

**Macroeconomics**

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**ASSESSING THE STATE  
OF COMPETITIVE ENVIRONMENT  
IN UKRAINE BASED ON INTERNATIONAL  
RANKINGS****Abstract**

The article provides an assessment of the Ukraine's competitive environment on the basis of international rankings, identifies its strengths and weaknesses highlighting those which should become the object of special attention by the regulators. Author performs the survey of national state policy on improving the competitive environment and provides with suggestions for its improvement.

**Key words:**

Competitive environment, competitiveness, assessment, international rankings, state policy, state program.

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Competing in the current market companies take into consideration existing external conditions which are: a set of rules for starting and operating a business, established infrastructure, the nature of competition, the effectiveness of the competitors, taxation features, market size etc. These factors form the competitive environment which significantly affects the competitiveness of enterprises. If the environment is too unfavorable, companies may resort to avoid its rules and act by illegal means or looking for more convenient and more favorable conditions.

Assessment of competitive environment of a country and its comparison with those of other countries is an important tool that allows businesses to focus on the development strategies in today's market whereas investors to evaluate the risks and prospects of investing in this country. In addition, it provides an opportunity to assess the strengths and weaknesses of public policy and to identify priority areas for development.

The methodology of evaluation of enterprises' external environment is the subject of research for many scientific institutions and organizations offering a variety of approaches and methods. To be able to compare the competitive environment of the world's countries the results of the evaluation are presented in the form of international rankings.

Among the organizations involved in researching of competitive environment and determining the factors affecting it leading positions belong to: The World Economic Forum, Organization for Economic Co-operation and Development, The World Bank, International Financial Corporation, United Nations Conference on Trade and Development, International Institute for Management Development, American Chamber of Commerce. Some of these organizations prepare the annual rankings, which served as an information base of the study. Among them: Global Competitiveness Report by the World Economic Forum, annual World Competitiveness Yearbook by the International Institute for Management Development and «Doing business» by the World Bank and International Financial Corporation.

Due to the constant changes taking place in the domestic economy, politics and social life and updates of relevant analytical data and rankings by international organizations the assessment of the competitive environment in Ukraine requires constant revision.

The aim of the paper is to determine the competitive environment in Ukraine based on international rankings and review of national public policy regarding its development which will identify unsolved problems and guide further research on finding ways to overcome them.

One of the most authoritative international rankings, based on an assessment of factors that form the competitive environment in the studied countries and affect their competitiveness, is Global Competitiveness Ranking of the World Economic Forum (hereinafter – WEF Ranking). The main integral indicator WEF Ranking is the Global Competitiveness Index (GCI), which is based on assessment of 12 pillars that characterize macro- and microeconomic factors of competitiveness.

The importance of particular components of the GCI depends on the stage of development. Adapting the Michael Porter's theory of competitive advantage of nations (Porter, 1990) experts from the World Economic Forum distinguish the following three stages: factor-driven economies, efficiency-driven economies and innovation-driven economies (Table 1).

*Table 1*

**Stage of economic development in the assessment of the Global Competitiveness Index**

GDP per capita, US \$	Stage of economy development	Priority GCI pillars for the stage of economy development	Weights of the groups of GCI pillars for the stages of economy development, %		
			BR	EE	IS
< 2000	Factor-driven economies	Basic requirements (BR) Pillars: institutions, infrastructure, macroeconomic environment, health and primary education	60	35	5
3000–9000	Efficiency-driven economies	Efficiency enhancers (EE) Pillars: higher education and training, goods market efficiency, labor market efficiency, financial market development, technological readiness, market size	40	50	10
> 17,000	Innovation-driven economies	Innovation and sophistication factors (IS) Pillars: business sophistication, innovation	20	50	30

Compiled by: The Global Competitiveness Report 2007-2008. World Economic Forum [Electronic resource]. – Available at: <http://www.contexto.org/pdfs/WEFcomprepc1.pdf>.

It is believed that the pillars of the GCI have different extent of impact on the competitiveness of a country at different stages of its development. Accordingly, the pillars are grouped into three sub-indexes: the first stage – basic requirements, the second stage – efficiency enhancers, and the third stage – innovation and sophistication factors.

In the calculation of GCI each pillar is attributed with own weight according to its importance for the country at every stage of development. For countries that are in transition stages, these weights vary smoothly depending on the degree of closeness to one or the other stage.

After a stay of two years in the transitional period between the first and second stages of economic development in 2012 Ukraine returned to the group of countries whose economies are efficiency-driven (the second stage of development) in which it resided in 2008 and 2009 (The Global Competitiveness Report, 2007–2012).

The pillars of the GCI and Ukraine's place in the WEF Ranking are presented in Table 2.

Data from the Table 2 indicate an increase in the overall level of competitiveness of Ukraine for the past two years. In 2012 compared to 2011 by the overall GCI Ukraine improved its position on 9 points and ranked 73 among 144 countries. That is, in general she managed to reach the pre-crisis level of 2007. This improvement was due to increase of Ukraine's rating in nine of the twelve pillars.

The biggest jump made by Ukraine was pillar «Macroeconomic stability» – 22 points. This was caused by reduction of the budget deficit from 5.8 to 2.7% of GDP and of public debt from 40.5 to 36.5% of GDP and, as a result, increase of the rating of these indexes on 37 position (rank 68) and the 15 positions (rank 61) respectively; disinflation by 1.5% added Ukraine 19 points on this indicator (The Global Competitiveness Report, 2007–2012).

Nevertheless, macroeconomic stability remains one of the weaknesses of the competitive environment in Ukraine. In addition, the Global Competitiveness Ranking 2012 used macroeconomic indicators for 2011. In 2012 the main macroeconomic indicators deteriorated. Thus, the state budget deficit amounted to 53.4 billion USD or 3.8% of GDP in 2012 which is 1.1% more than the previous year figure. The amount of public and publicly guaranteed debt of Ukraine at the end of 2012 amounted to 515.5 billion or 36.6% of GDP which is 0.1% less than in 2011 (Ministry of Finance of Ukraine, 2012). Accordingly, ranking deterioration of Ukraine's position in terms of macroeconomic stability is probable in 2013.

In 2012 considerable improvement was demonstrated by pillars «Health and primary education», «Goods market efficiency» and «Business sophistication» (12 positions up for each). There were no changes in the pillar «Market size» which has the highest rating among the GCI pillars (rank 38).

Table 2

**Ukraine's position in the WEF Ranking  
by the Global Competitiveness Index**

Subindex	GCI pillar	Ukraine's position in the WEF Ranking					
		2007	2008	2009	2010	2011	2012
	<b>Overall index</b>	<b>73</b> (of 131)	<b>72</b> (of 134)	<b>82</b> (of 133)	<b>89</b> (of 139)	<b>82</b> (of 142)	<b>73</b> (of 144)
Basic re- quirements	Institutions	115	115	120	134	131	132
	Infrastructure	77	79	78	68	71	65
	Macroeconomic environment	82	91	106	132	112	90
	Health and primary education	74	60	68	67	74	62
Efficiency enhancers	Higher education and training	53	43	46	46	51	47
	Goods market efficiency	101	103	109	129	129	117
	Labor market efficiency	65	54	49	54	61	62
	Financial market development	85	85	106	119	116	114
	Technological readiness	93	65	80	83	82	81
	Market size	26	31	29	38	38	38
Innovation and sophisti- cation factors	Business sophistication	81	80	91	100	103	91
	Innovation	65	52	62	63	74	71

Compiled by: The Global Competitiveness Report (issues 2007–2012). World Economic Forum [Electronic resource]. – Available at: [http://www.weforum.org/reports?filter\[type\]=Competitiveness](http://www.weforum.org/reports?filter[type]=Competitiveness).

Position of the pillars «Labor market efficiency» and «Institutions» is declined by one point. Nevertheless, the labor market remains Ukraine's competitive advantage (rank 62). The institutional environment opposite is the weakest element (rank 132).

Therefore, on the majority of pillars in 2012 Ukraine has surpassed the results of 2011 which has resulted in its overall ranking. However, the weaknesses are evident. They, in first turn, should be the subject attention for regulators, employers and other stakeholders.

In terms of GDP per capita, Ukraine is residing at the second stage of development for which the effective functioning of markets is important (see Table 1). However, according to the WEF Ranking (see Table 2), efficiency and de-

velopment of the major domestic markets (goods market and financial market) is quite low compared to other countries.

According to the 2012 ranking, the most negative factors caused low efficiency of goods market include: extent and effect of taxation (rank 139), prevalence of trade barriers (rank 136), effectiveness of anti-monopoly policy (rank 132). However, compared with 2011, ranks of these indicators increased by 2, 4, and 2 points. A number of other negative factors, namely: burden of customs procedures (rank 138), agricultural policy costs (rank 136), and business impact of rules on foreign direct investment (rank 132), prevalence of foreign ownership (rank 125) dropped by 2, 1, 2, and 4 points respectively.

However, Ukraine has a good rating on trade tariffs, which however declined compared to 2011 by 6 points to the rank 43, and on the imports as a percentage of GDP (rank 44) which increased in 2012 by 7 points.

Significant improvements occurred in 2012 at degree of customer orientation, which increased by 33 points to the rank 70. Currently, Ukraine has the same rank with Latvia, Bulgaria, Spain and Slovakia by this indicator. On the extent of market dominance Ukraine climbed on 21 ranks up (108), on intensity of local competition – on 16 ranks (104), on buyer sophistication describing how they make purchase decisions focusing only on price or analyzing product specifications and quality – on 14 ranks (73).

Improving of 10 out of 16 indicators within the pillar «Goods market efficiency» affected its overall rank which increased by 12 points in 2012.

The main problems of the financial market are: soundness of banks, which rating is quite low (142) and in 2012, compared with the previous year it declined by 1 point, and financing through local equity market which ranked 129 in 2012 (5 ranks lower than the previous year). Other weaknesses of Ukraine are: regulation of securities exchanges (rank 124), availability (diversity) of financial services (rank 113), and affordability of financial services (the extent of the impact of competition among financial services providers on affordability of their prices) (rank 111). However, these indicators have improved ratings compared to 2011, in particular the availability of financial services – on 12 ranks, other indicators – on 2-3 ranks.

The most significant increase (by 21 points to the rank 107) was shown by the indicator «ease of access to loans» which in 2011 was one of the worst.

In contrast, on the index of legal rights protection, which is considerably high, Ukraine lost 3 ranks in 2012 and was ranked 11.

The significance of a developed financial market for economic development is emphasized by Joseph Schumpeter (Schumpeter, 2008). The general idea is following: financial market is a place where the decisions on providing entities the right to use the savings of society are made, that is why it plays a critical

role in allocating resources and effects businesses increase of productivity and therefore the long-term economic growth.

Insufficient development of domestic markets is also associated with a weak position of Ukraine on the pillars which are included to the basic requirements and are important for the first stage of development when the economy is factors-driven: institutions and macroeconomic environment (see Table 1). These two pillars together with low efficiency and sophistication of goods and financial markets have the most negative impact on the overall competitiveness of Ukraine.

Using econometrics methods and calculating the correlation coefficients for time series data on these pillars, it can be concluded that they are closely related. In particular, the connection of goods market efficiency and sophistication of financial market with institutions is very strong (correlation coefficients of 0.94 and 0.95 respectively), the connection of these components with macroeconomic environment is slightly weaker but significant (correlation coefficients of 0.81 and 0.74). The development of goods and financial markets are also closely related (correlation coefficient of 0.92). The least close connection is between macroeconomic environment and institutions (0.66). This may be explained by the fact that decisions taken by regulators are not always related to real macroeconomic situation and the need to resolve its urgent issues, but pursue personal interests.

A significant impact of the institutional environment on the development of domestic markets, including financial market, pointed out by academics as well. Thus, proponents of the theory of «Law and Finance» emphasize the importance of the legal institutional framework for countries' financial development, which in turn is the primary driver of economic growth (Levine and Zervos, 1988). The theory attempts to reveal the determinants of financial development, arguing that differences in financial development of countries can be explained by differences in the legal and institutional traditions that emerged in countries and were spread internationally through conquest, colonization, and imitation (La Porta et al., 1997).

According to the famous researcher of the problems of countries' financial development, Ross Levine «countries where legal systems enforce private property rights, support private contractual arrangements, and protect the legal rights of investors, savers are more willing to finance firms and financial markets flourish» (Beck and Levine, 2003, p. 1). In fact, the protection of private property rights provides certainty to investors, depositors and borrowers and encourages them to become participants in the financial markets.

Another example of the impact of legislative regulation of the financial markets and their participants is given in the study (Huang and Knoll, 2000). The authors examine U.S. Corporate Law. Given that each U.S. state has its own version of the Law, more than half of the companies in the Fortune 500 and more than 40% of the companies listed on the New York Stock Exchange are incorpo-

rated in Delaware. If a legal regulation had no effect on the value of companies on the stock market, it would be a very surprising fact that so many companies are registered in such a small state, where most of them do not have any operations.

Problems of institutional environment negatively affect the access to goods market. Due to the intervention of public authorities unequal conditions of competition for different entities are created.

Thus, taking into consideration the weak position of the pillar «Institutions» for the past six years, the deterioration of its level in 2012 and a close correlation with pillars of markets efficiency, it can be argued that at this time it is the weakest element in the competitive environment of Ukraine and the deterrent factor of the national economy development.

Among the large number of definitions of «institutional environment» the most concise and comprehensive appears to be one of Oliver Williamson, the recipient of the 2009 Nobel Memorial Prize in Economic Sciences: «Institutional environment – are set of rules that define the context in which the economic activity occurs, the basic political, social and legal norms that form the basis for production, exchange and distribution» (Williamson 1996, p. 688).

According to the GCI developers «institutional environment is determined by the legal and administrative framework within which individuals, firms, and governments interact to generate wealth» (The Global Competitiveness Report 2012–2013, p. 4).

Thus, the institutional environment formation involves both regulatory bodies and business entities. The extent of influence of the latter is much smaller. However, it should be taken into account. That is why estimation of the pillar «Institutions» is based on two complex indicators: public institutions (assessment weight is 75%) and private institutions (25%). The first gives an evaluation of the effectiveness of the legal and administrative systems, the second – of the quality of corporate ethics and accountability of companies.

Among the indicators of effectiveness of Ukraine's private institutions in 2012 the lowest rank is given to: protection of minority shareholders' interests (141), ethical behavior of firms (124), and strength of auditing and reporting standards (122).

These figures indicate a lack of transparency and accountability of companies which cause reduction in confidence of financial donors as well as difficulties while making management decisions. The recent global financial crisis has demonstrated the significance of financial reporting standards to ensure effective management and support confidence of investors and consumers. Equally important is adherence to corporate ethics in dealing with government, customers and partners as it affects the institutional environment as a set of norms and rules of behavior on economic activity.

Since January 1<sup>st</sup>, 2012 public corporations, banks, insurance companies and companies that conduct business activities according to the list established by the Cabinet of Ministers of Ukraine prepare their financial statements in compliance with International Financial Reporting Standards (Accounting law of Ukraine, 2011) (hereinafter – IFRS). Other entities given a choice between IFRS and National Regulations (Standards) of Accounting (hereinafter – R(S) A). The Ministry of Finance of Ukraine issued an order (Standards of accounting, 2013), which approved the National Regulation (Standard) 1 «General Requirements for Financial Reporting», withdrawn R(S)A 1, 2, 3, 4 and 5 and introduced new forms of financial reporting designed in accordance with the requirements of IFRS for using by all entities, regardless of accounting and reporting standards they guided. The forms are flexible: companies are allowed not to fill in the items for which there is no information (except cases when they were filled in the previous reporting period), and add items from the list provided in Annex 3 to NR(S)A 1.

It is expected that application of IFRS, as internationally recognized financial reporting standards used in more than 120 countries (Use of IFRS by Jurisdiction), would enhance the protection of the rights and interests of shareholders, investors and lenders, improve investment attractiveness of the economy, encourage foreign investment, simplify the procedure and reduce the cost of capital raising for domestic enterprises in international markets and promote the development of domestic financial markets.

The most negative factors that influenced the assessment of public institutions in 2012 were: efficiency of legal framework in settling disputes and challenging regs (ranks 141 and 139 respectively), burden of government regulation (rank 135), property rights (including financial assets) (rank 134), illegal payments and bribes (rank 133), wastefulness of government spending (rank 128), judicial independence (rank 124), transparency of government policymaking (rank 123).

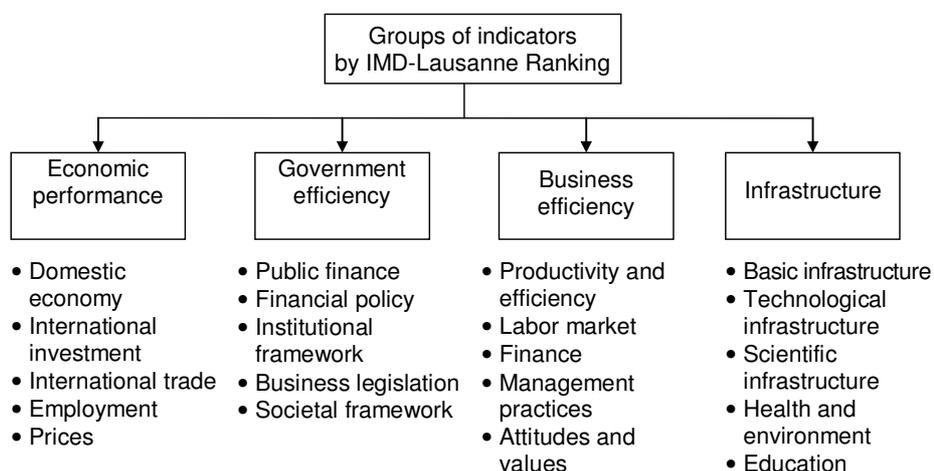
Therefore, instead of focusing on improving the efficiency, which is a priority for the current stage of development of Ukraine's economy, entities consume resources and time to overcome the difficulties created by the administrative and legal system.

The lack of effectiveness of the institutional environment is indicated by the results of another influential ranking – annual «World Competitiveness Yearbook» prepared by the International Institute for Management Development (IMD-Lausanne). The ranking is based on 320 criteria grouped into four competitiveness factors: economic performance, government efficiency, business efficiency and infrastructure (Figure 1).

Ukraine participates in the IMD ranking since 2007. According to the overall assessment for the period from 2007 to 2011 she has lost 11 points, taking 57 places among 59 countries. In 2012 her ranking rose by 1 point (Table 3).

Figure 1

**Grouping of the indicators of the World Competitiveness Ranking by IMD-Lausanne**



Compiled by the data of International Institute for Management Development [Electronic resource]. – Available at: <http://www.imd.org>

Table 3

**Ukraine's position in the annual World Competitiveness Ranking by IMD-Lausanne**

Indicator of the Ranking	Ukraine's position in the IMD-Lausanne Ranking					
	2007	2008	2009	2010	2011	2012
<b>Overall rank</b>	<b>46</b> (of 55)	<b>54</b> (of 55)	<b>56</b> (of 57)	<b>57</b> (of 58)	<b>57</b> (of 59)	<b>56</b> (of 59)
Economic performance	43	50	55	55	45	48
Government efficiency	48	52	56	56	58	56
Business efficiency	46	52	53	54	55	55
Infrastructure	47	46	48	41	48	51

Compiled by Overall ranking and competitiveness factors. International Institute for Management Development. [Electronic resource]. – Available at: [http://www.imd.org/research/publications/wcy/upload/Overall\\_ranking\\_5\\_years.pdf](http://www.imd.org/research/publications/wcy/upload/Overall_ranking_5_years.pdf)

The most weak spot of Ukraine in the ranking is the government efficiency. Its lowest level recorded in 2011 – 58 among 59 countries (10 ranks lower compared to 2007). In 2012 this group of indicators has risen by 2 ranks due to improvement of fiscal deficit, government debt and business regulation (simplification of starting business by reducing the minimum statutory capital requirements, the number of procedures in the registration of entities and the time to register property, simplification of tax payment procedures by introducing an electronic system for financial reporting, etc.).

Similar trends have indicators that characterize the performance of business in Ukraine. Thus, from 2007 to 2012, Ukraine's position on this factor has declined by 9 ranks to 55 in 2012.

In general, for the observed period more positive value was given to infrastructure of Ukraine. Best rank in recent years was in 2010 – 41. However, in 2012 it dropped by 10 ranks (51).

During the years 2011–2012 Ukraine had the highest rating for a group «economic performance». However, in 2012 compared with 2011, Ukraine's rating on the group of indicators decreased by 3 points to the rank 48.

One of the well known projects designed to study the competitive environment in the world is a project of the World Bank and the International Financial Corporation «Doing Business» (hereinafter – DB project). DB project aims to study the impact of the regulatory environment on local businesses all over the world by evaluating the efficiency and strength of laws, regulations and institutions, which are relevant to local small and medium sized businesses throughout their life cycle, based on collection and analysis of complex quantitative data.

The annual report «Doing Business» presents rating of countries by the integral index «Ease of Doing Business», formed from 10 groups of indicators: starting a business, dealing with construction permits, getting electricity, registering property, getting credit, protecting investors, paying taxes, trading across borders, enforcing contracts, resolving insolvency.

Since 2007, Ukraine's position in the ranking DB gradually deteriorated. In 2011 Ukraine ranked 152 out of 183 countries losing 8 positions in five years. However, in 2012 it rose to 137 positions and took 137 place surpassing the results of 2007. The rapid improvement of Ukraine's position in the DB ranking was driven by a number of reforms that were carried out in 2011–2012. The results of these reforms and the relevant change of Ukraine's ranks by certain indicators of the DB ranking given in Table 4.

According to the data in table 4 on most indicators Ukraine in 2012 showed better results than in 2011, including the largest jump it made in terms of ease of starting business (66 ranks). This was due to the elimination of minimum capital requirements for the registration of the company as well as the requirements for notarization of statutory documents.

Table 4

Ukraine's position in the DB Ranking in 2011–2012

DB Ranking indicator	Year	
	2011	2012
<b>Ease of Doing Business Rank</b>	<b>152</b> <i>of 183</i>	<b>137</b> <i>of 185</i>
<b>Starting a business (position in the DB Ranking)</b>	<b>116</b>	<b>50</b>
<i>Numbers of procedures</i>	9	7
<i>Time (days)</i>	24	22
<i>Cost (% of income per capita)</i>	4,4	1,5
<i>Paid-in minimum capital (% of income per capita)</i>	1,8	0,0
<b>Dealing with construction permits (position in the DB Ranking)</b>	<b>182</b>	<b>183</b>
<i>Numbers of procedures</i>	20	20
<i>Time (days)</i>	375	375
<i>Cost (% of income per capita)</i>	1,462.3	1,262.6
<b>Getting electricity (position in the DB Ranking)</b>	<b>170</b>	<b>166</b>
<i>Numbers of procedures</i>	11	11
<i>Time (days)</i>	285	285
<i>Cost (% of income per capita)</i>	229,2	192,3
<b>Registering property (position in the DB Ranking)</b>	<b>168</b>	<b>149</b>
<i>Numbers of procedures</i>	10	10
<i>Time (days)</i>	117	69
<i>Cost (% of property value)</i>	3,9	3,7
<b>Getting credit (position in the DB Ranking)</b>	<b>23</b>	<b>23</b>
<i>Strength of legal rights index (0-10)</i>	9	9
<i>Depth of credit information index (0-6)</i>	4	4
<i>Public credit registry coverage (% of adults)</i>	0,0	0,0
<i>Private credit bureau coverage (% of adults)</i>	17,0	23,3
<b>Protecting investors (position in the DB Ranking)</b>	<b>114</b>	<b>117</b>
<i>Extent of disclosure index (0-10)</i>	5	5
<i>Extent of director liability index (0-10)</i>	2	2
<i>Ease of shareholders suits index (0-10)</i>	7	7
<i>Strength of investor protection index (0-10)</i>	4,7	4,7
<b>Paying taxes (position in the DB Ranking)</b>	<b>183</b>	<b>165</b>
<i>Tax payments (number per year)</i>	135	28
<i>Time (hours per year)</i>	657	491
<i>Total tax rate (% of profit before all taxes)</i>	57,1	55,4
<b>Trading across borders (position in the DB Ranking)</b>	<b>144</b>	<b>145</b>
<i>Documents required to export (number)</i>	6	6
<i>Time requires to export days)</i>	30	30

DB Ranking indicator	Year	
	2011	2012
<i>Cost requires to export (US \$ per container)</i>	1,865	1,865
<i>Documents required to import (number)</i>	8	8
<i>Time requires to import (days)</i>	33	33
<i>Cost requires to import (US \$ per container)</i>	2,155	2,155
<b>Enforcing contracts (position in the DB Ranking)</b>	<b>44</b>	<b>42</b>
<i>Time (days)</i>	343	343
<i>Cost (% of claim)</i>	41,5	41,5
<i>Number of procedures</i>	30	30
<b>Resolving insolvency (position in the DB Ranking)</b>	<b>158</b>	<b>157</b>
<i>Time (days)</i>	2,9	2,9
<i>Cost (% of property value)</i>	42	42
<i>Recovery rate for creditors (cents on the dollar)</i>	8,9	8,7

Compiled by: Economy profile: Ukraine. Doing business 2013 [Electronic resource]. – Available at: <http://www.doingbusiness.org/~media/giawb/doing%20business/documents/profiles/country/UKR.pdf>.

Due to acceleration of transferring the property by introducing an effective time limit for processing applications for transfer in State Land Cadastre Centre, Ukraine in 2012 climbed by 19 positions on the indicator «Property Registration».

There was a simplification in the tax system by reviewing and combining the tax laws, reducing income tax rates and harmonization of social insurance contributions as well as introducing an electronic system for reporting and paying taxes. This led to increase of Ukraine's rating by 18 ranks on the indicator «Paying Taxes».

By reducing the cost of electricity connection Ukraine has jumped by 4 ranks on the relevant indicator.

Despite the decrease in the total cost of construction permits in 2012, Ukraine has lost one position on this indicator. This means that in other countries the reforms in this field took place more intensively. A similar situation occurred with the indicators «Trading across borders» and «Protecting investors» which position decreased, respectively, by 1 and 3 ranks, despite the fact that the components of these indicators had no changes.

Remained unchanged the situation with getting credits. However, this indicator remains a significant advantage of Ukraine – rank 23.

In the field of enforcing contracts and resolving insolvency of entities in 2012 there were no any reforms implemented. However, in DB Ranking the posi-

tion or relevant indicators improved on several ranks, possibly on the background of a minor activity of other countries in reforming these fields.

Overall, the advantages of the Ukraine's competitive environment in 2012 were: getting credit (rank 23), enforcing contracts (rank 42), starting a business (rank 50). The weaknesses were: dealing with construction permits (rank 183), getting electricity (rank 166), paying taxes (rank 165), although there has been an improvement on all these indicators compared with 2011.

Creation of favorable business climate in Ukraine is currently one of the priorities of state policy. This is confirmed by a number of statements of the President of Ukraine Viktor Yanukovich: «In conditions of increasing the competition in foreign markets, we have to create the most comfortable business environment for raising foreign investment and global capital» (Speech of Yanukovich). «Business will be successful when firstly, the state creates relevant conditions, and secondly, business is transparent. Therefore, we continue to implement persistently the strategies of complex internal changes» (Speech of Yanukovich).

Taking into consideration the priority of this direction the President set a goal: the accession of Ukraine to the top 100 countries by ease of doing business in 2013 (Speech of Yanukovich). The importance of this problem is emphasized in a number of government policy documents.

Thus, the National Action Plan for 2013 on implementation the Program of Economic Reforms for 2010–2014 «Prosperous Society, Competitive Economy, Effective State» (Speech of Yanukovich) provides for number of tasks and activities aimed at improving the competitive environment in Ukraine:

- enhancing the transparency and disclosure of information by financial markets participants and improving of the regulation of their activities;
- stimulating an increase of transactions in the organized segment of the stock exchange market by creating favorable conditions on Ukrainian stock exchanges for turnover of securities of foreign issuers with assets in Ukraine who trades their securities on foreign exchanges;
- simplification of the procedure for starting a business:
- cancellation of requirements to charge a registration fee for state registration of entities and individual entrepreneurs;
- state registration of entities and individual entrepreneurs by means of electronic documents submission without requiring the use of digital signature (using other means of identification);
- establishing the principle of economic activities without seals for private law entities;

- simplification of the procedure for voluntary termination of economic activities of individual entrepreneurs;
- shortening of bankruptcy procedures, ensuring parity of protecting the interests of debtors and creditors, introduction of an effective mechanism for restoring the debtor's solvency and prevent manipulation of the property;
- improving procedures for obtaining permits;
- enhance investor protection by ensuring shareholder rights to sue in court for the benefit of the company (a derivative action) in certain cases;
- reform of customs procedures, including reducing the number of documents submitted to the customs clearance;
- increasing of competition in markets:
- submission to the Verkhovna Rada of Ukraine the draft Law of Ukraine on Approval of the National Program of economic competition development in Ukraine for 2014–2024 years;
- taking comprehensive measures to prevent, detect and deter violations of the legislation on protection of economic competition;
- taking measures to assist in carrying out the review of legislation and competition policy in Ukraine by the United Nations Conference on Trade and Development (UNCTAD).

In order to execute the task of the National Action Plan to strengthen the competition in markets, the Government approved the Concept of National Program of Competition Development in the years 2014–2024 (Decree of the President). The draft Program placed on the official website of the Antimonopoly Committee of Ukraine which is responsible for its development.

The Program specifically provides for:

- introducing periodic tracking of efficiency of the competition policy implementation at the national, sectoral and regional levels;
- optimization of the government actions as economic agents;
- ensure the development of effective competition on the commodity markets:
- promotion of the development of commodity markets' infrastructure;
- elimination or reducing the entrance barriers to the markets of goods (works , services);

- facilitation of small and medium enterprises development;
- formation of a pro-competitive consciousness in society;
- involvement of civil society institutions in the promotion and protection of competition development;
- involvement of representatives of business, business associations and public organizations in the development of draft legal acts on the protection of economic competition.

The purpose of the Program is the development of competition in goods markets. According to the draft Program, «goods markets» include financial services markets. This means that all provisions of the Program relate to both goods markets and financial markets. However, problems of these markets are not the same, as evidenced by the analysis above. Thus, universal measures of competition policy cannot be applied for them and the same results cannot be expected. Development of competition in the domestic financial market is an important issue that needs developing special measures.

Another policy document aimed at improving the competitive environment in Ukraine is «State Program of Intensification of Economic Development for 2013–2014» (Ordinance of the Cabinet of Ministers).

Justifying the need to improve economic competitiveness and the investment climate the Program refers as well on indicators including international rankings, such as the WEF Ranking and DB Ranking. The Action Plan on implementation of the Program takes into account weaknesses of competitive environment of Ukraine which influenced its position in these rankings. In particular, the Action Plan provides for:

- improvement of the procedure of enterprise income tax imposition to reduce the time taxpayers spend for its calculation and payment;
- implementation of distance servicing of taxpayers in order to reduce time and cost of entities for tax accounting and taxation;
- reducing the number of business activities subject to licensing and drafting of legal acts aimed at reducing the number of products subject to compulsory certification in Ukraine in order to improve conditions for business entities;
- establishment of the State Development Bank to encourage and support the development of priority sectors of the economy, investment and innovation realization, raising of long-term foreign investment for the national economy;
- promotion of investment activity of small businesses by providing them with 50 micro-credits for starting and running own business;

- providing comprehensive state support for the development of high-tech priority industries;
- raising of state and investment funds for the implementation of infrastructure projects;
- conclusion of an Association Agreement between Ukraine and the EU, including temporary entry into force of the provisions on free trade zone to promote Ukrainian products to the markets of European Union members, increasing turnover, export and investment raising.

Thus, public policy in the field of creating a favorable competitive environment in Ukraine has intensified. However, in the approved program documents there were no any quantitative indicators of program activities efficiency set. Foreign experience shows that the use of this tool provides the ability to assess the effectiveness of public administration and contributes to its improvement.

The Ministry of Finance of the Republic of Kazakhstan in its strategic plan for 2011–2015 (Resolution of the Cabinet of Ministers) uses ranks from the WEF Ranking as indicators of the objectives achievement for a number of indicators. Accordingly, in each case there are ways, measures and methods to achieve the target indicator provided.

By carrying out a comparison of planned and actual values of the target indicators, we note that for all indices achieved ratings exceeded planned ones. Thus, on the government budget balance in 2012 the rank 29 was planned, in fact – rank 12, on the general government debt – rank 16 planned, in fact – rank 14, on wastefulness of government spending – rank 49, in fact – 31, strength of auditing and reporting standards is planned at the rank 95, in fact – rank 74. Overall GCI of Kazakhstan in 2012 was 51 increasing by 21, compared to year 2011.

Kazakhstan's Experience indicates the feasibility of including the indicators of the country's competitiveness ranking in strategic planning activities of public bodies. Information from such rankings provides the opportunity to see the weaknesses of the economy and develop the most appropriate policy measures. In addition, comparison of planned and actual ranks provides an additional opportunity to indicate the effectiveness of a government.

Thus, based on the results of the study, the number of conclusions can be made:

1. According to the international rankings the competitive environment of Ukraine has a number of advantages including: large market size, improved infrastructure of the economy, good education and training level, efficient labor market, effective legal mechanism of contracts enforcing, a strong legal framework protecting borrowers and lenders, reasonable rates of customs tariff. Favorable factors include improvements in technological readiness and innovation

potential of the economy, simplification of business and ownership registration, accelerating of the procedure of reporting to the tax authorities and taxation, reduction of market concentration, increasing the intensity of domestic competition, ease of obtaining bank loans without collateral but only with business plan.

2. The benefits of the Ukraine's competitive environment are partially neutralized by a number of negative factors:

- low efficiency of goods market caused by considerable amounts of enterprise's taxes, low effectiveness of anti-monopoly policy, the burden of customs procedures, insufficient state spending on agricultural policy, the negative impact on the business of rules on foreign direct investment, the complexity of the procedures for obtaining construction permits and getting electricity;
- insufficient development of financial market caused by the banks instability, low financing of enterprises through local equity market, underperformed regulation supervision of stock exchanges, poor protection of investor rights;
- not favorable institutional environment, the main problems of which are: corruption, waste of budget, judicial dependence, weak protection of minority shareholders' interests and property rights, insufficient transparency of the government policy, poor corporate ethics of firms, lack of strength of auditing and reporting standards.

3. Problems of competitive environment in Ukraine are under review of public authorities. This is evidenced by activation of the state policy on national competitiveness improvement and the formation of favorable business climate in Ukraine. A number of government policy documents, which have included measures to solve the competitive environment in Ukraine have been approved. However, they do not provide the mechanisms to control the implementation of these measures and their effectiveness. The documents contain almost no quantitative indicators of planned activities performance, including those related to the position of Ukraine in the international rankings. Foreign practice shows that such indicators serve as an effective tool in the preparation of national strategic plans for evaluating the effectiveness of public policy and increase its effectiveness. Given the effectiveness of this tool, the state authorities of Ukraine should apply it in practice.

4. The draft National Program on Competition Development for 2014–2024 aimed at development of competition in goods markets. As stated in the Program, goods markets also include financial services markets. However, taking into consideration the difference of the problems on these markets, competition policy measures, directed on them, should also differ. In this regard, the provision on the development of competition in the financial market of Ukraine with consideration of data from international studies should be added to the Program. These

developments should involve regulators of financial markets responsible for policy making in this area: the National Bank of Ukraine, the National Commission for the State Regulation of Financial Services Markets, National Commission on Securities and Stock Exchange Market.

5. The competitive environment is only partially dependent on the actions of public bodies. Hence, entrepreneurs should also contribute to its improvement through the production of quality goods (services), comply with principles of fair business and effective business management. It will sharpen competition in the markets and raise the ranking of business sophistication in Ukraine. The important role plays the transparency and full disclosure of information by entities in order to give confidence to investors and creditors regarding the advisability of investing. Financial donors should be able to assess the real situation of companies, based on matching and comparing their performance. A prerequisite for comparability is the use of single standards for preparation of reporting. Accordingly, incompliance with such standards stands a company in a losing position in comparison with those who do comply with them.

Ukraine's legislation requires the mandatory use of IFRS by public-interest entities (banks, insurers, public joint stock companies etc.) starting from January 1<sup>st</sup>, 2012. Other business entities granted such a right.

IFRS, as internationally recognized standards which is applied by companies in more than 120 countries, can contribute to revitalization of the domestic financial market and the growth of foreign direct investment in Ukraine. However, only provided the by the proper application of these Standards.

In further research it is planned to explore the financial mechanisms of addressing issues connected with the development of a competitive environment in Ukraine.

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