



# Improving the Business Climate, Digitalisation and Deregulation in Ukraine

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# List of Abbreviations

- BRDO** • Better Regulation Delivery Office  
**CBO** • Congressional Budget Office (the USA)  
**CER** • Centre for Economic Recovery  
**EBRD** • European Bank for Reconstruction and Development
- GAAR** • General Anti-Avoidance Rule
- ITU** • International Telecommunication Union  
**IWG** • Interagency Working Group on Deregulation  
**KSE** • Kyiv School of Economics  
**KSeF** • National e-Invoicing System (Krajowy System e-Faktur)  
**NKR** • National Regulatory Control Council (Nationaler Normenkontrollrat, Germany)
- RPC** • Regulatory Policy Committee (the UK)  
**SEM** • State Secretariat for Migration (Staatssekretariat für Migration, Switzerland)
- UNDP** • United Nations Development Programme  
**WIPO** • World Intellectual Property Organization
- RIA** • Regulatory Impact Assessment  
**BES** • Bureau of Economic Security  
**IDPs** • internally displaced persons  
**VR** • Verkhovna Rada  
**SEC** • State Expert Chamber  
**SCS** • State Customs Service  
**STS** • State Tax Service of Ukraine  
**SRS** • State Regulatory Service of Ukraine  
**ST** • single tax  
**IER** • Institute for Economic Research and Policy Consulting  
**SMEs** • small and medium-sized enterprises  
**NBU** • National Bank of Ukraine  
**OECD** • Organisation for Economic Co-operation and Development  
**LSGBs** • local self-government bodies  
**PJSC** • public joint-stock company  
**VAT** • value added tax  
**PIT** • personal income tax  
**TI/AC** • tax invoice/adjustment calculation  
**sCR** • software-based cash register  
**CR** • cash register  
**ROMCS** • Risk Operations Monitoring and Control System (tax invoice blocking system)  
**STS** • simplified taxation system  
**IE** • individual entrepreneur

# 1. Description of the Current Situation, General Issues, Main Results of Representative Business Surveys

According to the [European Bank for Reconstruction and Development \(EBRD\) study “Ukrainian SMEs in “conservation mode” \(2025\)](#), the biggest challenges facing businesses are:

Lack/instability of demand. Many enterprises report unstable or declining demand.

Labour shortages. Around half of small and medium-sized enterprises (SMEs) face labour shortages. The main reasons are migration, mobilisation and demographic shifts.

Access to finance. Banks remain cautious, lending conditions are strict, and many SMEs face liquidity and collateral-related problems.

Unfair competition and the shadow economy. As demand declines, negative market phenomena intensify – dumping, unfair competition and “shadow schemes”.

Logistical and infrastructure-related difficulties. Problems with deliveries, destruction of infrastructure and the blocking of export routes.

**The first major problem is demand.** It has remained unstable and weak. Only 17% of companies managed to increase profits in 2025. The rest either remained stagnant or experienced decline. In such circumstances, businesses naturally shift into “survival mode” rather than “expansion mode”. Long-term planning becomes difficult: it is unclear what sales will look like in six months, let alone investments or recruitment.

**The second major problem is people.** And here the situation appears even more complicated than with demand. In 2025, 41% of enterprises reduced staff numbers, while only a quarter managed to increase them. This resembles a classic imbalance that does not correct itself. The reasons are clear: migration, mobilisation, demographics and competition for qualified employees. However, this does not make the situation any easier. For businesses, this means rising labour costs, difficulties with scaling and, less obviously, slower innovation. Because without people, innovation does not work. Importantly, the EBRD explicitly states: this is no longer a temporary problem, but a structural one. In other words, it will remain with us for a long time.

**Finance is another problem,** although it is often discussed less directly. Formally, access to credit exists, but in practice it is limited. Banks act cautiously – and understandably so. Risks are high. As a result, businesses, especially small and micro-enterprises, often simply lack the resources for development. When only 17% of companies demonstrate profit growth, this automatically means: there is almost no internal funding available for investment. And external financing is expensive and difficult to obtain. It is therefore unsurprising that only 14% of enterprises are planning expansion or diversification.

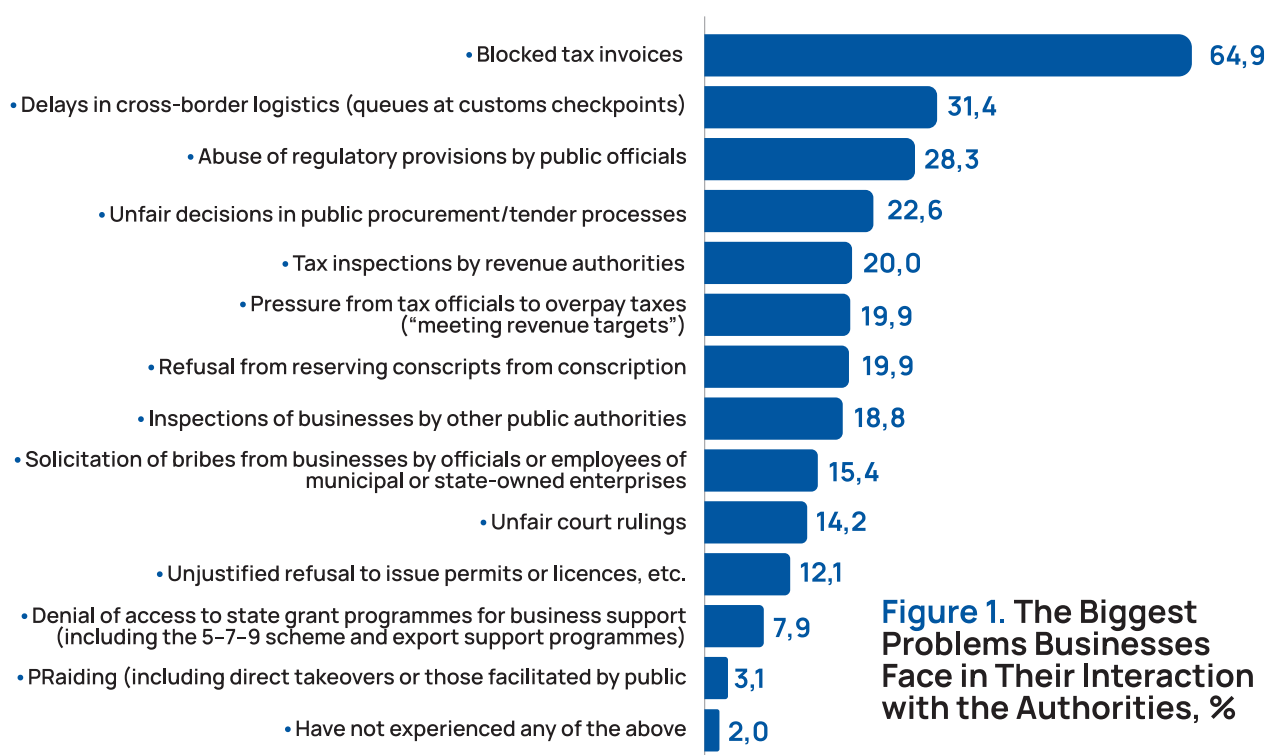
Against this background, another problem naturally intensifies – unfair competition. When demand falls and costs rise, part of the market begins to “play outside the rules”: dumping, shadow schemes and optimisation at any cost.

This is not a new phenomenon for Ukraine, but during periods of crisis it always intensifies. And the current situation is no exception. In practice, a significant share of businesses are now fighting not for development, but for survival, and this is precisely the kind of environment in which shadow economic activity grows naturally.

There are also difficulties related to logistics and infrastructure. The war constantly disrupts supply chains: in some places warehouses have been destroyed, elsewhere there are problems with roads, while in other areas exports have become more difficult. This results in longer delivery times, higher costs and constant uncertainty. Businesses are forced to adapt, but the cost of such adaptation is fairly high.

Ukrainian businesses operate under conditions of uncertainty, yet at the same time demonstrate fairly resilient adaptation to challenges, as confirmed by data from the regular **“Business Pulse”** surveys conducted by the IER and the **KSE**. Thus, the share of companies that ceased operations in 2025 fell below 5% – effectively the best indicator since the beginning of the full-scale war. Around 44% of enterprises stated that they were prepared to invest. Compared with previous years, this is a significant positive change, but it is important not to overestimate this signal. These investments are mostly not about “growth and capturing markets”, but rather about “survival and resilience”: energy resilience, operational continuity and digitalisation. In this sense, the EBRD assessment appears highly accurate – Ukrainian companies are indeed adapting well, but are not yet capable of making large-scale investments.

In 2024, the **Better Regulation Delivery Office (BRDO)** conducted a large-scale survey of entrepreneurs as part of the work of the Interagency Working Group on Deregulation, the results of which became the basis for IWG decisions and formed the foundation of the **BRDO Annual Report 2024**. The purpose of this survey was to identify the key barriers restraining business development, as well as to assess the effectiveness of the regulatory environment. The survey covered both individual entrepreneurs (IEs) and legal entities, which made it possible to compare the specific nature of the problems faced by different business segments. As a result, BRDO data demonstrate that in 2024 businesses continued to operate under conditions of high regulatory uncertainty, significant administrative pressure and logistical constraints caused by the war.



Thus, the blocking of tax invoices was the absolute leading problem for businesses, and its share in 2024 was critically high, indicating a systemic problem in VAT administration that affects liquidity, working capital and the ability of enterprises to fulfil contracts. Border delays (31.4%) are a direct consequence of military actions, destruction of infrastructure and instability of logistics routes, which, in turn, is particularly painful for exporters and manufacturers. Corruption risks (abuse of power, unfair decisions during procurement procedures) remain among the key barriers, indicating the need for further deregulation and digitalisation of procedures.

Regular surveys conducted by the [Institute for Economic Research and Policy Consulting \(IER\)](#) on a monthly basis using the Business Tendency Survey methodology make it possible to see the real picture of how enterprises are adapting to challenges and which problems remain the most critical.

Overall, IER data demonstrate that the business sector is gradually recovering from the shock of 2022; however, it continues to operate in a mode of limited resilience, with enterprises focusing on operational activities rather than development, which determines the overall nature of economic dynamics.

Throughout 2024, the IER recorded that a significant share of companies failed to achieve expected sales volumes, while in December 2024 almost half of the surveyed enterprises reported a decline in business activity volumes, which significantly exceeded their expectations. This trend continued in 2025, with enterprises demonstrating caution in their forecasts, while business activity indices remained below pre-war levels. Domestic demand remained weak due to declining purchasing power among the population, while access to foreign markets continued to be complicated by logistical and regulatory barriers. Accordingly, demand instability complicated the planning of production, investment and human resources policies, as businesses were forced to operate in short cycles, reducing their resilience and capacity for development.

**Figure 2 – Reasons for the Decline in Enterprise Activity Volumes, %**



In 2024, more than half of enterprises in the manufacturing sector, as well as in engineering and logistics, reported labour shortages. The causes of labour shortages are complex: mobilisation, migration, demographic changes and competition between sectors for qualified workers. In 2024, almost three quarters of enterprises were forced to increase wages in order to retain employees, which further increased financial pressure on businesses. In 2025, labour shortages evolved into a structural problem that will continue to affect the economy even after the end of the war. For SMEs, this means rising costs, difficulties with scaling and limited opportunities for innovation.

Rising prices for raw materials, supplies, logistics and energy represent another systemic challenge recorded by the IER in 2024–2025, with enterprises regularly reporting that these increases outpaced sales growth. Businesses felt cost pressures especially acutely following attacks on energy infrastructure, which led to increased expenditure on backup power sources, equipment and logistics. For SMEs, this resulted in reduced margins and limited investment opportunities.

Logistics remains one of the most problematic areas for SMEs, as enterprises face supply disruptions, increasing delivery costs and route instability. Additional risks are also created by border delays, destruction of infrastructure and the blocking of certain export routes. For manufacturing and export-oriented SMEs, logistical problems mean loss of competitive advantages, higher costs and the need to seek alternative supply channels.

According to IER surveys, businesses regularly mention problems related to: tax inspections, blocking of tax invoices, pressure and the complexity of administrative procedures. At the same time, regulatory uncertainty complicates planning and investment, especially for small businesses, which have limited resources for legal support.

In December 2024, the Ukrainian Business Index stood at 36.9, significantly below the neutral level of 50, indicating that enterprises do not expect a rapid improvement in the situation in the coming months. Such low expectations reduce investment activity and willingness to take risks, causing businesses to focus on survival rather than development, which affects overall economic dynamics.

Therefore, **IER surveys conducted in 2024–2025** demonstrate that the biggest problems facing businesses remain: unstable demand, labour shortages, rising costs, logistical difficulties, regulatory barriers and depressed business sentiment. These factors shape an environment in which businesses operate in a mode of limited resilience, focusing on maintaining operational activities rather than on investment or scaling.

**According to a study** conducted by the [Centre for Economic Recovery and the international group of companies ADVANTER GROUP](#) within the framework of the United Nations Development Programme project “Support to Ukraine”, the biggest obstacles to business development are:

- unpredictability of the situation in Ukraine and in the domestic market;
- unpredictable actions by the state that may negatively affect businesses;
- an insufficient number of solvent customers;
- an insufficient number of available qualified workers.

**The study conducted by the Centre for Economic Recovery and the international group of companies ADVANTER GROUP (UNDP)** within the framework of the United Nations Development Programme project (UNDP) “Support to Ukraine” provides a comprehensive understanding of the challenges faced by enterprises of different sizes and sectors. This analysis demonstrated that in 2024–2025 Ukrainian businesses continued to operate under conditions of profound uncertainty caused by the war, structural imbalances and the transformation of the economic environment. The survey covered thousands of companies across the country and made it possible to identify not only the list of problems, but also their depth, dynamics and impact on business resilience. Therefore, let us consider the key barriers that shaped business behaviour in 2024–2025.

First of all, enterprises note that the domestic market remains weak and **the purchasing power of the population limited**; therefore, many companies operate in a “short-cycle mode”, where planning is carried out for several weeks or months rather than for a year or more, making long-term investment and development impossible. Demand instability is felt particularly acutely by manufacturing enterprises, the service sector, small retail businesses and companies focused on the domestic market. For a significant proportion of businesses, declining sales volumes have become typical, forcing them to reduce costs, optimise staffing levels and abandon investment projects.

**Labour shortages have become a structural problem** affecting all sectors of the economy. Around half of the surveyed enterprises report staff shortages. The greatest shortages concern qualified workers, technical specialists, engineers, logistics personnel and manufacturing workers. The causes of labour shortages are complex – above all, migration of a significant share of the working-age population, mobilisation, demographic shifts (population ageing and a declining number of young people), and competition between sectors for limited human resources. Businesses are forced to increase wages, offer flexible conditions and invest in training, yet even this does not always make it possible to fill vacancies.

**Access to finance remains critically limited**, especially for micro and small businesses; banks demonstrate a high degree of caution, while lending conditions remain strict. Enterprises face such barriers as lack of collateral, high risk premiums, limited credit history, difficulties in obtaining guarantees and insufficient liquidity to service loans. Many companies operate “from hand to mouth”, maintaining minimal working capital reserves, which makes them extremely vulnerable to any shocks – from power outages to fluctuations in demand or logistical delays.

The study separately emphasises that **the shadow economy and unfair competition** intensified against the backdrop of declining demand and overall economic pressure. Enterprises report dumping, the use of shadow schemes, tax evasion by competitors, non-transparent tender practices and abuses by certain market participants. All this creates unequal conditions for legitimate businesses, which are forced to bear the full tax and regulatory burden. The problem is felt particularly acutely in retail trade, logistics, construction and the service sector.

The study also records that enterprises face disruptions in supply chains, rising delivery costs, route instability, destruction of infrastructure and the blocking or complication of export routes. The situation is especially difficult for exporters, who are forced to seek alternative routes, increasing both costs and delivery times. Logistical problems also affect the import of raw materials and components, creating additional pressure on manufacturing enterprises.

If the data from all these surveys are summarised, a fairly clear picture emerges. Ukrainian businesses have not stopped operating; rather, they are functioning in a mode of cautious preservation of their existing positions. The biggest problems facing

- labour shortages caused by mobilisation and labour migration;
- declining demand, loss of customers and reduced purchasing power of the population;
- problems related to the blocking of tax invoices;
- unfair competition and the shadow economy;
- unjustified inspections, fines and failure to take wartime circumstances into account;
- logistical and infrastructure-related difficulties. Problems with deliveries, destruction of infrastructure and the blocking of export routes.

Today, growth is fairly difficult due to weak demand, labour shortages, expensive financing and overall risks. And while these constraints remain, it is probably unrealistic to expect rapid large-scale recovery. That is why, when discussing business support policy in 2026–2027, attention should be focused specifically on resolving these systemic issues. Without this, any other programmes risk remaining isolated measures that will not lead to a fundamental improvement in the real situation.

## 2. Ukraine's Position in International Business Climate Rankings

According to international rankings, assessments of the business climate in Ukraine are an important indicator of how this climate is perceived by investors, international organisations and global companies. In 2023–2024, such assessments were shaped by two opposing trends: 1) Ukraine demonstrated significant progress in digitalisation, deregulation and transparency, while 2) the war, destruction of infrastructure and security risks substantially worsened the country's overall investment attractiveness. Therefore, below is an expanded analysis of the key indices reflecting Ukraine's business climate, institutional quality, competitiveness and innovativeness.

**Global Innovation Index (WIPO)** – measures a country's innovation potential, including human capital, scientific research, technological development, infrastructure and the outcomes of innovation activities. In 2023–2024, Ukraine ranked 55th out of 132 countries, consistently remaining within the top 60. Among its strengths were a high level of education, a strong IT sector, well-developed engineering schools and competitive technology start-ups. Ukraine currently maintains these positions despite the war, which demonstrates the resilience of its innovation ecosystem and its high level of human capital, as innovativeness is one of Ukraine's key competitive advantages and may become a driver of post-war recovery.

**Index of Economic Freedom (The Heritage Foundation)**, which measures the regulatory environment, tax policy, protection of property rights, effectiveness of the judicial system and market openness – Ukraine ranks 134th out of 176 countries. The reasons for Ukraine's low position in the ranking are primarily war-related risks (for investors and free trade), the complexity of tax administration, instability of the regulatory environment and the weakness of the judicial system.

Thus, Ukraine's position has significantly deteriorated due to the war (the key factor), although regulatory barriers and the judicial system also remain substantial obstacles to business and investment.

**Corruption Perceptions Index (Transparency International)** – Ukraine ranks 104th out of 180 countries. The index measures the perceived level of corruption in the public sector. Over two years, Ukraine rose by 12 positions, which is one of the best results in Europe. The reasons for the improvement in the ranking include digitalisation of public services, procurement reform, anti-corruption institutions and data transparency. Therefore, despite the war, Ukraine demonstrates systemic progress in combating corruption, which positively affects the business climate.

**Worldwide Governance Indicators – Regulatory Quality.** The WGI assesses regulatory quality, government effectiveness, rule of law and institutional stability. In 2023, Ukraine was approximately at the 45th percentile, meaning a level below the European average, but higher than in 2015–2019. The trend is positive: gradual improvement due to deregulation, digitalisation and reforms in the field of public services. Therefore, regulatory quality is improving, but remains unstable due to the war and frequent legislative changes.

**Logistics Performance Index (World Bank)** – Ukraine ranked 66th out of 139 countries in 2023. The LPI assesses logistics efficiency, including customs, infrastructure, international transportation and delivery timeliness. At the same time, the country's position deteriorated due to destruction of infrastructure, port blockades and instability of logistics routes; however, Ukraine remains above the average level of developing countries.

**Global Cybersecurity Index (ITU)** – assesses the level of cybersecurity, legislation, institutions and technical capacity. In 2023, Ukraine ranked 36th out of 194 countries – one of the best results among Central and Eastern European countries. This improvement was driven by the development of cyber defence during the war, investments in digital security and cooperation with international partners.

**Human Capital Index (World Bank)** – assesses the quality of education, health and the productivity of the future workforce. Ukraine ranks 53rd out of 174 countries, demonstrating a high level of human capital, while its position has remained stable despite the war.

**E-Government Development Index (UN)** – assesses digital public services, online participation and infrastructure. In 2024, Ukraine ranked 30th out of 193 countries and demonstrates one of the highest growth dynamics in Europe thanks to the Diia platform, digital registers and electronic services for businesses.

Thus, international rankings demonstrate a complex yet balanced picture. Ukraine possesses significant strengths – human capital, innovativeness, digitalisation and cybersecurity. At the same time, weaknesses such as logistics, regulatory instability, corruption and security risks substantially constrain the business climate. Following the end of the war, Ukraine has the potential for rapid growth in global indices, particularly in the areas of innovation, digitalisation and market openness.

# 3. Recovery, Sustainable Development and Digital Transformation Strategy for SMEs until 2027: brief overview and the problems it addresses

In August 2024, the Government of Ukraine approved the [Strategy for Recovery, Sustainable Development and Digital Transformation for Small and Medium-Sized Enterprises until 2027](#). This is the core state policy document on SMEs, defining how the state plans to support entrepreneurship during the war and throughout post-war recovery.

The Strategy defines the key directions of state policy in the SME sector, including the restoration of destroyed enterprises in accordance with the build back better principle. Special attention is paid to the green transition, digital transformation, innovative development and business inclusiveness, including the involvement of women, persons with disabilities, internally displaced persons (IDPs) and veterans. The document takes into account recommendations of the OECD, corresponds to the content of the Association Agreement between Ukraine and the EU, and is aligned with the Ukraine Facility Plan. The Strategy further details the directions of development of the Ukrainian economy defined in the Plan, particularly with regard to the creation of complex value-added chains and the development of the processing industry. In addition, it provides for SME development in accordance with the National Energy and Climate Plan until 2030.

The Strategy was created as a response to systemic business problems that became particularly acute in 2022–2024: destruction of infrastructure, logistical barriers, lack of financing, labour shortages, regulatory instability and declining demand. The document is also aligned with Ukraine's European integration commitments and the recommendations of the EU and the OECD.

## **The Strategy contains four main objectives:**

**1.** Recovery and facilitation of doing business. This includes access to capital, deregulation and the introduction of new support instruments. Above all, this will be supported by the state policy programmes “Made in Ukraine”: grants for processing enterprises, “Affordable Loans 5-7-9”, and war-risk insurance opportunities. Existing programmes are complemented by new ones, including broader involvement of SMEs in public procurement. Deregulation and new communication channels, such as the Pulse platform, will help improve the quality of public services.

**2.** Innovative development, digital transformation and the “green transition”. The Strategy incorporates a smart specialisation approach, the creation of sectoral clusters and science parks that will facilitate investment attraction and regional development. These processes will also be strengthened by the digitalisation of business processes, artificial intelligence technologies, electronic invoicing tools and instant payments of the National Bank of Ukraine, provided that cybersecurity is ensured. In order to support the “green transition” of SMEs, an online tool for self-assessment of enterprises' carbon footprint and professional energy audits will be introduced.

3. Development of human capital and entrepreneurship. This includes dual education and programmes for women, veterans and persons with disabilities. Expansion of the network of regional “Made in Ukraine” offices to support micro and small enterprises.

4. Enhancing competitiveness and increasing exports. The Strategy provides for cooperation with international networks such as Enterprise Europe Network and Erasmus for Young Entrepreneurs, development of the “Made in Ukraine” brand, support in finding partners, conducting negotiations and launching joint value chains, as well as expansion of the activities of PJSC “Export Credit Agency”.

According to estimates of the Ministry of Economy, implementation of the Strategy will result in an improvement of the business economic freedom index by at least 14 points – to 75+/100, an increase in the knowledge intensity of gross domestic product to +0.7%, and growth in the number of exporters to more than 35,000. A reduction in the unemployment rate from 18.3% to 11% is also expected.

**The strategy addresses the key issues identified by the IER, BRDO, KSE, EBRD and CER–Advanter, in particular:**

1. Demand instability and declining business activity volumes. The Strategy proposes instruments for business recovery, export support and access to new markets.
2. Labour shortages. It proposes retraining programmes, support for entrepreneurship among veterans, IDPs and women, and development of dual education.
3. Limited access to finance. State guarantees, grants, microfinance and partnership programmes with international financial institutions are proposed.
4. Regulatory instability and administrative pressure. The proposed measures include deregulation, digitalisation of permitting procedures and reform of the inspection system.
5. Logistical barriers and destruction of infrastructure. These issues are addressed through support for relocation, development of export infrastructure and energy resilience.
6. Low level of business digitalisation. Development of digital services, automation, cybersecurity and e-commerce.
7. Insufficient integration into the EU market. Adaptation to EU standards and participation in the COSME and Single Market Programme initiatives.

The SME Strategy until 2027 is not merely a set of measures. It is a framework for state policy defining how Ukraine will support entrepreneurship, a post-war recovery instrument enabling businesses to become a driver of economic growth, and a mechanism for economic modernisation focused on innovation, digitalisation and human capital.

## 4. Main Problems of State Regulation of Business in Ukraine

In 2023–2025, Ukrainian businesses operated under conditions of high regulatory uncertainty, significant administrative burden and fragmentation of public services. Studies by the IER, BRDO, KSE, EBRD and CER-Advanter show that despite the adaptability of entrepreneurs, regulatory and administrative barriers remain among the most significant constraints on SME development.

One of the most widespread problems identified by businesses across all studies is **excessive regulatory burden**, as entrepreneurs face a large number of permits, approvals, licences and procedures that often duplicate one another or lack clear logic. Particularly concerning are complicated and non-transparent permitting procedures. For example, in order to establish or expand a business, entrepreneurs are required to go through multi-stage processes that often depend on the interpretation of a specific official.

This is compounded by **overlapping regulation**, where the same activity may fall under several different regulatory acts, creating legal uncertainty. **Excessive reporting** requirements also remain a major issue, as businesses are forced to submit numerous reports to different authorities, often in different formats and under different requirements. **Frequent rule changes** further undermine confidence, as the regulatory environment changes so rapidly that entrepreneurs are unable to adapt in time, increasing risks and costs.

The overall effect of these problems is that regulatory barriers increase operating costs, delay the launch of new projects, reduce investment activity and stimulate the shadow economy.

In addition, Ukraine's tax system remains one of the most burdensome in the European region – the problem lies not so much in tax rates as in the complexity of administration, the high risks of operational blocking and significant compliance costs. Businesses constantly face **complicated procedures and excessive bureaucracy**, while tax rules frequently change, contain contradictory interpretations and require substantial resources for compliance.

**The blocking of tax invoices** is another of the most painful problems for SMEs. Such blocking occurs automatically, often affects bona fide businesses, while the unblocking process is lengthy and unpredictable. Currently, between 9,000 and 10,000 enterprises are affected by blocking measures every month. Even errors that do not result in fiscal losses may lead to substantial fines, creating a sense of injustice and increasing risks. Thus, tax administration becomes a factor of unpredictability, increases business costs and creates risks of operational disruption.

**The system of state control remains fragmented, duplicative and often excessive** – entrepreneurs regularly face inspections that do not always have clear justification or are conducted in violation of procedures. **The number of inspections is excessive**, and even during moratorium periods businesses report numerous visits by supervisory and control authorities. Different authorities may inspect the same aspects of activities, increasing the burden on businesses. Decisions often depend on subjective assessments (**broad discretion of inspectors**), creating opportunities for abuse. Lack of transparency in procedures and the absence of digital tools increase the risks of informal demands and, consequently, **corruption risks**.

**Therefore, the control system creates an atmosphere of uncertainty and pressure, which is especially painful for small businesses that lack the resources to mount legal resistance to such pressure.**

Moreover, despite significant progress in state digitalisation, many business-related procedures remain paper-based, fragmented or only partially digitalised, meaning that digitalisation of public services remains insufficient. This creates additional costs in terms of both time and resources. Paper-based procedures and duplication of documents: businesses are often forced to submit the same documents to different authorities in different formats. Data contained in state registers are not synchronised with one another, forcing entrepreneurs to repeatedly confirm the same information. Businesses also complain about technical failures, limited functionality, complicated interfaces and other shortcomings of the taxpayer's electronic cabinet. Business representatives also frequently complain about the need for physical contact with officials – many procedures still require in-person visits, creating corruption risks and delays. All these shortcomings in digitalisation slow down business processes, increase costs and reduce the transparency of interactions between businesses and the state.

Thus, regulatory barriers, complicated tax administration, excessive inspections and insufficient digitalisation create an environment in which businesses are forced to spend substantial resources on bureaucracy instead of development. These problems are systemic and require comprehensive solutions, which is precisely why they became key directions of state policy within the SME Strategy until 2027.

# 5. Overview of International Experience in Addressing Business Problems: examples of successful solutions

The problems faced by Ukrainian businesses – above all excessive regulation, complicated tax administration, chaotic inspections accompanied by corruption risks and insufficient digitalisation – are not unique. Many countries have gone through similar challenges, especially those transitioning from post-Soviet or heavily regulated economies to modern market-based models. Their experience demonstrates that these problems can be resolved systematically if deregulation, digitalisation, institutional reforms and transparent control mechanisms are combined.

## Estonia: “regulatory diet” and the “once-only” principle

**Estonia has become one of the most successful examples of deregulation in Europe by adopting the following key decisions:**

1. abolition or consolidation of more than 70% of permits and approvals;
2. introduction of the once-only principle – the state has no right to request information that it has already received;
3. creation of a single digital portal for all business procedures.

The country also created a unified e-Business Register portal, ensured full integration of state registers, introduced electronic citizen identification through eID and implemented the paperless principle in the provision of public services.

As a result, opening a business in Estonia takes only a few minutes, 99% of services are available online, physical contact with officials is almost non-existent, and the regulatory burden is among the lowest in the EU.

## Georgia: radical deregulation and elimination of overlapping authorities

**Between 2004 and 2010, Georgia carried out one of the most extensive deregulation reforms in the world:**

- the number of licences and permits was reduced from 909 to 159;
- dozens of supervisory authorities were abolished or merged;
- the “silent consent” principle was introduced – if the state does not respond within the prescribed period, the permit is deemed granted.

Result: the country entered the top 10 of the Doing Business ranking for ease of doing business.

## Canada: regulatory impact assessment and the “one-for-one rule”

### Canada introduced a rule whereby:

each new regulation shall be accompanied by the repeal of an existing one.

The country also applies mandatory Regulatory Impact Assessment (RIA), which evaluates business costs related to compliance with regulatory requirements.

**As a result**, the regulatory burden decreased by 25% over a ten-year period.

## Poland: VAT automation and electronic invoices

Poland addressed the problems of fraud and complexity in VAT administration through:

- introduction of a national e-invoicing system (KSeF);
- automated verification of high-risk transactions;
- electronic audits instead of physical inspections.

**As a result**: time spent on tax compliance decreased by 40%, while the “VAT gap” was reduced by PLN 25 billion.

## Singapore: service-oriented tax administration model

Singapore’s tax authority operates according to the principle:

“Help first, control later”.

### Key elements include:

- personal managers for SMEs;
- consultations instead of penalties;
- automated services for small businesses.

Країна має рівень добровільної сплати податків – понад 95 %.

## The United Kingdom: risk-based approach and “smart regulation”

The British model provides for:

- inspections only for high-risk businesses;
- clear risk criteria published for businesses;
- prohibition of overlapping inspections by different authorities;
- mandatory digital recording of all inspectors’ actions.

**As a result**, the number of inspections decreased by 50%, while business trust in regulators increased.

## The Netherlands: “inspector as consultant”

In the Netherlands, inspectors are required to:

- explain to businesses how to remedy violations;
- allow time for deficiencies to be corrected;
- impose fines only in cases of systemic violations.

This has led to a reduction in conflict and corruption risks.

## Georgia: elimination of corrupt practices in supervision and control

### Key measures included:

- full digitalisation of inspections;
- video recording of inspections;
- strict liability of inspectors for abuse of power.

**As a result**, corruption in the control sector decreased dramatically.

## Denmark: digital state with mandatory online procedures

- Denmark introduced mandatory electronic correspondence between businesses and the state;
- digital signatures;
- automatic interaction between registers.

This saves both the state and businesses more than EUR 300 million annually.

## South Korea: digitalisation as an anti-corruption instrument

### South Korea created the OPEN system, which:

- ensures transparency of all permitting procedures;
- displays the status of every application; records all actions of officials.

As a result of these reforms, corruption in the permitting sector decreased by 70%.

## Global experience demonstrates that the problems faced by Ukrainian businesses have effective solutions. The most successful countries applied three key approaches:

- Deregulation and simplification of procedures (Estonia, Georgia, Canada).
- Digitalisation and automation (Estonia, Denmark, South Korea).
- Reform of supervision, control and tax administration (Poland, the United Kingdom, Singapore).

These models have proven that reducing bureaucracy, ensuring transparency and introducing digital tools not only make life easier for businesses, but also increase trust, reduce corruption and stimulate economic growth.

# 6. Proposals for Minimising the Largest Identified Problems, Including Institutional Ones

Problems faced by Ukrainian business – excessive regulation, complex tax administration, chaotic inspections fraught with corruption risks, a high burden on the payroll fund, shadow economy practices and unequal competition, labour shortages, and insufficient digitalisation – are systemic and interconnected. Their resolution requires not only targeted changes, but also institutional transformation that will ensure predictability, transparency, and a reduction in the administrative burden on entrepreneurs. Below is a set of measures that could minimise the greatest barriers for SMEs.

## 6.1. Institutional Changes Required to Achieve a Systemic Effect

**In addition to targeted solutions, institutional transformations are required to ensure the sustainability of reforms. In particular:**

a) The development and legislative enshrinement of effective KPIs for the State Tax Service, the State Customs Service, and the Bureau of Economic Security, as well as the introduction of monitoring of their implementation for a substantiated assessment of the performance of these agencies.

b) The introduction of mandatory regulatory impact assessment for all draft laws registered in Parliament.

No new regulation may be adopted without a professional analysis of its impact on business (see below).

c) Increasing the independence of, and granting greater powers to, the State Regulatory Service. The state shall have an effective “filter” against poor-quality proposals (see below).

d) Increasing officials’ accountability for violations of procedures.

In particular, for unlawful inspections, delays in the issuance of permits, and the blocking of invoices without grounds.

e) Establishing a system of regular “state–business” dialogue.

Ongoing consultations, working groups, and public discussions of regulations.

## 6.2. Reducing Excessive Regulations and Simplifying Permitting Procedures

The following steps are required.

### **Introduction of the “regulatory diet” principle**

Every new regulation shall be accompanied by the repeal or simplification of an existing one. This reduces the accumulation of outdated rules.

### **Comprehensive inventory and review of permitting procedures**

It is necessary to systematically review all permits, licences, and approvals, and abolish all duplicated and ineffective ones. It is also necessary to abolish or review those that create the greatest problems, in particular those providing the greatest opportunities for corruption due to discretionary powers, excessive burden, or other factors.

### **Implementation of the “silent consent” principle across all sectors**

If an authority fails to respond within the established time limit, the permit shall be deemed granted. This reduces corruption risks and delays. The principle already applied to the permitting system in the sphere of economic activity should be extended to all possible areas, including construction, licensing, certification, etc.

### **Creation of a single digital portal for all permitting procedures**

An equivalent of the Estonian e-Business Register, where an entrepreneur can obtain all permits online.

It is also necessary to ensure: standardisation of requirements and document forms; reduction in the number of stages in permitting procedures; automatic renewal of permits without resubmission of documents.

## **6.3. Simplifying Tax Administration and Reducing Risks**

The following steps are required.

### **Modification of the ROMCS system**

Restore the presumption of innocence for taxpayers – introduce time limits on the blocking of VAT invoices/adjustment calculations. In the medium term – transition to the European VAT administration system and abandon ROMCS.

### **Abolition of penalties for technical errors that do not result in fiscal losses**

This will reduce pressure on SMEs and lower compliance costs.

### **Transition to a service-oriented model of the tax authority**

The tax authority should help businesses comply with the rules rather than punish them for minor inaccuracies.

Additionally: simplification of reporting forms; integration of tax services with banks and accounting systems; creation of personal accounts for SMEs with automatic guidance.

## **6.4. Reform of the Control and Inspection System**

The following steps are advisable.

### **Introduction of a risk-based inspection system**

Only enterprises with high risk are inspected, rather than all businesses indiscriminately.

### **Unification of the powers of control authorities**

Duplication of functions must be eliminated, and responsibilities must be clearly delineated.

### **Full digitalisation of inspections**

All actions of inspectors must be recorded in an electronic system accessible to businesses.

### **Video recording of inspections**

This reduces corruption risks and increases transparency.

### **Introduction of the “inspector-consultant” institution**

The inspector initially provides recommendations for remedying violations, while fines are applied only in cases of systematic or intentional violations.

Additionally: creation of a unified inspection calendar; mandatory prior notification of businesses; standardisation of inspection checklists.

## 6.5. Accelerating the Digitalisation of Public Services

### Full integration of state registers

So that businesses do not submit the same data multiple times.

### Introduction of the “paperless” principle

All procedures should be available online, with paper documents becoming the exception.

### Development of a unified digital entrepreneur’s account

It will enable access to all services: registration, permits, reporting, and tax payments.

### Digitalisation of permitting procedures and inspections

This reduces corruption and accelerates processes.

**As well as:** automation of document submission; electronic queues and online consultations; improvement of the functionality of the taxpayer’s electronic account.

## 6.6. Reducing the Burden on the Payroll Fund to Minimise the Largest “Grey Scheme” in the Country – “Envelope Salaries”

One of the key shortcomings of Ukraine’s tax system is the excessively high taxation of labour, which leads to significant shadowing of the labour market. The current effective burden rate on the payroll fund (according to the OECD methodology) stands at 37%, which is significantly higher than in countries comparable to Ukraine in terms of socio-economic development. Without reducing this burden, it will be impossible to reduce “envelope salaries” schemes, which currently **result in shortfalls** in revenues to the state budget and the Pension Fund amounting to UAH 200–265 billion per year. The increase in revenues resulting from the successful reform of VAT in previous years was not used to reduce other taxes, in particular to reduce the burden on the payroll fund.

## 6.7. Measures for the De-shadowing of the Economy to Minimise “Grey” Schemes (Business Splitting, Underreporting of Turnover, “Pseudo-employment”)

For the systemic resolution of the problem of business “fragmentation” and related “schemes” in Ukraine, a number of measures must be implemented.

A General Anti-Avoidance Rule (GAAR) for corporate income tax and personal income tax should be introduced at the regulatory level, as well as anti-fragmentation rules for VAT and excise duties. These rules are overly general, so they shall be supplemented with clear criteria that should be established by regulation and regularly updated.

Fiscalisation and control should be focused exclusively on entrepreneurs who are at risk of exceeding turnover thresholds.

It is advisable to encourage consumers to obtain fiscal receipts, especially for excisable goods, and to verify their authenticity through the introduction of mechanisms such as a “receipt lottery”.

Mandatory responses by financial institutions to indications of business fragmentation should be ensured (currently the relevant recommendations of the National Bank of Ukraine are merely advisory), and a register of “drops” should be introduced.

The Financial Monitoring Service should be restructured, and the monitoring of groups of related companies should be strengthened.

It is necessary to amend the Labour Code and establish clear criteria for employment

## 6.8. Transition from the classical corporate profit taxation model

as a virtual calculated value to taxation solely of capital withdrawn from business (or “distributed profits”), at least in the SME sector, with the abolition of control over the calculation of financial results. This will radically reduce discretion and the cost of tax compliance, make it impossible to exert pressure on enterprises in order to force them into advance tax payments exceeding their actual tax liabilities under the law, and will also leave successful enterprises with more funds for reinvestment in business.

In summary, minimising business problems requires a combination of operational solutions (simplification of procedures, digitalisation, automation) and institutional reforms (restructuring of the State Tax Service and the State Regulatory Service, deregulation, changing the control model, and establishing a service-oriented state). Global experience demonstrates that this combination delivers the best results: reducing corruption, increasing business confidence, lowering costs, and stimulating economic growth.

## 6.9. State Measures to Reduce Labour Shortages

It is necessary to strengthen internal and external security through the reform of law enforcement agencies with a significant increase in their effectiveness while, at the same time, protecting law-abiding citizens and businesses from arbitrariness by law enforcement and control authorities. Overall, this concerns a comprehensive package of reforms aimed at establishing an effective rule of law. This will both facilitate the return of Ukrainian migrants and have substantial economic consequences, since the rule of law is currently the weakest link among Ukraine’s state institutions.

Continue and expand the eVidnovlennia programme, and ensure the necessary budgets for compensation for losses relating to destroyed property for all citizens.

Expand state programmes for the free retraining of citizens so that they may obtain professions currently in demand in Ukraine.

Provide state support to temporary migrants planning to return to Ukraine and requiring assistance; in particular, assistance with job searches and, where necessary, free accommodation for a certain period. The same measures should be implemented for internally displaced persons who could potentially become migrants.

Maintain and improve the simplified taxation system (STS) for microbusinesses in Ukraine, ensuring that it remains significantly more attractive than the conditions for microbusinesses in EU countries.

Initiate communication with European partners regarding the gradual discontinuation of financial support for migrants in EU countries, transforming such monthly support into substantial one-off financial assistance for those returning to Ukraine. It appears advisable to take as an example the optimal concept developed by the Swiss State Secretariat for Migration (SEM).

# 7. Appendix

## Improving the System of Preliminary Quality Control of Rule-Making as a Systemic Deregulation Factor

Ukraine currently has in force the Law “On the Principles of State Regulatory Policy in the Sphere of Economic Activity” No. 1160-IV, according to which all draft regulations originating from the executive authorities are subject to mandatory public consultation and shall be accompanied by Regulatory Impact Assessments (RIAs), as well as M-Tests regarding the impact on small and microbusinesses where such impact exists. RIAs, M-Tests, and compliance with the procedure prescribed by law are subject to analysis by the State Regulatory Service under the Ministry of Economy, without the approval of which a regulation should not proceed to further consideration.

This system has proven fairly effective in restraining attempts to worsen the regulatory environment for business, but unfortunately only to the extent of the personal factor involved. A number of shortcomings have emerged that make it possible to circumvent the procedures prescribed by law and adopt economically harmful decisions. These include, in particular:

**Це, зокрема:**

1. Insufficient liability for violations of the Law on State Regulatory Policy and the problem of regulations adopted with such violations not becoming legally void.

2. The institutional dependence of the State Regulatory Service on the executive authorities, which may generate conflicts of interest, as well as the excessive dependence of its effectiveness on the views and interests of its Head (for example, under Viktor Yanukovich, Mykhailo Brodskyi actively manipulated Ukraine's position in the Doing Business ranking while simultaneously facilitating the destruction of microbusinesses in line with government policy).

3. The absence of a control mechanism regarding other subjects of legislative initiative, especially Members of Parliament.

4. The possibility, at the legislative level, of exempting documents from the scope of the Law on State Regulatory Policy, which the Government has begun to abuse particularly frequently in recent years.

5. Continuous attempts to abolish the State Regulatory Service or strip it of its role.

A vivid illustration was the history of introducing the mandatory use of cash registers/software-based cash registers for all single tax payers in Groups 2 and 3 (“the fiscalisation of IEs”). According to assessments by independent experts, confirmed by the State Regulatory Service, the fiscalisation of IEs was appropriate only in a risk-based format, where it should have applied solely to categories of taxpayers presenting a substantial risk of exceeding the turnover limits established by law for the relevant single tax groups. At the same time, representatives of large business openly lobbied for total fiscalisation, which, according to those same conclusions, is economically harmful. The State Regulatory Service, acting within the scope of its lawful duties, refused to approve the relevant draft law submitted by the Cabinet of Ministers, as a result of which its Head, Kseniia Liapina, was dismissed from office on a contrived pretext. Meanwhile, the economically harmful draft law was registered without any obstacles on behalf of Members of Parliament and adopted in “turbo mode” in the autumn of 2019. As expected, the entry into force of this law did not result in any noticeable increase in budget revenues, but instead created numerous problems for microbusinesses and led to enormous unnecessary losses of money and working time. It also made it easier for large businesses to form cartels in markets, particularly in the pharmaceutical sector, which in turn led to abuses of market power that the government was subsequently forced to address through additional anti-market regulations.

In order to improve oversight of regulatory rule-making, it should be extended to all subjects involved in such rule-making, and the status of the supervisory and preventive body, currently the State Regulatory Service, should accordingly be elevated. There is considerable international experience on this issue, which deserves separate and thorough analysis. The following reform structure may preliminarily be proposed.

**1.** The provisions of the law on state regulatory policy should apply to all subjects of rule-making, including the President and deputies at all levels, and to all types of draft regulations governing relations between the state and business. In particular, all prospective draft laws relating to the regulatory sphere, regardless of the submitting entity, must contain RIAs and, where necessary, an M-Test. They should be submitted for public consultation for a period of no less than one month before being referred to the relevant Committees of the Verkhovna Rada.

**2.** As an exception, in justified cases of urgent necessity, regulations may be adopted bypassing the procedure prescribed by law; however, in such cases they shall remain in force only until the adoption of a regulatory act in accordance with the proper procedure, but for no longer than 2 months for subordinate legislation and 3 months for laws. Regulations adopted in violation of the procedure shall be deemed (recognised by a court as) legally void from the moment of their entry into force, or automatically after the expiry of the relevant period in emergency cases. Any other wording intended to exempt certain subordinate legislation from the procedure established by law shall be deemed void. Official misconduct liability, up to and including dismissal from office, should be established for deliberate attempts by officials to circumvent the law.

**3.** Ideally, the State Regulatory Service should be transformed into a State Expert Chamber (following the examples of the British RPC, the German NKR, or the American CBO) and become an independent state authority established by the Verkhovna Rada, analogous, for example, to the Accounting Chamber (this may require constitutional amendments). Its leadership should be appointed through a competitive selection process and approved by a resolution of the Verkhovna Rada for a term exceeding the parliamentary term of office of Members of Parliament. It should also assume the functions of the Scientific and Expert Council of the Verkhovna Rada regarding the general assessment of draft laws, which should be carried out together with an assessment of the quality of RIAs. It should also retain powers relating to the assessment of draft regulations of the executive authorities. At the same time, refusal to approve a draft law or another draft regulation (that is, a veto) should result solely from formal non-compliance, such as failure to comply with statutory procedure and/or methodological requirements for RIAs, or an RIA with a negative outcome. All other conclusions should be advisory in nature, but should serve as guidelines for parliamentary debate and deputies' decision-making.

**4.** In order to improve evaluation methodology and assist in resolving the most pressing regulatory problems, the State Expert Chamber should analyse all forms of feedback from businesses and citizens regarding the (in)effectiveness and corruption risks of existing regulations and, where necessary, organise (possibly in cooperation with other state authorities and the Business Ombudsman Council) its own "hotline", where entrepreneurs and citizens affected by corrupt or other unlawful actions may lodge complaints regarding regulatory acts that enabled such abuses. The State Expert Chamber should also conduct its own analyses of the effectiveness of regulations. This will make it possible to better identify deregulation priorities and accumulate practical experience regarding the consequences of applying particular rules.

5. In order to assess the success of regulatory policy, the State Expert Chamber should regularly (ideally annually) commission a detailed representative survey from an independent agency regarding the aggregate cost of doing business

6. The State Expert Chamber should establish regional divisions for analysing the rule-making activities of regional and district councils, executive authorities, and local self-government bodies according to the same principles.

The implementation of such a reform should lead to a more orderly discussion of draft regulations, increased public legitimacy of law-making through greater involvement of civil society at the early stages of the legislative process, and the establishment of barriers against the adoption of harmful decisions. The requirement to prepare RIAs for draft laws will make it more difficult to submit poor-quality, insufficiently developed documents (“regulatory spam”) and, accordingly, will reduce the burden on Members of Parliament and Verkhovna Rada Committees arising from unproductive work related to analysing and filtering out such drafts, enabling them instead to focus on substantive debate concerning genuinely important and well-prepared proposals. The requirement to prepare RIAs will also contribute to raising the standard of parliamentary debate. All of this will contribute to strengthening the authority of the legislative body and legislation in general, and consequently to increasing the level of voluntary compliance with the law in society.