

Trade Facilitation in Ukraine: Customs Reform Through the Eyes of Businesses

according to the results of the fifth wave of the annual survey
Ukrainian exporters and importers

Project "Support of the Civil Society Initiative
"For Fair and Transparent Customs"

Kyiv 2020

ABOUT THE PROJECT


The overall goal of the project is to increase the capacity of civil society to participate in economic policy development in Ukraine.

Expected results:

- (1) strengthening the capacity and effectiveness of the initiative;
- (2) intensification of political dialogue between civil society and the state on the implementation of customs reform



Project implementation period : 36 months, from January 1, 2020.

With the financial support of the European Union, the International Renaissance Foundation and the ATLAS Network (USA).





The initiative is an informal network of CSOs from different regions of Ukraine that care about improving the business climate.


26 members as of September 2020



The activities of the initiative are aimed at monitoring the implementation of customs reform and promoting dialogue on the implementation of institutional reform of customs in accordance with the principles of good governance and the principles of free trade.



The public initiative was created in 2018 in the process of implementing the project "Trade Facilitation Dialogue", which was implemented by the IER with the support of the EU and The International Renaissance Foundation



Annual survey of Ukrainian exporters and importers: the basis of advocacy and analytical work of the Initiative

The IER has developed and has been implementing since 2015 a special national policy monitoring and evaluation tool, Trade Facilitation Monitoring.

It is a tool for measuring progress in facilitating and simplifying international trade and customs procedures, which is based on the assessments of the direct participants in the policy implementation process - business representatives.

The monitoring is based on the results of the annual survey of 1000 exporting / importing enterprises throughout Ukraine.

There were 5 annual surveys: 2015, 2016, 2017, 2018, 2020

5th Annual Survey: Topics

How the business assesses the activities of customs authorities and the implementation of reforms in the customs sector

What are the quantitative and qualitative estimates of the cost and duration of foreign trade procedures

How the business assesses various procedures (preliminary customs clearance, decision-making on the customs value of goods, classification of goods; post-customs audit, etc.)

How the "single window" and electronic document management work

Why are cargoes delayed during customs control?

Is it easy for companies to appeal the actions of customs authorities?

What's with the corruption at customs

What do businesses think about "smuggling" and "gray imports"

What are the obstacles for importers and exporters

How the Association Agreement affected business activities

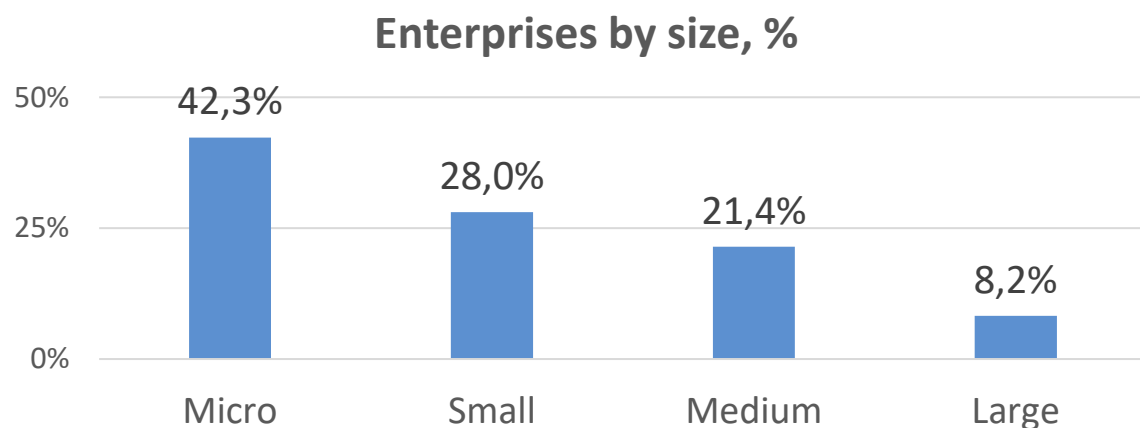
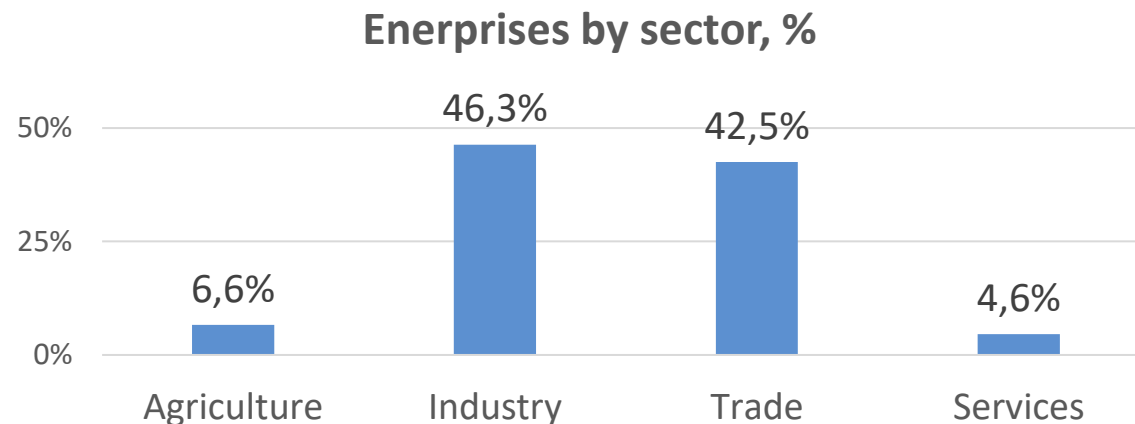
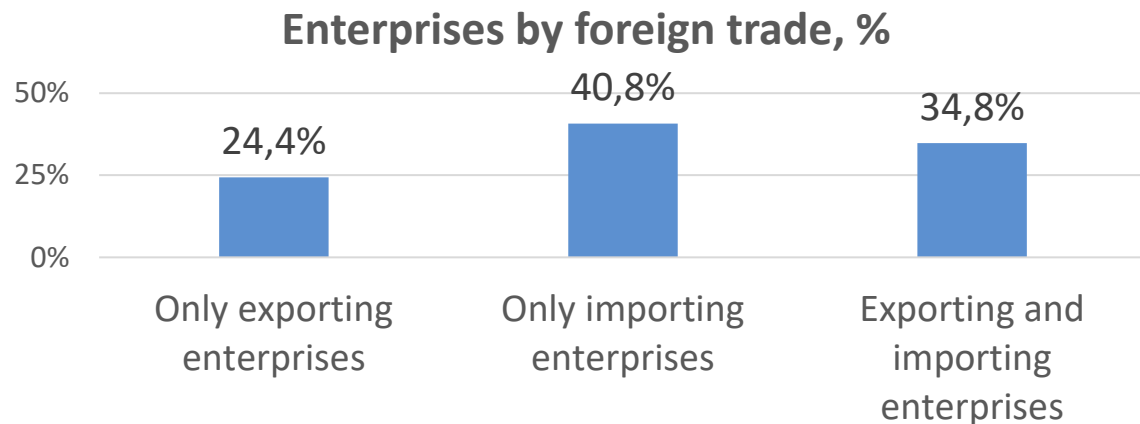
What is the role of business associations

Where companies get information

WHO WAS INTERVIEWED: SAMPLE



Sample: what are the types of the surveyed enterprises

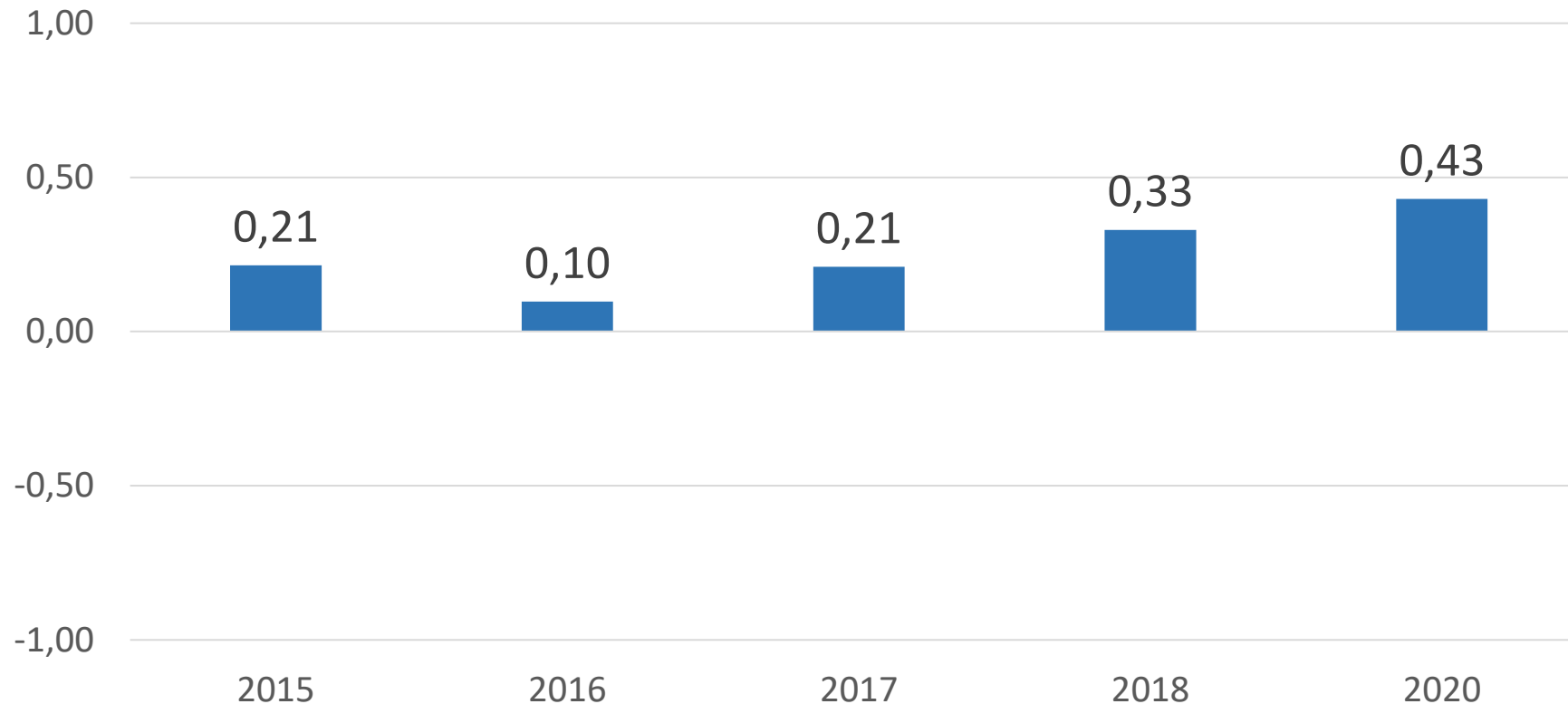


- 1000+ surveyed representatives of enterprises engaged in export and / or import
- Businesses of all sizes were surveyed: from micro-enterprises to large enterprises. Most are micro and small enterprises
- Most of the respondents are representatives of industry and trade

CUSTOMS PERCEPTION INDEX

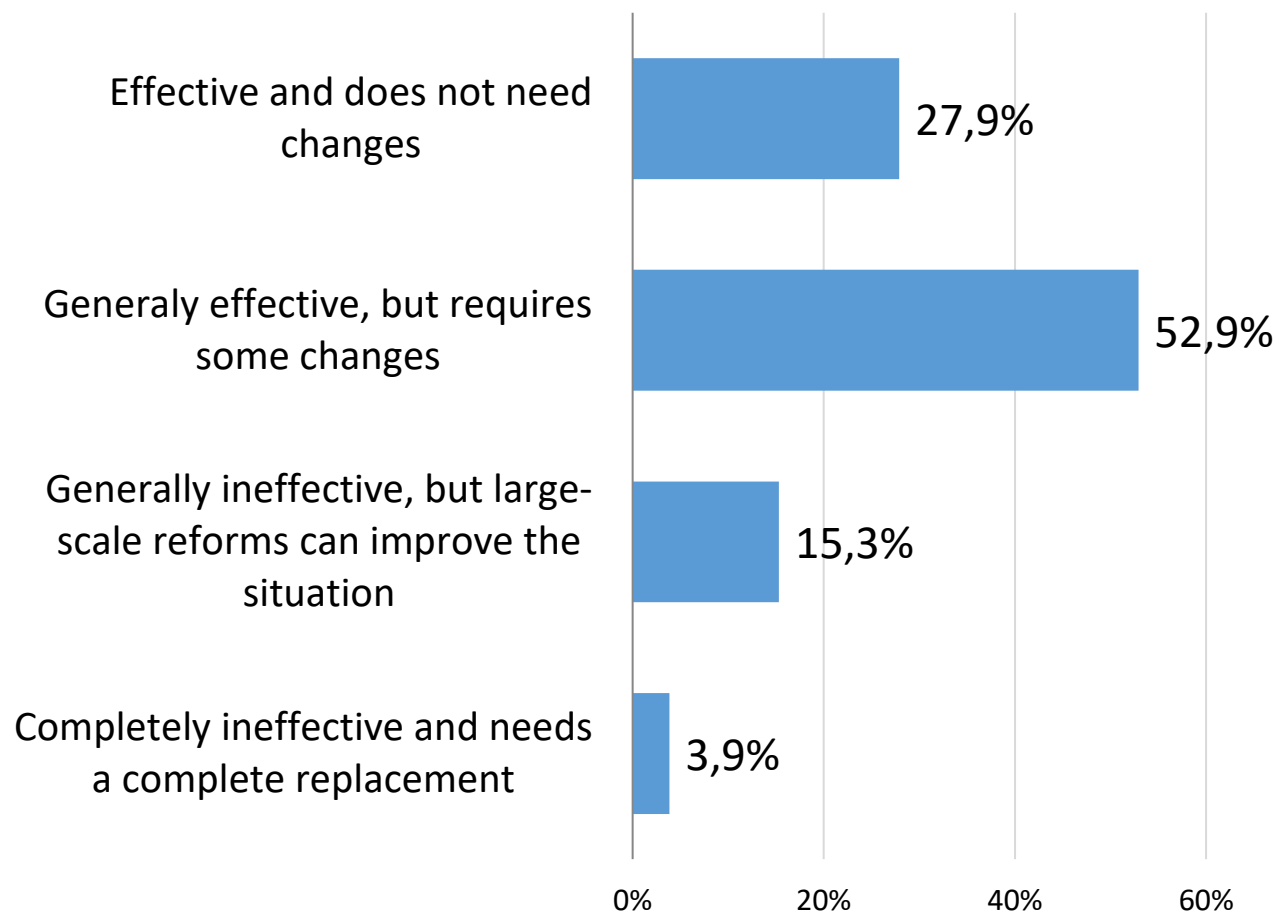


Customs performance perception index (CPP)



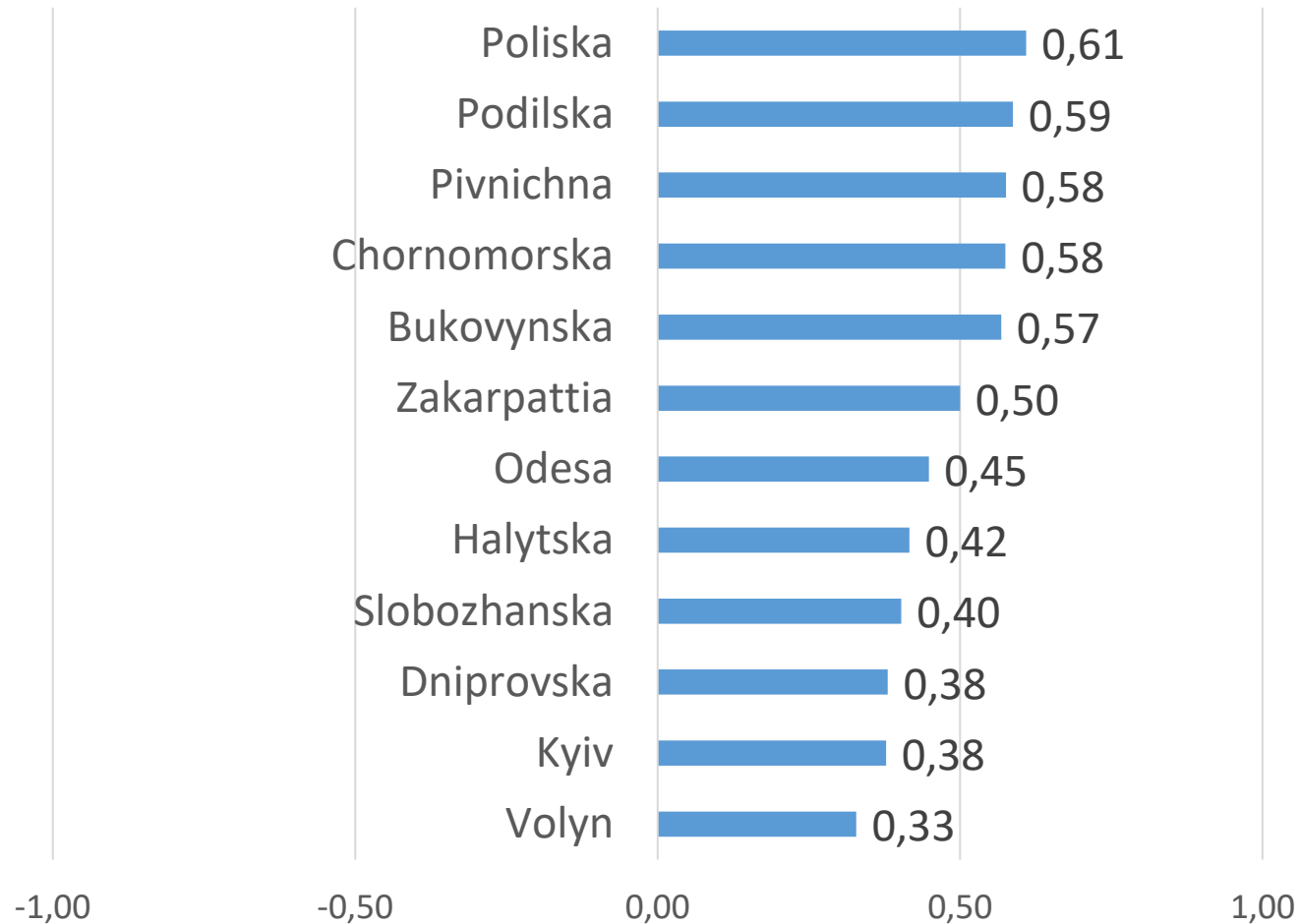
- **The assessment of the work of customs has improved: the value of the CPP Index reached 0.43 on the scale from -1 to 1**
- The CPP Index has been rising over the last three waves of the survey.

Assessment of customs work: what is behind the CPP Index



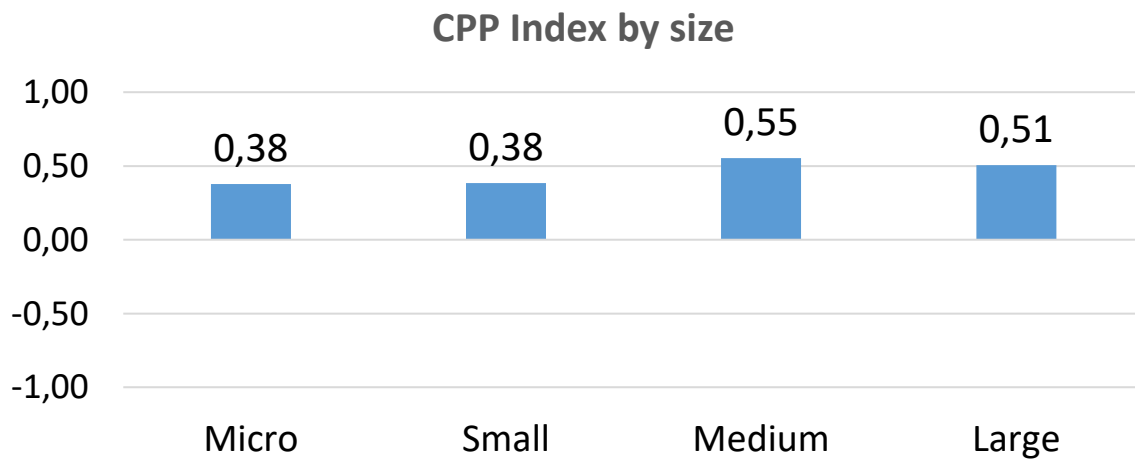
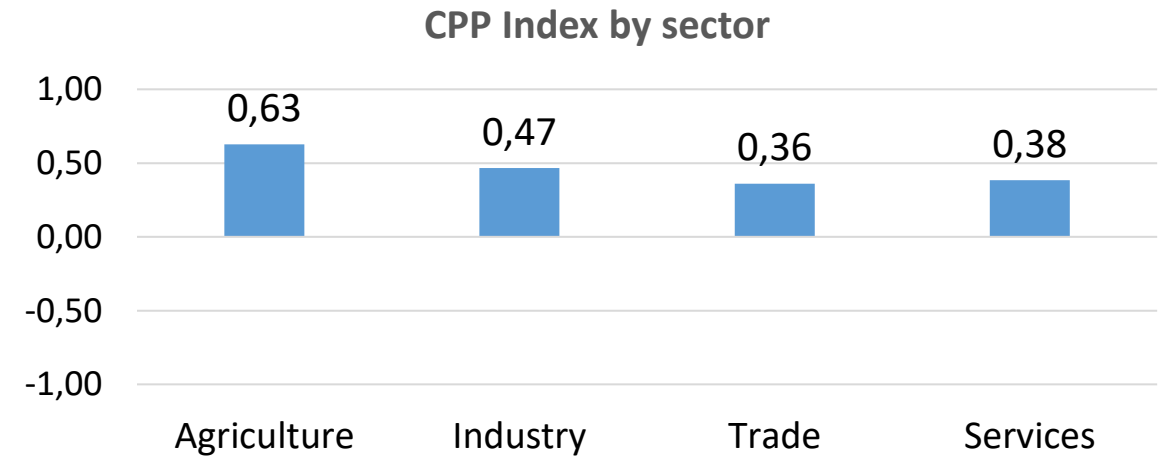
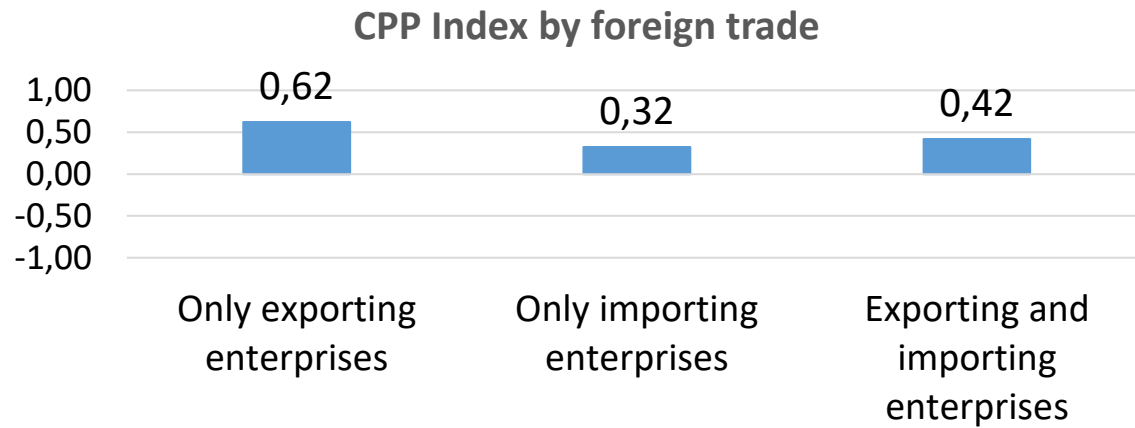
- Almost a third of the respondents consider the customs effective and in no need of change. **This is the highest frequency of such responses in all five waves of this survey**
- More than half of the respondents indicated that the work of customs is generally effective, but requires some changes
- The share of the respondents who said the work of the customs is completely or generally inefficient is the lowest in all the five waves of the survey

CPP Index: comparison by customs offices



- The values of the CPP Index for all customs offices are positive
 - Poliska Customs Office received the best score: the value of the CPP Index for it was 0.61.
 - The lowest value of the CPP Index is for Volyn, Kyiv and Dniprovskia Customs Offices, but even there positive assessments prevail.
- * Azov and Skhidna Customs Offices are not included in this analysis due to the insufficient number of the respondents*

CPP Index: comparison by types of enterprises



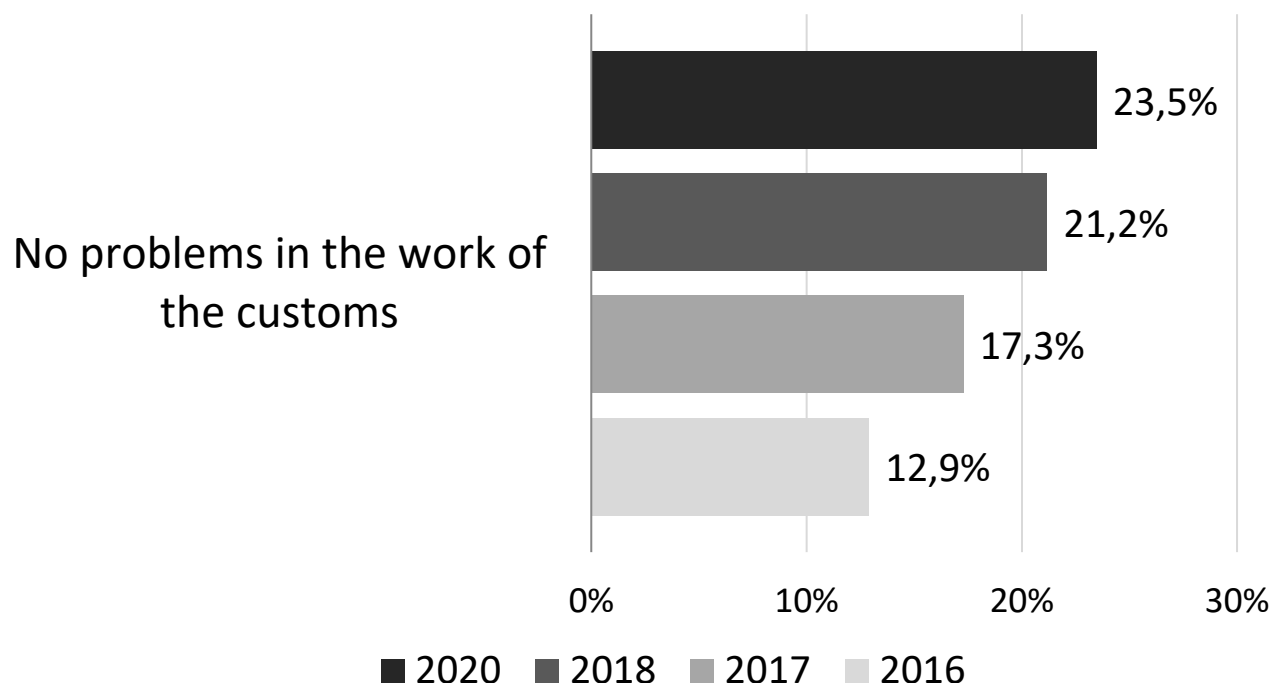
- **Exporters** assess the work of customs **best**. **Importers** assess customs **worse** than others and more often require large-scale reforms
- **The best** estimates by industry are **in the agricultural sector**
- Medium and large enterprises assess the work of customs much better than small and micro enterprises

Problems in the work of customs according to business estimates



Problems in the work of customs

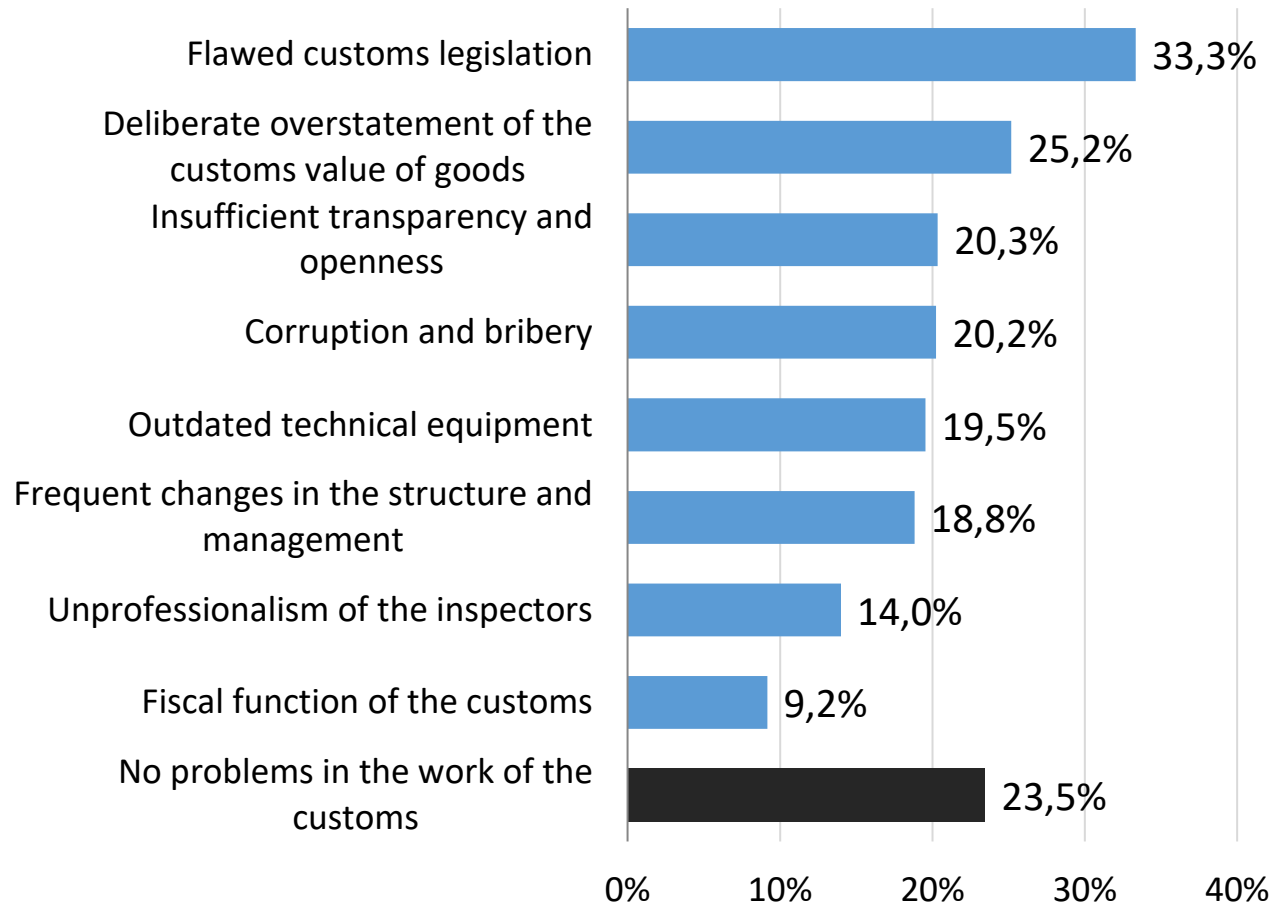
Share of the enterprises that said there are no problems in the work of the customs, %



- The share of the enterprises that did not experience any problems has doubled since 2016
- About a third of only exporting enterprises did not experience any problems; this is twice as many as among those that are only importing
- Among the enterprises of different sizes, micro-enterprises most often report problems at customs
- The share of agricultural businesses (34.4%) that did not encounter problems in the work of customs is twice as high as the one in trade (18.1%).

Problems in the work of customs (2)

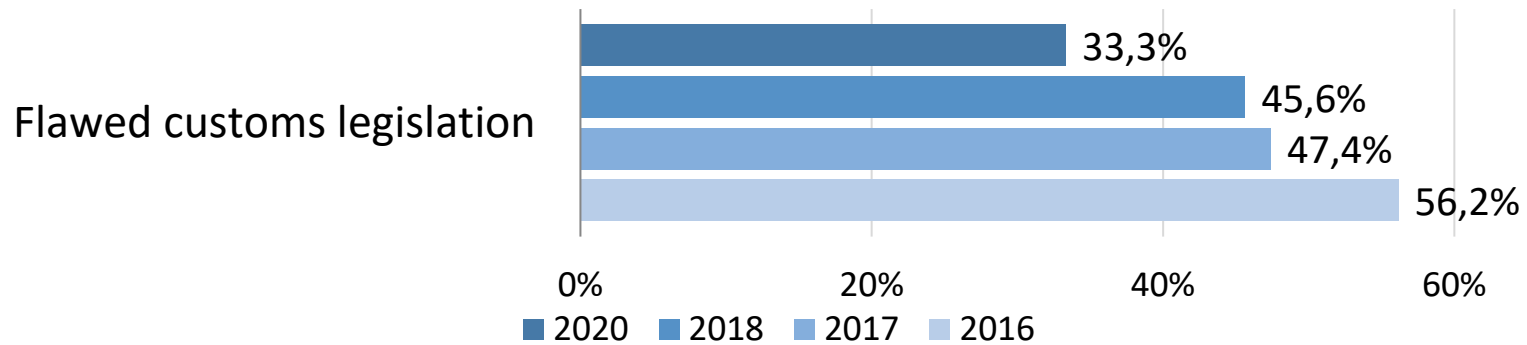
Problems in the work of customs, 2020 , %



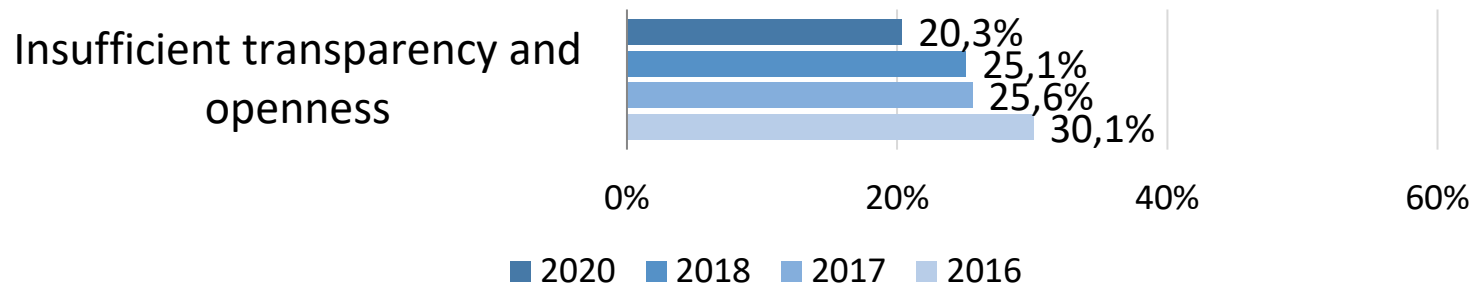
- Imperfect customs legislation ranks first for all respondents, regardless of their size, sector and type of foreign economic activity
- Agriculture is the only sector where the share of the enterprises that did not face any problems (34.4%) exceeds the share of those that named other problems
- Deliberate overestimation of the customs value of goods is the second most urgent problem for micro and small enterprises, while frequent changes in the structure and management of the customs, for medium ones, and outdated technical equipment, for large businesses
- Micro and small businesses are more likely to report corruption than large and medium-sized businesses

Problems in the work of customs (3)

Share of the enterprises that reported flawed customs legislation among the problems with the customs, %



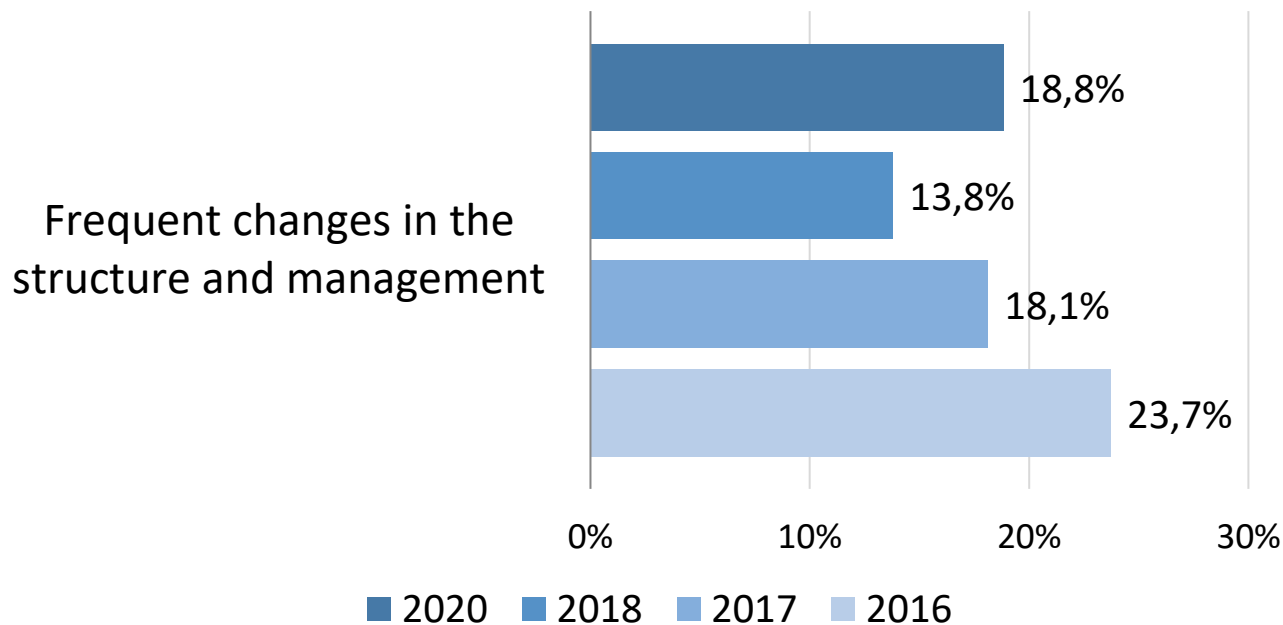
Share of the enterprises that reported insufficient transparency and openness among the problems with the customs, %



- The situation with problems such as flawed customs legislation and insufficient transparency and openness at customs improved in 2020
- The share of the enterprises that report these problems decreased compared to previous years
- The reduction of the problem of flawed legislation, which was mentioned by more than half of the respondents in 2016, is especially noticeable

Problems in the work of customs (4)

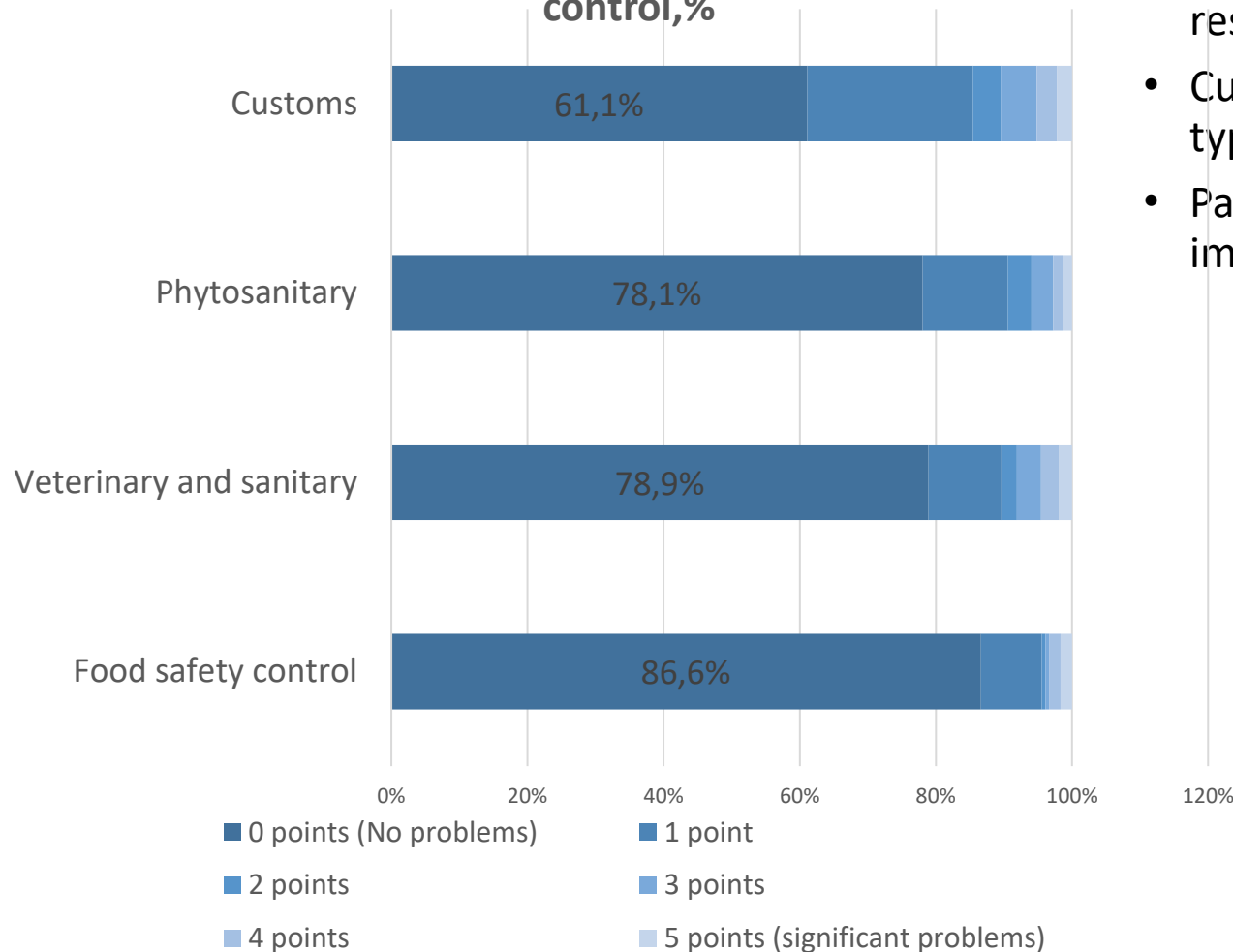
Share of the enterprises that reported frequent changes in the structure and leadership among the problems with the customs, %



- **Frequent changes in the structure and management of customs** is one of the obstacles reported by the respondents. The importance of this obstacle increased in 2020 compared to previous years
- This indicates that in the process of change and reform at customs, care must be taken to ensure that this does not interfere with business operations.
- This problem is more relevant for medium and large enterprises than for micro and small ones

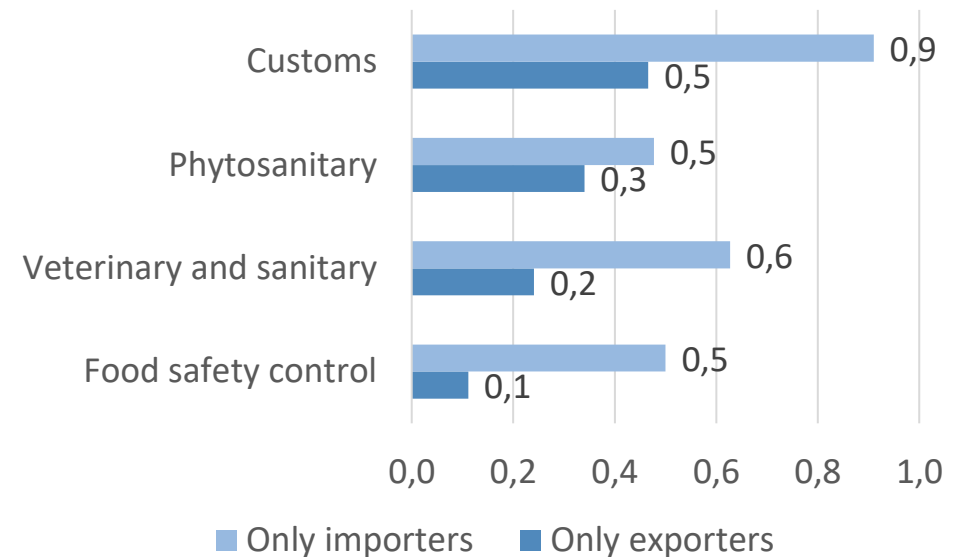
Assessment of passing various types of control

Distribution of estimates for different types of control, %



- The level of problems of all types of control is low: from 61.1% (customs control) to 86.6% (food safety control) respondents have no problems.
- Customs control is more problematic compared to other types of control, but the problems are mostly minor.
- Passing different types of control is more problematic for importers than for exporters.

Average scores of the difficulty of passing

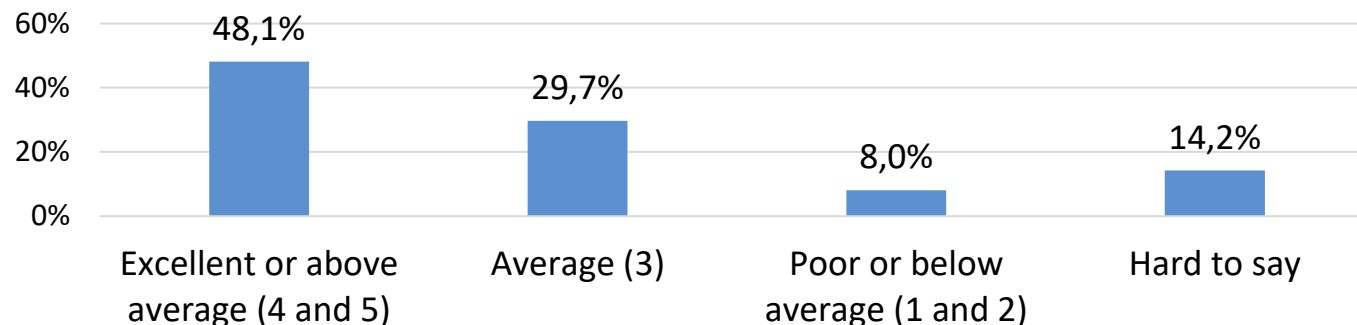


PERCEPTION OF THE "NEW CUSTOMS" BY BUSINESSES

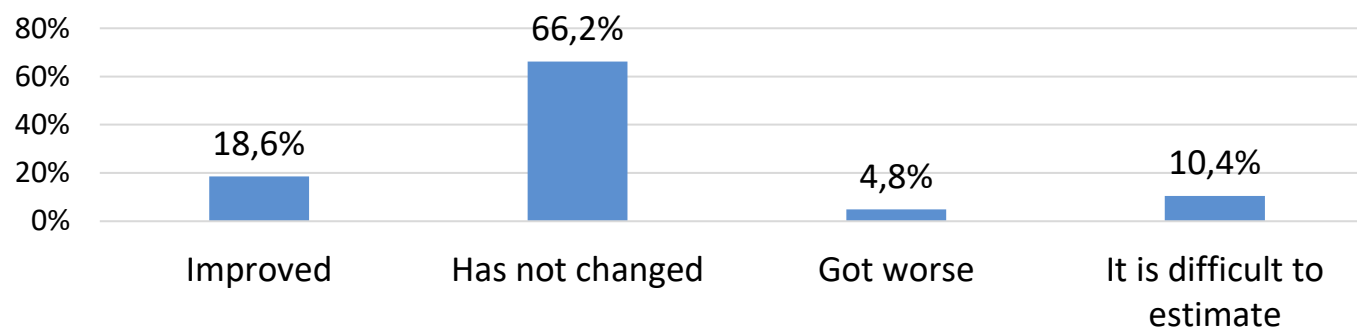


Perception of the work of the "New Customs"

Assessment of the work of the customs in 2020 (1 to 5), %



How did the work of the New Customs change compared to the same period last year?, %



Respondents evaluated the work of the New Customs (NC), i. e. the customs that has been operating since December 2019. A comparison was made between the time of the survey (April-June 2020) and the same period in 2019

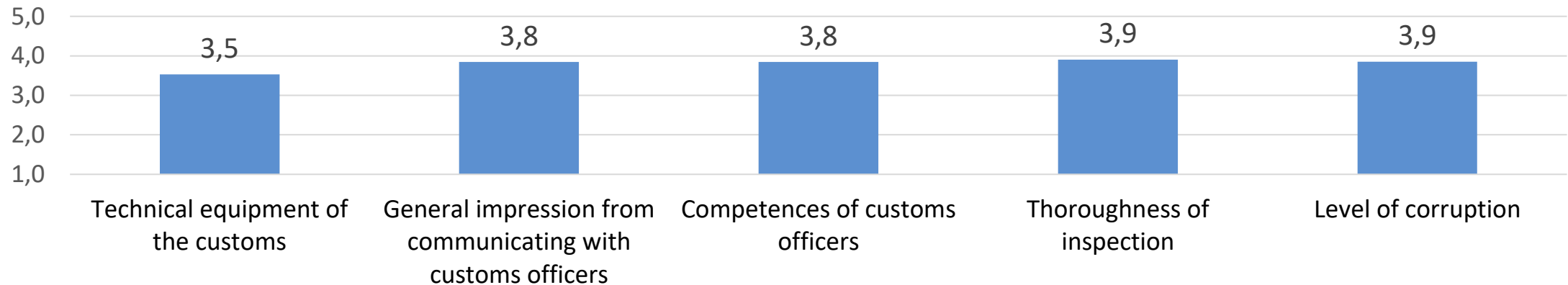
Almost half of the respondents rated the work of the NC as good and excellent. Only 8% assessed its work as unsatisfactory. Average score is 3.6 out of 5.

Only exporters rated the work of the NC higher than other respondents (4 points)

- 2/3 of respondents believe that the efficiency of customs has not changed compared to 2019, but positive assessments outweigh negative ones by +13.8 pp
- There is almost no difference in the assessment of changes in the work of customs by the type of the enterprises.

Assessment of individual aspects of the work of the New Customs

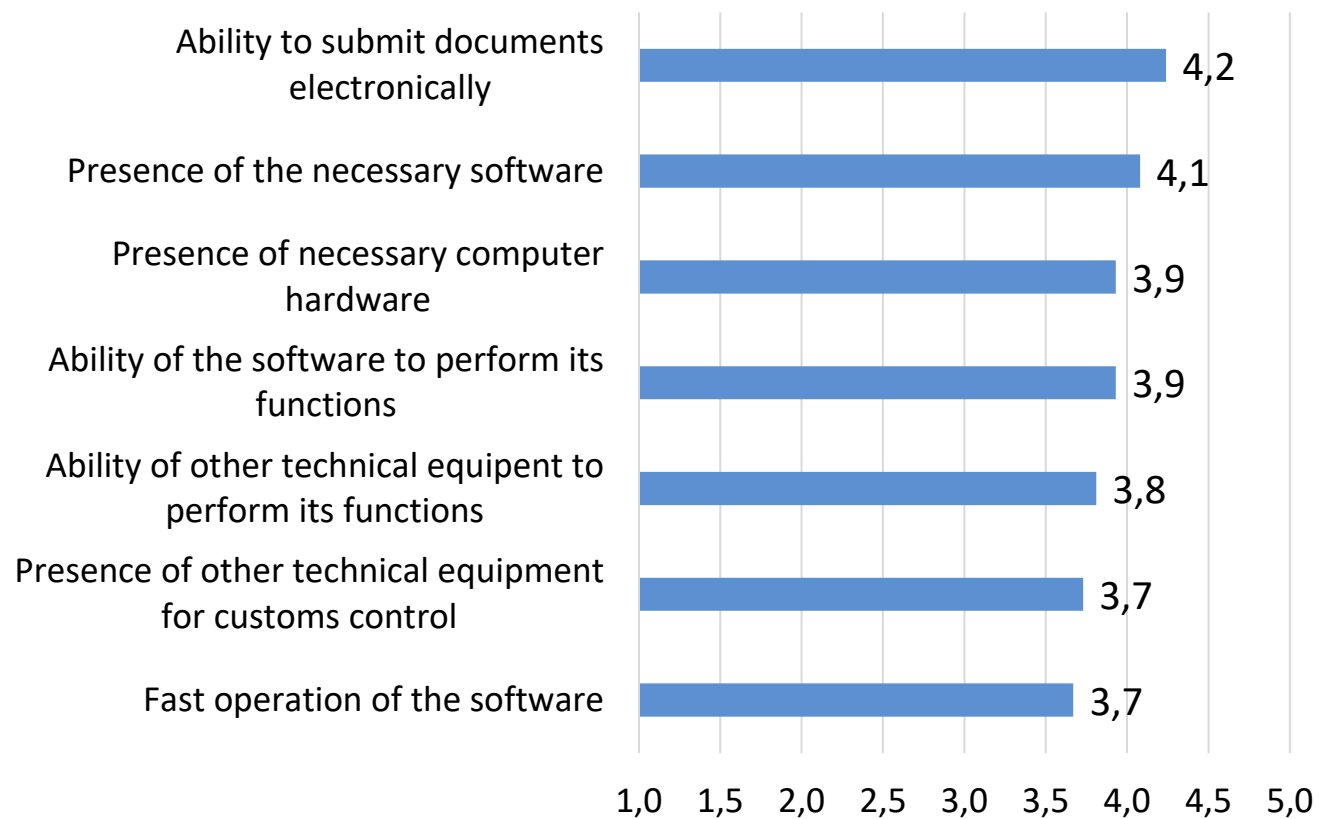
Average assessment of individual aspects of the work of the New Customs (1 to 5 points)



- Assessment is made on the scale from 1 to 5, where 1 is a negative rating and 5 is a positive one. For the "level of corruption" indicator 1 point means a high level of corruption, 5 points mean a low level or no corruption
- Assessment of individual aspects of the work of the New Customs, except technical equipment, is better than the general assessment of its work (3.6)
- The technical equipment of the customs was rated slightly lower than other aspects: an average of 3.5 points
- 62.3% of 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 (66% +)

Assessment of individual characteristics of technical equipment at customs

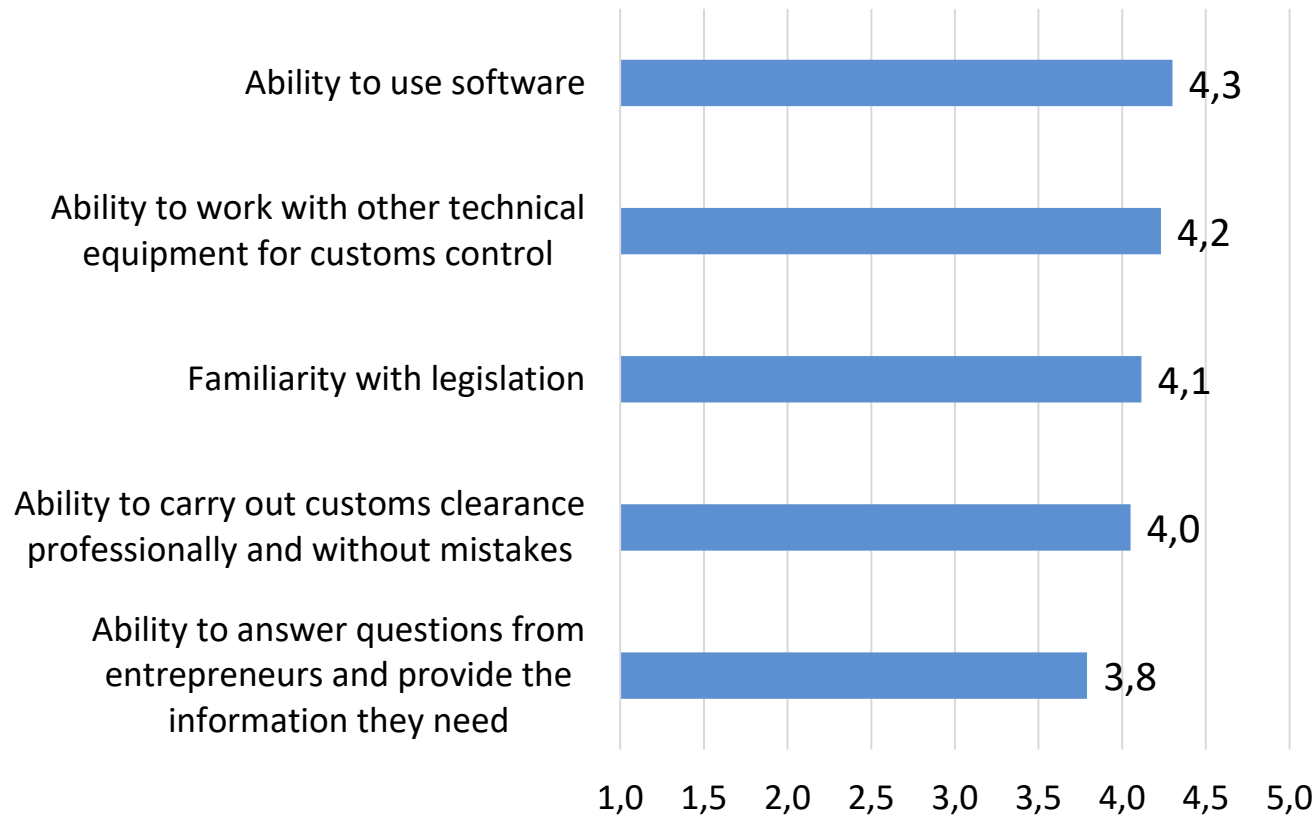
Assessment of individual characteristics of the technical equipment of the customs



- Assessment of all the studied characteristics of technical equipment of customs are rather high
- The ability to submit documents in electronic form is assessed best, which may indicate the success of the implemented measures to automate the work of customs
- Software operation speed and the presence of other technical equipment for customs control are assessed the lowest, which indicates the need for further investment in customs infrastructure
- Only exporters rated all the characteristics better than others
- Large enterprises gave the best marks to such characteristics as the ability to submit documents electronically and the presence of software
- In trade, the ability of software to perform its functions is assessed the worst

Assessment of individual qualifications of customs inspectors

Assessment of individual qualifications of customs inspectors



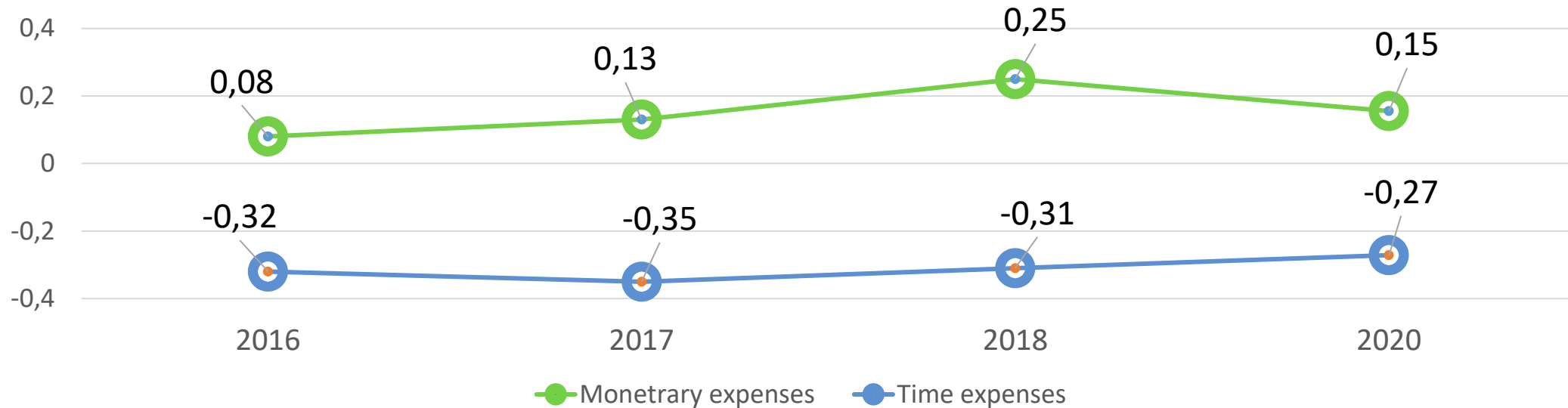
- Respondents rated almost all of the listed qualifications of customs inspectors at 4 or 4+ points out of five
- The ability to answer entrepreneurs' questions and provide the necessary information is the lowest: 3.8 out of five. This means there is a need for further training for inspectors
- Only exporters are slightly better able to assess the ability of inspectors to answer questions and work with technical equipment for customs control
- Medium and large enterprises evaluate all qualifications somewhat better
- In trade, the ability of inspectors to answer questions was assessed the lowest, and in the agricultural sector, the highest

COST OF CUSTOMS CLEARANCE PROCEDURES



Change in the cost of customs clearance procedures compared to 2018: exports

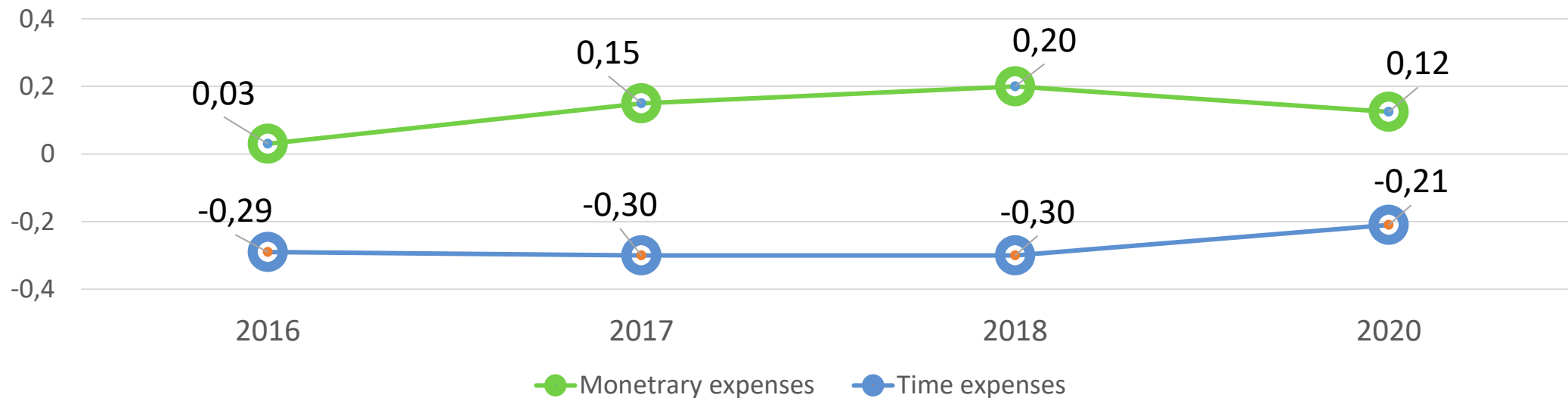
Dynamics of monetary and time expenses for all customs procedures for exports
(balance indicator)



- **The cost of customs clearance of exports continues to grow, but not so fast.** For most exporters, monetary expenses did not change, but they have been increasing more often than decreasing. The largest growth was in the agricultural sector, while the least one was in the service sector.
- **The time of customs clearance of exports continues to decline.** The share of the businesses for which customs clearance has become faster exceeds the share of those spent more time on it. The most noticeable decrease is for large enterprises.

Change in the cost of customs clearance procedures compared to 2018: imports

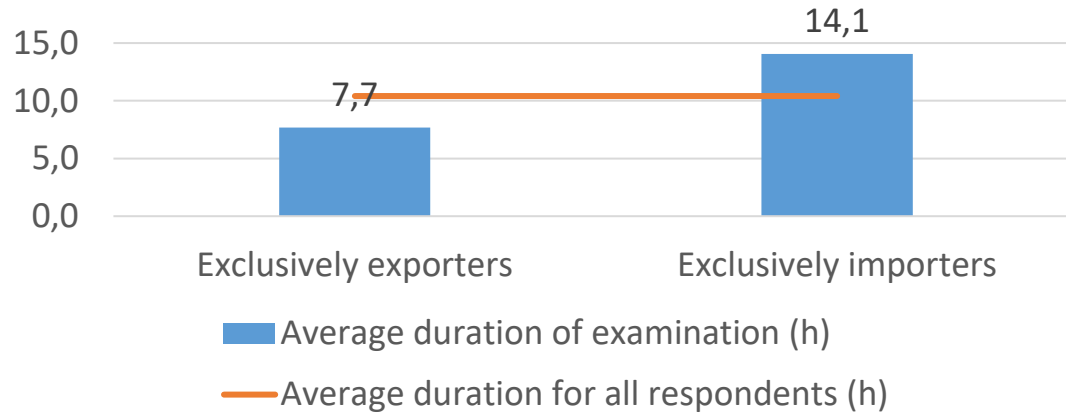
Dynamics of monetary and time expenses for all customs procedures for imports
(balance indicator)



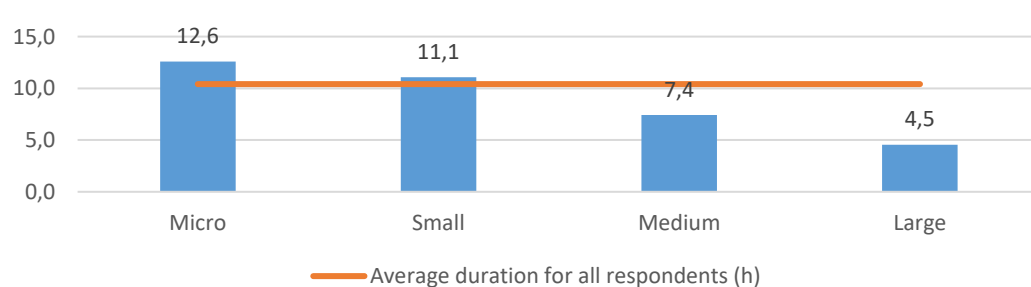
- **The cost of customs clearance of imports continues to increase, but at a slower pace.** Importers mostly report that their monetary expenses for customs clearance of imports have not changed over the last 2 years. Only in services the reduction of cost is more common than its growth.
- **The duration of customs clearance of imports is decreasing, but at a slower pace too.** For most importers, it has not changed. For the rest of the importers it mostly reduced. The services sector reports the reduction of the clearance time with the least frequency.

Speed of customs clearance

The average duration of customs clearance, by foreign trade



Average duration of customs clearance, by size of enterprises (h)



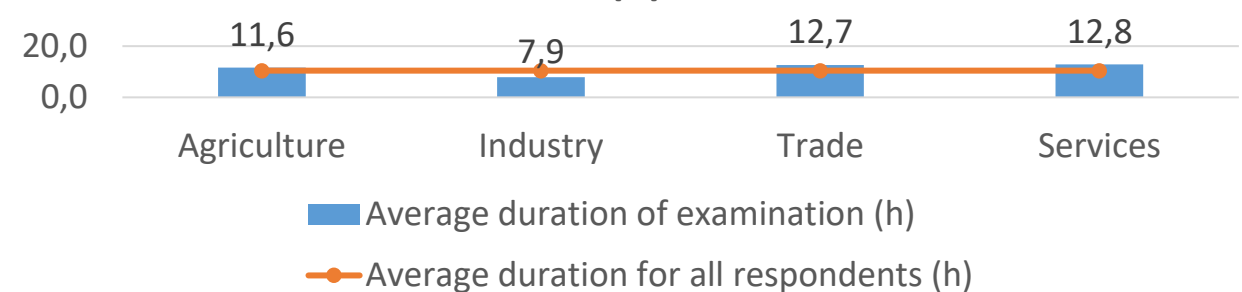
Speed of customs clearance: (1) duration in hours and (2) assessment of respondents.

- Duration of customs clearance: 10.4 hours.
- Respondents' score: 3.6 points out of 5 possible.

The difference between the scores of different types of enterprises is insignificant.

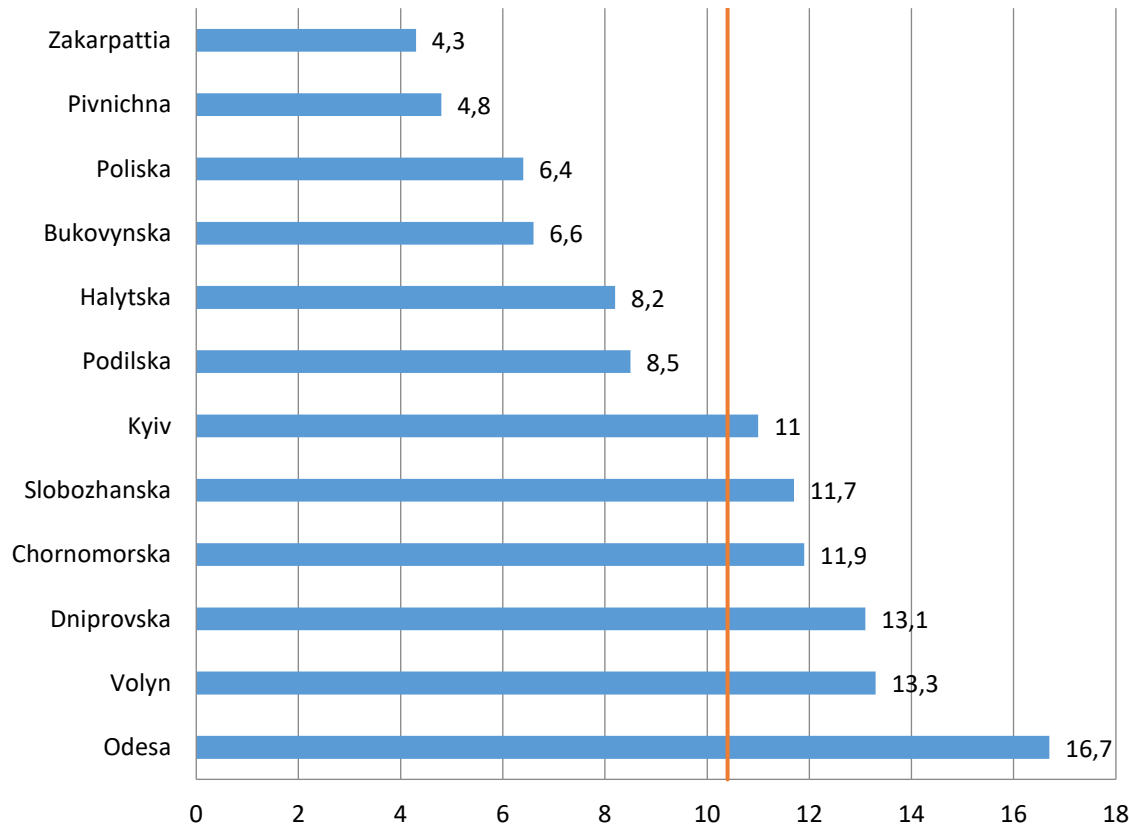
High marks "4" or "5" points were indicated by 50.4% of respondents, and low marks "1" or "2" points - only 8.8%.

Average duration of customs clearance, by sector (h)



Speed of customs clearance (by customs)

Average duration of customs inspection, by customs (hours)



Duration of customs clearance:

- Fastest: Zakarpattia (4.3 hours) and Pivnichna (4.8 hours) Customs Offices.
- Longest: Odesa Customs Office (16.7 hours).

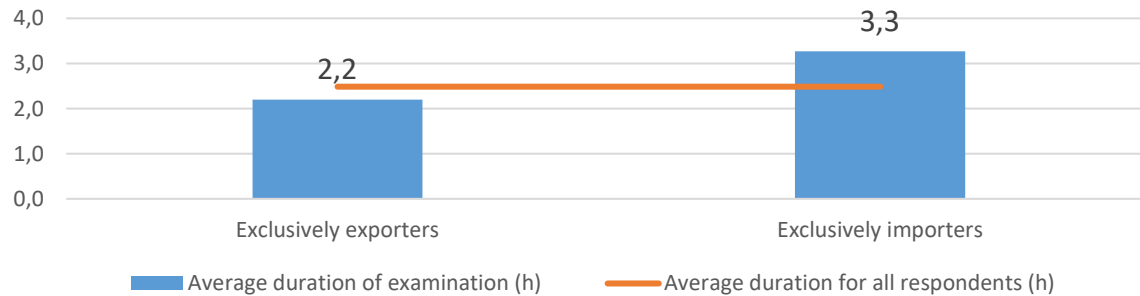
Evaluation of respondents :

- The highest scores - at the Pivnichna Customs (3.9 points), where the duration of registration is one of the lowest.
- The lowest score is for Odesa Customs Office (3.4 points), where the longest clearance.
- For most customs, the scores are almost the same as the average for all respondents (3.6 points)

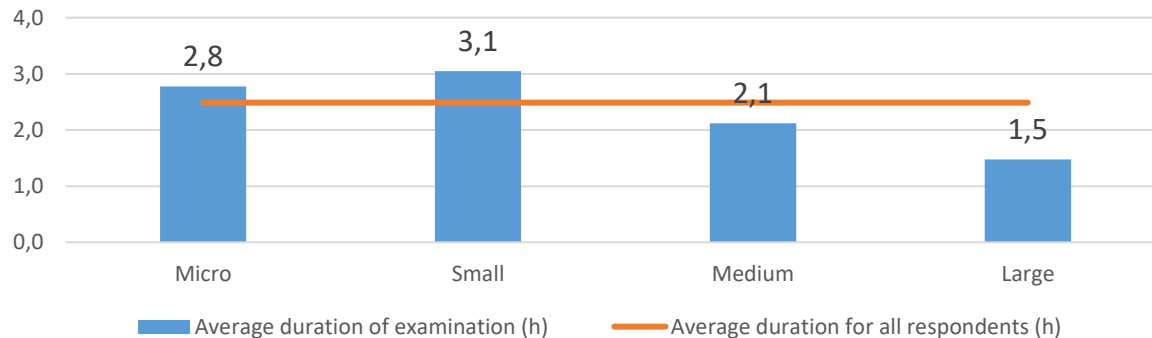
Note: Due to insufficient filling of the subsample, Azov and Shidna Customs Offices are not included in this analysis. It is also not possible to analyze by groups (sector, size) for individual customs.

Speed of customs inspection

Average duration of customs inspection, by foreign trade



Average duration of customs inspection, by size of enterprises (h)



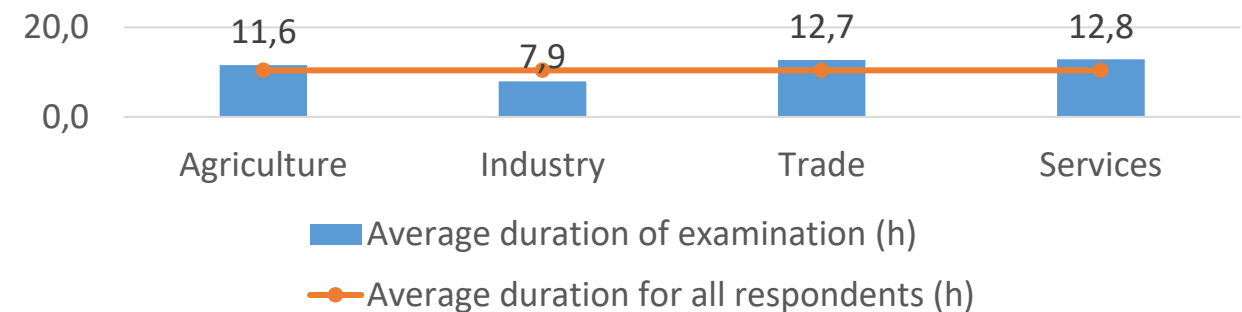
Speed of customs inspection: (1) duration in hours and (2) assessment of respondents.

- Duration of customs inspection: 2.5 hours.
- Respondents' score: 3.8 points out of 5 possible.

The difference between the scores of different types of enterprises is insignificant.

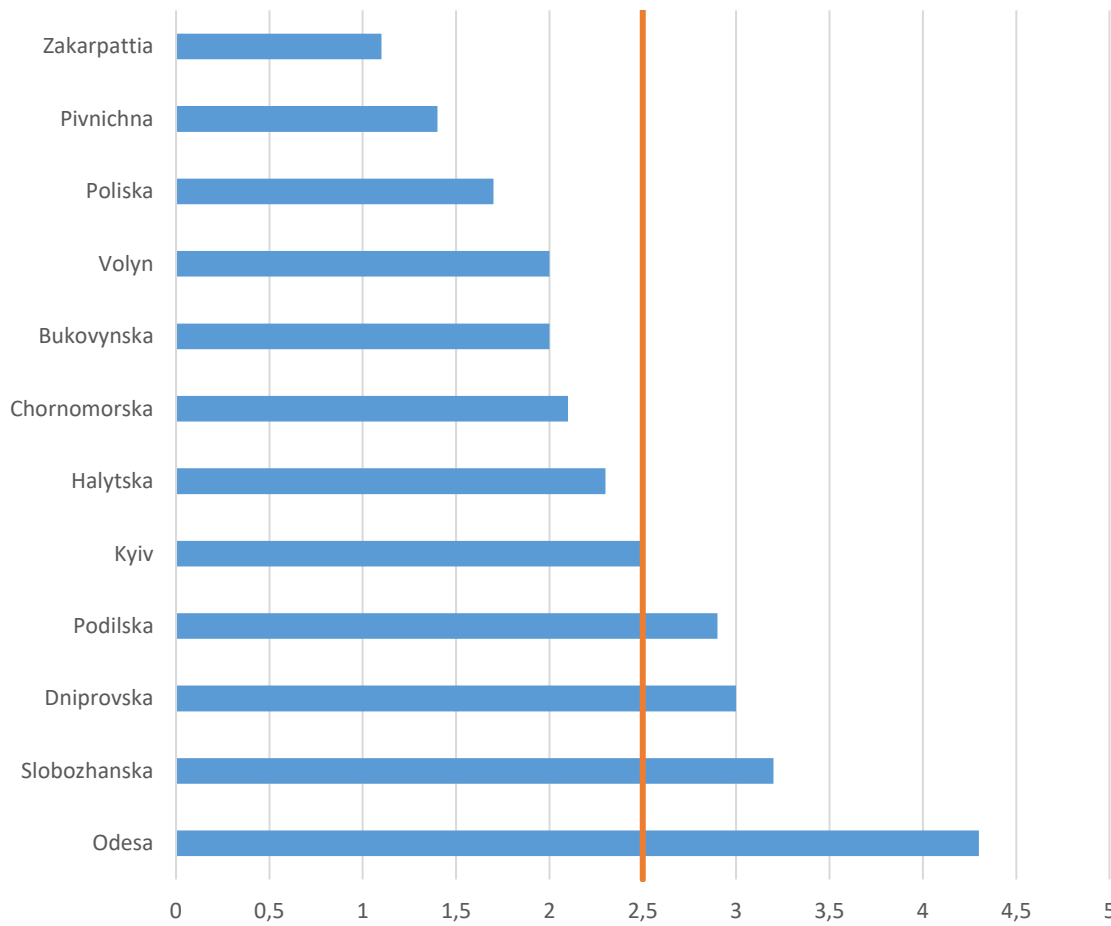
High scores of "4" or "5" points were given by 51.5% of respondents, and low scores of "1" or "2" points - only 5.1 %.

Average duration of customs clearance, by sector (h)



Speed of customs inspection (by customs offices)

Average duration of customs inspection, by customs offices (hours)



Duration of customs inspection:

- Fastest: Zakarpattia (1.1 hours) and Pivnichna (1.4 hours) Customs Offices.
- The longest inspection: Odesa Customs Office (4.3 hours).

Evaluation of respondents:

- The highest score is at the Pivnichna Customs Office (4.3 points), where the duration of the inspection is one of the lowest.
- One of the lowest scores is for Odesa Customs Office (3.7 points), where the longest inspection.
- For most customs, the scores are almost the same as the average for all respondents (3.8 points).

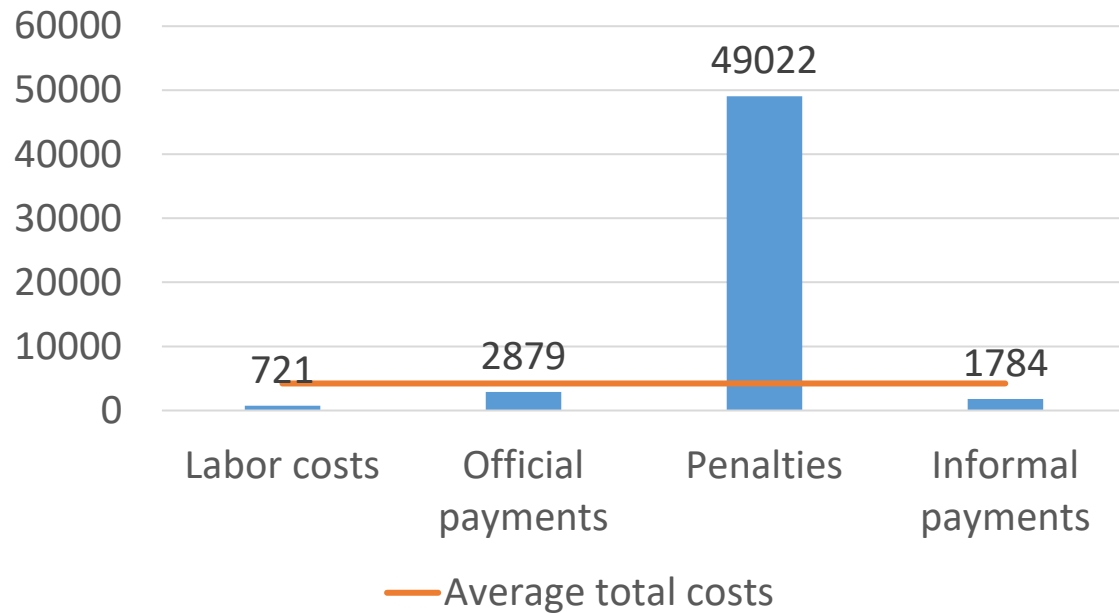
Note: Due to insufficient filling of the subsample, Azov and Skhidna customs are not included in this analysis. It is also not possible to analyze by groups (sector, size) for individual customs.

EXPENSES FOR CUSTOMS PROCEDURES



Expenses for customs procedures in export operations

Average costs per export transaction (by type of costs), UAH

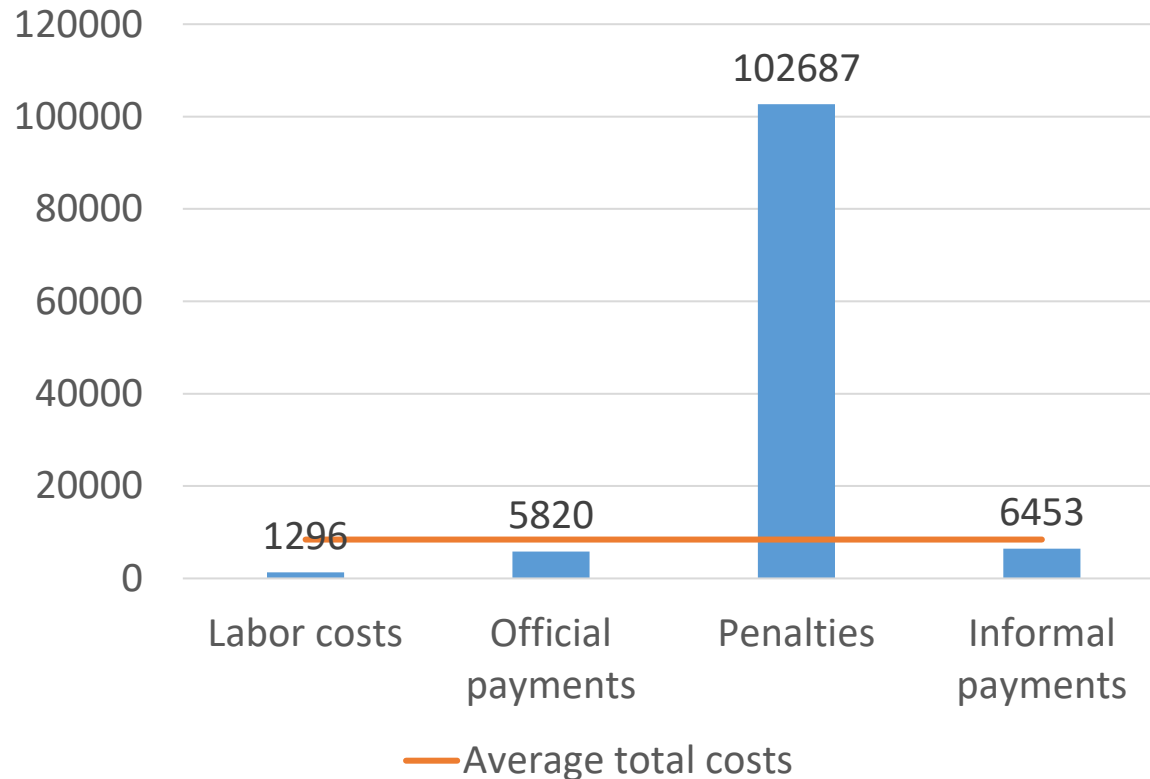


The total cost of 1 export transaction can average 4186 UAH.

- The average time cost for 1 export operation is 8.9 hours, which is almost 2 times less than for imports.
- Official and unofficial payments, penalties for exports are on average 2-3 times lower than for imports.
- Penalties can be the largest component of the financial cost of exports.
- The average fine during export operations exceeds the average size of unofficial payments by almost 30 times.
- Low informal payments in the context of high fines may indicate a low probability of punishment.

Costs of customs procedures for import operations

Average costs per import transaction (by type of costs), UAH

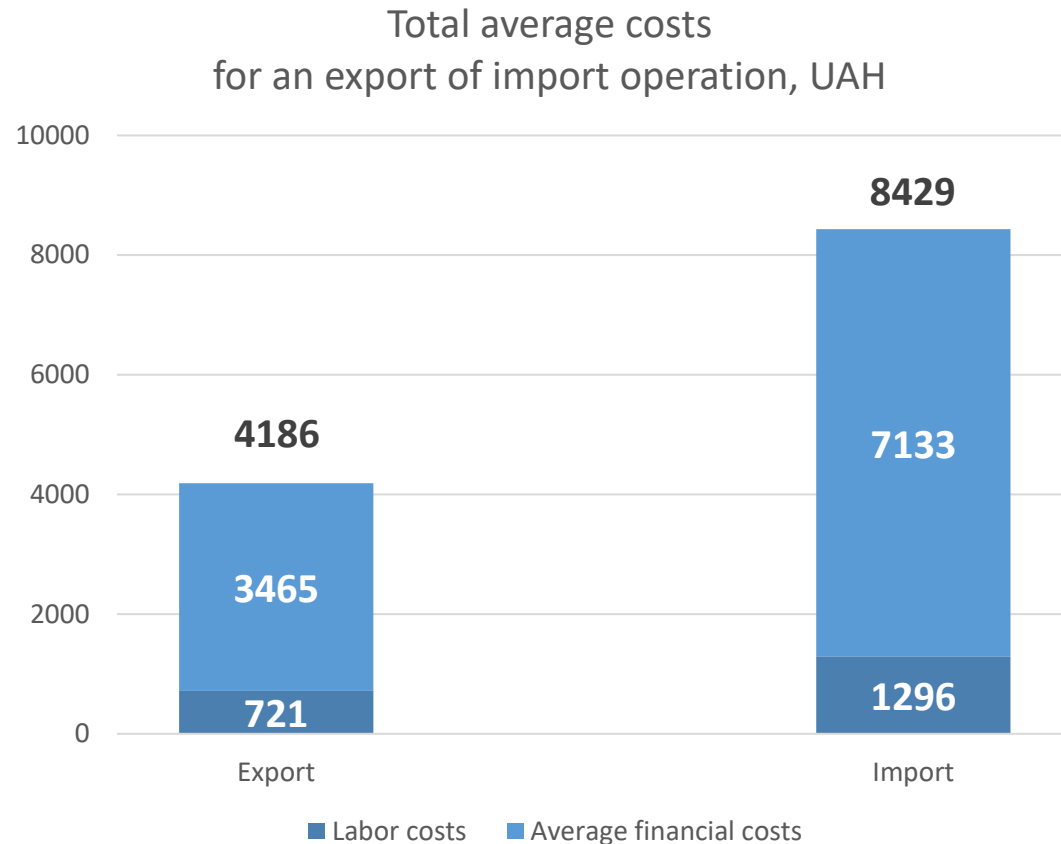


The total cost of 1 import transaction can average UAH 8429.

The average time cost for passing 1 import operation is 16 hours, which is almost 2 times more than for exports.

- Official and unofficial payments, penalties for imports are on average 2-3 times higher than for exports.
- Penalties can be the largest component of the financial cost of imports.
- The average fine during import operations exceeds the average amount of informal payments by almost 16 times.
- Low informal payments in the context of high fines may indicate a low probability of punishment.

Expenses for customs procedures in export and import operations



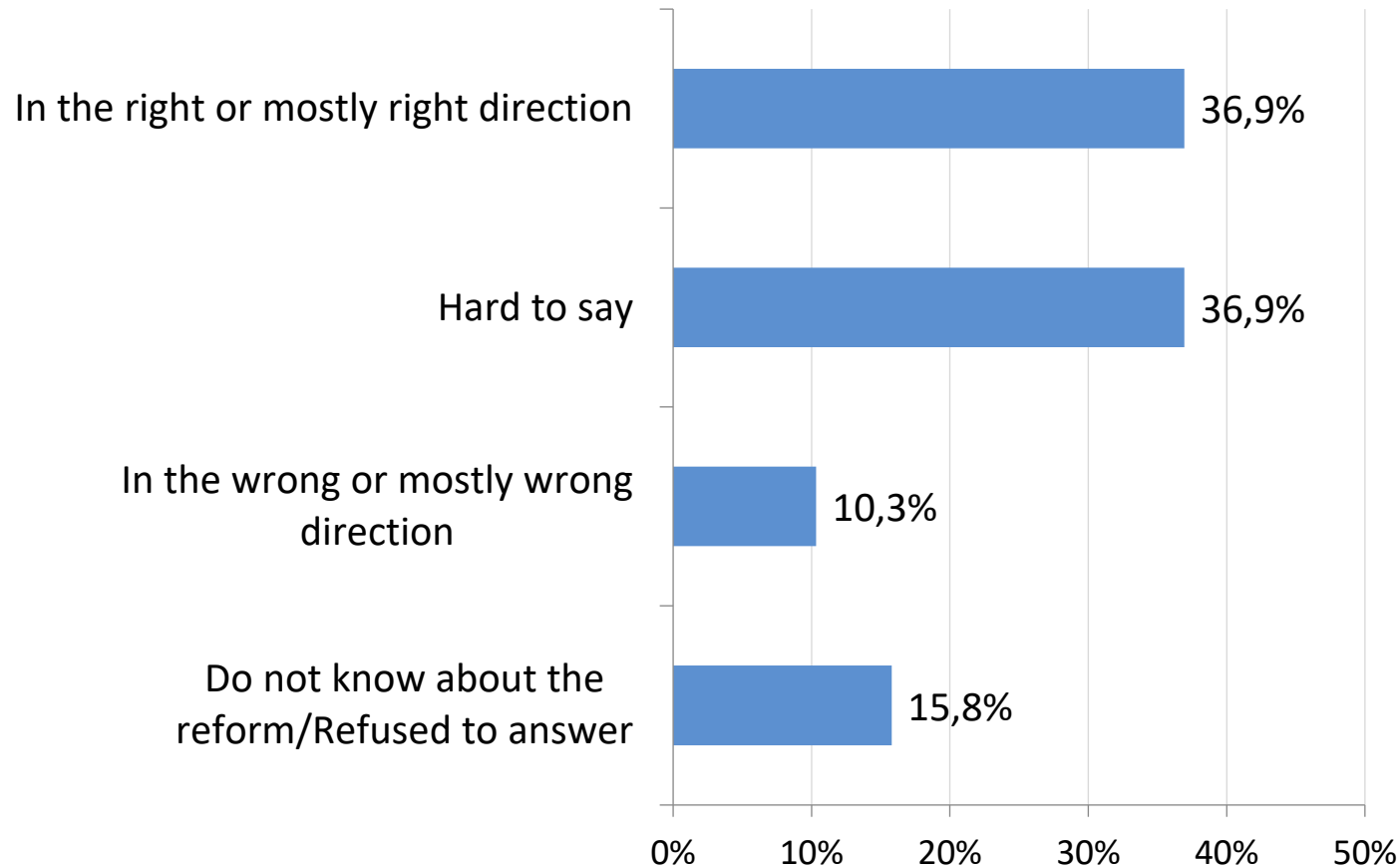
- **On average, the cost of one export operation is 2 times lower than for one import operation.**
- The higher costs of import operations than export operations may be reflected in other aspects of customs procedures (e.g. passing various types of controls), for which importers' assessments are worse than those of exporters.

Note: The filling of the subsamples is insufficient for the analysis of average costs in terms of size of enterprises and sectors.

CUSTOMS REFORMS: ASSESSMENT AND EXPECTED RESULTS

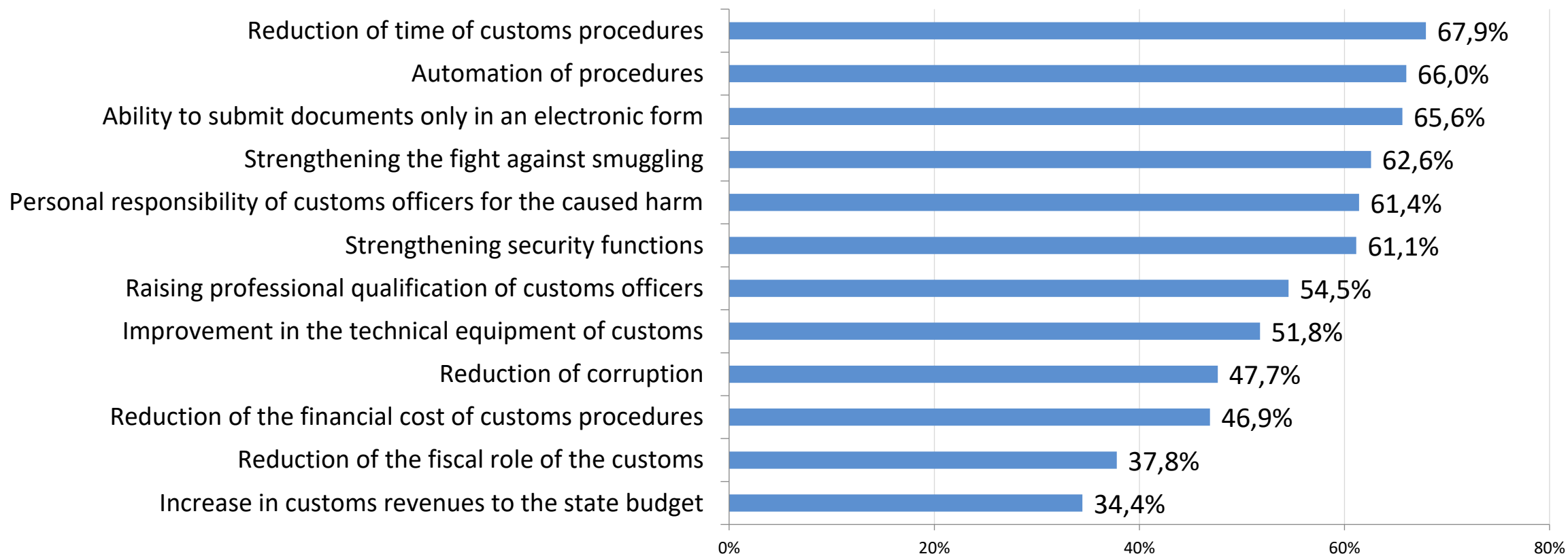


Is the customs reform moving in the right direction?



- The share of enterprises that consider the direction of reforms at customs to be right **exceeds** the share of those that consider it wrong.
- About half of the respondents do not know about the reform or could not evaluate it ("Hard to say" + "I do not know" / refusal to answer)
- **Large** enterprises more often than others call the direction of reforms **right**
- **Importing companies**, more often than not exclusively exporters, consider the direction of reforms to be **wrong**.

Expectations of businesses from the customs reforms



- The main expectations of business respondents from the customs reform are to reduce **the time of customs procedures**, the **automation** of customs procedures with minimization of the human factor, as well as the ability to **submit documents completely electronically**.
- The lowest priority has been given to **the increase in customs revenues to the state budget**.

THANK YOU FOR YOUR ATTENTION!



QUESTIONS?



CONTACTS

web: www.tfd.ier.com.ua

e-mail: customs@ier.kyiv.ua

Facebook: www.facebook.com/tfd.ier



Project "Support of the Civil Society Initiative "For Fair and Transparent Customs"
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