

## CONDITIONS TO CONDUCT BUSINESS ACTIVITIES IN SELECTED COUNTRIES

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*Economic activity is associated with respect for the law laid down by the given state. Unfavorable business environment are a major obstacle for companies. The aim of this study was to present the conditions of carrying out economic activities in selected countries, with particular emphasis on Poland and Ukraine on the basis of the World Bank ranking. The place of the country in the ranking depends on 10 criteria, which are the indicators of conditions for doing business. In the ranking published in 2013, among 185 countries Poland has been classified at place 55, Ukraine at place 137. In comparison with the previous year's ranking both countries improved.*

*Экономическая деятельность, связанная с уважением к закону, установленным государством. Главным препятствием для компаний являются неблагоприятные условия в бизнес среде. Цель данного исследования заключалась в представлении условий для осуществления экономической деятельности в отдельных странах, с особым акцентом на Польшу и Украину на основе рейтинга Всемирного банка. Позиция в рейтинге страны зависит от 10 критериев, которые являются индикаторами условий для ведения бизнеса. В рейтинге, опубликованном в 2013 года Польша была отнесена к 55 пунктам, Украина на 137 месте среди 185 стран. По сравнению с рейтингом прошлого года между двумя странами наступил рост.*

**Introduction.** Economic activity is associated with respect for the law laid down by a state. Regulations on business have impact on how companies are doing on the market and what regulation they must comply with. Unfavorable business environment is a major hurdle for companies [Izdebski, Skudlarski, Świętochowska, Zajac 2012]. For comparative purposes, the experts of the World Bank every year do research regarding the conduct of business in different countries around the world. They take into account a number of factors, including setting up and closing the business, ease of obtaining loan, employing workers and paying taxes. They

watch which countries reform their economies, and on this basis the ranking is formed.

The aim of this study was to present the conditions of carrying out economic activities in selected countries, with particular emphasis on Poland and Ukraine on the basis of the World Bank ranking. The ranking has been published since 2003 and includes 185 countries. A country's place in the ranking depends on 10 criteria, which are indicators of conditions for doing business.

**Ease of Doing Business Index.** Ease of Doing Business Index is an indicator developed by the World Bank. Higher rank indicates better, usually simpler, regulations governing matters related to running an enterprise and stronger protection of property by law. Empirical studies, commissioned by the World Bank showed that improving these regulations has a very strong effect on the economic growth.

The indicator is based on research on laws and regulations carried out and verified by more than 5,000 representatives of the state authorities, lawyers, consultants, accountants and other professionals who every day have to deal with regulations concerning the business.

Ease of Doing Business Index is designed to measure regulations directly affecting businesses without examining other conditions such as proximity to major markets, quality of infrastructure, inflation, or crime. Position of the country in the ranking is based on the average of the 10 categories:

- Starting a Business - Procedures, time and required minimum initial contribution,
- Obtaining building permits - the procedures, time and cost of inspections and obtaining permits and inspections,
- The electric energy indicator-time and cost of getting a connection to electric grid by the newly built electric company,
- Property registering - Procedures, time and cost of registering property,
- Getting credit - credit control force and the amount of information on the loan,
- Investor protection - the scope of disclosure and the responsibility of management before the shareholders,
- Paying taxes - Number of taxes paid, hours per year spent on the

preparation of tax statements, and part of the gross income which is the paid tax,

- Foreign Trade - the number of documents, signatures and the time required for an entrepreneur to import or export,
- Conclusion of agreements - the procedures, time and cost of entering into and enforcing debt contracts,
- Liquidation of the company - the time and cost associated with the termination of activities, and the recovery rate.

The categories are independent, so it is rare that countries were at the forefront (or at the very end) in all categories. In other words, even countries among the leaders can make some reforms to improve EoDBI.

**Poland and Ukraine in the World Bank ranking.** For several years Singapore has been the ranking leader. The top ten also included: New Zealand, United States, Denmark, Norway, United Kingdom, Korea Rep., Georgia, Australia. Poland was ranked at 55 place out of 185 countries evaluated, which means promotion by 19 positions compared to the previous report. Ukraine is classified on the 137th place and in relation to the previous report, has moved up by 15 places (Table 1, 2). Poland and Ukraine in the overall ranking are ahead of such countries as Finland (11), Latvia (25), Lithuania (27), Austria (29), Spain (44), Slovakia (46) and Hungary (54).

Poland received top ratings in the following categories: obtaining credit (4th place), investors protecting (49) and international trade (50), while Ukraine received 23rd place in the category of getting credit, 42nd in the category of respecting the existing agreement and 50th in the category of business starting.

For both countries procedures for obtaining building permits were very negative. According to the authors of the report, they are very time-consuming (301 days in Poland, 375 days in Ukraine), formal (29 and 20 formalities were counted (Table 4) respectively) and expensive (49.4% of income per capita in Poland and 1262.6% in Ukraine). In this respect, Poland ranks 161 place and Ukraine -183<sup>rd</sup>.

Poland is also weak when it comes to starting a business (124 place). The bad score comprised of: high cost of start-up, a large number of formalities (6), long time (32 days). In comparison, in New Zealand, just one procedure and one day is needed to start a business.

Table 1

**Ranking of conditions for doing business in certain countries**

<b>Economy</b>	<b>Ease of Doing Business Rank</b>	<b>Starting a Business</b>	<b>Dealing with Construction Permits</b>	<b>Getting Electricity</b>	<b>Registering Property</b>	<b>Getting Credit</b>	<b>Protecting Investors</b>	<b>Paying Taxes</b>	<b>Trading Across Borders</b>	<b>Enforcing Contracts</b>	<b>Resolving Insolvency</b>
<b><u>Poland</u></b>	<b>55</b>	<b>124</b>	<b>161</b>	<b>137</b>	<b>62</b>	<b>4</b>	<b>49</b>	<b>114</b>	<b>50</b>	<b>56</b>	<b>37</b>
<b><u>Ukraine</u></b>	<b>137</b>	<b>50</b>	<b>183</b>	<b>166</b>	<b>149</b>	<b>23</b>	<b>117</b>	<b>165</b>	<b>145</b>	<b>42</b>	<b>157</b>
Singapore	1	4	2	5	36	12	2	5	1	12	2
Hong Kong SAR, China	2	6	1	4	60	4	3	4	2	10	17
New Zealand	3	1	6	32	2	4	1	21	25	17	13
United States	4	13	17	19	25	4	6	69	22	6	16
Denmark	5	33	8	14	6	23	32	13	4	34	10
Norway	6	43	23	14	7	70	25	19	21	4	3
United Kingdom	7	19	20	62	73	1	10	16	14	21	8
Korea, Rep.	8	24	26	3	75	12	49	30	3	2	14
Georgia	9	7	3	50	1	4	19	33	38	30	81
Australia	10	2	11	36	37	4	70	48	44	15	18
<b><u>Latvia</u></b>	<b>25</b>	<b>59</b>	<b>113</b>	<b>83</b>	<b>31</b>	<b>4</b>	<b>70</b>	<b>52</b>	<b>16</b>	<b>24</b>	<b>33</b>
<b><u>Hungary</u></b>	<b>54</b>	<b>52</b>	<b>55</b>	<b>109</b>	<b>43</b>	<b>53</b>	<b>128</b>	<b>118</b>	<b>73</b>	<b>16</b>	<b>70</b>
<b><u>Belarus</u></b>	<b>58</b>	<b>9</b>	<b>30</b>	<b>171</b>	<b>3</b>	<b>104</b>	<b>82</b>	<b>129</b>	<b>151</b>	<b>13</b>	<b>56</b>
<b><u>Czech Republic</u></b>	<b>65</b>	<b>140</b>	<b>74</b>	<b>143</b>	<b>27</b>	<b>53</b>	<b>100</b>	<b>120</b>	<b>68</b>	<b>79</b>	<b>34</b>
<b><u>Bulgaria</u></b>	<b>66</b>	<b>57</b>	<b>123</b>	<b>128</b>	<b>68</b>	<b>40</b>	<b>49</b>	<b>91</b>	<b>93</b>	<b>86</b>	<b>93</b>
<b><u>Turkey</u></b>	<b>71</b>	<b>72</b>	<b>142</b>	<b>68</b>	<b>42</b>	<b>83</b>	<b>70</b>	<b>80</b>	<b>78</b>	<b>40</b>	<b>124</b>
<b><u>Romania</u></b>	<b>72</b>	<b>68</b>	<b>129</b>	<b>168</b>	<b>72</b>	<b>12</b>	<b>49</b>	<b>136</b>	<b>72</b>	<b>60</b>	<b>102</b>
<b><u>Italy</u></b>	<b>73</b>	<b>84</b>	<b>103</b>	<b>107</b>	<b>39</b>	<b>104</b>	<b>49</b>	<b>131</b>	<b>55</b>	<b>160</b>	<b>31</b>
<b><u>Greece</u></b>	<b>78</b>	<b>146</b>	<b>31</b>	<b>59</b>	<b>150</b>	<b>83</b>	<b>117</b>	<b>56</b>	<b>62</b>	<b>87</b>	<b>50</b>
<b><u>China</u></b>	<b>91</b>	<b>151</b>	<b>181</b>	<b>114</b>	<b>44</b>	<b>70</b>	<b>100</b>	<b>122</b>	<b>68</b>	<b>19</b>	<b>82</b>

Source: *Doing Business 2013*, World Bank, <http://www.doingbusiness.org/rankings>

In terms of ease of paying taxes Poland occupied 114<sup>th</sup> place, Ukraine 165<sup>th</sup> place. An entrepreneur who wishes to meet the needs of Polish tax regulations, would have to make 18 payments making up a total of 43.8% of profit before tax and spend 286 hours a year for that. Ukrainian entrepreneur must make 28 payments making up a total of 55.4% of gross profit, dedicating 491 hours a year (Table 4).

In this year's ranking Poland experienced the biggest rise from position 74 in 2012 to 55 in 2013. For the countries of Central and Eastern Europe, in comparison to previous year the following countries increased their places: Russia (by 6 seats) and the Ukraine (up 15 places). Hungary fell by 5 places, and Bulgaria fell by 2 places.

*Table 2*

**The conditions for doing business in Poland and Ukraine on the basis of the World Bank's ranking published in 2012 and 2013**

Topic Rankings	Doing Business 2013 Rank		Doing Business 2012 Rank		Change in Rank	
	Poland	Ukraine	Poland	Ukraine	Poland	Ukraine
Ease of Doing Business Rank	55	137	74	152	+19	+15
Starting a Business	124	50	129	116	+5	+66
Dealing with Construction Permits	161	183	157	182	-4	-1
Getting Electricity	137	166	130	170	-7	+4
Registering Property	62	149	87	168	+25	+19
Getting Credit	4	23	4	23	No change	No change
Protecting Investors	49	117	46	114	-3	-3
Paying Taxes	114	165	124	183	+10	+18
Trading Across Borders	50	145	49	144	-1	-1
Enforcing Contracts	56	42	84	44	+28	+2
Resolving Insolvency	37	157	91	158	+54	+1

*Source: Own study based on [www.doingbusiness.org/rankings](http://www.doingbusiness.org/rankings)*

According to the bank, Poland improved its position thanks to the reforms in four areas: property registration, taxes, contract enforcement and bankruptcy proceedings. Ukraine improved its position due to changes in the following areas: opening the business, taxes, registering property (Table 3). Ten countries which recorded the highest increase in the ranking were the following : Sri Lanka, Uzbekistan, Burundi, Costa Rica, Mongolia, Greece, Serbia, Kazakhstan (Table 3).

Table 3

**Countries that mostly improved in three or more indicators based on World Bank ranking published in 2013**

	Economy	Ease of Doing Business Rank	Starting a Business	Dealing with Construction Permits	Getting Electricity	Registering Property	Getting Credit	Protecting Investors	Paying Taxes	Trading Across Borders	Enforcing Contracts	Resolving Insolvency
1	<b>Poland</b>	55				+			+		+	+
2	Sri Lanka	81	+			+	+			+		
2	<b>Ukraine</b>	137	+			+			+			
4	Uzbekistan	154	+				+			+		+
5	Burundi	159	+	+		+				+		
6	Costa Rica	110	+	+			+		+			
6	Mongolia	76	+				+	+				
8	Greece	78		+				+				+
9	Serbia	86	+								+	+
10	Kazakhstan	49	+				+					+

Source: [www.doingbusiness.org/~ /media/GLAWB/Doing%20Business/Documents/Annual-Reports/English/DB13-full-report.pdf](http://www.doingbusiness.org/~ /media/GLAWB/Doing%20Business/Documents/Annual-Reports/English/DB13-full-report.pdf)

Table 4

**Number of procedures, number of payments and the time of their implementation in selected countries based on the World Bank's published in 2013**

Economy	Ease of Doing Business Rank	Starting a Business		Dealing with Construction Permits		Paying Taxes		Registering Property	
		Procedures (number)	Time (days)	Procedures (number)	Time (days)	Payments (number per year)	Time (hours per year)	Procedures (number)	Time (days)
<u>Poland</u>	55	6	32	29	301	18	286	6	54
<u>Ukraine</u>	137	7	22	20	375	28	491	10	69
Singapore	1	3	3	11	26	5	82	5	21
Hong Kong SAR, China	2	3	3	6	67	3	78	5	36
New Zealand	3	1	1	6	89	8	152	2	2
United States	4	6	6	15	27	11	175	4	12
Denmark	5	4	6	8	68	10	130	3	10
Norway	6	5	7	10	123	4	87	1	3
United Kingdom	7	6	13	9	99	8	110	6	29
Korea, Rep.	8	5	7	11	29	10	207	7	11
Georgia	9	2	2	9	74	5	280	1	2
Australia	10	2	2	11	112	11	109	5	5
<u>Latvia</u>	25	4	16	21	203	7	264	5	18
<u>Hungary</u>	54	4	5	26	102	12	277	4	17
<u>Belarus</u>	58	5	5	12	130	10	338	2	10
<u>Czech Republic</u>	65	9	20	33	120	8	413	3	24
<u>Bulgaria</u>	66	4	18	21	107	15	454	8	15
<u>Turkey</u>	71	6	6	20	180	15	223	6	6
<u>Romania</u>	72	6	10	15	287	41	216	6	26
<u>Italy</u>	73	6	6	11	234	15	269	3	24
<u>Greece</u>	78	11	11	15	89	8	202	11	18
<u>China</u>	91	13	33	28	270	7	338	4	29
Europa Wschodnia i Azja Środkowa Eastern Europe & Central Asia	-	6	14	19	226	28	260	6	30
OECD	-	5	12	14	143	12	176	5	26

Source: Own study based on [www.doingbusiness.org/rankings](http://www.doingbusiness.org/rankings)

**Summary.** The World Bank report shows that too many legal regulations, excessive taxes and government hypertrophy are not the way for growth and prosperity. World's richest countries are at the forefront. At the same time the same countries often occupy very high positions in the other rankings, such as the quality of life HDI (Human Development Index). On the other hand, each ranking has its critics. What is important is the methodology that draws attention to conducting business only from the formal side, and does not include the practical side of business in the given country. Various components of the indicator itself make suggestions for improving the situation. Many of them can be relatively easily implemented and are not controversial. Publishing the Ease of Doing Business index has improved regulations in many countries. Some of them set themselves the goal of being among the best 25 countries. Ten of the most active countries were: Poland, Sri Lanka, Ukraine, Uzbekistan, Burundi, Costa Rica, Mongolia, Greece, Serbia, Kazakhstan. In the ranking, published in 2013 Poland has been classified at place 55, Ukraine at 137th . In comparison with the previous year's ranking , two countries experienced a rise.

### **Literature.**

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