

Convergence business climate in the Eastern Partnership countries with the business climate in the EU

Mid-Term Report



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INTRODUCTION

This interim report was drawn up under the terms of the contract No. SEC004 / 2018-002 concluded between the Secretariat of the Eastern Partnership Civil Society Forum and Sabit Baghirov, President of Entrepreneurship Development Foundation for provision of the consulting services. The subject of the Contract – project implementation: Development of methodology for assessing the degree of convergence of the business climate in the Eastern Partnership countries and the EU.

The Project partners include:

- Entrepreneurship Development Foundation (EDF) Azerbaijan;
- Center for cross-border cooperation, Ukraine (CCBC);
- The Georgian Association “ Women in Business” (GAWB), Georgia;
- Support for Economic Initiatives Public Union (SEI), Azerbaijan.

The interim report encapsulates a description of the following work carried out in the frame of the Project from July to September 2018:

- analysis of the state of small and medium-sized enterprise development in the three countries of the Eastern Partnership Region - Ukraine, Azerbaijan and Georgia;
- analysis of the level of convergence of the business climate in these countries to the requirements of the Small Business Act;
- development of the proposals on the methodology for assessing the level of convergence of the business climate in the Eastern Partnership countries with the business climate in the EU states.

The partner organizations assessed the state of small and medium-sized enterprise development in the three Eastern Partnership countries (Ukraine, Georgia and Azerbaijan) based on their relevant statistical data, legislative acts and government decisions.

The proposals on the methodology for assessing the level of convergence of the business climate in the Eastern Partnership countries with the business climate in the EU states were developed based on the analysis of the following reports released by the international organizations:

- Doing Business 2018, Annual Report of World Bank¹;
- OECD SME Policy Index 2016 EaP²;
- Corruption Perceptions Index 2017, Annual Report of Transparency International³;

¹ <http://www.doingbusiness.org/content/dam/doingBusiness/media/Annual-Reports/English/DB2018-Full-Report.pdf>

² <http://www.oecd.org/countries/belarus/sme-policy-index-eastern-partner-countries-2016-9789264246249-en.htm>

³ https://www.transparency.org/news/feature/corruption_perceptions_index_2017

- Economic Freedom of the World 2018, Annual Report of Fraser Institute (Canada)⁴;
- 2018 Index of Economic Freedom, Annual Report of Heritage Foundation (USA)⁵;
- The Global Competitiveness Report 2018, Annual Report of World Economic Forum⁶;
- The Global Entrepreneurship Index 2018, Annual Report of The Global Entrepreneurship and Development Institute, Washington, D.C., USA⁷;
- New business density (new registrations per 1,000 people ages 15-64), 2006-2016, World Bank⁸.

Based on the proposed methodology, it is planned to assess the level of convergence of the business climate in the three Eastern Partnership countries with the business climate in the EU states in the following - final phase of the project implementation (November 2018 - February 2019).

Round table discussions will be publicly organized with the participation of all stakeholders (government, business support associations, think tanks, entrepreneurs) in the capital cities of the three EaP countries (Kiev, Baku, Tbilisi) to weigh in on the findings. Based on the outcome of these public discussions, recommendations will be developed and submitted to the governments of the countries concerned.

⁴ <https://www.fraserinstitute.org/sites/default/files/economic-freedom-of-the-world-2018.pdf>

⁵ <https://www.heritage.org/index/>

⁶ <http://www3.weforum.org/docs/GCR2018/05FullReport/TheGlobalCompetitivenessReport2018.pdf>

⁷ https://thegedi.org/wp-content/uploads/dlm_uploads/2017/11/GEI-2018-1.pdf

⁸ <https://data.worldbank.org/indicator/IC.BUS.NDNS.ZS>

1. OVERVIEW OF SME SECTOR

UKRAINE⁹

Classification of small and medium enterprises in line with the Ukrainian legislation (Article 55 of the Commercial Code) is presented in the table:

	Micro enterprise	Small enterprise	Medium enterprise	Large enterprise
Number of employees, person	≤ 10	≤ 50	> 50 < 250	≥ 250
Annual turnover, million euros	≤ 2	≤ 10	> 10 < 50	≥ 50

The role of small and medium enterprises in the Ukrainian economy shows itself in the relative proportions of:

- total number of registered enterprises (99.9%);
- general employment of the population (72.6%);
- total value added created in Ukraine (60.1%).

SMEs account for 99.9% of the total number of registered business entities. In the private sector 81% of the SMEs are micro enterprises, 14.1% are small enterprises, while medium-sized enterprises account for 4.8%. Due to the considerable devaluation of the hryvnia in 2014-2015, a part of the entrepreneurial entities, which were traditionally perceived as large businesses and had income from any activity less than 50 million euros, were taken into account in the statistical data as medium-sized businesses. Loss of positions by some large businesses and sustainability of small and medium enterprises in the crisis situation led to an increase in the share of small and medium enterprises in Ukraine. The share of SMEs in the total number of the employed is increasing and currently stands at 72.3%.

The State Statistics Service of Ukraine has started to measure the added value generated by the SMEs only since 2012. The size of the added value is 60.1% of the total. As for distribution by sectors, most SMEs, especially micro enterprises operate mainly in sectors with low productivity: 51.7% in the wholesale and retail sectors, 7% in industrial production, 4.1% in agriculture. This factor implies to the relative easiness of starting a business, a sufficient level of profitability and the ability to optimize the tax system.

The medium-sized entrepreneurial subjects are partly involved in the provision of services, but 30.3% of the value added in terms of production costs is generated by industrial

⁹ This section is prepared by the Center for cross-border cooperation, Ukraine (CCBC)

production. The share of value added in terms of production costs of economic entities engaged in agriculture is considerable in the small business segment (excluding micro enterprises) (20.5%). This factor is accounted for balancing between the high productivity of production and the additional costs required to administer a large number of land lease contracts located in different places. With regard to the provision of services, small and medium-sized businesses engaged in economic activity outnumber large businesses.

The implementation of the SME Development Strategy provides for improving the main indicators of the implementation of state policy in the sphere of entrepreneurship development.

Indicator	Current value
Share of the innovative enterprises, total number of enterprises in percentage terms	14,6
Share of the business expenditures on research activities, percentage of the gross domestic product	0,42
Share of the markets with competitive structure, percentage of the total sales	42,7
Share of the SMEs in value added in terms of production cost, percentage of the total volume	59
Share of the SMEs in the total volume of products sold (goods, services), percentage of the total volume	63
Share of profits gained by the SMEs, percentage of total volume	72,8
Share of exporting enterprises, percentage of the total number	5,9
Share of small and medium enterprises, implementing innovative products or activities, percentage of the total number	7,4

The national economy has traditionally been characterized by an unfavorable business climate, creating obstacles to the development of the private sector. According to the international rankings, such as Doing Business 2017 and Global Competitiveness Index, the business climate in Ukraine was ranked worse than that of the neighboring countries. Meantime, the results of these rankings prove that the situation has rapidly improved in recent years. In particular, Ukraine rose from 152nd position in 2012 to 80th position in 2017 in the ranking of Doing Business 2017, which is published by the World Bank. Such dynamics is indicative of the fact that Ukraine has significant potential and is actively implementing reforms, but it is necessary to improve the business climate. Meanwhile, Ukraine ranked 85th among 138 countries in the Global Competitiveness Index, published

by the World Economic Forum. In terms of business sophistication and innovation, Ukraine ranked 98th and 52nd respectively.

In 2018, Ukraine ranked 76th in ranking of the Doing Business rated annually by the World Bank. The progress is associated with streamlining the payment of taxes by means of introducing an electronic system, reducing time and money needed to start a business, enhancing protection of the minority investors' rights, launching an electronic payment system for legal services, reducing the costs of construction permits, reducing the size of single social payments and continuing initiatives to protect the rights of minority investors.

AZERBAIJAN¹⁰

According to the *Law on Entrepreneurial Activity*, adopted on 15 December 1992, entrepreneurial subjects are divided into micro, small, medium and large entrepreneurial subjects based on certain criteria. The size of entrepreneurial subjects is classified with the Resolution of the Cabinet of Ministers No.215 on *Approval of the Criteria for Large, Medium and Small Enterprises* dated June 5, 2015. According to the Resolution, the size of large, medium and small entrepreneurial subjects is defined based on the following criteria:

Table 1

Criteria for large, medium and small business¹¹

Category of entrepreneurial subjects by size	Average number of employees	Annual income
Small enterprise	Up to 25 employees	Up to AZN200,000
Medium enterprise	From 25 to 125 employees	From AZN200,000 to AZN1250000
Large enterprise	125 employees and more	AZN1,250,000 and more

According to the Resolution, definition of legal entities as small, medium and large enterprises is based on the indicators that are above the criteria for average number of employees and annual income. Definition of newly established entrepreneurial entities as small, medium and large enterprises is based on the number of employees hired within the period of 1 year from the date of their state registration or tax registration.

The role of SMEs in Azerbaijan's economy, notably in its expansion in recent years, is too insignificant. In 2016, SMEs, which numbered 191.7 thousand, accounted for 95% of all businesses. Of these SMEs, 20.9 thousand were legal entities and 170.8 thousand natural

¹⁰ This section is prepared by the Support for Economic Initiatives Public Union (SEI)

¹¹ Resolution of the Cabinet of Ministers No.215 on Approval of the Criteria for Large, Medium and Small Enterprises dated June 5, 2015 - <http://www.e-qanun.az/framework/30115>

entrepreneurs. Small entrepreneurs dominate in the overall number of SMEs in Azerbaijan while the number of medium entrepreneurs is moderate. Since small entrepreneurs account for the bulk of SMEs - 97.9% (187.6 thousand), with medium entrepreneurs reaching 2.1% (4.1 thousand).¹²

However, the position of SMEs in the economy is not adequate to the specific weight of their business units.¹³ According to statistical data for 2016, the share of SMEs in value added in the economy was 6.4% while that in total production output in the economy and employment, respectively, was 9.2% and 18.5%. If we consider by sectors of the economy, SMEs primarily continues to provide the dominant share of the services sector (**Chart 1**).

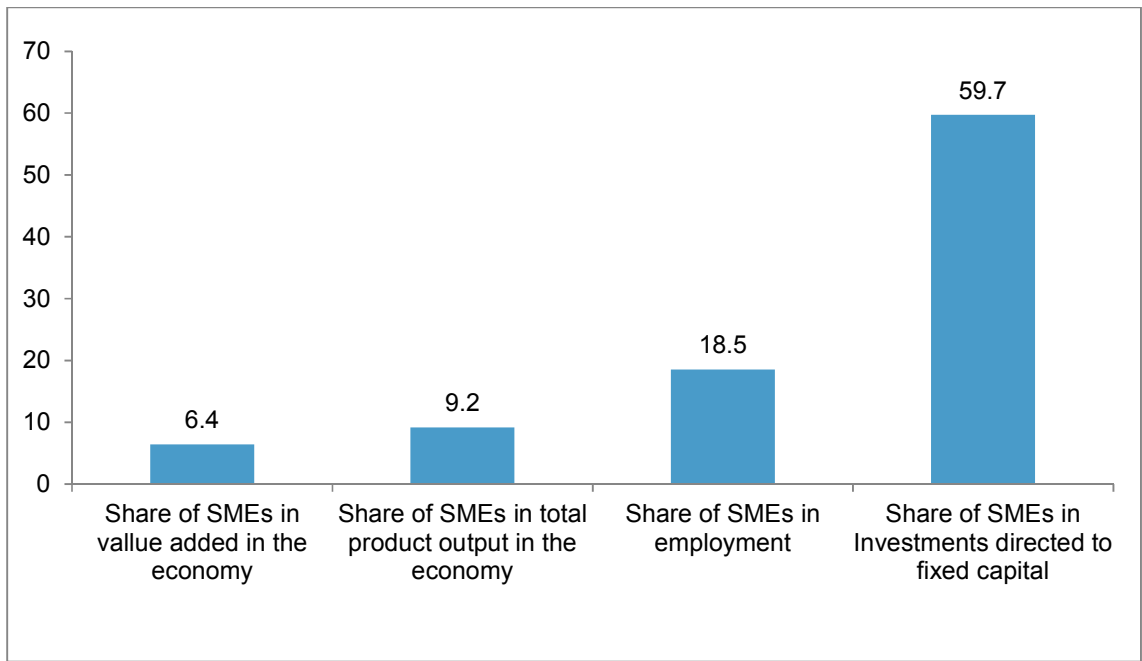


Chart 1.4: Number of SMEs in Major Economic Indicators

According to the data provided by the State Statistical Committee, small enterprises were mainly specialized in *trade (51.0%), transport and storage (15.1%), tourist accommodation and public catering (8.1%)* in 2016. In addition, *3.5% of SMEs operated in industry, 1.9% in agriculture, forestry and fishing, 1.5% in construction, and 1% in real estate activities*. The remaining small businesses were involved in other sectors, including information and communication, social services and public healthcare (**Figure 2**).

¹² <http://www.e-qanun.az/framework/30115>

¹³ <https://www.stat.gov.az/source/entrepreneurship/>

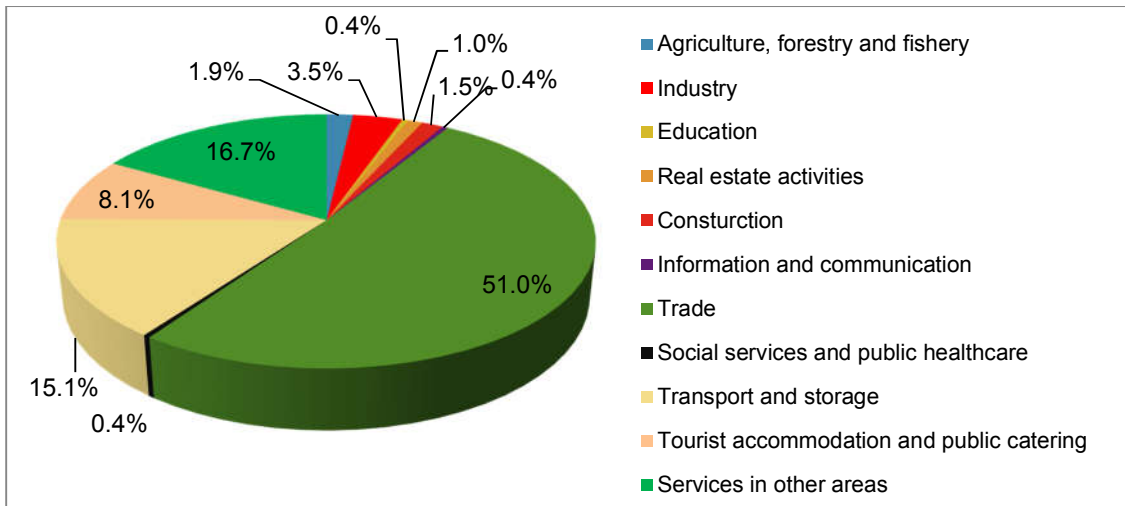
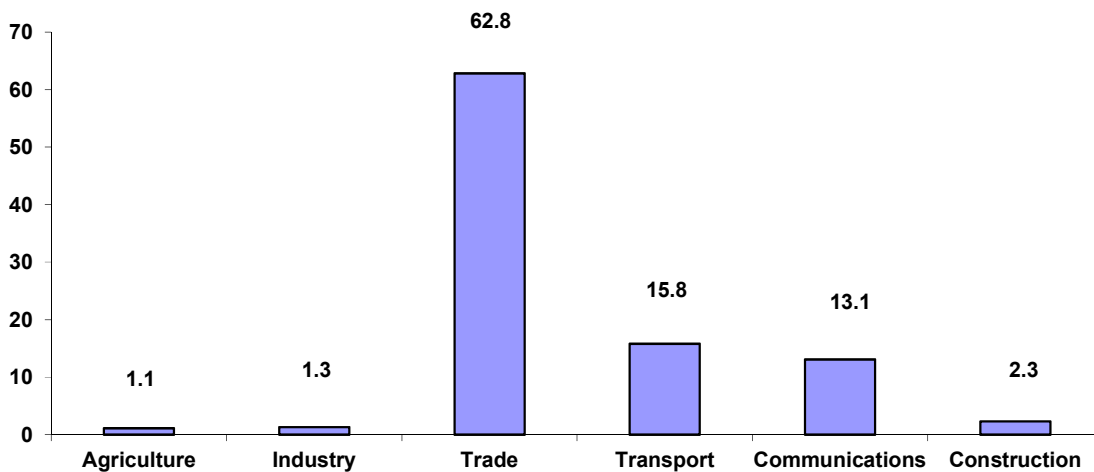


Figure 2. Distribution of SMEs by types of economic activity, in percentage terms

In reality, the share of SMEs in agriculture must be higher than that officially reported. Because at least two thirds of agricultural products are produced by those integrating the family agriculture regime and these family (peasant) farms are small households whose annual turnover and workforce size meet the criteria for SMEs. Under Article 1.3 of the Law on Family Farming, as the activity of these farms cannot be considered as entrepreneurship, they are not included in the statistical data for SMEs.¹⁴

The share of SMEs in trade, transport, communications, construction, industry and agriculture, respectively, comprises 62.8%, 15.8%, 13.1%, 2.3%, 1.3%, and 1.1%.



¹⁴ <http://www.e-qanun.az/framework/10861>

Chart 2: Share of SMEs in Product Output and Turnover of Services by Sector¹⁵

There are no official data for the share of SMEs in the country's total exports, which is one of the important economic indicators. However, an independent assessment based on the analysis of data on the export structure shows that the actual indicator does not exceed 5-6%. In 2017, Azerbaijan's total exports stood at \$13.8 billion, of which 89 percent, or \$12.3 billion, came from the oil and gas. SMEs are totally excluded from oil and gas exports. Therefore, the assessment was carried out on the basis of non-oil export indicators. According to the Center for Analysis of Economic Reforms and Communication under the President of Azerbaijan Republic (CAERC), out of total non-oil exports of \$1.54 billion in 2017, \$ 821.3 million, or 53%, fell to the share of 20 large state- or private-sector subjects of entrepreneurial activity. The remainder of exports worth \$712.7 million was provided by other SMEs, accounting for only 5% of country's total exports.¹⁶

In addition, tax and customs laws will establish legal provisions that regulate the tax regime and financial reporting for SMEs. The Tax Code of Azerbaijan Republic¹⁷ creates legal opportunities for SMEs to become simplified taxpayers. First of all, according to the Tax Code, agricultural producers and industrial agricultural producers are exempt from all taxes, except for land tax. According to official statistics, more than 90 percent of agricultural products is provided by natural entrepreneurs, small-sized enterprises and family farms whose turnovers are insignificant. So, it is SMEs that take advantage of large-scale tax privileges in the agrarian sector, while non-agrarian SMEs are entitled to pay simplified tax, a combination of several taxes.

Under Article 219.5 of the Tax Code, SMEs as legal entities paying simplified tax shall not pay VAT, profit tax and property tax, and as natural persons involved in entrepreneur activity without creation of legal entity - profit tax and VAT on subject activity. Under Article 218.1 of this Code, SMEs engaged in any economic sphere whose volume of taxable operations in a 12-month period is less than 200.000 AZN shall pay the simplified tax at 4% for Baku and 2% for other regions and cities. According to the existing criteria, subjects whose annual turnover is less than 200,000 AZN are considered small-sized entrepreneurs, allowing them to benefit from this article. At the same time, according to articles 219.1, 220.1 and 220.1-1 of the Tax Code, medium-sized enterprises engaged in trade and public catering sector whose annual turnover exceeds 200,000 AZN are also entitled to pay a simplified tax. However, the simplified tax rate is relatively high - 6% for the trade sector and 8 percent for the public catering sector.

In addition, natural entrepreneurs who have received investment promotion documents and other SMEs also obtain tax privileges under articles 13.2.58, 67-2, 101.1.3, 106.1.17, 164.1.26, 199.1 and 207.5 of the Tax Code. According to the privileges, these entities are fully exempt from land and property taxes, from taxes for imports of machinery, technological

¹⁵ Data taken from the Azerbaijan's State Statistical Committee Business Division:

<https://www.stat.gov.az/source/entrepreneurship/>

¹⁶ http://iqtisadiislahat.org/store//media/documents/ixrac_icmali/2018/yanvar/Export_Review_2018-1.pdf

¹⁷ <http://www.e-qanun.az/code/12>

equipment and facilities for seven years from the date of receipt of the Investment Promotion Certificate while legal entities are exempt from profit tax and natural entrepreneurs - 50% of profit tax.

Under Decision No. 401 of the Cabinet of Ministers, October 6, 2016¹⁸, SMEs, capable of exporting non-oil products, have the opportunity to access to export promotion financing based on the value of the products they sell abroad. Thus, according to the rules, the basic amount of export encouragement constitutes three percent from the customs value provided in the export customs declaration of the goods which are actually exported for export transactions. However, the following coefficients for some products apply to the base price: 1.0 (eg pomegranate and palm) 1.5 (eg canned vegetables with acetic acid or vinegar, nuts) 2.0, (eg natural or artificial mineral or carbonated water, natural wine made from grapes).

Small and medium-sized enterprises in Azerbaijan are mainly looking at banks and non-bank credit institutions for loans. In spite of the fact that SMEs have a wide range of financing tools in the world, entrepreneurs in Azerbaijan are mainly using loans as sources of external funding.

The result of BEEPS survey shows that about half of the SMEs do not need credits. According to the survey, bank loans are the dominant source of external funding for the SMEs, and alternative external sources of financing have not been developed yet. 14.7% of the surveyed small businesses and 14.6% medium businesses reported having the credit line (**Table 2**).

Table 2

Businesses' access to finance (2013)

Indicators	Business size	Specific weight%
Share of enterprises with savings or current accounts	Small	64,0
	Medium	75,3
Share of enterprises with bank credits / credit line	Small	14,7
	Medium	14,6
Share of loans requiring collateral (%)	Small	85,7
	Medium	97,2
Share of collateral required for loan repayment (as % of loan amount)	Small	259,1
	Medium	201,2
Share of enterprises with no need for credits	Small	54,1
	Medium	49,3

¹⁸ <http://www.e-qanun.az/framework/33870>

Share of enterprises with a final loan application refused	Small	23,6
	Medium	23,6
Share of enterprises benefiting from a bank for investment financing	Small	25,3
	Medium	25,1
Share of funds financed from internal funds	Small	74,0
	Medium	82,8
Share of investments financed by banks (%)	Small	25,3
	Medium	16,3
Share of investments financed through the Ownership Loans (%)	Small	0,0
	Medium	0,9
Share of equity investments or equity financing (%)	Small	0,2
	Medium	0,0
Share of enterprises using banks to finance their operating capital	Small	13,0
	Medium	19,4
Share of operating capital funded through banks (%)	Small	3,6
	Medium	6,3
Share of operating capital funded by the sender's loan (%)	Small	0,9
	Medium	1,7
Share of enterprises raising the access to finance as the major problem	Small	21,7
	Medium	21,6

Source: <http://www.enterprisesurveys.org/data/exploretopics/finance>

As can be seen from **Table 2-2**, more than 85% of small and medium-sized entrepreneurship loans (small 85.7%, medium 97.2%) are collateral based, whose value is more than twice as much as the value of the loan. This make up 259.1% and 201.2% of collateral in the loan portfolio for small and medium enterprises respectively. At least, three thirds of SMEs are financed through their internal funds. In the absence of internal funding, 1/4 of SMEs attract bank funds for investment financing. It is almost uncommon for SMEs to finance themselves through equity sharing or self-financing.

“The SME Policy Index: Eastern Partners Countries 2016” Report¹⁹ of OECD says that as in other Eastern Partnership (EaP) countries, the issue of access to finance is a problem for SMEs in Azerbaijan. According to the report, Azerbaijan's position on the SME's access to finance was 2.70 out of 5 points, which is the worst indicator among the EaP countries.

¹⁹ SME Policy Index: Eastern Partner Countries 2016. Assessing the Implementation of the Small Business Act for Europe. <http://www.oecd.org/countries/belarus/sme-policy-index-eastern-partner-countries-2016-9789264246249-en.htm>

According to the methodology of the organization, this level indicates that there are good bases for implementing policies in the field, but they are not put into practice.

GEORGIA²⁰

Small and medium-sized enterprises (SMEs) in Georgia belong to most important factors which play a determining role in economic growth, employment creation and reduction of the poverty. SME development in Georgia of the institutional and legal system started to develop at the end of the 1990s. In 1999 a law was passed "Support Small Enterprises", which defines the basic principles for the development of small and medium enterprises, during the last 10 years Georgia has made significant progress in creating a dynamic business environment, has adopted more than 35 institutional and regulatory reforms, which has had a significant impact on the country's economy. Georgia's economy is growing steadily, advanced 5.5 percent year-on-year in the second quarter of 2018, above a 4.9 percent rise in the corresponding period of the previous year.

In 2012 - 2017 according to the number of operating enterprises, SMEs prevailed in most fields of economic activity, especially they were leading in hotel and restaurant sector (98,5%); real estate (98%); agriculture, hunting, foresting (98,7%); wholesale and retail trade (96%); transport and communication (92,5%); construction (96%); education (96%), etc., and even in manufacturing (96%).

SME definitions

The first SME definition was given in the Law of Georgia on "Small and Medium Enterprise Support" in July 1999, but was abolished by the Georgian government in 2006, and was partly replaced in 2010. From January 2011 important changes and additions in Tax Code were adopted. The main novelty was the introduction of a new institution - micro-enterprise.

Nowadays, Georgia has two definitions of SMEs (Table 1). The first one was developed in the Law on Georgian National Investment Agency (GNIA) and has been applied by National Statistics Department of Georgia (Geostat) for producing business statistics; another one is in Tax Code for tax purposes only. While the Tax Code defines micro and small enterprises owned operated by self-employed entrepreneurs, GNIA does not define micro business.

Since 2017 the following methodology of determining the size of enterprises is effective:

Micro business status can be granted to a natural person who does not use hired labour, carries out economic activity independently, and the gross income receivable thereof during a calendar year does not exceed 30,000 GEL

²⁰ This section is prepared by the Georgian Association "Women in Business" (GAWB)

The small size is the enterprise where the average annual number of employees does not exceed 50 employees and the average annual turnover does not exceed 12 million GEL.

The medium size is an enterprise where the average annual number of employees varies from 50 to 250 people, and the average annual turnover - from 12 million to 60 million GEL.

The large size is an enterprise, where the average annual number of employees exceeds 249 persons or average annual turnover of 60 million GEL.

The new amendment of SME definition demonstrates a compromise achieved - keeps country's particularities and makes it more comparable to European standards.

Table 1. Current SME definitions in Georgia

Employment		Turnover	
Tax Code	NIA	Tax Code	GNIA
Micro	Self-employed	≤ 30 000 GEL	
Small	≤ 20 employees	≤ 100 000 GEL	≤ 500 000 GEL
Medium	≤ 100 employees	≤ 1 500 000 GEL	

Source: Law of Georgia No 519 of 19 June 2012 on the Georgian National Investment Agency, Tax Code of Georgia, **Geostat.ge**

Table 2. Definition of SMEs used by Geostat

Average number of employed		Turnover (million GEL)		
Enterprise category	Old methodology	New methodology	Old methodology	New methodology
Small	<20	<50	0.5	12
Medium	20-100	50-250	0.5-1.5	12-60
Large	100	>249	1.5	60

Source: Compiled by the authors; source of data: Geostat

In addition, the new tax regime that came into force on 1 July 2018, imposes a minimum tax burden (1%) for small businesses. With changes in law and regulation, a new definition is given to small business owners: entrepreneurs whose yearly company income amounts to GEL 500,000 instead of GEL 100,000.

The new tax reform ensures transparency in the sector and is an important stimulus for further development of start-ups in Georgia. Moreover, it ensures the tax administration to minimize costs through a simplified tax accounting for entrepreneurs. As a result, the share of small business in GDP will significantly increase. These changes bring positive

consequences for the private and the public sector, encouraging entrepreneurs to enter the market, expand operations and seek further financing.

In the different sectors of the economy of Georgia according to the statistics of by new methodology Geostat, by the year 2018 is represented 709729 the organization are micro and SMEs (94,7%), incl. 244919(34,5%) commercial legal entities, 427035(60,2%) the individual entrepreneur. SMEs generate up to 60 % of GDP and major source of export earnings and are the key instrument of poverty reduction, job creation and Agribusiness development.

By legal status

1 September 2018

legal status	Number of entities	Active	%
TOTAL	709729	184660	100
Commercial legal persons	244919	80975	34.5
Joint liability companies	2759	271	0.4
Limited partnerships	186	26	0.0
Limited liability companies	234240	79423	33.0
Joint stock companies	2527	907	0.4
Cooperatives	5207	348	0.7
Non-commercial legal persons	26316	3795	3.7
Individual entrepreneur	427035	95994	60.2
Other	5627	1216	0.8
Entities of public law	5832	2680	0.8

TABLE 3. NUMBER OF EMPLOYEES BY ENTERPRISE SIZE

NUMBER OF EMPLOYEES BY ENTERPRISE SIZE					
Year and quarter	Total	of which:			Persons
		Large	Medium	Small	
		1	2	3	4
2013 ...	532 787	178 364	125 646	228 777	

2014	...	565 902	186 350	126 190	253 362
2015	...	584 484	198 449	136 619	249 416
2016	...	620 069	217 686	142 120	260 263
2017	...	652 439	233 246	144 990	274 203

It should be noted, that the percentage of employees in small business by the year 2017 is 42% compared with total number of employees in enterprises by new methodology Geostat

TABLE 4. Contribution of small enterprises to total turnover in 2017 was 32%

TURNOVER BY ENTERPRISE SIZE				
Year and quarter	Total, Mln. GEL	of which:		
		Large	Medium	Small
2013	44 327,9	18 596,2	10 362,8	15 368,9
2014	50 064,7	21 278,3	11 477,8	17 308,6
2015	56 984,8	24 671,6	13 294,6	19 018,7
2016	64 081,8	28 256,3	14 039,1	21 786,4
2017	71 740,1	32 201,1	16 568,3	22 970,7

TABLE 5

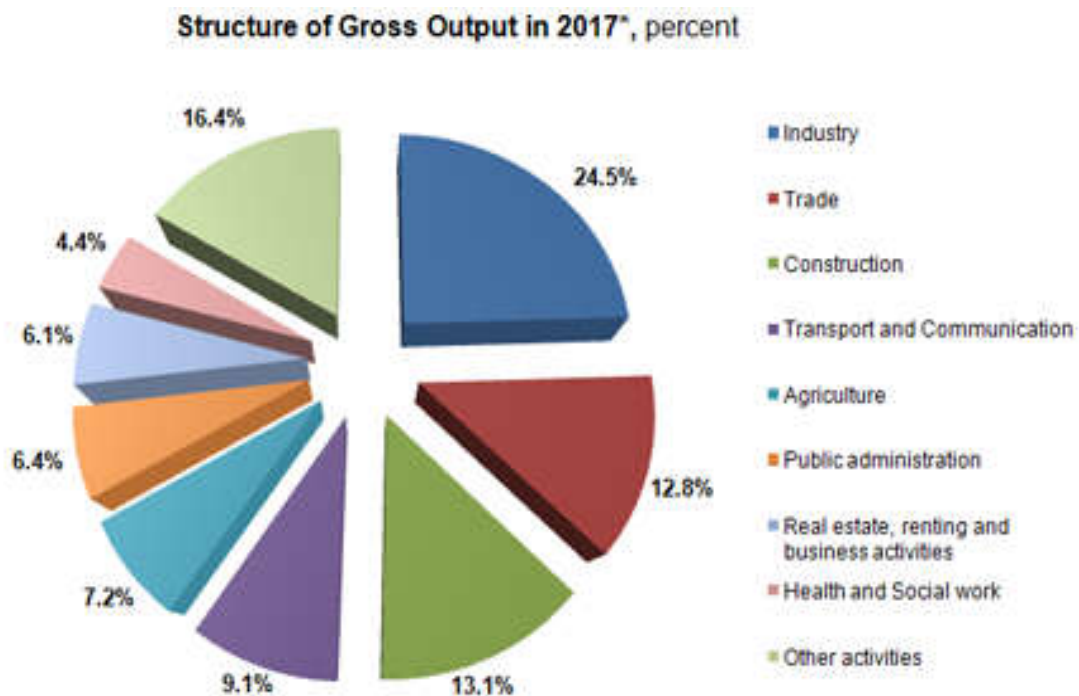
PRODUCTION VALUE BY ENTERPRISE SIZE				
Year and quarter	Total, Mln. GEL	of which:		
		Large	Medium	Small
2013	23 553,6	10 367,5	5 998,7	7 187,5
2014	26 068,6	11 188,2	6 571,3	8 309,1
2015	29 993,9	12 520,0	7 873,5	9 600,4
2016	34 156,9	14 201,5	8 573,9	11 381,4
2017	38 206,8	15 594,7	9 719,2	12 892,9

TABLE 6 TURNOVER BY ORGANIZATIONAL LEGAL

	Total,	of which:
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Year and quarter	Mln. GEL	Limited liability companies	Joint stock companies	Joint liability companies	Limited partnerships	Cooperatives
2013	44,327.9	35,994.0	4,155.3	33.5	9.2	2.4
2014	50,064.7	40,758.3	4,660.4	38.4	15.1	0.5
2015	56,984.8	46,095.0	5,119.8	23.9	13.4	3.0
2016	64,081.8	51,566.2	5,984.0	16.3	11.9	3.8
2017	71,740.1	58,598.4	7,015.5	11.6	10.7	8.0

Output, at current prices. Actually SMEs represent industrial and processing enterprises, crafts, whole sale and retail trade, farms, services and other sectors of economy.

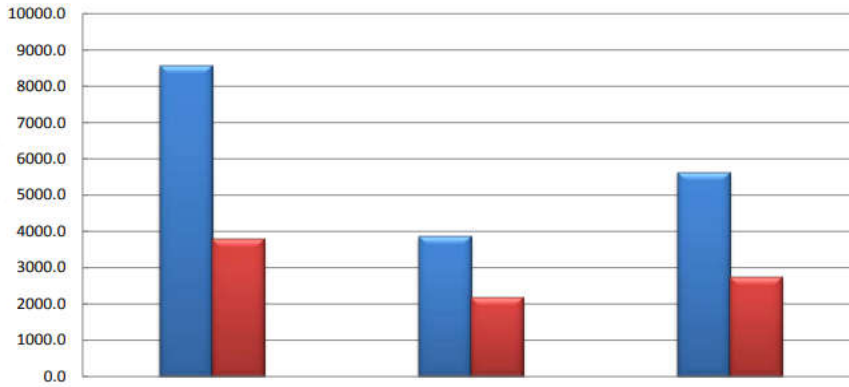


* Adjusted data will be published on November 15, 2018.

Business demography indicators

Nowadays - SMEs in main economic indicators - turnover, value added, employment, and investment in fixed assets - increased twice and more.

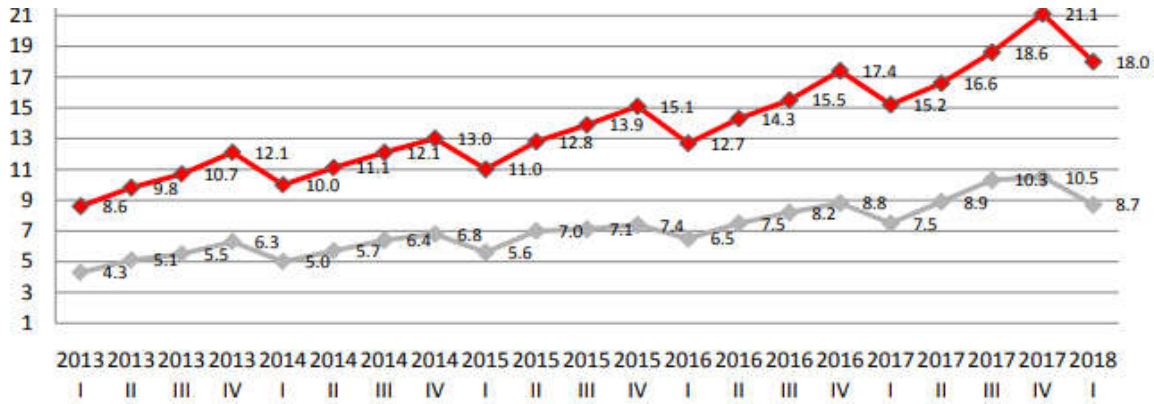
In particular, the results of the activity of enterprises is following: The volume of working capital in the first quarter of 2018 increased by 18.6% and amounted to 18.0 billion lari. The growth trend is characterized by the output of the business sector products. In the first quarter of 2018, its volume was 8.7 billion GEL, which is 16,0% higher than the previous



year's indicator:

TABLE 7. Turnover and production value of business sector

Billion GEL



Turnover

Production value



In the first quarter of 2018, 47.5% of total turnover is on the large business, 21.4% - average, and 31.1% - on small businesses. The smallest difference is in the total product yield: 43.5% of the products of large businesses - 24.9% on average and 31.6% for small businesses.

Business turnover and product release indicators

According to the enterprises, the first quarter of 2018

Thousand people

Large Business



Medium Business



Small Business

Production release

The total amount of purchases of goods and services carried out by enterprises in the first quarter of 2018 amounted to 12.7 billion US dollars. Gel (up 16.4% over the same period last year). While sales of goods and services for sale amount to 8.3 billion. Gel (18.3% more than the corresponding period last year). The average number of employees employed in the first quarter of 2018 was 637.0 thousand people, which is 5.3% more than in the previous year.

2. SMALL BUSINESS ACT FOR EUROPE AND EASTERN PARTNERSHIP COUNTRIES

UKRAINE²¹

The Small and Medium-Sized Enterprises (SME) Policy Index defines the criteria for evaluating progress in the state policy with regard to small and medium enterprises in the six Eastern Partnership countries in order to assess the application of the ten principles defined in the Small Business Act for Europe. According to the assessment results of the SME Policy Index, Ukraine's progress in SME development remains insignificant.

Two important factors, indicated in the SME Policy Index 2016, should be noted in the assessment of the policies for the development of small and medium-sized businesses. First, the assessment of Ukraine's progress ranges close to 2 points, which is significantly lower than the best practice level (5 points, the highest score). Secondly, compared to the previous assessment by the countries of the Eastern Partnership region, Ukraine lags behind in almost all indicators, Georgia holds a leading position in the region, and Armenia comes second.

Evaluation of Ukraine based on the Small Business Act



Ukraine has made certain progress in deregulating business and simplifying administrative procedures, including reducing the period for registering companies, expanding e-government services (especially for tax returns and payments), and implementing legal reforms in areas such as licensing, bankruptcy and secured loans. When it comes to technical barriers to trade, four key laws were adopted to modernize infrastructure in the country.

²¹ This section is prepared by the Center for cross-border cooperation, Ukraine (CCBC)

There has been very little progress on the various indicators of SME policy. The highest scores on the indicators such as operational environment (indicator 4) and technical barriers to trade (indicator 7) are recorded as a result of the recent reforms, particularly those carried out in 2014-2015. The scores on the indicators such as targeted support for SME competitiveness (indicator 5a) and human capital development (indicators 1 and 8a) remain low (less than 3) mainly due to the lack of special measures to support SMEs and a relative reluctance to integrate entrepreneurship into the education system. Thanks to the regulatory reforms (eg, regulating the activity of credit bureaus, expanding credit guarantees, etc.), Ukraine retained a rather high score on indicator 6 (access to finance), although their impact on the access to finance for SMEs is actually limited in the light of the current macroeconomic situation. Starting from 2012, the score on innovation policy (indicator 8b) dropped due to the lack of implementation measures. Ukraine has the lowest score in the region in terms of “greening” of SMEs (indicator 9).

AZERBAIJAN²²

The measures have been taken to support enhancing the role of SMEs in the economy of Azerbaijan in recent years, especially after 2015. The government's Resolution aims at improving the normative-legal base and enhancing access of the SMEs to finance. These measures are consistent with some of the following principles of *the Small Business Act for Europe*.

I. Create an environment in which entrepreneurs and family businesses can thrive and entrepreneurship is rewarded

- "ABAD" public legal entity was established under the ASAN State Agency by the Decree of the President of the Republic of Azerbaijan No. 1047 dated September 23, 2016. According to the Decree, the "ABAD" (ASAN Support to Family Business) Centers are established to carry out socially-oriented projects aimed at developing small and medium-sized entrepreneurship, raising employment rate of the population and supporting the formation of competitive family businesses. "ABAD" Centers was already established in Masalli, Balakan and Guba regions of the country. Certification and sale of the products manufactured by “ABAD” family households is carried out under the one-stop-shop principle.²³

II. Ensure that honest entrepreneurs who have faced bankruptcy quickly get a second chance

- During the period of 2015-2018, various changes were made to the Law No. 326-IQ on *Insolvency and Bankruptcy* dated June 13, 1997. As a result of these changes, the Law incorporated the provisions about recovery plan for enterprise-debtor and rules for its approval, terms of recovery process, and legal consequences of initiation of recovery

²² This section is prepared by the Support for Economic Initiatives Public Union (SEI)

²³ <https://www.economy.gov.az/article/sahibkarligin-inkishafi-sahesinde-aporilmish-islahatlar/28700>

process. The amended Law also envisages simplification of bankruptcy procedures through it does not give a new chance to bankrupt enterprise.

III. Make public administrations responsive to SMEs' needs

- The Decree No. 1313 of the President of the Republic of Azerbaijan dated 4 April 2017 approves the Rules on design and issuance of technical specifications, project documentation, including connection of existing entrepreneurial facilities or those under construction to the required electric power of up to 150 kW (generating from the existing 0.4 kV network, including 150 kW). According to the Rules, applications are made only through the ASAN Service Center (ASAN Service) and connection procedure is composed of three stages (customer application to the service centers, payment for connection fees, preparation (delivery) of technical specifications, project documentation to the customer, installation work and connection to the network, supply of power to the construction site) and maximum 24 days. It also envisages setting up technical boards consisting of representatives of the relevant agencies at the ASAN Utilities Center (ASAN Service Center until the ASAN utility centers are established) in order to provide technical specifications and project documentation as well as deal with network connection.

IV. Facilitate SMEs' access to finance and develop a legal and business environment supportive to timely payments in commercial transactions

The Strategic Roadmaps on the National Economy and Main Sectors of the Economy was approved by the Decree of the President of the Republic of Azerbaijan December 6, 2016. This Decree adopted 12 Strategic Roadmaps covering various sectors of Azerbaijan's economy. 3 of these Roadmaps below envisage the mechanisms of state support for funding and enhancing access of the SMEs to finance.

1) One of the 5 strategic targets in *the Strategic Road Map on Production of Consumer Goods at the Small and Medium-Size Enterprise Level in the Republic of Azerbaijan* is dedicated to ensuring effective and efficient access to financial resources for the SMEs. The document envisages four priority measures to achieve this strategic target:

- *Conduct reforms to solve winding-up and insolvency issues*
- *Create SME Loan Guarantee Fund*
- *Improve activities related to property issues and increase access to finance*
- *Develop leasing and alternative financial instruments (forward, futures, option, swap, factoring, etc.) market to ease access to finance*

2) "Facilitating access to finance" is one of the five strategic targets in *the Strategic Roadmap on production and processing of agricultural products in the Republic of Azerbaijan*. The document envisages three priority measures to achieve this strategic target:

- *Upgrade financing mechanisms in agricultural field*
- *Develop agrarian insurance*
- *Promote attracting investments in agrarian field*

3) "Developing the financial markets" remains one of the 5 strategic targets in *the*

Strategic Road Map for Development of Financial Services in the Republic of Azerbaijan. The document envisages three priority measures to achieve this strategic target:

- *Create favorable environment for emitters and financial intermediaries*
- *Increase access of investors to financial markets*
- *Increase active participation in inter-bank exchange market*

Under the Decree of the President of the Republic of Azerbaijan on Improving *the State Support Mechanism for Entrepreneurship Development in the Republic of Azerbaijan* dated 31 July 2018, the National Fund for Entrepreneurship Support was abolished and Entrepreneurship Development Fund public legal entity was established on its basis.

V. Promote the upgrading of skills in SMEs and all forms of innovation

- By the Order No. 2296 of the President of the Republic of Azerbaijan dated 1 September 2016, AZN800,000 were allocated for developing tourism in the country and expanding the possibilities of using modern information and communication technologies in this sphere, including AZN400,000 for creating tourism register and AZN400,000 for shopping festival.

VI. Encourage and support SMEs to benefit from the growth of markets

- A new public legal entity - Agency for Small and Medium Enterprise Development of the Republic of Azerbaijan was established by the Decree of the President of the Republic of Azerbaijan dated December 28, 2017 on *Further Improvement of Small and Medium Enterprise Management*. According to the Decree, the Agency will support the development of micro, small and medium enterprises in the country and provide a range of services, including financial services to the SMEs. To this effect, small and medium business houses, a Center for Development of State and Business Partnership, small and medium business development funds will be established under the auspices of the Agency²⁴.
- *Rules on the procedure for granting interest-rate subsidies on loans received by entrepreneurs in manat* was approved by the Decree of the President of the Republic of Azerbaijan dated 29 November 2017 on *Ensuring the Activity of the Mortgage and Credit Guarantee Fund of the Republic of Azerbaijan*. These Rules define conditions and procedure for granting interest-rate subsidies on loans received from the banks in manat by resident entrepreneurs operating in non-oil sector, and guarantee loans issued by the Mortgage and Credit Guarantee Fund of the Republic of Azerbaijan. According to the rules, interest-rate subsidy is issued for a maximum of 3 years, with annual interest rate not exceeding 20%. The interest-rate subsidies do not apply to concessional loans granted through the public financial resources.
- On 28 October 2016, the Law of the Republic of Azerbaijan on *Credit Bureaus* was adopted that created a legal basis for the activity of private credit bureaus. In December 2017, the first private credit bureau - Azerbaijan Credit Bureau was set up by 8 banks, and the Bureau started operating on January 15, 2018. From 06 March 2018, the Bureau started

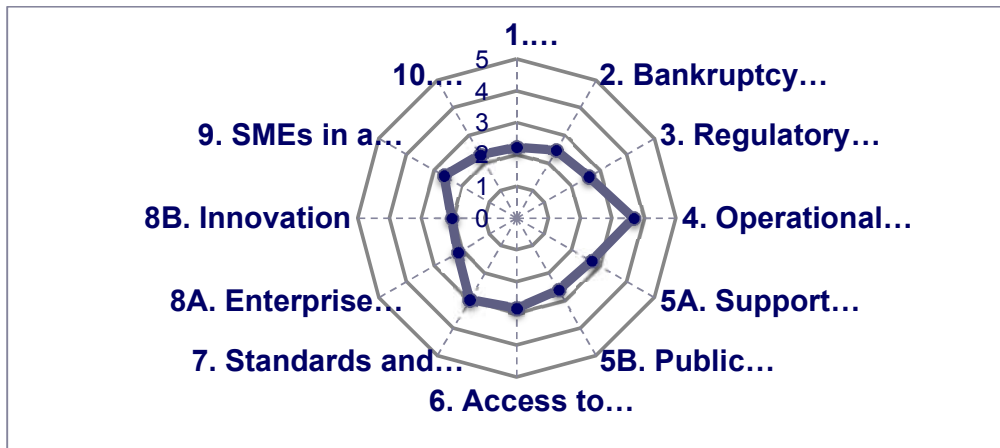
²⁴ <http://www.e-ganun.az/framework/37470>

providing data users with information on debt liabilities. According to Article 23.3 of the Law of the Republic of Azerbaijan on Credit Bureaus, providing data users with information from the centralized credit register terminated as of 1 April 2018.

- The presidential Decree No. 667-VQ of 2 May 2017 approved the Law on *Encumbrance of Movable Property*, which aims at enhancing accessibility of the SMEs to secured loans. The Law provides for legal regime of encumbrance of movable property related to the performance of obligations, rules for exercising the rights of encumbrancers of movable property, levy of execution on movable property, state registration of the encumbrance and other issues regarding the use of the registry. For a long time, lack of a unified system for registration of movable property in Azerbaijan has restricted access of the SMEs to loans by pledging movable property. According to the World Bank, only 22% of the assets of the SMEs in Azerbaijan remain land and real estate, while receivables make up 34%, machinery and equipment are 44%. 73% of mortgages received by lenders constitute land and real estate, and only 27% are movable property. The banks in Azerbaijan prefer real estate as collateral, which creates serious restrictions for entrepreneurs, and most of them can't afford to meet the bank's financing requirements. Most small and medium businesses do not take interest in applying for traditional collateral loans due to lack of real estate property, such as land.

GEORGIA²⁵

As studies show The SME Policy Index 2016 Eastern Partnership countries the Georgia received a good result in seven components and was named as the best performing and reforming country among the EaP countries. Areas for improvement are insolvency, the regulation framework, support services for SMEs and start-ups, standards and technical regulations and innovations.



In order to achieve economic goals and improve business climate in the country, the government shall create not only basic conditions for doing business, but also the environment that supports business development. The past period revealed that the

²⁵ This section is prepared by the Georgian Association "Women in Business" (GAWB)

government successfully accomplishes a series of reforms aimed at developing micro, small and medium enterprises (MSME). Georgia's business environment remains favorable having undergone significant structural reforms over the past several years, in areas such as starting business procedures, improved the operational environment for businesses with the roll-out of one-stop-shop Public Service Halls and the extension of e-government services, deregulation of business by cutting red tape and simplifying licensing and permitting regimes, as well as tax and customs reforms. In particular the tax system is simplified with 6 types of taxes. Georgia was improved the operational environment for businesses with the roll-out of one-stop-shop Public Service Halls and the extension of e-government services. According to Georgian legislation, export or re-export from Georgia is exempt from customs duties, was created for SME better opportunities for trade with the European Union and in addition ways are open for EU countries to business investments in Georgia. Georgia offers unique opportunities to the businessmen to implement successful business and get access to both – European and Asian markets. It should also be noted that the agreement was signed the Free Trade Agreement with China. the Free Trade Agreement with European Union (EU) and China are expected to boost trade integration. Georgia's 2017 SME Policy Index scores reflect the continued improvement of the institutional and operational environment for SMEs.

In January 2017 external merchandise trade (excluding non-declared trade) in Georgia amounted to USD 651 million, 22 percent higher year-on-year. The exports equaled USD 177 million (45 percent higher), while the imports stood at USD 474 million (15 percent higher). The negative trade balance was USD 297 million and its share in external trade turnover constituted 46 percent. Export excluding re-export amounted to USD 143 million, 47 percent higher year-on-year.

Adoption of the Government Program "For a strong, democratic and united Georgia", SME Development Strategy of Georgia 2016-2020 and the Action Plan are particularly worth noting. The documents are based on the essential principle of the Small Business Act (SBA) for Europe - Think Small First - which places SMEs at the forefront of policy-making and ensures that new regulations don't increase the burden faced by businesses. Strategy was prepared with consideration to Georgia's priorities and recommendation of SME Policy Index. It envisages a comprehensive approach to establishing a special framework for streamlining functions of governmental institutions in terms of support fostering and facilitating the development of small and medium enterprises in Georgia. The strategy focuses on five major directions:

- Further improvement of the legislative and institutional framework as well as the operational environment for SMEs;
- Improvement of Access to Finance;
- SME skills development and promotion of entrepreneurial culture;
- Export Promotion & SME Internationalisation;
- Facilitation of innovation and R&D in SMEs.

In March 2014 in the framework of building a knowledge-based and innovation-driven economy and to support SMEs development under the Ministry of Economy and Sustainable Development Entrepreneurship Development Agency (EDA) or “Enterprise Georgia” and Georgia’s Innovation and Technology Agency (GITA) were established. The main activities of EDA are Entrepreneurial learning, Improvement of access to finance, Export Promotion, Consultancy services. The agency supports SME development using both financial and non-financial instruments, including business skills development, entrepreneurial learning, export promotion, and access to finance.

In May 2016 the first Technology Park was opened with business incubators, innovative and fabrication laboratories equipped with high technology. The facility works with a one-stop-shop principle; it provides different types of services to transfer ideas to businesses. The facility is attracting foreign direct investments and encouraging international tech-based organizations and start-ups to open offices in Georgia.

According to the World Bank Group "Doing Business-2018" Flagship Report - Business production rating, Georgia has improved its position, and it has moved from 9th to 6th place among 190 countries of the world and has been recognized as the leader country of the region, where the phrase "simplicity in business" is a realistic Business climate in country. Today, Georgia has a positive dynamic of sales with the EU countries, which in time coincides with the DCFTA's launch. The above indicates that better opportunities for trade with the European Union have been created for medium and small businesses and in addition ways are open for EU countries to business investments in Georgia.

However, issues remain. The SME policy framework should give due consideration to peculiarities of each stage of economic development in the country:

- The State support to SMEs is not systematic and is not oriented on long-term results. SME policy Furthermore, targeted actions to raise awareness of small and medium entrepreneurs about the Agreement on Trade Area are not enough. It is especially important to strengthen the work in the regions, particularly among companies without much innovative potential and from remote region,
- There are still no special programmes on entrepreneurial skills and access to education, information and modern technologies, events being implemented are not systematic.
- Access to finance is one of the major factors hindering SME development in Georgia. The interest rates on long-term loans in commercial banks vary from 16% to 24%, which is still high for small and medium entrepreneurs. In addition, most of the entrepreneurs are not able to provide collaterals for the loans because they are set at as high as 120% of the loans. Particularly acute is the issue of start-up micro and small businesses including women entrepreneurs, as the owners of real estate are mostly men.
- It is highly desirable to encourage entrepreneurship with a credit guarantee system and a cheap credit state program, and to attract private investment and venture capital funds, which could significantly improve access of small and medium-sized entrepreneurs to credit resources. Innovative non-lending financing channels such as private equity, venture capital or crowd funding although being targeted by the SME initiative are still underdeveloped. It is necessary to implement legislative amendments to simplify financial accounting rules and procedures for small and medium businesses, and create more solid legislative support for its development

- Create an SME-friendly environment at the policy framework, to meet the requirements EU Small Business Act Assessment by adopting the new Law on the 'Small Business', which ensures protection of small business interests;
- Systematically apply regulatory impact analysis to assess the positive or negative impact of regulatory changes on the SME sector;
- The issues of raising awareness of small and medium enterprises and their active participation in economic policy and decision-making at all stages, planning and implementation of reforms envisaged by the Association Agreement, including the implementation of DCFTA remain unsolved. This indicates that there are gaps in the dialogue between public and private sectors (PPD). Rapid institutional change has sometimes taken place in the absence of a strategic direction, whilst a lack of formal mechanisms for public-private consultations and regulatory impact assessment (RIA) means that the private sector is not always fully included in the reform process.

SBA assessment results at regional level

Most EaP countries have started to implement **business climate reforms** to create a conducive environment for private sector development;

However, they still face significant challenges in developing a **comprehensive approach towards the SME sector** to complement these efforts with more targeted measures

EaP countries are supporting SMEs and entrepreneurship through business environment reforms;

Institutional frameworks for SME policy are developing at different paces in EaP countries;

More targeted SME policy tools are still needed to further support SME growth across the region;

Data on SMEs remains scarce across the EaP region.

Georgia and Belarus have managed to integrate all registration and notification procedures within one-stop-shops, while Georgia has introduced Public Service Halls, integrating one-stop-shops with a range of other government services.

Armenia, Georgia and the Republic of Moldova have started to develop the institutional framework through on-going public-private consultations and effective policy co-ordination mechanisms;

Historically outside of the policy making process, the private sector in Eastern Partner countries – especially SME associations – needs to be further integrated into the policy debate at all stages to increase responsiveness of policies to the fast-moving needs of the marketplace. Buy-in from the business community will also ensure more effective implementation of reforms.

According to the World Bank's "Doing Business" report, radical reforms of the business environment have been implemented by Georgia in recent years. Due to the success of these reforms, Georgia moved from 112th (according to "Doing Business" report from 2006) to 8th place in 2014. In addition, the country received the leading reformer's status during 2005 – 2012. All of these contributed to foreign direct investment (FDI) and economic growth, reaching 9% annually over the period from 2005 to 2008.

For improvement of business environment, government shall ensure macroeconomic stability, support increase of private sector's productivity, ensure that regulations are clear and explicit, create effective mechanisms for resolving business disputes, and support increase of access to finance.

In order to achieve economic goals and improve investment climate in the country, the government shall create not only basic conditions for doing business, but also the environment that supports business development

However, sustained economic growth has not led to the creation of new jobs and reduction of unemployment, which remains high (over 13%).

3. DEVELOPING PROPOSALS ON THE METHODOLOGY FOR EVALUATING THE LEVEL THE CONVERGENCY OF BUSINESS CLIMATE IN THE EASTERN PARTNERSHIP COUNTRIES WITH BUSINESS CLIMATE IN THE EU STATES

3.1. WHY IS IT IMPORTANT

The convergence of the business climate in the Eastern Partnership countries with the business climate in the EU is important for creating favorable business conditions in these countries, for developing both bilateral economic relations between each of these countries with the EU, and multilateral relations, for leveraging investment markets of all these countries, for opening European business support programs for the EaP countries.

Therefore, it is important to constantly monitor the convergence of the business climate in the EaP countries with the business climate in the EU. This is important not only for the governments of the countries, but also for the civil society interested in rapprochement with Europe in all spheres, including also this sphere.

But how to do it?

Today there are more than 10 different methodologies and indices for assessing and comparing the business climate in different countries of the world. In this section of the report, the most popular methodologies and indices are analyzed and a number of approaches are proposed for solving the tasks of monitoring the convergence processes by civil society organizations.

3.2. PROBLEM OF DEFINING SME

Differences in the definition of SMEs in different countries are one of the main challenges of comparing the level of SME development. The EU recommendation of 2003 introduced the definition of SMEs²⁶. The table below provides a comparison of the definitions of the European Union and the Eastern Partnership countries:

		EU	Armenia	Azerbaijan	Georgia	Moldova	Ukraine
Micro	Number of employees	< 10	< 10	≤ 10	Self-employed	< 10	≤ 10

²⁶ <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=LEGISSUM:n26026>

	Annual Turn over, million €	2	0.181	≤ 0.103	≤ 0.010	< 0.153	≤ 2
Small	Number of employees	≥ 10 ≤ 49	≥ 10 ≤ 49	≤ 50	≤ 20	≥ 10 ≤ 49	≤ 50
	Annual Turn over, million €	10	0.905	≤ 1.548	≤ 0.033	< 1.279	≤ 10
Medium	Number of employees	≥ 50 ≤ 249	≥ 50 ≤ 249	> 50 ≤ 250	≤ 100	≥ 50 ≤ 249	> 50 < 250
	Annual Turn over, million €	50	2.715	≤ 15.488	≤ 0.492	< 2.558	> 10 < 50

As shown in the table, there is a significant difference in the definition of SMEs. Addressing these disparities is an important task for the governments. This will allow many institutions concerned (governmental and non-governmental) to “speak the same language”, make correct comparisons, do accurate statistical reporting, draw reasonable conclusions about the applicability of various support programs, etc.

3.2. ANALYSIS OF EXISTING INDICES

3.2.1. Doing Business 2018, Annual Report of World Bank²⁷

The World Bank’s Doing Business report allows evaluating legislation on business regulation. The Doing Business 2018 report covered 189 countries, including all Eastern Partnership countries.

This report is perhaps considered the most popular in governments and business communities.

The report rates the ease of doing business in each country. Rating is determined on the basis of 10 indicators²⁸:

²⁷ <http://www.doingbusiness.org/content/dam/doingBusiness/media/Annual-Reports/English/DB2018-Full-Report.pdf>

²⁸ <http://www.doingbusiness.org/content/dam/doingBusiness/media/Annual-Reports/English/DB2018-Full-Report.pdf>

Indicator set	What is measured
Starting a business	Procedures, time, cost and paid-in minimum capital to start a limited liability company
Dealing with construction permits	Procedures, time and cost to complete all formalities to build a warehouse and the quality control and safety mechanisms in the construction permitting system
Getting electricity	Procedures, time and cost to get connected to the electrical grid, the reliability of the electricity supply and the transparency of tariffs
Registering property	Procedures, time and cost to transfer a property and the quality of the land administration system
Getting credit	Movable collateral laws and credit information systems
Protecting minority investors	Minority shareholders' rights in related-party transactions and in corporate governance
Paying taxes	Payments, time and total tax and contribution rate for a firm to comply with all tax regulations as well as post-filing processes
Trading across borders	Time and cost to export the product of comparative advantage and import auto parts
Enforcing contracts	Time and cost to resolve a commercial dispute and the quality of judicial processes
Resolving insolvency	Time, cost, outcome and recovery rate for a commercial insolvency and the strength of the legal framework for insolvency
Labor market regulation	Flexibility in employment regulation and aspects of job quality

Experts were of the view that this study has the following disadvantages²⁹:

- rating scores are measured without the use of macroeconomic indicators as well as factors of the quality of infrastructure, qualification of the labor force, currency fluctuations, investor opinions and the state of corruption;
- The report does not include all enterprises, but only companies with limited liability. There are considerable cross-country variations in the propensity of businesses to incorporate, as propensity differs between countries depending on the cost and complexity of registration procedure, tax incentives and even cultural factors.

The table below gives the comparative values in the ranking of the Eastern Partnership countries and the average ranking of the EU states:

²⁹ Методы анализа развития малого бизнеса. Отчет USAID MEP

Indicators	Armenia	Azerbaijan	Belarus	Georgia	Moldova	Ukraine	EU
Ease of doing business rank (1–190)	47	57	38	9	44	76	34
Starting a business (rank)	15	18	30	4	23	52	56
Dealing with construction permits (rank)	89	161	22	29	165	35	58
Getting electricity (rank)	66	102	25	30	80	128	51
Registering property (rank)	13	21	5	4	20	64	51
Getting credit (rank)	42	122	90	12	42	29	68
Protecting minority investors (rank)	62	10	40	2	33	81	49
Paying taxes (rank)	87	35	96	22	32	43	44
Trading across borders (rank)	52	83	30	62	35	119	13
Enforcing contracts (rank)	47	38	24	7	62	82	48
Resolving insolvency (rank)	97	47	68	57	65	149	34

The table shows that Georgia is even better than the EU average in the Doing Business Report 2018. Ukraine ranked among the worst in the index.

3.2.2. OECD SME Policy Index 2016 EaP³⁰

Developed by the OECD and its partner institutions, the SME Policy Index assesses compliance with the 10 principles defined in the Small Business Act for Europe³¹:

I.	Create an environment in which entrepreneurs and family businesses can thrive and entrepreneurship is rewarded
II.	Ensure that honest entrepreneurs who have faced bankruptcy quickly get a second chance
III.	Design rules according to the “Think Small First” principle
IV.	Make public administrations responsive to SMEs’ needs
V.	Adapt public policy tools to SME needs: facilitate SMEs’ participation in public procurement and better use State Aid possibilities for SMEs

³⁰ <http://www.oecd.org/countries/belarus/sme-policy-index-eastern-partner-countries-2016-9789264246249-en.htm>

³¹ https://ec.europa.eu/growth/smes/business-friendly-environment/small-business-act_en

- VI. Facilitate SMEs' access to finance and develop a legal and business environment supportive to timely payments in commercial transactions
- VII. Help SMEs to benefit more from the opportunities offered by the Single Market
- VIII. Promote the upgrading of skills in SMEs and all forms of innovation
- IX. Enable SMEs to turn environmental challenges into opportunities
- X. Encourage and support SMEs to benefit from the growth of markets

The table below shows benchmarking for the Eastern Partnership countries across 12 policy dimensions:

		Scores						
		AR	AZ	BL	GE	MD	UK	
		M	E	R	O	A	R	EaP
I	Create an environment in which entrepreneurs and family businesses can thrive and entrepreneurship is rewarded							
1	Entrepreneurial learning and women's entrepreneurship	2,63	2,59	2,39	2,70	2,57	2,25	2,52
II	Ensure that honest entrepreneurs who have faced bankruptcy quickly get a second chance							
2	Bankruptcy and second chance for SMEs	3,16	2,87	2,57	2,94	2,68	2,05	2,71
III	Design rules according to the "think small first" principle							
3	Regulatory framework for SME policy making	3,38	2,47	2,41	3,48	3,51	2,45	2,95
IV	Make public administration responsive to SMEs							
4	Operational environment for SMEs	4,05	4,23	4,09	4,33	3,56	3,81	4,01
V	Adapt public policy tools to SME needs							
5a	Support services for SMEs and start-ups	3,93	2,98	2,99	3,69	3,35	1,84	3,13
5b	Public procurement	3,42	2,42	3,21	4,04	2,89	2,73	3,12

VI	Facilitate SME access to finance and develop a legal framework and business environment supportive of timely							
6	Access to finance for SMEs	3,53	2,70	3,08	3,76	3,40	3,22	3,28
VII	Help SMEs to benefit more from the opportunities offered by the Single Market							
7	Standards and technical regulations	3,33	3,32	3,22	4,22	4,12	4,34	3,76
VIII	Promote the upgrading of skills and all forms of innovation							
8a	Enterprise skills	2,67	2,94	2,28	3,00	2,50	2,56	2,66
8b	Innovation	2,91	2,47	2,91	2,70	2,54	1,86	2,57
IX	Enable SMEs to turn environmental changes into opportunities							
9	SMEs in a green economy	2,39	1,54	2,10	2,48	2,19	1,22	1,99
X	Encourage and support SMEs to benefit from growth markets							
10	Internationalisation of SMEs	3,37	2,50	2,59	3,60	3,07	1,63	2,79

Each of the 12 policy dimensions is evaluated against several indicators, which equal to 124 in total. It is therefore fair to emphasize that the SME Policy Index constitutes a fundamental research. However, the cumbersome nature of this study makes it difficult to conduct annual evaluations. Therefore, only two studies have been conducted since 2012. The results of the last study have been published in 2018 and entail the figures for 2016.

The main disadvantages of this index are that it has: 1) a large number of indicators affecting the issues of cost and time to do the study; 2) does not use objective economic indicators, but subjective expert opinions (governmental and independent); 3) focuses only on the principles of the Small Business Act.

3.2.3. Corruption Perceptions Index 2017, Annual Report of Transparency International³²

The Corruption Perceptions Index is a study to measure the level of corruption in public sector globally. The measurement is based on a combination of publicly available statistical data and findings of expert surveys provided by various sources ranging across international organizations. These sources measure the level of perceived corruption by

³² https://www.transparency.org/news/feature/corruption_perceptions_index_2017

local and international experts, and comprise a set of surveys of entrepreneurs, analysts specialized in commercial risk assessment and country experts representing various international organizations.

Using a scale of 0 (highest level of corruption) to 100 (lowest level of corruption), the Index ranks countries and territories by a perceived level of public sector corruption. In overall, the Index is considered a popular study, though it has some drawbacks inherent in expert research. For example, the degree of reliability of measurements is not the same for all countries.

The table below provides the comparative data for the Eastern Partnership and average scores and rankings for European states:

Indicators	Armenia	Azerbaijan	Belarus	Georgia	Moldova	Ukraine	EU
CPI Score 2017	35	31	44	56	31	30	65
Rank	107	122	68	46	122	130	32

3.2.4. Economic Freedom of the World 2018, Annual Report of Fraser Institute (Canada)³³

The Economic Freedom of the World Index is indicative of economic freedom in the world’s nations. The survey is carried out annually by Canada’s Fraser Institute and CATO Institute (USA).

Based on the components of the economic freedom index, ranking of economic freedom indicates the degree to which the policies and institutions of countries contribute to economic freedom. 38 indicators grouped into five main categories are used to compile the index:

1. Size of Government;
2. Legal System and Property Rights;
3. Sound Money;
4. Freedom to Trade Internationally;
5. Regulation.

Countries are graded against each indicator on a scale of 0 to 10. A high score represents a high level of economic freedom in a country against a given indicator. The final rating of economic freedom is calculated by taking the arithmetic average of the above five indicators.

³³ <https://www.fraserinstitute.org/sites/default/files/economic-freedom-of-the-world-2018.pdf>

The table below provides comparative data for the Eastern Partnership countries and the European average scores of the economic freedom index based on the Fraser Institute's methodology:

Indicators	Armenia	Azerbaijan	Belarus	Georgia	Moldova	Ukraine	EU
Summary Ratings	7,6	6,38		8,01	6,56	5,38	7,54
Summary Rank	29	114		8	102	149	35,32
1. Size of Government	7,12	5,19		7,79	6,46	6,53	5,29
2. Legal System and Property Rights	5,78	5,32		6,57	4,25	4,32	6,88
3. Sound Money	9,48	7,31		8,99	7,79	3,25	9,56
4. Freedom to Trade Internationally	8,24	7,1		8,66	7,44	6,51	8,24
5. Regulation	7,39	6,99		8,05	6,86	6,29	7,76

3.2.5. 2018 Index of Economic Freedom, Annual Report of Heritage Foundation (USA)³⁴

This Index measures economic freedom in countries globally. The survey is carried out annually by the Heritage Foundation in cooperation with the Wall Street Journal. Following the survey, ranking of the world's countries is determined by the level of economic freedom.

The index of economic freedom is calculated by taking the arithmetic average of the following twelve indicators:

1. Property Rights;
2. Judicial Effectiveness;
3. Government Integrity;
4. Tax Burden;
5. Government Spending;
6. Fiscal Health;
7. Business Freedom;
8. Labor Freedom;
9. Monetary Freedom;

³⁴ <https://www.heritage.org/index/>

10. Trade Freedom;
11. Investment Freedom;
12. Financial Freedom.

Countries are graded against each indicator on a scale of 0 to 100. High scores represent a high level of economic freedom in a country. All surveyed countries in the final report are divided into five conditional groups based on their rankings:

1. Countries with free economy (scored more than 80 points out of 100 possible);
2. Countries with mostly free economy (scored from 70 to 80 points);
3. Countries with moderately free economy (scored from 60 to 70 points);
4. Countries with mostly unfree economy (scored from 50 to 60 points);
5. Countries with repressed economy (scored less than 50 points);

The table below provides comparative data for the Eastern Partnership countries and the European average scores of the index of the economic freedom based on the Heritage Foundation's methodology:

Indicators	Armenia	Azerbaijan	Belarus	Georgia	Moldova	Ukraine	EU
ECONOMIC FREEDOM SCORE	68,7	64,3	58,1	76,2	58,4	51,9	70,2
RULE OF LAW							
Property Rights	55,3	53,6	53,5	62,8	53,5	41	75,1
Judicial Effectiveness	47,4	36,8	57,3	64,2	26,3	29,5	67,4
Government Integrity	40,5	39,9	42	61,8	26,6	29	59,7
GOVERNMENT SIZE							
Tax Burden	84,7	87,5	89,8	87	85,3	80,2	66,5
Government Spending	80	59,4	47,9	73,3	56,7	45	38,3
Fiscal Health	67,2	95,5	75,4	91,8	90	75,9	80,1
REGULATORY EFFICIENCY							
Business Freedom	78,7	72,3	74,1	86,9	66	62,7	75,5
Labor Freedom	69,9	71,9	73,1	77,3	39,9	52,8	60,3
Monetary Freedom	75,8	65,6	62,3	79,6	73,2	60,1	84,9
OPEN MARKETS							
Trade Freedom	80	74,6	81,4	89,4	78,3	81,1	86,6
Investment Freedom	75	55	30	80	55	35	80,9
Financial Freedom	70	60	10	60	50	30	67,9

3.2.6. The Global Competitiveness Report 2018, Annual Report of World Economic Forum³⁵.

This report contains findings from the global study of nations in terms of economic competitiveness. The measurement is made according to the methodology of the World Economic Forum, which is based on the use of publicly available statistical data and the findings from a global survey of company executives. The questionnaire covers a wide range of factors affecting the business climate. National competitiveness is perceived as the ability of a country and its institutions to ensure stable economic growth rates that are sustainable in the medium term.

The list of analyzable indicators includes:

- 1) 20 indicators of the Institutions;
- 2) 12 indicators of the Infrastructure;
- 3) 5 indicators of the ICT adoption;
- 4) 2 indicators of the Macroeconomic Stability;
- 5) 1 indicator of the Health;
- 6) 9 indicators of the Skills;
- 7) 8 indicators of the Product Market;
- 8) 12 indicators of the Labour Market;
- 9) 9 indicators of the Financial system;
- 10) 2 indicators of the Market size;
- 11) 8 indicators of the Business dynamism;
- 12) 10 indicators of the Innovation capability.

Each indicator is rated on a 100-point scale.

The study has been conducted since 2004 and currently covers 140 countries.

Assessing the values for indicators is carried out by using expert opinion from business representatives, political circles and public administration (two thirds), and publicly available statistical data, sociological surveys and scientific research published in the press and conducted on a regular basis by international organizations (one third)³⁶.

The table below gives comparative data for the Eastern Partnership countries and European average ranking values for competitiveness:

³⁵ <http://www3.weforum.org/docs/GCR2018/05FullReport/TheGlobalCompetitivenessReport2018.pdf>

³⁶ <https://gtmarket.ru/ratings/global-competitiveness-index/info>

	Armenia	Azerbaijan	Belarus	Georgia	Moldova	Ukraine	EU
Rank	70	69		67	88	83	30

As we see, competitiveness was not yet been measured for Belarus.

3.2.7. The Global Entrepreneurship Index 2018, Annual Report of The Global Entrepreneurship and Development Institute, Washington, D.C., USA³⁷

GEI measures both the quality of entrepreneurship and the extent and effectiveness of supporting entrepreneurial ecosystem. The study is based on the analysis of 14 components that are important in ensuring the health of entrepreneurial ecosystem:

Component of the entrepreneurship ecosystem	What does it measure?
Pillar 1: Opportunity Perception	Can the population identify opportunities to start a business and does the institutional environment make it possible to act on those opportunities?
Pillar 2: Startup Skills	Does the population have the skills necessary to start a business based on their own perceptions and the availability of tertiary education?
Pillar 3: Risk Acceptance	Are individuals willing to take the risk of starting a business? Is the environment relatively low risk or do unstable institutions add additional risk to starting a business?
Pillar 4: Networking	Do entrepreneurs know each other and how geographically concentrated are their networks?
Pillar 5: Cultural Support	How does the country view entrepreneurship? Is it easy to choose entrepreneurship or does corruption make entrepreneurship difficult relative to other career paths?
Pillar 6: Opportunity Perception	Are entrepreneurs motivated by opportunity rather than necessity and does governance make the choice to be an entrepreneur easy?
Pillar 7: Technology Absorption	Is the technology sector large and can businesses rapidly absorb new technology?

³⁷ https://thegedi.org/wp-content/uploads/dlm_uploads/2017/11/GEI-2018-1.pdf

Pillar 8: Human Capital	Are entrepreneurs highly educated, well trained in business and able to move freely in the labor market?
Pillar 9: Competition	Are entrepreneurs creating unique products and services and able to enter the market with them?
Pillar 10: Product Innovation	Is the country able to develop new products and integrate new technology?
Pillar 11: Process Innovation	Do businesses use new technology and are they able access high quality human capital in STEM fields?
Pillar 12: High Growth	Do businesses intend to grow and have the strategic capacity to achieve this growth?
Pillar 13: Internationalization	Do entrepreneurs want to enter global markets and is the economy complex enough to produce ideas that are valuable globally?
Pillar 14: Risk Capital	Is capital available from both individual and institutional investors?

The index value ranges from 0 to 100 points, which is scored by measuring the above 14 indicators.

The report for 2018 covers 137 countries. The table below provides comparative data for the Eastern Partnership countries and the European average values of GEI ranking:

Indicators	Armenia	Azerbaijan	Belarus	Georgia	Moldova	Ukraine	EU
Global rank	88	62		77	92	73	28
Score	22,8	30,5		25,8	21,2	26,8	53,8

As can be seen, Belarus is not yet ranked in the Global Entrepreneurship Index.

3.2.8. New business density (new registrations per 1,000 people ages 15-64), 2006-2016, World Bank³⁸.

This World Bank's New Business Density ranking rates the tendency of population to register new businesses and do business in the existing business environment.

³⁸ <https://data.worldbank.org/indicator/IC.BUS.NDNS.ZS>

The key indicator in the ranking is the number of new limited liability corporations registered per 1,000 people aged 15-64.

The following indicators are used:

- business density - total number of businesses divided by working age population;
- new density - number of newly registered businesses divided by working age population;
- entry rate - number of newly registered businesses divided by a total number of registered businesses.

The table below gives the comparative values in the index of the New Business Density for the countries of the Eastern Partnership and the EU:

	Country Name	2014	2015	2016
1	Armenia	1,55126713	1,7221069	1,73579314
2	Azerbaijan	0,98483085	0,74519431	1,03166193
3	Belarus	1,04902531	0,87073514	1,09279176
4	Georgia	5,80437964	7,22388789	8,37019719
5	Moldova	1,92494214	1,80347658	1,75484162
6	Ukraine	1,04569643	1,20905663	1,54434595
	European Union	6,51406453	6,66903469	7,00242621

As can be seen from the table, the index value for Georgia exceeds the value for the EU.

3.3. CONCLUSION AND PROPOSALS

8 methodologies briefly described in the previous paragraph and the last published pertinent reports allow us drawing appropriate conclusions about the business environment in various countries of the world, including the Eastern Partnership countries. Abundance of different indices pursuing the same goals is explained with various approaches taken by the authors' methodologies. Today, the most popular of them is the Doing Business report. This report is often referred to not only by experts, but also by governments of different countries (especially when the index value is improved). Other studies are less popular, although each of them is undoubtedly of value for improving the business environment in countries.

One of the features of the methodologies described in the previous paragraph is that many of them analyze the same indicators for business environment in terms of meaning content. However, they use different approaches and methods.

The other feature of the described indices is that the time parameters (year of the report and date of publication of the next report) do not match. And one of these indices (**OECD SME Policy Index**) was published only twice: in 2012 and 2016.

One more feature of the indices is that only one of them (**OECD SME Policy Index**) focuses on the problems of the EaP countries. Moreover, this study is concentrated on the application of the principles of the Small Business Act for Europe by these countries.

Such a diversity of methodologies creates difficulties for people seeking to perceive the extent to which the business environment in a given country is approximated to that of the EU. In particular, civil society representatives, including the members of the EaP Civil Society Forum, who wish to monitor the processes of convergence find themselves in a difficult situation when choosing the appropriate index from among those described in the previous paragraph.

Analysis of the indices described above shows that each of them can certainly be used to measure the level of convergence of the business environment in the Eastern Partnership countries with that of the EU too. To this end, it is necessary to weight averaged values for the indicators (used in these indices) related to the 28 EU states. This is the easiest way. This approach can be called "*Method of Preferred Index.*"

The other approach, let's call it "*Method for composite use of more popular indices,*" can be based on the measurement by introducing weights for each of the EU states, while using any of the following factors: 1) value of GDP; 2) population size; 3) size of the territory and other factors. Certainly, it seems more reasonable to use GDP as the main indicator for the size of national economy.

One more approach, let's call it "*Method for composite use of the selected indicators of more popular indices*", can be based on the measurement of the final index by selecting the specific indicators from the indices presented in Paragraph 3.2. The selection of these indicators can be made on the assumption of their importance for a favorable business environment:

1. The independence and effectiveness of the judiciary;
2. Favorable macroeconomic conditions;
3. Registration of a new business;
4. Obtaining licenses and permits;
5. Registration of ownership;
6. Access to financial resources;
7. Access to public utilities;
8. Access to markets for goods and services;

9. Access to labor resources;
10. Access to the virtual space;
11. Taxes;
12. Foreign trade;
13. Low risks of corruption;
14. Government programs to support and promote business.

For each of the three methods mentioned above, the project has developed procedures for sequential calculations. These procedures will be tested at the final stage of the project: November 2018 - January 2019.