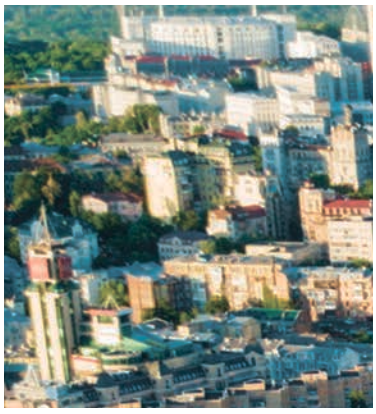
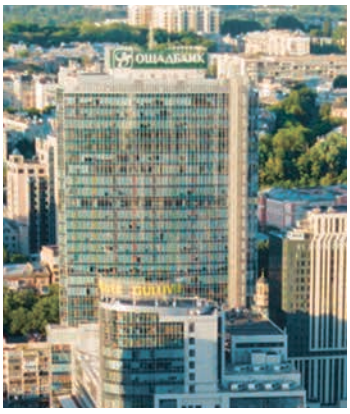
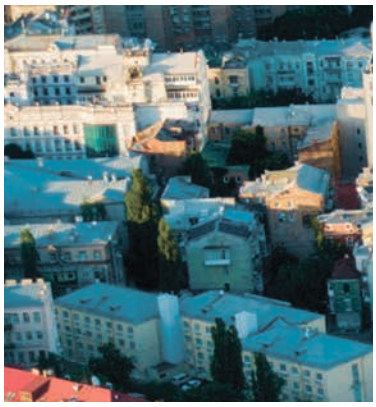
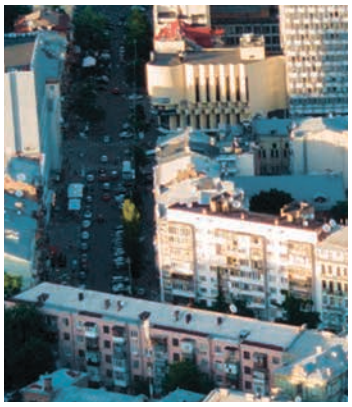
USAID
FROM THE AMERICAN PEOPLE

COMPETITIVE
ECONOMY PROGRAM

INSTITUTE
FOR ECONOMIC RESEARCH
AND POLICY CONSULTING

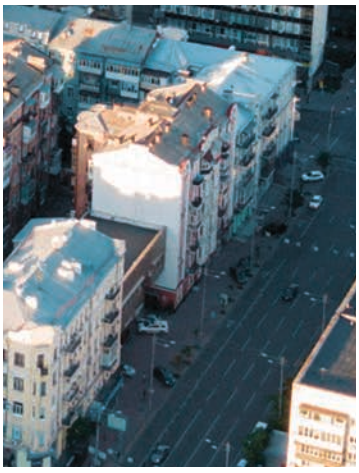
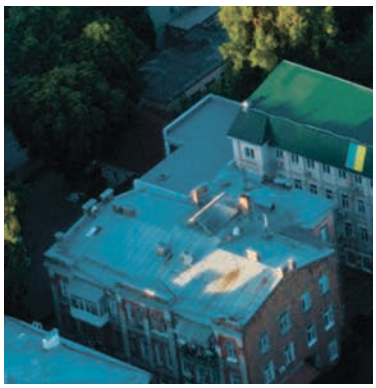
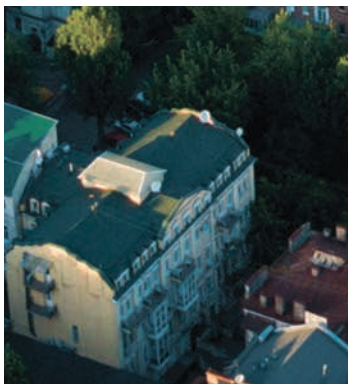
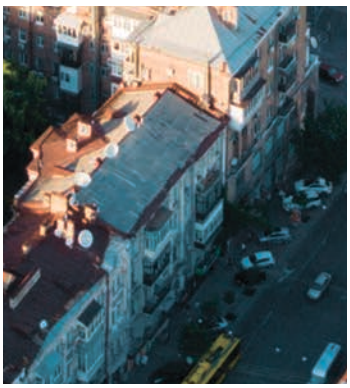
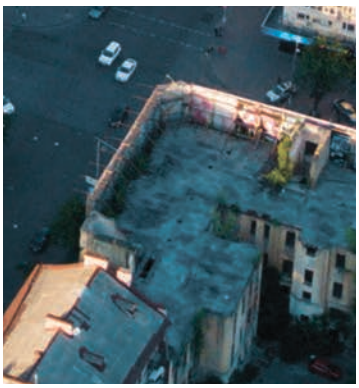
IS
InfoSapiens


# MCI 2019/2020

## Municipal Competitiveness Index

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:

Alina Pastukhova Jr.

***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.*

***The Institute for Economic Research and Policy Consulting*** *(IER) is a leading Ukrainian independent, nonpartisan think tank that focuses on economic research and policy advice. The IER's special focus is on promoting the EU-Ukraine Association Agreement. IER's mission is to provide alternative solutions to key problems of social and economic development in Ukraine based on the rule of law, democracy, and market economy principles. Founded 20 years ago, the IER has experience in economic analysis and modelling, conducting business surveys, implementation of advocacy, and information campaigns as well as CSOs capacity building in Ukraine. By providing analytical support of economic reforms and policy dialogue among stakeholders, the IER is contributing to developing a business enabling environment in Ukraine.*

***Info Sapiens*** *research agency (INFO SAPIENS LLC) conducts public opinion research, social, political, and marketing research, and also health care research. According to the Ukrainian Marketing Association as of 2019, Info Sapiens is the largest Ukrainian research company, following the representatives of the international companies. Info Sapiens complies with all research standards of ICC/ESOMAR.*

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

# ANALYTICAL REPORT

# Municipal Competitiveness Index 2019/2020

Part 1. Analysis of research results

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

# Content

# List of illustrations

## List of abbreviations

BE - Business entity

IE – Individual entrepreneur

IER - Institute for Economic Research and Policy Consulting

GDP - the gross domestic product

EBRD - European Bank for Reconstruction and Development

NBU - National Bank of Ukraine

USR - Unified State Register of Legal Entities, Individual Entrepreneurs and Public Organizations

USC – Unified social contribution

SMEs - Small and medium enterprises

OOS - Joint Forces Operation

p.p. – percentage point

VAT - Value added tax

# 1. Introduction

Local government's role in economic development is growing under conditions of decentralization. In this regard, it is especially important to stimulate the leadership of local authorities in creating favorable conditions for business development and identifying regulatory barriers and corruption, overcoming which will increase business success, especially at the local level.

This report presents the results of the first Municipal Competitiveness Index (MCI) which is an analytical tool for local businesses and entrepreneurs to assess the business environment created by local governments. This index is not just a statistical indicator, but a tool proved by international experience for stimulating local government leadership in economic development. The use of this tool is aimed at promoting competition between cities in providing a favorable business climate. It identifies priority reforms for the local business environment and best practices for local authorities and business interaction, stimulates healthy competition and experience exchange between cities and territories, and best regulatory practices expansion.

MCI is based on two sources: statistics and business survey results. Government statistics analysis and administrative data on cities' economic development and city authorities' activities in developing economics and regulatory policy allow them to obtain an economic "portrait" of the city, and the results of the survey find out business opinion on the issue. The business opinion is a part of the business climate, plans and expectations shape future behavior, and "feedback" on problems and obstacles provides an opportunity to make adjustments to particular government policy. Business attitudes and expectations are valuable because they are obtained directly from entrepreneurs and business leaders, i.e. those who are well aware of the conditions and potential changes in the business environment, as they constantly operate in it. Both legal entities and individual entrepreneurs take part in the survey.

This analytical report consists of two parts. The first part presents MCI and its constituent components, analyzes the ranking of cities in MCI as a whole and for each component of MCI. The analysis of each component includes both a comparison of the city's results and a description of individual indicators on which the corresponding MCI component is calculated. The results are presented in the national dimension for all business entities, for legal entities and individual entrepreneurs (IE) separately, as well as for enterprise groups (IEs) selected by the number of employees and type of activity. A large part of the questions in this section concerns business attitudes and expectations. Business expectations directly affect both the competitiveness of the economy as a whole and the competitiveness of local economies. This section uses integrated indexes based on the ABCA Annual Business Climate Assessment methodology conducted within USAID Leadership in Economic Governance Program in 2015-2017 frameworks[1]. It includes an assessment of the quality of the main business environment components, the short and long term analysis of business expectations and business plans, and the "ranking" of obstacles faced by entrepreneurs in their activities. The "demography" of enterprises is an important part of the analysis, in particular the size of the enterprise, industry, and employment dynamics. The entrepreneur "portrait" in terms of age and gender is also presented in this part of the report. The field phase of the survey took place from January 17 to April 3, 2020, the time marked by the beginning of the COVID-19 epidemic in Ukraine and strict quarantine measures. Although at first, this was not the subject of the study, we analyzed the impact of quarantine on business expectations and attitudes in response to the challenges faced by Ukrainian business due to the epidemic and quarantine restrictions.

[1] "Annual Business Climate Assessment 2015". The Institute for Economic Research and Policy Consulting**,** Kyiv, 2016; "Annual Business Climate Assessment 2016: national and regional dimensions". The Institute for Economic Research and Policy Consulting**,** Kyiv, 2017.

The second part of the report includes profiles of 24 cities studied. The profile includes the city MCI and its components and comparisons of city MCI with cities from neighboring regions. Each profile presents the characteristics of the city and its business climate, obtained as a result of the survey and the main government statistics economic indicators of the city. Each profile has cartographic materials. The result of the survey is a large information scope, much more than can be presented in one, even very large analytical report. This report has an appendix with tables showing the answers to the main questions described in the report in terms of regions, enterprise/individual entrepreneur size, and type of activity. The "Appendix" section contains a lot of numerical information that may be used by a reader interested in his/her own business climate, city economic development, and general economic development analysis.

A team of the Institute for Economic Research and Policy Consulting (IER) experts led by Oksana Kuziakiv worked on the report. Yevhen Anhel, Oksana Kuziakiv, and Iryna Fedets are the authors of the calculations and texts. Julia Baziuchenko and Anastasia Gulik helped to prepare city profiles, and Vitalii Riznyk produced cartographic materials used in this report. Dmytro Savchuk and Anastasiya Shurenkova from the Info Sapiens research company prepared information on approaches to sampling design and other features of the survey of business entities.

The report is based on the statistical and administrative data analysis from 24 cities and the results of a survey of 5115 heads of business entities, including heads of 3183 enterprises-legal entities and 1932 individual entrepreneurs from 24 cities in all regions of Ukraine, except Crimea, Sevastopol and some districts of Donetsk and Luhansk regions. The 24 cities in which the study was conducted include 21 regional centers, two cities from Joint Forces Operation zone, where the military-civil administrations of Donetsk and Luhansk regions are located, and Kyiv.

The survey was conducted by Info Sapiens research company. Statistical and administrative data were collected by the Institute for Economic Research and Policy Consulting.

## 2. Municipal Competitiveness Index as an indicator for city economic development

Developing a business-friendly environment is one of the key areas of economic policy. Ukraine is perceived as a country with excessive regulation and a high level of corruption. International research shows that the more procedures a business faces and the longer these procedures take, the better is the chance of high levels of corruption in the country. According to business surveys, the bribes are from 5% to 21% of the cost of regulatory procedures [2]. Deregulation is one of the key tools to improve the business environment in the country and increase the competitiveness of the Ukrainian economy. At the same time, more and more powers are being transferred to the local level as part of decentralization reform. The role of the local level, cities, and united territorial communities, in influencing the business environment is growing. Ukrainian cities are becoming important economic actors, and the city government has a significant impact on the business environment and the competitiveness of the city.

Regular monitoring and evaluation of major economic, regulatory, and institutional changes, measuring the effectiveness of economic management at the national and local levels, in particular at the city level, is crucial.

The Municipal Competitiveness Index introduced by the USAID Competitive Economy of Ukraine Program is an important tool for measuring the effectiveness and motivation of municipalities for economic growth, as well as identifying regulatory barriers, corruption, and non-transparency in decision-making, eliminating of which will contribute to the efficiency of private business.

The data obtained through personal interviews with representatives of business entities in the cities of Ukraine and desk research (collecting and processing of statistical data, analysis of official city councils' websites, documents) are used to develop the MCI.

MCI will be useful to various local economic development stakeholders. MCI will allow local SMEs to participate in the survey and express their views on the most significant barriers in doing business and interacting with local authorities, understand local business development policies and offer improvements, and take an active part in developing a transparent and competitive local business environment.

MCI will help municipalities identify regulatory barriers, cases of corruption and non-transparency, overcoming which contributes to the success of private companies, identify and implement best practices in local government, and business interaction.

MCI gives the preconditions to the Government of Ukraine for stimulating municipalities to healthy competition and economic development and for best regulatory practices from the local to the national level.

MCI allows ordinary citizens - consumers of goods and services - to choose better products and services by local producers, as under equal conditions for doing business small and medium enterprises become more customer-oriented not only through fair competition but through positive interaction.

The Municipal Competitiveness Index (MCI) is based on the methodology of compiling economic governance indexes developed by the Asia Foundation and first implemented in Vietnam in 2005. This methodology has since been used in various countries, including Bangladesh, Indonesia, Cambodia, Kosovo, Malaysia, Mongolia, Myanmar, El Salvador, Sri Lanka, and the Philippines. When applied in each country, the methodology was adapted to the unique conditions of each country[3].

[2] "Annual Business Climate Assessment 2015". The Institute for Economic Research and Policy Consulting, Kyiv, 2016

[3] See MCI for Kosovo https://www.riinvestinstitute.org/uploads/files/2018/May/11/MCI_Index_-_ENG1526043806.pdf

MCI is an aggregate indicator consisting of 10 components of governance (sub-indexes) to assess the cities' competitiveness, including:

| | |
|---|---|
| 1. Starting a business | 2. Access to public (municipal) property |
| 3. Transparency and data openness | 4. Compliance cost |
| 5. Taxes and duties | 6. Informal payments and corruption |
| 7. Security of operating a business | 8. Leadership of municipal authorities |
| 9. Development resources | 10. Support of innovations |

Each component contains one or more dimensions, the information for which is based on statistics or business survey data.

In 2019-2020, 24 cities are taken in the assessment and MCI, including Kyiv and 23 regional centers with Kramatorsk and Sievierodonetsk among them, which are the administrative centers of Donetsk and Luhansk regions, respectively.

The field phase of collecting statistics and surveying the business lasted from January 17 to April 3, 2020.

# 3. Sample and data

## 3.1. Sample design

The Business Entity Survey is one of the components for determining MCI. The survey began on January 17 and ended on April 4, 2020. The survey was conducted only among business entities, registered and economically active in the relevant city.

The MCI 2020 survey involves 24 cities, including Kyiv and 23 cities in regional centers. All interviews were conducted by telephone with enterprise management: the owners, managers (directors), deputy managers (deputy directors), financial directors, or chief accountants. In the case of individual entrepreneurs (IEs), the interviews were conducted with the IEs themselves. One respondent represents one business entity.

A random sample based on the data of the Unified State Register of Legal Entities, Individual Entrepreneurs, and Public Organizations (USR) was conducted for the survey. Utility and state-owned enterprises, farms, trade cooperatives, public associations, governmental and municipal organizations were excluded at the sampling stage (by name and type of economic activity) and additionally inspected at the selection stage.

At least 200 computer-assisted telephone interviews (CATIs) were conducted in each of the 24 cities. Two levels of stratification were used within cities:

Legal entities and individual entrepreneurs (based on main statistics department data in the regions on the number of employees working for legal entities and individual entrepreneurs in each city as of 2018, the latest data available at the beginning of the survey).

Businesses registered before 2018 or in 2018 – 2019 (based on information from the Unified State Register as of January 10, 2020, on the number of registered legal entities and individual entrepreneurs in the respective years).

The planned strata included: (1) 77% of legal entities and 23% of individual entrepreneurs, (2) 24% of business entities received state registration in 2018 – 2019.

The number of completed interviews in the city ranged from 200 to 220. The total number of interviews is 5,115. Post-stratification weights were used to equalize the weight of each city in the final data set, as well as to adjust the size of the strata to those planned. After weighing, the number of objects available for further statistical analysis was 4800. The structure of the sample by cities in the context of “IE” to “legal entity” strata got after weighing, can be found in the Appendix.

## 3.2. Calculations and MCI development

**Data aggregation.** All indicators within the components (sub-indices) were standardized according to whether the indicators are the incentive (higher score of the indicator denotes better management): or disincentive (higher score of the indicator denotes poorer management).

Normalization was performed using the following formulas:

For incentive indicators:

[9*((Municipality score *i* – Sample minimum) / (Sample maximum – Sample minimum))+1]

For the disincentive indicators:

11- [9*((Municipality score i – Sample minimum) / (Sample maximum – Sample minimum))+1]

As a result of data normalization, the values of all indicators were translated into a 10-point scale.

Normalized values of the indicators within each sub-index are aggregated, and the sub-index value is computed as simple arithmetic mean. If in a sub-index or a sub-index dimension hard data (statistical data) are used along with soft (survey) data, the hard data are weighted 40%, and the soft data – 60% of the total dimension score. In such a case, weighted arithmetic mean is used for data aggregation and the sub-index value computing.

The aggregated MCI is calculated as the sum of 10 sub-index values. Aggregated MCI scores may vary between 1 and 100.

**Calibration**. In the initial methodology, a hypothesis was put forward about the relationship between long-term expectations and the values of 10 sub-indices, as well as the impact of the component (the phenomena they measure) on long-term business expectations on business activity. In turn, long-term impact assessment factors were to be the basis for the design of weights for each sub-index, depending on the "importance" for long-term expectations. However, correlation and regression analysis showed no significant correlations between sub-indices and expectations. As a result, it was decided to calculate the MCI value without calibration. At the same time, testing of calibration procedures will be continued in the next MCI round.

MCI ranking and grouping of municipalities.

According to the results of aggregated MCI, the cities were ranked from high to low.

The next step is breaking down the cities into three classes based on their MCI score:

1. High MCI
2. Average MCI
3. Low MCI

Distributing cities into classes by their MCI score resulted in including 25% of the cities with the highest MCI score in Class 1, 25% of the cities with the lowest MCI score in Class 3, while the other 50% of cities fell into the average class.

## 3.3. Sample characteristics according to the survey results

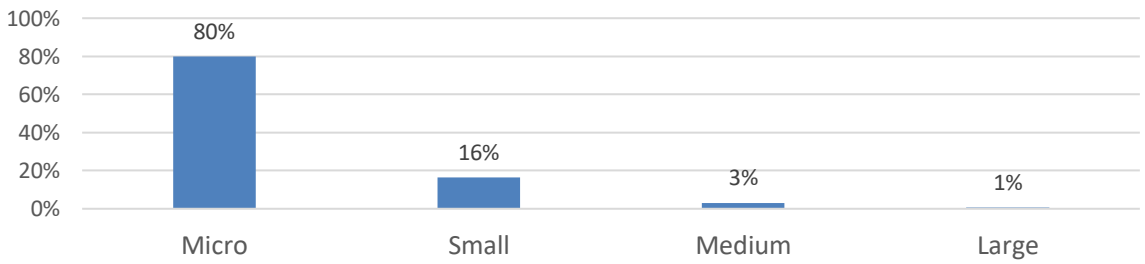
***The number of surveyed business entities and their type.*** 5115 business entities took part in the survey. These are 3183 (62%) enterprises-legal entities and 1932 (38%) individual entrepreneurs (IEs). The answers were weighed against the criteria of the respondent type of business entity and compliance with the parameters of the target sample (see Sample design).

***Surveyed enterprises and individual entrepreneurships location.*** This research examines and compares the business climate, in particular, the effectiveness of economic governance, in the municipalities of Ukraine. For this purpose, enterprises and individual entrepreneurs in 24 cities (Kyiv and 23 regional centers) were interviewed. These are Ivano-Frankivsk, Lutsk, Lviv, Rivne, Ternopil, Uzhhorod, Khmelnytskyi, and Chernivtsi in the western region. In the central region, these are Kyiv, which is also the center of the Kyiv region, as well as Vinnytsia, Dnipro, Zhytomyr, Kropyvnytskyi, Poltava, Cherkasy, and Chernihiv. In the south of Ukraine, these are Zaporizhzhia, Mykolaiv, Odesa, and Kherson, and in the east, these are Kramatorsk, Sievierodonetsk, Sumy, and Kharkiv. Because of the Russian occupation, enterprises, and individual entrepreneurs from the Autonomous Republic of Crimea (Simferopol), Donetsk, Luhansk, and Sevastopol did not participate in this survey.

200 or more enterprises and individual entrepreneurs were surveyed in each of the 24 cities. When analyzing the answers, the whole information was weighed to equalize the number of respondents to 200 respondents.

***The size of business entities surveyed.*** The majority of respondents are microenterprises, i.e. enterprises, and IEs, wherefrom one to ten people work. 16% were small enterprises, i.e. those employing from 11 to 50 people. 3% are medium-sized enterprises (from 51 to 250 employees), and 1% - large enterprises with more than 250 employees.

*Fig. 1. Distribution of enterprises and individual entrepreneurs by business size, %*



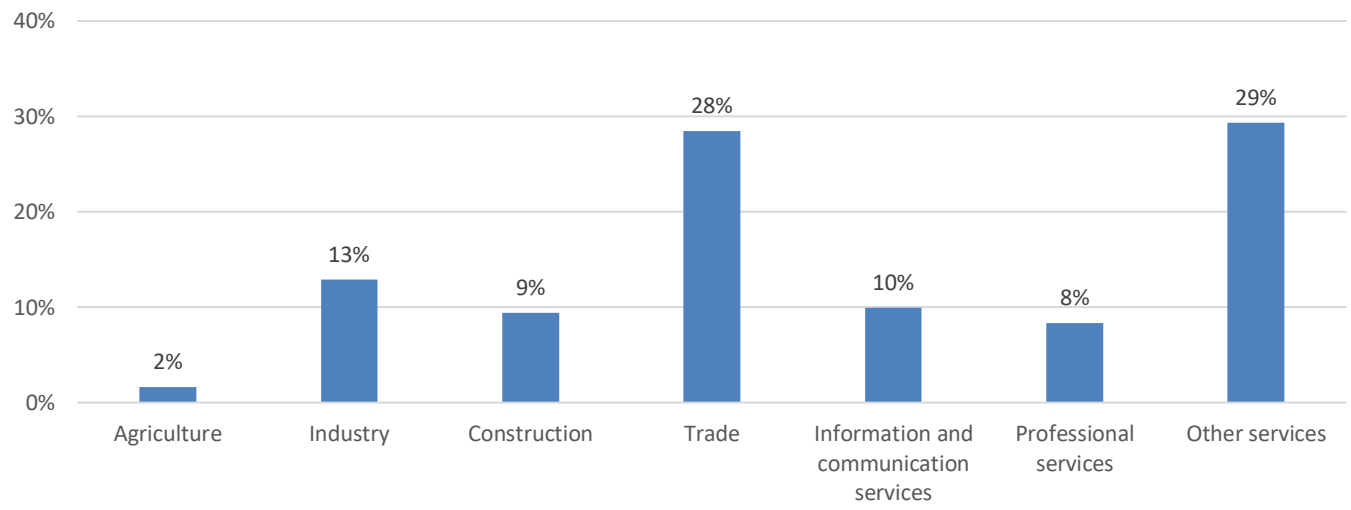
***Sector (activity type) of the business entities surveyed***. Respondents represent the main sectors of the economy. These are agriculture, industry, trade, construction, and services.

Almost half (48%) of the businesses surveyed operate in the services sector. According to the NACE, the services sector includes various subsectors, which we have divided into three groups:

1. Information and communication services. 10% of respondents provide information and communication services, including printing, publishing books, and magazines, as well as the information technology.
2. Professional services. 8% of respondents provide professional services, such as legal, marketing, and management consulting, accounting services, etc.
3. Other services. We grouped the rest of the respondents into other services. It is a business that operates in transportation services, arts and sports, education and healthcare, finance, and other service industries. Such respondents are 29% of the total sample.

28% of respondents are businesses engaged in trade. These include companies and IEs, who work according to NACE: both wholesale and retail, as well as vehicle repair. Industrial enterprises and individual entrepreneurs working in the industry make 13% of all respondents. Most of them are representatives of the processing industry, but there are also businesses operating in the extractive industry and the electricity, water, or gas supply. 9% of IEs and enterprises work in construction, and the smallest share of respondents is in agriculture: 2% of enterprises and IEs in the sample work in this sector.

*Fig. 2. Distribution of enterprises and individual entrepreneurs by sector, %*




***Registration Year.*** Most enterprises and IEs (65%) were registered from 2011 to 2020. 22% were registered from 2001 to 2010, and 14% - until 2000. When analyzing the answer, the whole data was weighted according to the registration year of business surveyed, so that it meets the specified sampling criteria (the share of enterprises registered in 2018-2019 is 24%).

## 4. MCI rating and municipalities grouping

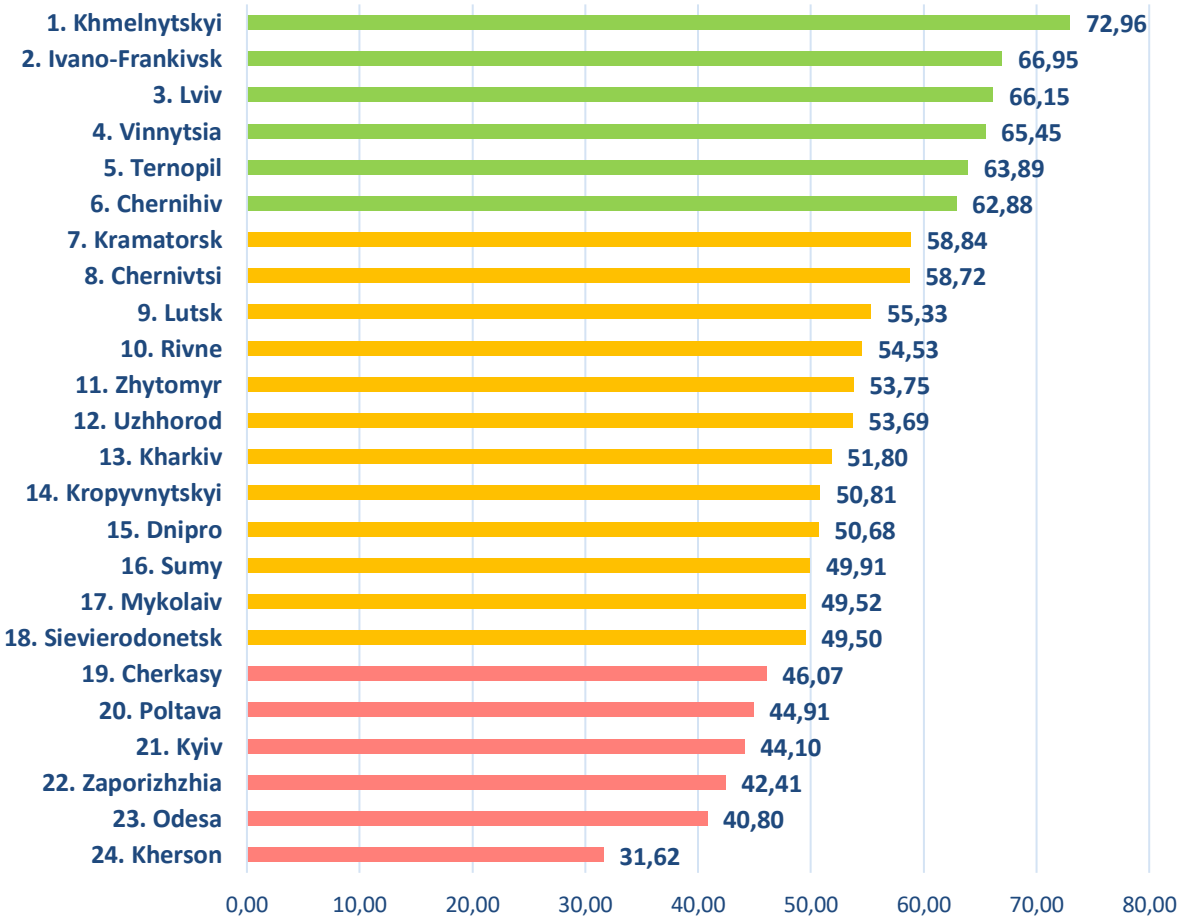
The main result of the Municipal Competitiveness Index 2019/2020 (MCI 2019/2020) research was the ranking of municipalities selected for the study (see Fig. 3). The value of MCI is calculated for each city and the corresponding rank is assigned. The MCI value varies from 0 to 100, where 100 is the best value and 0 is the worst. The greater the value, the higher is the rank of the municipality. The research involved 24 cities and assigned 24 ranks respectively, where 1 is the highest, and 24 is the lowest rank for the municipality.

In addition, depending on the index value cities were divided into three groups:

1. High MCI (values from 72, 96 to 62.88, rank from 1 to 6)
2. Average MCI (values from 58.84 to 49.50, rank from 7 to 18)
3. Low MCI (values from 46.07 to 31.62, rank from 19 to 24)

Khmelnytskyi was ranked the first with the MCI 2019/2020 value of 72.96 points. In total, the group with high MCI included only 6 cities that received the highest marks in the sum of all components (sub-indices): Khmelnytskyi, Ivano-Frankivsk, Lviv, Vinnytsia, Ternopil, and Chernihiv.

*Fig. 3. Municipal Competitiveness Index 2019/2020: cities rating (green - high MCI, orange - average MCI, red - low MCI)*




Khmelnytskyi index value (72.96) is 6.01 points higher than Ivano-Frankivsk (66.95 points), which took second place. It is more than twice as high as in Kherson ranked the last (31.62). Khmelnytskyi was able to take the first position thanks to the leadership in several MCI components (sub-indices).

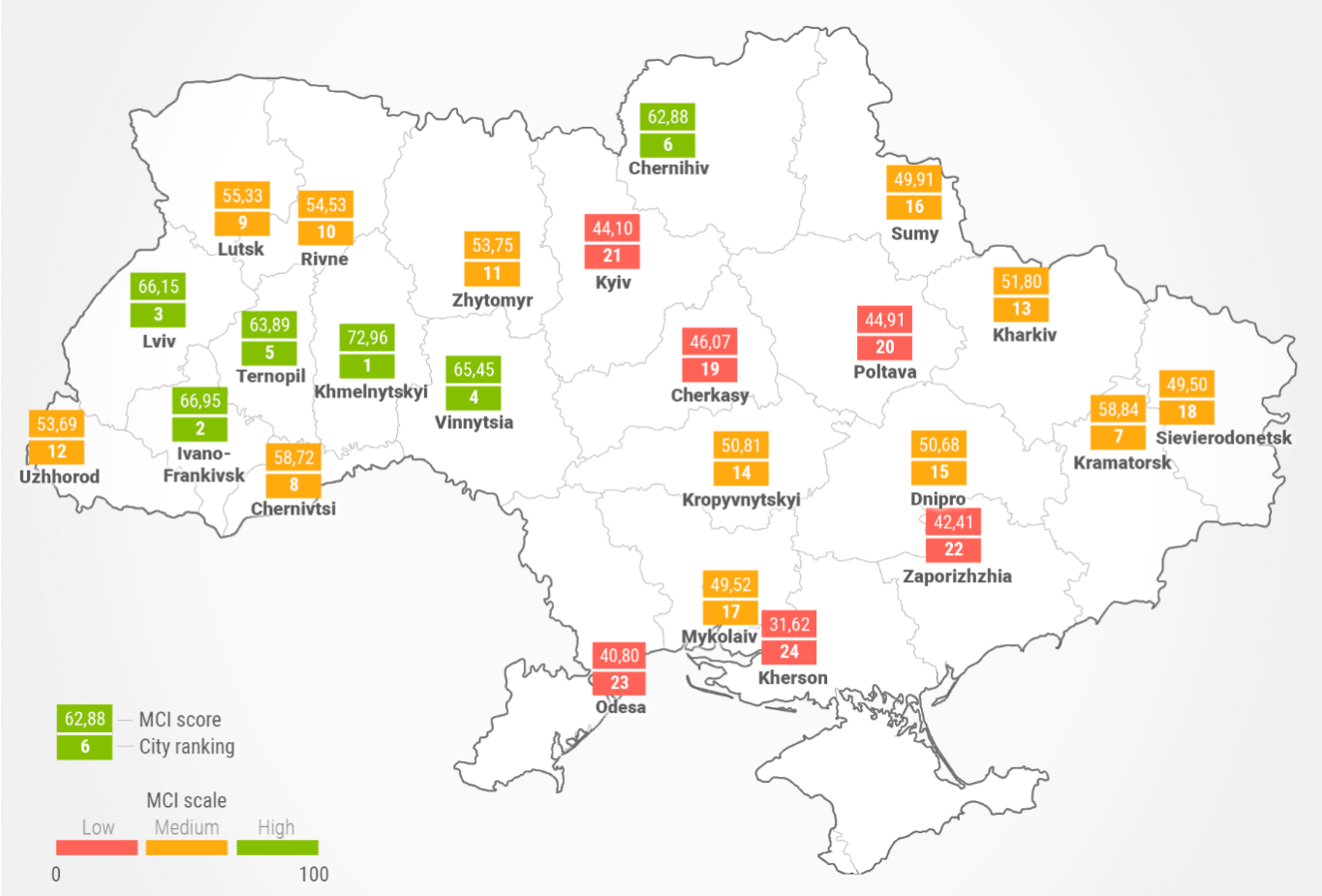
Khmelnytskyi ranks first in four components (sub-indices): *Access to Public Property*, *Transparency and Data Openness*, *Informal Payments and Corruption*, *Municipal Authorities Leadership*.

The group of cities with an average MCI value includes 12 cities that showed high results within the individual components (sub-indices) but finally were not able to show a high result. This group includes Uzhhorod among others which leads in two sub-indices: *Compliance Costs* and *Taxes and Duties*, and Kramatorsk, which is the safest according to the survey, (*Component 7. Security of Operating a Business*).

The municipalities of this group have opportunities to improve and compete with the cities of the group with a high MCI. However, if certain components of the municipal policy are improved, they may be overtaken by representatives of a group of cities with low MCI.

The lowest MCI indicators were recorded in Cherkasy, Poltava, Kyiv, Zaporizhzhia, Odesa, and Kherson. These cities demonstrated problems in most dimensions of the research. The lowest MCI 2019/2020 value was recorded in Kherson. This city showed the lowest results in three components (sub-indices): *Transparency and Data Openness*, *Taxes and Duties*, *Informal Payments and Corruption*. Also, the last positions in some components (sub-indexes) are occupied by Odesa (*Starting a Business, Security of Operating a Business*), Zaporizhzhia (*Access to Public Property*), Kyiv (*Compliance Costs*), Poltava (*Municipal Authorities Leadership*), Kropyvnytskyi (*Development resources*) and Sievierodonetsk (*Support of innovations*).

***Fig. 4. Municipal Competitiveness Index 2019/2020 on the map of Ukraine (green color - high MCI, blue color - medium MCI, red color - low MCI)***



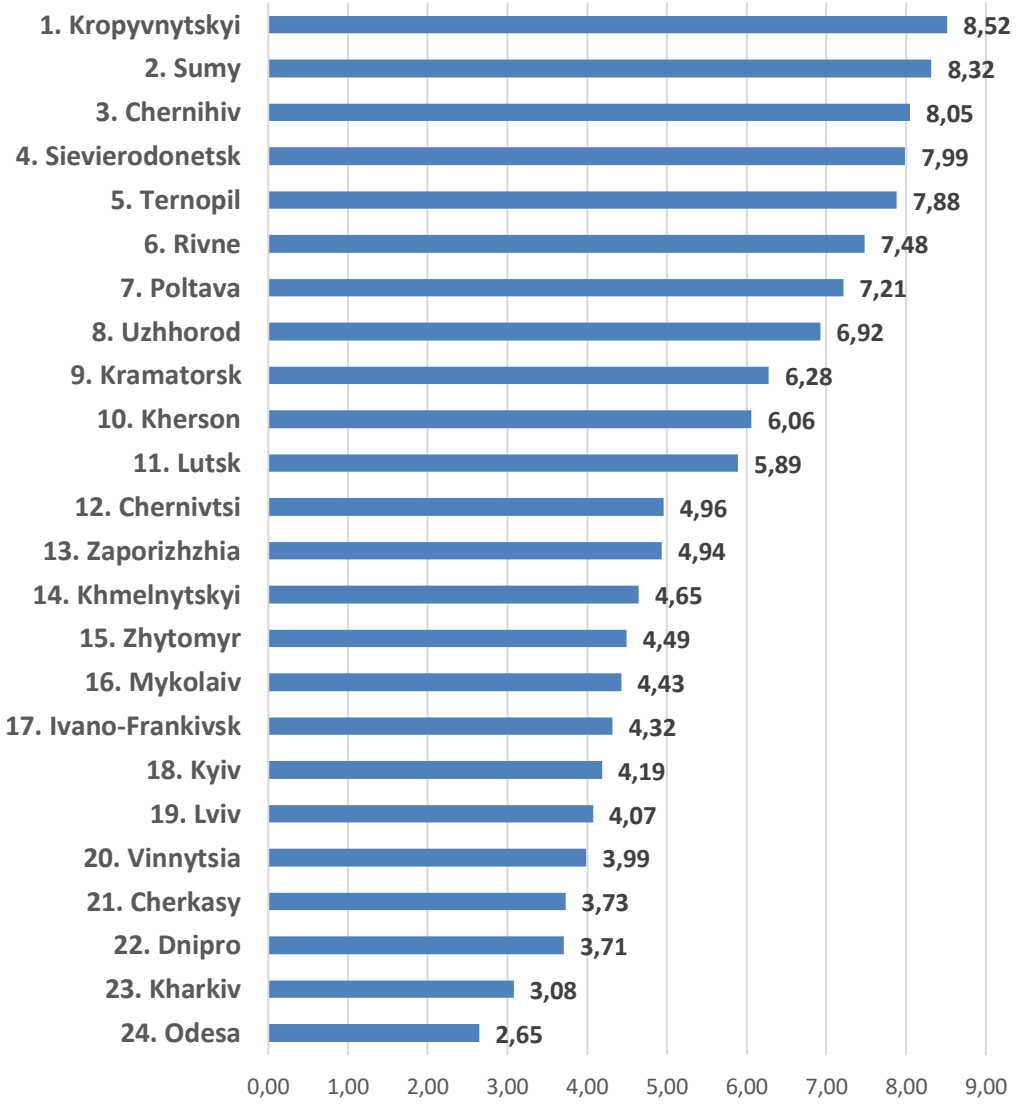
## 4.1. Component 1. Starting a Business

### 4.1.1. Municipalities Results

According to the research, the highest results within Component (sub-index) 1 Starting a Business were recorded in Kropyvnytskyi - 8.52 points. Sumy (8.32), Chernihiv (8.05), Sievierodonetsk (7.99), Ternopil (7.88), and Rivne (7.48) are also among the leaders. These results are possible due to a combination of factors such as low terms for business state registration and changing USREOU information, fewer obstacles during registration, providing business advice during the registration process, and sufficient provision with state registrars.

At the same time, the worst sub-index indicators were recorded in Kyiv (4.19), Lviv (4.07), Vinnytsia (3.99), Cherkasy (3.73), Dnipro (3.71), Kharkiv (3.08) and Odesa (2.65). Thus, these cities are also leaders in terms of population and the number of registered businesses (Kyiv, Kharkiv, Dnipro, Odesa, Lviv). This may indicate that in the largest cities entrepreneurs face more difficulties while registering their businesses.

*Fig. 5. Component 1. Starting a Business: the municipalities results*




In 2018 – 2019 entrepreneurs from Chernihiv (3.5 days on average), Rivne (3.8), Ternopil (4.4), Ivano-Frankivsk (4.9), and Sumy (5) were the fastest to register a business. This is a few days faster than the national average of 6.1 days. At the same time, the fastest changes to the register were made in Sumy (2.2 days), Chernihiv (2.3), Rivne (2.3), Zhytomyr (2.5), and Kropyvnytskyi (2.7); that is about a day faster than national indicator (3.6). The longest state business registrations took place in Dnipro (7.6 days), Vinnytsia (7.6), Kramatorsk (7.7), Odesa (8.1) and Lviv (8.3). At

the same time, amendments to the USREOU took the most time in Cherkasy (5.3 days), Lviv (5.3), Zaporizhzhia (5.2), Mykolaiv (4.7) and Kharkiv (4.6).
Almost 8.8% of respondents who registered a business in 2018 – 2019 reported problems and obstacles during this procedure. However, in some cities, entrepreneurs complained less about this problem: 5.1% in Kropyvnytskyi, 4.4% in Poltava, 3.9% in Lviv, 2% in Chernihiv, and no respondents in Sievierodonetsk. Though 21.9% of respondents in Kramatorsk, 16.6% in Lutsk, 16.4% in Odesa, 13.8% in Zaporizhzhia, and 13.8% in Zhytomyr experienced such problems.
70.7% of respondents were able to get the necessary advice during business registration in 2018 – 2019 at the country level. In Chernihiv, 85.8% of respondents received such assistance, 83% in Ternopil, and 81.9% in Rivne. However, in Kyiv such assistance was available only to 53.4% of respondents, in Kharkiv - 55.6%, in Odesa - 60%, and in Dnipro - 61.7%. Thus, in the largest cities, entrepreneurs had more limited opportunities to get the necessary advice.
In some cities, entrepreneurs were also able to obtain permits faster than on the national level. Obtaining permits and registration documents in the construction sector on average in the country took 37.2 days. At the same time, in Odesa, it took more than 137 days, in Ivano-Frankivsk - 108.7 days, and Vinnytsia - 69.8. In other cities, this is several times faster. For example, in Zhytomyr, it took 20.9 days, in Mykolaiv - 21.9, and in Kropyvnytskyi - 22.8. Similarly, in some cities, more time was required to obtain a declaration of business entity material and technical base compliance with the requirements of fire safety legislation. If at the national level it takes an average of 11.8 days, then in Cherkasy -28.9, in Ternopil - 18.2, and in Uzhhorod - 17.8. Thus in Chernivtsi, it takes 7,2 days, in Rivne - 7,5, in Mykolaiv - 8,3.
Quick registration and obtaining permits help start a business faster. According to the survey, the longest time passed from the date of documents submitted to the first sale of goods/services transaction in Zaporizhzhia (44.5 days), Lutsk (42.6) and Lviv (41.5), although in general in Ukraine this indicator was 32.1 days. At the same time, the fastest business start was documented in Kherson (21.4 days), Chernivtsi (23.9), and Sumy (24.5).
One of the possible problems in large cities with low results may be a greater burden on business registrars. In some cities, there are more than 10 registrars per 10,000 business entities (in public authorities, municipal authorities, and public notaries). For example, in Kropyvnytskyi this indicator is 13, in Uzhhorod - 12.2, in Sumy - 12. At the same time in Cherkasy it is 4.6, in Zhytomyr - 5, in Odesa - 5.3, in Kharkiv - 5.4, in Dnipro - 5.7.[4]

### 4.1.2. Component 1 individual parts analysis

To estimate the time that businesses spend on state registration, the share of respondents who were to be registered in 2018 – 2019 was included in the sample design. This share is 24% on average in the sample (1149 out of 4800 respondents after the application of statistical weights), ranging depending on the city from 21% to 29%.

#### *4.1.2.1. State business registration duration*

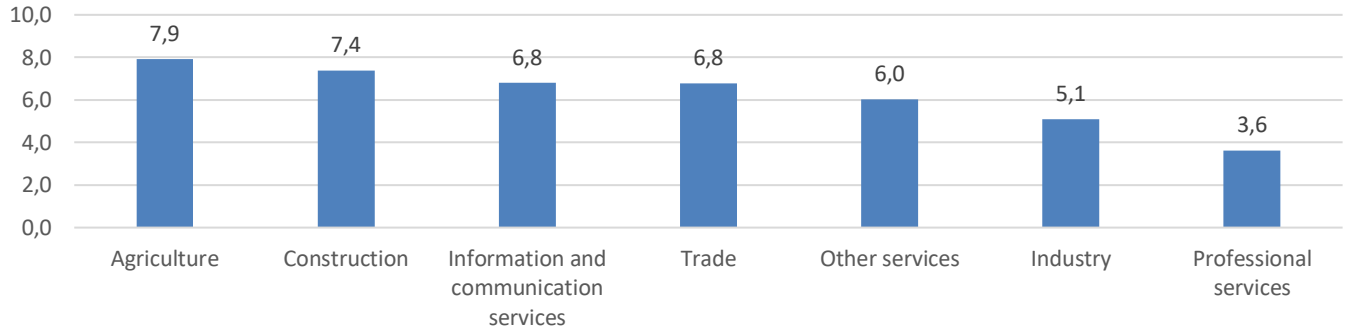
On average, in 2018 – 2019, the state registration procedure lasted for 6.1 days.

***State registration duration by type of business.*** There is no difference in the duration of registration for individual entrepreneurs and legal entities - in both cases, it is 6.1 days.

***The time spent by representatives of small and medium-sized businesses on state registration procedures is almost the same.*** It is 6.1 days for microenterprises, 5.8 days for small businesses, and 5.9 days for medium business. The number of large enterprises in the sample that could and answered this question was too small for statistical comparisons [5].

[4] Data on state registrars number in state registration of legal entities, individual entrepreneurs and public organizations having access to the Unified State Register, are given by the Ministry of Justice of Ukraine in response to a request for public information. Number of business entities - according to the State Statistics Service of Ukraine. More information - in the field research report.
[5] The number of large enterprises in the sample was too small for statistical comparisons, these are only two enterprises where the duration of registration was 14 and 16 days, respectively.

*Fig. 6. State registration duration for new business (by sector), days*




***State registration duration by sector.*** The duration of state registration varies depending on the sector. It was the longest for those working in the agricultural sector (7.9 days) and construction (7.4 days). Representatives of the information and communication services and trade sector reported the duration of state registration for 6.8 days, other services - 6 days and industry - 5.1 days. The duration of the procedure was the shortest for representatives of professional services - only 3.6 days.

#### 4.1.2.2. *Challenges during the registration procedure*

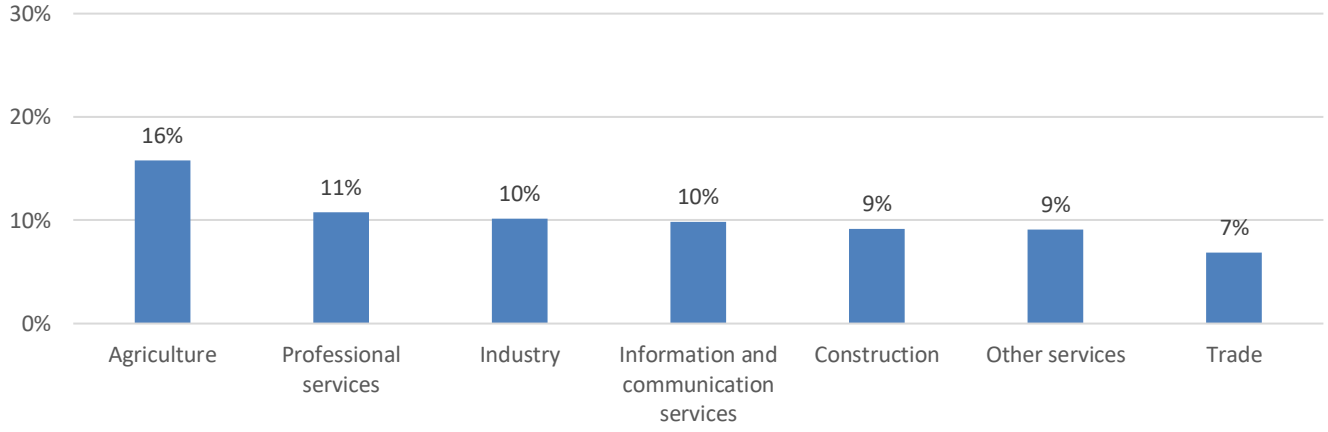
9% of entrepreneurs and enterprise managers who registered their business in 2018 – 2019 reported some difficulties during state registration.

***Registration problems by type of business***. These shares are the same for individual entrepreneurs and legal entities: 9% of businesses in each of these groups reported some difficulties during registration.

***Registration problems by business size.*** For different sized businesses (SMEs), the registration procedure was approximately the same in terms of difficulties. 8% of medium-sized businesses, 10% of small businesses and 9% of micro-businesses faced problems within this procedure 8% [6].

***Registration problems by sector.*** Enterprises and IEs in different sectors report difficulties while registering a business to the same extent: the corresponding share is in the range of 7% for trade to 11% for professional services. The only exception is agriculture: in this sector, 16% of businesses reported problems with registration, which is significantly more than in other sectors

*Fig. 7. Share of businesses facing registration problems (by sector), %*




[6] The number of large enterprises in the sample on this question was too small for statistical comparisons.

#### 4.1.1.1. *Assistance or advice in filling in or submitting state registration documents*

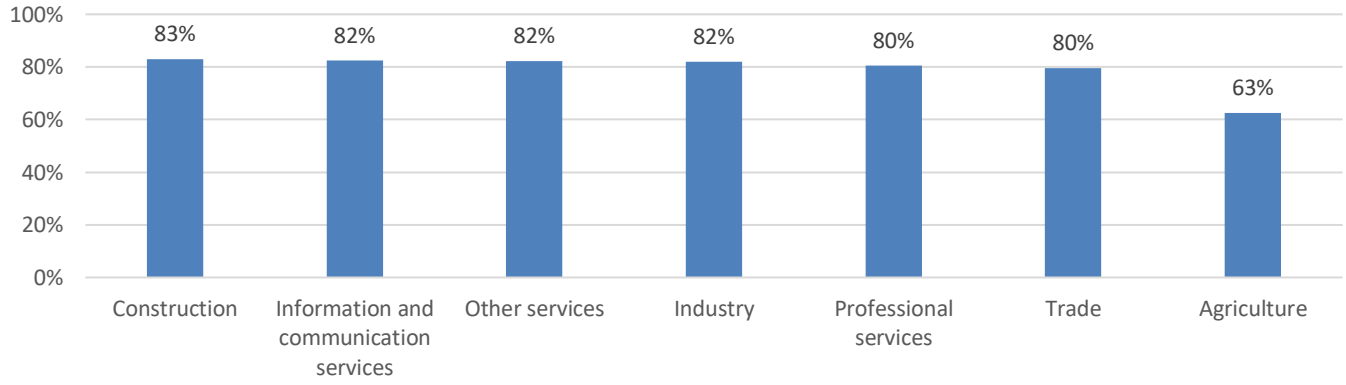
The majority of individual entrepreneurs and enterprise representatives surveyed (81%) indicated that they had the opportunity to receive advice or other assistance while filling in or submitting documents for business state registration.

***Registration assistance by type of business.*** Managers of legal entities report this possibility more often (84%) than individual entrepreneurs (78%).

***Registration assistance by business size.*** Smaller businesses are more likely to report the possibility to be consulted when registering. This was available to 82% of microenterprises compared to 77% of small businesses surveyed [7].

***Registration assistance by sector.*** The opportunity to receive advice or other assistance in filling in or submitting documents was the same for enterprises in all sectors except agriculture. Only 63% of businesses in this sector reported having had the opportunity to be consulted while registering, and for all other sectors this share ranges from 80% to 83%.

*Fig. 8. Share of businesses that had the opportunity to receive advice or assistance while registering (by sector), %*




#### 4.1.1.2. *Time passed from registration to the first goods or services sale transaction*

On average, it took a little more than a month for respondents (32.1 days) from the date of document submission for registration to the first time to sell products or services.

***The time before the first sale transaction by type of business***. To get the first income from the goods or services sale, legal entities spent more time (39.4 days on average) than individual entrepreneurs (25.4 days on average).

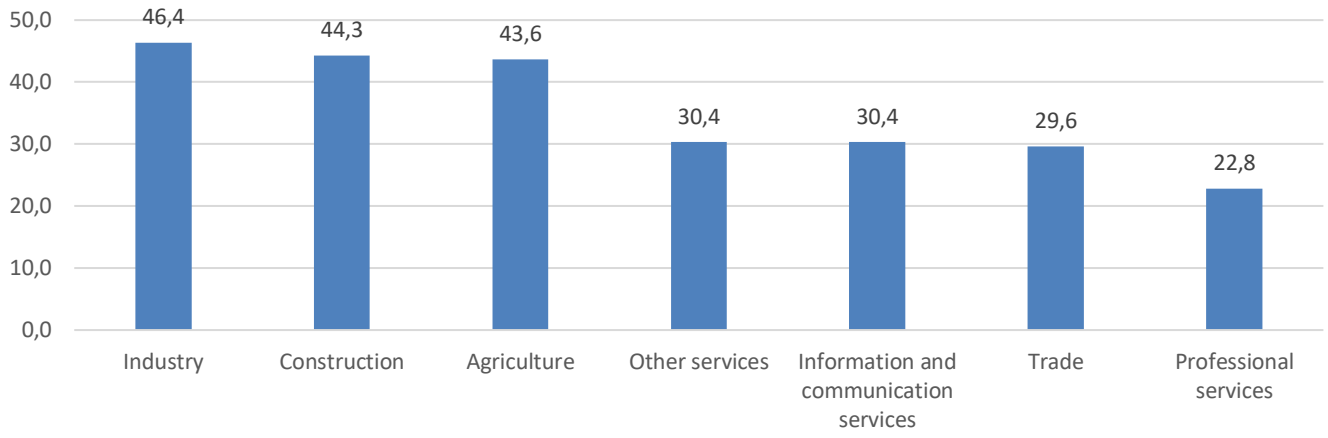
***The time before the first sale transaction by business size.*** Firms and entrepreneurs with small and medium-sized businesses spent a little more time getting the first results than micro-sized businesses. Thus, this period was approximately 46.3 days for medium-sized businesses, and 45.8 days for small ones, while for microbusinesses this time averaged 31.2 days.

***The time before the first sale transaction by sector.*** Starting a business took the most time for entrepreneurs and firms in the industry, compared to respondents from other sectors. 46.4 days passed on average for them from the registration documents submitted to the first sale transaction. They are followed by the construction and agriculture sectors, where this figure is 44.3 and 43.6, respectively. Shorter terms are recorded in

[7] The number of large and medium-sized enterprises and individual entrepreneurs in the sample on this question was too small for statistical comparisons.

services and trade sectors (from 30.4 days in the "other services" sector to 22.8 days in the "professional services" sector).

*Fig. 9. Time passed from registration documents submitted to the first product or service sale (by sector), days*



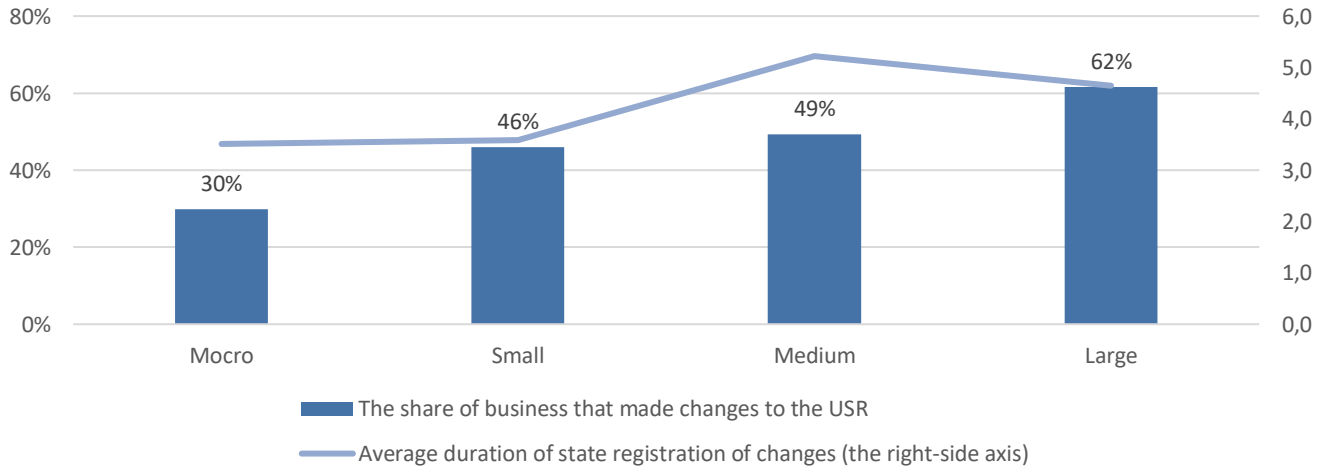

#### *4.1.1.3. Prevalence and duration of amendments to the information contained in the USR state registration*

33% of respondents reported that in 2018 or 2019 they registered amendments to the information contained in the Unified State Register of Legal Entities, Individual Entrepreneurs, and Public Associations (USR). On average, this procedure lasted 3.6 days for them.

***Amendments to the USR registration by type of business.*** The share of business among legal entities that underwent this procedure is 38%, which is more than for individual entrepreneurs. For the latter, this share was 24%. There was no significant difference in the time spent on amendments to the USR: it was 3.8 days for individual entrepreneurs and 3.5 days for legal entities.

***Amendments to the USR registration by business size.*** Larger business entities made changes to the registration documents more often than smaller ones. In particular, 62% of large enterprise managers reported that they made these changes in 2018 – 2019, and for medium and small businesses this share decreases to 49% and 46%, respectively. Such amendments were rarely made by microbusiness representatives: only by 30% of them.

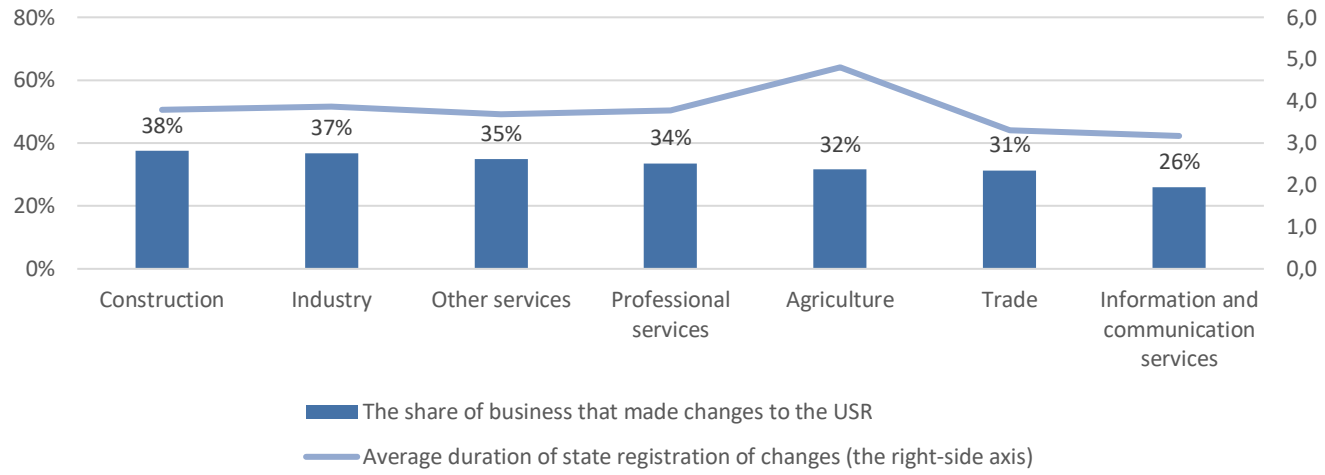
*Fig. 10. Prevalence (%) and duration (days) of amending to the USR procedure (by business size)*



The procedure for amending the USR lasted the longest for medium-sized businesses. These companies and entrepreneurs took an average of 5.3 days for this procedure. Large enterprises spent slightly less time: on average of 4.6 days, and small and microbusinesses ones the least (3.6 and 3% of the day, respectively).

***Amendments to the USR registration by sector.*** Legal entities and IEs operating in the construction and industrial sectors were more likely to make changes to the USR in 2018 - 2019 than businesses in other sectors. 38% and 37%, respectively, of these industries, indicated that they had made such changes during this time. Entrepreneurs and firms working in information and communication services rarely made such changes: only 26% of them.

*Fig. 11. Prevalence (%) and duration (days) of amending to the USR (by sector)*




#### 4.1.1.1. *Terms to obtain permits*

Respondents who received permits related to starting a business, its advertising or changes in beautification in 2018 – 2019, indicated how many days they spent to get each of these documents, starting from the date of application and ending with the day of receipt.

To obtain permits and register documents in construction, business representatives spend more than a month: an average of 37.2 days. These documents include notification to start preparatory and construction works, the declaration to start preparatory and construction works, permit for construction works, declaration of readiness for commissioning, certificate on commissioning of the completed construction, etc.[8].

It takes a little less time (29.8 days on average) to obtain such a document as a passport of the temporary facility designated for commercial, household, social, cultural, or other purposes used for business activity. They spend an average of 11.8 days to draw up a declaration certifying the compliance of the material and technical base of economic entities with the requirements of the legislation on fire safety. This is the shortest period compared to other permits. It takes about three weeks on average (21.8 days) to approve the signboard placement for a business, and it takes almost a month to obtain a permit for outdoor advertising - 27.6 days. It takes two weeks (14 days on average) to obtain a decision on the state registration of the market operator's capacity. And to get permission to disturb beautification objects, businesses will have to wait an average of 18.1 days.

***Terms to obtain permits by type of business.*** In most cases, legal entities spend more time obtaining permits than IEs.

[8] The construction sector has met the largest regulatory relaxation in several years, while construction is a complex activity that has an impact on people's safety. To estimate the "regulatory burden" caused by regulations in this area, it is necessary to analyze data over time period.

*Fig. 12. Time spent on permits registration (by type of business), days*

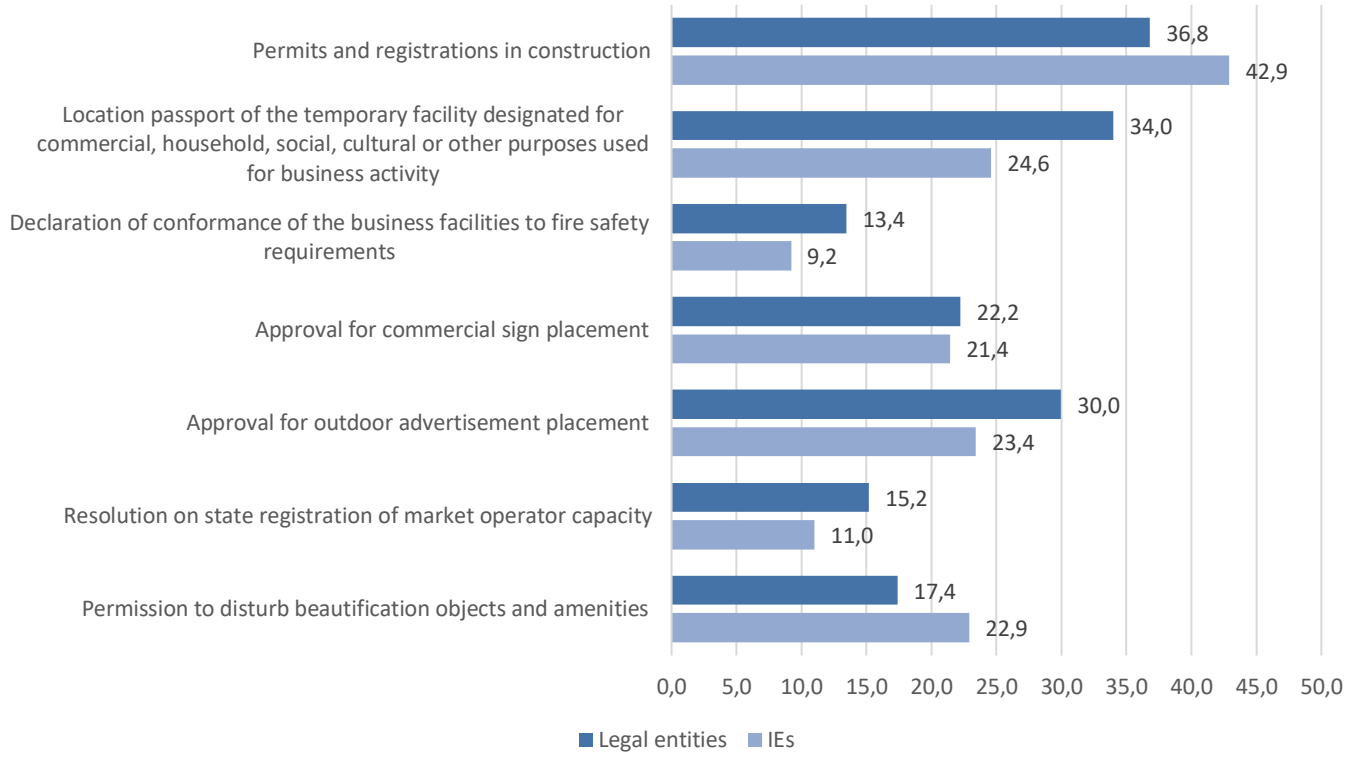
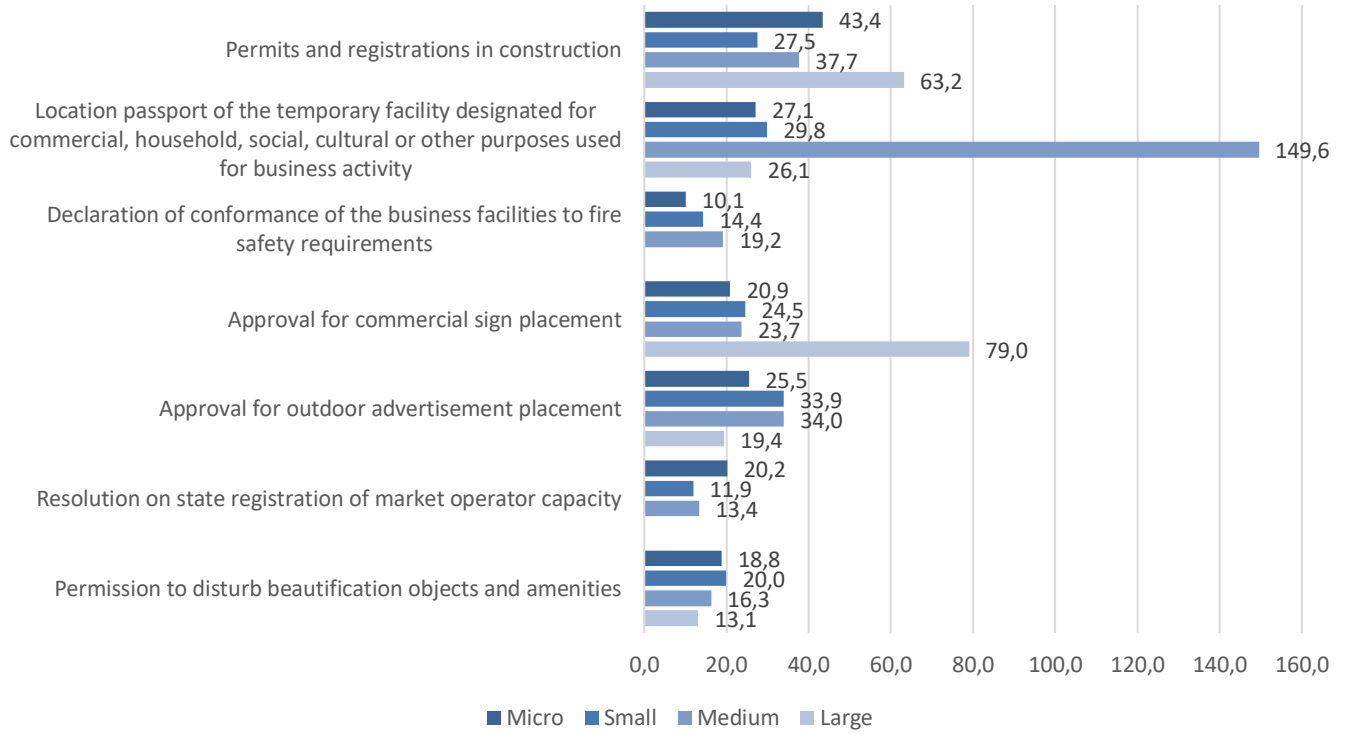



*Fig. 13. Time spent on permits registration (by business size), days*



This difference is especially significant when obtaining such documents as a passport of the temporary facility and permit for outdoor advertising. It takes on average of 34 days for legal entities and 24.6 days for individual entrepreneurs to obtain the passport of the temporary facility. And obtaining a permit for outdoor advertising takes on average of 30 days for legal entities and 23.4 days for IEs. However, permits for construction and disturbing beautification are the exceptions, for which individual entrepreneurs have to wait longer than legal entities. Thus, while legal entities on average receive building permits in 36.8 days, and a permit for disturbing beautification in 17.4 days, it takes 42.9 days and 22.9 days for IEs respectively.

***Terms to obtain permits by business size.*** There are differences in how long it takes to obtain various permits for different-sized businesses. Obtaining construction permits and registration documents are the most delayed for large enterprises as they register these documents on average of more than two months (63.2 days). Although it takes quite a long time for small-sized businesses and microenterprises (43.4 days) to obtain these permits.

It takes for about a month for micro-, small and big businesses to obtain a passport of the temporary facility. The situation is even worse for a medium-sized business. According to representatives of this business group, it took them an average of about five months to receive such a document: 149.6 days.

Big businesses differ from smaller ones as on average, they spend much more time on approving the signboard placement. This permit took on average of 79 days for large enterprises that participated in this survey, while it was up to 25 days for micro-, small and medium-sized businesses.

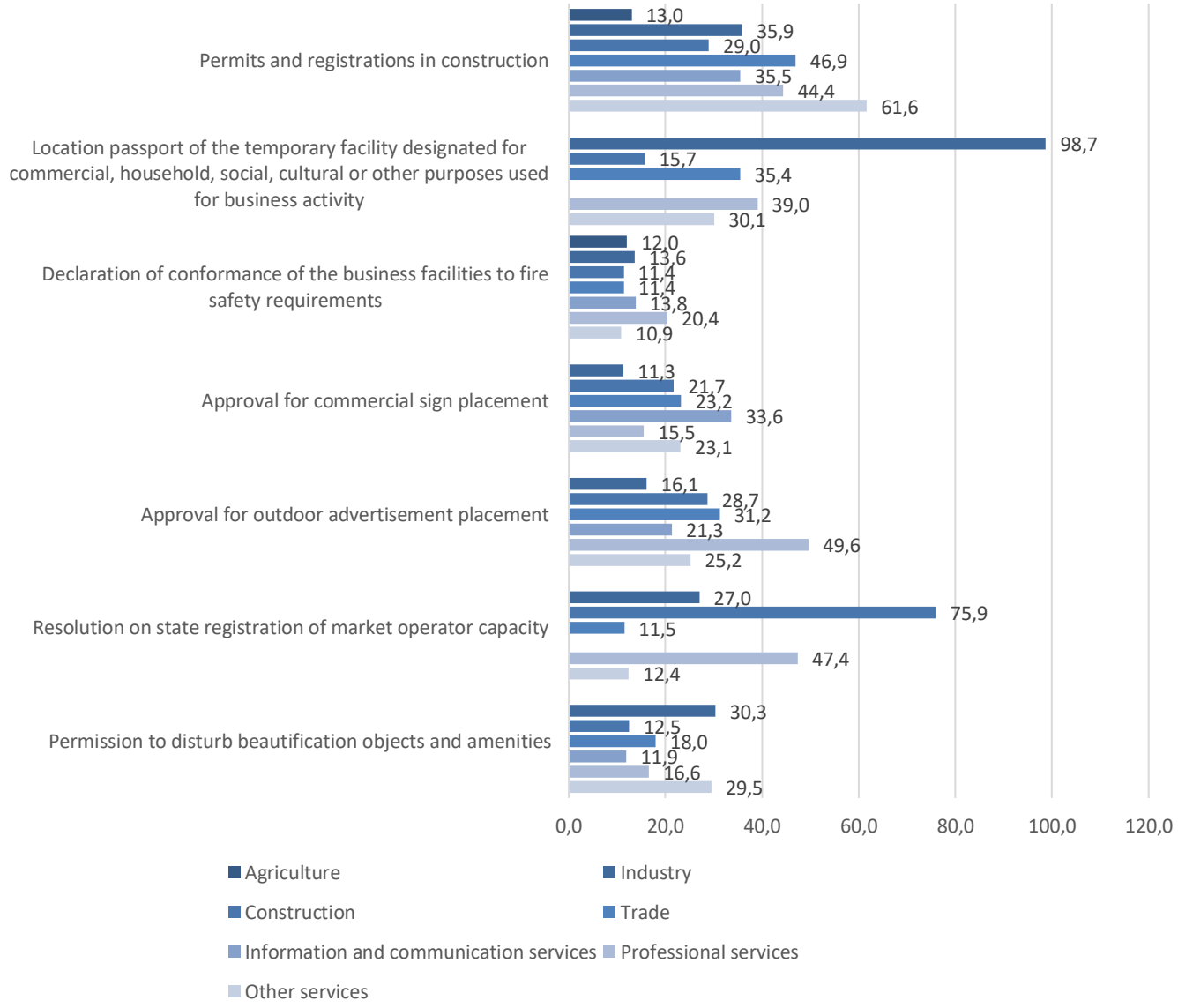
A certain difference is observed in terms of obtaining permits for outdoor advertising by enterprises of different sizes. Among the survey participants, this period was longer for small (33.9 days on average) and medium (34 days) businesses than for microbusinesses (25.5 days) and large enterprises (average 19.4 days).

***Terms to obtain permits by sector.*** Firms and entrepreneurs representing various economy sectors differ in how much time they spend on obtaining permits. The industry breakdown of respondents, who received permits and registration documents for construction, shows that on average the agricultural sector was the fastest to receive them (in 13 days). The construction sector also receives these documents fairly quickly: in 29 days, while for all other sectors, this period is 35 days or more.

Obtaining a passport of the temporary facility takes a record amount of time, averaging 98.7 days for the industrial sector. This is longer than in all other sectors, where the average time to receive this document does not exceed 39 days. Besides, the industry is one of the sectors where entrepreneurs and companies are the longest waiting to obtain permits to disturb beautification (average 30.3 days).

On the other hand, industry representatives report the shortest terms for obtaining signboard placement approval and permit to place outdoor advertising. It takes them on average of 11.3 days and 16.1 days, respectively. The services sector business has to wait for the longest for these permits. IEs and enterprises surveyed operating in information and communication services waited for signboard placement approval for on average of 33.6 days, and businesses providing professional services had to spend on average of 49.6 days to obtain permits for outdoor advertising.

*Fig. 14. Time spent on permits registration (by sector), days*




#### 4.1.1.1. *Main outcomes briefly*

- It takes about six days for both individuals and legal entities to register a business.
- Every tenth individual entrepreneur or enterprise manager faces some difficulties or problems registering a business, mostly in the agricultural sector.
- It takes a little more than one month on average from the time of registration to the first good or service sale.
- Industry, construction and agriculture businesses need more time from registration to start to carry out their first sales transaction than trade and services businesses.
- Legal entities tend to spend more time obtaining permits than individual entrepreneurs (except for construction permits and permits to disturb beautification: IEs have to wait longer to get them than legal entities).
- It takes the longest time to obtain permits for the construction sector.

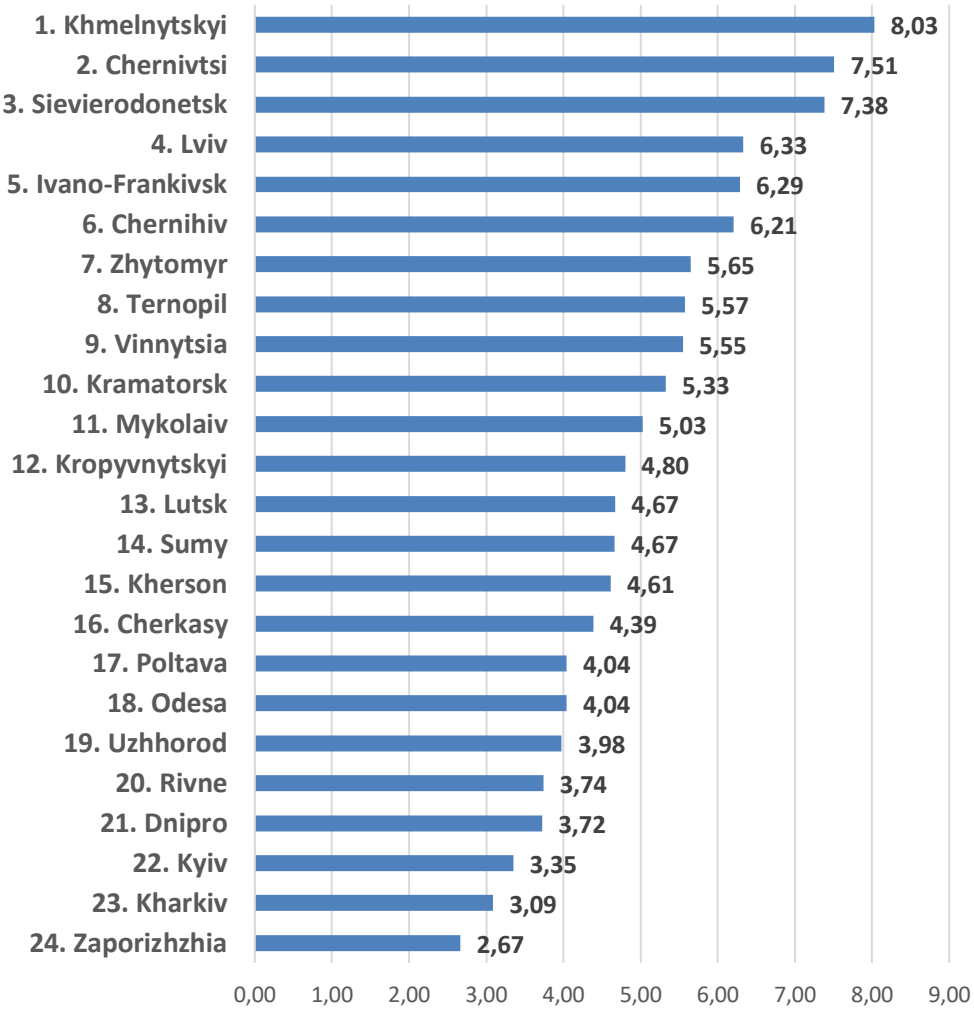
## 4.2. Component 2. Access to Public Property

### 4.2.1. Municipalities results

According to the research, the Component 2 leader in the number of points is Khmelnytskyi - 8.03 points. Also, the group of cities with the highest sub-index indicators includes Chernivtsi (7.51), Sievierodonetsk (7.38), Lviv (6.33), Ivano-Frankivsk (6.29) and Chernihiv (6.21). These cities' high results are provided by a combination of several indicators: the availability of information on vacant communal property land plots and municipal real estate, the availability of certificates proving the land plots ownership/lease rights for business, and the time to get such certificates.

At the same time, some cities showed lower results which indicate a lack of access to public information on communal property and challenges while obtaining land parcel documents. Zaporizhzhia, for example, received only 2.67 points, Kharkiv - 3.09, Kyiv - 3.35, Rivne - 3.72, Uzhhorod - 3.98.

*Fig. 15. Component 2. Access to public property: municipalities results*




Only 30% of respondents reported they have certificates confirming the right for ownership/lease of land engaged in their business activities (these are 46.8% of those who believe that the land parcel documents issue concerns them). In Sievierodonetsk, however, 47.3% of respondents confirmed they have these certificates, in Kramatorsk and Ternopil - 38.8%, in Kherson - 37%, in Mykolaiv - 35%. The least respondents have land parcel documents in Kyiv (19.2%), Lviv (21.9%), Dnipro (22.8%), Odesa (22.9%) and Kharkiv (22.5%). Thus, the lack of certificates is most typical for the largest cities in Ukraine.

The length of the procedures for obtaining land ownership/lease certificates also differs significantly in the cities selected for the research.

If this figure is 72.4 days on the national level, such procedures can take a longer time in some municipalities. For example, entrepreneurs needed on average of 278 days in Zaporizhzhia, 248 days in Rivne, 171 days in Dnipro. In Chernivtsi, this is 23 days, in Odesa - 30 days, in Khmelnytskyi - 42 days.

18.1% of respondents reported the availability of information on communal land, which can still be given for use or is used for construction, etc. Khmelnytskyi is leading among the cities, and topped the ranking within the sub-index, with 33.6% rate. Chernivtsi is in second place with 25.5%, and Lviv is the third with 24.2%. In contrast, the worst situation was in Kyiv (11.2%), Odesa (11.3%), and Poltava (11.4%), where the smallest share of respondents reported access to information on communal land.

29.2% of respondents believe the information on municipal real estate (including non-residential premises) which is leased or can be leased for business activities is available to their city. Khmelnytskyi, Lviv, and Chernivtsi lead in the ranking within this indicator. Respectively, 44.1%, 42%, and 40.3% of respondents in these cities confirmed they had access to this information. The worst situation within this indicator is observed in Kherson (20%), Kramatorsk (22.9%), Lutsk (23.4%).

### 4.2.2. Component 2 individual parts analysis

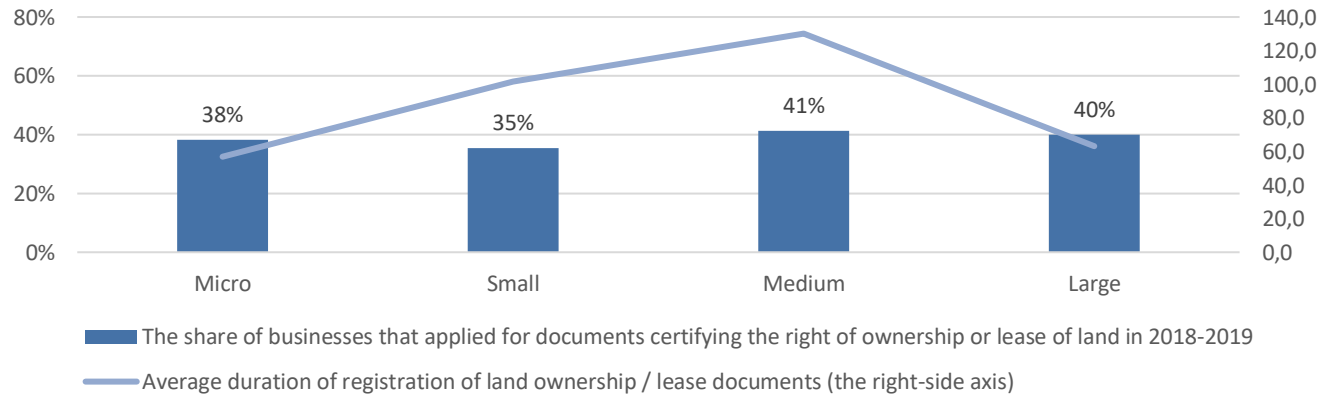
#### *4.2.2.1. Rights for land property and lease availability and their registration duration*

Almost half (47%) of companies and entrepreneurs who carry out their business activities on a certain land plot reported they have certificates confirming the ownership or lease rights for this plot. 38% of these respondents drew up these certificates in 2018 or 2019. They spent on average of 72.4 days on the entire procedure to get these certificates, starting from the date of application (or other documents) and ending with the date of supporting documents receipt, i.e. signing a land rental agreement or receiving an extract from the State Land Cadaster.

***Land ownership or lease rights registration availability and duration by business type***. Individual entrepreneurs have documents proving their land ownership or lease rights less often than legal entities, but on average spend less time to get them. Thus, 43% of IEs reported they have a certificate confirming their land ownership or lease right, 39% of them got this document recently: in 2018 or 2019. The whole registration procedure took them an average of 34.3 days.

The share of legal entities having this certificate is slightly higher: 49%. 37% of them received this certificate in 2018 – 2019, and this is close to the individual entrepreneur indicator. However, the time taken by land ownership or lease registration procedure for enterprises is on average of 87.5 days.

*Fig. 16. 16. Land ownership or lease rights registration prevalence (%) and duration (days) (by business size)*

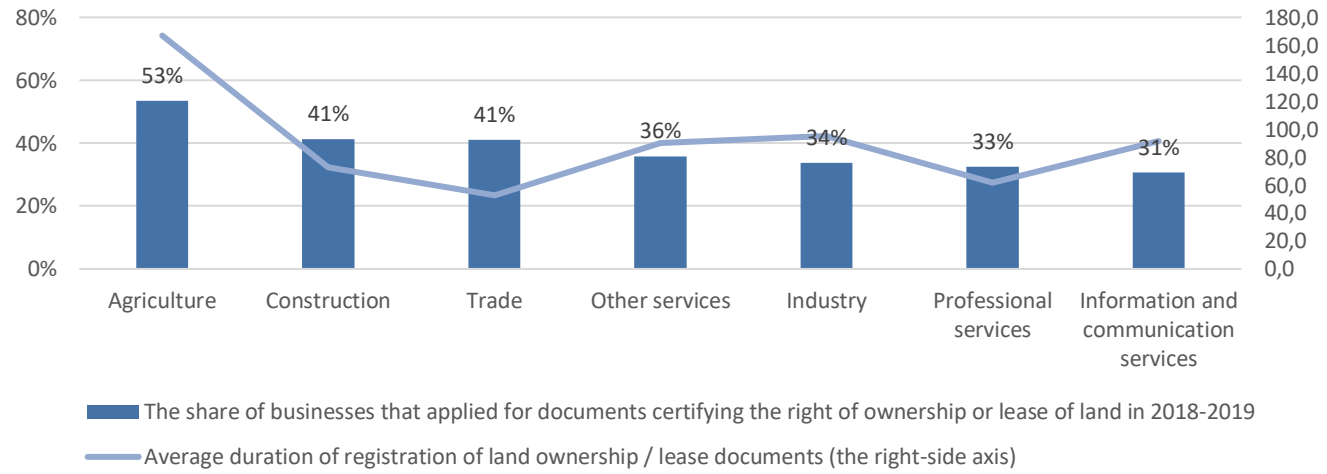


***Land ownership or lease rights registration availability and duration by size.*** As the size of the business increases, the share of entrepreneurs and firms that have a document certifying their land ownership or lease increases. Thus, among micro-businesses operating on a certain land plot, only 41% of respondents have this certificate (38% of them issued it in 2018 – 2019). The share of entrepreneurs and companies with the certificate has been growing to 61% among small businesses (35% of them issued it in 2018-2019). For medium-sized businesses, this share is already 77%, while 41% of them reported they registered the land ownership or lease rights in 2018 – 2019. And the percentage of those having certificates is the highest among large enterprises: 82%. 40% of them issued this document in 2018 – 2019.

Entrepreneurs and enterprise managers who registered the land ownership or lease rights in 2018 or 2019, reported how much time this procedure took. For various sized businesses, it took from 56.9 days on average (microenterprises) to 130.1 days (medium-sized businesses enterprises and SPs).

***Land ownership or lease rights registration availability and duration by sector.*** Industrial and agricultural enterprises and IEs are more likely to have certificates proving land rental or ownership than businesses operating in the service sector. Thus, among the businesses surveyed who use the land to carry out their activities, the highest rates for land ownership or lease rights are in agriculture (66%) and industry (60%). This share reduces to 50% for trade and to 39% for construction sectors. Relatively small shares of information and communication services (30%) and professional services (25%) entrepreneurs and firms surveyed have the certificates, although for other services sector representatives the corresponding figure is higher: 47%.

*Fig. 17. Land ownership or lease rights registration prevalence (%) and duration (days) (by sector)*




In 2018 – 2019, these certificates were most actively issued in agriculture. This was reported by 53% of this sector representatives. Also, the procedure to obtain documents proving land ownership or lease lasted the longest for them: on average of 167 days. The average procedure duration did not exceed 95 days for other sectors, it took the least time for the trade sector: on average of 52.6 days from the date of application to the date of supporting documents receipt for this business.

#### 4.2.2.2. *Attitude to information on communal land availability*

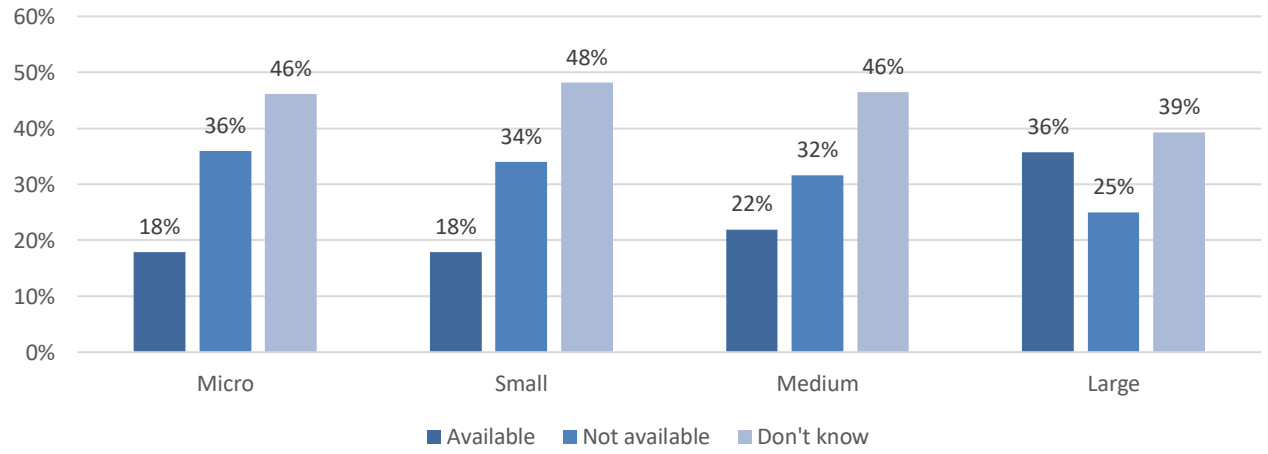
Entrepreneurs and managers of firms of different sizes, sectors and business types answers to the question of whether they have access to information on communal land which has not yet been provided for the use and can be used for construction or other purposes, differ. Particular attention should be paid to the share of respondents in each of these groups who could not answer this question, as this shows the level of awareness on such an important business opportunity as the land availability in their city.

18% of respondents said businesses can get information on communal land that can be used for construction or other purposes in their city, while 35% said that such information is not available in their city. At the same time, the largest share of respondents (46%) do not know whether such information can be found in their city. This shows that in Ukraine on the national level almost half of business representatives do not know whether they could, if necessary, get information on the communal land availability to expand their activities.

***Attitude to information on communal land availability by type of business.*** Managers of legal entities and individual entrepreneurs are approximately equally informed about land available in their city. 18% of respondents in each of these groups said that information on land could be obtained in their city, and the share of those who could not answer this question was 47% for enterprise managers and 45% for individual entrepreneurs.

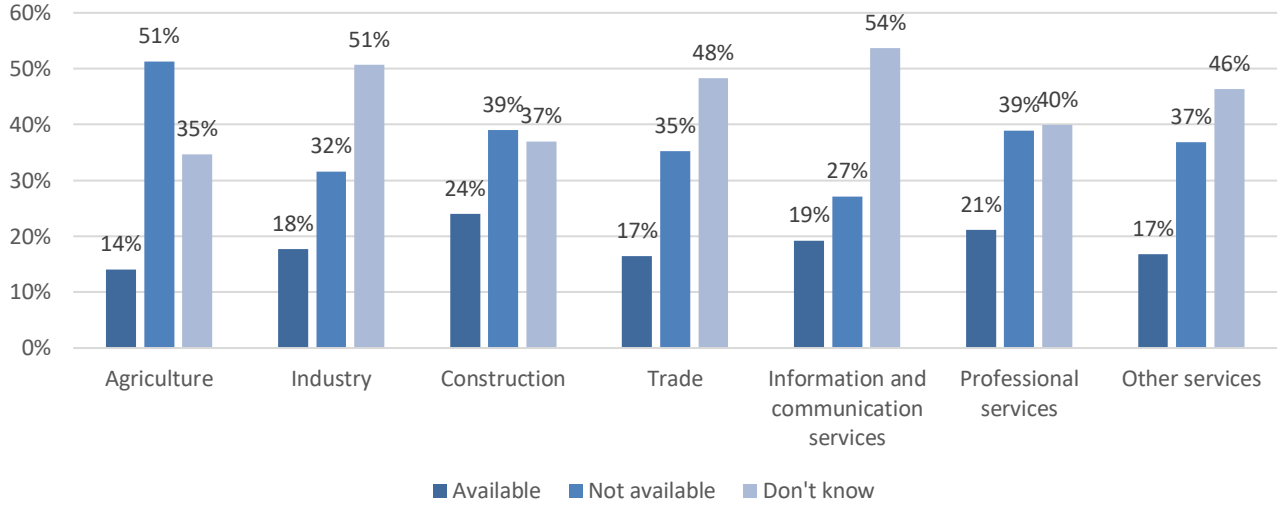
***Attitude to information on communal land availability by size.*** Large businesses are the best competent on whether their city provides information on communal land available for business. Only 39% of respondents representing big business could not answer this question, while for smaller businesses the corresponding figure ranges from 46% to 48%. Also, managers of large enterprises are the only category of business surveyed by size, where respondents mostly claim this information is available in their city. While micro-, small and medium-sized businesses say that businesses do not have access to this information. The share of large enterprise managers who believe that their city provides such information (36%) exceeds the share of those who say they do not have opportunities to receive information on available communal land (25%).

*Fig. 18. Attitude to information on communal land availability (by business size), %*




***Attitude to information on communal land availability by sector.*** Businesses working in agriculture and construction are better informed about whether it is possible to obtain information on communal land available for development or other purposes in their city than businesses in other sectors. Among the agricultural sector representatives, for instance, the percentage of those who could not answer this question is 35%, and among the industry representatives - 37%. This is less than in other sectors, where the corresponding share ranges from 40% (professional services) to 54% (information and communication services).

*Fig. 19. Attitude to information on communal land availability (by sector)*




At the same time, agriculture and construction representatives have opposite views on the availability of information on unoccupied communal land. If 24% of entrepreneurs and managers of construction companies say they can get such information in their city (the largest share compared to other sectors), in agriculture, by contrast, this share is only 14% (the lowest among other sectors).

#### 4.1.1.1. *Attitude to information on municipal real estate availability*

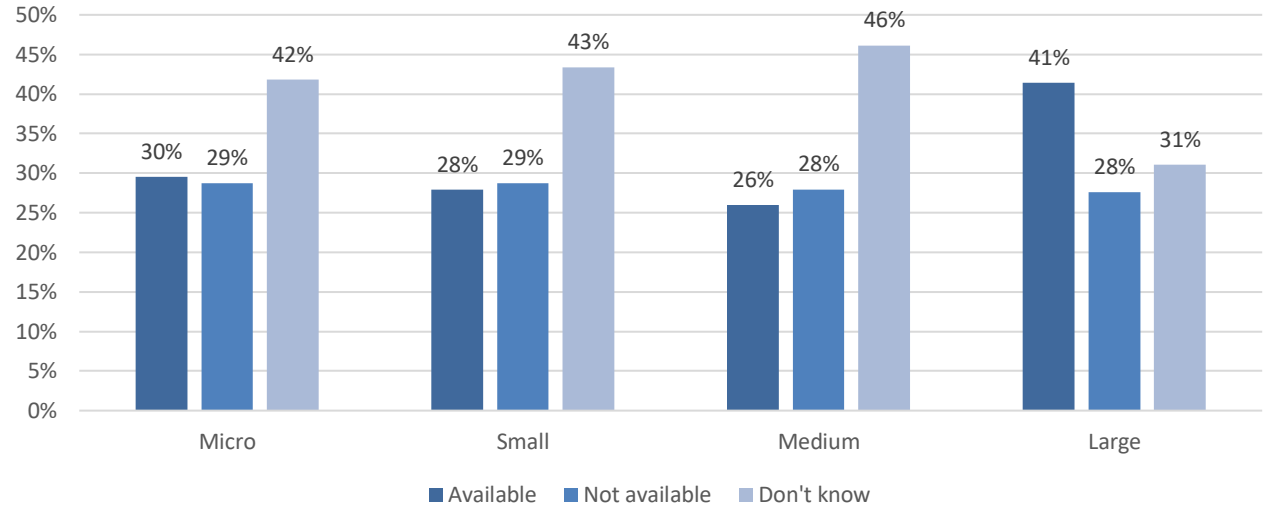
The interviewed business representatives also reported whether, as far as they knew, information on municipal real estate was available in their city, including non-residential premises that are rented or can be leased for business activities. Having such information is important to keep local businesses aware of opportunities to expand or change their business and they may need to rent premises for that.

According to the survey, 42% of respondents (entrepreneurs and firm managers) could not answer this question, i.e. they do not know whether their city provides information on real estate available for rent. And the rest of the respondents are divided into groups the same by number according to their estimates on such information availability: 29% believe the information on the premises that can be rented is available in their city, and another 29% believe such information is not available.

***Attitude to information on municipal real estate availability by type of business.*** Individual entrepreneurs and legal entity managers equally claim that information on municipal real estate is available in their city: this answer was given by 30% of IEs and 29% of enterprise managers. Almost identical shares of respondents in these two groups could not answer this question: 41% of IEs and 43% of enterprise managers. 29% of respondents in each group deny the existence of this information in their city.

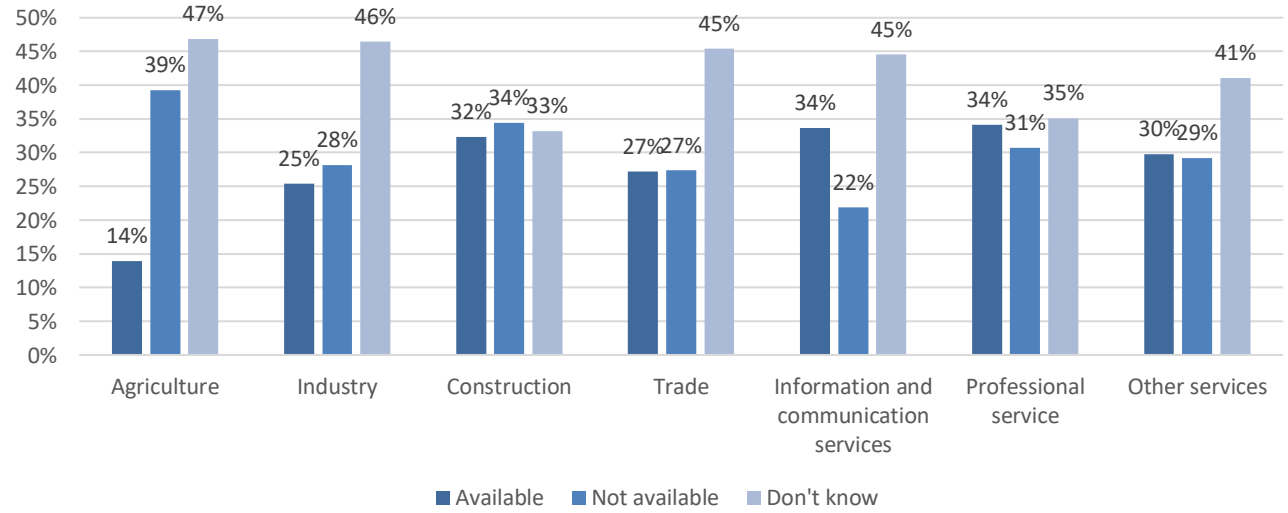
***Attitude to information on municipal real estate availability by size.*** As in the case of information on land availability in the city, big businesses are best informed about what real estate can be rented in their city. Only 31% of the managers of these enterprises could not answer the question on the availability of information on municipal real estate for rent, while for smaller enterprises the corresponding share was 42% or more. At the same time, in this size category, respondents most often claim that information on available real estate in their city is accessible: this opinion was expressed by 41% of big businesses compared to 30% micro, 28% small, and 26% medium. At the same time, respondents grouped by size most often claim they have access to information on real estate available in their city: this opinion was expressed by 41% of large businesses compared to 30% of micro-, 28% small, and 26% medium businesses.

*Fig. 20. Attitude to information on municipal real estate availability (by business size), %*




***Attitude to information on municipal real estate availability by sector. IEs*** and companies operating in construction are best informed about whether their city provides information on municipal real estate available for rent. Only 33% of industry representatives could not answer this question, and this is the lowest compared to other sectors. One of the largest shares of respondents, who gave a positive answer to the question on whether it is possible to find information on municipal real estate in their city, is among the construction sector (32%). The highest number of affirmative answers was recorded in the information and professional services sector: 34% of both sectors representatives reported, such information was available.

*Fig. 21. Attitude to information on municipal real estate availability (by sector), %*




#### 4.2.2.3. *Main outcomes briefly*

- The procedure to get certificates confirming land ownership or lease took on average of more than 72 days for businesses in 2018 – 2019. It was the longest for the agricultural sector and the shortest for the trade sector.

- Almost half of the respondents do not know, whether there is access to information on communally owned land, available for construction or other purposes, in their city. The share of respondents who claim it is not available in their city exceeds the share of those who say they have access to information on land available in their city.
- The share of respondents who believe that information on municipal property for rent is available in their city, and the share of those who take the opposite view (that this information is not available) are approximately equal.

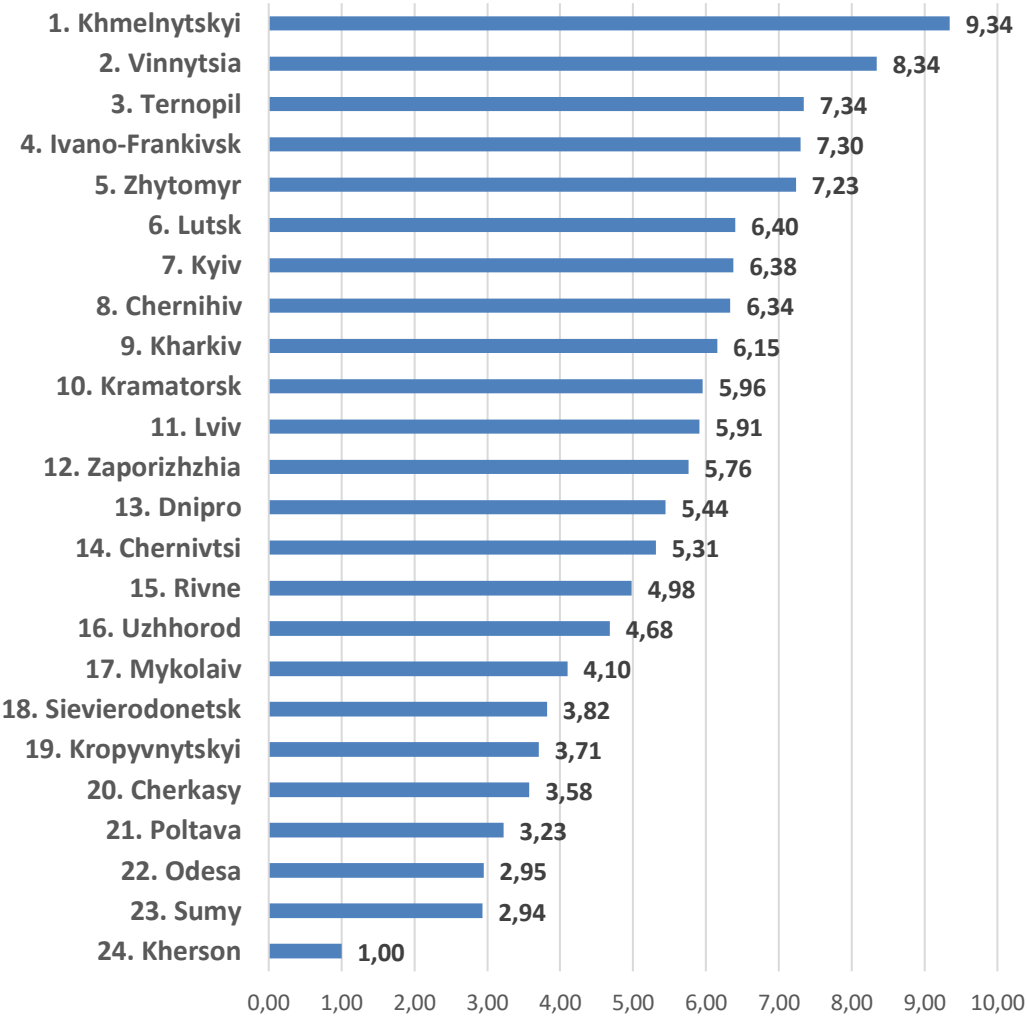
## 4.3. Component 3. Transparency and Data Openness

### 4.3.1. Municipalities results

Khmelnytskyi, which received 9.34 points is the leader within Component (sub-index) 3 *Transparency and Data Openness.* Vinnytsia (8.34 points), Ternopil (7.34), Ivano-Frankivsk (7.30), and Zhytomyr (7.23) are also in the group of cities with high sub-index indicators. Entrepreneurs gave the biggest points to the availability of information on local budgets, local regulations, and public procurement in these cities.

At the same time, the worst situation is observed in Kherson, which received 1 point, and the smallest share of respondents chose the marks "good" and "excellent" in terms of various types of public information availability. Also in Cherkasy (3.58 points), Poltava (3.23), Odesa (2.95) and Sumy (2.94) demonstrated low results.

*Fig. 22. Component 3. Transparency and Data Openness: municipalities results*




Only 10% of all respondents rated access to information on the local budget as "good" and "excellent". However, in Khmelnytskyi such assessments were chosen by 22.4% of respondents, in Chernihiv - 16%, in Ternopil - 15.5%, in Vinnytsia - 12.7%, and in Kharkiv - 12.5%. At the same time, in Kherson, this indicator is only 3.9%, in Sumy - 4.1%, in Cherkasy - 5.3%.

Access to local regulation acts was best rated in Vinnytsia (22%), Khmelnytskyi (18.7%), and Ivano-Frankivsk (18%). At the same time, only 4.7% of respondents in Kherson rated it “good” and “excellent”, 8.8% in Odesa, and 9.3% in Kropyvnytskyi. At the national level, this figure is 13.9%.

Zhytomyr is leading in terms of access to information on public procurement - 23.3% of respondents rated it as "good" and "excellent". In Vinnytsia and Khmelnytskyi this figure is 22.9%. The smallest share of positive assessments is again in Kherson (9.1%). The indicator is also low in Sumy (10.7%) and Odesa (12.1%). At the same time, 17.3% of respondents positively estimated access to information on procurement at the national level.

### 4.3.2. Component 3 individual parts analysis

#### 4.3.2.1. *Attitude to information on the budget, regulations and procurement availability*

To estimate how open cities are in terms of information on their costs and budget, respondents assessed the availability of such information. In particular, they were asked to assess the availability of information on the local budget in their city, and whether it is possible to get acquainted with the content of local regulation acts and get information on public procurement at the expense of the local budget and utilities. Respondents rated the availability of information on each of these types of public policy data on a scale from 1 to 5, where 1 corresponds to an unsatisfactory assessment, 2 - satisfactory, 3 - average, 4 - good, and 5 - excellent.

The availability of information on the local budget was estimated at an average of 2.3 points. 30% of respondents could not answer this question. 21% of business representatives consider the availability of this information unsatisfactory, 39% assess it as average or satisfactory, and only 10% of respondents mark the availability of information on the local budget as "good" and "excellent".

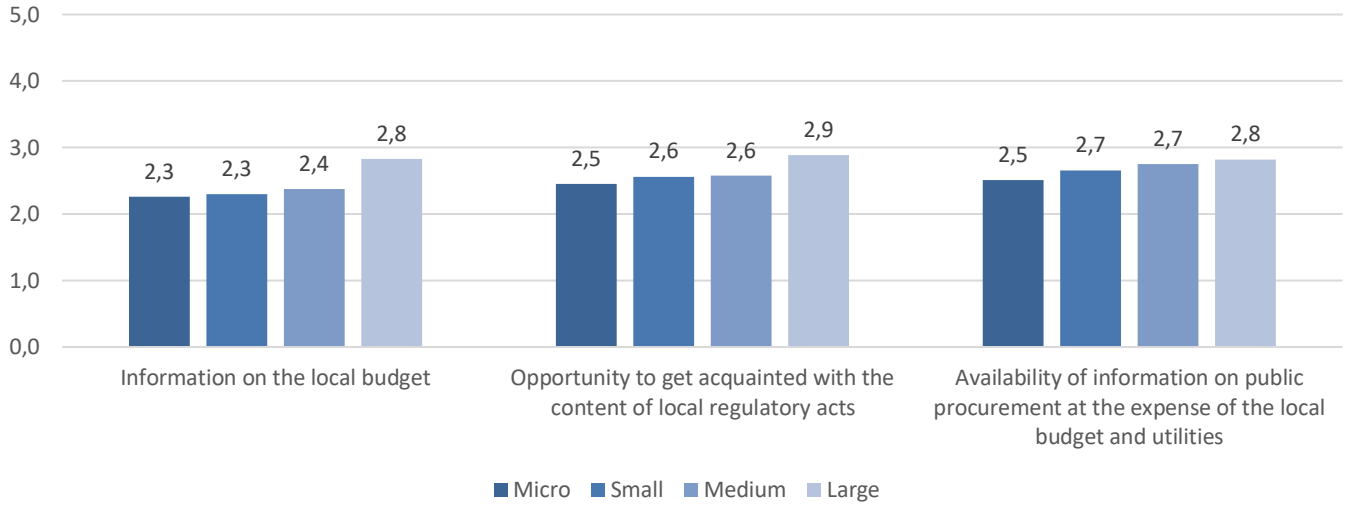
The opportunity to become acquainted with the content of local regulations was rated an average of 2.5 points. 29% could not answer the question. 14% of respondents called it good and excellent, the same number of respondents (14%) were dissatisfied with the availability of information on local regulations and 43% rated this information available as average or satisfactory.

Respondents also rated the availability of information on public procurement at an average of 2.5 points. 29% of respondents could not answer this question. 17% of business entities rated the availability of information on procurement as "good" or "excellent", 15% were dissatisfied with the availability of information on public procurement and 39% of respondents rated the availability as average or satisfactory.

***Attitude to information on the budget, regulations, and procurement availability by type of business.*** Assessments of managers of legal entities and IEs on the availability of information on various types of public policy data in the city are almost the same. Thus, IEs and enterprise representatives estimated the availability of information on the local budget at 2.3 points. The assessment by IEs of the ability to become acquainted with the content of regulatory acts is 2.4 points, and enterprise managers' assessment is slightly higher - 2.5 points. Assessments of the availability of information on the city's public procurement were divided the same way: 2.4 points from individual entrepreneurs and 2.5 from enterprise managers.

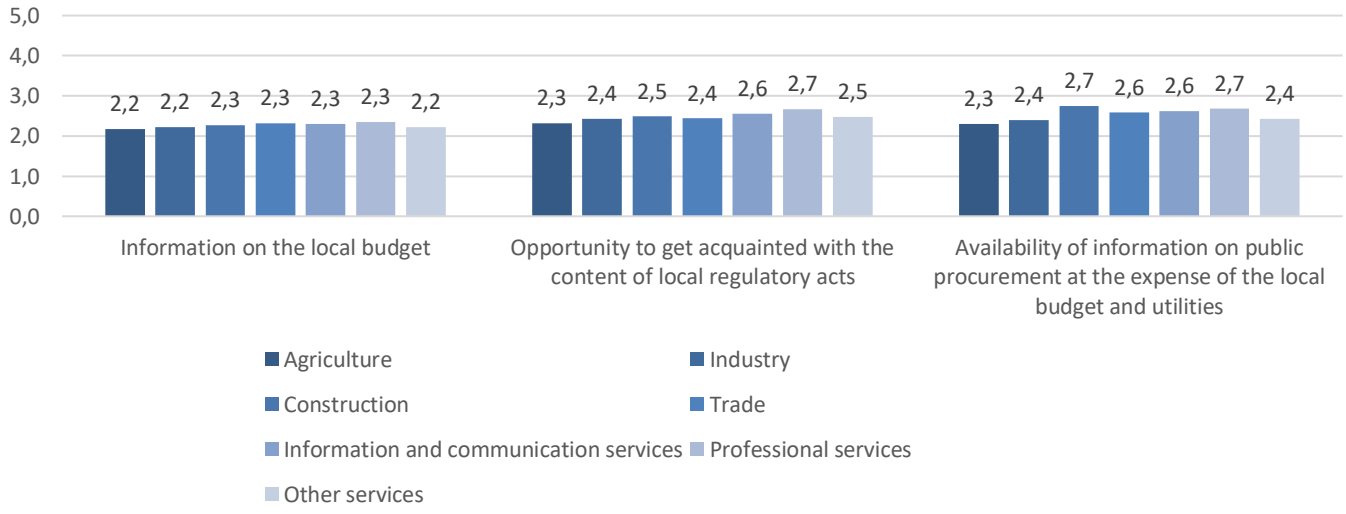
***Attitude to information on the budget, regulations, and procurement availability by business size.*** Managers of large enterprises give better assessments to data openness in their cities than representatives of smaller businesses. This is especially evident in the assessment of the availability of information on the local budget, which respondents representing large businesses rated on average of 2.8 points, while the average ratings of smaller business owners and managers were 2.3 – 2.4 points. Representatives of large enterprises were also better informed about the availability of information on the budget, regulations, and public procurement in the city. Only 10% of big business executives were unable to assess the availability of information on the content of the local regulations and on public procurement at the expense of the city. Among the respondents representing micro-, small and middle business this share was not less than 26%. Many more respondents from large enterprise group couldn't answer the question on the availability of information on the local budget (21%). But this share is lower than among other grouped by size, where it ranges from 29% for microbusiness to 35% for medium-sized businesses.

*Fig. 23. Average assessment of information on the budget, regulations and procurement availability (by business size), points*




***Attitude to information on the budget, regulation, and procurement availability by sector.*** There are no significant differences between business representatives in different industries in how they assess the availability of information that is important in terms of budget and the city's public policy.

*Fig. 24. Average assessment of information on the budget, regulations and procurement availability (by sector), points*




Entrepreneurs and firms in the agricultural sector give slightly lower scores on certain issues. They rated the opportunity to become acquainted with local regulations content the lowest (by 2.3 points on average), while the highest average scores were given by respondents representing professional services (2.7). A similar situation has developed in the assessments of the availability of information on purchases made at the expense of the city. Agribusiness gave 2.3 points, which is the lowest average score compared to given by other sectors, while professional services and construction sectors gave the highest scores: on average of 2.7 points. Besides, the last two sectors (construction and professional services) showed the best awareness of all the issues that needed to be assessed. The share of respondents who did not know whether information on the budget, regulatory acts or public procurement is available in their city is the lowest.

#### *4.1.1.1. Main outcomes briefly*

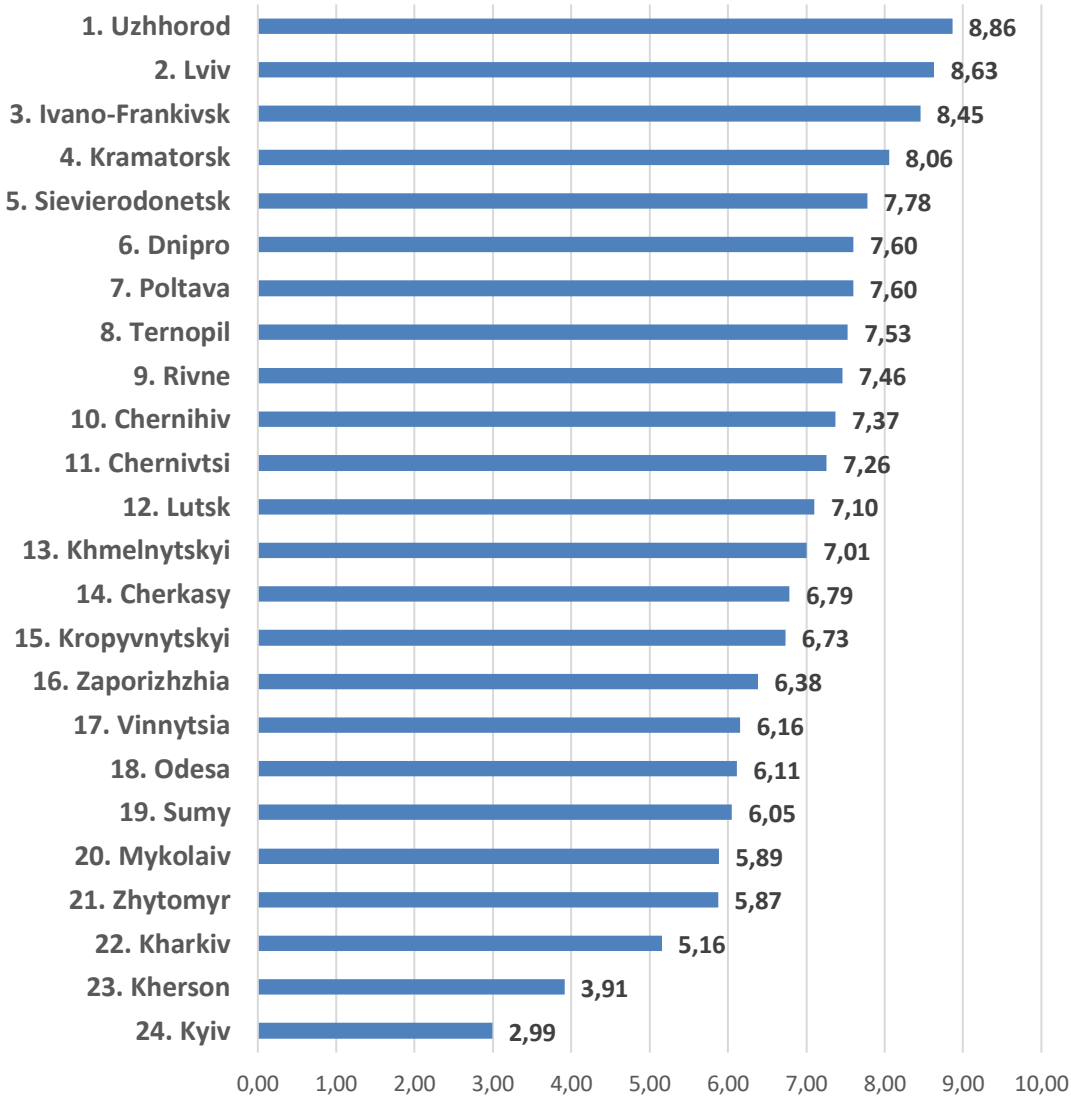
- Respondents underestimate the availability of information on budgets, regulations, and public procurement in their cities.
- They rated the availability of information on the budget by on an average of 2.3 points out of 5, and the opportunity to get acquainted with the content and information of the local regulations on public procurement by 2.5 points.
- Three out of ten respondents do not know how accessible this information is in their city.
- Big businesses are better aware of whether this information is available in their city, and have higher estimates of the availability of information compared to smaller businesses.

## 4.4. Component 4. Compliance Cost

### 4.4.1. Municipalities results

According to the survey results, the best scores under Component (sub-index) 4 *Compliance Cost* were received by Uzhhorod (8.86), Lviv (8.63), Ivano-Frankivsk (8.45), Kramatorsk (8.06) and Sievierodonetsk (7.78). The high result was provided by a combination of respondents' good assessments on the cost of time and money to comply with local regulations, as well as the time spent on communication with inspectors. At the same time, high expenditures of time and money caused low results of Mykolaiv (5.89 points), Zhytomyr (5.87), Kharkiv (5.16), Kherson (3.91) and Kyiv (2.99). In Kyiv, for example, the time spent on compliance with local regulations and communication with inspectors was the longest, as well as the city, is in the second place by highest monetary expenditures on compliance with regulations.

*Fig. 25. Component 4. Compliance cost: municipalities results*




On the national level, entrepreneurs spend on average almost 4 days complying with local regulations. However, Kyiv has the largest expenditure of time: almost 16 days. There are large time expenditures also in Mykolaiv (7.2 days), Kharkiv (6.9), Kherson (6.7) and Odesa (6.5). Entrepreneurs also spend the largest share of annual income on local

regulations in these cities: Kherson (9.7%), Kyiv (8.4%), Odesa (5.6%), Kharkiv (5.4%) and Mykolaiv (5.1%). The average for all respondents is 3.7%.

At the same time, in Kramatorsk entrepreneurs spend only 1.8 days on compliance with local regulations, in Chernivtsi – 2.1, in Rivne – 2.3, in Lviv and Ivano-Frankivsk – 2.4. The lowest costs for compliance with regulations are in Ivano-Frankivsk – 1.8%, Lviv – 1.9%, Lutsk – 2.2%, Sumy, and Kramatorsk – 2.3%.

According to the survey, city inspectors visit businesses on average of 0.7 times a year. However, in some cities, this figure is slightly higher. In Kherson and Sumy, for instance, it is on average once a year, in Lutsk, Khmelnytskyi, and Kropyvnytskyi - 0.9 times. Compared to them, in some cities inspections take place almost one and a half or two times less often: in Lviv and Dnipro – 0.4 times, in Zaporizhzhia – 0.5, in Kyiv and Mykolaiv – 0.6 times.

Analyzing of the average time spent shows that the longest communication with city inspectors is in Kyiv (8.2 days), Zaporizhzhia (8 days), Kharkiv (6.8 days), Zhytomyr (6.7 days) and Mykolaiv (6.6 days). The average for the country is 5 days. Less time on communication with inspectors is spent in Uzhhorod (3.1 days), Ivano-Frankivsk (3.6), Sievierodonetsk (4.1), Khmelnytskyi (4.2) and Poltava (4.4).

### 4.4.2. Component 4 individual parts analysis

#### 4.4.2.1. *Compliance costs in terms of time and money*

Entrepreneurs and companies spend time and money to comply with the laws regulating their activities. Obtaining permits and certificates, passing inspections, reporting, and other administrative processes and procedures are not free for business. In addition to finance expenditures, they also require the working time of managers or employees, and these are business resources that could be directed to investment and growth. Therefore, the more money and time entrepreneurs spend on administrative issues, the more expensive compliance with the law is for their business.

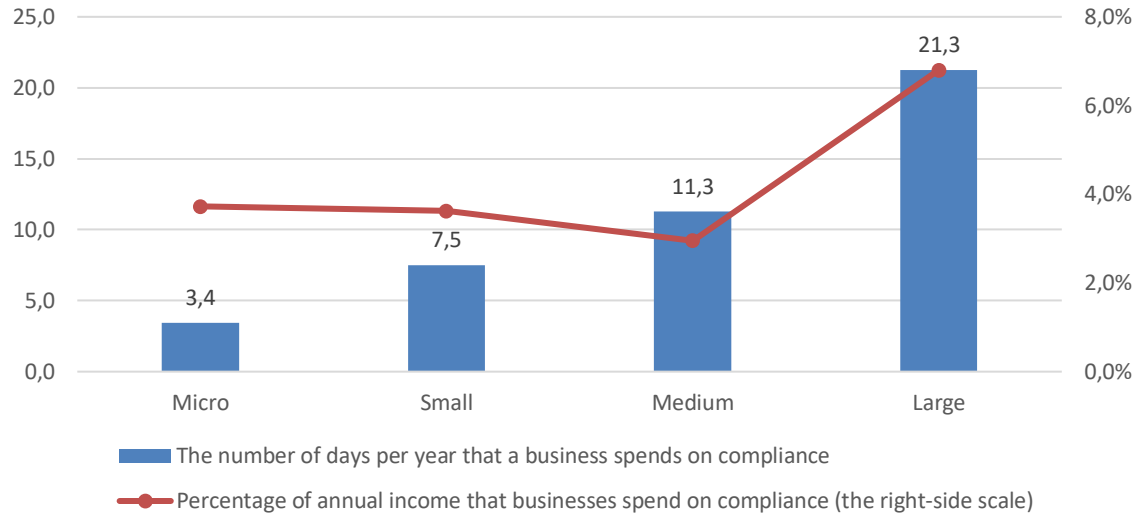
To find out how expensive for businesses in the cities surveyed is following the legal, entrepreneurs and enterprises managers were asked on how many days a year they spend to comply with city authorities' regulations, and what percentage of income they spend on compliance with these regulations.

Since the purpose of this survey is to compare the conditions for doing business in cities, respondents assessed only the cost of regulation at the city level. This cost (in terms of time and percentage of income) would probably be higher if business representatives assessed the cost of complying with all regulations, including national legislation.

***Compliance costs by type of business***. On average, the surveyed business spends 4 days a year and 3.7% of annual income to meet the requirements of the city authorities for its field of activity. Compliance with regulations in terms of time is slightly more expensive for IEs than for legal entities and much more expensive in monetary terms. Thus, IEs spend an average of 4.4 days per year and 6.1% of annual income on compliance at the city level, while legal entities spend 3.8 days and 2.6% of annual income.

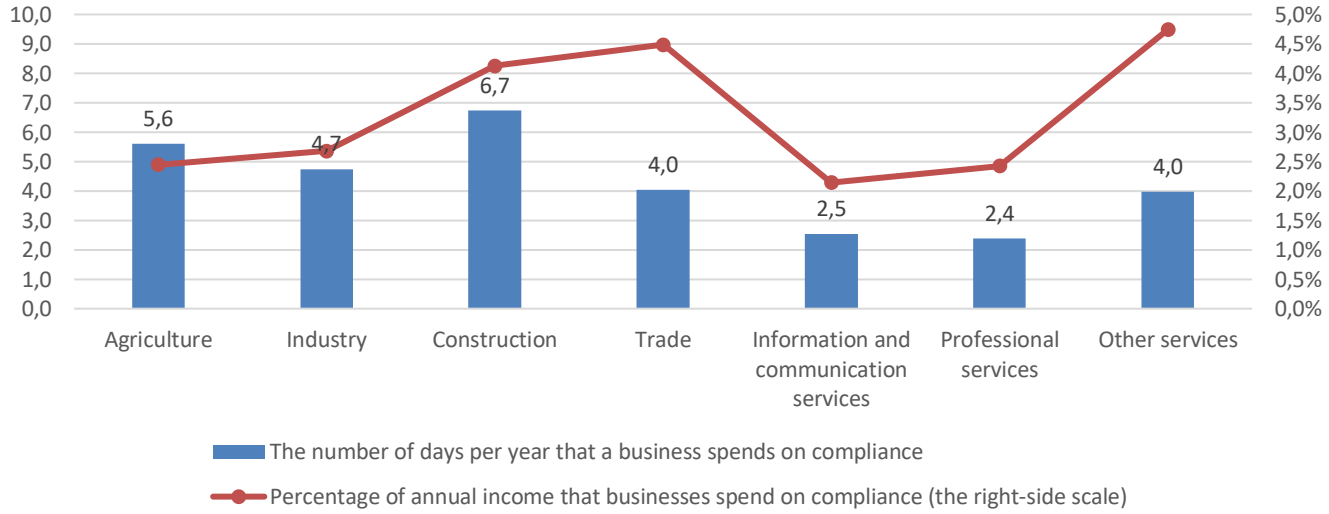
***Compliance costs by business size***. Money and time expenditures vary depending on the size of the business: they increase with its growth. If a microbusiness spends an average of 3.4 days a year to comply with city authorities' regulatory requirements, it takes 7.5 days for a small business, and a medium-sized business spends 11.3 days. For big businesses, the average amount of time spent complying with city regulations is 21.3 days and that is more than three full weeks. The monetary value of regulation is at about the same level for micro-, small and medium-sized businesses, which spend between 3% and 3.7% of annual income on compliance with city authorities' requirements, but it is much higher for big businesses and cost on average of 6.8 % of annual income.

*Fig. 26. Time (days) and financial (% of income) compliance costs (by business size)*




***Compliance costs by sector.*** The construction industry differs from others by the high cost of regulation in terms of both time and money. Firms and entrepreneurs in this industry reported they spend an average of 6.7 days a year and 4.1% of annual income on compliance with city authorities' requirements. Compliance is also associated with high financial costs for trade and services (excluding information and professional services), which spend more than 4.5% of annual income. However, the time spent by both industries corresponds to the national average: 4 days. The lowest expenditures of both funds and time for compliance were recorded in information and professional services sectors.

*Fig. 27. Time (days) and financial (% of income) compliance costs (by sector)*




#### 4.4.2.2. *Inspections frequency and duration*

Business inspections for compliance with the law also take some time from entrepreneurs and firms. To estimate how costly these procedures are, respondents were asked in this survey how often they are visited by city inspectors and how many days their firms or they as individual entrepreneurs spend communicating with these inspectors during their inspections.

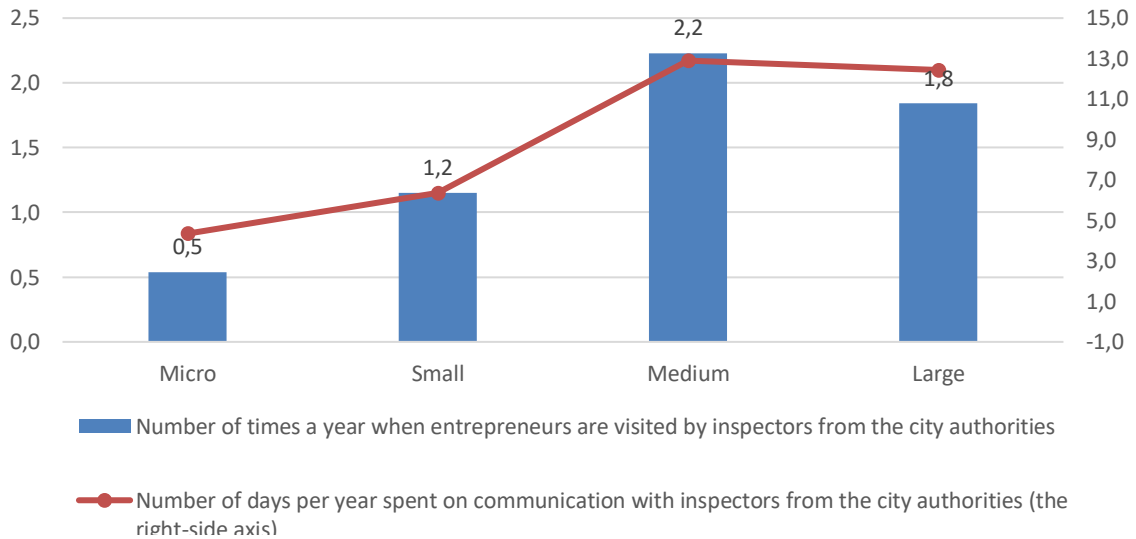
As this survey compares the conditions for doing business, including the cost of regulation, in cities, respondents reported only the frequency and duration of inspections initiated by city authorities, such as architectural and

construction control, public amenities control, and compliance with obligations on payments to the local budget, control over payment for land and rent of the communal property, control over the public toilets and motor transport parking, etc.

***Inspections frequency and duration by type of business***. According to the business surveyed, the number of inspections by city inspectors is less than once a year (the average in all cities - 0.7 times). However, the businesses that passed these inspections spent a considerable amount of time on them: on average of 5.2 days a year, which exceeds the length of the working week. While IEs and legal entities are inspected by the city authorities with the same frequency (the number of inspections is on average 0.7 times a year for both of these groups), legal entities spend more time negotiating with inspectors (on average 5.8 days compared to 4.1 days for SPs).

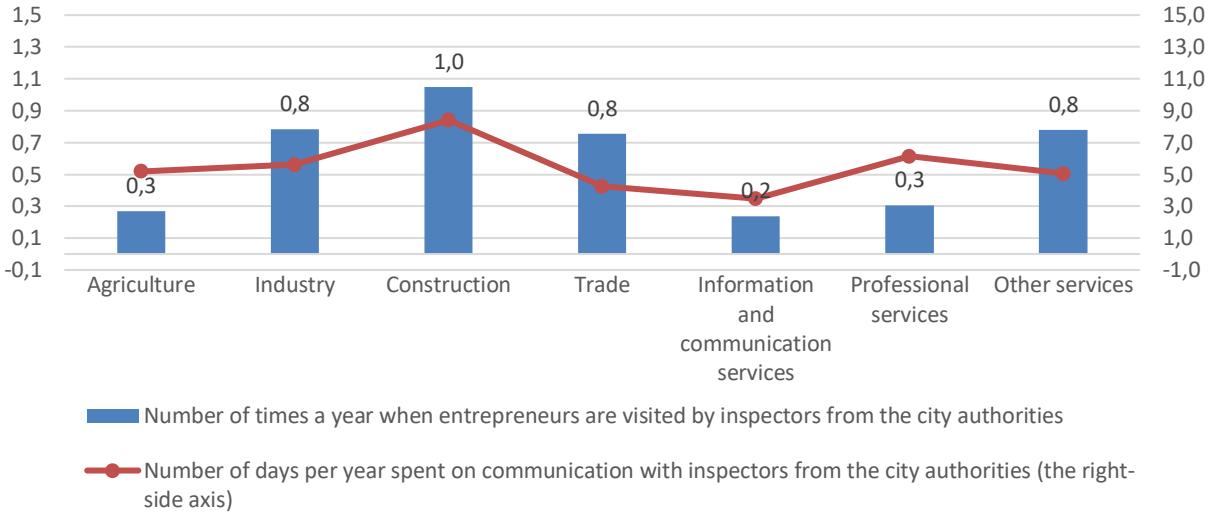
***Inspections frequency and duration by business size.*** Medium-sized businesses are most often visited by city inspectors and their inspections last the longest for them. According to representatives of this business group, they have such inspections on average of 2.2 times a year and they spend a total of 12.9 days a year for inspections. Both inspections frequency and duration are somewhat reduced for large enterprises: on average of 1.8 times a year and for 12.4 days. The lowest number of inspections by the city authorities was recorded for microbusiness, (on average of 0.5 inspections per year) as well as the shortest time spent on communication with inspectors during these inspections (4.4 days per year).

*Fig. 28. Municipal authorities' inspections frequency (times) and duration (days) (by business size)*




***Inspections frequency and duration by sector.*** The most frequent and longest inspections by the city authorities are reported in the construction sector. Thus, entrepreneurs and companies in this sector are visited on average once a year by city authorities' inspectors and spend an average of 8.4 days a year communicating with them. At the same time, in information and communication services, professional services, and in the agricultural sector these inspections are the least frequent (on average of 0.2 – 0.3 times a year). However, they last differently for these sectors: while information and communication services representatives spend on average of 3.5 days communicating with inspectors, this time is almost doubled to 6.1 days for professional services, and in agriculture, the average inspection duration is close to the national average: it is 5.2 days.

*Fig. 29. Municipal authorities' inspections frequency (times) and duration (days) (by sector)*




#### *4.4.2.3. Main outcomes briefly*

- Business spends an average of four days a year and 3.7% of annual income for compliance with regulations set by the local authorities referring to its activities.
- As the size of the business increases, so does the amount of time it spends complying with these regulations.
- The construction industry is characterized by a high compliance cost compared to other sectors.
- Municipal authorities inspectors visit businesses on average of less than once a year to conduct inspections[9].
- Businesses operating in information and communication services, professional services, and in agriculture, rarely pass such inspections.
- On average, firms and entrepreneurs visited by municipal inspectors spent just over five days a year communicating with them.

[9] Respondents gave answers for 2019. In 2019, the moratorium on the implementation of state supervision (control) of planned measures for state supervision (control) for economic activity expired (https://zakon.rada.gov.ua/laws/show/1728-19#Text). A moratorium on inspections was introduced in 2014 for two years, in 2016 the moratorium was extended to 2017 and later to 2018 (with some exceptions). At the end of October 2018, the State Regulatory Service of Ukraine together with MEDT and with the support of Better Regulation Delivery Office (BRDO) launched a pilot system of measures module for state supervision (control). The system contains data on unscheduled, scheduled and comprehensive inspections.

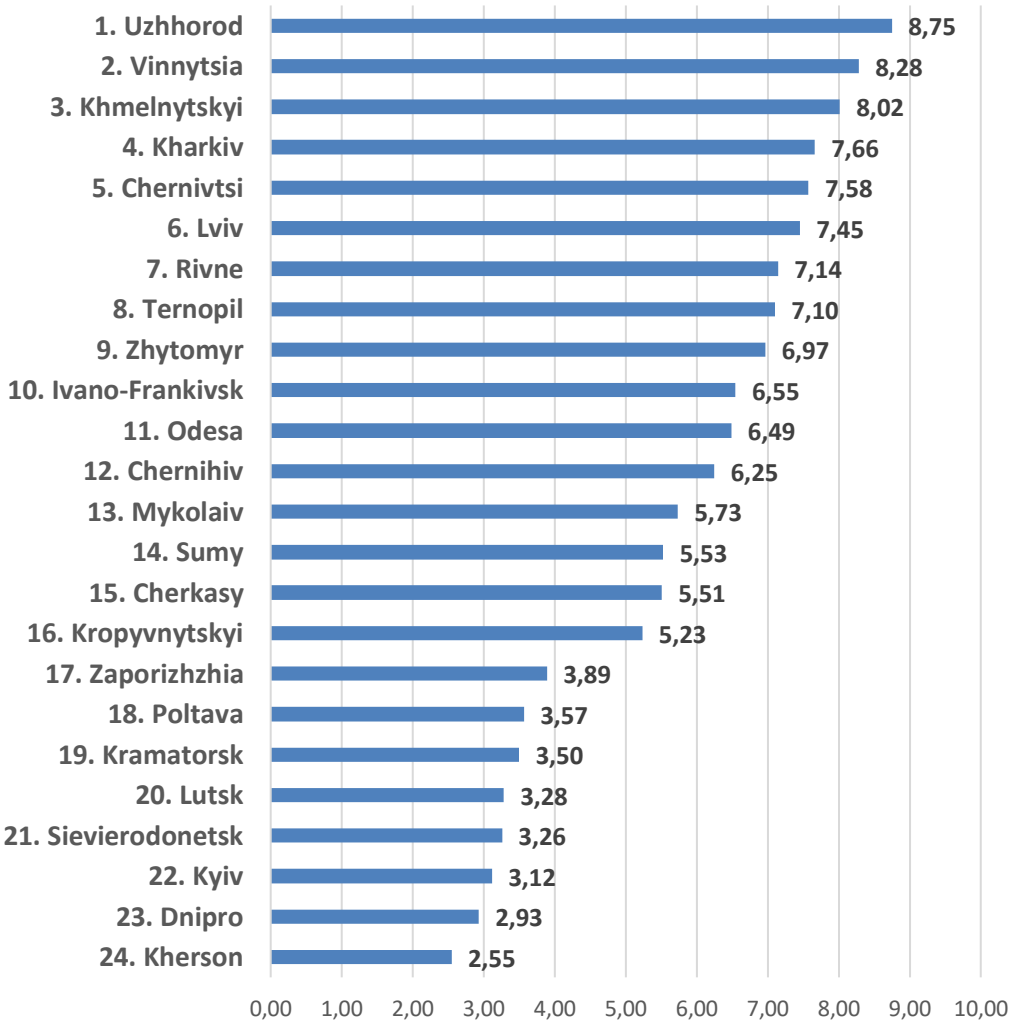
## 4.5. Component 5 Taxes and Duties [10]

### 4.5.1. Municipalities results

According to the research Uzhhorod (8.75 points), Vinnytsia (8.28 points), Khmelnytskyi (8.02 points), Kharkiv (7.66 points), Chernivtsi (7.58) and Lviv (7.45) received the best marks within Component (sub-index) 5 *Taxes and Duties*.

The high performance of these cities was ensured by a combination of factors such as lower tax costs, lower time costs for the administration of taxes and duties, lower levels of local tax burdens and benefits on local taxes and duties. At the same time, the lowest scores were received by Kherson (2.55), Dnipro (2.93), Kyiv (3.12), Sievierodonetsk (3.26) and Lutsk (3.28), where entrepreneurs reported high time and money costs for taxes paid, the negative impact of local taxes and duties and less distribution of benefits on these taxes payment.

*Fig. 30. Component 5. Taxes and duties: municipalities results*




According to the survey, respondents reported that on average of 26.8% of annual income is spent on taxes and duties (including unified social contribution). The share of such expenditures is estimated the highest in Zaporizhzhia and Kramatorsk (30.3%), Kyiv and Kherson (30.1%), and Sievierodonetsk (30%). At the same time, respondents from Uzhhorod (23.7%), Ivano-Frankivsk (23.8%), Mykolaiv (23.9%), Lviv (24%) and Rivne (24.4%) have the lowest scores.

[10] In this study, the issue of taxes and duties concerned only local taxes and duties. Local taxes include: property tax (which consists of payment for land, real estate tax other than land, transport tax); unified tax. Local duties include: fee for parking spaces for vehicles; tourist tax. (http://sfs.gov.ua/podatki-ta-zbori/mistsevi-podatki/)

Analyses of administering taxes and duties burden show the average highest time costs are in Poltava (92 days), Dnipro (75 days), Kramatorsk (74 days), Kyiv (73 days) and Kharkiv (66 days), while the average national indicator is 59 days. The least burdensome are the administration of taxes and duties in Chernivtsi (36 days), Uzhhorod (39 days), Khmelnytskyi (40 days), and Ternopil (44 days).

Respondents also named local taxes and duties as a barrier to business. This figure is 20.4% for the national level. However, the highest figure is in Kherson (28.4%), which took the last position within the sub-index. Local taxes and duties are also a barrier for respondents from Sievierodonetsk (27.4%), Lutsk (26.5%), Sumy (25.2%), and Khmelnytskyi (23.4%). On the other hand, the tax burden at the local level is a smaller obstacle in Uzhhorod (14.6%), Kharkiv (14.7%), Vinnytsia (15.2%), Lviv (16.1%) and Chernivtsi (16.6%).

Only 3.6% of respondents reported benefits for local taxes and duties payment in 2018 – 2019. However, this share is almost twice as high in Khmelnytskyi with a rate of 7%. And 6.4% of respondents also received benefits in Kharkiv, 6% in Odesa, 5.9% in Vinnytsia, and 5.1% in Chernihiv. Meanwhile, such benefits were provided only for 1.5% of respondents in Poltava, 1.6% in Kherson, 1.9% in Dnipro, and Mykolaiv, 2% in Kyiv.

### 4.5.2. Component 5 individual parts analysis

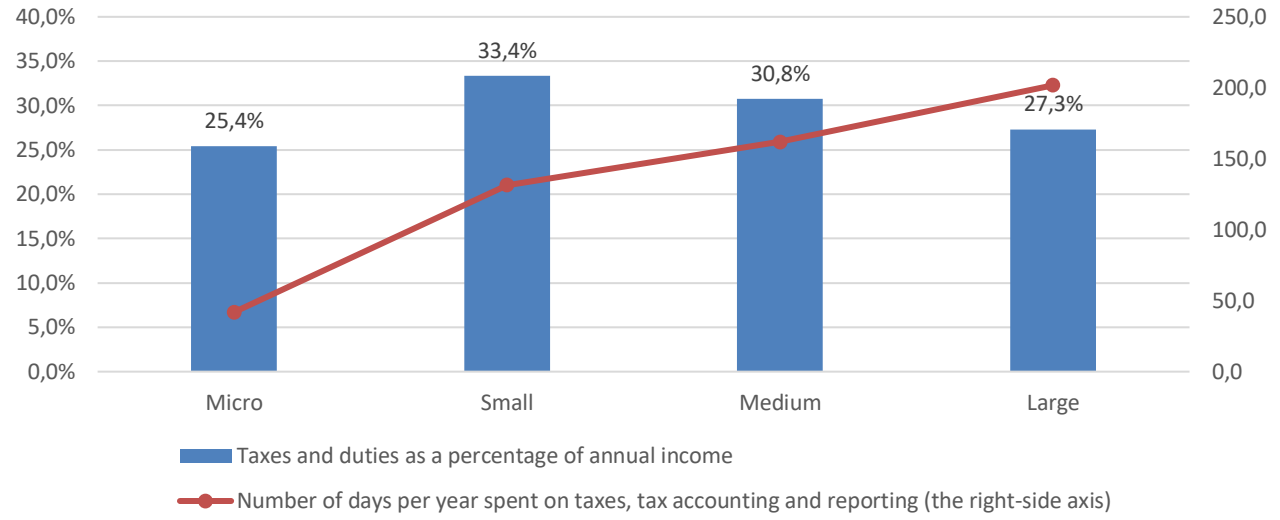
#### *4.5.2.1. The amount of taxes and the time spent on their payment*

Entrepreneurs and firm managers surveyed often cited high taxes as an obstacle to doing business. When respondents were asked to estimate the amount of taxes and duties they pay, including the unified social contribution, in terms of their share of annual income, the average amount of these taxes, according to their responses, reached 26.8%. But the amount of taxes paid is not the only factor that can hinder doing business. It is also important how much effort and time the business spends on tax administration, i.e. data collection and processing, tax accounting, filling in and submitting tax reports, as well as the payment of taxes. According to business representatives surveyed, it takes them on average of 58.6 days a year. Both the amount of taxes paid and the time spent on their administration differ for businesses of different sizes, industries, and organizational forms.

***The amount of taxes paid and time spent on administration by type of business.*** It is more profitable for a business to be registered as an individual entrepreneur in terms of paying taxes in Ukraine. IEs pay an average of 19.3% of their annual income, and all administrative procedures involve an average of 15.7 days per year. The situation is more complicated for legal entities: they not only have to pay more taxes (on average of 31.3% of annual income) but also spend much more time on the administration of tax payments: the average duration of this activity for legal entities is 90.6 days.

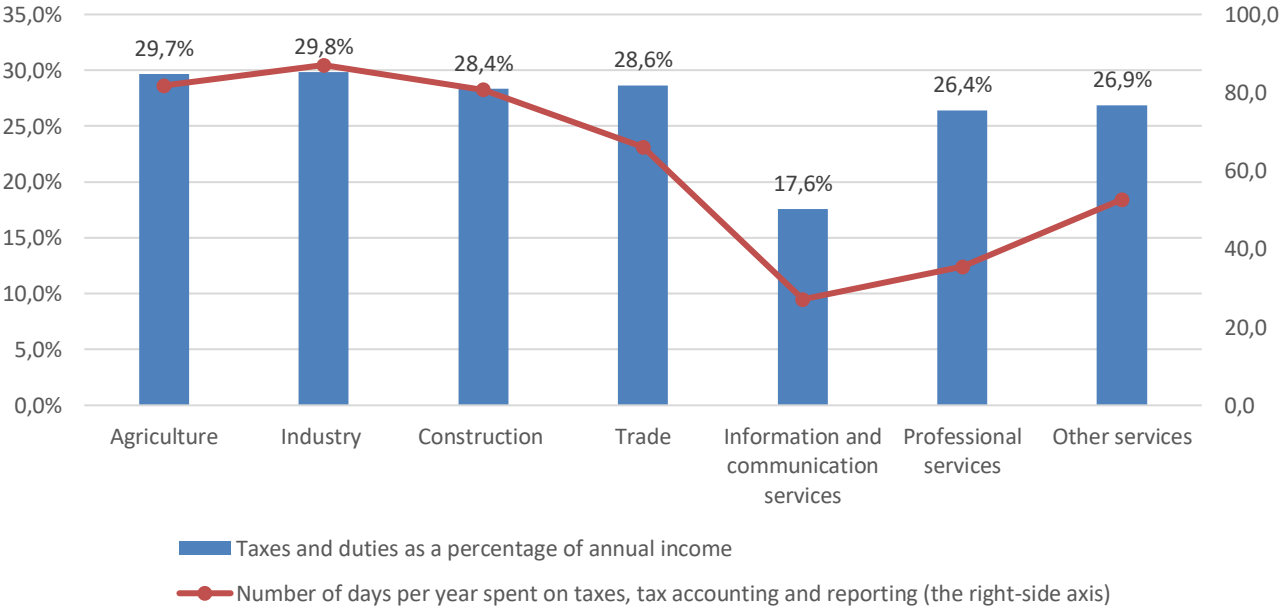
***The amount of taxes paid and time spent on administration by business size.*** The greatest burden in terms of the number of tax payments falls on small and medium-sized businesses, and in terms of time spent on tax administration - on the big one. Thus, small businesses on average give 33.4% of their annual income as taxes, and medium - 30.8%. The smallest amount of taxes is paid by the micro-business, but for these firms and entrepreneurs, it is 25.4% of annual income. Also, microenterprises spend much less time on tax administration compared to larger businesses. On average, one firm or entrepreneur belonging to a microbusiness spends 41.9 days a year on this. Time costs increase sharply for small businesses (here they are 131.5 days on average) and reach a maximum for large enterprises (they spend on average of 201.7 days a year on tax administration).

*Fig. 31. The amount of taxes (% of annual income) and the average number of days per year spent on their administration (by business size)*




***The amount of taxes paid and the time spent on administration by sector.*** Businesses operating in various industries pay a close share of their annual income as taxes: from about 26% to 30% of annual income. The exception is the information and communication services sector, where the business pays fewer taxes on average: the corresponding share is on average of 17.6% of its annual income. Also, in information and professional services sectors tax administration takes the least time: here it takes on average of 27.1 days and 35.4 days per year respectively, while for other industries this figure is from 52.6 days for the services sector excluding information and professional ones and up to 87.1 days for the industry sector.

*Fig. 32. The amount of taxes (% of annual income) and the average number of days per year spent on their administration (by sector)*




### *4.5.2.2. Local taxes and duties as a barrier to business*

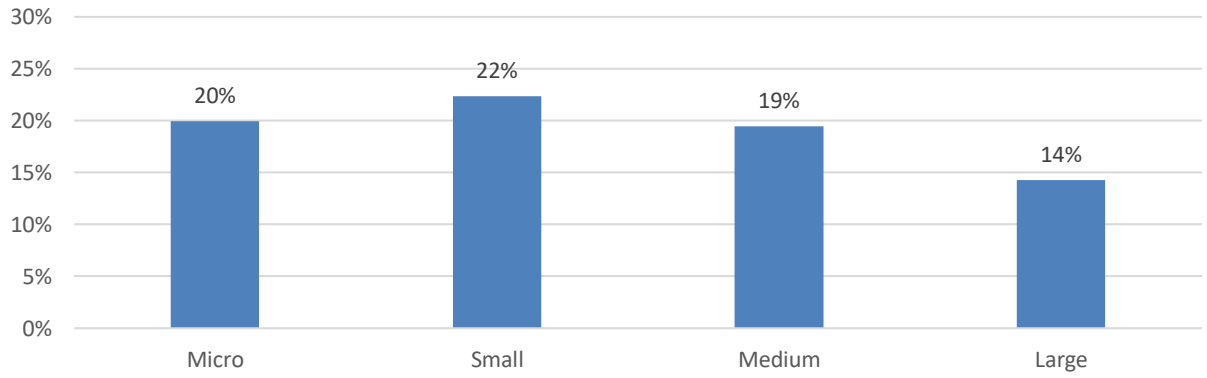
The results of this survey show that high taxes are a significant obstacle for the business surveyed. Part of the taxes and duties paid by businesses are local taxes. To find out how much local taxes hinder doing business, respondents were asked to answer the question of whether local taxes and duties are a barrier to their business.

20% of entrepreneurs and firm managers surveyed said that local taxes and duties are a barrier to their business. By comparison, 34% of respondents cited high taxes taken as a whole as an obstacle to their activities, so it can be concluded that taxes in general, including taxes at the state level, are more burdensome for business than local taxes and duties alone.

***The impact of local taxes and duties as a barrier to business by type of business.*** IEs and legal entities equally feel the impact of local taxes and duties as barriers to their business. They were called an obstacle by 22% of individual entrepreneurs and 20% of legal entity managers.

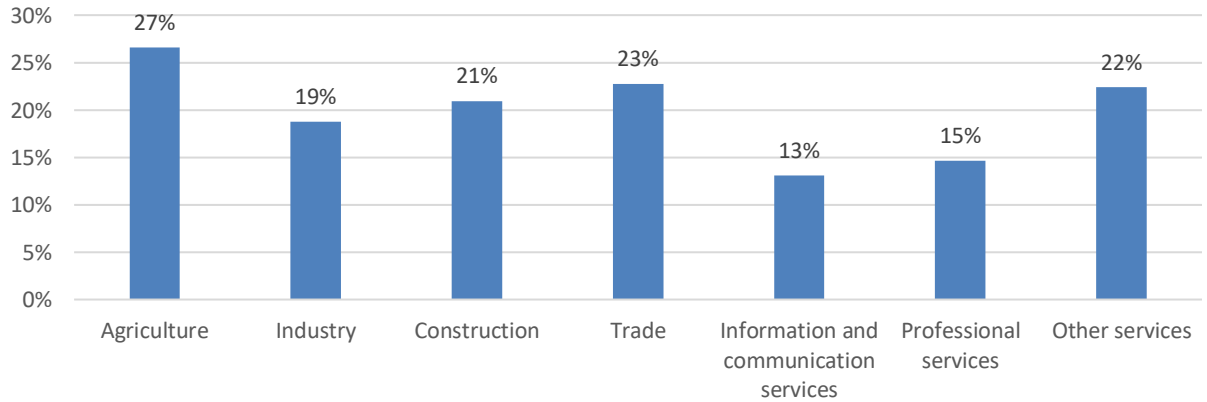
***The impact of local taxes and duties as a barrier to business by business size.*** Small businesses relatively more frequently report that local taxes and duties hinder their activities: the corresponding share of respondents in this group is 22%. Taxes and duties are the least of a hindrance to large enterprises: 14% of their managers complain about this barrier.

*Fig. 33. Share of businesses that consider local taxes and duties a barrier to their activities (by business size), %*




***The impact of local taxes and duties as a barrier to business by sector.*** Agricultural businesses are more likely to name local taxes and duties a barrier than other industries. This opinion was expressed by 27% of this sector representatives. On the other hand, in information and professional services, the smallest shares of respondents are hindered by local taxes: they are 13% and 15%, respectively. It is worth noting that in the service sector in general, except for two areas mentioned above, a significant share of businesses named local taxes a barrier: 22%.

*Fig. 34. Share of businesses that consider local taxes and duties a barrier to their activities (by sector), %*

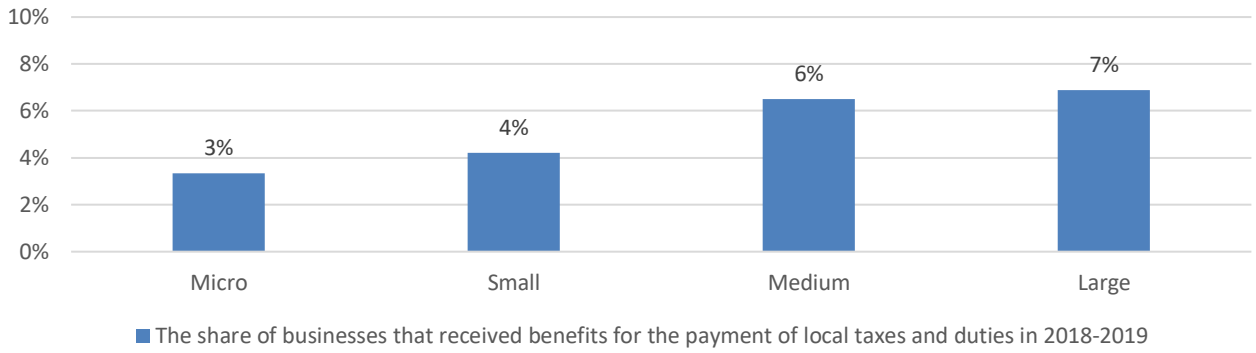


#### 4.5.2.3. *Prevalence of tax benefits*

To determine the prevalence of tax and fee benefits at the local level, respondents were asked to indicate whether they received such benefits in 2018 – 2019. Only about 4% of business representatives in the cities surveyed indicated they received such benefits.

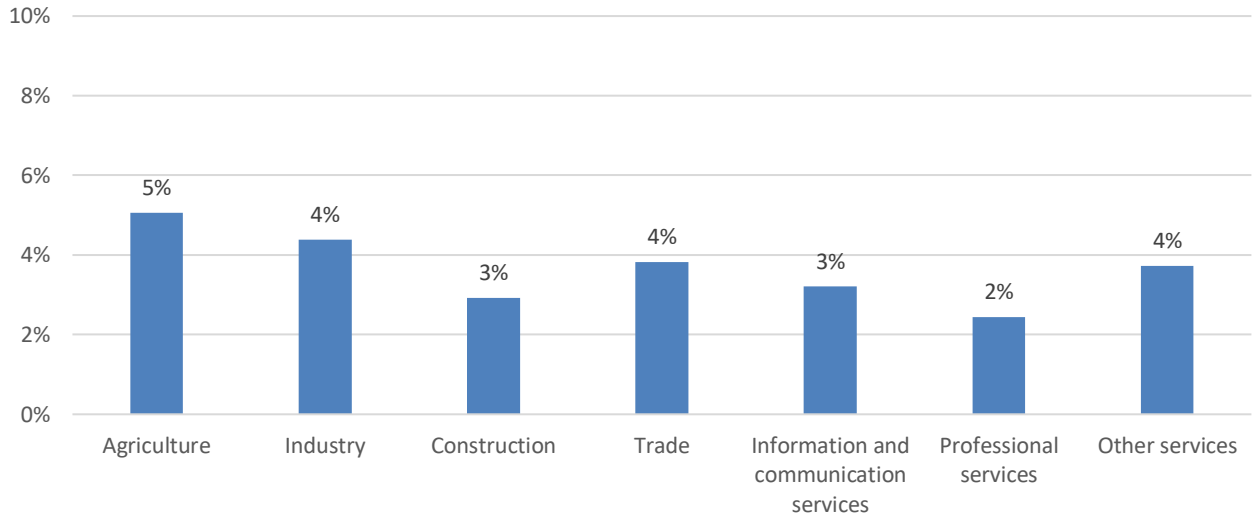
***Prevalence of local tax benefits by type of business.*** Individual entrepreneurs are somewhat more likely to receive benefits than legal entities when paying local taxes. In 2018 – 2019, 5% of individual entrepreneurs reported receiving such benefits, compared to 3% of legal entities.

*Fig. 35. Prevalence of benefits for local taxes and duties payment (by business size), %*




***Prevalence of local tax benefits by business size.*** Medium and big businesses are slightly more likely to receive benefits reducing their local taxes than micro- and small ones. While 6% of medium-sized businesses and 7% of big ones reported that in 2018 – 2019 they received such benefits, among small and micro businesses these shares are smaller: 4% and 3%, respectively.

*Fig. 36. Prevalence of benefits for local taxes and duties payment (by sector), %*




***Prevalence of local tax benefits by sector.*** There is no significant difference between businesses in different sectors in whether they received local tax benefits. In agriculture, this was reported somewhat more often, and in professional services, on the contrary, relatively less often, but the difference between sectors in this issue is small and statistically insignificant.

#### *4.1.1.1. Main outcomes briefly*

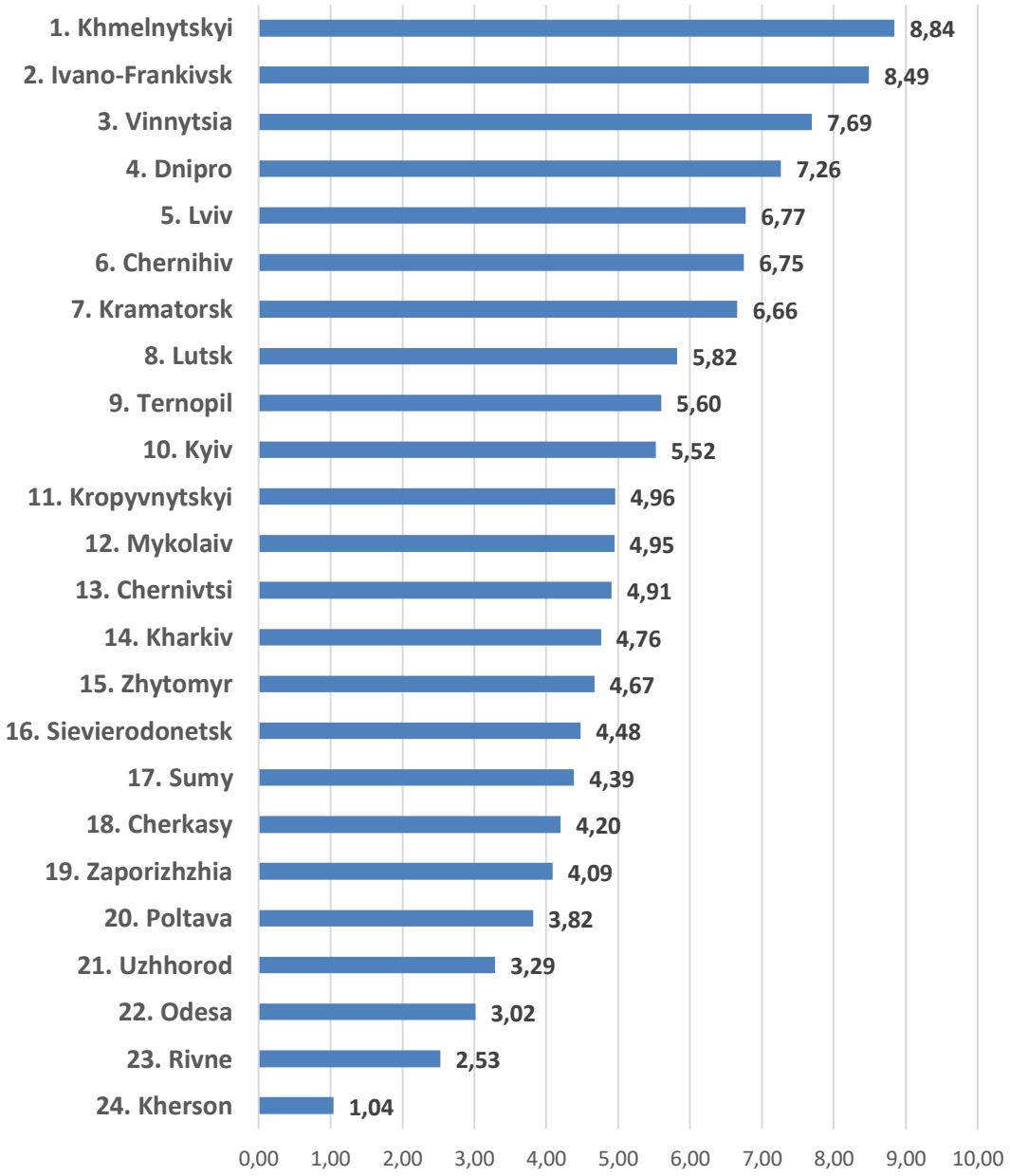
- On average, the surveyed business pays 26.8% of its annual income as taxes.
- Business spends an average of 58.6 days per year on tax administration (payment of taxes, tax accounting, tax reporting, etc.).
- The amount of taxes paid as a share of annual income is higher in small and medium-sized businesses compared to micro- and large ones.
- Large business spends the most time on tax administration: on average of more than 200 days a year. However, when transferred to one employee load is higher for enterprises (IEs) of smaller size.
- Legal entities pay more taxes in terms of annual income and spend more time on it than individual entrepreneurs.
- Local taxes and duties are a barrier for 20% of businesses surveyed in general and to a greater extent for small businesses with 11 to 50 employees.
- Almost 4% of businesses have received local tax benefits over the past two years.

## 4.6. Component 6. Informal Payments and Corruption

### 4.6.1. Municipalities results

According to the survey, the best scores under Component (sub-index) 6 *Informal Payments and Corruption* were received by Khmelnytskyi (8.84 points), Ivano-Frankivsk (8.49), Vinnytsia (7.69) and Dnipro (7.26). These cities combine such factors as low levels of informal payments and high levels of entrepreneurs' awareness of existing anti-corruption measures. At the same time, the biggest troubles with the level of corruption and anti-corruption measures at the city level are in Kherson, which received only 1.04 points. Rivne (2.53 points), Odesa (3.02), and Uzhhorod (3.29) are also in the group of cities with low scores.

*Fig. 37. Component 6. Informal payments and corruption: municipalities results*



Within Dimension 1 *Bribes / Gifts*, for example, the largest share of respondents reported situations related to "informal payments" (when communicating with municipal officials on any issues on doing business in 2018 – 2019) in Odesa (14, 0%), Kherson (13.9%), Rivne (11.5%), Uzhhorod (11.3%) and Zaporizhzhia (11.1%). At the same time, the least frequent such corruption occurred in Ivano-Frankivsk (6.5%), Kramatorsk (7.3%), Khmelnytskyi (7.6%), and Chernihiv (7.6%). Meanwhile, 9.9% of respondents in Ukraine dealt with bribes on the national level.

Analysis of *fight against corruption* (Dimension 2) shows only 31.8% of respondents in Ukraine on the national level know about the implementation of specific anti-corruption measures by the municipal authorities (open budget, electronic reception, anti-corruption municipal program). In Vinnytsia, for example, 44.9% of respondents are aware of such anti-corruption measures. Also, there is a high level of awareness of such measures in Khmelnytskyi (42.5%), Dnipro (40.9%), Lviv (39.1%), and Ivano-Frankivsk (37.7%). At the same time, the least aware of these measures are entrepreneurs of Kherson (23.6%), Rivne (23.6%), Poltava (24.4%), Sievierodonetsk (25.9%) and Uzhhorod (26.7%).

### 4.6.2. Component 6 separate parts analysis

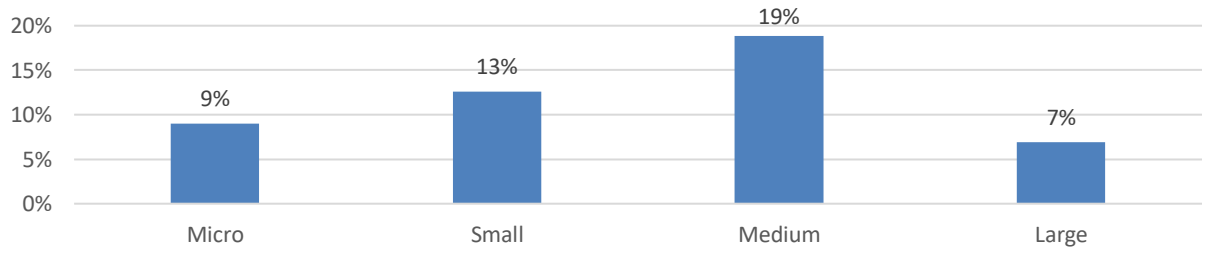
#### 4.6.2.1. *Informal payments prevalence*

Informal payments from businesses to officials are among corruption features making businesses unequal with competitors and allowing officials to illegally enrich themselves through the services they provide to entrepreneurs using their position. Business representatives surveyed were asked to describe their experience with informal payments. As this research analyzes the conditions for doing business at the city level, the questions concerned only informal costs in dealing with municipal officials. Respondents were asked, firstly, whether they found themselves in situations involving informal payments in cooperation with the municipal authorities on any business issues, and secondly, what exactly did this situation look like: who initiated an informal payment and whether the payment was made.

***Informal payments prevalence by type of business***. 10% of businesses surveyed indicated they faced situations related to informal payments when interacting with the municipal authorities. At the same time, managers of enterprises registered as legal entities found themselves in such situations somewhat more often (the corresponding share is 11%) than individual entrepreneurs, among whom this share is 8%.

***Informal payments prevalence by business size.*** The share of respondents who report situations related to informal payments in dealing with the municipal authorities increases with the increase of business size from micro to medium but decreases sharply for large enterprises. Thus, while 9% of micro-business representatives reported such experience, this share increases to 13% among small businesses, and 19% among medium-sized businesses. However, for large enterprises, this share significantly reduces: 7% of its managers had such experience.

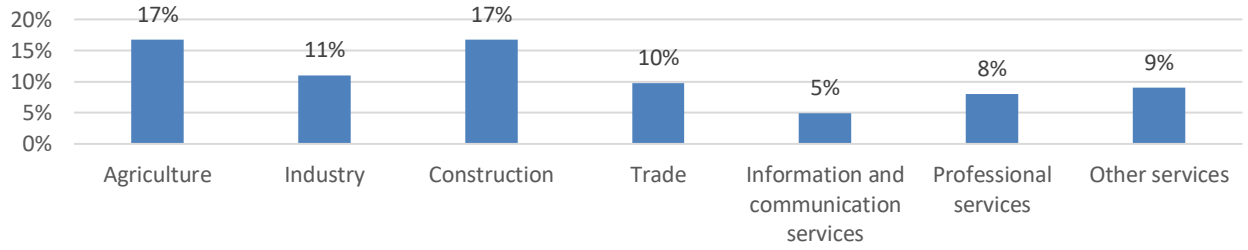
*Fig. 38. Share of business that reported cases related to informal payments in communicating with municipal authorities (by business size), %*




***Informal payments prevalence by sector.*** There are differences between businesses in different industries in how often they face situations involving informal expenditures when interacting with local authorities. Such experience is most often reported in agriculture and construction - 27% of respondents (this is with a high level of profitability and shadowing at the same time). In the service sector, on the other hand, these situations are the least

common. This is especially true for information and communication services, where 5% of respondents reported their experience with informal payments.

*Fig. 39. Share of business that reported cases related to informal payments in communicating with municipal authorities (by sector), %*



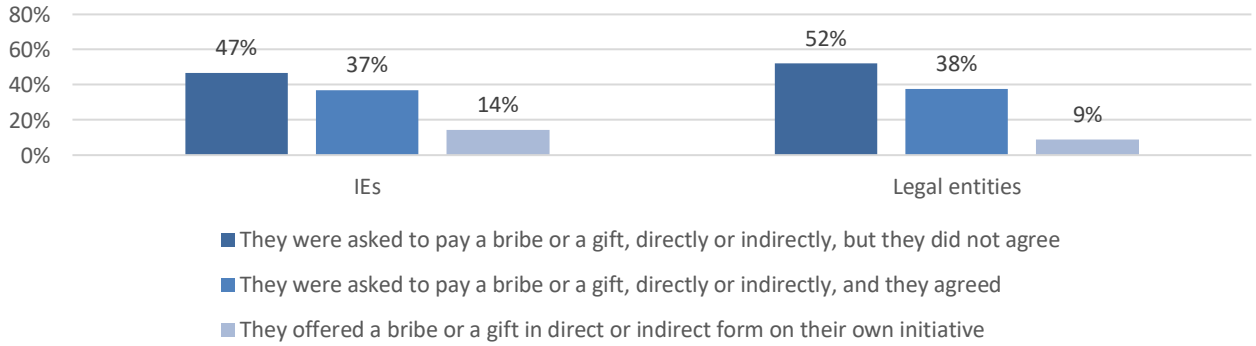

#### *4.6.2.2. Scenarios for making and demanding informal payments*

Situations in which the interaction of entrepreneurs and business managers with the city authorities may raise the issue of informal payments can occur in several ways. First of all, the initiative for such a payment can be taken either by the business, offering payment, or by municipal authorities' representative demanding or hinting at the need for such a payment. This payment can take the form of a money bribe or a gift. And if city officials demand that businesses pay informally, this situation may end up with the business meeting this demand or not. Therefore, entrepreneurs and business managers surveyed, who reported they had an experience related to informal payments interacting with the city authorities, were asked to indicate the scenario under which the events unfolded.

The most common of these is when respondents were asked for a bribe or a gift, but they did not agree. 51% of respondents who had an experience related to informal payments faced this situation. Business representatives were less likely to report they were asked for a bribe or a gift, directly or indirectly, and they agreed. This answer was given by 37%, and another 10% said they initiated a direct or indirect offering of a bribe or gift. It should be understood that the last two answers are the most sensitive because here the business admits to being involved in dishonest and illegal acts. Consequently, some respondents may not indicate such situations and the relevant figures may be underestimated. Another 28% of respondents who reported situations involving informal payments did not indicate who initiated the bribe or gift and whether such a payment was made.

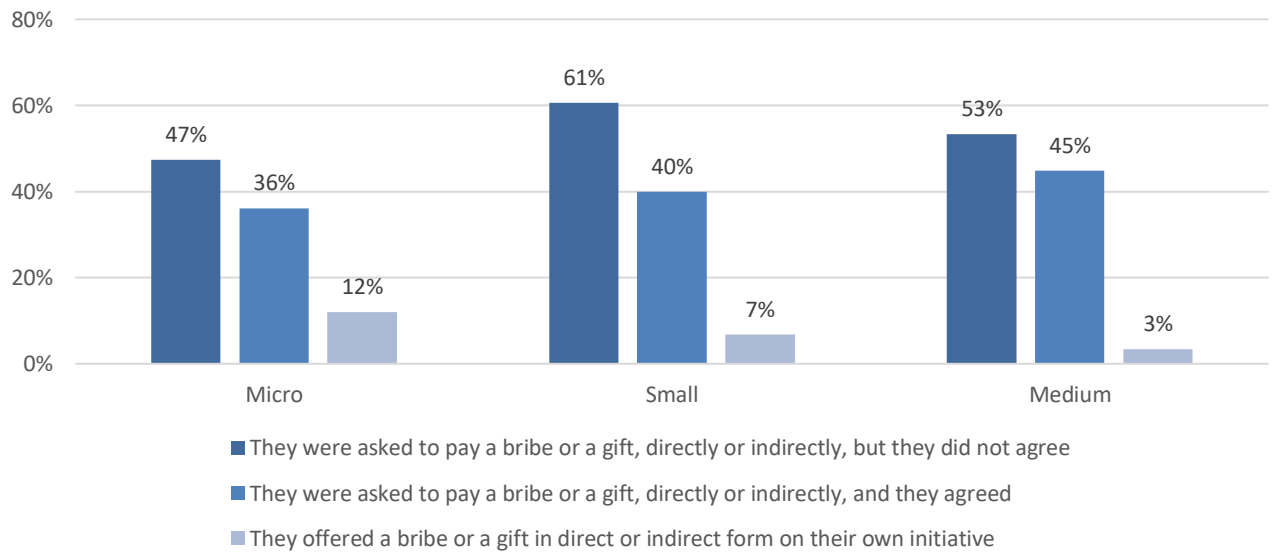
***Scenarios for making and demanding informal payments by type of business***. Legal entity managers and IEs almost equally often report they were required to make informal payments and they paid them. Legal entities more often than individuals say they did not give bribes, although they were required to do so by the municipal authorities. This was reported by 52% of legal entities managers compared to 47% of individual entrepreneurs. And IEs, in turn, more often said they offered bribes. This was reported by 14% of them compared to 9% of legal entities.

*Fig. 40. Scenarios for making and demanding informal payments (by type of business), %*



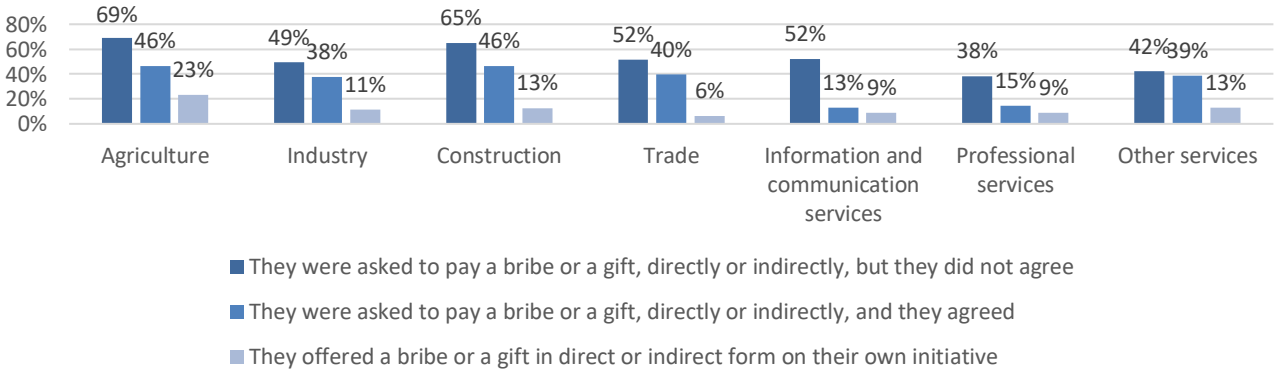
***Scenarios for making and demanding informal payments by business size.*** As the business size increases, the share of respondents who report they made informal payments at the request of city officials is growing. While among entrepreneurs and firm managers representing microbusiness, the corresponding share is 36%, for small businesses it increases to 40%, and for medium – up to 45% [11]. At the same time, the share of informal payments initiators is decreasing: for microbusiness respondents, it is 12%, for small – 7%, and medium - only 3%.

*Fig. 41. Scenarios for making and demanding informal payments (by business size), %*




***Scenarios for making and demanding informal payments by sector.*** The service sector distinguishes itself from other industries with the smallest share of respondents who were required to make informal payments. Of particular note are professional and information and communication services, where the share of respondents who reported paying bribes at the request of city officials is the lowest: 15% and 13%, respectively. On the other hand, representatives of the agricultural and the construction sectors were more likely than other respondents to report both non-payment and bribery when required to do so. Moreover, the agricultural sector recorded the highest share of respondents experiencing informal payments, who initiated those payments themselves (23%).

*Fig. 42. Scenarios for making and demanding informal payments (by business sector), %*




[11] The number of representatives of large enterprises that answered this question is insufficient for statistical comparisons.

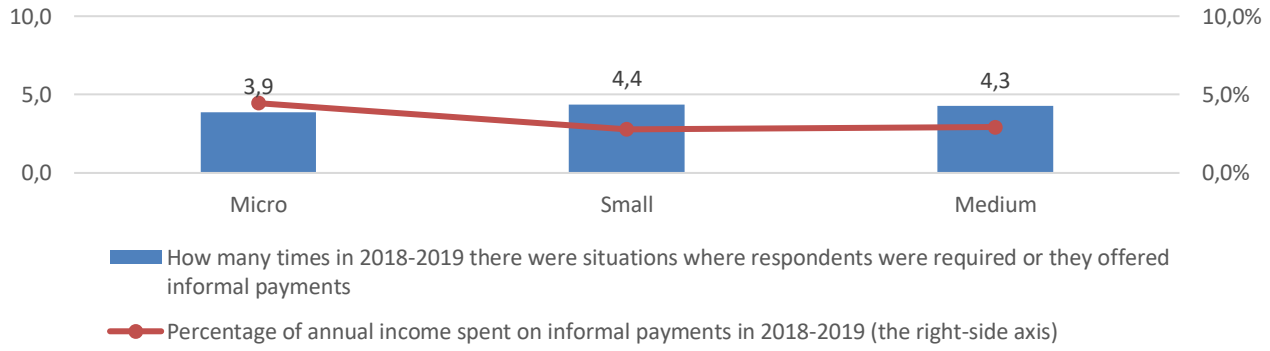
#### 4.6.2.3. *Informal payments frequency and amount*

Enterprise managers (IEs) who face situations related to informal payments while communicating with the authorities of their city, indicated how many times it occurred in 2018 – 2019 and how much money as a percentage of their annual income they spent on such payments during this period. On average, these situations occurred four times for business, and the share of annual income spent on informal payments was 3.9%.

***Informal payment frequency and amount by type of business.*** While individual entrepreneurs faced situations related to informal payments a little more often than legal entities (3.6 times on average compared to 4.3 times for legal entities), they spent relatively less money on informal payments in terms of percentage of income. These costs amounted to 4.9% of income in 2018 – 2019 for individual entrepreneurs, and 3.6% for legal entities.

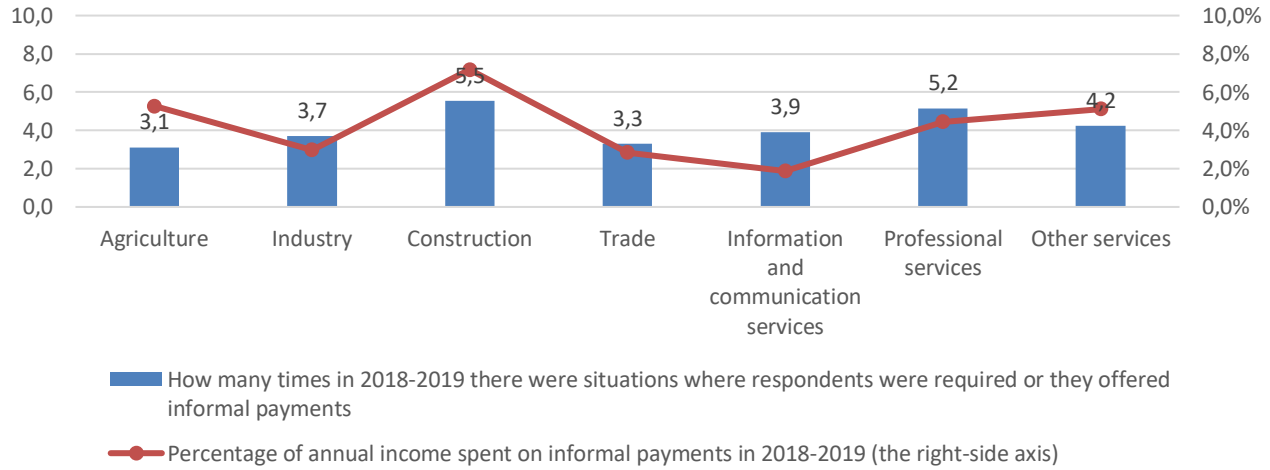
***Informal payments frequency and amount by business size*** Business managers and entrepreneurs working in different sized businesses vary significantly in how many times in 2018 – 2019 they encountered situations related to informal payments while communicating with the municipal authorities. However, microbusinesses have spent more on informal payments in terms of the annual income share. While these shares were 2.8% and 2.9% respectively for small and medium-sized businesses, the average share of income spent on bribes and gifts to city officials by microbusinesses is 4.5%.

*Fig. 43. Frequency (times) and amount (% of annual income) of informal payments in 2018 – 2019 (by business size), %*




***Informal payments frequency and amount by sector.*** The largest amount of bribes paid in terms of annual income share was recorded in the construction industry. Here, businesses spent an average of 7.2% of their income in 2018 – 2019.

*Fig. 44. Frequency (times) and amount (% of annual income) of informal payments in 2018 – 2019 (by sector), %*



Construction has also been one of the two sectors where entrepreneurs and enterprise managers most often report they have been demanded or offered bribes. The other sector with the highest number of such reports is the professional services sector. However, here the percentage of income spent by businesses on bribes is lower than in construction: it is 4.4%.

#### *4.6.2.4. Anti-corruption measures*

To resist corruption, anti-corruption programs and action plans are being adopted at the city level, and processes and systems are being implemented to increase transparency and public control: open budget, e-receptions, etc. All entrepreneurs and enterprise managers surveyed were asked if they were aware of such initiatives and events in their city.

***Awareness of anti-corruption measures by type of business.*** 32% of all businesses surveyed are aware of anti-corruption measures implemented in their city. Managers of legal entities are somewhat more likely to say they are aware of such measures: this was reported by 33% of legal entity representatives compared to 30% of individual entrepreneurs.

***Awareness of anti-corruption measures by business size.*** Big business is more likely to know about anti-corruption initiatives in their city than smaller businesses. The percentage of respondents among large enterprise representatives who are aware of such initiatives is 39%, while among smaller businesses it does not exceed 33%.

***Awareness of anti-corruption measures by sector.*** Entrepreneurs and enterprise managers in information and professional services are best informed about measures to resist corruption and increase transparency in cities. 38% of respondents in each of these industries said they knew about such measures in their city. Meanwhile, in trade, the smallest share of respondents is aware of anti-corruption measures: 28%.

#### *4.6.2.5. Main outcomes briefly*

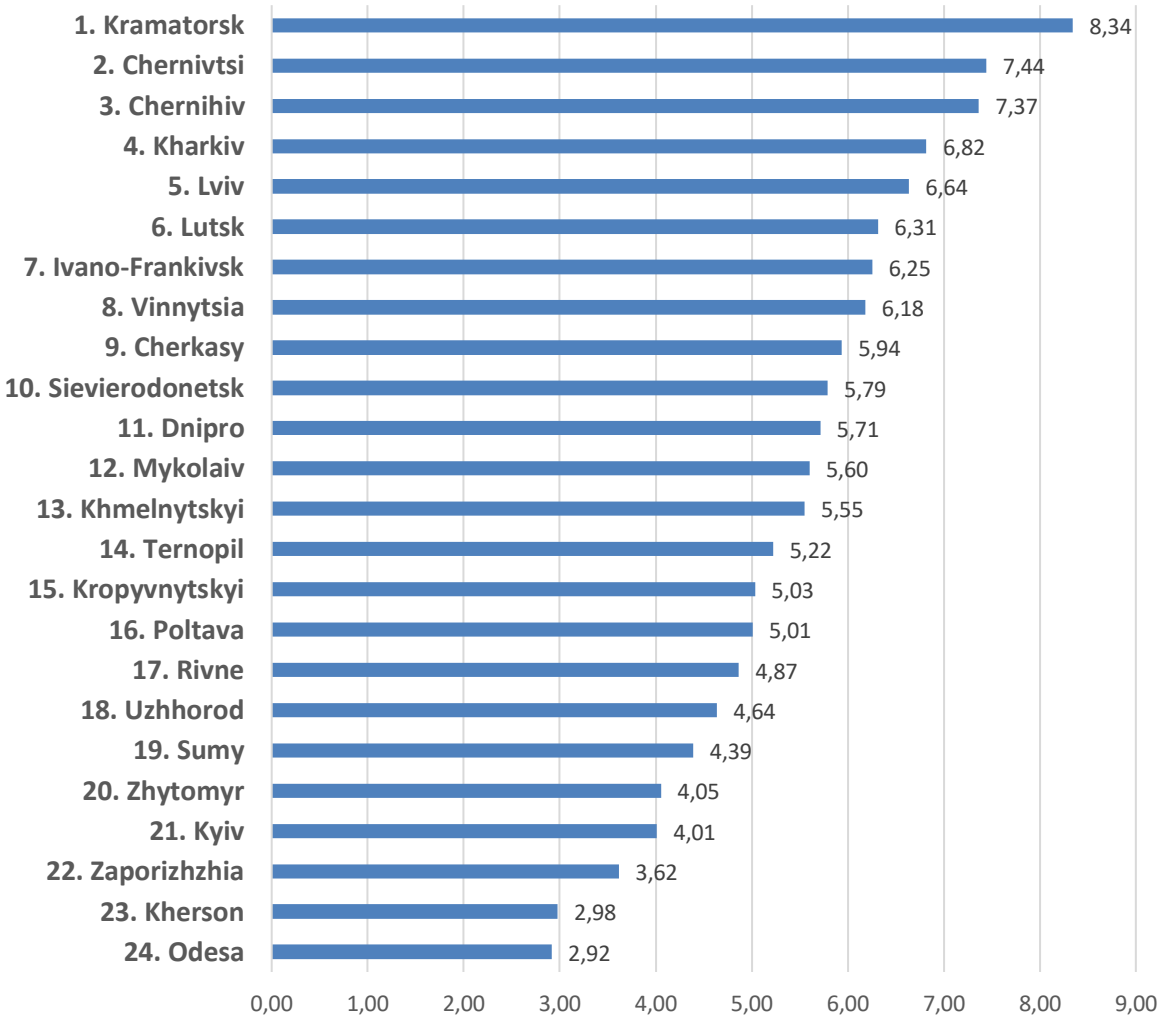
- 10% of the business representatives said they had situations involving informal payments when interacting with municipal officials.
- One in every five medium-sized businesses surveyed had this experience. Large businesses are the least likely to report such situations.
- In the sectoral context, enterprises (IEs) in agriculture and construction more often than others report such situations, while representatives of the information and communication services - the least.
- 51% of executives surveyed who reported making informal payments indicated they were required to pay a bribe but did not pay.
- 37% of respondents who encountered situations related to informal payments said they had paid the bribe demanded by the municipal authorities, and 10% said they offered a bribe themselves. This indicates problems with business integrity in the private sector.
- Informal payments cases are not singular. Businesses that have encountered such situations in interaction with the city authorities faced them on average four times in 2018 – 2019.
- Businesses facing informal payments spent on average almost 4% of their annual income on them in 2018 – 2019.
- 32% of all business representatives believe they are aware of the various anti-corruption measures (such as open budget, e-reception, anti-corruption programs or plans, etc.) that are implemented in their city.

## 4.7. Component 7 Security of Operating a Business

### 4.7.1. Municipalities results

According to the research entrepreneurs from Kramatorsk (8.34), Chernivtsi (7.44) and Chernihiv (7.37) give the best assessments to the safety of doing business within Component (sub-index) 7. The high results of these cities are due to the lower spread of business operating in the shadows, fewer losses from criminal activity, less prevalence of raidership, and lower security costs. At the same time, Odesa (2.92 points), Kherson (2.98), and Zaporizhzhia (3.62) received the lowest values of the sub-index. In these cities, entrepreneurs mostly suffer greater losses from crime and raidership and expend more on their safety.

*Fig. 45. Component 7. Security of operating a business: municipalities results*




According to the survey, almost every second entrepreneur (45.1%) believes that competitors do business "in the shadows". In terms of cities, the leader in this indicator is Khmelnytskyi, where 51.9% of respondents reported a similar situation. A high share of positive answers to this question is in Rivne (50.6%), Odesa (49.1%), Lutsk (48.7%), and Kropyvnytskyi (48.6%). At the same time, Kramatorsk reported the least about the work of competitors in the shadows (30.6%). These answers share is also low in Dnipro (38.3%), Poltava (40.7%), and Chernihiv (40.9%).

14.3% of respondents on the country level reported that in 2018 – 2019 they suffered losses due to extortion, theft, robbery, vandalism, arson. The most common such losses were among entrepreneurs in Odesa (18.8%), Rivne (18%), Uzhhorod (17.9%), Zaporizhzhia (17.2%), and Zhytomyr (16.7%). At the same time, such cases were less common in Vinnytsia (10.76% of respondents suffered such losses), Ivano-Frankivsk (11.3%), Lviv (11.4%), Kramatorsk (12%) and Chernivtsi (12.8%).

Entrepreneurs who suffered these losses were also able to estimate their volume in terms of annual income. On the country level, this figure is 10.8%. In terms of cities, the highest loss rate is in Kyiv - 19.6%. Respondents in Poltava (17.2%), Sumy (16.8%), Vinnytsia (16.7%), and Zaporizhzhia (15.4%) also complained about the losses. In contrast, the lowest losses are in Chernivtsi - 3.8%, Kharkiv - 4.8%, Kropyvnytskyi - 6%, Lutsk - 6.4% and Kramatorsk - 6.9%.
According to the survey, 2.5% of entrepreneurs were attempted by raiders in 2018 – 2019. This trouble was most acute in Kherson, where it was reported by 4.4% of respondents. Compared to other cities, a significant share of respondents reported raidership in Kropyvnytskyi (3.9%), Zaporizhzhia (3.7%), Zhytomyr (3.3%) and Dnipro (3.2%). At the same time, the safest situation was in Ivano-Frankivsk, Vinnytsia, and Chernivtsi, where only about 1% of respondents were raided.
The results of the survey show that entrepreneurs spend on average 2.7% of annual income on business security/protection. On average, the highest expenditures are in Kherson (3.9% of annual income), Odesa (3.8%), Uzhhorod (3.3%), Kyiv (3.2%), and Zaporizhzhia (3.1%). The lowest security costs are in Chernihiv (1.8%), Kramatorsk (2%), Kharkiv, and Kropyvnytskyi (2.3%).

### 4.7.2. Component 7 separate parts analysis

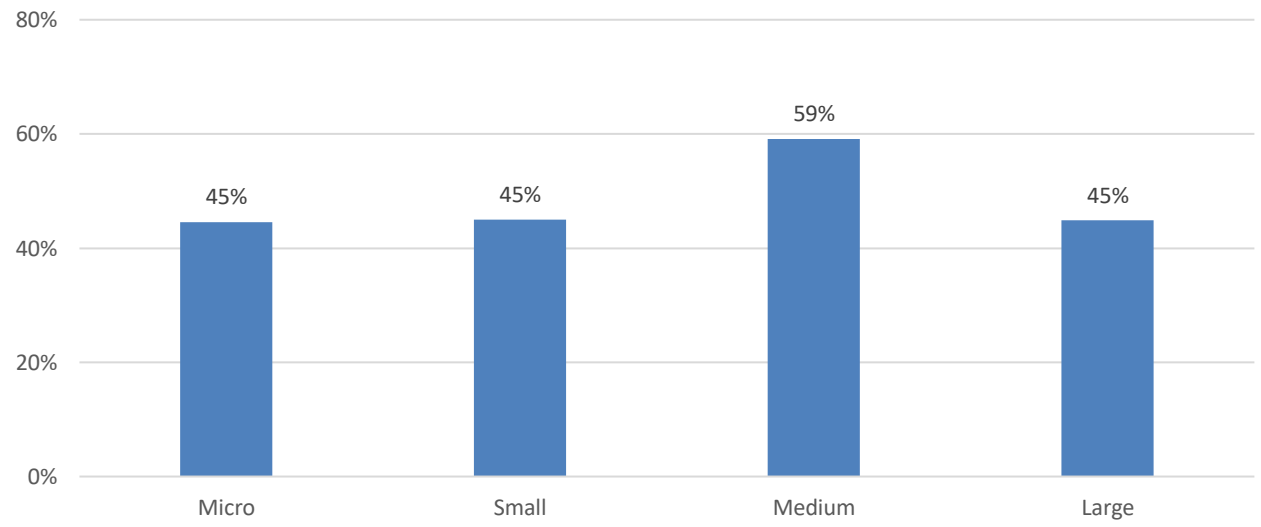
#### *4.7.2.1. Attitude to the prevalence of the shadow economy*

Concealing income or wages, i.e. operating "in the shadows", allows businesses to reduce costs. However, this has negative consequences for public welfare. But this not only deprives local and national budgets of revenue but also serves as a competitive advantage for shadow businesses, as it allows them to compete on price. To find out how much the shadow economy distorts competition for Ukrainian business, respondents were asked to assess whether their competitors are operating in the shadows. An affirmative answer was given by 45% of surveyed, with no significant differences between respondents representing the business of different sizes, industries, and forms of registration.

***Attitude to the prevalence of the shadow economy by type of business.*** The shares of individual entrepreneurs and legal entity managers that report operating of competitors in the shadows are almost the same: 46% of IEs and 45% of managers.

***Attitude to the prevalence of the shadow economy by business size.*** Medium-sized businesses distinguish themselves among businesses of different sizes. Here, the share of entrepreneurs and enterprise managers who believe that their competitors hide profits reaches 59%, while for all other groups of businesses surveyed it does not exceed 45%.

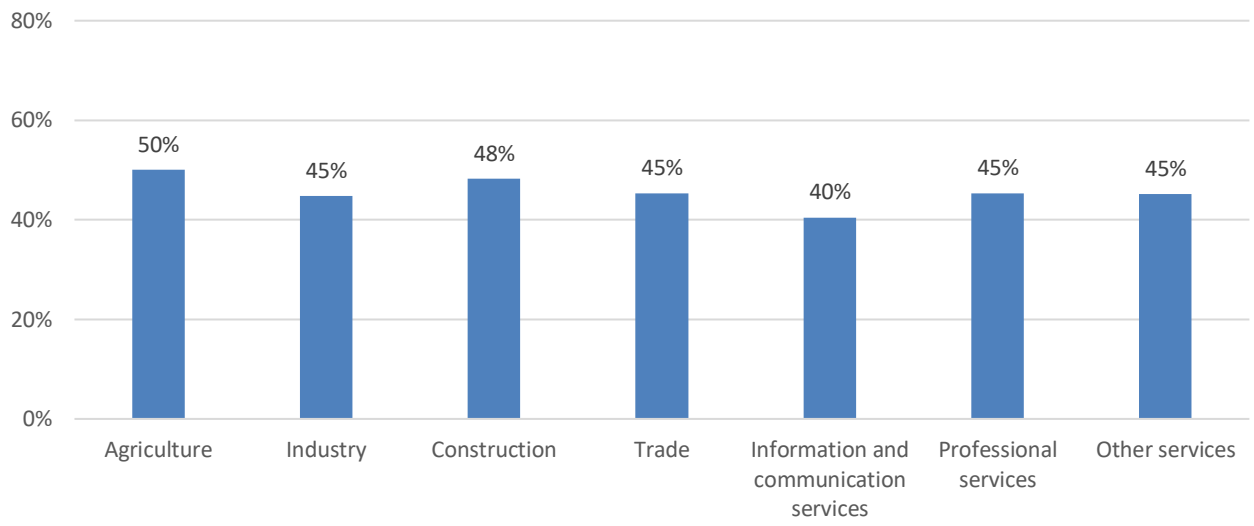
*Fig. 46. The share of businesses believing that their competitors are operating "in the shadows" (by business size), %*




***Attitude to the prevalence of the shadow economy by sector.*** For four of the seven sectors, no significant differences in estimates of business operating in the shadow were recorded by enterprises (IEs) – 45% of

respondents hold the opinion that it is so. The indicator is different for the other three sectors. The largest share of respondents considering their competitors operate in the shadow represents the agricultural sector (50%) and construction (48%**).** The least respondents expressed this opinion in the information and communication services sector (40%).

*Fig. 47. The share of businesses believing that their competitors are operating "in the shadows" (by sectors), %*




#### *4.7.2.2. Losses due to crimes*

If businesses suffer from crimes that cause them financial damage and damage to private property, it undermines their ability to operate and worsens the environment for doing business in the city. In this survey, business representatives indicated whether they suffered losses due to extortion (robbery), theft, robbery, vandalism, or arson in 2018 – 2019, and, if so, what was the number of their losses. Business representatives indicated in this survey whether they suffered losses due to extortion (blackmailing), theft, robbery, vandalism, or arson in 2018 – 2019, and, if so, what was the number of their losses.

***Losses due to crimes by type of business.*** 14% of respondents say they suffered losses due to extortion, theft, and other crimes in 2018 – 2019. These losses averaged 10.8% of their annual income. Private individuals and enterprises have suffered from crimes almost equally. Such crimes were committed against 14% of individual entrepreneurs and 15% of legal entities and as a result, individual entrepreneurs lost an average of 10.3% of income and legal entities - 11.3%.

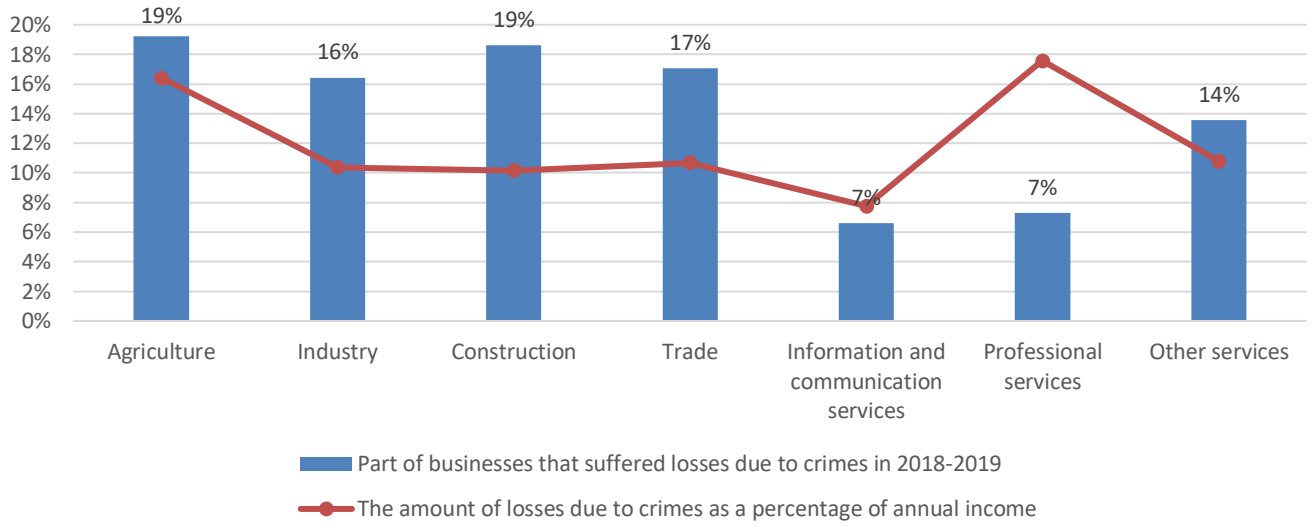
***Losses due to crimes by business size.*** Medium-sized businesses most often face theft, extortion and other crimes, such cases in 2018 – 2019 were reported by 27% of its representatives. As for businesses from other size groups (micro, small, and big) the corresponding share does not exceed 17%. However, microenterprises have suffered the most from crime in terms of financial losses. Their losses in 2018 – 2019 amounted to an average of 11.9% of annual income, while for small and medium-sized businesses these losses were lower: 7.5% and 8% of annual income, respectively[12].

***Losses due to crimes by sector.*** The services business is less likely than other sectors to report losses due to thefts, extortion, or other crimes, such as vandalism and arson, in 2018 – 2019. While for other industries the share of respondents affected by such crimes is from 16% to 19%, for the services sector excluding information and professional services it is 14%. For these two sectors (information and professional services) the corresponding figure

[12] The number of large enterprises representatives that answered this question is insufficient for statistical comparisons.

is even lower: 7% for each. However, the highest financial losses due to crimes were recorded in 2018 - 2019 in professional services and agriculture. They accounted for 17.6% of annual income for the professional services sector and 16.4% for the agricultural sector.

*Fig. 48. Share of business that reported losses due to crimes in 2018 – 2019 and the losses amount (by sector), %*

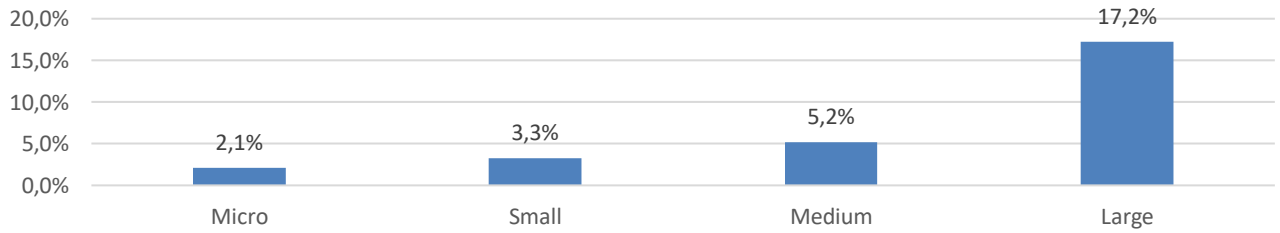



#### *4.7.2.3. Raidership prevalence*

Raidership is one of the threats to property rights protection and, consequently, doing business in Ukraine. With the help of fictitious documents, illegal court decisions, and forcible seizure, owners can be deprived of their real estate, land, or share in the business. To assess raidership prevalence owners and enterprise managers surveyed were asked whether their company had attempted raidership, i.e. illegal change of ownership or management through an especially played business conflict in 2018 – 2019.

***Raidership prevalence by type of business.*** 2.5% of respondents claim their business was attempted by a raider to seize property or change management due to a falsified conflict in 2018 – 2019. Among legal entities, this share is slightly higher: 2.6% compared to 2.2% among individual entrepreneurs.

*Fig. 49. Share of respondents who reported they had been attempted to seize or change of management due to a fictitious business conflict (by business size), %*




***Raidership prevalence by business size.*** Reports on raider attempts increase with the size of business. Such cases are reported by 2.1% of micro-business representatives, and for small and medium-sized businesses this percentage increases to 3.3% and 5.2%, respectively. This figure is a record high for large enterprises: 17.2% of them, i.e. one in six large enterprises, underwent such attempts in 2018 – 2019.

***Raidership prevalence by business sector.*** The agricultural sector suffers from raidership the most. During 2018 - 2019, 11.4% of agribusinesses faced it, while in other sectors this share does not exceed 4%.

#### *4.7.2.4. Security and business protection costs*

Due to the threat of crime, including raidership, theft, and damage to property, businesses have to take measures to protect themselves and increase the safeness of their work. These measures are accompanied by financial costs: the installation of appropriate equipment, the use of security services, protection in court, or even a fee for assistance to informal structures - the so-called "shelter". Survey participants estimated their defense costs using these and other tools in terms of their business's annual income share.

***Security and business protection costs by type of business.*** On average, businesses expended about 3% of their annual income on security. This indicator is the same for individual entrepreneurs and legal entities.

***Security and business protection costs by business size.*** The larger business, the costlier security, and protection measures are in terms of its annual income. For microbusinesses, this amount averages 2.5% of annual income, for small it increases to 3.7%, and for medium and big up to 4.4% and 4.3%, respectively.

***Security and business protection costs by business sector.*** Business protection is the least costly for the information and communication services industry, where it accounts for an average of 1.6% of entrepreneur's or firm's annual income. The largest share (3.8% of annual income) is expended on business protection by agriculture.

#### *4.7.2.5. Main outcomes briefly*

- Almost half of the business owners or managers in Ukraine believe their competitors operate in the shadow. This is more often said by agriculture representatives and less often by information technology representatives.
- 14% of business entities suffered losses in 2018 – 2019 due to extortion (blackmailing), theft, robbery, vandalism, or arson. These losses average almost 11% of annual business income.
- Losses due to extortion (blackmailing), theft, robbery, vandalism, or arson were more often mentioned by agriculture and construction representatives, and less often by information and professional services. In terms of losses, the professional services sector business (18% of annual income) and agriculture (16% of annual income) hold the lead.
- 2.5% of entrepreneurs and enterprise managers surveyed said that in 2018 – 2019, their business was subjected to raider attempts to seize property or change management due to a rigged business conflict. Such attempts are especially common for large enterprises.
- Businesses spend about 3% of their annual income on protection and security, including fees for informal protection and litigation.

## 4.8. Component 8. Leadership of Municipal Authorities

### 4.8.1. Municipalities results

According to the research, the best values of Component (sub-index) 8 *Leadership of Municipal Authorities* were awarded to Khmelnytskyi - 9.35 points. Ivano-Frankivsk (8.64 points) and Vinnytsia (8.07 points) are also among the leaders. Lviv lags behind the leaders with 6.75 points. In these cities, the authorities' positive attitude towards business, support for entrepreneurship, transparency, and public-private dialogue were best combined. At the same time, Poltava (2.75 points), Kherson (3.02), and Sievierodonetsk received the lowest values of the sub-index.

City authorities' activities analysis within the dimension *Business development support* shows that Khmelnytskyi received the most points (9.20 points). Ivano-Frankivsk (8.44), Vinnytsia (7.80), Lviv (7.68), and Ternopil (7.16) got slightly lower. At the same time, business support is worst assessed in Kherson (3 points), Sievierodonetsk (3.37), and Poltava (3.41).

Entrepreneurs from Khmelnytskyi, for instance, give the best assessments to municipal officials' attitudes to private business. 46.6% of respondents chose the answers "very good" and "good", although on the national level this indicator is only 20%. Municipal authorities' support was also highly appreciated in Ivano-Frankivsk (43.3%), Lviv (29.6%), Vinnytsia (26.3%), and Ternopil (25.6%). At the same time, in two cities less than 10% of respondents have positive assessments of municipal authorities on this indicator: Kherson (9.2%), Poltava (9.9%).

Business sentiments are similarly reflected in attitudes to business support by the municipal authorities. In Khmelnytskyi, 64.4% of respondents agree that the city authorities support the creation of new businesses. There are also many positive responses in Ivano-Frankivsk (59.2%), Vinnytsia (56.5%), Lviv (52.5%), and Ternopil (48.8%). Meanwhile, this figure is only 38.3% on the country level. In Khmelnytskyi, the largest share of respondents also agree that the city authorities support the existing business (62.9%), and this is almost twice as high as on the country level - 35.5%. Ivano-Frankivsk (53.1%), Vinnytsia (50.1%), Lviv (47%) are again among other leaders.

At the same time in Kherson, only 16.7% of respondents agree that the city authorities help to start a new business, 26.5% in Mykolaiv, and 27.7% in Poltava. Kherson also has the least trust in the government's support for existing businesses (19%). Low rates are also in Sievierodonetsk (23.1%), Sumy (26%), Mykolaiv (26.3%) and Chernivtsi (26.5%).

City councils and their executive bodies' activities analyses in terms of "hard data" demonstrate that only in some cities self-government managed to demonstrate a higher level of transparency, introduce anti-corruption measures, create platforms for communication with business, etc. The leaders are Vinnytsia, Lutsk, Lviv, and Mykolaiv, which received 9 points each. The lowest results were in Poltava, Sievierodonetsk, and Uzhhorod, which received 5 points each. Typical problems are the lack of basic anti-corruption measures, out of date technical documents on the normative monetary valuation of community land, the lack of established city borders, the lack of certain types of public information on the city council official websites and the lack of platforms for communication between authorities and business.[13]

*Public-private dialogue* dimension demonstrates in which cities entrepreneurs experience problems in communication with the authorities. Within this dimension Khmelnytskyi (9.49 points), Ivano-Frankivsk (8.85), and Vinnytsia (8.35) received the most points. These cities are significantly ahead of other cities researched, because Lviv, which is on the 4th place, received a few points less - 5.81 points. At the same time, Poltava (2.09 points), Zaporizhzhia (2.51), and Kharkiv (2.65) are in the last place.

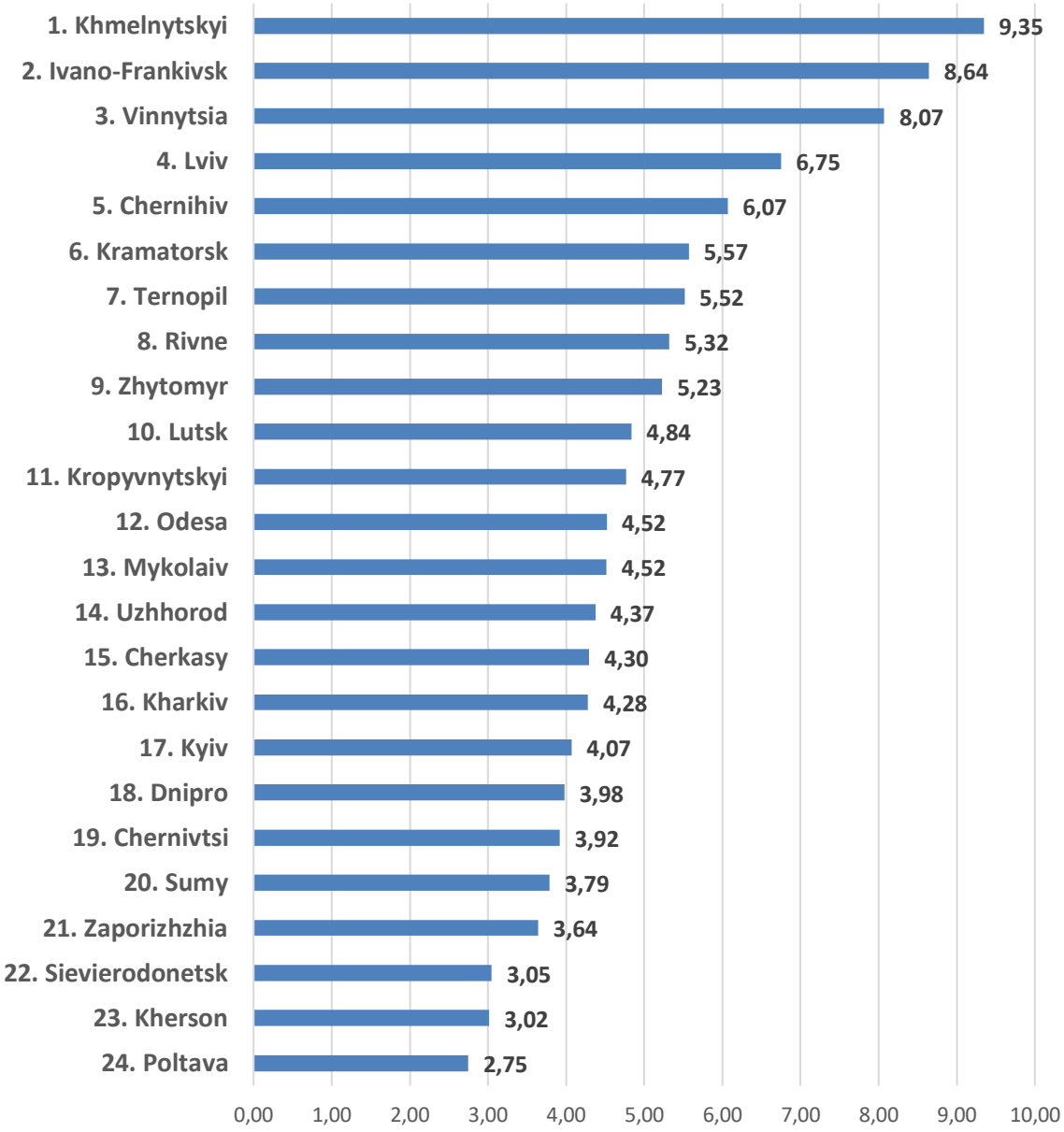
In total, only 6.5% of entrepreneurs in Ukraine believe that they have "significant" and "very significant" opportunities to participate in the development of local documents (strategies, plans, programs, etc.). However, in

[13] The data collected through desk research (statistical data collection and processing, analysis of city council official websites and documents, etc.) were used.

Ivano-Frankivsk and Khmelnytskyi this figure is almost twice as high - 13.3% and 12.1%, respectively. Meanwhile, in Zaporizhzhia this indicator is 2.6%, in Sievierodonetsk - 3.9%, in Sumy and Kharkiv - 4.1%.

At the national level, only 7.4% of entrepreneurs indicate that consulting with business is always or often conducted when adopting new or amending existing regulations that may affect business. However, in Khmelnytskyi this figure is 15.9%, in Vinnytsia - 14.1%, and in Ivano-Frankivsk - 12.3%. The least entrepreneurs indicate regular consultations with the city authorities in Poltava (only 1.9%), Kyiv (4%), and Kherson (4.7%).

*Fig. 50. Component 8. Leadership of municipal authorities: municipalities results*




### 4.8.2. Component 8 separate parts analysis

#### *4.8.2.1. Dimension 1. Business development support*

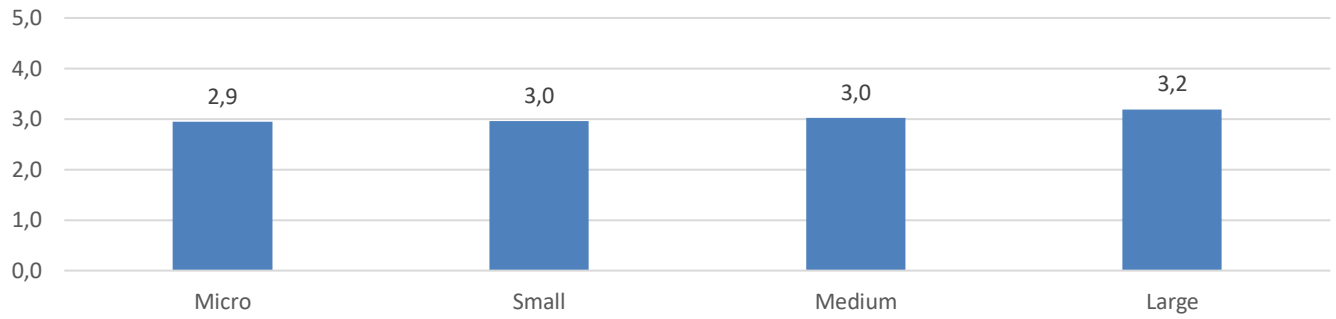
##### 4.8.2.1.1. Municipal officials' attitude to private business

Entrepreneurs and enterprise leaders who took part in the survey indicated how in their opinion city officials treated private business. They could rate from 1 to 5, where 1 indicates a very bad attitude, 2 - bad, 3 - average, 4 - good and

5 - very good. Only one in five respondents think that local authorities treat private business “good” or “very good”. The average assessment of local authorities’ attitude to business based on the answers of all respondents was 2.9 points. 10% of respondents could not assess how, in their opinion, local authorities treat business.

***Municipal officials’ attitude to private business assessments by type of business.*** Managers of enterprises registered as legal entities do not differ from IEs in assessing the authorities’ attitude to business. 20% of representatives of both business organizational forms believe that local authorities treat business “good “or “very good”. Private individuals rated the authorities’ attitude to the business at 2.9 points on average and managers of enterprises at 3 points.

*Fig. 51. Average assessment of municipal authorities’ attitude to private business (by business size), points*




***Municipal officials’ attitude to private business assessments by business size.*** 46% of large enterprise managers believe that the authorities in their city treat business well. This is higher than for all other businesses grouped by size, where the shares of those who name the authorities' attitude to business good or very good are in the range of 20% to 22%. However, none of the big business respondents gave a maximum score of five in response to this question. Therefore, the average assessment of the authorities’ attitude to business by representatives of large enterprises is 3.2 points and does not differ significantly from the assessments of micro, small, and medium-sized businesses.

***Municipal officials’ attitude to private business assessments by sector.*** While the businesses of different industries do not differ significantly in their average assessments of local authorities’ attitude, some differences are observed in certain assessments by respondents from one sector or another. Thus, the highest share of respondents who named the city authorities' attitude to business good or very good, is observed in information and communication services. Here it was 26%, while in other sectors it does not exceed 21%. In industry, on the other hand, the share of positive assessments is the lowest compared to others (18%), while the share of respondents who described the authorities’ attitude to business as bad or very bad is the highest (25%).

*Fig. 52. Average assessment of municipal authorities’ attitude to private business (by sector), points*

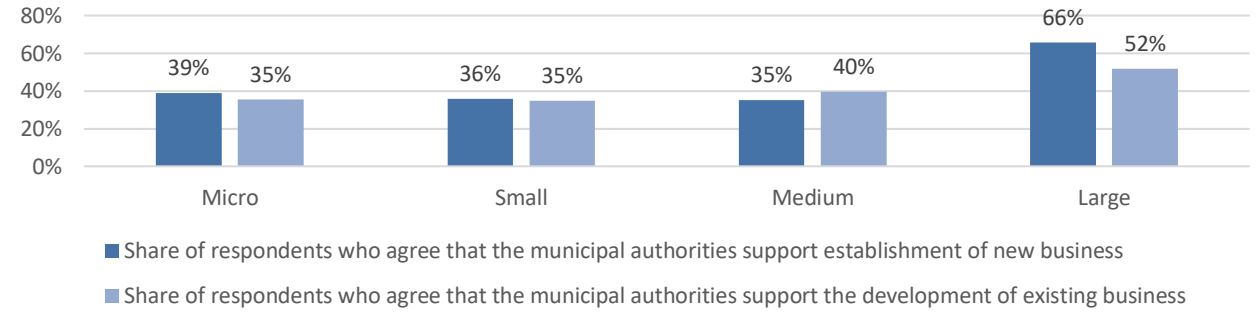
#### 4.8.2.1.2. Attitudes to the municipal authorities' support for new and existing business

Respondents were also asked whether they believe the municipal authorities' supported establishing a new business or the development of an existing one. Approximately the same share of them say that the municipal authorities support the establishment of new business (38%) and the development of the existing one (36%).

***Attitudes to the municipal authorities' support for new and existing businesses by type of business.*** Individual entrepreneurs have a slightly better opinion on business support than the managers of legal entities. 41% of IEs believe that the authorities of their city support establishing new businesses, and 38% that local authorities support the development of existing ones. These shares are 37% and 34%, respectively among enterprise managers.

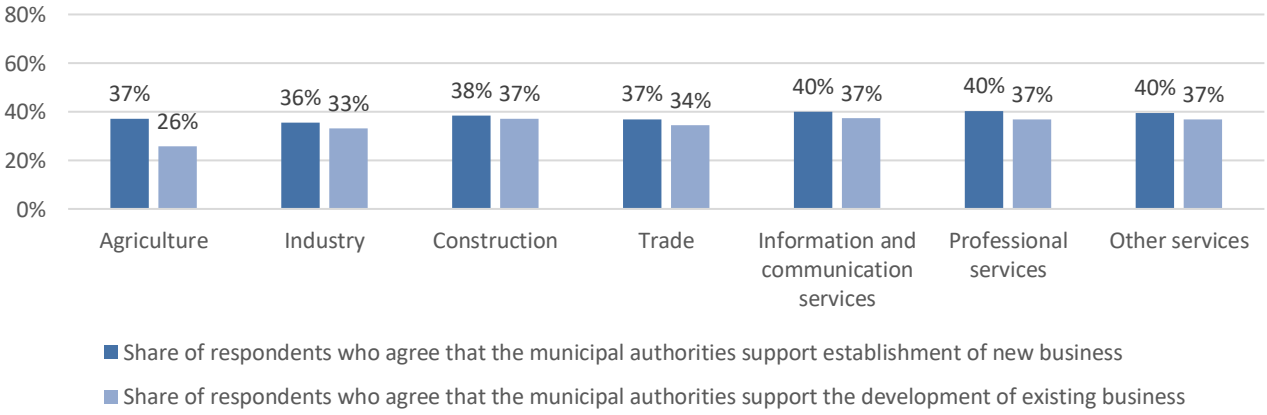
***Attitudes to the municipal authorities' support for new and existing businesses by business size.*** Large enterprises are distinguished from all the surveyed businesses by a much better opinion on the authorities' support for new and existing entrepreneurial initiatives. 66% of respondents representing these enterprises are convinced that local authorities support the establishment of new businesses, and 52% believe they support the development of existing businesses. This is a larger share than among respondents representing micro, small and medium businesses.

*Fig. 53. Share of respondents who agree that the municipal authorities support the establishment of new and development of existing business (by business size), %*




***Attitudes to the municipal authorities' support for new and existing businesses by sector.*** While enterprise managers and entrepreneurs from most sectors are similar in their assessments of government support for business, the agricultural sector is characterized by slightly worse assessments of government support for existing businesses. Only 26% of representatives of the agricultural sector agree with the statement that the authorities of their city provide such support, while among other sectors this share is from 33% to 37%.

*Fig. 54. Share of respondents who agree that the municipal authorities support establishing of new and development of existing business (by sector), %*



#### 4.8.2.1.3. Business involvement in the development of strategic documents at the municipal level

Each city develops strategic documents - plans, programs, strategies - which determine the priorities of local authorities as a whole and in separate directions. Entrepreneurs and enterprise managers interviewed indicated whether they had the opportunity to participate in the development of such documents. Only 7% of businesses believe that business representatives in their city have significant or very significant opportunities to participate in strategic documents development. 27% rated their opportunities as average, and the largest share of respondents (49%) says that the business of their city has little opportunity to be involved in strategic planning of its development or does not have such an opportunity.

***Attitudes to business involvement in the development of municipal strategic documents by type of business.*** There were no significant differences between the views of individual entrepreneurs and enterprise managers on whether they could participate in city strategic development planning. Only 6% of IEs and 7% of representatives of enterprises gave an affirmative answer.

***Attitudes to business involvement in the development of municipal strategic documents by business size.*** One in five respondents representing large enterprises said that business was involved in developing city plans and strategies. This is a much larger share than among representatives of micro, small and medium-sized businesses, where it is from 6% to 7%.

*Fig. 55. Attitudes to business involvement in the development of municipal strategic documents (programs, plans, strategies) (by business size), %*

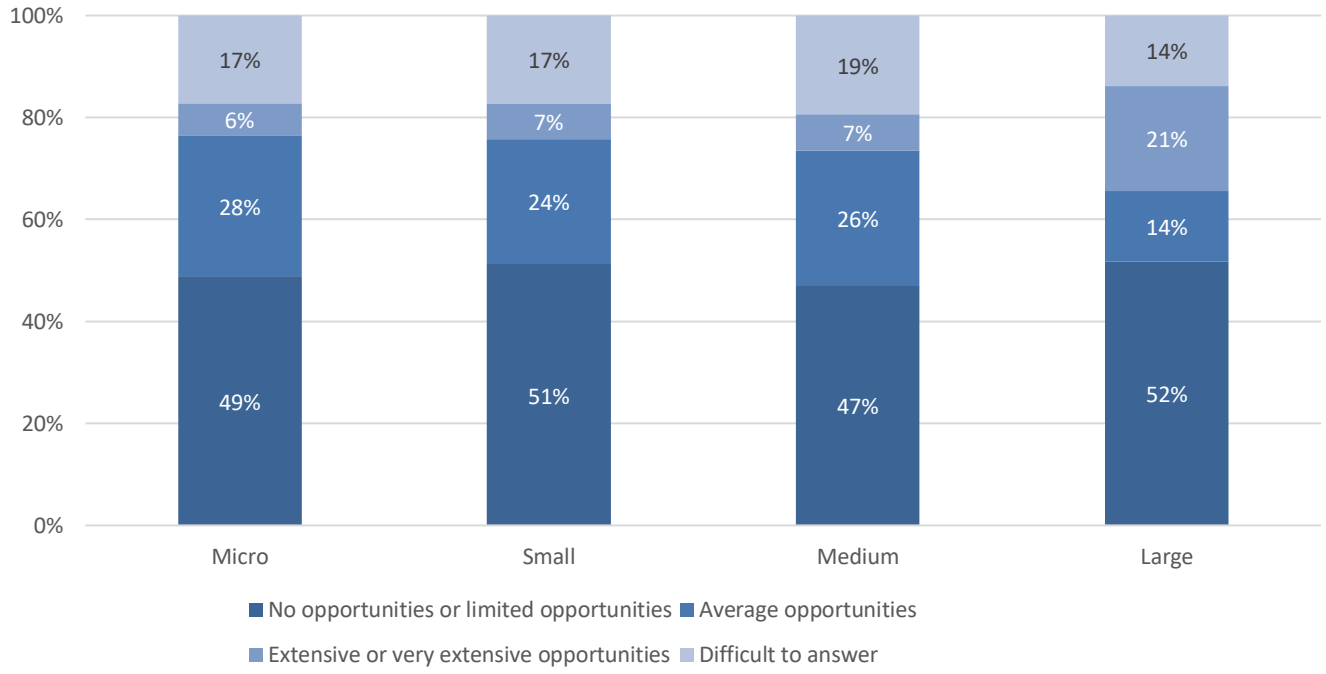
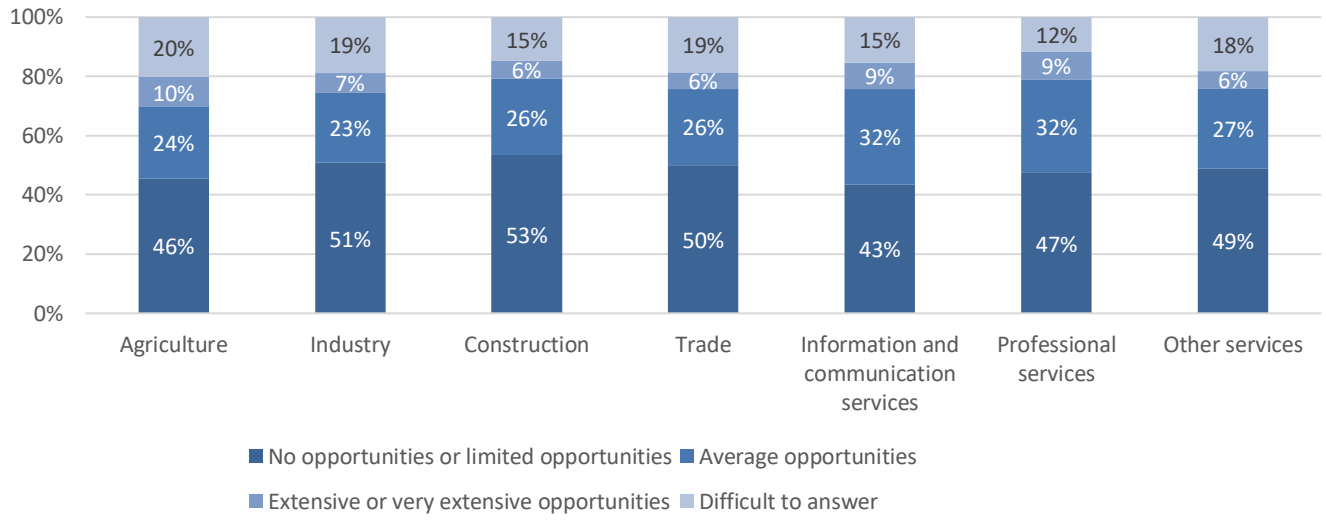


*Fig. 56. Attitudes to business involvement in the development of municipal strategic documents (programs, plans, strategies) (by sector), %*




***Attitudes to business involvement in the development of municipal strategic documents by sector.*** While in each business sector surveyed respondents rarely report that businesses in their city are involved in the development of strategic documents, in industry, construction, and trade these opportunities are assessed the worst. 50% or more of the respondents in these three sectors expressed the opinion that businesses do not have the opportunity to participate in the development of such documents or these opportunities are insignificant.

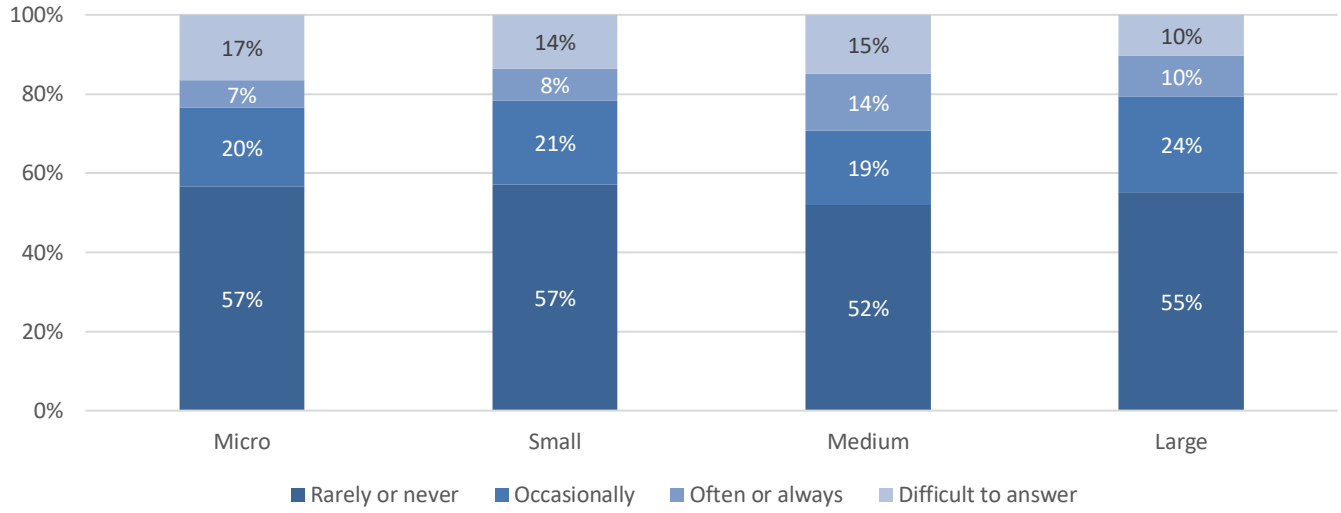
#### *4.8.2.2. Dimension 2. Public-private dialogue*

##### 4.8.2.2.1. Consultations with business when adopting regulatory acts

When adopting or amending regulations relating to doing business, public authorities should consider how these changes will affect business, in particular through dialogue and consultation with business representatives. Entrepreneurs and firm managers surveyed reported whether they observed that business was consulted when adopting new or amending existing regulatory acts that affect or may affect business. Only 7% of entrepreneurs and firm managers were able to say such business consultations take place often or always. 20% of respondents indicated that sometimes such consultations are held, but sometimes not. More than half of respondents (57%) said that businesses are not invited to such consultations or are rarely invited. The remaining 16% of business representatives did not answer this question.

***Attitudes to how often business is consulted when adopting or amending regulations by type of business. IEs*** and enterprise managers give equally low assessments of the extent to which the authorities consult with businesses when changing legislation. Only 7% of IEs and 8% of enterprise managers believe that authorities always or often conduct such consultations, while 59% of IEs and 55% of enterprise managers, on the contrary, say that such consultations do not take place at all or rarely.

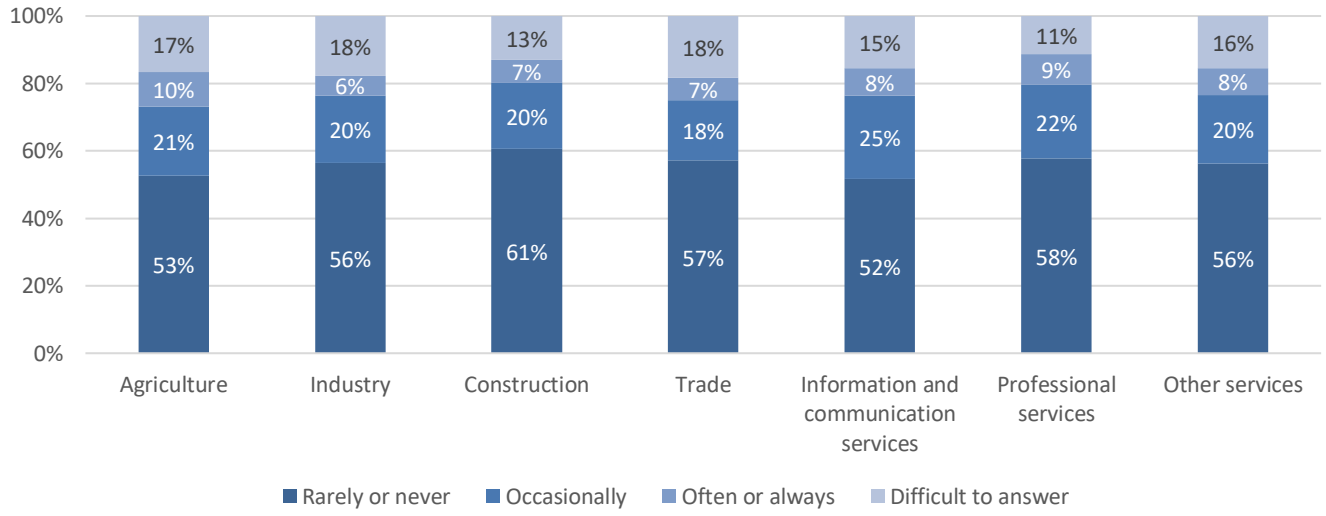
*Fig. 57. Attitudes to how often business is consulted when adopting or amending regulations (by business size), %*




***Attitudes to how often business is consulted when adopting or amending regulations by business size.*** Medium and big businesses are slightly better at assessing the involvement of businesses in consulting with the authorities than micro and small businesses. 10% of respondents representing large business and 14% of those representing medium-sized businesses said that authorities often or always consults with business while adopting or amending regulations. Small business respondents who gave such estimates accounted for 8%, and in microbusiness - 7%.

***Attitudes to how often business is consulted when adopting or amending regulations by sector.*** The construction business feels the least involved in the discussion on regulatory acts that affect its activities. 61% of entrepreneurs and enterprise managers in this industry say that authorities rarely consult or never consult with businesses when changing regulations. This is a larger share than in other sectors where the business surveyed operates.

*Fig. 58. Attitudes to how often business is consulted when adopting or amending regulations (by sector), %*




#### 4.8.2.2.2. Main outcomes briefly

- Only 20% of respondents believe that local authorities have a good attitude to business.

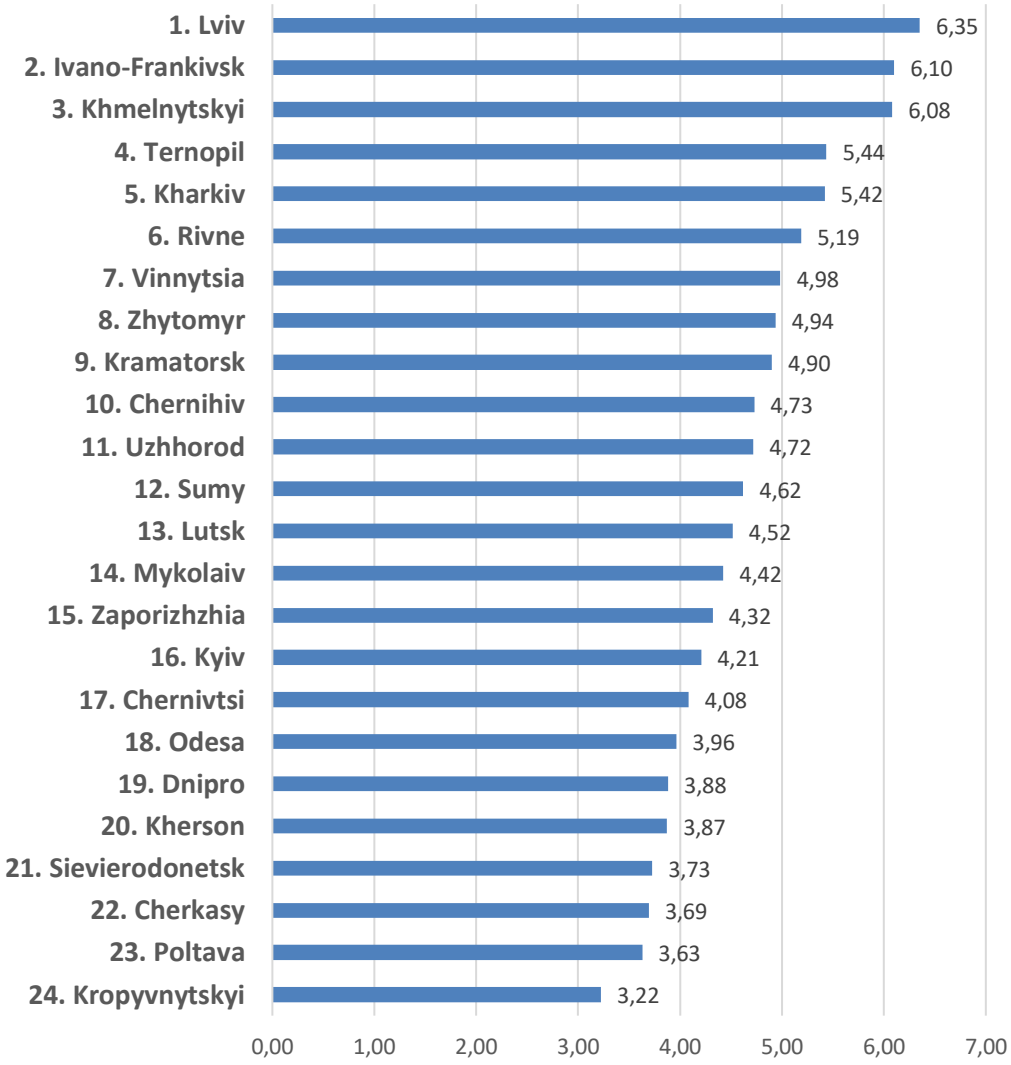
- 38% of respondents believe that their city authorities support new businesses establishing, and 36% agree that the city authorities support the development of existing businesses.
- Large enterprises estimate business support by government better than smaller businesses.
- At the same time, IEs rated the support of new and existing businesses by the authorities better than the heads of enterprises registered as legal entities.
- Almost half of the respondents believe that business in their city does not have the opportunity or has little opportunity to participate in the development of local strategic documents, such as strategies, programs, plans.
- 57% of business representatives believe that when adopting new or amending existing regulations that affect or may affect business, business consultations are not held or are rarely held.

## 4.9. Component 9. Development Resources

### 4.9.1. Municipalities results

According to the survey Lviv (6.35 points), Ivano-Frankivsk (6.10) and Khmelnytskyi (6.08) received the highest scores under Component (sub-index) 9 *Development Resources*. These cities have achieved this result due to the high scores on the three dimensions that form a single component: Human Resources, Financial and Infrastructure Resources, Business Support Infrastructure. However, in some cities, these resources development level may be insufficient, as evidenced by their low results. Kropyvnytskyi (3.22 points), Poltava (3.63), Cherkasy (3.69), Sievierodonetsk (3.73), Kherson (3.87), Dnipro (3.88) and Odesa (3.96) at the bottom of the list.

*Fig. 59. Component 9. Development Resources: municipalities results*




#### *4.9.1.1. Dimension 1. Human Resources*

Kharkiv (8.02 points) and Ivano-Frankivsk (7.70), followed by Lviv (6.85), Kramatorsk (6.60), Rivne (6.44) and Chernihiv (6.43) lead within Dimension 1 *Human Resources.* Kropyvnytskyi (3.54), Cherkasy (4.26), Kherson (4.40), and Lutsk (4.66) received the least points. Analysis of some indicators within dimension shows the quality of local labor force in Lviv (12.9%), Kharkiv (10.5%) and Zhytomyr (10.1%) is best assessed ("excellent" and "good"). At the national level, this figure is 7.6%. At the same time, Kropyvnytskyi (3.4%), Sumy (4.5%), and Uzhhorod (4.8%) are the least satisfied with the quality of the labor force. Entrepreneurs in Lviv are also most satisfied with the quality of employees' vocational education on the local labor market. Grades "excellent" and "good" were chosen by 15.4%. Also, a

relatively high share of such responses is in Ivano-Frankivsk (14.2%) and the Dnieper (13.6%). Respondents in Kropyvnytskyi (4.9%), Vinnytsia (7.2%), and Khmelnytskyi (7.5%) chose such answer options the least. In general, only 10% of respondents at the country level are satisfied with the quality of vocational education.
At the national level, 60.7% of respondents believe that insufficient training of employees is a serious challenge to doing business. Cherkasy (66.1%), Kyiv (65.9%), and Chernivtsi (65.5%) most often agree with the existence of such a challenge. The lowest indicators are in Uzhhorod (53.4%), Chernihiv (55.1%), and Ivano-Frankivsk (56.2%). Entrepreneurs also face the problem of deficit in the labor force. At the national level, 70% of respondents report this problem. The most significant deficit in the labor force is in Cherkasy (80.6%), Vinnytsia (74.3%) and Ternopil (73.8%). Kharkiv (60.2%), Sievierodonetsk (61.9%), and Odesa (64.5%) have the least of these problems.

Hard data complements the picture of labor force problems. In some cities, the aging population problem is more acute. For example, as of January 1, 2019, in Chernivtsi, the share of the working-age population (15 – 64 years) is 71.9%, Ivano-Frankivsk - 71.8%, Rivne - 71.3%. At the same time, in Kherson, this figure is only 67.7%, and in Kramatorsk - 68.4%.[14] Also, some cities have a higher demand for the labor force. At the end of 2019, for example, the most needed employees were in Lutsk (almost 12 vacancies per 100 businesses), Kropyvnytskyi (8 vacancies per 100 businesses), and Poltava (6 vacancies). The lowest needs were in Kherson, Kramatorsk, and Vinnytsia (less than 1 vacancy per 100 businesses).[15]

#### 4.9.1.2. *Dimension 2. Financial resources and infrastructure*

Khmelnytskyi with 7.59 points is the leader within Dimension 2. Khmelnytskyi is almost 3 points ahead of other cities. Ivano-Frankivsk is in second place with 4.86 points, Uzhhorod is in third place with 4.82 points, and Vinnytsia is in fourth place with 4.63 points. Poltava (2.74 points), Sumy (3 points), and Sievierodonetsk (3.2 points) are in the last place. Khmelnytskyi was able to achieve high results thanks to its leadership in entrepreneurs' surveys and high (compared to other cities) expenditures to support small and medium enterprises.

According to the survey, only 1.2% of respondents in the country received financial support from local authorities in 2018 – 2019. If we analyze separate cities, in Vinnytsia this figure is 3.4%, in Dnipro - 2.8%, in Kramatorsk - 2.1%. At the same time, in Poltava, no entrepreneur received such financial aid, and in Sumy only 0.48%.

Only 77.8% of respondents indicate that a lack of financial resources is a serious challenge to doing business. Vinnytsia (85.4%), Ternopil (82.2%), and Kropyvnytskyi (81.6%) experience this problem the most. At the same time in Kharkiv (70.3%), Uzhhorod (70.3%), and Kherson (73%) this problem is the least noticeable.

In terms of infrastructure, the entrepreneurs surveyed had a different experience in connecting to different networks (electricity, gas, water supply, and sewerage) in 2018 – 2019. In terms of cities, the duration of connection to power supply systems was compared. At the national level, this figure is almost 85 days. At the same time, it reaches 200 days in Dnipro, 165 days in Zaporizhzhia, and 137 days in Sievierodonetsk. Entrepreneurs from Uzhhorod (37 days), Chernivtsi (44 days), and Ternopil (45 days) were the least able to connect to the power grid.

Analyzing the real expenditures to support small and medium enterprises in 2019 shows that in 5 cities such expenditures were absent in the city budget (Dnipro, Kyiv, Sievierodonetsk, Uzhhorod, and Chernivtsi). Per 10,000 businesses, the highest level of expenditures is in Khmelnytskyi, it is almost UAH 1.8 million.[16] It should be noted that, in general, SME support expenditures are low or non-existent in most cities. However, higher figures may indicate a higher level of city authorities' leadership to support the business.

[14] According to the State Statistics Service of Ukraine, in particular the main departments of statistics in the regions.
[15] Sources for calculations: 1) Number of vacancies: The situation on the labor market and the results of the state employment service. Data of regional employment centers websites. 2) Number of businesses: According to the State Statistics Service of Ukraine, in particular the main departments of statistics in the regions.
[16] According to reports on the implementation of local budgets (expenditures under the program classification code 7610 - Promotion of small and medium enterprises), as well as city councils' responses of to requests for public information. For some cities, information on expenditures is clarified through telephone interviews with city council executive staff.

#### 4.9.1.3. *Dimension 3. Business support infrastructure*

Lviv with 6.35 points is the leader within Dimension 3. The city was able to take a high position due to the active participation of entrepreneurs in business associations and a developed business support infrastructure. Ivano-Frankivsk (6.10) and Khmelnytskyi (6.08) received slightly fewer points. They are leading in providing consulting services to entrepreneurs. Kropyvnytskyi (3.22), Poltava (3.63), and Cherkasy (3.69) got the least points.

According to the survey, 11% of respondents personally received business support services from the city authorities (information, consulting, training, etc.). At the same time, 15.7% of respondents received such services in Kramatorsk, 15.3% in Ivano-Frankivsk, and 15% in Khmelnytskyi. However, in Kherson and Odesa only 6.6% of companies / individual entrepreneurs got such services. In Ternopil (61.9%), Uzhhorod (59.6%), and Zhytomyr (57.8%) these services were estimated the best (with "excellent" and "good" marks), although at the country level this figure is 48.6. Meanwhile, in Kyiv, the share of such positive assessments is only 34%, in Sievierodonetsk - 36.8%, in Dnipro - 38.5%.

In general, in all cities, only 32.6% of entrepreneurs indicate the existence of business support centers in the city. The highest figures are in Vinnytsia (47.3%), Ivano-Frankivsk (41.9%), and Mykolaiv (40.8%). At the same time, the smallest share of such entrepreneurs is in Kherson (21.5%), Odesa (22.3%) and Kyiv (25.1%).

Among all respondents, 45.9% of entrepreneurs know about the activities of business associations or business clubs in their cities. Respondents in Vinnytsia (61.5%), Lviv (56.7%), and Chernivtsi (55.5%) are most aware of the existence of such entrepreneur associations. Respondents in Uzhhorod (36.2%), Kropyvnytskyi (35.9%), and Zhytomyr (36.6%) report business associations in their own city the least. Analyzing the companies and IEs participation in business associations demonstrates that for all cities in general this figure is 11.5%. In terms of cities, in Sumy (17.8%), Lviv (15.8%) and Kyiv (15%) business most often participate in business associations. Entrepreneurs from Sievierodonetsk and Kramatorsk are the least active in such business associations - only 6%.

The "hard" data additionally take into account statistics on the number of business support infrastructure facilities created with the participation of local authorities. It should be noted that in 11 cities such infrastructure facilities do not exist at all. In most cities, there are on average of 1-2 infrastructure facilities. The leader is Lviv, where there are 12 such facilities[17]. Thus, in most cities, entrepreneurs' awareness of business support centers may relate to infrastructure built with the support of donors, government agencies, etc.

### 4.9.2. Component 9 separate parts analysis

#### *4.9.2.1. Dimension 1. Human resources*

##### 4.9.2.1.1. Attitudes to labor force quality offered by the local labor market

The success of a business largely depends on its ability to attract qualified personnel. Entrepreneurs and enterprise managers surveyed assessed the quality of the labor force to which they have access to the local labor market. They put this assessment on a scale from 1 to 5. 1 meant an unsatisfactory assessment of labor force quality, 2 - satisfactory, 3 - average, 4 - good, and 5 - excellent.

Businesses generally underestimate the labor force quality in their cities. On average, entrepreneurs and company executives surveyed rated the local labor force at 2.2 points. A small share of respondents (only 8%) considers the labor force quality to be good or excellent, while 55% of respondents named the labor force quality unsatisfactory (1 point) or satisfactory (2 points). 9% of respondents did not answer this question.

***Attitudes to labor force quality by type of business.*** Both individual entrepreneurs and managers representing legal entities generally underestimate the quality of the local labor force. The average score among individual entrepreneurs is 2.3 points. Only 9% of them consider the level of the labor force in their city to be good

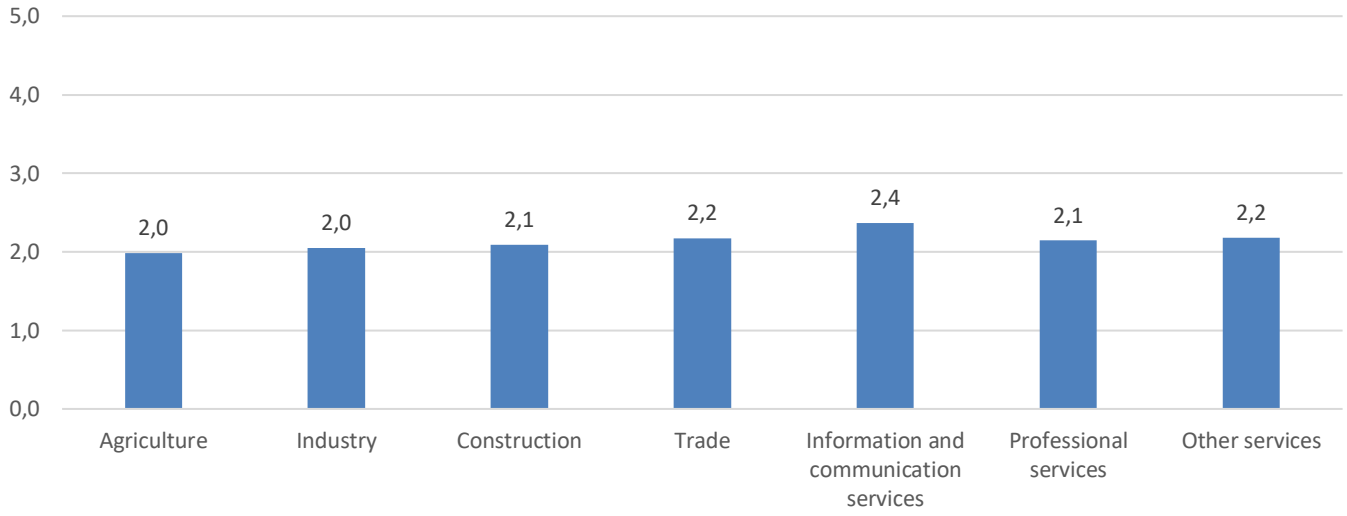
[17] Information on the number of infrastructure facilities is based on official responses from city councils. The information provided was verified by the authors of the research. More information is in the field research report.

or excellent. The share of those who consider the quality of the labor force good or excellent among enterprise managers was 7%. Enterprise managers rated it at an average of 2.1 points.

***Attitudes to labor force quality assessment by business size.*** Representatives of different sized businesses on average equally assess the quality of the local labor force: 2.1 – 2.2 points. But respondents who represent large business differ from others as they do not give good and excellent assessments. While 7% to 8% of respondents in micro-, small and medium-sized businesses gave high marks to the labor force quality in the local labor market, for big businesses the maximum score was the average, which was set by half of its representatives. The other half gave 1 or 2 points, i.e. assessed the labor force quality of as unsatisfactory or satisfactory.

***Attitudes to labor force quality by sector.*** The information and communication services differ from other sectors by slightly higher assessments of the local labor force quality. 14% of representatives in this sector consider the labor force quality good or excellent, and their average score was 2.4 points. For other sectors, the average assessment of the labor force quality in their city does not exceed 2.2 points and the share of entrepreneurs or managers who assessed the labor force good or excellent ranges from 4% to 8%.

*Fig. 60. Average assessment of the labor force quality in the local labor market (by sector), points*




#### 4.9.2.1.2. Attitudes to personnel vocational education quality

Vocational education develops personnel technical skills that are in demand in the labor market. At the same time, graduates of vocational education institutions cannot always find a job with a competitive level of wages in Ukraine, and various areas of vocational education need to be modernized and brought closer to the realities and requirements of the local labor market. Survey participants were asked to rate the quality of workers' vocational education in the local labor market on a scale from 1 to 5. 1 on this scale corresponded to unsatisfactory, 2 - satisfactory, 3 - average, 4 - good, and 5 - excellent.

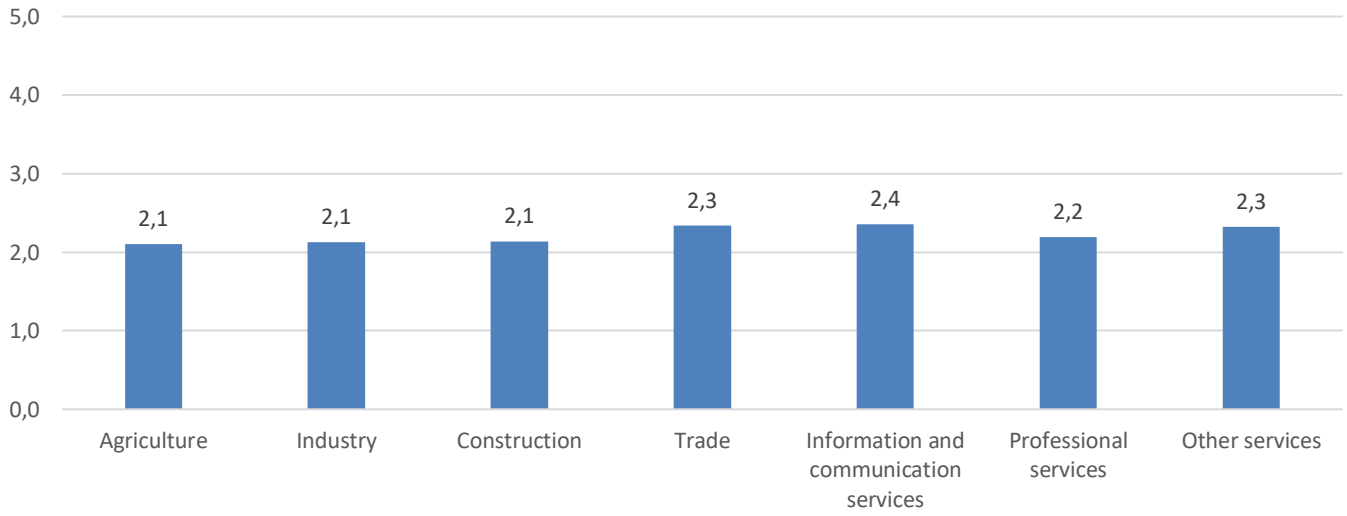
The average score given to vocational education by all respondents was 2.3 points. Only one in ten respondents consider the quality of local workers' training to be good or excellent, while 25% called it unsatisfactory. 10% of respondents could not assess the quality of vocational education.

***Attitudes to personnel vocational education quality by type of business.*** Managers of legal entities assess vocational education quality the same way as individual entrepreneurs. Only 11% of the former and 10% of the latter gave good or excellent marks, and the average assessment of vocational education quality on a scale of 1 to 5 points was 2.4 points among IEs and 2.2 points among enterprise managers.

***Attitudes to personnel vocational education quality by business size.*** Representatives of big business rated vocational education quality slightly better than respondents representing smaller businesses. 14% of large enterprise managers named the quality of this education good or excellent, while among micro-, small and medium-sized businesses this share is 7% - 10 %. The average score of vocational education quality by representatives of big business is 2.5 points and is also slightly higher than the average scores given by respondents representing all smaller business groups.

***Attitudes to personnel vocational education quality by sector.*** In the trade and services sectors, the vocational education quality at the local level is assessed somewhat better than in the industrial, construction, and agricultural sectors. The best scores are given by information and communication services, where 14% of respondents rated the vocational education quality as good or excellent, and the average score was 2.4 points. In industry, construction, and agriculture, on the other hand, the average assessment of the local personnel vocational education quality is 2.1 points, and the share of good and excellent assessments does not exceed 8%.

*Fig. 61. Average assessment of personnel vocational education in the local labor market (by sector), points*




#### 4.9.2.1.3. Insufficient training and labor shortages as barriers to doing business

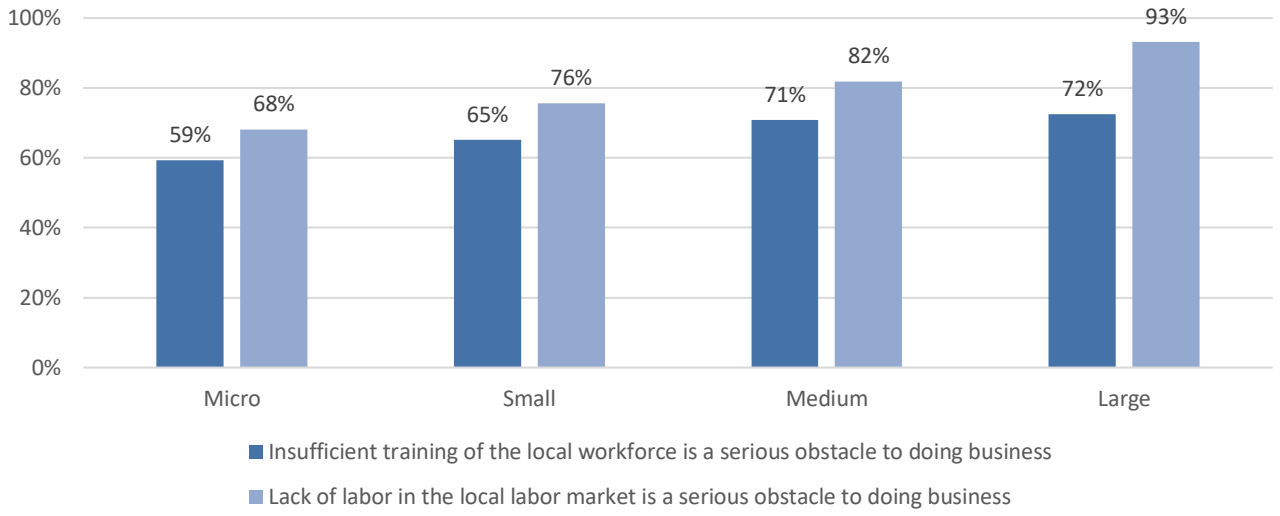
An insufficient number of employees with appropriate professional skills reduces the quality of business products and services and limits its growth. To assess the relevance of these barriers to Ukrainian business, this survey asked entrepreneurs and business leaders whether they felt that insufficient training of the local labor force and labor shortages in the local labor market were serious barriers to doing business. Both inadequate labor force training and its insufficient number were considered by most respondents as significant barriers to doing business. However, the share of respondents who indicated the negative impact of labor shortages is slightly higher than the share of those who said it was insufficient training. Thus, 61% of respondents see insufficient training of the local labor force as an obstacle, while 70% hold this opinion regarding the lack of labor force. This may indicate that other factors, such as low wages, and not just inadequate quality of education, may cause a lack of skills in the labor market.

***Attitudes to insufficient training and labor shortages as barriers to doing business by type of business.*** The problems of labor shortage and insufficient training are felt more acutely by legal entities, than by businesses owned by individual entrepreneurs. 62% of enterprise managers consider low-quality training of the labor force a significant barrier to doing business compared to 57% of individual entrepreneurs, and 72% of enterprise managers see lack of labor force as a barrier compared to 66% of individual entrepreneurs.

***Attitudes to insufficient training and labor shortages as barriers to doing business by business size.*** The larger the size of the business, the more it complains about labor shortages and lack of training.

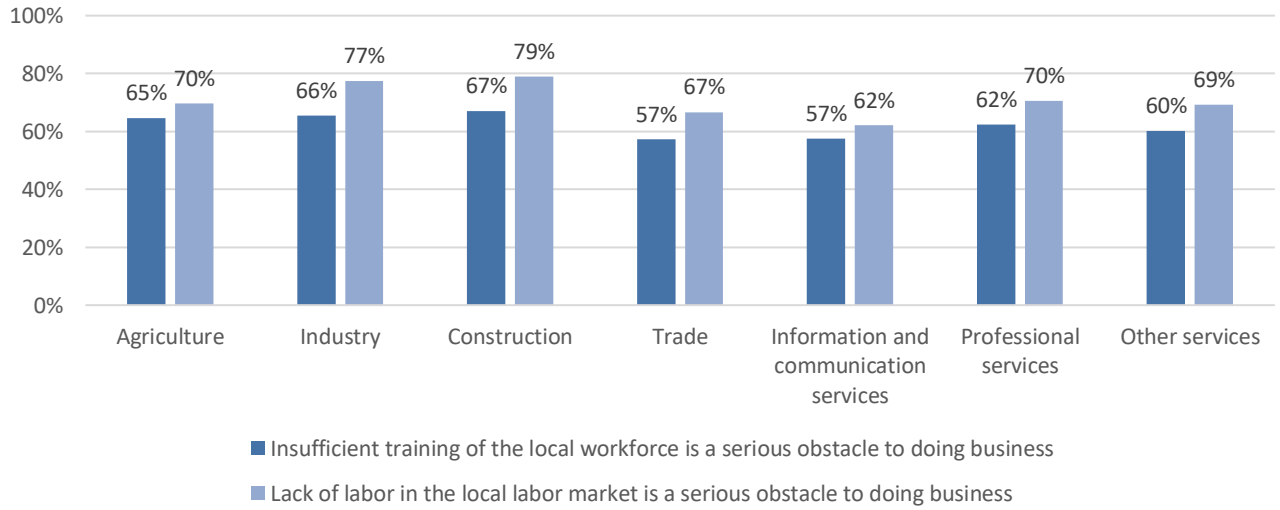
Thus, while 59% of microbusinesses call inadequate training of employees an obstacle, and 68% of them say that the lack of labor force hinders business, among respondents who represent big business, the respective shares are 72% and 93%.

*Fig. 62. Shares of respondents considering insufficient training of local labor force and labor shortage in the local labor market as a serious barrier to doing business (by business size), %*




***Attitudes to insufficient training and labor shortages as barriers to doing business by sector.*** The problem of labor shortage and skills shortage is more acute in the industrial and construction sectors than in other sectors where the business surveyed operates. Thus 79% of entrepreneurs and managers of construction and 77% of the industrial sector named labor shortages in their city a serious barrier to doing business, and 66% of the industry and 67% of construction representatives named insufficient training to be such barrier. These shares of both barriers assessments are higher than the corresponding shares in other sectors.

*Fig. 63. Shares of respondents considering insufficient training of local labor force and labor shortage in the local labor market as a serious barrier to doing business (by sector), %*



#### *4.9.2.2. Dimension 2. Financial resources and infrastructure*

##### 4.9.2.2.1. Financial support from the city authorities for doing business

One of the ways to support business at the city level is to provide financial support in the form of soft loans, compensation of interest rates on loans, etc. To assess the extent of this support, entrepreneurs and firms were asked if they received such support for doing business in 2018 – 2019. A small share of businesses answered affirmatively - only 1.2%.

***Financial support from the city authorities by type of business.*** Legal entities received financial support more often than individual entrepreneurs. The share of businesses that reported receiving such support was 1.4% among enterprises compared to 0.9% among IEs.

***Financial support from the city authorities by business size.*** As the size of the business increases, the share of respondents who report receiving loans or compensation of interest rates from the city in 2018 - 2019 is growing. This share is only 1% among micro-businesses and for small it rises slightly to 1.8%. There are 2.6% of entrepreneurs and firms representing medium businesses that received financial assistance, and for big business, this share is already 3.4%

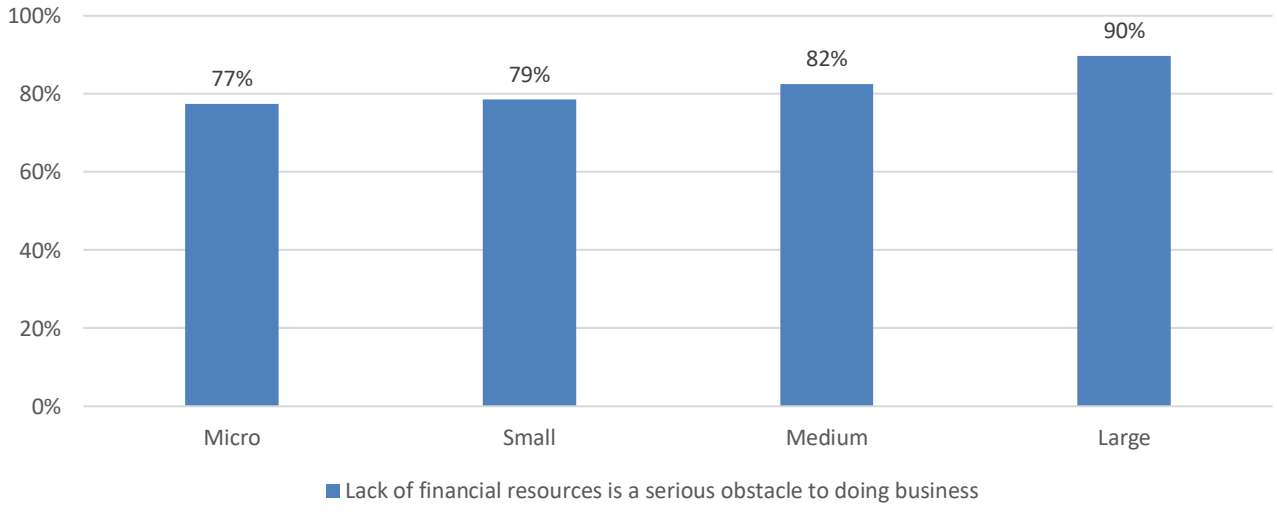
***Financial support from the city authorities by sector.*** The agricultural sector was relatively more likely than others to receive financial support from the authorities (2.5% of firms and entrepreneurs in this sector), while in trade (0.8%) and professional services (0.5%) such support was the least frequently reported.

##### 4.9.2.2.2. Lack of financial resources as a barrier to doing business

Insufficient financial resources hinder the development of business and can lead to its closure and bankruptcy. Survey participants reported whether, in their opinion, the lack of financial resources is a serious barrier to doing business. Most of them (78%) agree that this problem seriously hinders business.

***Attitudes to lack of financial resources as a barrier to doing business by type of business.*** 78% of respondents among both groups of businesses surveyed in terms of the form of registration (individual entrepreneurs and enterprises) consider insufficient financial resources as a serious barrier to doing business.

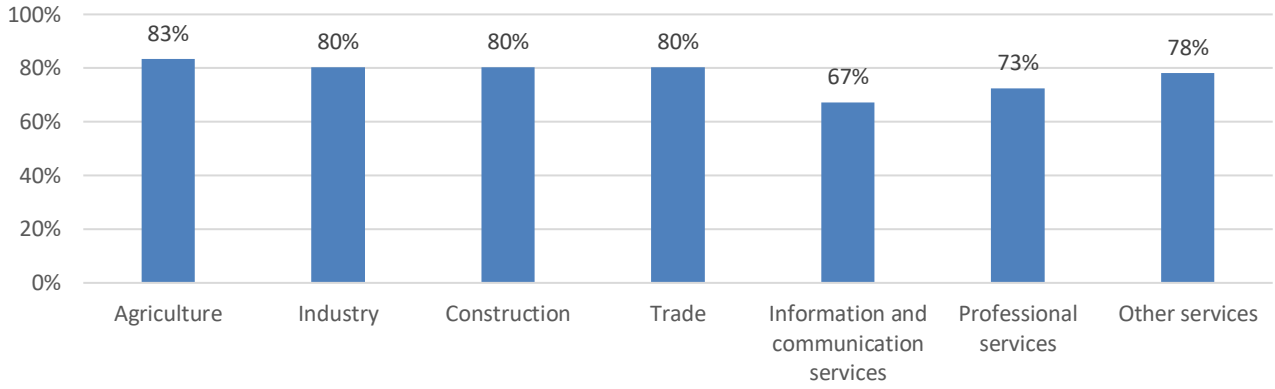
*Fig. 64. Share of respondents who consider the lack of financial resources as a serious barrier to doing business (by business size), %*




***Attitudes to lack of financial resources as a barrier to doing business by business size.*** The larger the size of the business, the greater is the share of its representatives who consider the lack of financial resources to be a serious obstacle to doing business. For micro-business, this share was 77% and 90% for big business.

***Attitudes to lack of financial resources as a barrier to doing business by sector.*** The information and communication services sector differs from others by a relatively low share of respondents who consider the lack of financial resources a serious obstacle to doing business. Here, such entrepreneurs and firms account for 67%, while in other sectors their share ranges from 73% to 83%.

*Fig. 65. Share of respondents who consider the lack of financial resources as a serious barrier to doing business (by sector), %*



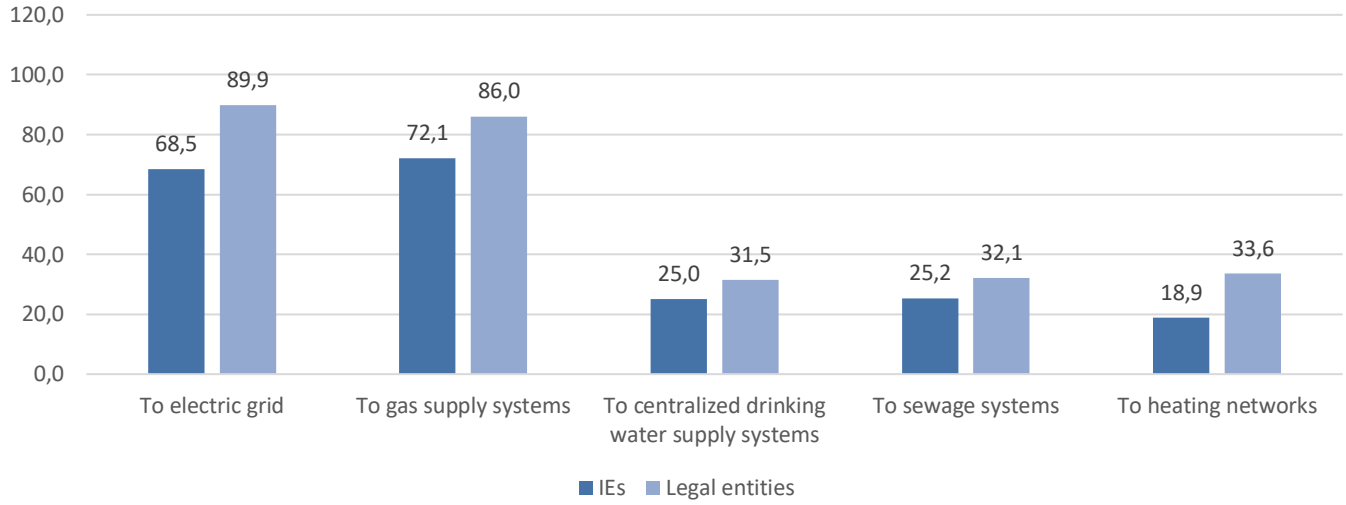

#### 4.9.2.2.3. Duration of facilities connection to the city infrastructure

If it takes a long time for businesses to connect to municipal infrastructure systems and networks, such as electricity, gas, drinking water, sewerage systems, and heating networks, it delays business start-ups, impedes business planning, and leads to financial losses. To determine how long companies and entrepreneurs have to wait for their facilities to be connected to the city's infrastructure, they were asked how long it took them to connect to such infrastructure, (from the date of application to the date of actual connection). And to make the estimates as relevant as possible, this question was asked only to companies and entrepreneurs who joined the infrastructure during 2018 – 2019.

13% of respondents indicated that they connected their business to one or another infrastructure in 2018 – 2019. On average, they spent about a month connecting to centralized drinking water supply systems (29.6 days), to sewerage systems (30.3 days), and heating networks (31 days). Much more time was spent on connection to electricity supply systems (84.5 days on average) and gas supply systems (83.2 days).

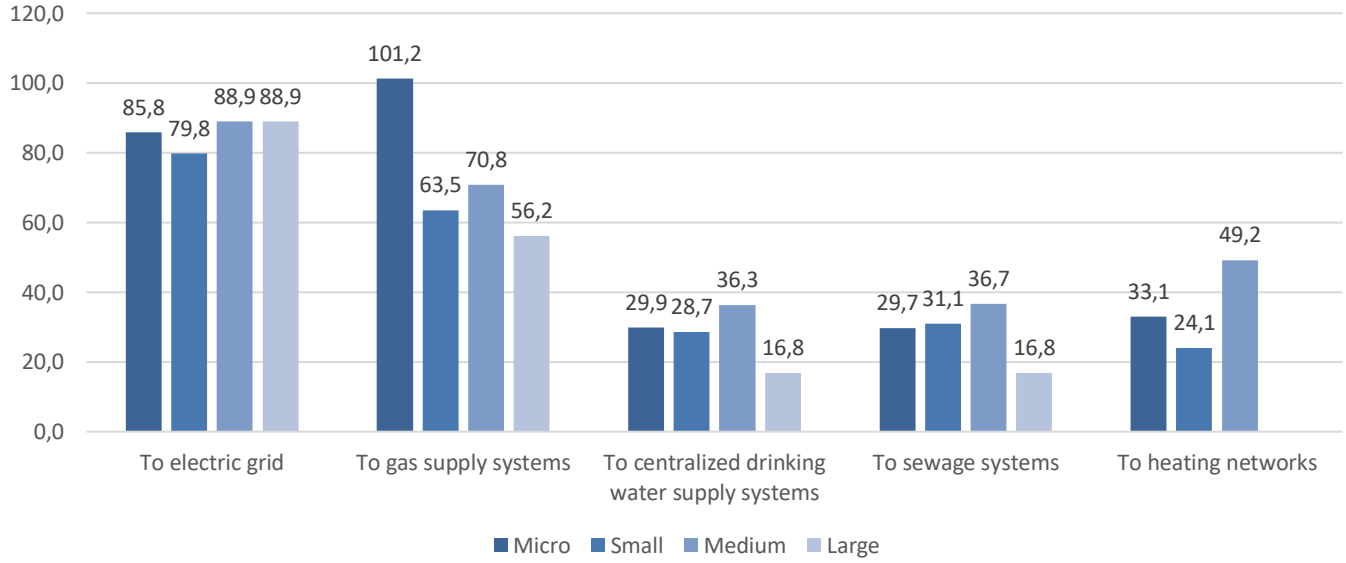
***Duration of facilities connection to the city infrastructure by type of business.*** In 2018 - 2019 legal entities joined the systems and networks of municipal infrastructure more often than individual entrepreneurs. This was reported by 15% of enterprises compared to 9% of IEs. Connection to all networks and infrastructure systems took on average more time from legal entities than from individual entrepreneurs. This is especially noticeable in the case of connection to electricity supply systems on which enterprises spent on average of almost 90 days, and connection to gas supply systems, which took them on average of 86 days. IEs spent an average of 68.5 days to connect to electricity supply and 72.1 days to connect to gas supply in the city.

*Fig. 66. The average duration of connection to the city infrastructure (by type of business), days*




***Duration of facilities connection to the city infrastructure by business size.*** Medium and big businesses were more likely to join municipal infrastructure systems and networks in 2018 – 2019 than micro- and small businesses. The share of medium-sized business firms and entrepreneurs that connected to infrastructure in the two years preceding the survey was 31%, and 29% of big ones. For small businesses, this share is 21%, and for micro-business - only 10%. While there were no significant differences between different sized businesses in the amount of time spent connecting to electricity systems, connecting to water supply, sewerage, and heating systems takes more time from medium-sized businesses than from other businesses grouped by size. And in the case of connection to gas supply systems, microenterprises are distinguished among others as this procedure takes on average of more than 100 days from them, while for small, medium, and big businesses this figure is from 56 to 71 days.

*Fig. 67. The average duration of connection to the city infrastructure (by business size), days*

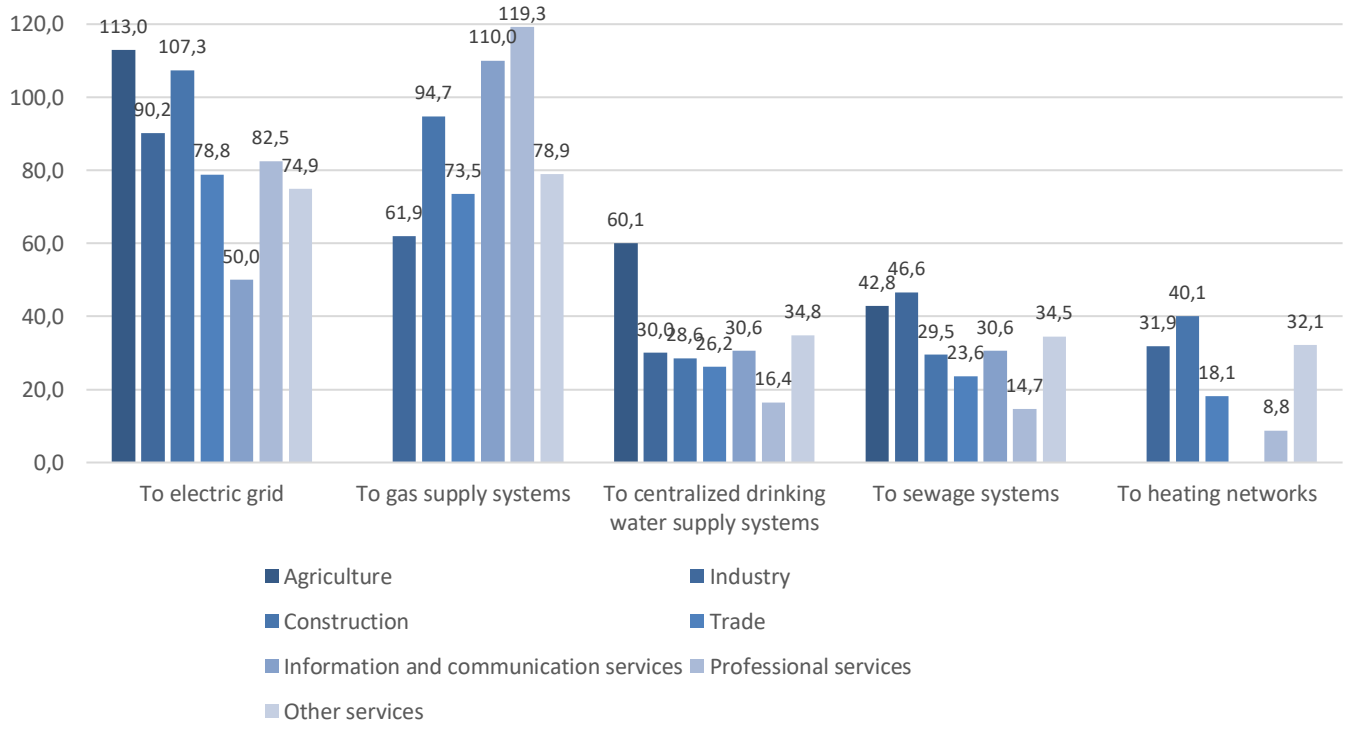



***Duration of facilities connection to the city infrastructure by business sector.*** In 2018 – 2019 the construction business most often joined the municipal infrastructure systems and networks (26%). For the industry, this share was 17%, and for agriculture - 14%. In services excluding information and professional services, this figure

is 11%, while for two types of services mentioned above it is significantly lower. Only 4% of respondents in information and 7% in professional services reported they connected their business facilities to the city infrastructure in 2018 – 2019.

Agriculture and construction spend more time connecting the electricity grid than other sectors. In both of these sectors, the average time to connect to the grid was more than 100 days. Representatives of the information and communication services sector spent relatively less time - 50 days on average. In the case of joining the gas supply, the situation is the opposite: in information and professional services the longest terms of this procedure are reported (more than 100 days on average). It lasted the fastest for industry sector: here the connection to gas supply systems lasted on average of almost 62 days. The agricultural sector differs from others by longer terms of connection to centralized drinking supply systems. While for almost all other sectors this connection took about a month, in agriculture it took more than two months (on average of 60.1 days).

*Fig. 68. The average duration of connection to the city infrastructure (by sector), days*




#### *4.9.2.3. Dimension 3. Business support infrastructure*

##### 4.9.2.3.1. Consultations and business support by the municipal authorities

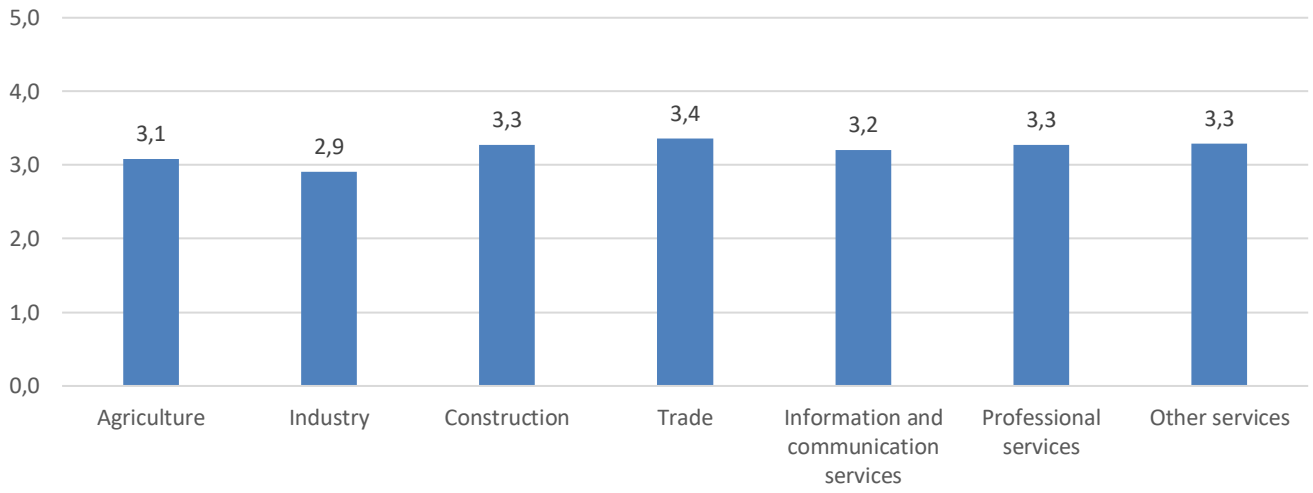
Another way how city authorities can help businesses is the provision of services such as training, consulting, information support. In 2018 – 2019, 11% of companies and entrepreneurs surveyed received such services from the municipal authorities. On average, they rated them on 3.2 points on a scale from 1 to 5, where 1 corresponds to an unsatisfactory assessment, 2 - satisfactory, 3 - average, 4 - good, and 5 - excellent. At the same time, almost half of the respondents (49%) considered the quality of these services good or excellent.

***Consultations and business support by the municipal authorities by type of business.*** 9% of individual entrepreneurs and 12% of legal entities indicated that they received business support services from the city authorities in 2018 – 2019. They rated them almost the same (SPs on average by 3.3 points, and enterprises by 3.2). But a slightly higher share of respondents among IEs than among enterprises gave the quality of services maximum scores (good and excellent): 53%. For enterprises, this share is 47%.

***Consultations and business support by the municipal authorities by business size.*** The largest share of firms and entrepreneurs that received business support services from the authorities of their city in 2018 – 2019 was recorded in medium-sized business: 20%. It is the lowest among microbusinesses, where such firms and entrepreneurs accounted for 10%. Although firms and entrepreneurs of different sizes do not differ significantly in the average quality scores of these services (they range from 3.1 to 3.3 points), there is a significant difference between them in the share of positive ratings. Thus, the good and excellent quality of the city authorities' services is often reported in micro-business: here the corresponding share was 50%. And among the representatives of big enterprises, only 25% made good assessments and is the lowest compared to other categories of business grouped by size.

***Consultations and business support by the municipal authorities by sector.*** Agriculture and construction businesses are more likely than other sectors to report they have received advice and other services from the city authorities. The least frequent receipt of such services is reported in information and communication services (7% of respondents). In construction, as well as in trade, there are the largest shares of respondents who rated the quality of such services good or excellently. In construction, this share was 53%, and in trade, it was 52%. But average assessments of service quality in these sectors are virtually indistinguishable from others. On the other hand, the lowest share of respondents who gave positive assessments to the quality of business support services by the city authorities (28%), as well as the lowest average score (2.9) were recorded in the industry.

*Fig. 69. The average assessment of the quality of business support services received from the city authorities (by sector), points*




#### 4.9.2.3.2. Business support centers activities

The city authorities can establish business support centers - institutions or departments that will provide advice to entrepreneurs. Besides, in 2016 – 2020, with the support of the European Bank for Reconstruction and Development (EBRD), business support centers were established in some regional centers to provide entrepreneurs with information on participation in European business development programs and assisting them with advice.

Survey participants reported whether there was a business support center in their city. The results of the survey show that entrepreneurs and enterprise managers are not sufficiently informed about the activities of such centers: 52% of respondents could not answer this question. 33% of respondents gave an affirmative answer.

***Awareness of business support centers by type of business.*** The share of respondents who reported that their city has a business support center is almost the same among IEs and enterprise managers working as legal entities: 32% and 33%, respectively. The percentage of respondents who did not know whether there is such a center

in their city is also similar in these two categories of business surveyed: it is 50% of IEs and 53% of enterprise managers.

***Awareness of business support centers by business size.*** The share of respondents who reported that their city has a business support center does not differ significantly among the surveyed businesses of different sizes and ranges from 31% (small and big businesses) to 37% (medium-sized businesses). The shares of entrepreneurs and enterprise managers who do not know if there is a business support center in their city are also similar in different businesses grouped by size: from 50% to 55%.

***Awareness of business support centers by sector.*** When comparing the answers to this question in terms of the sector the smallest share of respondents who said that their city has a business support center was recorded in agriculture (28%). The largest share of respondents who confirmed the existence of such a center in their city is in professional services (37%). Despite this difference in response, representatives of these two sectors are best informed about the activities of business support centers. 47% of respondents in professional services and 49% in agribusiness could not answer this question, and this is less than in other sectors where the business surveyed operates.

#### 4.9.2.3.3. Business associations activities and membership in them

Business communities, also known as business unions or business associations, are voluntary organizations in which firms and entrepreneurs participate. They help businesses to protect their rights and represent their interests in dialogue with the authorities, as well as provide information, consulting, and other services. Previous IER studies show that micro- and small businesses, which are most represented in Ukraine, are the least involved in the activities of such associations[18]. Also, according to IER research, the need for Ukrainian entrepreneurs and firms to defend their interests and protect their rights is greater than the willingness of business associations to provide such services. In this survey entrepreneurs and business leaders were asked whether they knew about the activities of business associations in their city, as well as whether they belonged to any business association. 46% of respondents said they knew about business communities such as business associations and business clubs in their city, and 11% said they belonged to at least one of them.

***Awareness of the business associations activities and membership by type of business.*** Managers of enterprises registered as legal entities showed slightly greater awareness of the activities of business associations or other business communities in their city than individual entrepreneurs: the share of respondents who know about such associations was 49% among them, while it was 40% among IEs. The share of enterprises belonging to at least one business association is twice bigger than the corresponding share of SPs: 14% of enterprises compared to 7% of IEs.

***Awareness of the business associations' activities and membership by business size.*** The larger the size of the surveyed business, the greater is the share of its representatives who are aware of the business associations activities in their city and are themselves involved in such associations. This confirms the results of previous IER studies, according to which membership in business associations in Ukraine increases with the size of business. Thus, the smallest share of entrepreneurs and enterprise managers who know about the business associations activities in their city (45%), as well as the smallest share of business belonging to business associations (9%) was recorded among microenterprises. These shares are gradually growing for small and medium-sized businesses and are largest for big ones, where 66% of respondents said they knew about the city's business associations and 50% said their business belongs to at least one such association.

[18] Fedets I., Participation of entrepreneurs in business associations as a tool to protect their rights. Analytical and consulting work. Institute for Economic Research and Policy Consulting, Kyiv, 2019 https://bit.ly/2U43ioZ

***Awareness of the business associations activities and membership by sector.*** Businesses operating in the information and professional services are best informed about business associations activities in their cities. More than half of respondents in each of these sectors said they knew about such associations. The largest shares of businesses participating in the activities of such associations are in professional services (18%) and industry (17%). Meanwhile, the smallest shares of both respondents who are aware of business associations activities and businesses involved in such activities are observed in the trade sector (41% and 7%, respectively).

*Fig. 70. Awareness of the business associations activities and membership (by business size), %*

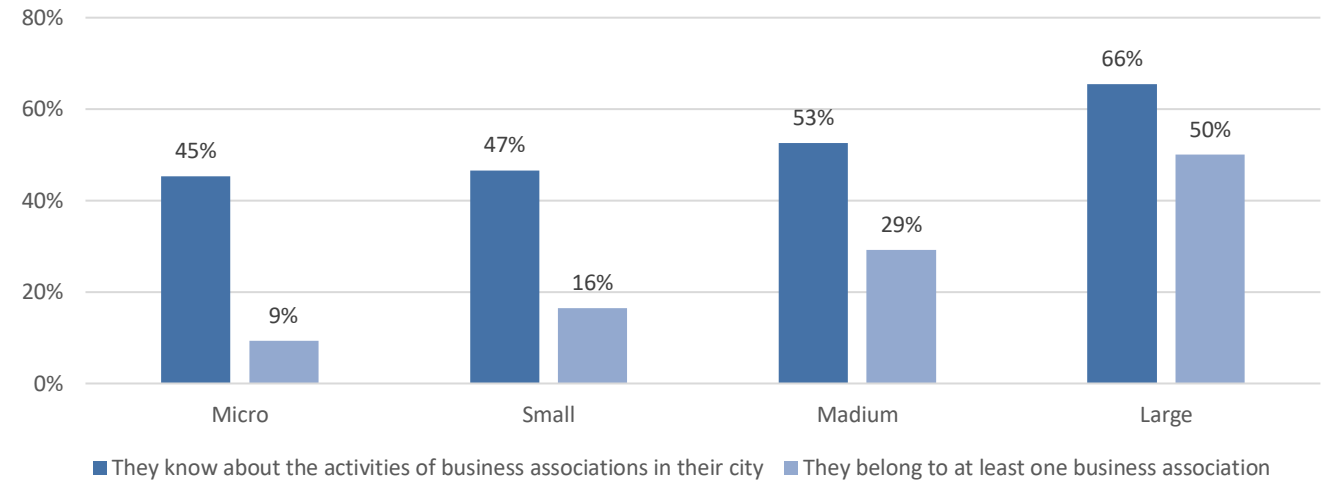
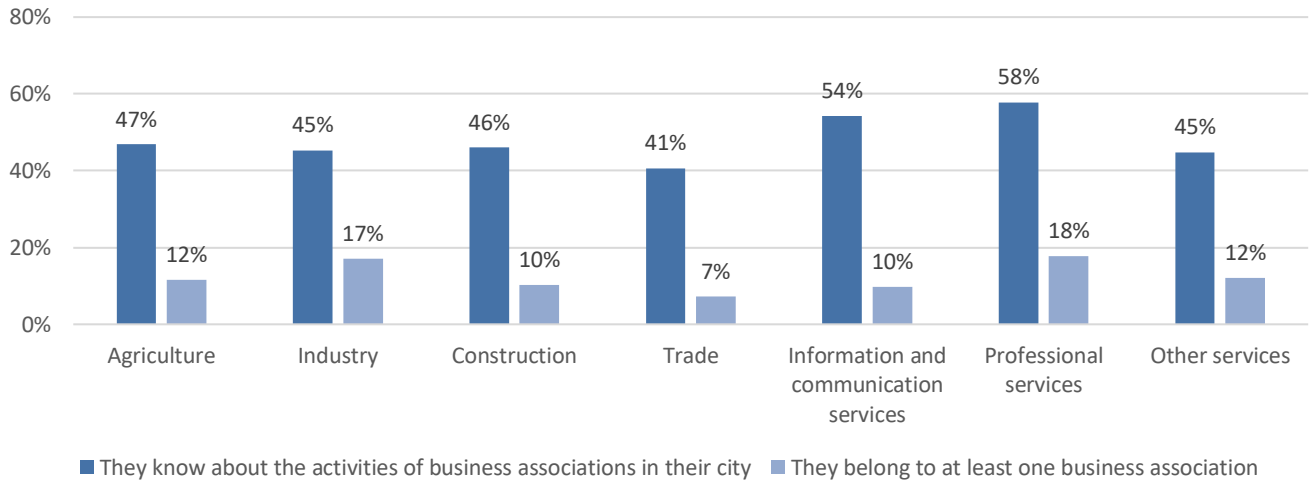



*Fig. 71. Awareness of the business associations activities and membership (by sector), %*




#### 4.9.2.3.4. Main outcomes briefly

- Only 8% of businesses described the labor force quality at the local labor market as good or excellent. One in three respondents considers it unsatisfactory.
- Only 10% of respondents consider the quality of vocational education of local workers to be good or excellent, while 25% consider it unsatisfactory.
- In trade and services, the quality of personnel vocational education is assessed slightly better than in industry, construction, and agriculture.
- Labor shortage at the local labor market is a serious barrier to doing business according to 70% of respondents, and insufficient training of local labor force – according to 61%.

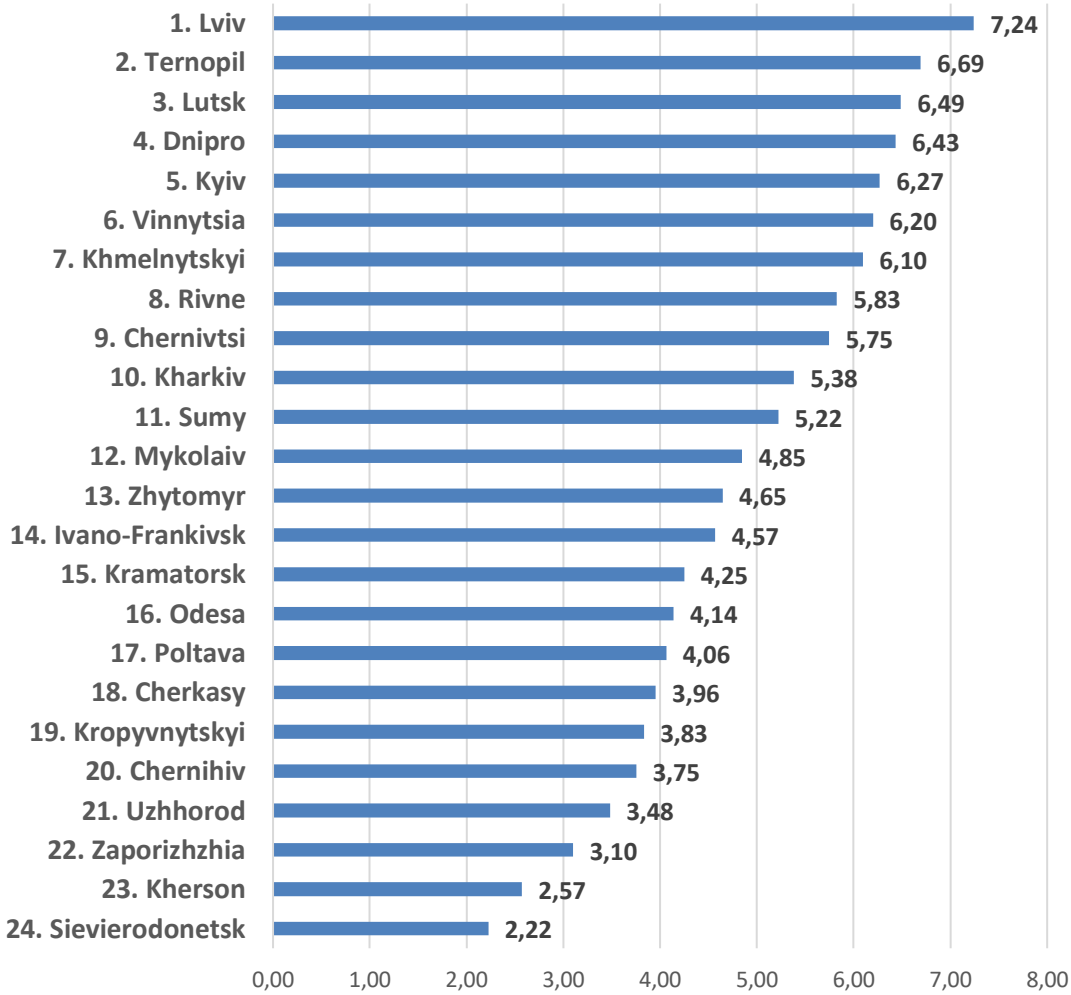
- 1.2% of firms and entrepreneurs received soft loans or other financial support from the city authorities to do business in 2018 – 2019.
- 78% of respondents consider the lack of financial resources a serious barrier to doing business.
- Connection of business facilities to centralized water supply and sewerage systems, as well as to heating networks takes on average about 30 days, while connection to electricity and gas supply systems takes on average almost 85 days.
- 11% of enterprises and individual entrepreneurs received business support services from the city authorities in 2018 – 2019. They rated them on average of 3.2 points on a scale of 1 to 5.
- 33% of respondents said that there was a business support center in their city, while 52% did not know if there was such a center in their city.
- 46% of entrepreneurs and enterprise managers are aware of business associations and other business community activities in their city, and 11% of businesses surveyed belong to such associations. Both awareness and membership in business associations grow as the size of the business increases.

## 4.10. Component 10. Support of Innovations

### 4.10.1. Municipalities results

According to the research, the highest score of Component (sub-index) 10 *Support of innovations* was received by Lviv - 7.24 points. A group of cities, including Ternopil (6.69), Lutsk (6.49), Dnipro (6.43), Kyiv (6.27), and Vinnytsia (6.20) also received high marks. The place at the top of the list was provided by a combination of business cooperation with research institutions, a higher level of innovation, and a high level of satisfaction with technology transfer. Besides that, the municipal authorities better support local innovation programs and entrepreneurs participate in clusters created by the municipal authorities. In contrast, cities such as Kherson and Sievierodonetsk received only 2.57 and 2.22 points, respectively. Entrepreneurs in Sievierodonetsk and Kherson, for instance, are introducing less innovation and less satisfied with local government support for innovative programs and technology transfer.

*Fig. 72. Component 10. Support of innovations: municipalities results*




18.9% of respondents reported that in 2018 – 2019 their business interacted with research institutions or technology companies. The highest rate of such cooperation is in Kyiv 24.8%. A high level of cooperation between business and research institutions is also recorded in Poltava (23.1%), Sumy (23%), Zhytomyr (22.9%), and Ternopil (22.8%). At the same time, such cooperation was least widespread in Chernihiv (only 11% of respondents reported it), Uzhhorod (12.3%), and Ivano-Frankivsk (13.4%).

The indicator of implementing innovations analysis shows that most often in 2018 – 2019 new technologies, solutions, or products were introduced in Kyiv (50.2%), Ternopil (47.5%), Lutsk (47%), Sumy (45.9%) and Chernivtsi

(44.5%). In general, at the country level, this figure is 40.2%. The least innovation was implemented in Sievierodonetsk (only 33.1% of respondents said that) in Zaporizhzhia (33.7%) and Kherson (35.6%).
On average, the entrepreneurs surveyed estimate local authorities' support for local innovation programs (funding from the local budget) at 1.92 points out of 5. The highest scores were received by the city authorities of Khmelnytskyi (2.34 points). Ivano-Frankivsk (2.33 points), Lviv (2.24 points), Vinnytsia (2.21 points), and Ternopil (2.16 points) are also among the leaders. At the same time, Kherson (1.62 points), Zaporizhzhia (1.65), Sievierodonetsk (1.66), Cherkasy (1.72), Sumy (1.75), and Mykolaiv (1.75) received the lowest scores.
According to the survey, the best business needs in technology transfer (transfer of patents for inventions, etc.) are provided in Dnipro. There, 12.2% of respondents reported that their needs were "largely met" and "fully met" (8% at the national level). The needs of entrepreneurs of Rivne (11.2%) and Khmelnytskyi (10.8%) are also relatively highly met. At the same time, the worst needs for technology transfer are met in Sievierodonetsk (the needs of only 5.1% of respondents are largely or completely satisfied), Kherson (6%), Zhytomyr (6.2%) and Sumy (6.3%).
Only 2.1% of companies / individual entrepreneurs reported being members of clusters created with the initiative or support of the city government. The highest participation rate in clusters is in Lviv (5.6%). Vinnytsia (4.4%), Chernivtsi (3.8%) and Lutsk (3.7%) are also leading. The least participants of clusters are in Kherson and Zaporizhzhia (0.5%), Kropyvnytskyi, Odesa, and Ternopil (0.9%).

### 4.10.2. Component 10 separate parts analysis

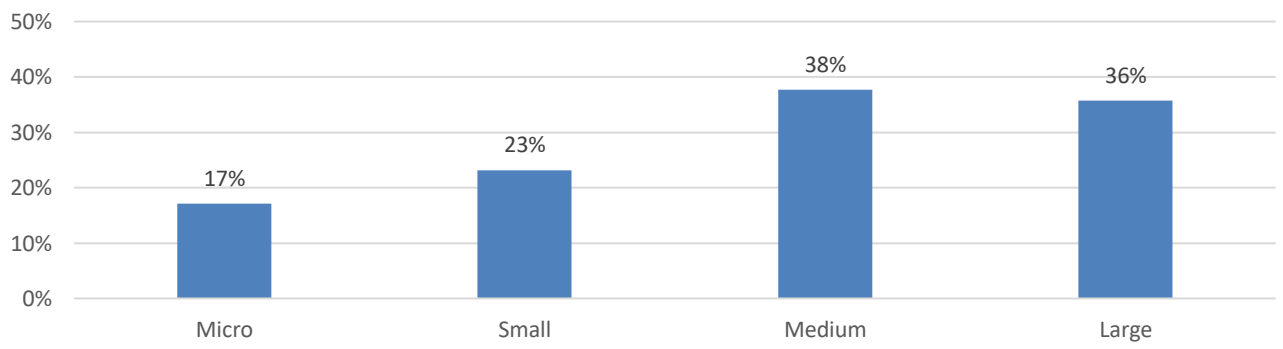
#### *4.10.2.1. Cooperation with scientific institutions or technology companies for business development*

Interaction with research institutions or other businesses working in the technology sector allows entrepreneurs and firms to develop and master new technologies and implement innovations that increase their competitiveness. 19% of firms and entrepreneurs indicated that in 2018 – 2019 they cooperated with research institutions or technology companies to develop their business.

***Cooperation with research institutions or technology companies by type of business.*** Legal entities tend to cooperate with research organizations more than individual entrepreneurs. 22% of enterprise managers reported cooperation with research institutions or technology companies in 2018 - 2019 compared to 13% of individual entrepreneurs.

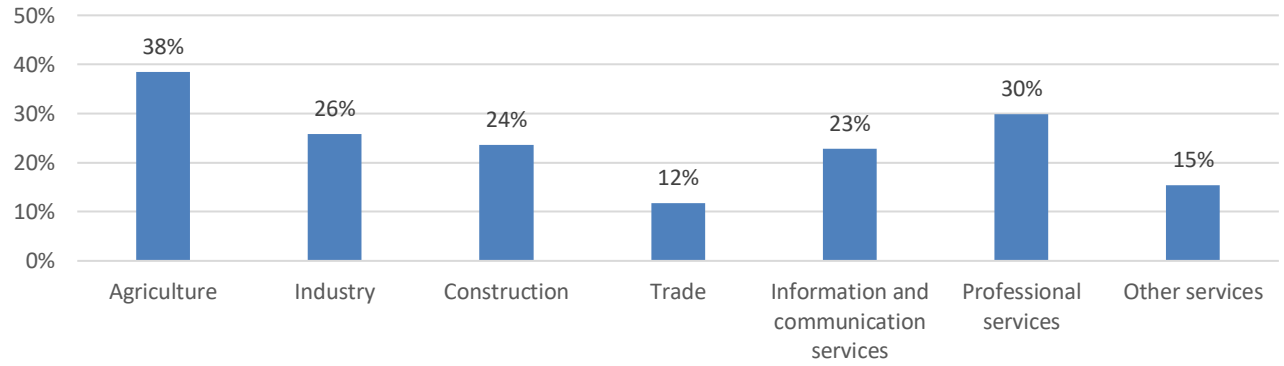
***Cooperation with research institutions or technology companies by business size.*** Medium and big businesses report such cooperation more often than micro- and small. In the first two categories, the share of businesses that cooperated with research institutions and technology companies is 38% and 36%, respectively, while in small business it is 23%, and in microbusiness - only 17%.

*Fig. 73. The share of IEs and enterprises that interacted with research institutions or technology companies for business development in 2018 – 2019 (by business size), %*



***Cooperation with research institutions or technology companies by business sector.*** Cooperation with research institutions or businesses operating in technology is most common in the agriculture and professional services sector. From 30% of entrepreneurs and managers in these two industries reported such cooperation in 2018 – 2019, while for other sectors this share does not exceed 26%. For the trade sector, it is the lowest: 12%

*Fig. 74. The share of IEs and enterprises that interacted with research institutions or technology companies for business development in 2018 – 2019 (by sector), %*

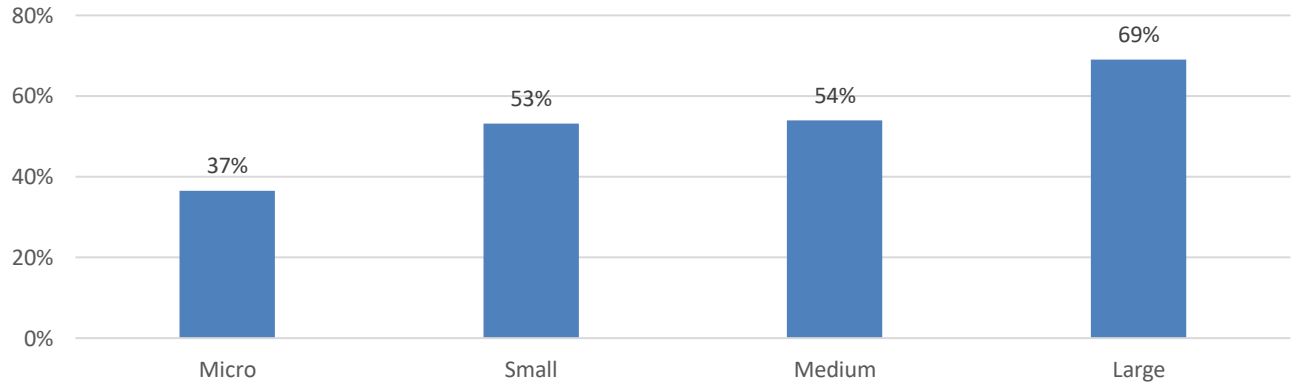



#### *4.10.2.2. Innovation implementing*

Innovations implementing by the business can take the form of new technologies, solutions, or products. Their purpose is to improve production, service delivery, business processes, or business management. 40% of entrepreneurs and company executives surveyed said that they introduced innovations in their business during the two years preceding the survey: 2018 – 2019.

***Innovation implementing by type of business.*** Legal entities implemented innovations more often than individual entrepreneurs. 36% of individual entrepreneurs reported the introduction of new technologies, solutions, or products during 2018 – 2019, while among enterprises the corresponding share was 42%.

*Fig. 75. Share of business that reported innovations implementing in 2018 – 2019 (by business size), %*

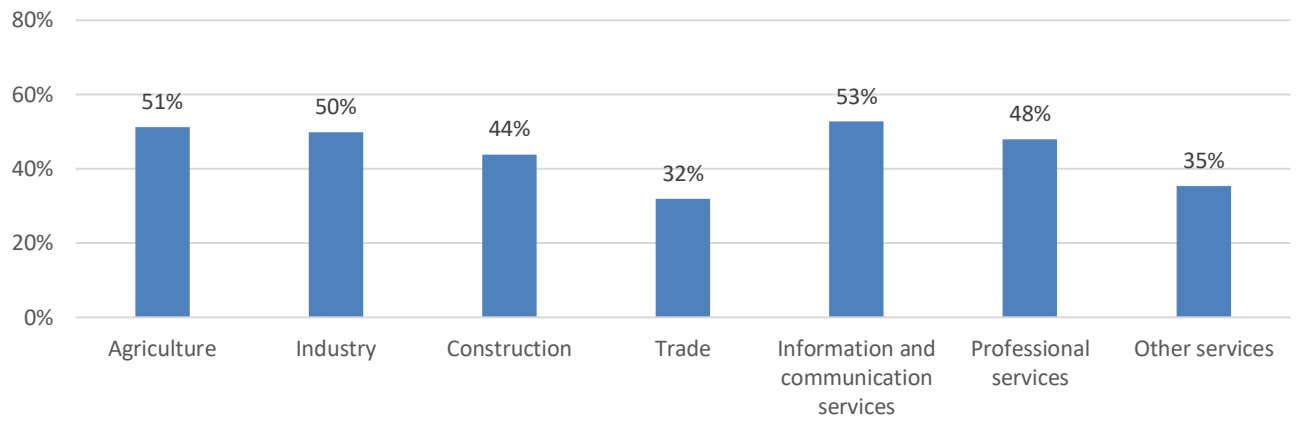



***Innovation implementing by business size.*** Big business implemented innovations twice as often as the smallest business in 2018 – 2019. The share of respondents who reported such innovations is 69% among the representatives of large enterprises, while among the representatives of micro-business it is 37%. Small and medium-sized businesses introduced new products and technologies at about the same level: this was reported by slightly more than half of entrepreneurs and firms in these groups.

***Innovation implementing by sector.*** The business operating in information and professional services differs from the rest of the business of the services sector by more active innovations implementation. About half

of the respondents in these two sectors reported that they as entrepreneurs or their enterprises introduced certain innovations in 2018 – 2019. For the rest of the service business, this figure is 35%. A fairly high level of innovation (about half of the business surveyed) was also recorded in agriculture and industry.

*Fig. 76. Share of business that reported innovations implementing in 2018 - 2019 (by sector), %*




#### *4.10.2.3. Support for local innovation programs by the municipal authorities*

Local governments can support a variety of innovation programs by allocating funding from the city budget. Respondents assessed the extent to which the authorities in their city do so. They could rate the support of innovative programs by the city authorities on a scale from 1 to 5, where 1 corresponds to the fact that there is no such support, 2 – that such support is very small, 3 indicates sufficient support, 4 - significant, and 5 - very significant. On average, the business surveyed rated such support at 1.9 points. Only 2.6% of respondents called it significant or very significant.

***Attitudes to innovation support by local authorities by type of business.*** The business of various organizational forms similarly evaluates the activities of the city government to support innovation. Both enterprise managers and IEs rated it at 1.9 points on average, and the share of those who believed this support is significant or very significant was 3% among IEs and 2.4% among enterprise managers.

***Attitudes to innovation support by local authorities by business size.*** Businesses of different sizes from micro to big businesses almost equally rated the support of innovative programs by the authorities of their cities. The average score by different-sized businesses is 1.8 – 1.9 points and the share of respondents with the highest scores ranges from 2.5% in microbusiness to 3.6% among representatives of large enterprises.

***Attitudes to innovation support by local authorities by sector.*** Business in various sectors estimates the support of innovative programs by the city authorities at an average of 1.7 – 2 points. The lowest score of 1.7 points was given by agriculture. Here are the most respondents who said that the government does not support such programs in their city (30.4%) and the smallest share of those who said this support in their city is significant or very significant: 1.3%.

#### *4.10.2.4. Technology transfer*

Technology transfer (transfer of patents for inventions, know-how, research, and development, as well as patent licensing, inventions appraisal, etc.) allows firms and entrepreneurs to use the latest advances in science. This is the result of mutually beneficial cooperation between business and the scientific community. Due to this transfer, consumers receive better products and services, businesses benefit commercially from innovation, and research institutions receive research support and monetize their intellectual property.

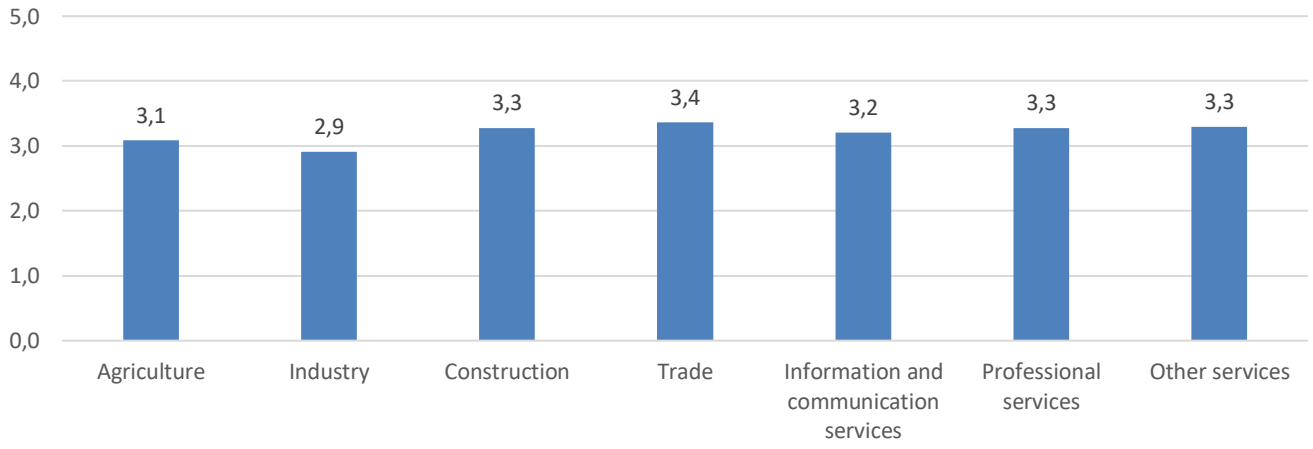
The business surveyed indicated how well its need for technology transfer is met. If we rank the respondents' answers to this question on a scale from 1 to 5, where 1 corresponds to the fact that the business needs are not met at all, 2 – they are almost not met, 3 – they are met to some extent, 4 - these needs are met to a large extent, and 5 – they are fully met, the average score of all business surveyed will be 2.6. Only 8% of entrepreneurs and enterprise managers reported that their need for technology transfer is fully or largely met. More than half of the respondents (55%) did not know what to answer to this question or said that it did not concern their business.

***The satisfaction of the need for technology transfer by type of business.*** Both individual entrepreneurs and enterprise managers estimate the extent to which technology transfer meets the needs of their business on 2.6 points. 8% of respondents in both business categories said that their needs for technology transfer are fully or mostly met. However, there is some difference between enterprises and individual entrepreneurs in the share of respondents who could not answer this question or said that they were not affected by technology transfer. Among the representatives of enterprises such respondents are 46%, and among individual entrepreneurs - 39%.

***The satisfaction of the need for technology transfer by business size.*** The average assessment of the extent to which the existing technology transfer coincides with business needs is almost the same for different sized businesses: it is from 2.5 to 2.7 points on average. From 8% to 11% in each size category reported that this need was fully or largely met for them. But as the size of the business increases, so does the share of respondents who did not answer the question or said they were not affected by technology transfer. Among micro- and small business, such respondents accounted for 56% and 54%, respectively, among medium-sized businesses this share decreased to 49% of respondents, and among large it decreased to 25%.

***The satisfaction of the need for technology transfer by sector.*** Respondents representing the information and communication services sector are slightly better than others at assessing the extent to which technology transfer meets the needs of their business. The average score calculated from their answers was 2.9 points, while for other sectors it was from 2.5 to 2.7 points. 13% of firms and entrepreneurs in this sector are fully or largely satisfied with the way technology transfer meets the needs of their business (among other sectors, this share does not exceed 10%). Besides, in the information technology sector, as well as in agriculture, the lowest share of respondents who said that their business is not concerned with technology transfer or did not know how to answer this question was recorded (44% in information technology and 45 % in the agricultural sector).

*Fig. 77. Average assessment of how well the business needs for technology transfer are met (by sector), points*



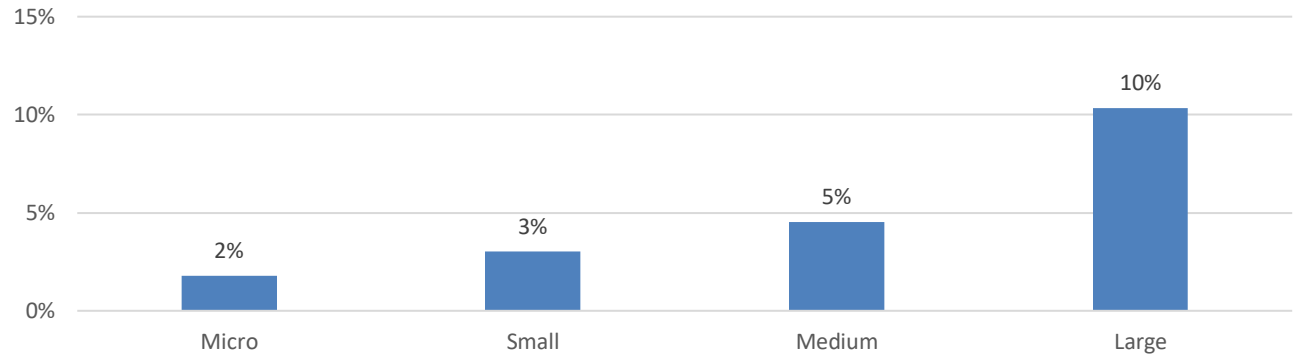

#### *4.7.1.1. Participation in city clusters*

Firms, entrepreneurs, and other organizations (such as educational institutions) operating in the same or related industries can be grouped according to their geographical location, for example, in their city. This allows them to share experience, expertise, and know-how, jointly develop and implement innovations, and thus strengthen each

other and jointly develop their industry in the city. The support of the city authorities is important for establishing and operating of such clusters. The companies and entrepreneurs surveyed reported whether they are members of clusters created at the initiative or with the support of the city authorities. Only 2% of respondents reported being members of such clusters.

***Participation in city clusters by type of business.*** The same share of individual entrepreneurs and legal entities participates in clusters created with the support of the city authorities: 2% each.

*Fig. 78. Share of business that is a member of clusters created at the initiative/support of the city authorities (by business size), %*




***Participation in city clusters by business size.*** The larger the size of the business surveyed, the greater the share of firms and entrepreneurs in it involved in municipal clusters. This difference is not so noticeable between micro and small businesses, where the share of respondents belonging to clusters created or supported by the city authorities is 2% and 3%, respectively. But for medium-sized businesses, this share increases to 5%, and for large - up to 10%.

#### *4.10.2.5. Main outcomes briefly:*

- 19% of respondents indicated that in 2018 – 2019 they cooperated with research institutions or technology companies to develop their business.
- 40% of firms and entrepreneurs reported they introduced innovations, i.e. new technologies, solutions, or products, to optimize production, service delivery, sales, or business management in 2018 – 2019.
- The implementation of innovation was most often reported by managers of large enterprises.
- On a five-point scale, businesses rate city support for local innovation programs by an average of 1.9 points.
- 8% of respondents said that their business needs for technology transfer are fully or partially met, while 55% could not assess how technology transfer meets the needs of their business or said that their business does not need technology transfer.
- Only 2% of businesses participate in clusters created with the support of their city authorities.

# 5. Barriers to doing business through the eyes of enterprise managers / IEs

## 5.1. High taxes, low demand and labor shortage top the barrier rating

Enterprise managers have named the main barriers they face in doing business in their city. To identify barriers respondents had to select no more than three of the most important obstacles from a list of 16 (including the "other" answer option).

The first three places in the barrier ranking were occupied by "high taxes", "low consumer demand" and "lack of skilled labor force". The leadership is held by "high taxes" (34% of respondents), followed by “low demand” and “lack of skilled labor force”, which divided the second and third places (32% of respondents, respectively).

**Box 1. Three main barriers: comparison with other surveys**

High taxes and low demand have traditionally been a problem for businesses regardless of size and sector, but the lack of skilled labor force has only recently become one of the top obstacles.

Low demand is among the main barrier of the last 10 years according to the results of the IER panel survey of industrial enterprises "Business Opinion"[19]. Surveys of small and medium enterprises “Annual Business Climate Assessment in Ukraine - ABCA” [20] conducted by IER under the USAID LEO Program in 2015 and 2016 showed that low demand was the second barrier for SMEs in 2015, and in 2016 it came out in the first place.

High tax rates are also always a big barrier for businesses. In the IER panel survey of enterprise managers "Business Opinion", the "high tax rates" barrier topped the list of obstacles in February 2020 (44.0%). The level of the tax burden was also a major problem from the small business point of view according to a survey conducted by the European Business Association in 2018 and 2019[21]. About half of the small business owners and directors surveyed mentioned the problem. This barrier ranked third among barriers for SMEs in both waves of the ABCA survey. This problem was mentioned by more than 30% of SMEs both in 2015 and in 2016. But entering the top three barriers by the lack of skilled labor force is the first and significant difference from the results of previous studies. In the ABCA survey in 2016, this obstacle was ranked tenth (20% of respondents).

From the point of view of small businesses surveyed by the European Business Association, this problem was relevant for 25% of them in 2019. Respondents to the “Business Opinion” regular IED survey over the past three years have noted the growing criticality of the skilled labor force shortage. Although this problem has never been among the top three barriers, the share of respondents who considered it an obstacle ranged from 25% to 35%. The growing weight of this barrier was also recorded in quarterly various sector enterprise surveys by the National Bank of Ukraine. Over the past year, about a third of businesses in each quarter cited a shortage of skilled workers as a factor limiting their ability to expand. In the first quarter of 2020, the share of enterprises facing this problem was 33.5% according to the NBU [22].

The shortage of skilled labor force leading ranking shows that the Ukrainian business faces a significant challenge that will affect its future. Such data indicate both the qualified personnel "flight" abroad and the insufficient quality of education and training provided by Ukrainian educational institutions. A detailed discussion of both theses is beyond the scope of this chapter but is important in terms of city competitiveness.

[19] IER "Business Surveys" 1998-2020 http://www.ier.com.ua/ua/publications/regular_products/business_idea_industry

[20] “Annual Business Climate Assessment 2016: National and regional dimensions ". Institute for Economic Research and Policy Consulting, Kyiv, 2017 http://www.ier.com.ua/files//Projects/2015/LEV/ABCA2017/ABCA2016_full_report.pdf

21 Small business sentiment is improving - European Business Association, 28.02.2020 https://eba.com.ua/nastroyi-malogo-biznesu-pokrashhuyutsya/

[22] National Bank of Ukraine. Business expectations of Ukrainian enterprises. Issue № 1 (57), I quarter of 2020 https://bank.gov.ua/admin_uploads/article/BOS_2020-Q1.pdf?v=4

Lack of funds ranked fourth in the barrier ranking, with a significant lag behind the three main barriers to business. This problem was reported by 22% of surveyed enterprise managers throughout Ukraine. The impact of this problem has increased over the last few years, as only 18% of SMEs in 2015 and 17% of SMEs in 2016 reported a lack of working capital in the ABCA survey. However, it should be noted that in the "Annual Assessment" the lack of finances was only on the thirteenth place in the ranking of barriers, giving way to such obstacles as the already mentioned lack of demand and high taxation, lack of skilled labor and corruption, high regulatory pressure and others.

The fifth and sixth places on the list of barriers to doing business were taken by the complexity of the legislation, which became a problem for 16% of respondents, and corruption of the city government, which was reported by 15%.

**Box 2. Corruption: comparison with other business surveys**

Legislative complexity and corruption are also traditional problems for Ukrainian entrepreneurs. Thus, the complexity of legislation has repeatedly been recognized as one of the biggest barriers in previous business surveys. The burdensome tax administration ranked fourth in the barrier ranking according to the 2016 “Annual Business Climate Assessment in Ukraine” survey, while frequent changes in legislation and high regulatory pressure were ranked sixth and seventh, respectively.

In turn, regulatory requirements and restrictions are a factor in the emergence of corruption. Sometimes it is easier and cheaper for entrepreneurs to bribe than to pay large fines or go through complex and lengthy administrative procedures. As this survey compares the conditions for doing business in cities, respondents were asked about corruption in municipal authorities. This probably explains why the percentage of respondents who pointed to this problem is relatively low: apparently, a smaller share of entrepreneurs faced corruption when interacting with local authorities. In previous business surveys conducted in Ukraine, corruption was reported much more frequently when asked about it in general. Thus, 23% of SMEs that took part in the 2016 “Annual Assessment of the Business Climate in Ukraine” survey cited corruption as a problem, and as a result, it was ranked eighth on the list of barriers for SMEs according to this survey.

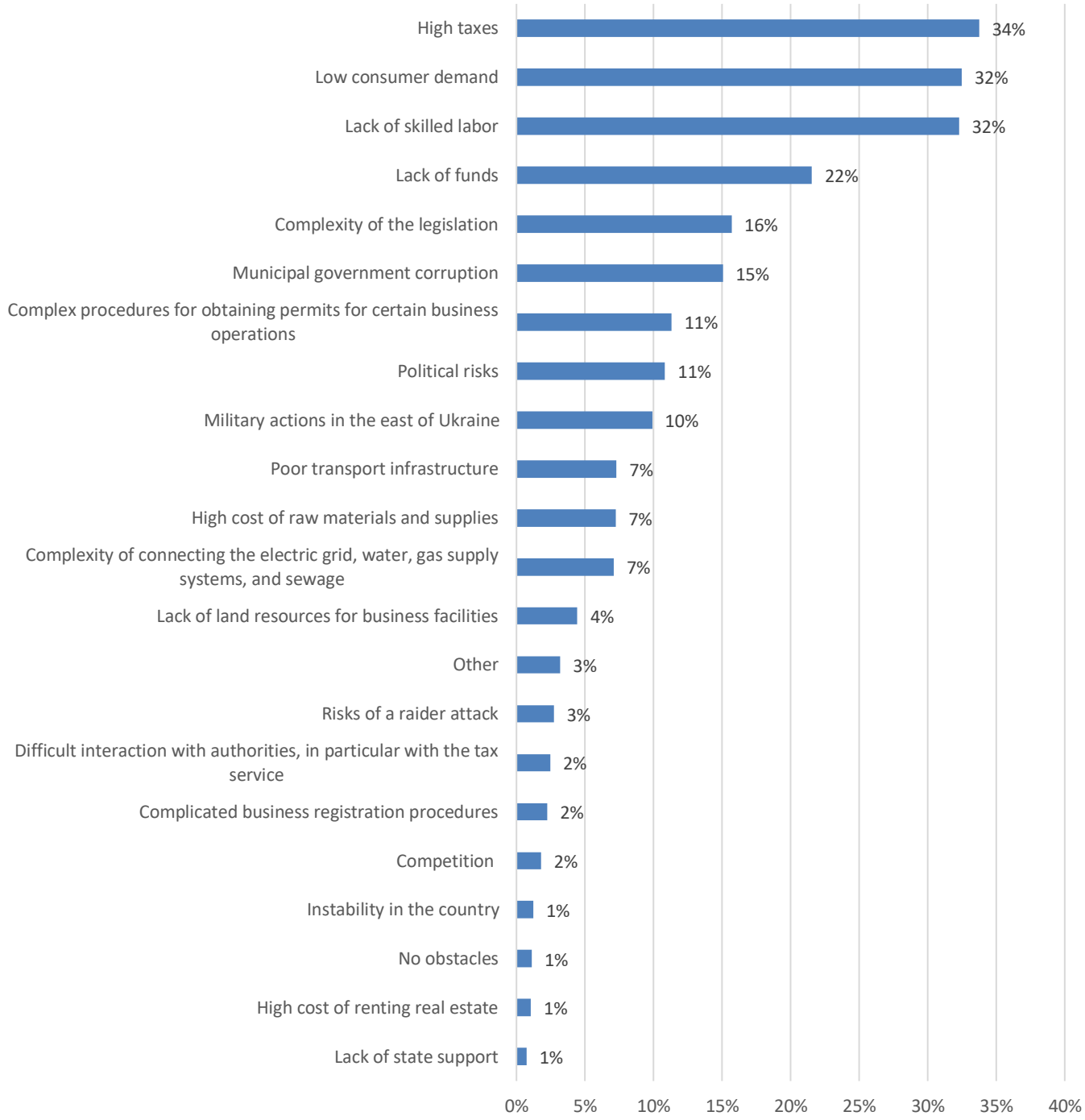
Approximately one in ten respondents pointed to barriers to doing business such as the difficulty of obtaining permits for certain economic activities (11%), political risks (11%), and military action in eastern Ukraine (10%).

7% of respondents reported such challenges to business as poor transport infrastructure, high cost of raw materials and components, as well as the difficulty of connecting to electricity, water, gas, and sewerage systems. As a result, these three issues shared tenth place in the ranking of barriers. Note that the cost of raw materials depends on market factors (quality and price of the manufacturer) and government policy (taxes and duties on equipment and raw materials), while transport infrastructure conditions and ease of connection to communications largely depend on local authorities.

Other barriers were reported by smaller shares of respondents in Ukraine. For example, 4% of enterprise managers stated they faced a lack of land for business facilities, and 3% - the risk of raider seizure of their property. 2% of respondents indicated the difficulty of registering a business and interacting with government agencies, such as the tax service. Some respondents complained about competition, lack of state support, and the advantages that, in their opinion, large enterprises have in Ukraine.

The completion of this survey coincided with the period when quarantine caused by the COVID-19 epidemic began in Ukraine. As a result, some enterprise managers named the epidemic and quarantine an obstacle to their activities, but as of the end of the survey, they accounted for less than one percent of all respondents.

*Fig. 79. Barriers to doing business (all respondents), %*




## 5.2. Barriers to doing business: IEs vs legal entities

Legal entities and individual entrepreneurs differ in how they assess barriers to doing business. IEs are somewhat more negatively affected by inadequate demand. This was reported by 36% of them, and so this barrier came in first place for IEs. Among legal entities, the percentage of enterprises that faced this problem is lower - 31%, and for them, this barrier took third place in the ranking. The problems of high taxes and lack of skilled workers were in the first and second places for legal entities. They are reported by 35% and 34% of these enterprises, respectively. For individual entrepreneurs the issue of high taxes is in second place - this is a problem for 32% of them. And the lack

of skilled labor force is felt by IEs to a relatively lesser extent. This question is relevant for 28% of them and is in third place in their ranking of barriers.

For both legal entities and individual entrepreneurs, such obstacles as lack of funds, the complexity of legislation, and corruption of the city authorities are on the fourth, fifth, and sixth positions of the rating, respectively. The ranking of the remaining barriers is also the same for both types of businesses, and there is no noticeable difference between them is how they assess these barriers. See detailed statistics. in Annex 1.

## 5.3. Barriers to doing business for entities of different sizes

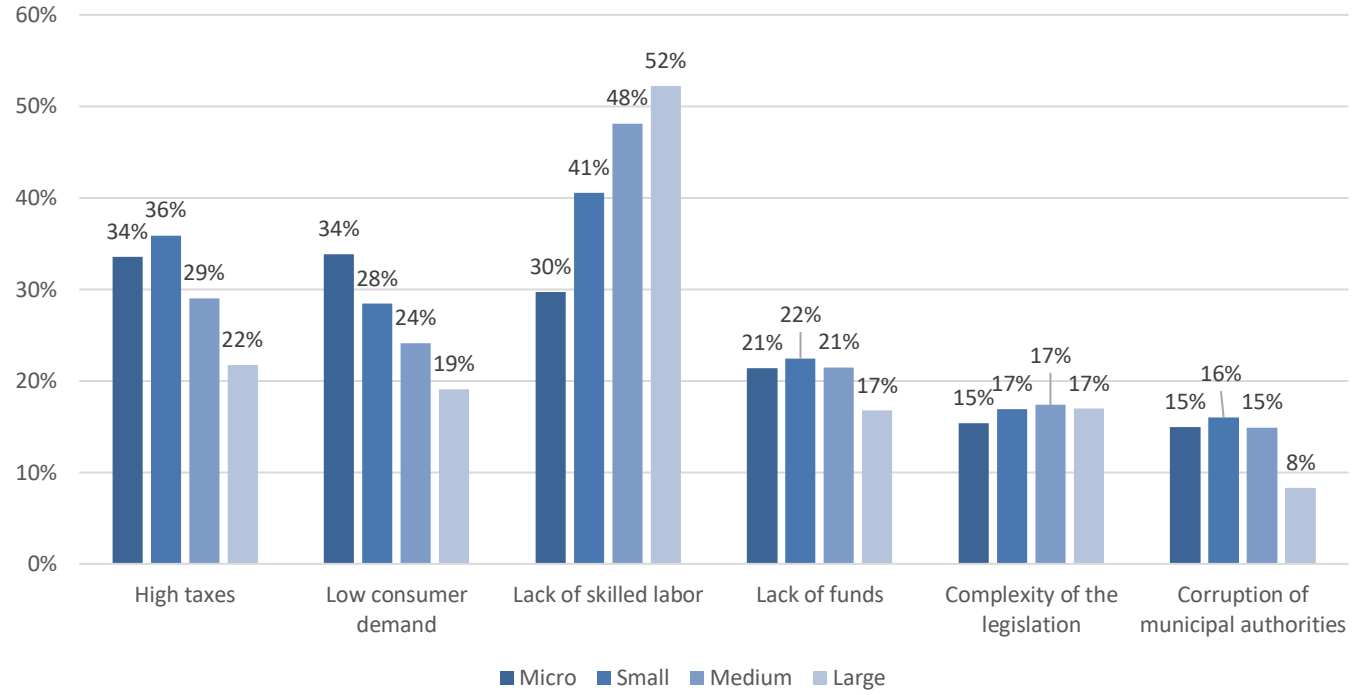
The assessment of barriers to doing business depends on the size of the enterprise by the number of its employees. Barrier ratings by micro and small businesses are more or less similar, while barrier estimates by medium and large enterprises differ from others. The most significant difference in the assessment of different sized business entities is observed concerning the obstacle "lack of skilled labor force". The importance of this barrier increases significantly with the size of the business. 30% of microenterprises experience labor shortages and 41% of small enterprises. For medium and big enterprises this share increases even more to 48% and 52% (!), respectively. As a result, for enterprises of all sizes (except microenterprises) the problem of skilled personnel shortage is in the first place in the barrier ranking. Microenterprises rank this problem third in the barriers ranking, and this reduces its place in the barrier ranking for all enterprises surveyed.

Microenterprises give the first two places in barrier ranking to low demand and high taxes. They were reported by the same shares of the smallest enterprises: 34%. In contrast to the problem of the skilled labor shortage, the sharpness of these two obstacles decreases with the size of enterprises. Thus, while more than a third of small enterprises (36%) are hindered by high taxes (which is about the same share as among micro-enterprises) among medium-sized enterprises 29% of respondents report excessively high taxes, and 22% among big enterprises. Similarly, the share of enterprises acutely experiencing a shortage of demand decreases from 28% for small enterprises to 24% for medium and 19% for big ones.

Large enterprises differ from all others as their barrier rating is significantly different. As was already mentioned, they ranked the lack of skilled labor force the first and the next sharpest barrier is military action in eastern Ukraine. This is an obstacle for 28% of large enterprises, while for smaller enterprises the share of those who report the negative impact of the war does not exceed 12%. Large enterprises (with a slightly smaller share of respondents who indicated it - 26%) rank complexity of connection to electricity, water, gas supply, sewerage the third in the barrier ranking. This indicates that to attract big business (investment), cities need to pay attention to making it as easy as possible for businesses to connect to communications. Among micro-, small, and medium-sized enterprises, only about one-tenth of respondents report a problem of connection to communications.

One more problem related to administrative procedures is put in the barrier ranking by large enterprises. These are complex procedures for obtaining permits for certain types of economic activities, which were reported by 24% of large enterprises. This shows that the difficulties in administrative procedures prevent large enterprises from expanding their business and potentially cost cities unearned tax revenues and uncreated jobs.

*Fig. 80. The main barriers to doing business (by business size), %*

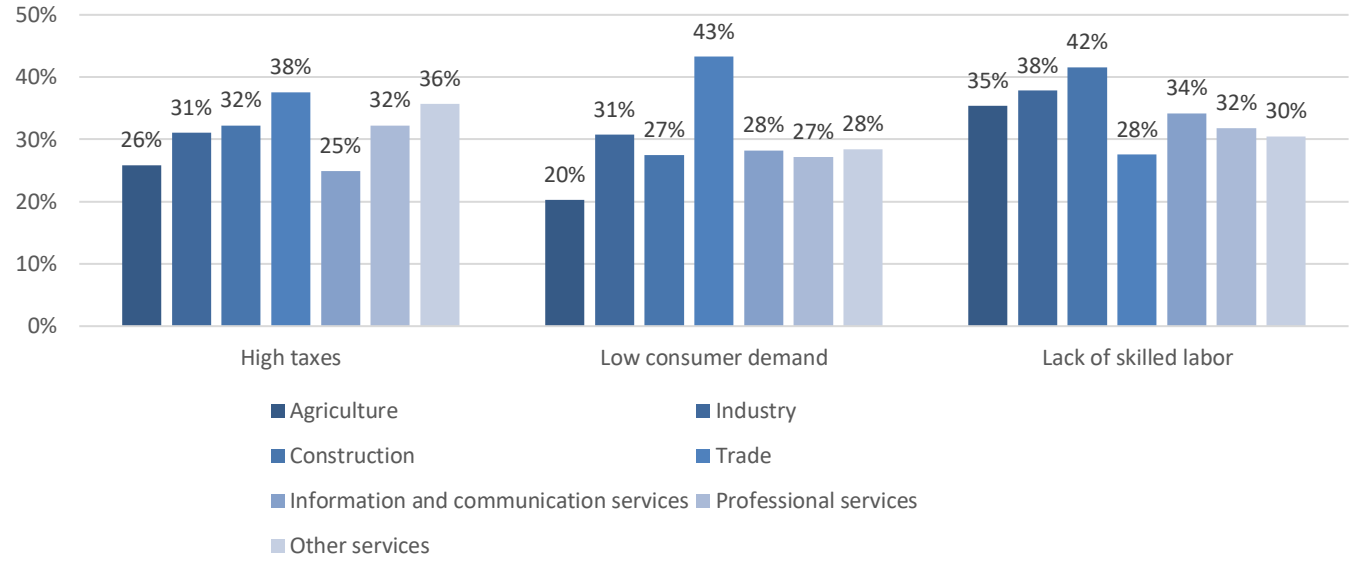



## 5.4. Do barriers to doing business vary for different sectors

About a third of entrepreneurs and firms in various sectors reported high taxes hinder their business. Exceptions are the agricultural and information and communication services sectors, where only 26% and 25% of respondents pointed to high taxes problem, respectively. The less negative impact of taxes on the agricultural sector is probably due to government support for this sector and special taxation (fixed tax). Until 2017, agricultural enterprises had a special tax regime, under which they had the opportunity to direct part of the accrued VAT on their development. As of today, this regime has been replaced by state subsidies, which also obviously reduce the financial burden on the agricultural sector. The lower impact of taxes as a barrier on the information and communication services sector can be explained by the fact that it represents the largest number of individual entrepreneurs compared to other sectors (more than half) who have the right to use the simplified tax system, which reduces their tax deductions.

Low demand is the most acute barrier to trade. 43% of firms and entrepreneurs in this sector point to the problem of lack of demand, which is apparently due to insufficient purchasing power of the population, which is declining due to the economic crisis caused by COVID-19. Low demand is also a significant problem for the industry, where 31% of respondents pointed to this problem. In agriculture, on the other hand, the smallest share of business complains about the lack of demand compared to other sectors: only 20% of respondents.

*Fig. 81. Three main barriers to doing business (by sector), %*




The skilled labor shortage is especially felt in the construction sector, where it has come out on top among obstacles. 42% of businesses in this sector point to this problem. Skilled construction workers migrate to large cities and abroad, where they can receive higher compensation for their work, while domestic employers in this sector try to train professionals from educational institutions, working with them on a dual form of education[23], in which the theoretical part of training in an educational institution is combined with practice in the workplace at the enterprise. An insufficient number of skilled workers is also the main problem for the industry sector, where it is complained about by 38% of respondents, agriculture (35%), information and communication services (34%), and shares the first place with the high taxes problem among obstacles for professional services - each of them is reported by 32% of firms and entrepreneurs in this sector.

The agricultural sector more often than others complains about the lack of working capital. This problem is reported by 32% of respondents in the sector, and as a result, it ranks second in the list of barriers to agriculture. Financial difficulties are also an important obstacle for industry, where they were reported by 28% of respondents. But for this sector, this problem is lower in the barrier ranking (fourth place).

The legislation complexity ranking fifth in the overall barrier ranking, also varies by sector, ranging in sharpness from 18% in the professional services sector to 12% in the agricultural sector.

As for the perception of the next problem rated - corruption of the city authorities - there is a significant difference between construction and other sectors. Thus, in the barrier ranking by construction, this problem was in fourth place: it was reported by 23% of its representatives. It took the same place in the barrier list by respondents who provide professional services. Here, 19% of respondents pointed to corruption in the city authorities. For the rest of the sectors, the corresponding figure does not exceed 14%, and for agriculture, it is only 11%. It implies that construction projects requiring approvals from the authorities, may be vulnerable to corruption at the city level, and corruption in this sector is caused by the legalization of unauthorized construction when both entrepreneurs and officials are equally interested in non-compliance. Cities, where the construction industry faces corruption, are losing potential investment and income not only from this sector but also from other activities that are evolving through construction, such as catering and real estate. Both sectors (construction and professional services) are more likely

[23] See for example The Order of the State Educational Institution "Kyiv Regional Higher Vocational School of Construction" on the dual forms of education implementing in the training of students for the profession "Installer of sanitary systems and equipment" https://krvpub.com/portal/bb72b.pdf

than others to complain about difficulties while obtaining permits. This is an obstacle for 17% of respondents in the construction sector and for 16% in professional services.

Other obstacles that affect companies and individual entrepreneurs in different sectors in different ways include the high cost of raw materials and components, as well as the risks of raider capture. Expensive raw materials have the greatest impact on agriculture and industry, where it was reported by 17% and 15% of respondents, respectively. Representatives of agriculture and information and communication services are more often afraid of illegal property seizure than others. Although the percentages of respondents who indicated this problem are quite low in these industries (10% and 6% respectively), this is significantly higher than in all other sectors, where the share of firms and entrepreneurs that speak of the threat of raider capture does not exceed 3%.

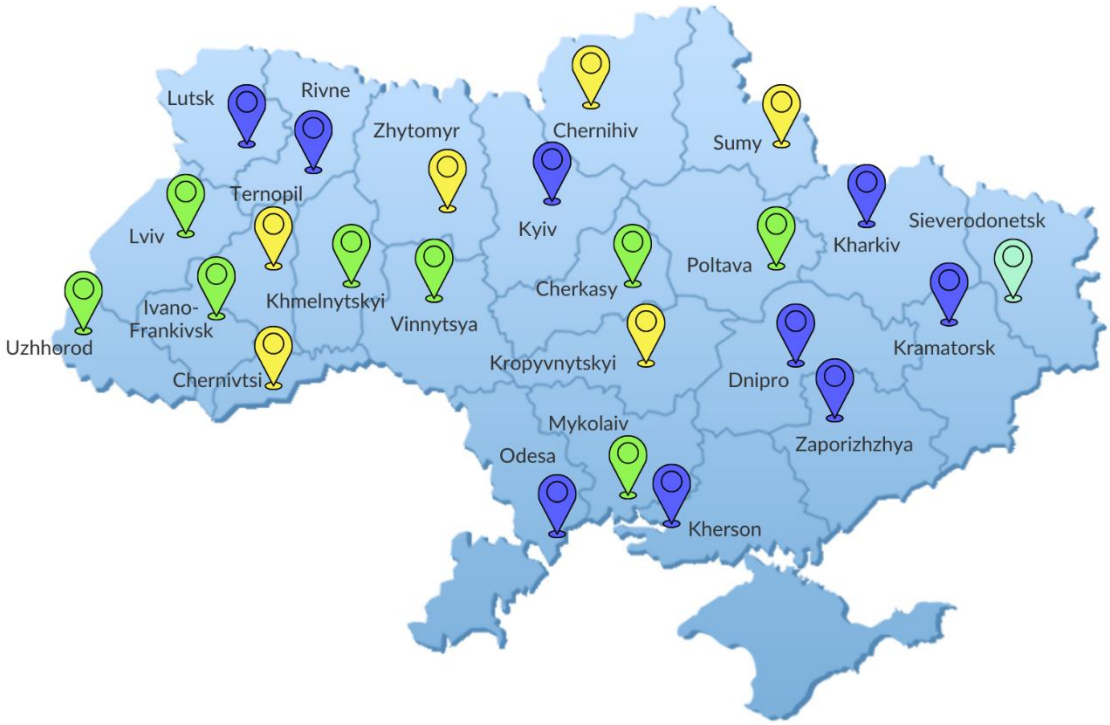
## 5.5. Barriers to doing business in different cities

Businesses in the various cities that participated in the MCI survey have different assessments on barriers that impact their activities. High taxes barrier for example, which top the overall ranking, ranks first among the barriers, not in all cities. It ranks first for businesses in Dnipro, Zaporizhzhia, Kyiv, Kramatorsk, Lutsk, Odesa, Rivne, Kharkiv and Kherson. In each of these cities, high taxes were considered a barrier to their activities by more than 30% of respondents. It is noteworthy that this list includes five of the six largest cities in Ukraine by population[24]: Kyiv, Kharkiv, Odesa, Dnipro, and Zaporizhzhia. It can be assumed that in large cities other barriers, such as low demand, are less felt, as the solvency of residents is higher in these cities and it is easier to find qualified personnel thanks to higher wages and a higher concentration of educational institutions that train professionals. As a result, compared to others, the problem of taxes is most relevant for business in these regional centers. Moreover, in Lutsk, Kyiv, Kherson, and Zaporizhzhia the shares of respondents who consider high taxes a barrier to their business are the largest: 39% in each of these cities. In Sumy, by contrast, the share of entrepreneurs and firms that consider high taxes an obstacle is the lowest compared to other cities: it is 27% and a barrier is ranked third in the barrier ranking for this city.

Low consumer demand is a major problem for respondents in Zhytomyr, Kropyvnytskyi, Sumy, Ternopil, Chernivtsi, and Chernihiv. These are small regional centers with a population of 200 to 300 thousand people, with, respectively, a relatively small market size. The lack of demand problem is also relevant for the business of Chernihiv: 42% of local entrepreneurs and companies pointed to this barrier. Kropyvnytskyi follows in the share of respondents who note insufficient demand. Here this problem is one of the most acute for 39% of businesses. On the other hand, a number of regional centers show a relatively low level of this barrier. These are, first of all, Dnipro, Lviv, and Kharkiv, where the smallest shares of business complain about the lack of demand: 27% in each. For Kyiv and Khmelnytskyi, this figure increases by only one percentage point and is 28% of enterprises and IEs in each of these cities.

[24] Excluding Donetsk, where according to the State Statistics Service lived about a million people in 2019, but which was not covered by this study as it is in the territory not controlled by the Government of Ukraine. The population as of 2019 is available in this publication: State Statistics Service of Ukraine. The current population of Ukraine as of January 1, 2019. Kyiv, 2019 http://www.ukrstat.gov.ua/druk/publicat/kat_u/2019/zb/06/zb_chnn2019.pdf

*Fig. 82. The main barrier to doing business in each city*




Cities with high taxes in the first place in the barrier ranking

Cities with a lack of demand in the first place in the barrier ranking

Cities with a shortage of skilled labor in the first place in the barrier ranking

Cities where the war in eastern Ukraine came first in the barrier ranking

Lack of skilled labor force ranks first among barriers in cities such as Vinnytsia, Ivano-Frankivsk, Lviv, Mykolaiv, Poltava, Uzhhorod, Khmelnytskyi, and Cherkasy. Most of them are located in the western region of Ukraine, and this may indicate they are more likely to face the phenomenon of labor migration to the European Union and other countries. However, it should also be noted that more than half of these cities are in MCI top ten and this indicates a more favorable business environment in these cities. Accordingly, the urgency of qualified personnel shortage problem is probably exacerbated by local businesses' intent to develop and attract additional labor. So we can conclude that these cities need to pay special attention to measures to train and attract skilled workers. These activities may include both the modernization of curricula and the educational base of educational institutions and the development of social and cultural infrastructure in the city to interest leading talents in favorable living conditions.

Businesses are least affected by the shortage of skilled workers in two cities in eastern Ukraine: Kramatorsk, where 24% of entrepreneurs and firms reported the problem, and Sievierodonetsk, where there was 26% of them.

Sievierodonetsk has become the only city where the business is most hampered by the war in the East. Here, 41% of respondents pointed to this obstacle. For Kramatorsk, this obstacle is in third place after high taxes and low demand. In this city, 26% of respondents considered the war to be a barrier. This shows that Russian aggression not only takes lives and creates security threats in Ukraine, but also costs Ukrainian business opportunities for development.

There are also differences in business assessments of other barriers depending on the city. Thus, the interviewed business representatives in Vinnytsia more often than others complain about the lack of funds: this hinders the development of 29% of them. The cities where relatively the smallest shares of respondents reported insufficient fundings were Sievierodonetsk (this problem is relevant for 17% of companies and entrepreneurs in the city) and Ivano-Frankivsk (18% of respondents faced this problem). In terms of the prevalence of the next barrier - legislation complexity – there is no significant difference between respondents in different cities. This can be explained by the fact that the legislation in Ukraine operates at the national level. However, there are several cities where this problem was reported relatively more often: Rivne and Ternopil. 19% of enterprises and IEs in each of them pointed to complex legislation as a barrier to business development. In Sievierodonetsk and Kherson, this share was a fewest of all 24 cities: 11% in each.

Corruption in city authorities is a barrier for business, which differs significantly depending on the city where the survey was conducted. Firms and entrepreneurs in Odesa (23%) and Kherson (22%) most often complain about corruption at the local level, and less often in Mykolaiv (20%) and Cherkasy (19%). This problem is least spread in Kropyvnytskyi, where it is reported by only 10% of respondents, as well as in Rivne, Khmelnytskyi, and Chernihiv, where this share is only slightly higher and is 11%.

In Rivne and Lviv, relatively large shares of entrepreneurs and firms report that it is difficult for them to obtain permits to carry out certain economic activities. 16% and 15% of respondents in these cities, respectively, called it a barrier. In Sievierodonetsk and Vinnytsia, on the other hand, only 6% of entrepreneurs and firms surveyed paid attention to this barrier.

Regarding other barriers, some cities can also be singled out for which they are especially sharp. Business in Kyiv (17%) and Dnipro (16%) is most afraid of political risks, and the poor condition of transport infrastructure worries respondents in Sievierodonetsk and Chernivtsi the most (18% in each). Kramatorsk (12%) more often complains about the high cost of raw materials and components compared to other cities. In Chernihiv (12%) and to a lesser extent in Zaporizhzhia and Sievierodonetsk (11% in each) businesses emphasize the complexity of connecting to electricity, water and gas supply, and sewerage systems to a relatively greater extent. Dnipro is also marked by a relatively larger share of entrepreneurs and companies that see risks for their activities in possible raider seizures (9%).

## 5.6. Main outcomes briefly

- The main barriers to doing business are high taxes, low consumer demand, and lack of skilled labor force.
- The skilled labor shortage is a problem for all respondents, regardless of organizational form, size, and sector. As the size of the enterprise increases, the urgency of the problem increases. It is more important for enterprises than for individual entrepreneurs, but for both organizational forms, it is in the top three barriers.
- Corruption is not a significant problem for businesses according to this survey. This barrier took sixth place and only 15% chose it as an obstacle, which is more than twice less than a barrier ranked the third.

# 6. Expectations and attitudes to the business climate and business conditions

## 6.1. Business expectations and attitudes as a source for information on the business climate and business conditions that shape the competitiveness of cities

A large block of questions in this research concerns business attitudes and expectations. How is the state economic policy implemented from the point of view of business, what business tendency looks like, what is the business environment and why are the trends exactly like this: this and similar information can be obtained only from the analysis of expectations and attitudes of business entities. Regular analysis of attitudes and short-term forecasts for the state of own business and the economic environment, in general, is used in the analysis of business activity cycles and is called business tendency survey[25].

The value of business expectations and attitudes is that they provide information about economic conditions and the business climate from a business representative's point of view: directly those who are engaged in economic activities and are aware of how business entities operate, how they interact with each other and with the state. We learn how business evaluates the business environment, how it plans to develop in the future, and what hinders or helps this development from the analysis of business attitudes. The business opinion is part of the business climate, plans and expectations shape future behavior, and "feedback" on problems and barriers helps to make adjustments to particular government policy. Business expectations directly affect the competitiveness of the economy as a whole and the competitiveness of local economies. Accordingly, they are important for assessing the competitiveness of cities, their investment attractiveness, economic development, and prosperity. That is why the analysis of business expectations must be part of the cities competitiveness analysis.

In Ukraine, regular surveys of business attitudes and expectations from business activity and economic conditions are conducted by several governmental and non-governmental organizations, including the IER within the Business Opinion project[26], the National Bank of Ukraine[27], and the State Statistics Service[28]. These researches analyze national and sectoral trends, but they do not provide a picture of what is happening at the local level. There is a need for a special regular collecting and analyzing of business opinion at the city level.

Taking into account mentioned above, the analysis of business attitudes and expectations became part of the MCI-2019 study. In this survey, enterprise managers and individual entrepreneurs expressed attitude and expectations in four areas:

(1) Business environment (assessment of the current situation and expected changes in six months)
(2) Business activity (assessment of the current situation and expected changes in six months)
(3) Long-term business activity (estimates of business activity changes that have occurred in the last two years in general, estimates of changes that have occurred in the last two years related to employment in the enterprise (IE), forecasts for business activity changes for two years)
(4) Regulation (assessment of changes in the three most common regulatory procedures in the last two years – business registration, inspections, and tax administration).

[25] Center for International Research on Economic Tendency (CIRET) brings together organizations and researchers engaged in the study of the economic situation and macroeconomic forecasting based on business opinion research (https://www.ciret.org/). IER has been a member and has been participating in CIRET activities since 2006.
[26] IER "Business Opinion", 1998 - 2020 http://www.ier.com.ua/ua/publications/regular_products/business_idea_industry
[27] National Bank of Ukraine. Statistics. Business tendency surveys https://bank.gov.ua/statistic/nbusurvey
[28] State Statistical Service of Ukraine. Economic statistics. Macroeconomic statistics. Trends in business activity. http://www.ukrstat.gov.ua/operativ/menu/menu_u/tda.htm

To summarize the information obtained, a system of indices from the ABCA Annual Business Climate Assessment was used as a tool for assessing and monitoring the business climate developed by the IER and used under the USAID Leadership in Economic Governance Program[29]. Based on attitudes and expectations, the Business Climate Index was calculated, that allows quantifying and tracking the attitudes and expectations of SMEs and the direction of business climate change[30].

This section presents the answers of enterprises and IEs to questions related to assessments, expectations, and changes that have already taken place in the general economic environment and financial and economic conditions for business, as well as changes in business activity and administrative procedures and assessment of the general economic environment. It also includes respondents' assumptions about how it will change in the short term (over the next six months). The chapter analyzes business expectations for business development in the semi-annual and biennial perspectives and compares business expectations and attitudes before the introduction of quarantine related to the COVID-19 epidemic and during the quarantine.

## 6.2. ABCA Business Climate Index

### 6.2.1. Dynamics of the ABCA business climate index

The value of the ABCA Business Climate Index increased from +0.09[31] in 2017 to +0.19 in 2020 (scale from -1 bad to +1 good), indicating an improvement in the business climate perception the by SMEs in 2020 compared to 2017. This happened due to the improvement of all its components, except for the index of regulatory environment changes, which measures attitudes to changes in administrative procedures. In particular:

- The business environment index measuring attitudes and forecasts of business environment changes increased from a negative value of -0.17 in 2017 to +0.08 in 2020.
- The business activity index (short-term) measuring attitudes and forecasts of changes in the financial and economic conditions of IEs and enterprises over the next six months from the time of survey start, increased from +0.06 in 2017 to +0.22[32] in 2020.
- The business activity index (long-term), consisting of indicators on assessing changes in business activity of IEs and enterprises over the past two years and plans for changes in business activity for the next two years, also increased: from +0.15 in 2017 to +0.38 in 2020.
- Only the index of regulatory environment changes measuring respondents' attitudes to changes in the three most common regulatory procedures (registration, inspections, tax administration) in the two years preceding the survey, decreased. In 2017, the value of this index was +0.34, and in 2020 it decreased to +0.11.

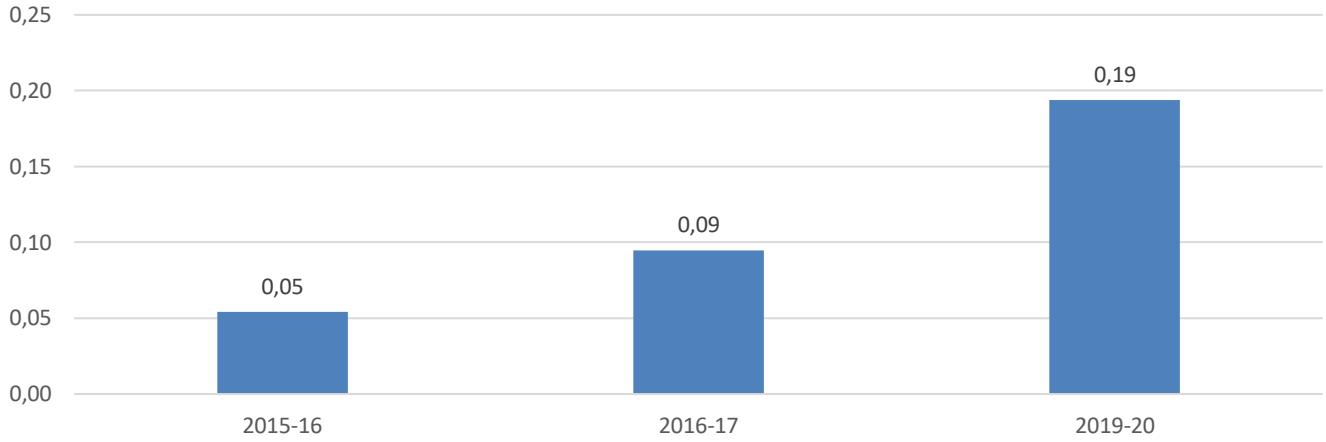
[29] "Annual Business Climate Assessment 2016/2017: National and Regional Dimensions". Institute for Economic Research and Policy Consulting, Kyiv, 2017 http://www.ier.com.ua/files//Projects/2015/LEV/ABCA2017/ABCA2016_full_report.pdf

[30] Read more about the methodology for calculating the business climate index in the report "Annual assessment of the business climate in Ukraine: 2016", IER, 2017, p. 28-29 http://www.ier.com.ua/files//Projects/2015/LEV/ABCA2017/ABCA2016_full_report.pdf

[31] The value of the Business Climate Index according to the survey "Annual Business Climate Assessment in Ukraine" in 2016 is presented with an adapted sub-index of changes in the regulatory environment, which takes into account estimates of changes in only three most common administrative procedures (Index of 3 procedures) and not all nine as it was done when calculating the main ("national") index of business climate.

[32] Here and further in this section, the ABCA values of the Business Climate Index and its sub-indices in 2020 are presented without taking into account the responses of large enterprises and without weighing the 2020 survey data. This is done in order to approximate the characteristics of the samples of both surveys.

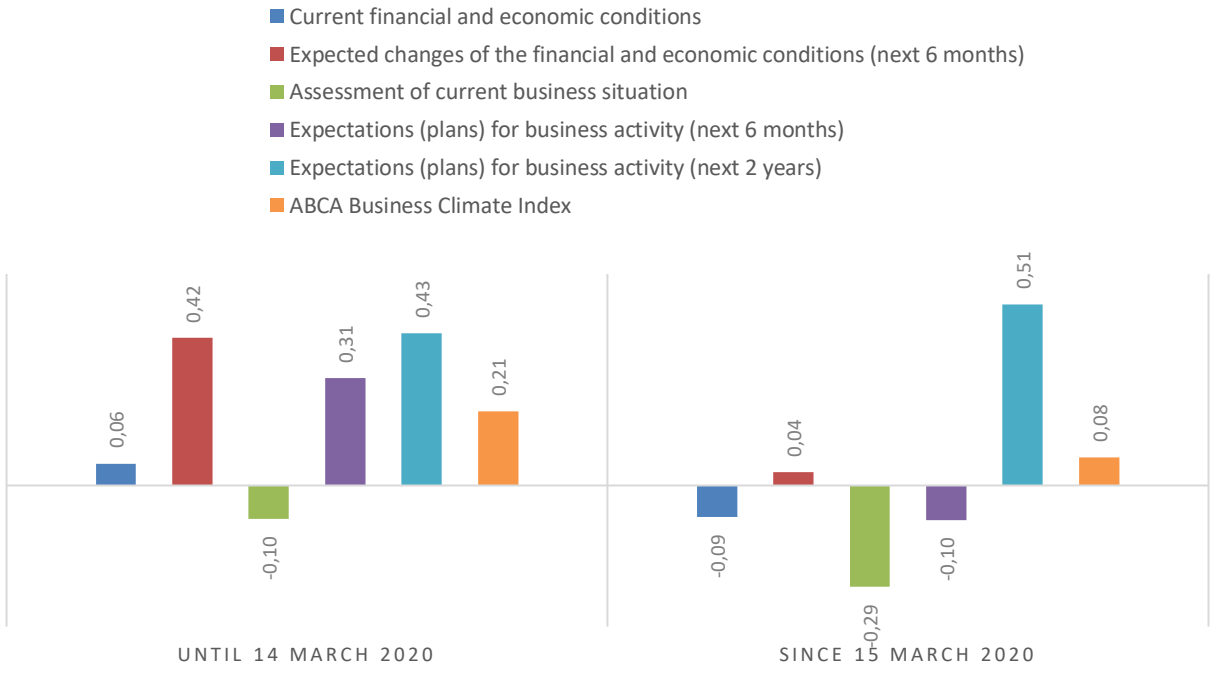
*Fig. 83. ABCA Business Climate Index: 2016 – 2015 vs 2016 – 2017 vs. 2019-2020*




### 6.2.2. Quarantine Influence on the ABCA value of the Business Climate Index

It is worth noting that since the second half of March 2020, when quarantine began in Ukraine to slow down the coronavirus epidemic, business attitudes and expectations changed. And accordingly, this affected the ABCA Business Climate Index. If this index was calculated only for enterprises and IEs, which were surveyed before March 14, its value would be even higher: +0.31. And if we calculated the ABCA Business Climate Index only for businesses surveyed after the introduction of quarantine, this value would decrease to +0.08[33].

*Fig. 84. ABCA Business Climate Index and its components, calculated for respondents before and after the introduction of quarantine*




[33] The ABCA values of the Business Climate Index and sub-indices are given without taking into account the responses of large enterprises and without weighing the data.

It should be noted that after March 15, 2020, there was a deterioration in all estimates and expectations, except for long-term business plans. In the long run, optimists outnumbered pessimists until and after March 15, and this advantage increased after the start of quarantine.

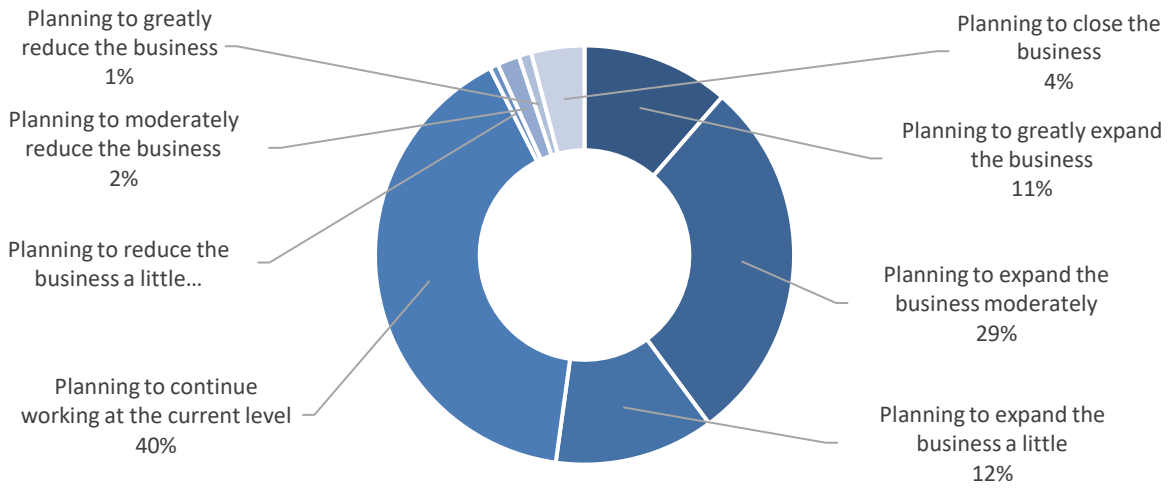
Expectations about the business environment have worsened the most in the first half of the year: here the corresponding index has even changed from positive to negative. This means that until March 15, optimists who expected changes for the better prevailed among those polled, and after March 15, on the contrary, pessimists dominated. At the same time, the indicator characterizing the expected changes in business activity for 2 years, calculated for the group of business entities surveyed after March 15, not only did not decrease but even became higher than the indicator for those interviewed before that date[34]. A more detailed analysis of attitudes and expectations is provided in the relevant sections of this report.

## *6.3.* Long-term expectations (plans) for business activity

### 6.3.1. Business plans to change the volume of activity in the next two years

Ukrainian business plans to develop and grow. This is evidenced by the answers of entrepreneurs and enterprise managers to questions about their plans to change the volume of business for the next two years. More than half of those surveyed said they plan to expand their business to a greater or lesser extent. These are 11% of firms and entrepreneurs that had significant business expansion plans, 29% that planned a moderate expansion, and 12% that planed a small increase in their business. The next largest category of respondents planned to work at the current level. They accounted for 40% of all enterprises and firms in this survey. However, among the enterprises and IEs surveyed there was a certain share of those who planned to reduce business to one degree or another. These respondents accounted for slightly more than 3% of the total business. Finally, 4% of entrepreneurs and enterprise managers said they plan to close their business over the next two years.

*Fig. 85. Plans to change business activity over the next two years, %*




Some companies and IEs were interviewed after the introduction of national quarantine caused by the coronavirus epidemic. But this did not worsen the business's plans to expand. While firms and entrepreneurs feel significantly more uncertainty and pessimism about changes in the general economic environment and their financial and economic situation from mid-March 2020 (see the next chapter), respondents' plans to expand are not deteriorating.

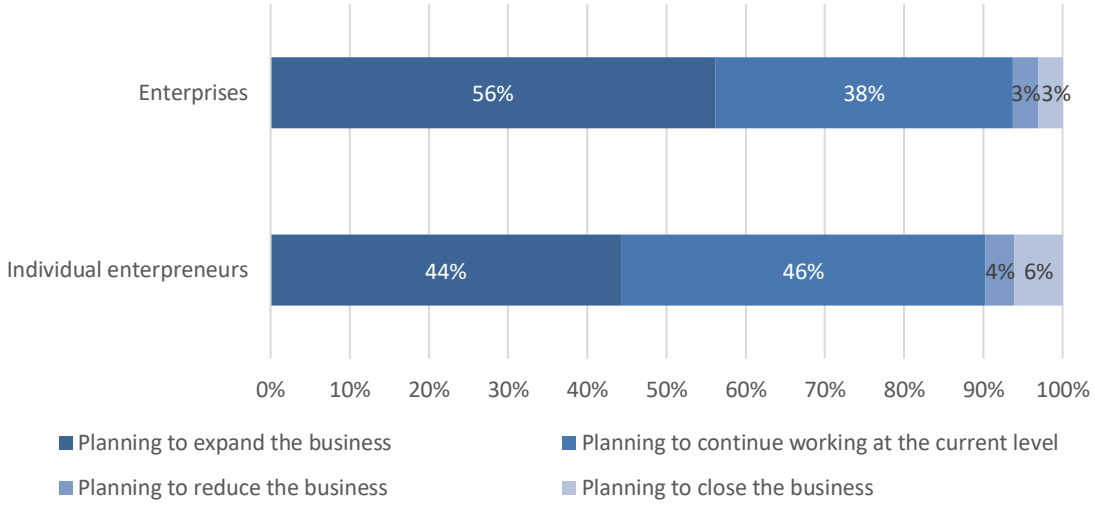
[34] For more information, see the Appendix.

On the contrary, the percentage of those who wanted to expand their business even increased slightly (to 58% compared to 51% of those surveyed from January to mid-March).

### 6.3.2. Business plans to change the volume of activity by type of business: IEs and enterprises

Legal entities are more likely to report that they plan to grow than individual entrepreneurs. They are 56% among legal entities and - 44% among individual entrepreneurs.

*Fig. 86. Plans to change business activity in the two-year perspective by type of business, %*

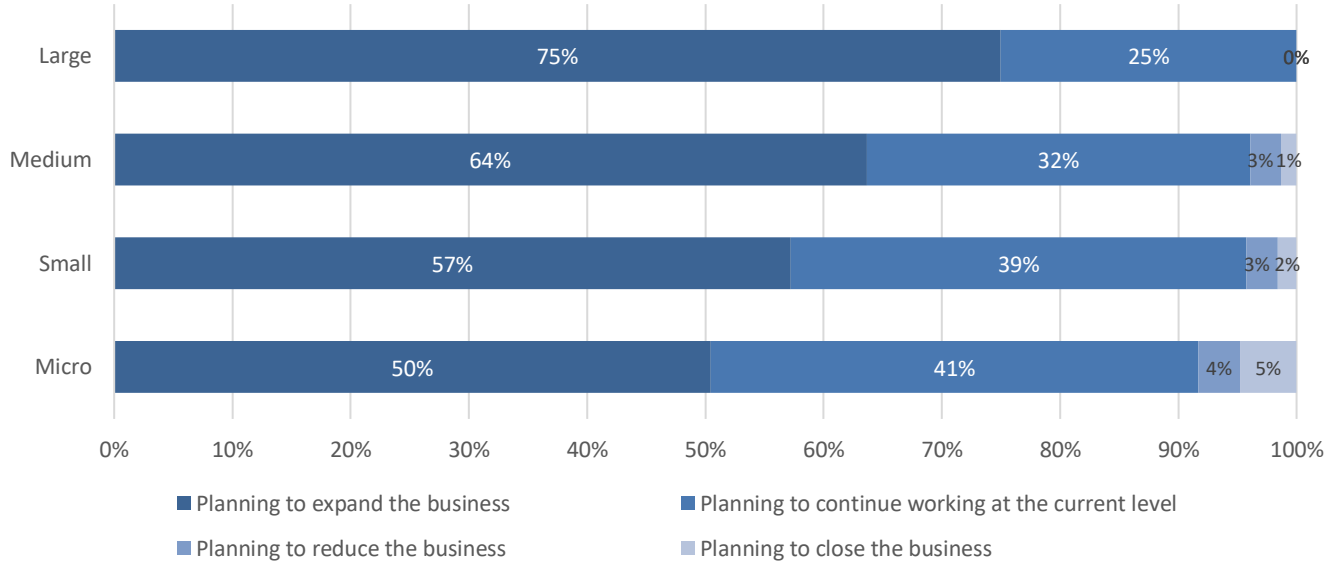



Approximately the same share of IEs (46%) said that they do not plan to change the volume of their business. For legal entities, this share was 38%. And although the share of IEs who planned to close their business is relatively low (6%), it is still twice as large as the corresponding share of legal entities. So we can conclude that legal entities have a greater margin of stability, while for IEs the situation is less certain.

### 6.3.3. Business activity plans by business size

The larger the size of the business, the better are its plans for further activities. 75% of big business owners and executives said they plan to expand over the next two years. For medium-sized businesses this share decreases to 64%, for small - to 57%, and among microbusinesses, only half of firms and entrepreneurs were set up for growth. At the same time, as the size of the business surveyed decreases, the share of respondents who expressed their intention to continue working at the current level increases: from 25% for big business to 41% for microbusiness. Additionally, the largest share of respondents who assume that they will reduce the volume of activity or close their business was recorded among the owners and managers of microenterprises: more than 8%.

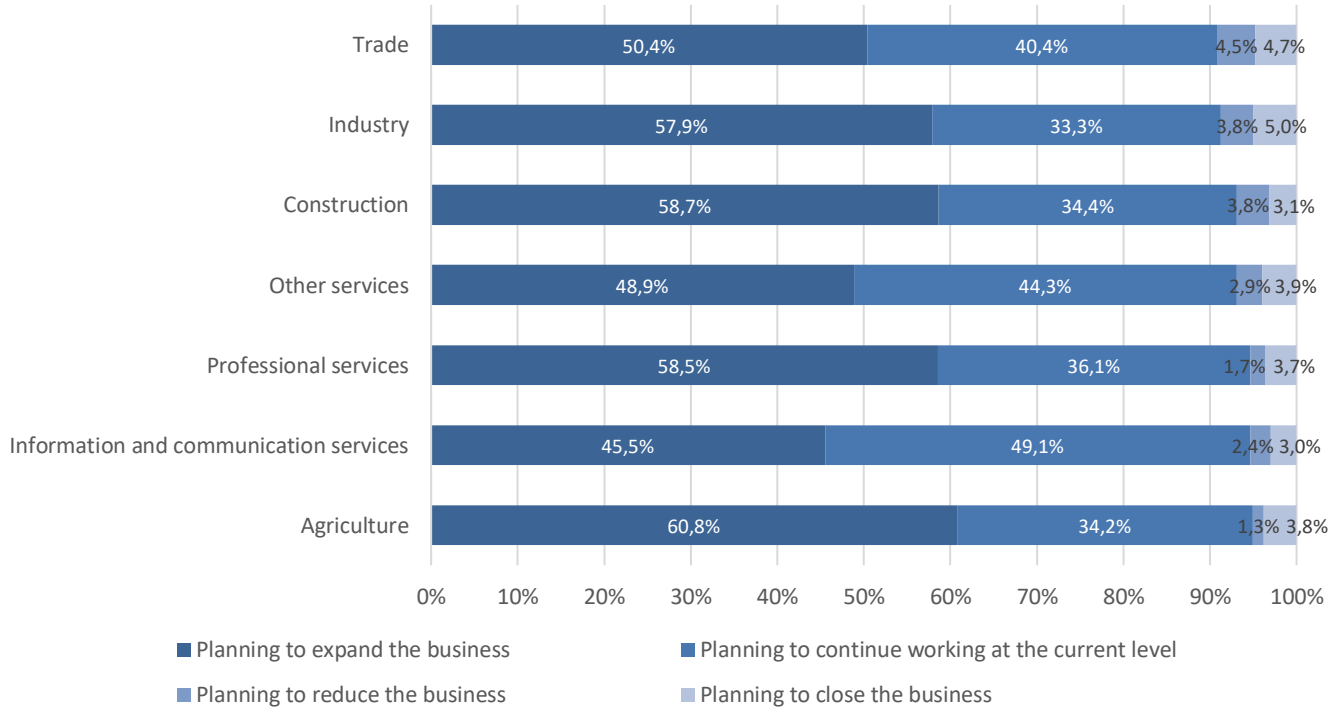
*Fig. 87. Plans to change business activity by business size (from a larger to a smaller share of enterprises and IEs who plan to expand or not change their activities), %*




### 6.3.4. Business activity plans by sector

Agriculture and professional services are the two sectors where businesses are most inclined to expand. 61% of firms and entrepreneurs engaged in agriculture, and 59% of those providing professional services, expressed their intention to increase their activities over the next two years. Among construction representatives, the percentage of businesses ready to grow is also high (59%), but there are slightly more enterprises and IEs in this sector than in the previous two, which were ready to close or reduce their business.

*Fig. 88. Plans to change business activity by sector (from a larger to a smaller share of enterprises and IEs who plan to expand or not change their activities), %*



The largest share of respondents who expressed plans to close a business or reduce the volume of activity is in trade and industry (9% in each). And the smallest share of the business that plans to grow is in the information and communication services (46%). At the same time, the representatives of this sector do not intend to reduce business activity: half of them plan to continue work at the current level, which is the highest figure compared to other sectors.

### 6.3.5. Plans for business activity in different cities

Kyiv is clearly in the lead in the percentage of entrepreneurs and companies ready to expand their business. There are 64% of them in Kyiv. The other cities with the share of growth-oriented businesses are Dnipro and Khmelnytskyi, where these shares are significantly lower: 59% and 58%. At the same time, in contrast to Dnipro, a slightly larger share of business in Khmelnytskyi (8%) stated that they plan to reduce their activities or close down.

On the other hand, in such cities as Sievierodonetsk, Kherson, and Chernivtsi there are the smallest shares of entrepreneurs and companies that have expressed their intention to expand business activity. In Sievierodonetsk, such respondents accounted for only 43%, and in the other two cities - 46%.

At the same time, in these cities, together with the smallest shares of the business planning to expand compared to other cities, relatively higher shares of firms and entrepreneurs were recorded, which said that they planned to reduce or close the business. In Chernivtsi, there are almost 13% of such respondents, in Sievierodonetsk - almost 10%, and in Kherson - 9%. In Lutsk and Kramatorsk, these shares are also relatively high, but more than half of the business plans to expand here.

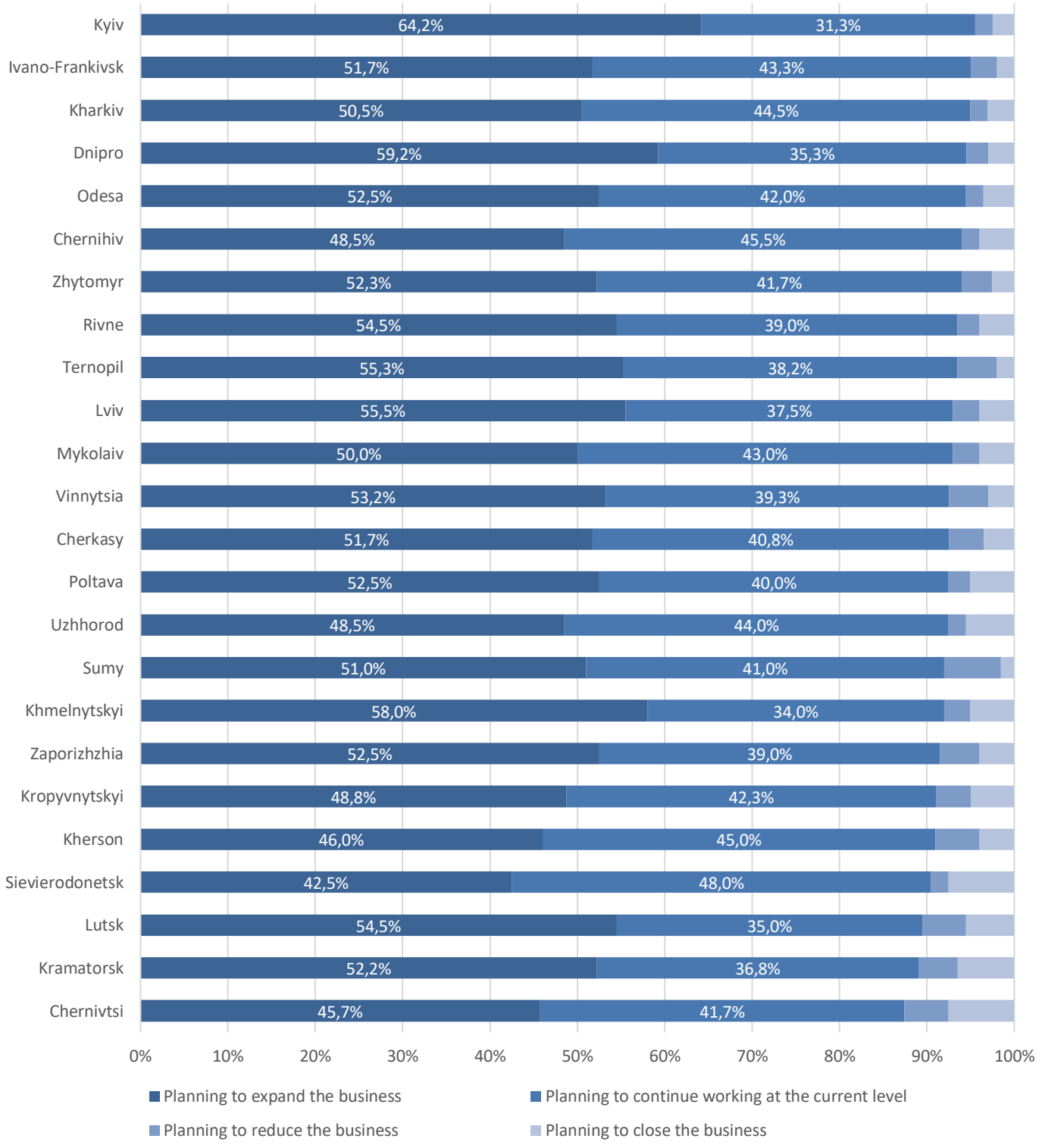
**Box 3. How the plans of firms and entrepreneurs for business activity have changed**

If we express the answers to this question with a single numerical indicator, it will make it possible to compare the plans for business activity changes declared by the participants of this research with the plans expressed by business in previous surveys. To do this, calculate the index on a scale from -1 to 1, where the answers about business expansion plans will correspond to 1, plans not to change the volume of business will correspond to zero and plans to reduce or close business volumes will correspond to -1. Calculate the index as the average of all answers. Its value is positive and equal to +0.45, i.e. reflects the fact that the share of respondents who plan to expand the business is greater than the share of those who plan to close or reduce its volume.

In the second wave of the 2016 Annual Business Climate Assessment in Ukraine - ABCA survey, SMEs were also asked whether they plan to change their business activity in the medium term of the next two years. At that time, the plans of entrepreneurs and enterprise managers were also mostly positive, but somewhat more modest: the corresponding index of expected changes in business activity was +0.38. In 2020, it is +0.44 for SMEs[35]. This indicates an increase in business optimism (albeit moderate) regarding future development in 2020 compared to 2016.

[35] This is the value of the index of expected changes in business activity without weighing the data and without taking into account the responses of large enterprises.

*Fig. 89. Plans to change business activity by the city where the business operates (from a larger to a smaller share of enterprises and IEs who plan to expand or not change their activities), %*

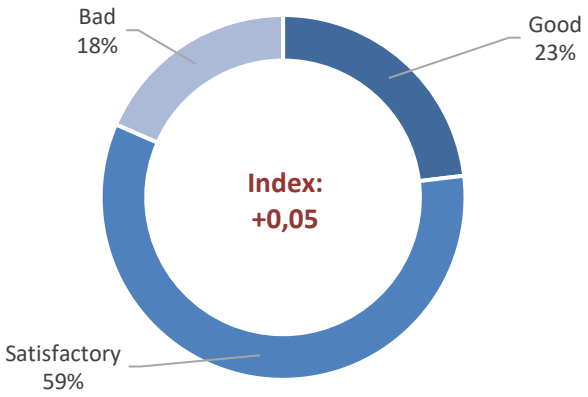


## 6.4. Financial and economic conditions of enterprises (IEs): now and in six months

### 6.4.1. Attitudes to the current financial and economic conditions of enterprises (IEs)

***Overall assessment and index.*** The majority of entrepreneurs and enterprise managers (59%) surveyed assessed the current financial and economic situation as satisfactory. The rest of the business representatives were divided into a larger share of those who consider it good (23%) and a smaller share of respondents who believe that it is bad (18%).

*Fig. 90. Attitudes to business financial and economic conditions, %*

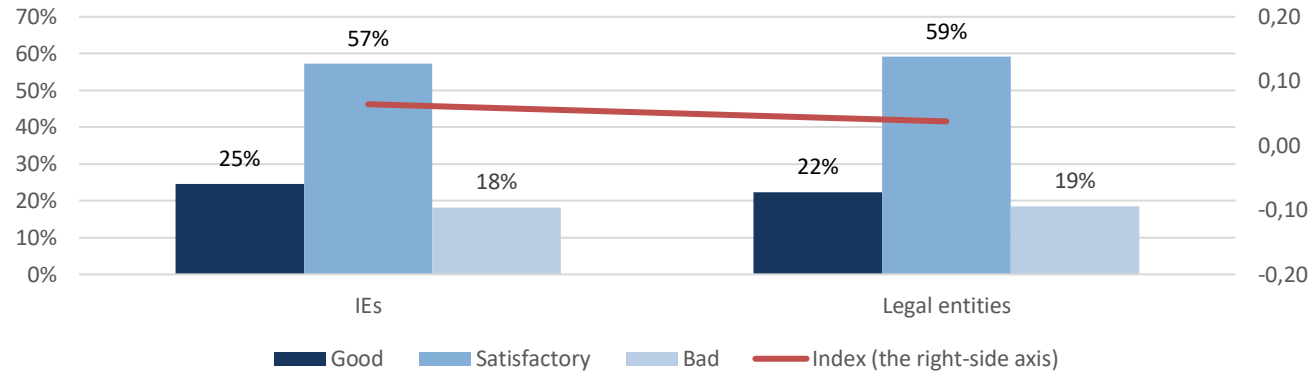



To see what moods and expectations of the business prevail, as well as to compare them with each other in time and among different sample groups, they can be translated into a scale from -1 to 1, where positive assessments and expectations of change for the better will match 1, negative assessments and expectations of change for the worse will correspond to -1, and satisfactory assessments or expectations that changes will not occur will correspond to zero. The index is calculated as the average of all responses. Thus, positive values of this indicator (index) will mean that positive assessments or expectations outweigh negative ones, and negative ones - that negative assessments or expectations outweigh positive ones. If the shares of positive and negative assessments or expectations are equal, the value of the index will be zero.

Since among the business surveyed assessments of their conditions positive ones prevailed, the overall index of financial and economic conditions assessment for enterprises and IEs the surveyed was +0.05. It can be conditionally called positive, but it is very close to zero.

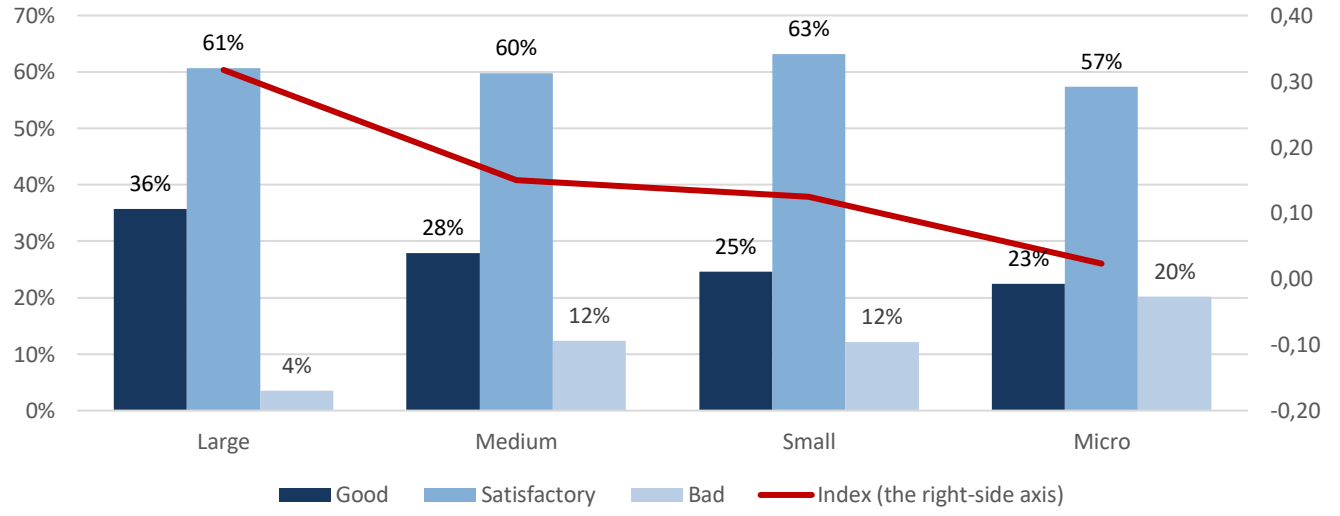
***Attitudes to business financial and economic conditions by type of business.*** Individual entrepreneurs are almost indistinguishable from legal entities in their assessments of the financial and economic conditions. 25% of individual entrepreneurs and 22% of legal entities estimated the conditions for their business positively, and 18% of IEs, and 19% of legal entities - negatively. Accordingly, the values of the indices for assessing the financial and economic conditions are very close: for IEs, this index was +0.06, and for legal entities +0.04.

*Fig. 91. Attitudes to business financial and economic conditions (by type of business), %*



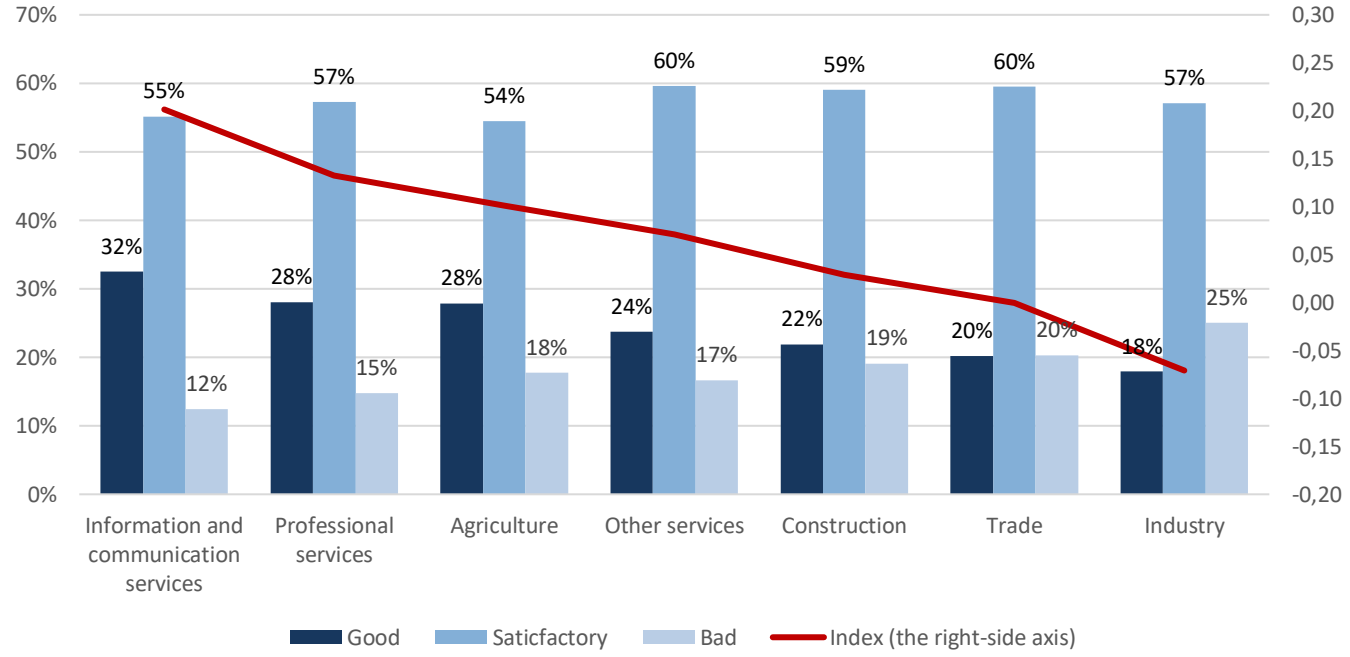

***Attitudes to business financial and economic conditions by business size.*** There is a direct relationship between the size of the business surveyed and its estimates of its own financial and economic conditions. If 36% of respondents representing big business rated this condition positively, among microenterprises this share was only 23%. While only 4% of large enterprises assess their current conditions negatively, in microbusiness the share of negative assessments is almost equal to the share of positive ones: 20%. Accordingly, the index of the assessment of the financial and economic conditions of business is the largest for big enterprises (+0.32) and decreases to +0.15 and +0.13 for enterprises and IEs of medium and small size, and for microenterprises reaches almost zero: +0.02.

*Fig. 92. Attitudes to business financial and economic conditions (by business size), %*




***Attitudes to business financial and economic conditions by sector.*** Representatives of businesses operating in different sectors of the economy did not assess their own financial and economic situation in the same way. The best marks are awarded by IEs and enterprises of the information and communication services sector. 32% of respondents in this sector considered their conditions good, and 12% - bad. Consequently, the index of assessment of the business financial and economic conditions is 0.2 for the information and communication services sector, and that is higher than in other sectors.

*Fig. 93. Attitudes to business financial and economic conditions (by sector), %*




Statistics of this sector in Ukraine show that it demonstrates growth: in the fourth quarter of 2019, services worth more than UAH 43 billion[36] were sold in the information and telecommunications sector, and that is 3 billion UAH more than in the IV quarter of 2018[37]. The only sector where this index is negative is the industry.

Here it was -0.07 due to the fact that the share of enterprises and IEs engaged in industry assessing their own financial and economic conditions as bad (25%), exceeds the share of those who rated it "good" (18%). This is also in line with statistics showing a decline in industrial production: according to the State Statistics Service, the industrial production index was 91.4% in March 2020 compared to March 2019[38]. In the trade and construction sectors, the index of the assessment of the financial and economic conditions is also low: it is 0 for trade and +0.03 for construction.

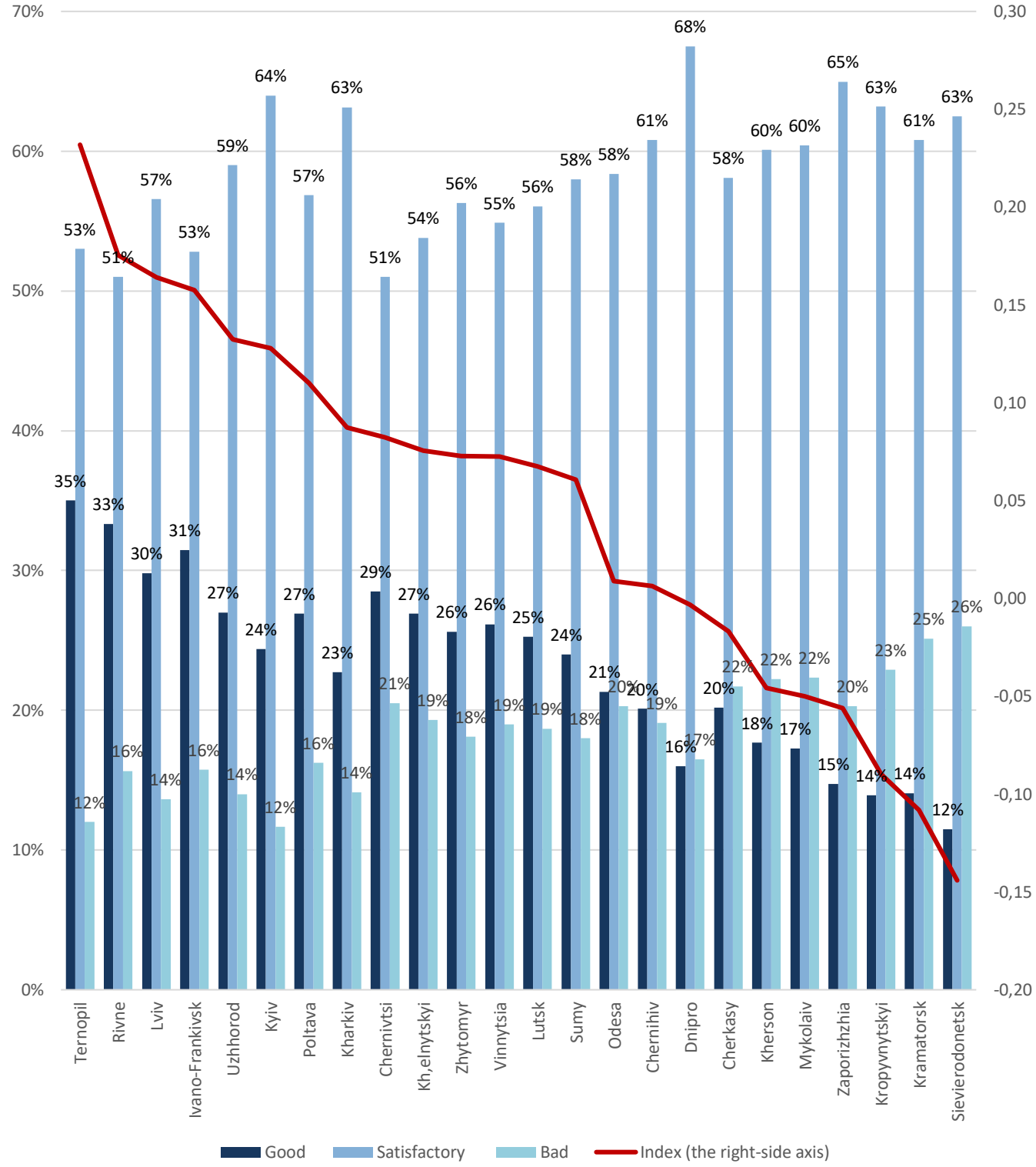
***Attitudes to business financial and economic conditions in the cities.*** There are significant differences between businesses in different cities in assessing their own financial and economic conditions. The value of the corresponding index ranges from +0.23 in Ternopil (where 35% of enterprises and IEs rated their situation good, and the percentage of negative evaluations is one of the lowest: 12%) to -0.14 in Sievierodonetsk (where the share of business with negative evaluations of own conditions reaches 26% and significantly exceeds the share of respondents with positive assessments, which amounted to 12%). In addition to Ternopil, cities with a relatively large share of positive assessments of their financial and economic conditions in business are Rivne (33%), Ivano-Frankivsk (31%), Lviv (30%) and Chernivtsi (29%). And most respondents who considered the condition of their business bad, except Sievierodonetsk, were recorded in Kramatorsk (25%) and Kropyvnytskyi (23%), as well as in Mykolaiv and Kherson (22% in each).

[36] State Statistics Service of Ukraine. A volume of sold services in the IV quarter of 2019. Express issue 25.02.2020 http://www.ukrstat.gov.ua/express/expr2020/02/21.pdf

[37] State Statistics Service of Ukraine. A volume of sold services in the IV quarter of 2018. Express issue 02/25/2019 http://www.ukrstat.gov.ua/express/expr2019/02/25.pdf

[38] The index is adjusted for the effect of calendar days. State Statistics Service of Ukraine. Industrial production in January-March 2020. Express issue 23.04.2020 http://www.ukrstat.gov.ua/express/expr2020/04/48.pdf

*Fig. 94. Attitudes to the financial and economic conditions in cities, %*



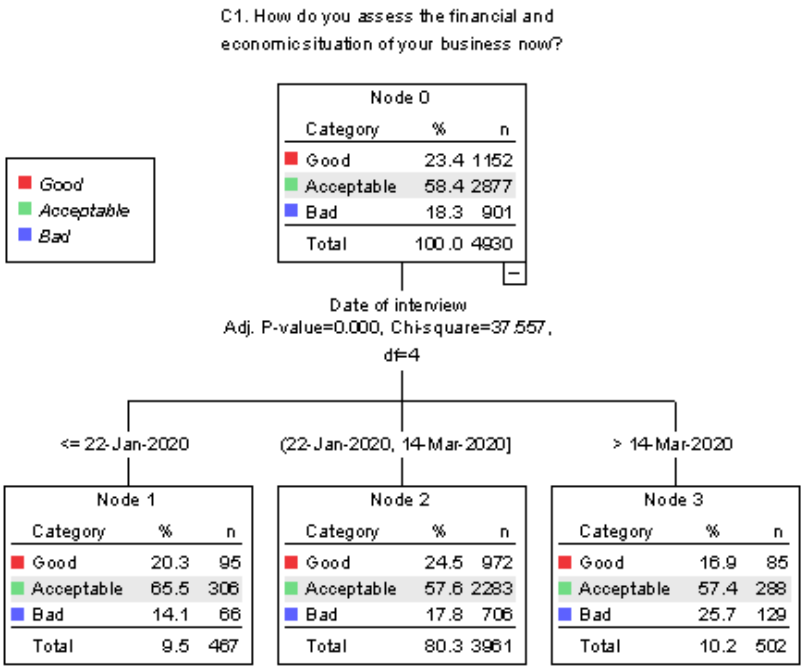

***The impact of quarantine on the attitudes to business financial and economic conditions.*** "Decision tree" statistical classification method allows dividing the survey participants according to a certain criterion

into categories, between which there will be the largest statistically significant difference. If to choose the date of the survey as this criterion (independent variable), it can be seen that it divides all respondents who assessed the financial and economic conditions of their business into three categories.

The first includes those who were interviewed before January 22 inclusive, the second includes respondents who were interviewed from January 23 to March 14 inclusive, and the third includes those interviewed from March 15 onwards. The third category differs from the first two by a sharp decrease in positive assessments and an increase in negative ones.

If at the beginning of the survey the share of entrepreneurs and company executives who considered the financial and economic conditions of their business to be good is 20% and even increases to almost 25% in February and the first half of March, after March 15 it decreases sharply to 17%. At the same time, the share of enterprises and individual entrepreneurs who give poor assessments increased to almost 26% in the second half of March, while before that it was 18% in February and the first half of March and was even lower (14%) at the beginning of the poll.

*Fig. 95. Attitudes to the financial and economic conditions of business by the date of the survey, modeled by the "decision tree" classification method*



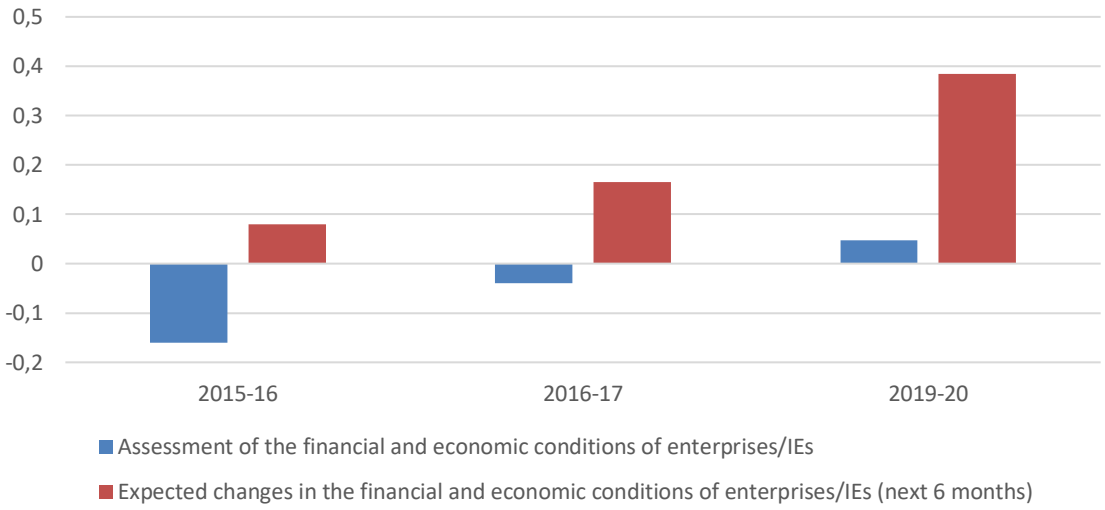

If to define March 15 as the start date of quarantine, which is confirmed by the above analysis, and divide all entrepreneurs and enterprise managers surveyed into two groups: those who were interviewed before and after quarantine, it can be seen that the index of financial and economic conditions for the former is greater than for the latter. For companies and IEs surveyed before the quarantine started, this index is +0.06, and for those who were interviewed when the quarantine has begun, this index is negative and is -0.9. This indicates that under quarantine conditions, the financial and economic situation of businesses in Ukraine has deteriorated and the profitability and business activity of firms and private entrepreneurs is likely to decline.

**Box 4. How the index of attitudes to of financial and economic condition changed**

If to compare the obtained index of attitudes to the current financial and economic conditions of enterprises and IEs with the index calculated from the second wave of small and medium business surveys within the study "Annual

assessment of the business climate in Ukraine - ABCA", it can be seen that it increased slightly (after recalculation excluding large enterprises to match the sample of the ABCA survey, it is also equal to +0.05[39]). In the second wave of the ABCA survey, this index was -0.04. However, both values are close to zero, so it can be concluded that the financial and economic conditions of Ukrainian business have not changed significantly for the better in the last few years.

***Business activity: attitudes and expectations***



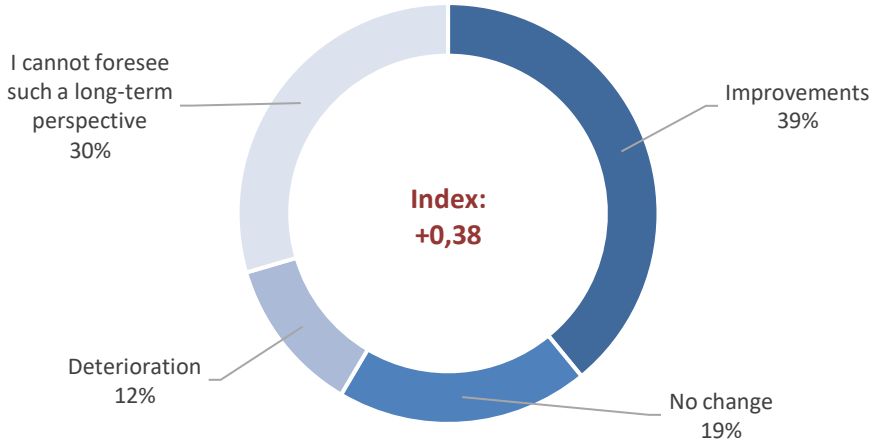

### 6.4.2. Expected changes in the financial and economic conditions of enterprises and IEs

***Overall assessment and index.*** In their expectations for the near future (the next six months), business owners and managers are mostly optimistic or admit that they cannot predict their prospects even for such a relatively short time. Thus, 39% of IEs and enterprises expected that the conditions of their business would improve in 6 months, and 30% said that they could not make forecasts for this period. Also, there were 12% of business representatives who expected the situation to worsen in the near future among the respondents and 19% of those who believed that during this time the conditions of their business will not change.

Consequently, the index of expected financial and economic conditions changes, that was calculated without taking into account the share of respondents who could not make a forecast, is +0.38, which is more than the index of the current financial and economic environment by IEs and enterprises surveyed (+0.04).

[39] This is the value of the index of assessment of financial and economic condition without weighing the data and without taking into account the responses of large enterprises.

*Fig. 96. Expected changes in business financial and economic conditions, %*

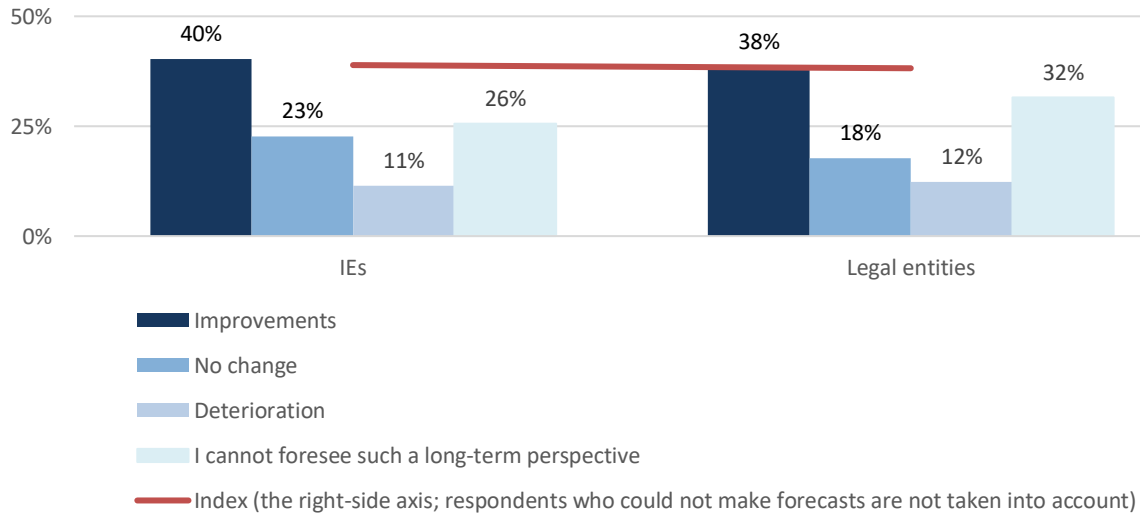



***Expected changes in business financial and economic conditions by type of business.*** There is practically no difference between the frequency of optimistic and pessimistic forecasts about the conditions of business in six months between individual entrepreneurs and legal entities. 40% of IEs and 38% of legal entities made positive assumptions about their activities in the near future, while 11% of IEs and 12% of legal entities said that they expect their financial and economic conditions to deteriorate. Due to this, the indices of expected changes in the financial and economic conditions for these two groups of respondents are almost the same: +0.39 for IEs and +0.38 for legal entities.

However, it should be noted that among the heads of legal entities there are slightly more respondents who could not make predictions about how the state of their enterprise will change in the next six months. This share was 32% compared to 26% of private individuals.

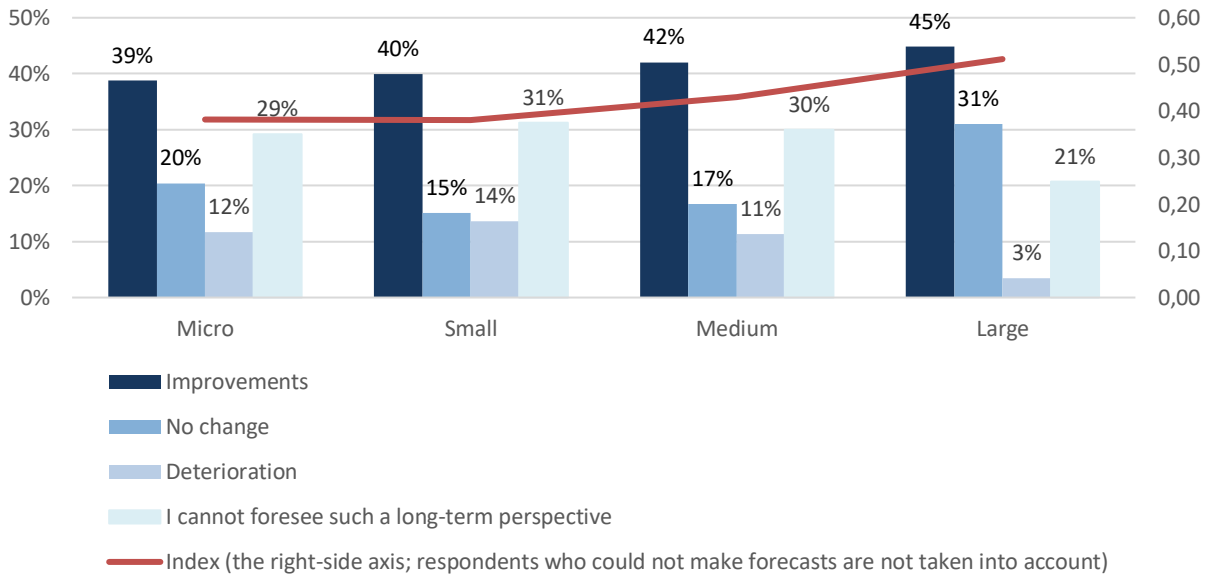
However, it should be noted that among the managers of legal entities there are slightly more respondents who could not make predictions about how the conditions of their enterprise will change in the next six months. This share was 32% compared to 26% of IEs.

*Fig. 97. Expected changes in business financial and economic conditions (by type of business), %*



***Expected changes in business financial and economic conditions by business size.*** There are differences between enterprises and IEs of different sizes in expectations about future changes in their financial and economic conditions, but they are not as pronounced as in estimates of its current state.

*Fig. 98. Expected changes in business financial and economic conditions (by business size), %*

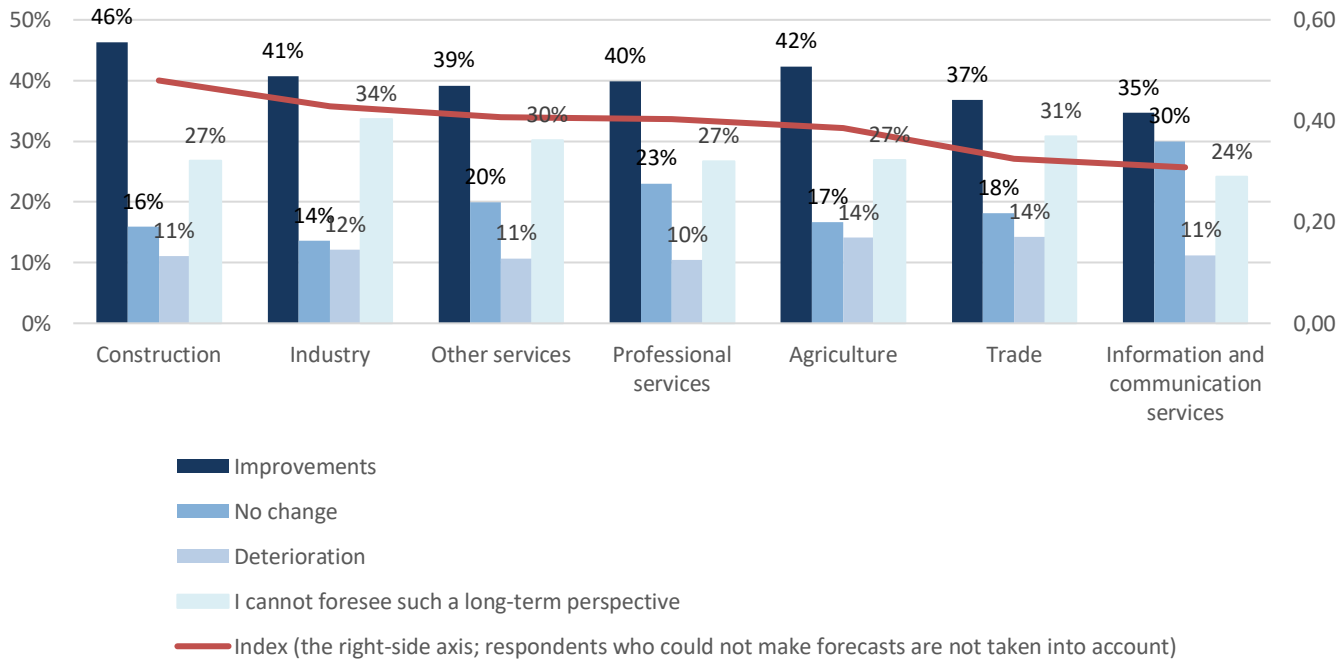



The share of respondents with optimistic expectations is gradually growing from 39% among microenterprises to 45% among big businesses, while the share of those who expect the deterioration of their business remains almost the same for firms and entrepreneurs of micro-, small and medium-sized businesses. (from 11% to 14%).

However, for big business, it decreases to only 3% of respondents. As a result, the value of the index of expected financial and economic conditions changes is similar for businesses of micro- (+0.38), small (+0.38), and medium-size (+0.43), but increases to +0.51 for big business. Additionally, there are relatively fewer managers of large enterprises who could not anticipate changes in the financial and economic conditions of their enterprises (21%).

***Expected changes in business financial and economic conditions by sector.*** *IEs* and enterprises providing information and communication services expressed the least positive expectations for changes in their financial and economic situation in six months. The share of respondents in this sector who expected their business to improve was 35%. This may indicate that despite the relatively better current conditions of this sector (estimates of which are the highest compared to other sectors), its growth may slow down. On the other hand, construction and industry, whose representatives provided rather moderate assessments of the financial and economic conditions of their business at the time of the survey, were optimistic about its chances. 46% of companies and IEs in the construction and 41% in the industry expected that in 2020 the conditions of their business will improve. At the same time, trade firms and entrepreneurs have both relatively lower assessments of their current conditions and a worse ratio of positive (37%) and negative (14%) expectations in the short term than most other sectors surveyed.

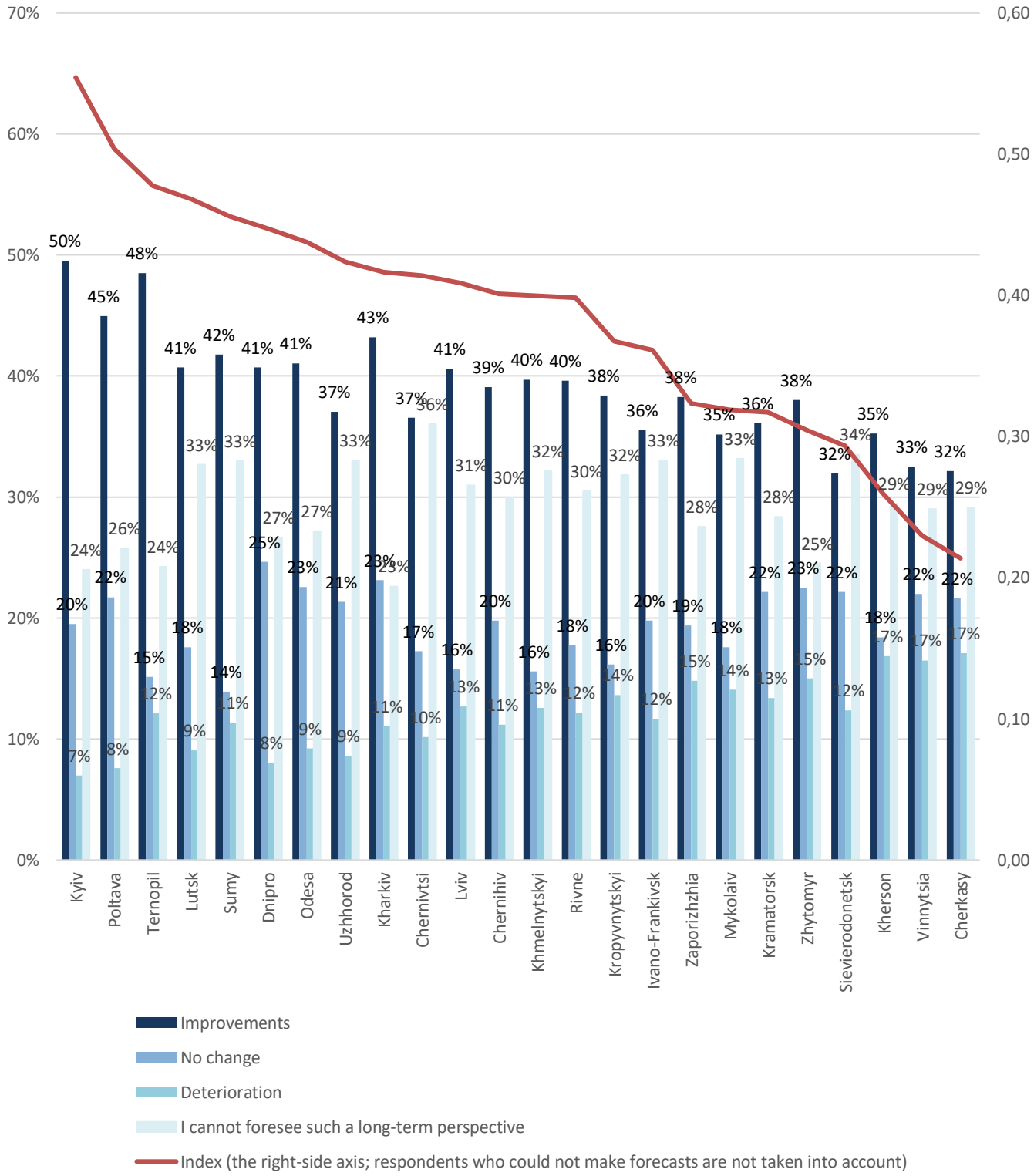
*Fig. 99. Expected changes in business financial and economic conditions (by sector), %*




Due to this, the values of the index of expected changes in the financial and economic conditions of business were the highest for construction (+0.48) and industry (+0.41), and the lowest for trade and information and communication services (+0.33 and +0, 31 respectively). The percentage of respondents who could not predict what the situation will be with their business in six months is the highest in the industry (34%) and the lowest in information and communication services (24%).

***Expected changes in financial and economic conditions of business in the cities.*** The value of the index of expected changes in the financial and economic conditions of business is positive in all cities covered by this survey. However, there are significant differences in business expectations between cities. In Kyiv, they are the best: half of the businesses surveyed in the capital thought that they would improve their conditions over the next six months, and only 8% of respondents had negative expectations.

*Fig. 100. Expected changes in financial and economic conditions of business in the cities, %*

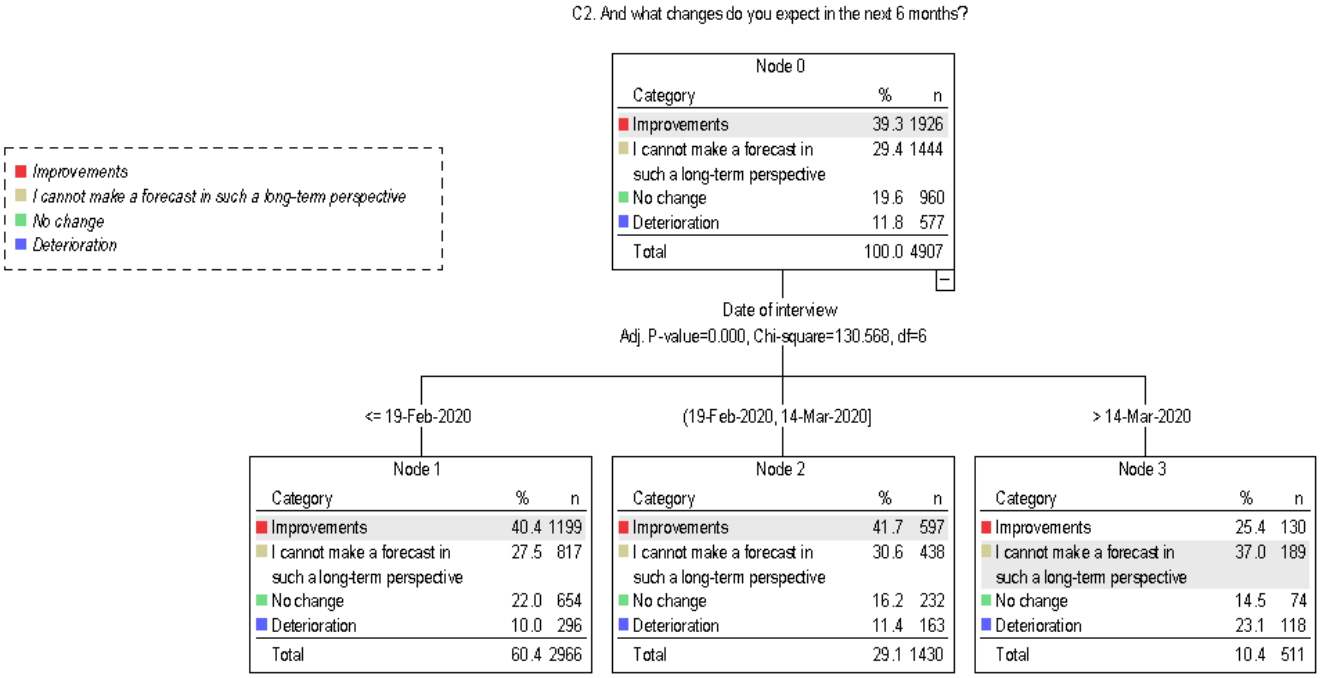



The highest values of the index of expected changes in the financial and economic conditions were recorded in Kyiv (+0.55), Poltava (+0.5), Ternopil (+0.48), and Lutsk (+0.47). Cities, where the values of this indicator are the lowest, are Cherkasy (+0.21), Vinnytsia (+0.23), and Kherson (+0.26). In general, there is a connection between how businesses in each city assess the current financial and economic environment, and what are its forecasts for the next six months.

Thus, if businesses in the city have better assessed their situation at the time of the survey, it is likely that the expectations of firms and entrepreneurs in this city will be better. But there are a few cities that are exceptions to this rule. These are Kropyvnytskyi and Dnipro, which had rather low assessments of the current situation among enterprises and IEs (the value of the index of attitude to the financial and economic condition was -0.09 and 0, respectively), but where relatively high values of the index of expected changes in the financial and economic condition of business were recorded (+0.37 in Kropyvnytskyi and +0.45 in Dnipro). This indicates that business in these cities saw opportunities for development in 2020, despite the difficult situation.

***The impact of quarantine on the expected changes in the financial and economic conditions of business.*** In the case of expectations of a change in financial and economic conditions, it can also be seen that after the introduction of quarantine, there were more pessimism and uncertainty. Thanks to the "decision tree" classification method it can be seen that respondents who answered the questions about the expected changes in the conditions of their business are divided into three groups according to the date of the survey, between which statistically significant difference is the biggest.

*Fig. 101. Expected changes in the financial and economic conditions of the business by the date of the survey, modeled by the "decision tree" classification method*




The first group is IEs and enterprises, which were interviewed before February 19 inclusive. Most of them (40%) expect that their financial and economic condition improves, and the other share is respondents who could not predict a change in their conditions. It is almost 28%. For respondents interviewed between February 20 and March 14, the share of the latter increases to 31%. And for the third group of respondents, who were interviewed in the second half of March (after the quarantine start) the share of the business, which cannot predict what will happen to it in six months, reaches 37%. This answer was the most common among respondents interviewed during the quarantine period. Negative expectations also increased: 23% of respondents in the third group said they expected their business to deteriorate over the next six months. The share of optimistic forecasts decreased to 25%.

Consequently, even the index of expected changes in the financial and economic environment in the short term, which does not take into account the responses that did not make forecasts, falls sharply from +0.42 for all

respondents surveyed before March 14, 2020, to +0.04 for those who took part in the survey from March 15. Thus, for most Ukrainian businesses with the coronavirus epidemic and quarantine, a period of uncertainty about their future has begun, and those managers and entrepreneurs who have tried to predict it have almost as often predicted business deterioration as an improvement.

**Box 5. Changes in expectations about the business conditions: comparison with other surveys**

The index of expected changes in the financial and economic condition of enterprises and IEs, obtained in this survey, can be compared with the same index calculated by the results of 2016 "Annual assessment of the business climate in Ukraine - ABCA" research. To do this, we need to exclude large enterprises from our sample to bring it closer to the sample of the ABCA survey, which covered only SMEs. However, the value of the index has not changed and is +0.38, even except for large enterprises[40]. This is significantly more than the value of this index in 2016 when it was +0.17.

However, the significant decline in this index after the quarantine started, recorded by this survey, suggests that if this survey was conducted later in 2020, business forecasts would be more pessimistic. This opinion is confirmed by researches of the National Bank of Ukraine. According to the results of business surveys, the NBU recorded a rapid deterioration in business sentiment "against the background of anti-epidemiological restrictions introduced in Ukraine." [41] The index of business activity expectations, calculated by the NBU on a scale from 0 to 100, decreased from 45.8 in March 2020 to a record low of 29.9 in April. At the same time, according to the NBU, in the services sector, this index decreased to the lowest level (20.4).

Quarterly enterprise surveys by the State Statistical Service of Ukraine also recorded a deterioration in business expectations regarding their business activity. The index of business confidence, which SSSU calculates separately for the main sectors of the economy, decreased in each of these sectors. In industry, it fell from -6% in the IV quarter of 2019 to -23.3% in the I quarter of 2020[42], in construction from -21.7% in the IV quarter of 2019 to -48.2 % in the I quarter of 2020[43], in the trade from + 3.7% in the IV quarter of 2019 to -19.7% in the I quarter of 2020[44], and in the services sector from -1% in IV quarter of 2019 to -43.5% in the I quarter of 2020[45].

## 6.5. General economic environment through the eyes of business: attitudes and expected changes

### 6.5.1. Attitude to the current general economic environment for business activities

***Overall assessment and index.*** About half of the entrepreneurs and company executives rated the current general economic environment as satisfactory. However, among the rest of them, negative assessments prevail: 23%

[40] This is the value of the index of expected changes in the financial and economic condition without weighing the data and without taking into account the responses of large enterprises.

[41] National Bank of Ukraine. Monthly surveys of Ukrainian enterprises. April 2020. https://bank.gov.ua/admin_uploads/article/Business_survey_m_2020_04.pdf?v=4

[42] State Statistics Service of Ukraine. Expectations of industrial enterprises in the second quarter of 2020 regarding the prospects for the development of their business activity http://www.ukrstat.gov.ua/operativ/operativ2020/fin/rp/prom/prom_II_2020.pdf

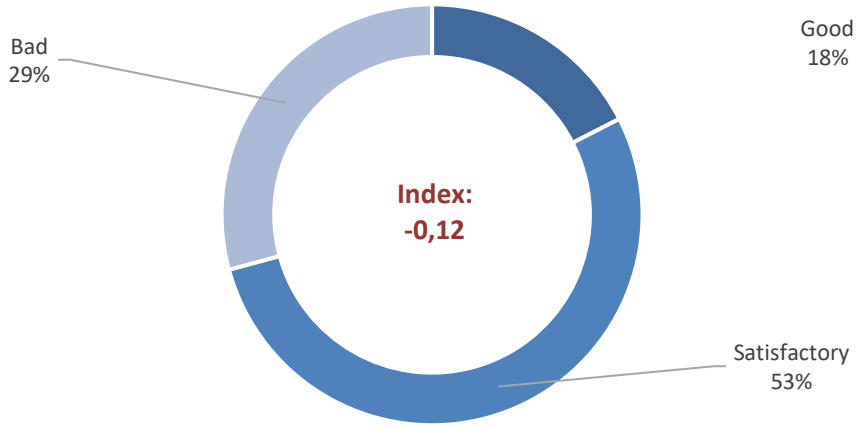
[43] State Statistics Service of Ukraine. Expectations of construction companies in the second quarter of 2020 on the prospects for the development of their business activity http://www.ukrstat.gov.ua/operativ/operativ2020/fin/rp/bud/bud_II_2020.pdf

[44] State Statistics Service of Ukraine. Expectations of retail trade enterprises in the second quarter of 2020 regarding the prospects for the development of their business activity http://www.ukrstat.gov.ua/operativ/operativ2020/fin/rp/torg/torg_II_2020.pdf

[45] State Statistics Service of Ukraine. Expectations of service enterprises in the second quarter of 2020 regarding the prospects for the development of their business activity http://www.ukrstat.gov.ua/operativ/operativ2020/fin/rp/posl/posl_II_2020.pdf

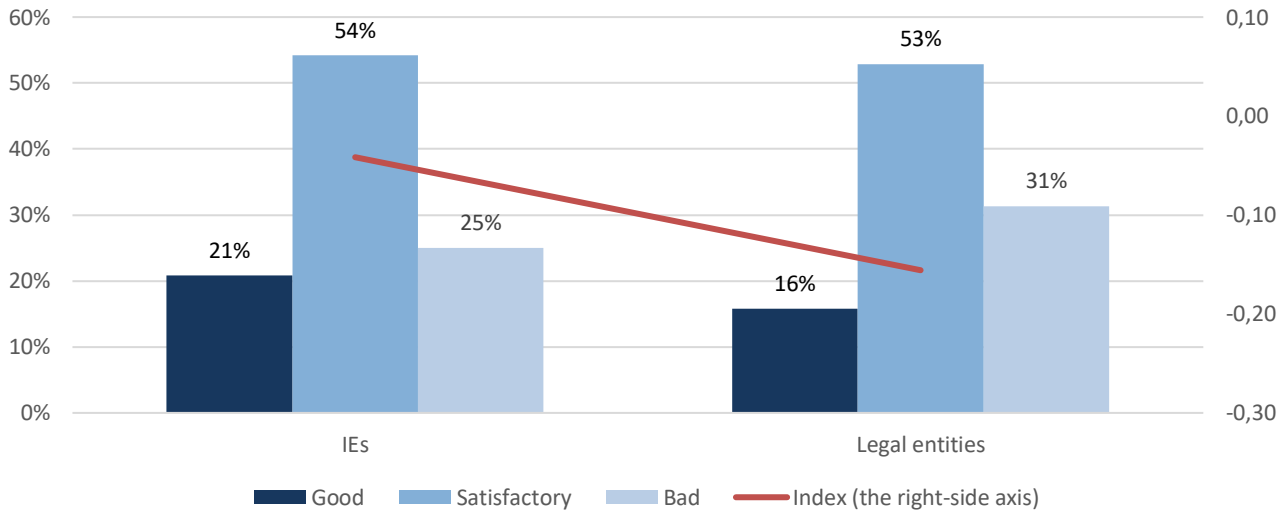
of respondents considered the general economic environment to be bad, and 18% to be good. Due to this, the index of attitude to the general economic environment for business activities has a negative value: -0.12.

*Fig. 102. Attitude to the general economic environment for business activities, %*



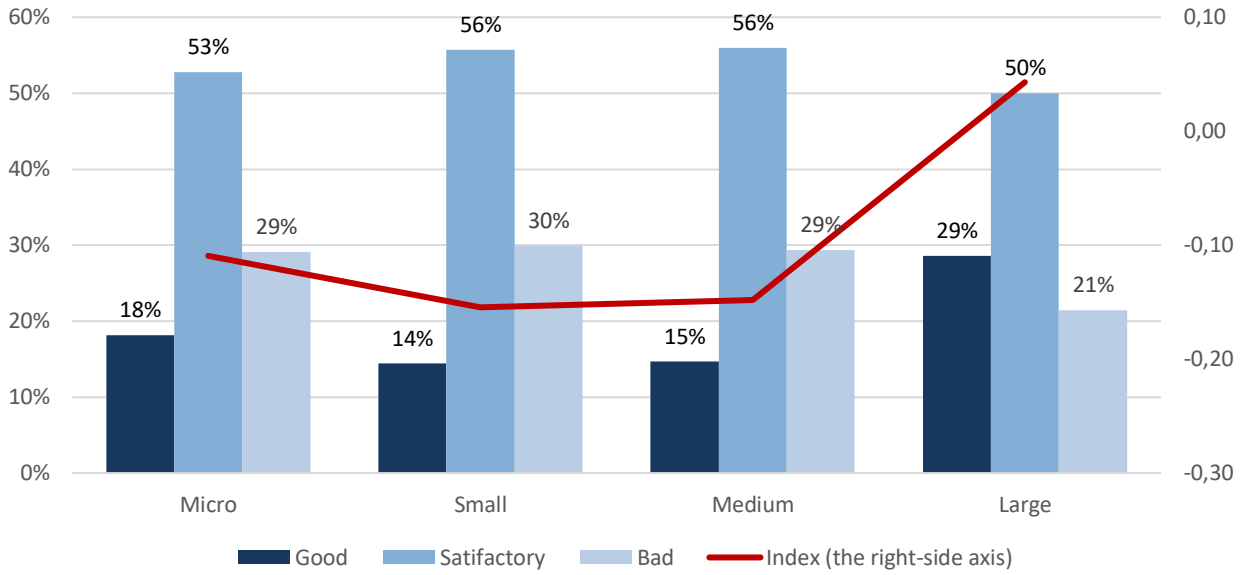

***Attitude to the general economic environment by type of business.*** Legal entities assessed the general economic situation in the country better than individual entrepreneurs at the time the survey was held. While 21% of IEs considered the general economic environment favorable, there were only 16% among legal entities with the same opinion. Conversely, 31% of legal entities, as opposed to 25% of IEs, believed that the economic conditions in the country were bad. As a result, the index of attitude to the general economic environment for legal entities is lower than for individuals: -0.16 compared to -0.04.

*Fig. 103. Attitude to the general economic environment for business activities (by type of business), %*



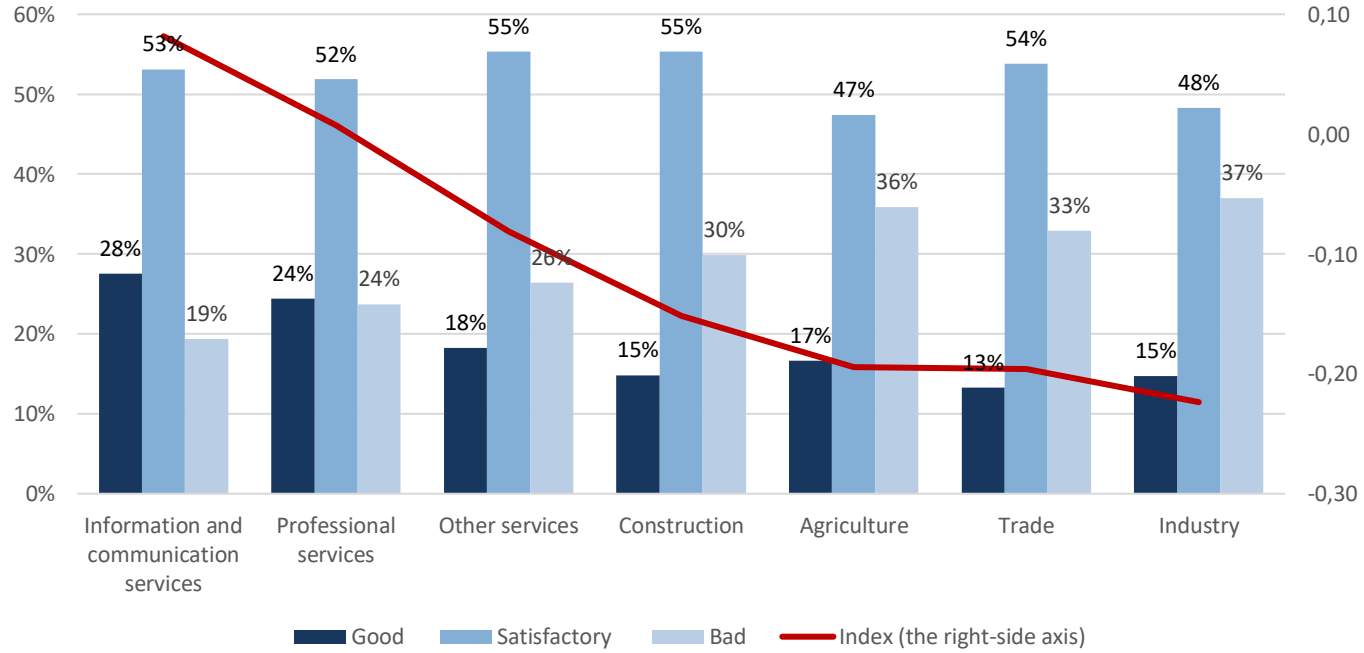

***Attitude to the general economic environment by business size.*** While among micro-, small and medium-sized businesses negative assessments of the current general economic situation dominate, among large enterprises the share of positive assessments (29%) is slightly higher than the share of negative (21%) General Economic Environment Assessment Index is -0.11 for microbusiness and decreases to -0.15 for small and medium-sized businesses. Large enterprises are the only business grouped by size, where the value of this index is slightly above zero and is +0.04.

*Fig. 104. Attitude to the general economic environment (by business size), %*



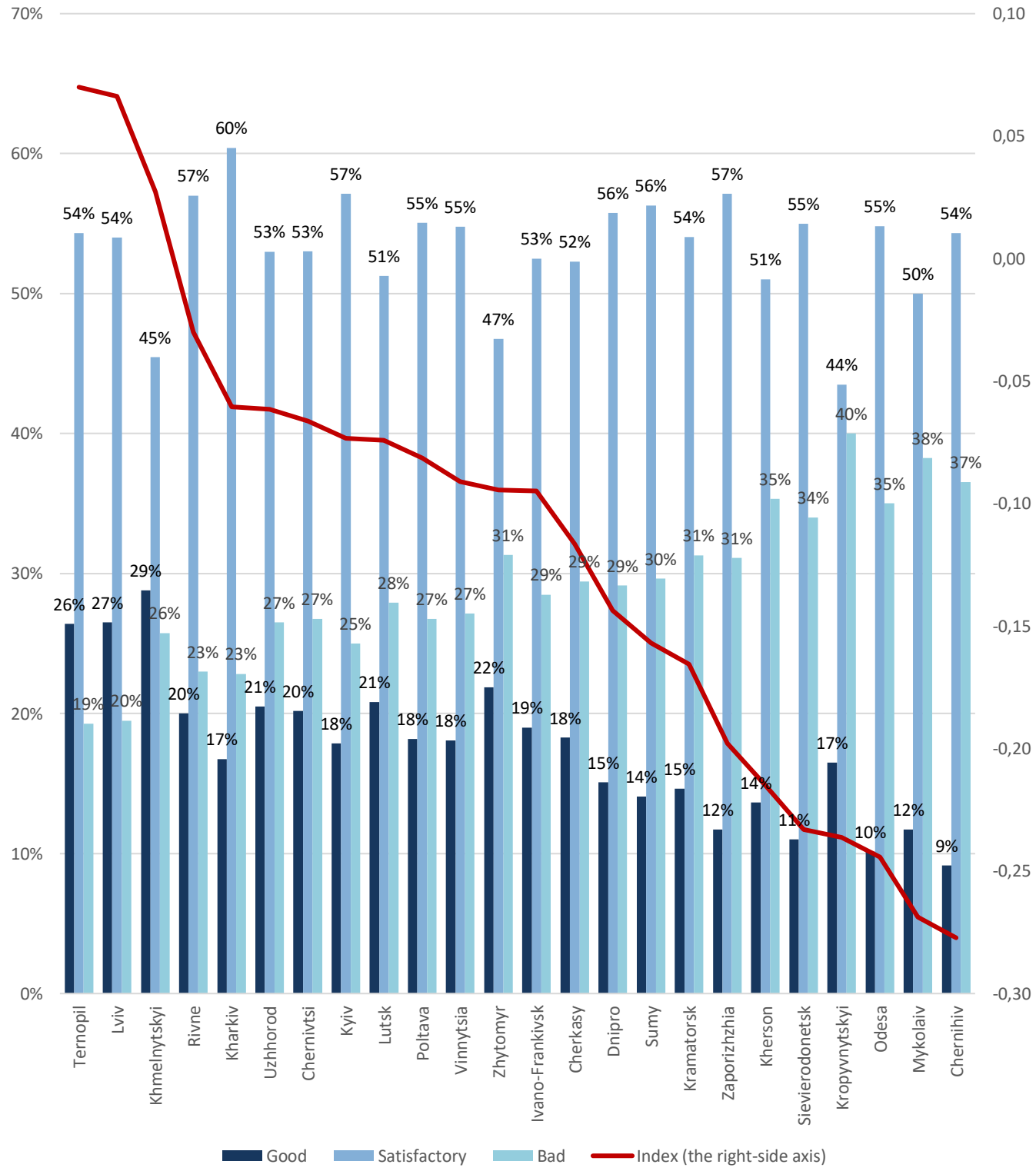

***Attitude to the general economic environment by sector. IEs*** and enterprises in different sectors differ in their assessments of the general economic environment. It was best rated by information and communication services. This is the only sector where the percentage of respondents who considered the current economic conditions favorable for business (28%) exceeded the share of those who rated them negatively (19%). Hence, the index of assessment of the general economic environment for business activity is positive only in this sector: its value was +0.08.

*Fig. 105. Attitude to the general economic environment (by sector), %*



In professional services the assessments are not so good: the share of respondents who considered the general economic environment to be good is equal to the share of those who considered it to be bad. Due to this, the value of the corresponding index for this area is close to zero: +0.01.

*Fig. 106. Attitude to the general economic environment for business in cities, %*

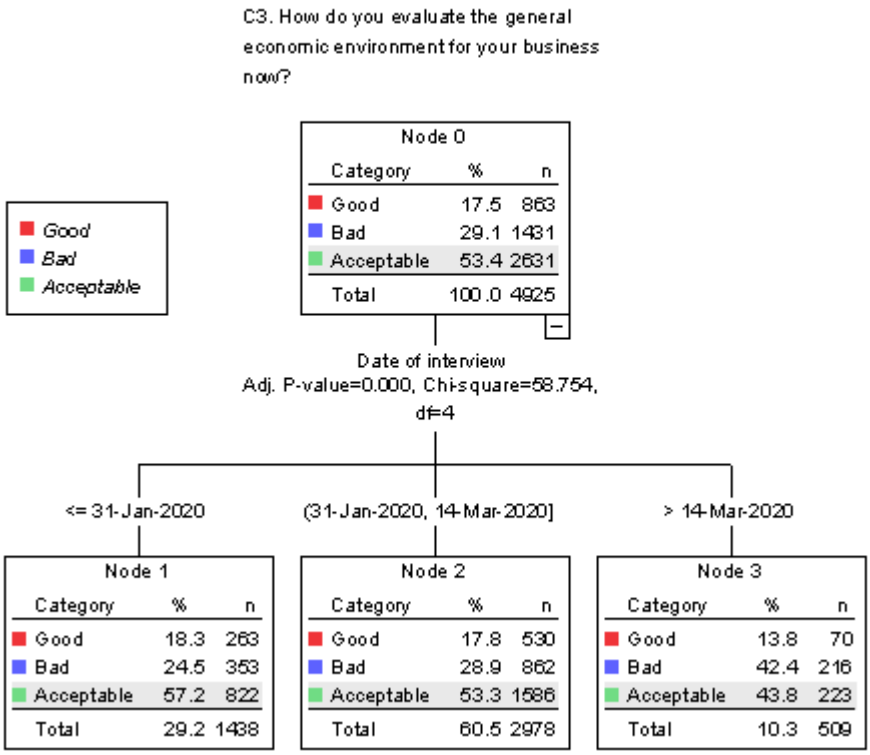


Industry, trade, and agriculture express the most negative assessments. More than a third of respondents in these sectors considered the current general economic situation in the country to be bad. The value of the general economic environment index assessments is negative for each of these industries. It amounted to -0.22 for industrial enterprises, -0.2 for trade and -0.19 for agriculture.

***Attitude to the general economic environment in cities.*** While the index of the general economic environment is negative for all respondents in general, there are only three cities where its value is higher or close to zero. These are Ternopil and Lviv, where this index is +0.07, and Khmelnytskyi, where the value of this index is +0.03. The share of businesses that assessed the general economic conditions in the country as good when the survey was held is slightly higher in these three cities than the share of enterprises and IEs who gave negative assessments. In other cities, this index has negative values, the lowest is in Chernihiv (-0.28) and Mykolaiv (-0.27). It should be added that the largest share of respondents who assessed the general economic environment negatively is observed in Kropyvnytskyi, where they amounted to 40%. At the same time, in this city, a relatively large share of business made positive assessments (17%) due to which the value of the general economic environment index assessment in Kropyvnytskyi is slightly higher: -0.24.

***The impact of quarantine on the attitude to the general economic environment.*** Just at the beginning of the quarantine, the business experienced a deterioration in the general economic conditions for its activities. Among business representatives surveyed since mid-March 2020, assessments of these conditions are deteriorating sharply. This can be seen by the statistical distribution performed by the "decision tree" classification method. We see that the participants of the study are divided into three groups according to their assessments of the general economic environment depending on the date of the survey.

*Fig. 107. Attitude to the general economic environment for the enterprise activity by the date of the survey, modeled by "decision tree" classification the method*



While among the respondents surveyed in the period up to the end of January 2020 (the first group) the assessments of the general economic environment as satisfactory (57%) confidently prevail, for those surveyed in February and the first half of March the share of neutral and positive assessments decreases and the percentage of negative increases to 29%. For the third group of respondents interviewed since March 15, this ratio is completely different. The share of business representatives who poorly assess the general economic conditions increases to 42%, and the share of those who gave neutral assessments decreases to 42%. Hence the difference in the value of the general economic environment assessment index before and after the introduction of quarantine. For all survey participants who answered this question before March 14, this index is -0.1, while for those surveyed after March 15, its value drops sharply to -0.28. This indicates that due to the coronavirus epidemic and quarantine, the market situation in Ukraine has deteriorated, and this is likely to have a further negative impact on business competitiveness.

**Box 6. How the general economic assessment index has changed**

A comparison of the general economic environment assessment index, calculated from the results of this survey, with the same index obtained in the survey "Annual Business Climate Assessment in Ukraine - ABCA" in 2016, will show how business economic assessments have changed during this time. To do this, let's calculate the index of this survey without taking into account large enterprises, in order to bring its sample closer to the sample of the ABCA survey, where only small and medium enterprises participated. With the exception of large enterprises (and without weighing), the general economic environment assessment index will be equal to -0.11.

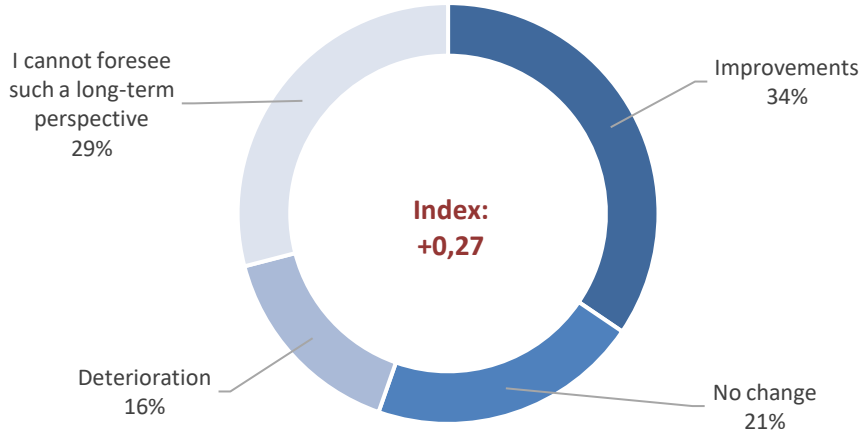
Although the value of this index is negative, it has increased significantly since 2016, when it was -0.29. This indicates that at least in early 2020, the general economic environment for doing business in Ukraine has become less unfavorable than four years before. However, the epidemic and quarantine interrupt this trend: we see that for businesses surveyed after the quarantine started this index again falls sharply to -0.28 (-0.29 excluding large enterprises and without weighing[46]), and this returns the assessment of conditions to do business in Ukraine to the level of 2016.

### 6.5.2. Changes expected in the general economic environment for business activities

***Overall assessment and index.*** The share of business representatives expecting an improvement in the general economic conditions for their activities in six months (34%) is twice bigger as the share of those who expect their deterioration (16%). Accordingly, the value of the index of changes expected in the general economic environment is positive: it is +0.27. The calculation of this index did not take into account respondents who could not predict how the country's economy will change in 2020. Their share in general is quite significant and is 29%. Another 21% of respondents said they did not believe that the general economic conditions in the country would change during this time.

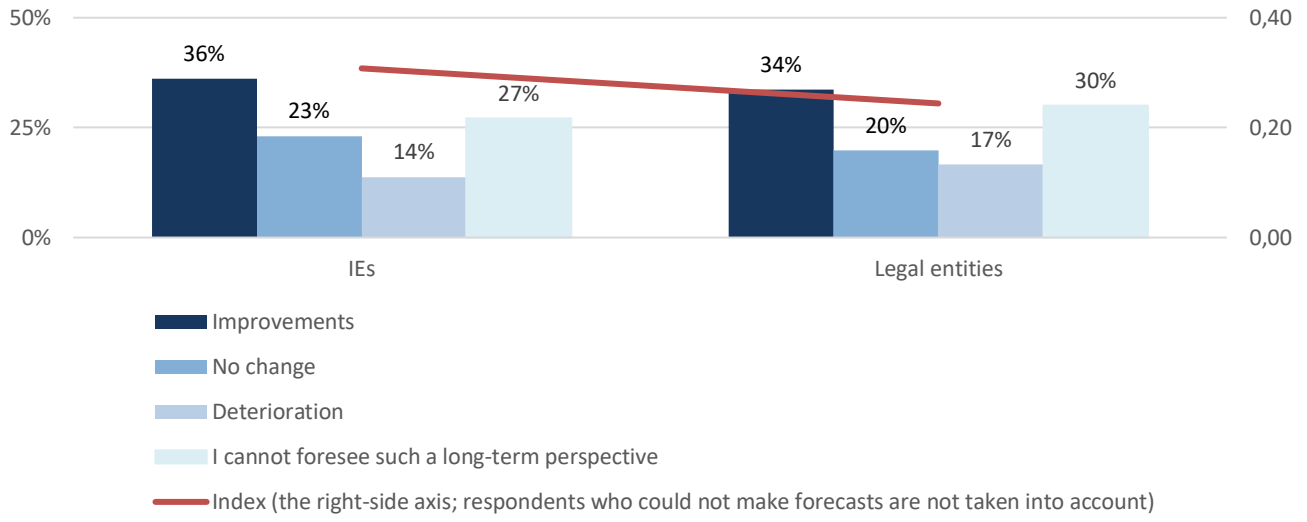
[46] This is the value of the general economic environment assessment index without weighing the data and without taking into account the responses of large enterprises.

*Fig. 108. Changes expected in the general economic environment for business activities, %*




***Changes expected in the general economic environment by type of business.*** Individual entrepreneurs made slightly better forecasts of changes in the general economic environment in 2020 than representatives of legal entities. The corresponding index of expected changes in the general economic environment was +0.31 for IEs and +0.24 for legal entities. This difference can be explained by the fact that most of the respondents surveyed after quarantine started (since mid-March 2020), were the managers of legal entities. By this time, economic conditions in Ukraine have already changed, and that is reflected in their responses. If to analyze separately the answers of the respondents who answered this question before and after the quarantine, it could be seen that before the quarantine there was no statistically significant difference between legal entities and IEs in expectations for short-term changes in the general economic environment.

*Fig. 109. Expected changes in the general economic environment for business activities (by type of business), %*




***Changes expected in the general economic environment by business size.*** Expectations for changes in the economy soon improve with the growth of the business surveyed. The share of optimistic expectations increases from 34% among firms and IEs of micro size to 38% among large enterprises, while the share of pessimistic ones decreases from 16% among businesses of the smallest size to 10% among large enterprises. Hence, the value of the index of expected changes in the general economic environment is +0.35 for big businesses and 0.32 for

medium-sized businesses and then decreases slightly to +0.28 for firms and IEs belonging to small businesses, and to +0, 26 for those belonging to microbusiness.

*Fig. 110. Expected changes in the general economic environment for business activities (by business size), %*

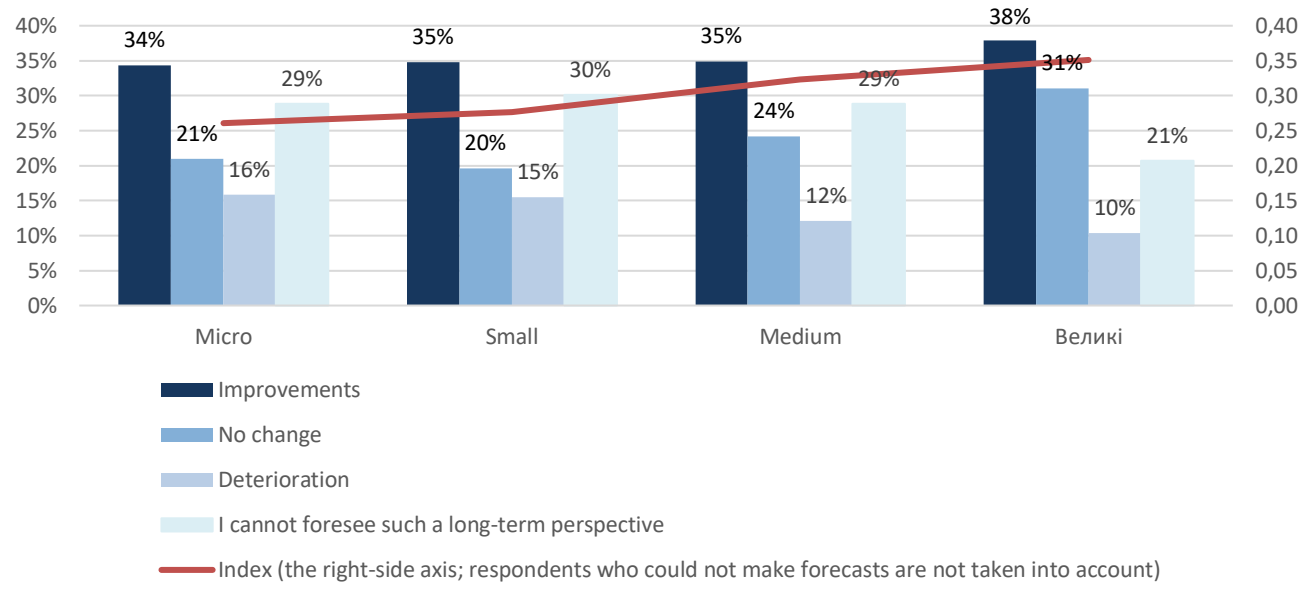



*Fig. 111. Expected changes in the general economic environment for business activities (by sector), %*

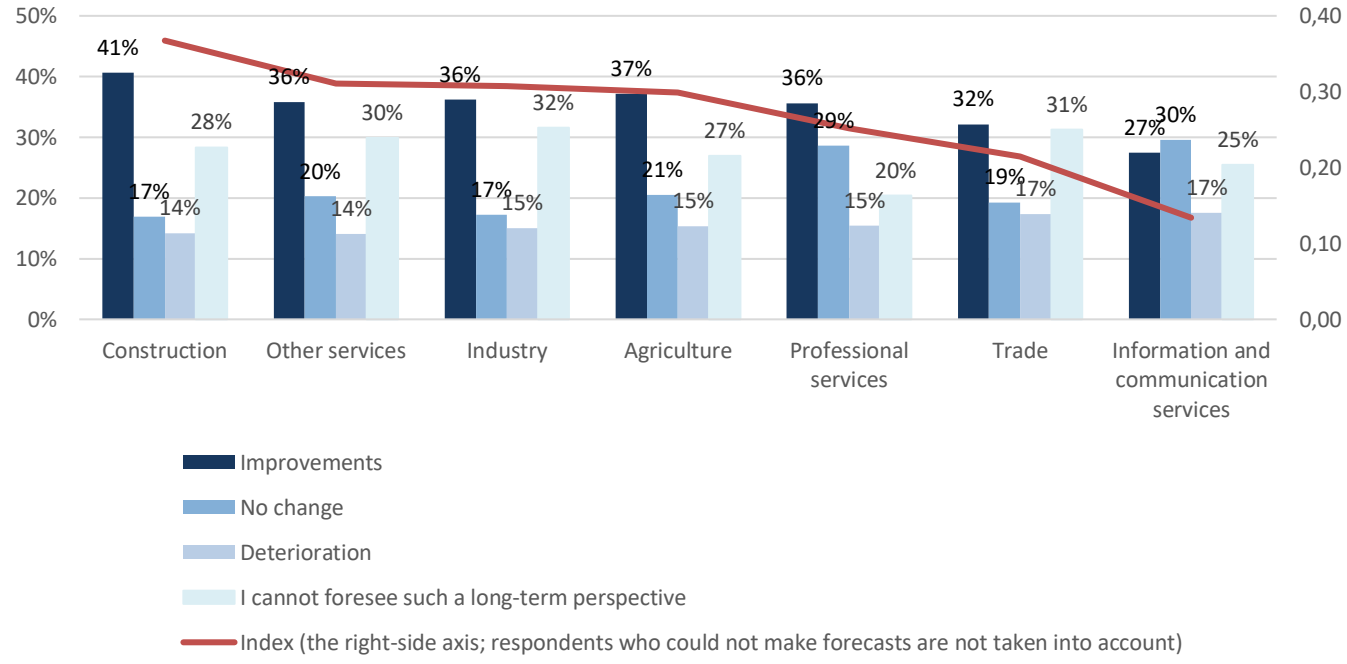
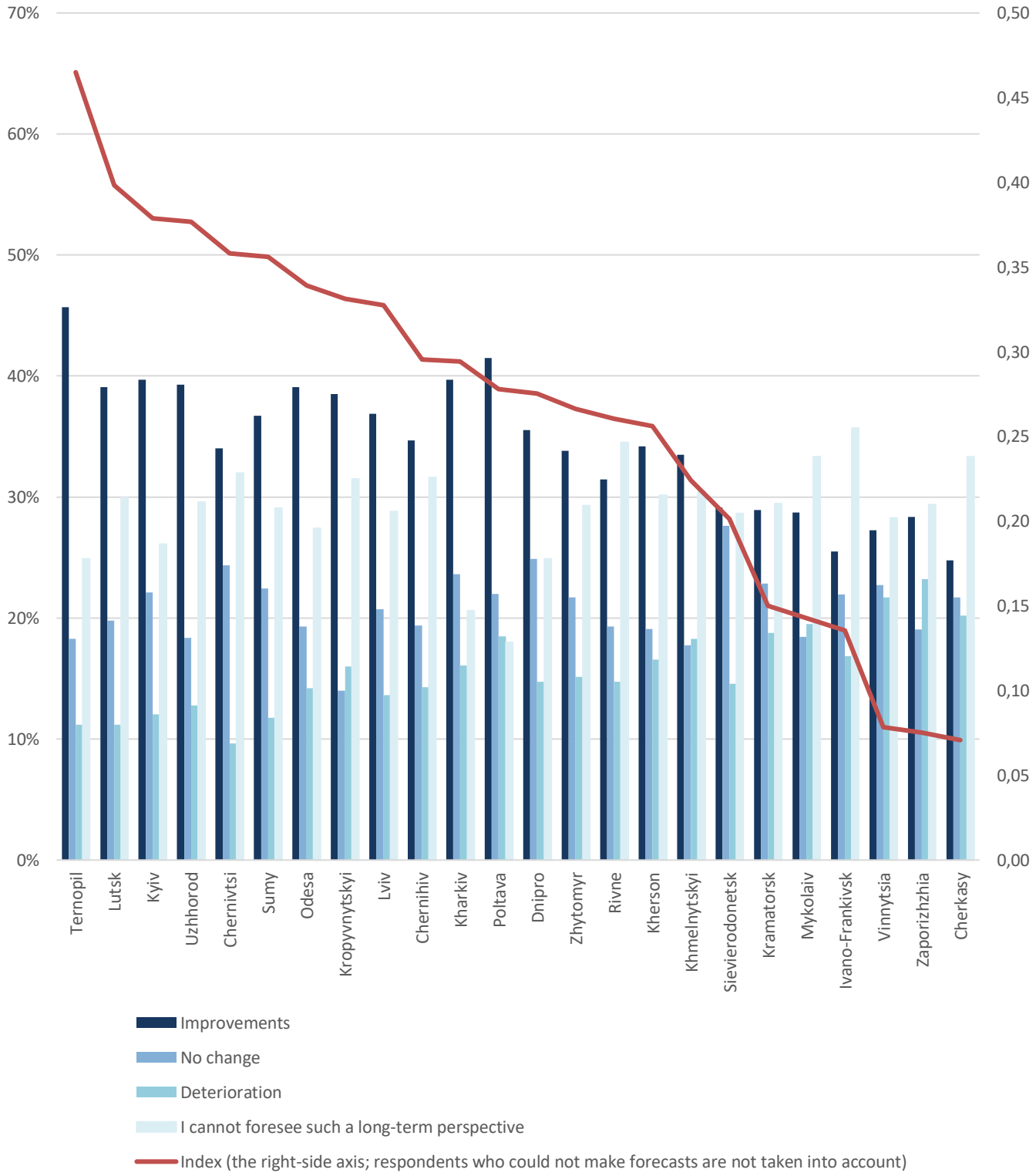


*Fig. 112. Expected changes in the general economic environment for business activities in the cities, %*




***Changes expected in the general economic environment by sector.*** Expectations for changes in the general economic environment differ significantly depending on the sector in which enterprises and IEs operate. The representatives of the construction industry are the most optimistic: 41% of them at the time when the survey was held believed that the economic conditions for their business would improve in 2020. The value of the index of expected changes in the general economic environment is higher in this sector than in others: it is +0.37. For

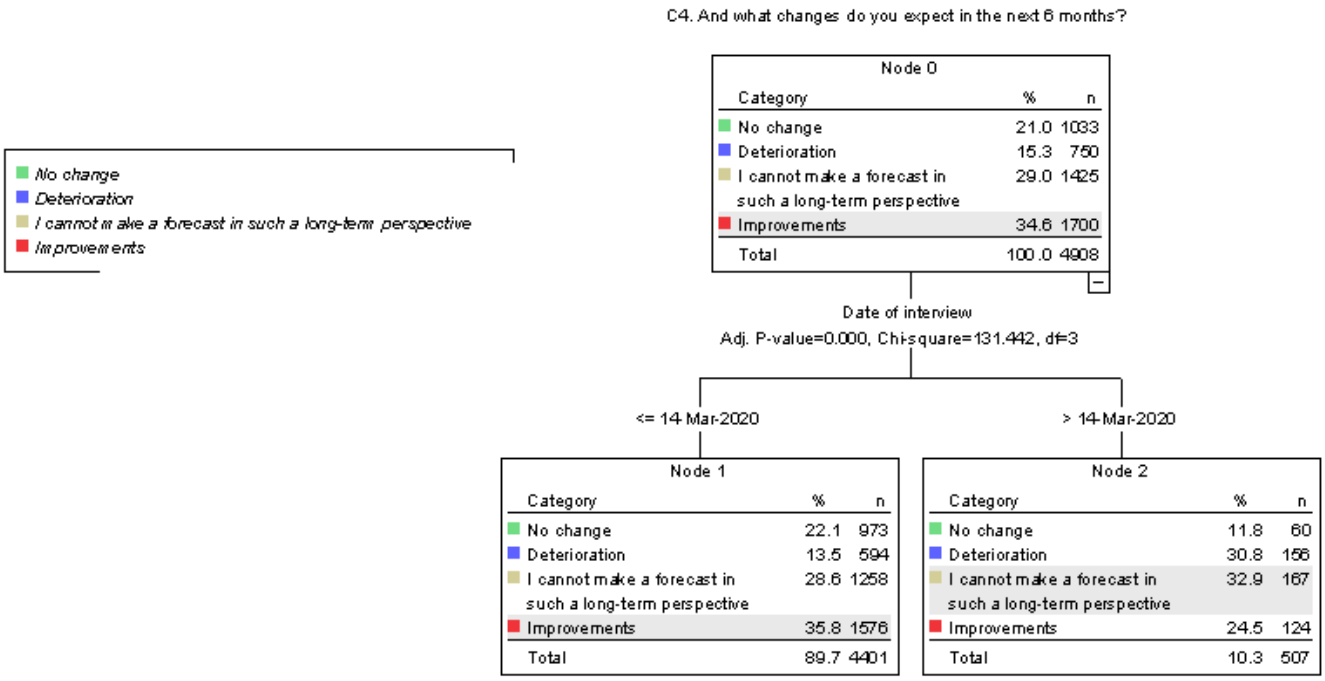
information and telecommunication services this index, on the contrary, is the lowest: its value is +0.13. The percentage of pessimistic forecasts in this sector wasn't lager than in others: the share of respondents who believe that the general economic environment will deteriorate was on a par with other sectors. However, representatives of this sector are less likely than others to hope for improved economic conditions (the corresponding share is 27%), and it may indicate a likely slowdown in the growth of this sector in Ukraine.

***Changes expected in the general economic environment in the cities.*** Firms and entrepreneurs in Ternopil and Lutsk have the best expectations for short-term changes in the general economic environment for their business. There are high shares of respondents who hoped that in six months this environment will improve (46% and 39%), and the values of the corresponding index in these cities are the highest: +0.46 and +0.4. It should be noted that Poltava and Kharkiv also often expressed optimistic expectations about changes in Ukraine's economy in the next six months, but these cities also recorded more pessimistic expectations. Therefore, the values of the index of expected changes in the general economic environment are lower here: +0.29 in Kharkiv and +0.28 in Poltava. The lowest values of this index were recorded in Cherkasy (+0.07), in Zaporizhzhia and Vinnytsia (+0.08 in both cities). In Ivano-Frankivsk entrepreneurs and enterprise managers who could not predict how the economic conditions for business in the country will change were the most, where their share reached 36%, and in Rivne, such respondents accounted for 35% of all surveyed in the city.

***Quarantine impact on expectations of changes in the general economic environment.*** An analysis of business forecasts for future economic changes shows that they are deteriorating sharply in the second half of March, following the introduction of quarantine due to the coronavirus epidemic. According to the statistical analysis by the "decision tree" method, respondents who reported what changes in the general economic environment they expect are divided into two groups by the survey data, between which there is the most statistically significant difference. The first group is the respondents who took part in the survey until March 14, 2020. They most often express optimistic expectations about the state of the economy in six months (36%), and often (almost 29% of cases) cannot predict how it will change over this period. Only 13.5% of business representatives belonging to this group expressed negative expectations about changes in the general economic environment. The index of expected changes in the general economic environment for respondents surveyed before March 14 is +0.31.

The second group is IEs and managers of enterprises who were interviewed after March 15, 2020. Compared to the first group, uncertainty is growing significantly: almost 33% of these respondents could not predict in which direction Ukraine's economy will move in 2020. Almost as many business representatives surveyed in the second half of March (31%) express pessimistic expectations. The share of optimistic expectations decreases to 24.5%. Accordingly, the value of the index of expected changes in the general economic environment decreases: for respondents interviewed after the quarantine started, it becomes negative and is -0.1. This shows that the short-term business expectations of the economic situation recorded in this survey mainly reflect the state of affairs as of the first quarter of 2020, before the coronavirus epidemic, which turned into an economic crisis in Ukraine. The fact that this survey fell on such a "disruption" in the economy, allows seeing that business responds quickly to changes in environmental conditions and, accordingly, changes its forecasts for the future. And as the forecasts have become more pessimistic and uncertain with the quarantine start, this may limit the growth of even those businesses that have not been directly affected by quarantine measures.

*Fig. 113. Changes expected in the general economic environment for the enterprise by survey date, modeled by the "decision tree" classification method*




**Box 7. Change in the index of expected changes in the general economic environment**

In 2020, short-term business forecasts for changes in economic conditions in the country were much better than in 2016. In the second wave of the survey "Annual Assessment of the Business Climate in Ukraine - ABCA", which took place in 2016, representatives of small and medium-sized businesses were also asked about what changes in the economy they expect in the next six months. The forecasts at the time were unoptimistic: the value of the index of expected changes in the general economic environment was close to zero (-0.05). If to calculate the same index based on the results of this survey, removing large enterprises from its sample so that it includes only small and medium-sized businesses, its value will also be +0.27[47] (as well as taking into account large enterprises), which is much more than the value of this index in 2016.

So, at the beginning of 2020 business was quite optimistic about the Ukrainian economy. But as we can see, these expectations worsened with the beginning of quarantine and again became mostly pessimistic. This indicates that the epidemic and quarantine, according to business, will significantly affect the condition of the economy in Ukraine.

## 6.6. Changes in business activity and employment: business attitudes

### 6.6.1. Changes in economic activity over the past two years

Business representatives who took part in this survey indicated whether they had changed production or service volume in the last two years. This question makes it possible to determine whether Ukrainian business has grown

[47] This is the value of the index of expected changes in the general economic environment without weighing the data and without taking into account the responses of large enterprises

recently in terms of its activity. The results of the survey show that Ukrainian enterprises and individual entrepreneurs have indeed increased their activities over the past two years.

***Overall assessment and index.*** Almost half (48%) of the enterprises and individual entrepreneurs surveyed indicated that they increased the volume of production or provision of services in 2018 – 2019. Approximately one-third of businesses (36%) did not change the volume of their activities, and 16%, on the contrary, reduced the volume of activity during this period. If to express these dynamics in as an index on a scale from -1 to 1, where -1 will correspond to a decrease in production, 1 - their increase, and 0 - to no change, the value of this index of business activity, calculated as the average of all responses will be +0.31 and shows the predominance of the share of enterprises that have expanded their production or provision of services over the share of those that have reduced their activities.

*Fig. 114. Change in production / services provision for the last two years, %*

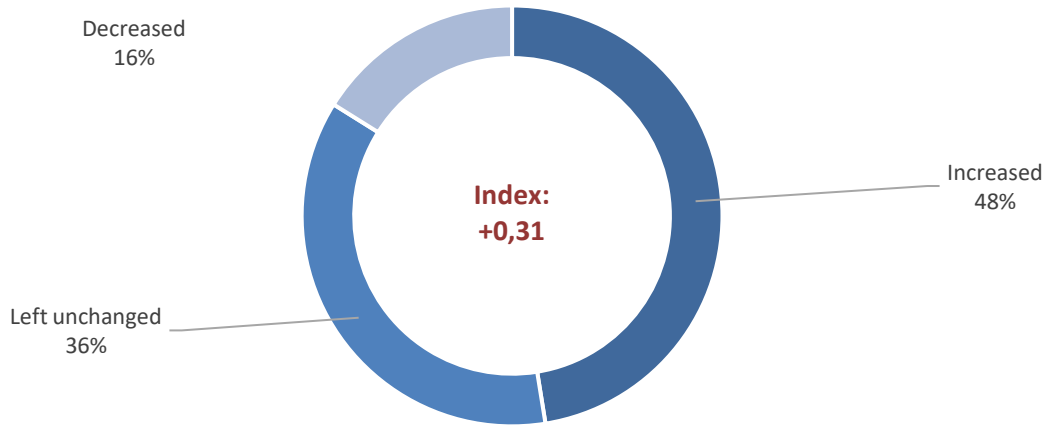
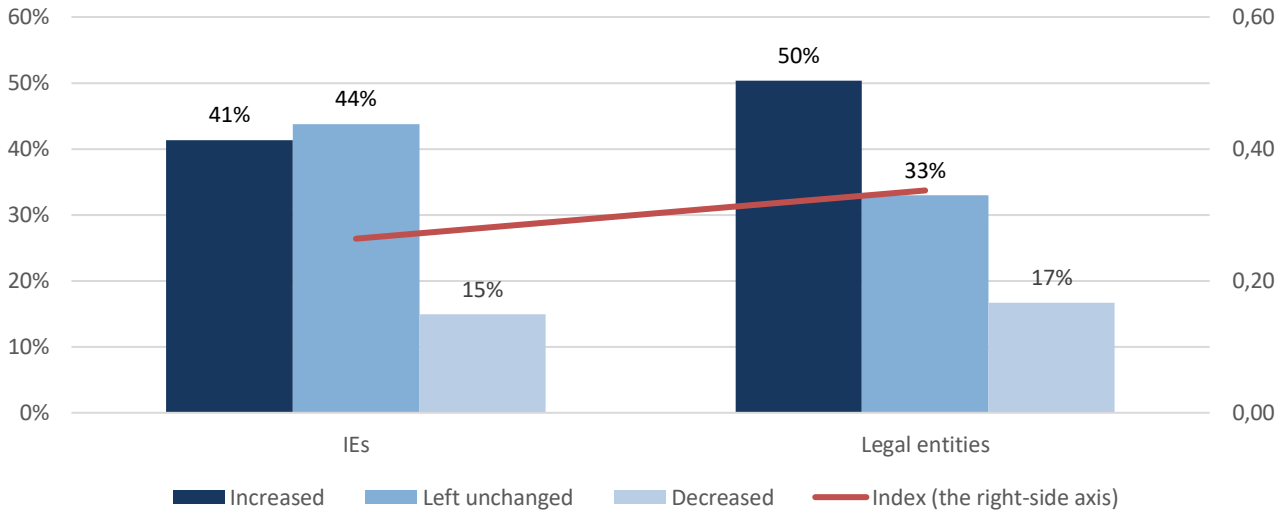



*Fig. 115. Change in production / services provision (by type of business), %*

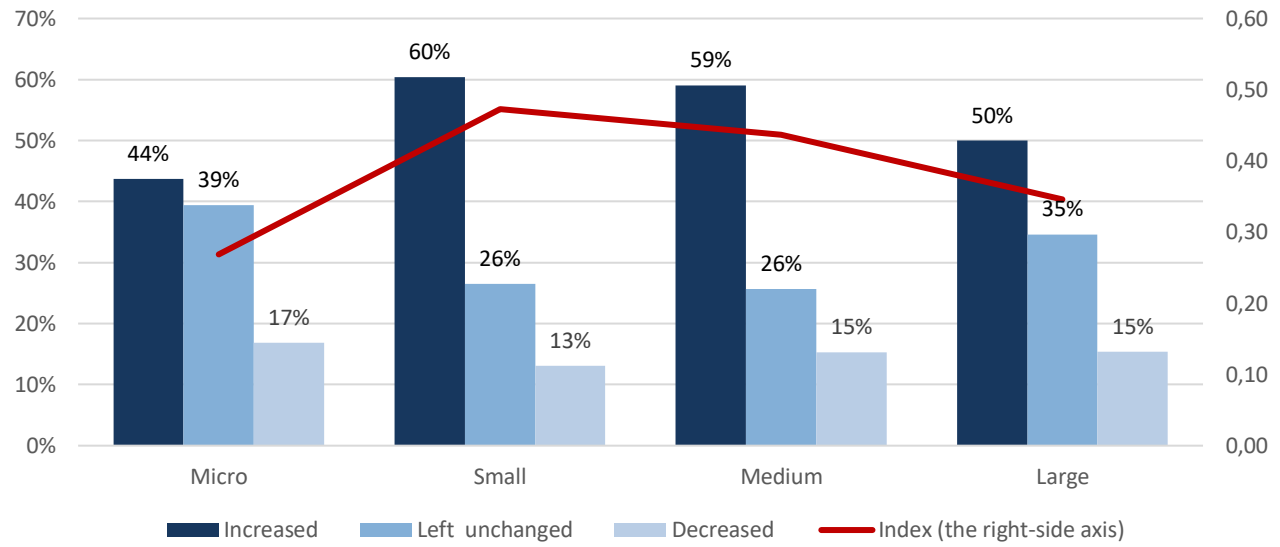



***Change in the volume of activity by type of business.*** Over the past two years, the volume of activity of Ukrainian legal entities has grown to a greater extent than that of individual entrepreneurs. Half of the managers of legal entities reported that their companies increased production or services, while among IEs this share was

slightly lower: 41%. Accordingly, the value of the index of change in business activity for legal entities (+0.34) exceeds the value of this index for IEs (+0.26).

***Change in the volume of activity by business size.*** The growth rate of small and medium-sized businesses over the past two years has been higher than that of microbusinesses and even slightly higher than that of large enterprises. If to compare these groups of IEs and enterprises by the value of the index of change in business activity, it will be the largest for small (+0.47) and medium (+0.44) businesses. More than half of the enterprises and IEs of these two groups reported that they had increased their activities in the previous two years. For large enterprises, this index decreases to +0.35, and for microenterprises - to +0.27. Moreover, among the latter, there are not many more respondents who have reduced their activities. This share is 17% on par with larger businesses. On the other hand, there are fewer IEs and enterprises among microbusinesses compared to other that managed to increase production or services in 2018 – 2019 (44%): the value of this index is lower due to an increase in the share of those who did not change their activities during this time, which is the largest in this category compared to others: 39%.

*Fig. 116. Change in production / services provision (by business size), %*




***Change in the volume of activity by sector.*** The surveyed enterprises and IEs of different industries have shown unequal success in their activities over the past two years. The best ratio of the share of the business that has grown during this time to the share of the one that has decreased is in information and communication services and in agriculture. The index of change in business activity is at the same level for both of these sectors: +0.42. In professional services and construction, the values of this index are slightly lower (+0.39 and +0.35, respectively). At the same time, in each of these industries (information and communication services and construction), more than half of the respondents reported that they were increasing the volume of their business.

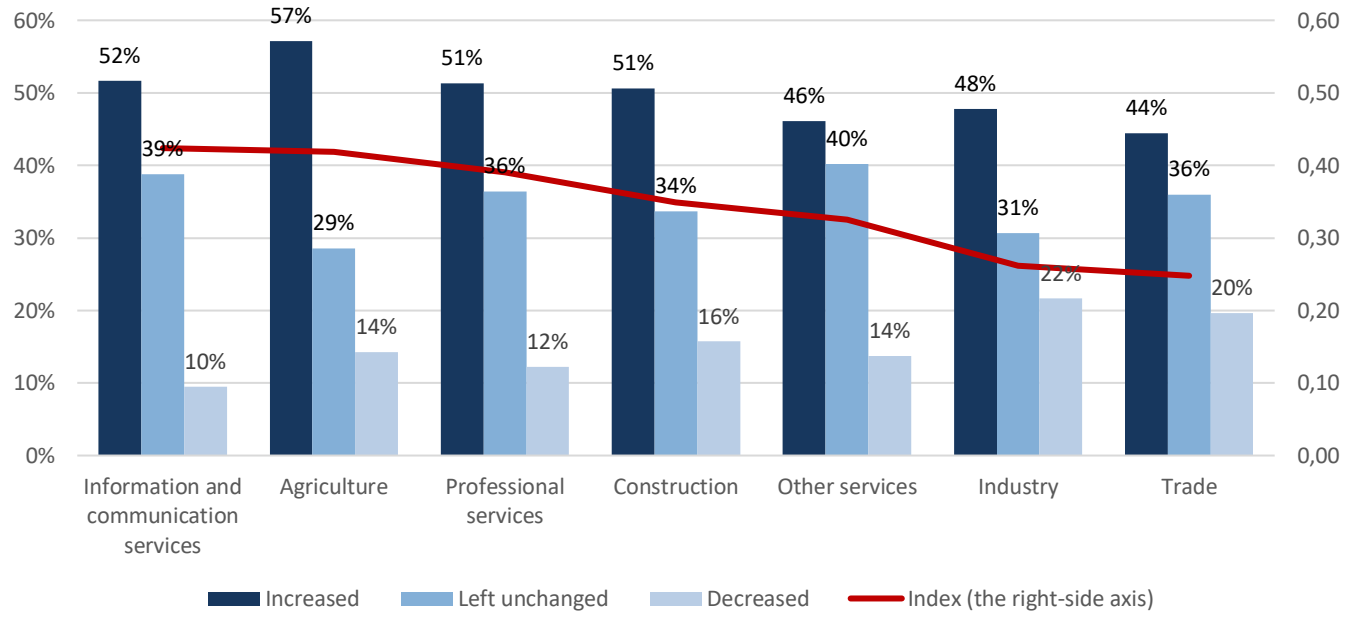
This is in line with the general economic trends in Ukraine, as these sectors showed growth during 2018 and 2019. In 2019, GDP in construction grew by a record 23%, while information and communication services also showed significant growth: by 7.5% [48]. The professional services increased by 5.6%, and agriculture - by 1.3%, but in 2018 the growth rate of agricultural business was one of the highest in the country (8%)[49].

[48] State Statistics Service of Ukraine. Economic statistics. National accounts. Quarterly national accounts Change in the volume of gross domestic product for 2019 http://www.ukrstat.gov.ua/operativ/operativ2019/vvp/def_vvp/def_2019u.htm

[49] State Statistics Service of Ukraine. Economic statistics. National accounts. Quarterly national accounts Change in the volume of gross domestic product for 2018 http://www.ukrstat.gov.ua/operativ/operativ2018/vvp/def_vvp/def_2018u.htm

The values of the index of change in business activity for the trade and industry sectors are lower than for others. They are +0.25 and +0.26 respectively. About one in five respondents in these sectors reported that his or her business had reduced its operations in the previous two years. According to the State Statistics Service, in the manufacturing industry and in trade, GDP grew in 2019, but the pace of this growth slowed down compared to 2018. And in the extractive industry and the supply of electricity, gas, and air (sectors also belonging to industry) in 2019 there was a decline in GDP. This confirms that the situation in trade and industry as of the beginning of 2020 was more complicated compared to other sectors.

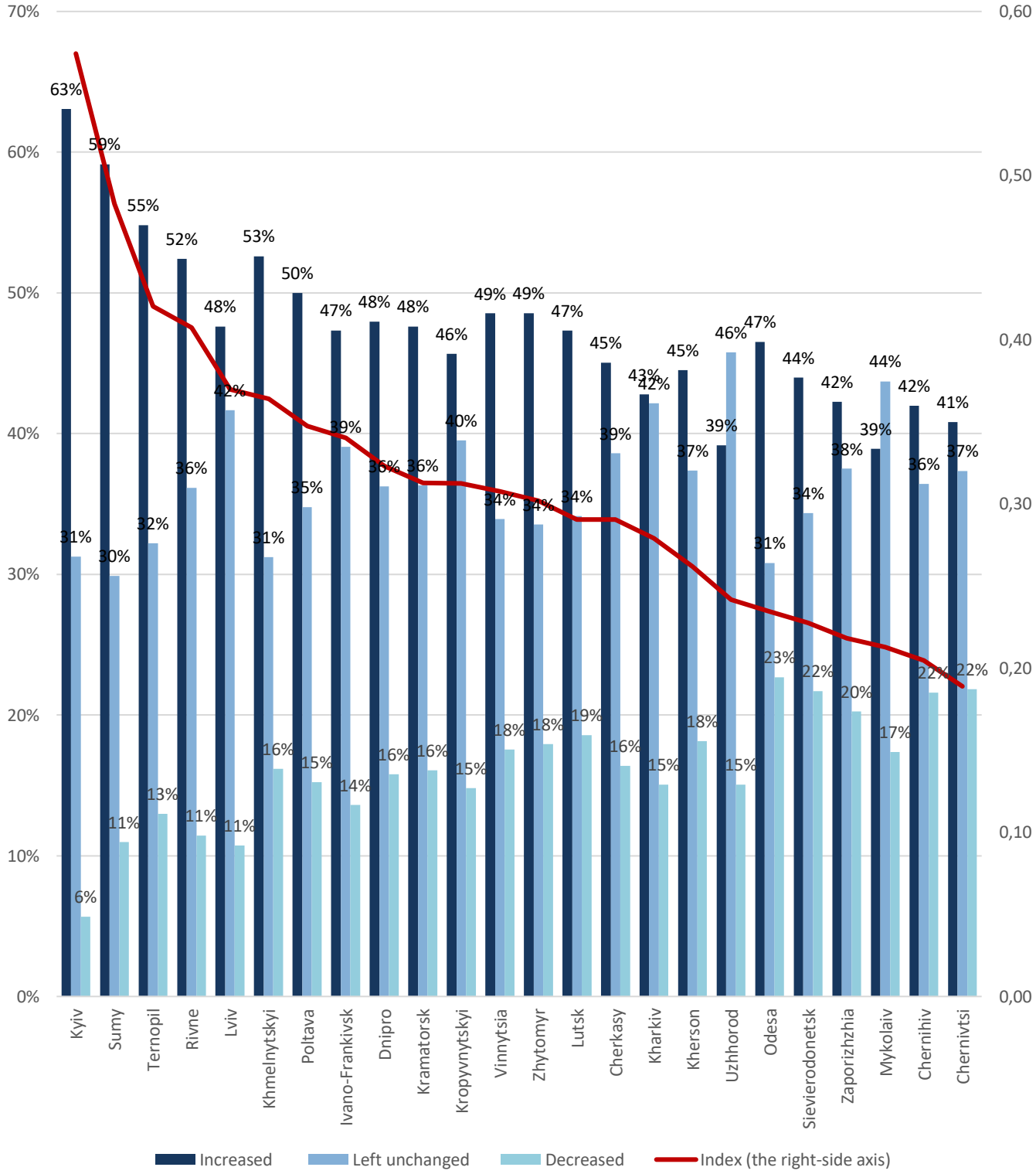
*Fig. 117. Change in production / services provision (by sector), %*




***Change in the volume of activity in the cities.*** Kyiv is the city where Ukrainian business developed most actively in 2018 and 2019. 63% of Kyiv entrepreneurs and enterprise managers reported expanding production or services during this time. At the same time, there is the smallest share of the business, which reduced the volume of activity - only 6%. This turned out to be the highest value of the index of change in business activity for the city: it is +0.57. It is slightly lower in Sumy (+0.48), and for Ternopil and Rivne, this index decreases to +0.42 and +0.41, respectively.

The values of this index are the lowest for the business of Chernivtsi (+0.19) and Chernihiv (+0.2). It should be noted that in Odessa, which has one of the lowest values of the index of change in business activity compared to other cities (+0.23), many entrepreneurs and business representatives reported growth in their business (this share was 47%). However, it has the largest share of business among other cities, which reduced the volume of activity over the previous two years (23%) causing a low value of the corresponding index.

*Fig. 118. Change in production / services provision*




**Box 8. Business growth and reduction: how is the situation in 2020 different from what was recorded in 2016**

The results of this survey show that Ukrainian business grew much more actively in the run-up to 2020 than in the two years preceding 2016. In 2016, small and medium-sized enterprises were also asked in the "Annual Business Climate Assessment in Ukraine - ABCA" survey whether they had changed production or service delivery in the medium term of the previous two years. Then, after the crisis of 2014 and 2015, the share of businesses that reported a reduction in their activities exceeded the share of those who managed to expand these activities. The corresponding index of changes in business activity for small and medium enterprises in 2016 was -0.08.

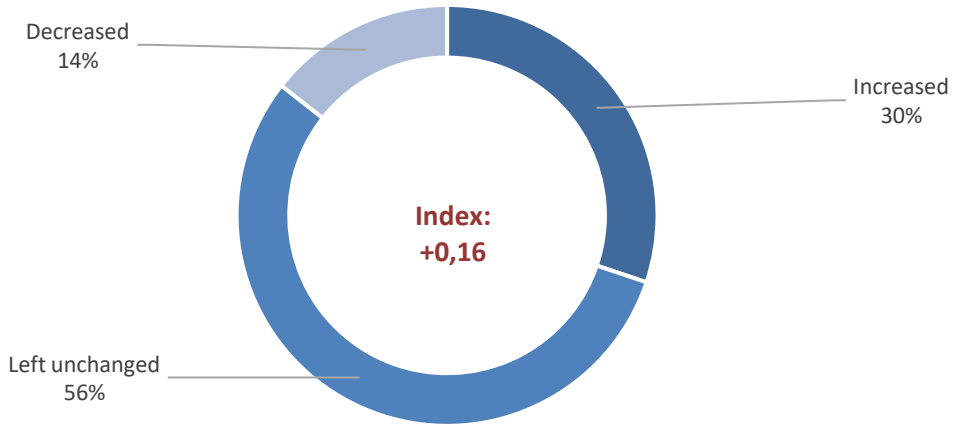
If to calculate the index of change in business activity obtained in this survey without taking into account the responses of large enterprises, so that the sample is similar to the one of the ABCA survey, its value will be +0.31[50]. Thus, among all the indices that make up the business climate index, the growth of the business activity index has become the most significant. This demonstrates that during this period the dynamics of Ukrainian business development have changed: from reduction to growth. However, we should not forget in our conclusions that business surveys cover only current business entities. That is, the business that was forced to close was not reflected in these indicators at all both in 2016 and 2020

### 6.6.2. Dynamics of the stuff number over the past two years

Survey participants were also asked to answer the question of whether the number of employees in their company or them as private entrepreneurs had changed during the previous two years. The rate of recruitment was lower than the rate of increase in activity: most entrepreneurs and firms did not change the number of employees.

***Overall assessment and index.*** In 56% of enterprises and IEs surveyed within this research, the number of employees has not changed in the last two years. At the same time, the share of business representatives who increased the number of staff reaches almost a third of respondents (30%) and twice the share of those who reduced it (14%).

*Fig. 119. Change in the number of employees during the last two years, %*



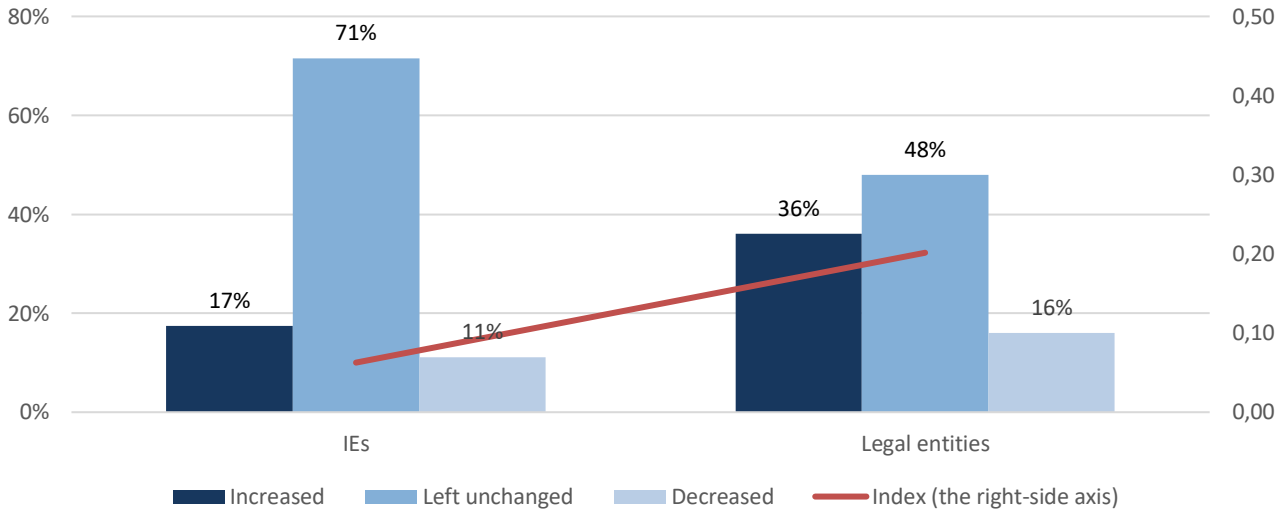

If to express the dynamics of the number of employees using the index on a scale from -1 to 1 (where -1 corresponds to a decrease, 1 to increase, and 0 to no change in the number of employees), its value will be positive: +0.16.

***Change in the number of staff by type of business.*** Individual entrepreneurs mostly did not change the number of employees, while legal entities recruited staff much more actively. However, the share of respondents

[50] This is the value of the index of change in business activity without weighing the data and without taking into account the responses of large enterprises.

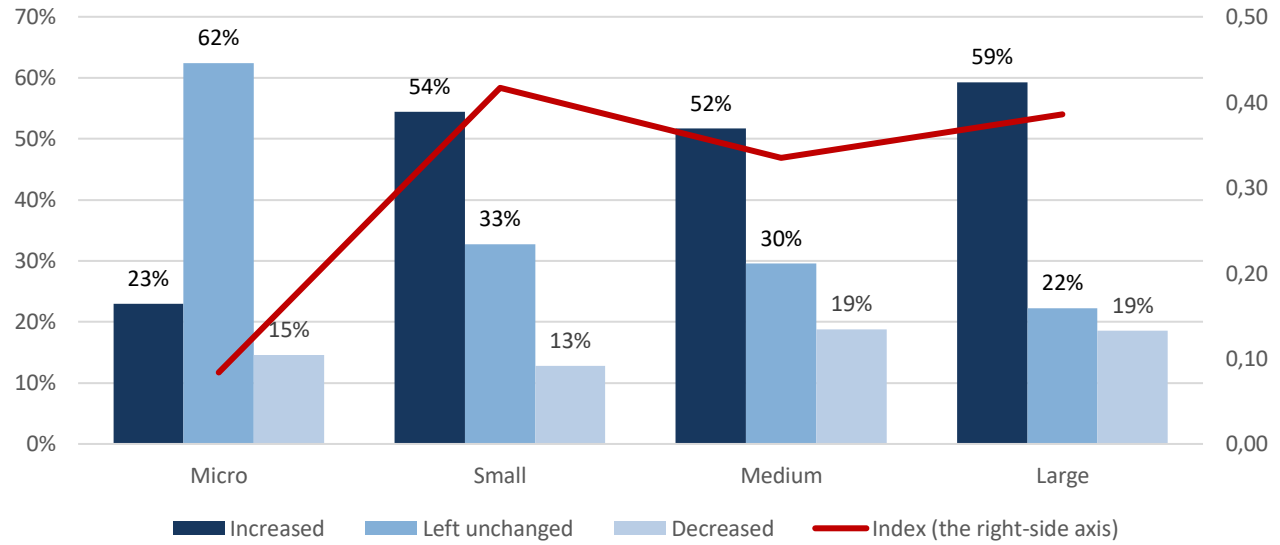
who reduced staff in 2018 – 2019 among legal entities slightly exceeds the corresponding share among SPs: 16% compared to 11%. However, due to the larger share of businesses that increased the number of employees, the overall index of staff turnover for legal entities was +0.2, while for individuals it was only slightly higher than zero: +0.06.

*Fig. 120. Change in the number of employees (by type of business), %*




***Change in the number of staff by business size.*** Microenterprises are distinguished from larger businesses by a much more modest pace of recruitment in 2018 – 2019.

*Fig. 121. Change in the number of employees (by business size), %*

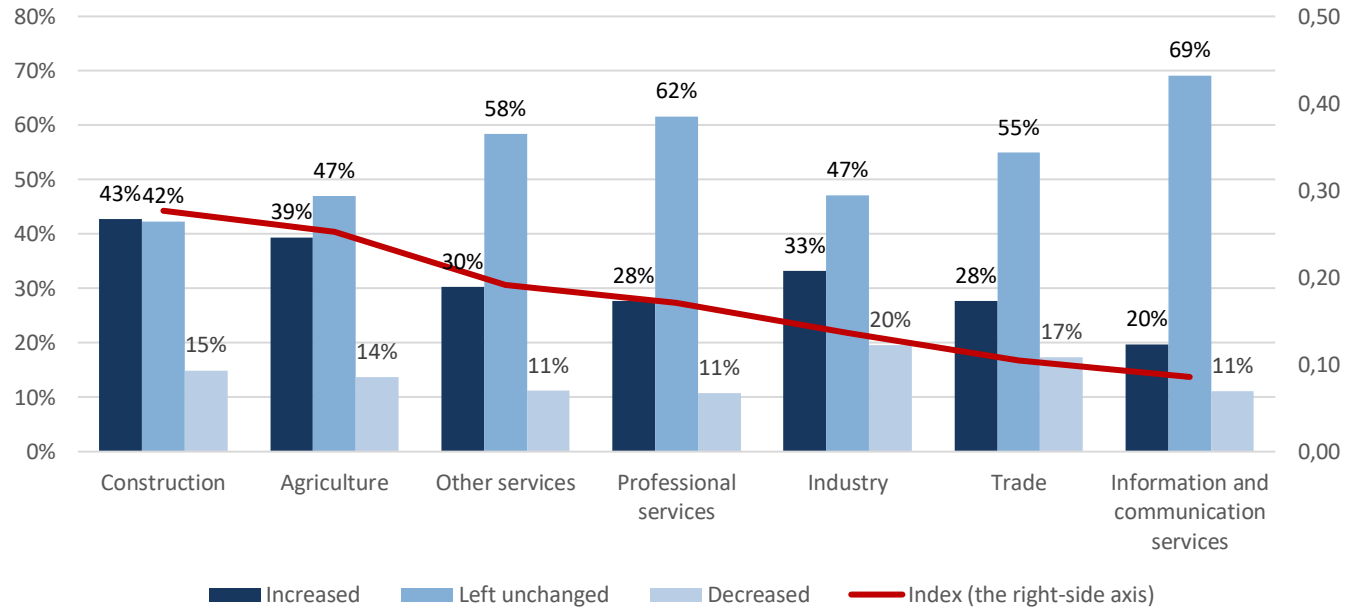



Only 23% of respondents representing microbusinesses reported increasing the number of staff, while for small, medium, and large businesses this share exceeds 50%. Microbusiness mostly did not change the number of employees: this was reported by 62% of entrepreneurs and companies belonging to this group by size. Accordingly, if to translate the change in staff using the index, the value of this index for microbusiness is only +0.08, and this is significantly less than for the small (+0.42), medium (+0.34) and large (+0, 39) business.

***Change in the number of staff by sector.*** The construction and agriculture sectors were most active in 2018 and 2019. This is reported by more than a third of IEs and enterprises in these sectors: 43% in the construction and

39% in agriculture. Instead, the industrial sector recorded the highest share of businesses, which reduced the number of staff: it reaches 20%. The index of change in the number of staff is the highest for construction (+0.28) and agriculture (+0.25), and the lowest in information and communication services (+0.09). The majority of firms and entrepreneurs in this sector (69%) did not change the number of staff during the previous two years.

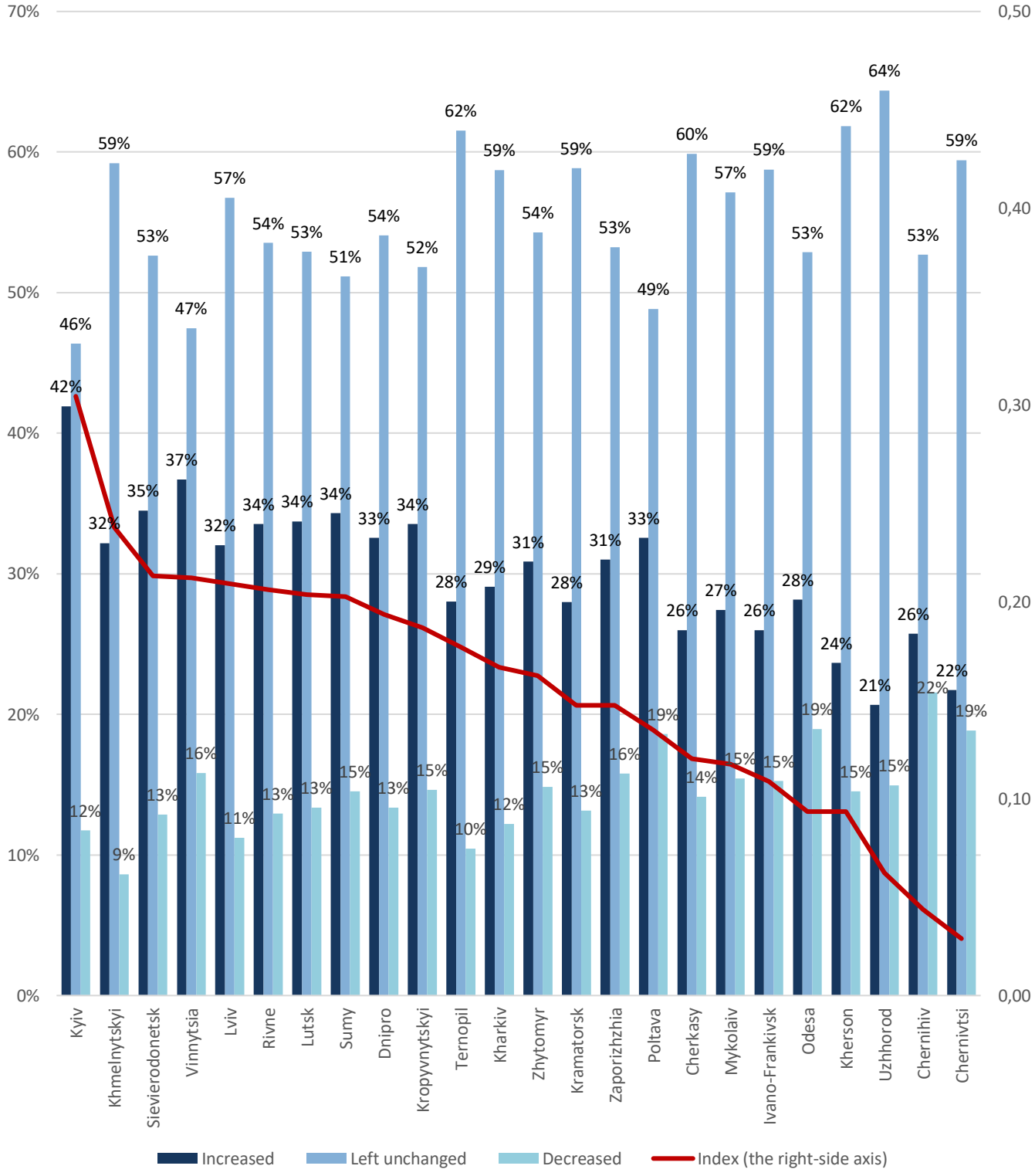
*Fig. 122. Change in the number of employees (by sector), %*




***Change in the number of staff in the cities.*** Kyiv is distinguished from others by the highest rate of staff growth in IEs and enterprises. 42% of respondents from Kyiv reported that they had recruited more staff in the previous two years and that is the highest compared to other cities. As a result, the index of change in the number of staff is the highest here: +0.3. The highest shares of businesses that laid off personnel were recorded in Chernihiv (22%), in Chernivtsi, Odesa, and Poltava (19% in each of these cities).

However, while the value of the index of change in the number of staff in Chernivtsi and Chernihiv is the lowest among the other cities in which the survey was conducted (they were +0.03 and +0.04, respectively), in Odesa and Poltava it is higher as businesses in these cities are more likely to report they have increased staff number. Thus, while only 22% of enterprises and IEs surveyed in Chernivtsi and 26% in Chernihiv recruited additional employees, in Odesa the share of such business was 28%, and in Poltava - 33%.

*Fig. 123. Change in the number of employees in the cities, %*




**Box 9. How the dynamics of the number of employees in the Ukrainian business has changed as of 2020 compared to 2016**

Comparison of the situation with employment in Ukraine recorded in business surveys in 2020 and 2016 shows that the dynamics have changed to the opposite: if in the two years of the crisis preceding 2016 more entrepreneurs and firms laid off workers than hired, then before 2020 the situation was different: the share of business where the number of staff has increased outweighs the share of those where this number has decreased.

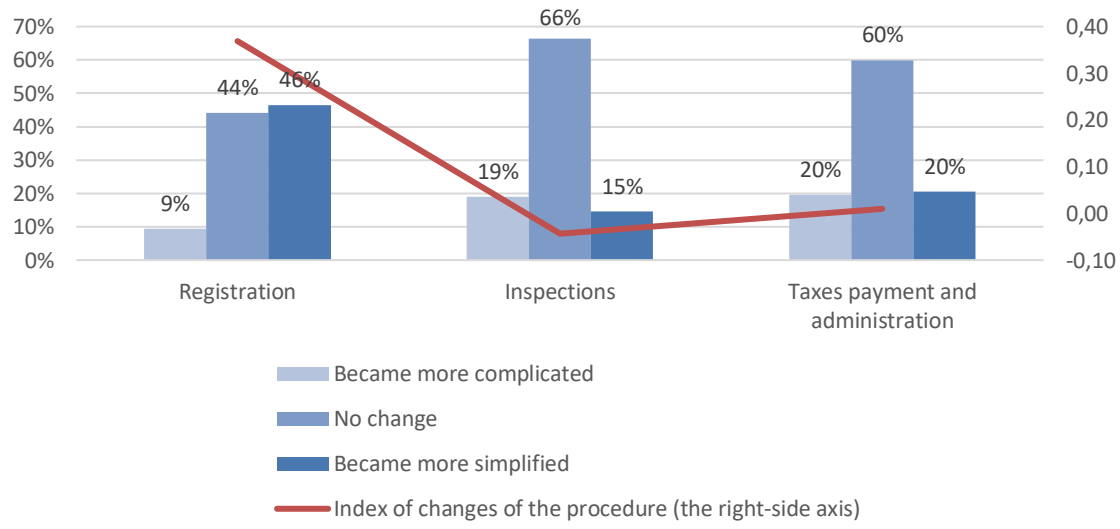
Thus, according to small and medium-sized businesses surveyed within 2016 "Annual assessment of the business climate in Ukraine - ABCA" research, the balance of staff dynamics was negative. 33% of SMEs surveyed indicated that they reduced staff in 2015 – 2016, and 22% that they increased it. The remaining 45% of SMEs did not change the number of employees in the two years preceding the survey. The index that would reflect this ratio would be -0.11. Now it is positive (the index of change in the number of staff, calculated without large enterprises to approximate two samples, is +0.15[51]), and means that over the past few years Ukrainian business has moved from the dismissal of the labor force to its involvement. On the other hand, the economic downturn that began with the coronavirus epidemic and quarantine may adjust for this dynamic. Thus, in May 2020, the Cabinet of Ministers of Ukraine predicted that the share of the unemployed will increase from 8.2% in 2019 to 9.4% in 2020 [52].

## 6.7. Deregulation: changes in administrative procedures

Have the conditions for doing business simplified for Ukrainian entrepreneurs and companies? The answer to this question was given by this survey participants, who assessed the three most common procedures for business: business registration, inspections, and payment of taxes. Survey participants said whether there were changes in each of these procedures compared to 2018 from their point of view, and if so, what exactly were these changes: simplification or complication.

***Overall assessment and index.*** According to the respondents, the process and conditions of business registration have been simplified in the last two years, while the situation with inspections and tax payment conditions has not improved.

*Fig. 124. Attitude to changes in three administrative procedures: registration, inspections and payment of taxes*




46% of entrepreneurs and enterprise managers surveyed note 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%) said that, in their opinion, business registration has

[51] The value of the index without weighing the data and without taking into account the responses of large enterprises.
[52] Cabinet of Ministers of Ukraine. Action plan to create conditions for increasing employment. Published on May 13, 2020 https://www.kmu.gov.ua/storage/app/sites/1/18%20-%20Department/Prezentacii/500-short.pdf

become more difficult. Hence, the index of registration procedure change calculated as the average of all responses on a scale from -1 to 1, where 1 corresponds to the simplification of this procedure, 0 to no change, and -1 to its complication, is +0.37.

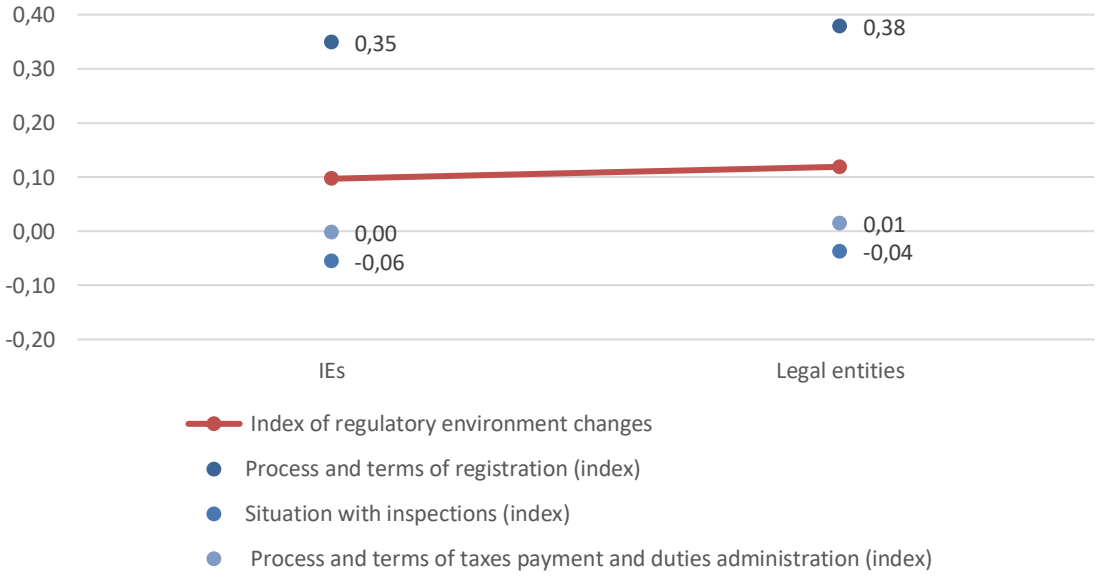
This is the highest index value compared to the other two procedures: passing inspections and paying taxes. Speaking about the administration of tax payments, more than half of IEs and enterprises (60%) say that they have not noticed any changes in the complexity of this procedure. And the rest is divided into two equal parts: 20% of those for whom paying taxes has become easier, and 20% 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 close to zero: -0.04. The share of enterprise managers and private entrepreneurs who say that inspections have become more difficult is 19% and is slightly higher than the share of businesses for which inspections have become easier compared to 2018 (15%). However, the largest share of the business surveyed (66%) 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 +0.11.

***Changes in the passing of administrative procedures by type of business.*** There are no significant differences between legal entities and individual entrepreneurs in their attitude to changes in administrative procedures. Both IEs and legal entities mostly did not note changes in inspections and payment of taxes, while about half of the representatives of both groups by type of business (48% of legal entities and 43% of SPs) said that the business registration procedure was simplified. The index of changes in the regulatory environment has almost the same values for these groups of respondents. It is +0.1 for IEs and +0.12 for legal entities.

*Fig. 125. Attitude to changes in three administrative procedures (by type of business), %*




***Changes in the passing of administrative procedures by business size.*** Micro, small and medium-sized businesses evaluate changes in three key administrative procedures approximately equally. The shares of individual entrepreneurs and enterprises surveyed that note the simplification of this procedure exceeds the share of those who noticed its complications, so the value of the index of changes in this procedure exceeds +0.3 for each of these groups of enterprises by size. Changes in inspections and payment of taxes were hardly noticed by small and medium-sized businesses: the indices for assessing changes in these procedures are close to zero. Unlike small and medium-sized businesses, large enterprises do not appreciate changes in the business registration procedure. The

share of respondents from large business representatives who say that the procedure is simplified (35%) exceeds the share of those who report that it is complicated (24%), but this ratio is worse than in smaller businesses. Due to this, the value of the index of change of the registration procedure for large enterprises is lower: +0.12. Big business also rated changes in the administration of tax payments worse: 31% of managers of large enterprises said that this procedure has become more complicated, and this significantly exceeds the share of those representatives of large businesses for whom tax payment has been simplified (23%). As a result, the index of changes in the procedure for administering tax payments for large enterprises is negative and is -0.07.

Due to this difference in attitudes to changes in tax registration and administration procedures, the overall index of changes in the regulatory environment is lower for large enterprises (its value is +0.02) than for micro- (+0.11), small (+0.12) and medium (+0.11) business.

*Fig. 126. Attitude to changes in three administrative procedures (by business size), indices*

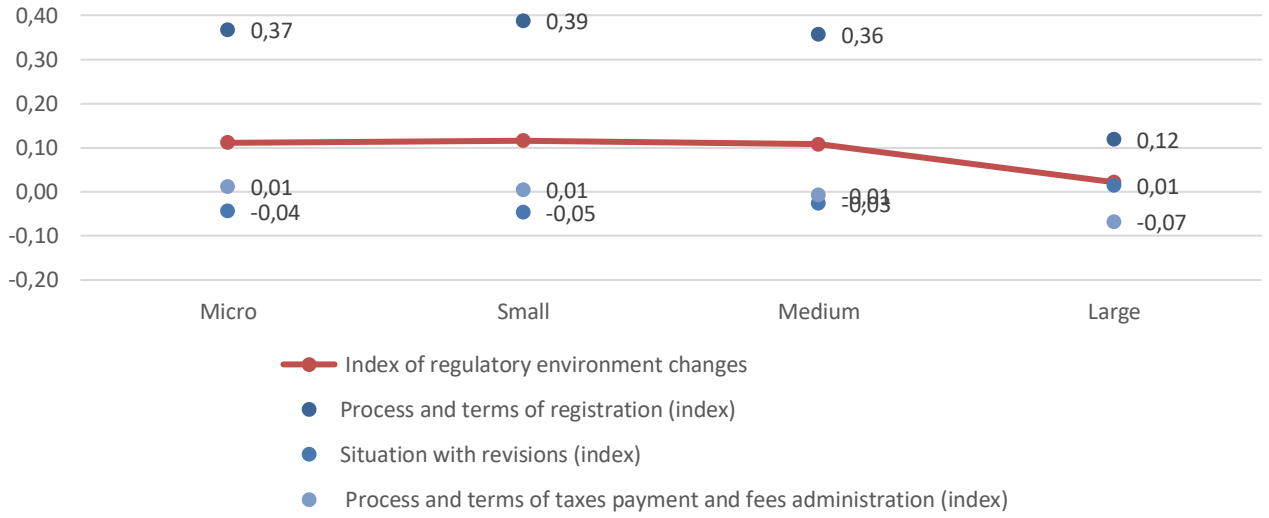



*Fig. 127. Attitude to changes in three administrative procedures (by sector), indices*

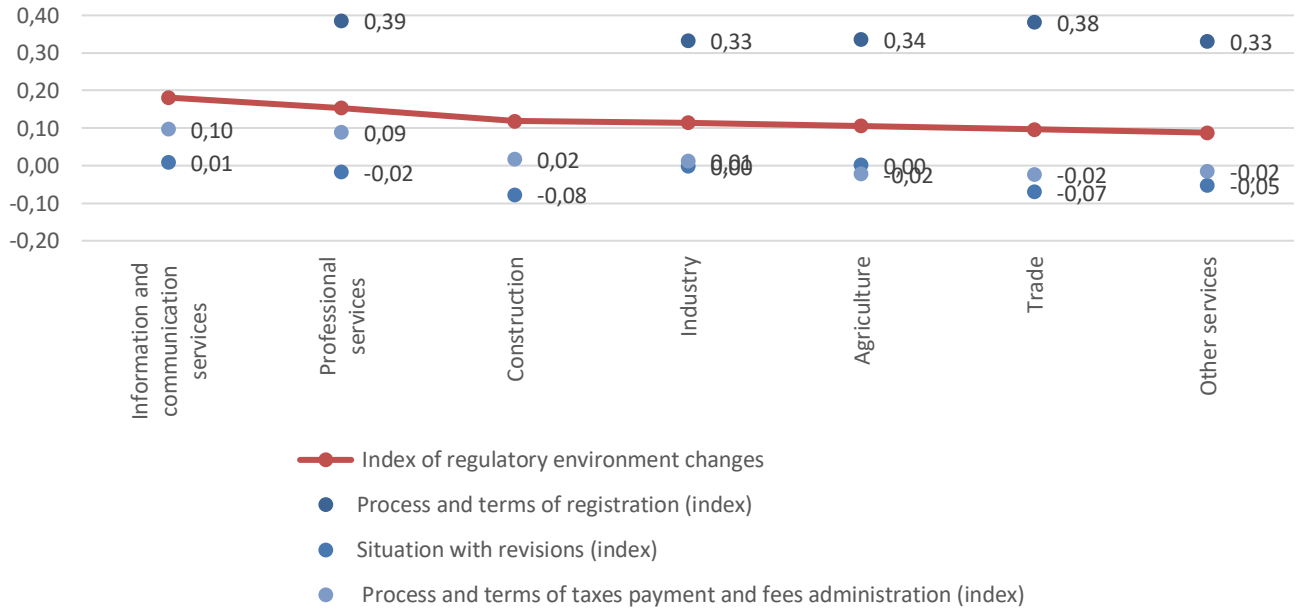
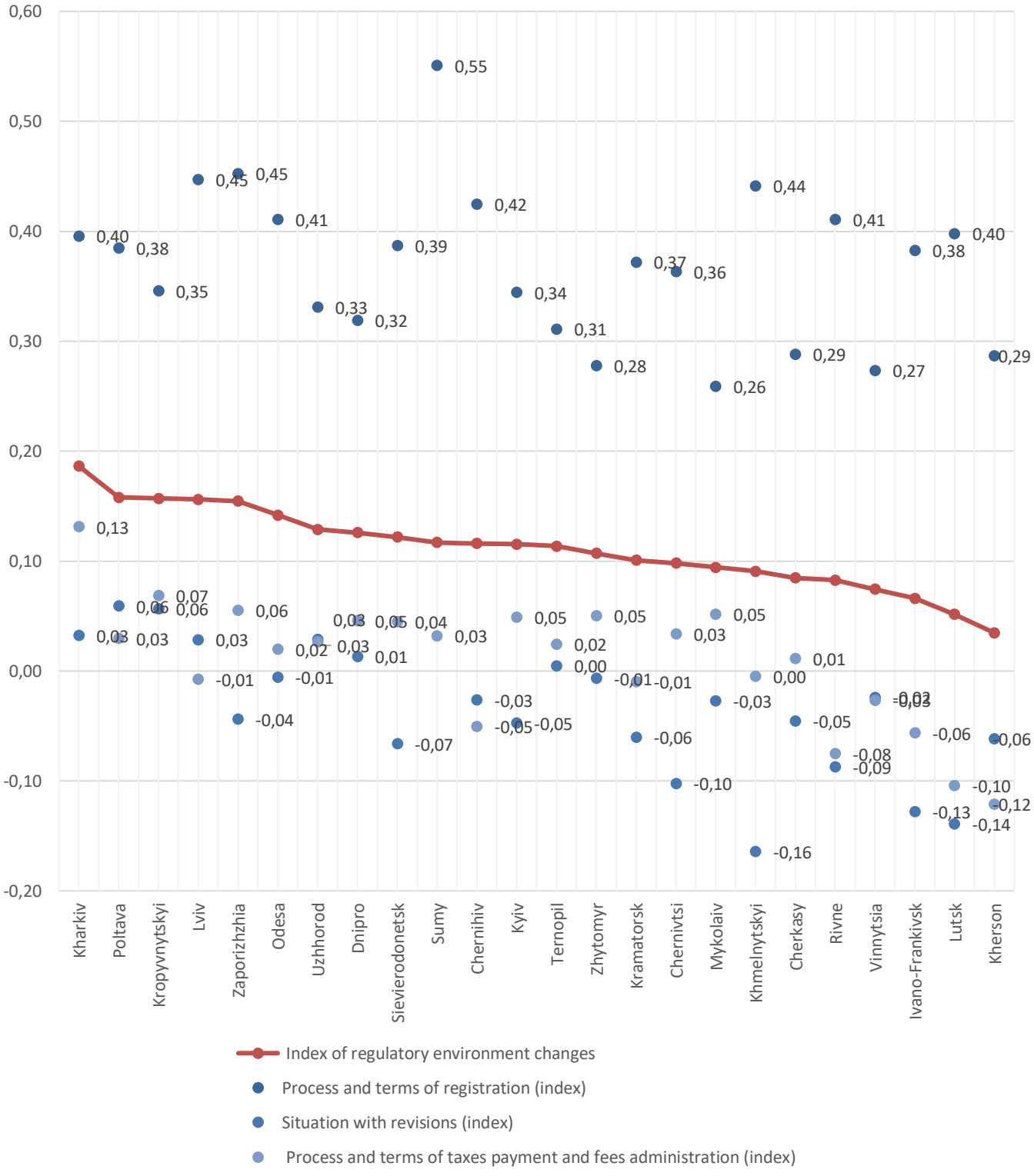


*Fig. 128. Attitude to changes in three administrative procedures (in the cities), indices*




***Changes in the passing of administrative procedures by sector.*** In information and professional services, changes in administrative procedures are assessed better than in other sectors. Thus, for the information and communication services sector the general index of changes in the regulatory environment, which is calculated as the average value of change indices in such procedures like registration, inspections, and payment of taxes, is +0.18, and for the professional services sector - +0.15. These are the only industries where the business is mostly

positive about changes in the administration of tax payments: the index for assessing changes in these sectors is +0.1 for the information and communication services sector and +0.09 for the professional services sector. The index of changes in the regulatory environment for the construction is also relatively high (+0.12), but this industry has a low assessment of inspections. Here, as well as in trade, the share of respondents for whom it has become difficult to pass inspections in the previous two years exceeds the share of those for whom this process has been simplified.

***Changes in the passing of administrative procedures in the cities.*** Entrepreneurs and managers of Kharkiv enterprises gave the best assessments of the changes that took place in terms of ease of administrative procedures. In this city, the value of the index of changes in the regulatory environment is the highest compared to other cities where the survey was conducted: it is +0.19. Kharkiv has a particularly high estimate of changes in the taxation: the index of changes in the administration of tax payments here is +0.13, while for other cities it does not exceed +0.07. High values of the index of changes in the regulatory environment are in Poltava, Kropyvnytskyi, and Lviv (+0.16), as well as in Zaporizhzhia (+0.15). Only Zaporizhzhia is dominated by negative assessments of changes in inspections among these cities, (the corresponding index was -0.04), but they are offset by better assessments of changes in business registration and tax administration.

The lowest values of the index of changes in the regulatory environment are in Kherson (+0.03) and Lutsk (+0.05). Kherson gives the worst assessment to changes in tax administration among other cities: the share of businesses for which this procedure has become more complicated exceeds the share of those for whom it has become simpler, and so the value of the index is -0.12. Sumy is worth noting among other cities, where businesses have put contrasting assessments of individual procedures. Although the value of the index of changes in the regulatory environment in Sumy is at an average level compared to other cities (+0.12), there is both the highest in Ukraine value of the index of changes in the business registration procedure (+0.55) and the lowest value of the index of changes in the passing inspections process (-0.23). 31% of businesses surveyed in Sumy say that it has become more difficult to pass inspections than in 2018. Regulators in Sumy should pay attention to this indicator, as it shows that the complexity of inspections creates obstacles to doing business in the city.

**Box 10. Slowing down the rate of deregulation: what do changes in the regulatory environment show**

Although the overall balance of changes in the regulatory environment is positive in 2020, the share of business representatives who have noted the simplification of procedures has decreased compared to 2016, and this may indicate a slowdown in deregulation reform and the emergence of new regulatory barriers.

Comparison of estimates of changes in business registration procedures, inspections, and taxes paid by entrepreneurs and enterprise managers in this survey with such estimates made by small and medium businesses in the survey "Annual Business Climate Assessment in Ukraine - ABCA" in 2016, shows that they have all deteriorated.

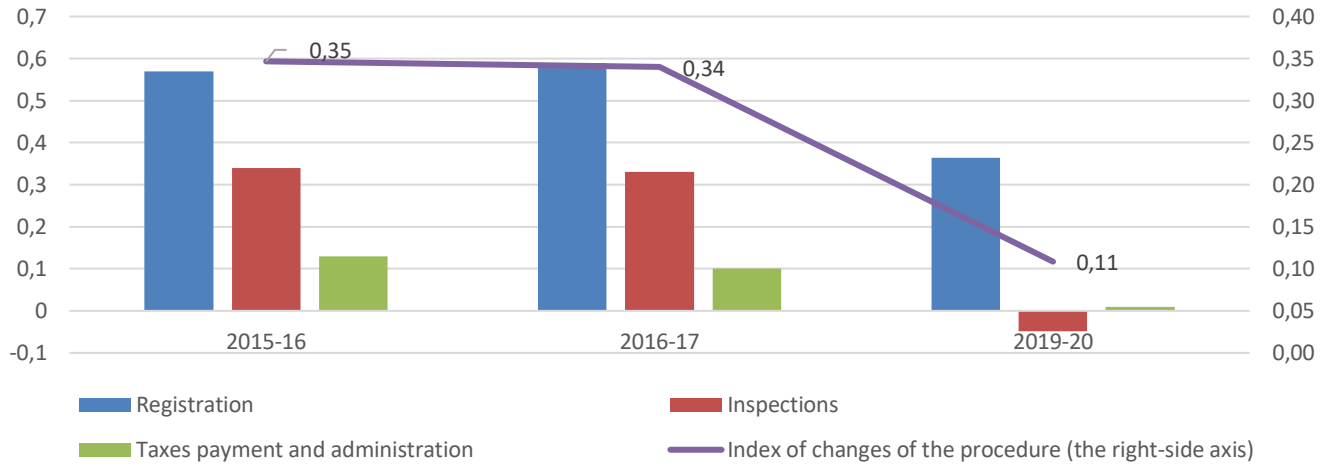
The assessment of changes in registration in 2016 was better: the index of change in this procedure for the previous two years was +0.59. In 2020, the same index (listed without weighing data and without taking into account the responses of large enterprises to approximate the sample) fell to +0.36. This may be due to the fact that in 2015 - 2016 there were significant reforms in the procedure of business registration, which allowed to register it online and reduced the list of documents required for this procedure. Further changes, such as registration of a limited liability company on the basis of its own version of the constituent documents, were probably less significant for the surveyed business in terms of simplifying this procedure.

The index of changes in inspections decreased sharply from a positive value of +0.33 in 2016 to -0.05 in 2020 (the value of the index in 2020 is calculated without taking into account large enterprises and without weighing data). The reason for this may be the lifting of the moratorium on inspections of small businesses and an increase in fines for violations of labor legislation and incomplete reform of state supervision.

The administration of tax payments also deteriorated slightly: the value of the corresponding index decreased from +0.1 in 2016 to almost zero (+0.01) in 2020 (the value of this index is the same before and after the recalculation, which did not take into account large enterprises and not data were weighed).

As a result, the index of change in the regulatory environment decreased from +0.34 in 2016 (calculated according to three procedures: business registration, inspections, and payment of taxes) to +0.11 in 2020 (calculated without weighing data and without taking into account the responses of large enterprises).

***Changes in the regulatory environment in terms of business, indices***




This trend indicates that in the two years preceding 2016, some important steps have been taken to simplify administrative procedures, which have been welcomed by businesses. In 2018 – 2019, there were no such significant positive changes in the procedures for business registration and payment of taxes, and the situation with inspections even worsened, according to business. Thus, we can conclude that deregulation reforms have slowed down, and in the case of inspections did not bring the expected result and created new problems for entrepreneurs.

## 6.8. Main outcomes briefly

- The business climate index has improved, indicating an improvement in the perception of the business climate in 2020 compared to 2017. The value of the ABCA index increased from +0.09 to +0.19 (scale from -1 bad to +1 good). All components of the ABCA Business Climate Index have improved, except for indicators that simplify administrative procedures.
- • Business environment assessments have improved, and long-term business expectations are traditionally positive. The most optimistic are representatives of agriculture and the least of information and communication services.
- Legal entities are much more confident and optimistic in their plans for a two-year perspective than individual entrepreneurs.
- In the areas of industry and trade, intentions to reduce or close business are relatively more common than in other sectors.
- Assessments of the financial and economic condition of the enterprise are better than assessments of the business environment: among respondents, positive assessments of their financial and economic situation prevail, while when talking about the general economic environment, negative assessments dominate over positive ones.

- In forecasts on future changes in their own financial and economic condition, business is more optimistic than in forecasts of what will be the general economic situation in the country as a whole.
- Over the last two years, the surveyed companies and IEs have increased their activities and recruited additional employees.
- Quarantine has significantly affected business assessments and expectations. The coronavirus epidemic and quarantine have worsened business assessments of the current situation and its forecasts for the near future. But long-term expectations, on the contrary, are positive. During the quarantine, businesses became even more optimistic about their expansion in two years.
- Attitude to changes in administrative procedures have deteriorated: deregulation is slowing down, inspections, despite the reform, remain a barrier to the business, according to respondents.

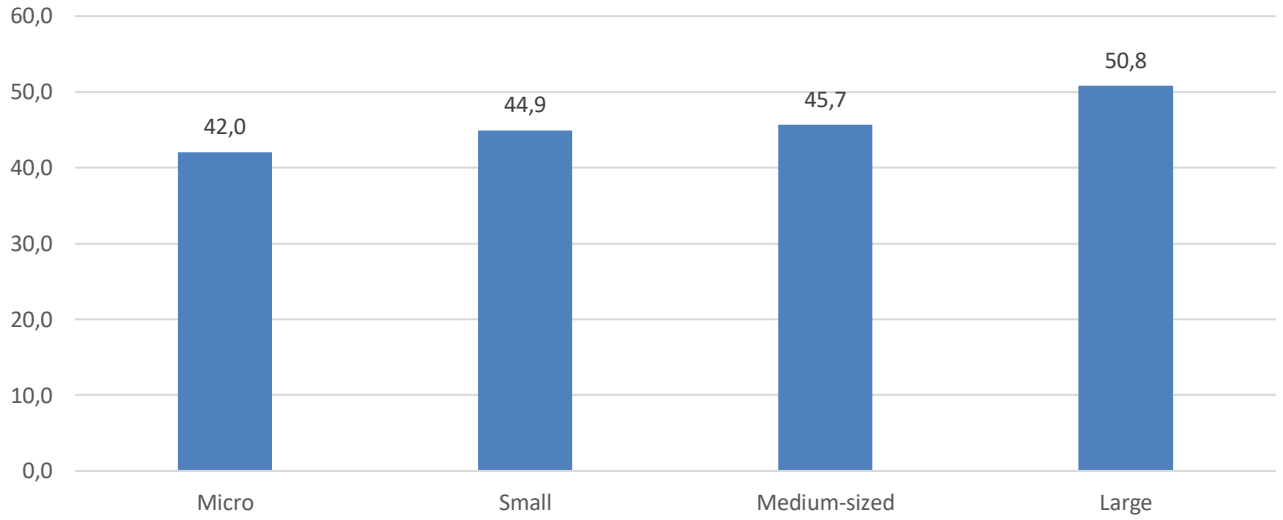
# 7. A demographic portrait of business owners and managers

## 7.1. Business owners age

The average age of the owners of the business surveyed (one business may have one or more owners) is 42.8 years[53]. Owners of enterprises registered as legal entities are, on average, slightly older than individual entrepreneurs: the average age of such enterprise owners is 44.1 years, while the average age of IEs is 39.2 years.

***Business owners age by business size.*** The larger the size of the business, the greater the average age of its owners. Owners of microbusinesses are on average 42 years old, and owners of small - almost 45. For medium-sized businesses, the average age of the owner rises slightly to 45.7 years, and for owners of large enterprises increases even more to 50.8 years.

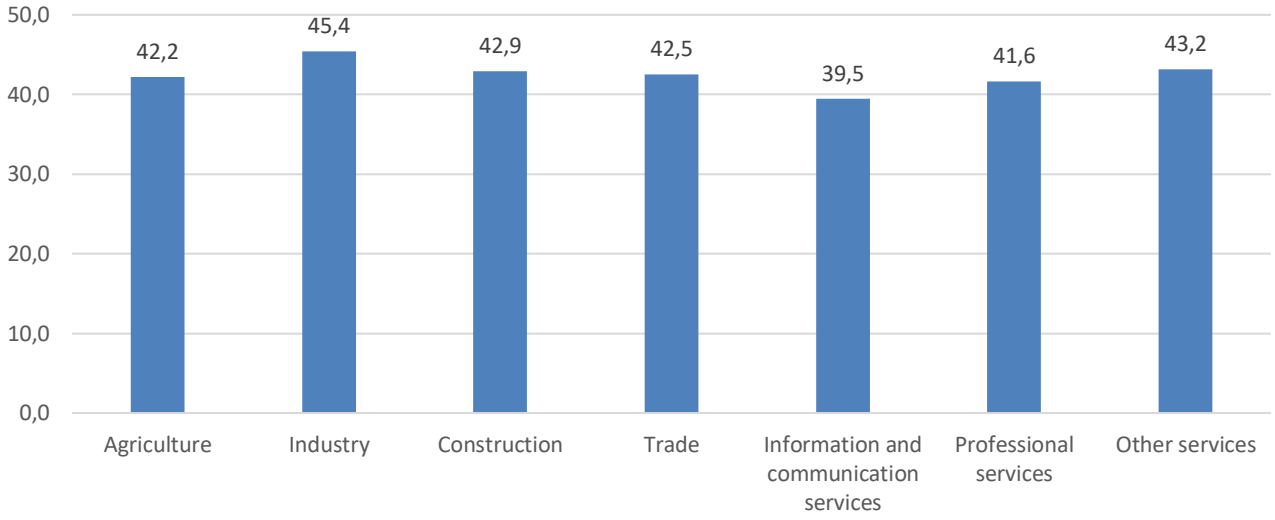
*Fig. 129. Average age of business owners (by business size), years*




***Business owners age by sector.*** The oldest average business owners are in the industrial sector. Here the average age of the owner exceeds 45 years. The youngest average age of owners was recorded in information and communication services, where it was 39.5 years.

[53] The average age of the owners was listed from a category variable, where the numerical variable is the average age in each category. For example, if the category 18 – 22 years was chosen when answering this question, the age value for this owner was 20 years.

*Fig. 130. Average age of business owners (by sector), years*

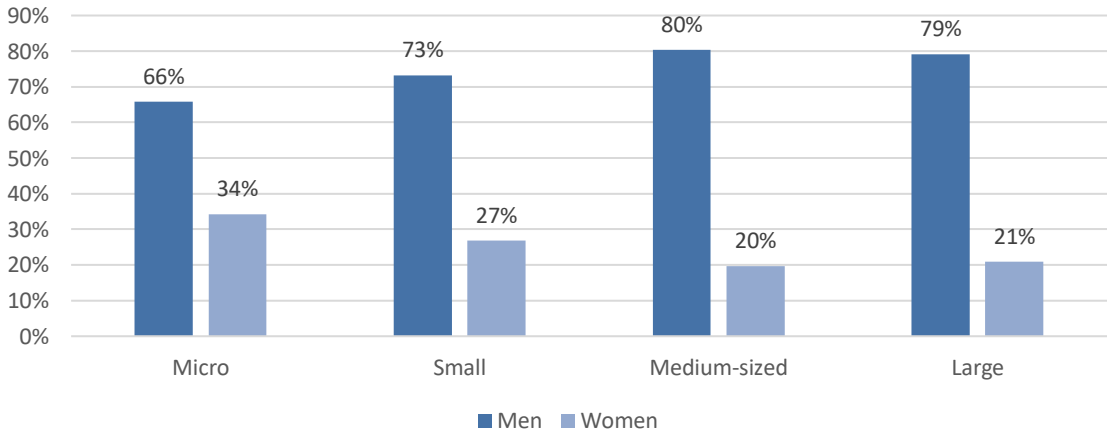



## 7.2. Business owners gender

68% of business owners are men and 32% are women. Among IEs, where business owners are also its managers, the share of female owners is higher than among enterprise owners registered as legal entities. Among SP owners, men make up 56% and women - 44%. Among enterprise owners, men make up 72% and women 28%.

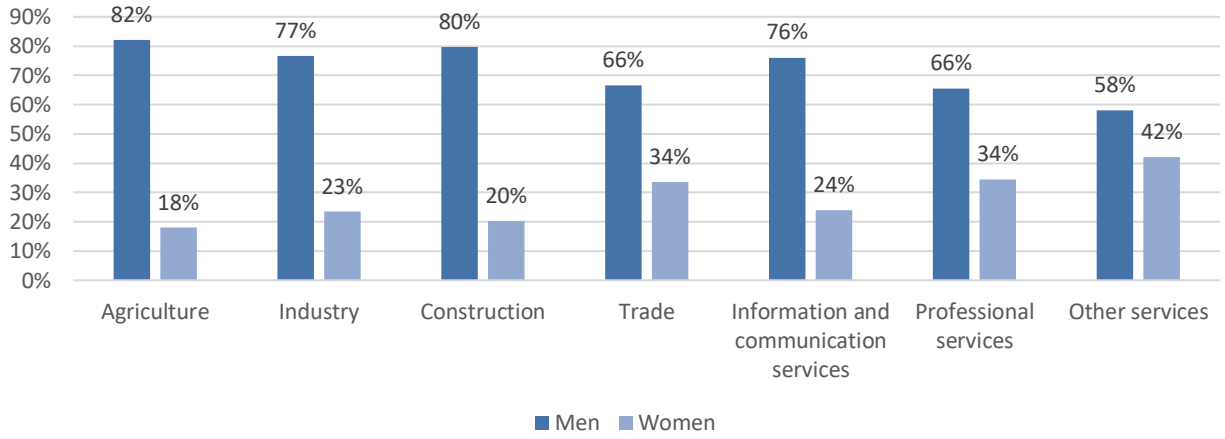
***Business owners' gender by business size.*** As the size of the business increases, the ratio of women to men among owners change in favor of men. In micro-business, two-thirds of the owners are men, while a third are women, in small business women are a quarter of the owners and men are three-quarters, and in medium and large business four out of five owners are men, while one of every five owners is a woman.

*Fig. 131. Business owners gender (by business size), %*




***Business owners' gender by sector.*** The share of male business owners is higher in agriculture, construction, and industry than in trade and services. In turn, the information and professional services sector has a slightly lower share of female owners (24% and 34%, respectively) than the rest of the service business, where the share of female owners reaches 42%.

*Fig. 132. Business owners gender (by sector), %*

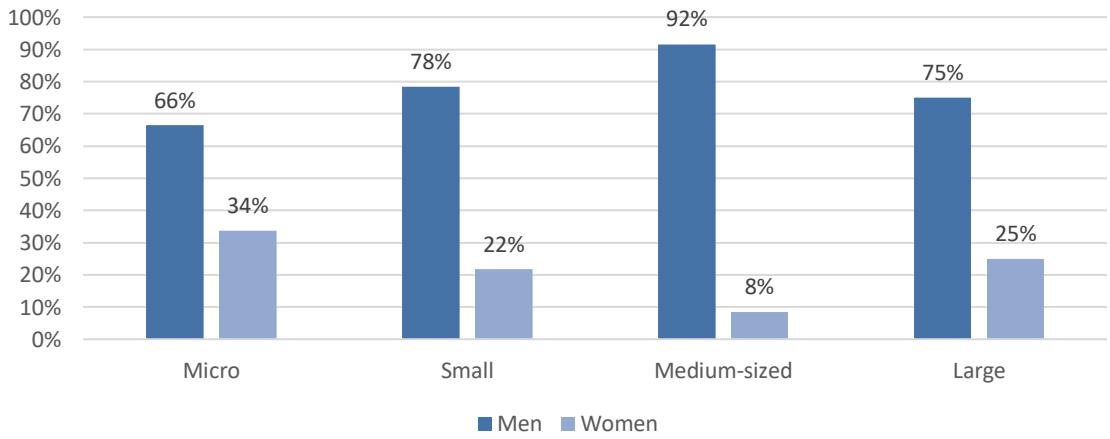



## 7.3. Business managers gender

The distribution of business managers i.e. those who run a business or run their own business as IEs by gender is similar to the business owner distribution by gender. 31% of business managers are women and 69% are men. Again, the ratio of men to women is higher among business managers than among IEs. As already mentioned, 44% of IEs who are also business managers are women, and 56% are men. And among enterprise managers, 76% are men and 24% are women.

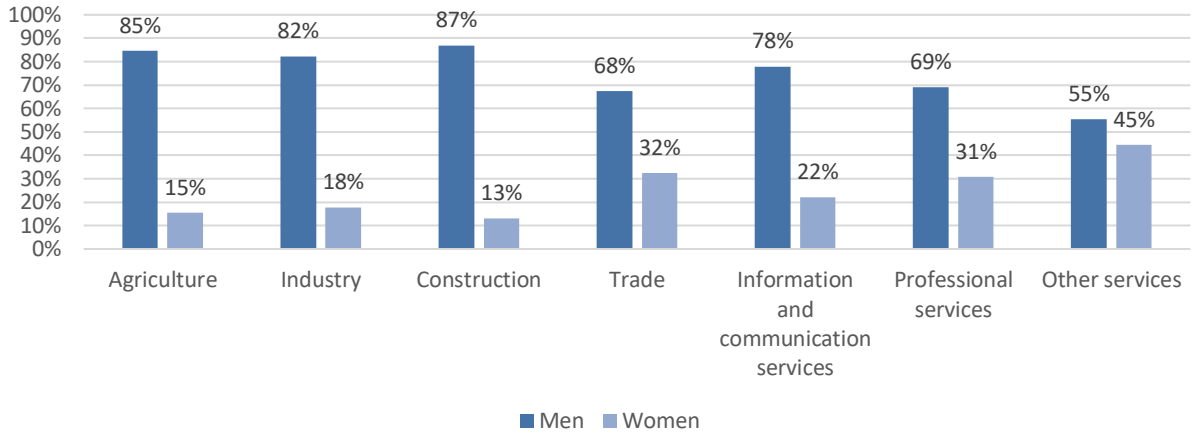
***Business managers' gender by business size.*** In medium-sized businesses, there is the largest share of male managers (92%) and, accordingly, the smallest share of females (8%). The most gender-balanced distribution of managers is in microbusiness, where 66% of managers are men and 34% are women.

*Fig. 133. Gender of business managers (by size), %*




***Business managers gender by sector.*** In agriculture, industry, and construction, the ratio of men and women managers is similar: from 82% to 87% of managers are men, and, accordingly, from 13% to 18% - women. The highest share of female managers is recorded in the service sector, excluding information and professional services. While in the information and communication services women managers make up 22%, and in professional services - 31%, then among the rest of the business operating in the service sector, the share of female managers (45%) is almost equal to the share of male managers (55%).

*Fig. 134. Gender of business managers (by sector), %*




**Box 11. How has the demographic composition of owners and business managers changed compared to 2016**

In the 2016 Annual Business Climate Assessment in Ukraine - ABCA survey[54], conducted by the IER under the USAID LEO Program, respondents were also asked about the gender of the business manager. According to the results of this survey, which included the only micro, small and medium-sized businesses, 76% of business leaders were men and 24% were women.

In the MCI survey, the share of women among business managers is higher: 31%[55]. However, it should be noted that the ABCA survey increased the quota of small and medium-sized enterprises, which accounted for 17.5% and 15.2% of the sample, respectively.

In this survey, small business accounts for 16% of all respondents (17% when weighing data), and medium and large together - almost 4% (3.7% before weighing data and 3.8% when weighing). Taking into account that as the size of business increases, the share of male executives increases, it can be assumed that if the samples of both surveys were the same, the shares of men and women among business executives would also be similar.

The average age of respondents within the survey "Annual assessment of the business climate in Ukraine – ABCA" was 45 years. Owners, managers, and representatives of the management of enterprises were among the respondents, but the average age of the owners (30% of all respondents then) was 43 years.

## 7.4. Main outcomes briefly

- The average age of business owners is 43 years. The larger the size of the business, the older the average owners are.
- 68% of business owners are men and 32% are women.
- Among business managers, the ratio of men to women is similar: men are 69%, women - 31%.
- The larger the size of a business, the greater the share of men among its owners and managers.
- In the agricultural, industrial, and construction sectors, the share of men among both owners and business managers is higher than in the trade and services sectors.
- There are more female owners among IEs than among owners of legal entities.
- Businesses have become younger in 2020 compared to 2017: the age of business owners has decreased from 45 to 43 years.

[54] "Annual Business Climate Assessment 2016: National and Regional Dimensions". Institute for Economic Research and Policy Consulting, Kyiv, 2017 http://www.ier.com.ua/files//Projects/2015/LEV/ABCA2017/ABCA2016_full_report.pdf

[55] Among the entire survey sample, which includes big business, when weighing data.

- The share of women among business managers in 2020 increased compared to 2017 (31% to 24%, respectively).

# 8. Conclusions and recommendations

## 8.1. The main conclusions of the research

**Municipal competitiveness index**

- The best MCI is in Khmelnytskyi: 72.69 points. Khmelnytskyi took the first position thanks to the leadership in four out of ten components. Khmelnytskyi ranks first in the components: "Access to Public Property", "Transparency and Data Openness", "Informal Payments and Corruption", “Municipal authorities’ leadership”.
- Kherson is in the last place (31.62). Kherson has the lowest results in three components: "Transparency and data openness ", "Taxes and duties", "Informal payments and corruption".
- The difference in the MCI value for the 1st and 24th place is more than double - 72.69 to 31.62. This is the evidence for a significant difference in the business climate, the policy of local councils, and as a result, significant disparities in the competitiveness of Ukrainian cities.
- Uzhhorod (8.86), Lviv (8.63), Ivano-Frankivsk (8.45), Kramatorsk (8.06), and Sievierodonetsk (7.78) received the best scores under Component 4 “Compliance Cost”. The high result was provided by a combination of good assessments of respondents on the time and money expended on compliance with local regulations, and time spent on communication with inspectors.
- High expenditures of time and money resulted in low “Compliance Cost” results for Mykolaiv (5.89 points), Zhytomyr (5.87), Kharkiv (5.16), Kherson (3.91) and Kyiv (2.99).
- The “Informal Payments and Corruption” component has a significant impact on the city's ranking.
- The best scores of Component 6 “Informal Payments and Corruption” were awarded to Khmelnytskyi (8.84 points), Ivano-Frankivsk (8.49), Vinnytsia (7.69) and Dnipro (7.26). It is in these cities that such factors as the low level of informal payments and the high level of awareness among entrepreneurs about the existing anti-corruption measures are combined.
- The biggest problems with the level of corruption and anti-corruption measures at the municipal level are in Kherson, which received only 1.04 points. Also in the group of cities with low scores are Rivne (2.53 points), Odesa (3.02), and Uzhhorod (3.29).
- Kyiv has the highest time expenditures on complying with local regulations and communicating with inspectors, and the second highest money expenditures on complying with regulations.
- Despite the low place in MCI ranking, Kyiv remains a city where the business is developing dynamically. Here is the largest share of those who increased the number of employees in the company in recent years (42%) and the best balance between those who increased the number of employees in the company and those who decreased it.

**Barriers to doing business**

- The main barriers to doing business are high taxes, low consumer demand, and lack of skilled labor force.
- Skilled labor shortage is a problem for all respondents, regardless of organizational form, size, and sector. As the size of the enterprise increases, the sharpness of the problem increases. It is more serious for enterprises than for IEs, but for both organizational forms is in the top three barriers.
- Corruption is not a significant problem for businesses according to this survey. This problem took 6th place and only 15% chose it as an obstacle, which is more than twice less than the barrier that is ranked third.
-

**Business climate and expectations**

- The business climate index for SMEs (from the ABCA index group) has improved, indicating an improvement in the perception of the business climate by SMEs in 2020 compared to 2017. The value of the ABCA index increased from +0.09 to +0.19 (scale from -1 bad to +1 good).
- Business environment assessments have improved, and long-term business expectations are traditionally positive. The most optimistic are representatives of agriculture and the least of information and communication services.
- Deregulation continues, but its results have become less tangible for businesses in 2020 compared to 2017.
- The business climate index has improved, indicating an improvement in the perception of the business climate by SMEs in 2020 compared to 2017. The value of the ABCA index increased from +0.09 to +0.19 (scale from -1 bad to +1 good). All components of the ABCA Business Climate Index have improved, except for indicators that define simplifying administrative procedures.
- Legal entities are much more confident and optimistic in their plans for a two-year perspective than individual entrepreneurs.
- In industry and trade, intentions to reduce or close business are relatively more common than in other sectors.
- Attitudes to the financial and economic conditions at the enterprise are better than assessments of the business environment: positive assessments of their financial and economic situation prevail among respondents, while negative assessments dominate over positive ones when it comes to the general economic environment.
- In forecasts of future changes in their own financial and economic conditions, business is more optimistic than in forecasts of what will be the general economic situation in the country as a whole.
- Over the last two years, the surveyed companies and IEs have increased their activities and recruited additional employees.
- Quarantine has significantly affected business attitudes and expectations. The coronavirus epidemic and quarantine have worsened business assessments of the current situation and its forecasts for the near future. But long-term expectations remain ambitious. During the quarantine, businesses became even more optimistic about expanding their activities in two years.
- The value of the index of changes in administrative procedures (based on the assessment of changes in procedures of tax administration, business registration, and state supervision over the last two years) has decreased three times (!). This was due to the deterioration of all three components, but state supervision was estimated the worst (despite the reform). This indicates a slowdown in deregulation, while inspections, despite the reform, remain an obstacle for business, according to respondents.

**COVID-19 and quarantine**

- Quarantine affected business attitudes and expectations. Respondents who answered from March 15 and later have worse assessments of the current situation and worse expectations about their work in the next six months. For example, the value of the ABCA Business Climate Index for enterprises surveyed before March 15 is 0.21, and after - 0.08.
- At the same time, no significant impact on long-term expectations has been recorded, they remain positive.

**Demography**

- The average age of business owners is 43 years. The larger the size of the business, the older the average owners are.

- 68% of business owners are men and 32% are women. Among business managers, the ratio of men to women is similar: men are 69%, women - 31%.
- The larger the size of a business, the greater the share of men among its owners and managers.
- In the agricultural, industrial, and construction sectors, the share of men among both owners and business managers is higher than in the trade and services sectors.
- There are more female owners among IEs than among owners of legal entities.
- Businesses have become younger in 2020 compared to 2017: the age of business owners has decreased from 45 to 43 years.
- The share of women among business managers in 2020 increased compared to 2017 (31% to 24%, respectively).

**Component 1. Starting a Business**

- Low sub-index indicators were recorded in the largest cities in terms of population and number of registered businesses (Kyiv, Kharkiv, Dnipro, Odesa, Lviv). This may indicate that in the largest cities, entrepreneurs have more difficulty registering their business. In large cities, respondents indicated a longer average duration of registration.
- One of the possible challenges in cities that have shown low results may be a greater burden on business registrars. On the one hand, in some cities, there are more than 10 registrars per 10,000 business entities (in state authorities, municipal authorities, and state notaries). On the other hand, in some large cities (for example, Kharkiv, Odesa, Dnipro) this figure is almost twice lower.
- In the largest cities, entrepreneurs had more limited opportunities to obtain the necessary advice. If in the whole country 70.7% of entrepreneurs were able to get the necessary advice/assistance in registering a business, in Kyiv such assistance was available only to 53.4% of respondents, in Kharkiv to 55.6, in Odesa to 60%, and in Dnipro to 61.7%.
- With a higher number of registrars than other cities, the duration of registration may remain low. This may indicate a lower level of registration services in some cities.
- It takes about six days for both individuals and legal entities to register a business.
- Every tenth individual entrepreneur or enterprise manager faces some difficulties or problems registering a business, mostly in the agricultural sector.
- It takes a little more than one month on average from the time of registration to the first good or service sale.
- Industry, construction, and agriculture businesses need more time since registration start to carry out their first sales transaction than trade and services businesses.
- Legal entities tend to spend more time obtaining permits than individual entrepreneurs (except for construction permits and permits to disturb beautification: IEs have to wait longer to get them than legal entities).
- It takes the longest time to obtain permits for the construction sector.

**Component 2. Access to Public Property**

- Only 30% of respondents reported they have certificates confirming the right for ownership/lease of land engaged in their business activities. These are 46.8% of those who believe that the land parcel documents issue concerns them. Thus, at least every second entrepreneur does not have documents confirming the right for ownership/lease of land.

- The survey results indicate that entrepreneurs in all cities have limited access to information on public property. Only one in five respondents (18.1%) reported access to information on the availability of communal land that can still be provided for use or used for construction, etc. Almost a third of respondents (29.2%) reported that information on municipal real estate is available (including non-residential premises).

**Component 3. Transparency and Data Openness**

- Although the information on the local budget is published on the official websites of cities, only 10% of all respondents positively ("good" and "excellent") rated access to information on the local budget. This may indicate difficulties in accessing this information due to inconvenient official pages of city councils, the inconvenient format of presenting information, etc.
- Only 13.9% of respondents positively assessed access to local regulations. However, local authorities publish the approved documents on official websites. Therefore, the low level of assessments may indicate difficulties in finding this information due to inconvenient official pages of city councils, inconvenient format for presenting information, etc.
- Under current legislation, city councils and their executive bodies place procurement plans in the electronic procurement system. Most city councils also continue to disseminate procurement information on their websites, in particular by integrating information from e-procurement platforms into their websites.
- Despite the existence of an electronic system and electronic platforms, only 17.3% of respondents are positive about access to information on procurement. This may indicate both shortcomings in the presentation of information in electronic systems and communication problems in public procurement.
- Large businesses are better aware of whether this information is available in their city, and have higher estimates of the availability of information compared to smaller businesses.

**Component 4. Compliance Cost**

- Interviewed businesses spend on average almost four days complying with local regulations. As the size of the business increases, so does the amount of time it spends complying with these regulations.
- The average share of annual income expenditures for the implementation of local regulations is 3.7%. The construction industry is characterized by a high cost of compliance compared to other sectors.
- On average, municipal inspectors visit businesses only 0.7 times a year. Thus, the number of such inspections is less than one per year. Businesses operating in information and communication services, professional services, and in agriculture, rarely pass such inspections.
- On average, respondents spend five days communicating with city inspectors.

**Component 5. Taxes and Duties**

- According to the survey, respondents reported that on average of 26.8% of annual income is spent on taxes and duties (including unified social contribution). At the same time, small and medium-sized businesses (except for micro-enterprises) pay the largest amount of taxes in terms of annual income, and microbusinesses - the smallest one.
- The average time spent by respondents on taxes and duties administration is 58.6 days. At the same time, big business spends the most time on tax administration: on average, more than 200 days a year.
- Local taxes and duties are a barrier for 20% of the business surveyed in general and, to a lesser extent, for small businesses with 11 to 50 employees.
- 3.6% of respondents reported that they received benefits for the payment of local taxes and duties in 2018 – 2019.

**Component 6. Informal Payments and Corruption**

- 10% of business representatives said they had situations involving informal payments when interacting with municipal officials.
- One in every five medium-sized businesses surveyed had this experience. Large businesses are the least likely to report such situations.
- In the sectoral context, enterprises (IEs) in agriculture and construction more often than others report such situations, while representatives of the information and communication services - the least.
- 51% of executives surveyed who reported making informal payments indicated they were required to pay a bribe but did not pay.
- 37% of respondents who encountered situations related to informal payments said they had paid the bribe demanded by the municipal authorities, and 10% said they offered a bribe themselves. This indicates problems with business integrity in the private sector.
- Informal payments cases are not singular. Businesses that have encountered such situations in interaction with the city authorities faced them on average 4 times in 2018 – 2019.
- Businesses facing informal payments spent on average almost 4% of their annual income on them in 2018 – 2019.
- 32% of all business representatives believe they are aware of the various anti-corruption measures (such as open budget, e-reception, anti-corruption programs or plans, etc.) that are implemented in their city.

**Component 7. Security of Operating a Business**

- Almost half of the business owners or managers in Ukraine believe their competitors operate in the shadow. This is more often said by agriculture representatives and less often by information technology representatives.
- 14% of business entities suffered losses in 2018 – 2019 due to extortion (blackmailing), theft, robbery, vandalism, or arson. These losses average almost 11% of annual business income.
- Losses due to extortion (blackmailing), theft, robbery, vandalism, or arson were more often mentioned by agriculture and construction representatives, and less often by information and professional services. In terms of losses, the professional services sector business (18% of annual income) and agriculture (16% of annual income) hold the lead.
- 2.5% of entrepreneurs and enterprise managers surveyed said that in 2018 – 2019, their business was subjected to raider attempts to seize property or change management due to a rigged business conflict. Such attempts are especially common for large enterprises.
- Businesses spend about 3% of their annual income on protection and security, including fees for informal protection and litigation.

**Component 8 Leadership of Municipal Authorities**

- Only 20% of respondents believe that local authorities have a good attitude to business. At the same time, estimates of business support by the government are more optimistic: about every third respondent reports such support.
- Unspecified boundaries of communities (last updated in Soviet times), outdated technical documentation on regulatory monetary valuation of land, lack of certain elements of the anti-corruption system at the local level (anti-corruption program, anti-corruption hotline) remain among the most common problems in cities. Their solution requires a more active position of local authorities in all aspects of community life.

- 57% of business representatives believe that when adopting new or amending existing regulations that affect or may affect business, business consultations are not held or are rarely held.

**Component 9. Development resources**

- Expenditures to support SMEs in most cities are low or non-existent (five cities). However, higher indicators or the availability of such support, in general, may indicate a higher level of leadership of the municipal authorities in business support. For example, the largest amount of expenditures to support the company falls on Khmelnytskyi, which took first place in the ranking of MCI.
- Connection to the electricity supply system is the most complex of all procedures for connecting different types of networks. The average duration of connection to the electricity supply system is about 85 days.
- In almost half of the cities, there are no business support infrastructure facilities created with the participation of local authorities. However, it is difficult to assess the effectiveness of those facilities. An audit of such facilities is required to evaluate their effectiveness.
- Only 11% of respondents personally received business support services from the city authorities (information, consulting, training, etc.). And only one in three respondents (32.6%) indicates the existence of business support centers in the city.
- According to "hard data", most cities do not have business support centers that would be set up with the support of the city government. Thus, the awareness of entrepreneurs about business support centers may relate in particular to infrastructure facilities created with the support of public authorities, public employment services, donors, etc.
- Only 8% of businesses described the labor force quality at the local labor market as good or excellent. One in three respondents considers it unsatisfactory.
- Only 10% of respondents consider the quality of vocational education of local workers to be good or excellent, while 25% consider it unsatisfactory.
- In trade and services, the quality of personnel vocational education is assessed slightly better than in industry, construction, and agriculture.
- Labor shortage at the local labor market is a serious barrier to doing business according to 70% of respondents, and insufficient training of local labor force – according to 61%.
- 1.2% of firms and entrepreneurs received soft loans or other financial support from the city authorities to do business in 2018 – 2019.
- 78% of respondents consider the lack of financial resources a serious barrier to doing business.
- Connection of business facilities to centralized water supply and sewerage systems and heating networks takes on average about 30 days, while connection to electricity and gas supply systems takes on average almost 85 days.
- 11% of enterprises and individual entrepreneurs received business support services from the city authorities in 2018 – 2019. They rated them an average of 3.2 points on a scale of 1 to 5.
- 33% of respondents said that there was a business support center in their city, while 52% did not know if there was such a center in their city.
- 46% of entrepreneurs and enterprise managers are aware of business associations and other business community activities in their city, and 11% of businesses surveyed belong to such associations. Both awareness and membership in business associations grow as the size of the business increases.

**Component 10. Support of innovations**

- 19% of respondents indicated that in 2018 – 2019 they cooperated with research institutions or technology companies to develop their business.
- 40% of firms and entrepreneurs reported they introduced innovations, i.e. new technologies, solutions, or products, to optimize production, service delivery, sales, or business management in 2018 – 2019.

- The implementation of innovation was most often reported by managers of large enterprises.
- On a five-point scale, businesses rate city support for local innovation programs by an average of 1.9 points.
- 8% of respondents said that their business needs for technology transfer are fully or partially met, while 55% could not assess how technology transfer meets the needs of their business or said that their business does not need technology transfer.
- Only 2% of businesses belong to clusters created with the support of their city authorities.

## 8.2. Recommendations: what has to be done

The low competitiveness of certain cities has a negative impact on the competitiveness of entire regions and the country as a whole. At the same time, a number of challenges in the cities researched are typical for all Ukrainian communities and the whole country. Joint efforts by central, regional, and local authorities are needed to address them. In particular:

- Communication between cities needs to be increased so that cities with the best results can share information with their counterparts (dissemination of best practices).
- Deregulation of business activities at the central level needs to be continued. Certain measures should encourage deregulation at the local level.
- It is necessary to continue reducing the role of a human being in communication between the enterprise and the state. In particular, to continue the "digitalization" of business processes related to communication between the business entity and the state.
- Ongoing dialogue between government and business at all levels needs to be promoted.
- It is necessary to increase informing of business representatives about the opportunities they have related to the lease of state and communal property.
- It is necessary to raise the level of awareness among municipal authorities about business support policy (including business support infrastructure, support tools, etc.).
- Vocational education reform needs to be completed.
- Independent monitoring of business opinion should be conducted regularly to receive feedback from business representatives on the administration of legislation practices.

The results of the study indicate the weaknesses of cities within the individual components that make up the Municipal Competitiveness Index. The attention of the city authorities should be focused on solving such problems or reducing their negative effect to increase the competitiveness of their communities, as follows:

**Component 1. Starting a Business**

- Faster business registration should be encouraged in communities where its duration exceeds the national average. For example, it is necessary to increase the number of business registrars in local authorities in cities with a low number of registrars per 10,000 businesses.
- 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 administrative service centers.
- The quality of service needs to be improved during local permitting procedures 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 communal land that can still be used for construction, in particular through the official website of the city council.
- Transparent access to information on municipal real estate should be ensured, in particular through the official website of the city council.

**Component 3. Transparency and Data Openness**

- The level of transparency and openness of data on the local budget, local regulations, and public procurement should be increased, in particular through the regular posting of relevant information on the official websites of city councils.
- Information from electronic public procurement platforms on city council procurement plans should be integrated into official city council websites.
- The quality of official city council websites, including information search tools, should be improved.

**Component 4. Compliance Cost**

- Local deregulation measures need to be continued to reduce the time and money spent by businesses on implementing local regulations.

**Component 5. Taxes and Duties**

- Regular analysis of the burden of local taxes and duties and their impact on local businesses need to be held.
- Timely updating of technical documentation on the normative monetary valuation of land needs to be ensured.

**Component 6. Informal Payments and Corruption**

- The necessary elements of the anti-corruption system at the local level (designated unit/official for the prevention of corruption, e-reception, city anti-corruption program, anti-corruption hotline, etc.) need to be created and ensured.
- Anti-corruption measures should be regularly disseminated to inform businesses.
- There is a need to raise the awareness of businesses about the integrity of doing business.

**Component 7. Security of Operating a Business**

- Cooperation with law enforcement agencies needs to be ensured to increase the level of security in the city as a whole, as the crime rate also affects the security of doing business.

**Component 8 Leadership of Municipal Authorities**

- The openness of information on the activities of city councils and their executive bodies on official websites should be ensured.
- Ongoing communication and dialogue between the business and local governments, in particular through the establishment and operation of special advisory bodies with the participation of entrepreneurs need to be ensured.
- A higher level of business involvement in the development of local documents (strategies, plans, programs, etc.) and consultations on regulatory acts need to be ensured.

**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 (for example, loan interest compensation).
- Local business support infrastructure needs to be audited to assess its effectiveness and development.

- The best practices of other cities need to be involved to organize the work of business support centers, coworking, business hubs, clusters, etc. The city authorities should also take responsibility for creating and ensuring the operation of such infrastructure.

**Component 10. Support of innovations**

- The support need to be provided for innovative projects within the programs on financial support for entrepreneurship in cities.
- Business cooperation should be encouraged through the creation of clusters at the initiative or support of the municipal authorities.

# Appendices

## 1. Sample design (after weighing)

**Sample structure after weighing**

| City | Legal entities | | | Individual entrepreneurs | | | Total number in the city |
|---|---|---|---|---|---|---|---|
| | Legal entities in total | Registration until 2018 | Registration in 2018-2019 | IEs in total | Registration until 2018 | Registration in 2018-2019 | |
| **Vinnytsia** | 123 | 100 | 23 | 77 | 53 | 24 | 200 |
| **Dnipro** | 151 | 120 | 31 | 49 | 34 | 16 | 200 |
| **Zhytomyr** | 128 | 101 | 27 | 72 | 51 | 21 | 200 |
| **Zaporizhzhia** | 154 | 125 | 30 | 46 | 32 | 14 | 200 |
| **Ivano-Frankivsk** | 124 | 100 | 24 | 76 | 50 | 26 | 200 |
| **Kyiv** | 174 | 134 | 40 | 26 | 17 | 9 | 200 |
| **Kramatorsk** | 149 | 123 | 26 | 51 | 32 | 19 | 200 |
| **Kropyvnytskyi** | 136 | 101 | 35 | 64 | 43 | 21 | 200 |
| **Lutsk** | 144 | 116 | 28 | 56 | 38 | 18 | 200 |
| **Lviv** | 137 | 107 | 30 | 63 | 41 | 22 | 200 |
| **Mykolaiv** | 133 | 100 | 33 | 67 | 49 | 18 | 200 |
| **Odesa** | 129 | 103 | 26 | 71 | 52 | 19 | 200 |
| **Poltava** | 152 | 124 | 28 | 48 | 31 | 17 | 200 |
| **Rivne** | 125 | 100 | 25 | 75 | 49 | 26 | 200 |
| **Sumy** | 132 | 96 | 36 | 68 | 47 | 21 | 200 |
| **Sievierodonetsk** | 151 | 118 | 33 | 49 | 33 | 16 | 200 |
| **Ternopil** | 119 | 95 | 24 | 81 | 57 | 24 | 200 |
| **Uzhhorod** | 110 | 92 | 18 | 90 | 64 | 26 | 200 |
| **Kharkiv** | 125 | 101 | 23 | 75 | 51 | 25 | 200 |
| **Kherson** | 121 | 103 | 18 | 79 | 56 | 23 | 200 |
| **Khmelnytskyi** | 109 | 88 | 21 | 91 | 61 | 30 | 200 |
| **Cherkasy** | 128 | 106 | 22 | 72 | 49 | 23 | 200 |
| **Chernivtsi** | 104 | 85 | 19 | 96 | 68 | 28 | 200 |
| **Chernihiv** | 129 | 107 | 22 | 71 | 46 | 25 | 200 |
| Result in total | **3186** | **2547** | **639** | **1614** | **1104** | **510** | **4800** |

## 2. Obstacles for doing business

**Barriers by type of business activity**

| | IE | Entities |
|---|---|---|
| **High taxes** | 32% | 35% |
| **Low consumer demand** | 36% | 31% |
| **Lack of skilled labor** | 28% | 34% |
| **Lack of funds** | 20% | 22% |
| **Complexity of the legislation** | 14% | 16% |
| **Municipal government corruption** | 14% | 15% |
| **Complex procedures for obtaining permits for certain types of business operations** | 9% | 12% |
| **Political risks** | 9% | 12% |
| **Military action in the east of Ukraine** | 9% | 10% |
| **Poor transport infrastructure** | 8% | 7% |
| **High cost of raw materials and supplies** | 7% | 7% |
| **Complexity of connecting the electric grid, water, gas supply systems, and sewage** | 6% | 8% |
| **Lack of land resources for business facilities** | 5% | 4% |
| **Other** | 3% | 3% |
| **Risks of a raider attack** | 3% | 3% |
| **Difficult interaction with authorities, tax service in particular** | 2% | 2% |
| **Complicated business registration procedures** | 3% | 2% |
| **Competition** | 2% | 2% |
| **Instability in the country** | 1% | 1% |
| **No obstacles** | 2% | 1% |
| **High cost of renting real estate** | 2% | 1% |
| **Lack of state support** | 1% | 1% |
| **Advantages of large enterprises** | 0% | 0% |
| **Coronavirus epidemic / quarantine** | 0% | 0% |

**Barriers to business size**

| | Micro | Small | Medium | Large |
|---|---|---|---|---|
| **High taxes** | 34% | 36% | 29% | 22% |
| **Low consumer demand** | 34% | 28% | 24% | 19% |
| **Lack of skilled labor** | 30% | 41% | 48% | 52% |
| **Lack of funds** | 21% | 22% | 21% | 17% |
| **Complexity of the legislation** | 15% | 17% | 17% | 17% |
| **Municipal government corruption** | 15% | 16% | 15% | 8% |

| | Micro | Small | Medium | Large |
|---|---|---|---|---|
| **Complex procedures for obtaining permits for certain types of business operations** | 11% | 13% | 8% | 24% |
| **Political risks** | 11% | 11% | 12% | 13% |
| **Military action in the east of Ukraine** | 10% | 10% | 12% | 28% |
| **Poor transport infrastructure** | 7% | 8% | 7% | 9% |
| **High cost of raw materials and supplies** | 7% | 9% | 11% | 7% |
| **Complexity of connecting the electric grid, water, gas supply systems, and sewage** | 7% | 7% | 11% | 26% |
| **Lack of land resources for business facilities** | 4% | 5% | 6% | 13% |
| **Other** | 3% | 3% | 6% | 0% |
| **Risks of a raider attack** | 3% | 2% | 3% | 10% |
| **Other: Difficult interaction with authorities, tax service in particular** | 3% | 2% | 2% | 0% |
| **Complicated business registration procedures** | 2% | 2% | 2% | 0% |
| **Other: competition** | 2% | 2% | 3% | 3% |
| **Other: Instability in the country** | 1% | 2% | 1% | 0% |
| **Other: no obstacles** | 1% | 0% | 0% | 0% |
| **Other: high cost of renting real estate** | 1% | 0% | 1% | 0% |
| **Other: lack of state support** | 1% | 0% | 1% | 6% |
| **Other: advantages of large enterprises** | 0% | 0% | 0% | 0% |
| **Other: coronavirus epidemic / quarantine** | 0% | 0% | 0% | 0% |

**Barriers by type of business sector**

| | Agriculture | Industry | Construction | Trade |
|---|---|---|---|---|
| **High taxes** | 26% | 31% | 32% | 38% |
| **Low consumer demand** | 20% | 31% | 27% | 43% |
| **Lack of skilled labor** | 35% | 38% | 42% | 28% |
| **Lack of funds** | 32% | 28% | 21% | 23% |
| **Complexity of the legislation** | 12% | 13% | 13% | 17% |
| **Municipal government corruption** | 11% | 14% | 23% | 14% |
| **Complex procedures for obtaining permits for certain types of business operations** | 11% | 11% | 17% | 9% |
| **Political risks** | 9% | 10% | 13% | 10% |
| **Military action in the east of Ukraine** | 8% | 9% | 11% | 12% |
| **Poor transport infrastructure** | 10% | 4% | 5% | 6% |
| **High cost of raw materials and supplies** | 17% | 15% | 5% | 5% |
| **Complexity of connecting the electric grid, water, gas supply systems, and sewage** | 6% | 11% | 9% | 5% |
| **Lack of land resources for business facilities** | 11% | 4% | 7% | 4% |

| | Agriculture | Industry | Construction | Trade |
|---|---|---|---|---|
| **Other** | 4% | 3% | 4% | 2% |
| **Risks of a raider attack** | 10% | 3% | 3% | 2% |
| **Other: Difficult interaction with authorities, tax service in particular** | 4% | 3% | 3% | 2% |
| **Complicated business registration procedures** | 3% | 2% | 1% | 2% |
| **Competition** | 1% | 1% | 2% | 2% |
| **Instability in the country** | 0% | 2% | 1% | 1% |
| **No obstacles** | 1% | 0% | 1% | 1% |
| **High cost of renting real estate** | 0% | 1% | 1% | 2% |
| **Lack of state support** | 1% | 1% | 0% | 1% |
| **Advantages of large enterprises** | 1% | 1% | 0% | 0% |
| **Coronavirus epidemic / quarantine** | 0% | 0% | 0% | 0% |

**Barriers by type of business sector (continued)**

| | Information and communication services | Professional services | Other services |
|---|---|---|---|
| **High taxes** | 25% | 32% | 36% |
| **Low consumer demand** | 28% | 27% | 28% |
| **Lack of skilled labor** | 34% | 32% | 30% |
| **Lack of funds** | 15% | 18% | 20% |
| **Complexity of the legislation** | 15% | 18% | 16% |
| **Municipal government corruption** | 14% | 19% | 14% |
| **Complex procedures for obtaining permits for certain types of business operations** | 7% | 16% | 12% |
| **Political risks** | 15% | 14% | 9% |
| **Military action in the east of Ukraine** | 10% | 8% | 9% |
| **Poor transport infrastructure** | 7% | 6% | 11% |
| **High cost of raw materials and supplies** | 5% | 4% | 7% |
| **Complexity of connecting the electric grid, water, gas supply systems, and sewage** | 3% | 7% | 8% |
| **Lack of land resources for business facilities** | 2% | 4% | 5% |
| **Other** | 4% | 3% | 3% |
| **Risks of a raider attack** | 6% | 2% | 2% |
| **Other: Difficult interaction with authorities, tax service in particular** | 1% | 4% | 2% |
| **Complicated business registration procedures** | 4% | 2% | 2% |
| **Competition** | 1% | 2% | 2% |

| | Information and communication services | Professional services | Other services |
|---|---|---|---|
| **Instability in the country** | 1% | 0% | 1% |
| **No obstacles** | 3% | 2% | 1% |
| **High cost of renting real estate** | 0% | 0% | 1% |
| **Lack of state support** | 1% | 1% | 0% |
| **Advantages of large enterprises** | 0% | 0% | 0% |
| **Coronavirus epidemic / quarantine** | 0% | 0% | 0% |

**Barriers for doing business in different cities**

| | Vinnytsia | Dnipro | Zhytomyr | Zaporizhzhia | Ivano-Frankivsk | Kyiv |
|---|---|---|---|---|---|---|
| **High taxes** | 34% | 35% | 35% | 39% | 34% | 39% |
| **Low consumer demand** | 33% | 27% | 37% | 29% | 29% | 28% |
| **Lack of skilled labor** | 37% | 27% | 35% | 30% | 35% | 33% |
| **Lack of funds** | 29% | 20% | 21% | 22% | 18% | 23% |
| **Complexity of the legislation** | 15% | 16% | 15% | 17% | 15% | 17% |
| **Municipal government corruption** | 14% | 16% | 14% | 13% | 12% | 17% |
| **Complex procedures for obtaining permits for certain types of business operations** | 6% | 11% | 10% | 10% | 14% | 13% |
| **Political risks** | 8% | 16% | 10% | 13% | 12% | 17% |
| **Military action in the east of Ukraine** | 6% | 14% | 4% | 11% | 7% | 6% |
| **Poor transport infrastructure** | 4% | 10% | 4% | 4% | 2% | 5% |
| **High cost of raw materials and supplies** | 10% | 4% | 7% | 7% | 5% | 8% |
| **Complexity of connecting the electric grid, water, gas supply systems, and sewage** | 9% | 5% | 9% | 11% | 6% | 6% |
| **Lack of land resources for business facilities** | 4% | 4% | 3% | 0% | 6% | 2% |

| | Vinnytsia | Dnipro | Zhytomyr | Zaporizhzhia | Ivano-Frankivsk | Kyiv |
|---|---|---|---|---|---|---|
| **Other** | 3% | 2% | 3% | 3% | 2% | 5% |
| **Risks of a raider attack** | 1% | 9% | 3% | 4% | 1% | 5% |
| **Other: Difficult interaction with authorities, tax service in particular** | 3% | 1% | 2% | 4% | 5% | 3% |
| **Complicated business registration procedures** | 1% | 2% | 1% | 1% | 2% | 5% |
| **Competition** | 3% | 3% | 4% | 3% | 2% | 1% |
| **Instability in the country** | 1% | 1% | 1% | 2% | 0% | 0% |
| **No obstacles** | 1% | 1% | 1% | 1% | 1% | 1% |
| **High cost of renting real estate** | 1% | 1% | 2% | 0% | 1% | 0% |
| **Lack of state support** | 0% | 1% | 1% | 0% | 0% | 0% |
| **Advantages of large enterprises** | 1% | 0% | 0% | 0% | 0% | 0% |
| **Coronavirus epidemic / quarantine** | 0% | 1% | 0% | 0% | 0% | 0% |

**Barriers for doing business in different cities *(continued)***

| | Kramatorsk | Kropyvnytskyi | Lutsk | Lviv | Mykolaiv | Odesa |
|---|---|---|---|---|---|---|
| **High taxes** | 36% | 36% | 39% | 32% | 32% | 36% |
| **Low consumer demand** | 35% | 39% | 32% | 27% | 32% | 30% |
| **Lack of skilled labor** | 24% | 30% | 31% | 35% | 36% | 30% |
| **Lack of funds** | 22% | 25% | 23% | 19% | 23% | 20% |
| **Complexity of the legislation** | 15% | 12% | 17% | 17% | 13% | 17% |
| **Municipal government corruption** | 12% | 10% | 13% | 13% | 20% | 23% |
| **Complex procedures for obtaining permits for certain types of business operations** | 13% | 13% | 8% | 15% | 14% | 13% |
| **Political risks** | 12% | 9% | 10% | 15% | 9% | 14% |

| | | | | | | |
|---|---|---|---|---|---|---|
| **Military action in the east of Ukraine** | 26% | 8% | 7% | 11% | 5% | 9% |
| **Poor transport infrastructure** | 3% | 7% | 4% | 8% | 11% | 7% |
| **High cost of raw materials and supplies** | 12% | 8% | 8% | 4% | 5% | 6% |
| **Complexity of connecting the electric grid, water, gas supply systems, and sewage** | 5% | 6% | 5% | 7% | 3% | 9% |
| **Lack of land resources for business facilities** | 5% | 4% | 5% | 5% | 4% | 6% |
| **Other** | 2% | 2% | 0% | 3% | 5% | 3% |
| **Risks of a raider attack** | 3% | 1% | 1% | 4% | 2% | 2% |
| **Other: Difficult interaction with authorities, tax service in particular** | 2% | 3% | 1% | 1% | 3% | 2% |
| **Complicated business registration procedures** | 3% | 0% | 1% | 4% | 1% | 2% |
| **Competition** | 0% | 2% | 1% | 2% | 1% | 1% |
| **Instability in the country** | 1% | 1% | 1% | 3% | 1% | 2% |
| **No obstacles** | 0% | 2% | 1% | 0% | 1% | 1% |
| **High cost of renting real estate** | 2% | 1% | 1% | 2% | 0% | 0% |
| **Lack of state support** | 0% | 1% | 0% | 2% | 2% | 1% |
| **Advantages of large enterprises** | 0% | 0% | 0% | 0% | 0% | 0% |
| **Coronavirus epidemic / quarantine** | 0% | 0% | 0% | 0% | 1% | 0% |

**Barriers for doing business in different cities *(continued)***

| | **Poltava** | **Rivne** | **Sumy** | **Sievierodonetsk** | **Ternopil** | **Uzhhorod** |
|---|---|---|---|---|---|---|
| **High taxes** | 33% | 35% | 27% | 32% | 29% | 29% |
| **Low consumer demand** | 29% | 30% | 36% | 34% | 37% | 32% |
| **Lack of skilled labor** | 34% | 34% | 34% | 26% | 28% | 39% |
| **Lack of funds** | 21% | 20% | 21% | 17% | 22% | 23% |

| | | | | | | |
|---|---|---|---|---|---|---|
| **Complexity of the legislation** | 17% | 19% | 14% | 11% | 19% | 14% |
| **Municipal government corruption** | 17% | 11% | 18% | 14% | 17% | 15% |
| **Complex procedures for obtaining permits for certain types of business operations** | 11% | 16% | 9% | 6% | 11% | 11% |
| **Political risks** | 10% | 8% | 8% | 9% | 11% | 11% |
| **Military action in the east of Ukraine** | 7% | 12% | 5% | 41% | 8% | 3% |
| **Poor transport infrastructure** | 7% | 6% | 9% | 18% | 9% | 8% |
| **High cost of raw materials and supplies** | 6% | 6% | 11% | 10% | 9% | 6% |
| **Complexity of connecting the electric grid, water, gas supply systems, and sewage** | 8% | 5% | 7% | 11% | 6% | 4% |
| **Lack of land resources for business facilities** | 5% | 6% | 5% | 2% | 7% | 5% |
| **Other** | 6% | 1% | 3% | 5% | 3% | 3% |
| **Risks of a raider attack** | 2% | 2% | 3% | 1% | 2% | 2% |
| **Other: Difficult interaction with authorities, tax service in particular** | 2% | 3% | 3% | 1% | 0% | 2% |
| **Complicated business registration procedures** | 2% | 3% | 4% | 0% | 3% | 3% |
| **Competition** | 1% | 0% | 2% | 1% | 2% | 3% |
| **Instability in the country** | 1% | 0% | 1% | 0% | 0% | 3% |
| **No obstacles** | 2% | 1% | 3% | 0% | 0% | 1% |
| **High cost of renting real estate** | 1% | 2% | 3% | 1% | 1% | 1% |
| **Lack of state support** | 0% | 1% | 0% | 1% | 0% | 0% |
| **Advantages of large enterprises** | 1% | 0% | 0% | 0% | 0% | 0% |
| **Coronavirus epidemic / quarantine** | 0% | 0% | 0% | 1% | 0% | 1% |

**Barriers for doing business in different cities *(continued)***

| | Kharkiv | Kherson | Khmelnytskyi | Cherkasy | Chernivtsi | Chernihiv |
|---|---|---|---|---|---|---|
| **High taxes** | 32% | 39% | 32% | 36% | 29% | 30% |
| **Low consumer demand** | 27% | 38% | 28% | 35% | 32% | 42% |
| **Lack of skilled labor** | 28% | 34% | 33% | 37% | 30% | 36% |
| **Lack of funds** | 22% | 19% | 21% | 21% | 22% | 24% |
| **Complexity of the legislation** | 18% | 11% | 17% | 16% | 15% | 17% |
| **Municipal government corruption** | 15% | 22% | 11% | 19% | 14% | 11% |
| **Complex procedures for obtaining permits for certain types of business operations** | 12% | 10% | 13% | 10% | 11% | 10% |
| **Political risks** | 15% | 6% | 10% | 6% | 12% | 10% |
| **Military action in the east of Ukraine** | 18% | 5% | 6% | 6% | 4% | 8% |
| **Poor transport infrastructure** | 5% | 12% | 4% | 5% | 18% | 2% |
| **High cost of raw materials and supplies** | 7% | 8% | 7% | 6% | 6% | 9% |
| **Complexity of connecting the electric grid, water, gas supply systems, and sewage** | 6% | 5% | 9% | 9% | 7% | 12% |
| **Lack of land resources for business facilities** | 3% | 4% | 7% | 5% | 5% | 4% |
| **Other** | 3% | 6% | 2% | 2% | 4% | 3% |
| **Risks of a raider attack** | 6% | 1% | 0% | 4% | 2% | 2% |
| **Other: Difficult interaction with authorities, tax service in particular** | 3% | 2% | 4% | 3% | 1% | 3% |
| **Complicated business registration procedures** | 2% | 2% | 2% | 3% | 3% | 1% |
| **Competition** | 2% | 0% | 1% | 2% | 2% | 0% |
| **Instability in the country** | 1% | 1% | 1% | 0% | 3% | 2% |
| **No obstacles** | 1% | 2% | 0% | 0% | 1% | 1% |
| **High cost of renting real estate** | 0% | 0% | 0% | 2% | 1% | 1% |
| **Lack of state support** | 0% | 1% | 2% | 0% | 1% | 1% |

| | | | | | | |
|---|---|---|---|---|---|---|
| **Advantages of large enterprises** | 0% | 0% | 1% | 0% | 0% | 0% |
| **Coronavirus epidemic / quarantine** | 0% | 0% | 0% | 0% | 0% | 0% |

## 3. Quarantine and business climate

**ABCA Business Climate Index and its components. calculated for respondents before and after quarantine**

| | **until March 14. 2020** | **from March 15. 2020** |
|---|---|---|
| The current financial and economic conditions | 0.06 | -0.09 |
| Expected changes in the financial and economic conditions (6 months) | 0.42 | 0.04 |
| **SME Business Activity Index (short-term)** | **0.24** | **-0.03** |
| The current state of the business environment | -0.10 | -0.29 |
| Expected changes in the business environment (6 months) | 0.31 | -0.10 |
| **SME Business Environment Index (short-term)** | **0.10** | **-0.19** |
| Changes in business activity (2 years) | 0.30 | 0.38 |
| Expected changes in business activity (2 years) | 0.43 | 0.51 |
| **Business activity index (long-term)** | **0.37** | **0.44** |
| Registration | 0.36 | 0.36 |
| Situation with inspections | -0.05 | -0.05 |
| Administration and payment of taxes | 0.01 | 0.01 |
| **Index of changes in the regulatory environment (three procedures)** | **0.11** | **0.11** |
| **BUSINESS CLIMATE INDEX** | **0.21** | **0.08** |

## 4. Expectations (plans) for business activity in the two-year perspective

**Expectations (plans) by type of business activity**

| | **IEs** | **Legal entities** |
|---|---|---|
| **To expand the business** | 44% | 56% |
| **To continue working at the current level** | 46% | 38% |
| **To reduce the business** | 4% | 3% |
| **To close the business** | 6% | 3% |

**Expectations (plans) by the business size**

| | Micro | Small | Medium | Large |
|---|---|---|---|---|
| **To expand the business** | 50% | 57% | 64% | 75% |
| **To continue working at the current level** | 41% | 39% | 32% | 25% |
| **To reduce the business** | 4% | 3% | 3% | 0% |
| **To close the business** | 5% | 2% | 1% | 0% |

**Expectations (plans) by the business sector**

| | Agriculture | Industry | Construction | Trade | Information and communication services | Professional services | Other services |
|---|---|---|---|---|---|---|---|
| **To expand the business** | 61% | 58% | 59% | 50% | 46% | 59% | 49% |
| **To continue working at the current level** | 34% | 33% | 34% | 40% | 49% | 36% | 44% |
| **To reduce the business** | 1% | 4% | 4% | 5% | 2% | 2% | 3% |
| **To close the business** | 4% | 5% | 3% | 5% | 3% | 4% | 4% |

**Expectations (plans) in different cities**

| | Vinnytsia | Dnipro | Zhytomyr | Zaporizhzhia | Ivano-Frankivsk | Kyiv |
|---|---|---|---|---|---|---|
| **To expand the business** | 53% | 59% | 52% | 53% | 52% | 64% |
| **To continue working at the current level** | 39% | 35% | 42% | 39% | 43% | 31% |
| **To reduce the business** | 4% | 2% | 4% | 5% | 3% | 2% |
| **To close the business** | 3% | 3% | 3% | 4% | 2% | 2% |

**Expectations (plans) in different cities (continued)**

| | Krama-torsk | Kropyv-nytskyi | Lutsk | Lviv | Mykolaiv | Odesa |
|---|---|---|---|---|---|---|
| **To expand the business** | 52% | 49% | 55% | 56% | 50% | 53% |
| **To continue working at the current level** | 37% | 42% | 35% | 38% | 43% | 42% |
| **To reduce the business** | 4% | 4% | 5% | 3% | 3% | 2% |
| **To close the business** | 6% | 5% | 6% | 4% | 4% | 4% |

**Expectations (plans) in different cities (continued)**

| | Polta-va | Rivne | Sumy | Sievierо-donetsk | Ternopil | Uzhho-rod |
|---|---|---|---|---|---|---|
| **To expand the business** | 53% | 55% | 51% | 43% | 55% | 49% |
| **To continue working at the current level** | 40% | 39% | 41% | 48% | 38% | 44% |
| **To reduce the business** | 3% | 3% | 7% | 2% | 5% | 2% |
| **To close the business** | 5% | 4% | 2% | 8% | 2% | 6% |

**Expectations (plans) in different cities (continued)**

| | Kharkiv | Kherson | Kmelnytskyi | Cherka-sy | Cherniv-tsi | Cherni-hiv |
|---|---|---|---|---|---|---|
| **To expand the business** | 51% | 46% | 58% | 52% | 46% | 49% |
| **To continue working at the current level** | 45% | 45% | 34% | 41% | 42% | 46% |
| **To reduce the business** | 2% | 5% | 3% | 4% | 5% | 2% |
| **To close the business** | 3% | 4% | 5% | 3% | 8% | 4% |

## 5. Assessment of the business climate

**Assessment of the current financial and economic environment**

**Assessment of financial and economic situation by type of business entity**

| | IE | Entities |
|---|---|---|
| **Good** | 25% | 22% |
| **Satisfactory** | 57% | 59% |
| **Bad** | 18% | 19% |

**Assessment of the financial and economic situation by business size**

| | Micro | Small | Medium | Large |
|---|---|---|---|---|
| **Good** | 23% | 25% | 28% | 36% |
| **Satisfactory** | 57% | 63% | 60% | 61% |
| **Bad** | 20% | 12% | 12% | 4% |

**Assessment of the financial and economic situation by sector**

| | Agriculture | Industry | Construction | Trade | Information and communication services | Professional services | Other services |
|---|---|---|---|---|---|---|---|
| **Good** | 28% | 18% | 22% | 20% | 32% | 28% | 24% |
| **Satisfactory** | 54% | 57% | 59% | 60% | 55% | 57% | 60% |
| **Bad** | 18% | 25% | 19% | 20% | 12% | 15% | 17% |

**Assessment of the financial and economic situation in different cities**

| | Vinnytsia | Dnipro | Zhyto-myr | Zaporizhzhia | Ivano-Frankivsk | Kyiv | Krama-torsk | Kropyv-nytskyi |
|---|---|---|---|---|---|---|---|---|
| **Good** | 26% | 16% | 26% | 15% | 31% | 24% | 14% | 14% |
| **Satisfactory** | 55% | 68% | 56% | 65% | 53% | 64% | 61% | 63% |
| **Bad** | 19% | 17% | 18% | 20% | 16% | 12% | 25% | 23% |

**Assessment of the financial and economic situation in different cities (continued)**

| | Lutsk | Lviv | Mykolaiv | Odesa | Poltava | Rivne | Sumy | Sievierodonetsk |
|---|---|---|---|---|---|---|---|---|
| **Good** | 25% | 30% | 17% | 21% | 27% | 33% | 24% | 12% |
| **Satisfactory** | 56% | 57% | 60% | 58% | 57% | 51% | 58% | 63% |
| **Bad** | 19% | 14% | 22% | 20% | 16% | 16% | 18% | 26% |

**Assessment of the financial and economic situation in different cities (continued)**

| | Ternopil | Uzhhorod | Kharkiv | Kherson | Khmelnytskyi | Cherkasy | Chernivtsi | Chernihiv |
|---|---|---|---|---|---|---|---|---|
| **Good** | 35% | 27% | 23% | 18% | 27% | 20% | 29% | 20% |
| **Satisfactory** | 53% | 59% | 63% | 60% | 54% | 58% | 51% | 61% |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| **Bad** | 12% | 14% | 14% | 22% | 19% | 22% | 21% | 19% |

**Expected changes in the financial and economic environment**

**Expected changes in the financial and economic situation by type of business entity**

| | IEs | Legal entities |
|---|---|---|
| **Expect improvement** | 40% | 38% |
| **Do not expect changes** | 23% | 18% |
| **Expect deterioration** | 11% | 12% |
| **Can't predict such a long-term perspective** | 26% | 32% |

**Expected changes in the financial and economic situation by size of business**

| | Micro | Small | Medium | Large |
|---|---|---|---|---|
| **Expect improvement** | 39% | 40% | 42% | 45% |
| **Do not expect changes** | 20% | 15% | 17% | 31% |
| **Expect deterioration** | 12% | 14% | 11% | 3% |
| **Cannot predict such a long-term perspective** | 29% | 31% | 30% | 21% |

**Expected changes in the financial and economic situation by sector**

| | Agriculture | Industry | Construction | Trade | Information and communication services | Professional services | Other services |
|---|---|---|---|---|---|---|---|
| **Expect improvement** | 42% | 41% | 46% | 37% | 35% | 40% | 39% |
| **Do not expect changes** | 17% | 14% | 16% | 18% | 30% | 23% | 20% |
| **Expect deterioration** | 14% | 12% | 11% | 14% | 11% | 10% | 11% |
| **Cannot predict such a long-term perspective** | 27% | 34% | 27% | 31% | 24% | 27% | 30% |

**Expected changes in the financial and economic situation in different cities**

| | Vinnytsia | Dnipro | Zhytomyr | Zaporizhzhia | Ivano-Frankivsk | Kyiv | Krama-torsk | Kropyv-nytskyi |
|---|---|---|---|---|---|---|---|---|
| **Expect improvement** | 33% | 41% | 38% | 38% | 36% | 50% | 36% | 38% |
| **Do not expect changes** | 22% | 25% | 23% | 19% | 20% | 20% | 22% | 16% |
| **Expect deterioration** | 17% | 8% | 15% | 15% | 12% | 7% | 13% | 14% |
| **Cannot predict such a long-term perspective** | 29% | 27% | 25% | 28% | 33% | 24% | 28% | 32% |

**Expected changes in the financial and economic situation in different cities (continued)**

| | Lutsk | Lviv | Mykolaiv | Odesa | Poltava | Rivne | Sumy | Sievierodonetsk |
|---|---|---|---|---|---|---|---|---|
| **Expect improvement** | 41% | 41% | 35% | 41% | 45% | 40% | 42% | 32% |
| **Do not expect changes** | 18% | 16% | 18% | 23% | 22% | 18% | 14% | 22% |
| **Expect deterioration** | 9% | 13% | 14% | 9% | 8% | 12% | 11% | 12% |
| **Cannot predict such a long-term perspective** | 33% | 31% | 33% | 27% | 26% | 30% | 33% | 34% |

**Expected changes in the financial and economic situation in different cities (continued)**

| | Ternopil | Uzhhorod | Kharkiv | Kherson | Khmelnytskyi | Cherkasy | Chernivtsi | Chernihiv |
|---|---|---|---|---|---|---|---|---|
| **Expect improvement** | 48% | 37% | 43% | 35% | 40% | 32% | 37% | 39% |
| **Do not expect changes** | 15% | 21% | 23% | 18% | 16% | 22% | 17% | 20% |
| **Expect deterioration** | 12% | 9% | 11% | 17% | 13% | 17% | 10% | 11% |
| **Cannot predict such a long-term perspective** | 24% | 33% | 23% | 29% | 32% | 29% | 36% | 30% |

**Assessment of the general economic environment for the enterprise /IE**

**Assessment of the general economic environment by type of business entity**

| | IE | Entities |
|---|---|---|
| **Good** | 21% | 16% |
| **Satisfactory** | 54% | 53% |
| **Bad** | 25% | 31% |

**Assessment of the general economic environment by the size of the business**

| | Micro | Small | Medium | Large |
|---|---|---|---|---|
| **Good** | 18% | 14% | 15% | 29% |
| **Satisfactory** | 53% | 56% | 56% | 50% |
| **Bad** | 29% | 30% | 29% | 21% |

**Assessment of the general economic environment by sector**

| | Agriculture | Industry | Construction | Trade | Information and communication services | Professional services | Other services |
|---|---|---|---|---|---|---|---|
| **Good** | 17% | 15% | 15% | 13% | 28% | 24% | 18% |
| **Satisfactory** | 47% | 48% | 55% | 54% | 53% | 52% | 55% |
| **Bad** | 36% | 37% | 30% | 33% | 19% | 24% | 26% |

**Assessment of the general economic environment in different cities**

| | VInnytsia | Dnipro | Zhyto-myr | Zapori-zhzhia | Ivano-Frankivsk | Kyiv | Krama-torsk | Kropyv-nytskyi |
|---|---|---|---|---|---|---|---|---|
| **Good** | 18% | 15% | 22% | 12% | 19% | 18% | 15% | 17% |
| **Satisfactory** | 55% | 56% | 47% | 57% | 53% | 57% | 54% | 44% |
| **Bad** | 27% | 29% | 31% | 31% | 29% | 25% | 31% | 40% |

**Assessment of the general economic environment in different cities (continued)**

| | Lutsk | Lviv | Mykolaiv | Odesa | Poltava | Rivne | Sumy | Slevierodonetsk |
|---|---|---|---|---|---|---|---|---|
| **Good** | 21% | 27% | 12% | 10% | 18% | 20% | 14% | 11% |
| **Satisfactory** | 51% | 54% | 50% | 55% | 55% | 57% | 56% | 55% |
| **Bad** | 28% | 20% | 38% | 35% | 27% | 23% | 30% | 34% |

**Assessment of the general economic environment in different cities (continued)**

| | Ternopil | Uzhhorod | Kharkiv | Kherson | Khmelnytskyi | Cherkasy | Chernivtsi | Chernihiv |
|---|---|---|---|---|---|---|---|---|
| **Good** | 26% | 21% | 17% | 14% | 29% | 18% | 20% | 9% |
| **Satisfactory** | 54% | 53% | 60% | 51% | 45% | 52% | 53% | 54% |
| **Bad** | 19% | 27% | 23% | 35% | 26% | 29% | 27% | 37% |

**Expected changes in the general economic environment for the enterprise /IE**

**Expected changes in the general economic environment by type of business entity**

| | IEs | Legal entities |
|---|---|---|
| **Expect improvement** | 36% | 34% |
| **Do not expect changes** | 23% | 20% |
| **Expect deterioration** | 14% | 17% |
| **Can't predict such a long-term perspective** | 27% | 30% |

**Expected changes in the general economic environment by business size**

| | Micro | Small | Medium | Large |
|---|---|---|---|---|
| **Expect improvement** | 34% | 35% | 35% | 38% |
| **Do not expect changes** | 21% | 20% | 24% | 31% |
| **Expect deterioration** | 16% | 15% | 12% | 10% |
| **Cannot predict such a long-term perspective** | 29% | 30% | 29% | 21% |

**Expected changes in the general economic environment by sector**

| | Agriculture | Industry | Construction | Trade | Information and communication services | Professional services | Other services |
|---|---|---|---|---|---|---|---|
| **Expect improvement** | 37% | 36% | 41% | 32% | 27% | 36% | 36% |
| **Do not expect changes** | 21% | 17% | 17% | 19% | 30% | 29% | 20% |
| **Expect deterioration** | 15% | 15% | 14% | 17% | 17% | 15% | 14% |
| **Cannot predict such a long-term perspective** | 27% | 32% | 28% | 31% | 25% | 20% | 30% |

**Expected changes in the general economic environment in different cities**

| | Vinnytsia | Dnipro | Zhyto-myr | Zapori-zhzhia | Ivano-Frankivsk | Kyiv | Krama-torsk | Kropyv-nytskyi |
|---|---|---|---|---|---|---|---|---|
| **Expect improvement** | 27% | 36% | 34% | 28% | 26% | 40% | 29% | 39% |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| **Do not expect changes** | 23% | 25% | 22% | 19% | 22% | 22% | 23% | 14% |
| **Expect deterioration** | 22% | 15% | 15% | 23% | 17% | 12% | 19% | 16% |
| **Cannot predict such a long-term perspective** | 28% | 25% | 29% | 29% | 36% | 26% | 29% | 32% |

**Expected changes in the general economic environment in different cities (continued)**

| | **Lutsk** | **Lviv** | **Mykolaiv** | **Odesa** | **Poltava** | **Rivne** | **Sumy** | **Sievierodonetsk** |
|---|---|---|---|---|---|---|---|---|
| **Expect improvement** | 39% | 37% | 29% | 39% | 42% | 31% | 37% | 29% |
| **Do not expect changes** | 20% | 21% | 18% | 19% | 22% | 19% | 22% | 28% |
| **Expect deterioration** | 11% | 14% | 19% | 14% | 19% | 15% | 12% | 15% |
| **Cannot predict such a long-term perspective** | 30% | 29% | 33% | 27% | 18% | 35% | 29% | 29% |

**Expected changes in the general economic environment in different cities (continued)**

| | **Ternopil** | **Uzhhorod** | **Kharkiv** | **Kherson** | **Khmelnytskyi** | **Cherkasy** | **Chernivtsi** | **Chernihiv** |
|---|---|---|---|---|---|---|---|---|
| **Expect improvement** | 46% | 39% | 40% | 34% | 34% | 25% | 34% | 35% |
| **Do not expect changes** | 18% | 18% | 24% | 19% | 18% | 22% | 24% | 19% |
| **Expect deterioration** | 11% | 13% | 16% | 17% | 18% | 20% | 10% | 14% |
| **Cannot predict such a long-term perspective** | 25% | 30% | 21% | 30% | 30% | 33% | 32% | 32% |

**Changes in business activity (2 years)**

**Changes in business activity by type of business entity**

| | IEs | Legal entities |
|---|---|---|
| **Increased** | 41% | 50% |
| **Left unchanged** | 44% | 33% |
| **Reduced** | 15% | 17% |

**Changes in business activity by size of business**

| | Micro | Small | Medium | Large |
|---|---|---|---|---|
| **Good** | 44% | 60% | 59% | 50% |
| **Satisfactory** | 39% | 26% | 26% | 35% |
| **Bad** | 17% | 13% | 15% | 15% |

**Changes in business activity by sector**

| | Agriculture | Industry | Construction | Trade | Information and communication services | Professional services | Other services |
|---|---|---|---|---|---|---|---|
| **Good** | 57% | 48% | 51% | 44% | 52% | 51% | 46% |
| **Satisfactory** | 29% | 31% | 34% | 36% | 39% | 36% | 40% |
| **Bad** | 14% | 22% | 16% | 20% | 10% | 12% | 14% |

**Changes in business activity in different cities**

| | Vinnytsia | Dnipro | Zhyto-myr | Zapori-zhzhia | Ivano-Frankivsk | Kyiv | Krama-torsk | Kropyv-nytskyi |
|---|---|---|---|---|---|---|---|---|
| **Good** | 49% | 48% | 49% | 42% | 47% | 63% | 48% | 46% |
| **Satisfactory** | 34% | 36% | 34% | 38% | 39% | 31% | 36% | 40% |
| **Bad** | 18% | 16% | 18% | 20% | 14% | 6% | 16% | 15% |

**Changes in business activity in different cities (continued)**

| | Lutsk | Lviv | Mykolaiv | Odesa | Poltava | Rivne | Sumy | Sievierodonetsk |
|---|---|---|---|---|---|---|---|---|
| **Good** | 47% | 48% | 39% | 47% | 50% | 52% | 59% | 44% |
| **Satisfactory** | 34% | 42% | 44% | 31% | 35% | 36% | 30% | 34% |
| **Bad** | 19% | 11% | 17% | 23% | 15% | 11% | 11% | 22% |

**Changes in business activity in different cities (continued)**

| | Ternopil | Uzhhorod | Kharkiv | Kherson | Khmelnytskyi | Cherkasy | Chernivntsy | Chernihiv |
|---|---|---|---|---|---|---|---|---|
| **Good** | 55% | 39% | 43% | 45% | 53% | 45% | 41% | 42% |
| **Satisfactory** | 32% | 46% | 42% | 37% | 31% | 39% | 37% | 36% |
| **Bad** | 13% | 15% | 15% | 18% | 16% | 16% | 22% | 22% |

**Assessment of changes in the conditions and process of business registration**

**Assessment of changes in the conditions and process of business registration by type of business entity**

| | IEs | Legal entities |
|---|---|---|
| **Complicated** | 8% | 10% |
| **Unchanged** | 49% | 42% |
| **Simplified** | 43% | 48% |

**Assessment of changes in the conditions and process of business registration by business size**

| | Micro | Small | Medium | Large |
|---|---|---|---|---|
| **Complicated** | 10% | 9% | 11% | 24% |
| **Unchanged** | 44% | 44% | 42% | 41% |
| **Simplified** | 46% | 47% | 47% | 35% |

**Assessment of changes in the conditions and process of business registration by sector**

| | Agriculture | Industry | Construction | Trade | Information and communication services | Professional services | Other services |
|---|---|---|---|---|---|---|---|
| **Complicated** | 10% | 13% | 7% | 8% | 5% | 9% | 12% |
| **Unchanged** | 48% | 41% | 45% | 45% | 47% | 44% | 43% |
| **Simplified** | 43% | 46% | 48% | 47% | 48% | 47% | 45% |

**Assessment of changes in the conditions and process of business registration in different cities**

| | Vinnytsia | Dnipro | Zhyto-myr | Zapori-zhzhia | Ivano-Frankivsk | Kyiv | Krama-torsk | Kropyv-nytskyi |
|---|---|---|---|---|---|---|---|---|
| **Complicated** | 10% | 10% | 13% | 9% | 10% | 10% | 7% | 15% |
| **Unchanged** | 53% | 49% | 47% | 37% | 42% | 46% | 49% | 36% |
| **Simplified** | 37% | 41% | 40% | 54% | 48% | 44% | 44% | 49% |

**Assessment of changes in the conditions and process of business registration in different cities (continued)**

| | Lutsk | Lviv | Mykolaiv | Odesa | Poltava | Rivne | Sumy | Sievierodonetsk |
|---|---|---|---|---|---|---|---|---|
| **Complicated** | 9% | 6% | 14% | 7% | 9% | 11% | 7% | 10% |
| **Unchanged** | 43% | 44% | 46% | 44% | 44% | 38% | 32% | 42% |
| **Simplified** | 48% | 50% | 40% | 49% | 47% | 52% | 61% | 48% |

**Assessment of changes in the conditions and process of business registration in different cities (continued)**

| | Ternopil | Uzhhorod | Kharkiv | Kherson | Khmelnytskyi | Cherkasy | Chernivtsi | Chernihiv |
|---|---|---|---|---|---|---|---|---|
| **Complicated** | 13% | 5% | 9% | 10% | 7% | 13% | 10% | 7% |
| **Unchanged** | 43% | 56% | 42% | 52% | 42% | 44% | 43% | 42% |
| **Simplified** | 44% | 38% | 49% | 38% | 51% | 42% | 47% | 50% |

**Assessment of changes in the situation with inspections**

| | IE | Entities |
|---|---|---|
| **Complicated** | 18% | 19% |
| **Unchanged** | 70% | 65% |
| **Simplified** | 12% | 16% |

**Estimation of change of a situation with checks on the size of business**

| | Micro | Small | Medium | Large |
|---|---|---|---|---|
| **Complicated** | 19% | 21% | 19% | 14% |
| **Unchanged** | 67% | 63% | 65% | 68% |
| **Simplified** | 14% | 16% | 16% | 18% |

**Assessment of changes in the situation with inspections by sector**

| | Agriculture | Industry | Construction | Trade | Information and communication services | Professional services | Other services |
|---|---|---|---|---|---|---|---|
| **Complicated** | 19% | 18% | 20% | 20% | 12% | 21% | 19% |
| **Unchanged** | 62% | 65% | 67% | 66% | 75% | 59% | 67% |
| **Simplified** | 19% | 17% | 13% | 13% | 13% | 19% | 14% |

**Assessment of changes in the situation with inspections in different cities**

| | Vinnytsia | Dnipro | Zhyto-myr | Zapori-zhzhia | Ivano-Frankivsk | Kyiv | Kramatorsk | Kropyv-nytskyi |
|---|---|---|---|---|---|---|---|---|
| **Complicated** | 13% | 16% | 19% | 19% | 23% | 20% | 19% | 13% |
| **Unchanged** | 75% | 66% | 63% | 66% | 67% | 65% | 68% | 68% |
| **Simplified** | 11% | 17% | 18% | 15% | 10% | 15% | 13% | 19% |

**Assessment of changes in the situation with inspections in different cities (continued)**

| | Lutsk | Lviv | Mykolaiv | Odesa | Poltava | Rivne | Sumy | Sievierodonetsk |
|---|---|---|---|---|---|---|---|---|
| **Complicated** | 27% | 12% | 18% | 15% | 13% | 22% | 31% | 24% |
| **Unchanged** | 61% | 73% | 68% | 70% | 67% | 65% | 60% | 59% |
| **Simplified** | 13% | 15% | 15% | 15% | 20% | 13% | 9% | 17% |

**Assessment of changes in the situation with inspections in different cities (continued)**

| | Ternopil | Uzhhorod | Kharkiv | Kherson | Khmelnytskyi | Cherkasy | Chernivtsi | Chernihiv |
|---|---|---|---|---|---|---|---|---|
| **Complicated** | 16% | 12% | 10% | 20% | 27% | 23% | 26% | 17% |
| **Unchanged** | 67% | 73% | 76% | 66% | 62% | 60% | 60% | 68% |
| **Simplified** | 17% | 15% | 14% | 14% | 11% | 18% | 15% | 15% |

**Assessment of changes in the conditions and process of administration of taxes and duties**

**Assessment of changes in the conditions and process of administration of taxes and duties by type of business entity**

| | IEs | Legal entities |
|---|---|---|
| **Complicated** | 20% | 19% |
| **Unchanged** | 60% | 60% |
| **Simplified** | 20% | 21% |

**Assessment of changes in the conditions and process of administration of taxes and duties by size of business**

| | Micro | Small | Medium | Large |
|---|---|---|---|---|
| **Complicated** | 19% | 19% | 21% | 31% |
| **Unchanged** | 60% | 61% | 59% | 46% |
| **Simplified** | 21% | 20% | 20% | 23% |

**Assessment of changes in the conditions and process of administration of taxes and duties by sector**

| | Agriculture | Industry | Construction | Trade | Information and communication services | Professional services | Other services |
|---|---|---|---|---|---|---|---|
| **Complicated** | 19% | 19% | 18% | 23% | 12% | 16% | 21% |
| **Unchanged** | 65% | 61% | 62% | 57% | 66% | 60% | 59% |
| **Simplified** | 16% | 20% | 20% | 20% | 22% | 24% | 20% |

**Assessment of changes in the conditions and process of administration of taxes and duties in different cities**

| | Vinnytsia | Dnipro | Zhyto-myr | Zapori-zhzhia | Ivano-Frankivsk | Kyiv | Krama-torsk | Kropyv-nytskyi |
|---|---|---|---|---|---|---|---|---|
| **Complicated** | 18% | 19% | 21% | 21% | 26% | 20% | 18% | 19% |
| **Unchanged** | 68% | 56% | 53% | 52% | 54% | 56% | 66% | 54% |
| **Simplified** | 15% | 24% | 26% | 27% | 20% | 25% | 17% | 26% |

**Assessment of changes in the conditions and process of administration of taxes and duties in different cities (continued)**

| | Lutsk | Lviv | Mykolaiv | Odesa | Poltava | Rivne | Sumy | Sievierodonetsk |
|---|---|---|---|---|---|---|---|---|
| **Complicated** | 26% | 20% | 20% | 18% | 14% | 23% | 16% | 20% |
| **Unchanged** | 58% | 61% | 55% | 62% | 68% | 62% | 64% | 55% |
| **Simplified** | 16% | 19% | 25% | 20% | 17% | 15% | 20% | 24% |

**Assessment of changes in the conditions and process of administration of taxes and duties in different cities (continued)**

| | Ternopil | Uzhhorod | Kharkiv | Kherson | Khmelnytskyi | Cherkasy | Chernivtsi | Chernihiv |
|---|---|---|---|---|---|---|---|---|
| **Complicated** | 16% | 17% | 13% | 26% | 19% | 21% | 16% | 22% |
| **Unchanged** | 66% | 63% | 61% | 60% | 63% | 57% | 64% | 61% |
| **Simplified** | 18% | 20% | 26% | 14% | 19% | 22% | 20% | 17% |

## 6. ABCA Business climate index in cities (micro. small and medium business)

| | Current financial and economic situation | Expected changes in the financial and economic situation (6 months) | **SME business activity index (short-term)** | Current state of the business environment | Expected changes in the business environment (6 months) | **SME Business Environment Index (short-term)** | Changes in business activity (2 years) | Expected changes in business activity (2 years) | **Business activity index (long-term)** | Registration | Situation with inspections | Administration and payment of taxes | **Index of 3 procedures** | ***BUSINESS CLIMATE INDEX*** |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Vinnytsia** | 0.08 | 0.24 | 0.16 | -0.09 | 0.07 | -0.01 | 0.31 | 0.45 | 0.38 | 0.28 | -0.02 | -0.03 | 0.08 | 0.15 |
| **Dnipro** | 0.00 | 0.44 | 0.22 | -0.15 | 0.28 | 0.06 | 0.33 | 0.54 | 0.43 | 0.31 | 0.01 | 0.04 | 0.12 | 0.21 |
| **Zhytomyr** | 0.08 | 0.33 | 0.20 | -0.09 | 0.28 | 0.10 | 0.30 | 0.45 | 0.38 | 0.27 | -0.02 | 0.05 | 0.10 | 0.19 |
| **Zaporizhzhia** | -0.05 | 0.32 | 0.14 | -0.19 | 0.07 | -0.06 | 0.22 | 0.44 | 0.33 | 0.45 | -0.04 | 0.05 | 0.15 | 0.14 |
| **Ivano-Frankivsk** | 0.16 | 0.36 | 0.26 | -0.09 | 0.14 | 0.02 | 0.34 | 0.47 | 0.40 | 0.38 | -0.13 | -0.06 | 0.06 | 0.19 |
| **Kyiv** | 0.14 | 0.54 | 0.34 | -0.07 | 0.36 | 0.14 | 0.56 | 0.58 | 0.57 | 0.34 | -0.04 | 0.06 | 0.12 | 0.29 |
| **Kramatorsk** | -0.08 | 0.27 | 0.10 | -0.12 | 0.13 | 0.00 | 0.29 | 0.37 | 0.33 | 0.34 | -0.09 | 0.00 | 0.08 | 0.13 |
| **Kropyvnytskyi** | -0.09 | 0.37 | 0.14 | -0.24 | 0.34 | 0.05 | 0.31 | 0.39 | 0.35 | 0.34 | 0.05 | 0.06 | 0.15 | 0.17 |
| **Lutsk** | 0.07 | 0.47 | 0.27 | -0.08 | 0.40 | 0.16 | 0.29 | 0.44 | 0.36 | 0.40 | -0.14 | -0.10 | 0.05 | 0.21 |
| **Lviv** | 0.15 | 0.41 | 0.28 | 0.06 | 0.33 | 0.20 | 0.36 | 0.48 | 0.42 | 0.44 | 0.03 | 0.00 | 0.16 | 0.26 |
| **Mykolaiv** | -0.05 | 0.32 | 0.13 | -0.27 | 0.15 | -0.06 | 0.21 | 0.42 | 0.31 | 0.26 | -0.02 | 0.05 | 0.10 | 0.12 |
| **Odesa** | 0.01 | 0.44 | 0.23 | -0.24 | 0.34 | 0.05 | 0.23 | 0.47 | 0.35 | 0.41 | -0.01 | 0.02 | 0.14 | 0.19 |
| **Poltava** | 0.11 | 0.50 | 0.30 | -0.08 | 0.28 | 0.10 | 0.35 | 0.44 | 0.39 | 0.39 | 0.06 | 0.04 | 0.16 | 0.24 |
| **Rivne** | 0.17 | 0.40 | 0.29 | -0.03 | 0.27 | 0.12 | 0.40 | 0.48 | 0.44 | 0.42 | -0.09 | -0.08 | 0.08 | 0.23 |
| **Sumy** | 0.05 | 0.45 | 0.25 | -0.15 | 0.36 | 0.10 | 0.47 | 0.42 | 0.44 | 0.55 | -0.23 | 0.04 | 0.12 | 0.23 |
| **Sievierodonetsk** | -0.14 | 0.31 | 0.09 | -0.22 | 0.19 | -0.02 | 0.19 | 0.33 | 0.26 | 0.31 | -0.13 | 0.04 | 0.07 | 0.10 |
| **Ternopil** | 0.23 | 0.48 | 0.36 | 0.07 | 0.47 | 0.27 | 0.42 | 0.48 | 0.45 | 0.32 | 0.01 | 0.03 | 0.12 | 0.30 |
| **Uzhhorod** | 0.12 | 0.43 | 0.28 | -0.07 | 0.39 | 0.16 | 0.23 | 0.40 | 0.31 | 0.33 | 0.02 | 0.02 | 0.12 | 0.22 |

| | Current financial and economic situation | Expected changes in the financial and economic situation (6 months) | **SME business activity index (short-term)** | Current state of the business environment | Expected changes in the business environment (6 months) | **SME Business Environment Index (short-term)** | Changes in business activity (2 years) | Expected changes in business activity (2 years) | **Business activity index (long-term)** | Registration | Situation with inspections | Administration and payment of taxes | **Index of 3 procedures** | ***BUSINESS CLIMATE INDEX*** |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Kharkiv** | 0.09 | 0.41 | 0.25 | -0.06 | 0.29 | 0.12 | 0.28 | 0.46 | 0.37 | 0.40 | 0.03 | 0.13 | 0.19 | 0.23 |
| **Kherson** | -0.05 | 0.25 | 0.10 | -0.22 | 0.26 | 0.02 | 0.25 | 0.37 | 0.31 | 0.30 | -0.05 | -0.11 | 0.05 | 0.12 |
| **Khmelnytskyi** | 0.08 | 0.40 | 0.24 | 0.03 | 0.22 | 0.12 | 0.37 | 0.50 | 0.43 | 0.44 | -0.16 | 0.00 | 0.09 | 0.22 |
| **Cherkasy** | -0.02 | 0.22 | 0.10 | -0.11 | 0.08 | -0.02 | 0.29 | 0.44 | 0.36 | 0.29 | -0.05 | 0.01 | 0.09 | 0.13 |
| **Chernivtsi** | 0.08 | 0.41 | 0.25 | -0.07 | 0.35 | 0.14 | 0.19 | 0.32 | 0.26 | 0.36 | -0.11 | 0.03 | 0.09 | 0.18 |

## 7. Demographic portrait of business owners and managers

### Age of business owners

**The average age of all owners**

| | |
|---|---|
| **The average age of the owners** | 42.8 |

**The average age of the owners by type of business entity**

| | Average age |
|---|---|
| **Individual entrepreneurs** | 39.2 |
| **Entities** | 44.1 |

**The average age of owners by business size**

| | Average age |
|---|---|
| **Micro** | 42.0 |
| **Small** | 44.9 |
| **Medium** | 45.7 |
| **Large** | 50.8 |

**The average age of owners by sector**

| Sector | Average age |
|---|---|
| **Agriculture** | 42.2 |
| **Industry** | 45.4 |
| **Construction** | 42.9 |
| **Trade** | 42.5 |
| **Information and communication services** | 39.5 |
| **Professional services** | 41.6 |
| **Other services** | 43.2 |

### Gender of business owners

**All owners**

| | |
|---|---|
| **Men** | 68% |
| **Women** | 32% |

**Gender of owners by type of business entity**

| | Individual entrepreneurs | Entities |
|---|---|---|
| **Men** | 56% | 72% |
| **Women** | 44% | 28% |

**Gender of owners by size of business**

| | Micro | Small | Medium | Large |
|---|---|---|---|---|
| **Men** | 66% | 73% | 80% | 79% |
| **Women** | 34% | 27% | 20% | 21% |

**Gender of owners by sector**

| | Agriculture | Industry | Construction | Trade | Informational sector | Professional sector | Other sector |
|---|---|---|---|---|---|---|---|
| **Men** | 82% | 77% | 80% | 66% | 76% | 66% | 58% |
| **Women** | 18% | 23% | 20% | 34% | 24% | 34% | 42% |

## Gender of business managers

**All managers**

| | |
|---|---|
| **Men** | 69% |
| **Women** | 31% |

**Gender of managers by type of business entity**

| | Individual entrepreneur | Entities |
|---|---|---|
| **Men** | 56% | 76% |
| **Women** | 44% | 24% |

**Gender of managers by size of business**

| | Micro | Small | Medium | Large |
|---|---|---|---|---|
| **Men** | 66% | 78% | 92% | 75% |
| **Women** | 34% | 22% | 8% | 25% |

**Gender of managers by sector**

| | Agriculture | Industry | Construction | Trade | Information and communication services | Professional services | Other services |
|---|---|---|---|---|---|---|---|
| **Men** | 85% | 82% | 87% | 68% | 78% | 69% | 55% |
| **Women** | 15% | 18% | 13% | 32% | 22% | 31% | 45% |