

CHAPTER 4

The Most Problematic Factors for Doing Business in Ukraine's Regions

According to the Executive Opinion Survey, policy instability is the major hindrance to doing business in Ukraine. This opinion is shared by business executives from 21 out of 27 Ukrainian regions. The second most pressing problem for doing business is tax regulations which is the same as last year. This year, however, the number of respondents who mentioned tax regulations as a problematic factor has reduced by 2%. Only 5 Oblasts consider tax regulations as the more problematic factor for doing business (compared with 13 Oblasts in 2012). Corruption retains third place in the list (11.3% of respondents). These are the results of a special poll collecting the insight of 2,080 business executives in 27 regions of Ukraine (Figure 4.1). The survey's data is not used to calculate the competitiveness index but it gives some understanding of major impediments to doing business in Ukrainian regions from a business perspective.

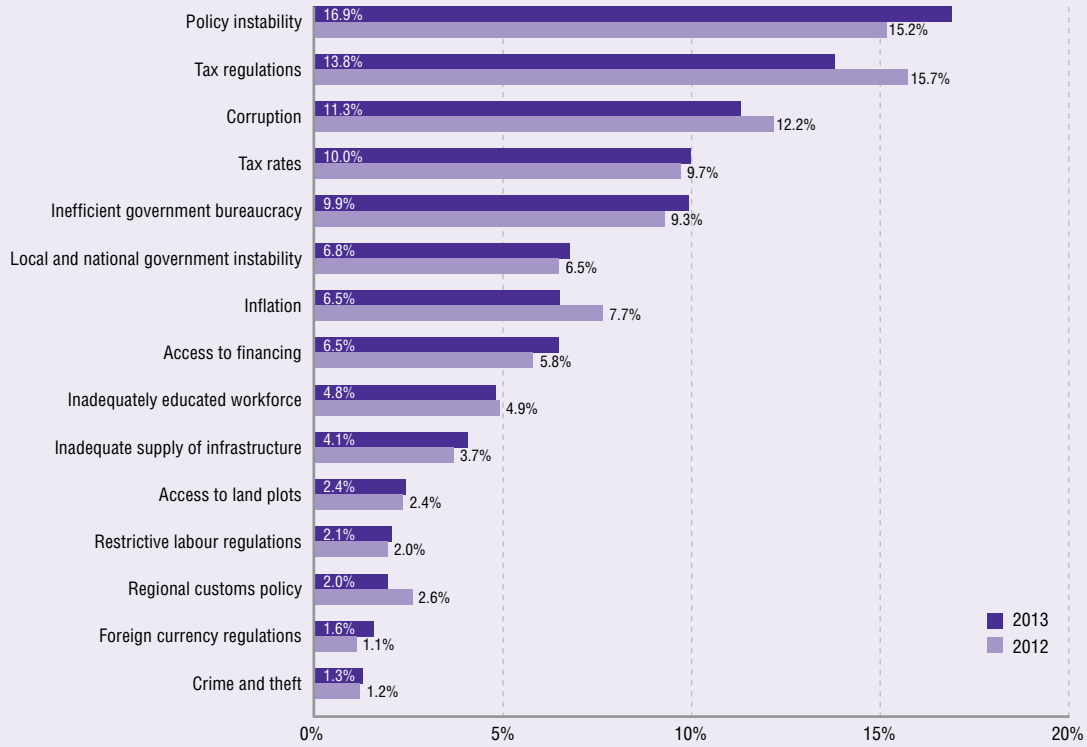
The top five problems faced by business' in Ukraine traditionally include inefficient government bureaucracy and tax rates. Thus, three out of five problematic factors refer to state institutional framework whilst two are connected with taxation.

Policy instability is singled out as the most problematic factor for doing business in Chernihiv (22.5%) and Kharkiv (21.2%) Oblasts. Kirovohrad Oblast, AR Crimea and the City of Sevastopol do not see this as a problem. Sumy (17.7%), Zaporizhzhya (16.3%) and Mykolayiv (15%) Oblasts and the City of Sevastopol (15.5%) consider tax regulations as the most problematic factor for doing business in these Oblasts. This problem is of less importance in Poltava (11%) and Ivano-Frankovsk (11.3%) Oblasts. The problem of corruption causes much trouble in the City of Kyiv (15.3%) and Ternopil Oblast (14.4%) and is less widespread in Sumy and Chernivtsi Oblasts. Business executives of Cherkasy Oblast, and of Crimean Peninsula (AR Crimea and the City of Sevastopol) single out inefficient government bureaucracy as the biggest hindrance to doing business in their Oblasts (14.9%, 12.5% and 12.9% respectively). Sumy Oblast has the biggest problem with tax rates (16.8%), while it is of less concern in Kharkiv and Chernihiv oblasts (7.1%).

Almost all western Oblasts experience problems with access to financing: Chernivtsi (10.9%), Khmelnytsky (8.8%) and Rivne (8.7%) Oblasts. Lviv and Zakarpattya Oblasts are the only exception (5% and 3.8% respectively). The Oblasts suffering from inadequate supply of infrastructure include Zakarpattya (7.2%), Chernivtsi (7.1%) and Kherson (6.6%) Oblasts. Business executives of Poltava, Chernihiv and Kirovohrad Oblasts are unsatisfied with inadequately educated workforce (8%, 7.3% and 7.2% respectively). The problem of local and national government instability in Chernivtsi Oblast is twice as bad as in Ukraine as a whole (11.2% against Ukraine's average of 6.8%). Inflation remains a hindrance for businessmen of Vinnitsa and Zakarpattya Oblasts (8.9% and 8.6% respectively), whilst business executives in Poltava Oblast do not regard this as a serious problem (3.9%). Poltava Oblast suffers more than other Oblasts from minimal access to land plots (5.6%). Regional customs policy as usual presents a problem in Zakarpattya (4.4%) and Odesa (4.1%) Oblasts.

The Executive Opinion Survey makes it possible to identify the most problematic factors for doing business

Figure 4.1 Most problematic factors for doing business – 2013 vs 2012



Source: Foundation for Effective Governance, Executive Opinion Survey, 2013

Table 4.1 Most problematic factors for business by industry, share of respondents who picked a factor as the most problematic

	Ukraine	Banking	Extractive industry	Other services	Investment banking	Manufacturing	Hotels and restaurants	Electricity, water and gas supply	Agriculture	Insurance	Construction	Wholesale and retail trade	Transport and communications
Policy instability	16.9	16.5	20.5	17.0	16.5	16.0	17.8	15.9	19.3	22.9	18.2	16.4	14.7
Tax regulations	13.8	9.9	17.2	13.2	23.0	15.4	8.7	10.7	10.7	10.9	12.1	15.9	14.7
Corruption	11.3	14.8	6.1	12.5	15.1	10.8	7.2	8.3	9.4	13.5	13.8	12.6	9.6
Tax rates	10.0	6.0	9.8	9.4	8.6	11.5	12.1	11.2	7.6	5.0	9.6	11.7	8.8
Inefficient government bureaucracy	9.9	12.2	8.7	10.2	18.0	9.8	12.1	7.8	10.2	9.5	10.0	8.7	11.6
Local and national government instability	6.8	7.3	10.0	7.2	-	6.2	8.7	8.9	5.7	8.2	8.2	6.6	6.6
Inflation	6.5	9.0	5.9	7.0	0.7	5.4	11.8	7.0	7.0	10.6	4.5	7.4	5.6
Access to financing	6.5	6.5	5.0	6.0	4.3	6.0	-	12.8	7.2	4.3	11.4	4.0	7.7
Inadequately educated workforce	4.8	2.2	3.1	5.4	4.3	6.4	5.0	5.3	5.2	3.4	3.8	3.5	3.7
Inadequate supply of infrastructure	4.1	4.9	1.5	4.1	-	3.6	5.9	7.1	4.2	7.5	3.4	2.8	6.1
Access to land plots	2.4	1.1	7.2	2.4	-	1.5	3.1	0.9	8.0	0.2	1.9	1.7	1.2
Restrictive labour regulations	2.1	1.9	1.7	2.2	-	2.0	5.3	2.2	1.9	1.9	1.6	2.3	2.3
Regional customs policy	2.0	0.8	-	0.9	1.4	3.0	0.9	-	0.6	0.5	0.3	2.8	3.9
Foreign currency regulations	1.6	4.6	0.2	1.1	6.5	1.7	0.6	0.2	0.8	1.0	0.6	2.2	1.9
Crime and theft	1.3	2.4	3.1	1.2	1.4	0.8	0.6	1.9	2.1	0.8	0.4	1.4	1.6

Source: Foundation for Effective Governance, Executive Opinion Survey, 2013

in breakdown by Oblasts (27) as well as by sectors of economy and business size, according to the classification applied by the World Economic Forum.

The survey demonstrates that all industries consider policy instability as their priority issue, except investment companies face their biggest problems with tax regulations (Table 4.1). Other companies suffering from the problem of tax regulations include insurance companies (22.9%) and the mining industry (20.5%). Transport business is worried about tax regulations (14.7%), thus, investment companies (23%), mining business (17.2%) and trade companies (15.9%) single out tax regulations as their priority problem. Corruption is a real trouble in the financial sector, for investment (15.1%) and insurance (13.5%) companies as well as banks (14.8%), and for construction (13.8%) companies. At the same time, mining (6.1%), energy power (8.3%) and hospitality and restaurant (7.2%) businesses do not see corruption as the most problematic factor for doing business.

Energy power and construction companies experience problems with access to financing (12.8% and 11.4% respectively), while hospitality and restaurant business do not consider this a problem (0%). On the other hand, hospitality and restaurant business experiences great problems with restrictive labour regulations (5.3%). Investment companies and banks raise concerns about foreign currency regulations (4.6%). Inadequate supply of infrastructure presents a problem for insurance (7.5%), energy power (7.1%) and transportation (6.1%) companies. Inefficient government bureaucracy is considered amongst the top five problematic factors for doing business in all sectors of economy (9.9%). With regards to investment companies however it is their major concern (18%). Mining companies suffer more than others from inadequately educated workforce (6.4%), whilst this is not a major problem for banks (2.2%). Tax rates present a burden for hospitality and restaurant business' (12.1%), trade companies (11.7%) and mining industry (11.5%). Banks and insurance companies do not experience big difficulties with tax rates (5%). Inflation is the major area of concern for hospitality and restaurant business (11.8%), insurance companies (10.6%) and banks (9%), whilst investment companies do not share this concern (0.7%). Mining (7.2%) and agricultural companies (8%) experience traditional problems with access to land plots.

The top three problems are the same for companies of all sizes, either small, or medium, or big business (Table 4.2).

There is a direct dependence between the company size and priority of policy instability and tax regulations, whilst in terms of corruption it is an inverse dependence; the bigger the company the fewer problems it faces with corruption.

Medium-sized companies suffer less from inadequate supply of infrastructure (3.6% against Ukraine's average of 4.1%). At the same time they experience serious problems with access to land plots (3.2% against the average sample responses of 2.4%). Medium-sized companies suffer less than other businesses from inefficient government bureaucracy (10.1%). Tax rates are more important for small business (10.3%) than for big corporations (8.5%). Regional customs policy is more important for big businesses than small ones: (it is about twice as high: 3.3% against 1.7%).

Table 4.2

Most problematic factors for business by size, share of respondents who picked a factor as the most problematic

	Ukraine	20-50 employees	51-250 employees	251 and more employees
Policy instability	16.9	16.6	17.2	17.4
Tax regulations	13.8	13.5	13.9	15.6
Corruption	11.3	11.7	11.2	9.3
Tax rates	10.0	10.3	9.9	8.5
Inefficient government bureaucracy	9.9	9.9	10.1	9.0
Local and national government instability	6.8	7.3	6.2	5.9
Inflation	6.5	6.8	6.2	5.6
Access to financing	6.5	6.2	6.7	7.6
Inadequately educated workforce	4.8	4.5	5.1	5.6
Inadequate supply of infrastructure	4.1	4.3	3.6	4.8
Access to land plots	2.4	2.0	3.2	2.4
Restrictive labour regulations	2.1	2.2	1.9	1.8
Regional customs policy	2.0	1.7	2.0	3.3
Foreign currency regulations	1.6	1.7	1.4	2.0
Crime and theft	1.3	1.3	1.3	1.2

Source: Foundation for Effective Governance, Executive Opinion Survey, 2013

INTERESTING FACTS:

- Over the last year the problems relating to access to land plots have become four times more important in Poltava and Ternopil Oblasts. This is the largest increase across the board. Tax rates can be attributed as the primary problem in Sumy Oblast (+7.9% of responses in the Oblast).
- The problem of access to land plots was mentioned four times less in Cherkasy Oblast compared with 2012, whilst the problem of regional customs policy is not perceived as an obstacle to doing business anymore in Chernivtsi Oblast. The biggest reduction in the number of responses refers to inflation in Chernihiv Oblast (-8.9%).
- The problem of inadequate supply of infrastructure is four times more important for businesses in mountain and border Zakarpattya and Chernivtsi oblasts than for Donetsk business community. Business executives of Chernivtsi Oblast are three times more concerned about access to financing than in Zakarpattya Oblast.
- The problem of inadequately educated workforce is on average twice more important for Poltava Oblast than in Ukraine. At the same time this problem is twice less important in Ivano-Frankovsk Oblast.
- For the respondents of Rivne Oblast crime and theft are twice as frequently mentioned (compared with the national average indicator), while Zakarpattya and Chernivtsi oblasts do not see it as a problem at all.
- Sumy Oblast demonstrates the largest concentration of responses referring to problematic factors for doing business (the first three factors make 51.5% of all responses). In AR Crimea the first three factors account for 36.5% of responses in the Oblast.
- This year business executives of mining companies are less concerned about the problem of corruption (down from 15.2% to 6.1%). At the same time tax regulations and tax rates gain 12.7% (first of all among executives of investment companies) and thus account for one third of all answers in the sector.
- Business executives of investment companies are worried about tax regulations. This problem is twice more important for investment companies (compared with the national average indicator) and three times more important for hospitality and restaurant business.
- Crime and theft is a major area of concern for banks (2.4%) and mining companies (3.1%). Construction companies do not include this as a priority concern (0.4%).
- Access to financing is not a problem for hospitality and restaurant businesses. In 2013 it has not been mentioned by the corresponding respondents. On the contrary, construction companies and suppliers of electricity, gas and water see it as a major area of concern (a two-fold increase year-on-year); for the latter this is problem number two on their list.
- Inefficient government bureaucracy (including permit and licensing system for doing business) is on top of the agenda of investment companies: they mention it twice more frequently than representatives of energy-generating, mining and trade companies.
- Corruption is no longer in the list of the top five hindrances for mining companies.