The Fifth Wave of the Annual Survey of Ukrainian Exporters and Importers

Topic 1. TRADE FACILITATION IN UKRAINE: Customs Reform through the Eyes of Businesses

Summary of Key Findings

The study was conducted by the Institute for Economic Research and Policy Consulting as a part of the implementation of the Project “Support of the Civil Society Initiative “For Fair and Transparent Customs”, funded by the European Union, the Renaissance Foundation and the Atlas Network

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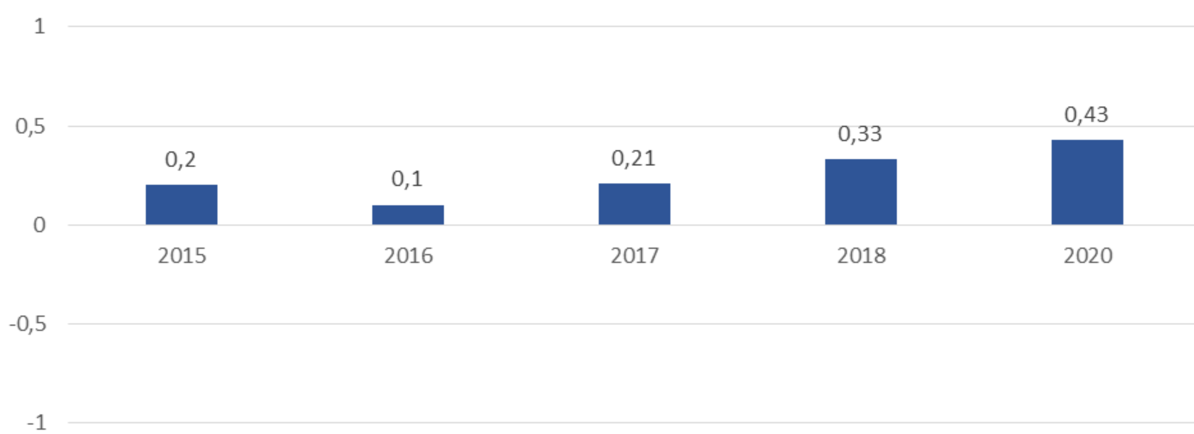
OVERVIEW

The 2020 survey findings show that businesses are encouraged by the customs reforms, and the rating of customs performance from the point of view of businesses has improved: the value of the Customs Performance Perception Index reached 0.43 on a scale from -1 to 1. It is the highest result over the observation period.

Fig. 1. Customs performance perception index (CPP Index)



Customs performance assessments are the best of all the 5 waves of this monitoring. The share of businesses that do not see any problems in the customs performance reached the maximum value for all the waves of this survey and amounted to 23%, which is twice as much as in 2016. However, most respondents believe that customs still requires some changes. Inadequate customs legislation and, according to businesses, a deliberate overestimation of the customs value of goods at the customs are among the key issues.

The average cost of one export operation is UAH 4,186, which is twice less than for one import operation, where the average cost of one operation is UAH 8,429. Also, customs clearance for exporting companies is on average twice as fast as for importing companies. In general, exporters' rating of the customs sector is more positive than the one by importers.

More than one third of the respondents believe that customs reform is moving in the right direction, and only one respondent out of ten thinks that the direction of the reform is wrong. The most expected outcomes of the reform include the reduction of time of customs procedures and measures that will facilitate this (automation of procedures, human factor minimization, e-submission of all documents), as well as personal liability of customs officers for damage. Strengthening the fight against smuggling and the security functions of the customs are also among the main expectations.

1. Structure of interviewed businesses

Among the 1,045 businesses interviewed in 2020, there are micro-sized businesses (42.3%), small (28%), medium (21.4%) and large (8.2%) businesses.

Businesses with foreign trade, which participated in the survey, are divided into three groups by the type of their foreign trade:

- businesses engaged in only export (24.4 %) — hereinafter “exclusively exporters”,
- businesses engaged in only import (40.8 %) — hereinafter “exclusively importers”,
- businesses engaged in both exports and imports (34.8 %).

The interviewed businesses with foreign trade operate in the sectors of agriculture, industry, trade and other service sectors (hereinafter “Services”).

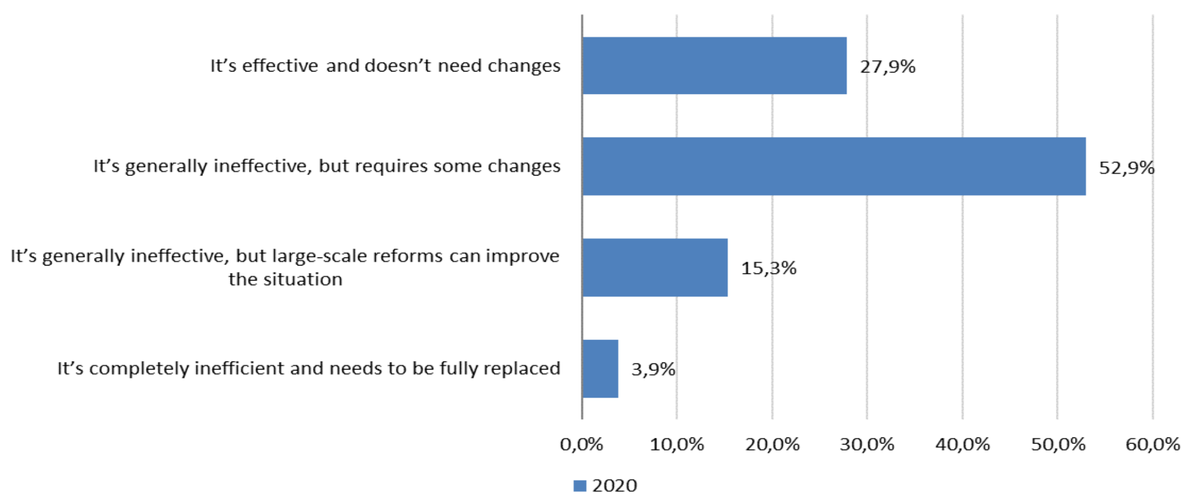
86.8% of businesses reported working with customs brokers.

The European Union is the most common destination for both exports and imports for the interviewed businesses.

67.5% of respondents were men, and 32.5% were women.

2. Rating of customs performance

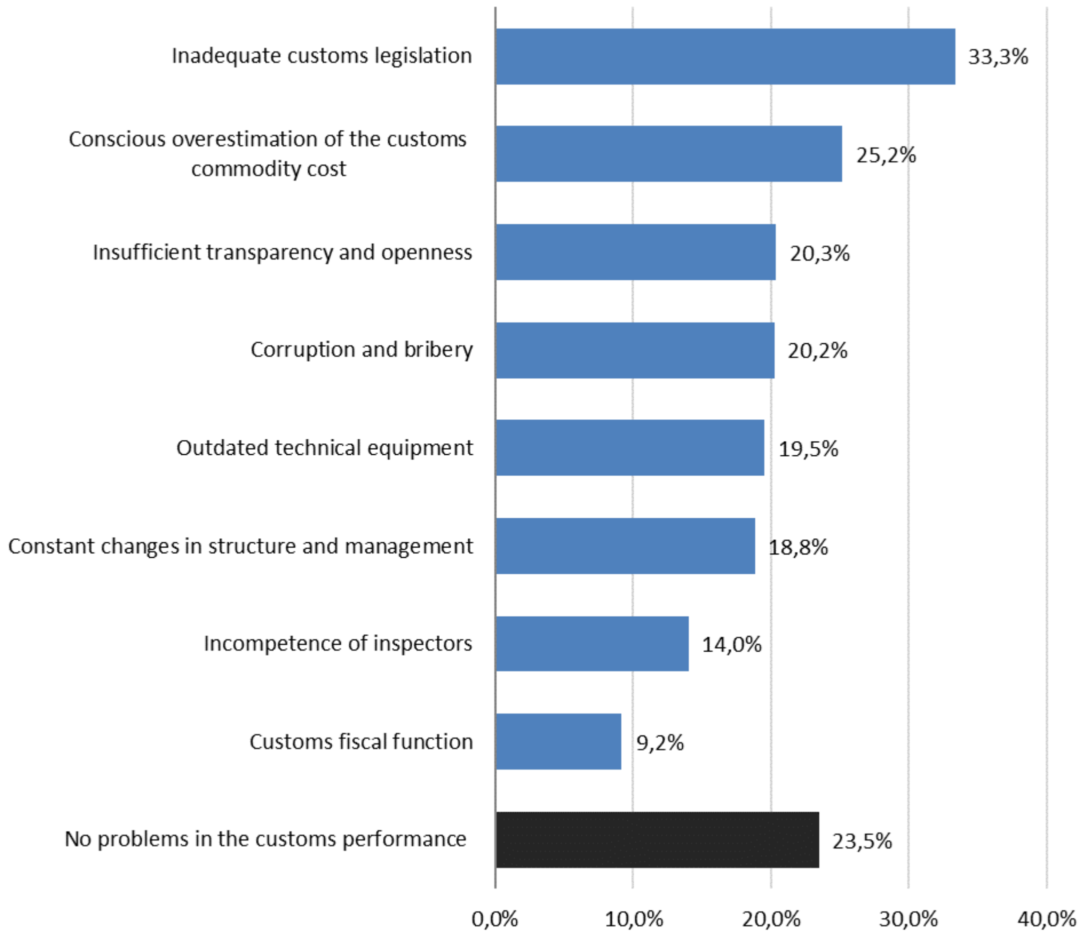
Fig. 2 Answers to the question “How would you rate the efficiency of customs performance”, % of respondents



- 52.9% of respondents believe that “the customs performance is generally effective, but requires some changes”.
- Exclusively exporters rate the customs performance the best. Exclusively importers rate the customs performance the worst and more often demand large-scale reforms.
- The best ratings by industry are in the agricultural sector.
- Medium and large businesses rate the customs performance much better than small and micro-sized businesses.

3. Problems in customs performance according to businesses' assessments

Fig. 3 Answers to the question "In your opinion, which of the problems listed are today the biggest in the customs performance?", % of respondents

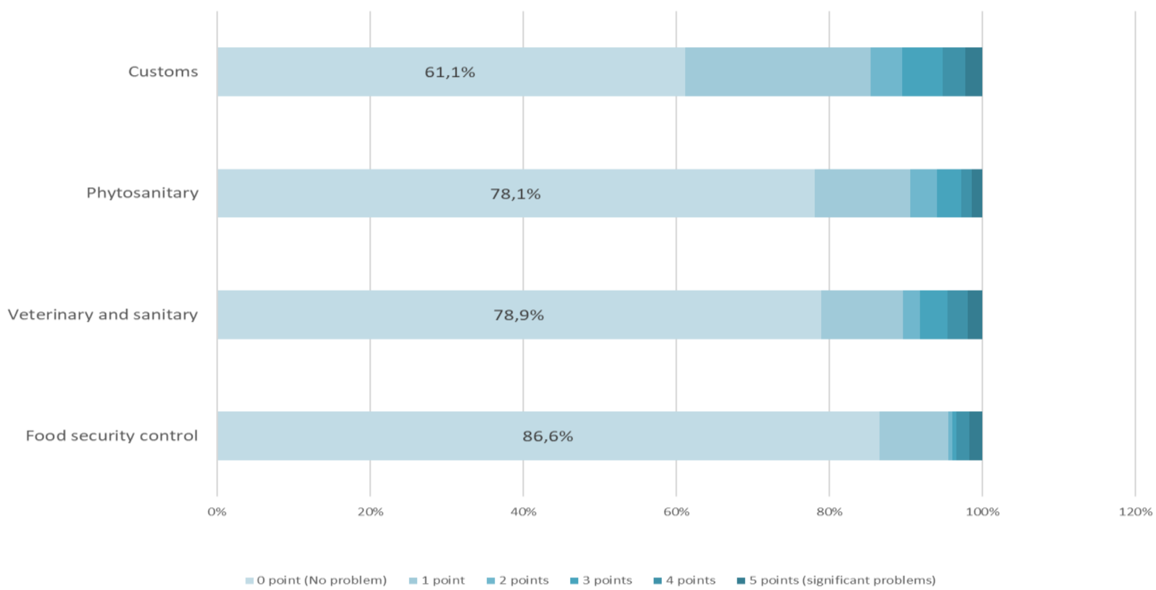


- There is an ongoing upward trend of the share of respondents who say that there are no problems in the customs performance. In 2020, this share was 23.5% of respondents, which is more than in 2016-2018.
- Agriculture is the only sector where the share of businesses that did not encounter problems (34.4%) exceeds the share of those that reported other problems.
- As in previous waves of this survey, the interviewed businesses often report inadequate customs legislation among the problems in the customs performance. However, the share of the respondents highlighting this problem has decreased compared to 2016-2018.
- Inadequate customs legislation means a wide range of issues, including: "bureaucracy, a large number of documents", "complicated legislation procedures", "ambiguity and inconsistency of legislation", "constant changes in legislation", "problems with customs value", "inconsistency of Ukrainian legislation with that of other countries", "non-transparency of legislation".

- Inadequate customs legislation is a top problem for all respondents, regardless of their size, sector and type of foreign trade.
- Deliberate overestimation of the customs value of goods is in second place among the problems for micro-sized and small businesses. For medium ones it is the constant changes in the structure and management, and for large ones, the second most important problem is outdated technical equipment.
- Micro-sized and small businesses are more likely to name corruption as a problem in the customs than large and medium-sized businesses.

4. Rating of the difficulty of going through the different types of control

Fig. 4 Answers to the question "Rate the difficulty of going through the following types of control", % of respondents

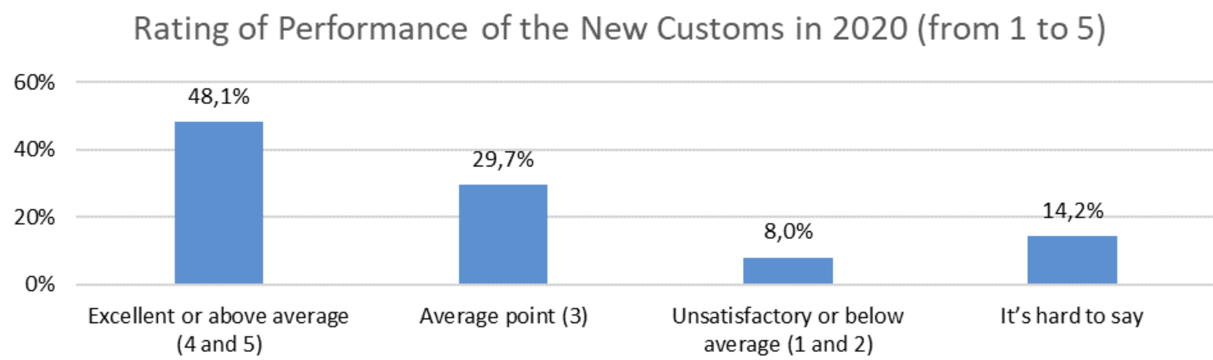


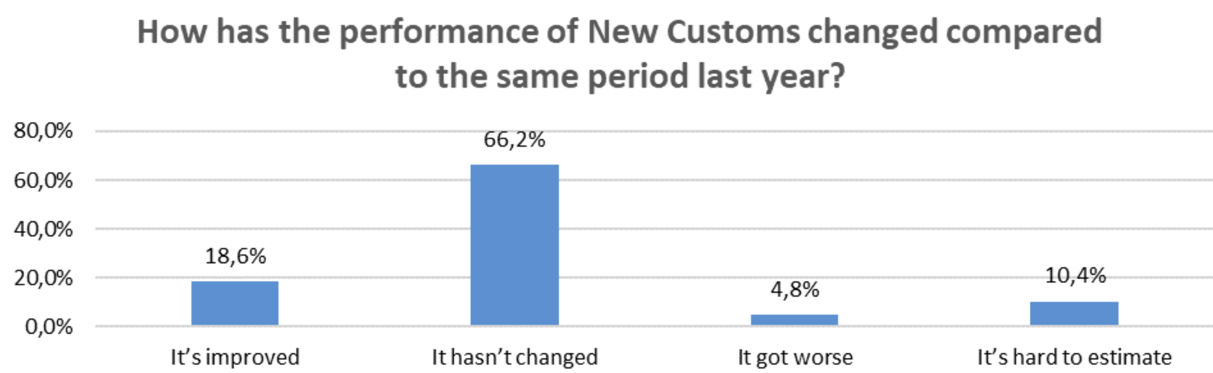
- The level of problems related to control types faced by the interviewed businesses is low: from 61.1% (customs inspection) to 86.6% (food safety control) of respondents have no problems with customs formalities.
- Customs inspection is the most difficult compared to other types of control, but respondents have mostly minor problems with it.
- Different customs formalities are more problematic for importers than for exporters. This reflects the higher level of problems related to importing in other areas.

5. Rating of performance of the New Customs

Respondents rated the performance of the New Customs (NC), i.e. the customs service operating since December 2019. The comparison was made between the time of the survey (April-June 2020) and the same period in 2019.

Fig. 5. Rating of customs performance in 2020 and changes that took place in 2020 compared to 2019



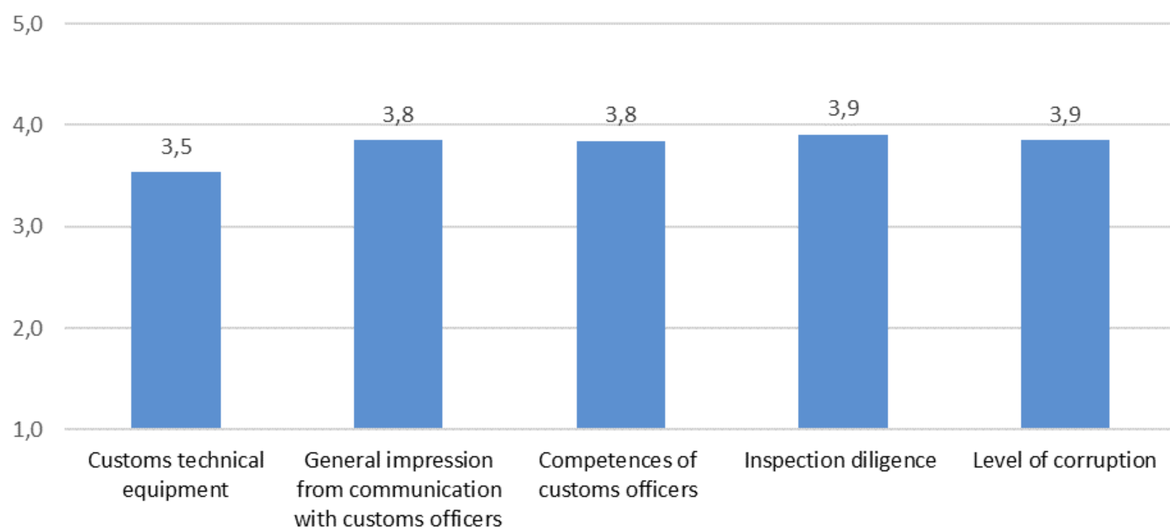


- Almost half of the respondents assessed the work of the NC as good and excellent. Only 8% gave an unsatisfactory assessment. Average point: 3.6 out of 5.
- Exclusively exporters rated the performance of the NC better than other respondents (4 points).
- The 2/3 of respondents believes that the efficiency of customs has not changed compared to 2019. Among the answers of the interviewed businesses, which noted changes in the performance of the NC, positive assessments outweigh negative ones by +13.8 points.
- There is almost no difference in the type of businesses.

6. Rating of certain aspects of performance of the New Customs

The rating is performed on a scale from 1 to 5, where 1 is a negative point, 5 is a positive one. For the indicator "level of corruption" 1 point means a high level of corruption, 5 points — a low level or no corruption at all.

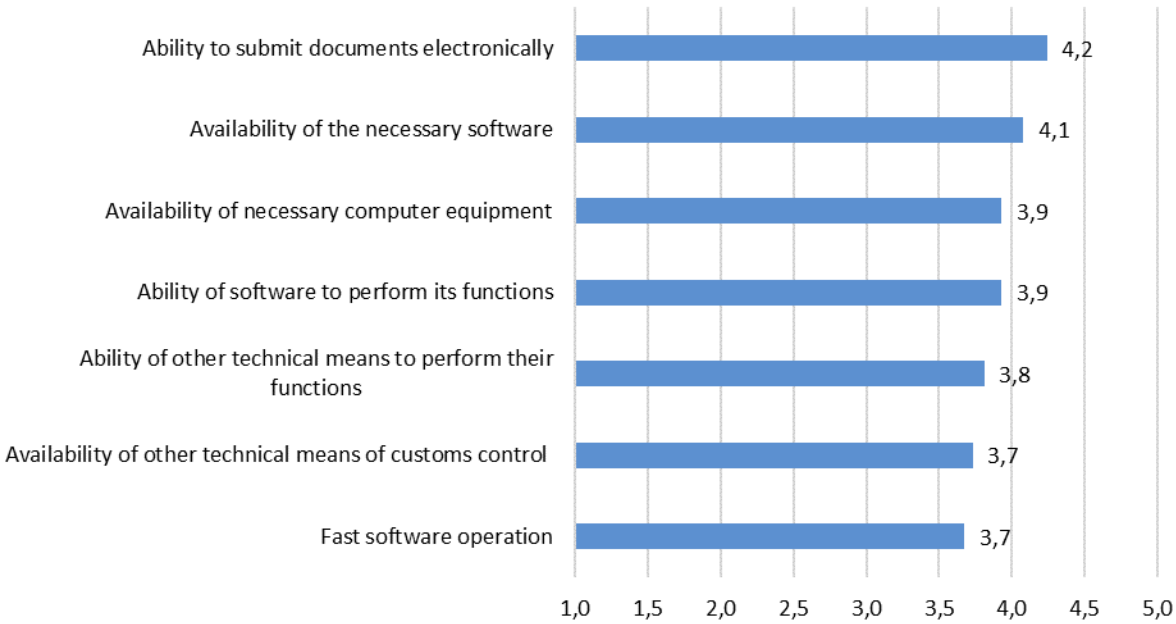
Fig. 6 Rating of certain aspects of performance of the New Customs (from 1 to 5 points)



- The rating of certain aspects of performance of the New Customs (with the exception of technical equipment) is better than the overall rating of its performance (3.6). The technical equipment of the customs was rated slightly lower than other aspects: at 3.5 points on average.
- 62.3% of the respondents rated the level of corruption as low (4 and 5 points). This is more than the share of positive assessments of technical equipment (49.7%), and less compared to other aspects, where the share of positive assessments exceeds two thirds.

7. Assessment of some features of technical equipment of customs

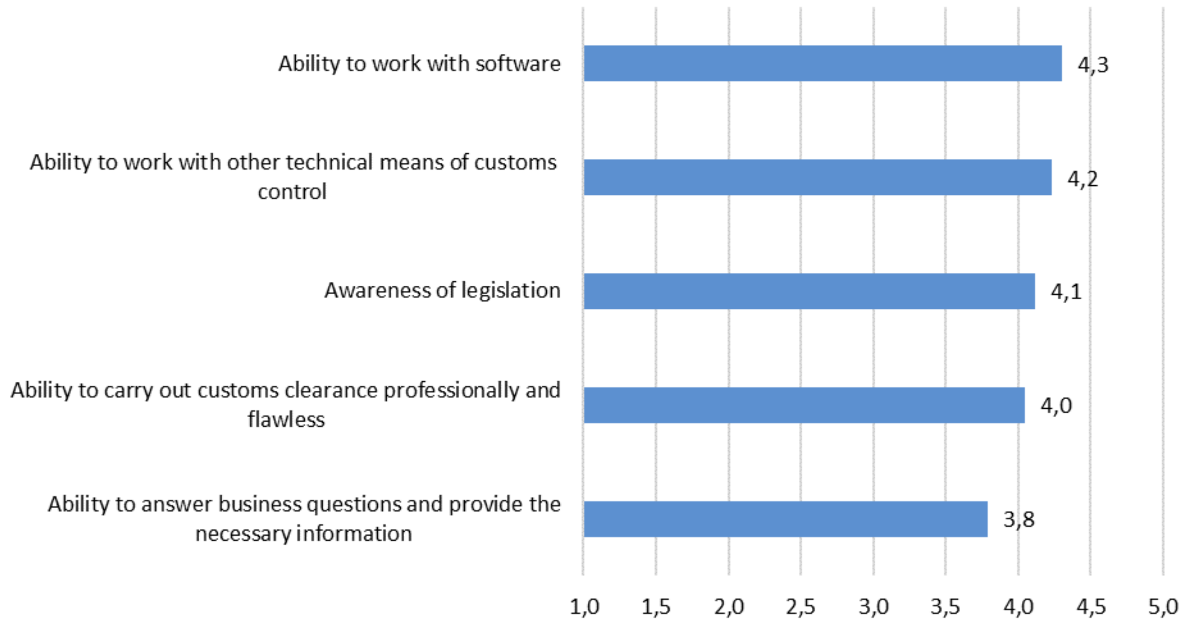
Fig. 7 Assessment of some features of technical equipment of customs



- Assessments of all the studied features of technical equipment of customs are rather high.
- The opportunity to submit documents in electronic form is rated best, which may indicate the success of the implemented measures to automate the performance of customs.
- The speed of software operation and availability of other technical means of customs control are rated the lowest, which indicates the need for further investment in the customs infrastructure.
- Exclusively exporters rated all the features better than others.
- Large businesses gave the higher ratings to such features as the ability to submit documents electronically and the availability of software.
- The ability of the software to perform its functions is rated the worst in trade.

8. Assessment of some qualifications of customs inspectors

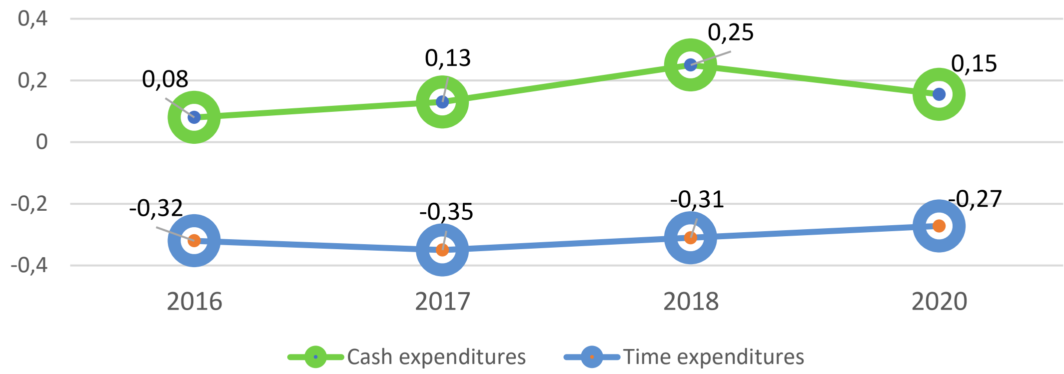
Fig. 8. Assessment of some qualifications of customs inspectors



- The interviewed business representatives assessed almost all the listed qualifications of customs inspectors at 4 or 4+ points out of 5.
- The ability to answer businesses' questions and to provide the necessary information was rated the lowest: at 3.8 points out of 5. This means there is a need for further training for inspectors.
- Exclusively exporters assess the ability of inspectors to answer questions and to work with technical control means slightly better.
- Medium and large businesses assess all qualifications somewhat better.
- In trade, the ability of inspectors to answer questions was rated the lowest, and in the agricultural sector, the highest.

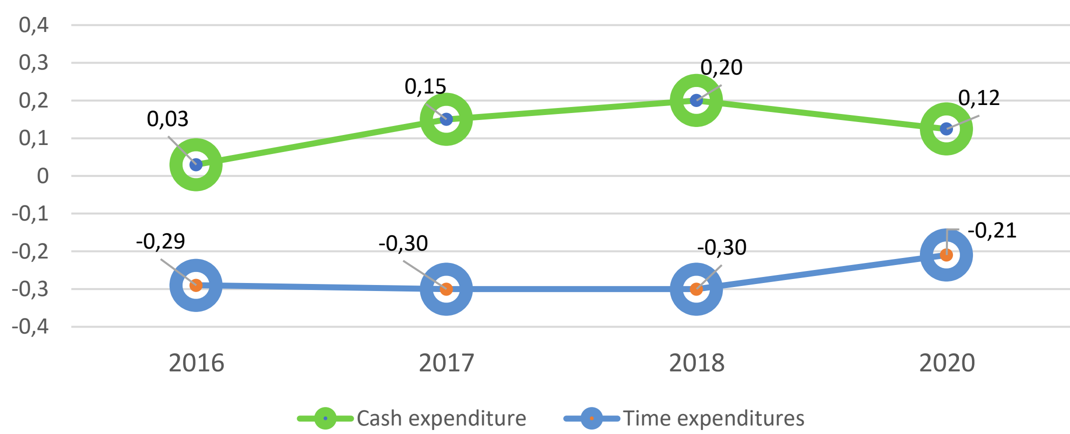
9. Cost of customs clearance procedures

Fig. 9. Dynamics of costs of going through all customs procedures for export (balance indicatoro)



- **The cost of export customs clearance continues to increase, but not as fast as before.** For most exporters, cash expenditures did not change, but their cost increased more often than decreased. The largest growth was in the agricultural sector, and the least one, in the services.
- **The duration of export customs clearance continues to decrease.** The share of the businesses for which it has become faster exceeds the share of those who began to spend more time on it. The most significant decrease took place for large businesses.

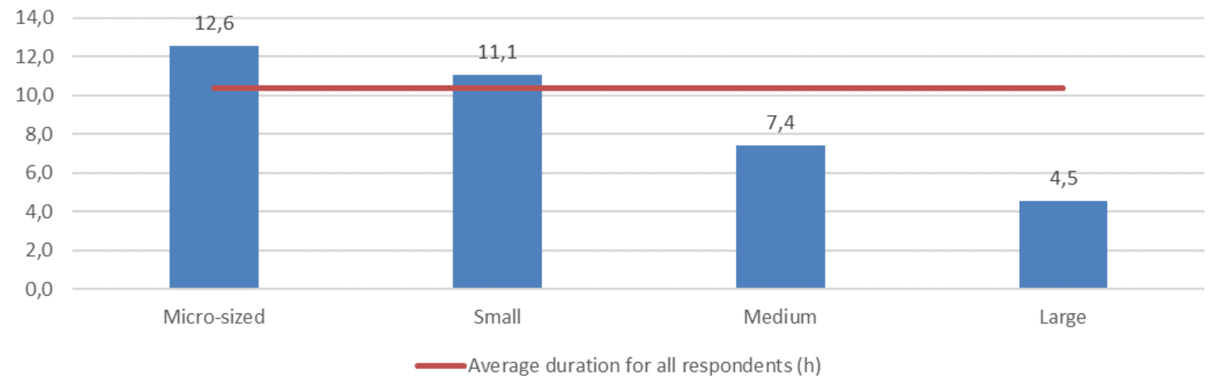
Fig. 10. Dynamics of costs of going through all customs procedures for import (balance indicator)



- **The cost of customs clearance for imports continues to increase**, but at a slower pace. Importers mostly report that the cash expenditures of customs clearance for imports have not changed over the last 2 years. Only in the services sector, the cost reduction is more common than its increase.
- **The duration of customs clearance for imports** is decreasing, but also at a slower pace. It has not changed for most importers. For the rest, it has mostly decreased. At the same time, in services, the reduction of customs clearance duration is reported the least frequently.

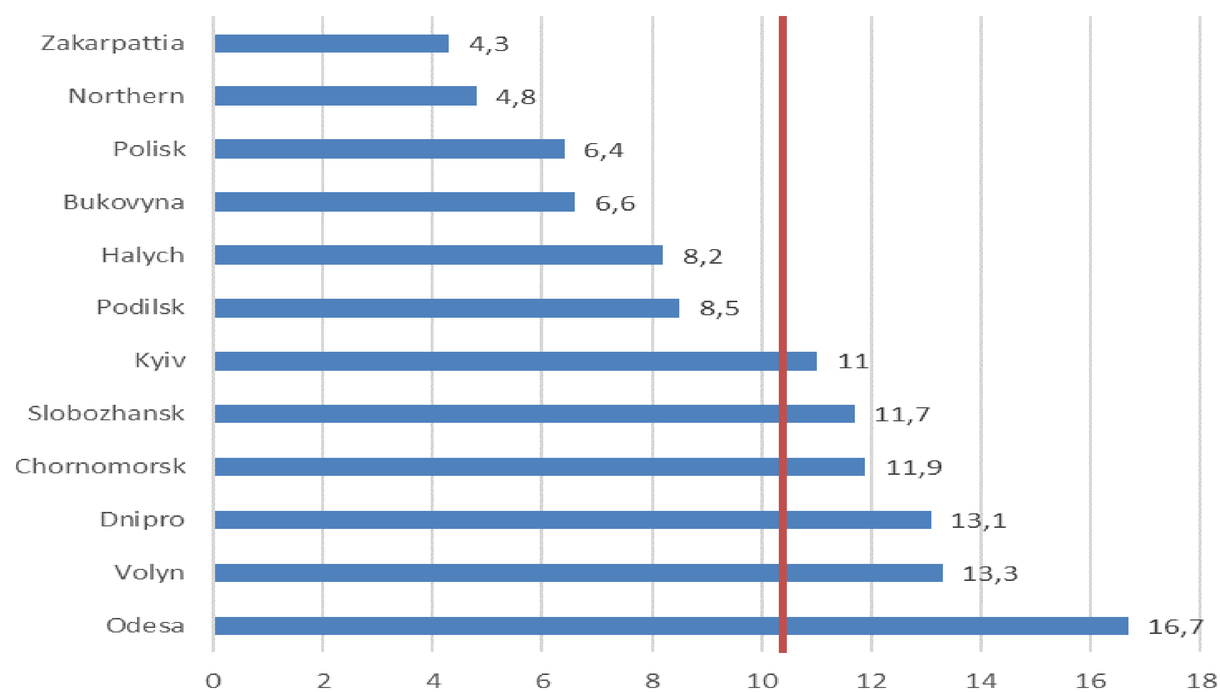
10. Duration and assessment of the speed of customs clearance

Fig. 11. Average duration of customs clearance, by size of businesses (h)



- The speed of customs clearance was determined by two aspects: (1) duration in hours and (2) rating by the respondents.
- The average duration of customs clearance at different customs offices is 10.4 hours. Thus, for exporting businesses the customs clearance is on average twice as fast as for importing businesses — 7.7 hours against 14.1 hours.
- With decrease of the business size, the number of hours, which respondents define as the duration of customs clearance, increases.

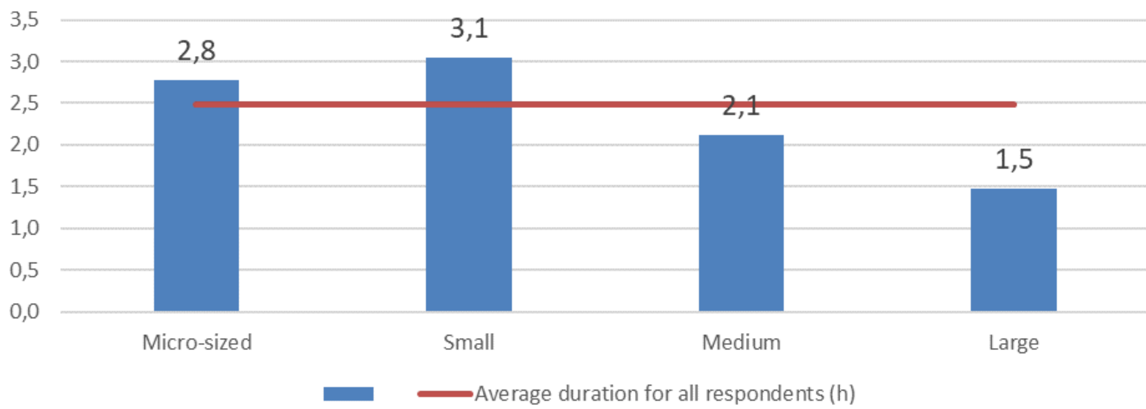
Fig. 12. Average duration of customs clearance, by customs offices (h)



- According to the respondents, the duration of customs clearance is the lowest at the Zakarpattia (4.3 hours) and Pivnichna (4.8 hours) Customs Offices, and the longest — at the Odesa Customs Office (16.7 hours).[1]
- The average rating of the speed of customs clearance is 3.6 points. This indicates that most businesses highly access the speed of customs clearance. The assessment of exporters and importers of the speed of clearance do not differ significantly (3.7 points vs. 3.5 points, respectively). High ratings of “4” or “5” points were given by 50.4% of respondents, and low ratings of “1” or “2” points, by only 8.8%.
- According to the respondents, the highest assessment was given to the speed of customs clearance at the Pivnichna Customs Office (3.9 points), and the lowest, at the Odesa Customs Office (3.4 points).

11. Duration and assessment of the speed of customs inspection

Fig. 13. Average duration of customs inspection, by size of business (h)



- The speed of customs inspection was determined by two aspects: (1) duration in hours and (2) rating by the respondents.
- The customs inspection lasts 2.5 hours on average. Similarly to the customs clearance, customs inspection is faster for exporters than for importers. Respondents rate customs inspection on average higher than customs clearance as a whole — at 3.8 points out of 5 possible.
- The duration of customs inspection increases with the decrease of the size of business.
- According to respondents, the duration of customs inspection is the lowest at the Zakarpattia (1.1 hours) and Pivnichna (1.4 hours) Customs Offices, and the longest, at the Odesa Customs Office (4.3 hours). The longest inspection: at Odesa Customs Office (4.3 hours).

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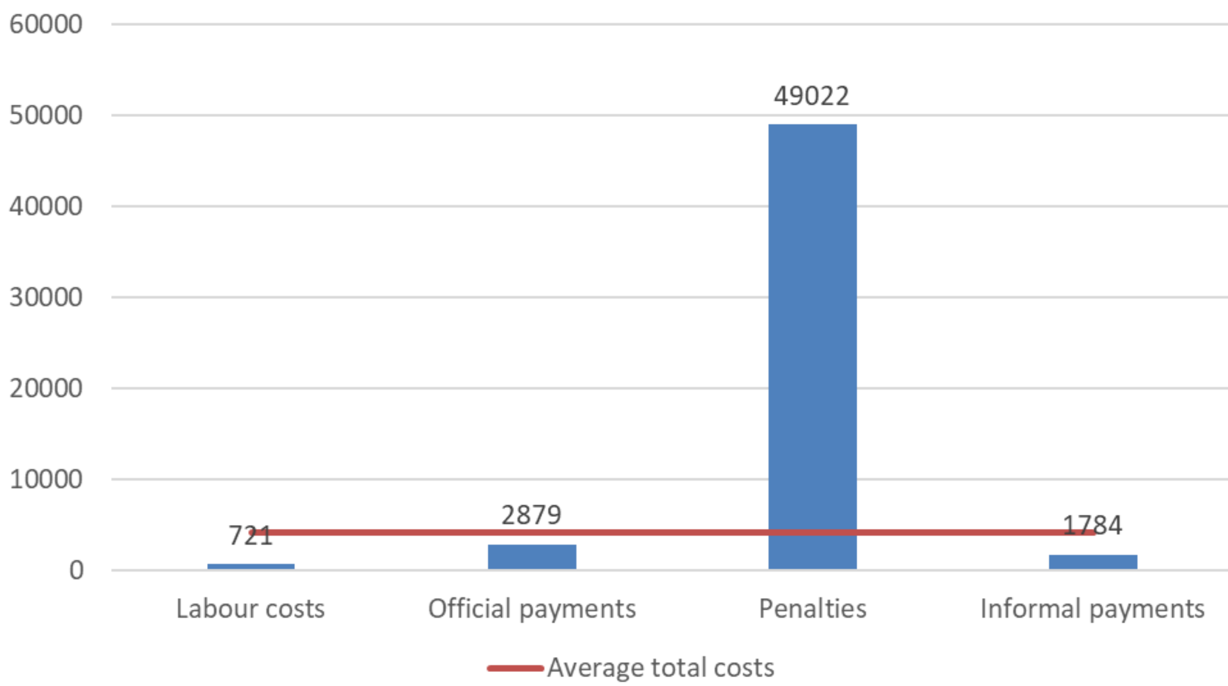
[1] *Note: Due to the insufficient number of sub-samples, Azov and Eastern Customs are not included in this analysis. It is also not possible to analyse for certain customs by groups (sector, size).*

- High ratings of “4” or “5” points were given by 51.5% of the respondents, and low ratings of “1” or “2” points, by only 5.1% of the respondents. The difference between the ratings of different types of businesses is insignificant.
- According to the respondents, the highest rating was given to the speed of customs inspection at the Pivnichna Customs Office (3.9 points), and the lowest, at the Odesa Customs Office (3.4 points).

12. Time and cash expenditures for customs clearance

Fig. 14. Average costs per export operation (by type of costs), UAH



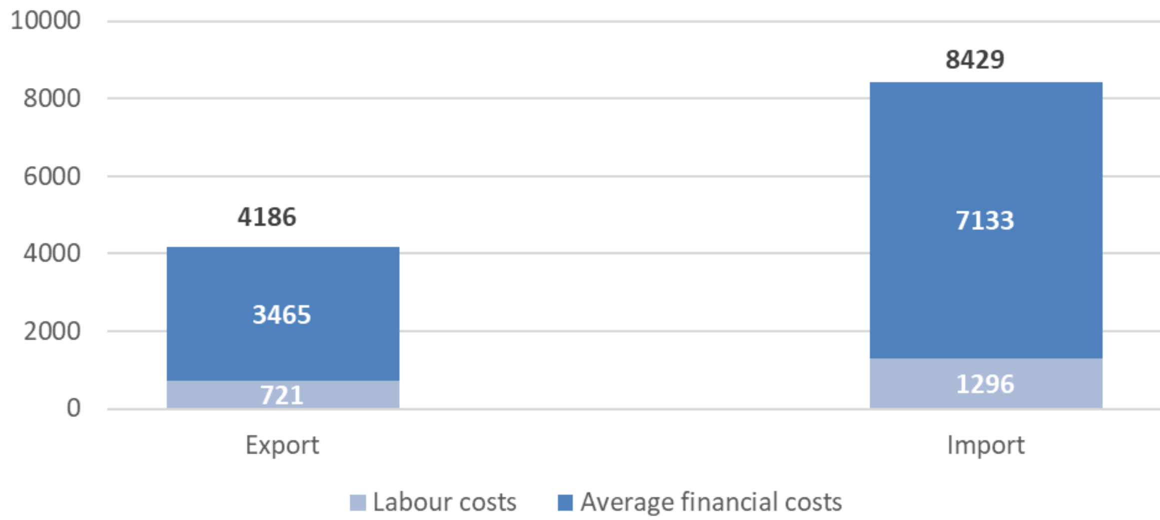
- On average, the interviewed businesses have more export operations per year than import ones. Thus businesses that export and import at the same time are more active and have more export and import operations per year, compared to the businesses that are exclusively engaged in exports or imports.
- The number of export and import operations is increasing in proportion to the size of business.
- **The total costs of 1 export operation can be UAH 4,186 on average.**
- The average time expenditures spent on 1 export operation is 8.9 hours, which is almost 2 times less than for import.
- Official and unofficial payments as well as penalties for export are on average 2-3 times lower than for import.
- Penalties can be the biggest component of the financial costs for export.

- The average export penalty exceeds the average size of unofficial payments by almost 30 times.
- Low unofficial payments against the high penalties may indicate a low probability of punishment.

Fig. 15. Average costs per import operation (by type of costs)

- **The total costs of 1 import operation can be UAH 8,429 on average.**
- The average time expenditures spent on 1 import operation is 16 hours, which is almost 2 times more than for export.
- Official and unofficial payments as well as penalties for import are on average 2-3 times higher than for export.
- Penalties can be the biggest component of the financial costs for import.
- The average import penalty exceeds the average size of unofficial payments by almost 16 times.
- Low unofficial payments against the high penalties may indicate a low probability of punishment.

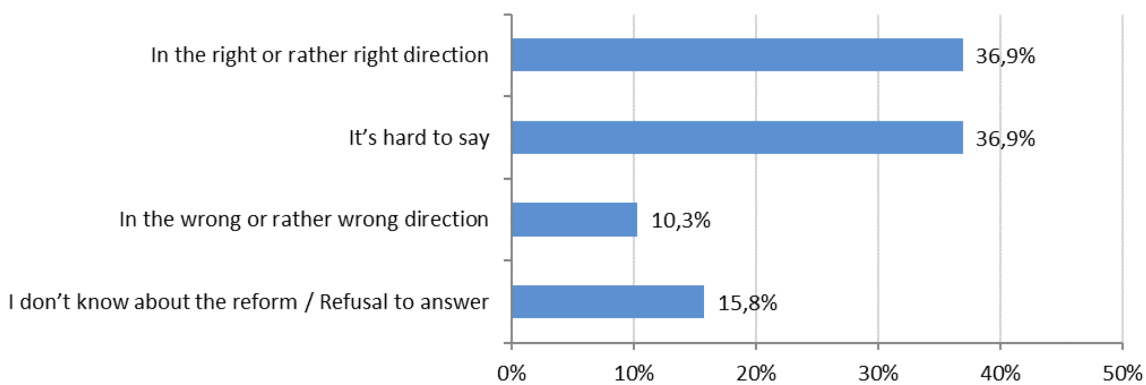
Fig. 16. Total average costs per FEA operation



- **On average, the cost of one export operation is 2 times lower than that of one import operation.**
- The higher cost of import operations compared to export operations can be reflected in other aspects of customs operations (for example, going through various types of control), for which the assessment by importers is worse than that by exporters[2].

13. Attitudes towards customs reform and its expected outcomes

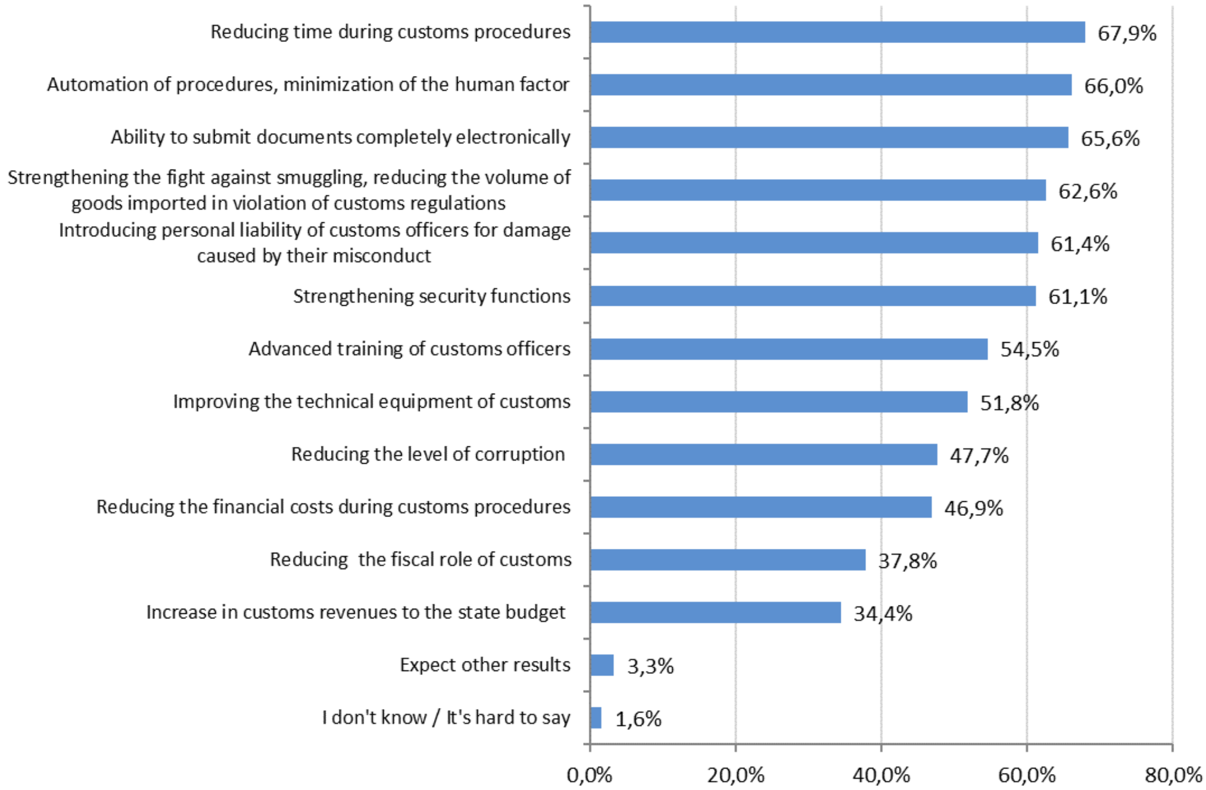
Fig. 17. Answers to the question "Is customs reform moving in the right direction in general?", % of respondents



- More than one third of respondents believe that customs reform is moving in the right direction, and only one out of ten thinks that the direction of the reform is wrong.

[2] The volume of subsamples is insufficient for the analysis of average costs in terms of size of business and sectors.

Fig. 18. Expected outcomes of customs reform, % of respondents[3]



- The most expected outcomes of the reform include the reduction of the time of customs procedures and the measures that will facilitate this (automation of procedures, human factor minimization, e-submission of all documents), as well as the personal liability of customs officers for damage. Strengthening the fight against smuggling and the security functions of the customs are also among the main expectations.

[3] The amount of % will exceed 100, because the respondents could choose several answer options

14. Survey methodology

It is important to hear the opinion of business engaged in foreign trade (importers and exporters) in order to study the conditions of foreign economic activity in Ukraine, the challenges facing businesses, and the reforms and policy measures that are needed to solve the existing issues. The Institute for Economic Research and Policy Consulting conducts regular monitoring of business opinion on these issues through an annual survey of exporters and importers. This survey provides the "feedback" directly from business representatives who are engaged in import and export and can tell from their experience about the specifics and problems of this activity in Ukraine.

In 2015-2016, the Institute for Economic Research conducted such monitoring for the first time as a part of the Trade Facilitation Dialogue project. This wave of the survey was exploratory in nature and covered 381 businesses engaged in foreign trade. The fieldwork took place in April-August 2015. In the following years, the Institute for Economic Research conducted three more waves of this monitoring as a part of the Trade Facilitation Dialogue project:

- The second wave of the monitoring was conducted in 2016-2017. Information was collected in October-December 2016. 1044 businesses engaged in foreign trade were interviewed.
- The third wave of the monitoring was conducted in 2017-2018. Information was collected in November 2017 — February 2018. 1019 businesses engaged in foreign trade were interviewed.
- The fourth wave of the monitoring was conducted in 2018-2019. Information was collected in October-December 2018. 1012 businesses engaged in foreign trade were interviewed.

The fifth wave of this survey took place in 2020 as a part of the project "Support of the Civil Society Initiative "For Transparent and Fair Customs". The fieldwork phase of the survey took place from 14 April to 9 June 2020. 1045 businesses engaged in foreign trade were interviewed.

The fieldwork of the second, the third and the fourth waves of the survey was conducted by GfK Ukraine, and the fieldwork of the fifth wave in 2020 was conducted by Info Sapiens research agency. The samples of the second, the third, the fourth and the fifth waves of the survey are representative in the national dimension.

The 2020 survey was conducted using computer assisted telephone interviews (CATI). All interviews were conducted with business representatives, who can assess the economic situation of the business and the conditions of foreign trade (owners, directors, deputy directors, chief accountants, heads of departments or deputy heads of departments related to exports or imports).

The survey covered companies from all over Ukraine except those located in the temporarily occupied Autonomous Republic of Crimea and the city of Sevastopol, as well as certain areas of Donetsk and Luhansk regions that are not controlled by the Ukrainian government.

The number of observations for each sampling option was monitored at the data analysis stage. If the number of observations was insufficient for statistical analysis, such analysis was not performed and, accordingly, is not presented in the report. For more information on sampling parameters, see the Sampling section.

To carry out this monitoring, the IER developed a standardized questionnaire to survey businesses. This report compares the findings of surveys in different waves on a number of questions, the wording of which in the fifth wave of the survey has not changed compared to the previous waves of the survey in 2016-

2018. At the same time, some questions are also compared with the findings of the first wave of the survey in 2015-2016. However, it must be noted that the sample of this wave of the survey was different from the following ones, which may factor in the difference in indicators.

15. Distribution of the respondents by customs offices

The businesses that took part in the survey indicated at which customs they mainly obtain customs clearance for their goods. In 2019, 16 customs offices were established within the State Customs Service, including 14 regional customs offices, as well as the Energy Customs Office and the Coordination and Monitoring Customs. The largest share of interviewed businesses (326 or 31.2 % of the total sampled information) obtains customs clearance at the Kyiv Customs Office, which consolidated the Zhytomyr, Kyiv, Kyiv city and Cherkasy Customs of the SFS. The next largest share of respondents obtains customs clearance at the Halytska Customs Office, which consolidated three customs: Ivano-Frankivsk, Lviv, and Ternopil. The 140 interviewed businesses or 13.4% of the sample use the services of this customs.

The Dniprovska Customs Office is in the third place with the largest number of interviewed businesses, which indicated the customs for exporting or importing of their goods. At this customs, which consolidated the Dnipropetrovsk, Zaporizhia, Kirovohrad and Poltava Customs, the customs clearance is obtained by 103 respondents, which is almost 10% of the total number of the respondents. Somewhat less businesses (91 or 8.7% of the sample) indicated that they obtain customs clearance at the Odesa Customs Office. 78 businesses obtain customs clearance at the Slobozhanska Customs Office, which consolidated the Sumy and Kharkiv Customs. These businesses account for 7.5% of the sample.

The services of other customs are used by smaller shares of the interviewed businesses. In addition, 36 businesses (almost 3.5% of the sample) indicated that they obtain customs clearance at other customs offices or did not name the customs offices where they obtain such clearance.

Table 1. Distribution of businesses interviewed by customs, where they mainly obtain customs permit

	Number of businesses	Sample proportion
Azov Customs Office (Donetsk Customs of the State Fiscal Service of Ukraine)	13	1.2 %
Bukovynska Customs Office (Chernivtsi Customs of the SFS)	24	2.3%
Volyn Customs Office (Volyn Customs of the SFS)	38	3.6%
Halytska Customs Office (Ivano-Frankivsk Customs of the SFS, Lviv Customs of the SFS, Ternopil Customs of the SFS)	140	13.4%
Dniprovska Customs Office (Dnipropetrovsk Customs of the SFS, Zaporizhia Customs of the SFS Kirovohrad Customs of the SFS, Poltava Customs of the SFS)	103	9.9%
Zakarpattia Customs Office (Zakarpattia Customs of the SFS)	36	3.4%
Kyiv Customs Office (Zhytomyr Customs of the SFS, Kyiv Customs of the SFS, Kyiv City Customs of the SFS, Cherkasy Customs of the SFS)	326	31.2%

	Number of businesses	Sample proportion
Odesa Customs Office (Odesa Customs of the SFS)	91	8.7%
Pivnichna Customs Office (Chernihiv Customs of the SFS)	34	3.3%
Podilska Customs Office (Vinnytsia Customs of the SFS, Khmelnytskyi Customs of the SFS)	42	4.0%
Poliska Customs Office (Rivne Customs of the SFS)	34	3.3%
Slobozhanska Customs Office (Sumy Customs of the SFS, Kharkiv Customs of the SFS)	78	7.5%
Skhidna Customs Office (Luhansk Customs of the SFS)	7	0.7%
Chornomorska Customs Office (Mykolaiv Customs of the SFS, Customs Office of the SFS in Kherson region, Crimea and Sevastopol)	43	4.1%
Other customs office	5	0.5%
Did not specify their customs offices	31	3.0%
Total	1045	100%

16. Customs posts where businesses obtain customs clearance

Some of the respondents (352 businesses) indicated a customs post at which they mainly obtain customs clearance. The customs posts most often mentioned by the interviewed businesses are Krakovets, Yahodyn and Boryspil Airport. More than 30 interviewed businesses or more than 3% of the sample obtain customs clearance at each of these customs posts. 693 businesses or 66.3 % of the sample did not name the post where they obtain customs clearance.

Table 2. Distribution of businesses interviewed by customs, where they mainly obtain customs permit

	Number of businesses	Sample proportion
Boryspil Airport Customs Post	34	3.3%
Zhytomyr-Central Customs Post	10	1.0%
Zakhidnyi Customs Post, Kyiv	11	1.1%
Stolychnyi Customs Post	19	1.8%
Sviatochyn Customs Post	12	1.1%
Yahodyn Customs Post	39	3.7%
Ternopil-Central Customs Post	10	1.0%
Chornomorskyi Customs Post	14	1.3%
Shcherbakivka Customs Post	12	1.1%
Zakhidnyi Customs Post	21	2.0%

	Number of businesses	Sample proportion
Krakovets Customs Post	48	4.6%
Lutsk Customs Post	17	1.6%
Pivnichnyi Customs Post	19	1.8%
Odesa-Central Customs Post	18	1.7%
Rava-Ruska Customs Post	13	1.2 %
Uzhhorod Customs Post	10	1.0%
Other customs post	45	4.3%
Did not specify their customs post	693	66.3%
Total	1045	100%