International Finance Corporation in association with Ministry of Foreign Affairs of Norway and United States Agency for International Development, 2000).

²⁴ WorldBank, "Doing Business 2011: Making a Difference for Entrepreneurs," in *Doing Business Annual Reports* (Washington DC: World Bank/International Finance Corporation, 2011).

²⁵ Ibid., 57. A high rank indicates a poor business environment.

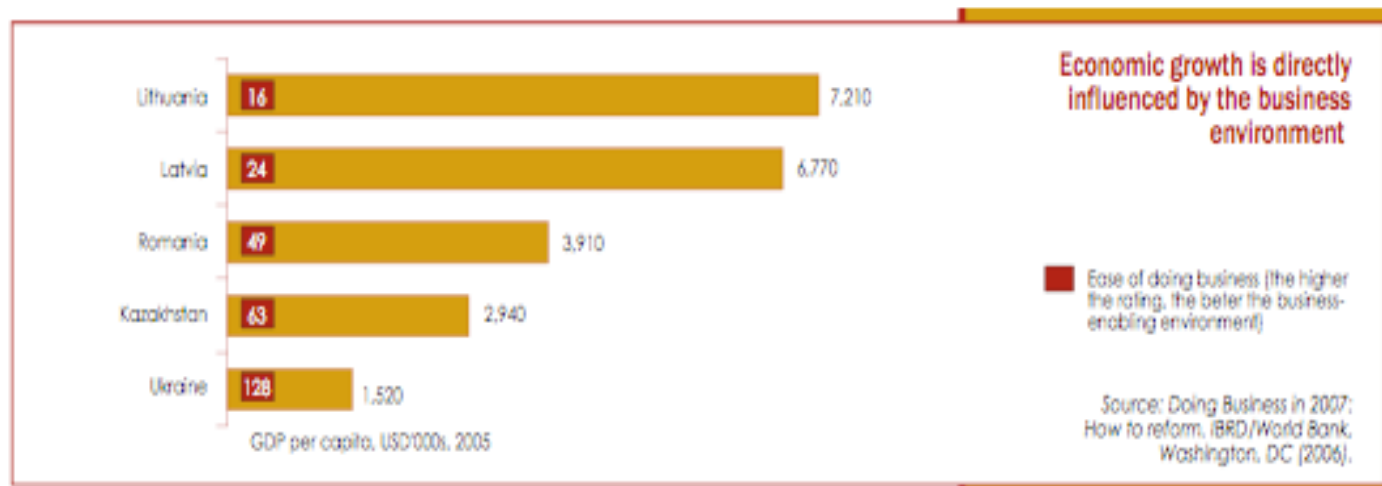
²⁶ Smallbone et al., "The Contribution of Small and Medium Enterprises to Economic Development in Ukraine and Belarus: Some Policy Perspectives."

²⁷ Yacoub and Senchuk, "The State of Small Business in Ukraine.", 44.

²⁸ IFC, "Business Environment in Ukraine."

SMEs/1000 people, Ukraine still ranks *lowest among all countries surveyed*, and this in a sample including such close neighbours as Poland and Hungary.

Table 1 - SMEs per capita



The properties of SMEs and their owners here discussed provide only a cursory overview of the operating conditions and foremost difficulties of Ukrainian entrepreneurs. The aim of this section has been to draw attention both to the chief characteristics of Ukrainian SMEs, as well as to their fundamental importance in the nation's future economic landscape. As the "basis of the middle class, the pillar of economic stability and further improvements in living standards",²⁹ SME owners play a critical role in Ukraine's continued development towards a fully market economy.

Discussion

Several points mentioned above deserve further analysis. The opening distinction between entrepreneur and proprietor seems abrupt and lacking necessary gradations. Literature that insists on distinguishing between the two primary types of SME owners may be bogging itself down by focusing too heavily on this differentiation. The antidote is somewhat counter-intuitive. In order to ameliorate inefficiency in research methods, the distinction should be increasingly accentuated, to the point of creating two separate fields of study. Were entrepreneurship and proprietorship to be studied more independently of one another, progress might quicken through not having to accommodate such widely distinct sets of conditions into any one framework. However, this could weaken the field of study by creating two smaller disciplines, neither of which would carry the numbers of the current, 'combined' SME field.

²⁹ Ibid., 20.

Recent discourse calling for a "new definition" for SMEs supports this drive to re-evaluate current categories.³⁰ The last decade has witnessed a multitude of studies calling for new assessments and approaches to SME development in the former Soviet Union, as it becomes increasingly clear that the applied transition plan has not worked either unilaterally nor with the hoped-for success. The Business Support Centres, ongoing EU Twinning Programmes, and the newly created SME Finance Facility all attest to the recognition of such evolving requirements.³¹ And in his report detailing the shortcomings of Business Support Centres in Ukraine, Bateman has called for:

A new SME discourse is called for which explicitly recognises that a "local developmental state" approach could have a much greater, if not a pivotal, role to play in SME development in the transition economies.³²

This research interprets the links between Bateman's argument and the continually mounting pressures on SMEs,³³ to demonstrate a type of control exerted by local government in Ukraine, an action that is most likely exacerbated by the exclusion Bateman describes. Local officials in Ukraine are likely exercising their power maximally where they are able, in part due to their lack of overall control on other issues. This postulation also incorporates Casson's idea that it is not the failure of the SMEs themselves that create problems, but the continued failure of external factors, local and national infrastructure, which creates ongoing obstacles for SMEs.

Ukrainian SMEs in Transition Conditions

Ukraine is one of nations where market reforms during the transition process have been deemed slow.³⁴ Scholars ascribe different weights to the problems causing this state of affairs, as examined earlier, but all tend to agree on that fact that Ukrainian SMEs are indeed experiencing retarded growth as compared to some of their western counterparts. And while much of this is due to faulty policy making and implementation, it is worthwhile here to take a brief look at the salient political events affecting the Ukrainian SME sector since independence.

³⁰ European Commission, "The New Sme Definition: User Guide and Model Declaration," in *Enterprise and Industry Publications* (Brussels: European Commission, 2010).

³¹ Milford Bateman, "Neo-Liberalism, Sme Development and the Role of Business Support Centres in the Transition Economies of Central and Eastern Europe," *Small Business Economics* 14, no. 4 (2000), European Union, "Twinning, Taux, Sigma in Ukraine," Implementation of Twinning Operations in Ukraine, http://twinning.com.ua/index.php?option=com_content&task=view&id=493&Itemid=153, European Bank for Reconstruction and Development, "Us/Ebrd Sme Finance Facility," EBRD, http://www.ebrd.com/pages/sector/financial/micro/sme_facility.shtml.

³² Bateman, "Neo-Liberalism, Sme Development and the Role of Business Support Centres in the Transition Economies of Central and Eastern Europe."

³³ The IFC documents how, after a temporary decrease surrounding the introduction of improved tax legislation, the number of inspections and registration requirements for Ukrainian SMEs has been steadily increasing again since 2000. IFC, "Business Environment in Ukraine."

³⁴ Smallbone and Welter, "The Distinctiveness of Entrepreneurship in Transition Economies," 259.

Ukraine is the nation credited with bringing an end to the Soviet Union by seceding from the USSR during the independence referendum of December 1991. Indeed, Gorbachev continued to promote the idea of a reformatted Soviet Union, sans the Baltic States but retaining the Slavic and Central Asia republics, until Ukraine announced its firm intent not to join any such reformatted union.³⁵ In his book detailing the process from inside the Ukrainian political viewpoint, Bohdan Nahaylo attributes the decision not to participate in reworking the Soviet Union under new terms to Ukraine's belief that it would be economically better off as an independent nation.³⁶

Under Leonid Kravchuk, Ukraine's first president, the country pursued an enthusiastic, if hackneyed, privatisation process.³⁷ In his assessment of the first decade of the transition process, Bateman affirms that "SME development became one of the principal economic reform issues to be addressed by the post-communist governments", who acted "by rapidly removing the main administrative barriers to entry, making quick work of the privatisation of the small-scale state enterprise sector".³⁸

Western aid organisations followed suit, practically lining up to offer their own models to Ukraine.³⁹ The establishment during this time period of the EBRD for the sole purpose of assisting Soviet bloc nations with the transition to market economies,⁴⁰ speaks volumes as to the degree of seriousness with which the West undertook the task.

Although presidential edicts and legislation aimed at an improved market economy are consistently enacted, none of Ukraine's presidential leaders have particularly distinguished themselves on the issue of SME development.⁴¹ An exception could be considered for Yushchenko, who presided as prime minister during a key time in SME reforms, which is discussed more fully in this paper's policy section.

Discussion

Considering the abundance of aid sources that have poured into Ukraine during the transition years, it seems Ukrainian presidents have done less to recognise the immediate transitional needs of the

³⁵ Bohdan Nahaylo, *The Ukrainian Resurgence* (London: Hurst & Company, 1999).

³⁶ Ibid.

³⁷ Robert Kravchuk. "Ukrainian Political Economy: The First Ten Years." (Palgrave Macmillan, 2002), http://books.google.co.nz/books?hl=en&lr=&id=BxCUay0jBRQC&oi=fnd&pg=PR7&dq=Ukraine+economics+under+Kravchuk&ots=7GmLwMRGsK&sig=wnUcNp3ii_eJ95wc3sWnYwhWH5c#v=onepage&q=Ukraine%20economics%20under%20Kravchuk&f=true.

³⁸ Bateman, "Neo-Liberalism, Sme Development and the Role of Business Support Centres in the Transition Economies of Central and Eastern Europe.", 276.

³⁹ EBRD, "Donor Report," (London: European Bank for Reconstruction and Development, 2009).

⁴⁰ European Bank for Reconstruction and Development, "Our History," EBRD, <http://www.ebrd.com/pages/about/history.shtml>.

⁴¹ Further research on the specifics of each individual administration's treatment of transition conditions will be continued next year, as this project shifts into a doctoral dissertation.

SME sector by comparison. External organisations, such as the Business Support Centres,⁴² the World Bank, USAID, the EBRD, and the EnP SME Finance Facility have taken centre stage in directing transitional activities, in many places simply by providing the funding carrot to motivate reforms.

It is interesting to note that, despite the scholarship thus undertaken on the post-Soviet economies, still "no specific theory for SMEs in transitions economies has emerged".⁴³ This is no doubt due in part to the varying nature of transition economies, as conditions within the post-Soviet region differ greatly. Perhaps the closest successful attempt has come from Smallbone, who has featured a major role in this research as one of the few scholars to focus specifically on Ukrainian SMEs in transition conditions. Smallbone states that:

It is imperative that In early stage transition economies, extreme flexibility is often a necessary condition for survival for the entrepreneur, whether or not this is manifest in an individual enterprise or through managing a portfolio or series of enterprises.⁴⁴

The need for flexibility brings this paper into its final section, the examination of how SMEs in transition conditions rely on successful policy making, including effective implementation of this policy, in order to thrive in a sustainable, long term fashion.

Policy implementation in a Ukrainian context

Public policy as a tool for guiding and assisting economic growth in a way that seeks to maintain unilateral standards of living is a recent concept for those in decision-making positions within most transition nations. Ukrainian policy makers essentially began from scratch in 1991, a fundamental reason why the aforementioned external support and influence has been such a major player in the process. Robert Kravchuk provides one of the best comprehensive looks at how policy making evolved during Ukraine's first decade as an independent nation.

When Leonid Kravchuk won the first sovereign presidential election with a landslide victory, he did so with a platform of immediate reform. And in the policy areas of economic sovereignty, privatisation, industrial restructuring, liberalisation of prices and trade, and establishment of a new national currency [hryvnia], Kravchuck largely delivered what he promised.⁴⁵ However, with the exception of privatisation, these policy arenas were macro-economic in nature, and in terms of policies

⁴² Bateman, "Neo-Liberalism, Sme Development and the Role of Business Support Centres in the Transition Economies of Central and Eastern Europe."

⁴³ Bruno Dallago and Luigi Mittone, "The State and the Firm: The Centralization and Decentralization of Economic Institutions: An Introduction," in *Economic Institutions, Markets, and Competition : Centralization and Decentralization in the Transformation of Economic Systems* (Cheltenham, UK ; Brookfield, Vt., US: Edward Elgar, 1996)., 207.

⁴⁴ Smallbone and Welter, "The Distinctiveness of Entrepreneurship in Transition Economies.", 261.

⁴⁵ Kravchuk. "Ukrainian Political Economy: The First Ten Years." This book has been ordered at the author's request through the University of Canterbury library and in its print version will no doubt be of great import in informing this research as it transitions into a doctoral dissertation.

assisting the SME sector little can be credited to Leonid Kravchuk. His scale back of key policies affecting control over government systems at a regional and local level, as well as failure to secure unhindered access to private property rights,⁴⁶ greatly harmed the SME sector by not giving it the necessary breathing room during its formative stage. The result of this policy mismanagement took the shape of an oligarch dominated, "crony capitalism" culture, which rapidly established itself during an era when any sort of firm policy implementation was lacking. A continuing struggle for power between the presidential executive branch and the parliamentary legislative branch, the Verkhovna Rada [VR], did not help matters in this regard.⁴⁷

Leonid Kuchma, Ukraine's second president, was elected in 1994, after a close contest with the incumbent Kravchuk. Perceptions of Kravchuk's "inaction on reform and ineffective leadership at home", were the securing factor in Kuchma's victory.⁴⁸ Eastern and South-eastern Ukraine, including Crimea, disgruntled after nearly three years of Western-looking, pro-European politics, also contributed to the 1994 regime change.

In its early years, the Kuchma administration represented Ukraine's hope for renewed reforms, triumph over hyper-inflation, uncertainty, and lack of stability. In his inaugural speech he stated that:

Realism, specificity, and pragmatism should replace political romanticism and euphoria, and a certain vagueness, characteristics of the initial period of state-building.⁴⁹

However, shortly after election to his second presidential term,⁵⁰ and arguably even in the year leading up to re-election, Kuchma began to display a consistent tendency to cosy up with the oligarchs who supported his presidency. The result was an increasing disparity between upper and middle classes in Ukraine, with SME owners falling squarely into the latter class and suffering from the policy implementation neglect of Kuchma's second term.⁵¹

Viktor Yushchenko, who would become Ukraine's third president in 2004, wrote about policy reform during the time when he was Prime Minister under Kuchma's second administration,⁵² a

⁴⁶ Ibid., 7.

⁴⁷ Nahaylo, *The Ukrainian Resurgence*.

⁴⁸ Ibid., 472.

⁴⁹ Zbigniew K. Brzezinski and Paige Sullivan. "Russia and the Commonwealth of Independent States: Documents, Data, and Analysis." ed Center for Strategic and International Studies. (M.E. Sharpe, Inc, 1997), http://books.google.co.nz/books?id=Vt5OLD3vp4UC&pg=PA271&lpg=PA271&dq=inaugural+speech+Kuchma&source=bl&ots=huShABJJ3W&sig=xu0J9yjqW1sFLOB9nYISx_AGu-Y&hl=en&ei=b0q6TID8BovmvQOd4YjoDQ&sa=X&oi=book_result&ct=result&resnum=1&ved=0CBcQ6AEwAA#v=onepage&q=inaugural%20speech%20Kuchma&f=false, 273. This passage taken from Ruth Fischer-Smith, "Presentation of Eu-Institutions in Ukrainian Internet Media: A Critical Discourse Analysis," (Christchurch: National Centre for Research on Europe, 2010).

⁵⁰ In Ukraine presidential terms are five years.

⁵¹ IFC, "Business Environment in Ukraine."

⁵² V. A. Yushchenko, "Monetary Policy in the Transition to a Market Economy," in *Economic Reform in Ukraine: The Unfinished Agenda*, ed. Andrew Wilson (2000).

position under which he is credited with "restoring Ukraine's creditworthiness".⁵³ A key ingredient of Yushchenko's reforms, the slashing of 270 pieces of legislation that were protecting businesses with subsidies or tax and regulation advantages, did indeed produce regenerative effects on the SME sector. Describing these reforms, Anders Ånders writes that by the time Yushchenko as Prime Minister was pulled out of office by oligarchs tired of the burdensome reforms, "the playing field had been levelled" in a structurally integrated manner.⁵⁴ An additional institution created during this time, the State Committee of Ukraine for Regulatory Policy and Entrepreneurship [SCURPE], an act which may well also be credited to Yushchenko, as the website notes that "the Committee is led by the Head, who is appointed on submission of the Prime Minister of Ukraine".⁵⁵ As SCURPE's cited date of origin is 2000, it is likely that Yushchenko, Ukraine's Prime Minister until May 2001, was the force behind its creation.

During Yushchenko's time as prime minister, reforms became a constant feature for the SME sector, two examples being the simplifications for VAT [Value Added Tax] and the lowering of the minimum capital required for SME start up.⁵⁶ This continual policy creation only confirms that the primary problem for SME policy in Ukraine is not its creation but its implementation. The extreme regional variation that has emerged from SME-oriented research, demonstrates this. Across all types of regulatory processes wait times are widely variable across Ukraine. The 13 days it took to acquire a municipal business license in Kozyatyn versus 29 for the same license in Lutsk,⁵⁷ is just one example of the national inconsistency in terms of policy implementation.

Gunn's criteria in a Ukrainian Context

Gunn's Implementation Criteria were first introduced in 1978 but this research believes that their practical use as an analytical tool retains a contemporary applicability. It presents each of Gunn's criteria and postulates on the manifestation of each one in a Ukrainian context, providing an analytical analysis and comprising the *results* section.

Smallbone and Welter, two frequently occurring names throughout this paper, are two of the only scholars to conduct any goal-oriented research regarding policy effects on Ukrainian SMEs. They write about the continued need to enable "the SME sector to achieve more of its potential contributions to the

⁵³ Anders Åslund, "The Ancien Régime," in *Revolution in Orange*, ed. Anders Åslund and Michael McFaul (Washington DC: Carnegie Endowment for International Peace, 2006), 14.

⁵⁴ Ibid.

⁵⁵ Verkhovna Rada - Government Portal, "State Committee of Ukraine for Regulatory Policy and Entrepreneurship," Verkhovna Rada, http://www.kmu.gov.ua/control/en/publish/article?art_id=8118737&cat_id=73048.

⁵⁶ WorldBank, "Doing Business 2011: Making a Difference for Entrepreneurs.", 142.

⁵⁷ Yacoub and Senchuk, "The State of Small Business in Ukraine."

process of social and economic transformation", noting how SME policy in transition nations is often only "declarative". This allows for the development of a noticeable "implementation gap" between policy creation and its corresponding implementation.⁵⁸ Smallbone and Welter list three elements of "good governance" that are traditionally lacking in Ukrainian implementation agencies and organisations:

- *Clarity with respect to responsibilities*
- *Accountability for actions*
- *Transparent procedures*⁵⁹

This research is motivated by a final goal to better inform implementation bodies in Ukraine, at both national and regional levels, of the specifics behind implementation successes and failures. Bearing in mind the above qualities, this project analyses each of Gunn's criteria in turn, with critical commentary on how each one may be understood in the Ukrainian SME context. It needs to be reiterated that no research on policy implementation analysis has yet been conducted in regards to Ukrainian SMEs, nor for SMEs in any of the Eastern Partnership nations. The results section that follows couples each of Gunn's criteria with an analytical example from Ukraine that demonstrates either compliance or non-compliance with "perfect policy implementation".⁶⁰ Where no empirical example is currently example, this research postulates one suitable for future testing.

1. Circumstances external to the implementing agency must not impose crippling constraints.

The currency devaluation and subsequent recession of 1998, as well as the worldwide economic recession of 2008 both present practical obstacles exogenous to Ukrainian policy implementation. However, as such external events will always be present, it is perhaps more fitting here to refer to the second half of the Kuchma regime, when restricted media freedom and social organisation severely curtailed the ability of implementation bodies to progress with policies for the social, micro-economic, and entrepreneurial good.⁶¹

2. Adequate time and sufficient resources must be made available to the programme.

The description of circumstances facing the Business Support Centres only a decade after

⁵⁸ David Smallbone and Friederike Welter, *Entrepreneurship and Small Business Development in Post-Socialist Economies*, Routledge Studies in Small Business ; 14 (London ; New York: Routledge, 2009)., 34.

⁵⁹ Ibid., 34.

⁶⁰ Gunn, "Why Is Implementation So Difficult?."

⁶¹ Anders Åslund and Michael McFaul, *Revolution in Orange* (Washington DC: Carnegie Endowment for International Peace, 2006).

independence, and the financial hardships in their future,⁶² provides an example of failure to comply with this second criterion.

3. The required combination of resources must be actually available.

This item presents a challenge in locating a real world example, and this project's further research will encompass the collection of such data. As an example of non-compliance, this research posits a hypothetical example, for which future empirical data will be needed in order to confirm its accuracy. One of the tasks of SCURPE is to "to introduce and develop financing and credit mechanisms" for SMEs.⁶³ It seems entirely possible that no independent financial institutions willing to cooperate on such a venture exist, or that that SCURPE has not been allocated adequate resources to compensate private banks or other financial institutions for investing in a possibly risky initiative on behalf of the SME sector.

4. The policy to be implemented must be based upon a valid theory of cause and effect.

Two examples of compliance, both drawn from the Yushchenko administration, can be presented here. Two new laws were passed during the period 2005–2007: “On the System of Permits for Business Activity” [January 2006] and “On Government Oversight of Business Activity” [April 2007]. Both were based upon a recognised need to streamline permit and business registration procedures, and both laws were passed to ameliorate problems recorded from empirical work and observations.⁶⁴

5. The relationship between cause and effect must be direct and there must be few, if any, intervening links.

The EnP Flagship Initiative SME Facility has embarked on a 3-5 year plan, begun in 2010, to "contribute to the improvement of the business climate; provide cost effective advisory services to SMEs; improve access to funding for SMEs to foster economic development and mitigate the impact of the financial crisis". Within these three components are such specific goals as "the Commission will work together with the Banks to establish a facility combining grants and loans and aimed at enhancing the provision of funding to SMEs".⁶⁵ Assessment of such a goal, or for all of the goals involved in the components of this programme, will give an idea of how compliant the EnP SME Facility and the

⁶² Bateman, "Neo-Liberalism, Sme Development and the Role of Business Support Centres in the Transition Economies of Central and Eastern Europe."

⁶³ Portal, "State Committee of Ukraine for Regulatory Policy and Entrepreneurship."

⁶⁴ IFC, "Business Environment in Ukraine."

⁶⁵ E. Canciani, "Sme Facility: An Eastern Partnership Flagship Initiative," ed. ENP –General Coordination European Commission (European Commission External Relations, 2009).

Ukrainian side cooperating agencies are in minimising intervening links.

6. Dependency relationships between implementing agencies must be minimal.

An examination of the relationship between national, regional, and local arms of the same agency could provide an assessment of this criterion. The State Tax Administration[STA] could work well for this purpose, as it operates with an "extended structure" including ranked "divisions", "dependent organisations", and even "interregional, joint state tax check-outs and corresponding divisions of tax militia".⁶⁶ Assessing the degree of dependency relationships between STA at an executive level and identified agencies of its extended structure, would be one way to test this criterion.

7. There must be complete understanding of and agreement on objectives throughout the implementation process.

Evaluation compliance with this criterion is nearly impossible without the use of interviews.⁶⁷ The closest current result could be the earlier stated statistic of SMEs getting their information more often from the mass media than directly from a government source. If the gap in information distribution is so notable, it could be assumed that extended information regarding implementation objectives is also not reaching SME owners through any official government channel.

8. Tasks must be fully specified in the correct sequence.

The EnP SME Facility specifies a series of tasks, which Ukrainian SMEs must undertake in order to become eligible for funding. The 'new definition of SMEs' in the European Commission's most recent publication also provides a similar outline.⁶⁸

9. There must be perfect communication and co-ordination between participants.

This paper's earlier cited example of SME owners receiving their news regarding changing business legislation from the mass media presents a prime example of non-compliance with this criterion.

10. Those in authority must be able to demand and obtain perfect compliance.

The extreme regional variation documented in the IFC SME Survey illustrates massive problems with

⁶⁶ Cabinet of Ministers Ukraine, "State Tax Administration of Ukraine," Verkhovna Rada, http://www.kmu.gov.ua/control/en/publish/article?art_id=8122692&cat_id=73048.

⁶⁷ The interview component will occur during 2012, year two of this three year PhD project.

⁶⁸ Canciani, "Sme Facility: An Eastern Partnership Flagship Initiative." Commission, "The New Sme Definition: User Guide and Model Declaration."

centralised authority being able to implement directives consistently across the nation.⁶⁹ This degree of variation shows that authoritatively established norms are not being adhered to. Further investigation into SME owners' reticence to pursue injustices through legal channels could also shed much light on weak points in the authoritative mechanisms.

The examples above constitute one set of possible results, to be further investigated during this research and used as a guiding framework for creating this project's Policy Implementation Measurement model.

Final Discussion

Several key themes have been reoccurring throughout this paper. The importance of integrating local actors into reform processes and active policy implementation appears to be of utmost importance. This idea seems exceedingly simple, and is the basis for much theoretical understanding of the world.⁷⁰ Further investigation into this key idea will certainly become a pillar of this final research project.

If the paper here presented seems to rely heavily on a few key empirical studies, this is twofold in reason. Firstly, the research is currently in its beginning stages and simply has not completed a comprehensive gathering of materials published in relation to SME sector research in Ukraine. Secondly, and perhaps more importantly, there is a dearth of such publications, especially in comparison with research conducted on the more established SME sectors of the United States, Europe, and Australia/New Zealand, which creates a heavier reliance on those few scholars who have written explicitly on the subject. This state of affairs is not surprising, considering that, with the possible exception of "off the books" entrepreneurship,⁷¹ Ukraine's SME sector did not officially begin until 1991.

This paper has provided a scholarly background for four primary assumptions:

- 1. Productive SME growth contributes to overall economic growth.*
- 2. The transition climate of the post-Soviet states, along with the influence of external actors during the transition process, creates specific conditions that govern policy processes.*
- 3. Policies often create effects that may be difficult or not yet possible to observe.*
- 4. The four presidential administrations of Ukraine since independence in 1991 have applied significantly differing policy styles.*

⁶⁹ Yacoub and Senchuk, "The State of Small Business in Ukraine.", 18.

⁷⁰ The Chinese Proverb, "Give a man a *fish* and you feed him for a day. *Teach* a man to *fish* and you feed him for a lifetime", speaks to this in a greater sense.

⁷¹ Scase, "The Role of Small Businesses in the Economic Transformation of Eastern Europe: Real but Relatively Unimportant?."

The work that now remains is to collect and collate data across several fronts. The end goal of this doctoral dissertation is a new working model for Policy Implementation Measurement in the SME sector of the post-Soviet region.

Conclusion

This paper aims to make clear the need for further study in the field of policy implementation affecting SMEs in transition economies. Current study in the area is underdeveloped, and this project is oriented towards filling in a gap in the existing research regarding policy implementation approaches for understand SME growth and development. The project uses a cross-disciplinary approach, incorporating elements of entrepreneurial theories, transition studies, and policy implementation material to better understand the difficulties facing SMEs in the EnP.

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