

## Measuring Competitiveness of Ukraine's Regions in 2013

For the third year in a row, the Foundation for Effective Governance has been analyzing competitiveness of 27 Ukrainian regions using the methodology of the WEF's Global Competitiveness Index. The survey gives the opportunity to see the changes in the regions' performance and identify the trends of their development. Analysis of regions' competitive advantages and barriers to their development can be used for making strategic decisions that will contribute to improvement of standards of life in the regions and help to choose the right place for doing business.

Ukrainian National Competitiveness Index 2013 has been calculated using the statistics data 2011-2012 as well as the results of the Executive Opinion Survey carried out from January to May 2013.

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### OVER THE LAST THREE YEARS ALL THE REGIONS HAVE IMPROVED THEIR SCORES IN NATIONAL RANKING

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Over three years the overall regional index has increased by 0.14 points, from 3.87 to 4.01. In 2011 the average national score corresponded to 96th place out of 142 countries (performing at the level of Serbia and Mongolia), while this year the national average score corresponds to 88th place out of 148 countries in the global ranking (at the level of Cambodia, between Bosnia and Moldova).

Over the last three years several Ukrainian regions have move up in the national ranking showing significant improvement in the performance: AR Crimea (up 11 places), Khmelnytsky Oblast (up 7 places), Odesa and Rivne oblasts (up 5 places). At the same time there are some oblasts where the situation has deteriorated: Luhansk and Mykolayiv oblasts (down 8 places) and Volyn Oblast (down 5 places).

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### OVER THE LAST THREE YEARS AR CRIMEA HAS MOVED UP BY 11 PLACES, KHMELNYTSKY OBLAST – UP 7 PLACES AND ODESA AND RIVNE – UP 5 PLACES

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2013 sees changes in the top five regions. Odesa Oblast appears in the top five ranking 3rd, ahead of Donetsk and Dnipropetrovsk oblasts. As a result Kyiv Oblast drops out of the national ranking. Thus, this year's top five regions include: Kyiv City, Kharkiv, Odesa, Donetsk and Dnipropetrovsk oblasts.

There are also changes in the bottom half of the ranking. This year Kherson Oblast improves its positions overtaking Kirovohrad Oblast which is ranked a rock bottom 27th place in the national ranking. The five worst performing regions are in fact the same as last year: Chernihiv, Ternopil, Zhytomyr, Kherson and Kirovohrad oblasts.

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### OVER THE LAST THREE YEARS LUHANSK AND MYKOLAYIV OBLASTS HAVE LOST 8 POSITIONS AND VOLYN OBLAST DROPS 5 PLACES IN THE RANKING

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In global comparison, the leading Ukrainian region (Kyiv City) is assessed at 51st place out of 148 countries, being placed at the level of Latvia, Kazakhstan and Italy.

Average results of Ukrainian regions in the Ukrainian National Competitiveness Index and across the pillars over the last three years			
	2011	2012	2013
<b>Global Competitiveness Index</b>	3.87	4.00	4.01 ↑
Institutions	3.69	3.77	3.83 ↑
Infrastructure	3.77	3.81	3.90 ↑
Macroeconomic environment	4.03	4.52	4.20 ↓
Health and primary education	5.75	5.76	5.75 ↓
Higher education and training	4.45	4.49	4.55 ↑
Goods market efficiency	3.79	3.94	4.12 ↑
Labor market efficiency	4.77	4.78	4.63 ↓
Financial market development	3.83	4.00	4.12 ↑
Technological readiness	2.95	3.10	3.11 ↑
Market size	1.91	2.10	2.21 ↑
Business sophistication	3.81	3.89	3.96 ↑
Innovation	2.91	2.99	3.04 ↑

Source: Ukrainian National Competitiveness Index, 2011 -2013

The outsider – Kirovohrad Oblast – ranks 99th globally, close to Nicaragua and Salvador.

#### KYIV CITY'S INDEX CORRESPONDS TO 51ST PLACE GLOBALLY OUT OF 148 COUNTRIES, AT THE LEVEL OF LATVIA, KAZAKHSTAN AND ITALY

In 2013 thirteen Ukrainian regions have worsened their performance in the national ranking year-on-year, seven regions improved and other seven retained their positions. The average competitiveness index of Ukraine makes 4.01 points, up 0.01 point since last year.

Ukrainian regions have improved their average scores across nine pillars of competitiveness compared with last year. The average scores of regions deteriorate most notably in two areas: macroeconomic environment and labor market efficiency.

#### IN 2013 WE SEE A NARROWER GAP BETWEEN THE REGIONS IN THE INSTITUTIONS PILLAR

The regional disparity has become slightly wider. The disparity between the best and the worst performers increases by 0.01 points to 0.56. In global comparison, last year the difference between them made 46 places, while this year it makes 48 places. At the same time, the disparity between the best and the worst performers decreases from 0.71 to 0.54. Also we see that the disparity in goods market efficiency and business sophistication pillars has decreased. On the other hand regions show wider disparity in higher education and training and technological readiness.

AS USUAL, THE BEST PERFORMERS ARE LARGE REGIONS WITH A WELL-DEVELOPED INFRASTRUCTURE, GOOD SYSTEM OF HIGHER EDUCATION, HIGH LEVEL OF TECHNOLOGICAL READINESS, WELL-DEVELOPED BUSINESS AND GOOD INFRASTRUCTURE FOR INNOVATIONS

The regions show very uneven performance in the infrastructure pillar (the difference is about 2 points), technological readiness (1.6), higher education and training (1.2), and innovations (1.2). As usual, they are very much different in terms of market size.

On the other hand, the disparity between the regions in terms of health and primary education, goods and labor market efficiency, financial market development and business sophistication is getting narrower.

#### THE REGIONS IN THE BOTTOM OF THE RANKING HAVE RELATIVELY GOOD SCORES IN SUCH PILLARS AS INSTITUTIONS, HEALTH AND PRIMARY EDUCATION AND LABOR MARKET EFFICIENCY

Poor institutional framework has always been a weakness of Ukraine and constrained its competitive development. Ukraine's average in the institutions pillar is 3.83 points, which is below the global average (3.98). At the same time Ukraine outperforms the Central and Eastern Europe (CEE; 3.75) and CIS (3.59). The poor functioning institutional environment has always been a problem for the leading regions. For the third year in a row, Kyiv City ranks in the bottom of the national ranking in this dimension (104th place out of 148 countries in the global ranking, at the level of Cote d'Ivoire). Khmelnytsky Oblast is the best performer in the institutions pillar. It ranks at the level of Georgia or 68th place globally. Still, it is not good enough to be called a competitive advantage of the region. At the same time some aspects of institutional framework receive good assessment in global comparison. Thus, Khmelnytsky Oblast can boast its transparency of government policymaking (the best score among the regions). It ranks 15th globally, at the level of Canada and Japan. Also, business executives believe that Ukraine has very low business costs of terrorism in global comparison. Kirovohrad Oblast ranks 6th globally in this sub-pillar, at the level of Iceland. Due to high concentration of large businesses Donetsk Oblast shows very good performance in efficacy of corporate boards. It performs better than Switzerland, Canada and the USA (11th globally). Still, there are some common challenges for all the regions. First of all they include low level of protection of minority shareholders' interests. The best performer in this indicator is Khmelnytsky region which ranks 96th globally, while the outsider (Cherkasy Oblast) ranks 143rd out of 148 countries, at the level of Mauritania and Burundi.

#### DONETSK OBLAST SCORES HIGHER THAN SWITZERLAND, CANADA AND THE UNITED STATES FOR EFFICACY OF CORPORATE BOARDS, MATCHING 11TH PLACE IN THE GCI OF 148 NATIONS

Infrastructure remains a competitive advantage of Ukrainian capital both in national and international

**Figure 2.1** Performance of Ukrainian regions across 12 pillars of competitiveness in 2013

Source: Ukrainian National Competitiveness Index, 2013

comparison: in 2013 Kyiv has exceeded Ukraine's average even more – by 30%, with the score corresponding to 32nd spot globally. Ternopil in the worst performer in the pillar: the region receives 3.31 points, at the level of Romania and Albania at 101st. Ukraine's infrastructure average score (3.90) approximates that of the CIS (3.91) and the world (3.93). At the same time, Ukrainian regions are somewhat behind the countries of Central and Eastern Europe (3.99). Infrastructure development varies by region. On the other hand, all Oblasts receive high assessment of the quality of railroad infrastructure and low score for the quality of the quality of roads, port infrastructure and air transport infrastructure. For example, Kharkiv would take 11th position in the world by the quality of railroad infrastructure, performing at the level of the Netherlands.

#### ALL REGIONS RECEIVE HIGH ASSESSMENT OF THE QUALITY OF RAILROAD INFRASTRUCTURE AND LOW SCORE FOR THE QUALITY OF ROADS, PORT INFRASTRUCTURE AND AIR TRANSPORT INFRASTRUCTURE

Health and primary education has been the strongest pillar of the country's competitiveness for three years running. This year all regions have scored above the global average, showing little gap between each other. Executives give the highest score for performance in the pillar to Kyiv Oblast and a number of regions from western

Ukraine: Chernivtsi, Zakarpattya and Ternopil. Kyiv Oblast's score (5.97) matches 48th place in the GCI, at the level of the Middle Eastern countries like Oman, Tunisia and the UAE. Agricultural Kirovohrad and Sumy as well as industrial Zaporizhzhya and Dnipropetrovsk are the worst performers. Kirovohrad's score of 5.52 corresponds to 81th position in the world (Thailand and Morocco). Some dimensions of the pillar are problematic for all regions. Ukraine's average of HIV prevalence matches 78th position among 148 countries, quite comparable with the performance of France, Italy and Switzerland. Dnipropetrovsk, however, ranks at the very bottom of Ukrainian National Competitiveness Report and 112th in the GCI. Ukrainian regions are also laggards in terms of tuberculosis incidence; the national average is at the level of Sri Lanka (88th). Kherson has the highest rate of tuberculosis incidence, matching 110th spot globally.

Ukrainian Oblasts rank relatively high on higher education and training. This advantage is traditionally attributed to quantitative indicators of secondary and tertiary enrollment rates. The quality of management schools and extent of staff training are of concern in all regions. Executives believe the best business schools are in Kyiv, though the city performs at the level of 100th position in the world. Donetsk, the national top performer in the extent of staff training, would take only 118th place among 148 countries. The gap in the pillar between regions has increased a little year on year. In global comparison, the

**Figure 2.2** Ukraine's average scores in 2013 benchmarked against CEE and CIS

Source: Ukrainian National Competitiveness Index 2013

gap between the top-ranked and bottom-ranked regions is 60 places. Ukraine's best performers, Kharkiv, Kyiv city and Odesa, receive the highest assessment: 5.28, 5.16 and 4.96 respectively. The Ukrainian leaders would take high 21st (Japan) and 37th (Lithuania) places in the GCI. Kirovohrad, Zakarpattia and Chernihiv round up the national ranking in the higher education and training pillar. Kirovohrad's score of 4.08 corresponds to 81st position in the GCI. Nevertheless, the national average exceeds the average results of the world, CIS and CEE.

**REGIONS' HIGH SCORES FOR HIGHER EDUCATION AND TRAINING ARE TRADITIONALLY ATTRIBUTED TO THE QUANTITATIVE INDICATORS OF THE SECONDARY AND TERTIARY ENROLLMENT RATES. THE QUALITY OF EDUCATION AND ON-THE-JOB TRAINING REMAIN VERY LOW**

In Ukraine, goods market efficiency is assessed traditionally low, with the average score (4.12) being below that of the world (4.24) and CEE (4.19). At the same time, Ukraine outperforms the CIS on average (4.08) in the pillar. This year Odesa (4.26) tops the national ranking yet would take only 72nd position in the GCI (Portugal). The worst performer is Ternopil (4.01), at the level of 101st spot globally.

**THE WEAKEST INDICATORS OF GOODS MARKET EFFICIENCY PILLAR ARE LOW PREVALENCE OF FOREIGN OWNERSHIP, INTENSITY OF LOCAL COMPETITION AND BURDEN OF CUSTOMS PROCEDURES**

In particular, Kyiv shows the highest prevalence of foreign ownership, yet the result corresponds only to 114th position among 148 nations, while Kirovohrad's score is low both in the national and international comparison. Chernihiv, the outsider in terms of intensity of local competition, would rank 132nd globally.

On the contrary, labor market efficiency is high throughout Ukraine. The score of Ukraine's worst performer is still above the world or CEE average. The performance is partly down to quite flexible labor laws in Ukraine. In 2013, Khmelnytsky has received the highest score of 4.80, matching those of Japan (23rd) and Barbados (24th). Kherson is the worst performer with 4.42, though the result is high in the global ranking (56th). Brain drain is the biggest concern in the pillar across Ukraine. Despite Kyiv's high capacity to attract talent from abroad and other Ukrainian regions (1st in Ukraine and 31st in the world), its capacity to retain talent (1st in the national ranking) is only at the level of 90th position in the GCI. Zaporizhzhya, which receives the lowest assessment of this indicator, would take a very low 139th place among 148 countries, at the level of Mauritania and Nepal.

**Table 2.2** Ukrainian regions' performance 2013 in twelve competitiveness pillars

	Kyiv	Kharkiv	Odesa	Donetsk	Dnipropetrovsk	Lviv	Kyiv Oblast	Zaporizhzhya	Poltava	Sevastopol	AR Crimea	Rivne	Khmelnytsky	Sumy	Ivano-Frankivsk	Vinnitsya	Volyn	Cherkasy	Mykolayiv	Zakarpattia	Luhansk	Chernivtsi	Chernihiv	Terнопil	Zhytomyr	Kherson	Kirovohrad
<b>Ukrainian National Competitiveness Index 2013</b>	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27
<b>Subindex A: Basic requirements</b>	1	3	2	7	16	14	5	15	12	4	6	9	19	22	21	17	18	20	10	13	23	8	11	24	27	25	26
1st pillar: Institutions	27	20	26	17	23	21	14	22	7	24	25	4	1	9	15	2	5	18	13	3	16	6	10	11	12	19	8
2nd pillar: Infrastructure	1	4	2	6	7	12	9	8	15	3	5	14	24	20	23	16	21	13	10	22	17	18	11	27	26	19	25
3rd pillar: Macroeconomic environment	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1
4th pillar: Health and primary education	14	15	11	19	26	6	1	24	10	16	12	8	7	25	5	18	9	13	23	3	17	2	22	4	21	20	27
<b>Subindex B: Efficiency enhancers</b>	1	2	4	5	3	6	7	8	9	22	18	12	11	10	15	17	16	13	21	19	14	24	23	25	20	26	27
5th pillar: Higher education and training	2	1	3	8	5	7	21	4	12	6	22	11	17	9	19	23	24	13	14	26	10	15	25	16	20	18	27
6th pillar: Goods market efficiency	5	9	1	14	17	23	8	21	12	20	15	10	2	6	16	13	4	25	19	7	18	3	24	27	11	26	22
7th pillar: Labor market efficiency	8	3	13	19	16	10	12	23	22	20	26	6	1	18	4	7	9	11	21	17	25	15	2	14	5	27	24
8th pillar: Financial market development	24	4	23	5	6	13	15	9	3	21	17	2	7	1	20	14	8	12	27	11	22	18	10	16	19	25	26
9th pillar: Technological readiness	1	4	2	3	5	6	18	24	15	10	14	21	16	19	11	12	7	8	13	9	27	17	23	25	22	20	26
10th pillar: Market size	1	5	6	3	2	7	4	10	9	27	11	22	17	16	12	13	20	15	18	14	8	26	21	25	19	24	23
<b>Subindex C: Innovation and sophistication factors</b>	5	1	14	2	3	9	20	10	23	4	11	12	18	8	6	13	19	21	16	25	15	7	26	24	27	17	22
11th pillar: Business sophistication	11	2	9	1	3	21	19	6	20	16	5	13	15	4	7	14	18	8	23	26	17	10	24	25	27	12	22
12th pillar: Innovation	5	1	14	2	3	6	20	15	21	4	16	11	19	10	7	12	18	25	9	24	13	8	26	23	27	22	17

Source: Ukrainian National Competitiveness Index 2013

Financial market development still shows a small difference among Ukraine's regions. The average value in the pillar is higher than that in the world, the CIS and CEE. Sumy receives the highest score in financial market development (4.26) that corresponds to 56th spot globally. Mykolayiv scores the worst (3.92) – at the level of 75th position in the GCI. Despite relatively high general scores in the pillar, the regions perform low in a range of indicators. In particular, most oblasts get bad scores for venture capital availability. Zaporizhzhya tops the national report by venture capital availability but its place corresponds only to 98th position in international comparison. Sumy demonstrates the lowest score, which is at the level of 134th place globally.

Technological readiness is a pillar with a big gap between regions of more than 1.5 points – slightly bigger year on year. Leaders of Ukrainian National Competitiveness Report perform better than others in technological readiness. Unchallenged leadership of Kyiv in Ukraine (the gap from the second place is almost one point) looks less optimistic in the global comparison where the city could take 46th position (Croatia and Hungary). Luhansk is the outsider (2.78) performing at the level of 121st position in the global index (Bolivia).

### THE AVERAGE SCORE OF REGIONS SIGNALS THAT TECHNOLOGICAL READINESS IN UKRAINIAN OBLASTS IS LOWER THAN ON AVERAGE IN THE WORLD, CEE AND CIS

All regions receive poor scores for availability of latest technologies: even the leader, Donetsk, could take only 111th place globally, while the outsider – Chernihiv – is the worst performer in the world. Regions also lag behind by FDI and technology transfer being among underachievers in the global index.

The market size pillar demonstrates the biggest difference between regions, which is explained by objective factors as the economic activities are concentrated in several oblasts. The most competitive regions that also have the biggest domestic and foreign markets lead the ranking with Kyiv on top.

### KYIV'S MARKET SIZE IS COMPARABLE WITH THE 66TH ECONOMY IN THE GLOBAL COMPETITIVENESS INDEX

On average, the markets of Ukrainian regions are not big. The national average (2.21) is much lower than the average market size in the world and groups of countries.

### DONETSK HAS RANKED AS AN UNDISPUTABLE UKRAINIAN LEADER BY BUSINESS SOPHISTICATION FOR THE SECOND YEAR

By business sophistication, Ukrainian oblasts are below the average global index, yet their average score are above that of the CIS and CEE. The difference between regions is small, not exceeding half a point. The regions leading the national report have high scores in the pillar. Donetsk has ranked as an undisputable Ukrainian leader by business sophistication for the second year, delivering a strong performance globally as well (53rd) – at the level of Estonia, Chile or Mexico. Poland, for example, takes 65th place, and Russia, 107th. Zhytomyr rounds up the pillar (3.79; 89th globally). A narrow value chain and poor production process sophistication restrict the growth of regions on the business sophistication pillar.

Ukrainian regions have performed poorly on innovation over the past years with the average score of 3.04 out of 7, which puts them in the bottom half of the ranking (91st place at the level of Cambodia and Uganda). The gap between regions is big – around a point. The best (Kharkiv, 3.60) and worst (Zhytomyr, 2.67) performers have 84 spots between them in the global index. Kharkiv could be in top 50 countries on innovation, while Zhytomyr's place corresponds to 128th position (Georgia, Zimbabwe and Mozambique). The region performs the worst in Ukraine in the quality of scientific research institutions and availability of scientists and engineers. By both dimensions the oblast is in last 10 of the global index. PCT patent applications and company spending on R&D are the most critical indicators restricting increase of regions' innovation scores.

people. The main method of information collection was a telephone interview with company executives in Ukraine's oblasts. The number of interviews carried out from January 2013 to May 2013 totaled 2,080: 1,910 interviews with non-financial sector companies and 170 with financial sector companies.

## ASSESSMENT METHODOLOGY

The World Economic Forum continues to improve the GCI methodology to make the comparison of countries more objective and meet the latest international trends. This year the index has seen a number of changes, not dramatic though. Favoritism in decisions of government officials was excluded from the pillar of institutions. Two others indicators were divided into two. The "effect of taxation" was divided into "effect of taxation on incentives to invest" and "effect of taxation on incentives to work". The "brain drain" was divided into the capacity to retain talent and attract talent.

## EXECUTIVE OPINION SURVEY

According to the WEF methodology, the findings of executive opinion surveys account for two-thirds in the calculations of the global competitiveness index. The same ratio is kept for the Ukrainian National Competitiveness Index.

As in 2012, over two thousand business executives in 24 oblasts of Ukraine, AR Crimea, Kyiv and Sevastopol shared their views on the national ranking this year. The sample size for each region was determined based on the region's share in national GDP, total number of employees across the country and total industrial output. Thus, the overall number of respondents in each region varied from 53 to 126 people.

Within a specific region, respondents were categorized according to two pools: industry and size (headcount). The industry pools took into account the structure of the regional economy (shares in regional GRP and employment). The size-based pools were developed for three categories of companies: under 50 people, 51-250 people and over 250