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Em Análise

Why is it important to evaluate a country's ease of doing business?

António Lilaia, Rodolfo Carrasquinha e Tomás Andrade [1]

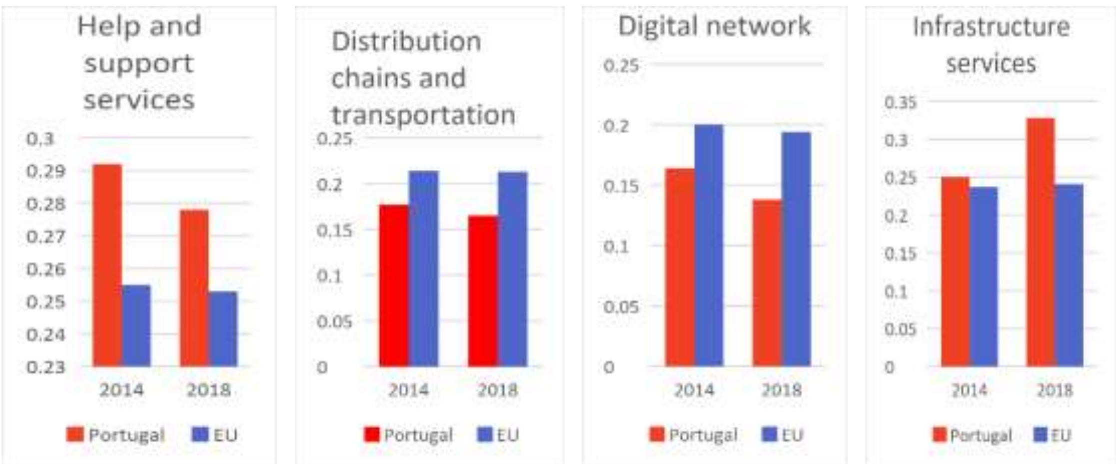
1. Introduction

Today's world is a far more interconnected environment than it has ever been, which has facilitated the trade of goods and services across countries and continents on a scale never seen before. The process of globalization has intensified the competition between firms of different countries, as companies compete in a multitude of markets. In this context, analysing the obstacles firms face through their life cycle (such as starting the business, hiring, paying taxes or exporting) enables researchers and policy makers to better understand the differences in competitiveness between countries, as well as to pave the way for better policies for the business environment. Moreover, improvements in the environment where firms operate, in particular the reduction of framework costs, can foster economic growth and increase potential GDP, as more firms enter the market and the country becomes more attractive for direct foreign investment.

The present work analyses three different indicators that will serve as proxies for different framework conditions. *Services Trade Restrictiveness Index*, an indicator developed by the OECD, evaluates regulatory restrictions in the international trade of services, thus being an indication on the quality of economic regulation to foster competition and economic integration. *Paying Taxes*, developed by the World Bank through the yearly *Doing Business* publication, focuses on the costs firms face when complying with the mandatory fiscal duties required by the State, signalling the obstacles posed by bureaucracy. Finally, *Resolving Insolvency*, also included in the *Doing Business* study, analyses the obstacles to exiting the market, which are not only related with framework costs, but also with competition.

2. Services trade restrictiveness index

The *Services Trade Restrictiveness Index* measures the extent to which regulations in the services sectors favour competition and international economic integration. The scores of the index range from 0 to 1, with zero being the optimal score.



[1] This work was developed within a partnership between GPEARI and Nova Economic Club (NEC), NEC students developed the analysis presented with the guidance of GPEARI and GEE. The opinions expressed are those of the authors and not necessarily of the institutions. Any errors or omissions are the authors' responsibility.

In **Market Bridging and Supporting services**, which aggregates Legal Services, Accounting Services, Commercial Banking and Insurance, Portugal and the EU registered a positive evolution. In spite of its stronger evolution, Portugal is still behind the EU in this group. This can be explained by the relatively high values of the index for the legal and accounting sectors.

In **Transport and Distribution Supply Chains**, Portuguese regulatory practices perform better overall in assuring competition than the EU average.

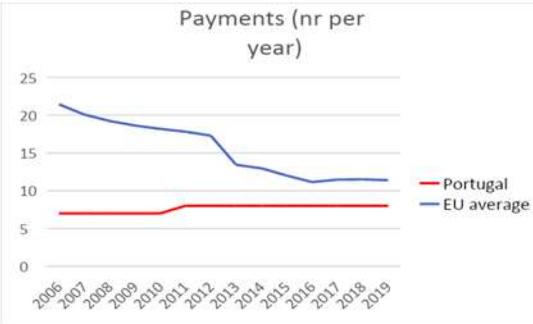
Regarding **Digital Network**, we could see that in 2014 Portugal was already ahead of the EU average, and that became even more evident in 2018, as a relatively significant improvement in the Portuguese index was unmatched by its EU counterparts .

Finally, in **Physical Infrastructure Services**, which includes Construction, Architecture and Engineering Services, Portugal's regulations are considered less competition friendly than the average evaluation for the EU countries.

All across the board, we can see a common trend of increasingly pro-competitive regulation, and Portugal is no exception to this trend. Portugal registered positive improvements in most of the indicators within the time frame. However, there are still some sectors in which Portugal lags behind other European Union countries, namely the legal, accounting, architecture and engineering services.

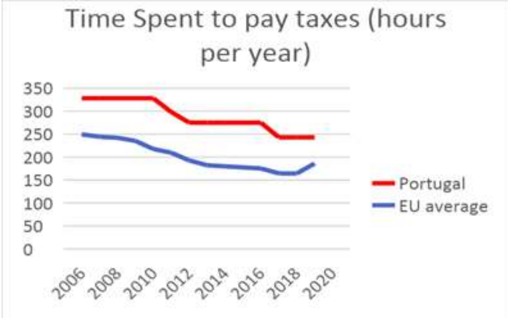
3. Paying taxes

Paying Taxes, developed yearly by the World Bank in *Doing Business* report, measures the costs imposed by fiscal commitments to firms: the level of taxes as well as the number of procedures and time it requires are evaluated.



Regarding the **Number of Payments Required**, the EU average has a clear decreasing trend, whilst Portugal, whose level is significantly below, showcases a slightly upward change. Significant decreases in this indicator in some countries, namely like Poland, Bulgaria and Latvia, which, combined with other countries, help explain this decreasing trend. In Portugal, despite one unitary increase in 2010 compared to 2009, the number of payments required still continues to be lower than EU average during these years, showing a favourable aspect regarding administrative burden for Portuguese firms.

The Total Tax Rate, as a share of firms' profits, measures the amount of taxes and mandatory contributions borne by the business in the second year of operation, as a share of commercial profit. Both the EU average and Portugal present a decreasing trend, and Portugal's tax rate is in line with the average of its EU counterparts. It should be noticed that some countries like Luxembourg and Ireland have some of the lower levels of total tax rates to profits, whereas France and Bulgaria have some of the highest.



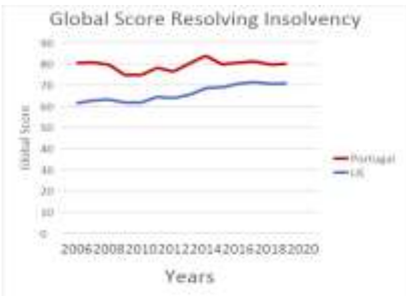
Time Spent to Pay Taxes measures the hours taken to prepare, fill and pay the corporate income tax, value added or sales tax, and labour taxes, including payroll taxes and social contributions, serving as proxy for costs related with administrative burden to firms. Contrasting with the previous indicators, Portugal is less competitive regarding the time spent to pay taxes than EU average, signalling a more complex system which requires more days of work for firms to comply with. Both Portugal and the average of the countries of the European Union show a decreasing trend in time spent to pay taxes.

The Postfiling Index is 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). Portugal is more competitive in this indicator, and doesn't seem to be changing this performance recently.

The **Paying Taxes** indicator aggregates the previous indicators to present an overall stance of the regulatory practices regarding fiscal procedures. The score presented is computed as a Distance to Frontier, the higher the value the lower is the distance between the country and the best performer.

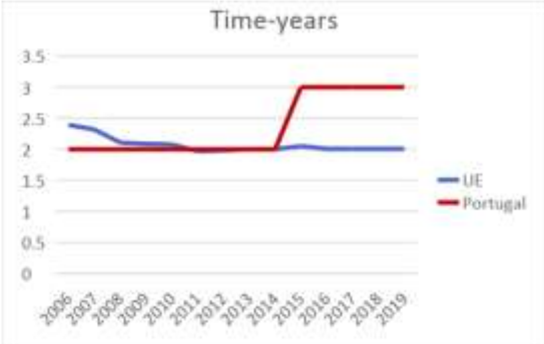
As the graph shows, Portugal performs relatively well on the overall stance for this indicator, when compared with the EU average. However, breaking down the indicator in its sub-indicators as presented in this report allows for a better understanding of the position of Portugal, highlighting an underperformance in what concerns the total time required to comply with fiscal procedures for Portuguese firms.

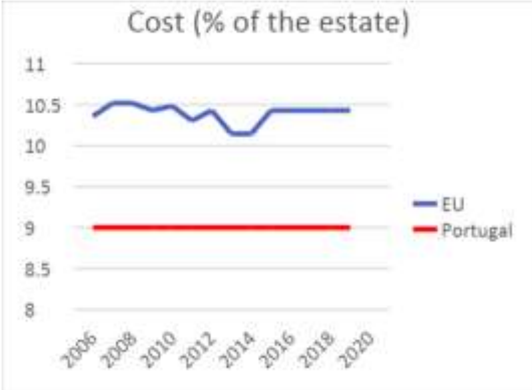
4. Resolving insolvency index



Starting with the analysis of the **Global Score** we can see that Portugal's performance is significantly above the EU, with small variations (about 80 – evaluated as Distance to Frontier).

Whereas, the EU average has seen it's score steadily rising over time, signalling positive reforms in this area. However, it is important to state that in 2014 the methodology of some sub-indicators was modified, which may explain the drop-in score for Portugal in that year.



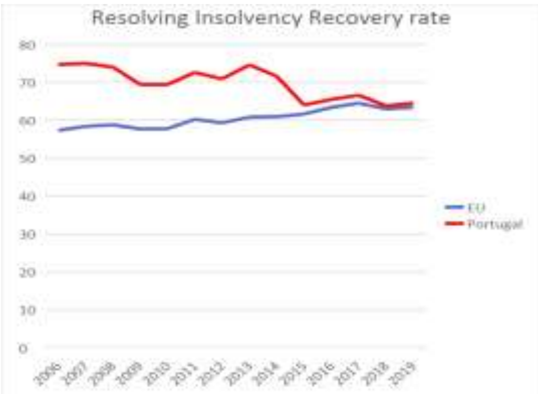


Time-years graphic "measures the **time from the company's default until the payment of some or all of the money owed to the bank**. Potential delay tactics by the parties, such as the filing of dilatory appeals or requests for extension, are taken into consideration". As one can see from graph 1, the time to solve the insolvency process declined for the average of the EU, whilst Portugal has presented an increase.

The decrease in time required for the insolvency process in the EU can largely be explained, because of individual decreases in countries such as the Czech Republic or Romania. Regarding the Portuguese case, one can see that time to resolve the insolvency process greatly increased.

Regarding the **Cost (% of the estate),** evaluated by the *Doing Business* as "**the cost of the proceedings is recorded as a percentage of the value of the debtor's estate** (namely the value of the hotel). The cost is calculated on the basis of questionnaire responses and includes court fees and government levies; fees of insolvency administrators, auctioneers, assessors and lawyers; and all other fees and costs." In Graph 2 we can conclude that the cost of insolvency shows small variations in the EU and Portugal through the time span.

It is important to note that Portugal has put in place several reforms that impact insolvency procedures, namely its time length and cost. Hence, the fact that the methodology for this indicator has changed might explain the different conclusions drawn in this analysis.



Regarding recovery rate, as one can observe from the graph, the recovery rate for Portugal remained steady between 2006 to 2013, and from that year onward the recovery rate suffered a big drop that has yet to be recovered. The average recovery rate passed from around 75-70% to around 65%. By contrast, the average EU recovery rate has been steadily increasing over the years. This phenomenon has occurred largely due to the positive evolution in countries of the former eastern bloc.