

EVALUATION OF INFLUENCE OF CORRUPTION, LENDING INTEREST RATE AND OTHER COMPONENTS ON EASE OF DOING BUSINESS: A POLICY-MAKING AND LEGAL IMPLICATIONS

Gazmend Deda *, Arben Tërstena **, Sokol Krasniqi *,
Stela Todorova ***

* Faculty of Management, University of Applied Sciences in Ferizaj, Ferizaj, Republic of Kosovo

** *Corresponding author*, Faculty of Management, University of Applied Sciences in Ferizaj, Ferizaj, Republic of Kosovo

Contact details: University of Applied Sciences in Ferizaj, Str. Rexhep Bislimi, 70000 Ferizaj, Republic of Kosovo

*** Department of Management and Marketing, Faculty of Economics, Agricultural University of Plovdiv, Plovdiv, Bulgaria



Abstract

How to cite this paper: Deda, G., Tërstena, A., Krasniqi, S., & Todorova, S. (2024). Evaluation of influence of corruption, lending interest rate and other components on ease of doing business: A policy-making and legal implications. *Corporate Law & Governance Review*, 6(3), 8–16. <https://doi.org/10.22495/clgrv6i3p1>

Copyright © 2024 The Authors

This work is licensed under a Creative Commons Attribution 4.0 International License (CC BY 4.0). <https://creativecommons.org/licenses/by/4.0>

ISSN Online: 2664-1542
ISSN Print: 2707-1111

Received: 09.02.2024
Accepted: 23.08.2024

JEL Classification: C23, D73, G38
DOI: 10.22495/clgrv6i3p1

The research paper experimentally examines the influence of corruption control (CC), lending interest rate (LIR), regulatory quality (RQ), government effectiveness (GE), and domestic credit to the private sector (DCPS) on the ease of doing business (EDB). To reach the expected objective, the investigation employs balanced data for all six countries of the Western Balkans, covering the period 2014–2020, employing regression analysis with fixed effects. The approach and parameter selection are guided by the insights from Nageri and Gunu (2020) as well as Belloumi and Alshehry (2021). The discoveries of the research provide evidence that CC, LIR, and RQ have a statistically significant negative influence, versus DCPS has resulted in a significant positive influence on the EDB. The originality and creativity of this investigation lay in the fact that it is a combination of economic and governing variables that are immediately reflected in the favorable environment for doing business. The discoveries of the investigation will be beneficial to the expansion of existing literature in the academic sphere and serve as avenues for proactive discussions among business managers, and students, as well as the policy-making structure concerning the possible implications that can be drawn based on the results of the research.

Keywords: Ease of Doing Business, Corruption, Lending Interest Rate, Regulatory Quality, Panel Data

Authors' individual contribution: Conceptualization — G.D.; Methodology — A.T.; Software — A.T.; Validation — A.T. and S.T.; Formal Analysis — G.D. and S.T.; Investigation — S.K. and S.T.; Resources — S.K.; Data Curation — A.T.; Writing — Original Draft — G.D.; Writing — Review & Editing — S.K. and S.T.; Supervision — G.D.; Project Administration — S.K.

Declaration of conflicting interests: The Authors declare that there is no conflict of interest.

1. INTRODUCTION

In the last decade, apart from preoccupation with digitization and globalization, the main focus of government authorities has been the creation of infrastructure around the freedom of doing business. The ratification of the regulations intends to prevent employers from mistreating workers, to ensure correlated channels and bridges (regulation of public procurement), and to protect shareholders' interests. On the other hand, the governing bodies of many countries take steps to enforce standards that are widely perceived as obstacles to business. Generally, ease of doing business (EDB) is a measure that takes into account several different areas within a country that must create conditions that will affect the simple procedure of establishing businesses, expanding them, paying taxes, creating facilities for access to finance, and establishing a favorable business environment.

Therefore, the improvement of the EDB index can result in many interactive aspects as it directly influences not only domestic economic activity but also international trade. Hence, the creation of favorable conditions within the framework of a country can affect the increase in the volume of foreign investments, which in the internal aspect directly affects the increase in competition. Higher competitiveness will undoubtedly result in reduced domestic prices, as well as an increase in local purchasing power, and as a result, it is characterized by rapid economic development. The evaluation of the EDB concentrates mainly on twelve topics (activities) grouped into five categories, to encourage efficiency and support in establishing the most advantageous circumstances for doing business (World Bank Group, 2020). Continuous research has been conducted on business registration, the business environment, and entrepreneur motivation (de Massis et al., 2018; Nangpiire et al., 2018; Ahmad & Muhammad Arif, 2016).

In addition, the World Bank business has been compiling annual reports on regulatory components for 190 countries for the past 15 years, including their rankings based on EDB (World Bank Group, 2020). The establishment of advantageous circumstances indirectly is translated into economic growth, attracting foreign direct investments, increasing employment, and increasing social well-being in developed countries, whereas corruption and inefficient government have a significant negative influence in developing countries (Sunkanmi & Isola, 2014; Mongay & Filipescu, 2012). More importantly, some empirical investigations have indicated that access to finance and the costs charged by financial institutions are the main challenges for businesses. Therefore, the strengthening of financial support with favorable conditions has important effects in mitigating financing restrictions, influencing the increase of capital, the expansion of services as well as the stimulation of business activities (Cao-Alvira & Palacios-Chacon, 2021; Dutta & Meierrieks, 2021; Beck, 2013). Thus, assuming government authorities improve regulatory quality (RQ) and government effectiveness (GE), they set up an advantageous environment for overcoming these obstacles while also providing confidence for investors around the world. Both of these variables have received considerable attention in recent years, among researchers and policy development structures.

Meanwhile, it should be noted that very few investigations have been conducted in this domain. Following on the econometric information, it appears that the Western Balkan countries have demonstrated great progress, reaching the Organisation for Economic Co-operation and Development (OECD) countries, with a mean of 71.66 out of a possible 100 points. North Macedonia had the most advantageous business environment, with 81 points, whereas Bosnia and Herzegovina had the poorest business environment, with only 51 points out of a possible 100 points. Thus, starting with the core purpose of this research, we will present some research questions in the following section, which will be presented in the form of hypotheses in the second section for confirmation or rejection. As a result, the research questions are:

RQ1: What influence could the failure of implementing corruption control (CC) have on the EDB?

RQ2: How does the accessibility of domestic credit to the private sector (DCPS), as well as the lending interest rate (LIR), influence the EDB?

RQ3: How are regulatory requirements reflected in the advancement of EDB?

Therefore, the novelty of our research is based on these considerations. Firstly, the research aims to examine the influence of CC, LIR, RQ, GE, and DCPS on the EDB in six Western Balkan countries from 2014 to 2020. Secondly, it brings to the inclusion and expansion of empirical literature, particularly for the countries included in the analysis, considering that it is one of the few research investigations regarding this topic for these economies. Thirdly, it employs the regression approach to examine the influence of these variables, performing an appropriate number of diagnostic tests. Finally, research from the policy-making insight provides an opportunity to review and redesign regulatory policies.

The research is organized as follows: Section 2 covers the literature review and the development of research hypotheses, followed by Section 3 detailing the research methodology. Subsequently, the results of the study are presented in Section 4, followed by a discussion of these results in Section 5. Finally, concluding remarks are provided at the end of Section 6.

2. THEORETICAL BACKGROUND AND THE HYPOTHESES

2.1. Theoretical and empirical insights of ease of doing business

Within the academic and empirical spectrum, two fundamental determinants are constantly emphasized, which influence the EDB. It includes the rule of law and corruption, however, based on various research, additional factors have been found that influence the EDB. Previous research, as well as some of the most recent research on this topic, have addressed the importance of the EDB in investment. The EDB index is an assessment tool adopted by the World Bank that includes 12 components, organized into five categories displayed in Figure 1. Certain categories are evaluated during the process of business:

Figure 1. What is measured in doing business

Source: World Bank Group (2020).

EDB is a scoring system on reforms or improvement of conditions, which is used by certain stakeholders such as scholars, legislators, as well as multinational corporations (Pinheiro-Alves & Zambujal-Oliveira, 2012). Starting from the perspective of view of businesses, this ranking system is considered an evaluation tool that serves as a reference point before making investment decisions (Pinheiro-Alves & Zambujal-Oliveira, 2012). Empirical evidence provides an indication that other determinants influence the EDB, Nageri and Gunu (2020) have discovered that the control of corruption negatively influences the EDB, and Krasniqi and Durguti (2023) have addressed the approach to the diversity of funding sources (LIR) as well as the level of support from financial institutions. The rule of law compliance component involves many different factors, but the two most important ones that influence the EDB are RQ and GE (Cao-Alvira & Palacios-Chacon, 2021; Dutta & Meierrieks, 2021).

2.2. Determining parameters and hypotheses

Regarding the prism of the components that influence EDB, numerous researchers have investigated several factors to conclude that they possess influences in creating optimal circumstances for EDB. Control of corruption serves as one of them, since based on empirical research indicates that it influences economic development, foreign investments, the capital market, and EDB (Nageri & Gunu, 2020; Omodero, 2019; Bonga & Mahuni, 2018; Anoruo & Braha, 2005). When reviewing a variety of current research within the domain of CC, it becomes evident that almost every investigation yields broadly comparable conclusions. The scholar Alamro (2024) measured the influence of the interactions among CC, public debt, and economic growth, considering the European Union (EU) economies through the dynamic approach. His discoveries validate the hypothesis that the influence of public debt on economic growth is caused by CC. Additionally, Durguti et al. (2024) found that CC harms gross domestic product (GDP) growth in EU countries despite having a positive impact in South-Eastern European countries indicating that these countries can learn valuable lessons from EU countries' anti-corruption protection measures. The outcomes of the investigations cannot be treated as definitive, because there is still a disagreement on the influence of corruption. However, we will primarily concentrate on the impact of CC, and its impact on

EDB, as well as addressing the discrepancies in empirical data.

Therefore, Spyromitros and Panagiotidis (2022) have examined the index of corruption versus economic development, respectively EDB in developing countries comprising the period 2012–2018. The empirical approach performed in this research was the generalized method of moments (GMM) and fully modified ordinary least squares (FM-OLS). Researchers argue that corruption adversely impacts the climate of doing business, however, various degrees of corruption positively boost EDB, particularly within Latin American countries, whereas in other countries it has appeared with a negative impact. Conversely, considering the conclusion of the research conducted by Nageri and Gunu (2020) studying West African nations through regression with fixed effects, it has been discovered that the ranking index of corruption harms EDB for West African countries. As a result, considering these arguments, the hypothesis in our scenario is:

H1: CC adversely influences EDB.

In the spirit of simplifying access to finance, businesses continually express their concerns that they face additional challenges until they receive approval for the loan. Due to this, a LIR concern which has additional costs, undoubtedly has an impact on the creation of a favorable environment in EDB. For instance, the research performed by Krasniqi and Durguti (2023) pointed out that in addition to the barriers regarding the provision of collateral, requirements on financial reporting, and many other barriers faced by small and medium-sized enterprises (SMEs), they claim that an additional burden to do business is as well the high LIR. Studying two separate countries of the Western Balkans (North Macedonia and Republic of Kosovo), Kunoviku-Demiri et al. (2021) emphasized that access to finance, collateral provision, business plans, and bureaucratic procedures from commercial banks negatively affect EDB and business development.

On the other hand, coming from a different angle, researchers Mustaqe et al. (2024) addressed the variability in the LIR, an upsurge in support through loans as well as non-performing loans on foreign direct investments, as a strategy for promoting EDB. The second hypothesis in our scenario is:

H2: LIR adversely influences EDB.

RQ and GE serve as two determinants of offering an appropriate environment for EDB, which is thought to be positive promoters. The advance of

sustainability laws should necessarily be converted into a positive, competitive environment that encourages EDB. In light of this perspective, researcher Srivithaya (2024) studying the OECD countries as well as Thailand, has concluded that the RQ, transparency, accountability, compliance with global standards, and promoting the proactive involvement of the public on the improvement of governance and social welfare. Additionally, Durguti et al. (2024) offered empirical evidence that RQ and GE in the EU possess positive effects on EDB, meanwhile, regarding countries in transition, RQ has resulted in an insignificant effect, compared to GE. Sanga and Aziakpono (2023), studying economies with middle incomes and those with low incomes, discovered that laws and regulations (regulatory framework and GE) have a higher positive impact in countries with middle incomes, compared to those with low incomes. Oto-Peralías and Romero-Ávila (2017) examined the research conducted in several areas that are associated with EDB and regulatory indicators, including the protection of minor shareholders, obtaining loans, strengthening contracts, the cost of starting a business, property registration, and certain other features that are considered to have a positive influence. On the other hand, Sendra-Pons et al. (2022) in their study investigated 48 countries covering the period 2018-2019, having a special focus on regulatory requirements. Within this research, it has been confirmed that countries that have sound legislation led by a government that has priority in cultivating a perception of the rule of law also cutting off unnecessary administrative procedures have a positive impact on EDB. Based upon this, the governance hypotheses are:

H3: RQ positively influences EDB.

H4: GE positively influences EDB.

Lastly, DCPS has been consistently investigated, since it is an important contributor, and simultaneously it is tied to access to finance as well as LIR. In light of the advancements in FinTech technology, certain studies have recently been focused on investigating novel financing modalities and the degree of competition they may introduce to the banking sector. In this regard, Langi et al. (2024) conducted a study on 121 banks and found that the utilization of peer-to-peer lending has a detrimental impact on the growth of lending support provided by banks. Business banks must, therefore, consider how they can offer their financial products in line with consumer preferences and the midst of competition if they prefer to preserve their position as leaders in this industry. In light of the banking sector's pivotal role in supporting SMEs, as an essential factor in promoting an EDB environment, Durguti et al. (2023) examined DCPS as a specific banking industry parameter to determine the consequences of this indicator on financial stability. The results provided by the study prove that DCPS through the two-stage least squares

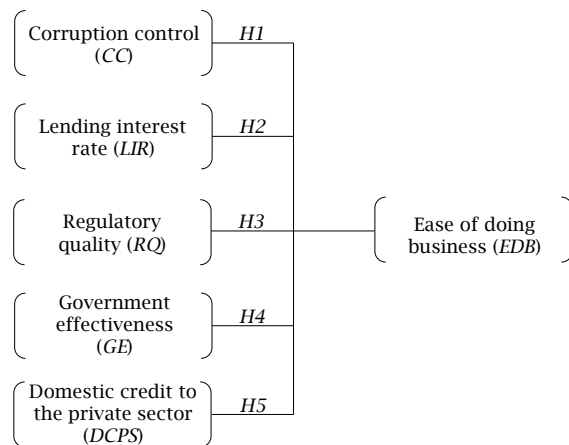
approach has resulted in having a positive impact on financial stability. Moreover, the last study carried out in this domain by the authors Sami et al. (2024) analyzed financial stability in the context of India, and their findings suggest that the importance of capital, assets, and adequate management of the credit portfolio are promoters of creating financial stability. Due to this topic being investigated quite extensively, we only intend to express the most significant components of the interaction between DCPS and EDB. A large portion of research studies performed so far have stressed that SMEs deal with different challenges when it comes to obtaining credit from banks. Nageri and Gunu (2020) have investigated the lending variable, as well as the interest rate charged by banks for clients in the private sector, and have concluded that it has a negative impact at a probability level of ten percent. Starting from another perspective, Cao-Alvira and Palacios-Chacon (2021) substantially support the argument that bank financing to the private sector positively promotes the formation of business prospects. The argument is reinforced by evidence indicating that businesses generate liquidity, expand working capital, and at the same time create investments. Thus lastly, our final hypothesis is:

H5: DCPS positively influences EDB.

3. RESEARCH METHODOLOGY

3.1. Data and sample

The research deals with panel data using secondary sources to observe the influence of specified variables on the EDB for the Western Balkans countries. The study's sampling framework covers the six Western Balkans countries (Albania, Bosnia and Herzegovina, Republic of Kosovo, North Macedonia, Montenegro, and Serbia), where the criteria for being included or excluded have determined whether the selected country had accurate and comprehensive available data based to the format defined for the period addressed. The cross-state statistical data were gathered from reputable databases (Transparency International, Global Economy, and World Bank Indicators), that had been accessible and readily available from 2014 through 2020, with a total of 42 observations. The econometric methodology employed is multifactorial regression (random and fixed effects) to estimate the parameters, and the decision on the adequacy of the model was made after performing the Lagrangian multiplier (LM) test for random effects. In such a scenario, the research as a dependent variable has determined the *EDB*, while the influencing variables comprise *LIR*, *CC*, *RQ*, *GE*, and *DCPS*. As a result of this explanation, the architectural framework of the research model is as in Figure 2.

Figure 2. Conceptual proposed model

Source: Authors' elaboration.

3.2. Variables

Based on the paradigm described in Figure 2, the current section primarily addresses the explanation of the variables and their importance. The table below reflects each of the variables that are incorporated in this research, their explanations, their acronyms, and the institution where the data were acquired.

Table 1. Description of variables

Description	Denominations	Abbr.	Data sources
Dependent variable	Ease of doing business	<i>EDB</i>	World Bank
Independent variables	Corruption control	<i>CC</i>	Transparency International
	Lending interest rate	<i>LIR</i>	World Bank
	Regulatory quality	<i>RQ</i>	Global Economy
	Government effectiveness	<i>GE</i>	Global Economy
	Domestic credit to the private sector	<i>DCPS</i>	World Bank

Source: Authors' elaboration.

3.2.1. Dependent variable

EDB is defined as a dependent variable, the outcome of this metric represents the regulatory effectiveness of the *EDB* in a country. The scoring method used to determine this ranking oscillates from 0 (in this case 0 is the worst regulatory effectiveness) to 100 (the best regulatory effectiveness). The overall assessment and scoring of countries is done for 264 countries by the World Bank, to encourage the respective states to adopt reforms that will affect the attraction of investments, the reduction of unemployment, and the strengthening of competition (World Bank Group, 2018). On the other side, this metric becomes important for managers or firm owners, since it is offered as a metric for risk assessment as well as expenses (Mongay & Filipescu, 2012).

3.2.2. Independent variables

In various societies there are ongoing discussions about combating and controlling corruption (*CC*)

which is assumed to influence the *EDB*, nevertheless in this regard there are only a few studies that directly deal with the association connecting these two variables. This metric reveals the private benefits and the interests realized via public power or additional channels in the context of corruption. The estimation of its value referring to the methodology of the World Bank is done in a range from -2.5 (in the case of -2.5 is considered the worst practice of *CC*) to 2.5 (the best practice of *CC*). Bribery as a metric of *CC* is presented as a consequence of the lack of a legal framework and the bodies who have the responsibilities to enforce the approved legal framework (Kenny, 2009), investigating the influence of *CC* in doing business (including the increase of investments, the sustainability of businesses, etc.) whereas certain studies indicates contradictory results in certain countries (Asiedu & Freeman, 2009).

However, from a different perspective's view, Ali and Isse (2003) proclaim the idea that an understanding of the sources of corruption will be helpful in the creation and redesign of policies, which can influence the reduction of the negative implications of corruption. Belloumi and Alshehry (2021) examined the influence of *CC* on investments, economic growth, and the conditions of doing business for Gulf Cooperation Council countries covering the period 2003-2015. The conclusions of this investigation come down to the fact that, in the long term, there's a negative association between them.

LIR is another component addressed in the research, which is of crucial relevance for businesses, and for economic development in the country. This metric is expressed as a percentage and represents the cost (*LIR*) of funding for businesses. In the common of the studies conducted, the rate of interest on loans is presented as an obstacle because of the high interest rate, resulting in having a negative influence on the creation of facilities for doing business. Looking at the report of the European Central Bank for 2017, it turns out that the lack of access to financial resources for the countries of the Western Balkans is a serious concern (Moder & Bonifai, 2017). Kunoviku-Demiri et al. (2021) have obtained the same conclusion by comparing two countries from the Western Balkans (Republic of Kosovo and North Macedonia), highlighting that access to finances appears as the main obstacle and has a negative impact on SMEs. The most recent research by Krasniqi and Durguti (2023) on the diversity of funding sources investigated using the scenario of Republic of Kosovo. Conclusions based on this survey demonstrate that most businesses have challenges with repaying their loan obligations, as a result of the high rate of borrowing compared to advanced economies where borrowing rates are lower.

Furthermore, the *DCPS* variable is an indicator that illustrates the proportion with which financial institutions have supported the private sector in every industry and is expressed as a percentage. The accessibility of banking services has substantial positive effects in improving funding challenges for SMEs, expanding capital service, boosting the amount of lending, and promoting activities that

contribute to *EDB* (Cao-Alvira & Palacios-Chacon, 2021; Dutta & Meierrieks, 2021).

Finally, *RQ* and *GE* are metrics on the regulatory side that explain the regulatory quality and the government's effectiveness in setting conditions that promote doing business. Both of these metrics are ranked in the interval depending on the methodology of the World Bank of -2.5, where it is considered weak *RQ* and less effective, whereas the maximum rank is 2.5, where it is considered that the country has a qualitative regulatory framework and high effectiveness. Sanga and Aziakpono (2023), considering 50 African nations throughout the period 2000-2019, discovered that in middle-income countries *GE* has a stronger influence compared to low-income countries. Thus, based on this reasoning *RQ* and *GE* are affected to various degrees depending on the particular characteristics of the countries.

3.3. Model development

This empirical study, which aimed to examine and identify a connection between the *EDB* and *CC*, *LIR*, *RQ*, *GE*, and *DCPS*, was performed by employing a regression approach with panel data. One of the main concerns when dealing with panel data is choosing a random or fixed effects model that is most appropriate. In addition, to the mentioned approaches, especially those handling panel data, additional techniques such as the GMM and techniques involving the employing of instrumental variables are also utilized. Due to the heterogeneity within these economies, the GMM modeling is unable to take into consideration individual-specific effects. This is considered a disadvantage of this technique when compared to random or fixed effects. Moreover, one more advantage of the fixed-effects approach is its ability to precisely estimate the variability in individual effects, which allows us to concentrate on the variability inside a specific unit across time. The main advantage of applying the GMM technique is centered on the conditional evaluation when the number of observations is greater than the number of variables ($N \geq T$), and when there are endogeneity concerns (Cameron & Trivedi, 2005). Regarding our current scenario, the variables that are employed are of the same variety and are not affected by the issues previously mentioned. In the studies conducted up to now, we do not have any overall agreement in this context, and the choice between these two models depends on the nature of the data. More specifically, the research employed two regression models (random and fixed effect), and then with greater attention by diagnostic tests, the selection of the most suitable model between random and fixed effect was selected. Gujarati (2004) in the situation of choosing which modeling approach best fits the data, determines the degree of probability that there is a connection between the dependent variable and the individual variables incorporated into the research.

In this circumstance, it is suggested to perform the LM test for random effects and if the estimated probability is smaller than $\alpha = 0.05$, then regression with random effects is suggested. On the opposite side, the model with fixed effects will be implemented. Therefore, based on this argument,

the result of the LM test for the model with random effects in our case is $p = 0.601$ (see Table 4), which means that the probability value is higher than $\alpha = 0.05$. Based on this, we have chosen the model with fixed effects because the data are better suited. From a mathematical perspective, the regression with the data provided can be constructed as outlined below (Baltagi, 2008):

$$Y_{i,t} = \alpha + \beta_i X'_{i,t} + \varphi_{i,t}, \quad (1)$$

$$i = 1,2,3, \dots, n; t = 1,2,3, \dots, t$$

Thus, the mathematical expression in our specific scenario is:

$$EDB_{i,t} = \alpha_0 + \beta_1 CC_{i,t} + \beta_2 LIR_{i,t} + \beta_3 RQ_{i,t} + \beta_4 GE_{i,t} + \beta_5 DCPS_{i,t} + \mu_{i,t} \quad (2)$$

where, $\alpha_0, \beta_1, \dots, \beta_5$ — intercept and slope constants, $\varphi_{i,t}$ — disturbance term, $i = 1-42$, $t = 2014-2020$.

4. RESULTS

The upcoming part deals with the explanation of the outcomes, based on the data, applied to the six countries that are part of the Western Balkans, initially addressing a summary of the statistics, and then with the correlation analysis, the diagnostic tests, and finally with a discussion of what was discovered from the regression analysis. At first glance, we could state that there is no considerable level of difference in terms of *EDB* over the examined timeframes. Indeed, Table 2 comprehensively shows the overall results, where *EDB* has a mean score of 71.66 with a standard deviation of 5.96 percent. This conclusion clarifies indices that the conditions for doing business exceed the average (ranging from 0-100, where 0 is a fragile environment and 100 is an excellent environment), while on the reverse side, it serves as a positive signal that these countries are consistently improving their environment to do business.

Table 2. Descriptive statistics

Variables	EDB	CC	LIR	RQ	GE	DCPS
Obs.	42	42	42	42	42	42
Mean	71.663	38.619	5.656	0.117	-0.159	47.158
Std. dev.	5.961	3.547	1.166	0.265	0.329	7.653
Min	58.101	34.010	3.072	-0.375	-1.043	32.986
Max	80.932	46.021	7.972	0.524	0.202	59.969

Source: Authors' calculation.

The corruption index (*CC*) resulted in a mean value of 38.62 (out of a total of 100, which is the maximum) with a standard deviation of 3.55 percent. The highest score that was reached is 46.02, whereas the lowest is 34.01. The outcomes reported offer signals that these states still need to enhance their effectiveness in combating the phenomenon of corruption. An additional important variable selected for this evaluation is the *LIR*, which has resulted in a mean value of 5.66 percent with a standard deviation of 1.17 percent. The Western Balkans countries are characterized by political fragility, and as a consequence of this, the *LIR* is at a higher level than the countries of the Eurozone. The *RQ* index

has a mean value of 0.12 with a standard deviation of 0.27 percent. The lowest score achieved is -0.38, while its highest score is 0.52. The examination of this metric is conducted through an interval of -2.5 to 2.5 (in the case of a minus value indicates poor quality, while a positive value shows perfect quality), and based on this it may be determined that the *RQ* should be reviewed and strengthened.

An additional important component that is strongly connected to the environmental conditions of providing favorable conditions for doing business is *GE*, the overall results being practically identical to the earlier index. Hence, *GE* possesses a mean value of -0.16 with a standard deviation of 0.33 percent. Finally, there is the *DCPS*, which has a mean value of 47.16 with a standard deviation of 7.65 percent. This metric reveals that the financial system has supported the private sector with financing by 47.16 percent. Furthermore, additional descriptive information is reported in detail in Table 2.

Table 3. Correlation breakdown

	<i>EDB</i>	<i>CC</i>	<i>LIR</i>	<i>RQ</i>	<i>GE</i>	<i>DCPS</i>
<i>EDB</i>	1.000					
<i>CC</i>	0.133	1.000				
<i>LIR</i>	0.124	0.267	1.000			
<i>RQ</i>	0.453	0.339	0.260	1.000		
<i>GE</i>	0.449	0.439	0.641	0.659	1.000	
<i>DCPS</i>	0.286	0.201	-0.426	-0.003	-0.404	1.000

Source: Authors' calculation.

Throughout Table 3, outcomes of the correlation matrix are presented, which has been employed to recognize the interaction between *EDB* and other explanatory variables on the one hand but also to evaluate if the analyzed data have problems with multicollinearity. Considering this table, it is obvious that the *EDB* has a positive association with each of the variables, nevertheless, the association between *EDB*, *RQ*, and *GE* deserves to be emphasized ($\beta = 0.453$ and $\beta = 0.449$). An adverse association exists across *LIR*, *RQ*, *GE*, and *DCPS*.

From the perspective of multicollinearity, the coefficients obtained concerning this matrix provide indices that the observed periods do not have problems concerning this matter, such as no coefficient $\alpha > 0.70$. Regarding this conclusion, Gujarati (2004) has stressed that if there is a coefficient value more than $\beta > 0.75$, then this demonstrates that the applied data have problems with multicollinearity. Indeed, to brighten it even more, we've employed the vector inflation factor (VIF), which is used to identify if the data has problems with multicollinearity, especially when dealing with panel data. The outcome of this investigation resulted in a mean value = 2.36, which suggests that the data are adequately suited to the model. Table 4, in addition to the regression results, offers several other diagnostic tests, which are crucial for ensuring the robustness of the model with the applied data. Through our scenario, R^2 has a value constant of $\beta = 0.416$, or expressed differently that every variable employed in the examination explains the *EDB* at 41.6 percent, while the rest is described by the variables that weren't taken into account in the research. Furthermore, the F-test ($F = 4.420$, with $p = 0.003$) demonstrates that all variables individually have

values lower than $\alpha < 5$, and this offers us signals that the data are adequately fitted in the model. In this sense, the χ -heteroscedasticity test has a constant of $\beta = 0.341$ with $p = 0.558$ indicating that the data have no concerns regarding heteroscedasticity.

The study, after conducting the preliminary tests on the topics stated in Tables 3 and 4, analyses panel data through the regression model with fixed effects to capture the effect of separate variables on the *EDB* for the Western Balkans countries. Indeed, the data reported in Table 4 reveal that all variables have significant implications except *GE* with a probability of $p = 0.108$ according to fixed effects.

Table 4. Empirical results

<i>Models</i>	<i>Random effect</i>		<i>Fixed effect</i>	
	β	$p \geq [z]$	β	$p \geq [z]$
<i>CC</i>	-0.726	0.001	-0.873	0.004
<i>LIR</i>	-0.477	0.526	-1.486	0.075
<i>RQ</i>	-1.506	0.072	-5.470	0.007
<i>GE</i>	18.964	0.000	7.068	0.108
<i>DCPS</i>	0.589	0.000	0.371	0.012
_cons	77.808	0.000	98.053	0.000
R^2	0.284	-	0.416	-
Wald chi ²	51.550	0.000	-	-
F-test	-	-	4.420	0.003
χ -heteroscedacity	0.341	0.558	-	-
Mean VIF	2.360	-	2.360	-
LM test random effect	2.020	0.601	-	-

Source: Authors' calculation.

5. DISCUSSION

The corruption index (*CC*) has been reported to have a negative influence since it resulted in a coefficient of $\beta = -0.873$ with $p = 0.004$ to the *EDB*. The aforementioned finding discourages the *EDB* across all Western Balkan countries, and at the same time supports *H1*, as stated in the literature review and hypothesis development section. The conclusions of the research comply with the outcomes of Nageri and Gunu (2020) examining low-income countries throughout the period 2004-2017 by random and fixed effect regression. Additionally, it is worth emphasizing that our results are in disagreement with the results of Khan et al. (2020) arguing that the control of corruption favorably supports the financial industry in support of the private sector for emerging economies.

LIR as well, following the empirical results, has an adverse influence on the *EDB* with a probability range of $p = 0.075$ and that with a coefficient of $\beta = -1.486$. The conclusion implies difficulties in setting up attractive circumstances for doing business and discourages businesses from considering long-term investments due to the high interest rate. The outcomes of the examination are in alignment with the expected results, and at the same time confirm *H2*. The studies conducted by Krasniqi and Durguti (2023), Kunoviku-Demiri et al. (2021), and Nageri and Gunu (2020) obtained precisely the same conclusion on the interest rate for loans. The outcomes of these studies provide extending evidence that high *LIR* are presented as a barrier to the *EDB*, which argument is also confirmed in the report of the European Central Bank (Moder & Bonifai, 2017). *RQ* and *GE* are crucial for creating an environment of *EDB*, as shown by

the analyzed data (*RQ* has an important negative influence, while *GE* has surprisingly had an insignificant influence). *RQ* has a coefficient of $\beta = -5.470$ with $p = 0.007$ and indicates that the countries of the Western Balkans in terms of improving *RQ* are not at a satisfactory level and that there is still a need for commitment to their improvement according to the directives of the EU. From this, it follows that the alternative *H3* is confirmed. The outcomes are in alignment with the research performed by Sanga and Aziakpono (2023), which provides evidence by evaluating the 50 countries of Africa, reinforcing the fact that in middle-income countries there is a negative impact compared to low-income countries. Lastly, *DCPS* has an important beneficial effect on the *EDB* considering $\beta = 0.371$ with $p = 0.012$, this outcome suggests that lending by financial institutions improves the conditions of doing business. The result validates *H5* and is under the findings of Cao-Alvira and Palacios-Chacon (2021) and Dutta and Meierrieks (2021). The results of this research confirm that easy access to financing has an advantageous and strong influence, offering the expansion of investment capacity and the promotion of activities that enhance the *EDB*.

6. CONCLUSION

The research investigated *CC*, *LIR*, as well as other variables in the *EDB*, covering the six Western Balkans countries, stretching historical data from 2014 to 2020. Research was performed by regression analysis employing carefully balanced secondary data, to capture the influence of these variables in *EDB* and also to confirm or rejection of the hypotheses specified. The Western Balkans have been employed as a case study, and this strategy can be applied to any particular country or panel of countries to achieve specific results. The limitation in the data set from 2014–2020 was caused by the fact that most of the countries included in the research hadn't submitted data before 2014 for the variable that was the main topic of the research, nevertheless, this means that the results don't provide the appropriate tendency. On the other hand, this research will be highly valuable for future studies, as it looks to be one of the unique research in this domain, especially for the Western Balkans countries. It is worth emphasizing that the research used an advanced econometric technique, with only the aim of achieving the most sustainable outcomes.

REFERENCES

- Ahmad, S. Z., & Muhammad Arif, A. M. (2016). Entrepreneurial characteristics, motives, and business challenges: Exploratory study of small and medium-sized hotel businesses. *International Journal of Hospitality and Tourism Administration*, 17(3), 286–315. <https://doi.org/10.1080/15256480.2016.1183550>
- Alamro, H. (2024). The effect of corruption on public debt sustainability: Evidence from the European Union's countries [Special issue]. *Journal of Governance & Regulation*, 13(1), 333–340. <https://doi.org/10.22495/jgrv13i1start7>
- Ali, A. M., & Isse, H. S. (2003). Determinants of economic corruption: A cross-country comparison. *Cato Journal* 22(3), 449–466. <https://object.cato.org/sites/cato.org/files/serials/files/cato-journal/2002/1/cj22n3-4.pdf>
- Anoruo, E., & Braha, H. (2005). Corruption and economic growth: The African experience. *Journal of Sustainable Development in Africa*, 7(1), 43–55. <http://surl.li/wdhivb>
- Asiedu, E., & Freeman, J. (2009). The effect of corruption on investment growth: Evidence from firms in Latin America, sub-Saharan Africa, and transition countries. *Review of Development Economics*, 13(2), 200–214. <https://doi.org/10.1111/j.1467-9361.2009.00507.x>
- Baltagi, B. H. (2008). *Econometric analysis of panel data* (4th ed.). Wiley.
- Beck, T. (2013). Bank Financing for SMEs — Lessons from the literature. *National Institute Economic Review*, 225, 23–38. <https://doi.org/10.1177/002795011322500105>

Conclusions of the research indicate the *CC* for the observed time has had a statistically important and adverse influence on the *EDB*, whereas borrowing interest rate as a financial variable has a statistically significant influence with a negative sign. Credit domestic to the private sector, which is a variable that has a unique relevance in the process of financial support to businesses, has led to a positive influence on the *EDB* for the Western Balkans countries. As indicated by descriptive statistics for the examined periods, 47.2 percent of businesses in these countries are financially supported by the banking industry. On the other hand, the two parameters featured in the research that are accepted as promoters of generating favorable conditions for doing business are *RQ* and *GE*. *RQ* has turned out to be statistically significant with a negative sign, offering recommendations that *RQ* should be reviewed and redesigned to promote a more appropriate environment for business. In the meantime, *GE* showed an insignificant result.

The conclusion of the analysis offers significant evidence that the countries of the Western Balkans should enhance the ranking index of *CC*, to promote a climate of *EDB*. Legislative bodies in the Western Balkans need to become more effective in reducing the *LIR*, while *RQ* and *GE* are both needed to provide a favorable environment for attracting investments and enhance the degree of competitiveness of local businesses. Finally, the outcomes of the research aim to have a consequence on the policy-making structures, by initiating the procedures for reviewing the regulatory framework and the quality of governance in undertaking concrete steps in the redesign of policies and procedures that will directly influence the *EDB*. It's important to point out that the current research may have specific limitations when viewed through the prism of its findings. Firstly, the observed period extends only seven years. Secondly, the World Bank has proposed modifications to the methodology for *EDB*. Nevertheless, these limitations do not compromise the significance of what was discovered. Hence, for future research in this domain, it would be advantageous to examine parameters referring to the new methodology and contemplate the inclusion of additional variables. For upcoming studies, it is advised to add various additional parameters, and the empirical technique through different models to discover if the results can have changes in the outcomes of this research.

- Belloumi, M., & Alshehry, A. S. (2021). The causal relationships between corruption, investments and economic growth in GCC countries. *SAGE Open*, 11(4). <https://doi.org/10.1177/21582440211054425>
- Bonga, W. G., & Mahuni, K. (2018). *Assessing the impact of ease of doing business and corruption on economic growth for Africa free trade zone (AFTZ) member states* (MPRA Paper No. 88932). Munich Personal RePEc Archive (MPRA). <https://mpra.ub.uni-muenchen.de/88932/>
- Cameron, A. C., & Trivedi, P. K. (2005). *Microeconometrics: Methods and applications*. Cambridge University Press. <https://doi.org/10.1017/CBO9780511811241>
- Cao-Alvira, J. J., & Palacios-Chacon, L. A. (2021). Financial deepening and business creation: A regional analysis of Colombia. *Emerging Markets Finance and Trade*, 57(3), 875–890. <https://doi.org/10.1080/1540496X.2019.1602764>
- de Massis, A., Audretsch, D., Uhlaner, L., & Kammerlander, N. (2018). Innovation with limited resources: Management lessons from the German mittelstand. *Journal of Product Innovation Management*, 35(1), 125–146. <https://doi.org/10.1111/jpim.12373>
- Durguti, E., Alidemaj, A., & Krivins, A. (2024). Good governance and rule of law effect on GDP growth: Lessons for emerging economies. *Journal of Liberty and International Affairs*, 10(1), 37–60. <https://doi.org/10.47305/JLIA24101041d>
- Durguti, E., Arifi, E., Gashi, E., & Spahiu, M. (2023). Anti-money laundering regulations' effectiveness in ensuring banking sector stability: Evidence of Western Balkan. *Cogent Economics & Finance*, 11(1), Article 2167356. <https://doi.org/10.1080/23322039.2023.2167356>
- Dutta, N., & Meierrieks, D. (2021). Financial development and entrepreneurship. *International Review of Economics & Finance*, 73, 114–126. <https://doi.org/10.1016/j.iref.2021.01.002>
- Gujarati, D. N. (2004). *Basic econometrics* (4th ed.). Tata McGraw Hill.
- Kenny, C. (2009). Measuring corruption in infrastructure: Evidence from transition and developing countries. *The Journal of Development Studies*, 45(3), 314–332. <https://dx.doi.org/10.1080/00220380802265066>
- Khan, H., Khan, S., & Zuojun, F. (2020). Institutional quality and financial development: Evidence from developing and emerging economies. *Global Business Review*, 23(4), 971–983. <https://doi.org/10.1177/0972150919892366>
- Krasniqi, E., & Durguti, E. (2023). Procjena poslovne učinkovitosti i utjecaj raznolikosti financiranja tokom COVID-19: Dokazi s Kosova [Evaluating business performance and the impact of funding diversity during COVID-19: Kosovo evidence]. *Ekonomski Pregled*, 74(3), 387–408. <https://doi.org/10.32910/ep.74.3.3>
- Kunoviku-Demiri, F., Tmava, Q., & Durguti, E. A. (2021). Analyzing the variables that influence access to bank financing for small and medium enterprises in Kosovo and North Macedonia. *Journal of Liberty and International Affairs*, 7(3), 12–32. <https://doi.org/10.47305/JLIA2137012kd>
- Langi, C. R., Raharjo, S., Mahardika, S. G., Pramono, A. T., Yudaruddin, R., & Yudaruddin, Y. A. (2024). FinTech P2P lending and bank loans in time of COVID-19. *Risk Governance and Control: Financial Markets & Institutions*, 14(1), 111–121. <https://doi.org/10.22495/rgcv14i1p8>
- Moder, I., & Bonifai, N. (2017). *Access to finance in the Western Balkans* (Occasional Paper Series No. 197). European Central Bank. <https://www.ecb.europa.eu/pub/pdf/scpops/ecb.op197.en.pdf>
- Mongay, J., & Filipescu, D. A. (2012). Are corruption and ease of doing business correlated? An analysis of 172 nations. In S. Harris, O. Kuivalainen, & V. Stoyanova (Eds.), *International business: New challenges, new forms, new perspectives* (pp. 13–26). Palgrave Macmillan. https://doi.org/10.1057/9781137007742_2
- Mustaqe, E., Mamo, J., & Salko, D. (2024). The effect of foreign direct investment inflows on non-performing loans [Special issue]. *Journal of Governance & Regulation*, 13(1), 499–505. <https://doi.org/10.22495/jgrv13i1siart22>
- Nageri, K. I., & Gunu, U. (2020). Corruption and ease of doing business: Evidence from ECOWAS. *Acta Universitatis Sapientiae, Economics and Business*, 8, 19–37. <https://doi.org/10.2478/auseb-2020-0002>
- Nangpiire, C., Rodrigues, R. G., & Adam, I. O. (2018). Ease of doing business and foreign direct investment inflow among Sub-Saharan African countries. *International Journal of Business and Emerging Markets*, 10(3), 289–303. <https://doi.org/10.1504/IJBEM.2018.093006>
- Omodero, C. O. (2019). Effect of corruption on foreign direct investment inflows in Nigeria. *Studia Universitatis "Vasile Goldis" Arad-Economics Series*, 29(2), 54–66. <https://doi.org/10.2478/sues-2019-0008>
- Oto-Peralias, D., & Romero-Ávila, D. (Eds.). (2017). Literature review on the effect of the ease of doing business on economic and financial outcomes. In *Legal traditions, legal reforms, and economic performance: Theory and evidence* (pp. 37–56). Springer. https://doi.org/10.1007/978-3-319-67041-6_4
- Pinheiro-Alves, R., & Zambujal-Oliveira, J. (2012). The ease of doing business index as a tool for investment location decisions. *Economics Letters*, 117, 66–70. <https://doi.org/10.1016/j.econlet.2012.04.026>
- Sami, L., Anjum, F., Ansari, M. S., & Iffat, B. (2024). The financial stability of the banking sector: An empirical investigation using the CAMEL rating approach. *Journal of Governance & Regulation*, 13(2), 135–144. <https://doi.org/10.22495/jgrv13i2art13>
- Sanga, B., & Aziakpono, M. (2023). The effect of institutional factors on financial deepening: Evidence from 50 African countries. *Journal of Business and Socio-Economic Development*, 3(2), 150–165. <https://doi.org/10.1108/JBSED-12-2021-0175>
- Sendra-Pons, P., Comeig, I., & Mas-Tur, A. (2022). Institutional factors affecting entrepreneurship: A QCA analysis. *European Research on Management and Business Economics*, 28(3), Article 100187. <https://doi.org/10.1016/j.iedeen.2021.100187>
- Spyromitros, E., & Panagiotidis, M. (2022). The impact of corruption on economic growth in developing countries and a comparative analysis of corruption measurement indicators. *Cogent Economics & Finance*, 10(1). <https://doi.org/10.1080/23322039.2022.2129368>
- Srivithaya, S. (2024). Regulatory impact assessment for law reform: A comparison of the parliament role. *Corporate Law & Governance Review*, 6(1), 69–76. <https://doi.org/10.22495/clgrv6i1p7>
- Sunkanmi, O. A., & Isola, A. L. (2014). Corruption and economic growth in Nigeria. *Journal of Economics and Sustainable Development*, 5(6), 45–56. <https://www.iiste.org/Journals/index.php/JEDS/article/view/11932>
- World Bank Group. (2018). *Doing business 2018: Reforming to create jobs* (Report No. 120811). International Bank for Reconstruction and Development/The World Bank. <http://documents.worldbank.org/curated/en/803361509607947633/Doing-Business-2018-Reforming-to-Create-Jobs>
- World Bank Group. (2020). *Doing business 2020: Comparing business regulation in 190 economies*. International Bank for Reconstruction and Development/The World Bank. <https://documents1.worldbank.org/curated/en/688761571934946384/pdf/Doing-Business-2020-Comparing-Business-Regulation-in-190-Economies.pdf>