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Strategies to Improve the Business Climate in Iran

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ABSTRACT

Of the most fundamental issues in improving the business environment, Providing legal suitable conditions among economic actors. In this study legal solutions to improve the business climate in Iran is discussed. On this basis, in this research ; Iranian government programs have been evaluated in order to improve business climate.

Keywords: Legal Approaches, Improvement of Business, Strategies.

INTRODUCTION

The business environment, which relies on different and diverse indices and seeks to examine the formation and expansion of economic activities, has always been of interest to scholars and analysts. The emphasis of development strategies on the need to improve economic activities, raising employment levels and efforts to achieve economic growth in the micro and macro levels has been following the same concept as “the business environment”.

Although part of the problems the labor market face is originated from supply factors such as high population growth, Increased rate of women's participation, increased age of marriage and mismatch of labor skills to the needs of the market, it should be noted that many labor market issues are tied with bureaucratic business environment intertwined with heavy and rigid laws and regulations which ultimately end in complicated procedures for obtaining working permits and business units uncertainty of labor demand¹.

Nowadays, the improvement of the business environment is considered as an effective way to achieve economic growth and job creation². One of the important components of the business environment is the legal and judicial system and in this regard, government policies, enforcement of laws and legal requirement are of high importance.

In the first chapter of this paper, business related policies carried out in Iran will be examined. Secondly, the existing obstacles are going to be investigated for each index and finally political and legal solutions will be provided.

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FIRST TOPIC: REFORMING STRATEGIES FOR GOVERNMENT INSTITUTIONS

First word: evaluation and revision of laws adopted and regulated by the government

If economic experts are allowed to participate in bill proposition in an effective and systematic way based on their experience, government regulatory bills, laws and regulations will be more compatible with the reality. As for Iran's Islamic Consultative Assembly, it is recommended that the opinions of NGO's are valued in the stages of passing bills and promulgating legislations³.

Good IT infrastructures are required to increase the number of nascent business firms through accelerated official registration, information control and recovery.

Nowadays, good governance is one of the important requirements of economic growth and development. If the government is in the position of policy making and monitoring instead of just being an operator, not only it can eliminate the boundaries before entrepreneurs but it is able to provide proper conditions for development of businesses. The conditions and requirements which are needed to achieve excellent governance are an indispensable part of business environment improvement.

Currently, one of the most important dilemmas of entrepreneurs is interaction with other countries in different areas. Unstable diplomatic relations especially with countries equipped with scientific and technological resources can result in slow progress in economic activities and in some cases force them to shut down. It is necessary for the government to facilitate economic relations internationally by developing a comprehensive strategic plan.

The existence of "shadow economy" or "underground economy" is another problem in the way of economic activities which shows off itself in every areas and processes.

Economic actors would be lured when face deceptive factors which invite them to participate in unofficial and illegal but profitable sections. In this case, the business environment would be filled with ambiguity and uncertainty. It is vital for the government to restrict such activities in collaboration with existing associations and unions and to enhance official section of the economy through organizing free flow of information⁴.

Governments have always tried to acquire all monitoring stages exclusively in addition to policy and decision making role. These mechanical supervisions done by the government not only decrease efficiency but cause various corruptions to form. On the contrary, if the function of monitoring is delegated to non - governmental official bodies and associations, it not only limits the corruptions but it increases efficiency. After all, an association would evaluate proper implementation of government policies and programs more successfully than a government institution itself.

Second word: reforming strategies in legal and judicial system

The legal system of the country should give the entrepreneurs assurance so that their capital and their rights are immune to every threat. A sound legal system should be fast, impartial, low cost and available. These characteristics have always been approved by lawyers and entrepreneurs. Perhaps the best and most effective way of supporting the innovators and entrepreneurs is increasing the efficiency of the courts so that investors would sign contract with innovators more conveniently. If the courts do not protect the property right of the companies, research and development would not be justified economically. If the court's efficiency and its ability to resolve disputes are in question, companies will be looking for other ways to settle their transaction without dispute³.

Specialization of courts and judicial processes may result in their independency, efficiency and speed. Furthermore, removing the obstacles existed in front of Iran's judiciary power would not only make it more autonomous but promote an atmosphere of confidence in the economic

activities. Non-specialized judicial procedures carried out by inexperienced judges who don't have proper knowledge won't be satisfactory for the business owners.

On the other hand, due to the formation of the "Dispute Resolution Boards" in many areas, it is crucial to let them hold more authority. The existence of such boards would not only speed up the process of claim investigation but ensure fairness of the sentences.

Entrepreneurs, who feel that they have the minimum security of property rights, only reinvest 30 percent of their profit, whereas institutions with highest rate of property rights (at least in their own opinion) reinvest 65 percent of theirs⁵.

Increasing property rights and recognition of them leads to investment growth and in return boost the business.

Regional and local legislation for removing barriers of accountability and audit records of properties and assets of the citizens could facilitate the entry of resources and production factors and bump up the rate of business formation.

Third word: strategies to improve the micro areas

Part 1: ease of starting up a business

There are six common features to simplify the business startup in 10 pioneer countries from 2004 till now which are as below:

- ✓ The courts are not involved
- ✓ Internet registration is carried out in a data bank
- ✓ Only a fix registration fee is received from firms regardless of their size
- ✓ There are no obligation for publishing a registration notice in the newspapers
- ✓ Standard registration forms are used in these countries
- ✓ Initial capital for business startup is negligible or zero.

Registration of companies is considered an administrative procedure which doesn't need the involvement of judicial system. Instead, its time should be devoted to resolving commercial disputes.

The ease of business startup in Iran in terms of time, cost and procedure is undesirable compared to other countries located in the MENA[†] region, stated in a 2014 report. In order to improve this index, the following actions should be done:

- ✓ Recognition of electronic procedures and employing them in every stage of business startup
- ✓ Reduction of registration costs and making them proportional to firm's size.
- ✓ Making uniformed registration forms and clarifying the procedures for entrepreneurs to avoid arbitrary interpretation by government employees and experts.
- ✓ Delegating the procedures to trade unions, associations and NGO's and limiting the government roles to areas of policy making and monitoring.

Part 2: terms and conditions of obtaining license and credit

Appropriate balance between the ease of doing business and obtaining business licenses is required permanent reform. Acquisition of these licenses from organizations and government agencies by entrepreneurs is recognition the public's rights. Logic of granting licenses to economic activities is protection of public health and safety. For this reason, granting such licenses to businesses such as production of food, pharmaceutical, hazardous materials

[†] Middle East and North Africa

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(chemical industries) and housing is rationally justifiable³. Nevertheless, licensing reforms would ease the processes of obtaining them. In this report, most of the suggestions are in line with the amendments to licensing procedures and focusing on inspection in construction section. Five of these successful reforms are as below:

- ✓ The procedures are provided in the form of a step by step diagram to architects and builders.
- ✓ Different permits and project confirmations merge with municipalities
- ✓ Risk –based investigations are done randomly.
- ✓ Zoning maps to be updated every ten years.
- ✓ Use of special items is not mandatory

Considering fast and broad changes in construction activities due to special economic condition of Iran and capital nature of land and housing, improving solutions for licensing acceleration will not be easy to implement. However, the following guidelines could be considered in different areas:

- ✓ Delegating the process of licensing and inquiries to associations and restricting the government functions to areas of policy making and macro monitoring.
- ✓ Service integration based on spatial planning, detailed urban plans and creating a database of information among the stakeholders using latest IT advancements.
- ✓ Changing the form of startup and public service costs into post payments or installments such as tax, duties and water, electricity and gas costs by using infrastructures.
- ✓ Conducting preventive audits and inspections in order to avoid unnecessary post inspections and to make them efficient in terms of time and procedure.
- ✓ Improving the administrative process of licensing and certification through beneficiary organizations and associations which reduces time and expenditures of issuing such certifications.
- ✓ Clear and explicit announcement of conditions and requirements for obtaining necessary permits. Betterment of processes for getting water and electricity branches for new constructed houses employing electronic procedures which lead to time and cost reduction.
- ✓ Electronic-based sending and receiving of documents and payments

Part 3: hiring and firing of employees

Rigid and inflexible employment regulations are preventing creation of new jobs and pushing the work force to informal economy. Four types of amendments should be considered in employment and social security provisions in order to decrease the financial burden on firms and increase job opportunities for workers.

- ❖ Increasing the retirement age in countries with high elderly population

Aging of the population in rich and middle-income countries makes the adoption of appropriate policy necessary. In this policy, there should be either higher tax rate of social security to cover higher costs of the aging population or an increase in retirement age.

In 2004, the retirement age was increased to 68 in Finland and 67 in Israel. Similarly, the retirement age was increased to 62 in France in 2010.

If the employment years are prolonged, the financial burden on social security would decrease and government would be able to reduce corporate taxes.

- ❖ Determining the same retirement age for men and women

Women live 4 years longer than men throughout the world. This difference is 6 years in developed countries. Since retirement age in women is lower than men, the firms have to undergo high pension premiums. Homogenization of age of retirement for men and women will solve this problem.

- ❖ Turning Severance pay into unemployment insurance

Instead of subjecting firms to heavy severance payments which in times of recession could inflict irreparable damage to the businesses, middle-income countries can establish unemployment insurance. Since this action will change the focus of regulations from protecting jobs to support workers, it makes the transition to a new job easier for workers.

❖ Introducing internship contracts

One of the easiest ways to reform is using internship contracts. In an internship contract, a firm recruits an inexperienced individual and trains him/her for two years. Though the interns are usually paid 75 to 80 percent of the minimum wage, they are reimbursed for the difference by some governments in rich countries. After the internship period is over, interns would be able to find suitable jobs. It should be noted that such contracts are existed in most developed countries⁵.

If property registration is done in a simple, fast and low cost manner, entrepreneurs could focus more on their core business. By encouraging entrepreneurs to prepare official documents, their property rights will be strengthened. Without such documents, they would invest less and acquire financial credits with difficulties. If the procedures of property registration are bureaucratic and costly, the property would be transferred to informal section immediately.

Part 4: improving the property registration process and acquiring credit

The current process of property registration in Iran has major flaws which compel business owners to avoid official registration and turn to informal and underground methods. This issue will ultimately deprive them of the benefits of a formal registration. The following actions should be taken to improve this index:

- ✓ Providing an electronic platform for different stages of property registration and informing business owners of how to complete these stages in a transparent and accurate manner. If the business owners are aware of detailed know how's of this procedures, they are more willing to register their properties officially.
- ✓ Integration of relevant institutions and determine the amount of fees paid to them for registering properties. Discrimination in the payment of taxes and tariffs related to property registration and biased behavior of formal officers would demotivate business owners and force them to turn to informal methods for registering their properties.
- ✓ Employing non-governmental organizations and institutions to perform registration processes would make the process more fact and accurate.
- ✓ Making the registration process non- judicial could not only limit the function of the judicial system but grant credit to associations.

If creditors and borrowers have strong legal rights and credibility, Firms will have better access to loans and credit conditions. Countries which provide better legal rights for their loaners and borrowers would face less unpaid loans and therefore less financial risk. When there are functioning credit markets, investments will grow. Vulnerable sections of the society such as SME's and women which face greater barriers to access information than others, would enjoy the most from reformed provisions regarding collateral and credit information⁴.

CONCLUSION

This research is based on the assumption that review and provide legal suitable space is effective in improving the business climate in Iran. And seems to say: by learning from ups and downs of economic policies in Iran, have reached a common understanding of the dos and don'ts in the last three decades. Therefore, having a common understanding of the challenges and threats can be the basis for undergraduate interactions and, of course, concerns for economic

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elite field for find a role model for economic progress in the country. The fact is that reports that is published in international organizations about business index, or the competitiveness of the economy and so on, either good or bad, influence in behavior and investment decisions.

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