Ukraine

In BEEPS V, the top three business environment obstacles identified by Ukrainian firms were political instability; corruption; and competitors' practices in the informal sector (Chart 1). Large, young and manufacturing firms were more concerned about access to finance than the practices of informal sector competitors. In BEEPS IV, tax administration was in third place.

Political instability and corruption represent challenges

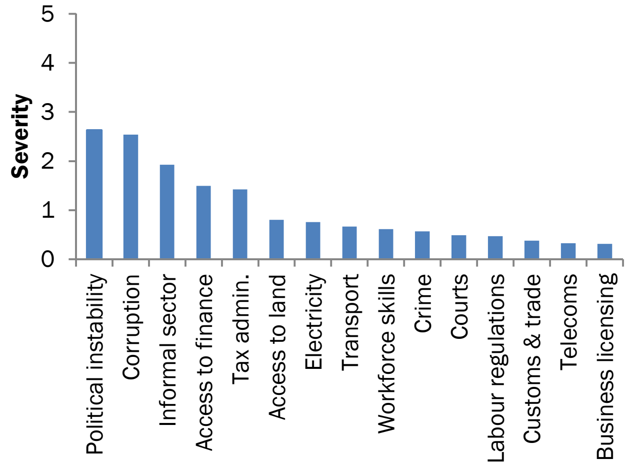
Given the uncertainty about the future of Ukraine's association with the EU, and its evolving relationship with Russia, it is not surprising that **political instability** was perceived as the top obstacle faced by Ukrainian enterprises in BEEPS V.

Closely tied to politics, **corruption** also remained a major issue. The informal payments that firms reported paying to secure government contracts drastically increased from 3.8% to 14.2% of contract value (Chart 2). This put Ukraine in the unflattering first place among the countries covered by BEEPS. The share of firms that reported informal payments were expected or requested grew in all examined cases: when obtaining an electrical connection; construction-related permits; operating licences; in meetings with tax officials, but mostly when obtaining an import licence: this practice grew from 1% in BEEPS IV to over 26% in the latest round. Overall, firms had to pay on average 5.0% of their annual revenue as informal gifts to public officials "to get things done" – by far the largest payment among the covered countries.

Competitors' practices in the informal sector were identified as the third most severe obstacle, with 50% of firms reporting to compete with informal sector firms. This is the second-highest share in the eastern Europe and the Caucasus (EEC) region, after Georgia.

Access to finance remained a problem, too. Fewer than 20% of firms purchased fixed assets in the latest BEEPS round, compared with almost half in BEEPS IV, and they were now less likely to finance such purchases with bank loans. Instead, they relied more on borrowing from non-bank financial institutions, moneylenders, friends, relatives and similar sources. The share of firms that did not apply for a loan because they had no need was the lowest among BEEPS countries at 45.3% (Chart 3). 62.4% of firms reported needing a loan; 75.5% of them were credit-constrained: they either did not apply for a loan (despite needing it) or were rejected by the bank when they did, suggesting that supply-side factors play a relatively large role in explaining the limited borrowing by Ukrainian firms. The situation was even more dire for young firms: out of 52.7% that needed a loan, 92% were credit-constrained.

Chart 1. Business environment obstacles



Estimated for a hypothetical "average" firm. Higher values correspond to a weaker business environment.

Chart 2. Informal payments to secure a government contract

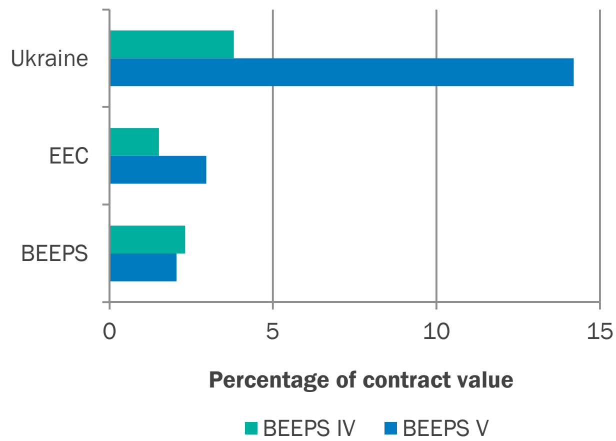
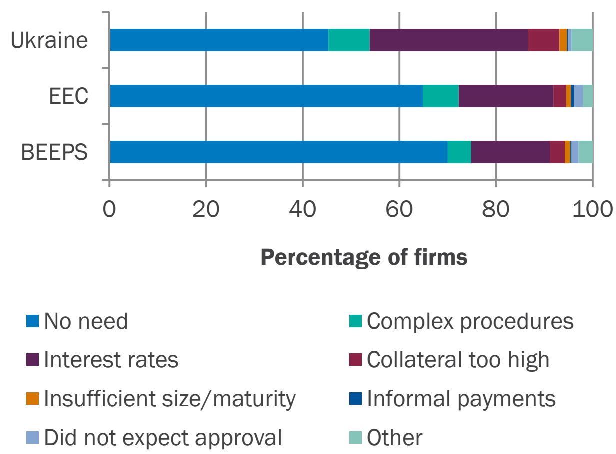


Chart 3. Reasons for not applying for a loan



Survey fieldwork period: January 2013 – November 2013. EEC: Armenia, Azerbaijan, Belarus, Georgia, Moldova and Ukraine. Small and medium-sized enterprises (SMEs) have 5-99 employees. Young firms are less than 5 years old.