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DIPLOMA THESIS

Extended Abstract

Ease of doing business

Index snadnosti podnikání

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Summary

This thesis deals with one of the indexes done by the World Bank called the “ease of doing business index”. It ranks individual countries from the point of view of regulatory environment of such country. It examines the ease of setting up a business, regulations in entrepreneurship, and attractiveness for foreign investors. The higher the index the better is the situation in a country. However there has been much criticism focused on the objectivity of its measurements. It has been suggested that some indicators that are vital to picture the real economic situation are missing. This thesis will deal with adding some of these missing indicators that could potentially influence the rating of individual economies and observe their shift on the index.

Keywords

Domestic firms, regulations, constraints, global economy, opportunities and threats, construction, external surroundings, home environment, GDP growth, unemployment rate, corruption rate

Introduction

Some 15 years ago there were no globally available indicator sets for monitoring microeconomic factors regarding private firms entering markets, making investments and mainly promoting growth and creating more opportunities for entrepreneurs. This has changed with an index that was designed by World Bank and it is called "*the ease of doing business*". The Ease of doing business Index is a system of ranking that evaluates how business-friendly regulations a particular country has. Up to date this index ranks 189 countries with number 1 for being the most friendly and 189 for the least friendly. Basically higher ranking, represented by low numerical value, characterizes more favorable regulatory environment for business operations. This index is calculated annually and can be found in a report called "*Doing Business*", which is also updated annually and contains all the necessary information regarding the regulatory environment within an individual economy as well as its global comparison. In this thesis, the ease of doing business index is going to be further expanded by other macroeconomic indicators and its impact will be analysed on four selected economies.

Objectives of the thesis

As it was mentioned this work focuses on the level of difficulty with which a private firm can enter a market in domestic country. This difficulty is expressed by an index that is consisted of various indicators. Indicators on the ease of doing business index are largely focused on the restrictions that a firm may find along its way to opening of business. These indicators are of a very specific character. Indicators added in this thesis are of a more general character, though I believe they have a major influence on the ease of doing business. These indicators are the real annual gross domestic product growth, corruption rate and unemployment rate. Data are gathered for all the available countries, however only 4 countries are selected for further analyses. These countries are Argentina, Russia, South Africa and Singapore. Therefore the research questions are:

- **Does an annual GDP growth change the country's ranking on the index?**
- **Does a level of unemployment change the country's ranking on the index?**
- **Does a level of corruption change the country's ranking on the index?**

After analyzing each of the indicators, all the indicators will be put in the index at the same time and the final change will be evaluated. This will show the overall position shift of selected countries. Change will be discussed and evaluated. Last hypothesis is then:

- **A country's position on the index changes after averaging all added indicators with the original indicators for such country.**

Methodology

The main idea behind the theoretical part is to make the reader familiar with the index, its development and point out certain inadequacies among the indicators. Practical part will then subsequently focus on the explanation of these inadequacies. The main goal of this part will be to implement these indicators in the calculations for specific countries on the index.

In order to ensure consistency, the methodology in this thesis is done based on the methodology of Doing Business created by the World Bank. For the purposes of the research in this thesis, firstly the 10 of the existing indicators were added in a table with data from "Distance to Frontier" (DTF) calculator. DTF corresponds with the ranking on DBI and it shows how far on average an economy is at a point in time from the best performance achieved by any economy. These data will be added into Excel table and computed with the additional indicators. Data collection for the additional indicators in this thesis is of a quantitative character. They are adjusted into percentage ratio on a scale from 0 to 100% according to its original value, to create consistent and comparable values. Consequently a percentage amount for

each country is computed, ranked and set into the index. In the end an average for all the indicators included is counted and expressed by percentile rank into the column with final ranking. The lower is the number in the ranking the better is the ease of doing business for such country. Final shifts are compared to the original position on the ranking and conclusions are made.

The entire ranking is done under the presumption that every indicator has the same weight like the other one

Conclusion

Almost every country had changed its position with each one of these indicators. With individual indicators the shifts were ranging between a 34-points drop to a 17-point raise. Only about 10% of countries kept their original position. This indicates that the hypothesis has proved to be correct. Since the shift occurred with individual indicators separately, then after adding them up and averaging them with the existing indicators the shift has remained. These final shifts varied from a 44-points drop to a 24-point raise. The top three countries on the original Doing Business rank kept their positions and generally there were no major shifts among the top 20 countries. This proves the statement that the best business environment prevails in wealthy countries. Most significant shifts happened between countries that originally ranked on places from 60 to 90. Not much change was observed among countries that ranked towards the end of the index. This is mostly due to the fact that countries with hostile regulatory environment also score worse with the other indicators like unemployment. This being said, there were still important negative shifts among countries that once were high up the index, such as Macedonia or with larger economies such as South Africa.

Despite certain insufficiencies in this thesis, one of which being the correct methodology applied or possible doubts regarding the comparability of regulatory and macroeconomic factors, I believe that it gives a good look at what could be done in future with the ease of doing business index, how it can be extended and what

could it focus on more. And again this index, however it may not be perfect, is certainly a great way to show the countries with lower rankings, where to turn for advice and perhaps enlightenment too as it has already been done in hundreds of regulatory reforms worldwide. Doing business met with praise just as much as with criticism, but in reality there is no unique way how to correctly measure one of the most complex scopes of the economy such as the ease of doing business.

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