



Are the EaP Countries Attractive to Investors? A Brief Analysis of the Financial, Institutional, Political and Fiscal Elements

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Abstract: This article aims to analyze if the Eastern Partnership (EaP) countries (Armenia, Azerbaijan, Belarus, Georgia, Moldova and Ukraine) are attractive to investors in the period 2015-2019. These countries are interested in FDI and how to succeed in attracting as many investors as possible due to the increased chances of joining the European Union. To measure the attractiveness of the EaP countries it is used a quantitative approach through which the evolution of several aspects is observed. There were selected for analysis variables from a financial, fiscal, institutional and administrative point of view. The results reveal that the EaP countries have improved their investment climate and business environment mainly due to significant governance performance, fiscal and financial incentives and institutional progress. The most visible performances were recorded by Georgia and Armenia. The results demonstrate that only some of the EaP countries are able to attract investors and are prepared for EU membership from a fiscal, financial, institutional and administrative perspective. These facts are of interest to policy makers from the EaP countries and to European ones.

Keywords: foreign direct investment; economic growth; doing business; country risk; institutional freedom

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1. Introduction

The influence of foreign direct investment (FDI) on economic growth can be positive and direct, as well as indirect through the action on other components related to the economic growth (Ruane & Ugur, 2005, pp. 54-55; OECD, 2008 p. 20). Developing countries, especially those in the Eastern Partnership (EaP), are interested in FDI due to the positive economic effects and to the increased chances of joining the EU. This article proposes an analysis of the EaP countries from the perspective of attractiveness for foreign investors in the period 2015-2019. For this purpose, the financial, fiscal, administrative and institutional performances are analyzed.

This paper is structured as follows. The next section presents the literature review regarding the effects of FDI. The third section analyzes the investment opportunities of EaP countries based on their performance in terms of fiscal and financial incentives, administrative efficiency, business environment and institutional progress. At the end, the conclusions of the study are presented.

2. Literature Review

Studies and articles related to the effects of FDI on countries involved are multiple. Some of them present the positive relations between FDI and economic growth (Schneider & Frey, 1985; Wang & Swain, 1995; Lipsey, 2001; Duarte et al., 2017; Akisik et al., 2020). Hansen and Rand (2006, pp. 37-38), also Zhang (2006, pp. 12-13) suggest that FDI boosts economic growth when the beneficiary country has natural resources and adopts favorable policies to stimulate investment flows. The positive effects of FDI on economic growth occur regardless of the level of development of the beneficiary countries (Li & Liu, 2005, p.404).

Blomstrom, Lipsey and Zejan (1992) suggest that FDI have positive effects in boosting economic growth if the country has already a high level of development, which will ensure the possibility to absorb the new technologies brought by the investing companies. At the same time, an economy attracts FDI due to the existence of a developed market, of its growth capacity and the possibility of economies of scale (Moore, 1993; Li & Liu, 2005).

From a financial perspective, foreign investors are interested in the existence of low interest rates on loans and to benefit of high rates on deposits (Bajo-Rubio & Sosvilla-Rivero, 1994; Schneider & Frey, 1985). Therefore, the financial aspects are essential for the influence of FDI on economic growth to be positive and sustainable.

Regarding the Eastern European countries, foreign investors are interested in political stability, quality of the business environment, labor force, incentives and regulations (Michalet, 1997), while countries with a high volume of investment inflows demonstrate that have an economy in an advanced process of transformation

and liberalization of property rights, ready for joining the EU (Hunya, 1998).

3. The EaP Countries' Performances and Investment Development Opportunities

The course of investment attractiveness for Eastern Partnership countries in the period 2015-2019 presents a series of trends. Between the Eastern Partnership countries, there are differences in terms of investment attractiveness, as well as different levels of economic development. Azerbaijan and Ukraine are the only economies that attracted more than \$2.5 trillion in FDI by 2017. The main destination of FDI was Azerbaijan for 2015 and 2016, with over \$4 trillion, but its attractiveness decreased after 2016, FDI falling below \$1.51 trillion in 2018 and in 2019. At the same time, Ukraine has experienced an upward trend in FDI, exceeding \$4.5 trillion in 2018 and \$5.8 trillion in 2019 and being the country that attracts the most FDI of EaP countries. On the other hand, Moldova has the lowest value of attracted FDI. Moldova and Ukraine are the only EaP economies that have recorded an increase in FDI between 2015 and 2019. For Moldova, this period has reached the all-time high of FDI attracted by about \$593 billion, while for Ukraine the value of FDI was almost \$5.83 trillion. Regarding Belarus, Georgia and Moldova, since 2015 these economies have suffered losses of investment attractiveness. In contrast, in 2017, only the three experienced an improvement in investment attractiveness, while the other Eastern Partnership economies lose the value of FDI attracted. Overall, Belarus and Georgia have attracted more than \$1.2 trillion in FDI between 2015 and 2019, while Armenia has experienced some fluctuations in 2015 and 2016, then the value of FDI stabilized at around \$250 billion between 2017 and 2019 (The World Bank, 2020c).

The biggest challenge to the Eastern Partnership comes from the differences between countries in terms of investment attractiveness. The levels of economic development are different, giving the feeling that they are in a competition, rather than in mutual cooperation. Between 2017 and 2019, Ukraine ranked higher in terms of investment attractiveness, with FDI over \$3.9 trillion, while Azerbaijan, Belarus and Georgia formed a second group. Behind them are Armenia and Moldova, but the attracted FDI did not exceed \$600 billion. In order to understand these differences related to FDI flows and to investment attractiveness, it is necessary to observe the changes and the progress made by EaP countries in terms of business environment, governance, ease of doing business, taxation and financial incentives.

Attracting foreign investors is motivated by the existence of a favorable investment climate and an efficient business environment. Countries seek to improve these considerations in order to increase investment attractiveness through various fiscal, administrative and financial measures. Eastern European countries have had to reform their economies not only to increase investment attractiveness, but also to

align their economies with European and international standards.

3.1. Fiscal Performance

The fiscal aspects can be improved by states through various instruments and mechanisms, especially through the incentives. From a fiscal point of view, these incentives take various forms, from tax reductions and exemptions to allowances. However, the provision of these facilities must be correlated with the state's economic possibilities and with the needs of investing companies.

For Eastern Partnership countries, corporate income tax has fallen in two of the six countries. Georgia has reduced its corporate income tax by almost half in 2018, with the lowest level among Eastern Partnership countries in 2018 and 2019. In addition, Georgia and Moldova are the only countries where a reduction in corporate tax can be observed and where the rates are below 10% of commercial profits. On the other hand, in Ukraine, the profit tax has increased to over 10% since 2017, while Armenia has increased the tax rate to 21.8% in 2019, having the highest profit tax among EaP countries. Regarding Azerbaijan and Belarus, in the period 2015-2019, the corporate tax rates remained almost 13%, respectively 11% (The World Bank, 2020c).

In addition to corporate income tax, other essential components of the total tax rate are labor tax with social contributions and taxes on income, profits and capital gains paid by companies. Georgia and Armenia are the most advantageous economies for investors from this perspective. They abruptly reduced these contributions to 0% in 2009 and in 2014 and did not add any further increases in the following years. Unlike Georgia and Armenia, the percentages of these contributions remained high for the other countries. Belarus has made no progress in this regard, the labor tax and contributions being the highest among EaP countries (39%). Moldova and Ukraine have tried to reduce the labor tax and contributions, but only Moldova has managed in 2019 to reduce these contributions below 30% of commercial profits. Ukraine has reduced taxes of over 40% and set a labor tax of 33.8% in 2019. In the same year, Azerbaijan has increased the labor tax and contributions to 25.4% from 24.8% in the period 2015-2018 (The World Bank, 2020c).

Even if Belarus has the highest labor tax, it also has the lowest taxes on income, profits and capital gains among EaP countries, of only 3.1% of revenue in 2019, being higher than in previous years. Growth trends were also recorded in Armenia, Ukraine and Moldova, while Georgia's performance until 2017 was offset by taxes increases in 2018 and in 2019. For 2019, Armenia remains the country with the highest rate, above 40% of revenue, followed by Georgia with almost 38%. The only EaP country that has reduced the taxes on income, profits and capital gain is Azerbaijan, whose rate fell from 17.3% in 2015 to 11.07% in 2019 (The World Bank, 2020c).

Not all Eastern Partnership countries have improved their business environment and investment climate in terms of number of taxes paid by companies and the total tax and contribution rate. The number of taxes paid by companies increased between 2015 and 2019 in Armenia and Azerbaijan, for Belarus, Georgia and Ukraine remained unchanged, and in Moldova their number has halved since 2016. However, the most favorable business environments from this perspective remain Georgia and Ukraine, which charge companies only 5 types of taxes, while in Moldova the number is double, and in Armenia three times more taxes are required. Things are different in terms of the total tax and contribution rate of profits, which expresses the overall value of taxes and mandatory contributions paid by companies. Significant reductions in total tax rates were made in Georgia, while reductions in Ukraine, Armenia and Moldova were accompanied by subsequent increases. In fact, Georgia is the only one with a total tax rate below 10% of profit, while in Moldova the average for 2015-2019 was 40% and in Ukraine about 46%. However, the total tax rate exceeds 50% of profit in Belarus, being in an upward trend during the analyzed period. Azerbaijan also has experienced an increase in the total tax rate, exceeding 40% of profit in 2018 and 2019 (The World Bank, 2020c).

Therefore, from fiscal perspective, the Eastern Partnership countries have improved their investment climate and business environment at a faster or slower pace, as shown in Table 1.

Table 1. Fiscal Performance of EaP Countries (2015-2019)

Fiscal aspect	AR	AZER	BEL	GEO	MOLD	UKR
Profit tax	↓ ¹	↓↑	↓↑	↑	↓↑	↓
Labor tax and contribution	↓↑	↓	↓↑	↓↑	↑	↑
Taxes on income, profits and capital gains	↓	↑	↓	↓↑	↓	↓
Tax payments	↓	↓	↓↑	↓↑	↑	↓↑
Total tax and contribution rate	↓	↓	↓	↑	↓↑	↓↑

Source: Authors representation

¹ Legend: ↑ suggests an evolution (i.e. tax reduction), ↓ expresses a regress (i.e. tax increase), ↓↑ indicates fluctuations and that the values were relatively similar in the analyzed period.

The most significant fiscal progress has been made by Georgia and Moldova, noting that Georgia has no increased taxes, but only has experienced various fluctuations. As a result, Georgia has reduced its profit tax, but its total tax rate has also improved, while Moldova has reduced its labor tax and the number of taxes paid by companies. Ukraine and Azerbaijan have also made some progress, Ukraine in terms of labor tax, and Azerbaijan in terms of taxes on income, profits and capital gains. Only in the case of Belarus and Armenia the progress has been extremely slow or not at all. With the exception of Georgia, all other EaP countries had taxes that increased,

especially in Armenia and Azerbaijan.

3.2. Financial Performance

While the importance of fiscal policy is given by the level of taxes and fees, the monetary one is essential for FDI in terms of interest rates, inflation and foreign exchange. In general, the link between the inflation rate and foreign direct investment is negative.

In terms of bank rates, the EaP countries have not been as willing to offer advantageous interest rates as fiscal incentives. In Armenia and Moldova, the deposit interest rates have fallen each year from 2015-2019, reaching below 9% for Armenia and below 5% for Moldova. At the same time, Georgia has experienced a declining trend in deposit interest rates since 2016, offering rates relatively similar to Armenia. Belarus has also halved its rates in 2017 compared to the previous year and dropped to 6.5% in 2019. In contrast, Ukraine has reduced its deposit interest rate below 10% in 2017, but then increased it for two consecutive years, being in 2019 close to the value of 2015. In addition, Ukraine has the highest deposit interest rates among EaP countries, followed by Azerbaijan. As in Ukraine, the rates in Azerbaijan showed an improvement trend, being higher in 2018 and 2019 than in the rest of the analyzed period (The World Bank, 2020c).

Poor performance was also recorded in terms of interest rates. In Armenia, the trend was to reduce real interest rate, reaching below 10% by 2018, but then increasing to 10.5%. A similar trend was in Azerbaijan until 2017, when it reached a real interest rate of 0.27%, and then it increased, becoming the highest among EaP countries in 2019, at 17.55%. For Belarus, the fluctuations were large enough, but Belarus had the lowest real interest rate, the average for the period 2015-2019 being 1.5%. At the same time, Ukraine has offered both positive and negative rates, but the trend was to increase, so that the real interest rate in 2019 had reached 10.8%. Fluctuations were also recorded for Georgia and Moldova, but the trends are downward, so that in 2019, real interest rates in the two economies are lower than in 2015 (The World Bank, 2020c).

In the period 2015-2019, the percentage of GDP of domestic credit provided by financial sector has increased in half of the EaP countries. Georgia and Armenia have experienced the most significant upward trends. If in 2015, the domestic credit provided by financial sector reached 53.8% of GDP in Georgia, it became the largest among EaP countries in 2019, at almost 70%. Armenia is following Georgia, with a percentage of about 65.2% of GDP in 2019, after an increase of almost 17% in 2015-2019. Unlike the two, Ukraine and Azerbaijan have suffered declines. In 2015, Ukraine had the highest percentage of GDP among EaP countries for domestic credit provided by financial sector, over 85%, followed by Azerbaijan with about 65.2%

of GDP. But by 2019, the percentage had dropped to 49% for Ukraine and 14.66% for Azerbaijan. Belarus has also suffered reductions, but lower in intensity, and domestic credit provided by financial sector remained over 40% of GDP in 2015-2019. Instead, Moldova, although has suffered reductions until 2017, its trend has been reversed. Thus, in 2019, the domestic credit offered by Moldova reached about 27% of GDP, a percentage similar to that of 2016 (The World Bank, 2020c).

From a financial perspective, the performance of EaP countries has been lower than fiscal. Overall, most of these countries have made progress in the investment climate from a financial point of view, the most visible being Georgia and Armenia, as it can be observed in Table 2. Half of the EaP countries performed on real interest rate and Azerbaijan on deposit interest rates. In addition, Armenia and Georgia have increased their domestic credit provided by financial sector. At the opposite pole are Belarus and Ukraine, which have rather experienced a regression from a financial perspective.

Table 2. Financial performance of EaP countries (2015-2019)

Financial aspect	AR	AZER	BEL	GEO	MOLD	UKR
Real interest rate	↑ ¹	↓↑	↓↑	↑	↑	↓
Deposit interest rate	↓	↑	↓	↓↑	↓	↓↑
Domestic credit provided by financial sector	↑	↓	↓	↑	↓↑	↓

Source: Authors Representation

¹ Legend: ↑ suggests an evolution, ↓ expresses a regress, ↓↑ indicates fluctuations and that the values were relatively similar in the analyzed period.

3.3. Administrative Performance

From an administrative point of view, the business environment and the investment climate of Eastern European countries it is analyzed through the Doing Business Indicators, which reflect the complete and accurate picture of EaP's business environment. These indicators cover 10 areas of business regulation (The World Bank, 2020a, pp. 17-19), perceived as indicators of ease of doing business; being calculated by the World Bank with scores ranging from 0 to 100, where the value 100 represents the highest performances.

For the first category, that of dealing with construction permits, all countries have registered performances in the period 2015 and 2019. In this way, five of the EaP countries had high scores of over 70 points in 2019. The only exception is Moldova, whose scores in this category reached almost 56 points in 2019. Among the countries EaP, Ukraine and Georgia are best positioned on dealing with construction permits, with scores of about 81 points in 2019. Regarding registering property, the

performances were modest, but the scores are higher. Georgia was the leader in this regard in 2015-2019, being the only EaP country with over 90 points. Behind it are Armenia and Belarus, with similar scores, of over 85 points in the analyzed period. These three countries have made very little progress over the years, of a maximum of 2 points each. Ukraine joins this group, also making progress in registering property, but it remained the EaP country with the lowest score, of almost 71 points. Unlike these four EaP countries, Moldova has maintained almost the same score in 2015-2019, while the business environment in Azerbaijan has been deteriorated. Its score dropped dramatically in 2016, from about 83 points below 70 points. In the following years, an attempt was made to make a comeback, but progress was limited, so that in 2019, Azerbaijan had a score of almost 75 points (The World Bank, 2020b).

The next two categories are enforcing contracts and resolving insolvency, where the EaP countries have less than 75 points. Georgia was the EaP country with the highest scores in enforcing contracts in 2015-2019, reaching 75 points in 2018 and 2019, after some improvements of business environment. Most EaP countries have performed at enforcing contracts, the only exception being Belarus, which in the period 2015-2019 did not improve its business environment in this regard. But, all these countries managed to reach scores of over 60 points and Azerbaijan reached 70 points in 2019. Compared to the scores from enforcing contracts, those from resolving insolvency do not exceed 65 points. The best positioned is Azerbaijan, after several improvements of the business environment, reaching the score of almost 64 points. Behind it there are Belarus, Georgia and Moldova, with relatively similar scores, but only Georgia and Belarus have made progress in this category in 2015-2019. For Armenia, Moldova and Ukraine, progress has been limited, with their scores remaining almost the same during the reference period (The World Bank, 2020b).

In terms of getting credit and of getting electricity, the performances were more modest. Armenia, Azerbaijan and Belarus have improved the getting credit in 2015-2019, while Georgia, Moldova and Ukraine have made no progress. Until 2018, Georgia was the EaP country with the highest scores for getting credit, with 85 points. However, the progress made by Azerbaijan has led to a doubling of its score in 2018 and reaching the score of 100 points in 2019. Ukraine is positioned after Azerbaijan and Georgia, while Armenia and Moldova have the same score. Although Belarus has performed between 2015 and 2019, the getting credit score remaining at 50 points in 2017-2019. On the other hand, in terms of getting electricity, the most visible performances were recorded by Ukraine and Azerbaijan. Other EaP countries have also improved their getting electricity, but the pace has been slower for Belarus, Georgia and Moldova, and Armenia has regressed in 2019. However, Belarus is best positioned at getting electricity, with more than 90 points in the period 2016-2019, closely followed by Armenia and by Georgia. At the same time, Azerbaijan and Moldova have approximately equal scores, while Ukraine's scores did not exceeded

65 points in 2015-2019 (The World Bank, 2020b).

The performance of the EaP countries was different in terms of paying taxes. Armenia and Georgia have improved in this category between 2015 and 2019, while for Moldova and Azerbaijan, progress has been slow. In fact, Azerbaijan has suffered a small decrease in 2019, and for Ukraine the values fluctuated until 2017, then the business environment in terms of paying tax deteriorated. Belarus was in a different situation. Here the business environment encountered many problems, the score for paying taxes being in a downward trend until 2018. Just in 2019, Belarus has improved its score, but remained the EaP country with the lowest score for paying taxes. Ukraine, Belarus and Armenia had scores below 80 points in the period 2015-2019, noting that Armenia exceeded this threshold in 2019. It joined the group of Azerbaijan, Georgia and Moldova, with values of over 80 points, of which Georgia is positioned the best and approached the score of 90 points in 2019. So Georgia has the best environment business in terms of paying taxes, followed by Moldova and Azerbaijan (The World Bank, 2020b).

Regarding the protecting minority investors, notable performances were made by Georgia and Ukraine, while Armenia and Azerbaijan have improved their business environment in this regard only in 2018 and 2019. Unlike them, Moldova has not made any progress, while the improvements made by Belarus in 2016 were short-lived, so that in 2019 its score decreased. Despite these trends, Georgia remains by far the most advanced economy in terms of protecting minority investors, with a score of 84 points between 2017 and 2019, while Moldova and Ukraine have the same score of 68 points and the other EaP economies have less than 60 points. But, in terms of starting a business, all EaP countries had over 90 points in the period 2015-2019. Almost all EaP countries have improved their business environment in terms of starting a business, to a greater or lesser degree; the only one that has encountered difficulties has been Ukraine. Its score fell slightly, being the only one below 95 points, while Azerbaijan's score almost remained unchanged. Georgia is also the leader in this category, with scores very close to the maximum ceiling of 100 points in 2019; followed by Armenia and Azerbaijan with relatively close scores (The World Bank, 2020b).

The last category is related to trading across borders, where four EaP countries have scores higher than 90 points starting with 2017. The leader in this category is Belarus, which improved very little its score, only in 2018, followed by Moldova, which made no progress in 2015-2019. Armenia and Georgia have relatively close scores. Georgia's main performance in trading across borders was in 2016. Instead, Armenia has experienced a trend of increasing its score, exceeding 90 points in 2017, a sign that the business environment has improved every year. Ukraine and Azerbaijan also had notable performances. In the first case, the really important developments were felt in 2018 and 2019. On the other hand, Azerbaijan has

experienced two values of business environment improvements from the perspective of trading across borders, the first in 2016, the second in 2018, but Azerbaijan's score remained the lowest among EaP countries (The World Bank, 2020b).

Table 3 summarizes the performance of EaP countries, which have improved their business environment from an administrative perspective, making it more efficient to start and to do business. The most significant performances at ease of doing business were achieved by Georgia and Armenia. However, it should be noted that Georgia is leader in half of doing business aspects, especially enforcing contracts, paying taxes, protecting minority investors, registering property and starting a business. Georgia still needs some improvements in terms of getting credit, while Armenia's concerns should be directed toward resolving insolvency. Even though the other EaP countries have largely improved their business environment, they still need a number of ingredients to stimulate domestic and foreign investors. Belarus needs improvements in enforcing contracts, paying taxes, protecting minority investors and trading across borders, while Moldova should improve its business environment in half of its doing business aspects. Azerbaijan should also make some improvements to paying taxes and starting a business, but the most urgent aspect is registering property. Ukraine has four business issues to work on, and the most important thing to improve is starting a business.

Table 3. Administrative Performance of EaP Countries (2015-2019)

Administrative aspect	AR	AZER	BEL	GEO	MOLD	UKR
Dealing with construction permits	↑	↑	↑	↑	↑	↑
Registering property	↑	↓	↑	↑	↓↑	↑
Enforcing contracts	↑	↑	↓↑	↑	↑	↑
Resolving insolvency	↓↑	↑	↑	↑	↓↑	↓↑
Getting credit	↑	↑	↑	↓↑	↓↑	↓↑
Getting electricity	↑	↑	↑	↑	↑	↑
Paying taxes	↑	↓↑	↓↑	↑	↑	↓↑
Protecting minority investors	↑	↑	↓↑	↑	↓↑	↑
Starting a business	↑	↓↑	↑	↑	↑	↓
Trading across borders	↑	↑	↓↑	↑	↓↑	↑

Source: Authors Representation

3.4. Institutional Performance

There are many considerations behind the process of attracting FDI, including the level of profitability, market conditions, the behavior of competitors and the desire to access foreign markets by companies. Taking into account only these aspects or considering that the level of profitability is the only essential elements for making FDI means cancelling the special importance that companies give to costs and risks, especially country risk (Moosa, 2002, p. 276, Iftode & Pirju, 2014, p. 310)

Perceptions of country risk in the case of the Eastern Partnership economies are

largely negative. The level of country risk was perceived as high in the EaP countries, especially in Moldova and Ukraine. These economies were classified in the group of countries with a high degree of country risk (class 7). For Belarus, the country risk perceptions for 2015-2017 were similar, but the situation improved in 2018 and 2019, so that Belarus was classified as a country risk class 6, along with Armenia and Georgia. In contrast, for Azerbaijan, country risk perceptions are better, positioning Azerbaijan in class 5. In this way, in the period 2015-2019, Azerbaijan has the lowest degree of risk among the EaP countries (OECD, 2020, pp. 61-84).

However, FDI has not only been influenced by the level of country risk and political instability, but also by a multitude of political and institutional factors. As important for investment flows as country risk or political and economic stability are the degree of corruption, the government effectiveness and the regulatory quality,

In terms of institutions, the performance of EaP countries focuses on the political stability and the absence of violence, quality of government regulation, corruption control, and government effectiveness, rule of law and voice and accountability. These aspects are perceived as indicators of global governance, being calculated by the World Bank on the basis of surveys applied to companies and citizens by public and private institutions in developed countries. The scores of these indicators vary between 0 and 100, where the value 100 represents the highest performances (Kaufmann et al., 2010, pp. 4-6).

In general, EaP countries are considered areas of political instability, especially due to the conflicts between Armenia and Azerbaijan, the conflict in Georgia (2008) and Ukraine (2014), but also due to the influences coming from Russia. Under these conditions, none of the EaP countries has performed in terms of political stability. In the period 2015-2019, Belarus was considered the most politically stable country among EaP countries, with scores above 50 points, while Ukraine is the most unstable, with scores below 10 points. In general, the scores fluctuated, and for Georgia and Moldova there is a downward trend started in 2016.

From an institutional perspective, the level of political instability can also be given by the degree of corruption that characterizes the political environment. This component is of interest for the democratic progress of countries and for liberalization of the economy. Georgia remains by far the economy with the highest level of control of corruption among Eastern Partnership countries, being the only one with a score of over 70 points. Georgia's level of corruption control was almost twice as high as in Armenia and about three times as high as in Azerbaijan, Moldova and Ukraine between 2015 and 2018. Unlike Georgia, Belarus has exceeded the 50-point threshold only in 2019, and Armenia reached this point in 2019. It is noteworthy that Belarus, Armenia, Ukraine and Moldova have improved their level of corruption control during 2015-2019. However, for Ukraine, Moldova and Azerbaijan, the score provided by the World Bank is below 30 points for the

reference period (The World Bank, 2020d).

Beyond the progress made on the degree of control of corruption, from an institutional point of view, the EaP countries have also focused on government effectiveness, which has seen many improvements, to a greater degree for Georgia, Belarus, Ukraine and Moldova and to a lesser extent for Armenia and Azerbaijan. Georgia remains the country with the highest level of government effectiveness, with scores of over 70 points since 2016. Except for Georgia and Azerbaijan, the other EaP countries had scores below 50 points in 2015-2019, but the trend was upward. Georgia and Moldova have improved their government effectiveness by 9.6 points each in the reference period, Belarus by 6 points and Ukraine by 5.3 points. Armenia and Azerbaijan have experienced similar trends, in the sense that government efficiency improved until 2018, then suffered a slight reduction in the following year (The World Bank, 2020d).

In order to attract as high a volume of FDI as possible, it is important to guarantee a high quality of government regulations. Among the EaP countries, Georgia has the higher regulatory quality. Its scores increased every year from 2015-2018 and since 2016 Georgia has exceeded 80 points. Upward trends were also recorded by Belarus and Ukraine, but Georgia was almost twice as good in terms of government regulations as Ukraine and about three times compared to Belarus in 2015-2019. Despite the performances of Ukraine and Belarus, they remain with the lowest scores. Moldova and Armenia have fluctuated in terms of regulatory quality. In 2019, Moldova has managed to exceed the threshold of 55 points, while for Armenia the scores have fluctuated between 60 and 65 points. Instead, Azerbaijan has suffered a reduction in the regulatory quality until 2018, but in 2019 its score increased, being similar to that of 2016 (The World Bank, 2020d).

In the process of democratizing a state, in order to attract as high a volume of FDI as possible, it is also important to guarantee freedom of opinion, expression and the media, as well as increasing the level of civil responsibility and of community access to the decisions of the state. In general, the voice and accountability in EaP countries are very poor, only Georgia has more than 50 points at this aspect, but the trend is downward. Belarus and Moldova also have similar trends, with scores approaching 10 points and 40 points. In contrast, in Armenia and Ukraine, voice and responsibility are on the rise, reaching similar relative scores in 2019 of almost 48 points. At the same time, although Azerbaijan is on an upward trend, voice and responsibility remain extremely low, with scores below 10 points (The World Bank, 2020d).

Last but not least, in terms of institutions, EaP countries need an effective rule of law in order to attract FDI. In EaP countries, the effectiveness of the rule of law is not high enough. Of all EaP countries, Georgia had the highest score of rule of law in 2015-2019, over 60 points, while the other countries had less than 50 points.

Basically, Georgia has a rule of law twice as effective as Azerbaijan and Ukraine and almost three times as much as Belarus. Despite Georgia's superiority, the effectiveness of the rule of law has declined slightly. Similar decreases were recorded in Moldova, Belarus, Azerbaijan and Armenia. For Moldova, the score of rule of law has decreased by almost 10 points in 2016 compared to the previous year, and in the following years the trend was to improve the rule of law, so as to reach the value in 2015. For Azerbaijan, Armenia and Belarus, the rule of law was improved in 2016, but in the following years its efficiency decreased, and their scores approached those of 2015 and 2016. Ukraine is the only EaP country that has seen a trend of improving the rule of law in the period 2015-2019, but the level of efficiency has remained extremely low (The World Bank, 2020d).

Table 4 summarizes the institutional performance of EaP countries in 2015-2019. Significant performance has been achieved by Ukraine and Belarus, although both need to improve their political stability. In addition, Ukraine's concerns should target perceptions of country risk, while Belarus needs to improve its rule of law, voice and accountability.

Table 4. Institutional Performance of EaP Countries (2015-2019)

Institutional aspect	AR	AZER	BEL	GEO	MOLD	UKR
Country risk	↓↑1	↓↑	↑	↓↑	↓↑	↓↑
Political stability and absence of violence	↓↑	↓↑	↓↑	↓	↓	↓↑
Control of corruption	↑	↓↑	↑	↓↑	↑	↑
Government effectiveness	↑	↓↑	↑	↑	↑	↑
Voice and accountability	↑	↑	↓	↓	↓	↑
Regulatory quality	↓↑	↓	↑	↑	↓↑	↑
Rule of law	↓↑	↓↑	↓↑	↓	↓↑	↑

Source: Authors Representation

Armenia stands out with modest performances, followed by Georgia and Moldova. Armenia has improved three of seven institutional aspects, while in the other categories, scores have fluctuated. Georgia and Moldova stand out with performance in government effectiveness, regulatory quality for Georgia and control of corruption for Moldova. However, they also have negative aspects, such as political stability, voice and accountability, to which is added the rule of law for Georgia. Azerbaijan has less performance from an institutional perspective, especially in terms of voice and accountability. Scores on other issues fluctuated between 2015 and 2019, while Azerbaijan's main concern should be regulatory quality. However, Azerbaijan remains the EaP country with the lowest level of country risk, while Georgia has the highest values in terms of governance, the only exception being political stability, where Belarus is best positioned.

4. Conclusions

The FDI attractiveness of EaP countries is studied from multiple perspectives.

From a fiscal perspective, the Eastern Partnership countries have improved their investment climate and business environment in the period 2015-2019, the most significant progress being recorded by Georgia and Moldova. All EaP countries, except Georgia, increased their taxes, especially Azerbaijan and Armenia. Also, Georgia has the lowest profit tax (followed by Moldova), companies are required to pay only 5 types of taxes (as in Ukraine), the labor tax and contributions are completely eliminated (the same in Armenia) and the total tax and contribution rate is the lowest among EaP countries. One of the biggest fiscal problems for Georgia is the taxes on income, profits and capital gains, which is the second highest after Armenia.

In the same period of time, from a financial point of view, the performance of EaP countries has been lower than fiscal, the most visible being Georgia and Armenia and the least significant being recorded by Belarus and Ukraine. Georgia's performance translates into one of the lowest real interest rates among EaP countries and the highest percentage of GDP in domestic credit provided by financial sector. On the other hand, in terms of deposit interest rates, Georgia is not as good, where the first places are occupied by Ukraine and by Azerbaijan.

The EaP countries have improved their business environment, making it more efficient to start and to do business. Between 2015 and 2019, the most significant performances from an administrative perspective were made by Georgia and Armenia, while Georgia has the best scores in more than half of doing business aspects, but still needs some improvements in terms of resolving insolvency.

In terms of governance, significant performance has been achieved by Belarus and Ukraine between 2015 and 2019. But, Georgia has the EaP country with the highest scores regarding the governance indicators, excepting the political stability, while Armenia has the lowest level of country risk.

5. References

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