

# **Cost of Doing Business Survey Ukraine, 2002**

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## 1. Executive Summary

Cost of Doing Business survey (CODB) is comprehensive survey mechanism aimed at measuring and monitoring business environment qualities in relation to the costs and burden associated with state regulations. There is a number of CODB surveys conducted in Ukraine and in the region during last 5 years. Data from these surveys is used in current report for comparative purposes. Based on repeated surveys and focus groups, one can make the following evaluation of the quality and dynamics of Ukrainian business environment.

- The greatest problems that businesses face in Ukraine do not relate to the substance of specific Laws. These are the issues related to the implementation and enforcement of laws, especially the widely believed practice of selective law enforcement. In addition to this, Ukrainian businesses face a significant problem with corruption. This problem, however, only partly relates to the so-called petty corruption or the practice of bribe payments. Much greater problem is quite elusive problem of grand corruption (frequently referred as state capture).
- The practice of selective law enforcement became a greater problem in recent years. At the same time, situation with petty corruption and the substance of regulations, as well as time spent to deal with regulations somewhat improved. Respondents reported that in 2003 in order to meet all regulatory requirements, the management of enterprises (director, deputy director, and chief accountant) spent on average **15.3%** of their time. This is a significant improvement over **31.7%** spent in 1999.
- Similarly, respondents reported overall decrease in overall regulatory costs from **\$3,222.2** in 1999 to **\$2,248.0** in 2002. Larger companies bear greater regulatory costs in Ukraine. It is necessary to stress, however, that on both time and costs indicators in Ukraine there is quite a significant regional differences.
- Time, costs and administrative corruption levels, showed different dynamics in regulatory areas of registrations and permits (see Picture 1).

Regulatory areas	Time, days		Costs, \$		Administrative corruption	
	2002	1999	2002	1999	2002	1999
<b>Overall improvements</b>						
Construction permits	14.3	39.3	437.1	668.0	22.8%	25.0%
Certification	2.3	15.3	313.0	1,212.0	12.5%	18.8%
Certification for import	1.8	8.2	346.0	1,756.0	16.1%	32.4%
<b>Mixed results</b>						
Registration	34.9	26.4	64.3	158.0	3.6%	12.0%
Exploitation permits	6.8	20.2	488.0	390.0	20.5%	21.3%
Licensing	69.3	21.0	252.3	236,8	18.6%	19.0%

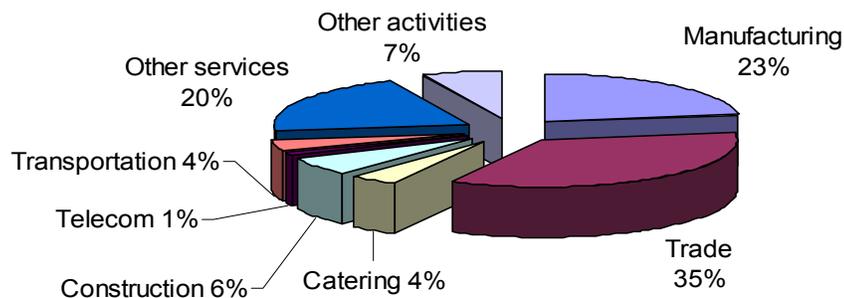
- Overall import regime in Ukraine during the last 3 years became worse, especially in the area of custom clearance. Importing companies paid on average **\$7,438.5** per year in 2002 to comply with all customs procedures. This represents increase from **\$5,461.6** reported in 1999. It is important to note however that these numbers do not include customs duties and reflect only regulatory costs. In 2002, an average time spent on complying with customs procedures for one import transaction was **5.33 days**. In 1999 this time was **2.6 days**. The number of companies that said that they had to register their contracts in 2002 (**46.5%**) is almost exactly the same as in 1999 (**45.9%**). Although, the official costs of such registration significantly increased from **\$53** in 1999 to **\$243.8** in 2002. This procedure also featured one of the highest petty corruption level (**26.5%** of reported unofficial payments).
- As with import, overall export regime in Ukraine during the last 3 years also became worse. Exporting companies paid on average **\$11,035.6** per year in 2002 to comply with all customs procedures (mostly in various penalties). This represents significant increase from **\$3,100** reported in 1999. These numbers do not include customs duties and reflect only regulatory costs. In 2002, an average time spent on complying with customs procedures for one export transaction was **4.3 days**. In 1999 this time was **2.6 days**. The number of companies that said that they had to register their export contracts in 2002 (**56.6%**) is significantly higher than in 1999 (**36.8%**). The official costs of such registration significantly increased from **\$54.2** in 1999 to **\$323.4** in 2002. This procedure also featured quite high petty corruption level (**18.5%** of reported unofficial payments) and very high average unofficial payments (**\$1,214.3**). Similarly as with import operations, respondents clearly noted that the greatest problem they face in exporting goods relates to **unpredictability of enforcement of customs regulations**.
- Through inspections government agencies enforce laws and regulations. Inspection coverage (% of companies that declared at least one inspection) and their frequency as well as duration and expenses businesses pay as punitive measures are some of the most important indicators of business environment. Data on inspections shows marginal improvements in comparison with 1999. Number of inspections per one enterprise is steadily declining in Ukraine. In 2002 an average company pay host to **14.8** inspections. This is, however, only slightly less than **15.7%** in 1999 and significantly less than **22.4** in 1998 and **30.1** in 1997. This slight decrease was mostly due to the Tax Administration decrease from 5.1 to 4.4 times and possibly due to the slight decrease in the coverage of inspections (although there is no reliable data on coverage by agency from 1999). Average duration of inspections did not change over the last three years and for most agencies shows striking stability. In 2002 Ukrainian businesses paid on average **\$1,177.8** in overall inspection costs. These include fines, seized goods, unofficial payments. This represents a very slight decrease from **\$1,393** paid in 1999.

- In 2002 businesses reported paying on average **7.4 different taxes**. In 1999 this number was **10**. In order to ensure correct and timely payment of taxes and accounting, majority of businesses in 2002 (**68.4%**) have full time accountants. The average number of these accountants is **3**. The rest companies either hire part-time help or managers do accounting by themselves. In 1999 **86.3%** of surveyed businesses reported to employ accountants on the full time basis.
- Generally, among the regulations that hinder business development in Ukraine, regulation of prices is not considered to be major obstacle. In 2002 **27.6%** of surveyed businesses experienced regulation of their prices. This is similar, although slightly lower then 1999 data (**30.2%**). Businesses in most cases reported that their goods or services are subjects of fixed prices (8.7%) or price ceilings (8.3%).
- In 2002, **24%** of respondents declared that their contracts are monitored by government agencies. This is significantly lower then **39.4%** reported in 1999. As a result of trying to comply with official instructions or because of the activities of authorities, **7.5%** of respondents could not fulfill their contracts in 2002 which is lower then **12.3%** reported in 1999.

## 2. Methodology and Surveyed Enterprises

The sample comprised 1960 businesses in all 25 oblast centers of Ukraine and Sevastopol. In each of these cities between 47 and 134 businesses were polled depending on the number of active businesses in each of these cities. The survey sample is representative of the legal forms assumed by Ukrainian businesses, their geographic distribution and size. The sample is based on the statistical information furnished by the State Tax Administration. The survey was conducted among all types of enterprises, except agricultural producers and banks. The majority of surveyed enterprises work in the field of trade (see Picture 1).

**Picture 1 Surveyed businesses by major type of activity**



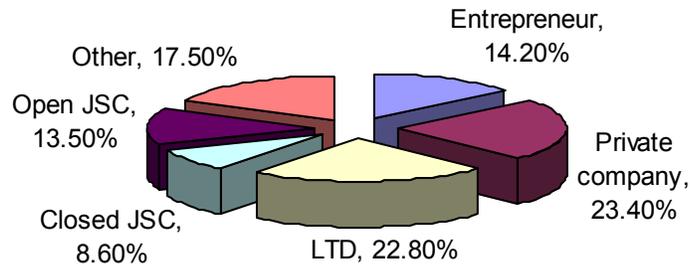
Majority of surveyed companies are Ukrainian private enterprises. Only 6.3% of companies are fully state owned and 14% of surveyed companies are owned by foreign entities (see Table 1).

**Table 4 Share of property owned by state and foreign entities, in %**

	0%	1-24%	25-50%	51-99%	100%
State	72.2	2.9	2.6	1.8	6.3
Foreign entities	67.4	1.1	1.4	1.6	14.0

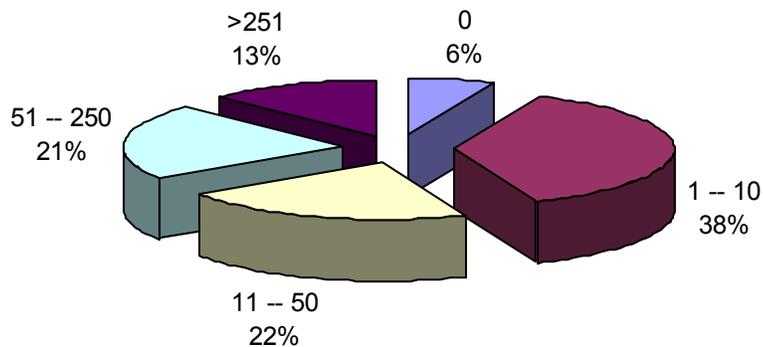
By legal form of organization, the majority of surveyed businesses are private enterprises (23.4%) and limited liability companies (22.8%) (see Picture 2).

**Picture 2 Surveyed businesses by legal form**



Finally, the largest part of surveyed companies are SMEs. Only 13% are large companies (see Picture 3).

**Picture 3 Surveyed businesses by size (number of employees)**



The survey was conducted in December of 2002 by using face to face interviews with company managers or owners by trained interviewers. The survey was conducted with the assistance of the Institute of Reforms. The questionnaire used in the survey is presented in Appendix 1. All data processing was conducted in SPSS.

In addition to the quantitative survey, a focus group was conducted with 17 company owners and managers in November of 2002.

Selection of the focus group participants was not random. Organizers attempted to invite representatives of functioning small and medium private enterprises in the number of the most important sectors of Ukrainian economy such as food processing, construction, other manufacturing, and trade. Invitation to participate in the focus group was sent to 25 businesses.

Meeting of the Focus Group was held on the premises of BIZPRO Regulatory Reform Program. Focus group was conducted in Ukrainian language with no interpretation by one moderator. Focus Group consisted of two parts. During the first, formal part it was conducted as a structured discussion in accordance with pre-designed template. The second, less formal part was unstructured discussion of the possible causes for current state of business environment in Ukraine.

During the formal part moderator read every question. Group participants received copies of the three tables used in the Focus Group, first – the list of types and methods of regulations; second – the list of possible negative aspects of business environment; and third – the list of regulatory and law enforcement agencies (see Appendix 2). On each question a short discussion was held. After this discussion, moderator summarized and declared finding to be entered into the template to the Group. Finding was entered if there were no objections from participants.

All Focus Group participants were informed about the goals and the method of this study. Special attention was given to the definition of business environment for the purposes of this study. The following definition was used: a set of rules and regulations, as well as their enforcement that companies are subjected to from National, Regional, or Municipal levels of authority. The rate of taxation and customs fees were excluded from the definition.

## **2.1. Definition of Terms used in the Report**

**Official fees** – are fees paid to the budget and prescribed by corresponding legal acts. These also include fines.

**“Voluntary contributions”** – payments made by businesses in currency or goods and services to various funds or for subscription of periodicals. These payments are legal, although motivation to make them frequently if not always relates to implicit or explicit suggestions by regulatory agencies to make them.

**Unofficial payments** – are bribes paid in currency to specific officials. Data received on this indicator in most cases is lower than actual instances of unofficial payments. Its utility lies mostly in comparative analysis.

**Expertise fees** – are official fees paid to third parties for independent analysis and expertise. These are most frequently used in the systems of permits and licensing. In some instances independent expertise is prescribed by laws or licensing conditions.

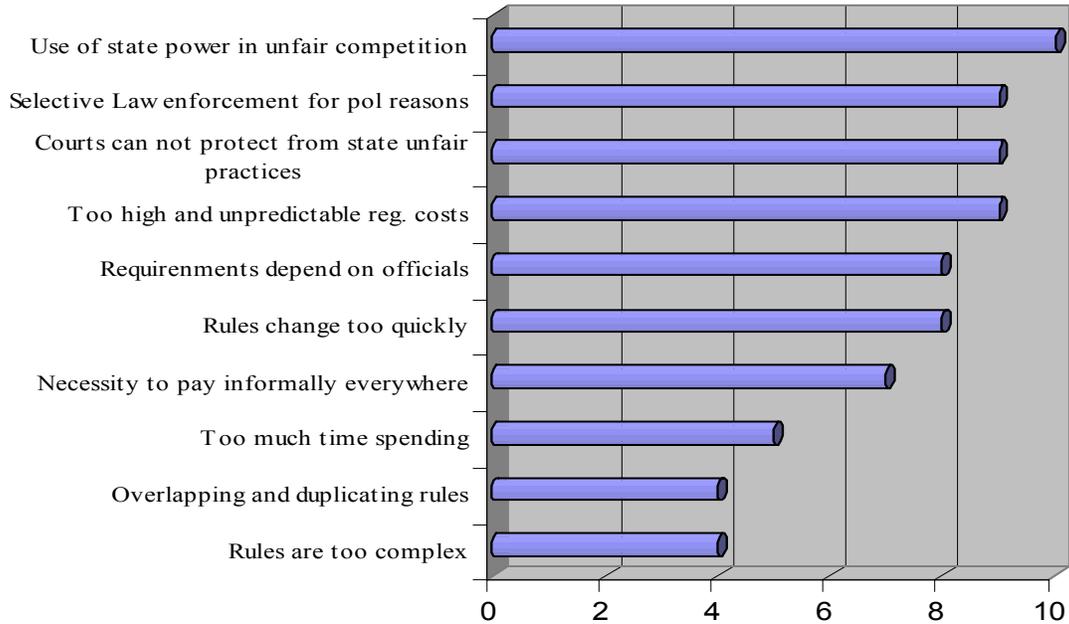
**Payments to Lawyers** – are official voluntary payments to lawyers or intermediaries for legal aid, or facilitation of the process. It is not excluded that some portion of these fees is eventually paid by such intermediaries as unofficial payments to officials.

**Coverage** – is % of companies reporting at least one instance of application of specific regulation per year.

### 3. General Findings

Any business environment can be characterized by a number of possible negative effects on businesses. Focus group participants were asked to evaluate on the 10-point scale the possible negative effects of regulations, their implementation and enforcement on businesses in Ukraine. The focus group came with the following results (see Picture 4).

**Picture 4 Focus group ranking of the negative effects of regulations with 1 – being non-problematic and 10 representing severe problems**

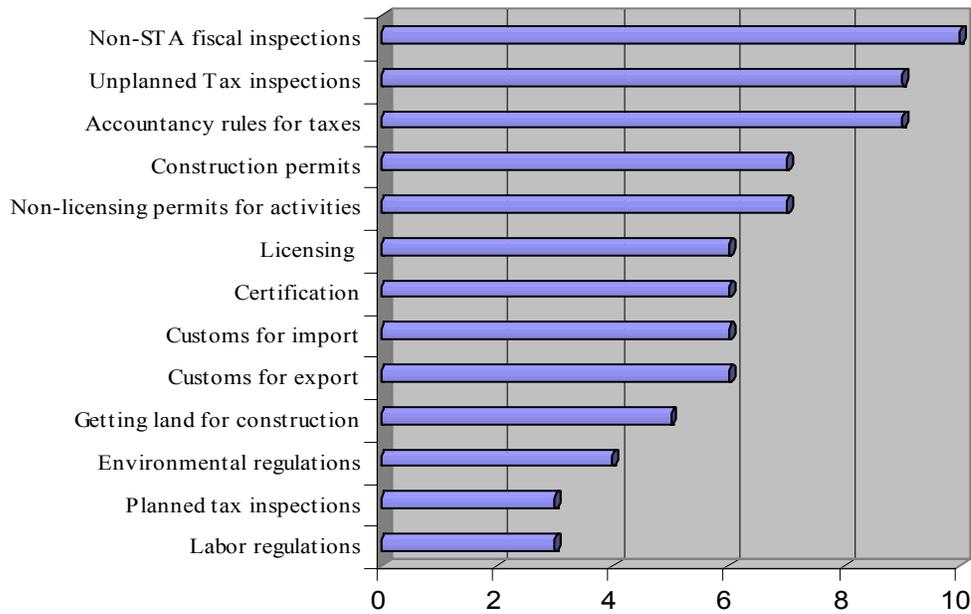


These focus group findings corroborate arguments that the greatest problems that businesses face in Ukraine do not relate to the substance of specific Laws. These are the issues related to the implementation and enforcement of laws, especially the widely believed practice of selective law enforcement. In addition to this, focus group findings clearly indicate that Ukrainian businesses face a significant problem with corruption. This problem, however, only partly relates to the so-called petty corruption or the

practice of bribe payments. Much greater problem for good business environment in Ukraine is quite elusive problem of grand corruption (frequently referred as state capture).

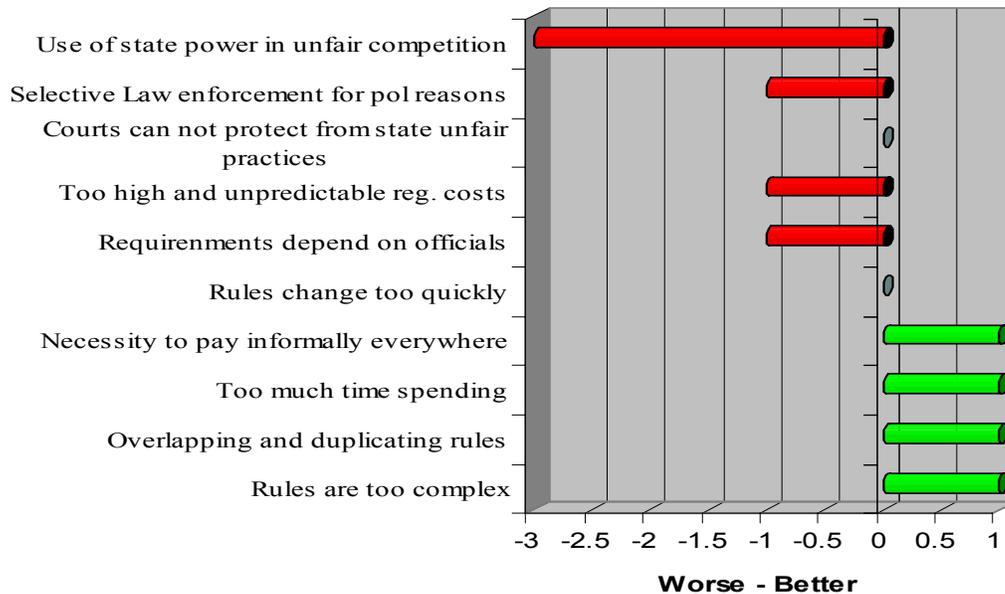
Focus group was consistent with the previous findings when it evaluated various regulatory methods used by state agencies. Unplanned inspections from STA and other agencies received the worse grades (see Picture 5). These regulatory methods are most convenient to be used as punitive measures, and it is most difficult to prove that they are justly and equally applied to businesses.

**Picture 5 Focus group ranking of the types (methods) of regulations with 1 – being non-problematic and 10 representing severe problems**



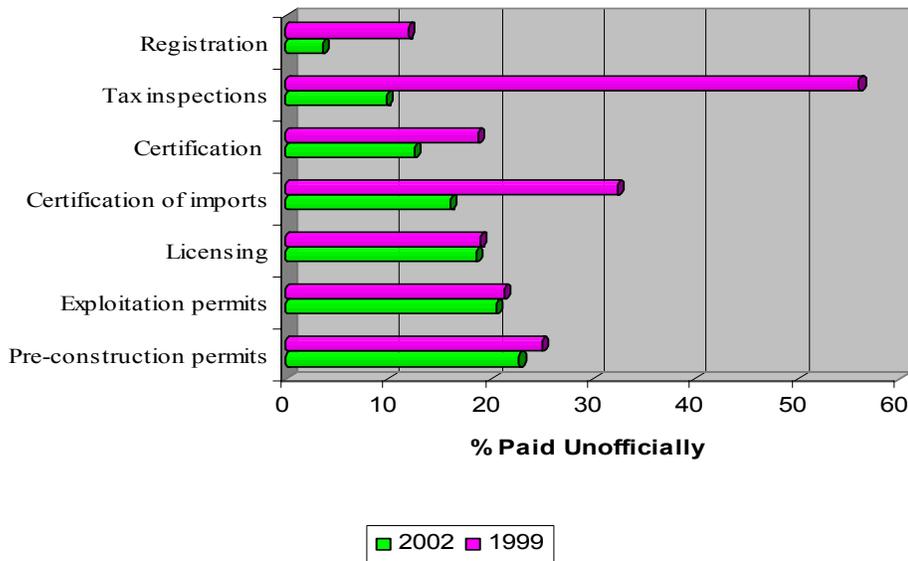
Focus group participants agreed that business environment slightly improved in Ukraine in last three years. This improvement, however, did not occur in all areas or regarding all possible negative effects of regulations (see Picture 6).

**Picture 6 Focus group perception of the dynamics of business environment in relation to the possible negative effects of regulations (-5 to 5 point scale)**

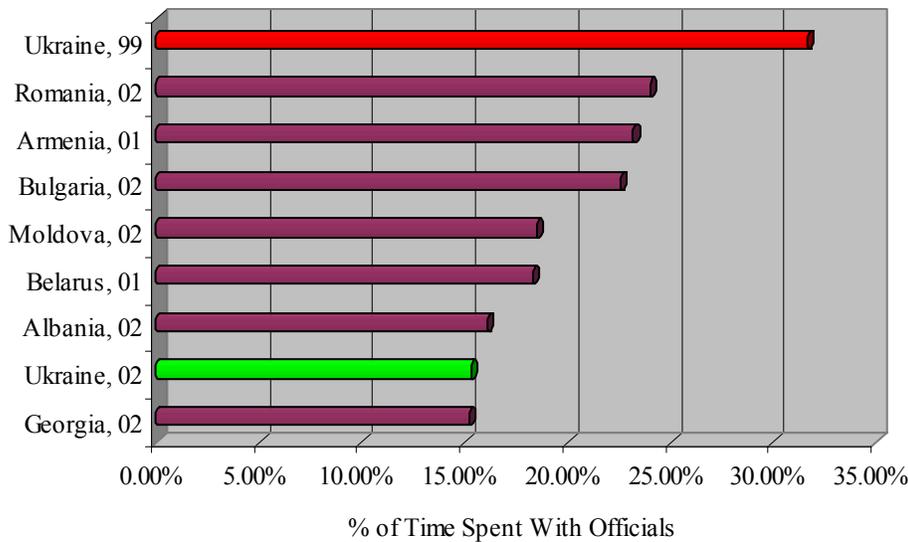


Focus group was unanimous in stating that the practice of selective law enforcement became a greater problem. At the same time, situation with petty corruption and the substance of regulations, as well as time spent to deal with regulations somewhat improved. The former is corroborated by the comparative data from 1999 and 2000 surveys (see Picture 7). The latter is most clearly corroborated by the quantitative survey. Respondents reported that in 2003 in order to meet all regulatory requirements, the management of enterprises (director, deputy director, and chief accountant) spent on average 15.3% of their time. This is a significant improvement over 31.7% spent in 1999. With this indicator of business environment, in three years Ukraine also moved from one of the most difficult countries to one of the easiest in relation to the neighboring countries (see Picture 8).

**Picture 7 Comparison of the % who paid unofficially in 1999 and 2002 by type of regulation**

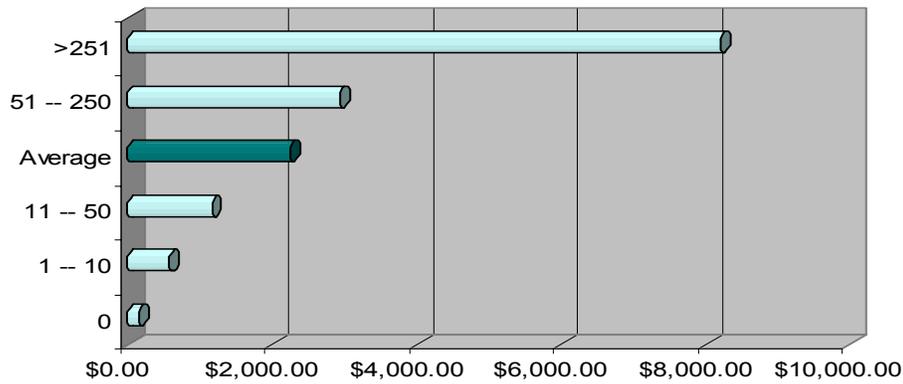


**Picture 8 Cross-country comparison of the % of time spent by management in dealing with officials**

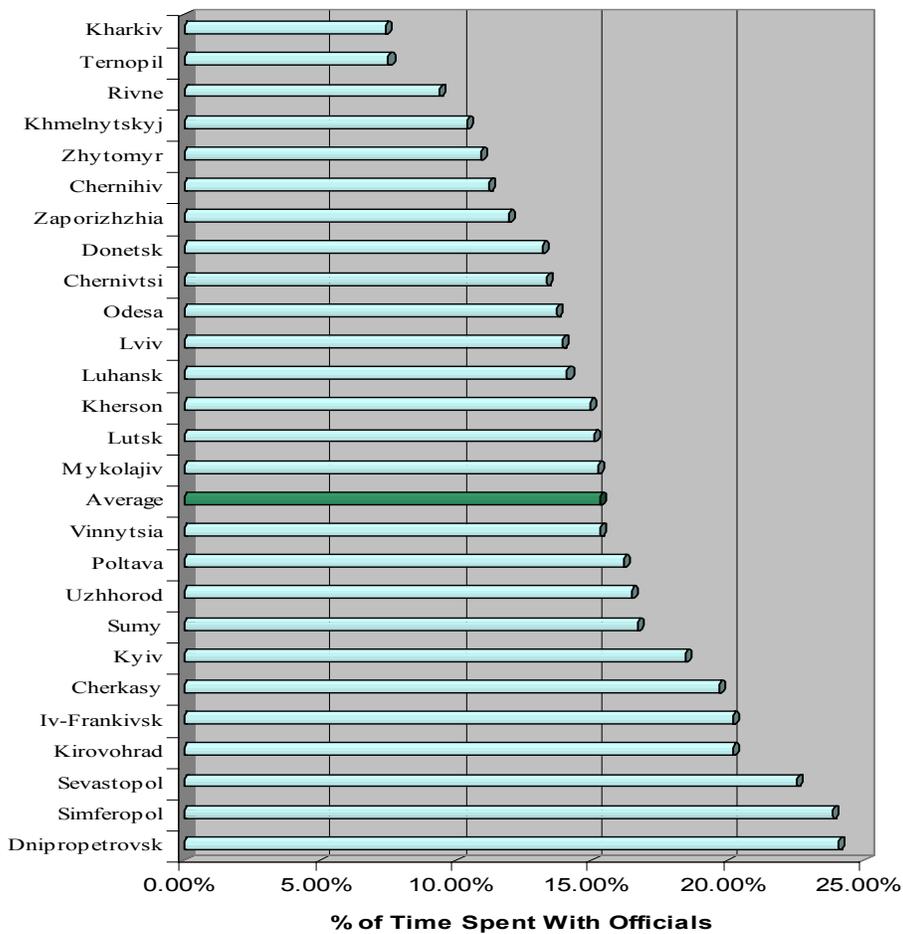


Similarly, respondents reported overall decrease in overall regulatory costs in from **\$3,222.2** in 1999 to **\$2,248.0** in 2002. The overall regulatory costs both in 1999 and 2002 were calculated by adding specific regulatory costs for individual enterprises and calculating their average. Larger companies bear greater regulatory costs in Ukraine (see Picture 9). It is necessary to stress, however, that on both time and costs indicators in Ukraine there is quite a significant regional difference. Pictures 10 and 11 illustrate these regional differences.

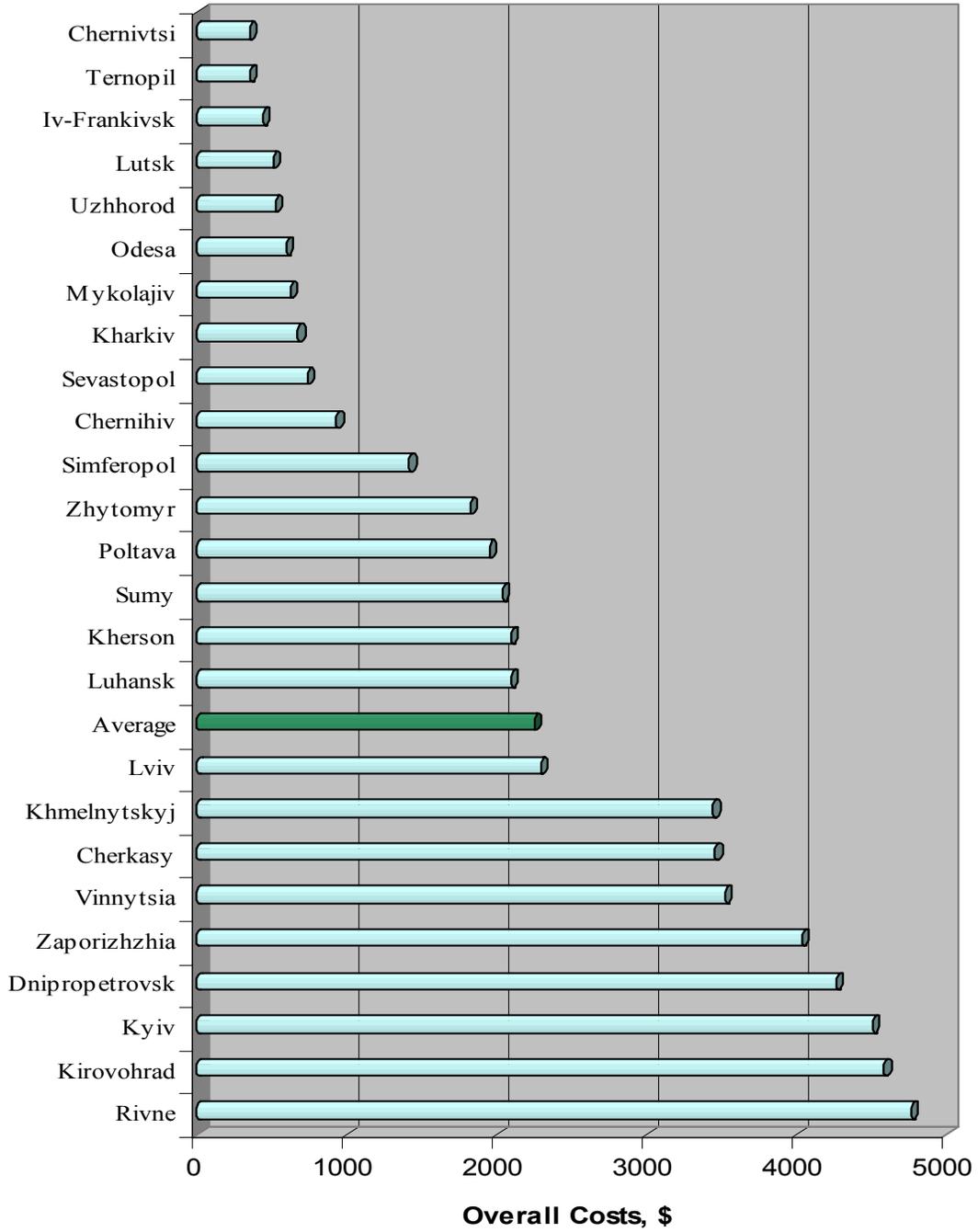
**Picture 9 Regulatory costs by the size of companies (number of employees)**



**Picture 10 % of time spent by management in dealing with officials by region**



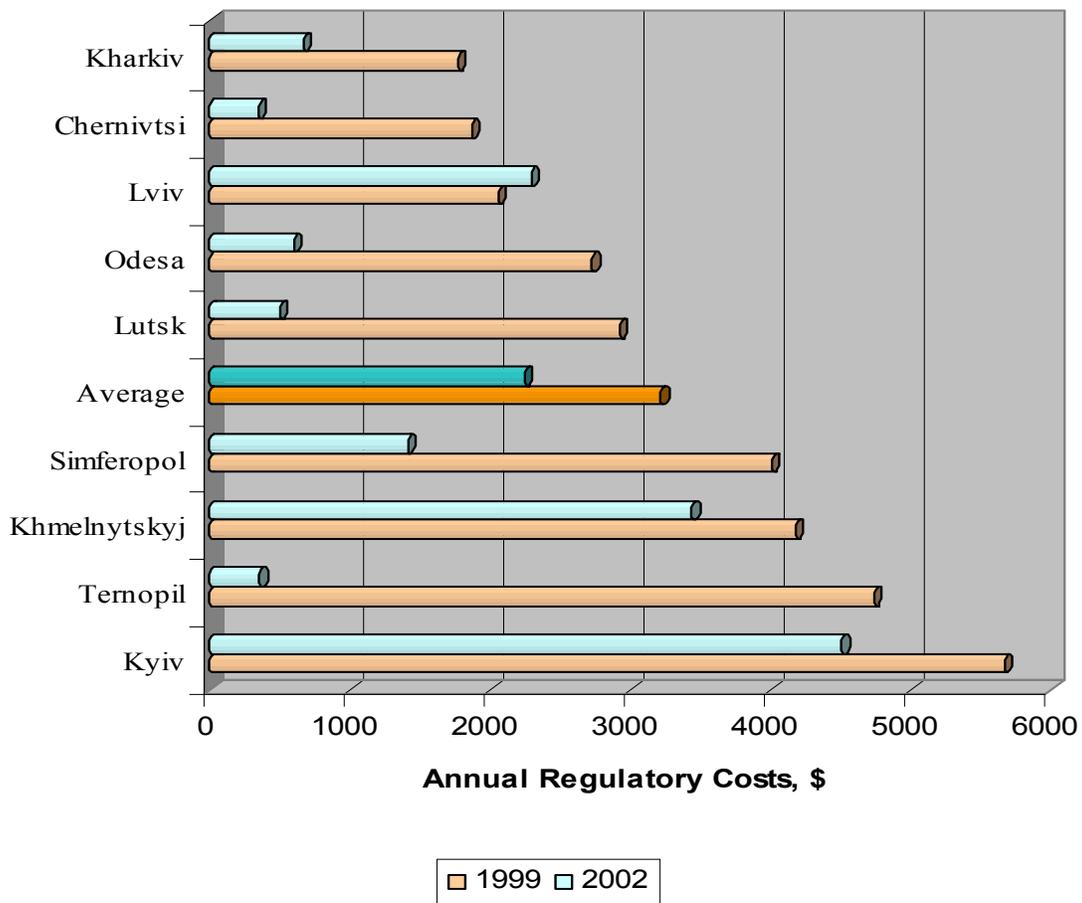
**Picture 11 Regulatory costs by regions**



Based on these findings one can make conclusions that business environment in terms of time and money spent by businesses on fulfilling regulatory requirements is best in Ternopil and Kharkiv, while it is worst in Dnipropetrovsk and Kyiv. It is however necessary to note that there are other factors that influence quality of business environment such as corruption and selective law enforcement that are not captured in these graphs.

In 1999 similar survey was conducted in 9 cities of Ukraine. Comparison of 1999 data with 2002 data provides dynamics of business environment in these cities (see Picture 12).

**Picture 12 Comparison of regulatory costs in 1999 and 2002**



This graph clearly shows that the greatest progress in business environment improvements was done in Ternopil and Lutsk. At the same time, only in Lviv it became more expensive for businesses to operate in 2002. This graph also shows some overtime consistencies which contradict general perceptions. For example, in Kharkiv and Odesa business environment is consistently and significantly cheaper then in Khmelnytskyj and Simferopol.

## 4. Analysis of Findings by the Types of Regulations

### 4.1. Registration Procedures

Before beginning their activity, Ukrainian entrepreneurs must register their businesses, at the same time as establishing them. The procedure for changing form of ownership and organizational form of an enterprise is similar and is called re-registration. There are three components of this process: 1) pre-registration activities that include preparation of all necessary documents and notarizing them, 2) registration at local executive bodies, and 3) post-registration activities that include registration with Tax Administration, Pension and various Social Funds, as well as registration of stamps in the Ministry of Interior.

For the purpose of overall registration Ukrainian businesses increasingly use the services of intermediaries, or companies (mostly law firms) that register their businesses for a service fee. In 2002 such services were used by **29%** of respondents while in 1999 this number was **25.1%**. The service fees that businesses paid to intermediaries in 2002 are **\$148.8** and it took them **18.7 days** to register businesses. This represents slight decrease in costs and almost insignificant increase in time in comparison to 1999 when these numbers were **\$181** and **17 days** respectively. Specific registration data analyzed below does not include respondents that used intermediaries.

On average, Ukrainian businesses that registered during last three years spent **34.9 days** and **\$64.3** for overall registration process. Most time businesses spent on registration itself in Registration Chamber. This is closely followed by the registration of stamps in the Ministry of Interior. It is interesting to note, however that not all businesses undergo all required procedures. Frequently they register only in Registration Chamber, Tax Administration and Pension Fund. Quite significant number of businesses ignores registration with the National Committee on Statistics and to lesser extent in various social funds (see Table 1).

**Table 1 Duration of registration process**

	Registered, %	Time spent, days (2002)	Time spent, days (1999)
Registration Chamber	100.0	10.7	11.6
National Committee on Statistics	75.7	4.1	4.4
Tax Administration	92.6	6.1	4.4
Tax Administration as VAT payer	78.2	5.0	3.6
Ministry of Interior Affairs (stamps)	81.8	8.3	4.8
Pension Fund	92.0	2.1	3.1
Casualty Social Insurance Fund	82.0	2.1	2.2
Unemployment Social Insurance Fund	82.8	1.9	
Temporary Disability Social Insurance Fund	78.3	1.9	
<b>Total time spent</b>		<b>34.9</b>	<b>26.4</b>

In comparison with 1999 only the time needed to register stamps in the Ministry of Interior significantly increased.

Regarding registration costs, the largest sums were paid by businesses to notarize all necessary documents. This was closely followed by payments in Tax administration (see Table 2).

**Table 2 Expenditures by registering agencies, \$**

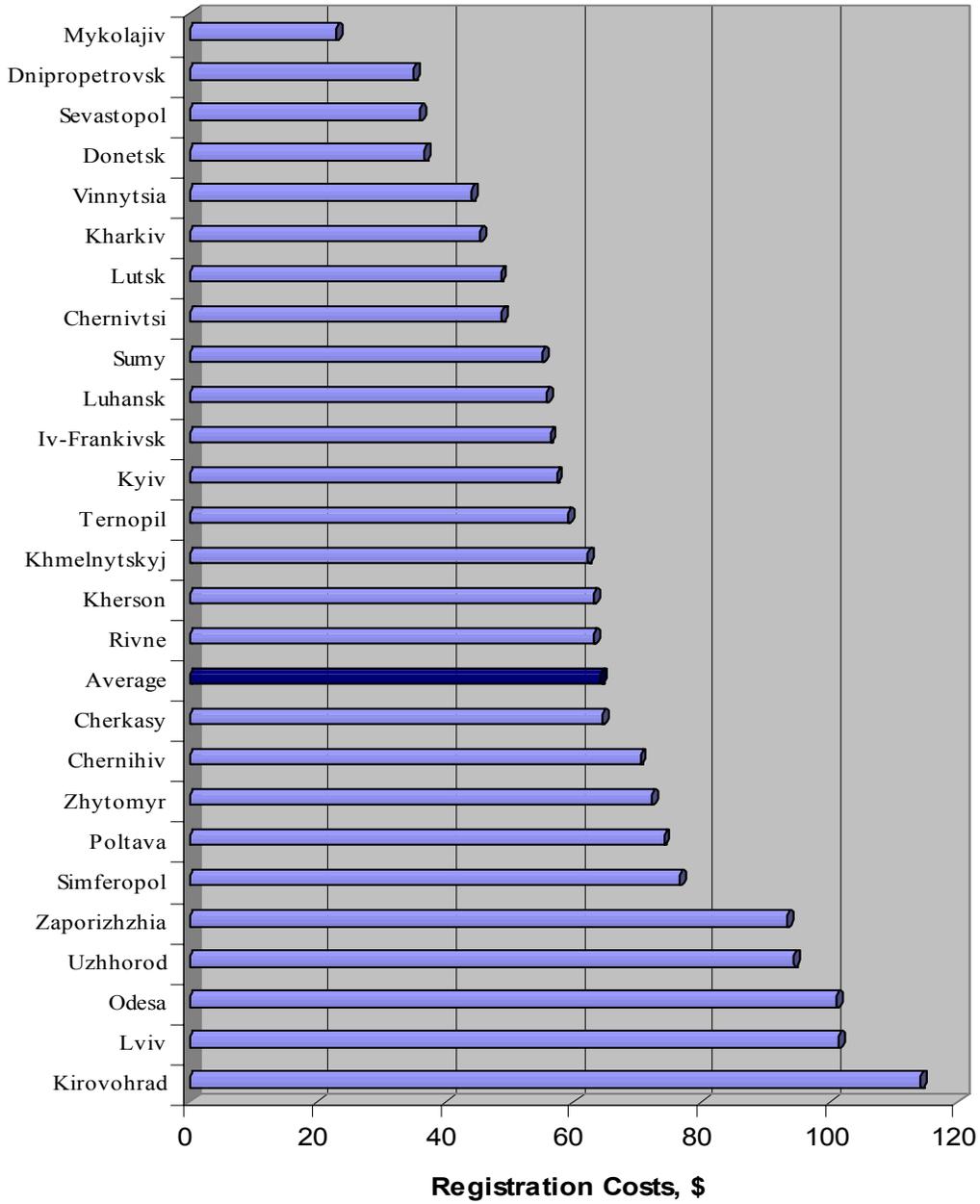
	Official fees		“Voluntary” contributions		Unofficial payments		Total
	%	\$	%	\$	%	\$	\$
Notary costs	97.2	30.8	2.8	-	5.4	31.3	<b>31.1</b>
Registration Chamber	95.8	21.3	5.9	34.7	6.6	37.0	<b>22.3</b>
National Committee on Statistics	91.7	7.5	2.4	-	2.9	7.4	<b>7.8</b>
Tax Administration	77.5	12.5	12.4	216.2	12.9	14.9	<b>26.2</b>
Tax Administration as VAT payee	81.7	9.6	4.2	6.8	2.2	-	<b>9.6</b>
Ministry of Interior (stamps)	97.2	21.5	5.6	-	3.6	8.5	<b>24.0</b>
Pension Fund	54.5	14.5	13.6	-	7.3	2.0	<b>13.6</b>
Casualty Social Insurance Fund	45.6	29.1	18.8	8.5	12.1	5.1	<b>24.5</b>
Unemployment Social Insurance Fund	42.4	16.8	19.0	1.7	8.9	1.0	<b>13.6</b>
Temporary Disability Social Insurance Fund	36.3	11.5	20.0	-	11.4	1.0	<b>10.5</b>
<b>Average</b>		<b>65.5</b>		<b>97.5</b>		<b>33.0</b>	<b>64.3</b>

Pictures 13 and 14 show the costs and time associated with registration procedures by regions. For procedures that are governed in most cases by representative offices of national government agencies in the regions and in other cases when legal requirements for time-frame and fees exist, such regional differences point to significant problems with uniformity of law implementation in Ukraine. The difference in costs associated with registration between the cheapest Mykolajiv and the most expensive Kirovohrad is 5 times (\$22.8 and \$114.3 respectively). Similarly is the difference in time spent for registration between Ternopil and Chernivtsi is 4 times (18.6 and 72.7 days respectively).

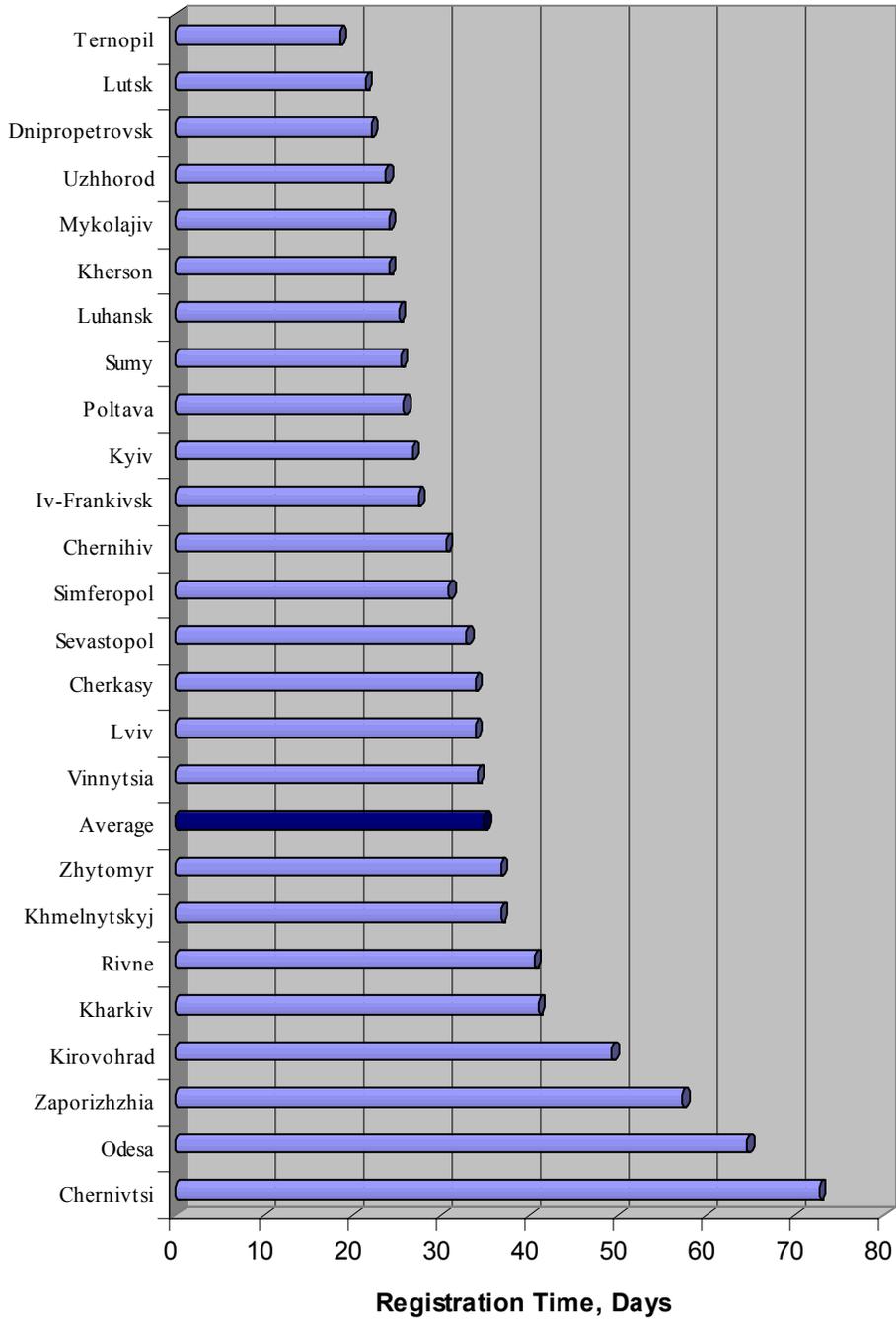
Based on these two graphs, one can say that there are cities with much better overall registration regime (such as Mykolajiv and Dnipropetrovsk) than others (especially such cities as Kirovohrad and Odesa).

Based on comparison with 1999 survey data for the cities where such data is available, one can make a different argument (see Pictures 15 and 16). Lviv clearly stands out as the city where registration regime clearly became worse based on both, time and costs indicators. At the same time, in Lutsk and Ternopil both these indicators improved.

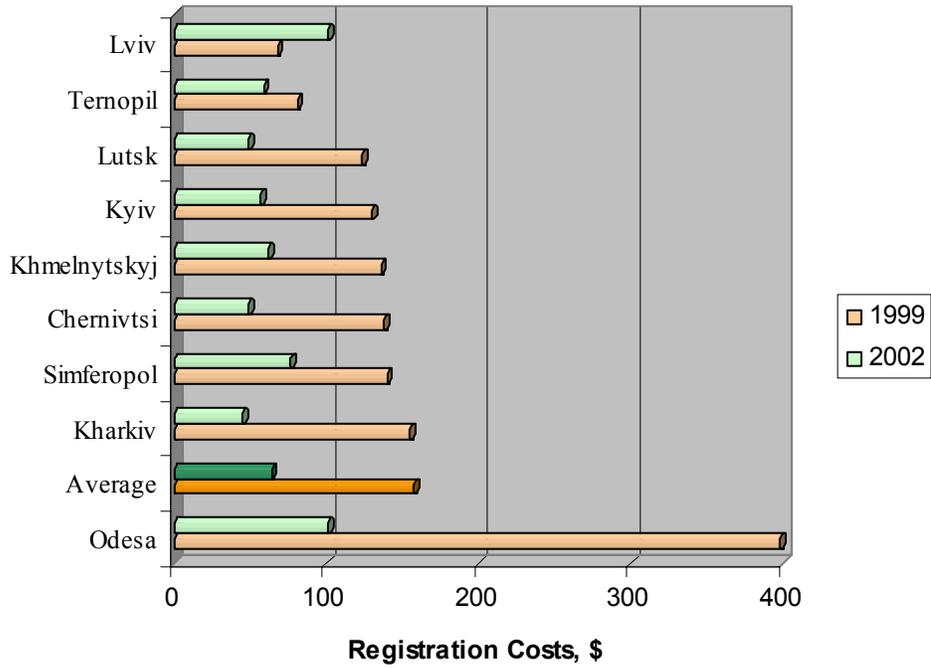
**Picture 13 Registration costs by region**



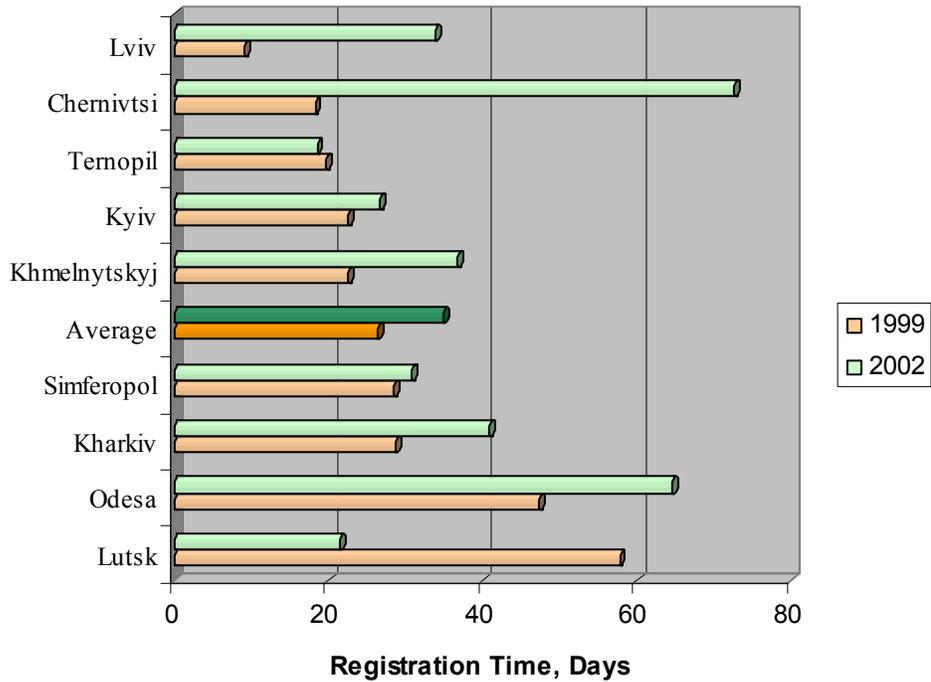
**Picture 14 Registration time by region**



**Picture 15 Comparison of registration costs**

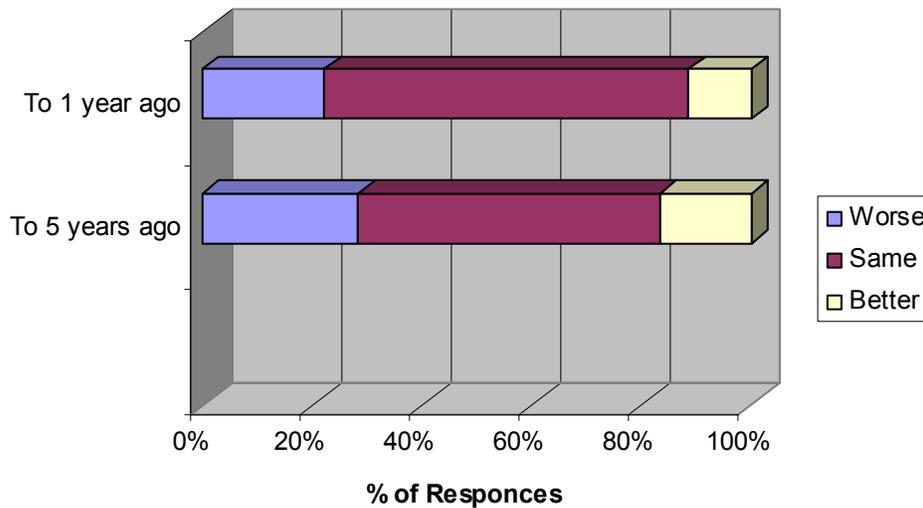


**Picture 16 Comparison of registration time**



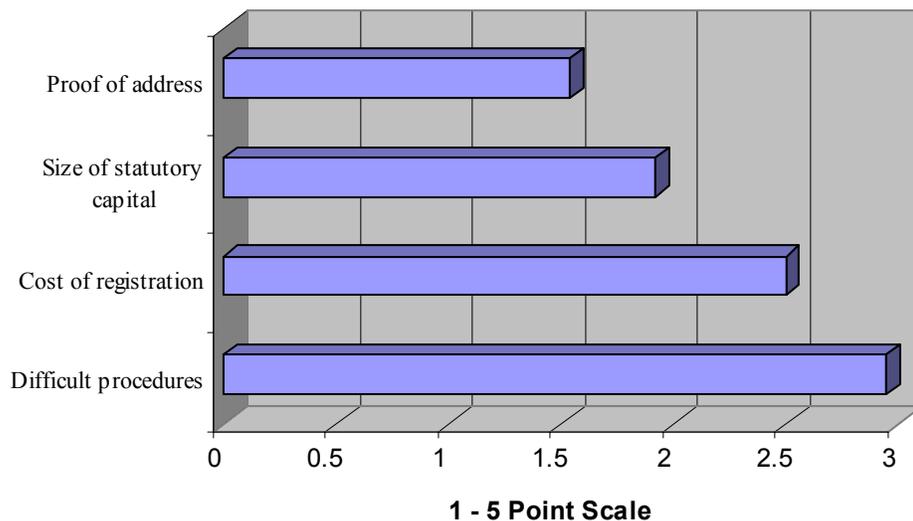
It is interesting to note that according to respondents' perception, registration regime became slightly worse; despite some measurable real improvements especially in registration costs (see Picture 17).

**Picture 17 Perception of the dynamics of the registration regime in comparison to 1 and 5 years ago**



When asked to evaluate difficulties with registration on the 5-point scale, respondents reported that only complexity of procedures can be considered as problematic, with the cost of registration being on the border-line. Unlike 3 years ago, neither necessity to prove legal address, nor the size of necessary statutory capital were considered problematic (see Picture 18).

**Picture 18 Evaluation of the possible problem areas on the 5-point scale where 1 represents no problem and 5 represents severe problem**



Finally, Table 3 represents comparison of the registration regime in Ukraine and some of the countries of the East Europe and the Former Soviet Union where similar studies were conducted. Despite the better than other countries indicators on registration costs and petty corruption, Ukraine is lagging behind in registration time. Unfortunately this indicator also became worse in the last 3 years.

**Table 3 Comparison of Registration Procedures**

	Registration time	Registration costs	% Unofficially paid	\$ Unofficially paid
<b>Ukraine, 2002</b>	<b>34.9 days</b>	<b>\$64.3</b>	<b>3.6%</b>	<b>\$33.0</b>
Ukraine, 1999	26.4 days	\$158.0	12.0%	\$76.0
Albania, 2002	18.0 days	\$288.9	13.2%	\$168.2
Armenia, 2000	27.3 days	\$109.7	20.3%	\$58.7
Armenia, 2001	21.0 days	\$92.3	14.8%	\$58.3
Belarus, 2001	57.1 days	\$223.0	12.0%	\$107.0
Bulgaria, 2002	38.7 days	\$126.0	5.4%	\$68.3
Georgia, 2002	9.7 days	\$150.2	28.7%	\$147.7
Moldova, 2002	22.3 days	\$132.0	26.4%	\$119.0
Romania, 2002	27.0 days	\$164.0	11.0%	\$30.0

#### 4.2 Premises: Permits for their Construction, Reconstruction and Use

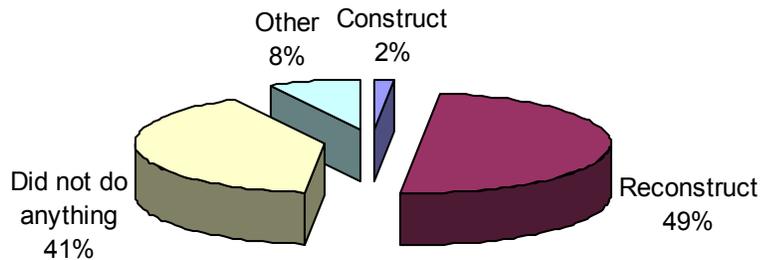
Availability of premises is necessary part for conducting business. Many businesses have 2 or more locations where they have offices, conduct trade or manufacturing, store goods. In most cases in Ukraine businesses own premises they use, although the difference with the number of premises they rent is quite small. Businesses rent premises equally from state (or municipality) and from private owners (see Table 4).

**Table 4 Types of premises used by respondents, in %**

	Do you use such premises?		Private property	Rent them from state (municipality)	Other rent
	Yes	No			
Office	80.2	19.8	43.7	24.2	32.1
Premises for retail trade (food)	22.2	77.8	59.3	20.7	20.0
Premises for retail trade (other)	29.0	71.0	46.1	22.6	33.3
Premises for catering	19.1	80.9	67.1	23.7	9.2
Premises for services	29.8	70.2	44.4	31.7	23.9
Premises for manufacturing	55.2	44.8	59.7	21.6	18.7
Premises for storage	66.5	33.5	53.6	20.9	25.5
Other premises	33.7	66.3	55.8	22.0	22.2

Before beginning to use premises, majority of businesses reconstruct them. Only 2% of respondents said that they constructed their premises (see Picture 19).

**Picture 19 What businesses did before using premises**



Before construction Ukrainian businesses must apply for land usage permit. In addition to this, construction plans must be approved and additional permits received. The latter applies also to businesses that renovated or remodeled their premises especially if it changes exterior or general planning of premises. After construction or renovation is finished, businesses must receive exploitation permits from such agencies as fire, sanitary inspections and others. All this process was studied in this survey.

On average, in order to obtain permits (including for the use of land and approving work plan) in the cases of construction it was necessary to spend **14.3 days**, while in the cases of reconstruction **10.2 days**. This represents a significant decrease from **39.3 days** reported in 1999 (in 1999 survey due to a smaller sample this indicator is combined for those who constructed and reconstructed their premises). In terms of costs, businesses spent **\$437.1** for construction permits and **\$442.8** for reconstruction permits. This represents a significant decrease from **\$668.0** spent in 1999. Line item payments related to obtaining these permits in 2002 and 1999 are presented in Table 5.

**Table 5. Payments related to obtaining permits to start construction**

	Construction		Reconstruction		1999	
	% Paid	\$ Paid	% Paid	\$ Paid	% Paid	\$ Paid
Official fees	54.0	169.6	37.0	191.2	N/A	159.0
Expertise fees	45.5	162.3	29.3	144.8	34.5	44.4
Notary cost	35.5	35.5	21.5	29.5	24.8	25.0
Payments to lawyers	17.4	398.9	12.1	84.8	9.2	121.3
Voluntary contributions	15.4	142.5	12.8	174.7	25.6	670.0
Unofficial payments	22.8	248.7	21.7	145.4	25.0	634.0
<b>Total</b>		<b>437.1</b>		<b>442.8</b>		<b>668.0</b>

While comparing specific costs that businesses reported they paid for construction permits in 2002 and in 1999, a number of conclusions can be made. Most importantly, the greatest decrease in costs is associated with significant decrease in costs of unofficial payments and “voluntary” contributions (almost 5 times each). The latter also significantly decreased in frequency (almost 2 times). Increases in official costs for expertise and increase in the frequency of using lawyers did not offset these decreases.

During the process of construction, government agencies have right to inspect actual construction or reconstruction processes. This type of inspection was reported by **28.2%** of respondents that were engaged in construction or reconstruction activities. This represents a significant decrease (almost 1.5 times) over **40.7%** reported in 1999. One of the reasons for such decrease is that in 2002 there is significantly larger number of active and new businesses that are engaged in such works. Government agencies did not increase the number of their employees at the same rate. Inspections of construction or reconstruction processes cost businesses in 2002 **\$185.8**. Again, this is almost 4 times decrease from **\$508** reported in 1999.

As written above, after construction or renovation is completed, and in some cases when company moves into unchanged premises (especially for manufacturing, retail trade, or catering), exploitation permits must be obtained from various agencies including fire and sanitary inspections. The process of obtaining such permits took Ukrainian businesses **6.8 days**. This represents a significant decrease (3 times) from **20.2 days** it took in 1999. In terms of costs it took businesses \$488.0 in 2002 which represents increase from \$390 it took in 1999. Line item payments related to obtaining these permits in 2002 and 1999 are presented in Table 5.

**Table 5 Payments for exploitation permits**

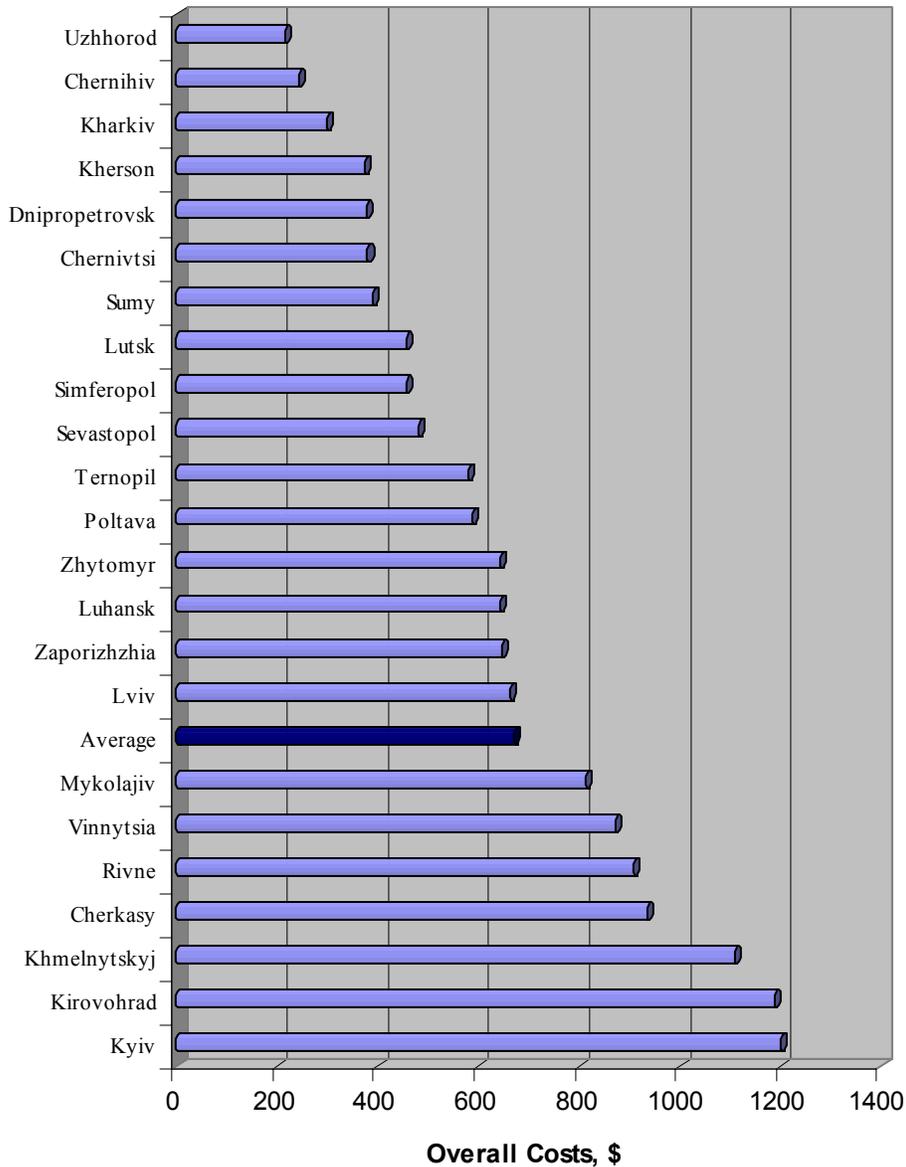
	2002		1999	
	% Paid	\$ Paid	% Paid	\$ Paid
Official fees	34.5	216.1	N/A	451.0
Expertise fees	20.7	118.3	22.7	49.0
Notary cost	13.1	76.1	25.3	48.0
Payments to lawyers	9.0	112.4	9.7	44.0
Voluntary contributions	9.7	147.4	24.4	151.0
Unofficial payments	20.5	155.6	21.3	82.0
<b>Total</b>		<b>488.0</b>		<b>390.0</b>

As in the case with pre-construction permits, there is significant decrease in the frequency of payments of “voluntary” contributions in 2002. This decrease however was not offset by 2002 trend of significant increase of official expertise fees and payments to lawyers. Unlike with pre-construction permits, the amount of unofficial payments increased in 2002. This was accompanied by only a slight decrease in the frequency of their occurrence. All these led to the increase of overall costs of exploitation permits.

Overall regulatory costs of obtaining premises is **\$672.2** in 2002. This represents a slight decrease from **\$709.0** reported in 1999. Picture 20 represents regional differences in

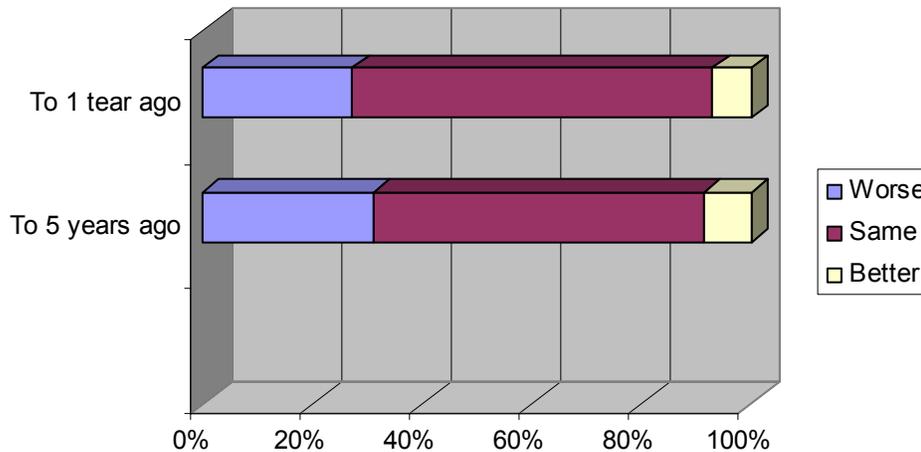
these costs in 2002. Please note that due to the small regional samples not all regions have statistically significant data. Such regions are not represented in the following picture.

**Picture 20 Overall regulatory costs of obtaining premises by region**



Similarly as in the case with registration procedures, despite significant improvements in overall regulatory regime of obtaining premises in last three years, respondents' perception of changes remained negative (see Picture 21).

**Picture 21 Perception of the dynamics of the obtaining premises regime in comparison to 1 and 5 years ago**



Finally, Table 6 represents comparison of the premises regime in Ukraine and some of the countries of the East Europe and the Former Soviet Union where similar studies were conducted. Despite better than other countries indicators on time spent for pre-construction and exploitation permits and similar to others costs of pre-construction permits, petty corruption in Ukraine remains relatively high and costs for obtaining exploitation permits are highest. Unfortunately this indicator also became worse in the last 3 years.

**Table 6 Comparison of Regulations of Premises**

	<b>Time, pre-construction permits</b>	<b>Cost of pre-construction permits</b>	<b>% informal payments</b>	<b>\$ informal payments</b>	<b>Time exploitation permits</b>	<b>Cost of exploitation permits</b>
<b>Ukraine, 2002</b>	<b>14.3 days</b>	<b>\$437.1</b>	<b>22.8%</b>	<b>\$248.8</b>	<b>6.8 days</b>	<b>\$488.0</b>
Ukraine, 1999	39.3 days	\$668.0	25.0%	\$634.0	20.2 days	\$390.0
Albania, 2002	105.0 days	\$472.9	32.0%	\$406.6	24.3 days	\$245.1
Armenia, 2001	35.6 days	\$472.5	11.4%	\$79.0	26.9 days	\$229.3
Belarus, 2001	93.8 days	\$583.0	10.0%	\$1,083.0	48.3 days	\$265.0
Georgia, 2002	28.9 days	\$275.0	17.8%	\$168.0	22.4 days	\$71.1
Moldova, 2002	88.8 days	\$563.0	50.4%	\$178.4	57.9 days	\$220.8
Romania, 2002	55.0 days	\$504.0	11.0%	-	15 days	\$121.0

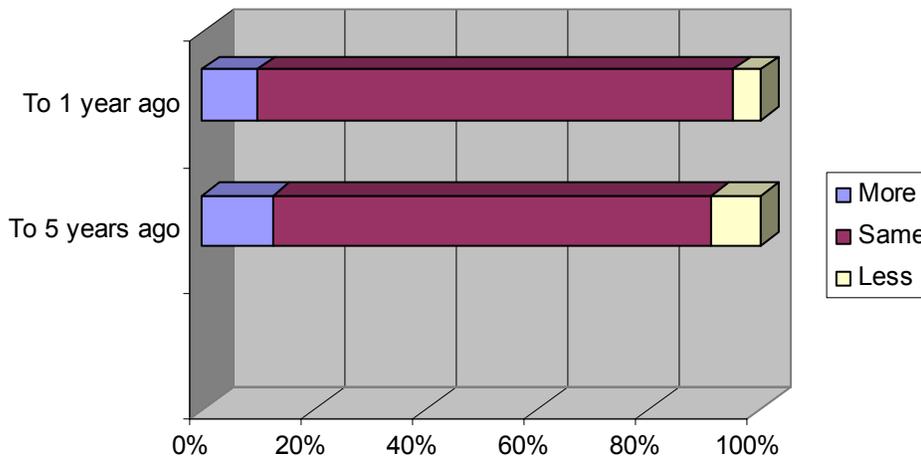
### 4.3. Licensing

Before beginning their business activity, besides registration some enterprises have to obtain licenses for their specific type of business. According to the Law, a license is a document issued by the Cabinet of Ministers of Ukraine or an authorized executive body, according to which the license holder has the right to conduct certain type of business. According to current legislation, the procedure of obtaining a license should not exceed 30 days. The term of validity of a license is established by its issuer, but should not be less than three years.

In 2002 survey **62.1%** of respondents declared that they have at least one license. This number decreased from **72.6%** reported in 1999. This decrease however does not necessarily illustrate improvements in licensing regime as such. Most probably it is illustration of the fact that more Ukrainian businesses start their activities in non-licensed areas. The decrease of licensing coverage however is positive development in overall business environment.

Businesses that declared having licenses reported in 2002 that average number of licenses the held is **1.7** which is almost the same number as reported in 1999 (**1.6**). This is corroborated by perceptual data from the survey. Most businesses believe that the amount of licenses they have did not change much during last years (see Picture 22).

**Picture 22 Perception of the change in the number of licenses necessary for businesses**



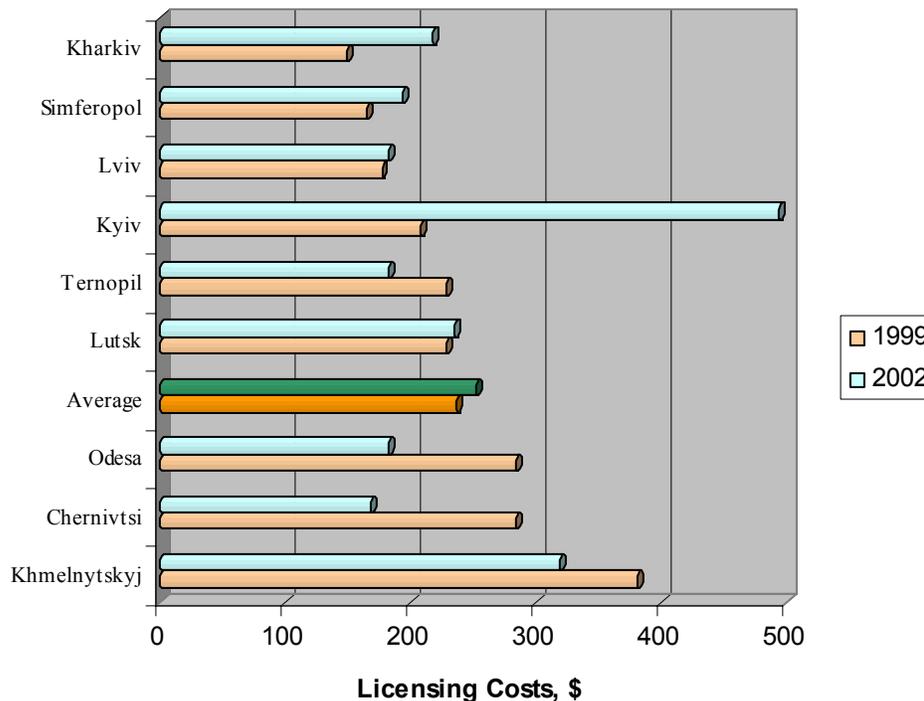
Respondents reported that the average term of validity of licenses in 2002 is **2 years** which is a slight decrease from **2.2 years** reported in 1999. In order to obtain one license in 2002 businesses had to spend **69.3 days** which is significantly more than **21 days** reported in 1999. Costs for obtaining one license increased slightly from **\$236.8** in 1999 to **\$252.3** in 2002. Table 7 illustrates types of payments needed to obtain one license.

**Table 7 Payments related to obtaining one license in 2002 and 1999**

	2002		1999	
	% Paid	\$ Paid	% Paid	\$ Paid
Official fees	90.6	226.3	N/A	162.0
Expertise fees	29.8	175.7	17.6	119.0
Notary cost	33.1	34.3	33.0	25.3
Payments to lawyers	12.1	144.3	5.2	71.0
Voluntary contributions	12.6	314.0	15.9	107.0
Unofficial payments	18.6	264.7	19.0	140.0
<b>Total</b>		<b>252.3</b>		<b>236.8</b>

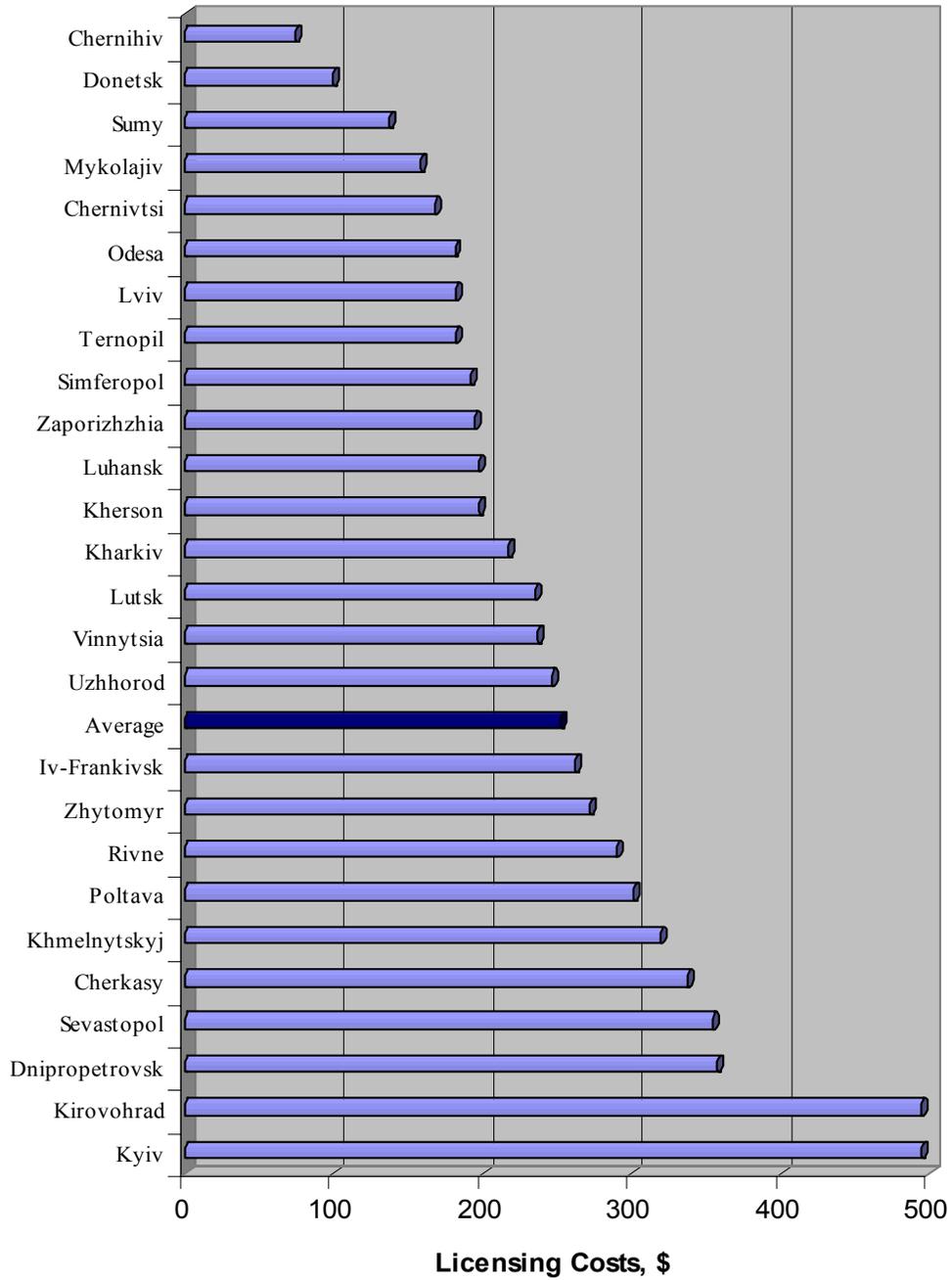
As in registration and regulations of premises, in 2002 businesses paid more frequently and more for expertise and lawyers and less frequently “voluntary” contributions. Although positive decreases in the frequency of such payments and unofficial payments in 2002 were insignificant. This is the major reason for increase in overall costs. It is necessary to note however that not in all regions such an increase occurred. For example, Khmelnytskyj, Chernivtsi, Odesa, Ternopil (of those cities that data is available from 1999) saw decrease in licensing costs (see Picture 23).

**Picture 23 Comparison of licensing costs (1999 and 2002) by region**



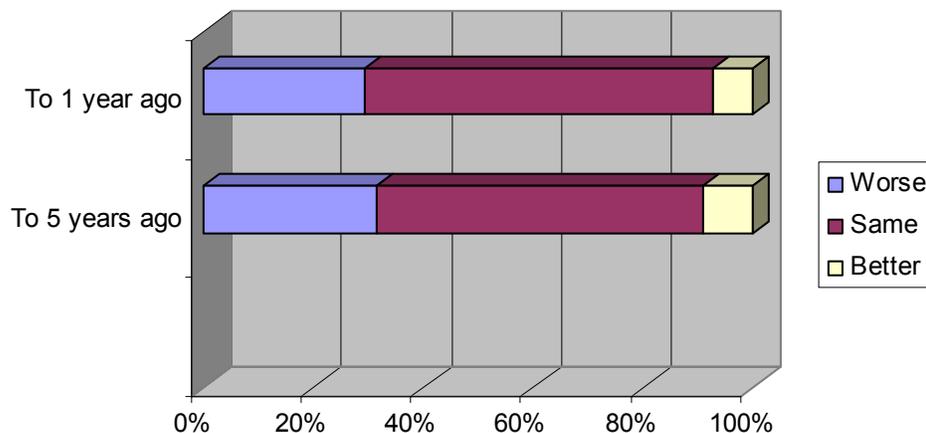
Regional differences in 2002 in licensing costs are presented in Picture 24. Kirovohrad and Kyiv are the most expensive cities in this category in 2002.

**Picture 24 Licensing costs by region**



Unlike with registration or regulations of obtaining premises, overall licensing regime became worse in Ukraine in last tree years. This is corroborated by the respondents' perception on the changes in the licensing regime in Ukraine (see Picture 25).

**Picture 25 Perception of the change in the licensing regime**



Finally, Table 8 represents comparison of the licensing regime in Ukraine and some of the countries of the East Europe and the Former Soviet Union where similar studies were conducted. Ukraine is similar to other countries in licensing coverage and the average number of licenses, as well as in the costs and petty corruption levels. However it currently has the longest time needed to obtain one license. Unfortunately almost in all indicators licensing regime became worse in the last 3 years.

**Table 8 Comparison of Licensing Regime**

	Companies that have licenses	Number of licenses per business	Time to get one license	Cost to get one license	% Unofficially paid	\$ Unofficially paid
<b>Ukraine, 2002</b>	<b>62.1%</b>	<b>1.7</b>	<b>69.3 days</b>	<b>\$252.3</b>	<b>18.6%</b>	<b>\$264.7</b>
Ukraine, 1999	72.6%	1.6	21.0 day	\$236.8	19.0%	\$140.0
Albania, 2002	49.0%	1.1	22.9 days	\$365.3	14.0%	\$205.4
Armenia, 2001	58.3%	0.8	18.5 days	\$287.5	13.0%	\$447.9
Belarus, 2001	91.3%	5.5	30.0 days	\$135.0	18.9%	\$67.0
Bulgaria, 2002	61.7%	5.5	21.7 days	\$262.7	9.7%	\$189.2
Georgia, 2002	59.7%	1.1	23.0 days	\$147.7	32.1%	\$168.0
Moldova, 2002	82.0%	3.0	28.6 days	\$389.2	37.6%	\$157.9
Romania, 2002	81%	1.3	21.0 days	\$110.0	14%	\$80

#### 4.4. Technical Regulations

According to Ukrainian legislation, for the safety of consumers and the state in general, some products, equipment, and services produced by enterprises in Ukraine have to comply with standards. To confirm such compliance, products or equipment have to pass necessary tests in order to receive a certificate confirming their compliance with standards. For the purpose of this study such a procedure will be called certification below.

In 2002 **38.1%** of survey respondents reported that they had to certify their products or services. This represents a slight increase from **26.1%** in 1999. At the same time less respondents reported that they certified production lines instead of batches of goods (**30.3%** in 2002 as compared to **38.9%** in 1999).

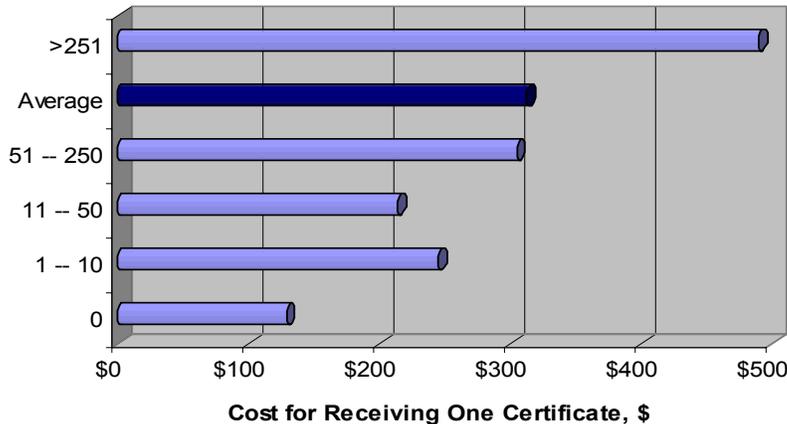
On average, businesses comply with certification procedure **2.5** times per year. Each time it took them **2.3 days** to receive certificates in 2002 which is significant decrease from **15.3 days** reported in 1999. Similarly costs significantly decreased from **\$1,212** in 1999 to **\$313** in 2002. Table 9 resents distribution of this cost among types of payments.

**Table 9 Payments related to obtaining a certificate of compliance**

	<b>% Paid</b>	<b>\$ Paid</b>
Official fees	62.6	187.5
Expertise fees	37.7	151.6
Notary cost	15.9	34.7
Payments to lawyers	6.7	196.1
Voluntary contributions	5.9	99.6
Unofficial payments	12.5	81.0
<b>Total</b>		<b>313.0</b>

There is certain difference between certification costs for small and large companies (see Picture 26).

**Picture 26 Certification costs by the size of company**



This difference can be explained by the fact that large companies usually produce more complex and potentially dangerous goods certification of which costs more especially in additional expertise and legal expenses.

Table 10 represents comparison of the certification regime in Ukraine and some of the countries of the East Europe and the Former Soviet Union where similar studies were conducted. Ukraine is similar to other countries in certification coverage and costs. Although it clearly now leads the way in the speed of certification process. Generally, based on the comparison with 1999, one can say that certification regime improved in Ukraine during last three years.

**Table 10 Comparison of Certification Regimes**

	<b>Had to certify goods and services</b>	<b>Time for receiving certificate</b>	<b>Costs to obtain certificate</b>	<b>% made unofficial payments</b>	<b>Unofficial payments</b>
<b>Ukraine, 2002</b>	<b>38.1%</b>	<b>2.3 days</b>	<b>\$313.0</b>	<b>12.5%</b>	<b>\$81.0</b>
Ukraine, 1999	26.1%	15.3 days	\$1,212.0	18.8%	\$223.0
Armenia, 2001	28.5%	8.3 days	\$234.6	3.5%	\$234.8
Bulgaria, 2002	44.4%	20.3 days	-	4.8%	-
Belarus, 2001	35.0%	24 days	\$146.0	10.5%	\$195.0
Georgia, 2002	40.3%	6.8 days	\$39.9	28.4%	\$33.6
Moldova, 2002	57.7%	12.7 days	\$139.0	30.7%	\$88.4
Romania, 2002	17.0%	8 days	\$160.0	17.0%	\$158.0

In addition to described above certification of goods and services, for some products and services (mostly in the area of food processing, retail trade with food, and catering) Ukrainian companies must receive Hygienic or Sanitary certificate. Quite frequently companies must receive both types of certificates for the same goods or services.

According to the survey, **40.7%** of respondents declared that they had to receive such Hygienic certificates.<sup>1</sup> They had to go through this procedure on average **2 times per year** and it took them on average **1.5 days** and **\$79.2** each time to receive such certificates (See Table 11).

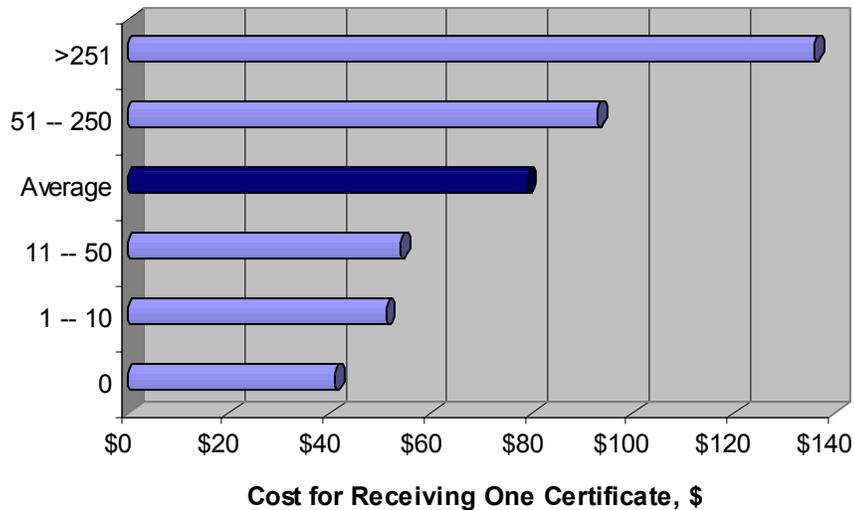
**Table 11 Payments related to obtaining hygienic or sanitary permits**

	<b>% Paid</b>	<b>\$ Paid</b>
Official fees	75.0	65.5
Expertise fees	32.8	65.2
Notary cost	9.7	29.6
Payments to lawyers	4.6	105.8
Voluntary contributions	8.1	55.1
Unofficial payments	17.8	42.1
<b>Total</b>		<b>79.2</b>

<sup>1</sup> In 1999 survey this regulatory area was not studied therefore there is no comparative data from this period.

Like with average certificates, there is certain difference between Hygienic certification costs for small and large companies (see Picture 27).

**Picture 27 Hygienic certification costs by the size of company**



Finally, Table 12 represents comparison of the hygienic certification regime in Ukraine and some of the countries of the East Europe and the Former Soviet Union where similar studies were conducted. Like with certification regime, Ukraine is similar to other countries in certification coverage and costs. Although it clearly now leads the way in the speed of certification process.

**Table 12 Comparison of Hygienic or Sanitary Product or Services Regimes**

	Had to certify goods and services	Time for receiving certificate	Costs to obtain certificate	% made unofficial payments	Unofficial payments
<b>Ukraine, 2002</b>	<b>40.7%</b>	<b>1.5 days</b>	<b>\$79.2</b>	<b>17.8%</b>	<b>\$42.1</b>
Belarus, 2001	27.0%	15.0 days	\$45.0	10.0%	\$29.0
Georgia, 2002	53.7%	3.1 days	\$22.1	30.6%	\$23.3
Moldova, 2002	59.4%	12.0 days	\$41.8	32.2%	\$57.8

#### 4.5. Regulations of Import Operations

In Ukraine regulations of importing activities are not limited by customs. Quite frequently businesses have to provide certificates for imported goods (that they are in accordance with Ukrainian standards), and in some cases they must have various permits or registered with governmental agencies import contracts. All these elements of import regulations were studied in this survey.

Complexities of import regime, unpredictability of its enforcement are some of the factors that limit Ukrainian companies from foreign economic activities. In 2002 only

**12%** of survey respondents declared that they were engaged in import operations. This represents slight decrease from **14.5%** reported in 1999.

As was written above, importing companies in Ukraine frequently must obtain the certificates of compliance of imports with Ukrainian standards. The procedure of obtaining such certificates is similar to the certification procedures for Ukrainian producers of goods and services analyzed above. **71.4%** of importing companies in 2002 survey declared that they had to obtain certificates of compliance. This represents a very small decrease from **80%** reported in 1999.

In 2002 this certification (or validation) process took on average **1.8 days** which represents a significant decrease from **8.2 days** reported in 1999. This process was also much cheaper in 2002 (**\$346** as opposed to **\$1,756** in 1999). Table 13 illustrates the types of payments businesses made for such certification.

**Table 13 Payments related to obtaining a certificate of compliance**

	<b>% Paid</b>	<b>\$ Paid</b>
Official fees	64.6	354.2
Expertise fees	41.5	347.8
Notary cost	16.4	86.0
Payments to lawyers	14.3	1,187.5
Voluntary contributions	10.8	699.4
Unofficial payments	16.1	310.8
<b>Total</b>		<b>346.0</b>

Very interesting number in this table is 41.5% who paid for expertise. **82.2%** of importing respondents declared that they had certificates from the countries of origin of importing goods. This means that in some cases, Ukrainian authorities just validated these certificates while in other cases the expertise was conducted despite availability of foreign certificates. The options that government officials had in these cases can explain quite high costs for lawyers, relatively large frequencies of “voluntary” contributions and unofficial costs, as well as their amounts. The frequency of unofficial costs, however, decreased in last 3 years from **32.4%** in 1999 to **16.1%** in 2002. The money paid however slightly increased from **\$300** in 1999 to **\$310.8** in 2002.

In addition to certification of imported goods, businesses reported that they had to obtain preliminary import permits or to register their contracts with authorities (see Table 14)

**Table 14 Preliminary import permits**

	<b>Yes</b>	<b>Days</b>	<b>% official payments</b>	<b>\$ Official payments</b>	<b>% unofficial payments</b>	<b>\$ Unofficial payments</b>
Contract registration	46.5%	14.2	45.3%	243.8	26.5%	160.4
Permits issued by local executive bodies	40.9%	16.6	45.1%	547.7	13.5%	207.7
Other documents	28.3%	11.1	40.0%	74.5	25.0%	7.4

The number of companies that said that they had to register their contracts in 2002 (46.5%) is almost exactly the same as in 1999 (45.9%). Although, the official costs of such registration significantly increased from \$53 in 1999 to \$243.8 in 2002. This procedure also featured one of the highest petty corruption level (26.5% of reported unofficial payments).

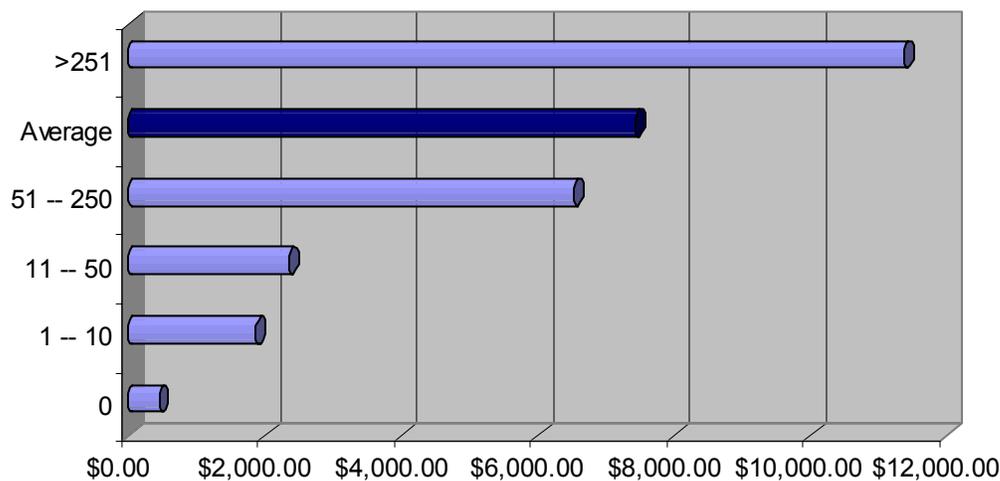
In 2002, an average time spent on complying with customs procedures for one import transaction was 5.33 days. In 1999 this time was 2.6 days. Almost all respondents reported paying various fees and other payments in addition to customs duties during customs procedures (see Table 15).

**Table 15 Payments related to complying with customs procedures (average for one transaction)**

Official payments (except customs duties)	\$745.4
Penalties (including confiscations)	\$934.3
Other payments (including unofficial)	\$428.4

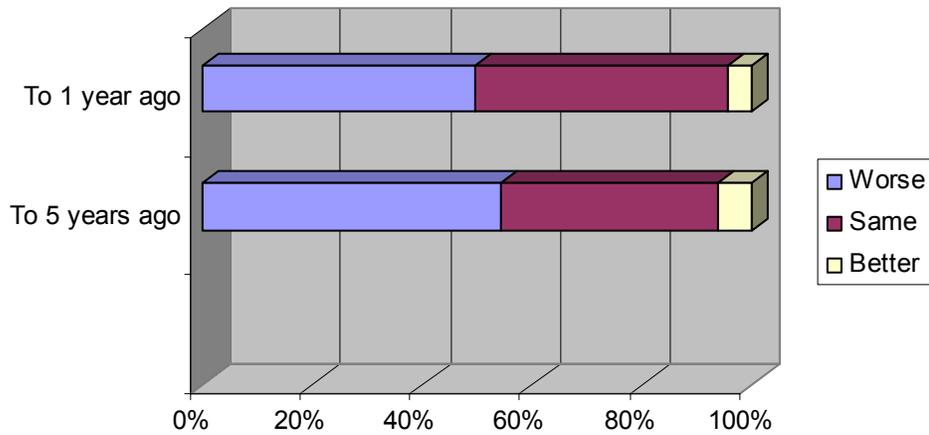
Overall, importing companies paid on average \$7,438.5 per year in 2002 to comply with all customs procedures. This represents increase from \$5,461.6 reported in 1999. It is important to note however that these numbers do not include customs duties and reflect only regulatory costs. Picture 28 presents differences in these costs by the size of enterprises.

**Picture 28 Annual costs related to complying with customs procedures by size**



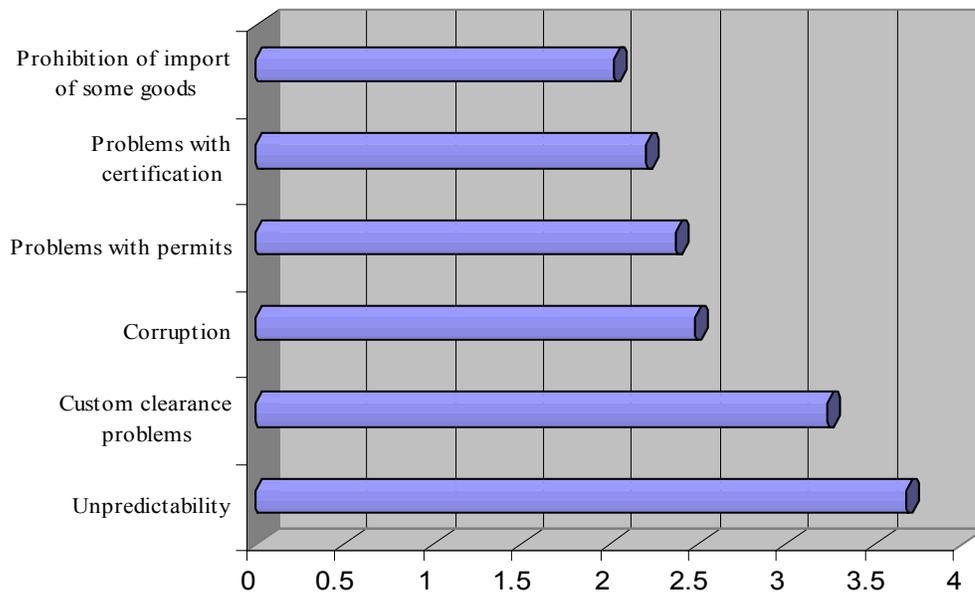
Overall import regime in Ukraine during the last 3 years became worse, especially in the area of custom clearance. Some improvements were only in the area of certification of imported goods. This change is corroborated by the respondents' perceptions (see Picture 29).

**Picture 29 Perception of the change in the import regime**



Respondents clearly noted that the greatest problem they face in importing goods relates to unpredictability of customs (see Picture 30).

**Picture 30 Evaluation of import regulations on 5 – point scale where 1 – is no problem and 5 – is severe problem**



Finally, Table 16 represents comparison of two indicators of import regime in Ukraine and some of the countries of the East Europe and the Former Soviet Union where similar studies were conducted. Together with Albania Ukraine has the last place in time spent by businesses to clear customs and only Belarusian companies are less engaged in import operations.

**Table 16 Comparison of import indicators**

	<b>Imported goods</b>	<b>Time for clearing customs</b>
<b>Ukraine, 2002</b>	<b>12.0%</b>	<b>5.3 days</b>
Ukraine, 1999	14.5%	2.6 days
Albania, 2002	36.8%	5.3 days
Armenia, 2001	36.0%	2.3 days
Belarus-Russia, 2001	28.2%	3.2 days
Belarus-others, 2001	8.5%	4 days
Bulgaria, 2002	40.5%	1.2 days
Georgia, 2002	20.4%	2.3 days
Moldova, 2001	47.4%	4.3 days

#### **4.6. Regulations of Export Operations**

In Ukraine regulations of export activities, similarly as import activities, are not limited by customs. Quite frequently businesses have to obtain various preliminary permits or register export contracts with governmental agencies. All these elements of export regulations were studied in this survey.

In 2002 only **12.1%** of survey respondents declared that they were engaged in export operations. This represents slight increase from **8.8%** reported in 1999.

As was written above, majority of exporting companies must obtain various preliminary permits or register their contracts (see Table 17).

**Table 17 Preliminary export permits**

	<b>Yes</b>	<b>Days</b>	<b>% official payments</b>	<b>\$ Official payments</b>	<b>% unofficial payments</b>	<b>\$ Unofficial payments</b>
Contract registration	56.6%	10.42	55.6%	323.4	18.5%	1,214.3
Permits issued by local executive bodies	51.0%	8.9	46.6%	451.8	16.0%	1,680.7
Other documents	45.7%	15.4	45.6%	259.7	11.6%	14.2

The number of companies that said that they had to register their export contracts in 2002 (**56.6%**) is significantly higher then in 1999 (**36.8%**). The official costs of such registration significantly increased from **\$54.2** in 1999 to **\$323.4** in 2002. This procedure

also featured quite high petty corruption level (**18.5%** of reported unofficial payments) and very high average unofficial payments (**\$1,214.3**).

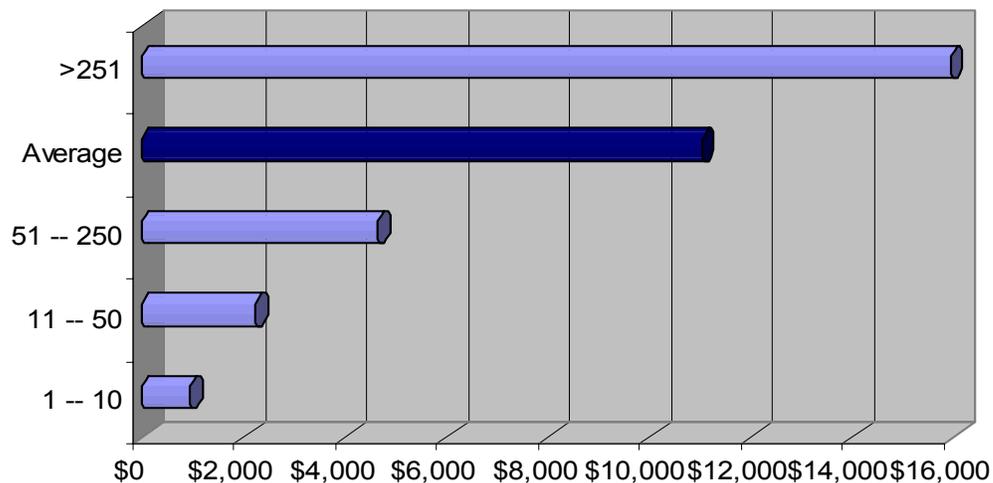
In 2002, an average time spent on complying with customs procedures for one export transaction was **4.3 days**. In 1999 this time was **2.6 days**. Almost all respondents reported paying various fees and other payments in addition to customs duties during customs procedures (see Table 18).

**Table 18 Payments related to complying with customs procedures (average for one transaction)**

Official payments (except customs duties)	\$213.1
Penalties (including confiscations)	\$10,865
Other payments (including unofficial)	\$945.5

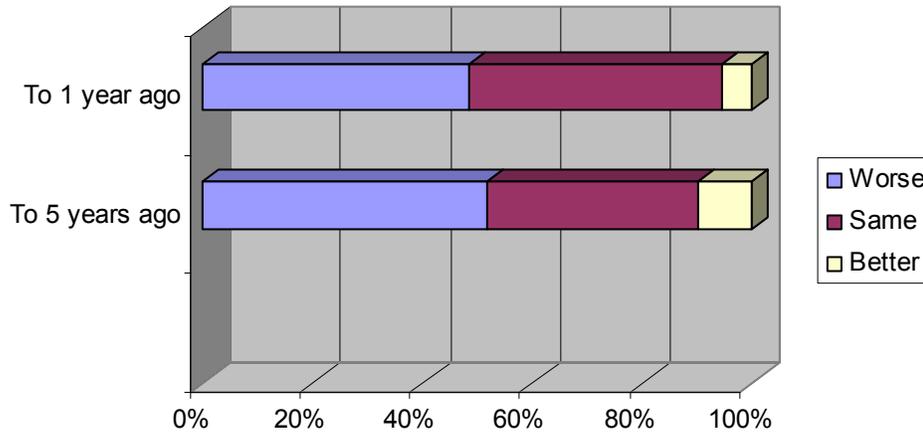
Overall, exporting companies paid on average **\$11,035.6** per year in 2002 to comply with all customs procedures. This represents significant increase from **\$3,100** reported in 1999. It is important to note however that these numbers do not include customs duties and reflect only regulatory costs. Picture 31 presents differences in these costs by the size of enterprises.

**Picture 31 Annual costs related to complying with customs procedures by size**



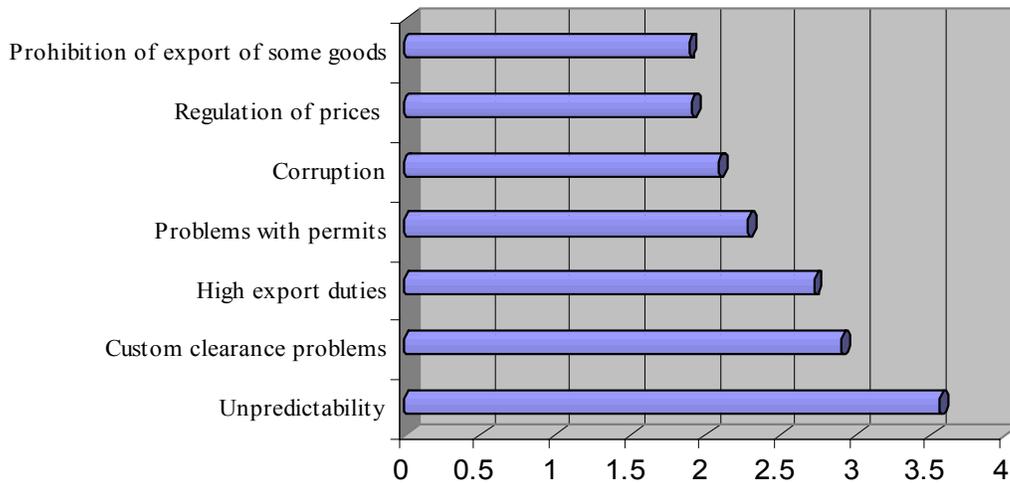
As with import, overall export regime in Ukraine during the last 3 years became worse. This change is corroborated by the respondents' perceptions (see Picture 32).

**Picture 32 Perception of the change in the export regime**



Similarly as with import operations, respondents clearly noted that the greatest problem they face in exporting goods relates to unpredictability of enforcement of customs regulations (see Picture 33).

**Picture 33 Evaluation of export regulations on 5 – point scale where 1 – is no problem and 5 – is severe problem**



Finally, Table 19 represents comparison of two indicators of export regime in Ukraine and some of the countries of the East Europe and the Former Soviet Union where similar studies were conducted.

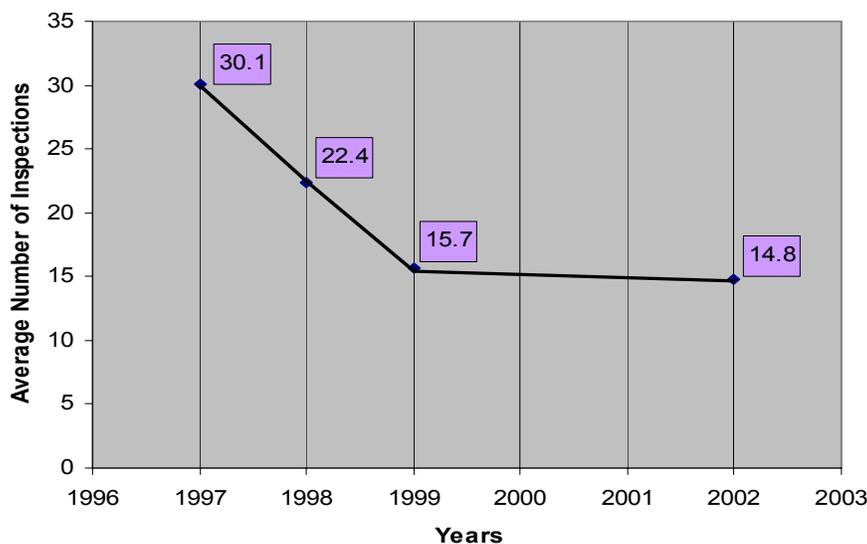
**Table 19 Comparison of export indicators**

	<b>Exported goods</b>	<b>Time for clearing customs</b>
<b>Ukraine, 2002</b>	<b>12.1%</b>	<b>4.3 days</b>
Ukraine, 1999	8.8%	2.6 days
Albania, 2002	8.0%	17.6 days
Armenia, 2001	23.5%	0.9 days
Belarus-Russia, 2001	22%	4.0 days
Belarus-others, 2001	5.6%	2.0 days
Bulgaria, 2002	44.4%	1.1 days
Georgia, 2001	8.3%	2.0 days
Moldova, 2002	28.4%	4.4 days

#### 4.7. Inspections

Through inspections government agencies enforce laws and regulations. Inspection coverage (% of companies that declared at least one inspection) and their frequency as well as duration and expenses businesses pay as punitive measures are some of the most important indicators of business environment. Number of inspections per one enterprise is steadily declining in Ukraine. In 2002 an average company pay host to **14.8** inspections. This is, however, only slightly less than **15.7%** in 1999 and significantly less than **22.4** in 1998 and **30.1** in 1997 (see Picture 34).

**Picture 34 Dynamics of the number of inspections from 1997 to 2003**



A very slight difference in the number of inspections over last three years is reflected in the respondents' perception. When asked to assess dynamics of this indicator over last year, actually little more respondents said that they believe the number of inspections increases then declared that this number decreased (see Picture 35).

**Picture 35 Perception of the change in the number of inspections in comparison to one year ago**

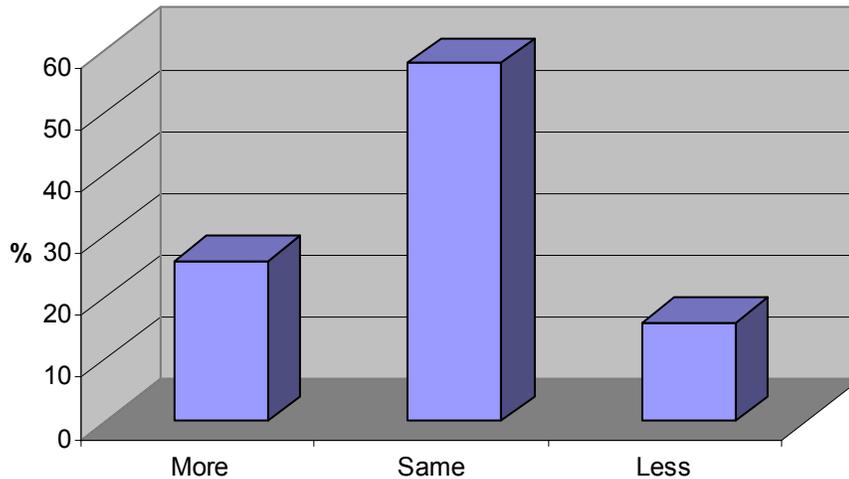


Table 20 illustrates that this slight decrease was mostly due to the Tax Administration decrease from 5.1 to 4.4 times and possibly due to the slight decrease in the coverage of inspections (although there is no reliable data on coverage by agency from 1999). Average duration of inspections did not change over the last three years and for most agencies shows striking stability.

**Table 20 Comparison of inspections number and duration**

	Coverage	Number of inspections		Average duration, days	
	2002	2002	1999	2002	1999
Tax Inspectorate	79.7%	4.4	5.1	11.8	13.1
Fire fighting authority	78.2%	3.5	2.9	2.7	2.7
Sanitary authority	61.6%	4.9	4.2	3.3	3.5
Police	25.0%	6.5	2.0	4.5	6.1
Environment protection bodies	30.0%	2.3	0.7	2.4	2.2
Consumer protection authorities	35.3%	3.8	1.4	2.4	2.1
Customs office	64.7%	6.9	0.5	6.7	5.3
Standard control authorities	4.4%	1.9	0.9	3.4	3.1
Antimonopoly Committee	26.9%	1.4	0.3	2.9	2.2
Architecture Agency	9.4%	1.6	0.4	1.5	1.6
Licensing bodies	15.3%	1.6	0.6	1.9	2.4
Labor protection agency	11.3%	1.9	1.2	2.7	3.0
Pension Fund	56.4%	1.4	1.4	2.1	2.1
KRU	21.3%	1.6	N/A	8.3	N/A
Other	19.4%	2.5	1.2	4.9	8.0
<b>TOTAL</b>		<b>14.8</b>	<b>15.7</b>	-	-

Table 21 illustrates cross country comparison of inspection coverage by most common agencies. Comparatively low figures for Standard control agency in Ukraine might be slightly misleading because in Ukraine in 2002 this agency and Consumer protection agency were one institution. According to other indicators Ukraine does not fare better even in comparison with such states as Belarus and Moldova and in Fire inspections the coverage in Ukraine is the highest.

**Table 21 Cross-country comparison of inspections coverage**

	Ukraine	Georgia	Belarus	Moldova	Albania	Romania
Tax Inspectorate	79.7%	84.1%	76.4%	90%	98%	65%
Fire fighting authority	<b>78.2%</b>	53.2%	61.5%	74%	33%	44%
Sanitary authority	61.6%	59.7%	43.2%	<b>68%</b>	36%	57%
Police	25.0%	8.5%	28.1%	43%	24%	<b>36%</b>
Environment protection bodies	30.0%	14.9%	18.8%	<b>53%</b>	20%	29%
Consumer protection authorities	<b>35.3%</b>	-	5.6%	10%	-	-
Standard control authorities	4.4%	28.9%	19.1%	<b>43%</b>	17%	10%
Licensing bodies	15.3%	19.4%	18.6%	<b>33%</b>	21%	-

In 2002 Ukrainian businesses paid on average **\$1,177.8** in overall inspection costs. These include fines, seized goods, unofficial payments. This represents a very slight decrease from **\$1,393** paid in 1999. Table 22 illustrates average payments in 2002 by type and agency.

**Table 22 Financial losses due to inspections**

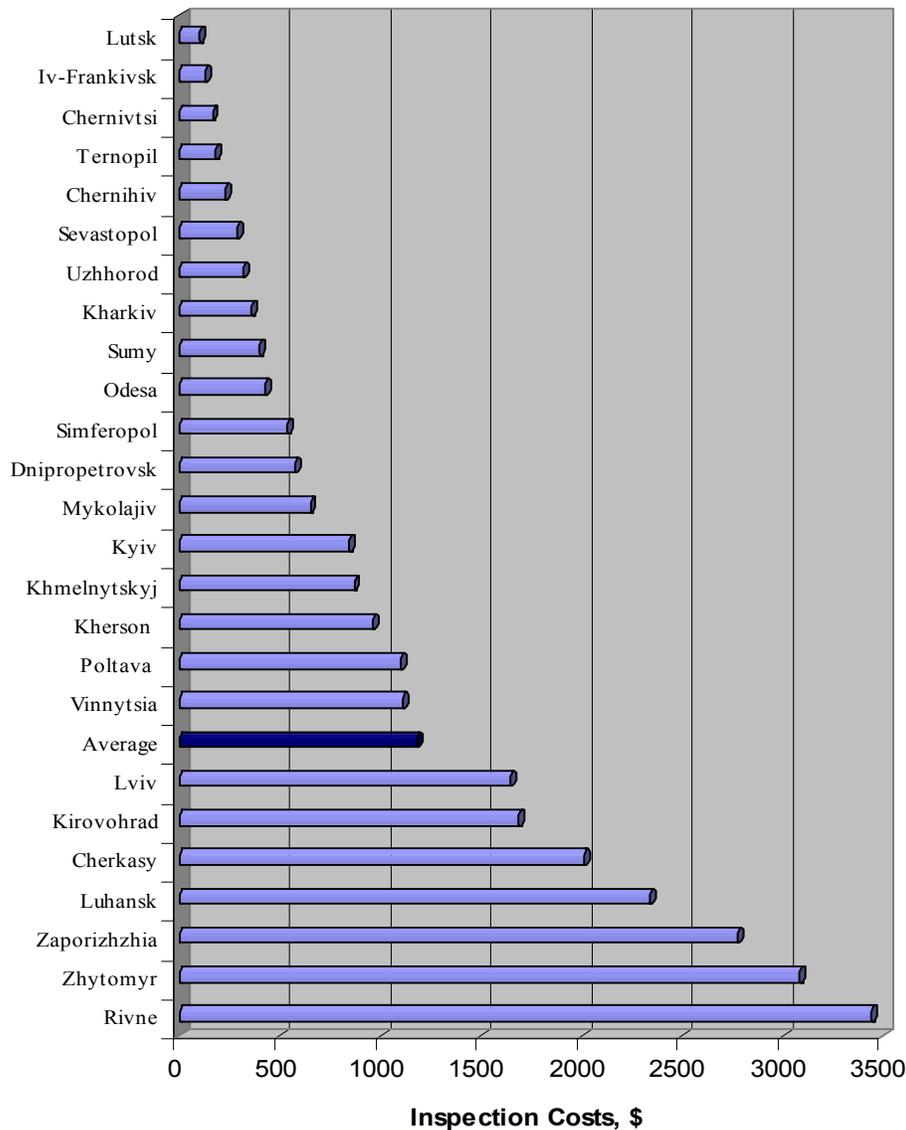
	Fines		Unofficial Payments	
	% Paid	\$ Paid	Yes	Cost
Tax Inspectorate	40.2%	2,910.1	9.9%	218.8
Fire fighting authority	15.7%	76.7	10.9%	95.5
Sanitary authority	11.5%	48.0	6.8%	95.4
Police	1.8%	82.6	3.6%	84.6
Environment protection bodies	4.4%	493.2	1%	64.7
Consumer protection authorities	5.8%	85.4	1.5%	-
Standard control authorities	2.2%	100.2	0.7%	-
Antimonopoly Committee	0.9%	470.2	0.1%	-
Architecture Agency	0.9%	62.3	0.6%	69.4
Licensing bodies	0.6%	86.0	0.2%	-
Labor protection agency	4.6%	78.5	1.1%	93.4
Pension Fund	4.8%	35.8	0.8%	9.4
KRU	1.7%	239.4	0.8%	190.6
Other	2.9%	52.8	1%	47.2

From this table it is clear that great proportion of \$1,177.8 lost by average businesses due to inspections is made by fines paid to the State Tax Administration (STA). There are however some interesting developments related to the STA. In 1999 average fines were **\$1,262** which is more than twice lower than in 2002 (**\$2,910.1**). Unofficial payments were **\$246** which is similar to 2002 data of **\$218.8**. The frequency of unofficial payments

however significantly (5 times) decreased over 3 years from **56.1%** to **9.9%**. This decrease more than offset increase in fines paid by businesses.

Picture 36 represents regional differences in the inspections costs in 2002.

**Picture 36 Inspection costs by region**



If compared to the data from 1999 (for the cities where data available) one can see that in majority of cases inspection costs decreased and in some cases significantly during last three years (Lutsk, Ternopil) while in Lviv they increased (see Picture 37).

**Picture 37 Comparison of inspection costs in 1999 and 2002 by region**

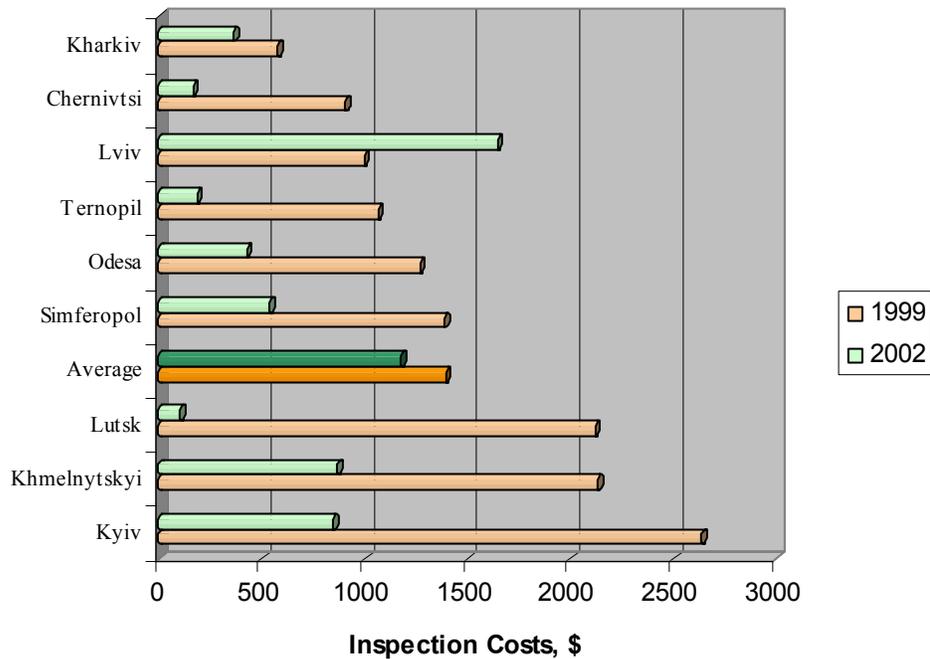


Table 23 presents comparative cross-country data on three most common inspections.

**Table 23 Comparison of Inspection Data**

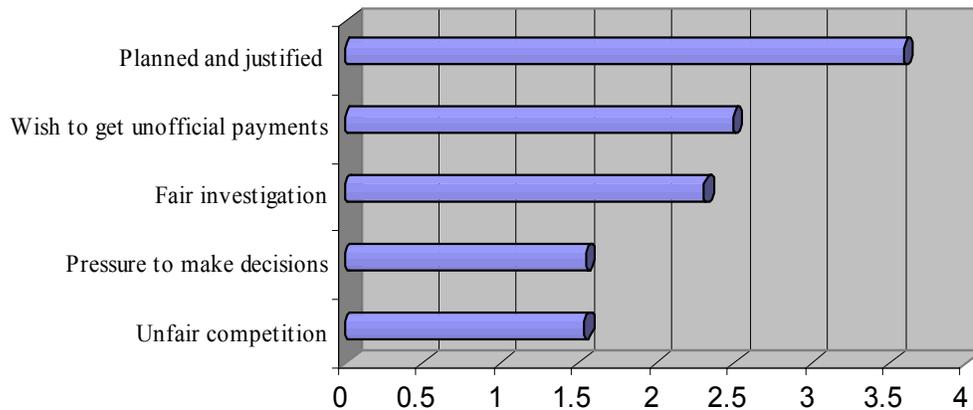
	Country	Fines, %	Fines, \$	Informal, %	Informal, \$
Tax Inspection	<b>Ukraine, 02</b>	<b>40.2%</b>	<b>\$2,910</b>	<b>9.9%</b>	<b>\$218.8</b>
	Georgia, 02	48.2%	\$224.4	36.8%	\$285.6
	Belarus, 01	44.0%	\$1,050	8.6%	\$123.0
	Moldova, 02	63.6%	\$1,027	45.4%	\$217.6
	Bulgaria, 02	8.8%	\$153.7	27.3%	\$89.4
Fire inspection	<b>Ukraine, 02</b>	<b>15.7%</b>	<b>\$76.7</b>	<b>10.9%</b>	<b>\$95.5</b>
	Georgia, 02	5.5%	\$17.6	21.9%	\$30.0
	Belarus, 01	16.0%	\$60.0	6.0%	\$78.0
	Moldova, 02	15.3%	\$26.0	23.0%	\$32.9
	Bulgaria, 02	2.5%	\$48.5	37.5%	\$22.7
Sanitary inspection	<b>Ukraine, 02</b>	<b>11.5%</b>	<b>\$48.0</b>	<b>6.8%</b>	<b>\$95.4</b>
	Georgia, 02	6.5%	\$25.6	22.9%	\$27.5
	Belarus, 01	14.0%	\$115.0	5.2%	\$47.0
	Moldova, 02	12.0%	\$63.5	21.6%	\$50.8
	Bulgaria, 02	1.8%	\$317.0	30.8%	\$33.0

Respondents overwhelmingly believe that laws in Ukraine are enforced selectively. **71.1%** of respondents either fully (**49.8%**) or partially (**21.9%**) agree with such a

statement. In another question if asked if they believe businesses are equally treated by law **26.7%** of respondents answered yes.

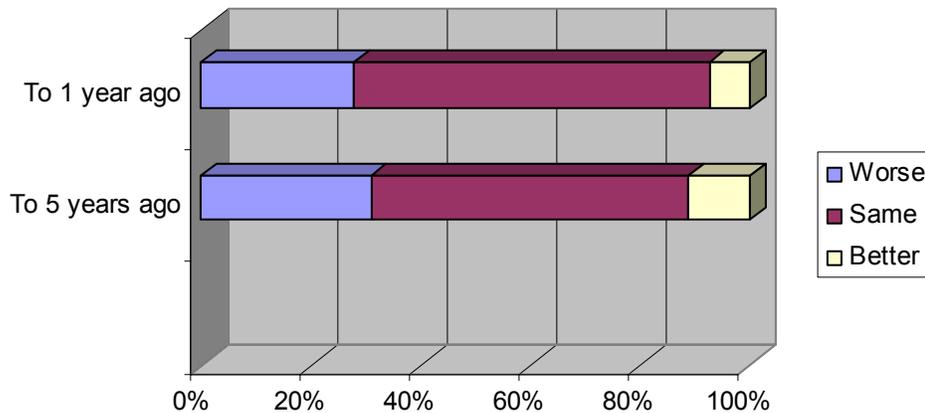
When asked to provide in their opinion the best for them reason of why their own business was targeted for inspection, however, most respondents said that reasons were objective and justifiable by law (see Picture 38).

**Picture 38 Respondents' perception of the reasons for inspections (5-point scale evaluation where 1 – is not the reason and 5 – is the greatest reason)**



Finally, as in other regulatory areas except customs, majority respondents believe that inspection regime did not change much over time. There are more respondents believing that it became worse than those who believe it became better (see Picture 39).

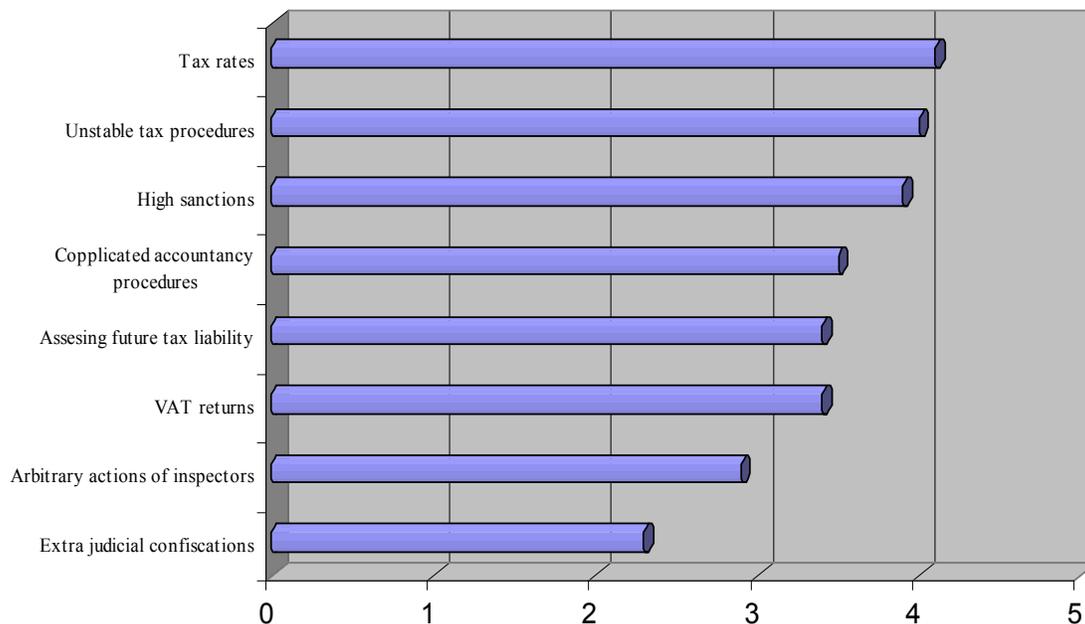
**Picture 39 Perception of the change in inspections regime**



#### 4.8. Administration of Taxation

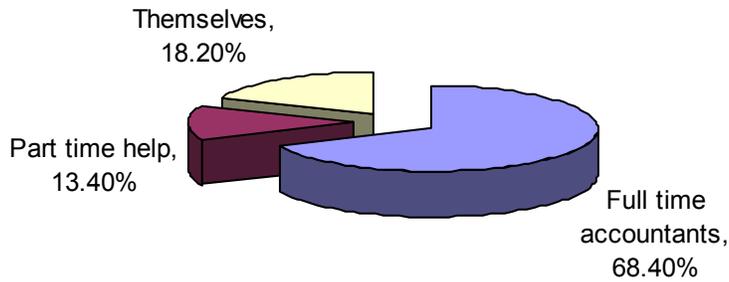
According to experts, taxation and reporting regulations are among the most serious obstacles to business development. When asked what caused the most important problems to businesses in the area of taxation, respondents predictably named tax rates as the greatest problem (**4.1 points** on the 5 – point scale where 1 – is not a problem and 5 is severe problem). This problem was however very closely followed by the issue of frequent changes (instability) of taxation procedures – **4.0 points** and high sanctions for violations – **3.9 points**. Extra judicial confiscation of assets was ranked as the least problematic issue (**2.3 points**) which proves that reform in this area was quite successful (see Picture 40). It is necessary to note, however, that all issues presented below, except last one, are problematic to businesses. These numbers are slightly lower than evaluation of tax regime in 1999. Tax rates in 1999 received **4.3 points**, instability of tax procedures **4.3 points**, while overall tax administration **3.8 points**.

**Picture 40 Evaluation of problems in taxation on the 5 – point scale (where 1 – is not a problem and 5 is severe problem)**



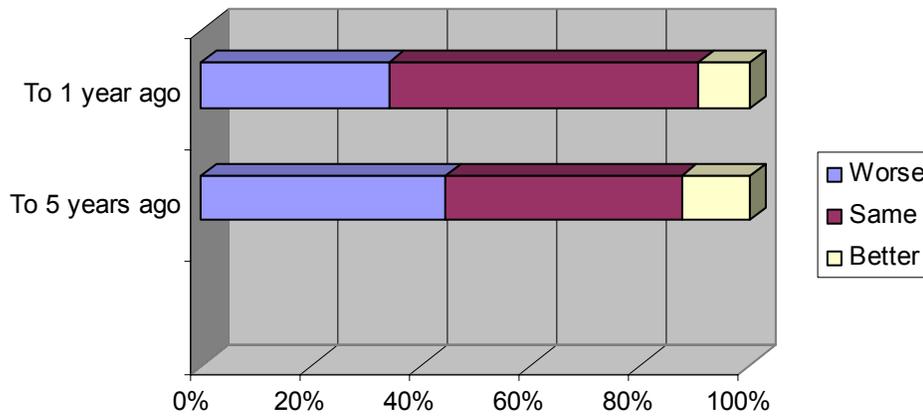
In 2002 businesses reported paying on average **7.4 different taxes**. In 1999 this number was **10**. In order to ensure correct and timely payment of taxes and accounting, majority of businesses in 2002 (**68.4%**) have full time accountants. The average number of these accountants is **3**. The rest companies either hire part-time help or managers do accounting by themselves (see Picture 41). In 1999 **86.3%** of surveyed businesses reported to employ accountants on the full time basis.

**Picture 41 Who does accounting**



Despite slight improvements based on data comparison between 1999 and 2002, Survey respondents believe that tax administration either did not change or became worse in comparison to 1 and 5 years ago (see Picture 42).

**Picture 42 Perception of the change in taxation regime**



#### **4.9. Regulation of Prices**

Generally, among the regulations that hinder business development in Ukraine, regulation of prices is not considered to be major obstacle. In 2002 **27.6%** of surveyed businesses experienced regulation of their prices. This is similar, although slightly lower than 1999 data (**30.2%**). Businesses in most cases reported that their goods or services are subjects of fixed prices (8.7%) or price ceilings (8.3%) (see Table 24).

**Table 24 Businesses that reported that their prices are regulated in 1999 and 2002**

	<b>2002</b>	<b>1999</b>
Prices are free	72.4%	69.8%
Restrictions on profitability	6.0%	7.3%
Fixed prices on goods or services	8.7%	10.1%
Ceilings for retail prices	8.3%	11.9%
Minimal retail prices	4.7%	N/A

Those businesses that said that their prices are regulated reported that on average **23.2%** of their prices (based on sales) are regulated. This number in 1999 was **35.5%**. **13.5%** of businesses declared that prices for all their outputs are regulated. In 1999 this number was **18.4%**.

Like in 1999, businesses reported in 2002 that State Price Committee mostly regulated (or monitored) their prices (23.5%). It is closely followed by State Tax Administration (20.2%). The role in monitoring or regulating prices mostly decreased in last 3 years for Local State Administrations (see Table 25).

**Table 25 Number of respondents who stated that state agencies control or monitor their prices (control is not limited to regulation) by agency, in %**

	<b>2002</b>	<b>1999</b>
Antimonopoly Committee	9.3%	15.2%
Branch ministries	10.2%	10.3%
Local State Administration	14.0%	31.5%
Local self-government	7.8%	14.1%
STA	20.2%	19.0%
State Price Committee	23.5%	41.8%
Ministry of Internal Affairs	2.1%	N/A
Other	23.1%	16.8%

#### **4.10. Regulations of Contracts**

One of the goals of the surveys was to explore the situation in the field of contracts and trade on whether contracts are regulated by government officials, and what losses are caused by non-fulfillment of contracts as a result of government activities.

In 2002, **24%** of respondents declared that their contracts are monitored by government agencies. This is significantly lower than **39.4%** reported in 1999.

Comparison of the aspects of contract monitoring and regulations between 1999 and 2002 is presented in Table 26. All aspects decreased in last three years. Like in 1999 State most frequently monitors settlement terms of contracts and prices.

**Table 26 Aspects of contracts that are most monitored by the state agencies**

	<b>2002</b>	<b>1999</b>
Prices	47.6%	47.7%
Types of goods	27.1%	38.4%
Contract size	32.6%	36.3%
Settlement terms	59.6%	66.7%
Partners	34.2%	35.3%

As a result of trying to comply with official instructions or because of the activities of authorities, **7.5%** of respondents could not fulfill their contracts in 2002 which is lower than **12.3%** reported in 1999.