

## THE SITUATION OF THE BUSINESS ENVIROMENT IN ROMANIA

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### **Abstract**

*Entrepreneurship can play an important role in helping an economy grow. A business environment that encourages business initiatives and provides the framework for new venture creation is essential. Throughout the article it is presented the situation of the Romanian business environment as depicted by various indicators developed by the World Bank.*

**Keywords:** Business environment, Entrepreneurship, Doing business

**JEL classification:** M29

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### **1. Introduction**

Providing a environment in which local businesses can prosper is important for an economy because new ventures create jobs and generate income that can be spent and invested domestically (World Bank, 2019). During last decades, entrepreneurship has become an increasingly important issue as it helps in reducing many social and economic problems of society. With growing opportunity to bridge the gap of economic disparity, entrepreneurship becomes major concern for policymakers (Das and Kundu, 2018).

The World Bank report entitled Doing Business tries to measure aspects of business regulation and the impact of it on new venture creation and operating a new firm. The structure of the report covers most important indicators that can be influenced by the government. And countries all over the world recognize the importance of having improved business regulation (World Bank, 2018).

The influence of business regulations on new firm creation is an important topic and it has been addressed quite often in the literature see

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(World Bank, 2018) (van Stel et al., 2007). The international Organization for Economic Co-operation and development (OECD) has undertaken some studies on regulatory policy, because it states that these are very important for an society and an economy to function well, “they create the rules of the game for citizens, business, government and civil society”(OECD, 2018). The main goal should be to create and support a regulation that should be efficient, accessible for all members of an economy and simple to implement.”(World Bank, 2018)

Innovators and entrepreneurs are more likely to start and grow businesses in an economy characterized by having a transparent and predictable.

The report determines quantitative indicators on the regulations that relate to new ventures and established businesses, and one significant advantage is that the data is comparable between the different economies and over time. The World bank report investigates the following aspects of business regulation: Starting a business; Dealing with construction permits; Getting electricity; Registering property; Getting credit; Protecting minority investors; Paying taxes; Trading across borders; Resolving insolvency; Labor market regulation. But there are also topics that the report does not cover, areas such as: macroeconomic stability, quality of workforce (level of training and skills), of corruption levels and extortion frequency, lack of security, development of financial system, the size of the market.

The report it has become to be considered an important source of reliable data for policy makers and leaders around the globe, since the first issue of the report back in 2003. The authors of the report claimed that sometimes, based on the recommendations arose from collecting and interpreting the data, it managed to inspire countries to commence reforms in order to improve the business environment. In the foreword of Doing Business report 2018 the statement of Kristalina Georgieva, CEO The World Bank, affirms that there are a great number of countries that have made reforms related to the business environment based on the indicators developed by the World bank in the report mentioned above). A with any methodology the report as his limitations. To mention one: the focus on the biggest city or cities in a country which reduces the representativeness of data in an economy where there are big gaps between different regions. This could be the case of Romania as well, where there are big differences in competitiveness between the major cities and the rest of the country.

Sometimes the report was even criticized, as with the case of the French jurist reactions to some of the earlier reports ranking of the French legal system. (Fauvarque-Cosson and Kerhuel, 2009). Gerard McCormack points out criticism related to the fact that the context and cultural sensitivity are very important and reducing complicated matters to a single ranking is not the way to help bring real improvements in the legal framework for doing business (McCormack, 2018).

Nevertheless, the report remains an important source of reliable and comparable data that is worth taking into consideration when analyzing the impact of business regulation over the birth of new firms, and when striving to improving it.

## **2. Facts and figures about Romania**

Romania ranked 45, with a score of 72,87 in the top made by The World Bank when it came to ease of doing business in 2018 and ranked 52, with a score of 72,30 in 2019 report. The top 3 countries in the report are New Zealand (with a score of 86,59), Singapore (85,24), Denmark (84,64). The countries with the lowest score are: Venezuela (30,62), Eritrea (23,07), Somalia (20,04).

**Table 1. Facts and figures summary - Romania**

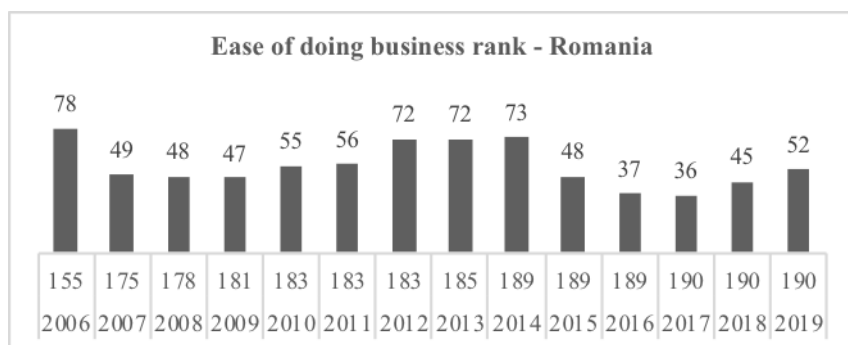
<b>Indicator</b>	<b>Rank</b>	<b>Score</b>	<b>Indicator</b>	<b>Rank</b>	<b>Score</b>	<b>Indicator</b>	<b>Rank</b>	<b>Score</b>
Starting a business	111	83,90	Dealing with construction permits	146	58,20	Getting electricity	154	53,53
Registering property	44	74,96	Getting credit	22	80	Protecting minority investors	64	60
Paying taxes	49	80,30	Trading across borders	1	100	Enforcing contracts	17	72,5
Resolving insolvency	52	59,87						

Source: Doing Business report 2019, World Bank

## Ease of doing business score and ranking

This is the main indicator compiled by the World Bank in the doing business report and it offers a view of the level of the regulatory performance of a country's economy, and the evolution throughout the years. And the ranking helps compare the data from different countries.

**Figure 1. Ease of doing business rank (2006-2019)**



Source: The World Bank Doing Business Reports 2006 to 2019

In figure number 1 the years represented the year of World Bank Doing Business report and I would like to mention that the latest available data for each report is from the previous year. So, in the Doing business report 2019 the latest available data is from 2018.

As it can be seen in figure 1 in the last 3 years Romanian ease of doing business rank has decreased from 36 out of 190 countries analyzed in 2017 to 52 out 190 countries in 2018. Rankings are not easily comparable due to the fact that from 2006 to 2019 more and more countries were added to the study and there were some methodology approach modifications so comparability with data of prior years is not as straight forward. As seen in the picture above the rank for Romania had some fluctuations but since 2016/2017 when the numbers of analyzed countries stayed the same, as well as the methodology, had a drop of 16 places in just 3 years.

In figure number 2 it can be observed that the ease of doing business score had low fluctuations in the last 4 years ranging from 72.62 in 2016 to

72.3 in 2019. Comparing the data from these two figures low fluctuations of ease of doing business score with a decrease of ease of doing business rank this might mean that Romania was outperformed by a number of countries which managed to score better with the indicators measured by the world bank, by improving the business environment regulations in their home economies.

As mentioned previously in the context of rankings, Doing business reports have introduced improvements to the indicators that they collect and measure so in order to make a correct comparison of figures from different years we should look at data calculated using the same methodology. Table number 2 provides information for each methodology expansion to provide comparable indicators values for the previous year.

**Figure 2. Ease of doing business score – Romania**



Source: Custom dataset based on The World Bank Doing Business Historical Data Sets and Trends Data

**Table 2. Ease of doing business score based on methodology evolution – Romania (2010-2019)**

Year	Ease of doing business score global (2017-2019 methodology)	Ease of doing business score global (2016 methodology)	Ease of doing business score global (2015 methodology)	Ease of doing business score global (2010-2014 methodology)
DB2019	72.3			
DB2018	72.83			

DB2017	72.65			
DB2016	72.52	72.62		
DB2015		72.91	68.74	
DB2014			66.43	64.39
DB2013				63.88
DB2012				62.48
DB2011				62.57
DB2010				63.42

Source: The World Bank Doing Business Historical Data Sets and Trends Data

### Starting a business Romania – scores

Starting a business score measures 4 aspects regarding the process an entrepreneur should take in order to get all the necessary approvals to open a business, regarding the steps an entrepreneur take to set up a new business entity. These four aspects are: the number of procedures to start a company, usually a limited liability company (LLC); the time spent on the procedures mentioned above; the cost to complete the procedures; paid in minimum funds required to start a company.

**Figure 3. Score Starting a business - Romania**

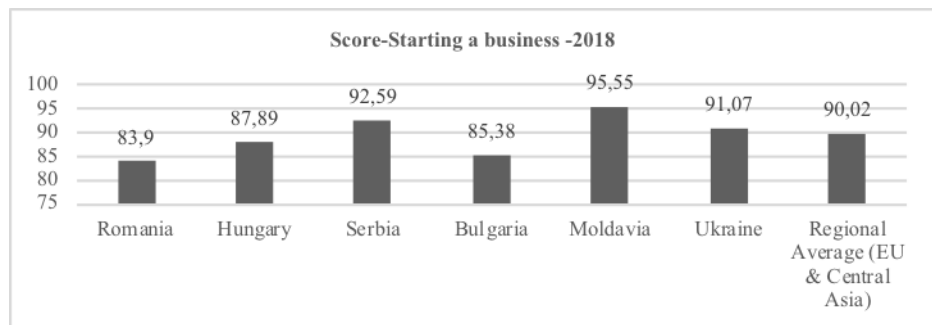


Source: Custom dataset based on The World Bank Doing Business Historical Data Sets and Trends Data

When it comes to the score obtained by Romania at starting a business pillar it can be observed that in 2019 it decreased by almost 6 points (5,77)

and the best results (score) was obtained in 2015 - 90,45. These scores are the simple average of the scores for each of the four aspects mentioned above.

**Figure 4. Score Starting a business comparison with neighboring countries 2018**



Source: The World Bank Doing Business Reports 2019 of the countries mentioned above

When compared with the neighboring countries it can be observed that it has the lowest score, and under the regional average (countries in Europe and Central Asia). This means that it takes, and it cost more to open a business in Romania than in the neighboring countries mentioned in this comparison. The rank of Romania in the report of 2019 (the last year measured being 2018) when it comes of measuring the score of starting a business is 111 out of 190, so it situates the country somewhere at the middle of the top, being just above the median.

Romania has done some steps towards making it easier to open an LLC in the last years, you can even apply to open a business online through the portal of the Romanian National Commercial and Trade Register. But registering for VAT it can take nowadays up to 30 days. This measure of registering for VAT was implemented as an attempt to decrease the VAT related frauds.

### **Dealing with construction permits**

This measures all the procedures and time needed to build a warehouse and permits associated with the construction.

It tracks the following aspects features: the steps and procedures needed to build a warehouse – compliance with formalities to build it; the amount of time needed to complete each of the procedures and formalities; the cost involved with each procedure; the quality of building regulations including building permits control before and after construction, insurances, professional certifications.(World Bank, 2019)

The score of dealing with construction permits obtained by Romania in 2019 was 58,2, just slightly higher than the previous year, ranking 146 out of 190 countries in the 2019 report. The trend showed a decrease of the indicator in the period from 2006 to 2014, and a small a variation in the last 4 years.

Compared with countries around Romania, it can be observed that only Moldavia scored lower (52,19), a bit under the Romanian score. The rest of the countries have obtained above 75 points, and the average for EU and Central Asia is 75,41. Obtaining a building permit or an urban planning certificate it takes more than 30 days. The reality shows that sometime getting all the needed permits and approvals form the local authorities it can take up so several months.

### **Getting electricity**

Getting electricity score measures the time and money needed to get a connected to electric grid for a new constructed building. It takes into consideration 4 elements: days to get a connection to the electricity grid; cost to obtain a connection to the grid; number of steps from filling an application to having in place the a fully functional connection to the grid, including all approvals and contracts; reliability of the electric connection and transparency for the prices charged.(World Bank, 2019)

The figures show that Romania got a 53,53 score for getting electricity, ranking 154 out of 190, but the trend is increasing from 2010 to 2019, so the indictor shows that things are improving when to comes to getting a connection to the electricity grid.

But even if things are improving Romania is still behind the neighboring countries, and under the regional average by 15 points, so there are still things that can be improved. It takes around 90 days to conclude the execution contract between the electricity supplier and the electrical contractor in cities like Bucharest, the capital city of Romania.



## **Registering property**

Registering property score measures the time and money needed to record with the authorities a piece of land and/or a building bought from a third party. It takes into consideration the following: number of days to transfer property between 2 owners (companies); cost of the transfer (percentage from the property value); steps to transfer the property; quality of land administration system and protection against land disputes. (World Bank, 2019)

Romania has a score of 74,96 and the trend shows an increase in the last 3 years from the value of 73,93, but well under the scores from the period 2010-2013, ranging from 80,41 to 80,83. But in this case one of the factors for having such a big difference between the score in 2014 and score in 2015, is that for the period 2005-2015 it was used a different methodology than the rest of the years, and this difference contributes to relatively different scores for different methodologic approach.

With a score of 74,96 Romania ranked 44 in 2019, being slightly under the regional average, Hungary (80,09) and Moldavia (82,62) being the only neighbors with better scores.

## **Getting credit**

This indicator deals, firstly, with the strength of legal rights both for lenders and borrowers and secondly, with the availability and accessibility of information regarding obtaining credit. (World Bank, 2019)

In the last years Romania has scored 80 points on the getting credit score and it ranks 22. For the last several years the it. Managed to keep a good score on this metric.

Even compared with the countries around Romania has the best score when it comes to getting credit, having a higher score even compared with Hungary (75), and above the regional average (68,7).

## **Protecting minority investors**

This indicator measures the protection of especially minority investors from wrong use of assets by managers; and shareholder rights in governance.

It deals with two main sub-indicators: extent of conflict of interest regulation index and extent of shareholder governance index.(World Bank, 2019)

Romania has obtained a score of 60 in the last few years, starting with 2014 and it had a relatively constant score in the last periods it was measured.

With a score of 60 Romania ranks 64 out 190 countries analyzed by the report and has higher score than countries like Hungary (50), Serbia (56,67) and Ukraine (58,83) but under the regional average of 65,29.

### **Paying taxes**

Paying taxes deals with issues concerning the taxes that a company has to pay and administrative burden. It takes into consideration the number of hours per year to prepare and pay taxes; total tax and contribution rate; number of payments related to taxes per year; number of hours to comply with VAT refund.(World Bank, 2019)

Throughout time Romania has improved its paying taxes score from 44,72 in 2006 to 80,3 in 2019, so it almost doubled in 14 years. But in the last 3 years we could see that it reaches a stagnation.

With a score of 80,3 Romania ranks 49 out of 190 countries having a score above the regional average (75,8), the only neighboring country with a higher score is Moldavia (84,55).

### **Trading across border**

This indicator the time and payments associated with the export and import of goods. It takes into consideration the time to export (documents compliance and border procedures compliance); cost to export; time to import (documents compliance and border procedures compliance); cost to import.(World Bank, 2019)

In the last 4 years Romania scored 100 at it has obtained rank 1, same as countries like Hungary, Czech Republic, and well above the regional average. See the figure below.

### **Enforcing contracts**

This indicator evaluates time and cost for dealing with a commercial dispute in court. It takes into consideration the number of days to resolve a

dispute in the court; attorney and court costs; quality of judicial processes.(World Bank, 2019)

At this metric Romania has obtained a score of 72,25 for the last 5 years, it has a steady score for most of the period analyzed.

With the score of 72,25 it ranks 17<sup>th</sup> and above all the surrounding countries, and above the regional average of 65,65.

### **Resolving insolvency**

This indicator evaluates the time and cost of insolvency proceedings. It deals with the recovery rate of debt after insolvency and strength of insolvency framework.(World Bank, 2019)

Romania has a score of 59,87 in the last year analyzed, and each year in the last 9 years marked an increase of the value of this indicator from 27,65.

When it comes to this indicator Romania ranks 52 out of 190 countries, with a score above the regional average (55,58), only Serbia, out of the surrounding countries, has a higher score related to resolving insolvency.

### **3. Conclusions**

Having a strong private sector with clear regulations that are easy to implement should be a desideratum for any economy that would like to thrive. So, any policy maker should take into consideration the metrics related to business regulation.

As shown by the data in the analyzed report, Romania ranked 52 out of 190 the last year, but its ranking has decreased in the last 3 years from 36 out of 190. The score of ease of doing business had very low fluctuations in the last period, so, low fluctuations of ease of doing business score combined with a decrease of ease of doing business rank might mean that Romania was outperformed by a number of countries which managed to score better with the indicators measured by the world bank, by improving the business environment regulations in their home economies.

Romania obtained scores under the regional average for Europe and Central Asia and under most of the surrounding neighboring countries at: *Starting a business* (83,9 vs 90,02); *Dealing with construction permits* (58,2 vs 75,41); *Getting electricity* (53,53 vs 71,66); *Protecting minority investors* (60 vs 65,29). At the indicator *Registering property* Romania had a score under

the regional average (74,96 vs 75,57), but over the score of most neighboring countries with the exception of Hungary (80,09) and Moldavia (82,62).

So, this might be areas that need to be taken into consideration for improving when it comes to regulations so that it will take less time, effort and will cost less for a new venture to deal with these issues.

At the following indicators *Getting credit* (80 vs 68,7), *Paying taxes* (80,3 vs 75,8); *Enforcing contracts* (72,25 vs 65,65), *Resolving insolvency* (59,87 vs 55,58) Romania had better scores than the regional average. This metrics could point out some strengths for the local business environment and should be working on keeping the levels obtained by now and even improving them more.

At the indicator *Trading across borders* Romania manage to score 100 and to rank 1 on these criteria next to countries like Hungary or the Czech Republic.

All this data should take into account the limitations of the methodologies used, but all this information provided through the Doing Business report could serve to better understand how it can be improved the business environment.

For the continuation of this study, in order to find more evidence about the influence of the business environment on creating new ventures I would like to conduct a research were to underline if there is a direct correlation between the quality of the business environment and the number of new ventures.

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