

The business environment in the transition region

The Business Environment and Enterprise Performance Survey (BEEPS), implemented by the EBRD in partnership with the World Bank Group, is a face-to-face survey with enterprise managers that examines the quality of the business environment.

Surveying the transition region

The fifth round of BEEPS was launched in Russia in August 2011, followed by other countries in late 2012 and early 2013. Fieldwork was completed in July 2014.

In total, top managers of more than 15,800 randomly selected firms were surveyed across 29 countries in which the EBRD works as well as the Czech Republic. Surveyed firms include small, medium and large enterprises in manufacturing, wholesale and retail trade, transport, construction and other service sectors.

The BEEPS covers topics such as infrastructure, competition, sale and supply, labour, innovation, land and permits, crime, finance and business-government relations. Firms were asked to express their opinions about the degree to which various components of the business environment represent obstacles to their current business operations, using a five-point scale: “no obstacle”, “minor”, “moderate”, “major” or “very severe obstacle”.

One difficulty in assessing the business environment lies in the fact that respondents’ answers may reflect differences in the “propensity to complain”, that is, the sensitivity with which enterprises experience or report constraints on their business, rather than actual differences in these constraints. For example, growing firms may view workforce skills as more of an obstacle than shrinking enterprises, even if they are both in the same sector and location. In order to address this difficulty, the analysis uses the perceived severity of constraints as a measure of the quality of various components of the business environment and controls for the characteristics of the individual firm (including size, age, industry and export activity) as well as the characteristics of the manager who responded to the survey (gender, tenure and position within the firm). Because this type of analysis is based on the relative constraints as perceived by each firm, it can only indicate policy priorities and cannot be used to rank the countries by the quality of their business environment or to compare the severity of business environment obstacles across countries.

The BEEPS V results show that most firms in the transition region identified competitors’ practices in the informal sector, (limited) access to finance and electricity issues as the main constraints. The reasons underlying this ranking vary across regions and countries. For example, in some countries enterprises complained about electricity because of the increase in industrial

energy prices, while others struggled with unpredictable electricity supply and experienced frequent power outages. For large firms (100+ employees), electricity ranked first place, followed by competitors’ practices in the informal sector and access to finance. For firms less than 5 years old, on the other hand, access to finance was at the top, followed by competitors’ practices in the informal sector and corruption. Access to finance was also the most binding constraint for manufacturing firms, while firms in the service sector put electricity at the top.

Cross-country variation

The business environment of course varies significantly across countries. The table below shows the three most binding constraints as perceived by representative firms in each of the 29 countries surveyed. In some countries, firms complain about elements of the business environment that do not, on average, rank highly as constraints in the transition region as a whole. For example, access to land was the third most binding constraint in Azerbaijan, but it does not feature among the top three in other countries.

There are some common business environment features across the regions, most noticeably so in south-eastern Europe, where competitors’ practices in the informal sector were named as one of the three most binding constraints in six out of eight countries. In Central Asia, on the other hand, electricity issues were identified as one of the top three most binding constraints in all countries. It is also interesting to note that firms in labour-exporting countries such as Belarus, Latvia and Lithuania considered workforce skills to be the most binding obstacle.

The results also suggest that neighbouring countries often have very different profiles in terms of their business environment. For example, in the Kyrgyz Republic, firms perceived political instability, corruption and electricity issues to be the most important obstacles to their operations. By contrast, firms in neighbouring Tajikistan were most constrained by electricity issues, access to finance and competitors’ practices in the informal sector.

The elements of the business environment that do not appear to be among the top three binding constraints in any of the transition countries are transport, crime, theft and disorder, labour regulations, telecommunications, customs and trade regulations, business licensing, and permits and courts. Customs and trade regulations were not seen as one of the top three constraints, which can be explained by the improved trade integration, with the European Union or the Eurasian Customs Union, as well as free trade agreements. The fact that courts were not regarded as a constraint is somewhat surprising, but is most likely the result of only a small percentage of firms in any given country going to court to settle disputes.

Business environment constraints		Informal sector	Access to finance	Electricity	Corruption	Political instability	Tax administration	Workforce skills	Transport	Crime	Labour regulations	Telecoms	Access to land	Customs & trade	Business licensing	Courts
Transition region																
Central Europe and the Baltic states	Croatia															
	Estonia															
	Hungary															
	Latvia															
	Lithuania															
	Poland															
	Slovak Republic															
	Slovenia															
South-eastern Europe	Albania															
	Bosnia and Herzegovina															
	Bulgaria															
	FYR Macedonia															
	Kosovo															
	Montenegro															
	Romania															
	Serbia															
Turkey																
Eastern Europe and the Caucasus	Armenia															
	Azerbaijan															
	Belarus															
	Georgia															
	Moldova															
	Ukraine															
Russia																
Central Asia	Kazakhstan															
	Kyrgyz Republic															
	Mongolia															
	Tajikistan															
	Uzbekistan															

Highest score
 Second-highest score
 Third-highest score