

The ‘Ease’ of Doing Business: An Analytical Case Study of Iraq

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Abstract

The World Bank Doing Business index measures ten parameters like trading across borders, starting business, access electricity, dealing with construction, enforcing contracts, paying taxes, registering property, protecting minority investors, resolving insolvency, getting contracts, based on which 190 (one hundred-ninety) economies are ranked. The latest report of World Bank Doing Business 2019 states that Iraq stands with 171 rank among 190 nations with 44.72 score out of 100 with positive increase of 0.04 compared to the previous year. This paper conceptualizes the concepts related to the ‘ease’ of doing business and analyzes the data and scores of Iraq on all the ten parameters. The historical analysis of the nation since 2005 is analyzed. Trend Analysis is used to project the future score and the paper suggests specific liberal business reforms for a better score in the coming years for the economy. There are also recommendations for technological changes and online access to various indicators of ease of doing business.

Keywords: ‘ease’ of Doing Business, Economic Development, Starting Business, Getting Credit

Introduction

Iraq is an upper middle-income country with a population of 38,274,618 and belongs to Middle East and North African Region. According to Doing Business 2019 ‘ease of doing business’ rank published by World Bank, Iraq ranks 171 among the 190 Nations with a score of 44.72 out of 100. In recent years Iraq brought two reforms in the parameters of starting business and in getting credit. But in spite of the reforms the score of the country on the World Bank Doing Business index has not increased proportionately. This mismatch between the reforms made and the ranking on the index has driven research curiosity and has generated questions such as: Where does Iraq stands in the ‘ease’ of doing business rank and scores? Does the recent reforms bring by Iraq made any impact on its scores? What are the reasons for the low rank in spite of the regulatory reforms? What measures need to be taken to improve the status quo operandi? What are the historical improvements made by the country? In this paper, the World Bank Economy specific data on the ‘ease’ of Doing Business is carefully taken in statistical descriptive analysis and explored for the possible answers for the above questions.

Review of Literature

It is a vital condition for trade liberalization and Foreign Direct Investment FDI to exist in a country to have a modern business infrastructure like improved internet and banking access with sound regulations that ease imports and exports and registration procedures. It is also crucial to establish a regulatory system in which it is easy to start businesses but hard to steal ideas (Bartnick, 2017). The following paragraphs depict the research done across the world on the field of doing business.

A study of (Bolaky, October 2008,) finds that trade leads to a higher standard of living in flexible economies, but not in rigid economies. Business regulation especially on firm entry is more important

than financial development, higher education, or rule of law as a complementary policy to trade liberalization. Another study by (Vallbé Fernandez, 2014) states that there is shared belief that e-government policies can help turning compliance less costly thus improving the regulatory environment that surrounds economic growth. Doing Business indicators are produced under the assumption of full availability of information on the procedures' needed to set up a business. The study finds it necessity to access legal information which are in need of improvement.

The research by (Jovanovic & Jovanovic, 2014) investigates the ease of doing business indicators of the World Bank affect investment in 28 economies and Central Asia and there is positive effect on FDI. A paper by (JI Haidar, 2015) clarifies what it takes for Japan to achieve the goal of improving the rank. The study explores what reforms need to be done to become the top 3rd Economy. The study has classified the reforms into six groups. A study by (Vita, 2015) attempts to explain how the delays in civil contentiousness are related to the excessive number of laws produced. The study states that the complexity of legal systems could contribute to the excessive duration of civil disputes.

In the above context, researchers found a research gap of exploring all or some of the indicators with examination of impact on a specific variable in groups of countries. It is observed through the review that each indicator of ease of doing business is very important and there are many studies found for each indicator. But there are few studies which focus on a single economy. The study of (JI Haidar, 2015) focuses on Japan. This is an attempt to do a similar study for Iraq to explore the possibilities of improving its rank and score on World Bank Doing Business index.

2.2.1 Research Objectives:

To analyze the historical performance of Iraq on the 'ease' of Doing Business scores on the ten indicators.

To explore the possibilities of increasing the 'ease' of doing business score of Iraq.

2.2.2 Research Questions:

What is the historical performance of Iraq on the 'ease' of doing business?

What are the possibilities of increasing the score for Iraq on the World Bank Doing Business index?

Methodology

The Doing Business project of World Bank provides measures of business regulations and their enforcement across economies and selected cities at the subnational and regional levels. It captures the regulatory environment and provides qualitative indicators. The data published by the World Bank is extracted through the customized tool and used for analysis in this research. Graphs are created using Microsoft Excel. Trend Analysis is used to predict the future score.

Analysis

The ease of doing business score is being ranked for 190 economies. The following Figure 01 represents the ranks of Middle East and North Africa.

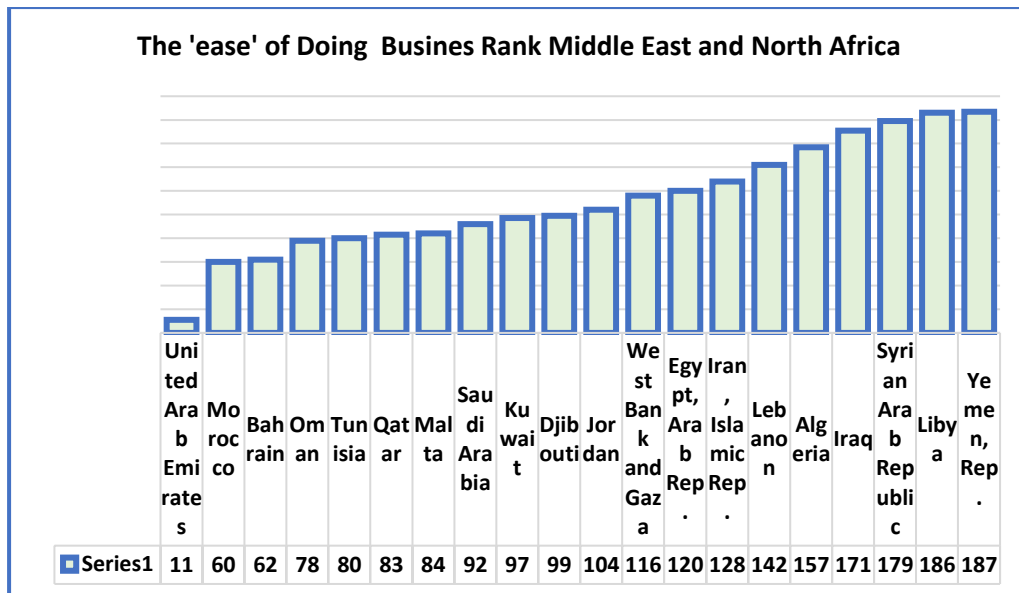


Figure 01:

Source: Author Computation data from world Bank

It can be observed that Iraq stands with 171 rank. This rank is calculated based on ten indicators as follows.

Table 01: Scores of Iraq

No	Indicator	Score
1	Score for starting a business (0-100)	76.55
2	Score for getting credit (0-100)	0.00
3	Score for dealing with construction permits (0-100)	67.64
4	Score for trading across borders	25.33
5	Score for getting electricity (0-100)	61.73
6	Score for protecting minority investors (0-100)	46.67
7	Score for paying taxes (0-100)	63.55
8	Score for enforcing contracts (0-100)	48.02
9	Score for registering property (0-100)	57.74
10	Score for resolving insolvency (0-100)	0.00

Source: World Bank Doing Business.org

The above Table 01 indicates the scores of Iraq on various indicators in the year 2019.

Let us see each one of them analytically.

4.2.1 Starting a Business:

This indicator indicates the number of procedures, time and cost to start a business. Also, the minimum capital required to start a business or a Limited Liability Company (LLC). In this

indicator of starting a Business Iraq has scored 76.55 and is ranked 155 among 190 Economies.

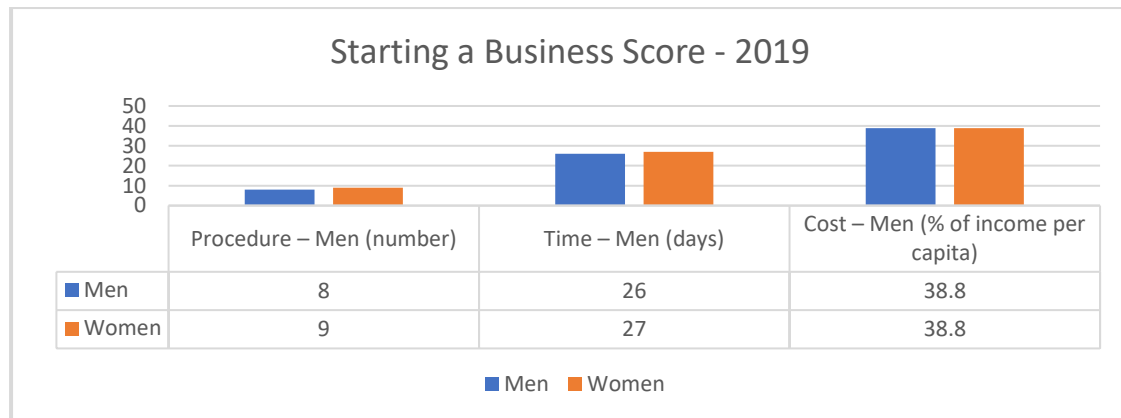


Figure 02: Starting a Business Score Men Vs Women
 Source: Author Computation data from World Bank

It can be observed from the above Figure 02, that the cost for starting a business is same for both men and women. But the number of procedures and the time taken is one additional procedure for women and one day more for women. Because of this simple one procedure and one-day variance, there is variance in the scores.

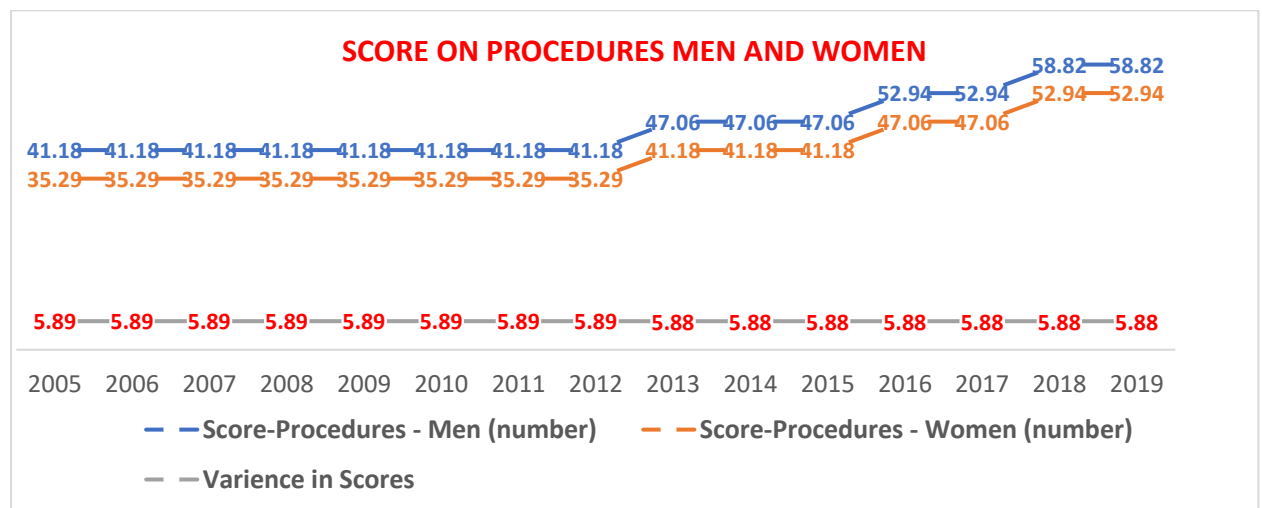


Figure 03: Variance in the Scores of Men and Women:
 Source: Author Computation data from (World_Bank, 2019)

It can be observed from Figure 03 that the scores for the procedures have increased over a period of time but the variance of the scores remains the same. That is because of one day procedure and one day difference in the procedures of starting a business.

2 Dealing with Construction Permits:

This indicates the total number of procedures to complete all legal formalities. Also the time, cost, quality control, and safety mechanisms are taken into consideration for calculating the index. In this parameter, Iraq ranks 103 with a score of 67.64. The number of procedures are 11 and it takes 167 days to deal with the construction permits. The cost is 0.3% of the warehouse value. The Building Quality Control index is 5.5 out of (0-15). China, Taiwan China, Malaysia, Denmark and UAE are ranked first to fifth in this parameter. Iraq is better

ranked than 87 other economies. UAE is the only Middle East Economy which is ranked in the top 5 in this parameter.

4.2.3 Getting Electricity:

The Cost incurred the total procedures and the time taken and reliability of electricity supply and the transparency of the tariff is taken for providing the score. Iraq ranks 126 with a score of 61.73. The number of procedures is five and it takes 51 days with the cost of 436.8 US \$. The only problem in this indicator is the reliability of supply and transparency of tariff score of '0' out of 8. With only two procedures and 10 days to get. UAE is ranked number one with 100% score in this parameter.

Registering Properties:

The procedures, time, and cost to transfer property and the quality of the land tenure system is taken for calculating the score of a country. The rank of Iraq in this parameter is 113 with a score of 57.74. It takes 51 days to register a property with 5 procedures and the cost is 7% of the total property value. The Quality of Land administration index is 10.5 out of 30. New Zealand is ranked number one among 190 Economies with only 0,01% of the total Property Value with 2 procedures and one day to register.

4.2.5 Getting Credit:

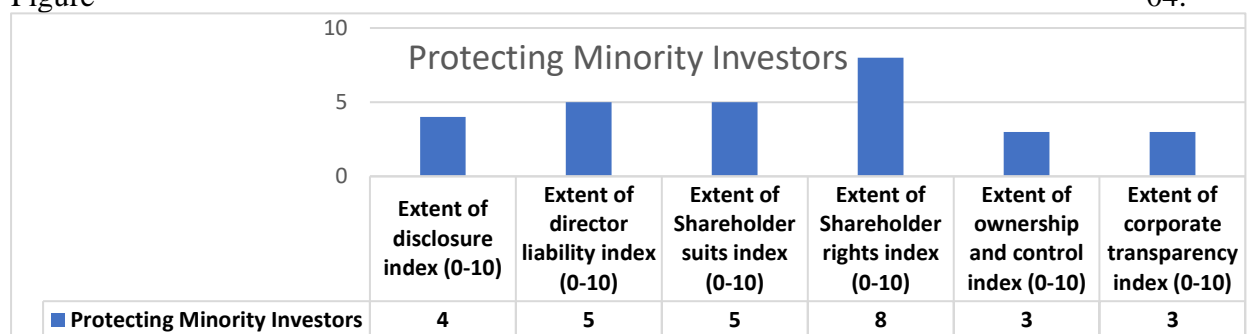
The easiness to get credit, the movable collateral laws and the credit information system are observed. The score for getting credit (0 to100) is "zero as the strength of legal rights index, the depth of credit information and the credit bureau coverage. All the parameters have scored '0' This is one area where there is lot of scope for increasing the score. Along with Iraq, Yemen, Somalia, Eithria and Libya have scored '0' in this parameter.

Protecting Minority Investors:

The minority shareholders rights in related party transactions and corporate governance is taken for calculating the score. The rank in this parameter is 125 out of 190. And the score is 46.67. In Protecting the Shareholders index Iraq has scored 8 out of 10.

Figure

04:



Source: Author Computation data from World Bank

It can be observed from Figure 04 that the extent of shareholder rights index is highest among the other variables. The country is ranked low in the ownership and control index and the corporate transparency index.

4.2.7 Paying Taxes:

The total taxes paid, paying tax, time taken to pay tax, contribution rate for a firm to comply with all tax regulations as well as post-filing processes are taken into consideration. The paying taxes rank is

129 with a score of 63.55 with 312 hours of time in hours per year. The total tax and contribution rate is 30.8 % of profit. The only area where there is requirement to improve is to reduce the time taken to correct corporate income tax which is 0 for the countries who have been ranked as top economies and 18 weeks in Iraq.

4.2.8 Trading across Borders:

The time taken and the cost to export the product of comparative advantage and import auto parts are considered for calculating the score. Iraq ranks 181 with a score of 25.33.

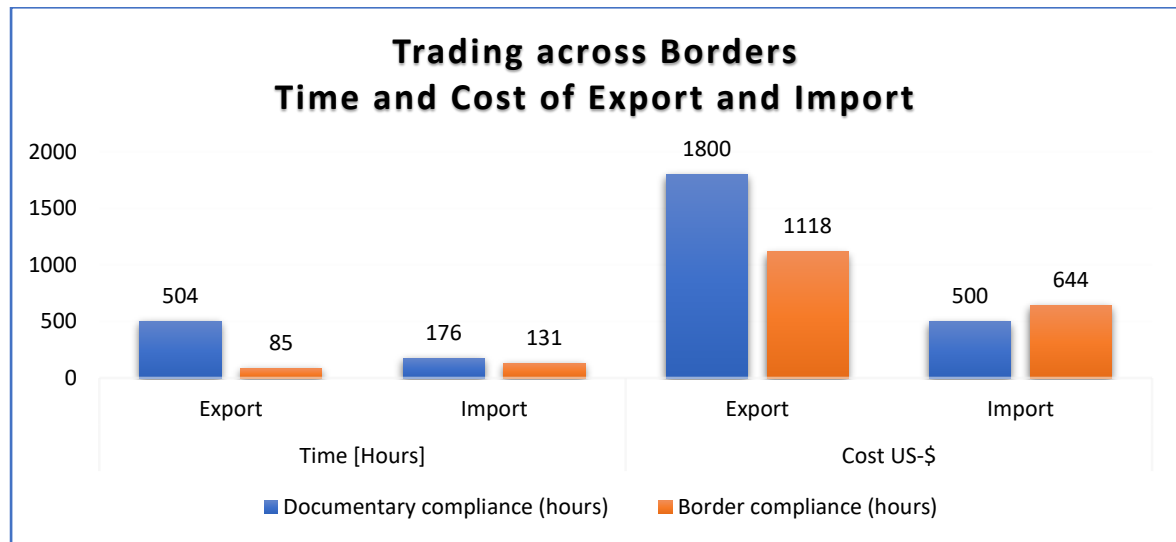


Figure 05:

Source: Author Computation data from World Bank

It can be observed from Figure 05 that import border compliance time is more than the export hours. The documentary compliance for export is more than the import hours. This is one area where there is a lot of scope for improvement and better score in the coming years. Lesser the time, cost and procedure to export and import, greater the chance to rank better in this field. The countries who ranked on the top have all the indicators with 'zero' value.

4.2.9 Enforcing Contracts:

The time taken, and the cost incurred to resolve a commercial dispute and the quality of judicial processes are taken for calculating the score. With 48.02 score, Iraq ranks 143 among 190 economies.

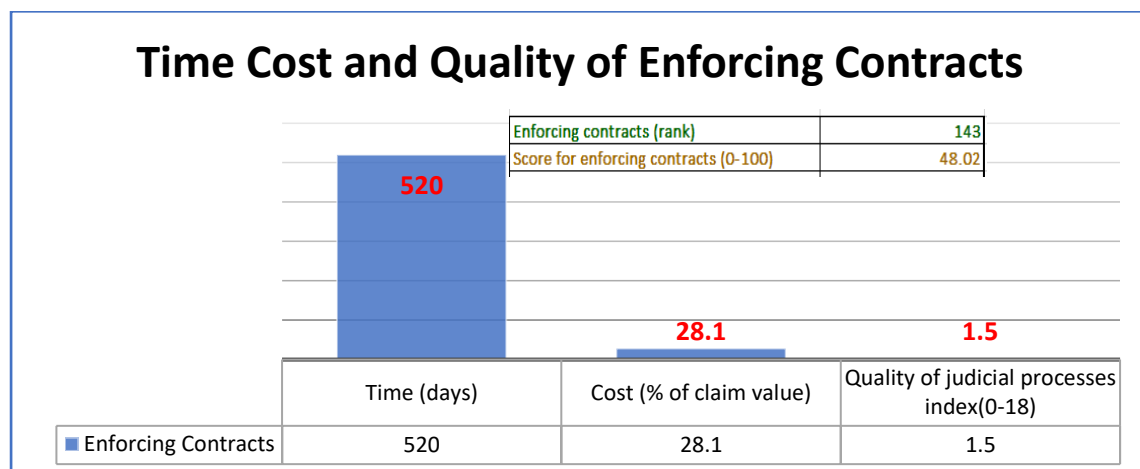


Figure06: Source: Author Computation data from World Bank

It can be observed from Figure 06 that the time taken for enforcing contracts is high as well as the third index. If this can be reduced, the score can be improved. Singapore is ranked on the top in this parameter.

Resolving Insolvency:

The time taken, cost incurred, outcome and recovery rate for a commercial insolvency, and the strengths of the legal framework for insolvency issues are taken for calculating the score. The Resolving Insolvency rank is 168 because the score for resolving insolvency is ‘0’. And it is stated as no practice for time and cost. This is another area where some judicial reforms can change the rank of the country.

Historical Data Analysis:

The above analysis is focused on the indicators and the current year score that is 2019. But conclusions cannot be drawn without the historical analysis. The following paragraphs are illustrating historical trends.

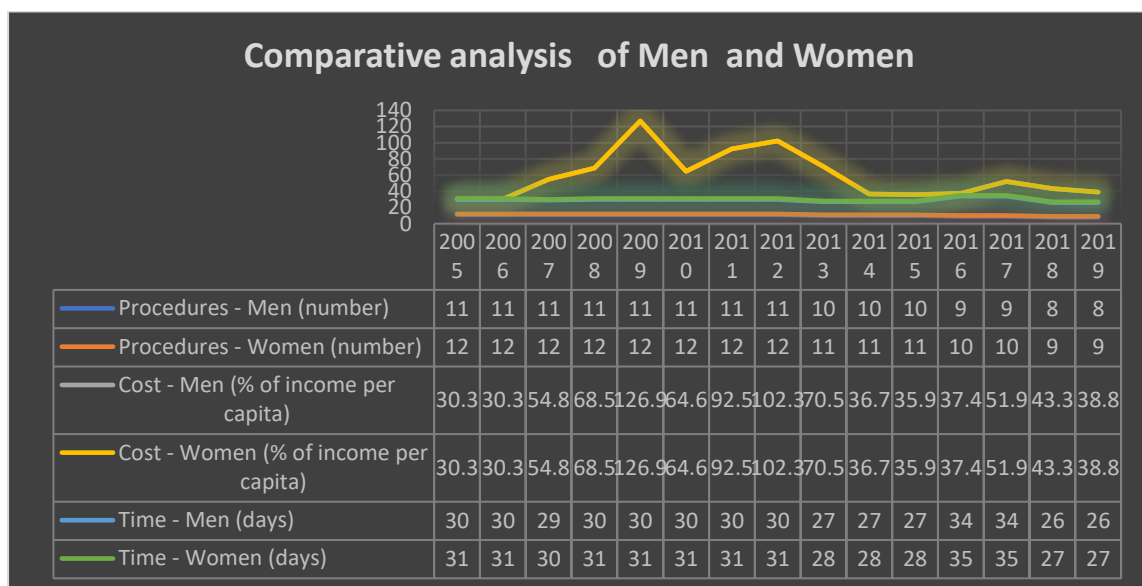


Figure 07: Comparative analysis of Men and Women for Starting Business:
 Source: Author Computation Data from World Bank

It can be observed from Figure 07 that the number of procedures over a period of time has reduced from 11 to 8. Constantly there is one extra procedure for Women. The cost is same for both men and women and the time taken is one day more for women. Due to reforms introduced for starting business the number of days required to start has reduced from 30 days to 26 days.

This one day variance for women is common in many countries apart from Iraq like Afghanistan, Bahrain, Benin, Brunei, Cameroon, Congo Rep, Egypt, Guinea, Iran, Jordan, Kuwait, Malaysia, Oman, Qatar, Saudi Arabia, Sudan, Suriname, Syria, UAE, West Bank and Gaza and Yemen.

4.4 Reforms introduced in 2019:

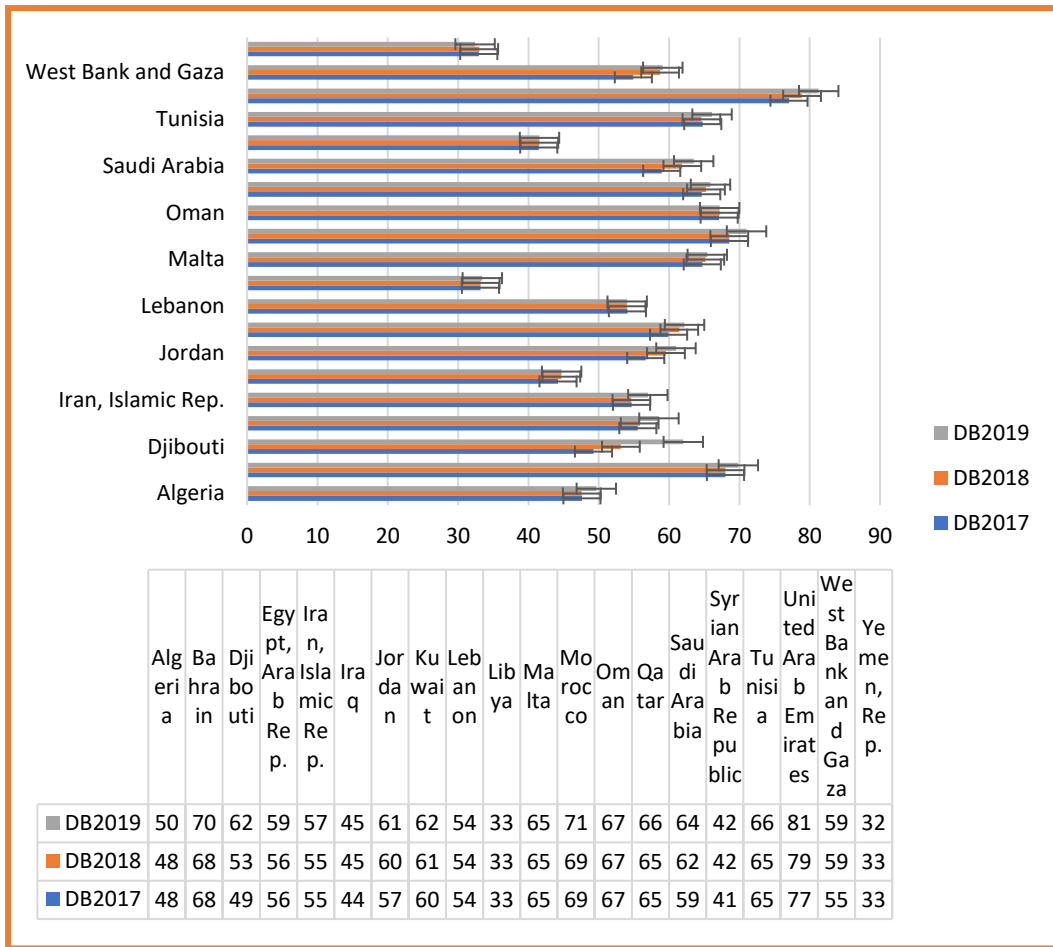
Table 02: Middle East Countries and Reforms introduced in 2018-19

Country Name	Total No. Of Reforms in 2019	Details Of Reforms
United Arab Emirates	4	1- Starting a business
		2- Getting Electricity
		3- Registering Property

		4- Getting Credit
Bahrain	2	1- Protecting Minority Investors 2- Trading across Borders
Oman	1	1- Paying Taxes
Qatar	2	1- Starting a business 4- Getting Credit
Saudi Arabia	4	1- Getting Electricity 2- Protecting Minority Investors 3- Trading across Borders 4- Enforcing Contracts
Kuwait	2	1- Starting a business 2- Protecting Minority Investors
Jordan	4	1- Protecting Minority Investors 2- Getting Credit 3- Paying Taxes 4- Enforcing Contracts
Egypt, Arab Rep.	5	1- Starting a business 2- Getting Credit 3- Protecting Minority Investors 4- Paying Taxes 5- Resolving Insolvency
Iran, Islamic Rep.	2	1- Paying Taxes 2- Trading across Borders
Iraq	2	1.Starting Business, 2.Getting Credit
Lebanon, Syrian Arab Republic and Yemen, Rep	Nil	-No Reforms

Source: Author Computation data from World Bank

Figure 08 Showing historical improvements of Middle East Countries since 2017:



Source: Author Computation data from World Bank

It can be observed from the above Table 02 and figure 08 that the countries which are introducing more number of reforms have scored better in the recent years. For example, Algeria, Djibouti, UAE are putting efforts for increasing their scores significantly. This effort is required for Iraq also. The following Figure shows the trend analysis for Iraq.

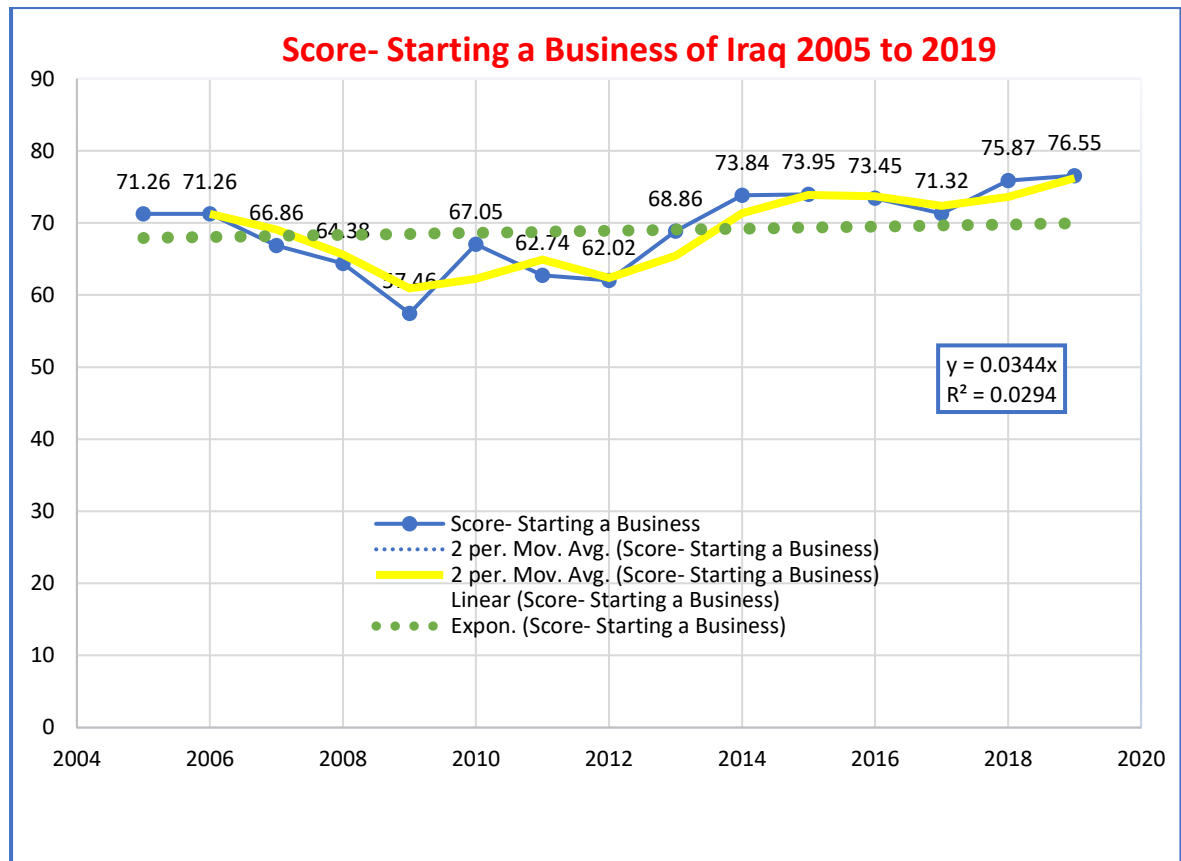


Figure 09:

Source: Author Computation data taken from World Bank

It can be observed from Figure 09 that the score of starting a business of the last two years has increased. This is due to recent reforms. But the trend analysis shows that by 2020 the score may be decreased if no significant reforms are introduced.

The Linear Forecast shows the R2 Value of 0.0294 and the Y value is 0.0344X and Trend using Linear Forecast shows 64.31 for the year 2020. Same is the case for Moving Average trend line as well as for the Exponential Trend Analysis.

Findings

Getting Credit and Resolving Insolvency are the two major areas where significant change is required for a better score in Iraq.

Resolving Insolvency indicator improvement can be done by bringing judicial reform.

Iraq starting Business Score has increased in the recent years but the Linear Forecast score is declining. This may happen if there are no significant reforms being brought.

In protecting minority investors, Iraq's score is better than the Middle East especially to the extent of shareholder's rights index (0-10). It has a score of (8.0) where as for the Middle East and North Africa region it is 5.1 only.

It is found that there is a need for the improvement in the quality of Judicial Process Index.

There is one day and one procedure difference among men and women in the country.

Countries which have introduced more reforms in the recent years have had greater improvement.

Suggestions

In the measure of quality for getting electricity, Iraq has scored '0'. This is because of duration and frequency of outage is not available or over 100. The effective tariff for electricity charge is not available online. This is one area which can be very easily transformed. It is suggested to improve on this aspect to rank higher.

The number of days taken for registering property is 51 days in Iraq, where it is 29.7 days in the Middle East and North Africa. Here, also there is scope for improvement.

It is suggested that the cost of registering a property (% of property value) should be reduced.

It is suggested that there is a need for transformation from a paper-based system to a computer-based system or a fully digitalized format system to improve the Reliability of Infrastructure index score.

Getting Credit Score in Iraq is absolute 'zero'. It is far away from the other countries of same region. It is suggested to work on this score.

Extent of Corporate transparency index and Disclosure index need to be improved. Again, here the usage of technology in maintaining records will help in improving this score.

The cost of Export and Import and time taken for export and import is very high in Iraq. It is suggested to improve on this area as there is greater scope for export of many of the produce.

Trading across borders can be made better.

It is suggested to reduce the correction time for corporate income tax.

Recommendations

The Researchers strongly recommend automating and make available online information for all the parameters of ease of doing business calculation. In many aspects, only because digitally data is unavailable Iraq is given a score of 'zero' or less than required index score.

We recommend creating electronic platforms for applying to start business, applying for electricity, and initial complaints for court disputes.

We strongly recommend Court Automation as the score is zero in this parameter.

The Researchers strongly recommend bringing reforms in the area of Resolving Insolvency, because there is no practice in Iraq and the scores which are scored in this aspect are ignored as there is 'no practice' mentioned.

Conclusions

It is concluded that, though the recent reforms brought by Iraq improved its score in the ease of doing business, it is not sufficient for significant impact on its official score. The economy needs to bring some business reforms in the coming years to compete on pace similar to that of economies of the same region. If no changes are brought then, there is possibility of a low score in the coming years as predicted by the trend analysis.

Future Study

A Future study is planned to analyze and explore the same indicators for the Kurdistan Region of Iraq.

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