# The Impact of Reforms on The Score of the 'Ease' of Doing Business

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## Abstract:

Business regulatory reforms play a major role in the economic development of a Nation. According to the World Bank 'The Doing Business' report 2019, worldwide, a record number of 314 regulatory reforms were introduced in 128 countries around the world from 2017 to 2018. When a Business environment flourishes it creates employment opportunities and also generates income to the country. The World Bank Doing Business database measures eleven parameters like trading across borders, starting Business, getting electricity, dealing with construction, enforcing contracts, paying taxes, registering property, resolving insolvency, getting Contracts, based on which 190 (one ninety) economies are ranked.

This paper analyzes the total number reforms introduced in various countries to liberate and do business. Out of 128 countries the researcher extracted twenty-nine economies which have scored a positive 2(two) variance as the samples for the study. The Researcher found a positive correlation between the total reforms introduced in an economy and the variance of score on the 'ease' of doing business of 2018 and 2019 with substantiation from 29 economies. The findings include that the economies which have introduced a greater number of reforms had a positive increase in their score proportionately. High income OECD countries introduced a smaller number of reforms compared to other regions, Sub- Saharan region has made a greater number of reforms. The paper suggests that since the two variables are directly correlating with each other, introducing effective reforms will result in a significant positive change in the scores and ranks of ease of doing business of any economy.

**Keywords:** Business Environment, ease of Doing Business, Regulatory Reforms, Economic Development.

## 1. Introduction:

Any country's economic development is based on the regulatory environment and regulatory reforms introduced by it. The regulatory environment must ease the business. But many a times because of various political, economic, social, environmental, technological conditions the regulatory environment created is not liberal and leading to a closed economy and hinders development. The World Bank publishes the doing business easiness among 190 Nations around the world based on various parameters or indicators. These parameters help the Nations to work on the regulations to be brought. The index scores help in bringing various reforms. This year a record number of Reforms were introduced around the World to improve the score and to help the private sector and to promote open economy.

Do the strict regulations restricts the economic growth and hinder entrepreneurship?

Is Getting Electricity a major Problem and slows down the starting a business process?

Is there any correlation between the total number of reforms and the variance in the scores?
If the correlation exists to what extent it is?

With these exploratory questions this research is initiated.

Around 29 economies were selected based on their positive variance value of above (2) two in the scores of 'ease' of doing business. These economies have introduced a greater number of reforms during 2018 which resulted in increase in rank and scores. The research is to explore to what extent there in an impact of reforms on the positive variance of scores.

This research will help to bring effective reforms for a better open economy and economic development which can facilitate entrepreneurship and to ease the business environment of an economy.

## Review of Literature:

2.1: Review of Studies:

The following paragraphs depict the research done across the World on the arena of ease doing business.

2.1.1: The study done by (Herrendorf & Teixeira, May 2011) finds that heavier regulation of entry is generally associated with greater corruption and a larger unofficial economy, but not with better quality of private and public goods. The study also states that the countries with less limited, less democratic and more interventional government regulate entry more heavily even controlling for the level of economic development.

2.1.2: According to World Bank enterprise survey data for 108 economies, 22% of managers consider Electricity the most serious constraint to their business. The Policy Research Working Paper ( Geginat, 2011) explores basic statistical relationship between the number of procedures, time and cost to obtain an electricity connection. The study indicates that firm perform better in terms of sales in countries where it is easier and less costly to get an electricity connection. The study suggests that the general procedural environment in the country influences the complexity of connection process.

2.1.3: A study by (Herrendorf & Teixeira, May 2011) questions, whether barrier to entry are a quantitatively important reason for income gap between developing countries.

2.1.4 A study named Business regulation and growth by (Divanbeigi & Ramalho, 2012) analyzes whether regulatory changes are linked to economic outcomes. The paper established the link between business regulation, firm creation and growth. The study highlights the importance of sound entry and exit regulation and sound market regulation and court enforcement for growth.

2.1.5: A study by (Duvanova, 2014) questions that "Should regulatory involvement in the economy necessarily generate corruption?" The paper analyzes the theoretical distinction between different types of regulatory hurdles and differential effects on the quality of governance.

2.1.6: A study by (McKenzie, 2015) summarizes the evidence on the effects of entry reforms and related policy actions to promote firm formalization.

2.1.7: The World Bank Policy Research Paper ( Maria Soledad, 2012) analyses the impact of introducing credit information sharing on firm's access to finance. The study also states credit bureau reforms also have a greater impact on firm's access to finance.

2.1.8: The study by (Prantl, 2012) explores the status after German reunification, the empirical results suggest that the entry regulation suppresses long-living entrants. The impact of firm entry regulation on sustained entry into self-employment is also analyzed.

2.1.9: The study of (Athari, 2016) investigates the relation between large foreign ownership (LFO) and informativeness of stock prices in 40 different markets. The study states that LFO is positively related to Price informativeness.

2.1.10: The study (Stel, Storey, & Thurik, 2007) examines the relationship across 39 countries between regulation and entrepreneurship. It states that the minimum capital requirement required to start a business lowers entrepreneurship rates across countries as do Labour market regulations. The study states time, cost and number of procedures are unrelated for the formation rate. After the review of literature it is found that all the indicators of doing business are significant in ranking an economy. In the above context, the researchers found a research gap of exploring all the indicators with a case study of single nation. Also the objective is to explore the following research objectives and questions.

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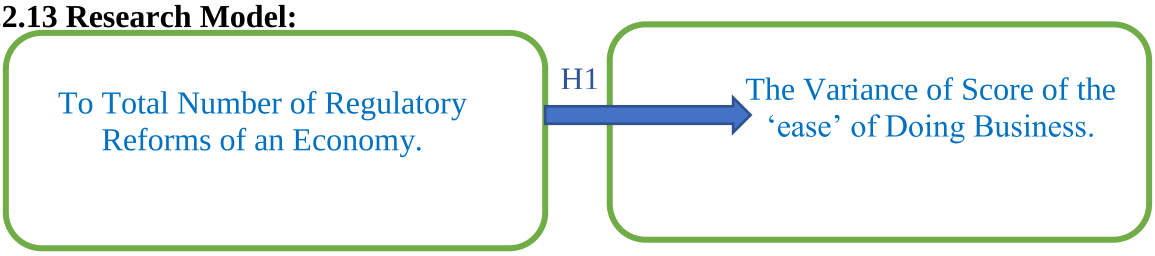
### 2.2 Research Objectives:

- To explore whether correlation exists between the regulatory reforms and the scores of ease of doing business.
- To analyze the impact of total reforms introduced on the scores of ease of doing business among the economies.
- To explore the possibilities of increasing the 'ease' of doing business score of an economy.

### 2.2.12 Research Questions:

1. Do the number of Reforms introduced by an Economy have an impact on the score of ease of doing business?
2. Do the number of reforms and positive increase or decrease of the ease of doing business score correlate with each other? If so can we forecast, it?
3. What are the possibilities of increasing the score for any country?

### 2.2.13 Research Model:




Independent Variable

Dependent Variable

### 2.2.14: Hypothesis:

H0: There is no relation between total number of reforms and positive variance in the scores of ease of doing business.

H1: There is relation between total number of reforms by an economy and the variance in the scores of ease of doing business.

## 2. Methodology:

The doing business project of World Bank provides measures of business regulation and their enforcement across economies and selected cities at the subnational and regional level. It was launched in 2002 and looks at domestic, small and medium size companies and measures the regulation applying to them through their life cycle. It captures the regulatory environment and provides qualitative indicators. The data published by World Bank is extracted through the customized tool and used for analysis in this research.

The scores of ease of doing business of 2019 and 2018 are compared and variance is calculated for all the 190 (one Ninety) economies. The total reforms introduced by the Nations is taken as the Independent variable and the positive variance of above two years is taken as Dependent variable. Then the correlation between these two variables are calculated. Also the impact of reforms on the positive variance is searched. The Regression Analysis is done to forecast the impact. Microsoft Excel 2016 is used to draw graphs for analyzing the country specific data and SPSS (23 V) is used to calculate the Correlation and Regression Analysis.

## 3. Analysis:

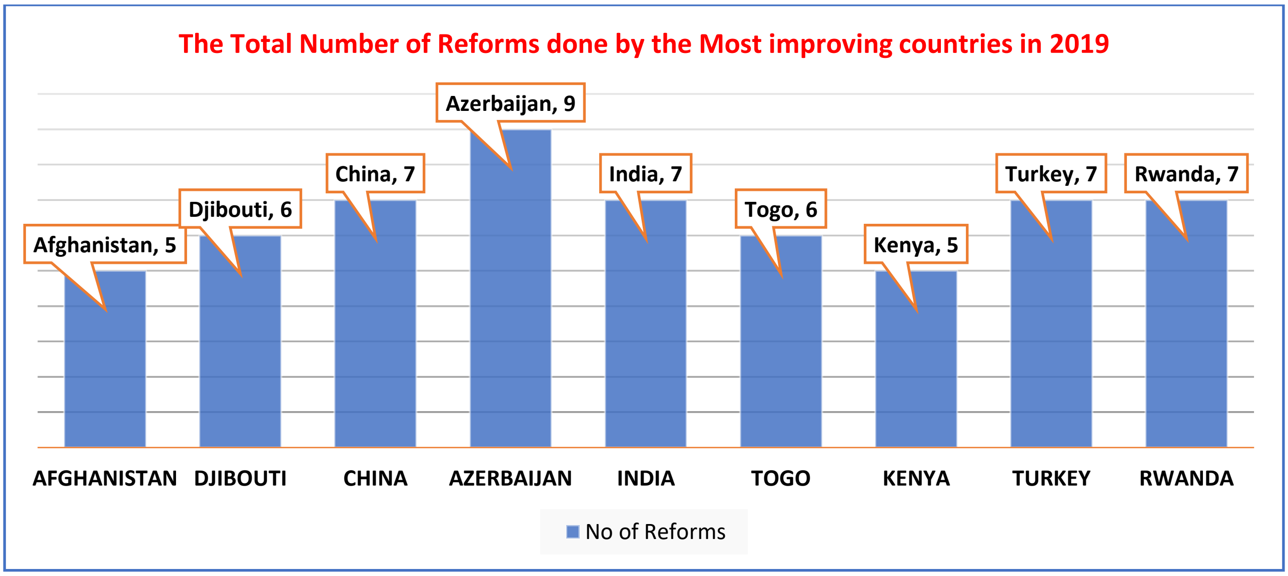
Table 01: % of Total Reforms Region wise:

| Region | Total Number of Reforms ( 29 Countries) | % of Total Reforms |
|---|---|---|
| East Asia & Pacific | 13 | 10% |
| Europe & Central Asia | 27 | 21% |
| High income: OECD | 2 | 2% |
| Latin America & Caribbean | 12 | 9% |
| Middle East & North Africa | 23 | 18% |
| South Asia | 15 | 12% |
| Sub-Saharan Africa | 36 | 28% |
| Grand Total | 128 | 100% |

Source: Own Computation data from (World_Bank, 2019)

It can be observed from the above table that Sub- Saharan African countries have done highest number (28%) of Reforms followed by Europe and Central Asia. High Income countries (OECD) have done the least. Middle East comes in the third position when it comes to total number of reforms.

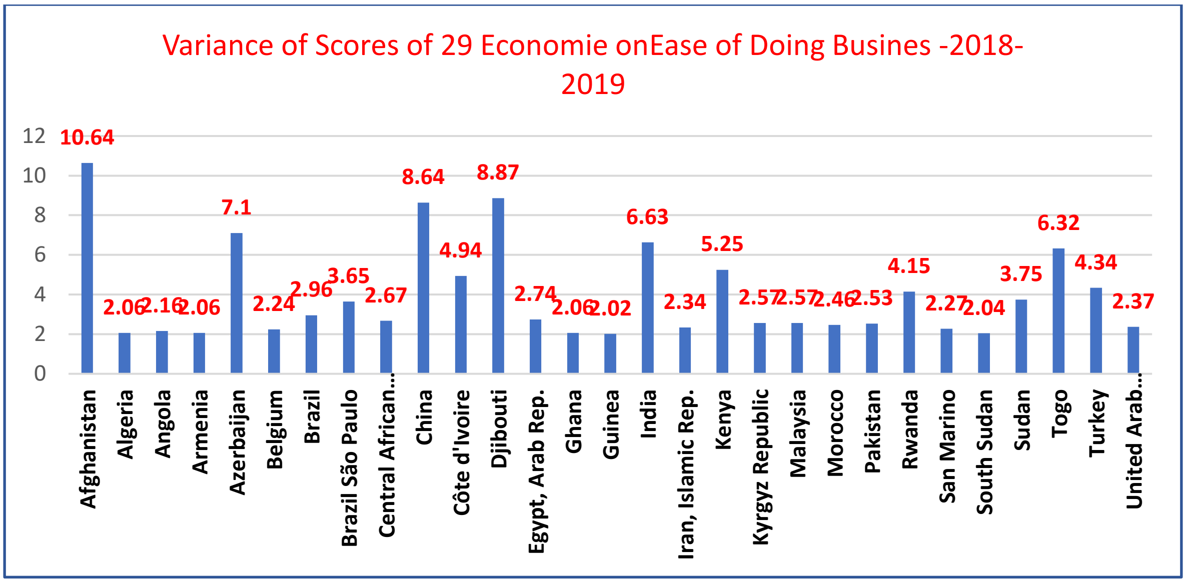
Figure 01: Number of Reforms done by the most improving countries.




Source: Own Computation data from (World_Bank, 2019).

It can be observed that Azerbaijan has done more reforms in the year 2018.

Figure 02:




Source: Own Computation data from (World_Bank, 2019)

It can be observed that Afghanistan has scored the highest variance from 2018 to 2019 after introducing five reforms. Djibouti and China have scored more than 8 points index. India and Togo scored more than six. Turkey after introducing 7 reforms scored a variance of f 4.34.

Table 02:

Table Showing the Variance between the Scores of Ease of Doing Business and the Total Number of Reforms introduced in 29 Economies in 2018-2019

| SL No. | Country | Region | Ease of Doing Business Score -2018 | Ease of Doing Business Score - 2019 | Variance of Scores of Ease of Doing Busines - 2018-2019 | Total Number of Reforms |
|---|---|---|---|---|---|---|
| 1 | Afghanistan | South Asia | 37.13 | 47.77 | 10.64 | 5 |
| 2 | Algeria | Middle East & North Africa | 47.59 | 49.65 | 2.06 | 2 |
| 3 | Angola | Sub-Saharan Africa | 41.70 | 43.86 | 2.16 | 2 |
| 4 | Armenia | Europe & Central Asia | 73.31 | 75.37 | 2.06 | 5 |
| 5 | Azerbaijan | Europe & Central Asia | 71.54 | 78.64 | 7.10 | 9 |
| 6 | Belgium | High income: OECD | 71.71 | 73.95 | 2.24 | 2 |
| 7 | Brazil | Latin America & Caribbean | 57.05 | 60.01 | 2.96 | 6 |
| 8 | Brazil São Paulo | Latin America & Caribbean | 56.29 | 59.94 | 3.65 | 6 |
| 9 | Central African Republic | Sub-Saharan Africa | 34.23 | 36.90 | 2.67 | 2 |
| 10 | China | East Asia & Pacific | 65.00 | 73.64 | 8.64 | 7 |
| 11 | Côte d'Ivoire | Sub-Saharan Africa | 53.06 | 58.00 | 4.94 | 5 |
| 12 | Djibouti | Middle East & North Africa | 53.15 | 62.02 | 8.87 | 6 |
| 13 | Egypt, Arab Rep. | Middle East & North Africa | 55.82 | 58.56 | 2.74 | 5 |
| 14 | Ghana | Sub-Saharan Africa | 57.16 | 59.22 | 2.06 | 2 |
| 15 | Guinea | Sub-Saharan Africa | 49.49 | 51.51 | 2.02 | 1 |
| 16 | India | South Asia | 60.60 | 67.23 | 6.63 | 7 |
| 17 | Iran, Islamic Rep. | Middle East & North Africa | 54.64 | 56.98 | 2.34 | 2 |
| 18 | Kenya | Sub-Saharan Africa | 65.06 | 70.31 | 5.25 | 5 |
| 19 | Kyrgyz Republic | Europe & Central Asia | 65.76 | 68.33 | 2.57 | 4 |
| 20 | Malaysia | East Asia & Pacific | 78.03 | 80.60 | 2.57 | 6 |
| 21 | Morocco | Middle East & North Africa | 68.56 | 71.02 | 2.46 | 4 |
| 22 | Pakistan | South Asia | 52.78 | 55.31 | 2.53 | 3 |
| 23 | Rwanda | Sub-Saharan Africa | 73.73 | 77.88 | 4.15 | 7 |
| 24 | San Marino | Europe & Central Asia | 62.47 | 64.74 | 2.27 | 2 |
| 25 | South Sudan | Sub-Saharan Africa | 33.30 | 35.34 | 2.04 | 1 |
| 26 | Sudan | Sub-Saharan Africa | 45.09 | 48.84 | 3.75 | 5 |
| 27 | Togo | Sub-Saharan Africa | 48.88 | 55.20 | 6.32 | 6 |
| 28 | Turkey | Europe & Central Asia | 69.99 | 74.33 | 4.34 | 7 |
| 29 | United Arab Emirates | Middle East & North Africa | 78.91 | 81.28 | 2.37 | 4 |

Source: Own Computation data from (World_Bank, 2019)

It can be observed from the above table that out of the 29 economies Azerbaijan topped in introducing the total number of reforms for making the economy ease in doing the business also the score has increased from 71.54 to 78.64. China. India, Rwanda and Turkey stand second with seven reforms. Brazil, Djibouti, Malaysia have come out with six reforms.

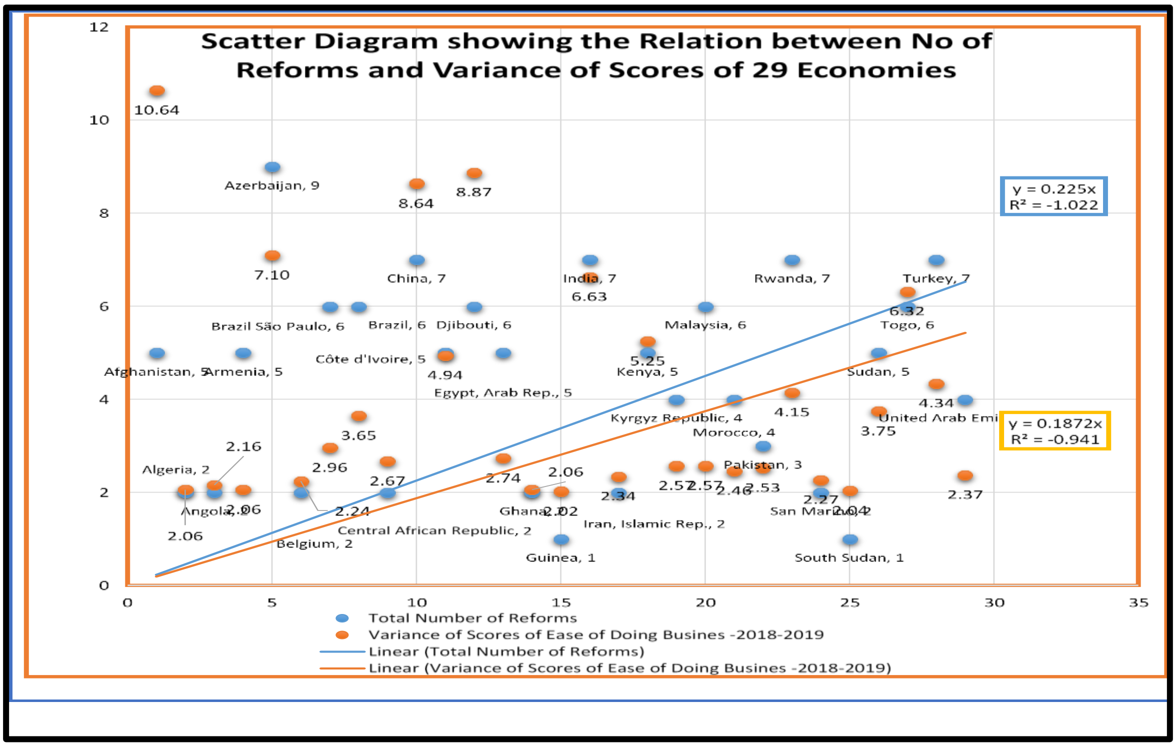
It can be observed that, there is high increase proportionately in these economies in their scores. Also it can observed the variance is high and positive. Let us see whether any correlation between these two variables exists.

### 4.1 Correlation:

Table 03: Correlation between the variables:

| Correlations | | | |
|---|---|---|---|
| | | Total Number of Reforms | Variance between the scores of 'ease' of Doing Business Scores – 2018- 29019 |
| Total Number of Reforms | Pearson Correlation | 1 | .633** |
| | Sig. (2-tailed) | | .000 |
| | N | 29 | 29 |
| Variance between the scores of 'ease' of Doing Business Scores – 2018-29019 | Pearson Correlation | .633** | 1 |
| | Sig. (2-tailed) | .000 | |
| | N | 29 | 29 |
| Correlation is significant at the 0.01 level (2-tailed). | | | |

Figure 03: Scatter Diagram to show the relationship:




Source: Own Computation data from (World_Bank, 2019)

The above analysis of correlation is done to measure the relation between the independent variable and the dependent variable. The value for Pearson Correlation between the total number of Reforms and the 'ease' of doing business score is .633** which indicates that there is positive and good relation between these two variables. Also the Scatter diagram shows a significant positive relationship between these two variables.

### 4.2 Regression Analysis:

| Model Summary | | | | |
|---|---|---|---|---|
| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate |
| 1 | .633[a] | .401 | .379 | 1.88950 |
| a. Predictors: (Constant), Total Number of Reforms | | | | |

| ANOVA[a] | | | | | | |
|---|---|---|---|---|---|---|
| Model | | Sum of Squares | df | Mean Square | F | Sig. |
| 1 | Regression | 64.533 | 1 | 64.533 | 18.075 | .000[b] |
| | Residual | 96.395 | 27 | 3.570 | | |
| | Total | 160.928 | 28 | | | |
| a. Dependent Variable : Variance between the Scores of 'ease' of Doing Business 2018-2019 | | | | | | |
| b. Predictors: (Constant), Total Number of Reforms | | | | | | |

| Coefficients | | | | | | |
|---|---|---|---|---|---|---|
| Model | | Unstandardized Coefficients | | Standardized Coefficients | t | Sig. |
| | | B | Std. Error | Beta | | |
| 1 | (Constant) | .823 | .814 | | 1.012 | .321 |
| | Total Number of Reforms | .707 | .166 | .633 | 4.252 | .000 |
| a. Dependent Variable: Variance between the Scores of 'ease' of Doing Business 2018 and 2019 | | | | | | |

### 4. Conclusion:

The Researcher would like to conclude that, there is significant positive relation exists between the total number of reforms introduced by the economies and the score variance of 'ease' of doing business during 2018 and 2019. The Null hypothesis is rejected, and the Alternate hypothesis is accepted. That is, there is significant positive relationship exists in the reforms introduced and the scores of variances.

**Findings**:

- The above regression analysis shows that there is a positive significant relationship with the total number of reforms introduced by the Economies and the Variance of Scores of ease of doing business during 2018 and 2019.The $R^2$ Value is 0.401 ($R= 0.633^a$ and $P <0.01$) . Hence it is proved that there exists a significant correlation between these two variables.
- The economies which have introduced more number of reforms during the year 2018-19 have scored more in the 'ease' of doing business.

- High income OECD countries have introduced less number of Reforms compared to other regions.
- In the year 2019 reforms, Sub- Saharan African countries have made highest number of reforms with 28% of total reforms of twenty-nine economies.
- Economies, which do not introduce any regulatory changes may be ranked very low because of the economies which are constantly growing in the future years.
- Suggestions:
- It is suggested to take the economies who have increased their scores by introducing more reforms as an example to those economies who wanted to increase their scores in the ‘ease’ of doing business.
- Some Economies like Afghanistan have introduced 5 (Five) reforms but the variance is more that is 10.64. Whereas some economies like Azerbaijan and Egypt have introduced nine reforms and five reforms respectively but their variance score has not increased proportionately. Hence it is suggested it is not only a reform, but an effective regulatory change is required to have a significant change in the scores.

## 5. Limitations:

The paper uses secondary data published by World Bank and the conclusions are drawn based on the 29 economies data only. If all the 128 economies which introduced regulatory reforms are taken, then the findings may differ.

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