ENABLING BUSINESS ENVIRONMENT FOR ENHANCING UKRAINE'S COMPETITIVENESS: A MARKET SYSTEMS DEVELOPMENT APPROACH

Ukraine's Recovery, Growth and Competitiveness

2025 - 2026

Sweden Sverige

Sida

HELVETAS

This policy brief was developed by Helvetas within the framework of the Project «STIYKIST: Building a sustainable and inclusive Ukrainian Labour Market».

The project «STIYKIST: Building a sustainable and inclusive Ukrainian Labour Market» is being implemented within the framework of an agreement between the Swedish International Development Cooperation Agency (Sida) and Helvetas Swiss Intercooperation with the support of Sweden.

Executive Summary

Over the past decade, Ukraine has made substantial strides in improving its business climate – roughly one-third of all reforms since 2014 have focused on the business environment, driven by the EU Association Agreement and the urgent need to dismantle bureaucratic obstacles and corruption. These efforts paid off in global rankings. Ukraine's ease of doing business **improved dramatically**, rising from 112th in 2014 to 64th by 2020. However, the **full-scale invasion in 2022** reversed economic gains and created unprecedented challenges for enterprises: physical destruction, supply chain breakdowns, labour shortages due to mobilization, and plummeting domestic demand. Despite this turmoil, **Ukrainian businesses have proven resilient**, with over 85% of SMEs resuming operations by 2023 after an initial collapse to 57% in the first months of war[1]. This policy brief examines how Ukraine can **leverage a Market Systems Development (MSD) approach** to accelerate business environment reforms that enhance competitiveness, spur innovation, and prepare the economy for post-war recovery and EU accession.

An enabling business environment is the linchpin of Ukraine's post-war economic transformation. As Ukraine rebuilds and seeks EU membership, it must foster **fair competition, transparent regulation and supportive institutions** to attract investment and drive productivity. Wartime reality prompted temporary deregulation, from simplified taxes to relaxed licensing, which cushioned the shock to businesses. Yet these stopgap measures must transition into **sustainable, systemic reforms** rather than ad-hoc fixes. The MSD lens emphasizes understanding the entire "market system" – core businesses, supporting functions (like information services, skills, logistics), and formal/informal rules – to identify root causes of market dysfunction. Applying MSD principles will ensure that reforms **respond to on-the-ground realities**, benefit a broad base of firms (including SMEs and war-affected enterprises), and endure beyond donor projects.

Key Findings: Ukraine's pre-war reform drive slashed red tape (e.g. halving business licensing requirements) and digitized many state services, but persistent bottlenecks remain.
Rule of law and corruption are still major concerns for investors – corporate raids and selective law enforcement haven't fully abated. **Access to finance** for SMEs is improving through state programs (e.g. "5-7-9" loans and grants) but remains constrained. **Standards and quality infrastructure** have been aligned with the EU in many sectors (from food safety to industrial standards), yet implementation capacity needs strengthening. The war has also exposed the fragility of **logistics networks** and infrastructure – Ukraine's export routes now rely on EU "Solidarity Lanes" and overland transport as seaports are blockaded, making **logistics reforms and investments** a top priority for competitiveness. Meanwhile, **business support systems** like information portals (e.g. Diia.Business) and public-private dialogue platforms need to be scaled up to ensure enterprises can navigate new regulations and market opportunities.

Policy Recommendations: To create an enabling environment that truly boosts competitiveness, Ukraine should pursue a **reform agenda:**

[1] https://www.ebrd.com/home/news-and-events/news/2024/ebrd-switzerland-and-eu-assess-effects-of-the-war-on-smes-in-ukraine.html

- ### Reinforce foundations of fair competition

  Expedite judicial and anti-corruption reforms to ensure property rights and contract enforcement. Investors must see that **governance and rule of law are improving** – a level playing field is essential to attract FDI and reassure donors. The Antimonopoly Committee's powers should be further strengthened (while ensuring its independence) to combat cartels and state aid distortions.

- ### Smart deregulation and taxation

  Make permanent the wartime simplifications that proved useful – for example, **expand digital permit systems** and "silent consent" procedures to cut red tape. Conversely, avoid reintroducing distortionary incentives: as the EBRD warns, Ukraine should **pivot from short-term tax breaks to systemic improvements**, since post-war investors will be drawn by a stable business environment rather than generous tax holidays. The phase-out of the 2% wartime turnover tax in 2023 (and restoration of normal VAT/CIT regimes) is a positive step toward fiscal normalcy.

- ### Leverage MSD tools in reform design

  Use a **market systems analysis** to map out how various sectors are constrained by the enabling environment. For instance, in agriculture and food processing, align quality standards and certification processes with EU norms to unlock export potential. Convene multi-stakeholder dialogues (business, government, civil society) to identify the most critical regulatory pain points in key value chains (e.g. agriculture, IT, manufacturing) and co-create solutions. MSD's **facilitative approach** can help reforms "find the fix" that catalyses wider change.

- ### Strengthen supporting systems

  An enabling environment is more than laws – **information, skills, and infrastructure** are equally important. The government, with donor support, should enhance business support centres and online platforms (building on Diia.Business) to provide SMEs with up-to-date market information, regulatory guidance, and mentorship. Upgrading logistics infrastructure and trade facilitation (customs modernisation, border checkpoints, rail connectivity to the EU) is crucial to reduce transaction costs for firms. Likewise, continue harmonising standards and certification systems with the EU so Ukrainian products can seamlessly enter EU markets – moving toward the "industrial visa-free" regime (ACAA) for priority sectors.

- ### Sequencing and coordination

  Develop a **clear reform roadmap** that sequences business environment reforms in line with EU accession requirements and reconstruction needs. Early wins (like simplifying permit procedures or launching one-stop shops) can build momentum, while more complex reforms (judicial overhaul, comprehensive tax reform) proceed in parallel. **Institutional coordination** must be improved to align ministries, Parliament and regulators around this roadmap. Donors should better align their programs with national strategies (such as the SME Development Strategy 2024–2027 and other national sectoral and territorial strategies). This will avoid duplication, ensure resources target priority gaps and allow regular monitoring of progress.

I. Context and Rationale

Amid the devastation of Russia's war, Ukraine has also gained EU candidate status, galvanising its ambitions for deep economic transformation. A conducive business environment is the **bridge between emergency survival and long-term development**. In the immediate term, thousands of war-affected enterprises need a supportive climate to rebuild – with minimal red tape, accessible finance, and reliable services. In the longer term, as Ukraine looks to join the EU's single market, it must align with EU rules and foster competitiveness to seize new opportunities. In short, **getting the business environment right is central to post-war recovery, export growth, and social stability.**

Wartime shocks underscore this urgency. The full-scale invasion in February 2022 caused a nearly 30% contraction of GDP in that year. Micro, small, and medium enterprises (MSMEs) – which form 99.9% of all businesses and account for about 64% of value added and 74% of jobs[2] – were hit especially hard. Destruction of infrastructure, mass displacement of workers, and uncertainty forced over 40% of SMEs to suspend operations in early 2022. This economic freefall was mitigated by quick government action to **relax regulatory and tax burdens**. In March 2022, Ukraine suspended most inspections and deadlines, and offered almost all companies the option to switch to a flat 2% turnover tax (instead of standard VAT and income tax)[3]. These emergency steps were swift if not always surgical, aimed at easing pressure on businesses during the shock[4]. For example, the blanket 2% tax regime, while providing short-term relief, later drew criticism for skewing competition – importers gained an unfair edge by effectively dodging VAT, undercutting domestic producers[5]. Thus, war has forced policymakers to balance **immediate relief with long-term prudence**, highlighting the need for a strategic framework. **Entering 2023**, the economy stabilised somewhat: by mid-2023, around 85% of enterprises had adapted and resumed at least partial operations. This resilience demonstrates the **entrepreneurial spirit and flexibility** of Ukrainian businesses. Many relocated from frontline regions to safer areas, shifted to online sales, or adjusted product lines to new demand (such as drone technology, mobile power solutions, etc.). The government supported these adaptations through programs like grants for relocation costs and plans to establish industrial parks for relocated firms. Still, companies continue to face extraordinary hurdles. Surveys of SMEs in 2023-2025 show their top challenges are **market uncertainty**, **workforce shortages, energy instability, financing gaps, logistical risks, and regulatory uncertainty**[6]. Notably, Russian missile strikes on energy infrastructure in 2022-2023 caused rolling blackouts that disrupted production for months, underscoring how critical a stable energy supply (part of the enabling environment) is for businesses.

Meanwhile, EU accession prospects add a powerful incentive and framework for reform. The European Commission identified priority reforms that Ukraine must address, many of which relate to the business climate (e.g. anti-corruption measures, judicial reforms, aligning regulations). In November 2023, the Commission noted Ukraine's steady progress even under exceptionally difficult conditions, and as a result recommended opening EU accession negotiations.

[2] https://www.undp.org/sites/g/files/zskgke326/files/2024-02/undp-ua-assessment-war-impact-enterprises-ukraine.pdf

[3] https://itd.rada.gov.ua/billinfo/Bills/Card/39167

[4] https://zakon.rada.gov.ua/laws/show/2118-20#Text

[5] https://voxukraine.org/derzhavna-polityka-maye-buty-ostrivtsem-stabilnosti-vijna-ne-pryvid-rozganyaty-inflyatsiyu-chy-spustoshuvaty-byudzhet/

[6] https://www.undp.org/sites/g/files/zskgke326/files/2024-02/undp-ua-assessment-war-impact-enterprises-ukraine.pdf

This path demands **transposing the EU acquis**, tens of thousands of pages of rules, into Ukrainian law and practice. For Ukrainian firms, EU accession promises a vast market but also higher competition and stricter standards. Therefore, reforming the domestic business environment is **directly tied to Ukraine's future in the European economic family**. Achieving EU-level regulatory quality will boost investor confidence and assure international partners that **Ukraine is a safe and fair place to do business.**

The Market Systems Development (MSD) approach offers a valuable perspective in this context. Traditional business climate reforms often take a top-down, checklist approach (e.g. passing laws to improve Doing Business indicators). Ukraine itself followed this route in past years – for instance, implementing an Action Plan to raise its World Bank Doing Business ranking, which successfully propelled it into the top 70 by 2020. Yet, as the MSD approach recognises, economies are complex systems. Laws on paper do not automatically translate into better outcomes if **systemic constraints**, such as lack of information, misaligned incentives, or weak institutions, are not addressed. MSD emphasizes working with local actors (private and public) to change behaviours and relationships in the market[7]. In Ukraine's case, this means involving businesses, industry associations, local governments, and civil society in diagnosing problems and crafting solutions, ensuring reforms are **rooted in local ownership and real market conditions**. Particularly in a post-conflict setting, where state capacity is strained, an MSD lens can help target reforms where they will have the greatest catalysing effect and engage non-state partners to carry forward changes.

The influence of **wartime challenges and EU-driven opportunities** makes enabling the business environment a top priority right now. A favourable business climate will help war-affected companies recover, create jobs for millions of Ukrainians (including veterans and IDPs), and attract foreign investment needed for reconstruction. It will also prepare Ukrainian industries – from agribusiness to digital tech – to integrate with European value chains. However, to succeed, reform must be **holistic and practical**. This is where applying a market systems approach, alongside comparative OECD/EU best practices, can ensure that Ukraine's efforts yield not just new laws but tangible improvements on the ground.

[7] https://www.helvetasusa.org/en/what-we-do/how-we-work/Market%20Systems%20Development

II. Current Situation and Trends

Reform progress and gaps before 2022

Ukraine entered the war with a decade's worth of reform experience in improving the business climate. **Since 2014, in the aftermath of the Revolution of Dignity**, the country undertook an extensive deregulation drive to shed its Soviet-era legacy of over-regulation. These efforts were catalysed by the 2014 EU Association Agreement (AA/DCFTA), which required aligning many economic rules with EU standards, and by a domestic push to eliminate opportunities for corruption in government-business interactions. Key trends and milestones from 2014 to early 2022 included:

Streamlining business registration and licensing

In 2015, Ukraine halved the number of activities requiring licenses (down to 29) and **simplified procedures for business registration and permits**[8]. A landmark change was the introduction of the "silent consent" principle – if authorities do not reject a business registration or tax application within a set time, it is automatically approved[9]. This shifted the onus onto the state to act promptly and curtailed petty officials' power to stall or extort new firms. Thanks to such measures, by 2019 Ukraine had made starting a business quicker and cheaper than many peers, scoring 91 out of 100 on the Doing Business "starting a business" indicator[10].

Cutting red tape and Soviet-era norms

Between 2015 and 2017, thousands of outdated Soviet standards (GOSTs) were abolished. These old norms were often not mandatory de jure, but authorities could exploit them to harass businesses. Their cancellation removed an entire layer of ambiguity and arbitrary enforcement. Also, price controls on various basic goods were lifted, ending a practice that had distorted markets and invited rent-seeking. Overall, **deregulation reduced bureaucratic touchpoints**, though businesses noted that enforcement agencies (police, tax inspectors, etc.) continued some abusive practices despite legal changes. For instance, the government passed "Stop Mask Show" laws (to stop masked law enforcement raids on companies), yet firms reported ongoing pressure – pointing to incomplete reform of law enforcement and courts.[11]

[8] https://voxukraine.org/en/imore-7

[9] https://zakon.rada.gov.ua/laws/show/344-viii%23Text#Text

[10] https://voxukraine.org/en/white-book-of-reforms-2025-chapter-6-business-environment

[11] https://protocol.ua/ua/chi_zlamae_nova_vlada_praktiku_bezzakonnya_pravoohorontsiv/

Digital transformation of government services

Starting around 2018 and accelerating in 2019–2021, Ukraine invested heavily in e-governance. The **Diia** online platform was launched, offering digital business registration, tax filing, licensing and dozens of other services accessible via smartphone. This greatly reduced face-to-face interactions (and hence opportunities for bribery) and proved invaluable during COVID-19 and the war. By 2025, the Diia.Business portal had over 1.5 million users and provided more than 30 online services for entrepreneurs (from registering as a sole proprietor to obtaining grants)[12]. The government's goal is to seriously cut SME compliance costs through such digitalization by 2027 – a target in the new SME Development Strategy.

Improvements in specific business climate indicators

Ukraine's reform efforts were reflected in leaps in certain World Bank Doing Business metrics. For example, getting electricity – once a notorious bottleneck – was made easier by streamlining connections and regulating costs (Ukraine's score in this area nearly doubled by 2020, though from a very low base). Tax compliance was eased with online filing and unified tax accounts, improving Ukraine's "paying taxes" score. Trading across borders also improved as customs procedures were simplified and new transit infrastructure opened, yielding a 48% score increase in that category[13]. However, not all areas kept pace: contract **enforcement** remained weak (enforcing a contract through courts was slow and difficult) and **construction permits**, while somewhat streamlined, still involved significant bureaucracy in many cities. These stubborn gaps often pointed to deeper institutional issues like judicial inefficiency and local government capacity.

Anti-corruption and fair competition measures

A fair, competitive market requires curbing both **petty corruption** (e.g. bribes for licenses) and **grand corruption/monopolies**. Ukraine established new anti-corruption bodies – NABU, NACP, HACC – since 2015, which was positive, but faced pushback (like a 2020 Constitutional Court ruling weakening some powers). On competition, the Antimonopoly Committee of Ukraine (AMCU) was moderately active; in 2021 it was tasked to also handle all public procurement complaints, and in 2023 its investigative powers were expanded (e.g. to gather information and conduct searches). Yet, the AMCU's **political independence** remained a concern and state-owned enterprises still dominated certain sectors, affecting market fairness. Importantly, Ukraine adopted a **state aid law** as part of the EU AA obligations, and by 2023 had set criteria for permissible state aid in various domains (regional development, sports, aviation, etc.) to align with EU competition policy. This is critical to prevent market distortions as reconstruction funds flow in.

[12] https://www.oecd.org/content/dam/oecd/en/publications/reports/2024/05/enhancing-resilience-by-boosting-digital-business-transformation-in-ukraine_c2e06e50/4b13b0bb-en.pdf

[13] https://voxukraine.org/en/white-book-of-reforms-2025-chapter-6-business-environment

By the eve of the war, Ukraine had thus built a **foundation of better business regulations**, even if implementation was uneven. International observers noted the positive trajectory: Ukraine's jump in Doing Business ranking was one of the decade's largest, and investors lauded steps like opening up the **land market** in 2021 (ending a 20-year ban on farmland sales, a reform expected to unlock billions in investment in agriculture[14]). However, **major vulnerabilities persisted**, especially in **institutions and infrastructure**. The judicial system was still often cited as the number one issue by foreign investors (contracts and property rights enforcement were unreliable due to court corruption or inefficiency). In infrastructure, while soft trade barriers fell, hard infrastructure – ports, roads, logistics – required massive investment. These pre-existing gaps have only been exacerbated by the war.

Impact of the war on the business environment

The Russian aggression since 2022 has been a **game-changer** for Ukraine's business landscape. Many trends observed can be grouped into **short-term emergency measures** and **longer-term structural shifts**.

■ Temporary deregulation and tax relief

To help businesses stay afloat during martial law, the government rolled out unprecedented regulatory forbearance. All scheduled audits and inspections were paused (a general moratorium) in 2022, and tax reporting deadlines were extended or suspended[15]. Firms unable to pay taxes on time due to the war were exempted from penalties. The most radical step was allowing virtually all businesses under UAH 10 billion turnover to opt into a **2% single tax on revenue** in lieu of VAT and corporate profit tax[16]. Even some larger companies and previously excluded sectors were later allowed into this regime. While this 2% flat tax gave businesses breathing room, it also significantly cut budget revenues at a time of soaring defense spending. It soon became clear that such deep tax cuts were unsustainable and even counterproductive to market fairness. By mid-2022, import duty exemptions (like zero tariffs on car imports) were scrapped because they cost the budget tens of billions of hryvnia and drained foreign currency reserves. In mid-2023, Ukraine began **rolling back the wartime tax perks**: the special 2% tax rate was abolished, the statute of limitations and tax deadlines "freeze" was lifted, and the audit moratorium was ended[17]. Essentially, by 2023–24, the country moved back toward normal tax policy, aligning with IMF and EU expectations for fiscal discipline. This sequencing, emergency relief then gradual normalization, shows adaptive policy-making, but it also left some uncertainty as rules changed frequently. Going forward, stability and predictability in taxes and regulations will be crucial to restore investor confidence.

14 https://www.trade.gov/country-commercial-guides/ukraine-investment-climate-statement

15 https://zakon.rada.gov.ua/laws/show/2118-20#Text

16 https://zakon.rada.gov.ua/laws/show/2142-%D0%86%D0%A5#Text

17 https://www.ey.com/content/dam/ey-unified-site/ey-com/en-gl/services/tax/documents/en-gl-tax-agenda-ukraine.pdf

Labour market and human capital disruptions

Nearly 7 million Ukrainians (largely women and children) were displaced internally and 5.6 million fled abroad causing severe labour shortages in some regions and sectors[18]. Moreover, **mobilisation** drafted a significant portion of the working-age male population into the armed forces. SMEs cite worker scarcity and skills gaps as a top concern. The government and donors responded with scaled-up training and re-skilling programs. For example, under the SME Strategy 2027, Ukraine aims to provide entrepreneurship or digital skills training to **1.7 million people** by 2027[19] – a massive expansion of human capital development efforts. Programs like Diia.Work and collaborations with OECD, GIZ, and others have led to over 100 new training courses for SME managers and employees in areas like financial literacy, marketing, IT, and export management. The war has ironically accelerated the push for modern skills, as firms pivot to new ways of operating (e.g. remote work, automation to cope with fewer workers). Nonetheless, **brain drain** is a looming risk – many highly skilled professionals in IT or engineering left the country or have been taken out of the civilian workforce. Reintegrating veterans and retaining talent through a vibrant business environment will be key challenges ahead.

Infrastructure and logistics challenges

The destruction of roads, bridges, railways, and energy facilities severely hampers business operations. Physical access to markets became difficult, and costs spiked. A clear example is the grain export crisis – with Black Sea ports blocked or limited, Ukraine had to divert aexports via rail and truck through the EU, exposing inadequate capacity and bureaucratic hurdles at borders. In response, the EU and Ukraine established **"Solidarity Lanes"** to streamline overland trade, moving over 187 million tonnes of goods since their launch in May 2022 by June 2025 through alternate routes[20]. Domestically, the government has tried to **simplify logistics regulations**: in road transport, hefty fines for overweight trucks were introduced to protect roads (though weighing infrastructure is still catching up) and risk-based inspections for carriers were implemented. The rail monopoly (Ukrzaliznytsia) was kept running remarkably, offering reduced tariffs for humanitarian cargo and business relocations. Yet, businesses still face **logistical risks** like missile threats (impacting insurance and routes) and congested crossings into the EU. Addressing these requires both hard investments (rebuilding and expanding infrastructure) and soft measures (faster customs, EU integration of transport networks). Encouragingly, donors have pledged billions for infrastructure, and some reforms like electronic permits for freight and "open rail" discussions are underway. Efficient logistics is now seen as part of the enabling environment, not just a backdrop.

18 https://www.euaa.europa.eu/sites/default/files/publications/2022-11/2022_11_09_Forced_Displacement_Ukraine_Joint_Report_EUAA_IOM_OECD_0.pdf

19 https://zakon.rada.gov.ua/laws/show/821-2024-%D1%80#Text

Sectoral regulatory adjustments

The war also forced changes to specific sector regulations to keep key industries running:

- Construction and land use: With urgent needs to relocate businesses and build fortifications, Ukraine **loosened construction permitting** under martial law. Standard building designs can be used without full new approval to speed up reconstruction. Changing land use from agriculture to industrial was simplified during martial law + 5 years after, without needing full urban plans. Foreign construction firms were allowed to operate without a Ukrainian license during martial law (with retroactive licensing later). These steps cut through peacetime bureaucracy to facilitate wartime recovery projects. A new law also protected property rights in unfinished construction, to prevent fraud schemes where developers might abandon projects and disappear with funds.

- Energy and Utilities: Emergency deregulation occurred in energy (like caps on fuel prices, later adjusted). The government had to balance control vs. market: e.g., to combat fuel shortages, they temporarily removed excise taxes on fuel and regulated prices, then reinstated taxes mid-2022 to stabilize currency reserves[22]. Also, after power grid attacks, regulations were adjusted to allow quicker repairs and alternative energy sources (diesel generators imported duty-free, etc.). The enabling environment for renewables is receiving attention now as part of building energy independence.

- Agri-Food Standards: Rather than slowing EU alignment, Ukraine **accelerated adoption of EU sanitary and quality standards during the war**, recognizing that access to European markets is a lifeline. In 2022-23, Ukraine implemented European rules on pesticides and feed additives, adopted international standards for food ingredients, and legalized the use of EU organic labels for Ukrainian organic producers[23]. It also allowed private certification bodies in seed quality control (reducing a state monopoly)[24]. These reforms in agriculture ensure that even as the domestic market shrank, producers could tap export markets with confidence in standards. Indeed, with domestic demand down, **export orientation** became vital – and aligning standards is key to competitiveness abroad.

20 https://euneighbourseast.eu/news/latest-news/latest-figures-show-solidarity-lanes-have-allowed-187-million-tonnes-of-ukraine-exports/

21 https://www.kmu.gov.ua/npas/pro-zatverdzhennia-poriadku-rozroblennia-zdiisnennia-ekspertyzy-ta-zastosuvannia-proektiv-povtornoho-vykorystannia-u-budivnytstvi-ta-vnesennia-zmin-do-postanov-1160-141022

22 https://www.facebook.com/permalink.php?story_fbid=pfbid0hW8nvDTovyXsB7WprR7qAmm71DwvvCM4BiDT71tqkWiASrXD81DBnza5cQARco4nl&id=119908996582268

23 https://zakon.rada.gov.ua/laws/show/1649-IX%23Text#Text

24 https://voxukraine.org/en/reform-index-208-ban-on-books-from-russia-and-belarus-seed-certification-and-financial-support-for-the-military

- Pharmaceuticals and E-commerce: During the war, the government permitted online pharmacies and e-prescription services (a first for Ukraine) to maintain access to medicines, and allowed "compassionate use" of unregistered drugs for military and critical patients. E-commerce regulation was updated, including a 2023 law that strengthens consumer protection for online sales and digital content (taking effect after martial law). These steps, though not directly war-related, coincided with wartime needs as more commerce moved online due to curfews and safety concerns.

- Financial Sector and Investment: To prevent capital flight, **currency controls** were imposed by the central bank (NBU) – for example, limits on FX purchases and fixed exchange rates for much of 2022. This stabilized the macro situation but also constrained businesses needing to pay foreign suppliers or investors repatriating funds. Over time, some controls have eased and the exchange rate was made more flexible in 2023. Ukraine also passed a law on **"White List" of tax-compliant businesses** (dubbed the "white business club") offering them fewer inspections and faster VAT refunds. However, this approach was criticized for potentially creating an uneven playing field[25] – it's essentially a trust-based regulatory easing for select firms, which can be positive if criteria are fair and transparent.

In essence, the war compelled Ukraine to **tear down many regulatory barriers (at least temporarily) and innovate out of necessity**. Businesses experienced both the pros and cons of a suddenly liberalized environment – easier taxes and permits, but also more uncertainty as rules kept changing and the state's capacity to enforce even vital regulations (like safety or quality controls) was stretched thin. It highlighted which regulations were truly needless and which were critical for market order. For example, the suspension of certain certification requirements sped things up, whereas the suspension of oversight in areas like finance or construction led to concerns about fraud or safety lapses.

A **notable positive trend** during the war was the continued **digitalisation and entrepreneurial adaptation:**

- The Diia platform expanded: companies could register, apply for grants (eRobota program), and access consultations entirely online. Over **40,000 free business consultations** were provided via Diia.Business by late 2025 to help entrepreneurs navigate wartime challenges[26].

25 https://eba.com.ua/polovyna-opytanyh-kompanij-eva-vvazhayut-shho-nepotraplyannya-do-pereliku-kompanij-vysokogo-rivnya-podatkovoyi-doviry-negatyvno-vplyne-na-yih-biznes/

26 https://www.ukrinform.ua/rubric-economy/3713688-mincifri-pidsumuvalo-dialnist-proektu-diabiznes-za-dva-roki.html

- **E-commerce boomed:** In 2024 Ukrainians spent 25% more online than in 2023, with e-commerce reaching 10% of retail turnover[27]. Thousands of SMEs shifted to online marketplaces or social media sales to reach customers despite physical constraints.

- Many businesses also **pivoted to new opportunities** created by the war – for instance, local manufacturers started producing goods in short supply (drones, tactical gear, alternative energy equipment like batteries and generators) once regulatory barriers were eased and demand spiked. This kind of agility is something the enabling environment should support going forward.

Emerging post-war trends

Looking ahead, as active conflict hopefully subsides and reconstruction begins, several trends are likely to shape Ukraine's business environment:

Reconstruction and construction boom

The rebuilding of housing, factories, and infrastructure (a process likely costing hundreds of billions of euros over a decade) will create opportunities but also risks. A **transparent regulatory regime for construction and procurement** is essential to avoid corruption and ensure quality. Ukraine's adoption of Prozorro, an e-procurement system, pre-war was globally lauded and will need to be leveraged for reconstruction contracts. The simplifications in land use and standard building designs implemented under martial law might be extended or refined to expedite reconstruction while maintaining standards. This sector could become a model **for public-private partnerships (PPPs)**, which require clear legal frameworks (Ukraine updated its PPP law in 2020 and 2023) and efficient bureaucracy to engage private investors in rebuilding efforts.

Return to competitiveness reforms

With the most acute crisis past, Ukraine is resuming its medium-term reform agenda. In 2023–2024, the government updated the **SME Development Strategy to 2027**[28], explicitly focusing on post-war recovery, digitalization, and EU market integration. There is a renewed push to improve Ukraine's standing in international indices beyond Doing Business – such as the WEF Global Competitiveness Index and the OECD SME Policy Index. Initiatives to unify and digitalize **business registries, property registers, and customs systems** are underway with EU support, aiming to reduce administrative friction.

27 https://www.promodo.com/blog/research-of-the-ukrainian-ecommerce-market

28 https://zakon.rada.gov.ua/laws/show/821-2024-%D1%80#Text

For example, by 2025 Ukraine implemented a Business Anti-RAIDERS law (with notary verification of share transfers) to combat corporate raiding[29] and launched a beneficial ownership verification system in line with FATF principles[30] – these strengthen property rights protection, a key factor for competitiveness.

■ EU acquis alignment

Ukraine's regulatory alignment with the EU is accelerating. In sectors like industry, Ukraine is working to sign the ACAA ("industrial visa-free") agreement which will mean Ukrainian industrial goods in agreed sectors are accepted in the EU without additional certification[31]. Achieving this involves meticulous upgrading of Ukraine's quality infrastructure – labs, standards agencies, accreditation bodies – to EU levels. Similarly, in services, Ukraine needs to align regulations to enable integration (for example, in telecommunications, financial services, transport). The **European integration reforms** will dominate the business environment agenda, effectively setting new "rules of the game". The positive aspect is this provides a clear roadmap and end-goal (EU membership), but the challenge is to implement complex directives quickly, with Ukraine's institutions under strain. We can expect ongoing support from the EU and OECD to help Ukrainian regulators and ministries in this task. Already, by late 2025, Ukraine had adopted numerous EU directives on **intellectual property**, consumer protection (with new laws taking effect post-martial law), and technical regulations like the EU's REACH chemicals safety rule[32]. These moves not only improve the domestic consumer/business environment (e.g., safer products, clearer rules) but also send a signal to investors that Ukraine is **serious about adopting international best practices**.

■ Donor and investor involvement

The scale of recovery needs means Ukraine's business climate will be partly shaped by donor programs and investor initiatives. International financial institutions (EBRD, World Bank, IFC) have already ramped up operations: over €3 billion was invested by EBRD in 2022–23 with a focus on financing businesses (often through local banks)[33]. The EU's €50 billion Ukraine Facility (2024-27) is expected to fund reforms and investments to modernize Ukraine's economy[34]. G7 countries and others are exploring investment platforms and insurance schemes to encourage FDI into Ukraine despite the risks[35]. For Ukraine to capitalize on this, it must maintain a **predictable, open business environment** – investors will demand transparency, rule of law, and reasonable regulations in exchange for their capital.

29 https://zakon.rada.gov.ua/laws/show/159-ix%23Text#Text

30 https://zakon.rada.gov.ua/laws/show/1011-2023-%25D0%25BF%23Text#Text

31 https://zakon.rada.gov.ua/laws/show/124-20%23Text#Text

32 https://zakon.rada.gov.ua/laws/show/847-2024-%25D0%25BF%23Text#Text

33 https://www.ebrd.com/home/news-and-events/news/2023/ebrd-reaches-its-3-billion-financing-target-for-ukraine-in-202223.html#

34 https://enlargement.ec.europa.eu/european-neighbourhood-policy/countries-region/ukraine_en

35 https://www.dfc.gov/media/press-releases/joint-statement-establishment-ukraine-investment-platform

Encouragingly, by late 2023 the **G7 and EU emphasized anti-corruption, procurement transparency, and legal reforms** in joint statements as prerequisites for channelling reconstruction funds. Thus, Ukraine's incentive to improve the business climate is reinforced by the conditions attached to much-needed external support.

The current landscape is one of both significant achievements and daunting challenges. Ukraine has proven that even in war, it can advance reforms (digitalisation, EU-aligned laws) and keep the private sector running. The SME sector, the backbone of the economy, has shown resilience but needs continued support to navigate workforce and security difficulties. The **trends** point to a likely reconstruction boom in the coming years, which can either be harnessed with smart policy or hampered by old pitfalls. Whether Ukraine can fully leverage this moment depends on consolidating the gains of past reforms and aggressively tackling the remaining obstacles through a systemic, well-coordinated approach.

III. International and EU Policy Frameworks

Ukraine's quest to create an enabling business environment is guided and bolstered by several international frameworks and examples. Chief among these are the **European Union acquis communautaire**, OECD best practices on regulatory governance and various donor frameworks (World Bank, EBRD, etc.) that outline principles of a healthy business climate. Integrating these frameworks helps Ukraine not only meet accession criteria but also adopt **proven models of success** from other countries.

European Union Frameworks and Acquis

EU Association Agreement (AA) and DCFTA

The 2014 AA between Ukraine and the EU, including the Deep and Comprehensive Free Trade Area, has been a reform blueprint. It commits Ukraine to adopting large portions of EU economic legislation. For the business environment, some critical chapters are:

- Company Law: Ukraine has aligned laws on establishing and operating companies with EU norms. For example, a new Joint Stock Companies law in 2023 improved shareholder rights and corporate governance[36], and an EU-style approach to corporate transparency (beneficial ownership disclosure) was instituted. These changes mirror EU company law directives, making Ukraine's corporate environment more predictable and investor-friendly.

[36] https://zakon.rada.gov.ua/laws/show/2465-IX%23Text

- Technical Standards and Regulations: Under the AA, Ukraine pledged to harmonize its technical and safety standards with the EU. This led to the overhaul of the national standards agency and elimination of conflicting GOST standards. In October 2019, Ukraine took the step of making **all national standards voluntary** (except where specifically mandated by technical regulations), emulating EU practice where standards are market-driven. This was key to advancing the so-called “Industrial Visa-Free” – officially the Agreement on Conformity Assessment and Acceptance of Industrial Products (ACAA). The goal is that Ukrainian industrial goods in sectors like machinery, electrical equipment, etc., **no longer require re-certification for EU markets**, once Ukraine’s system is deemed equivalent to the EU’s. In 2023–25, Ukraine has been adopting EU technical regulations one after another (for instance, on machinery safety, electromagnetic compatibility, etc.) and upgrading laboratories. This alignment significantly improves the business environment by reducing barriers for exporters and ensuring high-quality products for consumers.

- Competition Policy: The EU acquis on competition (antitrust, merger control, and state aid) sets high standards for **fair competition**. Ukraine’s AMCU reforms in 2023, granting it greater investigative powers[37], were partly driven by EU recommendations and IMF conditionality – demonstrating cross-alignment of donor advice. Moreover, Ukraine is implementing an EU-like state aid control system: by defining criteria for allowable state aid in various sectors (regional aid, services of general economic interest, etc.)[38], Ukraine is mirroring EU State Aid rules (TFEU Article 107). This prevents subsidy races and protects competition, levelling the field for businesses. It’s also a requirement under the AA/DCFTA.

- Public Procurement: A transparent procurement system is vital for competition and corruption-free business climate. Ukraine’s **Prozorro** electronic procurement, launched in 2016, was actually inspired by EU procurement directives and open-data principles (and supported by the EBRD). Under the AA, Ukraine had to implement EU procurement rules – which it largely did, making Prozorro a global best practice. During martial law, some transparency was curtailed for security reasons, but as reconstruction ramps up, returning to full EU-compliant procurement practices is essential to ensure open opportunities for businesses.

- SME and Industrial Policy: While the EU doesn’t dictate industrial policy, it offers frameworks like the **Small Business Act (SBA) for Europe**, which Ukraine has endorsed. The SBA’s ten principles (from entrepreneurship education to responsive administration) have guided Ukrainian SME policy strategies. In 2024, as noted, Ukraine approved a new SME Strategy to 2027 aligned with EU good practices. Additionally, Ukraine has engaged in EU programs like COSME (EU program for SME support) and Horizon Europe (research/innovation funding), integrating Ukrainian businesses into European networks and value chains.

38 https://www.kmu.gov.ua/npas/pro-zatverdzhennia-kryteriiv-otsinky-dopustymosti-derzhavnoi-dopomohy-subiektam-hospodariuvannia-dlia-zabezpechennia-rozvytku-rehioniv-ta-dlia-pidtrymky-serednoho-ta-maloho-i180423-348

EU candidate status and Enlargement Reports

Since Ukraine became an EU candidate in June 2022, the European Commission has been monitoring and reporting on Ukraine's reforms. The 2023 Enlargement Package for Ukraine likely notes areas of progress (e.g., digital services, anti-corruption initial steps) and areas needing work (e.g., "lack of capacity and resources in the judiciary", "need to strengthen anti-monopoly enforcement", etc., echoing issues raised in investment climate analyses). These reports (in 2023, 2024 and 2025) effectively act as a **to-do list** for improving the business environment in line with EU accession criteria. For instance, the Commission and European Parliament have stressed the importance of **judicial reform** and **anti-corruption** as prerequisites for a sound investment climate and eventually EU membership. They have also highlighted the need for **regulatory certainty** to attract investment in Ukraine's recovery.

Notably, the **EU Recovery and Resilience Framework** (similar to what EU members have for COVID recovery) is being extended to Ukraine via the proposed Ukraine Facility. It emphasizes modernisation, green transition, and rule of law – again linking back to business environment improvements (like simplifying permitting for green energy, or digitizing customs to EU standards).
Furthermore, sectoral EU policies are influencing Ukraine:

- **The EU Green Deal and Carbon Border Adjustment** may push Ukraine to improve its environmental regulations affecting businesses (like pollution permits, energy efficiency standards) – making sure Ukraine's industries are competitive in a low-carbon future.

- The **EU's digital market regulations** inspire Ukraine's digital economy laws, such as e-commerce consumer protection, data protection (GDPR alignment), etc., which provide a safer environment for digital businesses and users.

OECD and International Best Practices

Ukraine has been engaging with the **OECD** and other international bodies to import global best practices in public governance and economic policy:

- ### OECD Principles on Regulatory Quality

  Ukraine is aligning with OECD recommendations on evidence-based rulemaking, public consultations for new business regulations, and Regulatory Impact Analysis (RIA). Prior to the war, Ukraine's Better Regulation Delivery Office (BRDO) – supported by the EU/OECD – systematically reviewed regulations and scored them. This approach should continue, ensuring that any new rules post-war meet necessity and cost-benefit tests. The war paused some consultation processes, but transparency in rule-making must be re-established. OECD experts are likely assisting with designing streamlined regulation for reconstruction (learning from post-conflict experiences elsewhere).

- ### SME Policy Index Eastern Partner Countries

  In cooperation with OECD, Ukraine participates in benchmarking exercises with other Eastern Partnership countries on SME policy. These indices have in the past praised Ukraine's progress in areas like SME support agencies and criticized lagging areas like insolvency procedures. Such comparisons help Ukraine target specific reforms (for example, simplifying bankruptcy procedures to allow honest entrepreneurs a second chance – which is a noted issue as Ukraine's bankruptcy score was low).

- ### DCFTA Facility and EBRD Transition Reports

  The EBRD's annual Transition Report assesses how market-friendly an economy is. In 2023, EBRD highlighted that **governance and anti-corruption reforms are essential to a level playing field** and that "progress in these areas is essential not only to build a fair society but to convince foreign investors… and assure donors". This echoes across OECD and G7 messaging: good governance is good business environment. EBRD also advises against heavy reliance on tax incentives, urging focus on fundamental improvements – advice we integrate into our policy roadmap.

Relevant models from other countries

Ukraine can draw lessons from countries that have undergone post-conflict or transformative reforms:

- ### Eastern Europe (EU New Members)

  Poland and the Baltic states in the 1990s-2000s faced transitions with some parallels – though not war destruction on Ukraine's scale, they had to overhaul socialist regulatory systems and meet EU accession criteria. Their experience shows the importance of early legal harmonisation, privatisation with competition safeguards, and investing in institutions (like Poland's competition authority or Estonia's e-governance, which Ukraine emulated to an extent). The EU's twinning programs often pair Ukrainian ministries with counterparts from these countries to transfer knowledge.

- ### Western Balkans

  Countries like Serbia or Croatia provide examples of reform sequencing while acceding to the EU amidst recovery from conflict (in the 90s). For instance, Croatia's use of an **Economic Recovery Council** and strict EU-aligned lawmaking helped it join the EU in 2013, but delays in judiciary reform slowed investments. The lesson for Ukraine is not to neglect justice system reform – which is arguably more vital than any single "Doing Business" metric. The Western Balkan states also show the value of **regional development** – decentralising some economic governance so that war-affected regions (in Ukraine's case, the east and south) get special support. EU's smart specialization approach for regions could guide Ukraine's regional competitiveness programs.

- **Post-conflict reconstruction (e.g., Georgia, Bosnia)**

  Georgia's experience in mid-2000s is often cited: they slashed corruption dramatically and jumped in Doing Business rankings by radical deregulation and police/judiciary overhaul. Ukraine has been more measured, but aspires to similar outcomes. Bosnia and Herzegovina's slower reform post-war highlights that over-complicated government structures can stall business climate improvements – Ukraine should aim to keep reforms centrally coordinated and avoid overlapping bureaucracies, even as it continues decentralisation.

International frameworks provide Ukraine with a **roadmap and motivation**. The EU acquis gives concrete targets (pass X law, set up Y agency, enforce Z standard), while OECD/World Bank guidelines ensure reforms are done in a smart way (inclusive consultation, evaluation). The **global donor community's expectations** essentially align with what Ukrainian businesses themselves want: fair rules, less corruption, more opportunity. Ukraine's challenge is implementation amid ongoing conflict – but even here, it has set precedents by enacting EU-aligned laws during war (e.g., consumer protection law slated to come into effect after martial law). This tenacity in pursuing reforms under fire has bolstered international confidence. It will need to continue as Ukraine navigates the complex, often technical work of full EU integration. **EU integration is the anchor** for Ukraine's business environment strategy, and international best practices are the compass. By steering with these, Ukraine can reassure partners and investors that its trajectory is toward a modern, EU-compatible economy – one where businesses thrive under the rule of law and open competition.

IV. Analysis and Findings

In analysing Ukraine's business enabling environment through a **Market Systems Development (MSD) lens**, we look beyond surface-level indicators to examine underlying systemic factors. This section delves into key insights on the **bottlenecks, war-induced challenges, and structural opportunities** that emerged from the research, structured around critical pillars of an enabling environment: regulatory framework, institutional capacity, supporting functions (like finance, information, infrastructure), and coordination mechanisms. We also explore how MSD principles can be woven into Ukraine's reform approach to make changes more effective and sustainable.

1 Regulatory framework: reforms achieved vs. remaining obstacles

Ukraine's ongoing regulatory reform has addressed many "input" constraints for businesses:

- ### Simplification of starting and running a business

  As noted, procedures for registration, licensing, permits, and taxation have been simplified considerably since 2014. The wartime introduction of even more radical simplicity (2% tax, moratorium on inspections) demonstrated the benefits of low administrative burdens – many small businesses could focus on survival rather than paperwork. **Digital platforms** like Diia cemented these gains, cutting through bureaucratic layers.

- ### Harmonisation with global norms

  Adopting EU-aligned laws in consumer protection, quality standards, intellectual property, etc., has modernized the rulebook. This reduces friction for businesses operating internationally and improves trust in Ukrainian products and services. For instance, the new technical regulations on product safety (like the chemical safety regulation implementing EU REACH) ensure Ukrainian businesses meet European safety standards, which both protect consumers and open export pathways.

- ### Targeted deregulation in sectors

  By removing archaic rules like the "equity share" in construction (where developers had to give a cut to local authorities), Ukraine eliminated corruption-prone practices. Similarly, fisheries sector deregulation combined with digital oversight (GPS trackers, e-quotas) unleashed growth and revenues. These examples indicate that tackling specific chokepoints in a sector's regulatory system can yield outsized benefits – a classic MSD insight of focusing on leverage points in the system.

- ### Crisis-induced positive reforms

  The war compelled some sensible deregulation (e.g., allowing flexible land use for industry) that should perhaps be retained post-war to spur investment. It also forced the government to refine policies – for example, recognizing the flaw in the blanket 2% tax, policymakers are now more attuned to the importance of tax equity and not favoring one group (importers) over others. The reversion to normal tax rules with some tweaks by 2023 is a sign of learning and adjustment.

Despite progress, businesses still face a number of regulatory hurdles and uncertainties:

- ### Unpredictability and frequent changes

  One complaint from businesses is that rules change too often or with short notice (tax rules, export rules, etc., shifted multiple times during 2022-2023). While war circumstances explain this, moving forward the government needs to communicate and phase in changes more predictably. A lack of stability in regulations increases perceived risk for investors.

- ### Quality of implementation and enforcement

  Passing good laws is one thing; ensuring they are applied consistently is another. Many regulatory agencies (e.g., customs, tax, standards bodies) suffer from uneven capacity. For instance, adopting EU food safety standards is commendable, but if inspections and labs aren't adequately resourced, businesses may either face delays or unscrupulous actors may bypass rules, undercutting those who comply. An MSD perspective emphasizes **feedback loops**: businesses should be able to feed back to authorities where enforcement is problematic. Mechanisms like regulatory feedback councils or digital complaint systems can help identify where a new regulation isn't working in practice.

- ### Legacy regulations and monopolistic niches

  Some sectors remain over-regulated or monopolized. For example, alcohol production beyond small craft producers still encounters heavy licensing and excise regimes (though craft wineries got some relief in taxes). Until recently, state monopolies or oligopolies (Ukrspirt in alcohol, for example) had preferential treatment. While many such monopolies have been dismantled, continued vigilance is needed. Similarly, **utilities and infrastructure sectors** (energy, rail, postal services) are only partially reformed – the postal law giving only two operators customs clearance rights is a case where a new law inadvertently restricted competition. This indicates a regulatory approach that favored incumbents, which should be revisited to open markets where possible.

- ### War-specific regulatory burdens

  New challenges have arisen, like managing the risks of doing business under martial law. Companies face complex rules on mobilization of employees, restrictions on international currency transfers, etc. For example, some businesses report difficulty navigating rules about critical workers being exempt from military draft – a process that needs clear criteria and minimal red tape to avoid draining skilled labour from key industries. Another example: NGOs and businesses providing dual-use goods or aid have encountered customs bureaucracy, which can be streamlined with clearer guidelines during wartime. Addressing these war-related procedural hurdles can free up enterprise activity in critical areas (like importing equipment or retaining talent).

MSD approach – regulatory system: From an MSD viewpoint, regulations are part of the "rules of the game" in the market system. The goal is not just to have fewer or more rules, but the right rules that guide positive behaviour. MSD would encourage:

- ### Private sector involvement in rule-making

  Use public-private dialogue to co-create better regulations. Ukraine has some structures (like the National SME Platform, chambers of commerce) – these should be empowered to regularly review laws and suggest improvements. This ensures regulations solve real problems without unintended side effects.

- ### Focus on function, not form

  Ensure that for each regulatory goal (e.g., consumer safety, tax compliance), the approach chosen actually works in Ukraine's context. If a certain licensing is routinely ignored or creates corruption, ask if there's an alternative way (like voluntary standards or market incentives) to achieve the goal. This systemic thinking prevents piling up formal rules that don't change outcomes.

- ### Iterative reform

  Treat reforms as experiments – monitor effects and be willing to adjust. The fisheries reform shows iteration (GPS tracking and auctions were introduced, and results measured – illegal vessels found, revenue up). That success can now be consolidated with further steps (like full traceability in fish products, as planned). Similar pilot-and-scale methods can apply to other areas (for instance, try a pilot of fully online construction permitting in one oblast before national roll-out).

2 Institutional capacity and governance

Regulations are only as good as the institutions enforcing them. A recurring theme is that **weak institutions undermine the business environment:**

- ### Judiciary and dispute resolution

  This is arguably the Achilles heel of Ukraine's business climate. Contracts, investments, and property rights all hinge on courts to enforce them fairly. Despite creating specialized bodies like the High Anti-Corruption Court (HACC) and initial judicial vetting commissions, **many economic court judges remain of questionable integrity**, and case backlogs are long. Businesses often avoid courts, resorting to informal enforcement or simply writing off losses – a huge inefficiency. This also affects foreign investment: no investor wants to enter a market where they doubt contract enforcement. The Constitutional Court saga of 2020 that struck down certain anti-corruption provisions shook confidence, though subsequent legislation and the creation of a new Ethics Council for selecting judges are steps to fix judicial governance. For EU accession, judicial reform is mandatory; for businesses, it's indispensable. In absence of swift improvements, interim measures like **arbitration** (domestic and international) and alternative dispute resolution mechanisms could be promoted as a stop-gap for businesses to resolve issues.

- ### Anti-corruption and law enforcement

  Enforcement agencies historically harassed businesses (hence the "Mask Show" raids). This has improved somewhat with those laws and with police reform earlier, but companies still fear arbitrary actions by security services under the guise of economic crimes. A market-friendly approach would be to transfer jurisdiction over economic crimes away from the security services entirely, to a specialized financial investigation service (an oft-discussed reform).

The **National Anti-Corruption Bureau (NABU)** and Specialized Anti-Corruption Prosecutor (SAPO) have started addressing high-level corruption, which indirectly benefits the business climate (less high-level graft means fewer corrupt demands on businesses). But everyday corruption like bribes for permits, though reduced by digitalization, can creep back if not vigilantly addressed. Ukraine's scoring in Transparency International's Corruption Perceptions Index is still low, reflecting these issues.

Public administration and service delivery

A pro-business environment requires competent civil service. Ukraine's public administration reform has been piecemeal. Many capable young professionals were brought into ministries post-2014, often funded by donor programs, but high turnover and political instability have hampered continuity. At local levels, hromadas (territorial communities) now handle many permits and land allocations due to decentralization – some are very efficient and proactive, others not. Capacity-building for local governments in economic governance (urban planning, business support) is essential so that the environment is uniformly good, not just in a few "islands" of excellence. One interesting development: several cities created business **support centres** or investment promotion offices (often donor-supported) which help investors navigate local rules. These need to be networked and institutionalized nationwide.

Market institutions

Beyond government, the role of business associations and chambers is key. In Ukraine, associations exist (e.g., IT Association, European Business Association, SME unions), but their capacity to influence policy and support members varies. Strengthening these institutions is part of an MSD approach – they are "supporting functions" that can provide services (training, standards setting, self-regulation) to their sectors. For instance, in IT, the Diia City regime essentially outsources some functions to a self-regulatory approach (companies opting into a special legal/tax framework in exchange for adhering to certain rules). Generally, when associations are strong, they can partner with government to improve the business environment (co-regulation, disseminating info, etc.). Donors often help build such capacity (e.g., USAID has programs with sector associations). This should continue, with an emphasis on making them inclusive (so that not only big companies, but SMEs and regional firms have a voice).

State-business interaction and trust

Historically, there was deep mistrust between Ukrainian business and government (with reason, due to corruption). This has been slowly improving, especially as a new generation of reformers came into government and as war rallied a sense of unity. Initiatives like regular forums (e.g., the Government meets Business events) and transparency tools (like the open data portals for public spending) improve trust. Yet, issues like the sudden tax changes or inconsistent enforcement can erode it. MSD stresses the importance of **relationships and behavior** – not just formal rules. Building a culture where regulators see businesses as clients to serve (not prey or ATMs) is a long-term endeavor. Training programs for civil servants in modern regulatory practices, ethics, and customer service can help, and some are ongoing with donor support.

Likewise, recognizing and publicizing instances where public institutions support businesses (for example, how the State Employment Center worked with Helvetas to identify and upskill unemployed individuals to meet SME labour needs) can propagate a positive model. A noteworthy aspect is **institutional coordination** (or lack thereof) among Ukrainian agencies. At times, reforms stall because ministries and parliament and agencies aren't in sync.

The war led to more centralized executive power (through the military cabinet, etc.), which in some ways improved coordination for crisis decisions. However, for long-term reforms, Ukraine will benefit from formal coordination mechanisms, like:

- A high-level **Economic Recovery Coordination Council** including key ministries (Economy, Finance, Infrastructure, etc.), possibly chaired by the Prime Minister or Economy Minister, to drive business climate and recovery reforms. This existed in forms like the National Reform Council in the past.
- Stronger inter-agency working groups on specific reforms (e.g., an MSME development working group monitoring the SME Strategy deliverables).
- Inclusion of **donors and private sector** in these groups to provide feedback and resources.

Ukraine has many of the laws and agencies one would expect for a market economy, but their **effectiveness** is the concern. The findings emphasize that **investing in institutional quality** – from courts to local councils – is as important as writing new laws. For Ukraine's competitiveness, a reliable judicial and administrative system may do more than any single deregulation.

3 Supporting functions: finance, information, skills, infrastructure

No business environment is just about laws and regulators. It also consists of various support systems that allow markets to function efficiently. Ukraine's case highlights several such "supporting functions" that need strengthening, many of which donors and MSD-oriented projects can directly assist with:

- ### Access to finance

  Even before the war, Ukrainian SMEs struggled with limited access to credit due to high interest rates, collateral demands, and underdeveloped capital markets. The war exacerbated this, as banks became risk-averse and liquidity was strained. The government's response – interest subsidy programs like "5-7-9% loans" – has been significant, disbursing over ₴360 billion since 2020 by mid-2025. Also, a new Partial Credit Guarantee Fund for agriculture was launched, enabling banks to lend to farmers with government-backed guarantees. These interventions are crucial but need to be market-friendly (avoiding politicized lending).

Over time, Ukraine must rejuvenate its financial sector: encourage private lending, attract international financial institutions, and develop alternative financing (leasing, factoring, venture capital, etc.). The war saw creative financing like crowdfunding for certain businesses or diaspora investment; formalizing some of these (e.g., creating platforms for diaspora bonds or crowd-investment in SMEs) could be beneficial. **MSD role**: Donor projects can facilitate partnerships between banks and business associations to design better SME loan products, or support credit guarantee schemes that leverage donor funds to de-risk lending. It's about catalysing sustainable finance rather than permanent subsidies. The EU has put €230 million via the EIF and EBRD to support SME lending in 2025 – using such funds to incentivise local banks to adopt SME-friendly practices (longer tenors, cash-flow based lending, etc.) will improve the environment.

Business information and advisory services

Entrepreneurs need information about market opportunities, regulations, and best practices. Ukraine's network of business support centres (like the Diia.Business hubs in various cities) and online resources is expanding. The Diia portal providing **40,000+ consultations** to entrepreneurs and listing 450+ support programs shows a strong demand for such services. However, many SMEs in rural areas or small towns might not have access to quality advice. Expanding regional business hubs, possibly through public-private partnerships (e.g., local chambers hosting helpdesks with government support), would help disseminate knowledge. Another aspect is connecting businesses to **export information** – how to meet EU standards, find buyers abroad, etc. Programs like EU4Business and ITC's SME Trade Academy have been active in Ukraine; scaling these up can greatly enhance competitiveness. The MSD angle is to strengthen **local commercial providers** of advisory services: consultants, accounting firms, IT solution providers for SMEs, etc. If the market for SME services grows (maybe subsidized initially by vouchers or grants), it will in the long run ensure businesses can get affordable expertise to improve their operations.

Standards and quality infrastructure

As mentioned, harmonizing standards with the EU is an ongoing success, but the infrastructure – testing labs, certification bodies, metrology – needs upgrading. Currently, many firms must send products abroad for certain certifications (time-consuming and costly). Donor investments in upgrading Ukrainian labs or fostering partnerships with EU notified bodies would help. The creation of sectoral clusters or cooperative certification centres (for example, an agro-food quality centre in a farming region) could be explored. Standardization also involves training businesses on compliance. Ensuring MSMEs are aware of new standards (like the upcoming palm oil restrictions or packaging recycling rules) prevents future trade barriers. The **role of standards bodies** and business associations is key here – they can run information campaigns and training.

Logistics and infrastructure

A huge component of competitiveness is the cost and reliability of moving goods. The war highlighted alternate routes, but in general Ukraine's logistics performance (even pre-war) lagged EU benchmarks.

Now, priorities include: modernizing border crossings (the new Open Border project is adding more checkpoints with Poland and Romania), increasing rail capacity to EU (track gauge differences to be solved with transshipment hubs), improving river and Danube shipping, and rebuilding bombed bridges/roads. These are capital-intensive but attract a lot of donor interest. Policy-wise, simplifying customs procedures and aligning them with the EU Custom Code will smooth trade. The government's adoption of a risk-based customs green lane for trusted traders, and eventual accession to the Common Transit Convention, will help traders. For domestic distribution, ensuring competition in trucking (implementing weight stations so honest hauliers aren't undercut by overweight cheats) and in postal/courier services (perhaps revising the postal law to open customs clearance beyond two companies) would foster better services and prices.

- ### Energy and utilities

Reliable electricity, fuel, water – all are part of the enabling environment. The war's energy attacks made energy security paramount. Businesses have coped by obtaining generators and backup power (often with government subsidies or donor aid). Going forward, Ukraine's energy policy – integrating with the EU grid (which already happened in 2022 for electricity), diversifying sources, encouraging renewables – will dictate how well businesses can trust the lights to stay on. Regulatory reforms in energy (like establishing a truly independent energy regulator, and ensuring competitive energy markets) are needed to attract investment into generation and distribution. A recent reform step: allowing consumers (including businesses) to install renewable energy and get some compensation (feed-in or net metering) – these should be encouraged to build resilience.

- ### Labour and skills

We touched on training under human capital, but as a supporting function, labour market services are crucial. Strengthening the State Employment Service to not just handle unemployment benefits but to actively match workers to training and jobs is part of the SME strategy. Helvetas and other donors are already helping build capacity in this area, as seen by the training of over 200 civil servants to improve local labour market services[39]. A flexible labour regulatory framework, balancing worker protection with productivity, is also key. Ukraine's labour law was somewhat rigid (a relic from Soviet times); incremental modernization is happening (recent laws allowed more gig and remote work arrangements, especially with Diia City for IT). Ongoing dialogue with labour unions and businesses will be needed to craft labour laws suitable for a post-war economy with many returning refugees and demobilized soldiers needing jobs.

4 Market Systems Development integration into reform design

One of the primary objectives of this policy brief is to illustrate **how MSD tools can be integrated into reform design** for the business enabling environment. Based on the analysis:

39 https://www.linkedin.com/posts/helvetas-ukraine_helvetas-supports-the-resilience-of-ukraine-activity-7377317254717313024-HvYb/

Whole system perspective

Rather than treating business climate reform as a checklist of laws, MSD urges us to look at the market system holistically. In Ukraine, one could map, for example, the **manufacturing sector's market system**: core businesses (factories), suppliers, buyers; supporting functions (finance, logistics, skills, technology extension services, etc.); rules (regulations, standards, informal norms). A bottleneck in any area – say, lack of skilled technicians or a cumbersome export certification – can limit the whole system's performance. The finding is that many constraints facing Ukrainian business today lie at the interfaces of these elements. For instance, a law might allow SMEs to get loans, but if bank officers have no incentive or skill to lend to SMEs, credit won't flow. Thus, reforms must pair regulatory changes with capacity building or incentive alignment in supporting functions. In designing reforms, the government and donors should **use market diagnostics** (value chain analyses, business surveys, etc.) to identify the root causes of problems, not just the symptoms.

Facilitation and local ownership

MSD emphasizes a **facilitative role for development interventions**, meaning reforms should be done with local actors, not purely for them. For Ukraine, this implies engaging local institutions (ministries, yes, but also business associations, training institutes, local authorities, etc.) in the reform process so they take ownership and continue the effort after donor support ends. An example could be: instead of a donor drafting a new SME law and handing it to the government, it would work with a working group of Ukrainian experts, business reps, and officials to co-create it. This builds local capacity and buy-in. Ukraine has talented policy experts and a vibrant civil society; leveraging them in structured ways (policy dialogues, public comment periods for new laws, pilot projects where NGOs test a concept) aligns with MSD's participatory ethos.

Adaptive management

Conditions in Ukraine are fluid (war developments, political cycles). MSD and modern policy design both champion adaptive management – regularly reviewing what's working and adjusting accordingly. For example, if a new grant program for businesses isn't reaching small firms, investigate why (maybe application process too complex?), then tweak it. This requires good **monitoring and data**. Ukraine should invest in better data collection on businesses (the statistics agency is catching up after war disruptions, and new digital systems can feed data). Annual or even quarterly business climate surveys could inform policymakers in real-time. Already, surveys cited[40] on SME challenges guide government focus (e.g., heavy emphasis now on power supply solutions and workforce training because those ranked high).

40 https://www.undp.org/sites/g/files/zskgke326/files/2024-02/undp-ua-assessment-war-impact-enterprises-ukraine.pdf

- ### Sequencing and "Do No Harm"

  MSD thinking would caution against reforms that inadvertently harm parts of the system. For instance, suddenly removing all wartime support too quickly could bankrupt many firms; or liberalising something without safeguards could invite abuse (like early war tax zeroing on imports hurt local producers). A sequenced approach might mean maintaining some support (e.g., partial credit guarantees) until banks truly resume normal lending, or phasing out certain benefits gradually. It also means prioritizing foundational reforms first – **get the basics right** (rule of law, macro-stability) before expecting advanced interventions to stick. Ukraine's challenge is doing many things at once, but clear prioritization is needed: EBRD and others highlight that governance reforms cannot wait. Likewise, building back infrastructure must coincide with policies to ensure its efficient use (no point having a new highway if customs at the border remains a bottleneck).

- ### Practical roadmap for Donor-Government engagement

  On an MSD-oriented roadmap, one might outline roles: Government should focus on policy and enforcement improvements, while **donors can pilot innovative solutions and build capacity**. For example, a donor project might pilot an electronic construction permitting system in one oblast's hromadas, working out technical pecularities and training staff; the government, seeing success, then scales it nation-wide via policy mandate. Or, donors could support "Business Mentors Network" where experienced entrepreneurs coach new ones – a soft intervention that improves information flow and skills in the market. Meanwhile, government ensures that there's no legal impediment to such mentorship or networks (maybe even gives recognition to mentors). This complementary approach leverages donor flexibility and government authority.

5 Policy sequencing and institutional coordination

This analysis confirms that **what to do is as important as when and how to do it**. Sequencing and coordination can determine reform success:

- ### Short-term vs long-term reforms

  In Ukraine's case, some reforms yield quick wins (e.g., eliminating an unnecessary fee or launching a portal), while others, like judicial reform, are long slogs. The key is to harvest "low-hanging fruit" to build momentum and goodwill, without losing sight of deeper changes. For instance, simplifying export procedures for IT services (which Ukraine did by removing some currency controls for IT exporters) can immediately boost a thriving sector. But it should happen in parallel with, say, strengthening intellectual property protection and contract law that the IT industry will need for sustained growth. If one waits to do everything sequentially, opportunities might be lost, but doing everything at once strains capacity. Therefore, a staggered approach: phase 1 could focus on post-war relief to businesses and critical infrastructure fixes, phase 2 on institutional and EU alignment reforms, and phase 3 on fine-tuning competition and innovation policies. Overlaps will exist, but clarity in phases helps manage resources.

- ### Institutional coordination mechanisms

  As noted, Ukraine needs strong coordination given many actors. The analysis found instances of poor coordination (e.g., a progressive law stuck because one agency didn't issue enabling regulations on time). Solutions include formal mechanisms (inter-ministerial committees) and informal ones (regular donor-government roundtables). The success of coordination often depends on leadership – a champion who pushes the agenda. During war, the Prime Minister's Office took a leading role in economic decisions; going forward, empowering the Ministry of Economy as a reform coordinator (with the PM's backing) could drive the business environment agenda. Another tactic: **embedding donor advisors** in key agencies to support and coordinate (Ukraine has had USAID or EU advisors in ministries, which helped harmonise donor programs with government priorities). Expanding such collaborations ensures everyone is rowing in the same direction.

- ### Regional Coordination

  Decentralisation means regional and local authorities can be engines or obstacles for the business environment. A factory project might need local permits; an SME might rely on a city council for a small grant or a connection to utilities. Therefore, vertical coordination – between central reforms and local implementation – is vital. The central government should communicate clearly to local governments about new reforms (for example, when the central level abolished certain permits, it had to ensure local officials actually stop asking for them). Creating a network of reform implementers at the regional level (perhaps leveraging the existing regional development agencies) can help monitor and support uniform application of national reforms.

The analysis **reveals a mixed picture**: Ukraine's business environment has come far, and war, ironically, has in some ways catalysed innovation and forced inefficiencies out. Yet, foundational issues like corruption, legal uncertainty, and infrastructure gaps persist and are even more urgent to fix to enable recovery. By viewing these challenges through a market system prism, we recognise the interconnected nature of reforms – regulatory, institutional, and support functions must advance in concert. Encouragingly, both the government and donors appear to understand these linkages: strategies and programs in place (SME Strategy, international aid packages) are multi-faceted. The findings here will inform the final section's targeted policy recommendations, ensuring they are **grounded in evidence and aligned with the systemic approach** needed for Ukraine at this pivotal time.

V. Policy Implications and Recommendations

Building on the context, current state, and analysis above, this section outlines **practical recommendations** for policymakers, donors, and development partners to jointly strengthen Ukraine's business environment using a Market Systems Development approach.

The recommendations are organized into thematic groups, reflecting the focus areas identified: regulatory and legal reforms, institutional and governance improvements, integration of MSD methods, and coordination/engagement roadmap. Each recommendation aims to be **actionable** and adapted to Ukraine's realities, balancing immediate post-war needs with long-term competitiveness and EU accession goals.

A Strengthen Rule of Law and fair competition foundations

1 Accelerate judicial and anti-corruption reforms

Recognizing that **trust in courts and rule enforcers underpins all business activity**, Ukraine must treat judicial reform as economic reform. This entails fully empowering the reformed High Council of Justice and Ethics Council to vet and appoint judges of integrity, especially in commercial courts. International partners are offering support – leverage that to provide technical assistance and monitoring. In parallel, continue bolstering NABU and the Anti-Corruption Prosecutor's independence. The **expected payoff** is higher investor confidence and a noticeable drop in complaints by businesses about raiding or extortion. Ukraine's position in contract enforcement rankings or surveys of investor perception should improve within a few years of these measures.

2 Ensure consistent and transparent enforcement of competition rules

The Antimonopoly Committee (AMCU) should receive further capacity building to use its new powers effectively. The government should guarantee the AMCU's operational independence (e.g., protected budget and no political interference in case decisions). Launch a comprehensive review of highly concentrated markets – such as fuel distribution, telecom, agriculture processing – and have AMCU propose pro-competition measures (could be breaking regulatory barriers to entry or reviewing past mergers). Also, fully implement the state aid monitoring system: train local authorities and ministries that any subsidy or incentive to specific firms must be notified to AMCU under the new criteria. This prevents favouritism (for example, any post-war tax breaks for selected industries should pass a competition test). The **implication** is a more level playing field, which is crucial for SMEs to compete with big players on merit. Over time, fewer complaints from businesses about unfair advantages and a more diverse market structure (e.g., measure SME share in various markets rising).

3 Stabilise tax and regulatory policy – avoid ad hoc changes

While flexibility during war was needed, going forward the government should commit to **policy predictability**. This can be achieved by announcing significant tax or regulatory changes well in advance and engaging businesses in consultation. Follow the EBRD's advice: focus on broadening the tax base and improving compliance rather than new incentives. One recommendation is to refrain from introducing any new special regimes that distort competition (like the 2% tax did) – instead, integrate support into general regimes (e.g., offer tax credits for all SMEs investing in reconstruction or green technology, rather than a separate cheap tax for a few). A stable tax environment will encourage reinvestment of profits and medium-term planning by firms, critical for recovery. Increase in domestic private investment can be an indicator of improved confidence in policy stability.

4 Institutionalise risk-based, business-friendly inspections

Make permanent the shift from punitive inspections to risk-based and advisory modes. For example, **expand the 2022 fire safety insurance model** (where low-risk firms face inspections only rarely) to other areas like labour safety or environmental inspections. Provide inspectors with training to act as advisors first – helping businesses comply – and enforcers only when necessary. Digitalize inspection checklists and results (Ukraine has an Inspection Portal – ensure it's updated and all agencies use it). By reducing random inspector visits and focusing on real risks, Ukraine cuts corruption and compliance costs. Donors can aid by sharing EU/OECD inspection best practices (many CEE countries underwent similar transitions). Track the **inspection burden**, e.g., average number of inspections per company per year, aiming to keep it low and targeted. Also track reduction in bribes reported in inspections via surveys.

B Enhance supporting systems for businesses

1 Expand access to finance through market-based solutions

Transition from purely state-funded concessional loans to mechanisms that engage banks and investors. Scale up the **Partial Credit Guarantee Fund** for SMEs (not just farmers) to encourage banks to lend to war-affected businesses by mitigating risk. Encourage competition in banking: potentially attract foreign banks or non-bank financial institutions (like fintech lenders) by streamlining licensing. On the capital markets front, work with the National Bank and securities regulator to create vehicles for investment into SMEs – e.g., a Reconstruction Equity Fund (with public and private money) that provides patient capital to promising firms. Donors like IFC and EBRD can co-invest or guarantee portions of such funds. The point is to **catalyse private financing**: each donor euro should leverage several private euros.

Continue interest subsidy programs (5-7-9) in the short term, but condition them on banks increasing their own SME portfolios. Also, integrate more SMEs into supply chain finance: large firms or government contracts could be used to guarantee payments (reverse factoring), improving SME liquidity. As the result Ukraine will see growth in SME lending volume and number of SME borrowers, as reported by the central bank, as well as diversification of funding sources (not just state program but also bank loans, leasing, etc.).

2 Boost business support services and information platforms

Institutionalise and expand the **Diia.Business network** of support centres. Aim to have a physical or mobile business support presence in every region, particularly covering heavily war-affected regions (east and south) as they recover. These centres should offer training, legal advice on regulations, export consulting and mentorship matching. The state can fund core operations, but partner with RDAs, chambers of commerce, universities or NGOs to deliver specialised services. Online, keep enriching the Diia.Business portal: for example, add an AI-powered Q&A chatbot for regulatory queries, and maintain updated directories of donor grants, financing opportunities, and B2B platforms. Considering the importance of exports now, enhance Export Helpdesk integrated with Diia.Business that walks companies through requirements for EU and other key markets and connects them to trade promotion events. Utilization of these services – target an increase in users/visitors by X% each quarter, and collect feedback showing levels of satisfaction. Ultimately, the success is when even micro-entrepreneurs in small towns know where to turn for help in growing their business.

3 Invest in quality infrastructure for standards and certification

With EU accession on the horizon, prioritise funding (from state budget and donors) to upgrade laboratories, testing facilities, and certification bodies so that they can be internationally accredited. This might include rebuilding facilities destroyed in the war (for example, if a regional standards lab was in a warzone, re-establish it in a safe area). Encourage **public-private partnerships in standards**: for instance, an association of food exporters could co-finance a modern food safety lab in collaboration with the state, ensuring faster certification for its members. Continue aligning legislation with EU “New Approach” directives and once ready, push for signing the ACAA to open markets fully. Also implement EU-style market surveillance – meaning, ensure that unsafe or non-compliant products are tracked and removed from the market efficiently (the law on market surveillance is a base; ensure agencies apply it as per EU best practice). The benefit is two-fold: Ukrainian consumers get safer, higher-quality products, and businesses face fair competition (no undercutting by low-quality goods) and easier export processes. By 2027, aim for Ukraine to sign the ACAA in at least one sector (like machinery or electronics), which will indicate the quality infrastructure meets EU standards. Also track reduction in export rejections due to quality issues.

4 Resolve logistics bottlenecks and support infrastructure

Work with the EU to make **Solidarity Lanes** permanent and more efficient – streamline customs arrangements and increase cargo handling capacity at key border points. Domestically, implement a “single window” in logistics where businesses can handle all paperwork (customs, sanitary, etc.) through one system (progress was made pre-war, needs full execution). Prioritise reconstruction of trade-critical infrastructure (rail corridors to EU, bridges on highways, port alternative facilities on Danube) in national recovery planning, and ensure tenders for these are open and competitive to get the best value. Encourage private sector logistics solutions, e.g., let private terminals operate at rail transshipment points or allow more competition in rail cargo services (even within current constraints, can outsource certain operations). Additionally, **develop regional logistics hubs** in western Ukraine that have warehousing, certification labs (so goods can be consolidated and checked before crossing into the EU). This will turn a wartime adaptation into a long-term trade advantage. This will result into reduction in average time and cost to export/import a container, as measured by surveys or World Bank logistics index. Also, increasing volumes exported via new routes (target: not fully reliant on Black Sea – maintain diversified routes which can also serve new markets).

5 Address energy and infrastructure reliability for businesses

Continue emergency support to ensure businesses have power (subsidies for generators, diesel, etc.), but concurrently invest in resilient infrastructure: distributed energy (solar, storage, etc.) for industrial parks, modernized grids with better air defense protection, etc. The business environment suffers if basic utilities are unreliable, so reconstruction funds should give priority to power, heating, and telecom systems in industrial areas. Update regulatory incentives for businesses to adopt renewables or energy efficiency (resurrect and update the pre-war energy efficiency loan programs). The government should also work on war-risk insurance or guarantee schemes for infrastructure projects, possibly with international backing, so that private investors will be willing to invest in e.g. renewable energy farms or logistics facilities even before the war fully ends. Consequently, there will be fewer reports of power outages affecting production. Monitor uptake of renewable energy by businesses (e.g., MW of rooftop solar installed by factories, which could be tracked via permits or surveys).

C Integrating MSD principles in policy and programs

1 Implement participatory market analysis for key sectors

Choose several **priority sectors for recovery** (for example: agriculture/food processing, IT/tech, manufacturing machinery and construction materials) and conduct deep-dive **Market Systems Analyses** for each, with donor support. These analyses would map out all the actors, rules and support functions in the sector, identifying specific constraints and opportunities. Crucially, involve private sector reps from that value chain, and local academia or experts, in the analysis team. The result will be sector-specific reform agendas or action plans. For instance, a market analysis of the **construction sector** might highlight the need to reform building code enforcement and expand vocational training in trades – combining regulatory and support interventions. For agriculture, it might point to logistics (silos, cold storage) and standards as key. The government can then prioritize reforms/investments that address those systemic issues, rather than guess in the dark. This also aligns with EU's smart specialisation concept, tailoring interventions to each sector's needs (which ties into Policy Brief #6 on regional policy).

2 Adopt "Facilitation" approach in donor-Government projects

Encourage donors and ministries to design projects where the role of the project is to **catalyse local actors** rather than do it all. For example, if the goal is to improve SME skills, instead of the donor directly training 5,000 people, the project might work with local training centres and subsidise them to develop new curricula and outreach, thereby building local market capacity for training (as Helvetas has done by strengthening vocational schools' capacity). Similarly, in improving supply chains, an MSD-style project might convene suppliers and buyers to agree on standards or co-finance pilot improvements (like introducing a digital marketplace) that, if successful, the private sector continues on its own. Government should be open to such innovative approaches and provide support, such as data sharing or policy adjustments, to complement these pilots. This recommendation implies a mindset shift: measure success not just by immediate outputs (e.g., number of firms directly helped) but by systemic change (firms helped indirectly, markets functioning better). As the result, more projects in Ukraine will explicitly reference **systemic change** indicators – e.g., crowding-in of private investment, replication of pilot models by market actors.

3 Empower Public-Private Dialogue (PPD) platforms

Establish or strengthen formal platforms for ongoing dialogue between government and the business community at national and regional levels. At the national level, something like a **Competitiveness Council** could be formed, with representatives from key ministries, business associations (covering large and small businesses), and independent experts.

This council would meet regularly to review progress on the business environment reform agenda, discuss new draft laws (allowing business input **before** laws are finalised), and address grievances. Regionally, each Oblast could have an economic development forum or council integrating local businesses and authorities to surface region-specific issues (like if one oblast has a bottleneck in obtaining electricity connections, that can be reported upward). Development partners can assist by facilitating these dialogues, ensuring they are inclusive (MSMEs, women-led businesses, etc., get a voice, not just big corporates) and by providing technical evidence to inform discussions.

4 Monitor and adapt using data and feedback

Create a robust **monitoring framework for the business environment** that pulls from multiple sources: official stats, surveys (such as a quarterly business barometer), and administrative data (e.g., how many days to get a permit, how many firms using Diia, etc.). Use this to evaluate which reforms are working and which aren't. For example, if a new licensing law was supposed to cut approval time to 10 days, data should show if that's happening; if not, find out why (maybe local offices are slow) and fix it. Embrace adaptive management in government programs: the Ministry of Economy's project management office can be tasked with regularly reviewing KPIs of the SME Strategy implementation and adjusting actions. Donors, on their side, should share their monitoring insights with the government to provide a fuller picture. A live dashboard on key metrics of competitiveness (like a localised ease of doing business index updated annually, or a war recovery index per region) could be developed and published to maintain momentum and transparency.

D Roadmap for Donor–Government engagement and coordination

1 Align donor programs with National Strategies and vice versa

Ukraine has developed strategies (National Economic Strategy 2030, SME Strategy 2027, sectoral and territorial development strategies) – donors should ensure their projects explicitly advance these goals, and if a strategy is missing an area donors find important (e.g., perhaps nothing on start-up ecosystem), they can help fill that gap by advising on strategy updates. Concretely, for example, if the SME Strategy calls for digitalizing 100% of SME regulatory services by 2027, donors providing IT assistance should prioritize those services. Or if the strategy aims to increase SME exports, donor trade facilitation projects should coordinate with government's export promotion agency to amplify impact. The government, on the other hand, should be open to revising strategies based on donor and expert input, especially post-war realities (some pre-war plans may be obsolete).

Essentially a two-way alignment. Use instruments like **Memorandums of Understanding (MoUs)** between government and donor agencies to formalise cooperation areas.

2 Focus on capacity building within Government for reform implementation

Many great reform ideas fade due to weak implementation capacity. Donors should invest in **people and systems** inside Ukrainian institutions – even as salaries and budgets are tight due to war. This can mean extending programs like the Reform Support Teams (RSTs) that embedded skilled professionals in ministries. Work on knowledge transfer: every technical assistance project should have clear counterparts in government who are learning by doing. If a donor hires consultants to draft a law, ensure ministry staff co-draft to learn the ropes. The payoff is sustainability: reforms will keep going when external support ends. Count how many civil servants/ministry staff receive training or are part of joint implementation teams, and track retention (ensuring they stay in the public sector driving reforms). A long-term indicator: Ukraine being able to manage more of these reforms in-house without heavy external consultancy – essentially "graduating" from needing donor hand-holding on certain tasks.

3 Maintain flexibility to respond to evolving needs

The war's trajectory and economic situation can change rapidly (e.g., a major security improvement or conversely a new shock). Donor engagement must be flexible – quick to ramp up support or reallocate resources where needed. One recommendation is to create **contingency funding pools** that can be deployed for urgent business support (for instance, if energy infrastructure is hit, an emergency fund to help SMEs get generators quickly). The government should integrate such flexibility by having simplified procedures to accept and utilize donor assistance swiftly (perhaps expanding the functionality of the government's Aid Coordination system). Conversely, if the private sector rebounds faster than expected in some areas, donors should shift from relief to growth-oriented programs accordingly. Continuous joint assessments (quarterly donor-government situational analysis) can inform these adjustments. Good metric for this is the speed of response – e.g., measure the time from problem identification (say a critical need for grain storage because of port issues) to donor/government solution mobilisation (funding silos or credit lines to farmers). Faster response times indicate a nimble, well-coordinated partnership.

Adopting these recommendations will signal that Ukraine and its partners are serious about transforming the country into a modern, competitive economy. There are significant implications:

- For **policymakers in Ukraine**, it means committing to reforms that might be politically tough (like judicial cleanup or removing special favours) but yield broad benefits. It also means coordinating more and breaking silos between ministries.

- For **donors and development partners**, it implies a shift towards more collaborative, Ukrainian-led initiatives, focusing on sustainability and systemic impact rather than short-run outputs. It also calls for patience and persistence: systemic change can be slower, but also more lasting.

- For **businesses and investors**, if these recommendations are implemented, they should experience a gradual but steady improvement in their operating environment: fewer bureaucratic delays, more access to resources, and greater confidence to invest in growth. Over time, we'd expect to see higher rates of new business formation, expansion of existing firms, and attraction of foreign direct investment into sectors beyond traditional commodities (like more manufacturing or services FDI).

- For **Ukraine's EU integration**, these steps will directly contribute to meeting accession criteria related to the economy. They will make Ukraine's adoption of the EU acquis meaningful in practice, not just on paper, thereby smoothing the path to membership and successful integration thereafter.

The recommendations chart a **roadmap for action** that, if pursued with determination and coordination, will help Ukraine convert its current trials into an opportunity – to rebuild not just what was lost, but to build back a better, more dynamic, and inclusive economy. As the nation fights for its freedom and future, creating an enabling environment for businesses is fighting for the livelihoods and prosperity of its people. The **Market Systems Development approach ensures that this fight is won not by one-off victories, but by lasting systemic change** that will underpin Ukraine's competitiveness for decades to come.

https://www.helvetas.org/en/eastern-europe/ukraine

ukraine@helvetas.org

Enabling Business Environment for Enhancing Ukraine’s Competitiveness: A Market Systems Development Approach