

UNSHADOWING OF ECONOMIC PROCESSES IN UKRAINE – IS THE MAIN CONDITION FOR THE DEVELOPMENT OF ENTREPRENEURSHIP

Viktoriia Vasiuta*, PhD (Technical Sciences), Associate Professor
Karyna Klymenko, Student
National University «Yuri Kondratyuk Poltava Polytechnic»

*ORCID 0000-0002-7469-3968

© Vasiuta V., 2021

© Klymenko K., 2021.

Стаття отримана редакцією 09.04.2021 р.

The article was received by editorial board on 09.04.2021

Introduction. The shadow economy is a fairly widespread phenomenon not only in Ukraine, but all over the world. A high level of shadowing negatively affects the main macroeconomic indicators, distorting them. The shadow economy poses a real threat to the country's economic security, negatively affects its image, competitiveness, and the effectiveness of reforms. In Ukraine, the unshadowing of the economy should become a priority in the implementation of effective state policy.

Analysis of recent research sources and publications. Domestic and foreign scientists investigated the mechanisms of economy unshadowing.

The works by G. Erns, P. Gutman, V. Mandibur, V. Mamutov, V. Popovich, V. Predborskoy, A. Turchinov, K. Hart talk about the features of the organizational and legal foundations of unshadowing. The issues of the influence of shadowing on the state of the national economy are given attention in the scientific works by A. Baranovskyi, V. Borodiuk, D. Kaufman, V. Prykhodko, E. Feig, M. Fleischuk, Yu. Kharazishvili, F. Schneider et al.

There is no standard list of measures that are used to unshadowing the economy. They are constantly being improved [5].

One of the important directions of unshadowing the economy is to reduce the level of informal relationships in the labor market, improve fiscal policy and the system for regulating financial services markets, etc..

Setting objectives. The purpose of the article is to determine the main directions of the unshadowing of economic processes in Ukraine.

Main material and results. The shadow economy threatens the national interests of Ukraine and its economic security. Inaction on the part of the state in matters of reducing the level of shadowing can lead to the transformation of Ukraine into a favorable country for criminal dealers [1].

The shadow sector of the economy exists in any country, regardless of the level of development of the national economy [2]. However, in some countries the shadow economy is at a level that does not have a significant impact on the economy (5-12% of GDP), while in others it has a detrimental effect on all socio-economic processes (more than 30% of GDP) [2]. It is to the second category of countries that Ukraine belongs.

According to calculations by the Ministry of Economic Development and Trade of Ukraine, the level of the shadow economy in the first quarter of 2020 amounted to 31% of the official gross domestic product of Ukraine, which is 2% more than in 2019 (Fig. 1) [3].

The level of the shadow economy in 2019 amounted to 28% of the official GDP of Ukraine, which is 3% less than in 2018.

The introduction of quarantine measures due to the spread of the pandemic caused a crisis in the Ukrainian economy. In the face of significant uncertainty due to the spread of the COVID-19 pandemic, businesses are seeking to reduce the risks of losing resources. Therefore, an increase in the level of the shadow economy in Ukraine is expected.

In the first quarter of 2020, there was a decrease in business and investment activity, and losses in the national economy increased significantly.

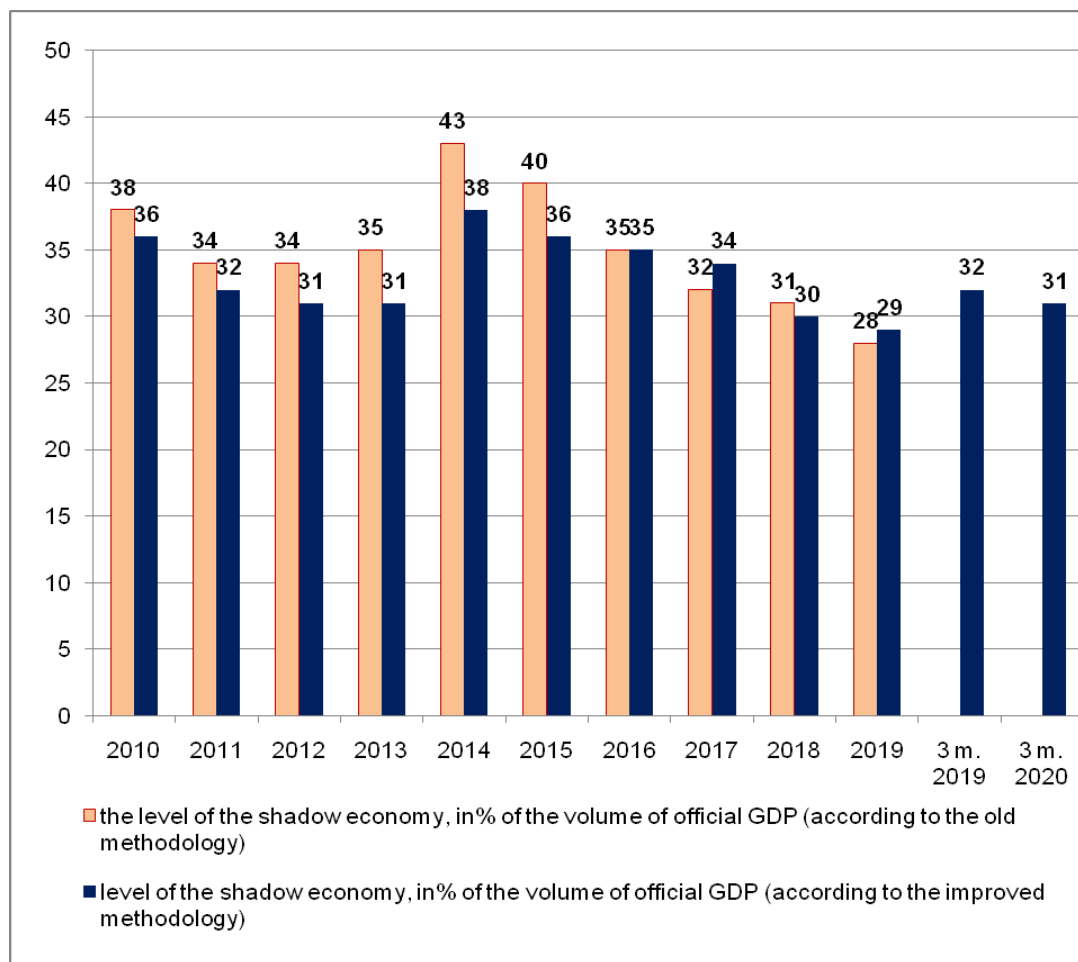


Fig.1. The level of the shadow economy in Ukraine for 2010-2020

The dynamics of the shadow economy has an atypical character with the so-called sectoral characteristics [3].

Three of the four methods used to assess the level of the shadow economy recorded the following data [3].

- the method “population expenditures – retail trade and services” – 29% of the volume of official GDP;
- electric method – 27% of the GDP;
- monetary method – 29% of GDP.

At the same time, the method of unprofitable enterprises showed an increase in the level of the shadow economy to 38% of the volume of official GDP [2].

The highest level of the shadow economy can be observed in such spheres as informal employment of the population, receiving wages in envelopes, the foreign exchange market, concealment of income by enterprises and firms, car sales, market trade, and real estate transactions. The development of the shadow economy leads to a decrease in the volume of financing of social and other expenses to the population, an increase in debt obligations [4].

The most famous levers of the mechanism of unshadowing of the Ukrainian economy are administrative, economic and social levers [5].

Among the measures of administrative pressure, one can single out those that limit shadow activity by punishment and those that stimulate transit to the legal sector of the economy.

Economic measures of unshadowing are based on the creation of a favorable economic environment for the development of entrepreneurial activity on a competitive basis, provide for the use of financial instruments in the organizational mechanism of doing business in order to attract it into the legal environment. The economic levers of unshadowing include financial incentive programs, tax incentives,

cashback, modern and affordable payment methods, etc. [5].

Social activities are aimed at increasing financial literacy, benefits and incentives for business to exist in the formal economy. Among them, one can note the improvement of the service sector in the public sector and the creation of new advantages for both business and individuals working in the official sector of the economy [5].

According to the World Economic Forum, which published the rating of the countries of the world according to the Global Competitiveness Index [4, 6], Ukraine deteriorated in 2019 and took 85th rating position among 141 countries of the world compared to 2018 (83rd rating position) (Tab. 1, Fig. 2.).

The Global Competitiveness Index 2019 is topped by Singapore. The top ten includes the United States, Hong Kong, the Netherlands, Switzerland, Japan, Germany, Sweden, Great Britain and Denmark.

Table 1

Rating of Ukraine by the Global Competitiveness Index

Years	2012	2013	2014	2015	2016	2017	2018	2019
	(among 144 countries)	(among 148 countries)	(among 144 countries)	(among 140 countries)	(among 138 countries)	(among 138 countries)	(among 137 countries)	(among 141 countries)
Rating position	73	84	76	79	85	89	81	85
Indicator value	4,0	4,13	4,05	4,13	4,03	53,92	57,03	56,99

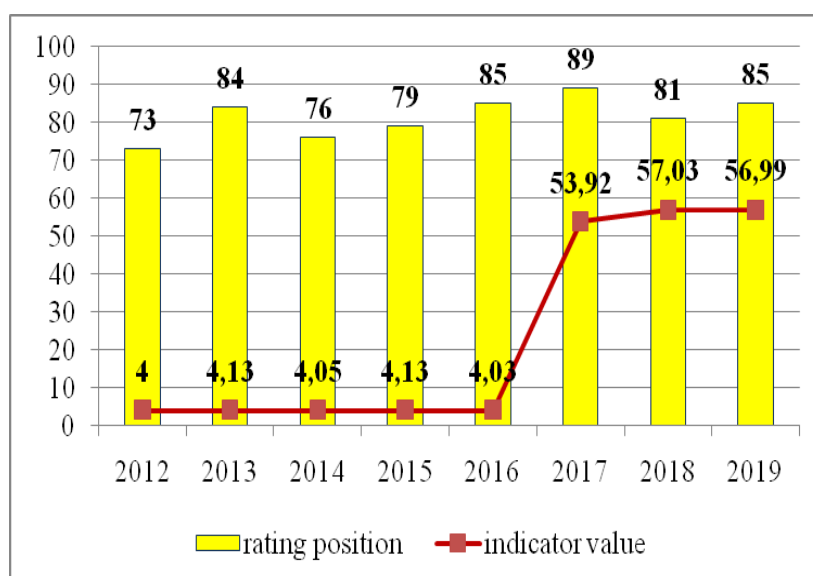


Fig.2. Rating of Ukraine by the level of the Global Competitiveness Index of the World Countries in 2012-2019

Among European countries, Ukraine ranked 38th out of 40 countries [6,7]. The closest to Ukraine in the ranking are Montenegro (35th rating position), Albania (36th rating position), Macedonia (37th rating position), Moldova (39th rating position), Bosnia and Herzegovina (40th rating position).

The Global Competitiveness Index consists of 113 indicators that characterize in detail the competitiveness of the countries of the world at different levels of economic development. [8].

The negative factors for doing business in our country are (in descending order): inflation, corruption, political instability, high tax rates, the complexity of tax legislation, instability of governments, difficult access to finance, ineffective state bureaucracy, regulation of the foreign exchange market, insufficient education of workers, poor workforce ethics, insufficient ability to innovate, limited labor market regulation, inadequate quality of infrastructure, crime and theft, poor quality of health care [4].

According to the World Bank's annual «Doing Business–2020» rating [9,10], which describes the level of ease of doing business in 190 countries of the world, Ukraine took 64th rating position in 2020, and

in 2019 it was 71st.

The diagram shows how the rating of Ukraine has changed in 2020 compared to 2019 (Fig.3.).

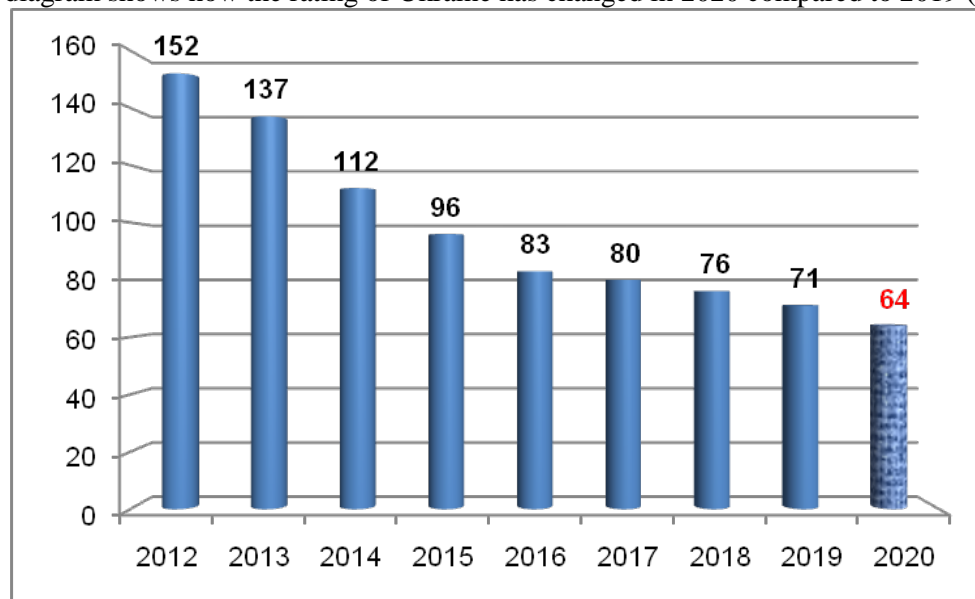


Fig.3. Ukraine's place in the «Doing Business» rating for 2012-2020

As can be seen from this figure, Ukraine's position is at different rates, but is constantly growing. Until 2016, Ukraine had significant growth by 13–25 positions, but the pace was declining. Since 2016, there has been a trend towards a gradual increase in the number of steps in the rating, which it overcomes annually [9, 10].

As part of the calculations of this rating, an analysis of the legal norms applicable to private enterprises is carried out in 12 areas (indicators) of their life cycle.

For the calculations of the «Doing Business–2020» rating, ten of them were included in the aggregate rating of the ease of doing business [9, 10].

The collection and analysis of complex quantitative data on the directions (indicators) of the rating is used to compare the conditions for regulating entrepreneurial activity between countries and in dynamics. By doing this, the «Doing Business» project encourages countries to better regulate and provides measurable benchmarks for reform.

These indicators are used to analyze economic performance and to identify successful business regulatory reforms, and to determine where and why they were effective.

That is, the studies not only point to the problems that hinder the development of entrepreneurship, but also determine their cause and provide recommendations for the implementation of the necessary reforms.

With an increase in the overall rating by 7 positions, Ukraine showed growth in five indicators (Fig. 4) [9, 10]:

- «Protection Minority Investors» + 27 positions (from 72 to 45)
- «Dealing with Construction Permits» + 10 positions (from 30 to 20)
- «Getting Electricity» + 7 positions (from 135 to 128)
- «Trading across Borders» + 4 positions (from 78 to 74)
- «Registering Property» + 2 positions (63 to 61).

In the other five areas, unfortunately, not enough reforms were carried out, so there was a decrease in Ukraine's positions [9, 10].

In general, we can say that there is a slow but gradual approximation of the indicators of Ukraine in the best practices [9, 10].

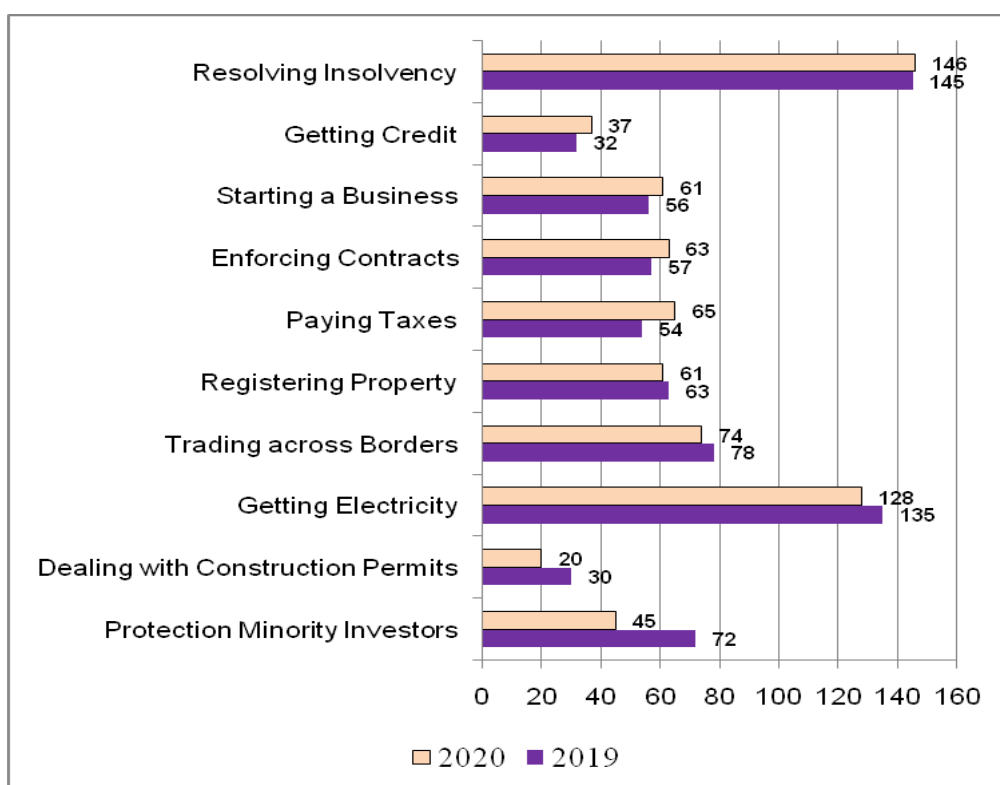


Fig. 4. Ukraine's rating position in the «Doing Business» rating for 2012-2020 (by indicators)

Another indicator that characterizes the level of a country's development is Legatum Prosperity Index.

The Legatum Prosperity Index is a combined indicator of the British think tank the Legatum Institute that measures the achievements of countries in the world in terms of their well-being and prosperity.

Analyzing the rating of the countries of the world by this indicator in 2020 [11, 12], it should be noted that Ukraine took 92nd place out of 167 countries. According to this indicator, in 2020 Ukraine worsened its position (Fig. 5).

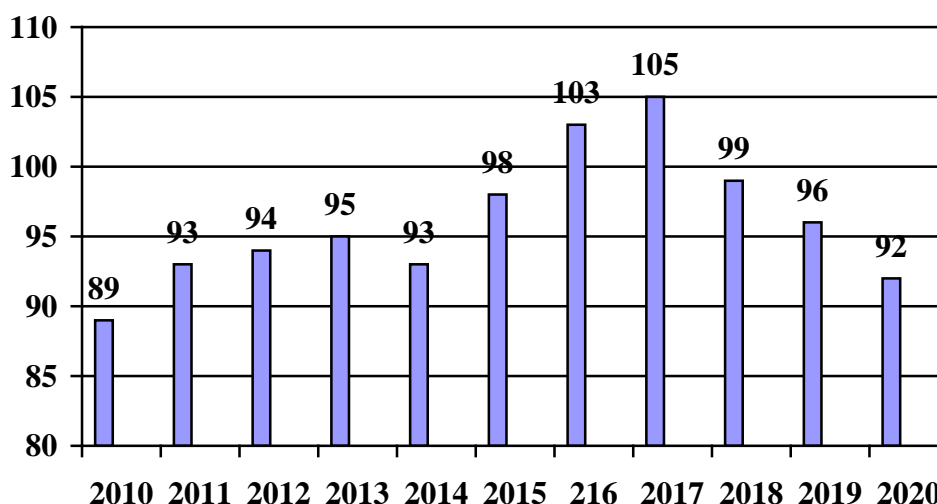


Fig. 5. Ukraine's rating position in the International Ranking of Prosperity in 2010-2020

Its closest neighbors are Kyrgyzstan (90th rating position), Guyana (91st rating position), El Salvador (93rd rating position), Turkey (94th rating position) [11].

The last in the ranking were Social Capital (147th rating position), Safety and Security (144th rating position), Investment Environment (119th rating position), Health (115th rating position), Natural

Environment (110th rating position).

The Social Progress Index is the first comprehensive assessment of the level of social development of a country, regardless of economic factors. The index consists of a series of indicators of social development and the environment, reflecting three areas of social development: basic human needs, well-being and opportunities. It illustrates how more than 7 billion people live in 163 countries of the world [13].

According to the level of the Social Development Index of the World Ranking [13, 14], Ukraine in 2020 took 63rd rating position. In 2019, Ukraine ranked 80th among 149 countries (Fig. 6).

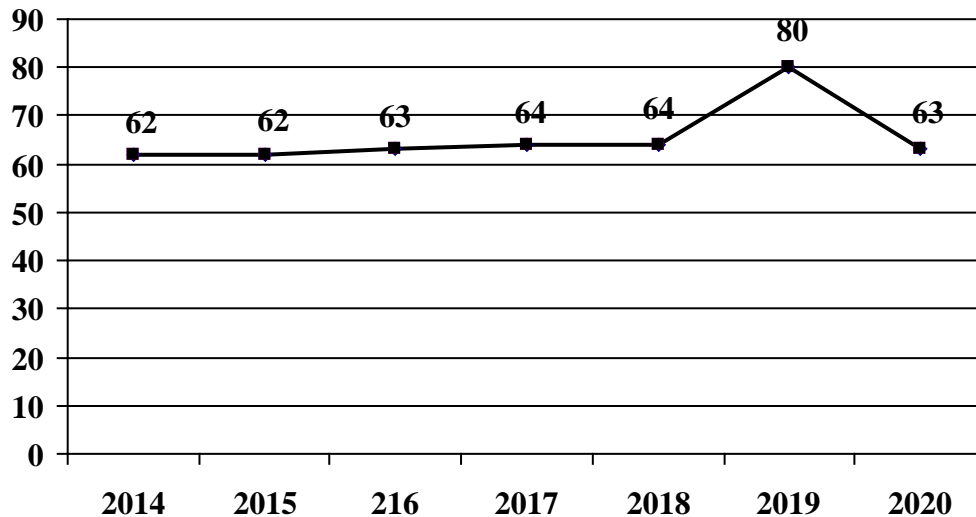


Fig. 6. Social Development Index of Ukraine in 2014-2020

Among the CIS countries, Ukraine lost to Belarus (47). In the ranking, it sits between Mexico (62) and Sri Lanka (64) and remains in the group of countries with a moderately good quality of life. [13, 14]. According to the study, the Covid-19 pandemic set the world back decades and delayed the eradication of poverty, improved access to education and the implementation of measures to combat climate change until 2092. This is 62 years more than the planned 2030 [13, 14].

Another important indicator in the study of the shadow economy of the state is the Quality of Life Index (Tab. 2).

Table 2

Ukraine's rating position in the ranking in terms of Quality of Life Index among the countries of the world in 2012-2020

Country of the world	Year	Rating position								
	2012	2013	2014	2015	2016	2017	2018	2019	2020	
	among 51 countries	among 67 countries	among 76 countries	among 86 countries	among 56 countries	among 67 countries	among 60 countries	among 71 countries	among 80 countries	
Ukraine	48	57	61	55	52	59	57	62	65	

According to the rating of the countries of the world in 2020, the top three are led by Denmark, Switzerland, and Finland. [15]. Ukraine ranks 65th among 80 countries. Among European countries, Ukraine took 33rd rating position, unfortunately the penultimate one. The dynamics of the indicator of the quality of life during 2012-2020 is presented in Table 3 and Figure 7.

Table 3

The indicator of the Quality of Life Index of the countries of the world in 2012-2021

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020
Country									
Poland	60,63	90,47	95,19	109,74	153,61	150,21	146,58	147,98	141,83
Russia	59,76	18,50	16,53	28,38	88,31	85,93	103,32	104,94	102,31
Ukraine	12,39	35,05	22,22	20,10	85,56	87,49	95,96	102,34	104,77
maximum value	285,77	215,71	206,23	222,94	208,54	190,37	197,75	198,95	192,67
minimum value	-49,55	-48,28	-39,32	-53,04	63,60	0	81,09	83,98	55,65

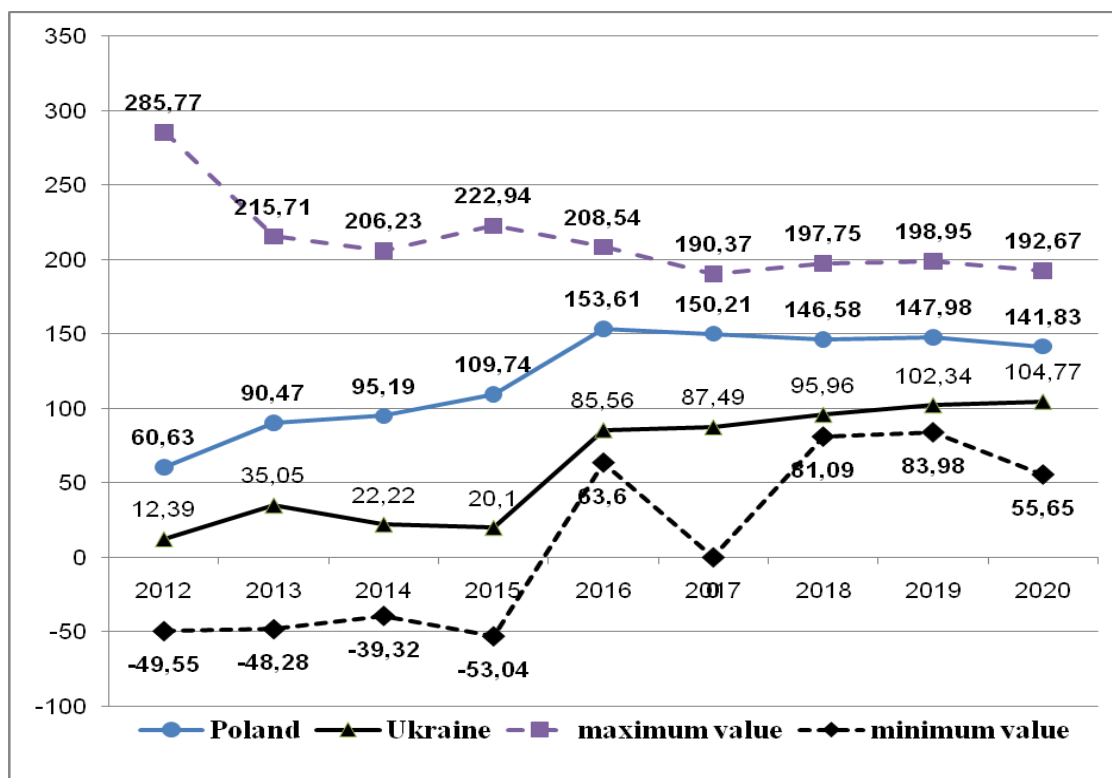


Fig. 7. The indicator of the Quality of Life Index of the countries of the world in 2012-2021

One of the prerequisites for the development of entrepreneurship is economic freedom. Economic freedom is a fundamental human right that provides for the right to control one's own labor and property. People can freely work, produce, consume and invest at their own discretion, having such freedom, only in an economically free society. This freedom is guaranteed and ensured by the state. Economic freedom is expressed in the right to free movement of labor, goods and capital. In 2020, Index of Economic Freedom of Ukraine was 54.90 score. According to the rating of the countries of the world, Ukraine took 133rd rating position among 179 countries of the world, having improved its position (in 2019 – 146th rating position) [12, 16] (Tab. 4).

Table 4

The Index of Economic Freedom of Ukraine for 2012–2021

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020
Country									
Poland	60,63	90,47	95,19	109,74	153,61	150,21	146,58	147,98	141,83
Russia	59,76	18,50	16,53	28,38	88,31	85,93	103,32	104,94	102,31
Ukraine	46,10	46,30	49,30	46,90	46,80	48,10	51,90	52,30	54,90

Ukraine is ranked 45th among 45 countries in the Europe region, and its overall score is well below the regional and world averages.

In terms of ease of doing business, Ukraine ranks 63rd in the world with a value of 64.18 score (Fig. 8) [12].

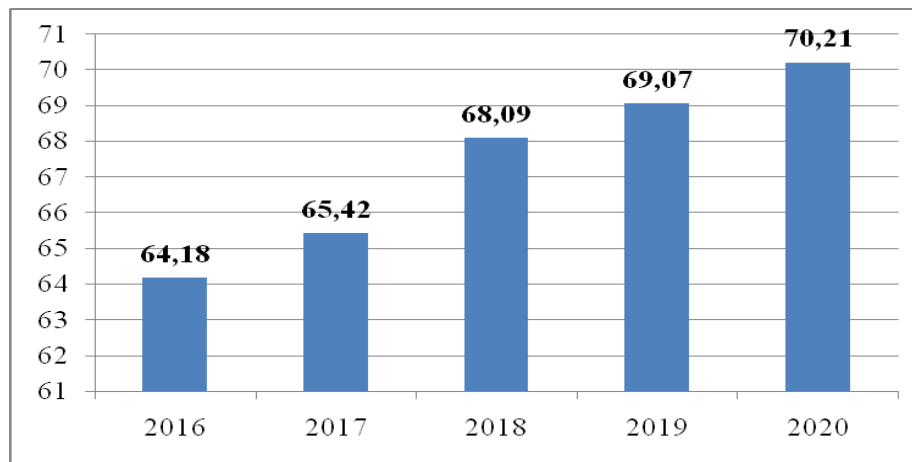


Fig. 8. Indicator of ease of doing business in Ukraine for 2012-2021

The situation in Ukraine in terms of this indicator has been improving over the past five years, but the high level of the shadow economy impedes the development of entrepreneurship and the national economy as a whole.

Among the factors shading the economy, which have a high impact, it is worth noting the high level of corruption.

The Corruption Perceptions Index (CPI) is one of the indicators in international rankings [12, 17]. It reflects the level of perception of the degree of corruption seen by business people and analysts in countries. Its value ranges from 100 score (very clean) to 0 score (very corrupt) [12]. According to the international rating, Ukraine took 117th rating position out of 180 countries in the CPI list, the indicator increased by 4 rating position (Fig. 9) [12, 17].

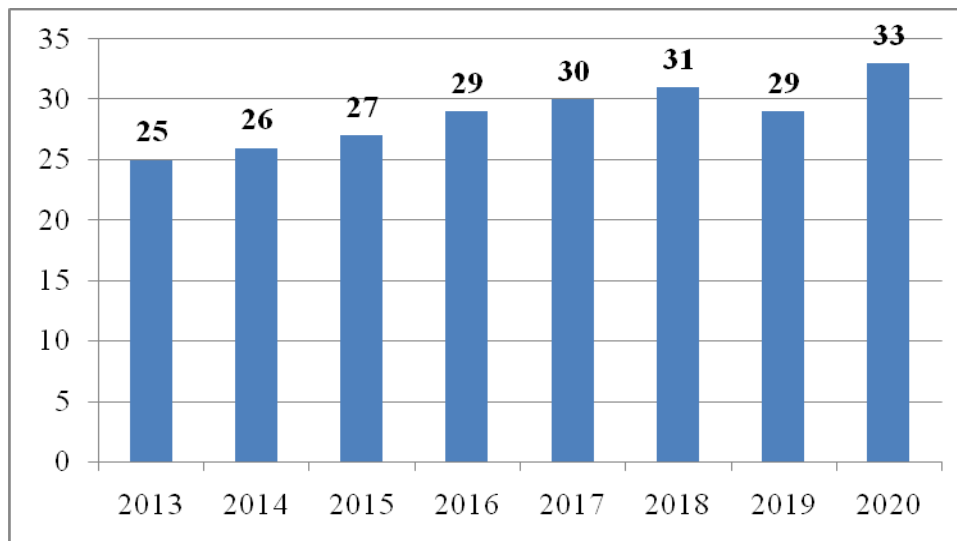


Fig. 9. Corruption Perceptions Index in Ukraine for 2013-2020

In terms of this indicator, Moldova is the closest to Ukraine (34 score and 115th rating position). Belarus (47 score, 63rd rating position) and Russia (30 score, 129 rating position) improved their performance compared to 2019 [17].

The Corruption Perceptions Index was determined from 9 different studies. All of them either have not changed or have grown compared to CPI-2019.

In general, an improvement or deterioration of 3–4 score is not considered statistically significant.

In early 2020, Transparency International Ukraine provided 5 recommendations that could improve

Ukraine's CPI performance. As of the end of 2020, none of them have been fully implemented, two have been partially implemented and three have not been implemented. [17].

L.V. Rybalchenko, E.V. Ryzhkov, O.O. Kosyuchenko [4] believe that an important problem for the country is the creation of measures to curb the withdrawal of a significant part of the capital abroad, which poses a threat to the domestic economy.

According to the Basel Anti-Money Laundering Index, Ukraine in 2020 ranks 67th among 141 countries with an indicator value of 5.23 score [18].

This indicator testifies to the existing risks of the emergence and development of corruption and criminal activity related to money laundering and financing of terrorism in Ukraine.

Unshadowing should become the main priority in the implementation of effective state policy in Ukraine. The main measures to unshadowing the national economy should be measures to counteract the legalization and laundering of illegally obtained income; improvement of the existing legal framework on combating economic crime, effective management of finances under state control [4].

One of the directions of unshadowing of the Ukrainian economy is the digitalization of economic processes [5]. There is a clear inverse relationship between the rate of use of digital payments in a country and the level of its shadow economy. The countries that have been most successful in reducing the size of the shadow economy are focused on reducing the use of cash and increasing the number of digital payments per capita, as their growth stimulates the role of actors in the formal economy. [5].

Conclusion. All analyzed world rankings indicate unfavorable conditions for the development of entrepreneurship in Ukraine. This is confirmed by the overwhelming number of indicators. The high level of the shadow economy is a big threat to the country's economic security and hinders the economic growth of the national economy.

Unshadowing should become a priority in the implementation of an effective state policy in Ukraine for the coming years. But in recent years, most of the measures proposed by domestic scientists and politicians to unshadowing the national economy have been partially or have not been implemented at all [1].

The creation at the state level of favorable conditions for the development of the legal economy will help to improve the investment attractiveness and competitiveness of the country. The result will be an improvement in the quality of life of the population, an increase in its well-being, and will restore confidence in the institutions of power.

REFERENCES:

1. Baranov, S.O. (2015). Shliakhy detinizatsii ekonomichnykh protsesiv [Ways for legalization of economic processes] *Aspekty publichnoho upravlinnia* [Public administration aspects]. No. 7-8, pp. 56-62 [in Ukrainian].

2. Vasiuta, Viktoriia, Vasiuta, Vasyly, & Zhytnyk, Oksana (2020). Tinizatsiia pidpriemnytstva v Ukraini: prychny i naslidky [Shadowing the entrepreneurship in Ukraine: reasons and consequences] *Ekonomika i Rehiion* [Economics and Region]. No 2(77), pp. 54-60. Available at: doi:[https://doi.org/10.26906/EiR.2020.2\(77\).1948](https://doi.org/10.26906/EiR.2020.2(77).1948) [in English].

3. The level of the shadow economy in Ukraine has exceeded 30%. Available at: <https://smida.gov.ua/news/allnews/riventinovoiekonomikivukrainiperevisiv30> [in Ukraine].

4. Rybalchenko, L.V., Ryzhkov, E.V. & Kosyuchenko, O.O. (2019). Vplyv tinovoi ekonomiky na ekonomichnu bezpeku Ukrainy [The influence of the shadow economy on economic security of Ukraine] *Naukovyi visnyk Dnipropetrovskoho derzhavnoho universytetu vnutrishnikh sprav* [Scientific Bulletin of the Dnipropetrovsk State University of Internal Affairs]. No 2, pp. 175-183 [in Ukrainian].

5. Kirzhetska, Mariia & Kirzhetskyi, Yurii (2020). Didzhytalizatsiia ekonomichnykh protsesiv yak napriam detinizatsii ekonomiky Ukrainy [Digitization of economic processes as the direction of ukrainian economy unshadowing] *Halytskyi ekonomichnyi visnyk* [Halychyna economic journal]. No 1 (62). Available at: https://doi.org/10.33108/galicianvisnyk_tntu2020.01 [in Ukrainian].

6. The Global Competitiveness Report 2020. Available at: <https://tradingeconomics.com/ukraine/competitiveness-index> [in English].

7. Global Competitiveness Index. Available at: <https://gtmarket.ru/ratings/global-competitiveness-index> [in Russian].

8. The Global Competitiveness Index. Available at: https://uk.wikipedia.org/wiki/%D0%86%D0%BD%D0%B4%D0%B5%D0%BA%D1%81_%D0%BA%D0%BE%D0%BD%D0%BA%D1%83%D1%80%D0%B5%D0%BD%D1%82%D0%BE%D1%81%D0%BF%D1%80%D0%BE%D0%BC%D0%BE%D0%B6%D0%BD%D0%BE%D1%81%D1%82%D1%96 [in

Ukrainian].

9. Analytical review «Ukraine's place in the World Bank's Doing Business». Available at: <https://www.me.gov.ua/Documents/Detail?lang=uk-UA&id=9cd60d26-fa44-481c-bb2a-1b28c713081f&title=AnalitichniOgIadmistseUkrainiUReitinguSvitovogoBankudoingBusiness> [in Ukrainian].

10. «Doing Business–2020». Available at: <https://www.doingbusiness.org/en/data/exploreconomies/ukraine> [in Ukrainian].

11. The Legatum Institute Foundation. Available at: <https://www.prosperity.com/> [in English].

12. Ukraine. World rankings. Available at: <https://knoema.com/atlas/Ukraine/topics/World-Rankings?origin=knoema.ru> [in English].

13. The Social Progress Index 2020. Available at: <https://www.socialprogress.org/?code=UKR> [in English].

14. The best and worst countries in the world for quality of life: ranking 2020. Available at: <https://internationalinvestment.biz/business/1597-luchshie-i-hudshie-strany-mira-po-kachestvu-zhizni-reyting-2020.html> [in Russian].

15. Quality of Life Index 2021. Available at: <https://www.numbeo.com/quality-of-life/rankings.jsp> [in English].

16. Index of Economic Freedom. Available at: <https://www.heritage.org/index/ranking?version=602> [in English].

17. Ukraine in the Corruption Perceptions Index 2020. Available at: <http://cpi.ti-ukraine.org/#/> [in Ukrainian].

18. Country rating by Basel Anti-Money Laundering Index Available at: <https://gtmarket.ru/ratings/basel-aml-index> [in Russian].

УДК 330.34: 351(338.24)

JEL O17

Васюта Вікторія Борисівна, кандидат технічних наук, доцент. **Клименко Карина Вадимівна**, здобувач вищої освіти. Національний університет «Полтавська політехніка імені Юрія Кондратюка». **Детінізація економічних процесів в Україні – головна передумова для розвитку підприємництва.** Висвітлено актуальне питання детінізації економічних процесів в Україні. Зазначено, що високий рівень тінзації негативно впливає на основні макроекономічні показники, спотворюючи їх. Тіньова економіка створює реальну загрозу економічній безпеці країни, негативно впливає на її імідж, конкурентоспроможність, ефективність реформ. У ситуації, що склалася в Україні, детінізація економіки повинна стати пріоритетним напрямом провадження ефективної державної політики.

Тіньовий сектор економіки існує в будь-якій країні незалежно від рівня розвитку національної економіки. Проте в одних країнах тіньова економіка перебуває на рівні, що не має суттєвого впливу на економіку, а в інших – згубно впливає на всі соціально-економічні процеси. Саме до другої категорії країн і належить Україна. Проведено аналіз рівня тіньової економіки в країні, охарактеризовано динаміку цього показника. Виділено основні сфери, у яких найбільше можна її спостерігати. Розкрито сутність основних важелів механізму детінізації української економіки. Здійснено моніторинг рейтингів країн світу, визначено місце України. Результати свідчать про несприятливі умови для розвитку підприємництва у державі, що підтверджується переважною кількістю показників. Зазначено, що основним пріоритетним напрямом провадження ефективної державної політики в Україні повинна стати детінізація. Визначено основні заходи детінізації національної економіки. Наголошено на важливості діджиталізації економічних процесів як одному з напрямів детінізації економіки країни. Це підтверджує досвід країн, які вже досягли найбільшого успіху в зменшенні розмірів тіньової економіки.

Ключові слова: детінізація, тіньова економіка, рівень тінзації, валовий внутрішній продукт, підприємництво, рейтинг, діджиталізація.

UDC 330.34: 351(338.24)

JEL O17

Vasiuta Viktoriia B., PhD (Technical Sciences), Associate Professor. **Klymenko Karyna V.**, Student. National University “Yuri Kondratyuk Poltava Polytechnic”. **Unshadowing of Economic**

Processes in Ukraine – is the Main Condition for the Development of Entrepreneurship. The article is devoted to the topical issue of unshadowing of economic processes in Ukraine. The analysis of the level of the shadow economy in Ukraine is carried out, the dynamics of this indicator is characterized. The essence of the main ways of the mechanism of unshadowing of the Ukrainian economy is revealed. The monitoring of the ratings of the countries of the world was carried out, the place of Ukraine was determined in them. The results indicate unfavorable conditions for the development of entrepreneurship in Ukraine. The main measures for unshadowing the national economy are proposed. The article notes the importance of the digitalization of economic processes as one of the directions of the unshadowing of Ukrainian economy.

Keywords: unshadowing, shadow economy, level of shadowing, GDP, entrepreneurship, rating, digitalization.