



DOING BUSINESS IN THE g7+ 2013

Smarter Regulations for
Small and Medium-Size Enterprises

2007 2012
2005 2009 2004 2011
2008 2006 2010 2013

COMPARING BUSINESS REGULATIONS FOR DOMESTIC FIRMS
IN THE g7+ AND WITH 185 ECONOMIES

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DOING BUSINESS IN THE g7+ 2013

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Small and Medium-Size Enterprises



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Doing Business in the g7+ 2013 is a special report drawing on the global *Doing Business* project and its database as well as the findings of *Doing Business 2013*, the 10th in a series of annual reports investigating the regulations that enhance business activity and those that constrain it. *Doing Business* presents quantitative indicators on business regulation and the protection of property rights that can be compared across 185 economies—from Afghanistan to Zimbabwe—and over time.

Regulations affecting 11 areas of the life of a business are covered: starting a business, dealing with construction permits, getting electricity, registering property, getting credit, protecting investors, paying taxes, trading across borders, enforcing contracts, resolving insolvency and employing workers. The employing workers data are not included in this year's ranking on the ease of doing business.

Data in *Doing Business 2013* are current as of June 1, 2012. The indicators are used to analyze economic outcomes and identify what reforms of business regulation have worked, where and why.

The g7+ group is a country-owned and country-led global mechanism to monitor, report and draw attention to the unique challenges faced by fragile states. The goals of the g7+ are to stop conflict, build nations and eradicate poverty through innovative development strategies harmonized with the country context, aligned with the national agenda and led by the state and its people. Established in April 2010 on the sidelines of the Organisation for Economic Co-operation and Development's International Dialogue on Peacebuilding and Statebuilding in Dili, Timor-Leste, the group has grown from its original membership of 7 states to include countries across Asia, Africa and the Pacific. Its current members are Afghanistan, Burundi, the Central African Republic, Chad, the Comoros, the Democratic Republic of Congo, Côte d'Ivoire, Guinea, Guinea-Bissau, Haiti, Liberia, Papua New Guinea, Sierra Leone, the Solomon Islands, Somalia, South Sudan, Timor-Leste and Togo.

Preface

A favorable business environment in which companies can thrive creates opportunities for all people and ultimately lifts many out of poverty. Creating such opportunities is particularly important in fragile and conflict-affected states. According to the World Bank's *World Development Report 2011: Conflict, Security, and Development*, lack of economic opportunities and high unemployment are key sources of fragility. For policy makers in these countries, it is critical to encourage entrepreneurship through a regulatory environment conducive to the growth of businesses and the creation of employment opportunities—an environment that promotes the rule of law, competition and transparency.

Doing Business in the g7+ 2013 compares business regulation among g7+ member countries. It draws on the global *Doing Business* project and its database as well as the findings of *Doing Business 2013: Smarter Regulations for Small and Medium-Size Enterprises*. The data in the report focus on 10 areas of business regulation, 2 of which relate to access to power and access to finance—the top 2 obstacles for firms operating in fragile and conflict-affected states according to enterprise surveys conducted by the World Bank.

On average, g7+ countries do lag behind international best practices in business regulation—unsurprising given the fragility that characterizes them. Yet many g7+ countries offer excellent examples of efficient business regulation. Take Liberia, for example, where complying with the legal and regulatory requirements to start a new business in Monrovia takes just 6 days—the same as in New York City. And the Solomon Islands has established a legal framework for secured transactions that provides rights and protections for borrowers and lenders similar to those in Denmark. Indeed, if a hypothetical g7+ country adopted all the best business regulatory practices that already exist within this group, it would stand at 10 in the global ranking of 185 economies on the ease of doing business, tying with Australia.

For many fragile and conflict-affected states, the data published in the annual *Doing Business* reports have proved to be a powerful tool for inspiring and guiding reforms of business regulations. Among the 50 economies worldwide that have improved their business environment the most since 2005 are 7 in the g7+ group: Sierra Leone, Burundi, Guinea-Bissau, Timor-Leste, Côte d'Ivoire, Togo and the Solomon Islands. These countries have implemented the kinds of reforms that make it easier for firms to operate and help restore confidence among entrepreneurs by signaling a more business-friendly environment. And while the *Doing Business* indicators focus on small to medium-size domestic firms, a recent study finds that a better ranking on the ease of doing business is significantly associated with larger inflows of foreign direct investment. This finding suggests that economies that provide a good regulatory environment for domestic firms tend to also provide a good one for foreign-owned firms.

Each fragile or conflict-affected state is unique, and the potential for greater private sector investment depends on multiple factors, such as security, political stability,

proximity to markets and the availability of natural resources. But many g7+ countries face similar challenges and could adopt similar solutions. This report highlights how some g7+ countries have succeeded in making it easier to do business, offering examples that could serve as inspiration for fellow g7+ members and other fragile and conflict-affected states facing similar challenges.

We hope that policy makers, researchers, the private sector and civil society will find this report helpful in identifying challenges and opportunities for business regulatory reforms in economies affected by fragility and conflict.

Sincerely,

The image shows two handwritten signatures in black ink. The signature on the left is more stylized and cursive, while the signature on the right is more legible and appears to be 'GB'. Both signatures are positioned above the printed names of the signatories.

Pierre Guislain and Georgina Baker
Directors
International Finance Corporation, World Bank Group

Measuring business regulations in the g7+

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One and a half billion people live in areas affected by fragility, conflict or large-scale, organized criminal violence.¹ The members of the g7+ group—Afghanistan, Burundi, the Central African Republic, Chad, the Comoros, the Democratic Republic of Congo, Côte d'Ivoire, Guinea, Guinea-Bissau, Haiti, Liberia, Papua New Guinea, Sierra Leone, the Solomon

Islands, Somalia, South Sudan, Timor-Leste and Togo—have come together to monitor, report and draw attention to the unique challenges faced by fragile states.² Their efforts recognize that while many states are underdeveloped or plagued by social unrest, fragility poses particular problems that combine underdevelopment and conflict.³

BOX 1.1 MAIN FINDINGS OF THE REPORT

The regulatory environment in the g7+ is improving . . .

- All g7+ economies have improved their business regulatory environment since 2005, narrowing the gap with the best performance observed globally by *Doing Business*. Sierra Leone, Burundi, Guinea-Bissau, Timor-Leste, Côte d'Ivoire, Togo and the Solomon Islands are among the 50 economies globally that have made the biggest improvements relative to their earlier performance.
- In the past 8 years all 16 g7+ economies covered by *Doing Business* implemented reforms making it easier to do business in at least 2 areas of business regulation, and 12 did so in at least 4 areas.
- The biggest reform efforts in the g7+ were aimed at making it easier to start a business, get credit, register property and pay taxes. Particularly remarkable are the improvements in starting a business: through 28 regulatory reforms, g7+ economies have cut the average time to start a business by more than half since 2005, and the cost (as a percentage of income per capita) by two-thirds.

. . . and good regulatory practices can be found among g7+ economies . . .

- A hypothetical economy combining the best regulatory practices observed in 2012 among the g7+ economies—the “best of the g7+”—would stand at 10 in the global ranking on the ease of doing business.

. . . but business regulations in the g7+ still lag behind international best practices

- The business regulatory environment is significantly more difficult on average in g7+ economies than in International Development Association (IDA) member economies or even in other fragile and conflict-affected states. Among the 185 economies covered by *Doing Business*, g7+ economies have an average ranking of 160 on the ease of doing business.
- On average, g7+ economies perform relatively better on indicators measuring the efficiency of regulatory processes, such as the starting a business, getting electricity and paying taxes indicators. Their performance is weakest on those measuring the strength of legal institutions relevant to business regulation, such as the enforcing contracts and resolving insolvency indicators.

This chapter's analysis of the business regulatory environment in g7+ economies includes Afghanistan, Burundi, the Central African Republic, Chad, the Comoros, the Democratic Republic of Congo, Côte d'Ivoire, Guinea, Guinea-Bissau, Haiti, Liberia, Papua New Guinea, Sierra Leone, the Solomon Islands, Timor-Leste and Togo. Country tables and detailed topic data are available for these economies as well as South Sudan at the end of the report. Doing Business does not collect data for Somalia.

Establishing legitimate institutions and governance that give everyone a stake in national prosperity is crucial to breaking the cycle of insecurity, creating jobs for citizens and providing security and justice.⁴ The private sector is the key engine of job creation, accounting for 90% of all jobs in the developing world.⁵ But governments need to ensure that the conditions are in place for strong private-sector-led growth. Implementing a set of good business regulations as measured by *Doing Business*, while important, cannot guarantee these conditions. Other factors—including war, political unrest and the education level of the workforce—are also important determinants of the business environment. Yet by removing bottlenecks to firm creation and growth, governments can signal the emergence of a more business-friendly environment. This in turn can set the stage for broader reform.⁶

Through indicators benchmarking 185 economies, *Doing Business* measures and tracks changes in the regulations applying to domestic small and medium-size companies in 11 areas in their life cycle. The results for each economy can be compared with those for other economies and over time. This year's aggregate ranking on the ease of doing business is based on indicator sets that measure and benchmark regulations affecting 10 of those areas: starting a business, dealing with construction permits, getting electricity, registering property, getting credit, protecting investors, paying taxes, trading across borders, enforcing contracts and resolving insolvency. *Doing Business* also documents regulations on employing workers.

A fundamental premise of *Doing Business* is that economic activity requires good rules that are transparent and accessible to all its citizens. And where government policies support a dynamic business environment—with firms making investments, creating jobs and increasing productivity—they help create greater opportunities for all people and can ultimately lift many out of poverty.

DO BUSINESS REGULATIONS MATTER?

Many developing countries have large informal sectors—overall in the developing world, employment in the informal sector accounts for half the total labor force.⁷ The share is undoubtedly even larger in fragile states. Indeed, firm-level survey data reveal that in Chad and the Democratic Republic of Congo 90% of formal sector firms report that they must compete against unregistered or informal businesses, among the largest shares in the 135 economies surveyed.⁸ Firms operating in the informal sector tend to be less productive and often offer lower wages than formally registered firms. They are also likely to have poorer access to credit and employ fewer workers—and their workers remain outside the protections of labor law.⁹ At the macro level, firms in the informal sector deprive governments of potential tax revenue and diminish their capacity for regulatory oversight.¹⁰

Regulation plays a part: where it is particularly onerous, levels of informality tend to be higher (see figure 3.2 in the chapter “About *Doing Business*”). Regulations put in place to safeguard economic activity and facilitate business operations, if poorly designed, can become obstacles to doing business. They can be like traffic lights put up to prevent gridlock—ineffective if a red light lasts for an hour. Most people would run the red light, just as most businesses facing burdensome regulations will try to circumvent them to stay afloat.

Conversely, good business regulations—with transparent rules that make compliance easy and inexpensive—can encourage firms to operate in the formal sector. Just as good rules are needed to allow traffic to flow in a city, they are also essential to allow business transactions to flow. Good business regulations enable the private sector to thrive and businesses to expand their transactions network. The economies that rank highest on the ease of doing business are not those where

regulation is absent—but those where governments have managed to create rules that facilitate interactions in the marketplace without needlessly hindering the development of the private sector.

Around the world, good business regulations also help combat corruption. Corruption imposes a heavy administrative and financial burden on firms—it undermines their operational efficiency and raises the costs and risks associated with doing business.¹¹ For fragile states, prevalent corruption is also a national security issue. Corruption has doubly pernicious effects on the risk of violence, both fueling grievances and undermining the effectiveness of national institutions and social norms.¹² Effective regulations can help reduce corruption by shutting out opportunities for public officials to solicit bribes or “unofficial payments.”

And studies are emerging that support the claim that economies that provide a good regulatory environment for domestic firms tend to also provide a good one for foreign firms. While the *Doing Business* indicators focus on small to medium-size domestic firms, *Doing Business 2013* presents cross-country correlations showing that inflows of foreign direct investment (FDI) are higher for economies performing better on *Doing Business* indicators, even when taking into account differences across economies in other factors considered important for FDI. Results suggest that on average across economies, a difference of 1 percentage point in regulatory quality as measured by *Doing Business* distance to frontier scores is associated with a difference in annual FDI inflows of \$250–500 million.¹³

HOW DO g7+ ECONOMIES COMPARE GLOBALLY?

How does the business regulatory environment in g7+ economies compare globally? *Doing Business* measures business regulations through 2 types of indicators: indicators relating to the *strength of legal institutions* relevant to business regulation and indicators relating to the *complexity and cost of regulatory processes*. Those

in the first group focus on the legal and regulatory framework for getting credit, protecting investors, enforcing contracts and resolving insolvency. Those in the second focus on the cost and efficiency of regulatory processes for starting a business, dealing with construction permits, getting electricity, registering property, paying taxes and trading across borders. Based on time-and-motion case studies from the perspective of the business, these indicators measure the procedures, time and cost required to complete a transaction in accordance with relevant regulations. (For a detailed explanation of the *Doing Business* methodology, see the data notes and the chapter “About *Doing Business*.”)

As measured by these 2 groups of *Doing Business* indicators, the environment in which local entrepreneurs do business is significantly more difficult on average in g7+ economies than in International Development Association (IDA) economies¹⁴ or even in other fragile and conflict-affected states (FCS).¹⁵ Among the 185 economies covered by *Doing Business*, g7+ economies have an average ranking of 160 on the ease of doing business (figure 1.1).

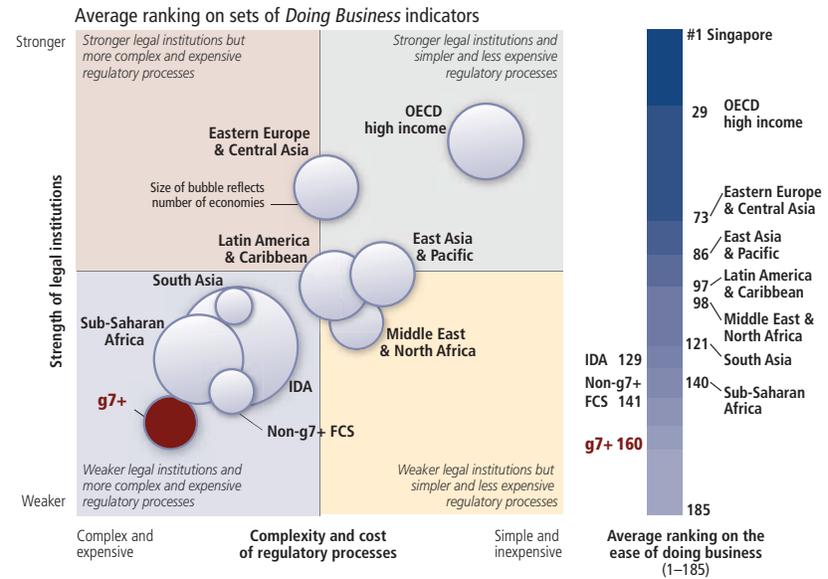
Economies that rank high on the ease of doing business tend to combine efficient regulatory processes with strong legal institutions that protect property and investor rights. OECD high-income economies have, by a large margin, the most business-friendly regulatory environment on both dimensions. Entrepreneurs in g7+ economies face both more complex regulatory processes and weaker legal institutions as measured by *Doing Business*. Indeed, g7+ economies as a group are in the bottom third of the global ranking in all 10 areas measured by *Doing Business* (figure 1.2). But g7+ economies perform relatively better on average on indicators measuring the efficiency of regulatory processes, such as the starting a business, getting electricity and paying taxes indicators. Their average performance is weaker on indicators measuring the strength of legal institutions, such as the

enforcing contracts and resolving insolvency indicators.

Yet the business environment differs among g7+ economies. This is apparent in their rankings on the overall ease of

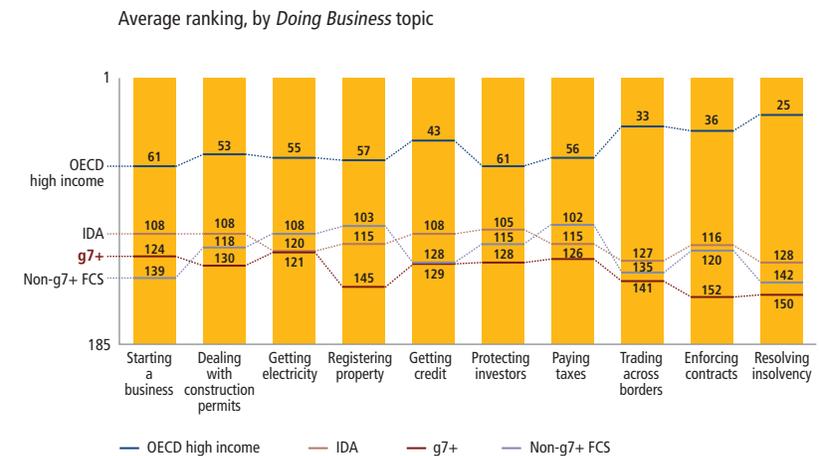
doing business (table 1.1). It is also apparent in their performance in the areas encompassed in those rankings. Take starting a business, where Burundi stands at 28 in the global ranking. An entrepreneur in Burundi can start a business

FIGURE 1.1 Doing business is comparatively difficult in g7+ economies



Note: Strength of legal institutions refers to the average ranking on getting credit, protecting investors, enforcing contracts and resolving insolvency. Complexity and cost of regulatory processes refers to the average ranking on starting a business, dealing with construction permits, getting electricity, registering property, paying taxes and trading across borders. FCS = fragile and conflict-affected states. Source: *Doing Business* database.

FIGURE 1.2 On average, g7+ economies rank in the bottom third in all areas measured by *Doing Business*



Note: FCS = fragile and conflict-affected states. Source: *Doing Business* database.

TABLE 1.1 Rankings on the ease of doing business

DB2013 g7+ rank	DB2013 rank	Economy	DB2013 reforms	DB2013 g7+ rank	DB2013 rank	Economy	DB2013 reforms	DB2013 g7+ rank	DB2013 rank	Economy	DB2013 reforms
	1	Singapore	0		63	Antigua and Barbuda	0		125	Honduras	0
	2	Hong Kong SAR, China	0		64	Ghana	0		126	Bosnia and Herzegovina	2
	3	New Zealand	1		65	Czech Republic	3		127	Ethiopia	1
	4	United States	0		66	Bulgaria	1		128	Indonesia	1
	5	Denmark	1		67	Azerbaijan	0		129	Bangladesh	1
	6	Norway	2		68	Dominica	1		130	Brazil	1
	7	United Kingdom	1		69	Trinidad and Tobago	2		131	Nigeria	0
	8	Korea, Rep.	4		70	Kyrgyz Republic	0		132	India	1
	9	Georgia	6		71	Turkey	2		133	Cambodia	1
	10	Australia	1		72	Romania	2		134	Tanzania	1
	11	Finland	0		73	Italy	2		135	West Bank and Gaza	1
	12	Malaysia	2		74	Seychelles	0		136	Lesotho	2
	13	Sweden	0		75	St. Vincent and the Grenadines	0		137	Ukraine	3
	14	Iceland	0		76	Mongolia	3		138	Philippines	0
	15	Ireland	2		77	Bahamas, The	0		139	Ecuador	0
	16	Taiwan, China	2		78	Greece	3	3	140	Sierra Leone	2
	17	Canada	1		79	Brunei Darussalam	2		141	Tajikistan	1
	18	Thailand	2		80	Vanuatu	0		142	Madagascar	1
	19	Mauritius	2		81	Sri Lanka	4		143	Sudan	0
	20	Germany	2		82	Kuwait	0		144	Syrian Arab Republic	1
	21	Estonia	0		83	Moldova	2		145	Iran, Islamic Rep.	1
	22	Saudi Arabia	2		84	Croatia	1		146	Mozambique	0
	23	Macedonia, FYR	1		85	Albania	2		147	Gambia, The	0
	24	Japan	1		86	Serbia	3		148	Bhutan	0
	25	Latvia	0		87	Namibia	1	4	149	Liberia	3
	26	United Arab Emirates	3		88	Barbados	0		150	Micronesia, Fed. Sts.	0
	27	Lithuania	2		89	Uruguay	2		151	Mali	1
	28	Switzerland	0		90	Jamaica	2		152	Algeria	1
	29	Austria	0		91	China	2		153	Burkina Faso	0
	30	Portugal	3	1	92	Solomon Islands	0		154	Uzbekistan	4
	31	Netherlands	4		93	Guatemala	1		155	Bolivia	0
	32	Armenia	2		94	Zambia	1	5	156	Togo	1
	33	Belgium	0		95	Maldives	0		157	Malawi	1
	34	France	0		96	St. Kitts and Nevis	0	6	158	Comoros	2
	35	Slovenia	3		97	Morocco	1	7	159	Burundi	4
	36	Cyprus	1		98	Kosovo	2		160	São Tomé and Príncipe	0
	37	Chile	0		99	Vietnam	1		161	Cameroon	1
	38	Israel	1		100	Grenada	1		162	Equatorial Guinea	0
	39	South Africa	1		101	Marshall Islands	0		163	Lao PDR	3
	40	Qatar	1		102	Malta	0		164	Suriname	0
	41	Puerto Rico (U.S.)	1		103	Paraguay	0		165	Iraq	0
	42	Bahrain	0	2	104	Papua New Guinea	0		166	Senegal	0
	43	Peru	2		105	Belize	1		167	Mauritania	0
	44	Spain	2		106	Jordan	0	8	168	Afghanistan	0
	45	Colombia	1		107	Pakistan	0	9	169	Timor-Leste	0
	46	Slovak Republic	4		108	Nepal	0		170	Gabon	0
	47	Oman	1		109	Egypt, Arab Rep.	0		171	Djibouti	0
	48	Mexico	2		110	Costa Rica	4		172	Angola	1
	49	Kazakhstan	3		111	Palau	0		173	Zimbabwe	0
	50	Tunisia	0		112	Russian Federation	2	10	174	Haiti	0
	51	Montenegro	2		113	El Salvador	1		175	Benin	4
	52	Rwanda	2		114	Guyana	0		176	Niger	1
	53	St. Lucia	0		115	Lebanon	0	11	177	Côte d'Ivoire	0
	54	Hungary	3		116	Dominican Republic	0	12	178	Guinea	3
	55	Poland	4		117	Kiribati	0	13	179	Guinea-Bissau	0
	56	Luxembourg	0		118	Yemen, Rep.	0		180	Venezuela, RB	0
	57	Samoa	0		119	Nicaragua	0	14	181	Congo, Dem. Rep.	1
	58	Belarus	2		120	Uganda	1		182	Eritrea	0
	59	Botswana	1		121	Kenya	1		183	Congo, Rep.	2
	60	Fiji	1		122	Cape Verde	0	15	184	Chad	1
	61	Panama	3		123	Swaziland	1	16	185	Central African Republic	0
	62	Tonga	0		124	Argentina	0				

Note: The rankings for all economies are benchmarked to June 2012. This year's rankings on the ease of doing business are the average of the economy's percentile rankings on the 10 topics included in this year's aggregate ranking. The number of reforms excludes those making it more difficult to do business.

Source: Doing Business database.

by completing 4 procedures in 8 days and paying a cost equivalent to 18% of income per capita. There is no minimum capital requirement. By contrast, to start a business in Haiti an entrepreneur must go through 12 procedures, spend 105 days doing so and pay 287% of income per capita—then deposit funds amounting to another 21% of income per capita as paid-in minimum capital. Not surprisingly, Haiti is near the bottom of the global ranking on the ease of starting a business, at 183.

Similar differences exist in other regulatory processes, such as getting electricity. In Papua New Guinea, getting an electricity connection is easy for entrepreneurs. It takes only 4 procedures and 66 days and costs 60% of income per capita—better than the averages for OECD high-income economies. Entrepreneurs in Guinea-Bissau are not so lucky. Because of the limited generation capacity, they face a long wait before the electricity can start flowing. Obtaining a formal connection to the electricity network there takes 455 days and costs 1,737% of income per capita.

The differences among g7+ economies are not just in the efficiency of regulatory processes. They also show up in the strength of legal institutions relevant to business regulation. The Solomon Islands provides strong legal protections of the rights of borrowers and lenders in secured transactions (though it lacks a credit registry for collecting and sharing credit information). It stands at 83 in the global ranking on the ease of getting credit. The Democratic Republic of Congo is near the bottom of the ranking, at 176.

In some cases the best performance among g7+ economies as measured in 2012 is equal or close to the global best performance observed by *Doing Business* across all economies and years. One example is the minimum capital requirement. Several g7+ economies—including Afghanistan, Burundi, the Democratic Republic of Congo,¹⁶ Liberia, Papua New Guinea, Sierra Leone and the Solomon

Islands—require no paid-in minimum capital to start a business (table 1.2).

Strikingly, if one computed a synthetic ranking based on the best score observed in 2012 among the g7+ economies for each indicator, this “best of the g7+” ranking would be 10 globally, 82 places higher than the top-ranked g7+ economy (the Solomon Islands, at 92). In this hypothetical g7+ economy, starting a business would take just 6 days (the same as in Liberia), registering a property for commercial use would cost 3.3% of the property value (just as in Burundi), and exporting would require 6 documents (as in Timor-Leste). It may be some time before a single g7+ economy combines all of the group’s best business regulatory practices. But this exercise does highlight the fact that many g7+ economies have already implemented globally observed good practices in some areas of business regulation. And the examples it points to could inspire governments to take on bold regulatory reforms.

THE g7+ NARROWS THE REGULATORY GAP

To complement the ease of doing business ranking, a relative measure, the *Doing Business 2012* report introduced the distance to frontier, an absolute measure of business regulatory efficiency. This measure aids in assessing how much the regulatory environment for local entrepreneurs improves in absolute terms over time by showing the distance of each economy to the “frontier” in regulatory performance, which represents the best performance—the most efficient practice or highest score—observed on each of the *Doing Business* indicators across all economies and years included since 2005. The measure is normalized to range between 0 and 100, with 100 representing the frontier. A higher score therefore indicates a more efficient business regulatory system (for a detailed description of the methodology, see the chapter on the ease of doing business and distance to frontier).

The distance to frontier measure shows that all 15 g7+ economies covered by *Doing Business* since 2005 have improved their business regulatory environment over the years. Though far from the frontier, they have all narrowed the gap and are today closer to the best performance observed globally by *Doing Business* than they were in 2005 (figure 1.3). Indeed, these economies have moved 8 percentage points closer to the frontier on average—a greater advance than both the global average of 6 percentage points and the average among non-g7+ fragile and conflict-affected states of 4 percentage points.

This progress toward the frontier reflects concerted efforts to improve the business regulatory environment. In the year from June 2011 to June 2012, 8 of the g7+ economies implemented at least 1 institutional or regulatory reform making it easier to do business in the areas measured by *Doing Business*. One made it more difficult to do business. Among the 8 implementing reforms to make it easier in 2011/12, Burundi stands out as having jumped ahead the most in the relative ranking on the ease of doing business. Indeed, Burundi ranks among the 10 economies globally that were recognized as having improved the most in 2011/12 across 3 or more areas measured by *Doing Business*. But Burundi did not start its regulatory reforms in the past year. It stands out as an economy that has improved its business regulatory environment over the long run (see the chapter on country examples).

Nor is Burundi the only g7+ economy to have done so. Sierra Leone, Burundi, Guinea-Bissau, Timor-Leste, Côte d’Ivoire, Togo and the Solomon Islands are all among the 50 economies globally that have narrowed the distance to frontier the most since 2005 (table 1.3). This can be attributed largely to extensive institutional and regulatory reforms in these economies: Sierra Leone implemented 20 in the past 8 years, and Burundi 15.

TABLE 1.2 Global best performance and g7+ performance on *Doing Business* indicators

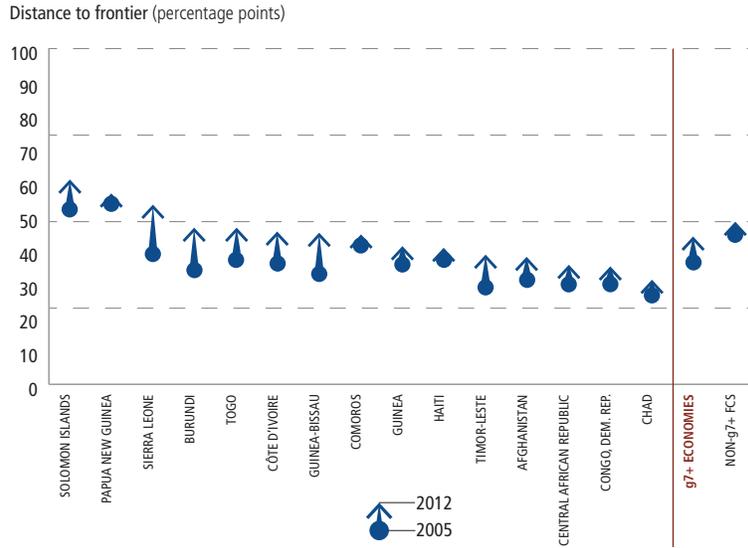
Topic and indicator	Global best performance across years	Performance in 2012 in the g7+			
		Best score	Best performer	Average score	Worst score
Starting a business					
Procedures (number)	1	4	Afghanistan, Burundi, Liberia	7	12
Time (days)	1	6	Liberia	36	105
Cost (% of income per capita)	0	2.9	Timor-Leste	107.7	286.6
Minimum capital (% of income per capita)	0	0	Afghanistan, Burundi, Democratic Republic of Congo, Liberia, Papua New Guinea, Sierra Leone, Solomon Islands	147.2	444.1
Dealing with construction permits					
Procedures (number)	6	9	Haiti	17	29
Time (days)	25	75	Liberia	262	1,129
Cost (% of income per capita)	0.2	13.9	Timor-Leste	1,033.7	5,106.8
Getting electricity^a					
Procedures (number)	3	3	Timor-Leste	5	8
Time (days)	17	55	Côte d'Ivoire	141	465
Cost (% of income per capita)	0	59.9	Papua New Guinea	6,860.5	27,211.6
Registering property					
Procedures (number)	1	4	Comoros, Papua New Guinea	7	10
Time (days)	1	30	Comoros	114	301
Cost (% of property value)	0	3.3	Burundi	9.78	17.9
Getting credit					
Strength of legal rights index (0–10)	10	9	Solomon Islands	5	2
Depth of credit information index (0–6)	6	4	Papua New Guinea	1	0
Protecting investors					
Extent of disclosure index (0–10)	10	8	Burundi	5	1
Extent of director liability index (0–10)	9	7	Sierra Leone, Solomon Islands	3	1
Ease of shareholder suits index (0–10)	10	8	Papua New Guinea, Solomon Islands	5	1
Paying taxes					
Payments (number per year)	3	18	Timor-Leste	40	62
Time (hours per year)	0	80	Solomon Islands	290	732
Total tax rate (% of profit)	27.5 ^b	27.5 ^b	Liberia, Solomon Islands, Timor-Leste	73.0	339.7
Trading across borders					
Documents to export (number)	2	6	Guinea-Bissau, Timor-Leste, Togo	8	10
Time to export (days)	5	15	Liberia	35	75
Cost to export (US\$ per container)	390	750	Timor-Leste	2,135	5,902
Documents to import (number)	2	5	Solomon Islands	9	17
Time to import (days)	4	20	Solomon Islands	41	101
Cost to import (US\$ per container)	317	755	Timor-Leste	2,652	8,525
Enforcing contracts					
Procedures (number)	21	33	Côte d'Ivoire	42	51
Time (days)	120	276	Guinea	812	1715
Cost (% of claim)	0.1	25	Afghanistan, Guinea-Bissau	73	163.2
Resolving insolvency					
Recovery rate (cents on the dollar)	94.4	37.6	Côte d'Ivoire	15.0	0

a. Data on getting electricity were first made available in *Doing Business* 2012.

b. The total tax rate shown is the threshold set for the indicator this year. See the data notes for more details.

Source: *Doing Business* database.

FIGURE 1.3 All g7+ economies are closer to the frontier in regulatory practice today than they were in 2005



Note: The distance to frontier measure shows how far on average an economy is from the best performance achieved by any economy on each *Doing Business* indicator since 2005. The measure is normalized to range between 0 and 100, with 100 representing the best performance (the frontier). The figure excludes Liberia as it was added to the *Doing Business* sample only in 2006. The average for non-g7+ fragile and conflict-affected states (FCS) excludes Kosovo as it was added to the *Doing Business* sample only in 2009.

Source: *Doing Business* database.

Indeed, in the past 8 years the 16 g7+ economies covered by *Doing Business* implemented 121 business regulatory reforms making it easier to do business. All of them implemented reforms in at least 2 areas of business regulation, and 12 did so in at least 4 areas (table 1.4). They implemented the largest number of reforms in the areas of starting a business (28 reforms in 15 economies), getting credit (20 reforms in 15 economies), registering property and paying taxes. And consistent with global patterns, g7+ economies were more likely to focus their reform efforts on reducing the complexity and cost of regulatory processes—the focus of 84 reforms recorded by *Doing Business* since 2005—than on strengthening legal institutions—the focus of 37 reforms.

But the path of regulatory reform over the past 8 years was not always straight. Several g7+ economies followed a path that zigzagged between improvement and worsening of the business regulatory environment, at times implementing

measures that added to the complexity or cost of regulatory processes or undermined property rights or investor protections as measured by *Doing Business*. One example comes from Guinea. At the beginning of 2010 Guinea abandoned its fee schedule for building permits in favor of a case-by-case method for determining cost, leading to a 59% increase in the cost to obtain a permit. In 2012, however, Guinea clarified the method for calculating the cost, reducing it once again. Even top improvers in the g7+ group, such as Burundi and Sierra Leone, have sometimes followed a zigzag path (for illustrations of their reform paths, see figure 1.4 and the chapter on country examples).

Implementing effective regulatory reform is always difficult. The challenges are even greater for countries affected by conflict, for several reasons. Reaching an initial agreement on change is hard because elites distrust one another and few people trust the state. Once an agreement is reached, maintaining it is difficult

TABLE 1.3 The 50 economies narrowing the distance to frontier the most since 2005

Rank	Economy	Region	Improvement (percentage points)
1	Georgia	ECA	31.6
2	Rwanda	SSA	26.5
3	Belarus	ECA	23.5
4	Burkina Faso	SSA	18.5
5	Macedonia, FYR	ECA	17.4
6	Egypt, Arab Rep.	MENA	16.3
7	Mali	SSA	15.8
8	Colombia	LAC	15.3
9	Tajikistan	ECA	15.2
10	Kyrgyz Republic	ECA	14.8
11	Sierra Leone	SSA	14.7
12	China	EAP	14.3
13	Azerbaijan	ECA	12.9
14	Croatia	ECA	12.8
15	Ghana	SSA	12.7
16	Burundi	SSA	12.6
17	Poland	OECD	12.3
18	Guinea-Bissau	SSA	12.2
19	Armenia	ECA	12.2
20	Ukraine	ECA	12.0
21	Kazakhstan	ECA	11.9
22	Senegal	SSA	11.5
23	Cambodia	EAP	11.1
24	Angola	SSA	11.0
25	Mauritius	SSA	10.9
26	Saudi Arabia	MENA	10.7
27	India	SAS	10.6
28	Guatemala	LAC	10.4
29	Madagascar	SSA	10.3
30	Morocco	MENA	10.1
31	Yemen, Rep.	MENA	10.1
32	Peru	LAC	10.1
33	Mozambique	SSA	10.0
34	Czech Republic	OECD	9.8
35	Timor-Leste	EAP	9.7
36	Côte d'Ivoire	SSA	9.5
37	Togo	SSA	9.5
38	Slovenia	OECD	9.5
39	Mexico	LAC	9.4
40	Niger	SSA	9.4
41	Nigeria	SSA	9.0
42	Portugal	OECD	9.0
43	Solomon Islands	EAP	8.9
44	Uruguay	LAC	8.8
45	Dominican Republic	LAC	8.8
46	Taiwan, China	EAP	8.8
47	São Tomé and Príncipe	SSA	8.7
48	France	OECD	8.6
49	Bosnia and Herzegovina	ECA	8.4
50	Albania	ECA	8.3

Note: Rankings are based on the absolute difference for each economy between its distance to frontier in 2005 and that in 2012. The data refer to the 174 economies included in *Doing Business 2006* (2005). Eleven economies were added in subsequent years. The distance to frontier measure shows how far on average an economy is from the best performance achieved by any economy on each *Doing Business* indicator since 2005. The measure is normalized to range between 0 and 100, with 100 representing the best performance (the frontier). EAP = East Asia and the Pacific; ECA = Eastern Europe and Central Asia; LAC = Latin America and the Caribbean; MENA = Middle East and North Africa; OECD = OECD high income; SAS = South Asia; SSA = Sub-Saharan Africa.

Source: *Doing Business* database.

TABLE 1.4 Reforms making it easier to do business recorded in g7+ economies since 2005, by *Doing Business* topic

Economy	Starting a business	Dealing with construction permits	Getting electricity	Registering property	Getting credit	Protecting investors	Paying taxes	Trading across borders	Enforcing contracts	Resolving insolvency	Total
Afghanistan	2		1	2	1						6
Burundi	1	2		3	1	1	2	1	2	2	15
Central African Republic	2			2	2						6
Chad	2				2				1		5
Comoros	1			1	1						3
Congo, Dem. Rep.	3	2		1			1	1	1		9
Côte d'Ivoire	3	1		1	1		4				10
Guinea	1	1	1		1						4
Guinea-Bissau	2			1	1		1		1		6
Haiti	1			1	1			2			5
Liberia	3	2	1		2		1	3	1		13
Papua New Guinea					1				1		2
Sierra Leone	2	2		3	3	1	4	2	1	2	20
Solomon Islands	1			1	1	1				1	5
Timor-Leste	2				1		1	1	1		6
Togo	2				1		2	1			6
Total	28	10	3	16	20	3	16	11	9	5	121
Reforms reducing the complexity and cost of regulatory processes											84
Reforms strengthening legal institutions											37

Note: Reforms reducing the complexity and cost of regulatory processes are those in the areas of starting a business, dealing with construction permits, getting electricity, registering property, paying taxes and trading across borders. Reforms strengthening legal institutions are those in the areas of getting credit, protecting investors, enforcing contracts and resolving insolvency.

Source: *Doing Business* database.

because institutional change can increase the risk of violence in the short term as a result of political backlash from groups that lose power or economic benefits. Moreover, countries do not exist in isolation: during fragile periods of institutional transformation they may face external security threats or economic shocks that can overwhelm progress.¹⁷ And all these challenges are difficult to overcome where institutional capacity is weak and resources are limited—as they are in many g7+ economies.

The zigzag path seen in several g7+ economies suggests that they may have had to be flexible in pursuing their reform agenda, changing course as they realized that they were moving too quickly or going in the wrong direction. And history shows that countries that have moved away from fragility and conflict often did so not through one decisive “make or break” moment—but through many transition moments. National leaders have to build confidence in the state and

transform institutions over time, and a repeated process allows space for collaborative norms and capacities to develop and for success to build on successes in a virtuous cycle.¹⁸

TACKLING KEY CHALLENGES OF g7+ ECONOMIES

Between 2005 and 2012 g7+ economies as a group narrowed the gap with the frontier in regulatory practice in most of the areas measured by *Doing Business* (figure 1.5). They showed greater improvements on average than other fragile and conflict-affected states in every regulatory area. And they moved toward the frontier in the complexity and cost of regulatory processes at a faster pace than toward the frontier in the strength of legal institutions. The g7+ economies made the biggest advances in the areas where they implemented the most regulatory reforms, such as starting a business and getting credit. Big leaps are also obvious in the areas of registering property and resolving insolvency. But governments

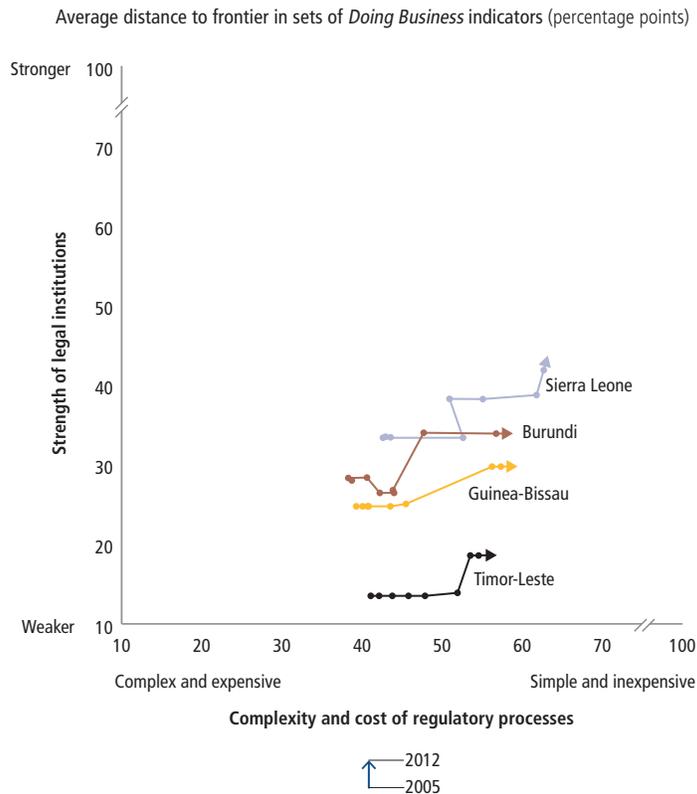
of g7+ economies are also starting to tackle other areas of business regulation where there are great immediate needs. These include enforcing contracts, getting electricity and trading across borders.

Making business start-up easier

A critical way for policy makers to encourage entrepreneurship is by creating a regulatory environment conducive to the creation and growth of businesses—one that promotes rather than inhibits competition.¹⁹ A good place to begin is by simplifying the regulatory requirements for starting a formal business, particularly a limited liability company. With a limited liability company—the type of company on which *Doing Business* focuses—the financial liability of company owners is limited to their investments. With no personal assets at risk, entrepreneurs have more freedom to innovate.

While starting a business in g7+ economies remains challenging, there has been remarkable improvement. In 2005 the

FIGURE 1.4 Different g7+ economies have followed different regulatory reform paths



Note: *Strength of legal institutions* refers to the average distance to frontier in getting credit, protecting investors, enforcing contracts and resolving insolvency. *Complexity and cost of regulatory processes* refers to the average distance to frontier in starting a business, dealing with construction permits, registering property, paying taxes and trading across borders. Each dot refers to a different year, starting in 2005 and ending in 2012. The distance to frontier measure shows how far on average an economy is from the best performance achieved by any economy on each *Doing Business* indicator since 2005. The measure is normalized to range between 0 and 100, with 100 representing the best performance (the frontier).

Source: *Doing Business* database.

time to start a business averaged 78 days in g7+ economies (figure 1.6). It averaged only 29 days in the best 3 quartiles of economies around the world as ranked by performance on this indicator. But today in the g7+ group, thanks to reforms in 15 of 16 economies (28 reforms in total), starting a business takes only 37 days on average. That's not the only gain. The average number of procedures fell from 11 to 8, and the average cost from 3.31 times income per capita to 1.11 times. And the paid-in minimum capital requirement was cut by more than half, from 3.20 times income per capita to 1.57 times.

What does it take to achieve gains like these? The most common features of reforms in business entry have included creating a single interface, reducing or

abolishing minimum capital requirements and adopting technology. Liberia offers a good example. In 2011, having already worked to simplify business registration for several years, the government established the Liberia Business Registry. In doing so, it was able to bring together agencies that are involved in the registration process under one roof thanks to the cooperation of the Ministry of Finance, the Ministry of Foreign Affairs, the Ministry of Commerce and Industry, and the National Social Security and Welfare Corporation. The creation of the new registry reduced the time to start a business by 14 days.

Several other g7+ economies have also created one-stop shops. The popularity of single interfaces for business start-up is unsurprising. They not only save time

and money; they can also make procedural requirements more transparent and easier to access. Globally, in economies that have one-stop shops offering at least one service besides business registration, start-up is more than twice as fast as in those without such services.²⁰

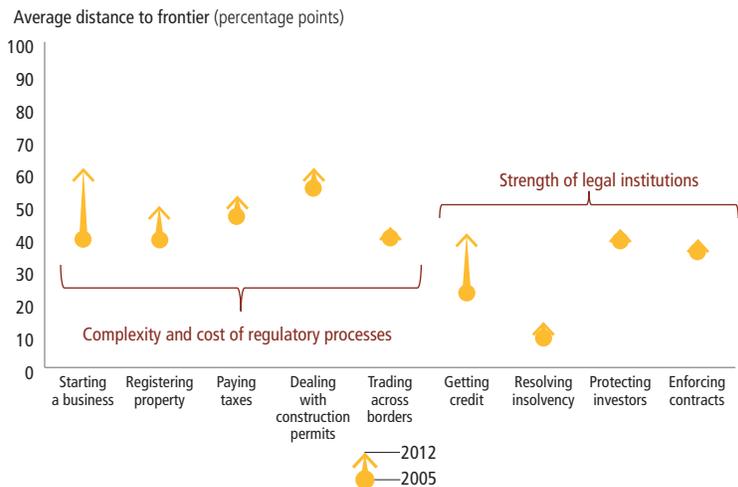
Improving access to credit

Once a business gets started, it needs working capital to operate, to grow and to compete successfully in the market. Among the most effective means of providing working capital to firms is through secured credit.²¹ Lack of credit is identified as the second biggest obstacle for firms in fragile and conflict-affected states.²² *Doing Business* measures 2 types of institutions and systems that facilitate access to finance for entrepreneurs: the legal rights of borrowers and lenders in secured transactions through one set of indicators and the sharing of credit information through another.

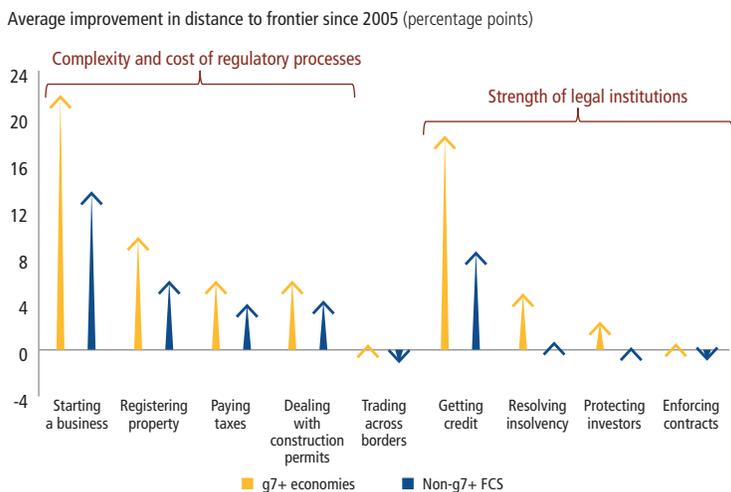
On average, g7+ economies have relatively strong legal rights allowing borrowers and lenders to use movable assets as collateral—though not necessarily the well-functioning judicial systems needed to enforce these rights. But most g7+ economies have weak credit information systems. Some have no credit registry or bureau, making it a challenge for creditors to assess the creditworthiness of entrepreneurs seeking a loan.

But the situation in g7+ economies is improving. Over the past 8 years 15 of the 16 g7+ economies covered by *Doing Business* implemented reforms to make getting credit easier. Particularly impressive are the gains in the strength of the legal rights relating to access to credit. In 2005 g7+ economies had weaker legal rights of borrowers and lenders on average than other fragile and conflict-affected states. Today they provide stronger legal rights than the other group and have moved close to the global average (figure 1.7). Afghanistan and the Solomon Islands are among the countries that focused on strengthening these legal rights. Both passed new laws on secured transactions that broaden

FIGURE 1.5 The g7+ economies have moved closer to the frontier in regulatory practice in almost all areas . . .



. . . but they have narrowed the gap the most in starting a business and getting credit



Note: Figure illustrates the extent to which average regulatory practice across economies has moved closer to the most efficient practice in each area measured by *Doing Business*. The distance to frontier measure shows how far on average an economy is from the best performance achieved by any economy on each *Doing Business* indicator since 2005. The measure is normalized to range between 0 and 100, with 100 representing the best performance (the frontier). Liberia is excluded as it was added to the *Doing Business* sample only in 2006. FCS = fragile and conflict-affected states.

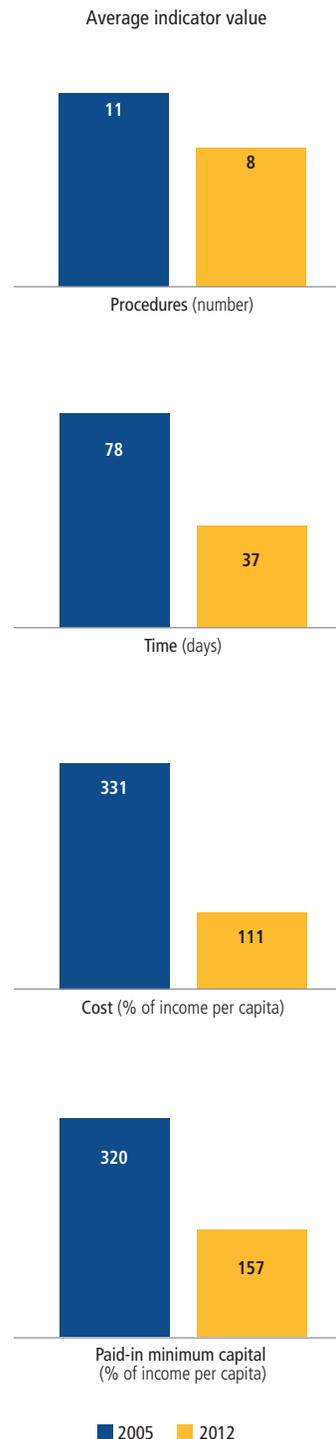
Source: *Doing Business* database.

the range of assets that can be used as collateral, allow a general description of debts and obligations secured by collateral and permit out-of-court enforcement of security interests.

Liberia not only strengthened the legal institutions for secured transactions but also improved credit information sharing. In 2005 its central bank established a database for all delinquent and common (or joint) borrowers in the system. By April

2008 a nascent public credit registry had emerged, thanks to 5,000 records provided by 5 financial institutions in the country. By providing credit information on potential borrowers, the registry helps banks improve risk management. In October 2010 Liberia strengthened its legal framework for secured transactions by adopting a new commercial code that broadens the range of assets that can be used as collateral (including future

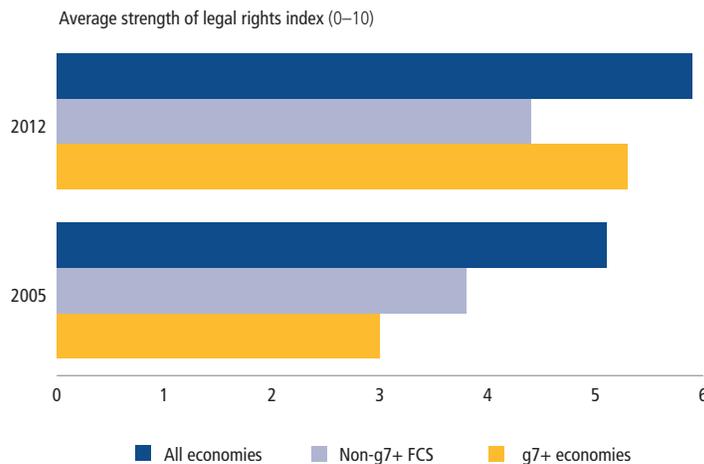
FIGURE 1.6 The g7+ economies have made it easier to start a business



Note: To ensure an accurate comparison, the figure shows data only for the 15 g7+ economies included in the *Doing Business* 2006 (2005) sample. Liberia was added to the *Doing Business* sample only in 2006 and is therefore excluded. The 2005 data are adjusted for any data revisions and changes in methodology.

Source: *Doing Business* database.

FIGURE 1.7 The g7+ economies have strengthened the legal rights of borrowers and lenders



Note: To ensure an accurate comparison, the figure shows data for the same sample of 174 economies for both 2005 and 2012 and uses the regional classifications applying in 2012. The economies added to the *Doing Business* sample after 2005 and therefore excluded here are The Bahamas, Bahrain, Barbados, Brunei Darussalam, Cyprus, Kosovo, Liberia, Luxembourg, Malta, Montenegro and Qatar. The 2005 data are adjusted for any data revisions and changes in methodology. FCS = fragile and conflict-affected states.

Source: *Doing Business* database.

assets) and extends security interests to the proceeds of the original asset.

Today more than half of g7+ economies permit a general description of collateral and allow out-of-court enforcement—provisions that help expand the use of collateral and improve the ability to enforce claims in the event of default. But few beyond the Solomon Islands maintain a central collateral registry—unified geographically and recording interests in all types of movable assets. Before accepting collateral, creditors need an effective way to find out whether the potential borrower has already granted a security interest in the collateral and, if so, what priority those rights have. If registries are not unified across regions, a creditor will have no way of knowing whether a security interest in an asset has already been registered in another jurisdiction. And a need to search multiple registries increases transactions costs. But where registries are unified and computerized, a creditor can immediately check all the registries in an economy from one location, by searching the debtor's name.

There are also many opportunities for g7+ economies to improve their credit

information systems. Less than half have a system that includes data on loans below 1% of income per capita in credit reports, only one has a system that includes both positive and negative credit information, and only one a system that includes credit information from retailers, trade creditors or utilities as well as financial institutions.

Yet sharing full information makes a difference. A credit information system that reports only negative information penalizes borrowers who default on payments—yet fails to reward diligent borrowers who pay on time. Making information on reliable repayment available in credit reports allows customers to establish a positive credit history and improves the ability of lenders to distinguish good borrowers from bad ones. One effective way to expand the range of information distributed by credit registries is to include credit information from retailers and utility companies. Providing information on payment of electricity and phone bills can help establish a good credit history for those without previous bank loans or credit cards. This represents an important opportunity for including people without traditional banking relationships.

Lowering or eliminating minimum loan thresholds can also be an effective way to increase coverage. Where thresholds for the loans included in a credit bureau's database are high, retail and small business loans are more likely to be excluded. This can hurt those that benefit the most from credit information systems—such as female entrepreneurs and small enterprises, whose loans are typically smaller.²³ But including small loans requires developing the technological capability to process large amounts of data, which might be a challenge for g7+ economies. Moreover, lenders may feel that requesting the credit history of a small borrower is not worth the cost, since the transaction fee is fixed and may be too high for the size of the loan involved.

Strengthening contract enforcement

A judicial system that provides effective commercial dispute resolution is crucial to a healthy economy.²⁴ Efficient and transparent courts encourage new business relationships because businesses know they can rely on the courts if a new customer fails to pay. And speedy trials are essential for small enterprises, which may lack the resources to stay in business while awaiting the outcome of a long court dispute. While using alternative dispute resolution systems may have benefits, *Doing Business* focuses on how public institutions function in the case of a commercial dispute.

Courts are essential for entrepreneurs because they interpret the rules of the market and protect economic rights. But war and civil strife in a country disrupt the judicial system by destroying court buildings and records and driving qualified professionals out of the country.²⁵ Uncertainty about the legitimacy of the courts often discourages their use. Fragile states also sometimes face broad strikes in the judiciary. The *Doing Business 2011* report noted that Chad has contended with judges' strikes for higher salaries over the years and Burundi had to overcome a lawyers' strike in 2006.²⁶

During a conflict, informal economic activity increases. Once the conflict ends, a key issue is how to efficiently resolve disputes over property.²⁷ Rebuilding the judiciary can take years, and legal professionals may be in short supply. Chad has only about 150 practicing lawyers, and in 2009 it had only 6 new law graduates.²⁸ Togo has around 100 practicing lawyers for a population of 6.2 million.²⁹

Despite the challenges, postconflict economies are revitalizing their judiciaries. In the past 9 years *Doing Business* recorded 14 reforms in g7+ economies that helped improve court efficiency in commercial dispute resolution. Burundi has enacted a new civil procedure code, amended its commercial code and company code and reorganized its judiciary since 2004. Sierra Leone created a fast-track commercial court in 2011, offering a new, more modern venue for commercial dispute resolution. Liberia launched a specialized commercial court in November 2011 and has appointed 3 new judges for the court. And in October 2012 Côte d'Ivoire set up a stand-alone commercial court.

Other g7+ economies could implement similar good practices. Creating a specialized commercial jurisdiction—by introducing a dedicated stand-alone court, a specialized commercial section within existing courts or specialized judges within a general civil court—can result in faster and less costly contract enforcement. One reason for the greater efficiency is that judges become expert in handling commercial disputes. Commercial courts often have less formal procedures: the use of oral arguments is permitted even in economies where the general courts require written procedures. Analysis of *Doing Business* data shows that commercial disputes are resolved 5 months faster on average in economies with specialized commercial courts or sections than in those without them.³⁰ In parallel with such institutional reforms, policy makers might also consider implementing alternative dispute resolution methods, such as by establishing an arbitration center or introducing mediation proceedings.

Solutions such as these may sometimes be easier and faster to implement, and they offer many advantages to the litigants, including confidentiality.

With the aim of improving the efficiency of courts and increasing the transparency of judicial decisions, many economies around the world—including Chad, the Comoros and Guinea-Bissau within the g7+ group—require judgments in court cases to be made publicly available. Many also impose disclosure requirements on members of the judiciary, in the hope of making it easier to discover instances of corruption. While these practices do not in themselves guarantee a fair trial, they can increase the chances.

Making it easier to connect to electricity

To operate, businesses need basic infrastructure. But businesses in fragile and conflict-affected states must often do without it. Electricity emerges as a key bottleneck—the biggest constraint in the business environment for firms in conflict-affected areas, according to World Bank Enterprise Surveys.³¹ Yet even as lack of electricity hampers recovery efforts by the private sector in fragile states, comprehensive reform of the electricity sector is made difficult by insecurity.

Getting a new electricity connection poses other unique challenges in fragile states. In Guinea-Bissau, for example, a customer can complete all procedures required to get a new connection and yet still receive no electricity—because the utility simply lacks the generation capacity to turn on the power to the connection. In Guinea-Bissau as well as Afghanistan and Sierra Leone electricity shortages are so chronic that when new commercial customers with moderately high electricity needs (such as for a warehouse for storage of refrigerated goods) request a connection, utilities instead advise them to buy their own generator.³² In Sierra Leone, getting a new electricity connection can be a burdensome process requiring the customer to complete 8 interactions with the utility.

In addition, utilities in many g7+ economies charge their customers security deposits as a guarantee against nonpayment of future electricity bills. Because most utilities hold the deposit until the end of the contract and repay it without interest, this requirement can impose a substantial financial burden on small and medium-size businesses, especially those facing credit constraints. In the Central African Republic a medium-size company effectively grants the utility an interest-free credit equivalent to 1,195% of income per capita—and meanwhile is prevented from putting the money to a more productive use.

Because security deposits are supposed to protect utilities against the risk of nonpayment, it is not surprising that they are more likely to be charged in economies where utilities cannot count on efficient court systems and must expect that contracts can be enforced only with significant delays. In these economies utilities should consider lessening the financial burden that security deposits represent for customers. A start would be to return the deposit after 1 or 2 years rather than at the end of the connection contract. Returning the deposit with interest is a route that some utilities around the world are pursuing.

Some g7+ economies are taking steps to reduce the challenges in getting a new electricity connection: in the past 3 years *Doing Business* recorded 3 reforms in the g7+ group that made the process easier.³³ In 2012 Guinea simplified the process for getting a new connection by making the utility, Electricité de Guinée (EDG), responsible for handling the excavation permit application on behalf of the customer. The customer submits the application to EDG along with the connection request, and EDG then sends the application on to the Ministry of Public Works. This frees the customer from having to follow up with the ministry, reducing the number of interactions required to obtain a connection.

Getting an electricity connection also became easier in Liberia in 2012, thanks in part to the adoption of better procurement practices by the Liberia Electricity Corporation. Afghanistan made getting electricity easier in 2011 by improving the efficiency of the electricity department in Kabul and introducing a new fee schedule for connections.

Such good practices can be relevant for other g7+ economies. Streamlining approvals by utilities and other public agencies—as Guinea did in 2012—is among the most effective ways to reduce connection delays and the duplication of formalities. Where utilities make the connection process cheap and efficient as measured by the getting electricity indicators, supply is likely to be more reliable as measured by the total hours of power outages per customer per year (figure 1.8).³⁴

Improving efficiency in trading across borders

Trading can play a vital role in postconflict economies. Conflict wipes out basic infrastructure and destroys production capacity. As a result, many postconflict economies must import all types of goods, including food, basic inputs and construction materials.³⁵ At the same time, exporting activity is likely to be small. Yet the benefits of exporting, particularly for developing economies, are well documented—ranging from economies of scale to knowledge transfers and the chance to become part of global supply chains.³⁶

Trading across borders remains challenging in g7+ economies. On average, it takes 35 days to export and 41 days to import—significantly more time than the global averages of 22 days to export and 24 days to import. Trading is also costly in g7+ economies—at \$2,135 per 20-foot container to export and \$2,652 to import (the global averages are \$1,470 and \$1,742).

But many g7+ governments, recognizing the importance of trade in economic

development, are taking actions to make it easier to trade across borders. Some have improved port operations (for example, the Democratic Republic of Congo by authorizing private terminal operators to handle cargo in 2009) or introduced risk-based inspection systems to improve the efficiency of customs clearance (including Haiti in 2008 and Liberia in 2009).

Others are focusing on facilitating the processing and clearance of goods by introducing electronic systems for filing, transferring, processing and exchanging customs information—important tools now widely used in complex trading systems. In the past several years Burundi, Liberia and Sierra Leone have all implemented or upgraded the Automated System for Customs Data (ASYCUDA), a computer software package for electronically processing customs clearance documents.

If implemented effectively, electronic systems for customs clearance save precious time and money. They can also reduce interactions with officials, which means fewer opportunities for corruption. The newest web-based systems allow traders to submit their documents from anywhere and to pay duties online. Duties

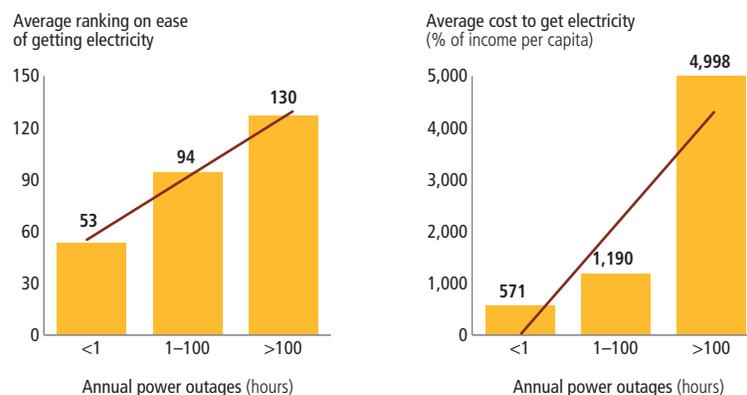
represent a substantial share of government revenue in many g7+ economies, so systems to collect them transparently and efficiently are important. For economies implementing such systems, the key to success is their ability to accommodate their regulatory framework to the new information technologies.

Increasing the transparency of business regulation

Lack of transparency around the decisions made by policy makers and government officials can lead to resource misallocation as funds, rather than being directed toward their most productive ends, are instead captured for private gain. Lack of transparency can also undermine the credibility of those who are perceived as being its beneficiaries and thus sharply limit their ability to gain public support for economic and other reforms. Conversely, access to information can empower citizens to monitor the quality of government services and the use of public resources.

The *Doing Business 2013* report presented new data that speak to the efforts at transparency made by government agencies tasked with implementing business regulation. The data cover 4 types of agencies: company registries, property registries, building departments

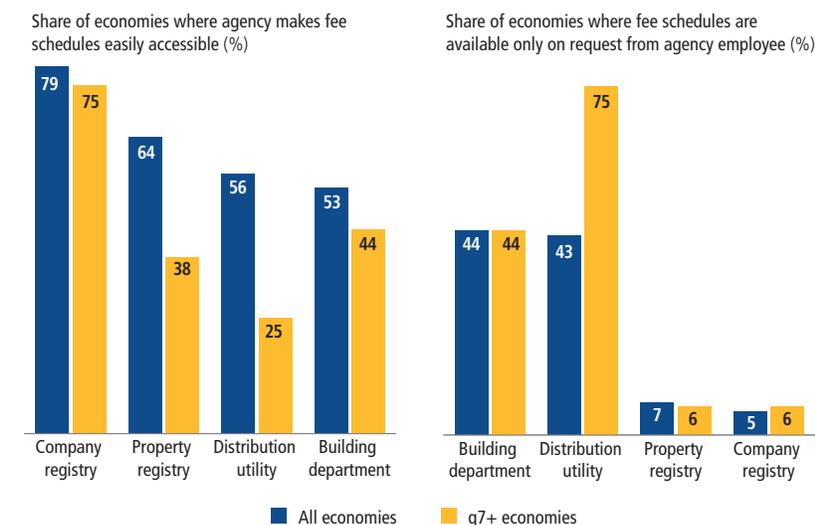
FIGURE 1.8 In economies where utilities provide connections relatively cheaply and efficiently, supply tends to be more reliable



Note: Data refer to outages per low- or medium-voltage customer in the largest business city. The sample includes 86 economies. South Asia is excluded because of lack of data. Relationships in the left-hand chart are significant at the 5% level after controlling for income per capita. Relationships in the right-hand chart are significant at the 1% level after controlling for income per capita.

Source: *Doing Business* database.

FIGURE 1.9 Many regulatory agencies in g7+ economies make fee schedules difficult to access



Note: Fee schedules are considered easily accessible if they can be obtained through the website of the relevant agency or through public notices (brochures or notice boards) available at that agency or a related one, without a need to meet with an official (left-hand chart). They are considered not easily accessible if they can be obtained only by meeting with an official (right-hand chart) or if they are available in an official gazette or law but are not easily accessible to the public.

Source: *Doing Business* database.

and power distribution utilities. They capture how these agencies make basic regulatory information—such as fee schedules for their services—available to businesses.

The report's analysis based on the data shows that government agencies make it difficult to access basic information in too many economies, including in the g7+ group. In only 6 of 16 g7+ economies (Guinea, Guinea-Bissau, Liberia, Papua New Guinea, Sierra Leone and Timor-Leste) do 3 of the 4 agencies measured by *Doing Business* make their fee schedules easily accessible—such as on their website or through brochures or notice boards. Distribution utilities are the least transparent: in 75% of g7+ economies the fee schedule for a new electricity connection can be obtained only by requesting it from an agency employee, leaving room for bribery and corruption (figure 1.9).

Company registries are much more transparent: in 75% of g7+ economies these agencies make their fee schedule easily accessible. In Liberia, for example, the Ministry of Commerce and Industry posts its fee schedule for registration of a new enterprise on its website. And in Sierra

Leone the Office of the Administrator and Registrar General displays the fee schedule for business registration on its notice board in Freetown as well as posting it online.³⁷

SHARING GOOD PRACTICES WITHIN THE g7+

As this report shows, many g7+ governments are making strides in improving the business regulatory environment for local entrepreneurs. Some g7+ governments—including those in Burundi, the Central African Republic, the Comoros, the Democratic Republic of Congo, Côte d'Ivoire, Liberia and Sierra Leone—have formed interministerial regulatory reform committees to ensure coordination of efforts across agencies. These committees are using the *Doing Business* indicators as one input to inform their programs for improving the business environment.

In shaping regulatory reform programs, policy makers also look to good practices in business regulation around the world, seeking insights into how governments have improved in the past in the areas measured by *Doing Business*. Global good practices are often designed for

environments that are secure, have high capacity in state institutions and have functioning competitive markets. As the World Bank's *World Development Report 2011* points out, however, environments of repeated violence are insecure, have institutional deficits and generally have only partially functioning markets.³⁸ When adopting global good practices, g7+ economies may therefore need to adapt them to their specific challenges.

Yet many g7+ economies are already implementing global good practices in business regulation (table 1.5). Other g7+ economies can draw from their experiences. One vision of the g7+ group is that through the sharing of lessons among peers, its members can use their successes and failures to inform a new and better understanding of their own conditions and necessary steps for transitions.³⁹ Indeed, the g7+ platform could provide an ideal framework for sharing information on good practices in business regulatory reforms that could be directly adopted by other g7+ economies.

SUSTAINING REFORM MOMENTUM IN THE g7+

There is much to celebrate in the progress that g7+ economies have made in their business regulatory environments: in most of these economies it is significantly easier to do business today as measured by *Doing Business* than it was 8 years ago. But there is much more to do, and the challenge in all these economies is to sustain the reform momentum through the continued commitment of their governments.

Many of the reforms implemented by g7+ governments were funded by donors through specific projects. Sustaining these improvements even after the donor projects are completed, while potentially challenging, is paramount. Fully implementing these reforms can take many years. Achieving long-term results that translate into real benefits for local entrepreneurs trying to do business in g7+ economies requires sustained effort. A

TABLE 1.5 Good practices around the world, by *Doing Business* topic

Topic	Practice	Economies ^a	Economies with practice in the G7+	
Making it easy to start a business	Putting procedures online	106	Papua New Guinea, Solomon Islands	
	Having no minimum capital requirement	91	Afghanistan, Burundi, Democratic Republic of Congo, Liberia, Papua New Guinea, Sierra Leone, Solomon Islands	
	Having a one-stop shop	88	Afghanistan, Burundi, Central African Republic, Chad, Guinea, Guinea-Bissau, Liberia, Sierra Leone, Togo	
Making it easy to deal with construction permits	Having comprehensive building rules	135	Comoros, Democratic Republic of Congo, Côte d'Ivoire, Guinea, Solomon Islands, Togo	
	Using risk-based building approvals	86	Burundi, Central African Republic, Guinea, Papua New Guinea, Sierra Leone, Solomon Islands	
	Having a one-stop shop	31	None	
Making it easy to obtain an electricity connection	Streamlining approval processes (utility obtains excavation permit or right of way if required)	104 ^b	Burundi, Central African Republic, Comoros, Democratic Republic of Congo, Papua New Guinea, Sierra Leone, Timor-Leste, Togo	
	Providing transparent connection costs and processes	103	Comoros, Guinea-Bissau, Papua New Guinea, Timor-Leste	
	Reducing the financial burden of security deposits for new connections	96	Burundi, Sierra Leone, Timor-Leste	
	Ensuring the safety of internal wiring by regulating the electrical profession rather than the connection process	40	Timor-Leste	
Making it easy to register property	Using an electronic database for encumbrances	108	Papua New Guinea	
	Offering cadastre information online	50	None	
	Offering expedited procedures	16	None	
	Setting fixed transfer fees	10	None	
Making it easy to get credit	Legal rights			
	Allowing out-of-court enforcement	122	Afghanistan, Central African Republic, Chad, Comoros, Côte d'Ivoire, Guinea, Guinea-Bissau, Liberia, Sierra Leone, Solomon Islands, Togo	
	Allowing a general description of collateral	92	Afghanistan, Central African Republic, Chad, Comoros, Côte d'Ivoire, Guinea, Guinea-Bissau, Liberia, Papua New Guinea, Sierra Leone, Solomon Islands, Togo	
	Maintaining a unified registry	67	Solomon Islands	
	Credit information			
	Distributing data on loans below 1% of income per capita	123	Central African Republic, Chad, Papua New Guinea, Timor-Leste	
	Distributing both positive and negative credit information	105	Haiti	
	Distributing credit information from retailers, trade creditors or utilities as well as financial institutions	55	Papua New Guinea	
	Protecting investors	Allowing rescission of prejudicial related-party transactions ^c	73	Burundi, Sierra Leone, Solomon Islands
		Regulating approval of related-party transactions	60	Burundi, Central African Republic, Chad, Comoros, Côte d'Ivoire, Guinea, Guinea-Bissau, Sierra Leone, Togo
Requiring detailed disclosure		53	Burundi	
Allowing access to all corporate documents during the trial		46	Papua New Guinea, Solomon Islands	
Requiring external review of related-party transactions		43	Burundi, Timor-Leste	
Allowing access to all corporate documents before the trial		30	Timor-Leste	
Defining clear duties for directors		28	None	
Making it easy to pay taxes	Allowing self-assessment	156	Afghanistan, Burundi, Chad, Democratic Republic of Congo, Côte d'Ivoire, Guinea, Liberia, Sierra Leone, Togo	
	Allowing electronic filing and payment	74	None	
	Having one tax per tax base	48	Afghanistan, Liberia, Sierra Leone, Solomon Islands, Timor-Leste	
Making it easy to trade across borders ^d	Allowing electronic submission and processing	149 ^e	Burundi, Comoros, Democratic Republic of Congo, Haiti, Liberia, Papua New Guinea, Sierra Leone, Solomon Islands, Timor-Leste, Togo	
	Using risk-based inspections	133	Côte d'Ivoire, Liberia, Papua New Guinea, Sierra Leone, Timor-Leste	
	Providing a single window	71 ^f	Democratic Republic of Congo, Côte d'Ivoire	
Making it easy to enforce contracts	Making all judgments in commercial cases by first-instance courts publicly available in practice	121 ^g	Afghanistan, Chad, Comoros, Democratic Republic of Congo, Guinea-Bissau, Haiti, Liberia, Sierra Leone, Timor-Leste, Togo	
	Maintaining specialized commercial court, division or judge	82	Burundi, Central African Republic, Chad, Comoros, Democratic Republic of Congo, Guinea, Guinea-Bissau, Liberia, Papua New Guinea, Sierra Leone	
	Allowing electronic filing of complaints	19	None	

(continued on next page)

TABLE 1.5 Good practices around the world, by *Doing Business* topic (continued)

Topic	Practice	Economies ^a	Economies with practice in the g7+
Making it easy to resolve insolvency	Allowing creditors' committees a say in insolvency proceeding decisions	109	Afghanistan, Central African Republic, Côte d'Ivoire, Liberia, Papua New Guinea, Sierra Leone, Togo
	Requiring professional or academic qualifications for insolvency administrators by law	107	Central African Republic, Chad, Côte d'Ivoire, Papua New Guinea
	Specifying time limits for the majority of insolvency procedures	94	Afghanistan, Central African Republic, Côte d'Ivoire, Haiti, Liberia, Papua New Guinea, Togo
	Providing a legal framework for out-of-court workouts	82	Afghanistan, Central African Republic, Chad, Liberia, Papua New Guinea, Sierra Leone

a. Among 185 economies surveyed, unless otherwise specified.

b. Among 151 economies surveyed.

c. Rescission is the right of parties involved in a contract to return to a state identical to that before they entered into the agreement.

d. Among 181 economies surveyed.

e. Thirty-one have a full electronic data interchange system, 118 a partial one.

f. Eighteen have a single-window system that links all relevant government agencies, 53 a system that does so partially.

g. Among 184 economies surveyed.

Source: *Doing Business* database; for starting a business, also World Bank (2009b).

critical part in this is true country ownership—where all relevant parties in the country are aware of the reform efforts and know both who will follow through with these efforts in the long term and who will ensure that this happens.

Analysis to identify the best regulatory reform path for g7+ economies is beyond the scope of this report. But it is clear that the path is neither easy nor straightforward. Among the questions that governments need to consider is whether the focus should be on reforms to reduce the complexity and cost of regulatory processes, typically shorter-term fixes, or on reforms to strengthen legal institutions relevant to business regulation, typically longer-term efforts. Thus far g7+ economies have tended to focus on lessening regulatory complexity and cost—for example, by establishing a one-stop shop to ease the administrative burden of starting a business. This may not be the preferred focus in moving forward, however.

To guide their reform paths, g7+ economies could look to the experiences of fellow members of the g7+: their shared history of conflict and political instability offers opportunities to learn from one another not only about regulatory practices but also about lessons in the implementation of regulatory reforms. They could also look to a growing body of empirical studies examining the effects of regulatory reforms in economies at different

income levels and in different regions. Such studies point to a positive correlation between the implementation of reforms simplifying entry regulations and the creation of more new firms and new jobs in the formal sector, for example.⁴⁰ But the g7+ group also could benefit from tailored research to analyze the impact of different types of business regulatory reforms within their own economies.

NOTES

1. World Bank 2011d.
2. The data for this chapter's analysis of the business environment in g7+ economies are drawn from the global *Doing Business* database and the *Doing Business 2013* report. The analysis excludes Somalia and South Sudan. The *Doing Business* project does not collect data for Somalia. Data for South Sudan (Juba) were collected as part of a subnational research project in 2011 (see World Bank 2011b). But these data are excluded from the analysis because of modifications made to the *Doing Business* methodology since then (for example, the addition of a new topic, getting electricity, to the aggregate ranking). Data for South Sudan are available in the country tables and detailed topic data section at the end of the report, however.
3. See g7+, "Overview and Purpose," <http://www.g7plus.org/about/>.
4. World Bank 2011d.
5. World Bank 2012b.
6. World Bank 2011d. As *World Development Report 2011* (World Bank

2011d) asserts, however, more direct intervention is often also needed for the private sector to play its catalytic role in regions where business confidence is very low, in order to attract investment.

7. IFC 2013.
8. World Bank Enterprise Surveys for Chad (2009) and the Democratic Republic of Congo (2010) (<http://www.enterprisesurveys.org>).
9. Schneider 2005; La Porta and Shleifer 2008.
10. World Bank Enterprise Surveys, "Informality," <http://www.enterprisesurveys.org/Data/ExploreTopics/informality>.
11. World Bank Enterprise Surveys, "Corruption," <http://www.enterprisesurveys.org/Data/ExploreTopics/corruption>.
12. World Bank 2011d.
13. World Bank 2013.
14. IDA is the World Bank's fund for the poorest countries. Established in 1960, IDA aims to reduce poverty by providing loans and grants. Today 81 countries are eligible to receive IDA resources, 39 of which are in Africa. Eligibility for IDA support is based on a GNI per capita below an established threshold that is updated annually (for fiscal 2013 it is \$1,195). IDA also supports some countries, including several small island economies, that are above the operational cutoff but lack the creditworthiness needed to borrow from the International Bank for Reconstruction and Development (IBRD). (For more discussion, see the World Bank's webpage on IDA at <http://www.worldbank.org/ida/index.html>.)
15. The classification of fragile and

- conflict-affected states in this chapter is based on the World Bank's "Harmonized List of Fragile Situations FY13" (<http://siteresources.worldbank.org/EXTLICUS/Resources/511777-1269623894864/FCSHarmonizedListFY13.pdf>). The analysis includes both g7+ economies and other fragile and conflict-affected states. The g7+ economies are Afghanistan, Burundi, the Central African Republic, Chad, the Comoros, the Democratic Republic of Congo, Côte d'Ivoire, Guinea, Guinea-Bissau, Haiti, Liberia, Papua New Guinea, Sierra Leone, the Solomon Islands, Timor-Leste and Togo. The non-g7+ fragile and conflict-affected states are Angola, Bosnia and Herzegovina, the Republic of Congo, Eritrea, Iraq, Kiribati, Kosovo, the Marshall Islands, the Federated States of Micronesia, Nepal, Sudan, the Syrian Arab Republic, West Bank and Gaza, the Republic of Yemen and Zimbabwe. The analysis does not include Libya, Myanmar, Somalia, South Sudan and Tuvalu.
16. The Democratic Republic of Congo became a member of the Organization for the Harmonization of Business Law in Africa (OHADA) in 2012 and as a result is expected to have a paid-in minimum capital requirement of 1 million CFA francs for limited liability companies (World Bank 2011a).
 17. World Bank 2011d.
 18. World Bank 2011d.
 19. World Bank 2012b.
 20. *Doing Business* project, "Starting a Business," <http://www.doingbusiness.org/data/exploretopics/starting-a-business/good%20practices>.
 21. UNCITRAL 2007, p. 1.
 22. World Bank Enterprise Surveys, <http://www.enterprisesurveys.org>.
 23. Women make up 76% of borrowers from microfinance institutions (World Bank 2010b).
 24. Ramello and Voigt 2012.
 25. Much of the following discussion is adapted from *Doing Business 2011* (World Bank 2010a, p. 74, box 10.1).
 26. World Bank 2010a, p. 74, box 10.1.
 27. Samuels 2006.
 28. World Bank 2010a.
 29. *Ordre des Avocats du Togo*, "Tableau de l'Ordre," <http://www.avocats-togo.org/content.php?niv=tableau>.
 30. Relationships are significant at the 1% level after controlling for income per capita (World Bank 2010a).
 31. Twenty-two of the 181 countries included in the Enterprise Surveys are fragile and conflict-affected states. For 10 of these countries, electricity ranks as the most important business environment constraint facing firms (and usually ranks much higher than any of the other issues). For 17 of the 22, electricity ranks among the top 3 issues. For only 2 of the countries, Côte d'Ivoire and Tonga, does electricity not rank among the top 6 constraints. Other constraints include obtaining finance, political instability, practices of the informal sector and corruption (World Bank 2011d). See the World Bank Enterprise Surveys website at <http://www.enterprisesurveys.org>.
 32. World Bank 2010a.
 33. The getting electricity topic was introduced as a pilot in *Doing Business 2010* and added to the ranking in *Doing Business 2012*.
 34. World Bank 2013.
 35. For example, see the analysis of the trading environment in Juba (South Sudan) in the trading across borders chapter of *Doing Business in Juba 2011* (World Bank 2011b).
 36. For more discussion on this, see the *Doing Business* project's "Trading across Borders: Why It Matters," <http://www.doingbusiness.org/data/exploretopics/trading-across-borders/why%20matters>.
 37. Sierra Leone, Office of the Administrator and Registrar General, "Statutory Fees for the Registration of Business and Companies," <http://www.oarg.gov.sl/Statutory%20Fee%20for%20Business%20Registration.html>.
 38. World Bank 2011d.
 39. See g7+, "Introducing the g7+," <http://www.g7plus.org>.
 40. World Bank 2013.

2007 2012 2011
 2005 2009 2004
 2008 2006 2010 2013

Country examples

Sierra Leone, Burundi, Guinea-Bissau and Timor-Leste

Among g7+ economies, Sierra Leone, Burundi, Guinea-Bissau and Timor-Leste have advanced the furthest toward the frontier in regulatory practice since 2005—with Sierra Leone narrowing the gap by almost 15 percentage points, Burundi by almost 13, Guinea-Bissau by 12 and Timor-Leste by almost 10 (see table 1.3 in the preceding chapter). All 4 have done so thanks to their commitment to improve their business regulatory environment. And in pursuing this effort, all 4 initially put more emphasis on reducing the complexity and cost of regulatory processes (such as starting a business), then later moved on to reforms strengthening legal institutions relevant to business regulation (such as those involved in getting credit). Yet each has pursued a different reform path—and that path has not always been smooth.

SIERRA LEONE: LAYING A FOUNDATION FOR GROWTH

As Sierra Leone recovered from the devastating effects of a civil war and political instability, its government quickly realized the importance of creating a better business and investment climate as a foundation for future economic growth. The government asked the international community for assistance, and a donor-funded program to help Sierra Leone improve its business climate, encourage job creation and spur investment was launched in 2004.¹ The program took a collaborative approach, working closely with the government, local institutions and the private sector to implement a comprehensive, integrated agenda. An important focus was integrating

communications and outreach into the reform process.

Disseminating information on regulatory reforms as they occur and assisting government agencies in “telling the story better” are particularly important in a postconflict environment, where the relationship between the government and the private sector is often a hostile one. In Sierra Leone these efforts opened a dialogue between the government and the private sector, enabling the private sector to seek further reforms. In addition, the donor-funded program led to the creation of a new formal mechanism to facilitate dialogue on investment climate issues. The Sierra Leone Business Forum, formed in 2007, brings together the government and the private sector to identify, prioritize and resolve key constraints to private sector development.

The path of reform

Thanks to the government’s strong commitment to change, in the past 8 years the country implemented 20 institutional or regulatory reforms that helped improve the business regulatory environment. Yet the reform path that Sierra Leone has followed since 2005 has not necessarily been a straight one, even in increasing the efficiency of regulatory processes.

One area where the path has zigzagged has been in registering property. Amid concerns about fraudulent transfers and sales of property by people without proper legal title, a moratorium had been put in place on getting the director of survey’s signature on cadastral maps for property transfers. This moratorium provided protection for future property owners, but

it also made property registration a big hurdle for small and medium-size businesses. Completing the process took more than 7 months.

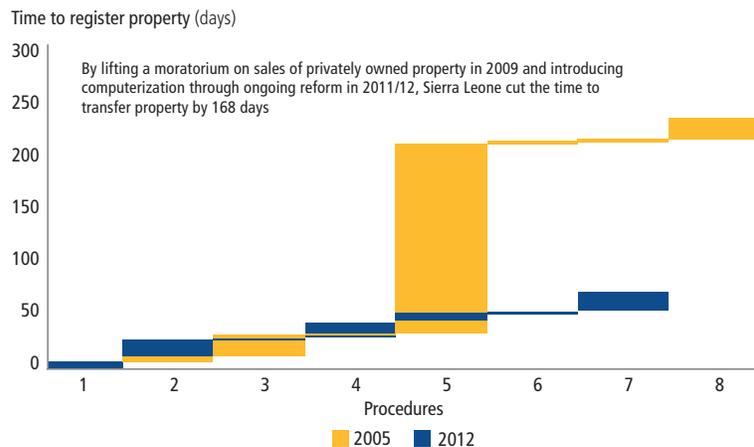
Recognizing this burden, the government lifted the moratorium in April 2008. But in December 2008, with the issue of illegitimate property sales still unresolved, the moratorium was reinstated. It was not until July 2009 that the moratorium was lifted again, and this time the change was not reversed. Together with the computerization of the Ministry of Lands, Country Planning and the Environment, this measure reduced the time required to transfer property. Today commercial property can be transferred from one business owner to another in just over 2 months—5 months faster than in 2005 (figure 2.1).

As this experience in Sierra Leone shows, there are no quick fixes—and transforming institutions, always tough, is particularly difficult in fragile states.² Attempting to reform too much or too soon—without consideration of the wider institutional transformation that may be required (such as comprehensive reform of the title registration system)—can be risky. This risk may have contributed to the temporary reversal of the property registration reform in Sierra Leone.

Cuts in cost and complexity

Entrepreneurs in Sierra Leone are seeing improvements in regulatory areas beyond property registration. The government has lessened the burden of dealing with construction permits over the years by implementing a risk-based inspection system and streamlining the issuance of location clearances and building permits. Sierra Leone has also made it easier to trade across borders, by implementing the Automated System for Customs Data (ASYCUDA) in 2010. By introducing electronic processing and simplifying customs procedures, this reduced the clearance time for both exports and imports.

FIGURE 2.1 In Sierra Leone, despite a challenging transformation, registering property is easier today



Source: *Doing Business* database.

In addition, since 2006 Sierra Leone has continued to reduce the tax burden, broaden the tax base and simplify tax compliance so as to reduce costs for firms and encourage job creation. It has done so by reducing the corporate income tax and sales tax rates, replacing the sales and service taxes with a goods and service tax, publishing a consolidated income tax act and improving training and equipment at the tax authority.

Sierra Leone has also made it easier to start a business. It has abolished many registration formalities over the years, cutting the number of procedures, time and cost involved. In a significant step in 2009, it established a one-stop shop for business registration. Today Sierra Leone stands comparatively high in the global ranking on the ease of starting a business (at 76, compared with the regional average for Sub-Saharan Africa of 123).

A shift in focus

Other efforts in more recent years reflect a shift in focus toward strengthening legal institutions fundamental to a sound investment climate—investor protections, a judicial system providing effective commercial dispute resolution, and creditor rights and insolvency regimes, which can help promote commerce and economic growth.³ In 2009 Sierra Leone introduced a new companies act that

increased director liability and improved disclosure requirements—and today the country leads Sub-Saharan Africa in the global ranking on the strength of investor protections (with a ranking of 32, compared with the regional average of 115). While its implementation remains a challenge, the new law also encourages ailing businesses to first try to reorganize rather than going straight into liquidation, making insolvency proceedings easier.

In 2011 Sierra Leone made enforcing contracts easier by launching a fast-track commercial court. And through reforms implemented over the past 2 years Sierra Leone improved access to credit information. The country established a public credit registry at its central bank and guaranteed borrowers' right to inspect their personal data. In creating the credit registry it followed the model of Liberia, which had created a public credit registry in its central bank in 2008. Coverage remains small in both countries, however.

Challenges persist in Sierra Leone, and more can be done to reduce the administrative burdens for local entrepreneurs. For example, dealing with construction permits still takes 238 days (while obtaining a building permit takes up to 35 days, connecting to utilities like telephone and water greatly delay the process). And resolving a small commercial

dispute through the courts in Freetown still requires 515 days, close to a year and half. But the regulatory and institutional reforms already implemented are making a difference. Formalizing a new business has become significantly easier in Sierra Leone. In 2004 starting a business cost 1,491% of income per capita. Today, at 80% of income per capita, the cost is less than a tenth of that amount.

The key now is to sustain the successful reforms and maintain the government’s strong commitment to change. Maintaining good communication between the private sector and the government also remains important, to ensure that everyone is aware of the government’s reforms and that all benefit from them.

BURUNDI: REFORMING AT A STEADY PACE

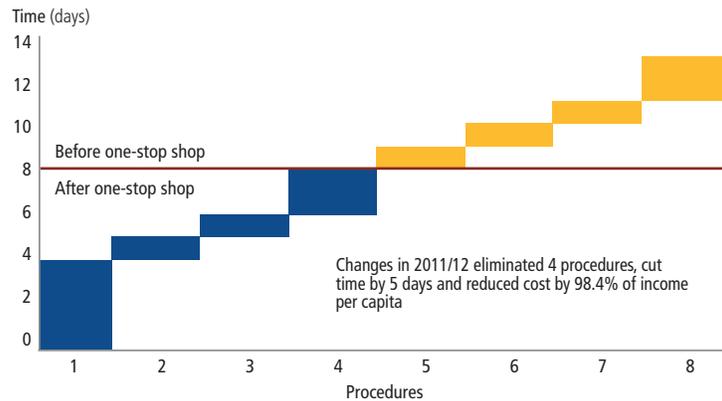
As Burundi recovers from years of war and civil strife, its government has made private sector development a priority. Prompted in part by the country’s integration into the East African Community, the government, in partnership with the international community, has pursued ambitious reforms to improve the business and investment climate since the mid-2000s. Indeed, over the past 8 years Burundi implemented 15 institutional or regulatory reforms as recorded by *Doing Business*.

Improvements in legal institutions

These reforms included many measures directly addressing the particular needs of a postwar economy in which many businesses have suffered and collapsed.⁴ Given Burundi’s fragile economy and judicial system, the country has been performing poorly in creditor rights, resolution of insolvency and commercial dispute resolution. But the situation is improving.

In 2006 Burundi strengthened the rights of secured creditors during a reorganization proceeding by allowing them

FIGURE 2.2 Burundi made starting a business easier in 2011/12 by setting up a one-stop shop



Source: *Doing Business* database.

to receive payment of interest during the stay period and to obtain a replacement for collateral that is destroyed. In the same year Burundi adopted its first bankruptcy law since 1962. Among other things, the law gives commercial courts jurisdiction over bankruptcy, sets more detailed guidelines for administrators and trustees, sets time limits for various procedures in the bankruptcy process and allows liquidation to proceed upon appeal.

From 2006 to 2007 Burundi pursued efforts to improve commercial dispute resolution. A new civil procedure code increased procedural efficiency at the main trial court and tightened the time limits for appealing a judgment. And in 2010 Burundi amended its commercial code to establish foreclosure procedures.

In 2011, in a move to strengthen investor protections, Burundi amended its company law and introduced new requirements for the approval of related-party transactions. It also introduced requirements for greater corporate disclosure of related-party transactions to the board of directors and in the annual report—and made it easier to sue directors when such transactions harm the company.

Greater regulatory efficiency

Reforms to increase the efficiency of regulatory processes benefited the business community in several areas. Tax reforms

implemented over the past 3 years simplified taxes by replacing the transactions tax with a value added tax, and reduced the payment frequency for social security contributions from monthly to quarterly. Other measures simplified property registration and construction permitting, both major bottlenecks for business growth. Between 2007 and 2009 Burundi abolished the property registration tax and reduced the property transfer tax by 3% of the property value.

Efforts to reduce regulatory complexity and create a more business-friendly environment continued in 2011/12. Burundi made starting a business easier by eliminating several requirements and establishing a one-stop shop at the Burundi Revenue Authority that brought together representatives from several agencies involved in the business start-up process (figure 2.2). It made dealing with construction permits easier by eliminating the requirement for a clearance from the Ministry of Health and reducing the cost of the geotechnical study. And Burundi made property transfers faster by establishing a statutory time limit for processing property transfer requests at the land registry.

While Burundi’s environment for trading across borders remains one of the most difficult, the country took a step in the right direction in 2011/12. Traders in Burundi have long dealt with delays at

the Kabanga border crossing between Burundi and Tanzania. This is starting to change thanks to better coordination between the countries' border authorities, including synchronized working hours. In addition, Burundi authorities have enhanced the system of electronic communication and information sharing between border posts and the main customs office in Bujumbura. These efforts have led to a more efficient and reliable tracking system, reducing the need for additional checks and controls at the border and along trade corridors.⁵

But Burundi recognizes that much more remains to be done. According to Second Vice President Gervais Rufyikiri, the government's ambition is to continue to improve the business climate—by modernizing business law, communicating regulatory reforms, improving the settlement of trade disputes, increasing the transparency of business regulation and simplifying and reinforcing transparency in public administration.⁶

GUINEA-BISSAU: MAINTAINING A FOCUS ON REFORM

Overcoming tremendous political strife and uncertainty, and burdened by a GDP per capita that is among the lowest in the world, Guinea-Bissau is slowly making its way toward a better business climate by introducing business-friendly regulations. Over the past 8 years *Doing Business* recorded 6 institutional or regulatory reforms making it easier to do business. These reforms are particularly noteworthy given the political instability that occasionally erupted even in the 2000s. Despite many changes in administration, the government maintained its focus on improving the business regulatory environment. The biggest improvements have been in business start-up and creditor rights.

In 2008 Guinea-Bissau simplified business start-up by making the company name search electronic, introducing some computers and flash drives at notary offices and reducing registration fees. While this computerization made it

possible to scan documents rather than copy them by hand, starting a business remained a long process. But in an important development in 2011 Guinea-Bissau established a one-stop shop for business start-up. The Center for the Formalization of Enterprises combined services needed to create a business under one roof—including notarizing the company statutes, registering at the commercial registry and obtaining a tax identification number. Guinea-Bissau also eliminated the requirement for an operating license and simplified the process for providing criminal records of future entrepreneurs and publishing the registration notice.

Guinea-Bissau also lowered tax costs for businesses. It reduced the corporate income tax rate in 2005. And it lowered the property transfer tax from 10% of the property value to 2% in 2007.

Guinea-Bissau implemented 2 major business-friendly judicial reforms in 2009 and 2011. In 2009 it established a specialized commercial court, speeding up the enforcement of contracts. And in 2011, as a member of the Organization for the Harmonization of Business Law in Africa (OHADA), it implemented amendments to the Uniform Act on Secured Transactions, improving access to credit. The amendments broaden the range of assets that can be used as collateral (including future assets), extend security interests to the proceeds of the original asset and introduce the possibility of out-of-court enforcement of collateral. The amended law has not yet been translated into Portuguese, however, and few people in Guinea-Bissau are aware of these changes.

While Guinea-Bissau has succeeded in implementing business-friendly regulations, the coup d'état in April 2012 and the ensuing political instability pose a challenge to the sustainability of these reform efforts.

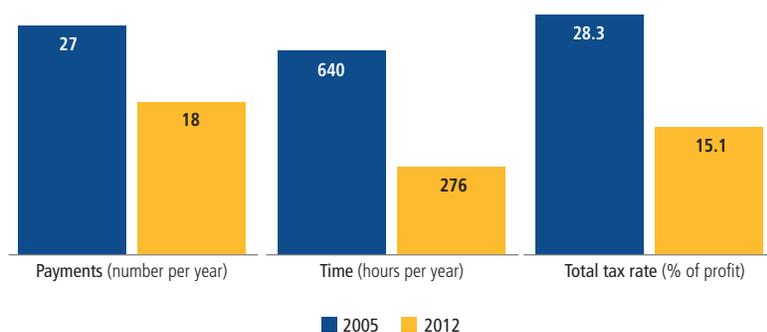
TIMOR-LESTE: BUILDING A NATION

Despite the physical and institutional challenges of building a new nation from scratch, Timor-Leste has made major strides in social and economic development since 2002 while maintaining peace and political stability.⁷ From early on the government recognized private sector investment as key to creating jobs. It saw the establishment of a business-friendly regulatory environment as an essential part of this⁸ and has been working to improve business regulation. In the past 8 years Timor-Leste implemented 6 institutional or regulatory reforms as recorded by *Doing Business*, increasing court efficiency, improving access to credit information, making tax compliance easier and less costly for businesses and making it easier to start a business and trade across borders.

The government views public-private dialogue as an important mechanism for driving policy reforms for private sector development. Consistent with this view, the Timor-Leste Better Business Initiative was established in January 2008 to provide a platform for effective and constructive dialogue between the business community (domestic and foreign) and the government.⁹ Such efforts are helping to define and accelerate the government's reform agenda.

One area where entrepreneurs are seeing a difference is in business registration—though with a global ranking of 147 on the ease of starting a business, Timor-Leste could do more to help entrepreneurs. In 2007 the country eliminated the requirement to obtain approval from the Ministry of Land, reducing the administrative burden on entrepreneurs and the number of days required to start a company. At the end of 2010 Timor-Leste undertook a reorganization of the company registry, streamlining the business registration process and reducing the time needed to process new applications. This cut the time required to start a business from 167 days in 2005 to 94 days in 2012. It also

FIGURE 2.3 Thanks to a policy of tax reform, paying taxes is now easier in Timor-Leste



Source: *Doing Business* database.

reduced the cost—from 125% of income per capita (\$657) to 2.9% (\$115).

In 2008 the government embarked on a policy of tax reform. A new tax law came into force in July 2008, easing the tax burden on businesses. The Taxes and Duties Act reduced the corporate income tax rate to 10% and eliminated the alternative minimum tax and the withholding tax on interest. The new tax system also made calculation of tax liabilities easier and allowed businesses with a turnover of less than \$1 million to pay corporate income tax in quarterly installments. The changes reduced the time required for a business to prepare, file and pay the necessary taxes from 640 hours a year to 276 hours (figure 2.3).

In 2011 Timor-Leste increased court efficiency by training and appointing new judges and improving the internal organization of the Dili district court. And in April 2010 it launched a public credit registry, the Credit Registry Information System—initially for a one-year probationary period.

The government, in its priority programs for 2012–17, clearly states that it will continue to give priority to building a business and investment climate that supports the development of a diversified private sector and the establishment of new businesses and industries—seen as essential to create jobs and help make

the transition to a nonoil economy.¹⁰ Aiming to address key challenges that deter investors, the government plans to introduce a one-stop shop for the registration and licensing of businesses—the Service for Registration and Verification of Entrepreneurs (SERVE)—a measure that has been successful in several other g7+ economies. The government has also pledged to embrace e-government to provide an efficient alternative for interacting with public agencies.

NOTES

1. The Removing Administrative Barriers to Investment (RABI) Program is a partnership of the World Bank Group's Investment Climate Advisory Services and the U.K. Department for International Development. For more information, see World Bank Group, *Investment Climate Advisory Services* (2011).
2. World Bank 2011d.
3. Hamdani and Yafeh 2012.
4. IFC 2012.
5. World Bank forthcoming.
6. IFC 2012.
7. During the orchestrated campaign of violence and destruction following the referendum in which voters approved independence in 1999, an estimated 70% of private homes and public buildings were burned to the ground. Bridges and power lines were demolished, and the telecommunications system was rendered inoperable. Valuable files were destroyed, including land and property

titles and education and civil registry records (see World Bank 2005a).

8. Timor-Leste, Office of the Prime Minister 2010.
9. Hedditch and Manuel 2010.
10. Timor-Leste, Presidency of the Council Ministers 2012.

About *Doing Business*: measuring for impact

2007 2012 2011
2005 2009 2004
2008 2006 2010 2013

The private sector provides an estimated 90% of jobs in developing economies.¹ Where government policies support a dynamic business environment—with firms making investments, creating jobs and increasing productivity—all people have greater opportunities. A growing body of evidence suggests that policy makers seeking to strengthen the private sector need to pay attention not only to macroeconomic factors but also to the quality of laws, regulations and institutional arrangements that shape daily economic life.²

Doing Business 2013 is the 10th in a series of annual reports. When the first report was produced, in 2003, there were few globally available and regularly updated indicators for monitoring such micro-economic issues as business regulations affecting local firms. Earlier efforts from the 1980s drew on perceptions data, but these expert or business surveys focused on broad aspects of the business environment and often captured the experiences of businesses. These surveys also lacked the specificity and cross-country comparability that *Doing Business* provides—by focusing on well-defined transactions, laws and institutions rather than generic, perceptions-based questions on the business environment.

Doing Business seeks to measure business regulations for domestic firms through an objective lens. The project looks primarily at small and medium-size companies in the largest business city. Based on standardized case studies, it presents quantitative indicators on the regulations that apply to firms at different stages of their life cycle. The results for each

economy can be compared with those for 184 other economies and over time.

Over the years the choice of indicators for *Doing Business* has been guided by a rich pool of data collected through the World Bank Enterprise Surveys. These data highlight the main obstacles to business activity as reported by entrepreneurs in well over 100 economies. Among the factors that the surveys have identified as important to businesses have been taxes (tax administration as well as tax rates) and electricity—inspiring the design of the paying taxes and getting electricity indicators. In addition, the design of the *Doing Business* indicators has drawn on theoretical insights gleaned from extensive research literature.³ The *Doing Business* methodology makes it possible to update the indicators in a relatively inexpensive and replicable way.

The *Doing Business* methodology is also responsive to the needs of policy makers. Rules and regulations are under the direct control of policy makers—and policy makers intending to change the experience and behavior of businesses will often start by changing rules and regulations that affect them. *Doing Business* goes beyond identifying that a problem exists and points to specific regulations or regulatory procedures that may lend themselves to regulatory reform. And its quantitative measures of business regulation enable research on how specific regulations affect firm behavior and economic outcomes.

The first *Doing Business* report covered 5 topics and 133 economies. This year's report covers 11 topics and 185 economies.

Ten topics are included in the aggregate ranking on the ease of doing business, and 9 in the distance to frontier measure.⁴ The project has benefited from feedback from governments, academics, practitioners and reviewers.⁵ The initial goal remains: to provide an objective basis for understanding and improving the regulatory environment for business.

WHAT DOING BUSINESS COVERS

Doing Business captures several important dimensions of the regulatory environment as they apply to local firms. It provides quantitative measures of regulations for starting a business, dealing with construction permits, getting electricity, registering property, getting credit, protecting investors, paying taxes, trading across borders, enforcing contracts and resolving insolvency. *Doing Business* also looks at regulations on employing workers. Pending further progress on research in this area, 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. It does present the data on the employing workers indicators. Additional data on labor regulations collected in 185 economies are available on the *Doing Business* website.⁶

The foundation of *Doing Business* is the notion that economic activity, particularly private sector development, benefits from clear and coherent rules: Rules that set out and clarify property rights and facilitate the resolution of disputes. And rules that enhance the predictability of economic interactions and provide contractual partners with essential protections against arbitrariness and abuse. Where such rules are reasonably efficient in design, are transparent and accessible to those for whom they are intended and can be implemented at a reasonable cost, they are much more effective in shaping the incentives of economic agents in ways that promote growth and development. The quality of the rules also has a crucial bearing on how societies distribute the

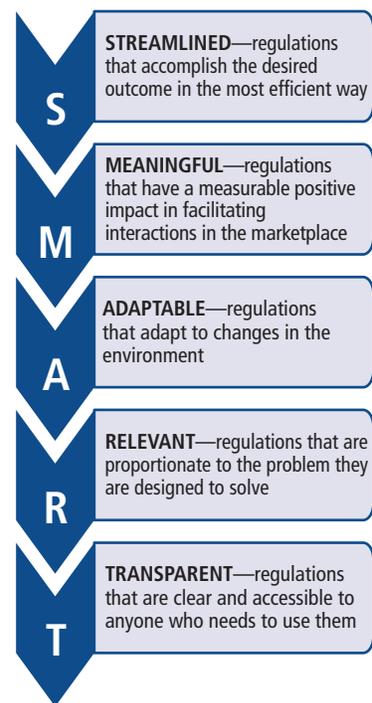
benefits and bear the costs of development strategies and policies.

Consistent with the view that rules matter, some *Doing Business* indicators give a higher score for more regulation and better-functioning institutions (such as courts or credit bureaus). In the area of protecting investors, for example, higher scores are given for stricter disclosure requirements for related-party transactions. Higher scores are also given for a simplified way of applying regulation that keeps compliance costs for firms low—such as by allowing firms to comply with business start-up formalities in a one-stop shop or through a single online portal. Finally, *Doing Business* scores reward economies that apply a risk-based approach to regulation as a way to address social and environmental concerns—such as by imposing a greater regulatory burden on activities that pose a high risk to the population and a lesser one on lower-risk activities.

Thus the economies that rank highest on the ease of doing business are not those where there is no regulation—but those where governments have managed to create rules that facilitate interactions in the marketplace without needlessly hindering the development of the private sector. In essence, *Doing Business* is about smart business regulations, not necessarily fewer regulations (figure 3.1).

In constructing the indicators the *Doing Business* project uses 2 types of data. The first come from readings of laws and regulations in each economy. The *Doing Business* team, in collaboration with local expert respondents, examines the company law to find the disclosure requirements for related-party transactions. It reads the civil law to find the number of procedures necessary to resolve a commercial sale dispute before local courts. It reviews the labor code to find data on a range of issues concerning employer-employee relations. And it plumbs other legal instruments for other key pieces of data used in the indicators, several of which have a large legal dimension.

FIGURE 3.1 What are SMART business regulations as defined by *Doing Business*?



Indeed, about three-quarters of the data used in *Doing Business* are of this factual type, reducing the need to have a larger sample size of experts in order to improve accuracy. The local expert respondents play a vital role in corroborating the *Doing Business* team's understanding and interpretation of rules and laws.

Data of the second type serve as inputs into indicators on the complexity and cost of regulatory processes. These indicators measure the efficiency in achieving a regulatory goal, such as the number of procedures to obtain a building permit or the time taken to grant legal identity to a business. In this group of indicators cost estimates are recorded from official fee schedules where applicable. Time estimates often involve an element of judgment by respondents who routinely administer the relevant regulations or undertake the relevant transactions.⁷ These experts have several rounds of interaction with the *Doing Business* team, involving conference calls, written correspondence and visits by the team until

there is convergence on the final answer. To construct the time indicators, a regulatory process such as starting a business is broken down into clearly defined steps and procedures (for more details, see the discussion on methodology in this chapter). Here *Doing Business* builds on Hernando de Soto's pioneering work in applying the time-and-motion approach in the 1980s to show the obstacles to setting up a garment factory on the outskirts of Lima.⁸

WHAT DOING BUSINESS DOES NOT COVER

The *Doing Business* data have key limitations that should be kept in mind by those who use them.

Limited in scope

The *Doing Business* indicators are limited in scope. In particular:

- *Doing Business* does not measure the full range of factors, policies and institutions that affect the quality of the business environment in an economy or its national competitiveness. It does not, for example, capture aspects of security, the prevalence of bribery and corruption, market size, macro-economic stability (including whether the government manages its public finances in a sustainable way), the state of the financial system or the level of training and skills of the labor force.
- Even within the relatively small set of indicators included in *Doing Business*, the focus is deliberately narrow. The getting electricity indicators, for example, capture the procedures, time and cost involved for a business to obtain a permanent electricity connection to supply a standardized warehouse. Through these indicators *Doing Business* thus provides a narrow perspective on the range of infrastructure challenges that firms face, particularly in the developing world. It does not address the extent to which inadequate roads, rail, ports and communications may add to firms' costs and undermine competitiveness. *Doing Business* covers 11 areas of a company's life cycle,

TABLE 3.1 *Doing Business*—benchmarking 11 areas of business regulation

Complexity and cost of regulatory processes	
Starting a business	Procedures, time, cost and paid-in minimum capital requirement
Dealing with construction permits	Procedures, time and cost
Getting electricity	Procedures, time and cost
Registering property	Procedures, time and cost
Paying taxes	Payments, time and total tax rate
Trading across borders	Documents, time and cost
Strength of legal institutions	
Getting credit	Movable collateral laws and credit information systems
Protecting investors	Disclosure and liability in related-party transactions
Enforcing contracts	Procedures, time and cost to resolve a commercial dispute
Resolving insolvency	Time, cost, outcome and recovery rate
Employing workers ^a	Flexibility in the regulation of employment

a. The employing workers indicators are not included in this year's ranking on the ease of doing business nor in the calculation of any data on the strength of legal institutions included in figures in the report.

through 11 specific sets of indicators (table 3.1). Similar to the indicators on getting electricity, those on starting a business or protecting investors do not cover all aspects of commercial legislation. And those on employing workers do not cover all areas of labor regulation; for example, they do not measure regulations addressing health and safety issues at work or the right of collective bargaining.

- *Doing Business* does not attempt to measure all costs and benefits of a particular law or regulation to society as a whole. The paying taxes indicators, for example, measure the total tax rate, which in isolation is a cost to the business. The indicators do not measure, nor are they intended to measure, the benefits of the social and economic programs funded through tax revenues. Measuring business laws and regulations provides one input into the debate on the regulatory burden associated with achieving regulatory objectives. Those objectives can differ across economies.

Limited to standardized case scenarios

A key consideration for the *Doing Business* indicators is that they should ensure comparability of the data across a global set of economies. The indicators are therefore developed around standardized case scenarios with specific assumptions.

One such assumption is the location of a notional business in the largest business city of the economy. The reality is that business regulations and their enforcement very often differ within a country, particularly in federal states and large economies. But gathering data for every relevant jurisdiction in each of the 185 economies covered by *Doing Business* would be far too costly.

Doing Business recognizes the limitations of the standardized case scenarios and assumptions. But while such assumptions come at the expense of generality, they also help ensure the comparability of data. For this reason it is common to see limiting assumptions of this kind in economic indicators. Inflation statistics, for example, are often based on prices of a set of consumer goods in a few urban areas, since collecting nationally representative price data at high frequencies may be prohibitively costly in many countries. To capture regional variation in the business environment within economies, *Doing Business* has complemented its global indicators with subnational studies in some economies where resources and interest have come together (box 3.1).

Some *Doing Business* topics include complex and highly differentiated areas. Here the standardized cases and assumptions are carefully considered and defined. For example, the standardized case scenario usually involves a limited liability company

or its legal equivalent. The considerations in defining this assumption are twofold. First, private limited liability companies are, empirically, the most prevalent business form in many economies around the world. Second, this choice reflects the focus of *Doing Business* on expanding opportunities for entrepreneurship: investors are encouraged to venture into

business when potential losses are limited to their capital participation.

Limited to the formal sector

The *Doing Business* indicators assume that entrepreneurs have knowledge of and comply with applicable regulations. In practice, entrepreneurs may not know what needs to be done or how to comply

and may lose considerable time in trying to find out. Or they may deliberately avoid compliance altogether—by not registering for social security, for example. Where regulation is particularly onerous, levels of informality tend to be higher (figure 3.2).

Informality comes at a cost. Compared with their formal sector counterparts, firms in the informal sector typically grow more slowly, have poorer access to credit and employ fewer workers—and these workers remain outside the protections of labor law.⁹ All this may be even more so for female-owned businesses, according to country-specific research.¹⁰ Firms in the informal sector are also less likely to pay taxes.

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.¹¹

WHY THIS FOCUS?

Why does *Doing Business* focus on the regulatory environment for small and medium-size enterprises? These enterprises are key drivers of competition, growth and job creation, particularly in developing economies. But in these economies up to 65% of economic activity takes place in the informal sector, often because of excessive bureaucracy and regulation—and in the informal sector firms lack access to the opportunities and protections that the law provides. Even firms operating in the formal sector might not have equal access to these opportunities and protections. Where regulation is burdensome and competition limited, success tends to depend on whom one knows. But where regulation is transparent, efficient and implemented in a simple way, it becomes easier for aspiring entrepreneurs to compete, innovate and grow.

BOX 3.1 COMPARING REGULATIONS AT THE LOCAL LEVEL: SUBNATIONAL DOING BUSINESS REPORTS

Subnational *Doing Business* reports expand the indicators beyond the largest business city in an economy. They capture local differences in regulations or in the implementation of national regulations across cities within an economy (as in Colombia) or region (as in South East Europe). Projects are undertaken at the request of central governments, which often contribute financing, as in Mexico. In some cases local governments also provide funding, as in the Russian Federation.

Subnational indicators provide governments with standard measures, based on laws and regulations, that allow objective comparisons both domestically and internationally. As a diagnostic tool, they identify bottlenecks as well as highlight good practices that are easily replicable in other cities sharing a similar legal framework.

Governments take ownership of a subnational project by participating in all steps of its design and implementation—choosing the cities to be benchmarked, the indicators that can capture local differences and the frequency of benchmarking. All levels of government are involved—national, regional and municipal.

Subnational projects create a space for discussing regulatory reform and provide opportunities for governments and agencies to learn from one another, through the report and through peer-to-peer learning workshops. Even after the report is launched, knowledge sharing continues. In Mexico 28 of 32 states hold regular exchanges.

Repeated benchmarking creates healthy competition between cities to improve their regulatory environment. The dissemination of the results reinforces this process and gives cities an opportunity to tell their stories. Fifteen economies have requested 2 or more rounds of benchmarking since 2005 (including Colombia, Indonesia and Nigeria), and many have expanded the geographic coverage to more cities (including Russia). In Mexico each successive round has captured an increase in the number of states improving their regulatory environment in each of the 4 indicator sets included—reaching 100% of states in 2011.

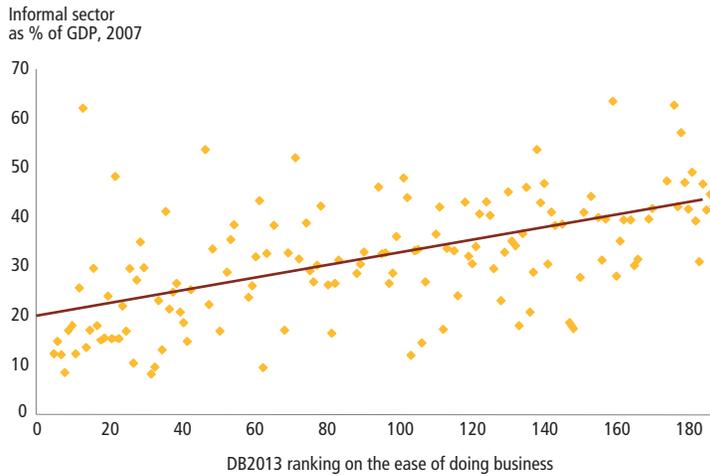
Since 2005 subnational reports have covered 335 cities in 54 economies, including Brazil, China, the Arab Republic of Egypt, India, Kenya, Morocco, Pakistan and the Philippines.¹

This year studies were updated in Indonesia, Kenya, Mexico, Russia and the United Arab Emirates. Studies are ongoing in Hargeisa (Somaliland) as well as in 23 cities and 4 ports in Colombia, 15 cities and 3 ports in Egypt and 13 cities and 7 ports in Italy. In addition, 3 regional reports were published:

- *Doing Business in OHADA*, comparing business regulations in 16 member states of the Organization for the Harmonization of Business Law in Africa (Benin, Burkina Faso, Cameroon, the Central African Republic, Chad, the Comoros, the Republic of Congo, Côte d'Ivoire, Equatorial Guinea, Gabon, Guinea, Guinea-Bissau, Mali, Niger, Senegal and Togo).
- *Doing Business in the East African Community*, covering 5 economies (Burundi, Kenya, Rwanda, Tanzania and Uganda).
- *Doing Business in the Arab World*, covering 20 economies (Algeria, Bahrain, the Comoros, Djibouti, Egypt, Iraq, Jordan, Kuwait, Lebanon, Mauritania, Morocco, Oman, Qatar, Saudi Arabia, Sudan, the Syrian Arab Republic, Tunisia, the United Arab Emirates, West Bank and Gaza, and the Republic of Yemen).

1. Subnational reports are available on the *Doing Business* website at <http://www.doingbusiness.org/subnational>.

FIGURE 3.2 Higher levels of informality are associated with lower *Doing Business* rankings



Note: The correlation between the 2 variables is 0.57. Relationships are significant at the 5% level after controlling for income per capita. The data sample includes 143 economies.
 Source: *Doing Business* database; Schneider, Buehn and Montenegro 2010.

Do the focus areas of *Doing Business* 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.¹² 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 all people, regardless of income level, can participate in its benefits—requires an environment where new entrants with drive and good ideas can get started in business and where good firms can invest and grow, thereby generating more jobs. In this sense *Doing Business* values good rules as a key to social inclusion.

In effect, *Doing Business* functions as a barometer of the regulatory environment for domestic businesses. To use a medical analogy, *Doing Business* is similar to a cholesterol test. A cholesterol test does not tell us everything about our health. But our cholesterol level is easier to measure than our overall health, and the test provides us with important information, warning us when we need to adjust our behavior. Similarly, *Doing Business* does not tell us everything we need to know about the regulatory environment for domestic businesses. But its indicators

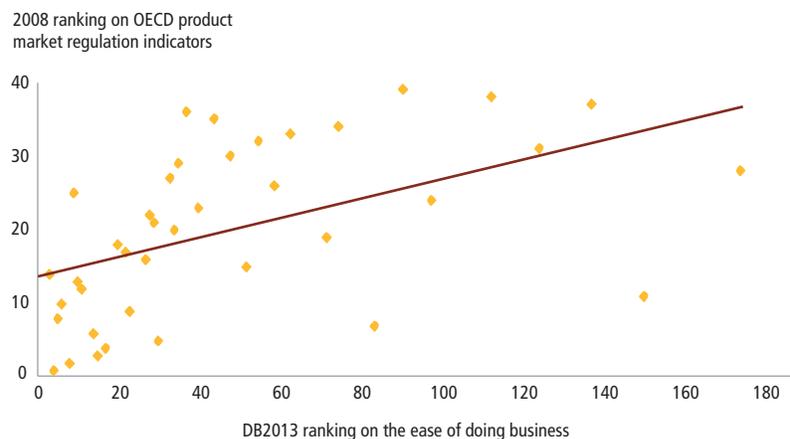
cover aspects that are more easily measured than the entire regulatory environment, and they provide important information about where change is needed. What type of change or regulatory reform is right, however, can vary substantially across economies.

To test whether *Doing Business* serves as a proxy for the broader business environment and for competitiveness, one approach 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 set of indicators on product market regulation compiled by the Organisation for Economic Co-operation and Development (OECD). These are designed to help assess the extent to which the regulatory environment promotes or inhibits competition. They include measures of the extent of price controls, the licensing and permit system, the degree of simplification of rules and procedures, the administrative burdens and legal and regulatory barriers, the prevalence of discriminatory procedures and the degree of government control over business enterprises.¹³ These indicators—for the 39 countries that are covered, several of them large emerging markets—are correlated with the *Doing Business* rankings (the correlation here is 0.53) (figure 3.3).

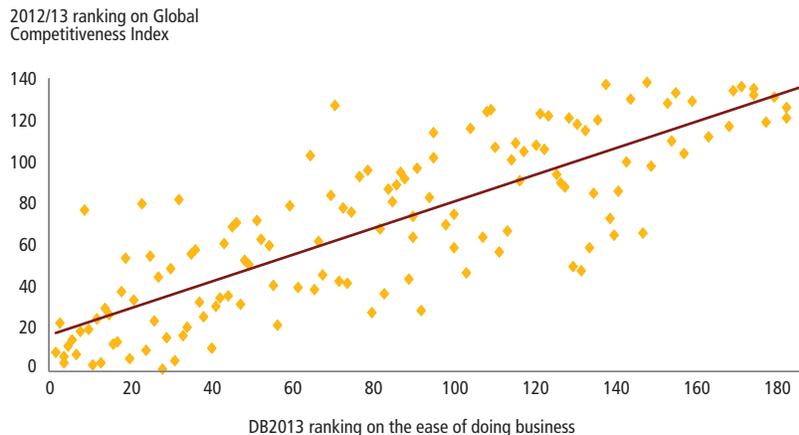
There is a high correlation (0.83) between the *Doing Business* rankings and the rankings on the World Economic Forum’s Global Competitiveness Index, a much broader measure capturing such factors as macroeconomic stability, aspects of human capital, the soundness of public institutions and the sophistication of the business community (figure 3.4).¹⁴ Self-reported experiences with business regulations, such as those captured by the

FIGURE 3.3 A significant correlation between *Doing Business* rankings and OECD rankings on product market regulation



Note: Relationships are significant at the 5% level after controlling for income per capita.
 Source: *Doing Business* database; OECD data.

FIGURE 3.4 A strong correlation between *Doing Business* rankings and World Economic Forum rankings on global competitiveness



Note: Relationships are significant at the 5% level after controlling for income per capita.
 Source: *Doing Business* database; WEF 2012.

Global Competitiveness Index, often vary much more within economies (across respondents in the same economy) than across economies.¹⁵ A high correlation such as this one can therefore coexist with significant differences within economies.

DOING BUSINESS AS A BENCHMARKING EXERCISE

By capturing key dimensions of regulatory regimes, *Doing Business* provides a rich opportunity for benchmarking. Such a benchmarking exercise is necessarily incomplete, just as the *Doing Business* data are limited in scope. It is useful when it aids judgment, but not when it supplants judgment.

Since 2006 *Doing Business* has sought to provide 2 perspectives 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 10 topics, by topic and also in the aggregate. Judgment is required in interpreting these measures for any economy and in determining a sensible and politically feasible path for regulatory reform.

Reviewing the *Doing Business* rankings in isolation may reveal unexpected results. Some economies may rank unexpectedly high on some topics. 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.

As economies develop, they may add to or improve on regulations that protect investor and property rights. Many also tend to streamline existing regulations and prune outdated ones. One finding of *Doing Business* is that dynamic and growing economies continually reform and update their business regulations and the implementation of those regulations, while many poor economies still work with regulatory systems dating to the late 1800s.

For reform-minded governments, how much the regulatory environment for local entrepreneurs improves in an absolute sense matters far more than their economy’s ranking relative to other economies. To aid in assessing the absolute level of regulatory performance and how it improves over time, this year’s report again presents the distance to frontier measure. This measure shows the distance of each economy to the “frontier,” which represents the highest performance observed on each of the indicators across all economies included in *Doing Business* since 2003.

At any point in time the distance to frontier measure shows how far an economy is from the highest performance. And comparing an economy’s score at 2 points in time allows users to assess the absolute change over time in the economy’s regulatory environment as measured by *Doing Business*, rather than simply the change in the economy’s performance relative to others. In this way the distance to frontier measure complements the yearly ease of doing business ranking, which compares economies with one another at a point in time.

Each topic covered by *Doing Business* relates to a different aspect of the business regulatory environment. The rankings of each economy vary, sometimes significantly, across topics. A quick way to assess the variability of an economy’s regulatory performance across the different areas of business regulation is to look at the topic rankings (see the country tables). Guatemala, for example, stands at 93 in the overall ease of doing business ranking. Its ranking is 12 on the ease of getting credit, 20 on the ease of registering property and 34 on the ease of getting electricity. At the same time, it has a ranking of 124 on the ease of paying taxes, 158 on the strength of investor protections and 172 on the ease of starting a business.

WHAT 10 YEARS OF DATA SHOW

A growing body of empirical research shows that particular areas of business regulation, and particular regulatory reforms in those areas, are associated with vital social and economic outcomes—including firm creation, employment, formality, international trade, access to financial services and the survival of struggling but viable firms.¹⁶ This research has been made possible by a decade of *Doing Business* data combined with other data sets. Some 1,245 research articles published in peer-reviewed academic journals, and about 4,071 working papers available through Google Scholar, refer to the *Doing Business* data.¹⁷

Determining the empirical impact of regulatory reforms is not easy. One possible approach is cross-country correlation analysis. But with this method it is difficult to isolate the effect of a particular regulatory reform because of all the other factors that may vary across economies and that may not have been taken into account in the analysis. How then do researchers determine whether social or economic outcomes would have been different without a specific regulatory reform? A growing number of studies have been able to investigate such questions by analyzing regulatory changes within a country over time or by using panel estimations. Others have focused on regulatory reforms relevant only for particular firms or industries within a country. The broader literature, using a range of different empirical strategies, has produced a number of interesting findings, including those described below.

Smarter business regulation promotes economic growth. Economies with better business regulation grow faster. One study found that for economies in the best quartile of business regulation as measured by *Doing Business*, the difference in business regulation with those in the worst quartile is associated with a 2.3 percentage point increase in annual growth rates.¹⁸ Another found that regulatory reforms making it easier to do business in relatively low-income economies are associated with an increase in growth rates of 0.4 percentage point in the following year.¹⁹

Simpler business registration promotes greater entrepreneurship and firm productivity. Economies that have efficient business registration also tend to have a higher entry rate by new firms and greater business density.²⁰ Faster business registration is associated with more businesses registering in industries with the strongest potential for growth, such as those experiencing expansionary global demand or technology shifts.²¹ And easier start-up is associated with more investment in industries often sheltered from competition, including transport,

utilities and communications.²² Empirical evidence also suggests that more efficient business entry regulations improve firm productivity and macroeconomic performance.²³

Lower costs for business registration improve formal employment opportunities. Because new firms are often set up by high-skilled workers, lowering entry costs often leads to higher take-up rates for education, more jobs for high-skilled workers and higher average productivity.²⁴ And by increasing formal registration, it can also boost legal certainty—because the newly formal firms are now covered by the legal system, benefiting themselves as well as their customers and suppliers.²⁵

Country-specific studies confirm that simplifying entry regulations can promote the establishment of new formal sector firms:

- In Colombia the introduction of one-stop shops for business registration in different cities across the country was followed by a 5.2% increase in new firm registrations.²⁶
- In Mexico a study analyzing the effects of a program simplifying municipal licensing found that it led to a 5% increase in the number of registered businesses and a 2.2% increase in employment. Moreover, competition from new entrants lowered prices by 0.6% and the income of incumbent businesses by 3.2%.²⁷ A second study found that the program was more effective in municipalities with less corruption and cheaper additional registration procedures.²⁸ Yet another found that simpler licensing may result in both more wage workers and more formal enterprises, depending on the personal characteristics of informal business owners: those with characteristics similar to wage workers were more likely to become wage workers, while those with characteristics similar to entrepreneurs in the formal sector were more likely to become formal business owners.²⁹

- In India a study found that the progressive elimination of the “license raj”—the system regulating entry and production in industry—led to a 6% increase in new firm registrations.³⁰ Another study found that simpler entry regulation and labor market flexibility were complementary: in Indian states with more flexible employment regulations informal firms decreased by 25% more, and real output grew by 18% more, than in states with less flexible regulations.³¹ A third study found that the licensing reform resulted in an aggregate productivity increase of 22% among the firms affected.³²
- In Portugal the introduction of a one-stop shop for businesses led to a 17% increase in new firm registrations. The reform favored mostly small-scale entrepreneurs with low levels of education operating in low-tech sectors such as agriculture, construction and retail.³³

An effective regulatory environment improves trade performance. Strengthening the institutional environment for trade—such as by increasing customs efficiency—can boost trade volumes.³⁴ In Sub-Saharan Africa an inefficient trade environment was found to be among the main factors in poor trade performance.³⁵ One study found that a 1-day reduction in inland travel times leads to a 7% increase in exports.³⁶ Another found that among the factors that improve trade performance are access to finance, the quality of infrastructure and the government’s ability to formulate and implement sound policies and regulations that promote private sector development.³⁷ The same study showed that the more constrained economies are in their access to foreign markets, the more they can benefit from improvements in the investment climate. Yet another study found that improvements in transport efficiency and the business environment have a greater marginal effect on exports in lower-income economies than in high-income ones.³⁸ One study even suggests that behind-the-border measures to improve logistics performance and facilitate trade

may have a larger effect on trade, especially on exports, than tariff reduction would.³⁹

Other areas of regulation matter for trade performance. Economies with good contract enforcement tend to produce and export more customized products than those with poor contract enforcement.⁴⁰ Since production of high-quality output is a precondition for firms to become exporters, reforms that lower the cost of high-quality production increase the positive effect of trade reforms.⁴¹ Moreover, reforms removing barriers to trade need to be accompanied by other reforms, such as those making labor markets more flexible, to increase productivity and growth.⁴²

Sound financial market infrastructure—including courts, creditor and insolvency laws, and credit and collateral registries—improves access to credit. Businesses worldwide identify access to credit as one of the main obstacles they face.⁴³ Good credit information systems and strong collateral laws help overcome this obstacle. An analysis of reforms improving collateral law in 12 transition economies concludes that they had a positive effect on the volume of bank lending.⁴⁴ Greater information sharing through credit bureaus is associated with higher bank profitability and lower bank risk. And stronger creditor rights and the existence of public or private credit registries are associated with a higher ratio of private credit to GDP.⁴⁵

Country-specific studies confirm that efficient debt recovery and exit processes are key in determining credit conditions and in ensuring that less productive firms are either restructured or exit the market:

- In India the establishment of specialized debt recovery tribunals had a range of positive effects, including speeding up the resolution of debt recovery claims, allowing lenders to seize more collateral on defaulting loans, increasing the probability of repayment by 28% and reducing interest rates on loans by 1-2 percentage points.⁴⁶

- Brazil's extensive bankruptcy reform in 2005 was associated with a 22% reduction in the cost of debt and a 39% increase in the aggregate level of credit.⁴⁷
- Introducing streamlined mechanisms for reorganization has been shown to reduce the number of liquidations because it encourages more viable firms to opt for reorganization. Indeed, it reduced the number of liquidations by 14% in Colombia and by 8.4% in Belgium.⁴⁸ One important feature of Colombia's new system is that it better distinguishes between viable and nonviable firms, making it more likely that financially distressed but fundamentally viable firms will survive.
- Improving investor protections, developing financial markets and promoting more active markets for corporate control reduce the persistence of family-controlled firms over time, expanding opportunity for firms with more diversified capital structures.⁴⁹

HOW GOVERNMENTS USE DOING BUSINESS

Doing Business offers policy makers a benchmarking tool useful in stimulating policy debate, both by exposing potential challenges and by identifying good practices and lessons learned. The initial debate on the results highlighted by the data typically turns into a deeper discussion on the relevance of the data to the economy and on areas where business regulation reform is needed, including areas well beyond those measured by *Doing Business*.

Reform-minded governments seeking success stories in business regulation refer to *Doing Business* for examples (box 3.2). Saudi Arabia, for example, used the company law of France as a model for revising its own law. Many African governments look to Mauritius—the region's strongest performer on *Doing Business* indicators—as a source of good practices to inspire regulatory reforms in their own countries. Governments shared knowledge of business regulations before

the *Doing Business* project began. But *Doing Business* made it easier by creating a common language comparing business regulations around the world.

Over the past 10 years governments worldwide have been actively improving the regulatory environment for domestic companies. Most reforms relating to *Doing Business* topics have been nested in broader reform programs aimed at enhancing economic competitiveness, as in Colombia, Kenya and Liberia. In structuring reform programs for the business environment, governments use multiple data sources and indicators. This recognizes the reality that the *Doing Business* data on their own provide an incomplete roadmap for successful business regulation reforms.⁵⁰ It also reflects the need to respond to many stakeholders and interest groups, all of whom bring important issues and concerns to the reform debate.

When the World Bank Group engages with governments on the subject of improving the investment climate, the dialogue aims to encourage the critical use of the *Doing Business* data—to sharpen judgment and promote broad-based reforms that enhance the investment climate rather than a narrow focus on improving the *Doing Business* rankings. The World Bank Group uses a vast range of indicators and analytics in this policy dialogue, including its Global Poverty Monitoring Indicators, World Development Indicators, Logistics Performance Indicators and many others. The open data initiative has made data for many such indicators conveniently available to the public at <http://data.worldbank.org>.

METHODOLOGY AND DATA

The *Doing Business* data are based on domestic laws and regulations as well as administrative requirements. The data cover 185 economies—including small economies and some of the poorest economies, for which little or no data are available in other data sets. (For a detailed explanation of the *Doing Business* methodology, see the data notes.)

BOX 3.2 HOW ECONOMIES HAVE USED *DOING BUSINESS* IN REGULATORY REFORM PROGRAMS

To ensure the coordination of efforts across agencies, such economies as Brunei Darussalam, Colombia and Rwanda have formed regulatory reform committees, reporting directly to the president. These committees use the *Doing Business* indicators as one input to inform their programs for improving the business environment. More than 35 other economies have formed such committees at the interministerial level. In East and South Asia they include India; Korea; Malaysia; the Philippines; Taiwan, China; and Vietnam. In the Middle East and North Africa: Morocco, Saudi Arabia and the United Arab Emirates. In Eastern Europe and Central Asia: Georgia, Kazakhstan, Kosovo, the Kyrgyz Republic, the former Yugoslav Republic of Macedonia, Moldova, Montenegro and Tajikistan. In Sub-Saharan Africa: Botswana, Burundi, the Central African Republic, the Comoros, the Democratic Republic of Congo, the Republic of Congo, Côte d'Ivoire, Kenya, Liberia, Malawi, Mali, Nigeria, Sierra Leone, Togo and Zambia. And in Latin America: Chile, the Dominican Republic, Guatemala, Mexico, Panama and Peru. Since 2003 governments have reported more than 350 regulatory reforms that have been informed by *Doing Business*.¹

Many economies share knowledge on the regulatory reform process related to the areas measured in *Doing Business*. Among the most common venues for this knowledge sharing are peer-to-peer learning events—workshops where officials from different governments across a region or even across the globe meet to discuss the challenges of regulatory reform and share their experiences. In recent years such events have taken place in Colombia (for Latin America and the Caribbean), in Rwanda (for Sub-Saharan Africa), in Georgia (for Eastern Europe and Central Asia), in Malaysia (for East Asia and the Pacific) and in Morocco (for the Middle East and North Africa). In addition, regional organizations such as APEC, featured in a case study in this year's global report, use the *Doing Business* data as a tool and common language to set an agenda for business regulation reform.

1. These are reforms for which *Doing Business* is aware that information provided by the *Doing Business* report was used in shaping the reform agenda.

Doing Business respondents

Over the past 10 years more than 18,000 professionals in 185 economies have assisted in providing the data that inform the *Doing Business* indicators. This year's global report draws on the inputs of more than 9,600 professionals.⁵¹ Table 4.2 in the data notes lists the number of respondents for each indicator set. The *Doing Business* website shows the number of respondents for each economy and each indicator. Respondents are professionals who routinely administer or advise on the legal and regulatory requirements covered in each *Doing Business* topic. They are selected on the basis of their expertise in the specific areas covered by *Doing Business*. Because of the focus on legal and regulatory arrangements, most of the respondents are legal professionals such as lawyers, judges or notaries. The credit information survey is answered by officials of the credit registry or bureau. Freight forwarders, accountants, architects, engineers and other professionals

answer the surveys related to trading across borders, taxes and construction permits. Certain public officials (such as registrars from the commercial or property registry) also provide information that is incorporated into the indicators.

Information sources for the data

Most of the *Doing Business* 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 questionnaires and provide references to the relevant laws, regulations and fee schedules, aiding data checking and quality assurance. Having representative samples of respondents is not an issue, as the texts of the relevant laws and regulations are collected and answers checked for accuracy.

For some indicators—for example, those on dealing with construction permits, enforcing contracts and resolving

insolvency—the time component and part of the cost component (where fee schedules are lacking) are based on actual practice rather than the law on the books. This introduces a degree of judgment. 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 a business or registering a building, 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. When time estimates differ, further interactions with respondents are pursued to converge on one estimate that reflects the majority of applicable cases.

The *Doing Business* approach to data collection contrasts with that of firm surveys, which capture 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 attorney or judge dealing with dozens of cases a year will have more insight into bankruptcy than a company that may undergo the process once.

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.⁵²

Doing Business uses a simple averaging approach for weighting component indicators and calculating rankings and the distance to frontier measure. Other approaches were explored, including using principal components and unobserved components.⁵³ They turn out to

yield results nearly identical to those of simple averaging. In the absence of a strong theoretical framework that assigns different weights to the topics covered for the 185 economies by *Doing Business*, the simplest method is used: weighting all topics equally and, within each topic, giving equal weight to each of the topic components (for more details, see the chapter on the ease of doing business and distance to frontier).⁵⁴

Improvements to the methodology

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

Another change related to starting a business. The minimum capital requirement can be an obstacle for potential entrepreneurs. *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 relevant barrier to entry, the paid-in minimum capital has been used rather than the required minimum capital.

This year's report includes an update in the ranking methodology for paying taxes. Last year's report introduced a threshold for the total tax rate for the purpose of calculating the ranking on the ease of paying taxes. This change came as a result of consultations on the survey instrument and methodology for the paying taxes indicators with external stakeholders, including participants in the International Tax Dialogue. All economies with a total tax rate below the threshold (which is calculated and adjusted on a yearly basis) now receive the same ranking on the total tax rate indicator. This year's threshold is set at the 15th percentile of the total tax rate distribution, which translates into a threshold for the total tax rate of 25.7%.

Data adjustments

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 data set is not back-calculated for year-to-year revisions in income per capita data (that is, when the income per capita data are revised by the original data sources, *Doing Business* does not update the cost measures for previous years). 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.

NOTES

1. World Bank 2005b; Stampini and others 2011.
2. See, for example, Alesina and others (2005); Perotti and Volpin (2005); Fisman and Sarria-Allende (2010); Antunes and Cavalcanti (2007); Barseghyan (2008); Klapper, Lewin and Quesada Delgado (2009); Freund and Bolaky (2008); Chang, Kaltani and Loayza (2009); Helpman, Melitz and Rubinstein (2008); Klapper, Laeven and Rajan (2006); World Bank (2005); and Ardagna and Lusardi (2010).
3. This includes Djankov and others (2002); Djankov, McLiesh and Shleifer (2007); Djankov, La Porta and others (2008); Djankov, Freund and Pham (2010); Djankov and others (2003); Djankov, Hart and others (2008); Botero and others (2004); and Djankov, Ganser and others (2010).
4. For more details on how the aggregate ranking is created, see the chapter on the ease of doing business and distance to frontier.
5. This has included a review by the World Bank Independent Evaluation Group

(2008), input from the International Tax Dialogue and regular input from the Indicators Advisory Group.

6. <http://www.doingbusiness.org>.
7. Local experts in 185 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>) and in the acknowledgments at the end of this report.
8. De Soto 2000.
9. Schneider 2005; La Porta and Shleifer 2008.
10. Amin 2011.
11. <http://www.enterprisesurveys.org>.
12. Narayan and others 2000.
13. OECD, "Indicators of Product Market Regulation," <http://www.oecd.org/>. The measures are aggregated into 3 broad families that capture state control, barriers to entrepreneurship and barriers to international trade and investment. The 39 countries included in the OECD market regulation indicators are Australia, Austria, Belgium, Brazil, Canada, Chile, China, the Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Iceland, India, Ireland, Israel, Italy, Japan, Korea, Luxembourg, Mexico, the Netherlands, New Zealand, Norway, Poland, Portugal, Russia, the Slovak Republic, Slovenia, South Africa, Spain, Sweden, Switzerland, Turkey, the United Kingdom and the United States.
14. The World Economic Forum's *Global Competitiveness Report* uses *Doing Business* data sets on starting a business, employing workers, protecting investors and getting credit (legal rights), representing 7 of a total of 113 different indicators (or 6.19%).
15. Hallward-Driemeier, Khun-Jush and Pritchett (2010), analyzing data from World Bank Enterprise Surveys for Sub-Saharan Africa, show that de jure measures such as *Doing Business* indicators are virtually uncorrelated with ex post firm-level responses, providing evidence that deals rather than rules prevail in Africa. The authors find that the gap between de jure and de facto conditions grows with the formal regulatory burden. The evidence also shows that more burdensome processes open up more space for making deals and that firms may not incur the official costs of compliance but still pay to avoid them.

16. Much attention has been given to exploring links to microeconomic outcomes, such as firm creation and employment. Recent research focuses on how business regulations affect the behavior of firms by creating incentives (or disincentives) to register and operate formally, to create jobs, to innovate and to increase productivity. For details, see Djankov and others (2002); Alesina and others (2005); Banerjee and Duflo (2005); Perotti and Volpin (2005); Klapper, Laeven and Rajan (2006); Fisman and Sarria-Allende (2010); Antunes and Cavalcanti (2007); Barseghyan (2008); Eifert (2009); Klapper, Lewin and Quesada Delgado (2009); Djankov, Freund and Pham (2010); Klapper and Love (2011); Chari (2011); and Bruhn (2011).
17. According to searches for citations of the 9 background papers that serve as the basis for the *Doing Business* indicators in the Social Science Citation Index and on Google Scholar (<http://scholar.google.com>).
18. Djankov, McLiesh and Ramalho 2006.
19. Eifert 2009.
20. Klapper, Lewin and Quesada Delgado 2009. *Entry rate* refers to newly registered firms as a percentage of total registered firms. *Business density* is defined as the total number of businesses as a percentage of the working-age population (ages 18–65).
21. Ciccone and Papaioannou 2007.
22. Alesina and others 2005.
23. Loayza, Oviedo and Servén 2005; Barseghyan 2008.
24. Dulleck, Frijters and Winter-Ebmer 2006; Calderon, Chong and Leon 2007; Micco and Pagés 2006.
25. Masatlioglu and Rigolini 2008; Djankov 2009.
26. Cardenas and Rozo 2009.
27. Bruhn 2011.
28. Kaplan, Piedra and Seira 2007.
29. Bruhn 2012.
30. Aghion and others 2008.
31. Sharma 2009.
32. Chari 2011.
33. Branstetter and others 2010.
34. Djankov, Freund and Pham 2010.
35. Iwanow and Kirkpatrick 2009.
36. Freund and Rocha 2011.
37. Seker 2011.
38. Portugal-Perez and Wilson 2011.
39. Hoekman and Nicita 2011.
40. Nunn 2007.
41. Rauch 2010.
42. Chang, Kaltani and Loayza 2009; Cuñat and Melitz 2007.
43. <http://www.enterprisesurveys.org>.
44. Haselmann, Pistor and Vig 2010. The countries studied were Bulgaria, Croatia, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, the Slovak Republic, Slovenia and Ukraine.
45. Djankov, McLiesh and Shleifer 2007; Houston and others 2010.
46. Visaria 2009. In a follow-up study, von Lilienfeld-Toal, Mookherjee and Visaria (2012) found that the average effects identified by Visaria (2009) differ between wealthy and poor borrowers when the credit supply is inelastic (because of limits in such resources as funds, staff and information). In particular, they found that in the short term after the debt recovery tribunals are introduced, borrowers with less collateral may experience a reduction in access to credit while those with more collateral may experience an increase. But the authors also point out that this short-term effect disappears over time as banks are able to increase their resources and the credit supply becomes elastic.
47. Funchal 2008.
48. Giné and Love (2010) on Colombia; Dewaelheyns and Van Hulle (2008) on Belgium.
49. Franks and others 2011.
50. One recent study using *Doing Business* indicators illustrates the difficulties in using highly disaggregated indicators to identify reform priorities (Kraay and Tawara 2011).
51. While about 9,600 contributors provided data for this year's global report, many of them completed a survey for more than one *Doing Business* indicator set. Indeed, the total number of surveys completed for this year's report is more than 12,000, which represents a truer measure of the inputs received. The average number of surveys per indicator set and economy is just under 6. For more details, see <http://www.doingbusiness.org/contributors/doing-business>.
52. All background papers are available on the *Doing Business* website (<http://www.doingbusiness.org>).
53. For more details, see the chapter on the ease of doing business and distance to frontier.
54. A technical note on the different aggregation and weighting methods is available on the *Doing Business* website (<http://www.doingbusiness.org>).



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