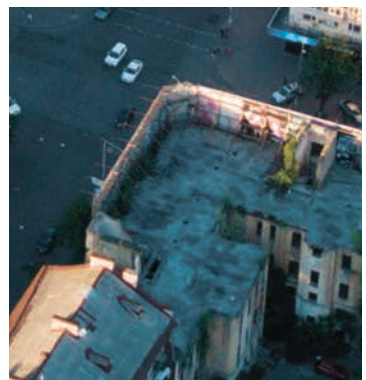
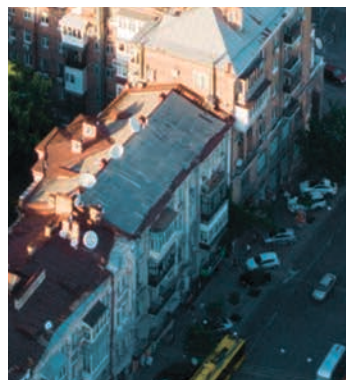


# MCI

2019/  
2020

Municipal  
Competitiveness  
Index

**Profiles  
of  
Municipalities**



The report became possible due to the support of the American People through the United States Agency for International Development (USAID) under the Competitive Economy Program in Ukraine (via the subcontract with Info Sapiens (INFO SAPIENS LLC) and the Institute for Economic Research and Policy Consulting (IER) for the development of the Municipal Competitiveness Index). The report and its results do not necessarily reflect the views of the United States Agency for International Development or the United States Government.

The survey of business entities was conducted by Info Sapiens, the collection of statistical information was done by the IER.

Authors of the study:

Oksana Kuziakiv (head of the research team), Yevhen Anhel, Iryna Fedets (all from the IER).

Some sections of this report have been prepared with the participation of:

Julia Baziuchenko, Anastasia Gulik (all from the IER);

Dmytro Savchuk, Anastasiya Shurenkova (all from Info Sapiens).

Translated by:

Julia Baziuchenko, Tymofiy Chuprun

***USAID Competitive Economy Program in Ukraine*** supports startups, small and medium enterprises (SMEs) aiming to provide support for competitive industries and firms on Ukrainian and international markets, foster a better business enabling environment, and enabling Ukrainian companies to benefit from international trade.

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Author of the cover photo collage: Vitalii Riznyk. Source of the photo: wallpaperflare.com

# ANALYTICAL REPORT

## Municipal Competitiveness Index 2019/2020

### Part 2. Profiles of Municipalities

Prepared by

NGO "Institute for Economic Research and Policy Consulting"  
(IER) under the Competitive Economy Program in Ukraine (via the  
subcontract with Info Sapiens (INFO SAPIENS LLC))

June 2020, Kyiv

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## List of abbreviations

BE – business entity

c - confidential

IE – individual entrepreneur

p.p. – percentage point

SMEs – Small and medium-size entities

USC – Unified social contribution

# Vinnytsia

## Number 4 in MCI

### General information

Vinnytsia is the administrative center of the Vinnytsia Region and a city of regional significance.

The city is also the administrative center of Vinnytsia district, although it is not part thereof.

In November 2018, the Vinnytsia City Amalgamated Territorial Community was established. It encompasses the Vinnytsia City Council and the Desna Village Council (the Desna Village), which is located in the vicinity of the city.<sup>1</sup>



### Location

Vinnytsia is located on the banks of the Pivdennyi Buh River, in the northern part of the region. However, the Vinnytsia Region is located in the central part of Ukraine. In the south, the Region borders the Republic of Moldova.

The nearest regional centers are Zhytomyr, Kropyvnytskyi, Odesa, Khmelnytskyi, Cherkasy, and Chernivtsi. Also nearby is the capital of Ukraine — Kyiv

The second most populous settlement in the region — the city of Zhmerynka — is also located nearby.

### Demographic situation

As of January 1, 2019, the permanent population of Vinnytsia was 368.0 thousand people. Vinnytsia is the largest city in the Vinnytsia Region. It accounts for almost a fourth of the Region's population (23.7%).<sup>2</sup>

The population of Vinnytsia, as well as Ukraine generally, is dominated by women (54.3%). There are 841 men per 1,000 women (864 at the country level). The share of the population aged from 15 to 64 is 70.3% (67.8% at the country level). In total, there are 423 people (475 at the country level) aged 0-14 and over 65 per 1,000 people of working age.

A natural decline of the population was observed in Vinnytsia in 2018 (-1.0 per 1,000 inhabitants). The death and birth rates reached 10.1 and 9.1, respectively.

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<sup>1</sup> Please see <https://decentralization.gov.ua/gromada/263#>.

<sup>2</sup> Here and below in the report, the statistical data of the Vinnytsia Region Statistics Headquarters of the State Statistics Service of Ukraine are used.

## Development of entrepreneurship

### Key structural business statistics in Vinnytsia in 2018

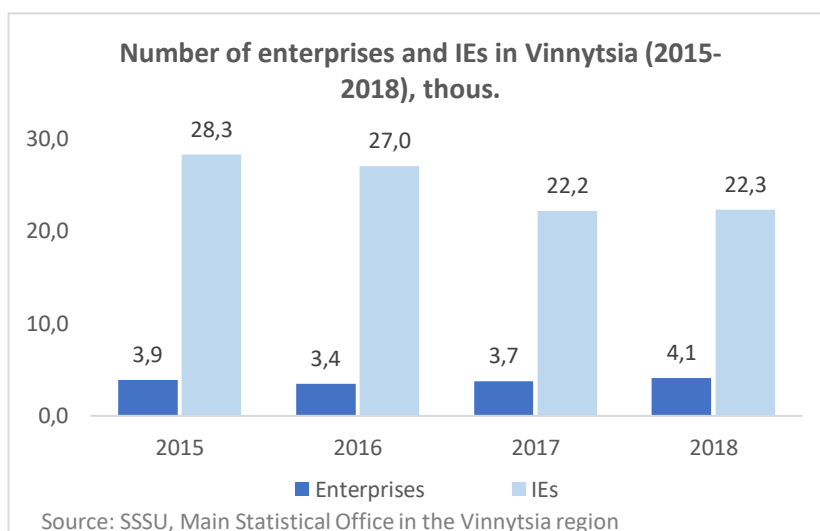
|                    | Absolute figures   |                          |                  | Relative figures      |                           |                         |
|--------------------|--------------------|--------------------------|------------------|-----------------------|---------------------------|-------------------------|
|                    | Number of entities | Employment, thsd persons | Turnover, UAH bn | Share in total number | Share in total employment | Share in total turnover |
| Large enterprises  | 6                  | 8.6                      | 18.6             | 0.02%                 | 7.9%                      | 18.1%                   |
| SMEs               | 26393              | 100.7                    | 83.9             | 99.98%                | 92.1%                     | 81.9%                   |
| Medium enterprises | 196                | 36.0                     | 46.7             | 0.74%                 | 32.9%                     | 45.6%                   |
| Small enterprises  | 3890               | 22.6                     | 23.1             | 14.74%                | 20.6%                     | 22.5%                   |
| In which           |                    |                          |                  |                       |                           |                         |
| micro              | 3233               | 8.6                      | 7.2              | 12.25%                | 7.9%                      | 7.0%                    |
| IEs                | 22307              | 42.1                     | 14.1             | 84.50%                | 38.5%                     | 13.8%                   |
| Total              | 26399              | 109.3                    | 102.5            | 100.00%               | 100.0%                    | 100.0%                  |

Source: Own calculations based on the data of the Vinnytsia Region Statistics Headquarters of the State Statistics Service of Ukraine

### Number of business entities

In 2018, Vinnytsia counted 26.4 thousand small and medium enterprises (including 196 medium enterprises, 3.9 thousand small enterprises and 22.3 thousand individual entrepreneurs) but only six large-scale enterprises.

Vinnytsia is ranked number eight among the surveyed cities for the number of business entities. In addition, the city accounts for 38.5% of the total number of business entities in the Vinnytsia Region, which highlights the pivotal role the city plays in the region's economics.



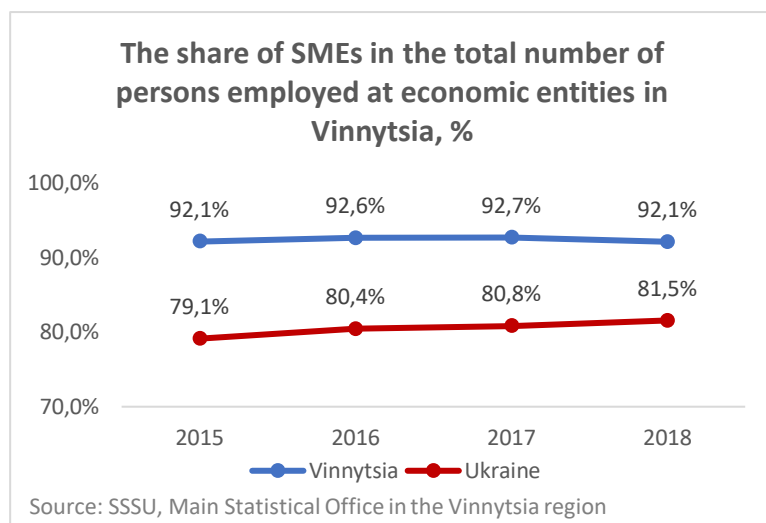
In 2018, the number of SMEs increased by 18% compared to 2017, which approximately corresponds to the country's average (1.9%). This is primarily due to a 9.4% growth in the quantity of small businesses (the country's average reached 5.1%). In addition, the share of medium enterprises increased by 12.6%, which is the fourth highest relative index among the cities selected for survey and 5 p.p. higher than the country's average (7.5%). However, the percentage of individual entrepreneurs demonstrated only a 0.5% growth (the country's average is 1.2%).

There were 710 small and medium enterprises per 10,000 local residents. This is the seventh highest index among the cities covered by the survey. These figures demonstrate that entrepreneurs in Vinnytsia are more active than those in the other regional centers.

In 2018, only 15.5% (the country's average is 19.3%) of business entities were registered as legal entities, while

the others had the status of individual entrepreneurs. Consequently, Vinnytsia demonstrated the fourth highest percentage of individual entrepreneurs among the cities covered by the survey.

## Employment



In 2018, the Vinnytsia-based business entities employed 109.3 thousand persons, which is 10.1% higher than in 2017 (the corresponding country's average is 4.8%). The city provides 41.8% of the total employment at business entities in the Vinnytsia Region.

The share of people employed at SMEs in Vinnytsia reached 92.1% of the total quantity of people employed at all business entities, which is 10 p.p. higher than the country's average (81.5%). This is,

in particular, due to a lesser role of large businesses in the creation of jobs in the city.

The largest employers in Vinnytsia are individual entrepreneurs, who account for 38.5% of the total quantity of people employed by business entities (the country's average is 30.2%). Other 20.6% are employed by small enterprises. It follows that more than a half of persons employed work for small businesses. A third of employees (32.9%) were employed by medium-sized enterprises (the country's average is 32.2%).

Compared to 2017, the number of people employed by SMEs in Vinnytsia increased by 9.5% (the country's average is 5.7%) This is one of the highest rates among the cities in respect of which information on the quantity of people employed in the SMEs sector is available. The increase was mainly driven by medium enterprises (3.6 thousand people or 10.9%) and individual entrepreneurs (4.5 thousand people or 12%), while small business demonstrated a decline in the number of their employees by 0.6 thousand people or 2.9%. The relative growth of employment outpaced the corresponding country' average (+ 5.8% for medium-sized enterprises, -1.1% for small enterprises and + 10.5% for individual entrepreneurs). Large enterprises in Vinnytsia showed a relatively high growth (18.6%), amounting to approximately 1.4 thousand people in absolute terms.

Statistics show that the Vinnytsia region shows, in general, a slightly higher unemployment rate among working age population than Ukraine as a whole. In 2019, the corresponding indicator for the region was 9.7% compared to 8.6% for the country. In late 2019, 1,663 people were officially unemployed in Vinnytsia, while the number of vacancies was only 154. Accordingly, the registered unemployed persons created a load of nearly 11 people per a vacancy, which is the third highest indicator obtained following the survey. However, the quarantine measures and crisis developments caused by the COVID-19 pandemic may deteriorate the employment situation in the city in 2020.

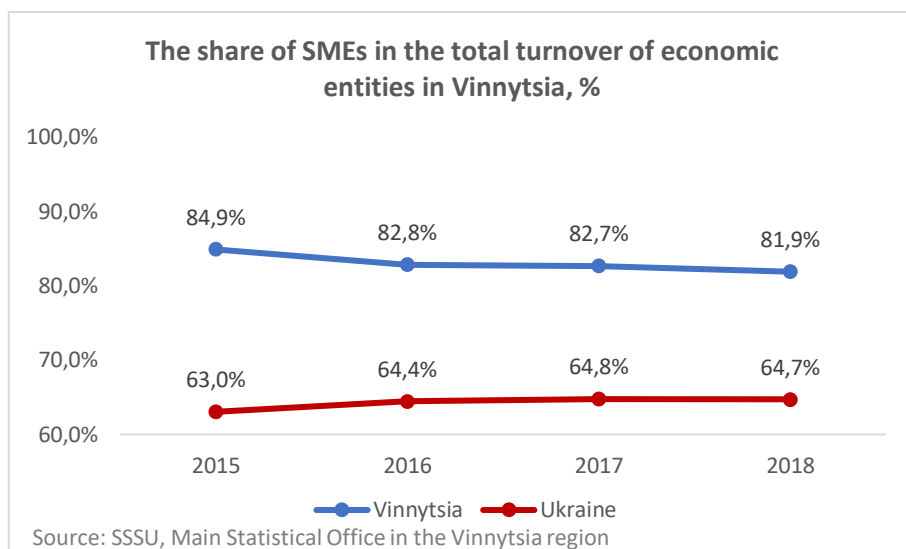
## Turnover

At the end of 2018, the turnover of business entities in Vinnytsia reached UAH 102.5 billion based on current prices. Compared to 2017, the real growth (i.e. adjusted for inflation) of turnover reached 15.7%, which is 7.6 percentage points higher than for Ukraine as a whole (8.1%). The business entities of the city accounted for more than a half (51.1%) of the total turnover in the Vinnytsia Region.



The SMEs sector of the city accounted for 81.9% of the total turnover of all business entities (the country's average is 64.7%). In 2018, the Vinnytsia-based SMEs demonstrated a real growth of their turnover by 14.6% compared to 2017 (the country's average is 8.1%).

The increase in the turnover of the SMEs sector was primarily due to the growth of turnover of medium-sized enterprises by 22.5%. Individual entrepreneurs improved their turnover by 13.8%, while small enterprises demonstrated a 2.1% decline in their turnover. As a result, the role of medium-sized enterprises in the turnover of products became more significant with their share increased from 41.3% in 2017 to 45.6% in 2018. The contribution of large enterprises also increased from 17.3% to 18.1% due to the real growth of 21%.



## Sales of industrial products

No statistical information on key performance indicators of enterprises in terms of the types of their economic activities is available at the level of cities of regional significance and districts. However, there are statistical data on the sales of industrial products by the types of activities. Such information allows us to determine key industries of Vinnytsia.

According to the data provided by the Vinnytsia Region Statistics Headquarters<sup>3</sup>, the 2018 sales of industrial products in Vinnytsia reached UAH31.5 billion. 77.3% or UAH 24.3 billion of those sales were accounted for the processing industry. Of these, 52.6% or UAH 16.6 billion were generated by the manufacture of foodstuffs, beverages, and tobacco products<sup>4</sup>. The manufacture of wood and paper items and the printing come second in the processing industry contributing thereto 8.4% or UAH 2.7 billion. Other important types of activities include engineering (UAH 1.3 billion or 4.2%) and the manufacture of chemicals and chemical products (UAH 0.97 billion or 3.1%).

## Capital investments

In 2018, Vinnytsia accounted for more than UAH 5 billion in capital investment. This makes 28.5% of the total capital investment in the entire Vinnytsia Region. In 2018, the amount of capital investment per capita was approximately UAH 13,679, which is slightly less than the country's average of UAH 13,746. Vinnytsia was ranked number nine on this metric among the cities surveyed.

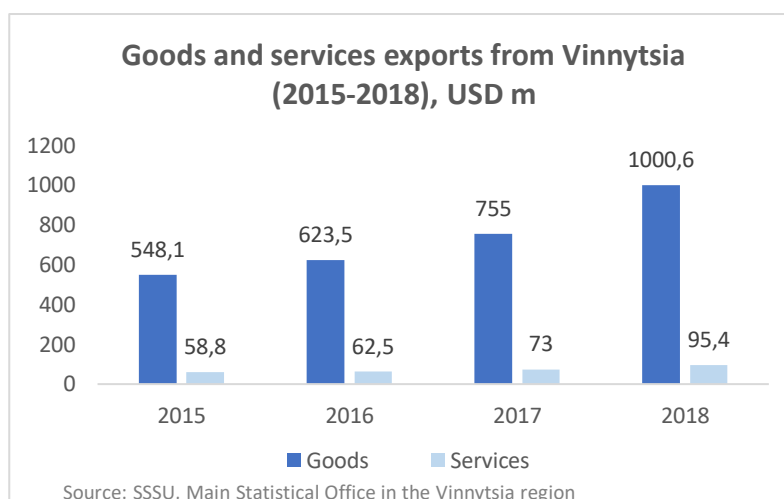
<sup>3</sup> Sales data by types of industrial activities are generated in accordance with the functional principle (for homogeneous products) and based on a state statistical monitoring of economic indicators in the short-term industry statistics.

<sup>4</sup> Data by types of activities are generated for homogeneous products.

## Exports

According to the State Statistics Service of Ukraine, Vinnytsia's exports of goods amounted to more than USD 1 billion in 2018, which is 32.5% more than in 2017. Vinnytsia was ranked number five on this metric among the surveyed cities in respect of which relevant statistical data were available.

On the other hand, the exports of services increased by 30.7% and reached USD 95.4 m (ninth largest export economy among the cities selected for the survey).



The structure of foreign trade in Vinnytsia is dominated by agricultural and food industry products. For example, 47.2% or USD472.5 m of the 2018 exports accounted for fats and oils of either animal or vegetable origin. In fact, sunflower oil is one of the major export products of Ukraine (export products ranked number two in terms of price). In addition, 13.9% accounted for food products, 13.8% – for products of animal origin and 4.9% for products of animal origin. It follows that 80% of the exports account for agrarian raw materials and products of the food industry. The export of wood and wood products (8.7% of the total exports), electrical machines, equipment, and spare parts (3.3%), and clothing made of textile materials (2.2%) also deserves a special attention.

## Foreign direct investments

As of December 31, 2018, the city of Vinnytsia accounted for USD 135.9 m of foreign direct investments (equity). The specified amount was USD 26.8 m or 24.6% higher than at the beginning of 2018. This corresponds to the highest growth among all the cities covered by the survey. On the other hand, there was USD 368.2 of FDI per capita in Vinnytsia as of the end of December 2018.

The statistics show that more than a half (60.2%) of the investments raised by the Vinnytsia region is concentrated in Vinnytsia. It should, however, be noted that foreign investments in the region are, in general, lower than those made in the other regions of Ukraine. At the end of 2018, the Vinnytsia Region was ranked only number eighteen on the amount of foreign direct investment (equity).

## Safety and comfort

The results of other studies allow us to look at the level of safety and comfort of living in the selected cities based on the assessments of their inhabitants. These factors are important for understanding the overall situation in the city. In addition, it is possible to compare those research studies with some results of MCI.

According to the study titled "Sixth Annual Ukrainian Municipal Survey"<sup>5</sup>, the city of Vinnytsia was ranked number one on the Quality of Public Goods and Services Index with a score of 3.1 (on a scale from 1 (terrible)

<sup>5</sup> The survey was conducted by the Sociological Rating Group on behalf of the International Republican Institute's Center for Insights in Survey Research; The survey was funded by the United States Agency for International Development (USAID). See [http://ratinggroup.ua/research/regions/shestoy\\_vseukrainskiy\\_municipalnyy\\_opros.html](http://ratinggroup.ua/research/regions/shestoy_vseukrainskiy_municipalnyy_opros.html).

to 5 (excellent)), indicating that the residents are satisfied with the level of comfort in their city. Similarly, the city is ranked number one on the Quality of Service Index in the following sectors: collection of waste, health facilities, transport infrastructure, roads, sports facilities, industrial development, education (universities, technical schools, and colleges), cultural facilities, environment, and heating.

As part of the same study, according to its residents Vinnytsia is one of the safest cities in Ukraine. The value of the corresponding Index for Vinnytsia is 1.9 (on a scale from 0 to 3, where 0 means “I feel completely unsafe” and 3 means “I feel completely safe”). On this metric, the city is ranked number three among the 24 cities covered by the survey. More than a half (64%) of the respondents said they felt “completely safe” or “rather safe” in their community at night. On the other hand, a fairly large share (32%) of the respondents said they felt “rather unsafe” or “completely unsafe”.

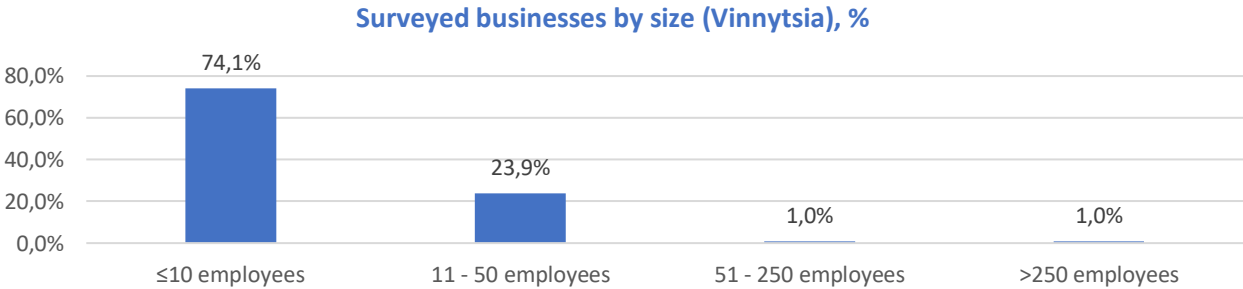
**Results of the “Municipal Competitiveness Index” in Vinnytsia**

**Description of the survey sample**

205 business entities took part in the survey in Vinnytsia. These were 125 (60.5%) enterprises (legal entities) and 81 (39.5%) individual entrepreneurs (PEs) When analyzing the answers, the data array was weighed by the types of business entities (61.5% of legal entities and 38.5% of PEs) to ensure that it was compliant with the parameters of the target sample.

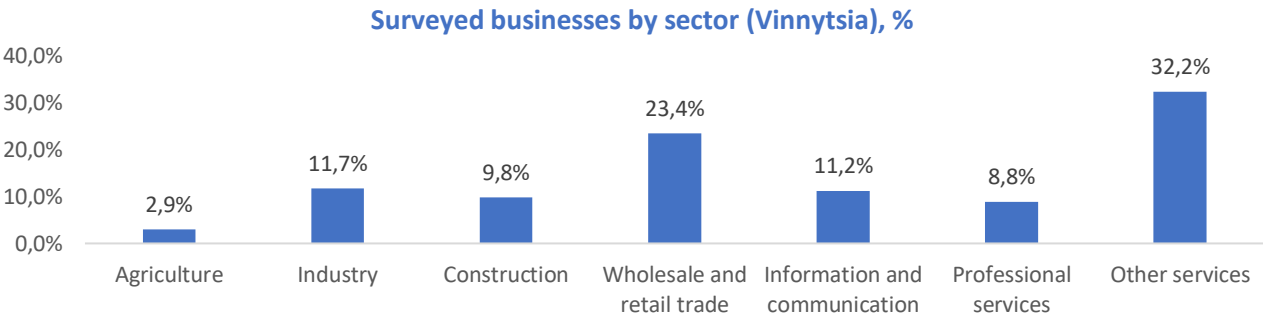
**Size of the surveyed business entities**

Most respondents (74.1%) were micro businesses — business entities employing from 1 to 10 people. 23.9% were small entities with 11 to 50 employees. Medium-sized entities (from 51 to 250 employees) account for 1% of the respondents, while large entities (more than 250 employees) account for another 1%.



**Industry and type of activity**

The surveyed business entities of Dnipro represent various sectors of the Ukrainian economy. 23.4% of the surveyed businesses are engaged in trade (including in wholesale and retail, repair of motor vehicles). 11.7% of the respondents are engaged in the industry, 9.5% – in the construction, and 2.9% – in the agriculture. More than a half of the surveyed businesses account for the service sector (52.2%) 11.2% of the respondents provide information and communication services, while professional services are provided by 8.8% of the respondents. 32.2% of the respondents provide other services (businesses operating in the transport, arts, sports, education, healthcare, finance, and other service-related sectors).



### Year of registration

Most of the surveyed business entities were registered earlier than in 2017 (76.1%). In 2018-2019, 23.9% of the respondents were registered.

### Age and gender breakdown of business owners and managers

According to the survey findings, 65.9% of the Vinnytsia-based businesses are owned by men, while the remaining 34.1% are owned by women. In addition, the share of men owning legal entities is even higher (70.7% of men vs. 29.3% of women).

Men run 75.6% of legal entities, while the share of female managers accounts for 24.4%. When it comes to PEs, who are owned and run by the same person, the quantitative advantage of men is less apparent (55.5% vs. 44.5%). Men run 68% of legal entities, while the share of female managers accounts for 32%.

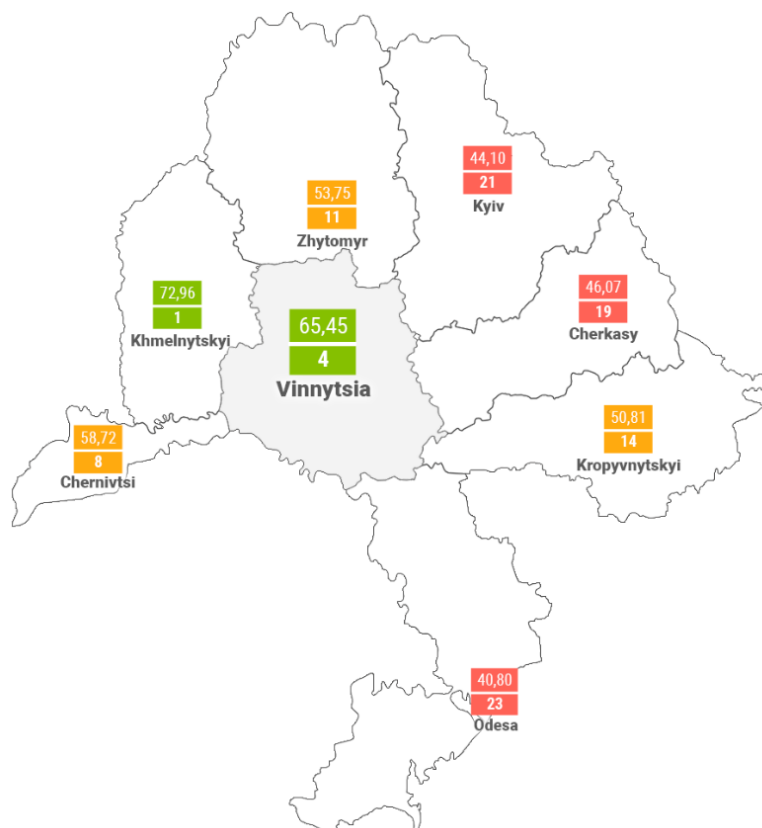
The average age of business owners in Vinnytsia is 42.2 years (the country's average is 42.8 years). However, individual entrepreneurs are on average five years younger than the owners of legal entities (38.8 years vs. 43.8 years) in Vinnytsia.

### Municipal Competitiveness Index: assessment of Vinnytsia

According to the survey findings, Vinnytsia was ranked number four scoring 65.45 points as part of MCI 2019/2020. Thus, Vinnytsia is classified among cities with high MCI scores.

Vinnytsia scored 0.71 points less than Lviv that was ranked number three but 1,56 points more than its runner up —the City of Ternopil.

A geographical comparison of the MCI index for Vinnytsia and those for the other cities has shown that number one (the City of Khmelnytskyi) is located nearby. However, Vinnytsia is ahead of all the other neighboring regional centers as they belong to the groups of the cities assigned either a medium or low MCI index. The nearest competitor is the City of Zhytomyr, which scored approximately 12 points less and hit the MCI score of 53.75.



Vinnytsia managed to obtain the high rank due to the high results within the individual components (sub-indices).

The strongest components are:

- Transparency and data openness (number two)

- Taxes and duties (number two)
- Informal payments and corruption (number three)
- Leadership of municipal authorities (number three)
- Support of innovations (number six)

The weakest components are:

- Starting a business (number 20)
- Compliance cost (number 17)

### ***1. Starting a business***

Vinnitsia scored 3.99 points in Component 1 “Starting a Business.” This is only the twentieth score among all the cities. For a number of reasons, this component has proved to be the most problematic for the city. In particular, according to the survey findings, the registration of a business in Vinnitsia in 2018-2019 took more time than on average in the country (7.6 days compared to 6.1 days). It appears from the results of the survey that lengthy registrations are normal for large Ukrainian cities, where a huge number of enterprises and individual entrepreneurs are registered. On the other hand, it took on average 3.3 days to have changes entered into the register, which is slightly less than the cities’ average of 3.6 days.

In Vinnitsia, 10.3% of the respondents who registered a business in 2018-2019 reported problems and barriers during the registration procedure. This share is higher than the cities’ average of 8.8%. 69.1% of the respondents received necessary advice during the registration process, which almost corresponds to the country’s average of (70.7%). It took 34.7 days to launch a business (from the date of submission of documents for registration to the date of the first sale of goods or services) in Vinnitsia, which is more than two days longer than on average in the country (32.1 days).

The time required to obtain certain permits is yet another problem in Vinnitsia. The obtaining of construction permits and registrations took, on average, 37.2 days in the country and 69.8 days in Vinnitsia, which is one of the highest scores in the cities covered by the survey. However, it took less time in Vinnitsia to obtain a declaration of conformity to the requirements of the fire safety legislation in respect of a business entity’s facilities (8.8 days compared to the cities’ average of 11.8 days).

A heavier workload of registrars in the city can be one of the reasons for its low score on the business registration component. There are about 5.7 registrars per 10 thousand business entities in Vinnitsia (including government authorities, local self-government authorities and notaries public). However, the city has one of the highest numbers of businesses per 10 thousand inhabitants.<sup>6</sup>

### ***2. Access to public property***

Vinnitsia scored 5.55 points and was ranked number nine on the component (sub-index) titled “Access to public property”. Vinnitsia demonstrated mainly average results in respect of individual indices compared to all the other cities and, consequently, failed to come closer to the leaders.

In particular, 32.8% of the respondents reported that they had documents certifying the ownership / lease of the land where their business operates (compared to the country’s average of 30%). This makes 50.4% of

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<sup>6</sup> Data on the number of state registrars in the field of state registration of legal entities, individual entrepreneurs and public organizations, who are provided with access to the Uniform State Register, were provided by the Ukrainian Ministry of Justice in response to a request for public information. The number of business entities is provided according to the data of the State Statistics Service of Ukraine. See more information in the field report.

the respondents believing that land documents are their concern (compared to the country's average of 46.8%). In 2018-2019, it took on average 73 days to obtain documents certifying the ownership / lease of the land in Vinnytsia, which also approximately corresponds to the country's average (72.4 days).

When it comes to the accessibility of information on community-owned property, Vinnytsia demonstrated results similar to the average result of all the respondents. 18.5% of the respondents reported the accessibility of information on available community-owned land plots, which can be provided for use or used for construction, etc (18.1% of the total respondents). In addition, 29.8% of the respondents indicated that information on the municipal real property (including non-residential facilities) was available (29.2% of the total respondents).

### ***3. Transparency and data openness***

Vinnytsia was ranked number two and scored 8.34 points on the "Transparency and data openness," and, therefore, is one of the leaders in this component. In Vinnytsia, the majority of the respondents expressed a high opinion of the access to information on the local budget, local regulations, and public procurements.

In particular, the access to information on local regulations got the top score in Vinnytsia with 22% of the respondents giving 'good' and 'excellent' marks compared to 13.9% of all the respondents surveyed. The access to information on the local budget was assessed positively by 12.7% of the respondents surveyed in Vinnytsia compared to, on average, 10.2% of the total respondents in all the other cities. The accesses to information on public procurements was found as 'good' and 'excellent' by 22.9% of the respondents, which is one of the best scores among the cities covered by the survey (17.3% of the respondents surveyed).

### ***4. Compliance cost***

The compliance cost is one of the problematic components for Vinnytsia. The city was ranked number seventeen and scored 6.16 points on this component. The result of the city was determined by low (compared to the other cities) scores assigned by the respondents in respect of time and money spent on compliance with the requirements of local regulations and time spent on communications with inspectors.

In Vinnytsia, entrepreneurs spend on average 4.1 days for compliance with local regulations, which is slightly longer than on average in the country (four days). 4.3% of an annual income is, on average, spent on compliance with the requirements of local regulations in Vinnytsia, which is higher than 3.7% spent on average by all the respondents.

The findings of the survey show that entrepreneurs in Vinnytsia are somewhat more frequently visited by local inspectors (0.8 times per year on average compared to the country's average of 0.7 times per year). Consequently, the average time spent on communications with the inspectors was 5.8 days, which is almost one day more compared to the country's average (five days).

### ***5. Taxes and duties***

The "Taxes and duties" component is one of the strength areas of Vinnytsia. The city was ranked number two and scored 8.28 points on this component. The high score of Vinnytsia was due to a combination of such factors as low expenses for payment of taxes, low time spending for administration of taxes and duties, a lower local tax burden, and the availability of local tax exemptions.

As part of the survey in Vinnytsia, the respondents said that they spent, on average, 25.1% of their annual income on taxes and duties (including Unified social contribution (USC)), which is somewhat less compared to the average for all the cities (26.8% of the annual income). Entrepreneurs in Vinnytsia spent, on average, 53.9 days on the administration of taxes and duties, which is less than the average for all the cities (59 days).

Only 15.2% of the respondents in Vinnytsia said that local taxes are a barrier for their business, while the average for all the cities was 20.4%. In addition, 5.9% of the respondents in Vinnytsia reported being exempt from local taxes and duties in 2018-2019, which is one of the highest scores among the cities covered by the survey (the average for all the cities surveyed is 3.6%).

### ***6. Informal payments and corruption***

According to the survey findings, Vinnytsia was ranked number three and scored 7.69 points on the component (sub-index) titled “Informal payments and corruption.” Vinnytsia’s high score is due to an approximately average prevalence of “informal payments” and high awareness of entrepreneurs about existing anti-corruption measures taken by the city.

In particular, as part of Dimension 1 “Bribes / Gifts” 10.3% of the respondents reported situations related to “informal payments” when approaching the municipal officials for any issues concerning the running of a business in 2018-2019. On average, 9.9% of the respondents faced such situations. On the other hand, as part of Dimension 2 “Anti-corruption efforts,” 44.9% of the respondents were informed about the implementation of specific anti-corruption measures by the city authorities (open budget, digital reception, municipal anti-corruption program, etc.), while the average for all the cities surveyed was 31.8%.

### ***7. Security of operating a business***

Vinnytsia was ranked number eight among the cities covered by the survey and scored 6.18 points on Component (sub-index) 7 “Security of operating a business.” Vinnytsia’s high score on this component is due to a relatively low prevalence of illegal takeovers and other criminal acts against businesses. One of the problems encountered by the city in this relates to its shadow economy and a high level of loss caused by criminal acts.

According to the survey findings, nearly every second respondent (46.9%) in Vinnytsia believes that competitors run shady businesses, which is two p.p. higher than the country’s average (45.1%). 2.5% of the total respondents experienced attempts of illegal takeovers at the country level in 2018-2019. However, the problem of illegal takeovers in Vinnytsia seems to be less critical as only 1% of the respondents reported that they faced such acts. This is one of the best scores among all the cities covered by the survey.

Only 10.8% of the respondents in Vinnytsia reported that they suffered losses as a result of extortions, thefts, robberies, or acts of vandalism or arson in 2018-2019. This is the lowest index among all the cities covered by the survey. The corresponding country’s average was 14.3% of the respondents. However, the Vinnytsia entrepreneurs suffered the most from the above criminal acts. Such losses accounted for 16.7% of the annual income of the respondents who reportedly suffered them, which is one of the highest indices in Ukraine (the country’s average is 10.8%).

In Vinnytsia, businesses spend, on average, 2.9% of their annual income on security / protection, which is somewhat higher compared to the country’s average of 2.7%.

### ***8. Leadership of municipal authorities***

Vinnytsia was ranked number three and scored 8.07 points on the component (sub-index) titled “Leadership of municipal authorities.” The high rating of Vinnytsia is due to its high scores on two dimensions of which the sub-index consists — “Business development support” and “Public-private dialogue.”

Vinnytsia scored 7.80 points (was ranked number three) on the “Business development support” dimension. The Vinnytsia-based entrepreneurs have a high opinion of the attitude of representatives of the municipal authorities towards private businesses. 26.3 % of the respondents believe that the attitude of the municipal authorities towards businesses is “very good” or “good” (the average for all the cities is 20%). 56.5% of the

respondents agree that the municipal authorities support start-ups (compared to 38.3% at the country level), and 50.1% indicate that the municipal authorities support existing businesses (compared to the average of 35.5% for all the cities covered by the survey). The survey results are also complemented by “hard data” on the activities of the city council. According to the “hard data,” Vinnytsia scored 9 of 10 points and is ranked among the leaders. The sole problem relates to outdated technical documents on the standard monetary appraisal of the city’s land.

The score obtained on the “Public-private dialogue” dimension shows that businesses face less problems in their communications with the local government in Vinnytsia compared to most other cities. On this dimension, the city was ranked number three and scored 8.35 points. 10.7% of business representatives believe that they have “extensive” or “very extensive” opportunities to participate in the development of local documents (strategies, plans, programs, etc.), while the average for all the cities surveyed is 6.5%. In addition, 14.1% of the respondents in Vinnytsia (the second highest index) indicate that the city always or often holds consultations with entrepreneurs before passing new or amending existing regulations that may affect business (compared to 7.4% on average for all the cities)

### **9. Development resources**

Vinnytsia was ranked number seven and scored 4.98 points on the component (sub-index) titled “Development resources.” The city’s assessment is based on the results of three dimensions that form a single component. Those dimensions are Human resources, Financial resources and infrastructure, and Business support infrastructure.

Vinnytsia was ranked only number 19 and scored 5.14 points on **Dimension 1 (Human resources)**. An analysis of individual indicators of this dimension has demonstrated that only 5.7% of the respondents in Vinnytsia rate the quality of the local workforce as “excellent” or “good” (the country’s average is 7.6%). In addition, only 7.2% of the respondents give positive assessments of vocational education of employees in the local labor market (the country’s average is 10%). Accordingly, just as in the other cities, an insignificant percentage of individual entrepreneurs in Vinnytsia rate high the available workforce.

However, two thirds of the respondents (64%) believe that insufficient workforce training is a serious barrier to doing business (the country’s average is 60.7%). In addition, 74.3% of the surveyed businesses in Vinnytsia experience lack of workforce, which is one of the highest rates (the country’s average is 70%). It follows that the lack of qualified workforce is the most severe problem faced by entrepreneurs in Vinnytsia, according to the rating of barriers to doing business (according to 37.2% of the respondents).

The analysis of the number of workforce in the city is supplemented by statistical data. For example, at the end of 2019 there were 0.6 vacancies per 100 businesses in Vinnytsia, which may point to a low demand for workforce compared to the other cities (the average for the cities surveyed is 3.6 vacancies).<sup>7</sup> On the other hand, it may also point to a decreased popularity of employment centers as a platform for staff searching. In addition, the share of working age population (aged 15-64) is quite high in Vinnytsia and makes 70.3% (as of January 1, 2019), which is one of the highest percentages among all the cities surveyed.<sup>8</sup> The corresponding country’s average was 67.8%. Thus, the problem of population aging may be less tangible in Vinnytsia than at the country level.

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<sup>7</sup> Sources for calculations: 1) Number of vacancies: The situation in the labor market and the results of activities of the state employment service. Data on the page of the Vinnytsia Region Employment Center, <https://vin.dcz.gov.ua/analitics/75> 2) Number of businesses: According to the Vinnytsia Region Statistics Headquarters

<sup>8</sup> According to the Vinnytsia Region Statistics Headquarters of the State Statistics Service of Ukraine



Vinnitsia was ranked number four and scored 4.63 points on **Dimension 2 (Financial resources and infrastructure)**. According to the survey findings, only 1.2% of the respondents at the country level received financial support from municipal authorities in 2018-2019. When it comes to individual cities, the share of such respondents in Vinnitsia accounts for 3.4%, which is the highest percentage among all the cities surveyed. It should be noted that it is business entities in Vinnitsia who agree the most that the lack of financial resources is a serious barrier to doing business. The relevant city's percentage is 85.4%, while the country's average has reached 77.8% of the respondents.

Data on the city's budget expenditures complete the picture of financial resources allocated to support businesses in the city. In 2019, actual spending on support for small and medium-sized enterprises reached approximately UAH 371,000 per 10,000 businesses.<sup>9</sup> However, this is the second-best indicator among the cities covered by the survey. It should be noted that, in general, SME support expenditures are low or non-existent in most of the cities. However, a higher amount of expenditures or even the existence of such support in general may point to a higher level of leadership of municipal authorities in relation to business support

When it comes to the infrastructure, the entrepreneurs surveyed in the cities covered by the study had reportedly a different experience in relation to connection to electricity grids. In Vinnitsia, it took on average approximately 98 full days to connect to the electricity grid, from the date of an application until the date of actual connection. The corresponding country's average was 85 days. It follows that it is more complicated to have a business connected to the electricity grid in Vinnitsia compared to all the other cities surveyed.

Vinnitsia was ranked only number 5 and scored 5.18 points on **Dimension 3 (Business support infrastructure)**. According to the survey data, 12.6% of the respondents personally received business support services from the municipal authorities (information, advice, training, etc.), which is higher than all the cities' average (11%). At the same time, 53.9% of them rated such services as "good" and "excellent" (48.6% of the total respondents).

Vinnitsia has the largest share of entrepreneurs who reported the existence of business support centers in the city (47.3% in the city compared to all the cities' average of 32.6%). It should, however, be noted that, notwithstanding the high score, the city does not have any active business support infrastructure created with the participation of the city council.<sup>10</sup> Thus, entrepreneurs' awareness of business support centers may also relate to infrastructure facilities created with support of donors etc.

Individual entrepreneurs (61.5%) surveyed in Vinnitsia are also the most aware of the activities of business associations and business clubs in their city (45.9% of the total respondents). However, only 11.9% of the surveyed organizations and individual entrepreneurs are members of such organizations, which nearly corresponds to the percentage recorded for all the respondents in general (11.5%).

### ***10. Support of innovations***

The city of Vinnitsia was ranked number six and scored 6.20 points on Component (sub-index) 10 "Support of innovations"

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<sup>9</sup> Reports on the implementation of local budgets (expenditures under program classification code 7610 - Promotion of small and medium entrepreneurship), as well as responses of the city councils to requests for public information were used. For some cities, information on expenditures was updated through telephone interviews with the employees of executive authorities of the city councils.

<sup>10</sup> Information on the number of infrastructure facilities, as used here and below, is based on official responses from the city councils. The information provided was verified by the authors of the research. See more information in the field report.

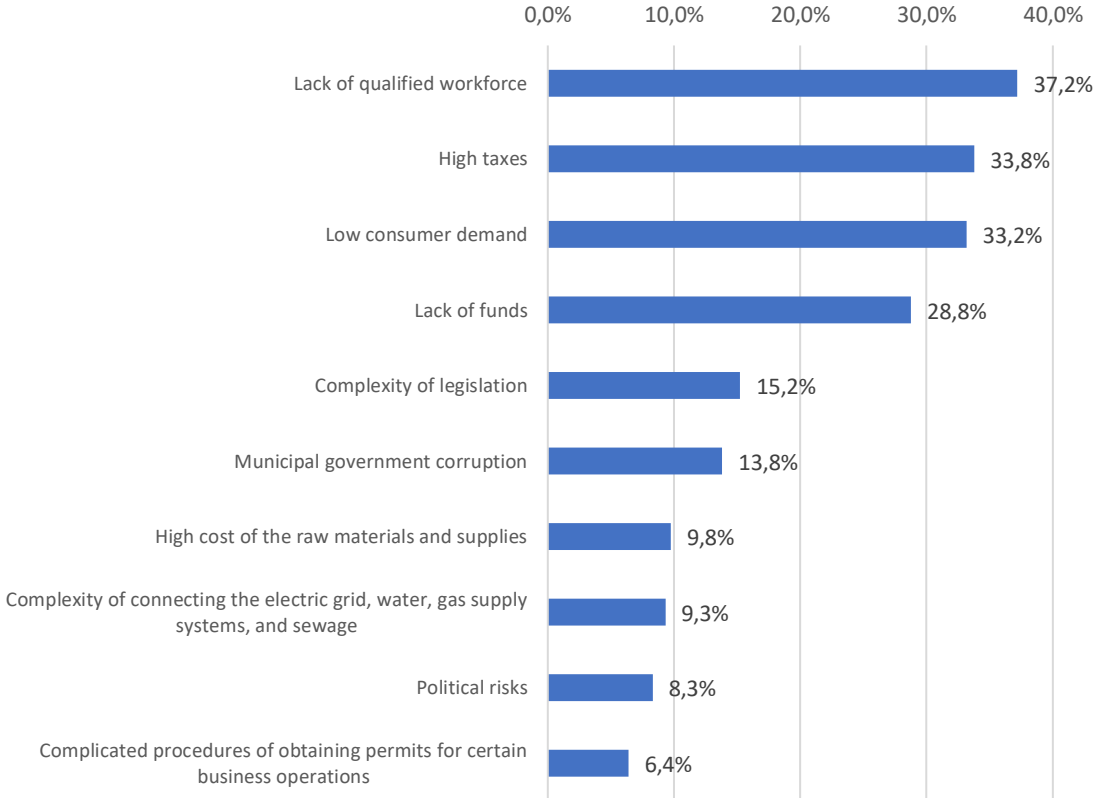
16.2% of the respondents in the city reported that their businesses interacted with research institutions or technology companies in 2018-2019, which is one of the lowest indices among all the cities (18.9%). The representatives of businesses in Vinnytsia are also less satisfied with the transfer of technologies. 7.3% of the respondents pointed out that the related needs (the transfer of patents for inventions, etc.) are “met to a significant extent” or “fully met” (compared to the country’s average of 8%)

The respondents in Vinnytsia give one of the highest assessments of the local government support for local innovation programs (funded from the local budget) with the city scoring 2.12 of five points compared to the average of 1.91 for all the cities. In addition, Vinnytsia introduced new technologies, solutions, or products more often than all the other cities on average in 2018-2019 (43.6% compared to 40.2%). Further, 4.4% of the surveyed enterprises and entrepreneurs reported that they belonged to clusters. This is the second highest index that is twice the average recorded for all the cities in general (2.1%). In general, all the factors provide a relatively high satisfaction with support for innovations in the city among entrepreneurs.

**Barriers to doing business**

The surveyed business entities named the main barriers they face when doing business in Vinnytsia. According to the survey findings, three most important barriers included such factors as the lack of qualified workforce, high taxes, and low consumer demand. Each of these barriers was reported by nearly a third of the respondents (37.2%, 33.8% and 33.2%, respectively). Accordingly, the lack of qualified workforce is a major concern in Vinnytsia as just in a number of other cities, and, therefore, it outweighed the problems of high taxes and low consumer demand that are on the top of the barriers rating following the survey of all the respondents in general. The lack of funds was reported to be a barrier by 28.8% of the respondents (number four).

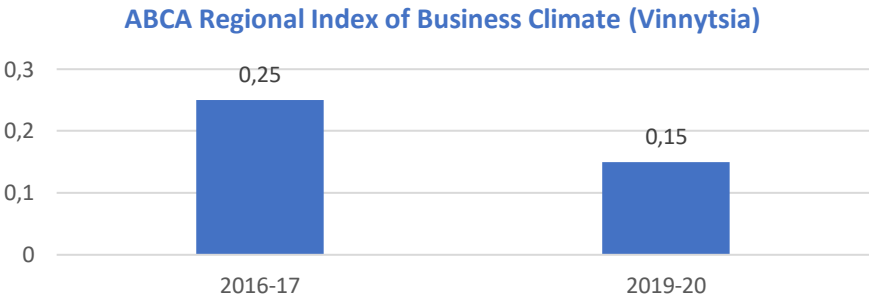
**TOP-10 barriers to doing business in Vinnytsia, %**



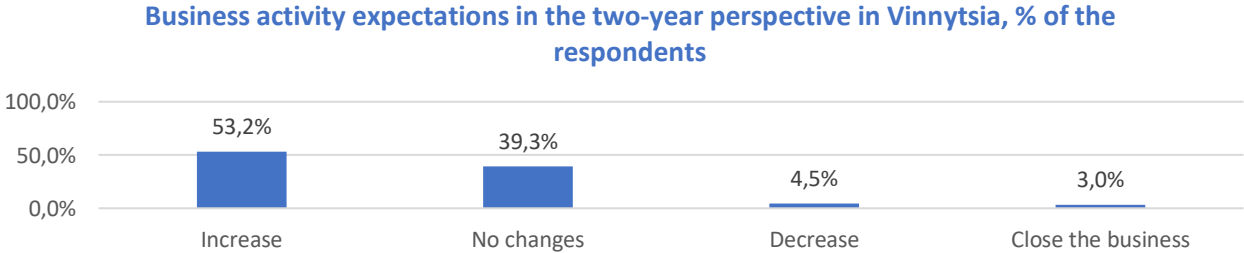
Compared to the abovementioned barriers, about half as many of the respondents reported the complexity of legislation (15.2%) and municipal government corruption (13.8) to be a barrier. The high cost of raw materials and supplies (9.8%) and the complexity of connection to the electricity, water and gas supply systems and the water sewerage system (9.3%) are barriers for one in ten surveyed entrepreneurs. Political risks affect 8.3% of the respondents, which is half as much as the country’s average. Complex procedures for obtaining permits to engage in certain business activities were ranked as number ten barrier (6.4%). As compared to the findings in respect of the entire sample, the top ten barriers in Vinnytsia exclude “military actions in the East of Ukraine” and “poor transport infrastructure.” They were replaced by the “high cost of raw materials and supplies” and the “complexity of connection to utility networks.”

**Expectations and assessments of the business climate and economic conditions in Vinnytsia**

**Regional SME Business Climate Index.** ABCA SME Business Climate Index in Vinnytsia is 0,15 (the city was ranked only number 18 among all the cities covered by the survey). This is less than in 2017 (0.25), which indicates a deterioration in perception of the business climate. This contradicts the national trend as the majority of the cities improved the perception of their business climate.



**Long-term expectations for business activity.** Business in Vinnytsia has optimistic long-term development plans for the next two years. More than half of the respondents (53.2%) reportedly plan to expand their business, and 39.3% want to stay at the current level. At the same time, only 4.5% of the respondents plan to reduce their business, and 3.4% want to close it. The balance index<sup>11</sup> is +0.46 (+0.45 at the country level).

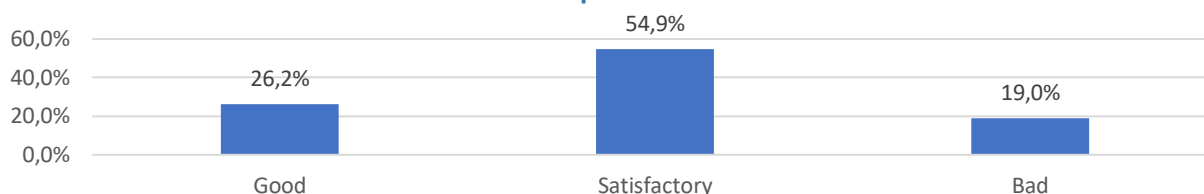


**Assessment of the financial and economic situation of business entities.** In Vinnytsia, the majority of the respondents (54.9%) assessed their current financial and economic situation as satisfactory. The rest of the respondents rated it as good (26.2%) or bad (19%). It follows that the positive assessments outweigh the

<sup>11</sup> Calculated as the average of all responses on a scale from -1 to 1, where 1 corresponds to a simplification of this procedure, 0 - no change, and -1 to a complication.

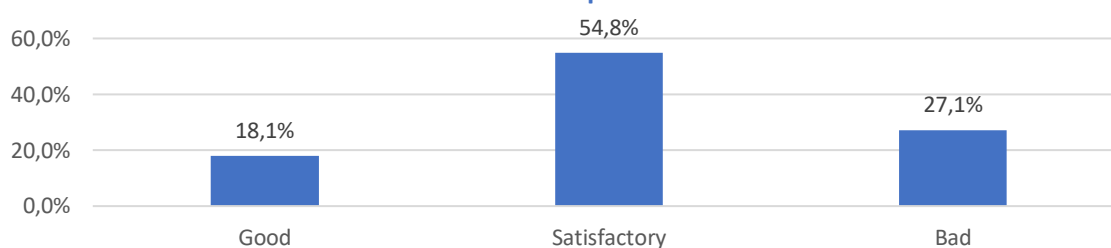
negative ones, and the balance index of the financial and economic situation is +0.07 (compared to the country's average of +0.05).

**Assessment of the business situation of business entities in Vinnytsia, % of the respondents**



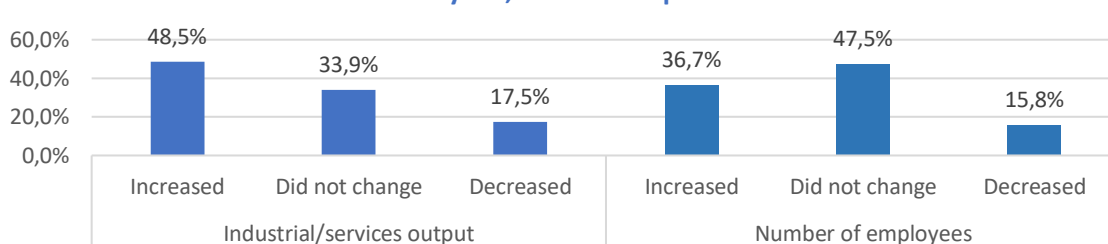
**Assessment of the current overall economic environment for business activities** More than a half of the surveyed business entities (54.8%) assessed the current overall economic environment as satisfactory. 27.1% of the respondents rate the overall economic environment as bad, and 18.1% as good. Thus, the index of assessment of the overall economic environment for business activities is negative (-0.09). However, the value of the index for the city is somewhat higher compared to the country's average (-0.12).

**Assessment of the overall economic situation (Vinnytsia), % of the respondents**



**Change in the production output over the past two years.** Almost a half (48.5%) of the surveyed business entities indicated that they increased their production or service output in 2018-2019. Almost a third (33.9%) of the respondents did not change the output while 18.4% of the respondents reduced it. Thus, the index of business activity is +0.31 (at the level of the total respondents surveyed), which reflects the predominance of the share of business entities that expanded their output over the share of those who reduced it.

**Change in the industrial/services output and in the number of employees in Vinnytsia, % of the respondents**



**Change in the number of employees of the business entities over the past two years.** Almost a half of the surveyed business entities (47.5%) indicated that the number of their employees did not change in 2018-2019. The share of business entities that increased the number of their employees (36.7%) is almost two times higher than the share of those where the number of employees decreased (15.8%) Thus, the index of changes in the number of employees is +0.27, which is higher than the average of +0.16 for all the cities surveyed.

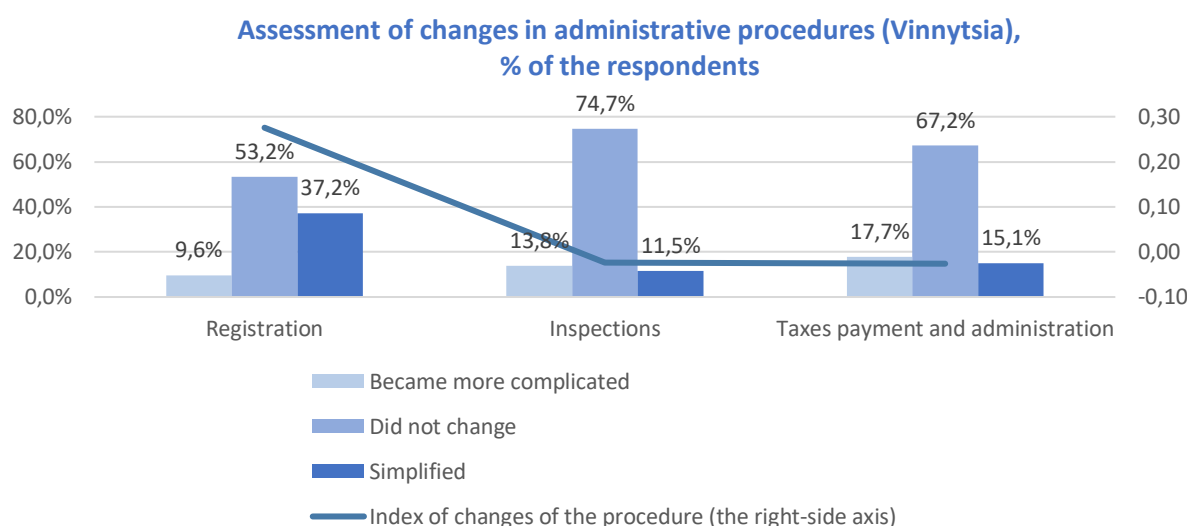
**Deregulation: changes in administrative procedures** According to the respondents, the process and conditions of business registration have been simplified the most in the last two years, while the situation with inspections and tax administration has not improved.

37.2% of the businesses surveyed point out the simplification of business registration in the previous two years. The rest of the respondents did not feel any changes in this procedure, and only a small share of the respondents (4.9%) said that, in their opinion, business registration has become more difficult. As a result, the index of change in the registration procedures is +0.28<sup>12</sup>. This is the highest value of the index compared to the other two procedures, which include the passing of inspections and the administration of taxes.

When it comes to the administration of taxes, more than a half of business entities (67.2%) say that they have not noticed any changes in the complexity of this procedure. The rest of the business entities are divided into two equal parts, which include those for whom the payment of taxes has become easier (15.1%), and those for whom it has become more difficult (17.7%). Therefore, the index of change in the procedures for administration of tax payments tends towards zero and equals -0.03.

The index of changes in passing inspections also tends towards zero and equals -0.02. 13.8% of business managers and individual entrepreneurs claim that inspections have become more difficult. This is slightly higher than the share of businesses according to which inspections have become easier compared to 2018 (11.5%). However, the largest share of the surveyed businesses (74.7%) did not notice any changes in relation to inspections.

As a result, the value of the general index of changes in administrative procedures, which is calculated as an average value of the indices of change of these three procedures, is +0.08.



## Recommendations

According to the MCI results (subject to the weak components and dimensions) the following key recommendations have been formulated for the city. In addition, the city government should pay attention to recommendations that are common for all the cities in general.

### Component 1. Starting a business.

- Faster business registration should be encouraged. It is necessary to increase the number of business registrars in local self-government authorities.

<sup>12</sup> Calculated as the average of all responses on a scale from -1 to 1, where 1 corresponds to a simplification of this procedure, 0 - no change, and -1 to a complication.

- It is necessary to improve the quality and availability of consulting services when starting a business, in particular, by expanding the capacity of consulting services in the centers of administrative services.
- The quality of services provided as part of issue of various permits must be improved to reduce the time required to obtain such documents.

**Component 2. Access to public property**

- It is necessary to ensure timely update of technical documentation on the standard monetary appraisal of land

**Component 4. Compliance cost**

- Deregulation measures need to be continued to reduce the time and money costs of businesses on compliance with local regulations.

**Component 9. Development resources**

- It is necessary to analyze the needs of local businesses for workforce.
- It is necessary to conduct an audit of business support infrastructure facilities to determine their efficiency and development pattern.
- It is necessary to use best practices applied by other cities to organize the operation of business support centers, co-workings, business hubs, clusters, etc.

# Dnipro

## Number 15 in MCI

### General information

Dnipro is the administrative center of the Dnipropetrovsk Region and a city of regional significance.

The city is also the administrative center of Dniprovskiy district, although it is not part thereof.

The regional center is divided into eight inner districts: Amur-Nyzhnio-Dniprovskiy, Industrialnyi, Novokodatskiy, Samarskiy, Soborniy, Tsentralnyi, Chechelivskiy, and Shevchenkivskiy. As of May 2020, the inner districts have retained their own district councils.



The Aviatorske Village also falls within the jurisdiction of the Dnipro City Council.

### Location

The City of Dnipro is located in the central part of the Dnipropetrovsk Region on the banks of the Dnipro River.

The nearest regional centers are Donetsk, Zaporizhzhia, Kropyvnytskyi, Poltava, and Kharkiv. Near Dnipro, there are large cities forming the so-called Dnipro agglomeration. Among these settlements, the cities of Kamianske and Novomoskovsk with 240 thousand and 70 thousand inhabitants (as of January 1, 2019), respectively, deserve a special attention.

There are also other cities in the region, including Kryvyi Rih (628 thousand inhabitants), Nikopol (113 thousand inhabitants), and Pavlohrad (107 thousand inhabitants).

### Demographic situation

As of January 1, 2019, the permanent population of Dnipro (including territories falling within the jurisdiction of the Dnipro City Council) was 990.4 thousand people. The city is the fourth largest city by population after Kyiv, Kharkiv, and Odesa.<sup>13</sup>

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<sup>13</sup> Here and below in the report, the statistical data of the Dnipropetrovsk Region Statistics Headquarters of the State Statistics Service of Ukraine are used.

In addition, the current population of the city exceeds 1 m people. Of that m, only nearly two thousand people live in the Aviatorske Village, which falls within the jurisdiction of the Dnipro City Council. Dnipro is the largest city in the Dnipropetrovsk Region. It accounts for almost a third of the region's population (30.9%).

The population of Dnipro, as just in Ukraine generally, is dominated by women (54.7%). There are 828 men per 1,000 women (864 men at the country level). The share of the population aged from 15 to 64 is 68.2% (67.8% at the country level). In total, there are 467 people (475 at the country level) aged 0-14 and over 65 per 1,000 people of working age.

Dnipro demonstrated one of the highest rates of natural population decline in 2018 was (-6.8 per 1,000 inhabitants). This is due to one of the highest death rates (14.5) and a low birth rate (7.7).

## Development of entrepreneurship

### Key structural business statistics in Dnipro in 2018

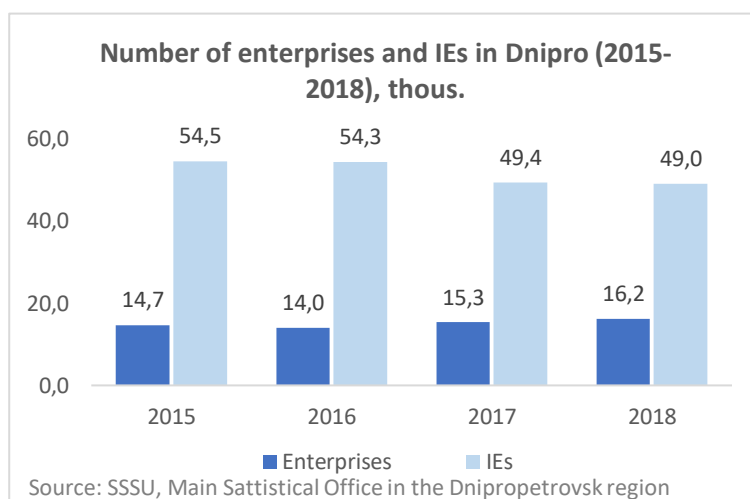
|                    | Absolute figures   |                          |                  | Relative figures      |                           |                         |
|--------------------|--------------------|--------------------------|------------------|-----------------------|---------------------------|-------------------------|
|                    | Number of entities | Employment, thsd persons | Turnover, UAH bn | Share in total number | Share in total employment | Share in total turnover |
| Large enterprises  | 25                 | 66.8                     | 216.8            | 0.04%                 | 19.1%                     | 40.6%                   |
| SMEs               | 65252              | 283.1                    | 317.0            | 99.96%                | 80.9%                     | 59.4%                   |
| Medium enterprises | 671                | 122.3                    | 182.2            | 1.03%                 | 34.9%                     | 34.1%                   |
| Small enterprises  | 15545              | 74.7                     | 103.8            | 23.81%                | 21.3%                     | 19.4%                   |
| In which micro     | 13345              | 32.9                     | 40.0             | 20.44%                | 9.4%                      | 7.5%                    |
| IEs                | 49036              | 86.2                     | 31.0             | 75.12%                | 24.6%                     | 5.8%                    |
| Total              | 65277              | 349.9                    | 533.8            | 100.00%               | 100.0%                    | 100.0%                  |

Source: Own calculations based on the data of the Dnipropetrovsk Region Statistics Headquarters of the State Statistics Service of Ukraine

### Number of business entities

In 2018, Dnipro counted 65.3 thousand small and medium-sized enterprises (including 671 medium-sized enterprises, 15.5 thousand small enterprises and 49 thousand individual entrepreneurs). However, there were only 25 large enterprises, corresponding to the second highest rate after Kyiv.

Dnipro was ranked number four among the cities surveyed for the number of business entities. In addition, the city accounts for almost a half (46.5%) of the



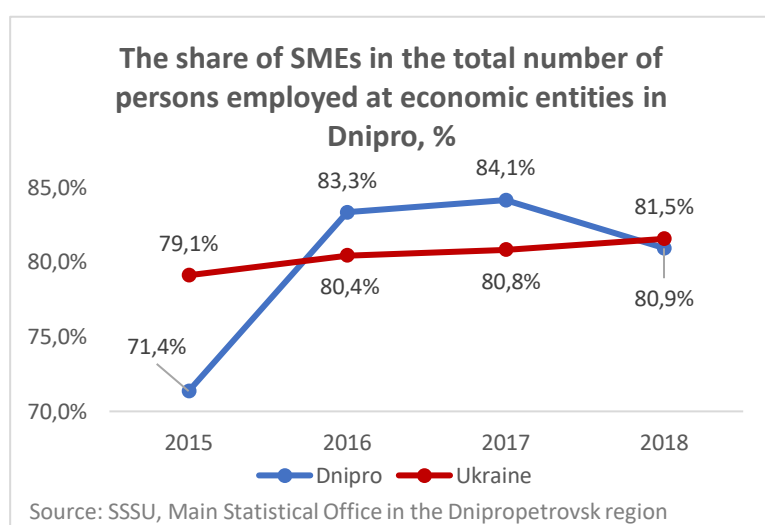


total number of business entities in the Dnipropetrovsk Region, which highlights the pivotal role the city plays in the region's economics. On the other hand, there were 651 small and medium-sized enterprises per 10,000 locals. This is the twelfth highest index among the cities covered by the survey.

In 2018, the number of SMEs in the city increased by 0.9% compared to 2017, which is somewhat less compared to the country's average (1.9%). This is primarily due to a 6% growth in the quantity of small businesses (the country's average reached 5.1%). The share of medium-sized enterprises increased by 2.1% (compared to the country's average of 7.5%). However, the share of individual entrepreneurs decreased by 0.6% although it demonstrated a 1.2% growth at the country level.

In 2018, 24.9% (the country's average is 19.3%) of business entities were registered as legal entities, while the others had the status of individual entrepreneurs. This is the second highest share of businesses after Kyiv.

## Employment



In 2018, the Dnipro-based business entities employed 349.9 thousand persons, which is 4.4% higher than in 2017 (compared to the country's average of 4.8%). The city provides 42.6% of the total employment at business entities in the Dnipropetrovsk Region.

The city is ranked number three by the number of persons employed by large businesses (66.8 thousand people) after Kyiv and Zaporizhzhia. The share of people employed at SMEs in Dnipro reached

80.9% of the total quantity of people employed at all business entities, which approximately corresponds to the country's average (81.5%). Medium-sized businesses provide more than a third (122.3 thousand persons employed or 34.9%) of the total quantity of people employed by business entities (the country's average is 32.2%). Almost a fourth of the persons employed (24.6%) accounts for individual entrepreneurs and a fifth (21.3%) of the persons employed is provided by small enterprises. It follows that small businesses employ somewhat less than a half of the employed population.

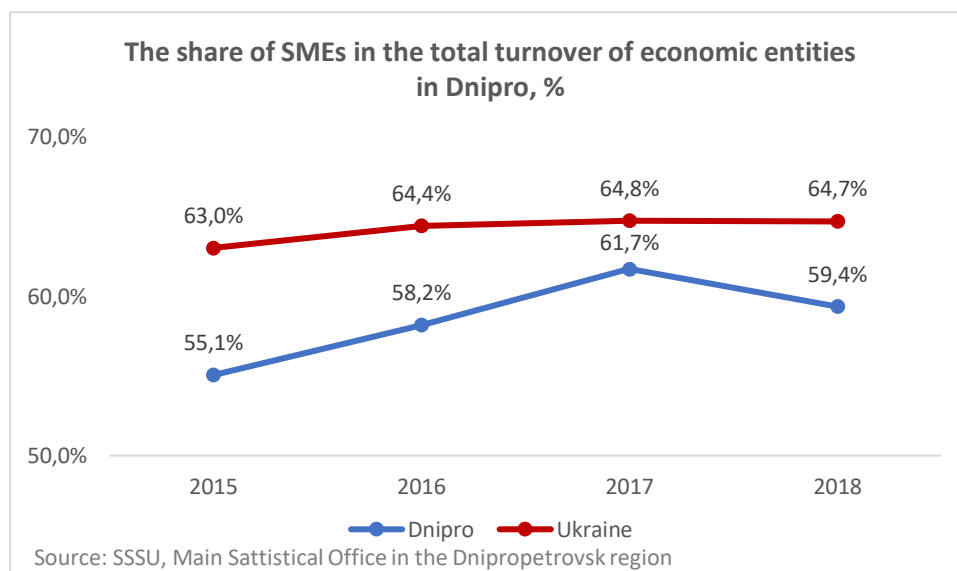
Compared to 2017, the number of people employed by SMEs in Dnipro increased by just 0.4% (compared to the country's average of 5.7%) This is one of the lowest growth rates among the cities in respect of which information on the quantity of people employed in the SMEs sector is available. In addition, it is lower than the growth rate of employment at all the business entities in Dnipro.

The increase was mainly driven by small enterprises (0.6 thousand people or 0.9%) and individual entrepreneurs (6.6 thousand people or 8.3%), while medium-sized enterprises demonstrated a decline in the number of their employees by 6.1 thousand people or 4.7%. However, at the country level, the share of the population employed at medium-sized enterprises increased by 5.8%, while the share of the people working at small businesses demonstrated a 1.1% decline. Large enterprises in Dnipro increased the number of their employees by 25.7% or 13.6 thousand people.

Statistics show that the Dnipropetrovsk Region, taken as a whole, shows a slightly lower unemployment rate

among working age population than Ukraine as a whole. In 2019, the corresponding indicator for the region was 7.9% compared to 8.6% for the country. In late 2019, 1,663 people were officially unemployed in Dnipro, while the number of vacancies was only 2,288. Accordingly, the registered unemployed persons created a load of nearly 2 people per a vacancy. However, the quarantine measures and crisis developments caused by the COVID-19 pandemic may deteriorate the employment situation in the city in 2020.

## Turnover



At the end of 2018, the turnover of goods and services by business entities in Dnipro reached UAH 533.8 billion based on current prices. This is the second highest result after Kyiv. Compared to 2017, the real growth (i.e. adjusted for inflation) of turnover reached 8.8%, which is 0.7 percentage points higher than for Ukraine as a whole

(8.1%). The business entities of the city accounted for nearly a half (48%) of the total turnover in the Dnipropetrovsk Region.

The SMEs sector of the city accounted just for 59.4% of the total turnover of all business entities (compared to the country's average of 64.7%). This is, in particular, due to an important role of large businesses in the city. In 2018, the Dnipro-based SMEs demonstrated a real growth of their turnover by 4.6% compared to 2017 (compared to the country's average of 8.1%). However, large enterprises increased their turnover by 15.5%.

The increase in the turnover of the SMEs sector was primarily due to the growth of turnover of small enterprises (by 10.6%) and individual entrepreneurs (10.6%). However, medium-sized enterprises increased their turnover just by 0.8%.

## Sales of industrial products

No statistical information on key performance indicators of enterprises in terms of the types of their economic activities is available at the level of cities of regional significance and districts. However, there are statistical data on the sales of industrial products by the types of activities. Such information allows us to determine key industries of Dnipro.

According to the data provided by the Dnipropetrovsk Region Statistics Headquarters, the sales of industrial products in Dnipro reached UAH 134.9 billion in 2018. 66.4% or UAH 86.9 billion of those sales were accounted for the processing industry. Of these, 33.7% or UAH 50.9 billion were generated by metallurgical products and the manufacture of finished metal products, except for machinery and equipment<sup>14</sup>. The manufacture of foodstuffs, beverages and tobacco products come second in the processing industry (8.8% or UAH 11.9 billion).

<sup>14</sup> Data by types of activities are generated for homogeneous products.

Also, significant sales were recorded in respect of the manufacture of rubber and plastic products and other non-metal items (UAH 9.4 billion or 7%); the manufacture of wood and paper products and the printing industry (UAH 3.4 billion or 2.5%); the manufacture of chemicals and chemical products, basic pharmaceutical products and pharmaceuticals (UAH 2.5 billion or 1.8%); and the manufacture of vehicles (UAH 2.3 billion or 1.7%).

## Capital investments

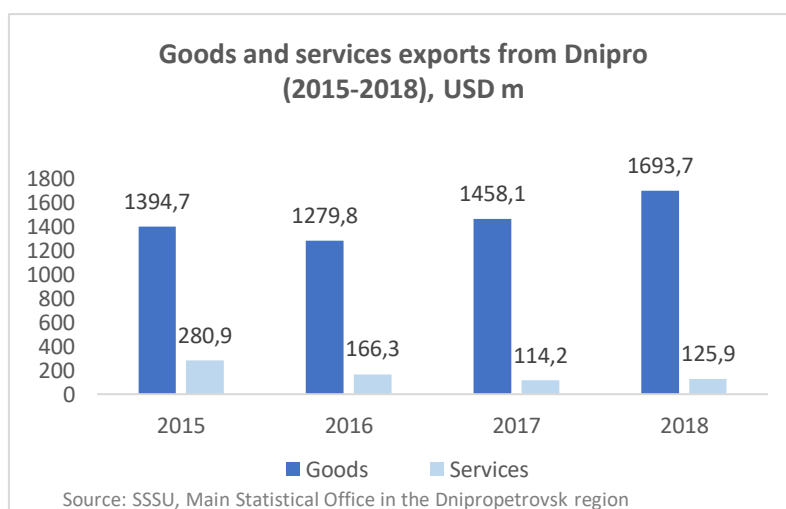
In 2018, Dnipro accounted for more than UAH 21.9 billion in capital investment. This is the second highest result among the Ukrainian cities after Kyiv. Dnipro accounts for more than a third (36.4%) of the total capital investment in the Dnipropetrovsk Region. In 2018, the amount of capital investment per capita was approximately UAH 22,122, which is almost twice as much as the country's average of UAH 13,746. This is the second best indicator among the cities covered by the survey.

Almost two thirds (64.9%) of the capital investments were funded by enterprises and organizations at their own expense. Almost a fourth (24.1%) was funded from the local budget, 5.7% was funded from the state budget, and 4.3% was funded using bank and other loans.

## Exports

According to the State Statistics Service of Ukraine, Dnipro's exports of goods amounted to nearly USD 1.7 billion in 2018, which is 16.2% higher than in 2017. Dnipro was ranked number three on this metric among the surveyed cities (after Kyiv and Zaporizhzhia).

On the other hand, the exports of services increased by 10.2% and reached USD 125.9 m (ranked number seven).



In 2018, almost USD 806 m or 47.6% of the Dnipro exports were accounted for metallurgical products (basic metals and products made of them). 24.7% were accounted for agricultural and food products and 11.3% were attributed to products classified under Section XVII of the Ukrainian Classification of Goods in Foreign Trade (UKTZED) (ground vehicles, aircraft, and watercraft).

## Foreign direct investments

As of December 31, 2018, the city of Dnipro accounted for USD 1,416.4 m of foreign direct investments (equity). The specified amount is USD 139.0 m or 8.9% lower than at the beginning of 2018. This is the highest rate of reduction of direct investments among all the cities covered by the survey. On the other hand, there were USD 1,428.4 of FDI per capita in Dnipro as of the end of December 2018. This is one of the best scores among all the cities covered by the survey.

According to the statistics, the Dnipropetrovsk Region, taken as a whole, is accounted for almost a tenth of the foreign direct investments in Ukraine. The region is therefore ranked number two after Kyiv by

investment volumes. On the other hand, 42% of direct investment in the region were concentrated in Dnipro at the beginning of 2018.

### Safety and comfort

The results of other studies allow us to look at the level of safety and comfort of living in the selected cities based on the assessments of their inhabitants. These factors are important for understanding the overall situation in the city. In addition, it is possible to compare those research studies with some results of MCI.

According to the study titled “Sixth Annual Ukrainian Municipal Survey”<sup>15</sup>, the city of Dnipro was ranked number fifteen on the Quality of Public Goods and Services Index with a score of 2.8 points (on a scale from 1 (terrible) to 5 (excellent)), indicating that the residents are dissatisfied with the level of comfort in their city. For example, Dnipro is ranked second to last (number twenty-three among the twenty-four cities) by the quality of health services. The situation is somewhat better in the city’s transport infrastructure (number eleven) and roads (number eleven).

As part of the same study, according to its residents Dnipro lags in terms of security. The value of the corresponding Index for Dnipro is 1.6 (on a scale from 0 to 3, where 0 means “I feel completely unsafe” and 3 means “I feel completely safe”). On this metric, the city is ranked number 13 among the 24 cities covered by the survey. Less than a half of the respondents reported that they feel rather unsafe or completely unsafe, while slightly more than a half of the respondents said that they feel rather safe or completely safe (42% and 54%, respectively).

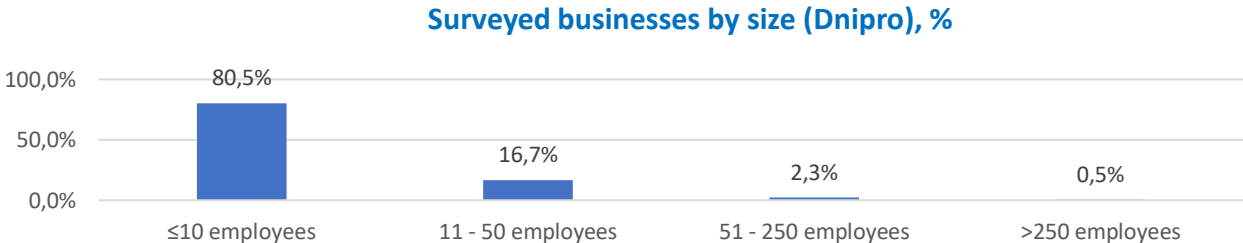
## Results of the “Municipal Competitiveness Index” in Dnipro

### Description of the survey sample

215 business entities took part in the survey in Dnipro. These were 163 (75.8%) enterprises (legal entities) and 52 (24.2%) individual entrepreneurs (PEs). When analyzing the answers, the data array was weighed by the types of business entities (75.5% of legal entities and 24.5% of PEs) to ensure that it was compliant with the parameters of the target sample.

### Size of the surveyed business entities

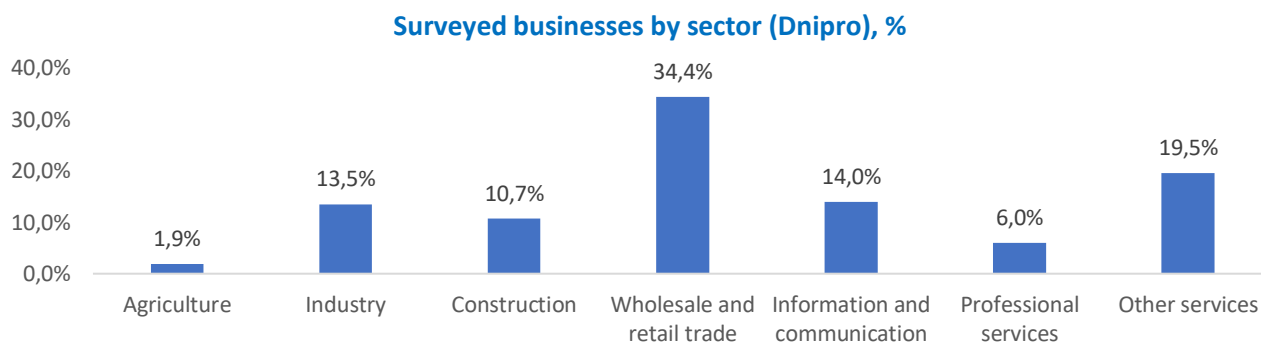
Most respondents (80.5%) were micro businesses — business entities employing from 1 to 10 people. 16.7% were small entities with 11 to 50 employees. Medium-sized entities (from 51 to 250 employees) account for 2.3% of the respondents, while large entities (more than 250 employees) account for 0.5%.



<sup>15</sup> The survey was conducted by the Sociological Rating Group on behalf of the International Republican Institute’s Center for Insights in Survey Research; The survey was funded by the United States Agency for International Development (USAID). Please see [http://ratinggroup.ua/research/regions/shestoy\\_vseukrainskiy\\_municipalnyy\\_opros.html](http://ratinggroup.ua/research/regions/shestoy_vseukrainskiy_municipalnyy_opros.html)

### ***Industry and type of activity***

The surveyed business entities of Dnipro represent various sectors of the Ukrainian economy. 34.4% of surveyed business are engaged in trade (including in wholesale and retail, repair of motor vehicles). 13.5% of the respondents are employed in the industry, 10.7% – in the construction, and 1.9% – in the agriculture. 39.5% are employed in the service sector. 14.0% of the respondents provide information and communication services, while professional services are provided by 6.0% of the respondents. 19.5% of the respondents provide other services (businesses operating in the transport, arts, sports, education, healthcare, finance, and other service-related sectors).



### ***Year of registration***

Most of the surveyed business entities were registered earlier than in 2017 (78.1%). In 2018-2019, 21.9% of the respondents were registered.

### ***Age and gender breakdown of business owners and managers***

According to the survey findings, 69.2% of the Dnipro-based businesses are owned by men, while the remaining 30.8% are owned by women. In addition, the share of men owning legal entities is even higher (71.9% of men vs. 28.1% of women).

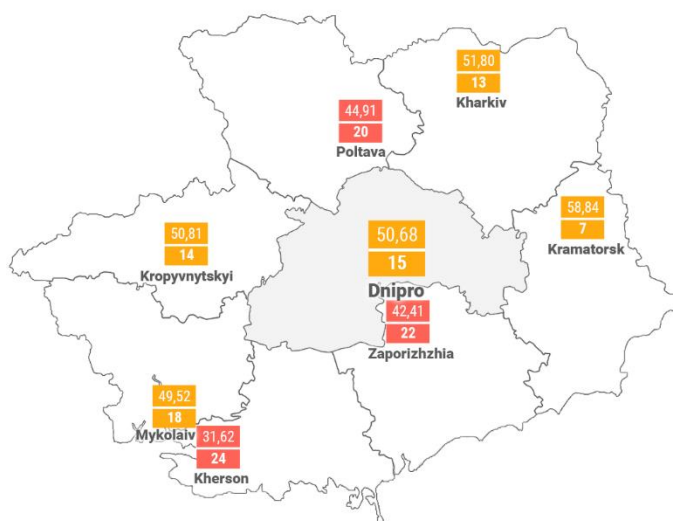
Men run 70.7% of legal entities, while the share of female managers accounts for 29.3%. When it comes to PEs, who are owned and run by the same person, the quantitative advantage of men is less apparent (57.8% vs. 42.2%). Men run 67.3% of legal entities, while the share of female managers accounts for 32.7%.

The average age of business owners in Dnipro is 41.8 years (compared to the country's average of 42.8 years). However, individual entrepreneurs are on average six years younger than the owners of legal entities (37.1 years vs. 43.0 years) in Dnipro.

### ***Municipal Competitiveness Index: assessment of Dnipro***

According to the survey findings, Dnipro was ranked number 15 scoring 50.68 points as part of MCI 2019/2020. Thus, Dnipro is classified among cities with average MCI scores.

A geographical comparison of the MCI index for Dnipro and those for the other cities has shown that the cities classified under average and low MCI score groups are located nearby. In particular, the city of Kherson, which ranks the worst in the rating (number 24), is located in the southwest, the city of Zaporizhzhia (number 22) is located in the south, and the city of Poltava (number 20) is located in the north. Such cities as Mykolaiv, Kropyvnytskyi and Kharkiv were assigned similar score and occupy close positions in the rating. Kramatorsk, which was ranked number seven and has a more than eight-point lead over Dnipro, takes the lead among the 'neighbors.'



Dnipro has mostly demonstrated average and low results on all the components (sub-indices).

The strongest components are:

- Support of innovations (number four)
- Corruption and informal payments (number four)
- Compliance cost (number six)

The weakest components are:

- Taxes and duties (number 23)
- Starting a business (number 22)
- Access to public property (number 21)
- Development resources (number 19)
- Leadership of municipal authorities (number 18)

### 1. Starting a business

Dnipro scored 3.71 points on Component 1 “Starting a Business.” This is only the twenty-second score among all the cities. The reasons for the city’s low score relate to lengthier registration and permit obtaining procedures. In particular, according to the survey findings, the registration of a business in Dnipro in 2018-2019 took more time than on average in the country (7.6 days compared to 6.1 days). On the other hand, it took on average 3.6 days to have changes entered into the register, which corresponds to the average for all the cities. It appears from the results of the survey that lengthy registrations are normal for large Ukrainian cities, where a huge number of enterprises and individual entrepreneurs are registered. Dnipro is ranked number four by the number of businesses among the cities covered by the survey.

In Dnipro, 12.7% of the respondents who registered a business in 2018-2019 reported problems and barriers during the registration. This share is higher than the average of 8.8% for all the cities. Only 61.7% of the respondents received necessary advice during the registration, which is 9 p.p. less compared to the country’s average of 70.7%. It took 33.7 days to launch a business (from the date of submission of documents for

registration to the date of the first sale of goods or services) in Dnipro, which is more than one day longer compared to the average for all the cities (32.1 days).

The time required to obtain certain permits is a separate issue in Dnipro. The obtaining of construction permits and registrations took, on average, 37.2 days in the country and 53.9 days in Dnipro, which is one of the highest scores in the cities covered by the survey. However, the obtaining of a declaration of conformity to the requirements of the fire safety legislation in respect of a business entity's facilities required on average 11.7 days, which approximately corresponds to the cities' average of 11.8 days.

A heavier workload of registrars in the city can be one of the reasons for its low rating on the business registration component. There are only 5.7 registrars per 10 thousand business entities in Dnipro (including government authorities, local self-government authorities and notaries public).

## ***2. Access to public property***

Dnipro scored 3.72 points and was ranked number 21 on the component (sub-index) titled "Access to public property." The city mostly showed lower than average results in terms of certain sub-indices among all the cities selected for the survey.

22.8% of the respondents reported that they had documents certifying the ownership / lease of the land where their business operates (compared to the country's average of 30%). This makes 38% of the respondents believing that land documents are their concern (compared to the country's average of 46.8%). In 2018-2019, it took on average 170.9 days to obtain documents certifying the ownership / lease of the land in Dnipro, which is one of the highest indices among the cities surveyed (compared to the average of 72.4 days for all the respondents surveyed).

In Dnipro, 17.8% of the respondents reported the accessibility of information on available community-owned land plots, which can be provided for use or used for construction, etc (18.1% of the total respondents surveyed). In addition, 28.9% of the respondents indicated that information on the municipal real property (including non-residential premises) was available (29.2% of the total respondents surveyed). It follows that the accessibility of information on the municipal property in Dnipro corresponds to the average recorded for all the respondents surveyed.

## ***3. Transparency and data openness***

Dnipro was ranked number 13 and scored 5.44 points on the "Transparency and data openness." In Dnipro, the highest score was assigned to the access to information on public procurement, which was assessed as 'good' or 'excellent' by 21% of the respondents, compared to 17.3% for all the respondents surveyed. This represents a minor difference from the scores received by the leaders of this component.

However, the access to information on the local budget and local regulations was rated less than average by the respondents in Dnipro. Although the access to information on local regulations was assessed positively by on average 13.9% of all the respondents surveyed, the relevant share of such respondents in Dnipro was 11.2%. The access to information on the local budget in Dnipro was rated worst — 8.8% compared to 10.2% of all the respondents surveyed.

## ***4. Compliance cost***

The compliance cost is not a problematic component for Dnipro. The city was ranked number six and scored 7.60 points on this component. The result of the city was determined by high (compared to the other cities) scores assigned by the respondents in respect of time and money spent on compliance with the requirements of local regulations.

In Dnipro, entrepreneurs spend on average 5.6 days for compliance with local regulations, which is somewhat longer than the country's average (four days). 4.4% of an annual income is, on average, spent on compliance with the requirements of local regulations in Dnipro, which is higher than 3.7% spent on average by all the respondents.

The findings of the survey show that entrepreneurs in Dnipro are rarely visited by local inspectors (0.4 times per year on average compared to the country's average of 0.7 times per year). Consequently, the average time spent on communications with the inspectors was five days, which is in line with the country's average (five days).

### ***5. Taxes and duties***

The "Taxes and duties" component is one of the weaknesses of Dnipro. The city was ranked number 23 and scored 2.93 points on this component. The low score of Dnipro was due to a combination of such factors as quite high expenses for payment of taxes, considerable amount of time spent on administration of taxes and duties, high local tax burden, and virtual unavailability of local tax exemptions.

As part of the survey in Dnipro, the respondents said that they spent, on average, 29.7% of their annual income on taxes and duties (including USC), which is higher than the average for all the cities (26.8% of the annual income). Entrepreneurs in Dnipro spent, on average, 75.3 days on the administration of taxes and duties, which is much longer compared to the average for all the cities (59 days).

Only 22.8% of the respondents in Dnipro said that local taxes are a barrier to their business, while the average for all the cities was 20.4%. In addition, 1.9% of the respondents in Dnipro reported being exempt from local taxes and duties in 2018-2019, which is one of the lowest scores among the cities covered by the survey (the average for all the respondents is 3.6%).

### ***6. Informal payments and corruption***

According to the survey findings, Dnipro was ranked number four and scored 7.26 points on Component (sub-index) 6 titled "Informal payments and corruption." Dnipro's score is due to an approximately average prevalence of "informal payments" and high awareness of entrepreneurs about existing anti-corruption measures taken by the city.

In particular, as part of Dimension 1 "Bribes / Gifts" 9.7% of the respondents reported situations related to "informal payments" when approaching the municipal officials for any issues concerning the running of a business in 2018-2019. On average, 9.9% of the respondents faced such situations. On the other hand, as part of Dimension 2 "Anti-corruption efforts," 40.9% of the respondents were informed about the implementation of specific anti-corruption measures by the city authorities (open budget, digital reception, municipal anti-corruption program, etc.), while the average for all the cities surveyed was 31.8%.

### ***7. Security of operating a business***

Dnipro was ranked number 11 among the cities covered by the survey and scored 5.71 points on Component (sub-index) 7 titled "Security of operating a business." In general, this score of Dnipro is slightly different from the country's average, although the city has one of the lowest shadow economy rates.

The survey data show that Dnipro has one of the lowest shadow economy levels (38.3% compared to the country's average of 45.1%). 2.5% of the total respondents experienced attempts of illegal takeovers at the country level in 2018-2019. However, in Dnipro the share of such respondents was 3.2%.

Only 13.3% of the respondents in Dnipro reported that they suffered losses as a result of extortions, thefts, robberies, or acts of vandalism or arson in 2018-2019. This is only one per cent less compared to the country's average (14.3% of the respondents). The respondents estimated the loss they suffered as a result of similar



offences at 11.8%, which is one per cent more compared to the country's average (10.8% at the country level).

In Dnipro, businesses spend, on average, 2.9% of their annual income on security / protection, which is somewhat higher compared to the country's average of 2.7% of the annual income.

### ***8. Leadership of municipal authorities***

Dnipro was ranked number 18 and scored 3.98 points on Component (sub-index) 8 titled "Leadership of municipal authorities." The low rating of the city is due to its low scores on two dimensions of which the sub-index consists — "Business development support" and "Public-private dialogue."

Dnipro scored 4.64 points (was ranked number 18) on the "Business development support" dimension. The Dnipro-based entrepreneurs are more pessimistic about the attitude of representatives of the municipal authorities towards private business. Only 18.1 % of the respondents believe that the attitude of the municipal authorities towards businesses is "very good" or "good" (the average for all the cities is 20%). In addition, 35.5% of the respondents agree that the municipal authorities support start-ups (compared to the average of 38.3% for all the cities), and 31.2% indicate that the municipal authorities support existing businesses (compared to the average of 35.5% for all the cities). The low score of the city is further complemented by "hard data" on the activities of the city council. According to the "hard data," Dnipro scored only 6 points. The Dnipro City Council does not have an anticorruption hotline, for instance.

The score obtained on the "Public-private dialogue" dimension shows that businesses face more problems in their communications with the local government in Dnipro compared to most other cities. On this dimension, the city was ranked number 16 and scored 3.32 points. Only 4.6% of business representatives in Dnipro believe that they have "extensive" or "very extensive" opportunities to participate in the development of local documents (strategies, plans, programs, etc.), while the average for all the cities surveyed is 6.5%. In addition, 6.5% of the respondents indicate that the city always or often holds consultations with entrepreneurs before passing new or amending existing regulations that may affect businesses (compared to 7.4% on average for all the cities).

### ***9. Development resources***

Dnipro was ranked number 19 and scored 3.88 points on Component (sub-index) 9 titled "Development resources." The city's assessment is based on the results of three dimensions that form a single component. Those dimensions are Human resources, Financial resources and infrastructure, and Business support infrastructure.

Dnipro was ranked number 11 and scored 5.71 points on **Dimension 1 (Human resources)**. An analysis of individual indicators of this dimension has demonstrated that 9.8% of the respondents in Dnipro rate the quality of the local workforce as "excellent" or "good" (the average for all the respondents surveyed is 7.6%). 13.6% of the respondents give positive assessments of vocational education of employees in the local labor market (10% of all the respondents surveyed), which is the third highest rate among all the cities. Accordingly, just as in the other cities, an insignificant percentage of individual entrepreneurs in Dnipro rate high the available workforce.

However, two thirds of the respondents (62.4%) believe that insufficient workforce training is a serious barrier to doing business (the country's average is 60.7%). 68.1% of the respondents reported that they face a lack of workforce (70% of all the respondents surveyed). It follows that the lack of qualified workforce is the second most severe problem faced by entrepreneurs in Dnipro, according to the rating of barriers to doing business (according to 27.4% of the respondents).

The analysis of the number of workforce in the city is supplemented by statistical data. In particular, there were approximately 3.5 vacancies per 100 businesses in Dnipro at the end of 2019, which approximately corresponds to the average for all the cities surveyed (3.6 vacancies).<sup>16</sup> In addition, the share of working age population (aged 15-64) in Dnipro is only 68.1% (as of January 1, 2019), which nearly corresponds to the country's average of 67.8%<sup>17</sup>. This is one of the lowest rates in the survey. Thus, the problem of population aging may be more tangible in Dnipro compared to the other cities.

Dnipro was ranked only number 20 and scored 3.56 points on **Dimension 2 (Financial resources and infrastructure)**. According to the survey findings, only 1.2% of the respondents at the country level received financial support from municipal authorities in 2018-2019. When it comes to individual cities, the share of such respondents in Dnipro accounts for 2.8%. However, 76.3% of the individual entrepreneurs surveyed in Dnipro believe that the lack of financial resources is a serious barrier to doing business (the average for all the cities is 77.8%).

Data on the city's budget expenditures complete the picture of financial resources allocated to support businesses in the cities surveyed. However, no money was allocated to support small and medium-sized enterprises in Dnipro in 2019 (five of the total number of the cities covered by the survey did not allocate money to support businesses).<sup>18</sup>

When it comes to the infrastructure, the entrepreneurs surveyed in the cities covered by the study had reportedly a different experience in relation to connection to electricity grids. In Dnipro, connection to the electricity grid took on average 200 full days from the date of an application until the date of actual connection. This is the highest indicator among all the cities surveyed. The corresponding country's average was 85 days. It follows that it is more complicated to have a business connected to the electricity grid in Dnipro compared to the other cities.

Dnipro was ranked only number 23 and scored 2.38 points on **Dimension 3 (Business support infrastructure)**. According to the survey data, only 8.3% of the respondents in Dnipro personally received business support services from the municipal authorities (information, advice, training, etc.), which is lower than all the cities' average (11%). At the same time, only 38.5% of them rated such services as "good" and "excellent" (48.6% of the total respondents surveyed). Only 27.4% of the entrepreneurs surveyed reported the existence of business support centers in the city (32.6% of the total respondents surveyed). Further, the respondents reported a lack of information on business support infrastructure as created with the participation of the city council.

44.7% of the entrepreneurs surveyed in Dnipro are aware of the activities of business associations and business clubs in their city (45.9% of the total respondents surveyed). However, only 10.1% of the surveyed organizations and individual entrepreneurs are members of such organizations, which is lower than the percentage recorded for all the respondents surveyed in general (11.5%).

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<sup>16</sup> Sources for calculations: 1) Number of vacancies: The situation in the labor market and the results of activities of the state employment service. Data on the page of the Vinnytsia Region Employment Center, <https://dnp.dcz.gov.ua/analitics/69> 2) Number of businesses: According to the Dnipropetrovsk Region Statistics Headquarters

<sup>17</sup> According to the Dnipropetrovsk Region Statistics Headquarters of the State Statistics Service of Ukraine

<sup>18</sup> Reports on the implementation of local budgets (expenditures under program classification code 7610 - Promotion of small and medium entrepreneurship), as well as responses of the city councils to requests for public information were used. For some cities, information on expenditures was updated through telephone interviews with the employees of executive authorities of the city councils.

## 10. Support of innovations

The city of Dnipro was ranked number four and scored 6.43 points on Component (sub-index) 10 “Support of innovations.”

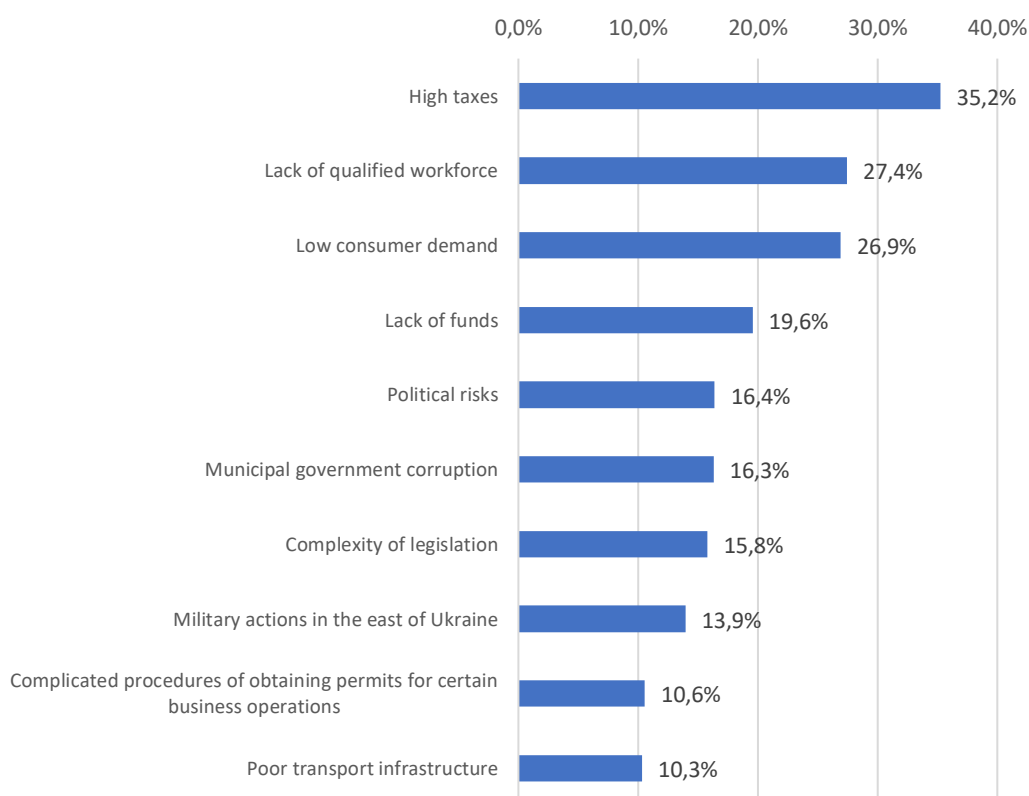
22.3% of the respondents in the city reported that their businesses interacted with research institutions or technology companies in 2018-2019, which is one of the highest indices among all the cities (compared to the average of 18.9% for all the cities). Businesses in Dnipro are, on average, more satisfied with technology transfer compared to the other cities. 12.2% of the respondents pointed out that the related needs (the transfer of patents for inventions, etc.) are “met to a significant extent” or “fully met” (compared to the country’s average of 8%).

The respondents in Dnipro give an average assessment of the local government support for local innovation programs (funded from the local budget) with the city scoring 1.91 of five points compared to the average score of 1.91 for all the cities. In addition, in 2018-2019 Dnipro introduced new technologies, solutions or products with a frequency that was similar to that observed on average for all the cities (39.0% compared to 40.2%). Further, 2.7% of the surveyed enterprises and individual entrepreneurs reported that they belonged to clusters. This slightly exceeds the index recorded for all the cities in general (2.1%). In general, all the factors provide a relatively high satisfaction with support for innovations in the city among entrepreneurs.

## Barriers to doing business

The surveyed business entities named the main barriers they face when doing business in Dnipro. Three most important barriers included such factors as high taxes, the lack of qualified workforce and low consumer demand. Each of these barriers to doing business was reported by 35.2%, 27.4% and 26.9% of the respondents, respectively). Accordingly, just as in a number of the other cities, high taxes are the most severe problem in Dnipro. The lack of qualified workforce left behind the low consumer demand although it follows this problem in the rating of barriers in respect of the entire sample.

TOP-10 barriers to doing business in Dnipro, %



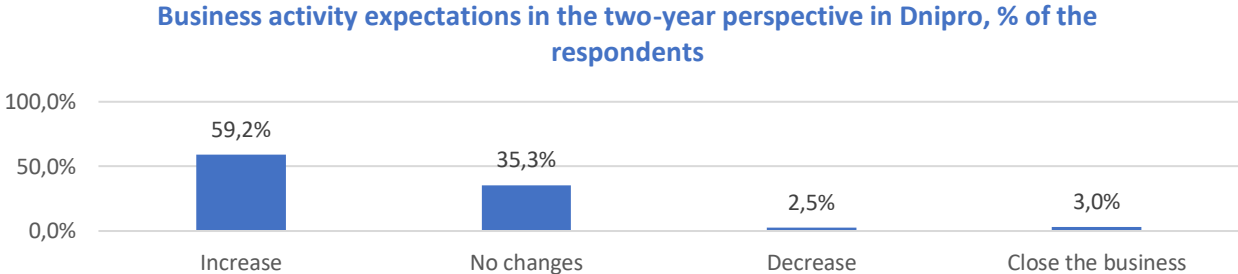
The lack of funds was rated as barrier number four (19.6%). One in six respondents reported barriers that include political risks (16.4%), municipal government corruption (16.3%) and complexity of legislation (15.8%). The three lowest rates were assigned to such barriers as 'Military actions in the East of Ukraine' (13.9%), 'Complex permit obtaining procedures' (10.6%) and 'Poor transport infrastructure' (10.3%).

**Expectations and assessments of the business climate and economic conditions in Dnipro**

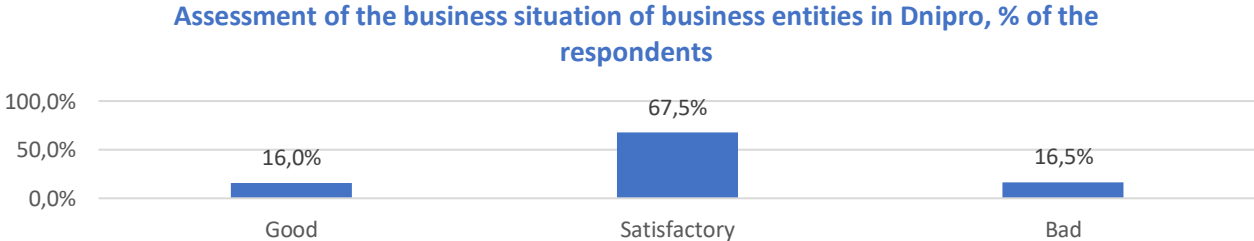
**Regional SME Business Climate Index.** ABCA SME Business Climate Index in Dnipro is 0,21 (the city was ranked number 11 among all the cities covered by the survey). This is more than in 2017 (0,08), which indicates an improvement in perception of the business climate. This is in line with the all-Ukrainian trend.



**Long-term expectations for business activity.** Business in Dnipro has optimistic long-term development plans for the next two years. More than half of the respondents (59.2%) reportedly plan to expand their business, and 35.3% want to stay at the current level. At the same time, only 2.5% of the respondents plan to reduce their business, and 3.4% want to close it. The balance index<sup>19</sup> is +0.54 (+0.45 at the country level).

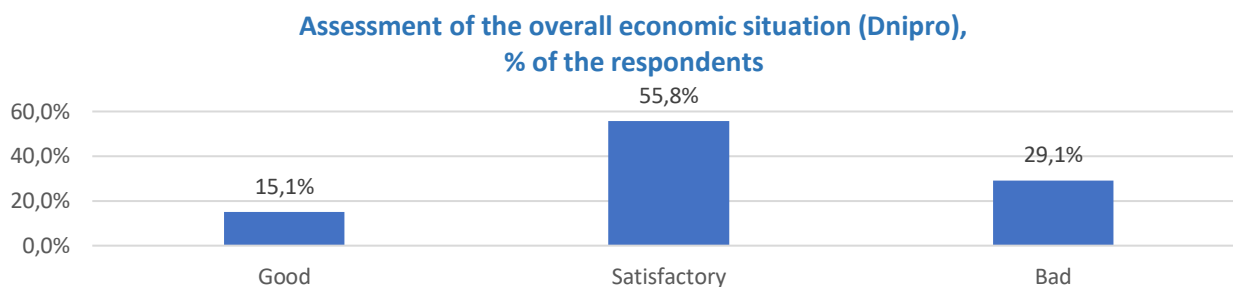


**Assessment of the financial and economic situation of business entities.** In Dnipro, the majority of the business entities surveyed (67.5%) assessed their current financial and economic situation as satisfactory. The rest of the respondents rated it as good (16%) or bad (16.5%) It follows that the negative assessments outweigh the positive ones, and the balance index of the financial and economic situation is 0.00 (compared to the country's average of +0.05).

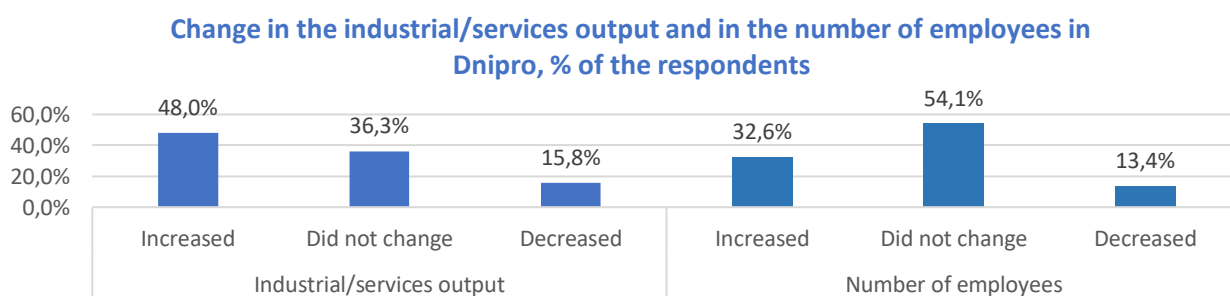


<sup>19</sup> Calculated as the average of all responses on a scale from -1 to 1, where 1 corresponds to a simplification of this procedure, 0 - no change, and -1 to a complication.

**Assessment of the current overall economic environment for business activities** More than a half of the surveyed business entities (55.8%) assessed the current overall economic environment as satisfactory. 29.1% of the respondents rate the overall economic environment as bad, and 15.1% as good. Thus, the index of assessment of the overall economic environment for business activities is negative (-0.14). However, the value of the index is somewhat lower compared to the country's average (-0.12).



**Change in the production output over the past two years.** Almost a half (48.0%) of the surveyed business entities indicated that they increased their production or service output in 2018-2019. Approximately a third (36.3%) of the respondents did not change the output while 18.4% of the respondents reduced it. Thus, the index of business activity is +0.32 (at the level of the total respondents surveyed), which reflects the predominance of the share of business entities that expanded their output over the share of those who reduced it.



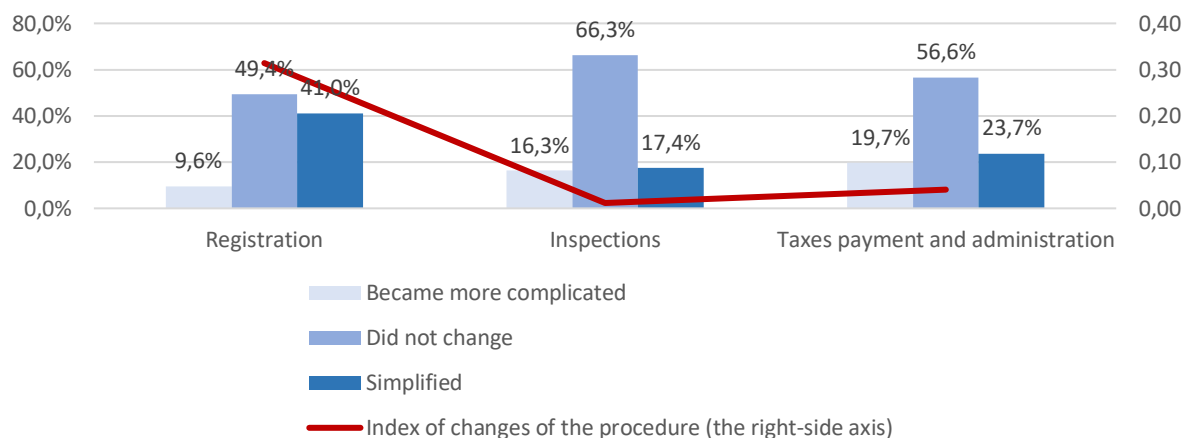
**Change in the number of employees of the business entities over the past two years.** More than a half of the surveyed business entities (54.1%) indicated that the number of their employees did not change in 2018-2019. The share of business entities that increased the number of their employees (32.6%) has proved to be more than two times higher than the share of those where the number of employees decreased (13.4%) Thus, the index of changes in the number of employees is +0.19, which is higher than the average of +0.16 for all the cities surveyed.

**Deregulation: changes in administrative procedures** According to the respondents, the process and conditions of business registration have been simplified the most in the last two years, while the situation with inspections and tax administration has not improved.

41.0% of the businesses surveyed point out the simplification of business registration in the previous two years. The rest of the respondents did not feel any changes in this procedure, and only a small share of the respondents (4.9%) said that, in their opinion, business registration has become more difficult. As a result, the index of change in the registration procedures is +0.31<sup>20</sup>. This is the highest value of the index compared to the other two procedures, which include the passing of inspections and the administration of taxes.

<sup>20</sup> Calculated as the average of all responses on a scale from -1 to 1, where 1 corresponds to a simplification of this procedure, 0 - no change, and -1 to a complication.

### Assessment of changes in administrative procedures (Dnipro), % of the respondents



When it comes to the administration of taxes, more than a half of business entities (56.6%) say that they have not noticed any changes in the complexity of this procedure. The rest of the business entities are divided into two parts, which include those for whom the payment of taxes has become easier (23.7%) and those for whom it has become more difficult (19.7%). Therefore, the index of change in the procedures for administration of tax payments tends towards zero and equals +0.04.

The index of changes in passing inspections is positive and equals +0.01. 16.3% of business managers and individual entrepreneurs claim that inspections have become more difficult. This share is slightly lower than the percentage of businesses according to which inspections have become easier compared to 2018 (17.4%). However, the largest share of the surveyed businesses (66.3%) did not notice any changes in relation to inspections.

As a result, the value of the general index of changes in administrative procedures, which is calculated as an average value of the indices of change of these three procedures, is +0.12.

## Recommendations

According to the MCI results (subject to the weak components and dimensions) the following key recommendations have been formulated for the city. In addition, the city government should pay attention to recommendations that are common for all the cities in general.

### Component 1. Starting a business.

- Faster business registration should be encouraged. It is necessary to increase the number of business registrars in local self-government authorities.
- It is necessary to improve the quality and availability of consulting services when starting a business, in particular, by expanding the capacity of consulting services in the centers of administrative services.
- The quality of services provided as part of issue of various permits must be improved to reduce the time required to obtain such documents.

### Component 2. Access to public property

- It is necessary to ensure transparent access to information on the availability of community-owned land that can still be used for construction, though, in particular, the official website of the city council.
- It is necessary to ensure transparent access to information about community-owned real property, though, in particular, the official website of the city council.

#### **Component 5. Taxes and duties**

- It is necessary to regularly analyze the burden of local taxes and duties and its impact on local businesses.

#### **Component 8. Leadership of municipal authorities**

- It is necessary to ensure constant communication and dialogue between businesses and local authorities, in particular, through the establishment and operation of special advisory bodies with the participation of entrepreneurs.
- It is necessary to ensure a higher level of business involvement in the development of local documents (strategies, plans, programs, etc.) and consultations on regulations.

#### **Component 9. Development resources**

- It is necessary to increase expenses on support for entrepreneurs to ensure the operation of the business support infrastructure and financial support programs.
- It is necessary to conduct an audit of business support infrastructure facilities to determine their efficiency and development pattern.
- It is necessary to use best practices applied by other cities to organize the operation of business support centers, co-workings, business hubs, clusters, etc.

# Zhytomyr

## Number 11 in MCI

### *General information*

Zhytomyr is the administrative center of the Zhytomyr Region and a city of regional significance.

The city is also the administrative center of the Zhytomyrskyi district, although it is not part thereof.

In September 2018, the Zhytomyr City Amalgamated Territorial Community was established. The community encompasses the Zhytomyr City Council (the city of Zhytomyr) and the Veresy Village Council (the village of Veresy).<sup>21</sup>



The city is divided into two inner districts — the Bohunskyi District and the Koroliovskyi District. Pursuant to the resolution of the City Council, the Bohunskyi District Council and the Koroliovskyi District Council will perform their functions until next local elections in Zhytomyr.<sup>22</sup>

### *Location*

The city of Zhytomyr is located on the Teteriv River in the north-western part of Ukraine.

Zhytomyr is located in the south of the region. The territory of the city is enclosed by the Zhytomyr District. Berdychiv, which is the second largest city by population in the Zhytomyr Region (75 thousand inhabitants as of January 1, 2019), is located near Zhytomyr. Other large cities of the region include Korosten (64 thousand inhabitants) and Novohrad Volynskyi (57 thousand inhabitants).

The closest regional centers to Zhytomyr are Rivne, Khmelnytskyi, Vinnytsia, and Kyiv.

### *Demographic situation*

As of January 1, 2019, the permanent population of Zhytomyr was 264 thousand people. The city is the largest settlement of the Zhytomyr Region. It accounts for almost a fifth of the region's population (21.6%).<sup>23</sup>

The population of Zhytomyr, as just in Ukraine generally, is dominated by women (54%). There are 853 men per 1,000 women (864 men at the country level). The share of the population aged from 15 to 64 is 70.4%

<sup>21</sup> Please see <https://decentralization.gov.ua/gromada/685#>

<sup>22</sup> Please see [http://zt-rada.gov.ua/?3398\[0\]=6021](http://zt-rada.gov.ua/?3398[0]=6021).

<sup>23</sup> Here and below in the report, the statistical data of the Zhytomyr Region Statistics Headquarters of the State Statistics Service of Ukraine are used.



(67.8% at the country level). In total, there are 421 people (475 at the country level) aged 0-14 and over 65 per 1,000 people of working age.

A natural decline of the population was observed in Zhytomyr in 2018 (-4 per 1,000 inhabitants). The death and birth rates reached 12.3 and 8.3, respectively.

### Development of entrepreneurship

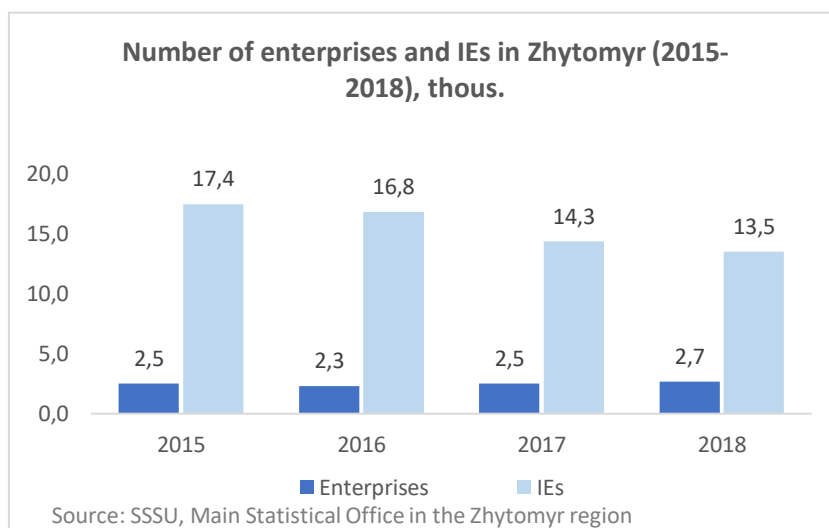
#### Key structural business statistics in Zhytomyr in 2018

|                    | Absolute figures   |                          |                  | Relative figures      |                           |                         |
|--------------------|--------------------|--------------------------|------------------|-----------------------|---------------------------|-------------------------|
|                    | Number of entities | Employment, thsd persons | Turnover, UAH bn | Share in total number | Share in total employment | Share in total turnover |
| Large enterprises  | 3                  | 4.6                      | 7.7              | 0.02%                 | 6.8%                      | 16.7%                   |
| SMEs               | 16167              | 63.5                     | 38.3             | 99.98%                | 93.2%                     | 83.3%                   |
| Medium enterprises | 126                | 24.5                     | 19.5             | 0.78%                 | 36.0%                     | 42.3%                   |
| Small enterprises  | 2560               | 14.1                     | 11.5             | 15.83%                | 20.7%                     | 25.0%                   |
| In which           |                    |                          |                  |                       |                           |                         |
| micro              | 2135               | 5.4                      | 4.3              | 13.20%                | 7.9%                      | 9.3%                    |
| IEs                | 13481              | 24.9                     | 7.4              | 83.37%                | 36.6%                     | 16.0%                   |
| Total              | 16170              | 68.1                     | 46.0             | 100.00%               | 100.0%                    | 100.0%                  |

Source: Own calculations based on the data of the Zhytomyr Region Statistics Headquarters of the State Statistics Service of Ukraine

#### Number of business entities

In 2018, Zhytomyr counted 16.2 thousand small and medium-sized enterprises (including 126 medium-sized enterprises, 2.6 thousand small enterprises and 13.5 thousand individual entrepreneurs) but only three large-scale enterprises. It follows that only 16.6% of business entities were registered as legal entities (compared to the country's average of 19.3%), which is one of the lowest rates among the cities selected for the survey.

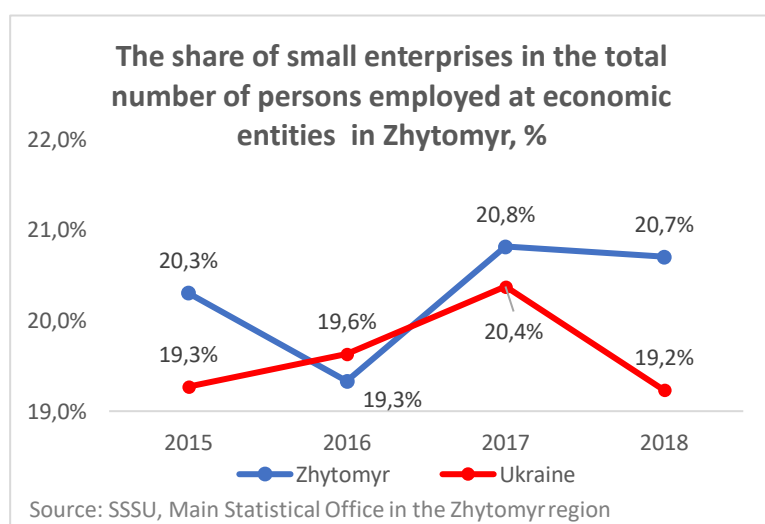


Zhytomyr is ranked number 17 for the number of business entities among the cities selected for the survey. The city accounts for 32.8% of the total number of business entities in the Vinnytsia Region. Accordingly, Zhytomyr has a somewhat lower concentration of businesses compared to other regional centers, which potentially can be explained by the presence in the region of other large cities such as Berdychiv, Korosten, and Novohrad Volynskyi.

In 2018, the number of SMEs in the city decreased by 3.9% compared to 2017, although their share increased by 1.9% at the country level. This was due to a 5.9% decrease in the number of individual entrepreneurs, which share increased by 1.2% at the national level. In addition, the shares of small and medium-sized enterprises increased by 8% and 3.3% respectively

There were 606 SMEs per 10,000 inhabitants in Zhytomyr, which is one of lowest rates among the selected cities (ranked number 18) This indicates that small and medium-sized enterprises in Zhytomyr is less active compared to the other regional centers.

## Employment



In 2018, the Zhytomyr-based business entities employed 68.1 thousand persons, which is 0.5% higher than in 2017 (the corresponding country's average is 4.8%). The city accounts for almost a third (34.7%) of the total number of persons employed at business entities in the Zhytomyr Region.

The share of people employed at SMEs in Zhytomyr reached 93.2% of the total quantity of people employed at all business entities, which is 11.7 p.p. higher

than the country's average (81.5%). This is, in particular, due to a lesser role of large businesses in the creation of jobs in the city. More than a half of people employed work for small businesses. In particular, individual entrepreneurs provided 36.6% of the total jobs, while 20.7% of the persons employed work for small enterprises.

For the reasons of confidentiality of data in 2017, no information about increase in employment in the SME sector in general and at large enterprises in Zhytomyr is available. In 2018, the number of persons employed at small enterprises of the city remained at the 2017 level (although their share decreased by 1.1% at the country level). Employment by individual entrepreneurs grew by 1.5 thousand people or 5.5% (10.5% at the country level).

Statistics show that the Zhytomyr region in general shows a somewhat higher unemployment rate among working age population than Ukraine as a whole. In 2019, the corresponding indicator for the region was 10% compared to 8.6% at the country level. In late 2019, 1,321 people were officially unemployed in Zhytomyr, while there were only 639 vacant jobs. Accordingly, the registered unemployed persons created a load of nearly 2 people per a vacancy. However, the quarantine measures and crisis developments caused by the COVID-19 pandemic may deteriorate the employment situation in the city in 2020.

## Turnover

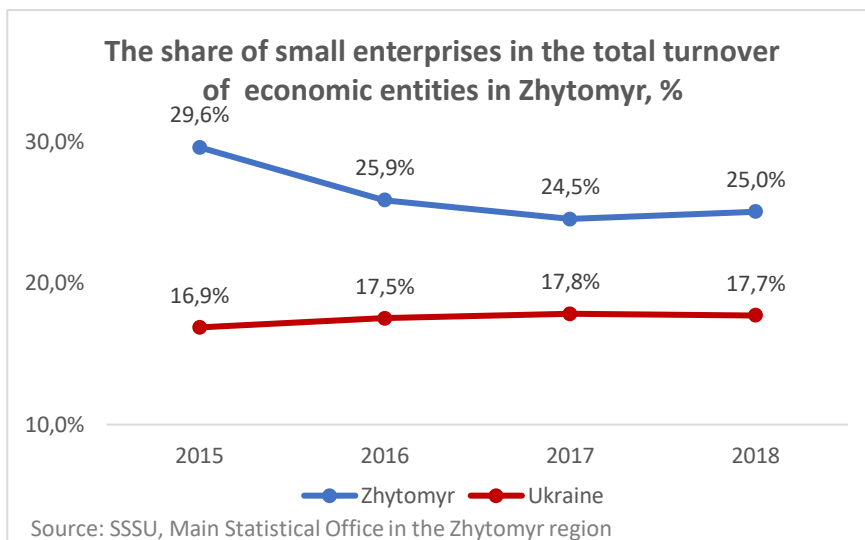
At the end of 2018, the turnover of goods and services by business entities in Zhytomyr reached UAH 46 billion based on current prices. Compared to 2017, the real growth (i.e. adjusted for inflation) of turnover reached 10.3%, which is 2.2 percentage points higher than Ukraine's average (8.1%). The business entities of

the city accounted for 36% of the total turnover in the region.

The SMEs sector of the city accounted for 83.3% of the total turnover of all business entities (the country's average is 64.7%). A half of those sales is provided by medium-sized businesses (42.3% of the total turnover of all business entities).

For the reasons of confidentiality of data in 2017,

no information about increase in the turnover by the SME sector in general and by large enterprises in Zhytomyr is available. However, in 2018 small enterprises demonstrated a real growth of turnover (goods and services) by just 12.6% compared to 2017 (the country's average is 7.5%). In addition, the turnover of individual entrepreneurs in the city increased by 10% (compared to Ukraine's average of 13.5%).



### *Sales of industrial products*

No statistical information on key performance indicators of enterprises in terms of the types of their economic activities is available at the level of cities of regional significance and districts. However, there are statistical data on the sales of industrial products by the types of activities. Such information allows us to determine key industries of Zhytomyr.

According to the data provided by the Zhytomyr Region Statistics Headquarters<sup>24</sup>, the 2018 sales of industrial products in Zhytomyr reached UAH 17.5 billion. 58.2% or UAH 9.9 billion of those sales were accounted for the processing industry. In particular, 21% or UAH 3.6 billion were generated by the manufacture of foodstuffs, beverages, and tobacco products<sup>25</sup>. The manufacture of rubbers and plastics and other non-metal products come second in the processing industry (10.5% or UAH 1.8 billion). Other important types of activities are metallurgical products and the manufacture of finished metal products (approximately UAH 1.4 billion or 8.3%), textile products, clothing, leather, leather products and products made of other materials (UAH 1.1 billion or 6.6%) , manufacture of wood and paper products, and the printing industry (UAH 0.9 billion or 5.3%).

### *Capital investments*

In 2018, Zhytomyr accounted for more than UAH 2.3 billion in capital investment. This is more than a third (35.3%) of the total capital investment in the Zhytomyr Region. In 2018, the amount of capital investment per capita was approximately UAH 11.7 thousand, which is slightly less than the country' average of UAH 13.7 thousand per capita. This is the sixteenth best indicator among the cities covered by the survey.

<sup>24</sup> Sales data by types of industrial activities are generated in accordance with the functional principle (based on homogeneous products). Zhytomyr – 2018. Statistical compilation.

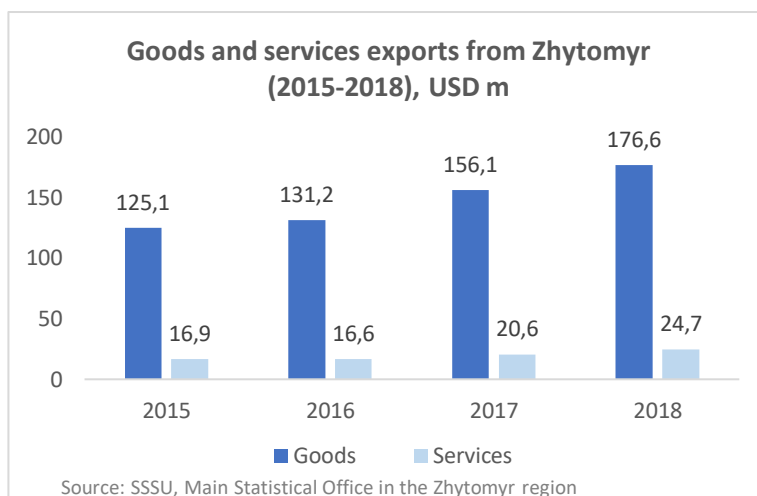
<sup>25</sup> Data by types of industrial activities are generated based on homogeneous products).

In particular, almost two thirds (62.3%) of the capital investments were funded by enterprises and organizations at their own expense. 17.7% was funded from the local budget, 11.1% was funded from the state budget, and 6.8% was funded using bank and other loans.

## Exports

According to the State Statistics Service of Ukraine, Zhytomyr’s exports of goods amounted to nearly USD 176.6 billion in 2018, which is 13.1% higher than in 2017. Zhytomyr was ranked number 15 on this metric among the surveyed cities in respect of which relevant statistical data were available.

On the other hand, the exports of services increased by 19.9% and reached USD 24.7 m (also ranked number 15).



An analysis of the foreign trade structure of Zhytomyr has demonstrated that in 2018 approximately a third of exports (34.2%) was provided by agricultural and food products. When it comes to other products, then 16.3% accounted for products made of ferrous metals, 14.5% accounted for wood and wood products, and 6.5% accounted for textile clothes and other textile products.

## Foreign direct investments

As of December 31, 2018, the city of Zhytomyr accounted for USD 95.2 m of foreign direct investments (equity). The specified amount was USD 10.7 m or 12.7% higher than at the beginning of 2018. This is one of the highest growth rates among the cities covered by the survey. On the other hand, there was USD 359,4 of FDI per capita in Zhytomyr as of the end of December 2018.

It should be noted that in general the Zhytomyr Region is ranked only number 17 by the volume of FDI (equity) among all the regions of Ukraine. However, 37.3% of direct investments in the Zhytomyr Region are concentrated in the city.

## Safety and comfort

The results of other studies allow us to look at the level of safety and comfort of living in the selected cities based on the assessments of their inhabitants. These factors are important for understanding the overall situation in the city. In addition, it is possible to compare those research studies with some results of MCI.

According to the study titled “Sixth Annual Ukrainian Municipal Survey”<sup>26</sup>, the city of Zhytomyr was ranked number 14 on the Quality of Public Goods and Services Index with a score of 2.8 points (on a scale from 1 (terrible) to 5 (excellent)), indicating that the residents are somewhat dissatisfied with the level of comfort

<sup>26</sup> The survey was conducted by the Sociological Rating Group on behalf of the International Republican Institute’s Center for Insights in Survey Research; The survey was funded by the United States Agency for International Development (USAID). Please see [http://ratinggroup.ua/research/regions/shestoy\\_vseukrainskiy\\_municipalnyy\\_opros.html](http://ratinggroup.ua/research/regions/shestoy_vseukrainskiy_municipalnyy_opros.html)

in their city. Zhytomyr is ranked number 11 for the quality of health services, number 12 — for industrial development, and number 9 — for sports services.

As part of the same study, Zhytomyr lags in terms of security, according to its residents. The value of the corresponding Index for Zhytomyr is 1.4 (on a scale from 0 to 3, where 0 means “I feel completely unsafe” and 3 means “I feel completely safe”). The city is ranked number 20 on this metric among the 24 cities covered by the survey. Approximately a half (46%) of the respondents said they felt rather safe or completely safe at night. The same percentage of the respondents reported that they felt rather unsafe or completely unsafe.

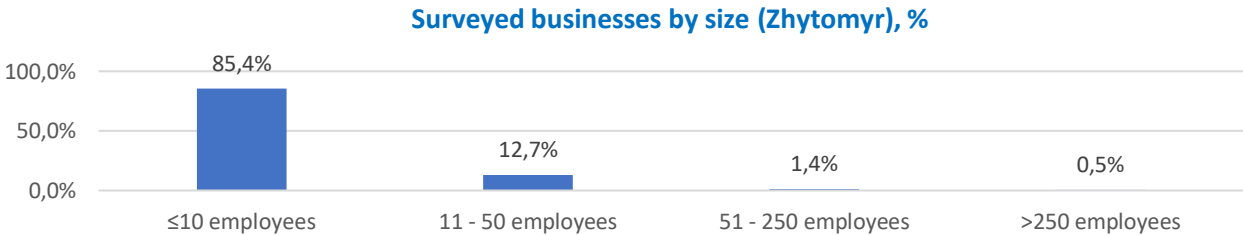
**Results of the “Municipal Competitiveness Index” in Zhytomyr**

**Description of the survey sample**

212 business entities took part in the survey in Zhytomyr. These were 156 (29.4%) enterprises (legal entities) and 86 (40.6%) individual entrepreneurs (PEs). When analyzing the answers, the data array was weighed by the types of business entities (64.0% of legal entities and 36.0% of PEs) to ensure that it was compliant with the parameters of the target sample.

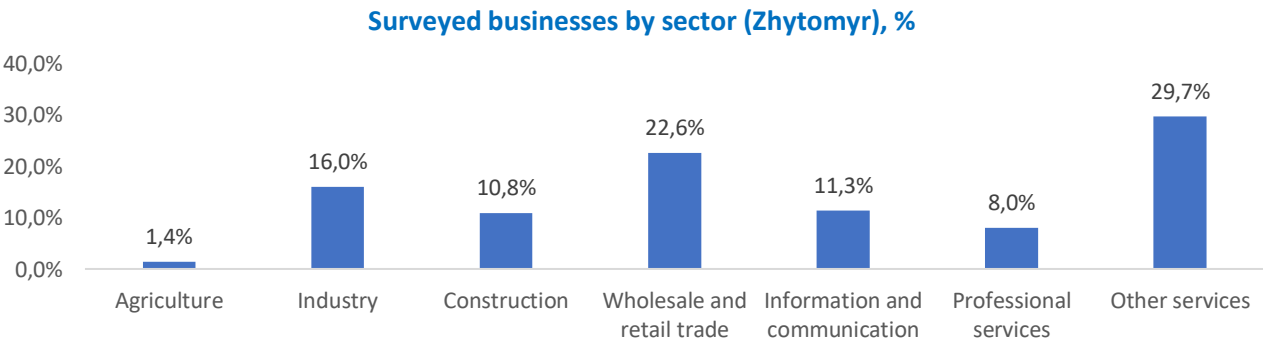
**Size of the surveyed business entities**

Most respondents (85.4%) were micro businesses — business entities employing from 1 to 10 people. 12.7% were small entities with 11 to 50 employees. Medium-sized entities (from 51 to 250 employees) account for 1.4% of the respondents, while large entities (more than 250 employees) account for 0.5%.



**Industry and type of activity**

The surveyed business entities in Zhytomyr operate in various sectors of the economy. 22.6% of surveyed business are engaged in trade (including in wholesale and retail, repair of motor vehicles). 16.0% of the respondents are employed in the industry, 10.8% – in the construction, and 1.4% – in the agriculture. Almost a half of the surveyed businesses account for the service sector (49.1%) 11.3% of the respondents provide information and communication services, while professional services are provided by 8.0% of the respondents. 29.7% of the respondents provide other services (businesses operating in the transport, arts, sports, education, healthcare, finance, and other service-related sectors).



### *Year of registration*

Most of the surveyed business entities were registered earlier than in 2017 (79.2%). In 2018-2019, 20.8% of the respondents were registered.

### *Age and gender breakdown of business owners and managers*

According to the survey findings, 70.0% of the Zhytomyr-based businesses are owned by men, while the remaining 30.0% are owned by women. In addition, the share of men owning legal entities is even higher (72.8% of men vs. 27.2% of women).

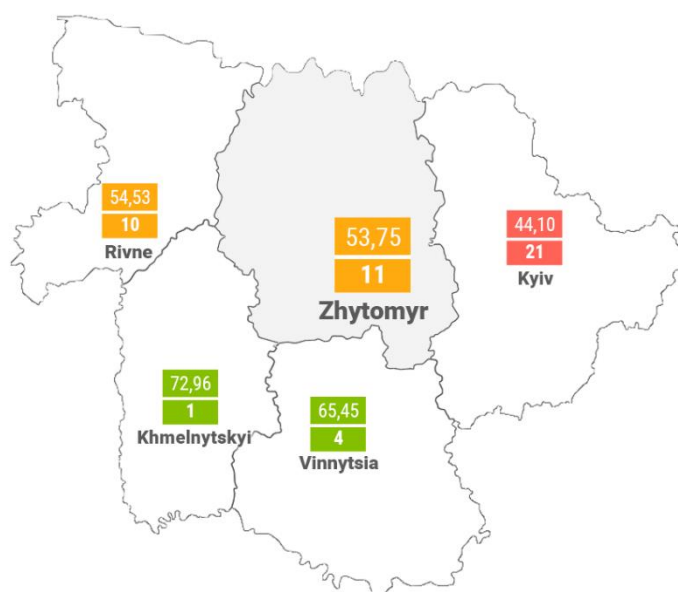
Men run 71.9% of legal entities, while the share of female managers accounts for 28.1%. When it comes to PEs, who are owned and run by the same person, the quantitative advantage of men is less apparent (62.8% vs. 37.2%). Men run 67.7% of legal entities, while the share of female managers accounts for 31.3%.

The average age of business owners in Zhytomyr is 42.4 years (the country's average is 42.8 years). However, individual entrepreneurs are on average four years younger than the owners of legal entities (39.2 years vs. 43.7 years) in Zhytomyr.

### *Municipal Competitiveness Index: results of Zhytomyr*

According to the survey findings, Zhytomyr was ranked number 11 scoring 53.75 points as part of MCI 2019/2020. Thus, Zhytomyr is classified among cities with average MCI scores.

A comparison between the MCI score of Zhytomyr and those of its geographical neighbors has shown that two leaders of the rating — Khmelnytskyi (number one) and Vinnytsia (number four) — are located close to Zhytomyr. On the other hand, Kyiv, which is classified under the group of cities with low MCI scores (ranked number 21), is located near Zhytomyr.



The average score of the city is due to different scores obtained on different components (sub-indices) of the rating.

The strongest components are:

- Transparency and data openness (number five)
- Access to public property (number seven)
- Development resources (number eight)

The weakest components are:

- Compliance cost (number 21)

- Security of operating a business (number 20)
- Starting a business (number 15)
- Informal payments and corruption (number 15)

### ***1. Starting a business***

Zhytomyr scored 4.49 points on Component 1 “Starting a Business.” This is the fifteenth highest score among all the cities. This component is one of the most challenging for the city due to problems that arise during registration of businesses.

In particular, according to the survey findings, the registration of a business in Zhytomyr in 2018-2019 took more time than on average in the country (6.7 days compared to 6.1 days). On the other hand, it took on average 2.5 days to have changes entered into the register, which is more than one day less than all the cities’ average of 3.6 days. In Zhytomyr, 13.8% of the respondents who registered a business in 2018-2019 reported problems and barriers during the registration. This corresponds to one of the highest rates among the cities surveyed. This is also five pp higher compared to all the cities’ average (8.8%). However, 75.2% of the respondents received necessary advice during the registration process, which exceeds the country’s average of 70.7%.

It took 34.6 days to launch a business (from the date of submission of documents for registration to the date of the first sale of goods or services) in Zhytomyr, which is more than two days longer than on average in the country (32.1 days).

On the other hand, the city faces less serious problems related to the time necessary to obtain certain permits. The obtaining of construction permits and registrations took, on average, 37.2 days in the country and 20.9 days in Zhytomyr, which is one of the lowest indices among the cities covered by the survey. It took less time in Zhytomyr to obtain a declaration of conformity to the requirements of the fire safety legislation in respect of a business entity’s facilities (10.7 days compared to the cities’ average of 11.8 days).

A heavier workload of registrars in the city can be one of the reasons for its low score on the business registration component. There are only five registrars per ten thousand business entities in Zhytomyr (including government authorities, local self-government authorities and notaries public).

### ***2. Access to public property***

Zhytomyr scored 5.65 points and was ranked number seven on the component (sub-index) titled “Access to public property.” A problem related to title documents prevented Zhytomyr from being ranked among the leaders. 28.2% of the respondents reported that they had documents certifying the ownership / lease of the land where their business operates (compared to the country’s average of 30%). This makes 44.1% of the respondents believing that land documents are their concern (compared to the country’s average of 46.8%). In 2018-2019, it took on average 39.1 days to obtain documents certifying the ownership / lease of the land in Zhytomyr, which is one of the best indices among the cities surveyed (compared to the average of 72.4 days for all the respondents surveyed).

16.2% of the respondents in Zhytomyr reported the accessibility of information on available community-owned land plots, which can be provided for use or used for construction, etc. (18.1% of the total respondents surveyed). In addition, 34.1% of the respondents indicated that information on the municipal real property (including non-residential facilities) was available (29.2% of the total respondents). It follows that entrepreneurs in Zhytomyr have twice as much better access to information on the municipal real property compared to the information on the land.

### ***3. Transparency and data openness***

Zhytomyr was ranked number five and scored 7.23 points on the “Transparency and data openness” component. In Zhytomyr, the majority of the respondents expressed a high opinion of the access to information on the local budget, local regulations, and public procurements.

In particular, the highest rate in Zhytomyr were assigned to the access to information on local procurements (23.3% of ‘good’ and ‘excellent’ rates), which is the best index among all the cities (compared to all the respondents’ average of 17.3%). Although the access to information on local regulations was assessed positively by on average 13.9% of all the respondents in all the cities surveyed, the share of such respondents in Zhytomyr was 15.6%. On the other hand, the access to information on the local budget in Zhytomyr was rated worst — 12.2% compared to 10.2% of all the respondents surveyed.

### ***4. Compliance cost***

The number of days that entrepreneurs spend on communications with inspectors and the quantity of inspector visits are challenging components for Zhytomyr in terms of compliance cost. The city was ranked number 21 and scored 5.87 points on this component. The city’s score was determined by high (compared to the other cities) rates assigned by the respondents in respect of the time spent on communications with inspectors.

In Zhytomyr, entrepreneurs spend on average 4.1 days for compliance with local regulations, which is almost in line with the country’s average (four days). 3.1% of an annual income is, on average, spent on compliance with the requirements of local regulations in Zhytomyr, which is less than 3.7% spent on average by all the respondents.

The findings of the survey show that entrepreneurs in Zhytomyr are more frequently visited by local inspectors (0.86 times per year on average compared to the country’s average of 0.7 times per year). Consequently, the average time spent on communications with the inspectors corresponds to almost seven days, which is two days more compared to the country’s average (five days).

### ***5. Taxes and duties***

Component (sub-index) 5 titled “Taxes and duties” is a relative weakness of Zhytomyr. The city was ranked number nine and scored 6.97 points on this component. The average score of Zhytomyr was due to a combination of such factors as relatively low expenses for payment of taxes, sufficiently low time spending for administration of taxes and duties, a lower local tax burden, and the availability of local tax exemptions.

As part of the survey in Zhytomyr, the respondents said that they spent, on average, 26.6% of their annual income on taxes and duties (including USC), which is almost in line with the average for all the cities (26.8% of the annual income). Entrepreneurs in Zhytomyr spent, on average, 56.7 days on the administration of taxes and duties, which is less than the average for all the cities (59 days).

Only 17.1% of the respondents in Zhytomyr said that local taxes are a barrier for their business, while the average for all the cities was 20.4%. In addition, 5.0% of the respondents in Zhytomyr reported being exempt from local taxes and duties in 2018-2019, which is one of the highest scores among the cities covered by the survey (the average for all the respondents is 3.6%).

### ***6. Informal payments and corruption***

According to the survey findings, Zhytomyr was ranked number 15 and scored 4.67 points on Component (sub-index) 6 titled “Informal payments and corruption.” Zhytomyr’s score is due to such factors as an approximately average prevalence of “informal payments” and a low than average awareness of entrepreneurs about existing anti-corruption measures taken by the city.



In particular, as part of Dimension 1 “Bribes / Gifts” 9.6% of the respondents reported situations related to “informal payments” when approaching the municipal officials for any issues concerning the running of a business in 2018-2019. On average, 9.9% of the respondents faced such situations. On the other hand, as part of Dimension 2 “Anti-corruption efforts,” 28.4% of the respondents were informed about the implementation of specific anti-corruption measures by the city authorities (open budget, digital reception, municipal anti-corruption program, etc.), while the average for all the cities surveyed was 31.8%.

### ***7. Security of operating a business***

Zhytomyr was ranked number 20 and scored 4.05 points on Component (sub-index) 7 titled “Security of operating a business.” The low score of the city is due to a high enough percentage of businesses who reportedly suffered from illegal takeovers or other criminal acts

According to the survey data, nearly every second respondent (44.8%) in Zhytomyr believes that competitors run shady businesses, which is approximately one p.p. less than the country’s average (45.1%). 2.5% of the total respondents experienced attempts of illegal takeovers at the country level in 2018-2019. However, the problem of illegal takeovers in Zhytomyr seems to be more critical as 3.3% of the respondents reported that they faced such acts.

16.7% of the respondents in Zhytomyr reported that they suffered losses as a result of extortions, thefts, robberies, or acts of vandalism or arson in 2018-2019. This is one of the highest indices among all the cities covered by the survey. The corresponding country’s average on this metric was 14.3% of the respondents. However, according to the respondents, losses from criminal acts accounted for 14.6% of their annual income, which is one of the highest indices in Ukraine (the country’s average is 10.8%).

In Zhytomyr, businesses spend, on average, 2.9% of their annual income on security / protection, which is somewhat higher compared to the country’s average of 2.7% of the annual income.

### ***8. Leadership of municipal authorities***

Zhytomyr was ranked number nine and scored 5.23 points on Component (sub-index) 8 titled “Leadership of municipal authorities.” The city was assigned an average score on two dimensions of which the sub-index consists — “Business development support” and “Public-private dialogue.”

Zhytomyr scored 5.63 points and was ranked number 10 on the “Business development support” dimension. Compared to an average of all the respondents, the Zhytomyr-based entrepreneurs are more optimistic about the attitude of representatives of the municipal authorities towards private businesses. 20.5% of the respondents believe that the attitude of the municipal authorities towards businesses is “very good” or “good” (the average for all the cities is 20%). In addition, 41.2% of the respondents agree that the municipal authorities support start-ups (compared to the average of 38.3% for all the cities), and 37.5% indicate that the municipal authorities support existing businesses (compared to the average of 35.5% for all the cities). On the other hand, according to the “hard data,” Zhytomyr scored seven points of ten. In particular, the City Council does not have an anticorruption hotline. Further, the city does not offer tax incentives (in respect of the unified tax) necessary for the development of certain types of activities, which would point to a higher proactivity of the municipal authorities in relation to supporting new and existing businesses. The absence of defined city boundaries can be another problem in Zhytomyr.

The score obtained on the “Public-private dialogue” dimension shows that businesses face less problems in their communications with the local government in Zhytomyr compared to most other cities. On this dimension, the city was ranked number eight and scored 4.83 points. 6.8% of business representatives in Zhytomyr believe that they have “extensive” or “very extensive” opportunities to participate in the development of local documents (strategies, plans, programs, etc.), while the average for all the cities

surveyed is 6.5%. In addition, 8.3% of the respondents indicate that the city always or often holds consultations with entrepreneurs before passing new or amending existing regulations that may affect businesses (compared to 7.4% on average for all the cities).

### **9. Development resources**

Zhytomyr was ranked number eight and scored 4.94 points on Component (sub-index) 9 titled “Development resources.” The city’s assessment is based on the results of three dimensions that form a single component. Those dimensions are Human resources, Financial resources and infrastructure, and Business support infrastructure.

Zhytomyr was ranked number seven and scored 6.13 points on **Dimension 1 (Human resources)**. An analysis of individual indicators of this dimension has demonstrated that 10.1% of the respondents in Zhytomyr rate the quality of the local workforce as “excellent” or “good” (the average for all the respondents surveyed is 7.6%). In addition, only 11.2% of the respondents surveyed give positive assessments of vocational education of employees in the local labor market (the country’s average is 10%). Accordingly, just as in the other cities, an insignificant percentage of individual entrepreneurs in Zhytomyr rate high the available workforce.

However, almost two thirds of the respondents (62.1%) believe that insufficient workforce training is a serious barrier to doing business (the average for all the respondents is 60.7%). 72% of the respondents reported that they face a lack of workforce (70% of all the respondents surveyed). It follows that the lack of qualified workforce is the third most severe problem faced by entrepreneurs in Zhytomyr, according to the rating of barriers to doing business (as reported by 34.9% of the respondents).

The analysis of the number of workforce in the city is supplemented by statistical data. In particular, there were approximately four vacancies per 100 businesses in Zhytomyr at the end of 2019, which approximately corresponds to the average for all the cities surveyed (3.6 vacancies)<sup>27</sup>. In addition, the share of working age population (aged 15–64) corresponds to 70.4% in Zhytomyr (as of January 1, 2019), which is one of the highest percentages among all the cities surveyed. The corresponding country’s average on this metric was 67.8%<sup>28</sup>. Thus, the problem of population aging may be less tangible in Zhytomyr compared to the other cities and the country in general.

Zhytomyr was ranked number 16 and scored 3.80 points on **Dimension 2 (Financial resources and infrastructure)**. According to the survey findings, only 1.2% of the respondents at the country level received financial support from municipal authorities in 2018–2019. When it comes to individual cities, the share of such respondents in Zhytomyr accounts just for 0.5%, which is one of the lowest percentages among all the cities surveyed. However, 78.4% of the business entities surveyed in Zhytomyr believe that the lack of financial resources is a serious barrier to doing business (the average for all the cities is 77.8%).

Data on the city’s budget expenditures complete the picture of financial resources allocated to support businesses in the city. In 2019, actual spending on support for small and medium-sized enterprises reached approximately UAH 136,000 per 10,000 businesses.<sup>29</sup> It should, however, be noted that, in general, SME support expenditures are low or non-existent in most of the cities. However, a higher amount of expenditures

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<sup>27</sup> Sources for calculations: 1) Number of vacancies: The situation in the labor market and the results of activities of the state employment service. Data on the page of the Zhytomyr Region Employment Center, <https://zhy.dcz.gov.ua/analitics/78> 2) Number of businesses: According to the Zhytomyr Region Statistics Headquarters

<sup>28</sup> According to the Zhytomyr Region Statistics Headquarters of the State Statistics Service of Ukraine

<sup>29</sup> Reports on the implementation of local budgets (expenditures under program classification code 7610 - Promotion of small and medium entrepreneurship), as well as responses of the city councils to requests for public information were used. For some cities, information on expenditures was updated through telephone interviews with the employees of executive authorities of the city councils.

or even the existence of such support in general may point to a higher level of leadership of municipal authorities in relation to business support

When it comes to the infrastructure, the entrepreneurs surveyed in the cities covered by the study had reportedly a different experience in relation to connection to electricity grids. In Zhytomyr, connection to the electricity grid took on average 64 full days from the date of an application until the date of actual connection. The corresponding country's average was 85 days. It follows that it is, on average, less complicated to have a business connected to the electricity grid in Zhytomyr than in any of the other cities surveyed.

Zhytomyr was ranked number nine and scored 4.87 points on **Dimension 3 (Business support infrastructure)**. According to the survey data, 7.6% of the respondents personally received business support services from the municipal authorities (information, advice, training, etc.), which is lower than all the cities' average (11%). At the same time, 57.8% of them rated such services as "good" and "excellent," which is one of the highest percentages among the cities surveyed (48.6% of the total respondents surveyed).

36.5% of the business entities surveyed indicate the existence of business support centers in Zhytomyr, which is higher than the average for all the cities surveyed (32.6%). In addition, according to the 'hard data,' there were two business support infrastructure facilities in the city at the end of 2019, which were created with the participation of the city authorities. Those facilities are City Development Agency, a community-owned facility, and the Center for Investment of the Zhytomyr City Council, a community-owned enterprise. Thus, entrepreneurs' awareness of business support centers may relate to other business support infrastructure facilities existing in the city.

Only 36.6% of the business entities surveyed in Zhytomyr are aware of the activities of business associations and business clubs in their city (45.9% of the total respondents surveyed). This is one of the lowest percentages among the cities covered by the survey. However, 12.1% of the surveyed organizations and individual entrepreneurs are members of such organizations, which nearly corresponds to the percentage recorded for all the respondents in general (11.5%).

### ***10. Support of innovations***

The city of Zhytomyr was ranked number 13 and scored 4.65 points on Component (sub-index) 10 titled "Support of innovations."

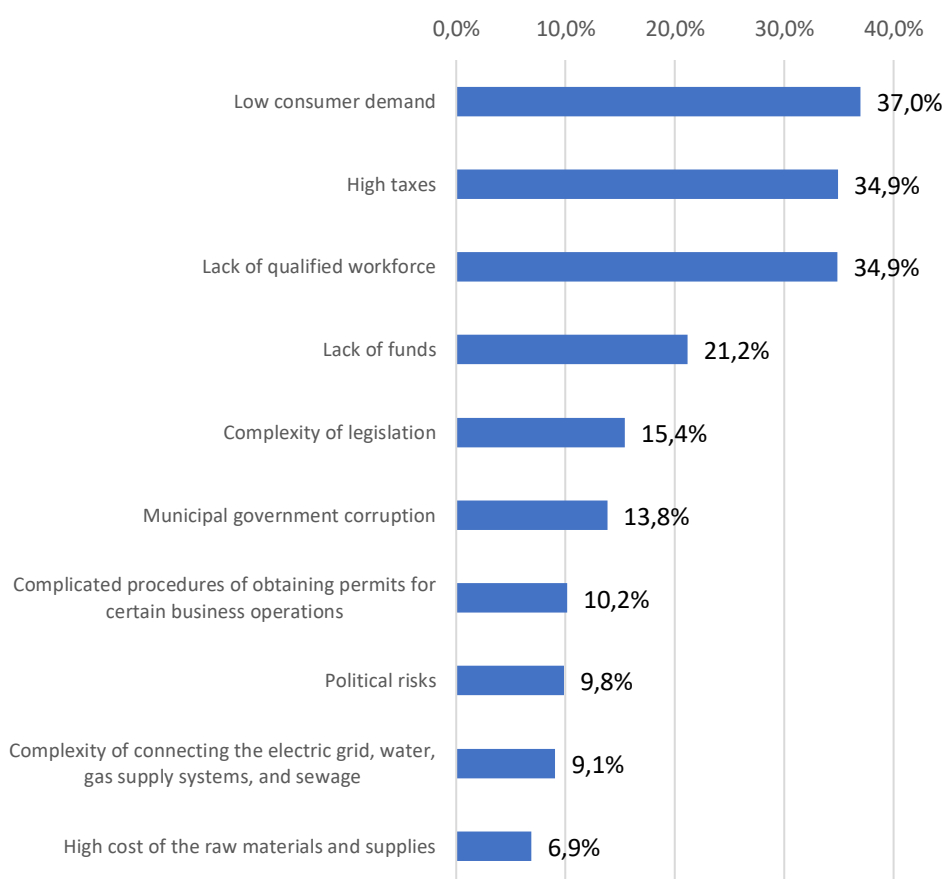
22.9% of the respondents in the city reported that their businesses interacted with research institutions or technology companies in 2018-2019, which is one of the highest indices among all the cities (compared to the average of 18.9% for all the cities). However, businesses in Zhytomyr are, on average, less satisfied with technology transfer compared to the other cities. 6.2% of the respondents pointed out that the related needs (the transfer of patents for inventions, etc.) are "met to a significant extent" or "fully met" (compared to the country's average of 8%)

The respondents in Zhytomyr give a high assessment of the local government's support for local innovation programs (funded from the local budget) with the city scoring 1.97 of five points compared to the average score of 1.91 for all the cities. In addition, Zhytomyr introduced new technologies, solutions, or products less frequently than all the other cities on average in 2018-2019 (37.1% compared to 40.2%). Further, only 1.8% of the surveyed enterprises and individual entrepreneurs reported that they belonged to clusters. This percentage is lower than the country's average of 2.1%. In general, all the factors provide an average satisfaction with support for innovations in Zhytomyr among entrepreneurs.

### Barriers to doing business

The surveyed business entities named the main barriers they face when doing business in Zhytomyr. Three most important barriers included such factors as the lack of qualified workforce, high taxes, and low consumer demand. Each of these barriers to doing business was reported by approximately a third of the respondents (37.0%, 34.9% and 34.9%, respectively). Accordingly, just as in a number of the other cities, the low consumer demand is the most severe problem in Zhytomyr that left behind the problem of high taxes that leads the rating of the barriers according to all the respondents in general.

TOP-10 barriers to doing business in Zhytomyr, %

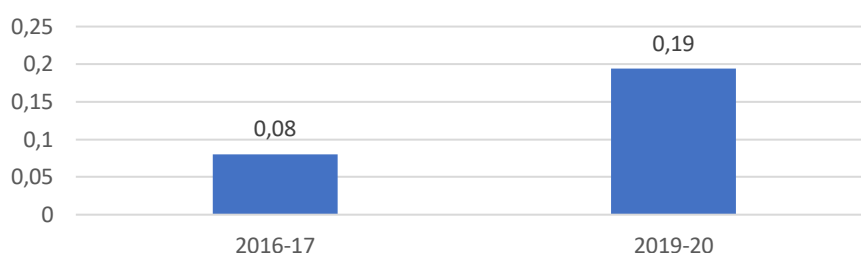


One in five respondents (21.2%) perceives the lack of funds as a barrier. Complexity of legislation creates barriers for 15.4% of the respondents and is followed by municipal government corruption (13.8%). One in ten respondents complain about complex permit obtaining procedures (10.2%), political risks (9.8%) and complexity of connection to electricity, water, and gas supply systems and sewerage systems (9.1%). Although military actions in the East of Ukraine are among top 10 barriers for the country as a whole, in Zhytomyr they were replaced by the high cost of raw materials and supplies (6.9% of the respondents).

### Expectations and assessments of the business climate and economic conditions in Zhytomyr

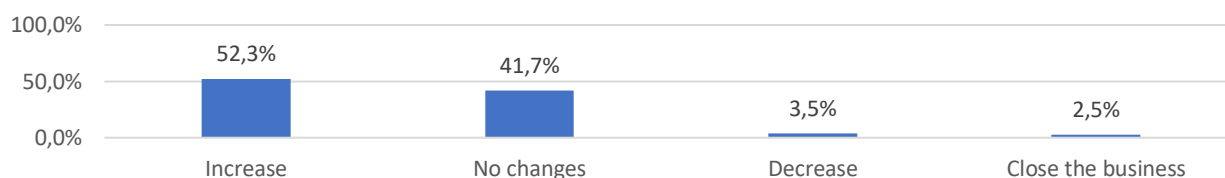
**Regional SME Business Climate Index.** ABCA SME Business Climate Index in Zhytomyr is 0.19 (the city was ranked number 12 among all the cities covered by the survey). This is more than in 2017 (0.08), which indicates an improvement in perception of the business climate. This is in line with the all-Ukrainian trend.

### ABCA Regional Index of Business Climate (Zhytomyr)



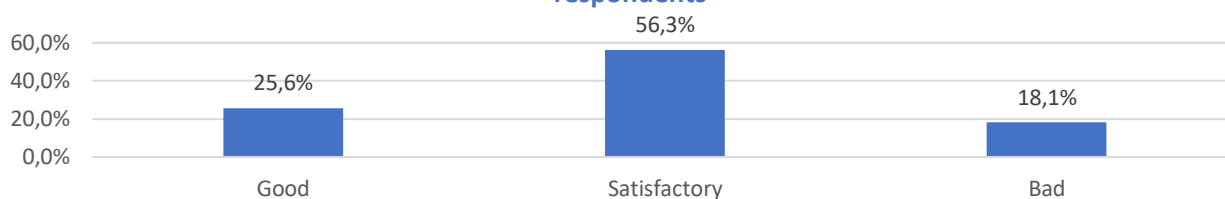
**Long-term expectations for business activity.** Business in Zhytomyr has optimistic long-term development plans for the next two years. More than half of the respondents (52.3%) reportedly plan to expand their business, and 41.7% want to stay at the current level. At the same time, only 3.5% of the respondents plan to reduce their business, and 2.5% want to close it. The balance index<sup>30</sup> is +0.46 (+0.45 at the country level).

### Business activity expectations in the two-year perspective in Zhytomyr, % of the respondents



Assessment of the financial and economic situation of business entities. In Zhytomyr, the majority of the business entities surveyed (56.3%) assessed their current financial and economic situation as satisfactory. The rest of the respondents rated it as good (25.6%) or bad (18.1%) It follows that the positive assessments outweigh the negative ones, and the balance index of the financial and economic situation is +0.07 (compared to the country's average of +0.05).

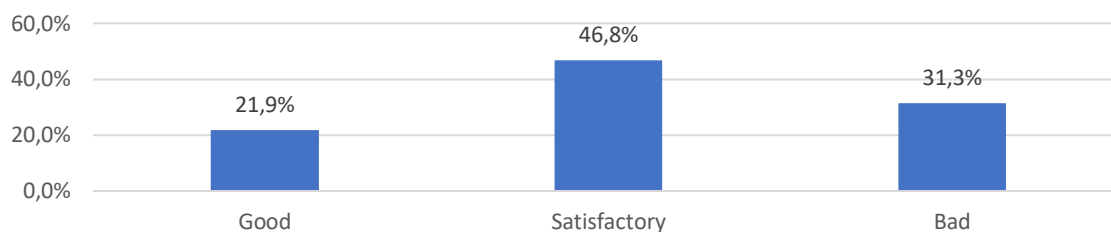
### Assessment of the business situation of business entities in Zhytomyr, % of the respondents



**Assessment of the current overall economic environment for business activities** Approximately a half of the surveyed business entities (46.8%) assessed the current overall economic environment as satisfactory. 31.3% of the respondents rate the overall economic environment as bad, and 21.9% as good. Thus, the index of assessment of the overall economic environment for business activities is negative (-0.09). However, the value of the index for the city is somewhat higher compared to the country's average (-0.12).

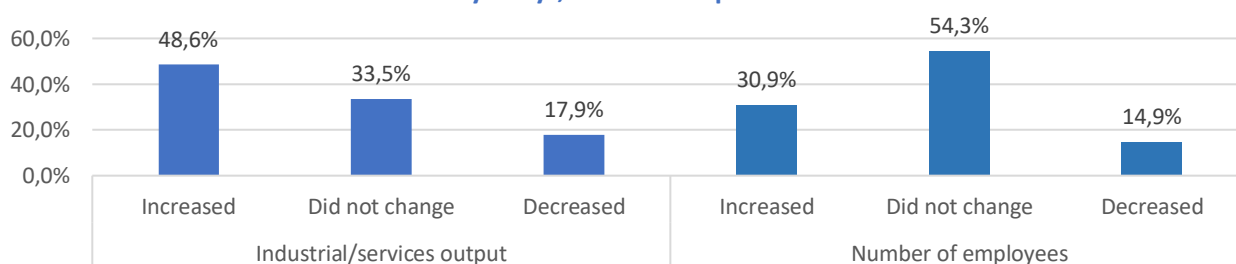
<sup>30</sup> Calculated as the average of all responses on a scale from -1 to 1, where 1 corresponds to a simplification of this procedure, 0 - no change, and -1 to a complication.

### Assessment of the overall economic situation (Zhytomyr), % of the respondents



**Change in the production output over the past two years.** Almost a half (48.6%) of the surveyed business entities indicated that they increased their production or service output in 2018-2019. Approximately a third (33.5%) of the respondents did not change the output while 17.9% of the respondents reduced it. Thus, the index of business activity is +0.31 (at the level of the total respondents surveyed), which reflects the predominance of the share of business entities that expanded their output over the share of those who reduced it.

### Change in the industrial/services output and in the number of employees in Zhytomyr, % of the respondents



**Change in the number of employees of the business entities over the past two years.** More than a half of the surveyed business entities (54.3%) indicated that the number of their employees did not change in 2018-2019. The share of business entities that increased the number of their employees (30.9%) has proved to be twice as much as the share of those where the number of employees decreased (14.9%) Thus, the index of changes in the number of employees is +16, which equals the average of +0.16 for all the cities surveyed.

**Deregulation: changes in administrative procedures** According to the respondents, the process and conditions of business registration have been simplified the most in the last two years, while the situation with inspections and tax administration has not improved.

39.9% of the businesses surveyed point out the simplification of business registration in the previous two years. The rest of the respondents did not feel any changes in this procedure. However, some respondents (12.6%) said that, in their opinion, business registration has become more difficult. As a result, the index of change in the registration procedures is +0.27<sup>31</sup>. This is the highest value of the index compared to the other two procedures, which include the passing of inspections and the administration of taxes.

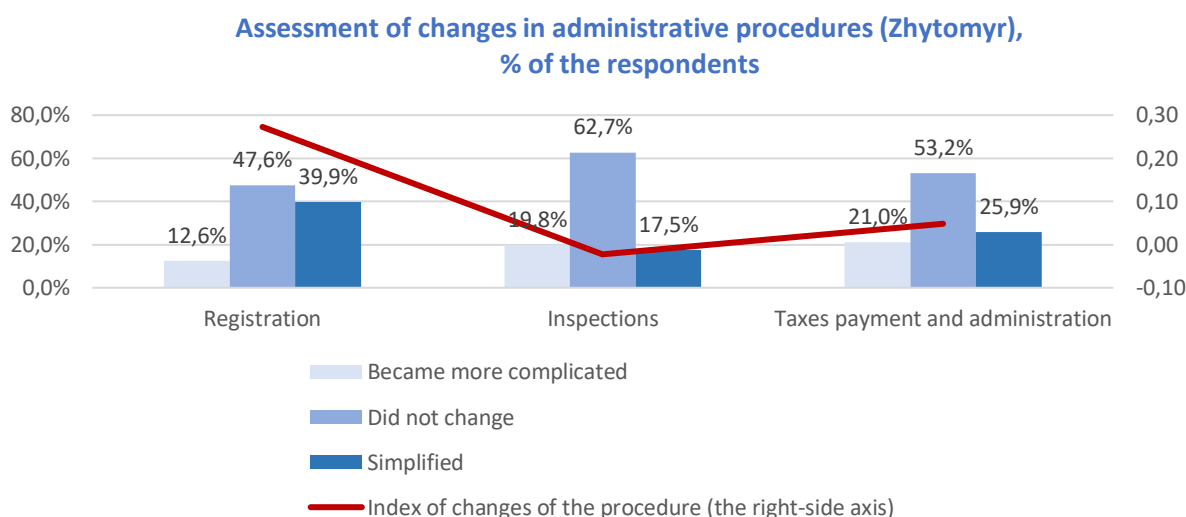
When it comes to the administration of taxes, more than a half of business entities (53.2%) say that they have not noticed any changes in the complexity of this procedure. The rest of the business entities are divided into two nearly equal parts, which include those for whom the payment of taxes has become easier (25.9%),

<sup>31</sup> Calculated as the average of all responses on a scale from -1 to 1, where 1 corresponds to a simplification of this procedure, 0 - no change, and -1 to a complication.

and those for whom it has become more difficult (21.0%). The index of change in the procedure for administering tax payments is +0.05.

The index of changes in passing inspections tends towards zero and is negative (-0.02). 19.8% of business managers and individual entrepreneurs claim that inspections have become more difficult. This is slightly higher than the share of businesses according to which inspections have become easier compared to 2018 (17.5%). However, the largest share of the surveyed businesses (62.7%) did not notice any changes in relation to inspections.

As a result, the value of the general index of changes in administrative procedures, which is calculated as an average value of the indices of change of these three procedures, is +0.10.



## Recommendations

According to the MCI results (subject to the weak components and dimensions) the following key recommendations have been formulated for the city. In addition, the city government should pay attention to recommendations that are common for all the cities in general.

### Component 1. Starting a business.

- Faster business registration should be encouraged. It is necessary to increase the number of business registrars in local self-government authorities.
- It is necessary to improve the quality and availability of consulting services when starting a business, in particular, by expanding the capacity of consulting services in the centers of administrative services.

### Component 4. Compliance cost

- Deregulation measures need to be continued at the local level to reduce the time and money costs of businesses on compliance with local regulations.

### Component 6. Informal payments and corruption

- It is necessary to establish, and to ensure the operation of, necessary components of the local anti-corruption system (municipal anti-corruption hotline).
- It is necessary to regularly disseminate information on corruption prevention and anti-corruption measures to ensure the awareness of business entities thereof.
- It is necessary to raise awareness of business entities of doing business with integrity.

### Component 7. Security of operating a business

- It is necessary to ensure cooperation with the law enforcement to improve the level of security in the city in general, as the crime rate also impacts the security of doing business.

**Component 9. Development resources**

- It is necessary to increase expenses on support for entrepreneurs to ensure the operation of the business support infrastructure and financial support programs.
- It is necessary to conduct an audit of business support infrastructure facilities to determine their efficiency and development pattern.
- It is necessary to use best practices applied by other cities to organize the operation of business support centers, co-workings, business hubs, clusters, etc.



# Zaporizhzhia

## Number 22 in MCI

### General information

Zaporizhzhia is the administrative center of the Zaporizhzhia Region and a city of regional significance.

The city is also the administrative center of the Zaporizkyi district, although it is not part thereof.

Zaporizhzhia is divided into seven inner districts: Oleksandrivskiy, Zavodskiy, Komunarskiy, Dniprovskiy, Voznesenivskiy, Khortytskyi, and Shevchenkivskiy. Each district has its own district administration of the Zaporizhzhia City Council.<sup>32</sup>



### Location

The city of Zaporizhzhia is located on the banks of the Dnipro River in the southeast of Ukraine.

Zaporizhzhia is located in the northwest of the Zaporizhzhia Region. The territory of the city borders on the Zaporizkyi and Vilnianskyi districts of the region. There are no other large settlements near Zaporizhzhia. However, there are other cities in the region with more than 100 thousand inhabitants. Such cities are Melitopol and Berdiansk.

The closest regional centers to Zaporizhzhia are Kherson, Dnipro, and Donetsk.

### Demographic situation

As of January 1, 2019, the permanent population of Zaporizhzhia was 734.8 thousand people. The city is the largest settlement of the Zaporizhzhia Region. Zaporizhzhia is accounted for almost a half of the region's population (43.1%), which is one of the highest percentages among all the regional centers in the country.<sup>33</sup>

The population of Zaporizhzhia, as just in Ukraine generally, is dominated by women (54.9%). There are 822 men per 1,000 women (864 men at the country level). The share of the population aged from 15 to 64 is 68.6% (67.8% at the country level). In total, there are 458 people (475 at the country level) aged 0-14 and over 65 per 1,000 people of working age.

<sup>32</sup> See more <https://zp.gov.ua/uk/page/rajony>.

<sup>33</sup> Here and below in the report, the statistical data of the Zaporizhzhia Region Statistics Headquarters of the State Statistics Service of Ukraine are used.

Zaporizhzhia demonstrated one of the highest rates of natural population decline in 2018 (-8.2 per 1,000 inhabitants). The death rate was one of the highest among the cities surveyed (14.5), while the birth rate reached 6.7.

## Development of entrepreneurship

### Key structural business statistics in Zaporizhzhia in 2018

|                    | Absolute figures   |                          |                  | Relative figures      |                           |                         |
|--------------------|--------------------|--------------------------|------------------|-----------------------|---------------------------|-------------------------|
|                    | Number of entities | Employment, thsd persons | Turnover, UAH bn | Share in total number | Share in total employment | Share in total turnover |
| Large enterprises  | 21                 | 79.5                     | 164.4            | 0.05%                 | 33.9%                     | 59.6%                   |
| SMEs               | 38206              | 155.2                    | 111.5            | 99.95%                | 66.1%                     | 40.4%                   |
| Medium enterprises | 318                | 64.1                     | 57.0             | 0.83%                 | 27.3%                     | 20.7%                   |
| Small enterprises  | 8691               | 37.4                     | 39.4             | 22.74%                | 15.9%                     | 14.3%                   |
| In which           |                    |                          |                  |                       |                           |                         |
| micro              | 7663               | 17.3                     | 14.8             | 20.05%                | 7.4%                      | 5.4%                    |
| IEs                | 29197              | 53.8                     | 15.0             | 76.38%                | 22.9%                     | 5.5%                    |
| Total              | 38227              | 234.7                    | 275.9            | 100.00%               | 100.0%                    | 100.0%                  |

Source: Own calculations based on the data of the Zaporizhzhia Region Statistics Headquarters of the State Statistics Service of Ukraine

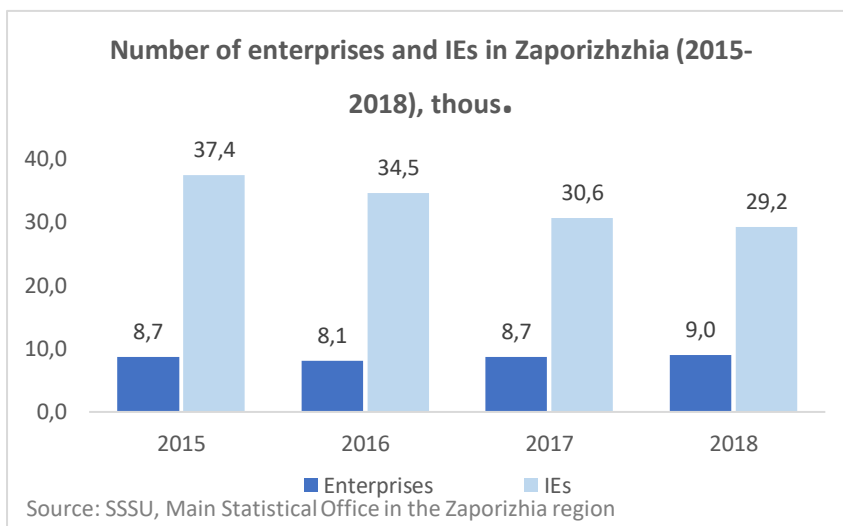
### Number of business entities

In 2018, Zaporizhzhia counted 38.2 thousand small and medium-sized enterprises (including 318 medium-sized enterprises, 8.7 thousand small enterprises and 29.2 thousand individual entrepreneurs). However, there were only 21 large enterprises, corresponding to the third highest rate after Kyiv.

Zaporizhzhia is ranked number six for the number of business entities among the cities selected for the survey.

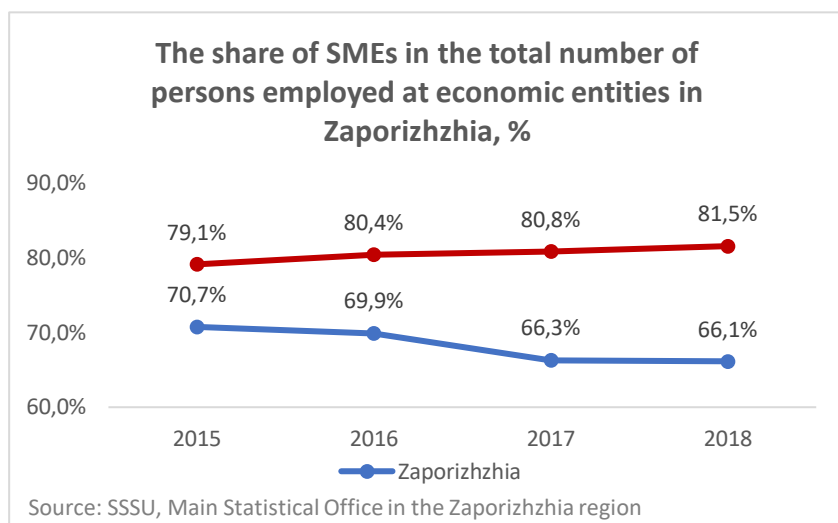
In addition, the city accounts for almost a half (51.4%) of the total number of business entities in the Zaporizhzhia Region, which highlights the pivotal role the city plays in the region's economics. On the other hand, there were 513 small and medium-sized enterprises per 10,000 locals (compared to Ukraine's average of 434).

In 2018, the number of SMEs in the city reduced by 2.8% compared to 2017 although it increased at the country level (+1.9%). This was due to a 4.5% decrease in the number of individual entrepreneurs although their share increased at the country level (+1.2%). In addition, the shares of small and medium-sized enterprises in Zaporizhzhia increased by 3.9% and 3.5%, respectively.



In 2018, 23.6% (the country's average is 19.3%) of business entities were registered as legal entities, while the others had the status of individual entrepreneurs. This is the third highest rate in Ukraine after Kyiv and Dnipro.

## Employment



In 2018, the Zaporizhzhia-based business entities employed 234.7 thousand persons, which is 1% less than in 2017. However, this index demonstrated a 4.8% growth at the country level. Zaporizhzhia provide 65.1% of the total employment at business entities in the Zaporizhzhia Region. This is the highest percentage among the cities selected for the survey.

The share of people employed at SMEs in Zaporizhzhia reached 66.1% of the total quantity of people employed at all business entities, which is approximately 15 p.p. lower than the country's average (81.5%). This is, in particular, due to an important role of large businesses in the creation of jobs in the city. In 2018, large businesses employed 79.5 thousand people, which corresponds to more than a third (33.9%) of the total quantity of persons employed at business entities in the city.

Compared to 2017, the number of people employed by SMEs in Zaporizhzhia reduced by 1.2% (the country's average is 5.7%) This is the sole negative index among the cities in respect of which information on the quantity of people employed in the SMEs sector is available. In particular, the city saw a 5.2% decrease in employment at medium-sized enterprises (although it increased by 5.8% at the country level) and a 3% reduction in the number of people employed at small enterprises (which number reduced by 1.1% at the country level). On the other hand, there was an increase in the number of people employed by individual entrepreneurs (2.8 thousand persons or 5.5%), which was in line with the national trend (a 10.5% growth). Similarly to SMEs, large businesses in Zaporizhzhia also reported a decrease in the number of their staff by 0.6%.

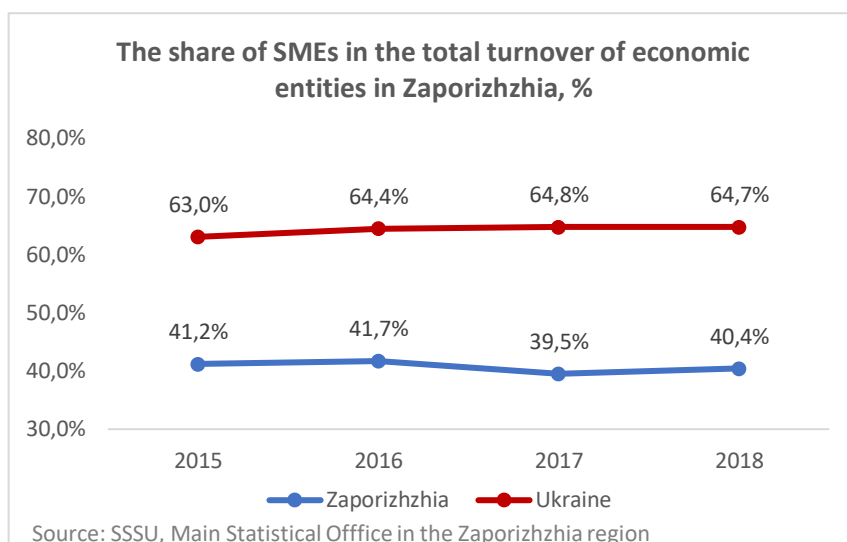
Statistics show that the Zaporizhzhia region demonstrates, in general, a somewhat higher unemployment rate among working age population than Ukraine as a whole. In 2019, the corresponding indicator for the region was 9.9% compared to 8.6% at the country level. In late 2019, 3,805 people were officially unemployed in Zaporizhzhia, while there were only 595 vacant jobs. Accordingly, the registered unemployed persons created a load of nearly six people per one vacant job, which was one of the highest indicators among the cities selected for the survey. However, the quarantine measures and crisis developments caused by the COVID-19 pandemic may deteriorate the employment situation in the city in 2020.

## Turnover

At the end of 2018, the turnover of goods and services by business entities in Zaporizhzhia reached UAH 275.9 billion based on current prices. Compared to 2017, the real growth (i.e. adjusted for inflation) of turnover reached 6.5%, which is 1.6 percentage points lower than Ukraine's average (8.1%). Business entities of the city accounted for 79.1% of the total turnover in the Zaporizhzhia Region, which is the highest index

among the cities selected for the survey.

The SMEs sector of the city accounted just for 40.4% of the total turnover of all business entities (compared to the country's average of 64.7%). This is one of the lowest indices among all the cities selected for the survey. This is, in particular, due to the presence of well-developed large businesses in the city.



In 2018, the Zaporizhzhia-based SMEs demonstrated a

real growth of their turnover by 8.9% compared to 2017 (the country's average is 8.1%). On the other hand, large businesses demonstrated a somewhat lower increase by 4.9% (compared to the country's average of 8.2%). The increase in the turnover of the SMEs sector was primarily due to the growth of turnover of medium-sized enterprises (by 10.1%), small enterprises (by 7.1%), and individual entrepreneurs (by 8.9%).

### *Sales of industrial products*

No statistical information on key performance indicators of enterprises in terms of the types of their economic activities is available at the level of cities of regional significance and districts. However, there are statistical data on the sales of industrial products by the types of activities. Such information allows us to determine key industries of Zaporizhzhia.

According to the data provided by the Zaporizhzhia Region Statistics Headquarters, the sales of industrial products in Zaporizhzhia reached UAH 157.1 billion in 2018. 91% or UAH 143 billion of those sales were accounted for the processing industry. In particular, 53.7% or UAH 84.3 billion were generated by metallurgical products and the manufacture of finished metal products, except for machinery and equipment<sup>34</sup>. Engineering, except for repair and installation of machinery and equipment, comes second in the processing industry (14.8% or UAH 23.2 billion). Other important types of activities are the manufacture of foodstuffs, beverages, and tobacco products (UAH 13.7 billion or 8.7%) and the manufacture of rubbers, plastics and other non-metal mineral products (UAH 4.9 billion or 3.1%).

### *Capital investments*

In 2018, Zaporizhzhia accounted for more than UAH 9.7 billion of capital investments, which corresponds to 61.8% of the total capital investments in the Zaporizhzhia Region Among the cities selected for the survey, the largest share of capital investments in the region is accounted for Kharkiv.

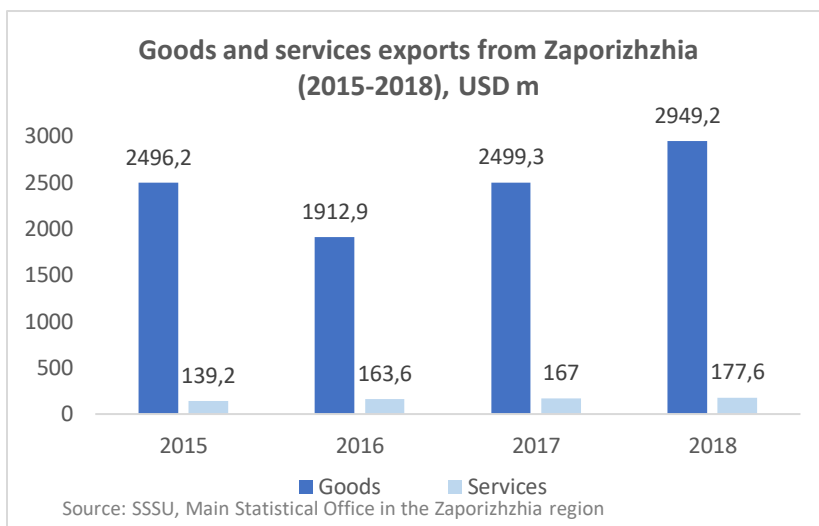
In 2018, the amount of capital investment per capita was approximately UAH 13,168, which approximately corresponds to the country's average of UAH 13,746. Accordingly, Zaporizhzhia is assigned the tenth highest score among all the cities selected for the survey.

<sup>34</sup> Data by types of activities are generated based on homogeneous products.

## Exports

According to the State Statistics Service of Ukraine, Zaporizhzhia's exports of goods amounted to nearly USD 3 billion in 2018, which is 18% more than in 2017. Zaporizhzhia was ranked number two (after Kyiv) on this metric among the surveyed cities in respect of which relevant statistical data were available.

On the other hand, the exports of services increased by 6.3% and reached USD 177.6 m (ranked number five).



An analysis of the foreign trade structure of Zaporizhzhia has demonstrated that more than two thirds of exports were provided by metallurgical products (USD 2,075.2 billion. Or 70.4%). In addition, machinery products deserve a special attention too, as Section V XI of the Ukrainian Classification of Goods in Foreign Trade (UKTZED) (Machinery, equipment and mechanisms, electrical equipment) accounted for 15.3% of the exports. 7.8% of the exports were provided by agricultural and food products, while chemical and related products accounted for 3.6% of the exports.

## Foreign direct investments

As of December 31, 2018, the city of Zaporizhzhia accounted for USD 855.6 m of foreign direct investments (equity). The specified amount is USD 8.7 m or 1% lower than at the beginning of 2018. It follows that investment volumes remained virtually unchanged in 2018. There was USD 1,159.1 of FDI per capita in Zaporizhzhia as of the end of December 2018.

It should be noted that the Zaporizhzhia Region is ranked number eight by foreign investments among other regions of Ukraine. However, at the beginning of 2018, Zaporizhzhia accounted for almost 95% of direct investments in the region, which highlights the pivotal role the city plays in the region's economy.

## Safety and comfort

The results of other studies allow us to look at the level of safety and comfort of living in the selected cities based on the assessments of their inhabitants. These factors are important for understanding the overall situation in the city. In addition, it is possible to compare those research studies with some results of MCI.

According to the study titled "Sixth Annual Ukrainian Municipal Survey"<sup>35</sup>, the city of Zaporizhzhia was ranked number 21 on the Quality of Public Goods and Services Index with a score of 2.6 points (on a scale from 1 (terrible) to 5 (excellent)). This indicates that the residents are dissatisfied with the level of comfort compared

<sup>35</sup> The survey was conducted by the Sociological Rating Group on behalf of the International Republican Institute's Center for Insights in Survey Research; The survey was funded by the United States Agency for International Development (USAID). Please see [http://ratinggroup.ua/research/regions/shestoy\\_vseukrainskiy\\_municipalnyy\\_opros.html](http://ratinggroup.ua/research/regions/shestoy_vseukrainskiy_municipalnyy_opros.html)

to other Ukrainian cities. A somewhat better situation is observed in the transport infrastructure (number seven), road (number 16) and industrial development (number 15) sectors.

As part of the same study, according to its residents, Zaporizhzhia is one of the least secure cities in Ukraine. The value of the corresponding Index for Zaporizhzhia is 1.4 (on a scale from 0 to 3, where 0 means “I feel completely unsafe” and 3 means “I feel completely safe”). On this metric, the city is ranked number 22 among the 24 cities covered by the survey. 52% of the respondents said they felt rather unsafe or completely unsafe at night. 43% of the respondents said they felt rather safe or completely safe.

**Results of the “Municipal Competitiveness Index” in Zaporizhzhia**

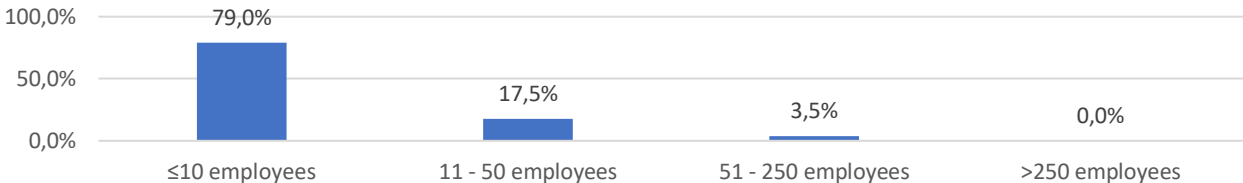
**Description of the survey sample**

200 business entities took part in the survey in Zaporizhzhia. These were 153 (76.5%) enterprises (legal entities) and 47 (23.5%) individual entrepreneurs (PEs). When analyzing the answers, the data array was weighed by the types of business entities (77.0% of legal entities and 23.0% of PEs) to ensure that it was compliant with the parameters of the target sample.

**Size of the surveyed business entities**

Most respondents (79.0%) were micro businesses — business entities employing from 1 to 10 people. 17.5% were small entities with 11 to 50 employees. Medium-sized entities (from 51 to 250 employees) account for 3.5% of the respondents, while large entities (more than 250 employees) account for 0%.

**Surveyed businesses by size (Zaporizhzhia), %**



**Industry and type of activity**

The surveyed business entities in Zaporizhzhia operate in various sectors of the economy. 29.0% of surveyed business are engaged in trade (including in wholesale and retail, repair of motor vehicles). 19.5% of the respondents are employed in the industry, 6.5% – in the construction, and 1.0% – in the agriculture. Almost a half of the surveyed businesses account for the service sector (44.0%). 12.5% of the respondents provide information and communication services, while professional services are provided by 9.5% of the respondents. 22.0% of the respondents provide other services (businesses operating in the transport, arts, sports, education, healthcare, finance, and other service-related sectors).

**Surveyed businesses by sector (Zaporizhzhia), %**



### *Year of registration*

Most of the surveyed business entities were registered earlier than in 2017 (82.0%). In 2018-2019, 18.0% of the respondents were registered.

### *Age and gender breakdown of business owners and managers*

According to the survey findings, 68.7% of the Zaporizhzhia-based businesses are owned by men, while the remaining 31.3% are owned by women. In addition, the share of men owning legal entities is even higher (72.2% of men vs. 27.8% of women).

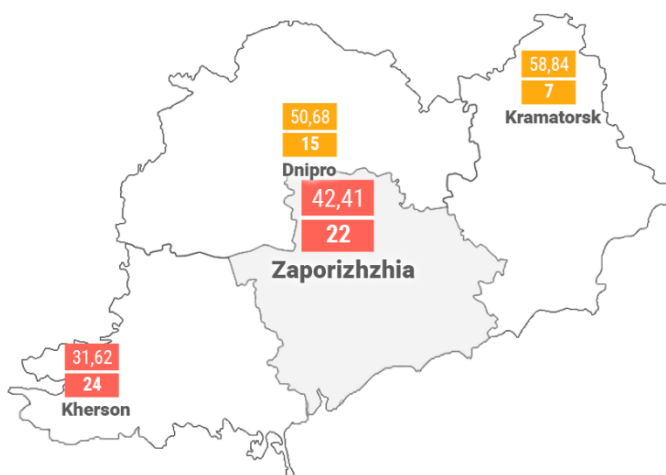
Men run 74.7% of legal entities, while the share of female managers accounts for 25.3%. When it comes to PEs, who are owned and run by the same person, the quantitative advantage of men is less apparent (53.2% vs. 46.8%). Men run 69.8% of business entities, while the share of female managers accounts for 30.2%.

The average age of business owners in Zaporizhzhia is 44.0 years (compared to the country's average of 42.8 years). However, individual entrepreneurs are on average eight years younger than the owners of legal entities (37.9 years vs. 45.3 years) in Zaporizhzhia.

### *Municipal Competitiveness Index: results of Zaporizhzhia*

According to the survey findings, Zaporizhzhia was ranked number 22 scoring 42.41 points as part of MCI 2019/2020. Thus, Zaporizhzhia is classified among cities with low MCI scores.

A geographical comparison of the MCI index for Zaporizhzhia and those for its geographical neighbors has shown that the cities classified under average and low MCI score groups are located nearby. In particular, the city of Kherson, which was ranked number 24 and scored 32.62 points, is located nearby.



The overall score of the city is determined by low rates assigned on more components.

The strongest components are:

- Transparency and data openness (number 12)

The weakest components are:

- Access to public property (number 24)
- Security of operating a business (number 22)
- Support of innovations (number 22)
- Leadership of municipal authorities (number 21)
- Informal payments and corruption (number 19)

### ***1. Starting a business***

Zaporizhzhia scored 4.94 points on Component 1 titled “Starting a Business.” This is only the thirteenth score among all the cities. This component is challenging for the city due to problems associated with the length of registration of businesses. In particular, according to the survey findings, the registration of a business in Zaporizhzhia in 2018-2019 took more time than on average in the country (6.3 days compared to 6.1 days). In addition, it took on average 5.2 days to have changes entered into the register, which is one of the highest indices among all the cities (all the cities’ average was 3.6 days).

In Zaporizhzhia, 13.8% of the respondents who registered a business in 2018-2019 reported problems and barriers during the registration. This corresponds to one of the highest rates among all the cities surveyed. This is also five pp higher compared to all the cities’ average (8.8%). 70.6% of the respondents received necessary advice during the registration process, which almost corresponds to the country’s average of (70.7%). It took 44.5 days to launch a business (from the date of submission of documents for registration to the date of the first sale of goods or services) in Zaporizhzhia, which is the highest index among the cities covered by the survey (the cities average was 32.1 days).

On the other hand, the city faces less serious problems related to the time necessary to obtain certain permits. The obtaining of construction permits and registrations took, on average, 37.2 days in the country and 22.6 days in Zaporizhzhia, which is one of the lowest indices in the cities covered by the survey. However, it took more time in Zhytomyr to obtain a declaration of conformity to the requirements of the fire safety legislation in respect of a business entity’s facilities (13.6 days compared to the cities’ average of 11.8 days).

It should be noted that the statistical data point to a moderate workload of business registrars in the city compared to the other cities. There are approximately 9 registrars per 10 thousand business entities in Zaporizhzhia (including government authorities, local self-government authorities and notaries public). However, the city has one of lowest numbers of businesses per 10 thousand inhabitants. Thus, a lower quality of registration services can be another reason for the low score on the business registration component.

### ***2. Access to public property***

Zaporizhzhia scored 2.67 points and was ranked number 24 on the component (sub-index) titled “Access to public property”. The city demonstrated low results on individual metrics. Only 25.5% of the respondents reported that they had documents certifying the ownership / lease of the land where their business operates (compared to the country’s average of 30%). This makes 39.5% of the respondents believing that land documents are their concern (compared to the country’s average of 46.8%). In 2018-2019, it took on average 278 days to obtain documents certifying the ownership / lease of the land in Zaporizhzhia, which is the highest index among the cities surveyed (72.4).

An analysis of the accessibility of information on community-owned property has demonstrated that the situation with information on land seems to be more problematic.. Only 15.1% of the respondents reported the accessibility of information on available community-owned land plots, which can be provided for use or used for construction, etc. (18.1% of the total respondents). However, 28.1% of the respondents indicated that information on the municipal real property (including non-residential premise) was accessible (29.2% of the total respondents).

### ***3. Transparency and data openness***

Zaporizhzhia was ranked number 12 and scored 5.76 points on the “Transparency and data openness” component. In Zaporizhzhia, the respondents expressed a higher than average opinion of the access to information on local regulations and public procurements. In particular, the respondents in Zaporizhzhia assigned the highest rate to the access to information on public procurements – 22.2% of ‘good’ and ‘excellent’ scores in the city compared to 17.3% among all the respondents. The city has one of the highest



scores on this component. The access to information on local regulations was assessed positively by 10.9% of the respondents surveyed in Zaporizhzhia compared to, on average, 13.9% of the total respondents in all the other cities. On the other hand, only 9.6% of the respondents give positive assessments of the access to information on local budget (compared to the average of 10.2% for all the cities).

#### ***4. Compliance cost***

The number of days that entrepreneurs spend on communications with inspectors and the time necessary for compliance with local regulations are problematic for Zaporizhzhia. The city was ranked only number 16 and scored 6.38 points on this component. The result of the city was determined by high (compared to the other cities) scores assigned by the respondents in respect of time spent on compliance with the requirements of local regulations and time spent on communications with inspectors.

In Zaporizhzhia, entrepreneurs spend on average 5.4 days for compliance with local regulations, which is somewhat longer than the country's average (four days). 3.2% of an annual income is, on average, spent on compliance with the requirements of local regulations in Zaporizhzhia, which is even less than 3.7% spent on average by all the respondents.

The findings of the survey show that entrepreneurs in Zaporizhzhia are quite rarely visited by local inspectors (0.5 times per year on average compared to the country's average of 0.7 times per year). Consequently, the average time spent on communications with the inspectors was eight days, which is almost three days more compared to the country's average (five days).

#### ***5. Taxes and duties***

Component 5 titled "Taxes and duties" is one of the weaknesses of Zaporizhzhia. The city was ranked number 17 and scored 3.89 points on this component. The low score of Zaporizhzhia was due to a combination of such factors as quite high expenses for payment of taxes and significant time necessary for the administration of such taxes.

As part of the survey in Zaporizhzhia, the respondents said that they spent, on average, 30.3% of their annual income on taxes and duties (including USC), which is one of the highest indices compared to all the cities' average (26.8% of the annual income). Entrepreneurs in Zaporizhzhia spent, on average, 65.3 days on the administration of taxes and duties, which is significantly longer than the average for all the cities (59 days).

19.6% of the respondents in Zaporizhzhia said that local taxes are a barrier to their business, although the average for all the cities was 20.4%. In addition, 2.4% of the respondents in Zaporizhzhia reported being exempt from local taxes and duties in 2018-2019, which is less than the country's average (3.6% of all the respondents).

#### ***6. Informal payments and corruption***

According to the survey findings, Zaporizhzhia was ranked number 19 and scored 4.09 points on Component (sub-index) 6 titled "Informal payments and corruption." Zaporizhzhia's score was due to such factors as higher than average prevalence of "informal payments" and a low than average awareness of entrepreneurs about existing anti-corruption measures taken by the city.

In particular, as part of Dimension 1 "Bribes / Gifts" 11.1% of the respondents reported situations related to "informal payments" when approaching the municipal officials for any issues concerning the running of a business in 2018-2019. On average, 9.9% of the respondents faced such situations. On the other hand, as part of Dimension 2 "Anti-corruption efforts," 30.0% of the respondents were informed about the implementation of specific anti-corruption measures by the city authorities (open budget, digital reception, municipal anti-corruption program, etc.), while the average for all the cities surveyed was 31.8%.

### ***7. Security of operating a business***

Zaporizhzhia was ranked number 22 and scored 3.62 points on Component (sub-index) 7 titled “Security of operating a business.” Zaporizhzhia’s score on this component is due to a quite high prevalence of illegal takeovers and other criminal acts against businesses compared to the other cities.

According to the survey data, nearly 43.2% of the respondents in Zaporizhzhia believe that their competitors run shady businesses, which is almost two p.p. lower than the country’s average (45.1%). 2.5% of the total respondents experienced attempts of illegal takeovers at the country level in 2018-2019. However, the situation with illegal takeovers in Zaporizhzhia seems to be more tangible as 3.7% of the respondents reportedly suffered such acts, which is one of the highest percentages at the country level.

17.2% of the respondents in Zaporizhzhia reported that they suffered losses as a result of extortions, thefts, robberies, or acts of vandalism or arson in 2018-2019. This is three per cent higher than the country’s average (14.3% of the respondents). However, it seems that the Zaporizhzhia-based entrepreneurs suffered the most from the above criminal acts. Such losses accounted for 15.4% of the annual income of the respondents who reportedly suffered them, which is one of the highest indices in Ukraine (the country’s average is 10.8%).

In Zaporizhzhia, businesses spend, on average, 3.1% of their annual income on security / protection, which is higher compared to the country’s average of 2.7% of the annual income.

### ***8. Leadership of municipal authorities***

Zaporizhzhia was ranked number 21 and scored 3.64 points on Component (sub-index) 8 titled “Leadership of municipal authorities.” The low rating of the city is due to its low scores on two dimensions of which the sub-index consists — “Business development support” and “Public-private dialogue.”

Zaporizhzhia scored 4.78 points (was ranked number 16) on the “Business development support” dimension. Compared to most other cities, the Zaporizhzhia-based entrepreneurs are more pessimistic about the attitude of representatives of the municipal authorities towards private business. Only 12.4% of the respondents believe that the attitude of the municipal authorities towards businesses is “very good” or “good” (the average for all the cities is 20%). In addition, 28.6% of the respondents agree that the municipal authorities support start-ups (compared to the average of 38.3% for all the cities), and 28.2% indicate that the municipal authorities support existing businesses (compared to the average of 35.5% for all the cities). The survey results are also complemented by “hard data” on the activities of the city council. According to the “hard data,” Zaporizhzhia scored 8 of 10 points. In particular, the City Council does not have an anticorruption hotline. The absence of defined city boundaries can be another problem in Zaporizhzhia.

The score obtained on the “Public-private dialogue” dimension shows that businesses face more problems in their communications with the local government in Zaporizhzhia, compared to most other cities. On this dimension, the city was ranked number 23 and scored 2.51 points. Only 2.6% of business representatives in Zaporizhzhia believe that they have “extensive” or “very extensive” opportunities to participate in the development of local documents (strategies, plans, programs, etc.), while the average for all the cities surveyed is 6.5%. In addition, 6.6% of the respondents indicate that the city always or often holds consultations with entrepreneurs before passing new or amending existing regulations that may affect businesses (compared to 7.4% on average for all the cities).

### ***9. Development resources***

Zaporizhzhia was ranked number 15 and scored 4.32 points on Component (sub-index) 9 titled “Development resources.” The city’s assessment is based on the results of three dimensions that form a single component. Those dimensions are Human resources, Financial resources and infrastructure, and Business support infrastructure.

Dnipro was ranked number 20 and scored 5.13 points on **Dimension 1 (Human resources)**. An analysis of individual indicators of this dimension has demonstrated that 6.7% of the respondents in Zaporizhzhia rate the quality of the local workforce as “excellent” or “good” (the average for all the respondents surveyed is 7.6%). In addition, only 10% of the respondents surveyed give positive assessments of vocational education of employees in the local labor market (the country’s average is 10%). Accordingly, just as in the other cities, an insignificant percentage of business entities in Zaporizhzhia rate high the available workforce.

However, almost two thirds of the respondents (62.9%) believe that insufficient workforce training is a serious barrier to doing business (the average for all the respondents is 60.7%). 71.8% of the respondents reported that they face a lack of workforce (70% of all the respondents surveyed). It follows that the lack of qualified workforce is the second most severe problem faced by entrepreneurs in Zaporizhzhia, according to the rating of barriers to doing business (according to 29.7% of the respondents).

The analysis of the number of workforce in the city is supplemented by statistical data. In particular, there were only 1.6 vacant jobs per 100 businesses in Zaporizhzhia at the end of 2019, which is less than the average for all the cities surveyed (3.6 vacant jobs).<sup>36</sup> On the one hand, this may point to a lower demand for workforce in the city compared to the other cities. On the other hand, employment centers can be less popular platforms for searching qualified candidates. In addition, the share of working age population (aged 15-64) in Zaporizhzhia is only 68.6% (as of January 1, 2019), which is only 0.8 pp higher than the country’s average of 67.8%<sup>37</sup>. This is one of the lowest indices among all the cities covered by the survey. Thus, the problem of population aging may be more tangible in Zaporizhzhia compared to the other cities.

Zaporizhzhia was ranked number seven and scored 4.27 points on **Dimension 2 (Financial resources and infrastructure)**. According to the survey findings, only 1.2% of the respondents at the country level received financial support from municipal authorities in 2018-2019. When it comes to individual cities, the share of such respondents in Zaporizhzhia accounts for 1.4%, which approximately corresponds to the country’s average. However, 73.8% of the business entities surveyed in Zaporizhzhia believe that the lack of financial resources is a serious barrier to doing business (the average for all the cities is 77.8%). This is one of the lowest indices among all the cities covered by the survey.

Data on the city’s budget expenditures complete the picture of financial resources allocated to support businesses in the city. In 2019, actual spending on support for small and medium-sized enterprises reached approximately UAH 366,000 per 10,000 businesses.<sup>38</sup> However, this is the third highest index among all the cities. It should, however, be noted that, in general, SME support expenditures are low or non-existent in most of the cities. However, a higher amount of expenditures or even the existence of such support in general may point to a higher level of leadership of municipal authorities in relation to business support

When it comes to the infrastructure, the entrepreneurs surveyed in the cities covered by the study had reportedly a different experience in relation to connection to electricity grids. In Zaporizhzhia, it took on average approximately 165 full days to connect to the electricity grid, from the date of an application until the date of actual connection. This is the second highest index after Dnipro. On the other hand, connection

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<sup>36</sup> Sources for calculations: 1) Number of vacancies: The situation in the labor market and the results of activities of the state employment service. Data on the page of the Zaporizhzhia Region Employment Center, <https://zap.dcz.gov.ua/analitics/66> 2) Number of businesses: According to the Zaporizhzhia Region Statistics Headquarters

<sup>37</sup> According to the Zaporizhzhia Region Statistics Headquarters of the State Statistics Service of Ukraine

<sup>38</sup> Reports on the implementation of local budgets (expenditures under program classification code 7610 - Promotion of small and medium entrepreneurship), as well as responses of the city councils to requests for public information were used. For some cities, information on expenditures was updated through telephone interviews with the employees of executive authorities of the city councils.

to the electricity grid took, on average, 85 days at the country level. It follows that it is more complicated to have a business connected to the electricity grid in Vinnytsia compared to all the other cities surveyed.

Zaporizhzhia was ranked number 14 and scored 3.55 points on **Dimension 3 (Business support infrastructure)**. According to the survey data, 11.6% of the respondents personally received business support services from the municipal authorities (information, advice, training, etc.), which is higher than all the cities' average (11%). At the same time, only 38.9% of them rated such services as “good” and “excellent”(48.6% of the total respondents surveyed).

Only 29.2% of the business entities surveyed reported the existence of business support centers in Zaporizhzhia, which is lower than the average for all the respondents (32.6%). In addition, according to the ‘hard data,’ there was only one business support infrastructure facility in the city at the end of 2019, which was created with the participation of the city authorities — the Zaporizhzhia City Business Support Foundation. Thus, entrepreneurs’ awareness of business support centers may relate to other business support infrastructure facilities existing in the city.

43.4% of the respondents in Zaporizhzhia are aware of the activities of business associations and business clubs in their city (45.9% of the total respondents). Members of such organizations are 13.7% of the respondents, which is higher than the percentage recorded for all the respondents surveyed (11.5%).

### ***10. Support of innovations***

The city of Zaporizhzhia was ranked number 22 and scored 3.10 points on Component (sub-index) 10 titled “Support of innovations.”

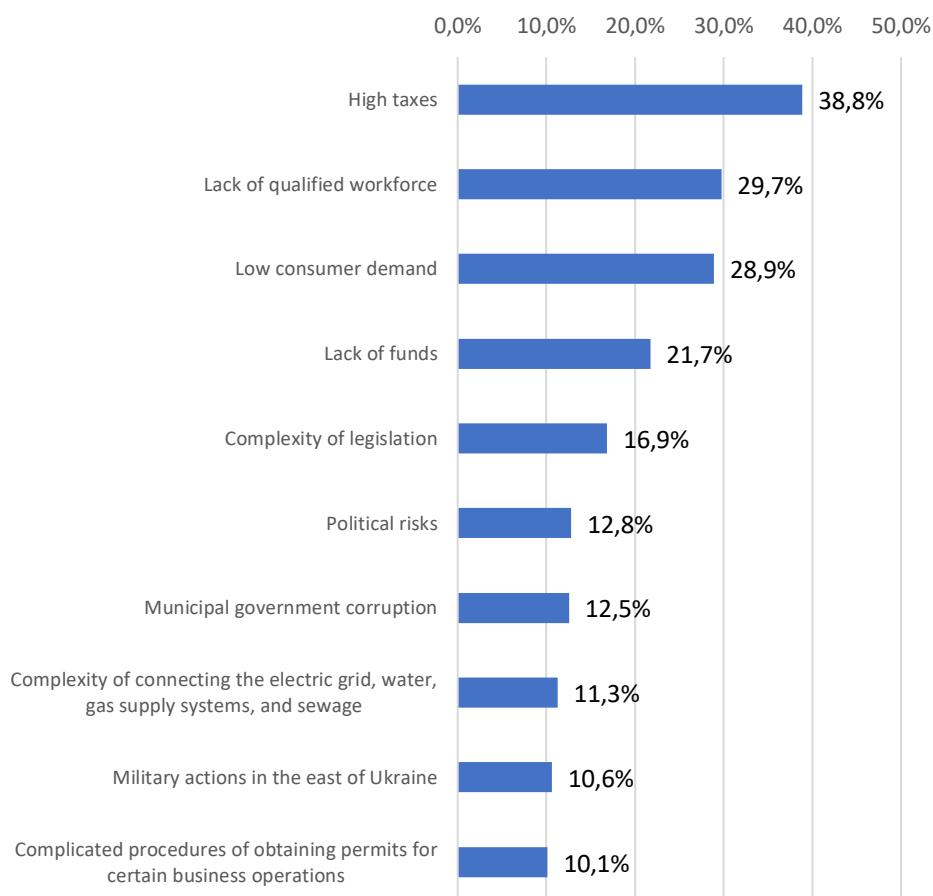
18.1% of the respondents in the city reported that their businesses interacted with research institutions or technology companies in 2018-2019, which is one of the lowest indices among all the cities (compared to the average of 18.9% for all the cities). However, businesses in Zaporizhzhia are, on average, more satisfied with technology transfer compared to all the respondents. 9.1% of the respondents pointed out that the related needs (the transfer of patents for inventions, etc.) are “met to a significant extent” or “fully met” (compared to the country’s average of 8%)

The respondents in Zaporizhzhia give a low assessment of the local government’s support for local innovation programs (funded from the local budget) with the city scoring 1.65 of five points compared to the average score of 1.91 for all the cities. In addition, Zaporizhzhia introduced new technologies, solutions, or products less frequently than all the other cities on average in 2018-2019 (33.7% compared to 40.2%). Further, only 0.5% of the surveyed enterprises and individual entrepreneurs reported that they belonged to clusters. This is lower than the index recorded for all the cities in general (2.1%). In general, all the factors provide a low level of satisfaction with support for innovations in Zaporizhzhia among entrepreneurs.

### ***Barriers to doing business***

The surveyed business entities named the main barriers they face when doing business in Zaporizhzhia. Three most important barriers included such factors as high taxes, the lack of qualified workforce and low consumer demand. Each of these barriers to doing business was reported by 38.8%, 29.7% and 28.9% of the respondents, respectively). Accordingly, just as in a number of the other cities, high taxes are the most severe problem in Zaporizhzhia. However, the lack of qualified workforce left behind the low consumer demand although it follows this problem in the rating of barriers in respect of the respondents.

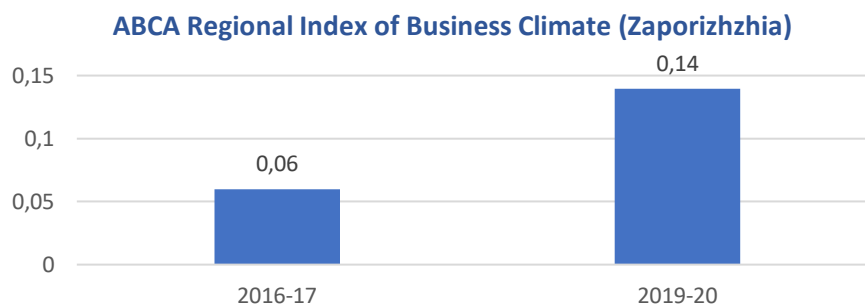
### TOP-10 barriers to doing business in Zaporizhzhia, %



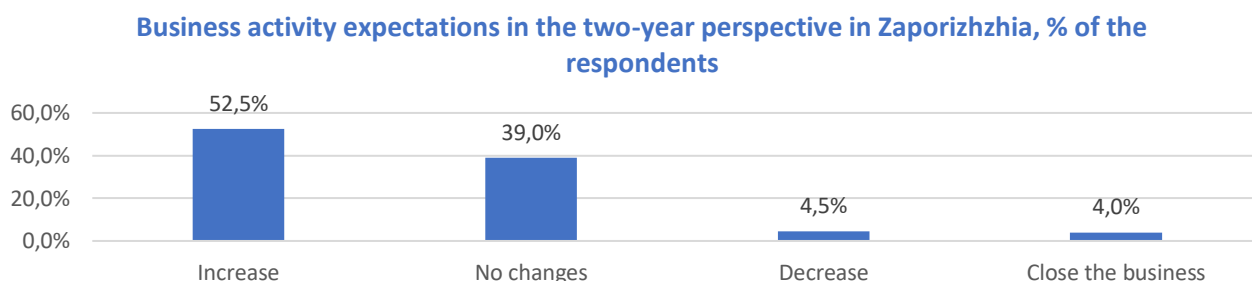
One in five respondents (21.7%) complain about the lack of funds as a barrier. Complexity of legislation, political risks, and municipal government corruption are perceived as barriers by 16.9%, 12.8%, and 12.5% of the respondents, respectively. One in ten respondents in Zaporizhzhia complain about complexity of connection to electricity, water and gas supply systems and to sewerage networks (11.3%), military actions in the East of Ukraine (10.6%), and complex procedures for obtaining permits to engage in certain types of activities (10.1%).

### *Expectations and assessments of the business climate and economic conditions in Zaporizhzhia*

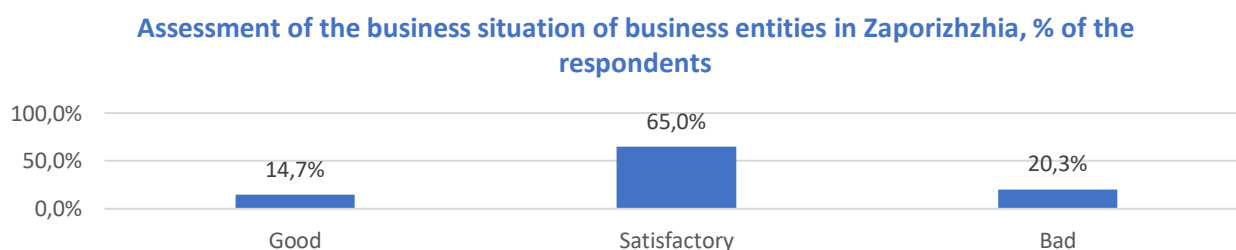
**Regional SME Business Climate Index.** ABCA SME Business Climate Index in Zaporizhzhia is 0.14 (the city was ranked only number 19 among all the cities covered by the survey). This is more than in 2017 (0.06), which indicates an improvement in perception of the business climate. This is in line with the all-Ukrainian trend.



**Long-term expectations for business activity.** Business in Zaporizhzhia has optimistic long-term development plans for the next two years. More than half of the respondents (52.5%) reportedly plan to expand their business, and 39.0% want to stay at the current level. At the same time, only 4.5% of the respondents plan to reduce their business, and 4% want to close it. The balance index<sup>39</sup> is +0.44 (+0.45 at the country level).



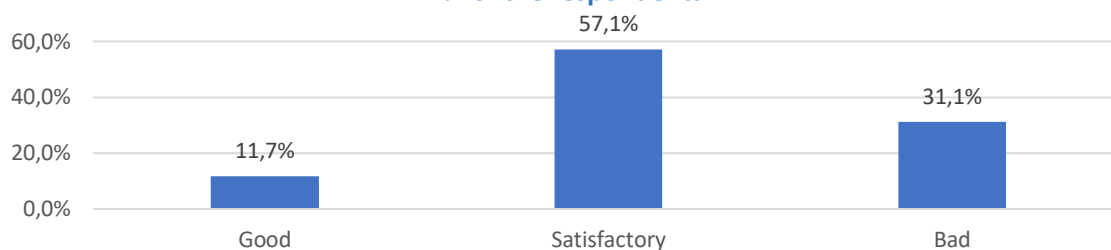
**Assessment of the financial and economic situation of business entities.** In Zaporizhzhia, the majority of the business entities surveyed (65.0%) assessed their current financial and economic situation as satisfactory. The rest of the respondents rated it as good (14.7%) or bad (20.3%) It follows that the negative assessments outweigh the positive ones, and the balance index of the financial and economic situation is -0.06 (compared to the country's average of +0.05).



**Assessment of the current overall economic environment for business activities** More than a half of the surveyed business entities (57.1%) assessed the current overall economic environment as satisfactory. 31.1% of the respondents rate the overall economic environment as bad, and 11.7% as good. Thus, the index of assessment of the overall economic environment for business activities is negative (-0.20). However, the value of the index is much lower compared to the country's average (-0.12).

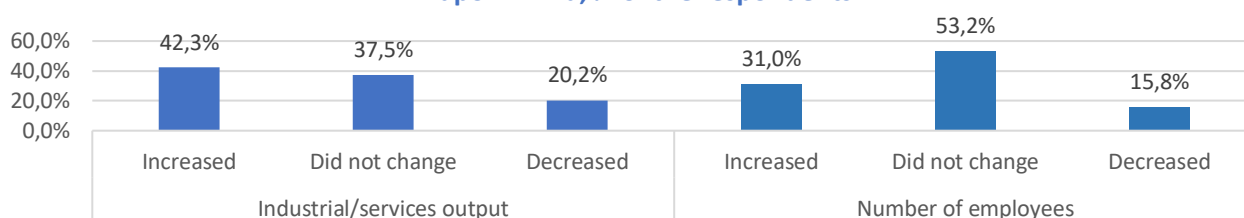
<sup>39</sup> Calculated as the average of all responses on a scale from -1 to 1, where 1 corresponds to a simplification of this procedure, 0 - no change, and -1 to a complication.

### Assessment of the overall economic situation (Zaporizhzhia), % of the respondents



**Change in the production output over the past two years.** Almost a half (42.3%) of the surveyed business entities indicated that they increased their production or service output in 2018-2019. Approximately a third (37.5%) of the respondents did not change the output while 20.2% of the respondents reduced it. Thus, the index of business activity is +0.22 (at the level of the total respondents surveyed – +0.21), which reflects the predominance of the share of business entities that expanded their output over the share of those who reduced it.

### Change in the industrial/services output and in the number of employees in Zaporizhzhia, % of the respondents



**Change in the number of employees of the business entities over the past two years.** More than a half of the surveyed business entities (55.2%) indicated that the number of their employees did not change in 2018-2019. The share of business entities that increased the number of their employees (31.0%) has proved to be twice as much as the share of those where the number of employees decreased (15.8%) Thus, the index of changes in the number of employees is +0.15, which is higher than the average of +0.16 for all the respondents.

**Deregulation: changes in administrative procedures** According to the respondents, the process and conditions of business registration have been simplified the most in the last two years, while the situation with inspections and tax administration has not improved.

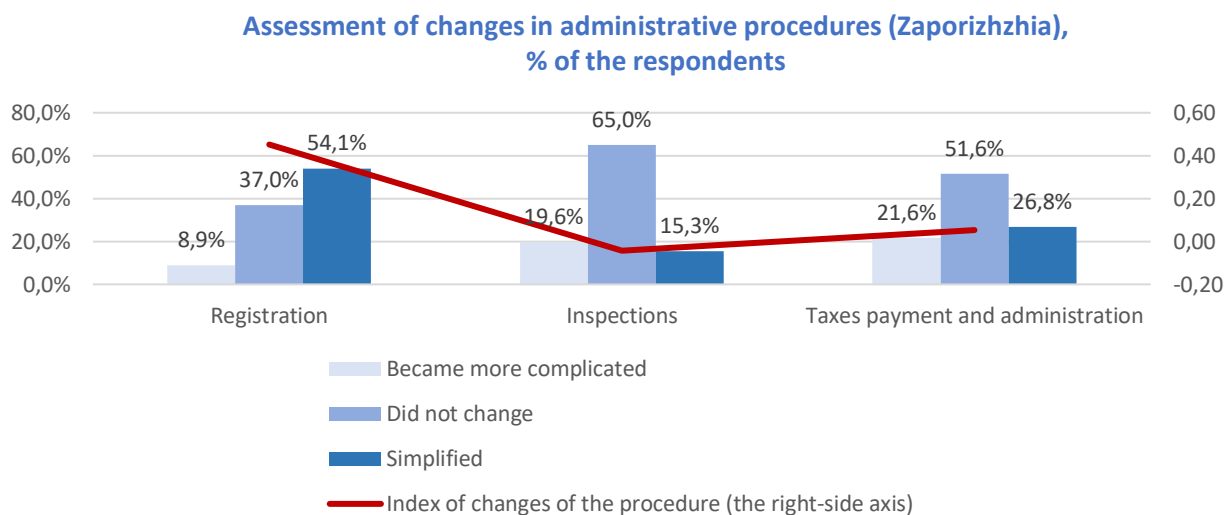
54.1% of the businesses surveyed point out the simplification of business registration in the previous two years. The rest of the respondents did not feel any changes in this procedure, and only a small share of the respondents (8.9%) said that, in their opinion, business registration has become more difficult. As a result, the index of change in the registration procedures is +0.45<sup>40</sup>. This is the highest value of the index compared to the other two procedures, which include the passing of inspections and the administration of taxes.

When it comes to the administration of taxes, more than a half of business entities (51.6%) say that they have not noticed any changes in the complexity of this procedure. The rest of the business entities are divided into two nearly equal parts, which include those for whom the payment of taxes has become easier (26.8%), and those for whom it has become more difficult (21.6%). The index of change in the procedure for administering tax payments is +0.05.

<sup>40</sup> Calculated as the average of all responses on a scale from -1 to 1, where 1 corresponds to a simplification of this procedure, 0 - no change, and -1 to a complication.

The index of changes in passing inspections is negative (-0.04). 19.6% of business managers and individual entrepreneurs claim that inspections have become more difficult. This share is higher than the percentage of businesses according to which passing inspections have become easier compared to 2018 (15.3%). However, the largest share of the surveyed businesses (65.0%) did not notice any changes in relation to inspections.

As a result, the value of the general index of changes in administrative procedures, which is calculated as an average value of the indices of change of these three procedures, is +0.15.



## Recommendations

According to the MCI results (subject to the weak components and dimensions) the following key recommendations have been formulated for the city. In addition, the city government should pay attention to recommendations that are common for all the cities in general.

### 1. Starting a business.

- It is necessary to improve the quality and availability of consulting services when starting a business, in particular, by expanding the capacity of consulting services in the centers of administrative services.

### 2. Access to public property

- It is necessary to ensure transparent access to information on the availability of community-owned land that can still be used for construction, though, in particular, the official website of the city council.
- It is necessary to ensure transparent access to information about community-owned real property, though, in particular, the official website of the city council.

### 4. Compliance cost

- Deregulation measures need to be continued at the local level to reduce the time and money costs of businesses on compliance with local regulations.

### 5. Taxes and duties



- It is necessary to regularly analyze the burden of local taxes and duties and its impact on local businesses.

#### **6. Informal payments and corruption**

- It is necessary to establish, and to ensure the operation of, necessary components of the local anti-corruption system (anti-corruption hotline).
- It is necessary to regularly disseminate information on corruption prevention and anti-corruption measures to ensure the awareness of business entities thereof.
- It is necessary to raise awareness of business entities of doing business with integrity.

#### **7. Security of operating a business**

- It is necessary to ensure cooperation with the law enforcement to improve the level of security in the city in general, as the crime rate also impacts the security of doing business.

#### **8. Leadership of municipal authorities**

- It is necessary to ensure constant communication and dialogue between businesses and local authorities through ensuring regular operation of special advisory bodies with the participation of entrepreneurs.
- It is necessary to ensure a higher level of business involvement in the development of local documents (strategies, plans, programs, etc.) and consultations on regulations.

#### **9. Development resources**

- It is necessary to analyze the needs of local businesses for workforce.
- It is necessary to increase expenses on support for entrepreneurs to ensure the operation of the business support infrastructure and financial support programs.
- It is necessary to conduct an audit of business support infrastructure facilities to determine their efficiency and development pattern.
- It is necessary to use best practices applied by other cities to organize the operation of business support centers, co-workings, business hubs, clusters, etc.

#### **10. Support of innovations**

- It is necessary to provide support for innovative projects as part of business financial support programs in cities.
- It is necessary to promote cooperation between businesses through incorporating clusters on the initiative of, or with support from, the local government.

# Ivano-Frankivsk

## Number 2 in MCI

### General information

Ivano-Frankivsk is the administrative center of the Ivano-Frankivsk Region and a city of regional significance.

The Ivano-Frankivsk City Council has also jurisdiction over five village councils: Vovchynets Village Council, Krykhivtsi Village Council, Mykytyntsi Village Council, Uhornyky Village Council, and Khryplyn Village Council.

In October 2019, the Ivano-Frankivsk City Amalgamated Territorial Community was established. It encompasses the Ivano-Frankivsk City Council (Ivano-Frankivsk and other settlements falling within the jurisdiction of the city council), the Pidluzhzhia Village Council, the Cherniiv Village Council, the Berezivka Village Council, the Kolodiivka Village Council, the Pidpechery Village Council, and the Dobrovliany Village Council.<sup>41</sup>



### Location

The city of Ivano-Frankivsk is located in the southwest of Ukraine between the rivers Bystrytsia Nadvirnyanska and Bystrytsia Solotvynska.

The city is located in the northeast of the Ivano-Frankivsk Region. The entire territory of the city borders on the Tysmenytsia District.

The closest regional centers are Uzhhorod, Lviv, Ternopil, and Chernivtsi.

### Demographic situation

As of January 1, 2019, the permanent population of Ivano-Frankivsk (including territories falling within the jurisdiction of the City Council) was 257.8 thousand people. More than 90% of the population is accounted for the city itself, while the rest live in the villages falling within the jurisdiction of the City Council. Ivano-Frankivsk is the largest settlement of the Ivano-Frankivsk Region. It accounts for more than a fifth of the region's population.<sup>42</sup>

The population of Ivano-Frankivsk, as just in Ukraine generally, is dominated by women (53.7%). There are 864 men per 1,000 women (864 men at the country level). The share of the population aged from 15 to 64 is

<sup>41</sup> Please see <https://decentralization.gov.ua/gromada/1059#>

<sup>42</sup> Here and below in the report, the statistical data of the Ivano-Frankivsk Region Statistics Headquarters of the State Statistics Service of Ukraine are used.

71.8% (67.8% at the country level). In total, there are 394 people (475 at the country level) aged 0-14 and over 65 per 1,000 people of working age.

Ivano-Frankivsk is also one of the few cities in the sample demonstrating a natural increase in its population (0.3 per 1,000 inhabitants), which is, in particular, due to a relatively high birth rate (9.2) and a low mortality rate (8.9) compared to the other cities.

### *Development of entrepreneurship*

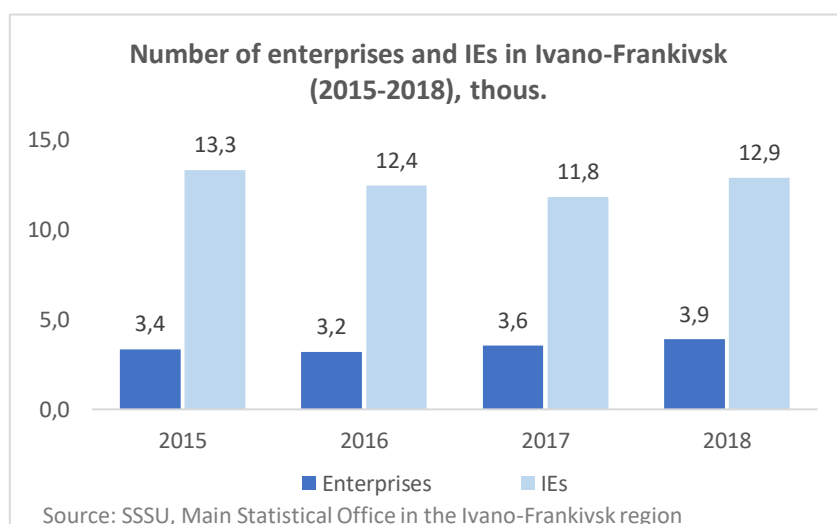
#### **Key structural business statistics in Ivano-Frankivsk in 2018**

|                    | Absolute figures   |                          |                  | Relative figures      |                           |                         |
|--------------------|--------------------|--------------------------|------------------|-----------------------|---------------------------|-------------------------|
|                    | Number of entities | Employment, thsd persons | Turnover, UAH bn | Share in total number | Share in total employment | Share in total turnover |
| Large enterprises  | 3                  | 3.5                      | 9.2              | 0.02%                 | 4.8%                      | 18.5%                   |
| SMEs               | 16760              | 69.7                     | 40.5             | 99.98%                | 95.2%                     | 81.5%                   |
| Medium enterprises | 129                | 25.2                     | 21.3             | 0.77%                 | 34.5%                     | 43.0%                   |
| Small enterprises  | 3759               | 16.8                     | 12.2             | 22.42%                | 22.9%                     | 24.6%                   |
| In which           |                    |                          |                  |                       |                           |                         |
| micro              | 3328               | 7.9                      | 4.9              | 19.85%                | 10.8%                     | 10.0%                   |
| IEs                | 12872              | 27.6                     | 6.9              | 76.79%                | 37.8%                     | 13.9%                   |
| Total              | 16763              | 73.2                     | 49.6             | 100.00%               | 100.0%                    | 100.0%                  |

Source: Own calculations based on the data of the Ivano-Frankivsk Region Statistics Headquarters of the State Statistics Service of Ukraine

### *Number of business entities*

In 2018, Ivano-Frankivsk counted 16.8 thousand small and medium-sized enterprises (including 129 medium-sized enterprises, 3.8 thousand small enterprises and 12.9 thousand individual entrepreneurs) but only three large-scale enterprises. Accordingly, 23.2% of the business entities were registered as legal entities, which is somewhat higher than Ukraine's average (19.3%).

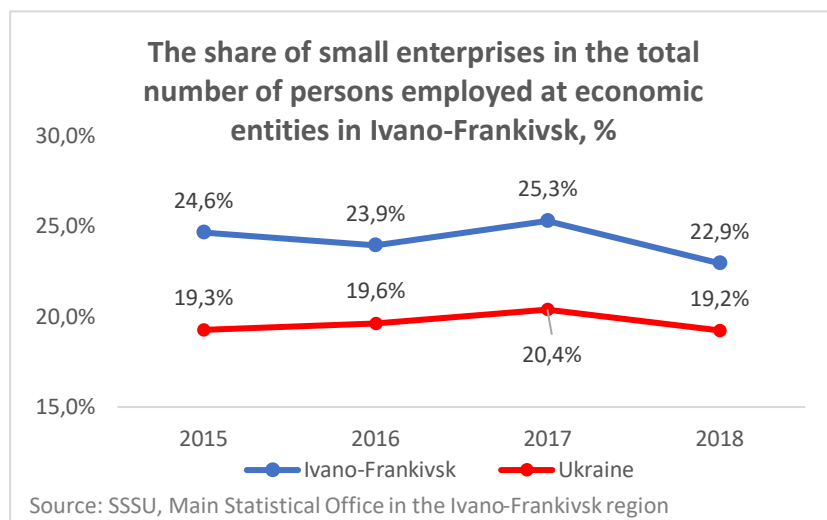


Ivano-Frankivsk is ranked number 15 for the number of business entities among the cities selected for the survey. In addition, the city accounts for 31.9% of the total number of business entities in the Ivano-Frankivsk Region. It follows that Ivano-Frankivsk has a lower concentration of business entities compared to other regional centers, which may be due to business activity in other cities of the region, such as Kalush, Kolomyia, etc. On the other hand, there were 651 small and medium-sized enterprises per 10,000 locals in Ivano-Frankivsk. This is the eleventh

highest index among the cities covered by the survey.

In 2018, the number of SMEs in Ivano-Frankivsk increased by 9% compared to 2017, which is 7.1 percentage points higher compared to the country's average (1.9%). This was primarily due to a 9.5% growth in the quantity of small businesses (the country's average reached 5.1%) and a 8.9% increase in the number of individual entrepreneurs (the country's average was recorded at 1.2%). In addition, the number of medium-sized enterprises increased by 4% (compared to a 7.5% at Ukraine's level).

## Employment



In 2018, the Ivano-Frankivsk-based business entities employed 73.2 thousand persons, which is 8.3% higher than in 2017 (the corresponding country's average is 4.8%). The city provides 39.7% of the total employment at business entities in the Ivano-Frankivsk Region.

The share of people employed at SMEs in Ivano-Frankivsk reached 95.2% of the total quantity of people

employed at all business entities, which is 13.7 p.p. higher than the country's average (81.5%). This is, in particular, due to a lesser role of large businesses in the creation of jobs in the city. More than a half of people employed work for small businesses. In particular, individual entrepreneurs provided 37.8% of the total jobs, while 20.7% of the persons employed work for small enterprises.

For the reasons of confidentiality of data in 2017, no information about increase in employment in the SME sector in general and at large enterprises is available. It is, however, known that in 2018 the number of persons employed by small businesses decreased by 1.7%, which approximately corresponds to the country's average (-1.1%). The number of persons employed by individual entrepreneurs in Ivano-Frankivsk increased by 24.2%, which is one of the highest indices among the cities surveyed (compared to a 10.5% growth at the country level).

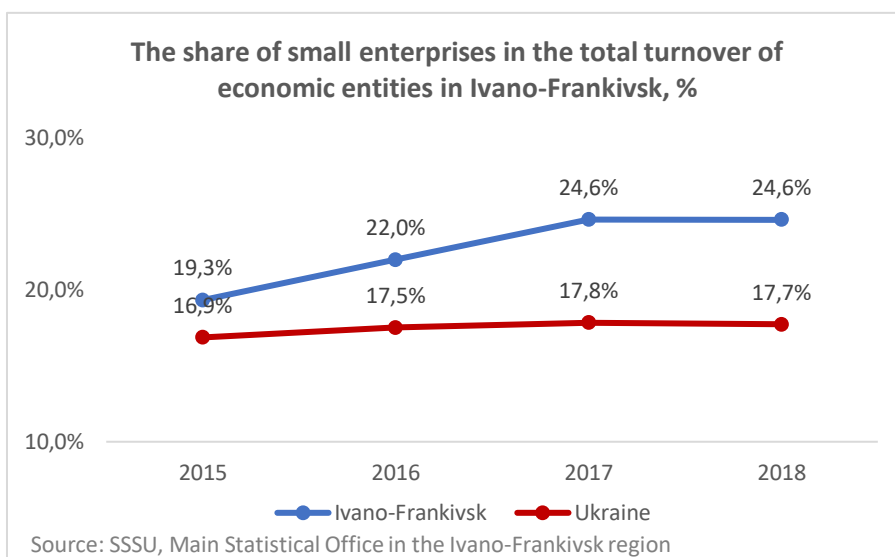
Statistics show that the Ivano-Frankivsk Region, taken as a whole, shows a somewhat lower unemployment rate among working age population than Ukraine as a whole. In 2019, the corresponding indicator for the region was 7.6% compared to 8.6% at the country level. In late 2019, 1,497 people were officially unemployed in Ivano-Frankivsk, while the number of vacant jobs was only 507. Accordingly, the registered unemployed persons created a load of nearly 3 people per a vacancy. However, the quarantine measures and crisis developments caused by the COVID-19 pandemic may deteriorate the employment situation in the city in 2020.

## Turnover

At the end of 2018, the turnover of goods and services by business entities in Ivano-Frankivsk reached UAH 49.6 billion based on current prices. Compared to 2017, the real growth (i.e. adjusted for inflation) of turnover reached 1.8% (compared to the country's average of 8.1%). The business entities of the city accounted for 42.3% of the total turnover in the region.

The SMEs sector of the city accounted for 81.5% of the total turnover of all business entities (the country's average is 64.7%). More than a half of those sales is provided by medium-sized businesses (44% of the total turnover of all business entities).

For the reasons of confidentiality of data in 2017, no information about increase in the turnover by the SME sector and by large enterprises in Ivano-Frankivsk is available. However, in 2018 small enterprises demonstrated a real growth of turnover (goods and services) by just 1.7% compared to 2017 (the country's average is 7.5%). However, the turnover of individual entrepreneurs in the city increased by 15.6% (compared to Ukraine's average of 13.5%).



### *Sales of industrial products*

No statistical information on key performance indicators of enterprises in terms of the types of their economic activities is available at the level of cities of regional significance and districts. However, there are statistical data on the sales of industrial products by the types of activities. Such information allows us to determine key industries of Ivano-Frankivsk.

According to the data provided by the Ivano-Frankivsk Region Statistics Headquarters, the sales of industrial products in Ivano-Frankivsk reached UAH 13.7 billion in 2018. 45.4% or UAH 6.2 billion of those sales were accounted for the processing industry. In particular, the engineering sector provided UAH 2.5 billion or 18.7% of the sales (except for repair and installation of machinery and equipment)<sup>43</sup>. The manufacture of foodstuffs, beverages and tobacco products come second in the processing industry (17.8% or UAH 2.4 billion). Other important types of activities include the manufacture of rubbers, plastics, and other non-metal mineral products (UAH 0.4 billion or 3.1%), the manufacture of wood and paper products and the printing industry (UAH 0.3 billion or 1.9%).

### *Capital investments*

In 2018, Ivano-Frankivsk accounted for more than UAH 3.8 billion of capital investments, which corresponds to 40.8% of the total capital investments in the Ivano-Frankivsk Region. In 2018, the amount of capital investment per capita was approximately UAH 14,952, which exceeds the country's average of UAH 13,746. Ivano-Frankivsk is ranked number seven by this index among the cities selected for the survey.

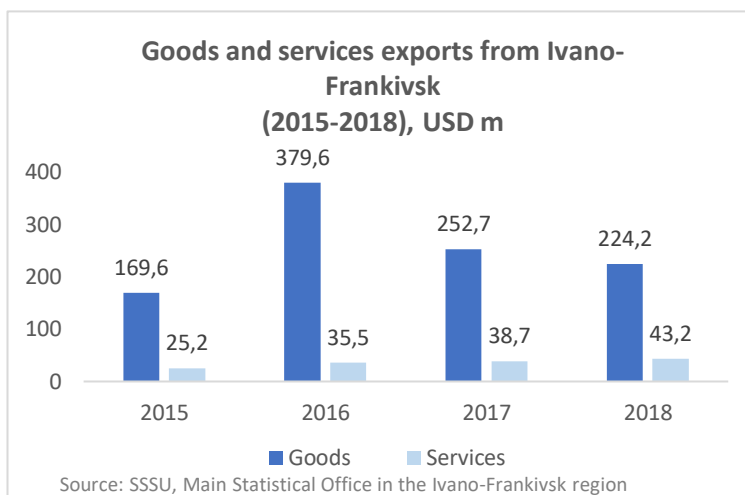
More than a half (54.2%) of the capital investments were funded by enterprises and organizations at their own expense. 21.1% was funded from the local budget, 8% was funded from the state budget, and 12% was funded using bank and other loans.

<sup>43</sup> Data by types of activities are generated based on homogeneous products.

## Exports

According to the State Statistics Service of Ukraine, Ivano-Frankivsk's exports of goods amounted to USD 224.2 billion in 2018, which is 11.3% less compared to 2017. Ivano-Frankivsk was ranked number 11 on this metric among the surveyed cities in respect of which relevant statistical data were available.

On the other hand, the exports of services increased by 11.6% and reached USD 43.2 m (ranked number nine).



An analysis of the foreign trade structure of Ivano-Frankivsk in 2018 has demonstrated that more than two thirds of exports were provided by machinery products (machinery, equipment and mechanisms, electrical equipment) — USD 151.3 m or 67.5%. In addition, 19.4% accounted for agricultural and food products. Other exports included wood and wood products (5.8%), chemical products (1.7%), and textile materials and products (1.2%).

## Foreign direct investments

As of December 31, 2018, the city of Ivano-Frankivsk accounted for USD 491.6 m of foreign direct investments (equity). The said volume was USD 3 m or 0.6% lower compared to the volume recorded at the beginning of 2018. It follows that foreign direct investments reduced only to an insignificant degree in 2018. On the other hand, there was USD 1,918.4 of FDI per capita in Ivano-Frankivsk as of the end of December 2018. This is one of the highest indices among all the cities covered by the survey.

It should be noted that in general the Ivano-Frankivsk Region is ranked number 10 by the volume of direct investments among all the regions of Ukraine. In addition, at the beginning of 2018, more than a half (54.7%) of the region's investments were concentrated in the city.

## Safety and comfort

The results of other studies allow us to look at the level of safety and comfort of living in the selected cities based on the assessments of their inhabitants. These factors are important for understanding the overall situation in the city. In addition, it is possible to compare those research studies with some results of MCI.

According to the study titled "Sixth Annual Ukrainian Municipal Survey"<sup>44</sup>, the city of Ivano-Frankivsk was ranked number 2 on the Quality of Public Goods and Services Index with a score of 3.2 points (on a scale from 1 (terrible) to 5 (excellent)). This indicates that the residents are satisfied with the level of comfort in Ivano-Frankivsk. Ivano-Frankivsk also leads the following fields: health facilities, transport infrastructure, industrial development, education (technical schools, universities, and colleges), schools, and police.

<sup>44</sup> The survey was conducted by the Sociological Rating Group on behalf of the International Republican Institute's Center for Insights in Survey Research; The survey was funded by the United States Agency for International Development. Please see [http://ratinggroup.ua/research/regions/shestoy\\_vseukrainskiy\\_municipalnyy\\_opros.html](http://ratinggroup.ua/research/regions/shestoy_vseukrainskiy_municipalnyy_opros.html)

As part of the same study, according to its residents, Ivano-Frankivsk is one of the most secure cities in Ukraine. The value of the corresponding Index for Ivano-Frankivsk is 1.9 (on a scale from 0 to 3, where 0 means “I feel completely unsafe” and 3 means “I feel completely safe”). On this metric, the city is ranked number one among the 24 cities covered by the survey. 63% (which corresponds to the majority of the respondents) reported that they felt rather safe or completely safe at night while the percentage of those who felt rather unsafe or completely unsafe reached 31%.

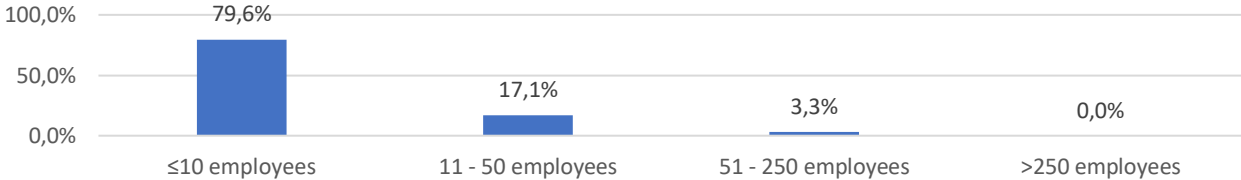
**Results of the “Municipal Competitiveness Index” for Ivano-Frankivsk**  
**Description of the survey sample**

211 business entities took part in the survey in Ivano-Frankivsk. These were 127 (60.2%) enterprises (legal entities) and 84 (39.8%) individual entrepreneurs (PEs). When analyzing the answers, the data array was weighed by the types of business entities (62.0% of legal entities and 38.0% of PEs) to ensure that it was compliant with the parameters of the target sample.

**Size of the surveyed business entities**

Most respondents (79.6%) were micro businesses — business entities employing from 1 to 10 people. 17.1% were small entities with 11 to 50 employees. Medium-sized entities (from 51 to 250 employees) account for 3.3% of the respondents, while large entities (more than 250 employees) account for 0%.

**Surveyed businesses by size (Ivano-Frankivsk), %**



**Industry and type of activity**

The surveyed business entities in Ivano-Frankivsk operate in various sectors of the economy. 28.9% of surveyed business are engaged in trade (including in wholesale and retail, repair of motor vehicles). 14.7% of the respondents are employed in the industry, 12.3% – in the construction, and 0 % – in the agriculture. Almost a half of the surveyed businesses account for the service sector (44.1%) 9.0% of the respondents provide information and communication services, while professional services are provided by 6.6% of the respondents. 28.4% of the respondents provide other services (businesses operating in the transport, arts, sports, education, healthcare, finance, and other service-related sectors).

**Surveyed businesses by sector (Ivano-Frankivsk), %**



**Year of registration**

Most of the surveyed business entities were registered earlier than in 2017 (75.4%). In 2018-2019, 24.6% of the respondents were registered.

### *Age and gender breakdown of business owners and managers*

According to the survey findings, 66.7% of the Ivano-Frankivsk-based businesses are owned by men, while the remaining 33.3% are owned by women. In addition, the share of men owning legal entities is even higher (69.6% of men vs. 30.4% of women).

Men run 79.0% of legal entities, while the share of female managers accounts for 21.0%. When it comes to PEs, who are owned and run by the same person, the quantitative advantage of men is less apparent (59.2% vs. 40.8%). Men run 71.4% of all the business entities, while the share of female managers accounts for 28.6%.

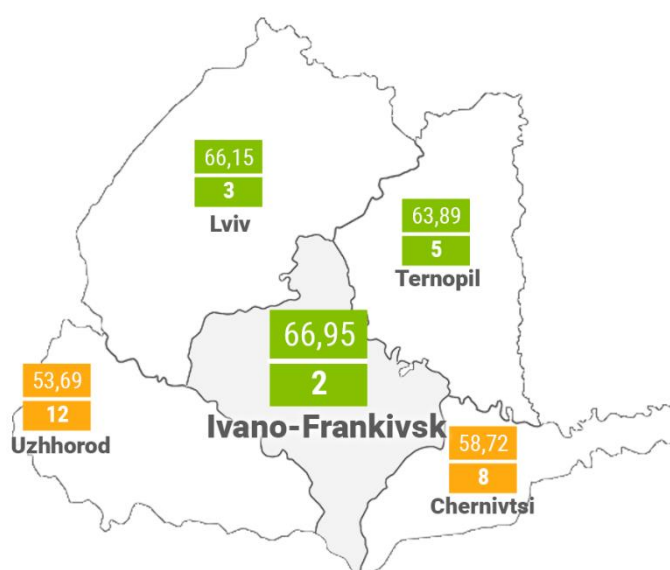
The average age of business owners in Ivano-Frankivsk is 42.0 years (compared to the country's average of 42.8 years). However, individual entrepreneurs are on average three years younger than the owners of legal entities (39.8 years vs. 42.9 years) in Ivano-Frankivsk.

### *Municipal Competitiveness Index: results for Ivano-Frankivsk*

According to the survey findings, Ivano-Frankivsk was ranked number two scoring 66.95 points as part of MCI 2019/2020. Thus, Ivano-Frankivsk is classified among cities with high MCI scores.

Ivano-Frankivsk falls 6.01 points behind Khmelnytskyi who is ranked number one. In addition, the city leads by just 0.80 points its runner up — the city of Lviv that scored 66.15 points.

A comparison between the MCI score of Ivano-Frankivsk and those of its geographical neighbors has shown that two cities with high MCI scores — Lviv (number two) and Ternopil (number five) — are located close to the city. In addition, the cities of Chernivtsi and Uzhhorod, which were classified among the cities with average MCI scores, are located nearby, too.



Ivano-Frankivsk managed to obtain the high rank due to predominantly high results on the individual components (sub-indices).

The strongest components are:

- Informal payments and corruption (number two)
- Leadership of municipal authorities (number two)
- Development resources (number two)
- Compliance cost (number three)
- Transparency and data openness (number four)
- Access to public property (number five)



The weakest components are:

- Starting a business (number 17)
- Support of innovations (number 14)

### ***1. Starting a business***

Ivano-Frankivsk scored 4.32 points on Component 1 titled “Starting a Business.” This is only the seventeenth score among all the cities. Due to quite lengthy procedures for obtaining necessary permits, this component is the most problematic one for the city that, in general, demonstrated high results and was ranked number two in the MCI of 2019.

In particular, according to the survey data, the registration of a business in Ivano-Frankivsk in 2018-2019 took less time than on average in the country (4.9 days compared to 6.1 days). On the other hand, it took on average 4.3 days to have changes entered into the register, which is more than all the cities’ average of 3.6 days.

In Ivano-Frankivsk, 7.4% of the respondents who registered a business in 2018-2019 reported problems and barriers during the registration. This share is also lower than the average of 8.8% for all the cities. 69.8% of the respondents received necessary advice during the registration process, which almost corresponds to the country’s average of (70.7%). It took 32.1 days to launch a business (from the date of submission of documents for registration to the date of the first sale of goods or services) in Ivano-Frankivsk, which corresponds to the average for all the cities.

The time required to obtain certain permits is the key problem in Ivano-Frankivsk. The obtaining of construction permits and registrations took, on average, 37.2 days in the country and 10.7 days in Ivano-Frankivsk, which is one of the highest indices among the cities covered by the survey. In addition, it took more time in Ivano-Frankivsk to obtain a declaration of conformity to the requirements of the fire safety legislation in respect of a business entity’s facilities (12.5 days compared to the cities’ average of 11.8 days).

It should be noted that business registrars in Ivano-Frankivsk experience a higher workload compared to the other cities. There are only seven registrars per 10 thousand business entities in Ivano-Frankivsk (including government authorities, local self-government authorities and notaries public).

### ***2. Access to public property***

Ivano-Frankivsk scored 6.29 points and was ranked number five on the component (sub-index) titled “Access to public property.” The city demonstrated mostly higher than average results on individual indices. For instance, 33.8% of the respondents reported that they had documents certifying the ownership / lease of the land where their business operates (compared to the country’s average of 30%). This makes 49.7% of the respondents believing that land documents are their concern (compared to the country’s average of 46.8%). In 2018-2019, it took on average 73.5 days to obtain documents certifying the ownership / lease of the land in Ivano-Frankivsk, which is approximately one day longer than the average for all the respondents (72.4 days).

22.8% of the respondents in Ivano-Frankivsk reported the accessibility of information on available community-owned land plots, which can be provided for use or used for construction, etc (18.1% of the total respondents). In addition, 32.3% of the respondents indicated that information on the municipal real property (including non-residential facilities) was available (29.2% of the total respondents).

### ***3. Transparency and data openness***

Ivano-Frankivsk was ranked number four and scored 7.30 points on the “Transparency and data openness,” and, therefore, is one of the leaders in this component. In Ivano-Frankivsk, the majority of the respondents expressed mostly a high opinion of the access to information on local budget, local regulations, and public procurements.

In particular, the access to information on public procurements got the top score in Ivano-Frankivsk with 21.8% of the respondents assigning ‘good’ and ‘excellent’ rates, compared to 17.3% of all the respondents surveyed. The access to information on local budget was assessed positively by 11.9% of the respondents in Ivano-Frankivsk compared to the average of 10.2% for all the other cities. The accesses to information on local regulations was found as ‘good’ and ‘excellent’ by 18.0% of the respondents, which is one of the best scores among the cities covered by the survey (13.9% of the respondents surveyed).

### ***4. Compliance cost***

Ivano-Frankivsk is one of the leaders for compliance cost and was ranked number three and scored 8.45 points on this component. The result of the city was determined by low (compared to the other cities) scores assigned by the respondents in respect of time spent on compliance with the requirements of local regulations and time spent on communications with inspectors.

In Ivano-Frankivsk, entrepreneurs spend on average 2.4 days for compliance with local regulations, which is less than the country’s average (four days). 1.8% of an annual income is, on average, spent on compliance with the requirements of local regulations in Ivano-Frankivsk, which is lower than the average of 3.7% for all the respondents.

The survey findings show that the frequency of inspector visits in Ivano-Frankivsk corresponds to the average of 0.7 observed at the country level. Consequently, the average time spent on communications with inspectors was 3.4 days, which is less than the country’s average (five days).

### ***5. Taxes and duties***

Component (sub-index) 5 “Taxes and duties” is one of the weaknesses of Ivano-Frankivsk. The city was ranked number 10 and scored 6.55 points on this component. That score of Ivano-Frankivsk was due to a combination of such factors as low expenses for payment of taxes and low time expenditures for the administration of taxes and duties.

As part of the survey in Ivano-Frankivsk, the respondents said that they spent, on average, 23.8% of their annual income on taxes and duties (including USC), which is less compared to the average for all the cities (26.8% of the annual income). Entrepreneurs in Ivano-Frankivsk spent, on average, 53.3 days on the administration of taxes and duties, which is significantly less than the average for all the cities (59 days).

19.5% of the respondents in Ivano-Frankivsk said that local taxes are a barrier to their businesses, although the average for all the cities was 20.4%. In addition, 2.3% of the respondents in Ivano-Frankivsk reported being exempt from local taxes and duties in 2018-2019, which is less than the average for the cities covered by the survey (the average for all the respondents is 3.6%).

### ***6. Informal payments and corruption***

According to the survey findings, Ivano-Frankivsk was ranked number two and scored 8.49 points on Component (sub-index) 6 titled “Informal payments and corruption.” The city’s score is due to such factors as the lowest prevalence of “informal payments” and high awareness of entrepreneurs about existing anti-corruption measures taken by the city.

In particular, as part of Dimension 1 “Bribes / Gifts” 6.5% of the respondents in Ivano-Frankivsk reported situations related to “informal payments” when approaching the municipal officials for any issues concerning the running of a business in 2018-2019. On average, 9.9% of the respondents faced such situations. On the other hand, as part of Dimension 2 “Anti-corruption efforts,” 37.7% of the respondents were informed about the implementation of specific anti-corruption measures by the city authorities (open budget, digital reception, municipal anti-corruption program, etc.), while the average for all the cities surveyed was 31.8%.

### ***7. Security of operating a business***

Ivano-Frankivsk was ranked number seven among the cities covered by the survey and scored 6.25 points on Component (sub-index) 7 titled “Security of operating a business.” Ivano-Frankivsk’s quite high score on this component is due to a relatively low prevalence of illegal takeovers and other criminal acts against businesses compared to the other cities. One of the problems encountered by the city in this relates to its shadow economy and a high level of loss caused by criminal acts.

According to the survey data, nearly every second respondent (46.5%) in Ivano-Frankivsk believes that competitors run shady businesses, which is one p.p. higher than the country’s average (45.1%). 2.5% of the total respondents experienced attempts of illegal takeovers at the country level in 2018-2019. However, the problem of illegal takeovers in Ivano-Frankivsk seems to be less critical as only 1% of the respondents there reported that they faced such acts. This is one of the best scores among all the cities covered by the survey.

Only 11.3% of the respondents in Ivano-Frankivsk reported that they suffered losses as a result of extortions, thefts, robberies, or acts of vandalism or arson in 2018-2019. This is one of the lowest indices among all the cities covered by the survey. The corresponding country’s average on this metric was 14.3% of the respondents. However, it seems that the Ivano-Frankivsk-based entrepreneurs suffered the most from the above criminal acts. Such losses accounted for 14.3% of the annual income of the respondents who reportedly incurred them, which is rather a high index (the country’s average is 10.8%).

In Ivano-Frankivsk, businesses spend, on average, 3.0% of their annual income on security / protection, which is somewhat higher compared to the country’s average of 2.7% of the annual income.

### ***8. Leadership of municipal authorities***

Ivano-Frankivsk was ranked number two and scored 8.64 points on Component (sub-index) 8 titled “Leadership of municipal authorities.” The high rating of the city is due to its high scores on two dimensions of which the sub-index consists — “Business development support” and “Public-private dialogue.”

Ivano-Frankivsk scored 8.44 points and was ranked number two on the “Business development support” dimension. The Ivano-Frankivsk-based entrepreneurs have a positive opinion of the attitude of representatives of the municipal authorities towards private businesses. 43.3% of the respondents believe that the attitude of the municipal authorities towards businesses is “very good” or “good” (the average for all the cities is 20%). In addition, 59.2% of the respondents agree that the municipal authorities support start-ups (compared to the average of 38.3% for all the cities), and 53.1% indicate that the municipal authorities support existing businesses (compared to the average of 35.5% for all the cities). The survey results are also complemented by “hard data” on the activities of the city council. According to the “hard data,” Ivano-Frankivsk scored 8 of 10 points. In particular, the city does not offer tax incentives (in respect of the unified tax) necessary for the development of certain types of activities, which would point to a higher proactivity of the municipal authorities to support new and existing businesses. The absence of defined city boundaries can be another problem in Ivano-Frankivsk.

The score obtained on the “Public-private dialogue” dimension shows that businesses face less problems in their communications with the local government in Ivano-Frankivsk compared to most other cities. On this

dimension, the city was ranked number two and scored 8.85 points. 13.3% of business representatives in Ivano-Frankivsk believe that they have “extensive” or “very extensive” opportunities to participate in the development of local documents (strategies, plans, programs, etc.), while the average for all the cities surveyed is 6.5%. In addition, 12.3% of the respondents (the third highest index) indicate that the city always or often holds consultations with entrepreneurs before passing new or amending existing regulations that may affect the business community (compared to the average of 7.4% for all the cities)

### **9. Development resources**

Ivano-Frankivsk was ranked number two and scored 6.10 points on Component (sub-index) 9 titled “Development resources.” The city’s assessment is based on the results of three dimensions that form a single component. Those dimensions are Human resources, Financial resources and infrastructure, and Business support infrastructure.

The city was ranked number two and scored 7.70 points on **Dimension 1 (Human resources)**. An analysis of individual indicators of this dimension has demonstrated that 8.3% of the respondents in Ivano-Frankivsk rate the quality of the local workforce as “excellent” or “good” (the average for all the respondents surveyed is 7.6%). In addition, only 14.2% of the respondents surveyed give positive assessments of vocational education of employees in the local labor market, which is the second highest index among the cities surveyed (the average for all the respondents is 10%). Accordingly, just as in the other cities, an insignificant percentage of business entities in Ivano-Frankivsk rate high the available workforce.

However, 56.2% of the respondents believe that insufficient workforce training is a serious barrier to doing business (the average for all the respondents is 60.7%). This is one of the lowest indices among all the cities covered by the survey. 71.3% of the business surveyed in Ivano-Frankivsk reportedly felt the problem of lack of workforce, which is just one pp higher than the average for all the respondents (70%). It follows that the lack of qualified workforce is the most severe problem faced by entrepreneurs in Vinnytsia, according to the rating of barriers to doing business (according to 34.9% of the respondents).

The analysis of the number of workforce in the city is supplemented by statistical data. In particular, there were approximately three vacancies per 100 businesses in Zhytomyr at the end of 2019, which approximately corresponds to the average for all the cities surveyed (3.6 vacancies)<sup>45</sup>. In addition, Ivano-Frankivsk has the second highest share of working age population (aged 15 to 64) of 71.8% (as of January 1, 2019) among the cities surveyed. The corresponding country’s average on this metric was 67.8%<sup>46</sup>. Thus, the problem of population aging may be less tangible in Ivano-Frankivsk compared to the other cities and the country in general.

The city was ranked number two and scored 4.86 points on **Dimension 2 (Financial resources and infrastructure)**. According to the survey findings, only 1.2% of the respondents at the country level received financial support from municipal authorities in 2018-2019. When it comes to individual cities, the share of such respondents in Ivano-Frankivsk accounts for 1.4%, which is approximately in line with the average level. However, 77.5% of the business entities surveyed in Ivano-Frankivsk believe that the lack of financial resources is a serious barrier to doing business (the average for all the cities is 77.8%).

Data on the city’s budget expenditures complete the picture of financial resources allocated to support businesses in the city. In 2019, actual spending on support for small and medium-sized enterprises in the city

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<sup>45</sup> Sources for calculations: 1) Number of vacancies: The situation in the labor market and the results of activities of the state employment service. Data on the page of the Ivano-Frankivsk Region Employment Center, <https://ifr.dcz.gov.ua/analytics/66> 2) Number of businesses: According to the Ivano-Frankivsk Region Statistics Headquarters

<sup>46</sup> According to the Ivano-Frankivsk Region Statistics Headquarters of the State Statistics Service of Ukraine

reached only UAH 180,000 per 10,000 businesses.<sup>47</sup> It should, however, be noted that, in general, SME support expenditures are low or non-existent in most of the cities. However, a higher amount of expenditures or even the existence of such support in general may point to a higher level of leadership of municipal authorities in relation to business support

When it comes to the infrastructure, the entrepreneurs surveyed in the cities covered by the study had reportedly a different experience in relation to connection to electricity grids. In Ivano-Frankivsk, a connection to the electricity grid took on average 31 full days from the date of an application until the date of actual connection. This is the lowest index among all the cities covered by the survey. The corresponding country's average was 85 days. It follows that it is less complicated to have a business connected to the electricity grid in Ivano-Frankivsk compared to the other cities.

Ivano-Frankivsk was ranked number three and scored 5.73 points on **Dimension 3 (Business support infrastructure)**. According to the survey data, 15.3% of the respondents personally received business support services from the municipal authorities (information, advice, training, etc.), which is one of the highest indices among all the cities (compared to the average of 11% for all the respondents). At the same time, 56.4% of them rated such services as "good" and "excellent," which is one of the highest percentages among the cities surveyed (48.6% of the total respondents surveyed).

41.9% of the business entities surveyed in Ivano-Frankivsk reported the existence of business support centers in the city, which is one of the highest indices among the cities surveyed (the average for all the respondents is 32.6%). In addition, according to the 'hard data,' there was only one business support infrastructure facility in the city at the end of 2019, which was created with the participation of the city authorities — MBERIF Business Center, a joint venture established by Ukraine and Canada. Thus, entrepreneurs' awareness of business support centers may relate to other business support infrastructure facilities existing in the city.

49.7% of the respondents in Ivano-Frankivsk are aware of the activities of business associations and business clubs in their city (45.9% of the total respondents). However, only 10.5% of the surveyed business entities are members of such organizations, which is one p.p. lower than the percentage recorded for all the respondents surveyed in general (11.5%).

### ***10. Support of innovations***

The city of Ivano-Frankivsk was ranked number 14 and scored 4.57 points on Component (sub-index) 10 titled "Support of innovations."

13.4% of the respondents in the city reported that their businesses interacted with research institutions or technology companies in 2018-2019, which is one of the lowest indices among all the cities (compared to the average of 18.9% for all the cities). Businesses in Ivano-Frankivsk are also less satisfied with technology transfer compared to the other cities. 7.2% of the respondents pointed out that the related needs (the transfer of patents for inventions, etc.) are "met to a significant extent" or "fully met" (compared to the country's average of 8%)

The respondents in Ivano-Frankivsk give one of the highest assessments of the local government support for local innovation programs (funded from the local budget) with the city scoring 2.33 of five points compared to the average of 1.91 for all the cities. However, Ivano-Frankivsk introduced new technologies, solutions, or products less frequently than all the other cities on average in 2018-2019 (38.6% compared to 40.2%).

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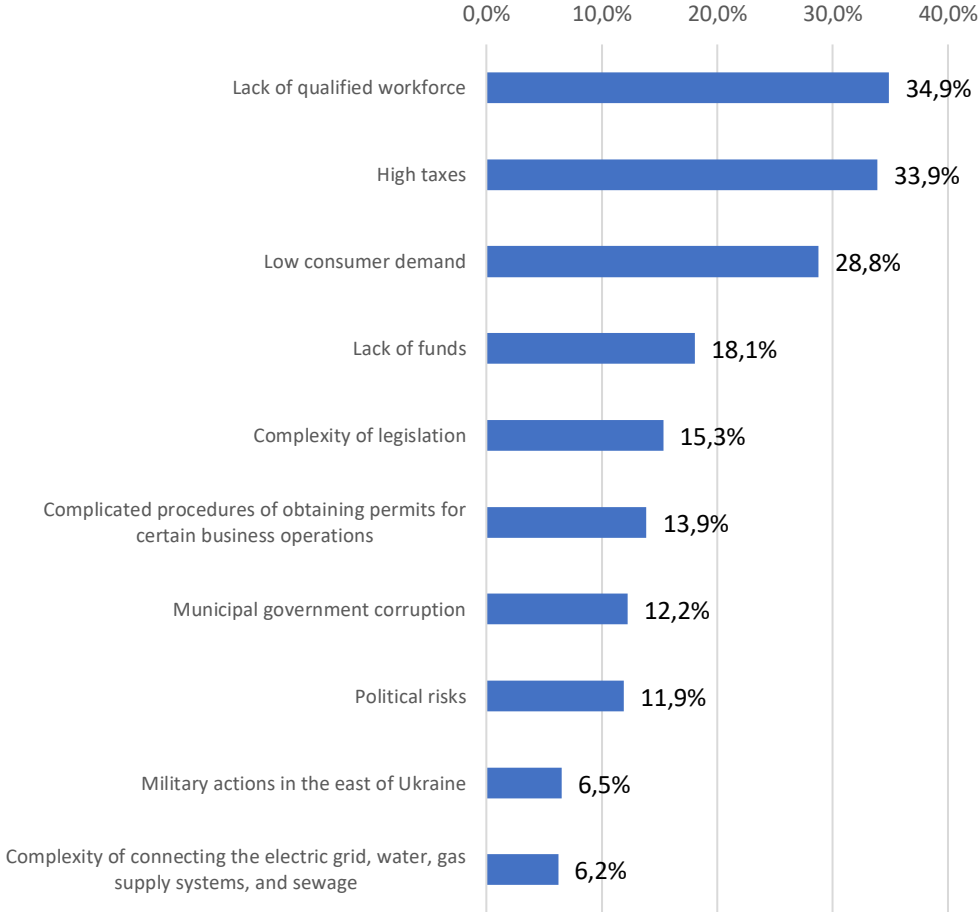
<sup>47</sup> Reports on the implementation of local budgets (expenditures under program classification code 7610 - Promotion of small and medium entrepreneurship), as well as responses of the city councils to requests for public information were used. For some cities, information on expenditures was updated through telephone interviews with the employees of executive authorities of the city councils.

Further, only 1.4% of the surveyed enterprises and individual entrepreneurs reported that they belonged to clusters. This is lower than the index recorded for all the cities in general (2.1%). In general, all the factors provide an average level of satisfaction with support for innovations in Ivano-Frankivsk among entrepreneurs.

**Barriers to doing business**

The surveyed business entities named the main barriers they face when doing business in Ivano-Frankivsk. According to the survey findings, three most important barriers included such factors as the lack of qualified workforce, high taxes, and low consumer demand. Each of these barriers was reported by nearly a third of the respondents (34.9%, 33.9% and 28.8%, respectively). The lack of qualified workforce is the most severe problem in Ivano-Frankivsk as just in a number of other cities, and, therefore, it outweighed the problems of high taxes and low consumer demand that are on the top of the barriers rating following the survey of all the respondents in general. 18.1% of the respondents complain about the lack of funds, ranking this barrier number four.

**TOP-10 barriers to doing business in Ivano-Frankivsk, %**

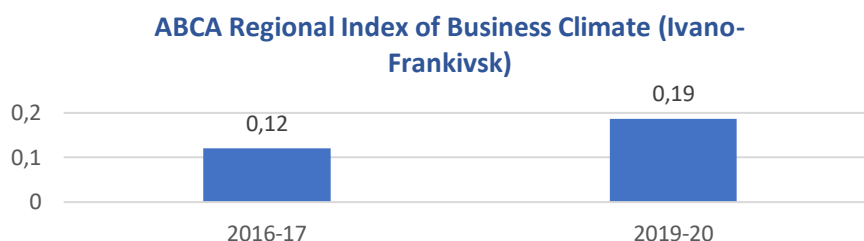


Complexity of legislation and complex permit obtaining procedures pose serious barriers for 15.3% and 13.9% of the respondents, respectively. As just in many other cities, municipal government corruption (12.2%) and political risks (11.9%) are similarly rated. The least important barriers, according to the respondents, are

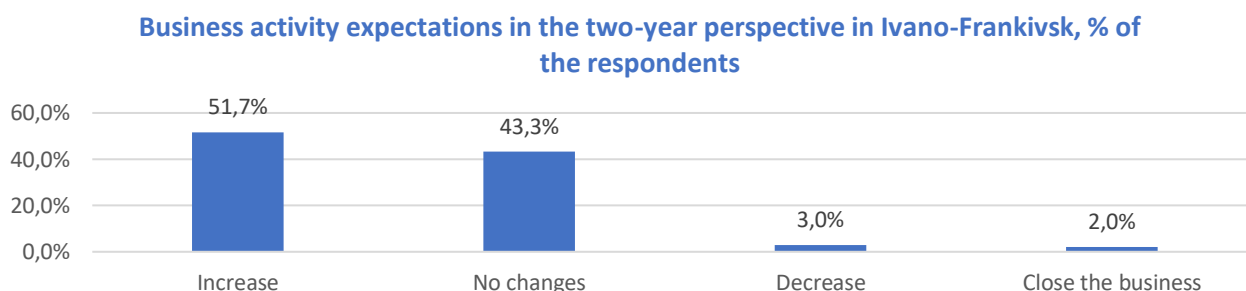
military actions in the East of Ukraine (6.5%) and complexity of connection to electricity, water, and gas supply systems and to sewerage networks (6.2%).

## *Expectations and assessments of the business climate and economic conditions in Ivano-Frankivsk*

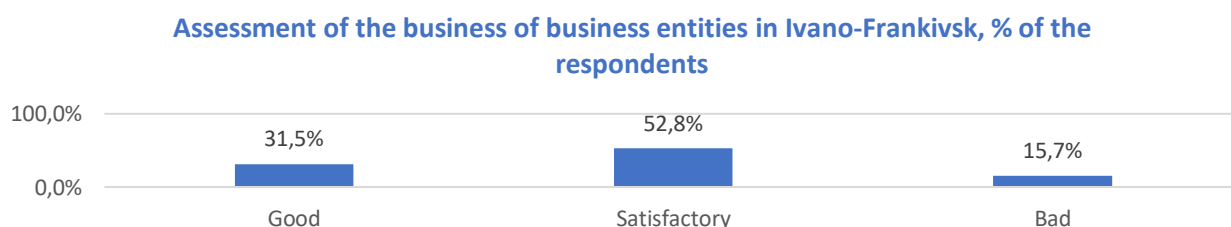
**Regional SME Business Climate Index.** ABCA SME Business Climate Index in Ivano-Frankivsk is 0.19 (the city was ranked number 14 among all the cities covered by the survey). This is more than in 2017 (0.12), which indicates an improvement in perception of the business climate. This is in line with the all-Ukrainian trend.



**Long-term expectations for business activity.** Business in Ivano-Frankivsk has optimistic long-term development plans for the next two years. More than half of the respondents (51.7%) reportedly plan to expand their business, and 43.3% want to stay at the current level. At the same time, only 3.0% of the respondents plan to reduce their business, and 2.0% want to close it. The balance index<sup>48</sup> is +0.47 (+0.45 at the country level).



**Assessment of the financial and economic situation of business entities.** In Ivano-Frankivsk, the majority of the business entities surveyed (52.8%) assessed their current financial and economic situation as satisfactory. The rest of the respondents rated it as good (31.5%) or bad (15.7%) It follows that the positive assessments outweigh the negative ones, and the balance index of the financial and economic situation is +0.16 (compared to the country's average of +0.05).

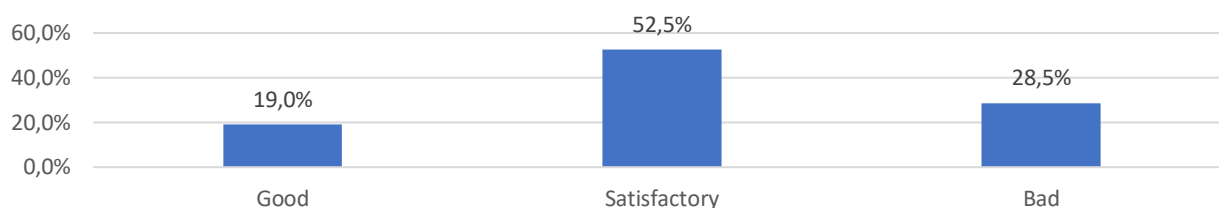


**Assessment of the current overall economic environment for business activities** More than a half of the surveyed business entities (52.5%) assessed the current overall economic environment as satisfactory. 28.5% of the respondents rate the overall economic environment as bad, and 19.0% as good. Thus, the index of

<sup>48</sup> Calculated as the average of all responses on a scale from -1 to 1, where 1 corresponds to a simplification of this procedure, 0 - no change, and -1 to a complication.

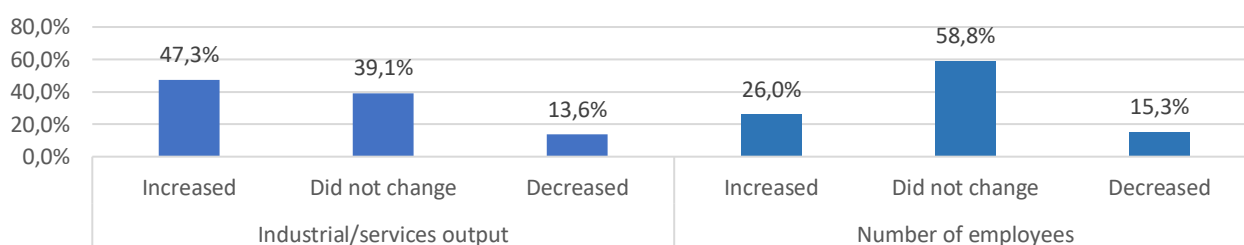
assessment of the overall economic environment for business activities is negative (-0.09). However, the value of the index for the city is somewhat higher compared to the country's average (-0.12).

**Assessment of the overall economic situation (Ivano-Frankivsk),  
% of the respondents**



**Change in the production output over the past two years.** Almost a half (47.3%) of the surveyed business entities indicated that they increased their production or service output in 2018-2019. Approximately a third (39.1%) of the respondents did not change the output while 13.6% of the respondents reduced it. Thus, the index of business activity is +0.34 (which is somewhat higher than the average of +0.31 for all the respondents surveyed), reflecting the predominance of the share of business entities that expanded their output over the share of those who reduced it.

**Change in the industrial/services output and in the number of employees in Ivano-Frankivsk, % of the respondents**



**Change in the number of employees of the business entities over the past two years.** More than a half of the surveyed business entities (58.8%) indicated that the number of their employees did not change in 2018-2019. The share of business entities that increased the number of their employees (26.0%) significantly exceeds the share of those where the number of employees decreased (15.3%) Thus, the index of changes in the number of employees is +0.11, which is higher than the average of +0.16 recorded for all the respondents in general.

**Deregulation: changes in administrative procedures** According to the respondents, the process and conditions of business registration have been simplified the most in the last two years, while the situation with inspections and tax administration has deteriorated.

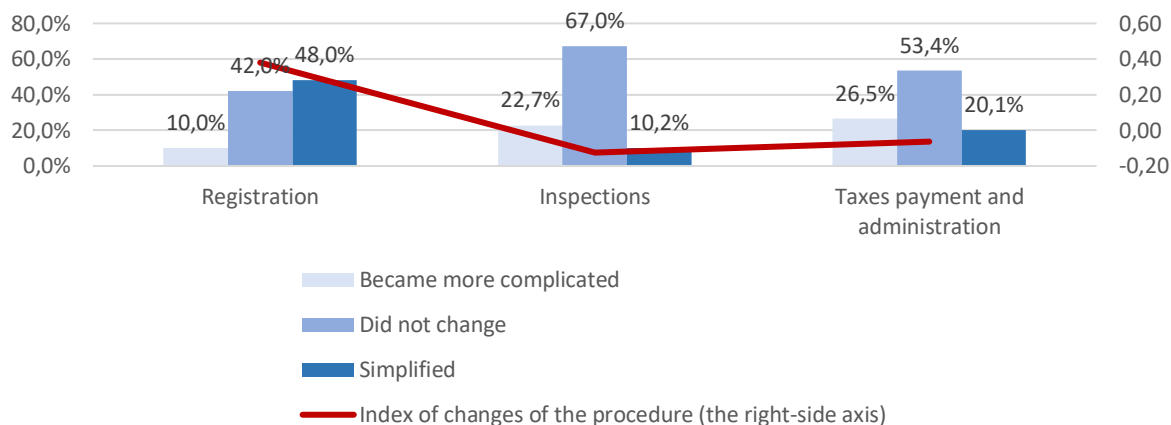
48.0% of the businesses surveyed point out the simplification of business registration in the previous two years. The rest of the respondents did not feel any changes in this procedure, and only a small share of the respondents (10.0%) said that, in their opinion, business registration has become more difficult. As a result, the index of change in the registration procedures is +0.38<sup>49</sup>. This is the highest value of the index compared to the other two procedures, which include the passing of inspections and the administration of taxes.

When it comes to the administration of taxes, more than a half of business entities (53.4%) say that they have not noticed any changes in the complexity of this procedure. The rest of the business entities are divided into those for whom the payment of taxes has become easier (20.1%) and those for whom it has become more difficult (26,5%). The index of change in the procedure for administering tax payments is -0.06.

<sup>49</sup> Calculated as the average of all responses on a scale from -1 to 1, where 1 corresponds to a simplification of this procedure, 0 - no change, and -1 to a complication.



### Assessment of changes in administrative procedures (Ivano-Frankivsk), % of the respondents



The index of changes in passing inspections is negative (-0.13), too. 22.7% of business managers and individual entrepreneurs claim that inspections have become more difficult. This is significantly higher than the share of businesses according to which inspections have become easier compared to 2018 (10.2%). However, the largest share of the surveyed businesses (67.0%) did not notice any changes in relation to inspections.

As a result, the value of the general index of changes in administrative procedures, which is calculated as an average value of the indices of change of these three procedures, is +0.06.

### Recommendations

According to the MCI results (subject to the weak components and dimensions) the following key recommendations have been formulated for the city. In addition, the city government should pay attention to recommendations that are common for all the cities in general.

#### 1. Starting a business.

- Faster business registration should be encouraged. It is necessary to increase the number of business registrars in local self-government authorities.
- It is necessary to improve the quality and availability of consulting services when starting a business, in particular, by expanding the capacity of consulting services in the centers of administrative services.
- The quality of services provided as part of issue of various permits must be improved to reduce the time required to obtain such documents.

#### 9. Development resources

- It is necessary to increase expenses on support for entrepreneurs to ensure the operation of the business support infrastructure and financial support programs.
- It is necessary to conduct an audit of business support infrastructure facilities to determine their efficiency and development pattern.
- It is necessary to use best practices applied by other cities to organize the operation of business support centers, co-workings, business hubs, clusters, etc.

# Kyiv

## Number 21 in MCI

### General information

Kyiv is a separate political subdivision of a regional level in Ukraine. The special status of the city as the capital of Ukraine is provided by the Ukrainian Law on the Capital of Ukraine, the Hero City of Kyiv, dated January 15, 1999.<sup>50</sup> In accordance with the Law, the city has the institution of the Head of the Kyiv City State Administration and the institution of the Kyiv Mayor.



With effect from 2001, the city is divided into 10 inner administrative districts (Holosiivskiy, Darnytskyi, Desnianskyi, Dniprovskiy, Obolonskyi, Pecehrskiy, Podilskiy, Sviatoshynskiy, Solomianskyi, and Shevchenkivskiy). In each of the districts, the Government is represented by a District State Administration headed by its chairs.

### Location

The city of Kyiv is located in the north of Ukraine. The city is located on the banks of the Dnipro River in the central part of the Kyiv Region. Kyiv is the administrative center of the region although administratively it is not part thereof.

The closest regional centers are Zhytomyr, Vinnytsia, Chernihiv and Cherkasy. The city of Bila Tserkva is located in the Kyiv Region. The population of the city counts 209 thousand inhabitants, which corresponds to the level of population residing in certain regional centers of Ukraine. In addition, Kyiv borders on a number of satellite town. Such towns and Kyiv form the Kyiv agglomeration. Among these settlements, the cities of Brovary, Irpin and Boryspil deserve a special attention as the population of each of them exceeds 100 thousand inhabitants.

### Demographic situation

Kyiv is the largest city of Ukraine by population. As of January 1, 2019, the permanent population of Kyiv was 2,909.5 thousand inhabitants, which is 0.6% more compared to the beginning of 2018.<sup>51</sup> However, these figures may be at variance with the facts. In particular, following its estimate of population in Kyiv, the Cabinet

<sup>50</sup> Please see <https://zakon.rada.gov.ua/laws/show/401-14>.

<sup>51</sup> Here and below in the report, the statistical data of the Kyiv City Statistics Headquarters of the State Statistics Service of Ukraine are used.

of Ministers of Ukraine concluded that the actual quantity of the Kyiv population could be 3,703.1 thousand inhabitants as of January 1, 2019.<sup>52</sup>

Kyiv is also one of the few cities in the sample demonstrating a natural increase in its population (0.8), which is due to, in particular, the highest birth rate (11.8 persons per 1,000 inhabitants).

The population of Kyiv, as just in Ukraine generally, is dominated by women (53.8%). There are 860 men per 1,000 women (864 men at the country level). The share of the population aged from 15 to 64 is 68.5% (67.8% at the country level). In total, there are 459 people (475 at the country level) aged 0-14 and over 65 per 1,000 people of working age.

## *Development of entrepreneurship*

**Key structural business statistics in Kyiv in 2018**

|                    | Absolute figures   |                          |                  | Relative figures      |                           |                         |
|--------------------|--------------------|--------------------------|------------------|-----------------------|---------------------------|-------------------------|
|                    | Number of entities | Employment, thsd persons | Turnover, UAH bn | Share in total number | Share in total employment | Share in total turnover |
| Large enterprises  | 147                | 743.8                    | 1478.6           | 0.06%                 | 38.6%                     | 37.1%                   |
| <b>SMEs</b>        | <b>264560</b>      | <b>1183.7</b>            | <b>2504.3</b>    | <b>99.9%</b>          | <b>61.4%</b>              | <b>62.9%</b>            |
| Medium enterprises | 3610               | 548.3                    | 1774.8           | 1.4%                  | 28.4%                     | 44.6%                   |
| Small enterprises  | 87752              | 381.7                    | 603.0            | 33.2%                 | 19.8%                     | 15.1%                   |
| In which           |                    |                          |                  |                       |                           |                         |
| micro              | 76051              | 169.4                    | 205.4            | 28.7%                 | 8.8%                      | 5.2%                    |
| IEs                | 173198             | 253.7                    | 126.4            | 65.4%                 | 13.2%                     | 3.2%                    |
| <b>Total</b>       | <b>264707</b>      | <b>1927.4</b>            | <b>3982.9</b>    | <b>100.0%</b>         | <b>100.0%</b>             | <b>100.0%</b>           |

Source: Own calculations based on the data of the Kyiv City Statistics Headquarters of the State Statistics Service of Ukraine

### *Number of business entities*

In 2018, Kyiv counted 264.6 thousand small and medium-sized enterprises (including 3.6 thousand medium-sized enterprises, 87.8 thousand small enterprises and 173.2 thousand individual entrepreneurs) and 147 large-scale enterprises.

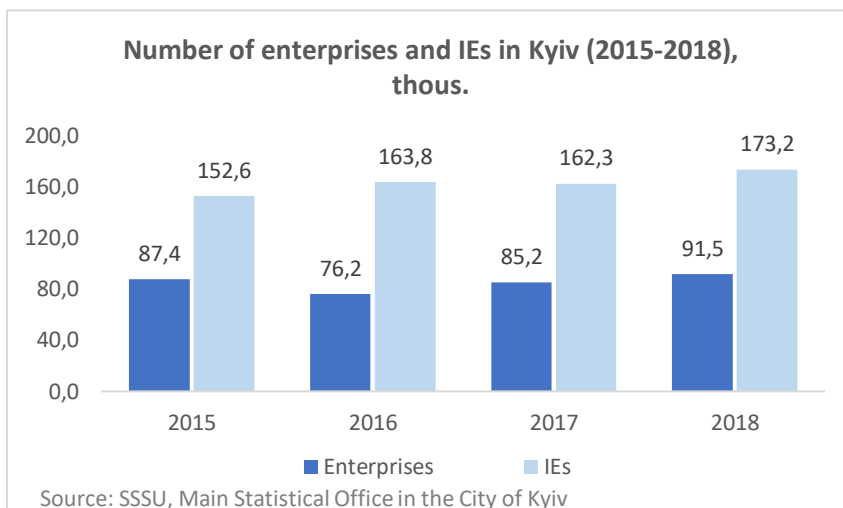
Kyiv ranks first among all Ukrainian cities and outruns all the regions of the country in the quantity of population. The capital accounts for 14.4% of the total number of business entities. Kyiv is accounted for more than a fourth of all Ukrainian enterprises (25.7%) and one in nine individual entrepreneurs (11.7%). This is apparently due to the fact that a significant number of enterprises have their registered and head offices in Kyiv. At the same time, physical addresses and manufacturing sites may be located in other regions. Businesses are registered more frequently in the central districts of the capital — Shevchenkivskyi and Pecherskyi. For example, 18 thousand and 16.2 thousand enterprises operated in these districts in 2018, respectively.

<sup>52</sup> Please see [http://www.ukrstat.gov.ua/Noviny/new2020/zmist/novini/OnU\\_01\\_12\\_2019.pdf](http://www.ukrstat.gov.ua/Noviny/new2020/zmist/novini/OnU_01_12_2019.pdf).

In 2018, the number of SMEs in Kyiv increased by 7% (the country's average reached 1.9%) compared to 2017. This was due to an increase in the number of small and medium-sized enterprises and individual entrepreneurs. As a result, the growth rate of SMEs was one of the highest in the country.

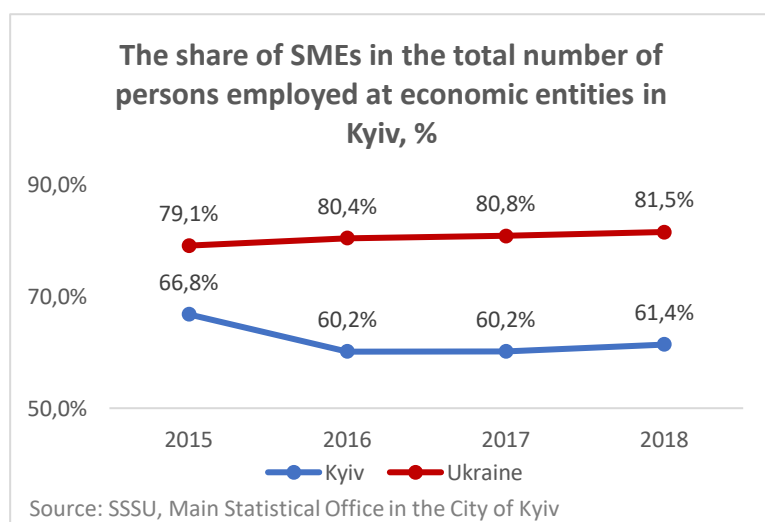
There were 952 SMEs per 10,000 inhabitants in Kyiv, which is twice as much as the country's average

(434). However, these figures may be overstated due to obsolete official data about the quantity of the population and the high number of registered businesses. But, in general, this index demonstrates the fact that Kyiv is the largest business center in the country.



As of the end of 2018, 34.6% of business entities were registered as legal entities, while the others had the status of individual entrepreneurs. This is the highest index among the cities covered by the survey and is almost twice as much as the relevant index at the country level (19,3%).

### Employment



In 2018, the Kyiv-based business entities employed 1,927.4 thousand people, of which 1,183.7 thousand or 61.4% were employed by medium-sized and small enterprises.

In 2018, the share of employees of SMEs accounted just for 61.4% of the total number of persons employed at all business entities (Ukraine's average was 81.5%), which, in particular, was due to a significant number of large enterprises.

Kyiv accounted for 22.6% of the total number of persons employed at Ukrainian businesses (17% of which were employed by SMEs). In general, it can be argued that the business sector of Kyiv is one of the key employers in Ukraine.

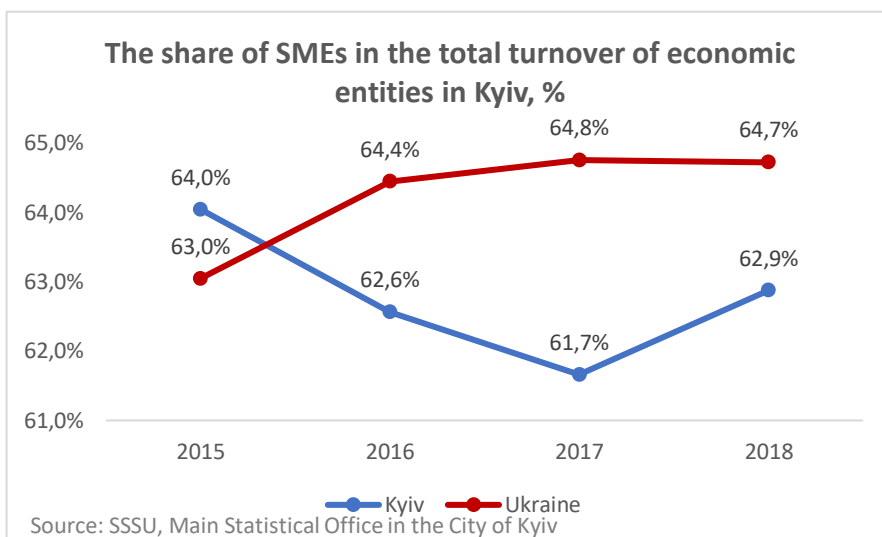
Compared to 2017, the number of people employed by SMEs in Kyiv increased by 5.2% (the country's average is 5.7%) The increase was mainly driven by medium-sized enterprises (36.5 thousand people or 7.1%) and individual entrepreneurs (26.7 thousand people or 11.8%), while small business demonstrated a decline in the number of their employees by 4.8 thousand people or 1.2%.

Statistics show that the level of economic activity in Kyiv contributes to a relatively low level of unemployment in the capital. In 2019, this index reached 6.2%, which was the third lowest rate among all the regions of Ukraine. At the end of 2019, nearly 8.7 thousand people were officially registered as

unemployed by the Kyiv City Employment Center. Accordingly, the registered unemployed persons created a load of nearly 1 people per a vacant job. However, the quarantine measures caused by the COVID-19 pandemic may deteriorate the employment situation in the city in 2020.

### Turnover

At the end of 2018, the turnover of business entities in Kyiv reached UAH 3,982.9 billion based on current prices. Business entities in Kyiv account for almost 40% of the total turnover in the entire country, which, in particular, may be due to a huge number of large enterprises and head offices of big companies registered in Kyiv.



The SMEs sector of the city accounted for 62.9% of the total turnover of all business entities (the country's average is 64.7%).

In 2018, SMEs in Kyiv demonstrated a real growth (i.e. adjusted for inflation) of sales (of goods and services) by 13.1% compared to 2018, which is five percentage points higher than the country's average (8.1%). The increase was primarily due to the growth of turnover of medium-sized enterprises by 13.2%. In addition, the turnover of individual entrepreneurs in the city increased by 19.8%.

### Sectoral distribution

Available statistics indicate that most of the city's enterprises are engaged in wholesale and retail trade, maintenance of motor vehicles and motorcycles (28.4 thousand businesses or 31%) and professional, scientific, and technical activities (12.7 thousand businesses or 13.9%). On the other hand, the largest employers are the transport sector (455.5 thousand persons employed or 27.2%), trade (368.6 thousand or 22%), industry (290.7 thousand or 17.4%), and information and communications (104.4 thousand or 6.2%). These sectors also take the lead in sales in a similar order. However, these data also take into account information about large and medium-sized enterprises, which are, *de facto*, located in other regions.

For confidentiality reasons, there are no statistics on key performance indicators of medium-sized enterprises engaged in certain types of activities, which does not allow us to reflect the sectoral picture in terms of SMEs. Statistics are available only for small businesses in Kyiv in respect of all sectors. Small business entities account for 95.9% of all enterprises in the city. The role of small enterprises is especially important in the construction (56.7% of the total number of people employed and 47.5% of sales of all the construction businesses) and real estate (67.6% of the total number of people employed and 52.8% of sales of the sector) sectors.

In 2018, the largest number of small enterprises (27.2 thousand business entities or 31% of their total number in the city) operated in the trade sector. In addition, this sector was the largest employer (for all those employed at small enterprises) and sold the largest quantities of products (or % of the total turnover of small

enterprises). The industry ranks second by quantity of persons employed and turnover of products. Also important are professional, scientific, and technical activities (of persons employed), construction, real estate transactions, and the information and communications sector.

### Key structural statistics about small enterprises in Kyiv in 2018

|   | Number of small enterprises |               | Persons employed at small enterprises |               | Turnover     |               |
|---|-----------------------------|---------------|---------------------------------------|---------------|--------------|---------------|
|   | Thous. Entities             | Share         | Thous. Persons                        | Share         | UAH billion  | Share         |
| <b>Total</b>  | <b>87,8</b>                 | <b>100,0%</b> | <b>381,7</b>                          | <b>100,0%</b> | <b>603,0</b> | <b>100,0%</b> |
| <b>including</b>  |                             |               |                                       |               |              |               |
| wholesale and retail trade, maintenance of motor vehicles and motorcycles | 27,2                        | 31,0%         | 113,5                                 | 29,7%         | 328,7        | 54,5%         |
| Industry  | 7,6                         | 8,6%          | 46,5                                  | 12,2%         | 54,8         | 9,1%          |
| professional, scientific, and technical activities                        | 12,4                        | 14,2%         | 40,0                                  | 10,5%         | 34,9         | 5,8%          |
| Construction  | 8,2                         | 9,3%          | 39,9                                  | 10,4%         | 52,9         | 8,8%          |
| Real estate   | 8,7                         | 9,9%          | 31,8                                  | 8,3%          | 29,7         | 4,9%          |
| Information and communications  | 6,2                         | 7,0%          | 27,5                                  | 7,2%          | 30,5         | 5,1%          |
| Administrative and support service activities                             | 5,8                         | 6,6%          | 25,3                                  | 6,6%          | 17,1         | 2,8%          |
| Transportation and storage  | 3,3                         | 3,7%          | 17,5                                  | 4,6%          | 22,8         | 3,8%          |
| Accommodation and food service activities                                 | 1,8                         | 2,1%          | 12,6                                  | 3,3%          | 5,6          | 0,9%          |
| Financial and insurance activities  | 2,2                         | 2,5%          | 9,5                                   | 2,5%          | 15,4         | 2,5%          |
| Human health and social work activities                                   | 1,2                         | 1,4%          | 3,9                                   | 1,0%          | 1,6          | 0,3%          |
| Arts, entertainment, and recreation                                       | 0,8                         | 1,0%          | 3,9                                   | 1,0%          | 2,0          | 0,3%          |
| Agriculture, forestry, and fishing  | 0,8                         | 0,9%          | 3,6                                   | 0,9%          | 5,0          | 0,8%          |
| Other services  | 0,8                         | 0,9%          | 3,5                                   | 0,9%          | 1,3          | 0,2%          |
| Education   | 0,8                         | 0,9%          | 2,8                                   | 0,7%          | 0,9          | 0,1%          |

Note: performance indicators of small businesses in certain sectors are not published for data confidentiality reasons.

Source: own calculations based on the data of the Kyiv City Statistics Headquarters

### Capital investments

In 2018, Kyiv accounted for more than a third of the total capital investments in Ukraine or more than UAH 200 billion. At the end of 2018, the amount of capital investments per capita reached approximately UAH 69 thousand, which was several-fold higher compared to the other cities. Therefore, Kyiv is ranked number one on this index among the cities selected for the survey. When it comes to individuals sectors, most of the capital investments accounted for the industry sector (56 billion or 28.3%) and transport (29.7 billion or 14.7%).

## Exports

According to the State Statistics Service of Ukraine, Kyiv's exports of goods amounted to nearly USD 12.5 billion in 2019, which corresponds to a fourth of the total exports from Ukraine. Kyiv also accounted for more than a fourth of exports of services (USD 3.9 billion or 25.9%). Compared to 2018, the exports of goods and services by the Kyiv-based businesses increased by 21.9% and 10.9%, respectively. These indicators further emphasize the role of Kyiv as the capital, where a significant share of Ukrainian enterprises, including exporters, are, *de jure*, located. According to the latest available statistics, Kyiv accounted for 4,398 exporters or 19.1% of their total quantity in 2018.



An analysis of the foreign trade structure of Kyiv in 2018 has demonstrated that three fourths of exports were provided by agricultural raw materials and the products of their processing, including food products. This situation, in particular, reflects the presence in Kyiv of head offices of agricultural holdings, traders and other large companies engaged in this sector. Other goods also include, for example, machinery products (4.5%) and chemical products (4.3%).

## Foreign direct investments

As of December 31, 2019, Kyiv accounted for USD 19.3 billion of direct investments (equity), which corresponds to 54% of the total direct investments in Ukraine. The specified amount is USD 2.4 billion or 14.4% higher than at the beginning of 2018. Statistics show that Kyiv serves as main gates for foreign capital to enter Ukraine. As a result, there was USD 5,828.4 of FDI per capita in Kyiv as of the end of December 2018.

## Safety and comfort

The results of other studies allow us to look at the level of safety and comfort of living in the selected cities based on the assessments of their inhabitants. These factors are important for understanding the overall situation in the city. In addition, it is possible to compare those research studies with some results of MCI.

According to the study titled "Sixth Annual Ukrainian Municipal Survey",<sup>53</sup> the city of Kyiv was ranked number 16 on the Quality of Public Goods and Services Index with a score of 2.8 points (on a scale from 1 (terrible) to 5 (excellent)),<sup>54</sup> indicating that the residents are dissatisfied with the level of comfort in their city compared to the other cities of Ukraine.

<sup>53</sup> The survey was conducted by the Sociological Rating Group on behalf of the International Republican Institute's Center for Insights in Survey Research; The survey was funded by the United States Agency for International Development. Please see [http://ratinggroup.ua/research/regions/shestoy\\_vseukrainskiy\\_municipalnyy\\_opros.html](http://ratinggroup.ua/research/regions/shestoy_vseukrainskiy_municipalnyy_opros.html)

<sup>54</sup> The Quality of Service and Services Index has been calculated since 2016 as part of all-Ukrainian municipal surveys. An aggregate value of the index corresponds to an average level of quality of 22 measured services (sidewalks, waste collection, sewerage, etc.) taken as a whole, where 1 means "terrible", and 5 stands for "excellent."

As part of the same study, according to its residents, Kyiv is one of the least secure cities in Ukraine. The value of the corresponding Index for Kyiv is 1.5 (on a scale from 0 to 3, where 0 means “I feel completely unsafe” and 3 means “I feel completely safe”). On this metric, the capital is ranked number 17 among the 24 cities covered by the survey. Only 45% of the respondents said they felt “completely safe” or “rather safe” in their community at night. On the other hand, 48% of the respondents said they felt “completely unsafe” or “rather unsafe.”

**Results of the “Municipal Competitiveness Index” in Kyiv**

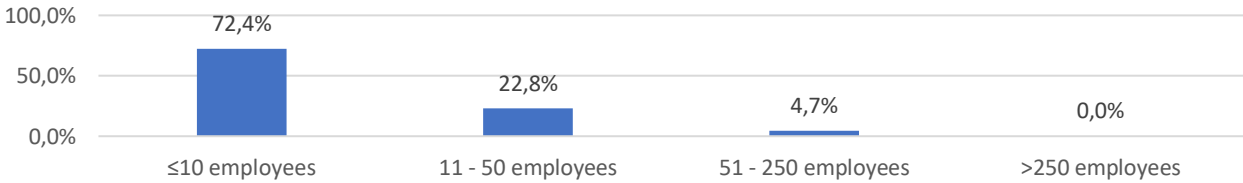
**Description of the survey sample**

254 business entities took part in the survey in Kyiv. These were 209 (82.3%) enterprises (legal entities) and 45 (17.7%) individual entrepreneurs (PEs). When analyzing the answers, the data array was weighed by the types of business entities (87.0% of legal entities and 13.0% of PEs) to ensure that it was compliant with the parameters of the target sample.

**Size of the surveyed business entities**

Most respondents (72.4%) were micro businesses — business entities employing from 1 to 10 people. 22.8% were small entities with 11 to 50 employees. Medium-sized entities (from 51 to 250 employees) account for 4.7% of the respondents, while large entities (more than 250 employees) account for 0%.

**Surveyed businesses by size (Kyiv), %**



**Industry and type of activity**

The surveyed business entities in Kyiv operate in various sectors of the economy. 22.4% of surveyed business are engaged in trade (including in wholesale and retail, repair of motor vehicles). 11.4% of the respondents are employed in the industry, 10.6% – in the construction, and 2.4% – in the agriculture. More than a half of the surveyed businesses account for the service sector (53.1%) 14.2% of the respondents provide information and communication services, while professional services are provided by 10.2% of the respondents. 28.7% of the respondents provide other services (businesses operating in the transport, arts, sports, education, healthcare, finance, and other service-related sectors).

**Surveyed businesses by sector (Kyiv), %**





### *Year of registration*

Most of the surveyed business entities were registered earlier than in 2017 (79.1%). In 2018-2019, 20.9% of the respondents were registered.

### *Age and gender breakdown of business owners and managers*

According to the survey findings, 67.3% of the Kyiv-based businesses are owned by men, while the remaining 32.7% are owned by women. In addition, the share of men owning legal entities is even higher (69.5% of men vs. 30.5% of women).

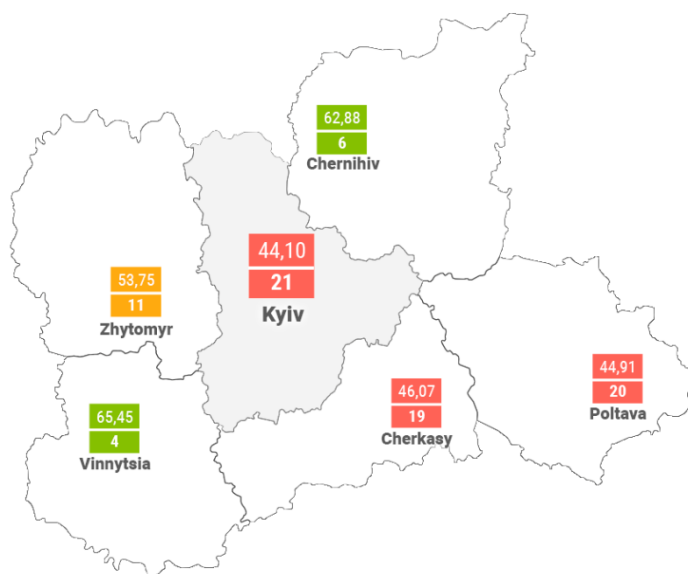
Men run 78.0% of legal entities, while the share of female managers accounts for 22.0%. When it comes to PEs, who are owned and run by the same person, women (51.9%) somewhat outweigh men (48.1%). Men run 74.1% of all the business entities, while the share of female managers accounts for 25.9%.

The average age of business owners in Kyiv is 41.5 years (compared to the country's average of 42.8 years). However, individual entrepreneurs are on average seven years younger than the owners of legal entities (36.2 years vs. 42.1 years) in Kyiv.

### *Municipal Competitiveness Index: Results of Kyiv*

According to the survey findings, Kyiv was ranked number 21, scoring 44.10 points as part of MCI 2019/2020. Thus, Kyiv is classified among cities with low MCI scores.

A comparison between the MCI index for Kyiv and those for its neighboring cities has demonstrated that the cities classified under three different groups (with low, average, and high MCI scores) are located nearby. For example, Vinnytsia (ranked number four) and Chernihiv (ranked number six) are located near Kyiv. However, Cherkasy and Poltava (ranked numbers 19 and 20, respectively) are located near Kyiv, too.



The overall score of the city is determined by low rates assigned on most of the components.

The strongest components are:

- Support of innovations (number five)
- Transparency and data openness (number seven)

The weakest components are:

- Compliance cost (number 24)
- Access to public property (number 22)

- Taxes and duties (number 22)
- Security of operating a business (number 21)
- Starting a business (number 18)

### ***1. Starting a business***

Kyiv scored 4.19 points on Component 1 titled “Starting a Business.” This is only the eighteenth score among all the cities. This component is problematic for the city due to lengthy registration procedures and lack of appropriate advice.

In particular, according to the survey data, the registration of a business in Kyiv in 2018-2019 took more time than on average in the country (7.2 days compared to 6.1 days). On the other hand, it took on average 3.7 days to have changes entered into the register, which almost corresponds to all the cities’ average of 3.6 days.

In Kyiv, 7.5% of the respondents who registered a business in 2018-2019 reported problems and barriers during the registration. This share is lower than the average of 8.8% for all the cities. However, only 53.4% reportedly obtained necessary advice during registration. This is the lowest index among all the cities covered by the survey and is almost 13 pp less than the country’s average (70.7%). It took 36.9 days to launch a business (from the date of submission of documents for registration to the date of the first sale of goods or services) in Kyiv, which is almost five days longer compared to the country’s average (32.1 days).

It should be noted that problems related to lengthy procedures for obtaining certain permits are less tangible in the city. The obtaining of construction permits, and registrations took, on average, 37.2 days in the country and 29.9 days in Kyiv. However, it took more time in Kyiv to obtain a declaration of conformity to the requirements of the fire safety legislation in respect of a business entity’s facilities (12.2 days compared to all the cities’ average of 11.8 days).

A significant workload of business registrars in the city may be one of the reasons for its low rating on the length of business registration procedures. There are only seven registrars per 10 thousand business entities in Kyiv (including government authorities, local self-government authorities and notaries public). However, the city has one of highest numbers of businesses per 10 thousand inhabitants. It appears from the results of the survey that lengthy registrations are normal for large Ukrainian cities, where a huge number of enterprises and individual entrepreneurs are registered.

### ***2. Access to public property***

Kyiv scored 3.35 points and was ranked number 22 on the component (sub-index) titled “Access to public property.” The city demonstrated mostly low results on individual metrics. For instance, 19.2% of the respondents reported that they had documents certifying the ownership / lease of the land where their business operates (compared to the country’s average of 30%). This makes only 30.2% of the respondents believing that land documents are their concern (compared to the country’s average of 46.8%). In 2018-2019, it took on average 53.2 days to obtain documents certifying the ownership / lease of the land in Kyiv, which is almost 19 days less than the average for all the respondents (72.4 days).

Kyiv demonstrates one of the worst results among the cities surveyed in terms of accessibility of information on community-owned property. Only 11.1% of the respondents reported the accessibility of information on available community-owned land plots, which can be provided for use or used for construction, etc (18.1% of the total respondents). This is the worst result among all the cities covered by the survey. In addition, only 23.9% of the respondents indicated that information on the municipal real property (including non-residential premises) was available (29.2% of the total respondents).

### ***3. Transparency and data openness***

Kyiv was ranked number seven and scored 6.38 points on the “Transparency and data openness” component. In Kyiv, the respondents expressed a higher than average opinion of the access to information on local budget, local regulations, and public procurements.

In particular, the access to information on public procurements got the top score in Kyiv with 21.3% of the respondents assigning ‘good’ and ‘excellent’ rates, compared to 17.3% of all the respondents surveyed. The access to information on local budget was assessed positively by 9.2% of the respondents surveyed in Kyiv compared to, on average, 10.2% of the total respondents in all the other cities. The accesses to information on local regulations was found to be ‘good’ and ‘excellent’ by 15.9% of the respondents (13.9% of all the respondents surveyed).

### ***4. Compliance cost***

Kyiv was assigned one of the lowest rates for compliance cost and is ranked number 24 with 2.99 points on this component. The result of the city was determined by significantly higher (compared to the other cities) scores assigned by the respondents in respect of time and money spent on compliance with the requirements of local regulations and time spent on communications with inspectors.

In Kyiv, entrepreneurs spend on average 16.1 days for compliance with local regulations, which is four times as much as the country’s average (four days). 8.4% of an annual income is, on average, spent on compliance with the requirements of local regulations in Kyiv, which is higher than 3.7% spent on average by all the respondents.

The findings of the survey show that entrepreneurs in Kyiv are less frequently visited by local inspectors compared to the country’s average (0.5 times per year in the city compared to the country’s average of 0.7 times per year). However, the average time spent on communications with the inspectors was 8.2 days, which is almost three days longer compared to the country’s average (five days).

### ***5. Taxes and duties***

Component (sub-index) 5 titled “Taxes and duties” is one of the weaknesses of Kyiv. The city was ranked number 22 and scored 3.12 points on this component. The low score of Kyiv was due to a combination of such factors as high expenses for payment of taxes, considerable amount of time spent on administration of taxes and duties, a somewhat higher local tax burden, and certain problems related to exemptions from local taxes and duties.

As part of the survey in Kyiv, the respondents said that they spent, on average, 30.1% of their annual income on taxes and duties (including USC), which is one of the highest rates compared to all the cities’ average (26.8% of the annual income). Entrepreneurs in Kyiv spent, on average, 72.9 days on the administration of taxes and duties, which is also one of the highest indices compared to all the cities’ average (59 days).

21.8% of the respondents in Kyiv said that local taxes were a barrier to their businesses, although the average for all the cities was 20.4%. In addition, only 2.0% of the respondents in Kyiv were reportedly exempted from local taxes and duties in 2018-2019, which is less than the average for the cities covered by the survey (the average for all the respondents is 3.6%).

### ***6. Informal payments and corruption***

According to the survey findings, Kyiv was ranked number 10 and scored 5.52 points on Component (sub-index) 6 titled “Informal payments and corruption.” The city’s score was due to such factors as a lower than

average prevalence of “informal payments” and an average awareness of entrepreneurs about existing anti-corruption measures taken by the city.

In particular, as part of Dimension 1 “Bribes / Gifts” 9.0% of the respondents in Kyiv reported situations related to “informal payments” when approaching the municipal officials for any issues concerning the running of a business in 2018-2019. On average, 9.9% of the respondents faced such situations. On the other hand, as part of Dimension 2 “Anti-corruption efforts,” 30.8% of the respondents were informed about the implementation of specific anti-corruption measures by the city authorities (open budget, digital reception, municipal anti-corruption program, etc.), while the average for all the cities surveyed was 31.8%.

### ***7. Security of operating a business***

Kyiv was ranked number 21 and scored 4.01 points on Component (sub-index) 7 titled “Security of operating a business.” The city’s score on this component is due to a relatively high — compared to the other cities — prevalence of illegal takeovers, losses caused by criminal acts and entrepreneurs’ expenses for protection of their business.

According to the survey data, 45.3% of the respondents in Kyiv believe that their competitors run shady businesses, which is almost in line with the country’s average (45.1%). 2.5% of the total respondents experienced attempts of illegal takeovers at the country level in 2018-2019. However, the situation with illegal takeovers in Kyiv seems to be more tangible as 3.1% of the respondents reportedly suffered such acts, which is one of the highest indices at the country level.

13.7% of the respondents in Kyiv reported that they suffered losses as a result of extortions, thefts, robberies, or acts of vandalism or arson in 2018-2019 (this is less compared to the country’s average of 14.3% of the respondents). However, entrepreneurs suffered the most from the above criminal acts. Such losses accounted for 19.6% of the annual income of the respondents who reportedly suffered them, which is one of the highest indices in Ukraine (the country’s average is 10.8%).

In Kyiv, businesses spend, on average, 3.2% of their annual income on security / protection, which is higher than the country’s average of 2.7% of the annual income.

### ***8. Leadership of municipal authorities***

Kyiv was ranked number 17 and scored 4.07 points on Component (sub-index) 8 titled “Leadership of municipal authorities.” The low rating of the city is due to its low scores on two dimensions of which the sub-index consists — “Business development support” and “Public-private dialogue.”

Kyiv scored 4.50 points and was ranked number 21 on the “Business development support” dimension. Compared to the other cities, the Kyiv-based entrepreneurs are more pessimistic about the attitude of representatives of the municipal authorities towards private business. Only 13.8% of the respondents believe that the attitude of the municipal authorities towards businesses is “very good” or “good” (the average for all the cities is 20%). In addition, 30% of the respondents agree that the municipal authorities support start-ups (compared to the average of 38.3% for all the cities), and 28.2% indicate that the municipal authorities support existing businesses (compared to the average of 35.5% for all the cities). The survey results are also complemented by “hard data” on the activities of the city council. According to the “hard data,” Kyiv scored 7 of 10 points. In particular, Kyiv’s technical documents on standard monetary appraisal of municipal land are outdated. Further, the city does not offer tax incentives (in respect of the unified tax) necessary for the development of certain types of activities, which would point to a higher proactivity of the municipal authorities in relation to supporting new and existing businesses. The absence of defined city boundaries can be another problem in Kyiv.

The score obtained on the “Public-private dialogue” dimension shows that businesses face certain problems in their communications with the local government in Kyiv. On this dimension, the city was ranked number 15 and scored 3.64 points. 7.3% of business representatives in Kyiv believe that they have “extensive” or “very extensive” opportunities to participate in the development of local documents (strategies, plans, programs, etc.), while the average for all the cities surveyed is 6.5%. However, only 4% of the respondents (the second highest index) indicate that the city always or often holds consultations with entrepreneurs before passing new or amending existing regulations that may affect the business community (compared to the average of 7.4% for all the cities)

### **9. Development resources**

Kyiv was ranked number 16 and scored 4.21 points on Component (sub-index) 9 titled “Development resources.” The city’s assessment is based on the results of three dimensions that form a single component. Those dimensions are Human resources, Financial resources and infrastructure, and Business support infrastructure.

The city was ranked number 14 and scored 5.36 points on **Dimension 1 (Human resources)**. An analysis of individual indicators of this dimension has demonstrated that only 8.8% of the respondents in Kyiv rate the quality of the local workforce as “excellent” or “good” (the average for all the respondents surveyed is 7.6%). In addition, only 12.6% of the respondents surveyed give positive assessments of vocational education of employees in the local labor market (the country’s average is 10%). Accordingly, just as in the other cities, an insignificant percentage of business entities in Kyiv rate high the available workforce.

However, almost two thirds of the respondents (65.9%) believe that insufficient workforce training is a serious barrier to doing business (the average for all the respondents is 60.7%). 66.9% of the respondents reported that they face a lack of workforce (70% of all the respondents surveyed). It follows that the lack of qualified workforce is the second most severe problem faced by entrepreneurs in Kyiv, according to the rating of barriers to doing business (according to 33.0% of the respondents).

The analysis of the number of workforce in the city is supplemented by statistical data. In particular, there were approximately 3.3 vacant jobs per 100 businesses in Kyiv at the end of 2019, which approximately corresponds to the average for all the cities surveyed (3.6 vacancies)<sup>55</sup>. In addition, the working age population (aged 15-64) in Kyiv accounts for 68.5% (as of January 1, 2019), which is only 0.7 pp higher than the country’s average of 67.8%<sup>56</sup>. It should, however, be noted that the actual number and demographic structure of the population in Kyiv may differ due to a significant migration of youth and other labor resources to the capital (please see Demographic situation).

The city was ranked number 6 and scored 4.33 points on **Dimension 2 (Financial resources and infrastructure)**. According to the survey findings, only 1.2% of the respondents at the country level received financial support from municipal authorities in 2018-2019. When it comes to individual cities, the share of such respondents in Kyiv accounts for 1.6%. However, 77.7% of the business entities surveyed in Kyiv believe that the lack of financial resources is a serious barrier to doing business (the average for all the cities is 77.8%).

Data on the city’s budget expenditures complete the picture of financial resources allocated to support businesses in the cities surveyed. However, no money was allocated to support small and medium-sized enterprises in Kyiv in 2019 (five of the total number of the cities covered by the survey did not allocate money

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<sup>55</sup> Sources for calculations: 1) Number of vacancies: The situation in the labor market and the results of activities of the state employment service. Data on the page of the Kyiv City Employment Center, <https://kie.dcz.gov.ua/analytics/69> 2) Number of businesses: According to the Kyiv City Statistics Headquarters

<sup>56</sup> According to the Kyiv City Statistics Headquarters of the State Statistics Service of Ukraine

to support businesses).<sup>57</sup> It should, however, be noted that, in general, SME support expenditures are low or non-existent in most of the cities. However, a higher amount of expenditures or even the existence of such support in general may point to a higher level of leadership of municipal authorities in relation to business support

When it comes to the infrastructure, the entrepreneurs surveyed in the cities covered by the study had reportedly a different experience in relation to connection to electricity grids. In Kyiv, connection to the electricity grid took on average 53 full days from the date of an application until the date of actual connection. The corresponding country's average was 85 days. It follows that it is, on average, less complicated to have a business connected to the electricity grid in Kyiv than in any of the other cities surveyed.

Kyiv was ranked number 17 and scored 2.94 points on **Dimension 3 (Business support infrastructure)**. According to the survey data, only 7.5% of the respondents personally received business support services from the municipal authorities (information, advice, training, etc.), which is lower than all the cities' average (11%). At the same time, only 34% of them rated such services as "good" and "excellent" (48.6% of the total respondents surveyed). This is the lowest percentage of positive rates among the cities surveyed.

Only 25.1% of the business entities surveyed in Kyiv reported the existence of business support centers in the city, which is one of the lowest indices among the cities surveyed (the average for all the respondents is 32.6%). In addition, according to the 'hard data,' there were only two business support infrastructure facilities in the city at the end of 2019, which were created with the participation of the city authorities — the Kyiv City Business Center, a community-owned enterprise, and Marketing Center in the Shevchenkivskyi District of Kyiv, a community-owned enterprise (as of the end of 2019). Thus, entrepreneurs' awareness of business support centers may relate to other business support infrastructure facilities existing in the city.

52.9% of the respondents in Kyiv are aware of the activities of business associations and business clubs in their city (45.9% of the total respondents). Members of such organizations account for 15.1% of the business entities surveyed, which is higher than the percentage recorded for all the respondents surveyed (11.5%). This is one of the highest rates among the cities covered by the survey.

### ***10. Support of innovations***

The city of Kyiv was ranked number 5 and scored 6.27 points on Component (sub-index) 10 titled "Support of innovations."

24.8% of the respondents in the city reported that their businesses interacted with research institutions or technology companies in 2018-2019, which is the highest index among all the cities (compared to the average of 18.9% for all the cities). Businesses in Kyiv are also more satisfied with technology transfer compared to the average for the other respondents. 8.9% of the respondents pointed out that the related needs (the transfer of patents for inventions, etc.) are "met to a significant extent" or "fully met" (compared to the country's average of 8%)

The respondents in Kyiv give a relatively low assessment of the local government's support for local innovation programs (funded from the local budget) with the city scoring 1.79 of five points compared to the average score of 1.91 for all the cities. In addition, Kyiv introduced new technologies, solutions, or products more often than all the other cities on average in 2018-2019 (50.2% compared to 40.2%). Further, only 1.2% of the surveyed enterprises and individual entrepreneurs reported that they belonged to clusters. This is

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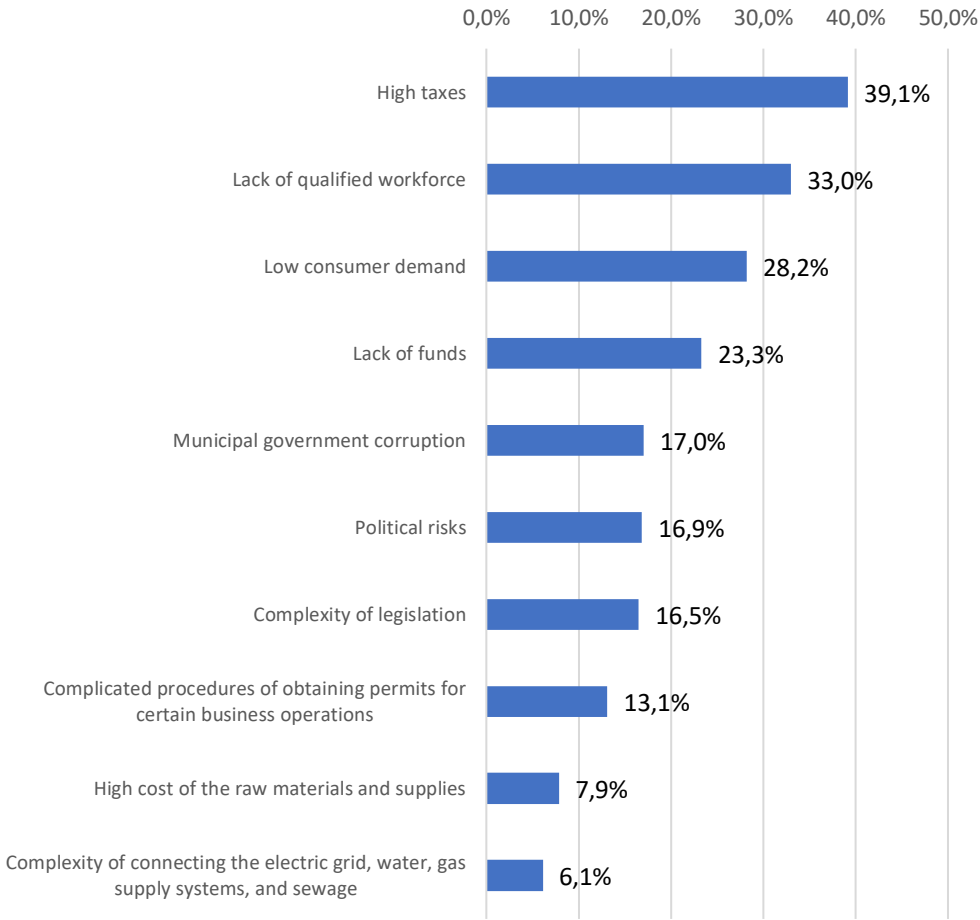
<sup>57</sup> Reports on the implementation of local budgets (expenditures under program classification code 7610 - Promotion of small and medium entrepreneurship), as well as responses of the city councils to requests for public information were used. For some cities, information on expenditures was updated through telephone interviews with the employees of executive authorities of the city councils.

lower than the index recorded for all the cities in general (2.1%). In general, all the factors provide a relatively high satisfaction with support for innovations in the city among entrepreneurs.

**Barriers to doing business**

The surveyed business entities named the main barriers they face when doing business in Kyiv. Three most important barriers included such factors as high taxes, the lack of qualified workforce and low consumer demand. Each of these barriers to doing business was reported by 39.1%, 33.0% and 28.2% of the respondents, respectively. Accordingly, just as in a number of the other cities, high taxes are the most severe problem in Kyiv. However, the lack of qualified workforce left behind the low consumer demand although it follows this problem in the rating of barriers in respect of all the respondents surveyed.

**TOP-10 barriers to doing business in Kyiv, %**

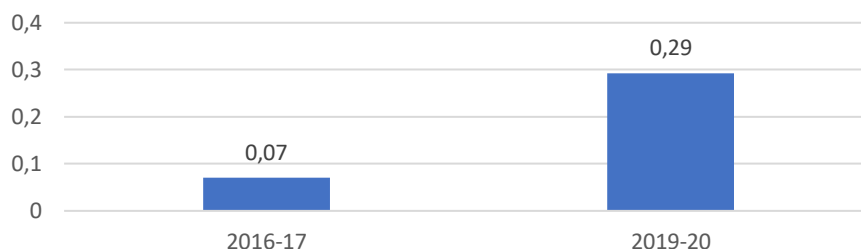


The lack of funds was reported to be a barrier by 23.3% of the respondents (number four). Just as in many other cities, municipal government corruption (17%) and political risks (16.9) are similarly rated in Kyiv. Complex permit obtaining procedures (13.1%) scored several percentage points less. Unlike the entire sample, military actions in the East of Ukraine are not included in the TOP10 barriers in Kyiv. They were replaced by the high cost of raw materials and supplies (7.9%). The least important among the TOP10 barriers, according to the respondents, was the complexity of connection to electricity, water, and gas supply systems and to sewerage networks (6.1%).

## Expectations and assessments of the business climate and economic conditions in Kyiv

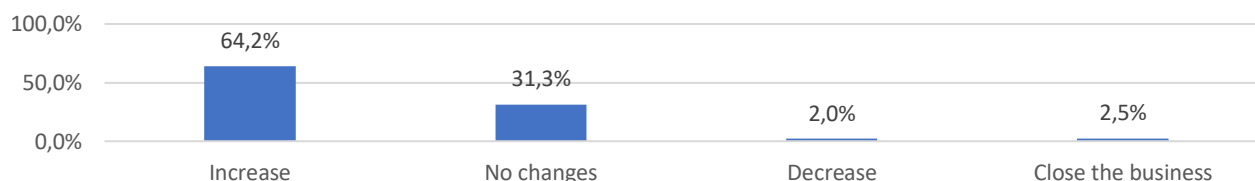
**Regional SME Business Climate Index.** ABCA SME Business Climate Index in Kyiv is 0.29 (the city was ranked number two among all the cities covered by the survey). This is more than in 2017 (0.07), which indicates an improvement in perception of the business climate. This is in line with the all-Ukrainian trend.

ABCA Regional Index of Business Climate (Kyiv)



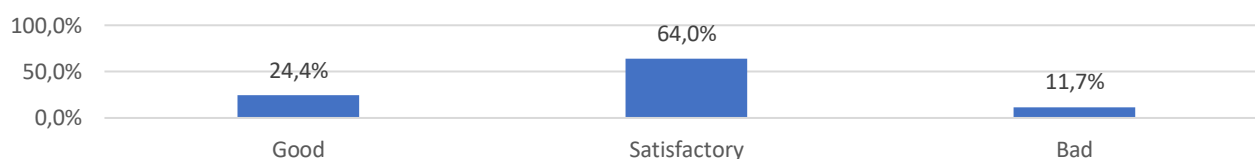
**Long-term expectations for business activity.** Business in Kyiv has optimistic long-term development plans for the next two years. More than half of the respondents (64.2%) reportedly plan to expand their business, and 31.3% want to stay at the current level. At the same time, only 2.0% of the respondents plan to reduce their business, and 2.5% want to close it. The balance index<sup>58</sup> is +0.60 (+0.45 at the country level).

Business activity expectations in the two-year perspective in Kyiv, % of the respondents



**Assessment of the financial and economic situation of business entities.** In Kyiv, the majority of the business entities surveyed (64.0%) assessed their current financial and economic situation as satisfactory. The rest of the respondents rated it as good (24.4%) or bad (11.7%). It follows that the positive assessments outweigh the negative ones, and the balance index of the financial and economic situation is +0.13 (compared to the country's average of +0.05).

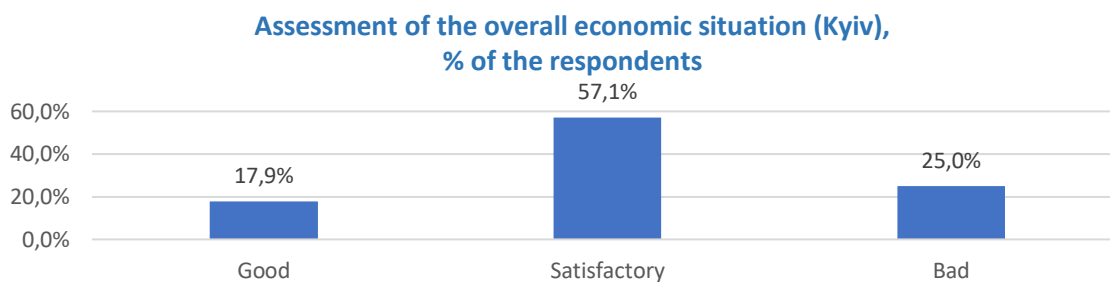
Assessment of the business situation of business entities in Kyiv, % of the respondents



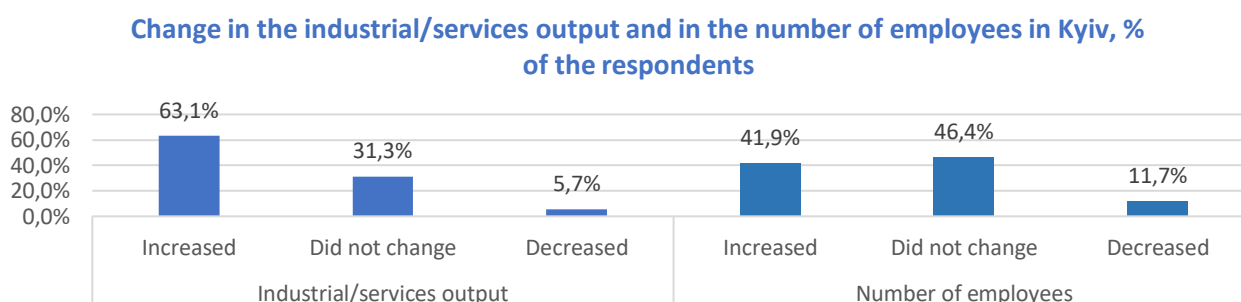
**Assessment of the current overall economic environment for business activities** More than a half of the surveyed business entities (57.1%) assessed the current overall economic environment as satisfactory. 25.0% of the respondents rate the overall economic environment as bad, and 17.9% as good. Thus, the index of assessment of the overall economic environment for business activities is negative (-0.07). However, the value of the index for the city is somewhat higher compared to the country's average (-0.12).

<sup>58</sup> Calculated as the average of all responses on a scale from -1 to 1, where 1 corresponds to a simplification of this procedure, 0 - no change, and -1 to a complication.





**Change in the production output over the past two years.** More than a half (63.1%) of the surveyed business entities indicated that they increased their production or service output in 2018-2019. Approximately a third (31.3%) of the respondents did not change the output while 5.7% of the respondents reduced it. Thus, the index of business activity is +0.57 (which is significantly higher than the average of +0.31 for all the respondents surveyed), reflecting the predominance of the share of business entities that expanded their output over the share of those who reduced it.



**Change in the number of employees of the business entities over the past two years.** Almost a half of the surveyed business entities (46.4%) indicated that the number of their employees did not change in 2018-2019. The share of business entities that increased the number of their employees (41.9%) is three times as much as the share of those where the number of employees decreased (11.7%) Thus, the index of changes in the number of employees is +0.30, which is higher than the average of +0.16 for all the cities surveyed.

**Deregulation: changes in administrative procedures** According to the respondents, the process and conditions of business registration have been simplified the most in the last two years. Tax payment administration has become slightly easier, while the situation with inspections has not improved.

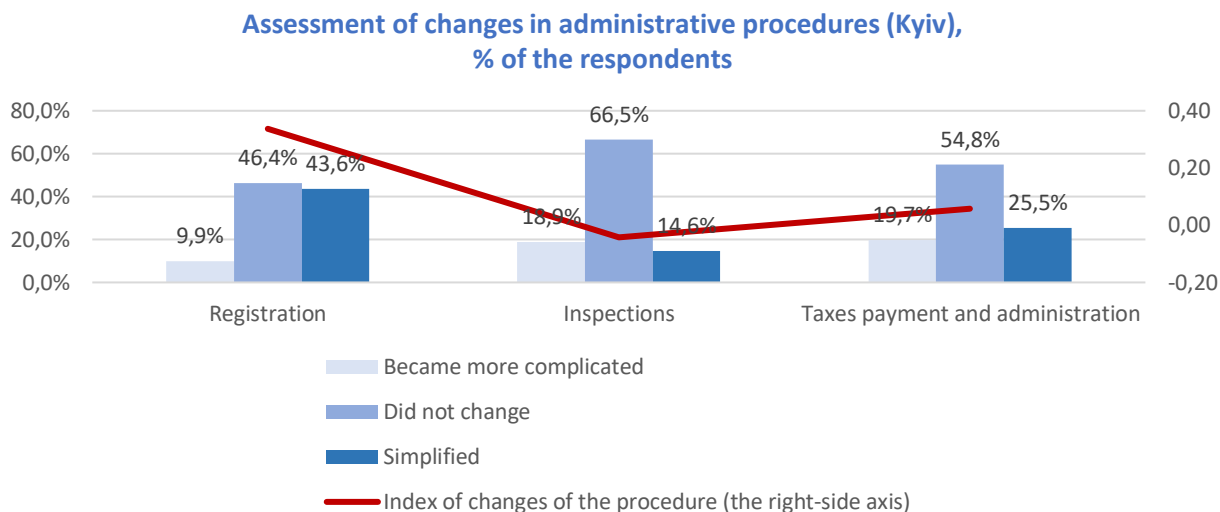
43.8% of the businesses surveyed point out the simplification of business registration in the previous two years. The rest of the respondents did not feel any changes in this procedure, and only a small share of the respondents (9.9%) said that, in their opinion, business registration has become more difficult. As a result, the index of change in the registration procedures is +0.34<sup>59</sup>. This is the highest value of the index compared to the other two procedures, which include the passing of inspections and the administration of taxes.

When it comes to the administration of taxes, more than a half of business entities (54.8%) say that they have not noticed any changes in the complexity of this procedure. The rest of the business entities are divided into those for whom the payment of taxes has become easier (25.5%) and those for whom it has become more difficult (19.7%). The index of change in the procedure for administering tax payments is +0.06.

The index of changes in passing inspections is negative (-0.04). 18.9% of business managers and individual entrepreneurs claim that inspections have become more difficult. This is slightly higher than the share of businesses according to which inspections have become easier compared to 2018 (14.6%). However, the largest share of the surveyed businesses (66.5%) did not notice any changes in relation to inspections.

<sup>59</sup> Calculated as the average of all responses on a scale from -1 to 1, where 1 corresponds to a simplification of this procedure, 0 - no change, and -1 to a complication.

As a result, the value of the general index of changes in administrative procedures, which is calculated as an average value of the indices of change of these three procedures, is +0.12.



## Recommendations

According to the MCI results (subject to the weak components and dimensions) the following key recommendations have been formulated for the city. In addition, the city government should pay attention to recommendations that are common for all the cities in general.

### Component 1. Starting a business.

- Faster business registration should be encouraged. It is necessary to increase the number of business registrars in local self-government authorities.
- It is necessary to improve the quality and availability of consulting services when starting a business, in particular, by expanding the capacity of consulting services in the centers of administrative services.

### Component 2. Access to public property

- It is necessary to ensure timely update of technical documentation on the standard monetary appraisal of land
- It is necessary to ensure transparent access to information on the availability of community-owned land that can still be used for construction, though, in particular, the official website of the city council.
- It is necessary to ensure transparent access to information about community-owned real property, though, in particular, the official website of the city council.

### Component 4. Compliance cost

- Deregulation measures need to be continued at the local level to reduce the time and money costs of businesses on compliance with local regulations.

### Component 5. Taxes and duties

- It is necessary to regularly analyze the burden of local taxes and duties and its impact on local businesses.

#### **Component 7. Security of operating a business**

- It is necessary to ensure cooperation with the law enforcement to improve the level of security in the city in general, as the crime rate also impacts the security of doing business.

#### **Component 9. Development resources**

- It is necessary to analyze the needs of local businesses for workforce.
- It is necessary to increase expenses on support for entrepreneurs to ensure the operation of the business support infrastructure and financial support programs.
- It is necessary to conduct an audit of business support infrastructure facilities to determine their efficiency and development pattern.
- It is necessary to use best practices applied by other cities to organize the operation of business support centers, co-workings, business hubs, clusters, etc.

# Kramatorsk

## Number 7 in MCI

### *General information*

Kramatorsk is the administrative center of the Donetsk Region and a city of regional significance.

With effect from October 2014, the Donetsk Region State Administration was located in the city. The Donetsk Region Military and Civil Administration is located in the city since March 2015.<sup>60</sup>

In addition to Kramatorsk, nine towns, two urban-type settlements and one village fall within the jurisdiction of the Kramatorsk City Council: Ashurkove village, Semenivka village, Oleksandrivka town, Bilenke town, Vasylivska urban-type settlement, Komyshevakha town, Krasnotorka town, Pryvillia village, Malotaranivka town, Sofiiivka town, Shabelkivka town, Yasna Poliana town, and Yasnohirka town.



### *Location*

The city of Kramatorsk is located in the valley of the Kazennyi Torets River in the East of Ukraine. The city is located in the northern part of the region. The territory of the city borders on the Slovianskyi and Kostiantynivskyi Districts of the Donetsk Region.

Other large settlements of the Donetsk Region, in particular, the cities of Sloviansk, Bakhmut, Druzhkivka, and Kostiantynivka, are located near Kramatorsk.

Kramatorsk is located near such regional centers as Kharkiv, Dnipro, and Zaporizhzhia. In addition, the city of Sievierodonetsk, which performs the functions of the administrative center of the Luhansk Region, is located nearby.

### *Demographic situation*

As of January 1, 2019, the permanent population of Kramatorsk (including territories falling within the jurisdiction of the City Council) was 186.5 thousand people. The city is the fifth largest settlement in the region, taking into account the temporarily occupied territories of the Donetsk Region.<sup>61</sup>

<sup>60</sup> Please see <https://zakon.rada.gov.ua/laws/show/123/2015>.

<sup>61</sup> Here and below in the report, the statistical data of the Donetsk Region Statistics Headquarters of the State Statistics Service of Ukraine are used.

The population of Kramatorsk, as just in Ukraine generally, is dominated by women (51.5%). There are 816 men per 1,000 women (864 men at the country level). The share of the population aged from 15 to 64 is 68.4% (67.8% at the country level). In total, there are 463 people (475 at the country level) aged 0-14 and over 65 per 1,000 people of working age.

## Development of entrepreneurship

### Key structural business statistics in Kramatorsk in 2018

|                    | Absolute figures   |                          |                  | Relative figures      |                           |                         |
|--------------------|--------------------|--------------------------|------------------|-----------------------|---------------------------|-------------------------|
|                    | Number of entities | Employment, thsd persons | Turnover, UAH bn | Share in total number | Share in total employment | Share in total turnover |
| Large enterprises  | 6                  | 17.9                     | 29.0             | 0.08%                 | 36.1%                     | 63.4%                   |
| SMEs               | 7185               | 31.7                     | 16.7             | 99.92%                | 63.9%                     | 36.6%                   |
| Medium enterprises | 62                 | 13.6                     | 10.4             | 0.86%                 | 27.3%                     | 22.7%                   |
| Small enterprises  | 1010               | 5.5                      | 3.6              | 14.05%                | 11.0%                     | 7.9%                    |
| In which           |                    |                          |                  |                       |                           |                         |
| micro              | 860                | 2.2                      | 1.6              | 11.96%                | 4.3%                      | 3.5%                    |
| IEs                | 6113               | 12.7                     | 2.7              | 85.01%                | 25.6%                     | 6.0%                    |
| Total              | 7191               | 49.6                     | 45.7             | 100.00%               | 100.0%                    | 100.0%                  |

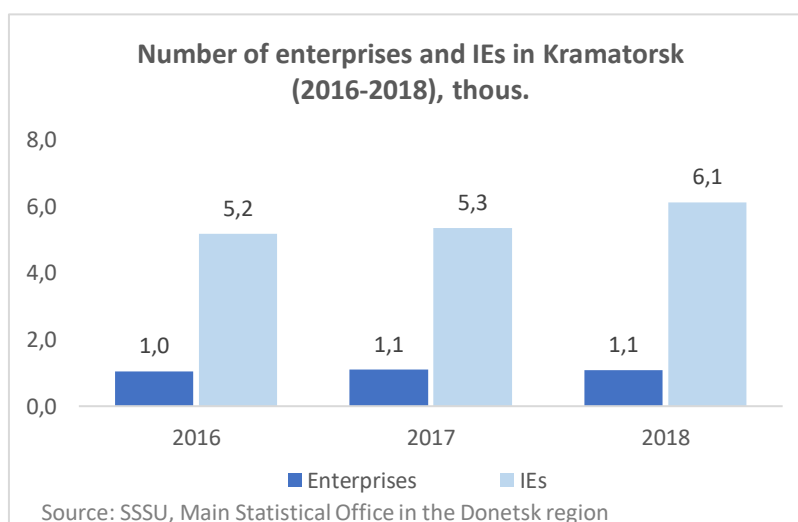
Source: Own calculations based on the data of the Donetsk Region Statistics Headquarters of the State Statistics Service of Ukraine

### Number of business entities

In 2018, Kramatorsk counted 7.2 thousand small and medium enterprises (including 62 medium-sized enterprises, 1,010 small enterprises and 6.1 thousand individual entrepreneurs) but only six large-scale enterprises.

Kramatorsk is ranked number 23 for the number of business entities among the cities selected for the survey. The city accounts for 10.6% of the total number of business entities in the Donetsk Region. Although the

city performs the functions of the regional center, the business activity of the region is mostly concentrated in Mariupol. There were 632 SMEs per 10,000 inhabitants in Kramatorsk (ranked number 13 among the cities selected for the survey).

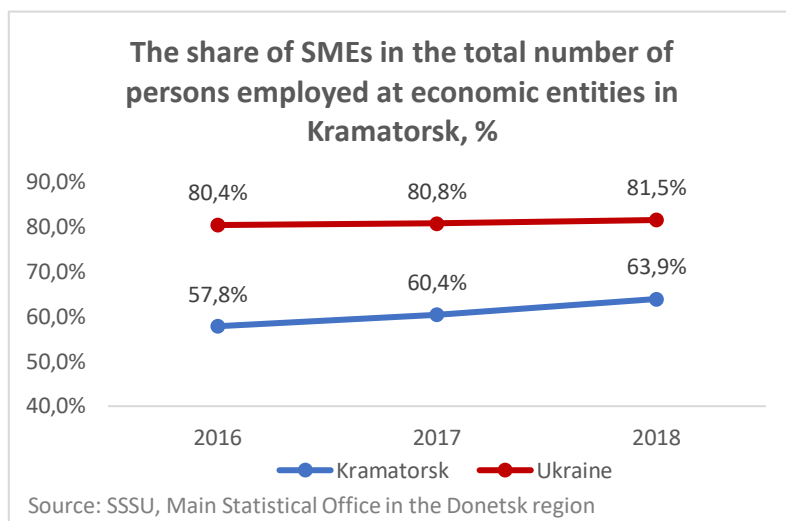


In 2018, the number of SMEs in the city increased by 11.6% compared to 2017, which is significantly higher than the country's average (1.9%). However, this increase was due only to a 14.4% growth in the quantity of individual entrepreneurs, which is the highest relative rate among all the cities covered by the survey

(Ukraine's average is 1.2%). On the other hand, the shares of medium-sized and small enterprises decreased by 8.8% and 1.7%, respectively.

At the end of 2018, 15% of the businesses were registered as legal entities, which is several percentage points lower compared to the country's average (19.3%).

## Employment



In 2018, the Kramatorsk-based business entities employed 49.6 thousand persons, which is 4.6% higher than in 2017 (compared to the country's average of 4.8%). The city provides only 13.9% of the total employment at business entities in the Donetsk Region, as the main business center is located in Mariupol.

The share of people employed at SMEs in Kramatorsk reached 63.9% of the total quantity of people employed at all business entities, which is almost

twenty percentage points lower than the country's average (81.5%). This is, in particular, due to a significant role of large businesses in the creation of jobs in the city. Large businesses in Kramatorsk account for more than a third (36.1%) of the total number of people employed at business entities (Ukraine's average is 30.2%). However, the share of small enterprises in the total number of persons employed reached only 11%, which was the lowest rate among the cities surveyed. Consequently, small businesses and individual entrepreneurs provided about a third of the employment.

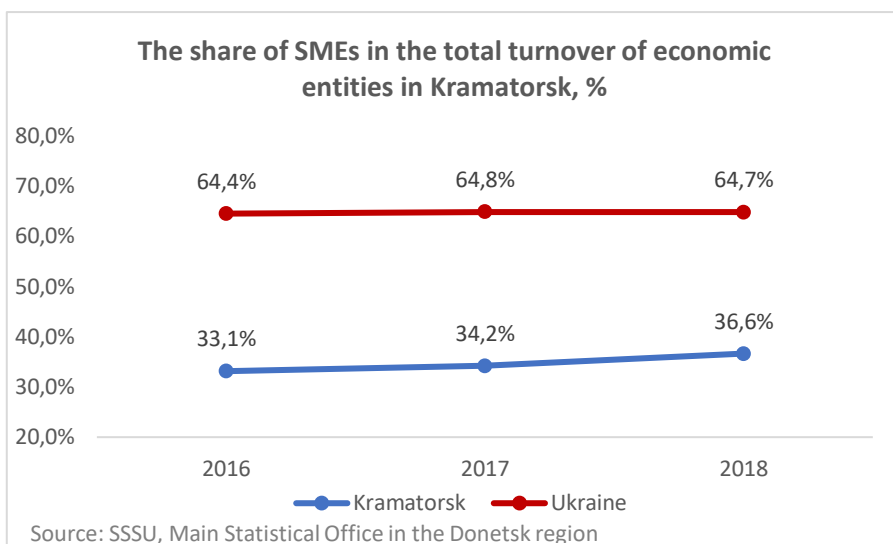
Compared to 2017, the number of persons employed at SMEs in Kramatorsk increased by 10.7% (5.7% at the country level), while large businesses demonstrated a 4.6% decrease in the number of their employees (0.9% at the country level) This is the highest index among the cities in respect of which information on the quantity of people employed in the SMEs sector is available. The number of persons employed by individual entrepreneurs increased by 3.1 thousand or 32.7%, which is also the highest relative index in Ukraine (10.5% at the country level). On the other hand, the number of people employed at medium-sized businesses decreased by 1.5%, while the share of employees of small enterprises demonstrated a 2.3% increase (+5.8% and -1.1% at the country level, respectively).

Statistics show that the Donetsk Region as a whole demonstrates the second highest unemployment rate (after the Luhansk Region) among working age population in Ukraine. In 2019, the corresponding indicator for the region was 14% compared to 8.6% at the country level. In late 2019, 1,250 people were officially unemployed in Kramatorsk, while there were only 23 vacant jobs. Accordingly, the registered unemployed persons created a load of nearly 54 people per one vacant job, which was one of the highest indicators among the cities selected for the survey. This may point to a high unemployment rate and the lack of jobs in the city. However, the quarantine measures and crisis developments caused by the COVID-19 pandemic may further deteriorate the employment situation in the city in 2020.

## Turnover

At the end of 2018, the turnover of goods and services by business entities in Kramatorsk reached UAH 45.7 billion based on current prices. Compared to 2017, the real growth (i.e. adjusted for inflation) of turnover reached 7.1%, which is 1 percentage point lower than Ukraine's average (8.1%). The business entities of the city accounted for only 9.5% of the total turnover in the Donetsk Region.

The SMEs sector of the city accounted just for 36.6% of the total turnover of all business entities (compared to the country's average of 64.7%). This is the lowest index among



all the cities selected for the survey. This is due to a significant contribution of large businesses registered in the city. In 2018, the Kramatorsk-based SMEs demonstrated a real growth of their turnover by 14.7% compared to 2017 (8.1% at the country level). However, the relevant index for large businesses reached 3.1% only.

The increase in the turnover of the SME sector was primarily due to the growth of turnover of medium-sized enterprises by 20.3%. Individual entrepreneurs increased their turnover by 13.8%, while the turnover of small enterprises demonstrated just a 0.4% growth. This provided a 2.4 percentage point growth of contribution of the SME sector compared to 2017 (when the SME share accounted for 34.2%).

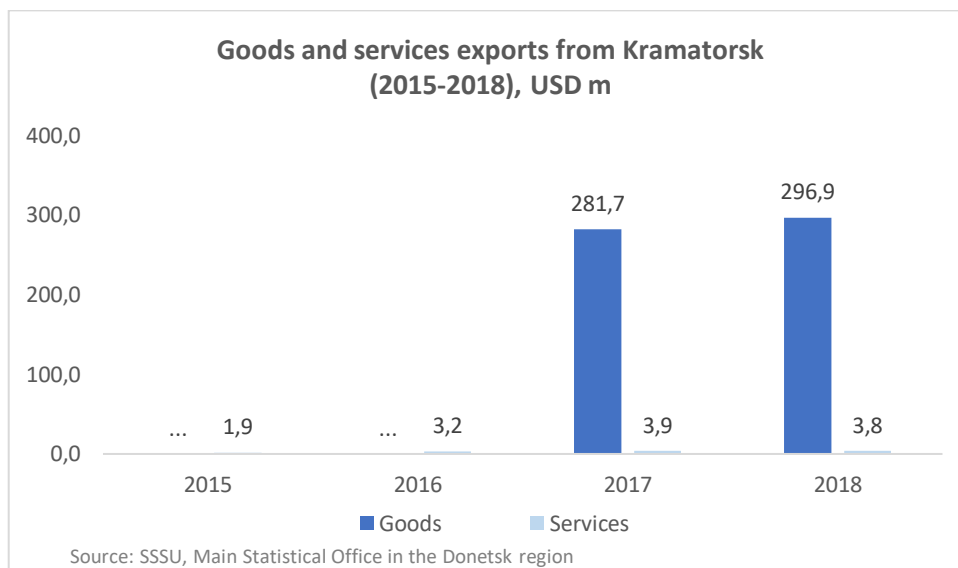
### Capital investments

In 2018, Kramatorsk accounted for almost UAH 2.8 billion of capital investments, which corresponds to 10.2% of the total capital investments in the Donetsk Region. At the end of 2018, the amount of capital investment per capita was approximately UAH 14,770, which somewhat exceeds the country's average of UAH 13,746. This is the eighth highest indicator among the cities covered by the survey.

### Exports

According to the State Statistics Service of Ukraine, Kramatorsk's exports of goods amounted to nearly USD 296.9 m in 2018, which is 5.4% higher than in 2017. This corresponds to the tenth largest volume of exports among the cities covered by the survey, in respect of which relevant statistics are available. On the other hand, the exports of services decreased by 1.4% and reached USD 3.8 m (the last place).

An analysis of the foreign trade structure of Kramatorsk has demonstrated that approximately two thirds of its exports were provided by machinery products. In particular, USD 195.5 m or 65.9% accounted for Section VXI of the Ukrainian Classification of Goods in Foreign Trade (UKTZED) (mechanical equipment; machinery and mechanisms, electrical equipment and components, image or sound recording or reproducing devices). 31.1% of the exports was provided by metallurgical products. It follows that the other sectors accounted just for 3% of the exports, in particular, 1.2% was provided by products of plant origin.



*Note: In 2015 to 2016, the State Statistics Service of Ukraine developed information on goods exports in the Donetsk Region taken as a whole without a disaggregation by cities of regional significance and districts.*

### **Foreign direct investments**

As of December 31, 2018, the city of Kramatorsk accounted for USD 72.4 m of foreign direct investments (equity). The said volume was USD 0.3 m or 0.5% lower compared to the volume recorded at the beginning of 2018. It follows that the city experienced an insignificant decrease in the investments. On the other hand, there was USD 386,3 of FDI per capita in Kramatorsk as of the end of December 2018.

It should be noted that in general the Donetsk Region is ranked number four by the volume of direct investments among all the regions of Ukraine. Statistics, however, show that only 6.5% of the total investments in the region was concentrated in the city at the beginning of 2018.

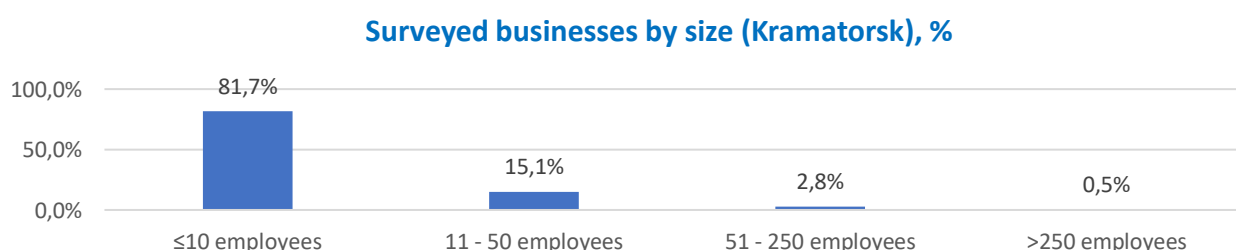
## **Results of the “Municipal Competitiveness Index” in Kramatorsk**

### **Description of the survey sample**

218 business entities took part in the survey in Kramatorsk. These were 110 (50.5%) enterprises (legal entities) and 108 (49.5%) individual entrepreneurs (PEs). When analyzing the answers, the data array was weighed by the types of business entities (74.5% of legal entities and 25.5% of PEs) to ensure that it was compliant with the parameters of the target sample.

### **Size of the surveyed business entities**

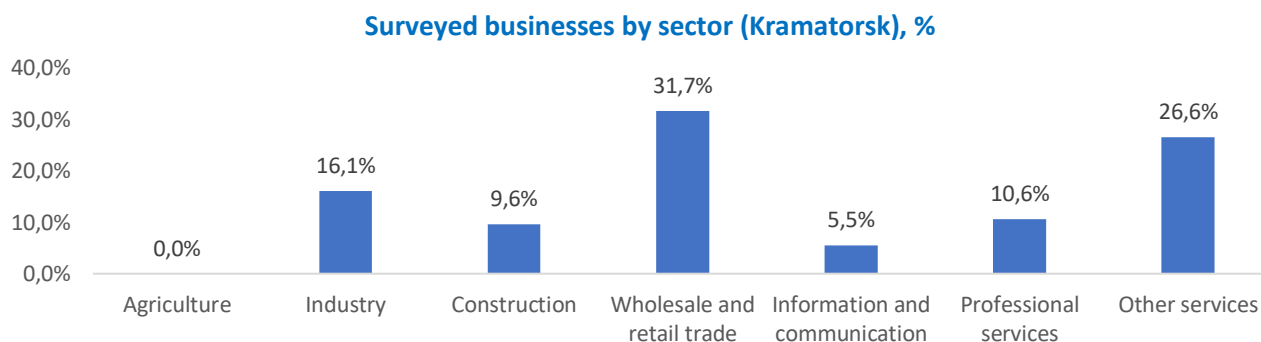
Most respondents (81.7%) were micro businesses — business entities employing from 1 to 10 people. 15.1% were small entities with 11 to 50 employees. Medium-sized entities (from 51 to 250 employees) account for 2.8% of the respondents, while large entities (more than 250 employees) account for 0.5%.





### **Industry and type of activity**

The surveyed business entities in Kramatorsk operate in various sectors of the economy. 31.7% of surveyed business are engaged in trade (including in wholesale and retail, repair of motor vehicles). 16.1% of the respondents are employed in the industry, 9.6% – in the construction, and 0% – in the agriculture. 42.7% of the respondents operate in the service industry. 5.5% of the respondents provide information and communication services, while professional services are provided by 10.6% of the respondents. 26.6% of the respondents provide other services (businesses operating in the transport, arts, sports, education, health care, finance, and other service-related sectors).



### **Year of registration**

Most of the surveyed business entities were registered earlier than in 2017 (75.2%). In 2018-2019, 24.8% of the respondents were registered.

### **Age and gender breakdown of business owners and managers**

According to the survey findings, 72.5% of the Kramatorsk-based businesses are owned by men, while the remaining 27.5% are owned by women. In addition, the share of men owning legal entities is even higher (78.3% of men vs. 27.1% of women).

Men run 76.5% of legal entities, while the share of female managers accounts for 23.5%. When it comes to PEs, who are owned and run by the same person, the quantitative advantage of men is less apparent (51.1% vs. 48.9%). Men run 69.9% of all the business entities, while the share of female managers accounts for 30.1%.

The average age of business owners in Kramatorsk is 44.2 years (the country's average is 42.8 years). However, individual entrepreneurs are on average six years younger than the owners of legal entities (38.3 years vs. 45.8 years) in Kramatorsk.

### **Municipal Competitiveness Index: Results of Kramatorsk**

According to the survey findings, Kramatorsk was ranked number seven, scoring 58.84 points as part of MCI 2019/2020. Thus, Kramatorsk is classified among cities with average MCI scores.

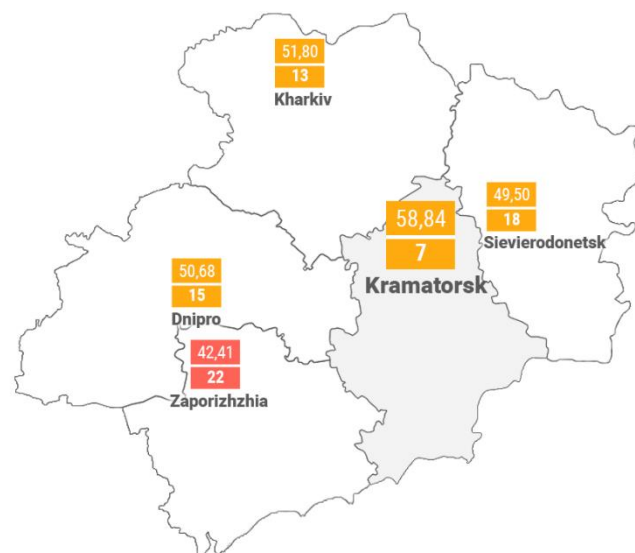
Kramatorsk falls more than four points behind Chernihiv, which is ranked number six and classified among the cities with high MCI scores.

A geographical comparison between the MCI index for Kramatorsk and those for its geographical neighbors has shown that the cities classified under average and low MCI score groups are located nearby. For instance, Zaporizhzhia is ranked number 22 and falls more than 16 points behind Kramatorsk.

The relatively high score of Kramatorsk was due to high rates assigned to the city on certain components.

The strongest components are:

- Security of operating a business (number one)
- Compliance cost (number four)
- Leadership of municipal authorities (number six)
- Informal payments and corruption (number seven)



The weakest components are:

- Support of innovations (number 15)
- Taxes and duties (number 19)

### 1. Starting a business

Kramatorsk scored 6.28 points on Component 1 titled “Starting a Business.” This is the ninth score among all the cities. All problems in this area relate to the provision of registration services. In particular, according to the survey data, the registration of a business in Kramatorsk in 2018-2019 took more time than on average in the country (7.7 days compared to 6.1 days). On the other hand, it took on average just three days to have changes entered into the register, which is less than all the cities’ average of 3.6 days. It follows that the amount of time spent on the entry of changes to the register is one of the lowest among all the cities covered by the survey.

In Kramatorsk, 21.9% of the respondents who registered a business in 2018-2019 reported problems and barriers during the registration. This share is the highest among the cities covered by the survey (8.8% at the country level). However, 77.4% of the respondents received necessary advice during the registration process, which is one of the best results and is seven percentage points higher than the country’s average (70.7%). It took 40.4 days to launch a business (from the date of submission of documents for registration to the date of the first sale of goods or services) in Kramatorsk, which is more than eight days longer than on average in the country (32.1 days).

It should be noted that problems related to lengthy procedures for obtaining certain permits are less tangible in the city. The obtaining of construction permits and registrations took, on average, 37.2 days in the country and only 28.8 days in Kramatorsk. In addition, it took less time in Kramatorsk to obtain a declaration of conformity to the requirements of the fire safety legislation in respect of a business entity’s facilities (9.3 days compared to all the cities’ average of 11.8 days).

Statistics show that business registrars in Kramatorsk experience lower workload than business registrars in the other cities. There are approximately 11 registrars per 10 thousand business entities in Zaporizhzhia (including government authorities, local self-government authorities and notaries public). Thus, a lower quality of registration services can be another reason for the low score on the business registration component.

## ***2. Access to public property***

Kramatorsk scored 5.33 points and was ranked number ten on the component (sub-index) titled “Access to public property.” The problems that the city faces in this area relate to a more than average length of obtaining of documents and poor accessibility of information on community-owned real property.

38.8% of the respondents in Kramatorsk reported that they had documents certifying the ownership / lease of the land where their business operates (compared to the country’s average of 30%). This makes 52.2% of the respondents believing that land documents are their concern (compared to the country’s average of 46.8%). This is one of the best indices among the cities covered by the survey. However, it took on average 79.9 days to obtain documents certifying the ownership / lease of the land in Kramatorsk in 2018 to 2019, which is almost seven days longer than the average for all the respondents (72.4 days).

18.5% of the respondents reported the accessibility of information on available community-owned land plots, which can be provided for use or used for construction, etc. This is several percentage points higher than the average for all the respondents (18.1%). However, only 22.9% of the respondents indicated that information on the municipal real property (including non-residential premises) was accessible (29.2% of the total respondents). This corresponds to one of the worst indices.

## ***3. Transparency and data openness***

Kramatorsk was ranked number ten and scored 5.96 points on the “Transparency and data openness” component. In Kramatorsk, the respondents expressed a higher than average, among all the cities, opinion of the access to information on local regulations and public procurements.

In particular, the access to information on public procurements got the top score in Kramatorsk with 17.9% of the respondents assigning ‘good’ and ‘excellent’ rates, compared to 17.3% of all the respondents surveyed. Positive assessments of the access to information on local budget in Kramatorsk do not differ from the assessments given by all the other cities in general, and account for 10.2% of the respondents. The accesses to information on local regulations was found to be ‘good’ and ‘excellent’ by 16.7% of the respondents (13.9% of all the respondents surveyed).

## ***4. Compliance cost***

Kramatorsk is one of the leaders for compliance cost and was ranked number four and scored 8.06 points on this component. The result of the city was determined by low (compared to the other cities) rates assigned by the respondents in respect of time and money spent on compliance with the requirements of local regulations.

In Kramatorsk, entrepreneurs spend on average 1.8 days for compliance with local regulations, which is the lowest index among all the cities (four days on average at the country level). 2.3% of an annual income is, on average, spent on compliance with the requirements of local regulations in Kramatorsk, which is lower than the average of 3.7% for all the respondents.

The findings of the survey show that there is virtually no difference between the frequency of visits of local inspectors in Kramatorsk and the average frequency at the country level (0.6 times per year in the city compared to the country’s average of 0.7 times per year). Consequently, the average time spent on communications with inspectors was 5.1 days, which is also almost in line with the country’s average (five days).

## ***5. Taxes and duties***

Component (sub-index) 5 titled “Taxes and duties” is one of the weaknesses of Kramatorsk. The city was ranked number 19 and scored 3.22 points on this component. Such score of Kramatorsk was due to a

combination of such factors as high expenses for payment of taxes, considerable amount of time spent on administration of taxes and duties, and certain problems related to exemptions from local taxes and duties.

As part of the survey in Kramatorsk, the respondents said that they spent, on average, 30.3% of their annual income on taxes and duties (including USC), which is one of the highest rates compared to all the cities' average (26.8% of the annual income). Entrepreneurs in Kramatorsk spent, on average, 73.5 days on the administration of taxes and duties, which is also one of the highest indices compared to all the cities' average (59 days).

20.5% of the respondents perceive local taxes as barriers to their businesses, which is almost in line with the average of 20.4% for the other cities. In addition, only 2.6% of the respondents in Kramatorsk were reportedly exempted from local taxes and duties in 2018-2019, which is less than the average for the cities covered by the survey (the average for all the respondents is 3.6%).

### ***6. Informal payments and corruption***

According to the survey findings, Kramatorsk was ranked number seven and scored 6.66 points on Component (sub-index) 6 titled "Informal payments and corruption." The city's score is due to such factors as a low prevalence of "informal payments" and an approximately average awareness of entrepreneurs about existing anti-corruption measures taken by the city.

In particular, as part of Dimension 1 "Bribes / Gifts" 7.3% of the respondents in Kramatorsk reported situations related to "informal payments" when approaching the municipal officials for any issues concerning the doing of business in 2018-2019. On average, 9.9% of the respondents faced such situations. On the other hand, as part of Dimension 2 "Anti-corruption efforts," 31.3% of the respondents were informed about the implementation of specific anti-corruption measures by the city authorities (open budget, digital reception, municipal anti-corruption program, etc.), while the average for all the cities surveyed was 31.8%.

### ***7. Security of operating a business***

Kramatorsk was ranked number one and scored 8.34 points on Component (sub-index) 7 titled "Security of operating a business." The high score of Kramatorsk is due to a low — compared to the other cities — percentage of shady businesses and those who suffered significant loss from various criminal acts.

According to the survey data, 30.6% of the respondents in Kramatorsk believe that their competitors run shady businesses, which is the lowest index at the country level (45.1%). 2.5% of the total respondents experienced attempts of illegal takeovers at the country level in 2018-2019. In Kramatorsk, this percentage does not differ from the country's average.

12.2% of the respondents in Kramatorsk reported that they suffered losses as a result of extortions, thefts, robberies, or acts of vandalism or arson in 2018-2019 (this is two percentage points lower compared to the country's average of 14.3% of the respondents). According to the entrepreneurs, losses from such criminal acts accounted for 6.9% of their annual income, which is one of the lowest indices in the country (the country's average is 10.8%).

In Kramatorsk, businesses spend, on average, 2.0% of their annual income on security / protection, which is lower compared to the country's average of 2.7% of the annual income.

### ***8. Leadership of municipal authorities***

Kramatorsk was ranked number six and scored 5.57 points on Component (sub-index) 8 titled "Leadership of municipal authorities." The high score of the city is due to relatively high rates on the "Public-Private Dialogue" dimension (ranked number five), while the rate on the Business Development Support corresponds to only the eleventh best result.

Kramatorsk scored 5.50 points and was ranked number 11 on the “Business development support” dimension. The Kramatorsk-based entrepreneurs are, on average, more pessimistic about the attitude of representatives of the municipal authorities towards private businesses, compared to the respondents in the other cities. Only 13.6% of the respondents believe that the attitude of the municipal authorities towards businesses is “very good” or “good” (the average for all the cities is 20%). In addition, 40.7% of the respondents agree that the city authorities support the creation of new businesses (the average for all the cities is 38.3%), which corresponds to a higher than average index. However, only 33.2% of the respondents reported that the city authorities support existing businesses (the average for all the cities is 35.5%). The survey results are also complemented by “hard data” on the activities of the city council. According to the “hard data,” Kramatorsk scored 8 of 10 points. In particular, Kramatorsk’s technical documents on standard monetary appraisal of municipal land are outdated compared to those used by the other cities. The boundaries of the city are not established.

The score obtained on the “Public-private dialogue” dimension shows that, in general, businesses face less problems in their communications with the local government in Kramatorsk compared to most other cities. On this dimension, the city was ranked number five and scored 5.64 points. 6.1% of business representatives in Kramatorsk believe that they have “extensive” or “very extensive” opportunities to participate in the development of local documents (strategies, plans, programs, etc.), while the average for all the cities surveyed is 6.5%. However, 11.8% of the respondents in Kramatorsk (the fourth highest index) indicate that the city always or often holds consultations with entrepreneurs before passing new or amending existing regulations that may affect the business community (compared to the average of 7.4% for all the cities)

### **9. Development resources**

Kramatorsk was ranked number 9 and scored 4.90 points on Component (sub-index) 9 titled “Development resources.” The city’s assessment is based on the results of three dimensions that form a single component. Those dimensions are Human resources, Financial resources and infrastructure, and Business support infrastructure.

The city was ranked number 4 and scored 6.60 points on **Dimension 1 (Human resources)**. An analysis of certain indices of this metric has demonstrated that in Kramatorsk 9.3% of the respondents rate the quality of local workforce as “excellent” or “good” (7.6% of the total respondents) and 10.2% of the respondents give positive assessments of vocational education of employees in the local labor market (10% of all the respondents). Accordingly, just as in the other cities, an insignificant percentage of business entities in Kramatorsk rate high the available workforce.

However, 57.0% of the respondents are of the opinion that insufficient workforce training is a serious barrier to doing business (the country’s average is 60.7%). 65.2% of the respondents reported that they face a lack of workforce (70% of all the respondents surveyed). It follows that the lack of qualified workforce is the fourth most severe problem faced by entrepreneurs in Kramatorsk, according to the rating of barriers to doing business (as reported by 23.8% of the respondents).

The analysis of the number of workforce in the city is supplemented by statistical data. In particular, at the end of 2019 there were only three vacant jobs per 100 businesses (the average for all the cities surveyed was 3.6 vacant jobs)<sup>62</sup>, which may point to a low demand for workforce, due to, in particular, a lower business activity. In addition, the share of working age population (aged 15-64) corresponds to only 68.4% in Kramatorsk (as of January 1, 2019), which is one of the lowest percentages among the cities surveyed. The

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<sup>62</sup> Sources for calculations: 1) Number of vacancies: The situation in the labor market and the results of activities of the state employment service. Data on the page of the Donetsk Region Employment Center, <https://don.dcz.gov.ua/analytics/67> 2) Number of businesses: According to the Donetsk Region Statistics Headquarters

corresponding country's average on this metric was 67.8%<sup>63</sup>. Thus, the problem of population aging may be more tangible in Kramatorsk compared to the other cities.

The city was ranked number 12 and scored 4 points on **Dimension 2 (Financial resources and infrastructure)**. According to the survey findings, only 1.2% of the respondents at the country level received financial support from municipal authorities in 2018-2019. When it comes to individual cities, the percentage of those respondents in Kramatorsk reached 2.1%, which is almost one pp higher than the country's average. However, 79.4% of the business entities surveyed in Kramatorsk believe that the lack of financial resources is a serious barrier to doing business (the average for all the cities is 77.8%).

Data on the city's budget expenditures complete the picture of financial resources allocated to support businesses in the city. In 2019, actual spending on support for small and medium-sized enterprises in the city reached only UAH 244,000 per 10,000 businesses.<sup>64</sup> However, this is the fifth highest index among all the cities. It should, however, be noted that, in general, SME support expenditures are low or non-existent in most of the cities. However, a higher amount of expenditures or even the existence of such support in general may point to a higher level of leadership of municipal authorities in relation to business support

When it comes to the infrastructure, the entrepreneurs surveyed in the cities covered by the study had reportedly a different experience in relation to connection to electricity grids. In Kramatorsk, connection to the electricity grid took on average 137 full days from the date of an application until the date of actual connection. This is one of the highest indices among the cities covered by the survey. At the country level, connection to the electricity grid took, on average, 85 days. It follows that it is more complicated to have a business connected to the electricity grid in Kramatorsk compared to most other cities.

Kramatorsk was ranked number ten and scored 4.10 points on **Dimension 3 (Business support infrastructure)**. According to the survey data, 15.7% of the respondents personally received business support services from the municipal authorities (information, advice, training, etc.), which is the highest percentage among all the cities (the cities' average is 11%). At the same time, 46.3% of them rated such services as "good" and "excellent"(48.6% of the total respondents).

40.3% of the business entities surveyed in Kramatorsk reported the existence of business support centers in the city, which is one of the highest indices among the cities surveyed (the average for all the respondents is 32.6%). In addition, according to the 'hard data,' there were no business support infrastructure facilities in the city at the end of 2019, which were created with the participation of the city authorities. Thus, entrepreneurs' awareness of business support centers may relate to other business support infrastructure facilities existing in the city, including those created with support from donors.

54% of the respondents in Kramatorsk are aware of the activities of business associations and business clubs in their city (45.9% of the total respondents). However, only 6% of the surveyed business entities are members of such organizations, which is lower than the percentage recorded for all the respondents surveyed in general (11.5%). This is one of the lowest indices among the cities surveyed, which may be due to lower business activity in the region affected by the war. In particular, only 6% of business entities are members of business associations and business clubs in Sievierodonetsk, too.

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<sup>63</sup> According to the Donetsk Region Statistics Headquarters of the State Statistics Service of Ukraine

<sup>64</sup> Reports on the implementation of local budgets (expenditures under program classification code 7610 - Promotion of small and medium entrepreneurship), as well as responses of the city councils to requests for public information were used. For some cities, information on expenditures was updated through telephone interviews with the employees of executive authorities of the city councils.

### ***10. Support of innovations***

The city of Kramatorsk was ranked number 15 and scored 4.25 points on Component (sub-index) 10 titled “Support of innovations.”

18.5% of the respondents in the city reported that their businesses interacted with research institutions or technology companies in 2018-2019, which is the lowest index among all the cities (compared to the average of 18.9% for all the cities). Businesses in Kramatorsk are also less satisfied with technology transfer compared to the average for the total respondents. 7.8% of the respondents pointed out that the related needs (the transfer of patents for inventions, etc.) are “met to a significant extent” or “fully met” (compared to the country’s average of 8%)

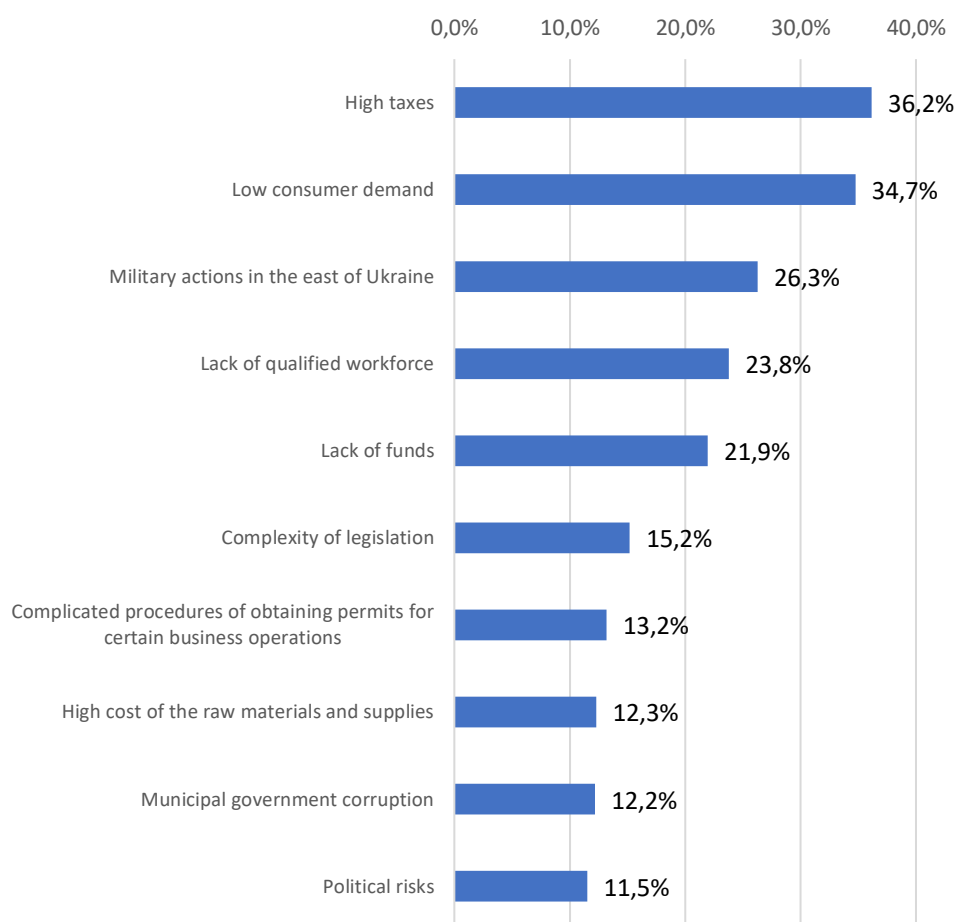
The respondents in Kramatorsk give a high assessment of the local government’s support for local innovation programs (funded from the local budget) with the city scoring 1.97 of five points compared to the average score of 1.91 for all the cities. In addition, Kramatorsk introduced new technologies, solutions, or products less frequently than all the other cities on average in 2018-2019 (37.1% compared to 40.2%). Further, only 1.8% of the surveyed enterprises and individual entrepreneurs reported that they belonged to clusters. This is lower than the index recorded for all the cities in general (2.1%). In general, all the factors provide an average satisfaction with support for innovations in Kramatorsk among entrepreneurs.

### ***Barriers to doing business***

The surveyed business entities named the main barriers they face when doing business in Kramatorsk. Three most important barriers included such factors as high taxes, low consumer demand, and military actions in the East of Ukraine. Each of these barriers to doing business was reported by 36.2%, 34.7% and 26.3% of the respondents, respectively. Due to its location, Kramatorsk turned out to be one of the two cities where the respondents classified the war in the East of Ukraine among TOP3 barriers to the doing of business. On the other hand, the lack of qualified workforce, which is classified among the three major barriers for all the respondents in general, was mentioned by 23.8% of the respondents and ranked number four.

One in five respondents (21.9%) perceives the lack of funds as a serious barrier. Complexity of legislation (a serious barrier for 15.2% of the respondents) and complex procedures for obtaining permits to engage in certain business activities (13.2%) were assigned several percentage points less. The high cost of raw materials and supplies and municipal government corruption have proved to be similarly serious barriers (12.3% and 12.2%, respectively). The least serious problem, included in the TOP10 barriers, relates to political risks, according to 11.5% of entrepreneurs in Kramatorsk.

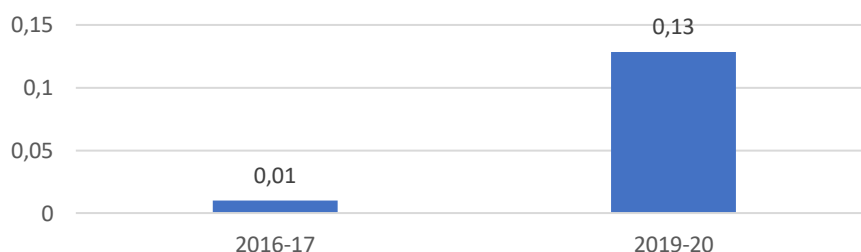
### TOP-10 barriers to doing business in Kramatorsk, %



### *Expectations and assessments of the business climate and economic conditions in Kramatorsk*

**Regional SME Business Climate Index.** ABCA SME Business Climate Index in Kramatorsk is 0.13 (the city was ranked only number 21 among all the cities surveyed). This is more than in 2017 (0.01), which indicates an improvement in perception of the business climate. This is in line with the all-Ukrainian trend.

#### ABCA Regional Index of Business Climate (Kramatorsk)

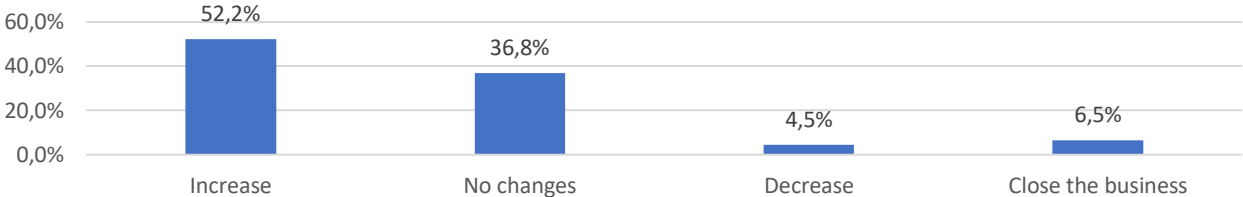


**Long-term expectations for business activity.** Business in Kramatorsk has optimistic long-term development plans for the next two years. More than half of the respondents (52.2%) reportedly plan to expand their



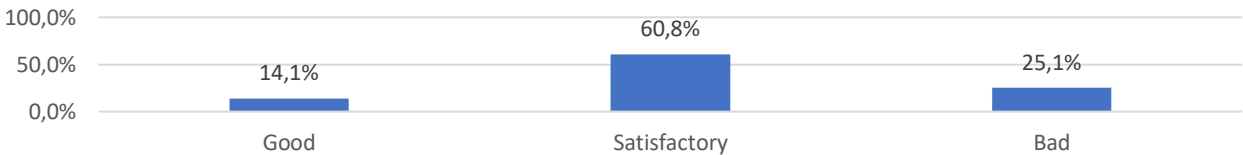
business, and 36.8% want to stay at the current level. At the same time, only 4.5% of the respondents plan to reduce their business, and 6.5% want to close it. The balance index<sup>65</sup> is +0.41 (+0.45 at the country level).

**Business activity expectations in the two-year perspective in Kramatorsk, % of the respondents**



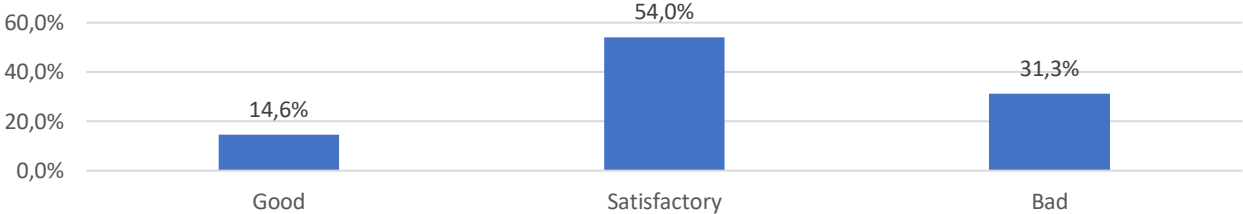
**Assessment of the financial and economic situation of business entities.** In Kramatorsk, the majority of the business entities surveyed (60.8%) assessed their current financial and economic situation as satisfactory. The rest of the respondents rated it as good (14.1%) or bad (25.1%) It follows that the negative assessments outweigh the positive ones, and the balance index of the financial and economic situation is -0.11 (compared to the country’s average of +0.05).

**Assessment of the business situation of business entities in Kramatorsk, % of the respondents**



**Assessment of the current overall economic environment for business activities** More than a half of the surveyed business entities (54.0%) assessed the current overall economic environment as satisfactory. 31.3% of the respondents rate the overall economic environment as bad, and 14.6% as good. Thus, the index of assessment of the overall economic environment for business activities is negative (-0.17). However, the value of the index is much lower compared to the country’s average (-0.12).

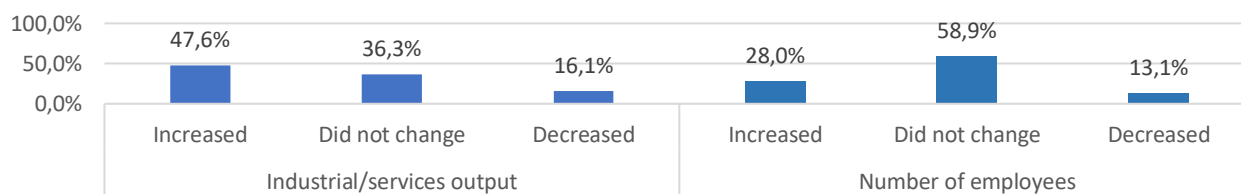
**Assessment of the overall economic situation (Kramatorsk), % of the respondents**



**Change in the production output over the past two years.** Almost a half (47.6%) of the surveyed business entities indicated that they increased their production or service output in 2018-2019. Approximately a third (36.3%) of the respondents did not change the output while 16.1% of the respondents reduced it. Thus, the index of business activity is +0.32 (which almost corresponds to the index of +0.31 for all the respondents surveyed), which reflects the predominance of the share of business entities that expanded their output over the share of those who reduced it.

<sup>65</sup> Calculated as the average of all responses on a scale from -1 to 1, where 1 corresponds to a simplification of this procedure, 0 - no change, and -1 to a complication.

### Change in the industrial/services output and in the number of employees in Kramatorsk, % of the respondents



**Change in the number of employees of the business entities over the past two years.** More than a half of the surveyed business entities (58.9%) indicated that the number of their employees did not change in 2018-2019. The share of business entities that increased the number of their employees (28.0%) has proved to be more than two times higher than the share of those where the number of employees decreased (13.1%). Thus, the index of changes in the number of employees is +0.15, which is somewhat lower than the average of +0.16 for all the respondents in general.

**Deregulation: changes in administrative procedures** According to the respondents, the process and conditions of business registration have been simplified the most in the last two years. The conditions of tax payment have not been improved and the situation with inspections has slightly deteriorated.

40.9% of the businesses surveyed point out the simplification of business registration in the previous two years. The rest of the respondents did not feel any changes in this procedure, and only a small share of the respondents (6.5%) said that, in their opinion, business registration has become more difficult. As a result, the index of change in the registration procedures is +0.34<sup>66</sup>. This is the highest value of the index compared to the other two procedures, which include the passing of inspections and the administration of taxes.

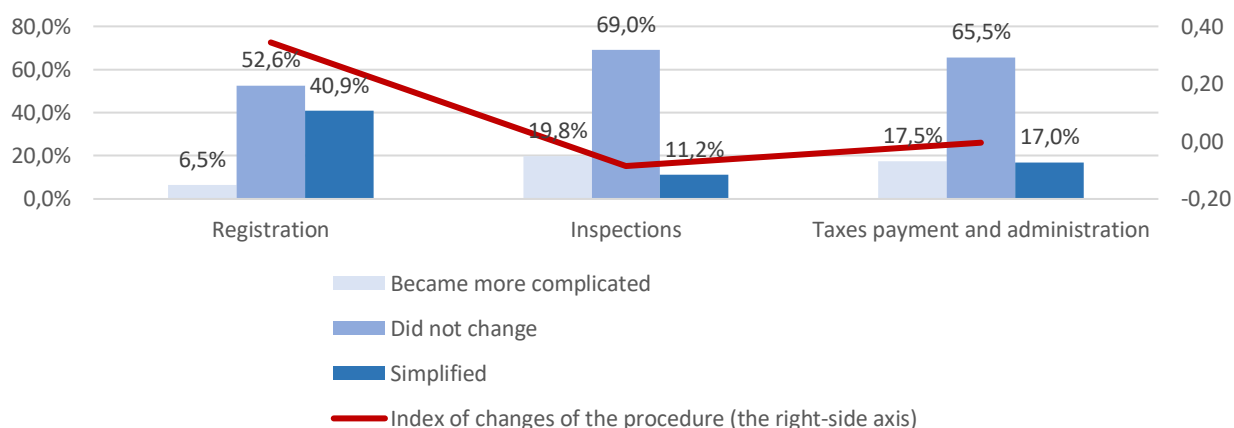
When it comes to the administration of taxes, more than a half of business entities (65.5%) say that they have not noticed any changes in the complexity of this procedure. The rest of the business entities are divided into two equal parts, which include those for whom the payment of taxes has become easier (17.0%), and those for whom it has become more difficult (17.5%). The index of change in the procedures for administering tax payments has therefore become zero.

The index of changes in passing inspections is negative (-0.09). 19.8% of business managers and individual entrepreneurs claim that inspections have become more difficult. This is higher than the share of businesses according to which inspections have become easier compared to 2018 (11.2%). However, the largest share of the surveyed businesses (69.0%) did not notice any changes in relation to inspections.

As a result, the value of the general index of changes in administrative procedures, which is calculated as an average value of the indices of change of these three procedures, is +0.08.

<sup>66</sup> Calculated as the average of all responses on a scale from -1 to 1, where 1 corresponds to a simplification of this procedure, 0 - no change, and -1 to a complication.

### Assessment of changes in administrative procedures (Kramatorsk), % of the respondents



## Recommendations

According to the MCI results (subject to the weak components and dimensions) the following key recommendations have been formulated for the city. In addition, the city government should pay attention to recommendations that are common for all the cities in general.

### Component 2. Access to public property

- It is necessary to ensure timely update of technical documentation on the standard monetary appraisal of land

### Component 5. Taxes and duties

- It is necessary to regularly analyze the burden of local taxes and duties and its impact on local businesses.

### Component 9. Development resources

- It is necessary to increase expenses on support for entrepreneurs to ensure the operation of the business support infrastructure and financial support programs.
- It is necessary to conduct an audit of business support infrastructure facilities to determine their efficiency and development pattern.
- It is necessary to use best practices applied by other cities to organize the operation of business support centers, co-workings, business hubs, clusters, etc.
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# Kropyvnytskyi

## Number 15 in MCI

### General information

Kropyvnytskyi is the administrative center of the Kirovohrad Region and a city of regional significance.

The city is also the administrative center of the Kropyvnytskyi district, although it is not part thereof.

The city of Kropyvnytskyi is divided into two districts: Podilskyi and Fortechnyi. Nove Town falls within the jurisdiction of the Fortechnyi District. The districts of the city have their own district councils: the Podilskyi and Fortechnyi District Councils in the City of Kropyvnytskyi.<sup>67</sup>



### Location

The City of Kropyvnytskyi is located in the central part of Ukraine on the banks of the Inhul River.

The city is located in the central part of the Kirovohrad Region. The territory of the city is enclosed by the Kropyvnytskyi District. The region also hosts such cities as Oleksandriia and Znamianka (counting 88 and 52 thousand permanent inhabitants, respectively, as of January 1, 2019).

The closest regional centers are Vinnytsia, Dnipro, Cherkasy, and Mykolaiv.

### Demographic situation

As of January 1, 2019, the permanent population of Kropyvnytskyi (including territories falling within the jurisdiction of the City Council) was 232.3 thousand people. Almost nine thousand inhabitants accounted for the Nove Town falling within the jurisdiction of the City Council. The city is the largest settlement of the Kirovohrad Region. The Kropyvnytskyi City Council accounts for almost a fourth of the Region's population (24.7%).<sup>68</sup>

The population of Kropyvnytskyi, as just in Ukraine generally, is dominated by women (54.5%). There are 834 men per 1,000 women (864 men at the country level). The share of the population aged from 15 to 64 is 68.8% (67.8% at the country level). In total, there are 454 people (475 at the country level) aged 0-14 and over 65 per 1,000 people of working age.

<sup>67</sup> Please see <https://www.kr-rada.gov.ua/rayonni-radi/>.

<sup>68</sup> Here and below in the report, the statistical data of the Kirovohrad Region Statistics Headquarters of the State Statistics Service of Ukraine are used.

A natural decline of the population was observed in Kropyvnytskyi in 2018 (-6.2 per 1,000 inhabitants). The death and birth rates reached 14.1 and 7.9, respectively.

## Development of entrepreneurship

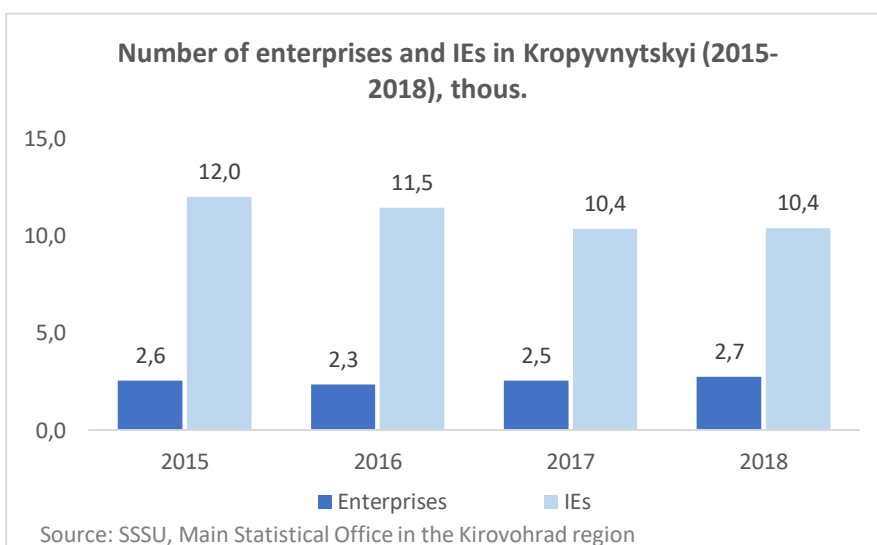
### Key structural business statistics in Kropyvnytskyi in 2018

|                    | Absolute figures   |                          |                  | Relative figures      |                           |                         |
|--------------------|--------------------|--------------------------|------------------|-----------------------|---------------------------|-------------------------|
|                    | Number of entities | Employment, thsd persons | Turnover, UAH bn | Share in total number | Share in total employment | Share in total turnover |
| Large enterprises  | 1                  | c                        | c                | 0.01%                 | c                         | c                       |
| SMEs               | 13126              | c                        | c                | 99.99%                | c                         | c                       |
| Medium enterprises | 127                | c                        | c                | 0.97%                 | c                         | c                       |
| Small enterprises  | 2613               | 12.2                     | 14.2             | 19.91%                | 19.9%                     | 27.6%                   |
| In which           |                    |                          |                  |                       |                           |                         |
| micro              | 2277               | 5.8                      | 4.7              | 17.35%                | 9.4%                      | 9.2%                    |
| IEs                | 10386              | 19.6                     | 4.8              | 79.12%                | 31.9%                     | 9.4%                    |
| Total              | 13127              | 61.6                     | 51.6             | 100.00%               | 100.0%                    | 100.0%                  |

Source: Own calculations based on the data of the Kirovohrad Region Statistics Headquarters of the State Statistics Service of Ukraine

### Number of business entities

In 2018, Kropyvnytskyi counted 13.1 thousand small and medium-sized enterprises (including 127 medium-sized enterprises, 2.6 thousand small enterprises and 10.4 thousand individual entrepreneurs) but only one large-scale enterprise. Given such a negligible quantity of large business entities, information on other key performance indicators of large and medium-sized enterprises (by the number of employees and the volumes of sales) is confidential.



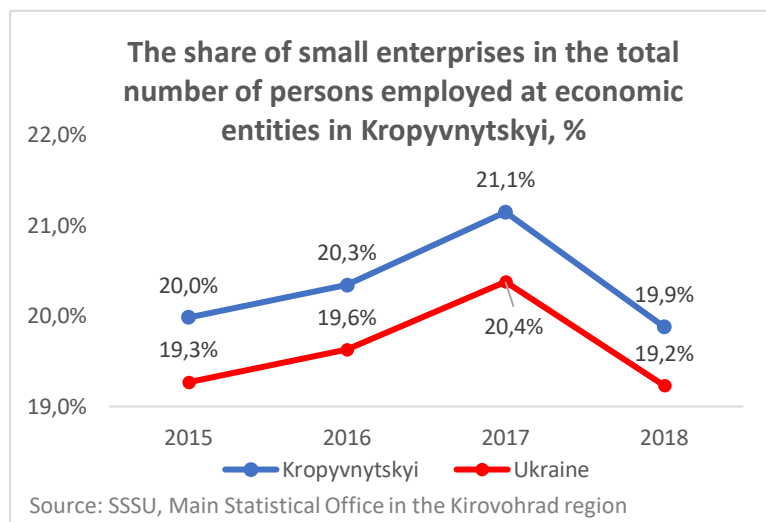
At the end of 2018, 20.9% of the business entities were registered as legal entities, which is somewhat higher than Ukraine's average (19.3%).

Kropyvnytskyi is ranked number 20 for the number of business entities among the cities selected for the survey. The city accounts for only 36% of the total number of business entities in the Kirovohrad region, which may be due to (i) a low business activity in the city and (ii) the presence of other rather big cities (Oleksandriia and Svitlovodsk). There were only 553 SMEs per 10,000 inhabitants in Kropyvnytskyi (ranked number 22 among the cities selected for the survey), which may serve as evidence of low business activity in

the city compared to the other cities.

In 2018, the number of SMEs in Kropyvnytskyi increased by 1.9% compared to 2017, which corresponds to the country's average (1.9%). This is primarily due to an 8.1% growth in the quantity of small businesses (the country's average reached 5.1%). In addition, the number of medium-sized enterprises increased by 10.4% (compared to 7.5% at Ukraine's level). However, the number of individual entrepreneurs demonstrated just a 0.3% growth, which is less than the country's average (1.2%)

## Employment



In 2018, the Kropyvnytskyi-based business entities employed 61.6 thousand persons, which is 4.8% higher than in 2017 (the corresponding country's average is 4.8%). The city provides 41.9% of the total employment at business entities in the Kirovohrad Region.

For the reasons of confidentiality of data associated with the low quantity of large business entities, information on the number of people employed at large and medium-sized enterprises is confidential.

Available data, however, show that nearly a half of jobs is accounted for small businesses. In particular, individual entrepreneurs provided 31.9% of the total jobs, while 19.9% of the persons employed work for small enterprises.

Compared to 2017, the number of persons employed by small businesses decreased by 1.5%, which approximately corresponds to the country's average (1.1%). However, the quantity of persons employed by individual entrepreneurs grew by 2.3 thousand people or 13.4% (10.5% at the country level).

Statistics show that the Kirovohrad Region demonstrates, in general, a somewhat higher unemployment rate among working age population than Ukraine as a whole. In 2019, the corresponding indicator for the region was 11.3% compared to 8.6% at the country level. In late 2019, 1,248 people were officially unemployed in Kropyvnytskyi, while there were only 1,022 vacant jobs. Accordingly, the registered unemployed persons created a load of nearly 1 person per a vacant job. However, the quarantine measures and crisis developments caused by the COVID-19 pandemic may deteriorate the employment situation in the city in 2020.

## Turnover

At the end of 2018, the turnover of goods and services by business entities in Kropyvnytskyi reached UAH 51.6 billion based on current prices. Compared to 2017, the real growth (i.e. adjusted for inflation) of turnover reached 9.2%, which is 1.1 percentage points higher than Ukraine's average (8.1%). The business entities of the city accounted for nearly a half (46.5%) of the total turnover in the Kirovohrad Region.

For the reasons of confidentiality of data associated with the low quantity of large business entities, information on the turnover of large and medium-sized enterprises in Kropyvnytskyi is confidential. Available data, however, show that small enterprises account for more than a fourth (27.6%) of turnover (17.7% at the country level). The share of individual entrepreneurs accounts for 9.4% (7.6% at the country level).



In 2018, the turnover of products by small enterprises of Kropyvnytskyi reduced by 1.2% compared to 2017 (compared to a 7.5% increase at the country level). However, the turnover of individual entrepreneurs in the city increased by 7.9% (compared to Ukraine’s average of 13.5%).

### *Sales of industrial products*

No statistical information on key performance indicators of enterprises in terms of the types of their economic activities is available at the level of cities of regional significance and districts. However, there are statistical data on the sales of industrial products by the types of activities. Such information allows us to determine key industries of Kropyvnytskyi.

According to the data provided by the Kirovohrad Region Statistics Headquarters, the sales of industrial products in Kropyvnytskyi reached UAH 14.3 billion in 2018. 66.3% or UAH 9.5 billion of those sales were accounted for the processing industry. In particular, 33.5% or UAH 4.8 billion were generated by the manufacture of foodstuffs, beverages, and tobacco products<sup>69</sup>. The manufacture of chemicals and chemical products come second in the processing industry (2.8% or UAH 0.4 billion). Other important types of activities include machinery (except for maintenance and installation of machinery and equipment), which is accounted for almost UAH 0.4 billion or 2.7%, and the manufacture of wood products and paper and the printing industry (UAH 0.3 billion or 2.1%).

### *Capital investments*

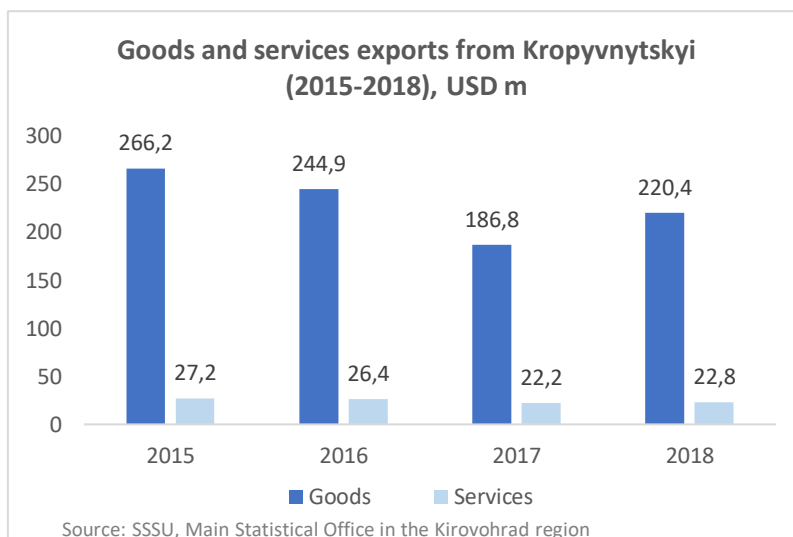
In 2018, Kropyvnytskyi accounted for more than UAH 2.5 billion of capital investments, which corresponds to more than a third (35.5%) of the total capital investments in the Kirovohrad Region. At the end of 2018, the amount of capital investment per capita was approximately UAH 10,943, which is somewhat lower than the country’s average of UAH 13,746. In addition, the volume of capital investments per capita in Kropyvnytskyi is ranked only number 17 by its amount among the cities selected for the survey.

<sup>69</sup> Data by types of activities are generated based on homogeneous products.

## Exports

According to the State Statistics Service of Ukraine, Kropyvnytskyi's exports of goods amounted to nearly USD 220.4 billion in 2018, which is 18% higher than in 2017. Kropyvnytskyi was ranked number 11 on this metric among the surveyed cities in respect of which relevant statistical data were available.

On the other hand, the exports of services increased by 2.7% and reached USD 22.8 m (ranked number 16).



An analysis of the foreign trade structure of Kropyvnytskyi has demonstrated that USD 133.7 m or 60.7% of the exports in 2018 was provided by agricultural and food products. In particular, more than a third of exports (36.9%) accounted for fats and oils of animal or plant origin. Another third of the exports (29.8%) accounts for machinery products, including products specified in Section VXI of the Ukrainian Classification of Goods in Foreign Trade (UKTZED) (Machinery, equipment and mechanisms, electrical equipment). Textile materials and products (2.5%) and wood and wood products account only for insignificant shares of the exports.

## Foreign direct investments

As of December 31, 2018, the city of Kropyvnytskyi accounted just for USD 32.9 m of foreign direct investments (equity). The specified amount was USD 5.7 m or 21% higher than at the beginning of 2018. This is one of the highest growth rates among the cities covered by the survey. However, the total volume of direct investments in the city is lower compared to most other regional centers. There was USD 141.4 of FDI per capita in Kropyvnytskyi as of the end of December 2018.

It should be noted that in general the Kirovohrad Region is ranked number 23 by the volume of direct investments among all the regions of Ukraine. In addition, at the beginning of 2018, 38.8% of the region's total investments were concentrated in Kropyvnytskyi.

## Safety and comfort

The results of other studies allow us to look at the level of safety and comfort of living in the selected cities based on the assessments of their inhabitants. These factors are important for understanding the overall situation in the city. In addition, it is possible to compare those research studies with some results of MCI.

According to the study titled "Sixth Annual Ukrainian Municipal Survey"<sup>70</sup>, the city of Kropyvnytskyi was ranked number nine on the Quality of Public Goods and Services Index with a score of 3.0 points (on a scale from 1 (terrible) to 5 (excellent)). This points to a relatively high share of locals satisfied with the level of comfort in the city. Kropyvnytskyi slightly falls behind its opponents in health services, industrial

<sup>70</sup> The survey was conducted by the Sociological Rating Group on behalf of the International Republican Institute's Center for Insights in Survey Research; The survey was funded by the United States Agency for International Development. Please see [http://ratinggroup.ua/research/regions/shestoy\\_vseukrainskiy\\_municipalnyy\\_opros.html](http://ratinggroup.ua/research/regions/shestoy_vseukrainskiy_municipalnyy_opros.html).



development, and roads, but is one of the leaders in transport infrastructure services. The city is also ranked number eight for education services (universities, colleges, and technical schools).

As part of the same study, according to its residents Kropyvnytskyi is one of the least secure cities in Ukraine. The value of the corresponding Index for Kropyvnytskyi is 1.4 (on a scale from 0 to 3, where 0 means “I feel completely unsafe” and 3 means “I feel completely safe”). The city is ranked number 19 on this metric among the 24 cities covered by the survey. Only 33% of the respondents reportedly felt rather safe or completely safe at night, while 52% of the respondents said they felt rather or completely unsafe.

## Results of the “Municipal Competitiveness Index” in Kropyvnytskyi

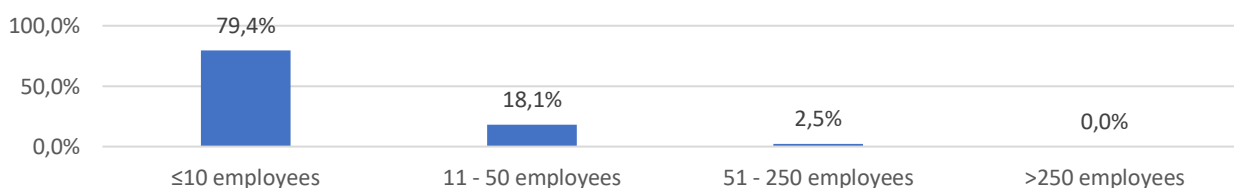
### Description of the survey sample

204 business entities took part in the survey in Kropyvnytskyi. These were 131 (64.2%) enterprises (legal entities) and 73 (35.8%) individual entrepreneurs (PEs). When analyzing the answers, the data array was weighed by the types of business entities (68.0% of legal entities and 32.0% of PEs) to ensure that it was compliant with the parameters of the target sample.

### Size of the surveyed business entities

Most respondents (79.4%) were micro businesses — business entities employing from 1 to 10 people. 18.1% were small entities with 11 to 50 employees. Medium-sized entities (from 51 to 250 employees) account for 2.5% of the respondents, while large entities (more than 250 employees) account for 0%.

Surveyed businesses by size (Kropyvnytskyi), %



### Industry and type of activity

The surveyed business entities in Kropyvnytskyi operate in various sectors of the economy. 30.9% of surveyed business are engaged in trade (including in wholesale and retail, repair of motor vehicles). 8.8% of the respondents are employed in the industry, 12.7% – in the construction, and 3.9% – in the agriculture. 43.6% of the respondents operate in the service industry. 6.9% of the respondents provide information and communication services, while professional services are provided by 6.9% of the respondents. 29.9% of the respondents provide other services (businesses operating in the transport, arts, sports, education, health care, finance, and other service-related sectors).

Surveyed businesses by sector (Kropyvnytskyi), %



### Year of registration

Most of the surveyed business entities were registered earlier than in 2017 (73.5%). In 2018-2019, 26.5% of the respondents were registered.

### Age and gender breakdown of business owners and managers

According to the survey findings, 65.4% of the Kropyvnytskyi-based businesses are owned by men, while the remaining 34.6% are owned by women. In addition, the share of men owning legal entities is even higher (73.0% of men vs. 27.0% of women).

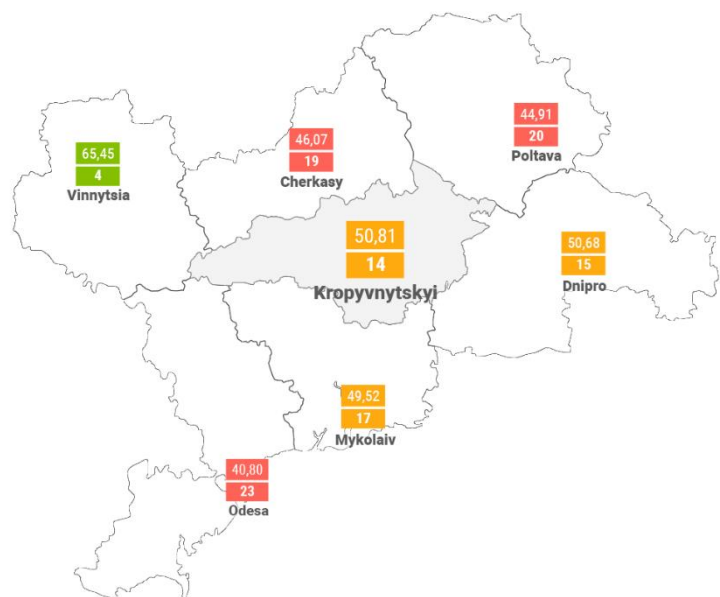
Men run 73.5% of legal entities, while the share of female managers accounts for 26.5%. When it comes to PEs, who are owned and run by the same person, women (57.9%) somewhat outweigh men (42.1%). Men run 63.4% of all the business entities, while the share of female managers accounts for 36.6%.

The average age of business owners in Kropyvnytskyi is 42.1 years (the country's average is 42.8 years). However, individual entrepreneurs are on average two years younger than the owners of legal entities (40.0 years vs. 42.8 years) in Kropyvnytskyi.

### Municipal Competitiveness Index: Results of Kropyvnytskyi

According to the survey findings, Kropyvnytskyi was ranked number 14, scoring 50.81 points as part of MCI 2019/2020. Thus, Kropyvnytskyi is classified among cities with average MCI scores.

A geographical comparison between the MCI index for Kropyvnytskyi and those for its geographical neighbors has shown that the cities classified under three different MCI score groups are located nearby. In particular, Odesa (number 23), Poltava (number 20), and Cherkasy (number 19) are classified under the low MCI score group. On the other hand, Vinnytsia is one of the leaders and ranked number four. The city leads Kropyvnytskyi by almost 15 points.



The average score of the city is due to different scores obtained on different components (sub-indices) of the rating.

The strongest components are:

- Starting a business (number 1)

The weakest components are:

- Development resources (number 24)
- Transparency and data openness (number 19)

- Support of innovations (number 19)

### ***1. Starting a business***

Kropyvnytskyi scored 8.52 points on Component 1 titled “Starting a Business.” This is the best score among all the cities. Prompt registration and permit obtaining procedures are the key strengths of the city.

In particular, according to the survey data, the registration of a business in Kropyvnytskyi in 2018-2019 took less time than on average in the country (5.5 days compared to 6.1 days). On the other hand, it took on average only 2.7 days to have changes entered into the register, which is approximately one day shorter than all the cities’ average of 3.6 days.

In Kropyvnytskyi, only 5.11% of the respondents who registered a business in 2018-2019 reported problems and barriers during the registration (all the cities’ average is 8.8%). In addition, 77.3% of the respondents received necessary advice during the registration, which is 6.6 p.p. higher compared to the country’s average of 70.7%. However, it took 34.3 days to launch a business (from the date of submission of documents for registration to the date of the first sale of goods or services) in Kropyvnytskyi, which is more than two days longer than on average in the country (32.1 days).

A sufficient quantity of business registrars can be one of the reasons for its high ratings on the business registration component. There are approximately 13 registrars per 10 thousand business entities in Kropyvnytskyi (including government authorities, local self-government authorities and notaries public), which is the highest index among the cities surveyed.

It should be noted that problems related to lengthy procedures for obtaining certain permits are less tangible in the city. The obtaining of construction permits, and registrations took, on average, 37.2 days in the country and only 22.8 days in Kropyvnytskyi, which is one of the best indices among the cities covered by the survey. However, it took more time in Kropyvnytskyi to obtain a declaration of conformity to the requirements of the fire safety legislation in respect of a business entity’s facilities (14.8 days compared to all the cities’ average of 11.8 days).

### ***2. Access to public property***

Kropyvnytskyi scored 4.8 points and was ranked number twelve on the component (sub-index) titled “Access to public property.” Results demonstrated by Kropyvnytskyi in respect of individual indices mostly correspond to the average results for all the cities. For instance, 29.7% of the respondents reported that they had documents certifying the ownership / lease of the land where their business operates (compared to the country’s average of 30%). This makes 48% of the respondents believing that land documents are their concern (compared to the country’s average of 46.8%). However, it took on average 81.9 days to obtain documents certifying the ownership / lease of the land in Kropyvnytskyi in 2018 to 2019, which is almost nine days longer than the average for all the respondents (72.4 days).

Only 16.8% of the respondents reported the accessibility of information on available community-owned land plots, which can be provided for use or used for construction, etc (18.1% of the total respondents). In addition, only 27.1% of the respondents indicated that information on the municipal real property (including non-residential premises) was available (29.2% of the total respondents).

### ***3. Transparency and data openness***

Kropyvnytskyi was ranked number 19 and scored 3.71 points on the “Transparency and data openness,” and, therefore, is one of the outsiders on this component. In Kropyvnytskyi, the respondents expressed a lower — compared to the other cities — opinion of the access to information on local budget, local regulations, and public procurements.

In particular, the access to information on public procurements got the top score in Kropyvnytskyi with 15.8% of the respondents assigning 'good' and 'excellent' rates, compared to 17.3% of all the respondents surveyed. The access to information on local regulations was assessed positively by 9.3% of the respondents surveyed in Kropyvnytskyi compared to, on average, 13.9% of the total respondents in all the other cities. On the other hand, the access to information on local budget was positively assessed by only 7.0% of the respondents (10.2% among all the respondents).

#### ***4. Compliance cost***

The compliance cost is one of the problematic components for Kropyvnytskyi. The city was ranked only number 15 and scored 6.73 points on this component. The city's score was determined by high (compared to the other cities) rates assigned by the respondents in respect of inspections conducted by the city authorities.

In Kropyvnytskyi, entrepreneurs spend on average 3.1 days for compliance with local regulations, which is shorter than the country's average (four days). 2.8% of an annual income is, on average, spent on compliance with the requirements of local regulations in Kropyvnytskyi, which is also less than 3.7% spent on average by all the respondents.

The findings of the survey show that entrepreneurs in Kropyvnytskyi are quite frequently visited by local inspectors (0.86 times per year on average compared to the country's average of 0.7 times per year). Consequently, the average time spent on communications with the inspectors was 5.3 days, which is almost in line with the country's average (five days).

#### ***5. Taxes and duties***

Component (sub-index) 5 "Taxes and duties" is one of the weaknesses of Kropyvnytskyi. The city was ranked number 16 and scored 5.23 points on this component. Such score of Kropyvnytskyi was due to a combination of such factors as rather high expenses for payment of taxes and significant time spending for administration of taxes and duties, a somewhat higher local tax burden, and the availability of local tax exemptions.

As part of the survey in Kropyvnytskyi, the respondents said that they spent, on average, 27.4% of their annual income on taxes and duties (including USC), which is somewhat more compared to the average for all the cities (26.8% of the annual income). Entrepreneurs in Kropyvnytskyi spent, on average, 63.6 days on the administration of taxes and duties, which is much longer compared to the average for all the cities (59 days).

22.7% of the respondents in Kropyvnytskyi said that local taxes are a barrier to their business, although the average for all the cities was 20.4%. In addition, 4.3% of the respondents in Kropyvnytskyi reported being exempt from local taxes and duties in 2018-2019, which is one of the highest scores among the cities covered by the survey (the average for all the respondents is 3.6%).

#### ***6. Informal payments and corruption***

According to the survey findings, Kropyvnytskyi was ranked number 11 and scored 4.96 points on Component (sub-index) 6 titled "Informal payments and corruption." The city's score was due to such factors as a higher than average prevalence of "informal payments" and a higher than average awareness of entrepreneurs about existing anti-corruption measures taken by the city.

In particular, as part of Dimension 1 "Bribes / Gifts" 10.8% of the respondents in Kropyvnytskyi reported situations related to "informal payments" when approaching the municipal officials for any issues concerning the doing of business in 2018-2019. On average, 9.9% of the respondents faced such situations. On the other hand, as part of Dimension 2 "Anti-corruption efforts," 33.2% of the respondents were informed about the

implementation of specific anti-corruption measures by the city authorities (open budget, digital reception, municipal anti-corruption program, etc.), while the average for all the cities surveyed was 31.8%.

### ***7. Security of operating a business***

Kropyvnytskyi was ranked number 11 among the cities covered by the survey and scored 5.71 points on Component (sub-index) 7 titled “Security of operating a business.” This score of Kropyvnytskyi is due to a rather high — compared to the other cities — percentage of shady businesses and the percentage of those who reportedly suffered from criminal acts.

According to the survey, 48.6% of the respondents in Kropyvnytskyi believe that competitors run shady businesses, which is three pp higher than the country’s average and corresponds to one of the worst indices (45.1% at the country level). 2.5% of the total respondents experienced attempts of illegal takeovers at the country level in 2018-2019. In Kropyvnytskyi, the value of this index is one of the highest in the country and makes 3.9%.

16.1% of the respondents in Kropyvnytskyi reported that they suffered losses as a result of extortions, thefts, robberies, or acts of vandalism or arson in 2018-2019, which is two pp higher compared to the country’s average of 14.3% of the respondents. In addition, entrepreneurs estimated loss they suffered as a result of similar criminal acts at 6.0%, which is one of the lowest indices in the case at hand (10.8% at the country level).

In Kropyvnytskyi, businesses spend, on average, 2.3% of their annual income on security / protection, which is somewhat lower compared to the country’s average of 2.7% of the annual income.

### ***8. Leadership of municipal authorities***

Kropyvnytskyi was ranked number 11 and scored 4.77 points on Component (sub-index) 8 titled “Leadership of municipal authorities.” The city’s overall score is due to its average ratings on two dimensions of which the sub-index consists — “Business development support” and “Public-private dialogue.”

Kropyvnytskyi scored 5.07 points and was ranked number 14 on the “Business development support” dimension. The Kropyvnytskyi-based entrepreneurs are, on average, more pessimistic about the attitude of representatives of the municipal authorities towards private businesses, compared to the respondents in the other cities. 19.9% of the respondents believe that the attitude of the municipal authorities towards businesses is “very good” or “good,” which approximately corresponds to the country’s average of 20%. However, just 33.1% of the respondents agree that the municipal authorities support start-ups (compared to the average of 38.3% for all the cities), and only 32.2% indicate that the municipal authorities support existing businesses (compared to the average of 35.5% for all the cities). The survey results are also complemented by “hard data” on the activities of the city council. According to the “hard data,” Kropyvnytskyi scored 7 of 10 points. In particular, the city does not offer tax incentives (in respect of the unified tax) necessary for the development of certain types of activities, which would point to a higher proactivity of the municipal authorities to support new and existing businesses. In addition, the official website of the city council does not provide sufficient information on public procurements. The absence of defined city boundaries can be another problem in Kropyvnytskyi.

The score obtained on the “Public-private dialogue” dimension shows that businesses face certain problems in their communications with the authorities in Kropyvnytskyi. On this dimension, the city was ranked number nine and scored 4.46 points. 7.9% of business representatives in Kropyvnytskyi believe that they have “extensive” or “very extensive” opportunities to participate in the development of local documents (strategies, plans, programs, etc.), while the average for all the cities surveyed is only 6.5%. However, 5.8% of the respondents indicate that the city always or often holds consultations with entrepreneurs before

passing new or amending existing regulations that may affect businesses (compared to 7.4% on average for all the cities).

### **9. Development resources**

Kropyvnytskyi was ranked number 24 and scored 3.22 points on Component (sub-index) 9 titled “Development resources.” The city’s assessment is based on the results of three dimensions that form a single component. Those dimensions are Human resources, Financial resources and infrastructure, and Business support infrastructure.

The city was ranked number 24 and scored 3.54 points on **Dimension 1 (Human resources)**. An analysis of individual indicators of this dimension has demonstrated that only 3.4% of the respondents in Kropyvnytskyi rate the quality of the local workforce as “excellent” or “good,” which corresponds to the lowest rating among the cities surveyed (the average for all the respondents surveyed is 7.6%). In addition, Kropyvnytskyi also has the lowest assessments of vocational education in the local labor market, which correspond to only 4.9% of the respondents (compared to 10% of all the respondents). Accordingly, just as in the other cities, an insignificant percentage of business entities in Kramatorsk rate high the available workforce.

However, 59.0% of the respondents are of the opinion that insufficient workforce training is a serious barrier to doing business (the country’s average is 60.7%). 69.8% of the respondents reported that they face a lack of workforce (70% of all the respondents surveyed). It follows that the lack of qualified workforce is the third most severe problem faced by entrepreneurs in Kropyvnytskyi, according to the rating of barriers to doing business (as reported by 30.4% of the respondents).

The analysis of the number of workforce in the city is supplemented by statistical data. In particular, there were only 7.8 vacant jobs per 100 businesses in Kropyvnytskyi at the end of 2019, which is the second highest index among the cities surveyed (3.6 vacant jobs on average).<sup>71</sup> This index may point to a high demand for the workforce in the city. In addition, the share of working age population (aged 15-64) in Kropyvnytskyi is 68.8% (as of January 1, 2019), which is one pp higher than the country’s average of 67.8%<sup>72</sup>. This is one of the lowest percentages among the cities covered by the survey. Thus, the problem of population aging may be more tangible in Kropyvnytskyi compared to the other cities.

The city was ranked number 21 and scored 3.42 points on **Dimension 2 (Financial resources and infrastructure)**. According to the survey findings, only 1.2% of the respondents at the country level received financial support from municipal authorities in 2018-2019. When it comes to individual cities, the share of such respondents in Kropyvnytskyi accounts just for 0.5%, which is one of the lowest percentages among all the cities surveyed. However, 81.6% of the business entities surveyed in Kropyvnytskyi believe that the lack of financial resources is a serious barrier to doing business (the average for all the cities is 77.8%). This is the third highest indicator among the cities covered by the survey.

Data on the city’s budget expenditures complete the picture of financial resources allocated to support businesses in the city. In 2019, actual spending on support for small and medium-sized enterprises in the city reached only UAH 72,000 per 10,000 businesses.<sup>73</sup> It should, however, be noted that, in general, SME support

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<sup>71</sup> Sources for calculations: 1) Number of vacancies: The situation in the labor market and the results of activities of the state employment service. Data on the page of the Kirovohrad Region Employment Center, <https://kid.dcz.gov.ua/analytics/65> 2) Number of businesses: According to the Kirovohrad Region Statistics Headquarters

<sup>72</sup> According to the Kirovohrad Region Statistics Headquarters of the State Statistics Service of Ukraine

<sup>73</sup> Reports on the implementation of local budgets (expenditures under program classification code 7610 - Promotion of small and medium entrepreneurship), as well as responses of the city councils to requests for public information were

expenditures are low or non-existent in most of the cities. However, a higher amount of expenditures or even the existence of such support in general may point to a higher level of leadership of municipal authorities in relation to business support

When it comes to the infrastructure, the entrepreneurs surveyed in the cities covered by the study had reportedly a different experience in relation to connection to electricity grids. In Kropyvnytskyi, connection to the electricity grid took on average 72 full days from the date of an application until the date of actual connection. The corresponding country's average was 85 days. It follows that it is, on average, less complicated to have a business connected to the electricity grid in Kropyvnytskyi than in any of the other cities surveyed.

Kropyvnytskyi was ranked only number 22 on **Dimension 3 (Business support infrastructure)**. According to the survey data, 11.7% of the respondents personally received business support services from the municipal authorities (information, advice, training, etc.), which is higher than all the cities' average (11%). At the same time, 46.2% of them rated such services as "good" and "excellent" (48.6% of the total respondents).

29.2% of the business entities surveyed indicate the existence of business support centers in Kropyvnytskyi, which is lower than the average for all the cities surveyed (32.6%). In addition, according to the 'hard data,' there were no business support infrastructure facilities in the city at the end of 2019, which were created with the participation of the city authorities. Thus, entrepreneurs' awareness of business support centers may relate to other business support infrastructure facilities existing in the city.

35.9% of the respondents in Kropyvnytskyi are aware of the activities of business associations and business clubs in their city (45.9% of the total respondents surveyed). This is the lowest index among all the cities covered by the survey. Only 9.4% of the surveyed business entities are members of such organizations, which is lower than the percentage recorded for all the respondents surveyed in general (11.5%).

### ***10. Support of innovations***

The city of Kropyvnytskyi was ranked number 19 and scored 3.83 points on Component (sub-index) 10 titled "Support of innovations."

17.77% of the respondents in the city reported that their businesses interacted with research institutions or technology companies in 2018-2019, which is lower than the average for all the cities surveyed (18.9%). Businesses in Kropyvnytskyi are, however, more satisfied with technology transfer compared to the average for the other respondents. 8.2% of the respondents pointed out that the related needs (the transfer of patents for inventions, etc.) are "met to a significant extent" or "fully met" (compared to the country's average of 8%)

The respondents in Kropyvnytskyi give a somewhat low assessment of the local government's support for local innovation programs (funded from the local budget) with the city scoring 1.88 of five points compared to the average score of 1.91 for all the cities. In addition, Kropyvnytskyi introduced new technologies, solutions, or products less frequently than all the other cities on average in 2018-2019 (36.37% compared to 40.2%). Further, 91% of the surveyed enterprises and individual entrepreneurs reported that they belonged to clusters. This is lower than the index recorded for all the cities in general (2.1%). In general, all the factors provide a low level of satisfaction with support for innovations in Kropyvnytskyi among entrepreneurs.

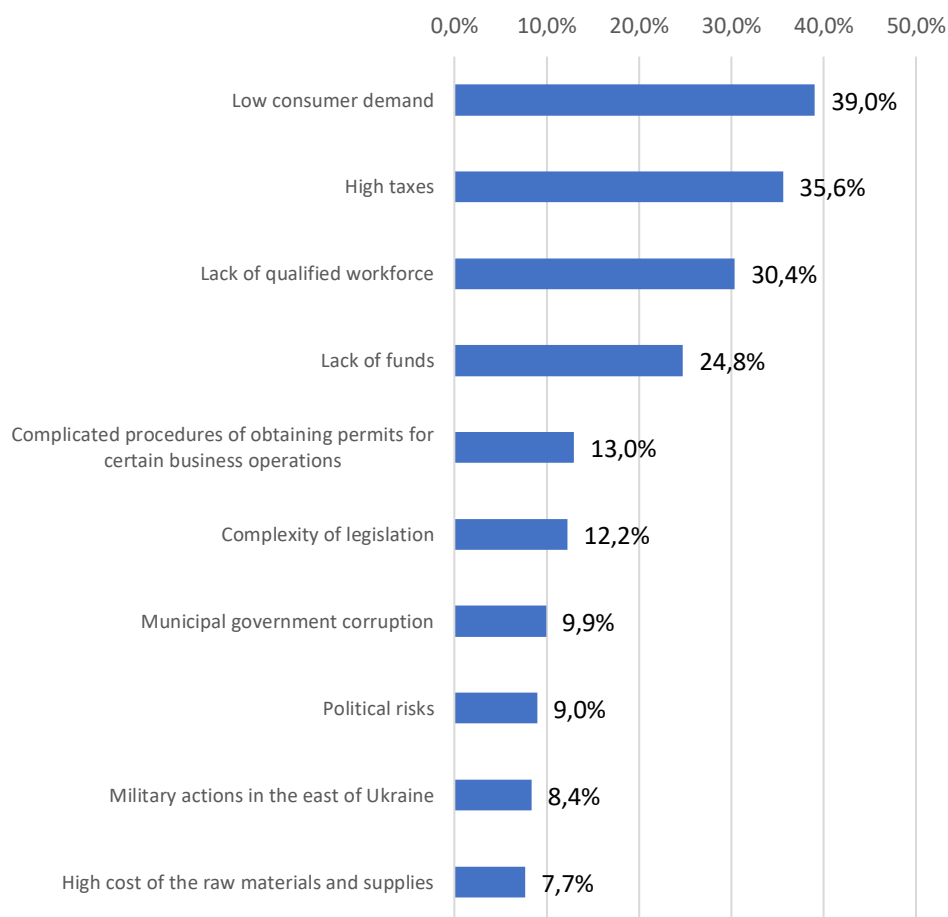
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used. For some cities, information on expenditures was updated through telephone interviews with the employees of executive authorities of the city councils.

### *Barriers to doing business*

The surveyed business entities named the main barriers they face when doing business in Kropyvnytskyi. Three most important barriers included such factors as the lack of qualified workforce, high taxes, and low consumer demand. Each of these barriers was reported by nearly a third of the respondents (39.0%, 35.6% and 30.4%, respectively). It follows that the problem associated with low demand is more tangible in Kropyvnytskyi and, therefore, it is perceived a more serious compared to high taxes although it follows the latter in the rating of barriers for all the respondents.

**TOP-10 barriers to doing business in Kropyvnytskyi, %**

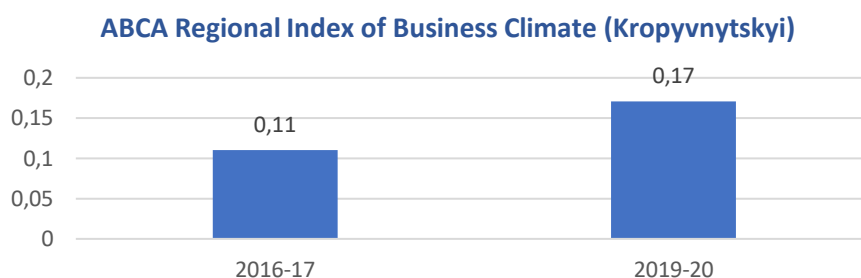


A fourth of the respondents perceive the lack of funds as a barrier (24.8%). Almost half as many entrepreneurs complain about complex permit obtaining procedures and the complexity of legislation (13.0% and 12.2%, respectively). The problems of municipal government corruption and political risks are rated similarly (9.9% and 9.0%, respectively). The least serious, according to the respondents, are the problems of military actions in the East of Ukraine (8.4% of the respondents surveyed) and high cost of raw materials and supplies (7.7%).

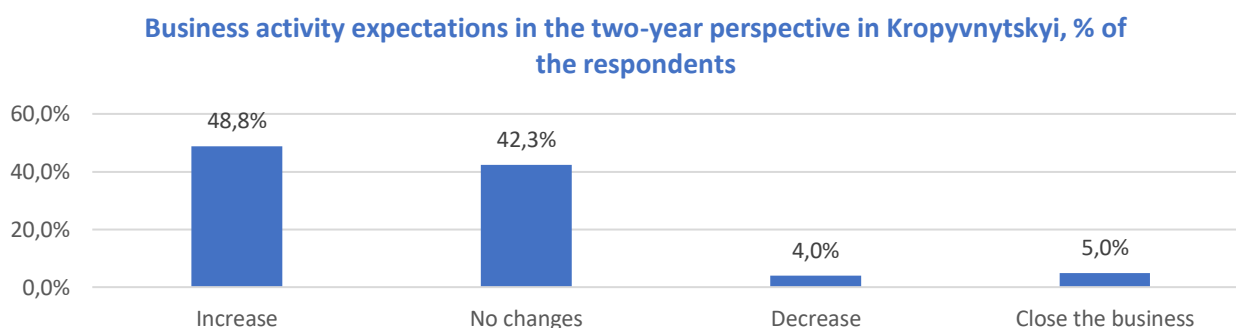
### *Expectations and assessments of the business climate and economic conditions in Kropyvnytskyi*



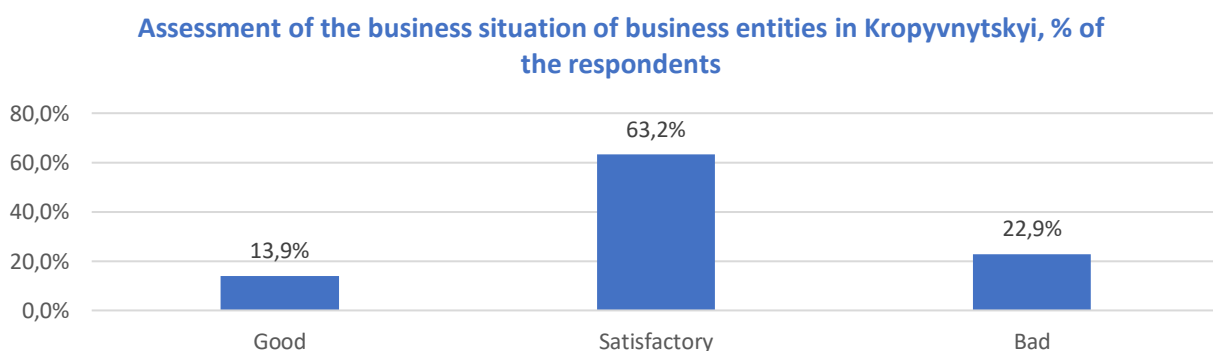
**Regional SME Business Climate Index.** ABCA SME Business Climate Index in Kropyvnytskyi is 0.17 (the city was ranked only number 16 among all the cities covered by the survey). This is more than in 2017 (0.11), which indicates an improvement in perception of the business climate. This is in line with the all-Ukrainian trend.



**Long-term expectations for business activity.** Business in Kropyvnytskyi has optimistic long-term development plans for the next two years. Slightly less than a half of the respondents (48.8%) reportedly plan to expand their business, and 42.3% want to stay at the current level. At the same time, only 4% of the respondents plan to reduce their business, and 5% want to close it. The balance index<sup>74</sup> is +0.40 (+0.45 at the country level).



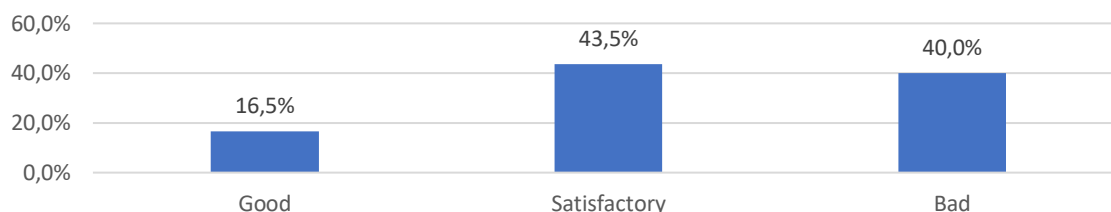
**Assessment of the financial and economic situation of business entities.** In Kropyvnytskyi, the majority of the business entities surveyed (63.2%) assessed their current financial and economic situation as satisfactory. The rest of the respondents rated it as good (13.9%) or bad (22.9%) It follows that the negative assessments outweigh the positive ones, and the balance index of the financial and economic situation is -0.09 (compared to the country's average of +0.05).



**Assessment of the current overall economic environment for business activities** Approximately a half of the surveyed business entities (43.5%) assessed the current overall economic environment as satisfactory. 40.0% of the respondents rate the overall economic environment as bad, and 16.1% as good. Thus, the index of assessment of the overall economic environment for business activities is negative (-0.24). However, the value of the index is much lower compared to the country's average (-0.12).

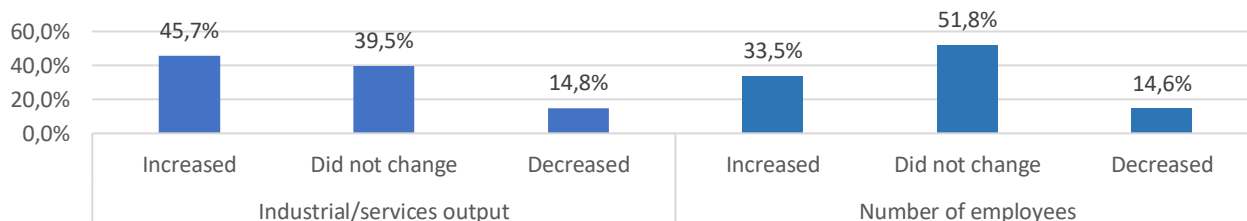
<sup>74</sup> Calculated as the average of all responses on a scale from -1 to 1, where 1 corresponds to a simplification of this procedure, 0 - no change, and -1 to a complication.

### Assessment of the overall economic situation (Kropyvnytskyi), % of the respondents



**Change in the production output over the past two years.** Almost a half (45.7%) of the surveyed business entities indicated that they increased their production or service output in 2018-2019. Approximately a third (39.5%) of the respondents did not change the output while 14.5% of the respondents reduced it. Thus, the index of business activity is +0.31 (at the level of the total respondents surveyed), which reflects the predominance of the share of business entities that expanded their output over the share of those who reduced it.

### Change in the industrial/services output and in the number of employees in Kropyvnytskyi, % of the respondents



**Change in the number of employees of the business entities over the past two years.** More than a half of the surveyed business entities (51.8%) indicated that the number of their employees did not change in 2018-2019. The share of business entities that increased the number of their employees (33.5%) has proved to be more than two times higher than the share of those where the number of employees decreased (14.6%) Thus, the index of changes in the number of employees is +0.19, which is higher than the average of +0.16 for all the cities surveyed.

**Deregulation: changes in administrative procedures** According to the respondents, the procedures for, and conditions of, registration of businesses have been simplified the most in the last two years. 48.6% of the businesses surveyed point out the simplification of business registration in the previous two years. The rest of the respondents did not feel any changes in the procedures, and only 14.6% of the respondents said that, in their opinion, business registration has become more difficult. As a result, the index of change in the registration procedures is +0.34<sup>75</sup>. This is the highest value of the index compared to the other two procedures, which include the passing of inspections and the administration of taxes.

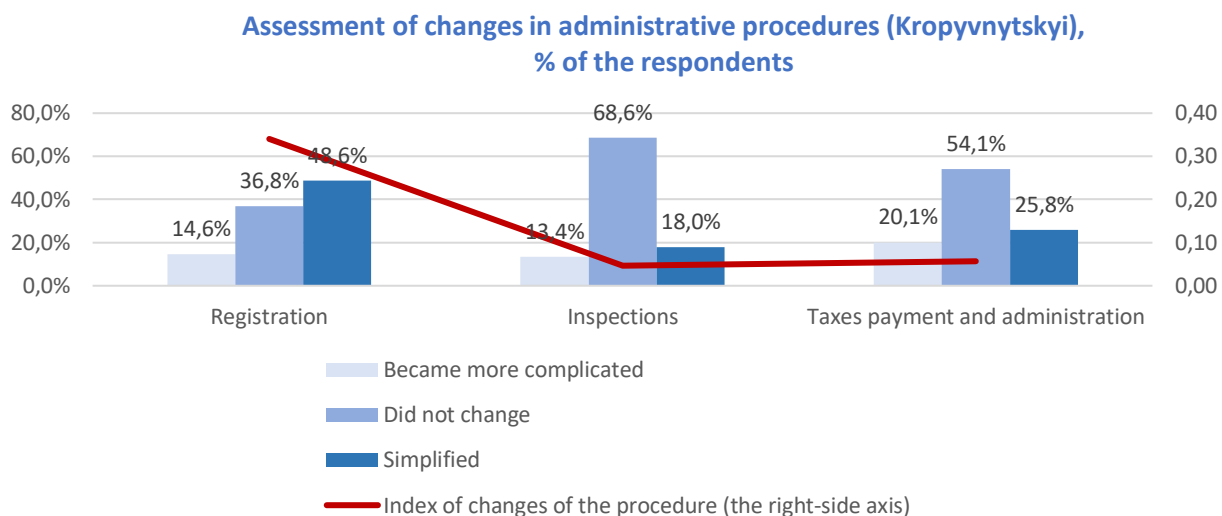
When it comes to the administration of taxes, more than a half of business entities (54.1%) say that they have not noticed any changes in the complexity of this procedure. The rest of the business entities are divided into those for whom the payment of taxes has become easier (25.8%) and those for whom it has become more difficult (20.1%). The index of change in the procedures for administering tax payments is +0.06.

The index of changes in passing inspections is negative (+0.05), too. 13.4% of business managers and individual entrepreneurs claim that inspections have become more difficult. This share is lower than the percentage of businesses, according to which inspections have become easier compared to 2018 (18.0%).

<sup>75</sup> Calculated as the average of all responses on a scale from -1 to 1, where 1 corresponds to a simplification of this procedure, 0 - no change, and -1 to a complication.

However, the largest share of the surveyed businesses (68.6%) did not notice any changes in relation to inspections.

As a result, the value of the general index of changes in administrative procedures, which is calculated as an average value of the indices of change of these three procedures, is +0.15.



## Recommendations

According to the MCI results (subject to the weak components and dimensions) the following key recommendations have been formulated for the city. In addition, the city government should pay attention to recommendations that are common for all the cities in general.

### Component 3. Transparency and data openness

- It is necessary to improve the transparency and openness of data on local budgets, local regulations, and public procurements, in particular, through regularly placing up-to-date information on official websites.

### Component 4. Compliance cost

- Deregulation measures need to be continued at the local level to reduce the time and money costs of businesses on compliance with local regulations.

### Component 5. Taxes and duties

- It is necessary to regularly analyze the burden of local taxes and duties and its impact on local businesses.

### Component 9. Development resources

- It is necessary to increase expenses on support for entrepreneurs to ensure the operation of the business support infrastructure and financial support programs.
- It is necessary to conduct an audit of business support infrastructure facilities to determine their efficiency and development pattern.
- It is necessary to use best practices applied by other cities to organize the operation of business support centers, co-workings, business hubs, clusters, etc.

## **Component 10. Support of innovations**

- It is necessary to provide support for innovative projects as part of business financial support programs in cities.
- It is necessary to promote cooperation between businesses through incorporating clusters on the initiative of, or with support from, the local government.

# Lutsk

## Number 9 in MCI

### *General information*

Lutsk is the administrative center of the Volyn Region and a city of regional significance.

The city is also the administrative center of the Lutskiy District, although it is not part thereof.

In October 2019, the Lutsk City Amalgamated Territorial Community was established. It encompasses the Lutsk City Council (Lutsk) and the Prylutske Village Council (having jurisdiction over the villages of Prylutske, Dachne, Zhabka, and Sapohove).<sup>76</sup>



### *Location*

The City of Lutsk is located in the western part of Ukraine, on the banks of the Styr River. The Volyn Region borders on Poland and Bilorus and, therefore, Lutsk is located near these neighboring states.

The city is located in the southeast of the Volyn Region. The territory of the city borders on the Lutskiy and Kivertsivskiy Districts.

The closest regional centers are Lviv, Ternopil, and Rivne.

### *Demographic situation*

As of January 1, 2019, the permanent population of Lutsk was 213.8 thousand people. The city is the largest settlement of the Volyn Region. It accounts for a fifth of the region's population (20.7%). Lutsk is well ahead of other settlements in the region in terms of the quantity of inhabitants, including such cities as Kovel (68 thousand inhabitants), Novovolynsk (56.1 thousand inhabitants) and Volodymyr-Volynskiy (38.3 thousand inhabitants).<sup>77</sup>

The population of Lutsk, as just in Ukraine generally, is dominated by women (55%). There are 817 men per 1,000 women (864 men at the country level). The share of the population aged from 15 to 64 is 70.2% (67.8% at the country level). In total, there are 424 people (475 at the country level) aged 0-14 and over 65 per 1,000 people of working age.

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<sup>76</sup> Please see <https://decentralization.gov.ua/gromada/1708#>

<sup>77</sup> Here and below in the report, the statistical data of the Volyn Region Statistics Headquarters of the State Statistics Service of Ukraine are used.

A slight natural decline in the population was observed in Lutsk in 2018 (-0.3 per 1,000 inhabitants). The death and birth rates reached 9.9 and 9.6, respectively.

## Development of entrepreneurship

### Key structural business statistics in Lutsk in 2018

|                    | Absolute figures   |                          |                  | Relative figures      |                           |                         |
|--------------------|--------------------|--------------------------|------------------|-----------------------|---------------------------|-------------------------|
|                    | Number of entities | Employment, thsd persons | Turnover, UAH bn | Share in total number | Share in total employment | Share in total turnover |
| Large enterprises  | 7                  | 12.8                     | 30.1             | 0.05%                 | 16.8%                     | 22.3%                   |
| SMEs               | 12985              | 63.2                     | 104.8            | 99.95%                | 83.2%                     | 77.7%                   |
| Medium enterprises | 130                | 27.6                     | 85.2             | 1.00%                 | 36.4%                     | 63.2%                   |
| Small enterprises  | 2712               | 14.3                     | 13.5             | 20.87%                | 18.8%                     | 10.0%                   |
| In which           |                    |                          |                  |                       |                           |                         |
| micro              | 2276               | 5.9                      | 4.8              | 17.52%                | 7.8%                      | 3.6%                    |
| IEs                | 10143              | 21.3                     | 6.1              | 78.07%                | 28.0%                     | 4.5%                    |
| Total              | 12992              | 76.0                     | 134.9            | 100.00%               | 100.0%                    | 100.0%                  |

Source: Own calculations based on the data of the Volyn Region Statistics Headquarters of the State Statistics Service of Ukraine

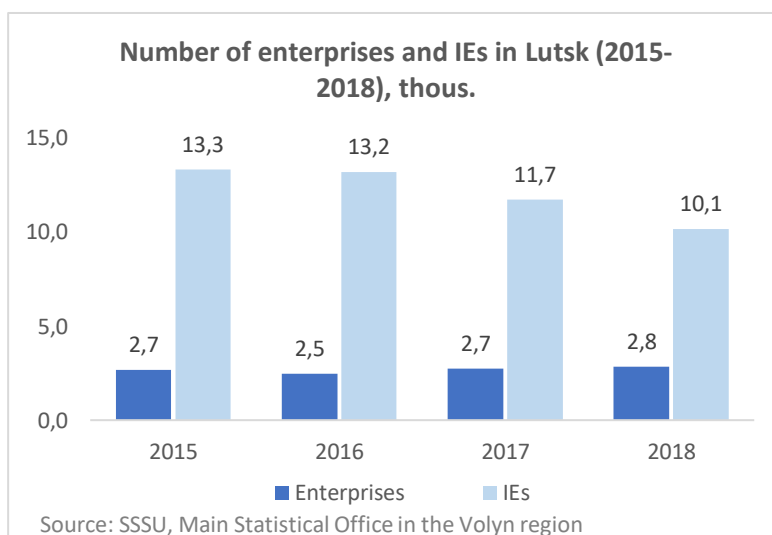
### Number of business entities

In 2018, Lutsk counted almost 13 thousand small and medium-sized enterprises (including 130 medium-sized enterprises, 2.7 thousand small enterprises and 10.1 thousand individual entrepreneurs) but only seven large-scale enterprises. 21.9% of the business entities were registered as legal entities (Ukraine's average is 19.3%), while the others had the status of individual entrepreneurs.

Lutsk is ranked number 21 for the number of business entities among the

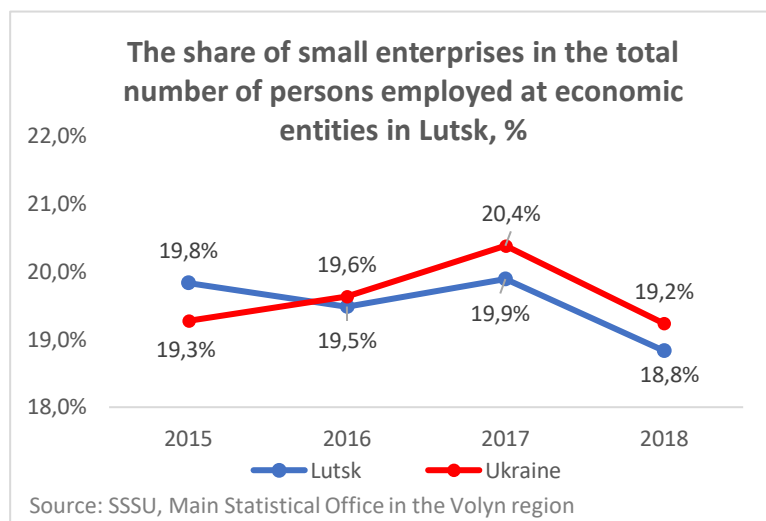
cities selected for the survey. The city plays a pivotal role in the region's economy, but it accounts for only 33.1% of the total number of business entities in the Volyn Region, which is one of the lowest percentages among all regional centers. This situation may be due to a lower business activity, as well as the presence of other rather big cities in the Volyn Region (Kovel, Novovolynsk, and Volodymyr-Volynskiy). There were 600 SMEs per 10,000 inhabitants in Lutsk (ranked number 19 among the cities selected for the survey), which may serve as evidence of low business activity in the city compared to the other cities.

In 2018, the number of SMEs in the city dropped by 10.2% compared to 2017, although their share increased by +1.9% at the country level. This is the highest decrease among the cities selected for the survey. This was due to a significant decline in the number of individual entrepreneurs by 13.5%. In addition, the quantity of



the medium-sized businesses remained unchanged (although it increased at the country level by 7.5%), while the number of small business demonstrated just a 3.9% growth (compared to 5.1% at the country level)

## Employment



In 2018, the Lutsk-based business entities employed 76 thousand persons, which is 5.9% higher than in 2017 (compared to the country's average of 4.8%). The city provides 43.4% of the total employment at business entities in the Volyn Region.

The share of people employed at SMEs in Lutsk reached 83.2% of the total quantity of people employed at all business entities, which is 1.7% higher than the country's average (81.5%). The city's medium-sized enterprises account for

36.4% of the total quantity of persons employed (32.2% at the country level). On the other hand, 28% are employed by individual entrepreneurs (Ukraine's average is 30.2%) and 18.8% are employed by small businesses (Ukraine's average is 19.2%). It follows that almost a half of the persons employed work for small businesses.

Compared to 2017, the number of people employed at SMEs of the city increased by 3.9%, which is 1.8 percentage points less than Ukraine's average (5.7%). Large enterprises also increased the number of their employees by 17.1%. The increase was mainly due to medium-sized enterprises (2.1 thousand persons or 8.1%). An insignificant increase of employment was also recorded for small businesses (0.3%) and individual entrepreneurs (1.3%). However, relative changes in the number of people employed at the country level were +5.8% for medium-sized enterprises, -1.1% for small enterprises and + 10.5% for individual entrepreneurs.

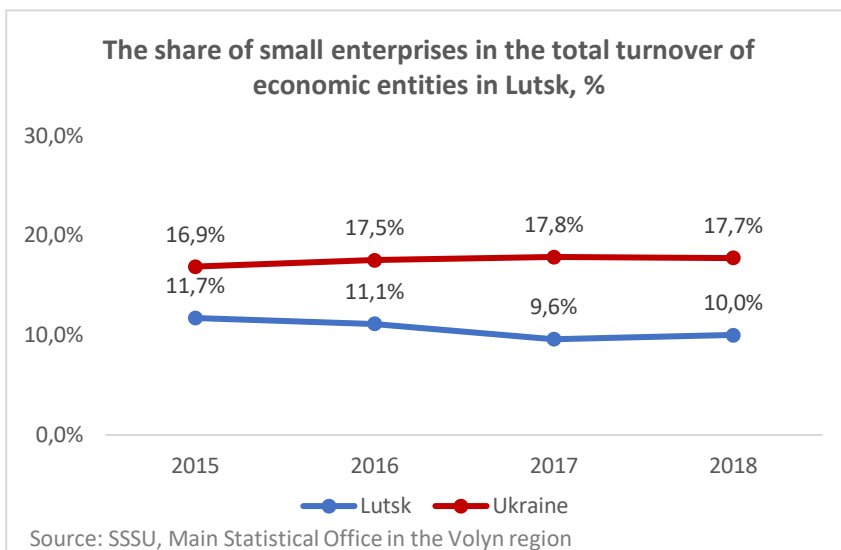
Statistics show that the Volyn Region demonstrates, in general, a somewhat higher unemployment rate among working age population than Ukraine as a whole. In 2019, the corresponding indicator for the region was 10.8% compared to 8.6% at the country level. In late 2019, 1,964 people were officially unemployed in Lutsk, while there were only 1,502 vacant jobs. Accordingly, the registered unemployed persons created a load of nearly 1 person per a vacant job. However, the quarantine measures and crisis developments caused by the COVID-19 pandemic may deteriorate the employment situation in the city in 2020.

## Turnover

At the end of 2018, the turnover of goods and services by business entities in Lutsk reached UAH 134.9 billion based on current prices. Compared to 2017, the real growth (i.e. adjusted for inflation) of turnover reached only 0.5% (compared to the country's average growth of 8.1%).

The business entities of the city accounted for more than two thirds (70.8%) of the total turnover in the Volyn Region. This is the highest index among the cities covered by the survey.

The SMEs sector of the city accounted for 77.7% of the total turnover of all business entities (the country's average is 64.7%). In 2018, the Lutsk-based SMEs demonstrated a growth of their sales by 6.8% compared to 2017



(although the turnover increased by 8.1% at the country level). On the other hand, large enterprises increased their turnover by 38.2%, growing their aggregate share from 16.2% in 2017 to 22.3% in 2018. The decrease in the turnover of the SME sector was due to a decline in the turnover of medium-sized enterprises by 9.2%. However, the turnover of small enterprises and individual entrepreneurs increased by 4.8% or 5%, respectively.

### *Sales of industrial products*

No statistical information on key performance indicators of enterprises in terms of the types of their economic activities is available at the level of cities of regional significance and districts. However, there are statistical data on the sales of industrial products by the types of activities. Such information allows us to determine key industries of Lutsk.

According to the data provided by the Volyn Region Statistics Headquarters, the sales of industrial products in Lutsk reached UAH 12.3 billion in 2018. 59.4% or UAH 7.3 billion of those sales were accounted for the processing industry. In particular, the engineering sector, except for maintenance and installation of machinery and equipment, provided UAH 3.4 billion or 27.4% of the sales<sup>78</sup>. The manufacture of rubbers and plastics and other non-metal mineral products come second in the processing industry (12.4% or UAH 1.5 billion). Other important types of activities include the manufacture of wood products, paper, and the printing industry (UAH 1.2 billion or 10%); the manufacture of textile products, clothing, leather, leather products and products made of other materials (UAH 0.5 billion or 4.1%); and the manufacture of foodstuffs, beverages and tobacco products (UAH 0.47 billion or 3.8%).

### *Capital investments*

In 2018, Lutsk accounted for more than UAH 2.7 billion of capital investments, which corresponds to almost a third (31.5%) of the total capital investments in the Volyn Region. At the end of 2018, the amount of capital investments per capita was UAH 12,806, which is somewhat lower than the country's average of UAH 13,746. This is only the twelfth score among the cities selected for the survey.

<sup>78</sup> Data by types of activities are generated based on homogeneous products.



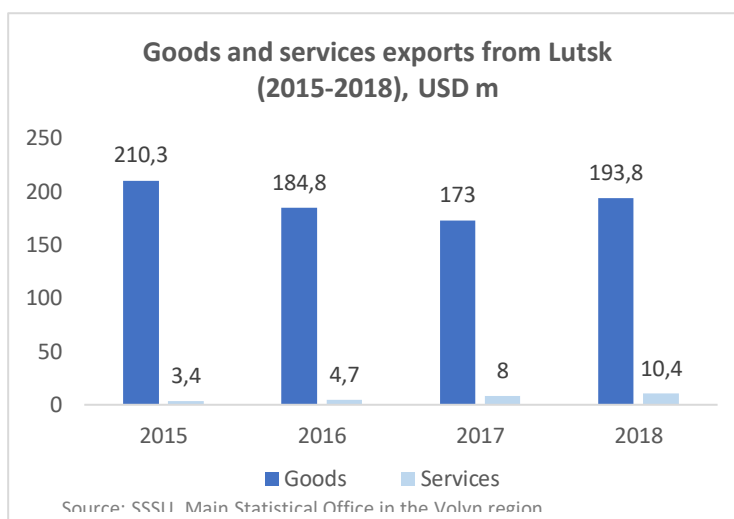
## Exports

According to the State Statistics Service of Ukraine, Lutsk's exports of goods amounted to USD 193.8 m in 2018, which is 12% higher than in 2017. Lutsk was ranked number 13 on this metric among the surveyed cities in respect of which relevant statistical data were available.

On the other hand, the exports of services increased by 30% and reached USD 10.4 m (ranked number 22).

An analysis of the foreign trade structure of the city has demonstrated that most of its

exports was provided by machinery products. In particular, goods included in Section XVI of the Ukrainian Classification of Goods in Foreign Trade (UKTZED) (Machinery, equipment and mechanisms; electrical equipment) accounted for USD 75.8 m or 39.1% of the exports. More than a fourth of the exports (USD 51.8 or 26.7%) was provided by agricultural and food products. Other exports included wood and wood products (8.9%), paper and cardboard (6.7%), and textile materials and products (4.1%).



## Foreign direct investments

As of December 31, 2018, the city of Lutsk accounted for USD 93.4 m of foreign direct investments (equity). The specified amount was USD 0.5 m or 0.5% higher than at the beginning of 2018. This points to only an insignificant increase in the volume of investments. On the other hand, there were USD 437.1 of FDI per capita in Lutsk as of the end of December 2018.

It should be noted that in general the Volyn Region is ranked number 15 by the volume of direct investments among all the regions of Ukraine. In addition, at the beginning of 2018, more than a third (37%) of the region's investments were concentrated in the city.

## Safety and comfort

The results of other studies allow us to look at the level of safety and comfort of living in the selected cities based on the assessments of their inhabitants. These factors are important for understanding the overall situation in the city. In addition, it is possible to compare those research studies with some results of MCI.

According to the study titled "Sixth Annual Ukrainian Municipal Survey"<sup>79</sup>, the city of Lutsk was ranked number eight on the Quality of Public Goods and Services Index with a score of 3.1 (on a scale from 1 (terrible) to 5 (excellent)), indicating that the residents are relatively highly satisfied with the level of comfort in their city. Lutsk leads the following areas: health facilities, industrial development, education (technical schools, universities, colleges) and schools. However, residents assigned low ratings to the transport infrastructure and roads.

<sup>79</sup> The survey was conducted by the Sociological Rating Group on behalf of the International Republican Institute's Center for Insights in Survey Research; The survey was funded by the United States Agency for International Development. Please see [http://ratinggroup.ua/research/regions/shestoy\\_vseukrainskiy\\_municipalnyy\\_opros.html](http://ratinggroup.ua/research/regions/shestoy_vseukrainskiy_municipalnyy_opros.html).

As part of the same study, according to its residents, Lutsk is one of the safest cities in Ukraine. The value of the corresponding Index for Lutsk is 1.7 (on a scale from 0 to 3, where 0 means “I feel completely unsafe” and 3 means “I feel completely safe”). The city is ranked number seven on this metric among the 24 cities covered by the survey. 58% (which corresponds to the majority of the respondents) reported that they felt rather safe or completely safe at night while the percentage of those who felt rather unsafe or completely unsafe reached 36%.

**Results of the “Municipal Competitiveness Index” in Lutsk**

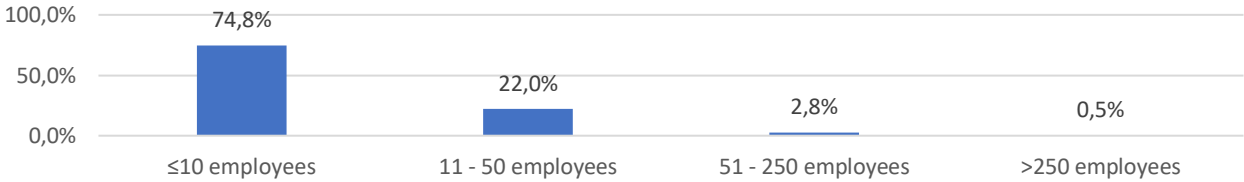
**Description of the survey sample**

218 business entities took part in the survey in Lutsk. These were 156 (71.6%) enterprises (legal entities) and 62 (28.4%) individual entrepreneurs (PEs). When analyzing the answers, the data array was weighed by the types of business entities (72% of legal entities and 28% of PEs) to ensure that it was compliant with the parameters of the target sample.

**Size of the surveyed business entities**

Most respondents (74.8%) were business entities employing from 1 to 10 people. 22.0% were small enterprises with 11 to 50 employees. Medium-sized entities (from 51 to 250 employees) account for 2.8% of the respondents, while large entities (more than 250 employees) account for 0.5%.

**Surveyed businesses by size (Lutsk), %**



**Industry and type of activity**

The surveyed business entities in Lutsk operate in various sectors of the economy. 34.4% of surveyed business are engaged in trade (including in wholesale and retail, repair of motor vehicles). 9.6% of the respondents are employed in the industry, 9.6% – in the construction, and 1.8% – in the agriculture. Almost a half of the surveyed businesses account for the service sector (44.5%) 8.7% of the respondents provide information and communication services, while professional services are provided by 8.3% of the respondents. 27.5% of the respondents provide other services (businesses operating in the transport, arts, sports, education, health care, finance, and other service-related sectors).

**Surveyed businesses by sector (Lutsk), %**



**Year of registration**

Most of the surveyed business entities were registered earlier than in 2017 (78.0%). In 2018-2019, 22.0% of the respondents were registered.

### *Age and gender breakdown of business owners and managers*

According to the survey findings, 66.5% of the Lutsk-based businesses are owned by men, while the remaining 33.5% are owned by women. In addition, the share of men owning legal entities is even higher (71.6% of men vs. 28.4% of women).

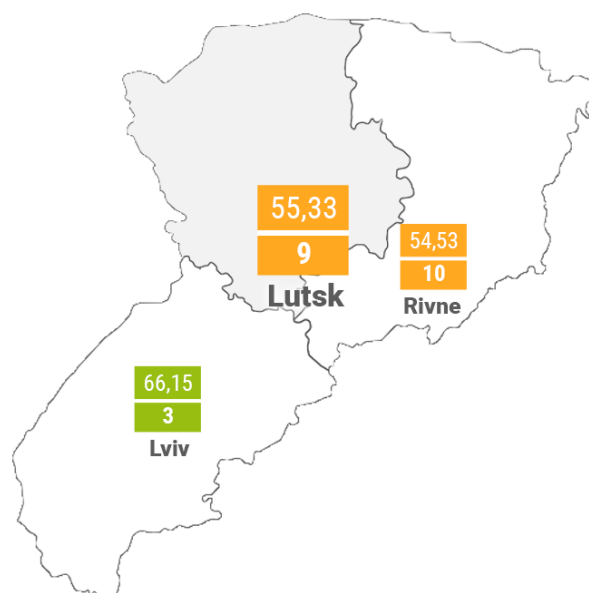
Men run 77.8% of legal entities, while the share of female managers accounts for 22.2%. When it comes to PEs, who are owned and run by the same person, women (50.2%) somewhat outweigh men (49.8%). Men run 70.1% of all the business entities, while the share of female managers accounts for 29.9%.

The average age of business owners in Lutsk is 42.3 years (the country's average is 42.8 years). However, individual entrepreneurs are on average five years younger than the owners of legal entities (38.1 years vs. 43.6 years) in Lutsk.

### *Municipal Competitiveness Index: Results of Lutsk*

According to the survey findings, Lutsk was ranked number nine, scoring 55.33 points as part of MCI 2019/2020. Thus, Lutsk is classified among cities with average MCI scores.

A geographical comparison between the MCI index for Lutsk and those for its geographical neighbors has shown that the cities classified under average and high MCI score groups are located nearby. In particular, Rivne, which comes immediately after Lutsk in the rating and is ranked number ten, has just 0.8 point less. In addition, Lviv (ranked number three), which is one of the leaders of the rating and leads Lutsk by almost 11 points, is also located nearby.



The average score of the city is due to different scores obtained on different components (sub-indices) of the rating.

The strongest components are:

- Support of innovations (number three)
- Transparency and data openness (number six)
- Security of operating a business (number six)

The weakest components are:

- Taxes and duties (number 20)

#### *1. Starting a business*

Lutsk scored 5.89 points on Component 1 “Starting a Business.” This is the eleventh highest score among all the cities. The low score of the city on this sub-index is mostly due to lengthy registration procedures and

problems arising during such registration. In particular, according to the survey data, the registration of a business in Lutsk in 2018-2019 took more time than on average in the country (7.4 days compared to 6.1 days). On the other hand, it took on average 3.8 days to have changes entered into the register, which is more than all the cities' average of 3.6 days.

In Lutsk, 16.6% of the respondents who registered a business in 2018-2019 reported problems and barriers during the registration. This share is almost twice as much as the average of 8.8% for all the cities. In addition, 77.2% of the respondents received necessary advice during the registration, which is 6.5 p.p. higher compared to the country's average of 70.7%. It took 42.6 days to launch a business (from the date of submission of documents for registration to the date of the first sale of goods or services) in Lutsk, which is more than ten days longer than on average in the country (32.1 days).

Statistics show that Lutsk is better provided with business registrars compared to the other cities. There are approximately 11 registrars per 10 thousand business entities in Lutsk (including government authorities, local self-government authorities and notaries public), which is one of the highest indices among the cities surveyed. However, a significant share of the respondents reportedly had problems during registration. This may point to possible problems with the quality of registration services.

It should be noted that problems related to lengthy procedures for obtaining certain permits are less tangible in the city. The obtaining of construction permits, and registrations took, on average, 37.2 days in the country and 36.6 days in Lutsk. However, it took more time in Lutsk to obtain a declaration of conformity to the requirements of the fire safety legislation in respect of a business entity's facilities (12.7 days compared to the cities' average of 11.8 days).

## ***2. Access to public property***

Lutsk scored 4.67 points and was ranked number 13 on the component (sub-index) titled "Access to public property." The city's score on this sub-index is due to problems associated with access to information on community-owned property and lengthier than average procedures for obtaining land title documents at the country level.

33.9% of the respondents reported that they had documents certifying the ownership / lease of the land where their business operates (compared to the country's average of 30%). This makes 51% of the respondents believing that land documents are their concern (compared to the country's average of 46.8%). These are some of the best indices among the cities covered by the survey. However, it took on average 76.8 days to obtain documents certifying the ownership / lease of the land in Lutsk in 2018 to 2019, which is almost four days longer than the average for all the cities (72.4 days).

Only 15.1% of the respondents reported the accessibility of information on available community-owned land plots, which can be provided for use or used for construction, etc (18.1% of the total respondents). In addition, 23.4% of the respondents indicated that information on the municipal real property (including non-residential facilities) was available (29.2% of the total respondents).

## ***3. Transparency and data openness***

Lutsk was ranked number six and scored 6.40 points on the "Transparency and data openness," and, therefore, is one of the leaders in this component. In Lutsk, the majority of the respondents expressed mostly a high opinion of the access to information on local budget, local regulations, and public procurements.

In particular, the access to information on public procurements got the top score in Lutsk with 18.8% of the respondents assigning 'good' and 'excellent' rates, compared to 17.3% of all the respondents surveyed. The access to information on local regulations was assessed positively by 17.9% of the respondents surveyed in

Lutsk compared to, on average, 13.9% of the total respondents in all the other cities. On the other hand, the access to information on local budget was positively assessed by 10.4% of the respondents (10.2% among all the respondents).

#### ***4. Compliance cost***

Lutsk's score on the compliance cost component is not materially different from the country's average score, although the frequency of inspections conducted by the city government's inspectors is high enough. The city was ranked only number 12 and scored 7.10 points on this component.

In Lutsk, entrepreneurs spend on average 5.4 days for compliance with local regulations, which is somewhat shorter than the country's average (four days). 2.2% of an annual income is, on average, spent on compliance with the requirements of local regulations in Lutsk, which is less than 3.7% spent on average by all the respondents.

The findings of the survey show that entrepreneurs in Lutsk are considerably more frequently visited by local inspectors than other respondents (0.9 times per year on average compared to the country's average of 0.7 times per year). Consequently, the average time spent on communications with the inspectors is 4.4 days, which is almost one day shorter compared to the country's average (five days).

#### ***5. Taxes and duties***

Component (sub-index) 5 titled "Taxes and duties" is one of the weaknesses of Lutsk. The city was ranked number 20 and scored 3.28 points on this component. The low score of Lutsk was due to a combination of such factors as quite high expenses for payment of taxes, time spent on administration of taxes and duties, significant local tax burden, and certain problems associated with the availability of local tax exemptions.

As part of the survey in Lutsk, the respondents said that they spent, on average, 28.6% of their annual income on taxes and duties (including USC), which is higher than the average for all the cities (26.8% of the annual income). Entrepreneurs in Lutsk spent, on average, 65.6 days on the administration of taxes and duties, which is much longer compared to the average for all the cities (59 days).

26.5% of the respondents in Lutsk said that local taxes create barrier to their businesses, although the average for all the cities was 20.4%. In addition, 2.3% of the respondents in Lutsk were reportedly exempted from local taxes and duties in 2018-2019, which is less than the average for the cities covered by the survey (the average for all the respondents is 3.6%).

#### ***6. Informal payments and corruption***

According to the survey findings, Lutsk was ranked number 8 and scored 5.82 points on Component (sub-index) 6 titled "Informal payments and corruption." The city's score was, in particular, due to such factors as a lower than average prevalence of "informal payments" and an average awareness of entrepreneurs about existing anti-corruption measures taken by the city.

In particular, as part of Dimension 1 "Bribes / Gifts" 8.8% of the respondents in Lutsk reported situations related to "informal payments" when approaching the municipal officials for any issues concerning the doing of business in 2018-2019. On average, 9.9% of the respondents faced such situations. On the other hand, as part of Dimension 2 "Anti-corruption efforts," 31.6% of the respondents were informed about the implementation of specific anti-corruption measures by the city authorities (open budget, digital reception, municipal anti-corruption program, etc.), while the average for all the cities surveyed was 31.8%.

#### ***7. Security of operating a business***

Lutsk was ranked number six among the cities covered by the survey and scored 6.25 points on Component (sub-index) 7 titled "Security of operating a business." Lutsk's high score on this component is due to a

relatively low prevalence of illegal takeovers and other criminal acts against businesses. Informal businesses are one of the problems of the city.

According to the survey data, nearly every second respondent (48.7%) in Lutsk believes that competitors run informal businesses, which is three p.p. higher than the country's average (45.1%). 2.5% of the total respondents experienced attempts of illegal takeovers at the country level in 2018-2019. However, the problem of illegal takeovers in Lutsk seems to be less critical as only 1.8% of the respondents there reported that they had faced such acts. This is one of the best scores among all the cities covered by the survey.

13.7% of the respondents in Lutsk reported that they suffered losses as a result of extortions, thefts, robberies, or acts of vandalism or arson in 2018-2019, which is almost one pp lower than the country's average. The corresponding country's average on this metric was 14.3% of the respondents. However, financial losses that the respondents in Lutsk suffered as a result of such acts, seem to be the least important. Such losses accounted for 6.4% of the annual income of the respondents who reportedly suffered them, which is also one of the lowest indices in Ukraine (the country's average is 10.8%).

In Lutsk, businesses spend, on average, 2.7% of their annual income on security / protection, which is in line with the country's average.

### ***8. Leadership of municipal authorities***

Lutsk was ranked number ten and scored 4.84 points on Component (sub-index) 8 titled "Leadership of municipal authorities." Although Lutsk demonstrated low ratings on the "Public-private dialogue" dimension (ranked only number 20), it took sixth place on the "Business development support" dimension, which eventually resulted in the city's average score.

Lutsk scored 6.87 points and was ranked number 6 on the "Business development support" dimension. The Lutsk-based entrepreneurs have a positive opinion of the attitude of representatives of the municipal authorities towards private businesses. 23.4% of the respondents believe that the attitude of the municipal authorities towards businesses is "very good" or "good" (the average for all the cities is 20%). In addition, 45% of the respondents agree that the municipal authorities support start-ups (compared to the average of 38.3% for all the cities), and 41.4% indicate that the municipal authorities support existing businesses (compared to the average of 35.5% for all the cities). The survey results are also complemented by "hard data" on the activities of the city council. According to the "hard data," Lutsk scored 9 of 10 points and is ranked among the leaders. In particular, non-defined city boundaries still remain a problem for the city (the boundaries were defined for the last time fifty years ago).

The score obtained on the "Public-private dialogue" dimension shows that businesses face more problems in their communications with the local government in Lutsk, compared to most other cities. On this dimension, the city was ranked number 20 and scored 2.81 points. Only 4.5% of business representatives in Lutsk believe that they have "extensive" or "very extensive" opportunities to participate in the development of local documents (strategies, plans, programs, etc.), while the average for all the cities surveyed is 6.5%. This is one of the lowest indices among all the cities covered by the survey. In addition, 5% of the respondents (which is also one of the lowest indicators) indicate that the city always or often holds consultations with entrepreneurs before passing new or amending existing regulations that may affect businesses (compared to 7.4% on average for all the cities).

### ***9. Development resources***

Lutsk was ranked number 13 and scored 4.52 points on Component (sub-index) 9 titled "Development resources." The city's assessment is based on the results of three dimensions that form a single component.

Those dimensions are Human resources, Financial resources and infrastructure, and Business support infrastructure.

The city was ranked number 21 and scored 4.66 points on **Dimension 1 (Human resources)**. An analysis of individual indicators of this dimension has demonstrated that only 9.7% of the respondents in Lutsk rate the quality of the local workforce as “excellent” or “good” (the average for all the respondents surveyed is 7.6%). In addition, only 10.1% of the respondents surveyed give positive assessments of vocational education of employees in the local labor market, which corresponds to the country’s average of 10%. Accordingly, just as in the other cities, an insignificant percentage of business entities in Lutsk rate high the available workforce.

However, 62% of the respondents are of the opinion that insufficient workforce training is a serious barrier to doing business (the country’s average is 60.7%). 71.6% of the respondents reported that they face a lack of workforce (70% of all the respondents surveyed). It follows that the lack of qualified workforce is the third most severe problem faced by entrepreneurs in Lutsk, according to the rating of barriers to doing business (as reported by 30.9% of the respondents).

The analysis of the number of workforce in the city is supplemented by statistical data. In particular, there were only 11.6 vacant jobs per 100 businesses in Lutsk at the end of 2019, which is the highest index among the cities surveyed (3.6 vacant jobs on average).<sup>80</sup> This index may point to a high demand for the workforce in the city. However, the working age population (aged 15 to 64) accounts for 70.2% of the city’s inhabitants, which is 2.4 p.p. higher than the country’s average of 67.8% (as of January 1, 2019)<sup>81</sup>. Thus, the problem of population aging may be less tangible in Lutsk compared to the other cities and the country in general.

The city was ranked number 15 and scored 3.81 points on **Dimension 2 (Financial resources and infrastructure)**. According to the survey findings, only 1.2% of the respondents at the country level received financial support from municipal authorities in 2018-2019. When it comes to individual cities, the share of such respondents in Lutsk accounts for 0.9%, which is approximately in line with the average level. However, 80.7% of the business entities surveyed in Lutsk believe that the lack of financial resources is a serious barrier to doing business (the average for all the cities is 77.8%).

Data on the city’s budget expenditures complete the picture of financial resources allocated to support businesses in the city. In 2019, actual spending on support for small and medium-sized enterprises in the city reached only UAH 39,000 per 10,000 businesses.<sup>82</sup> It should, however, be noted that, in general, SME support expenditures are low or non-existent in most of the cities. However, a higher amount of expenditures or even the existence of such support in general may point to a higher level of leadership of municipal authorities in relation to business support

When it comes to the infrastructure, the entrepreneurs surveyed in the cities covered by the study had reportedly a different experience in relation to connection to electricity grids. In Lutsk, connection to the electricity grid took on average 40 full days from the date of an application until the date of actual connection. The corresponding country’s average was 85 days. It follows that it is, on average, less complicated to have a business connected to the electricity grid in Kropyvnytskyi than in any of the other cities surveyed.

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<sup>80</sup> Sources for calculations: 1) Number of vacancies: The situation in the labor market and the results of activities of the state employment service. Data on the page of the Volyn Region Employment Center, <https://vol.dcz.gov.ua/analitics/67> 2) Number of businesses: According to the Volyn Region Statistics Headquarters

<sup>81</sup> According to the Volyn Region Statistics Headquarters of the State Statistics Service of Ukraine

<sup>82</sup> Reports on the implementation of local budgets (expenditures under program classification code 7610 - Promotion of small and medium entrepreneurship), as well as responses of the city councils to requests for public information were used. For some cities, information on expenditures was updated through telephone interviews with the employees of executive authorities of the city councils.

Lutsk was ranked number six and scored 5.07 points on **Dimension 3 (Business support infrastructure)**. According to the survey data, 9.7% of the respondents personally received business support services from the municipal authorities (information, advice, training, etc.), which is lower than all the cities' average (11%). At the same time, 57.2% of them rated such services as "good" and "excellent" (48.6% of the total respondents). This is one of the highest percentages of positive rates among the cities surveyed.

38.8% of the business entities surveyed indicate the existence of business support centers in Lutsk, which is higher than the average for all the cities surveyed (32.6%). In addition, according to the 'hard data,' there was only one business support infrastructure facility in the city at the end of 2019, which was created with the participation of the city authorities — the Lutsk City Business Support Foundation. Thus, entrepreneurs' awareness of business support centers may also relate to other business support infrastructure facilities existing in the city.

37.3% of the respondents in Lutsk are aware of the activities of business associations and business clubs in their city (45.9% of the total respondents surveyed). However, 14.1% of the business entities surveyed are members of such organizations, which is lower than the percentage recorded for all the respondents in general (11.5%). This is one of the best rates among the cities covered by the survey.

### ***10. Support of innovations***

The city of Lutsk was ranked number three and scored 6.49 points on Component (sub-index) 10 titled "Support of innovations."

20.19% of the respondents in the city reported that their businesses interacted with research institutions or technology companies in 2018-2019, which is higher than the average for all the cities surveyed (18.9%). Businesses in Lutsk are, however, less satisfied with technology transfer compared to the average recorded for the other respondents. 7.4% of the respondents pointed out that the related needs (the transfer of patents for inventions, etc.) are "met to a significant extent" or "fully met" (compared to the country's average of 8%)

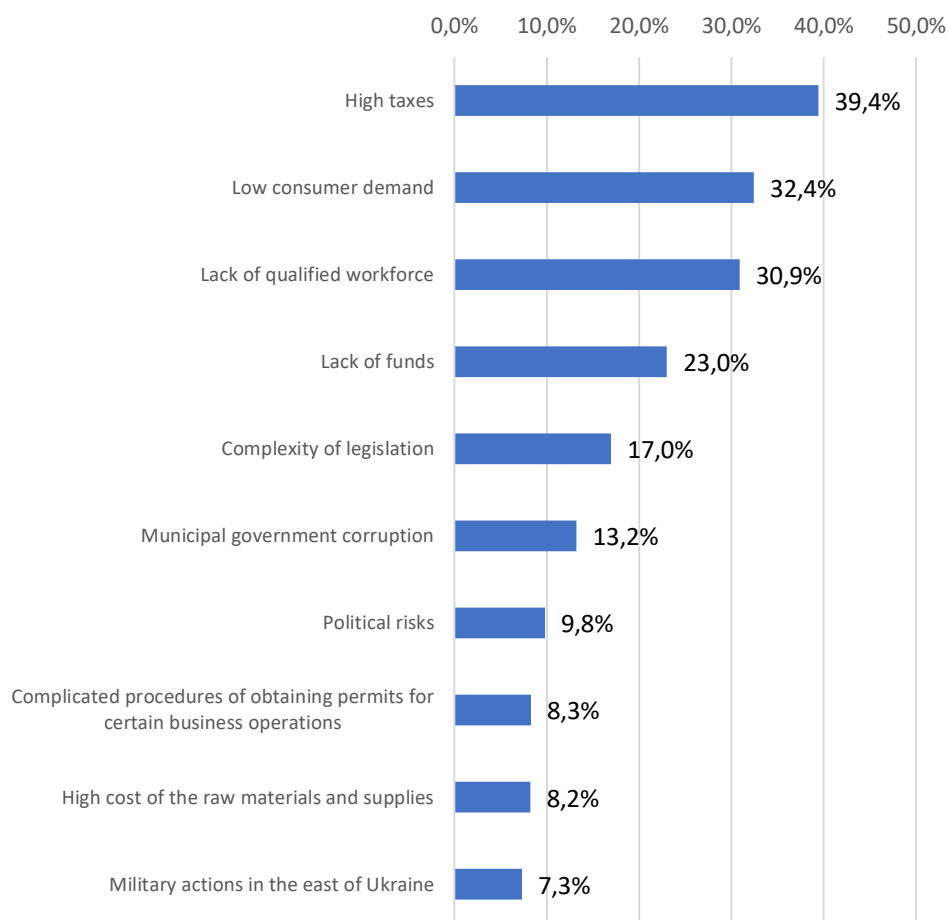
The respondents in Lutsk give a high assessment of the local government's support for local innovation programs (funded from the local budget) with the city scoring 2.06 of five points compared to the average score of 1.91 for all the cities. In addition, Lutsk introduced new technologies, solutions, or products more often than all the other cities on average in 2018-2019 (46.95% compared to 40.2%). Further, 3.66% of the surveyed enterprises and individual entrepreneurs reported that they belonged to clusters. This is one of the highest indices and exceeds the index recorded for all the cities in general (2.1%). In general, all the factors provide a relatively high satisfaction with support for innovations in Lutsk among entrepreneurs.

### ***Barriers to doing business***

The surveyed business entities named the main barriers they face when doing business in Lutsk. Three most important barriers included such factors as high taxes, low consumer demand, and lack of qualified workforce. Each of these barriers was reported by nearly a third of the respondents (39.4%, 32.4% and 30.9%, respectively). It follows that the list of the three major barriers in Lutsk corresponds to their positions in the rating of barriers for all the respondents.



### TOP-10 barriers to doing business in Lutsk, %

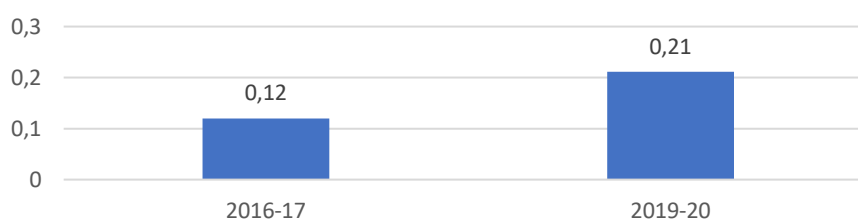


Almost a fourth of the respondents (23.0%) perceive the lack of funds as a barrier. Complexity legislation was also rated as a serious problem as 17.0% of the respondents complained about it. Municipal government corruption and political risks are perceived as serious barriers by 13.2% and 9.8% of the respondents, respectively. The TOP10 barriers list is completed by complex permit obtaining procedures (8.3%), high cost of raw materials and supplies (8.2%), and the war in the East of Ukraine (7.3%).

### *Expectations and assessments of the business climate and economic conditions in Lutsk*

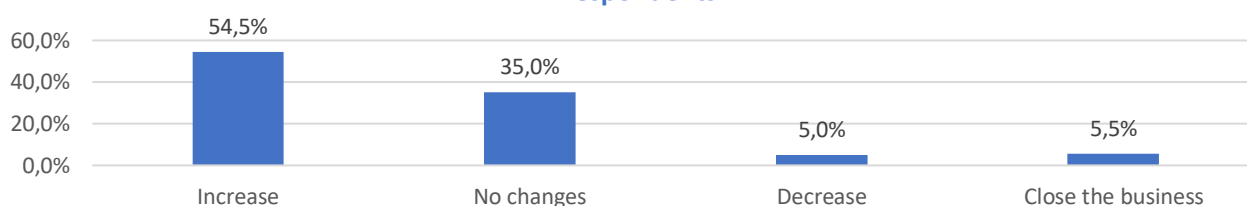
**Regional SME Business Climate Index.** ABCA SME Business Climate Index in Lutsk is 0,21 (the city was ranked number 10 among all the cities covered by the survey). This is more than in 2017 (0.12), which indicates an improvement in perception of the business climate. This is in line with the all-Ukrainian trend.

### ABCA Regional Index of Business Climate (Lutsk)



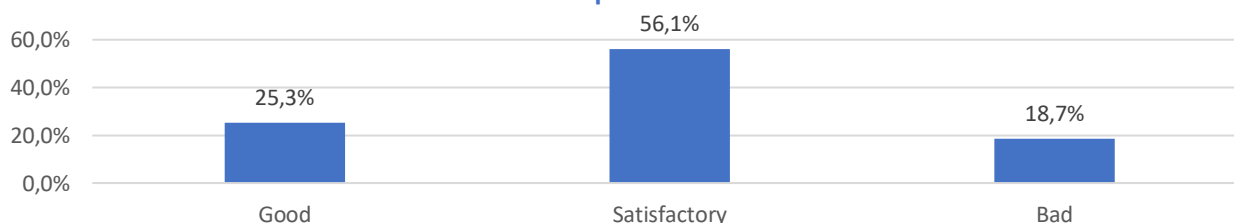
**Long-term expectations for business activity.** Business community in Lutsk has optimistic long-term development plans for the next two years. More than half of the respondents (54.5%) reportedly plan to expand their business, and 35% want to stay at the current level. At the same time, only 5% of the respondents plan to reduce their business, and 5.5% want to close it. The balance index<sup>83</sup> is +0.44 (+0.45 at the country level).

### Business activity expectations in the two-year perspective in Lutsk, % of the respondents



**Assessment of the financial and economic situation of business entities.** In Lutsk, the majority of the business entities surveyed (56.1%) assessed their current financial and economic situation as satisfactory. The rest of the respondents rated it as good (25.3%) or bad (18.7%) It follows that the positive assessments outweigh the negative ones, and the balance index of the financial and economic situation is +0.07 (compared to the country's average of +0.05).

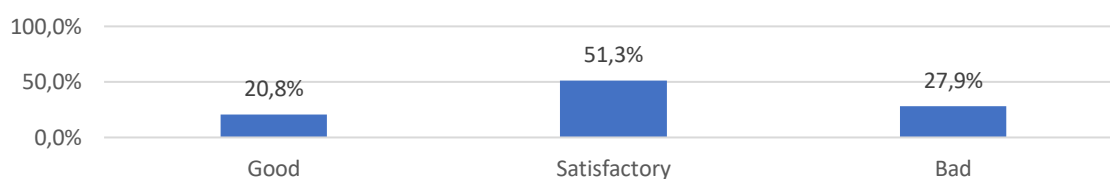
### Assessment of the business situation of business entities in Lutsk, % of the respondents



**Assessment of the current overall economic environment for business activities** More than a half of the surveyed business entities (51.3%) assessed the current overall economic environment as satisfactory. 27.9% of the respondents rate the overall economic environment as bad, and 20.8% as good. Thus, the index of assessment of the overall economic environment for business activities is negative (-0.07). However, the value of the index for the city is somewhat higher compared to the country's average (-0.12).

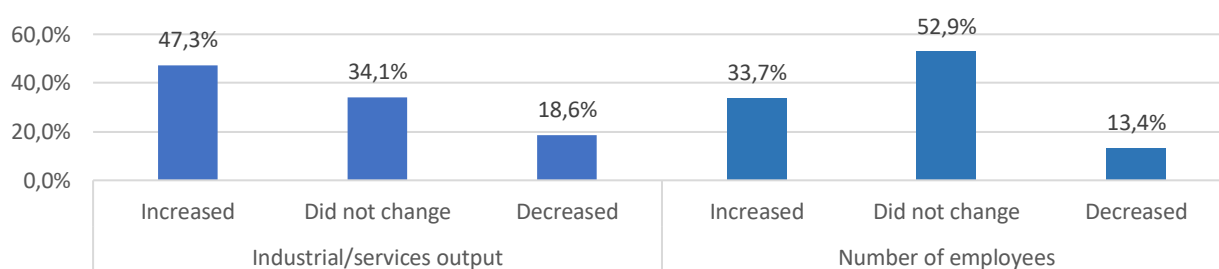
<sup>83</sup> Calculated as the average of all responses on a scale from -1 to 1, where 1 corresponds to a simplification of this procedure, 0 - no change, and -1 to a complication.

### Assessment of the overall economic situation (Lutsk), % of the respondents



**Change in the production output over the past two years.** Almost a half (47.3%) of the surveyed business entities indicated that they increased their production or service output in 2018-2019. Approximately a third (34.1%) of the respondents did not change the output while 18.6% of the respondents reduced it. Thus, the index of business activity is +0.29 (which is somewhat lower than the average of +0.31 for all the respondents surveyed), reflecting the predominance of the share of business entities that expanded their output over the share of those who reduced it.

### Change in the industrial/services output and in the number of employees in Lutsk, % of the respondents



**Change in the number of employees of the business entities over the past two years.** More than a half of the surveyed business entities (52.9%) indicated that the number of their employees did not change in 2018-2019. The share of business entities that increased the number of their employees (33.7%) is almost two times higher than the share of those where the number of employees decreased (13.4%) Thus, the index of changes in the number of employees is +0.20, which is higher than the average of +0.16 for all the cities surveyed.

**Deregulation: changes in administrative procedures** According to the respondents, the process and conditions of business registration have been simplified the most in the last two years. The conditions for the payment of taxes have deteriorated. The situation with inspections and tax administration has changed for the worse.

48.8% of the businesses surveyed point out the simplification of business registration in the previous two years. The rest of the respondents did not feel any changes in this procedure, and only a small share of the respondents (8.6%) said that, in their opinion, business registration has become more difficult. As a result, the index of change in the registration procedures is +0.40<sup>84</sup>. This is the highest value of the index compared to the other two procedures, which include the passing of inspections and the administration of taxes.

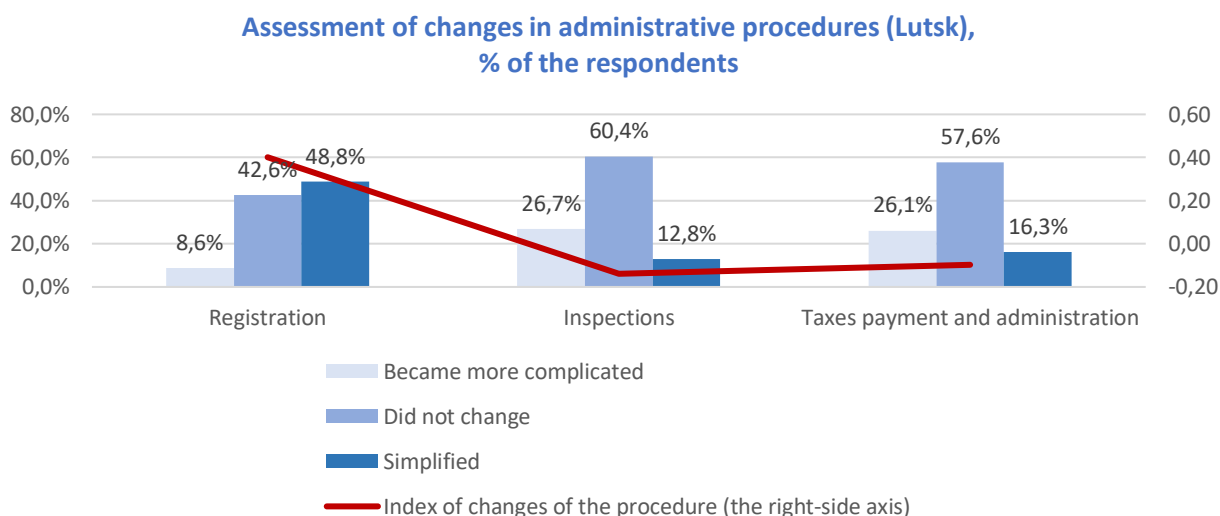
When it comes to the administration of taxes, more than a half of business entities (57.6%) say that they have not noticed any changes in the complexity of this procedure. The rest of the business entities are divided into those for whom the payment of taxes has become easier (16.3%) and those (the better half) for whom it has become more difficult (26,1%). The index of change in the procedures for administering tax payments is therefore negative and corresponds to -0.10.

The index of changes in passing inspections is negative (-0.14), too. 26.7% of business managers and individual entrepreneurs claim that inspections have become more difficult. This is significantly higher than

<sup>84</sup> Calculated as the average of all responses on a scale from -1 to 1, where 1 corresponds to a simplification of this procedure, 0 - no change, and -1 to a complication.

the share of businesses according to which inspections have become easier compared to 2018 (12.8%). However, the largest share of the surveyed businesses (60.4%) did not notice any changes in relation to inspections.

As a result, the value of the general index of changes in administrative procedures, which is calculated as an average value of the indices of change of these three procedures, is +0.05.



## Recommendations

According to the MCI results (subject to the weak components and dimensions) the following key recommendations have been formulated for the city. In addition, the city government should pay attention to recommendations that are common for all the cities in general.

### Component 1. Starting a business.

- It is necessary to improve the quality and availability of consulting services when starting a business, in particular, by expanding the capacity of consulting services in the centers of administrative services.

### Component 2. Access to public property

- It is necessary to ensure transparent access to information on the availability of community-owned land that can still be used for construction, though, in particular, the official website of the city council.
- It is necessary to ensure transparent access to information about community-owned real property, though, in particular, the official website of the city council.

### Component 5. Taxes and duties

- It is necessary to regularly analyze the burden of local taxes and duties and its impact on local businesses.

### Component 9. Development resources

- It is necessary to increase expenses on support for entrepreneurs to ensure the operation of the business support infrastructure and financial support programs.

- It is necessary to conduct an audit of business support infrastructure facilities to determine their efficiency and development pattern.
- It is necessary to use best practices applied by other cities to organize the operation of business support centers, co-workings, business hubs, clusters, etc.

# Lviv

## Number 3 in MCI

### General information

Lviv is the administrative center of the Lviv Region and a city of regional significance.

Lviv is divided into six administrative districts: Halytskyi, Zaliznychnyi, Lychakivskyi, Sykhivskyi, Frankivskyi and Shevchenkivskyi. In addition, the town of Vynnyky and the villages of Briukhovychy and Rudne fall within the jurisdiction of the City Council. The districts of the city have their own district administrations.<sup>85</sup>



### Location

The city of Lviv is located in the west of Ukraine, in the central part of the Lviv Region. The territory of the city falls within the ridge of the main European watershed, which separates the Black Sea and the Baltic Sea basins (the Dniester and Zakhidnyi Buh Rivers, respectively).

The city is also located near the border of Ukraine and Poland (73 km from the village of Shehyni, where the border crossing point is located). In addition, the city is also located within a range of less than 300 km from Slovakia, Hungary, and Romania.

The territory of the city council borders on the Pustomytivskyi, Zhovkivskyi, and Yavorivskyi districts of the Lviv Region. The town of Vynnyky is located to the east of Lviv. The villages of Briukhovychy and Rudne, which fall within the jurisdiction of the city council, are located to the west of the city.

The closest other regional centers are Uzhhorod, Ternopil, Ivano-Frankivsk, Lutsk, and Rivne.

### Demographic situation

As of January 1, 2019, the permanent population of Lviv (including territories falling within the jurisdiction of the City Council) was 748 thousand people.<sup>86</sup> The city is the largest settlement of the Lviv Region and the entire Western Ukraine. The Lviv City Council accounts for almost a third of the region's population (29.9%). Just 30 thousand inhabitants account for other settlements of falling within the jurisdiction of the city council (the town of Vynnyky (17.6 thousand inhabitants), the village of Rudne (7.2 thousand), and the village of Briukhovychy (6.2 thousand). The population of each of the other settlements of the region does not exceed

<sup>85</sup> Please see <https://city-adm.lviv.ua/public-information/district-adm>.

<sup>86</sup> Here and below in the report, the statistical data of the Lviv Region Statistics Headquarters of the State Statistics Service of Ukraine are used.

one tenth of the population of Lviv. In particular, the city of Drohobych has 94.5 thousand inhabitants. The population of Chervonohrad counts 80.2 thousand inhabitants. There are 59.1 thousand residents in Stryi.

Lviv is also one of the many cities selected for the survey, which have a negative rate of natural population increase (-2.6). However, the birth rate demonstrated by Lviv does not seem too low compared to some other settlements with population declining at a rate of - 8.9 people per 1,000 inhabitants.

The population of LVIV, as just in Ukraine generally, is dominated by women (53.4%). There are 873 men per 1,000 women (864 men at the country level). The share of the population aged from 15 to 64 is 69.7% (67.8% at the country level). In total, there are 435 people (475 at the country level) aged 0-14 and over 65 per 1,000 people of working age.

## Development of entrepreneurship

### Key structural business statistics in Lviv in 2018

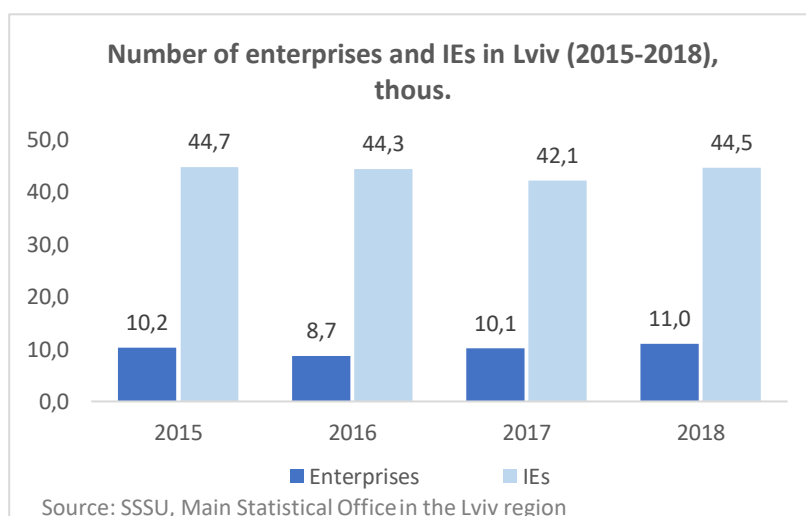
|                    | Absolute figures   |                          |                  | Relative figures      |                           |                         |
|--------------------|--------------------|--------------------------|------------------|-----------------------|---------------------------|-------------------------|
|                    | Number of entities | Employment, thsd persons | Turnover, UAH bn | Share in total number | Share in total employment | Share in total turnover |
| Large enterprises  | 10                 | 20.9                     | 51.3             | 0.02%                 | 8.3%                      | 22.0%                   |
| SMEs               | 55521              | 231.0                    | 182.4            | 99.98%                | 91.7%                     | 78.0%                   |
| Medium enterprises | 537                | 96.9                     | 104.2            | 0.97%                 | 38.5%                     | 44.6%                   |
| Small enterprises  | 10455              | 53.9                     | 50.9             | 18.83%                | 21.4%                     | 21.8%                   |
| In which           |                    |                          |                  |                       |                           |                         |
| micro              | 8874               | 23.2                     | 18.5             | 15.98%                | 9.2%                      | 7.9%                    |
| IEs                | 44529              | 80.2                     | 27.3             | 80.19%                | 31.8%                     | 11.7%                   |
| Total              | 55531              | 251.9                    | 233.7            | 100.00%               | 100.0%                    | 100.0%                  |

Source: Own calculations based on the data of the Lviv Region Statistics Headquarters of the State Statistics Service of Ukraine

### Number of business entities

In 2018, Lviv counted 55.5 thousand small and medium-sized enterprises (including 537 medium-sized enterprises, 10.5 thousand small enterprises and 44.5 thousand individual entrepreneurs) but only ten large-scale enterprises. Accordingly, 19.8% of the business entities were registered as legal entities, which corresponds to Ukraine's average (19.3%).

Lviv is ranked number five for the number of business entities among the cities selected for the survey. In addition, the city accounts for 48.1% of the total number of business

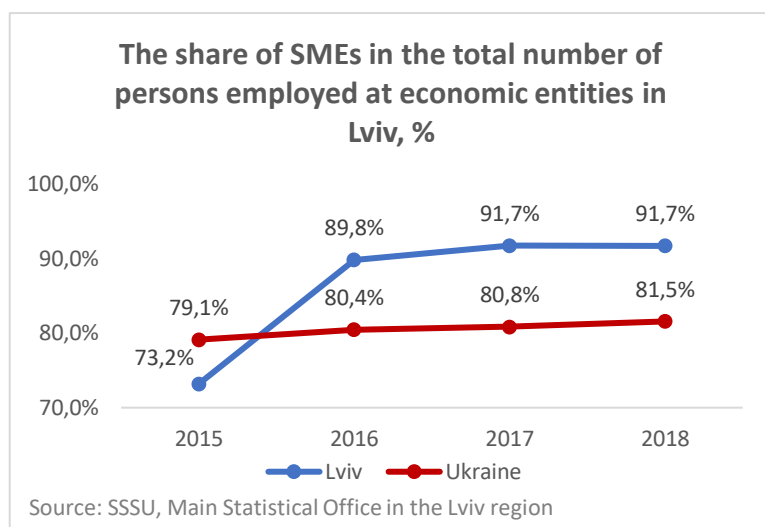


entities in the Lviv Region, which highlights the pivotal role the city plays in the region's economy.

There were 733 SMEs per 10,000 inhabitants in Lviv, which is the sixth highest index among the cities selected for the survey. This may point to a high business activity in the city.

In 2018, the number of SMEs in the city increased by 6.3% compared to 2017, which is significantly higher than the country's average (1.9%). This was due to an 8.4% growth in the quantity of small enterprises and a 5.7% increase in the number of individual entrepreneurs (5.1% and 1.2% at the country level, respectively). On the other hand, the city demonstrated the second highest increase (after Chernihiv) in the number of the medium-sized enterprises by 17.2% (compared to Ukraine's average of 7.5%).

## Employment



In 2018, the Lviv-based business entities employed 251.9 thousand persons, which is 10.5% higher than in 2017 (the country's average is 4.8%). The city accounts for more than a half (50.1%) of the total number of persons employed at business entities in the Lviv Region.

The share of people employed at SMEs in Lviv reached 91.7% of the total quantity of people employed at all business entities (compared to the country's average of 81.5%). In particular, medium-sized enterprises are accounted for

38.5% of the total number of persons employed at all business entities (32.2% at the country level). Individual entrepreneurs and small enterprises provide employment to 31.8% and 21.4% of the total number of people employed, respectively. It follows that small businesses provide a half of the total number of jobs offered by all business entities.

Compared to 2017, the number of people employed by SMEs in Lviv increased by 10.4% (the country's average is 5.7%) This is the second highest index among the cities in respect of which information on the quantity of people employed in the SMEs sector is available. The increase was primarily due to medium-sized businesses (11.2 thousand persons or 13.1%) and individual entrepreneurs (11.9 thousand persons or 17.5%). However, the quantity of employees of large businesses decreased by 2.4% or 1.3 thousand people. Relative changes in the number of people employed at the country level were +5.8% for medium-sized enterprises, -1.1% for small enterprises and +10.5% for individual entrepreneurs. Large enterprises in Lviv also demonstrated an increase in employment by 10.6%, which is almost ten percentage points higher than the relevant index at the country level (0.9%).

Statistics show that the Lviv Region, taken as a whole, shows a slightly lower unemployment rate among working age population than Ukraine as a whole. In 2019, the corresponding indicator for the region was 6.7% compared to 8.6% at the country level. In late 2019, 3,143 people were officially unemployed in Lviv, while there were 2,975 vacant jobs. Accordingly, the registered unemployed persons created a load of nearly 1 person per a vacant job. However, the quarantine measures and crisis developments caused by the COVID-

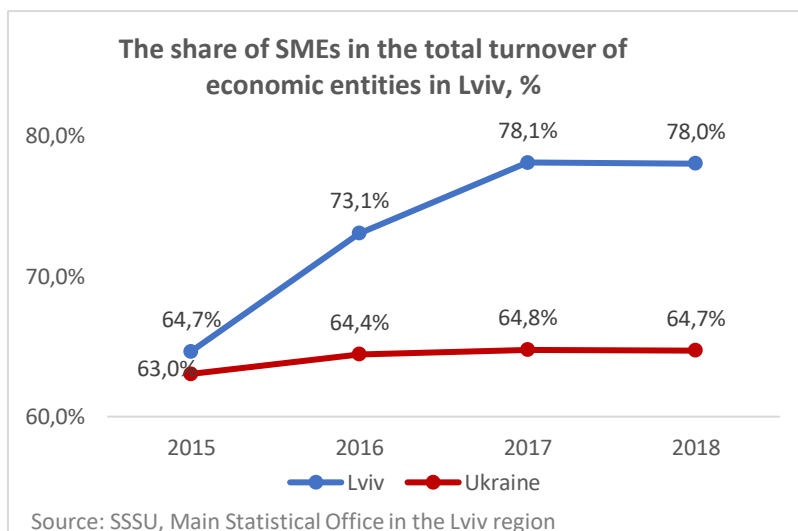


19 pandemic may deteriorate the employment situation in the city in 2020.

### Turnover

At the end of 2018, the turnover of goods and services by business entities in Lviv reached UAH 233.7 billion based on current prices. Compared to 2017, the real growth (i.e. adjusted for inflation) of turnover reached 15.8%, which is 7.7 percentage points higher than for Ukraine as a whole (8.1%). The business entities of the city accounted for nearly two thirds (62.9%) of the total turnover in the Lviv Region.

The SMEs sector of the city accounted for 78% of the total turnover of all business entities (the country's average is 64.7%). In 2018, the Lviv-based SMEs demonstrated a real growth of their turnover by 15.7% compared to 2017 (8.1% at the country level). A similar growth of turnover by 16.2% was recorded for large business.



The increase in the turnover of the SMEs sector was primarily due to the growth of turnover of medium-sized enterprises (by 19.2%), which provide almost a half (44.6%) of the total turnover of all business entities. Individual entrepreneurs improved their turnover by 16.7%, while small enterprises demonstrated an 8.8% growth in their turnover.

### Sales of industrial products

No statistical information on key performance indicators of enterprises in terms of the types of their economic activities is available at the level of cities of regional significance and districts. However, there are statistical data on the sales of industrial products by the types of activities. Such information allows us to determine key industries of Lviv.

According to the data provided by the Lviv Region Statistics Headquarters, the sales of industrial products in Lviv reached approximately UAH 46 billion in 2018. 57.8% or UAH 26.6 billion of those sales were accounted for the processing industry. In particular, 26.5% or UAH 12.2 billion were generated by the manufacture of foodstuffs, beverages, and tobacco products<sup>87</sup>. Engineering, except for maintenance and installation of machinery and equipment, comes second in the processing industry (7.4% or UAH 3.4 billion). Other important types of activities include the manufacture of rubbers, plastics and other non-metal products (UAH 3 billion or 6.6%), metallurgical products and the manufacture of finished metal products (except for machinery and equipment) (UAH 2 billion or 4.4%), the manufacture of wood products and paper, and the printing industry (UAH 1.7 billion or 3.8%).

### Capital investments

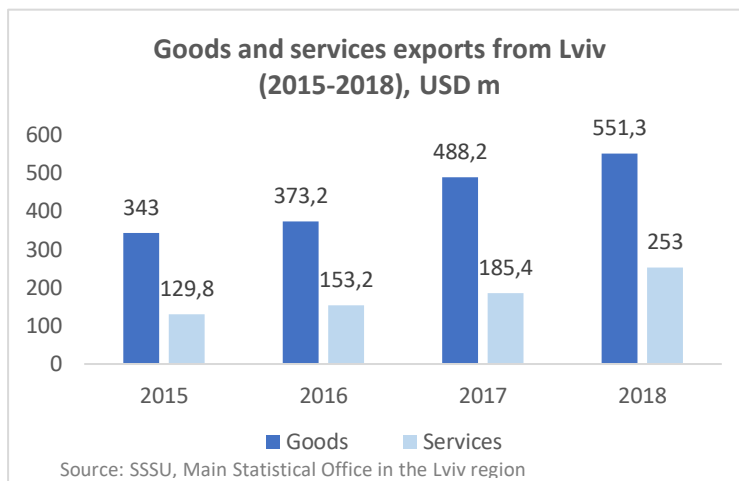
<sup>87</sup> Data by types of activities are generated based on homogeneous products.

In 2018, Lviv accounted for almost UAH 13.2 billion of capital investments, which was the fourth best result among the cities covered by the survey. Lviv accounts for more than a half (45.4%) of the total capital investments in the Lviv Region. In 2018, the amount of capital investments per capita was approximately UAH 17,854, which approximately corresponds to the country's average of UAH 13,746. This is the fourth highest index among the cities covered by the survey.

## Exports

According to the State Statistics Service of Ukraine, Lviv's exports of goods amounted to USD 551.5 m in 2018, which is 12.9% higher than in 2017. Lviv was ranked number eight on this metric among the surveyed cities in respect of which relevant statistical data were available.

On the other hand, the exports of services increased by 36.5% and reached USD 253 m (ranked number four).



An analysis of the foreign trade structure of

the city has demonstrated that more than a third of its exports (USD 199.2 m or 36.1%) was provided by agricultural and food products. In particular, USD 91.3 m (16.6% of the total exports) was provided by fats and oils of animal or plant origin. More than a fourth of the exports was provided by machinery, equipment, mechanisms, and electrical equipment (USD 153.7 m or 27.9%). The rest of the exports accounted, in the first place, for textile materials and products (14.3%), wood and wood products (5%), and furniture (3.2%).

## Foreign direct investments

As of December 31, 2018, the city of Lviv accounted for USD 388.1 m of foreign direct investments (equity). The said volume was USD 8.1 m or 2% lower compared to the volume recorded at the beginning of 2018. It follows that the city experienced an insignificant decrease in the direct investments. On the other hand, there were USD 518.2 of FDI per capita in Lviv as of the end of December 2018. This is the fourth highest index among the cities covered by the survey.

It should be noted that the Lviv Region is ranked number seven by the volume of direct investments among all the regions of Ukraine. In addition, at the beginning of 2018, 42.6% of the region's total direct investments were concentrated in Lviv.

## Safety and comfort

The results of other studies allow us to look at the level of safety and comfort of living in the selected cities based on the assessments of their inhabitants. These factors are important for understanding the overall situation in the city. In addition, it is possible to compare those research studies with some results of MCI.

According to the study titled “Sixth Annual Ukrainian Municipal Survey”<sup>88</sup>, the city of Lviv was ranked number 11 on the Quality of Public Goods and Services Index with a score of 2.9 (on a scale from 1 (terrible) to 5 (excellent)), indicating that the residents are, on average, satisfied with the level of comfort in their city. The city is one of the leaders in such areas as health facilities and industrial development. The city is behind on roads, transport infrastructure and, to a somewhat extent, education (technical schools, universities, colleges).

As part of the same study, according to its residents, Lviv is one of relatively secure cities in Ukraine. The value of the corresponding Index for Lviv is 1.7 (on a scale from 0 to 3, where 0 means “I feel completely unsafe” and 3 means “I feel completely safe”). The city is ranked number eight on this metric among the 24 cities covered by the survey. More than a half of the respondents (55%) reported that they felt rather safe or completely safe at night. However, a significant share of the respondents said that they felt rather unsafe or completely unsafe (39%).

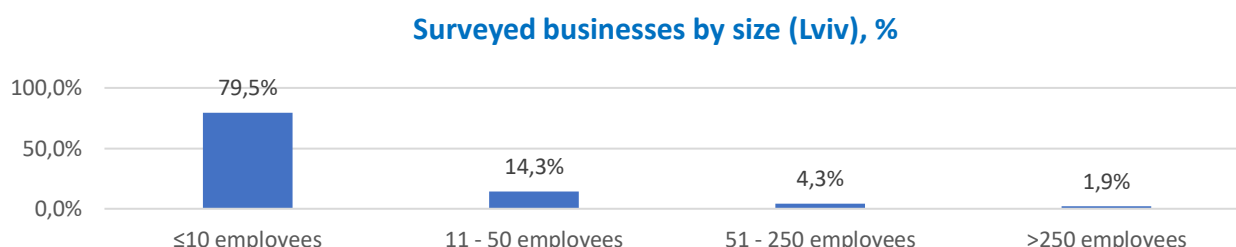
## **Results of the “Municipal Competitiveness Index” in Lviv**

### **Description of the survey sample**

210 business entities took part in the survey in Lviv. These were 141 (67.1%) enterprises (legal entities) and 69 (32.9%) individual entrepreneurs (PEs). When analyzing the answers, the data array was weighed by the types of business entities (68.5% of legal entities and 31.5% of PEs) to ensure that it was compliant with the parameters of the target sample.

### **Size of the surveyed business entities**

Most respondents (79.5%) were micro businesses — business entities employing from 1 to 10 people. 14.3% were small entities with 11 to 50 employees. Medium-sized entities (from 51 to 250 employees) account for 4.3% of the respondents, while large entities (more than 250 employees) account for 1.9%.

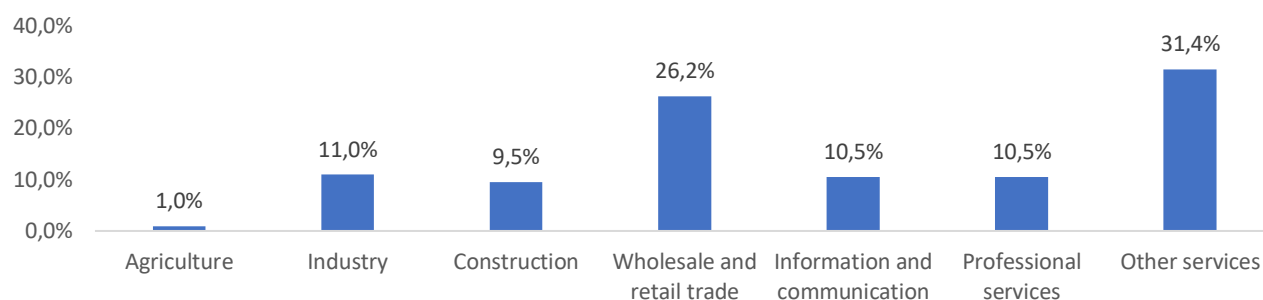


### **Industry and type of activity**

The surveyed business entities in Lviv operate in various sectors of the economy. 26.2% of surveyed business are engaged in trade (including in wholesale and retail, repair of motor vehicles). 11.5% of the respondents are employed in the industry, 9.5% – in the construction, and 1% – in the agriculture. More than a half of the surveyed businesses account for the service sector (52.4%) 10.5% of the respondents provide information and communication services, while professional services are provided by 10.5% of the respondents. 31.4% of the respondents provide other services (businesses operating in the transport, arts, sports, education, health care, finance, and other service-related sectors).

<sup>88</sup> The survey was conducted by the Sociological Rating Group on behalf of the International Republican Institute’s Center for Insights in Survey Research; The survey was funded by the United States Agency for International Development. Please see [http://ratinggroup.ua/research/regions/shestoy\\_vseukrainskiy\\_municipalnyy\\_opros.html](http://ratinggroup.ua/research/regions/shestoy_vseukrainskiy_municipalnyy_opros.html).

### Surveyed businesses by sector (Lviv), %



### Year of registration

Most of the surveyed business entities were registered earlier than in 2017 (75.7%). In 2018-2019, 24.3% of the respondents were registered.

### Age and gender breakdown of business owners and managers

According to the survey findings, 73.6% of the Lviv-based businesses are owned by men, while the remaining 26.4% are owned by women. In addition, the share of men owning legal entities is even higher (78.6% of men vs. 24.4% of women).

Men run 70.1% of legal entities, while the share of female managers accounts for 29.9%. When it comes to PEs, who are owned and run by the same person, the quantitative advantage of men is less apparent (56.6% vs. 43.4%). Men run 65.9% of all the business entities, while the share of female managers accounts for 34.1%.

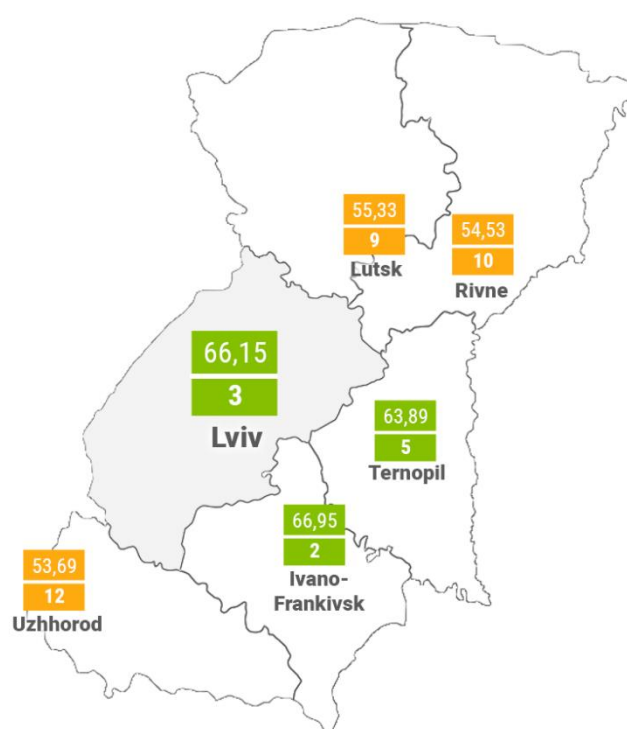
The average age of business owners in Lviv is 42.6 years (compared to the country's average of 42.8 years). However, individual entrepreneurs are on average five years younger than the owners of legal entities (38.2 years vs. 43.9 years) in Lviv.

### Municipal Competitiveness Index: Results of Lviv

According to the survey findings, Lviv was ranked number three, scoring 66.15 points as part of MCI 2019/2020. Thus, Lviv is classified among cities with high MCI scores. It follows that the city is one of the MCI leaders.

A comparison between the MCI score of Lviv and those of its geographical neighbors has shown that two cities with high MCI scores — Ivano-Frankivsk (number two) and Ternopil (number five) — are located nearby. In addition, other neighbors of Lviv, which have average ICM scores, are in the top half of the rating chart (Lutsk, Rivne, and Uzhhorod).

Lviv managed to obtain the high rank due to mostly high results within most components (sub-indices).



The strongest components are:

- Development resources (number one)
- Support of innovations (number one)
- Compliance cost (number two)
- Access to public property (number four)
- Leadership of municipal authorities (number four)
- Security of operating a business (number five)
- Informal payments and corruption (number five)

The weakest components are:

- Starting a business (number 19)

### ***1. Starting a business***

Lviv scored 4.07 points on Component 1 “Starting a Business.” This is only the nineteenth score among all the cities. This component represents the sole weakness of the city, which is among the leaders of the Municipal Competitiveness Index. The low score of the city on this component is due to lengthy procedures for state registration of businesses and obtaining necessary permits.

In particular, according to the survey data, the registration of a business in Lviv in 2018-2019 took the longest time (8.3 days compared to 6.1 days). On the other hand, it took on average 5.3 days to have changes entered into the register, which is two days longer than all the cities’ average of 3.6 days.

In Lviv, 3.9% of the respondents who registered a business in 2018-2019 reported problems and barriers during the registration, which corresponds to one of the lowest rates (8.8% for all the respondents). Only 66.6% of the respondents received necessary advice during the registration, which is 3.1 p.p. Lower than the country’s average of 70.7%. It took 41.5 days to launch a business (from the date of submission of documents for registration to the date of the first sale of goods or services) in Lviv, which is one of the highest indices among the cities covered by the survey (the cities’ average was 32.1 days).

The time required to obtain certain permits is yet another problem in Lviv. The obtaining of construction permits, and registrations took, on average, 37.2 days in the country and 51.4 days in Lviv, which is one of the highest indices among the cities covered by the survey. In addition, it took more time in Lviv to obtain a declaration of conformity to the requirements of the fire safety legislation in respect of a business entity’s facilities (14.5 days compared to the cities’ average of 11.8 days).

It appears from the results of the survey that lengthy registrations are normal for large Ukrainian cities. Business registrars in Lviv may also experience a heavier workload compared to the other cities. There are only eight registrars per 10 thousand business entities in Lviv (including government authorities, local self-government authorities and notaries public). In addition, Lviv is one of the most active business centers of Ukraine, as it is ranked number six for the quantity of business per 10 thousand inhabitants.

### ***2. Access to public property***

Lviv scored 6.33 points and was ranked number four on the component (sub-index) titled “Access to public property.” The high score of the city is primarily due to a more transparent access to information on

community-owned property. However, only a small share of the entrepreneurs surveyed have land documents.

Only 21.9% of the respondents reported that they had documents certifying the ownership / lease of the land where their business operates (compared to the country's average of 30%). This makes 37.4% of the respondents believing that land documents are their concern (compared to the country's average of 46.8%). However, it took on average 79.6 days to obtain documents certifying the ownership / lease of the land in Lviv in 2018 to 2019, which is more than seven days longer than the average for all the respondents (72.4 days).

An analysis of the accessibility of information on community-owned property has demonstrated that Lviv is one of the leaders on this component. 24.2% of the respondents reported the accessibility of information on available community-owned land plots, which can be provided for use or used for construction, etc (18.1% of the total respondents). In addition, 42% of the respondents indicated that information on the municipal real property (including non-residential facilities) was available (29.2% of the total respondents).

### ***3. Transparency and data openness***

Lviv was ranked number 11 and scored 5.91 points on the "Transparency and data openness" component. In Lviv, the respondents assigned average rates to the access to information on local budget, local regulations, and public procurements.

In particular, the access to information on public procurements got the top score in Lviv with 18.1% of the respondents assigning 'good' and 'excellent' rates, compared to 17.3% of all the respondents surveyed. Although the access to information on local regulations was assessed positively by on average 13.9% of all the respondents in all the cities surveyed, the share of such respondents in Lviv was 15.6%. On the other hand, positive assessments of access to information on local budget in Lviv are just slightly different from the average assessments for all the cities in general — 10.7% compared to 10.2%.

### ***4. Compliance cost***

Lviv has demonstrated one of the best scores on the compliance cost component in the country. The city is ranked number two and scored 8.63 points on this component.

In Lviv, entrepreneurs spend on average 2.4 days for compliance with local regulations, which is half as much as the country's average (four days). 1.9% of an annual income is, on average, spent on compliance with the requirements of local regulations in Lviv, which is also less than 3.7% spent on average by all the respondents.

The findings of the survey show that entrepreneurs in Lviv are considerably less frequently visited by local inspectors than other respondents (0.4 times per year on average compared to the country's average of 0.7 times per year). Consequently, the average time spent on communications with the inspectors was 5.9 days, which is almost one day more compared to the country's average (five days).

### ***5. Taxes and duties***

Component (sub-index) 5 "Taxes and duties" is one of the strengths of Lviv. The city was ranked number 6 and scored 7.45 points on this component. The high score of Lviv was due to a combination of such factors as relatively low expenses for payment of taxes, low time expenditures for administration of taxes and duties, and a lower local tax burden.

As part of the survey in Lviv, the respondents said that they spent, on average, 24.0% of their annual income on taxes and duties (including USC), which is less than the average for all the cities (26.8% of the annual income). Entrepreneurs in Lviv spent, on average, 53.6 days on the administration of taxes and duties, which is also less than the average for all the cities (59 days).

Only 16.1% of the respondents in Lviv said that local taxes create barriers for their businesses, while the average for all the cities was 20.4%. In addition, 3.3% of the respondents in Lviv were reportedly exempted from local taxes and duties in 2018-2019, which is almost in line with the average for the cities covered by the survey (the average for all the respondents is 3.6%).

### ***6. Informal payments and corruption***

According to the survey findings, Lviv was ranked number five and scored 6.77 points on Component (sub-index) 6 titled “Informal payments and corruption.” The city’s score is due to such factors as an average prevalence of “informal payments” and a high awareness of entrepreneurs about existing anti-corruption measures taken by the city.

In particular, as part of Dimension 1 “Bribes / Gifts” 9.8% of the respondents in Lviv reported situations related to “informal payments” when approaching the municipal officials for any issues concerning the doing of business in 2018-2019. On average, 9.9% of the respondents faced such situations. On the other hand, as part of Dimension 2 “Anti-corruption efforts,” 39.1% of the respondents were informed about the implementation of specific anti-corruption measures by the city authorities (open budget, digital reception, municipal anti-corruption program, etc.), while the average for all the cities surveyed was 31.8%.

### ***7. Security of operating a business***

Lviv was ranked number five among the cities covered by the survey and scored 6.64 points on Component (sub-index) 7 titled “Security of operating a business.” Lviv’s high score on this component is due to a relatively low prevalence of illegal takeovers and other criminal acts against businesses, compared to the other cities. Informal businesses create certain problems for the city.

According to the survey findings, nearly every second respondent (46.4%) in Lviv believes that competitors run informal businesses, which is one p.p. higher than the country’s average (45.1%). 2.5% of the total respondents experienced attempts of illegal takeovers at the country level in 2018-2019. However, the problem of illegal takeovers in Lviv seems to be less critical as only 2.3% of the respondents reported that they faced such acts.

11.4% of the respondents in Lviv reported that they suffered losses as a result of extortions, thefts, robberies, or acts of vandalism or arson in 2018-2019, which is one of the lowest indices among all the cities covered by the survey. The corresponding country’s average on this metric was 14.3% of the respondents. On the other hand, losses of the Lviv entrepreneurs as a result of such acts account for 9.2%, which is one pp less than the country’s average (10.8%).

In Lviv, businesses spend, on average, 2.5% of their annual income on security / protection, which is somewhat lower compared to the country’s average of 2.7% of the annual income.

### ***8. Leadership of municipal authorities***

Lviv was ranked number 4 and scored 6.75 points on Component (sub-index) 8 titled “Leadership of municipal authorities.” The high rating of the city is due to its high scores on two dimensions of which the sub-index consists — “Business development support” and “Public-private dialogue.”

Lviv scored 7.68 points and was ranked number four on the “Business development support” dimension. The Lviv-based entrepreneurs have a high opinion of the attitude of representatives of the municipal authorities towards private businesses. 29.6% of the respondents believe that the attitude of the municipal authorities towards businesses is “very good” or “good” (the average for all the cities is 20%). In addition, 52.5% of the respondents agree that the municipal authorities support start-ups (compared to the average of 38.3% for all the cities), and 47% indicate that the municipal authorities support existing businesses (compared to the

average of 35.5% for all the cities. The survey results are also complemented by “hard data” on the activities of the city council. According to the “hard data,” Lviv scored 9 of 10 points. In particular, the undefined city boundaries still remain the problem for Lviv.

The score obtained on the “Public-private dialogue” dimension shows that, in general, businesses face less problems in their communications with the local government in Lviv compared to most other cities. On this dimension, the city was ranked number four and scored 5.81 points. 10% of business representatives in Lviv believe that they have “extensive” or “very extensive” opportunities to participate in the development of local documents (strategies, plans, programs, etc.), while the average for all the cities surveyed is only 6.5%. In addition, 7.3% of the respondents indicate that the city always or often holds consultations with entrepreneurs before passing new or amending existing regulations that may affect businesses (compared to 7.4% on average for all the cities).

### **9. Development resources**

Lviv was ranked number one and scored 6.35 points on component (sub-index) 9 titled “Development resources.” The city’s assessment is based on the results of three dimensions that form a single component. Those dimensions are Human resources, Financial resources and infrastructure, and Business support infrastructure.

The city was ranked number three and scored 6.85 points on **Dimension 1 (Human resources)**. An analysis of individual indicators of this dimension has demonstrated that only 12.9% of the respondents in Lviv rate the quality of the local workforce as “excellent” or “good” (the average for all the respondents surveyed is 7.6%). However, this is the highest index among the cities surveyed. In addition, the business surveyed in Lviv assign the highest scores to the vocational education of employees in the local labor market (15.4% of positive assessments) (the country’s average is 10%). However, just as in the other cities, an insignificant percentage of business entities in Lviv rate high the available workforce.

However, 58.9% of the respondents are of the opinion that insufficient workforce training is a serious barrier to doing business (the country’s average is 60.7%). 72.5% of the respondents reported that they face a lack of workforce (70% of all the respondents surveyed). It follows that the lack of qualified workforce is the most severe problem faced by entrepreneurs in Lviv, according to the rating of barriers to doing business (according to 34.8% of the respondents).

The analysis of the number of workforce in the city is supplemented by statistical data. In particular, there were approximately 5.4 vacant jobs per 100 businesses in Lviv at the end of 2019, which exceeds the average for all the cities surveyed (3.6 vacancies)<sup>89</sup>. This may point to a higher demand for the workforce in Lviv compared to the other cities. In addition, the working age population (aged 15 to 64) in Lviv accounts for 69.7% of its population, which is 1.9 p.p. higher than the country’s average of 67.8% (as of January 1, 2019)<sup>90</sup>. This index also corresponds to the average for the cities surveyed. Accordingly, the problem of population ageing may be more tangible in Lviv compared to the cities with higher percentages of working-age population.

The city was ranked number 14 and scored 3.83 points on **Dimension 2 (Financial resources and infrastructure)**. According to the survey findings, only 1.2% of the respondents at the country level received financial support from municipal authorities in 2018-2019. When it comes to individual cities, the share of

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<sup>89</sup> Sources for calculations: 1) Number of vacancies: The situation in the labor market and the results of activities of the state employment service. Data on the page of the Lviv Region Employment Center, <https://lviv.dcz.gov.ua/analytics/65>  
2) Number of businesses: According to the Lviv Region Statistics Headquarters

<sup>90</sup> According to the Lviv Region Statistics Headquarters of the State Statistics Service of Ukraine



such respondents in Lviv accounts for 1%, which is approximately in line with the average level. However, 77.3% of the business entities surveyed in Lviv believe that the lack of financial resources is a serious barrier to doing business (the average for all the cities is 77.8%).

Data on the city's budget expenditures complete the picture of financial resources allocated to support businesses in the city. In 2019, actual spending on support for small and medium-sized enterprises in the city reached only UAH 185,000 per 10,000 businesses.<sup>91</sup> It should, however, be noted that, in general, SME support expenditures are low or non-existent in most of the cities. However, a higher amount of expenditures or even the existence of such support in general may point to a higher level of leadership of municipal authorities in relation to business support

When it comes to the infrastructure, the entrepreneurs surveyed in the cities covered by the study had reportedly a different experience in relation to connection to electricity grids. In Lviv, connection to the electricity grid took on average 107 full days from the date of an application until the date of actual connection. The corresponding country's average was 85 days. It follows that it is more complicated to have a business connected to the electricity grid in Vinnytsia compared to all the other cities surveyed.

Lviv was ranked number one and scored 8.37 points on **Dimension 3 (Business support infrastructure)**. According to the survey data, 10% of the respondents personally received business support services from the municipal authorities (information, advice, training, etc.), which is lower than all the cities' average (11%). At the same time, 57.4% of them rated such services as "good" and "excellent" (48.6% of the total respondents). This is one the highest percentages of positive rates among the cities surveyed.

38.1% of the business entities surveyed indicate the existence of business support centers in Lviv, which is higher than the average for all the respondents (32.6%). In addition, according to the 'hard data,' there were 12 business support infrastructure facilities in the city at the end of 2019, which were created with the participation of the city authorities. Such facilities include two business centers, seven clusters, one technological park, one business incubator and one entrepreneurship support centers. Accordingly, Lviv is the leader in terms of the quantity of entrepreneurship support infrastructure facilities among the cities surveyed.

The respondents in Lviv are also ranked number two in terms awareness of activities of business associations and business clubs (56.7% in the city and 45.9% of the total respondents). In addition, 15.8% of business entities are members of such organizations, which is also one of the highest levels among the cities surveyed (the average for all the cities in general is 11.5%).

### ***10. Support of innovations***

The city of Lviv was ranked number one and scored 7.24 points on Component (sub-index) 10 titled "Support of innovations."

20.81% of the respondents in the city reported that their businesses interacted with research institutions or technology companies in 2018-2019, which is one of the highest indices among all the cities (compared to the average of 18.9% for all the cities). Businesses in Lviv are also more satisfied with technology transfer compared to the average for the other respondents. 9.0% of the respondents pointed out that the related

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<sup>91</sup> Reports on the implementation of local budgets (expenditures under program classification code 7610 - Promotion of small and medium entrepreneurship), as well as responses of the city councils to requests for public information were used. For some cities, information on expenditures was updated through telephone interviews with the employees of executive authorities of the city councils.

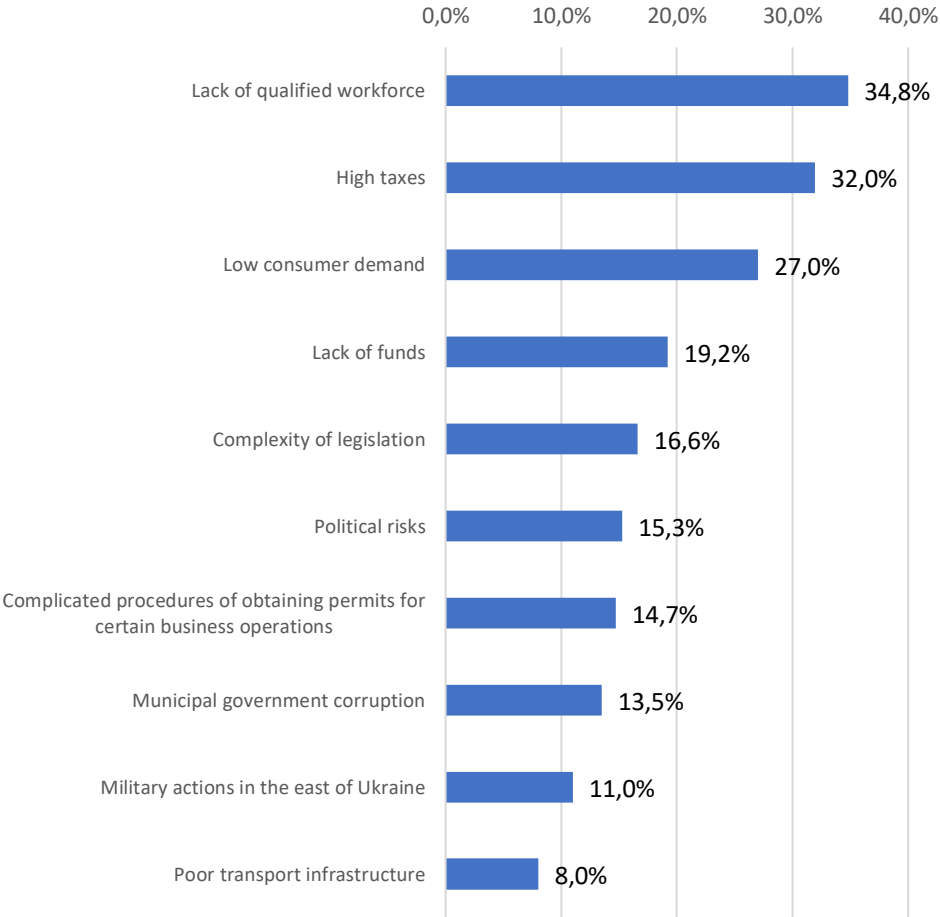
needs (the transfer of patents for inventions, etc.) are “met to a significant extent” or “fully met” (compared to the country’s average of 8%)

The respondents in Lviv give one of the highest assessments of the local government support for local innovation programs (funded from the local budget), with the city scoring 2.24 of five points compared to the average of 1.91 for all the cities. In addition, Lviv introduced new technologies, solutions, or products slightly less frequently than all the other cities on average in 2018-2019 (39% compared to 40.2%). Further, 5.62% of the surveyed enterprises and individual entrepreneurs reported that they belonged to clusters. This is the highest index and three times as much as the average recorded for all the cities in general (2.1%). In general, all the factors provide the highest level of satisfaction with support for innovations in Lviv among entrepreneurs.

**Barriers to doing business**

The surveyed business entities named the main barriers they face when doing business in Lviv. According to the survey findings, three most important barriers included such factors as the lack of qualified workforce, high taxes, and low consumer demand. Each of these barriers to doing business was reported by 34.8%, 32.0% and 27.0% of the respondents, respectively. Accordingly, the lack of qualified workforce is the most severe problem in Lviv, as just in a number of other cities, and, therefore, it outweighed the problems of high taxes and low consumer demand that are on the top of the barriers rating for all the respondents in general. The lack of funds was reported to be a barrier by 19.2% of the respondents (number four).

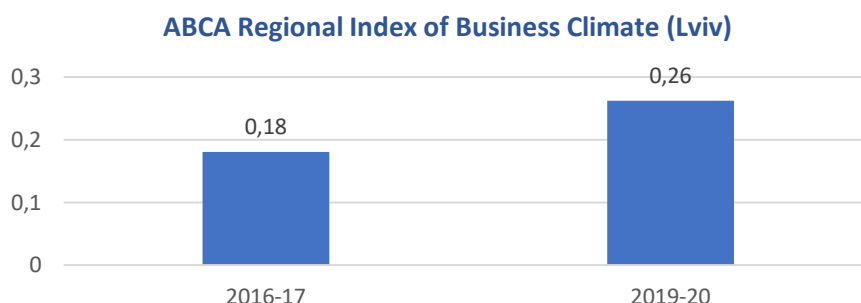
**TOP-10 barriers to doing business in Lviv, %**



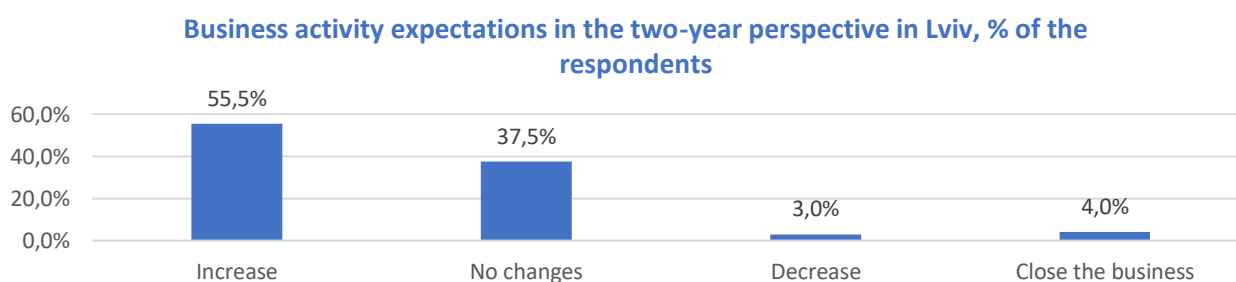
Similar ratings were assigned to the complexity of legislation (16.6%), political risks (15.3%), complex permit obtaining procedures (14.7%) and municipal government corruption (13.5%). 11% of the respondents still perceive the war in the East of Ukraine as a serious barrier. The list of TOP10 barriers is completed by poor transport infrastructure, which is perceived as a serious barrier by 8.0% of the respondents.

## Expectations and assessments of the business climate and economic conditions in Lviv

**Regional SME Business Climate Index.** ABCA SME Business Climate Index in Lviv is 0,26 (the city was ranked number three among all the cities covered by the survey). This is more than in 2017 (0.18), which indicates an improvement in perception of the business climate. This is in line with the all-Ukrainian trend.



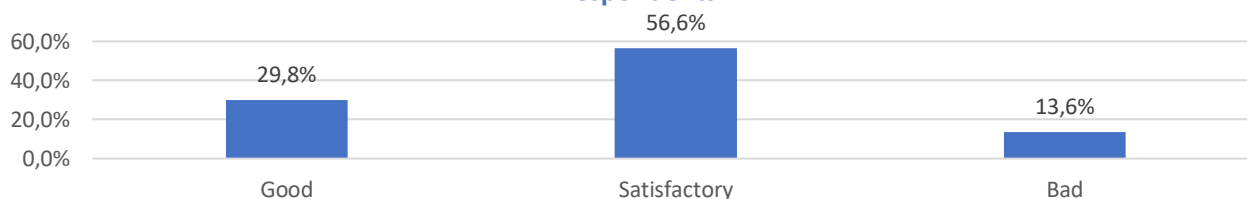
**Long-term expectations for business activity.** Business community in Lviv has optimistic long-term development plans for the next two years. More than half of the respondents (55.5%) reportedly plan to expand their business, and 37.5% want to stay at the current level. At the same time, only 3% of the respondents plan to reduce their business, and 4% want to close it. The balance index<sup>92</sup> is +0.49 (+0.45 at the country level).



**Assessment of the financial and economic situation of business entities.** In Lviv, the majority of the business entities surveyed (56.6%) assessed their current financial and economic situation as satisfactory. The rest of the respondents rated it as good (29.8%) or bad (13.6%) It follows that the positive assessments outweigh the negative ones, and the balance index of the financial and economic situation is +0.16 (compared to the country's average of +0.05).

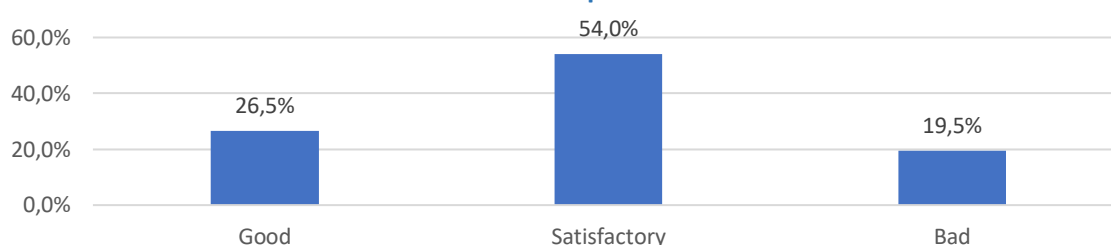
<sup>92</sup> Calculated as the average of all responses on a scale from -1 to 1, where 1 corresponds to a simplification of this procedure, 0 - no change, and -1 to a complication.

### Assessment of the business situation of business entities in Lviv, % of the respondents



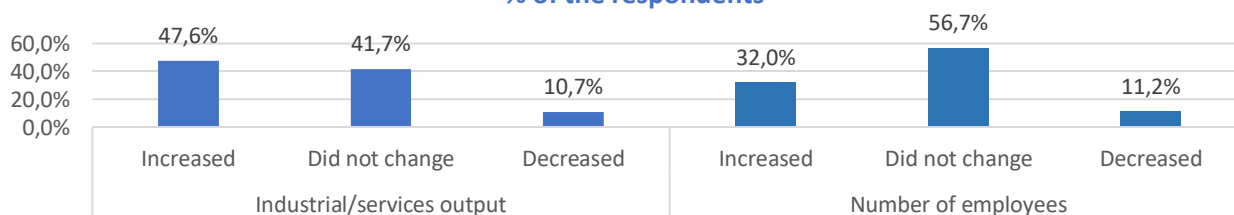
**Assessment of the current overall economic environment for business activities** More than a half of the surveyed business entities (54.0%) assessed the current overall economic environment as satisfactory. 19.5% of the respondents rate the overall economic environment as bad, and 26.5% as good. Thus, the index of assessment of the overall economic environment for business activities is positive (+0.07). Accordingly, the value of the index is much higher than the country's average (-0.12).

### Assessment of the overall economic situation (Lviv), % of the respondents



**Change in the production output over the past two years.** Almost a half (47.6%) of the surveyed business entities indicated that they increased their production or service output in 2018-2019. Nearly as many of the respondents (41.7%) did not change the output, while 10.7% of the respondents reduced it. Thus, the index of business activity is +0.37 (which is higher than the average for all the respondents surveyed), reflecting the predominance of the share of business entities that expanded their output over the share of those who reduced it.

### Change in the industrial/services output and in the number of employees in Lviv, % of the respondents



**Change in the number of employees of the business entities over the past two years.** More than a half of the surveyed business entities (56.7%) indicated that the number of their employees did not change in 2018-2019. The share of business entities that increased the number of their employees (32.0%) has proved to be more than two times higher than the share of those where the number of employees decreased (11.2%). Thus, the index of changes in the number of employees is +0.21, which is higher than the average of +0.16 for all the cities surveyed.

**Deregulation: changes in administrative procedures** According to the respondents, the process and conditions of business registration have been simplified the most in the last two years, while the situation with inspections and tax administration has not improved.

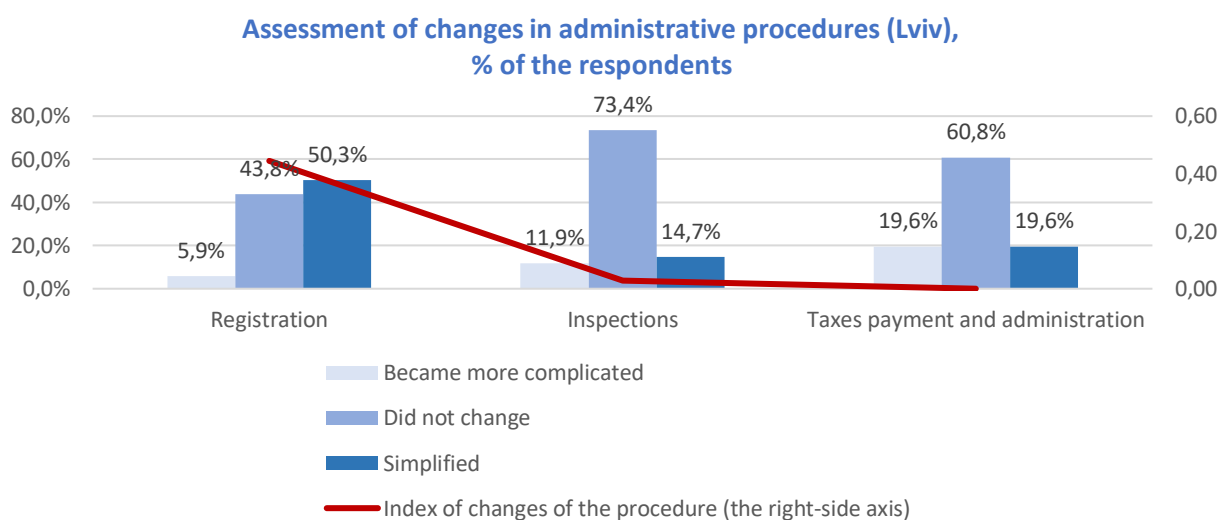
50.3% of the businesses surveyed point out the simplification of business registration in the previous two years. The rest of the respondents did not feel any changes in this procedure, and only a small share of the respondents (5.9%) said that, in their opinion, business registration has become more difficult. As a result,

the index of change in the registration procedures is +0.44<sup>93</sup>. This is the highest value of the index compared to the other two procedures, which include the passing of inspections and the administration of taxes.

When it comes to the administration of taxes, more than a half of business entities (60.8%) say that they have not noticed any changes in the complexity of this procedure. The rest of the business entities are divided into two equal parts, which include those for whom the payment of taxes has become easier (19.6%), and those for whom it has become more difficult. The index of change in the procedures for administering tax payments has therefore become zero.

The index of changes in passing inspections tends towards zero (+0.03). 11.9% of business managers and individual entrepreneurs claim that inspections have become more difficult. This share is slightly lower than the percentage of businesses according to which inspections have become easier compared to 2018 (14.7%). However, the largest share of the surveyed businesses (73.4%) did not notice any changes in relation to inspections.

As a result, the value of the general index of changes in administrative procedures, which is calculated as an average value of the indices of change of these three procedures, is +0.16.



## Recommendations

According to the MCI results (subject to the weak components and dimensions) the following key recommendations have been formulated for the city. In addition, the city government should pay attention to recommendations that are common for all the cities in general.

### Component 1. Starting a business.

- Faster business registration should be encouraged. It is necessary to increase the number of business registrars in local self-government authorities.
- It is necessary to improve the quality and availability of consulting services when starting a business, in particular, by expanding the capacity of consulting services in the centers of administrative services.
- The quality of services provided as part of issue of various permits must be improved to reduce the time required to obtain such documents.

<sup>93</sup> Calculated as the average of all responses on a scale from -1 to 1, where 1 corresponds to a simplification of this procedure, 0 - no change, and -1 to a complication.

**Component 2. Access to public property**

- It is necessary to ensure transparent access to information on the availability of community-owned land that can still be used for construction, though, in particular, the official website of the city council.
- It is necessary to ensure transparent access to information about community-owned real property, though, in particular, the official website of the city council.

**Component 9. Development resources**

- It is necessary to analyze the needs of local businesses for workforce.
- It is necessary to increase expenses on support for entrepreneurs to ensure the operation of the business support infrastructure and financial support programs.

# Mykolaiv

## Number 17 in MCI

### General information

Mykolaiv is the administrative center of the Mykolaiv Region and a city of regional significance.

The city is the administrative center of the Vitovskiyi and Mykolayivskiyi districts but is not part of any of them.

The city is divided into four inner districts: Zavodskiyi, Inhulskiyi, Tsentralnyi, and Korabelnyi. Each of the districts has its own district administration.<sup>94</sup>



### Location

The city of Mykolaiv is located in the south of Ukraine, in the southern part of the Mykolaiv Region. The territory of the city borders on the Vitovskiyi and Mykolaivskiyi Districts.

The city is located at the mouth of the Inhul River at the place of its confluence with the Pivdennyi Buh River. The city is located near the Black Sea. The Mykolaiv Sea Port is one of the largest Ukrainian ports. In 2019, the Mykolaiv Sea Port was ranked number two in Ukraine for the volume of handled cargoes.<sup>95</sup>

The closest regional centers are Kherson, Odesa, Kropyvnytskyi, and Zaporizhzhia.

### Demographic situation

As of January 1, 2019, the permanent population of Mykolaiv was 478.7 thousand people. The city is the largest settlement of the Mykolaiv Region. The city accounts for 42.3% of the total residents of the region. There are no other cities in the region, except Mykolaiv, which population exceeds 100 thousand inhabitants. For instance, some of the largest cities of the Region — Pervomaisk and Yuznoukrainsk — count 65.6 thousand inhabitants and 41 thousand inhabitants, respectively.<sup>96</sup>

The population of Mykolaiv, as just in Ukraine generally, is dominated by women (54.6%). There are 832 men per 1,000 women (864 men at the country level). The share of the population aged from 15 to 64 is 68.8% (67.8% at the country level). In total, there are 4,583 people (475 at the country level) aged 0-14 and over 65 per 1,000 people of working age.

<sup>94</sup> Please see <https://mkrada.gov.ua/content/vikonavchiy-komitet.html>.

<sup>95</sup> Please see <http://www.uspa.gov.ua/pokazniki-roboti/pokazniki-roboti-2019>

<sup>96</sup> Here and below in the report, the statistical data of the Mykolaiv Region Statistics Headquarters of the State Statistics Service of Ukraine are used.

Mykolaiv demonstrated one of the highest rates of natural population decline in 2018 (-6.6 per 1,000 inhabitants). The death and birth rates reached 13.7 and 7.1, respectively.

## Development of entrepreneurship

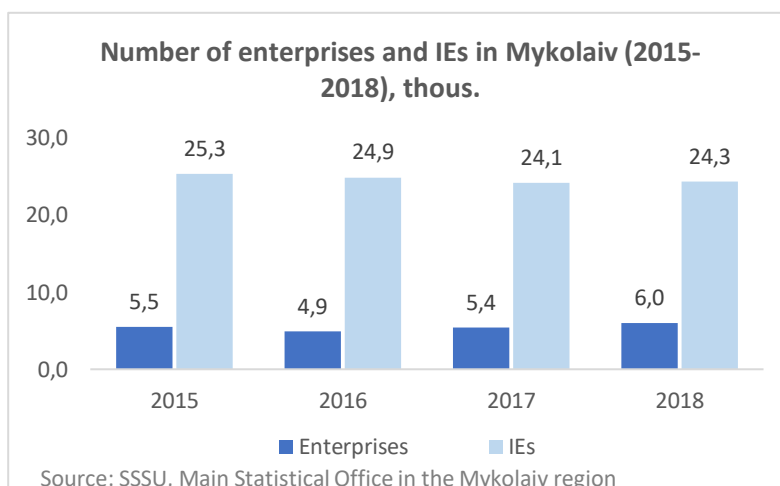
### Key structural business statistics in Vinnytsia in 2018

|                    | Absolute figures   |                          |                  | Relative figures      |                           |                         |
|--------------------|--------------------|--------------------------|------------------|-----------------------|---------------------------|-------------------------|
|                    | Number of entities | Employment, thsd persons | Turnover, UAH bn | Share in total number | Share in total employment | Share in total turnover |
| Large enterprises  | 5                  | 20.4                     | 39.7             | 0.02%                 | 18.6%                     | 38.2%                   |
| SMEs               | 30266              | 89.1                     | 64.3             | 99.98%                | 81.4%                     | 61.8%                   |
| Medium enterprises | 186                | 28.4                     | 30.1             | 0.61%                 | 25.9%                     | 29.0%                   |
| Small enterprises  | 5771               | 24.0                     | 24.5             | 19.06%                | 21.9%                     | 23.5%                   |
| In which           |                    |                          |                  |                       |                           |                         |
| micro              | 5122               | 11.0                     | 9.7              | 16.92%                | 10.1%                     | 9.3%                    |
| IEs                | 24309              | 36.8                     | 9.7              | 80.30%                | 33.6%                     | 9.3%                    |
| Total              | 30271              | 109.5                    | 103.9            | 100.00%               | 100.0%                    | 100.0%                  |

Source: Own calculations based on the data of the Mykolaiv Region Statistics Headquarters of the State Statistics Service of Ukraine

### Number of business entities

In 2018, Mykolaiv counted almost 30.2 thousand small and medium-sized enterprises (including 186 medium-sized enterprises, 5.8 thousand small enterprises and 30.3 thousand individual entrepreneurs) but only five large-scale enterprises. Only 19.7% of the business entities were registered as legal entities (Ukraine's average is 19.3%), while the others had the status of individual entrepreneurs.

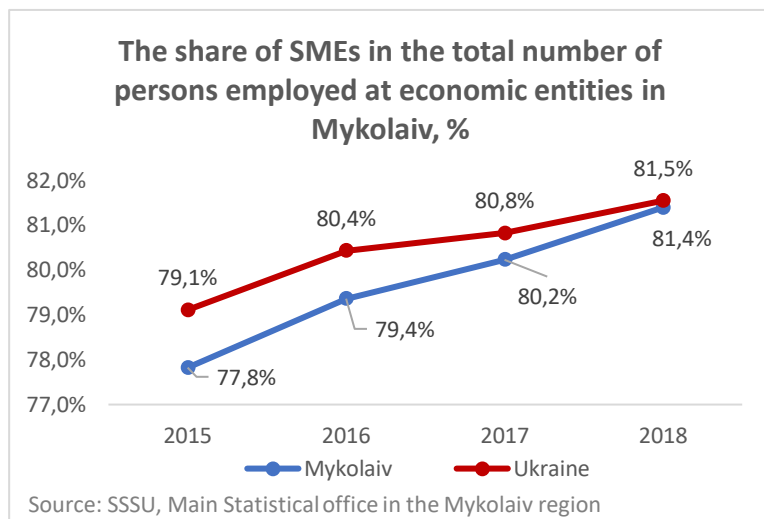


Mykolaiv is ranked number seven for the number of business entities among the cities selected for the survey. The city accounts for 55.2% of the total number of business entities in the Mykolaiv Region, which highlights the pivotal role the city plays in the region's economy. On the other hand, there were 622 SMEs per 10,000 inhabitants in Mykolaiv (ranked number 15 among the cities selected for the survey).

In 2018, the number of SMEs in the city increased by 2.5% compared to 2017, which approximately corresponds to the country's average (1.9%). This is primarily due to a 11% growth in the quantity of small businesses (the country's average reached 5.1%). However, there were no changes in the quantity of medium-sized enterprises (a 7.5% increase at the country level), while the number of individual entrepreneurs demonstrated just a 0.7% growth (1.2% at Ukraine's level).

### Employment





In 2018, the Mykolaiv-based business entities employed 109.5 thousand persons, which is 0.4% higher than in 2017 (the corresponding country's average is 4.8%). The city accounts for more than a half (58.9%) of the total number of persons employed at business entities in the Mykolaiv Region.

The share of people employed at SMEs in Mykolaiv reached 81.4% of the total quantity of people employed at all business entities, which approximately corresponds to the country's average

(81.5%). More than a half of people employed work for small businesses. In particular, individual entrepreneurs provided 33.6% of the total jobs, while 21.9% of the persons employed work for small enterprises.

Compared to 2017, the number of persons employed at SMEs in Mykolaiv increased by 1.8% (5.7% at the country level), while large businesses demonstrated a 5.5% decrease in the number of their employees (compared to a 0.9% growth at the country level). The number of SMEs increased primarily due to individual entrepreneurs (2.4 thousand people or 6.9%). The quantity of persons employed at small enterprises increased just by 0.3 thousand people or 1.2%, while medium-sized enterprises demonstrated a decline in their employees by 3.5% or almost one thousand persons. Relative changes in the number of people employed at the country level were +5.8% for medium-sized enterprises, -1.1% for small enterprises and +10.5% for individual entrepreneurs.

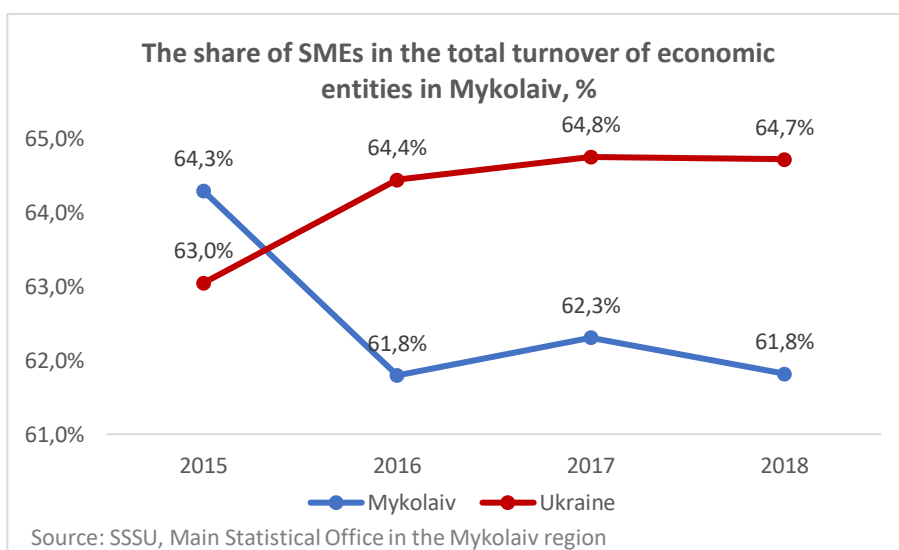
Statistics show that the Mykolaiv Region demonstrates, in general, a somewhat higher unemployment rate among working age population than Ukraine as a whole. In 2019, the corresponding indicator for the region was 9.6% compared to 8.6% at the country level. In late 2019, 2,119 people were officially unemployed in Mykolaiv, while there were only 1,152 vacant jobs. Accordingly, the registered unemployed persons created a load of nearly 2 people per a vacancy. However, the quarantine measures and crisis developments caused by the COVID-19 pandemic may deteriorate the employment situation in the city in 2020.

### *Turnover*

At the end of 2018, the turnover of goods and services by business entities in Mykolaiv reached UAH 103.9 billion based on current prices. Compared to 2017, the real growth (i.e. adjusted for inflation) of turnover reached only 1.4% (compared to the country's average of 8.1%). The business entities of the city accounted for 62.4% of the total turnover in the Mykolaiv Region.

The SME sector of the city accounted for 61.8% of the total turnover of all business entities (the country's average is 64.7%). In 2018, the Mykolaiv-based SMEs demonstrated a real growth of their turnover by just 0.6% compared to 2017 (compared to 8.1% at the country level). However, large enterprises increased their turnover by 2.7%.

The increase in the turnover of the SME sector was primarily due to the growth of turnover of small enterprises (by 7.2%) and individual entrepreneurs (by 10.5%). However, large enterprises demonstrated a decline in their turnover by 6.7%. As a result, the SME sector's contribution in Mykolaiv decreased by 0.5 percentage points compared to 2017.



### *Sales of industrial products*

No statistical information on key performance indicators of enterprises in terms of the types of their economic activities is available at the level of cities of regional significance and districts. However, there are statistical data on the sales of industrial products by the types of activities. Such information allows us to determine key industries of Mykolaiv.

According to the data provided by the Mykolaiv Region Statistics Headquarters, the sales of industrial products in Mykolaiv reached UAH 17.2 billion in 2018. 57.7% or UAH 9.9 billion of those sales were accounted for the processing industry. In particular, 19.7% or UAH 3.4 billion were generated by the manufacture of foodstuffs, beverages, and tobacco products<sup>97</sup>. Engineering, except for repair and installation of machinery and equipment, comes second in the processing industry (13% or UAH 2.2 billion). Other important types of activities are the manufacture of furniture, other products, the maintenance and installation of machinery and equipment (UAH 1.8 billion or 10.5%), the manufacture of wood products and paper, and the printing industry (UAH 0.8 billion or 4.8%), the manufacture of rubbers, plastics, and other non-metal mineral products (UAH 0.7 billion or 4.3%).

### *Capital investments*

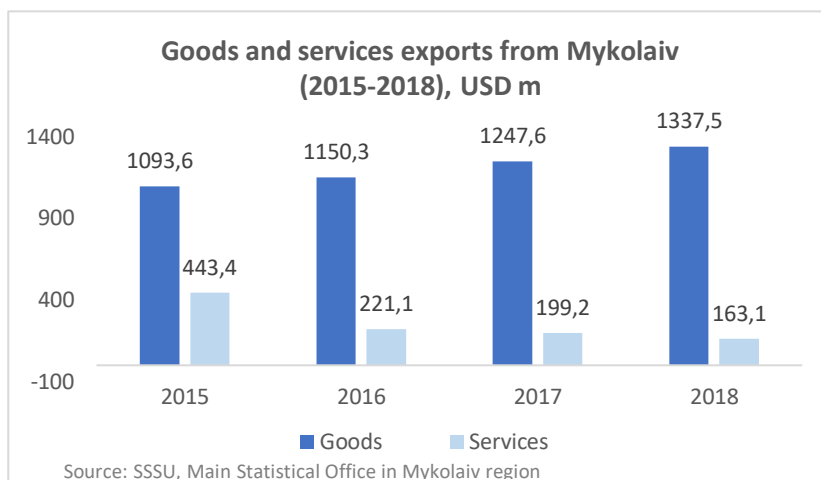
In 2018, Mykolaiv accounted for more than UAH 6.1 billion of capital investments, which corresponds to 60.7% of the total capital investments in the Mykolaiv Region. In 2018, the amount of capital investment per capita was approximately UAH 12,771, which is somewhat less than the country's average of UAH 13,746. Mykolaiv is ranked number 13 on this index among the cities selected for the survey.

<sup>97</sup> Data by types of activities are generated based on homogeneous products.

## Exports

According to the State Statistics Service of Ukraine, Mykolaiv's exports of goods amounted to more than USD 1.3 billion in 2018, which is 7.2% more than in 2017. Mykolaiv was ranked number four on this metric among the surveyed cities in respect of which relevant statistical data were available.

On the other hand, the exports of services decreased by 18.1% to USD 163.1 m (ranked number six).



An analysis of the foreign trade structure of Mykolaiv has demonstrated that in 2018 a major part of the city's exports was provided by agricultural and food products. In particular, such products are accounted for USD 1,246.7 m or 93.2% of the total exports. Other important exports included machinery, equipment, mechanisms, and electrical equipment (3.5%), and wood and wood products (1.7%).

## Safety and comfort

The results of other studies allow us to look at the level of safety and comfort of living in the selected cities based on the assessments of their inhabitants. These factors are important for understanding the overall situation in the city. In addition, it is possible to compare those research studies with some results of MCI.

According to the study titled "Sixth Annual Ukrainian Municipal Survey"<sup>98</sup>, the city of Mykolaiv has one of the worst scores (ranked number 22 among the 24 cities) on the Quality of Public Goods and Services Index with a score of 2.7 (on a scale from 1 (terrible) to 5 (excellent)), indicating that the residents are significantly dissatisfied with the level of comfort in their city. Mykolaiv falls behind its opponents in health facilities, industrial development, transport infrastructure, and roads. A slightly better situation is observed in education (technical schools, universities, colleges).

As part of the same study, according to its residents, Mykolaiv is one of the least secure cities in Ukraine. The value of the corresponding Index for Mykolaiv is 1.4 (on a scale from 0 to 3, where 0 means "I feel completely unsafe" and 3 means "I feel completely safe"). The city is ranked next to last (number 23) on this metric among the 24 cities covered by the survey. More than a half of the respondents (56%) said that they felt rather unsafe or completely unsafe at night, while 41% of the respondents said they felt rather or completely safe at night.

## Results of the "Municipal Competitiveness Index" in Mykolaiv

### Description of the survey sample

205 business entities took part in the survey in Mykolaiv. These were 133 (64.9%) enterprises (legal entities) and 72 (35.1%) individual entrepreneurs (PEs). When analyzing the answers, the data array was weighed by

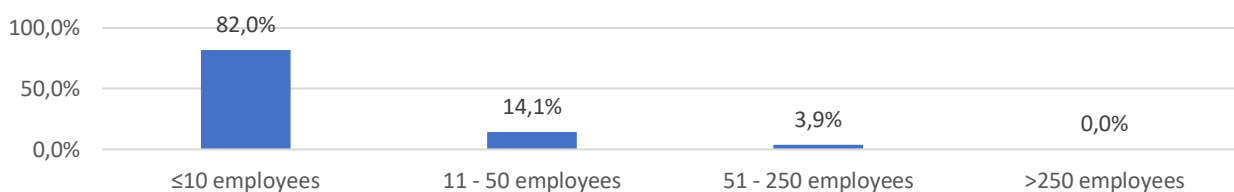
<sup>98</sup> The survey was conducted by the Sociological Rating Group on behalf of the International Republican Institute's Center for Insights in Survey Research; The survey was funded by the United States Agency for International Development. Please see [http://ratinggroup.ua/research/regions/shestoy\\_vseukrainskiy\\_municipalnyy\\_opros.html](http://ratinggroup.ua/research/regions/shestoy_vseukrainskiy_municipalnyy_opros.html).

the types of business entities (66.5% of legal entities and 33.5% of PEs) to ensure that it was compliant with the parameters of the target sample.

### *Size of the surveyed business entities*

Most respondents (82.0%) were micro businesses — business entities employing from 1 to 10 people. 14.1% were small entities with 11 to 50 employees. Medium-sized entities (from 51 to 250 employees) account for 3.9% of the respondents, while large entities (more than 250 employees) account for 0%.

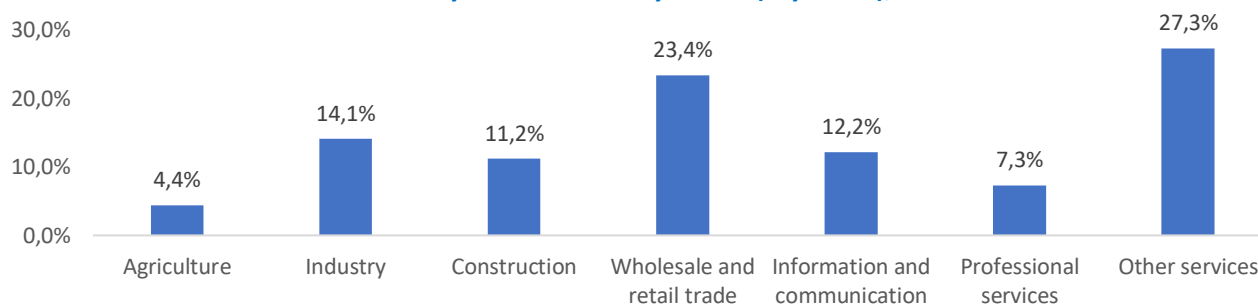
**Surveyed businesses by size (Mykolaiv), %**



### *Industry and type of activity*

The surveyed business entities in Mykolaiv operate in various sectors of the economy. 23.4% of surveyed business are engaged in trade (including in wholesale and retail, repair of motor vehicles). 14.1% of the respondents are employed in the industry, 11.2% – in the construction, and 4.4% – in the agriculture. Almost a half of the surveyed businesses account for the service sector (46.8%) 12.2% of the respondents provide information and communication services, while professional services are provided by 7.3% of the respondents. 27.3% of the respondents provide other services (businesses operating in the transport, arts, sports, education, health care, finance, and other service-related sectors).

**Surveyed businesses by sector (Mykolaiv), %**



### *Year of registration*

Most of the surveyed business entities were registered earlier than in 2017 (76.6%). In 2018-2019, 23.4% of the respondents were registered.

### *Age and gender breakdown of business owners and managers*

According to the survey findings, 63.7% of the Mykolaiv-based businesses are owned by men, while the remaining 36.3% are owned by women. In addition, the share of men owning legal entities is even higher (65.1% of men vs. 34.9% of women).

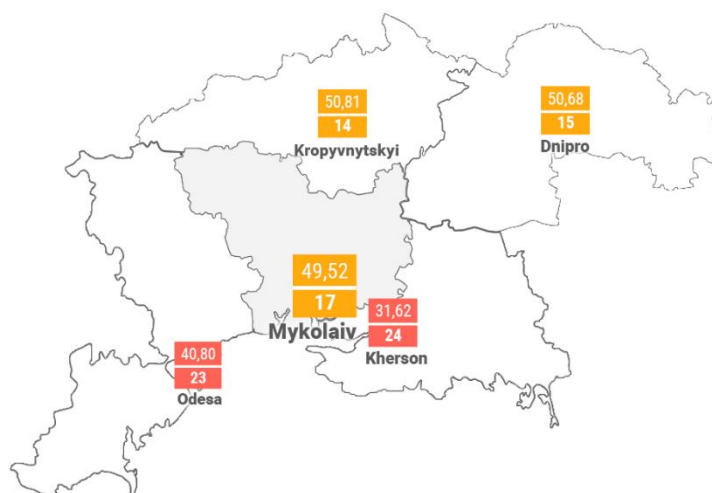
Men run 78.2% of legal entities, while the share of female managers accounts for 21.8%. When it comes to PEs, who are owned and run by the same person, the quantitative advantage of men is less apparent (59.6% vs. 40.4%). Men run 72.2% of all the business entities, while the share of female managers accounts for 27.8%.

The average age of business owners in Mykolaiv is 44.2 years (the country's average is 42.8 years). However, individual entrepreneurs are on average six years younger than the owners of legal entities (39.2 years vs. 45.8 years) in Mykolaiv.

### *Municipal Competitiveness Index: results of Mykolaiv*

According to the survey findings, Mykolaiv is ranked number 17, scoring 49.52 points as part of MCI 2019/2020. Thus, Mykolaiv is classified among cities with average MCI scores.

A geographical comparison between the MCI index for Mykolaiv and scores of its geographical neighbors has shown that the cities classified under average and low MCI score groups are located nearby. In particular, Odesa is classified number 23 and Kherson — number 24. Kropyvnytskyi and Dnipro, just as Mykolaiv, are in the bottom half of the table.



Mykolaiv demonstrated mostly average and low results on all the components (sub-indices).

The strongest components are:

- Access to public property (number 11)

The weakest components are:

- Compliance cost (number 20)
- Access to public property (number 16)

#### **1. Starting a business**

Mykolaiv scored 4.43 points on Component 1 “Starting a Business.” This is only the sixteenth score among all the cities. The low score of the city was due to significantly lengthy procedures for entering changes to the register and a low quality of advice during registration process.

According to the survey data, the registration of a business in Mykolaiv in 2018-2019 took less time than on average in the country (5.6 days compared to 6.1 days). On the other hand, it took on average 4.7 days to have changes entered into the register, which is more than one day longer compared to all the cities' average of 3.6 days.

In Mykolaiv, 7.6% of the respondents who registered a business in 2018-2019 reported problems and barriers during the registration. This corresponds to a better situation compared to the other cities surveyed (the average of 8.8%). However, only 64.5% of the respondents received necessary advice during the registration, which is 6.2 pp less than the country's average of 70.7%. It took 31.6 days to launch a business (from the date of submission of documents for registration to the date of the first sale of goods or services) in Mykolaiv, which is just a half-day shorter compared to the country's average (32.1 days).

It should be noted that problems related to lengthy procedures for obtaining certain permits are less tangible in the city. The obtaining of construction permits, and registrations took, on average, 37.2 days in the country and 21.9 days in Mykolaiv, which is one of the best results among the cities covered by the survey. It also took less time in Mykolaiv to obtain a declaration of conformity to the requirements of the fire safety legislation in respect of a business entity's facilities (8.3 days compared to the cities' average of 11.8 days).

It should be noted that in Mykolaiv, compared to the other cities, business registrars experience a heavier workload. There are only six registrars per 10 thousand business entities in the city (including government authorities, local self-government authorities and notaries public). By way of comparison, there are 13 business registrars in Kropyvnytskyi.

### ***3. Transparency and data openness***

Mykolaiv was ranked number 17 and scored 4.10 points on the "Transparency and data openness" component. In Mykolaiv, the respondents assigned average rates to the access to information on local budget, local regulations, and public procurements.

In particular, the access to information on public procurements got the top score in Mykolaiv with 14.8% of the respondents assigning 'good' and 'excellent' rates, compared to 17.3% of all the respondents surveyed. The access to information on local regulations was assessed positively by 11.9% of the respondents surveyed in Mykolaiv compared to, on average, 13.9% of the total respondents in all the other cities. On the other hand, the access to information on local budget was positively assessed by only 7.9% of the respondents (10.2% among all the cities in general).

### ***4. Compliance cost***

Mykolaiv was assigned one of the lowest rates for compliance cost and is ranked number 20 with 5.89 points on this component. The result of the city was determined by significantly higher (compared to the other cities) scores assigned by the respondents in respect of time and money spent on compliance with the requirements of local regulations and time spent on communications with inspectors.

In Mykolaiv, entrepreneurs spend on average 7.2 days for compliance with local regulations, which is twice as much as the country's average (four days). 5.1% of an annual income is, on average, spent on compliance with the requirements of local regulations in Mykolaiv, which is higher than 3.7% spent on average by all the respondents.

The findings of the survey show that entrepreneurs in Mykolaiv are even less frequently visited by local inspectors compared to the country's average (0.6 times per year in the city compared to the country's average of 0.7 times per year). However, the average time spent on communications with the inspectors was 6.6 days, which is almost 1.5 days longer compared to the country's average (five days).

### ***5. Taxes and duties***

Component (sub-index) 5 "Taxes and duties" is one of the weaknesses of Mykolaiv. The city was ranked number 13 and scored 5.73 points on this component. This score of Mykolaiv was due to a combination of such factors as low expenses for payment of taxes, a lower local tax burden, and problems associated with the availability of local tax exemptions.

As part of the survey in Mykolaiv, the respondents said that they spent, on average, 23.9% of their annual income on taxes and duties (including USC), which is less than the average for all the cities (26.8% of the annual income). Entrepreneurs in Mykolaiv spent, on average, 59.7 days on the administration of taxes and duties, which is almost in line with the average for all the cities surveyed (59 days).

21.9% of the respondents in Mykolaiv said that local taxes create barrier to their businesses, although the average for all the cities was 20.4%. In addition, 1.9% of the respondents in Mykolaiv reported being exempt from local taxes and duties in 2018-2019, which is one of the lowest scores among the cities covered by the survey (the average for all the respondents is 3.6%).

### ***6. Informal payments and corruption***

According to the survey findings, Mykolaiv was ranked number 12 and scored 4.95 points on Component (sub-index) 6 titled “Informal payments and corruption.” The city’s score was due to such factors as a higher than average prevalence of “informal payments” and a higher than average awareness of entrepreneurs about existing anti-corruption measures taken by the city.

In particular, as part of Dimension 1 “Bribes / Gifts” 11.0% of the respondents in Mykolaiv reported situations related to “informal payments” when approaching the municipal officials for any issues concerning the doing of business in 2018-2019. On average, 9.9% of the respondents faced such situations. On the other hand, as part of Dimension 2 “Anti-corruption efforts,” 33.8% of the respondents were informed about the implementation of specific anti-corruption measures by the city authorities (open budget, digital reception, municipal anti-corruption program, etc.), while the average for all the cities surveyed was 31.8%.

### ***7. Security of operating a business***

Mykolaiv was ranked number 12 among the cities covered by the survey and scored 5.60 points on Component (sub-index) 7 titled “Security of operating a business.” This score of Mykolaiv is due to a rather high — compared to the other cities — percentage of businesses that reportedly suffered financial loss as a result of criminal acts.

According to the survey, 43.9% of the respondents in Mykolaiv believe that competitors run informal businesses, which is two pp lower than the country’s average (45.1% at the country level). 2.5% of the total respondents experienced attempts of illegal takeovers at the country level in 2018-2019. In Mykolaiv, this percentage is just slightly lower and corresponds to 2.4%.

13.6% of the respondents in Mykolaiv reported that they suffered losses as a result of extortions, thefts, robberies, or acts of vandalism or arson in 2018-2019, which is one pp lower compared to the country’s average of 14.3% of the respondents. In addition, entrepreneurs estimated loss they suffered as a result of similar criminal acts at 13.1%, which is two pp higher than the country’s average in the case at hand (10.8% at the country level).

In Mykolaiv, businesses spend, on average, 2.8% of their annual income on security / protection, which is somewhat higher compared to the country’s average of 2.7% of the annual income.

### ***8. Leadership of municipal authorities***

Mykolaiv was ranked number 13 and scored 4.52 points on Component (sub-index) 8 titled “Leadership of municipal authorities.” The rating of the city is due to its average — compared to all the other cities — scores on two dimensions of which the sub-index consists — “Business development support” and “Public-private dialogue.”

Mykolaiv scored 5.15 points and was ranked number 13 on the “Business development support” dimension. The Mykolaiv-based entrepreneurs are, on average, more pessimistic about the attitude of representatives of the municipal authorities towards private businesses, compared to the respondents in the other cities. Only 15.1% of the respondents believe that the attitude of the municipal authorities towards businesses is “very good” or “good” (the average for all the cities is 20%). In addition, 26.5% of the respondents agree that the municipal authorities support start-ups (compared to the average of 38.3% for all the cities), and 26.3%

indicate that the municipal authorities support existing businesses (compared to the average of 35.5% for all the cities. The survey results are also complemented by “hard data” on the activities of the city council. According to the “hard data,” Mykolaiv scored 9 of 10 points. In particular, the city does not have any anti-corruption program.<sup>99</sup>

The score obtained on the “Public-private dialogue” dimension shows that businesses face certain problems in their communications with the city authorities in Mykolaiv. On this dimension, the city was ranked number 12 and scored 3.88 points. Only 5.3% of business representatives in Mykolaiv believe that they have “extensive” or “very extensive” opportunities to participate in the development of local documents (strategies, plans, programs, etc.), while the average for all the cities surveyed is 6.5%. In addition, 7.3% of the respondents indicate that the city always or often holds consultations with entrepreneurs before passing new or amending existing regulations that may affect businesses (compared to 7.4% on average for all the cities).

### **9. Development resources**

Mykolaiv was ranked number 14 and scored 4.42 points on Component (sub-index) 9 titled “Development resources.” The city’s assessment is based on the results of three dimensions that form a single component. Those dimensions are Human resources, Financial resources and infrastructure, and Business support infrastructure.

The city was ranked number 17 and scored 5.18 points on **Dimension 1 (Human resources)**. An analysis of individual indicators of this dimension has demonstrated that only 8% of the respondents in Mykolaiv rate the quality of the local workforce as “excellent” or “good” (the average for all the respondents surveyed is 7.6%). In addition, only 9.8% of the respondents surveyed give positive assessments of vocational education of employees in the local labor market (the country’s average is 10%). Accordingly, just as in the other cities, an insignificant percentage of business entities in Mykolaiv rate high the available workforce.

61.3% of the respondents are of the opinion that insufficient workforce training is a serious barrier to doing business (the country’s average is 60.7%). 70.5% of the respondents reported that they face a lack of workforce (70% of all the respondents surveyed). It follows that the lack of qualified workforce is the most severe problem faced by entrepreneurs in Mykolaiv, according to the rating of barriers to doing business (according to 36.2% of the respondents).

The analysis of the number of workforce in the city is supplemented by statistical data. In particular, there were approximately 3.8 vacancies per 100 businesses in Mykolaiv at the end of 2019, which approximately corresponds to the average for all the cities surveyed (3.6 vacancies)<sup>100</sup>. In addition, as of January 1, 2019, the share of working age population (aged 15-64) in Mykolaiv corresponds to 68.8%, which is one of the lowest percentages among all the cities surveyed. The corresponding country’s average on this metric was 67.8%<sup>101</sup>. Thus, the problem of population aging may be more tangible in Mykolaiv compared to the other cities.

The city was ranked number 9 and scored 4.19 points on **Dimension 2 (Financial resources and infrastructure)**. According to the survey findings, only 1.2% of the respondents at the country level received financial support from municipal authorities in 2018-2019. When it comes to individual cities, the share of

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<sup>99</sup> As of April 1, 2020, According to the Mykolaiv City Council, a draft resolution approving the city’s anti-corruption program for the period 2020 to 2023 was developed and its discussion was held at the beginning of February 2020.

<sup>100</sup> Sources for calculations: 1) Number of vacancies: The situation in the labor market and the results of activities of the state employment service. Data on the page of the Mykolaiv Region Employment Center, <https://lviv.dcz.gov.ua/analitics/65> 2) Number of businesses: According to the Mykolaiv Region Statistics Headquarters

<sup>101</sup> According to the Mykolaiv Region Statistics Headquarters of the State Statistics Service of Ukraine



such respondents in Mykolaiv accounts for 1%, which is approximately in line with the average level. However, 75.8% of the business entities surveyed in Mykolaiv believe that the lack of financial resources is a serious barrier to doing business (the average for all the cities is 77.8%).

Data on the city's budget expenditures complete the picture of financial resources allocated to support businesses in the city. In 2019, actual spending on support for small and medium-sized enterprises in the city reached only UAH 60,000 per 10,000 businesses.<sup>102</sup> It should, however, be noted that, in general, SME support expenditures are low or non-existent in most of the cities. However, a higher amount of expenditures or even the existence of such support in general may point to a higher level of leadership of municipal authorities in relation to business support

When it comes to the infrastructure, the entrepreneurs surveyed in the cities covered by the study had reportedly a different experience in relation to connection to electricity grids. In Mykolaiv, connection to the electricity grid took on average 66 full days from the date of an application until the date of actual connection. The corresponding country's average was 85 days. It follows that it is, on average, less complicated to have a business connected to the electricity grid in Kropyvnytskyi than in any of the other cities surveyed.

Mykolaiv was ranked number 13 and scored 3.90 points on **Dimension 3 (Business support infrastructure)**. According to the survey data, 11.8% of the respondents personally received business support services from the municipal authorities (information, advice, training, etc.), which is higher than all the cities' average (11%). At the same time, only 41% of them rated such services as "good" and "excellent" (48.6% of the total respondents surveyed). This is one of the lowest percentages of positive rates among the cities surveyed.

40.8% of the business entities surveyed in Mykolaiv reported the existence of business support centers in the city, which is one of the highest indices among the cities surveyed (the average for all the respondents is 32.6%). In addition, according to the 'hard data,' there was only one business support infrastructure facility in the city at the end of 2019, which was created with the participation of the city authorities — the City Center for Support for Internally Displaced Persons and ATO veterans. Thus, entrepreneurs' awareness of business support centers may relate to other business support infrastructure facilities existing in the city.

44.6% of the respondents in Mykolaiv are aware of the activities of business associations and business clubs in their city (45.9% of the total respondents). However, only 9.2% of the surveyed business entities are members of such organizations, which is lower than the percentage recorded for all the respondents surveyed in general (11.5%).

### ***10. Support of innovations***

The city of Mykolaiv was ranked number 12 and scored 4.85 points on Component (sub-index) 10 titled "Support of innovations."

17.9% of the respondents in the city reported that their businesses interacted with research institutions or technology companies in 2018-2019, which is lower than all the cities' average (18.9%). Businesses in Mykolaiv are, however, more satisfied with technology transfer compared to the average for the other respondents. 9.2% of the respondents pointed out that the related needs (the transfer of patents for inventions, etc.) are "met to a significant extent" or "fully met" (compared to the country's average of 8%)

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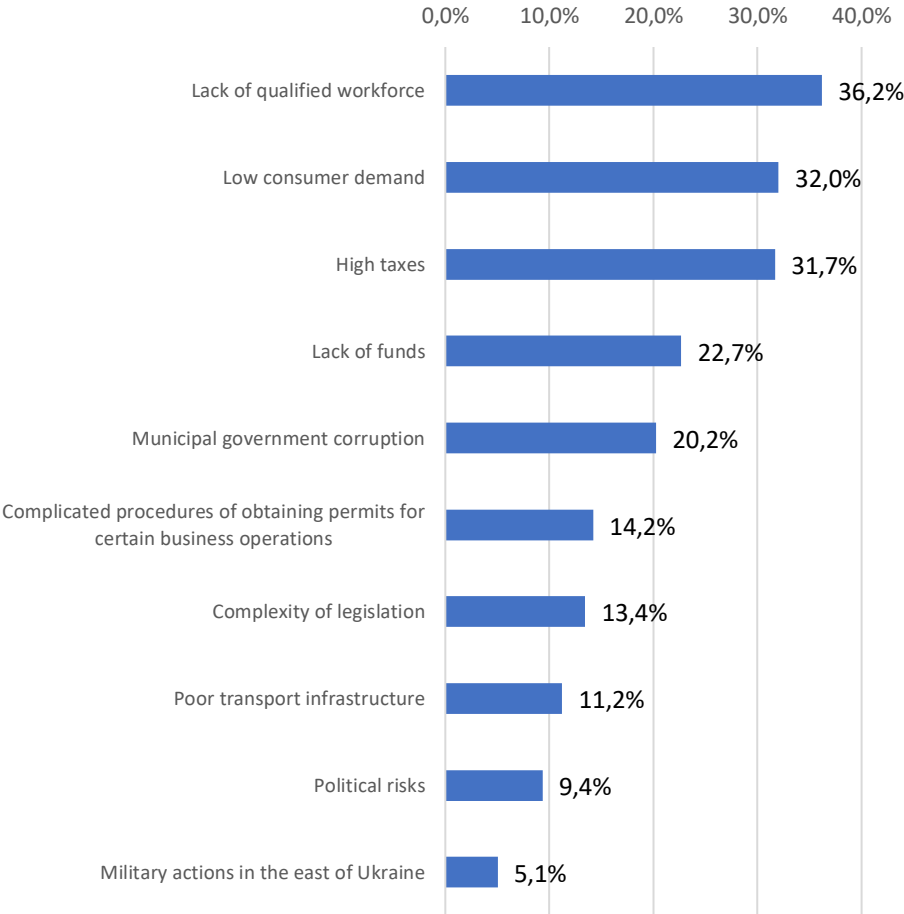
<sup>102</sup> Reports on the implementation of local budgets (expenditures under program classification code 7610 - Promotion of small and medium entrepreneurship), as well as responses of the city councils to requests for public information were used. For some cities, information on expenditures was updated through telephone interviews with the employees of executive authorities of the city councils.

The respondents in Mykolaiv give a relatively low assessment of the local government’s support for local innovation programs (funded from the local budget) with the city scoring 1.75 of five points compared to the average score of 1.91 for all the cities. In addition, Mykolaiv introduced new technologies, solutions, or products slightly less frequently than all the other cities on average in 2018-2019 (39.68% compared to 40.2%). Further, 2.94% of the surveyed enterprises and individual entrepreneurs reported that they belonged to clusters. This is index is high and exceeds the index recorded for all the cities in general (2.1%). In general, all the factors provide a relatively average satisfaction with support for innovations in Mykolaiv among entrepreneurs.

**Barriers to doing business**

The surveyed business entities named the main barriers they face when doing business in Mykolaiv. According to the survey findings, three most important barriers included such factors as the lack of qualified workforce, low consumer demand, and high taxes. Each of these barriers was reported by nearly a third of the respondents (36.2%, 32.0% and 31.7%, respectively). Accordingly, the lack of qualified workforce is the most severe problem in Mykolaiv, as just in a number of other cities, and, therefore, it outweighed the problems of high taxes and low consumer demand that are on the top of the barriers rating for all the respondents in general.

**TOP-10 barriers to doing business in Mykolaiv, %**

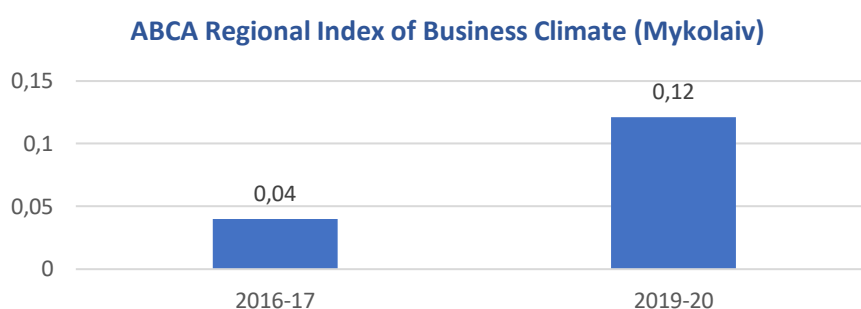


Barrier number four — the lack of funds — was reported by 22.7% of the respondents. Municipal government corruption (20% of the respondents) is rated just 2.5 pp less. Thus, Mykolaiv is one of the cities where the problem of municipal government corruption was reported by a larger share of the respondents compared to all the respondents in general (15.7%). Almost similar ratings were assigned to permit obtaining

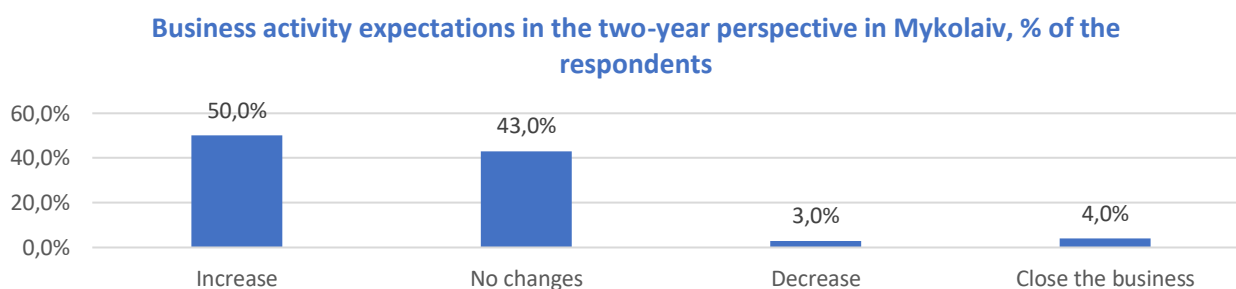
procedures and the complexity of legislation (14.2% and 13.4%, respectively). Poor transport infrastructure and political risks are perceived as serious barriers by 11.2% and 9.4% of the entrepreneurs surveyed in Mykolaiv, respectively. The list of TOP10 barriers is completed by the war in the East of Ukraine (5.1%).

## *Expectations and assessments of the business climate and economic conditions in Mykolaiv*

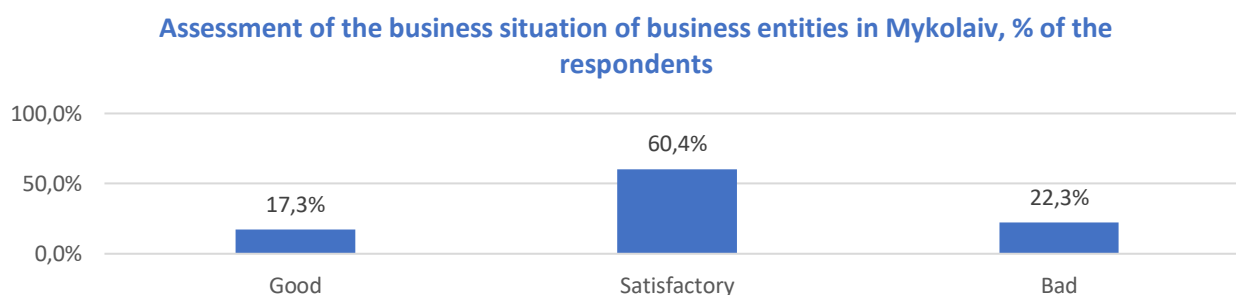
**Regional SME Business Climate Index.** ABCA SME Business Climate Index in Mykolaiv is 0.12 (the city was ranked only number 22 among all the cities covered by the survey). This is more than in 2017 (0.04), which indicates an improvement in perception of the business climate. This is in line with the all-Ukrainian trend.



**Long-term expectations for business activity.** Business community in Mykolaiv has optimistic long-term development plans for the next two years. A half of the respondents (50%) reportedly plan to expand their business, and 43% want to stay at the current level. At the same time, only 3% of the respondents plan to reduce their business, and 4% want to close it. The balance index<sup>103</sup> is +0.43 (+0.45 at the country level).



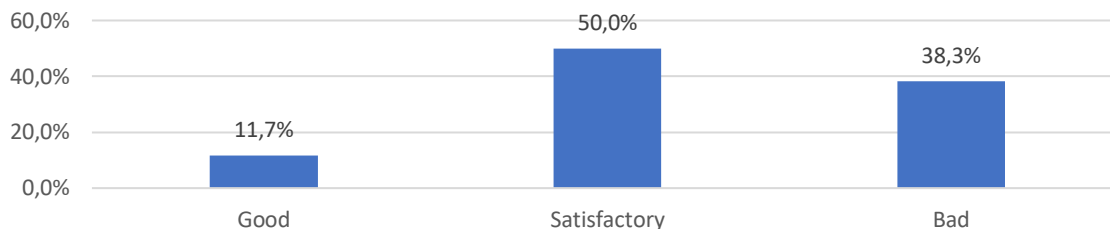
**Assessment of the financial and economic situation of business entities.** In Mykolaiv, the majority of the business entities surveyed (60.4%) assessed their current financial and economic situation as satisfactory. The rest of the respondents rated it as good (17.3%) or bad (22.3%) It follows that the negative assessments outweigh the positive ones, and the balance index of the financial and economic situation is -0.05 (compared to the country's average of +0.05).



<sup>103</sup> Calculated as the average of all responses on a scale from -1 to 1, where 1 corresponds to a simplification of this procedure, 0 - no change, and -1 to a complication.

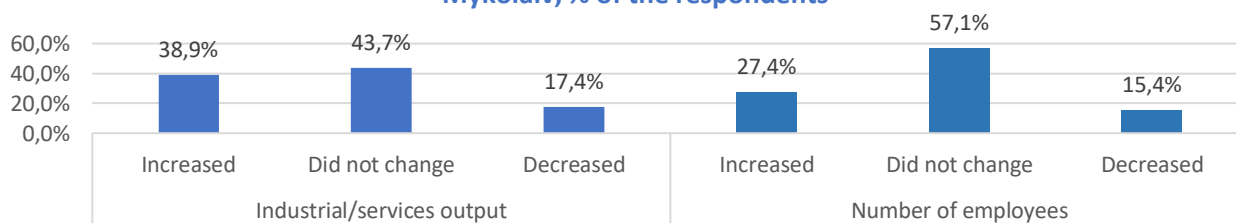
**Assessment of the current overall economic environment for business activities.** A half of the surveyed business entities (50.0%) assessed the current overall economic environment as satisfactory. 38.3% of the respondents rate the overall economic environment as bad, and 11.7% as good. Thus, the index of assessment of the overall economic environment for business activities is negative (-0.27). Accordingly, the value of the index is much lower than the country's average (-0.12).

**Assessment of the overall economic situation (Mykolaiv),  
% of the respondents**



**Change in the production output over the past two years.** Almost a half (43.7%) of the surveyed business entities indicated that they increased their production or service output in 2018-2019. Approximately a third (38.9%) of the respondents did not change the output while 17.4% of the respondents reduced it. Thus, the index of business activity is +0.22 (which is lower than the average of 0.31 for all the respondents surveyed), reflecting the predominance of the share of business entities that expanded their output over the share of those who reduced it.

**Change in the industrial/services output and in the number of employees in  
Mykolaiv, % of the respondents**



**Change in the number of employees of the business entities over the past two years.** More than a half of the surveyed business entities (57.1%) indicated that the number of their employees did not change in 2018-2019. The share of business entities that increased the number of their employees (27.4%) has proved to be twice as much as the share of those where the number of employees decreased (15.4%) Thus, the index of changes in the number of employees is +0.12, which is higher than the average of +0.16 recorded for all the respondents in general.

**Deregulation: changes in administrative procedures** According to the respondents, the process and conditions of business registration have been simplified the most in the last two years, while the situation with inspections and tax administration has not improved.

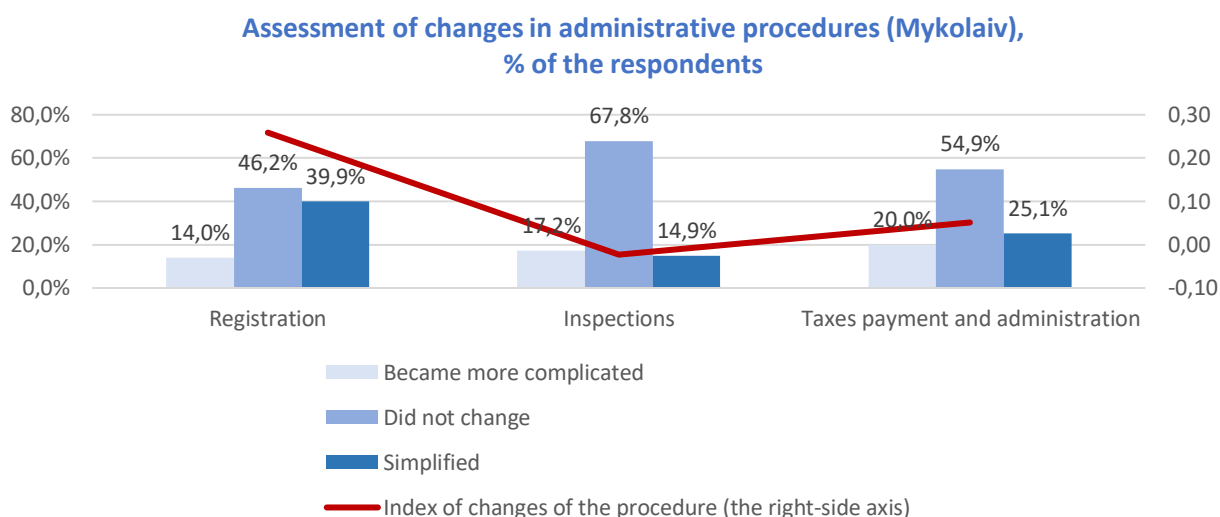
39.9% of the businesses surveyed point out the simplification of business registration in the previous two years. The rest of the respondents did not feel any changes in the procedures, and only 14.0% of the respondents said that, in their opinion, business registration has become more difficult. As a result, the index of change in the registration procedures is +0.26<sup>104</sup>. This is the highest value of the index compared to the other two procedures, which include the passing of inspections and the administration of taxes.

When it comes to the administration of taxes, more than a half of business entities (54.9%) say that they have not noticed any changes in the complexity of this procedure. The rest of the business entities are divided into those for whom the payment of taxes has become easier (25.1%) and those for whom it has become more difficult (20,0%). The index of change in the procedures for administering tax payments is +0.05.

<sup>104</sup> Calculated as the average of all responses on a scale from -1 to 1, where 1 corresponds to a simplification of this procedure, 0 - no change, and -1 to a complication.

The index of changes in passing inspections tends towards zero and is negative (-0.02). 17.2% of business managers and individual entrepreneurs claim that inspections have become more difficult. This is slightly higher than the share of businesses according to which inspections have become easier compared to 2018 (14.9%). However, the largest share of the surveyed businesses (67.8%) did not notice any changes in relation to inspections.

As a result, the value of the general index of changes in administrative procedures, which is calculated as an average value of the indices of change of these three procedures, is +0.10.



## Recommendations

According to the MCI results (subject to the weak components and dimensions) the following key recommendations have been formulated for the city. In addition, the city government should pay attention to recommendations that are common for all the cities in general.

### Component 1. Starting a business.

- Faster business registration should be encouraged. It is necessary to increase the number of business registrars in local self-government authorities.
- It is necessary to improve the quality and availability of consulting services when starting a business, in particular, by expanding the capacity of consulting services in the centers of administrative services.

### Component 3. Transparency and data openness

- It is necessary to improve the transparency and openness of data on local budgets, local regulations, and public procurements, in particular, through regularly placing up-to-date information on official websites.

### Component 4. Compliance cost

- Deregulation measures need to be continued at the local level to reduce the time and money costs of businesses on compliance with local regulations.

### Component 9. Development resources

- It is necessary to analyze the needs of local businesses for workforce.

- It is necessary to increase expenses on support for entrepreneurs to ensure the operation of the business support infrastructure and financial support programs.
- It is necessary to conduct an audit of business support infrastructure facilities to determine their efficiency and development pattern.
- It is necessary to use best practices applied by other cities to organize the operation of business support centers, co-workings, business hubs, clusters, etc.

# Odesa

## Number 23 in MCI

### General Information

Odesa is the administrative center of the Odesa Region, which is the largest region of Ukraine by territory.

Odesa is a city of regional significance.

The city is divided into four districts: Kyivskyi, Malynovskyi, Prymorskyi and Suvorovskyi. Each of the districts has its own district administration.<sup>105</sup>



### Location

The city of Odesa is located in the south of Ukraine, on the Black Sea coast. Consequently, one of the largest seaports of Ukraine — the Odesa Sea Port — is located in the city. There are also other port cities and seaports located nearby Odesa (the Pivdennyi Sea Port in the city of Yuzhne, the Chornomorsk Sea Port in the city of Chornomorsk). At the end of 2019, all of the said ports have been classified among the top five largest ports of Ukraine.<sup>106</sup>

The city is located in the east of the Odesa Region. The city borders on the Biliaivskyi, Lymanskyi and Ovidiopolskyi Districts of the Odesa Region. In addition, Chornomorsk, a city of regional significance, is located near Odesa.

The closest regional centers are Mykolaiv, Kherson, Vinnytsia, and Kropyvnytskyi.

### Demographic situation

As of January 1, 2019, the permanent population of Odesa was 995.5 thousand people. The city is the largest settlement of the Odesa Region. The city is accounted for 42% of the region's population. There are no cities with more than 100,000 inhabitants in the region. In particular, the city of Ismail counts 72.1 thousand inhabitants, the city of Chornomorsk (in the territory falling within the jurisdiction of the city council) hosts 71.9 thousand residents, and the city of Bilhorod-Dnistrovskyi has a population of 55.3 thousand persons.<sup>107</sup>

The population of Odesa, as just in Ukraine generally, is dominated by women (53.1%). There are 882 men per 1,000 women (864 men at the country level). The share of the population aged from 15 to 64 is 68.2% (67.8% at the country level). In total, there are 466 people (475 at the country level) aged 0-14 and over 65 per 1,000 people of working age.

<sup>105</sup> Please see <https://omr.gov.ua/ua/city/district/>.

<sup>106</sup> Please see <http://www.uspa.gov.ua/pokazniki-roboti/pokazniki-roboti-2019>.

<sup>107</sup> Here and below in the report, the statistical data of the Odesa Region Statistics Headquarters of the State Statistics Service of Ukraine are used.

A natural decline of the population was observed in Odesa in 2018 (-4.5 per 1,000 inhabitants). The death and birth rates reached 13.1 and 8.6, respectively.

## Development of entrepreneurship

### Key structural business statistics in Odesa in 2018

|                    | Absolute figures   |                          |                  | Relative figures      |                           |                         |
|--------------------|--------------------|--------------------------|------------------|-----------------------|---------------------------|-------------------------|
|                    | Number of entities | Employment, thsd persons | Turnover, UAH bn | Share in total number | Share in total employment | Share in total turnover |
| Large enterprises  | 12                 | 23.3                     | 87.2             | 0.02%                 | 9.0%                      | 30.8%                   |
| SMEs               | 71525              | 234.2                    | 195.6            | 99.98%                | 91.0%                     | 69.2%                   |
| Medium enterprises | 464                | 78.1                     | 98.1             | 0.65%                 | 30.3%                     | 34.7%                   |
| Small enterprises  | 13807              | 63.3                     | 66.6             | 19.30%                | 24.6%                     | 23.5%                   |
| In which           |                    |                          |                  |                       |                           |                         |
| micro              | 11915              | 28.2                     | 23.3             | 16.66%                | 10.9%                     | 8.2%                    |
| IEs                | 57254              | 92.8                     | 30.9             | 80.03%                | 36.0%                     | 10.9%                   |
| Total              | 71537              | 257.4                    | 282.8            | 100.00%               | 100.0%                    | 100.0%                  |

Source: Own calculations based on the data of the Odesa Region Statistics Headquarters of the State Statistics Service of Ukraine

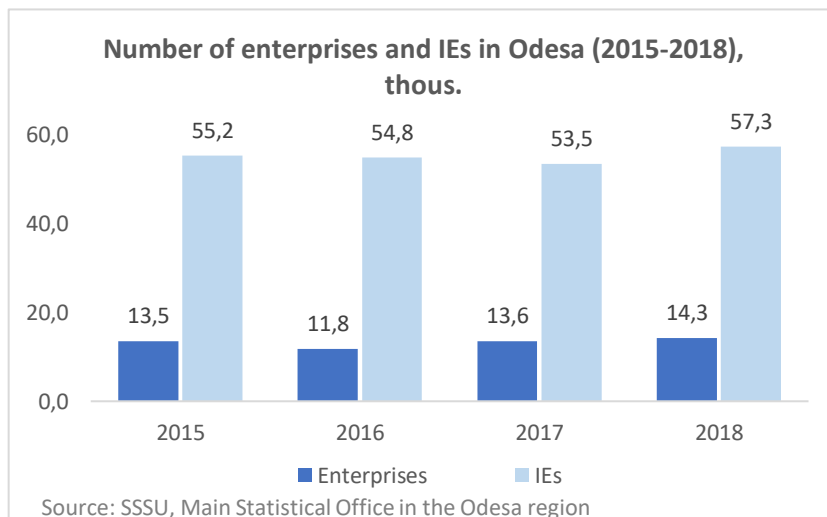
### Number of business entities

In 2018, Odesa counted almost 71.5 thousand small and medium-sized enterprises (including 464 medium-sized enterprises, 13.8 thousand small enterprises and 57.3 thousand individual entrepreneurs) but only 12 large-scale enterprises. Thus, Odesa is ranked number four by the quantity of large businesses among the cities selected for the survey.

As of the end of 2018, 20% (the country's average is 19.3%) of business entities were registered as legal entities, while the others had the status of individual entrepreneurs.

Odesa is ranked number three for the number of business entities among the cities selected for the survey. The city accounts for 54.4% of the total number of business entities in the Odesa Region, which highlights the pivotal role the city plays in the region's economy. There are 707 SMEs per 10,000 inhabitants in Odesa. This is the eighth highest index among the cities selected for the survey, which may point to a high business activity in the city.

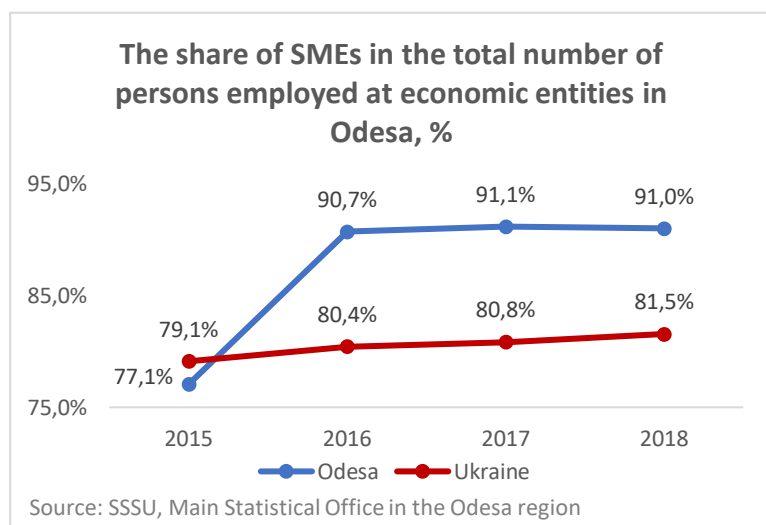
In 2018, the number of SMEs in the city increased by 6.7% compared to 2017, which is significantly higher than the country's average (1.9%). This was primarily due to the increase in the quantities of all business





entities. In particular, the number of medium-sized businesses increased by 8.2%, while the quantity of small enterprises demonstrated a 5.2% growth (7.5% and 5.1% at the country level, respectively). The quantity of individual entrepreneurs also increased by 7.1% (compared to Ukraine’s average of 1.2%).

## Employment



In 2018, the Odesa-based business entities employed 257.4 thousand persons, which is 4.7% higher than in 2017 (the corresponding country’s average is 4.8%). The city accounts for more than a half (57.9%) of the total number of persons employed at business entities in the Odesa Region.

The share of people employed at SMEs in Odesa reached 91% of the total quantity of people employed at all business entities, which is 10 p.p. higher than the

country’s average (81.5%). More than a half of people employed work for small businesses. In particular, individual entrepreneurs provided 36% of the total jobs, while 24.6% of the persons employed work for small enterprises.

Compared to 2017, the number of persons employed at SMEs in Odesa increased by 4.5% (5.7% at the country level). Large businesses also demonstrated a 6.7% increase in the number of their employees (compared to a 0.9% growth at the country level). The number of SMEs increased primarily due to individual entrepreneurs (10.4 thousand people or 12.6%). The quantity of persons employed at medium-sized enterprises increased just by 3.1 thousand people or 4.1%, while small businesses demonstrated a decline in their employees by 5.1% or almost 3.4 thousand persons. Relative changes in the number of people employed at the country level were +5.8% for medium-sized enterprises, -1.1% for small enterprises and +10.5% for individual entrepreneurs.

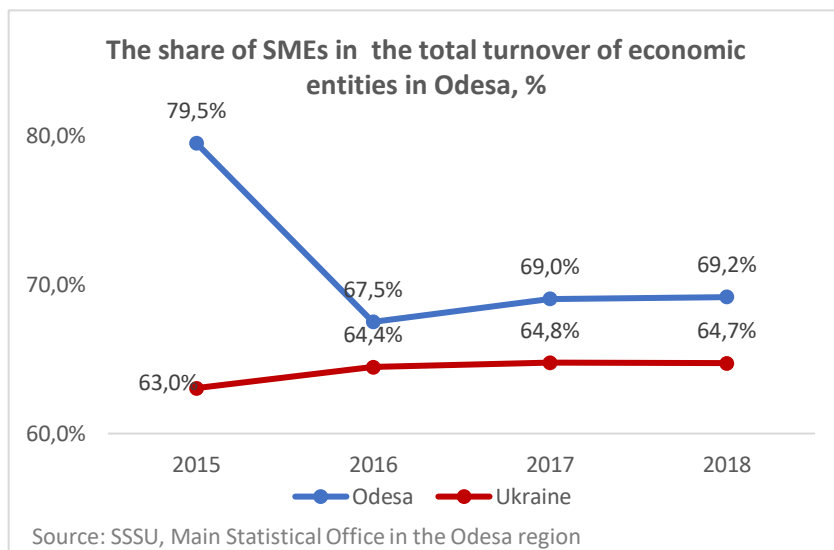
Statistics show that the Odesa Region, taken as a whole, shows a slightly lower unemployment rate among working age population than Ukraine as a whole. In 2019, the corresponding indicator for the region was 6.1% compared to 8.6% at the country level. In late 2019, 1,111 people were officially unemployed in Odesa, while there were 1,070 vacant jobs. Accordingly, the registered unemployed persons created a load of nearly 1 person per a vacant job. However, the quarantine measures and crisis developments caused by the COVID-19 pandemic may deteriorate the employment situation in the city in 2020.

## Turnover

At the end of 2018, the turnover of goods and services by business entities in Odesa reached UAH 282.8 billion based on current prices. This is the fourth highest index among the cities covered by the survey. Compared to 2017, the real growth (i.e. adjusted for inflation) of turnover reached 4.7% (compared to an 8.1% increase at the country level). The business entities of the city accounted for two thirds (67.7%) of the total turnover in the Odesa Region.

The SMEs sector of the city accounted for 69.2% of the total turnover of all business entities (the country's average is 64.7%). In 2018, the Odesa-based SMEs demonstrated a real growth of their turnover by 4.9% compared to 2017 (8.1% at the country level). However, large enterprises increased their turnover by 4.2%.

The increase in the turnover of the SME sector was primarily due to the growth of turnover of individual entrepreneurs by 30.2%. Medium-sized enterprises improved their turnover just by 0.7%, while small enterprises demonstrated a 1.9% growth in their turnover.



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### *Sales of industrial products*

No statistical information on key performance indicators of enterprises in terms of the types of their economic activities is available at the level of cities of regional significance and districts. However, there are statistical data on the sales of industrial products by the types of activities. Such information allows us to determine key industries of Odesa.

According to the data provided by the Odesa Region Statistics Headquarters, the sales of industrial products in Odesa reached UAH 28.3 billion in 2018. 58.8% or UAH 16.6 billion of those sales were accounted for the processing industry. In particular, the engineering sector, except for maintenance and installation of machinery and equipment, provided UAH 3.9 billion or 14% of the sales<sup>108</sup>. The manufacture of foodstuffs, beverages, and tobacco products (UAH 3.3 billion or 11.7%) and the manufacture of rubbers, plastics and other non-metal mineral products (UAH 3.3 billion or 11.7%) come second in the processing industry. Other important types of activities include the manufacture of wood products, paper, and the printing industry (UAH 0.5 billion or 1.6%); the manufacture of textile products, clothing, leather, leather products and products made of other materials (UAH 0.2 billion or 0.8%).

### *Capital investments*

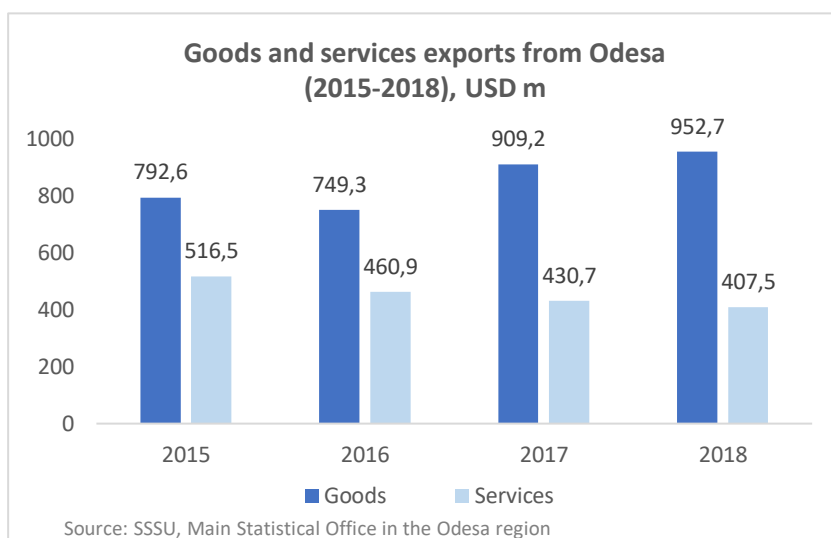
In 2018, Odesa accounted for more than UAH 11.9 billion of capital investments, which corresponds to more than a third (54.3%) of the total capital investments in the Odesa Region. At the end of 2018, the amount of capital investments per capita was UAH 12,996, which is somewhat lower than the country's average of UAH 13,746. Odesa is ranked only number 11 on this index among the cities selected for the survey.

### *Exports*

<sup>108</sup> Data by types of activities are generated based on homogeneous products.

According to the State Statistics Service of Ukraine, Odesa's exports of goods amounted to USD 952.7 m in 2018, which is 4.8% higher than in 2017. Odesa was ranked number six on this metric among the surveyed cities in respect of which relevant statistical data were available.

On the other hand, the exports of services decreased by 5.4% to USD 407.5 m. This is the second highest index (after Kyiv) among the cities covered by the survey.



An analysis of the foreign trade structure of Odesa has demonstrated that in 2018 the majority of the city's exports was provided by agricultural and food products. Such products accounted for USD 773.7 m or 81.2% of the exports. Other important exports include machinery products (for example, machinery, equipment, and mechanisms; electrical equipment (6.3%)), metallurgical products (basic metals and products made of them (4.9%)), chemical products (chemicals and related products (1.5%)), and processed wood (wood and wood products (1,4%)).

### *Foreign direct investments*

As of December 31, 2018, the city of Odesa accounted for USD 468.4 m of foreign direct investments (equity). The said volume was USD 8.4 m or 1.8% lower compared to the volume recorded at the beginning of 2018. On the other hand, there were USD 470.9 of FDI per capita in Odesa as of the end of December 2018. This is the fifth highest index among the cities covered by the survey.

It should be noted that in general the Odesa Region is ranked number five by the volume of direct investments among all the regions of Ukraine. In addition, at the beginning of 2018, 39.6% of the region's total direct investments were concentrated in Odesa.

### *Safety and comfort*

The results of other studies allow us to look at the level of safety and comfort of living in the selected cities based on the assessments of their inhabitants. These factors are important for understanding the overall situation in the city. In addition, it is possible to compare those research studies with some results of MCI.

According to the study titled "Sixth Annual Ukrainian Municipal Survey"<sup>109</sup>, the city of Odesa was ranked number 18 on the Quality of Public Goods and Services Index with a score of 2.8 (on a scale from 1 (terrible) to 5 (excellent)), indicating that the residents are, on average, dissatisfied with the level of comfort in their city. Odesa falls behind its competitors in health facilities, transport infrastructure, industrial development, and education (universities, colleges, technical schools).

<sup>109</sup> The survey was conducted by the Sociological Rating Group on behalf of the International Republican Institute's Center for Insights in Survey Research; The survey was funded by the United States Agency for International Development (USAID). See [http://ratinggroup.ua/research/regions/shestoy\\_vseukrainskiy\\_municipalnyy\\_opros.html](http://ratinggroup.ua/research/regions/shestoy_vseukrainskiy_municipalnyy_opros.html)

As part of the same study, according to its residents, Odesa is one of the least secure cities in Ukraine. The value of the corresponding Index for Odesa is 1.4 (on a scale from 0 to 3, where 0 means “I feel completely unsafe” and 3 means “I feel completely safe”). The city is one of the outsiders (number 20) on this metric among the 24 cities covered by the survey. (53%) of the respondents said that they felt rather unsafe or completely unsafe at night, while 41% of the respondents said they felt rather or completely safe at night.

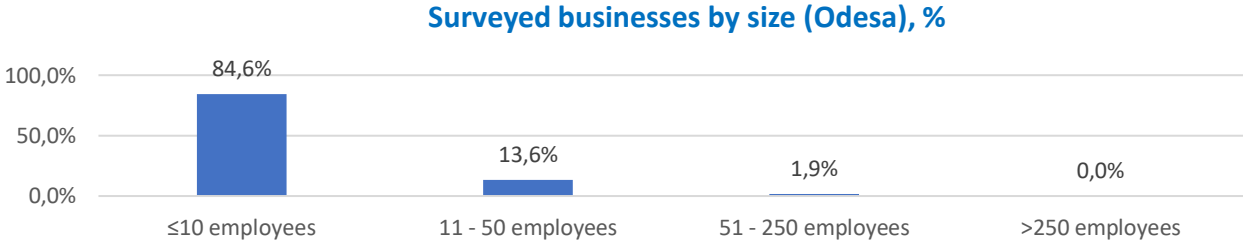
## Results of the “Municipal Competitiveness Index” for Odesa

### Description of the survey sample

214 business entities took part in the survey in Odesa. These were 136 (63.6%) enterprises (legal entities) and 78 (36.4%) individual entrepreneurs (PEs). When analyzing the answers, the data array was weighed by the types of business entities (64.5% of legal entities and 35.5% of PEs) to ensure that it was compliant with the parameters of the target sample.

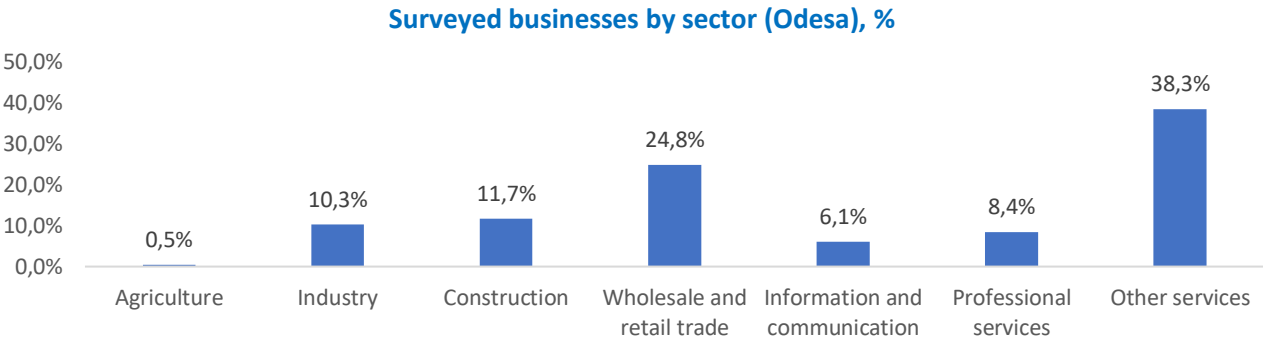
### Size of the surveyed business entities

Most respondents (84.6%) were micro businesses — business entities employing from 1 to 10 people. 13.6% were small entities with 11 to 50 employees. Medium-sized entities (from 51 to 250 employees) account for 1.9% of the respondents, while large entities (more than 250 employees) account for 0%.



### Industry and type of activity

The surveyed business entities in Odesa operate in various sectors of the economy. 24.8% of surveyed business are engaged in trade (including in wholesale and retail, repair of motor vehicles). 10.3% of the respondents are employed in the industry, 11.7% – in the construction, and 0.5% – in the agriculture. More than a half of the surveyed businesses account for the service sector (52.8%) 6.1% of the respondents provide information and communication services, while professional services are provided by 8.4% of the respondents. 38.3% of the respondents provide other services (businesses operating in the transport, arts, sports, education, health care, finance, and other service-related sectors).



### Year of registration

Most of the surveyed business entities were registered earlier than in 2017 (77.6%). In 2018-2019, 22.4% of the respondents were registered.

### *Age and gender breakdown of business owners and managers*

According to the survey findings, 69.5% of the Odesa-based businesses are owned by men, while the remaining 30.5% are owned by women. In addition, the share of men owning legal entities is even higher (74.2% of men vs. 25.8% of women).

Men run 78.9% of legal entities, while the share of female managers accounts for 21.1%. When it comes to PEs, who are owned and run by the same person, the quantitative advantage of men is less apparent (59.0% vs. 41.0%). Men run 71.7% of all the business entities, while the share of female managers accounts for 28.3%.

The average age of business owners in Odesa is 42.6 years (compared to Ukraine's average of 42.8 years). In addition, individual entrepreneurs are on average three years younger than the owners of legal entities (40.2 years vs. 43.7 years) in Odesa.

### *Municipal Competitiveness Index: Results of Odesa*

According to the survey findings, Odesa is ranked number 23, scoring 40.80 points as part of MCI 2019/2020. Thus, Odesa is classified among cities with low MCI scores.

A geographical comparison between the MCI index for Odesa and scores of its geographical neighbors has shown that the cities classified under average and low MCI score groups are located nearby. In particular, Vinnytsia leads Odesa by more than 24 points and is ranked number four. Mykolaiv (ranked number 17) and Kropyvnytskyi (ranked number 14) are also located nearby.

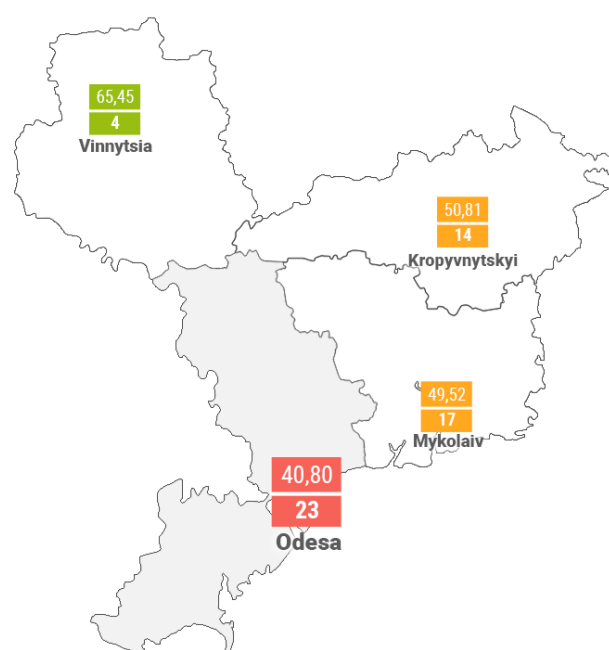
The overall score of the city is determined by low rates assigned on most of the components.

The strongest components are:

- Taxes and duties (number 11)
- Leadership of municipal authorities (number 12)

The weakest components are:

- Starting a business (number 24)
- Security of operating a business (number 24)
- Transparency and data openness (number 22)
- Informal payments and corruption (number 22)



### ***1. Starting a business***

Odesa scored 2.65 points on Component 1 “Starting a Business.” This is the lowest score among all the cities. The low score of the city on this component is due to lengthy procedures for state registration of businesses and obtaining necessary permits. In particular, the registration of a business in Odesa in 2018-2019 took more time than on average in the country (8.1 days compared to 6.1 days). It appears from the results of the survey that lengthy registrations are normal for large Ukrainian cities, where a huge number of enterprises and individual entrepreneurs are registered. On the other hand, it took on average four days to have changes entered into the register, which is longer than all the cities’ average of 3.6 days.

In Odesa, 16.4% of the respondents who registered a business in 2018-2019 reported problems and barriers during the registration. This share is almost twice as much as the average of 8.8% for all the cities. Only 60% of the respondents received necessary advice during the registration, which is 10.7 p.p. lower than the country’s average of 70.7%. It took 33.9 days to launch a business (from the date of submission of documents for registration to the date of the first sale of goods or services) in Odesa, which is 0.8 days longer than on average in the country (32.1 days).

The time required to obtain certain permits is one of the most serious problems in Odesa. The obtaining of construction permits, and registrations took, on average, 37.2 days in the country and 137.3 days in Zhytomyr, which is the highest index among the cities covered by the survey. It took less time in Odesa to obtain a declaration of conformity to the requirements of the fire safety legislation in respect of a business entity’s facilities (9.7 days compared to the cities’ average of 11.8 days).

It appears from the results of the survey that lengthy registrations are normal for large Ukrainian cities. Business registrars in Odesa may experience a heavier workload compared to the other cities. There are only five registrars per 10 thousand business entities in Odesa (including government authorities, local self-government authorities and notaries public). However, Odesa is one of the most active business centers of Ukraine.

### ***2. Access to public property***

Odesa scored 4.04 points and was ranked number 18 on the component (sub-index) titled “Access to public property”. The score of the city is due to low ratings on most indices. Only 22.9% of the respondents reported that they had documents certifying the ownership / lease of the land where their business operates (compared to the country’s average of 30%). This makes 40.9% of the respondents believing that land documents are their concern (compared to the country’s average of 46.8%). In 2018-2019, it took on average 29.7 days to obtain documents certifying the ownership / lease of the land in Odesa, which is one of the best indices among the cities surveyed (72.4).

According to the respondents, Odesa also demonstrates a low level of transparency compared to the other cities. In particular, only 11.3% of the respondents reported the accessibility of information on available community-owned land plots, which can be provided for use or used for construction, etc (18.1% of the total respondents). This is one of the lowest scores among the cities covered by the survey. In addition, 25.7% of the respondents indicated that information on the municipal real property (including non-residential facilities) was available (29.2% of the total respondents).

### ***3. Transparency and data openness***

Odesa was ranked number 22 and scored 2.95 points on the “Transparency and data openness,” and, therefore, is one of the outsiders on this component. In Odesa, the respondents expressed a lower — compared to the other cities — opinion of the access to information on local budget, local regulations, and public procurements.

In particular, the access to information on public procurements got the top score in Odesa with 12.1% of the respondents assigning 'good' and 'excellent' rates, compared to 17.3% of all the respondents surveyed. In particular, 8.8% of the respondents positively assess access to information on local regulations, while one per cent less of the respondents (7.5%) give positive assessment of access to information on local budget (compared to the averages of 13.9% and 10.2% for all the cities).

#### ***4. Compliance cost***

The compliance cost is one of the problematic components for Odesa. The city was ranked only number 18 and scored 6.11 points on this component. The result of the city was determined by high (compared to the other cities) scores assigned by the respondents in respect of time and money spent on compliance with the requirements of local regulations.

In Odesa, entrepreneurs spend on average 6.5 days for compliance with local regulations, which is 2.5 days longer than the country's average (four days). 5.6% of an annual income is, on average, spent on compliance with the requirements of local regulations in Odesa, which is higher than 3.7% spent on average by all the respondents.

The survey findings demonstrate that the frequency of visits of the municipal inspectors in Odesa does not exceed the country average of 0.7 times per year. Consequently, the average time spent on communications with the inspectors was 5.5 days, which is almost in line with the country's average (five days).

#### ***5. Taxes and duties***

Component (sub-index) 5 "Taxes and duties" is one of the weaknesses of Odesa. The city was ranked number 11 and scored 6.49 points on this component. Such score of Odesa was due to a combination of such factors as relatively low expenses for payment of taxes, low time expenditures for administration of taxes and duties, local tax burden, and the availability of significant local tax exemptions.

As part of the survey in Odesa, the respondents said that they spent, on average, 26.2% of their annual income on taxes and duties (including USC), which is just slightly less than the average for all the cities (26.8% of the annual income). Entrepreneurs in Odesa spent, on average, 58.1 days on the administration of taxes and duties, which is also somewhat less than the average for all the cities (59 days).

22.8% of the respondents in Odesa said that local taxes were a barrier to their businesses, although the average for all the cities was 20.4%. In addition, 6.0% of the respondents in Odesa reported being exempt from local taxes and duties in 2018-2019, which is the highest score among the cities covered by the survey (the average for all the respondents is 3.6%).

#### ***6. Informal payments and corruption***

According to the survey findings, Odesa was ranked number 22 and scored 3.02 points on Component (sub-index) 6 titled "Informal payments and corruption." This score of the city is primarily due to the highest prevalence of "informal payments" among the cities surveyed. However, entrepreneurs' awareness of anti-corruption measures taken by the city exceeds the average level. It should be noted that it is in Odesa that the highest share of the respondents reported municipal government corruption to be a barrier to doing business (23.4%). This highlights the negative assessment of the current situation in the city within this sub-index.

In particular, as part of Dimension 1 "Bribes / Gifts" 14.0% of the respondents in Odesa reported situations related to "informal payments" when approaching the municipal officials for any issues concerning the doing of business in 2018-2019. On average, 9.9% of the respondents faced such situations. On the other hand, as

part of Dimension 2 “Anti-corruption efforts,” 33.1% of the respondents were informed about the implementation of specific anti-corruption measures by the city authorities (open budget, digital reception, municipal anti-corruption program, etc.), while the average for all the cities surveyed was 31.8%.

### ***7. Security of operating a business***

Odesa got the worst result (was ranked number 24) and scored 2.92 points on Component (sub-index) 7 titled “Security of operating a business.” This score of the city is due to a relatively high — compared to the other cities — percentage of informal businesses and the percentage of those who reportedly suffered from various criminal acts.

According to the survey data, 49.1% of the respondents in Odesa believe that their competitors run informal businesses, which is almost four p.p. higher than the country’s average (45.1%). 2.5% of the total respondents experienced attempts of illegal takeovers at the country level in 2018-2019. However, the problem of illegal takeovers in Odesa seems to be more critical as 2.8% of the respondents reported that they had faced such acts.

18.8% of the respondents in Odesa reported that they suffered losses as a result of extortions, thefts, robberies, or acts of vandalism or arson in 2018-2019 (this is four percentage points higher compared to the country’s average of 14.3% of the respondents). However, entrepreneurs suffer quite heavy losses from the above criminal acts. Such losses accounted for 12.6% of the annual income of the respondents who reportedly suffered them, which is two percentage points higher than Ukraine’s average indices (the country’s average is 10.8%).

In Odesa, businesses spend, on average, 3.8% of their annual income on security / protection, which is the worst index compared to the country’s average of 2.7% of the annual income.

### ***8. Leadership of municipal authorities***

Odesa was ranked number 12 and scored 4.52 points on Component (sub-index) 8 titled “Leadership of municipal authorities.” The rating of the city is due to its average — compared to all the other cities — scores on two dimensions of which the sub-index consists — “Business development support” and “Public-private dialogue.”

Odesa scored 5.19 points and was ranked number 12 on the “Business development support” dimension. The Odesa-based entrepreneurs are, on average, more pessimistic about the attitude of representatives of the municipal authorities towards private businesses, compared to the respondents in all the other cities. Only 15.9% of the respondents believe that the attitude of the municipal authorities towards businesses is “very good” or “good” (the average for all the cities is 20%). In addition, 32.6% of the respondents agree that the municipal authorities support start-ups (compared to the average of 38.3% for all the cities), and 30.4% indicate that the municipal authorities support existing businesses (compared to the average of 35.5% for all the cities). The survey results are also complemented by “hard data” on the activities of the city council. According to the “hard data,” Odesa scored 8 of 10 points. In particular, the city does not offer tax incentives (in respect of the unified tax) necessary for the development of certain types of activities, which would point to a higher proactivity of the municipal authorities to support new and existing businesses.

The score obtained on the “Public-private dialogue” dimension shows that businesses face certain problems in their communications with the city authorities in Odesa. On this dimension, the city was ranked number 14 and scored 3.85 points. Only 5.1% of business representatives in Odesa believe that they have “extensive” or “very extensive” opportunities to participate in the development of local documents (strategies, plans, programs, etc.), while the average for all the cities surveyed is 6.5%. In addition, 7.4% of the respondents



indicate that the city always or often holds consultations with entrepreneurs before passing new or amending existing regulations that may affect businesses (compared to 7.4% on average for all the cities).

### **9. Development resources**

Odesa was ranked number 18 and scored 3.96 points on Component (sub-index) 9 titled “Development resources.” The city’s assessment is based on the results of three dimensions that form a single component. Those dimensions are Human resources, Financial resources and infrastructure, and Business support infrastructure.

The city was ranked number 18 and scored 5.18 points on **Dimension 1 (Human resources)**. An analysis of individual indicators of this dimension has demonstrated that only 7.4% of the respondents in Odesa rate the quality of the local workforce as “excellent” or “good” (the average for all the respondents surveyed is 7.6%). In addition, only 7.9% of the respondents surveyed give positive assessments of vocational education of employees in the local labor market (the country’s average is 10%). Accordingly, just as in the other cities, an insignificant percentage of business entities in Odesa rate high the available workforce.

However, almost two thirds of the respondents (63.1%) believe that insufficient workforce training is a serious barrier to doing business (the average for all the respondents is 60.7%). 64.5% of the respondents reported that they face a lack of workforce (70% of all the respondents surveyed). It follows that the lack of qualified workforce is the third most severe problem faced by entrepreneurs in Odesa, according to the rating of barriers to doing business (as reported by 30.1% of the respondents).

The analysis of the number of workforce in the city is supplemented by statistical data. For example, at the end of 2019 there were 1.5 vacant jobs per 100 businesses in Odesa, which may point to a low demand for workforce compared to the other cities (the average for the cities surveyed is 3.6 vacant jobs).<sup>110</sup> However, the services of the employment center may be less popular in Odesa to search for workforce. As of January 1, 2019, the share of working age population (aged 15-64) accounted for 68.2% in Odesa, which is one of the lowest percentages among the cities surveyed. The corresponding country’s average on this metric was 67.8%<sup>111</sup>. Thus, the problem of population aging may be more tangible in Odesa compared to the other cities.

The city was ranked number 13 and scored 3.84 points on **Dimension 2 (Financial resources and infrastructure)**. According to the survey findings, only 1.2% of the respondents at the country level received financial support from municipal authorities in 2018-2019. When it comes to individual cities, the share of such respondents in Odesa accounts for 0.9%, which is approximately in line with the average level. However, 76.7% of the business entities surveyed in Odesa believe that the lack of financial resources is a serious barrier to doing business (the average for all the cities is 77.8%).

Data on the city’s budget expenditures complete the picture of financial resources allocated to support businesses in the city. In 2019, actual spending on support for small and medium-sized enterprises in the city reached only UAH 40,000 per 10,000 businesses.<sup>112</sup> It should, however, be noted that, in general, SME support expenditures are low or non-existent in most of the cities. However, a higher amount of expenditures

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<sup>110</sup> Sources for calculations: 1) Number of vacancies: The situation in the labor market and the results of activities of the state employment service. Data on the page of the Odesa Region Employment Center, <https://ode.dcz.gov.ua/analytics/66> 2) Number of businesses: According to the Odesa Region Statistics Headquarters

<sup>111</sup> According to the Odesa Region Statistics Headquarters of the State Statistics Service of Ukraine

<sup>112</sup> Reports on the implementation of local budgets (expenditures under program classification code 7610 - Promotion of small and medium entrepreneurship), as well as responses of the city councils to requests for public information were used. For some cities, information on expenditures was updated through telephone interviews with the employees of executive authorities of the city councils.

or even the existence of such support in general may point to a higher level of leadership of municipal authorities in relation to business support

When it comes to the infrastructure, the entrepreneurs surveyed in the cities covered by the study had reportedly a different experience in relation to connection to electricity grids. In Odesa, connection to the electricity grid took on average 85 full days from the date of an application until the date of actual connection. This corresponds to the average index for all the respondents.

Odesa was ranked only number 19 on **Dimension 3 (Business support infrastructure)**. According to the survey data, only 6.6% of the respondents personally received business support services from the municipal authorities (information, advice, training, etc.), which is one of the two lowest indices among the cities surveyed (compared to the average of 11% for all the respondents). At the same time, 50.2% of them rated such services as “good” and “excellent” (48.6% of the total respondents).

Only 22.3% of the business entities surveyed in Odesa reported the existence of business support centers in the city, which is one of the lowest indices among the cities surveyed (the average for all the respondents is 32.6%). In addition, according to the ‘hard data,’ there was only one business support infrastructure facility in the city at the end of 2019, which was created with the participation of the city authorities — Odesa 5T Grant Office. Thus, entrepreneurs’ awareness of business support centers may relate to other business support infrastructure facilities existing in the city.

45.8% of the respondents in Odesa are aware of the activities of business associations and business clubs in their city (45.9% of the total respondents). Only 12.1% of the surveyed business entities are members of such organizations, which is in line with the index recorded for all the respondents surveyed in general (11.5%).

### ***10. Support of innovations***

The city of Odesa was ranked number 16 and scored 4.14 points on Component (sub-index) 10 titled “Support of innovations.”

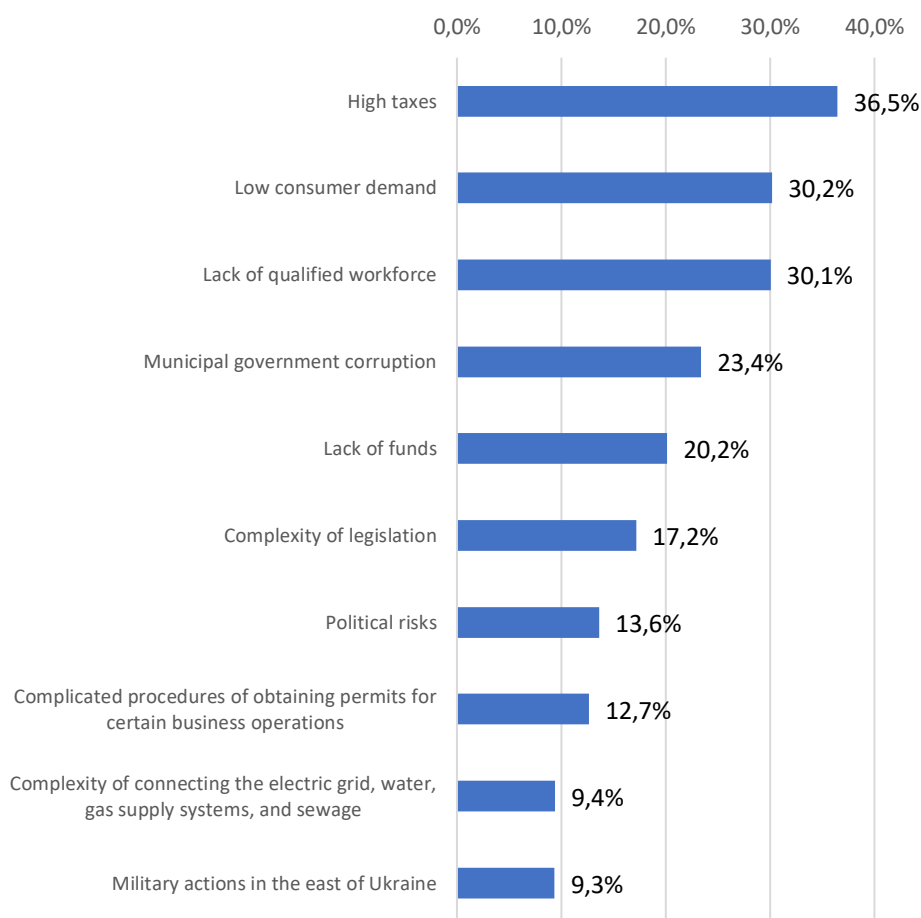
19.65% of the respondents in the city reported that their businesses interacted with research institutions or technology companies in 2018-2019, which is higher than all the cities’ average (18.9%). However, businesses in Odesa are, on average, less satisfied with technology transfer compared to the other cities. 7.4% of the respondents pointed out that the related needs (the transfer of patents for inventions, etc.) are “met to a significant extent” or “fully met” (compared to the country’s average of 8%)

The respondents in Odesa give a slightly lower than average assessment of the local government support for local innovation programs (funded from the local budget), with the city scoring 1.82 of five points compared to the average of 1.91 for all the cities. In addition, Odesa introduced new technologies, solutions, or products slightly more frequently than all the other cities on average in 2018-2019 (40.09% compared to 40.2%). Further, 0.93% of the surveyed enterprises and individual entrepreneurs reported that they belonged to clusters. This is lower than the index recorded for all the cities in general (2.1%). In general, all the factors provide a low level of satisfaction with support for innovations in Odesa among entrepreneurs.

### ***Barriers to doing business***

The surveyed business entities named the main barriers they face when doing business in Odesa. Three most important barriers included such factors as high taxes, low consumer demand, and lack of qualified workforce. Each of these barriers was reported by nearly a third of the respondents (36.5%, 30.2% and 30.1%, respectively). It follows that the list of major barriers to doing business in Odesa corresponds to the rating for all the respondents in general. 23.4% of the respondents reported municipal government corruption, which is ranked as barrier number four. This is the highest score for this barrier among all the cities.

### TOP-10 barriers to doing business in Odesa, %

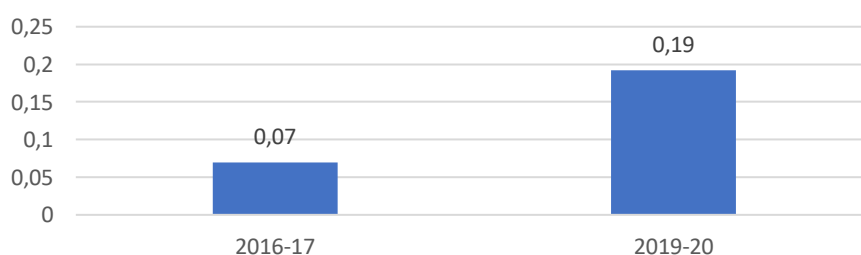


Barrier number five relates to the lack of funds (20.2% of the respondents). The complexity of legislation was rated three percentage points less (17.2% of the respondents). Almost similar ratings were assigned to political risks (13.6% of the respondents) and complex permit obtaining procedures (12.7%). The TOP10 list of barriers in Odesa is completed by permit obtaining procedures and the war in the East of Ukraine, which were reported by almost equal share of the respondents (9.4% and 9.3%, respectively).

### *Expectations and assessments of the business climate and economic conditions in Odesa*

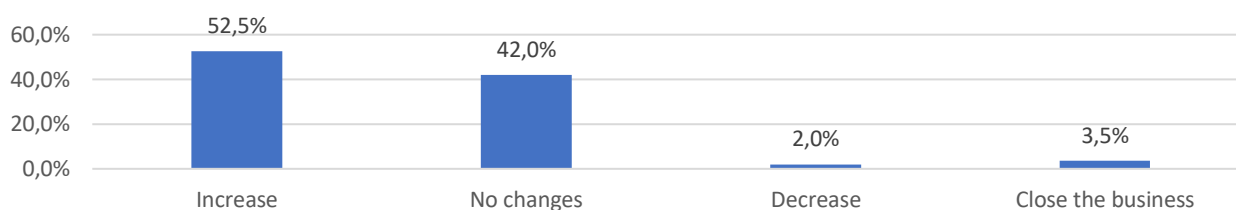
**Regional SME Business Climate Index.** ABCA SME Business Climate Index in Odesa is 0.19 (the city was ranked only number 13 among all the cities covered by the survey). This is more than in 2017 (0.07), which indicates an improvement in perception of the business climate. This is in line with the all-Ukrainian trend.

#### ABCA Regional Index of Business Climate (Odesa)



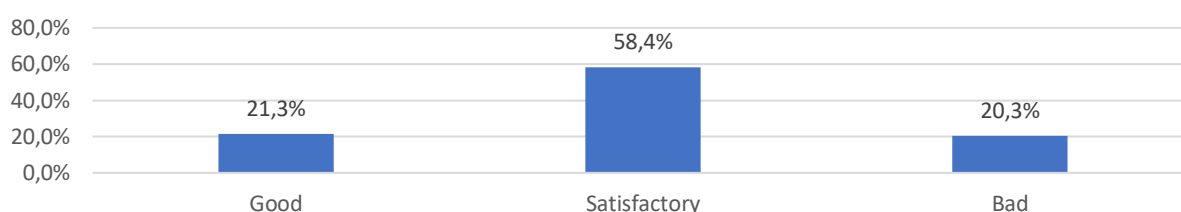
**Long-term expectations for business activity.** Business community in Odesa has optimistic long-term development plans for the next two years. A half of the respondents (52.5%) reportedly plan to expand their business, and 42% want to stay at the current level. At the same time, only 2% of the respondents plan to reduce their business, and 3.5% want to close it. The balance index<sup>113</sup> is +0.47 (+0.45 at the country level).

**Business activity expectations in the two-year perspective in Odesa, % of the respondents**



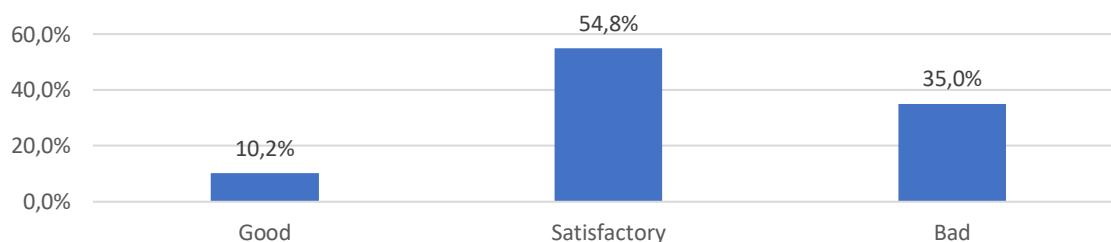
**Assessment of the financial and economic situation of business entities.** In Odesa, the majority of the business entities surveyed (58.4%) assessed their current financial and economic situation as satisfactory. The rest of the respondents rated it as good (21.3%) or bad (20.3%). It follows that the positive assessments outweigh the negative ones, and the balance index of the financial and economic situation is +0.01 (compared to the country's average of +0.05).

**Assessment of the business situation of business entities in Odesa, % of the respondents**



**Assessment of the current overall economic environment for business activities** More than a half of the surveyed business entities (54.8%) assessed the current overall economic environment as satisfactory. 35.0% of the respondents rate the overall economic environment as bad, and 10.2% as good. Thus, the index of assessment of the overall economic environment for business activities is negative (-0.24). Accordingly, the value of the index is half as much as the country's average (-0.12).

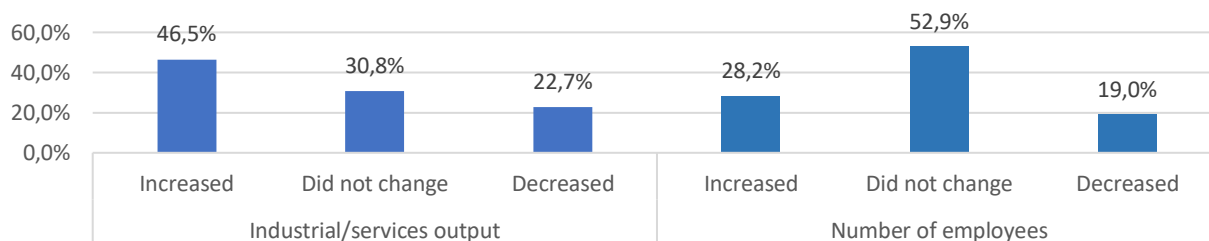
**Assessment of the overall economic situation (Odesa), % of the respondents**



**Change in the production output over the past two years.** Almost a half (46.5%) of the surveyed business entities indicated that they increased their production or service output in 2018-2019. Approximately a third (30.8%) of the respondents did not change the output while 22.7% of the respondents reduced it. Thus, the index of business activity is +0.24 (which is lower than the average for all the respondents surveyed), reflecting the predominance of the share of business entities that expanded their output over the share of those who reduced it.

<sup>113</sup> Calculated as the average of all responses on a scale from -1 to 1, where 1 corresponds to a simplification of this procedure, 0 - no change, and -1 to a complication.

### Change in the industrial/services output and in the number of employees in Odesa, % of the respondents

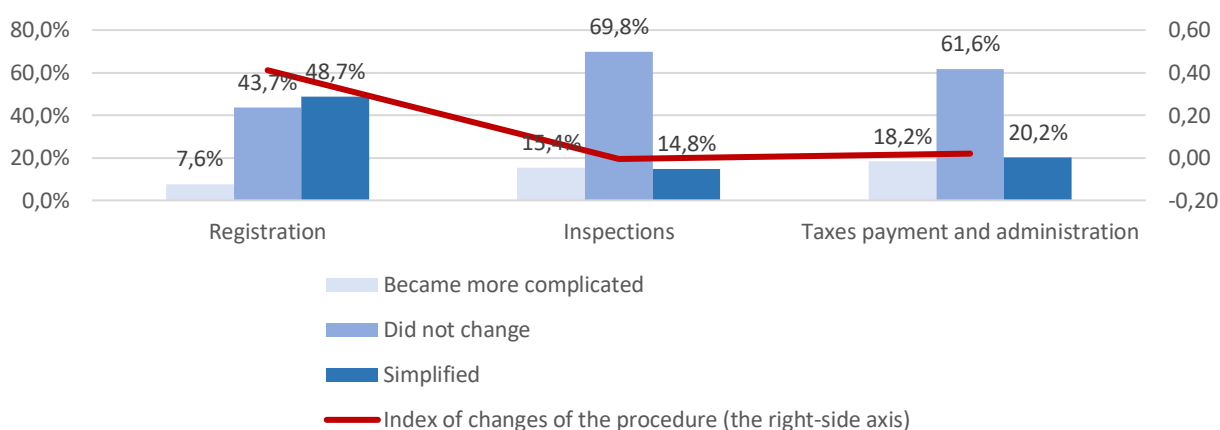


**Change in the number of employees of the business entities over the past two years.** More than a half of the surveyed business entities (52.9%) indicated that the number of their employees did not change in 2018-2019. The share of business entities that increased the number of their employees (28.2%) has proved to be nearly twice as much as the share of those where the number of employees decreased (15.819%) Thus, the index of changes in the number of employees is +0.09, which is significantly lower than the average of +0.16 for all the respondents in general.

**Deregulation: changes in administrative procedures.** According to the respondents, the process and conditions of business registration have been simplified the most in the last two years, while the situation with inspections and tax administration has not improved.

48.7% of the businesses surveyed point out the simplification of business registration in the previous two years. The rest of the respondents did not feel any changes in this procedure, and only a small share of the respondents (7.6%) said that, in their opinion, business registration has become more difficult. As a result, the index of change in the registration procedures is +0.41114. This is the highest value of the index compared to the other two procedures, which include the passing of inspections and the administration of taxes.

### Assessment of changes in administrative procedures (Odesa), % of the respondents



When it comes to the administration of taxes, more than a half of business entities (61.6%) say that they have not noticed any changes in the complexity of this procedure. The rest of the business entities are divided into two nearly equal parts, which include those for whom the payment of taxes has become easier (20.2%), and those for whom it has become more difficult (18.2%). Therefore, the index of change in the procedures for administration of tax payments tends towards zero and equals +0.02.

<sup>114</sup> Calculated as the average of all responses on a scale from -1 to 1, where 1 corresponds to a simplification of this procedure, 0 - no change, and -1 to a complication.

The index of changes in passing inspections tends towards zero and is negative (-0.01). 15.4% of business managers and individual entrepreneurs claim that inspections have become more difficult. This is slightly higher than the share of businesses according to which inspections have become easier compared to 2018 (14.8%). However, the largest share of the surveyed businesses (69.8%) did not notice any changes in relation to inspections.

As a result, the value of the general index of changes in administrative procedures, which is calculated as an average value of the indices of change of these three procedures, is +0.14.

## ***Recommendations***

According to the MCI results (subject to the weak components and dimensions) the following key recommendations have been formulated for the city. In addition, the city government should pay attention to recommendations that are common for all the cities in general.

### **Component 1. Starting a business.**

- Faster business registration should be encouraged. It is necessary to increase the number of business registrars in local self-government authorities.
- It is necessary to improve the quality and availability of consulting services when starting a business, in particular, by expanding the capacity of consulting services in the centers of administrative services.
- The quality of services provided as part of issue of various permits must be improved to reduce the time required to obtain such documents.

### **Component 2. Access to public property**

- It is necessary to ensure transparent access to information on the availability of community-owned land that can still be used for construction, though, in particular, the official website of the city council.
- It is necessary to ensure transparent access to information about community-owned real property, though, in particular, the official website of the city council.

### **Component 3. Transparency and data openness**

- It is necessary to improve the transparency and openness of data on local budgets, local regulations, and public procurements, in particular, through regularly placing up-to-date information on official websites.

### **Component 4. Compliance cost**

- Deregulation measures need to be continued at the local level to reduce the time and money costs of businesses on compliance with local regulations.

### **Component 6. Informal payments and corruption**

- It is necessary to regularly disseminate information on corruption prevention and anti-corruption measures to ensure the awareness of business entities thereof.
- It is necessary to raise awareness of business entities of doing business with integrity.

**Component 7. Security of operating a business**

- It is necessary to ensure cooperation with the law enforcement to improve the level of security in the city in general, as the crime rate also impacts the security of doing business.

**Component 8. Leadership of municipal authorities**

- It is necessary to ensure constant communication and dialogue between businesses and local authorities, in particular, through the establishment and operation of special advisory bodies with the participation of entrepreneurs.
- It is necessary to ensure a higher level of business involvement in the development of local documents (strategies, plans, programs, etc.) and consultations on regulations.

**Component 9. Development resources**

- It is necessary to analyze the needs of local businesses for workforce.
- It is necessary to increase expenses on support for entrepreneurs to ensure the operation of the business support infrastructure and financial support programs.
- It is necessary to conduct an audit of business support infrastructure facilities to determine their efficiency and development pattern.
- It is necessary to use best practices applied by other cities to organize the operation of business support centers, co-workings, business hubs, clusters, etc.

# Poltava

## Number 20 in MCI

### General Information

Poltava is the administrative center of the Poltava Region and a city of regional significance.

The city is also the administrative center of the Poltavskyi District, although it is not part thereof.

Poltava is divided into three inner districts: Kyivskyi, Podilskyi and Shevchenkivskyi. Each of the districts has its own district council.<sup>115</sup>



### Location

The city of Poltava is located in the northeast of the country, in the low reaches of the Dnipro River, on the banks of the Vorskla River.

The city is located in the east of the Poltava Region and borders on the Poltavskyi District.

The closest regional centers are Chernihiv, Sumy, Kharkiv, Dnipro, Kropyvnytskyi, and Cherkasy.

### Demographic situation

As of January 1, 2019, the permanent population of Poltava was 281.3 thousand people. The city is the largest settlement of the Poltava Region.<sup>116</sup>

Poltava accounts for a fifth of the region's population (20.2%). The city of Kremenchuk is located in the Poltava Region. The population of the city counts nearly 219 thousand inhabitants, which corresponds to the level of population residing in certain regional centers of Ukraine.

The population of Poltava, as just in Ukraine generally, is dominated by women (53.8%). There are 860 men per 1,000 women (864 men at the country level).

The share of the population aged from 15 to 64 is 70.2% (67.8% at the country level). In total, there are 424 people (475 at the country level) aged 0-14 and over 65 per 1,000 people of working age.

A natural decline of the population was observed in Poltava in 2018 (-6.5 per 1,000 inhabitants). The death and birth rates reached 13.8 and 7.3, respectively.

<sup>115</sup> Please see <http://www.rada-poltava.gov.ua/city/districts/>.

<sup>116</sup> Here and below in the report, the statistical data of the Poltava Region Statistics Headquarters of the State Statistics Service of Ukraine are used.



## Development of entrepreneurship

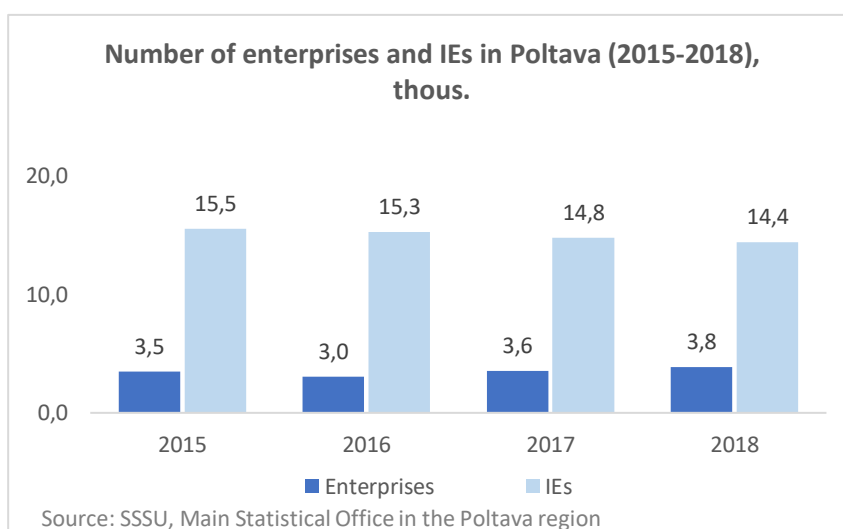
### Key structural business statistics in Poltava in 2018

|                    | Absolute figures   |                          |                  | Relative figures      |                           |                         |
|--------------------|--------------------|--------------------------|------------------|-----------------------|---------------------------|-------------------------|
|                    | Number of entities | Employment, thsd persons | Turnover, UAH bn | Share in total number | Share in total employment | Share in total turnover |
| Large enterprises  | 3                  | 31.5                     | 20.1             | 0.02%                 | 27.6%                     | 21.2%                   |
| SMEs               | 18221              | 82.5                     | 74.7             | 99.98%                | 72.4%                     | 78.8%                   |
| Medium enterprises | 177                | 36.9                     | 43.4             | 0.97%                 | 32.4%                     | 45.8%                   |
| Small enterprises  | 3661               | 18.3                     | 22.5             | 20.09%                | 16.0%                     | 23.7%                   |
| In which           |                    |                          |                  |                       |                           |                         |
| micro              | 3155               | 7.9                      | 7.8              | 17.31%                | 7.0%                      | 8.2%                    |
| IEs                | 14383              | 27.3                     | 8.8              | 78.92%                | 24.0%                     | 9.3%                    |
| Total              | 18224              | 114.0                    | 94.9             | 100.00%               | 100.0%                    | 100.0%                  |

Source: Own calculations based on the data of the Poltava Region Statistics Headquarters of the State Statistics Service of Ukraine

### Number of business entities

In 2018, Poltava counted 18.2 thousand small and medium-sized enterprises (including 177 medium-sized enterprises, 3.7 thousand small enterprises and 14.4 thousand individual entrepreneurs) but only three large-scale enterprises. 21.1% of the business entities were registered as legal entities (Ukraine's average is 19.3%), while the others had the status of individual entrepreneurs.

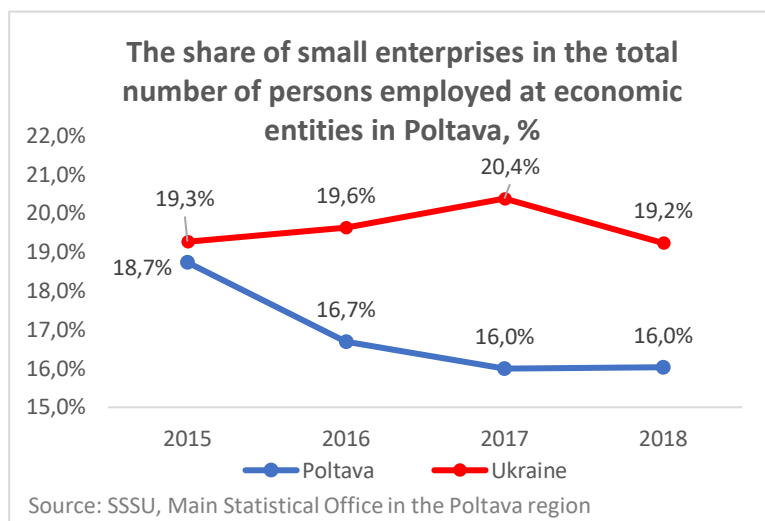


Poltava is ranked number 13 for the number of business entities among the cities selected for the survey. The city accounts for only 29.8% of the total number of business entities in the Poltava Region, which is one of the lowest percentages among regional centers. This is due to the presence in the region of another large industrial center — the city of Kremenchuk.

There were 629 SMEs per 10,000 inhabitants in Poltava, which is the fourteenth highest index among the cities selected for the survey. This may point to somewhat lower business activity compared to other regional centers.

In 2018, the number of SMEs in the city decreased by 0.6% compared to 2017, although their share increased by 1.9% at the country level. This was due to a 2.7% decrease in the number of individual entrepreneurs (compared to a 1.2% growth at Ukraine's level). On the other hand, the quantity of medium-sized and small enterprises increased (by 6% and 8.3%, respectively). The relevant country's average was 7.5% and 5.1%.

## Employment



In 2018, the Poltava-based business entities employed 114 thousand persons, which is 5.3% higher than in 2017 (the corresponding country's average is 4.8%). The city accounts for more than a third (35.2%) of the total number of persons employed at business entities in the Poltava Region.

The share of people employed at SMEs in Poltava reached 72.4% of the total quantity of people employed at all business entities, which is approximately

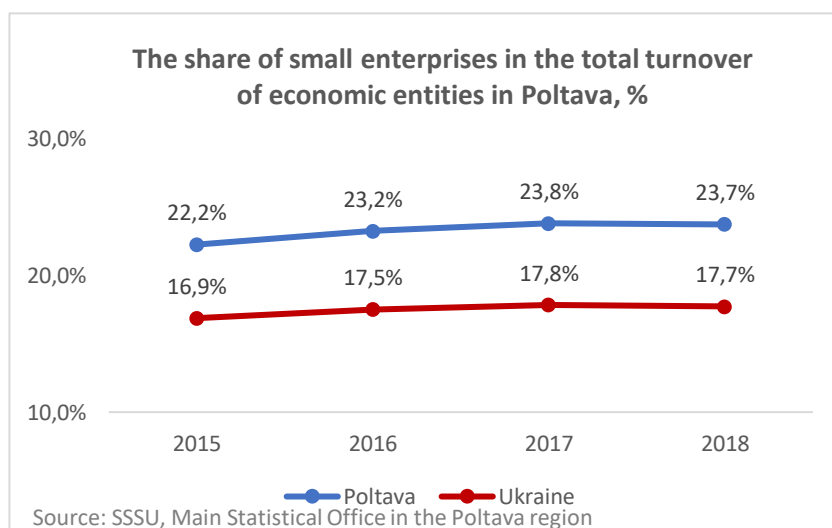
9.1 p.p. lower than the country's average (81.5%). This is, in particular, due to a more important role of large businesses in the creation of jobs in the city. Large businesses provide more than a fourth (27.6%) of the employment. Small businesses employ more than a third of employed persons. In particular, individual entrepreneurs provided 24% of the total jobs, while 16% of the persons employed work for small enterprises.

For the reasons of confidentiality of data in 2017, no information about increase in employment in the SME sector and at large enterprises in Poltava is available. It is, however, known that in 2018 the number of persons employed by small businesses in the city increased by 5.5% compared to a 1.1% decrease at the country level. However, the quantity of persons employed by individual entrepreneurs grew by 4.2% (10.5% at the country level).

Statistics show that the Poltava Region demonstrates, in general, a somewhat higher unemployment rate among working age population than Ukraine as a whole. In 2019, the corresponding indicator for the region was 10.9% compared to 8.6% at the country level. In late 2019, 2,152 people were officially unemployed in Poltava, while there were only 1,100 vacant jobs. Accordingly, the registered unemployed persons created a load of nearly 2 persons per a vacant job. However, the quarantine measures and crisis developments caused by the COVID-19 pandemic may deteriorate the employment situation in the city in 2020.

## Turnover

At the end of 2018, the turnover of goods and services by business entities in Poltava reached UAH 94.9 billion based on current prices. Compared to 2017, the real growth (i.e. adjusted for inflation) of turnover reached 12.2%, which is 4.1 percentage points higher than Ukraine's average (8.1%). The business entities of the city accounted for 29.7% of the total turnover in the region.



The SMEs sector of the city accounted for 78.8% of the total turnover of all business entities (the country's

average is 64.7%). More than a half of the turnover was provided by medium-sized businesses (45.8% of the total turnover of all business entities).

For the reasons of confidentiality of data in 2017, no information about increase in the turnover by the SME sector in general and by large enterprises in Poltava is available. However, in 2018 small enterprises demonstrated a real growth of turnover (goods and services) by just 11.9% compared to 2017 (the country's average is 7.5%). In addition, the turnover of individual entrepreneurs in the city increased by 12.7% (compared to Ukraine's average of 13.5%).

## Sales of industrial products

No statistical information on key performance indicators of enterprises in terms of the types of their economic activities is available at the level of cities of regional significance and districts. However, there are statistical data on the sales of industrial products by the types of activities. Such information allows us to determine key industries of Poltava.

According to the data provided by the Poltava Region Statistics Headquarters, the sales of industrial products in Poltava reached UAH 57.1 billion in 2018. Almost two thirds of the industrial output of Poltava's businesses accounted for the mining industry and quarrying (UAH 36.7 billion or 64.2%). The processing industry is accounted just for UAH 8.6 billion or 15%. In particular, 7% or UAH 4 billion was generated by the manufacture of foodstuffs, beverages, and tobacco products<sup>117</sup>. The manufacture of wood products and paper, and the printing industry come second in the processing industry (0.5% or UAH 0.3 billion).

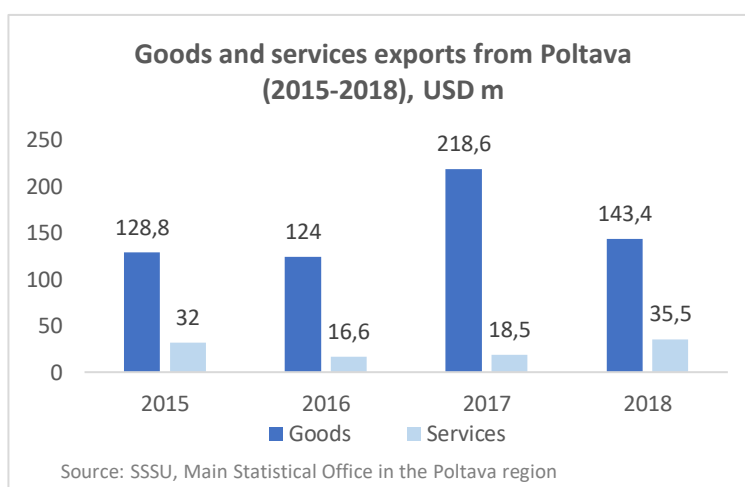
## Capital investments

In 2018, Poltava accounted for nearly UAH 6.1 billion of capital investments, which corresponds to approximately a third (32.8%) of the total capital investments in the Poltava Region. At the end of 2018, the amount of capital investments per capita was UAH 21,715, which is more than 1.5 times as much as the country's average of UAH 13,746. Poltava was ranked number three on this metric among the cities surveyed (after Kyiv and Dnipro).

## Exports

According to the State Statistics Service of Ukraine, Poltava's exports of goods amounted to USD 143.4 m in 2018, which is 34.4% less than in 2017. Poltava was ranked number 17 on this metric among the surveyed cities in respect of which relevant statistical data were available.

On the other hand, the exports of services increased by 91.9% and reached USD 35.5 m (ranked number 11).



An analysis of the foreign trade structure

of the city has demonstrated that more than a half of its exports (51.9% or USD 74.4 million) was provided

<sup>117</sup> Data by types of activities are generated based on homogeneous products.

by agricultural and food products. In addition, other exports include machinery products (machinery, equipment and mechanisms, electrical equipment (20.2%)), products made of stones, gypsum, and cement (11.5%), and textile materials and products (7.8%).

## **Foreign direct investments**

As of December 31, 2018, the city of Poltava accounted for USD 67.2 m of foreign direct investments (equity). The said volume was USD 0.4 m or 0.6% lower compared to the volume recorded at the beginning of 2018. On the other hand, there was USD 238.3 of FDI per capita in Poltava as of the end of December 2018.

It should be noted that in general the Poltava Region is ranked number five by the volume of direct investments among all the regions of Ukraine. In addition, at the beginning of 2018, just 6.7% of the region's total direct investments were concentrated in Poltava.

## **Safety and comfort**

The results of other studies allow us to look at the level of safety and comfort of living in the selected cities based on the assessments of their inhabitants. These factors are important for understanding the overall situation in the city. In addition, it is possible to compare those research studies with some results of MCI.

According to the study titled "Sixth Annual Ukrainian Municipal Survey"<sup>118</sup>, the city of Poltava was ranked number 11 on the Quality of Public Goods and Services Index with a score of 2.8 (on a scale from 1 (terrible) to 5 (excellent)), indicating that the residents are dissatisfied with the level of comfort in their city. Poltava falls behind its opponents in health facilities, industrial development, transport infrastructure, and roads. A somewhat better situation is observed in the education sector (universities, colleges, technical schools).

As part of the same study, according to its residents, Poltava is one of the least secure cities in Ukraine. The value of the corresponding Index for Poltava is 1.5 (on a scale from 0 to 3, where 0 means "I feel completely unsafe" and 3 means "I feel completely safe"). The city is one of the outsiders (number 20) on this metric among the 24 cities covered by the survey. 45% of the respondents said they felt rather safe or completely safe at night. 46% of the respondents said they felt rather unsafe or completely unsafe at night.

## ***Results of the "Municipal Competitiveness Index" in Poltava***

### ***Description of the survey sample***

209 business entities took part in the survey in Poltava. These were 156 (74.6%) enterprises (legal entities) and 53 (25.4%) individual entrepreneurs (PEs). When analyzing the answers, the data array was weighed by the types of business entities (76.0% of legal entities and 24.0% of PEs) to ensure that it was compliant with the parameters of the target sample.

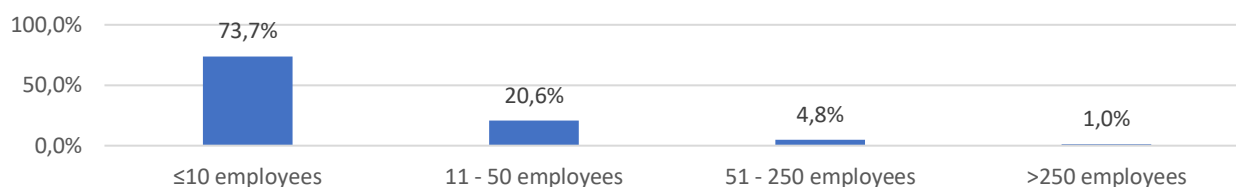
### ***Size of the surveyed business entities***

Most respondents (73.7%) were micro businesses — business entities employing from 1 to 10 people. 20.6% were small entities with 11 to 50 employees. Medium-sized entities (from 51 to 250 employees) account for 4.8% of the respondents, while large entities (more than 250 employees) account for 1.0%.

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<sup>118</sup> The survey was conducted by the Sociological Rating Group on behalf of the International Republican Institute's Center for Insights in Survey Research; The survey was funded by the United States Agency for International Development (USAID). See [http://ratinggroup.ua/research/regions/shestoy\\_vseukrainskiy\\_municipalnyy\\_opros.html](http://ratinggroup.ua/research/regions/shestoy_vseukrainskiy_municipalnyy_opros.html)

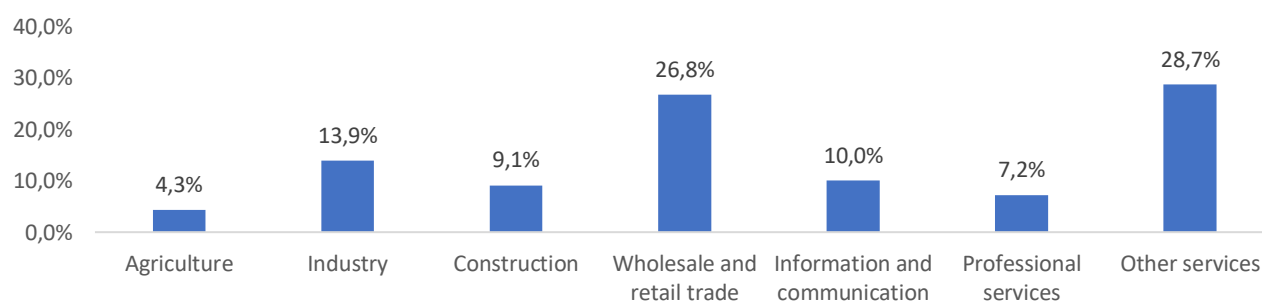
### Surveyed businesses by size (Poltava), %



### Industry and type of activity

The surveyed business entities in Poltava operate in various sectors of the economy. 26.8% of surveyed business are engaged in trade (including in wholesale and retail, repair of motor vehicles). 13.9% of the respondents are employed in the industry, 9.1% – in the construction, and 4.3% – in the agriculture. Almost a half of the surveyed businesses account for the service sector (45.9%) 10.0% of the respondents provide information and communication services, while professional services are provided by 7.2% of the respondents. 28.7% of the respondents provide other services (businesses operating in the transport, arts, sports, education, health care, finance, and other service-related sectors).

### Surveyed businesses by sector (Poltava), %



### Year of registration

Most of the surveyed business entities were registered earlier than in 2017 (78.5%). In 2018-2019, 21.5% of the respondents were registered.

### Age and gender breakdown of business owners and managers

According to the survey findings, 65.2% of the Poltava-based businesses are owned by men, while the remaining 34.8% are owned by women. In addition, the share of men owning legal entities is even higher (69.0% of men vs. 31.0% of women).

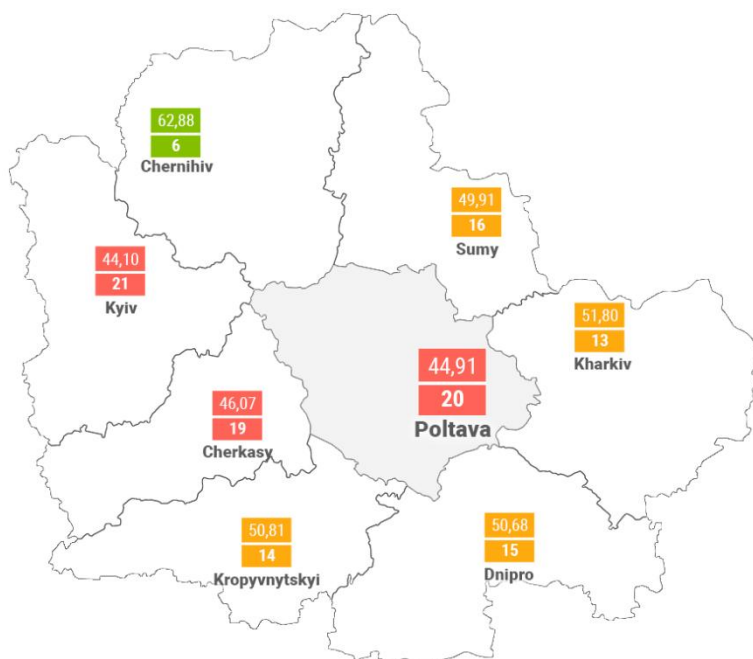
Men run 71.1% of legal entities, while the share of female managers accounts for 28.9%. When it comes to PEs, who are owned and run by the same person, women (51.3%) somewhat outweigh men (48.7%). Men run 65.8% of all the business entities, while the share of female managers accounts for 34.2%.

The average age of business owners in Poltava is 42.9 years (compared to the country's average of 42.8 years). However, individual entrepreneurs are on average four years younger than the owners of legal entities (39.7 years vs. 43.7 years) in Poltava.

## *Municipal Competitiveness Index: results of Poltava*

According to the survey findings, Poltava was ranked number 20, scoring 44.91 points as part of MCI 2019/2020. Thus, Poltava is classified among cities with low MCI scores.

A comparison between the MCI index for Poltava and those for its neighboring cities has demonstrated that the cities classified under three different groups (with low, average, and high MCI scores) are located nearby. For instance, Chernihiv (number six) leads Poltava by almost 18 points. However, the cities of Kyiv (number 21) and Cherkasy (number 19) are also located nearby.



The overall score of the city is determined by low rates assigned on most of the components.

The strongest components are:

- Starting a business (number 7)
- Compliance cost (number 7)

The weakest components are:

- Leadership of municipal authorities (number 24)
- Development resources (number 23)
- Transparency and data openness (number 21)
- Informal payments and corruption (number 20)

### ***1. Starting a business***

Poltava scored 7.2 points on Component 1 “Starting a Business.” This is the seventh highest score among all the cities. The relatively high score of the city is due to prompt registration and permit obtaining procedures.

In particular, according to the survey data, the registration of a business in Poltava in 2018-2019 took less time than on average in the country (5.8 days compared to 6.1 days). On the other hand, it took on average 4.1 days to have changes entered into the register, which is somewhat longer than all the cities’ average of 3.6 days.

In Poltava, only 4.35% of the respondents who registered a business in 2018-2019 reported problems and barriers during the registration. This share is higher than the average of 8.8% for all the cities. 66.6% of the respondents received necessary advice during the registration, which is 4.1 p.p. less compared to the country’s average of 70.7%. It took 31 days to launch a business (from the date of submission of documents

for registration to the date of the first sale of goods or services) in Poltava, which is more than one day shorter than on average in the country (32.1 days).

A sufficient quantity of business registrars can be one of the reasons for its high ratings on the business registration component. There are approximately 12 registrars per 10 thousand business entities in Poltava (including government authorities, local self-government authorities and notaries public), which is one of the best indices among the cities surveyed.

It should be noted that problems related to lengthy procedures for obtaining certain permits are less tangible in the city. The obtaining of construction permits, and registrations took, on average, 37.2 days in the country and 31 days in Poltava. However, it took more time in Poltava to obtain a declaration of conformity to the requirements of the fire safety legislation in respect of a business entity's facilities (15.4 days compared to the cities' average of 11.8 days).

## ***2. Access to public property***

Poltava scored 4.04 points and was ranked number 17 on the component (sub-index) titled "Access to public property". The score of the city is due to low ratings on most indices. 31% of the respondents reported that they had documents certifying the ownership / lease of the land where their business operates (compared to the country's average of 30%). This makes 49.3% of the respondents believing that land documents are their concern (compared to the country's average of 46.8%). However, it took on average 85.6 days to obtain documents certifying the ownership / lease of the land in Poltava in 2018 to 2019, which is more than 13 days longer than the average for all the cities (72.4 days).

According to the respondents, Poltava also demonstrates a low level of transparency compared to the other cities. In particular, only 11.4% of the respondents reported the accessibility of information on available community-owned land plots, which can be provided for use or used for construction, etc (18.1% of the total respondents). This is one of the lowest scores among the cities covered by the survey. In addition, 24% of the respondents indicated that information on the municipal real property (including non-residential facilities) was available (29.2% of the total respondents).

## ***3. Transparency and data openness***

Poltava was ranked number 21 and scored 3.23 points on the "Transparency and data openness," and, therefore, is one of the outsiders on this component. In Poltava, the respondents expressed a lower — compared to the other cities — opinion of the access to information on local budget, local regulations, and public procurements.

In particular, the access to information on public procurements got the top score in Poltava with 13.5% of the respondents assigning 'good' and 'excellent' rates, compared to 17.3% of all the respondents surveyed. The access to information on local regulations was assessed positively by 9.4% of the respondents surveyed in Poltava compared to, on average, 13.9% of the total respondents in all the other cities. On the other hand, the access to information on local budget was positively assessed by only 6.7% of the respondents (10.2% among all the respondents).

## ***4. Compliance cost***

The compliance cost is one of the problematic components for Poltava. The city was ranked number seven and scored 7.60 points on this component. The result of the city was determined by high (compared to the other cities) scores assigned by the respondents in respect of time spent on compliance with the requirements of local regulations.

In Poltava, entrepreneurs spend on average 6.4 days for compliance with local regulations, which is 2 days longer than the country's average (four days). 2.6% of an annual income is, on average, spent on compliance with the requirements of local regulations in Poltava, which is less than 3.7% spent on average by all the respondents.

The findings of the survey show that entrepreneurs in Poltava are even less frequently visited by local inspectors compared to the country's average (0.6 times per year in the city compared to the country's average of 0.7 times per year). Consequently, the average time spent on communications with the inspectors was 4.4 days, which is almost one day less compared to the country's average (five days).

### ***5. Taxes and duties***

Component (sub-index) 5 titled "Taxes and duties" is one of the weaknesses of Poltava. The city was ranked number 18 and scored 3.57 points on this component. This low score of Poltava was due to a combination of such factors as significant expenses for payment of taxes, considerable amount of time spent on administration of taxes and duties, a somewhat lighter local tax burden, and certain problems related to the availability of exemptions from local taxes and duties.

As part of the survey in Poltava, the respondents said that they spent, on average, 28.0% of their annual income on taxes and duties (including USC), which is more than the average for all the cities (26.8% of the annual income). Entrepreneurs in Poltava spent, on average, 92.2 days on the administration of taxes and duties, which is the highest index among the cities surveyed (59 days on average).

Only 17.4% of the respondents in Poltava said that local taxes create barriers for their businesses, while the average for all the cities was 20.4%. In addition, 1.5% of the respondents in Poltava reported being exempt from local taxes and duties in 2018-2019, which is one of the lowest scores among the cities covered by the survey (the average for all the respondents is 3.6%).

### ***6. Informal payments and corruption***

According to the survey findings, Poltava was ranked number 20 and scored 3.82 points on Component (sub-index) 6 titled "Informal payments and corruption." This score of the city is primarily due to one of the lowest — among the cities surveyed — levels of awareness of anti-corruption measures taken by the municipal government. However, the prevalence of "informal payments" nearly corresponds to the average level.

In particular, as part of Dimension 1 "Bribes / Gifts" 9.6% of the respondents in Poltava reported situations related to "informal payments" when approaching the municipal officials for any issues concerning the running of a business in 2018-2019. On average, 9.9% of the respondents faced such situations. On the other hand, as part of Dimension 2 "Anti-corruption efforts," 24.4% of the respondents were informed about the implementation of specific anti-corruption measures by the city authorities (open budget, digital reception, municipal anti-corruption program, etc.), while the average for all the cities surveyed was 31.8%.

### ***7. Security of operating a business***

Poltava was ranked number 16 among the cities covered by the survey and scored 5.01 points on Component (sub-index) 7 titled "Security of operating a business." This score of Poltava is due to rather high prevalence of illegal takeovers and other criminal acts against businesses, and losses incurred by entrepreneurs as a result of various criminal acts.

According to the survey, 40.7% of the respondents in Poltava believe that competitors run informal businesses, which is five pp lower than the country's average (45.1% at the country level). 2.5% of the total respondents experienced attempts of illegal takeovers at the country level in 2018-2019. However, the situation in Poltava looks worse with the share of such respondents reaching 2.9% here.



14.2% of the respondents in Poltava reported that they suffered losses as a result of extortions, thefts, robberies, or acts of vandalism or arson in 2018-2019 (this is almost in line with the country's average of 14.3% of the respondents). In addition, entrepreneurs estimated loss they suffered as a result of similar criminal acts at 17.2%, which is one of the worst indices in the case at hand (10.8% at the country level).

In Poltava, businesses spend, on average, 2.7% of their annual income on security / protection, which is in line with the country's average.

### *8. Leadership of municipal authorities*

Poltava was ranked number 24 and scored 2.75 points on Component (sub-index) 8 titled "Leadership of municipal authorities." The low rating of the city is due to its low scores on two dimensions of which the sub-index consists — "Business development support" and "Public-private dialogue."

Poltava scored 3.41 points (was ranked number 22) on the "Business development support" dimension. The Poltava-based entrepreneurs have an extremely low opinion of the attitude of representatives of the municipal authorities towards private business. Only 9.9% of the respondents believe that the attitude of the municipal authorities towards businesses is "very good" or "good" (the average for all the cities is 20%). In addition, 27.7% of the respondents agree that the municipal authorities support start-ups (compared to the average of 38.3% for all the cities), and 27.7% indicate that the municipal authorities support existing businesses (compared to the average of 35.5% for all the cities).

The survey results are also complemented by "hard data" on the activities of the city council. According to the "hard data," Poltava scored only 5 of 10 points, which is one of the lowest results. In particular, the city does not offer tax incentives (in respect of the unified tax) necessary for the development of certain types of activities, which would point to a higher proactivity of the municipal authorities to support new and existing businesses. In addition, Poltava's technical documents on standard monetary appraisal of municipal land are outdated compared to those used by the other cities. The boundaries of the city were updated for the last time 30 years ago. Compared to the other cities, the website of the Poltava City Council provides a lower level of information on public procurements. Finally, Poltava also lacks some anti-corruption policy tools, which are used by the other cities. In particular, there is no specialized anti-corruption hotline in the city.

The score obtained on the "Public-private dialogue" dimension shows that businesses face many problems in their communications with the local government in Poltava, compared to most other cities. On this dimension, the city was ranked worst and scored 2.09 points. Only 5.2% of business representatives in Poltava believe that they have "extensive" or "very extensive" opportunities to participate in the development of local documents (strategies, plans, programs, etc.), while the average for all the cities surveyed is 6.5%. In addition, 1.9% of the respondents (which is the lowest index among all the cities) indicate that the city always or often holds consultations with entrepreneurs before passing new or amending existing regulations that may affect businesses (compared to 7.4% on average for all the cities).

### *9. Development resources*

Poltava was ranked number 23 and scored 3.63 points on Component (sub-index) 9 titled "Development resources." The city's assessment is based on the results of three dimensions that form a single component. Those dimensions are Human resources, Financial resources and infrastructure, and Business support infrastructure.

The city was ranked number 16 and scored 5.23 points on **Dimension 1 (Human resources)**. An analysis of individual indicators of this dimension has demonstrated that only 8.6% of the respondents in Poltava rate the quality of the local workforce as "excellent" or "good" (the average for all the respondents surveyed is 7.6%). In addition, only 7.8% of the respondents surveyed give positive assessments of vocational education

of employees in the local labor market (the country's average is 10%). Accordingly, just as in the other cities, an insignificant percentage of business entities in Poltava rate high the available workforce.

However, 61.9% of the respondents are of the opinion that insufficient workforce training is a serious barrier to doing business (the country's average is 60.7%). 69.9% of the respondents reported that they face a lack of workforce (70% of all the respondents surveyed). It follows that the lack of qualified workforce is the most severe problem faced by entrepreneurs in Poltava, according to the rating of barriers to doing business (according to 33.5% of the respondents).

The analysis of the number of workforce in the city is supplemented by statistical data. In particular, there were only six vacant jobs per 100 businesses in Poltava at the end of 2019, which is one of the highest indices among the cities surveyed.<sup>119</sup> This may point to a high demand for the workforce in Poltava compared to the other cities. As of January 1, 2019, the share of working age population (aged 15-64) in Poltava reached 70.2%, which is higher than the average for all the cities surveyed. The corresponding country's average on this metric was 67.8%<sup>120</sup>. Thus, the problem of population aging may be less tangible in Poltava compared to the other cities and the country in general.

The city was ranked worst (number 24) and scored 2.74 points on **Dimension 2 (Financial resources and infrastructure)**. According to the survey findings, only 1.2% of the respondents at the country level received financial support from municipal authorities in 2018-2019. However, Poltava is the sole city where no such support was provided to any of the respondents. However, 77.3% of the business entities surveyed in Poltava believe that the lack of funds is a serious barrier to doing business (the average for all the cities is 77.8%).

Data on the city's budget expenditures complete the picture of financial resources allocated to support businesses in the city. In 2019, actual spending on support for small and medium-sized enterprises in the city reached only UAH 44,000 per 10,000 businesses.<sup>121</sup> It should, however, be noted that, in general, SME support expenditures are low or non-existent in most of the cities. However, a higher amount of expenditures or even the existence of such support in general may point to a higher level of leadership of municipal authorities in relation to business support

When it comes to the infrastructure, the entrepreneurs surveyed in the cities covered by the study had reportedly a different experience in relation to connection to electricity grids. In Poltava, connection to the electricity grid took on average 135 full days from the date of an application until the date of actual connection. This is one of the highest indices among the cities covered by the survey. The corresponding country's average was 85 days. It follows that it is more complicated to have a business connected to the electricity grid in Kramatorsk compared to most other cities.

Poltava was ranked number 18 and scored 2.92 points on **Dimension 3 (Business support infrastructure)**. According to the survey data, 9.6% of the respondents personally received business support services from the municipal authorities (information, advice, training, etc.), which is lower than all the cities' average (11%). At the same time, only 45.5% of them rated such services as "good" and "excellent" (48.6% of the total respondents surveyed).

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<sup>119</sup> Sources for calculations: 1) Number of vacancies: The situation in the labor market and the results of activities of the state employment service. Data on the page of the Poltava Region Employment Center, <https://pol.dcz.gov.ua/analitics/66> 2) Number of businesses: According to the Poltava Region Statistics Headquarters

<sup>120</sup> According to the Poltava Region Statistics Headquarters of the State Statistics Service of Ukraine

<sup>121</sup> Reports on the implementation of local budgets (expenditures under program classification code 7610 - Promotion of small and medium entrepreneurship), as well as responses of the city councils to requests for public information were used. For some cities, information on expenditures was updated through telephone interviews with the employees of executive authorities of the city councils.

26.7% of the business entities surveyed in Poltava reported the existence of business support centers in the city, which is lower than the average for the cities surveyed (the average for all the respondents is 32.6%). In addition, according to the 'hard data,' there were no business support infrastructure facilities in the city at the end of 2019, which were created with the participation of the city authorities. Thus, entrepreneurs' awareness of business support centers may relate to other business support infrastructure facilities existing in the city.

46.4% of the respondents in Poltava are aware of the activities of business associations and business clubs in their city (45.9% of the total respondents). However, only 11% of the surveyed business entities are members of such organizations, which is in line with the index recorded for all the respondents surveyed in general (11.5%).

### ***10. Support of innovations***

The city of Poltava was ranked number 17 and scored 4.06 points on Component (sub-index) 10 titled "Support of innovations."

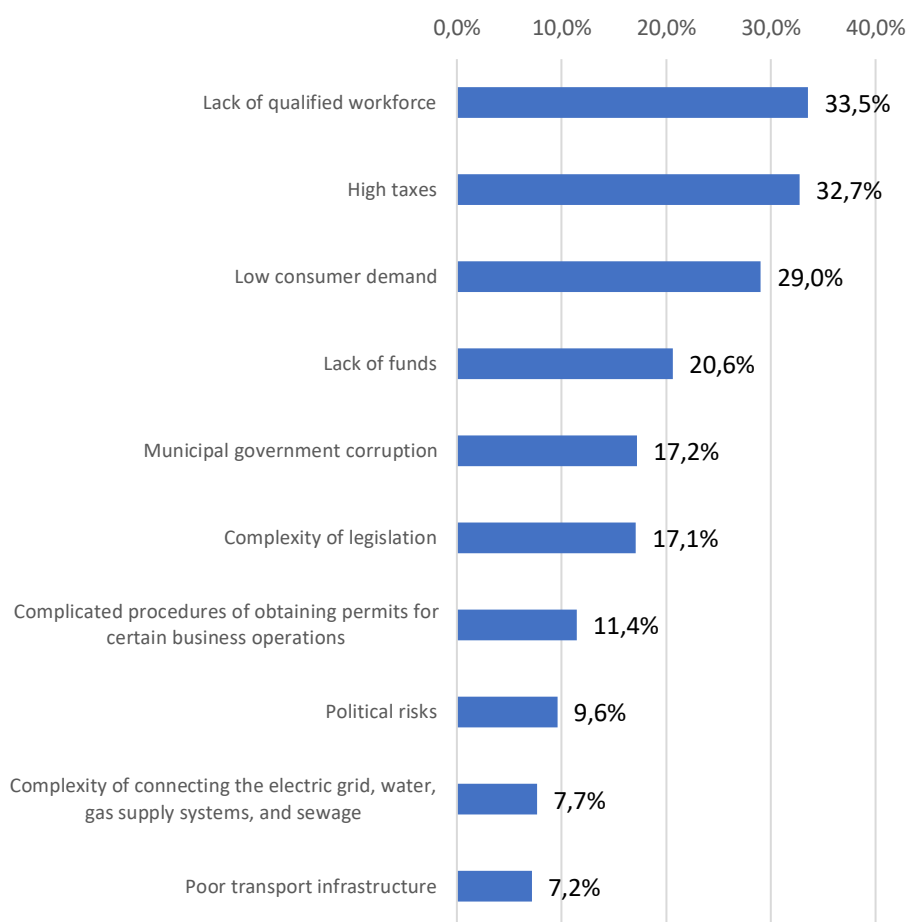
23.05% of the respondents in the city reported that their businesses interacted with research institutions or technology companies in 2018-2019, which is one of the highest indices among all the cities (compared to the average of 18.9% for all the cities). However, businesses in Poltava are, on average, less satisfied with technology transfer compared to the other cities. 6.7% of the respondents pointed out that the related needs (the transfer of patents for inventions, etc.) are "met to a significant extent" or "fully met" (compared to the country's average of 8%)

The respondents in Poltava give one of the worst assessments of the local government support for local innovation programs (funded from the local budget), with the city scoring 1.76 of five points compared to the average of 1.91 for all the cities. In addition, Poltava introduced new technologies, solutions, or products less frequently than all the other cities on average in 2018-2019 (38.21% compared to 40.2%). Further, 0.97% of the surveyed enterprises and individual entrepreneurs reported that they belonged to clusters. This is lower than the index recorded for all the cities in general (2.1%). In general, all the factors provide a relatively low satisfaction with support for innovations in Poltava among entrepreneurs.

### ***Barriers to doing business***

The surveyed business entities named the main barriers they face when doing business in Poltava. According to the survey findings, three most important barriers included such factors as the lack of qualified workforce, high taxes, and low consumer demand. Each of these barriers to doing business was reported by 33.5%, 32.7% and 29.0% of the respondents, respectively). Accordingly, as just in a number of the other cities, the lack of qualified workforce is the most severe problem in Poltava, and, therefore, it outweighed the problems of high taxes and low consumer demand although falls behind them in the barriers rating for all the respondents.

### TOP-10 barriers to doing business in Poltava, %

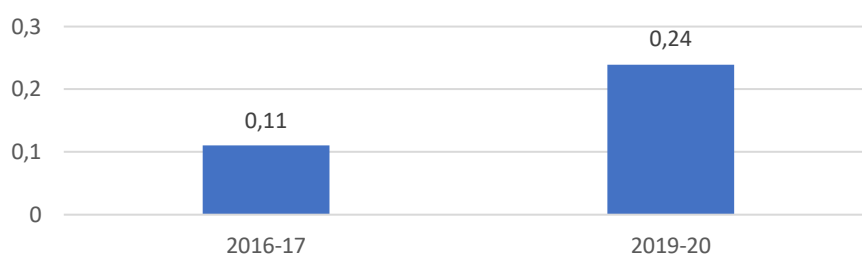


The lack of funds was reported to be a barrier by 20.6% of the respondents (number four). Municipal government corruption and the complexity of legislation are rated similarly (17.2% and 17.1%, respectively). 11.4% and 9.9% of the respondents complain about complex permit obtaining procedures and political risks. As opposed to all the respondents in general, the war in the East of Ukraine is not included in the rating of business barriers in Poltava. Instead, the major barriers include the complexity of connection to electricity, water, and gas supply systems and to sewerage networks (7.7%). The rating of barriers is completed by poor transport infrastructure (7.2%).

### *Expectations and assessments of the business climate and economic conditions in Poltava*

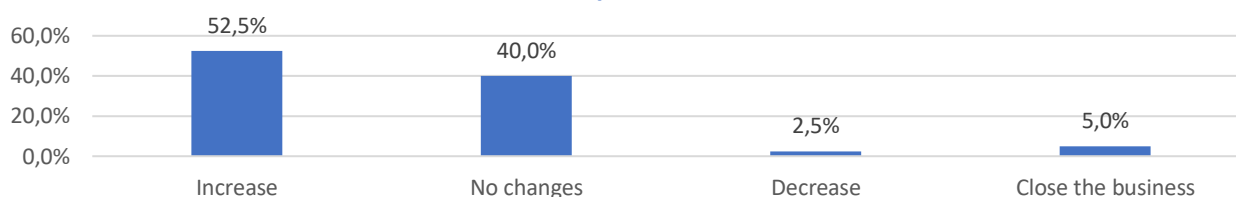
**Regional SME Business Climate Index.** ABCA SME Business Climate Index in Poltava is 0.24 (the city was ranked number four among all the cities covered by the survey). This is more than in 2017 (0.11), which indicates an improvement in perception of the business climate. This is in line with the all-Ukrainian trend.

### ABCA Regional Index of Business Climate (Poltava)



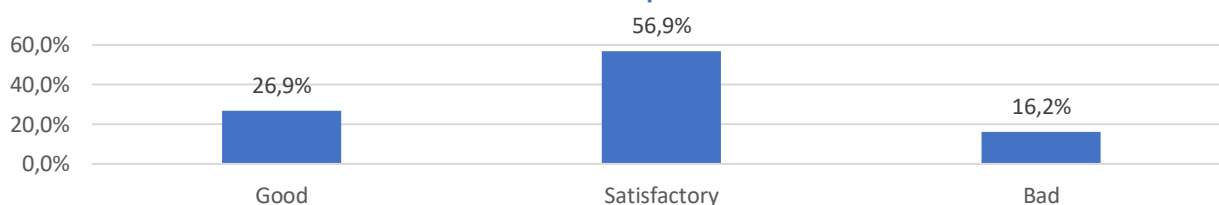
**Long-term expectations for business activity.** Business community in Poltava has optimistic long-term development plans for the next two years. A half of the respondents (52.5%) reportedly plan to expand their business, and 40% want to stay at the current level. At the same time, only 2.5% of the respondents plan to reduce their business, and 5% want to close it. The balance index<sup>122</sup> is +0.45 (+0.45 at the country level).

### Business activity expectations in the two-year perspective in Poltava, % of the respondents



**Assessment of the financial and economic situation of business entities.** In Odesa, the majority of the business entities surveyed (56.9%) assessed their current financial and economic situation as satisfactory. The rest of the respondents rated it as good (26.9%) or bad (16.2%). It follows that the positive assessments outweigh the negative ones, and the balance index of the financial and economic situation is +0.11 (compared to the country's average of +0.05).

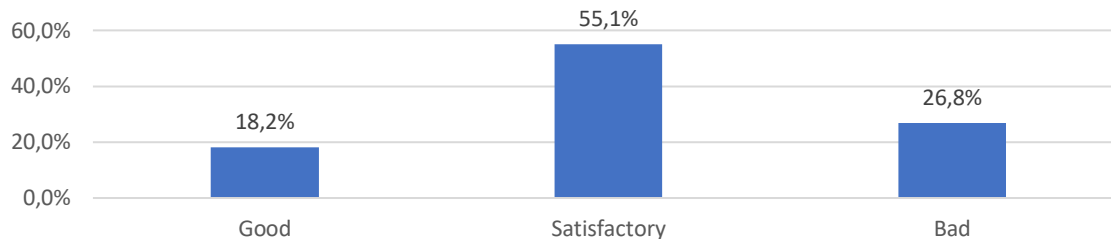
### Assessment of the business situation of business entities in Poltava, % of the respondents



**Assessment of the current overall economic environment for business activities** More than a half of the surveyed business entities (55.1%) assessed the current overall economic environment as satisfactory. 26.8% of the respondents rate the overall economic environment as bad, and 18.2% as good. Thus, the index of assessment of the overall economic environment for business activities is negative (-0.08). However, the value of the index for the city is somewhat higher compared to the country's average (-0.12).

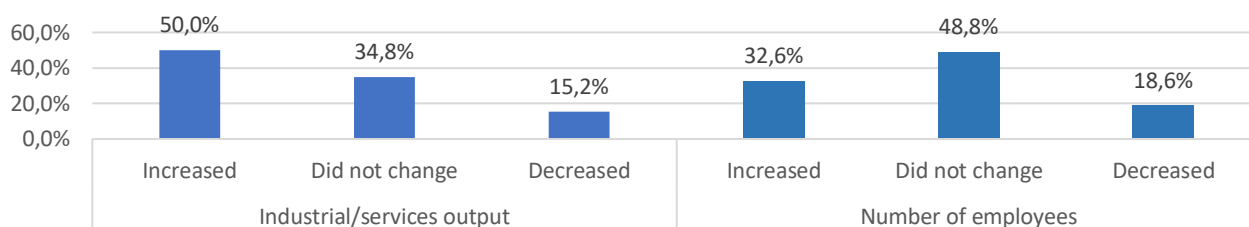
<sup>122</sup> Calculated as the average of all responses on a scale from -1 to 1, where 1 corresponds to a simplification of this procedure, 0 - no change, and -1 to a complication.

**Assessment of the overall economic situation (Poltava),  
% of the respondents**



**Change in the production output over the past two years.** A half (50.0%) of the surveyed business entities indicated that they increased their production or service output in 2018-2019. Approximately a third (34.8%) of the respondents did not change the output while 15.2% of the respondents reduced it. Thus, the index of business activity is +0.35 (which is higher than the average of +0.31 for all the respondents surveyed), reflecting the predominance of the share of business entities that expanded their output over the share of those who reduced it.

**Change in the industrial/services output and in the number of employees in  
Poltava, % of the respondents**



**Change in the number of employees of the business entities over the past two years.** Almost a half of the surveyed business entities (48.8%) indicated that the number of their employees did not change in 2018-2019. The share of business entities that increased the number of their employees (32.6%) is almost two times higher than the share of those where the number of employees decreased (18.6%) Thus, the index of changes in the number of employees is +0.14, which is higher than the average of +0.16 recorded for all the respondents in general.

**Deregulation: changes in administrative procedures** According to the respondents, the process and conditions of business registration have been simplified the most in the last two years, while the situation with inspections and tax administration has not significantly improved.

46.7% of the businesses surveyed point out the simplification of business registration in the previous two years. The rest of the respondents did not feel any changes in this procedure, and only a small share of the respondents (7.9%) said that, in their opinion, business registration has become more difficult. As a result, the index of change in the registration procedures is +0.39<sup>123</sup>. This is the highest value of the index compared to the other two procedures, which include the passing of inspections and the administration of taxes.

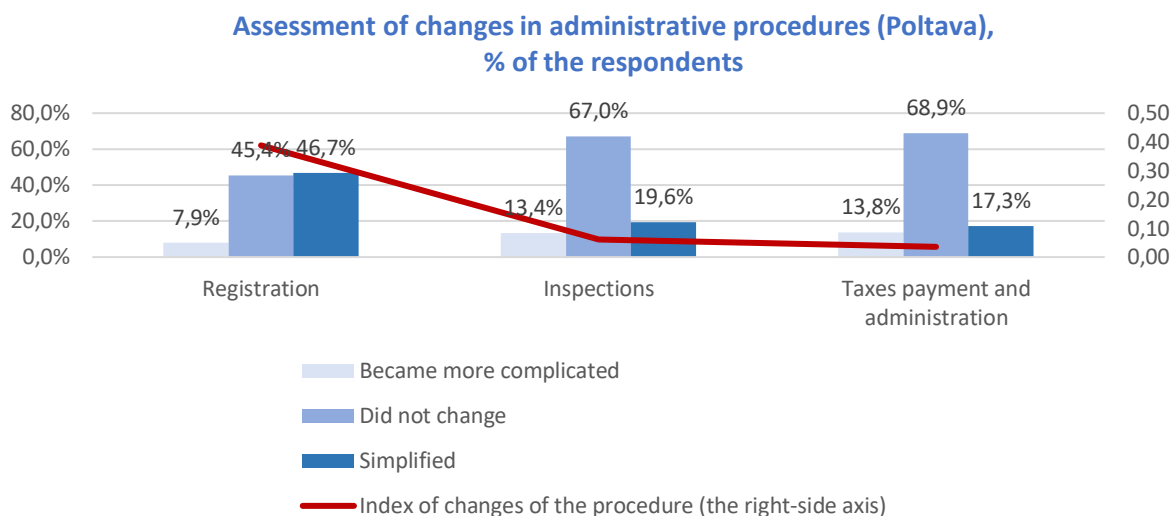
When it comes to the administration of taxes, more than a half of business entities (68.9%) say that they have not noticed any changes in the complexity of this procedure. The rest of the business entities are divided into two nearly equal parts, which include those for whom the payment of taxes has become easier (17.3%), and those for whom it has become more difficult (13.8%). Therefore, the index of change in the procedures for administration of tax payments tends towards zero and equals +0.04.

The index of changes in passing inspections is positive (+0.06), too. 13.4% of business managers and individual entrepreneurs claim that inspections have become more difficult. This share is lower than the percentage of

<sup>123</sup> Calculated as the average of all responses on a scale from -1 to 1, where 1 corresponds to a simplification of this procedure, 0 - no change, and -1 to a complication.

businesses, according to which inspections have become easier compared to 2018 (19.6%). However, the largest share of the surveyed businesses (67.0%) did not notice any changes in relation to inspections.

As a result, the value of the general index of changes in administrative procedures, which is calculated as an average value of the indices of change of these three procedures, is +0.16.



## Recommendations

According to the MCI results (subject to the weak components and dimensions) the following key recommendations have been formulated for the city. In addition, the city government should pay attention to recommendations that are common for all the cities in general.

### Component 2. Access to public property

- It is necessary to ensure timely update of technical documentation on the standard monetary appraisal of land
- It is necessary to ensure transparent access to information on the availability of community-owned land that can still be used for construction, though, in particular, the official website of the city council.
- It is necessary to ensure transparent access to information about community-owned real property, though, in particular, the official website of the city council.

### Component 3. Transparency and data openness

- It is necessary to improve the transparency and openness of data on local budgets, local regulations, and public procurements, in particular, through regularly placing up-to-date information on official websites.

### Component 6. Informal payments and corruption

- It is necessary to establish, and to ensure the operation of, necessary components of the local anti-corruption system (anti-corruption hotline).
- It is necessary to regularly disseminate information on corruption prevention and anti-corruption measures to ensure the awareness of business entities thereof.
- It is necessary to raise awareness of business entities of doing business with integrity.

**Component 7. Security of operating a business**

- It is necessary to ensure cooperation with the law enforcement to improve the level of security in the city in general, as the crime rate also impacts the security of doing business.

**Component 8. Leadership of municipal authorities**

- It is necessary to ensure constant communication and dialogue between businesses and local authorities through ensuring regular operation of special advisory bodies with the participation of entrepreneurs.
- It is necessary to ensure a higher level of business involvement in the development of local documents (strategies, plans, programs, etc.) and consultations on regulations.

**Component 9. Development resources**

- It is necessary to analyze the needs of local businesses for workforce.
- It is necessary to increase expenses on support for entrepreneurs to ensure the operation of the business support infrastructure and financial support programs.
- It is necessary to conduct an audit of business support infrastructure facilities to determine their efficiency and development pattern.
- It is necessary to use best practices applied by other cities to organize the operation of business support centers, co-workings, business hubs, clusters, etc.



# Rivne

## Number 10 in MCI

### General Information

Rivne is the administrative center of the Rivne Region and a city of regional significance.

The city is also the administrative center of the Rivnenskyi District, although it is not part thereof.



### Location

The city of Rivne is located in the northwest of Ukraine, on the banks of the Ustia River. The Rivne Region borders on Bilorus in the north. Also, the border between Ukraine and Poland is located nearby.

The city is located in the south of the Rivne Region. The territory of the city is enclosed by the Rivnenskyi District.

The city of Lutsk is located at a distance of 70 km from Rivne. The Ternopil and Khmelnytskyi Regions are also located nearby. The closest regional centers are Lviv, Ternopil, Khmelnytskyi, and Zhytomyr.

### Demographic situation

As of January 1, 2019, the permanent population of Rivne was 243.1 thousand people. The city is the largest settlement of the Rivne Region.<sup>124</sup>

Rivne accounts for a fifth of the region's population (21%). However, Varash — the second largest city in the region — counts just over 40 thousand inhabitants. The city of Dubne, which is the third largest settlement of the region, hosts less than 40 thousand residents.

The population of Rivne, as just in Ukraine generally, is dominated by women (54.5%). There are 835 men per 1,000 women (864 men at the country level).

The share of the population aged from 15 to 64 is 71.3% (67.8% at the country level). In total, there are 403 people (475 at the country level) aged 0-14 and over 65 per 1,000 people of working age.

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<sup>124</sup> Here and below in the report, the statistical data of the Rivne Region Statistics Headquarters of the State Statistics Service of Ukraine are used.

Rivne is also one of few cities included in the sample where natural population increase is observed (0.6). The death and birth rates reached 9.2 and 9.8, respectively.

## Development of entrepreneurship

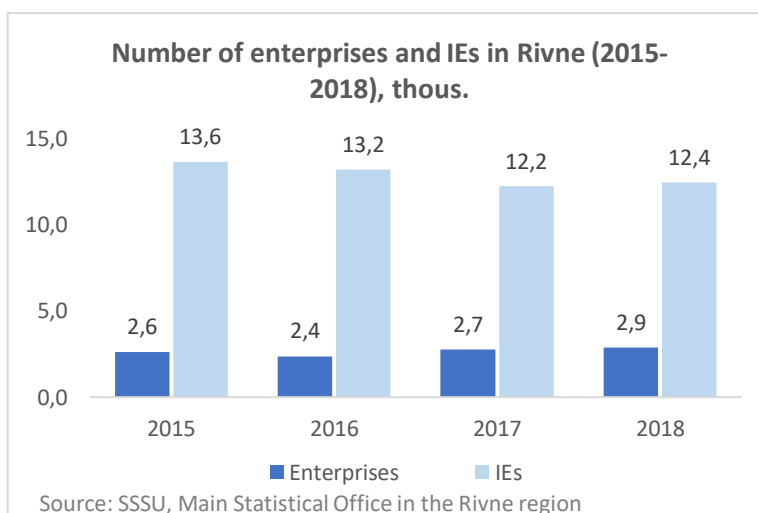
### Key structural business statistics in Rivne in 2018

|                    | Absolute figures   |                          |                  | Relative figures      |                           |                         |
|--------------------|--------------------|--------------------------|------------------|-----------------------|---------------------------|-------------------------|
|                    | Number of entities | Employment, thsd persons | Turnover, UAH bn | Share in total number | Share in total employment | Share in total turnover |
| Large enterprises  | 2                  | c                        | c                | 0.01%                 | c                         | c                       |
| SMEs               | 15297              | c                        | c                | 99.99%                | c                         | c                       |
| Medium enterprises | 120                | c                        | c                | 0.78%                 | c                         | c                       |
| Small enterprises  | 2752               | 14.3                     | 10.6             | 17.99%                | 21.3%                     | 29.6%                   |
| In which           |                    |                          |                  |                       |                           |                         |
| micro              | 2356               | 6.3                      | 4.0              | 15.40%                | 9.5%                      | 11.1%                   |
| IEs                | 12425              | 25.2                     | 5.9              | 81.21%                | 37.7%                     | 16.4%                   |
| Total              | 15299              | 67.0                     | 36.0             | 100.00%               | 100.0%                    | 100.0%                  |

Source: Own calculations based on the data of the Rivne Region Statistics Headquarters of the State Statistics Service of Ukraine

### Number of business entities

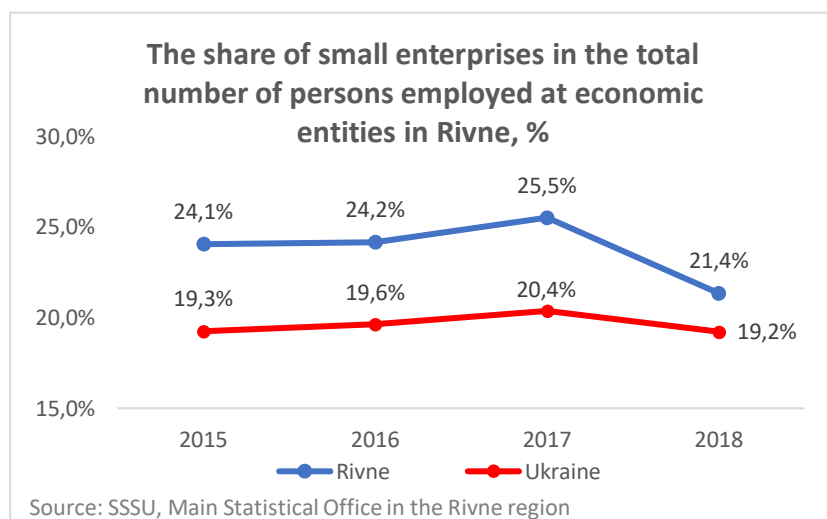
In 2018, Rivne counted 15.3 thousand small and medium-sized enterprises (including 120 medium-sized enterprises, 2.8 thousand small enterprises and 12.4 thousand individual entrepreneurs) but only two large-scale enterprises. As of the end of 2018, 18.8 % (the country's average is 19.3%) of business entities were registered as legal entities, while the others had the status of individual entrepreneurs. Given a negligible quantity of large business entities, information on other key performance indicators of large and medium-sized enterprises (by the number of employees and the volumes of sales) is confidential.



Rivne is ranked number 18 for the number of business entities among the cities selected for the survey. In addition, the city accounts for 38.6% of the total number of business entities in the Rivne Region, which highlights the pivotal role the city plays in the region's economy. There were 620 SMEs per 10,000 inhabitants in Rivne, which corresponds to the seventeenth score among the cities selected for the survey. This may point to a lower — compared to the other regional centers — business activity in the city.

In 2018, the number of SMEs in Rivne increased by 2.4% compared to 2017, which approximately corresponds to the country's average (1.9%). The quantity of medium-sized enterprises in the city increased by 20%, which corresponds to the second highest (after Chernihiv) growth rate among the cities selected for the survey. However, the relevant country's average reached 7.5%. The shares of small enterprises and individual entrepreneurs also increased by 4.1% and 1.8%, respectively (compared to Ukraine's average of 5.1% and 1.2%, respectively).

## Employment



In 2018, the Rivne-based business entities employed 67 thousand persons, which is 16.5% higher than in 2017 (the corresponding country's average is 4.8%). This is the highest increase in employment among the cities selected for the survey. Rivne provides 41.3% of the total employment at business entities in the Rivne Region.

For the reasons of confidentiality of data associated with the low

quantity of large business entities, information on the number of people employed at large and medium-sized enterprises is confidential. Available data, however, show that more than a half of the jobs is accounted for small businesses. In particular, individual entrepreneurs provided 37.7% of the total jobs, while 21.3% of the persons employed work for small enterprises.

Compared to 2017, the number of people employed by SMEs in Rivne reduced by 2.6% (the country's average is 1.1%) However, the share of persons employed by individual entrepreneurs increased by 17.1% (10.5% at the country level).

Statistics show that the Rivne Region demonstrates, in general, a somewhat higher unemployment rate among working age population than Ukraine as a whole. In 2019, the corresponding indicator for the region was 8.8% compared to 8.6% at the country level. In late 2019, 2,069 people were officially unemployed in Rivne, while there were only 770 vacant jobs. Accordingly, the registered unemployed persons created a load of nearly 3 people per a vacancy. However, the quarantine measures and crisis developments caused by the COVID-19 pandemic may deteriorate the employment situation in the city in 2020.

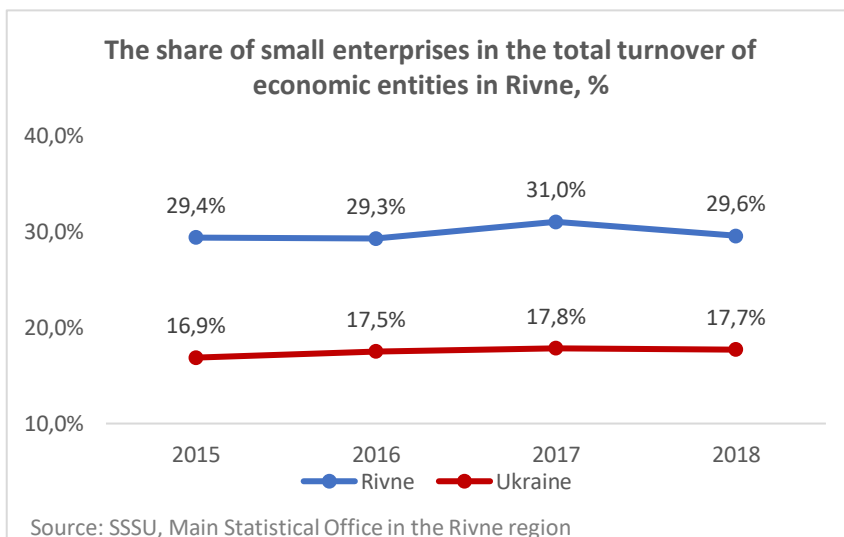
## Turnover

At the end of 2018, the turnover of goods and services by business entities in Rivne reached UAH 36 billion based on current prices. Compared to 2017, the real growth (i.e. adjusted for inflation) of turnover reached 1.1%, which is seven percentage points lower than Ukraine's average (8.1%). The business entities of the city accounted for 42.8% of the total turnover in the Rivne Region.

For the reasons of confidentiality of data associated with the low quantity of large business entities, information on the turnover of large and medium-sized enterprises in Rivne is confidential. Available data, however, show that small enterprises account for almost a third (29.6%) of the total sales (17.7% at the

country level). The share of individual entrepreneurs accounts for 16.4% (7.6% at the country level).

In 2018, the turnover of products by small enterprises in Rivne reduced by 3.7% compared to 2017 (although they increased by 7.5% increase at the country level). However, the turnover of individual entrepreneurs in the city increased by 12.5% (compared to Ukraine's average of 13.5%).



## Sales of industrial products

No statistical information on key performance indicators of enterprises in terms of the types of their economic activities is available at the level of cities of regional significance and districts. However, there are statistical data on the sales of industrial products (goods or services) by the types of activities. Such information allows us to determine key industries of Rivne.

According to the data provided by the Rivne Region Statistics Headquarters, the sales of industrial products in Rivne reached UAH 10.4 billion in 2018. 50.3% or UAH 5.2 billion of those sales were accounted for the processing industry. In particular, 10.2% or UAH 1.1 billion were generated by the manufacture of chemicals and chemical products<sup>125</sup>. The manufacture of textile products, clothes, leather, and products made of leather and other materials come second in the processing industry (more than UAH 1 billion or 10.1%). Other important types of activities are the manufacture of machinery products, except for maintenance and installation of machinery and equipment (approximately UAH 1 billion or 9.3%), the manufacture of foodstuffs, beverages and tobacco products (approximately UAH 1 billion or 9.2%), and the manufacture of rubbers, plastics, and other non-metal mineral products (UAH 0.5 billion or 4.5%).

## Capital investments

In 2018, Rivne accounted for nearly UAH 2.1 billion of capital investments, which corresponds to 29.6% of the total capital investments in the Rivne Region. At the end of 2018, the amount of capital investments per capita was approximately UAH 8,807, which is more than a third less than the country's average of UAH 13,746. Rivne is ranked only number 21 on this index among the cities selected for the survey.

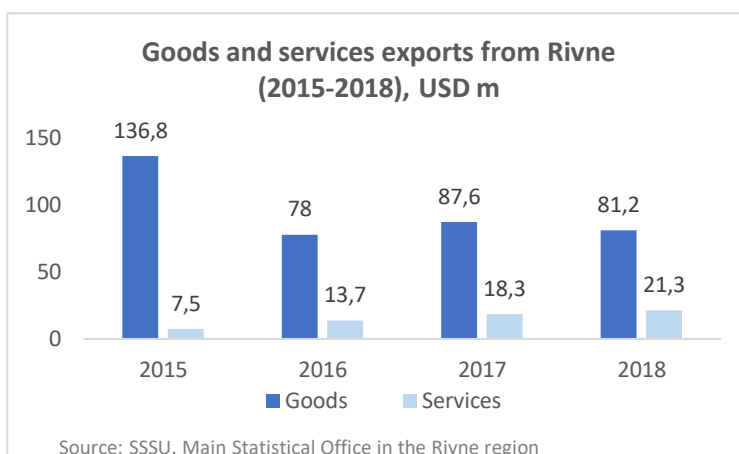
## Exports

According to the State Statistics Service of Ukraine, Rivne's exports of goods amounted to USD 81.2 m in 2018, which is 7.3% less than in 2017. This is the lowest rate among the cities in selected for the survey (in respect of which data on export volumes are available).

<sup>125</sup> Data by types of activities are generated based on homogeneous products.

On the other hand, the exports of services increased by 16.4% and reached USD 21.3 m (ranked number 18).

An analysis of the foreign trade structure has demonstrated that USD 31.3 m or 38.6% of the exports in 2018 was provided by food products and raw materials. A fifth of the exports is accounted for wood and wood products (20.8% or USD 16.7 million). In addition, other important exports include machinery products (14.3%), petrochemicals (6.7%), and ferrous and non-ferrous metals (5.9%).



## Foreign direct investments

As of December 31, 2018, the city of Rivne accounted for USD 70.9 m of foreign direct investments (equity). The said amount does not differ from the amount recorded as of the beginning of 2018. On the other hand, there were USD 291.7 of FDI per capita in Rivne as of the end of December 2018.

It should be noted that in general the Rivne Region is ranked number 22 by the volume of direct investments among all the regions of Ukraine. In addition, as of the beginning of 2018, more than a half (52.8%) of the region's investments were concentrated in Rivne.

## Safety and comfort

The results of other studies allow us to look at the level of safety and comfort of living in the selected cities based on the assessments of their inhabitants. These factors are important for understanding the overall situation in the city. In addition, it is possible to compare those research studies with some results of MCI.

According to the study titled "Sixth Annual Ukrainian Municipal Survey"<sup>126</sup>, the city of Rivne was ranked number 12 on the Quality of Public Goods and Services Index with a score of 2.9 (on a scale from 1 (terrible) to 5 (excellent)), indicating that the residents are dissatisfied with the level of comfort in their city. Rivne is one of the leaders in the sector of health facilities. The situation in the transport infrastructure, roads and industrial development sectors is slightly worse.

As part of the same study, according to its residents, Rivne is one of the secure cities in Ukraine. The value of the corresponding Index for Rivne is 1.6 (on a scale from 0 to 3, where 0 means "I feel completely unsafe" and 3 means "I feel completely safe"). The city is in the top half of the rating on this index and holds the tenth rank among the 24 cities selected for the survey. 51% reported that they felt rather safe or completely safe at night. 45% said that they felt rather unsafe or completely unsafe at night.

<sup>126</sup> The survey was conducted by the Sociological Rating Group on behalf of the International Republican Institute's Center for Insights in Survey Research; The survey was funded by the United States Agency for International Development (USAID). See [http://ratinggroup.ua/research/regions/shestoy\\_vseukrainskiy\\_municipalnyy\\_opros.html](http://ratinggroup.ua/research/regions/shestoy_vseukrainskiy_municipalnyy_opros.html).

## Results of the “Municipal Competitiveness Index” in Rivne

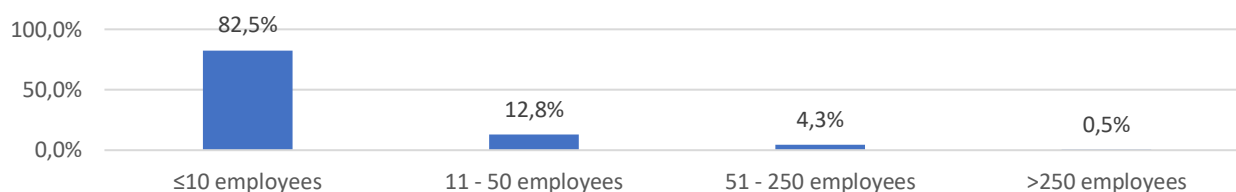
### Description of the survey sample

211 business entities took part in the survey in Rivne. These were 130 (61.6%) enterprises (legal entities) and 81 (38.4%) individual entrepreneurs (PEs). When analyzing the answers, the data array was weighed by the types of business entities (62.5% of legal entities and 37.5% of PEs) to ensure that it was compliant with the parameters of the target sample.

### Size of the surveyed business entities

Most respondents (82.5%) were micro businesses — business entities employing from 1 to 10 people. 12.8% were small entities with 11 to 50 employees. Medium-sized entities (from 51 to 250 employees) account for 4.3% of the respondents, while large entities (more than 250 employees) account for 0.5%.

Surveyed businesses by size (Rivne), %



### Industry and type of activity

The surveyed business entities in Rivne operate in various sectors of the economy. 28.0% of surveyed business are engaged in trade (including in wholesale and retail, repair of motor vehicles). 11.8% of the respondents are employed in the industry, 9.0% – in the construction, and 2.4% – in the agriculture. Almost a half of the surveyed businesses account for the service sector (48.8%) 4.7% of the respondents provide information and communication services, while professional services are provided by 12.8% of the respondents. 31.3% of the respondents provide other services (businesses operating in the transport, arts, sports, education, health care, finance, and other service-related sectors).

Surveyed businesses by sector (Rivne), %



### Year of registration

Most of the surveyed business entities were registered earlier than in 2017 (73.5%). In 2018-2019, 26.5% of the respondents were registered.

### Age and gender breakdown of business owners and managers

According to the survey findings, 64.4% of the Rivne-based businesses are owned by men, while the remaining 35.6% are owned by women. In addition, the share of men owning legal entities is even higher (69.2% of men vs. 30.8% of women).

Men run 69.9% of legal entities, while the share of female managers accounts for 30.1%. When it comes to PEs, who are owned and run by the same person, the quantitative advantage of men is less apparent (52.1%

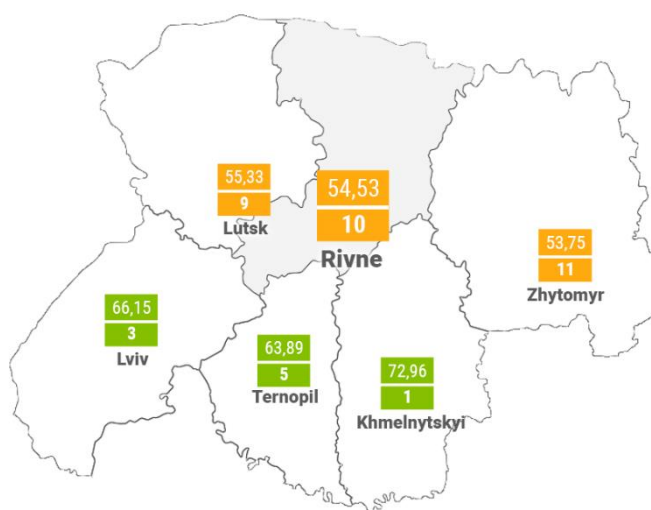
vs. 47.9%). Men run 63.1% of all the business entities, while the share of female managers accounts for 36.9%.

The average age of business owners in Rivne is 42.1 years (the country's average is 42.8 years). However, individual entrepreneurs are on average five years younger than the owners of legal entities (38.9 years vs. 43.4 years) in Rivne.

### *Municipal Competitiveness Index: results of Rivne*

According to the survey findings, Rivne is ranked number 10, scoring 54.53 points as part of MCI 2019/2020. Thus, Rivne is classified among cities with average MCI scores.

A geographical comparison of the MCI index for Rivne and those for its geographical neighbors has shown that the cities classified under average and high MCI score groups are located nearby. In particular, the city of Khmelnytskyi is ranked number one, the city of Lviv — number three, and the city of Ternopil — number five. However, the cities of Lutsk (number 9) and Zhytomyr (number 11) are also located nearby.



The average score of the city is due to different scores obtained on different components (sub-indices) of the rating.

The strongest components are:

- Starting a business (number six)
- Development resources (number six)

The weakest components are:

- Informal payments and corruption (number 23)
- Access to public property (number 20)

#### *1. Starting a business*

Rivne scored 7.48 points on Component 1 “Starting a Business.” This is the sixth highest score among all the cities. The relatively high score of the city is due to prompt registration procedures.

In particular, according to the survey data, the registration of a business in Rivne in 2018-2019 took less time than on average in the country (3.8 days compared to 6.1 days). This is one of the best indices among the cities covered by the survey. On the other hand, it took on average 2.3 days to have changes entered into the register, which is more than one day shorter than all the cities' average of 3.6 days.

In Rivne, only 5.6% of the respondents who registered a business in 2018-2019 reported problems and barriers during the registration, which is also a better index compared to all the cities' average (8.8%). In addition, 81.9% of the respondents received necessary advice during the registration, which is 11 p.p. higher compared to the country's average of 70.7%. Consequently, it took 29.4 days to launch a business (from the date of submission of documents for registration to the date of the first sale of goods or services) in Rivne, which is almost three days less compared to the country's average (32.1 days).

A higher quantity of business registrars compared to the other cities may be one of the reasons for high ratings of the city on the business registration component. There are approximately 10 registrars per 10 thousand business entities in Rivne (including government authorities, local self-government authorities and notaries public), which is twice as much as the quantity of registrars in the cities that reported problems with the registration.

However, the time required to obtain certain permits remains a problem in Rivne. The obtaining of construction permits, and registrations took, on average, 37.2 days in the country and 68.7 days in Rivne, which is one of the highest indices among the cities covered by the survey. It took less time in Rivne to obtain a declaration of conformity to the requirements of the fire safety legislation in respect of a business entity's facilities (7.5 days compared to the cities' average of 11.8 days).

## ***2. Access to public property***

Rivne scored 3.74 points and was ranked number 20 on the component (sub-index) titled "Access to public property." The city demonstrated mostly low results on individual metrics. Only 24.9% of the respondents reported that they had documents certifying the ownership / lease of the land where their business operates (compared to the country's average of 30%). This makes 37.8% of the respondents believing that land documents are their concern (compared to the country's average of 46.8%). In 2018-2019, it took on average 248.2 days to obtain documents certifying the ownership / lease of the land in Rivne, which is the second highest index among the cities surveyed and is more than three times as much as the country's average (72.4).

According to the respondents, Rivne demonstrates a higher transparency of information on community-owned land compared to the other cities. Only 24.1% of the respondents reported the accessibility of information on available community-owned land plots, which can be provided for use or used for construction, etc (18.1% of the total respondents). 27.7% of the respondents indicated that information on the municipal real property (including non-residential premises) was accessible (29.2% of the total respondents).

## ***3. Transparency and data openness***

Rivne was ranked number 15 and scored 4.98 points on the "Transparency and data openness" component. In Rivne, the respondents assigned average rates to the access to information on local budget, local regulations, and public procurements.

In Rivne, 15.6% of the respondents give positive assessments of access to information on local procurements, while access to information on local regulations was positively assessed by 14.6% of the respondents (the average for all the cities is 17.3% and 13.9%). On the other hand, access to information on local budget in the city was positively assessed by only 9.4% of the respondents (10.2% among all the respondents).



#### ***4. Compliance cost***

The indicators of compliance cost in Rivne are, in general, little different from the country's average indices, although the amount of time that entrepreneurs spend on communications with the city inspectors is somewhat higher than on average in the country. The city was ranked number six and scored 7.46 points on this component.

In Rivne, entrepreneurs spend on average 2.3 days for compliance with local regulations, which is half as much as the country's average (four days). 3.1% of an annual income is, on average, spent on compliance with the requirements of local regulations in Rivne, which is also less than 3.7% spent on average by all the respondents.

The findings of the survey show that entrepreneurs in Rivne are somewhat less frequently visited by local inspectors compared to the country's average (0.6 times per year in the city compared to the country's average of 0.7 times per year). Consequently, the average time spent on communications with the inspectors was 5.7 days, which is almost in line with the country's average (five days).

#### ***5. Taxes and duties***

Component (sub-index) 5 "Taxes and duties" is one of the strengths of Rivne. The city was ranked number seven and scored 7.14 points on this component. The rather high score of Rivne was due to a combination of such factors as relatively low expenses for payment of taxes, rather high time expenditures for administration of taxes and duties, a lower local tax burden, and the availability of local tax exemptions.

As part of the survey in Rivne, the respondents said that they spent, on average, 24.4% of their annual income on taxes and duties (including USC), which is less than the average for all the cities (26.8% of the annual income). Entrepreneurs in Rivne spent, on average, 64.8 days on the administration of taxes and duties, which is longer compared to the average for all the cities (59 days).

Only 16.7% of the respondents in Rivne said that local taxes create barriers for their businesses, while the average for all the cities was 20.4%. In addition, 4.2% of the respondents in Rivne reported being exempt from local taxes and duties in 2018-2019, which is a rather highest index among the cities covered by the survey (the average for all the respondents is 3.6%).

#### ***6. Informal payments and corruption***

According to the survey findings, Rivne was ranked number 23 and scored 2.53 points on Component (sub-index) 6 titled "Informal payments and corruption." The city's score was, in particular, due to such factors as a higher than average prevalence of "informal payments" and the lowest level of awareness of entrepreneurs about existing anti-corruption measures taken by the city.

In particular, as part of Dimension 1 "Bribes / Gifts" 11.5% of the respondents in Rivne reported situations related to "informal payments" when approaching the municipal officials for any issues concerning the running of a business in 2018-2019. On average, 9.9% of the respondents faced such situations. On the other hand, as part of Dimension 2 "Anti-corruption efforts," 23.6% of the respondents were informed about the implementation of specific anti-corruption measures by the city authorities (open budget, digital reception, municipal anti-corruption program, etc.), while the average for all the cities surveyed was 31.8%.

#### ***7. Security of operating a business***

Rivne was ranked number 17 among the cities covered by the survey and scored 4.87 points on Component (sub-index) 7 titled "Security of operating a business." This score of Rivne is due to a high percentage of informal business and those who reportedly suffered from criminal acts.

According to the survey, 50.6% of the respondents in Rivne believe that competitors run informal businesses, which is five pp higher than the country's average (45.1% at the country level). 2.5% of the total respondents experienced attempts of illegal takeovers at the country level in 2018-2019. However, the situation with illegal takeovers in Rivne seems to be much less tangible as only 1.4% of the respondents reportedly suffered such acts, which is one of the lowest indices for the country.

18.0% of the respondents in Rivne reported that they suffered losses as a result of extortions, thefts, robberies, or acts of vandalism or arson in 2018-2019, which is four percentage points higher compared to the country's average of 14.3% of the respondents. In addition, the respondents estimated loss that entrepreneurs suffered as a result of similar criminal acts at 11.4%, which just slightly exceeds the average values (10.8% at the country level).

In Rivne, businesses spend, on average, 2.6% of their annual income on security / protection, which is somewhat less compared to the country's average of 2.7% of the annual income.

### ***8. Leadership of municipal authorities***

Rivne was ranked number eight and scored 5.32 points on Component (sub-index) 8 titled "Leadership of municipal authorities." The rating of the city on this component is due rather high — compared to the other cities — scores on two dimensions of which the sub-index consists — "Business development support" and "Public-private dialogue."

Rivne scored 5.74 points and was ranked number nine on the "Business development support" dimension. 19.9% of the respondents believe that the attitude of the municipal authorities towards businesses is "very good" or "good," which approximately corresponds to all the cities' average (20%). In addition, 40.1% of the respondents agree that the municipal authorities support the creation of new businesses. This is the best score among all the respondents surveyed – 38.3%. However, only 32.2% of the respondents reported that the city authorities support existing businesses (the average for all the cities is 35.5%). The survey results are also complemented by "hard data" on the activities of the city council. According to the "hard data," Rivne scored 8 of 10 points. In particular, Rivne's technical documents on standard monetary appraisal of municipal land are outdated. In addition, compared to the other cities, the website of the Rivne City Council provides a lower level of information on public procurements.

The score obtained on the "Public-private dialogue" dimension shows that businesses face less problems in their communications with the local government in Rivne, compared to most other cities. Rivne scored 4.91 points and was assigned the seventh best score on this dimension. 7.2% of business representatives in Rivne believe that they have "extensive" or "very extensive" opportunities to participate in the development of local documents (strategies, plans, programs, etc.), while the average for all the cities surveyed is only 6.5%. In addition, 8% of the respondents indicate that the city always or often holds consultations with entrepreneurs before passing new or amending existing regulations that may affect businesses (compared to 7.4% on average for all the cities).

### ***9. Development resources***

Rivne was ranked number six and scored 5.19 points on Component (sub-index) 9 titled "Development resources." The city's assessment is based on the results of three dimensions that form a single component. Those dimensions are Human resources, Financial resources and infrastructure, and Business support infrastructure.

The city was ranked number 5 and scored 6.44 points on **Dimension 1 (Human resources)**. An analysis of individual indicators of this dimension has demonstrated that only 8% of the respondents in Rivne rate the quality of the local workforce as "excellent" or "good" (the average for all the respondents surveyed is 7.6%).

In addition, only 9.9% of the respondents surveyed give positive assessments of vocational education of employees in the local labor market (the country's average is 10%). Accordingly, just as in the other cities, an insignificant percentage of business entities in Rivne rate high the available workforce.

However, 58.2% of the respondents are of the opinion that insufficient workforce training is a serious barrier to doing business (the country's average is 60.7%). 69.8% of the respondents reported that they face a lack of workforce (70% of all the respondents surveyed). It follows that the lack of qualified workforce is the second most severe problem faced by entrepreneurs in Rivne, according to the rating of barriers to doing business (according to 33.9% of the respondents).

The analysis of the number of workforce in the city is supplemented by statistical data. In particular, there were approximately five vacant jobs per 100 businesses in Rivne at the end of 2019, which is somewhat higher than the average for all the cities surveyed (3.6 vacant jobs)<sup>127</sup>. This may point to a higher demand for the workforce in Lviv compared to the other cities. In addition, as of January 1, 2019, the share of working age population (aged 15-64) in Rivne corresponds to 71.3%, which is one of the highest percentages among all the cities surveyed. The corresponding country's average was 67.8%. Thus, the problem of population aging may be less tangible in Rivne compared to the other cities and the country in general.

The city was ranked number 11 and scored 4.09 points on **Dimension 2 (Financial resources and infrastructure)**. According to the survey findings, only 1.2% of the respondents at the country level received financial support from municipal authorities in 2018-2019. When it comes to individual cities, the share of such respondents in Rivne accounts for 1%, which is approximately in line with the average level. However, 78.6% of the business entities surveyed in Rivne believe that the lack of funds is a serious barrier to doing business (the average for all the cities is 77.8%).

Data on the city's budget expenditures complete the picture of financial resources allocated to support businesses in the city. In 2019, actual spending on support for small and medium-sized enterprises in the city reached only UAH 121 thousand per 10,000 businesses.<sup>128</sup> It should, however, be noted that, in general, SME support expenditures are low or non-existent in most of the cities. However, a higher amount of expenditures or even the existence of such support in general may point to a higher level of leadership of municipal authorities in relation to business support

When it comes to the infrastructure, the entrepreneurs surveyed in the cities covered by the study had reportedly a different experience in relation to connection to electricity grids. In Rivne, connection to the electricity grid took on average 57 full days from the date of an application until the date of actual connection. The corresponding country's average was 85 days. It follows that it is, on average, less complicated to have a business connected to the electricity grid in Kropyvnytskyi than in any of the other cities surveyed.

Rivne was ranked number 7 and scored 5.04 points on **Dimension 3 (Business support infrastructure)**. According to the survey data, 10% of the respondents personally received business support services from the municipal authorities (information, advice, training, etc.), which is lower than all the cities' average (11%). At

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<sup>127</sup> Sources for calculations: 1) Number of vacancies: The situation in the labor market and the results of activities of the state employment service. Data on the page of the Poltava Region Employment Center, <https://rov.dcz.gov.ua/analitics/66> 2) Number of businesses: According to the Rivne Region Statistics Headquarters

<sup>128</sup> Reports on the implementation of local budgets (expenditures under program classification code 7610 - Promotion of small and medium entrepreneurship), as well as responses of the city councils to requests for public information were used. For some cities, information on expenditures was updated through telephone interviews with the employees of executive authorities of the city councils.

the same time, only 42.4% of them rated such services as “good” and “excellent” (48.6% of the total respondents surveyed).

29.8% of the business entities surveyed in Rivne reported the existence of business support centers in the city, which is lower than the average for all the respondents surveyed in general (32.6%). However, according to the ‘hard data,’ there were only two business support infrastructure facilities in the city at the end of 2019, which were created with the participation of the city authorities — InvestInRivne and the Center for Development of Entrepreneurship of the City Employment Center. This is one of the best indices among the cities surveyed. However, entrepreneurs’ awareness of business support centers may also relate to other business support infrastructure facilities existing in the city.

Only 38.5% of the respondents in Rivne are aware of the activities of business associations and business clubs in their city (45.9% of the total respondents surveyed). However, 13.4% of the business entities surveyed are members of such organizations, which is higher than the percentage recorded for all the respondents in general (11.5%).

### ***10. Support of innovations***

The city of Rivne was ranked number eight and scored 5.83 points on Component (sub-index) 10 titled “Support of innovations.”

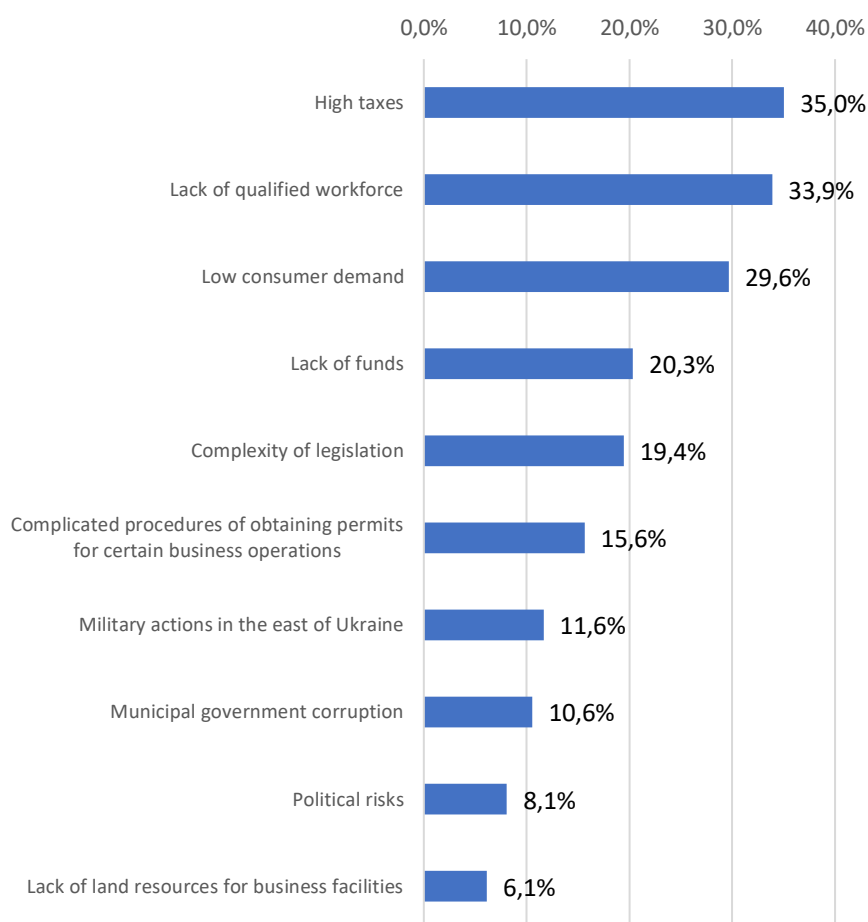
19.51% of the respondents in the city reported that their businesses interacted with research institutions or technology companies in 2018-2019, which is higher than all the cities’ average (18.9%). Businesses in Rivne are also more satisfied with technology transfer compared to the average for the other respondents. 11.2% of the respondents pointed out that the related needs (the transfer of patents for inventions, etc.) are “met to a significant extent” or “fully met” (compared to the country’s average of 8%)

The respondents in Rivne give a high assessment of the local government’s support for local innovation programs (funded from the local budget) with the city scoring 1.94 of five points compared to the average score of 1.91 for all the cities. In addition, Rivne introduced new technologies, solutions, or products less frequently than all the other cities on average in 2018-2019 (37.97% compared to 40.2%). Further, 2.88% of the surveyed enterprises and individual entrepreneurs reported that they belonged to clusters. This is higher than the index recorded for all the cities in general (2.1%). In general, all the factors provide a relatively high satisfaction with support for innovations in Rivne among entrepreneurs.

### ***Barriers to doing business***

The surveyed business entities named the main barriers they face when doing business in Rivne. Three most important barriers included such factors as high taxes, the lack of qualified workforce and low consumer demand. Each of these barriers was reported by nearly a third of the respondents (35.0%, 33.9% and 29.6%, respectively). Accordingly, just as in a number of the other cities, high taxes are the most severe problem in Rivne. However, the problem of lack of qualified workforce is felt more tangible than the problem of low demand.

### TOP-10 barriers to doing business in Rivne, %

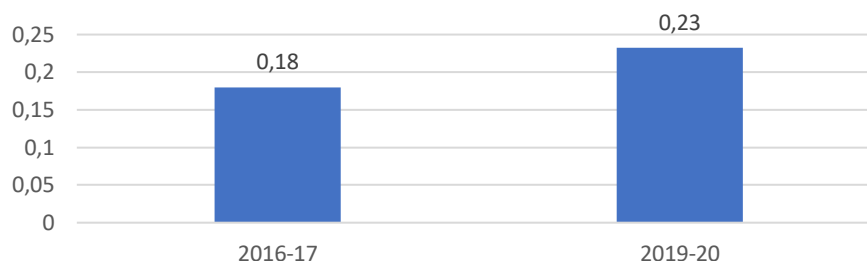


The lack of funds was reported to be a barrier by 20.3% of the respondents (number four). The complexity of legislation was assigned a similar rating (19.4%). 15.6% of the respondents complain about complex permit obtaining procedures. 11.6% of the entrepreneurs surveyed in Rivne perceive the war in the East of Ukraine as a barrier to business activities. Municipal government corruption and political risks create barriers to 10.6% and 8.1% of the respondents, respectively. Number ten barrier relates to the lack of land plots available for the establishment of business entities (6.1% of the respondents). Rivne is one of two cities where this problem is included to TOP-10 barriers.

### *Expectations and assessments of the business climate and economic conditions in Rivne*

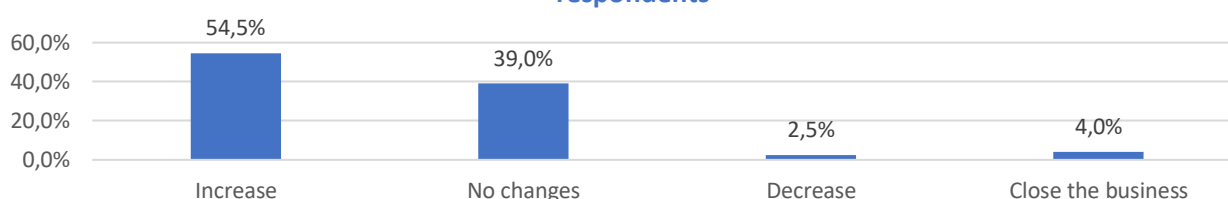
**Regional SME Business Climate Index.** ABCA SME Business Climate Index in Rivne is 0,23 (the city was ranked number five among the cities covered by the survey). This is more than in 2017 (0.18), which indicates an improvement in perception of the business climate. This is in line with the all-Ukrainian trend.

### ABCA Regional Index of Business Climate (Rivne)



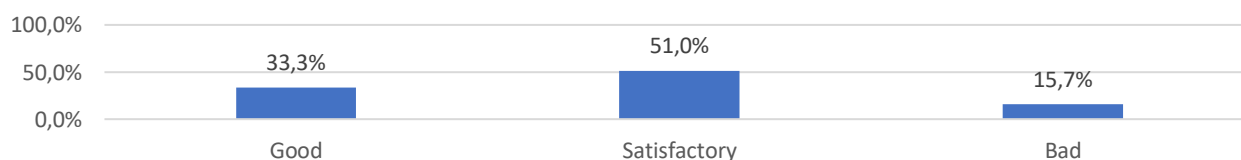
**Long-term expectations for business activity.** Business community in Rivne has optimistic long-term development plans for the next two years. More than half of the respondents (54.5%) reportedly plan to expand their business, and 39% want to stay at the current level. At the same time, only 2.5% of the respondents plan to reduce their business, and 4% want to close it. The balance index<sup>129</sup> is +0.48 (+0.45 at the country level).

### Business activity expectations in the two-year perspective in Rivne, % of the respondents



**Assessment of the financial and economic situation of business entities.** In Rivne, the majority of the business entities surveyed (51%) assessed their current financial and economic situation as satisfactory. The rest of the respondents rated it as good (33.3%) or bad (15.7%) It follows that the positive assessments outweigh the negative ones, and the balance index of the financial and economic situation is +0.18 (compared to the country's average of +0.05).

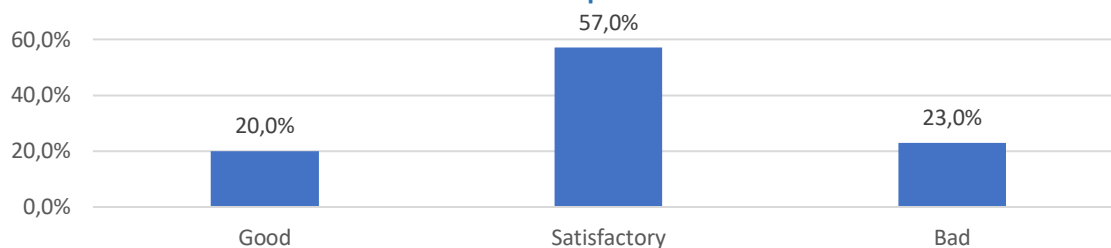
### Assessment of the business situation of business entities in Rivne, % of the respondents



**Assessment of the current overall economic environment for business activities** More than a half of the surveyed business entities (57.0%) assessed the current overall economic environment as satisfactory. 23.0% of the respondents rate the overall economic environment as bad, and 20.0% as good. Thus, the index of assessment of the overall economic environment for business activities is negative (-0.03). However, the value of the index for the city is higher compared to the country's average (-0.12).

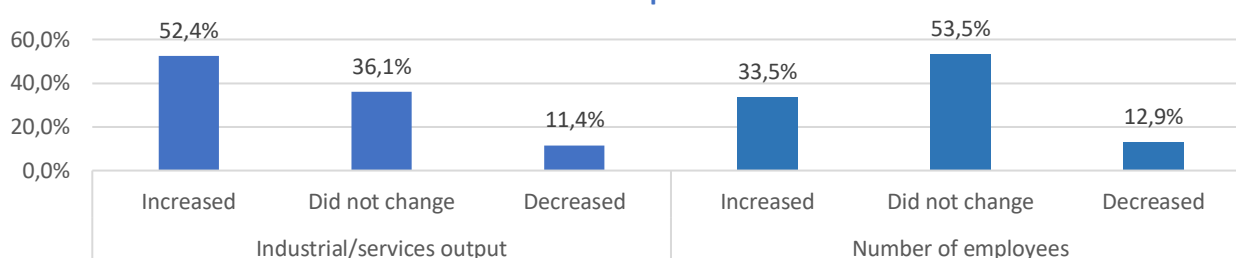
<sup>129</sup> Calculated as the average of all responses on a scale from -1 to 1, where 1 corresponds to a simplification of this procedure, 0 - no change, and -1 to a complication.

### Assessment of the overall economic situation (Rivne), % of the respondents



**Change in the production output over the past two years.** More than a half (52.4%) of the surveyed business entities indicated that they increased their production or service output in 2018-2019. Approximately a third (36.1%) of the respondents did not change the output while 11.4% of the respondents reduced it. Thus, the index of business activity is +0.41 (which is higher than the average of +0.31 for all the respondents surveyed), reflecting the predominance of the share of business entities that expanded their output over the share of those who reduced it.

### Change in the industrial/services output and in the number of employees in Rivne, % of the respondents



**Change in the number of employees of the business entities over the past two years.** More than a half of the surveyed business entities (53.5%) indicated that the number of their employees did not change in 2018-2019. The share of business entities that increased the number of their employees (33.5%) has proved to be more than two times higher than the share of those where the number of employees decreased (12.9%) Thus, the index of changes in the number of employees is +0.21, which is higher than the average of +0.16 for all the cities surveyed.

**Deregulation: changes in administrative procedures** According to the respondents, the process and conditions of business registration have been simplified the most in the last two years. The conditions of tax payment have slightly deteriorated. The situation with the inspections has not improved.

52.3% of the businesses surveyed point out the simplification of business registration in the previous two years. The rest of the respondents did not feel any changes in this procedure, and only a small share of the respondents (10.7%) said that, in their opinion, business registration has become more difficult. As a result, the index of change in the registration procedures is +0.42<sup>130</sup>. This is the highest value of the index compared to the other two procedures, which include the passing of inspections and the administration of taxes.

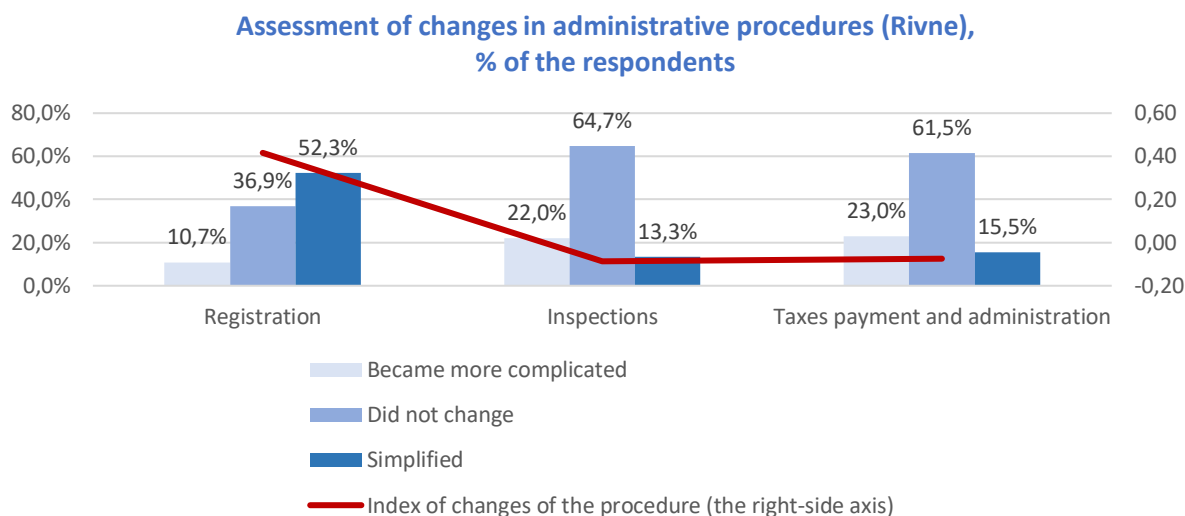
When it comes to the administration of taxes, more than a half of business entities (61.5%) say that they have not noticed any changes in the complexity of this procedure. The rest of the business entities are divided into those for whom the payment of taxes has become easier (just 15.5%) and those for whom it has become more difficult (23,0%). The index of change in the procedures for administering tax payments is therefore negative and corresponds to -0.08.

The index of changes in passing inspections is negative (-0.09), too. 22.0% of business managers and individual entrepreneurs claim that inspections have become more difficult. This is higher than the share of

<sup>130</sup> Calculated as the average of all responses on a scale from -1 to 1, where 1 corresponds to a simplification of this procedure, 0 - no change, and -1 to a complication.

businesses according to which inspections have become easier compared to 2018 (13.3%). However, the largest share of the surveyed businesses (64.7%) did not notice any changes in relation to inspections.

As a result, the value of the general index of changes in administrative procedures, which is calculated as an average value of the indices of change of these three procedures, is +0.08.



## Recommendations

According to the MCI results (subject to the weak components and dimensions) the following key recommendations have been formulated for the city. In addition, the city government should pay attention to recommendations that are common for all the cities in general.

### Component 1. Starting a business.

- The quality of services provided as part of issue of various permits must be improved to reduce the time required to obtain such documents.

### Component 2. Access to public property

- It is necessary to ensure transparent access to information on the availability of community-owned land that can still be used for construction, though, in particular, the official website of the city council.
- It is necessary to ensure transparent access to information about community-owned real property, though, in particular, the official website of the city council.
- It is necessary to ensure timely update of technical documentation on the standard monetary appraisal of land

### Component 6. Informal payments and corruption

- It is necessary to regularly disseminate information on corruption prevention and anti-corruption measures to ensure the awareness of business entities thereof.
- It is necessary to raise awareness of business entities of doing business with integrity.

### Component 7. Security of operating a business



- It is necessary to ensure cooperation with the law enforcement to improve the level of security in the city in general, as the crime rate also impacts the security of doing business.

#### **Component 9. Development resources**

- It is necessary to increase expenses on support for entrepreneurs to ensure the operation of the business support infrastructure and financial support programs.
- It is necessary to conduct an audit of business support infrastructure facilities to determine their efficiency and development pattern.
- It is necessary to use best practices applied by other cities to organize the operation of business support centers, co-workings, business hubs, clusters, etc.

# Sievierodonetsk

## Number 18 in MCI

### General Information

Sievierodonetsk is a city of regional significance in the Luhansk Region.

The Luhansk Region Military and Civil Administration is located in Sievierodonetsk since 3 March 2015.<sup>131</sup>

In addition to Sievierodonetsk, four towns, three urban-type settlements and three villages fall within the jurisdiction of the Sievierodonetsk City Council: the town of Borivske, the village of Bobrove, the village of Oskolonivka, the town of Voronove, the town of Metiolkine, the town of Sytoryne, the urban-type settlement of Lisna Dacha, the village of Voievodivka, the urban-type settlement of Pavlohrad, and the urban-type settlement of Syntetskyi.



### Location

The city of Sievierodonetsk is located in the east of Ukraine, between the Sieverskyi Donets and Borova Rivers.

The city is located in the western part of the Luhansk Region. The city is located near the cities of Rubizhne and Lysychansk, and the Popasnianskyi and Kreminskyi Districts of the Luhansk Region.

The closest regional centers are Kharkiv, Dnipro, and Zaporizhzhia. In addition, the city of Kramatorsk, which performs the functions of the administrative center of the Donetsk Region, is also located nearby.

### Demographic situation

According to the State Statistics Service of Ukraine, as of January 1, 2019, the permanent population of the territory falling within the jurisdiction of the Sievierodonetsk City Council was almost 114 thousand people. The city of Sievierodonetsk is accounted for 103.8 thousand persons of that population. Sievierodonetsk is the second largest city in the region by population. Today, Sievierodonetsk is the largest settlement in the

<sup>131</sup> Please see <https://zakon.rada.gov.ua/laws/show/123/2015>.

government-controlled areas of the Luhansk Region. The city of Lysychansk, which counts nearly 100 thousand inhabitants, is also located nearby.<sup>132</sup>

The population of Sievierodonetsk, as just in Ukraine generally, is dominated by women (55.6%). There are 799 men per 1,000 women (864 men at the country level).

The share of the population aged from 15 to 64 (in the territory falling within the jurisdiction of the city council) is 68.6% (67.8% at the country level). In total, there are 453 people (475 at the country level) aged 0-14 and over 65 per 1,000 people of working age.

## Development of entrepreneurship

**Key structural business statistics in Sievierodonetsk in 2018**

|                    | Absolute figures   |                          |                  | Relative figures      |                           |                         |
|--------------------|--------------------|--------------------------|------------------|-----------------------|---------------------------|-------------------------|
|                    | Number of entities | Employment, thsd persons | Turnover, UAH bn | Share in total number | Share in total employment | Share in total turnover |
| Large enterprises  | 4                  | c                        | c                | 0.08%                 | c                         | c                       |
| SMEs               | 5307               | c                        | c                | 99.92%                | c                         | c                       |
| Medium enterprises | 64                 | c                        | c                | 1.21%                 | c                         | c                       |
| Small enterprises  | 981                | 4.7                      | 4.0              | 18.47%                | 14.6%                     | 21.9%                   |
| IEs                | 4262               | 7.9                      | 1.9              | 80.25%                | 24.3%                     | 10.4%                   |
| Total              | 5311               | 32.5                     | 18.2             | 100.00%               | 100.0%                    | 100.0%                  |

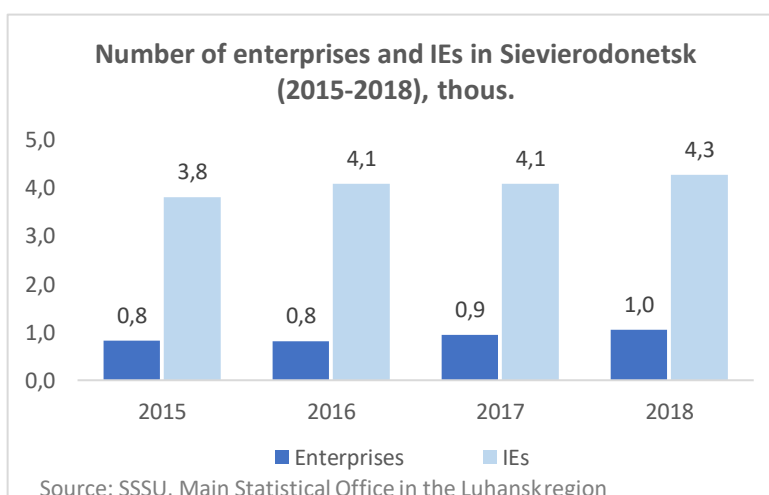
Source: Own calculations based on the data of the Luhansk Region Statistics Headquarters of the State Statistics Service of Ukraine

### Number of business entities

In 2018, Sievierodonetsk counted 5.3 thousand small and medium-sized enterprises (including 64 medium-sized enterprises, almost 1 thousand small enterprises and 4.3 thousand individual entrepreneurs) but only four large-scale enterprises. 19.8% of the business entities were registered as legal entities (Ukraine's average is 19.3%), while the others had the status of individual entrepreneurs. Given a negligible quantity of large business entities,

information on other key performance indicators of large and medium-sized enterprises (by the number of employees and the volumes of sales) is confidential.

Sievierodonetsk is ranked number 24 for the number of business entities among the cities selected for the



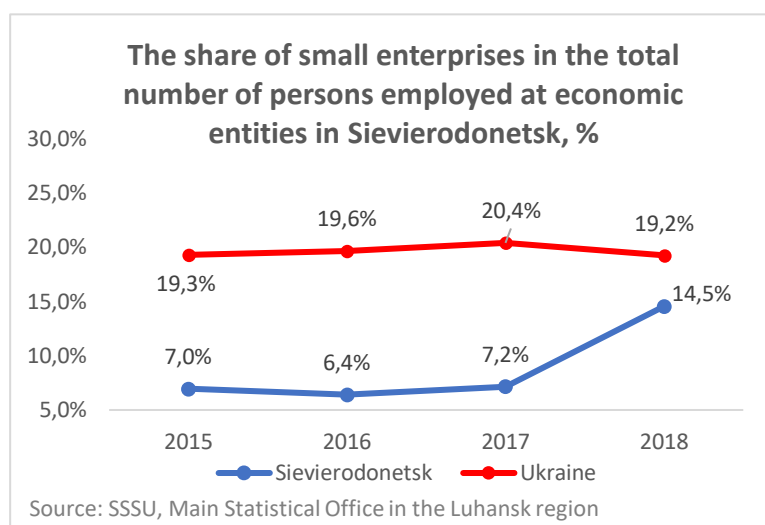
<sup>132</sup> Here and below, the statistical data of the Luhansk Region Statistics Headquarters of the State Statistics Service of Ukraine are used.

survey. The city accounts for 24.3% of the total number of business entities in the Luhansk Region.

There were only 467 SMEs per 10,000 inhabitants in Sievierodonetsk, which is the lowest index in Ukraine. This points to problems associated with the development of entrepreneurship in the government-controlled areas of the Luhansk Region.

In 2018, the number of SMEs in the city increased by 5.8% compared to 2017, which is several percentage points higher than the country's average (1.9%). This is primarily due to a 12.9% growth in the quantity of small businesses (the country's average reached 5.1%). The share of individual entrepreneurs also increased by 4.5% (compared to the country's average of 1.2%). However, the share of medium-sized enterprises decreased by 3%, although it demonstrated a 7.5% growth in Ukraine in general.

### Employment



In 2018, the Sievierodonetsk-based business entities employed 32.5 thousand persons, which is almost half as much (48.8%) compared to 2017 (the corresponding country's average is 4.8%). The city provides 33.4% of the total employment at business entities in the Luhansk Region.

For the reasons of confidentiality of data associated with the low quantity of large business entities, information on the number of people employed at large and

medium-sized enterprises is confidential. Available data, however, show that less than a half of the jobs is accounted for small businesses. In particular, individual entrepreneurs provided 24.3% of the total jobs, while 14.6% of the persons employed work for small enterprises.

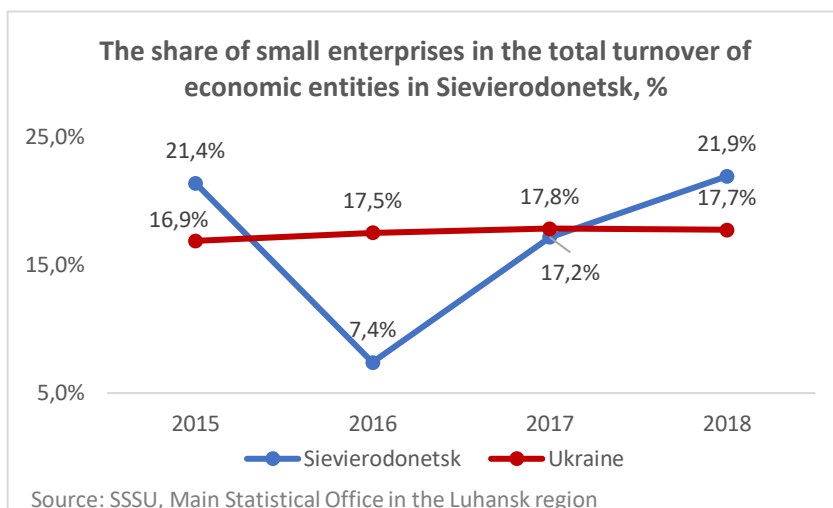
According to available data, the number of people employed at small enterprises in Sievierodonetsk in 2018 increased by 3.9% (only about 0.2 thousand people), although it decreased by 1.1% at the country level. Employment by individual entrepreneurs increased by 1.2 thousand people or 17.9% (10.5% at the country level).

Statistics show that the Luhansk Region, taken as a whole, shows the highest unemployment rate among working age population in Ukraine. In 2019, the corresponding indicator for the region was 14.4% compared to 8.6% at the country level. In late 2019, only 776 people were officially unemployed in Sievierodonetsk, while there were only 123 vacant jobs. Accordingly, the registered unemployed persons created a load of nearly 6 people per a vacancy. However, the quarantine measures and crisis developments caused by the COVID-19 pandemic may deteriorate the employment situation in the city in 2020.

### Turnover

At the end of 2018, the turnover of goods and services by business entities in Sievierodonetsk reached UAH 18.2 billion based on current prices. Compared to 2017, the volume of sales (taking into account the inflation index) decreased by 15.3% despite an 8.1% growth in the country in general. The business entities of the city accounted for 38.7% of the total turnover in the Luhansk Region.

For the reasons of confidentiality of data associated with the low quantity of large business entities, information on the turnover of large and medium-sized enterprises in Sievierodonetsk is confidential. Available data, however, show that small enterprises accounted for 21.9% of the total sales (17.7% at the country level). The share of individual entrepreneurs accounted for 10.4% (7.6% at the country level).



In 2018, the turnover of products by small enterprises of Sievierodonetsk demonstrated a real growth of 8.1% compared to 2017 (compared to a 7.5% increase at the country level). In addition, the turnover of individual entrepreneurs in the city increased by 10% (compared to Ukraine's average of 13.5%).

## Capital investments

In 2018, Sievierodonetsk accounted for more than UAH 0.96 billion in capital investments. This makes 29.9% of the total capital investment in the Luhansk Region. At the end of 2018, the amount of capital investments per capita was UAH 8,8841, which is 1.5 times less than the country's average of UAH 13,746.

## Exports

According to the State Statistics Service of Ukraine, Sievierodonetsk's exports of services reached USD 27.2 m in 2018, which is 6.8% higher than in 2017. Sievierodonetsk was ranked number 13 on this index among the surveyed cities in respect of which relevant statistical data were available. However, no data on the exports of goods are available at the city level for the relevant period, as the development of an indicator on the volume of exports (imports) of goods by cities and districts was not provided by the plan of the Luhansk Region.



## Safety and comfort

The results of other studies allow us to look at the level of safety and comfort of living in the selected cities based on the assessments of their inhabitants. These factors are important for understanding the overall situation in the city. In addition, it is possible to compare those research studies with some results of MCI.

According to the study titled “Sixth Annual Ukrainian Municipal Survey”<sup>133</sup>, the city of Sievierodonetsk was ranked number 17 on the Quality of Public Goods and Services Index with a score of 2.8 (on a scale from 1 (terrible) to 5 (excellent)), indicating that the residents are dissatisfied with the level of comfort in their city. Sievierodonetsk falls behind its opponents in health facilities, industrial development, and roads. The transport infrastructure got the highest scores from the respondents.

As part of the same study, Sievierodonetsk falls behind other Ukrainian cities in terms of security, according to its residents. The value of the corresponding Index for the city is 1.5 (on a scale from 0 to 3, where 0 means “I feel completely unsafe” and 3 means “I feel completely safe”). The city is ranked number 16 on this index among the 24 cities covered by the survey. 45% reported that they felt rather safe or completely safe at night. 50% said that they felt rather unsafe or completely unsafe at night.

## Results of the “Municipal Competitiveness Index” in Sievierodonetsk

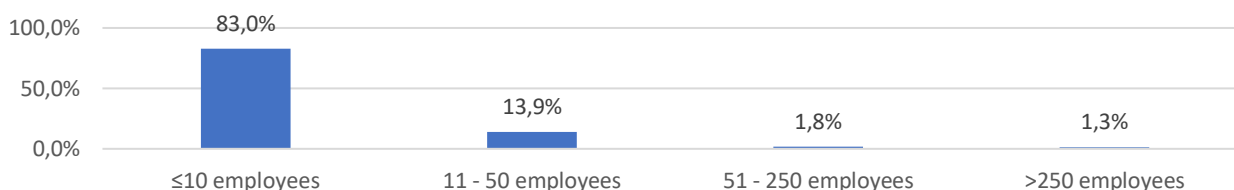
### Description of the survey sample

223 business entities took part in the survey in Sievierodonetsk. These were 88 (39.5%) enterprises (legal entities) and 135 (60.5%) individual entrepreneurs (PEs). When analyzing the answers, the data array was weighed by the types of business entities (75.5% of legal entities and 24.5% of PEs) to ensure that it was compliant with the parameters of the target sample.

### Size of the surveyed business entities

Most respondents (83.0%) were micro businesses — business entities employing from 1 to 10 people. 13.9% were small entities with 11 to 50 employees. Medium-sized entities (from 51 to 250 employees) account for 1.8% of the respondents, while large entities (more than 250 employees) account for 1.3%.

Surveyed businesses by size (Sieverodonetsk), %



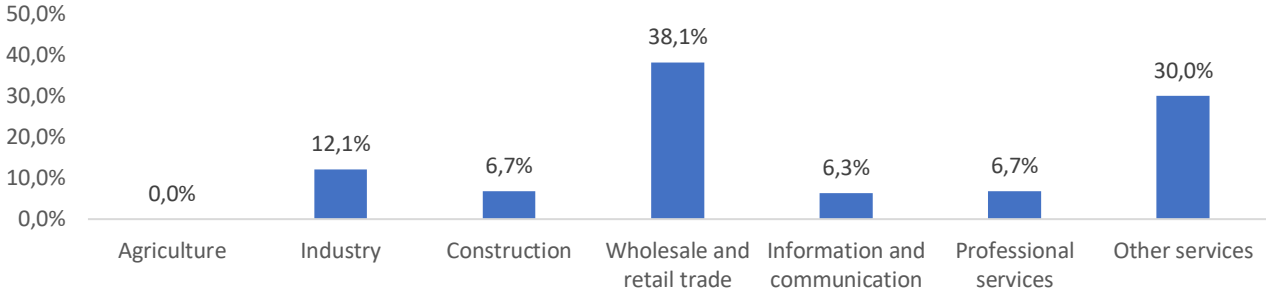
### Industry and type of activity

The surveyed business entities in Sievierodonetsk operate in various sectors of the economy. 38.1% of surveyed business are engaged in trade (including in wholesale and retail, repair of motor vehicles). 12.1% of the respondents are employed in the industry, 6.7% – in the construction, and 0% – in the agriculture. 43.0% of the respondents operate in the service industry. 6.3% of the respondents provide information and communication services, while professional services are provided by 6.7% of the respondents. 30.0% of the

<sup>133</sup> The survey was conducted by the Sociological Rating Group on behalf of the International Republican Institute’s Center for Insights in Survey Research; The survey was funded by the United States Agency for International Development (USAID). See [http://ratinggroup.ua/research/regions/shestoy\\_vseukrainskiy\\_municipalnyy\\_opros.html](http://ratinggroup.ua/research/regions/shestoy_vseukrainskiy_municipalnyy_opros.html).

respondents provide other services (businesses operating in the transport, arts, sports, education, health care, finance, and other service-related sectors).

**Surveyed businesses by sector (Sievierodonetsk), %**



**Year of registration**

Most of the surveyed business entities were registered earlier than in 2017 (71.3%). In 2018-2019, 28.7% of the respondents were registered.

**Age and gender breakdown of business owners and managers**

According to the survey findings, 73.6% of the Sievierodonetsk-based businesses are owned by men, while the remaining 26.4% are owned by women. In addition, the share of men owning legal entities is even higher (78.0% of men vs. 22.0% of women).

Men run 82.9% of legal entities, while the share of female managers accounts for 17.1%. When it comes to PEs, who are owned and run by the same person, the quantitative advantage of men is less apparent (53.8% vs. 46.2%). Men run 75.9% of all the business entities, while the share of female managers accounts for 24.1%.

The average age of business owners in Sievierodonetsk is 46.4 years (compared to the country’s average of 42.8 years). However, individual entrepreneurs are on average seven years younger than the owners of legal entities (40.2 years vs. 47.8 years) in Sievierodonetsk.

**Municipal Competitiveness Index: results of Sievierodonetsk**

According to the survey findings, Sievierodonetsk is ranked number 18, scoring 49.50 points as part of MCI 2019/2020. Thus, Sievierodonetsk is classified among cities with average MCI scores.

A geographical comparison between the MCI index for Sievierodonetsk and those for its geographical neighbors has shown that the cities classified under average MCI score groups only are located nearby. In particular, Kramatorsk is ranked number seven and Kharkiv is ranked number 13.

The low rating of the city is due to low scores obtained on many components (sub-indices).

The strongest components are:



- Access to public property (number three)
- Starting a business (number four)
- Compliance cost (number five)

The weakest components are:

- Support of innovations (number 24)
- Leadership of municipal authorities (number 22)
- Taxes and duties (number 21)
- Development resources (number 21)

### ***1. Starting a business***

Sievierodonetsk scored 7.99 points on Component 1 “Starting a Business.” This is the fourth highest score among all the cities. The high score of the city is due to prompt registration and permit obtaining procedures.

In particular, the registration of a business in Sievierodonetsk in 2018-2019 took less time than on average in the country (5.4 days compared to 6.1 days). On the other hand, it took on average 2.7 days to have changes entered into the register, which is approximately one day shorter than all the cities’ average of 3.6 days.

According to the survey data, there were no respondents in Sievierodonetsk that reported any problems or barriers during business registration in 2018 to 2019. The city therefore demonstrates the lowest level of barriers to business registration compared to the average of 8.8% for all the cities. In addition, 77.2% of the respondents received necessary advice during the registration, which is 6.5 p.p. higher compared to all the respondents (70.7%). Consequently, it took 30 days to launch a business (from the date of submission of documents for registration to the date of the first sale of goods or services) in Sievierodonetsk, which is more than two days shorter than on average in the country (32.1 days).

A higher quantity of business registrars compared to the other cities may be one of the reasons for high ratings of Sievierodonetsk on the business registration component. There are approximately 11 registrars per 10 thousand business entities in the city (including government authorities, local self-government authorities and notaries public), which is one of the best indices among the cities surveyed.

The time required to obtain certain permits is one of the problems of the city. The obtaining of construction permits, and registrations took, on average, 37.2 days in the country and 42.6 days in Sievierodonetsk. In addition, it took more time in Sievierodonetsk to obtain a declaration of conformity to the requirements of the fire safety legislation in respect of a business entity’s facilities (14.2 days compared to the cities’ average of 11.8 days).

### ***2. Access to public property***

Sievierodonetsk scored 7.38 points and was ranked number three on the component (sub-index) titled “Access to public property.” The city demonstrated high results in respect of a number of indices, which allowed it to become one of the leaders on this sub-index. 47.3% of the respondents reported that they had documents certifying the ownership / lease of the land where their business operates (compared to the country’s average of 30%). This makes 62.8% of the respondents believing that land documents are their concern (compared to the country’s average of 46.8%). These are the highest indices among the cities surveyed. In addition, it took on average 53.3 days to obtain documents certifying the ownership / lease of



the land in Sievierodonetsk in 2018 to 2019, which is more than 19 days shorter than the average for all the cities (72.4 days).

According to the respondents, the city also shows a higher — compared to other cities — level of transparency of information on community-owned property. 20.7% of the respondents reported the accessibility of information on available community-owned land plots, which can be provided for use or used for construction, etc (18.1% of the total respondents). In addition, 32.8% of the respondents indicated that information on the municipal real property (including non-residential facilities) was available (29.2% of the total respondents).

### *3. Transparency and data openness*

Sievierodonetsk was ranked number 18 and scored 3.82 points on the “Transparency and data openness” component. In Sievierodonetsk, the respondents assigned average rates to the access to information on local budget, local regulations, and public procurements.

In particular, the access to information on local regulations got the top score in Sievierodonetsk with 13.5% of the respondents assigning ‘good’ and ‘excellent’ rates, compared to 13.9% of all the respondents surveyed. 17.3% of the total respondents give positive assessments of access to information on public procurements. In Sievierodonetsk, the share of such respondents reached 12,3%. On the other hand, access to information on local budget in the city was positively assessed by only 7.7% of the respondents (10.2% among all the respondents).

### *4. Compliance cost*

Sievierodonetsk is one of the leaders for compliance cost and was ranked number five, scoring 7.78 points on this component. The result of the city was determined by low (compared to the other cities) scores assigned by the respondents in respect of time and money spent on compliance with the requirements of local regulations and time spent on communications with inspectors.

In Sievierodonetsk, entrepreneurs spend on average 3.5 days for compliance with local regulations, which is somewhat lower than on average in the country (four days). 3.8% of an annual income is, on average, spent on compliance with the requirements of local regulations in Sievierodonetsk, which is slightly higher than the average of 3.7% for all the respondents.

The findings of the survey show that there is virtually no difference between the frequency of visits of local inspectors in Sievierodonetsk and the average frequency at the country level (0.6 times per year in the city compared to the country’s average of 0.7 times per year). Consequently, the average time spent on communications with the inspectors was 4.1 days, which is somewhat shorter than the country’s average (five days).

### *5. Taxes and duties*

Component (sub-index) 5 titled “Taxes and duties” is one of the weaknesses of Sievierodonetsk. The city was ranked number 21 and scored 3.26 points on this component. Such low score of Sievierodonetsk was due to a combination of such factors as high expenses for payment of taxes and time expenditures for administration of taxes and duties, a significant local tax burden, and the availability of local tax exemptions.

As part of the survey in Sievierodonetsk, the respondents said that they spent, on average, 30.0% of their annual income on taxes and duties (including USC), which is one of the highest rates among all the cities (26.8% of the annual income, on average). Entrepreneurs in Sievierodonetsk spent, on average, 62.8 days on the administration of taxes and duties, which is longer than the average for all the cities (59 days).

27.4% of the respondents in Sievierodonetsk said that local taxes create barrier to their businesses, although the average for all the cities was 20.4%. In addition, 3.5% of the respondents in Sievierodonetsk were reportedly exempted from local taxes and duties in 2018-2019, which is almost in line with the average for the cities covered by the survey (the average for all the respondents is 3.6%).

### ***6. Informal payments and corruption***

According to the survey findings, Sievierodonetsk was ranked number 16 and scored 4.48 points on Component (sub-index) 6 titled “Informal payments and corruption.” The score of the city is primarily due to a low level of awareness of entrepreneurs of existing anti-corruption measures at the city level. However, the prevalence of “informal payments” is lower than the average level.

In particular, as part of Dimension 1 “Bribes / Gifts” 9.0% of the respondents in Sievierodonetsk reported situations related to “informal payments” when approaching the municipal officials for any issues concerning the running of a business in 2018-2019. On average, 9.9% of the respondents faced such situations. On the other hand, as part of Dimension 2 “Anti-corruption efforts,” 25.9% of the respondents were informed about the implementation of specific anti-corruption measures by the city authorities (open budget, digital reception, municipal anti-corruption program, etc.), while the average for all the cities surveyed was 31.8%.

### ***7. Security of operating a business***

Sievierodonetsk was ranked number ten among the cities covered by the survey and scored 5.79 points on Component (sub-index) 7 titled “Security of operating a business.” Such score of Sievierodonetsk is little different from the country average, although losses incurred by entrepreneurs as a result of criminal acts are one of the problems of the city.

According to the survey, 44.4% of the respondents in Sievierodonetsk believe that competitors run informal businesses, which is somewhat lower than the country’s average (45.1% at the country level). 2.5% of the total respondents experienced attempts of illegal takeovers at the country level in 2018-2019. The problem of illegal takeovers in Sievierodonetsk seems to be somewhat less critical with 2.2% of the respondents reported that they had faced such acts.

13.3% of the respondents in Sievierodonetsk reported that they suffered losses as a result of extortions, thefts, robberies, or acts of vandalism or arson in 2018-2019, which is one percentage point less than the country’s average of 14.3% of the respondents. In addition, the respondents estimated loss that entrepreneurs suffered as a result of similar criminal acts at 15.1%, which is five pp higher than the average values (10.8% at the country level).

In Sievierodonetsk, businesses spend, on average, 2.4% of their annual income on security / protection, which is somewhat less compared to the country’s average of 2.7% of the annual income.

### ***8. Leadership of municipal authorities***

Sievierodonetsk was ranked number 22 and scored 3.05 points on Component (sub-index) 8 titled “Leadership of municipal authorities.” The low rating of the city is due to its low scores on two dimensions of which the sub-index consists — “Business development support” and “Public-private dialogue.”

Sievierodonetsk scored 3.37 points and was ranked number 23 on the “Business development support” dimension. The Sievierodonetsk-based entrepreneurs are more pessimistic — compared to the other cities — about the attitude of representatives of the municipal authorities towards private business. Only 11.7% of the respondents believe that the attitude of the municipal authorities towards businesses is “very good” or “good” (the average for all the cities is 20%). In addition, 29.5% of the respondents agree that the municipal authorities support start-ups (compared to the average of 38.3% for all the cities), and 23.1% indicate that

the municipal authorities support existing businesses (compared to the average of 35.5% for all the cities. The survey results are also complemented by “hard data” on the activities of the city council. According to the “hard data,” Sievierodonetsk scored 5 of 10 points, which corresponds to one of the lowest scores among the cities surveyed. In particular, Sievierodonetsk’s technical documents on standard monetary appraisal of municipal land are outdated compared to those used by the other cities. The boundaries of the city are not established. Similarly, the city lacks certain anti-corruption tools, which are available in the other cities. In particular, there is no anti-corruption program or anti-corruption hotline in the city.

The score obtained on the “Public-private dialogue” dimension shows that businesses face many problems in their communications with the local government in Sievierodonetsk, compared to most other cities. Sievierodonetsk scored 2.72 points and was assigned the twenty-first best score on this dimension. Only 3.9% of business representatives in Sievierodonetsk believe that they have “extensive” or “very extensive” opportunities to participate in the development of local documents (strategies, plans, programs, etc.), while the average for all the cities surveyed is 6.5%. In addition, 5.6% of the respondents in Sievierodonetsk indicate that the city always or often holds consultations with entrepreneurs before passing new or amending existing regulations that may affect businesses (compared to 7.4% on average for all the cities).

### **9. Development resources**

Sievierodonetsk was ranked number 21 and scored 3.73 points on Component (sub-index) 9 titled “Development resources.” The city’s assessment is based on the results of three dimensions that form a single component. Those dimensions are Human resources, Financial resources and infrastructure, and Business support infrastructure.

The city was ranked number 10 and scored 5.83 points on **Dimension 1 (Human resources)**. An analysis of individual indicators of this dimension has demonstrated that only 5.3% of the respondents in Sievierodonetsk rate the quality of the local workforce as “excellent” or “good” (the average for all the respondents surveyed is 7.6%). However, 10.4% of the respondents give positive assessments of vocational education of employees in the local labor market, which approximately corresponds to the average level for the cities surveyed (10% for all the respondents). Accordingly, just as in the other cities, an insignificant percentage of business entities in Sievierodonetsk rate high the available workforce.

However, 60.3% of the respondents are of the opinion that insufficient workforce training is a serious barrier to doing business (the country’s average is 60.7%). 61.9% of the respondents reported that they face a lack of workforce (70% of all the respondents surveyed). It follows that Sievierodonetsk is one of the cities where the lack of workforce is less tangible compared to the other cities. In particular, this may be due to labor surplus caused by the high unemployment rate in the region. However, the lack of qualified workforce is the fourth most severe problem faced by entrepreneurs in Sievierodonetsk, according to the rating of barriers to doing business (as reported by 25.8% of the respondents).

The analysis of the number of workforce in the city is supplemented by statistical data. In particular, there were approximately 2.3 vacant jobs per 100 businesses in Sievierodonetsk at the end of 2019 (the average for the cities surveyed was 3.6 vacant jobs)<sup>134</sup>. This may point to a lower demand for workforce compared to the other cities in connection with a lower business activity. In addition, as of January 1, 2019, the share of working age population (aged 15-64) in Sievierodonetsk was 68.6%, which is one of the lowest percentages

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<sup>134</sup> Sources for calculations: 1) Number of vacancies: The situation in the labor market and the results of activities of the state employment service. Data on the page of the Luhansk Region Employment Center, <https://lug.dcz.gov.ua/analytics/66> 2) Number of businesses: According to the Luhansk Region Statistics Headquarters

among the cities surveyed. The corresponding country's average on this metric was 67.8%<sup>135</sup>. Thus, the problem of population aging may be more tangible in Sievierodonetsk compared to the other cities.

The city was ranked number two and scored 3.20 points on **Dimension 2 (Financial resources and infrastructure)**. According to the survey findings, only 1.2% of the respondents at the country level received financial support from municipal authorities in 2018-2019. When it comes to individual cities, the share of such respondents in Sievierodonetsk accounts for 1.8%, which is somewhat higher than the average level. However, 80.4% of the business entities surveyed in Sievierodonetsk believe that the lack of funds is a serious barrier to doing business (the average for all the cities is 77.8%).

Data on the city's budget expenditures complete the picture of financial resources allocated to support businesses in the cities surveyed. However, no money was allocated to support small and medium-sized enterprises in Sievierodonetsk in 2019 (five of the total number of the cities covered by the survey did not allocate money to support businesses).<sup>136</sup> It should, however, be noted that, in general, SME support expenditures are low or non-existent in most of the cities. However, a higher amount of expenditures or even the existence of such support in general may point to a higher level of leadership of municipal authorities in relation to business support.

When it comes to the infrastructure, the entrepreneurs surveyed in the cities covered by the study had reportedly a different experience in relation to connection to electricity grids. In Sievierodonetsk, connection to the electricity grid took on average 137 full days from the date of an application until the date of actual connection. This is one of the best rates among the cities covered by the survey. At the country level, connection to the electricity grid took, on average, 85 days. It follows that it is more complicated to have a business connected to the electricity grid in Kramatorsk compared to most other cities.

Sievierodonetsk was ranked number 24 and scored 2.15 points on **Dimension 3 (Business support infrastructure)**. According to the survey data, 9.9% of the respondents personally received business support services from the municipal authorities (information, advice, training, etc.), which is lower than all the cities' average (11%). At the same time, only 36.8% of them rated such services as "good" and "excellent" (48.6% of the total respondents surveyed). This is one of the lowest percentages among the cities covered by the survey.

Only 27.6% of the business entities surveyed in Sievierodonetsk reported the existence of business support centers in the city, which is lower than the average for all the respondents (32.6%). In addition, according to the 'hard data,' there were no business support infrastructure facilities in the city at the end of 2019, which were created with the participation of the city authorities. Thus, entrepreneurs' awareness of business support centers may relate to other business support infrastructure facilities existing in the city.

45.3% of the respondents in Sievierodonetsk are aware of the activities of business associations and business clubs in their city (45.9% of the total respondents). However, only 6% of the surveyed business entities are members of such organizations, which is lower than the percentage recorded for all the respondents surveyed in general (11.5%). This is one of the lowest indices among the cities surveyed, which may be due to lower business activity in the region affected by the war. In particular, only 6% of business entities are members of business associations and business clubs in Kramatorsk, too.

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<sup>135</sup> According to the Luhansk Region Statistics Headquarters of the State Statistic Service of Ukraine

<sup>136</sup> Reports on the implementation of local budgets (expenditures under program classification code 7610 - Promotion of small and medium entrepreneurship), as well as responses of the city councils to requests for public information were used. For some cities, information on expenditures was updated through telephone interviews with the employees of executive authorities of the city councils.

## 10. Support of innovations

The city of Sievierodonetsk was ranked number 24 and scored 2.22 points on Component (sub-index) 10 titled “Support of innovations.”

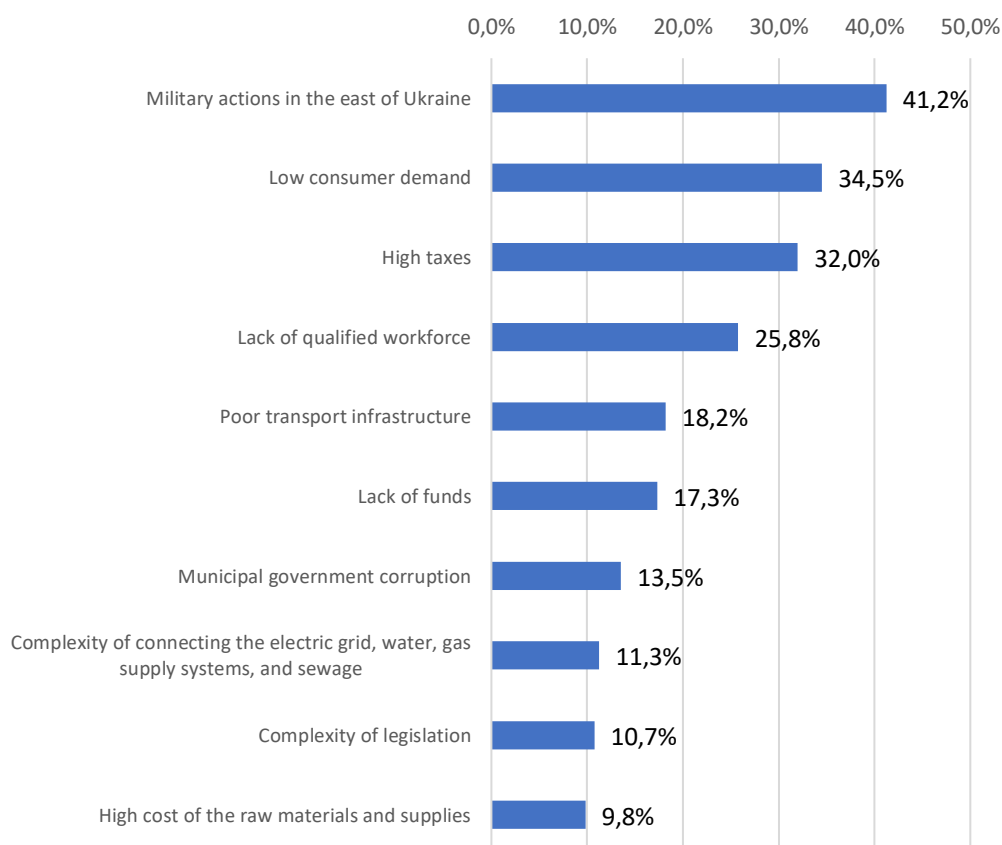
17.5% of the respondents in the city reported that their businesses interacted with research institutions or technology companies in 2018-2019, which is lower than all the cities’ average (18.9%). Businesses in Sievierodonetsk are also less satisfied with technology transfer compared to the average for the other respondents. 5.1% of the respondents pointed out that the related needs (the transfer of patents for inventions, etc.) are “met to a significant extent” or “fully met” (compared to the country’s average of 8%)

The respondents in Sievierodonetsk give a low assessment of the local government’s support for local innovation programs (funded from the local budget) with the city scoring 1.66 of five points compared to the average score of 1.91 for all the cities. In addition, Sievierodonetsk introduced new technologies, solutions, or products less frequently than all the other cities on average in 2018-2019 (33.07% compared to 40.2%). Further, 1.21% of the surveyed enterprises and individual entrepreneurs reported that they belonged to clusters. This is lower than the index recorded for all the cities in general (2.1%). In general, all the factors provide the lowest level of satisfaction with support for innovations in Sievierodonetsk among entrepreneurs.

## Barriers to doing business

Sieverodonetsk is one of the two cities where the respondents classified the war in the East of Ukraine among TOP3 barriers to the doing of business. This barrier is the most important one, according to 41.2% of the respondents. A third of the respondents complain about low consumer demand (34.5%) and high taxes (32.0%). A fourth of the respondents (25.8%) reported that the lack of qualified workforce is a serious barrier

TOP-10 barriers to doing business in Sievierodonetsk, %



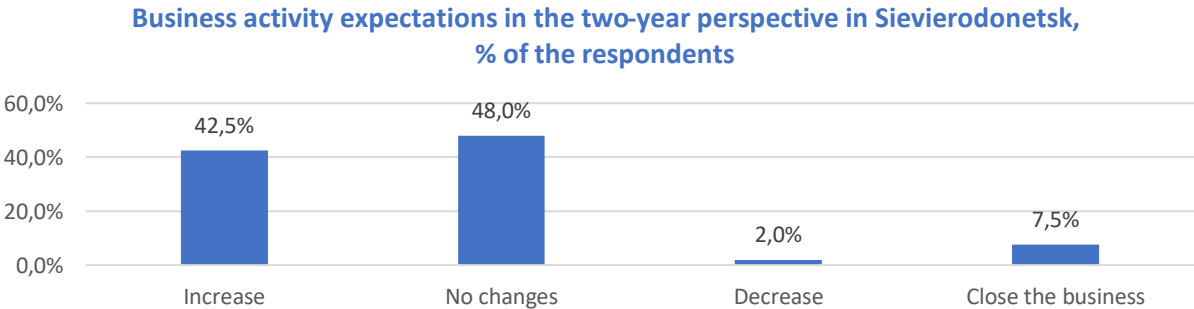
Other important barriers are transport infrastructure and the lack of funds (18.2% and 17.3%, respectively). Municipal government corruption is perceived as a serious barrier by 13.5% of the respondents. The complexity of connection to electricity, water and gas supply systems and sewerage networks and the complexity of legislation were reported as serious barriers for 11.3% and 10.7% of the respondents, respectively. The list of TOP-10 barriers to the doing of business in Sievierodonetsk is completed by the high cost of raw materials and supplies (9.8% of the respondents).

*Expectations and assessments of the business climate and economic conditions in Sievierodonetsk*

**Regional SME Business Climate Index.** ABCA SME Business Climate Index in Sievierodonetsk is 0.10 (the city was ranked only number 24 among all the cities covered by the survey). This is more than in 2017 (0.00), which indicates an improvement in the perception of the business climate. This is in line with the all-Ukrainian trend.



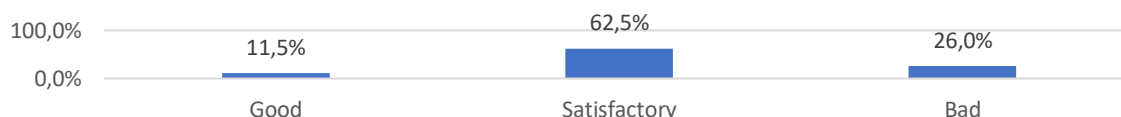
**Long-term expectations for business activity.** Business community in Sievierodonetsk has optimistic long-term development plans for the next two years. Slightly less than a half of the respondents (48%) reportedly plan to expand their business, and 42.5% want to stay at the current level. At the same time, only 2% of the respondents plan to reduce their business, and 7.5% want to close it. The balance index<sup>137</sup> is +0.33 (+0.45 at the country level).



**Assessment of the financial and economic situation of business entities.** In Sievierodonetsk, the majority of the business entities surveyed (62.5%) assessed their current financial and economic situation as satisfactory. The rest of the respondents rated it as good (11.5%) or bad (26%) It follows that the negative assessments outweigh the positive ones, and the balance index of the financial and economic situation is -0.14 (compared to the country’s average of +0.05).

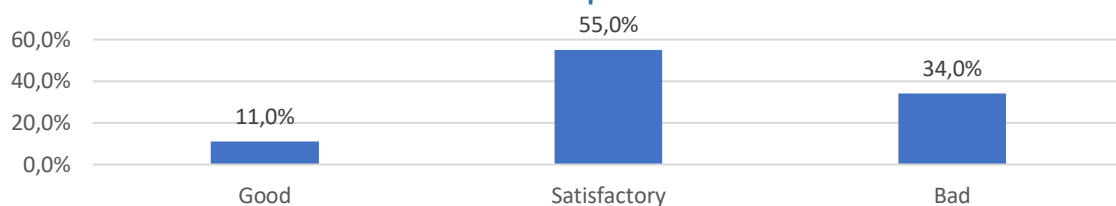
<sup>137</sup> Calculated as the average of all responses on a scale from -1 to 1, where 1 corresponds to a simplification of this procedure, 0 - no change, and -1 to a complication.

### Assessment of the business situation of business entities in Sievierodonetsk, % of the respondents



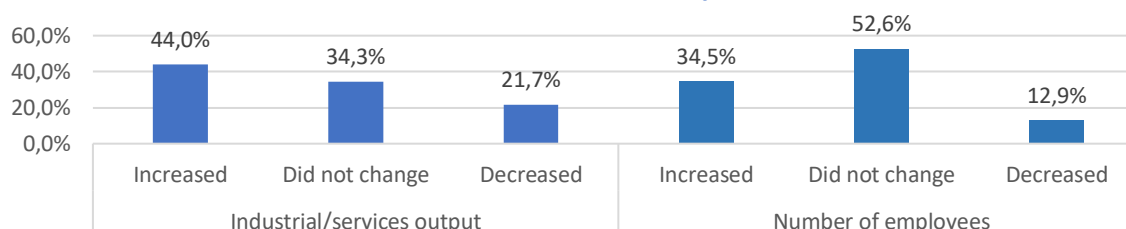
**Assessment of the current overall economic environment for business activities** More than a half of the surveyed business entities (55.0%) assessed the current overall economic environment as satisfactory. 34.0% of the respondents rate the overall economic environment as bad, and 11.0% as good. Thus, the index of assessment of the overall economic environment for business activities is negative (-0.23). However, the value of the index is much lower compared to the country's average (-0.12).

### Assessment of the overall economic situation (Sievierodonetsk), % of the respondents



**Change in the production output over the past two years.** Almost a half (44.0%) of the surveyed business entities indicated that they increased their production or service output in 2018-2019. Approximately a third (34.3%) of the respondents did not change the output while 31.7% of the respondents reduced it. Thus, the index of business activity is +0.22 (which is lower than the average of +0.31 for all the respondents surveyed), reflecting the predominance of the share of business entities that expanded their output over the share of those who reduced it.

### Change in the industrial/services output and in the number of employees in Sievierodonetsk, % of the respondents



**Change in the number of employees of the business entities over the past two years.** More than a half of the surveyed business entities (52.6%) indicated that the number of their employees did not change in 2018-2019. The share of business entities that increased the number of their employees (34.5%) has proved to be more than two times higher than the share of those where the number of employees decreased (12.9%) Thus, the index of changes in the number of employees is +0.22, which is higher than the average of +0.16 for all the cities surveyed.

**Deregulation: changes in administrative procedures** According to the respondents, the process and conditions of business registration have been simplified the most in the last two years. The conditions of tax payment have not been improved and the situation with inspections has deteriorated.

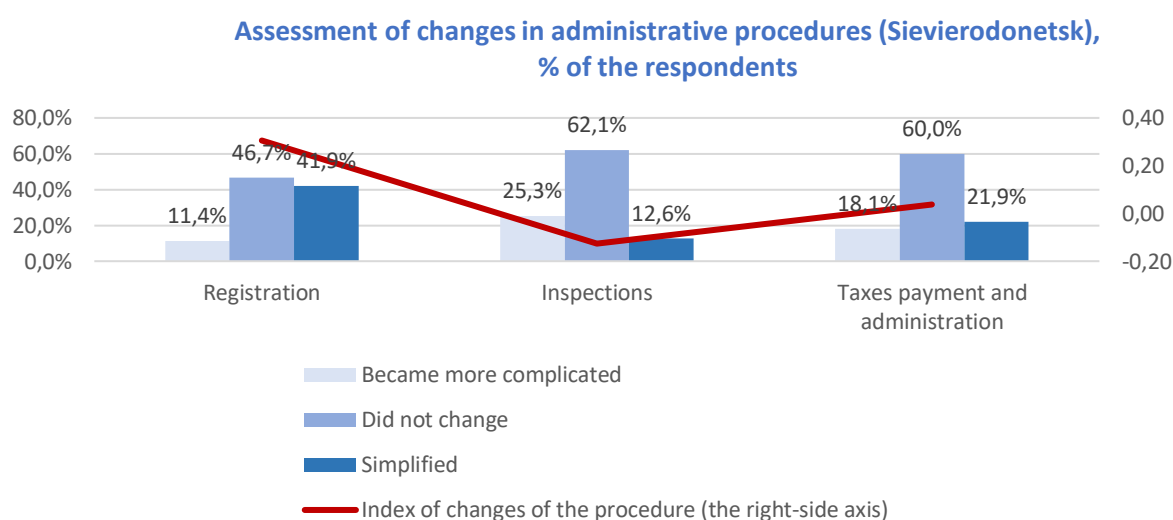
41.9% of the businesses surveyed point out the simplification of business registration in the previous two years. The rest of the respondents did not feel any changes in this procedure, and only a small share of the respondents (11.4%) said that, in their opinion, business registration has become more difficult. As a result, the index of change in the registration procedures is +0.31<sup>138</sup>.

<sup>138</sup> Calculated as the average of all responses on a scale from -1 to 1, where 1 corresponds to a simplification of this procedure, 0 - no change, and -1 to a complication.

This is the highest value of the index compared to the other two procedures, which include the passing of inspections and the administration of taxes. When it comes to the administration of taxes, more than a half of business entities (60.0%) say that they have not noticed any changes in the complexity of this procedure. The rest of the business entities are divided into two nearly equal parts, which include those for whom the payment of taxes has become easier (21.9%), and those for whom it has become more difficult (18.1%). Therefore, the index of change in the procedures for administration of tax payments tends towards zero and equals 0.04.

The index of changes in passing inspections is negative (-0.13). 25.3% of business managers and individual entrepreneurs claim that inspections have become more difficult. This is significantly higher than the share of businesses according to which inspections have become easier compared to 2018 (12.6%). However, the largest share of the surveyed businesses (62.1%) did not notice any changes in relation to inspections.

As a result, the value of the general index of changes in administrative procedures, which is calculated as an average value of the indices of change of these three procedures, is +0.07.



## Recommendations

According to the MCI results (subject to the weak components and dimensions) the following key recommendations have been formulated for the city. In addition, the city government should pay attention to recommendations that are common for all the cities in general.

### Component 2. Access to public property

- It is necessary to ensure timely update of technical documentation on the standard monetary appraisal of land

### Component 3. Transparency and data openness

- It is necessary to improve the transparency and openness of data on local budgets, local regulations, and public procurements, in particular, through regularly placing up-to-date information on official websites.

### Component 5. Taxes and duties

- It is necessary to regularly analyze the burden of local taxes and duties and its impact on local businesses.



**Component 6. Informal payments and corruption**

- It is necessary to establish, and to ensure the operation of, necessary components of the local anti-corruption system (anti-corruption program and anti-corruption hotline).
- It is necessary to regularly disseminate information on corruption prevention and anti-corruption measures to ensure the awareness of business entities thereof.
- It is necessary to raise awareness of business entities of doing business with integrity.

**Component 8. Leadership of municipal authorities**

- It is necessary to ensure constant communication and dialogue between businesses and local authorities through ensuring regular operation of special advisory bodies with the participation of entrepreneurs.
- It is necessary to ensure a higher level of business involvement in the development of local documents (strategies, plans, programs, etc.) and consultations on regulations.

**Component 9. Development resources**

- It is necessary to analyze the needs of local businesses for workforce.
- It is necessary to increase expenses on support for entrepreneurs to ensure the operation of the business support infrastructure and financial support programs.
- It is necessary to conduct an audit of business support infrastructure facilities to determine their efficiency and development pattern.
- It is necessary to use best practices applied by other cities to organize the operation of business support centers, co-workings, business hubs, clusters, etc.

**Component 10. Support of innovations**

- It is necessary to provide support for innovative projects as part of business financial support programs in cities.
- It is necessary to promote cooperation between businesses through incorporating clusters on the initiative of, or with support from, the local government.

# Sumy

## Number 16 in MCI

### General Information

Sumy is the administrative center of the Sumy Region and a city of regional significance.

The city is also the administrative center of the Sumskiy District, although it is not part thereof.

In addition to Sumy, the Sumy City Council has jurisdiction over the Pishchane Village Council having jurisdiction over the following six villages: Pishchane, Verkhnie Pishchane, Zhyteiske, Zahirske, Kyryakivshchyna and Trokhymenkove. The city is divided onto the Zarichnyi and Kovpakivskiy Districts.



In April 2019, the Sumy City Amalgamated Territorial Community was established. The community encompasses the Sumy City Council and the Pishchane Village Council.<sup>139</sup>

### Location

The city of Sumy is located in the northeast of Ukraine, at the confluence of the Sumka and Psel Rivers.

The city is located in the east of the Sumy Region. The state border of Ukraine with Russia is located near the city. The territory of the city is enclosed by the Sumskiy District.

The closest regional centers are Chernihiv, Poltava, and Kharkiv.

### Demographic situation

As of January 1, 2019, the permanent population of Sumy (including territories falling within the jurisdiction of the City Council) counted 265.5 thousand people. Of these, only 1% is accounted for rural settlements falling within the jurisdiction of the Sumy City Council.<sup>140</sup>

The city is the largest settlement of the Sumy Region. The Sumy City Council accounts for almost a fourth of the Region's population (24.6%). The city of Konotop with a population of 89.9 thousand inhabitants is the second largest settlement in the region.

<sup>139</sup> Please see <https://decentralization.gov.ua/gromada/115#>.

<sup>140</sup> Here and below, the statistical data of the Sumy Region Statistics Headquarters of the State Statistics Service of Ukraine are used.

The population of Sumy, as just in Ukraine generally, is dominated by women (54.9%). There are 823 men per 1,000 women (864 men at the country level). The share of the population aged from 15 to 64 is 70.5% (67.8% at the country level). In total, there are 419 people (475 at the country level) aged 0-14 and over 65 per 1,000 people of working age.

A natural decline of the population was observed in Sumy in 2018 (-5.4 per 1,000 inhabitants). The death and birth rates reached 12.9 and 7.5, respectively.

## Development of entrepreneurship

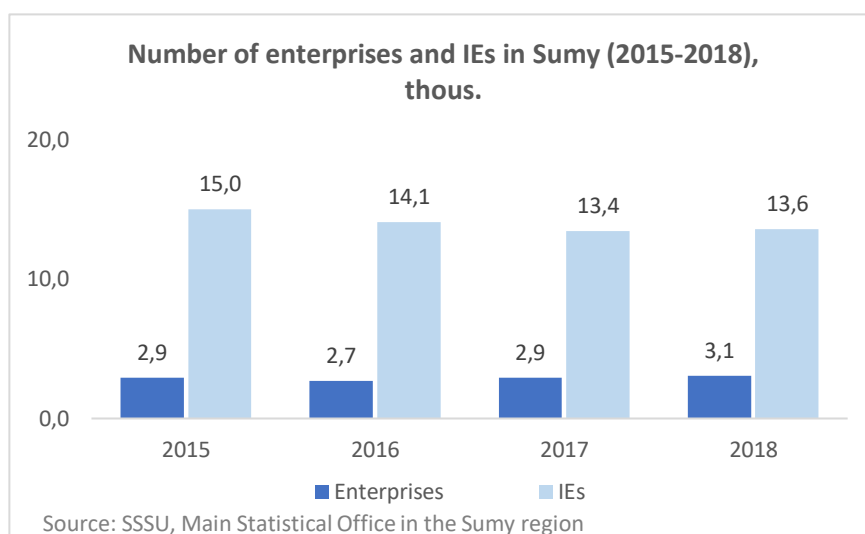
### Key structural business statistics in Sumy in 2018

|                    | Absolute figures   |                          |                  | Relative figures      |                           |                         |
|--------------------|--------------------|--------------------------|------------------|-----------------------|---------------------------|-------------------------|
|                    | Number of entities | Employment, thsd persons | Turnover, UAH bn | Share in total number | Share in total employment | Share in total turnover |
| Large enterprises  | 4                  | 9.0                      | 8.6              | 0.02%                 | 11.5%                     | 14.7%                   |
| SMEs               | 16610              | 69.7                     | 49.8             | 99.98%                | 88.5%                     | 85.3%                   |
| Medium enterprises | 136                | 28.0                     | 30.7             | 0.82%                 | 35.5%                     | 52.7%                   |
| Small enterprises  | 2910               | 14.9                     | 12.1             | 17.52%                | 19.0%                     | 20.7%                   |
| In which           |                    |                          |                  |                       |                           |                         |
| micro              | 2486               | 5.8                      | 4.1              | 14.96%                | 7.4%                      | 7.1%                    |
| IEs                | 13564              | 26.8                     | 7.0              | 81.64%                | 34.0%                     | 12.0%                   |
| Total              | 16614              | 78.7                     | 58.3             | 100.00%               | 100.0%                    | 100.0%                  |

Source: Own calculations based on the data of the Sumy Region Statistics Headquarters of the State Statistics Service of Ukraine

### Number of business entities

In 2018, Sumy counted 16.6 thousand small and medium-sized enterprises (including 136 medium-sized enterprises, 2.9 thousand small enterprises and 13.6 thousand individual entrepreneurs) but only four large-scale enterprises. 18.4% of the business entities were registered as legal entities (Ukraine's average is 19.3%), while the others had the status of individual entrepreneurs.

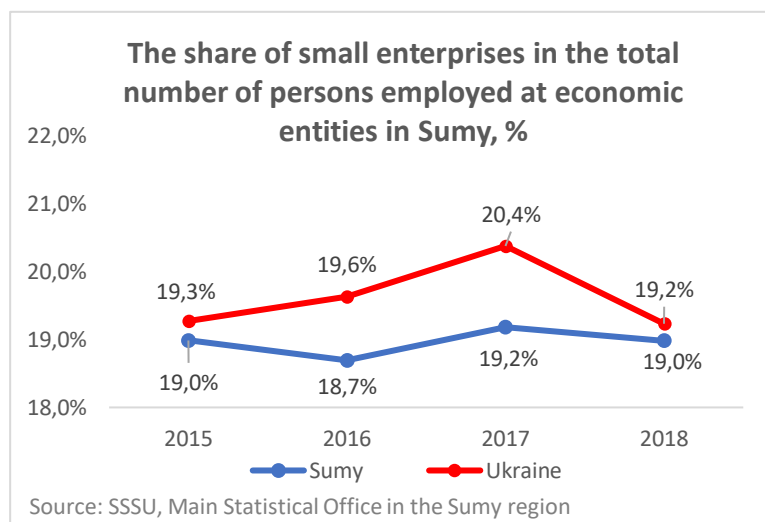


Sumy is ranked number 16 for the number of business entities among the cities selected for the survey. The city accounts for 41.1% of the total number of business entities in the Sumy Region, which highlights the pivotal role the city plays in the region's economy.

There were 621 SMEs per 10,000 inhabitants in Sumy, which allowed the city to be ranked only number sixteen among the cities covered by the survey. This may point to somewhat lower business activity compared to other regional centers.

In 2018, the number of SMEs in the city increased by 1.8% compared to 2017, which approximately corresponds to the country's average (1.9%). The increase was generated by small enterprises (+5%) and individual entrepreneurs (+1.1%), which approximately corresponds to the country average (5.1% and 1.2%, respectively). However, the quantity of medium-sized business in Sumy decreased by 2.2% although it demonstrated a 7.5% growth at Ukraine's level.

### Employment



In 2018, the Sumy-based business entities employed 78.7 thousand persons, which is 1% higher than in 2017 (the corresponding country's average is 4.8%). The city provides 44.4% of the total employment at business entities in the Sumy Region.

The share of people employed at SMEs in Sumy reached 88.5% of the total quantity of people employed at all business entities, which is approximately 7 p.p. higher than the country's average

(81.5%). Small businesses provide a third of employment. In particular, individual entrepreneurs provided 20.7% of the total jobs, while 12% of the persons employed work for small enterprises.

For the reasons of confidentiality of data in 2017, no information about increase in employment in the SME sector in general and at large enterprises in Sumy is available. It is, however, known that in 2018 the number of persons employed by small businesses in the city decreased by 0.1% (compared to a 1.1% decrease at the country level). However, the quantity of persons employed by individual entrepreneurs grew by 12.8% (10.5% at the country level).

Statistics show that the Sumy Region, taken as a whole, shows a slightly lower unemployment rate among working age population than Ukraine as a whole. In 2019, the corresponding indicator for the region was 8.1% compared to 8.6% at the country level. In late 2019, 2,146 people were officially unemployed in Sumy, while there were only 641 vacant jobs. Accordingly, the registered unemployed persons created a load of nearly 3 person per a vacant job. However, the quarantine measures and crisis developments caused by the COVID-19 pandemic may deteriorate the employment situation in the city in 2020.

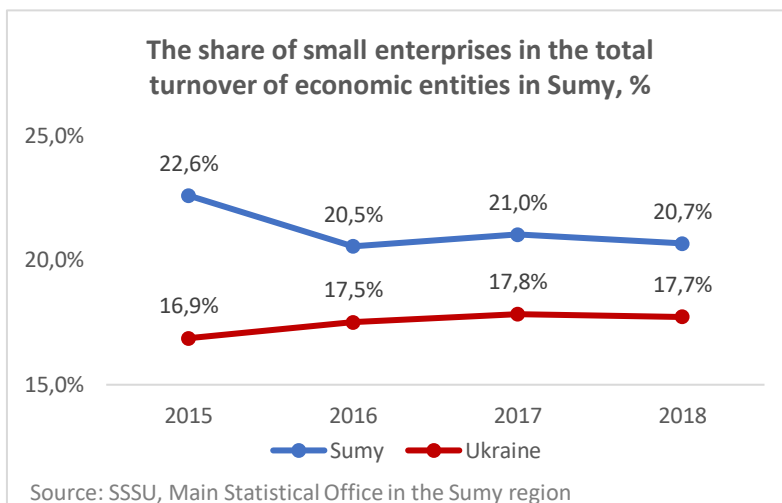
### Turnover

At the end of 2018, the turnover of goods and services by business entities in Sumy reached UAH 58.3 billion based on current prices. Compared to 2017, the real growth (i.e. adjusted for inflation) of turnover reached 8.6%, which is 0.5 percentage points higher than Ukraine's average (8.1%). The business entities of the city accounted for nearly a half (48.3%) of the total turnover in the region.

In 2018, the SME sector of the city accounted for 85.3% of the total turnover of all business entities (the country's average is 64.7%). More than two thirds of those sales were provided by medium-sized businesses (52.7% of the total sales of all business entities).

For the reasons of confidentiality of data in 2017, no information about increase in the turnover by the SME sector and by large enterprises in Sumy is available. However, in 2018 small enterprises demonstrated a real growth of turnover (goods and services) by 6.7% compared to 2017 (the country's average is 7.5%).

In addition, the turnover of individual entrepreneurs in the city increased by 9.7% (compared to Ukraine's average of 13.5%).



### Sales of industrial products

No statistical information on key performance indicators of enterprises in terms of the types of their economic activities is available at the level of cities of regional significance and districts. However, there are statistical data on the sales of industrial products by the types of activities. Such information allows us to determine key industries of Sumy.

According to the data provided by the Sumy Region Statistics Headquarters, the sales of industrial products in Sumy reached UAH 22.1 billion in 2018. 66.2% or UAH 14.6 billion of those sales were accounted for the processing industry. In particular, UAH 3.5 billion or 15.9% were provided by metallurgical and finished metal products, except for machinery and equipment,<sup>141</sup> followed by the machinery (except for the maintenance and installation of machinery and equipment) (UAH 3.3 billion or 15%). The manufacture of chemicals and chemical products generated a similar share of the sales (UAH 3.2 billion or 14.7%). Other important activities are the manufacture of rubbers and plastics and other non-metal mineral products (8.3% or UAH 1.8 billion).

### Capital investments

In 2018, Sumy accounted for nearly UAH 3.2 billion of capital investments, which corresponds to 41.7% of the total capital investments in the Sumy Region. In 2018, the amount of capital investment per capita was approximately UAH 12,148, which is somewhat less than the country's average of UAH 13,746. Sumy is ranked number 15 on this index among the cities selected for the survey.

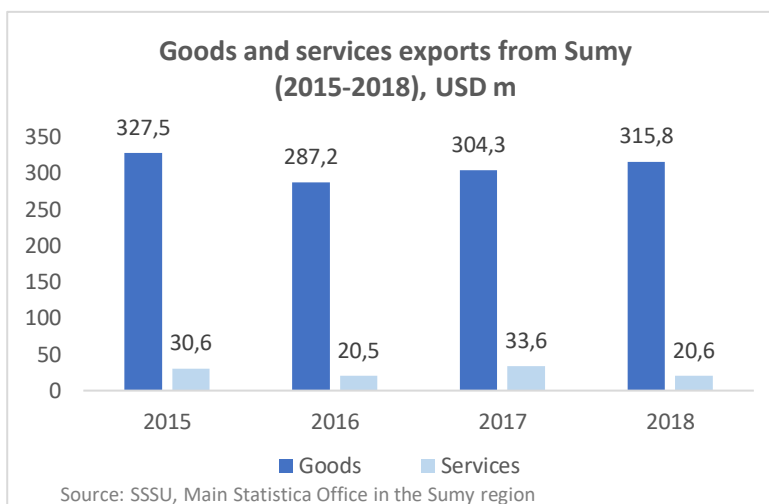
### Exports

According to the State Statistics Service of Ukraine, Sumy's exports of goods amounted to USD 315.8 m in 2018, which is 3.8% higher than in 2017. Sumy was ranked number nine on this index among the surveyed cities in respect of which relevant statistical data were available.

<sup>141</sup> Data by types of activities are generated based on homogeneous products.

On the other hand, the exports of services decreased by 38.7% to USD 20.6 m (ranked number 20).

An analysis of the foreign trade structure of the city has demonstrated that the majority of its exports (28.1%) is accounted for non-precious metals and products made thereof. Almost a fourth of the exports (24.3%) accounts for machinery products (machinery, equipment and mechanisms, electrical equipment). In addition, a fifth of the exports (20.3%) accounts for agricultural and food products. Other important exports are polymeric materials, plastics, and products made thereof (11.8%), footwear, hats, and umbrellas (5.6%), and chemical and related products (2.9%).



### Foreign direct investments

As of December 31, 2018, the city of Sumy accounted for USD 98 m of foreign direct investments (equity). The said amount has virtually remained unchanged compared to the beginning of 2018. On the other hand, there were USD 368.5 of FDI per capita in Sumy as of the end of December 2018.

It should be noted that in general the Sumy Region is ranked only number 21 by the volume of direct investments among all the regions of Ukraine. In addition, as of the beginning of 2018, more than a half (54%) of the region's investments were concentrated in Sumy.

### Safety and comfort

The results of other studies allow us to look at the level of safety and comfort of living in the selected cities based on the assessments of their inhabitants. These factors are important for understanding the overall situation in the city. In addition, it is possible to compare those research studies with some results of MCI.

According to the study titled "Sixth Annual Ukrainian Municipal Survey"<sup>142</sup>, the city of Sumy was ranked number 13 on the Quality of Public Goods and Services Index with a score of 2.9 (on a scale from 1 (terrible) to 5 (excellent)), indicating that the residents are somewhat dissatisfied with the level of comfort in their city. Sumy falls behind the other cities in health facilities, industrial development, and transport infrastructure. A somewhat better situation is observed in the roads sector.

As part of the same study, according to its residents, Sumy is one of secure cities in Ukraine. The value of the corresponding Index for Sumy is 1.7 (on a scale from 0 to 3, where 0 means "I feel completely unsafe" and 3 means "I feel completely safe"). The city is on the top of the rating in terms of this index and holds the eighth rank among the 24 cities surveyed. 56% reported that they felt rather safe or completely safe at night. 39% said that they felt rather unsafe or completely unsafe at night.

<sup>142</sup> The survey was conducted by the Sociological Rating Group on behalf of the International Republican Institute's Center for Insights in Survey Research; The survey was funded by the United States Agency for International Development (USAID). See [http://ratinggroup.ua/research/regions/shestoy\\_vseukrainskiy\\_municipalnyy\\_opros.html](http://ratinggroup.ua/research/regions/shestoy_vseukrainskiy_municipalnyy_opros.html).

## Results of the “Municipal Competitiveness Index” in Sumy

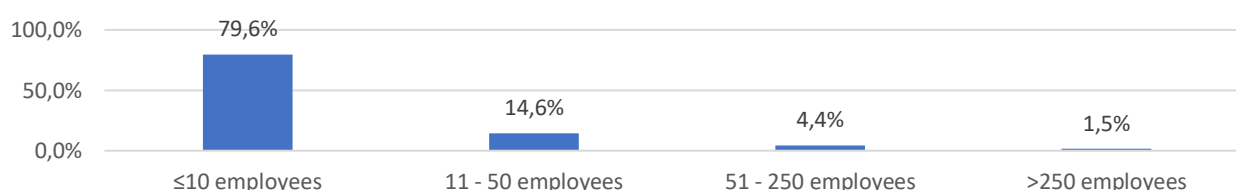
### Description of the survey sample

206 business entities took part in the survey in Sumy. These were 130 (61.3%) enterprises (legal entities) and 76 (36.9%) individual entrepreneurs (PEs). When analyzing the answers, the data array was weighed by the types of business entities (66.0% of legal entities and 34.0% of PEs) to ensure that it was compliant with the parameters of the target sample.

### Size of the surveyed business entities

Most respondents (79.6%) were micro businesses — business entities employing from 1 to 10 people. 14.6% were small entities with 11 to 50 employees. Medium-sized entities (from 51 to 250 employees) account for 4.4% of the respondents, while large entities (more than 250 employees) account for 1.5%.

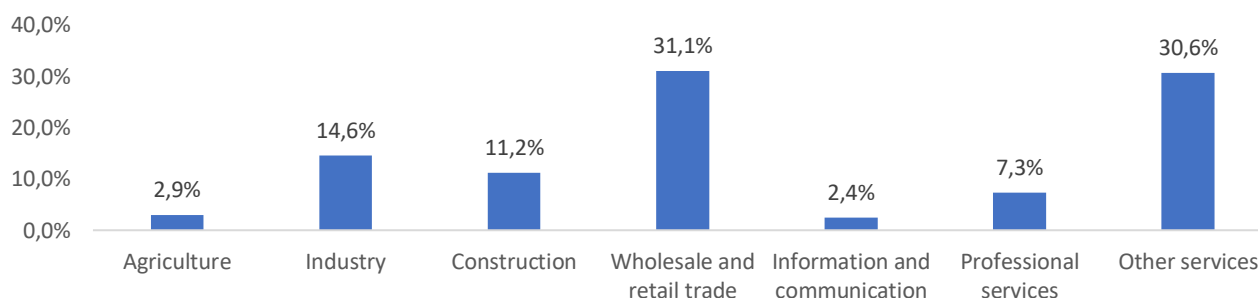
Surveyed businesses by size (Sumy), %



### Industry and type of activity

The surveyed business entities in Sumy operate in various sectors of the economy. 31.1% of surveyed business are engaged in trade (including in wholesale and retail, repair of motor vehicles). 14.6% of the respondents are employed in the industry, 11.2% – in the construction, and 2.9% – in the agriculture. 40.3% of the respondents operate in the service industry. In particular, 2.4% of the respondents provide information and communication services, while professional services are provided by 7.3% of the respondents. 30.6% of the respondents provide other services (businesses operating in the transport, arts, sports, education, health care, finance, and other service-related sectors).

Surveyed businesses by sector (Sumy), %



### Year of registration

Most of the surveyed business entities were registered earlier than in 2017 (73.8%). In 2018-2019, 26.2% of the respondents were registered.

### Age and gender breakdown of business owners and managers

According to the survey findings, 71.8% of the Sumy-based businesses are owned by men, while the remaining 28.2% are owned by women. In addition, the share of men owning legal entities is even higher (76.9% of men vs. 23.1% of women).

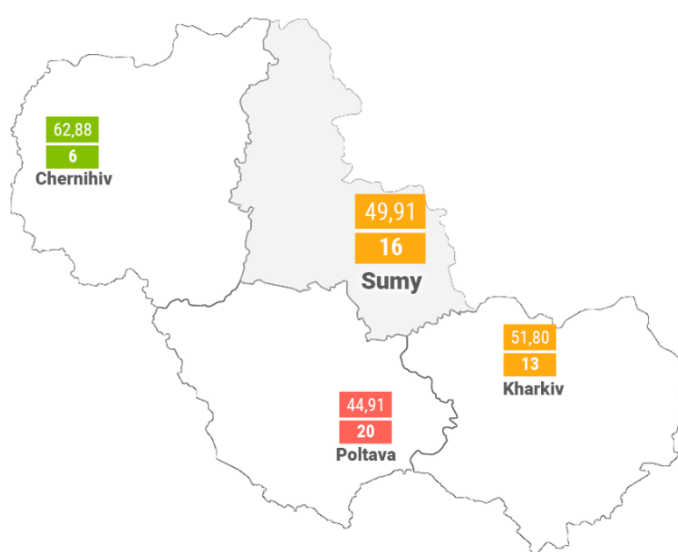
Men run 81.1% of legal entities, while the share of female managers accounts for 18.9%. When it comes to PEs, who are owned and run by the same person, the quantitative advantage of men is less apparent (57.2% vs. 42.8%). Men run 72.7% of all the business entities, while the share of female managers accounts for 27.2%.

The average age of business owners in Sumy is 42.8 years (Ukraine's average is 42.8 years). However, individual entrepreneurs are on average four years younger than the owners of legal entities (39.8 years vs. 43.0 years) in Sumy.

### *Municipal Competitiveness Index: results of Sumy*

According to the survey findings, Sumy was ranked number 16, scoring 49.91 points as part of MCI 2019/2020. Thus, Sumy is classified among cities with average MCI scores.

A comparison between the MCI index for Sumy and those for its neighboring cities has demonstrated that the cities classified under three different groups (with low, average, and high MCI scores) are located nearby. In Particular, Chernihiv leads Sumy by almost 13 points and is ranked number six. Sumy also falls almost two points behind Kharkiv, which is ranked number 13. On the other hand, Sumy leads Poltava, which is ranked number 20, by five points.



The average score of the city is due to different scores obtained on different components (sub-indices) of the rating. In particular, the city was assigned some of the lowest scores on a number of components.

The strongest components are:

- Starting a business (number two)

The weakest components are:

- Transparency and data openness (number 23)
- Leadership of municipal authorities (number 20)
- Compliance cost (number 19)
- Security of operating a business (number 19)

#### *1. Starting a business*

Sumy scored 8.32 points on Component 1 "Starting a Business." This is the second-best score among all the cities. The high score of the city is due to prompt registration and permit obtaining procedures.



In particular, according to the survey data, the registration of a business in Sumy in 2018-2019 took less time than on average in the country (five days compared to 6.1 days). In addition, the least time was required to have changes entered in the register in Sumy. It took the respondents on average 2.2 days to have changes entered into the register, which is almost half as much as all the cities' average of 3.6 days.

In Sumy, only 5.9% of the respondents who registered a business in 2018-2019 reported problems and barriers during the registration, which is a better index compared to all the cities' average (8.8%). In addition, 69.2 % of the respondents received necessary advice during the registration, which is just 1.5 p.p. less compared to the country's average of 70.7%. Consequently, it took 24.5 days to launch a business (from the date of submission of documents for registration to the date of the first sale of goods or services) in Sumy, which is almost eight days less compared to the country's average (32.1 days).

A higher quantity of business registrars compared to the other cities may be one of the reasons for high ratings of Sumy on the business registration component. There are approximately 12 registrars per 10 thousand business entities in the city (including government authorities, local self-government authorities and notaries public), which is one of the highest indices among the cities surveyed.

It should be noted that lengthy permit obtaining procedures still remain the problem in the city. The obtaining of construction permits, and registrations took, on average, 37.2 days in the country and 40.3 days in Sumy. However, it took less time in Sumy to obtain a declaration of conformity to the requirements of the fire safety legislation in respect of a business entity's facilities (8.8 days compared to the cities' average of 11.8 days).

## ***2. Access to public property***

Sumy scored 4.67 points and was ranked number 14 on the component (sub-index) titled "Access to public property." The low score of the city is primarily due to lengthy procedures for obtaining land documents and low transparency of information on the community-owned land.

31.5% of the respondents reported that they had documents certifying the ownership / lease of the land where their business operates (compared to the country's average of 30%). This makes 46.3% of the respondents believing that land documents are their concern (compared to the country's average of 46.8%). However, it took on average 125.1 days to obtain documents certifying the ownership / lease of the land in Sumy in 2018 to 2019, which is more than 53 days longer than the average for all the cities (72.4 days).

According to the respondents, the city also shows a lower — compared to other cities — level of transparency of information on the community-owned land. In particular, only 14.8% of the respondents reported the accessibility of information on available community-owned land plots, which can be provided for use or used for construction, etc (18.1% of the total respondents). However, 30.2% of the respondents indicated that information on the municipal real property (including non-residential premise) was accessible (29.2% of the total respondents).

## ***3. Transparency and data openness***

Sumy was ranked number 23 and scored 2.94 points on the "Transparency and data openness," and, therefore, is one of the outsiders on this component. In Sumy, the respondents predominantly expressed a lower — compared to the other cities — opinion of the access to information on local budget, local regulations and public procurements.

In particular, the access to information on local regulations got the top score in Sumy with 13.7% of the respondents assigning 'good' and 'excellent' rates, which is almost in line with the average of 13.9% for all the cities in general. 17.3% of the total respondents give positive assessments of access to information on public procurements. In Sumy, the share of such respondents reached 10,7%. On the other hand, access to

information on local budget in the city was positively assessed by only 4.1% of the respondents (10.2% among all the respondents).

#### ***4. Compliance cost***

The compliance cost is one of the problematic components for Sumy. The city was ranked only number 19 and scored 6.05 points on this component. The city's score was determined by high (compared to the other cities) rates assigned by the respondents in respect of the time spent on communications with the city inspectors.

In Sumy, entrepreneurs spend on average 3.8 days for compliance with local regulations, which is almost in line with the country's average (four days). 2.3% of an annual income is, on average, spent on compliance with the requirements of local regulations in Sumy, which is higher than 3.7% spent on average by all the respondents.

The findings of the survey show that entrepreneurs in Sumy are more frequently visited by local inspectors compared to the country's average (0.97 times per year in the city compared to the country's average of 0.7 times per year). Consequently, the average time spent on communications with the inspectors was 6 days, which is almost one day more compared to the country's average (five days).

#### ***5. Taxes and duties***

As part of the survey in Sumy, the respondents said that they spent, on average, 25.6% of their annual income on taxes and duties (including USC), which is somewhat less compared to the average for all the cities (26.8% of the annual income). Entrepreneurs in Sumy spent, on average, 50.4 days on the administration of taxes and duties, which is significantly less than the average for all the cities (59 days).

25.2% of the respondents in Sumy said that local taxes create barrier to their businesses, although the average for all the cities was 20.4%. In addition, 3.2% of the respondents in Sumy were reportedly exempted from local taxes and duties in 2018-2019, which is almost in line with the average for the cities covered by the survey (the average for all the respondents is 3.6%).

#### ***6. Informal payments and corruption***

According to the survey findings, Sumy was ranked number 17 and scored 4.39 points on Component (sub-index) 6 titled "Informal payments and corruption." Sumy's score is due to such factors as an approximately average prevalence of "informal payments" and a lower than average awareness of entrepreneurs about existing anti-corruption measures taken by the city.

In particular, as part of Dimension 1 "Bribes / Gifts" 10.0% of the respondents in Sumy reported situations related to "informal payments" when approaching the municipal officials for any issues concerning the running of a business in 2018-2019. On average, 9.9% of the respondents faced such situations. On the other hand, as part of Dimension 2 "Anti-corruption efforts," 28.4% of the respondents were informed about the implementation of specific anti-corruption measures by the city authorities (open budget, digital reception, municipal anti-corruption program, etc.), while the average for all the cities surveyed was 31.8%.

#### ***7. Security of operating a business***

Sumy was ranked number 19 among the cities covered by the survey and scored 4.39 points on Component (sub-index) 7 titled "Security of operating a business." This score of Sumy is due to a high — compared to the other cities — prevalence of illegal takeovers and losses incurred by businesses as a result of various criminal acts.

According to the survey, 45.0% of the respondents in Sumy believe that competitors run informal businesses, which is almost in line with the country's average (45.1% at the country level). 2.5% of the total respondents experienced attempts of illegal takeovers at the country level in 2018-2019. However, the problem of illegal takeovers in Sumy seems to be somewhat more critical as 3.1% of the respondents reported that they had faced such acts.

14.0% of the respondents in Sumy reported that they suffered losses as a result of extortions, thefts, robberies, or acts of vandalism or arson in 2018-2019 (this is almost in line with the country's average of 14.3% of the respondents). In addition, the respondents estimated loss that entrepreneurs suffered as a result of similar criminal acts at 16.8%, which is six pp higher than the average values (10.8% at the country level).

In Sumy, businesses spend, on average, 3.0% of their annual income on security / protection, which is somewhat higher compared to the country's average of 2.7% of the annual income.

### *8. Leadership of municipal authorities*

Sumy was ranked number 20 and scored 3.79 points on Component (sub-index) 8 titled "Leadership of municipal authorities." The low rating of the city is due to its low scores on two dimensions of which the sub-index consists — "Business development support" and "Public-private dialogue."

Sumy scored 4.69 points (the seventeenth highest score) on the "Business development support" dimension. The Sumy-based entrepreneurs are more pessimistic about the attitude of representatives of the municipal authorities towards private business. Only 11.4% of the respondents believe that the attitude of the municipal authorities towards businesses is "very good" or "good" (the average for all the cities is 20%). In addition, 30% of the respondents agree that the municipal authorities support start-ups (compared to the average of 38.3% for all the cities), and 26% indicate that the municipal authorities support existing businesses (compared to the average of 35.5% for all the cities). However, a somewhat better situation is demonstrated by "hard data" on the activities of the city council. According to the "hard data," Sumy scored 8 of 10 points. In particular, the city does not offer tax incentives (in respect of the unified tax) necessary for the development of certain types of activities, which would point to a higher proactivity of the municipal authorities to support new and existing businesses. In addition, compared to the other cities, the website of the Sumy City Council provides information on public procurements at a lower level.

The score obtained on the "Public-private dialogue" dimension shows that businesses face more problems in their communications with the city government in Sumy compared to most other cities. Sumy scored 2.89 points and was assigned the nineteenth best score on this dimension. Only 4.1% of business representatives in Sumy believe that they have "extensive" or "very extensive" opportunities to participate in the development of local documents (strategies, plans, programs, etc.), while the average for all the cities surveyed is 6.5%. In addition, 5.8% of the respondents in Sumy indicate that the city always or often holds consultations with entrepreneurs before passing new or amending existing regulations that may affect businesses (compared to 7.4% on average for all the cities).

### *9. Development resources*

Sumy was ranked number 12 and scored 4.62 points on Component (sub-index) 9 titled "Development resources." The city's assessment is based on the results of three dimensions that form a single component. Those dimensions are Human resources, Financial resources and infrastructure, and Business support infrastructure.

The city was ranked number 13 and scored 5.54 points on **Dimension 1 (Human resources)**. An analysis of individual indicators of this dimension has demonstrated that only 4.5% of the respondents in Sumy rate the

quality of the local workforce as “excellent” or “good,” which corresponds to one of the lowest scores among the cities surveyed (the average for all the respondents surveyed is 7.6%). In addition, only 8.8% of the respondents surveyed give positive assessments of vocational education of employees in the local labor market (the country’s average is 10%). Accordingly, just as in the other cities, an insignificant percentage of business entities in Sumy rate high the available workforce.

However, 58.5% of the respondents are of the opinion that insufficient workforce training is a serious barrier to doing business (the country’s average is 60.7%). 69.6% of the respondents reported that they face a lack of workforce (70% of all the respondents surveyed). It follows that the lack of qualified workforce is the second most severe problem faced by entrepreneurs in Sumy, according to the rating of barriers to doing business (according to 33.7% of the respondents).

The analysis of the number of workforce in the city is supplemented by statistical data. In particular, there were approximately 3.9 vacant jobs per 100 businesses in Sumy at the end of 2019, which approximately corresponds to the average for all the cities surveyed (3.6 vacant jobs)<sup>143</sup>. In addition, as of January 1, 2019, the share of working age population (aged 15-64) in Sumy was 70.3%, which is one of the highest percentages among all the cities surveyed. The corresponding country’s average on this metric was 67.8%<sup>144</sup>. Thus, the problem of population aging may be less tangible in Vinnytsia than at the country level.

The city was ranked number 23 and scored 3.03 points on **Dimension 2 (Financial resources and infrastructure)**. According to the survey findings, only 1.2% of the respondents at the country level received financial support from municipal authorities in 2018-2019. When it comes to individual cities, the share of such respondents in Sumy accounts just for 0.5%, which is one of the lowest percentages among all the cities surveyed. However, 80.3% of the business entities surveyed in Sumy believe that the lack of funds is a serious barrier to doing business (the average for all the cities is 77.8%). This is one of the best rates among the cities covered by the survey.

Data on the city’s budget expenditures complete the picture of financial resources allocated to support businesses in the city. In 2019, actual spending on support for small and medium-sized enterprises in the city reached only UAH 86 thousand per 10,000 businesses.<sup>145</sup> It should, however, be noted that, in general, SME support expenditures are low or non-existent in most of the cities. However, a higher amount of expenditures or even the existence of such support in general may point to a higher level of leadership of municipal authorities in relation to business support

When it comes to the infrastructure, the entrepreneurs surveyed in the cities covered by the study had reportedly a different experience in relation to connection to electricity grids. In Sumy, connection to the electricity grid took on average 105 full days from the date of an application until the date of actual connection. The corresponding country’s average was 85 days. It follows that it is more complicated to have a business connected to the electricity grid in Vinnytsia compared to all the other cities surveyed.

Sumy was ranked number four and scored 5.28 points on **Dimension 3 (Business support infrastructure)**. According to the survey data, 14.2% of the respondents personally received business support services from

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<sup>143</sup> Sources for calculations: 1) Number of vacancies: The situation in the labor market and the results of activities of the state employment service. Data on the page of the Sumy Region Employment Center, <https://lug.dcz.gov.ua/analitics/66> 2) Number of businesses: According to the Sumy Region Statistics Headquarters

<sup>144</sup> According to the Sumy Region Statistics Headquarters of the State Statistics Service of Ukraine

<sup>145</sup> Reports on the implementation of local budgets (expenditures under program classification code 7610 - Promotion of small and medium entrepreneurship), as well as responses of the city councils to requests for public information were used. For some cities, information on expenditures was updated through telephone interviews with the employees of executive authorities of the city councils.

the municipal authorities (information, advice, training, etc.), which is one of the highest indices among the cities surveyed (compared to the average of 11% for all the respondents). At the same time, 48.3% of them rated such services as “good” and “excellent” (48.6% of the total respondents).

35.1% of the business entities surveyed indicate the existence of business support centers in Sumy, which is higher than the average for all the cities surveyed in general (32.6%). In addition, according to the ‘hard data,’ there was at least one business support infrastructure facility in the city at the end of 2019, which was created with the participation of the city authorities — the Sumy Business Hub. Entrepreneurs’ awareness of business support centers may relate to other business support infrastructure facilities also existing in the city.

40.2% of the respondents in Sumy are aware of the activities of business associations and business clubs in their city (45.9% of the total respondents). However, 17.8% of the business entities surveyed are members of such organizations, which is the highest percentage among the cities surveyed (the average for all the cities in general is 11.5%).

### ***10. Support of innovations***

The city of Sumy was ranked number 11 and scored 5.22 points on Component (sub-index) 10 titled “Support of innovations.”

23.04% of the respondents in the city reported that their businesses interacted with research institutions or technology companies in 2018-2019, which is one of the highest indices among all the cities (compared to the average of 18.9% for all the cities). However, businesses in Sumy are, on average, less satisfied with technology transfer compared to the other cities. 6.3% of the respondents pointed out that the related needs (the transfer of patents for inventions, etc.) are “met to a significant extent” or “fully met” (compared to the country’s average of 8%)

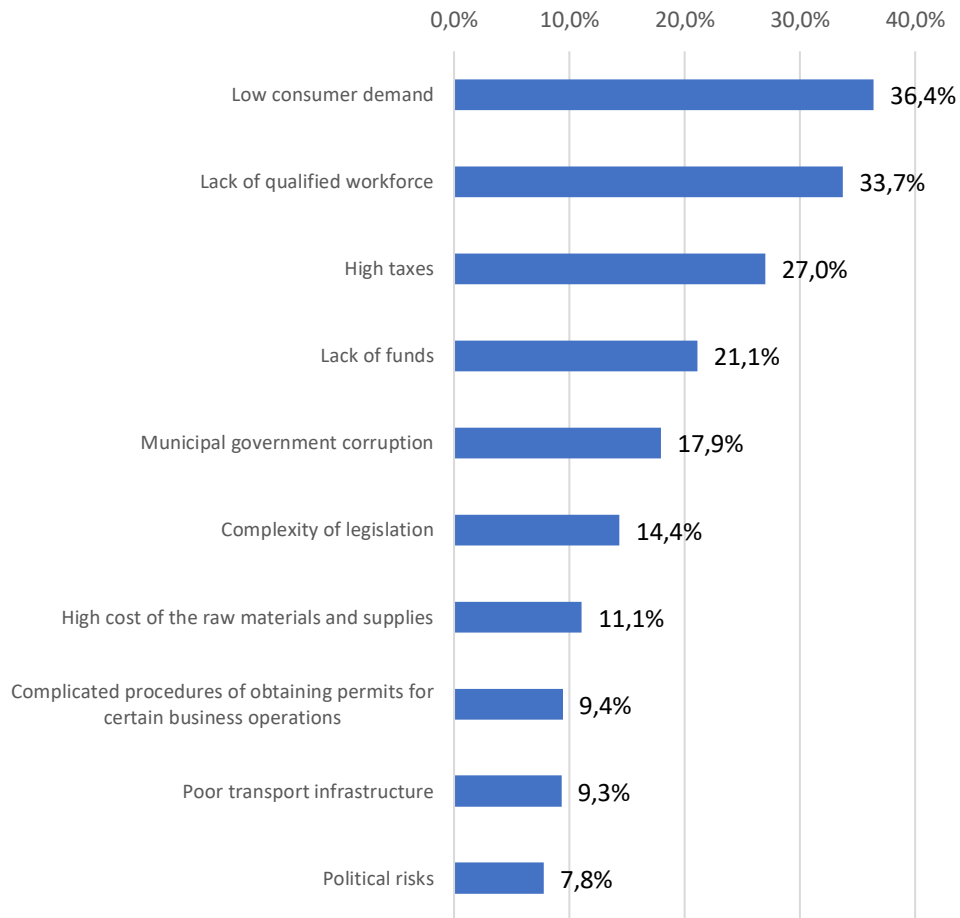
The respondents in Sumy give a slightly lower than average assessment of the local government support for local innovation programs (funded from the local budget), with the city scoring 1.75 of five points compared to the average of 1.91 for all the cities. In addition, Sumy introduced new technologies, solutions or products more frequently than all the other cities on average in 2018-2019 (45.91% compared to 40.2%). Further, 2.34% of the surveyed enterprises and individual entrepreneurs reported that they belonged to clusters. This is higher than the index recorded for all the cities in general (2.1%). In general, all the factors provide an average satisfaction with support for innovations in Sumy among entrepreneurs.

### ***Barriers to doing business***

The surveyed business entities named the main barriers they face when doing business in Sumy. Three most important barriers included such factors as low consumer demand, the lack of qualified workforce and high taxes. Each of these barriers to doing business was reported by 36.4%, 33.7% and 27.1% of the respondents, respectively. Accordingly, the lack of qualified workforce and low consumer demand are the most severe problems in Sumy, as just in a number of other cities, and, therefore, they outweighed the problem of high taxes that is on the top of the barriers rating for all the respondents in general.

The lack of funds was reported to be a barrier by 21.1% of the respondents. Municipal government corruption is ranked as barrier number five (17.9%). 14.4% of the respondents complain about the complexity of legislation, while other 11.1% reported the high cost of raw materials and supplies as a barrier to doing business. Similar ratings were assigned to complex procedures for obtaining permits to engage in business activities and poor transport infrastructure (9.4% and 9.3%, respectively). The list is completed by political risks, which were reported as a serious barrier by 7.8% of the respondents in Sumy.

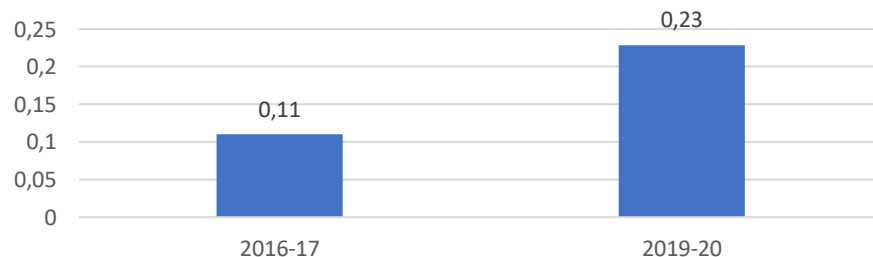
### TOP-10 barriers to doing business in Sumy, %



### *Expectations and assessments of the business climate and economic conditions in Sumy*

**Regional SME Business Climate Index.** ABCA SME Business Climate Index in Sumy is 0,23 (the city was ranked number seven among all the cities covered by the survey). This is more than in 2017 (0,11), which indicates an improvement in perception of the business climate. This is in line with the all-Ukrainian trend.

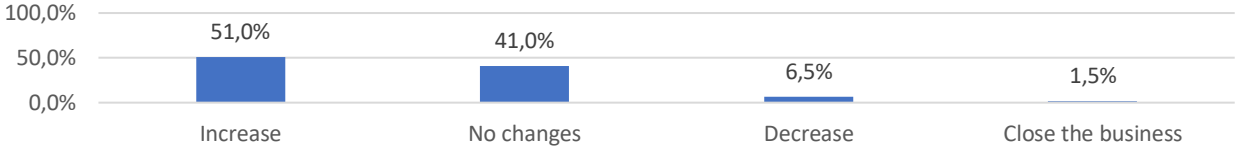
#### ABCA Regional Index of Business Climate (Sumy)



**Long-term expectations for business activity.** Business community in Sumy has optimistic long-term development plans for the next two years. More than half of the respondents (51%) reportedly plan to expand their business, and 41% want to stay at the current level. At the same time, only 6.5% of the

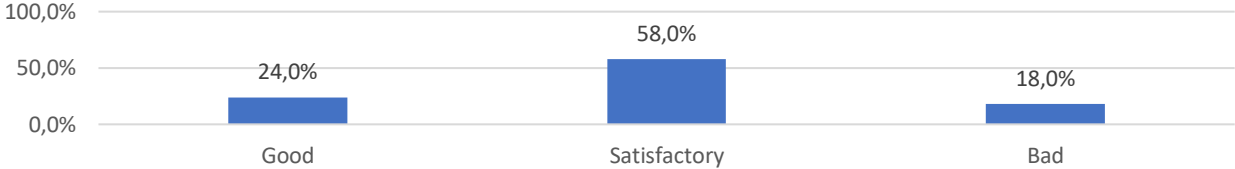
respondents plan to reduce their business, and 1.5% want to close it. The balance index<sup>146</sup> is +0.43 (+0.45 at the country level).

**Business activity expectations in the two-year perspective in Sumy, % of the respondents**



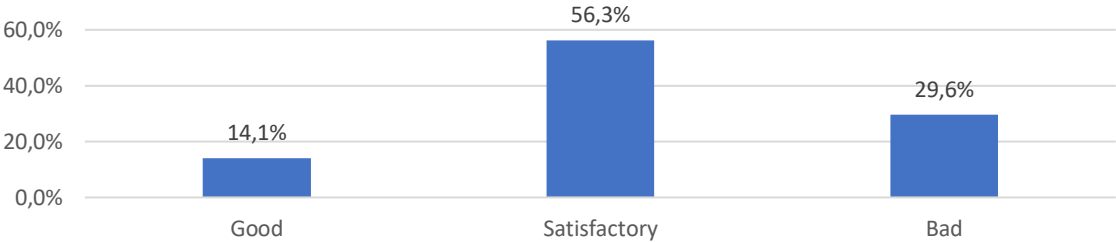
**Assessment of the financial and economic situation of business entities.** In Sumy, the majority of the business entities surveyed (58%) assessed their current financial and economic situation as satisfactory. The rest of the respondents rated it as good (24%) or bad (18%) It follows that the positive assessments outweigh the negative ones, and the balance index of the financial and economic situation is +0.06 (compared to the country’s average of +0.05).

**Assessment of the business situation of business entities in Sumy, % of the respondents**



**Assessment of the current overall economic environment for business activities** More than a half of the surveyed business entities (56.3%) assessed the current overall economic environment as satisfactory. 29.6% of the respondents rate the overall economic environment as bad, and 14.1% as good. Thus, the index of assessment of the overall economic environment for business activities is negative (-0.16). However, the value of the index is somewhat lower compared to the country’s average (-0.12).

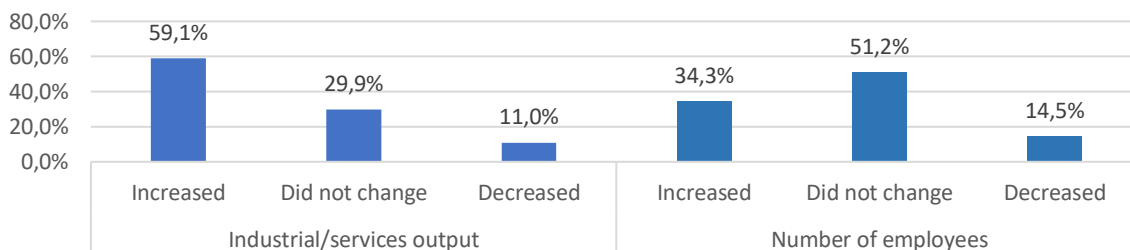
**Assessment of the overall economic situation (Sumy), % of the respondents**



**Change in the production output over the past two years.** More than a half (56.3%) of the surveyed business entities indicated that they increased their production or service output in 2018-2019. Almost a third (29.9%) of the respondents did not change the output while 11.0% of the respondents reduced it. Thus, the index of business activity is +0.48 (which is significantly higher than the average of +0.31 for all the respondents surveyed), reflecting the predominance of the share of business entities that expanded their output over the share of those who reduced it.

<sup>146</sup> Calculated as the average of all responses on a scale from -1 to 1, where 1 corresponds to a simplification of this procedure, 0 - no change, and -1 to a complication.

### Change in the industrial/services output and in the number of employees in Sumy, % of the respondents



**Change in the number of employees of the business entities over the past two years.** More than a half of the surveyed business entities (51.2%) indicated that the number of their employees did not change in 2018-2019. The share of business entities that increased the number of their employees (34.3%) has proved to be twice as much as the share of those where the number of employees decreased (14.5%) Thus, the index of changes in the number of employees is +0.20, which is higher than the average of +0.16 for all the cities surveyed.

**Deregulation: changes in administrative procedures** According to the respondents, the process and conditions of business registration have been simplified the most in the last two years. The conditions of tax payment have not been improved and the situation with inspections has deteriorated.

61.0% of the businesses surveyed point out the simplification of business registration in the previous two years. The rest of the respondents did not feel any changes in this procedure, and only a small share of the respondents (6.4%) said that, in their opinion, business registration has become more difficult. As a result, the index of change in the registration procedures is +0.55<sup>147</sup>. This is the highest value of the index compared to the other two procedures, which include the passing of inspections and the administration of taxes.

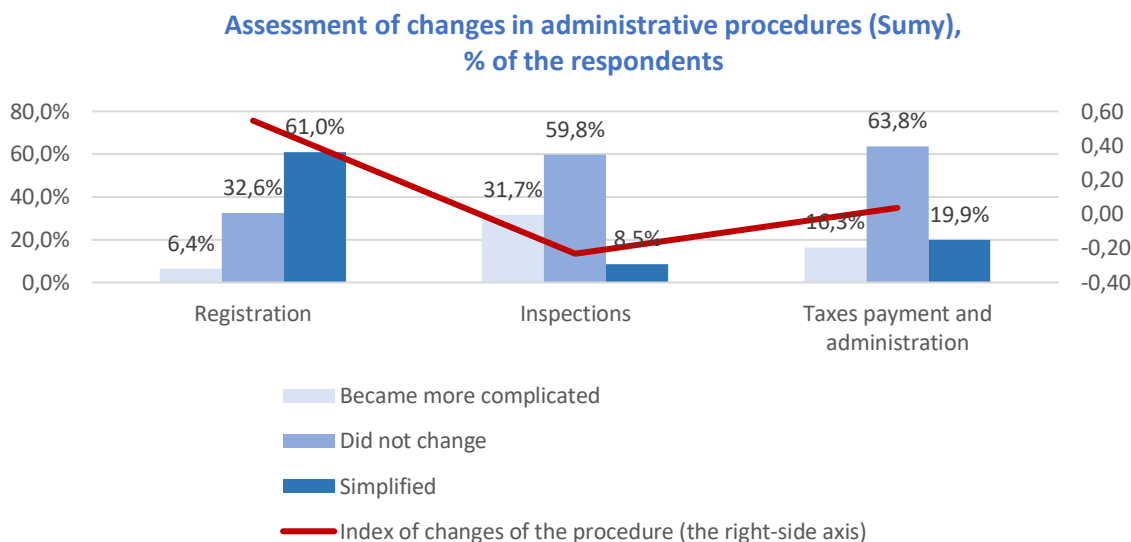
When it comes to the administration of taxes, more than a half of business entities (63.8%) say that they have not noticed any changes in the complexity of this procedure. The rest of the business entities are divided into two nearly equal parts, which include those for whom the payment of taxes has become easier (19.9%), and those for whom it has become more difficult (16.3%). Therefore, the index of change in the procedures for administration of tax payments tends towards zero and equals 0.04.

The index of changes in passing inspections is negative (-0.23). 31.7% of business managers and individual entrepreneurs claim that inspections have become more difficult. This is significantly higher than the share of businesses according to which inspections have become easier compared to 2018 (8.5%). However, the largest share of the surveyed businesses (59.8%) did not notice any changes in relation to inspections.

As a result, the value of the general index of changes in administrative procedures, which is calculated as an average value of the indices of change of these three procedures, is +0.12.

<sup>147</sup> Calculated as the average of all responses on a scale from -1 to 1, where 1 corresponds to a simplification of this procedure, 0 - no change, and -1 to a complication.





## Recommendations

According to the MCI results (subject to the weak components and dimensions) the following key recommendations have been formulated for the city. In addition, the city government should pay attention to recommendations that are common for all the cities in general.

### Component 3. Transparency and data openness

- It is necessary to improve the transparency and openness of data on local budgets, local regulations, and public procurements, in particular, through regularly placing up-to-date information on official websites.

### Component 4. Compliance cost

- Deregulation measures need to be continued at the local level to reduce the time and money costs of businesses on compliance with local regulations.

### Component 6. Informal payments and corruption

- It is necessary to regularly disseminate information on corruption prevention and anti-corruption measures to ensure the awareness of business entities thereof.
- It is necessary to raise awareness of business entities of doing business with integrity.

### Component 7. Security of operating a business

- It is necessary to ensure cooperation with the law enforcement to improve the level of security in the city in general, as the crime rate also impacts the security of doing business.

### Component 8. Leadership of municipal authorities

- It is necessary to ensure constant communication and dialogue between businesses and local authorities through ensuring regular operation of special advisory bodies with the participation of entrepreneurs.
- It is necessary to ensure a higher level of business involvement in the development of local documents (strategies, plans, programs, etc.) and consultations on regulations.

## **Component 9. Development resources**

- It is necessary to increase expenses on support for entrepreneurs to ensure the operation of the business support infrastructure and financial support programs.
- It is necessary to conduct an audit of business support infrastructure facilities to determine their efficiency and development pattern.
- It is necessary to use best practices applied by other cities to organize the operation of business support centers, co-workings, business hubs, clusters, etc.

# Ternopil

## Number 5 in MCI

### General Information

Ternopil is the administrative center of the Ternopil Region and a city of regional significance.

The city is also the administrative center of the Ternopilskyi District, although it is not part thereof.

In November 2018, the Ternopil City Amalgamated Territorial Community was established. It encompasses the Ternopil City Council, the Kobzarivka Village Council (the villages of Kobzarivka and Vertelka), the Kurivtsi Village Council (the village of Kurivtsi), the Malashivtsi Village Council (the villages of Malashivtsi and Ivankivtsi), the Chernikhiv Village Council (the villages of Chernikhiv, Hliadky, and Pleskivtsi), and the Horodyshche Village Council (the villages of Horodyshche and Nosivtsi).<sup>148</sup>



### Location

The city of Ternopil is located in the west of Ukraine, on the banks of the Seret River and Ternopil Lake.

The city is located in the central part of the Ternopil Region. The territory of the city is enclosed by the Ternopilskyi District.

The closest regional centers are Lutsk, Rivne, Khmelnytskyi, Chernivtsi, Ivano-Frankivsk, and Lviv.

### Demographic situation

As of January 1, 2019, the permanent population of Ternopil was 220.3 thousand people. The city is the largest settlement of the Ternopil Region. It accounts for a fifth of the region's population (21.1%). In the region, there are no settlements with a population of more than 50 thousand inhabitants, except for Ternopil. The city of Chortkiv with a population of 28.7 thousand inhabitants is the second largest settlement in the region.<sup>149</sup>

The population of Ternopil, as just in Ukraine generally, is dominated by women (54.1%). There are 848 men per 1,000 women (864 men at the country level). The share of the population aged from 15 to 64 is 70.5%

<sup>148</sup> Please see <https://decentralization.gov.ua/gromada/1604#>.

<sup>149</sup> Here and below, the statistical data of the Ternopil Region Statistics Headquarters of the State Statistics Service of Ukraine are used.

(67.8% at the country level). In total, there are 418 people (475 at the country level) aged 0-14 and over 65 per 1,000 people of working age.

Ternopil is one of few cities included in the sample where natural population increase is observed. In 2018, the natural population increase rate was estimated at 0.7 per 1,000 inhabitants. The death and birth rates reached 9.0 and 9.7, respectively.

## Development of entrepreneurship

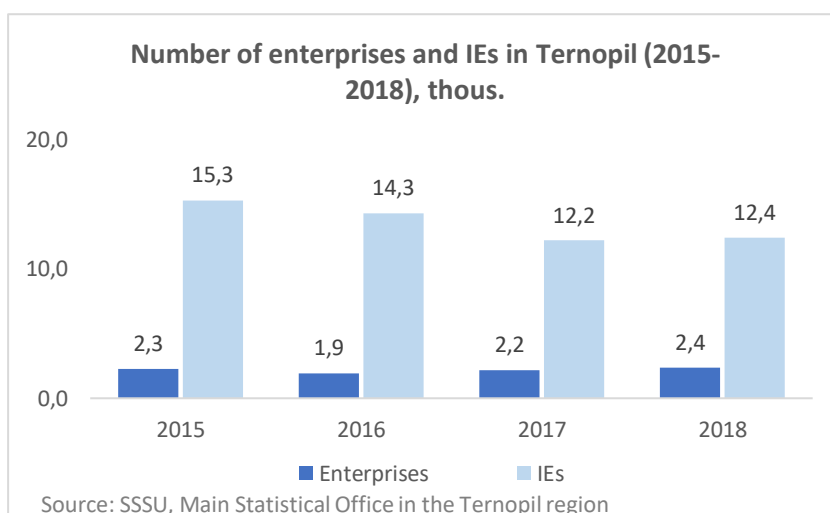
### Key structural business statistics in Ternopil in 2018

|                    | Absolute figures   |                          |                  | Relative figures      |                           |                         |
|--------------------|--------------------|--------------------------|------------------|-----------------------|---------------------------|-------------------------|
|                    | Number of entities | Employment, thsd persons | Turnover, UAH bn | Share in total number | Share in total employment | Share in total turnover |
| Large enterprises  | 3                  | c                        | c                | 0.02%                 | c                         | c                       |
| SMEs               | 14765              | c                        | c                | 99.98%                | c                         | c                       |
| Medium enterprises | 109                | c                        | c                | 0.74%                 | c                         | c                       |
| Small enterprises  | 2251               | 12.9                     | 9.6              | 15.24%                | 20.5%                     | 26.0%                   |
| In which           |                    |                          |                  |                       |                           |                         |
| micro              | 1883               | 5.0                      | 3.4              | 12.75%                | 7.9%                      | 9.2%                    |
| IEs                | 12405              | 25.4                     | 6.3              | 84.00%                | 40.5%                     | 17.0%                   |
| Total              | 14768              | 62.8                     | 36.9             | 100.00%               | 100.0%                    | 100.0%                  |

Source: Own calculations based on the data of the Ternopil Region Statistics Headquarters of the State Statistics Service of Ukraine

### Number of business entities

In 2018, Ternopil counted 14.8 thousand small and medium-sized enterprises (including 109 medium-sized enterprises, 2.3 thousand small enterprises and 12.4 thousand individual entrepreneurs) but only three large-scale enterprises. Given a negligible quantity of large business entities, information on other key performance indicators of large and medium-sized enterprises (by the number of employees and the volumes of sales) is confidential.

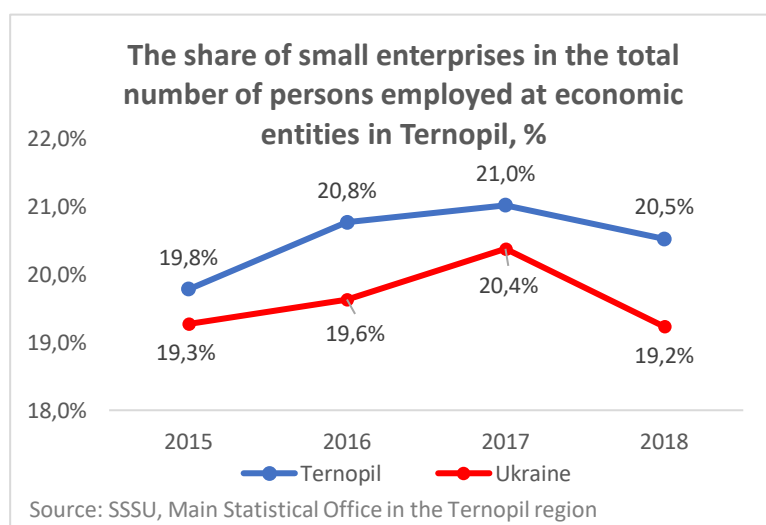


In 2018, only 16% (the country's average is 19.3%) of business entities were registered as legal entities, while the others had the status of individual entrepreneurs.

Ternopil is ranked number 19 for the number of business entities among the cities selected for the survey. However, the city accounts for 40% of the total number of business entities in the Ternopil Region, which highlights the pivotal role the city plays in the region's economy. There were 675 SMEs per 10,000 inhabitants in Ternopil, which allowed the city to be ranked number ten among the cities selected for the survey.

In 2018, the number of SMEs in the city increased by 2.8% compared to 2017, which is less than one percentage point higher than the country's average (1.9%). This is primarily due to a 9.0% growth in the quantity of small businesses (the country's average reached 5.1%). The number of individual entrepreneurs also increased by 1.8% (1.2% at Ukraine's level). However, the quantity of medium-sized enterprises remained unchanged.

### Employment



In 2018, the Ternopil-based business entities employed 62.8 thousand persons, which is 4.3% higher than in 2017 (the corresponding country's average is 4.8%). The city provides 44.2% of the total employment at business entities in the Ternopil Region.

For the reasons of confidentiality of data associated with the low quantity of large business entities, information on the number of people employed at large and medium-sized enterprises in Ternopil is

confidential. Available data, however, show that more than a half of the jobs are accounted for small businesses. In particular, individual entrepreneurs provided 40.5% of the total jobs, while 20.5% of the persons employed work for small enterprises.

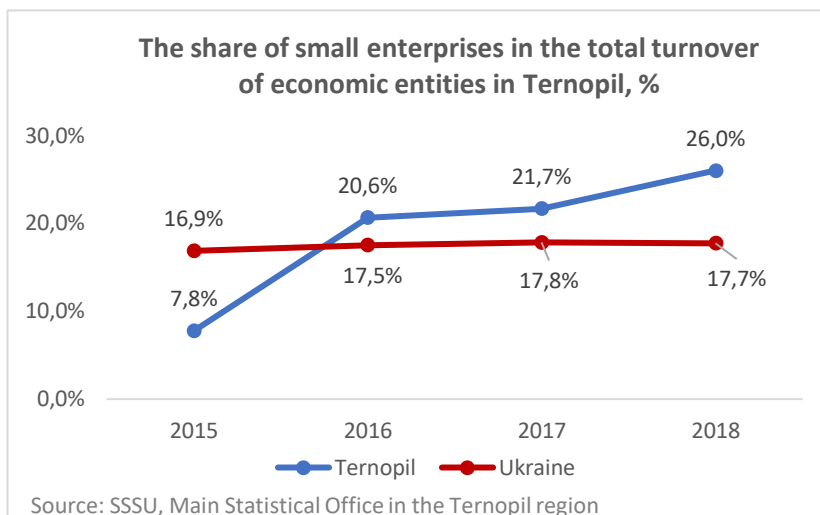
Compared to 2017, the number of people employed at small enterprises in Ternopil in 2018 increased just by 1.9% or 0.2 thousand people, although it decreased by 1.1% at the country level. The number of persons employed by individual entrepreneurs demonstrated a somewhat higher growth and increased by 2.1 thousand people or 9.1% (10.5% at the country level).

Statistics show that the Ternopil Region demonstrates, in general, a somewhat higher unemployment rate among working age population than Ukraine as a whole. In 2019, the corresponding indicator for the region was 10.3% compared to 8.6% at the country level. In late 2019, 1,503 people were officially unemployed in Ternopil, while there were only 1,503 vacant jobs. Accordingly, the registered unemployed persons created a load of nearly 2 people per a vacancy. However, the quarantine measures and crisis developments caused by the COVID-19 pandemic may deteriorate the employment situation in the city in 2020.

### Turnover

At the end of 2018, the turnover of goods and services by business entities in Ternopil reached UAH 36.9 billion based on current prices. Compared to 2017, the volume of sales (taking into account the inflation index) decreased by 12.9% despite an 8.1% growth in the country in general. The business entities of the city accounted for 43.1% of the total turnover in the Luhansk Region.

For the reasons of confidentiality of data associated with the low quantity of large business entities, information on the turnover of large and medium-sized enterprises in Ternopil is confidential. Available data, however, show that small enterprises account for more than a fourth (26%) of the total turnover (17.7% at the country level). The share of individual entrepreneurs accounts for 17% (7.6% at the country level).



In 2018, the turnover of products by small enterprises of Ternopil demonstrated a real growth of 4.5% (compared to a 7.5% increase at the country level). In addition, the turnover of individual entrepreneurs in the city increased by 8.2% (compared to Ukraine's average of 13.5%).

### Sales of industrial products

No statistical information on key performance indicators of enterprises in terms of the types of their economic activities is available at the level of cities of regional significance and districts. However, there are statistical data on the sales of industrial products by the types of activities. Such information allows us to determine key industries of Ternopil.

According to the data provided by the Ternopil Region Statistics Headquarters, the sales of industrial products in Ternopil reached UAH 11.8 billion in 2018. 52.5% or UAH 6.2 billion of those sales were accounted for the processing industry. In particular, 21.8% or UAH 2.6 billion were generated by the manufacture of foodstuffs, beverages, and tobacco products, of which almost UAH 2 billion is accounted for dairy products<sup>150</sup>. The manufacture of electrical equipment comes second in the processing industry (9.1% or UAH 1.1 billion). Other important types of activities include metallurgical products, finished metal products, except for machinery and equipment (UAH 0.6 billion or 5.5%), the manufacture of wood products, paper, and the printing industry (UAH 0.2 billion or 1.9%).

### Capital investments

In 2018, Ternopil accounted for nearly UAH 3.3 billion of capital investments (based on actual prices), which corresponds to 39.6% of the total capital investments in the Ternopil Region. At the end of 2018, the amount of capital investments per capita was approximately UAH 15,144, which exceeds the country's average of UAH 13,746. Ternopil is ranked number 6 on this index among all the cities selected for the survey.

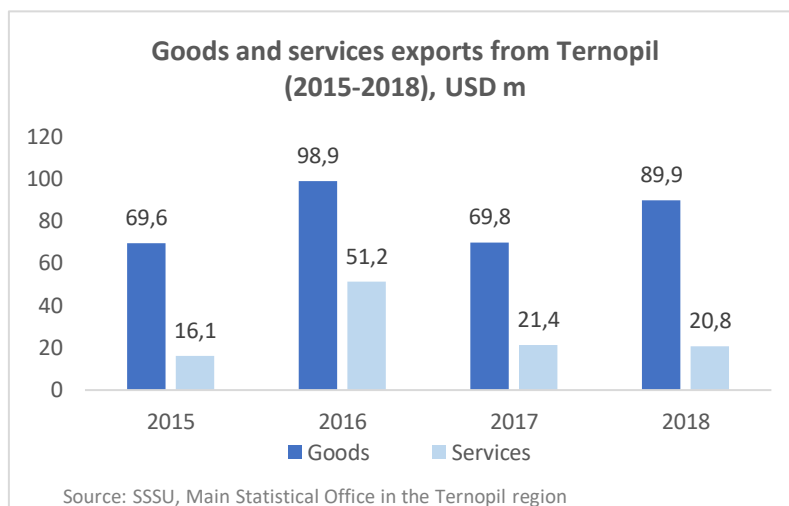
<sup>150</sup> Data by types of activities are generated based on homogeneous products.

## Exports

According to the State Statistics Service of Ukraine, Ternopil's exports of goods amounted to USD 89,9 m in 2018, which is 28.8% higher than in 2017. Ternopil was ranked number 20 on this metric among the surveyed cities in respect of which relevant statistical data were available.

On the other hand, the exports of services decreased by 2.8% to USD 20.8 m (ranked number 19).

An analysis of the foreign trade structure of the city has demonstrated that more than a fourth of its exports is accounted for furniture products (27.1% or USD 24.4 million). A further fourth of the exports (USD 22.5 m or 25%) was provided by agricultural and food products. Other important exports include chemicals and related products (12%), jewelry (7.8%), and wood and wood products (5.6%). Insignificant shares of the exports account for toys (3.2%) and textile and textile products (2.4%).



## Foreign direct investments

As of December 31, 2018, the city of Ternopil accounted for USD 21.2 m of foreign direct investments (equity). The specified amount was USD 3.5 m or 19.8% higher than at the beginning of 2018. This corresponds to the fourth highest relative growth rate among all the cities covered by the survey. On the other hand, there were only USD 96.7 of FDI per capita in Ternopil as of the end of December 2018, which is the second worst index among the regional centers.

It should be noted that the Ternopil Region is ranked worst by the volume of direct investments among all the regions of Ukraine. Statistics show that, at the beginning of 2018, more than a third (39.3%) of the region's investments were concentrated in the city.

## Safety and comfort

The results of other studies allow us to look at the level of safety and comfort of living in the selected cities based on the assessments of their inhabitants. These factors are important for understanding the overall situation in the city. In addition, it is possible to compare those research studies with some results of MCI.

According to the study titled "Sixth Annual Ukrainian Municipal Survey"<sup>151</sup>, the city of Ternopil was ranked number ten on the Quality of Public Goods and Services Index with a score of 3.0 (on a scale from 1 (terrible) to 5 (excellent)), indicating that the residents are satisfied with the level of comfort in their city. Ternopil is

<sup>151</sup> The survey was conducted by the Sociological Rating Group on behalf of the International Republican Institute's Center for Insights in Survey Research; The survey was funded by the United States Agency for International Development (USAID). See [http://ratinggroup.ua/research/regions/shestoy\\_vseukrainskiy\\_municipalnyy\\_opros.html](http://ratinggroup.ua/research/regions/shestoy_vseukrainskiy_municipalnyy_opros.html).

ranked number eight for its health facilities, number 14 for its transport infrastructure, number 13 for its roads, and number 17 for its industrial development.

As part of the same study, according to its residents, Ternopil is one of the most secure cities in Ukraine. The value of the corresponding Index for Ternopil is 1.9 (on a scale from 0 to 3, where 0 means “I feel completely unsafe” and 3 means “I feel completely safe”). The city is one of leaders (number four) on this metric among the 24 cities covered by the survey. A significant share of the respondents said that they felt rather safe or completely safe at night (64%). However, 34% said that they felt rather unsafe or completely unsafe at night.

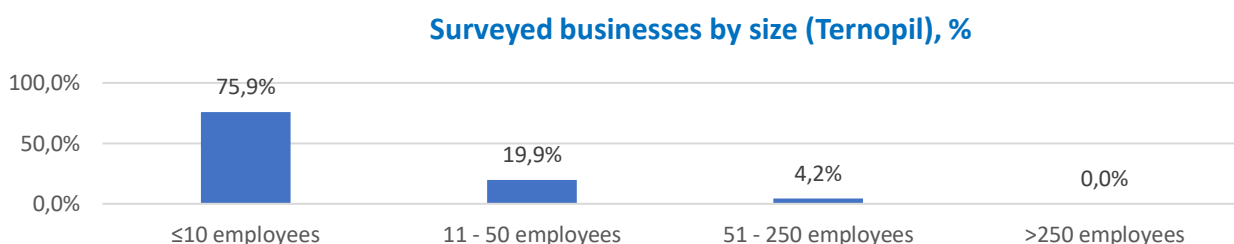
## Results of the “Municipal Competitiveness Index” in Ternopil

### Description of the survey sample

216 business entities took part in the survey in Ternopil. These were 124 (57.4%) enterprises (legal entities) and 92 (42.6%) individual entrepreneurs (PEs) When analyzing the answers, the data array was weighed by the types of business entities (59.5% of legal entities and 40.5% of PEs) to ensure that it was compliant with the parameters of the target sample.

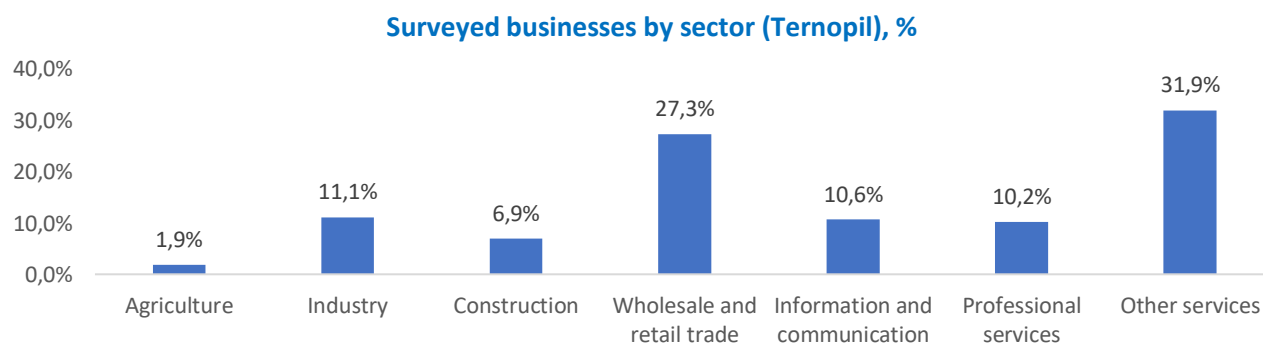
### Size of the surveyed business entities

Most respondents (75.9%) were micro businesses — business entities employing from 1 to 10 people. 19.9% were small entities with 11 to 50 employees. Medium-sized entities (from 51 to 250 employees) account for 4.2% of the respondents, while large entities (more than 250 employees) account for 0%.



### Industry and type of activity

The surveyed business entities in Ternopil operate in various sectors of the economy. 27.3% of surveyed business are engaged in trade (including in wholesale and retail, repair of motor vehicles). 11.1% of the respondents are employed in the industry, 6.9% – in the construction, and 1.9% – in the agriculture. More than a half of the surveyed businesses account for the service sector (52.8%) 10.6% of the respondents provide information and communication services, while professional services are provided by 10.2% of the respondents. 31.9% of the respondents provide other services (businesses operating in the transport, arts, sports, education, health care, finance, and other service-related sectors).





### *Year of registration*

Most of the surveyed business entities were registered earlier than in 2017 (75.5%). In 2018-2019, 24.5% of the respondents were registered.

### *Age and gender breakdown of business owners and managers*

According to the survey findings, 67.7% of the Ternopil-based businesses are owned by men, while the remaining 32.3% are owned by women. In addition, the share of men owning legal entities is even higher (73.6% of men vs. 26.4% of women).

Men run 81.5% of legal entities, while the share of female managers accounts for 18.5%. When it comes to PEs, who are owned and run by the same person, the quantitative advantage of men is less apparent (53.9% vs. 46.1%). Men run 70.4% of all the business entities, while the share of female managers accounts for 29.6%.

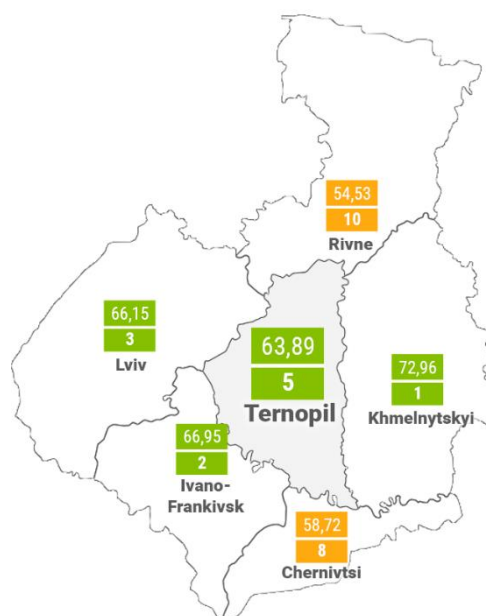
The average age of business owners in Ternopil is 41.8 years (compared to the country's average of 42.8 years). However, individual entrepreneurs are on average five years younger than the owners of legal entities (38.5 years vs. 43.3 years) in Ternopil.

### *Municipal Competitiveness Index: results of Ternopil*

According to the survey findings, Ternopil is ranked number five, scoring 63.89 points as part of MCI 2019/2020. Thus, Ternopil is classified among cities with high MCI scores.

Ternopil falls more than nine points behind Khmelnytskyi, which is ranked number one.

A comparison between the MCI score of Ternopil and those of its geographical neighbors has shown that most leaders of the rating — Khmelnytskyi (number one), Ivano-Frankivsk (number two) and Lviv (number three) — are located nearby. Chernivtsi and Rivne, which obtained average MCI scores and are positioned in the top half of the rating chart (number eight and number ten, respectively), are also located close to Ternopil.



The high score of Ternopil is due to high ratings assigned on a number of components of which MCI is composed.

The strongest components are:

- Support of innovations (number two)
- Transparency and data openness (number three)
- Development resources (number four)
- Starting a business (number five)

The weakest components are:

- Security of operating a business (number 14)

### ***1. Starting a business***

Ternopil scored 7.88 points on Component 1 “Starting a Business.” This is the fifth best score among all the cities. The high score of the city is due to prompt registration and permit obtaining procedures. In particular, the registration of a business in Ternopil in 2018-2019 took less time than on average in the country (4.4 days compared to 6.1 days). On the other hand, it took on average 3 days to have changes entered into the register, which is approximately 0.6 day shorter than all the cities’ average of 3.6 days.

In Ternopil, only 5.36% of the respondents who registered a business in 2018-2019 reported problems and barriers during the registration, which is a better result than all the cities’ average (8.8%). In addition, 83.1% of the respondents received necessary advice during the registration process, which almost corresponds to the country’s average of 70.7%. Consequently, it took 20 days to launch a business (from the date of submission of documents for registration to the date of the first sale of goods or services) in Ternopil, which is almost two days less compared to the country’s average (32.1 days).

A higher quantity of business registrars compared to the other cities may be one of the reasons for high ratings of Ternopil on the business registration component. There are approximately 10 registrars per 11 thousand business entities in Rivne (including government authorities, local self-government authorities and notaries public), which is twice as much as the quantity of registrars in the cities that reported problems with the registration.

However, the time required to obtain certain permits remains a problem for Ternopil. The obtaining of construction permits, and registrations took, on average, 37.2 days in the country and 32.5 days in Ternopil. In addition, it took more time in Ternopil to obtain a declaration of conformity to the requirements of the fire safety legislation in respect of a business entity’s facilities (18.2 days compared to the cities’ average of 11.8 days). This is the second lengthiest process of obtaining of such documents among the cities surveyed.

### ***2. Access to public property***

Ternopil scored 5.57 points and was ranked number eight on the component (sub-index) titled “Access to public property.” The city failed to get closer to the leaders because of a lower — compared to other cities — level of transparency of information on community-owned property. Only 17.3% of the respondents reported the accessibility of information on available community-owned land plots, which can be provided for use or used for construction, etc (18.1% of the total respondents). In addition, only 24.1% of the respondents indicated that information on the municipal real property (including non-residential premises) was available (29.2% of the total respondents).

However, 38.8% of the respondents reported that they had documents certifying the ownership / lease of the land where their business operates (compared to the country’s average of 30%). This makes 58.1% of the respondents believing that land documents are their concern (compared to the country’s average of 46.8%). In 2018-2019, it took on average 50.6 days to obtain documents certifying the ownership / lease of the land in Ternopil, which is almost 12 days shorter compared to the average for all the respondents (72.4 days).

### ***3. Transparency and data openness***

Ternopil was ranked number three and scored 7.34 points on the “Transparency and data openness,” and, therefore, is one of the leaders on this component. In Ternopil, the majority of the respondents expressed a high opinion of the access to information on the local budget, local regulations and public procurements.

In particular, access to information on local procurements got the top score in Ternopil with 20.7% of the respondents assigning 'good' and 'excellent' rates, compared to 17.3% of all the respondents surveyed. In Ternopil, 16.3% of the respondents give positive assessments of access to information on local regulations, while access to information on local budget was positively assessed by 15.5% of the respondents. However, the average for all the cities is 13.9% and 10.2%, respectively.

#### ***4. Compliance cost***

The indicators of compliance cost in Ternopil are, in general, little different from the country's average indices, although the amount of time that entrepreneurs spend on communications with the city inspectors is somewhat higher than on average in the country. The city was ranked number eight and scored 7.53 points on this component.

In Ternopil, entrepreneurs spend on average 3 days for compliance with local regulations, which is one day less compared to the country's average (four days). 3.4% of an annual income is, on average, spent on compliance with the requirements of local regulations in Ternopil, which is also somewhat less than 3.7% spent on average by all the respondents.

The findings of the survey show that entrepreneurs in Ternopil are somewhat less frequently visited by local inspectors compared to the country's average (0.6 times per year in the city compared to the country's average of 0.7 times per year). Consequently, the average time spent on communications with the inspectors was 5.3 days, which is almost in line with the country's average (five days).

#### ***5. Taxes and duties***

Component (sub-index) 5 "Taxes and duties" is one of the strengths of Ternopil. The city was ranked number eight and scored 7.10 points on this component. The rather high score of Ternopil was due to a combination of such factors as relatively low expenses for payment of taxes, low time expenditures for administration of taxes and duties, and a lower local tax burden.

As part of the survey in Vinnytsia, the respondents said that they spent, on average, 24.7% of their annual income on taxes and duties (including USC), which is somewhat less compared to the average for all the cities (26.8% of the annual income). Entrepreneurs in Ternopil spent, on average, 43.8 days on the administration of taxes and duties, which is one of the lowest indices among the cities surveyed (59 days on average).

Only 17.7% of the respondents in Ternopil said that local taxes create barriers for their businesses, while the average for all the cities was 20.4%. In addition, 2.7% of the respondents in Ternopil were reportedly exempted from local taxes and duties in 2018-2019, which is somewhat less than the average for the cities covered by the survey (the average for all the respondents is 3.6%).

#### ***6. Informal payments and corruption***

According to the survey findings, Ternopil was ranked number nine and scored 5.6 points on Component (sub-index) 6 titled "Informal payments and corruption." Ternopil's score is due to such factors as an approximately average prevalence of "informal payments" and a higher than average awareness of entrepreneurs about existing anti-corruption measures taken by the city.

In particular, as part of Dimension 1 "Bribes / Gifts" 10.0% of the respondents in Ternopil reported situations related to "informal payments" when approaching the municipal officials for any issues concerning the running of a business in 2018-2019. On average, 9.9% of the respondents faced such situations. On the other hand, as part of Dimension 2 "Anti-corruption efforts," 34.1% of the respondents were informed about the implementation of specific anti-corruption measures by the city authorities (open budget, digital reception, municipal anti-corruption program, etc.), while the average for all the cities surveyed was 31.8%.

### ***7. Security of operating a business***

Ternopil was ranked number 14 among the cities covered by the survey and scored 5.22 points on Component (sub-index) 7 titled “Security of operating a business.” This score of Ternopil is due to a high percentage of informal businesses and losses incurred by businesses as a result of criminal acts.

According to the survey, 47.7% of the respondents in Ternopil believe that competitors run informal businesses, which is two pp higher than the country’s average (45.1% at the country level). 2.5% of the total respondents experienced attempts of illegal takeovers at the country level in 2018-2019. The problem of illegal takeovers in Ternopil seems to be somewhat less critical with 2.3% of the respondents who reportedly had faced such acts.

14.2% of the respondents in Ternopil reported that they suffered losses as a result of extortions, thefts, robberies, or acts of vandalism or arson in 2018-2019 (this is almost in line with the country’s average of 14.3% of the respondents). In addition, the respondents estimated loss that entrepreneurs suffered as a result of similar criminal acts at 13.8%, which is three pp higher than the average values (10.8% at the country level).

In Ternopil, businesses spend, on average, 2.6% of their annual income on security / protection, which is somewhat less compared to the country’s average of 2.7% of the annual income.

### ***8. Leadership of municipal authorities***

Ternopil was ranked number eight and scored 5.52 points on Component (sub-index) 7 titled “Leadership of municipal authorities.” The high score of the city is primarily due to its high rating on the “Business development support” dimension. Ternopil scored 7.16 points on that component (the fifth best score). Compared to all the cities, entrepreneurs in Ternopil are on average more optimistic about the attitude of representatives of the municipal authorities towards private businesses. 25.6% of the respondents believe that the attitude of the municipal authorities towards businesses is “very good” or “good” (the average for all the cities is 20%). In addition, 48.9% of the respondents agree that the municipal authorities support start-ups (compared to the average of 38.3% for all the cities), and 42.3% indicate that the municipal authorities support existing businesses (compared to the average of 35.5% for all the cities). The survey results are also complemented by “hard data” on the activities of the city council. According to the “hard data,” Ternopil scored nine points, which corresponds to one of the highest scores among the cities surveyed. In particular, Ternopil’s technical documents on standard monetary appraisal of municipal land are outdated compared to those used by the other cities. The boundaries of the city are not established.

The score obtained on the “Public-private dialogue” dimension shows that businesses face certain problems in their communications with the city government in Ternopil compared to most other cities. On this dimension, the city was ranked number 13 and scored only 3.87 points. 7% of business representatives in Ternopil believe that they have “extensive” or “very extensive” opportunities to participate in the development of local documents (strategies, plans, programs, etc.), while the average for all the cities surveyed is 6.5%. On the other hand, 5.1% of the respondents in Ternopil indicate that the city always or often holds consultations with entrepreneurs before passing new or amending existing regulations that may affect businesses (compared to 7.4% on average for all the cities).

### ***9. Development resources***

Ternopil was ranked number four and scored 5.44 points on Component (sub-index) 9 titled “Development resources.” The city’s assessment is based on the results of three dimensions that form a single component. Those dimensions are Human resources, Financial resources and infrastructure, and Business support infrastructure.

The city was ranked number 9 and scored 5.88 points on **Dimension 1 (Human resources)**. An analysis of individual indicators of this dimension has demonstrated that only 7.9% of the respondents in Ternopil rate the quality of the local workforce as “excellent” or “good” (the average for all the respondents surveyed is 7.6%). In addition, only 11.0% of the respondents surveyed give positive assessments of vocational education of employees in the local labor market (the country’s average is 10%).

However, 59.6% of the respondents believe that insufficient workforce training is a serious barrier to doing business (the average for all the respondents is 60.7%). Accordingly, just as in the other cities, an insignificant percentage of business entities in Ternopil rate high the available workforce. In addition, 73.8% of the respondents experience a lack of workforce, which is one of the highest rates among the cities surveyed (the country’s average is 70%). This may be due to labor shortage caused by significant quantity migrant workers in the region. Consequently, the lack of qualified workforce is the third most severe problem faced by entrepreneurs in Ternopil, according to the rating of barriers to doing business (as reported by 27.8% of the respondents).

The analysis of the number of workforce in the city is supplemented by statistical data. In particular, there were approximately 4.6 vacant jobs per 100 businesses in Rivne at the end of 2019, which is somewhat higher than the average for all the cities surveyed (3.6 vacant jobs)<sup>152</sup>. This may point to a higher demand for the workforce in Ternopil compared to the other cities. As of January 1, 2019, the share of working age population (aged 15-64) in Ternopil was 70.5%, which is one of the highest percentages among all the cities surveyed. The corresponding country’s average on this metric was 67.8%<sup>153</sup>. Thus, the problem of population aging may be less tangible in Ternopil compared to the other cities and the country in general.

The city was ranked number 19 and scored 3.62 points on **Dimension 2 (Financial resources and infrastructure)**. According to the survey findings, only 1.2% of the respondents at the country level received financial support from municipal authorities in 2018-2019. When it comes to individual cities, the share of such respondents in Ternopil accounts for 0.9%, which is approximately in line with the average level. However, 82.2% of the business entities surveyed in Ternopil believe that the lack of funds is a serious barrier to doing business (the average for all the cities is 77.8%). This is the second highest result among the cities surveyed (after Vinnytsia).

Data on the city’s budget expenditures complete the picture of financial resources allocated to support businesses in the city. In 2019, actual spending on support for small and medium-sized enterprises in the city reached only UAH 49 thousand per 10,000 businesses.<sup>154</sup> It should, however, be noted that, in general, SME support expenditures are low or non-existent in most of the cities. However, a higher amount of expenditures or even the existence of such support in general may point to a higher level of leadership of municipal authorities in relation to business support

When it comes to the infrastructure, the entrepreneurs surveyed in the cities covered by the study had reportedly a different experience in relation to connection to electricity grids. In Ternopil, connection to the electricity grid took almost 45 full days from the date of an application until the date of actual connection. This is one of the lowest percentages among the cities covered by the survey. At the country level, connection

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<sup>152</sup> Sources for calculations: 1) Number of vacancies: The situation in the labor market and the results of activities of the state employment service. Data on the page of the Ternopil Region Employment Center, <https://ter.dcz.gov.ua/analitics/103> 2) Number of businesses: According to the Ternopil Region Statistics Headquarters

<sup>153</sup> According to the Ternopil Region Statistics Headquarters of the State Statistics Service of Ukraine

<sup>154</sup> Reports on the implementation of local budgets (expenditures under program classification code 7610 - Promotion of small and medium entrepreneurship), as well as responses of the city councils to requests for public information were used. For some cities, information on expenditures was updated through telephone interviews with the employees of executive authorities of the city councils.

to the electricity grid took, on average, 85 days. It follows that it is more complicated to have a business connected to the electricity grid in Ternopil compared to most other cities.

Ternopil was ranked number two and scored 6.81 points on **Dimension 3 (Business support infrastructure)**. According to the survey data, 12.1% of the respondents personally received business support services from the municipal authorities (information, advice, training, etc.), which is higher than all the cities' average (11%). At the same time, 61.9% of them rated such services as "good" and "excellent" (48.6% of the total respondents). This is the highest percentage of positive rates among the cities surveyed.

36.2% of the business entities surveyed in Ternopil reported the existence of business support centers in the city, which is higher than the average for all the respondents (32.6%). However, according to the 'hard data,' there were two business support infrastructure facilities in the city at the end of 2019, which were created with the participation of the city authorities. This is one of the best indices among the cities surveyed. Those business support infrastructure facilities are the Ternopil Region Agency for Regional Development and the Co-Working Center. In addition, entrepreneurs' awareness of business support centers may relate to other business support infrastructure facilities existing in the city, if any.

46.7% of the respondents in Ternopil are aware of the activities of business associations and business clubs in their city (45.9% of the total respondents). 14.3% of the business entities surveyed are members of such organizations, which is one of the highest percentages among the cities surveyed (the average for all the cities in general is 11.5%).

### ***10. Support of innovations***

The city of Ternopil was ranked number two and scored 6.69 points on Component (sub-index) 10 titled "Support of innovations."

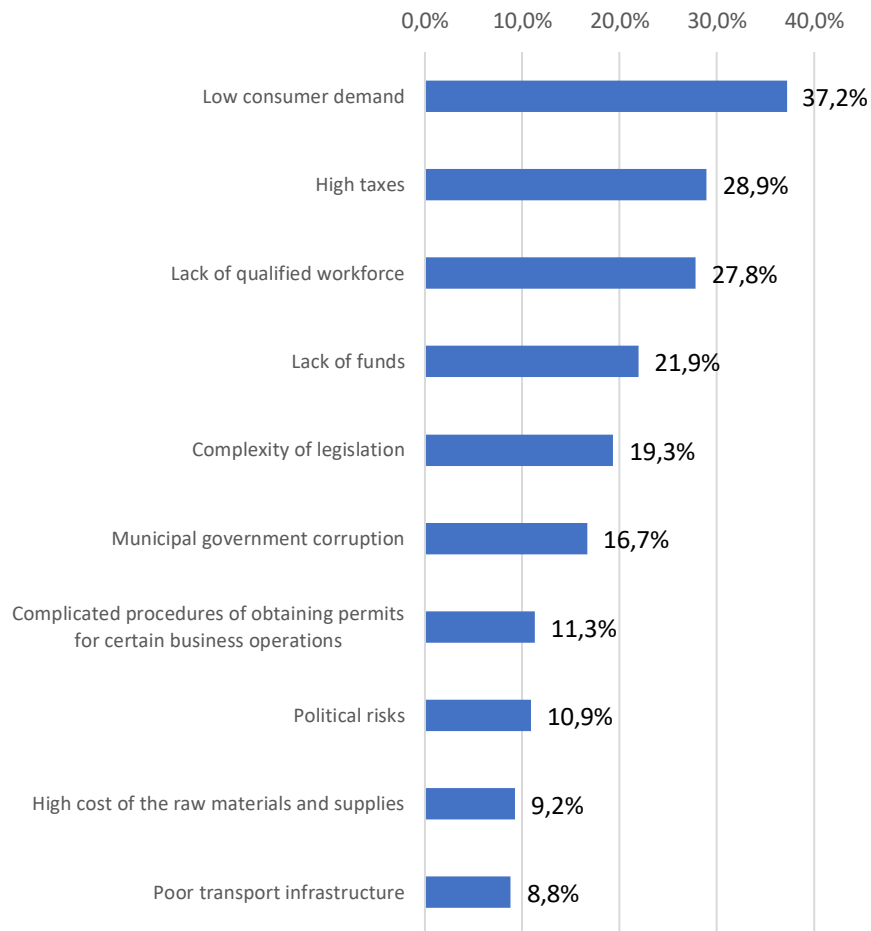
22.79% of the respondents in the city reported that their businesses interacted with research institutions or technology companies in 2018-2019, which is one of the highest indices among all the cities (compared to the average of 18.9% for all the cities). Businesses in Ternopil are also more satisfied with technology transfer compared to the average for the other respondents. 9.5% of the respondents pointed out that the related needs (the transfer of patents for inventions, etc.) are "met to a significant extent" or "fully met" (compared to the country's average of 8%)

The respondents in Ternopil give a high assessment of the local government's support for local innovation programs (funded from the local budget) with the city scoring 2.16 of five points compared to the average score of 1.91 for all the cities. In addition, Ternopil introduced new technologies, solutions or products more often than all the other cities on average in 2018-2019 (47.47% compared to 40.2%). Further, 0.92% of the surveyed enterprises and individual entrepreneurs reported that they belonged to clusters. This is lower than the index recorded for all the cities in general (2.1%). In general, all the factors provide a high level of satisfaction with support for innovations in Ternopil among entrepreneurs.

### ***Barriers to doing business***

The surveyed business entities named the main barriers they face when doing business in Ternopil. Three most important barriers included such factors as the lack of qualified workforce, high taxes and low consumer demand. Each of these barriers to doing business was reported by 37.2%, 28.9% and 27.8% of the respondents, respectively. Accordingly, low consumer demand is the most severe problem in Ternopil, as just in a number of other cities, and, therefore, it outweighed the problem of high taxes that is on the top of the barriers rating for all the respondents in general.

### TOP-10 barriers to doing business in Ternopil, %



The lack of funds (number four) constitutes a barrier for 21.9% of the respondents. The entrepreneurs surveyed in the city also mentioned the complexity of legislation (19.3%) and municipal government corruption (16.7%) as important barriers to doing business. Similarly, rated barriers are complex permit obtaining procedures (11.3%) and political risks (10.9%). The list of TOP-10 barriers for entrepreneurs in Ternopil is completed by the high cost of raw materials and supplies (9.2%) and poor transport infrastructure (8.8%).

### *Expectations and assessments of the business climate and economic conditions in Ternopil*

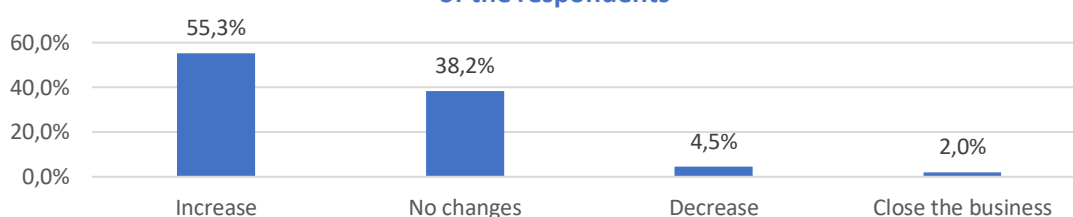
**Regional SME Business Climate Index.** ABCA SME Business Climate Index in Ternopil is 0,30 (the city was ranked number one among all the cities covered by the survey). This is more than in 2017 (0.17), which indicates an improvement in perception of the business climate. This is in line with the all-Ukrainian trend.

### ABCA Regional Index of Business Climate (Ternopil)



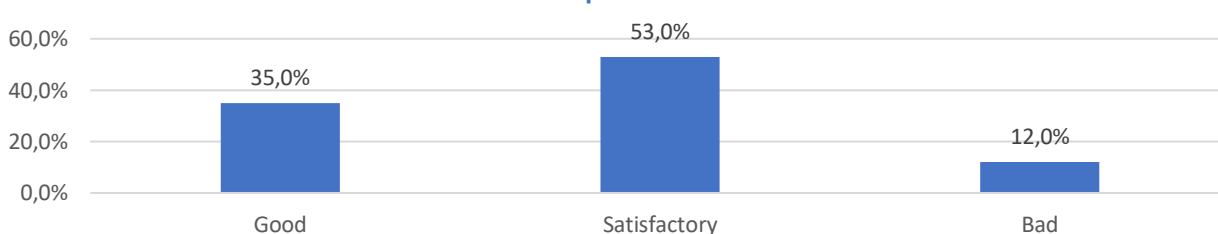
**Long-term expectations for business activity.** Business community in Ternopil has optimistic long-term development plans for the next two years. More than half of the respondents (55.3%) reportedly plan to expand their business, and 38.2% want to stay at the current level. At the same time, only 4.5% of the respondents plan to reduce their business, and 2% want to close it. The balance index<sup>155</sup> is +0.49 (+0.45 at the country level).

### Business activity expectations in the two-year perspective in Ternopil, % of the respondents



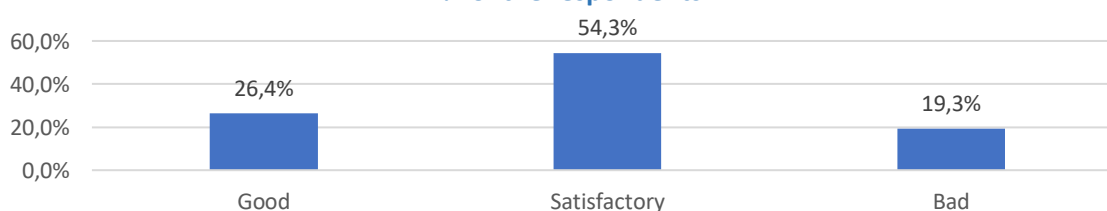
**Assessment of the financial and economic situation of business entities.** In Ternopil, the majority of the business entities surveyed (53%) assessed their current financial and economic situation as satisfactory. The rest of the respondents rated it as good (35%) or bad (12%) It follows that the positive assessments outweigh the negative ones, and the balance index of the financial and economic situation is 0.23 (compared to the country's average of +0.05).

### Assessment of the business situation of business entities in Ternopil, % of the respondents



**Assessment of the current overall economic environment for business activities** More than a half of the surveyed business entities (54.3%) assessed the current overall economic environment as satisfactory. 19.3% of the respondents rate the overall economic environment as bad, and 26.4% as good. Thus, the index of assessment of the overall economic environment for business activities is positive (+0.07). However, the value of the index is much higher compared to the country's average (-0.12).

### Assessment of the overall economic situation (Ternopil), % of the respondents

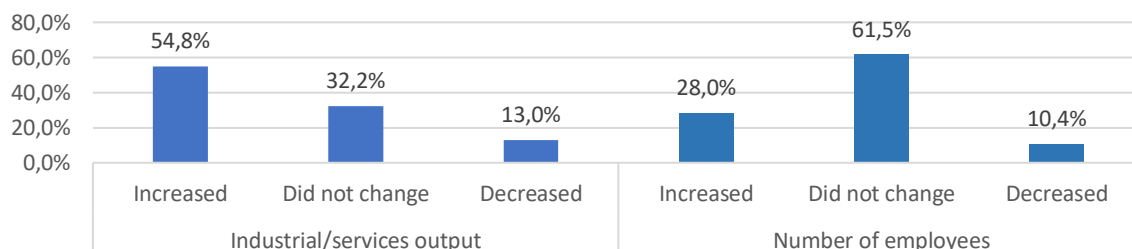


<sup>155</sup> Calculated as the average of all responses on a scale from -1 to 1, where 1 corresponds to a simplification of this procedure, 0 - no change, and -1 to a complication.



**Change in the production output over the past two years.** More than a half (54.8%) of the surveyed business entities indicated that they increased their production or service output in 2018-2019. Approximately a third (32.2%) of the respondents did not change the output while 13.0% of the respondents reduced it. Thus, the index of business activity is +0.42 (which is significantly higher than the average of +0.31 for all the respondents surveyed), reflecting the predominance of the share of business entities that expanded their output over the share of those who reduced it.

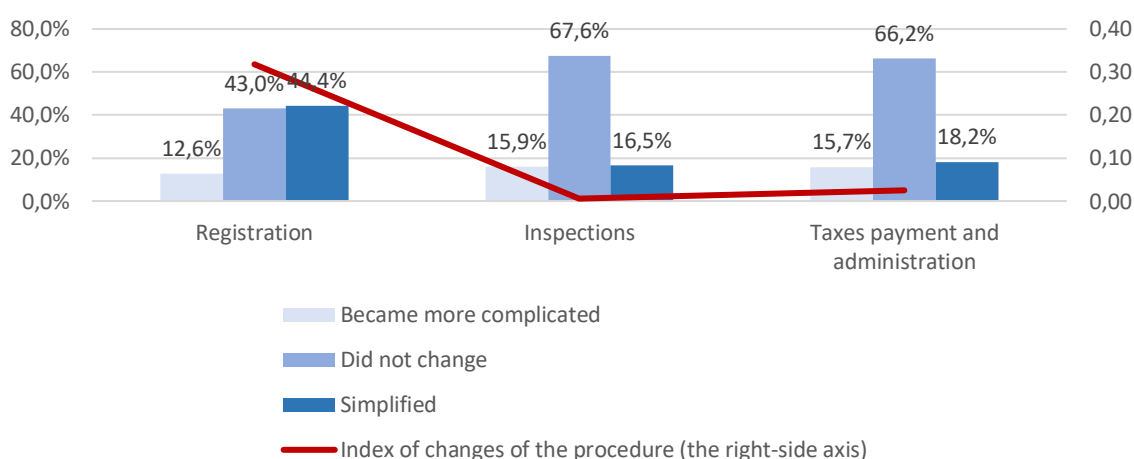
**Change in the industrial/services output and in the number of employees in Ternopil, % of the respondents**



**Change in the number of employees of the business entities over the past two years.** More than a half of the surveyed business entities (61.5%) indicated that the number of their employees did not change in 2018-2019. The share of business entities that increased the number of their employees (28.0%) has proved to be more than two times higher than the share of those where the number of employees decreased (10.4%) Thus, the index of changes in the number of employees is +0.18, which is higher than the average of +0.16 for all the cities surveyed.

**Deregulation: changes in administrative procedures** According to the respondents, the process and conditions of business registration have been simplified the most in the last two years, while the situation with inspections and tax administration has not improved.

**Assessment of changes in administrative procedures (Ternopil), % of the respondents**



44.4% of the businesses surveyed point out the simplification of business registration in the previous two years. The rest of the respondents did not feel any changes in the procedures, and only 12.6% of the respondents said that, in their opinion, business registration has become more difficult. As a result, the index of change in the registration procedures is +0.32<sup>156</sup>. This is the highest value of the index compared to the other two procedures, which include the passing of inspections and the administration of taxes.

<sup>156</sup> Calculated as the average of all responses on a scale from -1 to 1, where 1 corresponds to a simplification of this procedure, 0 - no change, and -1 to a complication.

When it comes to the administration of taxes, more than a half of business entities (66.2%) say that they have not noticed any changes in the complexity of this procedure. The rest of the business entities are divided into two nearly equal parts, which include those for whom the payment of taxes has become easier (18.2%), and those for whom it has become more difficult (15.7%). Therefore, the index of change in the procedures for administration of tax payments tends towards zero and equals +0.03.

The index of changes in passing inspections also tends towards zero (+0.01). 15.9% of business managers and individual entrepreneurs claim that inspections have become more difficult. This share is somewhat lower than the percentage of businesses according to which inspections have become easier compared to 2018 (16.5%). However, the largest share of the surveyed businesses (67.6%) did not notice any changes in relation to inspections.

As a result, the value of the general index of changes in administrative procedures, which is calculated as an average value of the indices of change of these three procedures, is +0.12.

## ***Recommendations***

According to the MCI results (subject to the weak components and dimensions) the following key recommendations have been formulated for the city. In addition, the city government should pay attention to recommendations that are common for all the cities in general.

### **Component 2. Access to public property**

- It is necessary to ensure timely update of technical documentation on the standard monetary appraisal of land

### **Component 8. Leadership of municipal authorities**

- It is necessary to ensure constant communication and dialogue between businesses and local authorities through ensuring regular operation of special advisory bodies with the participation of entrepreneurs.
- It is necessary to ensure a higher level of business involvement in the development of local documents (strategies, plans, programs, etc.) and consultations on regulations.

### **Component 9. Development resources**

- It is necessary to increase expenses on support for entrepreneurs to ensure the operation of the business support infrastructure and financial support programs.
- It is necessary to conduct an audit of business support infrastructure facilities to determine their efficiency and development pattern.
- It is necessary to use best practices applied by other cities to organize the operation of business support centers, co-workings, business hubs, clusters, etc.

# Uzhhorod

## Number 12 in MCI

### General information

Uzhhorod is an administrative center of the Zakarpattia region, a city of regional significance.

The city is also the administrative center of Uzhhorod district but is not part of the district.



### Location

The city of Uzhhorod is located in the western part of Ukraine, on the banks of the river Uzhhorod. The city is located in the western part of the Zakarpattia region, which borders four EU countries: Poland, Slovakia, Hungary, and Romania.

The Uzhhorod district and the state border of Ukraine with Slovakia adjoin the territory of Uzhhorod. Not far from the city is also the border of Ukraine with Hungary.

The nearest regional centers are Ivano-Frankivsk, Lviv and Chernivtsi. Also, not far from Uzhhorod is the city of Mukachevo, the second largest city in the region.

### Demographic situation

As of January 1, 2019, the permanent population of Uzhhorod was 113.3 thousand people. Thus, Uzhhorod is the smallest regional center of Ukraine in terms of population. At the same time, the city is the largest settlement in the Zakarpattia region. At the same time, it accounts for less than a tenth of the region's population (9%)<sup>157</sup>.

The structure of the population of Uzhhorod, as well as in the country as a whole, is dominated by women (53.4%). There are 874 men per 1,000 women (864 for Ukraine as a whole).

The share of the population aged 15-64 is 70.2% (Ukraine - 67.8%). In total, there are 424 people aged 0-14 and over 65 (475 in Ukraine) per 1,000 people of working age.

In 2018, Uzhhorod experienced a natural population decline (-2.4 per 1,000 available population). The birth rate was 9.0 and the mortality rate was 11.4.

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<sup>157</sup> Here and further in the profile of Uzhhorod the statistical data of the State Statistics Service of Ukraine, the Main Department of Statistics in the Zakarpattia region are used.

## Development of entrepreneurship

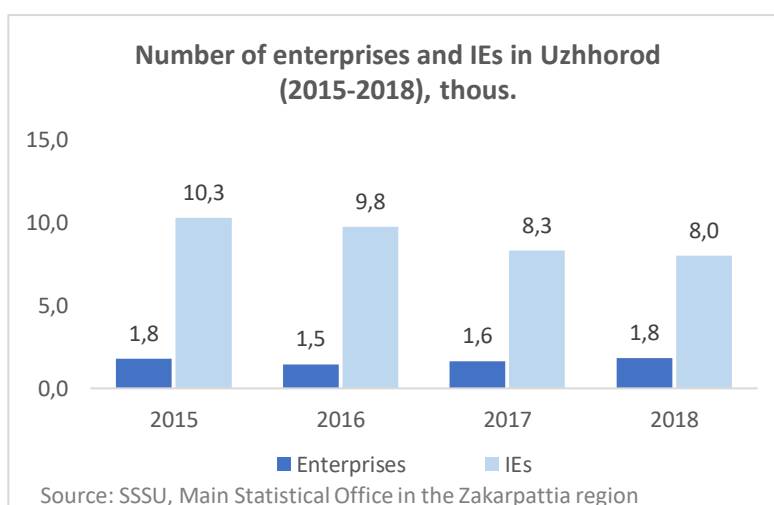
### Key structural business statistics in Uzhhorod in 2018

|                           | Absolute figures   |                          |                  | Relative figures      |                           |                         |
|---------------------------|--------------------|--------------------------|------------------|-----------------------|---------------------------|-------------------------|
|                           | Number of subjects | Employment, thsd persons | Turnover, UAH bn | Share in total number | Share in total employment | Share in total turnover |
| <b>Large enterprises</b>  | 0                  | 0.0                      | 0.0              | 0.00%                 | 0.0%                      | 0.0%                    |
| <b>SMEs</b>               | 9872               | 29.5                     | 16.9             | 100.00%               | 100.0%                    | 100.0%                  |
| <b>Medium enterprises</b> | 53                 | 8.8                      | 8.0              | 0.54%                 | 29.9%                     | 47.6%                   |
| <b>Small enterprises</b>  | 1795               | 7.4                      | 4.9              | 18.18%                | 25.1%                     | 29.3%                   |
| <b>In which</b>           |                    |                          |                  |                       |                           |                         |
| <b>micro</b>              | 1596               | 3.5                      | 2.3              | 16.17%                | 11.9%                     | 13.6%                   |
| <b>IEs</b>                | 8024               | 13.3                     | 3.9              | 81.28%                | 45.0%                     | 23.1%                   |
| <b>Total</b>              | 9872               | 29.5                     | 16.9             | 100.00%               | 100.0%                    | 100.0%                  |

Source: Own calculations based on data from the State Statistics Service of Ukraine, MDS in Zakarpattia region

### Number of business entities

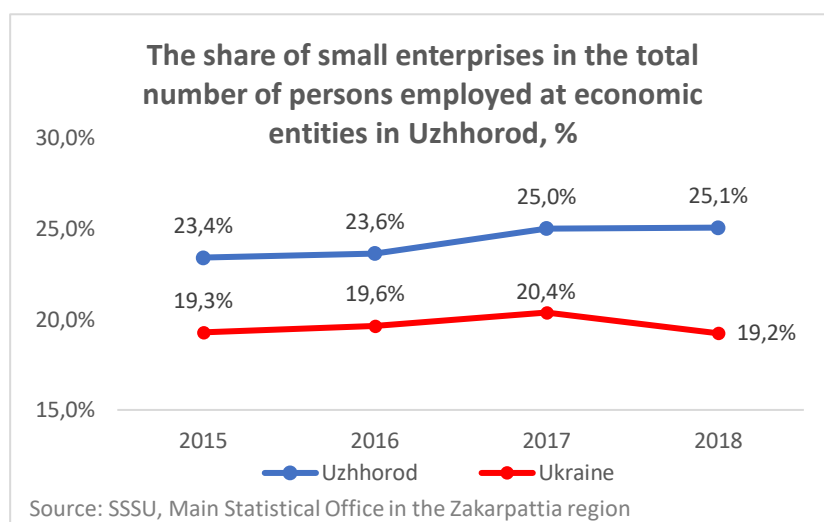
In 2018, there were 9.9 thousand SME entities in the city of Uzhhorod (including 53 medium-sized enterprises, 1.8 thousand small enterprises and 8 thousand individual entrepreneurs), while large enterprises were absent. Thus, 18.7% of BEs were registered as legal entities (19.3% in Ukraine as a whole), and the rest functioned as individual entrepreneurs.



In terms of the number of BEs, Uzhhorod is on the 22<sup>nd</sup> place among the cities selected for research. The city accounts for only 19.3% of the total number of BEs in the Zakarpattia region, which is the second lowest indicator among the administrative centers of the regions (a smaller share only in Kramatorsk). This is due in particular to the relatively small share of the city in the total population of the region (less than 10%). In addition, a significant part of the region's business is accounted for by other cities in the region, including Mukachevo. At the same time, there were 866 SME entities per 10,000 inhabitants in Uzhhorod, which allowed the city to take the 3<sup>rd</sup> position among the selected cities. This may indicate a high level of business activity in the city.

In 2018, the number of SME entities in Uzhhorod decreased by 0.8% compared to 2017, although at the national level it increased by 1.9%. The decrease was due to a decrease in the number of individual entrepreneurs by 3.4% (while the country grew by 1.2%). At the same time, the number of medium-sized enterprises did not change (+7.5% in Ukraine), and the number of small enterprises increased by as much as 13.2% (+5.1% at country level).

## Employment



In 2018, 29.5 thousand people were employed at BEs of Uzhhorod, which is 2.4% more than in 2017 (4.8% corresponding to the national level). The city accounts for only 18.7% of the total number of employees in the Zakarpattia region.

In 2018, there were no large enterprises in Uzhhorod. Accordingly, all employees were SMEs. Small business provided two-thirds of all jobs in the city. In

particular, 45% of employees were employed by IEs, and 25.1% were employed by small enterprises. In terms of the share of IEs in employment, Uzhhorod ranks third after Chernivtsi and Khmelnytskyi.

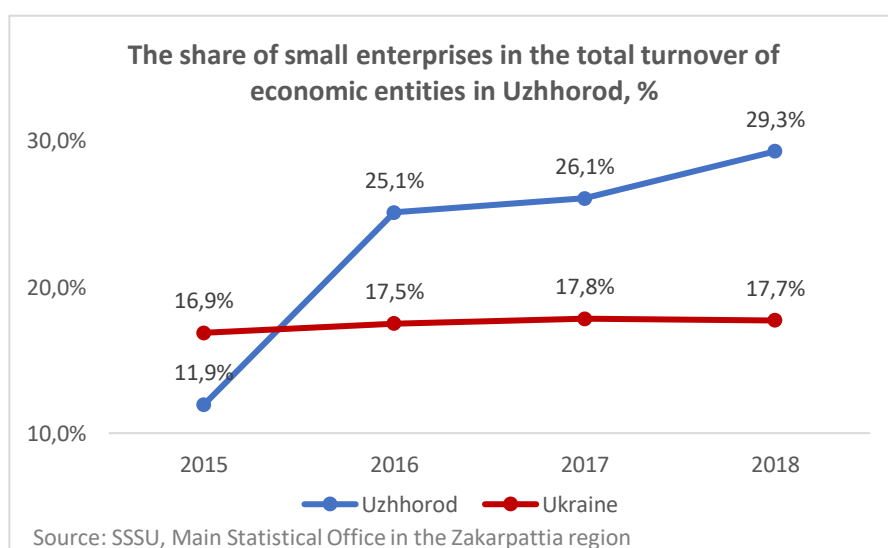
The increase among SMEs was primarily due to individual entrepreneurs (0.7 thousand people or 5.7%). Employment in small enterprises increased by only 0.2 thousand people or 2.7%, while the number of employees in medium-sized enterprises decreased by 2.3% or almost 0.2 thousand people. The corresponding indicators of change in the number of employees at the national level were + 5.8% for medium-sized enterprises, -1.1% for small and + 10.5% for IEs.

Statistics show that in general the Zakarpattia region shows a slightly higher unemployment rate of the working age population than in Ukraine as a whole. In 2019, the corresponding indicator of the region was 9.4% against 8.6% at the national level. At the end of 2019, 463 people had the status of unemployed in Uzhhorod, and the number of vacancies was 290. Accordingly, the workload of registered unemployed was about 2 people per vacancy. However, due to quarantine measures and crises due to the COVID-19 pandemic, in 2020 the situation on the city's labor market may worsen.

## Turnover

According to the results of 2018, the turnover of products (goods and services) of economic entities of the city of Uzhhorod amounted to only UAH 16.9 billion in current prices. Real growth (i. e. adjusted for inflation) of turnover compared to 2017 was 0.2% (growth rate at the national level 8.1%). Business entities of the city accounted for only 20.9% of the total turnover of the Zakarpattia region.

In 2018, there were no large enterprises in Uzhhorod. As a result, almost half of turnover



belonged to medium-sized enterprises (47.6%). Individual entrepreneurs provided almost a quarter of the amount (23.1%), which is the second highest figure after Chernivtsi.

The lack of significant growth in turnover of the SME sector was primarily due to the decline in medium-sized enterprises by 10.4%. At the same time, sales of individual entrepreneurs increased by 12.3%, and turnover of small enterprises increased by 12.6%.

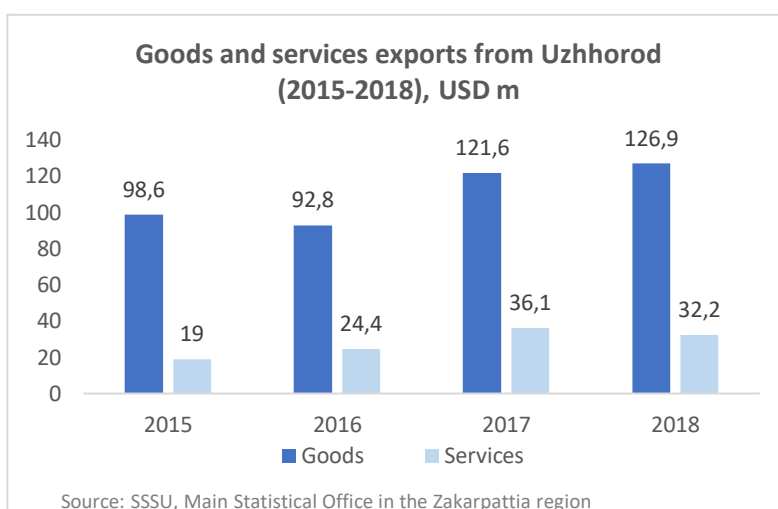
### Capital Investments

In 2018, Uzhhorod accounted for only UAH 1.2 billion of capital investments, which accounted for 16.4% of the volume of capital investments in the Zakarpattia region. According to the results of 2018, the volume of capital investments per capita amounted to UAH 10,888, which is lower than the national level - UAH 13,746. According to this indicator, Uzhhorod ranks 18th among the cities in the study.

### Export

According to the State Statistics Service of Ukraine, in 2018 the volume of exports of goods from the city of Uzhhorod amounted to USD 126.9 m, which is 4.4% more than in 2017. According to this indicator, Uzhhorod ranks 20th among the cities in the study for which relevant statistics are available.

At the same time, exports of services decreased by 10.8% and amounted to USD 32.2 m (12th position).



If we analyze the commodity structure of the city's foreign trade, almost a third of exports are electrical machinery, equipment and parts (USD 39.8 m or 31.4%). In second place among exports are furniture (USD 21.5 m or 16.9%). In addition, it is necessary to highlight the products of agriculture and food industry (12.8%), wood and wood products (10.3%), textiles and products (9.8%) and products of the chemical industry and related industries (8.4%).

### Foreign direct investment

As of December 31, 2018, the city of Uzhhorod accounted for USD 50.6 m of foreign direct investment (equity). The specified amount is USD 3.8 m or 8.1% higher than at the beginning of 2018. At the same time, as of the end of December 2018, there was USD 448.5 per person in Uzhhorod, which is the 6th highest amount among the cities in the study.

It should be noted that in general, the Zakarpattia region ranks 13th in terms of direct investment among all regions of Ukraine. At the beginning of 2018, only 14.4% of direct investments in the region were concentrated in Uzhhorod, which generally corresponds to the place of the city's business sector in the region's economy.

## Safety and comfort

The results of other studies allow us to look at the level of safety and comfort of living in selected cities based on the assessments of their inhabitants. These factors are important for understanding the general situation in the city. In addition, it is possible to compare with individual results of the "Municipal Competitiveness Index".

According to the study "Sixth Annual Ukrainian Municipal Survey"<sup>158</sup>, the city of Uzhhorod ranks 21st in terms of the Index of Quality of Service in the city with a score of 2.7 (1 - means "terrible", 5 - "excellent"), which indicates a significant dissatisfaction of residents with the level of comfort in the city.

In the same study, Uzhhorod lags behind many cities in terms of security in terms of residents. The value of the corresponding Index for the city is 1.9 (the value can be from 0 to 3, where 0 - "I feel completely in danger", 3 - "I feel completely safe") and according to this indicator, the city ranks 14th among the 24 cities studied. Almost half of the respondents said that they feel likely or completely safe after dark (49%), but 47% - said that they feel likely in danger or completely in danger.

## Results of the "Municipal Competitiveness Index" in Uzhhorod

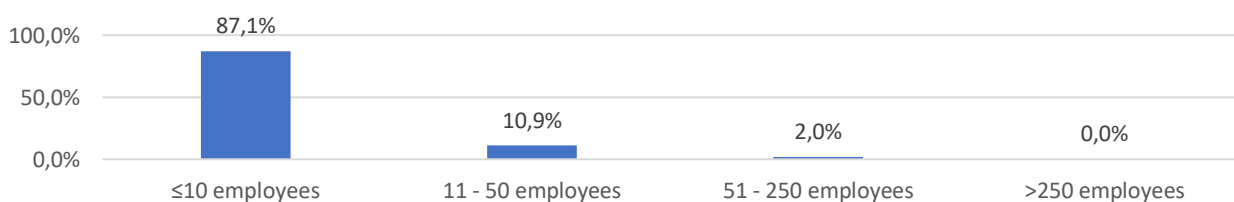
### Sample description

201 BEs took part in the survey in Uzhhorod. These are 98 (48.8%) enterprises-legal entities and 103 (51.2%) individual entrepreneurs (IEs). When analyzing the answers, the array was weighed according to the criterion of the type of business entity of the respondents in order to meet the parameters of the target sample, namely 55.0% of legal entities and 45.0% of IE.

### The size of the surveyed BE

The majority of respondents (87.1%) are microbusiness, i.e. such BEs, which employ from 1 to 10 people. 10.9% are small entities, i.e. those that employ from 11 to 50 people. Medium-sized entities (from 51 to 250 employees) account for 2.0%, and large entities (more than 250 employees) - 0%.

Surveyed businesses by size (Uzhhorod), %

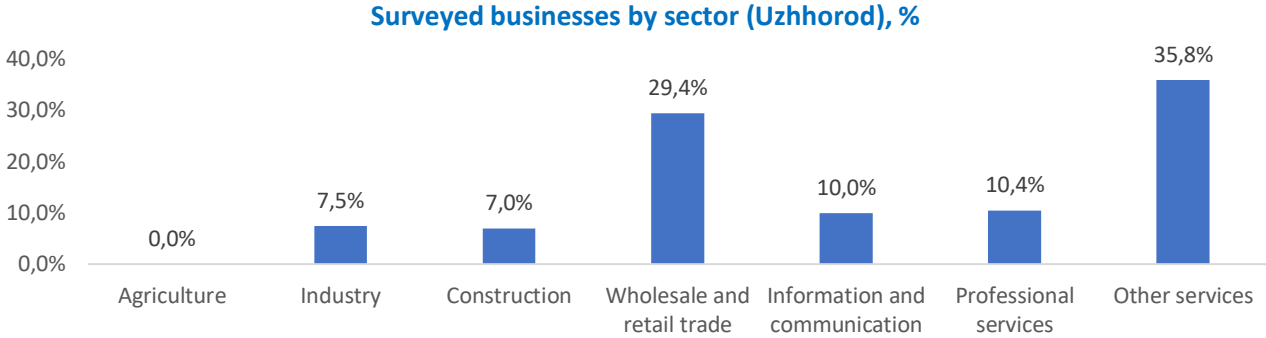


### Industry and type of activity

The surveyed BEs of Uzhhorod represent various branches of the economy. 29.4% of the surveyed business works in the trade sector (it includes wholesale and retail trade, repair of motor vehicles). Another 7.5% work in industry, 7.0% in construction. More than half of the surveyed business is in the services sector (56.2%). Information and communication services are provided by 10.0% of respondents, and professional - 10.4%.

<sup>158</sup> The survey was conducted by the Sociological Rating Group on behalf of the International Republican Institute's Center for Insights in Survey Research; The survey was funded by the United States Agency for International Development (USAID). See [http://ratinggroup.ua/research/regions/shestoy\\_vseukrainskiy\\_municipalnyy\\_opros.html](http://ratinggroup.ua/research/regions/shestoy_vseukrainskiy_municipalnyy_opros.html).

Other services (businesses working in the fields of transport services, arts and sports, education and healthcare, finance and other service-related industries) account for 35.8% of respondents.



**Year of registration**

Most of the surveyed BEs were registered up to and including 2017 (76.6%). In the period 2018-2019, 23.4% of respondents were registered.

**Gender and age distribution of owners and business leaders**

According to the results of the survey, in Uzhhorod 63.9% of business owners are men, 36.1% - women. At the same time, the share of men among legal entities is even higher - 73.5% against 26.5%.

Among the heads of legal entities, men make up 74.5% and women 25.5%. Among individual entrepreneurs, where managers and owners are the same person, women are slightly predominant - 49.4% of men against 50.6%. In general, 63.2% of all BEs are male and 36.8% are female.

The average age of business owners in Uzhhorod is 41.8 years (42.8 years in Ukraine). At the same time, in Uzhhorod, the owners of individual entrepreneurs are on average 4 years younger than the owners of legal entities (39.7 years against 43.2 years).

**Municipal Competitiveness Index: results of Uzhhorod**

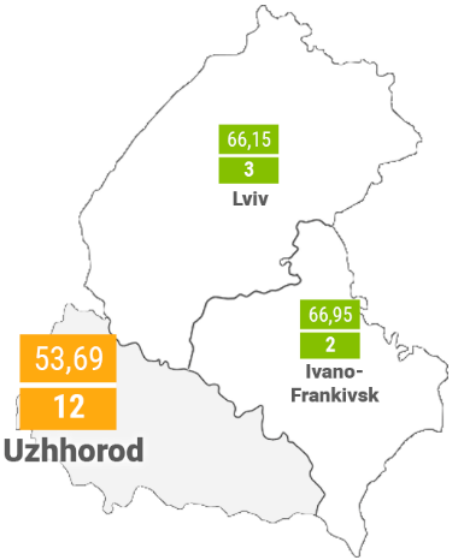
According to the results of the study, the city of Uzhhorod took the 12th place with the value of MCI 2019/2020 - 53.69 points. Thus, Uzhhorod belongs to the group of cities with an average MCI.

If we compare the value of MCI for Uzhhorod with the results of geographical neighbors, there are two leaders in the ranking - Ivano-Frankivsk and Lviv, who took 2nd and 3rd places, respectively.

The position in the middle of the ranking is the result of the location of the city in different parts of the rating within different components (sub-indices). The city showed both remarkably high and extremely low results.

The strongest components:

- Cost of compliance (number one)
- Taxes and duties (number one)





The weakest components:

- Informal payments and corruption (number 21)
- Support of innovations (number 21)
- Access to public property (number 19)
- Security of operating a business (number 18)

### ***1. Starting a business***

In Component 1 "Starting a Business", the city of Uzhhorod received 6.92 points, which is the 8th highest score among all cities. One of the main problems for the city is the time spent on business registration. In 2018-2019, business registration in Uzhhorod lasted longer than the national average - 7.6 days against 6.1 days. At the same time, changes to the register required an average of 4 days, which is 0.4 days longer than the average for all cities - 3.6 days.

Only 6.4% of respondents who registered a business in 2018-2019 reported problems and obstacles during this procedure, which is a better result than the figure for all cities (8.8%). During business registration, 64.3% were able to get the necessary advice, which is 6.4% lower than for the country (70.7%). As a result, it took 29.1 days to start a business (from the date of submission of documents for registration to the date of the first sale of goods and services) in Uzhhorod, which is 3 days longer than the national average (32.1 days).

It should be noted that Uzhhorod is better than other cities with business registrars. There are about 12 registrars per 10,000 businesses in the city (in public authorities, local governments and public notaries), which is almost twice as many as in cities with registration problems. Therefore, the reason for longer procedures may be poorer quality of registration services.

The city also has a longer than average in Ukraine duration of obtaining certain permits. If obtaining permits and registration documents in the field of construction on average in the country took 37.2 days, in Uzhhorod this figure is 53.1 days. In addition, Uzhhorod needs more time to obtain a declaration of compliance of the material and technical base of the business entity with the requirements of fire safety legislation - 17.8 days against 11.8 days on average for all cities.

### ***2. Access to public property***

According to the results of the component (sub-index) "Access to public property" Uzhhorod received only 3.98 points and took 19th place. Within some indicators, Uzhhorod showed mostly low results compared to other cities. In particular, 25.4% of respondents reported that they have documents confirming the right of ownership / lease of land on which they are engaged in business activities (30% at the national level). In particular, it is 42.2% of those respondents who believe that the issue of land documents concerns them (46.8% at the national level). The duration of procedures for obtaining documents confirming the right of ownership / lease of land in 2018-2019 in Uzhhorod averaged 73.1 days, which is only 0.7 days more than for all respondents (72.4 days).

14.3% of respondents reported the availability of information on the availability of communal land that can still be provided for use or used for construction, etc. (18.1% for all respondents). In addition, only 23.8% of respondents indicated that information on municipal real estate (including non-residential premises) is available (29.2% for all respondents). Both indicators are among the lowest among the studied cities.

### ***3. Transparency and data openness***

Within the component "Transparency and data openness" Uzhhorod occupies the 16<sup>th</sup> position with 4.68 points. In Uzhhorod, respondents rated access to local budget information, local regulations and public procurement lower than the average for all cities.

In particular, in Uzhhorod, respondents rated access to information on local procurement - 15.6% of "good" and "excellent" in the city, compared to an average of 17.3% for all cities. Respondents also rated access to information on local regulations (11.4%) and access to information on local budgets almost equally (11.9% and 10.2% on average for all cities).

### ***4. Compliance cost***

Uzhhorod is the leader in terms of the cost of compliance with the law and ranks 1st with 8.86 points. The city's result was determined by low (compared to other cities) respondents' assessments of the time and money spent on compliance with local regulations and the time spent on communication with inspectors.

In Uzhhorod, entrepreneurs spend an average of 2.4 days on compliance with local regulations, which is almost twice less than the national average (with the national average of 4 days). Uzhhorod spends an average of 2.5% of annual income on compliance with local regulations, which is 3.7% lower than the average for all respondents.

The results of the survey show that in Uzhhorod the number of visits by inspectors is almost the same as the national average (0.6 times a year in the city versus 0.7 times a year at the national level). However, as a result, the average time spent on communication with inspectors is 3.1 days, which is 2 days less than the average (5 days).

### ***5. Taxes and duties***

Component (sub-index) 5 "Taxes and duties" is one of the strengths of Uzhhorod. The city received 8.75 points and took 1st place. Uzhhorod's high performance was due to a combination of factors such as low tax costs, low time costs for the administration of taxes and duties, less burdensome local taxes and the availability of benefits for local taxes and duties.

In the survey, respondents in Uzhhorod reported that on average 23.7% of annual income is spent on taxes and duties (including USC), which is the lowest result among all cities (26.8% of annual income). If we analyze the burden of administering taxes and duties, the average time spent by entrepreneurs in Uzhhorod was 39.2 days, which is also one of the lowest rates among all cities (59 days on average).

As for local taxes, only for 14.6% of respondents in Uzhhorod they are an obstacle, although for all cities the average is 20.4%. In addition, in Uzhhorod, 4.2% of respondents reported receiving benefits from local taxes and duties during 2018-2019, which is one of the highest rates among the surveyed cities (among all respondents - 3.6%).

### ***6. Informal payments and corruption***

According to the results of the research, Uzhhorod took the 21st place within Component (sub-index) 6 "Informal payments and corruption", receiving 3.29 points. In particular, the city's performance is due to factors such as the higher than average level of "informal payments" and the low level of awareness of entrepreneurs about existing anti-corruption measures at the city level.

In particular, in Dimension 1 "Bribes / Gifts", 11.3% of respondents in Uzhhorod reported situations related to "unofficial expenses" when interacting with city officials on any business issues during 2018-2019. On average, 9.9% of respondents dealt with such situations for all cities. At the same time, in Dimension 2 "Anti-

corruption measures”, 26.7% of respondents were informed about the implementation of specific anti-corruption measures by the municipal authorities (open budget, e-reception, anti-corruption city program, etc.) (on average for all cities - 31.8%).

### ***7. Security of operating a business***

Within Component (sub-index) 7 "Security of operating a business" Uzhhorod received 4.64 points and took 18th place in the study. This result of Uzhhorod is due to the relatively high share of businesses operating in the shadows and the share of entrepreneurs who have suffered from criminal acts, as well as a high percentage of security costs.

According to the survey, 46.9% of Uzhhorod respondents believe that competitors do business in the shadows, which is almost 2 percentage points more than the national average (45.1% at the national level). 2.5% of the total respondents experienced attempts of illegal takeovers at the country level in 2018-2019. In Uzhhorod, the situation with raiding looks more or less better, as only 2.0% of respondents have experienced such actions.

In Uzhhorod, 17.9% of respondents reported that in 2018-2019 they suffered losses due to extortion, theft, robbery, vandalism, arson, which is almost 3 percentage points more than the national average (14.3% of respondents). At the same time, respondents estimated the losses that entrepreneurs suffer from such criminal acts at 8.6%, which is 2 percentage points less than the average (10.8% at the national level).

Business in Uzhhorod spends an average of 3.3% of annual income on security / protection, which is 2.7% of annual income more than the national average.

### ***8. Leadership of municipal authorities***

The city of Uzhhorod took the 14th place in Component (sub-index) 8 "Leadership of the municipal authorities", receiving 4.37 points. The city's position is the result of rather low, compared to other cities, estimates in both dimensions, which form a sub-index - "Support for Business Development" and "Public-Private Dialogue".

In terms of business development support, Uzhhorod received 4.63 points (19th result). 22% of respondents believe that the attitude of the municipal authorities to business is "very good" or "good" (20% is the average for all cities). Also, 33% of respondents agree that the city government supports the creation of new business (38.3% average for all cities), and 38.4% indicate that the city government supports existing business (35.5% average for all cities). Thus, in two indicators, the city received higher than average scores.

However, according to "hard data", Uzhhorod received 5 out of 10 points, which is one of the lowest scores among the studied cities. In Uzhhorod, in particular, the technical documentation on the normative monetary appraisal of the city's lands is outdated compared to other cities, and the city boundaries have not been established. The city also lacks tax incentives (for a unified tax) for the development of certain activities, which could indicate a greater initiative of the municipal authorities to support new and existing businesses. In addition, compared to other cities, the website of the Uzhhorod City Council at a lower level provides information on public procurement.

The Public-Private Dialogue dimension demonstrates that in Uzhhorod, businesses have some problems communicating with the municipal authorities compared to most other cities. As part of the measurement, the city received 4.12 points (10th place). On the one hand, in Uzhhorod only 4.9% of business representatives believe that they have "significant" and "very significant" opportunities to participate in the development of local documents (strategies, plans, programs, etc.), while the average for all cities only 6.5%. At the same time, in Uzhhorod, 8.6% of respondents indicate that the city always or often consults with

business when adopting new or changing existing regulations that may affect business (7.4% average for all cities).

### **9. Development resources**

Uzhhorod ranks 11<sup>th</sup> within Component (sub-index) 9 "Development resources", receiving 4.72 points. The assessment of the city is based on the results of three dimensions that form a single component: Human resources, Financial resources and infrastructure, Business support infrastructure.

As part of **Dimension 1 "Human resources"**, the city took 8th place, receiving 6.06 points. If we analyze some indicators of this dimension, in Uzhhorod only 4.8% of respondents rate the quality of local labor as "excellent" and "good" (among all respondents - 7.6%). In addition, only 9.4% of respondents give positive assessments of vocational education of employees in the local labor market (10% of all respondents). Thus, in general, in Uzhhorod, as in other cities, a small proportion of BEs give high marks to the available workforce.

53.4% of respondents believe that insufficient training of employees is a serious obstacle to doing business (60.7% of all respondents), which is the lowest rate among the surveyed cities. But 73.5% of Uzhhorod businesses surveyed feel the problem of labor shortages, which is one of the highest rates (among all respondents - 70%). This may be due to labor shortages due to the large number of migrant workers in the region. As a result, the shortage of skilled labor is the biggest problem of entrepreneurs in Uzhhorod according to the rating of obstacles to doing business. It was mentioned by 39.0% of respondents, which is the highest indicator among the assessments of obstacles in all cities

The analysis of the situation regarding the number of labor force in the city is supplemented by statistical data. In particular, at the end of 2019 in Uzhhorod there were 2.9 vacancies per 100 businesses, which is slightly less than the average for the surveyed cities (3.6 vacancies)<sup>159</sup>. This may indicate lower demand for labor compared to other cities. As of January 1, 2019, the share of the working age population (15-64 years) in Uzhhorod was 70.2%, which is slightly higher than the average for the surveyed cities. At the national level, this figure was 67.8%.<sup>160</sup> Thus, in comparison with other cities and the country as a whole, the problem of population aging may be less felt in Uzhhorod.

In **Dimension 2 "Financial resources and infrastructure"**, the city took 3<sup>rd</sup> place, receiving 4.82 points. According to the survey, only 1.2% of respondents in the country received financial support from the municipal authorities during 2018-2019. If we consider individual cities, in Uzhhorod this figure is only 0.6%. At the same time, 70.3% of respondents in the city indicate that the lack of financial resources is a serious obstacle to doing business (77.8% - the average for all cities). As a result, Uzhhorod's BEs complain the least about the lack of financial resources as an obstacle (along with Kharkiv, which also has 70.3%).

Data on city budget expenditures complement the picture of financial resources to support business in the surveyed cities. However, in 2019, expenditures to support small and medium-sized businesses in Uzhhorod were absent (only absent in 5 cities)<sup>161</sup>. It should be noted that in general, SME support expenditures in most

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<sup>159</sup> Sources for calculations: 1) Number of vacancies: The situation on the labor market and the results of the state employment service. Data on the page of the Transcarpathian regional employment center, <https://zak.dcz.gov.ua/analitics/71> 2) Number of businesses: According to the MDS in the Transcarpathian region

<sup>160</sup> According to the State Statistics Service of Ukraine, the Department of Internal Affairs in the Zakarpattia region.

<sup>161</sup> Reports on the implementation of local budgets (expenditures in the program classification code 7610 - Promotion of small and medium enterprises), as well as the responses of city councils to requests for public information were used. For some cities, information on expenditures is clarified through telephone interviews with city council executive staff.

cities are low or non-existent. Higher order of numbers or the presence of such support in general may indicate a higher level of leadership of the municipal authorities in business support.

In the context of infrastructure, the BEs in the surveyed cities had different experiences in connection to the grid. On average, in Uzhhorod it took 37 full days to connect to the power supply systems, starting from the day of application submission and ending with the day of actual connection. This is one of the lowest rates among the studied cities. For the whole country, the average connection time is 85 days. Thus, in Chernivtsi it is easier to connect to the electricity supply compared to most other cities.

In **Dimension 3 "Business support infrastructure"**, Uzhhorod ranks only 15th (3.26 points). According to the survey, 12% of respondents personally received business support services from the municipal authorities (information, consulting, training, etc.), which is higher than the average for all cities (11%). At the same time, 59.6% of them rated such services as "good" and "excellent" (48.6% - among all respondents). This is one of the most frequent positive evaluations among the studied cities.

29.7% of respondents in Uzhhorod indicate the existence of business support centers in the city, which is lower than the figure for all respondents as a whole (32.6% - the figure for all respondents). At the same time, "hard data" show that as of the end of 2019, the city lacks the infrastructure to support business created with the participation of municipal authorities. Thus, entrepreneurs' awareness of business support centers may relate to other business support infrastructure facilities in the city.

In Uzhhorod, 36.2% of respondents know about the activities of business associations and business clubs in their city (45.9% of all respondents). This is one of the lowest rates among the studied cities. Only 9.1% of respondents are members of such organizations, which is also lower than the figure for all respondents as a whole (11.5%).

## 10. Support of the innovations

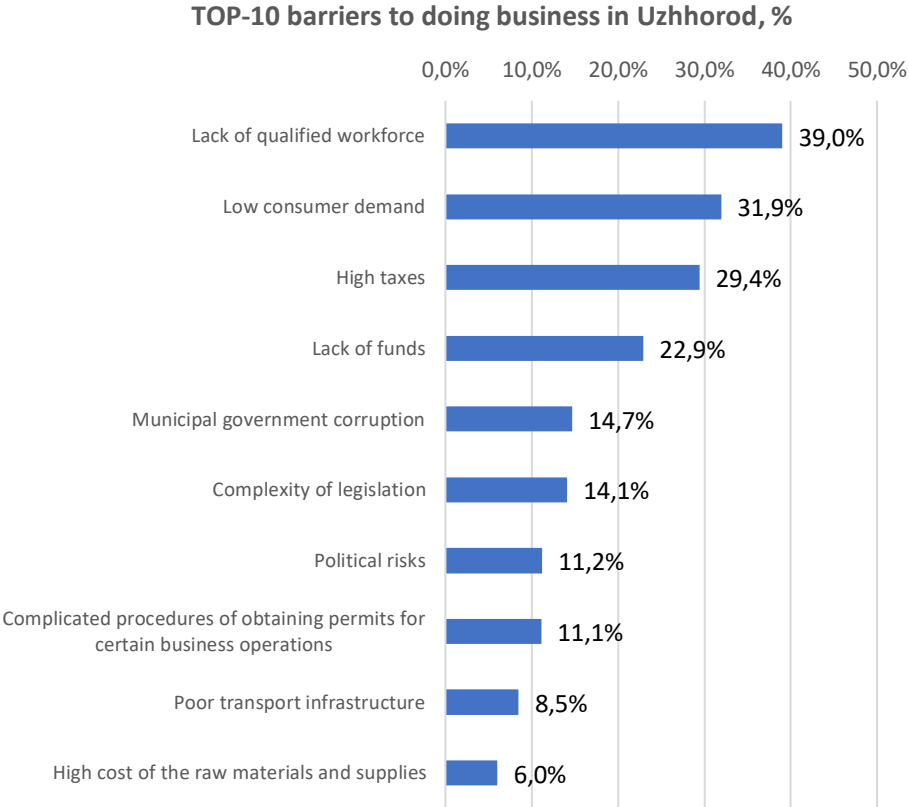
The city of Uzhhorod took the 21st position (3.48 points) within Component (sub-index) 10 "Support of innovations". 12.27% of respondents in the city reported that in 2018-2019 their business interacted with research institutions or technology companies, which is one of the lowest results among all cities (18.9% - the average result for all cities). Business representatives of Uzhhorod are also less satisfied with technology transfer than the average respondent. Only 7.2% indicate that the relevant needs (transfer of patents for inventions, etc.) are "met to significant extent" and "fully met" (8% at the national level).

Respondents in Uzhhorod give a below-average score of local government support for local innovation programs (funded from the local budget) - 1.75 points of the city against 1.91 points on average among all cities (with a maximum of 5 points). Also, in Uzhhorod, less often than on average in all cities, new technologies, solutions or products were introduced in 2018-2019 (37.39% vs. 40.2%). In addition, 3.26% of surveyed enterprises and IEs reported that they belong to clusters. This is higher than for all cities as a whole (2.1%). However, all factors in general provide a relatively low level of satisfaction of Uzhhorod entrepreneurs with the state of support for innovation in the city.

## Barriers for business operation

The interviewed BEs named the main obstacles they face in doing business in Uzhhorod. The top three in the barrier ranking shared issues such as a shortage of skilled labor, low consumer demand and high taxes. Each of these barriers to doing business was reported by 39.0%, 31.9% and 29.4% of respondents, respectively. Thus, in Uzhhorod, as in a number of other cities, the problem of shortage of skilled labor is most acute, and

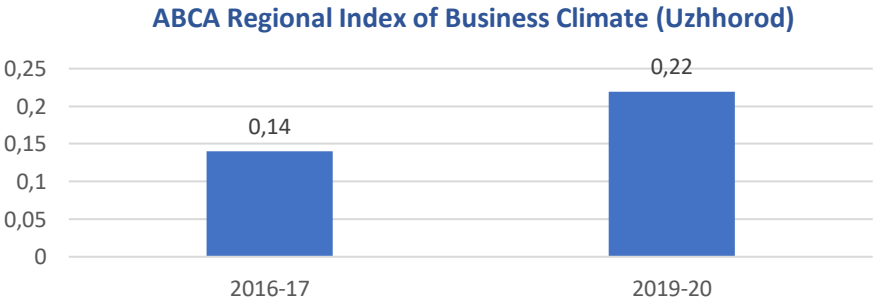
therefore ahead of the problems of low demand and high taxes, which top the ranking of obstacles for all respondents as a whole.



Lack of financial resources is called an obstacle by 22.9% of respondents (fourth place). Corruption of municipal authorities (14.7%) and complexity of legislation (14.1%) are also problems. Nearby in the ranking are also political risks and the difficulty of obtaining permits (11.2% and 11.1%, respectively). Poor transport infrastructure is important for 8.5% of Uzhhorod entrepreneurs. The rating of the top 10 obstacles to doing business in Uzhhorod is completed by the high cost of raw materials and components (6.0% of respondents).

***Expectations and assessments of the business climate and economic conditions in Uzhhorod***

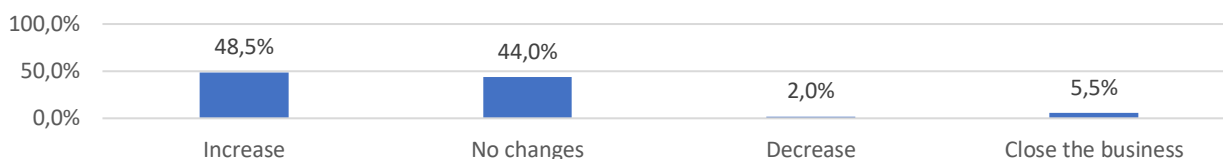
**Regional SME Business Climate Index.** ABCA SME Business Climate Index in Uzhhorod is equal to 0.22 (9th place among the surveyed cities). This is more than in 2017 (0.14), which indicates an improvement in business perception of the business climate. This coincides with the all-Ukrainian trend.



**Long-term expectations for business activity.** Business in Uzhhorod has optimistic long-term development plans for the next two years. Slightly fewer respondents (48.5%) said they plan to expand their business and

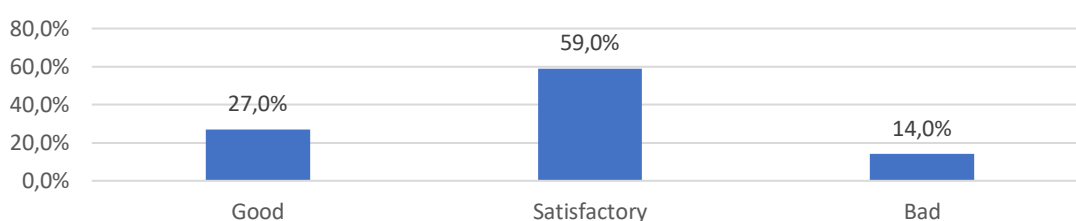
44% to stay at the current level. At the same time, only 2% planned to reduce the business, and 5.5% - to close it. Balance index<sup>162</sup> is equal to +0.41 (at the national level +0.45).

#### Business activity expectations in the two-year perspective in Uzhhorod, % of the respondents



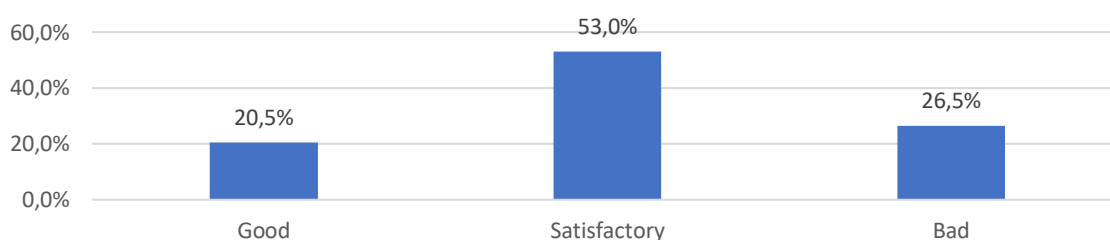
**Assessment of the financial and economic conditions of the business entity.** In Uzhhorod, the majority of BEs (59%) assessed their current financial and economic conditions as satisfactory. The rest of the respondents rated it as good (27%) or bad (14%). Thus, positive assessments outweigh negative ones, and the balance index of financial and economic conditions is +0.13 (at the national level +0.05).

#### Assessment of the business situation of business entities in Uzhhorod, % of the respondents



**Assessment of the current overall economic environment for business activities.** More than half of the surveyed BEs (53.0%) rated the current general economic environment as satisfactory. 26.5% of respondents assess the general economic environment as bad, and 20.5% - good. Thus, the index of the assessment of the general economic environment for business activities has a negative value: -0.06. However, the value of the index is slightly higher than for the country as a whole (-0.12).

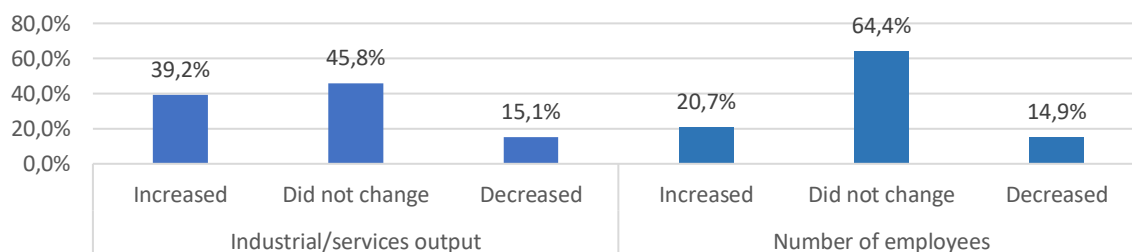
#### Assessment of the overall economic situation (Uzhhorod), % of the respondents



**Change in the production output over the past two years.** More than a third (39.2%) of the surveyed BEs indicated that they increased the volume of production or provision of services in 2018-2019. Almost half of the respondents (45.8%) did not change the volume, and 15.1% did. Thus, the index of business activity is +0.24 (which is less than the value for all respondents +0.31), which reflects the predominance of the share of BEs, which expanded their production or provision of services, over the share of those who reduced volumes.

<sup>162</sup> Calculated as the average of all responses on a scale from -1 to 1, where 1 corresponds to the simplification of this procedure, 0 - no change, and -1 - complication.

### Change in the industrial/services output and in the number of employees in Uzhhorod, % of the respondents



**Change in the number of employees of the business entities over the past two years.** More than half of the surveyed BEs (64.4%) indicated that the number of employees did not change in 2018-2019. The share of those where the number of employees increased (20.7%) exceeds the share of those where the number of employees decreased (14.9%). Thus, the index of changes in the number of employees is +0.06, which is lower than for all respondents as a whole (+0.16).

**Deregulation: changes in administrative procedures.** According to the respondents, the process and conditions of business registration have been simplified the most in the last two years, while the situation with inspections and tax payment conditions has not improved.

38.3% of BEs point to the simplification of the business registration procedure for the previous two years. The rest of the respondents did not feel any changes in this procedure during this time, and only a small percentage of respondents - 5.4% - said that, in their opinion, business registration has become more difficult. As a result, the index of change in the registration procedure is +0.33<sup>163</sup>. This is the highest value of such an index compared to the other two procedures: passing inspections and paying taxes.

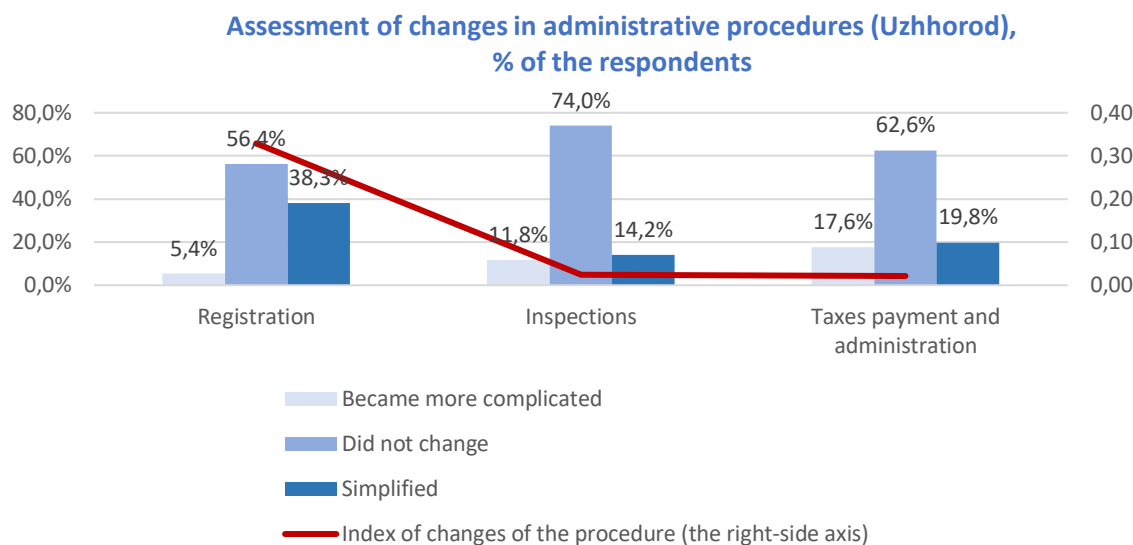
Speaking about the administration of tax payments, more than half of the BEs (62.6%) say that they have not noticed any changes in the complexity of this procedure. And the rest are divided into two equal parts: 19.8% of those for whom paying taxes has become easier, and 17.6% of those for whom it has become more difficult. Therefore, the index of change in the procedure for administering taxes is close to zero: its value is +0.02.

The index of changes in passing inspections also has a value close to zero: +0.02. The share of business leaders and individual entrepreneurs who claim that it has become more difficult to pass inspections is 11.8% and is slightly lower than the share of businesses that have simplified inspections compared to 2018 (14.2%). However, the largest share of the surveyed business (74.0%) did not notice any changes in the situation with inspections.

<sup>163</sup> Calculated as the average of all responses on a scale from -1 to 1, where 1 corresponds to the simplification of this procedure, 0 - no change, and -1 - complication.



As a result, the value of the general index of change of administrative procedures, which is calculated as the average value of the indices of change of these three procedures, is +0.12.



## Recommendations

According to the MCI results (subject to the weak components and dimensions) the following key recommendations have been formulated for the city. In addition, the city government should pay attention to recommendations that are common for all the cities in general.

### Component 2. Access to public property

- It is necessary to ensure timely updating of technical documentation on the normative monetary appraisal of land
- It is necessary to ensure transparent access to information on the availability of communal land that can still be used for development, in particular through the official website of the city council.
- It is necessary to ensure transparent access to information about municipal real estate, in particular through the official website of the city council.

### Component 3. Transparency and data openness

- There is a need to increase the level of transparency and openness of data on local budgets, local regulations and public procurement, in particular through the regular posting of relevant information on the official website

### Component 6. Informal payments and corruption

- It is necessary to create and ensure the functioning of the necessary elements of the anti-corruption system at the local level (anti-corruption program / strategy).
- Anti-corruption measures should be regularly disseminated in order to inform businesses.
- It is necessary to raise the level of awareness of BEs about the integrity of doing business.

### Component 7. Security of operating a business

- It is necessary to ensure cooperation with law enforcement agencies to increase the level of security in the city as a whole, as the level of crime also affects the security of doing business.

**Component 8. Leadership of municipal authorities**

- It is necessary to ensure constant communication and dialogue between business and local governments, by ensuring the regular operation of special advisory bodies with the participation of entrepreneurs.
- It is necessary to ensure a higher level of business involvement in the development of local documents (strategies, plans, programs, etc.) and consultations on regulatory acts.

**Component 9. Development resources**

- Entrepreneurship support expenditures need to be increased to ensure the functioning of business support infrastructure and financial support programs.
- Local business support infrastructure needs to be audited to assess their effectiveness and development.
- It is necessary to use the best practices of other cities to organize the work of business support centers, coworking, business hubs, clusters, etc.

**Component 10. Support of innovations**

- It is necessary to provide support for innovative projects in the framework of programs of financial support for entrepreneurship in cities.
- Business cooperation should be encouraged through the formation of clusters at the initiative or support of the city government.

# Kharkiv

## Number 13 in MCI

### General information

The city of Kharkiv is the administrative center of the Kharkiv region, a city of regional significance.

The city is also the administrative center of Kharkiv district but is not part of the district.

The city is divided into nine districts: Industrial, Kyiv, Moscow, Nemyshlyany, Novobavarsky, Osnovyansky, Slobidsky, Kholodnohirsky, Shevchenkivsky. Each district has its own district administration.<sup>164</sup>



### Location

The city of Kharkiv is located in the northeast of Ukraine, near the confluence of the rivers Lopan and Uda, tributaries of the Siverskyi Donets. Not far from Kharkiv is the state border of Ukraine with Russia.

The city is located in the north of Kharkiv region. Kharkiv district adjoins the city from the south and east, and Derhachiv district from the northwest.

The nearest regional centers are Dnipro, Luhansk, Poltava, Sumy, Sievierodonetsk (serves as the administrative center of Luhansk region) and Kramatorsk (serves as the administrative center of Donetsk region).

### Demographic situation

As of January 1, 2019, the permanent population of Kharkiv was 1426.5 thousand people, which allows the city to take the second place after Kyiv in terms of population. In addition, the city accounts for more than half of the region's population, 53.4%, which is the highest figure among all regional centers.<sup>165</sup>

The population structure of Kharkiv, as well as the country as a whole, is dominated by women (53.8%). There are 859 men per 1,000 women (864 for Ukraine as a whole). The share of the population aged 15-64 is 71.0% (the figure for Ukraine is 67.8%). In total, there are 408 people aged 0-14 and over 65 (475 in Ukraine) per 1,000 people of working age.

<sup>164</sup> See <https://www.city.kharkov.ua/uk/gorodskaya-vlast/ispolnitelnyie-organyi/rajonnyie-administraczii.html>.

<sup>165</sup> Here and further in the profile of Kharkiv the statistical data of the State Statistics Service of Ukraine, the Main Department of Statistics in the Kharkiv region are used.

In 2018, Kharkiv had one of the highest rates of natural population decline (-6.7 per 1,000 available population) among the cities selected for the study. The birth rate was 7.0 and the mortality rate was 13.7.

## Development of entrepreneurship

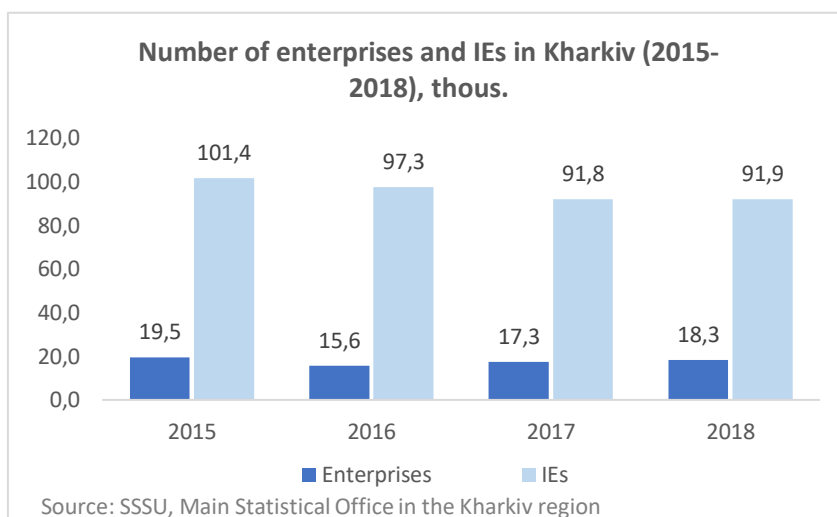
### Key structural business statistics in Kharkiv in 2018

|                           | Absolute figures   |                          |                  | Relative figures      |                           |                         |
|---------------------------|--------------------|--------------------------|------------------|-----------------------|---------------------------|-------------------------|
|                           | Number of entities | Employment, thsd persons | Turnover, UAH bn | Share in total number | Share in total employment | Share in total turnover |
| <b>Large enterprises</b>  | 11                 | 31.1                     | 33.1             | 0.01%                 | 7.1%                      | 10.5%                   |
| <b>SMEs</b>               | 110236             | 409.4                    | 283.0            | 99.99%                | 92.9%                     | 89.5%                   |
| <b>Medium enterprises</b> | 822                | 154.5                    | 138.2            | 0.75%                 | 35.1%                     | 43.7%                   |
| <b>Small enterprises</b>  | 17490              | 88.7                     | 91.2             | 15.86%                | 20.1%                     | 28.9%                   |
| <b>In which</b>           |                    |                          |                  |                       |                           |                         |
| <b>micro</b>              | 14920              | 37.0                     | 32.8             | 13.53%                | 8.4%                      | 10.4%                   |
| <b>IEs</b>                | 91924              | 166.2                    | 53.5             | 83.38%                | 37.7%                     | 16.9%                   |
| <b>Total</b>              | 110247             | 440.5                    | 316.1            | 100.00%               | 100.0%                    | 100.0%                  |

Source: Own calculations based on data from the State Statistics Service of Ukraine, Main Statistical Office in the Kharkiv Region

### Number of business entities

In 2018, there were 110.2 thousand SMEs in Kharkiv (including 822 medium-sized enterprises, 17.5 thousand small enterprises and 91.9 thousand individual entrepreneurs), while large enterprises were 11. Thus, only 16.6% of BEs were registered as legal entities (19.3% in Ukraine as a whole), while the rest functioned as IEs.

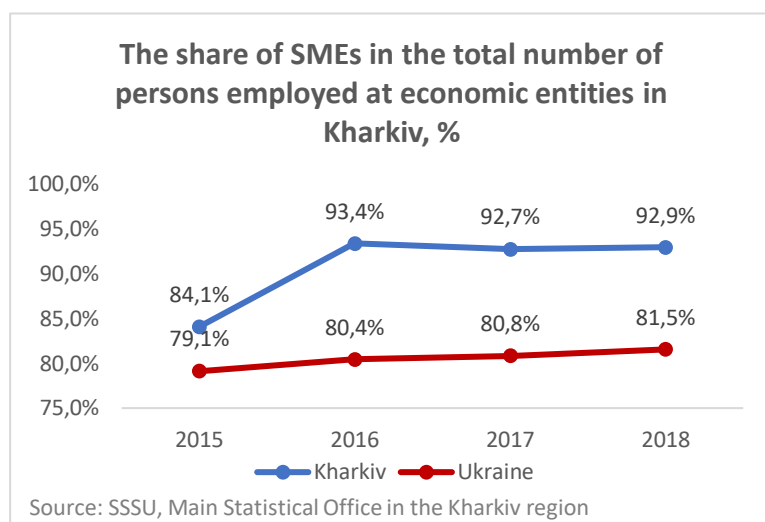


In terms of the number of BEs, Kharkiv is on the 2<sup>nd</sup> place among the cities selected for research (after Kyiv). There were 760 SMEs per 10,000 inhabitants in the city, which allowed the city to take the 5<sup>th</sup> position. This confirms that Kharkiv is one of the main business centers of the country. In addition, the city accounts for 71.6% of the total number of businesses in the Kharkiv region. This is the highest figure among the regional centers of Ukraine. It emphasizes the central role of the city in the region's economy.

In 2018, the number of SMEs in the city increased by only 1% compared to 2017, which is almost 1 percentage point less than in Ukraine as a whole (1.9%). The number of medium-sized enterprises in the city increased by

10.6% (7.5% in Ukraine), and the number of small enterprises increased slightly by 5.6% (5.1% in Ukraine). At the same time, the number of IEs remained almost unchanged with an increase of 0.1% (1.2% - growth at the state level).

## Employment



In 2018, 440.5 thousand people were employed in BEs of the city of Kharkiv, which is 9.1% more than in 2017 (4.8% corresponding to the national level). The city accounts for more than two thirds (72.5%) of the total number of employees in economic entities of Kharkiv region.

The share of employees in SMEs in Kharkiv was 92.9% of the total number of employees in all businesses, which is more than 10 percentage points higher than for Ukraine as a whole (81.5%). More than

half of the employees are small businesses. In particular, 37.2% of employees were at IEs, and 20.1% were at small enterprises.

Compared to 2017, the number of employed persons in SMEs in Kharkiv increased by 9.3% (in Ukraine - 5.7%), and large ones also increased - by 6% (with a growth of 0.9% at the national level). The main increase among SMEs fell on IEs (22.5 thousand people or 15.6%) and medium-sized enterprises (10.4 thousand people or 7.2%). Employment in small enterprises increased by only 2.1 thousand people or 2.4%. The corresponding indicators of change in the number of employees at the national level were + 5.8% for medium-sized enterprises, -1.1% for small and + 10.5% for IEs.

Statistics show that in general, the Kharkiv region shows a lower unemployment rate of the working age population than in Ukraine as a whole. In 2019, the corresponding indicator of the region was 5.2% against 8.6% at the national level. At the end of 2019, 4,552 people had the status of unemployed in Kharkiv, and the number of vacancies was 3,725. Accordingly, the workload of registered unemployed was about 1 person per vacancy. However, due to quarantine measures and crises due to the COVID-19 pandemic, in 2020 the situation on the city's labor market may worsen.

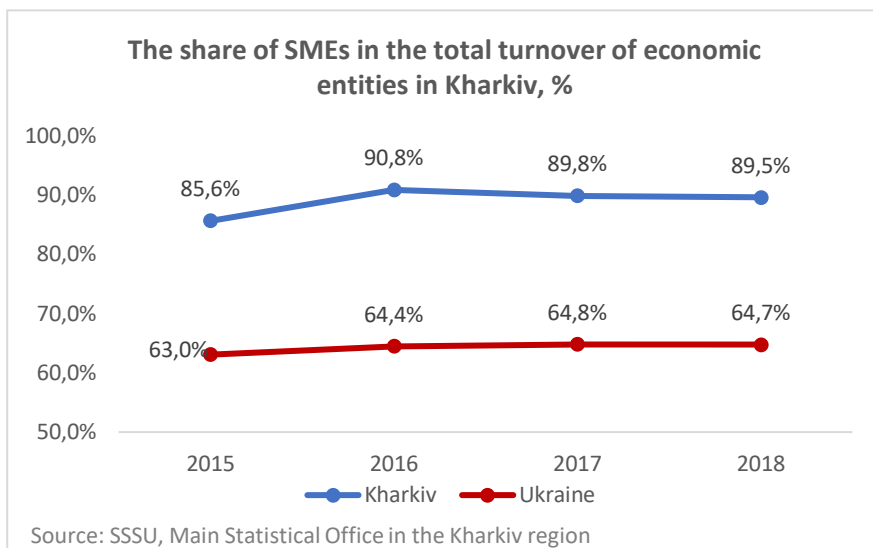
## Turnover

According to the results of 2018, the turnover of products (goods and services) of economic entities of the city of Kharkiv constituted UAH 316.1 billion in current prices. This is the third highest figure after Kyiv and Dnipro. Real growth (i.e. adjusted for inflation) of sales compared to 2017 was 7.2% (growth rate at the national level - 8.1%).

Business entities of the city accounted for more than two thirds (70.6%) of the total sales of Kharkiv region. This is the second highest figure after Lutsk.

The SME sector of Kharkiv accounted for 89.5% of the total turnover of all economic entities (64.7% in the country as a whole). In 2018, SMEs in the city showed a real increase in turnover by 7.2% compared to 2017 (8.1% at the national level). At the same

time, large enterprises grew by 10.4%. The growth of turnover of products of the SME sector was primarily due to the growth of turnover of medium-sized enterprises by 2.9%, small enterprises by 9.5% and IEs by 13.5%.



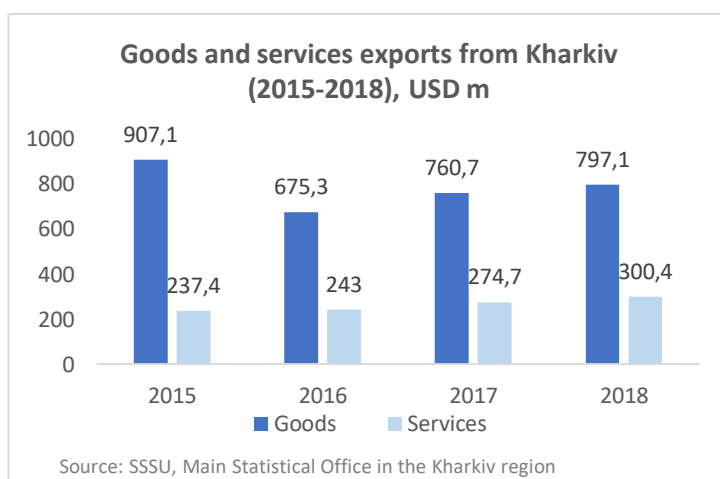
### Capital Investments

In 2018, Kharkiv accounted for approximately UAH 15.2 billion of capital investments, which accounted for 64.4% of the volume of capital investments in the Kharkiv region. Thus, Kharkiv accounts for the third largest capital investment among the cities in the study (after Kyiv and Dnipro). In addition, Kharkiv accounts for the largest share of capital investment in the region. However, with the results of 2018, the amount of capital investment per capita was approximately 10,619 UAH, which is lower than at the national level - 13,746 UAH. According to this indicator, Kharkiv ranks only 19<sup>th</sup> among the cities in the study.

### Export

According to the State Statistics Service of Ukraine, in 2018 the volume of exports of goods from the city of Kharkiv amounted to USD 797.1 m, which is 4.8% more than in 2017. According to this indicator, the city ranked 7<sup>th</sup> among the cities in the study for which relevant statistics are available.

At the same time, exports of services increased by 9.4% and reached USD 300.2 m. This is the third highest figure after Kyiv and Odessa.



If we analyze the commodity structure of the city's foreign trade, more than a third of exports are provided by mechanical engineering products, including such commodity groups as boilers, machinery, apparatus and mechanical devices (20.3%), electrical machinery and equipment (12.7%), vehicles and road equipment (4%). Almost a quarter of exports are accounted for by agricultural and food products (23.7%). Other exports include sales of chemical products and related industries abroad (7.2%), polymer materials and plastics (4.5%) and furniture (4.3%).

## *Foreign direct investment*

As of December 31, 2018, the city of Kharkiv accounted for USD 407.7 m of foreign direct investment (equity). This amount was USD 0.2 m or 0.05% less than at the beginning of 2018. Thus, the volume of direct investment remained almost at the same level. At the same time, as of the end of December 2018, there was USD 285.4 per person in Kharkiv.

It should be noted that in general, Kharkiv region ranks 9th in terms of direct investment among all regions of Ukraine. At the beginning of 2018, almost two thirds of investments in the region (63.9%) were concentrated in Kharkiv.

## *Safety and comfort*

The results of other studies allow us to look at the level of safety and comfort of living in selected cities based on the assessments of their inhabitants. These factors are important for understanding the general situation in the city. In addition, comparisons with individual results of the Cities' Competitiveness Index are possible.

According to the study "Sixth Annual Ukrainian Municipal Survey"<sup>166</sup>, the city of Kharkiv ranks 5<sup>th</sup> in terms of the Quality of Public Goods and Services Index with a score of 3.1 (1 - means "terrible", 5 - "excellent"), which indicates a significant satisfaction of residents with the level of comfort in the city. in the field of medical institutions 12th place, in the field of industrial development - 14th place, but in the field of transport infrastructure the situation is much better - 5th place, also the assessment is better in the field of roads - 6th place.

In the same study, Kharkiv is one of the safest cities in Ukraine according to residents. The value of the corresponding Index for the city is 1.8 (the value can be from 0 to 3, where 0 - "I feel completely in danger", 3 - "I feel completely safe") and according to this indicator, the city is one of the first places - 5th among 24 studied cities. The majority of respondents said that they feel likely or completely safe after dark (60%), 36% indicated that they feel likely in danger or completely in danger.

## *Results of the "Municipal Competitiveness Index" in Kharkiv*

### *Sample description*

218 BEs took part in the survey in Kharkiv. These are 135 (61.9%) enterprises-legal entities and 83 (38.1%) individual entrepreneurs (IEs). When analyzing the answers, the array was weighed according to the criterion of the type of business entity of the respondents in order to meet the parameters of the target sample, namely 62.5% of legal entities and 37.5% of individual entrepreneurs.

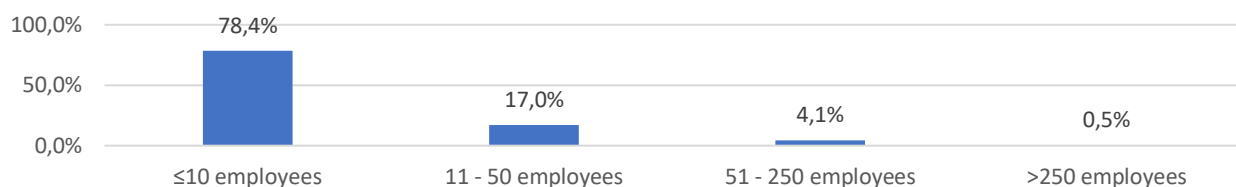
### *The size of the surveyed BE*

The majority of respondents (78.4%) are microbusiness, i.e. such BEs, which employ from 1 to 10 people. 17.0% are small entities, i.e. those that employ from 11 to 50 people. Medium-sized entities (from 51 to 250 employees) account for 4.1%, and large entities (more than 250 employees) - 0.5%.

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<sup>166</sup> The survey was conducted by the Sociological Rating Group on behalf of the International Republican Institute's Center for Insights in Survey Research; The survey was funded by the United States Agency for International Development (USAID). See [http://ratinggroup.ua/research/regions/shestoy\\_vseukrainskiy\\_municipalnyy\\_opros.html](http://ratinggroup.ua/research/regions/shestoy_vseukrainskiy_municipalnyy_opros.html).

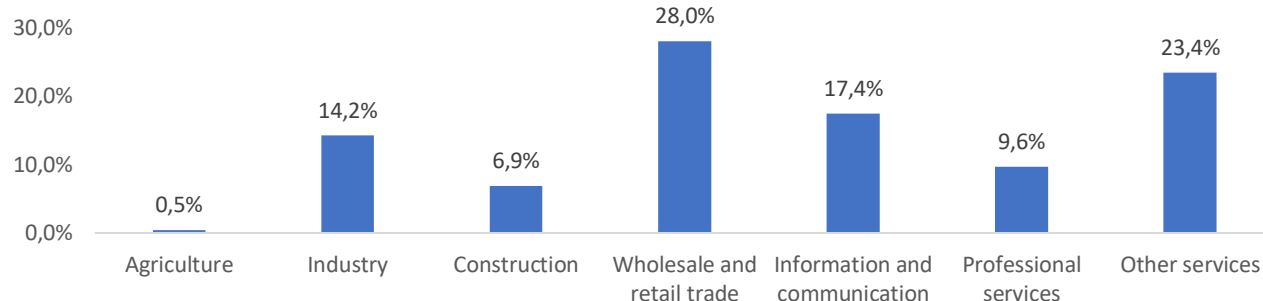
### Surveyed businesses by size (Kharkiv), %



### Industry and type of activity

The surveyed BEs in Kharkiv represent various sectors of the economy. 28.0% of the surveyed business works in the trade sector (it includes wholesale and retail trade, repair of motor vehicles). Another 14.2% work in industry, 6.9% in construction, 0.5% - in agriculture. More than half of the surveyed business is in the services sector (50.5%). Information and communication services are provided by 17.4% of respondents, and professional services - by 9.6%. Other services (business in the fields of transport services, arts and sports, education and health care, finance and other service-related industries) account for 23.4% of respondents.

### Surveyed businesses by sector (Kharkiv), %



### Year of registration

Most of the surveyed BEs were registered up to and including 2017 (76.1%). In the period 2018-2019, 23.9% of respondents were registered.

### Gender and age of business owners and business managers

According to the survey, 68.3% of business owners in Kharkiv are men and 31.7% are women. At the same time, the share of men among legal entities is even higher - 71.6% against 28.4%.

Among the heads of legal entities, men make up 80.8% and women 19.2%. Among IEs, where managers and owners are the same person, the predominance of men is slightly lower - 60.3% vs. 39.7%. In general, 73.1% of all BEs are men and 26.9% are women.

The average age of business owners in Kharkiv is 43.6 years (42.8 years in Ukraine). At the same time, in Kharkiv, the owners of IEs are on average 5 years younger than the owners of legal entities (39.0 years against 45.5 years).

### Municipal competitiveness index: Kharkiv results

According to the results of the study, the city of Kharkiv took the 13<sup>th</sup> place with the value of MCI 2019/2020 - 51.80 points. Thus, Kharkiv belongs to the group of cities with an average MCI.



If we compare the values of MCI for Kharkiv with the results of geographical neighbors, then there are mostly cities that have an average value of the index: Kramatorsk (7<sup>th</sup> place), Dnipro (15<sup>th</sup>), Sumy (16<sup>th</sup>) and Sievierodonetsk (18<sup>th</sup>). Nearby is also Poltava, which has a low value of MCI (20<sup>th</sup> place).

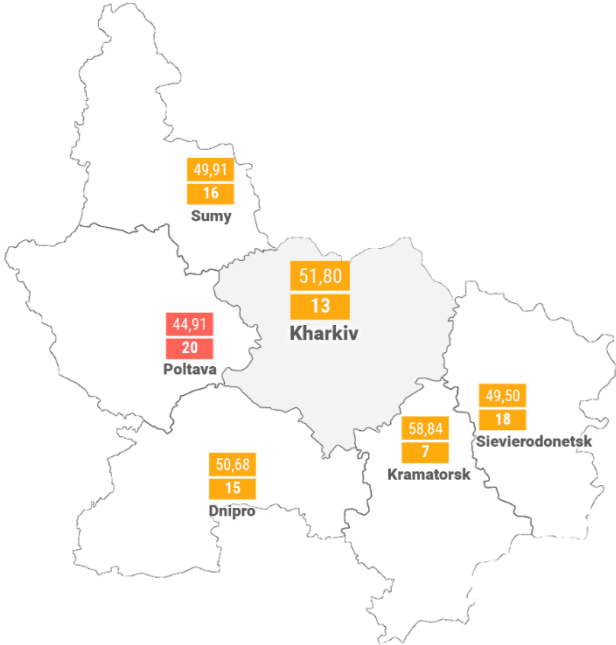
The city's position in the middle of the rating is the result of the city's location in different parts of the rating within different components (sub-indices). The city showed both remarkably high and extremely low results.

The strongest components:

- Taxes and duties (number four)
- Security of operating a business (number four)
- Development resources (number five)

The weakest components:

- Starting a business (number 23)
- Access to public property (number 23)
- Compliance cost (number 22)



**1. Starting business**

In Component 1 "Starting a Business", the city of Kharkiv received 3.08 points, which is only the 23rd highest score among all cities. The low assessment of the city is due to the long procedures of state registration of business and obtaining permits. In 2018-2019 in Kharkiv, business registration lasted longer than the national average - 7.4 days against 6.1. At the same time, changes to the register took an average of 4.6 days, which is 1 day longer than the average for all cities - 3.6 days.

In Kharkiv, only 6% of respondents who registered a business in 2018-2019 reported problems and obstacles during this procedure. This is a better result than in general among all respondents - 8.8%. However, only 55.6% of respondents were able to receive the necessary consultation during registration, which is 15.1 percentage points less than the figure for all cities (70.7%). As a result, it took 35.8 days to start a business (from the date of submission of documents for registration to the date of the first transaction of sale of goods and services) in Kharkiv, which is almost 3 days longer than the national average (32.1 days).

According to the results of the study, longer registration is typical, first, for large cities of Ukraine. In Kharkiv there may be a greater burden on business registrars compared to other cities. There are only 5 registrars per 10,000 BEs in the city (in public authorities, local governments, and state notaries), which is one of the lowest rates. At the same time, Kharkiv is one of the most active business centers in Ukraine. As part of the study, the city ranks 5th for the number of businesses per 10 thousand population.

In the context of starting a business, the speed of obtaining certain permits in the city is also a problem. If obtaining permits and registration documents in the field of construction on average in the country took 37.2 days, in Kharkov this figure is 75.8 days, which is one of the highest rates among the cities in the study. In addition, Kharkiv needs more time to obtain a declaration of compliance of the material and technical base

of the business entity with the requirements of fire safety legislation - 16.5 days against 11.8 days on average for all cities.

## ***2. Access to public property***

According to the results of the component (sub-index) "Access to public property" Kharkiv received only 3.09 points and took 23<sup>rd</sup> place. The city showed low results in all indicators. 22.5% of respondents reported that they have documents confirming the right of ownership / lease of land on which they are engaged in business activities (30% at the national level). It is only 37.7% of those respondents who believe that the issue of land documents concerns them (46.8% at the national level). The duration of procedures for obtaining documents confirming the right of ownership / lease of land in 2018-2019 in Kharkiv averaged 126.3 days, which is almost 54 days higher than for all respondents (72.4 days).

According to respondents, the city also demonstrates a low level of transparency of information on communal property. Only 12.4% of respondents reported the availability of information on the availability of communally owned land that can still be provided for use or used for construction, etc. (18.1% for all respondents). In addition, only 23.8% of respondents indicated that information on municipal real estate (including non-residential premises) is available (29.2% for all respondents).

## ***3. Transparency and data openness***

Within the component "Transparency and data openness" Kharkiv occupies the 9<sup>th</sup> position with 6.15 points. In Kharkiv, respondents rated access to information on the local budget, local regulations, and public procurement at the average level.

In particular, in Kharkiv, the percentage of positive responses to access to public procurement information is almost the same as for all cities as a whole - 17.5% of "good" and "excellent" in the city versus 17.3 on average for all cities. In general 13.9% of respondents positively assess access to information to local regulations, for Kharkiv this figure is 16.1%. At the same time, access to information about the budget in the city was positively assessed by 12.5% (10.2% among all respondents).

## ***4. Compliance cost***

Kharkiv received one of the worst indicators in terms of the cost of compliance with the law and ranks 22<sup>nd</sup> with 5.16 points. The result of the city was determined by much higher (compared to other cities) respondents' estimates of the time and money spent on compliance with local regulations, as well as the time spent on communication with inspectors.

In Kharkiv, entrepreneurs spend an average of 7 days to comply with local regulations, which is much higher than the national average of 4 days. On average, 5.4% of annual income is spent on local regulations in Kharkiv, which is also significantly higher than the average for all respondents - 3.7%.

The results of the survey show that in Kharkiv the number of visits by city inspectors is slightly higher than the national average (0.8 times in the city per year against 0.7 times per year at the national level). As a result, the average time spent on communication with inspectors is 6.7 days, which is almost 2 days longer than the national average (5 days).

## ***5. Taxes and duties***

Component (sub-index) 5 "Taxes and duties" is one of the strengths of Kharkiv. The city received 7.66 points and took 4<sup>th</sup> place. Kharkiv's high performance was ensured by a combination of factors such as relatively low tax expenditures, lower local tax burdens, and the availability of local tax and fee benefits.

In the survey, respondents in Kharkiv reported that on average 26.3% of annual income is spent on taxes and duties (including USC), which is slightly less than the average for all cities (26.8% of annual income). If we analyze the burden of administering taxes and duties, the average time spent by entrepreneurs in Kharkiv was 66.3 days, which is much higher than the average for all cities (59 days).

As for local taxes, they are an obstacle for only 14.7% of respondents in Kharkiv, although for all cities the average is 20.4%. In addition, in Kharkiv, 6.4% of respondents reported that they received benefits for the payment of local taxes and duties during 2018-2019, which is one of the highest rates among the surveyed cities (among all respondents - 3.6%).

### ***6. Informal payments and corruption***

According to the results of the research, Kharkiv took the 14th place within Component (sub-index) 6 "Informal payments and corruption", receiving 4.76 points. In particular, the city's performance is due to factors such as the approximately average level of "informal payments" and lower than the level of awareness of entrepreneurs about existing anti-corruption measures at the city level.

In Dimension 1 "Bribes / Gifts", 10.1% of respondents in Kharkiv reported situations related to "informal expenses" when interacting with city officials on any business issues during 2018-2019. On average, 9.9% of respondents dealt with such situations for all cities. At the same time, in Dimension 2 "Anti-corruption measures", 30.3% of respondents were informed about the implementation of specific anti-corruption measures by the municipal authorities (open budget, e-reception, anti-corruption city program, etc.) (on average for all cities - 31.8%).

### ***7. Security of operating a business***

Within Component (sub-index) 7 "Security of operating a business" Kharkiv received some of the best results and ranks 4<sup>th</sup>, gaining 6.82 points. Kharkiv's high result is due to the low percentage compared to other cities and suffered significant losses due to criminal activities and a low proportion of those who do business in the shadows.

According to the survey, 44.5% of respondents in Kharkiv believe that competitors do business in the shadows, which is slightly below the national average (45.1%). 2.5% of the total respondents experienced attempts of illegal takeovers at the country level in 2018-2019. In Kharkiv, this figure is slightly higher - 2.7%.

In Kharkiv, 13.3% of respondents reported that in 2018-2019 they suffered losses due to extortion, theft, robbery, vandalism, arson (which is 1 percentage point less than the national average - 14.3% of respondents). Entrepreneurs estimated the losses received from such criminal acts at 4.8% of annual income, which is one of the lowest in the country (10.8% at the national level).

Business in Kharkiv spends on average 2.3% of annual income on security / protection, which is lower than the national average of 2.7% of annual income.

### ***8. Leadership of municipal authorities***

The city of Kharkiv took the 16<sup>th</sup> place within Component (sub-index) 8 "Leadership of the municipal authorities", receiving 4.28 points. Such a low value of the sub-index is primarily due to the low score of the Public-Private Dialogue dimension, while the Business Development Support dimension places the city closer to the leaders.

In terms of business development support, Kharkiv received 5.91 points (8<sup>th</sup> place). Entrepreneurs of Kharkiv in general better than the average of all cities assess the attitude of city officials to private business. On the one hand, only 17.5% of respondents believe that the attitude of the municipal authorities to business is "very good" or "good" (20% is the average for all cities). However, 40.4% of respondents agree that the city

government supports the creation of new business (38.3% average for all cities), and 38.9% indicate that the city government supports existing business (35.5% average for all cities). ).

The results of the survey also complement the "hard data" on the activities of the city council. According to "hard data", Kharkiv received 8 out of 10 points. In particular, the city does not have tax incentives (for a unified tax) for the development of certain activities, which could indicate a greater initiative of the municipal authorities to support new and existing businesses.

The Public-Private Dialogue dimension demonstrates that businesses in Kharkiv have more problems communicating with the authorities than most other cities. As part of the measurement, the city received 2.65 points and took 22<sup>nd</sup> place. In Kharkiv, only 4.1% of businesses believe that they have "significant" and "very significant" opportunities to participate in the development of local documents (strategies, plans, programs, etc.), while the average for all cities is only 6.5 %. In addition, in Kharkiv only 5% of respondents indicate that the city always or often consults with business when adopting new or changing existing regulations that may affect business (7.4% average for all cities). Both indicators are among the lowest among the studied cities.

### **9. Development resources**

Kharkiv ranks 5<sup>th</sup> within Component (sub-index) 9 "Development resources", receiving 5.42 points. The assessment of the city is based on the results of three dimensions that form a single component: Human resources, Financial resources and infrastructure, Business support infrastructure.

Within **Dimension 1 "Human resources"** the city received 8.02 points and took the 1st place. If we analyze some indicators of this dimension, in Kharkiv 10.5% of respondents rate the quality of local labor as "excellent" and "good" (among all respondents - 7.6%). In addition, only 12.4% of respondents give positive assessments of vocational education of employees in the local labor market (10% of all respondents). Thus, in general, in Kharkiv, as in other cities, a small proportion of BEs give high marks to the available workforce.

The analysis of the situation regarding the number of labor force in the city is supplemented by statistical data. At the end of 2019 in Kharkiv there were 3.4 vacancies per 100 businesses, which is approximately at the level of the average for the surveyed cities (3.6 vacancies)<sup>167</sup>. As of January 1, 2019, the share of the working age population (15-64 years) in Kharkiv was 71%. which is one of the highest rates among the studied cities. At the national level, this figure was 67.8%<sup>168</sup>. Thus, in comparison with other cities and the country as a whole, the problem of population aging may be less felt in Kharkiv.

Within **Dimension 2 "Financial resources and infrastructure"**, the city took 8<sup>th</sup> place, receiving 4.22 points. According to the survey, only 1.2% of respondents in the country received financial support from the municipal authorities during 2018-2019. If we consider individual cities, in Kharkiv this figure is 0.9%, which is approximately at the level of the average value. At the same time, 70.3% of respondents in the city indicate that the lack of financial resources is a serious obstacle to doing business (77.8% - the average for all cities). Thus, Kharkiv BEs complain the least about the lack of financial resources as an obstacle (along with Uzhhorod, which also has 70.3%).

Data on city budget expenditures complement the picture of financial resources to support business in the city. In 2019, the actual expenditures to support small and medium enterprises in the city amounted to only

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<sup>167</sup> Sources for calculations: 1) Number of vacancies: The situation on the labor market and the results of the state employment service. Data on the page of the Kharkiv Regional Employment Center, <https://kha.dcz.gov.ua/analytics/66> 2) Number of businesses: According to the MDS in the Kharkiv region

<sup>168</sup> According to the State Statistics Service of Ukraine, the Main Department of Statistics in Kharkiv region.

about 81 thousand UAH per 10 thousand businesses<sup>169</sup>. However, it should be noted that in general, SME support expenditures in most cities are low or non-existent. Higher order of numbers or the presence of such support in general may indicate a higher level of leadership of the municipal authorities in business support.

In the context of infrastructure, the BEs in the surveyed cities had different experiences in connection to the grid. On average, it took almost 128 full days in Kharkiv to connect to the power supply systems, from the day the application was submitted to the day of the actual connection. This is one of the highest rates among cities in the study. For all respondents, the duration of connection to the grid is an average of 85 days. Thus, the city is more difficult to connect to electricity than other cities.

In **Dimension 3 “Business support infrastructure”** Kharkiv ranks only 11<sup>th</sup> (4.02 points). According to the survey, 10.5% of respondents personally received business support services from the municipal authorities (information, consulting, training, etc.), which is lower than the average for all cities (11%). At the same time, 56.6% of them rated such services as “good” and “excellent” (48.6% - among all respondents). This is one of the largest shares of positive evaluations among the surveyed cities.

35.8% of BEs in Kharkiv indicate the existence of business support centers in the city, which is higher than the figure for all respondents as a whole (32.6% - the figure for all respondents). At the same time, "hard data" show that as of the end of 2019, the city lacks the infrastructure to support business created with the participation of municipal authorities. Thus, entrepreneurs' awareness of business support centers may relate to other business support infrastructure facilities in the city.

In Kharkiv, 49.7% of respondents know about the activities of business associations and business clubs in their city (45.9% of all respondents). 11.5% of BEs are members of such organizations, which is at the level of the indicator for all respondents as a whole (11.5%).

### ***10. Support of the innovations***

The city of Kharkiv took the 10<sup>th</sup> position (5.38 points) within the Component (sub-index) 10 "Support of innovations".

20.59% of respondents in the city reported that in 2018-2019 their business interacted with research institutions or technology companies, which is higher than the average for all cities (18.9%). Kharkiv business representatives are also more satisfied with technology transfer than the average respondent. 8.3% indicate that the relevant needs (transfer of patents for inventions, etc.) are "met to significant extent" and "fully met" (8% at the national level).

Respondents in Kharkiv rate the support of local authorities for local innovation programs (funding from the local budget) - 1.97 points of the city against 1.91 points on average among all cities (with a maximum of 5 points). Also, in Kharkiv, new technologies, solutions or products were introduced more often than on average in all cities in 2018-2019 (40.8% vs. 40.2%). In addition, 2.28% of surveyed enterprises and IEs reported that they belong to clusters. This is higher than for all cities as a whole (2.1%). All factors in general provide an average level of satisfaction of Kharkiv entrepreneurs with the state of support for innovation in the city.

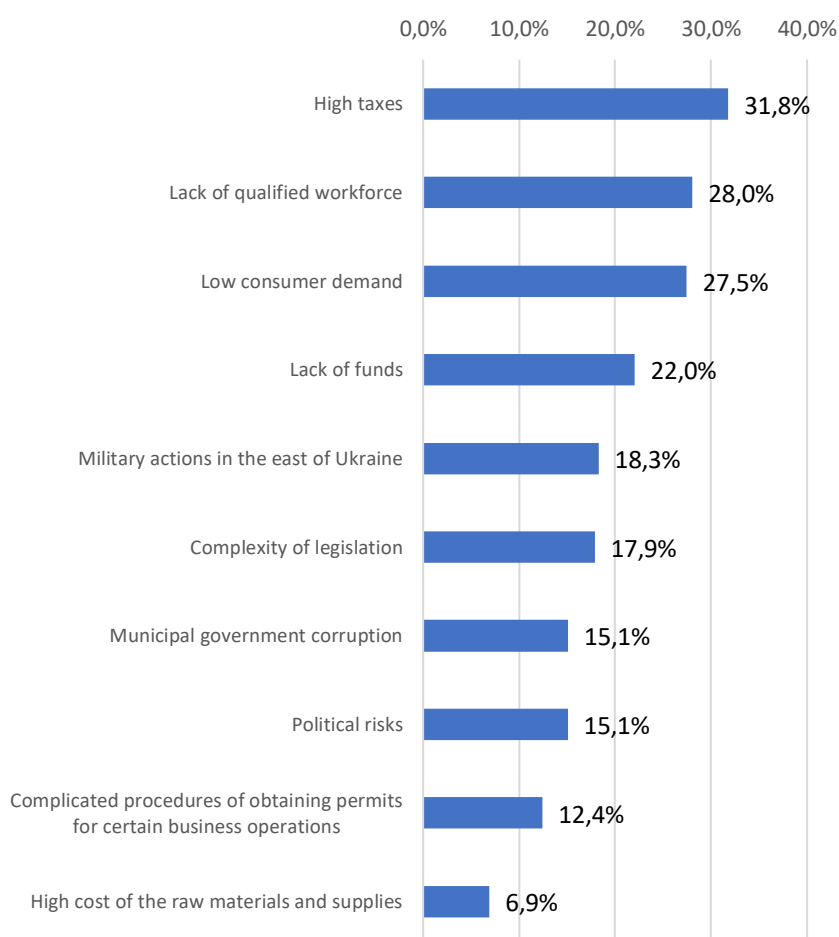
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<sup>169</sup> Reports on the implementation of local budgets (expenditures under the program classification code 7610 - Promotion of small and medium enterprises), as well as the responses of city councils to requests for public information were used. For some cities, information on expenditures is clarified through telephone interviews with city council executive staff.

### *Barriers for business operation*

The interviewed BEs named the main obstacles they face in doing business in Kharkiv. The first three places in the ranking of obstacles were shared by such factors as high taxes, lack of skilled labor and low consumer demand. Each of these barriers to doing business was reported by 31.8%, 28.0% and 27.5% of respondents, respectively. Thus, in Kharkiv, as in a number of other cities, the problem of high taxes is most acute. However, the lack of staff outpaced the problem of low demand, although it is behind it in the ranking of obstacles for all respondents.

**TOP-10 barriers to doing business in Kharkiv, %**



Lack of financial resources is called an obstacle by 22.0% of respondents. Also, significant obstacles are the war in eastern Ukraine (18.3%) and the complexity of legislation (17.9%). Corruption of the municipal authorities and political risks turned out to be important for 15.1% of surveyed Kharkiv entrepreneurs. For 12.4% of respondents, an important obstacle is the complex procedures for obtaining permits. The rating of obstacles to doing business in Kharkiv is closed by the high cost of raw materials and components (6.9% of respondents).

### *Expectations and assessments of the business climate and economic conditions in Kharkiv*

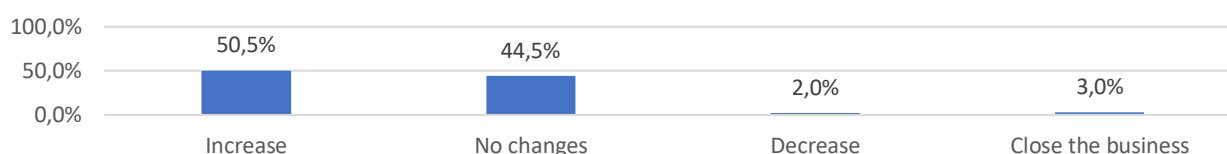
**Regional SME Business Climate Index.** ABCA SME Business Climate Index in Kharkiv is equal to 0.23 (6<sup>th</sup> place among the surveyed cities). This is more than in 2017 (zero), which indicates an improvement in business perception of the business climate. This corresponds to the all-Ukrainian trend.

### ABCA Regional Index of Business Climate (Kharkiv)



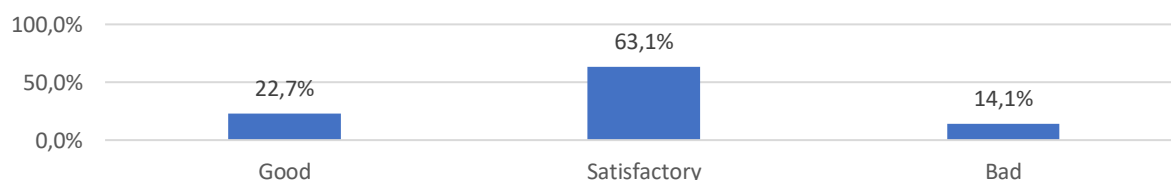
**Long-term expectations for business activity.** Business in Kharkiv has optimistic long-term development plans for the next two years. Half of the respondents (50.5%) said they plan to expand their business, and 44.5% - to stay at the current level. At the same time, only 2% planned to reduce the business, and 3% - to close it. Balance index<sup>170</sup> equals to +0.46 (at the national level +0.45).

### Business activity expectations in the two-year perspective in Kharkiv, % of the respondents



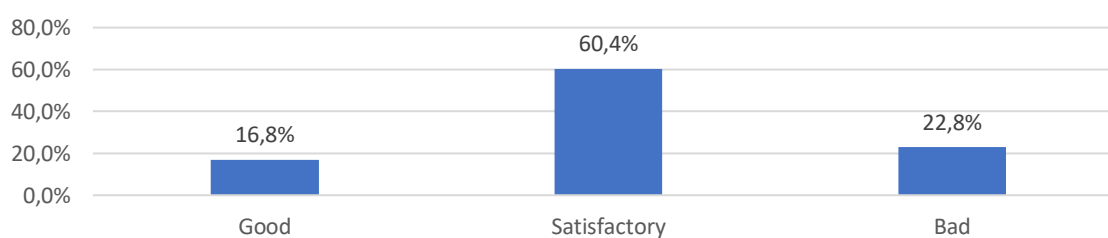
**Assessment of the financial and economic conditions of the BEs.** In Kharkiv, the majority of BEs (63.1%) assessed their current financial and economic conditions as satisfactory. The rest of the respondents rated it as good (22.7%) or bad (14.1%). Thus, positive assessments outweigh negative ones, and the balance index of financial and economic conditions is +0.09 (at the national level +0.05).

### Assessment of the business situation of business entities in Kharkiv, % of the respondents



**Assessment of the current overall economic environment for business activities.** More than half of the surveyed BEs (60.4%) rated the current general economic environment as satisfactory. 22.8% of respondents assess the general economic environment as bad, and 16.8% - good. Thus, the index of the assessment of the general economic environment for business activities has a negative value: -0.06. However, the value of the index is slightly higher than for the country as a whole (-0.12).

### Assessment of the overall economic situation (Kharkiv), % of the respondents

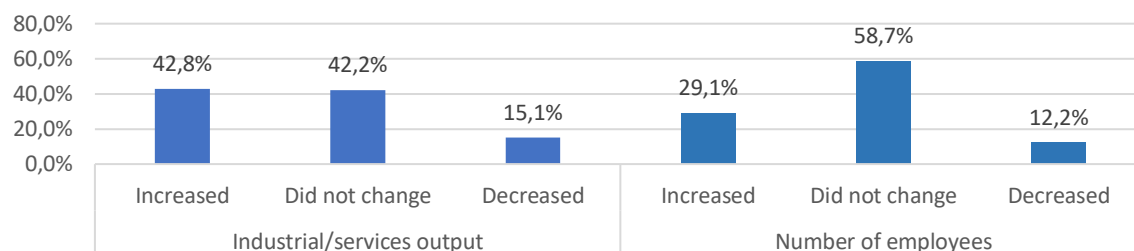


**Change in the production output over the past two years.** Almost half (42.8%) of the surveyed BEs indicated that they increased the volume of production or provision of services in 2018-2019. However,

<sup>170</sup> Calculated as the average of all responses on a scale from -1 to 1, where 1 corresponds to the simplification of this procedure, 0 - no change, and -1 - complication.

almost the same number of respondents (42.2%) did not change their volumes, and 15.1% did. Thus, the business activity index is +0.28 (which is slightly lower than the value for all respondents +0.31), which reflects the predominance of the share of BEs that have expanded their production or provision of services over the share of those that have reduced volumes.

**Change in the industrial/services output and in the number of employees in Kharkiv, % of the respondents**



**Change in the number of employees of the business entities over the past two years.** More than half of the surveyed BEs (58.7%) indicated that the number of employees did not change in 2018-2019. The share of those where the number of employees increased (29.1%) more than doubled the share of those where the number of employees decreased (12.2%). Thus, the index of changes in the number of employees is +0.17, which is higher than for all respondents as a whole (+0.16).

**Deregulation: changes in administrative procedures.** According to the respondents, the process and conditions of business registration have been simplified the most in the last two years, and the conditions for paying taxes have not improved, but the situation with inspections has not changed significantly.

48.7% of BEs point to the simplification of the business registration procedure for the previous two years. The rest of the respondents did not feel any changes in this procedure during this time, and only a small percentage of respondents - 9.1% - said that, in their opinion, business registration has become more difficult. As a result, the index of change in the registration procedure is +0.40<sup>171</sup>. This is the highest value of such an index compared to the other two procedures: passing inspections and paying taxes.

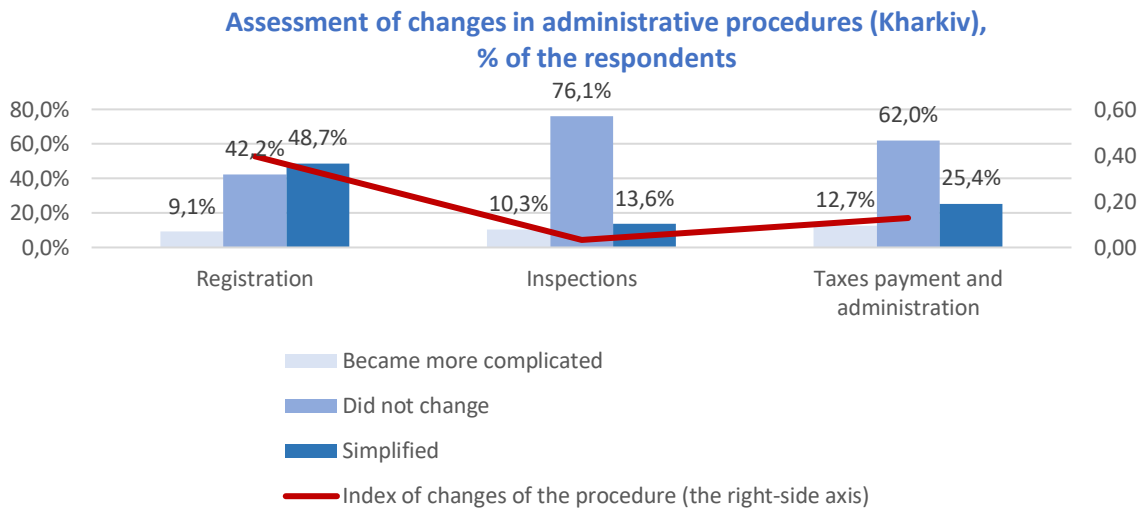
Speaking about the administration of tax payments, more than half of the BEs (62.0%) say that they did not notice any changes in the complexity of this procedure. Among those who remained, there were significantly more - 25.4% - of those for whom paying taxes became easier, and only 12.7% of those for whom it became more difficult. Therefore, the index of change in the procedure for administering tax payments is +0.13

The index of changes in passing inspections has a value close to zero: +0.03. The share of business leaders and individual entrepreneurs who claim that it has become more difficult to pass inspections is 10.3% and is slightly lower than the share of businesses that have simplified inspections compared to 2018 (13.6%). However, the largest share of the surveyed business (76.1%) did not notice any changes in the situation with inspections.

As a result, the value of the general index of change of administrative procedures, which is calculated as the average value of the indices of change of these three procedures, is +0.19.

<sup>171</sup> Calculated as the average of all responses on a scale from -1 to 1, where 1 corresponds to the simplification of this procedure, 0 - no change, and -1 - complication.





## Recommendations

According to the MCI results (subject to the weak components and dimensions) the following key recommendations have been formulated for the city. In addition, the city government should pay attention to recommendations that are common for all the cities in general.

### Component 1. Starting a business.

- Faster business registration should be encouraged. In particular, it is necessary to increase the number of business registrars in local governments.
- It is necessary to improve the quality and availability of consulting services when starting a business, in particular by expanding the capabilities of consulting services in the centers of administrative services.
- The quality of service provision during permitting procedures needs to be improved in order to reduce the time spent on obtaining such documents.

### Component 2. Access to public property

- It is necessary to ensure transparent access to information on the availability of communal land that can still be used for development, in particular through the official website of the city council.
- It is necessary to ensure transparent access to information about municipal real estate, in particular through the official website of the city council.

### Component 4. Compliance cost

- Local deregulation measures need to be continued in order to reduce business time and money spent on implementing local regulations.

### Component 9. Development resources

- Entrepreneurship support expenditures need to be increased to ensure the functioning of business support infrastructure and financial support programs.
- Local business support infrastructure needs to be audited to assess their effectiveness and development.
- It is necessary to use the best practices of other cities to organize the work of business support centers, coworkings, business hubs, clusters, etc.

# Kherson

## Number 24 in MCI

### *General information*

The city of Kherson is the administrative center of the Kherson region, a city of regional significance.

Kherson is divided into 3 city districts: Dniprovskiy, Korabelnyi and Suvorovskiy. Each of them has its own district council.<sup>172</sup>

In turn, other settlements are subordinated to the district councils of Kherson. The Dniprovsk district council includes the village of Antonivka, the village of Molodizhne, the village of Zelenivka, the village of Bohdanivka, village Petrivka, the village of Sonyachne, the village of Naddnipryanske, the village of Inzhenerne. Komyshany township and Zymivnyk, Blahovishchynske and Pryozerne settlements are subordinated to the ship district of the city. The village of Stepanivka is subordinated to the Suvorov district.



### *Location*

The city of Kherson is located in the south of Ukraine, in the west of Kherson region. The city is located on the right bank of the Dnieper River, near the Dnieper estuary. Thus, the city has a seaport, which is among the top 10 ports in Ukraine in terms of cargo turnover.<sup>173</sup>

The territory of the city council is adjacent to Belozerskyi district of Kherson region and the border with Mykolaiv region.

The nearest centers of the regions are Odessa, Mykolaiv, and Zaporizhzhia, in addition Simferopol, the administrative center of the Autonomous Republic of Crimea.

### *Demographic situation*

As of January 1, 2019, the permanent population of Kherson (within the city council) was 322.4 thousand people. The population of settlements subordinated to the city council accounts for about a tenth of the population. The city is the largest settlement in the Kherson region. The Kherson City Council as a whole accounts for almost a third of the region's population (31.1%).<sup>174</sup>

<sup>172</sup> See <http://suvrada.kherson.ua/>, <http://www.dniproradakherson.gov.ua/dniprovskaja-rajonna-rada>, <http://kor-rada.gov.ua/>.

<sup>173</sup> See. <http://www.uspa.gov.ua/pokazniki-roboti/pokazniki-roboti-2019>.

<sup>174</sup> Here and further in the profile of Kherson statistical data of the State Statistics Service of Ukraine, the Main Department of Statistics in the Kherson region are used.

The population structure of Kherson, as well as the country as a whole, is dominated by women (54.9%). There are 822 men per 1,000 women (864 for Ukraine as a whole). The share of the population aged 15-64 is 67.7% (the figure for Ukraine is 67.8%). In total, there are 476 people aged 0-14 and over 65 (475 in Ukraine) per 1,000 people of working age.

In 2018, there was a natural population decline in Kherson (-6.2 per 1,000 available population). The birth rate was 8.7, and the mortality rate (14.9) was the highest among regional centers.

## Development of entrepreneurship

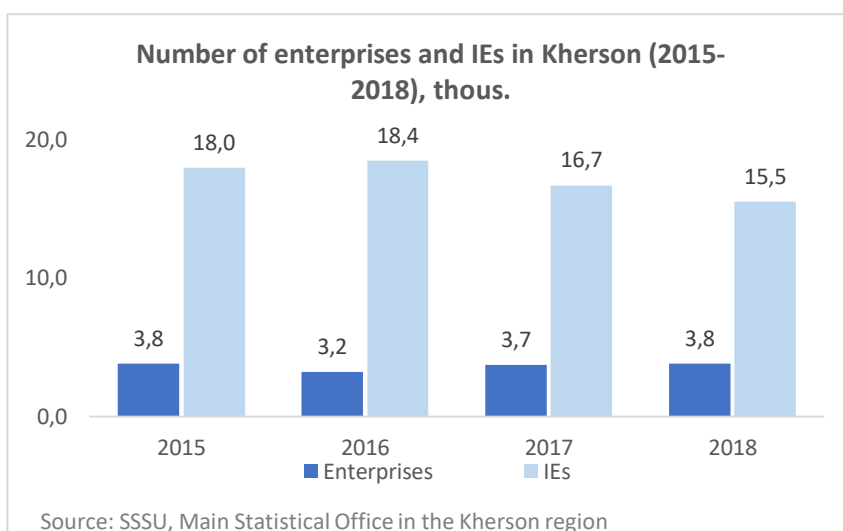
### Key structural business statistics in Kherson in 2018

|                           | Absolute figures   |                          |                  | Relative figures      |                           |                         |
|---------------------------|--------------------|--------------------------|------------------|-----------------------|---------------------------|-------------------------|
|                           | Number of entities | Employment, thsd persons | Turnover, UAH bn | Share in total number | Share in total employment | Share in total turnover |
| <b>Large enterprises</b>  | 2                  | c                        | c                | 0.01%                 | c                         | c                       |
| <b>SMEs</b>               | 19317              | c                        | c                | 99.99%                | c                         | c                       |
| <b>Medium enterprises</b> | 127                | c                        | c                | 0.66%                 | c                         | c                       |
| <b>Small enterprises</b>  | 3710               | 16.1                     | 16.0             | 19.20%                | 24.0%                     | 32.5%                   |
| <b>In which</b>           |                    |                          |                  |                       |                           |                         |
| <b>micro</b>              | 3267               | 7.3                      | 5.3              | 16.91%                | 10.9%                     | 10.7%                   |
| <b>IEs</b>                | 15480              | 26.6                     | 7.0              | 80.13%                | 39.5%                     | 14.1%                   |
| <b>Total</b>              | 19319              | 67.2                     | 49.3             | 100.00%               | 100.0%                    | 100.0%                  |

Source: Own calculations based on data from the State Statistics Service of Ukraine, Main Statistical Office in the Kherson Region

### Number of business entities

In 2018, there were 19.3 thousand SME entities in the city of Kherson (including 127 medium-sized enterprises, 3.7 thousand small enterprises and 15.5 thousand individual entrepreneurs), while large enterprises were only 2. Thus, 19.9% of business entities were registered as legal entities (19.3% in Ukraine as a whole), while the rest functioned as IEs.

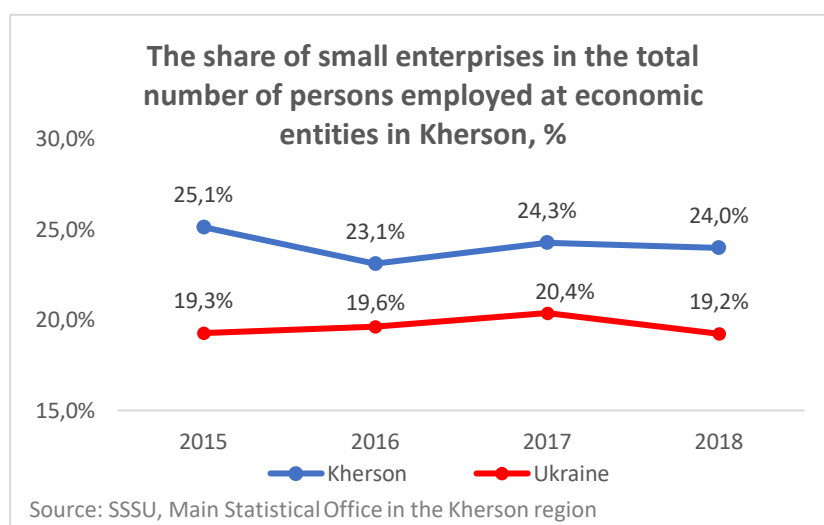


Due to the small number of large entities, information on other key performance indicators of large and medium-sized enterprises (number of employees and sales) is confidential.

In terms of the number of business entities, Kherson is on the 12<sup>th</sup> place among the cities selected for research. The city accounts for 43.5% of the total number of businesses in the Kherson region, which emphasizes the central role of the city in the region's economy. There were 586 SMEs per 10,000 inhabitants in Kherson, which is one of the lowest rates among the selected cities (21<sup>st</sup>). This indicates a relatively low business activity compared to most regional centers of Ukraine.

In 2018, the number of SMEs in the city decreased by 5.3% compared to 2017, although the country as a whole increased by 1.9%. This was primarily due to a drop in the number of IEs by 7.1% (1.2% growth in Ukraine as a whole). The number of medium-sized enterprises also decreased by 3.1% (an increase of 7.5 in the country). At the same time, the number of small enterprises increased by 3.5% (5.1% at the national level).

### Employment



In 2018, 67.2 thousand people were employed in business entities of the city of Kherson, which is 1% less than in 2017. At the same time, the country grew by 4.8%. Thus, Kherson is one of the three cities in the study where employment in entrepreneurship decreased. At the same time, the city accounts for almost half (46.7%) of the total number of employees in the Kherson region, which confirms its central role in the region's economy.

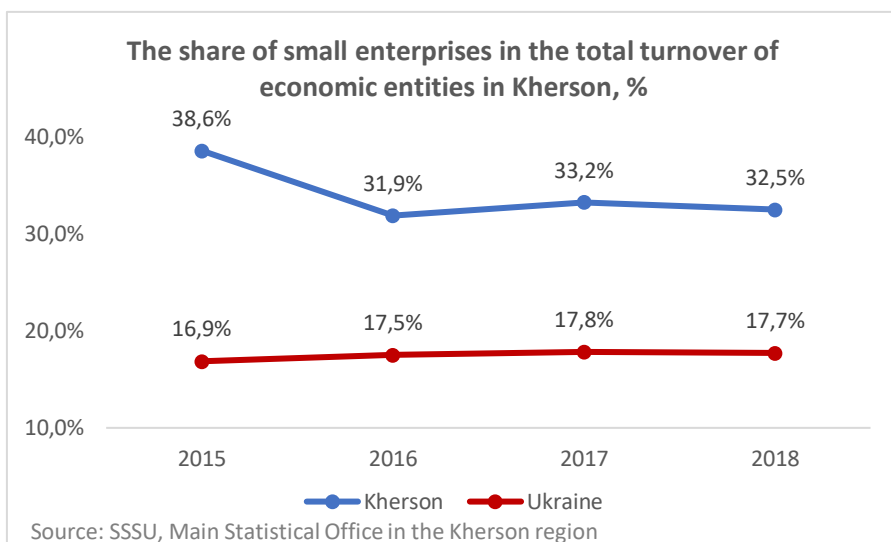
Due to the confidentiality of data due to the small number of large entities, information on the number of employees for large and medium-sized enterprises is confidential. However, available data show that more than two-thirds of jobs were in small businesses. In particular, 39.5% of employees were employed by IEs, and 24% were employed by small enterprises.

According to the results of 2018, the number of employees in small enterprises in Kherson decreased by 2.1% (at the national level - decreased by 1.1%). At the same time, the number of employees in IEs increased by only 0.8% (at the national level, growth by 10.5%). This is the lowest rate of employment growth in IEs among the cities selected for the study.

Statistics show that in general the Kherson region shows a slightly higher unemployment rate of the working age population than in Ukraine as a whole. In 2019, the corresponding indicator of the region was 9.8% against 8.6% at the national level. At the same time, at the end of 2019, 1592 people had the status of registered unemployed in Kherson, and the number of vacancies was only 99. Accordingly, the workload of registered unemployed was about 16 people per vacancy, which was one of the largest indicators among the studied cities. However, due to quarantine measures and crises due to the COVID-19 pandemic, in 2020 the situation on the city's labor market may worsen.

## Turnover

According to the results of 2018, the turnover of products (goods and services) of the city's economic entities compared to 2017 amounted to UAH 49.3 billion in current prices. Sales (considering the inflation index) compared to 2017 decreased by 0.7%, although in the country as a whole there was an increase of 8.1%. Business entities of the city accounted for more than half (56.4%) of the total sales of the region.



Due to the confidentiality of data due to the small number of large entities, the information on the volume of sales for large and medium-sized enterprises in Kherson is confidential. However, the available data show that small enterprises accounted for a third (32.5%) of sales (17.7% in the country as a whole). The share IEs was 14.1% (national level 7.6%).

In 2018, small enterprises in Kherson showed a decrease in sales of 2.9% compared to 2017 (for Ukraine as a whole, an increase of 7.5%). At the same time, sales of IE products increased by 8.7% (13.5% for Ukraine).

## Sales of industrial products

Statistical information on the main indicators of enterprises by type of economic activity is not available at the level of cities of regional significance and districts. However, statistics on sales of industrial products by type of activity are available. This information makes it possible to identify the main industries in Kherson.

According to the Main Department of Statistics in the Kherson region in 2018, the volume of sold industrial products in Kherson amounted to UAH 13.5 billion. Of these, 6.8 billion or 50.3% accounted for the processing industry. In particular, UAH 3.1 billion or 23.2% was provided by the production of food, beverages, and tobacco products<sup>175</sup>. In second place in the manufacturing industry is the manufacture of wood products, paper production and printing - 1.2 billion UAH or 9.1%. Also, significant volumes of sales of industrial products account for the production of rubber and plastic products, other non-metallic mineral products (UAH 0.8 billion or 5.9%).

## Capital Investments

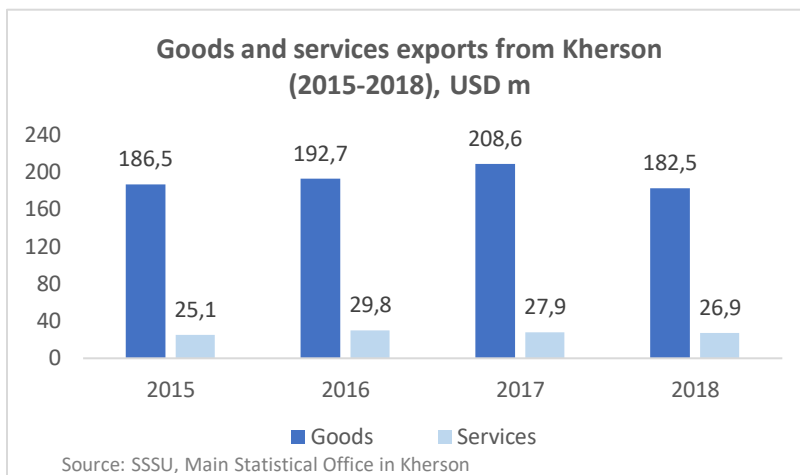
In 2018, Kherson accounted for about UAH 4.1 billion of capital investments, which accounted for almost half (46.2%) of the volume of capital investments in the Kherson region. Thus, in 2018, the volume of capital investments per capita amounted to UAH 12,642, which is lower than the national level - UAH 13,746. According to this indicator, Kherson ranks 14<sup>th</sup> among the cities in the study.

<sup>175</sup> Data by type of activity are formed by homogeneous products.

## Export

According to the State Statistics Service of Ukraine, in 2018 the volume of exports of goods from the city of Kherson amounted to USD 182.5 m, which is 12.5% less than in 2017. According to this indicator, Kherson ranked 14<sup>th</sup> among the cities in the study for which relevant statistics are available.

At the same time, exports of services decreased by 3.6% and reached USD 26.9 m (also 14<sup>th</sup> position).



If we analyze the commodity structure of the city's foreign trade, more than half of exports (USD 107.7 m or 59%) were provided by agricultural and food products. The rest of the volume falls primarily on such goods as base metals (16.9%), wood and wood products (9.8%) and ships (7.5%).

## Foreign direct investment

As of December 31, 2018, the city of Kherson accounted for USD 66.2 m of foreign direct investment (equity). This amount is USD 0.5 m or 0.8% higher than at the beginning of 2018. Thus, there was a slight increase in direct investment in the city. At the same time, as of the end of December 2018, there was USD 204.5 per person in Kherson.

It should be noted that in general Kherson region ranks 18th in terms of direct investment among all regions of Ukraine. At the beginning of 2018, almost a third of the region's investments (30.1%) were concentrated in Kherson.

## Safety and comfort

The results of other studies allow us to look at the level of safety and comfort of living in selected cities based on the assessments of their inhabitants. These factors are important for understanding the general situation in the city. In addition, comparisons with individual results of the Cities' Competitiveness Index are possible.

According to the study "Sixth Annual Ukrainian Municipal Survey"<sup>176</sup>, the city of Kherson ranks last 24<sup>th</sup> in the value of the Quality of Public Goods and Services Index with a score of 2.6 (1 - means "terrible, 5 - "excellent"), which indicates the greatest dissatisfaction of residents with the level of comfort in the city. Kherson ranks 14<sup>th</sup> in the field of medical institutions (which is the best result of this city in terms of services), in the field of industrial development - 24<sup>th</sup> place, in the field of transport infrastructure - 23<sup>rd</sup> place, in the field of roads - 24<sup>th</sup> place.

In the same study, Kherson is the most dangerous city in Ukraine according to residents. The value of the corresponding Index for the city is 1.1 (the value can be from 0 to 3, where 0 - "I feel completely in danger",

<sup>176</sup> The survey was conducted by the Sociological Rating Group on behalf of the International Republican Institute's Center for Insights in Survey Research; The survey was funded by the United States Agency for International Development (USAID). See [http://ratinggroup.ua/research/regions/shestoy\\_vseukrainskiy\\_municipalnyy\\_opros.html](http://ratinggroup.ua/research/regions/shestoy_vseukrainskiy_municipalnyy_opros.html).

3 - "I feel completely safe") and according to this indicator the city ranks last 24<sup>th</sup> among 24 respondents bridge. Only 31% of respondents said they felt rather or completely safe after dark, and 65% (the highest percentage among cities) said they felt sometimes in danger or completely in danger.

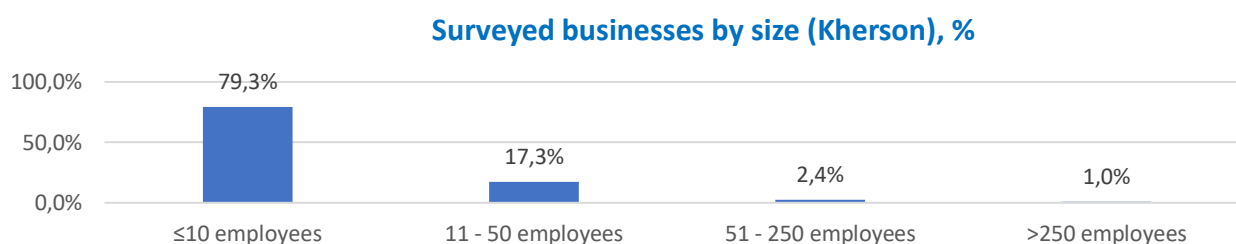
## Results of the "Municipal Competitiveness Index" in Kherson

### Sample description

208 business entities took part in the survey in Kherson. These are 122 (58.7%) enterprises-legal entities and 86 (41.3%) individual entrepreneurs (IE). When analyzing the answers, the array was weighed according to the criterion of the type of business entity of the respondents in order to meet the parameters of the target sample, namely 60.5% of legal entities and 39.5% of IEs.

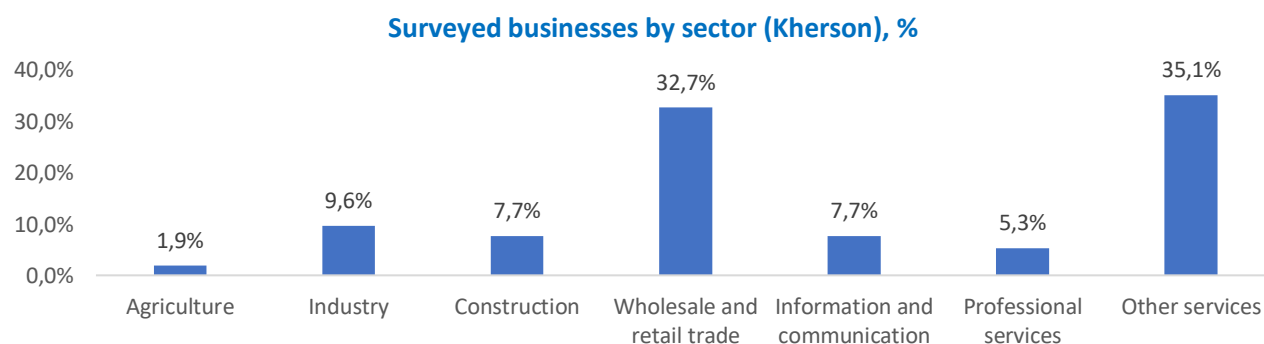
### The size of the surveyed business entities

The majority of respondents (79.3%) are microbusiness, i.e. such business entities, which employ from 1 to 10 people. 17.3% are small entities, i.e. those that employ from 11 to 50 people. Medium-sized entities (from 51 to 250 employees) account for 2.4%, and large entities (more than 250 employees) - 1.0%.



### Industry and type of activity

The surveyed business entities of Kherson represent various branches of economy. 32.7% of the surveyed business works in the trade sector (it includes wholesale and retail trade, repair of motor vehicles). Another 9.6% work in industry, 7.7% in construction, 1.9% - in agriculture. Almost half of the surveyed business is in the services sector (48.1%). Information and communication services are provided by 7.7% of respondents, and professional services - by 5.3%. Other services (businesses working in the fields of transport services, arts and sports, education and healthcare, finance, and other service-related industries) account for 35.1% of respondents.



### *Year of registration*

Most of the surveyed business entities were registered up to and including 2017 (82.2%). In the period 2018-2019, 17.8% of respondents were registered.

### *Gender and age distribution of owners and business leaders*

According to the results of the survey, in Kherson 62.9% of business owners are men, 37.1% - women. At the same time, the share of men among legal entities is even higher - 65.1% against 34.9%.

Among the heads of legal entities, men make up 71.1% and women 28.9%. Among IEs, where managers and owners are the same person, the predominance of men is slightly lower - 58.4% vs. 41.6%. In general, 66.2% of all business entities are male and 33.8% are female.

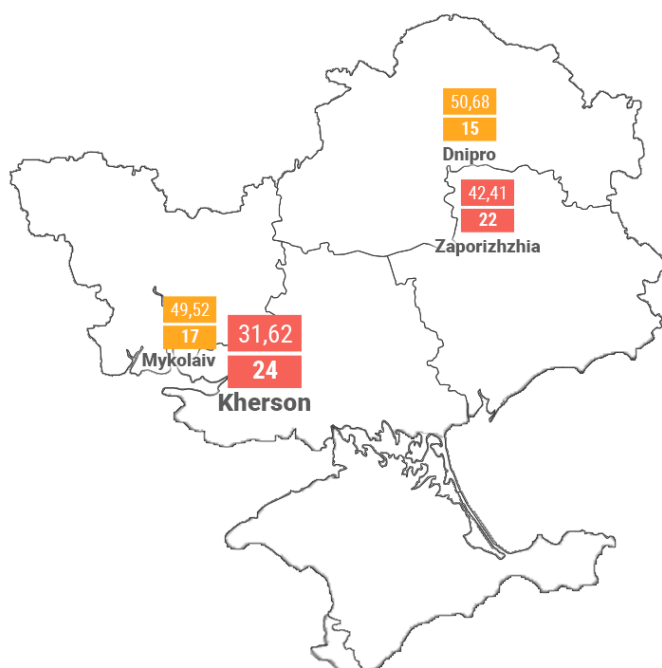
The average age of business owners in Kherson is 43.9 years (42.8 years in Ukraine). At the same time, the owners of IE in Kherson are on average 5 years younger than the owners of legal entities (40.2 years against 45.7 years).

### *Municipal competitiveness index: Kherson results*

According to the results of the study, the city of Kherson took the last 24<sup>th</sup> place with the value of MCI 2019/2020 - 31.62 points. Thus, Kherson belongs to the group of cities with low MCI.

Kherson is more than 41 points behind Khmelnytskyi, which is on 1<sup>st</sup> place. In addition, the city lags behind by more than 9 points from Odessa, which is in 23<sup>rd</sup> position.

If we compare the values of MCI for Kherson with the results of geographical neighbors, there are cities with medium and low values of the index. In particular, Zaporizhzhia, which ranks 22<sup>nd</sup>, also has a low MCI. In the lower half of the rating are Dnipro and Mykolaiv with an average value of MCI (15<sup>th</sup> and 17<sup>th</sup> places, respectively)



The city's result is due to low scores in most of the components that make up MCI.

The strongest components:

- Starting a business (number 10)

The weakest components:

- Taxes and duties (number 24)



- Informal payments and corruption (number 24)
- Data transparency and openness (number 24)
- Cost of compliance (number 23)
- Security of operating a business (number 23)
- Leadership of municipal authorities (number 23)
- Support of innovations (number 23)
- Development resources (number 20)

### ***1. Starting a business***

In Component 1 "Starting a Business", the city of Kherson received a score of 6.06, which is the 10<sup>th</sup> score among all cities. The city demonstrates average results in the evaluation of registration and permitting procedures. In particular, in 2018-2019, the duration of business registration in Kherson is only slightly faster than the figure for all surveyed cities - 6 days versus 6.1 days. At the same time, changes to the register took an average of 3.7 days, which is slightly longer than the average for all cities - 3.6 days.

At the same time, in Kherson, 11.1% of respondents who registered a business in 2018-2019 reported problems and obstacles during this procedure, which exceeds the figure for all cities (8.8%). In addition, only 61.7% of respondents were able to receive the necessary advice during registration, which is 9 percentage points lower than for the country (70.7%). As a result, it took 21.4 days to start a business (from the date of submission of documents for registration to the date of the first transaction of sale of goods and services), which is more than 10 days faster than the national average (32.1 days).

One of the reasons for the high scores on business registration may be better compared to other cities in Kherson providing business registrars. There are approximately 9 registrars per 10,000 businesses in the city (in public authorities, local governments, and public notaries), which is almost twice as many as in cities with registration problems.

The city also has a longer than average in Ukraine duration of obtaining certain permits. If obtaining permits and registration documents in the field of construction on average in the country took 37.2 days, in Kherson this figure is 64.4 days, which is one of the highest rates among the cities in the study. In addition, Kherson needs more time to obtain a declaration of compliance of the material and technical base of the business entity with the requirements of fire safety legislation - 12.5 days against 11.8 days on average for all cities.

### ***2. Access to public property***

According to the results of the component (sub-index) "Access to public property" Kherson received 4.61 points and took 15<sup>th</sup> place. The low assessment of the city is primarily the result of the low level of transparency of information on communal property. In particular, only 14.3% of respondents reported the availability of information on the availability of communal land, which can still be provided for use or used for construction, etc. (18.1% for all respondents). In addition, only 20% of respondents indicated that information on municipal real estate (including non-residential premises) is available (29.2% for all respondents). This is the lowest rate among the studied cities.

At the same time, 37% of respondents reported that they have documents confirming the right of ownership / lease of land on which they are engaged in business activities (30% at the national level). In particular, it is

58.8% of those respondents who believe that the issue of land documents concerns them (46.8% at the national level). The duration of procedures for obtaining documents confirming the right of ownership / lease of land in 2018-2019 in Kherson averaged 66 days, which is more than 6 days faster than the average for respondents (72.4 days).

### ***3. Transparency and data openness***

In the component "Transparency and data openness" Kherson is an outsider and occupies the last, 24<sup>th</sup> position, gaining only 1 point. In Kherson, respondents generally rated their access to information on local budgets, local regulations, and public procurement lower than in other cities.

In particular, in Kherson, access to information on public procurement was rated the best - 9.1% rated "good" and "excellent" in the city against 17.3% on average for all cities. In general 13.9% of respondents positively assess access to information to local regulations, for Kherson this figure is 4.7%. At the same time, access to information about the budget in the city was positively assessed by only 3.9% (10.2% among all respondents).

### ***4. Compliance cost***

Kherson received one of the worst indicators in terms of the cost of compliance with the law and ranks 23<sup>rd</sup> with 3.91 points. The result of the city was determined by much higher (compared to other cities) respondents' estimates of the time and money spent on compliance with local regulations, as well as the time spent on communication with inspectors.

In Kherson, entrepreneurs spend an average of 7 days to comply with local regulations, which is much higher than the national average of 4 days. On average, 9.7% of annual income is spent on local regulations in Kherson, which is the highest value among all cities, while the average for all respondents is 3.7%.

The results of the survey show that in Kherson the number of visits by city inspectors also received the highest value (0.99 times a year in the city against 0.7 times a year at the national level). However, as a result, the average time spent on communication with inspectors is 4.9 days, which is almost the same as the national average (5 days).

### ***5. Taxes and duties***

Component (sub-index) 5 "Taxes and duties" is one of the weaknesses of Kherson. The city received 2.55 points and took the last, 24<sup>th</sup> place. This result was obtained by Kherson due to a combination of factors such as high tax costs, significant burden of local taxes and problems with the availability of benefits for the payment of local taxes and duties.

In the survey, Kherson respondents reported that on average they spend 30.1% of annual income on taxes and duties (including USC), which is one of the highest results among the surveyed cities (26.8% of annual income on average). If we analyze the burden of administration of taxes and duties, the average time spent by entrepreneurs in Kherson was 56.5 days, which is less than the average for all cities (59 days).

As for local taxes, for 28.4% of respondents in Kherson they are an obstacle, which is the highest figure among all cities (on average, this figure is 20.4%). In addition, in Kherson, only 1.6% of respondents reported receiving benefits from local taxes and duties during 2018-2019, which is one of the lowest rates among the surveyed cities (3.6% among all respondents).

### ***6. Informal payments and corruption***

According to the results of the survey, Kherson took the 24<sup>th</sup> place within Component (sub-index) 6 "Informal payments and corruption", receiving 1.04 points. The result of the city in particular is due to such factors as one of the highest levels of "informal payments" and the lowest level of awareness of entrepreneurs about

the existing anti-corruption measures at the city level. It should be noted that in Kherson the second highest share of respondents who called the corruption of the city government an obstacle to business - 22.4%. This indicates the negative assessment of the situation in the city within the sub-index.

In particular, in Dimension 1 "Bribes / Gifts", 13.9% of respondents in Kherson reported situations related to "informal expenses" when interacting with city officials on any business issues during 2018-2019. On average, 9.9% of respondents dealt with such situations for all cities. At the same time, in Dimension 2 "Anti-corruption measures", 23.6% of respondents were informed about the implementation of specific anti-corruption measures by the municipal authorities (open budget, e-reception, anti-corruption city program, etc.) (on average for all cities - 31.8%).

### ***7. Security of operating a business***

Within Component (sub-index) 7 "Security of operating a business" Kherson received some of the worst results and ranks penultimate, 23<sup>rd</sup>, scoring 2.98 points. This result of the city is due to the high prevalence of raiding and other criminal acts on business compared to other cities and the higher level of losses from criminal acts.

According to the survey, 45.9% of Kherson respondents believe that competitors do business in the shadows, which is almost the same as the national average (45.1%). 2.5% of the total respondents experienced attempts of illegal takeovers at the country level in 2018-2019. In Kherson, the situation with raiding looks much worse, because here 4.4% of respondents have experienced such actions, which is the highest rate in the country.

In Kherson, 15.6% of respondents reported that in 2018-2019 they suffered losses due to extortion, theft, robbery, vandalism, arson (which is 1 percentage point higher than the national average - 14.3% of respondents). At the same time, entrepreneurs suffer quite large losses from such criminal acts. Respondents who had corresponding losses estimated them at 13.1% of annual income, which is 2.3 percentage points higher than the average in Ukraine (10.8% at the national level).

On security / protection in Kherson, business spends an average of 3.8% of annual income, which is the worst indicator compared to the national average - 2.7% of annual income.

### ***8. Leadership of municipal authorities***

The city of Kherson took the 23<sup>rd</sup> place in Component (sub-index) 8 "Leadership of municipal authorities", receiving 3.02 points. The city's low position is the result of low scores within both dimensions, which form the sub-index - "Support for Business Development" and "Public-Private Dialogue".

In the measure of business development support, Kherson received 3 points (24<sup>th</sup> place). Entrepreneurs of Kherson, in particular, are most pessimistic about the attitude of city officials to private business. Only 9.2% of respondents believe that the attitude of the municipal authorities to business is "very good" or "good" (20% is the average for all cities). Also, only 16.7% of respondents agree that the city government supports the creation of new business (38.3% average for all cities), and only 19% indicate that the city government supports existing business (35.5% average for all cities).

The results of the survey also complement the "hard data" on the activities of the city council. According to "hard data", Kherson received 6 out of 10 points, which is one of the lowest scores among the studied cities. In particular, the city does not have a city anti-corruption program. In addition, compared to other cities, the website of the Kherson City Council at a lower level provides information on public procurement. There is also no special advisory body on entrepreneurship in the city, which would also represent entrepreneurs.

This may in particular explain the problems with public-private dialogue in the second dimension of the sub-index. Also, the problem of Kherson is that city borders are not established.

The Public-Private Dialogue dimension demonstrates that businesses in Kherson have more problems communicating with the authorities than most other cities. As part of the measurement, the city received 3.03 points, the 17<sup>th</sup> highest result. In Kherson, only 5.3% of business representatives believe that they have "significant" and "very significant" opportunities to participate in the development of local documents (strategies, plans, programs, etc.), while the average for all cities is only 6.5 %. In addition, only 4.7% of respondents indicate that the city always or often consults with business when adopting new or changing existing regulations that may affect business (7.4% average for all cities).

### **9. Development resources**

Kherson ranks 20<sup>th</sup> in Component (sub-index) 9 "Development resources", receiving 3.87 points. The assessment of the city is based on the results of three dimensions that form a single component: Human resources, Financial resources and infrastructure, Business support infrastructure.

As part of **Dimension 1 "Human resources"**, the city took 22<sup>nd</sup> place, receiving 4.40 points. If we analyze some indicators of this dimension, in Kherson only 5.3% of respondents rate the quality of local labor as "excellent" and "good" (among all respondents - 7.6%). In addition, only 7.7% of respondents give positive assessments of vocational education of employees in the local labor market (10% of all respondents). Thus, in general in Kherson, as well as in other cities, a small share of BEs give high marks to the available labor force.

At the same time, 62.8% of respondents believe that insufficient training of employees is a serious obstacle to doing business (60.7% among all respondents), and 70.8% - experience the problem of labor shortage (among all respondents - 70%). As a result, the lack of skilled labor is the third biggest problem of entrepreneurs in Kherson according to the rating of barriers to doing business (indicated by 33.6% of respondents).

The analysis of the situation regarding the number of labor force in the city is supplemented by statistical data. In particular, at the end of 2019 in Kherson there were only 0.5 vacancies per 100 businesses, which is one of the lowest rates among the cities in the study (3.6 vacancies - the average)<sup>177</sup>. On the one hand, this may indicate lower demand for labor compared to other cities. On the other hand, such an indicator may indicate the lower popularity of the employment center as a platform for finding labor in the city. In addition, as of January 1, 2019, the share of the working age population (15-64 years) in Kherson was 67.7%. which is the lowest rate among the studied cities. At the national level, this figure was 67.8%<sup>178</sup>. Thus, in comparison with other cities and the country as a whole, in Kherson the problem of population aging can be felt more.

Within **Dimension 2 "Financial resources and infrastructure"**, the city took the 5<sup>th</sup> place, receiving 4.37 points. According to the survey, only 1.2% of respondents in the country received financial support from the municipal authorities during 2018-2019. If we consider individual cities, in Kherson this figure is 0.9%, which is approximately at the level of the average value. At the same time, 73% of Kherson BEs indicate that lack of financial resources is a serious obstacle to doing business (77.8% is the average for all cities). This is one of the lowest rates among the cities in the study.

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<sup>177</sup> Sources for calculations: 1) Number of vacancies: The situation on the labor market and the results of the state employment service. Data on the page of the Kherson regional employment center, <https://khe.dcz.gov.ua/analitics/66>  
2) Number of businesses: According to the Main Department of Statistics in Kherson region

<sup>178</sup> According to the State Statistics Service of Ukraine, the Main Department of Statistics in the Kherson region.

Data on city budget expenditures complement the picture of financial resources to support business in the city. In 2019, the actual expenditures to support small and medium enterprises in the city amounted to only about 38 thousand UAH per 10 thousand businesses<sup>179</sup>. However, it should be noted that in general, SME support expenditures in most cities are low or non-existent. Higher order of numbers or the presence of such support in general may indicate a higher level of leadership of the municipal authorities in business support.

In the context of infrastructure, the BEs surveyed in the researched cities had different experiences in connection to the grid. On average, in Kherson it took almost 75 full days to connect to the power supply systems, starting from the date of application to the day of the actual connection. For the whole country, this figure averages 85 days. Thus, it is easier to connect to the power supply in the city than on average for all surveyed cities.

In **Dimension 3 "Business support infrastructure"** Kherson ranks only 20<sup>th</sup> (2.86 points). According to the survey, only 6.6% of respondents personally received business support services from the municipal authorities (information, consulting, training, etc.), which is one of the two lowest results among the surveyed cities (11% average for all cities). At the same time, only 43.4% of them rated such services as "good" and "excellent" (48.6% - among all respondents).

Only 21.5% of BEs in Kherson indicate the existence of business support centers in the city, which is one of the lowest rates among the surveyed cities (32.6% is the rate for all respondents). At the same time, "hard data" show that as of the end of 2019, there was only one business support infrastructure unit in the city, created with the participation of the municipal authorities, the Kherson City Fund for Entrepreneurship Support. Thus, entrepreneurs' awareness of business support centers may relate to other business support infrastructure facilities in the city.

In Kherson, 44.1% of respondents know about the activities of business associations and business clubs in their city (45.9% of all respondents). However, only 9% of respondents are members of such organizations, which is lower than the figure for all respondents as a whole (11.5%).

## **10. Support of the innovations**

The city of Kherson took the 23<sup>rd</sup> position (2.57 points) within Component (sub-index) 10 "Support of innovations". 19.1% of respondents in the city reported that in 2018-2019 their business interacted with research institutions or technology companies, which is a higher result than the average for all cities (18.9%). However, Kherson business representatives are less satisfied with technology transfer than the average respondent. 6.0% indicate that the relevant needs (transfer of patents for inventions, etc.) are "met to significant extent" and "fully met" (8% at the national level).

Respondents in Kherson give a low score to the support of local authorities for local innovation programs (funding from the local budget) - 1.62 points of the city against 1.91 points on average among all cities (with a maximum of 5 points). Also, in Kherson, less often than on average in all cities, new technologies, solutions, or products were introduced in 2018-2019 (35.63% vs. 40.2%). In addition, 0.45% of surveyed enterprises and IEs reported that they belong to clusters. This is the lowest figure and more than four times less than the figure for all cities as a whole (2.1%). All factors in general provide a low level of satisfaction of Kherson entrepreneurs with the state of support for innovation in the city.

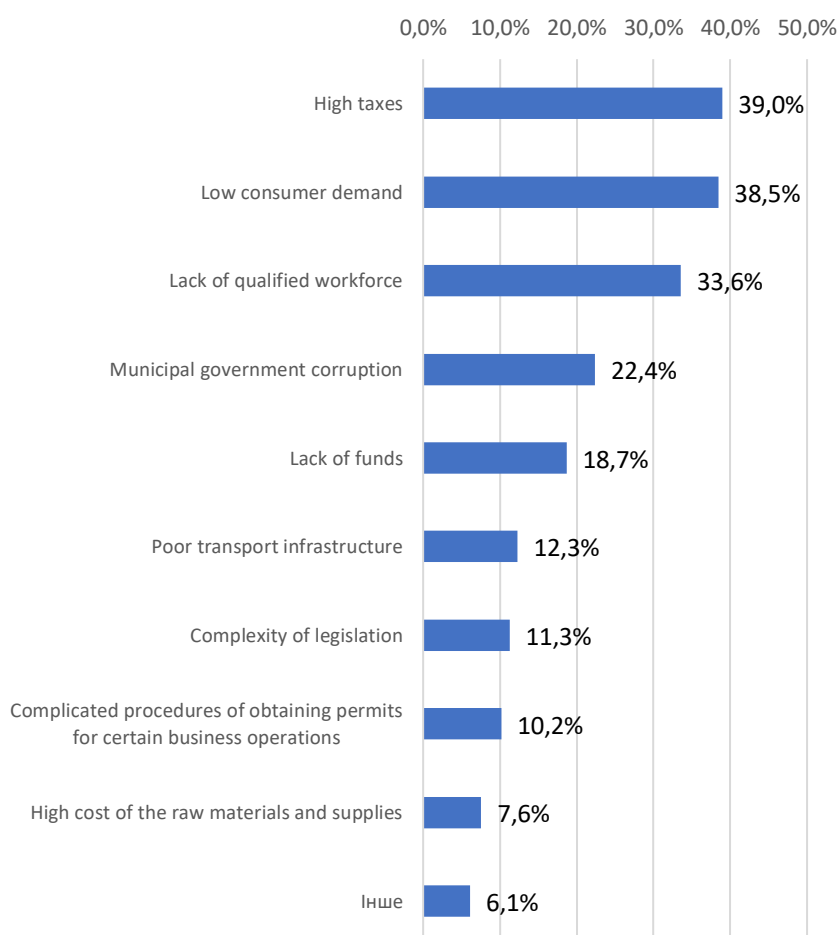
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<sup>179</sup> Reports on the implementation of local budgets (expenditures in the program classification code 7610 - Promotion of small and medium enterprises), as well as the responses of city councils to requests for public information were used. For some cities, information on expenditures is clarified through telephone interviews with city council executive staff.

## Barriers for business operation

The interviewed business entities named the main obstacles they face in doing business in Kherson. Factors such as high taxes, low consumer demand and a lack of skilled labor shared the top three in the barrier ranking. Each of these barriers to doing business was reported by more than a third of respondents (39.0%, 38.5% and 33.6%, respectively). Thus, the three main obstacles in Kherson correspond to the rating of obstacles for all respondents.

TOP-10 barriers to doing business in Kherson, %

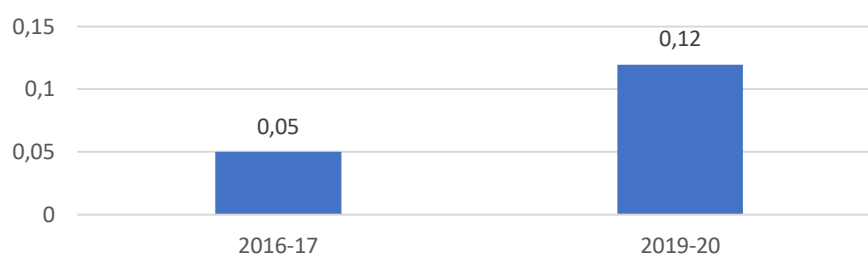


On the fourth position is the corruption of the municipal authorities (22.4%). This is the second highest result for this obstacle after Odessa. The problem of lack of funds, which is in the fourth position in most cities, was in the fifth place in Kherson (18.7% of respondents). Among the main obstacles were also poor transport infrastructure (12.3%), the complexity of legislation (11.3%) and complex procedures for obtaining permits (10.2%). The list of top-10 obstacles is completed by the high cost of raw materials and components (7.6%) and the "other" option.

## Expectations and assessments of the business climate and economic conditions in Kherson

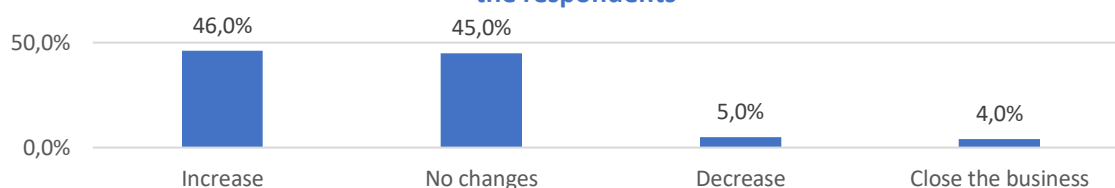
**Regional SME Business Climate Index.** ABCA SME Business Climate Index in Kherson is 0.12 (only 23<sup>rd</sup> place among the surveyed cities). This is more than in 2017 (0.05), which indicates an improvement in business perception of the business climate. This coincides with the all-Ukrainian trend.

### ABCA Regional Index of Business Climate (Kherson)



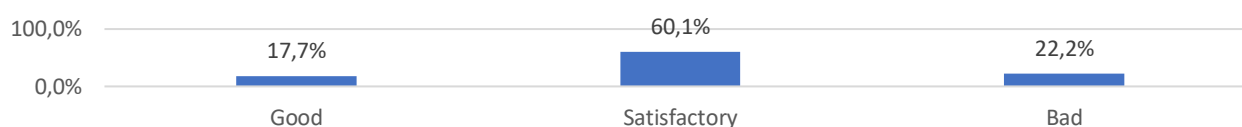
**Long-term expectations for business activity.** Business in Kherson has optimistic long-term development plans for the next two years. Slightly less than half of respondents (46%) said they plan to expand their business and 45% to stay at the current level. At the same time, only 5% planned to reduce the business, and 4% - to close it. Balance index<sup>180</sup> is equal to +0.37 (at the national level +0.45).

#### Business activity expectations in the two-year perspective in Kherson, % of the respondents



**Assessment of the financial and economic conditions of the BEs.** In Kherson, the majority of BEs (60.1%) assessed their current financial and economic conditions as satisfactory. The rest of the respondents rated it as good (17.7%) or bad (22.2%). Thus, negative assessments outweigh positive ones, and the balance index of financial and economic conditions is -0.05 (at the national level +0.05).

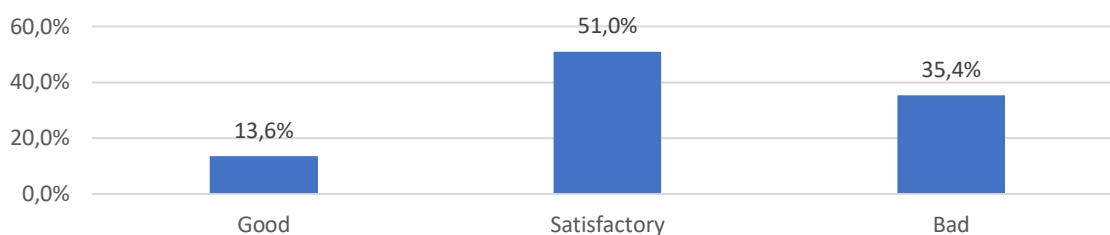
#### Assessment of the business situation of business entities in Kherson, % of the respondents



**Assessment of the current overall economic environment for business activities.** More than half of the surveyed BEs (51.0%) rated the current general economic environment as satisfactory. 35.4% of respondents assess the general economic environment as bad, and 13.6% - good. Thus, the index of assessment of the general economic environment for business activities is negative: -0.22. And this value of the index is much lower than for the country as a whole (-0.12).

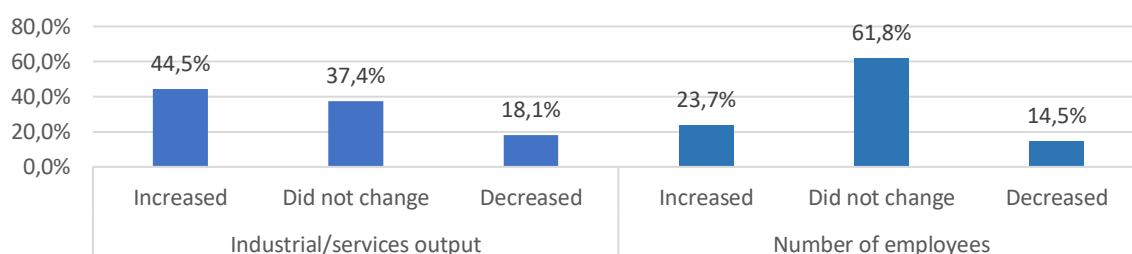
<sup>180</sup> Calculated as the average of all answers on a scale from -1 to 1, where 1 corresponds to the simplification of this procedure, 0 - no change, and -1 - complication.

### Assessment of the overall economic situation (Kherson), % of the respondents



**Change in the production output over the past two years.** Almost half (44.5%) of the surveyed BEs indicated that they increased the volume of production or provision of services in 2018-2019. More than a third of respondents (37.4%) did not change the volume, and 18.1% - decreased. Thus, the index of business activity is +0.26 (which is less than the value for all respondents +0.31), which reflects the predominance of the share of BEs, which expanded their production or provision of services, over the share of those who reduced the volume.

### Change in the industrial/services output and in the number of employees in Kherson, % of the respondents



**Change in the number of employees of the business entities over the past two years.** More than half of the surveyed BEs (61.8%) indicated that the number of employees did not change in 2018-2019. The share of those where the number of employees (23.7%) increased exceeds the share of those where the number of employees decreased (14.5%). Thus, the index of changes in the number of employees is +0.09, which is much lower than for all respondents as a whole (+0.16).

**Deregulation: changes in administrative procedures.** According to respondents, the process and conditions of business registration have simplified the most in the last two years, while the conditions for paying taxes have deteriorated, and the situation with inspections has not changed significantly.

38.7% of BEs point to the simplification of the business registration procedure for the previous two years. The rest of the respondents did not feel any changes in this procedure during this time, and only a small percentage of respondents - 8.8% - said that, in their opinion, business registration has become more difficult. As a result, the index of change in the registration procedure is +0.30<sup>181</sup>.

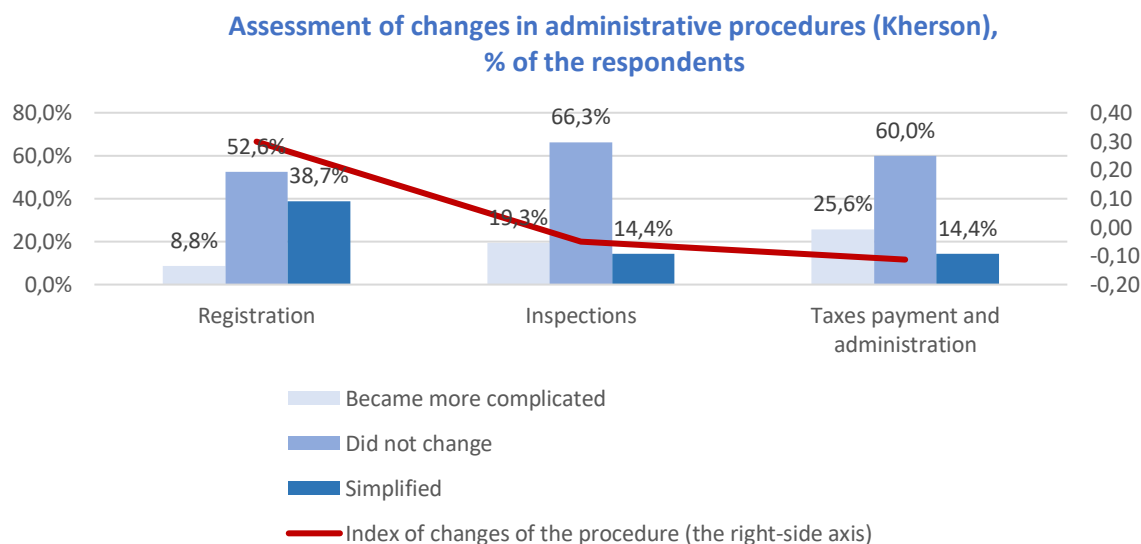
This is the highest value of such an index compared to the other two procedures: passing inspections and paying taxes. Speaking about the administration of tax payments, more than half of the BEs (60.0%) say that they did not notice any changes in the complexity of this procedure. Among those who remained: only 14.4% of those for whom paying taxes became easier, and much more - 25.6% - of those for whom it became more difficult. Therefore, the index of change in the procedure for administering the payment of taxes is negative: -0.11.

<sup>181</sup> Calculated as the average of all answers on a scale from -1 to 1, where 1 corresponds to the simplification of this procedure, 0 - no change, and -1 - complication.



The index of changes in passing inspections has a negative value close to zero: -0.05. The share of business leaders and individual entrepreneurs who claim that inspections have become more difficult is 19.3% and is slightly higher than the share of businesses for which inspections have been simplified compared to 2018 (14.4%). However, the largest share of the surveyed business (66.3%) did not notice any changes in the situation with inspections.

As a result, the value of the total index of change in administrative procedures, which is calculated as the average value of the indices of change of these three procedures, is +0.05.



## Recommendations

According to the MCI results (subject to the weak components and dimensions) the following key recommendations have been formulated for the city. In addition, the city government should pay attention to recommendations that are common for all the cities in general.

### Component 1. Starting a business.

- The quality of service provision during permitting procedures needs to be improved in order to reduce the time spent on obtaining such documents.

### Component 2. Access to public property

- It is necessary to ensure transparent access to information on the availability of communal land that can still be used for development, in particular through the official website of the city council.
- It is necessary to ensure transparent access to information about municipal real estate, in particular through the official website of the city council.

### Component 3. Transparency and data openness

- There is a need to increase the level of transparency and openness of data on local budgets, local regulations, and public procurement, in particular through the regular posting of relevant information on the official website

### Component 4. Compliance cost

- Deregulation measures at the local level need to be continued in order to reduce the time and money spent by businesses on the implementation of local regulations.

**Component 5. Taxes and duties**

- Regular analysis of the burden of local taxes and duties and their impact on local business.

**Component 6. Informal payments and corruption**

- It is necessary to create and ensure the functioning of the necessary elements of the anti-corruption system at the local level (anti-corruption program / strategy).
- Anti-corruption measures should be regularly disseminated in order to inform businesses.
- It is necessary to raise the level of awareness of business entities about the integrity of doing business.

**Component 7. Security of operating a business**

- It is necessary to ensure cooperation with law enforcement agencies to increase the level of security in the city as a whole, as the level of crime also affects the security of doing business.

**Component 8. Leadership of municipal authorities**

- It is necessary to ensure constant communication and dialogue between business and local governments, in particular through the establishment and operation of special advisory bodies with the participation of entrepreneurs.
- It is necessary to ensure a higher level of business involvement in the development of local documents (strategies, plans, programs, etc.) and consultations on regulatory acts.

**Component 9. Development resources**

- It is necessary to analyze the needs of local businesses for staffing.
- Entrepreneurship support expenditures need to be increased to ensure the functioning of business support infrastructure and financial support programs.
- Local business support infrastructure needs to be audited to assess their effectiveness and development.
- It is necessary to use the best practices of other cities to organize the work of business support centers, coworking, business hubs, clusters, etc.

**Component 10. Support of innovations**

- It is necessary to provide support for innovative projects in the framework of programs of financial support for entrepreneurship in cities.
- Business cooperation should be encouraged through the formation of clusters at the initiative or support of the city government.

# Khmelnytskyi

## Number 1 in MCI

### General information

The city of Khmelnytskyi is the administrative center of the Khmelnytskyi region, a city of regional significance.

The city is also the administrative center of Khmelnytskyi district but is not part of the district.



### Location

The city of Khmelnytskyi is located in Podillya, in the western part of Ukraine. The rivers Southern Bug and Ploska flow through the city.

Khmelnytskyi is located in the central part of the region. The city is surrounded by Khmelnytskyi district.

The nearest regional centers are Vinnytsia, Zhytomyr, Rivne, Ternopil and Chernivtsi.

### Demographic situation

As of January 1, 2019, the permanent population of Khmelnytskyi was 268.4 thousand people. The city is the largest settlement in the Khmelnytskyi region.<sup>182</sup>

Khmelnytskyi accounts for one-fifth of the region's population (21.3%). On the second place in terms of population is the city of Kamianets-Podilskyi, where almost 100 thousand people live. The population of other cities does not exceed 50 thousand people.

In the structure of the population of Khmelnytskyi, as well as in the country as a whole, women predominate (54.1%). There are 850 men per 1,000 women (864 for Ukraine as a whole).

The share of the population aged 15-64 is 70.6% (the figure for Ukraine is 67.8%). A total of 416 people aged 0-14 and over 65 (475 in Ukraine) per 1,000 people of working age.

In 2018, there was a slight natural decrease in the population in Khmelnytskyi (-0.1 per 1,000 available population). The birth rate was 9.5 and the mortality rate was 9.6.

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<sup>182</sup> Here and further in the report, the statistical data from the State Statistics Service of Ukraine (SSSU) and the Main Statistical Office in the Khmelnytskyi Region are used.

## Development of entrepreneurship

### Key structural business statistics in Khmelnytskyi in 2018

|                           | Absolute figures   |                          |                  | Relative figures      |                           |                         |
|---------------------------|--------------------|--------------------------|------------------|-----------------------|---------------------------|-------------------------|
|                           | Number of entities | Employment, thsd persons | Turnover, UAH bn | Share in total number | Share in total employment | Share in total turnover |
| <b>Large enterprises</b>  | 3                  | 4.2                      | 5.6              | 0.01%                 | 5.0%                      | 11.6%                   |
| <b>SMEs</b>               | 25475              | 80.0                     | 42.4             | 99.99%                | 95.0%                     | 88.4%                   |
| <b>Medium enterprises</b> | 128                | 24.5                     | 20.5             | 0.50%                 | 29.1%                     | 42.8%                   |
| <b>Small enterprises</b>  | 2946               | 17.1                     | 12.3             | 11.56%                | 20.3%                     | 25.7%                   |
| <b>In which</b>           |                    |                          |                  |                       |                           |                         |
| <b>micro</b>              | 2444               | 6.4                      | 4.4              | 9.59%                 | 7.6%                      | 9.1%                    |
| <b>IEs</b>                | 22401              | 38.3                     | 9.5              | 87.92%                | 45.5%                     | 19.9%                   |
| <b>Total</b>              | 25478              | 84.2                     | 47.9             | 100.00%               | 100.0%                    | 100.0%                  |

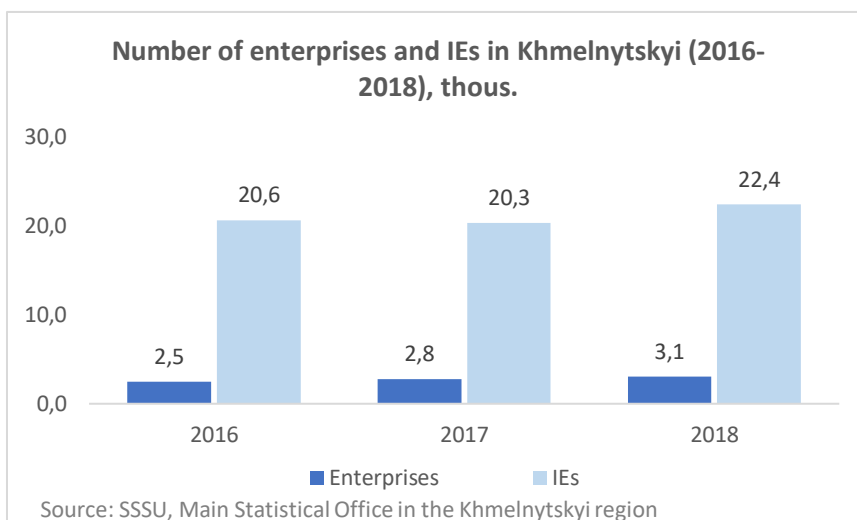
Source: Own calculations based on data from the State Statistics Service of Ukraine, Main Statistical Office in the Khmelnytskyi Region

### Number of business entities

In 2018, there were 25.5 thousand SME entities in the city of Khmelnytskyi (including 128 medium-sized enterprises, 2.9 thousand small enterprises and 22.4 thousand individual entrepreneurs), while large enterprises were only 3.

According to the number of business entities, Khmelnytskyi is on the 9<sup>th</sup> place among the cities selected for research. The city

accounts for 41.6% of the total number of economic entities in Khmelnytskyi region, which emphasizes the central role of the city in the region's economy.



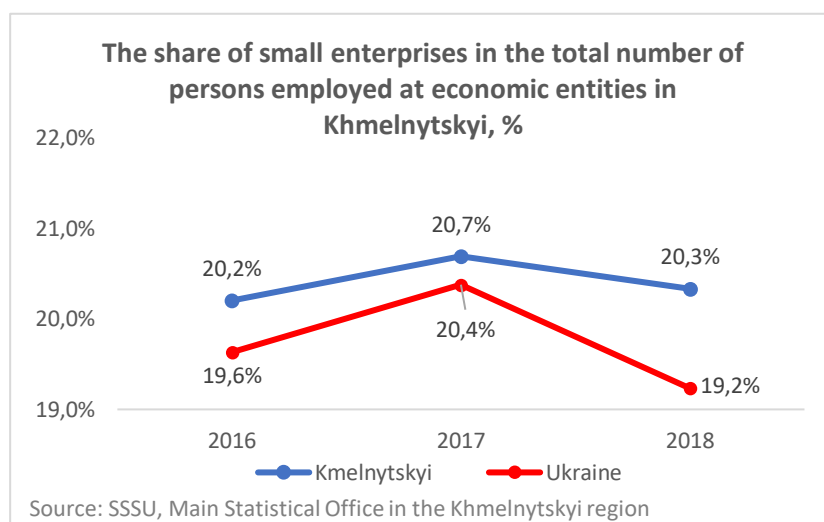
There were 949 SMEs per 10,000 inhabitants in Khmelnytskyi, which is the highest among all cities in the study. On the one hand, such data indicate a high level of business activity in the city. At the same time, such a high figure may also be the result of the popularity of the status of IEs for doing business.

According to the results of 2018, only 12.1% of business entities were registered as legal entities (19.3% in Ukraine as a whole), while the rest operated as IEs. As a result, Khmelnytskyi recorded the 2nd highest share of IE among business entities (after Chernivtsi).

In 2018, the number of SMEs in the city increased by 10.3% compared to 2017, which is the second highest

indicator among the selected cities (1.9% for Ukraine as a whole). This was due to an increase in the number of IE by 10.2% (1.2% for the country) and small businesses by 11.5% (5.1% in Ukraine). The number of medium - sized enterprises increased by 3.2% (7.5% at the national level).

## Employment



In 2018, 84.2 thousand people were employed in business entities of the city of Khmelnytskyi, which is 10.9% more than in 2017 (4.8% corresponding to the national level). The city accounts for 41.1% of the total number of employees in economic entities of the Khmelnytskyi region.

The share of employees in SMEs in Khmelnytskyi was 95% of the total number of employees in all

businesses, which is 13.5 percentage points higher than in Ukraine as a whole (81.5%). This is due in particular to the smaller role of big business in creating jobs in the city. Almost two-thirds of employees are small businesses. In particular, 45.5% of employees were employed by IEs, and 20.3% were employed by small enterprises.

Due to the confidentiality of data in 2017, information on employment growth for the SME sector as a whole and large enterprises is not available. However, it is known that in 2018 the number of employees in small businesses in the city increased by 9%, while falling by 1.1% at the national level. The number of employees at Khmelnytskyi's IEs increased by 19.5% (10.5% growth at the national level).

Statistics show that in general Khmelnytskyi region shows a slightly lower unemployment rate of the working age population than in Ukraine as a whole. In 2019, the corresponding indicator of the region was 8.3% against 8.6% at the national level. At the end of 2019, 840 people had the status of unemployed in Khmelnytskyi, and the number of vacancies was 338. Accordingly, the workload of registered unemployed was about 2 people per vacancy. However, due to quarantine measures and crises due to the COVID-19 pandemic, in 2020 the situation on the city's labor market may worsen.

## Turnover

According to the results of 2018, the turnover of products (goods and services) of economic entities of the city of Khmelnytskyi amounted to UAH 47.9 billion in current prices. Real growth (i.e. adjusted for the inflation index) of sales compared to 2017 was 7.3%, which is 0.8 percentage points less than for Ukraine as a whole (8.1%). Business entities of the city account for 37.8% of the total sales of the region.

The SME sector in the city accounted for 88.4% of the total sales of all economic entities (64.7% in the country as a whole). Due to the confidentiality of data in 2017, information on the growth of sales for the SME sector as a whole and large enterprises in Khmelnytskyi is not available. However, in 2018, small enterprises showed a real increase in turnover (goods and services) by 3.4% compared to 2017 (7.5% at the national level). In addition, turnover of IEs increased by 10.8% (13.5% for Ukraine).



### *Sales of industrial products*

Statistical information on the main indicators of enterprises by type of economic activity is not available at the level of cities of regional significance and districts. However, statistics on sales of industrial products by type of activity are available. Such information makes it possible to identify the main industries in Khmelnytskyi.

According to the Main Department of Statistics in Khmelnytskyi region in 2018, the volume of sold industrial products in Khmelnytskyi amounted to UAH 14.4 billion. Of these, 8.1 billion or 55.9% accounted for the processing industry. In particular, UAH 3.1 billion or 21.5% was provided by the production of rubber and plastic products, other non-metallic mineral products<sup>183</sup>. In second place in the processing industry is mechanical engineering (except for repair and installation of machinery and equipment) - 1.9 billion UAH or 13%, including 1.2 billion UAH of electrical equipment. Other activities include textile production, production of clothing, leather, leather products and other materials (UAH 1 billion or 6.7%), production of food and beverages (6.7%).

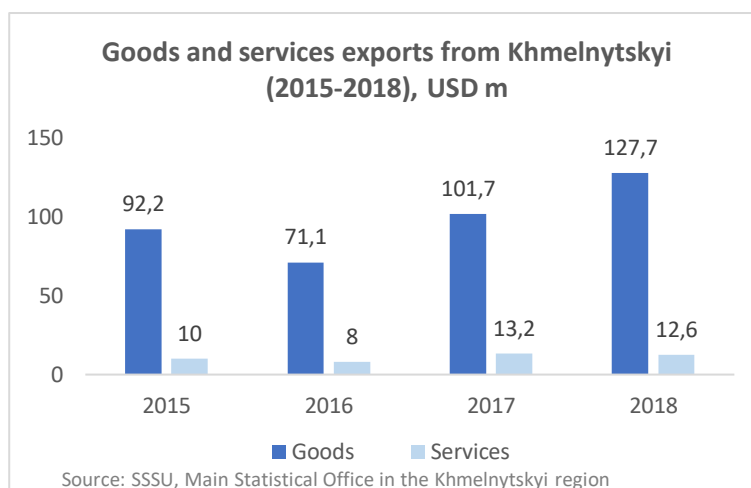
### *Capital Investments*

In 2018, Khmelnytskyi accounted for approximately UAH 4.5 billion of capital investments, which accounted for 39.6% of the volume of capital investments in Khmelnytskyi region. According to the results of 2018, the volume of capital investments per capita amounted to approximately UAH 16,702, which exceeds the figure at the national level - UAH 13,746. According to this indicator, Khmelnytskyi ranks 5th among the cities in the study.

<sup>183</sup> Data by type of activity are formed by homogeneous products.

## Export

According to the State Statistics Service of Ukraine, in 2018 the volume of exports of goods from the city of Khmelnytskyi amounted to USD 127.7 m, which is 25.6% more than in 2017. According to this indicator, Khmelnytskyi ranked 19<sup>th</sup> among the cities in the study for which relevant statistics are available. At the same time, exports of services decreased by 4.5% and amounted to USD 12.6 m (21<sup>st</sup> position).



If we analyze the commodity structure of the city's foreign trade, almost a quarter of exports fall on agricultural products and food industry (23.9% or USD 30.5 m). Exports of electrical equipment provide another 20.8% of exports. Among other goods, a significant volume of exports is provided by polymeric materials and plastics (16.9%), textiles (16.9%) and furniture (5.7%).

## Foreign direct investment

As of December 31, 2018, the city of Khmelnytskyi accounted for only USD 26 m of foreign direct investment (equity). This amount was USD 0.6 m or 2.3% less than at the beginning of 2018. At the same time, as of the end of December 2018, there was USD 97.2 per person in Khmelnytskyi, which is the third lowest rate among regional centers.

It should be noted that in general Khmelnytskyi region occupies only the 20<sup>th</sup> position in terms of direct investment among all regions of Ukraine. At the beginning of 2018, only 15.6% of direct investments in the region were concentrated in Khmelnytskyi.

## Safety and comfort

The results of other studies allow us to look at the level of safety and comfort of living in selected cities based on the assessments of their inhabitants. These factors are important for understanding the general situation in the city. In addition, comparisons with individual results of the Municipal Competitiveness Index are possible.

According to the study "Sixth Annual Ukrainian Municipal Survey"<sup>184</sup>, the city of Khmelnytskyi ranks 4<sup>th</sup> in terms of the Index of Quality of Service in the city with a score of 3.2 (1 - means "terrible, 5 -" excellent"), which indicates a significant satisfaction of residents with the level of comfort in the city. Khmelnytskyi ranks

<sup>184</sup> The survey was conducted by the Sociological Rating Group on behalf of the International Republican Institute's Center for Insights in Survey Research; The survey was funded by the United States Agency for International Development (USAID). See [http://ratinggroup.ua/research/regions/shestoy\\_vseukrainskiy\\_municipalnyy\\_opros.html](http://ratinggroup.ua/research/regions/shestoy_vseukrainskiy_municipalnyy_opros.html).

6<sup>th</sup> in the field of medical institutions, 6<sup>th</sup> in the field of transport infrastructure, 3<sup>rd</sup> in the field of roads, 6<sup>th</sup> in the field of industrial development.

In the same study, Khmelnytskyi is one of the safest cities in Ukraine according to residents. The value of the corresponding Index for the city is 1.9 (the value can be from 0 to 3, where 0 - "I feel completely in danger", 3 - "I feel completely safe") and according to this indicator the city ranks second among the 24 cities studied. Most respondents said they felt rather or completely safe after dark (66%), and only 27% said they felt rather in danger or completely in danger.

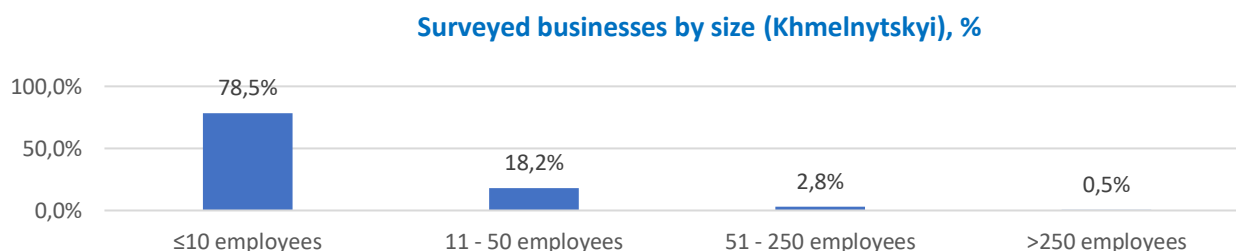
## ***Results of the "Municipal Competitiveness Index" in Khmelnytskyi***

### ***Sample description***

214 business entities took part in the survey in Khmelnytskyi. These are 115 (53.7%) enterprises-legal entities and 99 (46.3%) individual entrepreneurs (IE). When analyzing the answers, the array was weighed according to the criterion of the type of business entity of the respondents in order to meet the parameters of the target sample, namely 54.5% of legal entities and 45.5% of IE.

### ***The size of the surveyed business entities***

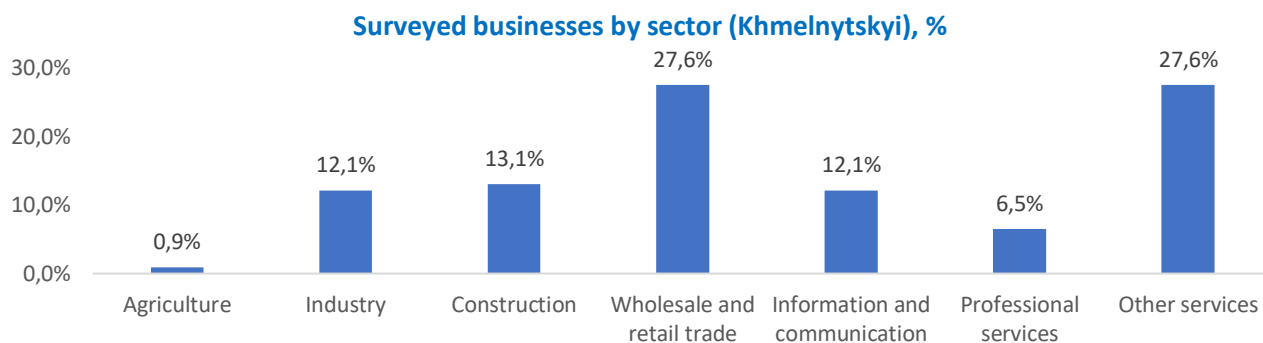
The majority of respondents (78.5%) are microbusiness, i.e. such business entities, which employ from 1 to 10 people. 18.2% are small entities, i.e. those that employ from 11 to 50 people. Medium-sized entities (from 51 to 250 employees) account for 2.8%, and large entities (more than 250 employees) - 0.5%.



### ***Industry and type of activity***

The surveyed business entities of Khmelnytskyi represent various branches of the economy. 27.6% of the surveyed business works in the trade sector (it includes wholesale and retail trade, repair of motor vehicles). Another 12.1% work in industry, 13.1% in construction, 0.9% - in agriculture. Almost half of the surveyed business is in the services sector (46.3%). Information and communication services are provided by 12.1% of respondents, and professional services - by 6.5%. Other services (business in the fields of transport services, arts and sports, education and health care, finance, and other service-related industries) account for 27.6% of respondents.





### ***Year of registration***

Most of the surveyed business entities were registered up to and including 2017 (74.8%). In the period 2018-2019, 25.2% of respondents were registered.

### ***Gender and age of business owners and business managers***

According to the results of the survey, in Khmelnytskyi 72.4% of business owners are men, 27.6% - women. At the same time, the share of men among legal entities is even higher - 77.7% against 22.3%.

Among the heads of legal entities, men make up 85.3% and women 14.7%. Among IEs, where managers and owners are the same person, the predominance of men is slightly lower - 63.6% vs. 36.4%. In general, 75.4% of all business entities are men and 24.6% are women.

The average age of business owners in Khmelnytskyi is 41.9 years (42.8 years in Ukraine). Thus, in Khmelnytskyi owners of IEs on the average on 4 years are younger than owners of legal entities (39,5 years against 43,3 years).

### ***Municipal competitiveness index: Khmelnytskyi results***

According to the results of the study, the city of Khmelnytskyi took the 1<sup>st</sup> place with the value of MCI 2019/2020 - 72.96 points. Thus, Khmelnytskyi is the leader in the ranking and belongs to the group of cities with high MCI.

Khmelnyskyi is more than 6 points ahead of Ivano-Frankivsk, which is located on the 2<sup>nd</sup> place. In addition, the city's result is more than twice the number of points Kherson has, which is located on the last place.

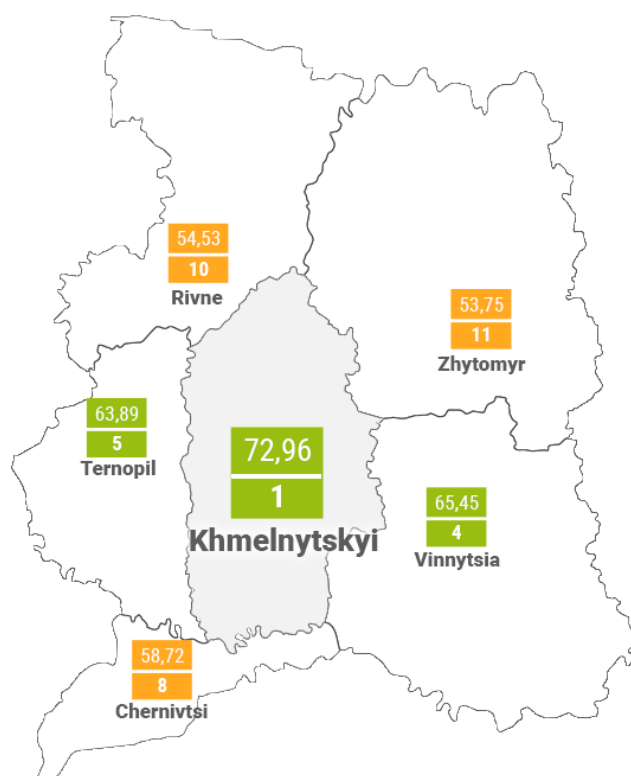
If we compare the value of MCI for Khmelnytskyi with the results of geographical neighbors, there are Vinnytsia and Ternopil, which also belong to the group of cities with high MCI (4<sup>th</sup> and 5<sup>th</sup> place, respectively). In addition, there are Chernivtsi, Rivne, and Zhytomyr, which have an average value of MCI (8<sup>th</sup>, 10<sup>th</sup> and 11<sup>th</sup> places, respectively).

Khmelnyskyi was able to achieve the highest position in the ranking due to leadership in a number of components that form the MCI. The strongest components:

- Access to public property (number one)
- Data transparency and openness (number one)
- Informal payments and corruption (number one)
- Leadership of municipal authorities (number one)
- Taxes and duties (number three)
- Development resources (number three)

The weakest components:

- Starting a business (number 14)
- Cost of compliance (number 13)



### 1. Starting a business

In Component 1 "Starting a Business", the city of Khmelnytskyi received 4.65 points, which is only the 14<sup>th</sup> highest indicator among all cities. Due to the significant duration of permitting procedures, this component is the most problematic for the city, which as a whole showed the best results and took first place in the ranking of MCI 2019/2020.

In 2018-2019, business registration in Khmelnytskyi lasted longer than the national average - 7.5 days against 6.1 days. At the same time, changes to the register took an average of 3.3 days, which is slightly faster than the average for all cities - 3.6 days.

In Khmelnytskyi, 12.9% of respondents who registered a business in 2018-2019 reported problems and obstacles during this procedure. This exceeds the figure for all cities - 8.8%. However, as many as 73.8% of respondents were able to get the necessary advice during registration, which is more than 3 percentage points exceeds the figure for the country (70.7%). As a result, it took 34 days to start a business (from the date of submission of documents for registration to the date of the first sale of goods and services) in Khmelnytskyi, which is about 2 days longer than the national average (32.1 days).

One of the reasons for the low scores on business registration may be the higher workload on business registrars than in other cities. There are only 7 registrars per 10,000 business entities in Khmelnytskyi (in state authorities, local self-government bodies and state notaries). At the same time, Khmelnytskyi ranks first in the number of businesses per 10,000 population.

It should be noted that the city still has problems with the speed of obtaining certain permits. If obtaining permits and registration documents in the field of construction on average in the country took 37.2 days, in Khmelnytskyi this figure is 37 days. However, in Khmelnytskyi it takes more time to obtain a declaration of

compliance of the material and technical base of the business entity with the requirements of fire safety legislation - 15.6 days against 11.8 days on average for all cities.

## ***2. Access to public property***

According to the results of the component (sub-index) "Access to public property", the city of Khmelnytskyi received 8.03 points and took 1<sup>st</sup> place. The city's leadership is ensured by the highest level of transparency of information on communal property and a fast procedure for obtaining land documents. At the same time, the issue of having the relevant documents is a weakness of the city.

24.8% of respondents reported that they have documents confirming the right of ownership / lease of land on which they are engaged in business activities (30% at the national level). In particular, it is 44.2% of those respondents who believe that the issue of land documents concerns them (46.8% at the national level). The duration of procedures for obtaining documents confirming the right of ownership / lease of land in 2018-2019 in Khmelnytskyi averaged 41.9 days, which is more than 30 days faster than the average for all respondents (72.4 days).

Khmelnytskyi received the highest assessments for the transparency of information on communal property. In particular, 33.6% of respondents reported the availability of information on the availability of communal land that can still be provided for use or used for construction, etc. (18.1% for all respondents). In addition, 44.1% of respondents indicated that information on municipal real estate (including non-residential premises) is available (29.2% for all respondents).

## ***3. Transparency and data openness***

Within the component "Transparency and data openness" Khmelnytskyi is the leader, as he took 1<sup>st</sup> place with 9.34 points. In Khmelnytskyi, respondents generally praised access to information on the local budget, local regulations, and public procurement.

In particular, in Khmelnytskyi, access to information on public procurement (22.8%) and access to information on the local budget (22.4%) were assessed almost equally positively ("good" and "excellent"). On average for all cities, these figures are 17.3% and 10.2%, respectively. If among all respondents only 13.9% of all respondents positively assessed access to local regulations, in Khmelnytskyi such assessments were chosen by 18.7% of respondents.

## ***4. Compliance cost***

The cost of complying with the law in Khmelnytskyi is almost the same as the national average. The city took 13<sup>th</sup> place with 7.01 points. The city's performance was determined by low (compared to other cities) respondents' assessments of the time and money spent on compliance with local regulations, one of the highest in terms of the number of visits by city inspectors.

In Khmelnytskyi, entrepreneurs spend an average of 3.1 days in compliance with local regulations, which is almost 1 day less than the national average of 4 days. On average, 3.6% of annual income is spent on local regulations in Khmelnytskyi, which is also slightly lower than the average for all respondents - 3.7%.

The results of the survey show that in Khmelnytskyi entrepreneurs are often visited by city inspectors (on average 0.9 times a year in the city against 0.7 times a year at the national level). However, as a result, the average time spent on communication with inspectors is 4.2 days, which is almost 1 day less than the national average (5 days).

## ***5. Taxes and duties***

Component (sub-index) 5 "Taxes and duties" is one of Khmelnytskyi's strengths. The city received 8.02 points and took 3<sup>rd</sup> place. Khmelnytskyi's high performance was achieved by a combination of factors such as low

tax costs, low time costs for the administration of taxes and duties, and the availability of benefits for the payment of local taxes and duties.

In the survey, respondents in Khmelnytskyi reported that on average they spend 24.9% of annual income on taxes and duties (including USC), which is less than the average result for all cities (26.8% of annual income). If we analyze the burden of administration of taxes and duties, the average time spent by entrepreneurs in Khmelnytskyi was 39.7 days, which is one of the lowest rates among the surveyed cities (59 days on average).

Regarding local taxes, 23.4% of respondents are an obstacle to Khmelnytskyi, although for all cities the average is 20.4%. In addition, in Khmelnytskyi 7.0% of respondents reported that they received benefits for the payment of local taxes and duties during 2018-2019, which is the highest figure among the surveyed cities (among all respondents - 3.6%).

### ***6. Informal payments and corruption***

According to the results of the research, Khmelnytskyi took the 1<sup>st</sup> place within Component (sub-index) 6 "Informal payments and corruption", receiving 8.84 points. The city's performance is due in particular to factors such as one of the lowest levels of "informal payments" and one of the highest levels of awareness among entrepreneurs about existing anti-corruption measures at the city level.

In particular, in Dimension 1 "Bribes / Gifts", 7.6% of respondents in Khmelnytskyi reported situations related to "informal expenses" when interacting with city officials on any business issues during 2018-2019. On average, 9.9% of respondents dealt with such situations in all cities. At the same time, in Dimension 2 "Anti-corruption measures", 42.5% of respondents were informed about the implementation of specific anti-corruption measures by the municipal authorities (open budget, e-reception, anti-corruption city program, etc.) (on average for all cities - 31.8%).

### ***7. Security of operating a business***

Within Component (sub-index) 7 "Security of operating a business" Khmelnytskyi received 5.55 points and took 13<sup>th</sup> place in the study. This result of Khmelnytskyi is due to the high share of businesses operating in the shadows and the share of entrepreneurs who have suffered from criminal acts.

According to the survey, 51.9% of Khmelnytskyi's respondents believe that competitors do business in the shadows, which is almost 7 percentage points more than the national average and is the worst indicator (45.1% at the national level). 2.5% of the total respondents experienced attempts of illegal takeovers at the country level in 2018-2019. In Khmelnytskyi, the situation with raiding looks more or less calm, as here only 1.9% of respondents have experienced such actions.

In Khmelnytskyi, 15.0% of respondents reported that in 2018-2019 they suffered losses due to extortion, theft, robbery, vandalism, arson, which is slightly higher than the national average (14.3% of respondents). At the same time, the losses that entrepreneurs suffer from such criminal acts, respondents estimated at 7.9%, which is 2percentage points less than the average (10.8% at the national level).

Business in Khmelnytskyi spends an average of 2.7% on security / protection, which does not differ from the national average.

### ***8. Leadership of municipal authorities***

The city of Khmelnytskyi took the 1<sup>st</sup> place in Component (sub-index) 8 "Leadership of municipal authorities", receiving 9.35 points. The city's high position is the result of the best scores in both dimensions, which form the sub-index - "Business Development Support" and "Public-Private Dialogue".

In terms of supporting business development, Khmelnytskyi received 9.2 points (1<sup>st</sup> place). Entrepreneurs of Khmelnytskyi, in particular, best assess the attitude of city officials to private business. As many as 46.6% of respondents believe that the attitude of the municipal authorities to business is "very good" or "good" (20% is the average for all cities). Also, 64.4% of respondents agree that the city government supports the creation of new business (38.3% average for all cities), and 62.9% indicate that the city government supports existing business (35.5% average for all cities). The results of the survey also complement the "hard data" on the activities of the city council. According to "hard data", the city received 8 out of 10 points. In Khmelnytskyi, in particular, the technical documentation on the normative monetary appraisal of the city's lands is outdated compared to other cities, and the city boundaries have not been established. In addition, compared to other cities, the website of the Khmelnytskyi City Council at a lower level provides information on public procurement.

The Public-Private Dialogue dimension demonstrates that businesses in Khmelnytskyi have the fewest problems communicating with the authorities compared to most other cities. As part of the measurement, the city received 9.49 points and also took 1<sup>st</sup> place. In Khmelnytskyi, 12.1% of business representatives believe that they have "significant" and "very significant" opportunities to participate in the development of local documents (strategies, plans, programs, etc.), while the average for all cities is only 6.5%. . In addition, 15.9% of respondents indicate that the city always or often consults with business when adopting new or amending existing regulations that may affect business. This is the highest figure among the surveyed cities and more than twice the figure for all cities as a whole - 7.4%.

### **9. Development resources**

Khmelnytskyi occupies the 3<sup>rd</sup> position within Component (sub-index) 9 "Development resources", receiving 6.08 points. The assessment of the city is based on the results of three dimensions that form a single component: Human resources, Financial resources and infrastructure, Business support infrastructure.

As part of **Dimension 1 "Human resources"**, the city took 12<sup>th</sup> place, receiving 5.65 points. If we analyze some indicators of this dimension, in Khmelnytskyi only 8.4% of respondents rate the quality of local labor as "excellent" and "good" (among all respondents - 7.6%). In addition, only 7.5% of respondents give positive assessments of vocational education of employees in the local labor market (10% of all respondents). Thus, in general, in Khmelnytskyi, as in other cities, a small proportion of BEs give high marks to the existing workforce.

At the same time, almost two thirds of respondents (65.4%) believe that insufficient training of employees is a serious obstacle to doing business (60.7% of all respondents), and 70.6% - experience the problem of labor shortage, which is one of the highest indicators (among all respondents - 70%). As a result, the lack of skilled labor is the biggest problem of entrepreneurs in Khmelnytskyi according to the rating of obstacles to doing business (indicated by 33.2% of respondents).

The analysis of the situation regarding the number of labor force in the city is supplemented by statistical data. In particular, at the end of 2019 in Khmelnytskyi there were 1.3 vacancies per 100 businesses, which is less than the average for the surveyed cities (3.6 vacancies)<sup>185</sup>. On the one hand, this may indicate a lower demand for labor compared to other cities. On the other hand, the employment center may be a less popular platform for finding staff. In addition, as of January 1, 2019, the share of the working age population (15-64 years) in Khmelnytskyi was 70.6%. which is one of the highest rates among the studied cities. At the national

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<sup>185</sup> Sources for calculations: 1) Number of vacancies: The situation on the labor market and the results of the state employment service. Data on the page of the Khmelnytskyi regional employment center, <https://khm.dcz.gov.ua/analytics/65> 2) Number of businesses: According to the Main Department of Statistics in Khmelnytskyi region

level, this figure was 67.8%<sup>186</sup>. Thus, compared to other cities and the country as a whole, the problem of population aging may be less felt in Khmelnytskyi.

Within **Dimension 2 "Financial resources and infrastructure"**, the city took the 1<sup>st</sup> place, receiving 7.59 points. According to the survey, only 1.2% of respondents in the country received financial support from the city authorities during 2018-2019. If we consider individual cities, in Khmelnytskyi this figure is 1.4%, which is approximately at the level of the average value. At the same time, 76.6% of Khmelnytskyi BEs indicate that lack of financial resources is a serious obstacle to doing business (77.8% is the average for all cities).

Data on city budget expenditures complement the picture of financial resources to support business in the city. In 2019, the actual expenditures to support small and medium enterprises in the city amounted to about 1802 thousand UAH per 10 thousand businesses<sup>187</sup>. This is the highest rate among the studied cities. However, it should be noted that in general, SME support expenditures in most cities are low or non-existent. A higher order of numbers may indicate a higher level of leadership of the city government to support business.

In the context of infrastructure, the BEs surveyed in the researched cities had different experiences in connection to the grid. On average, it took Khmelnytskyi about 88 full days to connect to the power supply systems, from the day the application was submitted to the day of the actual connection. For the whole country, this figure averages 85 days. Thus, the city is only slightly more difficult to connect to electricity than the average for all surveyed cities.

In **Dimension 3 "Business support infrastructure"** Khmelnytskyi ranks only 8<sup>th</sup> (5 points). According to the survey, 15% of respondents personally received business support services from the city authorities (information, consulting, training, etc.), which is one of the highest rates among the surveyed cities (11% average for all cities). At the same time, 50% of them rated such services as "good" and "excellent" (48.6% - among all respondents).

39.7% of BEs respondents in Khmelnytskyi indicate the existence of business support centers in the city, which is one of the highest indicators among the surveyed cities (32.6% - an indicator for all respondents). At the same time, "hard data" show that as of the end of 2019, there was only one infrastructure facility in the city to support business, created with the participation of city authorities - the City Development Agency. Thus, entrepreneurs' awareness of business support centers may also apply to other business support infrastructure facilities in the city.

In Khmelnytskyi, 46.7% of respondents know about the activities of business associations and business clubs in their city (45.9% of all respondents). Only 11.7% of BEs respondents are members of such organizations, which is at the level of the indicator for all respondents as a whole (11.5%).

## **10. Support of the innovations**

The city of Khmelnytskyi took the 7<sup>th</sup> position (6.1 points) within Component (sub-index) 10 "Support of innovations".

14.08% of respondents in the city reported that in 2018-2019 their business interacted with research institutions or technology companies, which is one of the lowest rates among all cities (18.9% - the average

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<sup>186</sup> According to the State Statistics Service of Ukraine, the Main Department of Statistics in Khmelnytskyi region.

<sup>187</sup> Reports on the implementation of local budgets (expenditures under the program classification code 7610 - Promotion of small and medium enterprises), as well as the responses of city councils to requests for public information were used. For some cities, information on expenditures is clarified through telephone interviews with city council executive staff.

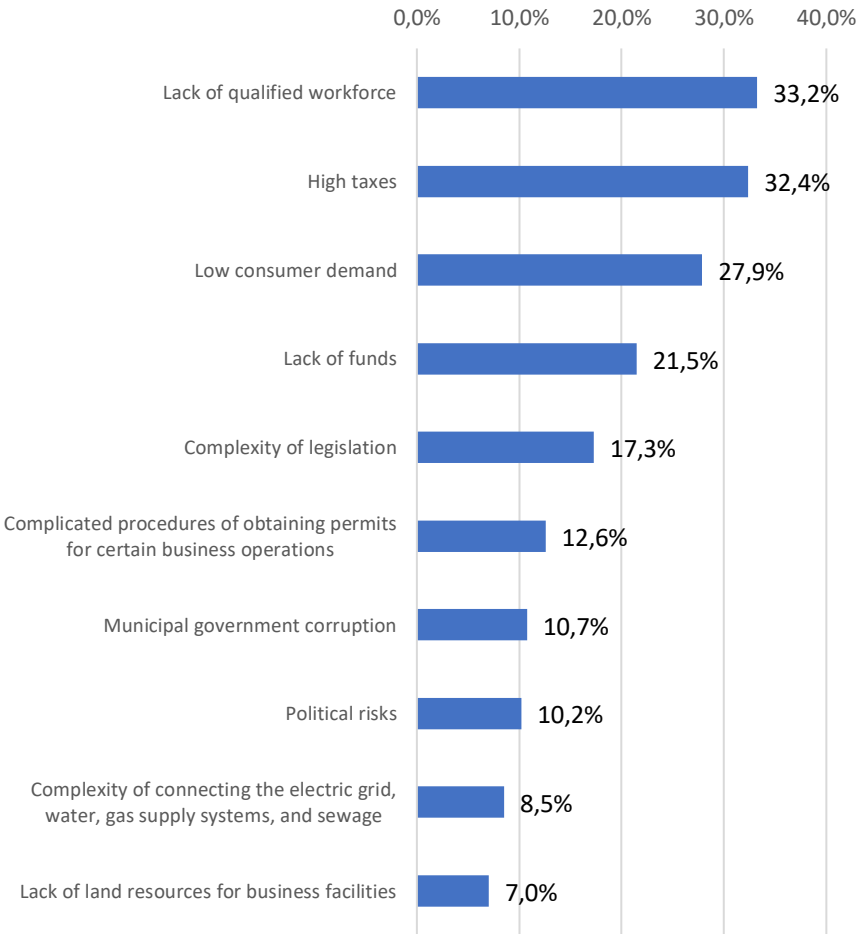
result of all cities). However, Khmelnytskyi's business representatives are more satisfied with technology transfer than the average respondents. 10.8% indicate that the relevant needs (transfer of patents for inventions, etc.) are "met to significant extent" and "fully met" (8% at the national level).

Respondents in Khmelnytskyi give the highest score to local government support for local innovation programs (funded from the local budget) - 2.34 points of the city against 1.91 points on average among all cities (with a maximum of 5 points). Also, in Khmelnytskyi more often than on average in all cities introduced new technologies, solutions, or products in 2018-2019 (42.15% vs. 40.2%). In addition, 1.89% of surveyed enterprises and individual entrepreneurs reported that they belong to clusters. This is lower than for all cities as a whole (2.1%). All factors in general provide a relatively high level of satisfaction of Khmelnytskyi entrepreneurs with the state of innovation support in the city.

**Barriers for business operation**

The interviewed business entities named the main obstacles they face in doing business in Khmelnytskyi. The first three places in the ranking of barriers were shared by factors such as lack of skilled labor, high taxes, and low consumer demand. Each of these barriers to doing business was reported by 33.2%, 32.4% and 27.9%, respectively. Thus, in Khmelnytskyi, as in a number of other cities, the problem of shortage of skilled labor is most acute, and therefore ahead of the problems of high taxes and low demand, which top the ranking of obstacles for all respondents in general..

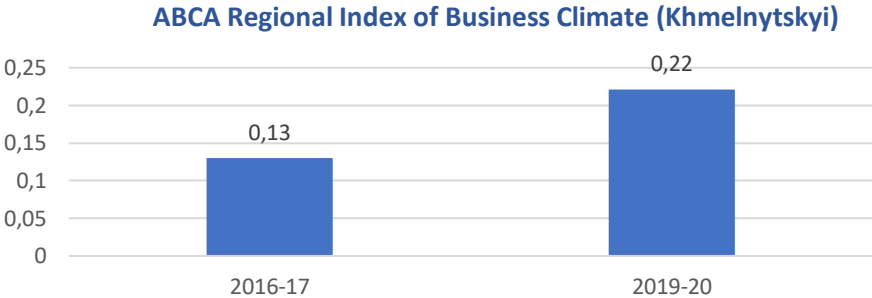
**TOP-10 barriers to doing business in Khmelnytskyi, %**



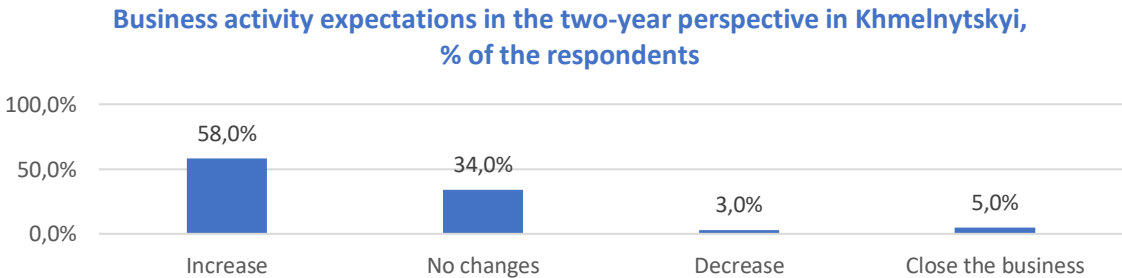
Lack of funds is called an obstacle by 21.5% of respondents (fourth place). The complexity of the legislation is a problem for 17.3% of respondents, and the complex procedures for obtaining permits - 12.6%. Corruption of the city government (10.7%) and political risks (10.2%) are next in the ranking. 8.5% of respondents consider it important to connect to electricity, water, gas supply and drainage systems. The list of top 10 obstacles is completed by the lack of land plots for business facilities (7.0%). Khmelnytskyi is one of the two cities where this problem is one of the most important obstacles.

**Expectations and assessments of the business climate and economic conditions in Khmelnytskyi**

**Regional SME Business Climate Index.** ABCA SME Business Climate Index in Khmelnytskyi is 0.22 (8<sup>th</sup> place among the surveyed cities). This is more than in 2017 (0.13), which indicates an improvement in business perception of the business climate. This coincides with the all-Ukrainian trend.



**Long-term expectations for business activity.** Business in Khmelnytskyi has optimistic long-term development plans for the next two years. More than half of the respondents (58%) said they plan to expand their business, and 34% - to stay at the current level. At the same time, only 3% planned to reduce the business, and 5% - to close it. The balance index<sup>188</sup> is equal to +0.50 (at the national level +0.45).

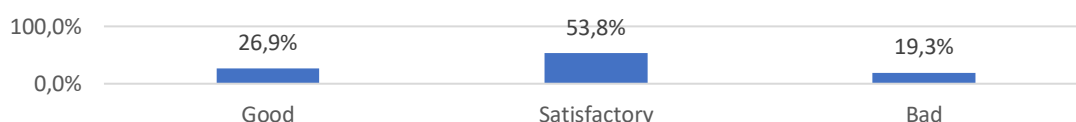


**Assessment of the financial and economic situation of business entities.** In Khmelnytskyi, the majority of BEs respondents (53.8%) assessed their current financial and economic situation as satisfactory. The rest of the respondents rated it as good (26.9%) or bad (19.3%). Thus, positive assessments outweigh negative ones, and the balance index of financial and economic situation is +0.08 (at the national level +0.05).

<sup>188</sup> Calculated as the average of all answers on a scale from -1 to 1, where 1 corresponds to the simplification of this procedure, 0 - no change, and -1 - complication

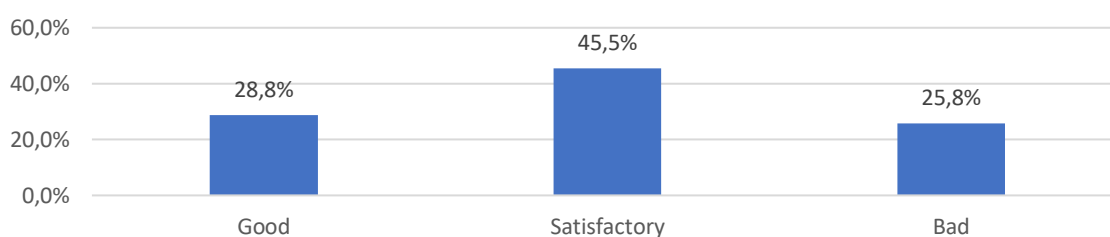


### Assessment of the business situation of business entities in Khmelnytskyi, % of the respondents



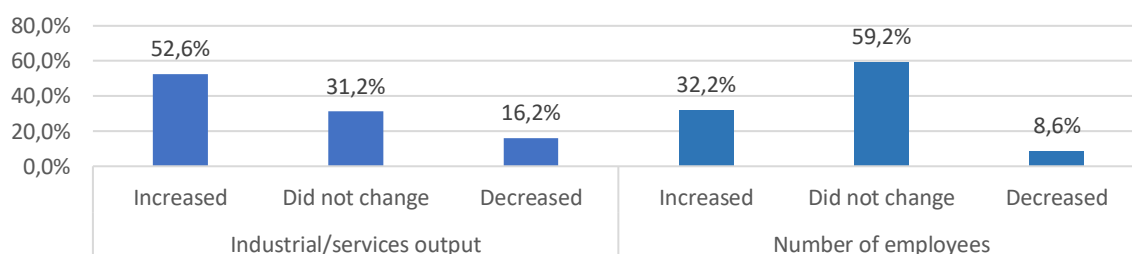
**Assessment of the current overall economic environment for business activities.** Almost half of the surveyed BEs (45.5%) rated the current general economic environment as satisfactory. 25.8% of respondents assess the general economic environment as bad, and 28.8% - good. Thus, the index of assessment of the general economic environment for business activities has a positive value: +0.03. And this value of the index is much higher than for the country as a whole (-0.12).

### Assessment of the overall economic situation (Khmelnytskyi), % of the respondents



**Change in the production output over the past two years.** More than half (52.6%) of the surveyed BEs indicated that they increased the volume of production or provision of services in 2018-2019. About a third of respondents (31.2%) did not change the volume, and 16.2% - reduced. Thus, the index of business activity is +0.36 (which is slightly higher than the value for all respondents +0.31), which reflects the predominance of the share of BEs, which expanded their production or provision of services, over the share of those who reduced volumes.

### Change in the industrial/services output and in the number of employees in Khmelnytskyi, % of the respondents



**Change in the number of employees of the business entities over the past two years.** More than half of the surveyed BEs (59.2%) indicated that the number of employees did not change in 2018-2019. The share of those where the number of employees (32.2%) increased significantly exceeds the share of those where the number of employees decreased (8.6%). Thus, the index of changes in the number of employees is +0.24, which is higher than for all respondents as a whole (+0.16).

**Deregulation: changes in administrative procedures.** According to respondents, the process and conditions of business registration have simplified the most in the last two years, while the situation with inspections has deteriorated and the conditions for paying taxes have not changed.

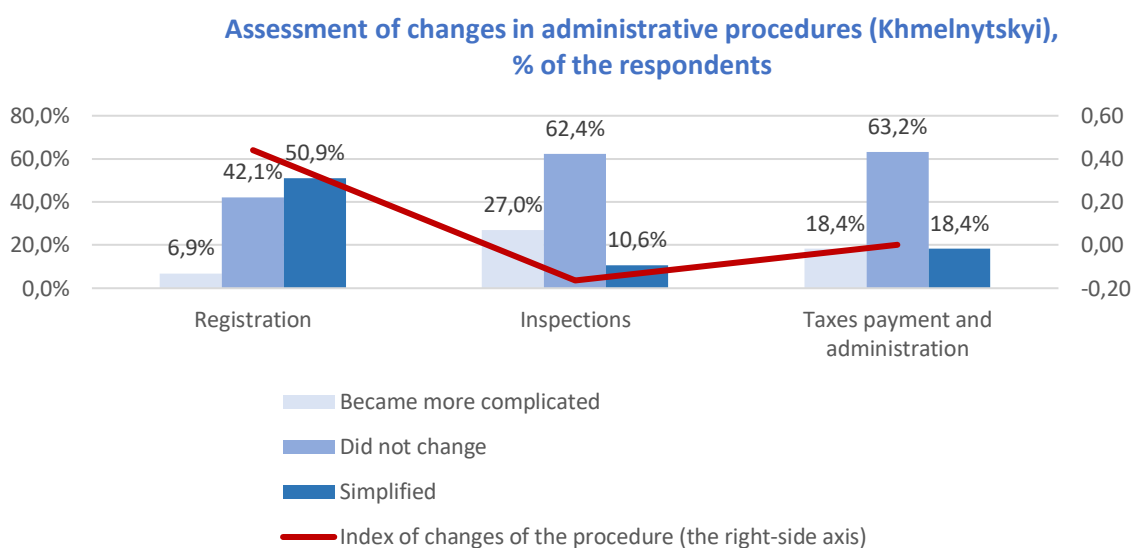
50.9% of BEs point to the simplification of the business registration procedure for the previous two years. The rest of the respondents did not feel any changes in this procedure during this time, and only a small percentage of respondents - 6.9% - said that, in their opinion, business registration has become more difficult.

As a result, the index of change in the registration procedure is +0.44<sup>189</sup>. This is the highest value of such an index compared to the other two procedures: passing inspections and paying taxes.

Speaking about the administration of tax payments, more than half of the BEs (63.2%) say that they did not notice any changes in the complexity of this procedure. And the rest are divided into two equal parts: 18.4% of those for whom paying taxes has become easier, and those for whom it has become more difficult. Therefore, the index of change in the procedure for administering taxes is zero.

The index of changes in passing inspections has a negative value: -0.16. The share of business leaders and individual entrepreneurs who claim that inspections have become more difficult is 27.0% and is much higher than the share of businesses that have simplified inspections compared to 2018 (10.6%). However, the largest share of the surveyed business (62.4%) did not notice any changes in the situation with inspections.

As a result, the value of the general index of change of administrative procedures, which is calculated as the average value of the indices of change of these three procedures, is +0.09.



## Recommendations

According to the MCI results (subject to the weak components and dimensions) the following key recommendations have been formulated for the city. In addition, the city government should pay attention to recommendations that are common for all the cities in general.

### Component 1. Starting a business

- It is necessary to improve the quality and availability of consulting services when starting a business, in particular by expanding the capabilities of consulting services in the centers of administrative services.

### Component 4. Compliance cost

- Deregulation measures at the local level need to be continued in order to reduce the time and money spent by businesses on the implementation of local regulations.

### Component 9. Development resources

<sup>189</sup> Calculated as the average of all answers on a scale from -1 to 1, where 1 corresponds to the simplification of this procedure, 0 - no change, and -1 - complication.

- It is necessary to provide support for innovative projects in the framework of programs of financial support for entrepreneurship in cities.
- Business cooperation should be encouraged through the formation of clusters at the initiative or support of the city government.

# Cherkasy

## Number 19 in MCI

### *General information*

The city of Cherkasy is the administrative center of the Cherkasy region, a city of regional significance.

Cherkasy is also the administrative center of Cherkasy district, but is not part of the district. The city itself is divided into Prydniprovsky and Sosnivsky districts.

The village of Orshanets is also subordinated to the Cherkasy City Council.



### *Location*

The city of Cherkasy is located in central Ukraine, on the right bank of the Kremenchuk Reservoir.

Cherkasy is located in the eastern part of Cherkasy region. The city is surrounded by Cherkasy region. Not far from Cherkasy is the city of Smila, the third largest city in the region.

The nearest regional centers are Vinnytsia, Kyiv, Poltava and Kropyvnytskyi.

### *Demographic situation*

As of January 1, 2019, the permanent population of Cherkasy (within the city council) was 274.8 thousand people. Only about 1 thousand people or 0.3% of the population falls on the village of Orshanetsk, which is subordinated to the Cherkasy City Council<sup>190</sup>.

The city is the largest population of Cherkasy region. It accounts for more than a fifth of the region's population (22.8 %). Apart from Cherkasy, there are no more settlements with a population of more than 100,000 people in Cherkasy region. The second largest city in the region is Uman (about 83 thousand inhabitants), and the third - Smila (more than 67 thousand people).

In the structure of the population of Cherkasy, as well as in the country as a whole, women predominate (54.4%). There are 839 men per 1,000 women (864 for Ukraine as a whole).

The share of the population aged 15-64 is 70.0% (the figure for Ukraine is 67.8%). In total, there are 429 people aged 0-14 and over 65 (475 in Ukraine) per 1,000 people of working age.

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<sup>190</sup> Here and further in the profile of Cherkasy statistical data of the State Statistics Service of Ukraine, the Main Department of Statistics in Cherkasy region are used

In 2018, there was a natural population decline in Cherkasy (-5.0 per 1,000 available population). The birth rate was 7.4 and the mortality rate was 12.4.

## Development of entrepreneurship

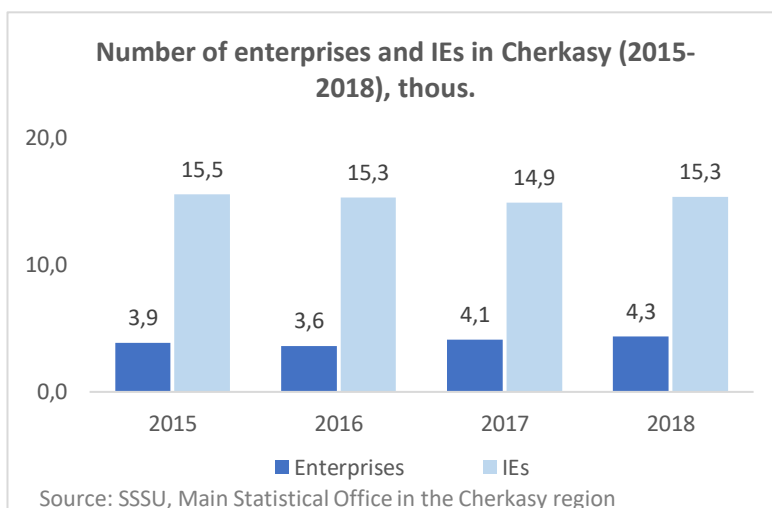
### Key structural business statistics in Cherkasy in 2018

|                           | Absolute figures   |                          |                  | Relative figures      |                           |                         |
|---------------------------|--------------------|--------------------------|------------------|-----------------------|---------------------------|-------------------------|
|                           | Number of entities | Employment, thsd persons | Turnover, UAH bn | Share in total number | Share in total employment | Share in total turnover |
| <b>Large enterprises</b>  | 5                  | 9.5                      | 15.1             | 0.03%                 | 11.1%                     | 19.6%                   |
| <b>SMEs</b>               | 19647              | 76.8                     | 61.7             | 99.97%                | 88.9%                     | 80.4%                   |
| <b>Medium enterprises</b> | 154                | 26.8                     | 28.6             | 0.78%                 | 31.0%                     | 37.3%                   |
| <b>Small enterprises</b>  | 4180               | 18.9                     | 22.0             | 21.27%                | 21.9%                     | 28.6%                   |
| <b>In which</b>           |                    |                          |                  |                       |                           |                         |
| <b>micro</b>              | 3656               | 8.6                      | 7.4              | 18.60%                | 10.0%                     | 9.7%                    |
| <b>IEs</b>                | 15313              | 31.1                     | 11.1             | 77.92%                | 36.0%                     | 14.4%                   |
| <b>Total</b>              | 19652              | 86.3                     | 76.7             | 100.00%               | 100.0%                    | 100.0%                  |

Source: Own calculations based on data from the State Statistics Service of Ukraine, Main Statistical Office in the Cherkasy Region.

### Number of business entities

In 2018, there were 19.7 thousand SME entities in the city of Cherkasy (including 154 medium-sized enterprises, 4.2 thousand small enterprises and 15.3 thousand individual entrepreneurs), while large enterprises were only 5. Thus, 22.1% of business entities were registered as legal entities (19.3% in Ukraine as a whole), while the rest functioned as IEs.



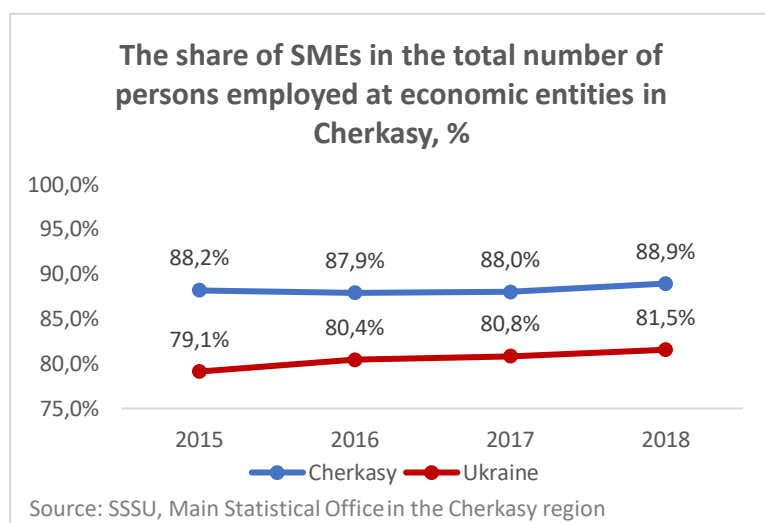
According to the number of business entities, Cherkasy is on the 11<sup>th</sup> place among the cities selected for research. The city accounts for 36% of the total number of economic entities in Cherkasy region, which emphasizes the central role of the city in the region's economy.

There were 705 SMEs per 10,000 inhabitants in Cherkasy. This indicator placed the city on the 9th place among the cities of Ukraine.

In 2018, the number of SMEs in the city increased by 3.6% compared to 2017, which is slightly higher than in the country as a whole (1.9%). This was due to an increase in the number of individual entrepreneurs by 3.1% (1.2% for the country) and small businesses by 5.7% (5.1% in Ukraine). The number of medium - sized

enterprises increased by 6.2% (7.5% at the national level).

## Employment



In 2018, 86.3 thousand people were employed in business entities of the city of Cherkasy, which is 8.6% more than in 2017 (4.8% corresponding to the national level). The city accounts for 39.4% of the total number of employees in the Cherkasy region.

The share of employees in SMEs in Cherkasy was 88.9% of the total number of employees in all businesses, which is 7.4 percentage points higher than for Ukraine as a whole (81.5%). More than half of the employees are small businesses. In

particular, 36% of employees were employed at IEs, and 21.9% were employed at small enterprises.

Compared to 2017, the number of people employed in SMEs in Cherkasy increased by 9.7% (in Ukraine - 5.7%), and large - remained unchanged (with a growth of 0.9% at the national level). The main increase among SMEs was accounted for by individual entrepreneurs (4.7 thousand people or 17.9%). Employment at medium-sized enterprises increased by only 1.3 thousand people or 5.3%, while employment at small enterprises increased by 0.8 thousand people or 4.1%. The corresponding indicators of change in the number of employees at the national level were + 5.8% for medium-sized enterprises, -1.1% for small and + 10.5% for IEs.

Statistics show that in general, Cherkasy region shows the unemployment rate of the working age population at the level of the average in Ukraine. In 2019, the corresponding indicator of the region was 8.5% against 8.6% at the national level. At the end of 2019, 1,961 people had the status of unemployed in Cherkasy, and the number of vacancies was 248. Accordingly, the workload of registered unemployed was about 8 people per vacancy. However, due to quarantine measures and crises due to the COVID-19 pandemic, in 2020 the situation on the city's labor market may worsen.

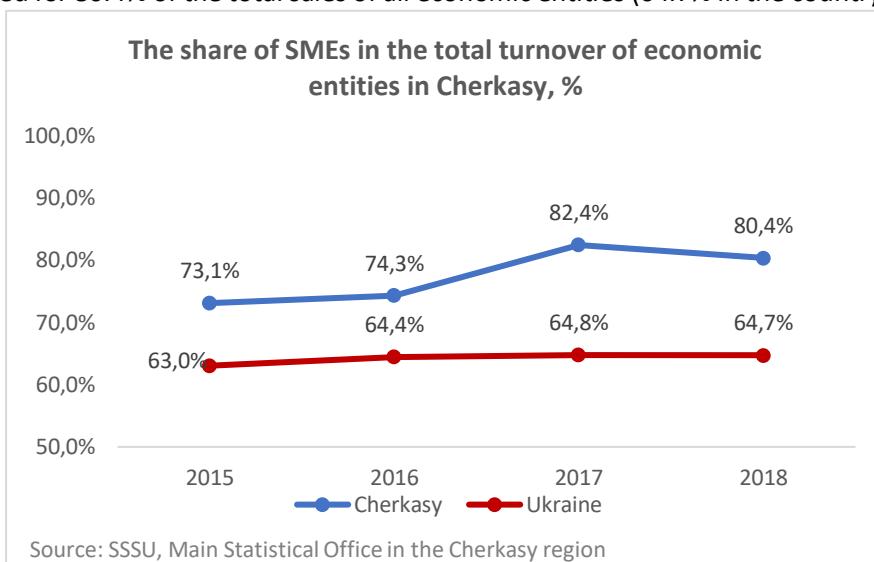
## Turnover

According to the results of 2018, the turnover of products (goods and services) of economic entities of the city of Cherkasy amounted to UAH 76.7 billion in current prices. Real growth (i.e. adjusted for the inflation index) of sales compared to 2017 was only 1%, which is 7 percentage points less than for Ukraine as a whole (8.1%). Business entities of the city accounted for 38.7% of the total turnover of the Cherkasy region .

The SME sector in the city accounted for 80.4% of the total sales of all economic entities (64.7% in the country as a whole). In 2018, SMEs in Cherkasy showed a decrease in sales by 1.4% compared to 2017, although at the national level there was an increase (by 8.1%). At the same time, large enterprises showed growth of 13%.

A slight increase in turnover of the SME sector was due to an increase in the volume of small enterprises by 11.5% and IEs by 7.6%. At the same time, turnover of small enterprises fell by 12.1%.

Due to a significant increase in turnover of large enterprises and a slight increase in SMEs, the share of SMEs compared to 2017 decreased by 2 percentage points.



### *Sales of industrial products*

Statistical information on the main indicators of enterprises by type of economic activity is not available at the level of cities of regional significance and districts. However, statistics on sales of industrial products by type of activity are available. Such information makes it possible to identify the main industries in Cherkasy.

According to the Main Department of Statistics in Cherkasy region in 2018, the volume of sold industrial products in Cherkasy amounted to almost UAH 28 billion. Of these, 18.3 billion or 65.3% accounted for the processing industry. In particular, UAH 5.2 billion or 18.6% was provided by the production of chemicals and chemical products<sup>191</sup>. In second place is the production of food, beverages and tobacco - 3.4 billion UAH or 12%. Among other activities are mechanical engineering (except for repair and installation of machinery and equipment) - 2.3 billion UAH or 8.1%, the production of rubber and plastic products; other non-metallic mineral products - UAH 2 billion or 7.2%, manufacture of wood products, paper production and printing - UAH 1.4 billion or 4.9%.

### *Capital Investments*

In 2018, Cherkasy accounted for approximately UAH 2.9 billion of capital investments, which was more than a quarter (25.9%) of the volume of capital investments in Cherkasy region. According to the results of 2018, the amount of capital investment per capita was approximately UAH 10,428, which is lower than the national level - UAH 13,746. According to this indicator, Cherkasy ranks 20<sup>th</sup> among the cities in the study.

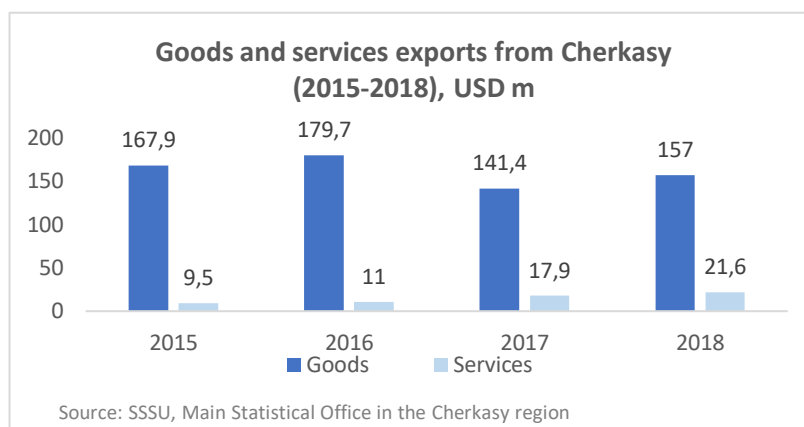
### *Export*

According to the State Statistics Service of Ukraine, in 2018 the amount of exports of goods from Cherkasy was USD 157 m which is 11% more than in 2017. According to this indicator, the city ranked 16<sup>th</sup> among the cities for which relevant statistics are available.

<sup>191</sup> Data by type of activity are formed by homogeneous products.

At the same time, exports of services increased by 20.7% and reached USD 21.6 m (17<sup>th</sup> position).

If we analyze the commodity structure of the city's foreign trade, more than half of exports (USD 98.8 m or 62.9%) are provided by agricultural and food products. The rest of the exports are primarily wood and wood products (7.8%), chemical and related industries (5.8%) and textiles (3.9%).



### *Foreign direct investment*

As of December 31, 2018, the city of Cherkasy accounted for 105.1 m of foreign direct investment (equity). The specified amount was USD 1 m or 0.9% less than at the beginning of 2018. At the same time, as of the end of December 2018, there was USD 381.2 per person in Cherkasy.

It should be noted that in general Cherkasy region ranks 14<sup>th</sup> in terms of direct investment among all regions of Ukraine. At the beginning of 2018, almost a third of investments in the region (31.6%) were concentrated in Cherkasy.

### *Safety and comfort*

The results of other studies allow us to look at the level of safety and comfort of living in selected cities based on the assessments of their inhabitants. These factors are important for understanding the general situation in the city. In addition, comparisons with individual results of the Municipal Competitiveness Index are possible.

According to the study "Sixth Annual Ukrainian Municipal Survey"<sup>192</sup>, The city of Cherkasy ranks 7<sup>th</sup> in the value of the Quality of Public Goods and Services Index with a score of 3.0 (1 - means "terrible, 5 - " excellent"), which indicates a relatively high level of satisfaction of residents with comfort in the city. Cherkasy lags behind in particular in the field of medical institutions (16<sup>th</sup> place) and in the field of industrial development (18<sup>th</sup> place), but in other areas the situation is better: transport infrastructure - 8<sup>th</sup> place, in the field of roads - 4<sup>th</sup> place.

In the same study in Cherkasy the average level of security is felt by residents. The value of the corresponding Index for the city is 1.5 (the value can be from 0 to 3, where 0 - "I feel completely in danger", 3 - "I feel completely safe") and according to this indicator it ranks 15<sup>th</sup> among the 24 studied cities. 47% of respondents said that they feel rather or completely safe after dark and only 45 % answered that they feel mostly in danger or completely in danger.

## *Results of the "Municipal Competitiveness Index" in Cherkasy*

### *Sample description*

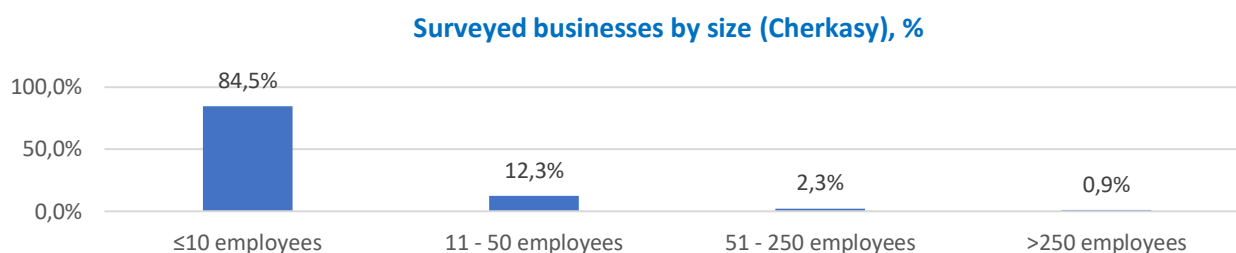
<sup>192</sup> The survey was conducted by the Sociological Rating Group on behalf of the International Republican Institute's Center for Insights in Survey Research; The survey was funded by the United States Agency for International Development (USAID). See [http://ratinggroup.ua/research/regions/shestoy\\_vseukrainskiy\\_municipalnyy\\_opros.html](http://ratinggroup.ua/research/regions/shestoy_vseukrainskiy_municipalnyy_opros.html).



220 business entities took part in the survey in Cherkasy. These are 132 (60%) enterprises-legal entities and 88 (40%) individual entrepreneurs (IEs). When analyzing the answers, the array was weighed according to the criterion of the type of business entity of the respondents in order to meet the parameters of the target sample, namely 64.0% of legal entities and 36.0% of IEs.

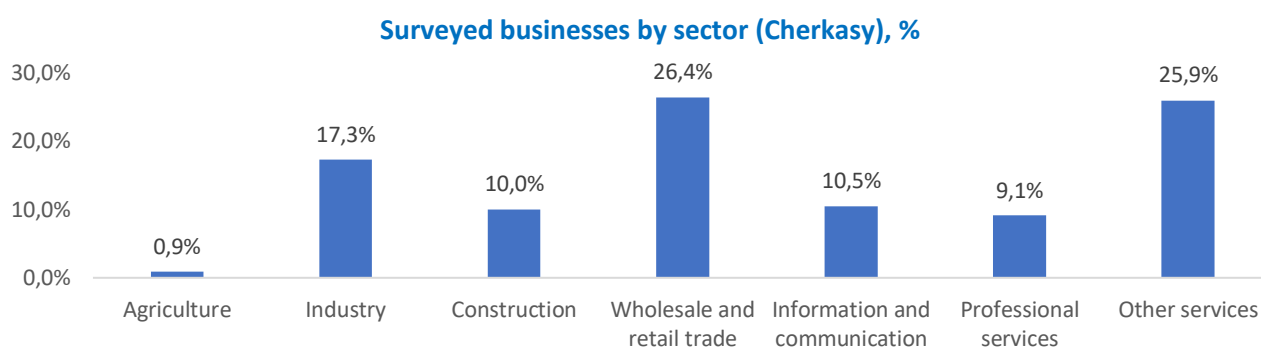
### *The size of the surveyed business entities*

The majority of respondents (84.5%) are microbusiness, i.e. such business entities, which employ from 1 to 10 people. 12.3% are small entities, i.e. those that employ from 11 to 50 people. Medium-sized entities (from 51 to 250 employees) account for 2.3%, and large entities (more than 250 employees) - 0.9%.



### *Industry and type of activity*

The surveyed business entities of Mariupol represent the main sectors of the Ukrainian economy. 31.2% of surveyed entities work in trade (it includes wholesale and retail trade, repair of motor vehicles). Another 9.4% of respondents work in industry, 12.4% in construction, and 0.5% in agriculture. Almost half of the surveyed business belongs to the service sector (46.5%). Information and communication services are provided by 3.0% of respondents, and professional services provided by 11.4% of respondents. Other services (business operation in transport services, arts and sports, education and healthcare, finance, and other service-related sectors) account for 32.2% of respondents.



### *Year of registration*

Most of the surveyed business entities were registered up to and including 2017 (75.5%). In the period 2018-2019, 24.5% of respondents were registered.

### *Gender and age of business owners and business managers*

According to the survey, in Cherkasy 69.6% of business owners are men, 30.4% - women. At the same time, the share of men among legal entities is even higher - 74.5% against 25.5%.

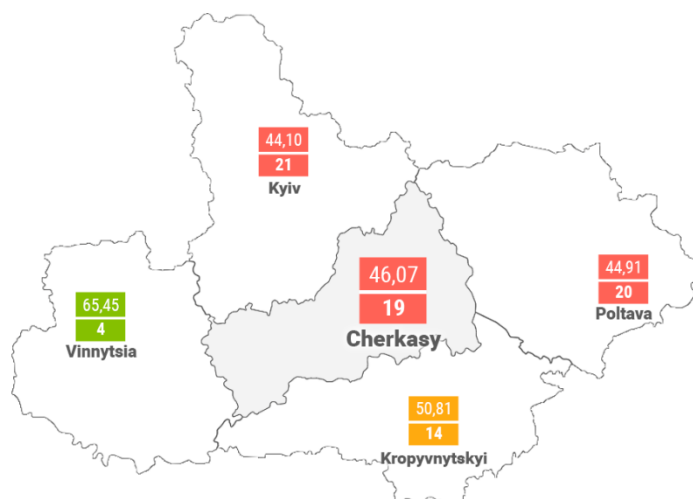
Among the heads of legal entities, men make up 75.8% and women 24.2%. Among IEs, where managers and owners are the same person, the predominance of men is slightly lower - 58.0% vs. 42.0%. In general, among all business entities, 69.4% are men and 30.6% are women.

The average age of business owners in Cherkasy is 43.0 years (42.8 years in Ukraine). At the same time, in Cherkasy, individual entrepreneurs are on average 5 years younger than owners of legal entities (39.8 years versus 44.4 years).

### *Municipal competitiveness index: Cherkasy results*

According to the results of the study, the city of Cherkasy took the 19th place with the value of MCI 2019/2020 - 46.07 points. Thus, Cherkasy belongs to the group of cities with low MCI.

If we compare the value of MCI for Cherkasy with the results of geographical neighbors, then next to the cities that belong to three different groups. In particular, to the west of Cherkasy is Vinnytsia, which ranks 4th, and in the south Kropyvnytskyi which ranks 14th. At the same time, there are other cities with low MCI, located in the ranking below Cherkasy - Poltava (20<sup>th</sup> place) and Kyiv (21<sup>st</sup> place).



The city's result is due to low scores in a number of components that form the MCI.

The strongest components:

- Security of operating a business (number nine)

The weakest components:

- Development resources (number 22)
- Starting a business (number 21)
- Transparency and data openness (number 20)
- Informal payments and corruption (number 18)
- Support of innovations (number 18)

#### *1. Starting a business*

Within Component 1 "Starting a Business", the city of Cherkasy received 3.73 points and ranked 21<sup>st</sup>. The low assessment of the city is due in particular to lengthy procedures for state registration of business and amendments to the register. In 2018-2019, business registration in Cherkasy lasted slightly longer than the national average - 6.3 days against 6.1 days. At the same time, changes to the register took an average of 5.3 days, which is slightly faster than the average for all cities - 3.6 days. It should be noted that this is the longest average duration of registry changes among all cities in the study.

In Cherkasy, 11.6% of respondents who registered a business in 2018-2019 reported problems and obstacles during this procedure, which by 2.8 percentage points exceeds the figure for all cities (8.8%). However, 71.4% of respondents were able to get the necessary advice during registration, which is almost at the level of the indicator for the country (70.7%). As a result, it took 25.2 days to start a business (from the date of submission

of documents for registration to the date of the first sale of goods and services) in Cherkasy, which is almost 7 days faster than the national average (32.1 days).

One of the reasons for Cherkasy's low scores is also the lack of business registrars. There are only about 5 registrars per 10,000 businesses in Cherkasy (in public authorities, local governments, and public notaries), which is one of the lowest rates among all cities in the study.

It should be noted that the city has problems with the speed of obtaining certain permits. If obtaining permits and registration documents in the field of construction on average in the country took 37.2 days, in Cherkasy this figure is 27.7 days. At the same time, Cherkasy needs more time to obtain a declaration of compliance of the material and technical base of the business entity with the requirements of fire safety legislation - 28.9 days against 11.8 days on average for all cities. This is the longest time to obtain this document among all cities in the study.

## ***2. Access to public property***

According to the results of the component (sub-index) "Access to public property", the city of Cherkasy received 4.39 points and took 16th place. Within the individual indicators, the city mostly showed lower than average results for all cities.

29.7% of respondents reported that they have documents confirming the right of ownership / lease of land on which they are engaged in business activities (30% at the national level). In particular, it is 47.5% of those respondents who believe that the issue of land documents concerns them (46.8% at the national level). At the same time, the duration of procedures for obtaining documents confirming the right of ownership / lease of land in 2018-2019 in Cherkasy averaged 195.8 days, which is one of the highest rates for all surveyed cities (72.4 days).

If we analyze the availability of information on communal property, Cherkasy has a positive assessment of the transparency of information on communal land compared to other cities. In particular, 22% of respondents reported the availability of information on the availability of communal land that can still be provided for use or used for construction, etc. (18.1% for all respondents). However, only 27.9% of respondents indicated that information on municipal real estate (including non-residential premises) is available (29.2% for all respondents).

## ***3. Transparency and data openness***

Within the component "Transparency and data openness" Cherkasy is one of the outsiders, because they occupy the 20th position with 3.58 points. In Cherkasy, respondents generally rated their access to information on local budgets, local regulations, and public procurement lower than in other cities.

In particular, in Cherkasy, respondents rated access to information on local procurement best - 15.9% of ratings were "good" and "excellent" in the city against 17.3% on average for all cities. If in general 13.9% of respondents positively assess the level of access to information about local regulatory acts, in Cherkasy this percentage is 10.0%. At the same time, access to information about the budget in the city was positively assessed by only 5.3% (10.2% among all respondents).

## ***4. Compliance cost***

The cost of compliance with the law in Cherkasy is almost the same as the national average. The city took 14th place with 6.79 points. The result of the city was determined by high (compared to other cities) respondents' assessments of the time spent on communication with city inspectors.

In Cherkasy, entrepreneurs spend an average of 3.8 days complying with local regulations, which is slightly less than the national average of 4 days. On average, 2.6% of annual income is spent on local regulations in Cherkasy, which is also lower than the average for all respondents - 3.7%.

The results of the survey show that the number of visits of city inspectors in Cherkasy does not exceed the national average - 0.7 times a year at the national level. However, as a result, the average time spent on communication with inspectors is 6 days, which is 1 day more than the national average (5 days).

### ***5. Taxes and duties***

Component (sub-index) 5 "Taxes and duties" is not a strength of Cherkasy. The city received 5.51 points and took 15th place. This result was obtained by Cherkasy due to a combination of factors such as relatively low costs of taxes and relatively low time costs for the administration of taxes and duties, some burden of local taxes and problems with the availability of benefits for local taxes and duties.

In the survey, respondents in Cherkasy reported that on average 25.6% of annual income is spent on taxes and duties (including USC), which is slightly less than the average result for all cities (26.8% of annual income). If we analyze the burden of administering taxes and duties, the average time spent by entrepreneurs in Cherkasy was 58.1 days, which is only slightly less than the average for all cities (59 days).

As for local taxes, for 21.7% of respondents in Cherkasy they are an obstacle, although for all cities on average this figure is 20.4%. In addition, in Cherkasy, 2.6% of respondents reported receiving benefits for local taxes and duties during 2018-2019, which is less than the average among the surveyed cities (among all respondents - 3.6%).

### ***6. Informal payments and corruption***

According to the survey, Cherkasy ranked 18<sup>th</sup> in Component (sub-index) 6 "Informal Payments and Corruption", receiving 4.20 points. In particular, the city's performance is due to factors such as the average level of "informal payments" and the lower than average level of awareness of entrepreneurs about existing anti-corruption measures at the city level.

In particular, under Dimension 1 "Bribes / Gifts", 10.2% of respondents in Cherkasy reported situations related to "informal expenses" when interacting with city officials on any business issues during 2018-2019. On average, 9.9% of respondents dealt with such situations for all cities. At the same time, under Dimension 2 "Anti-corruption measures", 28.1% of respondents were informed about the implementation of specific anti-corruption measures by the city authorities (open budget, electronic reception, anti-corruption city program, etc.) (on average for all cities - 31.8%).

### ***7. Security of operating a business***

Within Component (sub-index) 7 "Security of operating a business" Cherkasy scored 5.94 points and ranks 9th in the study. This result of Cherkasy is due to the low, compared to other cities, the percentage of losses incurred by business due to criminal activities and the relatively low share of those who do business in the shadows.

According to the survey, 46.2% of respondents in Cherkasy believe that competitors are doing business in the shadows, which is 1 percentage point above the national average (45.1%). 2.5% of the total respondents experienced attempts of illegal takeovers at the country level in 2018-2019. In Cherkasy, this figure is slightly lower and is 2.4%.

In Cherkasy, 13.7% of respondents reported that in 2018-2019 they suffered losses due to extortion, theft, robbery, vandalism, arson (which is less than the national average - 14.3% of respondents). Entrepreneurs estimated the losses received from such criminal acts at the level of 8.8% of annual income, by 2 percentage points less than the national average (10.8% at the national level).

Business in Cherkasy spends an average of 2.7% of annual income on security / protection, which is not different from the national average.

### ***8. Leadership of municipal authorities***

The city of Cherkasy took the 15<sup>th</sup> place in Component (sub-index) **8 "Leadership of municipal authorities"**, receiving 4.30 points. The city's position in the sub-index is the result of low scores in the measure "Business development support" (20<sup>th</sup> place), while the dimension "Public-private dialogue" places the city closer to the leaders (11<sup>th</sup> place)

In terms of business development support, Cherkasy received 4.58 points (20<sup>th</sup> result). Entrepreneurs of Cherkasy, in particular, lower than the average of all cities assess the attitude of city officials to private business. Only 14.3% of respondents believe that the attitude of the city authorities to business is "very good" or "good" (20% is the average for all cities). Also, only 29.3% of respondents agree that the city government supports the creation of new business (38.3% average for all cities), and 30.2% indicate that the city government supports existing business (35.5% average for all cities). The results of the survey also complement the "hard data" on the activities of the city council. According to "hard data", Cherkasy received only 7 out of 10 points. In Cherkasy, in particular, the technical documentation on the normative monetary appraisal of the city's lands is outdated compared to other cities, and the city boundaries have not been established. In addition, there are no city anti-corruption policies (programs, action plans, etc.) in Cherkasy.

The Public-Private Dialogue dimension demonstrates that businesses in Cherkasy have some problems communicating with the city authorities. As part of the measurement, the city received 4.01 points (11<sup>th</sup> place). In Cherkasy, 6.7% of business representatives believe that they have "significant" and "very significant" opportunities to participate in the development of local documents (strategies, plans, programs, etc.), while the average for all cities is only 6.5%. . However, only 5.9% of respondents indicate that the city always or often consults with business when adopting new or changing existing regulations that may affect business (7.4% average for all cities).

### ***9. Development resources***

Cherkasy ranks 22<sup>nd</sup> within Component (sub-index) **9 "Development resources"**, receiving 3.69 points. The assessment of the city is based on the results of three dimensions that form a single component: Human resources, Financial resources and infrastructure, Business support infrastructure.

As part of **Dimension 1 "Human resources"**, the city took 23<sup>rd</sup> place, receiving 4.26 points. If we analyze some indicators of this dimension, in Cherkasy only 5% of respondents rate the quality of local labor as "excellent" and "good", which is one of the lowest results among the surveyed cities (among all respondents - 7.6%). In addition, only 8.0% of respondents give positive assessments of vocational education of employees in the local labor market (10% of all respondents). Thus, in general, in Cherkasy, as in other cities, a small proportion of SAPs give high marks to the available workforce.

At the same time, 66.1% of respondents believe that insufficient training of employees is a serious obstacle to doing business, which is the highest result in the survey (60.7% of all respondents). Similarly, BEs Cherkasy are the most affected by the problem of labor shortage - 80.6% of respondents (among all respondents - 70%). As a result, the shortage of skilled labor is the biggest problem for entrepreneurs in Cherkasy according

to the barrier to doing business. It was mentioned by 36.8% of respondents, which is one of the highest indicators among the assessments of obstacles in all cities.

The analysis of the situation regarding the number of labor force in the city is supplemented by statistical data. In particular, at the end of 2019 in Cherkasy there were 1.3 vacancies per 100 businesses, which is less than the average for the surveyed cities (3.6 vacancies)<sup>193</sup>. On the one hand, this may indicate a lower demand for labor compared to other cities. On the other hand, the employment center may be a less popular platform for finding staff. In addition, as of January 1, 2019, the share of the working age population (15-64 years) in Cherkasy was 70%, which is approximately at the level of the average for the surveyed cities. At the national level, this figure was 67.8%.<sup>194</sup> Thus, compared to a number of other cities, the problem of population aging may be less felt in Cherkasy.

Under **Dimension 2 "Financial resources and infrastructure"**, the city took 10<sup>th</sup> place, receiving 4.10 points. According to the survey, only 1.2% of respondents in the country received financial support from the city authorities during 2018-2019. If we consider individual cities, in Cherkasy this figure is 1.3%, which is approximately at the average level. At the same time, 78.3% of Cherkasy BEs indicate that lack of financial resources is a serious obstacle to doing business (77.8% is the average for all cities).

Data on city budget expenditures complement the picture of financial resources to support business in the city. In 2019, the actual expenditures to support small and medium enterprises in the city amounted to only about 81 thousand UAH per 10 thousand businesses<sup>195</sup>. However, it should be noted that in general, SME support expenditures in most cities are low or non-existent. Higher order of numbers or the presence of such support in general may indicate a higher level of leadership of the city authorities in business support.

In the context of infrastructure, the BEs surveyed in the researched cities had different experiences in connection to the grid. On average, in Cherkasy it took 66 full days to connect to the power supply systems, starting from the day of submitting the application and ending on the day of the actual connection. For the whole country, this figure averages 85 days. Thus, it is easier to connect to the power supply in the city than on average for all surveyed cities.

In **Dimension 3 "Business support infrastructure"** Cherkasy occupies only the 21<sup>st</sup> place (2.72 points). According to the survey, 11% of respondents personally received business support services from the city authorities (information, consulting, training, etc.), which corresponds to the average for all cities (11%). At the same time, only 40.8% of them rated such services as "good" and "excellent" (48.6% - among all respondents).

Only 26.1% of respondents in Cherkasy indicate the existence of business support centers in the city, which is one of the lowest rates among the surveyed cities (32.6% is the rate for all respondents). At the same time, "hard data" show that as of the end of 2019, there are no infrastructure facilities in the city to support business created with the participation of city authorities. Thus, entrepreneurs' awareness of business support centers may relate to other business support infrastructure facilities in the city.

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<sup>193</sup> Sources for calculations: 1) Number of vacancies: The situation on the labor market and the results of the state employment service. Data on the page of the Cherkasy regional employment center, <https://chk.dcz.gov.ua/analytics/67>  
2) Number of businesses: According to the MDS in the Cherkasy region

<sup>194</sup> According to the State Statistics Service of Ukraine, MDS in Cherkasy region.

<sup>195</sup> Reports on the implementation of local budgets (expenditures under the program classification code 7610 - Promotion of small and medium enterprises), as well as the responses of city councils to requests for public information were used. For some cities, information on expenditures is clarified through telephone interviews with city council executive staff.

In Cherkasy, 46% of respondents know about the activities of business associations and business clubs in their city (45.9% of all respondents). However, only 9.4% of BEs are members of such organizations, which is lower than the figure for all respondents as a whole (11.5%).

### *10. Support of innovations*

The city of Cherkasy took the 18<sup>th</sup> position (3.96 points) within Component (sub-index) 10 "Support of innovations". 17.81% of respondents in the city reported that in 2018-2019 their business interacted with research institutions or technology companies, which is lower than the average among all cities (18.9%). Business representatives of Cherkasy are also less satisfied with technology transfer than the average respondents. 6.8% indicate that the relevant needs (transfer of patents for inventions, etc.) are "largely met" and "fully met" (8% at the national level).

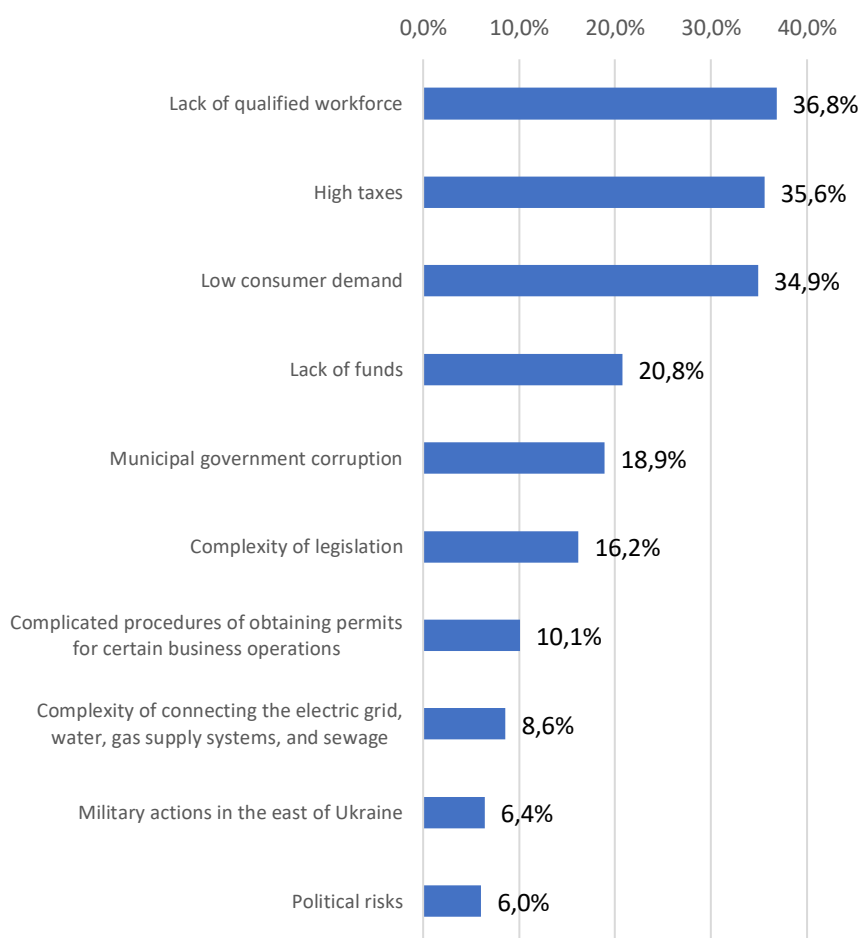
Respondents in Cherkasy give one of the lowest scores of local government support for local innovation programs (funded from the local budget) - 1.72 points of the city against 1.91 points on average among all cities (with a maximum of 5 points). Also, in Cherkasy, slightly less than on average in all cities, new technologies, solutions, or products were introduced in 2018-2019 (39.83% vs. 40.2%). In addition, 2.33% of the surveyed enterprises and IEs reported that they belong to clusters. This is a higher figure than for all cities as a whole (2.1%). All factors in general provide a low level of satisfaction of Cherkasy entrepreneurs with the state of support for innovation in the city.

### *Obstacles to doing business*

The interviewed business entities named the main obstacles they face in doing business in Cherkasy. The first three places in the ranking of barriers were shared by factors such as lack of skilled labor, high taxes, and low consumer demand. Each of these barriers to doing business was reported by more than a third of respondents (36.8%, 35.6% and 34.9%, respectively). Thus, in Cherkasy, as in a number of other cities, the problem of shortage of skilled labor is the most acute, and therefore ahead of the problems of high taxes and low demand, which top the ranking of obstacles for all respondents in general.

Lack of financial resources is called an obstacle by 20.8% of respondents (fourth place). Corruption of the city government is important for 18.9% of respondents. 16.2% of respondents called the complexity of the legislation an important obstacle to doing business. Also, significant obstacles are the complicated procedures for obtaining permits (10.1%) and the complexity of the connection (8.6%). 6.4% of Cherkasy entrepreneurs surveyed consider the war in eastern Ukraine to be an important obstacle. Political risks (6.0% of respondents) complete the ranking of the top 10 obstacles to doing business in Cherkasy.

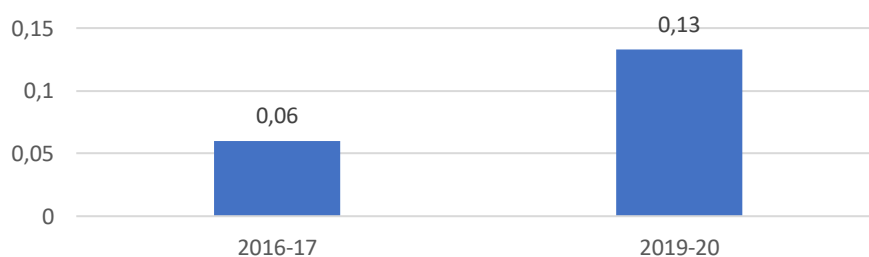
### TOP-10 barriers to doing business in Cherkasy, %



### *Expectations and assessments of the business climate and economic situation in Cherkasy*

**Regional SME Business Climate Index.** ABCA SME Business Climate Index in Cherkasy is 0.13 (only 20<sup>th</sup> among the surveyed cities). This is more than in 2017 (0.06), which indicates an improvement in business perception of the business climate. This coincides with the all-Ukrainian trend.

#### ABCA Regional Index of Business Climate (Cherkasy)

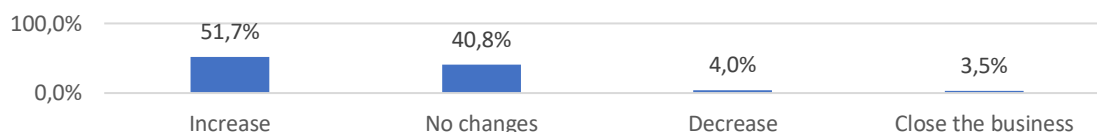


**Long-term expectations for business activity.** Business in Cherkasy has optimistic long-term development plans for the next two years. More than half of the respondents (51.7%) said they plan to expand their



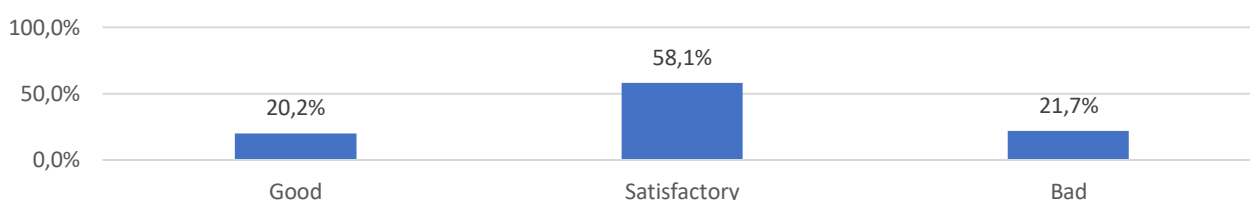
business, and 40.8% - to stay at the current level. At the same time, only 4% planned to reduce the business, and 3.5% - to close it. Balance index<sup>196</sup> is equal to +0.44 (at the national level +0.45).

**Business activity expectations in the two-year perspective in Cherkasy, % of the respondents**



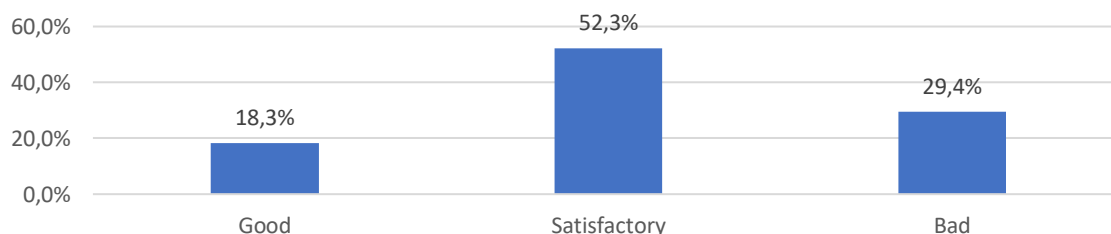
**Assessment of the financial and economic situation of business entities.** In Cherkasy, the majority of BEs (58.1%) assessed their current financial and economic situation as satisfactory. The rest of the respondents rated it as good (20.2%) or bad (21.7%). Thus, negative assessments outweigh the positive ones, and the balance index of financial and economic situation is -0.02 (at the national level +0.05).

**Assessment of the business situation of business entities in Cherkasy, % of the respondents**



**Assessment of the current overall economic environment for business activities.** More than half of the surveyed BEs (52.3%) rated the current general economic environment as satisfactory. 29.4% of respondents assess the general economic environment as bad, and 18.3% - good. Thus, the index of the general economic environment for business activities has a negative value: -0.12, which does not differ from the value for the country as a whole.

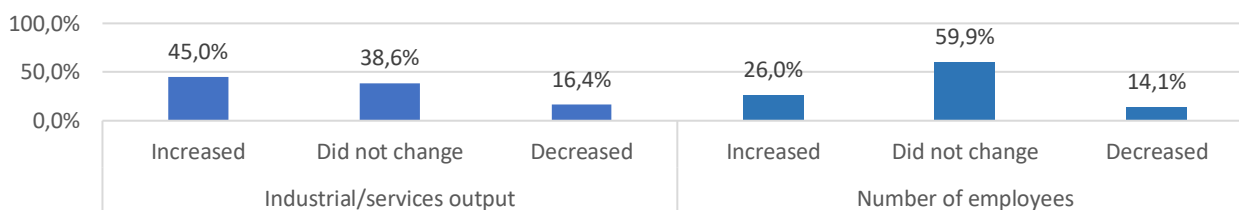
**Assessment of the overall economic situation (Cherkasy), % of the respondents**



**Change in the production output over the past two years.** Almost half (45.0%) of the surveyed BEs indicated that they increased the volume of production or provision of services in 2018-2019. More than a third of respondents (38.6%) did not change the volume, and 16.4% - reduced. Thus, the business activity index is +0.29 (which is slightly lower than the value for all respondents +0.31), which reflects the predominance of the share of BEs that have expanded their production or provision of services over the share of those that have reduced volumes.

<sup>196</sup> Calculated as the average of all answers on a scale from -1 to 1, where 1 corresponds to the simplification of this procedure, 0 - no change, and -1 - complication.

### Change in the industrial/services output and in the number of employees in Cherkasy, % of the respondents



**Change in the number of employees at BEs over the past two years.** More than half of the surveyed BEs (59.9%) indicated that the number of employees did not change in 2018-2019. The share of those where the number of employees (26.0%) increased more than doubled the share of those where the number of employees decreased (14.1%). Thus, the index of changes in the number of employees is +0.12, which is slightly lower than for all respondents as a whole (+0.16).

**Deregulation: changes in administrative procedures.** According to the respondents, the process and conditions of business registration have been simplified the most in the last two years, while the situation with inspections and tax payment conditions has not improved.

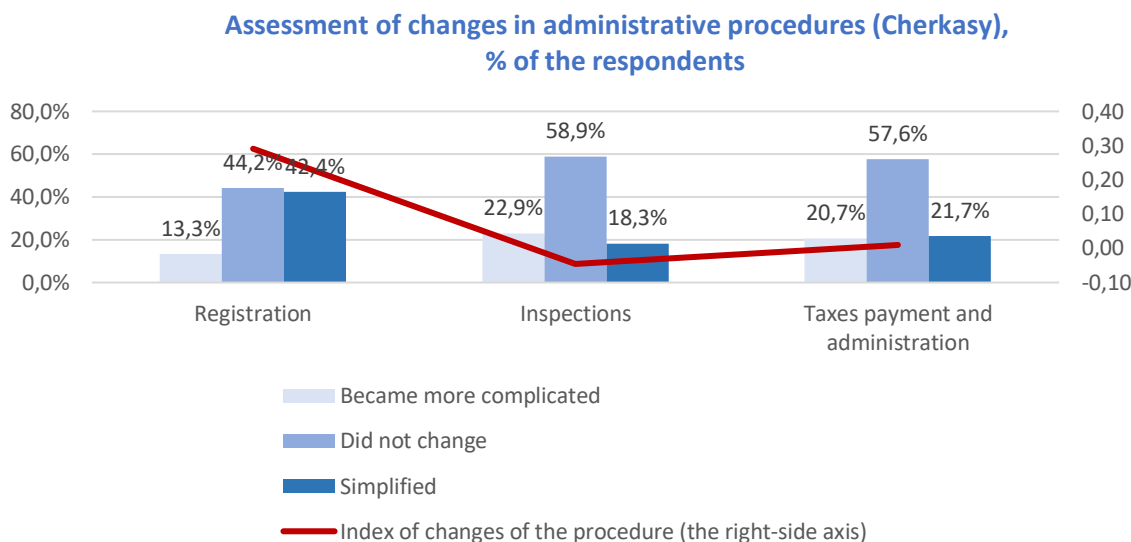
42.4% of BEs point to the simplification of the business registration procedure for the previous two years. The rest of the respondents did not feel any changes in this procedure during this time, and only 13.3% said that, in their opinion, business registration was complicated. As a result, the index of change in the registration procedure is +0.29<sup>197</sup>. This is the highest value of such an index compared to the other two procedures: passing inspections and paying taxes.

Speaking about the administration of tax payments, more than half of the BEs (57.6%) say that they have not noticed any changes in the complexity of this procedure. And the rest are divided into almost two equal parts: 21.7% of those for whom paying taxes has become easier, and 20.7% of those for whom it has become more difficult. Therefore, the index of change in the procedure for administering taxes is close to zero: its value is 0.01.

The index of changes in passing inspections has a negative value, also close to zero: -0.05. The share of business leaders and individual entrepreneurs who say that inspections have become more difficult is 22.9% and is slightly higher than the share of businesses for which inspections have become easier compared to 2018 (18.3%). However, the largest share of the surveyed business (58.9%) did not notice any changes in the situation with inspections.

As a result, the value of the general index of change of administrative procedures, which is calculated as the average value of the indices of change of these three procedures, is +0.09.

<sup>197</sup> Calculated as the average of all answers on a scale from -1 to 1, where 1 corresponds to the simplification of this procedure, 0 - no change, and -1 - complication



## Recommendations

According to the MCI results (subject to the weak components and dimensions) the following key recommendations have been formulated for the city. In addition, the city government should pay attention to recommendations that are common for all the cities in general.

### Component 1. Starting a business.

- Faster business registration should be encouraged. In particular, it is necessary to increase the number of business registrars in local governments.
- It is necessary to improve the quality and availability of consulting services when starting a business, in particular by expanding the capabilities of consulting services in the centers of administrative services.
- The quality of service provision during permitting procedures needs to be improved in order to reduce the time required to obtain such documents.

### Component 2. Access to public property

- It is necessary to ensure timely updating of technical documentation on the normative monetary appraisal of land
- It is necessary to ensure transparent access to information on the availability of communal land that can still be used for development, in particular through the official website of the city council.
- It is necessary to ensure transparent access to information about municipal real estate, in particular through the official website of the city council.

### Component 3. Transparency and data openness

- There is a need to increase the level of transparency and openness of data on the local budget, local regulations, and public procurement, in particular through the regular posting of relevant information on the official website.

### Component 6. Informal payments and corruption

- It is necessary to create and ensure the functioning of the necessary elements of the anti-corruption system at the local level (anti-corruption program / strategy).

- Anti-corruption measures should be regularly disseminated in order to inform businesses.
- There is a need to raise awareness among businesses about the integrity of doing business.

#### **Component 9. Development resources**

- It is necessary to analyze the needs of local businesses for staffing.
- Entrepreneurship support expenditures need to be increased to ensure the functioning of business support infrastructure and financial support programs.
- Local business support infrastructure facilities need to be audited to assess their effectiveness and development.
- It is necessary to use the best practices of other cities to organize the work of business support centers, coworking, business hubs, clusters, etc.

#### **Component 10. Support of innovations**

- It is necessary to provide support for innovative projects in the framework of programs of financial support for entrepreneurship in cities.
- Business cooperation should be encouraged through the formation of clusters at the initiative or support of the city government.

# Chernivtsi

## Number 8 in MCI

### General information

The city of Chernivtsi (English Chernivtsi) - the administrative center of Chernivtsi region, the smallest in area and population in Ukraine.

Chernivtsi also has the status of a city of regional significance, one of two in the region.

In March 2015, the Chernivtsi City Council abolished the district division of the city (into Pershotravnevy, Sadhirsky and Shevchenkivsky districts). The decision is effective since January 1, 2016.<sup>198</sup>



### Location

The city of Chernivtsi is located on the banks of the Prut River, in the eastern Precarpathians. The city and region are located in the south-west of Ukraine, at a distance of several tens of kilometers from the border of Ukraine with Romania.

The city is located in the central part of Chernivtsi region. At the same time, the territory of Chernivtsi is surrounded by six districts of the region - Zastavniivsky, Novoselytsky, Hlybotsky, Storozhynetsky, Kitsmansky and Hertsaivsky.

The nearest regional centers are Ivano-Frankivsk, Ternopil, Khmelnytskyi, Vinnytsia and Uzhhorod.

### Demographic situation

As of January 1, 2019, the permanent population of Chernivtsi was 262.8 thousand people. The city is the largest population of Chernivtsi region. It accounts for almost a third of the region's population (29.2%). Apart from Chernivtsi, there are no other large cities in the region.<sup>199</sup>

The population structure of Chernivtsi, as well as the country as a whole, is dominated by women (54.2%). There are 847 men per 1,000 women (864 for Ukraine as a whole). The share of the population aged 15-64

<sup>198</sup> See Decision of the Chernivtsi City Council of March 26, 2015 № 1542, <http://chernivtsy.eu/portal/f/mr/ses2014062-1542.doc>.

<sup>199</sup> Here and further in the profile of Chernivtsi statistical data of the State Statistics Service of Ukraine, the Main Department of Statistics in Chernivtsi region are used.

is 71.9% (in Ukraine - 67.8%). A total of 391 people aged 0-14 and over 65 (475 in Ukraine) per 1,000 people of working age.

In 2018, Chernivtsi experienced a natural population decline (-1.2 per 1,000 population). The birth rate was 8.4 and the mortality rate was 9.6.

## Development of entrepreneurship

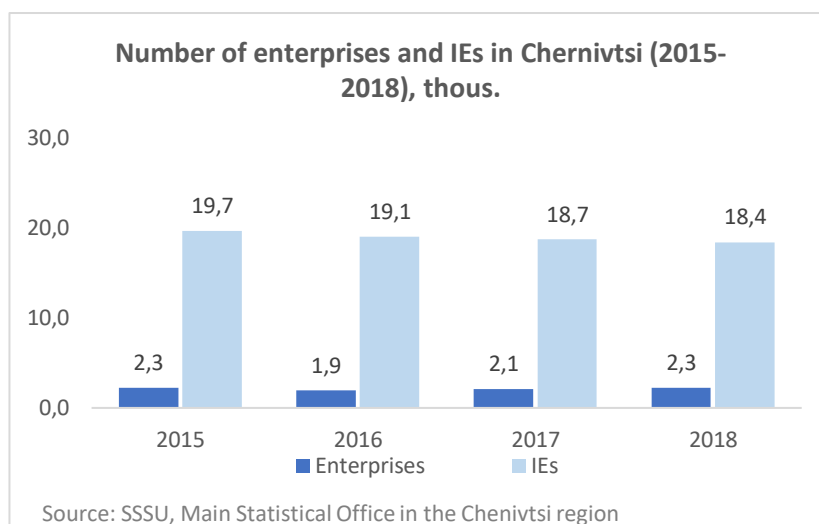
### Key structural business statistics in Chernivtsi in 2018

|                           | Absolute figures   |                          |                  | Relative figures      |                           |                         |
|---------------------------|--------------------|--------------------------|------------------|-----------------------|---------------------------|-------------------------|
|                           | Number of entities | Employment, thsd persons | Turnover, UAH bn | Share in total number | Share in total employment | Share in total turnover |
| <b>Large enterprises</b>  | 1                  | c                        | c                | 0.005%                | c                         | c                       |
| <b>SMEs</b>               | 20673              | c                        | c                | 99.995%               | c                         | c                       |
| <b>Medium enterprises</b> | 113                | c                        | c                | 0.55%                 | c                         | c                       |
| <b>Small enterprises</b>  | 2141               | 11.7                     | 7.6              | 10.36%                | 18.1%                     | 24.4%                   |
| <b>In which</b>           |                    |                          |                  |                       |                           |                         |
| <b>micro</b>              | 1794               | 4.5                      | 2.7              | 8.68%                 | 6.9%                      | 8.7%                    |
| <b>IEs</b>                | 18419              | 31.1                     | 8.1              | 89.09%                | 48.0%                     | 26.1%                   |
| <b>Total</b>              | 20674              | 64.7                     | 31.1             | 100.00%               | 100.0%                    | 100.0%                  |

Source: Own calculations based on data from the State Statistics Service of Ukraine, in Chernivtsi region

### Number of business entities

In 2018, there were 20.7 thousand SME entities in the city of Chernivtsi (including 113 medium-sized enterprises, 2.1 thousand small enterprises and 18.4 thousand individual entrepreneurs), while there were only large enterprises 1. Given the small number of large entities, information on other key performance indicators of large and medium-sized enterprises (number of employees and sales) is confidential. According to the number of business entities, Chernivtsi is on the 10th place among the cities selected for research. In addition, the city accounts for 47.4% of the total number of businesses in Chernivtsi region, which emphasizes the central role of the city in the region's economy.

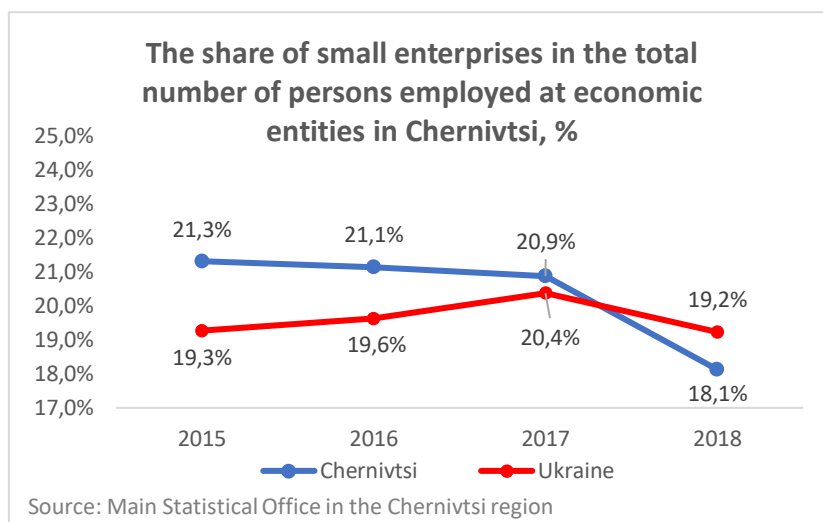


In 2018, the number of SMEs in the city decreased by 0.9% compared to 2017, although in Ukraine as a whole, this indicator increased by 1.9%. This was due to a decrease in the number of private individuals by 1.7%. At

the same time, in Ukraine as a whole there was an increase of 1.2%. Despite the general decrease in the number of SME entities, the number of medium-sized enterprises increased by 9.7% (7.5% in Ukraine) and small enterprises by 6.0% (the figure for Ukraine is 5.1%).

There were 778 SME entities per 10,000 inhabitants in Chernivtsi, which allowed the city to take the 4th position on this indicator. On the one hand, such data indicate a high level of business activity in the city. At the same time, such a high rate may also be the result of the popularity of the status of IEs for doing business. According to the results of 2018, only 10.9% of business entities in Chernivtsi were registered as legal entities (19.3% in Ukraine as a whole), while the rest functioned as IEs.

## Employment



In 2018, 64.7 thousand people were employed in business entities of the city of Chernivtsi, which is 7.7% more than in 2017 (4.8% corresponding to the national level). The city accounts for more than half (55.8%) of the total number of employees in economic entities of Chernivtsi region.

Due to the confidentiality of data due to the small number of large entities, information on the

number of employees for large and medium-sized enterprises is confidential. However, available data show that in 2018, more than half of jobs were in small businesses. In particular, 48% of employees were employed at IEs, and 18.1% were employed at small enterprises. In Chernivtsi the most significant role of IEs in job creation is observed.

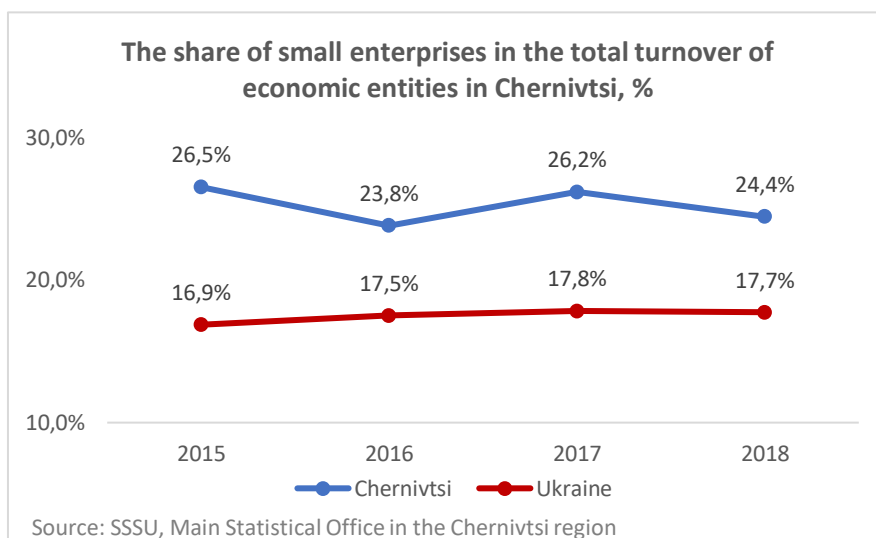
Compared to 2017, the number of employed persons in 2018 at small enterprises in Chernivtsi fell by 6.4%, which is a larger indicator than the decrease at the national level by 1.1%. At the same time, the number of employees in IEs increased by 10.1%, which is approximately at the level of the country (10.5%).

Statistics show that in general, Chernivtsi region shows a slightly lower unemployment rate of the working age population than in Ukraine as a whole. In 2019, the corresponding indicator of the region was 7.8% against 8.6% at the national level. At the same time, at the end of 2019, 804 people had the status of unemployed in Chernivtsi, and the number of vacancies was 1160. Thus, Chernivtsi is the only city where the number of vacancies exceeds the number of registered unemployed, which may indicate a shortage of labor. Due to quarantine measures and crises due to the COVID-19 pandemic, in 2020 the situation on the city's labor market may worsen.

## Turnover

According to the results of 2018, the turnover of products (goods and services) of economic entities of the city of Chernivtsi amounted to UAH 31.1 billion in current prices. Real growth (i.e. adjusted for inflation) sales volume compared to 2017 was 4.9%, although in the country as a whole there was an increase of 8.1%. Business entities of the city accounted for two thirds (67.3%) of the total sales of Chernivtsi region.

Due to the confidentiality of data due to the small number of large entities, information on the volume of products sold by large and medium-sized enterprises in Chernivtsi is confidential. However, available data show that small businesses account for about a quarter (24.4%) of sales (17.7% in the country as a whole). The share of IEs is 26.1%, which is the highest indicator among all research cities (the indicator at the national level is 7.6%).



In 2018, small enterprises in Chernivtsi showed a decrease in sales by 2.1% compared to 2017 (overall growth for Ukraine by 7.5%). At the same time, turnover of IEs increased by 7.7% (13.5% for Ukraine).

### *Sales of industrial products*

Statistical information on the main indicators of enterprises by type of economic activity is not available at the level of cities of regional significance and districts. However, statistics on sales of industrial products by type of activity are available. Such information makes it possible to identify the main industries in Chernivtsi.

According to the Main Department of Statistics in Chernivtsi region<sup>200</sup> in 2018, the volume of sold industrial products in Chernivtsi amounted to UAH 7.6 billion. Of these, 3 billion or 40.2% accounted for the processing industry. In particular, UAH 0.8 billion or 10.4% was provided by mechanical engineering<sup>201</sup>. In second place is the production of rubber and plastic products, other non-metallic mineral products (0.7 billion UAH or 9.8%). Other activities include food and beverage production (UAH 0.5 billion or 6.2%), textile and clothing production (UAH 0.4 billion or 5.9%), manufacture of wood and paper products and printing ( UAH 0.2 billion or 2.2%).

### *Capital Investments*

In 2018, Chernivtsi accounted for almost UAH 2.1 billion of capital investments, which was more than half (55.6%) of the volume of capital investments in Chernivtsi region. According to the results of 2018, the amount of capital investment per capita was only 7890 UAH, which is almost twice less than at the national level - 13746 UAH. According to this indicator, Chernivtsi ranks last (24<sup>th</sup>) among the cities in the study.

<sup>200</sup> The information was prepared based on the results of the state statistical survey "Economic indicators of short-term industry statistics". Data by type of activity are formed by homogeneous products.

<sup>201</sup> Data by type of activity are formed by homogeneous products.

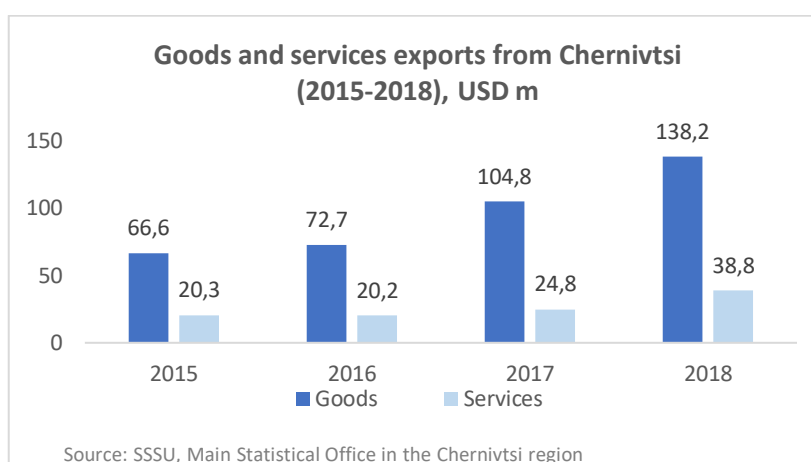


## Export

According to the State Statistics Service of Ukraine, in 2018 the volume of exports of goods from the city of Chernivtsi amounted to USD 138.2 m, which is 31.9% more than in 2017. According to this indicator, the city ranked 18<sup>th</sup> among cities for which relevant statistics are available.

At the same time, exports of services increased by 56.5% and reached USD 38.8 m. This is the 10<sup>th</sup> largest amount among the cities in the study.

As for the commodity structure of the city's foreign trade, about a third of exports are agricultural and food products (USD 43.5 m or 31.6%). Another 29.5% were provided by the goods of Chapter XVI of the Ukrainian classification of goods of foreign economic activity (machinery, equipment and mechanisms, electrical equipment). The remaining volumes of exports fell primarily on textiles (17.6%) and wood products (7.9%).



## Foreign direct investment

As of December 31, 2018, the city of Chernivtsi accounted for USD 20.4 m of foreign direct investment (equity). This amount is USD 3.4 m or 20% higher than in early 2018. This is the third highest growth rate among regional centers. At the same time, as of the end of December 2018, there was only USD 77.8 per person in Chernivtsi, which is also the lowest among the centers of the regions.

It should be noted that in general, Chernivtsi region ranks 24<sup>th</sup> in terms of direct investment among all regions of Ukraine. At the beginning of 2018, 39% of direct investments in the region were concentrated in Chernivtsi.

## Safety and comfort

The results of other studies allow us to look at the level of safety and comfort of living in selected cities based on the assessments of their inhabitants. These factors are important for understanding the general situation in the city. In addition, comparisons with individual results of the Municipal Competitiveness Index are possible.

According to the study "Sixth Annual Ukrainian Municipal Survey"<sup>202</sup>, the city of Chernivtsi ranks 23rd in terms of the Quality of Public Goods and Services Index with a score of 3.0 (1 - means "terrible, 5 - " excellent "), which indicates a significant dissatisfaction of residents with the level of comfort in the city. In particular, in the field of industrial development, the city ranks 13th, transport infrastructure - the last 24<sup>th</sup> place, in the field of roads - 22<sup>nd</sup> place.

However, in the same study, Chernivtsi is one of the safest cities in Ukraine according to residents. The value of the corresponding Index for the city is 1.8 (the value can be from 0 to 3, where 0 - "I feel completely in danger", 3 - "I feel completely safe") and according to this indicator the city ranks 6th among the 24 studied cities . 56% of respondents said that they feel rather safe or completely safe after dark, and 37% - said they feel mostly in danger or completely in danger.

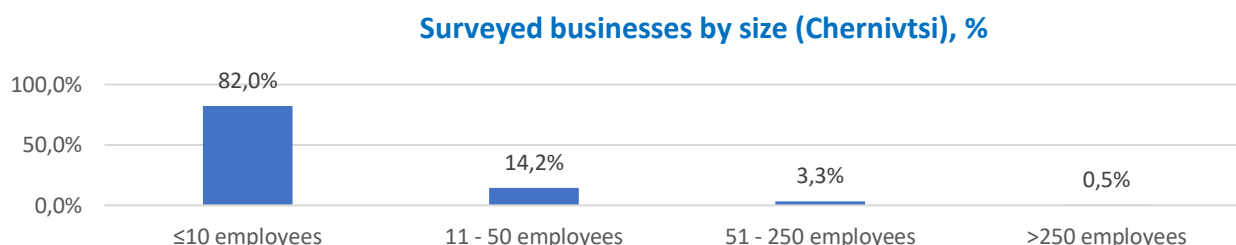
## ***Results of the "Municipal Competitiveness Index" in Chernivtsi***

### ***Sample description***

211 business entities took part in the survey in Chernivtsi. These are 109 (51.7%) enterprises-legal entities and 102 (48.3%) individual entrepreneurs (IEs). When analyzing the answers, the array was weighed according to the criterion of the type of business entity of the respondents in order to meet the parameters of the target sample, namely 52.0% of legal entities and 48.0% of IEs.

### ***The size of the surveyed business entities***

The majority of respondents (82.0%) are microbusiness, i.e. such business entities, which employ from 1 to 10 people. 14.2% are small entities, i.e. those that employ from 11 to 50 people. Medium-sized entities (from 51 to 250 employees) account for 3.3%, and large entities (more than 250 employees) - 0.5%.



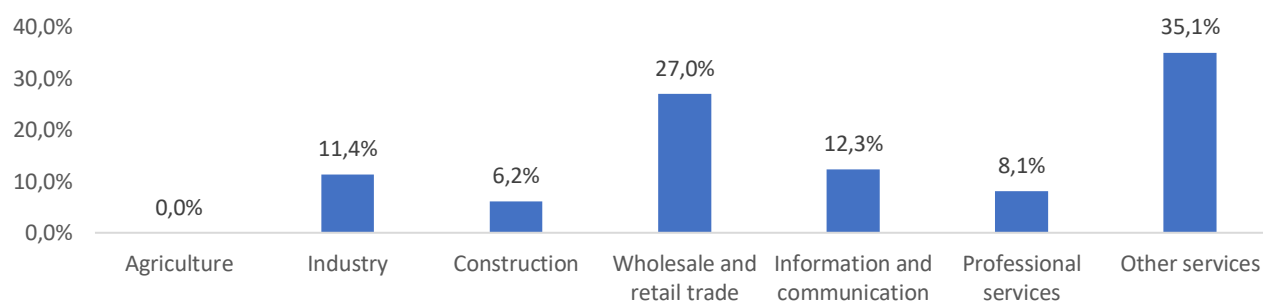
### ***Industry and type of activity***

The surveyed business entities of Chernivtsi represent various sectors of the economy. 27.0% of the surveyed business works in the trade sector (it includes wholesale and retail trade, repair of motor vehicles). Another 11.4% work in industry, 6.2% in construction, 0% - in agriculture. More than half of the surveyed business is in the services sector (55.5%). Information and communication services are provided by 12.3% of respondents, and professional services by 8.1%. Other services (businesses working in the fields of transport services, arts and sports, education and healthcare, finance, and other service-related industries) account for 35.1% of respondents.

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<sup>202</sup> The survey was conducted by the Sociological Rating Group on behalf of the International Republican Institute's Center for Insights in Survey Research; The survey was funded by the United States Agency for International Development (USAID). See [http://ratinggroup.ua/research/regions/shestoy\\_vseukrainskiy\\_municipalnyy\\_opros.html](http://ratinggroup.ua/research/regions/shestoy_vseukrainskiy_municipalnyy_opros.html).

### Surveyed businesses by sector (Chernivtsi), %



### Year of registration

The majority of surveyed business entities were registered up to and including 2017 (76.3%). In the period 2018-2019, 23.7% of respondents were registered.

### Gender and age distribution of owners and business leaders

According to the results of the survey, in Chernivtsi 62.8% of business owners are men, 37.2% - women. At the same time, the share of men among legal entities is even higher - 66.1% against 33.9%.

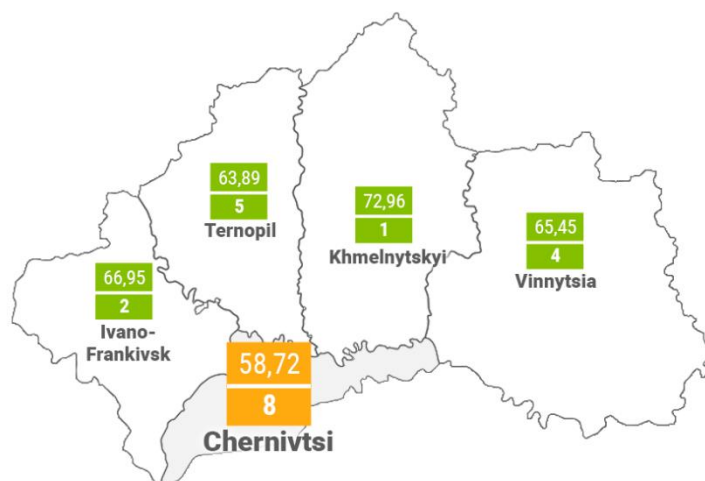
Among the heads of legal entities, men make up 70.9% and women 29.1%. Among IEs, where managers and owners are the same person, the predominance of men is slightly lower - 57.8% vs. 42.2%. In general, 64.7% of all business entities are men and 35.3% are women.

The average age of business owners in Chernivtsi is 41.9 years (42.8 years in Ukraine). At the same time, in Chernivtsi, IEs are on average 2 years younger than owners of legal entities (40.5 years versus 42.9 years).

### Municipal Competitiveness Index: results of Chernivtsi

According to the results of the study, the city of Chernivtsi took the 8th place with the value of MCI 2019/2020 - 58.72 points. Thus, Chernivtsi belongs to the group of cities with an average MCI.

If we compare the value of MCI for Chernivtsi with the results of geographical neighbors, then there are around only the leaders of the rating with a high value of MCI: Khmelnytskyi (1st place), Ivano-Frankivsk (2nd), Vinnytsia (4th) and Ternopil (5- that). At the same time



Chernivtsi lags behind Chernihiv, which occupies the 6th place, by more than 4 points.

The location in the top half of the ranking was provided by high marks to cities within the individual components that form the MCI.

The strongest components:

- Access to the public property (number two)
- Security of operating a business (number two)
- Taxes and duties (number five)

The weakest components:

- Leadership of municipal authorities (number 19)
- Development resources (number 17)

### ***1. Starting a business***

In the Component 1 "Starting a business" the city Chernivtsi scored 4.96 points and ranked 12th. The low assessment of the city is due, in particular, to the long procedures of state registration of business and obtaining permits. In 2018-2019, business registration in Chernivtsi lasted longer than the national average - 6.7 days against 6.1 days. At the same time, submitting changes to the register took an average of 4.3 days, which is longer than the average for all cities - 3.6 days.

In Chernivtsi, 6.2% of respondents who registered a business in 2018-2019 reported problems and obstacles during this procedure, which is a better indicator than in general among all respondents (8.8%). However, 80.2% were able to get the necessary advice during registration, which is by 9.5 percentage points exceeds the figure for the country (70.7%). As a result, it took 23.9 days to start a business (from the date of submission of documents for registration to the date of the first transaction of sale of goods and services) in Chernivtsi, which is more than 7 days faster than the national average (32.1 days).

One of the reasons for the low scores on business registration in Chernivtsi is also the insufficient provision of business registrars. There are only about 5 registrars per 10,000 business entities in Chernivtsi (in public authorities, local governments, and state notaries), which is one of the lowest rates among all cities in the study.

It should be noted that in the city faster than the average for the studied cities, you can get separate permits. If obtaining permits and registration documents in the field of construction on average in the country took 37.2 days, in Chernivtsi this figure is 34 days. In addition, in Chernivtsi it was possible to obtain a declaration of compliance of the material and technical base of the business entity with the requirements of fire safety legislation - 7.2 days against 11.8 days on average for all cities.

### ***2. Access to the public property***

According to the results of the component (sub-index) "Access to public property" Chernivtsi received 7.51 points and took 2<sup>nd</sup> place. Within most indicators, the city showed high results.

30.8% of respondents reported that they have documents confirming the right of ownership / lease of land on which they are engaged in business activities (30% at the national level). In particular, it is 48.5% of those respondents who believe that the issue of land documents concerns them (46.8% at the national level). The duration of procedures for obtaining documents confirming the right of ownership / lease of land in 2018-2019 in Chernivtsi averaged 23.2 days, which is almost 49 days faster than the national average (72.4 days). This is the best indicator among all surveyed cities.

If we analyze the availability of information on communal property, the city is also among the leaders. In particular, 25.5% of respondents reported the availability of information on the availability of communal land that can still be provided for use or used for construction, etc. (18.1% for all respondents). In addition, 40.3% of respondents indicated that information on municipal real estate (including non-residential premises) is available (29.2% for all respondents).

### ***3. Transparency and data openness***

Within the component "Transparency and data openness" Chernivtsi occupies the 14th position with 5.31 points. In Chernivtsi, respondents rated access to information on the local budget, local regulations, and public procurement at the average level.

In particular, in Chernivtsi, the percentage of positive responses ("good" and "excellent") regarding access to information on public procurement does not differ from the indicator of access to information on local regulations and is 15.2% (17.3% and 13, 95 relevant indicators for all cities as a whole). At the same time, access to information about the budget in the city was positively assessed by 11.3% (10.2% among all respondents).

#### *4. Compliance cost*

The cost of complying with the law in Chernivtsi is almost the same as the national average. The city took 11th place with 7.26 points. The city's performance was determined by low (compared to other cities) respondents' assessments of the time and money spent on compliance with local regulations.

In Chernivtsi, entrepreneurs spend an average of 2.1 days on compliance with local regulations, which is twice less than the national average of 4 days. On average, 3.5% of annual income is spent on local regulations in Chernivtsi, which is also slightly lower than the average for all respondents - 3.7%.

The results of the survey show that the number of visits by city inspectors in Chernivtsi does not exceed the national average - 0.7 times a year at the national level. As a result, the average time spent on communication with inspectors is 5.4 days, which is slightly higher than the national average (5 days).

#### *5. Taxes and duties*

Component (sub-index) 5 "Taxes and duties" is one of the strengths of Chernivtsi. The city received 7.58 points and took 5th place. Chernivtsi achieved a high result by a combination of such factors as low time costs for the administration of taxes and duties, less burdensome local taxes, and the availability of benefits for the payment of local taxes and duties.

In the survey, respondents in Chernivtsi reported that they spend on average 27.2% of annual income on taxes and duties (including SDRs), which is slightly more than the average for all cities (26.8% of annual income). If we analyze the burden of administering taxes and duties, the average time spent by entrepreneurs in Chernivtsi was 36.5 days, which is the lowest figure among the surveyed cities (59 days on average).

As for local taxes, only for 16.6% of respondents in Chernivtsi they are an obstacle, although for all cities on average this figure is 20.4%. In addition, in Chernivtsi, 4.8% of respondents reported that they received benefits for the payment of local taxes and duties during 2018-2019, which is one of the highest rates among the surveyed cities (among all respondents - 3.6%).

#### *6. Informal payments and corruption*

According to the results of the research, Chernivtsi took the 13<sup>th</sup> place within Component (sub-index) 6 "Informal payments and corruption", receiving 4.91 points. In particular, the city's performance is due to factors such as the lower than average level of distribution of "informal payments" and the lower than average level of awareness of entrepreneurs about existing anti-corruption measures at the city level.

In particular, under Dimension 1 "Bribes / Gifts", 9.0% of respondents in Chernivtsi reported situations related to "informal expenses" when interacting with city officials on any business issues during 2018-2019.

On average, 9.9% of respondents dealt with such situations for all cities. At the same time, within Dimension 2 "Anti-corruption measures", 27.9% of respondents were informed about the implementation of specific anti-corruption measures by the city authorities (open budget, e-reception, anti-corruption city program, etc.) (on average for all cities - 31.8%).

### **7. Security of operating a business**

Within Component (sub-index) 7 "Security of operating a business" Chernivtsi received one of the best results and scored 7.44 points and took 2<sup>nd</sup> place in the study. This result of Chernivtsi is due to the low, compared to other cities and other cities, the prevalence of raiding and other criminal acts on business and low losses from criminal acts.

According to the survey, 45.5% of Chernivtsi respondents believe that competitors do business in the shadows, which is slightly higher than the national average (45.1%). 2.5% of the total respondents experienced attempts of illegal takeovers at the country level in 2018-2019. In Chernivtsi, this figure is one of the lowest in the country and is 1%.

In Chernivtsi, 12.8% of respondents reported that in 2018-2019 they suffered losses due to extortion, theft, robbery, vandalism, arson (which is almost 2 percentage points less than the national average - 14.3% of respondents). Entrepreneurs estimated the losses received from such criminal acts at 3.8% of annual income, which is the lowest figure in the country as a whole (10.8% at the national level).

Business in Chernivtsi spends 2.8% of annual income on security / protection, almost indistinguishable from the national average - 2.7% of annual income.

### **8. Leadership of municipal authorities**

The city of Chernivtsi took the 19<sup>th</sup> place in Component (sub-index) 8 "Leadership of municipal authorities", receiving 3.92 points. The city's low position is the result of low scores within both dimensions, which form the sub-index - "Business Development Support" and "Public-Private Dialogue".

In terms of business development support, Chernivtsi received 4.89 points (15<sup>th</sup> result). Entrepreneurs of Chernivtsi, in particular, underestimate the attitude of city officials to private business. Only 14.7% of respondents believe that the attitude of the city authorities to business is "very good" or "good" (20% is the average for all cities). Also, 30.3% of respondents agree that the city government supports the creation of new business (38.3% average for all cities), and 26.5% indicate that the city government supports existing business (35.5% average for all cities). ). The results of the survey also complement the "hard data" on the activities of the city council. According to "hard data" Chernivtsi received 8 out of 10 points. In Chernivtsi, in particular, the technical documentation on the normative monetary appraisal of the city's lands is outdated compared to other cities. In addition, the city council lacks an anti-corruption hotline.

The Public-Private Dialogue dimension demonstrates that businesses in Chernivtsi have more problems communicating with the authorities than most other cities. As part of the measurement, the city received 2.95 points and took 18<sup>th</sup> place. In Chernivtsi, only 4.7% of business representatives believe that they have "significant" and "very significant" opportunities to participate in the development of local documents (strategies, plans, programs, etc.), while the average for all cities is 6.5 %. In addition, in Chernivtsi only 5.2% of respondents indicate that the city always or often consults with business when adopting new or changing existing regulations that may affect business (7.4% average for all cities).

### **9. Development resources**

Chernivtsi occupies the 17th position within Component (sub-index) 9 "Development resources", receiving 4.08 points. The assessment of the city is based on the results of three dimensions that form a single component: Human resources, Financial resources and infrastructure, Business support infrastructure.

Within **Dimension 1 "Human resources"** the city took the 15<sup>th</sup> place, receiving 5.32 points. If we analyze some indicators of this dimension, in Chernivtsi only 6.6% of respondents rate the quality of local labor as "excellent" and "good" (among all respondents - 7.6%). In addition, only 8.9% of respondents give positive assessments of vocational education of employees in the local labor market (10% of all respondents). Thus, in general, in Chernivtsi, as in other cities, a small proportion of SAPs give high marks to the available workforce.

In total, almost two thirds of respondents (65.5%) believe that insufficient training of employees is a serious obstacle to doing business (60.7% of all respondents). In Chernivtsi, BEs also experience the problem of labor shortage more - 72.5%, which is one of the highest rates (among all respondents - 70%). This may be due to labor shortages due to the large number of migrant workers in the region. As a result, the lack of skilled labor is the second biggest problem of entrepreneurs in Chernivtsi according to the rating of obstacles to doing business (indicated by 30.4% of respondents).

The analysis of the situation regarding the number of labor force in the city is supplemented by statistical data. In particular, at the end of 2019 in Chernivtsi there were 5.6 vacancies per 100 businesses, which is one of the highest rates among the surveyed cities (3.6 vacancies - the average)<sup>203</sup>. This may indicate a higher demand for labor force compared to other cities. In addition, as of January 1, 2019, the share of the working age population (15-64 years) in Chernivtsi was 71.9%, is the highest indicator among the surveyed cities. At the national level, this figure was 67.8%<sup>204</sup>. Thus, compared to other cities and the country as a whole, the problem of population aging may be less pronounced in Chernivtsi.

Under **Dimension 2 "Financial resources and infrastructure"**, the city took 18<sup>th</sup> place with 3.69 points. According to the survey, only 1.2% of respondents in the country received financial support from the city authorities during 2018-2019. If we consider individual cities, in Chernivtsi this figure is 1%, which is approximately at the level of the average value. At the same time, 81.1% of respondents from Chernivtsi indicate that the lack of financial resources is a serious obstacle to doing business (77.8% - the average for all cities). This is one of the highest rates among the cities in the study.

Data on city budget expenditures complement the picture of financial resources to support business in the surveyed cities. However, in 2019, expenditures to support small and medium-sized businesses in Chernivtsi were absent (only absent in 5 cities)<sup>205</sup>. It should be noted that in general, SME support expenditures in most cities are low or non-existent. Higher order of numbers or the presence of such support in general may indicate a higher level of leadership of the city authorities in business support.

In the context of infrastructure, the BEs surveyed in the researched cities had different experiences in connection to the grid. On average, in Chernivtsi it took almost 44 full days to connect to the power supply systems, starting from the day of application submission and ending with the day of actual connection. This

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<sup>203</sup> Sources for calculations: 1) Number of vacancies: The situation on the labor market and the results of the state employment service. Data on the page of the Chernivtsi regional employment center, <https://chn.dcz.gov.ua/analytics/66> 2) Number of businesses: According to the MDS in the Chernivtsi region

<sup>204</sup> According to the State Statistics Service of Ukraine, MDS in Chernivtsi region

<sup>205</sup> Reports on the implementation of local budgets (expenditures under the program classification code 7610 - Promotion of small and medium enterprises), as well as the responses of city councils to requests for public information were used. For some cities, information on expenditures is clarified through telephone interviews with city council executive staff.

is one of the lowest rates among the studied cities. For the whole country, the average connection time is 85 days. Thus, in Chernivtsi it is easier to connect to the electricity supply compared to most other cities.

In **Dimension 3 "Business support infrastructure"** Chernivtsi occupies only the 16<sup>th</sup> place (3.24 points). According to the survey, 10% of respondents personally received business support services from the city authorities (information, consulting, training, etc.), which is lower than the average for all cities (11%). At the same time, only 42.7% of them rated such services as "good" and "excellent" (48.6% - among all respondents).

29.0% of BEs in Cherkasy indicate the existence of business support centers in the city, which is lower than the figure for all respondents as a whole (32.6%). At the same time, "hard data" show that as of the end of 2019, there are no infrastructure facilities in the city to support business created with the participation of city authorities. Thus, entrepreneurs' awareness of business support centers may relate to other business support infrastructure facilities in the city.

In Chernivtsi, 55.5% of respondents know about the activities of business associations and business clubs in their city (45.9% of all respondents). This is one of the highest rates among the studied cities. However, members of such organizations are only 10% of respondents, which is lower than for all respondents in general (11.5%).

### ***10. Support of innovations***

The city of Chernivtsi ranked 9th (5.75 points) within Component (sub-index) 10 "Support of innovations".

20.84% of respondents in the city reported that in 2018-2019 their business interacted with research institutions or technology companies, which is higher than the average for all cities (18.9%). Business representatives of Chernivtsi are also more satisfied with technology transfer than the average respondents. 8.1% indicate that the relevant needs (transfer of patents for inventions, etc.) are "largely met" and "fully met" (8% at the national level).

Respondents in Chernivtsi give a rather low rating of local government support for local innovation programs (funding from the local budget) - 1.75 points of the city against 1.91 points on average among all cities (with a maximum of 5 points). However, in Chernivtsi more often than on average in all cities new technologies, solutions or products were introduced in 2018-2019 (44.49% vs. 40.2%). In addition, 3.78% of surveyed enterprises and IEs reported that they belong to clusters. This is one of the highest rates in the country (2.1%). As a result, all factors in general provide a relatively high level of satisfaction of Chernivtsi entrepreneurs with the state of support for innovation in the city.

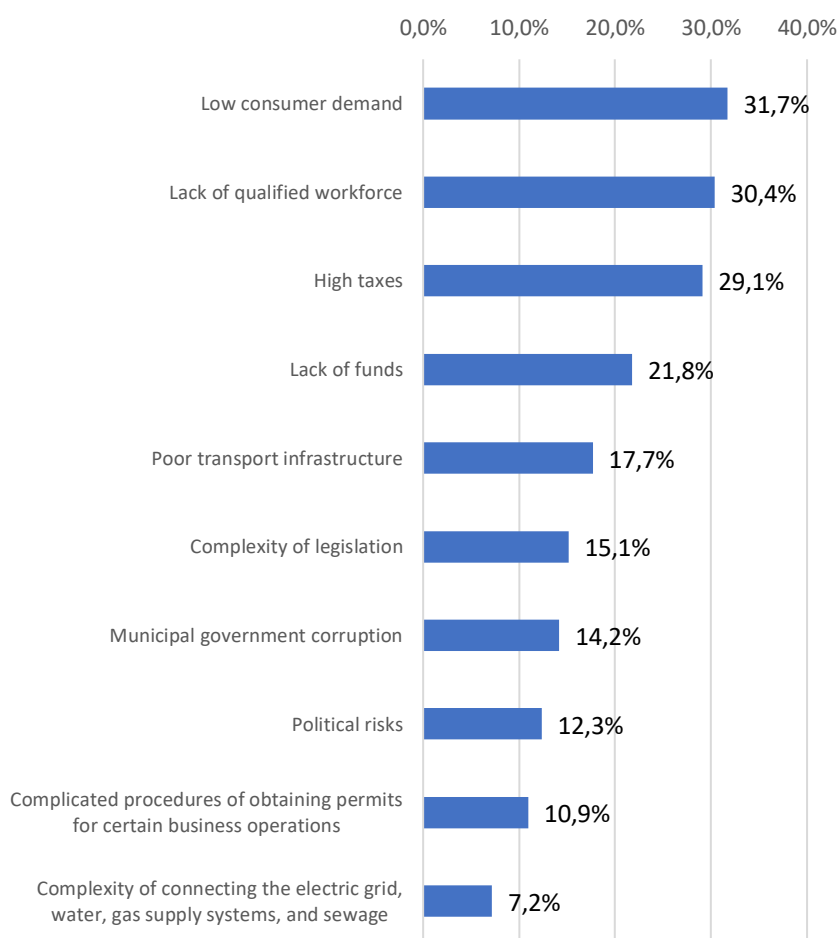
### ***Obstacles to doing business***

The interviewed business entities named the main obstacles they face in doing business in Chernivtsi. Factors such as low consumer demand, lack of skilled labor, and high taxes shared the top three in the barrier ranking. Each of these barriers to doing business was reported by about a third of respondents (31.7%, 30.4% and 29.1%, respectively). Thus, in Chernivtsi, as in a number of other cities, the problem of low demand and staff shortages is most acute, and therefore ahead of the problem of high taxes, which leads the ranking of obstacles for all respondents in general.

Lack of funds is called an obstacle 21.8% (fourth place). Also, important obstacles are poor transport infrastructure (17.7%), complexity of legislation (15.1%) and corruption of city authorities (14.2%). For 12.3% of respondents, political risks are important. Completing the top 10 obstacles are complex procedures for obtaining permits (10.9%) and the difficulty of connecting to the systems of electricity, water, gas, drainage (7.2%).



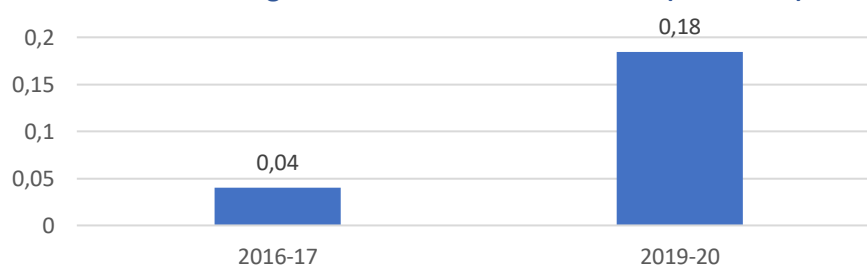
### TOP-10 barriers to doing business in Chernivtsi, %



### *Expectations and assessments of the business climate and economic situation in Chernivtsi*

**Regional SME Business Climate Index.** ABCA SME Business Climate Index in Chernivtsi is 0.18 (only 15th place among the surveyed cities). This is more than in 2017 (0.04), which indicates an improvement in business perception of the business climate. This coincides with the all-Ukrainian trend.

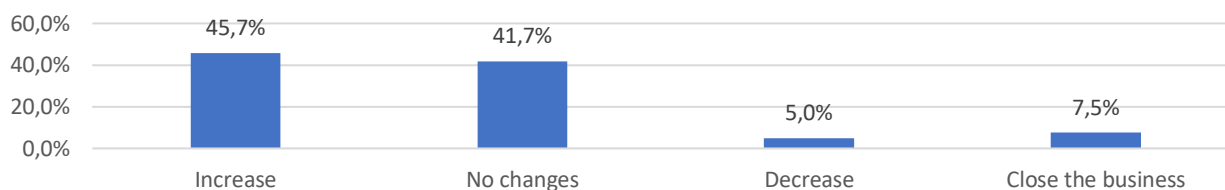
#### ABCA Regional Index of Business Climate (Chernivtsi)



**Long-term expectations for business activity.** Business in Chernivtsi has optimistic long-term development plans for the next two years. Slightly less than half of respondents (45.7%) said they plan to expand their

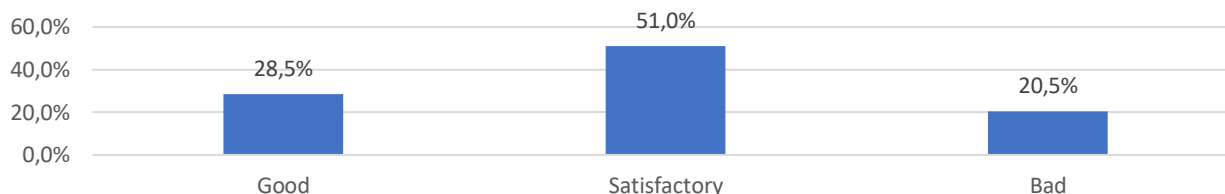
business, and 41.7% - to stay at the current level. At the same time, only 5% planned to reduce the business, and 7.5% - to close it. Balance index<sup>206</sup> is equal to +0.33 (at the national level +0.45).

**Business activity expectations in the two-year perspective in Chernivtsi, % of the respondents**



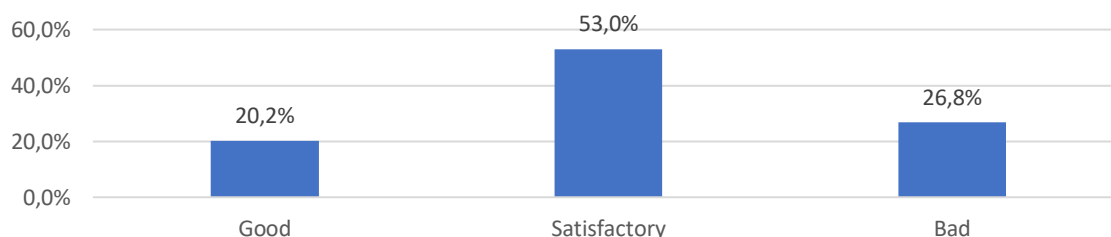
**Assessment of the financial and economic situation of business entities.** In Chernivtsi, most respondents (51%) assessed their current financial and economic situation as satisfactory. The rest of the respondents rated it as good (28.5%) or bad (20.5%). Thus, positive assessments outweigh negative ones, and the balance index of financial and economic situation is +0.08 (at the national level +0.05).

**Assessment of the business situation of business entities in Chernivtsi, % of the respondents**



**Assessment of the current overall economic environment for business activities.** More than half of the surveyed BEs (53.0%) rated the current general economic environment as satisfactory. 26.8% of respondents assess the general economic environment as bad, and 20.2% - good. Thus, the index of the general economic environment for business activities has a negative value: -0.07. However, the value of the index is slightly higher than for the country as a whole (-0.12).

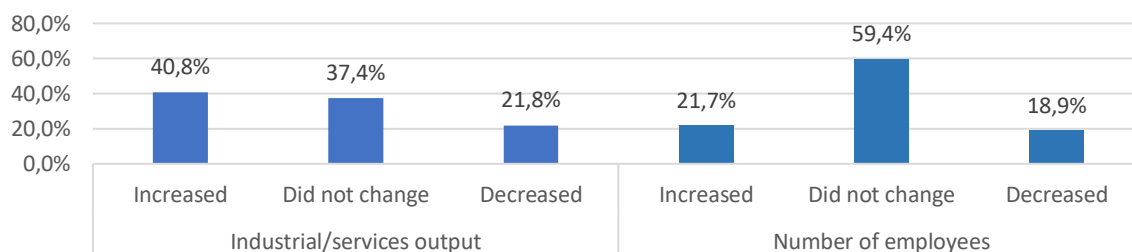
**Assessment of the overall economic situation (Chernivtsi), % of the respondents**



**Change in the production output over the past two years.** Almost half (48.0%) of the surveyed BEs indicated that they increased the volume of production or provision of services in 2018-2019. More than a third of respondents (37.4%) did not change the volume, and 21.8% did. Thus, the index of business activity is +0.19 (which is less than the value for all respondents +0.31), which reflects the predominance of the share of BEs, which expanded their production or provision of services, over the share of those who reduced volumes.

<sup>206</sup> Calculated as the average of all answers on a scale from -1 to 1, where 1 corresponds to the simplification of this procedure, 0 - no change, and -1 - complication.

### Change in the industrial/services output and in the number of employees in Chernivtsi, % of the respondents

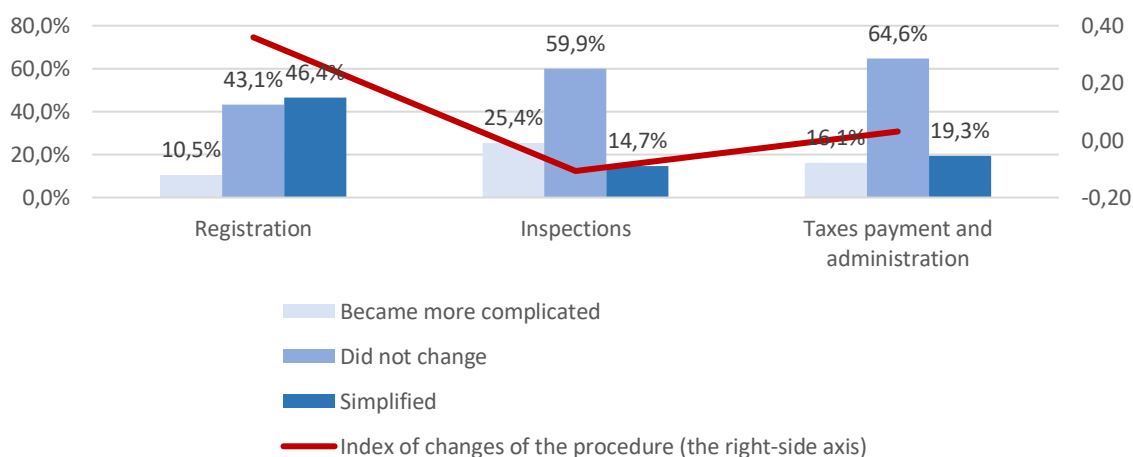


**Change in the number of employees of the business entities over the past two years.** More than half of the surveyed BEs (59.4%) indicated that the number of employees did not change in 2018-2019. The share of those where the number of employees increased (21.7%) slightly exceeds the share of those where the number of employees decreased (18.9%). Thus, the index of changes in the number of employees is +0.03, which is lower than for all respondents as a whole (+0.16).

**Deregulation: changes in administrative procedures.** According to the respondents, the process and conditions of business registration have been simplified the most in the last two years, while the situation with inspections and tax payment conditions has not improved.

46.4% of BEs point to the simplification of the business registration procedure for the previous two years. The rest of the respondents did not feel any changes in this procedure during this time, and only a small percentage of respondents - 10.5% - said that, in their opinion, business registration has become more difficult. As a result, the index of change in the registration procedure is +0.36<sup>207</sup>. This is the highest value of such an index compared to the other two procedures: passing inspections and paying taxes.

### Assessment of changes in administrative procedures (Chernivtsi), % of the respondents



Speaking about the administration of tax payments, more than half of the BEs (64.6%) say that they did not notice any changes in the complexity of this procedure. And the rest are divided into almost two equal parts: 19.3% of those for whom paying taxes has become easier, and 16.1% of those for whom it has become more difficult. Therefore, the index of change in the procedure for administering taxes is close to zero: its value is +0.03.

<sup>207</sup> Calculated as the average of all answers on a scale from -1 to 1, where 1 corresponds to the simplification of this procedure, 0 - no change, and -1 - complication

The index of changes in passing inspections has a negative value: -0.11. The share of business leaders and individual entrepreneurs who claim that it has become more difficult to pass inspections is 25.4% and is much higher than the share of businesses that have simplified inspections compared to 2018 (14.7%). However, the largest share of the surveyed business (59.9%) did not notice any changes in the situation with inspections.

As a result, the value of the general index of change of administrative procedures, which is calculated as the average value of the indices of change of these three procedures, is +0.09.

## ***Recommendations***

According to the MCI results (subject to the weak components and dimensions) the following key recommendations have been formulated for the city. In addition, the city government should pay attention to recommendations that are common for all the cities in general.

### **Component 2. Access to public property**

- It is necessary to ensure timely updating of technical documentation on the normative monetary appraisal of land

### **Component 3. Transparency and data openness**

- There is a need to increase the level of transparency and openness of data on local budgets, local regulations, and public procurement, in particular through the regular posting of relevant information on the official website

### **Component 6. Informal payments and corruption**

- It is necessary to regularly disseminate information on measures to combat and prevent corruption in order to inform business entities.
- There is a need to raise awareness among businesses about the integrity of doing business.

### **Component 9. Development resources**

- It is necessary to analyze the needs of local businesses for staffing.
- Entrepreneurship support expenditures need to be increased to ensure the functioning of business support infrastructure and financial support programs.
- Local business support infrastructure needs to be audited to assess their effectiveness and development.
- It is necessary to use the best practices of other cities to organize the work of business support centers, coworking, business hubs, clusters, etc.

# Chernihiv

## Number 6 in MCI

### General information

The city of Chernihiv is the administrative center of the Chernihiv region, a city of regional significance.

The city is also the administrative center of Chernihiv district, but is not part of the district.

Chernihiv is divided into two districts: Desnianskyi and Novozavodskyi. Each has its own district council,<sup>208</sup> but they must cease to function after the 2020 local elections.



### Location

The city of Chernihiv is located in the north of Ukraine, on the banks of the Desna River. Chernihiv is located near the border of Ukraine with the Republic of Belarus and the Russian Federation.

Chernihiv is located in the west-northern part of the region. Its territory is surrounded by Chernihiv district.

The nearest regional centers are Cherkasy, Poltava, and Sumy. Also nearby is Ukraine's capital, Kyiv.

### Demographic situation

As of January 1, 2019, the permanent population of Chernihiv was 282.4 thousand people. The city is the largest population of the Chernihiv region. It accounts for almost 28.3% of the region's population<sup>209</sup>.

The structure of the population of Chernihiv, as well as the country as a whole, is dominated by women (54.2%). There are 845 men per 1,000 women (864 for Ukraine as a whole). The share of the population aged 15-64 is 70.1% (in Ukraine - 67.8%). In total, there are 426 people aged 0-14 and over 65 (475 in Ukraine) per 1,000 people of working age. In 2018, there was a natural population decline in Chernihiv (-5.1 per 1,000 available population). The birth rate was 7.4 and the mortality rate was 12.5.

<sup>208</sup> See. <http://nrada.gov.ua/> and <http://desn-rada.gov.ua/>.

<sup>209</sup> Here and further in the profile of Chernihiv used statistical data of the State Statistics Service of Ukraine, the Main Department of Statistics in Chernihiv region

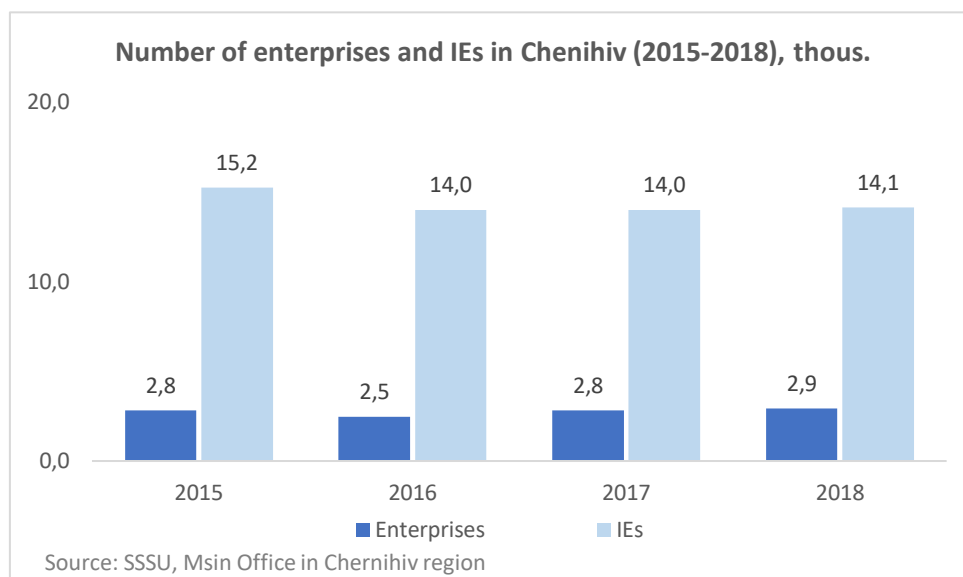
## Development of entrepreneurship

### Key structural business statistics in Chernihiv in 2018

|                           | Absolute figures   |                          |                  | Relative figures      |                           |                         |
|---------------------------|--------------------|--------------------------|------------------|-----------------------|---------------------------|-------------------------|
|                           | Number of entities | Employment, thsd persons | Turnover, UAH bn | Share in total number | Share in total employment | Share in total turnover |
| <b>Large enterprises</b>  | 1                  | c                        | c                | 0.01%                 | c                         | c                       |
| <b>SMEs</b>               | 17006              | c                        | c                | 99.99%                | c                         | c                       |
| <b>Medium enterprises</b> | 154                | c                        | c                | 0.91%                 | c                         | c                       |
| <b>Small enterprises</b>  | 2751               | 14.0                     | 11.8             | 16.18%                | 19.9%                     | 25.5%                   |
| <b>In which</b>           |                    |                          |                  |                       |                           |                         |
| <b>micro</b>              | 2361               | 6.0                      | 4.5              | 13.88%                | 8.5%                      | 9.7%                    |
| <b>IEs</b>                | 14101              | 24.9                     | 7.2              | 82.91%                | 35.5%                     | 15.5%                   |
| <b>Total</b>              | 17007              | 70.3                     | 46.5             | 100.00%               | 100.0%                    | 100.0%                  |

Source: Own calculations based on data from the State Statistics Service of Ukraine, MDS in Chernihiv region

### Number of business entities



In 2018, there were approximately 17 thousand SME entities in the city of Chernihiv (including 154 medium-sized enterprises, 2.8 thousand small enterprises and 14.1 thousand individual entrepreneurs), while there were only large enterprises 1. Thus, 17.1% of business entities were registered

as legal entities (19.3% in Ukraine as a whole), while the rest functioned as IEs.

Due to the small number of large entities, information on other key performance indicators of large and medium-sized enterprises (number of employees and sales) is confidential.

According to the number of business entities, Chernihiv is on the 10<sup>th</sup> place among the cities selected for research. The city accounts for 43.1% of the total number of economic entities in the Chernihiv region, which emphasizes the central role of the city in the region's economy.

In 2018, the number of SMEs in the city increased by 1.4% compared to 2017, which roughly corresponds to the figure for the country as a whole (1.9%). This was due to an increase in the number of IEs by 1% (1.2% for

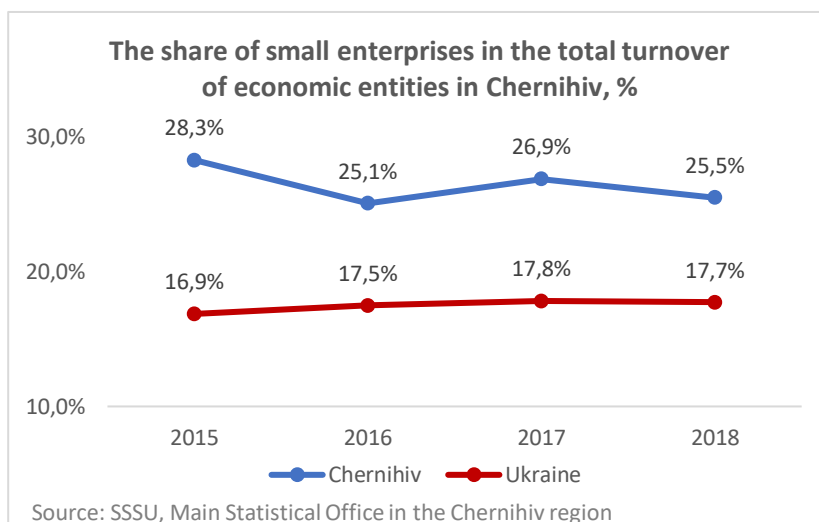
the country) and small businesses by 2.8% (5.1% in Ukraine). At the same time, the number of medium-sized enterprises increased by as much as 22.2%, which is the highest rate among selected cities (7.5% at the national level).

There were 588 SMEs per 10,000 inhabitants in Chernihiv. According to this indicator, the city ranked 20<sup>th</sup> among all cities in the study. This may indicate a relatively low level of business activity in the city compared to other regional centers.

### Employment

In 2018, 70.3 thousand people were employed in business entities of the city of Chernihiv, which is 8.9% more than in 2017 (4.8% corresponding to the national level). The city accounts for 43.2% of the total number of employees in economic entities of Chernihiv region.

Due to the confidentiality of data due to the small number of large entities, information on the number of employees for large and medium-sized enterprises is confidential. However, available data show that in 2018, more than half of jobs were in small businesses. In particular, 35.5% of employees were employed by IEs, and 19.9% were employed by small enterprises.



In 2018, the number of employees in small enterprises in Chernihiv decreased by 7%, which is the largest decline among all cities in the study. At the national level, the number of small enterprises decreased by only 1.1%. At the same time, the number of employees in IEs increased by 8.6% (at the national level, an increase of 10.5%).

Statistics show that in general, the Chernihiv region shows a slightly higher unemployment rate of the working age population than in Ukraine as a whole. In 2019, the corresponding indicator of the region was 10.6% against 8.6% at the national level. At the end of 2019, 1,870 people had the status of unemployed in Chernihiv, and the number of vacancies was 567. Accordingly, the workload of registered unemployed was about 3 people per vacancy. Due to quarantine measures and crises due to the COVID-19 pandemic, in 2020 the situation on the city's labor market may worsen.

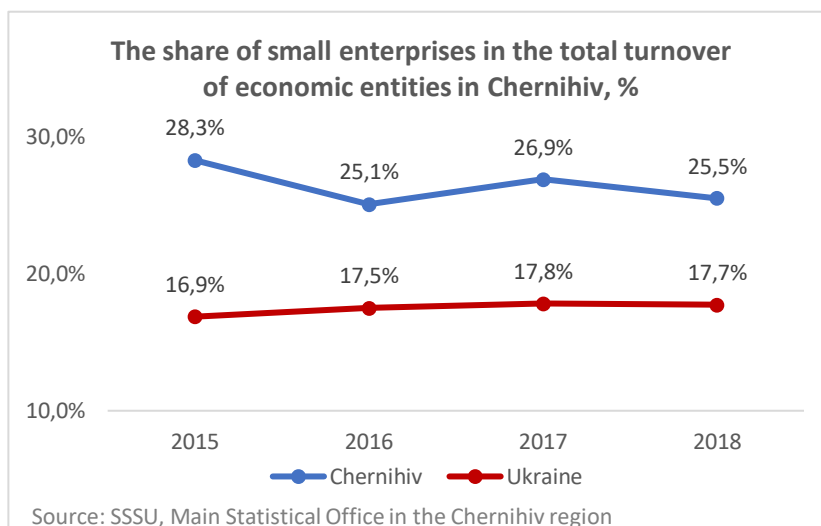
### Turnover

According to the results of 2018, the turnover of products (goods and services) of economic entities of the city of Chernihiv amounted to UAH 46.5 billion in current prices. Real growth (i.e. adjusted for the inflation index) of sales volume was 7% compared to 2017. The country as a whole grew by 8.1%, accounting for 39.5% of the total sales of the region.

Due to the confidentiality of data due to the small number of large entities, information on the volume of

products sold to large and medium-sized enterprises in Chernihiv is confidential. However, the available data show that small enterprises account for a quarter (25.5%) of turnover (17.7% in the country as a whole). The share of IEs is 15.5% (the national level is 7.6%).

In 2018, small enterprises in Chernihiv showed an increase in turnover by 1.1% compared to 2017 (for Ukraine as a whole, an increase of 7.5%). In addition, turnover of IEs increased by 12.1% (13.5% for Ukraine).



### *Sales of industrial products*

Statistical information on the main indicators of enterprises by type of economic activity is not available at the level of cities of regional significance and districts. However, statistics on sales of industrial products by type of activity are available. Such information makes it possible to identify the main industries in the industry of Chernihiv.

According to the Main Department of Statistics in Chernihiv region in 2018, the volume of sold industrial products in Chernihiv amounted to UAH 13.2 billion. Of these, 7.1 billion or 53.8% accounted for the processing industry. In particular, almost a quarter (3.2 billion UAH or 24.6%) provided for the production of food, beverages, and tobacco<sup>210</sup>. In second place in the processing industry is the production of rubber and plastic products, other non-metallic mineral products (0.8 billion UAH or 5.9%). Other activities include textile production, production of clothing, leather, leather products and other materials (UAH 0.6 billion or 4.3%), metallurgical production, production of finished metal products, except machinery and equipment (UAH 0.4 billion). or 2.8%).

### *Capital Investments*

In 2018, Chernihiv accounted for approximately UAH 2.2 billion of capital investments, which was a quarter (25%) of the volume of capital investments in the Chernihiv region. According to the results of 2018, the amount of capital investment per capita was approximately UAH 7,940, which is less than the national level - UAH 13,746. According to this indicator, Chernihiv ranks 23rd among the cities in the study.

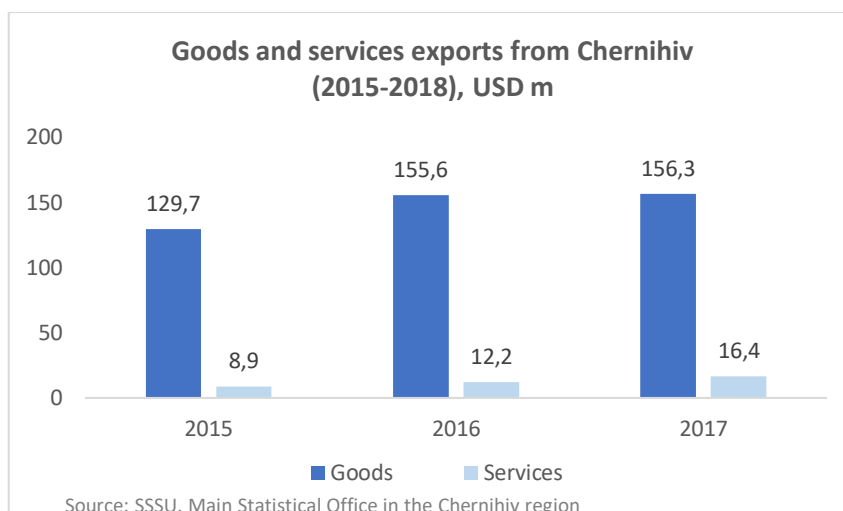
### *Export*

According to the State Statistics Service, in 2017 the volume of exports of goods from the city of Chernihiv amounted to USD 156.3 m, which was only 0.4% more than in 2016. At the same time, exports of services in 2017 increased by 34.4% and reached USD 16.4 m. However, data on the volume of exports of goods and

<sup>210</sup> According to the state statistical survey "Report on economic indicators of short-term industry statistics". Data by type of activity are formed by homogeneous products.



services from Chernihiv are not available for 2018, as there was no provision for the formation of information on foreign economic activity in terms of cities of regional importance and districts.



*Note: According to the Main Department of Statistics of Chernihiv region, the formation of information on the volume of exports and imports of goods and services in terms of cities of regional importance and districts for 2018. Was not provided*

### **Foreign direct investment**

Statistical information on the volume of direct investment in Chernihiv in 2018 is not available, as the formation of relevant statistical information in terms of cities of regional significance and districts for 2018 was not provided in accordance with the plan of state statistical observations for 2019.

### **Safety and comfort**

The results of other studies allow us to look at the level of safety and comfort of living in selected cities based on the assessments of their inhabitants. These factors are important for understanding the general situation in the city. In addition, comparisons with individual results of the Cities' Competitiveness Index are possible.

According to the study "Sixth Annual Ukrainian Municipal Survey"<sup>211</sup>, the city of Chernihiv ranks 3rd in terms of the Quality of Public Goods and Services Index with a score of 3.2 (1 - means "terrible, 5 - " excellent "), which indicates a high level of satisfaction of residents with the level of comfort in the city.

In the same study, Chernihiv is in the middle of the ranking of security in the cities of Ukraine according to the feelings of residents. The value of the corresponding Index for the city is 1.6 (the value can be from 0 to 3, where 0 - "I feel completely in danger", 3 - "I feel completely safe") and according to this indicator the city ranks 12th among the 24 studied cities. Half (51%) of the respondents said that they feel rather or completely safe after dark and 39% answered that they feel mostly in danger or completely in danger.

### **Results of the "Municipal Competitiveness Index" in Chernihiv**

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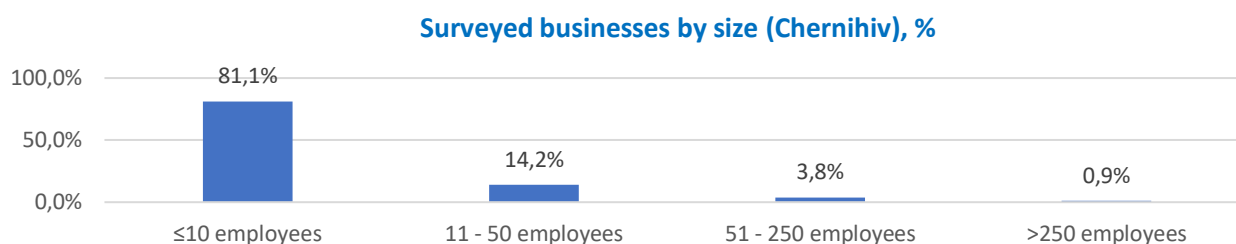
<sup>211</sup> The survey was conducted by the Sociological Rating Group on behalf of the International Republican Institute's Center for Insights in Survey Research; The survey was funded by the United States Agency for International Development (USAID). See [http://ratinggroup.ua/research/regions/shestoy\\_vseukrainskiy\\_municipalnyy\\_opros.html](http://ratinggroup.ua/research/regions/shestoy_vseukrainskiy_municipalnyy_opros.html).

### Sample description

212 business entities took part in the survey in Chernihiv. These are 135 (63.7%) enterprises-legal entities and 77 (36.3%) individual entrepreneurs (IEs). When analyzing the answers, the array was weighed according to the criterion of the type of business entity of the respondents in order to meet the parameters of the target sample, namely 64.5% of legal entities and 35.5% of IEs.

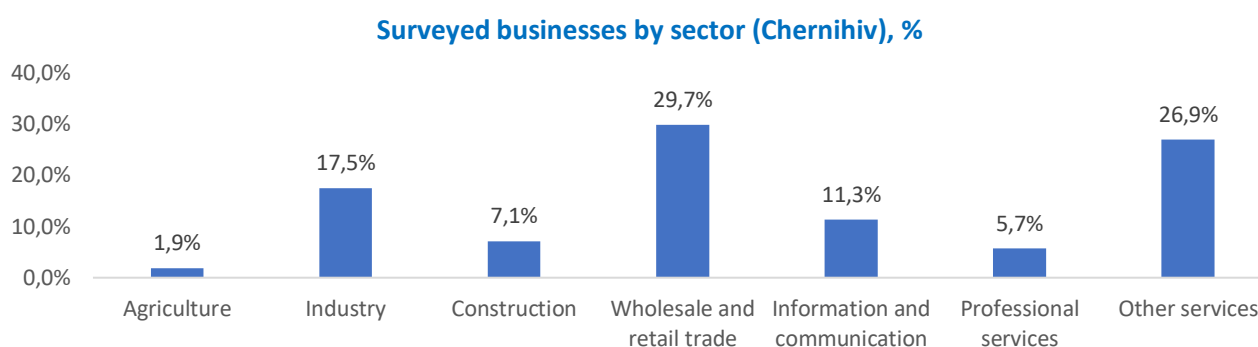
### The size of the surveyed business entities

The majority of respondents (81.1%) are microbusiness, i.e. such business entities, which employ from 1 to 10 people. 14.2% are small entities, i.e. those that employ from 11 to 50 people. Medium-sized entities (from 51 to 250 employees) account for 3.8%, and large entities (more than 250 employees) - 0.9%.



### Industry and type of activity

The surveyed business entities of Chernihiv represent various sectors of the economy. 29.7% of the surveyed business works in the trade sector (it includes wholesale and retail trade, repair of motor vehicles). Another 17.5% work in industry, 7.1% in construction, 1.9% - in agriculture. The services sector accounts for 43.9% of the surveyed business. 11.3% of respondents provide information and communication services, and 5.7% provide professional services. Other services (businesses working in the fields of transport services, arts and sports, education and healthcare, finance, and other service-related industries) account for 26.9% of respondents.



### Year of registration

Most of the surveyed business entities were registered up to and including 2017 (76.9%). In the period of 2018-2019, 23.1% of respondents were registered.

### Gender and age distribution of owners and business leaders

According to the survey, in Chernihiv 68.4% of business owners are men, 38.8% - women. At the same time, the share of men among legal entities is even higher - 71.4% against 28.6%.

Among the heads of legal entities, men make up 76.7% and women 23.3%. Among individual entrepreneurs, where managers and owners are the same person, the predominance of men is slightly lower - 61.2% vs. 38.8%. In general, among all business entities, 71.4% are men and 32.7% are women.

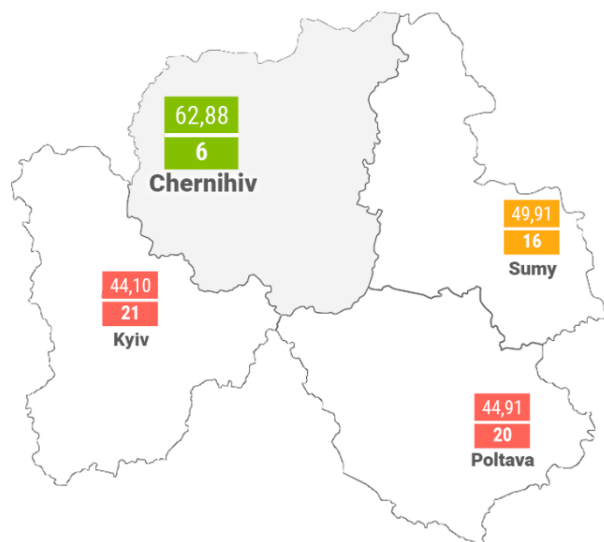
The average age of business owners in Chernihiv is 42.7 years (42.8 years in Ukraine). At the same time, in Chernihiv, individual entrepreneurs are on average 5 years younger than the owners of legal entities (39.4 years against 44.1 years).

### *Municipal Competitiveness Index: results of Chernihiv*

According to the results of the study, the city of Chernihiv took the 6th place with the value of MCI 2019/2020 - 62.88 points. Thus, Chernihiv belongs to the group of cities with high MCI.

Chernihiv is more than 10 points behind Khmelnytskyi, which leads the ranking. At the same time, Kramatorsk is more than 4 points ahead, taking the 7th place.

If we compare the value of MCI for Chernihiv with the results of geographical neighbors, then there are only cities in the second half of the ranking around. Sumy have the average value of MCI and the 16<sup>th</sup>. In addition, Chernihiv's neighbors are Kyiv and Poltava, which belong to the group of cities with low MCI (21st and 20th places, respectively).



Chernihiv was able to achieve a high position in the ranking due to high results within the individual components that form the MCI.

The strongest MCI components in Chernihiv:

- Starting a business (number three)
- Security of operating a business (number three)
- Leadership of municipal authorities (number five)
- Access to public property (number six)
- Informal payments and corruption (number six)

The weakest components:

- Innovation support (number 20)

#### *1. Starting a business*

Under Component 1 "Starting a Business", the city of Chernihiv received 8.05 points, which is the third highest score. The city was able to achieve a high result due to fast registration and permitting procedures. In particular, in 2018-2019 in Chernihiv, business registration lasted longer than the national average - 3.5 days against 6.1. This is the best indicator among all cities in the study. At the same time, changes to the register took an average of 2.3 days, which is one of the lowest rates among the surveyed cities (3.6 days - the average for all cities).

2% of respondents who registered a business in 2018-2019 reported problems and obstacles during this procedure, which is one of the best indicators (8.8% - the result of all cities). In addition, 85.8% of respondents

were able to receive the necessary consultation during registration, which is the highest rate among all cities (70.7%). However, starting a business (from the date of submission of documents for registration to the date of the first sale of goods and services) in Chernihiv took 35.9 days, which is almost 3 longer than the national average (32.1 days).

One of the reasons for the high scores on business registration may be better, compared to other cities, the provision of Sumy by business registrars. There are 10 registrars per 10,000 business entities in Chernihiv (in state authorities, local self-government bodies and state notaries).

It should be noted that the city has less acute problems with the duration of obtaining individual permits. If obtaining permits and registration documents in the field of construction on average in the country took 37.2 days, in Chernihiv this figure is 23.9 days. In addition, in Chernihiv, it is almost 2 days faster to obtain a declaration of compliance of the material and technical base of the business entity with the requirements of fire safety legislation - 9.9 days against 11.8 days on average for all cities.

## ***2. Access to public property***

According to the results of the component (sub-index) "Access to public property" Chernihiv received 6.21 points and took 6th place. The relatively high level of access to information on communal property has secured Chernihiv a place among the leaders. In particular, 19.9% of respondents reported the availability of information on the availability of communally owned land that can still be provided for use or used for construction, etc. (18.1% for all respondents). In addition, 37.3% of respondents indicated that information on municipal real estate (including non-residential premises) is available (29.2% for all respondents).

32.7% of respondents reported that they have documents confirming the right of ownership / lease of land on which they are engaged in business activities (30% at the national level). In particular, it is 48.9% of those respondents who believe that the issue of land documents concerns them (46.8% at the national level). However, the duration of procedures for obtaining documents confirming the right of ownership / lease of land in 2018-2019 in Chernihiv averaged 92.7 days, which is more than 20 days longer than the average for all respondents (72.4 days).

## ***3. Transparency and data openness***

Within the component "Transparency and data openness" Chernihiv occupies the 8th position with 6.34 points. In Chernihiv, respondents rated access to information on the local budget, local regulations, and public procurement at the average level.

In particular, in Chernihiv, positive assessments of access to information on local regulatory acts (16.1%) are almost indistinguishable from the indicator of access to information on local budgets - 16.0% (13.9% and 10.2%, respectively, on average for all bridge). At the same time, access to information on public procurement in the city was positively assessed by 15.7% (17.3% among all respondents).

## ***4. Compliance cost***

The cost of complying with the law in Chernihiv is almost the same as the national average. The city took 10th place with 7.37 points. The city's result was determined by low (compared to other cities) respondents' assessments of the time spent on compliance with local regulations, as well as the time spent on communication with inspectors.

In Chernihiv, entrepreneurs spend an average of 3.4 days complying with local regulations, which is slightly less than the national average of 4 days. At the same time, 4.8% of annual income is spent on the implementation of local regulations in Chernihiv, which is higher than the average for all respondents - 3.7%.

The results of the survey show that in Chernihiv the number of visits by inspectors is almost the same as the national average (0.6 times per year in the city versus 0.7 times per year at the national level). However, as a result, the average time spent on communication with inspectors is 4.7 days, which is slightly less than the average (5 days).

### ***5. Taxes and duties***

Component (sub-index) 5 "Taxes and duties" is not a strong point of Chernihiv. The city received 6.25 points and took 12th place. This result was obtained by Chernihiv due to a combination of factors such as lower burden of local taxes and the availability of benefits for the payment of local taxes and duties.

In the survey, respondents in Chernihiv reported that they spend on average 27.8% of their annual income on taxes and duties (including USC), which is slightly more than the average for all cities (26.8% of annual income). If we analyze the burden of tax and fee administration, the average time spent by entrepreneurs in Chernihiv was 58.6 days, which is slightly less than the average for all cities (59 days).

As for local taxes, for 18.7% of respondents in Chernihiv they are an obstacle, although for all cities the average is 20.4%. In addition, in Chernihiv, 5.1% of respondents reported receiving benefits for the payment of local taxes and duties during 2018-2019, which is one of the highest rates among the surveyed cities (among all respondents - 3.6%).

### ***6. Informal payments and corruption***

According to the survey, Chernihiv ranked 6th in Component (sub-index) 6 "Informal Payments and Corruption", receiving 6.75 points. In particular, the city's performance is due to factors such as one of the lowest levels of "informal payments" and a higher than average level of awareness of entrepreneurs about existing anti-corruption measures at the city level.

In particular, under Measure 1 "Bribes / Gifts", 7.6% of respondents in Chernihiv reported situations related to "unofficial expenses" in cooperation with city officials on any business issues during 2018-2019. On average, 9.9% of respondents dealt with such situations for all cities. At the same time, within Dimension 2 "Anti-corruption measures", 32.6% of respondents were informed about the implementation of specific anti-corruption measures by the city authorities (open budget, e-reception, anti-corruption city program, etc.) (on average for all cities - 31.8%).

### ***7. Security of operating a business***

Within Component (sub-index) 7 "Security of operating a business" Chernihiv received one of the best results and scored 7.37 points and ranked 3rd in the study. This result of Chernivtsi is due to the low, compared to other cities and other cities, the prevalence of raiding and other criminal acts on business and low losses from criminal acts.

According to the survey, 40.9% of respondents in Chernihiv believe that competitors are doing business in the shadows, which is 5 percentage points less than the national average (45.1%) and is one of the lowest values. If we analyze the problem of raidership, then at the national level 2.5% of respondents experienced raider attempts in 2018-2019. In Chernihiv, the situation is slightly better, and this figure is 2.3%.

In Chernihiv, 12.8% of respondents reported that in 2018-2019 they suffered losses due to extortion, theft, robbery, vandalism, arson (which is almost 2 percentage points less than the national average - 14.3% of

respondents). Entrepreneurs estimated the losses received from such criminal acts at 8.2% of annual income, which is more than 2 percentage points less than the national average (10.8% at the national level).

Business in Chernihiv spends 1.8% of annual income on security / protection, which is the lowest figure in general, compared to the national average of 2.7% of annual income

### *8. Leadership of municipal authorities*

The city of Chernihiv took the 5th place in Component (sub-index) 8 "Leadership of municipal authorities", receiving 6.07 points. The high position of the city in the sub-index is provided by positive assessments within the framework of both dimensions that form the sub-index - "Business Development Support" and "Public-Private Dialogue".

In terms of supporting business development, Chernihiv received 6.82 points (7th result). Entrepreneurs of Chernihiv, in particular, highly appreciate the attitude of city officials to private business. 25% of respondents believe that the attitude of the city authorities to business is "very good" or "good" (20% is the average for all cities). Also, 46.8% of respondents agree that the city government supports the creation of new business (38.3% average for all cities), and 46.3% indicate that the city government supports existing business (35.5% average for all cities). ). The results of the survey also complement the "hard data" on the activities of the city council. According to "hard data", Chernihiv received 8 out of 10 points. In Chernihiv, in particular, there are no city policies (programs, action plans, etc.) in the field of anti-corruption. In addition, compared to other cities, the Chernihiv City Council website provides lower level information on public procurement.

The "Public-Private Dialogue" dimension demonstrates that businesses in Chernihiv have fewer problems communicating with the authorities than most other cities. As part of the measurement, the city received 5.32 points and took 6th place. In Chernihiv, 7.1% of business representatives believe that they have "significant" and "very significant" opportunities to participate in the development of local documents (strategies, plans, programs, etc.), while the average for all cities is only 6.5%. . In addition, in Chernihiv, 9.4% of respondents indicate that the city always or often consults with business when adopting new or amending existing regulations that may affect business (7.4% average for all cities).

### *9. Development resources*

Chernihiv ranks 10th under Component (sub-index) 9 "Development resources", receiving 4.73 points. The assessment of the city is based on the results of three dimensions that form a single component: Human resources, Financial resources and infrastructure, Business support infrastructure.

As part of **Dimension 1 "Human resources"**, the city took 6th place, receiving 6.43 points. If we analyze some indicators of this dimension, in Chernihiv 6.2% of respondents rate the quality of local labor as "excellent" and "good" (among all respondents - 7.6%). 10.9% of respondents give positive assessments of vocational education of employees in the local labor market (10% of all respondents). Thus, in general, in Chernihiv, as in other cities, a small proportion of SAPs give high marks to the available workforce.

At the same time, 55.1% of respondents believe that insufficient training of employees is a serious obstacle to doing business (60.7% among all respondents), and 69.3% - experience the problem of labor shortage (among all respondents - 70%). As a result, the shortage of skilled labor is the second biggest problem for entrepreneurs in Chernihiv according to the rating of barriers to doing business. It was mentioned by 36% of respondents, which is one of the highest indicators among the assessments of obstacles in all cities.

The analysis of the situation regarding the number of labor force in the city is supplemented by statistical data. In particular, at the end of 2019 in Chernihiv there were 3.3 vacancies per 100 businesses, which is

approximately at the level of the average for the surveyed cities (3.6 vacancies)<sup>212</sup>. This may indicate that labor demand roughly corresponds to the average value for the cities in the study. In addition, as of January 1, 2019, the share of the working age population (15-64 years) in Chernihiv was 70.1%, which is approximately at the level of the average for the studied cities. At the national level, this figure was 67.8%.<sup>213</sup> Thus, compared to a number of other cities, the problem of population aging may be less pronounced in Chernihiv.

Under **Dimension 2 "Financial resources and infrastructure"**, the city took 17<sup>th</sup> place, receiving 3.76 points. According to the survey, only 1.2% of respondents in the country received financial support from the city authorities during 2018-2019. If we consider individual cities, in Chernihiv this figure is 1%, which is approximately at the level of the average value. At the same time, 78.8% of Chernihiv BEs indicate that the lack of financial resources is a serious obstacle to doing business (77.8% is the average for all cities).

Data on city budget expenditures complement the picture of financial resources to support business in the city. In 2019, the actual expenditures to support small and medium enterprises in the city amounted to only about 293 thousand UAH per 10 thousand businesses<sup>214</sup>. However, this is the fourth highest rate among the surveyed cities. It should be noted that in general, SME support expenditures in most cities are low or non-existent. Higher order of numbers or the presence of such support in general may indicate a higher level of leadership of the city authorities in business support.

In the context of infrastructure, the BEs surveyed in the researched cities had different experiences in connection to the grid. On average, it took almost 117 full days in Chernihiv to connect to the power supply systems, from the day of application to the day of the actual

accession. For the whole country, this figure averages 85 days. Thus, it is more difficult to connect to the electricity supply in the city compared to other cities. However, this is the fourth highest rate among the surveyed cities. It should be noted that in general, SME support expenditures in most cities are low or non-existent. Higher order of numbers or the presence of such support in general may indicate a higher level of leadership of the city authorities in business support.

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Under Dimension 3 **"Business support infrastructure"** Chernihiv ranks 12<sup>th</sup> (3.99 points). According to the survey, 13.7% of respondents personally received business support services from the city authorities (information, consulting, training, etc.), which is higher than the average for all cities (11%). At the same time, 48.9% of them rated such services as "good" and "excellent" (48.6% - among all respondents).

38.6% of BEs in Chernihiv indicate the existence of business support centers in the city, which is higher than the figure for all respondents as a whole (32.6% - the figure for all respondents). At the same time, "hard

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<sup>212</sup> Sources for calculations: 1) Number of vacancies: The situation on the labor market and the results of the state employment service. Data on the page of the Chernihiv Regional Employment Center, <https://chg.dcz.gov.ua/analytics/66> 2) Number of businesses: According to the MDS in the Chernihiv region.

<sup>213</sup> According to the State Statistics Service of Ukraine, the MDS in the Chernihiv region.

<sup>214</sup> Reports on the implementation of local budgets (expenditures under the program classification code 7610 - Promotion of small and medium enterprises), as well as the responses of city councils to requests for public information were used. For some cities, information on expenditures is clarified through telephone interviews with city council executive staff.

data" show that as of the end of 2019, the city lacks the infrastructure to support business created with the participation of city authorities. Thus, entrepreneurs' awareness of business support centers may relate to other business support infrastructure facilities in the city.

In Chernihiv, 43.5% of respondents know about the activities of business associations and business clubs in their city (45.9% of all respondents). In addition, 11.9% of BEs are members of such organizations, which is approximately at the level of the indicator for all respondents as a whole (11.5%).

### ***10. Support of innovations***

Chernihiv city took the 20<sup>th</sup> position (3.75 points) within Component (sub-index) 10 "Support of innovations".

11% of respondents in the city reported that in 2018-2019 their business interacted with research institutions or technology companies, which is the lowest rate among all cities (18.9% - the average result of all cities). Business representatives in Chernihiv are also less satisfied with technology transfer than the average respondent. 7.1% indicate that the relevant needs (transfer of patents for inventions, etc.) are "largely met" and "fully met" (8% at the national level).

Respondents in Chernihiv give a higher than average score of local government support for local innovation programs (financed from the local budget) - 2.04 points of the city against 1.91 points on average among all cities (with a maximum of 5 points). However, in Chernivtsi more often than on average in all cities new technologies, solutions or products were introduced in 2018-2019 (39.62% vs. 40.2%). In addition, 1.89% of surveyed enterprises and IEs reported that they belong to clusters. This is less than the figure for all cities as a whole (2.1%). All factors in general provide a low level of satisfaction of entrepreneurs in Chernihiv with the state of support for innovation in the city.

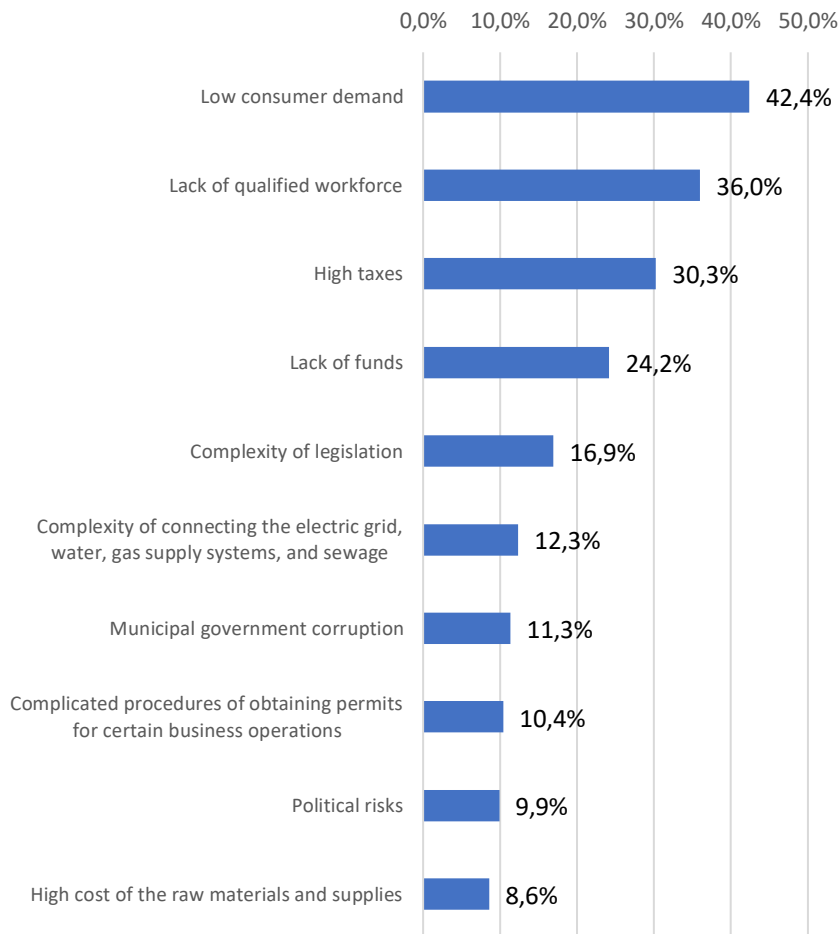
### ***Obstacles to doing business***

The interviewed business entities named the main obstacles they face in doing business in Chernihiv. Factors such as low consumer demand, lack of skilled labor, and high taxes shared the top three in the barrier ranking. Each of these barriers to doing business was reported by about a third of respondents (42.4%, 36.0% and 30.3%, respectively). Thus, in Chernihiv, as in a number of other cities, the problem of low demand is the most acute, and therefore ahead of the problems of lack of skilled labor and high taxes, which top the ranking of obstacles for all respondents in general.

Lack of financial resources is called an obstacle by 24.2% of respondents, and the complexity of the legislation - 16.9%. Nearby in the ranking are the difficulty of connecting to the systems of electricity, water, gas, sewerage (12.3%), corruption of the city authorities (11.3%), complex procedures for obtaining permits (10.4%) and political risks (9, 9%). The high cost of components (8.6%) completes the rating of the top 10 obstacles.



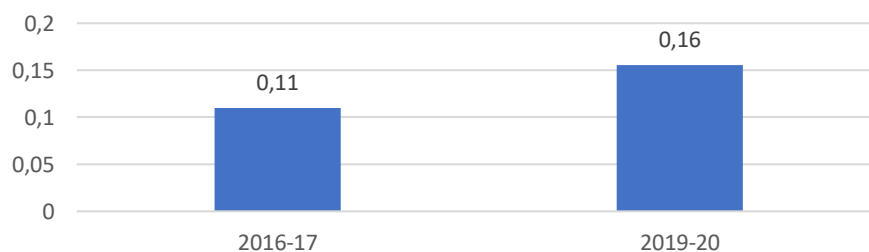
### TOP-10 barriers to doing business in Chernihiv, %



### *Expectations and assessments of the business climate and economic situation in Chernihiv*

**Regional SME Business Climate Index.** ABCA SME Business Climate Index in Chernihiv is 0.16 (only 17<sup>th</sup> among the surveyed cities). This is more than in 2017 (0.11), which indicates an improvement in business perception of the business climate. This coincides with the all-Ukrainian trend.

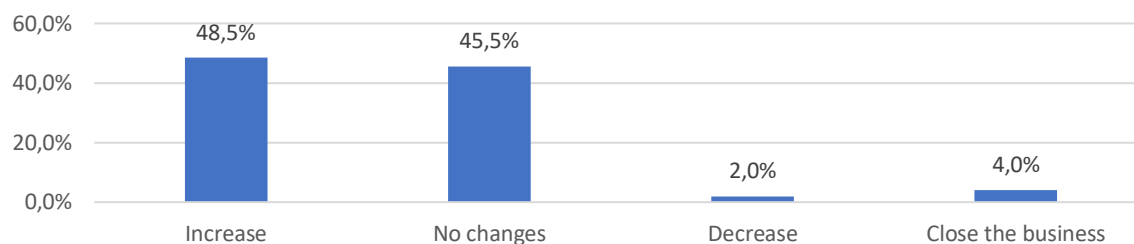
#### ABCA Regional Index of Business Climate (Chernihiv)



**Long-term expectations for business activity.** Business in Chernihiv has optimistic long-term development plans for the next two years. Slightly less than half of respondents (48.5%) said they plan to expand their

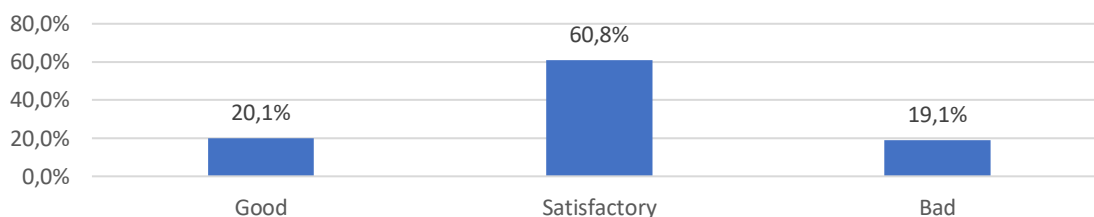
business, and 45.5% - to stay at the current level. At the same time, only 2% planned to reduce the business, and 4% - to close it. The balance index<sup>215</sup> is equal to +0.43 (at the national level +0.45).

**Business activity expectations in the two-year perspective in Chernihiv, % of the respondents**



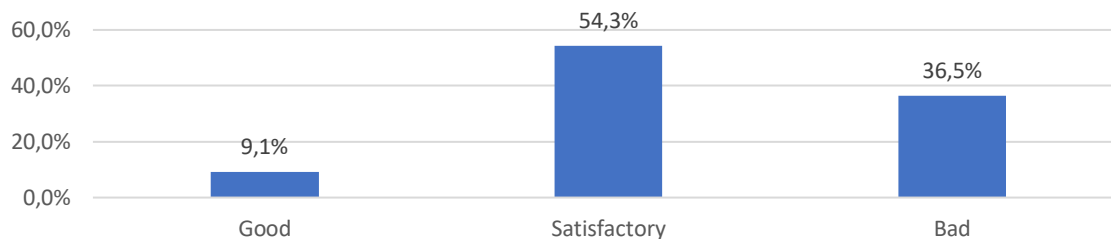
**Assessment of the financial and economic situation of the business entity.** In Chernivtsi, the majority of business entity respondents (60.8%) assessed their current financial and economic situation as satisfactory. The rest of the respondents rated it as good (20.1%) or bad (19.1%). Thus, positive assessments outweigh negative ones, and the balance index of financial and economic situation is 0.01 (at the national level +0.05).

**Assessment of the business situation of business entities in Chernihiv, % of the respondents**



**Assessment of the current overall economic environment for business activities.** More than half of the surveyed business entities (54.3%) rated the current general economic environment as satisfactory. 36.5% of respondents assess the general economic environment as bad, and 9.1% - good. Thus, the index of the general economic environment for business activities is negative: -0.28. And this value of the index is significantly lower than for the country as a whole (-0.12).

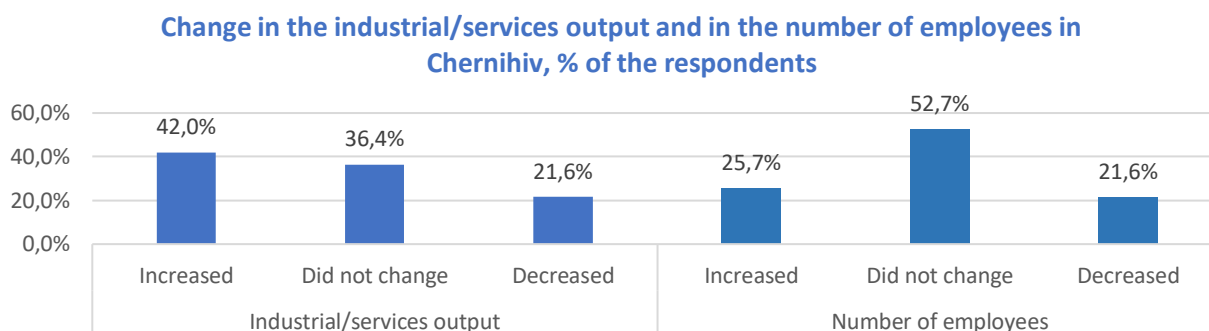
**Assessment of the overall economic situation (Chernihiv), % of the respondents**



**Change in the production output over the past two years.** Almost half (42.0%) of the surveyed business entities indicated that they increased the volume of production or provision of services in 2018-2019. More than a third of respondents (36.4%) did not change the volume, and 21.6% - decreased. Thus, the business activity index is +0.20 (which is less than the value for all respondents +0.31), which reflects the

<sup>215</sup> Calculated as the average of all answers on a scale from -1 to 1, where 1 corresponds to the simplification of this procedure, 0 - no change, and -1 - complication

predominance of the share of business entities that have expanded their production or provision of services over the share of those that have reduced volumes.



**Change in the number of employees at the business entity over the past two years.** More than half of the surveyed business entities indicated (52.7) that the number of employees did not change in 2018-2019. The share of those where the number of employees increased (25.7%) slightly exceeds the share of those where the number of employees decreased (21.6%). Thus, the index of changes in the number of employees is +0.04, which is lower than for all respondents as a whole (+0.16).

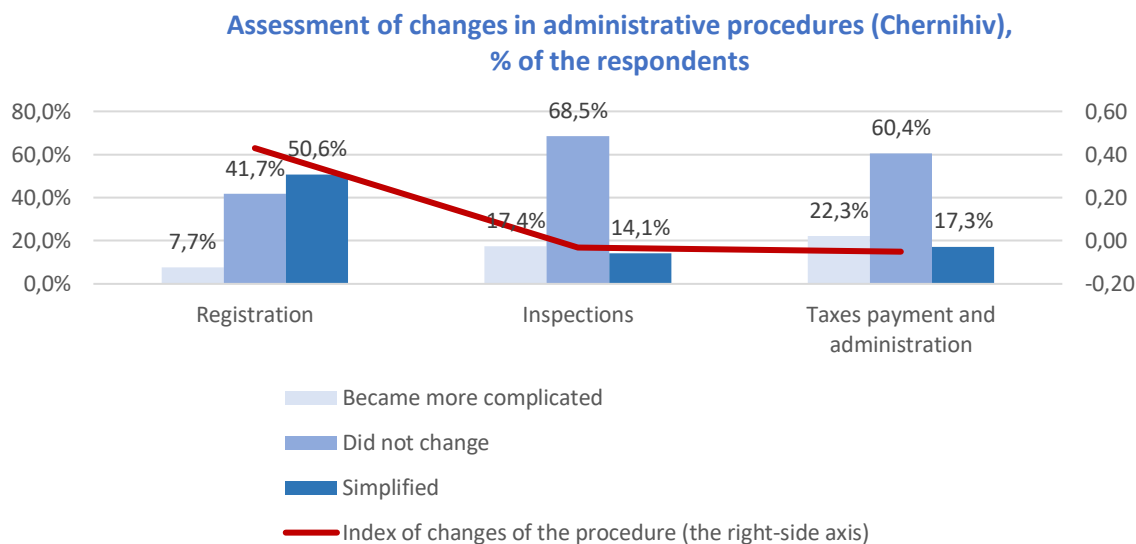
**Deregulation: changes in administrative procedures.** According to the respondents, the process and conditions of business registration have been simplified the most in the last two years, while the situation with inspections and tax payment conditions has not improved.

50.6% of business entity respondents point to the simplification of the business registration procedure for the previous two years. The rest of the respondents did not feel any changes in this procedure during this time, and only a small percentage of respondents - 7.7% - said that, in their opinion, business registration has become more difficult. As a result, the index of change in the registration procedure is +0.43<sup>216</sup>. This is the highest value of such an index compared to the other two procedures: passing inspections and paying taxes.

Speaking about the administration of tax payments, more than half of the BEs (60.4%) say that they did not notice any changes in the complexity of this procedure. Among those who remained, only 17.3% of those for whom paying taxes became easier, and 22.3% of those for whom it became more difficult. Therefore, the index of change in the procedure for administering tax payments is close to zero: its value is -0.05. The index of changes in passing inspections has a negative value, also close to zero: -0.03. The share of business leaders and individual entrepreneurs who claim that it has become more difficult to pass inspections is 17.4% and is slightly higher than the share of businesses that have simplified inspections compared to 2018 (14.1%). However, the largest share of the surveyed business (68.5%) did not notice any changes in the situation with inspections.

As a result, the value of the general index of change of administrative procedures, which is calculated as the average value of the indices of change of these three procedures, is +0.12.

<sup>216</sup> Calculated as the average of all responses on a scale from -1 to 1, where 1 corresponds to the simplification of this procedure, 0 - no change, and -1 - complication.



## Recommendations

According to the MCI results (subject to the weak components and dimensions) the following key recommendations have been formulated for the city. In addition, the city government should pay attention to recommendations that are common for all the cities in general.

### Component 4. Cost of compliance

- Local deregulation measures need to be continued in order to reduce business time and money spent on implementing local regulations.

### Component 5. Taxes and duties

- It is necessary to analyze the burden of local taxes and duties and their impact on local business.

### Component 9. Development resources

- Entrepreneurship support expenditures need to be increased to ensure the functioning of business support infrastructure and financial support programs.
- It is necessary to use the best practices of other cities to organize the work of business support centers, coworking, business hubs, clusters, etc.
- Local business support infrastructure needs to be audited to assess their effectiveness and development.

### Component 10. Support of innovations

- It is necessary to provide support for innovative projects under programs of financial support for entrepreneurship in cities.
- Business cooperation should be encouraged through the formation of clusters at the initiative or support of the city government.