

Comments on “Main Principles of State Supervision (control) of Business Activities Law”



Dmytro Naumenko, Research Associate. Research interests - fiscal policy, financial analysis:

- On June 13, 2007 the President has signed “The Law on Main Principles of State Supervision (Control) of Business Activities”, which regulates relations between business entities and state controlling agencies. The adoption of the law is an important step towards the establishment of a clear system of state inspections. It is expected that when the Law becomes effective in six months after its publication, the simple and definite “rules of the game” will be introduced.

The law simplifies inspection procedures. Enterprises will be classified according to “risk groups”, which will determine the frequency of inspections made. In turn, legal entities associated with higher risks for the society and/or environment will be inspected more often than others. The inspections are also made more transparent. The list of legal entities and inspection items should become available on Internet before the new inspection scheme will be applied. Besides, the law sets inspection time limits and prevents inspection bodies to call for its prolongation. For example, inspection of an enterprise cannot exceed 15 business days, and 5 business days for small business entities. Currently inspection may last from 15 to 30 business days. In addition, the law prevents to duplicate functions of one inspection unit by another one, which is an important innovation. The State body will be able to request documents or product samples only once during the inspection and only according to the inspection plan.

With the introduction of this law the state inspection system should become more business friendly. Current legislation is chaotic and provides controlling agencies with excessive powers. As a result, inspections frequently serve as an instrument to selectively penalize competitors or simply collect bribes, cultivating widespread corruption. The new legislature on state supervision contains only this one law, and it should make the state control much more transparent and unambiguous.

In sum, the state inspections will liberalize due to the following:

- Introduction of a clear and simple list of items that will be inspected;
- A specific list of items for every legal entity;
- A smaller quantity of planned inspections and more strict regulations for unplanned inspections.
- Inspections will be conducted where only necessary.

Thus, the establishment of the new system of state supervision is obviously a positive movement. The next question is how the new regulations are practiced. Previous experience suggests that many new laws do not meet expectations, as there is a lack of law enforcement practice in the country. And we can only hope that this law would not share the destiny of other progressive laws distorted by various subordinate legal texts or non-practiced without any penalty.