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Comparison of Current Business Environment in the Czech Republic and Poland

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Abstract. The paper assesses the current business conditions that the World Bank assesses annually. The data obtained from this database are further analyzed in order to gain insight into similarities and differences of the business environment in selected economies with similar territorial, cultural, historical and political background, but completely different populations and sizes. Czech and Polish economies are evaluated according to 10 criteria selected from a very wide range of areas that clearly contribute to the quality of the business environment. The selection and subsequent evaluation of individual criteria are subject to highly qualified processing by experts in each of the 190 countries that are annually involved in the project. This contribution uses data from the November report called *Doing Business 2019, Training for Reform*. The data were assessed for the period between June 2017 and May 2018. The analysis shows that the Czech Republic and Poland have very similar business conditions and almost identical placements in the ranking of surveyed countries. A more detailed assessment of individual sub-areas shows a significant difference in dealing with construction permits for business purposes and in the processes necessary for obtaining a permanent connection to the electricity grid for business purposes and differences in legal enforcement of valid contracts.

Keywords: World Bank, Doing Business 2019, Entrepreneurship, Business Environment.

1 Introduction

Business environment and the comparison of business conditions is an important parameter of macroeconomic stability and an important determinant of economic growth [4], [7] and [10]. The impact of the macroeconomic business environment on the development of corporate social responsibility has been examined by [5], [8]. These authors have found out that the business environment can affect corporate social responsibility in a variety of ways, and even in unfavourable macroeconomic conditions, companies continue to participate in socially responsible activities due to the fact that they bring them long-term benefits. In order to verify this statement, a quantitative assessment of the quality of institutions is needed. The importance of business environment has been evaluated in other articles by other authors, for example Carmeli [2], Slavik [12], Petrik [11], Nemec [9], Klapper [6], Chavis [3], and Young [13].

This paper explores World Bank studies, especially the last one from 2018, which focuses on defining individual aspects of the quality of the business environment worldwide. In particular, we will focus on assessing the conditions for doing business in the Czech Republic and Poland.

Business conditions in various countries have been assessed for the last 16 years by World Bank Group and International Bank for Reconstruction. Then, the results are made public in final reports named "Doing Business" [1]. Doing Business 2019 is the 16th in a series of annual reports investigating the regulations that enhance business activity and those that constrain it. The report provides quantitative indicators covering 11 areas of the business environment in 190 economies. The goal of the Doing Business series is to provide objective data for use by governments in designing sound business regulatory policies and to encourage research on the important dimensions of the regulatory environment for firms.

2 Methodology and Procedure for Assessing the Quality of Business Environment

The latest study compares business rules and regulations in 190 countries around the world using 11 key indicators. The overall index is the result of the average value of sub-ratings of only 10 indicators and ranks each compared country in the global ranking, further divided into 7 groups (32 OECD countries, 49 from Sub-Saharan Africa [abb. SSA], 32 from Latin America & Caribbean [abb. LA & C], 25 from Europe & Central Asia [abb. EE & CA], 25 from East Asia & Pacific [abb. EA & P], 19 from Middle East & North Africa [abb. ME & NA], 8 from South Asia [abb. SA]).

In recent years, Doing Business introduced improvements to all of its indicator sets. In Doing Business 2015, Resolving Insolvency introduced new measures of quality, while Getting Credit and Protecting Minority Investors broadened their existing measures. In Doing Business 2016, Dealing with Construction Permits, Getting Electricity, Registering Property and Enforcing Contracts also introduced new measures of quality, and Trading across Borders introduced a new case scenario to increase the economic relevance. In Doing Business 2017, Paying Taxes introduced new measures of postfiling processes and Starting a Business, Registering Property and Enforcing Contracts added gender components.

Each methodology expansion was recalculated for one year to provide comparable indicator values and scores for the previous year. Rankings are calculated for Doing Business 2019 only. Year-to-year changes in the number of economies, number of indicators and methodology affect the comparability of prior years.

Data obtained from the Doing Business 2019 study includes two areas:

- indicators characterizing the strength of legal institutions in the monitored country, namely:

- Getting Credit,
- Protecting Minority Investors,
- Enforcing Contracts and
- Resolving Insolvency
- indicators characterizing the complexity and cost of regulatory processes in the monitored country in the form of an assessment:
  - Starting a Business,
  - Dealing with Construction Permits,
  - Getting Electricity,
  - Registering Property,
  - Paying Taxes and
  - Trading Across Borders.

Within the monitored areas, the indicators are evaluated according to 3-6 additional sub-criteria, which ensure the objectivity of the evaluation and, in particular, the expertise because all individual assessments are done by competent auditing and legal offices in each country. Each of the 10 indicators has the same weight in the overall rating, but it does not mean that the country ranked first in the overall rankings ranks first in sub-ratings. What is important is the average placement of the country according to all individual sub-areas.

3 Ease of Doing Business Ranking and Ease of Doing Business Score

The ease of doing business ranking compares economies with one another; the ease of doing business score (EODB) benchmarks economies with respect to regulatory best practice, showing the absolute distance to the best regulatory performance on each Doing Business indicator. When compared across years, the ease of doing business score shows how much the regulatory environment for local entrepreneurs in an economy has changed over time in absolute terms, while the ease of doing business ranking can show only how much the regulatory environment has changed relative to that in other economies. In this formulation the highest score represents the best regulatory performance on the indicator across all economies since 2005 or the third year in which data for the indicator were collected.

The economies that rank highest in the ease of doing business (see Tab. 1) are those that have consistently well-designed business regulation or whose regulatory environments have thrived thanks to comprehensive reform over the years. The top three economies this year - New Zealand, Singapore and Denmark - exemplify a business-friendly environment. These countries have been at the top of the ranking since 2010. Denmark pushed out of the top three Hong Kong in 2015. New Zealand has led the list since 2016, it came second in 2014-2015, and third between 2010–2013. New Zealand has achieved the overall leadership in the last year thanks to the first position in Starting a Business, Registering Property, Getting Credit that is only three criteria out of 10. On the other hand, it is weak in the Trading Across Borders area, where it ranks 60th, or in Getting Credit, 45th place, in Resolving Insolvency, 31st, or in Enforcing Contracts, where it is 21st. Singapore ranks first only in Enforcing Contracts, whereas its worst ranking is in Trading Across Borders, where it ranked 45th. Denmark leads only in Trading Across Borders. In this category, 15 other European Union countries share this placement with Denmark. In Starting a Business, New Zealand comes first, whereas Venezuela is the last. In the Dealing with Construction Permits category, Hong Kong leads the ranking, while Syrian Arab Republic, Libya, Yemen, Eritrea, and Somalia trail far behind. In the Getting Electricity category, the United Arab Emirates is in pole position, with South Sudan, Yemen, Eritrea and Somalia on the other side of the ranking. New Zealand is ranked first in Registering Property, whereas the Marshall Islands, Micronesia, Timor-Leste and Libya ranked the last. In the Getting Credit category, both New Zealand and Brunei Darussalam, an East Asian economy with less than 0.5 million inhabitants, are at the top, while Iraq, Libya, Yemen, Eritrea and Somalia come last.

3.1 Global Overview

Table 1. Ease of doing business ranking – TOP 10.

Rank	Economy	Region	EODB score (2019)	EODB score change (2019/2018)
1	New Zealand	OECD high income	86.59	0.00
2	Singapore	East Asia & Pacific	85.24	+0.27
3	Denmark	OECD high income	84.64	+0.59
4	Hong Kong SAR China	East Asia & Pacific	84.22	+0.04
5	Korea Rep.	OECD high income	84.14	-0.01
6	Georgia	Europe & Central Asia	83.28	+0.48
7	Norway	OECD high income	82.95	+0.25
8	United States	OECD high income	82.75	-0.01
9	United Kingdom	OECD high income	82.65	+0.33
10	Macedonia FYR	Europe & Central Asia	81.55	+0.32
:	:			
33	Poland	OECD high income	76.95	-0.36
35	Czech Republic	OECD high income	76.10	+0.05
42	Slovak Republic	OECD high income	75.17	+0.29
53	Hungary	OECD high income	72.28	+0.34

Notes to Table 1: The ease of doing business ranking ranges from 1 to 190. The ease of doing business score captures the gap of each economy from the best regulatory performance observed on each of the indicators across all economies in the Doing Business sample since 2005. An economy's ease of doing business score is reflected on a scale from 0 to 100, where 0 represents the lowest and 100 represents the best performance.

In the category of Protecting Minority Investors, Kazakhstan leads and, on the contrary, the absolute loser is Somalia. In the category of Paying Taxes, Hong Kong has won first prize, with the last one being Somalia. In the Trading Across Borders category, 16 European Union countries, including the Czech Republic and Poland, lead the pack, while Yemen and Eritrea close it. In the Enforcing Contracts category, Singapore sits at the top, whereas Timor-Leste is at the bottom. In the Resolving Insolvency category, Japan leads, while 23 non-OECD countries are at the back with the same number of points.

3.2 Poland and Czech Republic – Details of Doing Business Conditions

The assessment of the situation of the monitored countries shows the following results (see Table 2).

From the point of view of the complexity and cost of regulatory processes, 4 of the six indicators are clearly better evaluated in the Czech Republic while the remaining 2 are better evaluated in Poland. The Czech Republic is significantly better evaluated in Getting Electricity. The Czech Republic receives a better score than the OECD average in this rating, especially due to the very low number of days before obtaining a permanent electricity connection. The measure captures the median duration that the electricity utility and experts indicate is necessary in practice, rather than required by law, to complete a procedure. The other sub-indicators do not differ significantly. They involve the number of procedures to obtain a permanent electricity connection. A procedure is defined as any interaction of the company employees or the company's main electrician with external parties. The cost was recorded as a percentage of the economy's income per capita. Costs are recorded exclusive of value added tax. Finally, it is the reliability of supply and transparency of tariffs index calculated on the basis of the following six components: duration and frequency of power outages, tools to monitor power outages, tools to restore power supply, regulatory monitoring of utilities' performance, financial deterrents aimed at limiting outages, and transparency and accessibility of tariffs. The strong point in terms of business conditions assessment in Poland is Dealing with Construction Permit. Poland scores better than the OECD average. It differs from the Czech economy significantly in the sub-index – the total number of procedures required to build a warehouse. A procedure is any interaction of the company's employees or managers with external parties. Another significant difference in the indicator – the total number of days required to build a warehouse. The measure captures the median duration that local experts indicate is necessary to complete a procedure in practice. Finally, it is building quality control index (0-15). The building quality control index is based on six other indices – the quality of building regulations, quality control before construction, quality control during construction, quality control after construction, liability and insurance regimes, and professional certifications indices. Three other sub-indicators are favourable for the Czech Republic – Starting a Business, Registering Property, Paying Taxes. The Paying Taxes category is a weak point in evaluating business conditions in Poland. The total number of taxes and contributions paid, the method of payment, the frequency of payment, the frequency of filing and the number of agencies involved for the standardized case study company during the second year of operation are all relatively low. It includes taxes withheld by the company, such as sales tax, VAT and employee-borne labour taxes. On the other hand, the time which takes to prepare, file and pay (or withhold) the corporate income tax is relatively long, value added or sales tax, and labour taxes, including payroll taxes and social contributions (in hours per year) are relatively high. Other sub-criteria do not cause deterioration as it comes to Paying Taxes. On the contrary, these sub-criteria are comparable to the OECD average. The mentioned sub-criteria for the category of Paying Taxes are in the form of a total tax and contribution rate (% of profit), where the total tax rate measures the amount of taxes and mandatory contributions payable by the business in the second year of operation, expressed as a share of commercial profits and Postfiling index (0–100), where the postfiling index was based on four components-time to comply with VAT refund, time to obtain VAT refund, time to comply with a corporate income tax correction and time to complete a corporate income tax correction. If both VAT and corporate income tax apply, the postfiling index is the simple average of the scores for each of the four components. If only VAT or corporate income tax applies, the postfiling index is the simple average of the scores for only the two components pertaining to the applicable tax. If neither VAT nor corporate income tax applies, the postfiling index is not included in the ranking of the ease of paying taxes.

Table 2. Complexity and cost of regulatory processes (2019).

Topic and indicator	Poland	Czech Republic	OECD high income countries score	EODB score Poland	EODB score Czech Republic
Starting a business			**91.19**	**82.85**	**83.56**
Procedures (number)	5	8	4.9	**(121)**	**(115)**
Time (days)	37	24.5	9.3		
Cost (% of income per capita)	11.8	1.0	3.1		
Minimum capital (% of income per capita)	10.0	0.0	8.6		
Dealing with construction permits			**75.41**	**75.18 (40)**	**56.20 (156)**
Procedures (number)	12	21	12.7		
Time (days)	153	246	153.1		
Cost (% of warehouse value)	0.3	0.2	1.5		
Building quality control index (0–15)	10	8.0	11.5		
Getting electricity			**85.47**	**81.35**	**95.36**
Procedures (number)	4	3	4.5	**(58)**	**(10)**
Time (days)	122	60	77.2		
Cost (% of income p.c.)	17.3	24.1	64.2		

Table 2. Complexity and cost of regulatory processes (continued).

Topic and indicator	Poland	Czech Republic	OECD high income countries score	EODB score Poland	EODB score Czech Republic
Reliability of supply and transparency of tariffs index (0–8)	7	8	7.5		
Registering property			**77.17**	**76.09**	**79.74**
Procedures (number)	6	4	4.7	**(41)**	**(33)**
Time (days)	33	27.5	20.1		
Cost (% of property value)	0.3	4.0	4.2		
Quality of land administration index (0–30)	19.0	25.0	23.0		
Paying taxes			**83.32**	**76.49**	**81.42**
Payments (number per year)	7	8	11.2	**(69)**	**(45)**
Time (hours per year)	334	230	159.4		
Total tax and contribution rate (% of profit)	40.7	46.1	39.8		
Postfiling index (0-100)	77.36	90.75	84.41		
Trading across borders			**94.21**	**100.00**	**100.00**
Time to export/import: Border compliance (hours)	0/0	0/0	12.5/8.5	**(1)**	**(1)**
Cost to export/import: Border compliance (USD)	0/0	0/0	139.1/100.2		
Time to export/import: Documentary compliance (hours)	1/1	1/1	2.4/3.4		
Cost to export/import: Documentary compliance (USD)	0/0	0/0	35.2/24.9		

In evaluating the strength of legal institutions, it is clear that 3 of the four indicators are better evaluated in Poland than in the Czech Republic (see Table 3). The terms of business in the area of getting credit are significantly more favourable in both countries than the OECD average. However, thanks to credit registry coverage and credit bureau coverage, Poland has a competitive advantage. The Czech Republic has a major problem with protecting minority investors. Even Poland does not reach the average of the OECD countries, but it is rated significantly better than the Czech Republic, where we can observe the major issue with the extent of disclosure. An even more pronounced problem looms in evaluating the Enforcing Contracts criterion. In this criterion, too, both countries are below the OECD average, and the Czech Republic significantly. It is caused, in particular, by the time and cost needed for resolving a commercial dispute through a local first-instance court and the quality of judicial processes.

The last criterion, Resolving Insolvency, is in both Poland and the Czech Republic above the OECD average. The Czech Republic has a competitive edge in this area compared to Poland. It is, in particular, the advantage of a higher recovery rate which is calculated based on the time, cost and outcome of insolvency proceedings.

Table 3. Strength of legal institutions (2019).

Topic and indicator	Poland	Czech Republic	OECD high income countries score	EODB score Poland	EODB score Czech Republic
Getting credit			**64.12**	**75.00**	**70.00**
Strength of legal rights index (0–12)	7	7	6.1	**(32)**	**(44)**
Depth of credit information index (0–8)	8	7	6.7		
Credit registry coverage (% of adults)	0	7.2	21.8		
Credit bureau coverage (% of adults)	98.1	80.5	65.3		
Protecting minority investors			**64.21**	**61.67**	**58.33**
Extent of disclosure index (0-10)	7	2	6.5	**(57)**	**(72)**
Extent of director liability index (0–10)	2	6	5.3		
Ease of shareholder suits index (0–10)	9	9	7.3		
Extent of shareholder rights index (0–10)	6	6	6.4		
Extent of ownership and control index (0–10)	5	7	5.4		
Extent of corporate transparency index (0–10)	8	5	7.6		
Enforcing contracts			**67.65**	**64.36**	**56.38**
Time (days)	685	678	582.4	**(53)**	**(99)**
Cost (% of claim)	19.4	33.8	21.2		
Quality of judicial processes index (0–18)	11.0	9.5	11.5		
Resolving insolvency			**75.21**	**76.48**	**80.05**
Recovery rate (cents on the dollar)	60.8	67.4	70.5	**(25)**	**(15)**
Time (years)	3	2.1	1.7		
Cost (% of estate)	15	17	9.3		

Table 3. Strength of legal institutions (continued).

Topic and indicator	Poland	Czech Republic	OECD high income countries score	EODB score Poland	EODB score Czech Republic
Outcome (0 as piecemeal sale and 1 as going concern)	1	1	:		
Strength of insolvency framework index (0–16)	14	14	11.9		

4 Conclusion

This paper focuses on assessing business conditions as they have been published by the World Bank this year. For 16 years, this institution has evaluated the conditions for doing business according to a very sophisticated methodology assessing 10 various areas. The interest of the authors was to compare the conditions for doing business in the Czech Republic and Poland. Both countries have very similar history and political and cultural present, but the basic parameter of differentiation is the size of the countries and their respective populations. Poland is four times bigger and has almost 4 times more inhabitants. In the worldwide ranking based on the assessment of business conditions in 190 countries, Poland ranked 33rd and the Czech Republic 35th. It seems that both countries have very similar business conditions, but there are still differences. As part of the overall evaluation, the first analysed criteria are those relating to the complexity and cost of regulatory processes, then the criteria related to the strength of legal institutions. The complexity and cost of regulatory processes are defined by 6 indicators. Both countries have the same conditions for doing business in the trading across borders indicator. Nonetheless, differences are visible in the dealing with construction permits indicator, where it is clear that, thanks to the number of procedures needed and the time of approval of the process itself, Poland gains a very significant advantage over the Czech Republic. In other indicators, the Czech Republic is evaluated by the World Bank better than Poland. The conditions for business start-ups, getting electricity, registering property and paying taxes are assessed as simpler and less costly in the Czech Republic than in Poland. In another important area of assessment - strength of legal institutions - almost all of the criteria are assessed in favour of Poland. Getting credit, protecting minority investors and, in particular, enforcing contracts are areas where Poland, thanks to the strength of its legal institutions, is gaining significant leverage over the Czech Republic. Only one area out of four is evaluated in favour of the Czech Republic, namely resolving insolvency.

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