

# EGAP Program Impact Story Series: Curbing corruption through online business registrations

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Business registration services are among the most popular administrative services in Ukraine. Registering a business in Ukraine is also known to be rampant of opportunities for corruption.

The persistence of queues and administrative backlogs in state registration bodies are the primary reasons for alternative attempts to resolve the transactions faster, without waiting. Direct face-to-face contact with administrators responsible for registrations, *jumping the queues* and facilitating creative ways for more efficient access to state registers and administrative services are among the most common sources of corruption. The Ukrainian saying '*where there is a queue, there is a way without a queue*' well depicts this widespread phenomenon. Cases of illegally created shadow registers (including electronic ones) where registration places in the system *are sold* to entrepreneurs is also not uncommon. opens additional avenues for corruption.



What many entrepreneurs often do not realize is that by law business registration services must be provided 'free' of charge and accessible to all entrepreneurs without with any differentiation in administrative efficiency. Nonetheless, the *human factor* and deficiencies in the system open room for 'mediators'. For example, if a Google search is done for "Phoenix Registration" or suspension of business licenses – key words for business registrations in Ukraine, instead of entrepreneurs being provided instructions on how to do it themselves, the Google search first displays the services or lists of state registration *mediators*, where a business registration procedure is offered for 750-950 UAH (20-30 CHF), and 'liquidation service' at 1200-1500 UAH (45-60 CHF). While it is not entirely illegal to provide such services, intermediaries tend to have *their own* registrars which provide exclusive, paid access to allegedly *proper delivery of a given service*, thus endorsing parallel systems and unequal access to basic services.

## Government's Attempts at Solutions

Being aware of these problems and the importance of business registrations for Ukraine's economy, online registration of businesses was first introduced in November 2012 through the online state *Registration Portal*. However, the software chosen and series of technical limitations prevented the system from working effectively and by 2015 business applications ceased to be processed through the portal altogether. Registering or terminating a business was again only possible by applying in person in paper form, and by post with notarized signature<sup>1</sup>. Registrations being tied to applicants' place of residence also complicated administrative procedures. Consequently, in 2016, several legislative acts were introduced to fix some of these inefficiencies. First entrepreneurs were enabled to register irrespective of their place of residence within the Autonomous Republic of Crimea oblast as well as in Kyiv and Sevastopol cities<sup>2</sup>.

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<sup>1</sup> MOU No. 1666-VIII dated 06.10.2016.

<sup>2</sup> Part 2 of Article 4 of the Law No. 755-IV dated 15.05.2003.

Secondly, the Cabinet of Ministers of Ukraine identified business registrations and terminations<sup>3</sup> as a priority services for automation. To the dismay of many, however, by 2017, these services remained largely paper-based and continued to be subject of high risks of corruption.

### EGAP Program's Approach and Support

To facilitate Ukrainian citizens' equal access to efficient administrative services available in an electronic format and thereby to decrease systemic corruption in Ukraine, the Electronic Governance for Accountability and Participation Program (EGAP) began working closely with key state authorities in targeted public services. Due to their popularity, high demand and prone to corruption, electronic business registrations were chosen as one of the targeted service areas.



Thanks to the pro-active leadership of the State Agency for E-Governance, EGAP's primary Ukrainian government partner, initiated a number of joint meetings with the Ministry of Justice in Ukraine following which a memorandum of cooperation was signed related to the transfer of several of its services into electronic format. EGAP's technical assistance (TA) was requested to implement a technical solution and related capacity building. Cooperation with the Ministry of Justice was rapid through a strategically planned, gradual transfer of all its services, including business registrations, onto its government *Online House of Justice* portal.

### EGAP's RESULTS & IMPACT ON FIGHT AGAINST ANTI-CORRUPTION

Online application and termination of businesses for individual entrepreneurs was launched for all citizens of Ukraine on the *Online House of Justice* portal in March 2017, the technical implementation of which took 6 months to complete. Within the first six months of its introduction, in March 2017, the service was used 3636 times. 2498 (68%) electronic applications were reportedly handled more efficiently by state registrars, 60% of which included registrations for individual entrepreneurs and 40% included business license terminations. On average, the portal processes 16 to 50 e-applications daily with the number of applications increasing monthly.

The new e-service enables entrepreneurs to:

- Fully submit their business registrations electronically, 24/7, irrespective of where they reside; entrepreneurs simply require access to the Internet and keys to electronic digital signature;
- Prevent corruption by: i) removing direct contact between administrators and applicants where bribery and petty corruption is common; ii) removing illegitimate duplication of service provision by intermediaries; iii) legally standardizing and creating the practice of issuing 'official receipts' for processed business applications; iv) enabling the initiation of business registration irrespective of entrepreneurs' place of residence;

*"After the introduction of new electronic services, citizens will not need to spend time waiting in queues, finding mediators among civil servants to get one or another certificate. All of these services can be obtained through the Internet at home or at work, by going to the website of the Ministry of Justice and paying this service with your payment card."*

Pavlo Petrenko, Minister of Justice of Ukraine, March 18, 2015

<sup>3</sup> Resolution of the Cabinet of Ministers of Ukraine No. 918- p dated November 16, 2016.

- The new EGAP supported e-service also significantly simplifies the business registration/termination process for people with disabilities as the full procedure can be carried out online, without applicant's need to physically visit a registration authority. Internally displaced persons also have access to the service equally as all Ukrainian citizens do.

*"Accessible and transparent, non-corrupt, fast and convenient electronic administrative services are what citizens and businesses expect the most."*

Alexander Ryzhenko, Head of the State Agency for E-Government of Ukraine (1 March 2017)

## Some Challenges Faced & Lessons Learned

- One of the main risks when implementing e-services are changes in the legislation that may affect the implementation an e-service's business process. In the case of business registrations, when EGAP began implementing the technical solution for Ministry of Justice, changes in the legislation introduced the mandatory use of digital signatures<sup>4</sup> on several documents. This resulted in the need for EGAP's TA team to promptly develop a mechanism that could enable the use of several electronic digital signatures on a single electronic document. When implementing e-services, it is thus necessary to pro-actively monitor draft changes to regulations affecting the business process of providing the service in electronic form in order to be able to respond to them promptly.
- The second challenge faced when introducing new e-services is public awareness building. Without comprehensive public information campaigns, citizens remain unaware about the newly offered state online services hence the e-services' low usage and low benefits for citizens. Moreover, as citizens are unaware and do not always distinguish between the legitimate state, the prevalence of illegitimate, competing parallel non-state portals - such as iGov.org - is perilous when the latter offer negative experience for citizens and duplication of service provision vial parallel systems is perpetuated. Any new electron service will not be actively used without proper informing of citizens about its existence and an explanatory campaign.

Despite its challenges, however, the EGAP team considers the implementation of the nation-wide online business registrations for all Ukrainian citizens and entrepreneurs as an impactful success.

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<sup>4</sup> MOU No. 1666-VIII, 10 June 2016.