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Ukraine in the International Ranking “Doing Business”

The objective of the study is the comparative characteristics of the positions of Ukraine among other countries by the international "Doing Business" ranking. It has been substantiated that it is important to avoid activities that "artificially" increase the ranking of the country without real improvement in the area as this may adversely affect the image and reputation of the country causing distrust of the governance and regulation.

The development of entrepreneurship and creating a favourable environment for its functioning is a priority of the state, as "an invisible hand of the market" does not always provide essential and equal conditions. The importance of assessing the conditions and their comparability worldwide are crucial for investors, creditors and other interested parties ("stakeholders") because they are interested in the state of development, specific conditions and protection of their interests.

One of the indicators of the ease of doing business in the world is the international rankings which include the assessment of the taxation system of the country. The most popular international ranking assessing the ease of doing business in the world recently is "Doing Business" index which is prepared by The World Bank Group and is promulgated at <http://www.doingbusiness.org.ua>. "Doing Business" index determines the quality of business regulations which enhance or constrain business activity, the use of the regulations in different countries, regions and selected cities.

"Doing Business" is the ranking which has existed since 2003 and is usually published in autumn. The number of countries covered by the ranking is constantly increasing: 2004 – 133, 2005 – 145, 2006 – 155, 2007 – 175, 2008 – 178, 2009 – 181, 2010-2012 – 183, 2013 – 185, 2014-2016 – 189, 2017-2018 – 190. The studies indicate not only the problems that hold back business development but determine the cause and include recommendations on the necessary reforms.

Currently the ranking consists of 11 indicators including ten major and one extra (table 1). The additional indicator describes the state of the labour market regulation, and its specificity is that it is not included in comprising the overall ranking (in 2011 a similar indicator was part of the main indicators).

Table 1

"Doing Business" indicators

Indicator	Description
<i>Basic</i>	
<i>Starting a business</i>	reveals the bureaucratic and legal obstacles that an entrepreneur must overcome in the process of creation and registration of a new company. The total number of procedures as well as their costs and duration

Indicator	Description
	which entrepreneurs must undergo to register a limited liability company from applying to the beginning of operation are determined
<i>Dealing with construction permits (till 2008 - Dealing with licenses)</i>	records all procedures required for a business in the construction industry to build a warehouse along with the time and cost to complete each procedure; deals with building regulations, including approvals, permit issuance and inspections
<i>Getting electricity</i>	records all procedures required for a business to obtain a permanent electricity connection and supply for a standardized warehouse
<i>Registering property</i>	records the full sequence of procedures necessary for a business (the buyer) to purchase a property from another business (the seller) and to transfer the property title to the buyer's name so that the buyer can use the property for expanding its business
<i>Getting credit</i>	measures the legal rights of borrowers and lenders with respect to secured transactions through one set of indicators and the reporting of credit information through another
<i>Protecting minority investors (till 2014 - Protecting investors)</i>	measures the protection of minority investors from conflicts of interest through one set of indicators and shareholders' rights in corporate governance through another
<i>Paying taxes</i>	records the taxes and mandatory contributions that a medium-size company must pay in a given year as well as the administrative burden of paying taxes and contributions and complying with post-filing procedures
<i>Trading across borders</i>	records the time and cost associated with the logistical process of exporting and importing goods (including the time for preparation of the required documents)
<i>Enforcing contracts</i>	measures the time and cost for resolving a commercial dispute through a local first-instance court and the quality of judicial processes index, evaluating whether each economy has adopted a series of good practices that promote quality and efficiency in the court system
<i>Resolving insolvency (till 2011 – Closing a business)</i>	studies the time, cost and outcome of insolvency proceedings involving domestic entities as well as the strength of the legal framework applicable to judicial liquidation and reorganization proceedings. The data for the resolving insolvency indicators are derived from questionnaire responses by local insolvency practitioners and verified through a study of laws and regulations as well as public information on insolvency systems
<i>Additional</i>	
<i>Labour market regulation</i>	studies the flexibility of regulation of employment, specifically as it relates to the areas of hiring, working hours and redundancy

A detailed description of the changing in the general ranking "Doing Business" and indicator "Paying Taxes" of Ukraine is presented in Fig. 1.

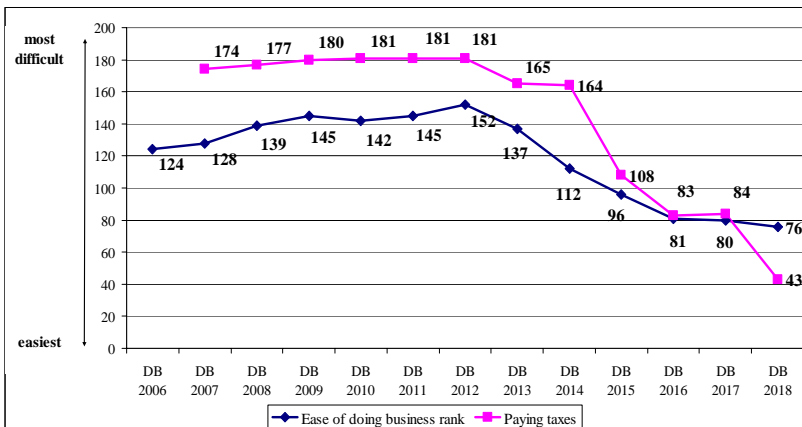


Figure 1. Ranks of Ukraine in "Doing Business"

According to the report of 2017 Ukraine has ranked 80 among 190 countries rated by "Doing Business 2017" (tab. 2) which is one position higher in comparison with the rating of "Doing Business 2016". According to the "Doing Business 2018" Ukraine ranks 76 among 190 countries. The leader is New Zealand. This country is followed by Singapore, Denmark, South Korea and Hong Kong. These five leaders remain unchanged in reports "Doing Business 2017" and "Doing Business 2018".

In comparison with 2016 Ukraine improved its positions by the following indicators: starting a business – from 24 to 20; getting electricity – from 140 to 130; protecting minority investors – from 101 to 70; enforcing contracts – from 93 to 81. The report "Doing Business 2017" highlights the reforms made in Ukraine in the spheres of protecting minority investors and enforcing contracts. But there are spheres in which indicators lowered or stayed at the same positions. They are: resolving insolvency – from 148 to 150; trading across borders – from 110 to 115; paying taxes – from 83 to 84; registering property – from 62 to 63; getting credit – from 19 to 20; dealing with construction permits – from 137 to 140.

The success on four indicators has allowed for Ukraine to rise in the overall rating. Ukraine has shown the greatest growth in the "dealing with constructing permits", which moved on to 105 points because Ukraine reduced the cost of construction by significantly lowering mandatory investor contributions to Kyiv's social and engineering-transport infrastructure.

Also, the rating shows an increase of 41 points in "paying taxes" (Ukraine introduced in 2016 a flat rate of 22% for the Unified Social Contribution Tax paid by employers, which replaced the previous differentiated rates ranging from 36.76% to 49.7%), 2 points (from 130 to 128) - in "getting electricity" and 1 point (from 150 to 149) - in "resolving insolvency". At the same time Ukraine has fallen 32 points (from 20 to 52) in "starting business", 11 (from 70 to 81) in "protecting minority investors", 9 (from 20 to 29) - in "getting credit", 4 - in "trading across borders"

(from 115 to 119) and 1 - in "registering property" (from 63 to 64) and "enforcing contracts" (from 81 to 82).

The reports show that it is necessary to implement reforms of deregulation because Ukraine is considerably behind the neighboring countries: in "Doing Business 2017" Georgia holds the 16th place, Poland – the 24th, Romania – the 36th, Belarus – the 37th, Hungary – the 41st, Moldova – the 44th and Turkey – the 69th; in "Doing Business 2018" Georgia holds the 9th place, Poland – the 27th, Romania – the 45th, Belarus – the 38th, Hungary – the 48th, Moldova – the 44th and Turkey – the 60th.

In Summaries of Doing Business Reforms which are presented in reports "Doing Business" all measures classifies in two groups: (1) reform making it easier to do business; (2) change making it more difficult to do business.

Only in the reports of 2012 and 2009 Ukraine was noted as having introduced reforms and changes making it more difficult to do business. In 2009 such reforms were identified in the sphere of "dealing with construction permits" (increase of the cost and number of permits). In 2012 such reforms were identified in the sphere of "trading across borders" (introduction of additional inspections).

For Ukraine in reports "Doing Business 2017" and "Doing Business 2018" reforms only of the first group have been identified, and this characterizes our country positively. In 2017 for Ukraine such reforms have been identified in two spheres, in 2018 such reforms identified in three spheres (table 2).

Table 2

Ukraine in Summaries of Doing Business Reforms

Ukraine
in 2015/2016 according to "Doing Business – 2017" [1]
<p style="text-align: center;">Protecting minority investors</p> <p>Ukraine strengthened minority investor protections by requiring interested director or shareholder to be excluded from the vote, by requiring that proposed related-party transactions undergo external review, by introducing remedies in cases where related party transactions are harmful to the company and also clarifying ownership and control structures.</p>
<p style="text-align: center;">Enforcing contracts</p> <p>Ukraine made enforcing contracts easier by introducing a system that allows users to pay court fees electronically.</p>
in 2016/2017 according to "Doing Business – 2018" [2]
<p style="text-align: center;">Dealing with construction permits</p> <p>Ukraine made dealing with construction permits easier by reducing fees.</p>
<p style="text-align: center;">Protecting minority investors</p> <p>Ukraine strengthened minority investors protections by requiring detailed immediate public disclosure of related party transactions.</p>
<p style="text-align: center;">Paying taxes</p> <p>Ukraine made paying taxes easier by reducing the rate for the unified social contribution tax.</p>

In each report, beginning from 2008, 10 countries are allocated as the most improved environment for the development of the business. Ukraine was noted in report "Doing Business 2014" – the 1st place, report "Doing Business 2013" – the 3rd place.

In the reports "Doing Business" Ukraine is in the group of countries "Europe & Central Asia" which covers 24 countries (Albania, Armenia, Azerbaijan, Belarus, Bosnia and Herzegovina, Bulgaria, Croatia, Cyprus, Georgia, Kazakhstan, Kosovo, Kyrgyz Republic, Latvia, Lithuania, Macedonia, Moldova, Montenegro, Romania, Russian Federation, San Marino, Serbia, Tajikistan, Turkey, Ukraine, Uzbekistan).

In 2017 Ukraine holds the 22nd place being ahead only of Bosnia and Herzegovina, Uzbekistan and Tajikistan. The most reformed Doing Business areas in Europe and Central Asia are starting a business, paying taxes and getting credit. Seven countries in the region (Armenia, Belarus, Georgia, Kazakhstan, Lithuania, and Macedonia) and among them Ukraine - reformed across all Doing Business indicators. Ukraine, on the basis of only three indicators ("dealing with construction permits", "getting credit", "paying taxes"), holds high positions – the 7th and 8th places, but not in the group of top five leaders.

Conclusions

The further increasing of the ranking of Ukraine in the world economy in general and in different areas in particular (trade, financial, social, etc.) is impossible without forming a solid basis for internal development. Despite some positive changes Ukraine has the potential to improve institutional, administrative and economic instruments in all spheres. However, it is important to avoid activities that "artificially" increase the ranking of the country without real improvement in the area as this may adversely affect the image and reputation of the country causing distrust of the governance and regulation.

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