

# CONVERGENCE OF THE BUSINESS CLIMATE IN THE EAP COUNTRIES WITH THE BUSINESS CLIMATE IN THE EU ON THE BASIS OF EXISTING INDICES<sup>1</sup>

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This article attempts to assess how close the business climate in Eastern Partnership (EaP) countries is to the business climate in EU countries. The assessment methodology is based on comparing the values of the indices of EaP countries in the well-known reports of international organizations. The following reports were taken for analysis:

- Doing Business 2019, Annual Report of World Bank<sup>2</sup>;
- Economic Freedom of the World 2018, Annual Report of Fraser Institute (Canada)<sup>3</sup>;
- 2018 Index of Economic Freedom, Annual Report of Heritage Foundation (USA)<sup>4</sup>;
- OECD SME Policy Index 2016 EaP<sup>5</sup>;
- Corruption Perceptions Index 2017, Annual Report of Transparency International<sup>6</sup>;
- The Global Competitiveness Report 2018, Annual Report of World Economic Forum<sup>7</sup>;
- The Global Entrepreneurship Index 2018, Annual Report of The Global Entrepreneurship and Development Institute, Washington, D.C., USA<sup>8</sup>;

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<sup>2</sup> <http://www.doingbusiness.org/content/dam/doingBusiness/media/Annual-Reports/English/DB2018-Full-Report.pdf>

<sup>3</sup> <https://www.fraserinstitute.org/sites/default/files/economic-freedom-of-the-world-2018.pdf>

<sup>4</sup> <https://www.heritage.org/index/>

<sup>5</sup> <http://www.oecd.org/countries/belarus/sme-policy-index-eastern-partner-countries-2016-9789264246249-en.htm>

<sup>6</sup> [https://www.transparency.org/news/feature/corruption\\_perceptions\\_index\\_2017](https://www.transparency.org/news/feature/corruption_perceptions_index_2017)

<sup>7</sup> <http://www3.weforum.org/docs/GCR2018/05FullReport/TheGlobalCompetitivenessReport2018.pdf>

<sup>8</sup> [https://thegedi.org/wp-content/uploads/dlm\\_uploads/2017/11/GEI-2018-1.pdf](https://thegedi.org/wp-content/uploads/dlm_uploads/2017/11/GEI-2018-1.pdf)

- New business density (new registrations per 1,000 people ages 15-64), 2006-2016, World Bank<sup>9</sup>.

## 1. Doing Business 2019, Annual Report of World Bank<sup>10</sup>

The **Doing Business** study allows to evaluate business regulation legislation. The **Doing Business 2019** report covered 190 countries, including all Eastern Partnership countries.

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

In the report, each country is assigned a rating of favourable conditions for doing business. The rating is determined on the basis of 11 indicators<sup>11</sup>:

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

<sup>9</sup> <https://data.worldbank.org/indicator/IC.BUS.NDNS.ZS>

<sup>10</sup> <http://www.doingbusiness.org/content/dam/doingBusiness/media/Annual-Reports/English/DB2018-Full-Report.pdf>

<sup>11</sup> <http://www.doingbusiness.org/content/dam/doingBusiness/media/Annual-Reports/English/DB2018-Full-Report.pdf>

According to experts, the disadvantages of this study are the following circumstances<sup>12</sup>:

- The rating forms without using macroeconomic indicators, as well as factors of the quality of infrastructure, qualification of labour force, currency fluctuations, investor opinions and the state of corruption;
- The report does not cover all legal forms of enterprises, but only limited liability companies. There are very deep differences between countries in the degree of enterprises' tendency to incorporation, since this tendency is differentiated between countries depending on the cost and complexity of the registration procedure, tax incentives and even cultural factors.

Table 1 below lists the comparative values of the ranks (places occupied in the table of ranks) of Eastern Partnership countries. Also, this table shows the best and worst ranks in the 28 EU countries.

Table 1<sup>13</sup>

Indicators	AM	AZ	BY	GE	MD	UA	Top Rank for EU	Worst Rank for EU
1	2	3	4	5	6	7	8	9
Ease of doing business rank	41	25	37	6	47	71	3, DK	84, MT
1. Starting a business	8	9	29	2	14	56	10, IE	127, SK
2. Dealing with construction permits	98	61	46	27	172	30	4, DK	159, HR
3. Getting electricity	17	74	20	39	81	135	5, DE	154, RO
4. Registering property	14	17	5	4	22	63	3, LT	153, GR
5. Getting credit	44	22	85	12	44	32	12, LV	175, LU
6. Protecting minority investors	51	2	51	2	33	72	15, IE, GB	122, LU
7. Paying taxes	82	28	99	16	35	54	4, IE	118, IT
8. Trading across borders	46	84	25	43	35	78	1, MT16C <sup>14</sup>	52, IE

<sup>12</sup> Методы анализа развития малого бизнеса. Отчет USAID MEP, [http://atameken.kz/uploads/content/files/%D0%9C%D0%B5%D1%82%D0%BE%D0%B4%D1%8B%20%D0%B0%D0%BD%D0%B0%D0%BB%D0%B8%D0%B7%D0%B0%20%D1%80%D0%B0%D0%B7%D0%B2%D0%B8%D1%82%D0%B8%D1%8F%20%D0%BC%D0%B0%D0%BB%D0%BE%D0%B3%D0%BE%20%D0%B1%D0%B8%D0%B7%D0%BD%D0%B5%D1%81%D0%B0\\_C.pdf](http://atameken.kz/uploads/content/files/%D0%9C%D0%B5%D1%82%D0%BE%D0%B4%D1%8B%20%D0%B0%D0%BD%D0%B0%D0%BB%D0%B8%D0%B7%D0%B0%20%D1%80%D0%B0%D0%B7%D0%B2%D0%B8%D1%82%D0%B8%D1%8F%20%D0%BC%D0%B0%D0%BB%D0%BE%D0%B3%D0%BE%20%D0%B1%D0%B8%D0%B7%D0%BD%D0%B5%D1%81%D0%B0_C.pdf)

<sup>13</sup> In Table 1 all countries are represented by a 2-letter country code<sup>13</sup> based on the International Naming Convention (ISO - International Organization for Standardization 3166), <https://abbreviations.yourdictionary.com/articles/country-abbreviations.html>

<sup>14</sup> MT16C – more than 16 countries of EU

9. Enforcing contracts	24	40	29	8	69	57	<b>7, LT</b>	<b>138, GR</b>
10. Resolving insolvency	95	45	72	60	68	145	<b>2, FI</b>	<b>121, MT</b>

As can be seen from Table 1, the resultant ranks of EaP countries are between the worst (84 - Malta) and the top (3 - Denmark) resultant ranks of EU countries. Regarding the ranks for individual indicators, the following conclusions can be made:

- 1) In five indicators (Getting electricity, Registering property, Paying taxes, Enforcing contracts, Resolving insolvency), the ranks of EaP countries are between the worst and the best ranks of EU countries by corresponding indicators;
- 2) In the first indicator (Starting a business), three EaP countries (Georgia, Armenia, Azerbaijan) have ranks better than the highest rank of an EaP country (10 - Ireland);
- 3) In the second indicator (Dealing with construction permits), only one of the EaP countries (Moldova) has a rank lower than the lowest in the EU (159 - Croatia);
- 4) In the sixth indicator (Protecting minority investors), two EaP countries (Azerbaijan and Georgia) have ranks above the ranks of EU countries;
- 5) In the eighth indicator (Trading across borders), only two of the EaP countries (Azerbaijan and Ukraine) have ranks lower than the lowest in the EU (52 - Ireland).

Table 2 presents the resultant estimates of business simplicity in EaP countries and the EU average.

Table 2.

Indicators	AM	AZ	BY	GE	MD	UA	Average for EaP	Average for EU
1	2	3	4	5	6	7	8	9
Ease of doing business rank	75.37	78.64	75.77	83.28	73.54	68.25	<b>75.81</b>	<b>75.91</b>

As can be seen from this table, in the two EaP countries (Georgia and Azerbaijan) the estimate of business simplicity is even higher than the EU average.

Thus, based on the **Doing Business** report, the conclusion is that the business climate in EaP countries is very close to the business climate in EU in terms of the simplicity of setting up and running a business. But what does research from other international organizations show?

## 2. Economic Freedom of the World 2018, Annual Report of Fraser Institute (Canada)<sup>15</sup>

The Economic Freedom rating is an indicator of economic freedom in a country. The study is annual in nature and is carried out by the Canadian Fraser Institute together with the CATO Institute (USA).

The Economic Freedom rating shows the extent to which a country's policies and institutions promote economic freedom. The rating is based on the components of the Index of Economic Freedom. To determine the rating, 38 indicators and subindicators, combined into five main groups, are used:

1. **Size of government.** Indicators: 1) The share of state consumption in total consumption; 2) The share of government transfers and subsidies in the Gross Domestic Product (GDP); 3) The share of state-owned enterprises and government investments in total investments; 4) The extreme tax rate;
2. **Legal structure, legal framework and protection of property rights.** Indicators: 1) Independence of the judiciary; 2) Fair court; 3) Protection of intellectual property rights; 4) Intervention of law enforcement agencies in the administration of justice and the political process; 5) Consistency of legislation;
3. **Availability of sound money.** Indicators: 1) The difference between the average annual growth rate of the money supply over the past 5 years and the average annual growth rate of real GDP over the past 10 years; 2) Standard deviation of annual inflation rates for the last 5 years; 3) Inflation over the past year; 4) Citizens' freedom to have accounts in foreign currency at home and abroad;
4. **Freedom to trade internationally:** 1) Taxes on foreign trade; 2) Regulatory barriers to foreign trade; 3) The actual size of foreign trade in comparison with the expected size; 4) The difference between the official exchange rate and the black market exchange rate; 5) State control over the movement of international capital;
5. **The degree of state regulation: regulation of business, labour, loans:** 1) Regulation of the credit market 2) Regulation of the labour market; 3) Regulation of business.

Many of these indicators have a number of very important subindicators.

In each indicator, countries are rated in points - from 0 to 10. A higher score corresponds to a higher assessment of the level of economic freedom for this indicator in a country. The final rating of economic freedom is calculated as the arithmetic average of the aforesaid five indicators.

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<sup>15</sup> <https://www.fraserinstitute.org/sites/default/files/economic-freedom-of-the-world-2018.pdf>

Table 3 below lists the comparative data for Eastern Partnership countries and the values of the economic freedom rating averaged for European countries based on the methodology of the Fraser Institute:

Table 3

Indicators	AM	AZ	BY	GE	MD	UA	Average for EaP	Average for EU
Summary Ratings	7,6	6,38	6,23	8,01	6,56	5,38	<b>6,69</b>	<b>7,54</b>
1. Size of Government	7,12	5,19	6,76	7,79	6,46	6,53	<b>6,64</b>	<b>5,29</b>
2. Legal System and Property Rights	5,78	5,32	5,53	6,57	4,25	4,32	<b>5,29</b>	<b>6,88</b>
3. Sound Money	9,48	7,31	5,33	8,99	7,79	3,25	<b>7,02</b>	<b>9,56</b>
4. Freedom to Trade Internationally	8,24	7,1	7,18	8,66	7,44	6,51	<b>7,52</b>	<b>8,24</b>
5. Regulation	7,39	6,99	6,38	8,05	6,86	6,29	<b>6,99</b>	<b>7,76</b>

As can be seen from Table 3, the economic freedom rating in Georgia is even higher than the EU average. The greatest gap between EaP and EU countries is observed in the indicator "**Availability of sound money**". Only in one indicator (Size of Government) the situation in EaP countries is better than in the EU, which is very interesting, since two of the six EaP countries are characterized by a tough authoritarian regime, under which the share of the state is usually higher (the exception is Singapore).

### 3. 2018 Index of Economic Freedom, Annual Report of Heritage Foundation (USA)<sup>16</sup>

This index is also an indicator of economic freedom in a country, but is calculated on the basis of the methodology of the **Heritage Foundation**. The study is annual in nature and is carried out by the Heritage Foundation's research centre together with The Wall Street Journal. The study determines the ratings of countries in terms of economic freedom.

The Index of Economic Freedom is calculated as an arithmetic average of points for twelve of the following indicators:

1. Property Rights;
2. Judicial Effectiveness;

<sup>16</sup> <https://www.heritage.org/index/>

3. Government Integrity;
4. Tax Burden;
5. Government Spending;
6. Fiscal Health;
7. Business Freedom;
8. Labor Freedom;
9. Monetary Freedom;
10. Trade Freedom;
11. Investment Freedom;
12. Financial Freedom.

In each indicator, countries are rated in points - from 0 to 100. Higher scores correspond to higher levels of economic freedom in a country. All countries of the world presented in the final report are divided into five groups according to their rating:

- 1) Countries with a free economy (those which scored more than 80 out of the 100 possible points).
- 2) Countries with a predominantly free economy (those which scored from 70 to 80 points).
- 3) Countries with a moderately free economy (those which scored from 60 to 70 points).
- 4) Countries with a predominantly unfree economy (those which scored from 50 to 60 points).
- 5) Countries with a non-free economy (those which scored less than 50 points).

Table 4 below presents comparative data for Eastern Partnership countries and values of economic freedom averaged for European countries based on the methodology of the **Heritage Foundation**:

Table 4

Indicators	AM	AZ	BY	GE	MD	UA	Average for EaP	Average for EU
<b>ECONOMIC FREEDOM SCORE</b>	68,7	64,3	58,1	76,2	58,4	51,9	62,9	70,2
<b>RULE OF LAW</b>								
Property Rights	55,3	53,6	53,5	62,8	53,5	41	53,3	75,1
Judicial Effectiveness	47,4	36,8	57,3	64,2	26,3	29,5	43,6	67,4

Government Integrity	40,5	39,9	42	61,8	26,6	29	40,0	59,7
<b>GOVERNMENT SIZE</b>								
Tax Burden	84,7	87,5	89,8	87	85,3	80,2	85,7	66,5
Government Spending	80	59,4	47,9	73,3	56,7	45	60,4	38,3
Fiscal Health	67,2	95,5	75,4	91,8	90	75,9	82,6	80,1
<b>REGULATORY EFFICIENCY</b>								
Business Freedom	78,7	72,3	74,1	86,9	66	62,7	73,4	75,5
Labor Freedom	69,9	71,9	73,1	77,3	39,9	52,8	64,1	60,3
Monetary Freedom	75,8	65,6	62,3	79,6	73,2	60,1	69,4	84,9
<b>OPEN MARKETS</b>								
Trade Freedom	80	74,6	81,4	89,4	78,3	81,1	80,8	86,6
Investment Freedom	75	55	30	80	55	35	55	80,9
Financial Freedom	70	60	10	60	50	30	46,7	67,9

As can be seen from this table, Georgia has better results than the average for the EU in this rating too. Ukraine has the worst result.

#### 4. OECD SME Policy Index 2016 EaP<sup>17</sup>

The OECD SME Economic Policy Index is an assessment of compliance with the principles of the Small Business Act for Europe<sup>18</sup>, which proclaims the following 10 principles:

- 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

<sup>17</sup> <http://www.oecd.org/countries/belarus/sme-policy-index-eastern-partner-countries-2016-9789264246249-en.htm>

<sup>18</sup> [https://ec.europa.eu/growth/smes/business-friendly-environment/small-business-act\\_en](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 the comparative values of the Eastern Partnership countries in 12 directions (indicators for each area are evaluated on a five-point scale, where "1" means the lowest level of economic policy reform, and "5" is the highest). For each of these 12 areas, several indicators are evaluated, the total number of which is 124. Therefore, it is fair to say that the OECD SME Economic Policy Index is a fundamental study. However, the cumbersome nature of this study makes it difficult to conduct annual assessments. For this reason, only two studies have been conducted since 2012. The results of the latter are published in 2018 and cover the figures for 2016.

Table 5

		Scores						
		AM	AZ	BY	GE	MD	UA	Average for EaP
<b>I</b>	<b>Create an environment in which entrepreneurs and family businesses can thrive and entrepreneurship is rewarded</b>							
1	Entrepreneurial learning and women's entrepreneurship	2,63	2,59	2,39	2,70	2,57	2,25	2.52
<b>II</b>	<b>Ensure that honest entrepreneurs who have faced bankruptcy quickly get a second chance</b>							
2	Bankruptcy and second chance for SMEs	3,16	2,87	2,57	2,94	2,68	2,05	2.71
<b>III</b>	<b>Design rules according to the "think small first" principle</b>							
3	Regulatory framework for SME policy making	3,38	2,47	2,41	3,48	3,51	2,45	2.95
<b>IV</b>	<b>Make public administration responsive to SMEs</b>							
4	Operational environment for SMEs	4,05	4,23	4,09	4,33	3,56	3,81	4.01
<b>V</b>	<b>Adapt public policy tools to SME needs</b>							

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
<b>VI</b>	<b>Facilitate SME access to finance and develop a legal framework and business environment supportive of timely</b>							
6	Access to finance for SMEs	3,53	2,70	3,08	3,76	3,40	3,22	3.28
<b>VII</b>	<b>Help SMEs to benefit more from the opportunities offered by the Single Market</b>							
7	Standards and technical regulations	3,33	3,32	3,22	4,22	4,12	4,34	3.76
<b>VIII</b>	<b>Promote the upgrading of skills and all forms of innovation</b>							
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	2.56
<b>IX</b>	<b>Enable SMEs to turn environmental changes into opportunities</b>							
9	SMEs in a green economy	2,39	1,54	2,10	2,48	2,19	1,22	1.99
<b>X</b>	<b>Encourage and support SMEs to benefit from growth markets</b>							
10	Internationalisation of SMEs	3,37	2,50	2,59	3,60	3,07	1,63	2.79
	<b>Average rating for 12 indicators</b>	<b>3.23</b>	<b>2.75</b>	<b>2.82</b>	<b>3.41</b>	<b>3.03</b>	<b>2.50</b>	<b>2.95</b>

As we can see from this table, the economic policy of EaP countries is averaged at 2.95 on a five-point scale. This indicates that the governments of EaP countries still have a lot to do to achieve full compliance with the principles of the Small Business Act for Europe.

The economic policy of the government of Georgia most closely complies with the requirements of the Small Business Act for Europe. Armenia is in second place, and Ukraine closes the list.

The main disadvantages of this study are that it uses only opinions of experts (governmental and independent) and businessmen. The objective macroeconomic results of government policies are not analyzed.

## 5. Corruption Perceptions Index 2018, Annual Report of Transparency International<sup>19</sup>

<sup>19</sup> [https://www.transparency.org/whatwedo/publication/corruption\\_perceptions\\_index\\_2018](https://www.transparency.org/whatwedo/publication/corruption_perceptions_index_2018)

The Corruption Perceptions Index is a global study assessing the level of corruption in the public sector. It is calculated on the basis of a combination of publicly available statistical data and the results of expert surveys presented in various sources of international organizations. These sources assess the level of perception of corruption by experts, both living in a particular country and foreign experts, and are a collection of surveys of entrepreneurs, analysts on commercial risk assessment and specialists in specific countries from various international organizations.

The index ranks countries and territories on a scale from 0 (the highest level of corruption) to 100 (the lowest level of corruption) based on the perception of the level of corruption in the public sector. In general, the index is a popular study, although it has some drawbacks inherent in expert studies. For example, the degree of reliability of measurements is not the same for all countries.

Table 6 below provides comparative data for Eastern Partnership countries, CPI points and ranks of EaP countries:

Table 6

Indicator	AM	AZ	BY	GE	MD	UA	Average for EaP	Average for EU
Score	35	25	44	58	33	32	37.83	64.68
Rank	105	152	70	41	117	120		

As we can see from this table, Georgia has the best rank. In general, the situation in terms of corruption in EaP countries is very far from the situation in the EU.

## 6. The Global Competitiveness Report 2018, Annual Report of World Economic Forum<sup>20</sup>.

This report contains the results of a global survey of countries of the world for economic competitiveness. The calculation is carried out according to the methodology of the World Economic Forum, based on the use of publicly available statistical data and the results of a global survey of company executives. The survey questionnaire covers a wide range of factors affecting the business climate. National competitiveness is understood as the ability of a country and its institutions to ensure stable economic growth rates that would be stable in the medium-term.

The list of analyzed indicators includes:

- 1) 20 indicators of the Institutions;
- 2) 12 indicators of the Infrastructure;

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<sup>20</sup> <http://www3.weforum.org/docs/GCR2018/05FullReport/TheGlobalCompetitivenessReport2018.pdf>

- 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.

The assessment of the values of indicators is carried out by 2/3 of the expert opinion of representatives of business and political circles and public management and by 1/3 of open materials of statistical data, sociological surveys and scientific studies published in the open press and carried out on a regular basis by international organizations<sup>21</sup>.

Table 7 below provides comparative data for Eastern Partnership countries and the competitiveness rating averaged for European countries:

Таблица 7

	AM	AZ	BY	GE	MD	UA	Average for EaP	Average for EU
<b>Rank</b>	70	69	-	66	88	83		
<b>Score</b>	59.9	60.0	-	60.9	55.5	57.0	58.7	72.0

As we can see, in Belarus, competitiveness is not being assessed yet. And in this indicator, Georgia has the best result among EaP countries.

## 7. The Global Entrepreneurship Index 2018, Annual Report of The Global Entrepreneurship and Development Institute, Washington, D.C., USA<sup>22</sup>

GEI measures both the quality of entrepreneurship and the scale and effectiveness of the system to support the entrepreneurial ecosystem. The study is based on an analysis

<sup>21</sup> <https://gtmarket.ru/ratings/global-competitiveness-index/info>

<sup>22</sup> [https://thegedi.org/wp-content/uploads/dlm\\_uploads/2017/11/GEI-2018-1.pdf](https://thegedi.org/wp-content/uploads/dlm_uploads/2017/11/GEI-2018-1.pdf)

of 14 components that play an important role in ensuring the health of the business ecosystem:

<b>Component of the entrepreneurship ecosystem</b>	<b>What does it measure?</b>
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?
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?
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The index value ranges from 0 to 100 points and forms by evaluating the 14 above indicators. The closer the score is to zero, the better the situation in the country.

The 2018 report covers 137 countries. Table 8 below gives the comparative data for Eastern Partnership countries and the GEI rating values averaged for European countries:

Table 8

Indicators	AM	AZ	BY	GE	MD	UA	Average for EaP	Average for EU
Rank	88	62	-	77	92	73		
GEI	24	30	-	26	21	27	26	54

As we see, the global index of entrepreneurship is not being estimated in Belarus yet. In general, the average value of the index for EaP countries is significantly lower than the value of the index for EU countries. According to this index, the situation in Azerbaijan is the best.

## 8. New business density (new registrations per 1,000 people ages 15-64), 2006-2016, World Bank<sup>23</sup>.

This World Bank rating, New Business Density, characterizes the population's tendency to organize new enterprises and do business in the existing business climate.

The key indicator of the rating is the number of limited liability companies registered per year per thousand people aged 15–64.

The following indicators are used:

- density of enterprises (business density) - the total number of enterprises divided by the number of people of working age;
- density of newly-registered enterprises (new density) - the number of newly-registered enterprises divided by the number of people of working age;
- the level of the creation of new enterprises (entry rate) - the number of newly-registered enterprises divided by the total number of registered enterprises.

Table 9 below gives the comparative values of the New Business Density index for Eastern Partnership and EU countries:

<sup>23</sup> <https://data.worldbank.org/indicator/IC.BUS.NDNS.ZS>

Table 9

	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
	<b>Average for EaP</b>			<b>2,58827193</b>
	<b>Average for EC</b>	<b>6,51406453</b>	<b>6,66903469</b>	<b>7,00242621</b>

As can be seen from the table, the value of the index in Georgia exceeds the value in the EU. For the rest of the EaP countries, the index value is significantly lower than the EU average.

## 9. THREE APPROACHES TO THE ASSESSMENT OF THE CONVERGENCE DEGREE

The above eight methodologies and their respective reports allow us to draw appropriate conclusions about the business climate in various countries of the world, including Eastern Partnership countries. Such an abundance of various indices, which pursue similar goals, is explained by the different approaches of the authors of the methodologies to the question of which factors are major in terms of a favourable business climate. Today, the most popular one of the reviewed methodologies is the Doing Business report. This report is often referenced not only by experts, but also by governments of different countries (especially when a country achieves an improvement in the index value). Other studies are less popular, although each of them is of undoubted value for improving the business climate in countries.

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

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

Such a variety of methodologies puts people who wish to understand the extent to which the business climate in a country is close to the business climate in the EU in a

difficult position. Specifically, representatives of civil society, including members of the Civil Society Forum of EaP countries, who wish to monitor the processes of convergence find themselves in a difficult situation of choosing the appropriate index among those described above.

The analysis of the indices described above shows that each of them, of course, can also be used to assess the level of convergence of the business climate in the Eastern Partnership countries with the EU business climate. To this end, it is necessary to calculate the averaged values of the indicators (used in these indices) related to the 28 EU countries. This is the easiest way. Let's call this approach: *"Preferred Index Method."* Above, when considering the eight reports of international organizations, these simple calculations were made. They allow us to see the proximity or remoteness of an EaP country from the average European values of the indicators. The results for all the reports analyzed above are summarized in Table No 10 given below. But the use of separate indices may, firstly, lead to contradictory results (for example, in one of the indices, an EaP country may be between the worst and best index values in EU countries, and in another index, the situation may look different), and secondly, each of the indices examines a specific set of business climate indicators. These indicators do not coincide; which is why their complex use can give a more correct idea of about the proximity of the business climate in an EaP country to the business climate in the EU.

Another approach, let's call it *"The method of composite use of the most popular indexes"*, involves the use of all or several of the eight examined above.

Let's pay attention to Table No 10, which presents the results of all reports analyzed above.

Table 10

	DB	EFF	EFH	OECD	TI	GK	GEI	NBD
Azerbaijan	78.64	6,38	64,3	2,75	25	60,0	30	1,03
Armenia	75.37	7,60	68,7	3,23	35	59,9	24	1,74
Belarus	75.77	6,23	58,1	2,82	44	-	-	1,09
Georgia	83.28	8,01	76,2	3,41	58	60,9	26	8,37
Moldova	73.54	6,56	58,4	3,03	33	55,5	21	1,75
Ukraine	68.25	5,38	51,9	2,50	32	57,0	27	1,54
<b>Average for EaP</b>	<b>75.81</b>	<b>6,69</b>	<b>62,9</b>	<b>2,96</b>	<b>37,83</b>	<b>58,7</b>	<b>26</b>	<b>2,59</b>
<b>Average for EU</b>	<b>75.91</b>	<b>7,54</b>	<b>70,2</b>		<b>64,68</b>	<b>72,0</b>	<b>54</b>	<b>7,00</b>
<b>Worst for EU</b>	<b>65.43</b> <b>MT</b>	<b>6.49</b> <b>GR</b>	<b>57.3</b> <b>GR</b>		<b>65.43</b> <b>MT</b>	<b>60.1</b> <b>HR</b>	<b>28</b> <b>BG</b>	<b>0.59567</b> <b>AT</b>
<b>Top for EU</b>	<b>84.64</b>	<b>8.07</b>	<b>80.4</b>		<b>84.64</b>	<b>82.8</b>	<b>78</b>	<b>20.76074</b>



	DK	IE	IE		DK	DE	GB	EE
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*NOTE: DB – Doing Business 2019; EFF - Economic Freedom of the World 2018, Annual Report of Fraser Institute; EFH - 2018 Index of Economic Freedom, Annual Report of Heritage Foundation; OECD - OECD SME Policy Index 2016 EaP; TI - Corruption Perceptions Index 2018; GK - The Global Competitiveness Report 2018; GEI - The Global Entrepreneurship Index 2018; NBD - New business density.*

As can be seen from Table 10, Georgia, according to the results of 7 reports out of the 8, has the best results compared to other EaP countries. The results of Georgia in four reports (Doing Business 2019, Economic Freedom of the World 2018, 2018 Index of Economic Freedom, New business density) are even better than the average European ones. Only in one index - *The Global Entrepreneurship Index*, the situation in Azerbaijan is better than in other EaP countries.

According to Table 10, in the following cases, the indicators for countries turned out to be beyond the minimum and maximum values for EU countries:

- 1) In the Index of Economic Freedom of the Fraser Institute, the points awarded by the foundation to Azerbaijan, Belarus and Ukraine were lower than the worst value in the EU (Greece);
- 2) In the Index of Economic Freedom of the Heritage Foundation, the points awarded by the Foundation to Ukraine were lower than the worst value in the EU (Greece);
- 3) According to the OECD index, it is not possible to conduct a comparison of the business climate in EaP and EU countries, since this study is carried out only in EaP countries. Nevertheless, taking into account the fact that the assessment in EaP countries is carried out on a five-point system, one can note the considerable remoteness of the economic policy in EaP countries from the principles of the Small Business Act for Europe. For the time being, Georgia demonstrates the best proximity to the principles;
- 4) In the Corruption Perceptions Index, only Georgia has an indicator between the lower and upper values for EU countries. The other five countries have indicators below the worst EU values (Malta);
- 5) In the Global Competitiveness Index, only Georgia has an indicator between the lower and upper values for EU countries. The other five countries have indicators lower than the worst EU values (Croatia);
- 6) In the Global Entrepreneurship Index, only Azerbaijan has an indicator between the lower and upper values for EU countries. The other five countries have indicators lower than the worst EU values (Bulgaria);
- 7) In New Business Density, the indicator for all EaP countries is between the lower and upper values for EU countries.

Let's transform Table 10 into Table 11 in order to bring all the results in line with a single scale.

In Table 11, all indicators are brought in line with a 100-point grading system. For example, the results of studies on the Index of Economic Freedom of the Fraser Institute are multiplied by 10.

The OECD index results are converted by the formula:

$$R_{OECD-N} = R_{OECD} / R_i \times 100$$

Here:  $R_{OECD-N}$  is the converted value of the OECD estimate;

$R_i$  is the ideal OECD assessment value, which is 5.

The results on the NBD index are converted by the formula:

$$R_{NBD-N} = R_{NBD} / R_{NBD-MAX} \times 100$$

Here:  $R_{NBD-N}$  is the converted value of the NBD assessment;

$R_{NBD-MAX}$  is the best NBD index value for EU countries.

Such a recalculation of NBD values is controversial, but, on the other hand, it allows using this index in summarizing the sums presented in columns 10 and 11.

Table 11 presents the minimum and maximum values for EU countries on the OECD index. These assumptions are certainly controversial, but they will allow checking the data for the EAP countries in columns 10 and 11 on presence between the minimum and maximum values for the EU countries.

Thus, keeping in mind some of the assumptions made, we can estimate the degree of convergence of the business climate in EaP countries with the business climate in EU countries, taking into account all eight studies described above. Moreover, this can be done annually in order to analyze the dynamics of changes in the business climate of EaP countries.

Another approach, let's call it "*The method of composite use of individual indicators of the most popular indices*", can be based on the use of individual indicators for the eight studies presented above. The selection of these indicators, for example, can be made on the assumption that the following indicators are important for a favourable business climate:

Table 11

	DB	EFF	EFH	OECD	TI	GK	GEI	NBD	Sum by indexes: DB, EFF, EFH, OECD, TI, GK, GE, NBD	Sum by indexes: DB, EFF, EFH, OECD, TI, NBD
1	2	3	4	5	6	7	8	9	10	11
Azerbaijan	78.64	63,8	64,3	55,0	25	60,0	30	4.96	381,70	291,70
Armenia	75.37	76,0	68,7	64,6	35	59,9	24	8.38	411,95	328,05
Belarus	75.77	62,3	58,1	56,4	44	-	-	5.25		301,82
Georgia	83.28	80,1	76,2	68,2	58	60,9	26	40.32	493,00	406,10
Moldova	73.54	65,6	58,4	60,6	33	55,5	21	8.43	376,07	299,57
Ukraine	68.25	53,8	51,9	50,0	32	57,0	27	7.42	347,37	263,37
Average for EaP	75.81	66,9	62,9		37,83	58,7	26	12.48		
Average for EU	75.91	75,4	70,2		64,68	72,0	54	7,00		
Worst for EU	65.43 MT	64,9	57.3 GR	50	65.43 MT	60.1 HR	28 BG	2.87	404,96	316,88
Top for EU	84.64 DK	80,7	80.4 IE	100,0	84.64 DK	82.8 DE	78 GB	100	691,18	530,38

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.

Within the framework of the project "Convergence of the business climate in EaP countries with the business climate in the EU", a survey was conducted among 20 experienced businessmen in three EaP countries (Georgia, Azerbaijan, Ukraine). The results of the survey are presented in Table 12.

Table 12

	Azerbaijan	Ukraine	Georgia
1. The independence and effectiveness of the judiciary	1	2	1
2. Favorable macroeconomic conditions	4	7	2
3. Registration of a new business	10	9	8
4. Obtaining licenses and permits	7-8	1	5
5. Registration of ownership	7-8	3	4
6. Access to financial resources	2	6	3
7. Access to public utilities	13	4	11
8. Access to markets for goods and services	9	8	7
9. Access to labor resources	11	5	6
10. Access to the virtual space	14	10	9

11. Taxes	6	11	10
12. Foreign trade	12	13	12-13
13. Low risks of corruption	3	14	14
14. Government programs to support and promote business	5	12	12-13

This table shows how different are the opinions of businessmen of the three EaP countries regarding the importance of certain business conditions. Therefore, we can consider the use of this approach unpromising.

## CONCLUSION AND RECOMMENDATIONS

Thus, to assess the degree of convergence of the business climate in the EaP countries with the business climate in the EU, both methods described above can be used: 1) *The Preferred Index Method* 2) *The method of composite use of the most popular indexes*. It seems appropriate to assess the degree of convergence of the business climate in the EaP countries with the business climate in the EU with annual frequency:

- 1) the governments of the EaP countries in order to identify ways to improve the business climate in their countries and rapprochement with the EU;
- 2) Civil society organizations, including Think Tanks, business associations.

It is advisable to include a business climate convergence assessment in the EaP countries with a business climate in the EU in the Eastern Partnership Index - An index reflecting the progress made by six Eastern Partnership countries towards sustainable democratic development and European integration.

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