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TRADE FACILITATION IN UKRAINE:

TOPIC 1: CUSTOMS REFORM THROUGH THE EYES OF BUSINESSES

according to 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 2021

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.

6th 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 business assesses 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 are the obstacles for importers and exporters
How the Association Agreement affected business activities	Where do companies get information; the role of business associations	What's with the corruption at customs	What do businesses think about "smuggling" and "gray imports"

WHO WAS INTERVIEWED: SAMPLE

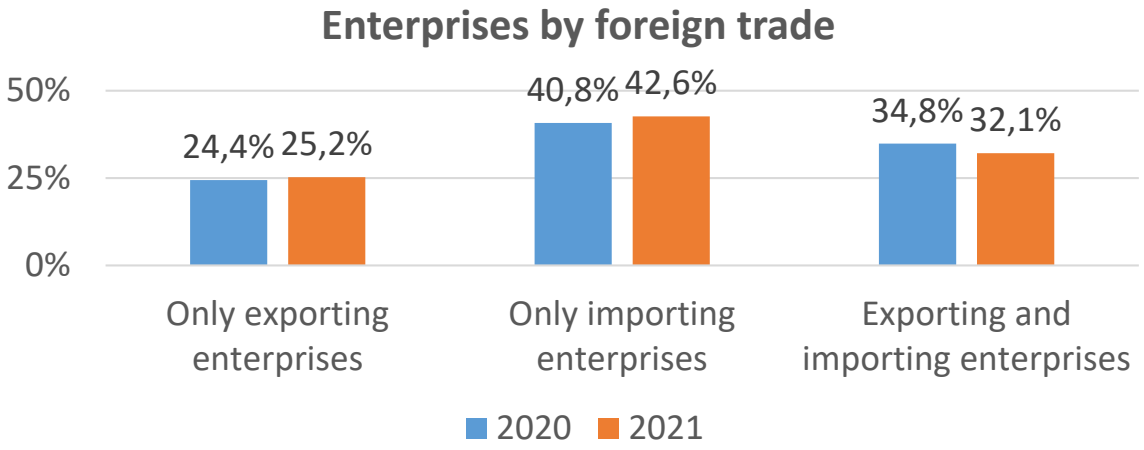
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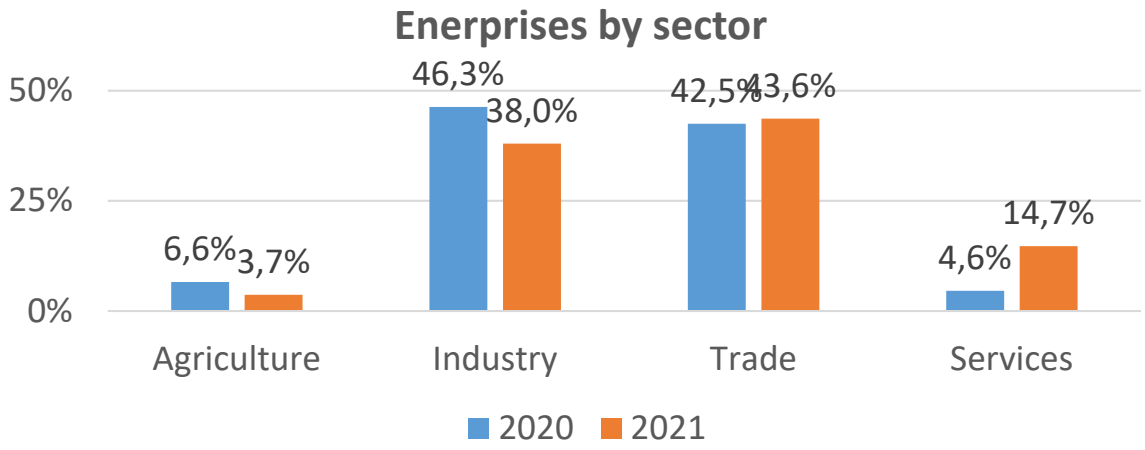
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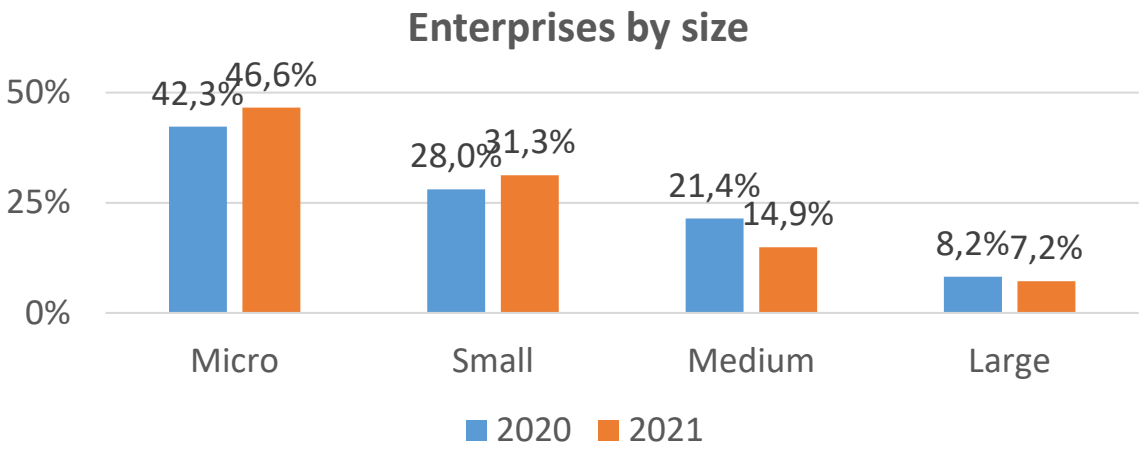
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Sampling: what are the surveyed companies





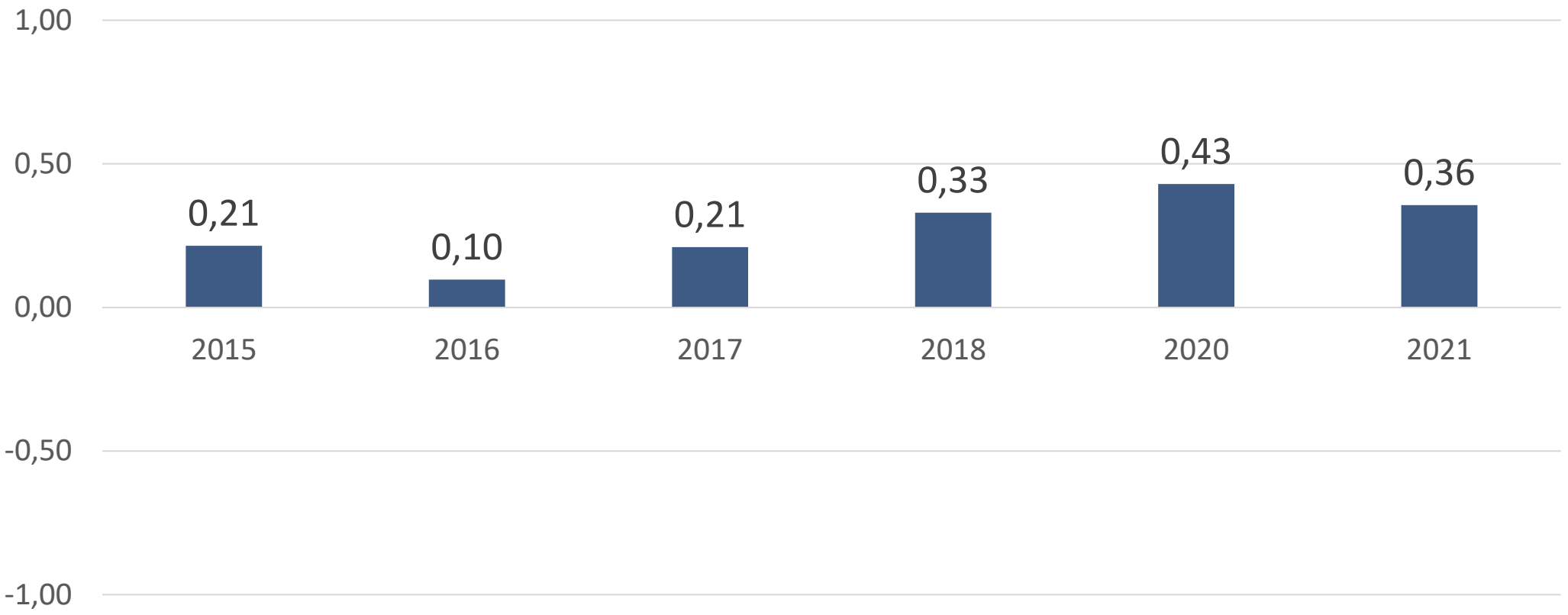


- 1000+ surveyed representatives of enterprises engaged in export and / or import
- Business of all sizes was surveyed: from micro-enterprises to large enterprises. The majority were micro and small enterprises
- Most of the respondents are representatives of industry and trade

CUSTOMS PERCEPTION INDEX

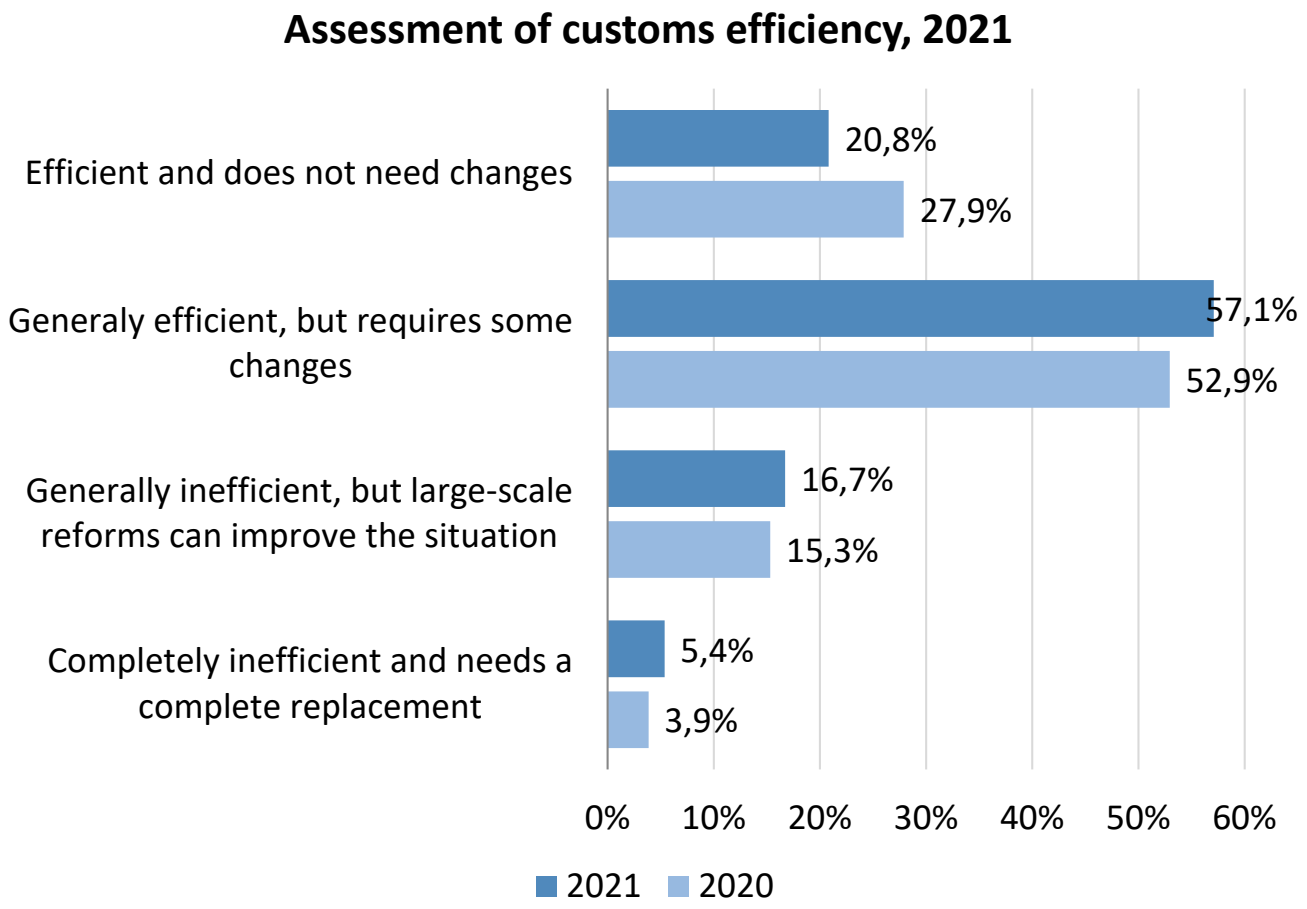
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CUSTOMS PERCEPTION INDEX (CPP)



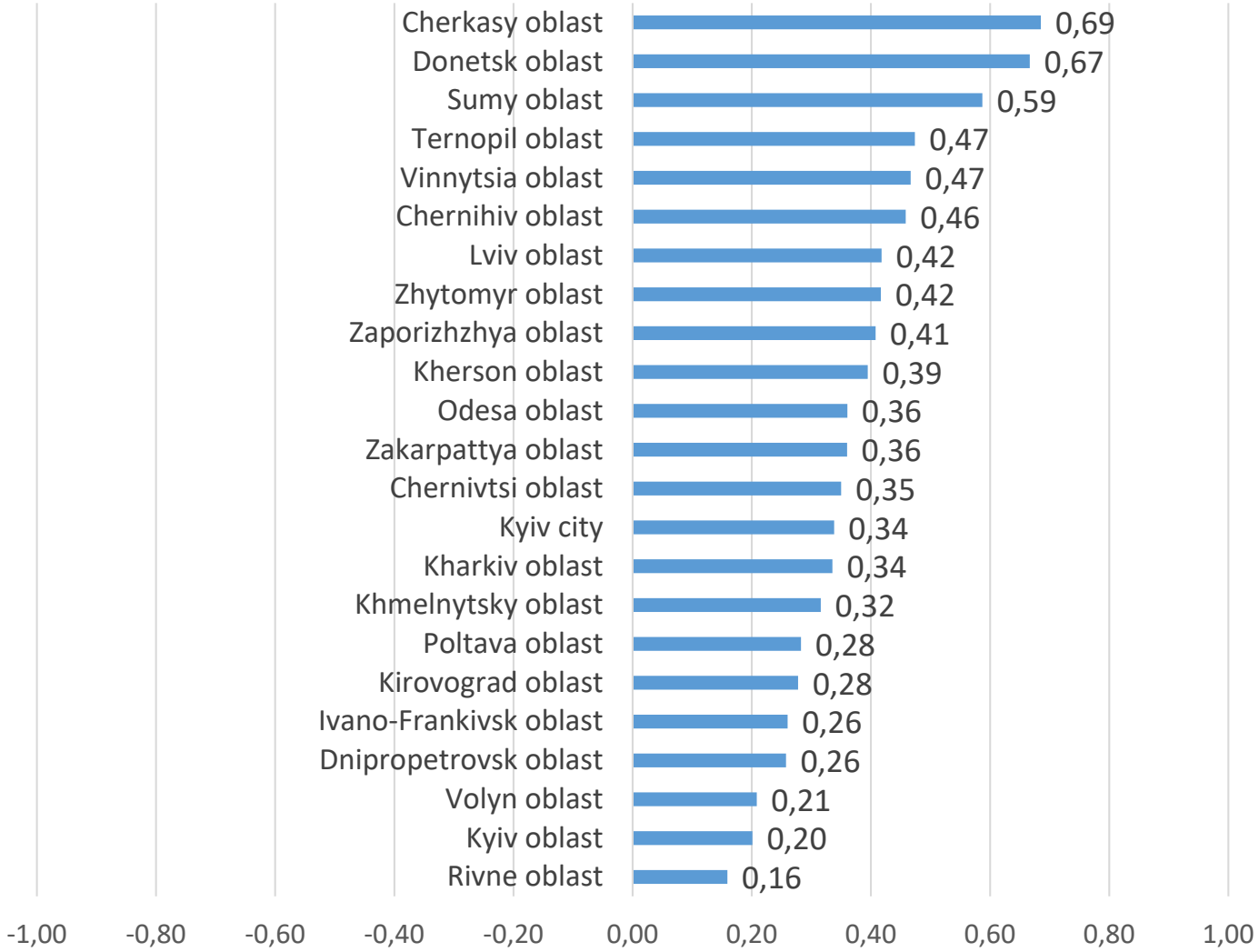
- **The assessment of the work of customs has deteriorated: the value of the CPP Index was 0.36 on a scale from -1 to 1**
- The CPP index fell to the level of 2018 after three waves of growth

Assessment of customs work: what is behind the CPP Index



- Almost 21% consider customs to be **efficient and in no need of change**. This share decreased to the level of 2017-2018 after a record 27.9% in 2020
- 57.1% of respondents indicated that the work of customs is **generally efficient, but requires some changes**. This is the largest share in the last 5 years
- The share of respondents who said the work of the customs is **completely or generally inefficient** slightly increased (by 3 percentage points) compared to 2020

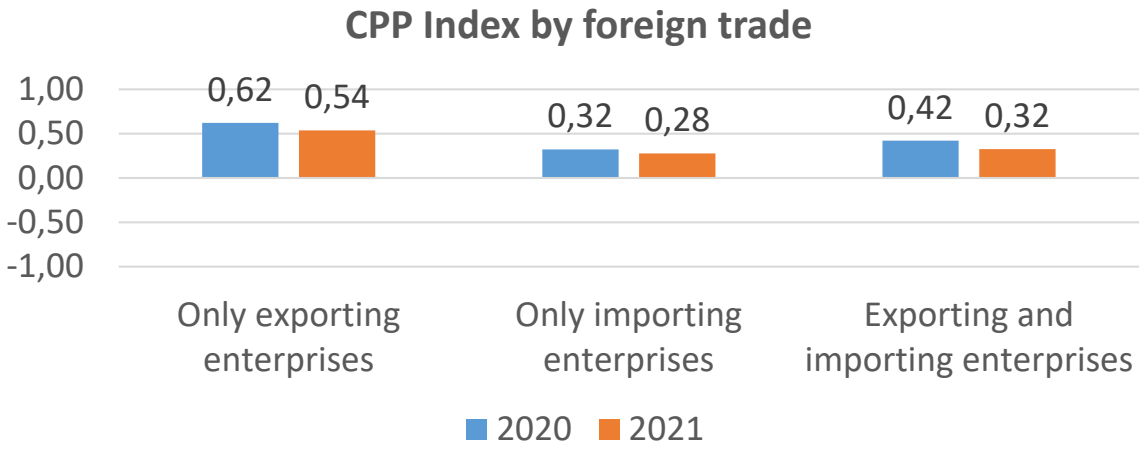
CPP index: comparison by region

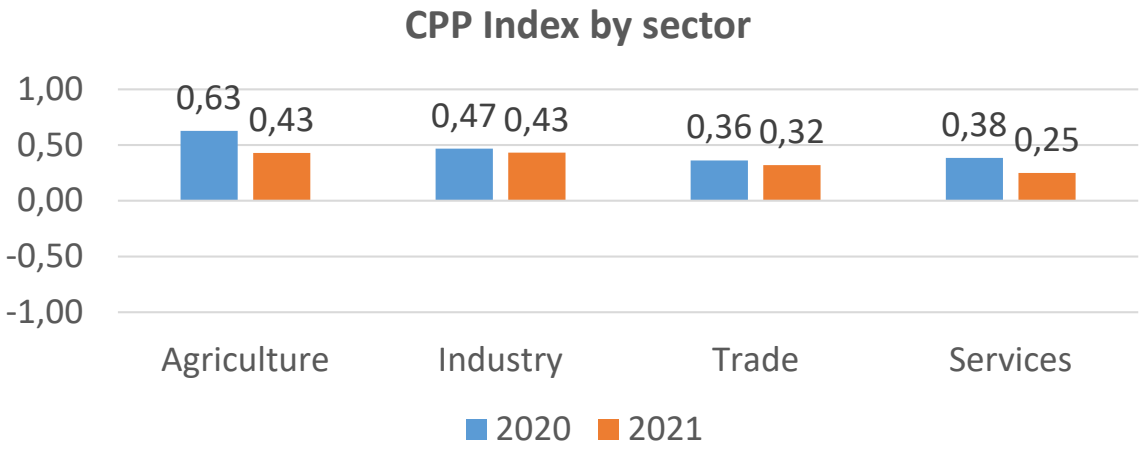


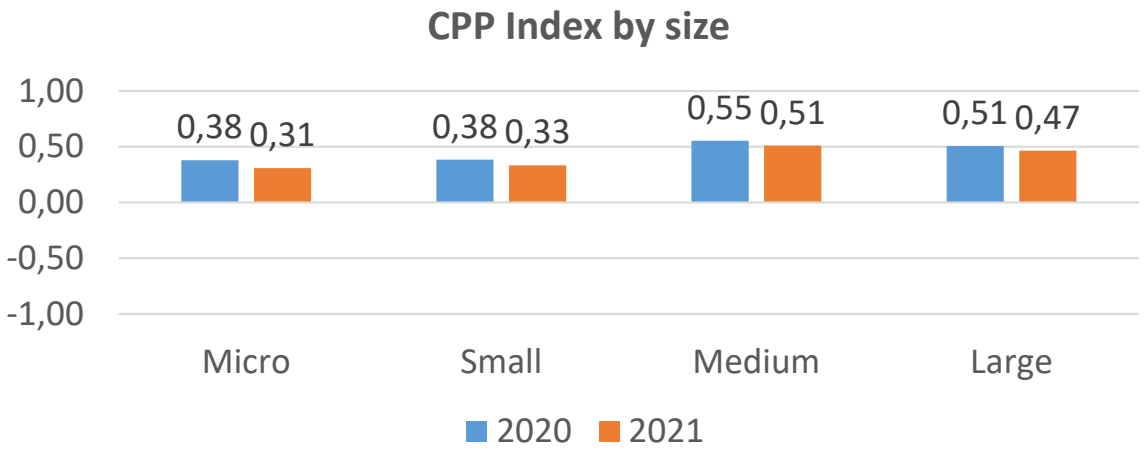
- CPP Index values are positive in all regions
- **The best scores** were given by enterprises in Cherkasy and Donetsk oblasts: the value of the CPP Index here was 0.69 and 0.67
- **The lowest values of the CPP Index** are in Rivne, Kyiv and Volyn oblasts. But here, too, positive assessments prevail

* *Luhansk and Mykolayiv regions are not included in the analysis due to insufficient number of respondents*

CPP index: comparison by types of enterprises





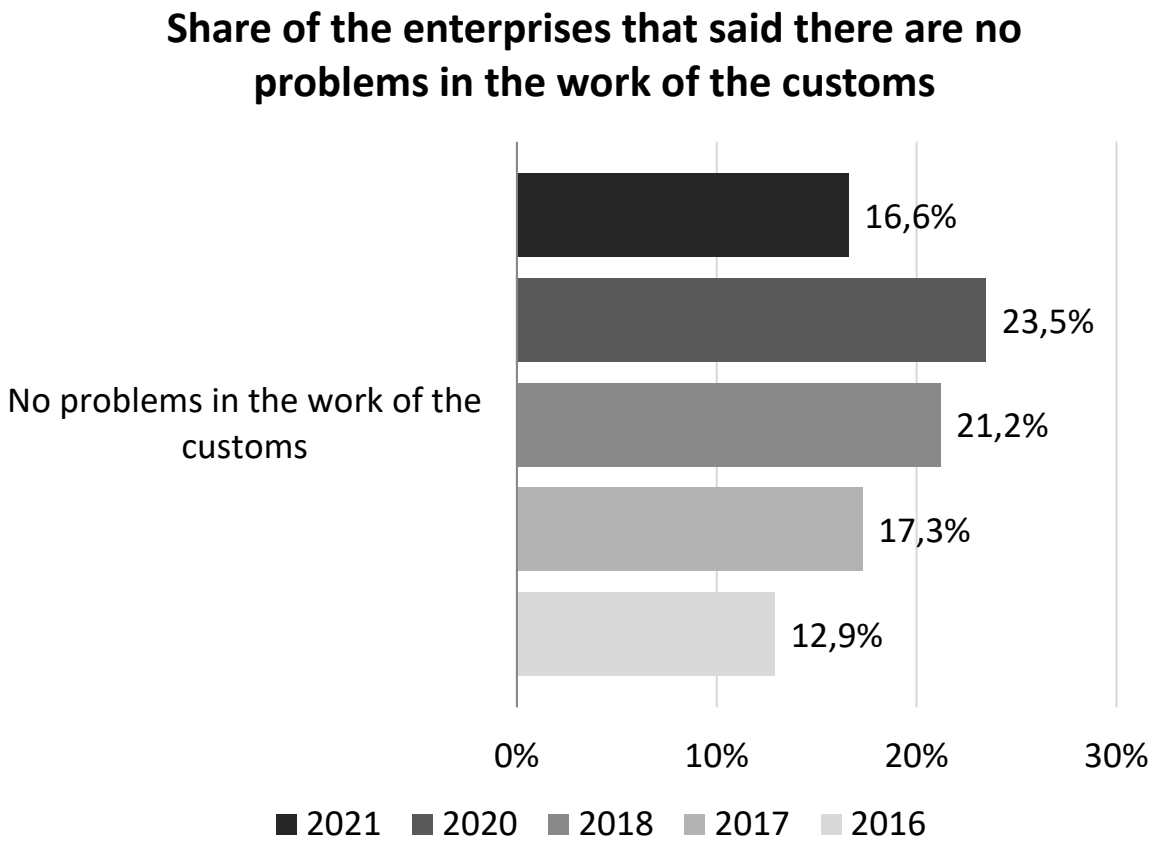


- **Exporters** assess the work of customs **best.** In particular, they consider it effective with no need for change more often than others. But for companies with **exports**, there is a greater decline in assessment than for only importing enterprises
- **Agricultural** and **industrial** enterprises rated the work of the customs **better** than others
- **Medium and large** enterprises assess the work of the customs **better** than small and micro enterprises

Problems in the work of customs according to business estimates

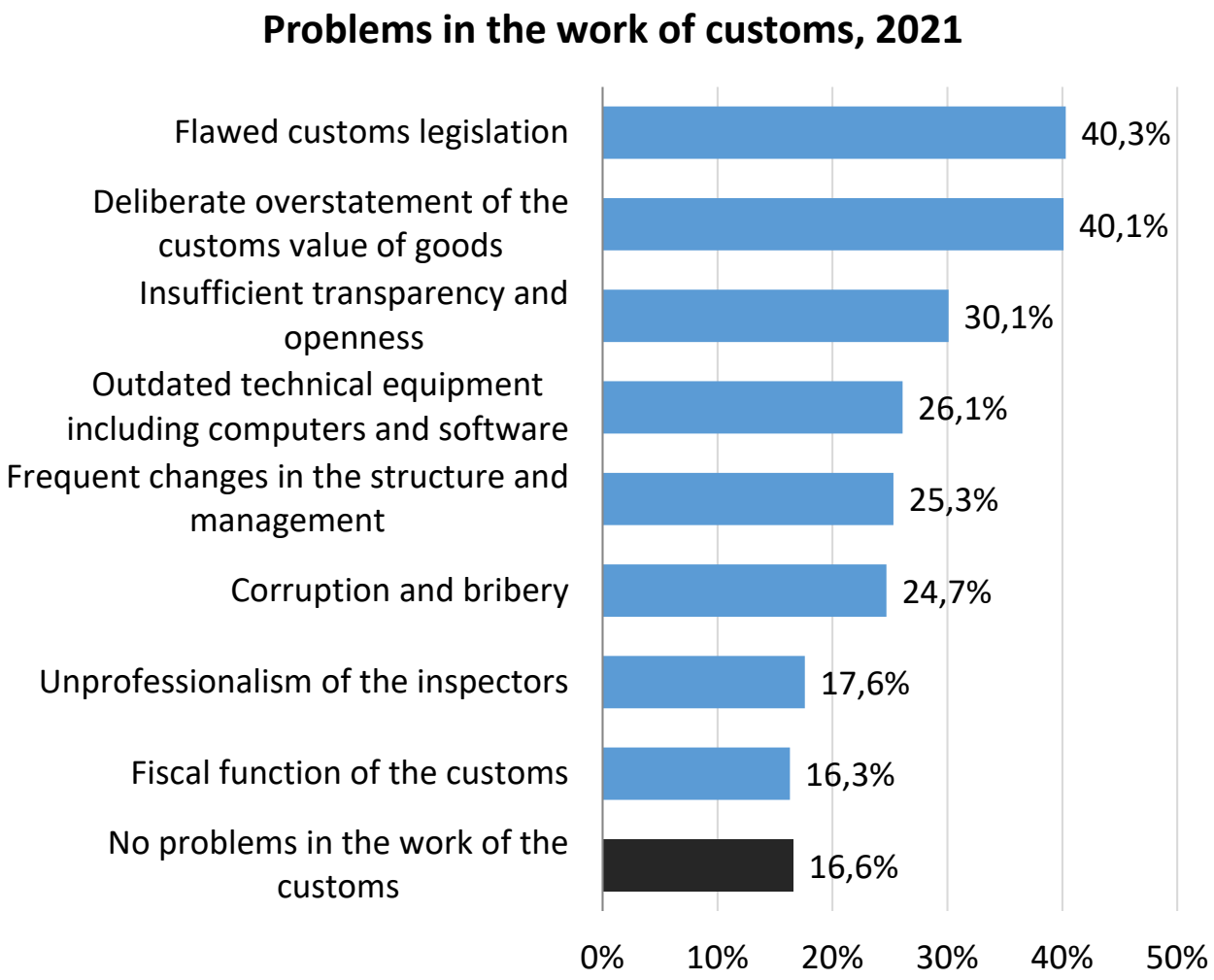
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Problems in the work of customs



- The share of enterprises that **did not experience problems at customs decreased** after stable growth during 2016-2020
- Among **exclusively exporters**, almost 30% did not experience any problems – this is more than twice the share of companies that import
- Among enterprises of different sizes, **medium-sized** enterprises are the **least likely** to report problems at customs
- One in five industrial enterprises (20.4%) does not report problems at customs. This is more than in other sectors
- Compared to 2020, the share of enterprises that **did not experience problems at customs increased** the most in the agricultural sector, among large businesses and among enterprises that export and import

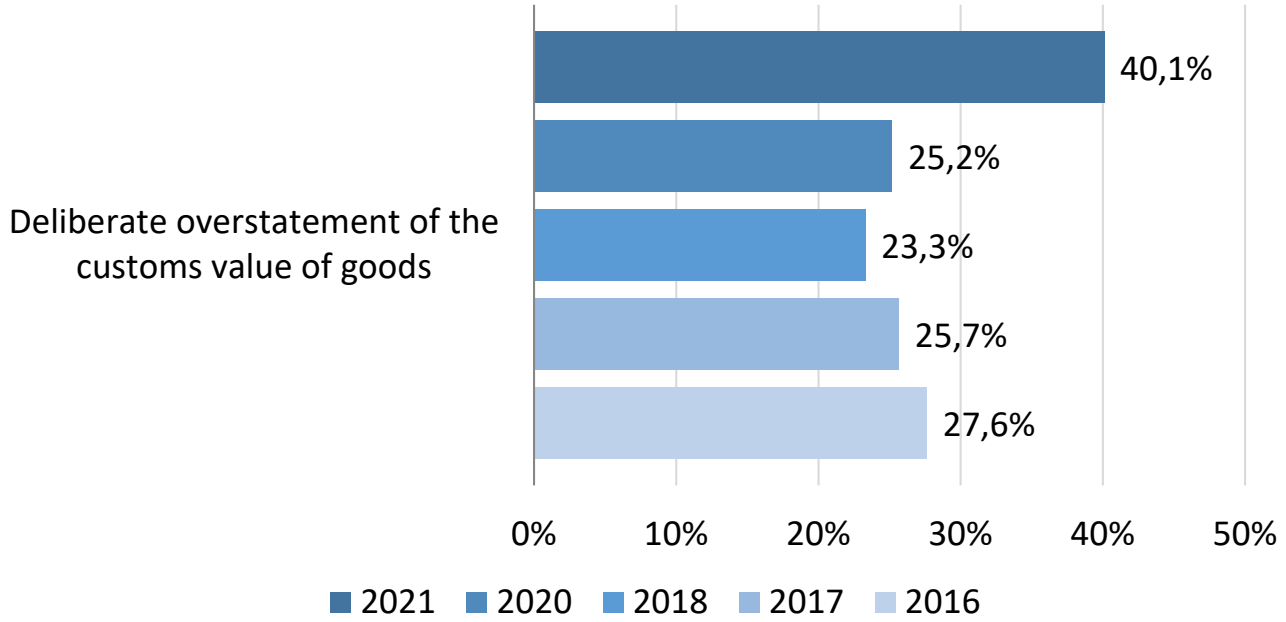
Problems in the work of customs (2)



- **Flawed customs legislation and deliberate overestimation of the customs value of goods** occupy main positions in the ranking of the problems in the work of customs
- The number one problem for exclusively exporters, large and medium-sized enterprises, as well as for agricultural and industrial enterprises is **flawed customs legislation**
- For importers, micro and small enterprises, as well as for trade and services, the main problem is the **overestimation of customs value of goods**
- **Exclusively exporters** are the only group by the type of foreign trade where the share of the enterprises that did not face problems (29.3%) exceeds the share of those who named any problem

Problems in the work of customs(3)

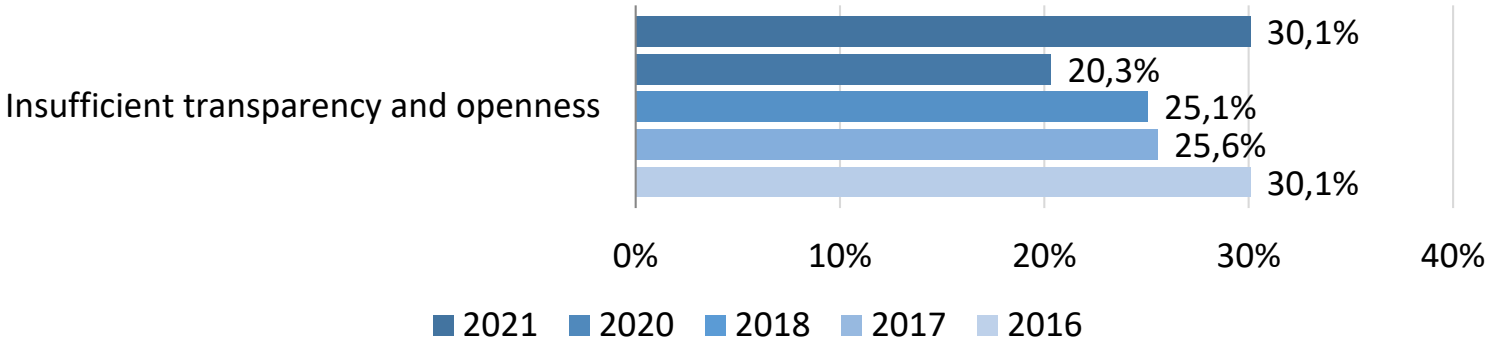
Share of the enterprises that reported deliberate overstatement of the customs value of goods among the problems with the customs



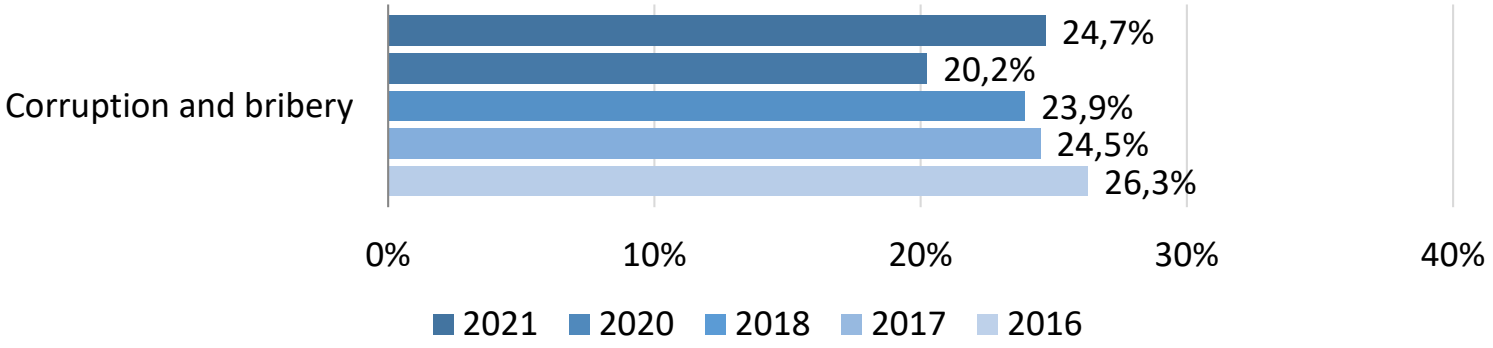
- A record high share of respondents – 40.1% – called the **deliberate overstatement of the customs value of goods** a problem
- This is more than during all previous waves of the survey, when this share did not exceed 28% of respondents
- Significant shares of enterprises of all sizes, sectors and types of foreign trade report this problem
- This indicates that the problem of customs value is becoming increasingly important and can significantly affect the overall assessment of customs

Problems in the work of customs (4)

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

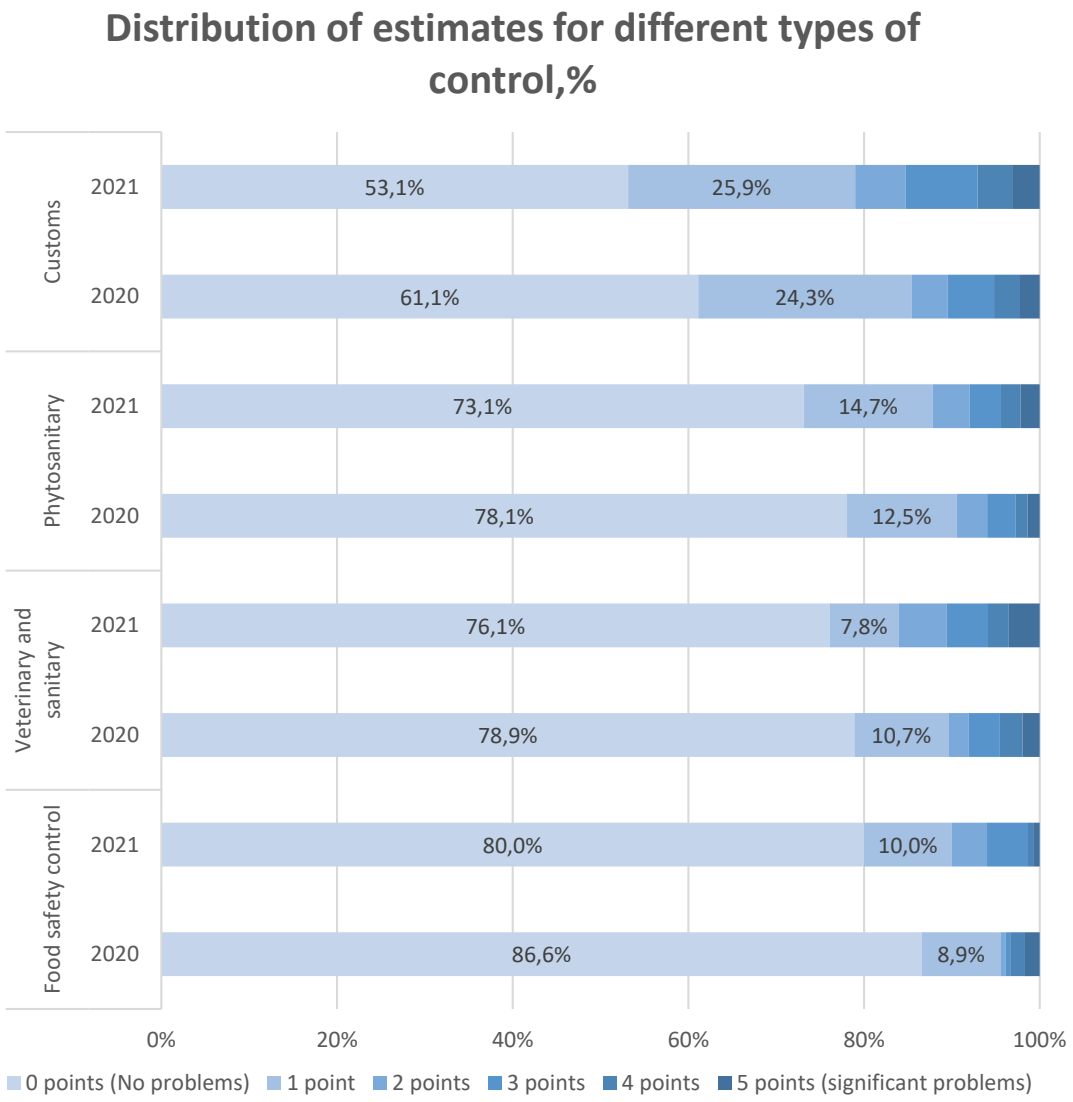


Share of the enterprises that reported corruption and bribery among the problems with the customs

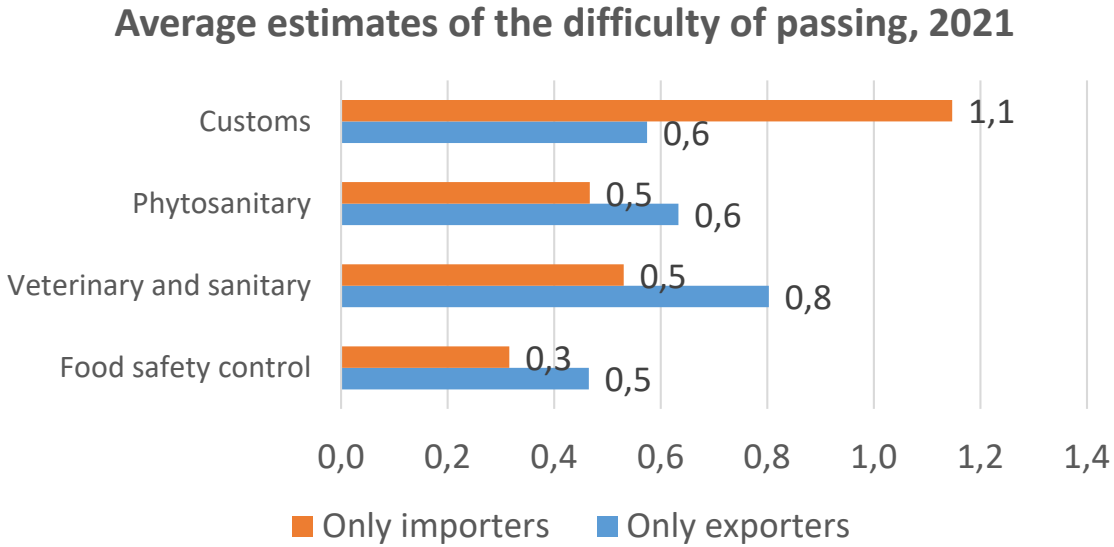


- The problems of **the lack of transparency and openness**, as well as **corruption and bribery** in 2021 were reported more often than a year ago
- More than 30% of respondents indicated a lack of transparency and openness. The last time this share was so high was in 2016
- Every fourth respondent (24.7%) complains about corruption and bribery at customs. This share increased again after a temporary decrease in 2020

Assessment of passing various types of control



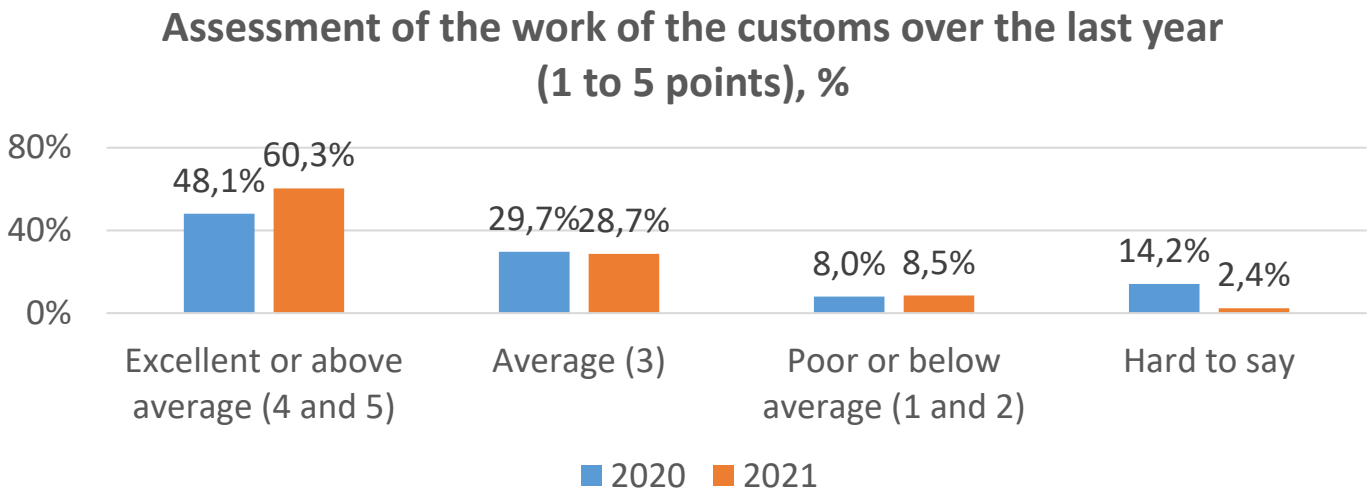
- The level of problems of all types of control remains low: from 53.1% (customs control) to 80.0% (food safety control) respondents have no problems in 2021.
- Customs control remains more problematic compared to other types of control, but the problems are mostly minor.
- The assessment of the level of problems has hardly changed in 2021, compared to 2020
- Passing different types of control remains more problematic for importers than for exporters.

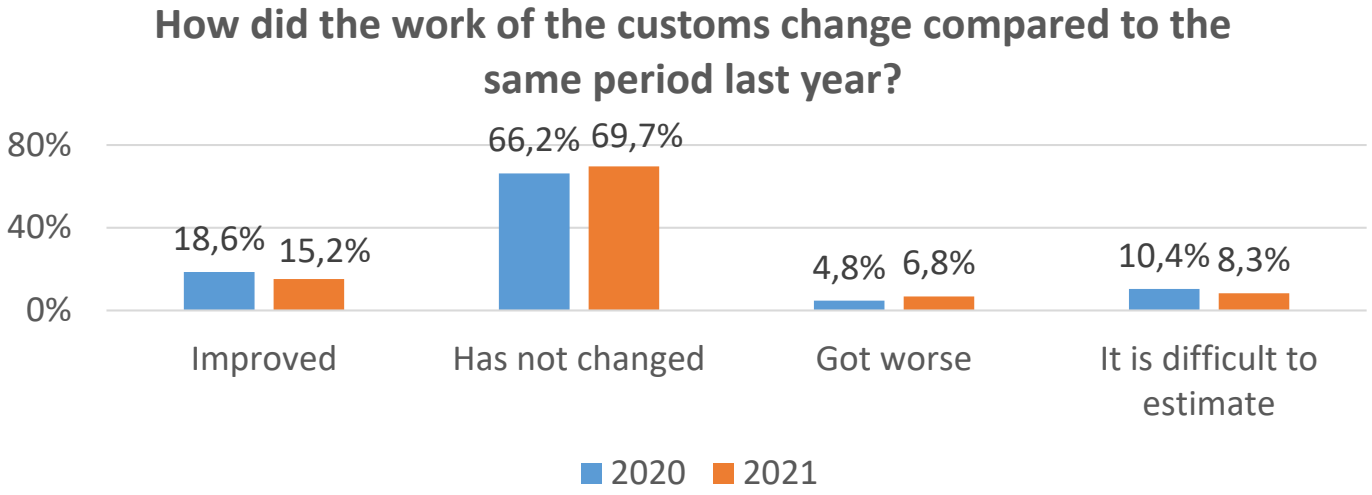


ASSESSMENTS OF SOME ASPECTS OF THE CUSTOMS

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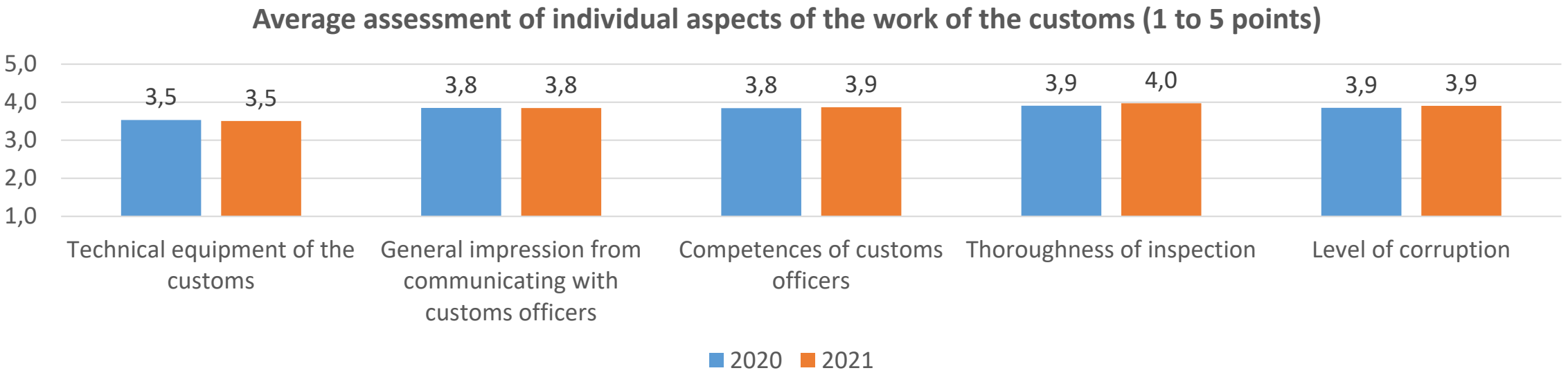
Perception of customs work for the last year





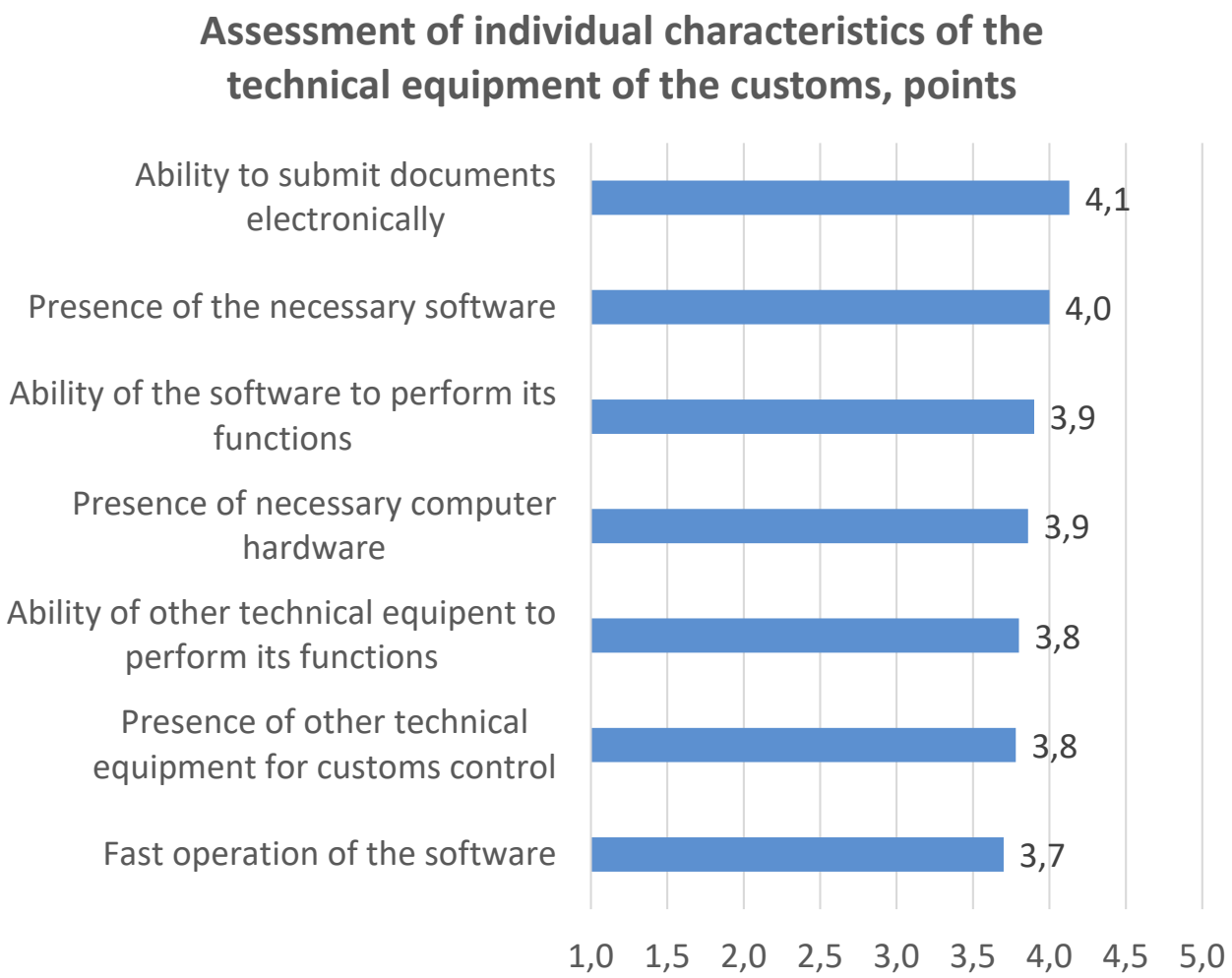
- More than 60% of respondents rated the work of customs over the past year **as good and excellent**. 8.5% gave an **unsatisfactory** assessment
- **Average score**: 3.7 out of 5 (3.6 in 2020).
- In 2021, the percentage of the enterprises that **cannot assess** the work of customs decreased
- **Exporters only** rated the work of the customs higher than other respondents (average score is 4 points)
- The difference in assessments of enterprises of different sizes and sectors is less pronounced
- 2/3 of respondents believe that the efficiency of customs **has not changed** compared to the same period in 2020
- The **difference between positive and negative assessments** of changes has decreased: it is +8.4 percentage points in 2021 compared to +13.8 percentage points in 2020

Assessment of certain aspects of customs work



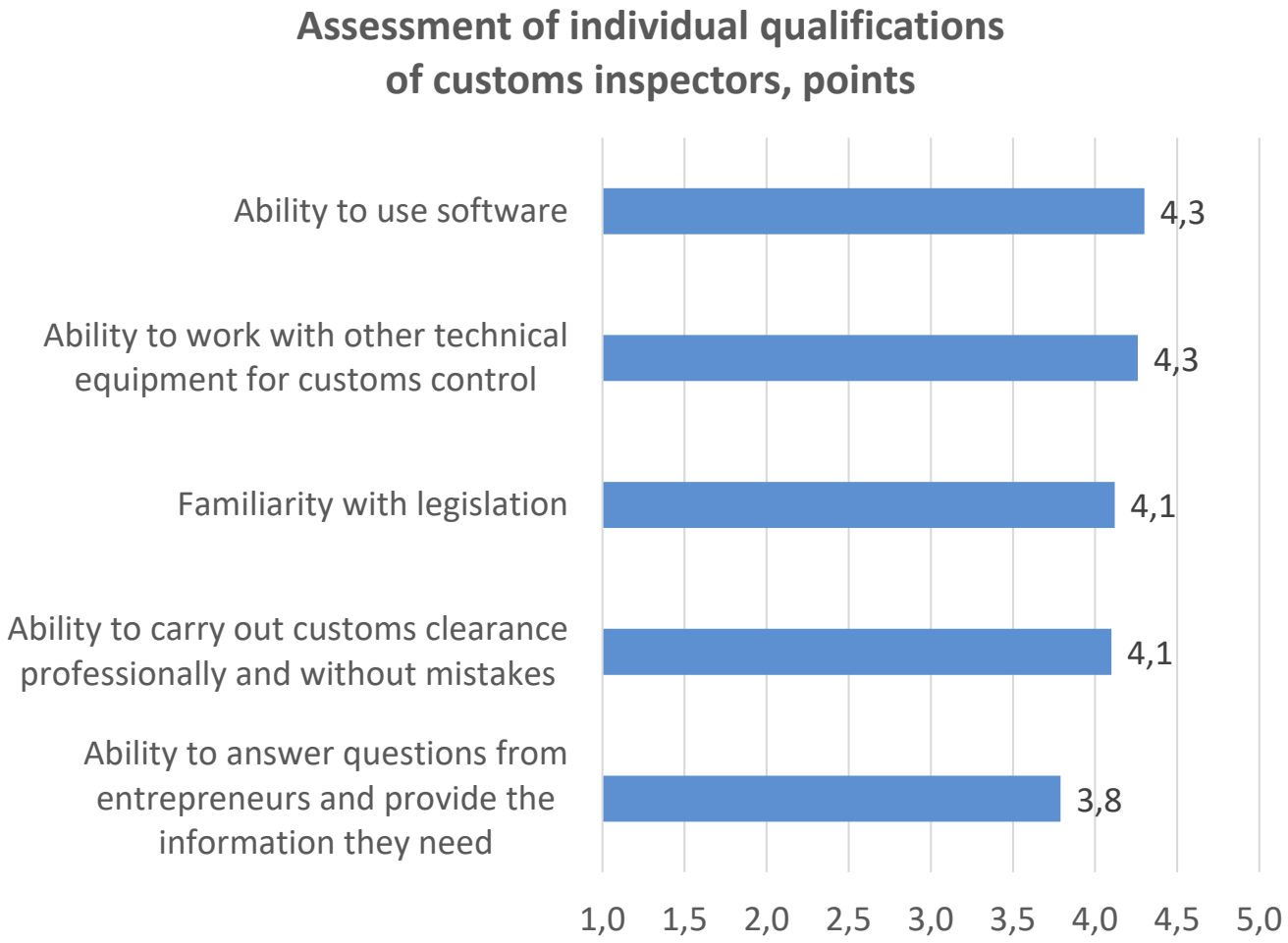
- The assessment was made on the **scale from 1 to 5**, where 1 is a negative rating and 5 is a positive one. For the indicator "level of corruption" 1 point means a high level of corruption and 5 points mean low level or no corruption at all. The assessments **almost have not changed** compared to 2020
- Assessments of certain aspects of the work of the customs, except those about the technical equipment, slightly **exceed the overall assessment of its work** in 2021 (3.7)
- **The technical equipment of the customs** was rated lower than other aspects: an average of 3.5 points
- 62.7% 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 (51.6%), but less than the positive assessments of other aspects (67%+)

Assessment of individual characteristics of the technical equipment of the customs



- Average estimates of **all characteristics of technical equipment** of customs are quite high. They have hardly changed compared to 2020
- **The ability to submit documents in electronic form** is assessed the highest, which suggests the successful automation of the customs
- **The speed of the software and the availability of other technical means of customs control** are rated the lowest. This indicates the need for further investment in customs infrastructure
- **Importers only** rated the speed and functionality of the software the worst
- **Medium and large enterprises** rated the availability and functionality of software, as well as the ability to submit documents in electronic form higher than micro and small ones
- **Agricultural and industrial enterprises** assessed the speed of operation and functionality of the software better than others

Assessment of individual qualifications of customs inspectors

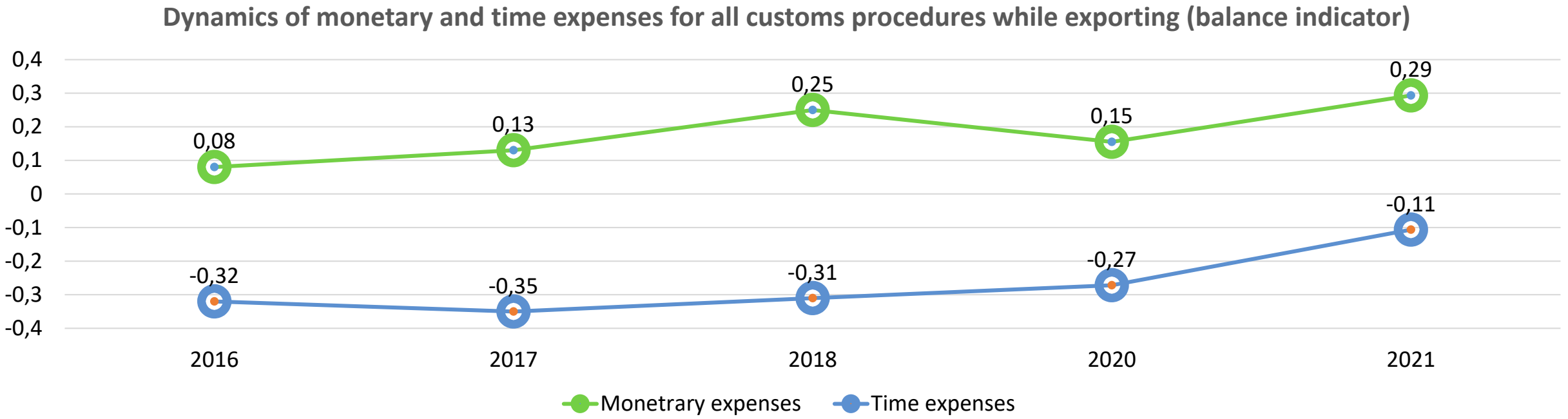


- Respondents rated almost all qualifications of customs inspectors at **average 4 or 4+ points** out of five
- Assessments are almost the same as those made in 2020
- **The ability to answer entrepreneurs' questions and provide the necessary information** is rated **the lowest**: 3.8 out of five. This means the need for training for inspectors
- **Exporters only** assess the qualifications of customs inspectors somewhat better
- Representatives of **medium and large businesses** assess the qualifications of customs inspectors better than hose of micro and small businesses

COSTS OF CUSTOMS CLEARANCE

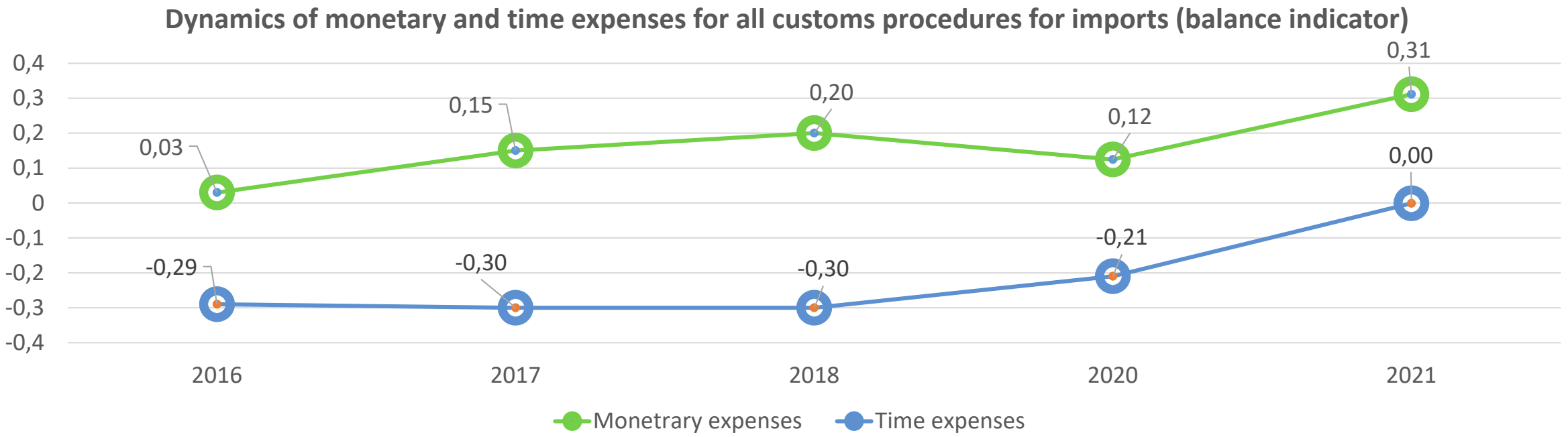
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Change in the cost of customs clearance procedures compared to 2019: exports



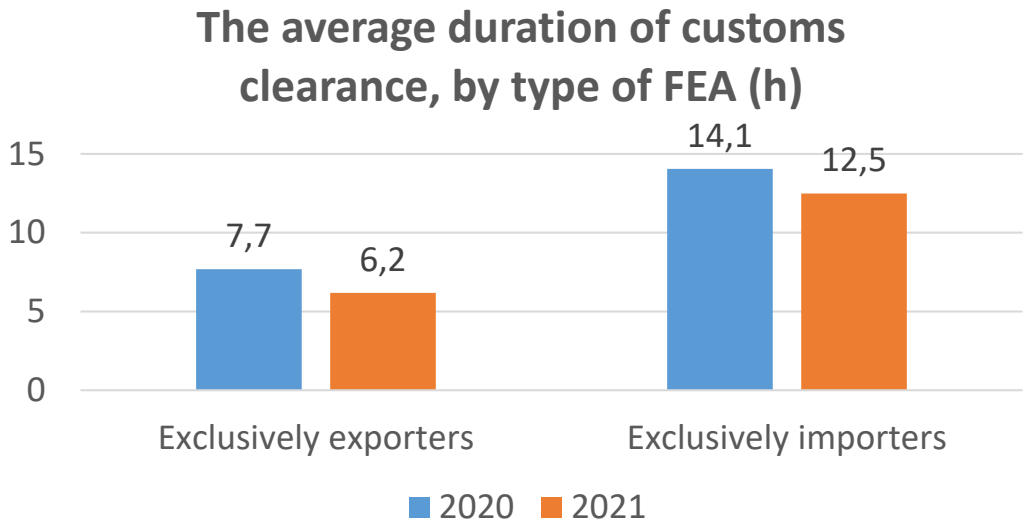
- **The monetary cost of customs clearance of exports continues to grow, and the growth is accelerating.** For most exporters (63.2%), monetary expenditures did not change, but they increased nine times more often (33.1%) than decreased (3.7%).
- **The time of customs clearance of exports continues to decline, but at a slower pace than before.** The share of business for which it has become faster exceeds the share of those who began to spend more time on it. In the agricultural sector, the balance of the time spent on exports is positive (0.08).

Change in the cost of customs clearance procedures compared to 2019: imports



- **The cost of customs clearance of imports continues to grow, and its growth rate has accelerated significantly.** At the same time, more than half of importers report that the monetary costs of customs clearance of imports have not changed over the past 2 years. In the services sector, monetary expenditures on imports did not increase as much as in other sectors.
- **The reduction in the duration of customs clearance has stopped.** It decreased and increased for the same shares of importers, but for most of them it did not change. For micro-enterprises, an increase in costs was recorded (the balance equals 0.08).

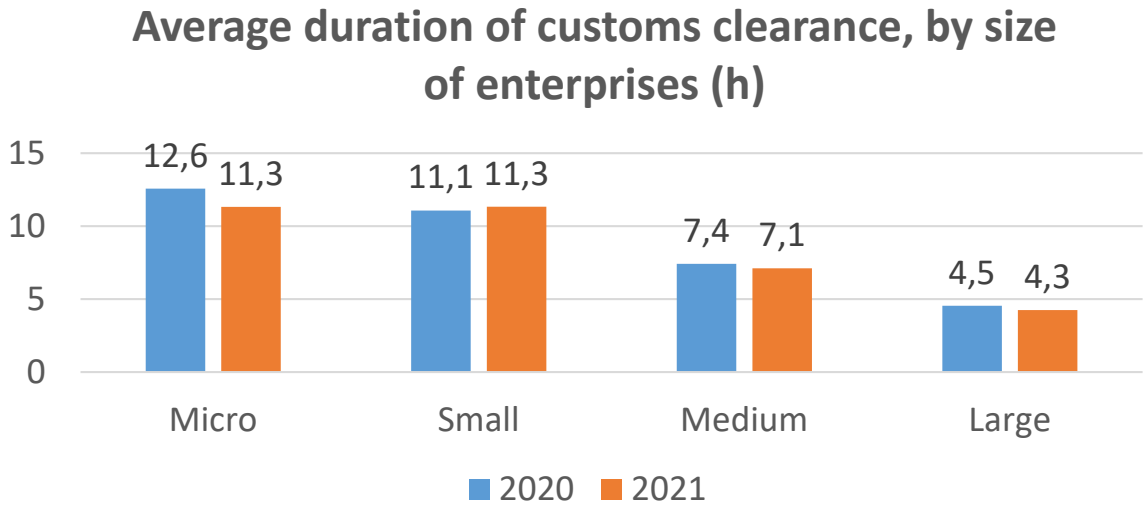
Speed of customs clearance

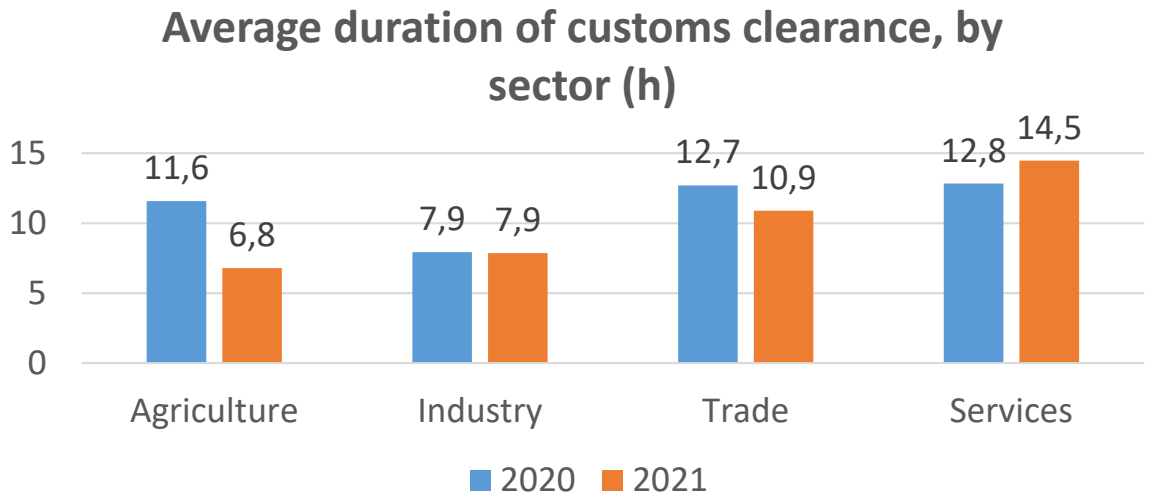


Speed of customs clearance: (1) duration in hours and (2) assessment of respondents.

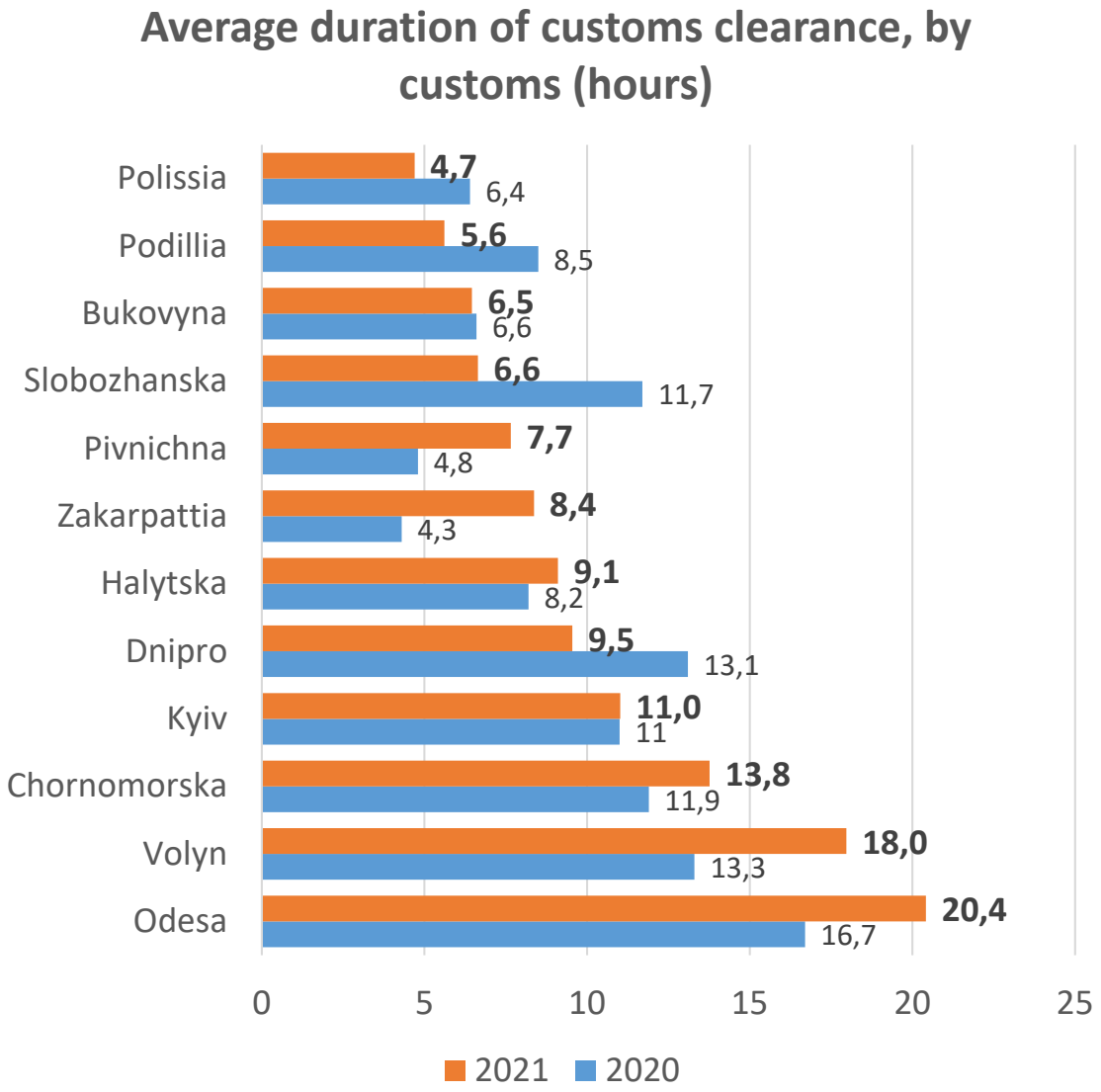
- Duration of customs clearance: 10 hours (10.4 in 2020).
- Respondents' score: 3.5 points out of 5 possible (3.6 in 2020)

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





Speed of customs clearance (by customs)



Duration of customs clearance:

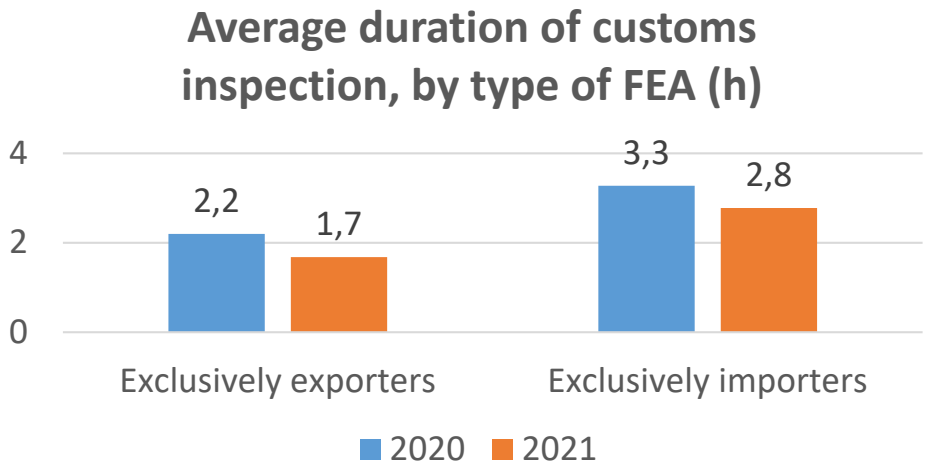
- Fastest: Polissia (4.7 hours) and Podillia (5.6 hours) customs.
- Longest: Odesa customs (20.4 hours).

Respondents' assessment:

- The highest scores are at Slobozhanska customs (3.9 points).
- The lowest score is at Volyn Customs (3.0 points), where one of the longest clearance.
- For most customs, the scores are almost the same as the average for all respondents (3.5 points).

Note 1: The survey used the 2020 customs classification to make comparisons on some indicators.
Note 2: Due to the insufficient number of sub-samples, Azov and Eastern Customs are not included in this analysis. It is also not possible to analyze by groups (sector, size) for individual customs.

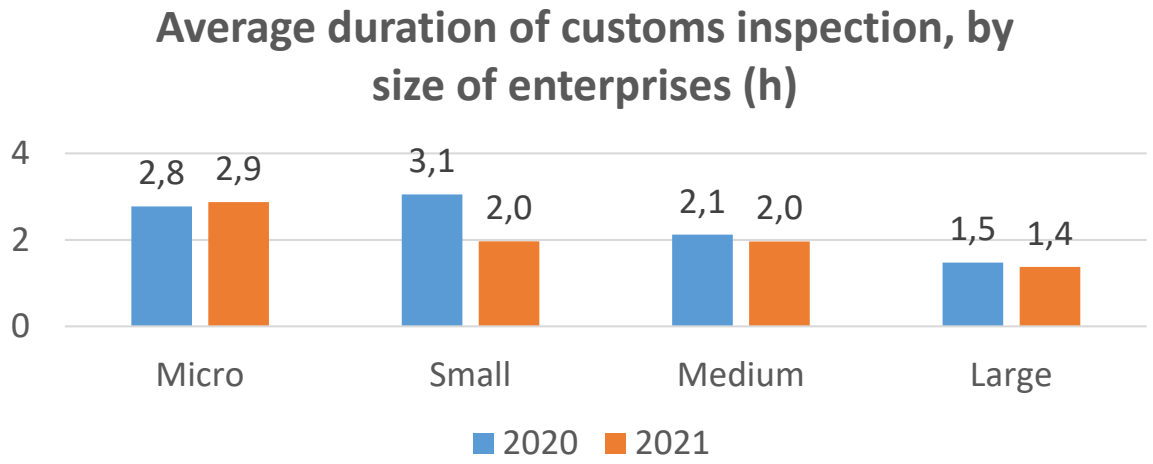
Speed of customs inspection

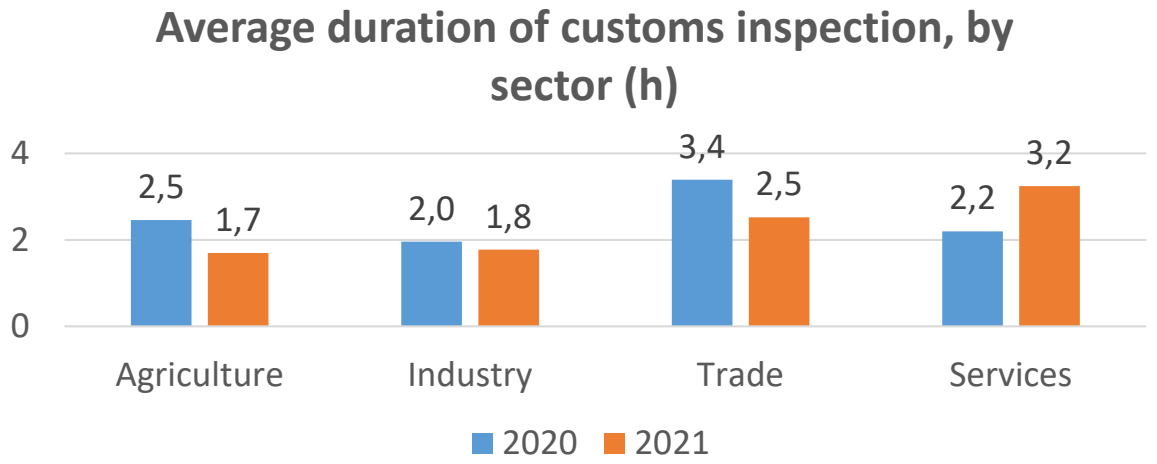


Speed of customs inspection: (1) duration in hours and (2) assessment of respondents.

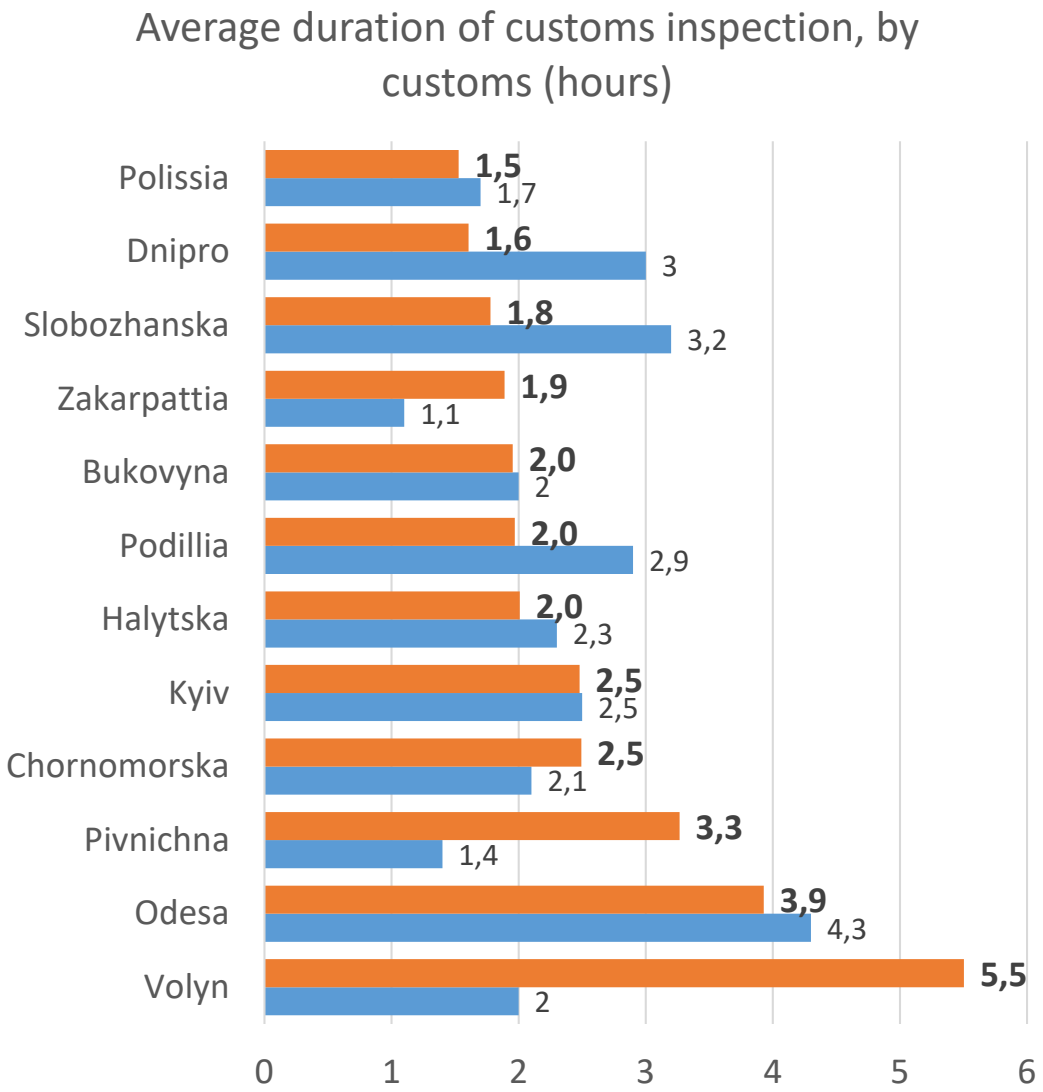
- Duration of customs inspection: 2.2 hours (2.5 in 2020).
- Respondents' score: 3.7 points out of 5 possible (3.8 points in 2020)

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





Speed of customs inspection (by customs)



Duration of customs inspection:

- Fastest: Polissia (1.5 hours) and Dnipro (1.6 hours) customs.
- The longest inspection: Volyn (5.5 hours) and Odesa (3.9 hours).

Respondents' assessment:

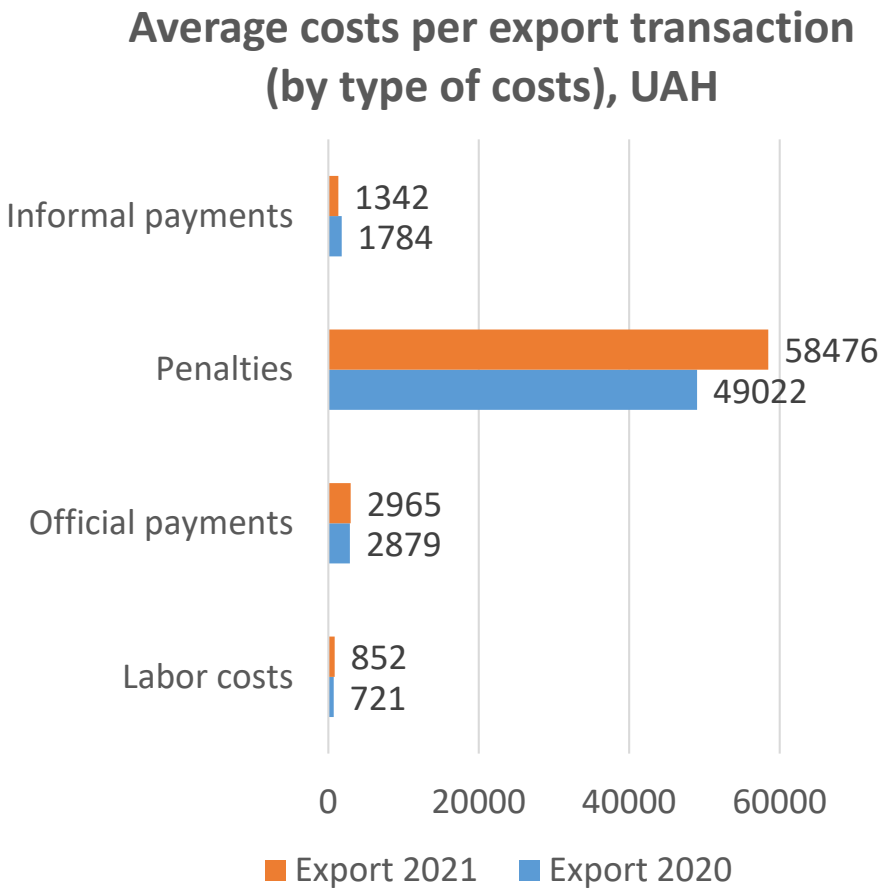
- The highest score is at the Dnipro Customs (4.1 points), where the duration of the inspection is one of the lowest.
- The lowest score is for Odesa customs (3.3 points), where a long inspection.
- For most customs, the scores are almost the same as the average for all respondents (3.7 points).

Note 1: The survey used the 2020 customs classification to make comparisons on some indicators.
Note 2: Due to the insufficient number of sub-samples, Azov and Eastern 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

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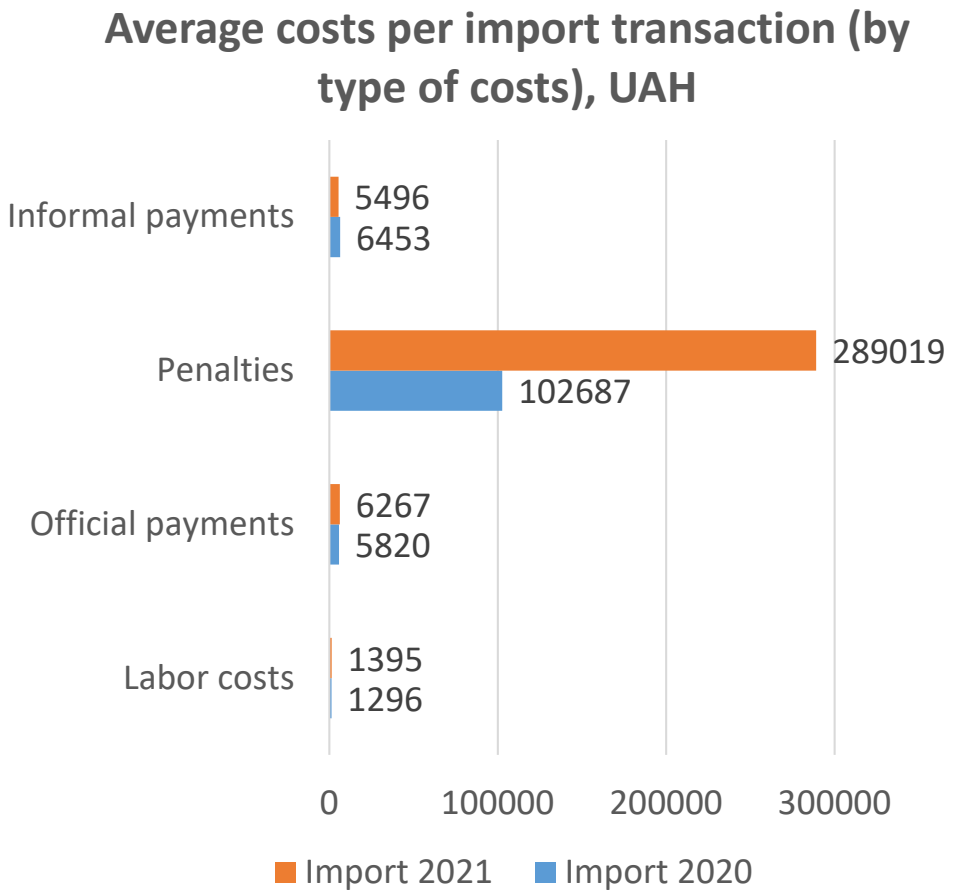
Expenses for customs procedures in export operations



The total cost of 1 export transaction can average 4115 UAH (in 2020 it was 4186 UAH).

- Compared to 2020, the average time spent on 1 export transaction has not changed and is 8.7 hours (it was 8.9 hours).
- The average time spent on 1 export transaction is almost 2 times less than when importing.
- Formal and unofficial payments, penalties for exports are on average 2-5 times lower than for imports.
- The average amount of fine on exports exceeds the average size of unofficial payments by almost 44 times.
- Penalties may remain the largest component of the financial cost of exports.
- While fines have increased, the amount of the average unofficial bribe has decreased. At the same time, low informal payments in the context of high fines may indicate a low probability of punishment.

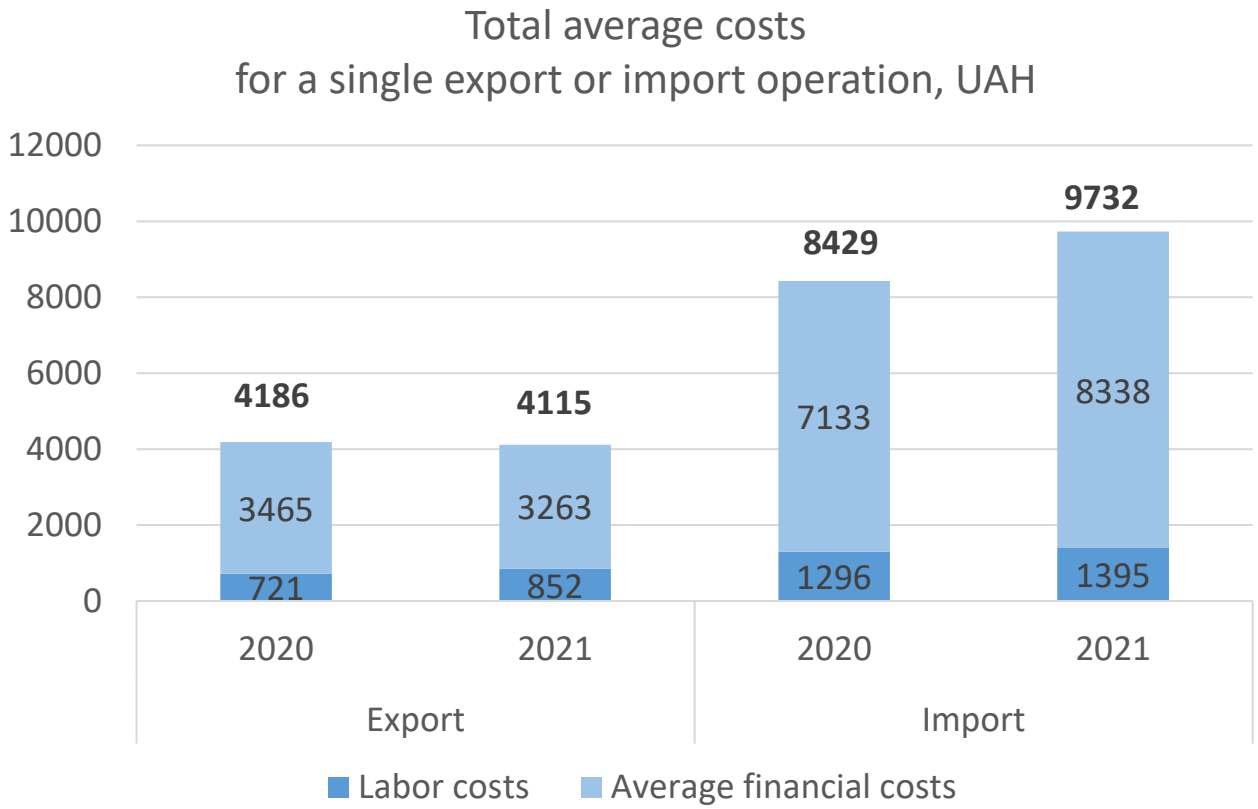
Expenses for customs procedures on import operations



The total cost of 1 import transaction can average UAH 9,732 (UAH 8,429 in 2020).

- Compared to 2020, the average time spent on 1 import transaction decreased to 14.3 hours (it was 16 hours).
- The average time spent on 1 import operation is almost 2 times higher than for exports.
- Official and unofficial payments, penalties for imports are on average 2-5 times higher than for exports.
- Penalties can be the largest component of the financial cost of imports.
- The average amount of the fine on import exceeds the average amount of unofficial payments by almost 53 times.
- While fines have increased, the amount of the average unofficial bribe has decreased. At the same time, low informal payments in the context of high fines may indicate a low probability of punishment.

Costs of customs procedures for export and import operations



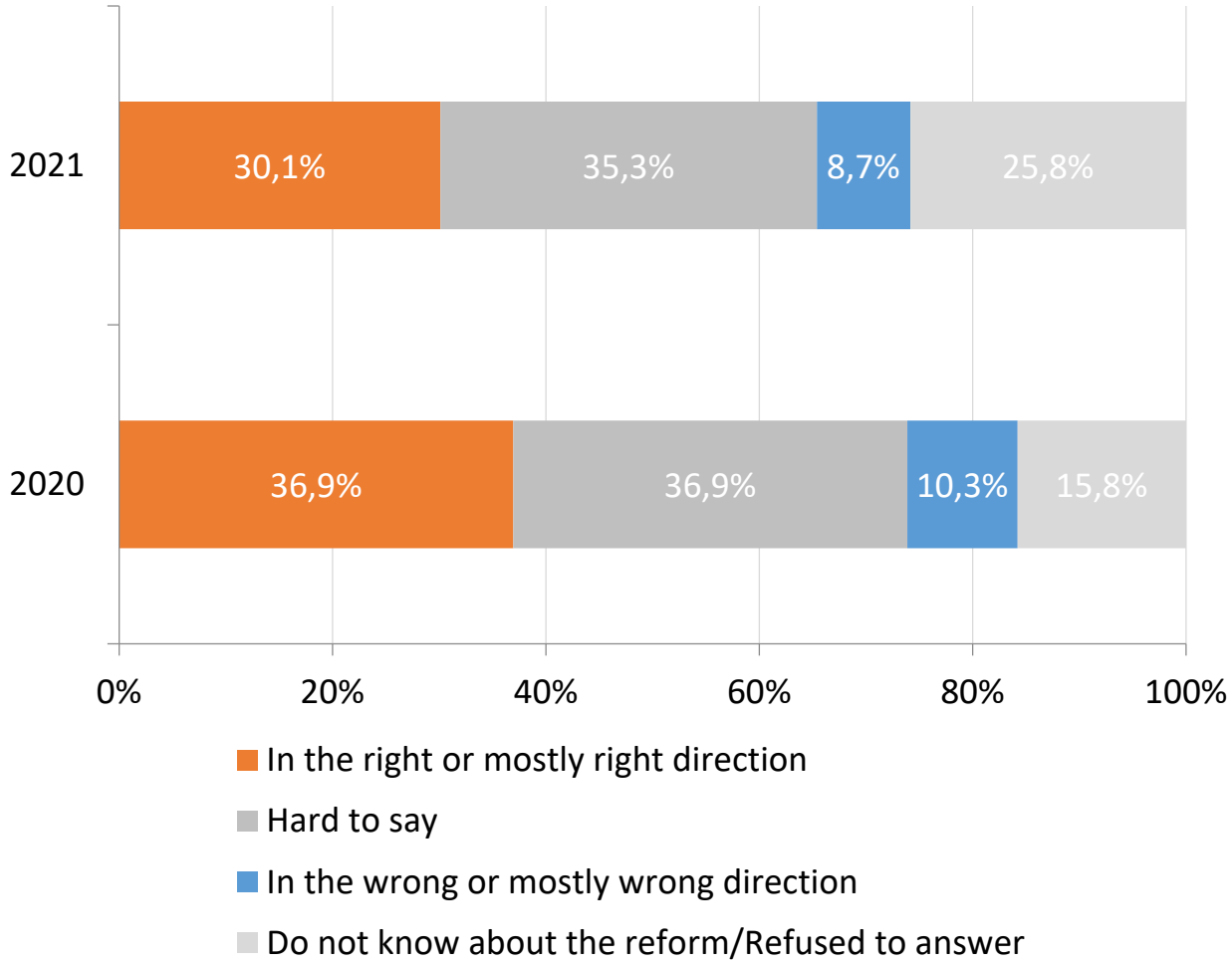
- On average, the cost of one export transaction is almost 2.5 times lower than for one import transaction.
- The average cost of one export operation has hardly changed, but the cost of imports has increased.
- The increase in the value of import operations was due to an increase in the cost of penalties.

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

CUSTOMS REFORMS: EVALUATION AND EXPECTED MEASURES

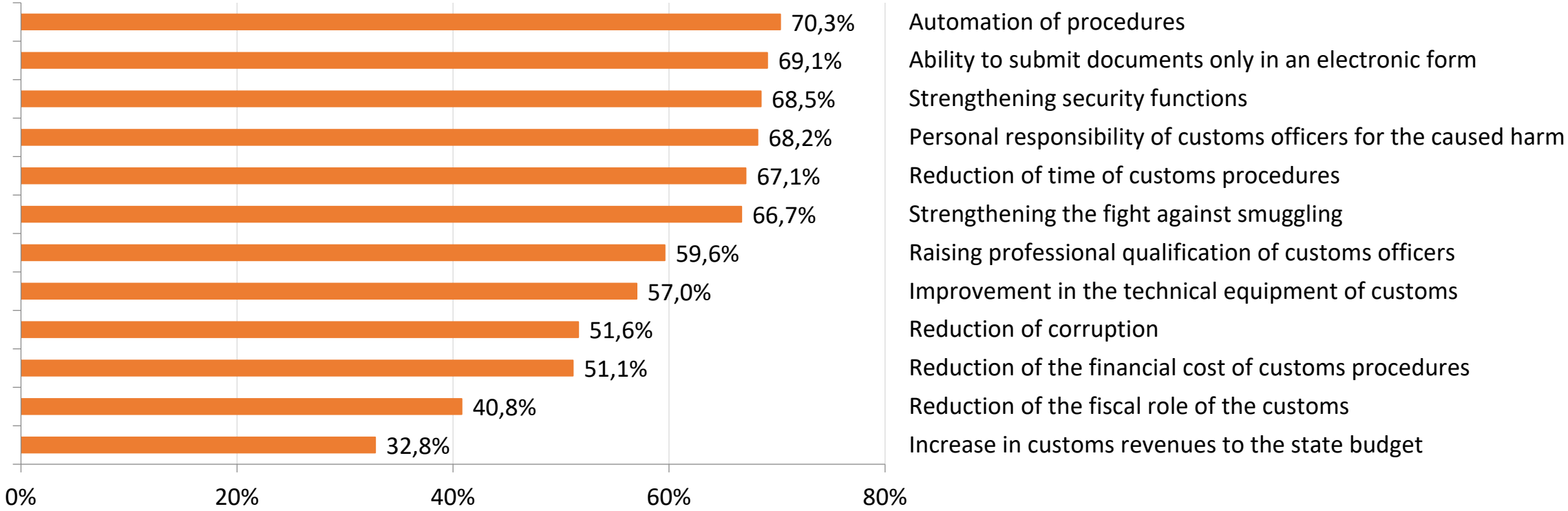
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Is customs reform moving in the right direction?



- The share of the enterprises that consider the direction of reforms in customs right, **exceeds** the share of those who consider it wrong
- At the same time, more than half of the respondents **do not know about the reform** or **could not assess it** (answers "Hard to say" + "I do not know" / refusal to answer)
- Compared to 2020, the share of **positive assessments** has decreased and the share of those who **do not know** about the reform has increased
- Businesses that only export are less likely to know about customs reform
- Large enterprises are best informed about the customs reform and assess is best

Business expectations from customs reform



- The main expectations of the respondents from the customs reform are **automation of procedures, the ability to submit documents in full electronic form, strengthening the security functions of the customs, and the introduction of personal responsibility of customs officers**
- The lowest priority has been given **to increasing customs revenues to the state budget**
- In 2020, **the reduction of time during customs procedures** and measures that contribute to this (**automation of procedures, submission of all documents in electronic form**) were ranked the highest among the expected reforms

THANK YOU FOR YOUR ATTENTION!

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QUESTIONS?

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CONTACTS

website: www.tfd.ier.com.ua

e-mail: customs@ier.kyiv.ua

Facebook: www.facebook.com/tfd.ier

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