

HARD TO BEAR, HARD TO MEASURE: THE COSTS OF SMALL BUSINESS LEGALIZATION IN UKRAINE

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Abstract

This study applies the concept of *Costs of Exchange* to the measurement of the costs of obtaining legal permission to open a small garment firm in Ukraine. The objective is to better understand the prices individuals actually face in Ukraine. The business legalization in Ukraine includes both the state registration and getting of local permits from local authorities. State registration is clearly defined and transparent with low levels of corruption. Unlike the state registration, the complex local permit system is non-transparent and conducive to corruption. The survey data show the opportunity costs of getting permits vary significantly across different owners. This study focuses on that variation and the sources of that variation. Non-transparency of the permit system raises not only the costs of compliance with its procedures but also the costs of measuring the compliance costs. Limited databases on private entrepreneurs and the reluctance of entrepreneurs to disclose their illegal practices pose significant problems with sampling and measurement. The implications of high variation in *Costs of Exchange* and high measurement costs are explored.

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1. Introduction

The possibilities for economic growth in a society depend on the costs of doing business in that society. The magnitude of these costs reflects the quality of institutions governing economic activities. Overall costs of doing business include both the costs of contracting between economic agents and the costs of compliance with regulation (the costs of contracting between an economic agent and the state). The latter is the price economic agents pay for the permission to engage in the economic activities and for the access to formal institutions supporting these activities.

Regulation can be considered efficient if a positive effect of regulatory activities for a society as a whole outweighs the sum of costs of the implementation of regulatory activities for the government and the costs of compliance with the regulation for entrepreneurs. If the compliance costs are unreasonably high, potential entrepreneurs may be deterred from entering business, which will have a detrimental effect on the economic development of a society.

To make informative suggestions regarding changes in institutions with a view toward reducing unjustifiably high costs of compliance with regulation, it is necessary to have a possibility to measure these costs. The costs of compliance with regulation are the composite of costs associated with various regulatory procedures, such as business legalization, accounting to regulatory agencies, inspections by regulatory agencies, etc.

In our study, we focus on the measurement of the costs of business legalization, which constitute a very important part of the overall costs of compliance with regulation. For an entrepreneur, they represent the first barrier to overcome, and if this barrier proves to be too high, the very idea of starting business may be forgone or the business may retire to “shadow”. More specifically, we measure the costs of the small garment business legalization in Ukraine with a view to determining prices entrepreneurs actually pay for entering business and identifying the factors that lead to the variation in the legalization costs across businesses.

What is interesting about the Ukrainian business legalization is that the whole legalization process can be distinctly divided into two groups of procedures with different corruption capacity:

state registration (low corruption capacity) and obtaining permits (high corruption capacity). Analyzing the consistency and transparency of the legislation governing state registration and obtaining permits and measuring actual costs associated with these procedures, we show the relation between the quality of formal institutions and the costs of transacting between an entrepreneur and the state.

2. Methodological issues

To measure the costs of obtaining legal permission to open a small garment firm in Ukraine, we used the concept of *Costs of Exchange*. More specifically, "...the cost of exchange C_{ijkm} is defined as the opportunity cost in total resources—money, time, and goods—for an individual with characteristics i to obtain a good j using a given form of exchange k in institutional setting m . The cost of exchange therefore includes both the cost of the good itself and the transaction costs incurred by the individual in obtaining the good..." [1]. This concept allows us to estimate the actual price an individual pays for a good in a certain society. The costs of exchange can significantly exceed the official price of a good when transaction costs of obtaining this good are high (for example, under the conditions of shortage an individual has either to pay a bribe or to spend time on searching for the good and queuing). At the same time the costs of exchange can be lower than the official price of a good (for example, instead of paying an official fine for speeding, a driver can pay a fraction of this sum to a road police officer unofficially).

In our study, using *the Costs of Exchange* concept we determine the costs associated with separate steps in the legalization process and estimate the overall cost of business legalization including official and unofficial payments to government agencies and the opportunity costs of time spent on legalization procedures.

We study the costs of small garment business legalization in Kharkov, a large industrial city in Eastern Ukraine, through case studies and a survey of a sample of small garment business owners using a standardized questionnaire.

The costs of doing business in a society depend on the formal and informal institutions of the society as institutions structure the interactions between economic agents [2]. The measurement of the real world legalization costs must go in parallel with the detailed study of the institutions governing the legalization process. This process can be treated as an exchange between an entrepreneur and the state represented by its agents. If the formal institutions are transparent, consistent and are effectively enforced, there is little space for informal bargaining between the parties to this exchange, and the legalization costs can be expected to be relatively uniform across entrepreneurs. If formal institutions are non-transparent, ambiguous contain gaps or lack enforcement, they open possibilities for informal bargaining between an entrepreneur and a state agent. Non-transparent formal institutions generate costs associated not with a more careful screening of prospective entrepreneurs in the public interest but rather with income redistribution in favor of state agents and applicants with the “right” political, family, bureaucratic, ethnic, religious, or sex characteristics. Non-transparent and ambiguous institutions produce uncertainty and must be augmented by informal institutions coping with that uncertainty.

In this connection, when studying in detail the entire process of business legalization as prescribed by legislation, we paid special attention to the transparency and consistency of the formal institutions. We analyzed the sources of discretionary power of government officials inherent in separate formal procedures, and consequently the corruption capacity of these procedures.

3. Business regulation in Ukraine: key issues

Before we turn to the business legalization itself, it is important to describe the institutional setting in which this exchange (between an entrepreneur and the government) takes place, so that we could analyze the peculiarities of the business legalization in Ukraine in the context of the overall regulatory environment. This will help to better understand the relative importance of the business legalization barrier in comparison with other regulatory barriers to small business operation. In particular, it will help to understand whether it is legalization procedures and the associated costs that deter entrepreneurs working in the "shadow" from going official or whether it is post-legalization

disadvantages of being legal that keep unofficial business from getting registered. Besides, understanding of the overall business climate in Ukraine helps not only to explain and but also to predict the cost minimizing ways used by entrepreneurs in the process of business legalization.

According to numerous studies (see for example [3]), the main barrier to business development in Ukraine is taxation. What makes the system of taxation a difficulty for entrepreneurs is not only the current tax rates and the number of taxes for which their firms are liable, but also the administrative burden involved in filing and calculating taxes, as well as the frequency of changes to taxation legislation. Legalization of a business leads to the disadvantage of becoming a tax-payer under the unfavorable taxation system. It is also a common practice of Ukrainian firms operating legally to hide part of their sales from taxation. Similarly, relatively large rates of mandatory payments to a number of social funds¹ lead to business owners' officially showing on the payroll only a small fraction of employees' real wages and paying the difference to employees unofficially. It should be pointed out that the reasons for the low level of tax culture in Ukraine stem not only from the desire of entrepreneurs to see a higher return on investment, but also from their perception that the government treats them unfairly.

For small firms, which employ less than 50 people and have an annual turnover of less than UAH 1 million (US\$187,000) and for private entrepreneurs (physical persons)², who employ no more than 10 employees and have annual sales of less than UAH 500,000 (US \$93,000), the simplified system of taxation, accounting and reporting is available [4]. This system allows qualified businesses to pay a majority of taxes as a single tax with a single report. The introduction of this system in 1998 set strong incentives for small business to go legal and played an important role in bringing business activities out of shadow, which was an evidence of the relatively higher importance for firms of the post-legalization conditions of operation than the legalization barrier itself.

¹ The current social insurance system in Ukraine represents a heavy burden for Ukrainian businesses. The total sum entrepreneurs have to pay for their employees to the Pension fund and the Social Insurance Funds equals more than 37 % of an employee's wage. Besides, they have to deduct from an employee's wage 3.5 %.

² An alternative way of business registration, which will be discussed below.

Another key barrier to small business operation related to the post-legalization phase is inspections by state agencies. The common problems faced by firms during inspections are a great number of documents demanded by agencies conducting inspections; conflicting or unclear demands made on the part of inspections authorities; and non-transparent procedures. The usual consequences of inspections are official fines, sometimes unfair, and/or unofficial payments to inspectors³. Payment of unfair fines and bribes is considered by many firms to be a cost minimizing way because otherwise their work will be paralyzed by a deliberately protracted inspection.

Corruption is pervasive in the Ukrainian business environment. Surveys of entrepreneurs evidence that in 2003 more than 90 % of them had to pay bribes [5]. According to the data reported at the Ukrainian conference “How to secure transparency in the regulation of small and medium size business” (October 17-18, 2003), total losses of Ukrainian entrepreneurs from bribe giving constituted US\$ 1.5 billion in 2003, which is around 13 % of the 2004 State Budget [3]. The effect of the corruption is twofold. On the one hand, in a short run unofficial payments help entrepreneurs to quickly overcome red tape and other obstacles to entrepreneurial activities. However, in the long run, corruption enhances inefficiencies of administrative regulation and leads to the further growth of the shadow sector⁴.

Business legalization as a whole is a burden for entrepreneurs, however it does not represent an insurmountable barrier. The heights of barriers associated with different stages of business legalization differ significantly, which will be discussed in detail later.

As is seen from this brief discussion of the Ukrainian business environment, legalization of a business leads to a significant disadvantage of paying taxes and does not spare entrepreneurs from making unofficial payments to representatives of regulatory authorities. “...Firms managers may be

³ It should be noted that in some cases unofficial payments cannot help to avoid official fines. For example, tax inspectors are usually given fines quotas, i.e. they must collect a certain amount of money in fines within a given period of time. So, tax inspectors come to check a firm with an intention to penalize it. Even if a tax inspector cannot find any fault with the firm, the firm in most cases still pays a fine without a protest. Moreover, the firm and the inspector try to find a compromise: to minimize a loss for the firm, on the one hand, and to help the inspector to approach his or her quota, on the other hand.

⁴ According to official estimates, the size of the Ukrainian informal economy is approximately equal to the size of the official economy.

willing to be taxed at a reasonable rate, but they are unwilling to put up with constant extortionate and arbitrary demands...” [6]. At the same time, legalization of a business helps its owner to feel surer and opens possibilities for protecting his/her rights in court ⁵.

4. Business Legalization

The legalization of business in Ukraine includes two phases: state registration and getting permits from state and local agencies. Registration procedures are much more clearly defined and transparent than those of obtaining permits and, consequently, give less discretionary power to government officials. As a result, the actual costs of business registration are much lower than the actual costs of getting permits. Recent changes in the registration procedures were aimed at bringing the registration costs further down. It turns out that more transparent procedures with a low corruption capacity are more conducive to improvement, while non-transparent ones like those related to getting permits are not so easy to change.

In sections 4.1 and 4.2, we discuss in detail the registration procedures and the current permit system, analyze inefficiencies of the existing legislation governing business legalization and estimate official costs of business legalization.

4.1. Registration⁶

Depending on the intended scale of business activities Ukrainian entrepreneurs starting a new business can choose between two alternative forms of the registration: as a private entrepreneur-physical person and as a legal entity, which, in turn, can be realized in different organizational forms: a private firm based on sole proprietorship, limited liability company, full liability company,

⁵ Suing the tax inspection for unlawful penalties is not infrequent in Ukraine. Entrepreneurs usually win in court, but litigation always takes time. That is why most business owners consider it cheaper to pay an unfair fine or bribe than to try to protect their rights in court.

⁶ In the course of our study of the business legalization costs, the registration procedure underwent changes. Our empirical results are related to the former procedure because the field research has been finished before the new registration procedure came into effect. To avoid confusion, in this section we will describe only the former procedure, because it is the costs associated with this procedure that will be reflected in our empirical findings. However we will return to the new registration procedure in the last section of this paper, where we will discuss the potential of the new procedure for reducing legalization costs and comment on the advantages and disadvantages of both the new and the former procedures.

additional liability company, differentiated liability company, open and closed joint stock companies and so on⁷. A Ukrainian private entrepreneur—physical person is between the status of a self-employed person and a micro enterprise by European standards. In Ukraine, private entrepreneurs may have up to 50 employees and a turnover of under UAH 1 million (US\$ 189,000). The registration and accounting procedures are simpler for private entrepreneurs-physical persons.

Flowcharts given in Addenda 1 and 2 show the steps, which had to be pursued in the process of the registration as a private entrepreneur - physical person and a legal entity respectively [7]. Tables in Addenda 3 and 4 summarize official terms to be met by the registration bodies and applicants, as well as fees to be paid by applicants at separate stages of the registration procedures. As is seen, there is a difference in the registration costs for a private entrepreneur - physical person and a legal entity in favor of the former, which makes registration as a private entrepreneur attractive for qualified small businesses.

The legislation governs the registration procedure at the national level, leaving neither legislative nor discretionary power to local authorities.

It should be noted that in accordance with the Resolution #740 of the Cabinet of Ministers of Ukraine "Regulation on State Registration of Business Entities" of May 25, 1998, which governed the former registration procedure discussed here, both entrepreneurs and, which is more important, state registration authorities were penalized for the failure to meet their registration deadlines. For example, for every day of the delay, the state registration authority had to return to an applicant 20 % of the registration fee⁸, which had a strong disciplining effect on this authority⁹.

⁷ In 2003 in Ukraine there were 41 registered small businesses per 1000 persons. 16 % of them were legal entities, 84 % were private entrepreneurs – physical persons.

⁸ However, the total sum of the payback could not exceed the registration fee.

⁹ The registration fee for private entrepreneurs physical persons constituted ~ US\$5, for legal entities ~ US\$ 22. For comparison, the minimum monthly salary in Ukraine is set at around US\$ 40. As is seen, the sum of the fee paid to the state registering authority is relatively small, but however small the fee is, the state is not accustomed to returning any money back, so the state officials are punished for creating such possibilities.

Due to its clearly defined and transparent procedures, and as a result low corruption capacity, registration presents no significant barrier to business development in Ukraine. Actual costs of registering can be expected to be relatively uniform for businesses with similar organizational forms.

4.2. Getting permits

Unlike the registration procedure, which is necessary but not sufficient for opening a business, the current permit system¹⁰ in Ukraine is opaque and complex, which stems from a number of reasons such as no clear definition of permits, or of all of the conditions which must be met in order to obtain them; a lack of legislation stipulating whether permits may be obtained free of charge, or whether the issuing agency can charge a fee, etc. The confusion created by the ambiguous national legislation leads to a number of rather predictable consequences: a high discretionary power of local officials and wide possibilities for extortion of unofficial payments. We cannot make legislation-based estimates for the costs of getting permits like those we have made for the registration procedure and its separate steps for the following reasons: 1) the official prices of permits and procedures of getting permits are not clearly regulated by legislation; 2) the number of permits may differ in each particular case even for enterprises in the same industry. Besides, anyway such estimates would not reflect the actual costs of getting permits because informal payments in most cases may significantly outweigh official fees, and again the size of these payments may differ in each particular case. Thus, the variation in the costs of getting permits must be very high across different enterprises.

Perhaps it is for these reasons that the World Bank estimate of the costs of entry [8] does not include the costs of getting permits. However, without taking into account the costs of getting permits, this estimate is misleading because completing the process of registration is not in fact sufficient for a firm to begin operations. Effectively, the process of getting obligatory permits from state and local authorities is linked to firm registration, and adds to the costs, duration and

¹⁰ While the registration procedure is invariant for different types of businesses, permits deal with the particulars of a certain business. The necessity of obtaining certain permits depends on what types of goods an entrepreneur intends to produce or to sell, on the current status of premises he/she intends to use (residential or non-residential), on whether an entrepreneur intends to sell goods on the marketplace or to work in an office or other type of premises, etc.

complications involved in the procedure of launching a firm in Ukraine. The World Bank Doing Business estimate is even more misleading because in the description of the Starting a Business methodology it is stated that “..*Doing Business* compiles a comprehensive list of entry regulations, by recording all the procedures that are officially required for an entrepreneur **to obtain all necessary permits**, and to notify and file with all requisite authorities, in order to legally operate a business” [9, 10]. Fully recognizing the difficulties associated with the measurement of the costs of getting permits in Ukraine, we nevertheless believe that it is necessary either to include getting permits into the business legalization procedure or to revise the description of the methodology.

The number of permits existing currently in Ukraine is large. Below we will make a brief overview of the most typical permits required for opening a small garment business and show some deficiencies of the legislation.

Three permits are obligatory for all firms to begin operations: permits from the Fire Inspection, from the Sanitary and Epidemiological Service, and from the Labor Protection Department.

Permit from the fire inspection

According to the Resolution of the Cabinet of Ministers of Ukraine¹¹, the issuance of a permit is free of charge. However, legislation allows the fire inspection to render certain paid services, in particular, expert evaluation of the fire safety of premises. This evaluation is a prerequisite for getting a permit from the fire inspection. The Resolution sets 5-day term for issuing a permit, however it does not reflect actual time spent on getting this permit, because it is issued on the basis of the expert evaluation, and the official term of the preparation of this evaluation is up to 30 days.

Although the Resolution says that a permit shall be issued once and forever, it also contains a provision, which allows the fire inspection to issue permits for a limited period (usually 1 year) in case of minor violations of fire safety. Needless to say, that the "minor violations" can always be found by a biased inspector. This provision gives the fire inspection a great deal of discretionary power and the possibility to make an entrepreneur renew the permit every year.

¹¹ The Resolution of the Cabinet of Ministers of Ukraine "On regulation of the issuance of permits by the State Fire Inspection to start operations of an enterprise or to rent premises" # 150 of February 14, 2001

Permit from the sanitary and epidemiological service (SES)

This permit is issued on the basis of the conclusion of the SES as to premises' meeting the sanitary norms. The preparation of such conclusion is not free of charge, however legislation does not specify how much the SES can charge for this conclusion. Although legislation sets deadlines (10 days) for the preparation of such conclusion, it does not specify the exhaustive list of documents to be submitted by an entrepreneur and grants the SES the right to demand any other documents in addition to the basic ones. The deadline shifts each time the SES demands an additional document. This right endows the SES with an enormous discretionary power.

Permit from the labor protection department

Like the fire inspection, the labor protection department also requires an expert evaluation of premises and technical documentation before issuing a permit, and in the same vein provides this service for money. The term of the issuance of a permit is set at 10 days, while the term of the preparation of an expert evaluation is 15 days.

It makes sense to mention several more permits, which can be relevant for small garment business owners. These are a permit for transferring residential premises to commercial use; a permit to renovate premises, a permit to occupy and use premises. For example, if a business owner intends to locate his/her production facilities in the premises that were previously residential, he/she is required to obtain a permit for transferring residential premises to commercial use from the local authorities. According to the Housing Code of June 30, 1963, this transfer can take place in exceptional cases. That is why legislation does not specify any regular procedure, nor a list of required documents, nor terms and fees of the issuance of this permit. All these issues are left to the discretion of local authorities.

As is seen from this superficial discussion of the most typical permits, the discretionary power of local authorities in issuing permits is very high, and one can predict a significant variation in the actual costs of getting these permits across businesses.

5. Garment industry in Ukraine

Without trying to give an exhaustive overview of the Ukrainian garment industry, we will briefly discuss its peculiarities which have implications for our study of small business legalization in this industry.

The economic reforms of the early 90s associated with the transition from a planned to a market economy had different effect on different sectors of the Ukrainian garment industry. The break of ties with suppliers from other republics of the former Soviet Union, loss of markets, changes in demand and the inability of the management of large enterprises to deal with a new scope of problems led to decline in the large enterprise sector. At the same time the economic reforms set favorable conditions for the development of more flexible small garment businesses, and in the early 90s the small garment business sector in Ukraine experienced a boom. After the years of the total deficit, the unsaturated market soaked all produce, making garment business highly profitable. The boundaries of market extended far beyond the national borders.

However, the euphoria did not last long. As time passed, more and more local entrepreneurs entered the garment industry making the competition tougher. But the main threat for the local garment industry came from abroad with increasing imports (1995-1996). In spite of a relatively cheap local labor, the products of Ukrainian entrepreneurs often cannot compete with still cheaper clothes from China, Vietnam, Korea, etc., which are smuggled to Ukraine on a large scale, i.e. their prices are not much affected by the import tax. No one can determine the real size of the domestic market of apparel. According to the estimates in [11], the minimum size of this market is UAH 7 bln. (US\$ 1.3 bln), and more than 90 % of the apparel sales is in “shadow”. A big fraction of these “shadow sales” is import from China, Vietnam and South-East Asia.

It has been mentioned above that the tax evasion is wide-spread in Ukraine. In the garment industry it is of special importance because it plays a crucial role in keeping costs down. The necessity for registered small garment businesses to hide at least part of their workers and output makes garment business closed and has negative implications for empirical research of transaction costs in that sector.

6. The Survey

6.1. The sample description

The field part of our research on the costs of legalization in the Ukrainian garment industry was conducted in Kharkov, a large industrial city in Eastern Ukraine. The garment industry has always been of a special importance for Kharkov because of the long lasting traditions of the development of this industry in the region.

The sample consisted of 10 small garment business owners. The sample profile is presented in Addendum 5. The respondents were approached through informal networks using the system of recommendations from common acquaintances. We resorted to this sophisticated way of sampling for the following reasons. The first one is the lack of cooperation on the part of potential respondents. Most of them are very sensitive to the survey topic because of the high incidence of unofficial payments in the process of business legalization (mainly, in the process of getting permits) and are reluctant to disclose their illegal practices. This reluctance accounts for a high rate of non-response. The second reason, though less important under these circumstances, is the lack of a good sample frame, i.e. a more or less comprehensive database on the universe of interest. The State Statistics Committee's database does not contain data on private entrepreneurs-physical persons, although this form of business registration is the most popular among small garment business owners¹². When planning the survey, we counted on a snowball sampling. However, none of the respondents has helped us to involve in the survey further small garment business owners, again, because of the sensitivity of the research topic.

6.2. The main findings

Taking into consideration that the sample is rather small, and hardly lends itself for a comprehensive statistical analysis, we intended to identify not average but rather possible legalization costs and the typical patterns of behavior of entrepreneurs in the process of legalization, as well as the motivations behind these patterns of behavior.

¹² As is seen from the flowchart in Addendum 1 related to the former registration procedure, a private entrepreneur-physical person does not register with the State Statistics Committee.

6.2.1. The costs of registration

As is seen from the sample description in Addendum 5, nine out of ten respondents are registered as private entrepreneurs – physical persons. Most of qualified businesses in the garment industry prefer this form of registration because the procedures of registration, accounting and reporting are easier for private entrepreneurs. Private entrepreneurs do not need the statute; opening a bank account and ordering seals and stamps are optional for them.

All respondents also chose a simplified system of taxation –either the unified or the fixed tax system, which allow businesses to cut down accounting and reporting expenses, by paying a majority of taxes as a single tax with a single report.

It should be noted that the fixed tax system extends only to private entrepreneurs selling goods at market places. Having the status of a fixed tax payer, one has no legal right to produce clothes or whatsoever. That is why two respondents from our sample who chose the fixed tax system, actually cannot engage in producing apparel, and their garment business can be considered as unregistered. The respondents explain that they manage to keep the production of apparel invisible for regulatory authorities as they hire seamstresses working at home. Their business may become visible only when they pick up large quantities of finished items from seamstresses and carry these items to retailers or sell these items themselves, when they bring large quantities of fabric from a supplier to seamstresses, etc. Having a certificate of a private entrepreneur may be helpful when a tax inspector or a policeman stops an entrepreneur in the street or in a market place with a bag or a car full of clothes or fabric. One should point out that such way of “legalizing” garment business in no way exceptional for Ukraine.

In fact, as is seen from Table 1, all garment businesses from the sample work partially underground because they do not register most of their workers to avoid paying taxes and making obligatory payments to the Pension and Social Insurance Funds. This obviously helps to cut the costs, but raises a problem of the social security of employees. However, currently short-term monetary benefits outweigh long-term ones not only for entrepreneurs but also for their employees.

Table 1

Res-pondent #	Total number of permanent employees	Number of registered permanent employees	Percentage of unregistered permanent employees %	Average number of extra employees hired during periods of high demand (unregistered)	Status of production premises
1	16	2	88	3	rented
2	24	10	58	5-7	rented
3	15	7	53	3	rented
4	14	5	64	2	rented
5	15	1	93	8	no production premises ⁺
6	17	4	76	2	rented
7	7	2	71	5	rented
8	6	2	67	1	no production premises ⁺
9	11	1	90	2	no production premises ⁺
10	21	7	67	6	rented

⁺ hires seamstresses who work at home

Now let us turn to the legalization procedure itself. As was mentioned above, the legalization procedure consists of registration and getting permits. The registration procedure is invariant for all businesses and is a prerequisite for the next stage – getting permits. The registration procedure is clearly defined by legislation, which limits discretionary power of officials.

Using the concept of *Costs of Exchange* we estimate registration costs as the sum of official fees, unofficial payments and the opportunity costs of time spent on the registration procedure. In Table 2 we show the total registration costs for different respondents and their components. We did not include in this table the registration costs for a respondent who had hired a legal consultant to carry out the registration procedure for him, nor for two respondents who had chosen the fixed tax system and cannot legally engage in production activities.

Table 2

Res- pon- dent #	Official Fees (US\$)	Extra payments not stipulated by legislation (US\$)	Total monetary costs (US\$)	Duration of the registration (days)	Total number of hours spent on the registration by all persons involved	Cost of time spent on the registration as estimated by respondents (US\$)	Total costs of the registration (US\$)
1	46	23	69	30	24	11	80
2	45	20	65	25	28	100	165
4	24	0	24	30	32	90	114
5	5	23	28	30	37	185	213
6	5	1	6	30	20	0	6
7	25	0	25	25	11	55	80
10	95	0	95	35	45	50	145

As is seen from the table, the registration costs differ significantly across entrepreneurs. The sources of this variation are the following.

1. The registration procedure for a legal entity is longer and costlier than for a private entrepreneur (see Addenda 1 and 2), which accounts for the higher official fees and longer duration of registration for respondent 10.

2. The difference in the official fees paid by the rest of respondents, who were registered as private entrepreneurs – physical persons, is explained by the fact that ordering seals and stamps is optional for private entrepreneurs – physical persons. Respondents 5 and 6 chose not to order seals, and consequently did not have to pay an official fee for the permit to order a seal, nor the price of a seal itself. The price of a seal can also differ depending on the degree of its complexity, which accounts for the residual variation in the official fees.

3. Extra payments ranged for our respondents from 0 to US\$ 23. As is seen from the table, making no extra payments had no systematic impact either on the duration of the registration procedure or on the total number of hours spent on the registration. None of the respondents reported any government service’s losing documents or violating the registration deadlines. We deliberately

avoided the term “unofficial payments” because the payment can be official but not stipulated by the legislation governing the registration procedure. For example, during the registration procedure the tax inspection may ask an entrepreneur for a charitable contribution, and then it is up to the entrepreneur whether to make this contribution or not. Three respondents from our sample paid such charitable contributions when registering with the tax inspection. Certainly these payments cannot be considered as fully voluntary. Whether entrepreneurs pay them or not depends upon their perception of the possible effect of their refusal to pay on the attitude of the tax inspection in the future. Two respondents from the sample made small unofficial monetary payments to registering officials, and two respondents (both female-respondents) made small personal gifts to officials (boxes of chocolates, a bottle of cognac) as a token of gratitude for a good treatment¹³.

In the opinion of a lawyer, an expert in the registration procedures, whom we consulted in the course of the survey, making unofficial payments and charitable contributions during the registration procedure is ridiculous because these payments affect neither the duration nor complexity of the procedure. At the same time, he recognized that making such payments is often unavoidable in the process of getting permits.

Thus, the costs of registration may increase because of the wrong perceptions of the necessity of unofficial payments, which is especially relevant under the conditions of pervasive corruption in the society. Unofficial payments are made just in case, even when an official does not have enough discretionary power to cause intentional delays or to set unfeasible requirements.

Only one entrepreneur resorted to the services of a legal consultant who performed the whole registration procedure for him. It cost the entrepreneur US\$ 100 for the consultant’s service plus US\$ 27 in official fees. The price of the registration service can differ across legal consultants. For example, students of law can charge as low as US\$50. The lawyer mentioned above in this section charges US\$ 150.

¹³ Gift giving to officials, clerks as well as teachers, doctors and other categories of employees providing a good or satisfactory service is very common in the Ukrainian environment and can be regarded as a part of the business culture.

For comparison, the results of the Ukraine SME Survey and Policy Development Project of the International Finance Corporation [3] claim that in 2002, firms required an average of 46 working days to complete all registration procedures and that completion of all registration procedures cost firms an average of UAH 788 (US \$148) if they did it alone, or UAH 1,120 (US \$211) if they hired an intermediary or an external consultant to complete either some or all of the necessary steps for them. These figures are somewhat higher than our data, because they are related to registration of legal entities, while our results are related to registration of private entrepreneurs – physical persons. For the similar reason, our estimate is lower than the Worldbank one (US\$178) [8].

4. In the survey, we estimated not only the monetary costs related to the registration procedure but also the opportunity costs of time spent on the registration. The high variation in the cost of time spent on the registration results from different respondents' valuing their time differently. For example, the respondent who estimated the cost of her time as zero, explained that by the moment of the registration she was unemployed and did not have any other opportunity to earn money. The respondent who valued his time as low as US\$11 referred to the official pay at his last job, which was less than US\$ 4 a day.

In spite of the variation in the registration costs across entrepreneurs, there is little problem with estimating these costs rather precisely, because the registration procedure is clearly defined, leaves little space for guesswork and endows registering officials with practically no discretion power.

6.2.2. The costs of getting permits

In contrast with measuring the costs of registration, measuring the costs of getting permits encounters significant problems related to the non-transparency of the process of getting permits.

Only two out of 10 respondents had all necessary permits. The rest of respondents lacked either all or some permits and could not be considered as completely legalized. As was mentioned earlier in section 4.2, the number of permits may differ in each particular case even for enterprises of a similar size from the same industry. One of the two fully legalized respondents had to obtain 7 permits including a permit for transferring residential premises to commercial use; land plot allocation

permit; permit to renovate premises; right to occupy and use premises; permit from the sanitary and epidemiological service to start operations; permit from the fire department to start operations; permit from the labor protection department to start operations. The other one had to obtain the same permits except for a permit for transferring residential premises to commercial use¹⁴. The total sums paid by the respondents for getting permits were US\$ 750 and US\$630, respectively. Unofficial payments constituted at least two thirds of these sums. Unofficial payments were made to accelerate the process of getting permits and to avoid the excessive red-tape. It took both respondents around a year to obtain all these permits. More or less precise estimates of the work time spent on obtaining these permits are hardly possible, as the process of getting permits is spread over a long period. One of these two respondents estimated the cost of her time at US\$1000, the other – at US\$ 500.

If we turn to the rest of our respondents whose businesses are not completely legalized, we will see that the obstacles to obtaining permits are to a great extent common for them. Four respondents reported their obtaining only the temporary permits (for 6 months or for one year) from the fire inspection. We mentioned in section 4.2 that the fire inspection has the right to issue a temporary permit when it detects some minor violations. As the survey shows, the fire inspection uses this right to a full measure, because this allows it to make an entrepreneur have this permit renewed every year or even more frequently and opens possibilities for money extortion. The extortion takes place in different forms – unofficial payments to certain officials, official charitable contributions to the fire inspection, etc. Thus, instead of getting a permit from the fire inspection once and forever, an entrepreneur is drawn into the ever-lasting process of the temporary permit renewals. This process usually has an informal character. The cost of this continuing interaction with the fire inspection depends to a great extent on the bargaining abilities of an entrepreneur.

One of our respondents cannot obtain the permanent permit from the fire inspection for four years. She is unable to meet their requirement regarding the redesign of her premises, and the fire inspection issues for her a temporary permit every year. Under the informal agreement with the local

¹⁴ Surprisingly, but completely legalized turned out to be the respondents who had to obtain the greatest numbers of permits.

fire inspection, she transfers US\$ 100 a year to the fire inspection's bank account as a charitable contribution. Another respondent paid around US\$ 60 for the expert evaluation of the fire safety of his premises, but received only a temporary permit. Every month he pays approximately US\$10 unofficially to his fire inspector. Still another respondent obtained a temporary permit after having paid a fine of US\$ 80. Since that time she pays around US\$ 80 a year to fire inspectors unofficially.

In case of getting permits from the fire inspection, an entrepreneur can take an active approach, i.e. to apply for a permit him/herself, or a passive approach, i.e. to start working without this permit waiting until a fire inspector visits him/her, and to settle the problem with the permit informally on the spot.

The situation with getting a permit to start operations from the sanitary and epidemiological service is very similar to that with getting a permit from the fire inspection in terms of informal bargaining, unofficial payments, charitable contributions, temporary permits, etc. One of our respondents who had started to work without this permit, was visited by inspectors, who measured the level of noise in the production facility charging for that measurement US\$ 100 officially, and accepted unofficial payment in kind (a jacket produced by the respondent's firm, which cost US\$ 80). The inspectors issued a temporary permit for the respondent valid only for one year. Another respondent claiming her being on very good terms with the sanitary and epidemiological service and having a permanent permit from that service, paid for that permit as low as US\$ 40 as a charitable contribution. Now she transfers US\$ 10 to 15 to the sanitary and epidemiological service's account from time to time upon their request.

As is seen, due to its non-transparency and a high discretionary power of officials, the process of getting some permits¹⁵ can last for years and sometimes never end. In spite of the fact that some entrepreneurs give up the full legalization at the stage of getting permits, which evidences the height of the barrier related to getting permits, their businesses cannot be considered as unofficial. Thus, we

¹⁵ Usually these are the simplest permits like those from the fire inspection or from the sanitary and epidemiological service. Much more sophisticated and costly permits like a permit for transferring residential premises to commercial use; land plot allocation permit, and the like are received after all, because they are perceived by entrepreneurs as more serious and important.

are more inclined to believe that it is post legalization disadvantages that deter entrepreneurs working in “shadow” from legalizing their business rather than the height of the legalization barriers. After all, the first phase of legalization – registration - is one of the lowest barriers of the Ukrainian regulatory environment, and after the registration an entrepreneur acquires the status of being legal, although cannot start operations.

When commenting on the sums paid to different agencies and officials, all respondents stress that these sums differ in each particular case, depending on a large number of factors, including the personality of the official issuing the permit, the bargaining abilities of an entrepreneur, his/her connections, and other factors which can affect informal bargaining. In spite this seeming uncertainty concerning the costs of legalization, our respondents had some perceptions as to the magnitude of these costs. Their estimates as to the possible costs of the legalization of a new business at present, including the monetary costs (official fees and unofficial payments) and the costs of their time, are summarized in Table 3.

Table 3

Respondent #	Duration of the future legalization	Official fees + unofficial payments, US\$	Cost of time spent on the legalization, US\$
1	1.5 month	1000	300
2	2 weeks	1000	400
4	2 weeks	200	200
5	4 months	3000	500
6	2 months	1000	200
7	2 months	600	500

If we exclude from consideration the highest and the lowest estimates (respondents 4 and 5), we will see that the rest of estimates are more or less uniform, although for some respondents these figures were not based on their past experience of the business legalization, and we did not indicate the number and types of permits to be obtained. Nevertheless, these figures reflect perceptions of entrepreneurs of the costs of business legalization and affect their future decisions regarding starting a new firm.

Four out of seven respondents (we excluded those who chose the form of registration insufficient for engaging in production activities and the one who hired a lawyer to carry out the registration) evaluated their experience in legalizing their business as easier than average, and the other three respondents evaluated it as just about average. All seven respondents cited strong ties to local community (interpreted as connections with influential people in the city) and past experience in legalizing a business as factors helping very much in the process of the new business legalization. Four respondents add to these factors information and advice from others.

Only one of our respondents participated in business associations. However, his opinion on these associations did not differ from the opinion of the rest who were unanimous in their characterizing existing business associations as not interested in helping small business and pursuing their own goals hidden to the public.

6.2.3. The advantages and disadvantage of legalizing business

Making decision on business legalization, an entrepreneur has to weigh benefits against losses. The reasons for going official as cited by the respondents are summarized below.

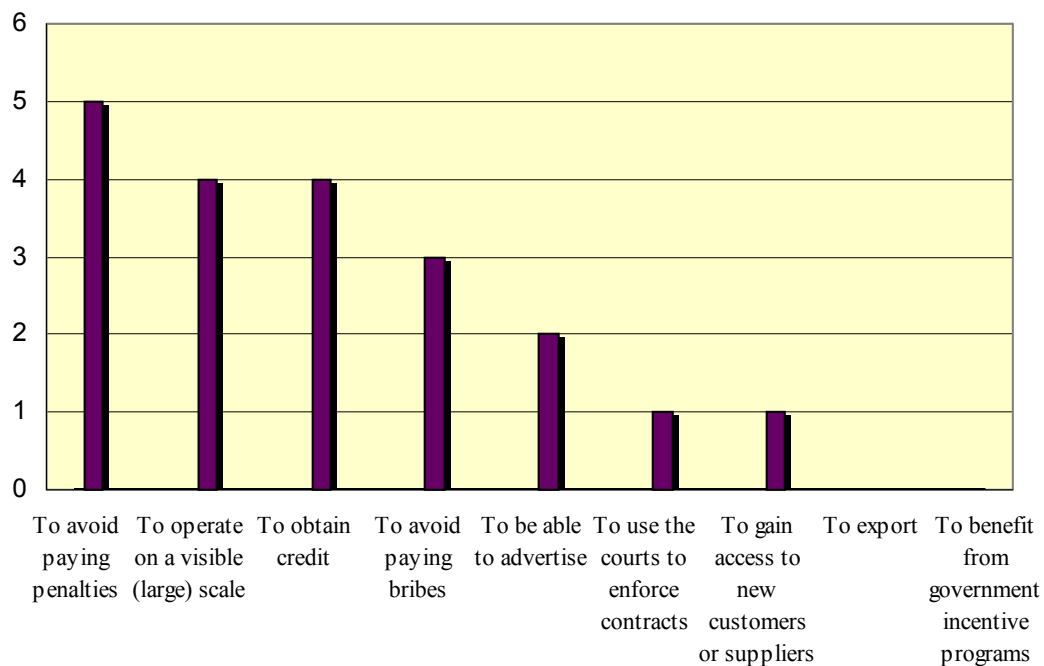


Figure 1. The frequency of citations of the reasons for registering officially.

It should be noted that the legalization of a business does not fully protect its owner from paying penalties and bribes to regulatory authorities during inspections. It makes the difference, compare to an unregistered business, only in the degree of vulnerability of an entrepreneur to the arbitrary rule of inspectors. Business legalization just reduces the dependence of a business owner of an inspector and, as a result, the sums of fines and unofficial payments.

An important reason for legalization is getting a possibility to operate openly. The incidence of inspections usually sharply increases during the periods of intensive production (before the season), when every day of staying idle because of the necessity to hide the business activities results in great losses.

Using courts for contract enforcement is not so important for small business owners, because of the low effectiveness of the court procedures compare to private ordering.

None of the respondents cited the reasons “to export” or “to benefit from government programs”. Only two out of 10 respondents engaged in exporting garments to Russia, and both smuggled their produce to avoid official procedures including drawing up customs documentation and undergoing customs inspections. As far as the access to government programs is concerned, it does not come into consideration at all. All respondents commented in this respect that the government does not help small business in any way, and they had no expectations as to the possible support programs for small business.

The main disadvantages of going official as seen by the respondents are summarized in Figure 2.

The necessity of paying taxes is certainly the main disadvantage of operating officially. However, as was seen from Table 1, all entrepreneurs try to alleviate the tax burden by not registering the majority of their employees. A very important disadvantage of working legally is a greater visibility to government offices that may demand bribes or otherwise harass an entrepreneur.

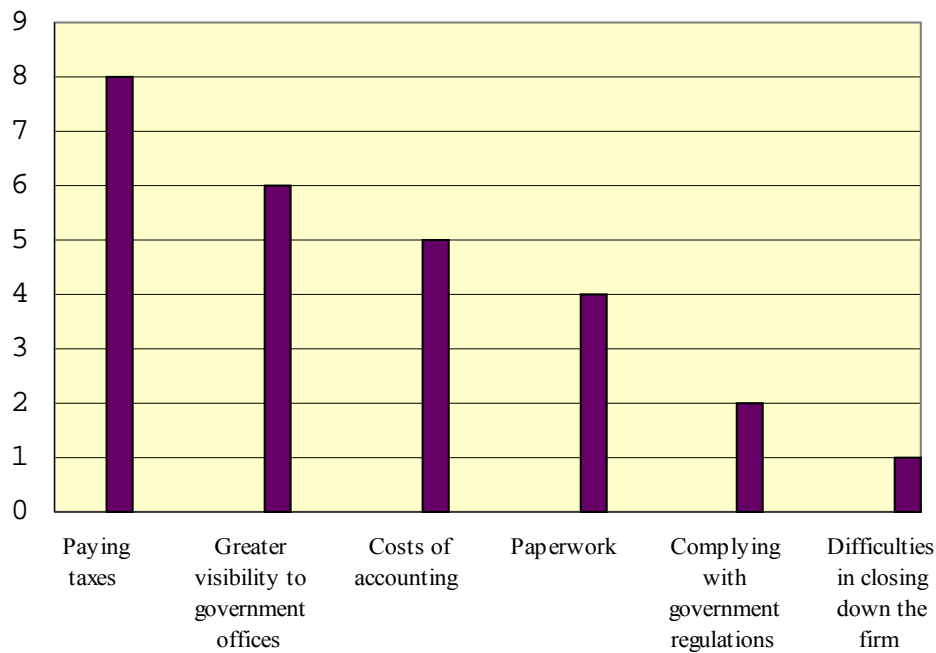


Figure 2. The frequency of citations of the disadvantages of registering officially.

All respondents emphasized that working legally does not spare an entrepreneur making unofficial payments to government officials and semiofficial payments (so-called charitable contributions) to government agencies during inspections. If one works officially, he/she cannot be missed by inspectors, while those who work unofficially can sometimes successfully hide. At the same time, for most of our respondents the advantages of working legally discussed above outweighed the disadvantages of business legalization. Complying with the government regulation was not cited frequently, however we believe that many respondents associated it with paperwork and costs of accounting.

7. The new registration procedure: a step forward, a step backward?

Although the former registration procedure did not represent a significant barrier to business legalization, unlike getting permits, it was this, more transparent and less costly procedure that underwent improvements directed at reducing the costs of transacting between an entrepreneur and the state.

The Law of Ukraine “On State Registration of Legal Entities and Physical Persons-Entrepreneurs” № 755-IV of May 15, 2003 effective of July 1, 2004 set a new simplified procedure of business registration, so called “one-window registration”. A one-window registration has been earlier practiced in selected regions of Ukraine as an experiment and yielded very satisfactory results (for details see [3]).

The main distinctions of registration procedures according to the new law are:

- an increase in the official fee for receipt of the state registration certificate from the equivalent of 7 (UAH 119) to 10 (UAH 170) non-taxable minimum incomes¹⁶;
- a reduction of the time needed to receive a state registration certificate from 5 to 3 days. Additionally, the option of accelerated registration (1 day) is no longer provided;
- a complete list of documents which entrepreneurs need to submit with their registration application is provided within the legislation;
- no pecuniary penalty for the State Registrar for violating the registration deadlines is stipulated;
- the number of registration offices is reduced and their location is confined only to region (oblast') centers;
- the grounds for completing registration procedures at the State Statistics Office, State Tax Administration, Pension Fund and Social Insurance Fund is an official notification from the State Registrar that the firm has received a state registration certificate. The Registrar also directly communicates other necessary data on the new firm to these agencies;
- the Unified State Register of legal entities and private entrepreneurs-physical persons is created. Before, the State Register included only legal entities. Systematic information on private entrepreneurs was gathered by tax inspections.

The flowcharts of the new registration procedures are presented in Addenda 6 and 7.

Despite the seemingly obvious improvements in terms of the simplicity or, to be more specific, the number of required steps, the new registration procedure has quite a few shortcomings

¹⁶ That is the only explicit increase in the registration costs compare to the former procedure.

which can potentially generate additional costs. All these shortcomings are associated with the imperfections of the legislation regulating the registration procedure.

1) The adoption of the new law did not automatically abolish the previous legislative acts governing registration, which often leads to confusion¹⁷.

2) The new law does not lay any penalty on the State Registrar for not meeting the registration deadlines.

Implication: 1) in combination with 2) gives the State Registrar more freedom in violating the registration deadlines.

3) The new law does not permit the accelerated registration for a higher fee.

Implication: If someone needs to get registered quickly, he/she cannot do it in official way any longer, paying a higher fee to the State, and has to resort to alternative (unofficial) ways.

4) According to the new law, the registration shall take place ONLY in cities- region (oblast) centers, while before the location of registration offices was not confined to region centers and could be carried out in smaller cities. Now the registration takes place in a single registration office for the entire city, while before registration took place in a number of offices located in all administrative districts of a city.

Implications: For entrepreneurs from smaller cities the costs of registration will grow due to the transportation costs and additional time costs. In region centers, replacing a number of district registration offices by a single one will inevitably lead to an increase in the workload on this single office, an increase in time costs for entrepreneurs due to queues, and violation of the registration deadlines.

5) Although the new law requires the State Registrar to pass the data on the newly registered business to other government agencies him/herself, the earlier, and still valid, legislative acts, require entrepreneurs to submit the necessary documents to these agencies in person and within a certain

¹⁷ For example, according to the Economic Code the state registration of a business entity shall take place within 10 working days, according to the Resolution #740 of the Cabinet of Ministers of Ukraine "Regulation on State Registration of Business Entities" of May 25, 1998, – within 5 working days, and according to the new law № 755-IV – within 3 working days.

number of days. For the failure to submit these documents within the stipulated period an entrepreneur (not the State Registrar) is penalized by fining. Under the new procedure, the State Registrar often violates the deadlines for submission of the data on an entrepreneur to these agencies, and the corresponding agencies fine the entrepreneur unless he/she brings the petition from the State Registrar explaining that the delay was not the entrepreneur's fault.

Implication: An entrepreneur bears the responsibility for the actions of the State Registrar in the absence of any control over the State Registrar. Paperwork and time costs grow¹⁸. The former procedure, though more sophisticated, gave entrepreneurs more control over the overall registration process and put more pressure on the government agencies in meeting deadlines.

Although the new registration procedure is an important step forward from the point of view of the reduction of legalization costs, it will take some time to make the new procedure run smoothly and probably require additional adjustments in the legislation.

Conclusions

The business legalization process in Ukraine consists of two phases with significantly differing degrees of transparency. Completing the first phase of the overall business legalization – registration - does not represent any difficulty for entrepreneurs and is not conducive to corruption. The costs of registration can be measured rather precisely and exhibit a moderate variation across entrepreneurs. In contrast with the registration procedure, the procedure of getting permits is ill-defined and non-transparent. Unofficial payments constitute an essential part of the costs of getting permits and vary significantly across entrepreneurs, depending on a large number of factors, including the bargaining abilities of an entrepreneur, his/her connections, and other factors.

The Worldbank doing-business methodology based on the studying of legislation governing the business legalization yields satisfactory estimates for the costs of registration, however this

¹⁸ The legal consultant mentioned earlier in this paper who renders a service of registering new businesses says that the number of his clients has not reduced since the new simplified registration procedure came into effect.

methodology can hardly be used for estimating the costs of such non-transparent procedures as getting permits, where unofficial payments constitute a significant fraction of overall costs. To measure the costs of business legalization in this study, we used a more universal method based on the concept of the *Costs of exchange*, which allowed us to determine the actual price the Ukrainian entrepreneurs pay for the legalization of a small garment business. Our estimate significantly exceeds that obtained using the Worldbank methodology.

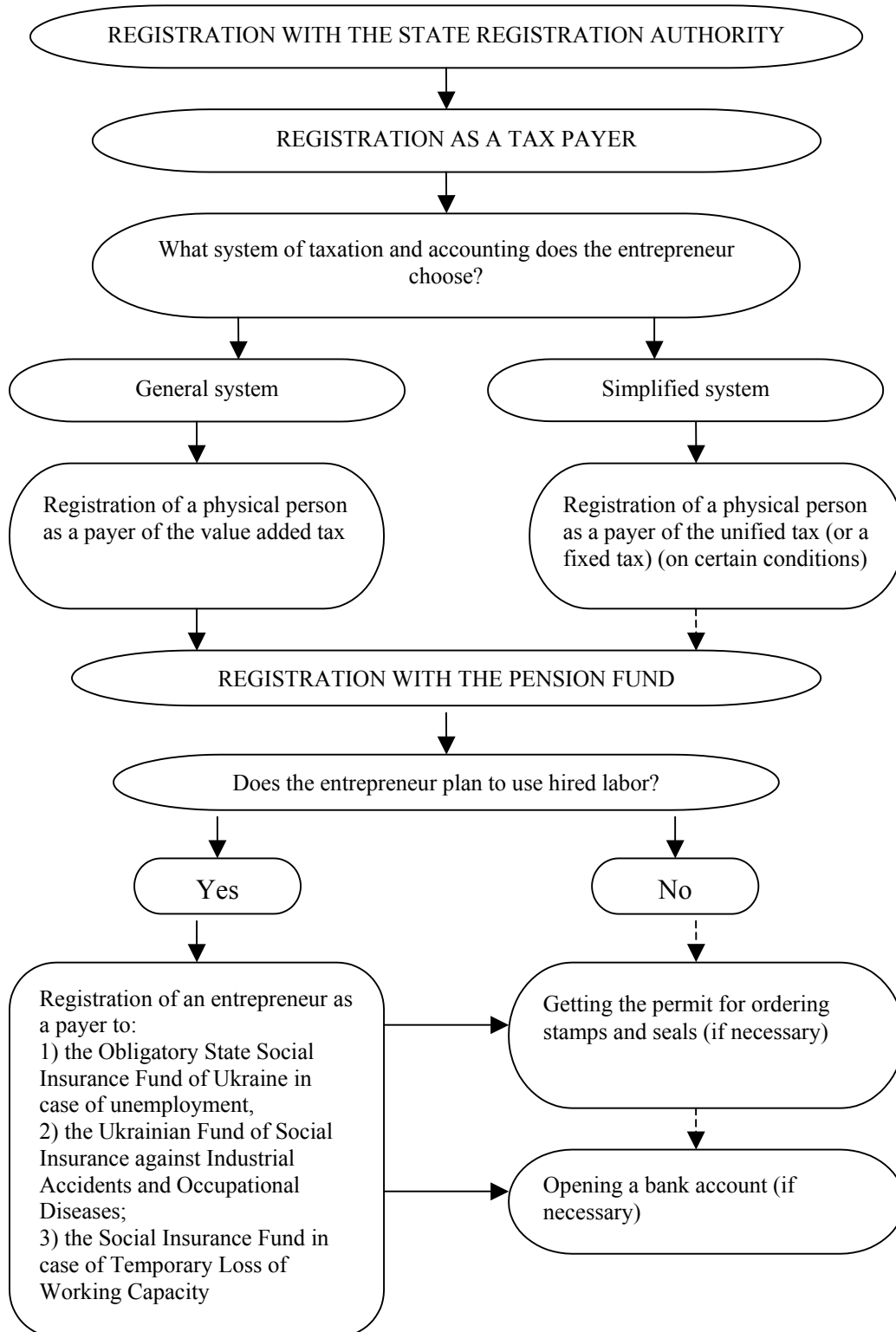
One of the shortcomings of the Ukrainian regulatory environment is that the legalization of a business does not fully protect its owner from money extortions by regulatory officials during inspections. It makes the difference, compare to an unregistered business, only in the degree of vulnerability of an entrepreneur to the arbitrary rule of inspectors. Business legalization just reduces the dependence of a business owner on an inspector and, as a result, the sum of fines and unofficial payments in the post-legalization period.

An informal character of agreements with local officials, entrepreneurs have to enter in the process of getting permits, makes the information on the costs of legalization confidential and respondents less cooperative. This imposes certain constraints on using conventional sampling techniques and requires different methods of selecting potential respondents, such as approaching respondents through informal networks. Thus non-transparency of the permit system raises not only the costs of compliance with its procedures but also the costs of measuring the compliance costs.

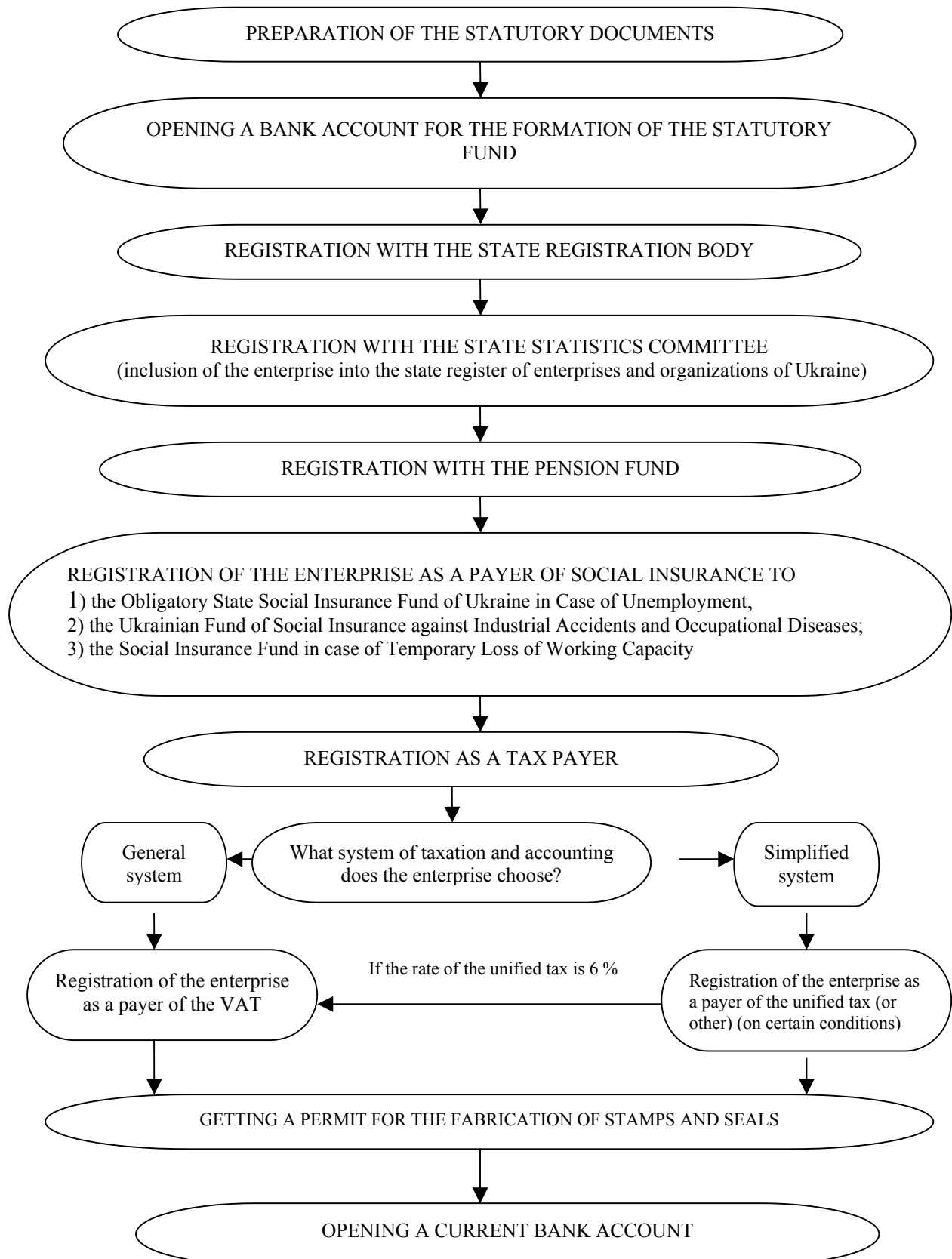
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**THE FORMER PROCEDURE OF NEW BUSINESS REGISTRATION:
registering as a private entrepreneur (physical person)**



**THE FORMER PROCEDURE OF NEW BUSINESS REGISTRATION:
registering as a legal entity**



Registration of a private entrepreneur (physical person)

Step #	Description of the step	Official fees (UAH/US\$)	Duration* (days)
1	Registration with the state registration body	25.5 / 4.8	5
2	Registration as a tax payer with the state tax service	-	< 1
3	Choosing the system of taxation and accounting		
3.1.	Registering as a VAT payer	17 / 3.1	10
3.2.	Registering as a unified tax payer	- ^{**}	10
4	Registration with the State Pension Fund <i>(for VAT payers and for those who use hired labor)</i>	-	< 1
5	Registration with the Obligatory State Social Insurance Fund of Ukraine in Case of Unemployment <i>(for those who use hired labor)</i>	-	< 1
6	Registration with the Ukrainian Fund of Social Insurance against Industrial Accidents and Occupational Diseases <i>(for those who use hired labor)</i>	-	10
7	Registration with the Social Insurance Fund in Case of Temporary Loss of Work Capacity <i>(for those who use hired labor)</i>	-	< 1
8	Getting the permit for ordering stamps and seals <i>(if necessary)</i>	51 / 9.6	5
8a	Ordering seals (stamps)	77 / 15 ^{***}	
9	Opening a bank account <i>(if necessary)</i>	-	10
10	Notifying the state tax service on opening a bank account	-	-
11	Returning the counterfoil of the certificate on the registration of an entrepreneur with the Pension Fund filled out by a bank official to the local body of the Pension Fund	-	-
	Subtotal	170.5 / 32	
	Services of a notary ^{****}	20 / 4	
	Copying services	3 / 0.6	
	Total	193.5 / 36	

* we show how long it takes a corresponding body to register a subject of entrepreneurial activity and / or to issue a corresponding certificate.

** when registering as a unified tax payer, an entrepreneur must pay the unified tax corresponding to the business activity he/she intends to engage in for a period not less than 1 month. However, we do not relate this advance tax payment to the registration costs.

*** we show an average price of a seal/stamp. Usually the price ranges from UAH 35 to 120.

We show with a bold font the steps that cannot be avoided under any conditions. The rest of the steps are either not obligatory (8 -11) or conditional on the system of taxation chosen by an entrepreneur or an entrepreneur's plans regarding using hired labor.

****Additional costs might include expenditures on services of a notary (notarization of copies of the certificate of state registration of a private entrepreneur – UAH 4 per copy).

We do not put the total number of days necessary to get registered, because many steps following the state registration of a private entrepreneur can be performed in parallel, without waiting for the completion of the previous steps.

Registration of a legal entity

Step #	Description of the step	Official fees (UAH/US\$)	Duration (days)
1	Preparation of the statutory documents.		
2	Opening of a bank account for the formation of the statutory fund		
3	Registration with the state registration authority	119 / 22	5
4	Registration with the State Statistics Committee	15.56 / 2.9	5
5	Registration with the State Pension Fund	-	< 1
6	Registration with the Obligatory State Social Insurance Fund of Ukraine in Case of Unemployment	-	< 1
7	Registration with the Ukrainian Fund of Social Insurance against Industrial Accidents and Occupational Diseases	-	10
8	Registration with the Social Insurance Fund in Case of Temporary Loss of Work Capacity	-	< 1
9	Registration as a Tax Payer	-	2
10	Choosing the system of taxation and accounting		
10.1.	Registering as a VAT payer	17 / 3.1	10
10.2.	Registering as a unified tax payer	-	10
11	Getting a permit for the fabrication of seals and stamps	51 / 9.6	5
11a	Ordering seals (stamps)	77 / 15*	3
12	Opening a current bank account		10
13	Submitting a notification on opening a bank account to the state tax service	-	-
14	Returning the counterfoil of the certificate on the registration of an entrepreneur with the Pension Fund filled out by a bank official to the local body of the Pension Fund	-	-
	Subtotal	279.5 / 52.4	
	Services of a notary**	400 / 75	
	Copying services	20 / 4	
	Total	700/ 131.4	

* we show an average price of a seal/stamp. Usually the price ranges from UAH 35 to UAH 120.

** Expenditures on services of a notary (steps 3, 9, 11, 12) were estimated for a limited liability company (for a private firm these expenditures are smaller). They included

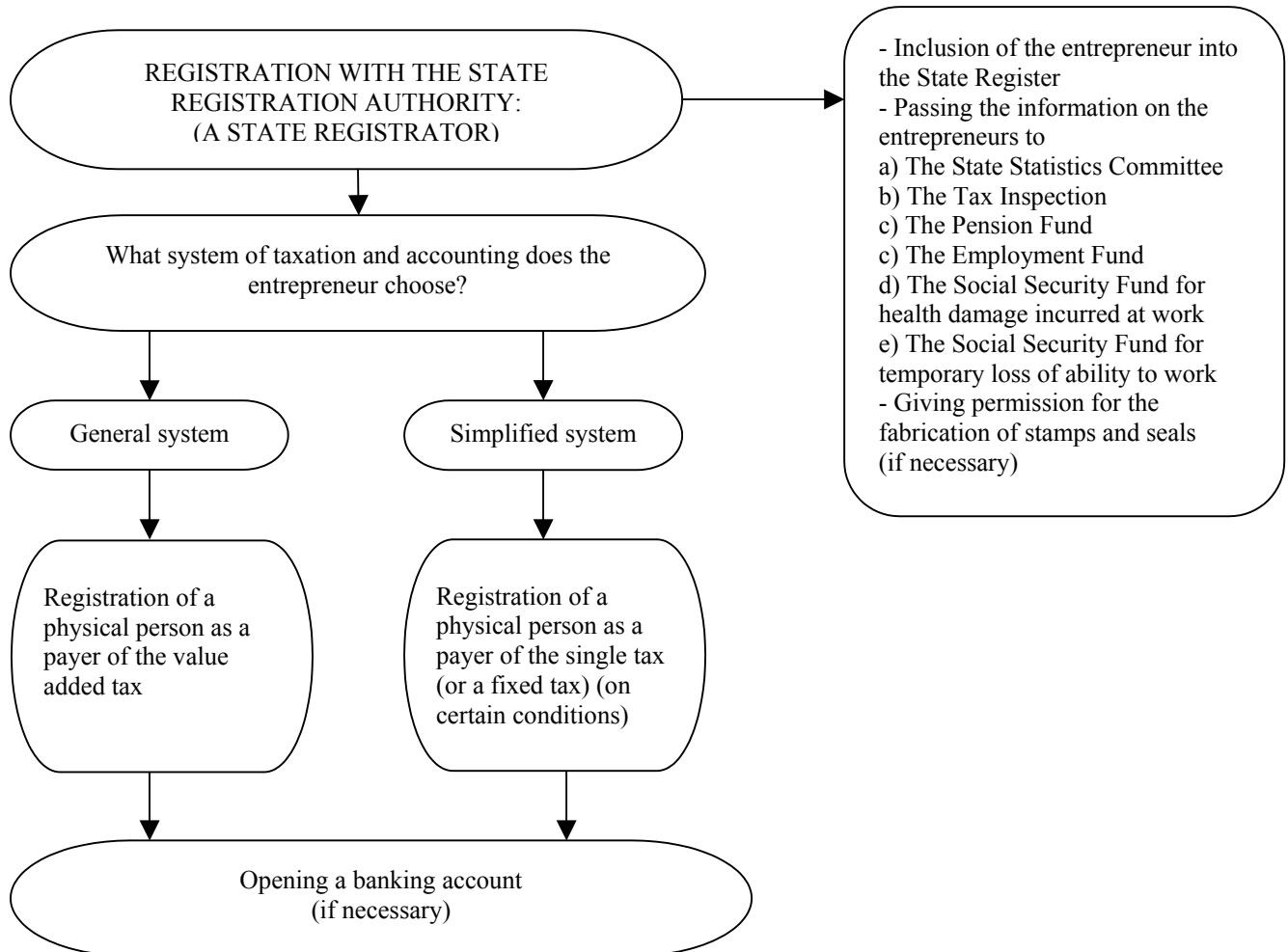
- 1) the notarization of 6 copies of statutory documents (for the first copy of statutory documents a notary usually charges 1 % of the statutory fund plus UAH 10 per each signature; the minimum statutory fund is UAH 18,500; for other copies of statutory documents a notary usually charges UAH 1 per page);
- 2) the notarization of 4 copies of the certificate on the state registration of a legal entity (UAH4);
- 3) bank cards with examples of signatures (UAH 10 per signature);
- 4) power of attorney for a person authorized to register a legal entity (UAH 40).

Sample description

Res- pon- dent #	Form of business registration	System of taxation	Business activities	Age	Gender	In garment business since	Education
1	PEPP*	Unified tax	Production of finished garment items; semiproducts	29	m	2002	Higher (law)
2	PEPP	Unified tax	Production of finished garment items; wholesale; retail	42	m	1986	Higher (economics, BA)
3	PEPP	Unified tax	Production of finished garment items; semiproducts; retail	45	m	1987	Higher (engineering, economics)
4	PEPP	Unified tax	Production of finished garment items; wholesale; retail	47	m	1985	Secondary
5	PEPP	Unified tax	Production of finished garment items; wholesale; retail	40	f	1997	Higher (economics)
6	PEPP	Unified tax	Production of finished garment items	42	f	2001	Higher (engineering)
7	PEPP	Unified tax	Production of finished garment items; wholesale; retail	54	f	1989	Secondary
8	PEPP	Fixed tax	Production of finished garment items; retail	43	m	1999	Higher (economics)
9	PEPP	Fixed tax	Production of finished garment items	40	f	1993	Secondary
10	Private firm (sole proprietorsh ip)	Unified tax	Production of finished garment items; wholesale, retail	42	f	2000	Higher (engineering)

* Private entrepreneur - physical person

**THE NEW PROCEDURE OF BUSINESS REGISTRATION:
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**THE NEW PROCEDURE OF BUSINESS REGISTRATION:
registering as a legal entity**

