

Corruption Perceptions in the Caucasus: Impediments to Business Activity in Armenia, Azerbaijan, and Georgia

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Abstract

Armenia, Azerbaijan, and Georgia were bound together under Soviet direction for most of the twentieth century. When the veneer of centralized control was wiped away in the 1990's, political, economic, and ethnic differences re-emerged after decades of being suppressed. This paper utilizes the Business Environmental and Enterprise Performance Survey (BEEPS) data from 2002, 2005, and 2009 studies gathered by a joint initiative of the European Bank for Reconstruction and Development and the World Bank to assess the environment for private enterprise and business development in transitioning economies. Crime and Corruption categories of the BEEPS studies were examined teasing out the shades of similarities and differences between and among the three countries. A series of BEEPS questions about "informal gift/payment expectations or requests" for a variety of business services or requirements reveals some of the impediments to conducting business as these countries moved away from a command economy. The paper shows the shifting importance in the 2002-2009 time period of these subtle and not so subtle extraction of payments for businesses both within these three countries and among the three countries. Changes were often not in a consistent pattern; explanations for the inconsistencies are beyond the scope of this paper. The general trend for the three countries showed Georgian firms perceive fewer informal gift/payment expectations or requests than Armenian firms. Armenian firms perceive fewer informal gift/payment expectations or requests than Azerbaijan firms. For example, in 2009 no Georgian firms, 15% of Armenian firms, and 52% of Azerbaijan firms reported an informal gift/payment expectation or request for permit applications. In addition, no Georgian firms, 10% of Armenian firms, and 21% of Azerbaijan firms stated an informal gift/payment was expected or requested when applying for an operating license. Another trend revealed fewer informal gift/payment expectations or requests in 2009 than in 2002. However, occasionally firms reporting such expectations or requests spiked in 2005. For example, in 2002 18% of firms, in 2005 21% of firms, and in 2009 eight percent of firms revealed informal gift/payment expectations or requests for an electrical connection. During tax inspections 53% of firms in 2002, 62% of firms in 2005, and 15% of firms in 2009 received informal gift/payment expectations or requests. Firms considering exporting to these countries should be aware informal gift/payment expectations or requests may be experienced when importing to or setting up joint ventures in these countries. The prudent firm will conduct their own research on local business conditions before doing business in a country. For many issues it appears these corrupt practices may be declining so the outlook in the future is positive.

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Introduction

Corruption and crime have been identified as characteristics prevalent in many of the less developed countries. (Corruption Perception Index, 2009) While the impact of crime and corruption may be evident, understanding and in some way quantifying the various facets of the “gray economy” presents a challenge. How is one to identify what is not supposed to be seen. In some cultures “informal gifts/payment expectations or requests” have been accepted societal norms. In 1977 the U.S. adopted the Foreign Corrupt Practices Act (FCPA) which prohibits giving or taking bribes to further business interests and which the Securities and Exchange Commission interprets broadly (<https://www.sec.gov/spotlight/fcpa.shtml>). In subsequent acts the Organization for Economic Cooperation and Development (OECD) adopted anti bribery policies to reduce corruption in developing countries and to provide a level playing field for doing business internationally (<http://www.oecd.org/>).

Georgia, Armenia, and Azerbaijan became independent countries following the collapse of the Soviet Union in the early 1990's. All three countries have faced many difficulties since that time including civil war in Georgia, shootings in the Armenian parliament, and political expulsions and imprisonment in Azerbaijan (Mirimanova and Klein, 2006). Intra and inter-country security tensions in the region remain limiting the ability of the three countries to develop transparent and accountable governmental agencies, and efficient markets. Operating within unsettled cultural, governmental, and market contexts, corruption has established itself as a means for service delivery.

Framework

Political corruption occurs when government officials use their official powers for unlawful private gain. It is well known in some countries when business people or citizens desire services such as telephone, electricity, and water that unofficial payments are expected by government officials. For some public officials political corruption is considered the normal way to supplement meager government salaries. A lack of transparency, inconsistent norms, and certain practices that are legal in one country may be illegal in another country are examples of situations that support the occurrence of corruption. In some countries, government officials have broad or poorly defined powers, and distinguishing between activities that are legal and not legal can be difficult. Prior to 1996 the World Bank considered bribery to be an important component in the functioning of business and government. In 1996 James Wolfensohn (1996), president of the World Bank, declared that bribery was sand in the wheels of commerce and not the grease that made the wheels turn.

In 2006, bribery for government contracts was estimated to cost about \$400 billion USD (Transparency International, 2006). Nichols (2000) believes the payment of bribes hurts businesses in four ways: risk of reputation in the country where it pays bribes, reputation among bureaucrats as a bribe payer, risk of reputation in the company's home country, and the degradation of markets. Paying a bribe siphons off profits that could have gone to the business and shareholders and gives company profits to government official(s) instead of shareholders. The payment of the bribe lowers the profit margin for the company in that country, and consequently lessens the incentive of the company to invest in the “bribed” country. Hellman and Kaufman (2001) found corruption systematically reduced private investment by domestic and foreign investors and created barriers to entry for small and medium sized firms.

The World Bank (2009) considers corruption a large barrier to economic and social development because it undermines rule of law and weakens institutional foundations that support economic development. Corruption exists in every country of the world; however, the emergence of new democracies in the former communist countries of the Soviet Union and Eastern Europe has provided an interesting opportunity to study the extent of political corruption in the former communist countries. In the 1990's the relatively rapid change from centrally planned economies to market-based economies created marked changes. A grey-market expanded to fill the ill-defined relationships in the new market-based economies.

Some eastern European countries have made more progress toward democracy and a market economy than many of the other former communist countries (Fuxman, 1997, Moses 2000, Dabla-Norris 2006). Various former communist enterprises have stayed afloat by not paying taxes, debts, or employees, through bartering, or paying off debt with obligation notes (Moses, 2000). Kaser (2000) estimates the loss to corruption (particularly underreported revenue and uncollected tax liability) to be half of the economic activity in the CIS states.

Hellman and Kaufman (2001) define state capture as the efforts of firms to shape the laws, policies, and regulations of the state to their own advantage by providing illicit private gains to public officials. They found state capture is lower in countries where economic reform has been vigorously pursued compared to countries where economic reform has lagged. In higher-captor economies, captor firm's annual sales growth was about three times larger than the growth rate of other firms (Hellman and Kauffman 2001). In low-captor economies, captor firms annual sales growth was about two-thirds the growth rate of other firms.

Libman (2006) found the relative bargaining power of business and the progress of economic reforms were negatively correlated. Bunce (1998), Goble (1999), and Moses (2000) concluded that economic reform in the former communist countries will only be successful with the simultaneous introduction of democratic reform aimed at creating a sense of community, a sense of trust, and a real rule of law. Whether or not a society suffered a violent revolution is less important than the degree of civic empowerment in determining the successful outcome of the new CIS democracies (Karatnycky 2002).

The purpose of this study is to examine World Bank data about corruption and the "grey" economy in the countries that comprise the Caucas region. The study results can be used by non-governmental organizations (NGO), government, and regulatory officials as a basis for making policy decisions.

Methodology

Overview of the Countries

Examining the characteristics of the countries is a starting point to understanding their similarities and differences. As shown in Table 1, Armenia is the smallest country (land area) with the smallest population, almost two-thirds of the population living in cities, over one-third of the population lives below the poverty line, and almost one in five are unemployed. Azerbaijan is the largest country with the largest population, youngest population, half of the population lives in cities, highest GDP per capita, and the lowest unemployment rate. Georgia is twice the size of Armenia, the oldest population, half of the population lives in cities, has the lowest GDP per capita, a negative inflation rate, and one in six people are unemployed.

Table 1 Characteristics of Countries¹

	Armenia	Azerbaijan	Georgia
Size (sq km)	29,743	86,600	69,700
Population (July 2014 est.)	3,060,631	9,686,210	4,935,880
Median Age	33.7	30.1	37.7
Urban Population	64.1%	53.6%	52.8%
GDP real growth rate (2013 est.)	4.6%	5.8%	2.5%
GDP per capita (2013 est.)	\$6,300	\$10,800	\$6,100
Inflation Rate (2013 est.)	6.2%	2.4%	-0.5%
Population below poverty line (year est.)	35.8% (2010)	6.0% (2012)	9.2% (2010)
Unemployment Rate (year est.)	17.3% (2012)	2.4% (2013)	15.0% (2013)
Exposure	Land locked	Caspian Sea	Mediterranean Sea

¹ Source: CIA World Factbook

The BEEPS Database

This paper uses data from the Business Environment and Economic Performance Study (BEEPS 2002, BEEPS 2005, and BEEPS 2009) which was developed jointly by the World Bank Institute and the European Bank for Reconstruction and Development. Managers' perceptions of areas of competition, industry concentration, firm characteristics, and economic performance are explored to understand similarities and differences between and among these countries. These important facets of firms and industries give an indication of the extent to which the economies have moved away from a controlling planned economy and toward a market system. It is expected that the countries will have differing managerial perceptions and characteristics as economic development goes forward and that economic development will be different from country to country. Data from questions in BEEPS were analyzed using the univariate general linear model analysis of variance. Student-Newman-Keuls is the method used to determine statistical differences between countries. All statistical differences are at the 0.05 level of significance.

By examining perception data from the three countries and the three time periods a picture of corruption and the firms' competitive factors emerge in each country. The three countries share geographic proximity, and all are former members of Soviet Union. Questions from the BEEPS study relating to firm characteristics, firm performance, and corruption and state capture were used for this study.

Discussion Of Results

Firms in Georgia and Armenia have statistically fewer informal gift/payment expectations or requests for an electrical connection than firms in Azerbaijan. In 2009 firms had statistically fewer informal gift/payment expectations or requests for an electrical connection than in 2005. Twenty-one percent of Georgian firms experienced an unofficial gift/payment expectation or request in 2002, declining to 12% of firms in 2005, and three percent of firms in 2009. Six percent of Armenian firms experienced an unofficial gift/payment expectation or request in 2002, climbing to 23% in 2005, and in 2009 no Armenian firms reported such expectations or requests. Azerbaijan firms however saw an increase in unofficial gift/payment expectation or requests from 2002 (27%) to 2005 (23%), and 2009 (30%). In 2009 no Armenian firms reported an informal gift/payment expectation or request when applying for a water connection. Nineteen percent of Georgian firms perceived an informal gift/payment expectation or request when applying for a water connection in 2009.

Armenian and Georgian firms report fewer informal gift/payment expectations or requests when applying for a telephone connection. Also fewer firms reported these expectations or requests when applying for a telephone connection in 2009 than in 2002 and 2005. In Georgia, 21% of firms perceived an informal gift/payment expectation or request when applying for a telephone connection in 2002 versus 2% in 2009. Azerbaijan firms also saw a decline from 2002 to 2009 in informal gift/payment expectations or requests when applying for a telephone connection from 27% to 21% of firms. However, in Armenia, while only six percent of firms in 2002 said there was an informal gift/payment expectation or request when applying for a telephone connection, by 2009 eight percent of firms perceived the same expectations or requests. When obtaining compulsory certificates firms in all of the countries had statistically different results. In 2009, no Georgian firms, 16% of Armenian firms, and 29% of Azerbaijan firms perceived a gift was expected or requested when obtaining compulsory certificates.

Fewer Georgian and Armenian firms perceive an informal gift/payment expected or requested for permit applications than Azerbaijan firms. Specifically there was a decline in the percent of Georgian firms reporting an informal gift/payment expectation or request for permit applications from 41% in 2002 to none in 2009. The percent of Armenian firms reporting an informal gift/payment expected or requested for permit applications increased from 10% in 2002 to 15% in 2009. Azerbaijan firms also saw an increase from 35% of firms in 2002 to 52% of firms in 2009 stating an informal gift/payment was expected or requested for permit applications.

The three countries are statistically different from one another on informal gifts/payments expected or requested for construction-related permits. Specifically 51% of Azerbaijan firms stated an informal gift/payment expected or requested for construction-related permits. Twenty five percent of Armenian firms reporting an informal gift/payment expected or requested for construction-related permits in 2009. Only seven percent of Georgian firms reported an informal gift/payment was expected or requested for construction-related permits.

In general, fewer Georgian and Armenian firms perceive an informal gift/payment expected or requested during inspections by tax officials than Azerbaijan firms. While the frequency of these expectations or requests declined from 2002 to 2009 (53% to 15%), they were higher in 2005 (62%). Specifically there was a decline in the percent of Georgian firms reporting an informal gift/payment expected or requested during inspections by tax officials from 76% in 2002, to 36% in 2005, and two percent in 2009. The percent of Armenian firms reporting an informal gift/payment expected or requested during inspections by tax officials varied from 27% in 2002, to 68% in 2005, and 12% percent in 2009. Azerbaijan firms saw an increase from 53% of firms in 2002 to 67% of firms in 2005 and then a decline to 28% in 2009 stating an informal gift/payment was expected or requested during inspections by tax officials. In general, fewer Georgian and Armenian firms perceive an informal gift/payment expected or requested when applying for an operating license than Azerbaijan firms. Also while the frequency of these expectations or requests declined from 2002 to 2009 (29% to 13%), they were higher in 2005 (38%).

Specifically there was a decline in the percent of Georgian firms reporting an informal gift/payment expected or requested when applying for an operating license from 41% in 2002, to 18% in 2005, and zero in 2009. The percent of Armenian firms reporting an informal gift/payment expected or requested when applying for an operating license was 10% in 2002, increasing to 41% in 2005, and returning to 10% percent in 2009. Azerbaijan firms also saw an increase from 35% of firms in 2002 to 44% of firms in 2005 and then a decline to 21% of firms in 2009 stating an informal gift/payment was expected or requested when applying for an operating license.

The next series of questions uses the scale in the table below.

1	Never
2	Seldom
3	Sometimes
4	Frequently
5	Usually
6	Always

When asked about the frequency of additional payments/informal gift expectations or requests, that frequency has declined from between Seldom and Sometimes (2.63) in 2002 to closer to Seldom (2.18) in 2009. Azerbaijan has a higher frequency of gifts and payments closer to Sometimes (2.63), than Armenia (2.21), and Georgia who is less than Seldom (1.93). Specifically there was a decline in the percent of Georgian firms reporting an informal gift/payment paid from Seldom (2.29) in 2002, to between Seldom and Never in 2005 (1.57) and 2009 (1.52). Armenian firms reported a slight increase in making informal gifts/payments from slightly over Seldom in 2002 (2.16) to 2005 (2.21), to 2009 (2.22). Azerbaijan firms confirmed a slight decline in providing informal gifts/payments from close to Sometimes in 2002 (2.73), a rise in 2005 (2.89), and a decline in 2009 (2.70).

When asked about unofficial gifts/payments to deal with customs/imports Georgian firms tend to have fewer expectations and requests than firms in Armenia and Azerbaijan. Since 2002 the occurrence of unofficial gifts/payments to deal with customs/imports has remained the same just under Seldom. Specifically, Georgian firms have seen a decline in unofficial gifts/payments to deal with customs/imports from more than Seldom (2.27) in 2002, to between Never and Seldom in 2005 (1.56) and 2009 (1.50). Azerbaijan firms reported an increase in unofficial gifts/payments to deal with customs/imports from between Never and Seldom in 2002 (1.72) to Seldom (2.05) in 2005 and just under Seldom in 2009 (1.91). Armenian firms also had an increase of unofficial gifts/payments to deal with customs/imports from just over Never (1.26) in 2002 to just over Seldom in 2005 (2.26) to just under Seldom (1.89) in 2009.

Surveyed about unofficial gifts/payments to deal with courts the differences were slight across the countries with Azerbaijan having the least frequent expectations or requests at between Never and Seldom (1.51), followed by Georgia (1.62), and Armenia (1.76). Expectations and requests for unofficial gifts/payments to deal with courts were between Never and Seldom in 2002 (1.48), increased to under Seldom (1.74) in 2005, and between Never and Seldom (1.62) in 2009. Georgian firms experienced a decline in expectations and requests for unofficial gifts/payments to deal with courts from Seldom (1.96) in 2002, to between Never and Seldom in 2005 (1.53) and in 2009 (1.46). Azerbaijan firms had the opposite trend from Georgian firms witnessing an increase in expectations and requests for unofficial gifts/payments to deal with courts from over Never in 2002 (1.26) and 2005 (1.39) to near Seldom in 2009 (1.74). Armenian firms saw an increase from near Never in 2002 (1.18) to over Seldom in 2005 (2.20), settling under Seldom in 2009 (1.64).

Questioned about expectations or requests for unofficial gifts/payments to deal with taxes/tax collection Georgian and Armenian firms reported just over Seldom (2.09 and 2.20 respectively) and Azerbaijan firms reported between Seldom and Sometimes (2.51). While in 2002 and 2005 expectations or requests for unofficial gifts/payments to deal with taxes/tax collection were between Seldom and Sometimes (2.39 and 2.54 respectively), they declined by 2009 to Seldom (2.03). Georgian firms saw a large decline in expectations or requests for unofficial gifts/payments to deal with taxes/tax collection from Sometimes (3.13) in 2002 to under Seldom in 2005 (1.71) to between Seldom and Never (1.59) in 2009.

Azerbaijan firms remained between Seldom and Sometimes from 2002 (2.44) to 2005 (2.74) and 2009 (2.31). Armenian firms experienced an increase of expectations or requests for unofficial gifts/payments to deal with taxes/tax collection from between Never and Seldom in 2002 (1.56) to between Seldom and Sometimes in 2005 (2.68) and Seldom in 2009 (2.05).

When asked about how much of an obstacle is electricity to the current operations of this firm Georgian firms felt electricity was more of an obstacle than Armenian or Azerbaijan firms. In 2002 firms felt getting electricity was a minor obstacle, while in 2005 they felt it was a minor to no obstacle but by 2009 it was between a minor and moderate obstacle. Specifically, Georgian firms felt getting electricity was a minor to moderate obstacle in 2002 and 2005 but had risen to a moderate obstacle in 2009. Armenian firms perceived getting electricity in 2002 to be less than a minor obstacle, by 2005 it was between no and a minor obstacle, and by 2009 it was more than a minor obstacle. Azerbaijan firms saw a slight decline from a minor obstacle in 2002 to less than a minor obstacle in 2005 and 2009.

Asked about how much of an obstacle telecommunications are to the operations of the firms, Georgian and Armenian firms felt greater obstacles than Azerbaijan firms. Telecommunications as an obstacle to the operations of a firm increased from 2002 and 2005 to 2009. Specifically firms in all countries experienced increased obstacles from telecommunications to the operations of their firms from 2002 to 2009 but the increases differed. Georgian firms saw telecommunications as between no and a minor obstacle in 2002 and 2005 to between a minor and moderate obstacle in 2009. Armenian firms felt telecommunications a close to a minor obstacle in 2002, declining slightly in 2005, and then to greater than a minor obstacle in 2009. Azerbaijan firms perceive telecommunications as between no and a minor obstacle from 2002 to 2009.

The transportation of goods, supplies, and inputs is not seen as much of an obstacle in Azerbaijan compared to Georgia and Armenia. The perception of transportation of goods, supplies, and inputs as an obstacle to the firm has steadily increased from 2002 to 2009. Specifically Azerbaijan firms felt that the transportation of good, supplies, and inputs was close to no obstacle in 2002, rising slightly in 2005, and again to between no and a minor obstacle by 2009. Georgian and Armenian firms had similar perceptions from between no and a minor obstacle in 2002, rising slightly in 2005, and then to between a minor and moderate obstacle in 2009.

Customs and trade regulations as an obstacle are seen by Georgian and Azerbaijan firms as just under a minor obstacle while Armenian firms see a greater than minor obstacle. Specifically, Azerbaijan firms felt customs and trade regulations were greater than a minor obstacle in 2002, a minor obstacle in 2005, and less than a minor obstacle in 2009. Armenian firms perceived customs and trade regulations a greater than a minor obstacle in 2002 and 2005 rising slightly to between a minor and moderate obstacle in 2009. Georgian firms felt customs and trade regulations were greater than a minor obstacle in 2002, declining to a minor obstacle in 2005, and declining further to less than a minor obstacle in 2009.

Questioned about the obstacle formal sector competitors are in 2009 there are distinct differences across the three countries. Armenian firms see formal sector competitors as a greater than a minor obstacle, Georgian firms see formal sector competitors as between a minor and moderate obstacle and Azerbaijan firms see formal sector competitors as greater than a moderate obstacle to their operations.

In 2009 firms were asked how much of an obstacle are business inspections. Georgian firms feel business inspections are less than a minor obstacle while Azerbaijan and Armenian firms perceive business inspection to be more than a minor obstacle.

Another new question for 2009 was "How much of an obstacle are compulsory certificates?" Georgian and Armenian firms feel compulsory certificates are between no and a minor obstacle and Azerbaijan firms feel compulsory certificates are a minor obstacle.

Access to land is seen as less than a minor obstacle by Georgian firms and a minor obstacle by Armenian firms. There were distinct differences from access to land as near no obstacle in 2002, to between no and a minor obstacle in 2005, and between a minor and moderate obstacle in 2009. Armenian firms perceived access to land to be between no and a minor obstacle in 2002, and a minor obstacle in 2005 and 2009.

Georgian firms felt access to land was near no obstacle in 2002, between no and a minor obstacle in 2005, and more than a minor obstacle in 2009. Azerbaijan firms sensed access to land was between no and a minor obstacle in 2002 and 2005 but had increased to close to a moderate obstacle in 2009. Firms were questioned about the degree zoning restrictions are an obstacle in 2009. Armenian firms felt zoning restrictions were less than a minor obstacle while Georgian and Azerbaijan firms believed zoning restrictions are between a minor and moderate obstacle.

Crime, theft, and disorder are seen as between no and a minor obstacle by Azerbaijan firms, less than a minor obstacle by Armenian firms, and more than a minor obstacle by Georgian firms. In 2002 and 2005 firms sensed crime, theft, and disorder were between no and a minor obstacle but by 2009 that sense had climbed to between a minor and moderate obstacle. Azerbaijan firms perceived crime, theft, and disorder as almost no obstacle, between no and a minor obstacle in 2005, and more than a minor obstacle in 2009. In 2002 Armenian firms felt crime, theft, and disorder were greater than no obstacle, by 2005 that feeling had changed to between no and a minor obstacle, and in 2009 they felt crime, theft, and disorder were greater than a minor obstacle. In 2002 Georgian firms believed crime, theft, and disorder were between a minor and moderate obstacle, in 2005 and 2009 those beliefs had declined to closer to a minor obstacle.

When firms were asked about access to finance as an obstacle Azerbaijan firms felt it was less of an obstacle than Armenian firms. Firms perceived access to finance as greater than a minor obstacle in 2002 and 2005 but between a minor and moderate obstacle in 2009.

Each country as a distinct opinion about tax rates as an obstacle to their establishment. Azerbaijan firms see tax rates as between a minor and moderate obstacle, Georgian firms close to a moderate obstacle, and Armenian firms as a moderate obstacle. In 2002 tax rates were seen as between a minor and moderate obstacle climbing in 2009 to close to a moderate obstacle. Georgian firms feel tax rates were a moderate obstacle in 2002, declining to less than a minor obstacle in 2005 and 2009. Azerbaijan firms sensed tax rates a more than a minor obstacle in 2002, climbing to close to a moderate obstacle in 2005 and 2009. Armenian firms perceived tax rates as between a minor and moderate obstacle in 2002, to less than moderate obstacle in 2005, and a moderate obstacle in 2009.

Georgian firms feel tax administration is more than a minor obstacle while Armenian firms feel tax administration is close to a moderate obstacle. There is a consistent perception that tax administration has declined from near a moderate obstacle in 2002, to between a minor and moderate obstacle in 2005, to near a minor obstacle in 2009. Georgian firms felt tax administration was more than a moderate obstacle in 2002, declined to less than a minor obstacle in 2005, and then rose to more than a minor obstacle in 2009. Azerbaijan firms saw tax administration as more than a minor obstacle in 2002, rising to near a moderate obstacle in 2005, and settling as more than a minor obstacle in 2009. Armenian firms sensed tax administration as near a moderate obstacle in 2002, rising to a moderate obstacle in 2005, and between a minor and moderate obstacle in 2009.

Firms' perceptions of business licensing and permits are the same in Georgia and Armenia under a minor obstacle, while Azerbaijan firms feel business licensing and permits are a minor obstacle. In 2002 business firms felt business licensing and permits were less than a minor obstacle, but in 2005 firms felt were a minor obstacle, returning to less than a minor obstacle in 2009. Armenian firms sensed business licensing and permits were less than a minor obstacle in 2002, rising to more than a minor obstacle in 2005, and between no and a minor obstacle in 2009. Georgian firms perceive business licensing and permits to be less than a minor obstacle in 2002, 2005, and in 2009. Azerbaijan firms felt business licensing and permits to be less than a minor obstacle in 2002, more than a minor obstacle in 2005, and a minor obstacle in 2009. In 2009 business firms' were asked about the obstacle political instability created for their firm. The three countries had statistically different responses. Azerbaijan firms sensed between no and a minor obstacle due to political stability, Georgian firms a moderate obstacle, and Armenian firms greater than a moderate obstacle from political instability.

Firms' perceptions of corruption as an obstacle have increased from more than a minor obstacle in 2002 and 2005 to between a minor and moderate obstacle in 2009. Georgian and Armenian firms feel corruption is greater than a minor obstacle while Azerbaijan firms feel corruption is between a minor an moderate obstacle. Georgian firms felt in 2002 that corruption is less than a moderate obstacle, declining to more than a minor obstacle in 2005 and 2009.

Azerbaijan firms sensed corruption as a minor obstacle in 2002, increasing to between a minor and moderate obstacle in 2005, and rising further to almost a moderate obstacle in 2009. Armenian firms sensed corruption as less than a minor obstacle in 2002, rising to more than a minor obstacle in 2005, and to less than a moderate obstacle in 2009.

Azerbaijan firms feel that the courts are between no and a minor obstacle, a different perception than Armenian and Georgian firms who feel the courts are closer to a minor obstacle. In 2002 and 2005 firms perceived the courts are between no and a minor obstacle while in 2009 firms perceived the courts to be almost a minor obstacle. Azerbaijan firms felt the largest change from just greater than no obstacle in 2002 and 2005 to almost a minor obstacle in 2009. Armenian firms sensed the courts were between no and a minor obstacle in 2002, a minor obstacle in 2005, and less than a minor obstacle in 2009. Georgian firms had the most consistent perceptions at less than a minor obstacle in 2002 and 2005 and a minor obstacle in 2009.

In 2002 firms felt labour regulations were just greater than a minor obstacle but by 2005 and 2009 those feelings had risen to between no and a minor obstacle. Azerbaijan firms see labour regulations as greater than no obstacle, Georgian firms as between no and a minor obstacle, and Armenian firms less than a minor obstacle. Azerbaijan firms had consistent perceptions about labour regulations as greater than no obstacle from 2002 to 2009. Georgian firms were almost as consistent sensing labour regulations between no and a minor obstacle from 2002 to less than a minor obstacle in 2009. Armenian firms perceived labour regulations as just greater than no obstacle in 2002, to between no and a minor obstacle in 2005 to close to a minor obstacle in 2009.

Conclusions

Corruption is defined as the action of private individuals or companies who abuse by public resources for private interest. These actions are done through the public officials who also abuse by their public power and deviate from the former and correct rules and from the ethical principles. Corruption is one of the persistent problems of the societies over years and it affects the credibility of public institutions and its ambassadors in front of the citizens and of the other related countries.

Overall, the data indicates declines in informal gift/payment expectations or requests for all three countries. The data also indicates that general trend for the countries shows that Georgian firms receive fewer informal gift/payment expectations or requests than other two Caucasus countries. Georgian firms received fewer in 10 sectors (out of 12). Then Armenian firms perceive fewer informal gift/ payment expectations or requests than Azerbaijan firms. Azerbaijan firms receive most informal gift/payment expectations or requests compared to other two countries. Another important trend that this study found is the decline in informal gift/payment expectations or requests over the years. This study utilizes the BEEPS data from 2002, 2005, and 2009 and found significant decline from 2002 to 2009 in most sectors in all three countries.

Regarding the obstacle formal sector competitors, there are distinct differences across the three countries. Armenian firms see formal sector competitors as a greater than a minor obstacle, Georgian firms see formal sector competitors as between a minor and moderate obstacle and Azerbaijan firms see formal sector competitors as greater than a moderate obstacle to their operations.

Georgian firms perceive here almost equal serious obstacles to their operations: Access to finance, political stability, and tax rates. Azerbaijan firms feel access to finance, tax rates, and corruption are the most serious obstacles facing their business. Armenian firms sense practices of competitors, tax rates, access to finance, and political stability are the major obstacles facing their operations. Across the three countries access to finance and tax rates are seen as the most serious obstacles to their business. Although the difference exists between those countries and their level of development, those countries should be very cautious at the corruption problem.

Limitations and Recommendations for Future Research

Limitations of the research

As with any study using survey data, this study is limited by that data. Also, no comparisons are made to countries who have little to no corruption issues.

Since every country has some form of corruption, and many of those other countries attempt to find and weed out corruption, the research has no way to compare countries' efforts to stop corruption.

Suggested Future Research

Since BEEPS has data available for many other post-Communist countries, future research should focus on establishing differences and similarities among and between countries. Also, research should determine how corruption changes over time in the various countries. Some countries may have less corruption over time and others may increase corruption over time.

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