About *Doing Business:* measuring for impact

Governments committed to the economic health of their country and opportunities for its citizens focus on more than macroeconomic conditions. They also pay attention to the laws, regulations and institutional arrangements that shape daily economic activity.

The global financial crisis has renewed interest in good rules and regulation. In times of recession, effective business regulation and institutions can support economic adjustment. Easy entry and exit of firms, and flexibility in redeploying resources, make it easier to stop doing things for which demand has weakened and to start doing new things. Clarification of property rights and strengthening of market infrastructure (such as credit information and collateral systems) can contribute to confidence as investors and entrepreneurs look to rebuild.

Until recently, however, there were no globally available indicator sets for monitoring such microeconomic factors and analyzing their relevance. The first efforts, in the 1980s, drew on perceptions data from expert or business surveys. Such surveys are useful gauges of economic and policy conditions. But their reliance on perceptions and their incomplete coverage of poor countries constrain their usefulness for analysis.

The *Doing Business* project, initiated 9 years ago, goes one step further. It looks at domestic small and medium-size companies and measures the regulations applying to them through their life cycle. *Doing Business* and the standard cost model initially developed and applied in the Netherlands are, for the present, the only standard tools used across a broad range of jurisdictions to measure the impact of government rule-making on the cost of doing business.[1]

The first *Doing Business* report, published in 2003, covered 5 indicator sets and 133 economies. This year's report covers 11 indicator sets and 183 economies. Nine topics are included in the aggregate ranking on the ease of doing business. The project has benefited from feedback from governments, academics, practitioners and reviewers.[2] The initial goal remains: to provide an objective basis for understanding and improving the regulatory environment for business.

WHAT *DOING BUSINESS* COVERS

Doing Business provides a quantitative measure of regulations for starting a business, dealing with construction permits, registering property, getting credit, protecting investors, paying taxes, trading across borders, enforcing contracts and closing a business—as they apply to domestic small and medium-size enterprises. It also looks at regulations on employing workers as well as a new measure on getting electricity.

A fundamental premise of *Doing Business* is that economic activity requires good rules. These include rules that establish and clarify property rights and reduce the cost of resolving disputes, rules that increase the predictability of economic interactions and rules that provide contractual partners with core protections against abuse. The objective: regulations designed to be efficient in their implementation, to be accessible to all who need to use them and to be simple in their implementation. Accordingly, some *Doing Business* indicators give a higher score for more regulation, such as stricter disclosure requirements in related-party transactions. Some give a higher score for a simplified way of implementing existing regulation, such as completing business start-up formalities in a one-stop shop.

The *Doing Business* project encompasses 2 types of data. The first come from readings of laws and regulations. The second are time and motion indicators that measure the efficiency and complexity in achieving a regulatory goal (such as granting the legal identity of a business). Within the time and motion indicators, cost estimates are recorded from official fee schedules where applicable.[3] Here, *Doing Business* builds on Hernando de Soto's pioneering work in applying the time and motion approach first used by Frederick Taylor to revolutionize the production of the Model T Ford. De Soto used the approach in the 1980s to show the obstacles to setting up a garment factory on the outskirts of Lima.[4]

WHAT *DOING BUSINESS* DOES NOT COVER

Just as important as knowing what *Doing Business* does is to know what it does not do—to understand what limitations must be kept in mind in interpreting the data.

LIMITED IN SCOPE

Doing Business focuses on 11 topics, with the specific aim of measuring the regulation and red tape relevant to the life cycle of a domestic small to medium-size firm. Accordingly:

- *Doing Business* does not measure all aspects of the business environment that matter to firms or investors—or all factors that affect competitiveness. It does not, for example, measure security, macroeconomic stability, corruption, the labor skills of the population, the underlying strength of institutions or the quality of infrastructure.[5] Nor does it focus on regulations specific to foreign investment.
- *Doing Business* does not assess the strength of the financial system or market regulations, both important factors in understanding some of the underlying causes of the global financial crisis.
- *Doing Business* does not cover all regulations, or all regulatory goals, in any economy. As economies and technology advance, more areas of economic activity are being regulated. For example, the European Union's body of laws *(acquis)* has now grown to no fewer than 14,500 rule sets. *Doing Business* covers 11 areas of a company's life cycle, through 11 specific sets of indicators. These indicator sets do not cover all aspects of regulation in the area of focus. For example, the indicators on starting a business or protecting investors do not cover all aspects of commercial legislation. The employing workers indicators do not cover all areas of labor regulation. The current indicator set does not include, for example, measures of regulations addressing safety at work or the right of collective bargaining.

BASED ON STANDARDIZED CASE SCENARIOS

Doing Business indicators are built on the basis of standardized case scenarios with specific assumptions, such as the business being located in the largest business city of the economy. Economic indicators commonly make limiting assumptions of this kind. Inflation statistics, for example, are often based on prices of consumer goods in a few urban areas.

Such assumptions allow global coverage and enhance comparability. But they come at the expense of generality. *Doing Business* recognizes the limitations of including data on only the largest business city. Business regulation and its enforcement, particularly in federal states and large economies, differ across the country. And of course the challenges and opportunities of the largest business city—whether Mumbai or São Paulo, Nuku'alofa or Nassau—vary greatly across countries. Recognizing governments' interest in such variation, *Doing Business* has complemented its global indicators with subnational studies in such countries as Brazil, China, Colombia, the Arab Republic of Egypt, India, Indonesia, Kenya, Mexico, Morocco, Nigeria, Pakistan and the Philippines.[6]

In areas where regulation is complex and highly differentiated, the standardized case used to construct the *Doing Business* indicator needs to be carefully defined. Where relevant, the standardized case assumes a limited liability company. This choice is in part empirical: private, limited liability companies are the most prevalent business form in most economies around the world. The choice also reflects one focus of *Doing Business*: expanding opportunities for entrepreneurship. Investors are encouraged to venture into business when potential losses are limited to their capital participation.

FOCUSED ON THE FORMAL SECTOR

In constructing the indicators, *Doing Business* assumes that entrepreneurs are knowledgeable about all regulations in place and comply with them. In practice, entrepreneurs may spend considerable time finding out where to go and what documents to submit. Or they may avoid legally required procedures altogether—by not registering for social security, for example.

Where regulation is particularly onerous, levels of informality are higher. Informality comes at a cost: firms in the informal sector typically grow more slowly, have poorer access to credit and employ fewer workers—and their workers remain outside the protections of labor law.[7] *Doing Business* measures one set of factors that help explain the occurrence of informality and give policy makers insights into potential areas of reform. Gaining a fuller understanding of the broader business environment, and a broader perspective on policy challenges, requires combining insights from *Doing Business* with data from other sources, such as the World Bank Enterprise Surveys.[8]

WHY THIS FOCUS

Doing Business functions as a kind of cholesterol test for the regulatory environment for domestic businesses. A cholesterol test does not tell us everything about the state of our health. But it does measure something important for our health. And it puts us on watch to change behaviors in ways that will improve not only our cholesterol rating but also our overall health.

One way to test whether *Doing Business* serves as a proxy for the broader business environment and for competitiveness is to look at correlations between the *Doing Business* rankings and other major economic benchmarks. The indicator set closest to *Doing Business* in what it measures is the OECD indicators of product market regulation;[9] the correlation here is 0.72. The World Economic Forum's Global Competitiveness Index and IMD's World Competitiveness Yearbook are broader in scope, but these too are strongly correlated with *Doing Business* (0.79 and 0.64, respectively).[10]

A bigger question is whether the issues on which *Doing Business* focuses matter for development and poverty reduction. The World Bank study *Voices of the Poor* asked 60,000 poor people around the world how they thought they might escape poverty.[11] The answers were unequivocal: women and men alike pin their hopes above all on income from their own business or wages earned in employment. Enabling growth—and ensuring that poor people can participate in its benefits—requires an environment where new entrants with drive and good ideas, regardless of their gender or ethnic origin, can get started in business and where good firms can invest and grow, generating more jobs.

Small and medium-size enterprises are key drivers of competition, growth and job creation, particularly in developing countries. But in these economies up to 80% of economic activity takes place in the informal sector. Firms may be prevented from entering the formal sector by excessive bureaucracy and regulation.

Where regulation is burdensome and competition limited, success tends to depend more on whom you know than on what you can do. But where regulation is transparent, efficient and implemented in a simple way, it becomes easier for any aspiring entrepreneurs, regardless of their connections, to operate within the rule of law and to benefit from the opportunities and protections that the law provides.

In this sense *Doing Business* values good rules as a key to social inclusion. It also provides a basis for studying effects of regulations and their application. For example, *Doing Business 2004* found that faster contract enforcement was associated with perceptions of greater judicial fairness—suggesting that justice delayed is justice denied.[12]

In the context of the global crisis policy makers continue to face particular challenges. Both developed and developing economies have been seeing the impact of the financial crisis flowing through to the real economy, with rising unemployment and income loss. The foremost challenge for many governments is to create new jobs and economic opportunities. But many have limited fiscal space for publicly funded activities such as infrastructure investment or for the provision of publicly funded safety nets and social services. Reforms aimed at creating a better investment climate, including reforms of business regulation, can be beneficial for several reasons. Flexible regulation and effective institutions, including efficient processes for starting a business and efficient insolvency or bankruptcy systems, can facilitate reallocation of labor and capital. As businesses rebuild and start to create new jobs, this helps to lay the groundwork for countries' economic recovery. And regulatory institutions and processes that are streamlined and accessible can help ensure that as businesses rebuild, barriers between the informal and formal sectors are lowered, creating more opportunities for the poor.

BENCHMARKING EXERCISE

Doing Business, in capturing some key dimensions of regulatory regimes, has been found useful for benchmarking. Any benchmarking—for individuals, firms or economies—is necessarily partial: it is valid and useful if it helps sharpen judgment, less so if it substitutes for judgment.

Doing Business provides 2 takes on the data it collects: it presents "absolute" indicators for each economy for each of the 11 regulatory topics it addresses, and it provides rankings of economies for 9 topics, both by indicator and in aggregate.[13] Judgment is required in interpreting these measures for any economy and in determining a sensible and politically feasible path for reform.

Reviewing the *Doing Business* rankings in isolation may show unexpected results. Some economies may rank unexpectedly high on some indicators. And some economies that have had rapid growth or attracted a great deal of investment may rank lower than others that appear to be less dynamic.

For reform-minded governments, how much the regulatory environment for local entrepreneurs improves matters more than their relative ranking. To aid in assessing such improvements, this year's report presents a new metric (DB change score) that allows economies to compare where they are today with where they were 5 years ago. The 5-year measure of cumulative change shows how much economies have reformed business regulations over time (for more details, see Data notes). This complements the yearly ease of doing business rankings that compare economies with one another at a point in time.

As economies develop, they strengthen and add to regulations to protect investor and property rights. Meanwhile, they find more efficient ways to implement existing regulations and cut outdated ones. One finding of *Doing Business*: dynamic and growing economies continually reform and update their regulations and their way of implementing them, while many poor economies still work with regulatory systems dating to the late 1800s.

DOING BUSINESS—A USER'S GUIDE

Quantitative data and benchmarking can be useful in stimulating debate about policy, both by exposing potential challenges and by identifying where policy makers might look for lessons and good practices. These data also provide a basis for analyzing how different policy approaches—and different policy reforms—contribute to desired outcomes such as competitiveness, growth and greater employment and incomes.

Eight years of *Doing Business* data have enabled a growing body of research on how performance on *Doing Business* indicators—and reforms relevant to those indicators—relate to desired social and economic outcomes. Some 656 articles have been published in peer-reviewed academic journals, and about 2,060 working papers are available through Google Scholar.[14] Among the findings:

- Lower barriers to start-up are associated with a smaller informal sector.[15]
- Lower costs of entry encourage entrepreneurship, enhance firm productivity and reduce corruption.[16]
- Simpler start-up translates into greater employment opportunities.[17]
- The quality of a country's contracting environment is a source of comparative advantage in trade patterns. Countries with good contract enforcement specialize in industries where relationship-specific investments are most important.[18]
- Greater information sharing through credit bureaus is associated with higher bank profitability and lower bank risk.[19]

How do governments use *Doing Business*? A common first reaction is to ask questions about the quality and relevance of the *Doing Business* data and on how the results are calculated. Yet the debate typically proceeds to a deeper discussion exploring the relevance of the data to the economy and areas where business regulation reform might make sense.

Most reformers start out by seeking examples, and *Doing Business* helps in this (box 2.1). For example, Saudi Arabia used the company law of France as a model for revising its own. Many countries in Africa look to Mauritius—the region's strongest performer on *Doing Business* indicators—as a source of good practices for reform. In the words of Luis Guillermo Plata, the former minister of commerce, industry and tourism of Colombia,

It's not like baking a cake where you follow the recipe. No. We are all different. But we can take certain things, certain key lessons, and apply those lessons and see how they work in our environment.

Over the past 8 years there has been much activity by governments in reforming the regulatory environment for domestic businesses. Most reforms relating to *Doing Business* topics were nested in broader programs of reform aimed at enhancing economic competitiveness, as in Colombia, Kenya and Liberia, for example. In structuring their reform programs for the business environment, governments use multiple data sources and indicators. And reformers respond to many stakeholders and interest groups, all of whom bring important issues and concerns to the reform debate. World Bank Group dialogue with governments on the investment climate is designed to encourage critical use of the data, sharpening judgment, avoiding a narrow focus on improving *Doing Business* rankings and encouraging broad-based reforms that enhance the investment climate.

METHODOLOGY AND DATA

Doing Business covers 183 economies—including small economies and some of the poorest countries, for which little or no data are available in other data sets. The *Doing Business* data are based on domestic laws and regulations as well as administrative requirements. (For a detailed explanation of the *Doing Business* methodology, see Data notes.)

INFORMATION SOURCES FOR THE DATA

Most of the indicators are based on laws and regulations. In addition, most of the cost indicators are backed by official fee schedules. *Doing Business* respondents both fill out written surveys and provide references to the relevant laws, regulations and fee schedules, aiding data checking and quality assurance.

For some indicators—for example, the indicators on dealing with construction permits, enforcing contracts and closing a business—part of the cost component (where fee schedules are lacking) and the time component are based on actual practice rather than the law on the books. This introduces a de-

BOX 2.1
How economies have used *Doing Business* in regulatory reform programs

To ensure coordination of efforts across agencies, such economies as Colombia, Rwanda and Sierra Leone have formed regulatory reform committees reporting directly to the president that use the *Doing Business* indicators as one input to inform their programs for improving the business environment. More than 20 other economies have formed such committees at the interministerial level. These include India, Malaysia, Taiwan (China) and Vietnam in East and South Asia; the Arab Republic of Egypt, Morocco, Saudi Arabia, the Syrian Arab Republic, the United Arab Emirates and the Republic of Yemen in the Middle East and North Africa; Georgia, Kazakhstan, the Kyrgyz Republic, Moldova and Tajikistan in Eastern Europe and Central Asia; Kenya, Liberia, Malawi and Zambia in Sub-Saharan Africa; and Guatemala, Mexico and Peru in Latin America.

Beyond the level of the economy, the Asia-Pacific Economic Cooperation (APEC) organization uses *Doing Business* to identify potential areas of regulatory reform, to champion economies that can help others improve and to set measurable targets. In 2009 APEC launched the Ease of Doing Business Action Plan with the goal of making it 25% cheaper, faster and easier to do business in the region by 2015. Drawing on a firm survey, planners identified 5 priority areas: starting a business, getting credit, enforcing contracts, trading across borders and dealing with permits. The next 2 steps: the APEC economies setting targets to measure results, and the champion economies selected, such as Japan, New Zealand and the United States, developing programs to build capacity to carry out regulatory reform in these areas.[1]

1. Muhamad Noor (executive director of APEC), speech delivered at ASEAN-NZ Combined Business Council breakfast meeting, Auckland, New Zealand, March 25, 2010, http://www.apec.org.

gree of subjectivity. The *Doing Business* approach has therefore been to work with legal practitioners or professionals who regularly undertake the transactions involved. Following the standard methodological approach for time and motion studies, *Doing Business* breaks down each process or transaction, such as starting and legally operating a business, into separate steps to ensure a better estimate of time. The time estimate for each step is given by practitioners with significant and routine experience in the transaction.

Over the past 8 years more than 11,000 professionals in 183 economies have assisted in providing the data that inform the *Doing Business* indicators. This year's report draws on the inputs of more than 8,200 professionals. Table 14.1 lists the number of respondents for each indicator set. The *Doing Business* website indicates the number of respondents for each economy and each indicator. Respondents are professionals or government officials who routinely administer or advise on the legal and regulatory requirements covered in each *Doing Business* topic. Because of the focus on legal and regulatory arrangements, most of the respondents are lawyers. The credit information survey is answered by officials of the credit registry or bureau. Freight forwarders, accountants, architects and other professionals answer the surveys related to trading across borders, taxes and construction permits.

The *Doing Business* approach to data collection contrasts with that of enterprise or firm surveys, which capture often one-time perceptions and experiences of businesses. A corporate lawyer registering 100–150 businesses a year will be more familiar with the process than an entrepreneur, who will register a business only once or maybe twice. A bankruptcy judge deciding dozens of cases a year will have more insight into bankruptcy than a company that may undergo the process.

DEVELOPMENT OF THE METHODOLOGY

The methodology for calculating each indicator is transparent, objective and easily replicable. Leading academics collaborate in the development of the indicators, ensuring academic rigor. Eight of the background papers underlying the indicators have been published in leading economic journals.

Doing Business uses a simple averaging approach for weighting component indicators and calculating rankings. Other approaches were explored, including using principal components and unobserved components. They turn out to yield results nearly identical to those of simple averaging. The 9 sets of indicators included in this year's aggregate ranking on the ease of doing business provide sufficiently broad coverage across topics. Therefore, the simple averaging approach is used.

IMPROVEMENTS TO THE METHODOLOGY AND DATA REVISIONS

The methodology has undergone continual improvement over the years. Changes have been made mainly in response to country suggestions. For enforcing contracts, for example, the amount of the disputed claim in the case study was increased from 50% to 200% of income per capita after the first year of data collection, as it became clear that smaller claims were unlikely to go to court.

Another change relates to starting a business. The minimum capital requirement can be an obstacle for potential entrepreneurs. Initially *Doing Business* measured the required minimum capital regardless of whether it had to be paid up front or not. In many economies only part of the minimum capital has to be paid up front. To reflect the actual potential barrier to entry, the paid-in minimum capital has been used since 2004.

This year's report includes changes in the core methodology for one set of indicators, those on employing workers. With the aim of measuring the balance between worker protection and efficient employment regulation that favors job creation, *Doing Business* has made a series of amendments to the methodology for the employing workers indicators over the past 3 years, including in this year's report. While this process has been under way, the World Bank has removed the employing workers indicators as a guidepost from its Country Policy and Institutional Assessment questionnaire and instructed staff not to use the indicators as a basis for providing policy advice or evaluating country development programs or assistance strategies. A note to staff issued in October 2009 outlines the guidelines for using the indicators.[20]

In addition, the World Bank Group has been working with a consultative group—including labor lawyers, employer and employee representatives and experts from the International Labour Organization (ILO), the Organisation for Economic Co-operation and Development (OECD), civil society and the private sector—to review the methodology and explore future areas of research.[21] The consultative group has met several times over the past year, and its guidance has provided the basis for several changes in methodology, some of which have been implemented in this year's report. Because the consultative process and consequent changes to the methodology are not yet complete, this year's report does not present rankings of economies on the employing workers indicators or include the topic in the aggregate ranking on the ease of doing business. But it does present the data collected for the indicators. Additional data collected on labor regulations are available on the *Doing Business* website.[22]

The changes so far in the methodology for the employing workers indicators recognize minimum levels of protection in line with relevant ILO conventions as well as excessive levels of regulation that may stifle job creation. Floors and ceilings in such areas as paid annual leave, working days per week and the minimum wage provide a framework for balancing worker protection against excessive restrictiveness in employment regulations (see Data notes).

Doing Business also continues to benefit from discussions with external stakeholders, including participants in the International Tax Dialogue, on the survey instrument and methodology.

All changes in methodology are explained in the Data notes as well as on the *Doing Business* website. In addition, data time series for each indicator and economy are available on the website, beginning with the first year the indicator or economy was included in the report. To provide a comparable time series for research, the data set is back-calculated to adjust for changes in methodology and any revisions in data due to corrections. The website also makes available all original data sets used for background papers.

Information on data corrections is provided in the Data notes and on the website. A transparent complaint procedure allows anyone to challenge the data. If errors are confirmed after a data verification process, they are expeditiously corrected.

1. The standard cost model is a quantitative methodology for determining the administrative burdens that regulation imposes on businesses. The method can be used to measure the effect of a single law or of selected areas of legislation or to perform a baseline measurement of all legislation in a country.
2. This has included a review by the World Bank Independent Evaluation Group (2008) as well as ongoing input from the International Tax Dialogue.
3. Local experts in 183 economies are surveyed annually to collect and update the data. The local experts for each economy are listed on the *Doing Business* website (http://www.doingbusiness.org).
4. De Soto (2000).
5. The indicators related to trading across borders and dealing with construction permits and the pilot indicators on getting electricity take into account limited aspects of an economy's infrastructure, including the inland transport of goods and utility connections for businesses.
6. http://www.doingbusiness.org/Subnational/.
7. Schneider (2005).
8. http://www.enterprisesurveys.org.
9. OECD, "Indicators of Product Market Regulation Homepage," http://www.oecd.org/.
10. The World Economic Forum's *Global Competitiveness Report* uses part of the *Doing Business* data sets on starting a business, employing workers, protecting investors and getting credit (legal rights).
11. Narayan and others (2000).
12. World Bank (2003).
13. This year's report does not present rankings of economies on the pilot getting electricity indicators or the employing workers indicators. Nor does it include these topics in the aggregate ranking on the ease of doing business.
14. http://scholar.google.com.
15. For example, Masatlioglu and Rigolini (2008), Kaplan, Piedra and Seira (2007), Ardagna and Lusardi (2009) and Djankov (2009b).
16. For example, Alesina and others (2005), Perotti and Volpin (2004), Klapper, Laeven and Rajan (2006), Fisman and Sarria-Allende (2004), Antunes and Cavalcanti (2007), Barseghyan (2008), Djankov and others (2010) and Klapper, Lewin and Quesada Delgado (2009).
17. For example, Freund and Bolaky (2008), Chang, Kaltani and Loayza (2009) and Helpman, Melitz and Rubinstein (2008).
18. Nunn (2007).
19. Houston and others (2010).
20. World Bank (2009e).
21. For the terms of reference and composition of the consultative group, see World Bank, "Doing Business Employing Workers Indicator Consultative Group," http://www.doingbusiness.org.
22. http://www.doingbusiness.org.