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## Do Anzali free zone incentives facilitate ease of doing business?

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### ABSTRACT

The purpose of this study is examining the role of Anzali Free Zones incentives in ease of doing business by using the World Bank method and compare it with the situation in Iran in 2019. The ease of doing business is calculated based on 10 indicators, demonstrating that the Anzali Free Zone is ranked 93rd in 2019, better than the country (128). The Anzali Free Zone outdoes Iran in 5 out of 10 indicators of doing business index, including starting a business, dealing with construction permits, getting electricity, paying taxes and trading across borders. The Anzali Free Zone and Iran, however, have similar situations in five other indicators including registering property, getting credit, protecting minority investors, enforcing contracts and resolving insolvency. The incentives and benefits of investing in free zones made the ease of doing business in Anzali Free Zone better than in mainland Iran. In order to improve the ease of doing business index in Iran and the free zone, the relevant rules should be reviewed in order to achieve the goal of creating free zones. It is recommended that officials from relevant organizations, explain the various incentives offered by free zones to domestic and foreign economic activists so that increased investment can provide the basis for increased production and employment for the country.

## 1. Introduction

The Ease of Doing Business (EoDB) index is a measure of how much a country's regulatory environment is conducive to business activities. Improving the business environment is a key factor in the development of investment, production, and employment, and plays a crucial role in the growth and economic development of a country by enhancing competition and facilitating private sector participation. Between 2003 and 2019, the World Bank used this index to evaluate and rank

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different countries. A review of the 2019 World Bank report shows that despite the increase in Iran's EODB score, it dropped in ranking as many other countries made greater improvements in their business regulations. However, according to Iran's Sixth Development Plan (2017–2021), the country's ranking (127 in 2020) should have reached above 70 by the end of the implementation of this plan. According to clause 1 of article 22, this plan requires the Iranian government to amend the given laws, regulations and procedures to not only guarantee a safe, easy and transparent business environment by the end of the fourth year since the commencement of the plan, but also promote Iran to the third rank among 25 countries in the Middle East with respect to two indices of international competitiveness and international indices of ownership rights. To this end, 25 percent of the plan is predicted to be achieved annually, so that Iran is able to document a ten-level promotion in the business index, ranking lower than seventieth before the end of the plan. Every year, in September and March, the Ministry of Economic Affairs and Finance is required to present the Iranian parliament with a documented report on the extent to which the approved plan is implemented. In November 2013, the Iranian government informally launched an office entitled "The Center of Monitoring and Improving the Business Environment" to deliver appropriate information to international organizations and take modification measures to improve the business environment. Afterwards, in May 2014, this office was formally registered as the fifth office in the Ministry of Economic Affairs and Finance. After being departed from the monetary and banking section, the office of article 44 of the Iranian Constitution was added to the deputy of economic affairs, and then was renamed as "The Center of Monitoring and Improving the Business Environment and the supreme council office of implementing the general policies of article 44". This office managed to document an optimum performance from 2014 to 2016 by rectifying the mistakes made in the documents in the previous years, and promote Iran's position given the mentioned index. Since 2016, however, thanks to the lack of significant reforms in its business environment, Iran witnessed a new jump in its rank and reached the 128<sup>th</sup> level in 2019. In the report released in 2020, Iran ranked 127 among 190 countries. Taking the perspective document into account, Iran experienced a decline in its rank compared to the previous year and followed Pakistan in the list. It is noteworthy that experiencing a leap of 30 units in the ranking (from 62 to 92) rendered Saudi Arabia famous as the pioneer country in making reforms in the 2020 report published by The World Bank (The Center of Monitoring and Improving the Business Environment, 2019).

Ease of doing business index involves 10 indicators including: 1. Starting a Business, 2. Dealing with Construction Permits, 3. Getting Electricity, 4. Registering Property, 5. Getting Credit, 6. Protecting Minority Investors, 7. Paying Taxes, 8. Trading across Borders, 9. Enforcing Contracts, 10. Resolving Insolvency. Each indicator is quantified on a scale of 0-100 so that the sample countries fall within the continuum with respect to their performance in the given indicator.

One of the economic policies which has come to the attention of decision makers and policy makers with the aim of increasing national economy competitiveness, joining global economy, fostering regional development, eradicating deprivation, attracting external and internal investment, creating new job openings, achieving sophisticated technology and increasing the export volume is establishment of Trade-Industrial Free Zones. Nevertheless, it is worth noting that the realization of economic policies would not be possible unless performance appraisal and necessary reforms are undertaken. To put it differently, the appropriate selection of goals, the optimal designing of procedures and the adoption of suitable policies and strategies would not result in a clear vision if proper performance is not observed and significant feedbacks are not obtained.

Iran consists of seven Trade-Industrial Free Zones including Anzali, Qeshm, Kish, Chabahar, Aras, Arvand, and Mako. Gilan is one of the smallest provinces of Iran, located in the northern region of the country. The statistical yearbook published by Iran Statistics Center shows that the share of Gilan Province from the country's Gross Domestic Product (GDP) has decreased to 2.2% in 2018, while the province accounts for 2.3% of the population (Iran Statistics Center, 2018). In addition, these statistics indicate that the share of the province from national production in agriculture, mining, construction, energy, and service sectors is also below its share of the population. According to a report by the Iranian Chamber of Commerce measuring the national business environment index from the autumn of 2016 to the spring of 2021, Gilan was ranked first in six out of nineteen seasons. According to this report, in the spring of 2021, Gilan was the eighth province in terms of business indicators.

Anzali Trade-Industrial Free Zone in Gilan province is not the only free zone located in the southern Caspian Sea, but also, due to its location on the north-south transport corridor (NOSTRAC), an appropriate place where goods are warehoused and transited. This corridor connects Helsinki harbor in the northern Europe to the harbors situated in the northern and southern shores of Caspian Sea, those around Persian Gulf and the countries in south-eastern Asia via Russia. Accordingly, connection to the harbors in northern and southern Europe through Volga River, proximity to Astrakhan and Logan harbors in Russia, Krasnovodsk harbor in Turkmenistan, Aktau harbor in Kazakhstan, and Baku in Azerbaijan as well as the existence of appropriate roads to the internal regions of Russia, Middle East and Caucasus are amongst the most important advantages of Anzali Trade-Industrial Free Zone. Is the ease of doing business in the Anzali Free Zone appropriate for these capacities to become a reality? Is it expected that the conditions will be created for the realization of the capacities of the free zones?

One of the questions raised on the nature of free zones is to what extent the legal points dedicated to such zones result in the improvement of ease of doing business in comparison with the original area? Could the creation of Anzali free zone be effective in improving the ease of doing business? Which of the indicators of ease of doing business in Anzali Free Zone is different from the mainland? The research background shows that there is a suitable theoretical analysis for creating investment incentives. Answers to the above questions can clarify the practical results of these theoretical analyses for facilitating the business environment in the Anzali Free Zone. The research background shows that there is a suitable theoretical analysis for creating investment incentives. Answers to the above questions can clarify the practical results of these theoretical analyses for facilitating the business environment in the Anzali Free Zone. The present study is concerned with measuring the ease of doing business index and its indicators in Anzali Trade-Industrial Free Zone and comparing it with the national condition in 2019. Employing a field and an interview methodology, the ongoing research collects the required data through interviewing the experts working in Anzali free zone and customs, and various economic activists in the domain of export and import. The zone is scored and ranked using the method employed by The World Bank in the 2019 report. The innovation of this research is that it examines the impact of free zone investment incentives on the Ease of Doing Business Index and its components. This result can help the government decide whether free zone incentives should be continued or discontinued.

The study consists of various sections. Having presented a brief introduction to the major points at issue, it continues to make a review of the related literature in section two. The Section three deals with the research methodology. In section four, the indicators of ease of doing business in Anzali

free zone are computed and compared with the national conditions. Section five is dedicated to the conclusion.

## 2. Theoretical Literature and Research Background

### 2.1. Importance of Ease of Doing Business

Unsuitable business environment increases the cost of economic enterprises and discourages investment, causing domestic producers to fall behind their foreign competitors. Business and investment in any region require a safe and suitable institutional environment. Investors tend to put their money in places with clear signs of economic security. Policy makers in each region must continuously measure and control the economic security and the level of investment in that region, and take the necessary measures to attract foreign capital and prevent capital flight based on the results of these measurements. Entry liberalization is one of the key requirements for economic growth. By making it easier to do business, more jobs will be created and the rate of economic growth will increase. Improvement of the business environment provides the basis for private sector participation in the economy, which in turn promotes employment and production. The 2019 EoDB report by the World Bank states that the economy cannot grow without a healthy private sector [33] When local businesses thrive, they create jobs and generate income that can be invested within the country. Any rational government that cares about the economic well-being and progress of its country pays special attention to the laws and regulations affecting local small and medium-sized enterprises (SMEs).

Today's business environment is very complex and dynamic, and this will become even more complicated when the economic recession also dominates the country's economic conditions and affects the manufacturing and service sectors [16]. According to the 2019 EoDB report World Bank, Iran demonstrated significant improvements in its score from 56.22 in 2017 to 56.64 and 56.98 in 2018 and 2019, respectively. Despite documenting remarkable growth in its score, however, Iran experienced slow-paced implementation of modifications relative to other countries, such that it was demoted 4 ranks from 124 in 2018 to 128 in 2019 [33]. The rank of Iran among 190 countries is tabulated for each indicator as follows:

**Table 1.** Iran's ranking in the ease of doing business indicators

Title	2014	2015	2016	2017	2018	2019	2020
Total Rank	132	119	117	120	124	128	127
Starting a Business	70	82	97	102	97	173	178
Dealing with Construction Permits	161	98	27	27	25	86	73
Getting Electricity	119	94	90	94	99	108	113
Registering Property	159	89	85	86	87	90	70
Getting Credit	86	90	97	101	90	99	104
Protecting Minority Investors	143	149	166	165	170	173	128
Paying Taxes	118	122	99	100	150	149	144
Trading across Borders	135	166	171	170	166	121	123
Enforcing Contracts	67	62	69	70	80	89	90
Resolving Insolvency	137	137	155	156	160	131	133

Source: World Bank Reports 2014-2020 [32]

In general, one of the ways to analyze the ease of production and the rules and regulations governing it is to examine the business environment. In an unfavorable business environment, the private sector is driven to the unproductive informal economy, promoting bribery and corruption. EoDB provides a useful index for assessing how the business environment in any country or region is developed, maintained, and improved. Improvement plans can be developed based on periodic assessments, which can pave the way for improving the economy. Improving EoDB indicators not only has economic benefits—e.g., improvements in employment, production, investment, and inflation—but also brings many social benefits by reducing unemployment and poverty as well as improving the culture of work and entrepreneurship, which will solve many social problems.

Sharma et al. [31] have assessed the strength of relationship between the EoDB rank and GDP of different states and UTs. of India. The data used in their study was gathered from secondary sources. India's 28 states and eight union territories provided the data for their research. The study's time frame spans from 2015 until 2020. The data sources used in their study are the economic survey, Niti Ayog, and the websites of the RBI. The results of their study show that there is a positive relationship between EoDB rank and GDP. The study concludes with the fact that world bank should continue with evaluating the countries and provide ease of doing ranks which becomes a path-builders for those who are searching for different business or entrepreneurial opportunities.

## **2.2. Free Trade Zones**

A free trade zone (FTZ) refers to an area where goods may be landed, handled, manufactured, or reconfigured, and then re-exported without the intervention of customs authorities. In the zones, multiple institutional incentives such as free movement of goods and people and preferential taxation are provided. Since the 1980s, countries such as the United States and Brazil have established FTZs, which are conducive to attract foreign direct investment (FDI), and greatly promote trade development. The Chinese government has always been committed to deepening reform and opening wider to the outside world [15]. Free trade zones have a freer business environment, lower taxes and tariffs. This situation encourages investment and it increases the ease of doing business. Foreign investors enter free trade zones based on a safer and better investment environment. They then promote the technology and quality of domestic enterprises, which can lead to more exports. Special economic zones can put other parts of the country on a higher development path [22].

A historical review of the economic revolutions taking place after the Second World War reveals that foreign business can contribute to the development of economy. With the advent of technology, this issue is place a particular importance in today's economic world. As no country is indeed capable of manufacturing all ranges of products for all people, global trade is believed to be the inevitable component of development. Taking it for granted, free zone is one of the major ways to expand foreign business [26]. Export development strategy, which is a major milestone of free zones, aims at allocating resources to develop quality and efficiency [13]. Exogenous and export-oriented growth, on the other hand, leads to a further growth in "Total Factor Productivity". Iranian free zones in general, and Anzali Trade-Industrial Free Zone in particular, enjoy appropriate conditions thanks to their natural, demographic and geographic conditions. A closer look at the data gleaned from China indicates that proper regulatory performance like tax and custom regulations, the development of facilities and infrastructures, the expansion of industrial clusters and the

application of economic policy lay the ground for the success of free zones in generating opportunities for decent employment and economic development.

In terms of institutional economics, special economic zones are a top-down experience at the national level, but they are based on regional action. Free trade zones are a tool for achieving policy goals within a national and institutional framework and are the result of the transition of global politics and domestic institutional reforms [11]. Free trade zones in China have been a successful experience, but not so successful in India. Local and regional policies in the form of free trade zones will lead to an increase in exports and developmental spillovers if the necessary practical conditions are provided [1]. Wu et al. [34] find that Export Processing Zones (EPZs) improve the performance of surrounding firms near the zone, with the impact being larger for firms in the pillar industries that the EPZs particularly favor. They also find that the magnitude of spillovers depends on the distance between a firm and the nearest EPZ: pillar-industry firms can receive higher premium by locating close to an EPZ, and this impact is the opposite for non-pillar industry firms. They examine the potential heterogeneous effects and find that the spillover effects are bigger for larger EPZs and EPZs designed to promote high-tech industries. They also find that domestic firms benefit more from the EPZ policy compared to their foreign counterparts.

The report on Ease of Doing Business 2019 highlights the fact that an economy fails to grow without a healthy private sector. The prosperity of local business is enough to catalyze the rate of employment and income, which can be spent for investment purposes. Any rational government would place a substantial emphasis on the economic welfare and development, and thereby paying a particular attention to the rules and regulations influencing SMEs. Business-influencing regulations pave the way for SMEs to foster their growth, improve their innovations and, if necessary, move from informal section to the formal section of economy. According to Ruiz et al [28], making investment decisions may require the choice of an appropriate geographical setting where major investment is determined to be made. Examples of the factors influencing the decision-making process include business atmosphere, human capital, political stability and macroeconomic variables. Doshi et al. [8] claim that the improvement of Global Performance Index (GPI), especially in case of ranking countries against each other, tend to form governments', investors', Bureaucrats' and voters' decisions. The World Bank's attempt to measure and declare the ease of doing business index exerts a significant effect on global monitoring policies. They explain how the World Bank's ranking system influences policies via bureaucratic, national and international channels. Having employed experimental data, they propound the view that countries exhibit a reaction to the general ranking by making strategic reforms to improve their rank. The results of a poll conducted with a sample of Indian investors reveal that the ease of doing business index affects the investors' perception of investment opportunities. The qualitative evidence obtained from India's attempt to improve the business environment confirms how these mechanisms constitute the second emerging market in the world.

### **2.3.Trade-Industrial Free Zones Incentives**

Incentives and advantages for investment in Trade-Industrial Free Zones

- 1-Tax exemption for 20 years from the date of operation for all economic activities
- 2-Foreign investment and nearly a hundred percent of the amount invested.

- 3- Freedom of entry and exit of capital and profits.
- 4- Protection and guarantees for foreign investments.
- 5- Abolition of entry visas and easily issue of residence permits for foreigners.
- 6-Facilitated regulation on labor relations, employment and social security.
- 7- Transfer of part manufactured goods to the mainland without paying customs duties.
- 8- Elimination of pay customs duties on imports from outside to the region and vice versa.
- 9- Employing trained and skilled manpower in all different skill levels and professions.
- 10- Utilization of raw materials, oil and gas as feedstock and fuel for all industrial activities.

The following indicators of the Ease of Doing Business Index include the number of steps, the duration of each step, and the cost of completing each step. Free zone incentives can affect these components of the Ease of Doing Business Index, i.e. reduce the number of steps, the duration of steps, and the cost of steps.

The list of the Trade-Industrial Free Zones of the Islamic Republic of Iran are as follows:

- 1-Qeshm Trade-Industrial Free Zone
- 2-Chabahar Trade-Industrial Free Zone
- 3-Aras Trade-Industrial Free Zone
- 4-Anzali Trade-Industrial Free Zone
- 5-Arvand Trade-Industrial Free Zone
- 6-Kish Trade-Industrial Free Zone
- 7-Maku Trade-Industrial Free Zone

Anzali Free Trade-Industrial Zone is a wide area of the port city of Bandar Anzali about 3200 hectares and about 8 kilometers of sea border and up to 2 kilometers into the sea, which included industrial, trade and commercial, tourism and services sections. Anzali Free Zone borders line is clear on the Gilan province map. This area is about 23 kilometers on the East of Bandar Anzali. The Caspian Sea is on the north of Free Zone. The Fatato village and Ghazian of Anzali are on the South. Anzali lagoon is on the East. Anzali-Khomam highway is on West and North West. Anzali Free Zone is constituted in 2 separate sections in the west and east of Bandar Anzali; each part has its own specific potentials. The area includes docks, shipping and ports organization and facilities, customs office, industrial city, natural territory and properties. It also includes beautiful natural lands and properties for cultivation of summer crops, a less populated area. The easy access to beaches and recreation facilities, as well as some rice fields are among the other features of the region. Anzali port is one of the most active harbors among the 5 Caspian Sea littoral states and is the biggest northern seaboard of Iran.

Hamplová and Provazníková [10] investigate the business environment in Czechia and compare it with that of other countries in the European Union. The main question raised here is why the Czechian business environment fails to obtain a proper position among European countries. The required data is gathered from the report released by The World Bank on the ease of doing business and then descriptively analyzed. The results indicate that Czechia fails to provide business activists with quality services including getting electricity permits, starting a business, and paying tax. Alves and Oliveira [25] provide ample support for the assertion that the importance of an ease of doing business report rests on its theoretical logic and widespread applicability. Independent Evaluation Group [12] undertakes a confirmatory project on the underpinnings, transparency and information resources of the ease of doing business index. In a list of studies, Djankov et al [4-6] and Djankov

[7] prove the compliance of business environment indices with the theoretical basics of foreign investment.

Morano et al. [21] have studied whether the ease of doing business can be considered as an alternative path (indirect path) between innovation and competitiveness of nations, improving the understanding of the effect transfer between these two variables. The study used exploratory/confirmatory factor analysis and mediation techniques applied to data from 141 countries contemplated in The Global Competitiveness report 2019 by the WEF and Doing Business report 2019 by the World Bank. The results show the mediator role of ease of doing business in the relationship between innovation and global competitiveness. Innovation improves the competitiveness of nations, but rules and regulations can be a barrier to this relationship. Therefore, ease of doing business is an essential element in improving the relationship between innovation and competitiveness, helping policymakers to focus their efforts on ease of doing business aspects in such a way as to enhance the economic process and support investors to make the most appropriate decisions when choosing the countries in which to invest their resources. Complementarily, the study also contributes by pointing out that the current method of calculating the EDB index may not be the most suitable, since it can distort analysis affecting international investment feasibility studies. Nystrom [24] carries out a scrutiny on the mutual effects of business rules and regulations and entrepreneurship activities on each other. After studying the panel data of 23 countries affiliated with Organization for Economic Co-operation and Development, he asserts that increased entrepreneurship and running start-ups are significantly correlated with the efficiency of business regulations.

Rezaei Pitenoei and Miraskari [27] studied the Factors of Improving Investment Security in Guilan Province. According to economic activists, the factors affecting the improvement of investment security in Guilan province are, respectively: 1- Provincial components, 2- Desirable components from the perspective of conventional economy, 3- Economic inputs, 4- Jihadist approach and concern for national interests, 5- The role of governance in the economy and 6- Economic supervision. The results show that among the six main components affecting investment security, the provincial component factor is in the first priority. A review of the ranking of components affecting investment security shows that in order to achieve a reliable condition for investment, the performance of all elements of society and all public, private, public institutions, as well as all sectors of government and society must be desirable. And all these sections should act responsibly in line with their mission and complement each other in order to achieve the goal of the system. Miraskari and Rezaei Pitenoei [18] have identified the components of EODB in Gilan province in Northern Iran and rank these components from the perspective of economic operators. They have used a mixed methods design. In the qualitative phase, the components of EODB in Gilan province are identified through meta-synthesis with the voluntary participation of 10 experts. In the quantitative phase, structural equation modeling is used to rank these components from the perspective of 75 randomly selected economic operators from different economic sectors of Gilan province. According to the voluntary participants, the main factors influencing EODB in Gilan province are: (1) public services and infrastructure; (2) political stability and the government; (3) policies, laws, and regulations; and (4) security of property rights. Miraskari and Rezaei Pitenoei [19] calculated the EoDB index for Anzali Free Zone (AFZ) using the methodology proposed by the World Bank and compared it with the national EoDB score for 2020. The results showed that AFZ would be ranked 93rd in terms of the overall EoDB score, higher than the country's ranking (127th).



One of the reasons for this finding is that most of the relevant processes in AFZ are concentrated in one point.

The Iranian studies conducted on the ease of doing business index can be classified into two groups regarding the type of indicators they take into account. Miraskari et al. [17] address the effect of macroeconomic variables on the insolvency risk of Iranian banks. They reveal that rise of GDP and inflation exerts a direct and significant impact on the distress risk of Iranian banks. Fixed assets and confiscated collateral, liquidity, oil export revenue, and tax income have an inversed effect on the distress risk of Iranian banks.

In a study entitled “The comparative evaluation of the business environment in Markazi province and that of other provinces in Iran”, Khaki et al. [14] conduct 21 periods of national survey on the business environment of Markazi province and other Iranian provinces during the years 2011-2016 and document that the majority of the provinces does not provide an appropriate business environment where government can distribute adequate financial support among economic entities across the provinces. Despite its spot among the provinces with substantially improved business environment, Markazi province suffers from impeding factors influencing business in the final seasons of the period. Nakhaei et al. [22] study the effect of professional regulations, credit and business on the economic growth of some developing and developed countries over the period 2000-2012. Having employed panel data within an endogenic growth model, they illustrate that, with particular emphasis on the role of labor market regulations, improved professional regulations, credit and business positively and significantly influence the economic growth of all sample countries, especially the developed ones.

Sayah [29] studied the lessons learned from 16 quarterly assessments of Iran’s business environment between the fall of 2010 to the summer of 2014. The results showed that the main challenges in starting and running a business in Iran are not infrastructural (e.g., roads and electricity), but institutional (e.g., financing for production and property rights protection). Nakhai et al. [23] investigated the effect of labor, credit and business regulations on economic growth in a number of developing and developed countries between 2000 and 2012. The results showed that improving the regulatory environment has a significant positive effect on the economic growth of all sample countries, and in particular, high-income countries, with the greatest effect being related to labor market regulations.

Ghafarpour et al. [9] aim at examining the business environment in Markazi province according to the World Bank’s business model. In the pursuit of this goal, they use a questionnaire as well as experts’ and activists’ views, and eventually report an inappropriate condition of the World Bank’s indices in Markazi province. This province, nevertheless, exhibits more optimum conditions than the national average in such indices as the time to obtain construction permits and ease of paying tax. Bakhtiari and Shayesteh [3] scrutinize how an improved business environment influences the economic growth of certain countries including Iran from 2005 to 2011. Their findings underscore the significantly positive effect of an improved business environment on the economic growth of the studied countries.

Shahnazi and Dehghan shabani [30] investigate the effect of the World Bank’s business environment indices on the economic growth of 68 countries based on an endogenic growth model during the years 2003-2006. The results of analyzing the panel data uncover the fact that seven subcategories including closing a business, registering property, paying taxes, foreign business

index, enforcing contracts, labor recruitment or dismissal and launching a new business impose a negative effect on the economic growth of the countries. Moreover, the computed ratios of three indicators like the regulations of getting permits, getting credit and protecting investors show a kind of incompliance with the theoretical expectations. In a study entitled “the business environment index and its effect on the private investment in Iran”, Arab mazar and Ahmadian [2] are involved in examining the global indices of business environment with the aim of identifying a proper index for the Iranian business environment with respect to the major economic factors. The results of estimating the function of private investment regarding the aforementioned index indicate that improving business environment tends to result in an increase in the volume of private investment in Iran.

### 3. Research Method

This study is an applied research in terms of its purpose. The method of obtaining data is a survey and through interviews. The ongoing research sets out to measure the ease of doing business index in Anzali Trade-Industrial Free Zone and then compare the obtained results on the national scale in 2019. The World Bank's latest report on the ease of doing business is from 2020. At the time of this research in 2019, no new report had been published. In doing so, the necessary data is collected through interviewing the experts working in Anzali free zone and customs, and various export and import activists. The zone is scored and ranked using the method employed by The World Bank in the 2019 report, which contains information relating to the ease of doing business index of the capitals of the sample countries. The World Bank resorts to the information collected from Tehran city to evaluate the ease of doing business index in Iran. In this study, however, the information gathered from Anzali free zone is incorporated to calculate the ease of doing business index and its related indicators in the city, resulting in the ranking of the free zone and the original territory (Iran). The ease of doing business indicators encompass certain legal processes, the implementation of which demands considerable time and money. The figures concerning the number of processes, their time and cost and other indicator-specific procedures are combined to compute the score of each indicator. As a result, the combination of the scores would yield the distance to frontier score. The score of each indicator as well as the distance to frontier score fall within the range of 0-100. The rank of countries or region is determined based on their distance to frontier score. Indeed, computing the ease of doing business score of each economy involves two phases. In the first phase, each of the 41 components is normalized to a common unit using the following linear transformation:

$$IndexedY = \frac{|WorstY - Y|}{|WorstY - BestY|} \quad (1)$$

Where,

*WorstY* points to the worst performance, whereas *BestY* indicates the worst performance for an indicator. *IndexedY* takes a value between 0 (the worst performance) and 1 (the best performance). The highest score suggests the best regulatory performance for an indicator. In the second phase, the scores obtained for indicators for individual countries are aggregated into one score through simple averaging. The simple averaging method thus gives equal weight to the indicators and their contained components.

#### 4. Results and Data Analysis

According to **Table 2** which is based on the report released by The World Bank in 2019, Iran ranks 173<sup>rd</sup> among 190 countries given the indicator of starting a business. Although the mentioned calculation is run in a national scale and based on Tehran city, the capital, Anzali free zone ranks 21<sup>st</sup> in the same indicator. The number of processes and the time to start a business in Anzali free zone are considerably low. One of the reasons why the resulting ranks are different arises from the concentration of the processes in a six-story building in Anzali free zone.

**Table 2.** The components included in the indicator of starting a business in Iran and Anzali Free Zone

components	Iran	Anzali Free Zone
Rank	173	21
distance to frontier score (0-100)	67.79	94.4
the number of legal Procedures to start a business	10.5	4
time to start a business (number of days)	72.5	4
the average cost of starting a business (% of per capita income)	1.2	1.6
Minimum Capital required to start a business (% of per capita income)	0.0	1.7

Source: Research findings

As tabulated in **Table 3**, Iran ranks 86<sup>th</sup> among 190 countries regarding the indicator of dealing with construction permits, while the rank of Anzali free zone is reported at 14 as it exhibits a better performance in three indicators of legal procedures, time to get permits and the average cost of getting permits relative to Iran.

**Table 3.** The components included in the indicator of dealing with construction permits in Iran and Anzali Free Zone

Components	Iran	Anzali Free Zone
Rank	86	14
distance to frontier score (0-100)	69.11	83.13
the number of legal Procedures to get construction permits	16	12
time to get construction permits (number of days)	160	70.5
the average cost to getting construction permits (% of warehouse value)	6.6	2
Building quality control index (0-15)	12.5	12.5

Source: Research findings

As indicated in **Table 4**, Iran ranks 108<sup>th</sup> among 190 countries considering the indicator of getting electricity. Given the information elicited from experts working in Anzali free zone, the number of procedures and the time to get electricity permit within Anzali free zone lasts as long as that of Iran, though its cost in Anzali is 18 percent of the cost required to be paid in Tehran, making Anzali rank 99<sup>th</sup> in 2019.

**Table 4.** The components included in the indicator of getting electricity in Iran and Anzali Free Zone

Components	Iran	Anzali Free Zone
Rank	108	99
Distance to frontier score (0-100)	68.86	71.12
The number of legal Procedures to get electricity	6	6
Time to get electricity (number of days)	77	77
The average cost of getting electricity (% of per capita income)	923.1	191.7
Reliability of supply and transparency of tariffs index (0–8)	5	5

Source: Research findings

**Table 5** reveals that Iran documents a rank of 90 out of 190 countries considering the indicator of registering property. Thanks to the data gleaned from experts working in Anzali free zone, the number of procedures and the time and cost to register property within Anzali free zone are defined the same as those of Iran. Real Estate Registration Organization of Iran, Iranian National Tax Administration, Social Security Organization, Iranian Cartographic Center, and Judicial System of Iran not only have legitimate authority to register property, but also play a more determining role in improving the ranking in the given indicator than Anzali free zone.

**Table 5.** The components included in the indicator of registering property in Iran and Anzali Free Zone

Components	Iran	Anzali Free Zone
Rank	90	90
Distance to frontier score (0-100)	63.98	63.98
The number of legal Procedures to register property	6	6
Time to register property (number of days)	31	31
The average cost of registering property (% of Per capita income)	5.7	5.7
Quality of land administration index (0–30)	15	15

Source: Research findings

According to **Table 6**, Iran ranks 99<sup>th</sup> among 190 countries considering the indicator of getting credits. No difference is observed between Anzali free zone and Iran with respect to getting credits, which is majorly governed by the Iranian Central bank.

**Table 6.** The components included in the indicator of getting credits in Iran and Anzali Free Zone

Components	Iran	Anzali Free Zone
Rank	99	99
Distance to frontier score (0-100)	50	50
Strength of legal rights index (0–12)	2	2
Depth of credit information index (0-8)	8	8
Credit bureau coverage (% of adults)	58.3	58.3
Credit registry coverage (% of adults)	57.5	57.5

Source: Research findings

The indicator of protecting minority investors examines eight topics including information disclosure level, managerial responsibility level, shareholders' lawsuit, shareholders' rights, control and ownership level, corporate transparency level, regulations of conflict of interests and shareholders' governance level. As it is evident in **Table 7**, Iran experiences a rank of 173 among 190 countries given the indicator of protecting minority investors. The analysis of the data gathered from the experts in Anzali free zone suggests that there is no significance difference in the performance of the given indicator between Anzali free zone and Iran. The Iranian Stock Exchange is majorly responsible for protecting minority investors. Parliament, moreover, plays a prominent role in the improvement of the indicator as major reforms require its approval.

**Table 7.** The components included in the indicator of protecting minority investors in Iran and Anzali Free Zone

Components	Iran	Anzali Free Zone
Rank	173	173
Distance to frontier score (0-100)	33.33	33.33
Extent of disclosure index (0–10)	7	7
Extent of director liability index (0–10)	4	4
Ease of shareholder suits index (0–10)	1	1
Extent of shareholder rights index (0–10)	3	3
Extent of ownership and control index (0–10)	3	3
Extent of corporate transparency index (0–10)	2	2

Source: Research findings

As tabulated in **Table 8**, Iran ranks 149<sup>th</sup> among 190 countries considering the ease of paying tax. In this regard, Anzali free zone outdoes Iran, ranking 112<sup>th</sup>, which arises from fewer frequency of tax payment, less time spent on payment and lower total tax rate in the zone.

**Table 8.** The components included in the indicator of paying tax in Iran and Anzali Free Zone

Components	Iran	Anzali Free Zone
Rank	149	112
Distance to frontier score (0-100)	56.78	68.47
Payments (number per year)	20	14
Time spent on payment (hour per year)	216	151
Total tax and contribution rate (% of profit)	44.7	25.9
Postfiling index (0–100)	7.96	7.96

Source: Research findings

The indicator of trading across borders accounts for four different components including time to export, cost to export, time to import, and cost to import. Time to export and import consists of two parts, namely time for documentary compliance and time for border compliance. According to **Table 9**, Iran's ranking in the indicator of trading across borders is recorded 121 out of 190 countries. Facilitating the export and import activities through promoting the international business department of Customs by The World Bank upgraded its rank from 166 in 2018 to 121 in 2019. Given this

indicator, however, Anzali free zone ranked 87<sup>th</sup>. Time to export and import, and cost to import are less in Anzali than that of Iran.

**Table 9.** The components included in the indicator of trading across borders in Iran and Anzali Free Zone

Components	Iran	Anzali Free Zone
Rank	121	87
Distance to frontier score (0-100)	66.2	75.51
Time to export (hours)	134	93
Documentary compliance (hours)	33	33
Border compliance (hours)	101	60
Cost to export (US \$)	475	475
Documentary compliance (US \$)	60	60
Border compliance (US \$)	415	415
Time to import (hours)	181	122.3
Documentary compliance (hours)	40	27
Border compliance (hours)	141	95.3
Cost to import (US \$)	750	193.6
Documentary compliance (US \$)	90	44.5
Border compliance (US \$)	660	149.1

Source: Research findings

Considering **Table 10**, Iran ranks 89<sup>th</sup> among 190 countries given the indicator of enforcing contracts in 2019. The experts working in Anzali free zone are inclined to contend that Iran and Anzali free zone show identical behavior with respect to the mentioned indicator. The Judicial system of Iran and Ministry of Justice as well as the Iranian Parliament hold the responsibility to enforce contracts.

**Table 10.** The components included in the indicator of enforcing contracts in Iran and Anzali Free Zone

Components	Iran	Anzali Free Zone
Rank	89	89
Distance to frontier score (0-100)	58.21	58.21
Time to spend (days)	505	505
Cost (% of claim value)	19.3	19.3
Quality of judicial processes index (0–18)	5	5

Source: Research findings

According to **Table 11**, the rank of Iran in the indicator of resolving insolvency is registered 131 out of 190 countries in 2019, illustrating a similar condition to that of Anzali free zone. The Judicial system of Iran and Ministry of Justice as well as the Iranian Parliament assume the responsibility for resolving insolvency.

**Table 11.** The components included in the indicator of resolving insolvency in Iran and Anzali Free Zone

Components	Iran	Anzali Free Zone
Rank	131	131
Distance to frontier score (0-100)	35.57	35.57
Time to spend (years)	1.5	1.5
Cost (% of estate)	15	15
Recovery rate (cents on the dollar)	37.1	37.1
strength of insolvency framework index (0-16)	5	5

Source: Research findings

**Table 12** illustrates that Iran is promoted to the rank of 128 among 190 countries in 2019. The calculation of the ease of doing business in Anzali free zone reveals that it ranked 93<sup>rd</sup> given the index in the studied period.

**Table 12.** The ease of doing business index in Iran and Anzali Free Zone in 2019

Components	Iran	Anzali Free Zone
Rank	128	93
Distance to frontier score (0-100)	56.98	63.37

Source: Research findings

**Table 13** show that, Anzali free zone has a more optimum situation in five indicators including starting a business, getting construction permits, getting electricity, ease of paying tax and trading across borders than Iran mainland.

**Table 13.** Comparing the ranks of Anzali Free Zone and Iran in the ease of doing business indicators in 2019

Indicators	Iran	Anzali free zone	The situation of Anzali Free Zone in relation to Iran
Total rank	128	93	Better
Starting a Business	173	21	Better
Dealing with Construction Permits	86	14	Better
Getting Electricity	108	99	Better
Registering Property	90	90	indifference
Getting Credit	99	99	indifference
Protecting Minority Investors	173	173	indifference
Paying Taxes	149	112	Better
Trading across Borders	121	87	Better
Enforcing Contracts	89	89	indifference
Resolving Insolvency	131	131	indifference

Source: Research findings

## 5. Conclusion

Given the importance of the business environment and its impact on the key variables of employment and production, the purpose of this research was to examining the role of Anzali Trade-Industrial Free Zones incentives in ease of doing business by using the World Bank method and compare it with the situation in Iran in 2019. Computing the ease of doing business index suggests that Anzali free zone ranks 93<sup>rd</sup> with respect to the given index in 2019. Following the information collected from the experts working in the zone and Customs as well as those economic activists in the domain of export and import, Anzali free zone documents a more optimum situation in five indicators including starting a business, getting construction permits, getting electricity, ease of paying tax and trading across borders than Iran. The best rank of Anzali (=14) is reported for the indicator of getting construction permits. In addition, the most significant difference between Anzali's rank and that of Iran is documented for the indicator of starting a business, such that the former ranked 21<sup>st</sup>, while the latter ranked 173<sup>rd</sup>. The primary cause of the difference in the ranks is attributable to the concentration of the processes taking place in a six-story building in Anzali.

An elaborate analysis of the ease of doing business index implies a significant drop in the rank of Iran across countries in 2019. This aggravation in the rank has happened in contrast with what the sixth development plan has required. Accordingly, Iran is determined to rank 70<sup>th</sup> in the world and 25<sup>th</sup> in the region by the end of the predicted plan by country. The Center of Monitoring and Improving the Business Environment located in the deputy of economic affairs in the Ministry of Economic Affairs and Finance exhibits an appropriate performance from 2014 to 2016 so that it managed to promote Iran's rank by modifying the mistakes reported to The World Bank in the previous years. Since 2016, thanks to the immaterial reforms in the Iranian business environment, Iran once more experiences an increase in its rank, reaching the rank of 128 in 2019. In the 2020 report, Iran ranked 127<sup>th</sup> among 190 countries, yet it was demoted one rank among 25 countries of the perspective document, and ranked 20<sup>th</sup>. It is worth mentioning that Saudi Arabia exhibits a 30-rank promotion from 92 to 62, deserving a special mention as the pioneer in making rectification in the world.

In order to improve the ease of doing business index in Iran and the free zone, the relevant rules should be reviewed in order to achieve the goal of creating free zones. The major solution recommended by the business group of The World Bank and employed by certain leading countries like Georgia is the establishment of an electronic window during the process of doing business. This window circumscribes the waste of time and cost by eliminating the frequent visitation of entrepreneurs to the governmental agencies. It is recommended that officials from relevant organizations, such as the Ministry of Economy and the Ministry of Industry, Mines and Trade, explain the various incentives offered by free zones to domestic and foreign economic activists so that increased investment can provide the basis for increased production and employment for the country.

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