

TRADE FACILITATION IN UKRAINE :

Topic 4: Association Agreement, Foreign Trade Barriers and Diia.Business

*Based on the results of the VI wave of the Annual Survey of
Ukrainian exporters and importers*

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

Kyiv 2022

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.


25 members as of October 2021



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 Trade Facilitation Dialogue project, which was implemented by the IER with the support of the EU and the 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 6 annual surveys: 2015, 2016, 2017, 2018, 2020, 2021.

The 6th wave of the poll began on May 26 and ended on September 8, 2021.

6th Annual Survey: Topics

How businesses assess 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 businesses assess different customs procedures

Using the NCTS system and obtaining the status of the AEO

Customs clearance through the "single window" and using digital products

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 the customs

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

What are the obstacles for importers and exporters

How the Association Agreements affected business activities

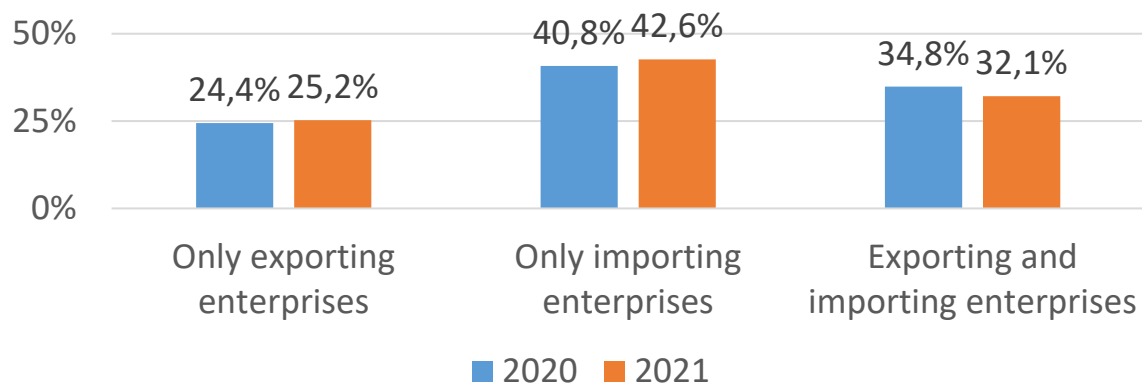
Where do companies get information; the role of business associations

WHO WAS INTERVIEWED: SAMPLE

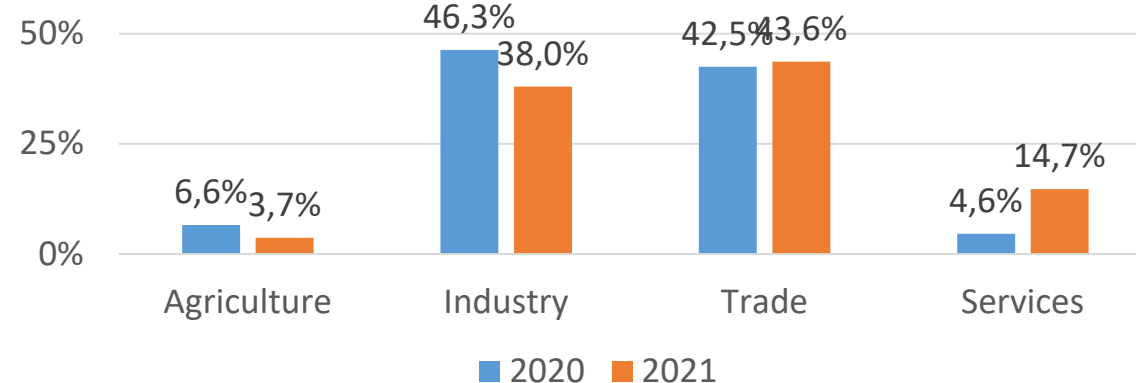


Sampling: what are the surveyed companies

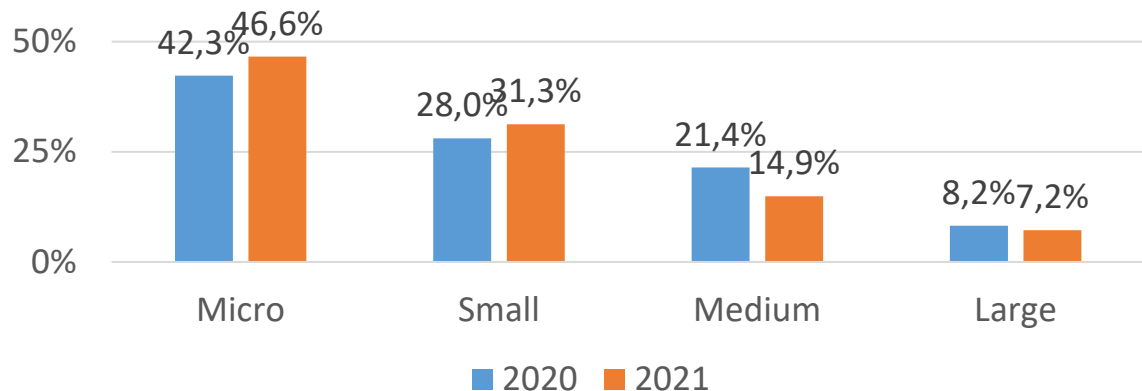
Enterprises by foreign trade



Enterprises by sector



Enterprises by size



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

IMPACT OF THE EU-UKRAINE ASSOCIATION AGREEMENT

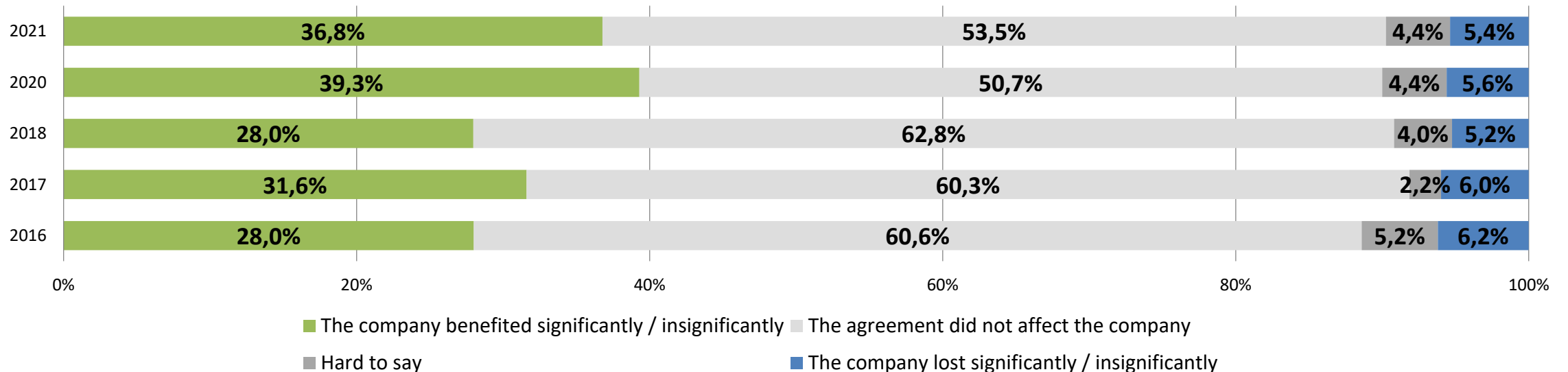


Impact assessment of the AA (general)

In 2021, the share of enterprises that positively assessed the impact of the Agreement decreased compared to the previous wave of the survey, although in 2020 the highest rate of all survey waves was observed.

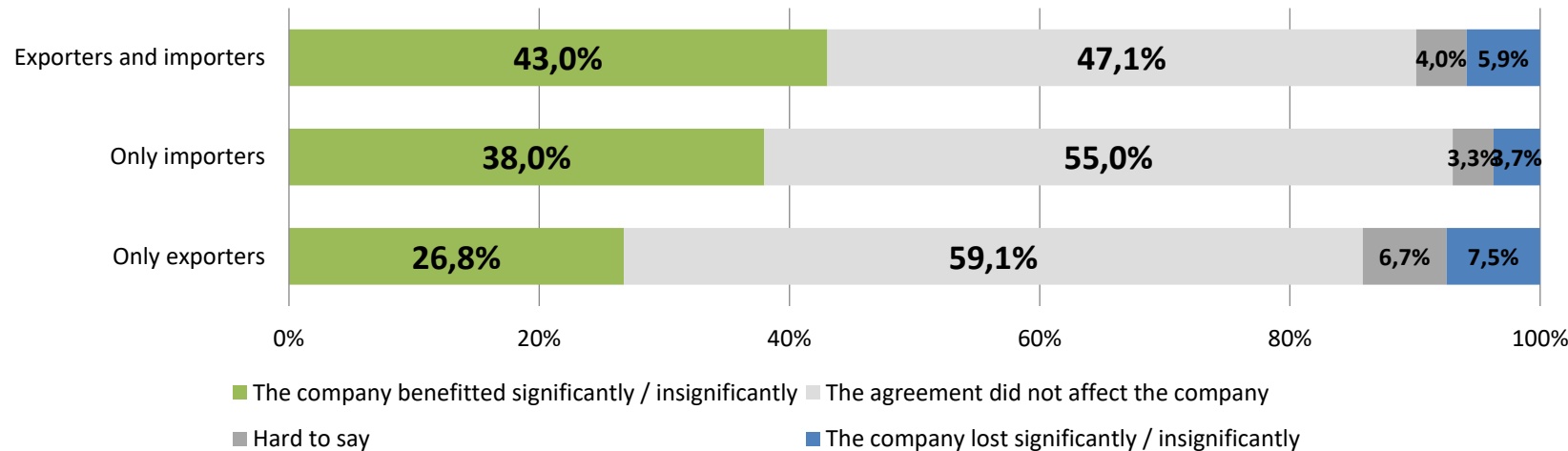
- Only almost 5% of respondents indicate that their company has lost significantly or insignificantly
- The share of respondents who felt the negative impact has remained almost unchanged since 2016

Impact assessment by years,% of respondents

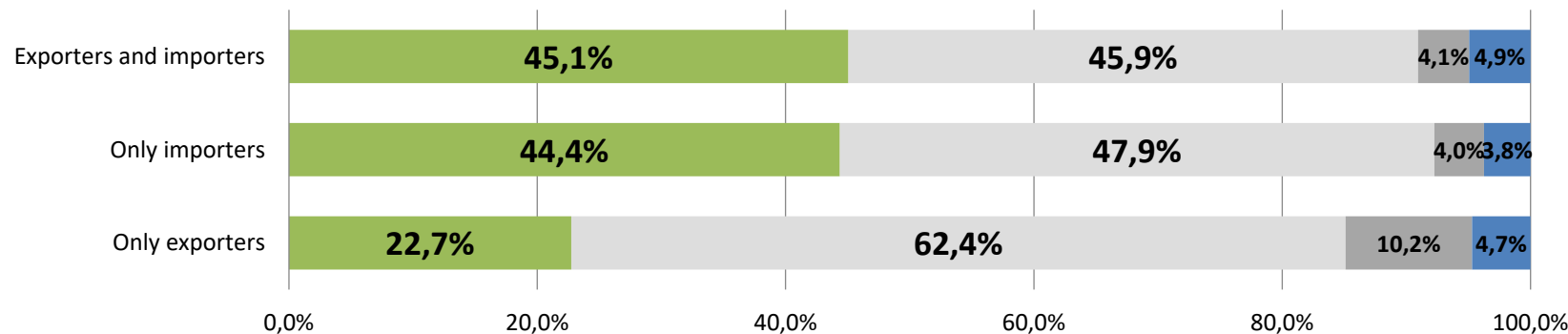


Impact assessment of the AA (by type of FEA)

2021, % of respondents



2020, % of respondents

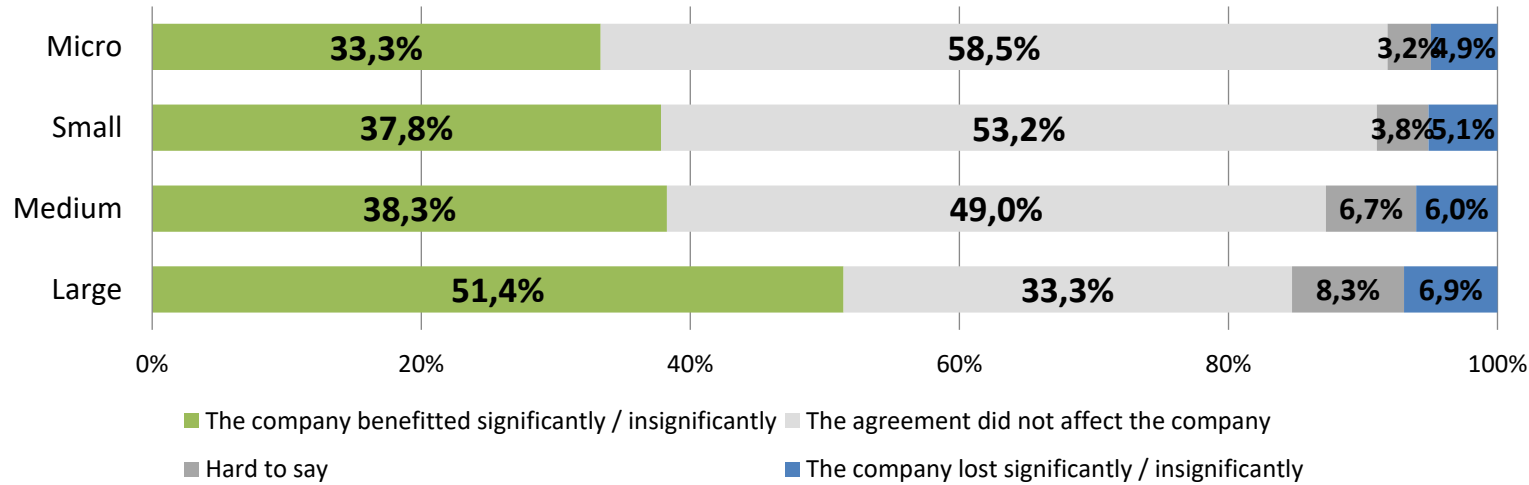


Businesses that combine exports and imports or have only imports have had the greatest positive impact

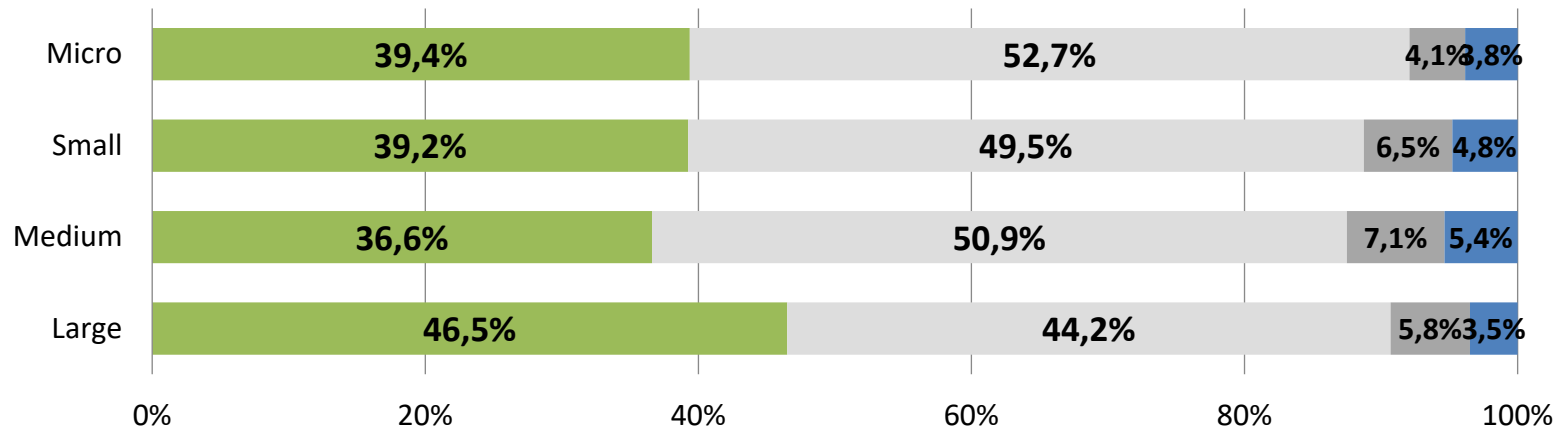
- **The lowest** level of positive assessments remains **among exporters**
- Almost **two thirds** of exporters **have not felt** the impact of the AA yet
- **Compared to 2020**, the share of positive assessments increased only for exporters

Impact assessment of the AA (by size of enterprises)

2021, % of respondents



2020, % of respondents

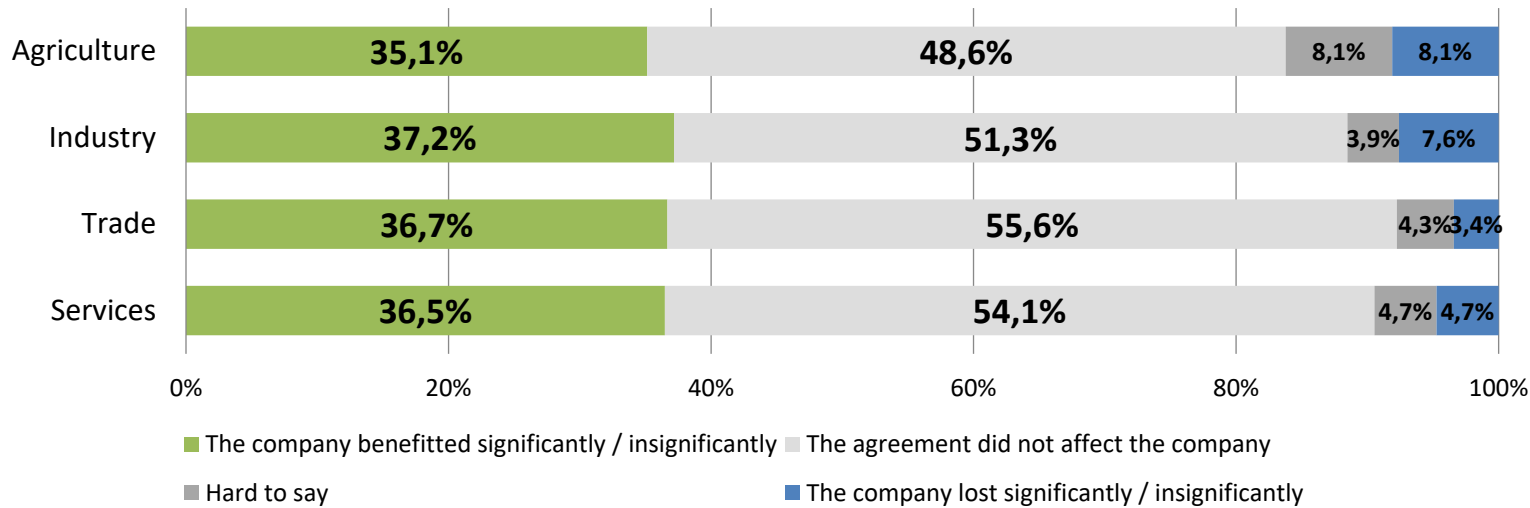


The level of positive assessments decreased among enterprises of all sizes compared to 2020

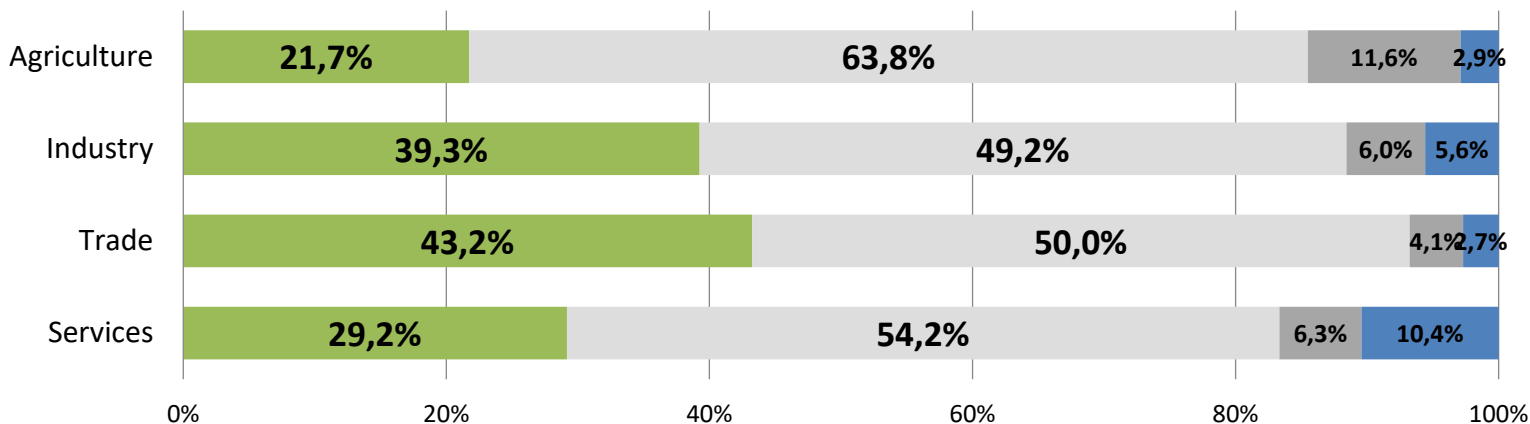
- Large businesses are more **positive** about the AA than the SME sector
- Among **large** businesses, there is also the **smallest share** of enterprises that **cannot assess the impact** of the AA
- Only a **third** of small businesses are **positive** about the impact of the AA

Impact assessment of the AA (by sectors)

2021, % of respondents

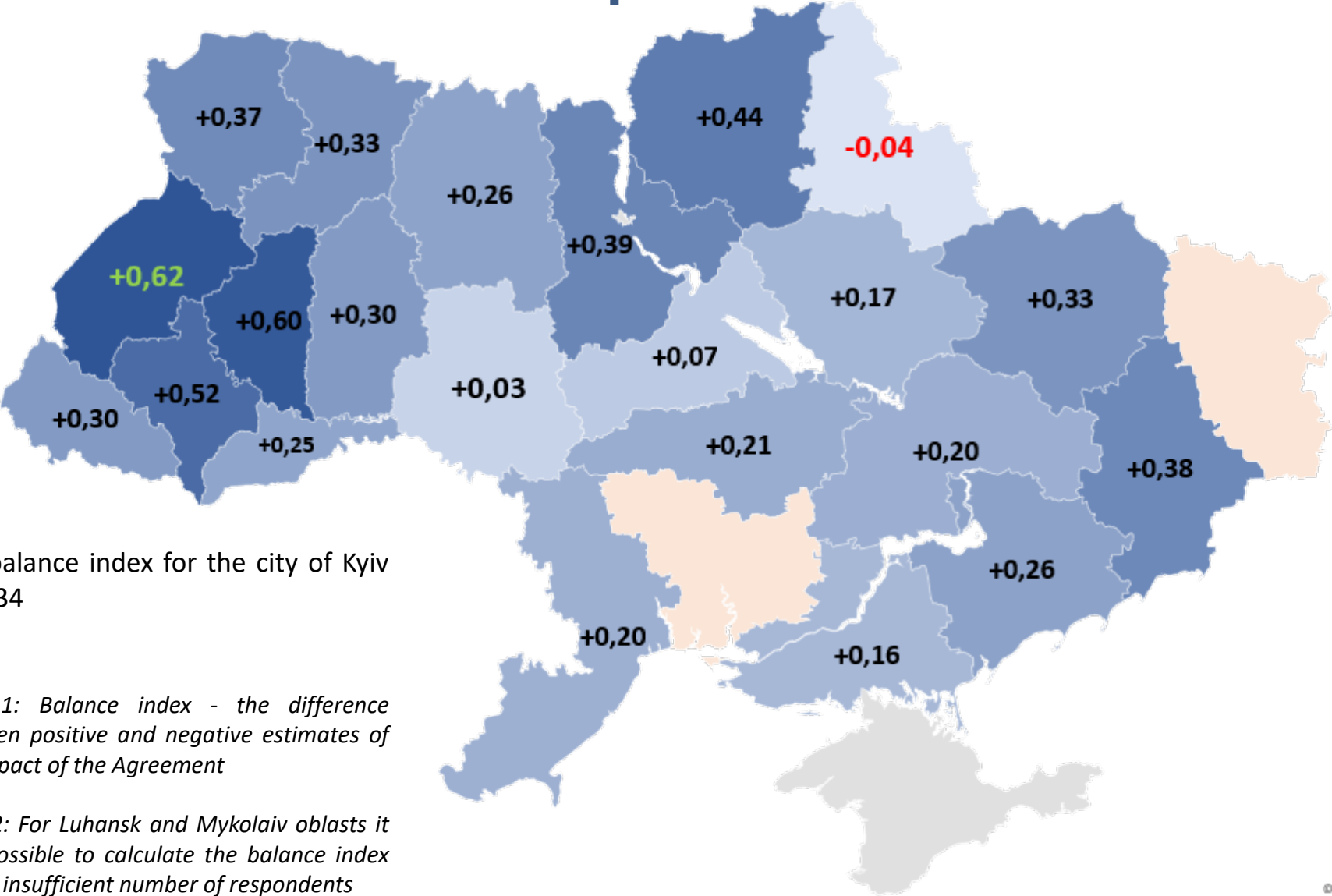


2020, % of respondents



- In **2021**, the share of **positive assessments** is almost the same for representatives of **different sectors**
- In **agriculture**, the share of enterprises that were **positively affected** by the AA increased almost **1.5 times**
- The share of **positive responses** in the **service sector** increased by a **quarter**
- In **trade**, the **highest** share of respondents who indicate the **lack of impact** of the AA
- Compared to 2020, **agriculture** has demonstrated the **highest share of negative assessments**
- The level of positive assessments of **industrial enterprises** has **hardly changed**

Balance index of the impact assessments of the AA in the regions



- The highest balance index is in Lviv region
- The lowest index is in Sumy region (the only region with a negative index)
- High values of the balance index are mainly in the western regions

The balance index for the city of Kyiv is +0,34

Note 1: Balance index - the difference between positive and negative estimates of the impact of the Agreement

Note 2: For Luhansk and Mykolaiv oblasts it is impossible to calculate the balance index due to insufficient number of respondents

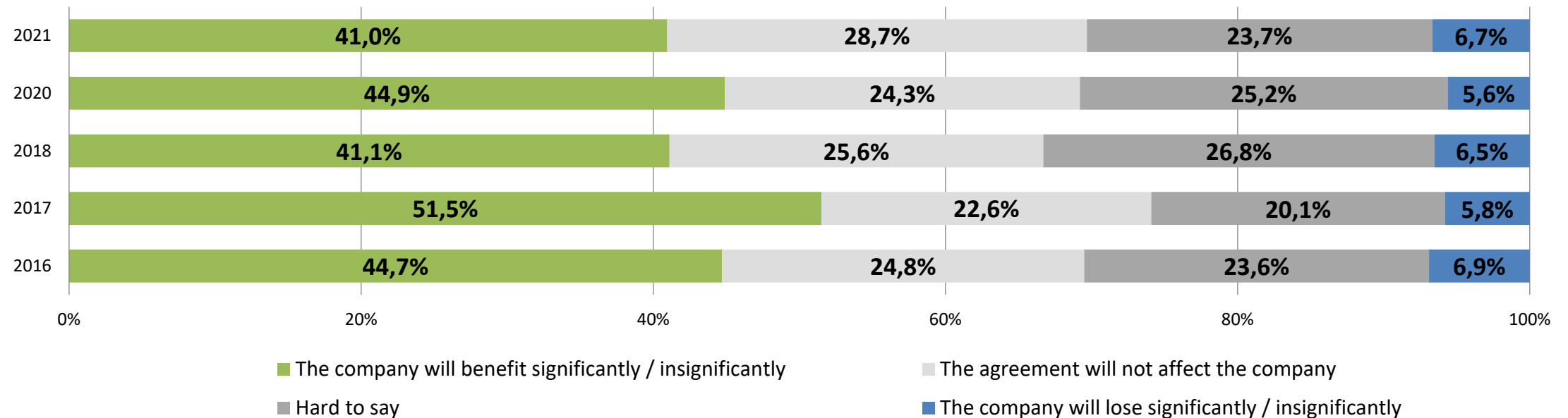
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Expected impact of the AA (overall assessment)

In 2021, the share of companies that believe their company will benefit from the Agreement over the next five years is the lowest of all waves of research

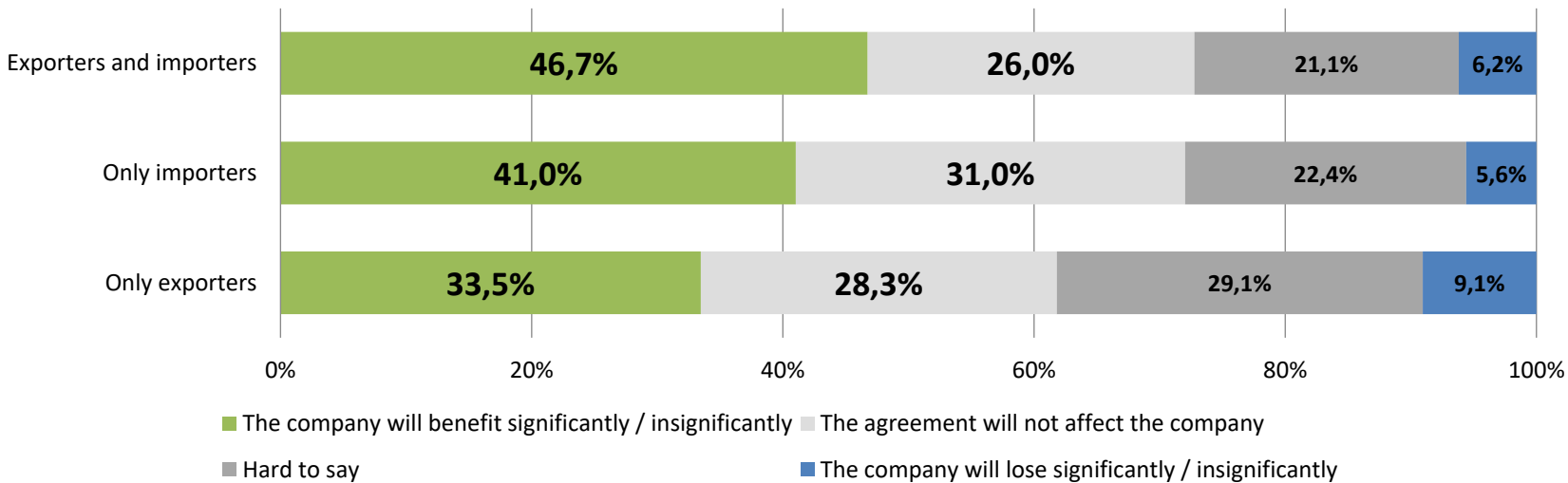
- Compared to 2020, the share of positive expectations fell by almost 4 percentage points – down to the level of 2018
- The share of respondents who expect a negative impact has remained almost unchanged since 2016

Assessment of expected impact by years,% of respondents

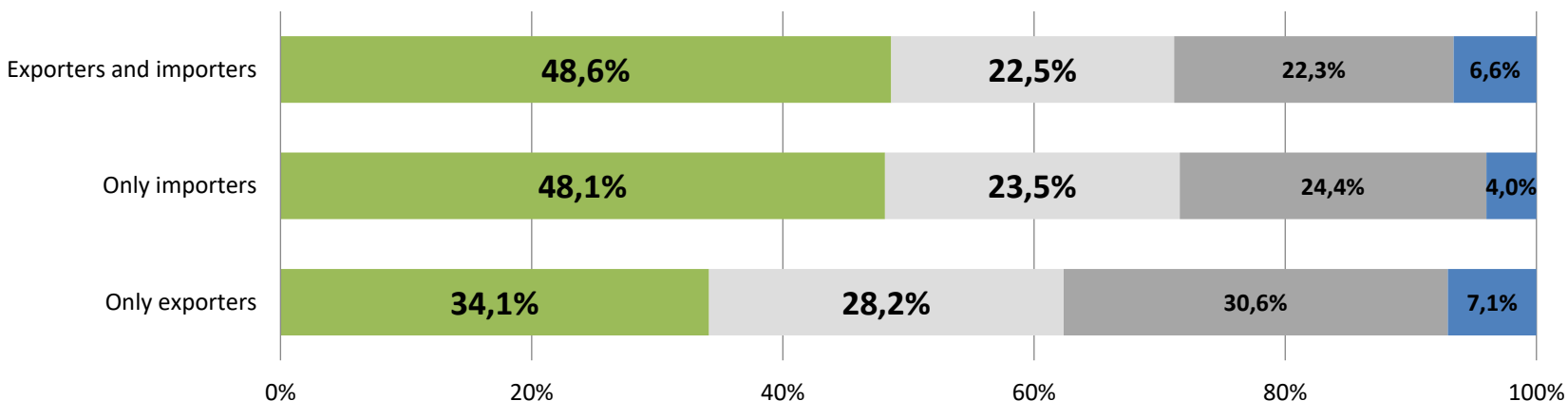


Expected impact of the AA (by type of FEA)

2021, % of respondents



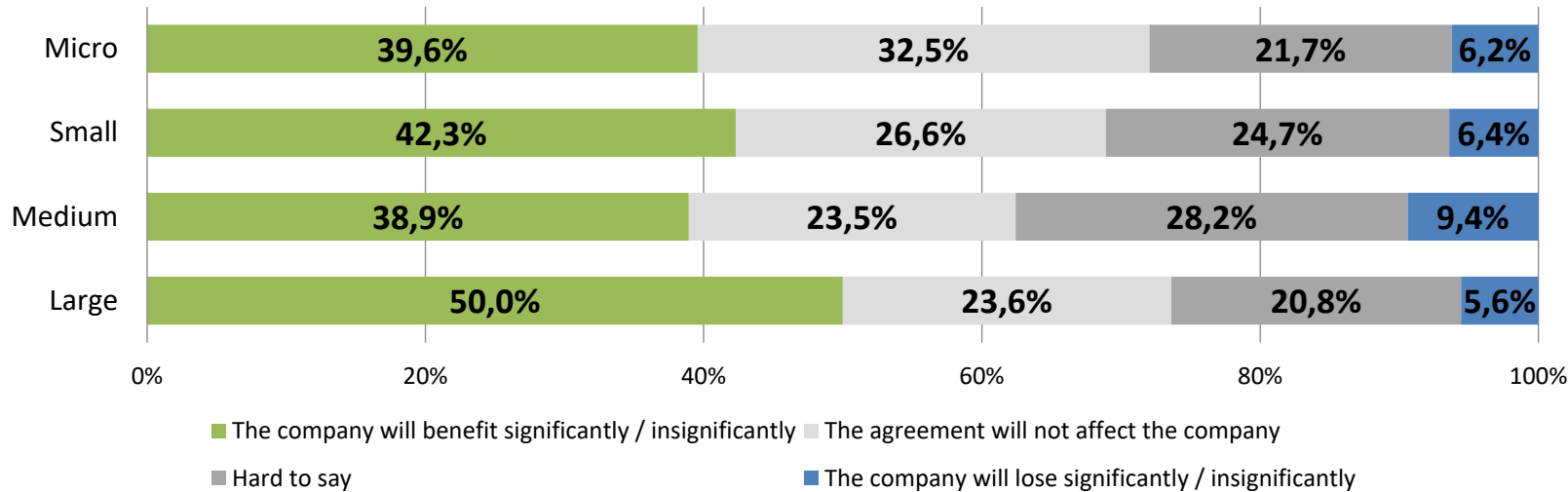
2020, % of respondents



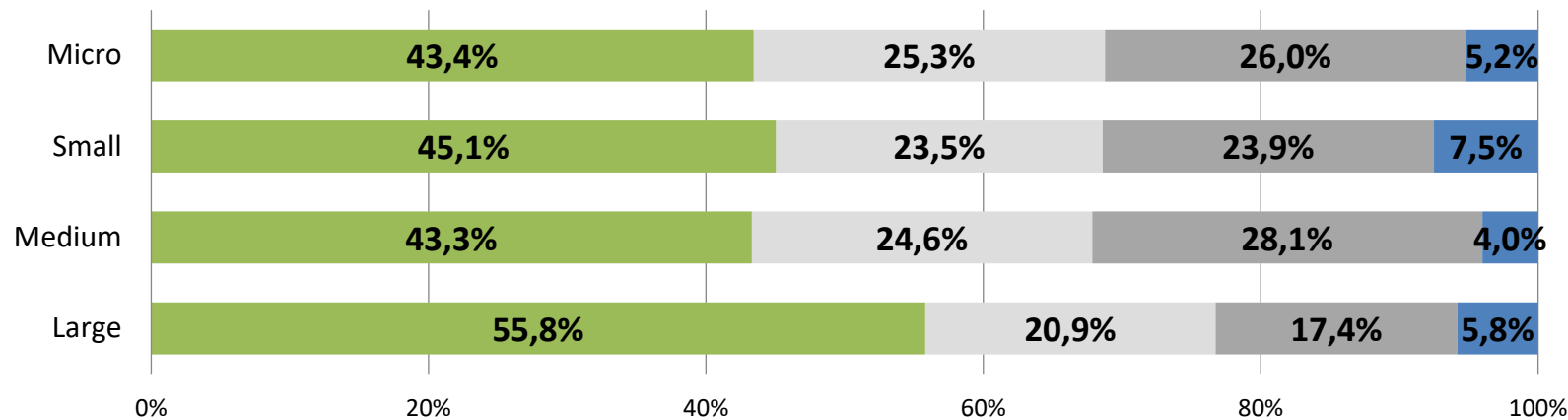
- **Export-only** companies have the **least positive expectations**
- At the same time, **almost every second** representative of enterprises that only **import** or both export and import have **positive expectations**.
- Among **importers**, the **highest share** of respondents who **do not expect** the Agreement to affect the company
- In 2021, the share of **positive expectations** of exporters **exceeds 2016**
- The level of **positive expectations** of enterprises that **import** or combine exports and imports is **lower** than in 2016

Expected impact of the AA (by size of enterprises)

2021, % of respondents



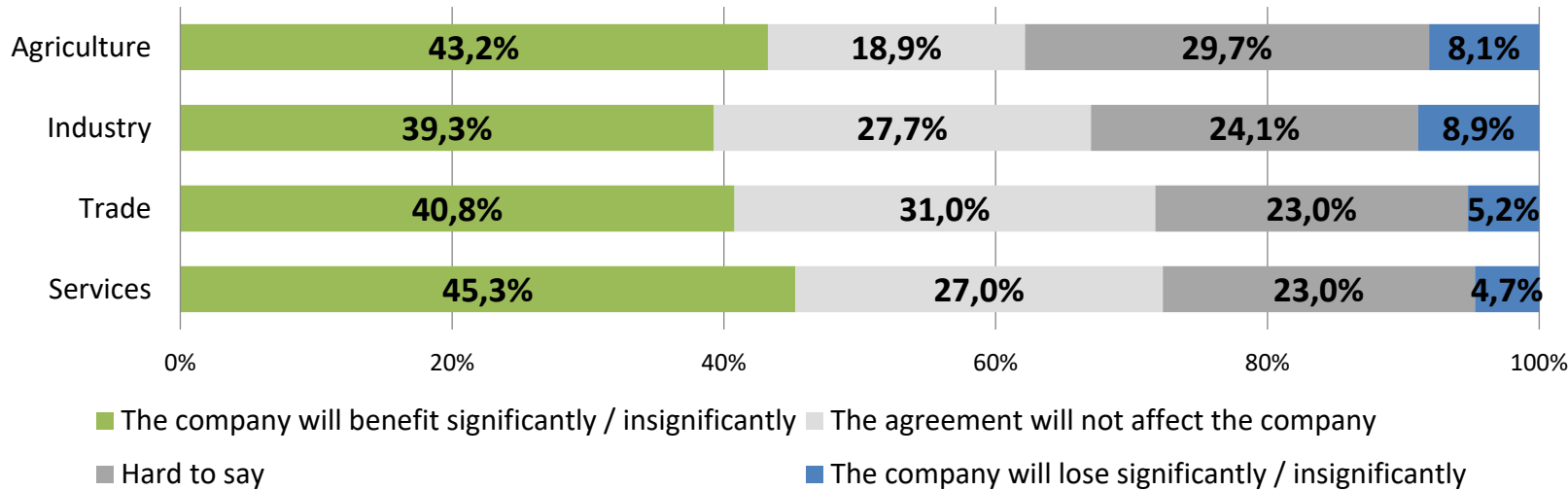
2020, % of respondents



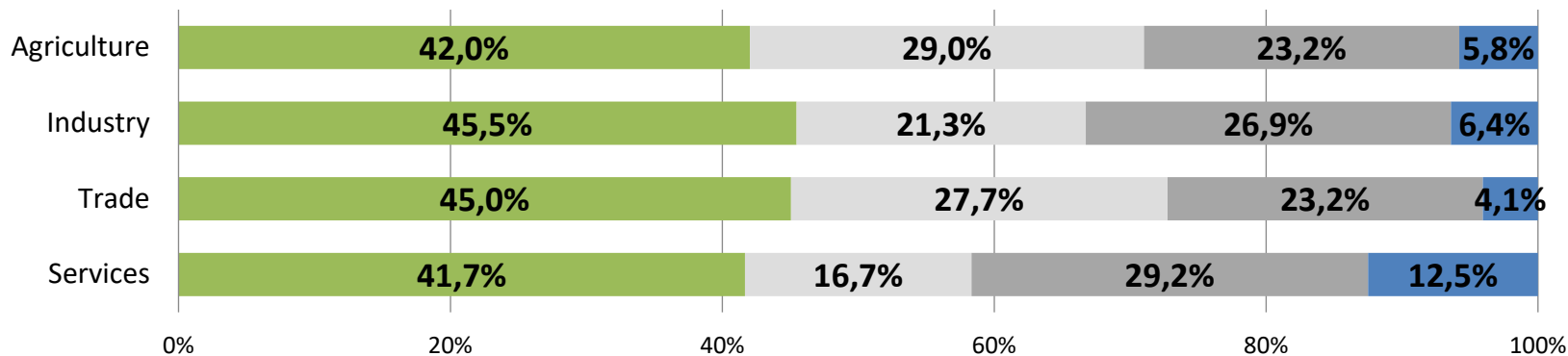
- **Large enterprises have the most optimistic expectations**
- **Uncertainty is higher among SMEs than among large enterprises**
- The share of **positive expectations** is almost **the same** for enterprises of different sizes among **SMEs**
- **Compared to 2020, the share of positive expectations among entities of all sizes has decreased**

Expected impact of the AA (by sector)

2021, % of respondents

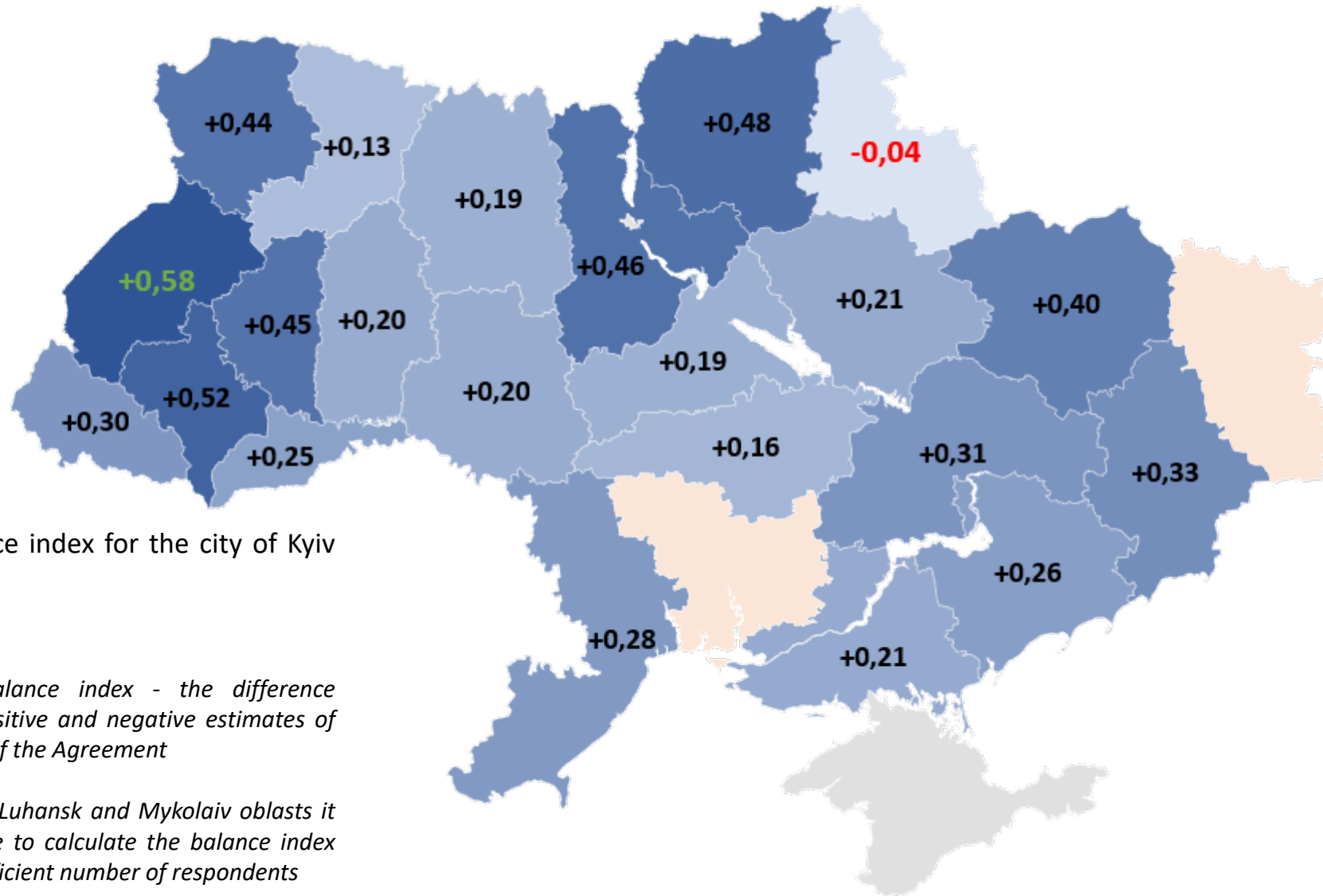


2020, % of respondents



- The level of positive assessment is **almost the same among sectors**, but the share of positive assessments is higher in agriculture and services
- **In trade, the highest** share of respondents who believe that the Agreement **will not affect**
- **The industry has the highest** share of respondents who have **negative** expectations
- **Compared to 2020**, the share of positive expectations increased in agriculture and services, but decreased in industry and trade

Balance index of expectations regarding the AA impact in the regions



- **The highest** balance index of expectations in Lviv region
- **The lowest** balance index is in Sumy region (**the only negative value of the index**)

The balance index for the city of Kyiv is +0,39

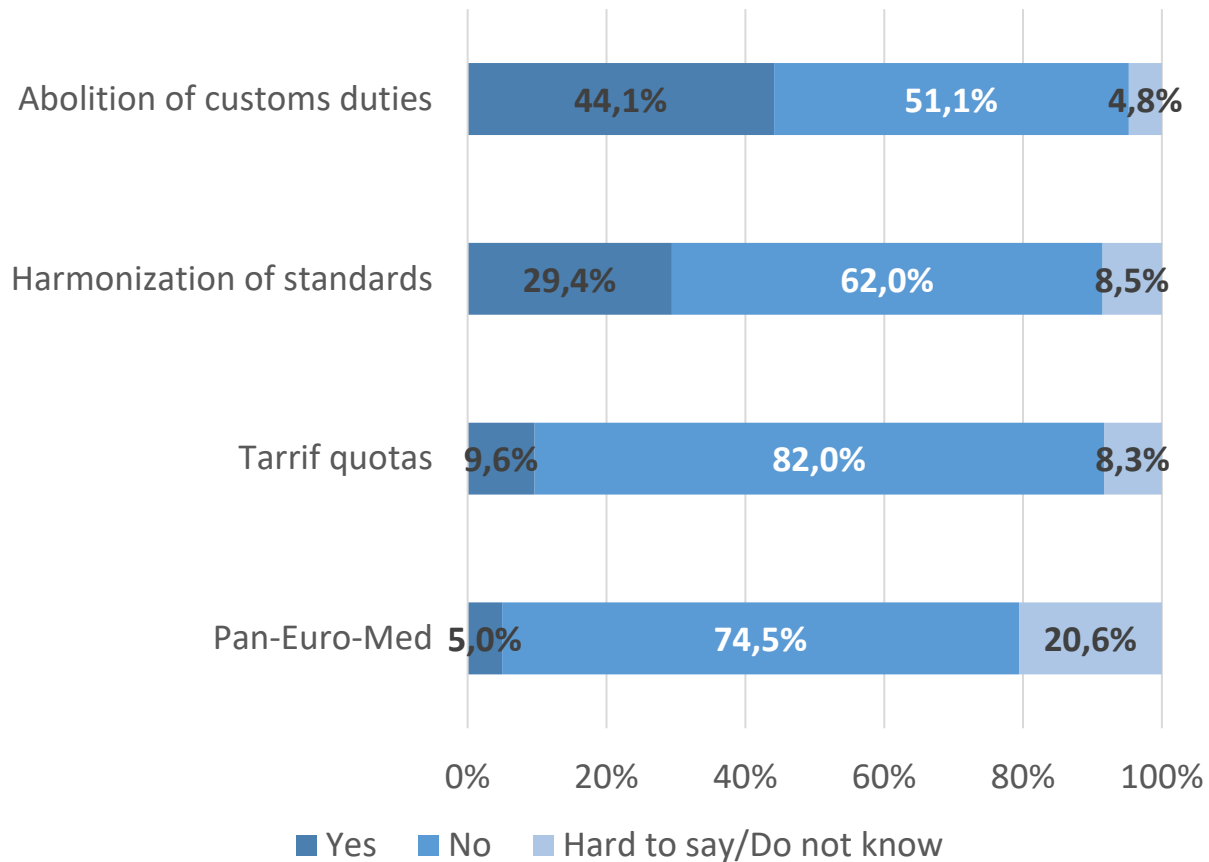
Note 1: Balance index - the difference between positive and negative estimates of the impact of the Agreement

Note 2: For Luhansk and Mykolaiv oblasts it is impossible to calculate the balance index due to insufficient number of respondents

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Usage of the AA opportunities

Did you use advantages of...? (% of respondents)

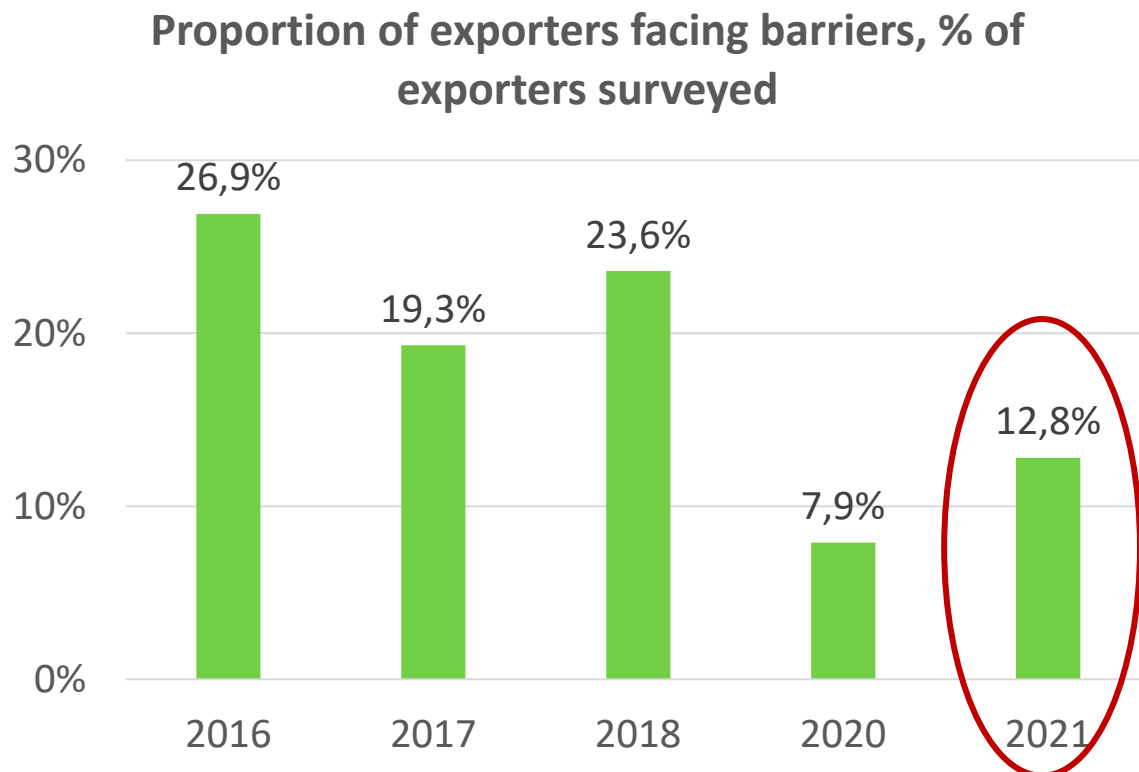


- **Most often**, respondents reported that they took **advantage of the abolition of import duties** - almost every second respondent
- **Almost a third** of respondents used **harmonization of standards**
- **Only one in ten** respondents used **tariff quotas**
- **Pan-Euro-Med** is the **least frequently reported**
- **Importers benefited more** from the **abolition of customs duties and harmonization of standards**, and exporters and importers benefited almost equally from tariff quotas and Pan-Euro-Med
- **Large business** has used **more opportunities than SMEs**

BARRIERS TO FOREIGN ECONOMIC ACTIVITY



The presence of barriers to exports

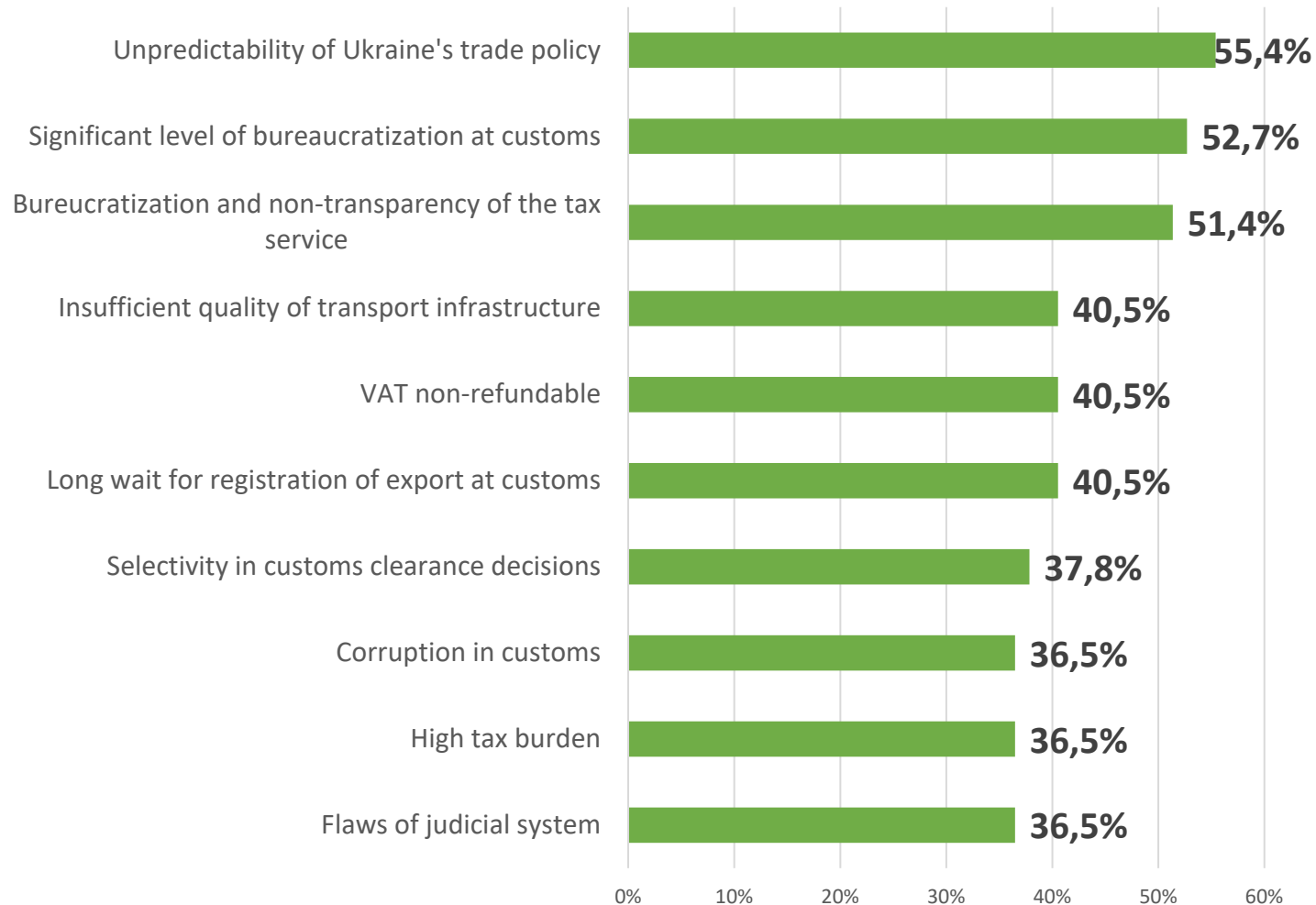


The share of barriers to exports has increased compared to 2020, when it was the lowest of all waves of research

- The presence of barriers is almost the same for companies that **only export** or combine exports and imports
- **Micro-enterprises most often (18.0%) face barriers to exports**, while this figure differs slightly for small (11.1%), medium (9.0%) and large (9.8%) enterprises
- In the sectoral context, respondents **most often** deal with barriers to exports in **the services** (16.1%) and trade (15.9%).
- **There are no complaints about barriers in three regions** (Khmelnysky, Ternopil and Zhytomyr regions)
- Exporters from Chernivtsi, Volyn and Vinnytsia oblasts **most often** report the presence of barriers (one in four respondents)

Rating of barriers to exports

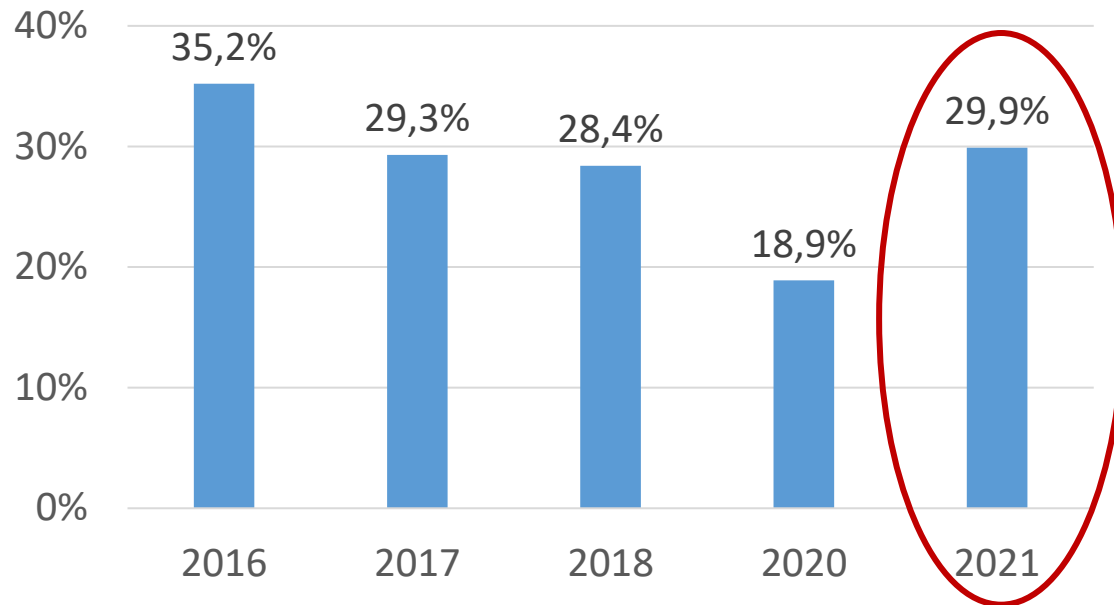
Top-10 obstacles, % of those who had obstacles



- **The main obstacles** are the unpredictability of Ukraine's trade policy, a significant level of bureaucratization at customs and the bureaucratization and non-transparency of tax service (every second respondent said)
- **Each of the top 10 obstacles is relevant** for at least a third of respondents

The presence of barriers to imports

Proportion of importers facing barriers, % of importers surveyed

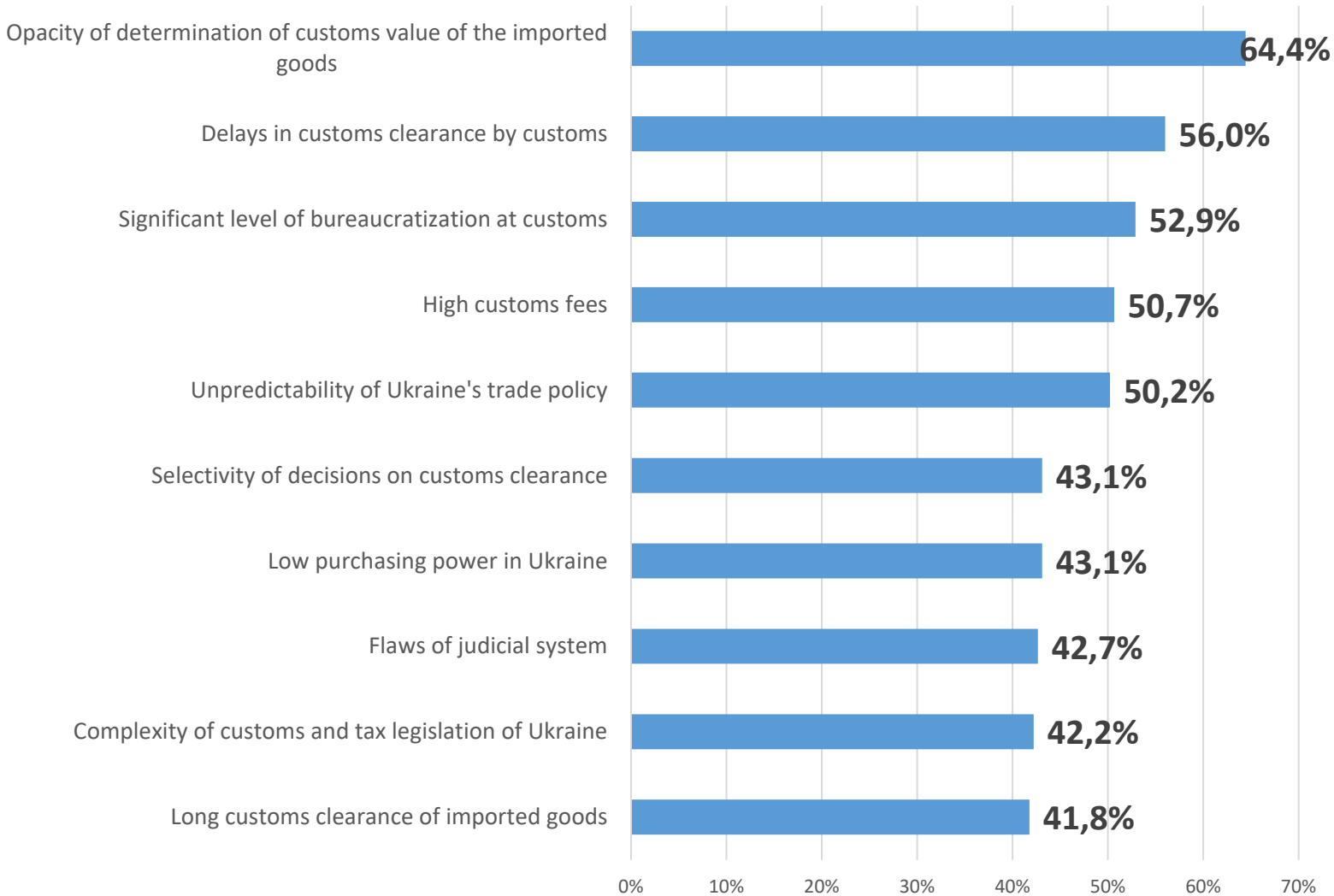


The barriers to imports have increased compared to 2020, when it was the lowest of all research waves

- The presence of barriers is almost **indistinguishable** for companies that only import or combine exports and imports
- **Large** enterprises (36.7%) are **more likely** to report problems with imports compared to smaller entities
- The presence of barriers is **almost the same** for businesses of different sectors
- **In 2021**, there are **no regions** where there are **no complaints** about barriers to imports
- Barriers are **least common** in Zakarpattia, Donetsk and Lviv oblasts
- Barriers to imports are **most often reported** in Rivne region (two thirds of the respondents)

Rating of barriers to imports

Top-10 obstacles, % of those whad had obstacles



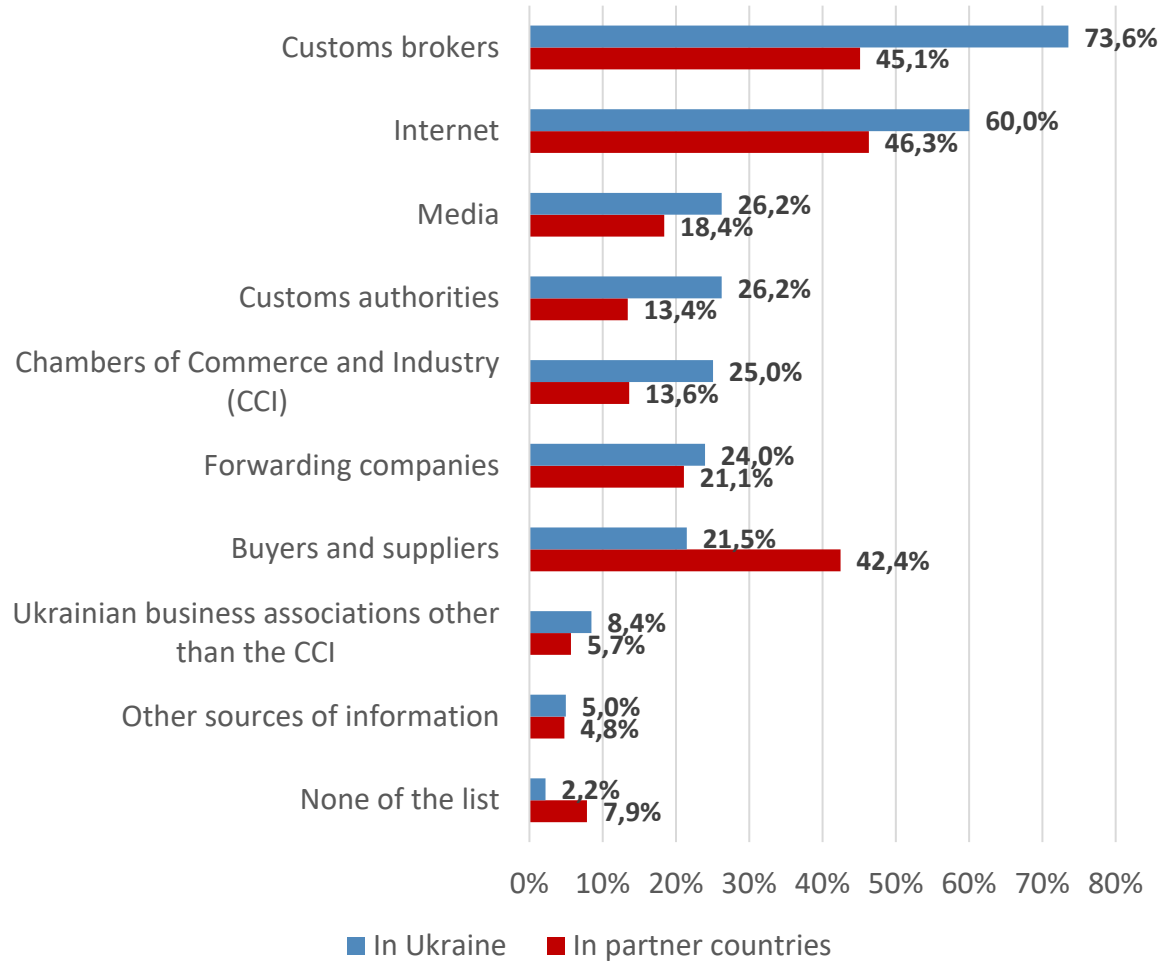
- **The main obstacles** are the lack of transparency in determining the customs value of imported goods, the delay in customs clearance by customs and the significant level of bureaucratization of customs service
- **Each of the top 10 obstacles is relevant for at least 40%**

SOURCES OF INFORMATION ON THE REGULATION OF FOREIGN ECONOMIC ACTIVITY (FEA)



Sources of information on the regulation of FEA in partner countries and in Ukraine: comparison

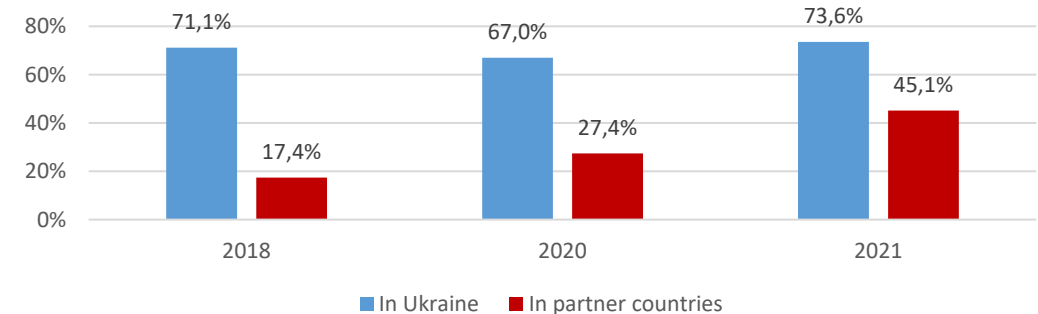
Sources of information, % of respondents



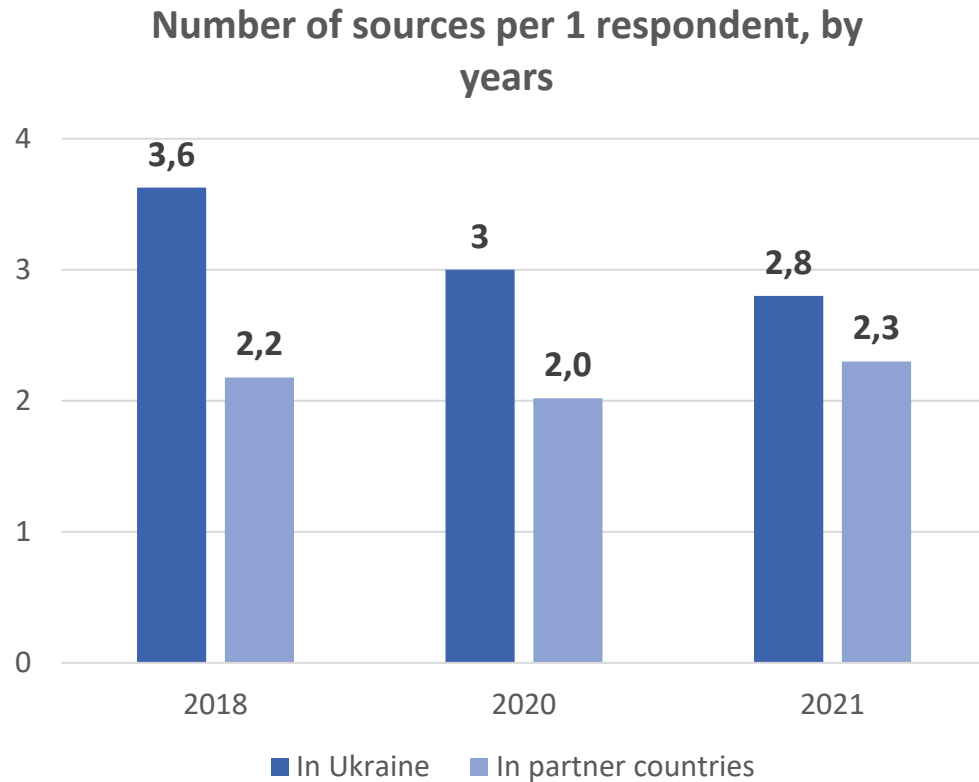
Respondents more often use the services of customs brokers to find information on foreign trade regulation in Ukraine, and the Internet to search for information about foreign countries

- **Customs brokers** for the first time became the most popular source of information about doing FEA in Ukraine (previously on the second step)
- **The Internet** ranks second in popularity in finding information on foreign trade regulation in Ukraine, and **customs brokers** are the second most important on foreign trade regulation in partner countries.
- Participants in foreign trade more often use the **media, customs authorities, CCI, business associations** and **forwarding companies** to find information about foreign trade in Ukraine than abroad
- **As the size of the enterprise increases, so does the popularity** of most sources of information

Usage of information from customs brokers, % of respondents



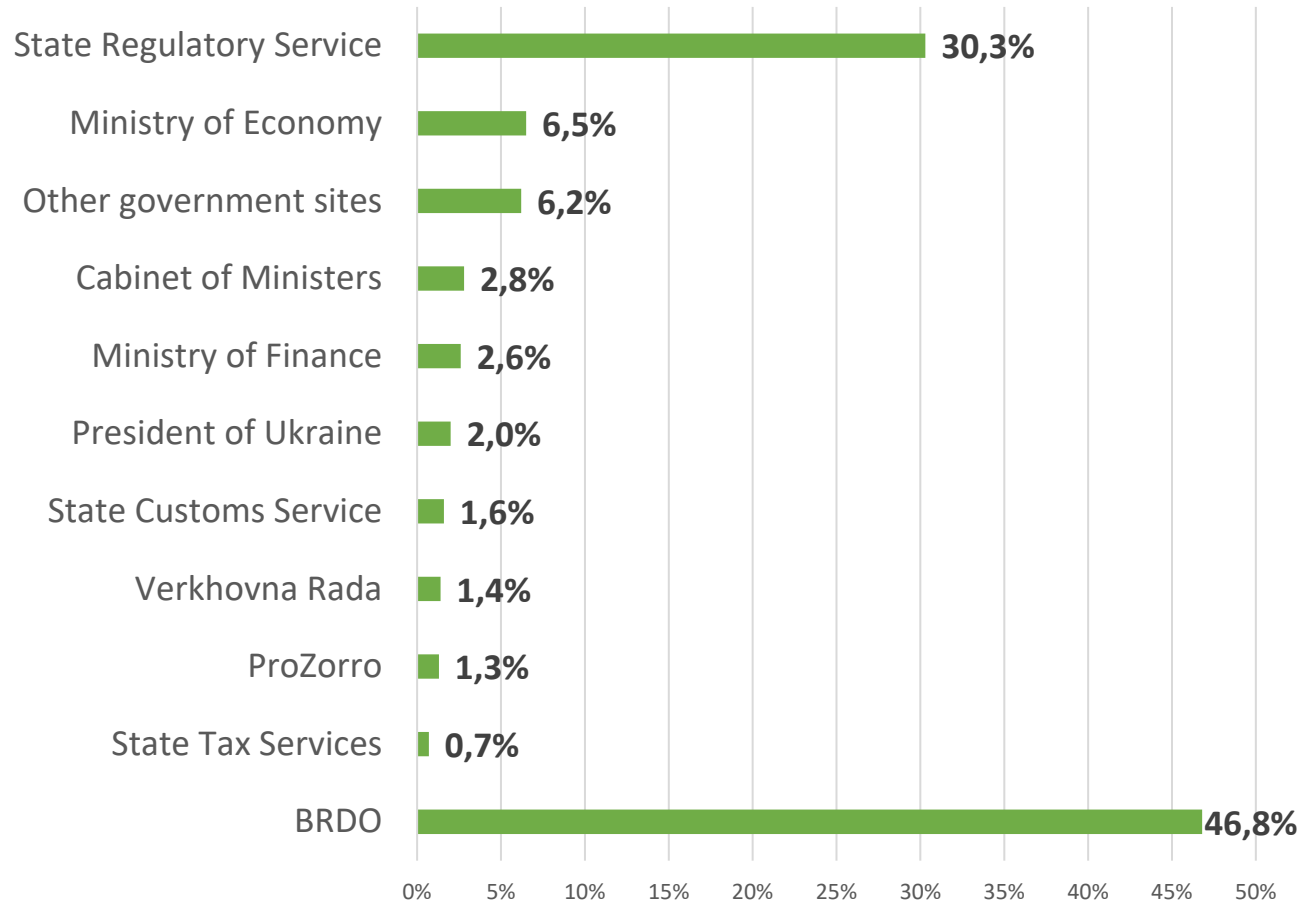
Frequency of used sources on foreign trade regulation



- **On average, FEA participants use more sources** to obtain information on FEA regulation **in Ukraine** than in partner countries.
- **The average number** of sources used to search for information **on foreign trade regulation in Ukraine continues to decline**
- Such a **change may indicate** a more concentrated use of **reliable sources**
- **The average number** of FEA sources **in the partner countries has increased**, which may indicate a **more active work** of enterprises **in foreign markets**
- Enterprises that **combine exports and imports**, as well as agricultural enterprises, on average use more sources for search of information
- **As the size of the enterprise grows**, the number of sources used **increases**

Awareness of government websites

Do not know about the existence of the site, % of respondents

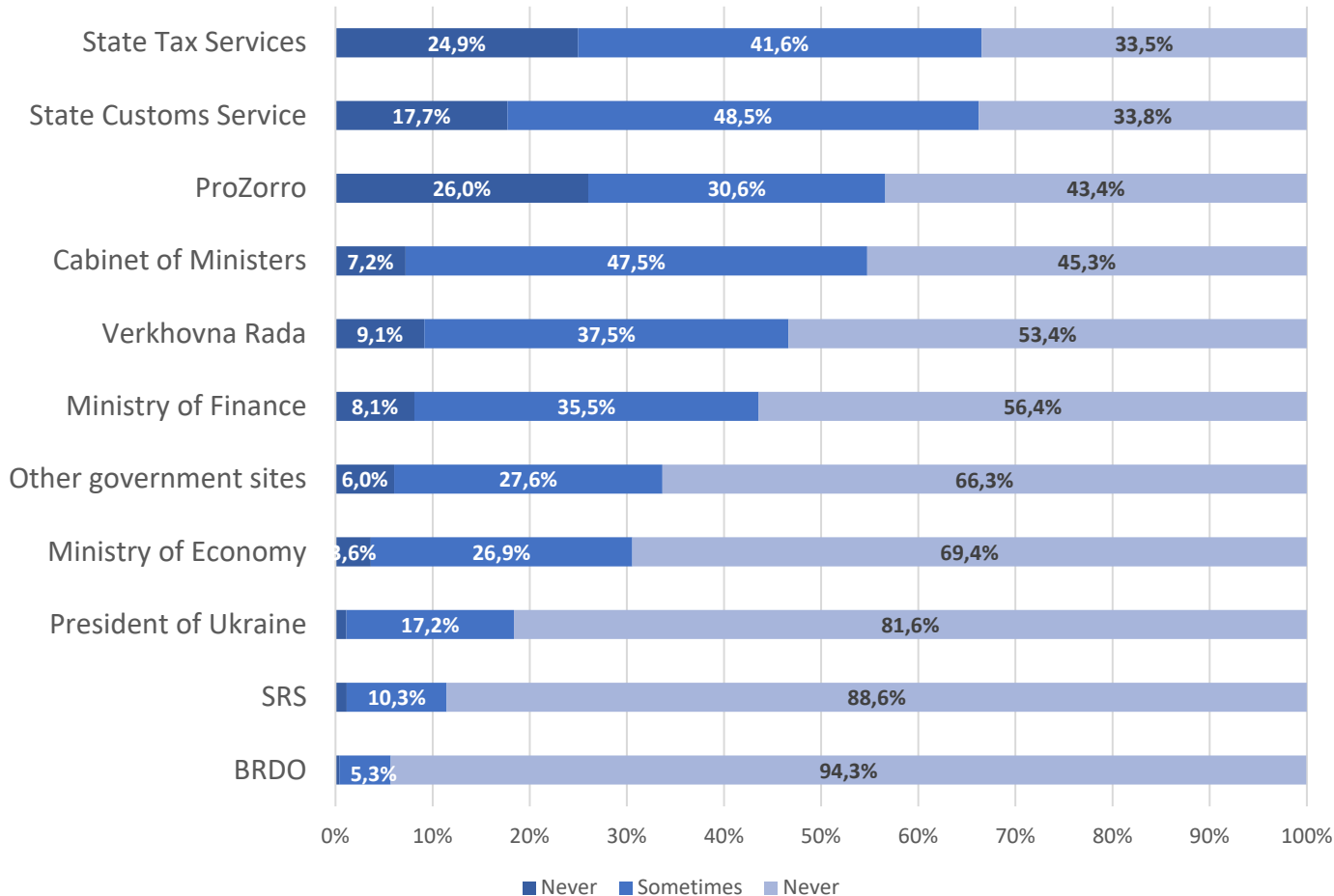


- Only **1-2%** of respondents **do not know** about most government websites
- Thus, respondents are well informed about the existence of most government websites
- However, **every third** respondent **does not know** about the site of the **State Regulatory Service of Ukraine**

Note: The analysis also includes the website of the Office of Effective Regulation (BRDO), which is a non-governmental structure aimed at improving the business environment, but was initiated by the Ministry of Economy.

Use of government websites

Distribution of responses among those who use government sites (% of respondents)



- Entrepreneurs **most often** use the websites of the **State Customs Service of Ukraine** and the **State Tax Service**
- **The least popular** are the sites of **SRS, BRDO** and the **President of Ukraine**
- **Large and medium-sized businesses** are **more likely** to use most **government sites**
- **The ProZorro site** continues to be the **most popular** among **small and micro businesses**

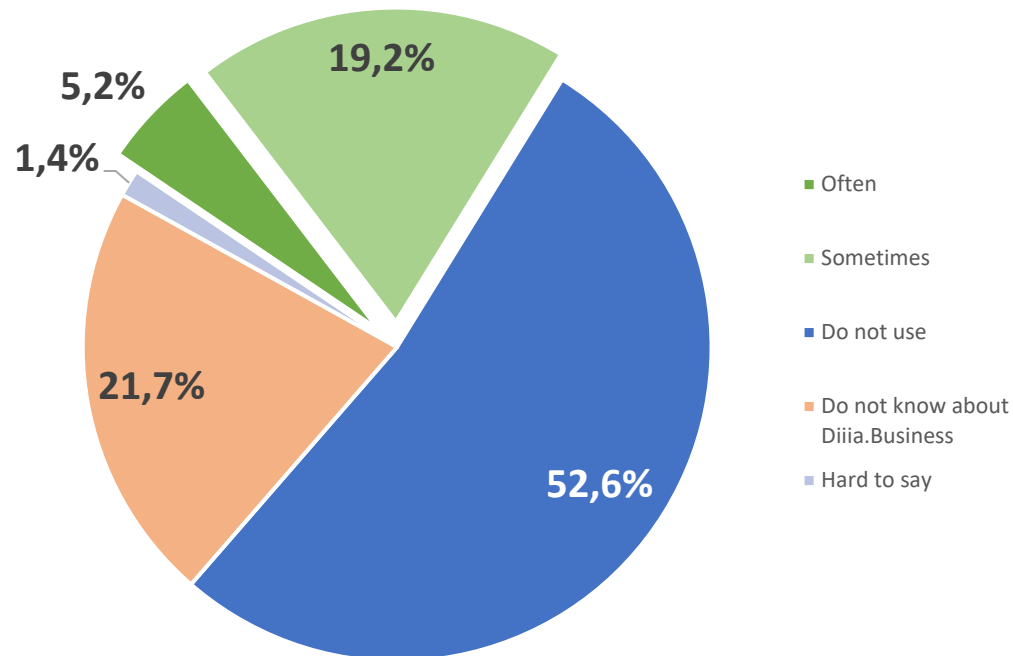
Note: The analysis also includes the website of the Office of Effective Regulation (BRDO), which is a non-governmental structure aimed at improving the business environment, but was initiated by the Ministry of Economy.

ASSESSMENT OF DIIA.BUSINESS



Does business use Diia.Business? (1)

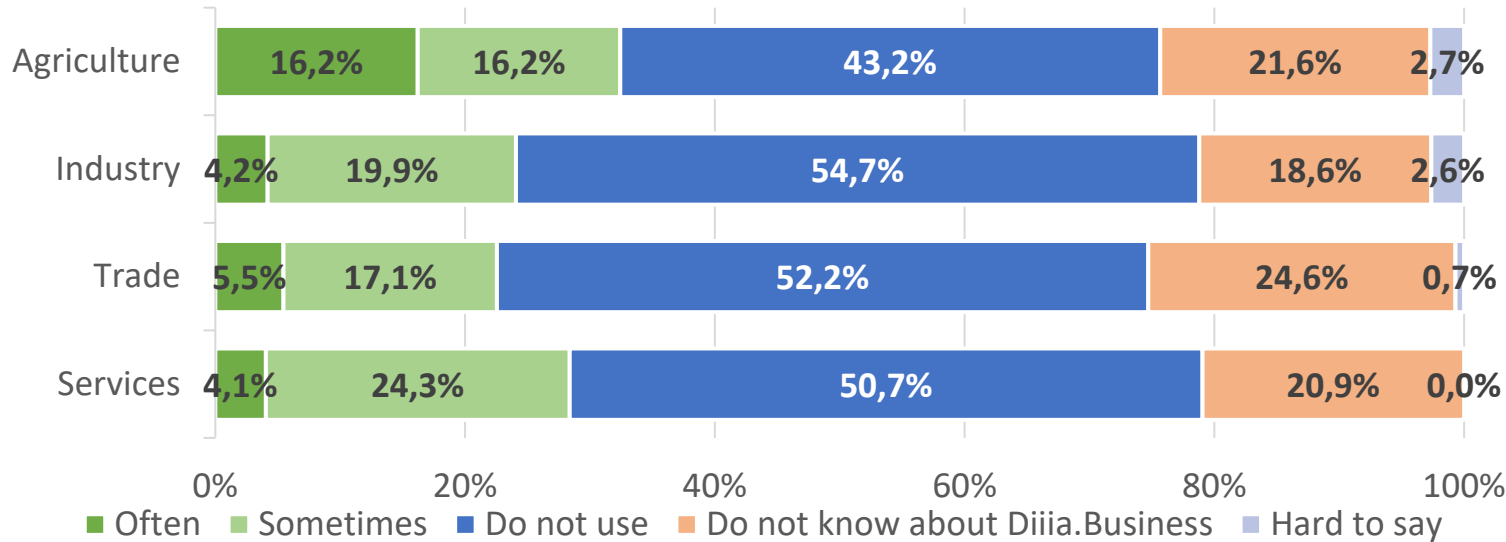
The introduction of digital services is one of the trade facilitation measures. Therefore, for the first time, companies were asked whether they use the Diia.Business platform. The platform was presented by the Ministry of Digital Transformation of Ukraine in 2020.



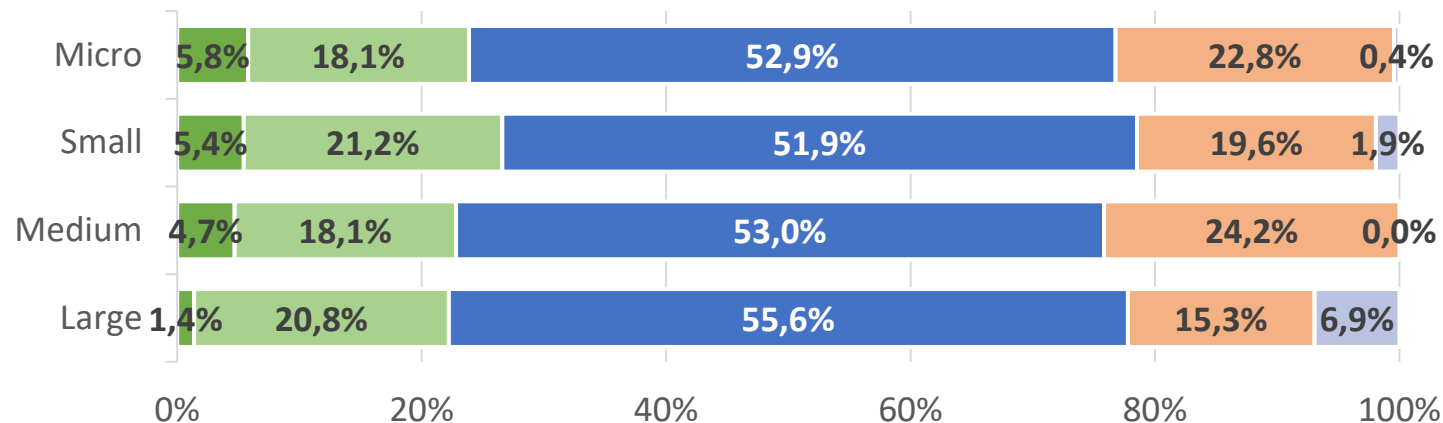
- **About a quarter of the exporters and importers surveyed used the Diia.Business portal**
- **More than half of the respondents knew about the platform, but never used it**
- **Only 21.7% of respondents did not know about the existence of the platform**
- **The level of awareness about Diia. Business does not depend on the type of FEA**

Does business use Diia.Business?(2)

Results by sectors, % of respondents)



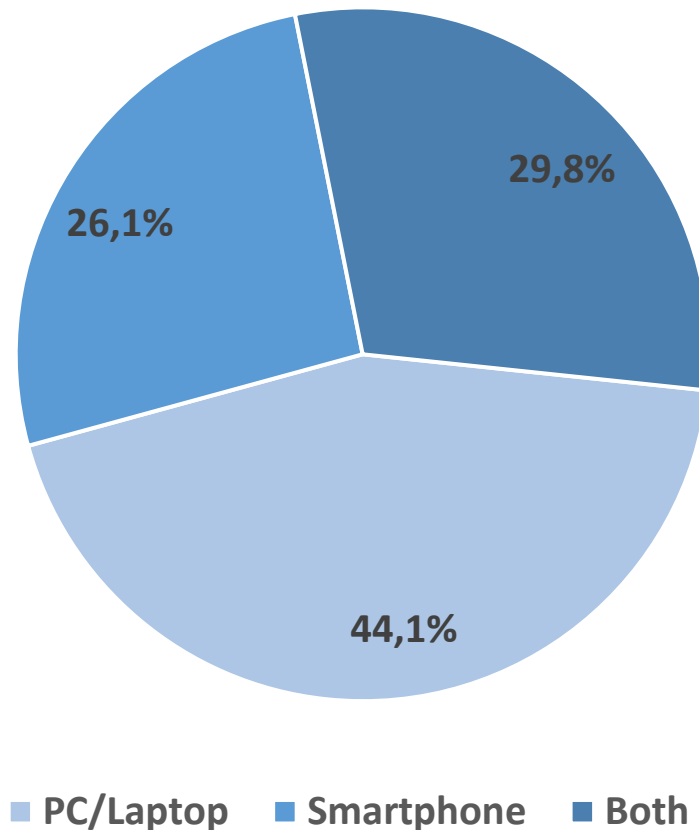
Results by size of business, % of respondents



- **Agricultural** companies used the portal more actively than representatives of other sectors
- **In trade**, the highest share of respondents who **did not know** about the existence of Diia.Business (a quarter of respondents)
- **Industry** representatives are **best informed** about Diia. Business
- Representatives of **micro and small businesses** used the **portal more often** than medium and large enterprises

Diia.Business: on a smartphone or PC / laptop?

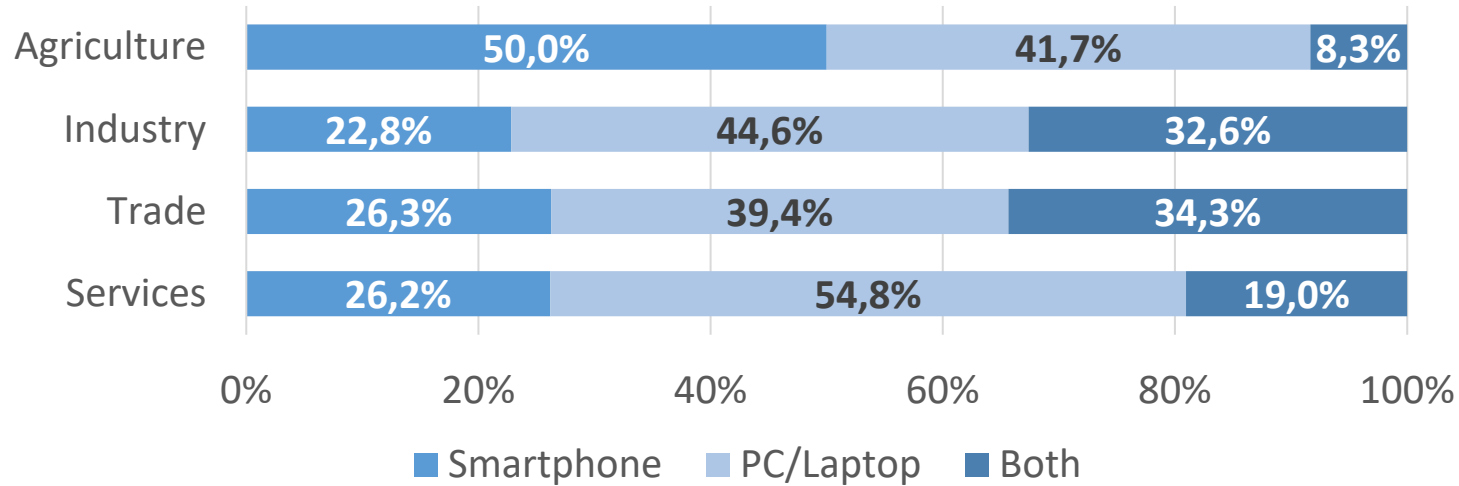
Which gadget used to access Diia.Business?
(% of respondents)



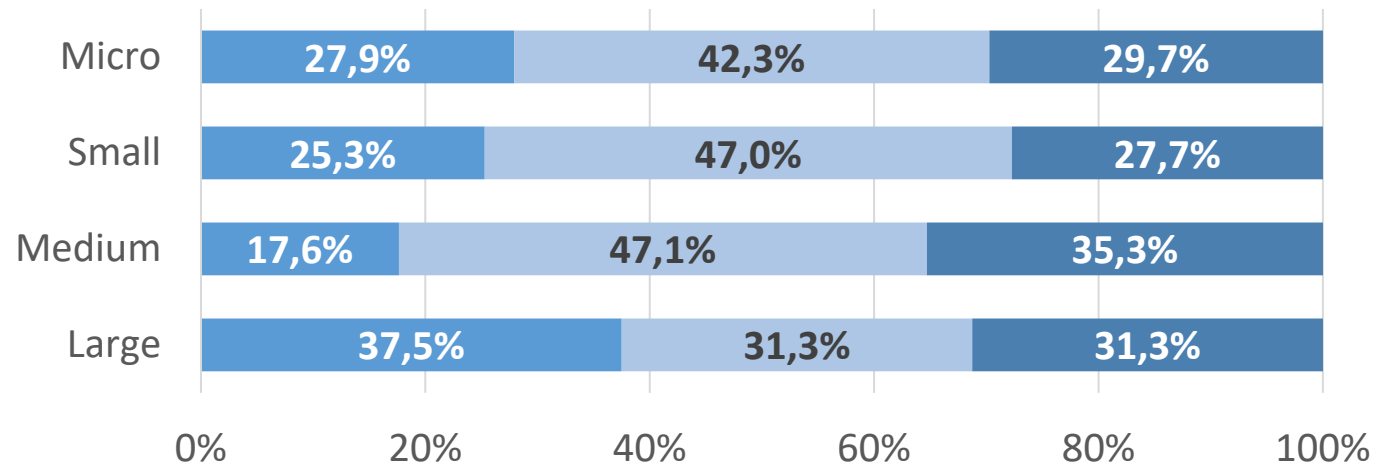
- **Almost half of exporters and importers use PCs / laptops to access Diia.Business**
- **A quarter of respondents turn to the services of Diia.Business only with a smartphone**
- **Almost a third of respondents use Diia.Business on both types of gadgets**
- **Exporters are more likely to use only PCs / laptops**

Diia.Business: on a smartphone or PC / laptop?

Results by sector, % of respondents



Results by size of enterprises, % of respondents



- **Agricultural companies more often used Diia.Business on a smartphone**
- **Representatives of the service sector most often use Diia. Business from a desktop computer / laptop**
- **Large businesses most often used Diia.Business using a smartphone**
- **Almost every second member of the medium-sized business used Diia.Business from a desktop computer / laptop**

PARTICIPATION IN BUSINESS ASSOCIATIONS



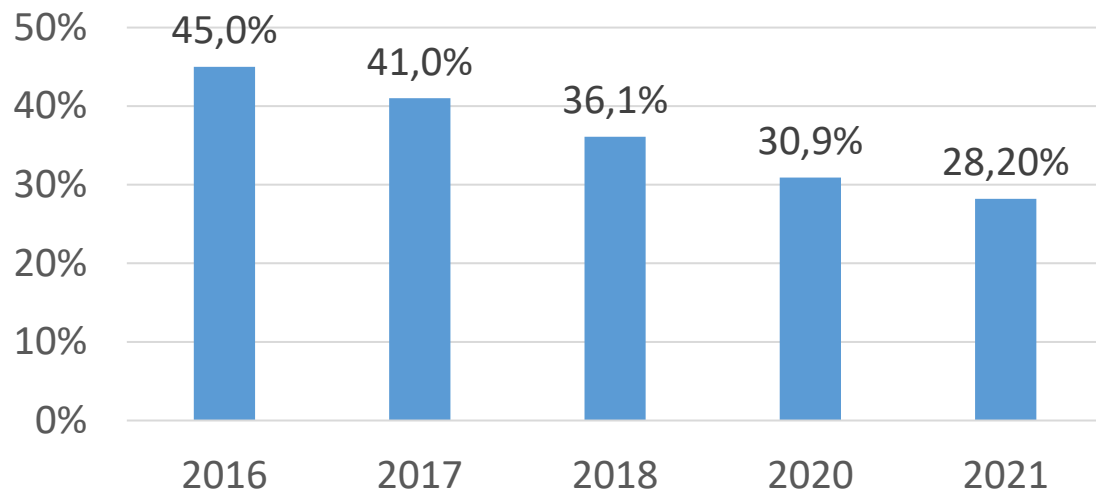
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Are companies members of business associations?

Businesses were asked whether they were members of at least one business association, including chambers of commerce, employers' unions, small business unions, and so on.

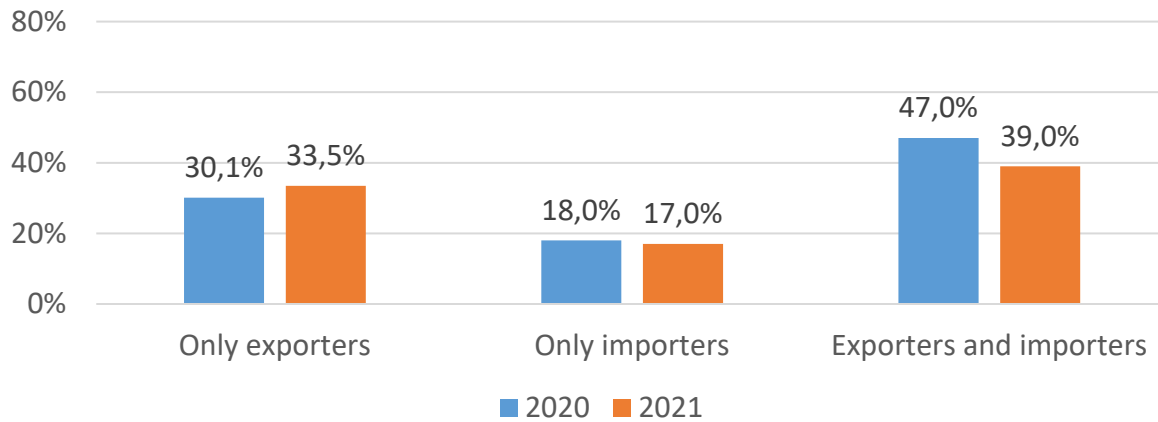
Membership in business associations by years,% of respondents



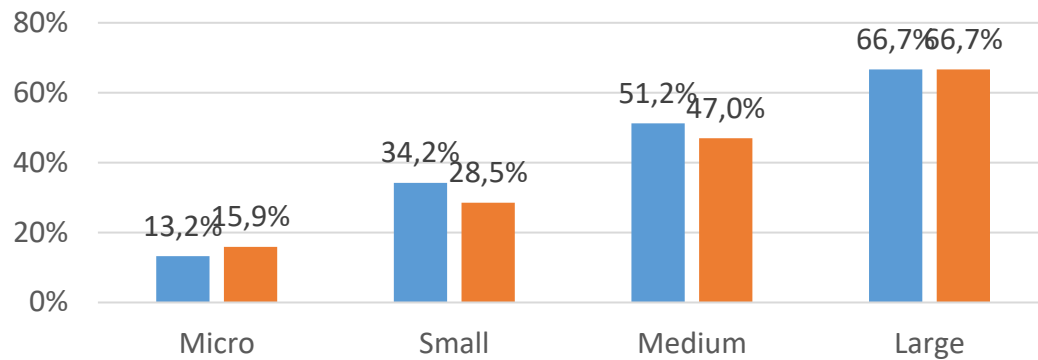
- In 2021, **less than a third** (28.2%) of enterprises participating in foreign economic activity were members of **at least one business association**
- **The share** of businesses that are members of business associations **continues to decline** with each wave of research
- Compared to 2016, the share of enterprises that are members of business associations **decreased by a third**
- **FEA participants** can be more active in business associations than other companies. According to the USAID 2021 Municipal Competitiveness Index, 12.5% of respondents were members of business associations (11.5% in the 2019-2020 MCI)

Are companies members of business associations?

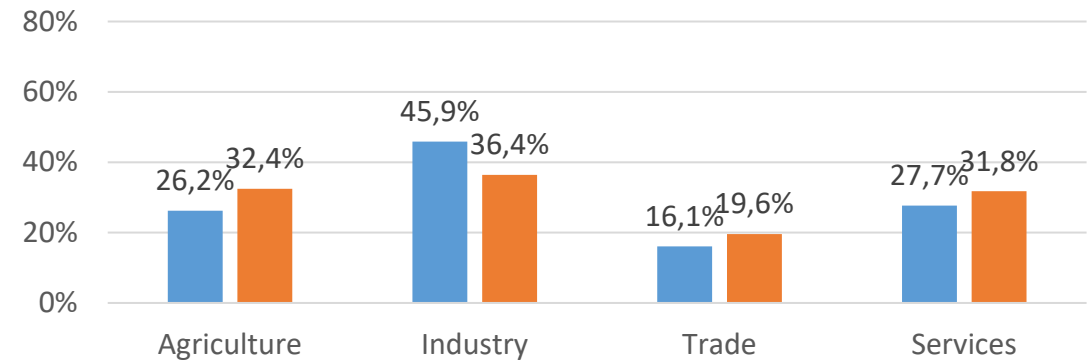
By FEA type, % of respondents



By size, % of respondents

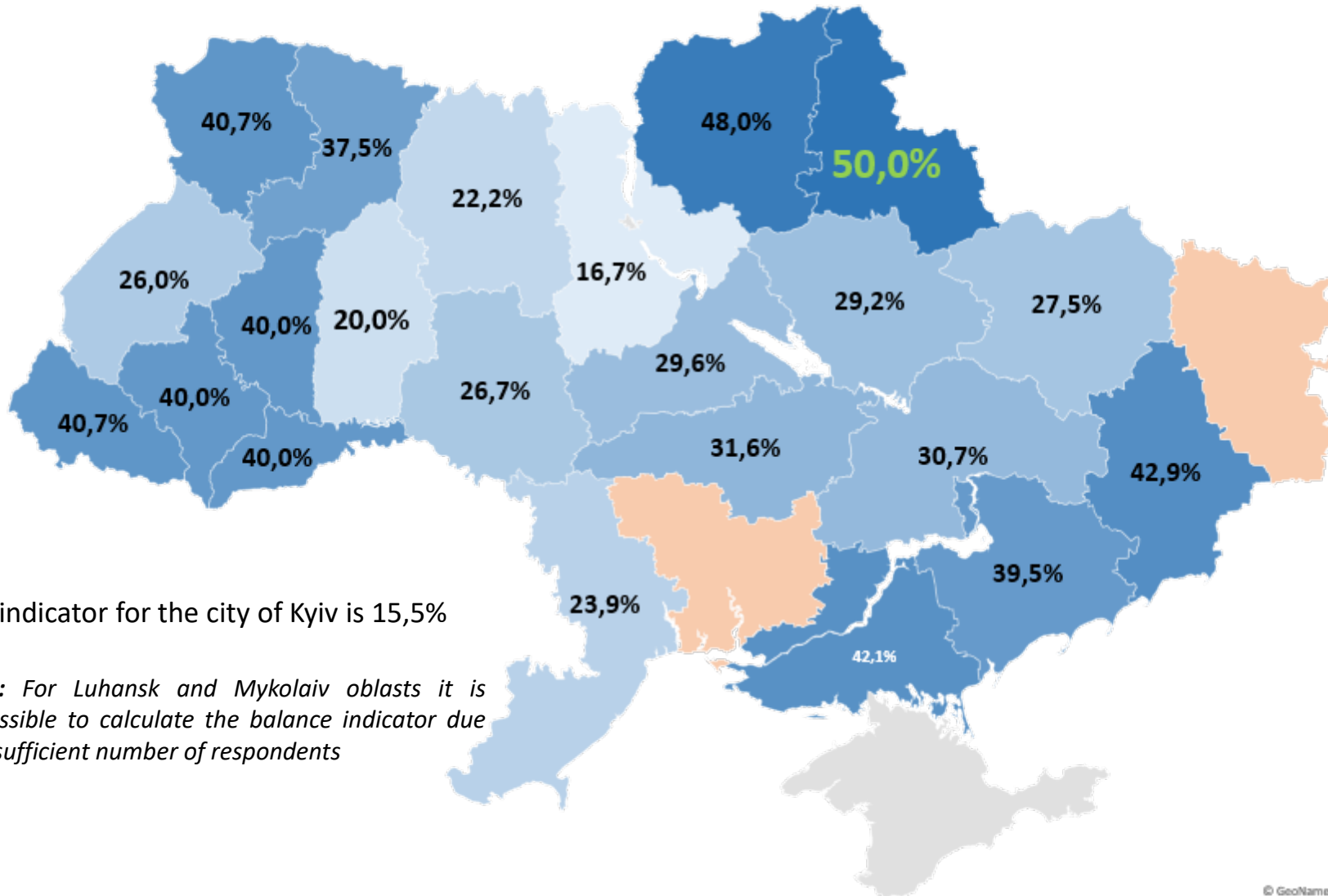


By sectors, % of respondents



- Businesses that **combine exports and imports** are more **likely** to be members of business associations
- **Compared to 2020, the share of exporters** who are members of business associations **has increased**
- **As the size of the enterprise increases, the probability of membership** in business associations **increases**
- **Industrial enterprises** are members of business associations **more often** than enterprises of other sectors, but the gap between industry and **agriculture and services has decreased**

Membership in business associations by region



The indicator for the city of Kyiv is 15,5%

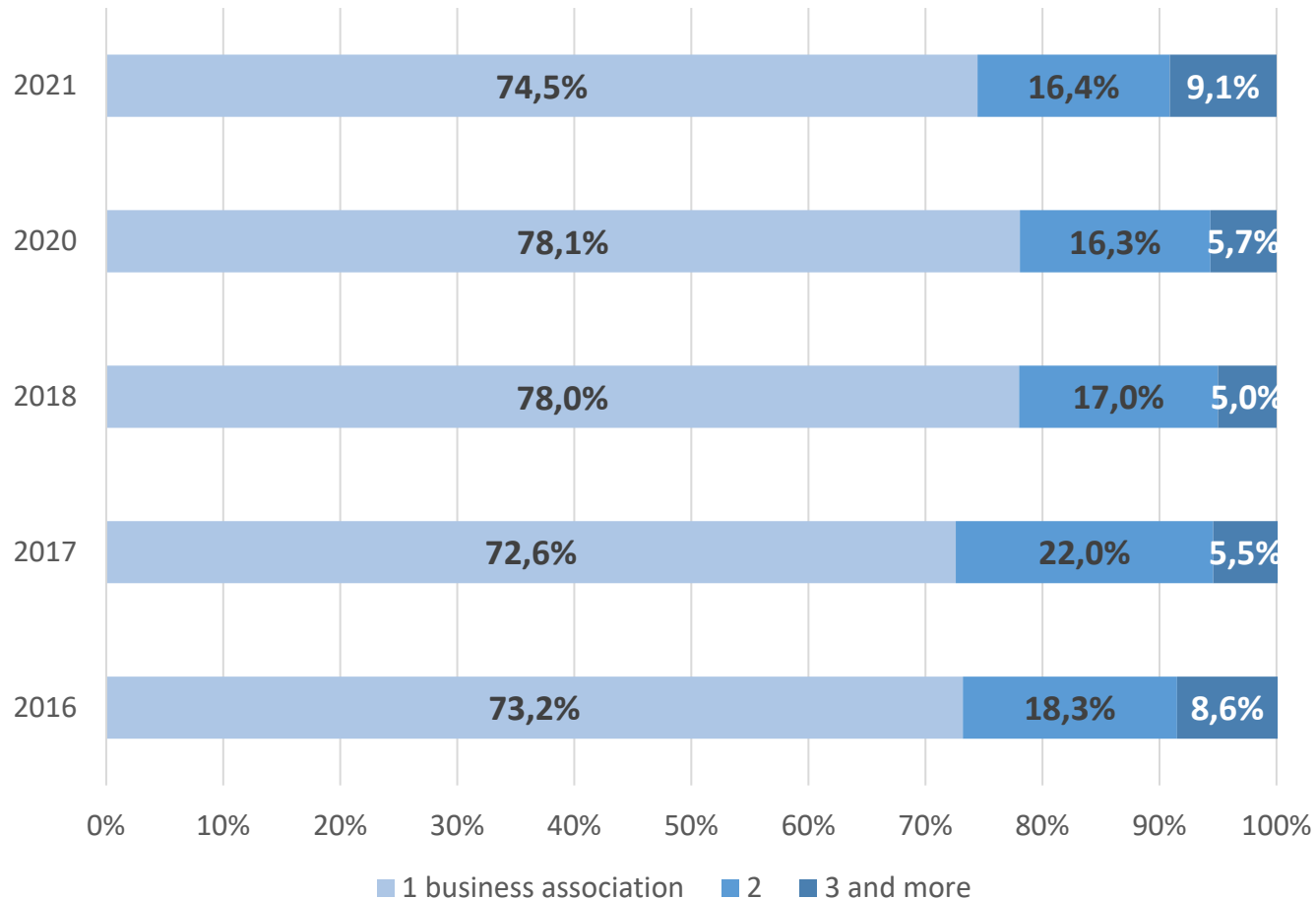
Note: For Luhansk and Mykolaiv oblasts it is impossible to calculate the balance indicator due to insufficient number of respondents

- Participants in Sumy and Chernihiv oblasts are **the most involved** in the activities of business associations (half of the respondents)
- **The least active** in the activities of business associations are businesses in Khmelnytskyi region, Kyiv region and the city of Kyiv

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How many business associations do companies participate in?

By years, % of respondents



- **Most companies** are involved in **only one** business association, including chambers of commerce, employers' unions, small businesses, etc. (as in previous years)
- **Compared to 2020**, FEA participants are less likely to participate in only one business association
- **Exporters** are more likely to participate in only one association, while **importers** can also participate in 2-3 or more
- **Large and medium-sized** enterprises are **more likely to be** members of **several business associations**
- Among large enterprises, **almost half** of the respondents are **members of several business associations**, and among **small ones – one in five**
- **Agricultural enterprises** are often members of **more than one business association**, including a third of them in **up to 3 or more**

Services of business associations for which exporters and importers are willing to pay



- Finding **new trading partners** abroad remains the **most popular service**
- **Export promotion** services remain **more popular** than services for importers
- **Businesses** of all sizes are most willing to pay to find new trading partners abroad
- **Micro and small businesses** also need protection of rights and legal advice
- **Only 11.6% of respondents said they were not ready to pay for any services (13.2% in 2020)**
- **In 2021, among micro-enterprises, the highest share of respondents** who are not willing to pay for services, while in 2020 large enterprises were not willing to pay
- There are no respondents **among agricultural enterprises** who are not willing to pay for the services of business associations

Conclusions (1)

Impact of the Association Agreement

- In 2021, 36.8% of surveyed enterprises positively assess the current impact of the Association Agreement. This is less than in 2020, when the highest figure for all waves of the survey was recorded.
- Expectations about the future impact of the AA have worsened. The share of enterprises with positive expectations is 41.0%. This is the lowest result for all waves of research.
- The share of negative expectations is 6.7% in 2021. This figure is almost unchanged during all waves of the survey. Almost a third of respondents cannot determine the expected impact.
- Among exporters, the smallest share of positive assessments of the current and expected impact of the AA.
- The results show that Ukrainian business should see new prospects for the Association Agreement. Amendments to the Association Agreement are important now.

Barriers to foreign trade

- The share of enterprises with barriers remains small - 12.8% of exporters and 29.9% of importers. But the presence of barriers has increased compared to 2020, when the corresponding figures were the lowest in all waves of the study.
- The main obstacles to exports are the unpredictability of Ukraine's trade policy, the significant level of bureaucratization at customs, and bureaucratization and non-transparency of tax service (every second respondent reported).
- The main obstacles to imports are the non-transparency of the customs value of imported goods, delays in customs clearance by customs and a significant level of bureaucratization of customs.

Conclusions (2)

Assessment of Diia.Business

- About a quarter of exporters and importers use the Diia.Business portal.
- More than half of the respondents knew about the platform, but never used it.
- Small businesses more often use the portal Diia.Business, which indicates the special relevance of digital services for SMEs.
- Almost half of exporters and importers use PCs / laptops to access Diia.Business, and a quarter of respondents use Diia.Business only with a smartphone.

Sources of information on the regulation of foreign economic activity

- For the first time, customs brokers have become the most popular source of information about doing business in Ukraine.
- The Internet remains the main source of information about doing business in partner countries, but customs brokers are on the second place. Personal connections (information from buyers and suppliers) also remain important.
- About 98-99% of respondents are aware of most government websites. The most frequently interviewed entrepreneurs use the websites of the State Customs Service (66.2%) and the State Tax Service (66.5%).

Participation in business associations

- In 2021, 28.2% of the enterprises participating in the FEA were members of at least one business association, including chambers of commerce and industry, employers' unions, unions of small businesses and more. Over the past five years, there has been a downward trend in this share of enterprises.
- Most businesses participate only in one business association.
- The vast majority of respondents are willing to pay for the services of business associations. In 2021, only 11.6% respondents are not willing to pay.

THANK YOU FOR YOUR ATTENTION!

QUESTIONS?



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