

Ease of doing business

The ease of doing business index ranks economies from 1 to 178. The index is calculated as the ranking on the simple average of country percentile rankings on each of the 10 topics covered in *Doing Business 2008*. The ranking on each topic is the simple average of the percentile rankings on its component indicators.

If an economy has no laws or regulations covering a specific area—for example, bankruptcy—it receives a “no practice” or “not possible” mark. Similarly, an economy receives a “no practice” or “not possible” mark if regulation exists but is never used in practice or if a competing regulation prohibits such practice. Either way, such a mark puts the country at the bottom of the rankings on the relevant indicator.

Here is one example of how the ranking on the ease of doing business is constructed. In Iceland it takes 5 procedures, 5 days and 3% of annual income per capita in fees to open a business. The minimum capital required amounts to 14% of income per capita. On these 4 indicators Iceland ranks in the 6th, 2nd, 10th and 55th percentiles. So Iceland ranks in the 18th percentile—the average of the 4 percentiles—on the ease of starting a business. It ranks in the 46th percentile on protecting investors, 11th on trading across borders, 8th on enforcing contracts, 6th on closing a business and so on. Higher rankings indicate simpler regulation and stronger protection of property rights. The simple average of Iceland's percentile rankings on all topics is 19%. When all countries are ordered by their average percentile ranking, Iceland is in 10th place.

More complex aggregation methods—such as principal components and unobserved components—yield nearly identical rankings.¹ The choice of aggregation method has little influence on the rankings because the 10 sets of indicators in *Doing Business* provide sufficiently broad coverage across topics. So *Doing Business* uses the method most likely to lead to reform—the simplest method.

The ease of doing business index is limited in scope. It does not account for a country's proximity to large markets, the quality of its infrastructure services (other than services related to trading across borders), the security of property from theft and looting, macroeconomic conditions or the strength of underlying institutions. There remains a large unfinished agenda for research into what regulation constitutes binding constraints, what package of reforms is most effective and how these issues are shaped by the country context. The *Doing Business* indicators provide a new empirical data set that may improve understanding of these issues.

Doing Business also uses a simple method to determine the top reformers (see table 1.1). First, it selects the economies that reformed in 3 or more of the 10 *Doing Business* topics (table 14.1). This year 21 economies met this criterion: Armenia, Bhutan, Bulgaria, Burkina Faso, China, Colombia, Croatia, the Czech Republic, Egypt, Georgia, Ghana, Guatemala, Honduras, Kenya, FYR Macedonia, Mauritius, Mozambique, Portugal, Saudi Arabia, Tunisia and Uzbekistan. Second, *Doing Business* ranks these economies on the increase in their ranking on the ease of doing business from the previous year. For example, Croatia, Honduras and Kenya each reformed in 4 aspects of business regulation. Croatia's ranking improved from 120 to 97, Honduras's from 126 to 121 and Kenya's from 82 to 72. These changes represent an improvement in the rankings by 23 places, 5 places and 10 places, respectively. Croatia therefore ranks ahead of Kenya in the list of top 10 reformers. Honduras doesn't make the list.

Note

1. See Djankov and others (2005).